



“Minda Corporation Limited
Q1 FY2019 Earnings Conference Call”

August 9, 2018



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Moderator: Ladies and Gentlemen, good day and welcome to Minda Corporation Limited Earnings Conference Call for the First Quarter of FY2019 hosted by KR Choksey Shares and Securities Private Limited. This conference call may contain forward looking statements about the company which are based on the belief, opinions and expectations of the Company as on the date of this call. These statements are not the guarantees of future performance and may involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference, please signal an operator by pressing “*” 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, Research Analyst from KR Choksey Shares and Securities. 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 Q1 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 ; Mr. Sanjay Aneja – Chief Financial Officer - **Minda Corporation Limited** and Mr. Deepak Balwani – Head of Investor Relations.

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 Q1 FY2019 Earnings Conference Call of Minda Corporation.

This call will follow the usual pattern where I shall give you a brief highlight of the quarter and followed by a detailed discussion on our financial performance by Group President (Finance), Mr. R. Lakshman.

So we are very please to state that Minda Corporation has begun FY2019 on a positive note. During Q1 FY2019 total revenue increased by around 33.8% driven by growth across all our major businesses. Additional revenue from new greenfield plant which is interior plastic plant at Mexico and die casting plant at Pune has also contributed to the overall revenue growth.

Operating margins for Q1 FY2019 increased from 7.6% to 9.4% supported by ramping up margin from new greenfield plants saving in employee cost and other expenses. Net profit margin also improved from 4.0% to 4.8%. We hope to continue building on this growth momentum and succeed in making FY2019 a successful year for Minda Corporation.

Now we shall begin the discussion with a detailed financial overview and insight on operational performance. With this, I will hand over to Mr. Laxman.

R. Laxman:

Thank you Mr. Minda and welcome Ladies and gentlemen for the Q1 FY2019 results.

I would draw your attention to slide #4, of our presentation which is already put up on the website.

Just a quick overview of how revenue breakdown has been in this time. Happy to state that the revenue mix between verticals is largely steady, we have Safety Security about 42%, Driver Information & Telematics contributing 31% of our turnover and Interior Systems which is the plastic interior business is now about 27%. That the sales mix and by end market we are in two wheelers at about 37% and commercial vehicles and off-highway is 30% and our passenger vehicle business is about 25%.

Coming to slide #5, we have had a good encouraging Q1 FY2019. Our operating revenue net of excise is at Rs. 778 Crores as compared to the Q1 FY2018 of Rs. 582 Crores, this is a 33.8% increase and this increase has come steadily across the three business verticals that we have and I will share that in detail in the next slide.

Our other income has moved from about Rs. 2.5 Crores to Rs. 4.6 Crores. In this Rs. 4.6 Crores, we have the interest income which has come from the QIP money that we raised and is roughly about Rs. 2 Crores.

The EBITDA has moved from Rs. 44 Crores to Rs. 73 Crores, so it is increase in EBITDA margin as well as quantum. EBITDA margins have increased on a consolidated basis from 7.6% to 9.4%. There is a similar movement in PBT and the profit after tax. The benefits have percolated down. It has moved from Rs. 23.0 Crores to Rs. 37.6 Crores and the PAT margin has moved from 4% to 4.8%, this is as compared to Q1 FY2018. Our Q4 results for FY2018 in terms of sales there has been an 8% increase. Q4 has seasonally cyclically been a much robust quarter for the industry and the same applies to the company as well and the PAT effectively all the way down, if you move down to PAT about 5.4% what we had in Q4. In a summary our Q1FY2019 has been better than Q1 of the previous year and to that extent the heads up we have got to start the year has been positive.

Now if I move to slide #6, the revenue increase which we set about 33.8% has come from our first business vertical which is Safety Security grew by approximately 30%. The Driver Information which has Wiring Harness Instrumentation Cluster etc. grew by about 32% and the Interior System grew by 42%.

Of course, we had revenue from interior plastic in Mexico and die-casting in Pune ramping up. EBITDA margin has increased by about 177 basis points, ramping up of margins from new greenfield facility of course savings in employee cost and other expenses because of higher rate of growth and this margin increase is after absorption of increase in raw material cost which we have had due to higher commodity prices and in some cases, we have had an adverse mix of product mix with respect to our products in certain of the businesses. The net profit has in linear manner increased from the previous number to Rs. 37.6 Crores, margin of 4.8%. This net profit includes Rs. 4.9 Crores from our share of profit from joint ventures.

While we are on the financials I would like to state that the Minda Furukawa financials of 31st March are now audited and there are no change in the numbers. This is a data point I just wanted to share.

When we come to slide #7, which is the business vertical wise performance, the first business is the Safety Security which I said grew by 30%, the revenue has moved from Rs. 250 Crores to Rs. 326 Crores in Q1 FY2019. These are all indicative figures because what we have done is, we have taken the revenue from each of these companies which pertains to Safety Security and aggregated into one number, of course they are comparable Q1FY2018. The EBITDA margin has moved from 7.1% to 10.6% for this business.

The Driver Information and Telematics System which is largely Minda SAI Wiring Harness Instrumentation Cluster etc., the revenue grew by 32% and moved from Rs. 190 Crores to Rs. 252 Crores and EBITDA margins have moved from 9.7% to 10.1%.

The Interior Systems revenue share has been 42% this time, the revenue grew from Rs. 140 Crores to Rs. 199 Crores and the EBITDA margins moved in a modest manner from 5.7% to 6.5%. We had shared last time that we had completed our QIP and raised money. Therefore, on a net debt to equity basis our debt equity ratio improved, our balance sheet was strengthened and subsequently on slide #8, you will see that CRISIL has upgraded Minda Corporation's rating on the long-term financial facilities to A+ from A and the rating on short-term facilities to A1.

A quick update on some of the business wins we have had. We won new business in the supplying of BS VI Compliant Instrumentation Clusters to Yamaha in India and effectively provide better ECO

electronic information on speed as well as RPM. The peak annual sale value for this is expected to be about Rs. 25 Crores this is over a period of next couple of years.

We have also won the Electronic Fuel Injection Wiring Harness for Yamaha again which is about roughly Rs. 30 Crores of peak annual value. We made some good progress in engine oil temperature sensor and then the engine speed sensor business. The sensor business won new business from Hero MotoCorp and this should effectively result in about Rs. 35 Crores peak annual sales.

We continue our foray in increasing business in the die-casting piece which is the new factory we had put up in Pune and from our what shall we say our anchored customer which is BorgWarner we have won further compressor housing orders for about further annual revenue of about Rs. 13 Crores during this quarter.

We also won business from Japanese manufacturer for suppliers of die-cast parts in the fuel injection pump, this is BS VI requirement. Our EV part of the business has won business from a Netherland-based EV two-wheeler company called Bolt Mobility and the order value is of course single digit Crores, but what is more important is that, we get recognized by an European manufacturer to supply products in the EV space.

In terms of new geographies, we also won starter motor business from the largest tractor manufacturer in Turkey which is called TürkTraktör and we have also made a breakthrough in with the German automaker BMW.

Specifically coming to SMIT on slide #9, over the last one and a half odd years we have continuously tried to be number one, bring products in the legacy segment which our technology advanced and also come with non-legacy segments which will help us increase our business. In that area, happy to share with you that we have received LOIs from four customers for the smart key, it is result of joint collaborative R&D and business implementation by the business vertical which is Safety Security and SMIT which is our advanced engineering center. If you take the order of all of these four OEMs put together, they should easily add to about 80 plus annual peak sales value to our vertical one business. We are seeing the fruits of SMIT, R&D and joint effort this business vertical paying fruit. At the same time SMIT is EMC laboratory, which was one of the very few facilities in India which offer these kind of testing has been granted recognition by IDIADA is one of Europe's well-recognized testing agency and it is accepted by most auto OEMs as the valid certification. On the DC-DC converter for electric vehicle solutions now we have received LOIs from two customers in India and this will be converted into business in end of 2019 and early part of 2019-2020. The effective order value for this is small single digit Crores, but it is very, very significant also for electric initiative from SMIT.

I would just like to highlight some of the few awards that we have won on slide #10, and we have won all these awards during the quarter FY2019 and one of the awards which I would like to mention of course each one of them is important for us. The superior performance in value analysis and value engineering that we got from Maruti Suzuki because it effectively establishes two things that we are not just a component maker that keeps reducing prices for customers, but more importantly we do value analysis, value engineering and be a typical technology partner in the engineering space for our OEMs and an award coming from Maruti Suzuki is highly valued and cherished for us.

We have won Best in Class quality award from Ashok Leyland and quality award from Escorts that is something which is we keep saying that gone are the days where we count PPMs now we have moved to zero effect and in this context recognition from Ashok Leyland and Escorts are very important for us.

We have also won the Annual Commodity Award from Mahindra & Mahindra and HR Excellence Award for Automotive & Farm Division from the Mahindra & Mahindra. We continue our corporate social responsibility and we have done partnership with the academy or in the industry, we have build some school infrastructure in Rudrapur where one of our largest factories are located and we have the Spark Minda Foundation won the 4th CSR Impact Award in the CSR Summit of 2017.

This is a very quick snapshot about the current status of business, financials and where we are in terms of our order wins. Now I would like to request the participants to put in their questions between Sudhir Kashyap and my colleague Sanjay Aneja will try and answer as many of your queries as you may have. Thank you so much.

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 Jayasree Ram from Karvy Stock Broking. Please go ahead.

Jayasree Ram: My first question is on the QIP, Rs. 300 Crores have been raised and you mentioned you would deploy it for reducing debt and other R&D purposes. So what is your current level of debt we had about Rs. 280 Crores as long-term borrowing last for year ending FY2018, so what is the current debt position?

R. Laxman: Jayashree thank for your comment and with respect to debt, our debt position in terms of gross debt is about Rs. 723 Crores across the group as on March 31, 2018, thereafter we had done some amount of Capex and we had borrowed money so that would increase maybe by about 10% by the time as we are speaking now roughly. We will recompute all our debt numbers and balance sheet analysis and present to you these numbers by September 30th, currently it is 723 plus and maybe another additional

10% that is our gross debt number. It is split between about Rs. 413 Crores of the long-term borrowings and about Rs. 309 Crores of current borrowings. In terms of the amount of QIP fund we raised effectively this money came in by end of May, so we have had one month of deployment of that money in our system. Effectively we have kept that as a war chest for potential acquisitions and probably a quick rolling out of Greenfield, so that is the situation as of now and in September, we will update you more.

Jayasree Ram: And can you also give some insights on Furukawa, I understood that you had mentioned something, but I missed it.

R. Laxman: No, the only mention I made with respect to Furukawa, I was correcting a past wrong by saying that Furukawa March 2018 audit at that time had not been signed off by the auditor though the process was complete, so I was just updating the group that the process is complete, shareholders have adopted and the auditors have signed March 2018 numbers and there is no change in the financials.

Jayasree Ram: Are you on a breakeven for this quarter with respect to Furukawa.

R. Laxman: This quarter Furukawa is on...Furukawa obviously EBITDA positive and on PAT basis is breakeven.

Jayasree Ram: And across the three divisions you have shown good EBITDA improvement. Can you give us some insights on that?

R. Laxman: Can you say that again please.

Jayasree Ram: Across your division that is Security, Driver and Interiors you have shown a good EBITDA margin improvement can you back it up?

R. Laxman: Sure, see if I go through our consolidated numbers you will see that our sales have grown by about 33.8%. Then if you look at our raw material cost overall basis the group compared to last year same quarter, it has increased by about 2%. So that is the huge increase in raw material that has got absorbed across verticals, typically the employee cost has gone down on an overall basis from 17.9% to 15.9%, the finance cost etc., had been largely steady including depreciation amortization and other expenses. So, the increase in raw material cost has got absorbed by savings and other line items and the behavior across the three verticals have largely remains the same. I said that in specifically upside.

Jayasree Ram: Whatever commodity increases you faced everything you could pass on most of it to your customers that is what you are trying to say, right?

- R. Laxman:** It is not all the most of our business we have a pass on, in some businesses it is with a lag and there are some amounts which we have to absorb.
- Jayasree Ram:** My last question is that in the last quarter you had mentioned an order book build up of roughly about 42.2 billion. Now basically you operate across various verticals, that is difficult for us to come up with a number as to how you are – what kind of numbers you see in the next years. So based on your order book we kind of estimate your revenue visibility so that gives us a slightly better picture. So what is your current order book and how much of the previous order book was accounted for, can you throw some light on that?
- R. Laxman:** Slightly difficult question, but I have the data and I will attempt an answer. See if you look at my current order book for the quarter again we have got an order book this quarter for approximately Rs. 1100 Crores. Now what happens is this Rs. 1100 Crores is across the three business verticals and each for example it is about Rs. 486 Crores in upwards business verticals which is Safety Security and about Rs. 472 Crores in Driver Information and about Rs. 176 Crores in Interior Systems, but what happens is this order book is over a period of four to five years depending on the life of the platform so this divided by typically four or five, three to five on an average is the order I will get incrementally every year based on this order book that is one parameter and the second is as these orders fructify, I will have to push more and more into the pipeline to ensure that my growth is steady that growth is roughly in full year of FY2018 is something we delivered at about 25%. If you look at the first quarter the order book conversion is resulted in about 23% compared to the same quarter previous year. So roughly I have been saying about Rs. 1000 plus Crores of order book accretion to the entire all the three business verticals put together this way.
- Jayasree Ram:** For the quarter right.
- R. Laxman:** No this quarter has won so much which will be rolled out over the period of three to five years.
- Jayasree Ram:** I think that is all for now. In case I have more questions I will get back to you.
- Moderator:** Thank you. We will take our next question from the line of Nisarg Vakharia from Lucky Investment Managers. Please go ahead.
- Nisarg Vakharia:** Sir you mentioned about the gross margin impact that we have faced in this quarter which is why our EBITDA margins are down quarter-on-quarter. Wanted to ask you that are we going to get back to the EBITDA margin that we did in Q4 in FY2018 in the subsequent quarter.

- R. Laxman:** Thanks for the question. Our EBITDA margin for Q1 FY2018 was in the range of about 7.6% and that has moved to 9.4% same quarter previous year. If you notice in last financial year 2018 we moved from 7.6% to 9.4% to 10.5% and then finally in Q4, we surpassed 11% and we averaged out to 10.5%. So we expect to perform in a similar manner and we expect to deliver double digit EBITDA for FY2019 also.
- Nisarg Vakharia:** Sir so will we end this year at 10.5% on an average or higher than 10.5% for FY2019 I am asking.
- R. Laxman:** Our endeavor is to do higher end hopefully.
- Nisarg Vakharia:** But with the current raw material scenario we can still do double digit EBITDA margin.
- R. Laxman:** See the raw material scenario I need to catch up and claim back from OEMs, that is the crux. If it is only led to a complete absorption in a auto component industry that will definitely impact, but that is not the case in any of our businesses everywhere we have raw material arrangement the extent of sharing sometimes vary, but most of the time we end up passing it on with a three-month lag.
- Nisarg Vakharia:** And Sir this 34% operating revenue growth is function of some GST adjustment in the last quarter or something or this is pure 33% operating revenue?
- R. Laxman:** This comparison is apple-to-apple.
- Nisarg Vakharia:** So Sir for 2020 if we grow our topline at 20% plus for next year also. Is it possible for us to inch towards industry benchmark EBITDA margins of 12.5%, 13% or that seems a little difficult as of now.
- R. Laxman:** We have shared the medium-term objective is to try and reach those numbers you are mentioning. It is not going to happen in overnight we hope to do it in a couple of years by 2020 and second point is, I just want to highlight this 33% growth will look very nice, but you must also remember that the industry base in Q1 FY2018 was little challenging. So automatically because of that also some of the numbers are looking good.
- Nisarg Vakharia:** So if you adjust that sir then is it fair to assume the growth is about 20%.
- R. Laxman:** You cannot adjust because that is the reality Q1 FY2018 was real, Q1 FY2019 is real, if I take actual real numbers and apple to apple it is a 33.8% growth. We can moderate it to say okay I am not going to be probably growing at 33% every quarter in which case we will have automobiles on the pavements also in India. So it is fair to say that maybe 33% is not something that is sustainable.

- Nisarg Vakharia:** Thank you Sir.
- Moderator:** Thank you. We will take our next question from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Sir first a very housekeeping question if I see your business wise revenue number that you have shared and I look at your gross consol revenue numbers there is a difference and it seems that there is some re-accounting has happened even for last year numbers. So first can you throw some light that why this difference?
- R. Laxman:** Can you give me an example Chirag, by the way hi and thanks for your compliment Chirag hearing from you is a pleasure.
- Chirag Shah:** Yes, for example in Q1 overall consolidated revenue we have around Rs. 778 Crores but if you look at the data that you have given on slide #7, and if I add the three businesses the revenue number is slightly lower.
- R. Laxman:** No it is 778, 777 it is lower by Rs. 1 Crore even then, but let me tell you the right figure to look at is on slide #5, and slide #7 numbers are we are giving our estimated share of how we classify into each of these three businesses, I have already done elimination and that is what Sanjay told about it.
- Chirag Shah:** Sir second question is just following back on the earlier question is that is it possible to indicate what is the net order every six months outstanding because there would be some drawdown you will win newer businesses then there will be some drawdown's in that. So on six monthly basis, will you be sharing us net outstanding order that we can look at or better way of...?
- R. Laxman:** We will attend that Chirag but it is a little difficult because what happens is the start of production timing for each of these orders is so wide it starts as earlier within six months and the other starts within two years, but we need to win those orders now, but what we typically have is a flag, we call it a order book flag which is we analyze the orders from a position B2C2 to B2A and as these orders move from C2B2A these becomes more and more reality in terms of what my order book position is, but still we will take your point and try to throw some more meaningful insights in to how our order book is looking.
- Chirag Shah:** Yes, so it will help to attend a lot of queries on that front. And just on the BorgWarner order so is it possible to indicate apart from the current die casting business orders that we have anything else we are in discussion with the same customer or other customers in US or anything over there?

R. Laxman: I have Sudhir Kashyap with me and I am going to probably let him speak on the die-casting business itself and what we are doing in BorgWarner and other customers.

Sudhir Kashyap: Hi Chirag so for the die-casting business apart from BorgWarner we are also in engagement with Honeywell and that business is also growing, we have a couple of other customers targeting and discussions are on for example, ZF and there would be a large opportunity coming there but take a while to convert that. So the die-casting business with respect to exports is on a growth path and will continue to grow. We are in the midst of negotiating a very big orders for BorgWarner and Honeywell as well so hopefully next time when we meet you will know about that order. That is about die casting but apart from that we are also discussing opportunities for wire harness, which is most of these people use, so those are under discussions as well and we will take a little while to convert them again with BorgWarner and ZF. So those are two customers that we are targeting for other businesses as well. And as you know, there are compressor, turbo chargers they make, and wiring harness so kind of component that we are trying to do with them.

Chirag Shah: This is really helpful. And just one last question is it possible for indicate how is our tractor in terms of share of business with Hero and HMSI because we have been looking to increase our share of business over there.

Sudhir Kashyap: As far as HMSI is concerned for scooters while officially we are suppose to supply almost 50% however our business typically goes up depending on the supply situation of the other supplier so we end up supplying about 55% to 57%. So that is a steady state that we will maintain as far as the scooters are concerned, motorcycles in the new BS VI we are going to be getting more orders and those are underway for negotiations so hopefully in the next six months we will have those orders with us from HMSI and some of the new generation vehicles we are the single source there are two vehicles in which we are the single source which will be launched in the end of 2019. Those are some large businesses. As far as Hero is concerned again scooter is the entry point that we did and unfortunately for Hero the scooters are not really selling well, but as you know we did announce and in fact Laxman said, in the part of their winds or in the part of the smart key so we are the company who won the orders of 150,000 scooter smart keys that Hero is going to be launching in probably end of 2019. Similarly they are also looking at an immobilizer again electronic part that they are going to be fitting in the motorcycles which is also treated to be around the mid of the end of 2019 and that is another 1,00,000 numbers. So if you look at the share of business in Hero we are right now small because the scooter is small less than 10%. Motorcycle business we are in the midst of developing so we will probably be doing the start up production in the next few months it is taking a little while to do that. So we hope to increase our share of business in motorcycles as well, but it might take a few months more from here.

- Chirag Shah:** And one last question if I can. So when BS VI is coming in, is it possible to indicate across all businesses generally on an average basis what is the kind of value per unit or realization goes up for you, is it possible to indicate or you given different type of businesses you have or at least if you can help us over a period of time how to look at revenues beyond FY2020 in terms of a jump due to emission norm changes and other regulatory changes also not just emission?
- Sudhir Kashyap:** We did try to attend in terms of how the content per vehicle or the value per product will change for us. As you see going forward for example, just an example in wiring harness, when we are moving from regulative electronic fuel injection wiring harnesses where we have the water proof connector we have multiple number of terminal end points with respect to the number of connects etc., we realize that there are cases where Rs.400 wiring harness is moving to Rs. 800
- R. Laxman:** At about Rs. 1200 but that is an illustration that does not mean my entire wiring harness primarily is going to triple, but what we will do is we will try and put a table as some of the critical parts where our value is going to; now just probably double are triple in some cases.
- Chirag Shah:** And the other is the sensor business for the emission gasses. So I think we have probably been saying that earlier as well that we won businesses from Mahindra and Ashok Leyland now. Those are transferred. So those are again desolatory and probably and will be in production from end of 2019 because 2020 the BS VI comes in.
- R. Laxman:** Yes.
- Chirag Shah:** Yes this is very, very helpful thank you very much I will come back for more questions. Thank you very much and all the best.
- Moderator:** Thank you. Our next question is from the line of Ankit Merchant from SMC Global Securities. Please go ahead.
- Ankit Merchant:** I wanted some data points related to Minda SAI, KTSN, Automotive Solutions, Asian Business and Auto Electrics. What was the revenue for all these companies during the quarter?
- R. Laxman:** You wanted the revenue for Minda...
- Ankit Merchant:** Minda SAI, KTSN, Automotive, Asian and Auto Electric.
- R. Laxman:** Minda KTSN is roughly about Rs. 200 Crores out of Rs. 778 Crores, Minda SAI is about Rs. 250 Crores, so effectively we are saying the three big yields Minda Corporation is about Rs. 252 Crores,

Minda SAI is Rs. 252 and Minda KTSN is 200. So that is overall constitutes close to 91% of my turnover.

Ankit Merchant: You use to include the slide in your previous presentations this time around that is missing.

R. Laxman: No, actually we always carried segment wise sales and EBITDA and if you want any company's turnover I am happy to share with you. Minda Auto Electrics specifically you asked this quarter is approximately Rs. 30 Crores, it is a much smaller company.

Ankit Merchant: And also on your interest front can you guide because this time around your interest expenses has gone up little bit?

R. Laxman: So interest if you look on a quarter-on-quarter basis serially interest expense has largely moved from Rs. 10.5 Crores to Rs. 11 Crores quarter-on-quarter and this is of course due to expansion our interest on gross debt itself must have gone as roughly by about 10% in the quarter. So this is in line with that actually and of course this year interest cost will go up, given the fact that there have been two upward revisions on the interest rates by RBI. Our endeavor is to try and get revenue growth.

Ankit Merchant: And on the acquisition front can you give us some colour on which particular segment are you looking forward be it is Interior Systems or in Safety Security or Driver Information?

R. Laxman: Our focus has been on technologies that we do not have number one and technologies that would help us keep our products from going redundant in a matter of next four to five years. With that in mind our first focus in business vertical two which is Driver Information and Telematics and in terms of gaining leadership position in business vertical one. In plastic interiors, we are not looking immediately at any acquisitions.

Ankit Merchant: One last question related to your raw material cost I understand it has gone up. So I would like to understand that how are you able to pass on the prices or to the OEMs because OEMs these days are they want to improve their margins as well and the situation is quite competitive at the other end so I would like to have some colour from you on this front.

R. Laxman: May I request Sanjay to answer this.

Sanjay Aneja: Yes sure. As we mentioned that it is being passed onto customers based on back-to-back arrangement wherein the previous quarter's average is being taken for deciding price for the next quarter. So there remains a lag in claiming the imbursement of the previous quarter, but as a matter of fact, if we see this quarter's constitution of the raw material, there are two factors which are primarily coming in one

is of course this commodity price increase part of this would be coming in the next quarter. Apart from that there is some mix change between the sales of past within a company and at a group level, so blend of these two has increased their price, increase the cost of the raw material by roughly 2%.

Ankit Merchant: Okay sure. Thank you so much.

Moderator: Thank you. Our next question is from the line of Deven Choksey from KRY Choksey. Please go ahead.

Deven Choksey: Congratulations everyone for the great set of numbers. I have couple of questions and probably I think I want to understand from you. There are two areas of growth and the value addition with margin in the business where we see the possibilities and one is I think our BS VI norms getting implemented and with that higher amount of convention of material taking place in every vehicle. So obviously I think it should lead to better component assembly and the margin therein and our driver assist becoming more and more tech savvy with software embedded into two mainline assembly so it should be leading to better realization and at the sometime I think the margin for existing product segment it will get more value-added figure. So this is one area that I would like to understand from you where exactly I think we are driving our activity what kind of prospect we see in the near future in the coming three years and maybe I think other questions is there after this?

Ankit Merchant: Thank you Mr. Deven Choksey thank you for that question and for your compliments on the results. With respect to your question on in terms of how much margin could increase given the fact that we are going into premiumization, given either driven by customer demand or by regulation, this year five premiumization of wiring harness is a classic case of regulation whereas the smart key that we are developing and we have successful got LOI spot by collaboration between SMIT and our business verticals is an example of premiumization driven by customer demand. In both the cases, our hypothesis is that both initially we may get a little bit of a higher EBITDA margin from brands what we will have in our legacy business. On a very quick steady state we expect EBTIDA margins to be similar to what we have in our legacy business except that the volumes will be much higher and there will be some savings in probably allocation of fixed cost and therefore it could have a slightly disproportionate benefit on the bottomline.

Deven Choksey: From competitive point of view, I think do we hold an edge because of further premiumization of the new product which we are developing?

Ankit Merchant: Absolutely and also it with the other point in terms of the new products that we are developing more on embedded software. There the contribution margins itself will be higher because of the more softer

the value add that will be in the rather than this probably buying copper and aluminum so that will also have a significant impact. We are expecting that all of this benefit to kick in after a lag of maybe a year or so because OEMs will start talking maybe six months or a one quarter before the regulations come into effect. Second I think what is likely savings in the interest in the current year that we are seeing after the QIP that we have done and whether are we heading in the direction of some acquisition the fact for which **(inaudible) 45:24**.

R. Laxman: If you include the QIP interest benefits that are accruing because of the keeping of the money and the net debt there will be a saving in interest but at a gross level I do not see any savings and interest because of hawkish interest rates, point number one. Point number two, is in terms of M&A we are very focused on specifically going out in the market with a target list of technology and customers that we want to acquire specifically in business vertical two and then business vertical one in that order. So frankly we are not going on a large shopping's spree. We are having a very focused list and in such of those companies where we get reasonably good "deals" we expect to progress on those transactions during the next few quarters.

Deven Choksey: Thank you Laxman.

Moderator: Thank you. Our next question is from the line of Suhani Joshi from Edelweiss. Please go ahead.

Suhani Joshi: My first question is you mentioned the adverse product mix causing a dip in the margin sequentially so can you elaborate on the kind of products, which....the area which led to which is having an adverse margin profile leading towards it?

R. Laxman: Yes, sure. This adverse product mix is primarily in KTSN as you would be aware of that there is a mix of serial sales that is the regular part and the tools which are there. In the comparative quarters of last year there was a high tooling sales wherein we are having better margins as compared to the CL parts and this time that is not the situation wherein we could get the higher margin so this adverse mix has affected Minda KTSN if you see the gross margins of Minda KTSN the way other vertical has improved our margins, the KTSN has not improved that is one area and in the case of Minda corporation standalone also the margins on certain products which are the newer products are not that big as the legacy products are because those products are still in the stage of improvement of margins so this mix has affected us to some extent which is reflected in our raw material cost.

Suhani Joshi: Sir in one of your slides you have given the segment wise revenue and margin breakup, the interior segment is on the lower side. So is it possible for that segment to have a margin profile similar to that of the other two segments close to 10% and if so when would that be?

- R. Laxman:** To be frank the interior segment margin profile because the growth in India is so disproportionately large compared to what we witnessed in Europe any improvement and ramping up in margin profile, contribution profile, mix in the European business is always an upwards struggle, we definitely expect it to get better over the passing of the year but I would like to state that it does remain a challenge.
- Suhani Joshi:** So it will be – so you are saying a scaling up of the business will take some time as a result, operating leverage benefit will take some time.
- R. Laxman:** Yes, so you will not find such steep increases in those margins like PC in the first two business verticals.
- Suhani Joshi:** And can you mention the maximum revenue potential which we can get from the die casting plant and the Mexico plant it has commence production just this year?
- R. Laxman:** In die-casting it is in my opinion roughly about Rs. 200 Crores and slightly lesser numbers of about 20 million in the Mexican.
- Suhani Joshi:** Will it be possible to specify in how much time would be, how much time will it take to scale up these plants to their maximum potential?
- R. Laxman:** We will share that data because it is still in build up stage because what happens is specifically in die casting as and when we are expanding we are adding machines in lines so it is a moving number but we will take a cutoff and share that data with you.
- Suhani Joshi:** Thank you. That is it from me.
- Moderator:** Thank you. Our next question is from the line of Ronak Sarda from Axis Capital. Please go ahead.
- Ronak Sarda:** A few questions one was on the India Plastic business given new orders from Maruti, Swift and Dzire platform if you can highlight what is the ramp up there and what was the what could be the achievable annual turnover on the segment?
- R. Laxman:** Sorry can you repeat your last part Ronak I lost you in volume.
- Ronak Sarda:** On the plastic business in India where we have won new order with Maruti what is the status there what was the quarterly run rate and the achievable annual run rate?

- R. Laxman:** So the plastic business is still in its nascent stage like we last time mentioned, we won the orders for the air vents for the Maruti vehicle and currently on a quarterly basis, I would estimate this to be about what about Rs. 35 odd Crores and expecting this to ramp up at a rate faster than other business because the base is very small and of course we are winning orders from M&M also.
- Ronak Sarda:** And the quantum would be, is it a significant...?
- R. Laxman:** The quantum should be similar.
- Ronak Sarda:** Rs. 100 Crores or more.
- R. Laxman:** I will tell you on total basis yes it should be about...
- Ronak Sarda:** And the smart key order which you have highlighted LOI if you can just highlight what is the competition scenario there and is it just... are with the tool supplier or...?
- R. Laxman:** I will request Sudhir to answer that question and as we said we have won it from four customers and very proud to share that it is a very successful joint effort between SMIT advanced engineering and business verticals over to you Sudhir.
- Sudhir Kashyap:** For the customers that we won the orders again so one is Piaggio so there, there was a Chinese player on the foray of course we have won against that in Hero it was Sandhar again from whatever JV they have done so we have gone against that and in Bajaj and in Bolt, Bolt there was nobody, Bajaj also since we have a very strategic relationship they looked at us. The important thing is that we are probably the only Indian company to have a comprehensive strength in terms of mechanical and electronics and that is one of the reasons why the OEMs whether it is here or overseas would like to talk to us because we offer a comprehensive solution and we can obviously optimize the cost.
- Ronak Sarda:** Right I agree. Just one movement, we have been hearing that Honda is also looking to add this in their Activa platform, if you can highlight what is the status there?
- Sudhir Kashyap:** So I guess the announcement will be coming in shortly as you know Honda already have their own company called Honda Locks and they have their core suppliers for them so in our opinion and also the other aspect is that Honda audited us about a year and a half ago and they saw our facilities SMIT as well as the Mina Corporation Locking Facility and we have been approved as a supplier for a comprehensive electronics and mechanical smart key. So we stand as the only approved supplier in India for both and as and when they come in, we are already engaged with Honda Japan so they

already know us, they know the product and they seen the product, so as and when Honda comes in definitely we will get the business.

Ronak Sarda: And a couple of housekeeping questions Laxman if you can just highlight what was the export revenue for the quarter?

R. Laxman: It will be roughly about Rs. 65 Crores Ronak about 8% of turnover.

Ronak Sarda: And also if you have any capex and opex guidance for SMIT for this year.

R. Laxman: I will give you an update in September because we are still very early for three months done but the overall guidance is that on an opex at least we will be spending anything between Rs. 17 to 20 Crores and Capex is incremental based on how all of these orders that we spoke about required more R&D but the basic infrastructure very frankly nuts and bolts were all ready now whatever in capex will be incremental, opex will increase.

Ronak Sarda: So this Opex also included the engineer salaries also right?

R. Laxman: Oh yes.

Ronak Sarda: Okay thank you and all the best.

Moderator: Thank you. We will take our next question from the line of Hiral Keniya from Indsec Securities. Please go ahead.

Hiral Keniya: I would just like to ask if you can share the details of the percentage of shares of the revenues for the top five customers like...?

R. Laxman: Which company and which vertical are you looking at on an overall basis if you see Volkswagen...

Hiral Keniya: On an overall basis.

R. Laxman: Yes overall basis I will tell you the top four customers we will have and not necessarily in that order will be Bajaj, Mahindra, Maruti and Volkswagen, these are our top four customers and none of the customers will be on a total group basis more than 12%, 13% of our turnover. Most of them will be single digit.

Hiral Keniya: Okay. Thank you Sir.



Minda Corporation Limited
August 9, 2018

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference back to Mr. R. Laxman for closing comments. Over to you Sir!

R. Laxman: Thank you very much and thank you very much for participating in the Q1 FY2019 conference call ladies and gentlemen. We are really delighted by the interest and participation you have shown in Minda Corporation and we hope to continue to deliver on the results that we have performed till now. Of course we will be governed by the industry and the pace, which we will try and outperform the industry most of the time. Thank you very much for your time.

Moderator: Thank you. Ladies and gentlemen, on behalf of Minda Corporation Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.