"Minda Corporation Limited Q4 FY2019 Earnings Conference Call"

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ANALYST: **MS. PARVATI RAI - KR CHOKSEY SHARES & SECURITIES PRIVATE LIMITED**

MANAGEMENT: **MR. ASHOK MINDA – CHAIRMAN AND GROUP CHIEF EXECUTIVE OFFICER – MINDA CORPORATION LIMITED**
MR. R. LAXMAN – DIRECTOR AND GROUP PRESIDENT (FINANCE) – MINDA CORPORATION LIMITED
MR. SUDHIR KASHYAP – EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER – MINDA CORPORATION LIMITED
MR. SANJAY ANEJA – CHIEF FINANCIAL OFFICER - MINDA CORPORATION LIMITED
MR. BIKASH DUGAR – LEAD INVESTOR RELATIONS - MINDA CORPORATION LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Minda Corporation Limited Q4 FY2019 Earnings Conference Call hosted by KR Choksey Research. As a reminder all participant lines will be in the listen-only mode, there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Parvati Rai. Thank you and over to you!

Parvati Rai: Thank you Mohsin. Good evening, everyone. On behalf of KR Choksey Research, we welcome you all for the Q4 FY2019 Conference Call of Minda Corporation Limited.

I take this opportunity to welcome the management of Minda Corporation represented by; Mr. Ashok Minda – Chairman and Group CEO; Mr. R. Laxman – Director and Group President (Finance); Mr. Sanjay Aneja – Chief Financial Officer and Mr. Bikash Dugar - lead Investor Relations. So, we will begin the call with a brief overview by the management followed by the Q&A. I now hand over the call to Mr. Minda for his opening remarks. Thank you and over to you, Sir!

Ashok Minda: Thank you Parvati. This is Ashok Minda, Good afternoon, ladies and gentlemen. I welcome you all to the Q4 and Full Year, FY2019 Earnings Conference Call of Minda Corporation. I am pleased to report that the company reported 19% year-on-year revenue growth in the full yearFY2019, despite challenging market conditions and economic slowdown especially in the second half of FY2019.

Going forward we will continue to implement our core strategy increasing content per vehicle and higher export with an aim to achieve higher revenue growth as compared to industry. We also remain committed to work on our cost structure by way of frugal engineering to reduce RMC, improve productivity and optimizing working capital. All the above factors will help us improve overall profitability margins and increase return on capital in an environment where industry outlook for the short term look challenging.

On the longer term, we are gearing up for the challenge of technology disruption and regulatory changes as it will bring more opportunity as we move from BS-IV to BS-VI and the electronic content in vehicle increases in coming years.

Now we shall begin the discussion with the detailed financial overview and insight on operational performance. With this I handover to Mr. Laxman, our Group President (Finance) for detailed discussion on financials and businesses. Over to you Laxman!

R. Laxman: Thank you, Mr. Minda and good afternoon ladies and gentlemen. Thank you for your time on very busy day.

I will refer to the presentation that is uploaded on our website and for those of you who are able to see our presentation, I will refer to the slide numbers.

Before getting into the operations business and financials, I will just quickly touch upon a slide which is slide #3 in our presentation. A small, but significant change for us is the new logo that we have launched which is the Spark Minda powered by passion logo, it is shorter, cleaner and neater continue with the same blue, white and red lines and with the tag line of powered by passion and powered by passion is our brand’s positioning, it captures the essence of our promise to ourselves and to all the stakeholders for growth, for profitability and for overall enhancement of value for all stakeholders.

The second development which I wanted to share with you is, our very strong focus on business verticals across the group and we have therefore repositioned ourselves into four very, very focused business verticals and we are calling them as the first one being mechatronics, basically it is the safety, security and restrain system, which a large part of it is our locks and die-casting business.The second vertical is what we call the information and connected systems, which is also the drive information and telematics system largely driven by wiring harness, sensors, instrumentation clusters, that is what we call as business vertical two and business vertical three is called plastics and interiors, which is our interior system where we make Kinematic plastic Parts for the interiors of automobiles and the fourth business vertical is the aftermarket wherein we not only sell the products that we make in the other business verticals, but also some of the products that we do not make it.

The key point in this is to bring a very huge focus in terms of businesses in each of these verticals and the focus is all driven only towards two specific stakeholders. One is the customer and second is the shareholder and in each of this we bring a sharp focus in terms of growth and in terms of profitability and in terms of our own technology focus. So that is the very quick summary without dwelling into the changes.

Now with this, I will move to slide #5 of our presentations and this is a slide that we have always been showing, the good news is the pie chart on the right hand side, which shows the revenue breakdown for FY2019, we show by geography, by end market and by business verticals. These ratios and diversified base largely remain unchanged as compared to FY2018 and hence India business is about 69% of our turnover and then comes Europe and North America which is about 26% and a small percent of 4.7% is South East Asia. By end market, we are fairly evenly split two wheelers and three wheelers contribute about 38%, commercial vehicles contribute about 32.8% and aftermarket is about 10% and passenger vehicles contribute about 19.6%.

The mechatronics also includes the aftermarket in the business verticals that you see in the pie chart, mechatronics including aftermarket contributes about 46%, the information and connected systems are 33% and plastic interior is 20%. So this mix is largely unchanged our key customers remain our greatest strength and they remain completely unchanged, our manufacturing facilities are strategically located across India and also in the markets that we serve which is Europe and South East Asia.

R&D capabilities continue to be strengthened and we have started seeing results in the electronics and mechatronics research center that we have put up in Pune for SMIT and also some of the multispecialty R&D centers across the country, our market capitalization is roughly around Rs.3000 Crores as of March 31, 2019.

On slide #6 we have attempted to put a perspective of the auto growth in India and of course you know this better than us, but also we would like to juxtapose where we have performed with respect to this in the FY2019.

If you look at slide #6 the annual growth of the auto sector for the full year, you will see that the auto sector itself has grown by about 6.2% whereas the passenger vehicle has been flat, commercial vehicles have shown a very positive and strong growth of 24%, three wheelers though the volume is low they have grown by 24% and two wheelers which is one of the largest number of vehicles on the road is about growing by 5.8%. Overall, the industry has grown 6.2%, but if you look at the quarter that tells a very different story, that passenger vehicles have gone down by close to 4%, commercial vehicles and three wheelers have managed to stay into green whereas the two wheelers fell by 9.9%.

So in this quarter we have seen a degrowth of 8% in the overall auto industry. So including this 8% degrowth for the quarter the annual auto industry has grown by 6.2%. And if you look at it the story is further accentuated by the fact that 2019 has been defined as two separate halves. The first half has been good growth across all segments which is close to 14.3% in the first half and in the second half, it has been a decline by 1% with passenger vehicles declining the most at -6.2%.

So the Q4 FY2019 production volumes declined by 8% and this was largely led by two wheelers and passenger vehicles. So that is the story of the industry in India. Coming to our story, if you look at slide #7, our consolidated performance for the quarter grew by 7.1% from a turnover of Rs.720 Crores, we reached a turnover of Rs.771 Crores that was about 7.1% growth. Our EBITDA has been at 10.6% for the quarter against 11.4 in the same quarter previous year and profit after tax margin fell from 5.3 marginally to 5% however the profit after tax actual number moved from Rs.38 Crores to Rs.39 Crores.

If you look at our full year, we have achieved an overall growth of 19.2%. Basically we have grown from Rs.2593 Crores to Rs.3092 Crores that is a 19.2% growth. Our EBITDA margin has fallen by 1% on an overall basis. It has fallen from 10.5% to 9.5% and I will dive into details of the reason for the fall and which segments have done better and what has impacted us very soon when I come to the segment-wise slide.

On a profit after tax basis, we have moved up from Rs.141 Crores to Rs.167 Crores with the profit margin after tax margin being same at 5.4%. More details of the same on slide #8 wherein we have put together, this is for the quarter where mechatronics grew by 11.6% on the back of robust growth in exports and also some increase in market share. The information and connected systems grew by 10% and we have been fortunate because a large part of this is because of our commercial vehicles and two wheelers. However, a plastic interior business degrew by 8.2% in the quarter due to the slowdown in Europe, primarily due to the WLTP norms as well as accentuated by a suppressed demand.

In terms of EBITDA, we have seen strong EBITDA margins in mechatronics and information & connected system, but flat margins in plastics and interiors. Important to note that the above net profit is after considering our share of profits from JV because we add joint venture profits only at the bottomline. So our share of joint venture profits has been Rs.6.3 Crores compared to a Rs. -4.6 Crores in the same quarter previous year.Net profit margin for the quarter has been at 5% which is Rs.39 Crores.

If you look at the full year, you will see that again on slide #9 that revenue in mechatronics and information system in the full year grew by close to 20% and the revenue in the second business vertical which is information and connected systems grew by 22% overall; however, subdued growth in the interior business which is in Europe was 13.7%. However, it must be noted that of the growth of 13.7%, 6% can be directly attributed approximately to change in exchange rate. So only the balance 7% is our actual growth.

Better EBITDA margins of course we discussed and the share from joint venture and associates moved up from Rs.13 Crores to Rs.28 Crores during the full year FY2019 as compared to FY2018 and our profit after tax of course stayed at 5.4%. Important to note that it includes profit of Rs.17.5 Crores coming out of the sales of share in our joint venture company which is Minda Furukawa.

Coming to slide #10, it gives a segment wise, business vertical wise breakup. Our turnover in the mechatronics and aftermarket put together increased from Rs.1198 Crores to Rs.1435 Crores. This is close to 20% increase in our sales, EBITDA margins also increased from 11.4% to 12.5% largely driven by increase in share of business and higher exports.

Information and connected systems the sales grew from Rs.849 Crores to Rs.1035 Crores again a close to 22% jump in sales and EBITDA margins improved from 9.6% to 10.4%. In our plastics and interior business, the sales improved from Rs.545 Crores to Rs.620 Crores that is a 13.7% increase; however as I told you the real increase if you remove the currency is about 7% and even in this 7% which we analyzed one level lower, you will see that the Germany sales fell and our Mexico sales increased that is the net number of 7% and even in this, the EBITDA has gone down from 10.2% to almost just under 5% and one of the major reasons for this is our raw material cost has substantially increased in our interior plastic business largely we have higher input cost which have not been able to recovered from customers and of course, we do have a higher breakeven point in overseas business.

Moving to slide #11, which is the balance sheet side of the story. You will see that the networth has moved from Rs.737 Crores to Rs.1189 Crores this includes the QIP that we did last year. Our gross debt has fallen by Rs.43 Crores it has gone down from Rs.723 Crores to Rs.680 Crores. Our net debt has substantially gone down because the cash continues to remain in a bank in fixed deposit and therefore our net debt has gone down from Rs.697 Crores to Rs.327 Crores because of which the net debt to networth ratio has fallen from 0.95 to 0.28.

Capital employed of course has gone up and our return on capital employed excluding exceptional items and interest on QIP has gone up from 15.9% to 16.4%. Here the direction is correct, the number is increased; however, the pace of growth needs to be increased further.

In terms of rating, Fitch has rated us in long term as Ind AA- and stable and CRISIL has rated long-term as CRISIL A+ and stable. So we continue to maintain these ratings and performance being financial strengthening of the balance sheet.

A quick update on slide #12 is the merger update. The scheme of merger filed with NCLT Delhi and Bangalore for merger is work in progress, first one is the direction of NCLT meetings of shareholders, creditors have already been convened and the second motion is received, update on this we are expecting for court order for the merger anytime I am guessing in the next month or so and post that, we will have to publish our consolidated annual report which will be from retrospective effect from April 1, 2018. Of course we will keep you updated as and when we receive the order.

With respect to SMIT, we have received LOIs from the OEMs for multifunction ECU, for tractor application, two-wheeler maker has shortlisted us for the investor layout that is the first vendor assessment for DC-DC convertor and battery charges. The point we have on SMIT is there has been a significant improvement from laboratory to showcasing the product to the customers and getting that converted into sales. On an overall basis we would see a four-year period now we have two years into the institution and we are seeing results.

In terms of the better performance of the company on a standalone basis and on a consolidated basis, yesterday the Board of Directors have recommended a total dividend of 35% including an interim dividend of 12.5% for FY2019 this is as compared to an overall dividend of 30% for FY2018.

Moving on to our order book of on slide #13, in mechatronics our Q4 lifetime order is close to about Rs.510 Crores and the full year to date for 2018-19 is about Rs.2650 Crores. We have received new orders for the lockset from global two-wheeler OEM. We have been awarded business from a leading engine manufacturer for Starter Motor and we have got a chrome-plated door handle for a leading car OEM maker in the current quarter.

Apart from that in information in connected systems we have got a lifetime order totaling Rs.1100 Crores of course we continue to bring orders in the EFI wiring harness business where we had mentioned that we will win all the orders of our EFI carburetor wiring harness we use to supply, we will convert all of them into EFI business and also hope to get a slight increase in market share. So that activity continues. We have been awarded new order by leading two-wheeler OEM for instrumentation cluster and we have also got new orders for DC-DC convertors for Indian commercial vehicles that is the lifetime order of about Rs.13 Crores.

The plastic interior year to date lifetime order is close to about Rs.400 Crores. The business of course there is flat so these are all orders that are coming up mainly as continuation of models on new lines.

In terms of exports, export business received we have got very strong traction in die casting parts as we have continued to show very, very robust growth in die casting and specifically in exports. In terms of awarding of new business from leading four wheeler global OEM in instrumentation cluster, we have got a lifetime order of Rs.95 Crores and we have won an export order for lockset in fuel tank for the Japanese two wheeler, which lifetime order is about Rs.7.5 Crores. It also demonstrates the faith these customers having the technology we provide and not just a quantum of sales.

But to sum up, if you look at way forward in India looking ahead being the end of the year I thought we will sum it up, if you look at India the production cut by OEMs to align with the market demand is a reality. Some amount of uncertainty in pre-buying and in Q3 and Q4 of the current year is something which we need to learn and learn to live with. Of course there are liquidity challenges faced by the NBFCs is an India, which will hamper the lending or credit for specially commercial vehicles, two wheelers. These are the challenges we will be facing. Of course the positives are we will be moving from BSIV to BSVI especially for our company it results in a huge value increase. Inflation and interest rate cuts will be the positives from RBI and we have been seeing some stable commodity price scenario which would go in our favor.

In Europe of course, we will continue to be challenged by demands and globally because the slowdown in China, impact of margins by OEMs it will be unlikely that the OEMs will be generous with us also with respect to margins. So we need to readjust and recalibrate our casting and our efficiency to meet these challenges. Of course deferment of hike in interest rate across geographies is good news for us. What our response in outlook for this, point number one, in mechatronics, we are very clear that the growth of the die casting business specially through exports is a huge driver. Second we are adding new customer to bring market share and premiumization and increase of content per vehicle, in information and connected system as well, we are looking an increasing exports gaining market share domestically. We are exploring opportunities for acquisition and it is fairly focused on the wiring harness business. In plastic interiors, our exercise in challenge continues to be to reduce the breakeven levels at KTSN and also to diversify our customer base in a profitable manner in KTSN. Aftermarket is a positive point for us where we are looking at enhancing our growth not only by widening our distribution by also adding new products. SMIT as I mentioned upgrading legacy products and developing new products is a continuous activity.

So going to summarize on the roadmap, we would like to remain focused on enhancing shareholder value by organic growth in terms of premiumization, increasing content per vehicle in aftermarket. In inorganic, we will go for adjacent segments acquisitions, focus on technology and customer and more importantly look at financially stable companies. We have had huge initiatives on four areas led by the GCEO across the management level which would be our catalyst for our profitable growth one is a great place to work, technology, we have this concept of key account managers which we touched upon last time and also to strengthen our leadership team. So that is the focus we are looking at and in terms of target, we are looking at a revenue growth which is going to be faster than the market. We have demonstrated that in the past four years. Focus on improvement in EBITDA margins and ROCE on a long-term basis, directionally we continue to make progress quarter-on-quarter. In some of the quarters it has had some blip given the external industry factors and some of our challenges. We continue to optimize working capital and that is amply reflected in our FY2019 numbers as well and we look to creating some value through select M&As.

That is our overall summary. Of course we continue to win awards and recognitions, we have won awards from Yamaha, from Honda and as well as from institutions like ACMA and CII and we continue to focus on the CSR activity which we take it as seriously as our profits and business targets from slide #15.

With that I end by presentation and open and glad to take questions from you gentlemen and ladies. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. We have our first question from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Sir thanks for the opportunity and congrats on good set of numbers. My first question is the housekeeping question. We have seen a strong improvement in margins for the quarter and probably among the highest level if you look at and it is driven by sharp improvement in the RM to sales ratio. Can you throw some light over there what is, is it a sustainable thing or there is a pass through element of previous cost increase, how do we look at that effect?

R. Laxman: Thank Chirag and I think you hit up on the right point RMC has been a fairly major factor for us in terms of better profitability for the quarter. Now this quarter, if you look at the consolidated basis, the changes of one is certain commodities that were not indexed are now indexed point number one. So there has been a cost reduction and value engineering which we have started seeing results that is point number two and point number three is overall there has been a softening of commodity prices. What I would like to mention is that this drastic change may not be, cannot be fully extrapolated into the future, but at least a substantial part of it, we would like to continue to see benefits in the coming quarter.

Chirag Shah: So would it be right to say that some part of this RM as a percentage of sales will see reversal?

R. Laxman: Sorry can you say that again?

Chirag Shah: Some part is permanent in nature, some parted is link to commodities on technical part and some part is permanent in nature?

R. Laxman: Yes, and one further point which I missed is die casting sales have increased. So that mix also benefits as in terms of margin.

Chirag Shah: And the second question was on this order book that is shared every quarter, is there a way to know what is the draw down from the earlier order book that has happened that is one question and second the order inflow in this quarter has seen a slowdown where it could be a technical issue I am not raising the question, but is this the way that you are also looking, is it a genuine slowdown and that is the reason your order book has also slowed down?

R. Laxman: I will answer this first, I am going to request Mr. Minda also to give his input. So the first point is in terms of the order book converting into orders and that table that is the little bit of a challenge specifically where we are giving segment wise.

So I am saying the order book converting into real sales and then getting into productions, there is a fair amount of time lag and each OEM and each segment the time taken from the order you win till it goes into production and SOP is different. Number one it defers between two wheelers, four wheelers and commercial vehicles and number two it differs OEM-to-OEM, but on a rough basis, I would take and correct me if I am wrong Mr. Minda is about 18 to 24 months at least is what it takes from conversion. So if you take an average anything that we put in the order book in the current year will take about 18 to 24 months to fructify that is my first response. Second do we see a slowdown in ordering, I think more than slowdown in order book I think at the end of the year there is a general kind of a slowdown in placing of these orders for the next year specifically given the fact that we are moving from BS-IV to BS-VI. So yes some of that slowdown changes do get reflected in the order book as well.

Ashok Minda: And adding to that is, this is Ashok Minda, that for introduction of BS-VI most of the customer because this is going to be started from March but production is definitely going to start one or two quarter before. So most of the order has already been given by the customer and it is under the development. So that will start and that so hence not much to do in this particular quarter, but our system i.e. our process is we always have early engagement with the customer whenever they introduce or whenever they plan their new model we are with them whether it is two wheeler, commercial vehicle or passenger vehicles and wherever in which segment we are.

R. Laxman: And Chirag you had one more question?

Chirag Shah: Yes, and the last question is on the KTSN business, any thoughts of divesting that business why do we want to have a suboptimal business in our scheme of things. I presume it is also drag on your ROCE profile?

R. Laxman: I will take that question Chirag. I think the moment in a particular financial year if the business starts dragging down or it reduces your average as you very rightly have observed definitely we get these questions in terms of what do we do strategically about this business. Until last year of course this company has been showing positive EBITDA in profits. From our point of view strategically, this business continues to remain an important part of this Spark Minda Group. It gives us presence in interior segment it gives us technology in plastics and it continues to give us an opportunity to transform that technology into profitable business and products in India. We have already met with success last year with I think roughly approximately about Rs.50 Crores of business which we got at high margins from one of the leading OEMs in India for these plastic products. So strategically our focus is to convert the current situation and strengthen the P&L and balance sheet of KTSN first to stabilize and then to strengthen and that is our focus right now. We are not thinking of anything else immediately and that is the point Chirag.

Chirag Shah: Yes, thank you very much and all the best.

Moderator: Thank you. We have our next question from the line of Jehan Bhadha from Nirmal Bang Securities. Please go ahead.

Jehan Bhadha: Sir on the capex front what was that figure for FY2019 and how much capex we will do for the current year?

R. Laxman: Roughly we have been spending about 100 Crores of capex and last year I think our total capex was 115 and next year, next year meaning in the year 2020 should be a little higher given the fact that we are heavily investing into some BS-IV to BS-VI.

Jehan Bhadha: And Sir what was the revenue from die casting division this year FY2019 and last year?

R. Laxman: Yes, so our die casting division totally in FY2019 the revenue was Rs.358 Crores which is a 28% increase compared to FY2018 and this has been one of our most profitable segment out of which the exports grew from Rs.42 Crores in FY2018 to Rs.70 Crores in FY2019 that was a 67% jump and that has been our actually one of our key in growth drivers with respect to exports. Our overall exports from India has increased by about roughly 20% and die casting has been a major contributor to that success and this is in line with our stated objective of doubling our exports in a three-year timeframe as compared to say FY2017-18.

Jehan Bhadha: Fine Sir, thank you.

Moderator: Thank you. We have our next question from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.

Dhananjay Mishra: Hello Sir, congrats on decent numbers. Sir what is our total capacity after the new line we are putting in, in die casting and what will be the current utilization as of now.

R. Laxman: Our current utilization is roughly 75% and in terms of so effectively in die casting, I believe we cannot go more than 85%, 90% so there is some headroom in terms of capacity utilization in our die casting.

Dhananjay Mishra: But in other way, if we have to use because the space is available only the additional investment is needed?

R. Laxman: First of all, today we are measuring capacity more based on the actual machines.

Dhananjay Mishra: So what is the total current capacity after the new capacity we have put in?

R. Laxman: I have to check I do not want to take a guess I think the total is approximately 9000 tonnes but let me come back to you on this one.

Dhananjay Mishra: And entire 9000 tonne around 75% lesser the entire 9000 tonne rate is it per month or…?

R. Laxman: No, per annum.

Dhananjay Mishra: Okay Sir thank you.

R. Laxman: Yes, but let me come back on the capacity table for you.

Dhananjay Mishra: Yes.

Moderator: Thank you. We have our next question from the line of Prayesh Jain from Yes Securities. Please go ahead. There is no response from the line of Mr. Jain. We have the next question from the line of Praveen Motwani from KR Choksey. Please go ahead.

Praveen Motwani: Sir I have one question, if you can just give us a growth number like how do you see FY2020 and 2021.

R. Laxman: I will go back to our industry slide and I will refer from there. If you look at our industry slide on page number #6, overall industry grew by about 6% in FY2019 full year. We grew by about 19%, now if we break this into what were the reasons of the growth, we can draw some amount of the kind of numbers in terms of where we are looking in 2020. So one is we grew by industry then we have increased value based on either premiumization or regulatory or higher content per vehicle, third, we have an increased share of business and fourth we have exports. Therefore we move from the industry number to about 19% growth. If we look at how FY2020 looks, we do see challenges in the year going by and Mr. Minda I will request you to give your views as well in terms of FY2020 growth numbers, but from our side, our stated objective is that we will always beat the industry growth and our expectation is we did by about one and a half times and that is because of the domestic growth increase in share of business and exports. These are the three reasons how we increase our sales over and above the industry growth. So industry grew by 6.2% in FY2019 and we grew about 19%. So your estimate of industry growth for FY2020 is as good as ours and you can expect that we will beat the industry at least around the same factor similar and in case Mr. Kashyap is on line, Sudhir Kashyap you can give your views as well.

Sudhir Kashyap: Yes, this is Sudhir Kashyap. So what Laxman is saying just to substantiate that further, the industry in the Q3 and Q4 is when we expect large amount of growth happening primarily because of prebuying before BS-VI so just got out of a meeting from Bajaj, we were just discussing the same thing. So that is one aspect as far as the industry is concerned. So it is anybody’s guess everybody has asked us to have capacities available for Q3 in terms of variation going up to as high as 40%, which basically means everybody is trying to forecast that Q3, some part of Q4, there could be substantial increase before the BS-VI sets in really. Like Laxman said we have been outperforming as far as the growth is concerned on those four accounts. We will continue to do that. Exports look very strong for us. We are winning order Rs.60 Crores or 600 million you saw in the first quarter there is a similar thing likely to happen in the next two, three quarters, we are working with like Honeywell, BorgWarner, Mitsubishi is coming around and we are expecting an order of almost 200 to 300 million happening there, should be happening next month. So that is how we are looking at growth, so just further to what Laxman said.

Praveen Motwani: The second question pertains to how much was the tooling income during this quarter?

R. Laxman: Are your referring to a specific company?

Praveen Motwani: No overall Mind Corp tooling Sir?

R. Laxman: Mr. Kashyap tooling income on an India basis will be very insignificant.

Sudhir Kashyap: Mainly it is in KTSN.

R. Laxman: Mainly tolling is in KTSN.

Sudhir Kashyap: Largely is that and some amount in exports for die casting.

Praveen Motwani: Okay, thank you. That is, it from my side, thanks.

Moderator: Thank you. We have the next question from the line of Prayesh Jain from Yes Securities. Please go ahead.

Prayesh Jain: Sir just a few questions firstly an industry-wide question we have been seeing your companies on the auto components that OEMs because of the slowdown are putting pressure on the margins. So is that something that you have encountered or anyway with regards to the kind of pressure coming in from the OEM side?

R. Laxman: So I will direct this question directly to Mr. Kashyap who is head of the mechatronics business and the largest segment in our group and who has probably just walked out of the customer's office. So he is best equipped. Over to you Mr. Kashyap! Am I audible?

Moderator: Excuse me this is the operator sir, Mr. Kashyap's line has dropped, we will reconnect in a moment.

R. Laxman: Okay sure.

Prayesh Jain: Sir okay in the meanwhile I can ask the question which I had was on the wiring harness side, what would be our market share right now on the two wheelers and the way we are talking about the increase in content per vehicle, do you think your market share would be maintain based on the orders that you have received currently or do you expect further market share gain Sir?

R. Laxman: So our market share in two wheelers is more than 30% I would imagine and in terms of the change in content per vehicle based on increased content per vehicle, we are expecting the value of two wheeler wiring harness to go from about Rs.300 Crores that we currently have to roughly about Rs.900 Crores which is tripling of value based on the move from carburetor to EFI wiring harness. Now this tripling of value we are expecting to gain and gather the entire amount without any loss of market share and our hope is to also increase our market share in a small way.

Prayesh Jain: So this Rs.900 Crores is without any loss on market share?

R. Laxman: This 900 is without any loss of market share, that is correct.

Sudhir Kashyap: No the loss is not there only the per vehicle content has the premiumization because of the BS-IV to BS-VI has increased from say about Rs.400 to Rs.1200 per wire set. So no loss of share of business, but per vehicle content has increased.

R. Laxman: And also just to address your question of do you see any pressure from the OEMs?

Sudhir Kashyap: So I just got disconnected I will just…

R. Laxman: Yes, so Mr. Kashyap the question was do you see any pressure from OEMs because of the tight market going forward in terms of pricing?

Sudhir Kashyap: As far as all our businesses are concerned there is no specific pressure on account of this. Automotive is always under pressure for cost optimization so it is not something that is happening on account of this flat growth or whatever that we are expecting. So that is not a pressure and plus in addition, we have been working proactively with the customers with the VAV options. So therefore we are always kind of in a situation to ward of those sudden pressures, so we do not see any risk as of today in this going forward on this account at all.

Prayesh Jain: And Sir probably could you share the performance of KTSN in Q4?

R. Laxman: Yes. So effectively KTSN in terms of Q4 delivered roughly about 0.8% EBITDA margin. So effectively that dragged our entire performance down. Two reasons, sales fell within Europe which has a higher breakeven point partially compensated by Mexico so that is the quick numbers with respect to KTSN.

Prayesh Jain: Sir but if I recollect correctly in the Q3 call also you had mentioned that there were some one offs and the margins can recover. So have not this inventory there were some inventory write off, so and significant jump in tooling income was seen in Q3. So all those things are expected to reverse in Q4 but have not that happen?

R. Laxman: Yes, so in EBITDA margin in Q3 was -6% and that moved in Q4 to 0% and what we had mentioned in the previous call also is that there has to be sustained efforts on three or four fronts in KTSN and we said it will take three to four quarters for this number to change and those actions that we are taking include customer diversification, it includes focus on our own cost reduction because we have shared that our breakeven point in KTSN is pretty high. Though KTSN contributes only 19% of my total consolidated sales, it has high breakeven and we are also trying to convert certain fixed cost into variable cost. Apart from that of course we are strengthening management. So all these exercises, we do not see it happening in one quarter change though there are improvements in Q4 as compared to Q3, we expect these improvements to take three to four quarters to reflect. Until then the consistent performance of our other businesses including India business, we hope to more than compensate which is more than 80% of our business.

Prayesh Jain: So just last question is on KTSN, Sir we were also talking about moving production from Germany to Poland and Czech Republic plants and you are in discussion with customers with regards to that. Has anything develop on those grounds?

R. Laxman: So it is a more a question of economics because moving from Germany to lower cost countries like Czech and Poland is an activity, we continuously evaluate but the critical factor here is the customer one has to agree and second he has to agree to allow us to keep a substantial part of the economics that we save, only when these two points match will we actually action our agenda or shifting from Germany to other locations and that also in a calibrated manner. So all I can tell you now is still work in progress and discussions with OEMs.

Prayesh Jain: Okay. Thank you so much.

Moderator: Thank you. We have the next question from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: Sir a couple of questions, first was can you highlight where the…?

R. Laxman: Sorry Ronak your voice is not audible.

Ronak Sarda: Is it audible now?

R. Laxman: No, I can hear you but not your words.

Moderator: Mr. Sarda may I request you to please call back some other number or station landline Sir. We are unable to hear Mr. Sarda. We will move onto the next question Mr. Aditya Agrawal from Indgrowth Capital. Please go ahead.

Kunal Pawaskar: Hi this is Kunal from Indgrowth hear, one question on the JVs if you can please share what the margins were in Q4 for Stoneridge and VAST.

R. Laxman: Yes, so effectively in terms of Stoneridge for the quarter the Stoneridge margins and our EBITDA were about 14%. It has seen a robust growth in sales as well in terms of overall driven by a strong demand for instrumentation cluster and senses. With respect to VAST, the EBTIDA margins remain challenged though in the full year VAST EBITDA margin is in the positive, it is a low single digit number, but for the quarter because of drop in sales it has almost zero EBITDA margins. However just to clarify to you in terms of our joint venture companies, we do not do a line-by-line consolidation and we add only at the bottomline.

Kunal Pawaskar: Yes you had mentioned that earlier then there was one point in an earlier conference call on an interaction with investors you had mentioned that the company wants to increase and move towards more electronic systems and I also understand that some things are truly hybrid, but is there a way that you would be possibly capturing this for the investors that at a total level this is what we are today at a percentage breakup level or is that possible at all, so that I can be tracked?

R. Laxman: I think it has very valid point I will make a statement and then I am going to request Mr. Kashyap to also respond. Our objective is definitely to move more and more towards electronics for two reasons one the market is moving there, profitability and ROCE are better there and third we are well positioned from the SMIT point of view to move into electronics and non-legacy products. Definitely it is there, whether we are monitoring it internally, we maybe monitoring at business segment level or at a business review level. Third question of yours whether we will be sharing it with investors it is a good input and feedback that you have given, let us see how we can probably put that down into a measurable device and now I will request Mr. Kashyap to respond in terms of how we are moving more towards electronics.

Sudhir Kashyap: A few things, one in terms of the lockset so for example our mechanical locksets which we are large supplier for the two-wheeler segment both in India and overseas so that is a segment where we are going into immobilizing systems and the smart key systems which are mechatronics and fully electronics meaning you have an automatic opening system and closing system as well as an electronic plus mechanical. So that is our business that we have been developing for the past maybe over three years now and we have got six orders that we have already booked. So everybody who is bringing in electric, not only the electric but a regular two wheeler as well for next generation, the smart key is that today that in India all those are going to be launched, are going to be launched with our smart key. So all the big guys there out of that we have three export customers as well so out of the six orders that we have already. These are orders booked. So these are under development and will come into production from middle of 2020 onwards. So if you take the name of Bajaj or Piaggio or Hero or TVS or Honda or so all of them we are working with. So that is the two-wheeler trajectory that we are trying to work on. Interesting for the four wheeler side is that we have developed and right now since it is a concept that we are trying to market in terms of a segment vehicles and the light commercial vehicles again mechanical loss there pure mechanical loss, bringing in a system which is a hybrid PEPS, Passive Entry Passive Start System gives the same user experience at less than half the cost. So that is something that we are in the middle of discussion. So the customers largely the commercial vehicles and there is segment which is Mahindra, Tata, Volvo, Eicher, customers of Ashok Leyland so that is something that we hope to be able to covert those business in the coming months and we are also moving towards if you see the car handles have got electronic system so even you work up with the part of the access when you work up the handles use and when you touch the handles it disengages the alarm and you can open the door so we are working on those systems as well there are two customers we are currently discussing with. So those are electronifications as far as the locks for handles etc., are concerned, which is the large amount of thing that is happening there the other thing is also in terms of telematics that we are moving ahead and there are some businesses that we have won. So that is the second part and what else. Laxman anything else that you want to add here?

R. Laxman: No I think you have fairly covered it but the larger message is that yes we are consciously moving towards electronics.

Kunal Pawaskar: And just one, this is useful and one last question on the casting business which is growing well. And what might the EBITDA for the casting space be particularly if that can be shared and is it better than the rest of the business in mechatronics?

R. Laxman: See I will tell you how it worked and I will take this question Mr. Kashyap. FY2018 the casting business EBITDA was lower than an average. FY2019 as you increase capacity and drawn efficiencies, the EBITDA margin is greater than 13% and therefore it is higher than the overall EBITDA of the consolidated business. So castings largely led by exports does give us better EBITDA margins and growth.

Kunal Pawaskar: Okay. That is all from my end. Thanks to the entire team for taking our questions.

Moderator: Thank you. Ladies and gentlemen due to time constraint we will be only take last two questions, we have the next question from the line of Mrunmayi Joglekar from Trivikram Consultants. Please go ahead.

Mrunmayi Joglekar: Thanks for taking my question. My question is on the margin front actually. So how should we look at the margins for our three business segments from current levels in FY2020.

R. Laxman: Actually crystal gazing so to that extent this going to be a tough question, our business vertical one and aftermarket which is mechatronic and after market and business vertical two which is information and connected system have consistently delivered close to or exceeding double digit EBITDA margins. Irrespective of the pressures of the current financial year which is 2019-20 we hope to continue to maintain these margins around this range number one. Number two is our interior plastics business, of course we expect to improve but only over a period of three to four quarters. Having said that our overall EBITDA margin long-term view is to consistently remain in the double digit stage and move closer and closer to 12%, that is our thinking is on EBITDA margins.

Mrunmayi Joglekar: So on the IS like the Interior Systems margin specifically so as you said it will take about three to four quarters for you have to recover the margins. So like by the end of FY2020 would we be able to reach say round 8%, 9% margin levels that we used to deliver earlier for the IS business.

R. Laxman: See we cannot crystal gaze on that because it is largely dependent on external factors namely demand pickup in Europe, mainly how we end up getting new orders from other customers. So to that extent we would rather go step-by-step and see improvements on this business at a fundamental level.

Mrunmayi Joglekar: Okay great. Thank you so much.

Moderator: Thank you. We have the next question from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: Sir quickly, you highlighted market share gains in your opening remarks can you talk about which customers are we adding in different segments as more substantial one?

R. Laxman: Can I request Mr. Kashyap to take this question? Mr. Kashyap are you there?

Sudhir Kashyap: Yes. Hi Ronak, so just to give you a few examples. So in the two-wheeler security we have just about everyone except Royal Enfield which is going to be starting next month that is one. Second in this Starter Motor business, Mahindra we are adding. Starter Motors is basically tractors and we will be diversifying into LCVs probably towards the later part of the year. so in tractors, the only tractor maker we were not supplying to is Mahindra and we have now are in the process of development and we will be possibly by the end of this year we should start looking at end of this year mean end of this financial year SOPs for Mahindra. So that is the customer addition that we have done there. In terms of engine manufacturers which is again a TAFE engine manufacturing plant, we have already won those businesses, again for Starter Motors. If you look at wiring again pretty much there but very interestingly rather very important business of EFI that we have won is from Piaggio for hiring. It is a large business for EFI wiring harness so Piaggio is a wiring harness customer in India got added. Overseas we are already in business of that. Just to give you a few examples of how we are working in each area to increase. So Minda VAST for example we added a customer. Hyundai is a customer we added, we did not have business with them earlier. So likewise there are in each of the places that we have added customers and places where we have done market share increase.

Ronak Sarda: Great. That was helpful and the other question was if I just see the reduction in gross debt and the capex amount spent. So we have roughly generated around Rs.150, 160 odd Crores of cash during the year, the conversion from EBITDA to OTF has been pretty much stable for last year or how has that improved Laxman?

R. Laxman: Yes, Laxman here.

Ronak Sarda: Yes.

R. Laxman: I think I missed something.

Ronak Sarda: No I was asking just on the financial side if I see your EBITDA to OCF conversion, how has that been during the year, has that improved from last year?

R. Laxman: Yes, you mean cash flow right?

Ronak Sarda: Yes, cash flow. SO if you can just highlight what was in the OCF and the FCF generation during the year?

R. Laxman: Yes, so in fact I remember you had asked us this question last time in terms of free cash flow. So last year our free cash flow though our EBITDA was a negative Rs.137 Crores. In 2018-19 after having spent capex etc., our free cash flow brought in a positive Rs.71 Crores. So you will see that our debt s is also gone down i.e. gross debt as free cash flow is increased from Rs. -137 to plus Rs.71 Crores on a consolidated basis.

Ronak Sarda: And the last bit on what was the overall exports revenue for FY2019?

R. Laxman: So overall exports effectively have gone up from Rs.174 Crores in FY2018 to Rs.206 Crores in FY2019. Roughly this is without joint ventures. If you include our joint venture companies, it has gone up from Rs.220 odd Crores to Rs.270 odd Crores. So this is in line exactly with the stated goal of doubling exports over the three-year period. So that is something which is online and to reinforce the fact that these are exports we are making to already established customers whom we have got orders from where we are increasing our share of business in their overall pipe.

Ronak Sarda: Great Sir. Thank you and all the best.

R. Laxman: Thank you very much, Ronak.

Moderator: Thank you. Ladies and gentlemen that was our last question, I will now hand the floor back to the management.

R. Laxman: Laxman here thank you very much ladies and gentlemen for patient hearing and as well your very insightful questions. I wish you a very good evening and look forward to interacting with you during this interesting but challenging year of 2019-20. Thank you very much.

Moderator: Thank you. On behalf of KR Choksey Research that concludes this conference. Thank you for joining us and you may now disconnect your lines.