"Minda Corporation Limited Q3 FY19 Earnings Conference Call"

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MODERATORS:	**MS. PARVATI RAI - KR CHOKSEY**

Moderator: Ladies and gentlemen, good day and welcome to the Minda Corporation Limited Q3 FY19 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, 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 Ms. Rai!

Parvati Rai: Good afternoon, everyone. On behalf of KR Choksey, we welcome you all for the Q3 FY19 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. Vikas 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. Good afternoon, ladies and gentlemen. I welcome you all to the Q3 Financial Year 2019 Earnings Conference Call of Minda Corporation. We are pleased to report 20.9% year-on-year revenue growth in quarter 3 financial year 2019 which was driven by growth across all the business systems. Our interior system, profitability continues to face challenges in Europe and we are taking measure to address this. Our equity holding in Minda Furukawa Electric Pvt. Ltd. has been restructured and Minda Corporation equity stake in the joint venture has reduced from 51% to 25%. The joint venture continues, and the entity has been renamed as Furukawa Minda Electric Pvt. Ltd. The merger of domestic wholly owned subsidiaries into Minda Corporation is progressing well. The company announced an interim dividend of 12.5%.

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). Over to you, Laxman!

R. Laxman: Thank you, Mr. Minda and welcome ladies and gentlemen. Great good afternoon to you and I will go through the financials as well as the business update for the Q3 for Minda Corporation. Before that just 2 points, I would like to welcome Bikash Dugar, who has joined us as Head of Investor Relations. He has decades of experience in the industry as well as the investor relations and he joins us for his first earnings call. Second, of course Mr. Taneja is on personal leave and so, I and the team will be fielding questions on the business as well. Just these 2 points, with that I would like to start with the financials with respect to the earnings for Q3. We have uploaded a presentation which is updated on the website and I will be using some of the slides and I shall refer to the page number when I am going through the presentation.

The first slide, I would like to draw your attention to is slide number 4, which is a quick recap of our revenue. Our business verticals we are organized as 3 businesses verticals. One is, Safety Security, second is Drive Information and Telematics and third is Interior System. We continued to have a large dossier of global and Indian customers which is one of our key strengthens. We continue to have wide spread manufacturing facilities all over India as well as across the globe no major changes. And we continued to invest and nurture our R&D center which is focusing on electronics and mechatronics. Our revenue breakdown by geography end market and business verticals is largely remain unchanged give or take of few percentage points. Suffice to say that we are well diversified with respect to the end market as well as well diversified with respect to the business verticals that we are in.

I would like to straight away jump into the financials which we have mentioned on slide number 5 of the presentation. I will read out the main key numbers to you as well as what the implications are for us. Our operating revenue for the 3Q FY19 stood at 769 crores as compared to the same period last year was 636 crores. This results in a 20.9% growth in revenue. If you look at the 9-month figures, we have posted revenue of 2,320 crores as compared to 1,872 crores. This is resulting in about 23.9% increase in the revenue. With respect to EBITDA, our EBITDA is at 54.8 crores for Q3. This is a fall compared to the same quarter in the previous yeas which was 71 crores. So, our EBITDA has fallen from 11.3% to 7.1% which is a 400 plus basis point fall. If we compare the 9-month numbers for financial year 2019, the 9-month number is about 210 crores EBITDA which is 9.1% and the same period if you compared last time was 10.2%. So, therefore there is roughly 100 plus bps basis point difference.

Coming down to the profit before tax, this quarter we have posted a profit before tax of 61.7 crores as compared to 50 crores in the same period last year. This increase has exceptional item profit on the sale of Furukawa Minda shares to our joint venture partner which was the result of the joint venture restructuring that amounts to about 17.5 crores. Similarly, for the 9-month numbers we are posting a profit before tax of 178 crores as compared to 135 crores. Our profit after tax has moved up for the quarter is 46.2 crores and this is higher as compared to 37.9 crores in the same period last year. Profit margin, profit after tax margin at 5.9% remains the same. The 9-month number again has moved up to 128 crores profit after tax as compared to 103 crores which is in the same period last year. The profit after tax margin for the 9-months remains the same at 5.5%.

Now coming to the key reasons just in the quarter while I am on the same page, largely our expenses and behavior of ratios remain the same and the biggest change that is happened which is cost deep drop in EBITDA is the raw material change. Some of the change in the raw material price is because of commodity and non-indexed commodities in India and some amount of exchange rate exposure because our exports have increased substantially. But that is only a small number. The large change has happened because of the European business raw material price movement. In Europe that is KTSN, the raw material has substantially increased specially it is looking stuck with respect to Q3 of the previous year is because of a couple of reasons. One, there has been a change in the tooling income mix. Current period about 33% is my tooling income and last year same quarter the tooling mix was 13%. So, from 13% my tooling sales have jumped to 33% of sales. This has substantially increased my raw material cost and at the same time what is happened is this kind of tooling business that we have booked this time is at a lower margin compared to our usual traditional tooling business. However, the margins in tooling business one can consider it more as an investment for the future because that gives a serial sale parts. There has been a supplier price increase which we have not recovered from the customer that is the second part in Europe.

The third part and the fourth part, the third part is the write off of some non-moving inventory we did for Euro 1 million and the fourth part is the absence of engineering income in the current quarter which we had engineering income in the same period previous year. The write off of non-moving inventory which is 1 million and the absence of engineering income together adds to explains about half the increase in raw material costs. And these are the 2 items which are non-recurring in nature and therefore, the impact that is felt in Q3 in raw material price increase is more than half of it is because of non-recurring items. And the other 2, which is price increases in commodities as well as tooling mix we expect these 2 to rectify itself over the next couple of quarters. So that is the key explanation with respect to our drop in EBITDA. However, our 9-month the impact is less stark and the profit after tax number does not show the impact because of largely the exceptional income that we have.

If I move to slide number 6, which is the commentary on the Q3, I would like to continue to say that the first business system which is Safety, Security and Restraint System posted a 17.5% growth. This is largely backed by very robust export growth and maintaining our share with respect to the domestic market. The Drive Information and Telematics grew about 19.8% largely driven by the share of business in the two-wheeler segment. On the interior system, the sales grew due to project sales. However, they were less profitable and the European sales were down primarily due to WLTP norms as well as suppressed demand. The EBITDA margin we have discussed and it is impacted due to these one-off items which I said product mix and raw material fluctuation and net profit at 46 crores stood at 5.9%. Another point which I would like to highlight on slide number 6 is that the above profit is after considering proportionate share of profits from joint ventures. Our joint venture company's 3 of them together contributed 10 crores in terms of profits as compared to the same period previous year was 5 crores.

I would like to move to slide number 7, which summarizes our 9-month FY2019 performance. The revenues grew by 23.9% and EBITDA margin came down marginally to 9.1% and we had growth in safety security and drive information and interior systems all 3 businesses. I would like to state that the EBITDA margins in the safety security and drive information systems remain robust. And the profit after tax for the entire 9-month put together is 128 crores stood at 5.5%. I would like to also mention that the cash flow generation has been pretty robust. So, there is a profit after tax of about 128 crores, there is a depreciation of 64 and if I remove the joint venture share of profits of 22, we have a cash of about 178 crores generated. We have about 85 crores of CAPEX which we did in 9-months and we did working capital increase by about 20 crores. The rest of the money which is roughly 60 odd crores has gone into reduction of loan and creation of fixed deposit. So, to that extent there is a very strong cash generation which we have either gone to reduce our loan a little bit or in putting up fixed deposit.

Slide number 8, we show the 9-month sales and EBITDA numbers with respect to the 3 business verticals we have. So, you will see that in revenue the 9-month number for FY19 was 1,066 crores which is up from 867 crores which is a 23% increase, EBITDA margins increased to 12.3% from 11.1%. The similar number in driver information and telematics, the 9-month number is 771 crores up from 609 crores and that is given a 26% increase in sales growth. The EBITDA margin has marginally moved up from 9.3% to 9.7%. Interior system, the revenue growth was 22%. However, the EBITDA margin is almost zero because of the large dip it took in Q3 and as compared to the same period last year it was 9.6%.

Coming to the business updates on slide number 9, as Mr. Minda mentioned the joint venture equity restructuring at Furukawa is completed. And now we hold 25% stake. It continues as a joint venture and only thing is the name has changed to Furukawa Minda Electric Pvt. Ltd. Positive news on SMIT as well. We have received and LOI for the share mobility solution for two-wheeler rental service provider in Bangalore. We have received smart key solutions LOI, earlier it was work in progress from 2 overseas OEMs in the two-wheeler segment. And we have a significant business acquisition in DC-DC Converter with a major commercial vehicle manufacturer in India. So, this has established ourselves as a pioneer in this product segment of DC-DC Converter with respect to the electric vehicle. A small update on the merger, the scheme of merger files in the NCLT of Delhi and Bangalore for merger of the domestic wholly on subsidiaries into Minda Corporation is in process. The first motion order has been received for convening shareholder and creditor meeting. This is of course, driven by the timeline decided by the court. As per our plans we seen well on the way to complete this somewhere in the end of May, that is our internal target subject to, of course regulatory approvals. The board has recommended, announced an interim dividend of 12.5% and this is same as the percentage we gave as interim dividend in the last year.

With respect to the business updates, to summarize the business updates the order inflow and the order book continues to remain robust. In the safety security and restraint system we have got lifetime order worth about 860 crores if you add that up to the year-to-date number it comes to about 2,100 crores. We have received a prestigious lock set order from a two-wheeler OEM and this is a large business of about 460 crores in lifetime. We also got a new business from a leading Indian passenger car for supply of Canbox for their multiple models. This is a 51 crores lifetime order and we have been awarded new business from a leading Indian OEM for control cables. Now control cables is a relatively newer business and that is about 90 crores. We have also in the drive information and telematics system we have won a prestigious order to supply electronic fuel injection wiring harness to a leading global two-wheeler OEM. Again, here this lifetime is 1,450 crores. I would like to highlight here that this is largely replacement, so we have been talking about our electronic fuel injection, wiring harness business, turnover almost tripling because of the change from BS-IV to BS VI.

What I would like to share with the investors and team here is that we are well on the way to converting all our orders with customers who are earlier in the carburetor era to EFI era without losing any order. So, we are about, in my opinion about 80% already their orders in the bag and the balance 20% are fairly well in advance stages of winning. We have new business awarded to us in the EGT sensors business by a leading four-wheeler OEM. That is a fairly good business of 70 crores in terms of lifetime and we have been also awarded an instrumentation cluster business for about 100 crores from a leading two-wheeler OEM. In the interior system the main, in Europe the business has gone down especially with respect to Volkswagen. However, we have managed to successfully migrate some of those plastic parts to India and this has been a project that is going on and during this quarter we have one lifetime order worth about 18 crores from a leading four-wheeler OEM with respect to plastic parts. Our initiative on exports which we said we will double in a matter of 3 years continues on a very positive trend. We have received orders for exports of die-casting & ASEAN to a leading four-wheeler OEM. We have won export for lock sets to Japanese OEMs, again two-wheelers and we also received export further orders in the die-casting business.

So, this is the quick summary of our financial performance with respect to where we are on sales growth, positive EBITDA growth and PAT growth in India challenges with respect to EBITDA in Europe and a robust cash generation overall on a consolidated basis and about 9.1% 9-month average EBITDA percentage to sales and we continue to have a good order book. We continued to invest in SMIT which is now started giving results in the form of smart key businesses that we are winning and actual LOIs that we are winning. And we are also able to see proof of the pudding with respect to wining orders with respect to EFI business for the wiring harness where the sales is about to triple in by next financial year starting. So, this is a quick summary gentlemen and I am open to questions and over to you.

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

Chirag Shah: Sir one question is, first question is this DC-DC Converter which you indicated. If you can explain how big is this business opportunity and how big is the product that you are likely to provide? In terms of what could be the average realization of that product? And how big is the opportunity?

R Laxman: The current orders we have won from the OEM, Chirag is for about 50,000 pieces and this is about 4.5 crores. So, this is a small number. However, the key thing for us is to continue to remain in the reckoning with respect to new product launches with related or adjacent to either in hybrid or in electrical vehicle. And these are all for me confirmations that we are on the right path and customer is willing to put money behind my R&D effort. To frankly speaking this is not a very large number but it is an important number.

Ashok Minda: it's a 50,000 to start with the potential is 200,000 pieces increase which will increase step by step for the same item.

Moderator: We will move to the next question that is from the line of Ankit Merchant from SMC Global Securities. Please go ahead.

Ankit Merchant: I wanted some details on the company's debt levels. What is the current debt in the books of the company? So, can you elaborate what is the utilization of funds from the QIP which you have done?

R Laxman: So, the debt levels as on 30th September was 745 crores that is what we have reported in our earlier quarter earnings call, that is the gross debt. This debt level has roughly come down to about 710 odd crores as on 31st December, 2018. We will be computing balance sheet related data every 6 months and we will be sharing more detail numbers with you when it comes to March 2019. But the big message is, yes our debt is going down and also our cash and cash equivalents that we have is also increasing because of 2 reasons. One, we have QIP money that we have kept in reserve and second is there is interest accrued on it which is a, now a regular income till such time as we deploy the QIP money. So, these 2 put together my cash equivalents are going up and debt is coming down. So, you will see that in our next quarterly results our net debt will go down.

Ankit Merchant: But I mean, as far as I remember correctly the QIP money was supposed to be utilized for the acquisition of an asset which there was a discussion related to that, so any update on that?

R Laxman: Yes. So, we have made progress with a few of our potential business opportunities in terms of acquisitions. At least 2 of them are in Asia, 2 we are pursuing in India and we have a couple of them but those are early stages in Europe. Though I would love to share more details but we have not been able to be in a position where we have reached a stage which is confirmatory binding in terms of any of our acquisition efforts. And therefore, we have not yet moved on that front. However, there are a lot of irons in fire which we are working on. And this QIP money has been year marked specifically for things like CAPEX and acquisition and specifically year marked it for that and kept it in that order. We hope to share news with you with respect to the utilization of this money in the coming quarters.

Ankit Merchant: I have just one last question. Sir, our breakdown by the end user market, sir what we have seen in the, I mean the trend shows is that two-wheeler has been pretty much steady for us in fact from 37% contribution it is close to 40% now. But the passenger vehicle segment is where we have lost from what I understand that we used to do close to 25% to 30% that is now come below 20% while the CV business is also on a relatively on a very steady path. So, all this the technology front which we have been working on and most of our products are related towards the passenger vehicle segment. But I believe that those of things are not been translating into the numbers for passenger vehicles, cars or are we not been able to get much orders on that front?

R Laxman: I am going to make a, take a minute more to answer your question basically. Ankit, one is our, when we look at our Ind AS accounting numbers with respect to sales our passenger vehicles share in 9-month FY18 was 18.8% and our 9-month FY19 passenger is 20.8%. So, there is an increase in the share but I must admit that these numbers are very low and also that our presence in passenger vehicles continues to remain low. And this is a challenge we had taken up some time ago and the all our efforts that is why you will hear more about these businesses with respect to mechatronics, electronics, telematics as well as wiring harnesses and even the new plastic interior business, I spoke to you about the orders that we won. These are all driven towards working on increasing our share in say passenger vehicles also in a profitable manner. So, it is a weakness which we acknowledge and it is something which we are working on.

Ashok Minda: And adding to that we are setting up the robotic in shop which is going to a big leap in our one-off the product is exterior handle and that is only for the passenger cars.

Ankit Merchant: And any update on the die-casting what has been the utilization now?

R Laxman: Yes, so the die-casting business, I will touch upon the die-casting business utilization. It is currently at 70% to 75% because lines are even now, we are adding lines as the demand increases. Because we had mentioned that we are only going to do batch-by-batch increase in machines rather than putting up all the machines at one go. So, die-casting division you will see that 9-month number was about 270 crores. This is up from the same period previous year and EBITDA margins have also improved to double digit and the new plant which we put up only the new plants capacity utilization today is roughly around 70%.

Moderator: Thank you. The next question is from the line of Chirag Shah from Edelweiss.

Chirag Shah: So, continue on this DC-DC converter question. So, in a commercial vehicle there would be only one unit or there would be many units of this motor?

R Laxman: Chirag, I will say something and then I am going to request Mr. Minda also to add. My understanding is DC-DC converter in the current framework there will be only one. And today we have a potential volume of about 50,000 which is translating to about 4.5 crores. But Mr. Minda had something to add with respect to this business with the OEM. Over to you, Mr. Minda!

Ashok Minda: This basically is required to reduce the voltage and that one of the customer is using, going to be use 100% same products. So, as I mentioned earlier they are going to start these with 50,000 will increase to 200,000 and simultaneously we are also working with the two-wheeler segment also for the DC-DC converter which in the next quarter we are hopefully to get the business awarded in the DC-DC converter, the voltage drop is less and so that also we have already developed in SMIT and the discussion is going on with the customer.

Chirag Shah: And Laxman, just a clarificatory question. So every quarter, you announce this new business wins. Now, last year when I look it at say FY18 whatever new business wins that we would have announced generally we should assume that they would flow with a lag of one year. Or of the current revenue would not have significant part of whatever new order that we had won in FY18? Is it a right way of understanding?

R. Laxman: No, I will give a little bit longish answer to this. There are 2 points to this and therefore there will not be a direct correlation between the amounts we put here and the orders. The reason is as follows. One, some of this will have replacement business, so not necessarily all of this will be incremental. Some of it will make my current business zero and start a fresh. So, we have A, B, C analysis of businesses that we have. That is point number one. And point number two, is the business wins that we have the SOP has a wide range sometimes it starts in 6 months sometime it starts in 18 months. So, the combined factor of replacement demand and the staggered SOP makes the calculation direct correlation little difficult. But I can give you benchmark. Typically the orders that I win will last for about 3 years. So, every year I need to win orders which should be equal to my or around my turnover give or take lump sum orders.

Chirag Shah: And one more question was on this Mexico business that we had, you explained very well the issues over there. So, how much of this EBITDA pressure that we have seen is also because of lower volumes over there, the negative operating average and …

R Laxman: Chirag, I like to tell you that most of this EBITDA pressure is because of Europe. And it is not because of Mexico and in Europe I have got hit on 2-3 fronts. One is because of WLTP as well as a little bit of lower demand has got impacted, Europe serial parts. Second, Volkswagen is my largest customer, therein Volkswagen has got hit the most in Europe because of WLTP. Unfortunately, I mean that phase when there is a lower demand and my customer is doing lower than expected. And the third point is my raw materials which some of them non-recurring and some half of them is recurring which I have not been able to recoup completely. So, these are the reasons for the challenges in Europe. And we, as Mr. Minda mentioned we have a plan in place in terms of how we are going to recoup this. The plan includes among other things. One, value and value engineering, second, moving out of these non-recurring items because these are all one time which we say the inventory write off which we took of 1 million or absence of engineering income. And third, steadying our mix between serial parts and tooling which is not completely in our hands but we should be able to work towards widening our customer base such that these fluctuations are taken care off. But to be frank with you this exercise is not going to get completed in one quarter. We expect this to be gradually progressing over the next 2-3-4 quarters. However, because of these nonrecurring items we do not expect this kind of a shock going forward and to this extent.

Chirag Shah: And is it possible to quantify the non-recurring items in terms of percentage? Also how should we look at the recoup of margins from here, we can go back to what we used to do in 3-4 quarters? Or we should assume a slightly lower base for some time?

R Laxman: I think, we should assume a lower base for some time.

Chirag Shah: And one last question if I can squeeze in. So, now that most of our inorganic activities are done at consolidate level what kind of revenue growth do you look at because in last few years we have been growing at a significant phase because of various inorganic activities that we were doing or consolidation activities we are doing. That next year is likely to be a year where will not have major inorganic activities. So, in terms of revenue growth how do you look at for yourselves in next year?

R. Laxman: I will answer this question and Mr. Minda if you would like to add something you may. I will just take a crack at this first. One, Chirag is, our fundamental growth engines with respect to revenue growth over the next 1-2 years what we had assumed one year ago remains intact. Point number one, we said we will grow through exports. Point number two, we said we will grow through the conversion of BS-IV to BS-VI where for example my wiring harness business sales triples. That assumption remains intact. Point number three, we said we will start playing a larger role in the sensor area and now I show to you there we are actually won orders for sensors from Indian OEMs in terms of written LOIs. So, these pillars of growth remain to be intact. Therefore, answer to your question how am I going to grow over the next 1 or 2 years, I think the answer is it will be a robust growth. However, what I do not know is how the quarters next 1 or 2 quarters are going to behave with respect to industry is what will probably stem some of these assumptions which may have. However, the fundamental of premiumization, BS-VI, exports etc. remain absolutely solid as well as our technology move from legacy to non-legacy. Mr. Minda would you like to add please.

Ashok Minda: I am specifically to the export and domestic, is another area is the die-casting that is the another area as Laxman mentioned the utilization is 70% and there is a good potential of this growth in die-casting. The interior plastic in India is another growth area which will give us a good because we have the technology available with us. So, these are the further area for growth.

Moderator: Thank you. The next question is from the line of Nikhil Kale from Axis Capital.

Nikhil Kale: So, I had couple of questions, One was on the demand front, so just wanted to get your understanding of what you are seeing in terms of OEM demand in Europe as well in the domestic side?

R. Laxman: If you look at our 3-month numbers in domestic, I will first address India and then I will come to Europe. The 3-month demand in domestic overall, we have grown by about 9.7%. But you will see that Passenger-Cars has de-grown by 9% and commercial vehicle have grown by robust 12.6% and three wheeler, two-wheeler both have given about 8% to 9% growth. So, therefore it comes to a total of 7% in terms of overall growth. However, if you remove Pass-Cars we have grown about 9.7%. So, that is with respect to the quarter. If you look at 9-month numbers again overall we have grown by 11% as industry in India but this largely driven by two-wheeler sales and commercial vehicles sales. Pass-Cars have remained largely flat. So, overall again I would say in India we have seen somewhere around say 8% to 9% growth. And with respect to our business the growth is a little more because our passenger car exposure is low. Coming to the outlook, we see Q4 to be slightly more robust because I have the December and January numbers for two-wheelers and commercial vehicles where even in January the two-wheelers have demonstrated double digit growth with compared to month-on-month serial comparison. For example, Hero has said that growing by about 28%, Bajaj has said that they have grown by 17% month-on-month, similar to do with tractors. So, therefore, I see fair amount of steadiness in the growth in India give or take the quarterly ups and downs we have had across these segments within that. Coming to Europe and your question Nikhil we see Europe to be flat because they have seen a de-growth in the last 4 months. So, therefore flat is also negative with respect to the total volume. And yesterday I was looking at the 2022 number with respect to Europe and that also remains 0 to 2% flattish kind of growth. So, that is the quick take on what we have.

Nikhil Kale: Second question was with the emission norms coming in FY20 and the associated cost increases that will be seen across say two-wheeler OEMs. Are you seeing a tendency to may be delay some of the premiumization related products and uptick of that say something like a smart lock. Our OEMs now thinking of maybe delaying the launch of say a smart lock on a two-wheeler? Just in order to just limit the price increase.

R Laxman: So, given the LOIs that we have received and which we shared with you during this call, we are not seeing a delay. I only expect that the smart key ruling out across different vehicle segments may slow down because of the price involved and therefore they may start with the premium segments first and rule it to the economy segments in a pace which may be a little different from what we have thought it out to be. But looking at the orders that they have given us today it is not giving me any such concern.

Moderator: Thank you. The next question is from the line of Ronak Sarda from Systematix Group.

Ronak Sarda: Sir, quickly clarification on Europe. If I look at your slide 8, where you have given interior system topline and the EBITDA margin for 9-months, if I adjust for this one-off expenses which you have highlighted, can you give us an approximate EBITDA margin number? So, I see 1 million as one-off the non-recurring expense and the engineering expense if you can quantify and give us an approximate number for the margins?

R. Laxman: See Ronak, both these one-off items if you add which is my write-offs and engineering delta may contribute about 2% to 3% of EITDA.

Ronak Sarda: 2% to 3%, so basically it is, so it becomes 3.5% approximately.

R. Laxman: Yes, so basically it still does not get me to the number that I am expecting in line with what the Indian businesses are giving. So, I definitely need to go back to my point number 1 and 2 in terms of changing this mix which is one, changing the product mix and two, managing the raw material prices that we have shown which was a little beyond our control and pulled it out.

Ronak Sarda: And second clarification tooling usually is the high margin business right because if one-off when you developing a new product. Is it anything specific why you are mentioning that it is a low margin item?

R. Laxman: Yes, thank you for that question actually, I missed mentioning. Tooling last year traditionally has been a profitable business for us. This year the tooling numbers have shown lower much lower profitability and the reason is the tooling business that you pick up is based on the hunger you have for your serial parts going forward. So, sometimes it does happen that the end of picking some tooling businesses which are not so attractive but the serial part businesses which will come over the next 3 to 4 years is attractive enough for me. So, I do not want to penalize my business for not picking up tooling business to my business heads because that way I will not be securing my feature serial parts. So, unfortunately as you rightly said it does impact my quarterly numbers, unfortunately.

Ronak Sarda: So, on the new order wins, which you have been highlighting on a quarterly basis if you can summarize it for us. So, on smart key you had initially highlighted 2 domestic players and 2 export players. Is this the new order wins, so it does it add to the tally or is it the same customers which, we are talking about?

R. Laxman: With respect to smart keys the bulk of my order in terms of value comes from customers whom are migrating from, it is a mix actually. It is customers who are migrating from the old system to smart keys and in certain cases and I will not take names here. In certain cases there have been customers in two-wheeler Ronak who have come to me for this smart keys business while they continue to take magnetic locks from their erstwhile current supplier. Now, that is more important to me .

Ronak Sarda: Laxman, my question is different. What I am saying is over the last 3 or 4 quarters we have highlighted different order wins. So, can you just summarize what is the total order win in smart keys? So we had initially said 2 domestic order wins and 2 order wins in export markets. So, Bolt and Piaggio, the order win which you have …

Ashok Minda: Laxman, you will have the figures, but I tell you that almost all Indian and outside India two-wheeler manufacture, we are supplying the key set which is mechanical or the magnetic. And because of the customer comfort and because of the security and the safety we have introduced the smart key. And wherever this is going to be change the customer is going to be, because we are already supplying to them. We are going to get the orders and we have got the order from them, also for this smart key as well as 2 orders we have got for the electric vehicle and they are going to, in particular electric vehicle and two-wheelers they are going to use the smart key the figure you will have, you can explain, if you have.

R. Laxman: Yes, so what I will do Ronak is I will compile this table of the smart key businesses orders we have own over the last 3 quarters that we have announced and how much that adds up to in terms of per annum and life time and I will put it up along with my presentation, thank you for that.

Ronak Sarda: If you can just summarize in number of order what you are talking about not value as such is okay but is it now more than 2 export orders we have?

R. Laxman: The numbers I have with me is 3 domestic and 2 exports. And that I will put together a table to see how it stacks up.

Ronak Sarda: And the new order win on the EGP sensor. So initially we were talking about a 25% market share and 125 crores of overall business. Is this order in part of that 70 crores is secured from 125 crores which you used to talk about? Or this is over and above the overall …

R. Laxman: No, is part of that.

Ronak Sarda: And our target remains the same 25% market share for the ERD sensor?

R. Laxman: Hope to increase that because as the business is getting closer we are more in competing in second and third level of bidding.

Ronak Sarda: And lastly if you can just help me with revenue and EBITDA numbers from Minda SAI, VAST, Stoneridge and Furukawa for the quarter?

R. Laxman: Can I just put it in a table and share it with you because I have done the numbers and for example if you look at my slide number 8, the driver information and telematics, the EBITDA margins overall is 9.9%. And see, EBITDAs I do not consolidate at EBITDA level neither for

Stoneridge or VAST but both of them are in double digit. And Minda SAI is around 10.2%, Ronak.

Ronak Sarda: And sir, last question was with respect to our Stoneridge venture. We have seen very sharp pick up in number of sensors being adopted in the domestic vehicle market mainly because of adoption of ABS ESC So, any incremental sensor business which we see, which we are bidding for or which we see could be a reasonable opportunity over the next 2 years?

R. Laxman: So, there are 2 parts to this. In Stoneridge, we are seeing a fair amount of growth in the sales and your question is specifically with respect to sensors, right?

Ronak Sarda: Yes, sensors. So, over and above the AGT RT sensors and SOOT sensors any other sensors are we discussion with …

R. Laxman: To my knowledge we are working on these 2 pretty aggressively in terms of sensors. I do not thing there are others which are at this level of progress and advance.

I would like to take this opportunity to just share with the entire team that we are planning to have an investor day in Mumbai on 28th of February almost the whole day. And we will be circulating the time slots etc. and we would like to urge as many of you can spare time in Mumbai at BKC to come and attend the event. We are doing a couple of things there. First, we are actually having a technology demonstration of our products. And we will have our Chief Technology Officer and Head of SMIT, Suresh who will be available for taking us through our legacy non-legacy and the new products that we have mentioned including the smart key. Second, we will be having our business heads as many as we can to speak to you about what is happening in each of their businesses as well as overall with respect to BS-IV to BS-VI. Third and most importantly we will have Mr. Ashok Minda to be there available to speak to you about the strategy and direction where this company and the group is headed. What we are doing on the electric vehicle side, what we are doing in terms of our growth our, what shall we say going forward in terms of customers, products. How we are working hard towards EBITDA improvement shareholder wealth creation. So, we have put a full package for 28th of February and I would definitely like this opportunity to welcome you all to that. We have all your contact details and will ensure that formal email is sent to you I am using this opportunity only to request you to block your dates.

Moderator: Thank you. Ladies and gentlemen, this will be the last question for today from Apurva Mehta from AM Investment Bank. Please go ahead.

Apurva Mehta: Sir, can you just highlight what is the smart key market size in India and may be towards the whole world who are our main competitors in India and towards what we are targeting exports also in big way?

R. Laxman: So, with respect to smart keys way we look at it and Mr. Minda please add wherever I am lacking. With respect to smart keys what we see is in terms of a migration. Now, effectively today we are the third largest supplier of locks in the world by numbers. If you looking at volume, value we do what more than about 1,000 crores but we are saying this market eventually all shift towards smart key. And therefore, it will be more replacement and as we progress from premium segment to economy whether this will happen in a matter of 2 years or 3 years is a matter of conjunction. But this is the kind of market we are talking about. In terms of competition we have a fair amount of competition globally from Asahi Denso, so and lot of whole host of other players including Honda locks. However, in terms of technology and the pricing power at which we are able to introduce the technology to OEMs in India and overseas we have seen that we are absolutely number one. Especially with respect to two-wheelers and not as much today with respect to four-wheelers where we have joint venture partner who is providing us the technology. Mr. Minda, over to you.

Ashok Minda: Basically, in the four-wheeler or in the passenger cars there is a trend from high segment car which is passive entry passive system then it has come to the lower segment car. The same way is going to happen in smart key in mainly in two-wheeler segment. In the beginning and in this to start with that in the high segment and electric vehicle which has already started and this will again come to almost all the two-wheeler segment. The cost comparison difference between the existing mechanical or the magnetic field lock set vis-à-vis this smart key is almost 2.5-3 times higher. So, that will happen when almost in a period of 1 to 3 years this will start happening using the smart key and obsolete this mechanical and magnetic key.

Apurva Mehta: So, it will be a major growth driver because if it is around 2 to 3 X means today it is our turnover is 1,000 crores. So, that itself will convert to around 2,500 crores in next 1 to 3 years?

Ashok Minda: This is true, as you say from the logistic point of view the wiring harness from mechanical, so from normal carburetor engine to EFI. This has increases 2.5-3 year times. Similar way there are various types of features. One feature is with the electronic steering column lock which nothing is to be used in this smart key. Because there is no mechanical that there are some is in the middle way. So, customer would because there is a cost increase to the actual figure. So, customer is definitely going to move step-by-step Phase-1 in some customer may be to the final version of smart key. But we have already developed already starting that the both feature model. Yes, but you are saying is definitely, yes this is going to be one of the areas of growth driver in the security system.

Apurva Mehta: Sir, on the European side where we on the interior side, where we saw huge dip in the margin. So, what will be our base margin if you are going to remove these one-off things and what will our base margins will be in from Q4 onwards and how it will in next 2-3-4 quarters we feel normalized but what will be our base margins constituting that?

R. Laxman: Our European margins given the challenges of robustness of demand our EBITDA margins, I would expect more in single digit and that also somewhere mid to high single digits. I do not expect more than that and even this I am saying will take 2 to 3 quarters to achieve. And the only consolidation is the Indian business at that time is currently continues to be robust and therefore, we are able to take the decisions we want to take in terms of stabilizing and growing Europe going forward. Because we do see potential and we do see opportunity.

Apurva Mehta: Sir, on the die-casting business, where we, you are telling we had double digit margins. But we were expecting much higher that we were above 16% to 18% type of die-casting margin. So, are we seeing that type margins in die-casting currently?

R. Laxman: Today the capacity utilization of die-casting is about 70% and usually most of this extra margin comes from that last 10% of usage of capacity because that is when my incremental return shoots up. I am not trying to say we will reach say 18% EBITDA margin but what I am saying is today if I am at 12% it will definitely the direction in which the margins are going is upward.

Apurva Mehta: So, next year we can see margins going up to what you are envisaging of 15% or something like that and the utilization?

R. Laxman: I would not put it that aggressively but I will definitely tell you the direction is positive.

Moderator: Thank you very much. I would now like to hand the conference over to Mr. Ashok Minda for closing comments.

Ashok Minda: Definitely as I mentioned in the beginning about our European business that we are facing challenges and we are very aggressively working on that and technology side as we have said is that we are working on how to obsolete our own product and bring the new technology product. And in the electric vehicle segment also and the customer comfort which is going to be there in future. So, we are working on the technology side, we are working on the logistically what are the new product which is going to come. We are working and likely FI and sensors and at all that. So, this is technological side, sales growth side and the KTSN is a really challenge for us. Over to you, Laxman!

R. Laxman: Thank you Mr. Minda. And I would like to just add 2 points. One, robust domestic business and second there has been a good change in our cash generation for the business. These two are helping us prepare for the future and therefore we are looking forward positively and just one more reminder for February 28th in Mumbai at BKC. Thank you so much for participating and for your questions which help us improve. Thank you very much.

Moderator: Thank you very much, sir. On behalf of Minda Corporation Ltd, that concludes this conference. Thank you for joining us, you may now disconnect your line.