



Minda Corporation Limited  
Q4 FY 2017 Earnings Conference Call

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**MANAGEMENT:**

- MR. ASHOK MINDA - CHAIRMAN AND GROUP CHIEF EXECUTIVE OFFICER – MINDA CORPORATION LIMITED**
- MR. R. LAXMAN - 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:** Ladies and gentlemen, good day and welcome to Minda Corporation Q4 FY2017 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 Q4 FY2017 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. I now hand over the call to Mr. Ashok Minda for his opening remarks. Thank you and over to you Sir!

**Ashok Minda:** Good afternoon. Welcome ladies and gentlemen. Thank you for joining Minda Corporation’s Q4 and full year FY2017 earnings conference call to discuss the financial and operational performance.

We have witnessed momentous events both on the global platform as well as on the domestic front in India. We have had demonetization, GST implementation and a host of progressive steps being undertaken by the government. At Spark Minda, we have had a mixed bag of topline growth, expansions, innovations and some challenges. I believe we are in a stronger position to face this year with confidence.

I would like to take this opportunity to introduce Mr. R. Laxman who has joined Spark Minda as - Group Director and Group President, Finance. He has an extensive experience of 25 years in specialized areas such as Finance, Merger & Acquisitions and Private Equity, while working in the previous assignment at Kotak Private Equity Group and Kotak Investment Bank.

We shall begin the discussion with the financial overview followed by insight on operational performance by Mr. N.K. Taneja, Chief Group Marketing Officer. Thereafter we will open the call for an interactive question and answer session. Now I would hand over the call to Mr. Laxman.

**Laxman Ramnarayan:** Thank you Mr. Ashok Minda. Very good afternoon ladies and gentlemen and it is a delight for me to be part of the group and participate in this call. There is a presentation that has been shared on the website as well as the team. I would be using that presentation; however, even if you do not have the presentation the flow will basically guide you on the logic.

I would like to spend on a minute on slide #4, which is the company background, just to give a quick snapshot. On a consolidated basis in Minda Corporation, there are three specific business areas. One is the Safety Security and Restraint system, which contributes to about 39% of the turnover. This comprises five companies including one joint venture.

The second business is the Driver Information and Telematics System. This contributes to roughly 47% of the consolidated turnover of Minda Corp and this comprises three companies and it includes two partners -

one is Furukawa and the other one is Minda Stoneridge.

The third piece of the business is Interior System, which contributes about 14%. Largely this business is housed in Europe and this is spearheaded by Minda KTSN, the Group Company. Of course, we have an aftermarket business as well in India and that runs across the three businesses that we just mentioned. That is a quick brief on the organization, the company and the segments that we have.

Moving on to the performance, just a quick highlight on the consolidated performance on slide #5. If you look at just Q4 which is FY2016-2017 last quarter, the revenues increased by about 18% to about 761 Crores. Q4 EBITDA was about 33.8 Crores and the margins stood at about 4.4%. The net profit was 19 Crores at 2.5% margin.

If one looks at the FY2016-2017 number, the revenue has actually increased by healthy 21% and we have reached a consolidated turnover of about 2,962 Crores. The resulting EBITDA is about 198 Crores with a 6.7% EBITDA margin and the net profit that the consolidated number is reflecting is about 96 Crores at 3.2% margin.

However at this point, I would like to draw your attention to a specific aspect of our performance this year and this effectively has been the biggest point of discussion for all of us is the performance of one of our subsidiary companies, Minda Furukawa.

The consolidated net profit for FY2017, which is 96 Crores includes our share of the losses, which we own 51%. So, it includes our share of the losses in this subsidiary to the tune of 37 Crores, which has been absorbed part of this 96 so effectively this 96 Crores of profit in addition we have absorbed 37 Crores of loss.

Looking at the ratings, India Ratings and Research, a Fitch Group Company has assigned a IND A+ with a stable outlook and that continues to remain and the reason for that is we run a pretty stable balance sheet with a net debt to equity ratio of about 0.89.

A quick summary on the board recommendation yesterday in terms of the dividend, the board has recommended a dividend of 25% including an interim dividend of 10% that has already been declared.

I would like to delve a little bit deeper on the Minda Furukawa story and I know that you have heard this before and for the sake of repetition, I would like to make certain key points which are on slide number #6.

Minda Furukawa of course is a company that supplies wiring harnesses for passenger vehicles made in India by Japanese companies. It was joint venture and given the challenges that you heard in the past with respect to Minda Furukawa and the business there was a joint team created in the week last time in terms of how to turnaround this business. So this joint task force has made a substantial working and had drawn up a path towards profitability on a long-term basis. The task force has completed three important steps. One, it has successfully renegotiated raw material prices with the joint venture partner as well as domestic suppliers. It has successfully changed the royalty payments and other costs that have been owing to Furukawa, that also have been renegotiated and reduced.

Manufacturing facilities have been rationalized and that plan of rationalizing manufacturing facilities so that we can improve the operational performance of the business is working on as per plan. All these

measures have been initiated in the later part of FY2017 and we expect the results to be fully reflected in FY2018.

With respect to the manufacturing and operational efficiency, with respect to Furukawa, it has been endorsed even by our the customers where the largest carmaker in India has awarded Minda Furukawa as the Quality Award for manufacturing Excellence and Zero PPM.

I would like to move to the consolidated financial performance for the year. We have on the next slide #7, a chart showing the revenue where we moved from 1,593 Crores in FY2014 and gradually now in FY2017 we remain at 2,962 Crores, effectively roughly have 23% CAGR.

Our EBITDA margin graph has not kept pace to the pace at which our revenue growth has been; however, we have maintained a steady 9% to 10% EBITDA margin over the last three years and this year it has come down to 6.7% on a consolidated basis including the Furukawa. Subsequently as an outcome, the PAT figure at 96 Crores is lower than last year and therefore the PAT margin stands at 3.2%.

I would like to say on the next slide that the growth that we have seen in revenue has not been because of a spike of any particular company. If we see across the companies that we have, they all reported positive sales growth and it has been more or less consistent in terms of their performance. If you look at Q4 FY2016 as compared to Q4 FY2017, the revenue has gone up from 644 Crores to 761 Crores and similarly if you look at revenues of FY2016, which is consolidated basis full year of 2,445 Crores that has gone up to 2,962 Crores.

EBITDA margins, we have discussed, in the Q4 it dipped sharply because a lot of those adjustments and numbers were taken in the Q4 so it dipped from 10.7% to 4.4%; however, in the full year on an overall basis, EBITDA margin changed from 9.1% to 6.7%. A back of the envelope of calculation, if I remove the impact of the EBITDA margins because of the Furukawa experience that we have had brings us back to roughly about 9% margin.

The other points, which I would like to highlight in terms of the expenses and impact is the strategic investments that we have made in expansion projects, in putting up Greenfield facilities in the domestic manufacturing of legacy business, inaugurating our Mexico plant that we have invested as well as the expenses we have incurred in the P&L in terms of the Spark Minda Technical center in Pune.

I would like to move onto the next slide. Slide #9, in terms of the contribution of each company towards the sales, if you see Minda Corporation, it stands at about 23% which about 763 Crores of turnover. Minda SAI contributes about 19% of our total consolidated sales. Furukawa contributes about 15%. KTSN which is in Europe catering to Interior Systems contributes about 12% and we have Stoneridge at 9% and Minda Automotive at 8% and then we have Minda VAST at 7% and ASEAN business throwing in 4% and the newly acquired Minda Autoelektrik is contributing 3% of total turnover.

Coming to slide #10, which is my last comment on the financials, the net debt stands at 577 Crores and our debt to equity ratio is 0.89 which is a marginal increase from 0.80 of the previous year.

Our long-term, short-term borrowing ratio remains acceptable and the cash and cash equivalents also remains comfortable. As I had mentioned the ratings of A1+ is a stable outlook for long-term funds and

A1+ for the short-term funds and again A1+ for the commercial paper.

So this completes the quick summary with respect to Minda Corporation Consolidated. Two quick summary points on that, one, the legacy business and the businesses that we have, have been contributing steadily to sales, EBITDA and PAT. Point number two is that, clearly we are hit by the losses in one of our subsidiaries and that has been fully absorbed in the results and that has resulted in lower margins for FY2017.

Now I would like to request Mr. Taneja to take us through the business achievements during the quarter, some updates where the industry stands and also what we are doing with our future growth areas and the investments we have made to make us stronger for the future. Over to you Mr. Taneja.

**N. K. Taneja:**

Thank you Laxman. Good afternoon everybody. This is N.K. Taneja. Since we last had our investor call, we were very skeptical about how the industry is going to move post the demonetization; however, the things started coming back to some growth in the month of February and by the end of March, the visibility changed that the industry is moving fast to normal volumes and normal business.

As of the March 31, 2017, the passenger segment in totality grew by 9%, commercial vehicles grew by 3%; three wheelers had a negative growth, two wheelers finally ended up by 5.84%. If we analyze, two-wheeler was growing till about 11%-11.5% till up to October 2016 and we have had very severe negative impact in November, December; however, it limped back to normalcy and ended the year at 5.84%. Overall industry grew in terms of production by 5.41% and in terms of sales by 6.81% for the year.

Leaving aside the demonetization, we had in the month of March the famous Supreme Court order on the March 27<sup>th</sup> or 28<sup>th</sup>, which made everybody run and liquidate their inventories and most of the two wheeler and the commercial vehicles were able get rid of their inventory well within time and now Euro-IV having been implemented, we see lot of pull from the OEMs to ramp up for the Euro-IV productions and now the industry volumes are almost normal. We foresee that 2017-2018 on an industry basis should grow by 8% depending upon the various segments, which are part of the whole industry segments.

The only area of concern, which the whole industry is now talking about, is the GST implementation, effective July 1. This is going to be a game changer and today we see a lot of comments and reviews whether the industry is ready or not; however, we do feel that in the initial one or two months there will be hiccups amongst the whole chain but in the end it will stabilize and take the country and the industry to the next level.

We also know how the major players are doing. We also see the advent of KIA coming into India and General Motors exiting. So, all these evaluation and facilitations and entry of new players will keep happening in the industry, which is the one of our largest automotive industry in the world.

This is very quickly on the industry and the forecast scenario. As far as the quarter which has gone by, we had a strong order book of 258 Crores in this quarter and on year basis 2016-2017, our total order book was 1,083 Crores with a lifetime business of 5,000 Crores. Significantly, one of our major areas has been focus on exports. Traditionally we were doing approximately 160 Crores of exports till 2015-2016 and our internal target is that by 2020, we grow by three to four times and we are well on track to achieve our



internal target that is to exceed our internal target of 750 to 600 Crores.

Towards that objective, we had a major export order for immobilizer for the passenger car segment. I am on slide #12. We also received the Euro-IV the EVAP we call it as California norms on the operations from Hero MotoCorp for two wheelers.

We also had additional export order for the die casting component for 55 Crores during the quarter. As for the full year, our order book for exports for die casting stands at 160 Crores and the execution is now starting in 2017-2018.

In the Driver Information and Telematics, I am very happy to share that with the advent of Euro-6, starting 2020, we are focusing on sensors in a big way and out of the total sensors, our domain and our strong experience is into EGT and EGRT sensors for the exhaust and so I am happy to share that we have been able to get one big order from Mahindra & Mahindra which is 100 Crores, which is approximately 20% of the total market of the sensor for 2020 and we are negotiating further 200 Crores of business for this particular sensor. We are confident that for 2020, for the EGT and EGRT sensors we should have a healthy 35% to 40% share of business of these sensors. We also made an entry for the two-wheeler electronic cluster with strong big OEM in India for two-wheeler.

Since we acquired our European business, we have constantly decided to bring that technology to India and I am very happy to share that we have started the commercial supply of the Louvers for the Maruti Suzuki New Swift Dzire. We also have received a new business from Maruti Suzuki for the Nozzle Defroster and we also have made our investments in Mexico, started the commercial production from our electrical plant for our customer VW.

As regards the future growth areas, last year we had put in lot of capital investments in our plant in Mexico which was inaugurated last month and the commercial supplies are now starting for the Glove Box, Steering Column, Cap, Hang on parts. The details of this are already on page #14. For the sake of time I am not going to the details of them.

Also we have signed a 50:50 joint venture with BAIC Group and this we are now in the process of finalizing our plans to start implementation of this JV and we will shortly share with you when they start the final planning for this joint venture.

The Die Casting plant is a growth area for us. As I briefly explained our focus is on core technologies in the field of Gravity Die Casting and Low Pressure Die Casting and for that we already have invested money to create a state-of-the-art manufacturing facility. 150 Crores has been the order book as of now and we are confident that in the next two to three years, we will book more export orders and also focus on the niche Euro-4, Euro-6 technology which are coming, which are replication for the Die Casting Business for us.

One of the key drivers for our technological evolution and changing the complexion of our Company is our Board initiative to create a Spark Minda Technology Center. This center is now up and running and this is going to focus on the embedded electronics, hardware, software and mechatronics as this is being driven by the best talents across the world from Bosch, Continental, KPIC, and this team is now focusing on electronification and future technology products for the legacy business as well as for the inorganic

growth. We are the only company outside Bosch which has a full grown EMI/EMC facility and which is at the component level and this is a step towards showing our technical strength and the future focus. This company has about 35 engineers so far and we have already created our technological niche by filing the patents in this centre.

As regards the future key drivers for growth, we are now focusing on few of the technologies, which is the Euro-6. With the Euro-6, we would have the electronic fuel induction and Indian management system with ABS and ADAS, EGT and EGRT sensors, Integrated Starter-Generation which is not a regulatory requirement but it is a technological evolution. We are focusing on the active safety, connected vehicles, soot sensors in the non-legacy business segment.

In the legacy business, we are working on disruptive technology which can be offered to our customers at a very cost competitive technologically value added products. This will make up disruptive technology in electronics speedometer, two-wheelers security system, Bracketless Door Handles & Low Cost Immobilizer.

We are also focusing on other segments and also the future potential of the electric vehicle segment is receiving our strong focus and attention and also we are going to focus more on exports, which I briefly explained.

As a part of our internal strategy, we will be sharing with you our closure of the inorganic targets and opportunities in the form of acquisitions and joint venture as and when they have come but this is on our radar as a part of our future growth strategy. Thank you very much for your patient listening.

**Laxman Ramnarayan:** Thank you Mr. Taneja, Laxman again just want to take you through one slide, which is slide #18 and FY2016-2017, if you look at our ROCE we are roughly below 12% and on target clearly for 2019-2020 is 20% to 22%.

I want to speak about four steps that we are specifically taking in this field. One is turnaround of Minda Furukawa. That is more an activity that has already happened and the results of which we will be seeing from FY2018 onwards. Most of the provisioning and the numbers that we have taken care of are reflected in the FY2017 consolidated numbers.

Point number two, the optimization of employee cost. This is an ongoing exercise I do not think we will be able to show drastic results in quarter-on-quarter but over a period of a year and plus we will be able to gradually reduce basis points and shave off from the total employee cost and that we will hope to achieve in a matter of year plus. The actions on these have already started.

Third is increasing better margin business in the exports and electronics and better export margins means effectively saying that how much better margin can I realize on the customer irrespective of the rupee moves and that is an action, which will only come by disciplined quoting and RFQs and demonstrating lower production cost from our side when we supply these materials. Margin improvement in Minda KTSN is something again we are planning to do it on a long-term basis. The current margin improvements have already started giving us positive results.

So with this, I would not want to deliberate on the future slides because they are all group operating

structures and more in terms of details. Of course, if there are any clarifications required on any of those slides we will be more than happy to address them and having spent almost half an hour on this presentation, I would like to take questions which I would request Mr. Taneja, myself as well as my colleague, Sanjay Aneja here to response your satisfaction. Over to you.

**Moderator:** Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

**Rajesh Kothari:** Few queries from my side, first is what is the Furukawa operating loss for full financial year 2016-2017 and also for the fourth quarter, EBITDA level?

**Laxman Ramnarayan:** Thank you Rajesh for this question. Furukawa effectively if I am taking a minority hit of 37 Crores, effectively double of is that for the full year; however, for the fourth quarter the numbers is a balancing figure which is about 27 Crores and the full year is 55. In Q3 and nine month results we had reported a loss of 28 Crores. So I am just subtracting that from the full year number of 55 and therefore the balance number for Q4 comes to 27. It is majority comprising of expenses, which are not pertaining to that particular quarter, but expenses that had to be provided for from the past quarters.

**Rajesh Kothari:** So, this is at EBITDA level am I right not at the net profit level?

**Laxman Ramnarayan:** Actually I am talking about net profit level.

**Rajesh Kothari:** No I am asking EBITDA level.

**Laxman Ramnarayan:** At EBITDA level, on a full year basis my numbers tell me that roughly the EBITDA will be about 26 Crores negative for operating part.

**Rajesh Kothari:** And for fourth quarter?

**Laxman Ramnarayan:** Sorry.

**Rajesh Kothari:** For the fourth quarter how much would be the EBITDA negative?

**Laxman Ramnarayan:** Let me just check that and give you. I do not have that number.

**Rajesh Kothari:** So is that to assume around 13-14 Crores, which is a half of the impact something like that, because interest depreciation will kick in am I right?

**Laxman Ramnarayan:** It should be right.

**Rajesh Kothari:** Sir I am just trying to understand because if I add back the Furukawa to your numbers in fourth quarter then also the margin improvement has not yet happened, so how one should look at it from the ex Furukawa perspective over next two years?

**Laxman Ramnarayan:** First, I will address your question straight on the full year margins of Furukawa and non-Furukawa. Effectively, I have a number of about 224 Crores without Furukawa for the full year. It will be roughly a 9% EBITDA margin and a loss at the EBITDA level itself for Furukawa. Now coming to your very



important question as to what it is going to look in the next year and the next two years with respect to Furukawa. In Furukawa, there are four specific hardcore measures that have already been implemented in 2017 but unfortunately we have not seen the gains in FY2017. In FY2018 we expect to see that gain and in our view FY2018 itself will be a positive number for Furukawa at the PAT level and at the EBITDA margin level we expect it to be double-digit.

**Rajesh Kothari:** Do you think since we are already in the month of May, which is just about to get over, do you think from the first quarter onwards it leads we will see some operating profit positive at EBITDA level?

**Laxman Ramnarayan:** Rajesh that is our hope to and rather than we are just living on hope we did a quick dipstick in terms of what April looks and what May looks. I have seen positive numbers for April as well as on May; however, I will hold the comments till we come back to you with June numbers but our current view is that June is going to be absolutely positive even for Furukawa on the standalone basis, but we will use this step to measure us over a full year FY2018 number rather than just saying how first quarter of FY2018 will reflect.

**Rajesh Kothari:** This is when you are saying positive for April and May that is at EBITDA level or net level?

**Laxman Ramnarayan:** In fact I wanted to be positive at EBITDA level for sure and at net level of course, since it has leveraging points kicking in, we will have to address that on a full year basis. But at least on EBITDA level we definitely want to see a positive.

**Rajesh Kothari:** My second question is, is there any Ind-AS impact on our Company for FY2018 because there are lot of subsidiary accounting in it. So, if you can just throw some light on that?

**Laxman Ramnarayan:** Yes absolutely in fact there will be Ind-AS impact. The first impact will be that our consolidated turnover will go down because we have two subsidiaries and one joint venture. In the subsidiaries as you are aware we have been doing line item additions but if you adopt Ind-AS these numbers - turnover of Furukawa and turnover of Stoneridge will go away from my topline and they will get added under the line item below. So that will be the first impact. The second impact of course, that is not something which will have such a drastic effect, is in terms of reclassification of expenses and booking expenses on a cash basis for example.

**Rajesh Kothari:** So these two subsidiaries, there is one joint venture which is Minda Furukawa, will not be under consolidated revenue?

**Laxman Ramnarayan:** Right, Minda Furukawa and Minda Stoneridge. These put together account to some, if you look at my FY2017 numbers, will come to about 800 Crores.

**Rajesh Kothari:** One joint venture which is that?

**Laxman Ramnarayan:** That is Vehicle Access System Technology Company which is called VAST and that is a joint venture company is called Minda VAST.

**Rajesh Kothari:** Because that has also I think 247 Crores of revenue in FY2017.

**Laxman Ramnarayan:** Rajesh, Mr. Taneja is giving a clarification on Furukawa.

- N. K. Taneja:** Rajesh, Minda Furukawa, whatever Laxman clarified, one of our major tasks was to exist non-profitable business in Minda Furukawa, which is the Nissan business in Chennai, that business exit will be over in first quarter FY2017-2018. So, though even without the full exit we are seeing the positive movement in that company based on the measures taken but the full impact of this will be visible Q2 onwards so just to put the things in the right perspective for you.
- Rajesh Kothari:** The Ind-AS will be there for Minda Furukawa, which is about 496 Crores revenue plus Minda Stoneridge which is about 300 Crores revenue plus Minda VAST 247 Crores revenue?
- Sanjay Aneja:** Presently, for Minda VAST we are taking 50% at revenue so Minda VAST will be having the impact of 50% of its revenue while for Furukawa, you are absolutely right, but having said that, your profit would remain same so as far as our profit margins are concerned those would look better.
- Rajesh Kothari:** Of course that goes without saying. My second question is in terms of the overall growth particularly if I look at Minda Stoneridge, because last year, if I annualize that number then the growth looks about 7%-8% across all your segments except Minda SAI where the growth is slightly better. So, if you can just give some color on how one should see the growth on an overall basis leaving Minda Furukawa, the ex-Minda Furukawa in FY2018. How do you see the growth for next?
- N. K. Taneja:** Rajesh, on a conservative basis for 2017-2018 at the book level we expect for the legacy business anywhere between 12% -15% growth in the topline for 2017-2018. It is a very ballpark figure I am sharing with you.
- Rajesh Kothari:** So you are expecting growth to improve because your last year was about 8% to 9% for most of the companies?
- N. K. Taneja:** Yes, and also when we talk about the legacy businesses but for this turmoil which brought down the industry growth to 5% - 5.5%, this year we expect the industry growth to be on an average about 8%. But the biggest problem today and what the industry is worried about is what disruption it will cause once July 1 GST implementation comes. So, overall the industry looks okay but the potential risk of the industry not being ready for GST, Euro-IV ramp up to capacity constraints, OEMs but by and large topline should grow by 12% to 15% this year at the group level irrespective of what hiccups you are talking here and there.
- Rajesh Kothari:** My last question is on other income. In third quarter of course we had one-offs in other income but in fourth quarter also we have very strong other income of 12 Crores. Is it recurring or nonrecurring?
- Sanjay Aneja:** In total annual income other income is roughly Rs.46 Crores, out of which major portion includes disposable nonproductive assets which were being sold at that point of time and some write-backs out of which I would say 50% would be recurring income and 50% would be nonrecurring income.
- Rajesh Kothari:** You are saying around 20- 22 Crores will be recurring other income. What is the source of this recurring other income because that is quite big. In FY2016 it was not so high if I am not wrong.
- Sanjay Aneja:** If you see the results of 2015-2016 there also you would note that there was 30 Crores of recurring income or other income which was there. 13 Crores from one aspect and the second was exceptional item, which was 13 Crores. So this time it is exceptionally high by 16 Crores compared to the 30 Crores on 2015-2016. That is why based on these past trends we have noticed that our recurring income generally remains Rs.25

to Rs.30 Crores.

- Rajesh Kothari:** Because I thought you did not have a large treasury so I was just wondering. I am talking about non-operating other income.
- N. K. Taneja:** Rajesh can you please come back again.
- Rajesh Kothari:** I am talking about non-operating other income. Since we do not run large treasury and we are a net debt company, I was just wondering that what is the source of this other income?
- Sanjay Aneja:** These incomes include interest income in the type of funds we have got in few of the companies and those are being kept in the treasury. Those income earns the interest, that is one aspect and since we are very conservative in most of the companies making out those provisions and those provisions generally year-after-year comes back to us in the shape of written back so in the past also we have been getting Rs.10 to Rs.12 Crores each year on account of those write back and this has been the recurring practice in the past.
- Rajesh Kothari:** Thank you Sir. Wish you all the best.
- Moderator:** Thank you. Next question is from Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** In Furukawa business, as and when the Renault Nissan business goes away, how the profitability will look for the balance part? Will it be in line with our average non-Furukawa profitability or the Furukawa margin will still be lower than ours?
- N. K. Taneja:** When we jointly made the taskforce for the group level, one of the major issues was that our Chennai operation, which was Renault Nissan business, was having a negative bottom line. Though our topline will go down when we are saying that 2017-2018 will be a PAT positive, EBITDA positive number, one of the contributors will be exiting the Chennai business. Point number two, having said so, we are seeing now that the airbag is becoming mandated very soon. Minda Furukawa through Furukawa, has the market leadership of 45% global share of business for the steering roll connector, which is the key element of the airbag where the margins are better. So we are looking at more value added proposition in this company rather than only the topline and exiting the business which is not adding value to the group.
- Chirag Shah:** Fair point Sir. What happens with the Chennai plant because there would be excess capacity available over there so would we be looking to monetize that plant, that land or something? How do we look at to use that asset?
- N. K. Taneja:** Let me answer your question in two parts. It was a rented premise so we do not have any obligation to settle with the idle assets. Point number two is that we have been awarded more businesses by our Maruti Suzuki for the new platforms, so most of the equipment, which we have planned for our capex, will get redeployed in our expansion for the business in Minda Furukawa.
- Laxman Ramnarayan:** But to add to that point Chirag we do not expect any additional money coming out of that rationalization especially with respect to assets if that what you are looking at.
- Chirag Shah:** It is a rented premise so it answers this. What are the new businesses from Maruti? Are you at the liberty

of sharing the models or any color over there?

**N. K. Taneja:** Yes, one we are now starting supply for the Swift platform which is the Swift Dzire and over down the line in this year we will have the new Swift coming up; then we have the new YSJ platform which is already nominated to us. So, these are some of the businesses which are already with us.

**Chirag Shah:** And we would be sole supplier to Swift Dzire now or it would be?

**N. K. Taneja:** For, Swift and Swift Dzire, Maruti has a policy that any platform which has more than 150,000 annual volume, they have two sources. For YSJ we have the single source.

**Chirag Shah:** Sir this was really helpful. There will be no capital infusion required in Furukawa from both the partners?

**Laxman Ramnarayan:** Capital infusion will be required and already has been planned and both partners are more than happy to contribute in whatever form it is required because there are two points - one is that we are committed to the business and secondly, we have already seen green shoots.

**Chirag Shah:** Sir the second question I had was on Stoneridge and VAST. Can you just share some light because we were assuming there would be good amount of opportunities coming from those businesses in terms of growth but neither the existing businesses are really showing any major sign nor we are getting new products or opportunities in that so how should one look at Stoneridge as well as Minda VAST in terms of growth?

**N. K. Taneja:** Very good question. Thank you very much I will answer it one-by-one. As far as Minda Stoneridge is concerned, I shared with you that in last quarter we booked a 100 Crores order - only one single sensor from one single customer which is the EGT, EGRT sensor. We are working on another 200 Crore RFQs for the same sensors on the industry and followed by that we will have the suite sensor which will have OBD-I, OBD-II implication where the potential is almost 800 Crores. One of the drivers for growth in this company is this sensor business.

Secondly all these products what we are talking about, the new technologies, since we have a global leadership, we have better margins because of the technology. Number two, we are now developing for two-wheeler segment new age disruptive digital clusters. So right now, the industry has mechanical clusters which are approximately Rs.250 to Rs.300 to Rs.350. The average in electronic cluster is Rs.850 to Rs.1000. We are working with our technology centre a disruptive product, which will bring down the cost of the digital clusters to approximately Rs.400 to Rs.500 whereby the customer will have a pull and will be force to shift from the mechanical cluster to the digital cluster.

Now let me shift to Minda VAST. In Minda VAST what we have decided is that we are going to develop three new core disruptive products. Today if you see the passive entry system in normal parlance, if I were to say the push start mechanism in a car, this system approximately costs Rs.10,000 to Rs.12,000. Through our technology centre, our first prototype will be ready in the month of September 2017 whereby our target is to develop this product for 50% of what the current competition offers whereby we can be the disrupter in this technology and get the business. Today if you see the A segment and the B segment, there is a price sensitive reluctance to accept new technology products but the customer aspirations is to go in for the features, which are available in C, D and E segment. So, we believe that this product will give us the

technological disruption and the business. Number two, we have also developed bracketless handles, low cost immobilizers. These are some of the initiatives. The products are coming along with our partner and the technology centre to drive the topline and the bottomline. Anything else from Minda Stoneridge and Minda VAST I will be happy to answer.

**Chirag Shah:** Yes, so this was really helpful. The localization would be from day one and the order flow would happen over next two to three years for these new businesses. Is this the right understanding?

**N. K. Taneja:** We are targeting just one business for the disruptive low cost ETS this year and over the next 12 to 18 months horizon, we should be sharing with you more success story out of these disruptive technologies. As far as sensor is concerned, I already have 20% share of the business for this EGT sensor of 100 Crores, which I already shared with you.

**Chirag Shah:** This is helpful and all the best Sir.

**Moderator:** Thank you. The next question is from the line of Ankit Merchant from KR Choksey. Please go ahead.

**Ankit Merchant:** Thank you for the opportunity Sir. Sir firstly I would like to understand on the segment front. The commercial vehicle segment for the year has grown at 13.6% year-over-year but for this particular Q4, I believe it has slowed down. So Sir your commentary on that? Plus, what I have also seen on the after sales segment that after sales segment year-over-year has improved a lot for the full year. What is your guidance for that?

**N. K. Taneja:** As far as the commercial vehicle segment is concerned, we had a year-on-year growth of 3% in terms of production and 4.16% in sales and more specifically in the medium and heavy commercial vehicle we had a negative production and positive sales and the goods carrier we had a 5% production growth and 7.9% sales growth. Now with the Euro-4 induction, all our understanding and discussion with the various commercial vehicles, this figure could be approximately 5% to 6% growth this year as compared to 3% last year. As far as the after sales segment is concerned, I would like you to repeat your question to have more clarity and give a specific answer.

**Ankit Merchant:** For the FY2016, the revenue from the segment - after sales was near about 220 Crores. Now it has gone up to 293 Crores?

**N. K. Taneja:** Yes so what is your question there?

**Ankit Merchant:** So Sir what is leading to this growth the aftermarket?

**N. K. Taneja:** Very good question. See till about three years ago we were fixated that we will only use our aftermarket arm for the group products. As you may be aware one of the largest after market dealer distribution retailer network is which Spark Minda, Ashok Minda Group. So, over the last three years what we decided was that we will introduce more products and technologies under complex manufacturing under our brand name and that is why we introduced five-six new products, which are adding to the growth in terms of topline and the bottomline and this endeavor of identification of more production technologies will go further and we have a long-term vision for the aftermarket as a value creator for the Group.

**Ankit Merchant:** Sir on the standalone front as well, we are seeing some margin decline. It was earlier at 12% Minda Corp



standalone, which has gone down to 10.1%, so what is happening at that particular level?

**Laxman Ramnarayan:** Two points, I will mention and then I will ask Sanjay to elaborate. Even in Minda standalone, all the investments that we have been doing for making us technologically competitive as well as in capex has been through Minda Corporation standalone. For example, the technology centre in Pune, some of the die casting expansions that we have done, the revenue expenses that have been part of this for FY2017 has been taken in Minda Corporation standalone. So to that extent the margins have gone down; however, if I look at the operating margins, which are typical running legacy business that has remained largely steady. Sanjay if you like to add something?

**Sanjay Aneja:** Yes, one as Laxman rightly said that we have opened the R&D centre which was not fully operationalized last year and the costs, which were incurred were not getting the return on those cost. The second aspect which I would like to highlight here is the increasing commodity prices. Though we have back-to-back arrangement with the customers but whenever these commodity prices goes up there is a hit and Minda Corporation is using the chunk in which product have the adverse impact of that increasing prices which has brought down the margins to a small extent.

**Ankit Merchant:** On this mid side are we getting any tax benefit from the R&D, which we have been doing?

**Sanjay Aneja:** Yes, absolutely we are getting the benefit under Section 35, 2AB of Income Tax Act wherein 200% weighted deduction is being given on the capital expenditure as well as the revenue expenditure.

**Ankit Merchant:** Thank you.

**Moderator:** Thank you. The next question is from the line of Apurva Mehta from KSA Shares & Securities. Please go ahead.

**Apurva Mehta:** Besides Furukawa, any JVs or subsidiaries are making losses?

**N. K. Taneja:** No.

**Apurva Mehta:** Can you share the EBITDA margin individually for all the JVs and subsidiaries if possible?

**Laxman Ramnarayan:** As of now it is more at the consolidated level because EBITDA margin of one-on-one company we do not have or would not share right now but let me consider it.

**Apurva Mehta:** Sir there was a high attrition level in stepping down of some key high level personnel. So is that due to restructuring which is the process is going on or what was the reason behind such a thing.

**Sanjay Aneja:** See as a prudent evolving group, we always have to see what is right and appropriate for that particular business and company and if we feel that the company is not performing up to the mark, then we have to question the management and ourselves whether we have the right set of people and the right leadership in the company. As a part of that, some people exit voluntarily and some people have to be exited. So, it is a part of the learning and the evolution of the company. So, the current set of management, we are very pleased the way this has implemented with task in taking the company forward.

- Apurva Mehta:** Sir in Q2 you have guided a margin of 10.5%, how confident are you to get such margin?
- Laxman Ramnarayan:** You are talking about Furukawa?
- Apurva Mehta:** No, on the whole you have guided that we will achieve 10% to 10.5% of margin on a consol base for 2017-2018?
- Laxman Ramnarayan:** Yes on a full year of that 2017-2018 basis if I were not to incur any losses in my subsidiaries, if I were to maintain the same margins that I have in my legacy business, I would already be closer to or above 9.5%. So I am talking about another 100 basis points improvement, would obviously be in personal or interest cost, which I think we should take that task on ourselves.
- Apurva Mehta:** Thanks a lot and all the best Sir.
- Moderator:** Thank you. The next question is from the line of Deepak Jain from Shubhkam Ventures. Please go ahead.
- Deepak Jain:** Sir just one clarification - due to the exit of Nissan business, are you saying that from Q2 FY2018, the consolidated level margins will again be around 9% from Q2 FY2018?
- N. K. Taneja:** Yes your understanding is right.
- Deepak Jain:** Sir what is the cost spent on this technical centre in Q4? Is there any onetime cost which is there in Q4?
- Sanjay Aneja:** You are talking about the capital expenditure or revenue expenditure?
- Deepak Jain:** I mean both - if you can give revenue expenditure so that I can get it for capital?
- Sanjay Aneja:** If we talk of revenue expenditures, as I mentioned that operations of R&D centre started between the year and it got operationalised by the end of the year, the expenses incurred on those, the revenue cost, were roughly Rs.7 Crores.
- Deepak Jain:** In Q4 any number?
- Sanjay Aneja:** In Q4, since it was increasing, so roughly it was Rs.3 Crores for the Q4 numbers.
- Deepak Jain:** Last question, regarding this 5,000 Crores order book lifecycle order book, lifecycle means how many years?
- Sanjay Aneja:** We assume five to six years of lifecycle.
- Deepak Jain:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Narender Krishnani who is an Individual Investor. Please go ahead.
- Narender Krishnani:** Are we looking at the inorganic growth opportunity in six months to one-year time?

**Laxman Ramnarayan:** Yes in fact we are looking at inorganic growth opportunities in all the three businesses that I described and given our debt equity ratio and the position where we are, I think we can look at fairly relative businesses that can make a difference and impact on our growth; however, we will evaluate each opportunity on its own merit and the moment we have something to share with you we will do that for the right time.

**Narender Krishnani:** Just one follow up on this one, when we are looking at acquisitions, is it more like small acquisitions like for PanAlpha that we did last time or something substantial or transformational that we might be looking at?

**Laxman Ramnarayan:** Sorry I did not get the question.

**Narender Krishnani:** I am saying for that inorganic opportunities are you looking at small built on acquisition or some substantial company acquisition as well?

**Laxman Ramnarayan:** Basically, there are three guiding factors. The guiding factors are that it should be related to our business and related to what our customers need. Secondly, it has to be some amount of technology because we cannot be keeping on slogging in legacy business and expect to make more money and thirdly, the bite size has to be appropriate.

**Moderator:** Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to Mr. R. Laxman for his closing comments. Over to you Sir!

**Laxman Ramnarayan:** Thank you. Ladies and gentlemen thank you very much for this. Thank you for your questions. We hope to deliver on the commitments that we have made and come back to you and report where we stand in a quarter. Thank you for participating to and have a great day. Thank you.

**Moderator:** Thank you very much members of the management. Ladies and gentlemen on behalf of KR Choksey Shares & Securities Private 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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