



Minda Corporation Limited
Q3 FY 2017 Earnings Conference Call

February 15, 2017

ANALYST: **MR. CHIRAG SHAH – ANALYST – EDELWEISS SECURITIES LIMITED**

MANAGEMENT: **MR. ASHOK MINDA - CHAIRMAN AND GROUP CEO – MINDA CORPORATION LIMITED**

MR. D.C. SHARMA - GROUP CHIEF FINANCIAL OFFICER – MINDA CORPORATION LIMITED

MR. N. K. TANEJA - GROUP CHIEF MARKETING OFFICER – MINDA CORPORATION LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Minda Corporation Q3 FY2017 earnings conference call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand over the conference to Mr. Chirag Shah from Edelweiss Securities Limited. Thank you and over to you Sir!

Chirag Shah: Thank you Janis. Good morning everyone and thank you for logging in. I thank the management of Minda Corp for giving us the opportunity to host the call. From Minda Corp, I would like to welcome Mr. Ashok Minda – Chairman and Group CEO, Mr. D.C. Sharma – Group Chief Financial Officer, and Mr. N. K. Taneja, Group Chief Marketing Officer. Welcome Sir and now I would like to handover the call to the management for initial comments and then we can start with Q&A. Over to you Sir!

D.C. Sharma: Welcome ladies and gentlemen. Thank you for joining us for the Q3 FY2017 earnings conference call of Minda Corporation to discuss financial and operational performance. I hope you had a chance to go through the earnings call presentation and financial results which are also available on our company website. This time we are happy to inform you that we have Mr. Ashok Minda – Chairman and Group CEO along with Mr. N. K. Taneja – Group Chief Marketing Officer with me. I would request now Mr. Ashok Minda to share his thoughts and the business insight on the recently concluded quarter.

Ashok Minda: Good morning and welcome ladies and gentleman, this is Ashok Minda. I welcome you all to our Q3 FY2017 earning conference call. Mr. Taneja will start with an industry overview followed by key financial and operational highlights for the quarter. Thereafter, we will open the call for an interactive question and answer session.

N. K. Taneja: Good morning ladies and gentleman. Looking at the industry integration and the economic environment for the Q3 FY2017, we had a good run of the automotive industry till October and since demonetization, we have broadly seen reduction in liquidity in the market. The sales for the quarter across the

automotive sector were down by 4% on y-o-y basis in comparison to approximately 19% y-o-y growth in the last quarter and out of all the segments, passenger vehicles was the only segment, which witnessed a marginal sales growth of 1.8% y-o-y and other segments namely the two wheelers suffered a lot and in fact the growth of production of 12% in November came down by 5% to almost 6% between October, November, and December. Commercial vehicles also declined by 1% y-o-y and two wheelers by 4.6% y-o-y. As far as the international market is concerned, the passenger cars in Europe grew by 2.8% y-o-y and LCVs expanded by 7.5% y-o-y during the quarter. We are confident that with the liquidity improving and the GST coming, the automotive industry should look up in the next few quarters and for the FY2018.

D.C. Sharma:

Now I will highlight a few points regarding the company's performance. On a consolidated basis, the total revenue in this quarter grew by 10.1% y-o-y to Rs. 7,230 million. This increase was primarily driven by the y-o-y growth of 18.1% in safety, security, and restraint division and 14.2% in interior system while the driver information system grew by just 3.1%. The company's EBITDA stood at Rs. 416 million with EBITDA margin at 5.8%. The net profit during the quarter was Rs. 201 million. As of December 31, 2016, the net debt of the company stood at Rs. 5,448 million with the net debt equity ratio of 0.86x. The debt was controlled in spite of the additional investment in expansion projects such as Minda KTSN Mexico, Minda Corporation Die Casting Division, and for the Spark Minda Technical Center. Now moving to some key development during the quarter, I am quite pleased to inform you that our credit rating has been upgraded to A+ stable for the long-term bank facilities and A1+ for the short term facilities and commercial paper, reinforcing the credit worthiness of the company. Also, we have added two new customers including Royal Enfield for lockset and for export orders. Now I request Mr. Minda to say something about the key points on the performance of the company.

Ashok Minda:

Undoubtedly our financial performance during the quarter was temporarily impacted due to the underlying factors. The short-term challenges posed by the demonetization on the overall sales and the increase in raw material cost has substantially impacted our financial performance for this quarter. In addition to existing high raw material cost (RMC) at Minda Furukhawa, which is relatively higher compared to our group companies, other expenses also increased substantially, on account additional expenses incurred towards expansion

projects such as the Mexico plant and SMIT, which is in Pune. We have initiated the process of identifying and addressing the critical areas for the group to reduce the cost and improve the overall financial performance. We also understand that the Minda Furukhawa is the major concern for the consolidated results of the group. So, we and our joint venture partner have met and have jointly created a task force of Spark Minda Group as well as Furukhawa site to make MFE sustainable and profitable on a long-term basis. This includes raw material cost and other optimization measures targeted towards the existing non-profitable business and as well price correction from customers. On a consolidated basis, our group's personnel cost is substantially high as compared to the industry's benchmark, which is very clearly visible and stands in between 3% to 4%. For this, we have appointed an agency to help us effectively reduce our personnel cost. We also plan to close loss-making Chennai plant in Minda Furukhawa, as recommended by the task force, which will bring down the overall raw material cost for the FY2017-18. We are also investing for the future growth and innovation in Pune. We are among the very few companies in India to have both EMC and EMI facilities. This center's will mainly focus upon electronic, hardware, software, and mechatronic to support our legacy business and future growth. For the center, we have hired best-in-class talent in India and outside the India.

D.C. Sharma: Now we open up the floor for an interactive question and answer session.

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

Rajesh Kothari: Good morning Sir.

Rajesh Kothari: Sir first question is in terms of your EBITDA. While your presentation shows EBITDA of Rs. 41.6 crore for the third quarter, your press release on the Bombay Stock Exchange, gives some different EBITDA number. So how should one reconcile?

D.C. Sharma: You rightly mentioned. There are two parts for the EBITDA. One is the operational component followed by the depreciation and amortization and then the last component is the minority interest. Now, we have added back the minority interest to normalize the EBITDA to provide you with the true picture of

the EBITDA. If you consider the minority interest figure in your reconciliation, then you will arrive at the same figure.

Rajesh Kothari: But is this not a net number rather than the EBITDA number?

D.C. Sharma: Right.

Rajesh Kothari: Is it prudent to just add it back to EBITDA?

D.C. Sharma: Let me give a little background to clarify on the EBITDA. In one of our subsidiary namely Minda Furukhawa, there is a loss and we own 51% equity stake of Minda Furukhawa. So, considering 100% figure of the revenue and the cost; in the upper part we have shown 100% loss of the MFE which is the subsidiary and in the last part we have added back the minority amount of the loss, which is equal to 49%. So in the true consolidation terms, we have to add the minority interest figures to arrive at the true EBITDA number for the quarter. This is the rationale behind this.

Rajesh Kothari: You have mentioned in the presentation that Q3 FY2017 includes some one-off expenditure in raw material cost as well as in some other expenditure. Can you please quantify how much is RMC and how much is other expense one-off?

D.C. Sharma: Yes. It is clearly visible in our quarterly results that our raw material cost is higher by about 3% to 4%. The primary reason is the raw material cost of our JV, which is impacting us by Rs 21-22 crore, and also secondly is the high other expenditure as highlighted by us. Increase in other expenditure is mainly on account of the installation of our Greenfield project in Mexico where we have incurred some pre operating expenses. In the true sense, though the expenses should have been capitalized, but based on the accounting list and the opinion of our auditor, these expenses have been charged to the revenue, so which is impacting by about Rs. 4 crore.

Rajesh Kothari: So one is the pre operating expense of Rs. 4 crore for your plant that is included in other expenditure and is that one off raw material or is it because of loss at Furukhawa? Is it non-reckoning in nature? From the fourth quarter we will not see that kind of a number?

D.C. Sharma: We are working very hard on this matter. Even last quarter also there were two to three questions related to this high raw material cost content. We along with

our JV partners are looking in to the matter seriously.

Ashok Minda: As I mentioned earlier, I had a meeting recently in Japan with our partners, discussing on how to make this business profitable. Based on the meeting, both the parties created a task force on the Japanese side and as well on the Minda side to find out the areas, which should be taken care. Based upon that, we have decided that for some of the products the raw material content is very high and our contribution margin is very low. Now, how to either improve the contribution margin or come out from those businesses? So this is one of the things and as well there is further price reduction from the material, agreed upon by all the suppliers. So we are taking this figure very aggressively for all the expenditure items in the P&L.

Rajesh Kothari: So in FY2018 what kind of benefit you are looking from this joint exercise, which you are targeting?

D.C. Sharma: If you see the EBITDA level as of now, then we are working on this as explained by Mr. Minda on the task force and are focusing the cost reduction in other areas also. We expect the EBITDA level will go from 10% to 11% in the year FY2017-18 after considering all this reduction.

Ashok Minda: We have just started our profit of improving one after another in all the areas. Almost every area will be completed starting from end of this year. Again, it is going to be a very big change from April 1, 2017.

Rajesh Kothari: For the next year, what kind of margin improvement one should see?

Ashok Minda: Presently, our EBITDA is 8.3% and we are expecting 10.5% for the next year.

Rajesh Kothari: Since there was some delay in price increase of the passing of raw material cost. So, whether in fourth quarter are you going to get price increase or even the fourth quarter is going to be very muted from the margin's perspective?

N. K. Taneja: As far as the total impact of all the task force, raw material reduction, and cost optimization, targeting the non-profit-making businesses, the full impact will be realized from April 1, 2017. As far as the next quarter is concerned, we do not expect the same level of the negative impact we had in the Q4 FY2016-17.

- Rajesh Kothari:** Thank you very much. Wish you all the best.
- Moderator:** Thank you. We take the next question from the line of Achala Kanitkar from Birla Sunlife Mutual Fund. Please so ahead.
- Achala Kanitkar:** Good morning everyone. My question is again related to Minda Furukhawa JV. We wanted a bit more clarity on it, which has been provided. What I am trying to gauge here is our confidence as to how the numbers will improve going ahead. If you could just help me on that what are those three, four points based on which you are saying from April onwards, we will see the margins improving. We would see the cost coming down. Are there any concrete steps that we have taken and what has been the conclusion of the discussion with Furukhawa?
- Ashok Minda:** As I explained earlier starting from sale point, the task force has done a detailed study of the product mix, where the raw material content is high and the market is substantially low. We have discussed with the customers. Somewhere customer is ready to increase the price and somewhere not. Where the customer is not, we are making our exit plan as to how to come out from those businesses. The raw material, there are various raw materials coming locally as well as we are importing a lot of raw materials from outside. So there is a clear reduction plan in terms of value that this is what we are going to save in the local raw material cost as well as in the imported raw material cost.
- D.C. Sharma:** Apart from this, the partner has also agreed to cut down their cost for example the royalty which is one of the cost, the partner has agreed to cut down the royalty by 50% and they are also worried about the company performance. Firstly, as Mr. Minda mentioned, is the price increase or the product mix rationalization. Second is the raw material cost, which we are going to improve drastically. We have a plan to get the cost reduction from the supplier. Third is the royalty reduction, fourth is the fiscal cost rationalization, and fifth is the optimization of our plant right now. We have about five plants and we are looking for the possibility to cater the demand and cater the customer by three to four plants. So, we are working on all these points and you will see the drastic improvement from April 1, 2017 onwards.
- Ashok Minda:** This is a major concern for the company and we are taking it very seriously across the group level as to where and how we can bring this company

immediately up on the war footing.

Achala Kanitkar: Thanks very much for that explanation. What is the import content now and let us say one year down the line where do you see it coming off to?

D.C. Sharma: Right now about 60% of the raw material cost comes from imports.

Ashok Minda: If you talk about the wiring harness, the components used are based on the directive by the customer and that component has to be used in all those wiring harness whether it is from Yazaki, Sumitomo, Tyco, or Furukhawa. So all are as per the directive source and therefore, there is not very much scope for the localization of those components because they are globally supplied by their parent company across the world. However, for the component not directed by the customer, we have a plan and that is not the weakest content of the total imported item, which is insignificant.

Achala Kanitkar: So this 60% of the raw material would still continue to be there, but we would get much better efficiencies in other processes and other components, which can be localized?

Ashok Minda: Our endeavor is that whatever this 60% import content today is, if it is coming at X dollar or X Euro or yen, we have crystallized and come to a very clear cost reduction target that what percentage point minus I should source. So that is the first target. So that has already been agreed upon for the local, the imported plus the exiting non profitable businesses, cost optimization and price correction from the customers, so this is the task, which has already been put into place. So based upon all these factors, only supplementing your query 40% to 60% the cost down on the import content.

Achala Kanitkar: Thank you.

Moderator: Thank you. We take the next question from the line of Punit Gulati from HSBC. Please so ahead.

Punit Gulati: Good morning. Thank you so much. Just continuing here last time you mentioned that EBITDA margin for this business with Furukhawa JV was about 5%. Has it changed at all in this quarter?

D.C. Sharma: Not much. That is one of the reasons for bringing down the EBITDA level at

consolidated basis. So just we explained the time before that we are taking many, many actions on this JV.

Punit Gulati: But has it gone down substantially from 5% or is it still there at 5% at least?

D.C. Sharma: Slightly down, not much.

Punit Gulati: Okay and secondly there was an understanding that you would take 30% share of business in Maruti based on what you said Suzuki has promised. Is that understanding still on or is that being reevaluated you do not want that share if it is not profitable.

Ashok Minda: There are certain customer-sensitive information in terms of margins, which I will not be able to divulge. Suzuki continues to be our strong customer and it will also continue to be our strong customer for the future not only from the Spark Minda Group perspective, but also from the joint venture partner perspective. We have three new platforms, which are already available with us, which we are in the process of developing and supplying and our engagement and consolidation with Maruti Suzuki will also continue for the future. The new business is growing by next year and so on. So we are getting the new business awarding continuously.

Punit Gulati: Okay and secondly you also mentioned that you added new customers, so Nissan Brakes is that an Indian business or is it export-oriented business?

Ashok Minda: Let me put your perspective of the Nissan Brakes into the holistic view. This we are talking about the die casting. In die casting business, our main focus today is on the gravity die casting and low-pressure die casting. We have had significant success and breakthrough in our die casting business not only for the domestic customers and a significant contribution for overseas export businesses. Our vision is that our die casting business should be a global leadership position in the next three to five years position in the field of gravity die casting and low pressure die casting, maybe into the field of turbo charger compressor housing and when we are talking about the Nissan Brakes, we are talking about all the master cylinders and other critical components, which are application through the LPD.C. and the gravity die casting and Nissan Brake is a domestic business however we have a significant order book for the export businesses for the compressor housing for the turbochargers globally to the

world leaders.

Punit Gulati: Are these brakes essentially for two wheelers?

Ashok Minda: Yes.

Punit Gulati: Also, what kind of sensors are you developing and how is it different, what competition is offering you added a few patents, or filed a few patents at least?

Ashok Minda: Conventionally today, automotive cars use about 30 to 40 sensors and if we try to club this number of penetration of sensing into a passenger car, it will go anywhere between 80 to 100 sensors. We have now Euro-4 starting April 01, 2017 and we have BS-6 starting in 2020. Unless we have the regular environment in terms of fuel efficiency conditions, etc., the gross gas temperature and fluid sensors and emission sensors is a big area of penetration and growth, which will see a mandatory implementation of all these regulatory-driven sensing applications. In terms of the sensing business in Minda Stoneridge, our partner is the leader in terms of emission, gas and environmental control sensing applications and therefore we have the leadership position. The sourcing for the BS-6 sensing application is happening and we are very actively participating in all those RFQs. We believe over the next four to five years, the sensor business will play a dominant role in our joint venture company Minda Stoneridge. If anymore question on the sensing, I will be happy to answer.

Punit Gulati: What percentage of revenue is now sensor business contributing?

Ashok Minda: Today the sensing business that we do is the conventional sensors. Now the value and the edge comes into the new generation sensing applications like we have now the ABS coming. So, the ABS position sensors or the EGT or EGRT suite or the knock sensors; these are the new generation sensors. So today the kitty is not very significant, but we believe that over the next five years this will multiply at least 8 to 10 times from what we are doing now.

Punit Gulati: Do you think Stoneridge will give you access to all the technologies that is needed in this space?

Ashok Minda: We already have an understanding in place and we have absolutely a fantastic relationship and engagement of mutual win-win between our partners who

have absolutely no ambiguity on that.

Punit Gulati: Who would be your competitors in this space?

Ashok Minda: To all those Stoneridge has given the business, they are going to buy back from us.

D.C. Sharma: For your information, we are already exporting sensors. Incidentally, it will be interesting for you to know that for whatever sensors we are doing in India in Minda Stoneridge; very few companies like us have a full grown local manufacturing facility. Most of the large multinationals are only doing the final assembly or CKD or SKD, but we have backward integration and that is our edge. In fact, we have a team of Stoneridge experts because sometimes for sensors, it is a safety level 10 issues, etc. and therefore the manufacturing excellence is critical. Even to an extent, that we have the experts training and stationed in India to support and come to the same level of technical expertise as is expected by an OEM.

Punit Gulati: Thank you so much.

Moderator: Thank you. We take the next question from the line of Jayshree Ram from Karvy Stock Broking. Please so ahead.

Jayshree Ram: Previously we had seen a double-digit growth in your driver and telematic systems, which does not seem to be the case now. So is it because of the Minda Furukhawa performance?

D.C. Sharma: In terms of our top line, there is not much impact. Even the MFE revenue is slightly better than the last quarter, but mainly the impact is because of demonetization. If you see our sales from December 15, 2016 to December 16, 2017, there is an increase by about 10%, but if you just compare December 2016 then we experienced the impact of demonetization. So, whatever sales is not growing, we expect it to grow by 20% in this quarter, but yet we could not grow because of the demonetization where they had an impact on the two wheeler component and the commercial vehicle sales.

Jayshree Ram: Your aftermarket sales are about 10% of your overall revenue. So did demonetization really impact your sales? How does that work?

D.C. Sharma: There are three segments, which were badly affected by demonetization. Number one was two wheelers where we know from 12% growth, we are now down to 6% so in two to two and a half months, we have lost 5% of the growth. The commercial vehicle is the second segment. The third biggest segment is the aftermarket. Forget about the distributor to wholesale partner, but at the low end of the whole supply chain and the value chain, the small retailers have no liquidity and this is putting the pressure back on the chain upwards to drive the volumes. So, this is absolutely right. This has seriously impacted the whole aftermarket chain per se.

Jayshree Ram: Reference to your other income portion, can you explain why the number seems a little higher than the other quarters? What is the reason for that?

D.C. Sharma: There are two reasons for the higher other income this quarter. Company was having the assets including land and building, which were not being utilized because we had shifted our operation to some other location. So this ideal land and building was sold, generating a profit of about Rs. 11 crore on this sale.

Jayshree Ram: In Minda Furukhawa, you are manufacturing wiring harness and you have Suprajit Engineering and Motherson Sumi as well in the wiring harness segments. So, are they also facing a similar raw material procurement problem and how is the business different or is the product itself different from this and that company?

D.C. Sharma: As far as my information is concerned, Suprajit is into control cables and not into wiring harness per se. Number two madam, what has happened was that the product segment what we are in and what Motherson Sumi is in is same. There is no difference. However, what we have analyzed is that some of the businesses that we had did not give us the desired result and were unprofitable. So, now we are exiting those businesses. As far as the material cost is concerned, the import content is the same. Definitely, my competition has some advantage over me because it has a strong range of the components, which I do not, but in terms of the initiatives and the task force action that we have initiated, we are very confident that next year, we will be not discussing Minda Furukhawa anymore.

Jayshree Ram: Also, you were talking about discarding a plant in Chennai. Is that for Minda

Furukhawa?

D.C. Sharma: Yes.

Jayshree Ram: Have you already discarded or it is yet to be done?

D.C. Sharma: It is in process of getting closed. Our group philosophy is that the customer should not face any trouble. If at all, we have to take a hard decision, it should be done with the confirmation, consent and mutually agreed between our customer and us. In a phased manner, we have an exit plan and we are confident this exit will happen by first quarter 2017. That is April to June 2017.

Jayshree Ram: Thank you very much.

Moderator: Thank you. We take the next question from the line of Mahesh Bendre from Way2wealth. Please so ahead.

Mahesh Bendre: Thank you for the opportunity. We have diversified revenue base with passenger vehicle, commercial vehicle, and two wheelers contributing evenly. While preparing and budgeting for the next year, what kind of growth we are anticipating in the Indian Auto Industry especially in PVC in two wheelers?

Ashok Minda: I will just share with you our current prognosis of the industry for the next year. This year for the two-wheeler, we are expecting the growth will not be more than 2% to 3%. Next year, it can go up to 4%. We crossed 11%-11.5% in October and November 2016, so we are expecting the industry to bounce back to about 8% point growth next year on a low base, so that is the contradiction here. For the passenger segment, we expect about 8% growth to continue. The commercial vehicle is showing robust performance in the month of January, February, and March, but there is a big question mark on the BS-4 implementation along with the other issues and as well the pricing going up post April 1st, 2017. So, we expect approximately 4% to 5% percentage point growth in the commercial vehicle segment. As far as the three-wheeler is concerned, it will have a negative growth as we have already seen. The last segment is the tractor segment, which again is seeing a robust growth. We expect 7% to 8% price increase in the volume in the tractor segment. However, the new segment that is finding its way into the Indian industry is the electric vehicle segment. We have now started focusing upon the electric vehicle segment and noticed a number of players entering including the established

players like Mahindra entering e-rickshaw and a number of players going in for electric two-wheeler scooter. So that is an area of focus and identified by the group to focus on the product and technologies for that segment. I hope this answers your question regarding the prognosis for the next year automotive industry.

Mahesh Bendre: You mentioned that the growth could be in single digits probably for the industry. In first nine months of this financial year, we have grown 22% and you are saying OEMs are growing in single digit next year. So, do you think our growth will also slow down because of this?

Ashok Minda: Our focus is now on exports and we have had significant successes in some of the export businesses plus we are now seeing a robust growth in our European operations and also our Mexican plant starts operating this next quarter. So as far as the industry growth is concerned, if I am closing my two-wheeler segment at 2% growth this year and next year 8% growth, so definitely my growth next year is going to be better than what I did this year, so I do not see a major concern there. The only downside could be the OEM makers having much of BS4 inventory but upside is the move at the general ceiling on the GST effective July 1, 2017. If that starts happening that would be also a rationalization and the improvement in the volumes and we will again renew the situation in the middle of next year.

Mahesh Bendre: Is it fair to assume that next year possibly we will be able to grow in excess of 15%?

Ashok Minda: Well definitely we are foreseeing a double-digit growth next year.

Mahesh Bendre: In the first nine month, operating margins EBITDA margins were 8.3% and you mentioned that we will cross 10% margin next year. Am I right?

Ashok Minda: Yes.

Mahesh Bendre: Also, your net debt stand at around Rs. 548 crore, so what is the outlook in that and what kind of addition or subtraction you see in next year? What is also the capex plan for next two years?

D.C. Sharma: We are in the process of commissioning the Mexico plant and die casting plant to increase the capacity to cater to the export market and the major debt will

come in this year. For example, Rs. 548 crore is the number right now and some increase will also happen in the next quarter. But in FY2018, we will have the sufficient capacity after completing these two setups and then we will have only routine capital expenditure in FY2018.

Mahesh Bendre: What is the capital expenditure plan for FY2018 and FY2019 as of now?

D.C. Sharma: For FY2018 and FY2019, we are in the process of finalizing or reworking our sales plan and we hope that we will cater to the additional requirement with the existing capacity because we are operating at 70% to 75% capacity in all the plants. In view of this, our annual capex level be about only Rs. 45 -50 crore for the group.

Mahesh Bendre: No, I am just asking whether next year we are looking for any major capex is excess of Rs. 100 crore?

D.C. Sharma: Not much because we will be completing major setup of the Mexico and die casting plant this year and will have sufficient capacity for the next year.

Mahesh Bendre: This Rs. 548 crore debt you said there could be some addition in the last quarter of FY2017, but in FY2018 by FY2018 end, do you think there will any increase in this absolute number?

D.C. Sharma: I do not think so. Rather it will come down in the year FY2018 because of the repayment and other initiatives.

Mahesh Bendre: We are also setting up a Greenfield plant in Mexico. Now we have been hearing a very different story. The US Government is showing a very different attitude towards Mexico, so do you see any of those plans will impact us?

Ashok Minda: Your question is as concerning as is it to everybody else and having just starting out the Mexico operations, we have had active engagement with our major customer. Our major customer is VW Group there and as per our understanding, whatever platform we are focusing upon in our Mexico facility, a significant percentage of that is not dependent upon North America. Our customer has mentioned that there will not be any impact that will hamper our growth or the potential of this plant in Mexico.

Mahesh Bendre: Thank you.

Ashok Minda: I would like to supplement one thing here that very significant steps have been taken by the group in terms of technology and innovation. The group has setup a state of the art technology center in Pune where partly we have hired the best talent from across the world. We have approximately 40 engineers already stationed there. This setup is going to focus for the major electronics, hardware, software, and mechatronics. We are the only second tier Company in the entire industry, which has setup a fully blown EMC and EMI facility in Pune with the electronification present, which is expected to be up to 50%. So, we are trying to be a future-ready group to support our negative business and come out with solutions to bring us value added technological products for our group's growth. This center is going to be fully operational in the first quarter next year however within a short span of just three to five months, this technical center has already filed two patents and we were struggling to win some business in the electronics field from our Drivers and Telematics business for the last two years. Now, with the active engagement and support of this technical center, we have the first patent for a digital speedometer for the two-wheeler OEM. So, my perspective to this forum is that proactively looking at the future as to how the technology disruption is going to play in the conventional automotive this is a significant investment and step by the group to be future ready.

Mahesh Bendre: Thank you Sir.

Moderator: Thank you. We take the next question from the line of Soniya Varnekar from Equintas Wealth Advisory. Please so ahead.

Soniya Varnekar: Good morning Sir. There are a couple of things probably if you can help us with that. Firstly, along with the presentation, could we also have the group structure of holding across different companies that would help in better analysis of the standalone and the consolidated results. Secondly, if we could have some kind of a breakup of the revenue and at least if not the EBITDA, then at the PBT level ranging from standalone and how it is stacked up to consolidated level on a quarterly basis. Basically, I was trying to compare and analyze some of the notes between the last quarter's concall and this quarter concall. For instance, on Minda Furukhawa there was immense discussion on steering role connectors where the you said that you foresee revenue potential of Rs. 1 billion coming from SRC and margins between 12% to 14% range. Also, you had mentioned a

couple of points on the wiring harness, which is being developed to comply with the new ABS along with pricing and margins being better. So, while there were some problems going on at Furukhawa, it did not appear as stark as the commentary is in the current concall. So, it would help if we get the breakup at revenue and at PBT level across the different companies that make up the consolidated numbers, as it helps the analyst and the investors to get a better sense of where things are headed.

D.C. Sharma: The first question regarding the company's structure, this is also available in our company website and we have this presented many times as well. We have one building company Minda Corporation Limited, which is an operating two wheelers security system last year, has been off the market and we have about 10 to 11 subsidiaries and that is a free company. So, you can just go through our website you will find this company structure there.

Soniya Varnekar: Sir what happens in the quarterly result table is that there is a fine print and every quarter some announcements are there, some subsidiary to some state, etc., so just for the analyst community if you could show your group structure in the presentation, would be helpful. Also, this is a standard practice, among your peers. So it just helps to get a little clarity and identify if there are any changes in the group's structure, the holdings, and the stepdown everything else. So that is one request that I have in terms of better sharing of results with the investor.

D.C. Sharma: I appreciate your point. From the next earnings call presentation, we will consider your suggestion.

Soniya Varnekar: If you are giving a standalone number and such vast difference between standalone and consolidated level, it is very hard to make out that what really is moving where. In the concall right now, you mentioned that Minda Furukhawa still has 5% EBITDA margin, so if there is no deterioration in the margin profile then what really are we talking about on Furukhawa in this quarter concall?

D.C. Sharma: I appreciate your suggestion. From the next earning call presentation, we would like to give the breakup of the company sale and you will have a better clarity on the financial performance going forward.

Soniya Varnekar: If you may help me understand that if Minda Furukhawa's margin profile has

not deteriorated, then what are the areas of concern? Also, if it is in a range of 13% to 15% of your capital employed, then are we looking at any kind of a write off?

N.K. Taneja: Absolutely no writing off. The EBITDA margin is low. The ROCE is also very low and this was the concern of the group. Also, as we mentioned that ourselves along with the JV partner have created a task force and that task force has suggested on how to increase the EBITDA level, how to increase the ROCE levels. The main pain points have already been identified including high raw material cost and how to get the price increase from the customer. So, the writing off and coming out with this business is not what we are thinking. We are thinking how to improve our EBITDA and how to improve our ROCE.

Soniya Varnekar: So, the loss on Minda Furukhawa was close to Rs. 18-19 crore last year. So, for this year or maybe year-to date if you could share, would losses for FY2017 at net level be in that range or will it be much higher or lower?

D.C. Sharma: Yes, last year loss was about Rs. 18 crore and this year though we started the task force process sometime September or October onwards but aggressively, the result of which shall definitely start coming from the next quarter onwards. Considering the scenario, the yearly loss could be roughly about Rs. 30 crore.

Ashok Minda: This is a key concern to us and I am sure that from the month of April 2017 onwards, Minda Furukhawa is going to make a profit.

Soniya Varnekar: Reference to Minda SAI, which is roughly 22% of your consolidated revenues; you had mentioned last year that there is an internal revenue of Rs. 7 billion for FY2017. Are we still on with that guidance?

D.C. Sharma: If we talk of Minda SAI, Minda SAI quarterly revenue is Rs. 155 crore, but if we see September quarter, the company's turnover was Rs. 162 crore. We experience the slowdown because of demonetization otherwise the company growth as compared to last year was 24% to 25%. The next quarter results should be better for Minda SAI.

Soniya Varnekar: For Minda SAI, should we assume margins were maintained at around 10% odd levels?

D.C. Sharma: Nine month EBITDA level Minda SAI is roughly about 10% and net quarter will

be further inclusive. What I mentioned in the last quarter is that it should be 10% to 10.5% by the year-end.

Ashok Minda: In Minda SAI, we have got the order from ABS also. We have already started the supply this product particularly the good market product in comparison to other product mix.

Soniya Varnekar: How has the growth rate been in Q3, the margins, and just the overall outlook on Minda Stoneridge?

N. K. Taneja: Minda Stoneridge is primarily into instrument cluster and the sensors. What we foresee is that in the instrument cluster business, the segments we cater will have a normal some industry growth plus some add-on for the competitive edge that we enjoy. The major engine for growth in that company is going to be the sensor business and as I explained to you the BS4 and BS6, we have large RFQs, which we are discussing today, which will drive the growth for this business and over the next three to four years, I foresee sensing business playing a dominant role in Minda Stoneridge.

Soniya Varnekar: Thank you very much for your time.

D.C. Sharma: Thank you very much for your inputs and as you know that the improvement is never ending, so continuous improvement shall be strived for.

Ashok Minda: We will take care of the interest of the stakeholders and will see how can we improve upon our disclosures and presentations. Thank you very much.

Moderator: Thank you. We take the next question from the line of Jayshree Ram from Karvy Stock Broking. Please so ahead.

Jayshree Ram: This is regarding the tax rate for this quarter. What is it like and how should we consider for information?

D.C. Sharma: In terms of percentage, tax looks high. This is on account of the profit mix of all the companies under the consolidation. When consolidated, we do not get any benefit of the loss if any company is sustaining the loss, but in case of the profit we have to provide to full tax. Suppose, let us say in case of Minda Corporation our average rate tax is only about 20% or 22% because we have spent a good amount on electronic computation center what before we have explained. But

what happens when we consider the loss of particularly Minda Furukhawa is then the old profit comes down, but tax remains the same that has been provided on the profit of the company. So that is the reason for the higher percentage of tax in this quarter.

Jayshree Ram: From next quarter, will it be about 24% to 25%?

D.C. Sharma: Yes, it should be.

Jayshree Ram: Any highlights on Panalfa Alternators that you had mentioned about Rs. 750 million revenue top line? How is it going and is the above number achievable? What is its sustainability for the next two years?

Ashok Minda: The name of this company is changed to Minda Autoelektrik. This is the first year we are running this company, so I am happy to inform you that it is in green now this year. Number one it was a loss-making enterprise. This is now in green. Number two we are adding more products and more technology. The whole organization is being strengthened with more focus on design, engineering, and development. We have a strong aftermarket network. We are trying to realign because this particular product for the applications this company is in, we see a good potential seeing the industry preview. So we are focusing on these areas plus also looking at the processes, internal efficiencies, cost optimizations, and more exports. The company's exports have gone up by almost 40% this year and that is one of the reasons with all the efforts we have taken from loss-making enterprise, we have a dream enterprise this year and we expect better results to follow in the coming years.

D.C. Sharma: We wanted to use our aftermarket platform, which is about 500 dealers and that was vision in this company and we have started recently using that network, that will also give a good benefit.

Jayshree Ram: For FY2017, would there be no top line coming up from this company?

D.C. Sharma: The top line 2016-2017 is already part of the group this year itself because it is required April 1st 2016.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors.

- Rajesh Kothari:** Excluding Minda Furukhawa what would have been our margin? Let us take out Minda Furukhawa as I think we are getting confused with Minda Furukhawa results with the otherwise overall results. There might be a situation that your overall results excluding Minda Furukhawa may not be that bad?
- N.K. Taneja:** If we just exclude the Minda Furukhawa figures, then our margin be about 9.5%.
- Rajesh Kothari:** That is what everybody is trying to ask you on the conference call that because Minda Furukhawa is going to be separately handled as you are saying that next year, the Minda Furukhawa will make the positive contribution to your overall corporate.
- D.C. Sharma:** As the chairman informed earlier, next year we are expecting our EBITDA margin to be 10.5%.
- Rajesh Kothari:** In Minda Furukhawa, your Q2 FY2017 margins was 10%. Third quarter there is a demonetization effect plus there is a Furukhawa one off effect. So compared to the second quarter figure of 10%, you are saying that next year it is going to be 10.5% after addressing so much of Minda Furukhawa? Can you please explain that why such a low number of 10.5% when you already had 10% in Q2 FY2017.
- D.C. Sharma:** Yes. What we discussed sometime before that we are aggressively working on various areas of prospects in MFE and the PE result full-fledged results will start coming from the 1st of April 2017. Considering the quality improvement and considering the profit, which was going to have in the year FY2018, we expect our EBITDA would be about 10% to 11%. It will be drastic. There is a complete plan of Minda Furukhawa.
- D.C. Sharma:** We have a plan in place in place and as per our plan, we expect an EBITDA level of 11% of Minda Furukhawa in the year FY2018.
- Ashok Minda:** However, on a consolidated basis, the positive impact of Minda Furukhawa may not be more than 0.5% to 0.6%.
- Rajesh Kothari:** If you talk about the rest of the company apart from Minda Furukhawa, then have you managed to get a price increase of the higher raw material cost?
- D.C. Sharma:** The price increase has two components. One is the back-to-back for the raw material adjustment that is like zinc, copper, and aluminum. Almost 99% or so of

our customers have a back-to-back utilization mechanism. There have been certain increases by the state government in terms of the minimum wage level for the blue collar workers that also we are having discussion with our customers. And at the industry level and peer level, we can get the adjustments. Similarly, we are also working on the internal efficiencies to maintain our margins.

Rajesh Kothari: What is the Minda Furukhawa's revenue for the third quarter?

D.C. Sharma: Revenue for the third quarter is Rs. 117 crore.

Rajesh Kothari: This JV has reported a loss at operating level, correct?

D.C. Sharma: Right.

Rajesh Kothari: Thank you very much.

Moderator: Thank you. Well due to time constraints that was the last question. I now hand the floor over to Mr. Sharma for his closing comments.

D.C. Sharma: I would like to thank everyone for joining the conference call and for their continued support. In case any of your questions have remained unanswered, I request you to please send it across to us. We will be pleased to reply. Thank you very much everyone.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Edelweiss Securities, that concludes this conference. Thank you for joining us. You may now disconnect now your lines.

Note: This transcript has been edited to improve readability

Minda Corporation Limited

(CIN: L74899DL1985PLC020401)

Corporate Office: Plot No: 68,
Echelon Institutional Area, Sector-32,
Gurgaon-122001, Haryana (India).
Tel: +91-124-4698400; Fax: +91-124-

Deepak Balwani (Head – Investor Relations) Minda Corporation	deepak.balwani@minda.co.in +91 124 469 8485
Saket Somani / Karish Manchanda Churchgate Partners	minda@churchgatepartnersindia.com +91 22 6169 5988

Cautionary Statement: This document contains statements that contain “forward looking statements” including, but without limitation, statements relating to the implementation of strategic initiatives, and other statements relating to Minda Corporation’s future business developments and economic performance. While these forward-looking statements indicate our assessment and future expectations concerning the development of our business, several risks, uncertainties and other unknown factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to, general market, macro-economic, governmental and regulatory trends, movements in currency exchange and interest rates, competitive pressures, technological developments, changes in the financial conditions of third parties dealing with us, legislative developments, and other key factors that could affect our business and financial performance. Minda Corporation undertakes no obligation to publicly revise any forward-looking statements to reflect future / likely events or circumstances.