



# Minda Corporation Limited Q1 FY 2017 Earnings Conference Call

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**Moderator:** Good day ladies and gentlemen and welcome to the Minda Corporation Limited Q1 FY'17 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. I would now hand the conference to Mr. Chirag Shah from Edelweiss Securities Limited. Thank you and over to you Mr. Shah!

**Chirag Shah:** Thank you Mallika. Good morning everyone and thanks for logging on to the call. We thank the management of Minda Corp for giving us the opportunity to host the call. I would take the opportunity to welcome from Minda Corp, Mr. D.C. Sharma – Group CFO, Mr. Ajay Sancheti – Head, Group Corporate Finance and Legal and Mr. Vinod Bapna – Head, Group Finance Controller. I would now like to handover the call to Mr. Sharma for initial remarks and then we can start with the Q&A. Over to you Sir!

**D.C. Sharma:** Good morning once again. Welcome ladies and gentlemen and thank you for joining the Q1 FY17 earnings conference call of Minda Corporation to discuss the financial and operational performance. I hope you have gone 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.

The growth in the quarter has been fantastic as compared to the last year. This quarter the automobile sector has grown by 13%, passenger vehicle sales have grown by 6.6%, and two-wheeler sales volume on the contrary has done pretty well. It has grown about 14.3% and the automobile industry is expected to grow in the near term on account of many factors such as the Seventh Pay Commission payout, upcoming festival season in the next quarter and revival of the general economic, and more importantly the implementation of GST.

With the expectation of an improvement with the demand sentiment, we expect the overall industry to grow at least six to eight percent year-on-year basis in the year 2016-2017. We have made a strong start to the year both in terms of operational and financial performance. The consolidated topline growth of 31.7%, which is an EBITDA growth 27.5% are a sign of continued fundamental

strength in Minda Corporation's Business. Sales in both 'Safety Security and Restraint Systems' and 'Driver Information & Telematics Systems' grew in double digits year on year and consolidated EBITDA margins stood at 9.0%.

PAT increased by 22.9% over the previous year driven by higher operating profit and margins stood at 3.6%. Depreciation increased from Rs. 151 million in Q1 FY16 to Rs. 213 million. The Net Debt increased from Rs. 4,548 million at the end of FY2016 to Rs. 5,234 due to additional loan taken for our expansion project, particularly at the green-field project in Mexico and for the inorganic growth which we have achieved in the first quarter by acquiring the company Panalfa Autoelektrik. Interest expenses have marginally increased in this quarter from Rs. 87 million to Rs. 89 million.

Besides the addition of Panalfa Autoelektrik to our business, there were several other key developments that I would like to share with you. We won three die-casting export orders for compression housings for a leading global automotive firm in Europe with a lifetime value of about Rs. 350 Crores. We have initiated setting up the additional Greenfield capacity in Pune to cater to these orders. In fact, we already have one facility in Chakan, Pune and we are going to setup one more facility in Chakan in view of meeting the demand of the new export orders.

We also received single source nominations for Locksets and Door Handles for the new car platform of Mahindra & Mahindra. In addition, we won an order for wiring harness business for Piaggio, Vietnam and order for the plastic interior components for Audi Q3 and Q6 at Minda KTSN, Germany. We added new blue chip customers to our portfolio such as Suzuki, Indonesia for Lead Harness business along with Yamaha, Colombia and Piaggio, China for export of Locksets from the ASEAN plants. New products introduced during the quarter include Push to Open and Push to Close Magnetic Module Locksets in Suzuki Indonesia, which are under a joint patent with Suzuki Japan.

We are on track on construction of the new greenfield manufacturing plant at Querétaro, Mexico and target to start commercial production in CY17. As many of you may be aware, this facility will be manufacturing interior plastic auto parts and will provide us access to new growth markets such as South and North American markets. Also, the construction of Spark Minda Technical Centre in Pune is now in its final stage and is expected to be operational in this calendar

year. The center would have state of the art testing and leasing equipment facility and designing, high class of software and hardware, and excellent quality of the manpower who are well experienced in this field.

Technological innovation to manufacturing high value technologically advanced products shall help us to cater to our customers better and also keep us ahead of our competitors. Increasing focus on automotive safety regulation in India is also expected to further support demand of advanced products like ABS and SRC for airbags. Having successfully addressed consolidation and stabilization of our business in the recent years we are now looking to accelerate into new growth paths. GST is a positive development and should lead to better demand for the auto and auto component industry although we are closely following the specifics relating to the implementation of the same. We are highly optimistic about the business prospects of Minda Corporation and will continue to stay committed to excellence in business and innovation in times to come.

On that note, I would like to open up the floor for an interactive question and answer session. Thanks.

**Moderator:** Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Nishit Jalan from Kotak Securities. Please go ahead.

**Nishit Jalan:** Sir, can you give some more color on performance of your key subsidiaries, which are Minda Stoneridge and Minda Furukawa in terms of how was the topline growth and profitability?

**D.C. Sharma:** This quarter we have grown by about 31.5% and this growth has largely happened in the Driver Information System where we have the wiring harness & instrumentation and Security System. Now I come to your question about the Minda Stoneridge. Minda Stoneridge is under consolidation for the first time in this quarter; growth in Minda Stoneridge was about 25-26% and yes, EBITDA margin is a little low in these companies in view of some delay in localization because of the new business and also some couple of initiatives they are taking at their end but yes, in terms of the growth Minda Stoneridge has grown by about 24-25%. Minda Furukawa figure has not grown much; it has been about 2% to 3% growth in this quarter.

**Nishit Jalan:** Sir, can you share the revenue numbers for Minda Furukawa and EBITDA margin?

**D.C. Sharma:** Minda Furukawa number is - the revenue of Minda Furukawa this quarter is about Rs. 105 Crores and the EBITDA is about 5%; whereas in case of Minda Stoneridge the revenue for this quarter is Rs. 85 Crores with the EBITDA of 8%.

**Nishit Jalan:** Thank you. Sir in Minda Furukawa how do we see we have gained? We have shown a decent growth in FY 2016, but how do we see this business in the next two years? Any new models or where you have received new orders from OEMs?

**D.C. Sharma:** See in Minda Furukawa we have three customers. Maruti Suzuki, Nissan and Honda and yes, there is a good growth in Maruti Suzuki business but at the same time, important part is how to increase the EBITDA and make this venture more and more profitable. So growth is not the strategy, at least in Minda Furukawa because as I just explained, EBITDA level is only about 5% and at that level, no venture can be profitable - so here our first priority is how to increase the EBITDA from 5% to 8% or 9% so our target is first to setup the business to see the localization and other cost factors so that we can see a growth in EBITDA of at least 3% to 4%.

**Nishit Jalan:** And this will come through localization. So what are your localization plans?

**D.C. Sharma:** There are couple of actions - one is localization, because component consists of only about 40% to 45% whereas 55% raw material cost is other areas so we have plans of alternate sourcing, the negotiation and other areas.

**Nishit Jalan:** Sir secondly on the standalone lock side business, have we started supplies to Honda's new Gujarat plant?

**D.C. Sharma:** Yes, and you will be happy to know that our share of business because of these supplies to Gujarat has been increased from 17% to 22%. There has been good growth. If you see this on the standalone basis, the revenue has gone up by about 13% and this growth of 13% has largely come from HMSI from the OEM sale if I say; it is followed by other companies also like TVS and Hero Motors that we have started recently. So to answer your question, yes, we have started the supply.

**Nishit Jalan:** Sir just one question here, if I look at the overall two wheeler industry growth in last quarter, the growth was also in double digits so what is the lag that we have basically with the OEMs - because industry grew 12%-13%; you have got 12%-13% and you have still increased your market share with Honda so what am I missing here?

**D.C. Sharma:** If you see the two-wheeler growth last quarter – it has grown by 14% and out of the 14%, scooter segment has grown by about 25% or 26%, motorcycle segment has grown only by 8%; and moped segment by 18%. Now against the growth of 14%, we have grown by about 13%. There are two three reasons - our share of business is not much in case of Hero MotoCorp; last year in the months of September / October we have started only for the scooter segment and still we are supplying for the scooter segment of Hero Motor Corporation which is very, very small as compared to the motor cycle segment. So that is the area of growth. Second, we also have acquired new businesses which are at development stage and will be started by the end of this year, for example Royal Enfield for which we have got the order which is under development. So yes because we are not present much in the Hero Motor Corporation and also we have to start with Royal Enfield so that is why we could not take the entire advantage growth in two-wheeler industry particularly in scooter and scooter has grown up by 24%.

**Nishit Jalan:** But in Honda we are present in the scooters as well right, there is no issue there?

**D.C. Sharma:** Right. Also our share is already 21% and gradually we are expecting to increase in this area also.

**Moderator:** Thank you. The next question is from the line of Deep Shah from SBI Cap Securities. Please go ahead.

**Deep Shah:** Thanks for this opportunity. Sir, just to start with on standalone numbers - taxes seem to be unevenly lower this quarter so what are the reasons behind it?

**D.C. Sharma:** Actually we have started the electronic competency center under Minda Corporation to upgrade our technology and take it ahead in this area. If we have to grow and improve the margin, one of the most important things is to focus on the technology and we have created a best in class facility in Pune - we call it electronic competency center and this comes under the R&D center and our R&D center is already approved by the Government of India. In case of the R&D expenses, whether it is of capital nature or revenue nature, we get 200% benefit of the R&D expenses so that has been the reason for lowering of the tax rate this quarter.

**Deep Shah:** Okay so I mean is it fair to assume a kind of a 22% effective tax rate for the full year?

- D.C. Sharma:** Yes, if we see the last quarter, the tax rate was about 32% and in this quarter the tax rate is only 20% because of the benefit of income tax we have availed on R&D expenses.
- Deep Shah:** Sir second question would be on the raw material front. I would like to know first of all what proportion of your raw material consist of imports?
- D.C. Sharma:** You are talking about consolidated business or standalone?
- Deep Shah:** Yes, on consolidated basis.
- D.C. Sharma:** The raw material cost in the June 2015 quarter was 62.36%, which has been reduced to 60.9%, so there has been an improvement in the raw material cost by about 1.5%. Right now it is 60.9%.
- Deep Shah:** Sir so what is the proportion of imports in total cost basically?
- D.C. Sharma:** Imports in our case is not much, except in the wiring harness businesses and also some part in the instrumentation. Otherwise in case we decide to import, let us say our major application in the raw material cost is, for example Zinc. Zinc is the major application and we keep a closed watch whether to buy locally or to take the advantage of fluctuation in the LME rate. Depending on that, we may decide to import roughly 20% to 30% zinc, to take the advantage in terms of price reduction, otherwise Zinc is also available locally. The second part is that in Minda Furukawa, where most of the component - let us say 70% of the component we are using in wiring harness - is imported from our JV partner from Furukawa, Japan. So here the exposure is a little high. Otherwise, whether security or wiring harness or the interior plastic segment, imports is not much.
- Deep Shah:** Sir the last question is on the revenue from this quarter. If I look at revenue by geography, proportion of India has gone up quite significantly from 74% to 82% this quarter year-on-year. So I would like to know is it because your CV mix has gone up or is it something else?
- D.C. Sharma:** Basically we are into three products one is Safety & Security, second is Driver Information Systems where we classify the wiring harness and the instrumentation, and third is the interior car plastic parts. In fact there has been a growth in the first two products in the wiring harness segment where there is an increase about Rs. 50 Crores as compared to last quarter and the security

segment has increased about Rs. 45 Crores and there is some increase in the aftermarket of about Rs. 15-20 Crores and also the exports. So basically the growth in this quarter has not been much in the interior car plastic because we already started the expansion and our products are under development. Presently we are doing turnover of about EUR 13 million on a quarterly basis which translates to about EUR 50 or 55 million per year and though we have about EUR 100 million booked with this but that will start in the last quarter of FY 2016-17. Then it will be commercialized in a phased manner and it will reach up to EUR 100 million. But yes in this quarter the sale of the interior plastic division where we have the largest presence in Germany and in Poland and Czech - there the sale has been the same and no growth whereas the domestic segment has grown. So that is why this ratio has changed slightly.

**Deep Shah:** Sir basically in interior systems, the products are all export - basically these represent exports?

**D.C. Sharma:** No, interior basically is what we manufacture and supply from Europe only. Exports in others areas are which we manufacture in India and supply to outside countries.

**Moderator:** Thank you. Next question is from the line of Puneet Gulati from HSBC. Please so ahead.

**Puneet Gulati:** Thank you so much. Good evening. If you can give some more color on your Furukawa joint venture where the last quarter I think you were going very well and there is apparently also a promise from Suzuki to give you a certain share of business. How has that changed and why was the growth slower this quarter?

**D.C. Sharma:** See there are two to three reasons. We have had some increase in this quarter as a second source in the Maruti Suzuki, which we have not accepted in view of the margins. Just sometime before I have said in this joint venture unless and until we improve our margins - for example right now, EBITDA is about 5% - unless we improve by 3% to 4%. We have already created a task force in the joint venture where 3 person from the partner side from Furukawa and 3 person from our side, which is supporting the joint venture team and how to turnaround fast, how to improve the margins to 4%. But yes, intentionally and with a strategic plan, we thought this is the year where we have to consolidate, we have to improve our margins and though we have couple of new projects also in the pipeline - even



Maruti Suzuki - which will increase our share of business, may be in the year FY2017-18 for example the Ertiga new model. We have one more model but in this year we are going to expect not much growth in the Minda Furukawa business.

**Puneet Gulati:** Okay because last time you mentioned that you are negotiating for price issue, has something happened on that front?

**D.C. Sharma:** Yes, we are still negotiating. We got some very small amount of the increase from the Nissan side because we have three customers, but yes not much success in terms of the price increase that is why the pressure on the profitability. We were expecting about 8% to 9% EBITDA in this quarter in MFE but the EBITDA has been only 5%. But we have internal couple of areas we are thinking into and for example, two plants in Chennai under the Minda Furukawa so we are thinking whether we can have one plant instead of two and still supply. So similar to this we have many other areas for cost, that is the important part for the management.

**Puneet Gulati:** So the promise of Suzuki to give you 30% share of business from Maruti. Is that now put on hold on from your side and you asked them to delay it?

**D.C. Sharma:** No, not put on hold actually. When we started the JV - this was the understanding with Maruti Suzuki and our share of business is about 18% with Maruti Suzuki. Next year when we go for one more model, may be it will be increased from 18% to 21% in FY 2017-18. So that is not on hold, that is because of the slow speed at our end, I should say.

**Puneet Gulati:** Okay so basically you are choosing a slower path right now?

**D.C. Sharma:** Yes, we will go if it is good margin. See, in this business if you get entry as the first entrant, definitely your margin is good but when you go as a second source, there is competition so there the margin is lower. And then you have to think whether you have to go with this business or not to go.

**Puneet Gulati:** Okay so what you think is basically for this year you are likely to see similar kind of slow growth but for next year with new models your growth should come back?

**D.C. Sharma:** Yes.

**Puneet Gulati:** And there you would be sole supplier once again?

- D.C. Sharma:** Exactly.
- Puneet Gulati:** Okay and how many new models has Maruti planned to launch next year and how many have you got in that share?
- D.C. Sharma:** See there are many models of Maruti Suzuki but as far as Minda Furukawa is concerned, we have already got the business of Ertiga and Swift Facelift, we are still negotiating. One more model we are trying which is the new Wagon-R model but let's see what happens.
- Puneet Gulati:** Okay, but do you still have to negotiate or I thought the new models at least come to you right?
- D.C. Sharma:** There are two more competitors in case of Maruti Suzuki. One is Motherson and the other is Yazaki. Minda Furukawa is the third one so definitely we have to prove our competency and cost effectiveness in terms of winning the business. Of course we have good support from the Furukawa front from Japan side but at the same time the pricing or the cost is also important for this area.
- Puneet Gulati:** Okay so Ertiga also you similarly negotiated with the competition?
- D.C. Sharma:** Ertiga we have already been awarded the business which is under development and for other two segments / platforms, we are in the process of negotiating the business.
- Puneet Gulati:** Okay and would the margins be similar for Ertiga as well what you are currently generating or are they supposed to be higher?
- D.C. Sharma:** This time margin would be better. And for example internally we always measure our margin in terms of the contribution and here contribution would be about 20% and EBITDA would be about 11% to 12%.
- Moderator:** Thank you. The next question is from the line of Mahesh Bendre from Way2Wealth. Please go ahead.
- Mahesh Bendre:** Thanks for the opportunity. Sir during this quarter our net debt has gone up to Rs. 523 Crores from Rs. 455 Crores?
- D.C. Sharma:** Absolutely right, if you see our growth plan we have basically three to four areas of growth. One is the Mexico plant where the work has already been started from

sometime in March and we have to create the facility maximum by December end and we will start our commercial production sometime in January or February 2017 so there we have taken some loans in the Mexico project because we have already budgeted cost, and we are working under the same. We will take the loan and infuse money into this project in the phased manner so yes, this is one area. Second, we are going to create one more die-casting facility in Pune, where we have acquired about 10 acre land in Chakan in the month of June, so because of this expansion program, yes debt level has been increased marginally.

**Mahesh Bendre:** So what was, will it grow further by this year-end or will it stabilize?

**D.C. Sharma:** In this quarter, the debt equity ratio has increased to 0.89x; it was I think 0.83x or 0.84x as on March 2016 but in this quarter it has gone up to 0.89x. Debt equity ratio may go up to 1.1:1x by the year-end, once we take this full loan which is for the expansion plan for this project. Because if you see our growth plan in next two to three years - die-casting is the area where we have got more than Rs. 100 Crores of export orders and we are in the process of creating this facility and achieving our orders and starting supply in a phased manner. So in die casting we will be investing about Rs. 45 Crores in this year. And apart from this, in Mexico also will be investing about let us say Rs. 150 Crores. So roughly about Rs. 200 Crores we have to invest additionally in this year for these two new programs and out of this roughly 50% we will be taking by way of term loan. So if we consider this additional term loan, then debt equity ratio will go up to 1.1:1x by this year end.

**Mahesh Bendre:** Sir in the first quarter we have grown by 31% - 32% on Y-o-Y basis so what is the revenue growth outlook for this year and may be next year?

**D.C. Sharma:** This year we will have comparatively same growth - we should expect 35% to 38% by the year end. Next year also we will maintain the same. Because in our die casting plant which is the part of security, will have a good growth and this Mexico plant will also be operational. Even if I just share the Mexico plant revenue figure for the year 2017-2018, it will be 20 million additionally, 20 million means roughly about Rs. 160 or 150 Crores will come additionally from these two accounts so considering this growth rate we will grow at least 35% to 40% in the year 2017-2018.

**Mahesh Bendre:** It is great to hear that a very strong growth this year and next year. Sir our operating margins are 9%, so how will this influence I mean since this is high growth you will be able to improve your margins or they will stabilize where they are now?

**D.C. Sharma:** If you see the EBITDA in totality is about 9%. I would just like to give the classification of EBITDA under the three products, Safety and Security was about 11% and in case of the car interior plastic, where the Mexico plant is also done, is 9%. Right now some part of the project cost particularly the pre-operative, we are charging to the revenue which is also creating the pressure on EBITDA. Secondly we have started the electronic competency center in Pune, where the personnel cost and other expenditure has increased as compared to last year. So because of these two reasons, the EBITDA level has gone down marginally from last year. I think it was 9.3% and this time it is 9%. But I am sure we at the group level, have some cost reduction plan particularly the employee cost. But what we observe is that when we compare our personnel cost to the peer group, we found it is on the higher side - it is about 18% where it includes workers, both blue collar and white collar. So that is the area we have targeted a 2% reduction in by the year end. So definitely that will help to improve the margin. Apart from that, the other area is metal cost reduction. So we believe this year the margin should be increased by at least half percent in next six months time and then let us see further improvement. And over a period of next two years we believe that margins will be up by 2%.

**Mahesh Bendre:** Last question about you mentioned about the capex in this year but what would be capex for next year I mean cumulatively over next two years how much funds we will be deploying?

**D.C. Sharma:** If you see in the other segment we have substantial capacity and in the year 2017-2018 our routine capex will not be more than Rs. 60 or 65 Crores, which is normal capital expenditure we incur generally every year. Last year also we incurred about Rs. 50 or 55 Crores of capital expenditure. So by spending this year's capex we will be at par in terms of servicing to the customer for the new order and we are not expecting much capex in the next year.

**Moderator:** Thank you. The next question is from the line of Bobby Jayaraman from Falcon Investments. Please go ahead.

**Bobby Jayaraman:** Two questions, the first one on your margin we are seeing somewhat lower than your peers is that a reflection of the kind of components you supply or is because you are pricing aggressively to get orders? What really is the fundamental reason? That is the first question. The second one is how long are your orders for and before you set up a plant say the one in Mexico or in Pune do you already have orders for them or do you hope to get orders after you set up the plant?

**D.C. Sharma:** I will start from your second question. In Mexico, yes, we have already booked business the confirmed order from the customer. Even we have booked business for the next two years also. In case of interior plastic division particularly in Germany there is lifecycle of the passenger vehicle of the car line is always fixed and we get the business in advance at least two to three years because development time is also significant. It takes two to three year's time to develop new products. So we already had booked the business for the Mexico. Similar in Mexico in case of the die casting plant again we have the sufficient facility for the domestic orders. Recently, one year back, we started a very big initiative in our corporate office - even at the company level - on how to increase the exports because we believe that export in our group is roughly about 4% to 5% right now and there is a good potential of exports. And fortunately we have won a very good business of new product activities - the compressor housing for the turbo charger and this compressor housing itself we have the year 2019-2020 we will be exporting somewhere 150 Crores for this product. By 2017-2018, we will be doing exports of about Rs. 55 Crores or Rs. 60 Crores and gradually we will increase. So we have the confirmed business from parties. Now I come to the pricing. Pricing in case of Minda Furukawa business, we lost the deal with the passenger car. Actually let me give little more background for this wiring harness, we have two companies - one is called Minda SAI, which deals with OEMs other than Japanese, in passenger car. For example, Tata Motors, Mahindra & Mahindra, Ashok Leyland, HMSI, TVS, HMC, Volvo, Eicher - all these are customers of the Minda SAI. Their EBTIDA margin is 10% whereas in case of Minda Furukawa, the margin is only 5%. The basic reason is in Minda SAI, we have our own component division, which manufactures the components for captive requirement for the wiring harness - those are called couplers, terminals and other products, but in case of MFE the 60% of the components we are still importing from Furukawa Japan and that is the reason for the higher cost and the low margin. Yes, localization will happen in a timeframe but somehow this localization has been delayed due to various reasons.

**Bobby Jayaraman:** That makes a lot of sense. I understand that part, but how do you explain the margins in some companies like Bharat Forge of 20% and above?

**D.C. Sharma:** But if you see the automobile sector, may be there are three or four companies where EBITDA is more than 10% but as far as my study is concerned, the average margin in automobile component manufacturing lies from 9% to 11%, maybe there are few examples. If you see Motherson, their EBITDA is I think 9% - near about 9% or 9.5% - and yes except a few companies may be such as Bosch, WABCO, Exide and Amara Raja which may have higher EBITDA. Our target is also to improve the margin - right now it is about 9% and we want to go to 11% over a period of two years. So yes we will be improving, that is the strategic focus area from a group perspective.

**Bobby Jayaraman:** Thank you very much.

**Moderator:** Thank you. The next question is from the line of Sidharth Behera from Nomura Securities. Please go ahead.

**Sidharth Behera:** Hello Sir, thanks for the opportunity. Sir first just wanted to understand what will be the growth for your after-market business in this quarter?

**D.C. Sharma:** In the after-market segment, last year we did turnover of about Rs. 200 Crores. This year our target is about Rs. 335 Crores and in this quarter we have done about Rs. 65 Crores. So roughly let us say 20% we have grown in this year in after-market segment.

**Siddharth Behera:** Okay so this is broadly tracking whatever we had been doing earlier also, so the growth remains?

**D.C. Sharma:** We measure our turnover in two ways - one part is the existing products, and then we have couple of new products. Both have grown. Existing products has grown about 12%. It is not fair to consider the 76% increase in sales of new products because of the low base of last year. But yes, considering both, we have grown about 22%-23% in after-market in this quarter.

**Sidharth Behera:** Sir my second question is on your Minda Furukawa business. I mean basically we are increasingly seeing more safety features being added by OEMs given that government is also now time to push more safety requirements in cars so in the

airbag SRC component segment are you seeing any improvement in ordering from these OEMs for the safety requirement in the next two years?

**D.C. Sharma:** Right. See there has been one change as per the new regulation. Once this ABS was introduced, our Minda SAI, which is into wiring harness has been benefited. And there has been a good growth in the segment because of the ABS factor and also improve the margin. And similarly in security, yes we are also in the process of developing some parts for the ABS for example ABS two-wheeler. What was your second question?

**Sidharth Behera:** Sir more related to airbags?

**D.C. Sharma:** Yes, now I come to the SRC for Minda Furukawa. Yes, SRC we already have two lines for and presently we are doing business of about Rs. 20 Crores for the SRC and right now this is being fitted for car supplies to Maruti Suzuki, Nissan which they are exporting and once this execution comes into force, definitely the SRC demand will be increased. We are expecting that in 2017-2018 - hopefully from April 2017 - the airbag should become mandatory.

**Sidharth Behera:** So Sir 20 Crores is for the whole year?

**D.C. Sharma:** Yes, because right now we use only for those cars which are being exported.

**Sidharth Behera:** Okay but right now you are not seeing increased orders because of airbag? It will happen when the regulations comes in?

**D.C. Sharma:** Definitely, it will start at least three four months before.

**Sidharth Behera:** Okay and will the margins be on the slightly higher side for this component?

**D.C. Sharma:** It has much better margin as compared to the wiring harness.

**Sidharth Behera:** Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Deep Shah from SBI Cap Securities. Please go ahead.

**Deep Shah:** Just a clarification on standalone numbers, quarter on quarter if I see your topline is kind of a flat that at a 0.8% decline basically whereas other expenses have declined by around 11% sequentially. So I mean what are the reasons behind it?

**D.C. Sharma:** You are comparing I think March quarter with the June?

**Deep Shah:** Yes, sequentially I am saying.

**D.C. Sharma:** Yes, see in automobile sector always there is a trend that the first quarter sale is much lower as compared to the last quarter. If I just bifurcate the yearly trend of the revenue, generally 40-45% turnover we achieve in the first half whereas in the second half because of the festival season and other reasons (such as incentive schemes with the bank etc), definitely growth in the second half is always 55% to 60%. So it will not be fair to compare the revenue of the March quarter with the June quarter. If you see June quarter yes we have grown by 13% and still we have areas of growth. We have already targeted and we will see good numbers in the next quarters.

**Deep Shah:** Sir my question more pertains to other expenses. If I simply compare other expenses as proportion to sales it was 16% in last quarter that is March quarter and it is now at 14.5% so there is a decline sequentially so I would just wanted to know the reasons?

**D.C. Sharma:** See, yes, you rightly said that this cost which was about Rs. 28.89 Crores has reduced to Rs. 25.74 Crores. We will work out in detail but primarily there are two to three reasons for this. One area is the forwarding cost where we have done good amount of reduction. Secondly, in after-market we have about 24 sales depots in India right now and gradually we have cut down and reduced this 24 sales depot into 15 or 16 which helped in saving about Rs. 1.5 Crores. That is one area. We believe with GST, next year these sales depot will be cut down to four or five at India level. Then we have some one-time expenses in the March quarter particularly this delivery, legal cost and some assignment about Rs.40-Rs.45 lakh. Second, some renovation work also done and some repairing work in terms of building, we got Rs. 1 Crores worth of construction inside the factory, and there was some shifting of one or two departments for example our engineering center in Noida was in the first floor then we decided to shift in other block - that also incurred about additional cost. So this was all the routine matter and most of the one-time expenses we incurred in the last quarter March 2016.

**Deep Shah:** Thanks.

**Moderator:** Thank you. Next question is from the line of Pratik Aggrawal from Badjate. Please go ahead.



**Pratik Aggrawal:** Good morning Sir, I have only one question, basically it is relating to debt. Our debt has increased so can you explain the nature of it and where this money is going to be used and when this capex will be get completed and by what time it will start contributing to our topline. If you can share some guidance for this?

**D.C. Sharma:** See debt level which was about let us say Rs. 490 Crores by March 2016. In fact our debt equity ratio of up to 0.8x which has gone up to 0.89x and this debt I have already explained because of two reasons. We are expanding our base at Mexico. Mexico we are not present but are commissioning a new plant for the passenger car segment for our product interior car plastic. So that is the one area and the revenue of this plant will be started in the last quarter of 2017. 2017-2018 financial year will be the full year where we can see the increased sales by at least EUR 20 million from Mexico. That is one area. Second, we have started putting up a plant in Pune, (Chakan) for our die casting facilities in view of our new export order booked for the year 2017-2018 onwards. And here the export order even in the 2017-2018 itself for additional Rs. 50 Crores which will increase to Rs. 537 Crores in the year 2019-2020. So these are the two major areas and I have already explained that this year we will be investing about Rs. 200 Crores additionally in the capital expenditure and 50% of that will be out of our internal funds and for rest 50%, we will go for the loan financing.

**Pratik Aggrawal:** Thank you.

**Moderator:** Thank you. The next question is from the line of Chirag Shah from Edelweiss Securities. Please go ahead.

**Chirag Shah:** Sir, a question on this die casting order. Would it be right to assume that this is a new development, because your earlier capex guidance was far lower than what we are intending to spend this time - so we are looking to spend around Rs. 200-odd Crores in terms of capex in FY2017 itself that is growth capex. So if you can just run us through what has changed in last three to four months which has led to rise in capex and also are these die casting orders confirmed and also if you can share some light on who are the customers?

**D.C. Sharma:** See, die casting you rightly said, actually we started focusing on exports in last one year. Even in the last to last quarter, I explained that we have created one team at the corporate level which is exclusively working on exports because you see our competitor is doing a very good amount of exports where we are hardly

present. For example in wiring harness, Motherson is doing about Rs. 800 Crores exports for a year whereas we have not yet started our exports in the wiring harness segment, though we have booked some business in this quarter. Similarly in die casting also, our exports is hardly Rs. 2-3 Crores and we got very good success from the Europe side. The customer has already visited our existing plant. We have two plants right now, one in the north in Noida and second in the Chakan in Pune. And there we are manufacturing about 40% for captive consumption, because of the die casting part of the internal requirement of the security system, but 50% we have started supplying to the outside customers like to Bajaj we are supplying. We are also supplying to TVS, Honeywell and Endurance. And we have got a very good response in the last two years to increase this base. Now I come to your question specifically - this export order for some new part, we started some business for the similar part for Honeywell for turbo charger housings. Okay let me say the name - there is a customer called BorgWarner - they are available all over the world and have about eight or ten plants worldwide. In European facility we have got confirmed business from the customer and we will start supply from the last quarter of this year.

**Chirag Shah:** So last quarter of FY2017 - from Q4 onwards?

**D.C. Sharma:** Yes, Q4 we will start but the full year supply will be in the year 2017-2018.

**Chirag Shah:** What is just to understand in terms of customer by when the plant has to be ready for you to start supplying in Q4 would there be an increase in preoperative expenses significantly because of this plant and Mexico even for next two three quarters?

**D.C. Sharma:** Even in the existing plant of Pune we have surplus capacity. We can do some part this existing plant from Pune. Basically this is called gravity die casting. In terms of die casting, there are 2-3 types of technologies. One is gravity die casting, second is hot chamber and then cold chamber. This is largely gravity die casting and what we are thinking is just to start this base for the bigger part because right now in Pune, our current plants are manufacturing a small size die casting part particularly as a component for example foot rest, cup holders, tandem cylinder. Here we can go for little bigger parts also but it will be very expensive. At the same time there is a capacity constraint in terms of the space in terms of the manage switching capability so in view of this, we have started for third plant. Fortunately there is one incentive available in that area - about over 22.5% of the capex, which will be utilized over a period of three to four years. So now next

year onwards, you will find some other income in the profit and loss account because of this reason. So this is the one advantage we have, and this one advantage will also take away the burden in the first year itself on some cost increase. So in view of the consolidation of this technology at one plant and shifting the bigger plant in one location keeping a small plant or small technology in different area in that we will be still be having our cost. And we do not think it will release the pressure of the cost from this account.

**Chirag Shah:** And this business is in standalone right?

**D.C. Sharma:** This is standalone.

**D.C. Sharma:** Thank you very much for this participation. I am grateful that all the participants have taken keen interest and that they have gone through the numbers very well and I assure all of you that there will be a good improvement in terms of both topline and bottomline in the coming quarters and we will put our hard effort to improve the margin base which is down in this quarter marginally. And we will see how to improve in the next quarter. So with these comments, thank you very much and I say good-bye. We will meet in the next quarter once again.

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

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

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