



Minda Corporation Limited  
Q2 FY 2018 Earnings Conference Call

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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Minda Corporation Limited Q2 FY 2018 Earnings Conference Call hosted by KR Choksey Shares and Securities Private Limited. As a reminder all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal the operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference to Mr. Ankit Merchant from KRChoksey Shares and Securities. Thank you and over to you, sir!

**Ankit Merchant:** Thank you, Vikram. Good Afternoon, Everyone. On behalf of KR Choksey, we welcome you all for the Q2 FY 2018 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 -- Group President (Finance); Mr. N. K. Taneja -- Group Chief Marketing Officer; Mr. Sanjay Aneja -- Chief Financial Officer, Minda Corporation Limited.

So, we will begin the call with a brief overview by the management followed by the Q&A.

I now hand over the call to Mr. Ashok Minda for his opening remarks. Thank you and over to you, Sir.

**Ashok Minda:** Thank you, Ankit. Good Afternoon, friends and I welcome you all to the Q2 FY2018 Earnings Conference Call of Minda Corporation.

During the previous quarter, there was movement towards a more stabilized GST regime resulting in steady growth of business.

The Company has reported an improved financial performance during the quarter. On a year-on-year basis, sales increased by 11% and EBITDA margin increased by 260 basis points to 11.5%.

During the quarter we have received a total of worth Rs. 1,200 crores of orders of life time value across domestic businesses and exports.

Minda Corporation continues its futuristic investment approach towards new projects and R&D. Our new Die Casting plant in Pune commenced operations during the quarter.

I would also like to mention that many key initiatives are in process to increase exports. We are targeting to achieve export sales of over Rs. 500 crores by 2019 - 2020.

We shall begin with detailed discussion on the financial overview and the quarter’s operational performance. Thereafter, we will open the call for an interactive Question-and-Answer Session.

Now, I would request Mr. R. Laxman -- Group President (Finance) to take over the call.

**R. Laxman:** Thank You Mr. Minda, for that quick overview. And Good Afternoon Ladies and Gentlemen and

Welcome to the call.

I would like to take you through very briefly on the financial highlights. Before that, a very quick overview of Minda Corporation and some of the regulatory changes on IndAS and touch on the consolidated financial performance. And thereafter, I am going to request Mr. Taneja -- Chief Marketing Officer to give us his views on the business, the orders that we have won and the outlook.

So jumping straight to a very quick summary on Minda Corporation itself, I am sure most of us are familiar. But just for a quick summary, we are split along three business systems across our entire Group's financials and businesses. We have Safety Security and Restraint system which is largely about 45% of our sales. Then we have Driver Information and Telematics system which contributes about 32% of our sales and we have interior system which is contributing about 23% of our sales. Of course, then we have a very strong aftermarket which is split across these three systems and helps us reach out to the wider story that is India.

And for those of you who have access to our Presentation which is posted on the website I am moving to Slide #5.

Just to touch upon very briefly the regulatory changes that happened because of IndAS. So, the company Minda Corporation has adopted IndAS from 1st April, 2017. Accordingly, the results for the previous period have also been re-grouped and re-classified.

We have moved from line-by-line consolidation to the equity method of accounting consolidation. So, the subsidiaries, joint venture company which is Minda Furukawa, Minda Stoneridge, and Minda VAST - these will not come on a line-by-line consolidation, but they will directly get added to our bottom-line.

The sales as per IndAS had been grossed up with excise duty and shown net of cash discounts. These are the main changes, accounting changes have already been incorporated and typically whatever we will be speaking of numbers, we will be comparing apples-to-apples.

Moving over to the consolidated financial performance on slide #6. If you look at the total revenue from our operations, it has increased by 11% year-on-year . So our revenue stood at Rs. 655 crores. But if you look at half year to half year it has gone up by about 15%.

The EBITDA margin has significantly increased during Q2 from 8.9% to 11.5%. On actual quantum it has increased to Rs. 75 crores, which is a 43% jump.

And net profit stood at Rs. 42 crores and the net profit margin was 6.4%.

If you look at our net debt to equity, it was 0.99 and the return on capital employed has increased to 14.1% for the period ended 30th September 2017.

So overall, we have shown improved performance in sales, in EBITDA margins, as well as in the quantum of numbers.

Operationally we have received Rs. 1,200 crores of orders which is life time value, it is spread across domestic and export business, we have Safety and Security system contributing to about Rs. 600 crores

which is about half of the amount we have won. We have Driver Information and Telematics which has contributed to another Rs. 360 crores. And we have Interior System that has contributed to Rs. 240 crores.

We will be dwelling into details of this as we discuss the business and other pipelines that we have immediately after the financials.

Of course, we have a huge focus on exports during the quarter, the company won export orders roughly of Rs. 160 crores.

The other update, Die Casting division- last time we had mention that is expected to go commercial, happy to share with you that it has gone commercial from Q2 FY 2017 - FY 2018.

Minda Corporation is also in the process of setting up a new product line of Control Cables at our Pant Nagar plant. So this is horizontal expansion at Pant Nagar factory.

Now, if we move to our comparison with figures on quarter one versus quarter two as far as the half yearly, we are moving to slide #7 of the Presentation, where you see the revenue for the quarter moved from Rs. 590 crores to Rs. 655 crores. Similarly, revenue moved for the half year from Rs. 1,113 crores to Rs. 1,278 crores which is a 15% jump.

Our other income fell from Rs. 8 crores to Rs. 2 crores and EBITDA overall has increased from Rs. 52 crores for the same period last year to Rs. 75 crores for the current quarter, which is Q2. On an overall basis, EBITDA has increased in the half year from Rs. 101 crores to Rs. 120 crores.

The margins have improved significantly during the quarter from 8.9% to 11.5% and thus, on overall basis the EBITDA margin today for the half yearly period stands at 9.3%.

Similar increases in PBT and the PAT moved in the quarter from Rs. 39 crores to Rs. 42 crores and in the half year from Rs. 64 crores to Rs. 65 crores. However, the significant point to note is that the other income was included in the previous half year and the previous year's Q2 which is roughly for the half year of Rs. 11 crores and for the quarter of 8, that has dropped to Rs. 2 crores in the current Q2. Therefore, meaning that without an extra Rs. 6 crores of other income, the PAT has remained same or marginally higher and to that extent, if you look at our business and operating performance which is increased by that much.

So at the end of the day, we have a quarterly PAT margin of 6.4%.

Now, I will move to slide #8, where we have tried to put a commentary on the financial performance. If you notice our EBITDA margin has increased by 260 basis points which is a 2.6% jump.

Largely, the jump has come because of three to four key reasons, one we have increased volume across each of these business systems, each of these business systems has grown between 10% and 13% roughly. The product mix has changed a little bit in our favor, that has increased to the profitability and there has been a path towards improvement in our employee cost, where we are trying to give more focus and trying to manage it better.

Also, the R&D spend at SMIT which is our research center has increased by Rs. 2.5 crores if you compare it with the same period, the last year's quarter. So, to that extent in spite of absorbing that additional R&D spent, we have shown a higher EBITDA margin, thanks to the first three reasons that I mentioned.

Of course, we also have an increase in depreciation. Therefore, the delta below EBITDA is muted. We have it due to provisions of new projects. Our finance cost has been a bit higher because of new investments in Minda KTSN and Die Casting. And of course, the other income which was there of additional Rs. 6 crores, which was absorbed in last year is not there in the current year. So in spite of these changes there have been a good performance with respect to our operating results.

On slide #9, I would like to share with you in terms of where the sales has come from company wise. There has not been a significant change in the mix, in the sense that for the first-half, about 32% of the sales had been contributed from the flagship company which is Minda Corporation. Minda SAI which is the Driver Information and Telematics systems business has contributed about 30% and Plastic Interior Business globally has contributed roughly about 20%. Minda Automotive Solutions is 8% and the rest is ASEAN and Minda Autoelektrik which has posted about Rs. 51 crores of turnover.

We have the joint venture company is roughly about Rs. 587 crores which is not included in the consolidation this time because of IndAS.

On Slide #10, I have quick summary of our balance sheet part of the financials. We have total borrowings which is about Rs. 762 crores, which has increased compared to the previous period and compared to March 2017. Of course, we have cash and cash equivalents and therefore, the net debt today stands Rs. 674 crores.

Our net equity, net worth, stands at Rs. 683 crores, giving us a debt equity ratio of just below 1. We have our ratings which are stable.

And I am going to hand over to Mr. N. K. Taneja to quickly cover our business part of it. And of course, after that we will take Q&A.

**N. K. Taneja:**

Good Afternoon, Everybody. I am on Slide #11.

Now, during the quarter, the life time order book has been approximately Rs. 1,200 crores out of which Rs. 600 crores are Safety Security and Restraint system; Rs. 360 crores in Driver Information and Telematics systems; and Rs. 240 crores in the Interior system.

In the Safety Security and Restraint, we have life time business of Rs. 48 crores including export business of Rs. 40 crores for Die Casting. In ASEAN which is our Vietnam - Indonesia, we have life time business of Locksets for Rs. 45 crores.

For the domestic market, Two-Wheeler OEMs in India for the Lockset we have life time business of Rs. 450 crores including export of Rs. 42 crores. And also for the Starter Motors and Alternators we have new order booked for Rs. 57 crores life time out of which Rs. 824 crores is exports.

In Driver Information and Telematics for Wiring Harness for leading OEMs life time business is Rs. 300

crores and for Instrument Cluster and Sensors life time business is on Rs. 56 crores including exports of Rs. 5 crores.

In the Plastic Interiors from European OEM, life time business of Rs. 213 crores and in Minda SAI which is the Plastic divisions - few orders from the domestic OEMs, life time business of Rs. 27 crores.

We are also now trying to expand our product portfolio. And in this, we have decided to enter the Control Cables segment and this is being set-up at our Pant Nagar facility and we have also received the first order from the global Two-Wheeler OEM as an OEM supplier for the Control Cables.

Now, I will move to Slide #12. In the last call we had shared that we will share more perspective on our exports journey. And our target is that we want to reach an export turnover of Rs. 500 crores, try to increase this and surpass this by 2019 - 2020 and we already have approximately 30 overseas satisfied customers in more than 20 countries including major customers like BorgWarner, Piaggio, Yamaha, Kawasaki, Suzuki, etc.

Our key initiatives are basically strategic investments for new generation disruptive technologies through our technology center, product specific dedicated exports. Teams have been formed and global key account management has been done and whereby our focus is that these three actions could lead us to achieving our export target of Rs. 500 crores plus by 2019 - 2020. And major areas for growth or the exports are Die Casting, Wiring Harness, Starter Motors and Alternators, Immobilizers and also we want to enhance our presence for exports in Europe, U. S. and ASEAN which will remain a focus area for the new products and technologies.

I am now on Slide #14. In the last investor conference, you would remember, we had shared with you about a new start-up acquisition by the group in the field of connected mobility. I am very pleased to inform that within two months of the acquisition of this company, we have been able to back the first prestigious business. As you may be aware the Government of India has formed this company to source lot of 10,000 Electric Vehicles in the country. And for the product of EI Labs, we have been nominated by one of the OEMs to supply the complete assembly and the module for the logging connected mobility device and this is very good break through which was our focus on the EV segment and also the shape of things and the potential it holds in the electrification of the country and the vehicles.

In terms of the key growth drivers, our technology center continues to focus and work on the improvement and new technology in the field of legacy businesses and also creating new opportunities for the new products and technologies, in view of the customer needs, changing regulatory and environment norms, this is a slide which is already shared. So, I am not spending much time on this.

In terms of the future growth areas, the Die Casting facility, the Greenfield project at Pune has already started commercial production in the Q2 2017 - 2018 and also, our technology center right now is doing the job to give us the new disruptive production, new technologies. We already have 65 engineers on board. And I am happy to report that within a short span, our technology center has been able to file patents so far and many more under progress.

In the last meeting we already informed the investors that our Greenfield facility at Mexico started commercial production in the Q1 2017 - 2018 and this continues to now grow and add more platform as

and when the customer's production plan is assumed for the start of production.

Our focused area for the future growth is in the field of EFI/EMS which is regulatory driven, ABS and CBS, EGT/EGRT Sensors, ISG, ADAS, connected cars, PM Sensors, Body Control Modules, focus on new technologies of passive entry, Electronic Clusters, Electronic Locks, Bracketless Handles and Low-Cost Immobilizers, and also our journey for the unaddressed segments including the Electric Vehicles, etc. in the country.

And as far as the export is concerned, we just gave you an overview of our strategy for the long-term sustainable growth.

Now, I give it back to Mr. Laxman to take it forward.

**R. Laxman:** Thank you, Mr. Taneja. Just I would like to touch upon one slide very briefly which is slide #19, where we are seeing the improvement plan that we committed for FY 2017 - FY 2018 continues to be aggressively pursued. We had highlighted four points that we said we work on and improve. And I would like to share, on each of this we have been getting traction which is the employee of cost optimization, which is better focus on exports and also better margins on export. Third is better improvement of profitability and margins at Minda KTSN and finally, of course, continuing our improvement in Minda Furukawa.

So, these are the points that we are working on. And I would like to share that we are on track as of now. So, the rest of the Presentation is more in terms of annexure and more background of the group. And in interest of time, I would like to just leave it with you. And if you have any queries you can continue during our Q&A.

And with this, I would like to hand over the call back to the moderator. Thank you.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We have our first question from the line of Chirag Shah from Edelweiss. Please go ahead.

**Chirag Shah:** We have seen a strong revenue growth. Now, is it possible to indicate how much is coming from volumes and how much is coming from new business or market share gain? Broad break-up of the revenue growth because it is much more than what the industry volume growth is.

**R. Laxman:** Did you ask, is the increase is coming out of volume? Was that the question?

**Chirag Shah:** Yes, the revenue increase that we are seeing is far higher than the industry growth there is some market share gain or there is some product mix which is their value content has gone up and the sustainability of such a strong revenue growth?

**R. Laxman:** I will tell you two points which I know and then I am going to request Mr. Taneja to add if required. One is, instead of looking at the overall market, I would rather look at the products that I am backing with each of the OEMs and how they have been growing and therefore our growth is driven by the lines of businesses that we are focused on within the OEM and therefore, within the OEM segment is the volumes that I am backing grows then I grow higher, number one. Number two, I definitely end up having a benefit of consistent action towards increase share of business of my existing legacy

businesses. Mr. Taneja, you can add.

- N. K. Taneja:** Chirag, we would not be having a break-up to have the split to the exact numbers you are looking for. One is that we are trying to get more increase share of business, besides that some exports also have started moving up. In 2016 - 2017 our export turnover was Rs. 160 odd crores and this year, we will be ending up at somewhere like Rs. 250 plus crores of export turnover. So may be offline, we will be able to share with you the complete split up in terms of the revenue growth versus the industry growth versus our incremental businesses in different segments.
- Chirag Shah:** So we can continue to outgrow the industry growth that is the right way to look at it for at least for 1 year and 1.5 year?
- N. K. Taneja:** That is our precise objective and that is why we have invested so much of money in our technology center to come up with products and technologies which are disruptive, not only protect our legacy business but also, add value to our customers and to us in terms of competition and the product segment.
- Chirag Shah:** Yes. And just a clarification, so on this new Die Casting facility, so it is there in depreciation, right? You said it has started commercial production or it is yet to hit in the depreciation? The depreciation for the quarter includes the Die Casting facility capitalization or it is yet to be capitalized in P&L?
- R. Laxman:** No, we have capitalized the new Die Casting facility. The amount will not be huge because it was done at the later part of Q2. But regular CAPEX has also been there and that is also the reason for increase in depreciation.
- Moderator:** Thank you, Mr. Shah. We have our next question from the line of Basudeb Banerjee from Antique Finance. Please go ahead.
- Basudeb Banerjee:** Just wanted to understand, post IndAS you have given the segregated revenue adjusting for Furukawa, Stoneridge, and VAST. So in order to understand the balance sheet part also, the gross block and working capital change because of segregating those three line items. If you can help us to understand the gross block and working capital?
- R. Laxman:** Yes. So the IndAS numbers have been cast only for September for the current businesses. So typically, all of this will be completed when we do the annual year end numbers and at that time, we will share these numbers with you.
- Basudeb Banerjee:** But like, we were expecting typically companies report balance sheet and half year balance sheet during this quarter results. So, we were expecting that adjusted number from balance sheet perspective also.
- R. Laxman:** It is optional according to reporting. So what we have done is, we have reported consolidated numbers of the group, break-up of the balance sheet part company wise, gross block wise we have not done. But we will work towards your suggestion before the year end, yes.
- Basudeb Banerjee:** Sure, sir. And second thing that last time we were discussing that there is scope of 300 basis points to 500 basis points rationalization in your staff cost which is much higher than any other normal auto company in India. So how are you moving in that direction strategically? You said in the initial



comments but like, how far we are from close to 10% - 12% staff cost to sales?

**R. Laxman:** So last time also we had shared that this is a little bit of long-term objective that we are working on and the results will fructify over a period of three years and if the staff cost reduction currently I would say is a larger mix of volume growth and modest mix of our entire action based on staff cost reduction. But as you move forward, you will see a higher contribution in the cost savings because of staff cost. Currently suffice to say that it is only a marginal saving.

**Basudeb Banerjee:** So this Rs. 11.5% margin is devoid of any one-offs and it can only improve from these levels, will it be the right way to look at?

**R. Laxman:** That is correct.

**Ashok Minda:** This is Ashok Minda. As I mentioned, this is really one of the important area of improvement in personnel cost reduction as Laxman mentioned that there are four - five focus areas. So, this is our important focus area.

**Moderator:** Thank you, sir. We have our next question from the line of Raghu Nandan from Emkay Global. Please go ahead.

**Raghu Nandan:** My first query was, we have had a strong improvement in the operating margins. But during the ramp-up phase new plants will have higher cost overheads, pre-operative expenses, etc. just wanted to understand that what could be that number for the current year FY 2018? What is your expectation in terms of the start-up cost for the new plants you have?

**N. K. Taneja:** So unfortunately, I do not have exact number to the question you are asking. But two specific responses, one is, we have deliberately figured a kind of more judicious mix in terms of the new businesses, new startups, and the legacy business and the existing steady business that we have. So most of the time it is not a situation where we overwhelmingly go for a new plant and that shift the entire focus and balance, that is point number one. Point number two, is overall incorporating the mix of new ventures as well as existing what we are targeting and that we have mentioned last time in terms of double-digit EBITDA, etc. this considers that mix. So these are the two responses that I have frankly.

**Raghu Nandan:** Thank you, sir. First quarter for Minda Furukawa still included some negative impact of the plant from where we were supplying to Renault. Just wanted to understand that in Q-o-Q would there be an improvement in margins for the Furukawa and if you can share some numbers or color for that particular venture?

**N. K. Taneja:** So to very frankly answer your question, our expectations has been modest in terms of what we perform, what we deliver with respect to Furukawa. Happy to share with you that one - the bleed has stopped. Today Minda Furukawa including Q1 and Q2 is a positive number with respect to EBITDA and a positive number with respect to PAT. Whether this will change into a significantly higher number by the end of the year? Definitely, the position is not however, we are not considering what shall I say, unusual results or expectations, if it is modest EBITDA positive and modest PAT positive, we are happy. It may still not meet the average PAT that Minda Corporation as a whole will come up to, but it will be somewhere closer to between that number in single-digit, yes.

- Moderator:** Thank you, sir. We have our next question from the line of Rajesh Kothari from Alpha Advisors. Please go ahead.
- Rajesh Kothari:** I just wanted to check, one, in terms of revenue it has been mentioned that you adopted IndAS. So actually there is a 19% growth am I, right? If I do net of excise duty rather than 10% growth?
- R. Laxman:** No, what we have calculated apples-to-apples, if you are talking about revenue growth for the quarter, it is 11% growth. So if you look at the numbers it is Rs. 590 crores for FY 2017 Q2 and Rs. 655 crores for FY 2018 Q2.
- Rajesh Kothari:** But Rs. 590 crores because in expenditure you have exaggerate your Rs. 43 crores.
- R. Laxman:** So, you are saying in one particular quarter I have not included the excise to that extent the number is slightly subdued, yes.
- Rajesh Kothari:** Yes. So actually it is a 19%. See, if I do next of excise duty that is what has to do then it is a 19% revenue, right?
- R. Laxman:** That is correct. The reasons we have kept it that way is this is exactly what is reported as per the auditors in the financial results and we have tallied that number. But the ratio is below are all comparable apples-to-apples.
- Rajesh Kothari:** Yes. But the margins and everything do change because once you do the sales minus excise for your last year then the margins are different. So anyway, basically, there is a 19% which is a robust revenue growth. Sir, just trying to understand, if I do the subsidiary wise the revenue growth where net of excise not gross of excise, I am making real like-to-like so gross revenue less excise duty for second quarter FY 2018 also same thing for second quarter FY 2017, then how the picture looks like?
- R. Laxman:** So I looked at it businesses wise which is business systems. So if you look at the Security System and then you look at the Driver Informatics business and then Interior system, all the three the larger performing companies growth were in the region between 10% and 14%. So what I am trying to say is it is not that one grew at 14% and the other grew at 8% and it averaged out. That was not the scenario in terms of sales growth.
- Rajesh Kothari:** But something must be growing higher, am I right? I mean, 10% and 14% itself is actually you know that is a big range, I am saying because again you are adding up excise duty whereas I am reducing excise duty from sales. So therefore, it is actually 19% and not 10% to 14% first of all, so I am just trying to understand the higher growth is contributed by which segment? Because if I look at here first-half and if I reduce the first quarter from first-half then your Minda Automotive Solutions looks like has reported a very strong growth of about Rs. 70 crores kind of revenue versus Rs. 45 crores in first quarter. So just trying to understand is there any one-off or is it a sustainable growth going forward?
- R. Laxman:** Automotive Solutions sales will get netted off in consolidation, that is point number one because the sales happens from the three business systems companies to Minda Automotive and then Minda Automotive sells it onward in the aftermarket. So in consolidation that growth will get set-off. So do not focus on that. The second part is, if you look at your first question wherein terms of net off is where the growth came from, the marginally higher was the Driver Information systems and that is what showed a

slightly higher number compare to Security and Interior system and Security and Interior system came lower than that.

**Rajesh Kothari:** I see. And Minda Furukawa you said that it has turned marginally positive at net profit level, so do you think in second-half it can be 3% - 4% kind of a net profit margin?

**R. Laxman:** That is our wish and hope it should be higher than that. But the point is that even if that comes in single-digit growth just sharing with you I will be taking half of that being a 50% - 51% owner in the equity. So therefore, on overall scheme of things it is not going to change the needle too much whether it makes x profit or y profit, but the most important thing is the last year's bleed should have stopped and that is what is significant because everything else goes into a small number. So the point we are sharing with you is that the bleed has stopped and hopefully there will be no big chunk bleed at all in the third quarter or the fourth quarter.

**Rajesh Kothari:** So by when do you think Minda Furukawa can become like normal net profit margin business? Do you think FY 2020; it can come to the company's profitability level?

**R. Laxman:** So we are taking one year at a time. Compared to last year this year has been a huge change, in the sense from a negative to the first quarter we shared with you that they were neutral and in the second quarter I am sharing with you the numbers are positive not only at EBITDA level but also at PAT level. So, you are right in your estimate and thinking about 1.5 years for it reach the numbers where normal average Minda Group companies are doing.

**Rajesh Kothari:** Okay. My last question is with reference to the EBITDA margin not at consolidated level I am saying without considering associate like share of Furukawa, therefore, can one assume this EBITDA margin is a sustainable margin and improve further from hereon a little bit over the next one year to two years?

**R. Laxman:** See, one is that in EBITDA margins Furukawa numbers are not added. So this is without any of the joint venture company. Point number one. Point number two is, in terms of probably one quarter I would not like to extrapolate. But definitely, we would want to work on double-digit EBITDA margin growth along with sales growth over the next three - four - five quarters. And to that extent, yes, we would like to focus more on maintaining this at double-digit and then growing thereafter.

**Rajesh Kothari:** So this 18% to 20% growth is primarily just trying to understand further that from where this high demand growth is coming from where? Of course, you are giving the segment wise, we appreciate that. But, is it like the few orders which were executed or is it a more recurring in nature this 18% to 20% revenue growth?

**Sanjay Aneja:** See, as I said in earlier part of my communication, we do not have an exact split available. But like first quarter our Plastic business in Mexico started commercial production, now we are in quarter two whereby the sales has gone up after the start-up of the commercial production and also, all across the businesses have done well. Also our export business from Rs. 150 odd crores last year is going to go to above Rs. 250 crores. And also our Wiring Harness business in Minda SAI has done well in terms of the overall volumes and the revenue growth. I mean, I can give you an overview but maybe in the next call, we will also keep it ready split -by-split business-by-business the incremental business happening due to

volume growth or new business or share of business.

- Rajesh Kothari:** So you expect so this 18% to 20% growth you think you can continue?
- Sanjay Aneja:** We have to see the movement of the industry over the next two quarters, okay? So October, November, December, January, February, March we will have to keep watching the situation. As you know, in October, the numbers were not as significant in terms of as the market has expected but we do not see a significant drop in our volumes as per the current forecast for this quarter.
- Moderator:** Thank you, sir. We have our next question from the line of Deepak Jain from Subhkam Ventures. Please go ahead.
- Deepak Jain:** Sir, you said that with employee moderation, there could be a 400 basis points - 500 basis points I mean margin improve in three years to four years, that is what you are targeting?
- R. Laxman:** No, I will interrupt you. See, in fact, what we said the delta between the average employee cost of some of the benchmark companies that we would like to benchmark against in the auto comp and our average employee cost there was 300 basis points difference. So we took it as a task that what are the activities we can do to ensure that gradually over the period of time without disrupting business as well as being rational about it how we can bring this down or bridge this gap of 300. So we have embarked on an exercise which in my opinion will take roughly two plus years and during that period initially you will see less delta in employee cost reduction and in the future quarters you will see a larger delta.
- Deepak Jain:** So basically, in two years' time this 17% employee to sales this cost can see moderation of 200 basis points that is just to simplify it. That is what we can expect?
- R. Laxman:** Yes, absolutely.
- Deepak Jain:** You give life time orders every quarter. So is there any outstanding order book till now, how large it is because Rs. 1,200 crores is a very sizeable amount to book in this quarter to be executed it over the next four years - five years. But then till now much is the outstanding lifetime order if you can give any indication on that?
- N. K. Taneja:** This Rs. 1,200 crores that you are talking about is a business of life time business not standalone business. So if I have to take the average life cycle of the platform of the five years to six years, so you can divide it by and then take the average that is about Rs. 200 crores to Rs. 250 crores to Rs. 225 crores year-on-year basis, okay? And as far as the automotive industry is concerned, we do not follow basis of outstanding order because these are the orders which keep coming with the platform that keep moving up. This shows the direction of the company, in the direction it is moving, is it getting new businesses or not. Our endeavor is to retain our legacy business and with our technology centers create new production technologies which will give us extra businesses and extra products.
- Deepak Jain:** Okay. Sir, in the past you have indicated that you are looking for an acquisition and to support that some fund raising also, is there anything, a thought on those lines or there is nothing that is there at least in the next six months - eight months. Because this acquisition thought comes up every quarter or so that maybe you are looking something to acquire to fill the technology gaps?

**Ashok Minda:** Yes, so Deepak frankly we are not looking at acquisition on a quarterly basis but we are looking at acquisition almost daily basis. That is the kind of focus we have on this business. However, see there are quite a few irons in the fire and they are at different stages. However, none of them are at a situation or a stage that you start consciously looking at fund raising or start looking at how to close this transaction immediately and of course, we would at the right time whatever is the regulatory required we will share with the investors. The current businesses the way it is going it is expecting to fund itself, it is expected to take care of the CAPEX also. And also because there is an increased working capital need and it is taking care of that. And some headroom is there in terms of our long-term debt-to-equity position. So immediately we are not contemplating bringing something right away on a fund-raising platform. But as and when we will be more than happy to share.

**Moderator:** We have our next question from the line of Ashutosh Tiwari from Equirus. Please go ahead.

**Ashutosh Tiwari:** Sir, my first question is that if I look at the subsidiary numbers Q1 to Q2, Minda SAI and KTSN numbers have been kind of flattish, I am talking about Q1 to Q2 not over last year and Minda Automotive Solutions has seen major growth on Q1 to Q2 perspective. So what has happened for this high growth which happened in the aftermarket business?

**R. Laxman:** No, I think, after market with respect to Minda Automotive Q2 has been significantly better as you are saying compare to Q1- is largely because of the uncertainty that was attach to GST. So that extent Q1 also we did not show such good numbers and even in Q2 it happened during the latter half of Q2, so that is the first part. And second part is of course, the numbers are subsumed within these three vertical within the main operating companies. And what was your second question, Ashutosh?

**Ashutosh Tiwari:** So my second question is that if you look at the EBITDA margins Q1 to Q2 on subsidiary side, if I remove consol minus standalone. There is a significant improvement of almost 300 basis points. But in terms of revenue numbers KTSN and SAI have been flat Q1 to Q2. So what has changed over there for this margin improvement?

**R. Laxman:** So, KTSN and Minda SAI you are saying has been flat?

**Ashutosh Tiwari:** I am talking about Q1 to Q2, not over last year.

**R. Laxman:** Okay. So Q1 to Q2, KTSN and Minda SAI has performed much better. I will share that in Q&A and I will put it up. But Minda SAI numbers have been much better in Q1

**Ashutosh Tiwari:** You mean to say at the EBITDA margin front?

**R. Laxman:** You were talking about EBITDA margin? EBITDA margin also because of volume increase it has been better, yes.

**Ashutosh Tiwari:** Actually, we had reported in this Presentation that our revenue in the first-half for Minda SAI is Rs. 426 crores and in first quarter it was around Rs. 215 crores. So the number is almost say Rs. 211 crores for Q1 versus Q1 Rs. 215 crores for Q1.

**R. Laxman:** Yes, can you just direct me to which slide you are about? This Rs. 426 crores is first-half total.

- Ashutosh Tiwari:** Yes, first-half total. And in the first quarter side it is mentioned the revenue is Rs. 215 crores.
- R. Laxman:** Okay.
- Ashutosh Tiwari:** So second quarter revenues are Rs. 211 crores versus Rs. 215 crores in the first quarter.
- R. Laxman:** Yes, so it is roughly similar number.
- Ashutosh Tiwari:** Yes, similar that is what I am saying. Is there a large margin improvement which happened in SAI and KTSN which has led to this kind of growth I mean the EBITDA margins improvement?
- R. Laxman:** Yes, in SAI there has been a margin improvement and in KTSN with respect to sales the margin improvement has been more subdued, yes.
- Ashutosh Tiwari:** Okay. And sir, secondly, if I look at the standalone margin also there has been quite big improvement over the first quarter. But on sustainable basis also what kind of margin we can sustain in standalone?
- R. Laxman:** So we are talking about roughly 10% plus sustainable EBITDA margin.
- Ashutosh Tiwari:** So is there any one-off or something which drove this margin in the first quarter - second quarter? this standalone?
- R. Laxman:** In standalone it has been the combined effect of what got held back in Q1 and also a higher off take in Q2. There no one-off jump there.
- Moderator:** Thank you, sir. We have our next question from the line of Harsh Shah from Dimensional Securities. Please go ahead.
- Harsh Shah:** The profit share from associates which was Rs. 9.5 crores in September 2016 has come down to Rs. 6.8 crores. Now, if the performance of Minda Furukawa has improved which is included in the share of associates then why has the number gone down?
- R. Laxman:** So one, performance that has marginal drop in the associates is Minda VAST. No, I will tell you, there are two reasons: one is Minda VAST. Second, Minda Furukawa, it is not that it was a significant jump in performance in H1, what happened was in Q3 and Q4, Minda Furukawa did badly. So that extent that is where the hit came if you remember in the last financial year. So therefore, it is not that because Minda Furukawa has done better my share of associates should jump proportionately.
- Harsh Shah:** Okay, fair enough. And another question is, in Q1 you had given a break-up of growth between tooling division and business systems you have for Q2 as well?
- R. Laxman:** I do not have it right now because that was the significant delta with respect to Q1 and we said that over Q2 and Q3 it will even out and that is what we are seeing. But we can easily supply that. That is not an issue. We will supply that for you.
- Harsh Shah:** No, I was just asking because tooling division I understand has quite high margin compare to business

system.

- R. Laxman:** So that delta has now kind of evened out. So answer your question directly, this higher margin is not because we have a huge significant jump in tooling and serial parts are flattish. That is not the right conclusion.
- Moderator:** Thank you, sir. We have our next question from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.
- Sunil Jain:** Sir, in your P&L, you show one item discontinued operation, this is there in the current quarter last quarter and even the previous year similar quarter also. So what is it related to? Is it related to Furukawa business which got discontinued?
- N. K. Taneja:** You are absolutely, right. It is the Chennai unit's discontinued operation that was mandatory to be shown separately, and it comes as a note in my consolidation.
- Sunil Jain:** So is this kind going to discontinue in the coming quarter?
- N. K. Taneja:** As long as I will have comparable sales of that in the previous corresponding period, it will keep coming as a disclosure. So I expect it to come till March 2018.
- Sunil Jain:** Okay. But that business if it is not there in the third quarter...
- N. K. Taneja:** Okay. If it is not there in third quarter, it will not be there in Q4 also whereas in the year-to-date it will keep showing for my current year and therefore they will compare it to the previous year and keep putting the disclosure. But the business has stopped from almost the second month of this financial year.
- Sunil Jain:** Okay. So year-to-date figure may be there. But third quarter figure it may or may not be there?
- N. K. Taneja:** Third quarter will not be there. On apples-to-apples, third quarter will not be there.
- Sunil Jain:** Okay. And you said that the margins which you had reported in this quarter they are sustainable or you said that the sustainable margins are over 10%?
- R. Laxman:** Yes.
- Sunil Jain:** Which one I should take?
- R. Laxman:** The EBITDA margins are sustainable over 10%.
- Sunil Jain:** Okay. And is it possible to share working capital figures as you have not disclosed the balance sheet?
- R. Laxman:** So working capital figures, let us disclose it at the end of the year when our full balance sheet is there and we will try and see if we can share some working capital data with you.
- Sunil Jain:** Okay. And the CAPEX figure for the current year will be how much?

- R. Laxman:** Roughly, it is Rs. 100 crores.
- Sunil Jain:** Rs. 100 crores and out of that, majority is already spent?
- R. Laxman:** So it is total - we have spent roughly about 100 till now and another roughly Rs. 30 crores to Rs. 50 crores is what has been the plan.
- Sunil Jain:** Okay. So around Rs. 150 crores for the year?
- R. Laxman:** Yes.
- Moderator:** Thank you, sir. We have next question from the line of Pramod Pandey from Reliance Treasury. Please go ahead.
- Pramod Pandey:** Just two questions, one was when you report this order take of Rs. 1,200 crores normally when will they start contributing on the revenue front on a normalized basis? That was one. Second was, sir, that the standalone revenue also the run rate has inched up by Rs. 40 crores, so is that from the Pune plant that you had put in Presentation that had started from this current quarter and if you can give some color in terms of who might be the customer for whom you will be supplying and what sort of tenure is there for that? And just one last question what is the tax rate going forward?
- N. K. Taneja:** Okay, one by one. As far as this Rs. 1,200 crores is concerned, some businesses start as early as six months from the date of nomination and some as much as two years down the line depending upon the platform and the start-up production of the various customers. As far as die casting is concerned, we have major customers for exports, one is the BorgWarner which is the field of construction housing, Turbo Charger, Honeywell, and also some domestic customers like Bosch, Nissin Brakes for the ABS and other applications.
- Pramod Pandey:** And sir, the tax rate?
- N. K. Taneja:** Tax rate should be a little over 20% in my view overall.
- Moderator:** Thank you very much, sir. We have our next question from the line of Aniruddh Jain from InviQuest. Please go ahead.
- Aniruddh Jain:** My first question is like cost material consumed has increased significantly in this quarter. So what is the particular reason for this?
- R. Laxman:** No. Actually if you see, net of excise it would have come down roughly 60% is the number I remember.
- Aniruddh Jain:** So on quarter-on-quarter basis, okay excluding excise that will come down.
- R. Laxman:** Yes. And we have done that analysis - material cost is roughly similar where we are.
- Aniruddh Jain:** Okay. And the second question is like if we can see this revenue breakdown for H1 FY 2018, the commercial and off highways vehicle share increased from 23% to 32%. So in coming period, can we



expect this to increase further or there is some seasonality?

**R. Laxman:** Can you direct me to which information you are reading?

**Aniruddh Jain:** Yes, this is on Page #28 of the Presentation. So where you can see the commercial and off highways vehicle share is 32% whereas, in the previous Presentation that was somewhere around 22.8% and same with the passenger vehicle - the revenue share was some 30.4% and whereas in this Presentation the passenger vehicle revenue share is 20%. So what is the reason for drastic change in this?

**R. Laxman:** So, the mix has changed. So to that extent yes, Ashok Leyland as a customer I think we have got a better share.

**N. K. Taneja:** And also the tractor segment has done very well. The growth has been very-very high, so that are probably the major.....

**R. Laxman:** Yes. And this on a consolidated basis and also the Chennai plant which we closed on a consolidated sales included the passenger vehicle segment.

**Aniruddh Jain:** So we can expect this to increase further?

**N. K. Taneja:** I think, we expect this ratio not to change too much.

**Aniruddh Jain:** Too much, okay. And this is a margin accretive, right, commercial and off highways vehicle segment?

**N. K. Taneja:** Yes.

**Moderator:** Thank you very much, sir. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. R. Laxman for closing comments. Over to you, sir!

**R. Laxman:** Yes, thank you very much, Friends and thank you very much Ladies and Gentlemen for participating and showing your enthusiasm. We will try our best to improve little bit more in terms of some of the queries that you have asked us and hope to share with you the consistency in numbers as we go on quarter-on-quarter and on behalf of Mr. Taneja and Mr. Minda, really thanks for your time.

**N. K. Taneja:** Thank you very much.

**Moderator:** Thank you very much, sir. Ladies and Gentlemen, on behalf of KR Choksey Shares and Securities Private Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

**Note:** *This transcript has been edited to improve readability*

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