



Minda Corporation Limited  
Q1 FY 2018 Earnings Conference Call

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**MANAGEMENT:**

- MR. ASHOK MINDA - CHAIRMAN AND GROUP CHIEF EXECUTIVE OFFICER – MINDA CORPORATION LIMITED**
- MR. LAXMAN RAMNARAYAN - GROUP PRESIDENT, FINANCE MINDA CORPORATION LIMITED**
- MR. N. K. TANEJA - GROUP CHIEF MARKETING OFFICER – MINDA CORPORATION LIMITED**
- MR. SANJAY ANEJA – CHIEF FINANCIAL OFFICER – MINDA CORPORATION LIMITED**
- MR. DEEPAK BALWANI – HEAD, INVESTOR RELATIONS - MINDA CORPORATION LIMITED**

**Moderator:** Good day ladies and gentlemen, welcome to Minda Corporation Q1 FY2018 Earnings conference call hosted by KR Choksey Shares & Securities Private Limited. 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 call, please signal for an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand over the conference to Mr. Ankit Merchant from KR Choksey. Thank you and over to you!

**Ankit Merchant:** Good afternoon everyone. On behalf of KR Choksey, we welcome you all for the Q1 FY2018 Conference Call of Minda Corporation Limited. I take this opportunity to welcome the management of Minda Corp, represented by Mr. Ashok Minda - Chairman and Group CEO, Mr. Laxman Ramnarayan - Group President, Finance, Mr. N. K. Taneja - Group Chief Marketing Officer, Mr. Sanjay Aneja - CFO, Minda Corporation Limited and Mr. Deepak Balwani - Head, Investor Relations. We will begin the call with a brief overview by the management followed by Q&A.

**Ashok Minda:** Good afternoon. Welcome ladies and gentlemen. I thank you for joining Minda Corporation Q1 FY2018 results conference call to discuss the financial and operational performance.

I will quickly give some light on the significant developments during the quarter and a detailed discussion on them will follow. As you all know, our economy and industry is going through a lot of changes, Minda Corporation is on the right track to capitalise on the upcoming opportunities. We continue to invest in R&D, capital expenditures, people and resources expenditure in our R&D facility at Pune towards technology and innovation.

Also, the recent technological acquisition of EI Labs will enable us to further develop latest devices and solutions in the domain of automotive connected mobility management devices and solutions. Regarding our expansion initiatives, I am very happy to inform you that we have commenced commercial production at the new plastic interior facility in Mexico. The third die casting plant at Pune is expected to commence operations in Q2 FY2017-2018.

We shall begin with the 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 will hand over the call to Mr. R. Laxman, Group President, Finance.

**Laxman Ramnarayan:** Thank you Mr. Minda. Good afternoon ladies and gentlemen. There is a presentation that has been uploaded on the website and I would like you to probably do a page turn. However, I will also refer to the page I am talking about of the presentation.

The way we would like to go about the presentation today, I would like you to go through a very quick overview of Minda Corporation at a glance. I would like to touch upon the regulatory changes - Ind-AS and how it has impacted us. Then we will move on to the consolidated performance of the group. I therefore request my colleague to touch upon the recent achievements and the future growth. Thereafter we are happy to take any questions and answers that you may have.

On slide #4, the screen that is there in front of you now, our business is largely split into three business

segments; one is the Safety and Security Restraint System. The second is the Driver Information and Telematic System and third is the Interior System. Though largely all of them would broadly fall under the category of auto components; however, this is divided in this manner more from a business focus point of view. As a group, in terms of accounts and finance, we are largely a single auto component business.

Under the Safety, Security and Restraint, we at Minda Corporation, we have one joint venture with VAST and then we have our businesses in Indonesia and Vietnam as well as we have Starter-Motors business by the name of Minda Autoelektrik. Under the Driver Information and Telematic System, we have two joint ventures, Furukawa and Stoneridge and we have Minda SAI, which is our largest company in wiring harness and we have the newest company that we have acquired which is EI Labs based out of Bengaluru.

Under the Interior Systems our business is largely established and set up in Europe. So it includes operations in Europe as well as Mexico, which started this year. The aftermarket is an entity called Minda Automotive, but that largely sells a lot of the products that these three divisions make and in addition to that, it sells some of its own products.

For Q1 FY2018 the mix of business between these three businesses are largely similar to what we showed you in FY2017, which is 43% of the business came from Safety and Security Systems, which is about 270 Crores; about one-third of the business came from Driver Information and Telematics, which is about 207 Crores and 24% or roughly 150 Crores came from the Interior Systems.

Moving on to the next slide, we talk about the regulatory changes that has happened in In Ind-AS. As we are all aware, the Institute of Chartered Accountants issued the Indian Accounting Standard notification, which has been now adopted by us. It is applicable to Minda Corporation from April 1, 2017 and the transition date is April 1, 2016. How has it impacted us? The significant changes because of this for Q1 2017-2018 as well as going forward are, one, we have moved from line by line consolidation; two, equity methods of accounting for consolidation. So effectively our joint venture - one is Minda VAST and the two subsidiaries - Minda Furukawa and Minda Stoneridge have been impacted in terms of consolidation. So, in Minda VAST case, 50% joint venture, the value of impact is roughly 68 Crores in terms of turnover.

In our subsidiaries, Minda Furukawa and Minda Stoneridge, roughly both of these of about 120 Crores of turnover each, would be removed from our topline on a consolidated basis. Apart from that we have a 100% subsidiary called Spark Minda Foundation, which is a Section 8 Company and we also had an ESOP trust, both are now part of the consolidation, but the financial impact of this is negligible. And the third last bullet is the acquisition of Minda Autoelektrik, made on April 1, 2016, so technically it comes in April 2016 to March 2017 financial year. There, we had to convert this acquisition into a fair market value. The impact of that on the consolidated numbers is that we have allocated its value to intangibles as well. So, earlier which was sitting in our books as goodwill has been distributed between intangibles and goodwill. And intangibles will have to be depreciated over a period of years, so roughly this impact is about 20 lakhs of additional depreciation in consolidation because of Ind-AS.

Second last bullet, which is the sales, have dropped off with excise duty and shown net of cash discount. That applies to all companies and the same applies to Minda Corporation as well. The actuarial gains and losses on defined benefit plans have been included in other comprehensive income.

Moving on to our next slide, which is slide #6 on the consolidated performance. The total revenue from

operations has increased by 19.2% to 623 Crores or Rs.6.23 billion. Our first quarter EBITDA stood at 44 Crores and the EBITDA margins stood at 7.1%. Our net profit as per Ind-AS on a consolidated basis stood at 23 Crores and the margins stood at 3.7%.

In terms of operational update, we have commenced production in the Q1 FY2017-2018 in Minda KTSN, Mexico and that plant has started supplying to OEMs to Mexico. The second is the die casting division in Pune that is commencing operations in Q2 FY2017-2018, effectively means commercial operations will start before September 30, 2017, which is now.

The third update is we have acquired EI Labs, which is to enhance the Group's expertise in connected mobility and the Internet of things solutions. We will talk more about this as we go ahead in the future slides, but the summary is it is going to add technology to our existing products at the same time it is going to usher new product technologies for us to be able to offer to the OEMs.

On the consolidated financial performance, one, if you see the revenues, the revenue is largely increased across businesses but if we split it, that is approximately 10% and additional 9% has come from the sales growth in the tooling business. We want to highlight this because this is a change of sales mix and this had some impact on the way our raw material and personnel cost moves.

The second is the points on the EBITDA margin. We have spent more on R&D and future technology just to give a sense, if you compare it from the same quarter in the previous year we have increased that spend by about 3 Crores on R&D on an incremental basis. We have had an impact of GST in our aftermarket business. That is more the reason being the stocks all over the country and we have had to actually push the stocks out, so that we do not get impacted on the wrong side with respect to the GST and that has hit us by about 1.5 Crores.

Currency fluctuations are there because in India it is Rupee, we have operations in Europe and now we have some operations being reflected in Peso and we have some Japanese Yen exposure as well. On a consolidated basis, if we aggregate all the currency fluctuations, we have taken about a 2.5 Crores expense on that. Of course, on the profits, we have increased our finance cost from about 5.9 Crores to 7.6 Crores that is one and a half Crores increase in finance cost. We have had higher depreciation by 2 Crores because of our capital investments that we did in the entire last year. Additionally, our net profit was also impacted due to discontinued operations which is about 1.5 Crores at Chennai, which was a loss making facility for us on the subsidiaries.

Just to relook at the numbers that is EBITDA and PAT, R&D executed is for investments for the future. GST impact of the aftermarket business we expect it to be one time and currency fluctuations we expect it to go down as the volatility kind of does not show up so much. In case of the net profits from impact due to the discontinued operations - that also is one time and we expect that not to be there going forward in the few quarters for the current financial year.

Going to the next slide, this is a sense of the way each of these companies have contributed to our sales in the Q1 FY2018. Largely the mix has remained the same only thing Minda SAI has overtaken Minda Corporation. The growth in sales of each of these are roughly about 10% with of course an additional 9% growth coming from the tooling business totally taking a year-on-year growth of 19% in revenue. The break up revenue in percentage terms if you see Minda Corporation about 30%, Minda Sai is about 32%

and we have Minda KTSN, which gives us 21%, the rest is distributed between Autoelectrik and the Indonesian business.

Just to give you a sense of the numbers with respect to the joint venture companies which are now not included as part of consolidation - the total sales of Minda Furukawa for the first quarter was 122 Crores. The total sales for Minda Stoneridge is about 120 Crores and the total sales of Minda VAST is about 68 Crores. So these are the three subsidiaries, which was not included in the consolidation of Minda Corporation numbers.

Moving into a quick summary of the financials and I would like to now invite my colleague Mr. Taneja to speak to you about what we have done in the recent achievements as well as throw some light on the acquisition during the year. Over to Mr. Taneja.

**N. K. Taneja:**

Thank you Laxman. Good afternoon everybody. I am N. K. Taneja, the Group Chief Marketing Officer. Good afternoon ladies and gentlemen. I will like to update you where are we with regard to the significant businesses won in the last quarter. The first I will start with the Safety Security and Restraint System. In the last quarter, we bagged orders worth almost 155 Crores lifetime business. The major ones are an export order for Compressor Housing which is part of the turbocharger, lifetime order of approximately 83 Crores, Lockset key set order for two wheeler OEMs for new models 55 Crores, Door Handles from a domestic OEM for 10 Crores and Starter Motors for exports to Europe 8.5 Crores.

As far as Driver Information and Telematics is concerned, we have received order for a Speedometer from a global OEM for two-wheeler, lifetime business of 170 Crores; Wiring Harness for domestic OEM for trucks and Bus Division, lifetime business of 135 Crores and order for the Electronic Speedometer and the Steering Roll Connector, which is part of the airbag application and fuel level sensors, lifetime business of Rs.20 Crores.

With regard to the Interior System, our lifetime order book this quarter is 300 Crores, Minda KTSN for the I-Panel Parts and Cup Holder from European OEMs lifetime business of 255 Crores and plastic interiors mainly the Battery Tray, Sash Components, Nozzel Defroster and Airvent from domestic OEMs, lifetime business 50 Crores. So between these three businesses almost 800 Crores lifetime business has been booked into the Q1 and you can take an average life of five years, so that meets the yearly volumes for these businesses.

I would now like to share with you our recent acquisition of EI Labs in the field of connected mobility and Internet of Things solution. Now I would request you to kindly refer to slide #11. Friends as you are aware the industry has been talking about migration of electronics connected mobility, Internet of Things into the automotive domain. As more and more electrification happens, as more and more people expect their individual gadgets and their other devices to be connected, the automotive also will move towards the connected mobility and this for quite some time the good part in the process of scanning and also deciding whether we should look for an acquisition or we should do it on our own, and then we decided that in order to bridge the gap between self-development and to take a leap step forward, we shortlisted and identified and acquired this company with the basic technology available and also the other dimension is our new technology centre in Pune which is spearheading the future innovations and development in the field of electronics.



This company provides the basic technology and the platform to integrate what they have and what we will do in the future from our technology centre. This company is already having presence with some OEMs in India where they are also our OEM for the legacy and conventional products, this we will be able to bring in new continuous products. How the technology available with this company will get integrated into the existing products plus the new products and technologies is the way forward and this company if you see the telematic in the field of passenger vehicle, commercial vehicle, EV vehicle, farm equipment, power folds purposes and smart cities, electronic data logger, industrial IoT, remote access, telematic, tracks, electronic locking devices, schools, so this is split into automotive and also non-automotive application including marine applications to the basic hardware, and with the software and technologies available with our technology center we will build up and scale it up.

**Laxman Ramnarayan:** Next, just wanted to share with you the fact that we had a very successful AGM, we had a meeting in Delhi, first time we live screened this. If you go through the website, we went literally to each of the shareholders and industrials and some of you may have had the opportunity to log in. We also introduced electronic tablet based voting facility at this AGM. May be let us talk about the future growth areas, Mr. Taneja.

**N. K. Taneja:** Continuing my update, so all of you please go to slide #14. We had shared with you in the past that we have invested into a Greenfield project for Die casting facility in Pune. So this facility will have its commercial production and commercial start-ups in this current quarter from September 30, 2017 this will be commercially on stream and started. This is going to focus on Aluminium Gravity Die Casting and Low Pressure Die Casting with machining process and also separate machine shop with a focus on precision parts Compressor Housing.

I also wish to share that this new plant is primarily meant for our success in field of exports from global Tier I for the main product of compressor housing for the turbo chargers and we will be starting our commercial production this quarter and mainly the exports will be the basis for this plant and this will be our model plant for die casting to take it to the next level.

As far as the technology centre in Pune is concerned, here I would like to mention key highlights that Spark Minda Ashok Minda Group took a bold initiative to go in for the future technologies focusing on mainly four platforms of embedded electronics, hardware, software and mechatronics. We are almost a team of 35 engineers out of which two are PhDs and most of them are Masters in respective domains and the technology heads, we have hired from the best talent across the world be it Bosch, Continental, KPIT, etc., and within a short time this centre has already filed three patents and we are the only Tier I except for another Tier I which has a full blown facility which is electromagnetic and electromagnetic compatibility and the testing in hardware in loop testing facility. This facility is already operational. In the next slide, I will share with you what are we going to do and otherwise to take us to the next level which is for the future technologies, not only by the regulatory, environment, customer interest, so very briefly starting from the top selected cars, selected commercial vehicle tractors, so this was our driver. We have just acquired this company EI Labs.

Now I also mentioned to you how the technology available of this company can be integrated to our legacy products. So now we will be able to use the technology from EI Labs to create a connected cluster. Similarly the whole process of connected mobility will be the driver for the electronification and the Internet of Things. Low cost immobilizers, two-wheelers ABSs including combined setting system, active

safety in the form of advance driver information systems, also in the field of key set and security, we have the smart key or the workflow key wherein you see in the four-wheeler effective entry system the same concept we are developing and for two-wheelers. In the field of four-wheelers you have seen the push start from the passive entry system. In our SMIT, we have developed a low cost entry-level passive entry power project system whereby we are confident that against the credit market or at the competitive price we will be able to develop an entry-level passive entry system across 50% of the current price. So this is going to cause a disruption in the industry and this prototype will be ready by October and we are confident to take it to our four-wheeler customers and be a disruptor in this technology.

Similarly in the area of body control models the technology centre is developing this product. We are also focusing on the integrated starter generators, electrification, electronics fuel injection and engine management system. So all these products are basically driven by technology and regulatory. While on the subject, I also would like to mention only for the sake of letting you know that our technology centre based on the future roadmaps of the way the industry is progressing and also keeping in view the future survival and growth of our legacy businesses, identified some 20 odd products and technologies on which they are working and developing those technologies which can be offered to our customer to take us to the next level.

Now I will request you to have a look at page #16. We have shared with you in the past that we built up a Greenfield facility at Mexico. I am pleased to inform that in the first quarter this facility has started the commercial operations and it is up and running as we expect annual sales of 1750 million by 2019-2020 from this facility.

We have also told you in the past that we have signed the joint venture with SBHAP Group, a BAIC Group subsidiary in August 2016. We are now in the process of finalizing our business plan and the start of this operation will be probably in the next two quarters and we will come back to you on the update, when do we go ahead with our China commercial operations for the interior facility.

Now I would request you to have a look at the last slide, which is slide #17. We have briefed you about the electrification regulatory environment emissions, so based on this we are working on a focused approach to drive demand for electronics, EFI/EMS, ABS and CBS, EGT/EGRT sensors. This EGT/EGRT sensors has the Soot PM sensors. We have briefed you in the last quarter this is Euro-VI diesel vehicles driven Euro-VI norm. We already have that 20% of the market of this EGT/EGRT 2 sensors in India which will be applicable from April 1 2019-2022 and as far as the BCM sensor is concerned, which is a Soot sensor, which is OBD-1, OBD-2 guidelines effective 2021-2022, we are engaged into the business engagement with major OEMs as the next driver of growth in addition to the EGT and EGRT sensors. Besides that we are also scanning and looking at more opportunities for more sensors into our control.

Besides that the connected cars we have discussed, control models, these are some of the forays we are looking at for the non-legacy product segments. In the field of new technology, it would be legacy business; however, we will shift from mechanical locks into four-wheelers; electronic clusters, and bracketless door for the four-wheeler application and low cost immobilizers. We are also focusing on the metrics of new customer addition and plus vehicle segment, offload vehicles, construction equipment and we have a very structured roadmap for the electric vehicle disruption that the industry is eagerly talking about in the last few weeks, may be in the next few calls we will take you through our planning and what we are doing into the segment, and also you must have read that the government is now saying that

effective April 1, 2019 we are going to meet the airbag mandatory and last week there was a notification or report from the government that they may prepone it. We in our company Minda Furukawa are the leaders in the steering roll connectors for the airbag application, so this is also an area for focused growth and also we have a laid strong roadmap for increasing our export business and overseas operations and this is going as per our plan. Thank you very much.

**Laxman Ramnarayan:** I would just like to take a minute more to review what we have been doing in terms of improvement plans that is slide #18. We are committed on these four things; just want to restate that within Minda Furukawa action plan for improvement of profits and viability is already underway. In fact Minda Furukawa has turned into black in the Q1 of FY2017-2018 though it is a marginal number.

Second our exercise on optimization of employee cost continues and we are seeing results. Increased export business as well as increasing the margins in the export business continues to be a focus as well as improvement in margins in Minda KTSN. So these are the four initiatives we are working on and we appear to be on track with respect to each of them.

With that I would not like to go beyond this because in terms of company's background and other slides are already there for your consumption. If you have any queries on it anytime, you can always reach out to us. Now I will hand over the call to the moderator to enable us to take on the questions.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Jayshree Ram from Karvy Stock Broking. Please go ahead.

**Jayshree Ram:** A very good evening to you. My first question is that we have a lot of emphasis on electric vehicles today. So how have we positioned ourselves to capitalise this situation going ahead?

**Laxman Ramnarayan:** The industry started talking about electric vehicles about one year ago. Only in the last three months and especially in the last 10 days there is so much of talk about electric vehicle disruption, so to say. There are different school of thoughts going about what will be the position by 2025, 2030, in terms of the EV vehicle penetration across various segments, what will happen to two-wheelers, what will happen to trucks, what will happen into passenger vehicles, whether it will be 10%, 20%, 30%. There are no clear-cut government guidelines or roadmap with regard to the rollout of the electric vehicle policy into the country. The industry is talking about first scrap the 15-year-old vehicles before we talk about the electric vehicles, just to give you a glimpse. We have a very clear cut roadmap in terms of the electric vehicle penetration across segments, whether it is two-wheelers, passenger cars, not only with regard to our legacy businesses, also with regard to the core product and technologies which the Group is focusing to cater to in the vehicle segment.

Also I would like to add that we are engaged with all the EV manufacturers in the country and for our legacy businesses we have won significant businesses which we have not listed it because the numbers are not very big, but the products and technology we have already bagged for our legacy businesses and we are also in the process of developing and also getting into the process of technology the way it is motor, for charger or DC/AC controller, stuffs like this. So let me assure you that we are well engaged, aware and conscious of what we need to do and we are as per our roadmap. Thank you very much.

**Jayshree Ram:** Thank you Sir. My second question is can you tell me about your sensor business? What was the revenue



for this quarter, only for sensors?

**Laxman Ramnarayan:** The EGT/EGRT sensors will be from April 1, 2020, which are the Euro-VI guidelines. Our order book for this sensor as on today is 150 Crores and the total market size of this sensor is 650 Crores. We are confident that in the next two quarters, we will bag more businesses that create a leadership position for the EGT/EGRT sensors. The second sensor is the PM Soot sensor is the only globally established players are two in the world, one is Bosch and one is Stoneridge. That is a 900 Crores market, but the applicability happens from OBD-2 which is 2023 but the customers will start using it for their export vehicles to Europe from 2020-2021 and major volumes will come from 2023. That is our next India growth for which we are focusing because we still have time for the businesses to be finalized. So these two segments will drive our sensor business under Minda Stoneridge.

**Jayshree Ram:** Sir, what is your current debt, total debt?

**Laxman Ramnarayan:** Current debt is pretty similar to what it was in March 2017, so it is broadly about 650-odd Crores and given the quarterly profit, debt equity continues to remain among 0.8 to 0.9.

**Jayshree Ram:** So with this are you and you are having several acquisitions and keeping your debt levels in mind, what is your outlook? What is your strategy going to be in terms of reducing debt and also making strategic acquisitions to expand in different segments?

**Laxman Ramnarayan:** We are comfortable with the current position of debt that we are carrying. The business is generating cash and there is equal capex investments that we are doing so to that extent it is not a very early decision, However if you are looking at acquisition then we will definitely have to look at fund raising and fortunately given our leverage of 0.9 as well as high volume in the company gives us the freedom to chose with a combination of debt and equity for acquisitions.

**Jayshree Ram:** Thank you very much.

**Moderator:** Thank you. We will take the next question is from Basudeb Banerjee from Antique Finance. Please go ahead.

**Basudeb Banerjee:** As you said the existing business is below 10% so this 9% by tooling, so what is tooling and how much it is sustainable? How to look at that going ahead?

**Laxman Ramnarayan:** So effectively tooling revenue is very much a part of our overall revenue. Sometimes in some quarters it ends up becoming higher. All we are saying is that the growth this time came from tooling because it depends on which stage of the product portfolio is and therefore there is always a healthy mix of tooling and non-tooling business and in this case the growth came most from tooling. That was the idea of highlighting the same. It is sustainable; however, at a different pace. Normally what happens is after the tooling is over the part goes into serial production and then you starting getting revenue from serial parts. So one makes up for the other.

**Basudeb Banerjee:** So how much revenue can be allocable to tooling across the segment this quarter?

**Laxman Ramnarayan:** The key part which I was referring to this quarter was about 50 Crores of tooling which we got from

Europe.

**Basudeb Banerjee:** In your standalone business if we see your other expenses have been moving up one way every quarter irrespective of the revenue trend. Though we can see gross margin to have improved both in standalone and consolidated significantly sequentially but the quantum of other expenses still continues to move up so anything on that as well?

**Laxman Ramnarayan:** In fact other expenses, a large part includes the R&D expenses and investments we do in technology is all categorized under that head and that is why in the standalone it reflects the high, because Minda Corporation is related to the R&D centre in Pune.

**Basudeb Banerjee:** The gross margin recovery largely is because of Furukawa?

**Laxman Ramnarayan:** Sorry?

**Basudeb Banerjee:** The gross margin revival by almost 500-basis points is largely because of the Furukawa turning around?

**Laxman Ramnarayan:** Partly because of Furukawa and partly also because of some of the initiatives we have taken on the cost side, both.

**Basudeb Banerjee:** So under that background, assuming the gross margin levels remain as it is or slightly improve from these levels, when one can see a consolidated margin to move to double-digit levels? So it is within the vicinity or it will take around two years more Sir?

**Laxman Ramnarayan:** Our target for the EBITDA margins to move to double-digit is March 2018 and we are working pretty aggressively towards that Basudeb and we are hoping to reach there around that time.

**Basudeb Banerjee:** Sure. That is great. Thank you.

**Moderator:** Thank you. We will take the next question from the line of Rajesh Kothari from AlphaAccurate Advisors. Please go ahead.

**Rajesh Kothari:** Good afternoon Sir. I have three questions. One, if you can just give us in terms of your first quarter FY2018 since there is Ind-AS, which is applicable, what is the corresponding number last year first quarter FY2017?

**Laxman Ramnarayan:** With respect to last year corresponding number in Ind-AS overall basis last year in Ind-AS total revenue was about 525 Crores and this year that has moved to 625 Crores that is an increase of about 19%.

**Rajesh Kothari:** But I think the last year first quarter you reported 525 Crores, right that is without Ind-AS?

**Laxman Ramnarayan:** No. On Ind-AS is the number. So on a comparable basis of Ind-AS it is 525 Crores.

**Rajesh Kothari:** Okay. Secondly you said that Furukawa is turning around. Good to hear the news. So when you say it has turned black, is it at the operating level or at the net profit level?

**Laxman Ramnarayan:** At the profit level it has turned black. The number is a small number. Net profit is positive for Furukawa in

Minda Furukawa for Q1 FY2018.

- Rajesh Kothari:** Good. What is the operating profit of Furukawa if you can disclose that?
- Laxman Ramnarayan:** I do not have it right now. I am not sure I am able to disclose that right now to you but suffice to say that the net profit is just about under Crores for our share.
- Rajesh Kothari:** It is that operating profit has turned close to almost 5% to 6%, right? Otherwise you cannot make net level profit?
- Laxman Ramnarayan:** That interpretation is correct.
- Rajesh Kothari:** Fine. My third question is Minda KTSN and also the Die Casting, Pune you mentioned that capex is close to about 100 Crores with annual revenue of about 200 Crores and in KTSN capex of 100 Crores with a target revenue for about 175 Crores, so when capex gross block asset turnover if I look at it, it is about two times in KTSN it is less then two times, so what is the kind of payback period you are looking for this capex?
- Laxman Ramnarayan:** Can you repeat your last part of your question again?
- Rajesh Kothari:** Sir what is your payback period for this capex of both Minda Corp Die Casting as well as Minda KTSN?
- Laxman Ramnarayan:** In both of them approximately what you are talking about is four years for the payback.
- Rajesh Kothari:** So basically this asset turnover ratio will peak at around two times or you can do more than two times?
- Laxman Ramnarayan:** See, asset turnover ratio I should be able to do more than two times.
- N.K. Taneja:** Rajesh, if you see Die Casting, when you see 100 million approximately 30% of that is in the land, point number one. So when we are talking about the land, we have taken a huge land for future expansion. Here the payback period is going to be much faster than my domestic conventional business because it is for all exports primarily whereby my margins are much better. So this is the infrastructure with regard to the die-casting. As per as the plastics is concerned, Mr. Laxman has already clarified it.
- Rajesh Kothari:** Great. Is it possible to share each subsidiary last year first quarter number to understand where the growth is coming?
- Laxman Ramnarayan:** We will compile it and tell our people to put it up, Rajesh if that is okay.
- Rajesh Kothari:** Absolutely fine. Thank you very much. Wish you all the best.
- Moderator:** Thank you. We will take the next question from Harsh Shah from Dimensional Securities. Please go ahead.
- Harsh Shah:** Good afternoon Sir. Sir my first question is if you look at Furukawa, Stoneridge, Sai and KTSN. Sir what would be the current capacity utilisation and what is the potential revenue that you can generate from the

existing capacity, if you can share that?

**N. K. Taneja:** Which subsidiary you have talked about?

**Harsh Shah:** Furukawa, SAI, Stoneridge and KTSN.

**N. K. Taneja:** So SAI and KTSN are able to do on its own, but frankly the capacity utilisation, which SAI is pretty much governed by what is the additional line, I can put on the existing plant or additional shift I can do based on the demand from the OEM. It is a pretty labour intensive line business and not as much as a machine intensive business, so that capacity measurement today, if I hazard a guess, I think it will be around 14% roughly. That is about 70% to 80% is where I would be.

**Harsh Shah:** For SAI?

**N. K. Taneja:** For SAI. With respect to KTSN that capacity utilisation we usually keep it around 70% and we plan for new models as it comes up in Europe over two years. So in fact they have a kind of a step up kind of a model where they are pretty engaged with their OEMs where two years before they keep increasing their capex to match with their revenue and they are normally around 17%-odd.

**Harsh Shah:** For Furukawa?

**N. K. Taneja:** Furukawa, let me get back, the number would not be very different, but let me get back on Furukawa. It will roughly be the same.

**Harsh Shah:** Have we clocked any revenue from Kwid during the quarter?

**Laxman Ramnarayan:** No.

**Harsh Shah:** So how are using the spare capacity there?

**Laxman Ramnarayan:** No revenue from subsidiary is included in this. In this quarter Kwid revenue is included and from next quarter Kwid revenue will not be there. In this quarter we are talking about the new unit there and thereafter it is zero.

**Harsh Shah:** How will we be using the spare capacity?

**Laxman Ramnarayan:** No, we are not using the spare capacity. We are shutting down that unit.

**Harsh Shah:** So if I understand correct, this will be hit of around 150 Crores on the topline for Furukawa?

**Laxman Ramnarayan:** As we have already told you it 120 to 130 Crores.

**Harsh Shah:** Sir, what kind of revenue can we expect for Furukawa on a yearly basis for FY2018.

**Laxman Ramnarayan:** We let go Kwid business but we have the Swift business for Maruti which has started so on net-to-net basis we will be down by about 50-odd Crores and we will have about 350-Crores revenue this year.

- Harsh Shah:** Thank you so much. Best of luck Sir.
- Moderator:** Thank you. We will take the next question from the line of Jinesh Gandhi from Motilal Oswal Securities.
- Jinesh Gandhi:** A couple of questions from my end. First is can you talk about EI Labs what kind of investments you would have done in that and what is our game plan from long-term perspective by when do we expect benefit from this to start reflecting and also if you can throw some light on what would be the current levels of revenues and how they are doing at bottomline levels, that is I mean, profits or quantum of loss?
- N. K. Taneja:** Jinesh thank you for your question. EI Labs we acquired for enterprise value of little under 7 Crores. The revenue of that company last year was roughly around 2.5-odd Crores. We expect that to remain similar in this year because it is six months pending for the year to end. In terms of profitability this company we expect it to breakeven in FY2018 or marginal number plus or minus, but more importantly the exercise of integrating this technology with our SMIT R&D Centre as well as transposing some of the technology into our existing customer relationships that is what we are focusing on.
- Jinesh Gandhi:** Second question pertains to slide, which you have put up on the future businesses, which are growth drivers; we have talked about two-wheeler ABS business. Is that something where we have done advance work or that is something, which you are exploring in this point in time?
- N. K. Taneja:** This is all our planning. We talked about connected mobility in the past, we closed this acquisition so we are all working towards this and when we talk about two wheelers, this is regulatory driven including the combined braking system, so all these are our thought process. We are putting in our efforts, we succeed in some, we do not succeed in some, but this is our roadmap. So we are closing some Greenfield joint venture acquisition, we will be sharing the view, but what we wanted to show you was the direction of the growth in terms of product technology in terms of markets and regulations.
- Jinesh Gandhi:** Understood. This would be largely inorganic approach not through JV or organic developments?
- N. K. Taneja:** Organic does not make any sense for the new generation technologies. It could be either joint venture, collaborations, acquisition all offers are open, we need to serve the customer and the market in time. Whatever models prove the best we will cover that.
- Moderator:** Thank you. We will take the next question from the line of Sunil Jain from Nirmal Bang Securities. Please go ahead.
- Sunil Jain:** The new plant, which has started off Minda KTSN in Q1, we have started booking some revenue in that?
- Laxman Ramnarayan:** The commercial operations started in the first quarter. We have started commercial supplies since it is a new plant as the new award from the customer, the ramp up is happening, but the commercial operations have started may be in the next few quarters you will see the numbers ramping up more.
- Sunil Jain:** So, by third quarter we may see a good number from this or a normal operation?
- Laxman Ramnarayan:** Yes. We have a focus from the customer on this platform. We are already in. We are also developing new platform, which will go into commercial production later. So yes, your assumption is right.



- Sunil Jain:** Sir second question is related to your you had a tooling business in this particular quarter, which gave you a 9% increase to your revenue. Whether this tooling business will have a comparable margin or may be having lower margins?
- Laxman Ramnarayan:** Effectively they are similar margins. It is not much lower or higher because it is finally to the same OEM. First you give them the tooling business then you do the serial parts with them.
- Sunil Jain:** This may be one-off or we got good tooling business in this particular quarter?
- Laxman Ramnarayan:** No. The mix may change a little bit but tooling is very much a part of the regular business that we do.
- Sunil Jain:** So this 19% growth in revenue is more of organic only?
- Laxman Ramnarayan:** Absolutely.
- Sunil Jain:** Sir second thing, if I see last year and current year gross margins now all JVs will not be there in that, so that has come off from 41.5 to 38.8 so what could be the reason for that?
- Sanjay Aneja:** Gross margin is largely it will include input costs and that is something which we are working on to control and we hope to get back to the numbers where we were since.
- Sunil Jain:** The point was why I was coming of it is like we are seeing some inflation in the commodity costs, so are we able to pass it on or may be passing it on with a lag of some time?
- Laxman Ramnarayan:** Very good point. There are two answers to this and both of which we are working on. One is of course we are passing it on to the customer with different lags, most of the time it is one quarter lag and the second point is even in a rising commodity price so that we do not get impacted by that lag, we are working on some commodity hedging strategy which we are planning to implement gradually over the next two quarters and therefore as we go forward too much of fluctuation commodities prices should have a lesser and lesser impact on our margins.
- Sunil Jain:** The discontinued operations I assume is mainly related to Furukawa, so this is likely to get discontinued when?
- Laxman Ramnarayan:** In this quarter.
- Sunil Jain:** Second quarter there will not be this business?
- Laxman Ramnarayan:** That is correct.
- Sunil Jain:** Sir this one point, I missed is you said about the 4x impact in the margins, what was the amount Sir?
- Laxman Ramnarayan:** It was roughly about 2.5 Crores.
- Sunil Jain:** 2.5 Crores. Thank you very much.
- Moderator:** Thank you. We will take the next question from the line of Giriraj Daga from KM Visaria Family Trust.

Please go ahead.

- Giriraj Daga:** Good evening team. Actually I would like to understand the unit wise growth. When I am looking at last full year numbers line Minda SAI has been a revenue for last year they showed 620 Crores and this quarter runrate is about 215 Crores and the same in the Minda KTSN 410 Crores instead we are doing 140 Crores and as far as Minda Stoneridge 307 Crores and the current quarter is 120 Crores so the quarterly runrate is significantly higher compared to the last year average. So would we see any seasonality there or it is the higher growth rate, which we are expecting?
- N. K. Taneja:** No, we are expecting a kind of a secular growth rate of what we have already displayed in Q1. We do not expect anything much lower or higher.
- Giriraj Daga:** Because if we analyse, the numbers become significantly better.
- N. K. Taneja:** The growth in Minda's for example, the wiring harness business has definitely done significantly better. It depends on which models you back with which OEM. That is not in your control, but if that model in the OEMs portfolio takes off then your demand for that quarter ends up becoming significantly higher. But over the full year, over four quarters these things should be normalised.
- Giriraj Daga:** Tooling business additional, you said incremental tooling business of 50 Crores was there in Q1 so which of the unit has got that 50 Crores benefit?
- N. K. Taneja:** The interior business.
- Giriraj Daga:** But the unit wise?
- N. K. Taneja:** It will be the European one.
- Giriraj Daga:** What is the total tooling revenue? Incremental you said 50 Crores the total tooling revenue?
- N. K. Taneja:** Each business would be having some amount of tooling Giriraj. It would not be too significant.
- Laxman Ramnarayan:** By and large the business of plastic interior in Europe is primarily driven by self funding of the tooling, which is large investments in Europe, which gets paid as and when you will do the photo approval and the tooling. The second year at the time of exports for Die Casting and some four-wheeler businesses, two-wheeler business by and large would not have any large tooling advances from the customer. This is how the industry operates.
- Giriraj Daga:** Sir, my last question is that Furukawa you said you are about 1 Crores profit as compared to similar number last year was 55 Crores loss for the full year?
- Laxman Ramnarayan:** Yes.
- Moderator:** Thank you. The next question is from the line of Deepak Jain from Subhkam Ventures. Please go ahead.
- Deepak Jain:** Congrats on good numbers. Sir just a few clarifications in the presentation when you gave this order book or new order wins, can you give what is the outstanding order book till now or are these cumulative

numbers which you mentioned in the presentation?

**Laxman Ramnarayan:** Only the orders booked in Q1. So how much is my order book as on date is very difficult to give you an immediate answer but next time onwards we will prepare that also and keep it ready, but we just want to give you a flavour that in terms of new business developments, what are the products and technology where we are getting the significant businesses.

**Deepak Jain:** Sir, you said that margin for March 2018 is what you are targeting is double-digit compared to 7.1 at consolidated level. This is what exactly you are targeting?

**Laxman Ramnarayan:** The EBITDA margin that is what we are targeting and we are working towards that.

**Deepak Jain:** The margin, ex-Furukawa JV, would be quite high when you are looking at 7.1 consolidated. So does in theory Furukawa JV has a potential to also do 8% to 9% margin or it will remain at a lower level?

**Laxman Ramnarayan:** Right now our focus is that we should avoid any shocks and surprises that happened last year. Our focus is how to first convert this company into a stable company. We are not looking at topline and we might lose the bottomline. So let us give it a time to stabilise this company and once this stabilises then we will talk about other aspects of growth etc.

**Deepak Jain:** Sir, one last question, the Kwid business which will go 120 Crores revenues, which will not come from next quarter, so what kind of losses that was happening in that plant, which would not come going forward, may be EBITDA or PAT level, any indication?

**Laxman Ramnarayan:** Part of the Kwid business was closed in the first quarter itself. So the full quarter will not have any Kwid business. We were losing money in the Chennai operations that is why we took the call to strengthen this business, we tried our best that whatever customer agrees, ECN and commodity X, Y, Z. there may be a few changes, the customer should compensate us saying that you get into an ugly situation with the customer we decided to surge the business. So it was a loss making and that is why we took a hard call.

**Deepak Jain:** But quantum is not...?

**Laxman Ramnarayan:** I will not be able to hazard a guess here. Overall objective has been how to liquidate a company in black.

**Deepak Jain:** Sir, you gave three items which impacted margins - R&D 3 Crores, GST 1.5 Crores and currency impact is 2.5 Crores. So GST and currency are one-time?

**Laxman Ramnarayan:** GST is one time and currency I am hoping is one time.

**Deepak Jain:** Okay and R&D this 3 Crores will sustain because of your focus of that?

**Laxman Ramnarayan:** It will sustain and we are happy to do that investment. Absolutely because this is the investment for the future and if we do not invest today we would not have our tomorrow, so we want to have our healthy tomorrow to and that is why we have to make this investment.

**Moderator:** Thank you. Ladies and gentlemen due to time constraints we will take the last question from the line of

Sachin Kasera from Lucky Investment Managers. Please go ahead.

**Sachin Kasera:** Good afternoon Sir. Congratulations for good set of numbers. Two or three question I had. Sir, what was the loss in Furukawa last year same quarter, I guess a profit of 1 Crores that you reported this quarter?

**Laxman Ramnarayan:** I think if you look at same period last year of course it was not under Ind-AS but on a standalone basis there would be roughly about 3 Crores of loss.

**Sachin Kasera:** Sir, my second question was on the EBITDA margins and you are endeavor to achieve double-digit by March quarter. Now as part of Ind-AS now the JVs have been consolidated on a profit basis and not on topline. So when you are saying we are looking at 10% that is including the JVs or that is the consolidated topline that you report?

**Laxman Ramnarayan:** So we will present to you apart from Ind-AS we will share with you the consolidated EBITDA for the group.

**Sachin Kasera:** So you have a target of 10% includes the JVs as well?

**Laxman Ramnarayan:** Yes.

**Sachin Kasera:** Secondly Sir, considering that we have such a good topline growth while you did mention that you were around because of the three factors, 7 Crores to EBITDA but at the same point of time, from what we can see that at least 4 to 5 Crores is because of the Furukawa turnaround and there is also a 20% topline growth. Is it that some of the other entities did not perform because in that case from what we can do a little bit of maths the profit number should have been a little higher than what we are reporting?

**Laxman Ramnarayan:** You are right about that, but what has happened is rather than saying which company did well and not well, we said we threw under bigger heads of items that we spent on because for example, R&D, capex and therefore interest cost on some of these on an overall profitability we are talking discretionary central office driven expenses. It can be allocated across business or entity and that is the reason these analysis of the differential is more on a macro basis, but if you are talking about business to business most of these companies obviously are profitable and positive across the EBITDA and PAT level, but the ratio of profitability changes in some of them which we are working towards the improvement.

**Sachin Kasera:** I think in the last presentation you had mentioned the achieving return on capital of 30% plus, so is that also something we are confident about achieving going ahead?

**Laxman Ramnarayan:** That is more a long-term objective we have put together and given an objective for ourselves and that will be working towards that number over the next couple of years.

**Sachin Kasera:** Sir, just one data question on the debt figure you mentioned that the 650 Crores was the debt, so two questions, does it include the JV debt also and is it a gross debt number or is it a net debt number?

**Laxman Ramnarayan:** It is a gross debt number.

**Sachin Kasera:** It includes the JV debt also?

- Laxman Ramnarayan:** Yes it is included.
- Sachin Kasera:** What would be the corresponding net debt number against 650 Crores of gross debt Sir?
- Laxman Ramnarayan:** That I do not have right now. I will tell you we do not do a balance sheet consolidation for quarter-by-quarter but we should have that number for half yearly number and the full year number.
- Moderator:** Thank you. That was the last question. I now hand the conference over to the management for their closing comments.
- Laxman Ramnarayan:** Thank you very much ladies and gentlemen for participating in large numbers and supporting us. We hope we will continue to putting the efforts and those efforts will get converted into numbers and we should be able to continue to brief you in the manner we did now. Thank you very much for your time. Have a great evening.
- Moderator:** Thank you. Ladies and gentlemen on behalf of KR Choksey Shares & Securities Limited that concludes today's conference call. Thank you for joining us. You may now disconnect now your lines.

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

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