



# “Minda Corporation Ltd Q4 FY-15 Results Conference Call”

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**MANAGEMENT:** **MR. D. C. SHARMA-GROUP CFO, MINDA CORPORATION LTD**  
**MR. AJAY SANCHETI-HEAD GROUP CORPORATE FINANCE & LEGAL, MINDA CORPORATION LTD**  
**MR. VINOD BAPNA-HEAD GROUP FINANCE CONTROLLER, MINDA CORPORATION LTD**

**MODERATOR:** **MR. SIDDHARTH BERA- ASSOCIATE - INSTITUTIONAL EQUITIES – RESEARCH, EDELWEISS SECURITIES LIMITED**

**Moderator:** Ladies and gentlemen day and welcome to the Minda Corporation Q4 FY15 Results 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 at the after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Siddharth Bera from Edelweiss Securities. Thank you and over to you sir.

**Siddharth Bera:** Thanks Margreth. Good afternoon everybody and a warm welcome to all the participants. We at Edelweiss Securities are very pleased to host the Q4 FY 15 Earnings Conference Call of Minda Corporation. From the management we have with us Mr. D. C. Sharma – Group CFO, Mr. Ajay Sancheti – Head Group Corporate Finance & Legal and Mr. Vinod Bapna – Head Group Finance Controller. Thanks to the management for this opportunity. I would like to hand over the call to Mr. D. C. Sharma for his opening remarks, post which we can have the Q&A session. Thank you and over to you Sir.

**D. C. Sharma:** Good afternoon everyone, I welcome to all of you on the earnings conference call for the quarter ending March 14 and the year 2014-15. I hope that you have had a chance to review or judge an earning presentation which is also available on our website.

At the beginning I would like to brief about the growth in automobile sector. Actually automobile sector across the globe are going through recovery and during the year the Indian automobile market witnessed the growth of 7.2%. With the overall economy revival backed by the recent reforms the domestic auto industry is expected to pick the pace particularly in commercial and passenger vehicle segment.

Now I will start the highlight of financial results for the quarter and the year 2014-15. In this year I'm talking about 2014-15, our sale has increased from 1594 crores to 1971 crores, it means sale has increased by 24% and there has been improvement in EBITDA. EBITDA has increased from 9.8% to 10.6% and the PAT was 79 crores in the year 13-14 and now this year it has increased to 89.5 crores and even if we see the quarter wise movement, Quarter 1, Quarter 2, Quarter 3, Quarter 4, there has been a constant improvement in EBITDA and the PAT. In fact EBITDA has increased, it was 9.6% in the Quarter 1 and increased to 10.1%, then 10.9% then 11.5%. Similarly PAT amount has also increased from quarter to quarter; it was 17 crores in the Quarter 1 then 22 crores, 24 crores, 26.4 crores in the last quarter. When we see the

PAT initial figures there is a growth about 12.8 or 13% growth on PAT over the last year. But if we consider separately the exceptional income of the last year 2013-14 then in fact the PAT, there is a growth of 35.27%, it means operating profit has increased significantly in this year and this increase is even after absorbing the additional impact of depreciation. As per the new company act we have changed depreciation rate, this has impacted us by about Rs 5 to 6 crores in this quarter. Similarly we have started new location or increased the capacity for the future growth because we have the projection for the year 2015-16 and it was necessary to increase the capacity. There also we have incurred some cost on account of employee cost and also some expenditure. But even that after absorbing all this cost the PAT has grown by 12.8% absolute figure.

If you see the financial result of the last quarter, last quarter about March 14 with the comparison of corresponding quarter of March 13 then there is a decline in the profit particularly March 14 there is a reduction in the sale from 536 crores to 492 crores and this reduction is mainly due to the exchange rate fluctuation. Basically we have subsidiary company called Minda KTSN in Europe and their figures because it is 100% owned by Minda Corporation so these subsidiaries are consolidated with the Minda Corporation and in this quarter of the Euro rate is about 69 INR equivalent to €1, it was about 84 in the last quarter. Mainly 20 crores has been impact in the sales because of the foreign-currency rate but there is no impact in the PAT because it's only a consolidation whether it's for 69 or 84 whatever is that it, it is not going to impact the profit as such.

If we analyze the PAT of the last quarter means March 14 versus March 15 then yes in the last quarter the profit is reduced to 26 crores from 45 crores but this reduction in the profit was only because of the exceptional income. The exceptional income was in the last year it was about 18 crores mainly on account of some accounting difference between the German GAAP and the Indian GAAP and also it was containing some profit on sale of shares, a small amount of about Rs 4 crores otherwise operating profit has been increased in March 15.

Then I come to the details about the financial health of the company, company actually has put a tight control over the loan, company has not taken any major loan during the last year and has repaid by about Rs 46 to 47 crores. In fact loan was 483 crores in the year 13-14 which has been reduced to 445 crores and with the reduction in the loan the debt equity ratio has been improved. It was 1:1.1 which has been reduced to 0.86x as on March 15.

Apart from the financial results I will come to the dividend part. The company has declared 20% dividend, out of 20% company has already paid interim dividend in the month of February and the balance 10% has been paid in this year. But here the important part is the cash payout; the cash payout on account of dividend has been increased from 4.19 crores to 8.27 crores it's mainly because of the bonus and split of shares happened in the last quarter of this year.

Then apart from the financials now I come to the other developments, company has entered into a joint venture with VAST and this joint venture is 50-50, 50% owned by Minda Corporation with subsidiary company, 50% owned by VAST and with this joint venture there will be a significant improvement in terms of the top-line and bottom-line both because new product will be added and this product will be to the existing customers there where the Minda Group has a good relationship and we hope with this improvement in terms of technology and JV partner strength there will be good growth in the coming year.

So this was about the briefing now I am waiting for question answers and I welcome any questions on the financials from you.

**Moderator:** Thank you very much. We will now begin with the question and answer session. The first question is from the line of Viraj Kacharia from Securities' Investment management. Please go ahead.

**Viraj Kacharia:** I just have couple of questions on the cable's businesses. In the presentation you just highlighted that it will be one of the core growth of the company so can you give the outline how much of sales you have done in the control cables segment and what is the plan for FY16?

**D. C. Sharma:** Even in the last quarter also I explained about the control cables and I think same question was asked and I recall from my memory that it was from your side, the control cable business this is the only first year when we've started this business. In fact we have started through after sales market. Generally, we start first with the OEM then start the aftermarket but in this case we've started from the aftermarket because there was a continuous pressure from our retailer partners from the market and last year the company has done the sales about Rs 26 crores because being the first year and we hope it will further grow, there is a good potential in this market and we have well established network relationship in the aftermarket.

**Viraj Kacharia:** How big would be the aftermarket for control cables in India?

- D. C. Sharma:** Aftermarket alone is about 450 crores in the market and then we see how much share which we can grab from the market because it's a tough competition, we know the well-established players are also already there and yes but with the strength of our quality and our relationship, brand image in the market, we hope we will have considerable share of this in this market.
- Viraj Kacharia:** And have any plans to also cater the exports?
- D. C. Sharma:** Exports still there is a good potential in this aftermarket, even OEMs we have not started. So once we are satisfied with the quality and with response of the market for control cables then first our priority would be to roll it out in the OEMs because we have excellent relationships with all two wheelers manufacturers whether it is Bajaj or TVS or HMSI wherever it is. So first priority will be the OEMs then we will look for the exports.
- Viraj Kacharia:** So even on the OEM side we will start catering to that from FY 16 onwards, right?
- D. C. Sharma:** No that I can't say because our main focus right now on the aftermarket because this is the only second year. Last year it was part of the year and the full year would be only in 15-16.
- Viraj Kacharia:** So with couple of players in this space who earn significant high margins so on the consol basis for us we earn around 10 to 11% margins so wouldn't this particular segment be accretive from margin point of view?
- D. C. Sharma:** If I see the margins in our control cables, there is a two wheeler control cable and also few four wheelers, first we'll start with the two wheeler and margin is yes because you see whenever we start any new business, the first year margin is always lower because we have many exercises in terms of localization, in terms of value engineering and then gradually we improve the margin. So we hope the margin will also be in line with the other products.
- Viraj Kacharia:** Thank you.
- Moderator:** Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.
- Hitesh Goel:** I just wanted to dwell on that point on replacement market of control cables. You said that the market is only 450 crores, is the total industry size all you were talking about only the organized players? And also this is 2 wheeler and 4 wheeler cable

total combined market or this is only for 2 wheelers, so just wanted your view on that.

**D. C. Sharma:** See, we also have a dedicated team for the aftermarket and as per our calculation our team has worked out the potential about 450 crores.

**Hitesh Goel:** This is for the whole market?

**D. C. Sharma:** No, this may not include one or two cables where we have not entered. But as far as our product line is concerned where we see the technical capacity is available and all these things, there are we have worked out the potential of Rs450cr

**Hitesh Goel:** Does this cable gets replaced in 4 wheelers or the replacement cycle is not there for 4 wheeler cables?

**D. C. Sharma:** I am not a technical person but as far as my understanding was, the cycle is too short in case of the 2 wheeler and 4 wheeler has a very long cycle

**Hitesh Goel:** By 7 to 8 years basically after the first that we should assume.

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

**Hitesh Goel:** And Suprajit basically it is also just started in the replacement market, so Suprajit supplies to you and you supply to OEMs, how does it work?

**D. C. Sharma:** We have no relationship with Suprajit. Suprajit is our competitor. And if you see aftermarket we have more than 500 wholesalers in India and more than 15,000 retailers we have and we are there in the aftermarket for the last about 15 to 18 years and we have well-established network for the other products. We have security systems, we have wiring harness, we have instrumentation, we have others like filter products also for aftermarket, so with the existing range of the dealers, existing partners, we have launched this product last year. So it is an independent exercise and we have no relationship with Suprajit.

**Hitesh Goel:** So what is your revenue in replacement market right now on an annual basis?

**D. C. Sharma:** That Segment is right now about 200 crores.

**Hitesh Goel:** This is total. I am just talking about the control cable

**D. C. Sharma:** This is including security systems, wiring and all other products.

- Hitesh Goel:** And control cables you just started last one year back.
- D. C. Sharma:** Control cables, last year we started about 24 crores we have achieved in the 14-15 and again we have plan for 15-16.
- Hitesh Goel:** So this even Suprajit has started 2-3 years back. So just wanted to know what has changed because previously OEMs used to cater to this replacement market. So what has changed in terms of you guys launch the brand in the replacement market because previously only OEM, it was through the OEM dealer channel, now you guys themselves have gone ahead and launched your own brand. So what is the thinking behind that?
- D. C. Sharma:** Thinking is from the feedback of our partners, there was a feedback to start this product for after sales market and we also observed that we already have wiring harness of one of the products, we are manufacturing wiring harness for 2 wheelers, 4 wheelers. We are also manufacturing battery cables for the motors and we thought yes there is some synergy available for this product and we were in the discussion internally to start this product, so after taking the feedback of retailers or the wholesalers we started. At the same time we also got a good response from the OEMs and we have to see what is the good time to talk to the OEMs to start the business, this is for basically background mainly the reference the feedback from the aftermarket partners.
- Hitesh Goel:** What is the pricing difference between you and the unorganized players in this segment in your whole product portfolio, is it 20-25% expensive than organized?
- D. C. Sharma:** If I just tell you the well-established, for example, security systems, for example whether instrumentation, then our price is definitely higher by about 10-15% than the other competitors. And we don't compare ourselves with the unorganized players, there is no competition and we can't compete with them because they have very less structure, they have very less technological background in the labs and the engineering everything. And in control cable also we are slightly lower than the well-established players like Suprajit but we'll come up once the product is established in half way, then we will see how few new features, how good product we can give to the market and then we will look for the price.
- Hitesh Goel:** So Remsons is the largest player in this replacement market in control cables, am I right? Because when we go to the replacement market we only see Remsons.
- D. C. Sharma:** Absolutely right.

- Hitesh Goel:** And in wiring harness in replacement segment you will be the leader because Motherson Sumi doesn't supply....
- D. C. Sharma:** See in case of the OEMs definitely Motherson has the largest share of passenger vehicles. We also supply to the passenger vehicles and we are also supplying to Maruti Suzuki and the Nissan and the Honda and the others, but definitely Motherson has the largest share of passenger vehicles. But if you see the other wiring harness products, for example, the wiring harness for the commercial vehicles, wiring harness with 2 wheelers and wiring harness for the tractors, then we have larger share of business. But definitely the pricing is slightly better in case of passenger vehicle and we are right now only to the Japanese OEMs like Maruti, Nissan and Honda through our joint-venture Minda Furukawa otherwise Motherson definitely has high share of business.
- Hitesh Goel:** And you have share in the replacement market also that you said in wiring harness?
- D. C. Sharma:** Yes, wiring harness also we are into the aftermarket.
- Hitesh Goel:** So you would be a leader there in wiring harness?
- D. C. Sharma:** Wiring harness there is tough competition between another player. Motherson is not much in the aftermarket.
- Hitesh Goel:** Motherson Sumi is not there in that aftermarket.
- D. C. Sharma:** Yes.
- Moderator:** The next question is from the line of Siddhartha Bera from Edelweiss Securities. Please go ahead.
- Siddhartha Bera:** First wanted some highlights about your growth in Minda Furukawa? How has been the growth for the year in FY15 and how has been the ramp up in your market share with your key clients like Maruti, Nissan, or Honda? How the market share has moved towards the last year, if you can highlight some key facts about these?
- D. C. Sharma:** Minda Furukawa we are manufacturing the wiring harness for the 4 wheelers particularly for the Japanese OEMs, I just said about Maruti Suzuki, then Nissan, then the Honda and other Japanese OEMs. And last year we have achieved a turnover of about 275 crores and we also started three new locations in MFE, we started one plant in Chennai, one in Noida, one near to Delhi. And we have about 12-13% share



in this of Maruti Suzuki but we have an agreement with Maruti Suzuki that our sale of business will go up to 30% but in this year in '15-16, we have a couple of new products recently start one with Nissan, one with Maruti Suzuki and our sale is expected to increase to 465 crores in the year '15-16 and that is why we created additional capacity in the year '14-15. And apart from this we also started some new products like SRC, steering roll connectors, which is the main component of the air bags, so there also because this year is the first year for the SRC then we will look for good growth in the years '16-17 or '17-18 when it will be mandatory for Indian 4 wheelers.

**Siddhartha Bera:** This 275 crores of revenues, is this year your share of the Minda Furukawa JV or it's the total revenue....

**D. C. Sharma:** It is the total sale, our share is 51% to this JV and 49% owned by the JV partner, this is total sale.

**Siddhartha Bera:** So the larger growth is likely to come in the next FY16. And how will the ramp up happen? I mean these new plants, how will they ramp up over the next few quarters?

**D. C. Sharma:** Ramp up if you see we already started one product to Maruti Suzuki in the month of February and also Nissan new product has been started and we believe that the sale, the real ramp up will be started from the 2<sup>nd</sup> Quarter means about July and August though 1<sup>st</sup> Quarter sale is also higher than the last year but the real ramp up will start from the 2<sup>nd</sup> Quarter only.

**Siddhartha Bera:** Another thing, in the aftermarket business how much has been the growth for FY15 for this aftermarket business for you?

**D. C. Sharma:** See, there has been a growth of about 28% in the aftermarket and this growth is almost all. We are also started wiper blades and the control cable and one more product last year and after considering our legacy in the existing products the growth is 28%.

**Siddhartha Bera:** So going ahead what will be the key drivers for this growth? Is it more to drive industry growth or you will be introducing more new products and that will be driver of growth going ahead?

**D. C. Sharma:** Industry growth we are looking for about 12% in the year '15-16 but our growth will come from 3-4 areas, one is the increase in share of business from the existing

customers particularly HMSI. HMSI in security systems we have only about 16% share of business and we expect it to go up to 50% in the year '15-16.

**Siddhartha Bera:** But I am talking about the aftermarket business only.

**D. C. Sharma:** Okay aftermarket; see last year we started control cables. We also started one plant; the commercial production has already been started in the month of April. We put up one plant for the filter and filter will be the first year in the year of '15-16 and we are expecting about 18 crores turnover of filter in this year '15-16. And one more product is called the CDI Relays, we also started this. So these three products itself will give the turnover of about 65 crores. We have considered the increase about 22-23% on the existing products. You know about the existing products we have security systems, wiring harness and instrumentation and one wiper blade also we started last to last year. So with the addition of these three products and the existing growth we will have the growth of about 26% in the year '15-16.

**Siddhartha Bera:** So this run rate is likely to continue?

**D. C. Sharma:** Yes. And we have a dedicated team, dedicated company. See, the Minda Auto Systems Limited is one of subsidiary company to Minda Corporation which has no other business except to focus and concentrate on the aftermarket.

**Siddhartha Bera:** Second thing is on your quarterly results, if I see the standalone revenues at around 155 crores, they have actually declined both YOY and QOQ. So if you can highlight the key reasons for these?

**D. C. Sharma:** You see, in the standalone the quarter we have achieved the turnover of about 152 crores and it was 159 crores in the corresponding quarter of the last year. Yes, you are right, there is a decline in about 7 crores in this quarter but if you see year-end figures, our turnover has increased by about 6% from 603 to 636 crores. And see, this increase will happen...now in this year 15-16 we are concentrating on one of the target for the exports. We are already doing the export about 55 or 56 crores in this company and that too largely in Europe and Indonesia. That is the one key factor will come in this year. Secondly, there are two big OEMs we do not have much progress in OEMs, one is HMSI another is Hero Motocorp. In fact we are zero in the Hero Motocorp as of now but we have already got the order of the new models and our first supply will be started about November 2015. Third is the HMSI. HMSI we have right now only first....I mean the year 14-15 is the first year when we started supplying to HMSI. There we have a share of business of about 16% right now. And

full year in fact will come in the year '15-16 and we are also expecting to increase the 16% to 50%. And it has already been agreed for their new model, we already got the order. So with this increase secondly yes, aftermarket Minda Corporation we are largely manufacturing about 75 to 80% products are manufactured by Minda Corporation for this aftermarket, there also a good growth of about 26%. So in this year we are expecting good growth. But if we compare the quarter-to-quarter yes last quarter there is a decline about only 7%. And one more reason I would like to highlight, we are 100% into the Mahindra and Mahindra 2 wheeler. But the volume of Mahindra and Mahindra 2 wheelers has been reduced drastically even in the last quarter. But now in the next year we have a different plan. We have a different area to grow.

**Siddhartha Bera:** My last question is on your Working Capital, that we have seen a very good improvement in both the consolidated and stand-alone business largely driven by debtor days which have come down. So if you can highlight how sustainable is this Working Capital? Can it again inch up going ahead or this should slightly remain at these levels only?

**D. C. Sharma:** Working Capital level if I give you the global workout, we have estimated that 12% of the sale is the requirement of the Working Capital. But this year we have focused on inventory, then we focused on the.....debtors is always not in our hands, that is based on the payment terms again with the customers. But in case of the inventory we have improved the cycle of the inventory or ITR which used to be about 8 or 9 in the year '13-14, in this year it has touched about 14. In few companies we have the ITR about 18; in few companies we have about 12. In wiring harness particularly we have low ITR about 8 or 9 but in case of security systems we have improved the ITR to about 15 to 16. So that area where our team worked very well. And in debtors also we are as per the payment terms with the customer, our debtors is about 65-66 days. And in addition to this we have also reduced the cost, cost of finance on Working Capital. Earlier we were not utilizing the export strength for the reduction in debtors with credit. But this year we have started the pre-shipment credit and we are just paying about 4-4.5% costs of this export related credit limits. And obviously control of inventory and debtors and the reduction in the rate of interest for Working Capital, our cost has been reduced.

**Siddhartha Bera:** So this should likely remain at these levels going ahead?

**D. C. Sharma:** Yes definitely. Even there is a good potential. We have natural hedging available, we are doing about 85-86 crores export and this year also we are looking for low cost funds for the Working Capital. This will also reduce further.

**Siddhartha Bera:** Lastly, on your CAPEX guidance. What will be your CAPEX for the next two years in both standalone and consolidated business?

**D. C. Sharma:** We are operating at about 65 to 70% level our capacity and good capacity available in both security systems and the wiring harness. But anyway for the routine Capital Expenditure we generally give the guideline to our manufacturing companies that we can allow the CAPEX equivalent to one-third of their PBT. And with this the group CAPEX is only about 40-45 crores even in the next year. The CAPEX is not much. And once in case we see the possibility for major change in the top line or there is a spurt in the top line then we can review. But right now it is well within the capacity and for the routine requirement existing business we do not need any major capital expenditure.

**Siddhartha Bera:** Sir, 40 to 45 crores will be for the consolidated business, right?

**D. C. Sharma:** Yes absolutely right.

**Moderator:** As there are no further questions, I would now like to hand the floor over to Mr. Siddhartha Bera for closing comments.

**Siddharth Bera:** Thanks everyone for participating in this conference call. A special thanks to the management for giving us this opportunity. Have a great day ahead.

**Moderator:** Thank you. On behalf of Edelweiss Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.