“Minda Corporation Limited Q2 FY2019 Earnings Conference Call”

November 01, 2018

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Moderator: Ladies and gentlemen, good day and welcome to Minda Corporation Limited Q2 FY2019 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, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Raghav Garg. Thank you and over to you Sir!

Raghav Garg: Thank you operator. Good afternoon, everyone. On behalf of KR Choksey, we welcome you all for the Q2 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. Sudhir Kashyap – Executive Director and CEO – Minda Corporation; Mr. N.K. Taneja – Group Chief Marketing Officer, Mr. Sanjay Aneja – Chief Financial Officer - Minda Corporation Limited and Mr. Ajay Sancheti – Vice President Group Finance and Legal.

We will begin the call with a brief overview by the management followed by the Q&A. I will now hand over the call to Mr. Ashok Minda for his opening remarks. Thank you and over to you, Sir!

Ashok Minda: Thank you Raghav. Good afternoon, ladies and gentlemen. I welcome you all to the Q2 FY2019 Earnings Conference Call of Minda Corporation.

We are pleased to report 18.1% year-on-year revenue growth in Q2 FY 2019, which was primarily driven by growth in our domestic business. Our Interior System segment witnessed degrowth due to regulatory changes in emission norms in Europe.

Our management team remains fully committed to driving growth across segment, which is clearly reflected in the recent businesses wins and our strong order book. Further we have initiated merger of domestic wholly owned subsidiaries into Minda Corporation, which will result in bigger standalone entity with the simplified corporate structure.

I am pleased to inform that our credit rating has also been upgraded to 'IND AA-[by India Rating. Now we shall begin the discussion with the detailed financial overview and insight on operational performance. With this, I will handover to Mr. Laxman, our Group Finance President.

R. Laxman: Thank you Mr. Ashok Minda and welcome Ladies and gentlemen for our quarterly earnings call.

We have uploaded our presentation on the website and for those of you the access I will also refer to the slide number so that is easier to go through; however, I shall still readout the details for those of do not have current access to the presentation.

I am straightaway jumping to slide #4, which is talking about our business again I would like to reiterate for those who have joined in late of the hour, one of the leading automotive component company in India with the global footprint. We have a diversified product portfolio, global customers, very strong manufacturing and for the last couple of years an extremely focused approach to the R&D capabilities which we have built in Pune including advance engineering in electronics and mechatronics and multiple specialized R&D centers across India as well.

Our business is divided into three verticals, one is Safety Security and Restraint system where we do the locking system, access system, dye-casting etc. The second business is drive information and telematic comprises wiring harness, instrumentation, clusters and sensors etc., and we have interior system business, which is plastic interior, high-end kinematic parts, which is dominantly in Europe.

We have global customers and almost all Indian OEMs as our customers across the three end market segments of two wheelers, commercial vehicles and passenger vehicles. We have got 34 manufacturing facilities.

Going by the business vertical breakup for revenue for second quarter FY2019 we have about 48% of our revenue this time coming from safety security and restraint system, which is higher than the last quarter and then we have about 34.8% of our revenue coming from drive information and telematics which are again higher than the Q1. We have about 16.7% of our revenue coming from interior systems which is lower than our Q1. This is driven by higher sales in India and more muted growth in Europe.

Coming to the results on page No.5, our consolidated results for Q2 FY2019 revenue increased to Rs. 773 Crores and as compared to this in the same quarter in the previous year we have done Rs. 655 Crores. This is effectively an 18% increase in revenue; however, if we break this revenue of between India and outside India our Q2 India revenues have gone up by very healthy 26% whereas the Q2 European business more particularly has in euro terms degrown by about 15%. The H1 revenue numbers and I will go row wise, the H1 revenue numbers have gone up to Rs. 1,551 Crores which is effectively a 25% increase over the same period last year.

Moving on to the EBITDA, we have an EBITDA of 82 Crores for the first quarter is as against the same period last year we had a 75 Crores i.e. Q2 in FY2019 was 82 Crores versus Q2 in FY18 was 75

Crores. The EBITDA margin is at 10.6% as against 11.5% earlier. On the entire half year, we have made an EBITDA of Rs, 155 Crores up from Rs. 119 Crores and EBITDA margins have moved up from 9.7% for the first half to 10.0%.

Our profit after tax for the quarter was Rs. 44.6 Crores as against Rs. 42.1 Crores for the same second quarter in the previous year. Profit after tax margin stood at 5.8%, this was 6.4% in the same Q2 of last year. If you go to the half yearly numbers, we have posted a first half profit after tax of Rs. 82 Crores as against 65 Crores in the first half of FY2018. The profit after tax margin for the H1 remains the same at 5.3%.

Coming to the detailed performance of Q2 FY2019 on slide No.6, as we said our revenue growth was 18%, in India we did about 26% the breakup in the safety security system grew at about 30% and drive information and telematics grew at 27%.

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Our EBITDA margins on the domestic business continued to remain strong in double digit; however, in Europe our margins were significantly impacted because of implementation of the worldwide harmonized light testing procedure which is WNTP norms which resulted in drop in sales in Q2 and also resulted in a significant decline in the EBITDA.

In terms of net profit, the EBIT was Rs. 44 Crores and the margin was 5.8% for the quarter. This is of course is after considering the proportionate share of profits from joint ventures, which I have the details of and I can share with you.

If you look at segment wise it is very clear on slide No.7, which are the segments given a thrust and which one proved to be a challenge. The safety security and restraint system turnover increased from Rs. 559 Crores to Rs. 700 Crores and EBITDA margins increased from 10.1% to 12.8% and this is for the first half of FY2019. The second segment which is drive information and telematics the revenue increased from Rs. 402 Crores to Rs. 522 Crores and EBITDA margins marginally improved from 10.2% to 10.3%. In interior systems the revenue overall increased from Rs. 278 Crores to Rs. 328 Crores for the first half comparison; however, the Q2 was a dip as compared to Q1 and both of them together this is a change in number. The first half in FY2018 was 7.9% EBITDA margin on an overall basis 7.9% EBITDA margin has dropped to 3.6% for the interior business. And on an average basis we ended up posting an EBITDA of 10.6%.

Quickly moving to the balance sheet, we on September 30 our net worth stood at Rs. 1,115 Crores on a consolidated basis this includes the qualified institutional placement which we did Rs. 310 Crores. Our gross debt moved from Rs. 723 Crores to Rs. 745 Crores but net of the cash equivalent and the

QIP proceeds, the QIP proceeds have not been used at all, they have been kept separately for strategic reasons. The net debt has gone down from Rs. 697 Crores to Rs. 421 Crores and therefore the net debt to net worth has moved down from 0.94x to 0.38x.

Our capital employed has gone from Rs. 1,434 Crores to Rs. 1,535 Crores and our ROCE has gone up from 15.9% to 17.2%. In this, we have excluded the QIP money as well as the interest we earned out of it by calculating ROCE, so effectively this is the business ROCE.

As Mr. Minda point out India Ratings and Results Credit Rating has increased and jumped up and we are now at AA- stable and our working capital is in the A1+.

I am also very glad to share with you that we have won the special commendation award at the Golden Peacock Award for excellence in Corporate Governance in 2018. This is actually from a list of hundreds of companies and I am very thankful to the board, our investors and the management to keep on guiding us towards the correct and right path and this has drawn recognition from the Golden Peacock Award and they have given us recommendation price for Corporate Governance in 2018.

Further there is an update on SMIT in terms of the business we have won and I am going to quickly request Mr. Taneja to touch upon the SMIT update after which I would like to request him to continue on the orders that we have won and I shall come back to explain to you on the scheme of merger that we are talking about. Over to you Mr. Taneja!

N.K. Taneja: Thank you Mr. Laxman. Good afternoon ladies and gentlemen. As you know the group took a board initiative couple of years ago to invest into the state-of-the-art and technology center at Pune to focus on electronics and electronification and creating new generation product and technologies for the automotive segment. The results have started coming to us and we have now been nominated by two OEM customers for the telematics business, also two OEM customers for the DCDC converter for the electric vehicle solution and very important thing is that our technology center which is a only tier I except another tier I which has the EMI EMC facility, our EMI EMC facility lab has now granted accreditation by NABL and NABL is the highest accreditation, which is required for certification of the testing that we do in this laboratory and we have very few laboratories in India have this accreditation.

Next, I will quickly update on the order book position for the Q2 FY2019. On slide No.10 this time we have added one more information that in each system we are sharing also the H1 figure and also the Q3 quarter figures, so in the Safety Security and Restraint System we have lifetime order worth Rs.7,500 million and the H1 is for System Safety Security and Restraint is 12,500 million.

The major business is R&D, smart key system from a leading two wheeler OEM, lifetime business of 1500 million then from the Indian passenger car OEM, a leading passenger car maker of door handle and lock set, lifetime business of approximately 2300 million and if you remember we have been talking about the premiumization and also the new generation of technology edge that we are going to create through our technology centers and smart key is one of the product, which is now greatly getting acceptance across our OEM customer, which is going to replace the mechanical key set, mechanical lock set into the two wheeler vehicles.

Coming to the Driver Information and Telematic System the lifetime order in this quarter is 4500 million and for the H1 it is 10500 million, In this I am very happy to report that our company, Minda Stoneridge for the first time has won instrument cluster business for passenger car segment from a leading four wheeler manufacturer. So far, we were focusing on the commercial vehicles the two wheeler and the off road and the tractor segment, this is first time we did a break through and the lifetime business is 2000 million. Then we have the new business awarded for supply of wiring harness to the world leading two wheeler manufacturer, lifetime business is 450 million.

In the Interior System our lifetime order for this quarter is 1800 million and the lifetime is 3800 million and in Germany, nomination from a global four wheeler manufacturer lifetime business is 1740 million. Over and above this our focus on exports continues and we are getting good support and strength and success in this area. We have received order for smart key system from a global two wheeler OEM, lifetime business 450 million, export order in ASEAN for supply of wiring harness to Japanese two-wheeler OEM with lifetime business of 500, million export business received for dye-casting compressor housing lifetime business value of 670 million.

Before I request, Mr. Laxman to take the next session, I wish to just give an indicative idea that in the Q3 and Q4 lot of big ticket businesses of almost confirmed to be nominated and we see even a stronger and robust order book in the Q3–Q4 mainly starting with the EFI wiring harness due to regulatory change in the year 2020 onwards. Over to Laxman!

R. Laxman: Thank you Mr. Taneja. I just take a couple of minutes to give you a quick overview of scheme of merger that we have announced just a couple of weeks ago. The company has filed a scheme for merger for NCLT Delhi and Bengaluru for merger of the domestic wholly-owned subsidiaries into Minda Corporation, which is the listed flagship company. The companies that we merged are Minda SAI, which is in vertical II, which is Drive, Information and Telematics, then there is Minda Automotive Solutions, which is our aftermarket company, there is Minda Auto Electric which looks its starter motors and there is Minda Telematic, which is the electric mobility solutions company that we acquired in Bengaluru, apart from that there is Minda Management Services, which is also a

100% service provider to Minda Corporation. These companies we are planning to merge into Minda Corporation and the scheme of merger is not going to result in any expansion of equity nor a change in the shareholding pattern of Minda Corporation. It is just a classical merger of 100% subsidiaries in India into the parent company. We expect this merger to be completed about six to eight months.

If you move to slide #13, we have put together a schematic presentation of the entities under the listed entity which is Minda Corporation, we have one set of businesses which are overseas they will remain the same and we have three companies which are joint ventures mainly Minda Furukawa, Minda Vast and Minda Stoneridge these remains the same. Apart from that all the other Indian 100% subsidiaries will get merged into Minda Corporation thus making it a much simpler structure and easy to understand.

On slide No.14, I am talking about the benefits of the merger one is the consolidation of Indian subsidiaries 100% which will result in a larger standalone entity. No.2 there is the synergies on consolidation and cost optimization, for example today there are multiple boards there are multiple statutory audits, different tax filings, there is also some amount of tax leakage because of dividend distribution by step down subsidiaries which we expect this to eliminate by this merger and importantly this merger will also help us in our treasury operations where the treasuries of various businesses under Minda Corporation, Minda SAI today are different these can be harmonized to achieve a better and more efficient working capital and treasury management.

Of course, apart from that we result in a simplified corporate structure and we are expecting all this to result in unlocking of value to stakeholders and a better market perception.

Just to put numbers behind this merger, I am slide No.15, today the standalone Minda Corporation FY 2018 full year number as an illustration was Rs. 947 Crores and if we merge all these companies and remove eliminations it will come to Rs. 1955 Crores roughly Rs. 2000 Crores. The EBITDA will go from Rs. 106 Crores to Rs. 204 Crores and the profit after tax, which is today Minda Corporation standalone of Rs. 70 Crores will go up to a profit after tax of Rs. 105 Crores on a proforma basis of course having said all this the consolidated numbers as we report Q-o-Q half-yearly and half-yearly will remain unchanged.

So that is a quick snapshot of the merger process as well and now over to the moderator and we are happy to take any questions that you may have.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Raunak Sarda from Systematix. Please go ahead.

Raunak Sarda: Thanks for the opportunity and congratulations on a great set of numbers. Quickly on the business update, Sir as you highlighted two questions on order wins first on your EFI wiring harness you know as you said that most of the orders for EFI wiring harness would be announced in next quarter, if you can give a sense update whether how confident we of maintaining our market share and increasing as we had lot of gaps for certain OEMs that we are not supplying?

Ashok Minda: Thank you for your question. Right now, the total two-wheeler wiring harness potential is Rs.1000 Crores and our market share is approximately 34%-35%. The market after EFI implementation will be approximately potential will be 2400 Crores. Right now we do a business of Rs. 350 Crore in the Rs. 1000 Crore market. Our target is that we should touch around 38% to 42% as the market share so thereby meaning that we intend to increase our market share post this year by implementation by 5% to 7% points. Out this Rs. 2400 Crore the market of at about 40% will be Rs. 1000 Crores the near wins I am saying the near wins already with me which are not yet officially in my pocket but verbally agreed is approximately Rs. 750 Crores out of this Rs. 1000 Crores and we are very confident that before the close of this year we will have this target of 40% market share around 5% and further targeting another 2% increase. But we are committing and confident that atleast 5% points we will gain.

Raunak Sarda: Sir this is just EFI wiring harness right, there would be other wiring harness which would still be there so the overall market size would be above 3000 Crores?

Ashok Minda: See every vehicle in two-wheeler will be EFI monitor except the mopeds so I do not understand your question, if you can be more specific I can give you more specific answer.

Raunak Sarda: No, what I meant was this EFI wiring harness basically taking into account the entire wiring harness which will be there in two-wheeler or this is just part of?

Ashok Minda: Yes, complete wiring harness for the complete two-wheeler.

Raunak Sarda: Second question was on smart keys, I mean we have won two or three orders on the domestic business side, obviously the current penetration would be low single-digit but given your interaction with different OEMs both in domestic and exports how do you see the penetration increasing over next two to three years can this obviously become like a 25%-30% of the industry as we have seen for the products like LED alloy wheels do you think that is the kind of possibility?

Ashok Minda: Absolutely right and your assumption and your analysis is on the right track. We have seen automatic manual transmission. We have talked about LED, you have talked alloy wheel in my initial commentary, I talked about the premiumization, smart key is not a regulatory driven it is a customer comfort and the peer pressure premiumization and adoption and deployment of whatever is happening in the rest of the world will flow to India and today we have three or four nominations from four OEMs, three in India one overseas but that is not penetration across all platforms, gradually over the next three years I cannot say it will be 25%-30% but my gut feeling is over the next five to seven years definitely this would go to 25% to 30%.

Raunak Sarda: Sure Sir. And on the current order book what is the kind of content increase are we seeing versus a mechanical lock?

Ashok Minda: Approximately in smart key you can say a delta of Rs.800 to Rs.1000 depending upon the type of the system the customer goes in for.

Raunak Sarda: Thanks. And next question is to Mr. Laxman, if you can just highlight what was the capex for first half and what was the full year guidance and given improvement in margins how are the OCF for the business and can we complete the year at similar debt levels or do you think there would be some increase in debt for the full year basis?

R. Laxman: Okay, I will quickly answer those questions, one our capex for the first half is roughly Rs. 72 Crores out of which half of it is in Minda Corporation and other two important capex investing companies are Minda SAI and Minda KTSN. This is roughly so Rs. 30 Crores in Minda Corporation about Rs. 17 Crores in Minda SAI and about Rs. 21 Crore in Minda KTSN. Second question will this reflect similarly in the second half, the answer is likely to be yes, it will be similar, third will it result in a much higher debt position the answer is No, because today what we have done is roughly our CFO has spoke about in cash flows we have generated at about 70 Crores, 70 Crores is got utilized in capex and our working capital need was about 20 Crores, which has come from bank borrowings. So effectively capex is getting funded and for the working capital we are going for bank borrowing which has resulted is about 20-odd Crores increase in debt. So, we expect this to reflect similarly in the second half also and therefore we do not expect any major increase in debt.

Raunak Sarda: Sure. But given all the topline around 20 Crores debt increase is less than what it would have been so our working capital has improved, the number of days has improved?

R. Laxman: Working capital is improved we have been focusing on the inventory debtors, creditors all put together so there is been an improvement in working capital. I have the consolidated numbers of working capital but that will end up skewing the picture effectively but yes working capital overall has gone down in H1.

Raunak Sarda: Sure. And last question is on Furukawa if you can just highlight the quarter update?

R. Laxman: Furukawa, the good news is that it is consistent there is no surprise, last time we have said it is EBITDA positive and we are working towards PAT positive which was a small PAT last time again this time the good news is consistently EBITDA positive and PAT positive we ended up making some 3-odd Crore of PAT and our share of 1.5 Crores is what we have absorbed in our consolidated number.

Raunak Sarda: Great. Thank you and all the best.

R. Laxman: Thank you.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from Alfa Accurate Advisors. Please go ahead.

Rajesh Kothari: Good afternoon. A few questions, first for Mr. Minda Sir did interior for the first time probably we have seen this kind of a decline in margins during first quarter margins there also it was reduced compared to FY2018, so can you give some color that how do you see this are there any one off cost or do you think the margins are going to improve from hereon? My question was basically in the interior system this was the first time you have seen this kind of a very low margins so do you think are there any one off in this, how do you see the picture going forward for interior system?

Ashok Minda: If you see our total product mix and there are various product mix and as I mentioned in my opening remarks that because of the emission norms, some vehicles where we were having a good margin and some we are having a less margin being a product mix because of the emission norm some vehicles they have to get it tested and all that in Germany so that is the definitely as in the past we will come to the same level once those things is dissolved. So, I am now very much sure that this will definitely improve in future and the product mix will improve.

Rajesh Kothari: Sir some little bit more detail thing in this when you say product mix improvement within interior so out of say full year run rate of about say 500 Crores correct me if I am wrong what is the product mix, when you say the few vehicles are need to be tested in Germany what kind of cost we are incurring and do you think by when do you think the profitability will come back on track?

R. Laxman: I would like to just add my two points Rajesh. Actually this WHLTP norms effectively impacted the OEMs in Europe and its public knowledge that OEMs including Volkswagen etc., has gone on record saying that yes, they have been impacted in the last two quarters pretty substantially and they do not expect this to last more than one quarter from now, so effectively in the next quarter we are hoping to see improvements and in the last quarter that is their first calendar quarter and our last financial reporting quarter we expect them to stabilize and also catch up. So to answering your question, is this temporary, we think it is temporary and yes, there is scope for us to catch up. No.2, as our Minda rightly said as the product mix changes in terms of a slightly more profitable seeing the production our profitability is also expected to look up now. So, these are the two things we are working on some are largely external factors and some of it are internal in our hands in terms of how we improve overall breakeven point say in Europe, etc., this is what we are actually actively working on, that is one answer and second is why we are working on this front, we are expecting our Indian subsidiaries and businesses to do far exceedingly better than what they had even probably portrayed in the beginning of the year, thanks to a robust offtake. These two put together on an overall basis we expect the result to be balanced.

Ashok Minda: One more point Laxman I would like to add, the prices of the plastic that has also increased, which is affecting the margin and we are in the process of going back to the customers to get the compensation of that.

R. Laxman: Absolutely Mr. Minda thanks for that input.

N.K. Taneja: Rajesh just for your information, the production and registration in Europe has fallen from somewhere between 20% and 50% depending upon the vehicle and segment in the period of August, September and October due to this worldwide harmonized testing protocol and as Mr. Laxman explained the OEM also is worried as we are because they also have to improve their performance so Q3 and Q4 we expect to be better than what we had in Q2.

Rajesh Kothari: Basically you know if I look at revenue the revenue hit was not much while you are absolutely right that the global OEM has reported significantly decline in registration if I look at your revenue, revenue is down only by 7% but with 7% decline the complete operating leverage, is it so keen that it may come?

R. Laxman: Two data point in euro terms in Q2, the German revenue went down 15% and you are also right our break-even points are pretty high.

Rajesh Kothari: I see. My second question is with reference to Safety System business, where we have seen globally significant growth but also one of the very high margins around 14.5% compared to Q1 margins and last year margins are about 10% to 11%. So you know are there any one offs in this margins and do you think this margins to sustain at 14% to 15% going forward?

R. Laxman: So two points, one is it is not one off. Safety security is one of our greatest strength. We are market global leaders in terms of technology with respect to safety security in terms of cutting edge technology. No.2, that business has been consistently performing well and it is also aided by a robust increase of exports in our dye-casting business, which stands under the same verticals so both these things put together the margins, have been good and robust and we expect this to continue.

Rajesh Kothari: I see, so it is once the interior system comes back to normalcy may be by Q4 that is January to March quarter then your overall margins would also look much better because your safety which is one of the large contributor to your revenue there you have reported 400 BPS improvement margin so there is a commendable performance so you expect this trend to continue?

Ashok Minda: Yes, absolutely and let me put it this way with the handicap of European testing norms impact, we have still posted double-digit EBITDA and that is something which we are very confident of taking up.

Rajesh Kothari: My one more question if I may ask, that this huge growth in safety system and huge growth in driver info system would you like to give full year, do you think this 20% plus growth to continue for full year and for FY20 in this two segment?

N.K. Taneja: Rajesh, we always commit we will outgrow the market growth and we stick to that and repeatedly we have demonstrated and proved sometime some external environment like what happened in Europe, there was a blip for one quarter we can handle that that is why still we are able to produce a two digit EBITDA margin so my only commitment from the board and the group is that we will outgrow the market growth.

Rajesh Kothari: Great. Thank you Sir I will come back in queue.

Moderator: Thank you. The next question is from the line of Ankit Merchant from SMC Global Securities. Please go ahead.

Ankit Merchant: I just wanted to understand about the dye-casting plant, I believe it has been a time that we have had an update on that and I believe that should have started contributing but I would like to understand the contribution part and also on the margin because that was high EBITDA margin business as such?

N.K. Taneja: You are absolutely right, my colleague, Mr. Laxman just now explained that one of the contributors to the safety security and restraints has been the dye-casting business and one of the key drivers for growth and the improvement in margins is the dye-casting business that we are exporting today and today our order book is for exports of dye-casting alone is Rs. 150 Crores plus, this year our dye-casting export which was Rs.2 Crores in 2016-2017 will be Rs. 85 Crores to Rs. 90 Crores within a period of two years will be our dye-casting and our order book is Rs. 150 Crores and even this quarter you would have seen we have booked more business. Now we are going to focus on adding more customer focusing on the technology and the process that is the gravity casting and the low pressure casting. Obviously, the margins are better in dye casting as compared to the domestic business.

Ashok Minda: Addition to you Taneja Ji that is why we are not giving any focus on particularly the high pressure dye-casting where in the markets are lot of spare capacity available and the contribution margin is insignificant very low so that we have not achieved for our growth.

N.K. Taneja: Just for your information our EBITDA margin in dye-casting is healthy 13%-14%-15% range just for your information and if you have followed us Ankit last year we have started focusing on exports from Rs. 117 Crores of export in 2016-2017, we are targeting to close to somewhere around Rs. 400 Crores this year and major portion of that is the export of dye-casting for we setup of Greenfield facility and the results are in the safety security where we have a healthy high two digit EBITDA margin.

Ankit Merchant: Also can I get the contribution from the customers for this particular quarter which particular customer I mean on the consolidated basis that which particular customer contributed how much?

R. Laxman: You are talking about customers share in sales see that remains consistent. On a consolidated basis no customer is more than about 13%.

Ashok Minda: You have asked a very good question. At a group level we follow that we are not over dependent upon a single customer. Our basket of the sales mix is that top 15 customers constitute about 80% to 85% of our turnover so that would give an idea that we do not over depend if anything more than 10% on any single customer.

R. Laxman: So to answer your question the trend is similar the trend does not changed in Q2. We do not have an impact, we do not see it immediately but the trend is same.

Ankit Merchant: Can you name them is it Bajaj Auto and Maruti still contributing the highest?

N.K. Taneja: See Mahindra, Bajaj, Maruti if I have to see them they will be amongst the top three four customers but again they will be in the range of 8% to 12% but nobody goes overly depend upon 15% - 20% Ankit.

Ashok Minda: Ankit we have identified the top three customer the top ten customer and we are seeing that the vital few focus on the vitality and how to penetrate and the growth in that customer by doing per vehicle content, how to increase our per vehicle content and so on and so on that is how we increase our topline and the bottomline with the main key accounts.

Ankit Merchant: Sure and some more update on SMIT. How is it going and any particular development happening in that space?

Ashok Minda: We very quickly updated you that one of the few laboratories which have now got the NABL accreditation for our EMC facilities directly to nominations of the telematic business two nominations for the electric vehicle which are been developed there, plus the support it is giving for the smart key system for two-wheelers, cars and this is a continuous journey and more and more engagement and more and more penetration with the customers will take us forward in this unit so we are very happy with the way it is progressing.

Ankit Merchant: Sure. Thank you.

Moderator: Thank you. The next question is from the line of Depan Mehta from Excelior. Please go ahead.

Depan Mehta: Yes, Sir. Congratulations on good set of number, my observation is that the company in recent times as well as in the past two three quarters has the significantly outperformed the overall automotive industry right, we saw the numbers from JLR and otherwise also a lot of Indian automobile companies also had a very poor quarter for the September quarter and globally also the auto industry has been going through a bit of a mild downturn so in such challenging condition for the auto industry how was it Sir our company has reported this kind of solid performance double-digit plus kind of a growth rate and that margin being protected so what is going right for you that despite negative trends in the auto industry you are not impacted?

R. Laxman: Thanks for your question. So Deepan so one is the India the auto industry is growing positively for example if I take the numbers for April to September you will see that the two-wheeler business which is one of our very strong segments has grown about 10%, the commercial vehicle business has grown significantly in April to September and of course passenger vehicle is more in a single digit growth. Having said that from our side, effectively we have been focusing on increasing share of business with our key customers and the models that we are supplying have been doing well for the customers in the Indian market these two things put together and our increased focus on exports as what has brought about this higher than industry sales growth consistently every quarter. However specific to customers I am going to request Mr. Taneja to add.

N.K. Taneja: Thank you Mr. Laxman. We have been focusing on the niche of our businesses in terms of commercial vehicles, three-wheelers, two-wheelers and passenger segment, now we have also started engaging very actively as Mr. Minda explained on the key accounts some of the large four wheeler customers for product penetration across four-wheeler segment and one recent example is the new business that won for the instrument cluster for the four wheeler OEM for passenger cars segment. If you see we are evenly spread amongst all commercial vehicles, two-wheeler makers and the three-wheeler makers and this is how if you see 37% growth, 12% growth is helping us to cater to this consistent growth, which you see in our numbers. Of course if you see the overseas we have seen what is happening in Europe which will take one more quarter to be better so this is basically the numbers and selectively on a key focus key customer engagement increasing our pie content and focusing on the product which is give us the value proposition and one more important thing within all of us we are also telling our businesses to learn to say 'No', if some business it only giving the topline but not bottomline let them be bold enough to say 'No' I will not do this business.

Depan Mehta: Sir, second is that in the consolidated basis for September quarter we have seen a sharp jump in the tax to PBT ratio so please can you explain that anything is gone to beyond 30% more on 25% a year ago September quarter?

R. Laxman: Yes, absolutely thanks for that question. Actually our consolidated performance tax in Q2 of the same period last year was 25% was our effective tax rate, that has gone to 32%. Two things have happened one is the tax provisioning is not only based on the performance of the six months but more on the outlook for the next six months. We see a fair amount of robustness across Indian domestic companies for performance up to March 2019, so therefore the provisions are higher and while the profits are increasing and provisions are higher the quantum of amount we invest in R&D is more or less similar and the benefits we typically get because of tax benefits are similar so as a reason of these two our effective tax rate on consolidated basis has gone up.

Depan Mehta: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Jayshree Ram from Karvy Stock Broking. Please go ahead.

Jayshree Ram: Thank you very much for the opportunity. Good evening to you.

Moderator: Madam I would request you to kindly dial in from an alternate number. We move to the next question from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.

Dhananjay Mishra: Sir could you share the number of Furukawa, Minda Vast and Stoneridge in this quarter in terms of revenue and PAT?

R. Laxman: Effectively Minda Furukawa operating revenue is been about Rs. 115 Crores with about little under 3% PAT margin, Minda Stoneridge is about Rs. 120 Crores is about 6% PAT margin and Minda Vast is about Rs. 60 Crores is about 2.5% PAT margin so overall if you add up all the PATs for Q2 of all these companies is coming to about Rs. 12 Crores and our share of that in our bottomline is about Rs. 6 Crores.

Dhananjay Mishra: Also, Sir you had said that we have raised the QIP for some strategic reason so which area of business you are looking most specific or we will go for capex and some new products we are planning to do?

R. Laxman: So our internal generation is sufficient to look at a large part of the capex for current year next year we will see and plan accordingly. However, the QIP funds that we have raised we are looking at acquisitions in the areas of our own core strengths, which is the business verticals we are talking about, for example in wiring harness for example in security systems for example, in some specialized areas in our own core businesses. However, there are three things are guiding factors we need to get something in technology, which is different from what we are having or supplement to the technology that we are having to meet the growing customer demand for such technologies. Second we will be looking at an addition of new customers into the hold and of course we are looking at stable financials, based on these three parameters we are actively engaged with bankers as well as directly with potential targets in India and abroad, we are cautious with respect to moving ahead because we need to be convinced about the synergies we are getting vis-à-vis the value we are paying and therefore there are quite a few irons in the fire hopefully before the end of the financials we should have made much more progress on this.

Dhananjay Mishra: Thirdly Sir, a couple of quarter back, we had shared about a content value in terms of two wheeler that is and four wheeler CV and tractors and that is the adjustable market size and could you share how we are like at what level we have reached in terms of content value as well as serving to the customer?

R. Laxman: We have actually shared those numbers just less than six months ago, right now in the current scheme of things nothing significant has improved or changed; however, on an annual basis we will get this updated and report any significant changes for example when it comes to EFI etc., how the content changes we will update. Mr. Taneja would you like to add?

N.K. Taneja: This quarter and next quarter we are getting more and more nominations for smart key or the EFI and also the strategy of engaging with the customer on account of premiumsation having more products and the vehicle content once all these numbers gets crystallized and nominated, we will be very happy to share with you that how we are moved from the existing content per customer to the proposed number after this nomination which become effective 2020 or as per the date of the astute of particular customer.

Dhananjay Mishra: Sir lastly regarding this dye casting we are I think at 9400 capacity right, in terms of tonnage?

N.K. Taneja: Yes.

Dhananjay Mishra: So what are the current sales numbers because you said that we have Rs. 150 Crores order export order and at the optimum capacity utilization what would be the sales number?

R. Laxman: Effectively in Q2 our sales numbers for dye-casting division is roughly about Rs.98-odd Crores so if you look at where I am in terms of the capacity utilization roughly it is about 75% so by March we should be able to the annual number of March will roughly be where will be in terms of full utilization of the old plant and new plant put together.

Dhananjay Mishra: You said 98 Crores in this quarter at 75% utilization so you could do about 500 Crores annually right?

R. Laxman: Yes, it is across multiple old and new plants if that is the question you are asking?

Dhananjay Mishra: We could do about 500 Crore right?

R. Laxman: Yes, if your question is correct.

Dhananjay Mishra: Okay that is all from my side. All the best.

Moderator: Thank you. Next question is from the line of Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah: Thanks for the opportunity and congrats for good set of numbers. So Sir first question is the continuation of dye-casting, so what is the kind of asset turn that we can do because it could be a capex heavy business so once you hit 100% utilization level you will need to put in good amount of capex?

N.K. Taneja: If you would remember Mr. Minda made a statement that we very carefully choose the product and technology, which we are going to focus, we are very clear it is going to be the empty dye-casting and low pressure dye-casting, high pressure dye-casting may be investments are high the returns are not as remunerative as the dye-casting and the low pressure dye-casting, even in the gravity dye-casting and the low pressure dye-casting, we have very carefully chosen some safety parts and the gravity dye-casting like compressor instead of running around 20 products and businesses we want to be champion and master of one or two like the compressor housing for the turbo charges. Also our focus is leaning on more export businesses and marrying it with the domestic business who have a healthy talent between the two to get appropriate return in terms of investments that we make and that is why you see today that our EBITDA margin in dye-casting today is approximately 13% to 15% and this trend will continue to grow, we already have the land which is already sufficient for the next four or five years, I do not have to invest in land we bought a piece of land where we setup a new Greenfield facility, the existing facility as and when it gets we only have to put in the balancing equipment and the building to take forward the next project, so that is not a concern anymore. Initially when you set up this project with huge land and building that was a concern if we do not have the running businesses so now that chapter is over.

Chirag Shah: But in general, just to understand this would be if you put for a 500 Crores of revenue, is it that you need to invest around 300 to 400 Crores based upon whether it is Greenfield or Brownfield?

N.K. Taneja: I would say that would be bit high of anywhere between 200 and 450 Crores based on my experience with the products and technology we are focusing on.

Chirag Shah: Sir this is helpful. Sir second question was just a clarification, on this live order wins that we share and we are seeing a good traction, all of them are new businesses or some of them would be replacement of existing business because you may have won?

N.K. Taneja: Yes, very good question. Primarily by and large they are new businesses and in depending upon the platform, we decide whether that lifecycle will be five years or seven years and do that multiplication depending upon the customer engagement.

Chirag Shah: Because there could be some dying down of the existing, for example if you had a Swift business and when new Swift is launched it as classified as a new business for you or it is part of the existing business?

N.K. Taneja: Invariably we make an effort not to project the figures, which are replacement businesses; however, the platform we are not there but that new business comes that definitely comes into this booking but what we can do is we can be more scientific from next presentation onwards to classify if there is any repeat business or new business just to have the correct perspective.

Chirag Shah: Yes, Sir, it would be really helpful. The second question was on this EV solution you mentioned DCDC charger so if you can just explain what exactly you mean by that what kind of opportunities and when can we see that flowing in our revenue?

N.K. Taneja: First thing first, it is a technology developed later, the EV segment is a nascent segment, which is growing, and at the group level decided that electronics and electric vehicles is a segment, which is too important, and the future we cannot ignore. This is a home grown product developed by our technology center and the revenue and the topline is not very high but to that an extent I would like to clarify that in 2019-2020 EV business may be Rs. 15-20 Crores topline is what we foresee across the businesses that are in the books, but it is a journey that will multiple as the industry estimate in the next five to ten years.

Chirag Shah: So just to understand Sir how big is this piece in the overall electric solution business that you are looking at, it is one of the key focus area for you this converter related businesses in the electric vehicle solution and what are the other areas we are looking at?

N.K. Taneja: There are three major system battery, control system, power system in an electric two-wheeler and we are not doing the complete systems, we have chosen the product in basket I, basket II, basket III for EV product penetration. This is one of the products where the industry is facing a challenge because of the low quality Chinese products, so out of one of the products where have introduced the DCDC converter for which the engagement is going on. So gradually we started with the part level and then we go to basket II of the system level and the share level so this is a step by step approach.

Chirag Shah: Sir just a housekeeping question on other income we have seen a sharp jump in other income, so apart from this income because of fund raising that we did is there anything specific to take a note off?

R. Laxman: No, Chirag largely because of the money that we have parked in banks of the QIP that we raised, which is basically interest income. The other part of the other income is which is normal regular in comparable to the previous years.

Chirag Shah: This effective tax rate, so what is the number that we should work with, if you can help for this year as well as net ballpark range for the tax rate that we should look at?

R. Laxman: Each business gives from their own legal entity point of view and we have it and we just as the consolidate number is coming to 32%, I would just ask you to take it as a reading effectively.

Chirag Shah: Fair point, because it is something that if you can guide us it will be helpful nothing else from that?

R. Laxman: This is result in accumulation of all the legal entities tax position frankly, Chirag.

Chirag Shah: Just on the growth outlook front, if I can so at least for next quarter or two are there any indications from OEM where they are looking to scale down their order book from your order flows and there could be some slow down impact coming in our P&L? Quarter-on-quarter growth perspective given the way the demand scenario is panning out?

N.K. Taneja: As far as passenger vehicle segment is concerned we have seen the numbers of Maruti Suzuki, which were not very impressive in the month of September and October also because of the Shradh period there were some aberration, except that two-wheeler is concerned commercial vehicle is concerned and other segments are concerned, we do not foresee any major shock and surprises and again I will repeat our good commitment to outgrow the market growth, this is what I would like to sum up.

Chirag Shah: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Raghunandhan from Emkay Global. Please go ahead.

Raghunandhan NL: Thank you Sir for the opportunity. Congratulations on a good set of numbers. Sir couple of questions, No.1 is on this merger with the wholly owned domestic subsidiaries. Would you have any number like which we are working with which could be the possible range of benefits that can accrue to the business over the period of next two three years, and secondly like just a clarification on the commodity inflation side just wanted to understand how much has been passed on to customers and how the gross margin can move in the coming quarters? Thank you Sir.

R. Laxman: I will quickly answer on the merger thing and then I am going to request Mr. Taneja to give the input on the commodity part, which has not being passed on. On the merger frankly, I enlisted four to five clear areas where we can work on saving. For example, treasury operations, harmonizing funds, tax filing, statutory audit, multiple boards etc., these are all numbers that will come over a period of many quarters where as we draw efficiencies from each of these actions there will be savings in cost and all of that will come only beginning FY2019-2020. This merger will effectively take another six to eight months until then we will continue to with separate boards separate treasury operations etc., therefore little difficult to put a specific number to this, however let me give you an example where our step down subsidiary gives dividend to our subsidiary and they give dividend to the parent company just on that if I go by the same amount of dividends, which my step down subsidiary would give me the current year compared to the last year, I would do an easy saving of roughly two crores, just on that number, so there are many actions which can be converted into numbers but just a single example is saving me two crores I am sure there will be much more as we start drawing efficiencies out of this from next year.

N.K. Taneja: Raghu, thank you for your question on the input material. Let me extend that question to the foreign exchange also, so that I can give you a complete answer to this. By and large we always endeavour that we have a back-to-back indexation mechanism for the foreign exchange and for the commodities with the customers. Some of the customer follow last quarter to next quarter or last six months to next six months, so long as the variation is not within manageable limits at the end of the year, you see the little plus or little minus and it does not pinch you, or it does not pinch the customer. The problem arise when you have the time lag that if each quarter-on-quarter the commodity keeps going up and by the time we come to the next quarter you already have a negative of the previous quarter and so on and so forth. In some cases, some of the commodities, which are not very variable over this past few years experience, if they start behaving erratically then the problem, comes and the third thing is the foreign exchange. We have already mapped everything, we are in the process of engagement in a collaborative approach with all our customers and we are confident that within next three months we will have a clearer picture and by and large we are also making an effort how to have the minimum impact on this account. So, to that an extent I can offer this explanation may be in the next meet I can give you more specific answer.

Raghunandhan NL: Thank you Sir. That was very helpful. That is all from my side.

Moderator: Thank you Sir. Ladies and gentlemen due to paucity of time that was the last question I would now like to hand the conference over to Mr. R. Laxman for his closing comments.

R. Laxman: Thank you very much. Thank you ladies and gentlemen for participating in our Q2 earnings call. Thank you for your questions. We also hope to learn and improve our presentations as well as sharing of our business and numbers with you. I would like to take this opportunity before signing off to wish you and your family a very happy Diwali and a great festive season ahead. Thank you very much. Thank you from the management. Thank you to all of you.

Moderator: Thank you very much members of the management. Ladies and gentlemen with this we conclude the conference call. Thank you for joining us. You may now disconnect your lines.