



Minda Corporation Limited
Q2 FY 2017 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Minda Corporation Limited Q2 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 the questions after the presentation concludes. Should you need assistance during the conference call please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I would now hand the conference to Mr. Karthik Subramaniam from Edelweiss Securities. Thank you and over to you, sir!

Karthik Subramaniam: Thank you Liziane and good afternoon everyone. Thanks for logging on to the call. We thank the management for giving us the opportunity to host the call. I now welcome the management team from Minda Corporation represented by Mr. D. C. Sharma -- Group CFO and Mr. Ajay Sancheti -- Head, Group Corporate Finance and Legal.

I would now like to hand over the call to Mr. Sharma for his initial remarks and then we can start with the Q&A. Over to you, Sir!

D. C. Sharma: Good afternoon everyone. I welcome all of you and thank you very much for joining the Q2 FY2017 earnings conference call of Minda Corporation to discuss the financial and operational performance. I hope you have had a chance to go through the earnings presentation and financial results which are already available on the Company website.

I would 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.

Speaking about the domestic market first, sales for the overall auto industry grew by 19.1% y-o-y in the quarter. Sales in the commercial vehicle segment declined marginally by 0.2% y-o-y. However, the passenger car sales grew at a much higher rate of 17.8% y-o-y compared to a growth of 6.7% y-o-y in Q1 FY2017. Sales in the three-wheeler segment increased by 5.3% y-o-y while sales on the two-wheeler grew significantly better by 20.5% y-o-y. So, this quarter has been fantastic quarter for the automotive industry.

Coming to the international market, the European auto industry also fared reasonably in the quarter despite headwinds related to an uncertain global business environment, depreciating local currencies and concern related to Brexit. The sales of passenger vehicles grew by 4.6% y-o-y and sales of the light commercial vehicles expanded by 13.7%.

Now, speaking of the performance of Minda Corporation Limited during the quarter, I am quite pleased to say that we have exceeded our internal business targets, both in terms of operational and financial performance. The consolidated top-line grew by 26.9% y-o-y to Rs. 7,822 million and our operating profit expanded by 32.8% y-o-y to Rs. 847 million.

I would like to mention here that our initiatives related to price negotiations with customers for increased input costs, cost reduction measures in some of the key subsidiaries and focus on technologically advanced high yield products have started yielding return.

Let me also throw some light on the segmental performance during the quarter. All of our three business segments performed very well. The 'Safety & Security & Restraint Systems' grew by 17.6% y-o-y; 'Driver Information & Telematics Systems, where wiring harness is also one of the important products, grew by 36.1% y-o-y; and 'Interior Systems' increased by 25.7% y-o-y.

PAT for the quarter would have been much better if Minda Corporation had not considered one-time prior period expenses of Rs. 8.5 crores in one of the subsidiary companies. This loss of Rs. 8.5 crores is on account of pending issues into the localization and investment of lower raw materials rate from the major raw material suppliers.

As at the end of the quarter, net debt increased to Rs. 5,331 million from Rs. 4,548 million at the end year of 2016 on account of additional investment in the acquisition of Minda Autoelektrik, and expansion plans at Minda KTSN (Mexico) and also for the Technological Center which we are setting up in Pune.

I would like to update you with the key business developments pertaining to this quarter. We have received new business orders for Wiring Harness from Yamaha worth Rs. 12 crores, then also from HMSI, and from Ashok Leyland about Rs. 25 crores additional order. We have also won an order from Ford, Tata Motors and Mahindra & Mahindra for Security Systems, and Out Door Handles.

We also added Maruti Suzuki as a new customer to our sensors business, though Maruti is already one of the major customers for the group.

Discussion with Mahindra & Mahindra and Ashok Leyland for the sensors business is also at an advanced stage. Additionally, we have received a new order from Audi for the plastic interiors parts in our subsidiary company Minda KTSN, Germany.

Talking about exports, we have secured an order worth about Rs. 340 crores until FY2020 and these orders have been received in this financial year. We would be exporting to Europe and ASEAN region in various product segments such as die casting, two-wheeler security systems, cluster and wiring harnesses etc. The exports also includes the wiring harness export order for two wheelers and we are working towards increasing wiring harness exports significantly in the future.

Many of you may be aware about our 50-50 joint venture with SBHAP in China (a BAIC group subsidiary). This venture is likely to start production in the next 15 months to 18 months. We will initially focus on producing and selling plastic oil pumps and cylinder heads along with plastic under-bonnet parts and other interior parts.

I am also pleased to inform you that the Spark Minda Technical Center in Pune which is under implementation is closed to being fully constructed and is expected to be operational in the next quarter.

I wish to thank all of our shareholders for their valuable support in us and want to repeat that we are fully committed to them. We are optimistic about the future of auto industry both in India and internationally and are confident that Minda Corporation will continue to improve its market position in times to come.

On that note, I would now like to open up the floor for an interactive Question-and-Answer Session.

Moderator: Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Can you give some more color on what is happening with your Minda Furukawa JV. How well is it progressing and some more financial details if possible?

D. C. Sharma: See, Minda Furukawa JV does turnover of about Rs. 400 crores out of annual turnover of about Rs. 3000 plus crores. We have three customers Maruti Suzuki, Nissan and Honda, thus in terms of top-line, we are moving because our share of business is almost fixed with the customers. In terms of profitability yes, there are some issues, we are fighting hard because when we took over the business then we made localization plan of the component because presently about 60% of the raw material is imported from JV partner from Japan. If we do not localize these components and don't start procurement of the material locally then our cost will not come down and margin will not improve. Right now profitability is a concern for us and we are working hard with the team and let's see how we can improve the situation.

Puneet Gulati: So, how fast can you bring this localization rate and what is the target?

D. C. Sharma: Localization is subject to the agreement and approval of three parties: one is the customer - customer has no concern and is already willing to allow localization. Due to localization we also get some advantage from the supplier. Now, we are talking with our partner Furukawa for the localization and need to see how fast we can do it. But still the aggression has to come. We have started localization of few parts but majority we are in the process of finalising the schedule.

Puneet Gulati: So, will it be like one year, two year, three year some sense that you can give?

D. C. Sharma: It will take another six to nine months' time.

Puneet Gulati: Okay, six months to nine months for you to reach almost 100% localization level?

D. C. Sharma: Not 100%, we expect if we do the localization of approx. 40%, it will be a good result for us.

Puneet Gulati: Okay. But you have already localized 40%, right?

D. C. Sharma: During the last two years we have got a couple of new businesses like we got business of KWID from Nissan, S-Cross from Maruti Suzuki which also started the Celerio. Still for these products we are using the imported components which constitute the major part of our sale. The old business, or the old models, we have no concern about as we have localized a significant part of the components. But for these three models which constitute about 50% turnover of the company, localization is yet to happen.

- Puneet Gulati:** Okay. So, what is the turnover for the quarter, how much did it grow?
- D. C. Sharma:** The turnover for the quarter is Rs. 135 crores.
- Puneet Gulati:** Okay. A growth of?
- D. C. Sharma:** It is almost same because for the model we have it is subject to the growth in the OEMs and somehow whatever model we have, for example we have Lodgy, S-Cross, KWID and KWID is growing faster but at the same time Lodgy and S-Cross are not growing. Last year we had turnover of Rs. 139 crores and this quarter we have done Rs. 135 crores.
- Puneet Gulati:** Okay, and EBITDA margin?
- D. C. Sharma:** EBITDA margin is very-very low in this segment because of the localization and other things. It is about 6% to 7%.
- Puneet Gulati:** Okay, so, it has gone up from 5% last time as you mentioned.
- D. C. Sharma:** Not much improvement, we were expecting a very high improvement in the margins however, there has been delay in our localization program. This is the only company of the group which has the lowest EBITDA.
- Puneet Gulati:** Okay. And in terms of new models is there an assurance for new models that you will start manufacturing and how does the pricing look like for those?
- D. C. Sharma:** We have the new model also which will come in the year 2017-2018, this year no new model started; it will be in 2017-2018.
- Puneet Gulati:** Okay, which is this model?
- D. C. Sharma:** I think, one is modified version of the Ertiga and one more model we have. But definitely production we will start in 2017-2018.
- Puneet Gulati:** Okay. And secondly, you seem to have got some impressive orders for the two-wheeler business, how big is that opportunity and how fast is the room for growth over there?
- D. C. Sharma:** We are supplying to two-wheeler in security systems, wiring harness and we have presence in all the two wheelers and we have the majority share also. If you see the for TVS we have 100% share of the business, Bajaj we have 80% share of

business, HMSI we have more than 50% share of business for security and wiring harness. So, fortunately this segment is going very well. Growth rate in this first-half for the two-wheeler particularly the scooter segment has grown by 26%. In totality, the two-wheeler has grown by about 18% in the first-half, that is a good opportunity for our group and we have very good strength in the two-wheeler components.

Puneet Gulati: Okay. So, who does it for Hero?

D. C. Sharma: We have started business with Hero from last year, before that we were not present in Hero Moto Corporation. We have started both the products; wiring harness and the security systems. However, the security product we have started only for the scooter segment. We have four models of the Hero Moto Corporation in scooter, but in motor bike we are yet to start for the security. Similarly, in case of wiring harness, we have been supplying but right now we have only 15% share of business of Hero Moto Corporation.

Puneet Gulati: Okay. And what is that value of content in a typical motor cycle?

D. C. Sharma: Motor cycle if you see these security systems is about Rs. 600 per lockset; in case of wiring harness it is also about Rs. 400 to Rs. 450.

Puneet Gulati: Okay. And lastly, you also mentioned that you have won a new order from Audi, I presume this is for your overseas business, right?

D. C. Sharma: Absolutely, right.

Moderator: Thank you. We will take the next question from the line of Achala Kanetkar from Birla Sunlife. Please go ahead.

Achala Kanetkar: I just wanted to understand the Furukawa thing a little bit in detail so, this Rs. 8 crores that we have written off was for which period, sir?

D. C. Sharma: Actually this pertains to the year 2015-2016. Now let me throw light on this because this is one of the major items of the results and may be a question in the minds of other friends as well and I would like to offer an explanation. Minda Furukawa is buying roughly about 60% components from Furukawa which is the joint venture partner. What happened last year was that the copper rate was down and there was a localization program agreed with the customer so, we have a back to back price correction or price adjustment for the raw material

base with the customer. So, for example, whatever the quarterly rates, the pricing for the next quarter is adjusted in line with the raw material rate of the previous quarter and similar understanding is also with the suppliers. For example, we have the wire supplier, and we have the same understanding, similarly in case of the components where we are buying from the JV partners also have some kind of same understanding. In FY 2015-2016, in the last quarter MFE raised some debit note on account of the raw material cost recovery from the suppliers and also for some localization program. In fact, if the localization program delays then the company it is also required to pay the higher cost of the component so, they raised from a debit note of this recovery of raw material in the localization and some of the price settlement with the customer and then the audit was started but somehow we could not complete the audit by 31st May and we consolidated the results of 2015-2016 based on the unallocated accounts of Minda Furukawa and there was a qualification in the account also with respect. Then during last three months, there was a round of discussions with the partner for this last year pricing issues and the cost matters. Somehow these things could not be resolved and finally E&Y, the auditor in Minda Furukawa suggested us that please refer this debit note matter otherwise you will not be able to complete the audit of the previous year. So, finally in the month of September last week we have completed the audit and now it was decided between the partners that the cost matters, recovery of raw material rate will be decided in this year and there was about Rs. 16 crores or Rs. 17 crores company as a whole which has impacted us to the extent of 51% which is about Rs. 8 crores so, now these matter have been deferred to this year because of the last year's impact. We assumed there will be a loss about only Rs. 1 crores to Rs. 2 crores last year but with debit note the loss increased and we have now considered and shown as a prior period expense in this quarter.

Achala Kanetkar: So, what is the situation in the first-half are we still in losses

D. C. Sharma: First quarter the loss in JV was Rs. 3 crores. Same quarter there was a profit because of some price increase we got from the customer Maruti Suzuki and from Nissan also. But again, this major part of the price increase was one-time in that quarter so, overall, the loss in the first-half I should say that is roughly about Rs. 2 crores.

Achala Kanetkar: But then that has been accounted for, right?

D. C. Sharma: That has been accounted for, yes.

Achala Kanetkar: Unlike last year where we deferred.

D. C. Sharma: No, this has been definitely accounted and now we will not take any chance and from the next quarter we have asked E&Y to go as per the process because limited review we do for all the companies and now audit will also be in time because this year the audit was delayed and we considered the unaudited account. But now management is very tough and we have got the instruction from the board side also and we have told the JV partner very clearly that as per the Indian corporate governance we cannot take any chance and in the future we will complete everything in time.

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

Jayshree Ram: Sir, can you tell me why there is almost double increase in long-term borrowings in the standalone?

D. C. Sharma: Ma'am if you see our balance sheet for six months' time, we have made a investment Rs. 115 crore in the fixed assets and we also acquired one company. On 2nd April of this year, we acquired a company called Panalfa, currently known as Minda Autoelektrik which is into manufacturing of Starter Motors and an alternators largely for the tractor segments. We acquired the company at Rs. 40 crores, that was the investment from our side and subsequently, we have been putting a plant in Mexico which is a Greenfield project for the group where we have a business from VW. And right now many business from the VW or BMW and there we have made the investment about Rs. 70 crores. Because of these two investments, we borrowed some amount of loan, whatever increase is on account Mexico only. Because, in case of the Panalfa acquisition on 2nd April we have not borrowed anything but for the Mexico plant investment, we have borrowed this additional money. And that is why this debt equity ratio has increased by 0.06x, it was 0.80x as on 31st March 2016 and now it has increased to 0.86x.

Jayshree Ram: Okay. And I see a significant increase in the other income portion in the standalone is there any reason for that?

D. C. Sharma: There are two specific reasons; one is the operating income and second is non-operating income. In case of operating income, we had some provision with the

price decrease to customer because when we do cost reduction sometime we pass on the benefit to the customer and sometime we do not pass it to customer. Then in case of few OEMs last year, the volume has increased significantly then to be conservative, we thought that customer may ask some price decrease so, we made the provision of price reduction, at the same time there was a provisions of about Rs. 1.5 crores about the wages also. So, Rs. 4.5 crores the amount of the provision has been written back which was provided in the year 2015-2016 which is one account. Secondly, we were having one idle asset in Pune a small portion of land which is not useful for the group because we have bigger size of the plant. As we do not operate on a small scale, we have sold this land. So, it is roughly about Rs. 2 crores income on account of sale of this plot. That is the reason for increase in other income.

Jayshree Ram: Okay. And for driver and telematics can you tell me what was the growth with Stoneridge and can you throw some light on that?

D. C. Sharma: Yes, definitely, it is a very good question. See, in case of driver information we have two products one is wiring harness and second the instrumentation as sensors. In case of wiring harness our company is name Minda SAI Limited which is owned 100% by us, has done significantly well and the performance of this company is the best performance in the group and in terms of increase in sale and increase in EBITDA. Minda SAI manufactures the wiring harness for the two wheelers then the commercial vehicle and the tractor segment, they do not service to the passenger vehicle customers but other than passenger vehicles they supply to almost all segments. They are largest suppliers to the Ashok Leyland and Mahindra & Mahindra, they have Tata Motors as their client as well. In case of two wheelers, they have TVS with 100% share of business and other key customers like Hero Moto Corporation, Yamaha etc. So, their sale has increased by more than 30% in the first-half and EBITDA has also improved by 1% as compared to the last year and overall the company has performed very well.

In case of the Minda Stoneridge, which manufactures the instrumentation sensors, they have also done well. Sale has grown by about 16% in the first-half unlike the Minda Sai which has registered a growth more than 30% and in case of EBITDA margins, they have of about 9.5% but in case of Minda SAI its EBITDA is 10.5% as compared to the last year EBITDA margin of 9%. So, there has been a good improvement in case of Minda SAI. If I just give you the specific sales, they have done the sale of about Rs. 325 crores in the first-half.

- Jayshree Ram:** Okay. So, are these margins sustainable or there are chances for this to increase?
- D. C. Sharma:** See, in our case there is no risk to the margins because our pricing of the major raw materials is fully hedged with the customers, whatever the raw material base is adjusted in the pricing of the next quarter or next half so, that is the scenario. And share of business or order with the customers are also long-term orders not the short-term in case of automobile component. So, we do not see any changes in terms of the pricing, at the same time if you see our group, we have the high personnel cost as compared to the peer group and our personal cost is about 16% to 17% and the wiring harness in the Minda SAI they have the high rate of the wages, so we have taken a specific initiative for reduction in the personnel cost and that is the also reason for improvement in this quarter and in this first-half. And our personal cost if you compare over the period, there has been a reduction in the personnel cost which is helping us to improve the margin at the EBITDA level.
- Jayshree Ram:** So, for Minda SAI you still continue to supply 100% for TVS?
- D. C. Sharma:** If you see last three years, if my memory is correct, we are having 100% and still we are supplying 100%.
- Jayshree Ram:** So, you have any other customers added apart from Mahindra & Mahindra?
- D. C. Sharma:** We have Ashok Leyland where we supply more than 80%. We have Tata Motors, HMSI, TVS, Bajaj. Tata Motors we have started only last to last year. Right now our share of business is only 10% in case of the commercial vehicle. One of the areas to focus is exports, till last year we were not exporting anything but in this year we have started exports and this year we will be doing the exports of about Rs. 10 crores in the first year. We have set up a one small group which is focusing on exports and we are looking to increase exports in the years to come.
- Moderator:** Thank you. We will take the next question from the line of Nishit Jalan from Kotak Securities. Please go ahead.
- Nishit Jalan:** Sir, on Minda Stoneridge, can you give some more color regarding how the sensors business is doing? What kind of revenues or what kind of new customers we are adding in that segment?

D. C. Sharma: In case of sensors, we are doing business of about Rs. 50 crores annually and the major customer is Hero Motor Corporation. And we also supply to Tata, Mahindra & Mahindra, Yamaha etc. So, these are the major customers, Hero Motor Corporation and Yamaha. Mahindra Two Wheelers which is not performing so much well, then the Tata Motors commercial vehicle, Maruti also through UFI Tier-I we have been supplying but recently we got order from Maruti also in one of the sensors. Ashok Leyland, we have a 15% share of business only. So, these are the key customers and sales are approx. Rs. 50 crores but there is a good potential in this area. To strengthen our position, we have the process of development of new sensors; once we have range of the sensors we can increase our sales significantly in this area.

Nishit Jalan: Rs. 50 crores is the annual run rate you are saying?

D. C. Sharma: Yes, last year we have done Rs. 48 crores or Rs. 49 crores so, this year we will be doing may be Rs. 65 crores or Rs. 70 crores not more than this.

Nishit Jalan: Okay. And sir, on the standalone business if I look the revenues have grown by around 9% on a Y-o-Y basis but if we see the two-wheeler industry the industry has grown in double-digits and also Honda basically where you are gaining market share that player has also grown in more than double-digit. So, what am I missing here which segments have underperformed because of which our overall revenues growth has come in lower?

D. C. Sharma: Your question relates to Minda Stoneridge?

Nishit Jalan: No, sir, standalone business.

D. C. Sharma: Okay. In case of standalone we have the major customers Bajaj, Yamaha, TVS, Hero Motors then HMSI and now I go one by one. See, the biggest customer in case of Minda Corporation is Bajaj Auto, still we maintain 80% share of business but unfortunately the growth is not much in case of Bajaj Auto and they have registered a growth may be about 1% or 2%, not much growth. In case of Yamaha, yes they have done well in this quarter / first-half and we supply 100% to Yamaha and their growth is about 20%-29% in the first-half. But again, the numbers of Yamaha is not much because they supply only about 5% the total Indian two wheeler markets. HMSI, it has largest growth but here our share of our business is only 17% and we could not take the full advantage of the growth in case of HMSI because of the lower SOB.

We also have other business like Royal Enfield for which we are in the process of the development, we have got the order but supply is yet to be started. May be in the last quarter we will start supplying to Royal Enfield also. Hero Moto Corp as I explained earlier, that the company has started only last year and we have been supplying only for the scooters not for the bikes and though scooter segment is not as big as compared to the motor cycle segment. So, there again our SOB is only about 8% to 10% in case of Hero Moto Corporation. So, growth in this market has happened in two - three areas; one is HMSI and the second is TVS and third Hero Moto Corporation and because of the lower share with these customers. Because traditionally we have 100% share in the Bajaj Auto; right now it is also about more than 80% so, we could not get the advantage of growth in these customers.

Nishit Jalan: Okay. And sir, what is our market share with Honda now because I think you mentioned in couple of quarters back that for the Gujarat plant you have got 50% market share, right?

D. C. Sharma: Absolutely, right, yes.

Nishit Jalan: So, what is our blended market share with Honda now?

D. C. Sharma: Gujarat plant, yes, it is a 50% but if I take their total SOB as a whole for the production in India, it is about 18%. And till last year it was about 15% - 15.5% so, now the 3% SOB has increased in the first-half and the second-half will further increase so, yes, because of the business we got from HMSI for the Gujarat plant, we will be increasing our share of business with HMSI.

Nishit Jalan: Okay. And sir, on Furukawa, on localization basically, who will need to incur the capital for localization? Will it be Furukawa or will it be some domestic suppliers who will set up capacity and thereafter you can start localization?

D. C. Sharma: Minda SAI which is a 100% owned company, they have the components, they have a good size of plant for manufacturing the component because in case of Minda SAI they manufacture almost all the components locally in their component shop. In past, MFE has developed the component in the component division of Minda SAI but again, we have some good suppliers also. CAPEX will be done by MFE because tooling is to be given to suppliers otherwise they have the complete set of machines. So, only the tooling cost will have to be absorbed

by MFE, either lump sum or the amortization per piece basis. So, that is the CAPEX company will have to incur.

Nishit Jalan: Okay. And sir, what about consolidated CAPEX, can you just remind us what is the consolidated CAPEX that you are looking for this year?

D. C. Sharma: The consolidated CAPEX for the total operation, if I just keep Mexico plant separate and we are also putting up a new plant of die casting in Pune because of the high export orders. If I just take these two separate than routine CAPEX will not be more than Rs. 42 crores to Rs. 45 crores.

Nishit Jalan: And if we include these two expansion plans then?

D. C. Sharma: If I include these two things then, in die casting we will have to incur the capex of about Rs. 46 crores - Rs. 47 crores in two years' time this year or next. In case of Mexico, our CAPEX in terms of machinery would be about Rs. 105 crores and then we have to do some pre-financing of tools within nature of semi-working capital because that is paid by the customers in a period of two years - two and a half years' time but till the time you have to invest our money. In case of tooling the CAPEX will be about again Rs. 100 crores. So, Rs. 200 crores the total investment for the Mexico plant, out of which Rs. 100 crores will be recoverable from the customers in two years. So, our investment will be limited to Rs. 105 crores in Mexico.

In die casting it will be about Rs. 48 crores, so roughly about Rs. 150 crores we will be investing in this year and 2017-2018.

Nishit Jalan: So, how much have you already invested in Mexico?

D. C. Sharma: Rs. 75 crores we have already invested.

Nishit Jalan: Rs. 75 crores, you have already invested?

D. C. Sharma: Yes.

Nishit Jalan: Okay. And sir, one final question, if I look at the tax rate for the standalone business in the last two quarters is only 20%. Even if I look at the annual results of Minda Stoneridge based on the Annual Report you have uploaded on the website the tax rate was also much lower there, why?

D. C. Sharma: Very good question, in Minda Stoneridge we have a very big and good size of R&D facility and last year this R&D Center of Minda Stoneridge was approved by the Department of Industrial and Scientific Research. Once you have the approved R&D Center then there is 200% deduction available for capital expenditure, revenue expenditure and because of the additional tax advantage of R&D center, the rate of tax on the profit has come down significantly in case of Minda Stoneridge.

Nishit Jalan: Just on Minda Stoneridge, how much R&D expenditure has been incurred last year?

D. C. Sharma: I need to see, will revert back later. Minda Stoneridge's philosophy is to first develop the product and then go to the customers whereas in case of other products we do the reverse i.e. first we go to the customers and then we showcase the capabilities of Minda Stoneridge and why they are the best in the Minda Group in terms of technology, electronics and they have a good R&D set-up but in terms of amount of I need to check.

Now, second question is about Minda Corporation. Minda Corporation in Pune, if you see the total group as a whole then almost in case of our majority of the products, we feel that in next two years to three years' time there will be a good application of the electronic whether it is four wheeler security systems; right now which is mechanical may be replaced with the PEPS. Similarly, in case of locks, we feel there is a good application of electronics and that is a reason we are putting up a best quality of R&D center which will deal mainly in the electronics in Pune. And now, this center will be operational from the first week of January. We have incurred about Rs. 10 crores in this year as the capital expenditure for the R&D center, there is revenue expenditure also, so, now we have the scheme of about 200% deduction which will be available for this R&D expenses. So, that is the reason we have considered that R&D center will be operational in current year and we will get it approved from the Department of Industrial Scientific and Research and the Income Tax Department and will get the weighted average deduction in case of R&D center.

Nishit Jalan: Sir, once these R&D centers are up and running then what is the kind of recurring R&D because then if we have a lower tax rate this year but in the next year the tax rate will go up again right because you will not incur this tax expenditure again?

D. C. Sharma: This year the revenue cost of R&D center would be about Rs. 6.5 crores because this is the part of the year and recruitment have been done in the second quarter only still we are in the process of recruiting staff for the R&D center. Next year 2017-2018, the full year revenue cost will be roughly about Rs. 11 crores.

Nishit Jalan: In standalone?

D. C. Sharma: In standalone, though we have a model internally which will recover the cost of other group companies suppose with R&D center do some business for Minda Vast which is the JV if this R&D center does some business for Minda Stoneridge and from other Minda SAI so, they will work on the project basis and they will recover the cost from the company but right now, yes, this center is under Minda Corporation standalone basis.

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

Rajesh Kothari: Sir, first question is since your revenue has been growing why we are not able to see expansion in EBITDA margins that is my first question. And second question is how do you see revenue growth for next two years to three years? And also your product mix, how product mix are going to change like you have for three segments and security business, sensor business, how those business are going to change?

D. C. Sharma: Now, first let me answer about the EBITDA, 9% was the EBITDA in the first quarter whereas if you see the quarter two it has improved to 10.3% and in the first-half EBITDA margin has increased to 10%. So, gradually we are in the process of improving the EBITDA and as far as in the coming quarter it will further improve and if we project correctly then it should be about 10.5% or 10.7% by the year end.

Now, I come to the second part about product mix. The fastest growing segment from the organic business is the car interior system where we have presence in Germany and we have one small plant in Poland also and we are putting a plant in Mexico. So, it is a Greenfield project, new plant we are putting in Mexico. Mexico plant is expected to generate the revenue of €20 million to €25 million in the year 2018-2019 and 2019-2020. So, last year we have done car interior business about €52 - €53 million. Now we expect this segment will have approx.

€105 million turnover in the year 2019-2020 and this is not a guess this is based on the booked business for this product.

So this was one area, second in case of the wiring harness where we have Minda SAI and also the JV. Now we are expecting the turnover of about Rs. 700 crores in Minda SAI in the current year as compared to the turnover of approx. Rs. 570-580 crores last year. This year it will be about Rs. 700 crores and this is also fast growing area and here we have a further scope to increase the business for example in the commercial vehicle segment there is Tata Motors and we have only about 8% share of business with Tata Motors hence there is a good scope to increase the SOB. In case of Hero Moto Corporation also we are progressing in a good way and we expect a good share of business. Third export, there is a good beginning and in Europe this year we have started the export and recently we have opened a small office in Europe for the export of wiring harness. So, that is another area and we are expecting double turnover in the next three years' time in Minda SAI. Similarly, in instrumentation and sensor there is a very large potential and somehow we are not able to take the full advantage, currently we are doing a business of only about Rs. 48 crores or Rs. 50 crores from sensor. So, sensor and instrumentation is expected to grow very well.

If we go as per our plan, we expect in 2019-2020 our turnover from all three product segments would be about Rs. 5,500 crores in the next three years' time from the organic segment that is only with three products. In addition we are also working off inorganic sales where we do some new JV or acquisitions so, that are the areas where we are constantly working and let us see how much we can do in the that segment also.

But in case of the organic growth plan, we have confirmed business plans from each and every products from each and every company which shows that yes, from the organic segment where the risk is not much we will be more than Rs. 5,500 crores.

Rajesh Kothari: That is from the sensors segment you are expecting a Rs. 5,500 crores?

D. C. Sharma: Sensor segment is the presently sensor plus instrumentation and we are doing turnover of about Rs. 350 crores and then we are planning that in next three years' time it would be about Rs. 800 crores.

- Rajesh Kothari:** In three years' time Rs. 800 crores. So, I am a bit confused, you said this Rs. 5,500 crores in FY 2019-2020 so, that includes what sir?
- D. C. Sharma:** That includes all three products – security systems, car interiors, and the driver information and telematics.
- Rajesh Kothari:** Sure, okay. Sir is there any percentage numbers available like what is the percentage of contribution from telematics, what is the percentage contribution of sensors, so, you have any numbers on that front?
- D. C. Sharma:** See, we have all the numbers and we have year wise plan also.
- Rajesh Kothari:** So, if you could share those numbers, sir?
- Management:** We can do thing, we will share the information offline and Mr. Deepak Balwani, our IR Head will approach you and will give you the necessary information.
- Moderator:** Thank you. We will move on to the next question that is from the line of Priyesh Jain from IIFL. Please go ahead.
- Priyesh Jain:** Yes, just wanted to check on when the ABS and CBS gets mandatory in two wheelers in few years down the line, will that add to component in terms of wiring harness or any other for our business per bike component increasing from that segment?
- D. C. Sharma:** Well you said ABS then what was the second one was?
- Priyesh Jain:** The CBS, the smaller bikes below 40,000 I think so, it is CBS, right.
- D. C. Sharma:** Okay. In case of ABS we have already started our product range in terms of wiring harness, we have converted the traditional wiring harness into the ABS and in the last quarter of last year we have started supplying ABS to Ashok Leyland so, there in one of the models we have started ABS. Similarly, in two wheeler segment, we are in process of converting the existing wiring harness range into the ABS compatible wiring harness so, this will help us to grow much faster and at the same time it will help us to improve our margin.
- The second product which is for ABS is the SRC which is manufactured by Minda Furukawa and we call it SRC (steering roll connector) which basically activates the airbags in a fraction of second so, this is the key component for the airbags.

We have already set up two lines in MFE and once these airbags become mandatory in next year, we expect a good growth in that area. So, these two products we are working for the ABS. We are also in the process so far not concluded or not much visibility but yes, we are in the process of developing other product also.

Priyesh Jain: Okay. Sir, in terms of ABS for two wheelers the wiring harness now and the wiring harness for ABS what will be the price difference?

D. C. Sharma: Price difference: 25% to 30% the prices will be higher.

Priyesh Jain: Okay. And you said it will be margin accretive.

D. C. Sharma: The margin and also growth, when I say growth it will be only because of the higher selling of ABS and definitely margin will also improve a little bit.

Priyesh Jain: Okay. And sir in terms of like could you share with us some industry numbers on what proportion of passenger cars currently have airbags and what kind of cars are getting mandated to have airbags is that all the cars?

D. C. Sharma: To the best of my information, the cars which are exported from India, they all whether it is small car or medium segment they have the airbags. But once it becomes mandatory for all then all cars will be equipped with airbags.

Priyesh Jain: Okay. So, domestic how much would be the airbags business right now, in the sense how many what percentage of domestic cars sold would have airbags?

D. C. Sharma: That I need to work out.

Priyesh Jain: Okay. And what is your connectors business right now in terms of size?

D. C. Sharma: Current price of SRC connector is about Rs. 800 at an average. Presently, we are supplying to only Maruti Suzuki and especially for those motors which they are exporting.

Priyesh Jain: Okay. So, this could be a large opportunity going ahead, right?

D. C. Sharma: Absolutely, right.

Priyesh Jain: Okay. So, what kind of size you look at this for like say FY 2020 what kind of size this business will probably make?

D. C. Sharma: The unit price is ranging from Rs. 800 to Rs. 1,000 at most in variance and we believe when the airbags will fit in all the vehicles then it will have the additional business of around Rs. 100 crores.

Priyesh Jain: Okay. And what kind of investments we would have done in this business?

D. C. Sharma: Our JV partner Furukawa they are the largest manufacturer of SRC connectors and with their help we have set up this line because it was required by Maruti Suzuki for the export models. We have made investment of about Rs. 21 crores approximately.

Priyesh Jain: That is your share?

D. C. Sharma: No, that is our investment; we have set up two lines of the SRC connectors and our capacity utilization is not more than 10%.

Priyesh Jain: Okay. At the optimum utilization level what kind of EBITDA margin this company can make or this segment can make?

D. C. Sharma: On this SRC?

Priyesh Jain: SRC.

D. C. Sharma: SRC, we are expecting 12% to 13% EBITDA margin.

Moderator: Thank you. As we have no further questions, I would like to hand the conference over to Mr. Karthik Subramaniam for his closing comments.

Karthik Subramaniam: Thank you, Liziane. Thanks everyone for participating in the call and thanks a lot Mr. Sharma for your time.

D. C. Sharma: I would like to thank everyone for joining the Conference Call and for your continuous support. In case your questions have remained un-answered I would request you to please send it across to us. Thank you and have a nice day.

Moderator: Thank you. Ladies and gentlemen, with that we conclude today's conference call. Thank you for joining us and you may now disconnect your lines.

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

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