



“Minda Corporation Limited Q3FY15 Results  
Conference Call”

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**Moderator:** Ladies and gentlemen good day and welcome to Minda Corporation Q3 FY 2015 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 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 would now like to hand the conference over to Mr. Siddhartha Bera from Edelweiss Securities. Thank you and over to you Sir!

**Siddhartha Bera:** Thanks Karuna. Good afternoon everybody and a warm welcome to all the participants. We at Edelweiss Securities are very pleased to host the Q3 FY 2015 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 handover 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 and a warm welcome from our side on the first earnings conference call for the result of Q3 of 2015. I hope that all of you have reviewed and seen our results which are available on our website. Before we start the results I would like to brief about the company, because this is the first conference call on the results.

Minda Corporation Limited basically deals with three kinds of the products, security system, the connective system and the interiors. When I say security system it is both two-wheeler locking system and the four-wheeler locking system and driver information system basically a connective system in this company.

The next system is the wiring harness and other related products which are supplying to all OEMs then the interiors we have business in Europe particularly in Germany where we supply our product to all OEMs like Daimler, Audi, BMW and others.

If I come to the business segment of Minda Corporation basically we are the tier I we supply to almost all OEMs in India and we are also doing the exports about 5% of our turnover then we also deal with the aftermarket and aftermarket sales percentage is about 10% the total sales and if you see the overall pie of our sales two-wheeler will be 40%, 35% four-wheeler and 16% commercial vehicle.

So this is about the Minda Corporation. Minda Corporation is a holding cum operating company and it has subsidiary company in India and abroad. When I say abroad, then we have two subsidiary companies in Germany and two subsidiary companies in Asean; Asean particularly in Indonesia and Vietnam. So this is a brief introduction of Minda Corporation.

Now I come to the revenue part. During the quarter ending December company had achieved the turnover of 536 Crores which shows the growth about 36% over the revenue of corresponding quarter of the last year and basically the growth has come on account of mainly two reasons - one is the increased business in OEMs in spite of the low growth rate in the Indian automobile market particularly in commercial vehicles and the passenger cars. Company has posted 36% growth as we started some new business with OEMs particularly HMSI and TVS and also there is an increased share of the business in aftermarket and apart from this as compared to last year the company has done consolidation, business of the subsidiary company has brought under the umbrella of our flagship company.

If you see the turnover YTD December 2014 nine months period then the company has achieved the turnover of about 1479 Crores against the turnover of 1137 Crores in the corresponding period of the last year.

Here company has achieved the growth about 30% and the reasons are almost same what I explained during the quarter, here good export in aftermarket sales, then there is a new business with the OEMs about 140 Crores and the balance comes on account of the consolidations is about 250 Crores out of 461 Crores. So this is about the sales.

When I come to the EBITDA of during the quarter and the YTD period EBITDA for the quarter is 10.5%, which has the improvement of about 2.2% compared to the corresponding quarter of the previous year and the increased EBITDA of 2.2%

mainly on account of the reduction of the raw material cost. Company always focuses on reduction in the raw material cost driven by value engineering, localization and alternate sourcing. 0.5% raw material cost has been reduced during the quarter and 1.7% cost has reduced on account of the personal costs and other expenditures and registering 2% increase in the EBITDA for the quarter.

Similarly the EBITDA for the nine months period has also been increased. When I come to PAT, PAT company has achieved the PAT about 24 Crores during the quarter which is almost double because company has received to at 12.6 Crores in the corresponding quarter of the previous year and the remarkable improvement in PAT was driven by the better operating profit and PAT margin for the quarter was 4.5% and increase about 1.3% compared to the same period of last year.

The networth of the company is about 423 Crores and debt of also 23 Crores and here debt equity ratio is about 1.16 times and there is a cost on reduction in the debt equity ratio on account of the repayment of the loan and increase in the networth of the company.

Apart from the financial results board has declared an interim dividend of Rs.0.2 per equity share. The company remains committed for enhancement in the shareholder value in line with the objective we have successfully completed the issue of bonus share and the stock split announced last quarter. The company also received in principle, the approval of listing from BSE because right now we have been listed in NSE only we have filed the application with BSE for listing and we got the principle approval.

Our commitments for giving back to the society has led us to be incrementally associated with the Spark Minda Foundation to carryout CSR activity of the group and looking ahead we plan to enhance our export business and presence in the countries where we have already manufacturing facility we are continuously focusing on optimizing cost, strengthening our order book and improving the utilizations level.

Thanks. This is all from my side about the financial results. Now I welcome all of you to have for the question-and-answer session.

- Moderator:** Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. We have first question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.
- Viraj Kacharia:** Thank you for the opportunity. I just had a question sometime back we announced our plans to get into controls and speedometer cables, so how big is this business for at the moment can you just throw some colour?
- D. C. Sharma:** If I correctly understood your question you want to know about the speedometer and the control cables?
- Viraj Kacharia:** Yes.
- D. C. Sharma:** So the control cable we started this business already in this year and because of the first year for control cable and we started this business with aftermarket and right now we are doing the business about 12 Crores in this year but next year we have a good plan so this is only the starting year and we are in the process of deploying of the control cables for two-wheeler and four-wheelers and the deployment phase will be completed by September 2015 then the ramp up will be started and about the speedometer actually we have a company in the group called Minda Stoneridge Instrument Limited where we are doing the business about 300 Crores.
- Viraj Kacharia:** That is for the speedometer cables?
- D. C. Sharma:** Yes and this company is manufacturing the speedometer and the instruments as well.
- Viraj Kacharia:** Control cables for the aftermarket how big is the market for this particular product in the aftermarket what is the potential size are we looking at?
- D. C. Sharma:** As far as my knowledge, in aftermarket the business is about 700 Crores right now and this has good potential.
- Viraj Kacharia:** Both from two wheelers and four wheelers put together?

- D. C. Sharma:** Yes, and now we are expecting that yes, over a period of over three to four years time we will be achieving roughly about 20% - 25% and that is subject to various conditions.
- Viraj Kacharia:** So we are looking at 25% market share target?
- D. C. Sharma:** In next three to four years times yes, we are in the process.
- Viraj Kacharia:** Because lot of the aftermarket actually also flows through the OEM so this 700 Crores which you mentioned is also partly from the OEM including the OEM sales or is it excluding OEM sales?
- D. C. Sharma:** Generally if I tell you the philosophy of the group we first started the business with OEMs and then gradually we start the aftermarket but now during last two years time we also evaluated our and we also rectifying our strategy and in case of the few products like control cable first we started with the aftermarket then gradually once we stabilize the market because we have a good dealer network all over India and once we stabilize the total and we ramp up and we achieve a significant size of the control cable sales then we will start with the OEMs and OEMs we have a very good relationship and stabilized relationship over a period of years so but that may, but first is the matter of how fast we establish this product in the aftermarket.
- Viraj Kacharia:** Sir you mentioned about OEMs now we have certain dominant players in this segment. Suprajit has very strong relationship with OEM more on the two-wheeler side. On the four-wheeler side, global players actually coming in the Indian market and also in the similar kind of products so what will be a differentiating factor for us and are we actually looking at an acquisition to actually set up presence through the OEM route or we actually looking at organic growth?
- D. C. Sharma:** If you see our business segment, we have a connective system in our group where we are doing the business basically if it is by saying about time possible and we have achieved the turnover in connective system. Connective system mainly the wiring harness and other related products. Here we are doing the business having more than 500 Crores we have achieved the turnover during this period and these we are supplying this connective system to almost all OEMs whether it is two

wheeler or the four wheeler if I say two wheelers then we have Bajaj, TVS, HMSI, and all other Yamaha and everyone we have been supplying this so now we have already have established product of connective system and starting this controlling cable will not be a difficult for us but since that is a new product for us we are just starting in this year so it will take little time to double up the range and push through in the market.

**Viraj Kacharia:** But on a long-term basis we are looking to supply in both on the OEM and aftermarket for this particular product?

**D. C. Sharma:** Of course.

**Viraj Kacharia:** Any long-term target we are looking at saying over next two to three years for kind of revenue scale we are looking at from this business?

**D. C. Sharma:** The market is good in aftermarket and OEMs and once we have a good range of the product we believe that we will have a good share of business in the market.

**Viraj Kacharia:** That is all from my side. Thank you.

**Moderator:** Thank you. We have next question from the line of Siddhartha Bera from Edelweiss. Please go ahead.

**Siddhartha Bera:** Thanks for the opportunity. First I would like to understand your standalone business on Minda Corporation if I look in the last two years your revenue growth has been on in the low single digit type of the growth in the business. Going ahead just I would like to understand what are the key growth catalysts in terms of new clients and what are the growth expectations for the next three years for the standalone business?

**D. C. Sharma:** If I correctly understood you are talking about the Minda Corporation standalone right?

**Siddhartha Bera:** Yes.

**D. C. Sharma:** Minda Corporation standalone last year company has achieved the turnover about 600 Crores. The company is now apart from the growth let me explain a few more

point which will give the clarity on the matter. Last year company's turnover was 603 Crores and if we see the PAT, the PAT was about 22 Corers, which is about 3.56%, we focus that topline is important but at the same time margins should also be increased. What we have done last year we have identified few low margin or loss making business in company and particularly they have two segments in the company was is surface finishing which includes the electroplating and other kind of the coating and one more business was of some injection molding plastic part in the business and after thorough analysis we decided that we will discontinue this business because it is hitting the company's margin overall and then we closed down this plastic business and surface finishing and apart from this, this has related the reduction in the turnover on an annual basis about 70 Crores in the company, at the same time company has got couple of new business during the year. For example company was not with the Honda Motorcycle but we started the business with HMSI and the TVS last year and also good growth in exports, export also increased by about 30% in the company and put it in aftermarket. If you see both together and in the first nine months sales in last year was 444 Crores which has increased to 484 Corers in this year so even after the discontinuation of this loss making business company had achieved the growth of about 9% and if you see the PAT now I focus on the PAT, PAT was about 3.53% which has now increased to 4.84% during the quarter so this increase is also somehow discontinuation of loss making businesses. But definitely a next year the company will have good growth rate because this discontinuation was only one time hit which has been suffered during the year.

**Siddhartha Bera:** So most of the loss making have been taken care of from here on it will be driven by our new orders and new businesses?

**D. C. Sharma:** Absolutely right.

**Siddhartha Bera:** Sir just one more understanding is that you supply to both motorcycles and scooters right and it will be across models?

**D. C. Sharma:** Right.



- Siddhartha Bera:** If I assume that the industry can grow at suppose like 9% to 10% in the next couple of years so your growth should currently be in line or by addition of new clients it can be higher than that?
- D. C. Sharma:** If you see the growth in two wheeler segment, two wheeler segment has a growth at about 13% till December 2014 but if we see our sales we have got a couple of new business for example we got good export and also the few customers which added to the kitty for example Harley & Davidson, Lombardi and we also has a potential of good exports in the US market and after considering the new customer and the growth rate in the Indian market we believe that our sales increase would be more than 20% in the next year.
- Siddhartha Bera:** On basically FY 2016?
- D. C. Sharma:** Yes 2015-2016 basically.
- Siddhartha Bera:** Is it safe to assume that the new orders which you are getting are actually on a overall margins will be better than what you are currently on a standalone basis or is it in line with what you had already reported?
- D. C. Sharma:** Yes margin is tough in domestic market yes we have a good margin in export and aftermarket that is a different story but in case the OEMs yes but our trust is firstly when we start the new product yes there is a pressure on the margin but we always cost at it, our R&D team cost the advance and we do a good amount of the value engineering, value addition and cost reduction initiatives and we always have a target about 2% to 3% increase in the margin on yearly basis particularly because of the raw material cost reduction and other value engineering proposals.
- Siddhartha Bera:** But how difficult is it to get price hikes from the OEM customers suppose apart from the value engineering or subdued commodity cost is it fair thing?
- D. C. Sharma:** In our case with OEMs we have back-to-back investment of the price increase of major raw materials like copper and aluminum all this whatever we have and we have a very clear-cut understanding so now any increase on account of price increase in major raw material like zinc, aluminum, copper it all going to hit our margins at the same time we also take costing monitoring over the other cost for

example the increase in wages or electricity or the other cost also and in past wherever we have a hit of increase in wages we also got the price increase of the OEM staff particularly I give you one example in Maharashtra there was a good increase in wages in about 25% to 30% in Pune and around other areas so there we are successfully got the reimbursement of increase of 30%.

**Siddhartha Bera:** Sir one another thing you had mentioned in your presentation that you have just entered your high door handle business is a new product for you, so just wanted to understand what could be the opportunity size in terms of revenue for this product and not other products you are working on so that your revenues can considerably outpace industry growth?

**D. C. Sharma:** See door handle is not a new product to us. We have been manufacturing of high door handle for last many years and if you see the Mahindra & Mahindra or Tata Motors and the BMW we have been supplying these products for last many years and margin is yes in line with the other products there is no pressure of the margins and we have been supplying these painted and unpainted door handles these OEMs. I do not think any issue in the margin.

**Siddhartha Bera:** But there is a good pipeline of new products which you are working on till now or it is mostly all India market?

**D. C. Sharma:** No, there is a good pipeline and we have some patented products also and we have good team of the R&D engineering some time we get this interest of the OEMs, sometime we also go to the OEMs and present our products and give the different kind of the engineering in near features in the product so it is both way but yes we have a good line of the new products.

**Siddhartha Bera:** My last question will be on your export side your overseas subsidies like KTSN how good growth in demand because these I believe is mostly catering to your Volkswagen, BMW, Daimler customers and so how what is the outlook for these clients how are the orders in these geographies panning out for you?

**D. C. Sharma:** If I say the growth with these customers, growth rate is only about 6% to 7% but we have a couple of new products in our city and there the deployment time is also about two years. When I say about Minda KTSN we are manufacturing their

interior part like cup holder, ash tray, and dashboard part, in-house handles, where we develop the new product takes about two years' time and the deployment is also separate business segment because we manufactured two, three set of the facilities and we create all the features and customer pay us, we bill it to the customer. Now as far as growth is concerned we have got couple of new orders for example BMW. BMW it was started only first year in this year we were not supplying anything to BMW but we got about five million Euro business before two years then the developed fully and started supplying. We also got good transfer business of Audi. So right now we are doing the business about 46 or 47 million Euro in Minda KTSN and we have a three-year projection with us so we have an increase in turnover there is no pressure of the in turnover because of the addition of new products.

**Siddhartha Bera:** Thanks a lot. I will come back in the queue for more questions.

**Moderator:** Thank you. We have next question from the line of Vishal Kothari Individual Investor. Please go ahead.

**Vishal Kothari:** Thanks for the opportunity. Sir my question is last five quarters has been very good for our company so what is the changes in the product category or the geographical expansion we have taken place and that is why we are getting such a good result and how much is it sustainable?

**D. C. Sharma:** See there are two, three reasons; first reason is I explained just five minutes before that we have identified the loss making and discontinued that product. That also helped us to increase our margin on the quarter-to-quarter basis one. Second there we also added new products with the existing OEMs with the new OEMs also. Third there has been a good increase in few business segments particularly the connective system where we are doing the business we have done the business in this year up to December about 521 Crores so this is a good increase. Third Asean, Asean business has two companies one is Indonesia and one is Vietnam margin is fairly good and there is established business over a period of last six seven years. We have OEMs like Yamaha, Suzuki and Kawasaki over there. Third we have brought this subsidiary which were not earlier part of the consolidation and now all these companies all subsidiaries are part of the consolidation and in this year we have the consolidation of six months or three months but now after from the

next year onwards we will have complete consolidation of twelve months time. So now when we have all the companies under the consolidation and there is a good increase in the business, I said about the collective system and in security also we have developed few products, we have some patented product also with us and based on this we have a good topline and cost and effort on the cost reduction in terms of the raw material cost. We feel that the increase in interest cost of those would be reasonable on year-to-year basis when we have a market when growth is about 15% - 20%. We do not see any pressure and we see the same growth will be continued and we will have good percentage of the PAT in the coming quarters also.

**Vishal Kothari:** Sir my next question is we are observing interest rate downturn cycle as well as crude is below \$50 so these two points are very beneficial for auto sector so what are the revenue growth projection you have any rough figure 1600 we have done in FY 2014 so any projections down the line three years, five years what are we projecting?

**D. C. Sharma:** Last year we have achieved the turnover about 1564 Crores just roughly about 1600 Crores and if you see the nine months turnover it is about 1460 Crores approximately. So almost we have achieved what we achieved in the last year and if same trend continues in the next quarter also this quarter January, February, March quarter will be good because of many reasons. If you see historically our sales percentage in the first half is about 45% and next half is about 55% so I think the trend of the previous years and the trend of the first nine months we believe that yes the turnover would be more than 2000 Crores in this year.

**Vishal Kothari:** Sir for three years?

**D. C. Sharma:** Three years we are in the process of because so far we have not finalized but yes we finalized our planning in the last month of the year may be in the March and now though we have clarity but the figure will be finalized by the year end.

**Vishal Kothari:** Sir on liquidity front, we are saying that we have got approval from BSE but our floating stock is very less almost 60% is with promoter 13% to 15% is with Kotak so hardly floating stock is available so how we are going to deal with that particular thing?

**D. C. Sharma:** We got listing our share first time with NSE in the month of I think October. BSE we have also filed our application and we also just seeing and monitoring the volume and what we observe is now volume is now increasing week-by-week obvious thing and belief is that with good result, a good realization in the market and we hope that the volume will increase in the coming weeks.

**Vishal Kothari:** Sir what are our capex plans?

**D. C. Sharma:** Last year means in the year 2014-2015 we have increased capacity in connective system because we believe that we have some additional business about 250 to 300 Crores in the year 2015-2016 additional business of the connective system. We have already started three new units so we do not see any major capex but yes if I think the routine capex for the year to achieve the turnover more than 2000 Crores then we have the capex requirement is about 45 to 50 Crores.

**Vishal Kothari:** That would be maintenance capex roughly?

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

**Vishal Kothari:** My last question is how is the competition from China for our products?

**D. C. Sharma:** Right now we have not observed any threat from China but we are taking advantage of China in terms of tools manufacturing. We have good suppliers in China which is helping us to improve manufacturing. We are also sourcing some electronic component from the China. Yes that is the projective size but as far as competition we are not seeing any threat from their side, because we have established brand in to this network in India.

**Vishal Kothari:** Sir our debt repayment plan any rough?

**D. C. Sharma:** Debt repayment yes, if you see about if I tell you just in brief the domestic company we do not have much debt yes in Europe yes we have debt equity ratio is about 2.25 and in Minda KTSN which is the main company in Europe our main debts will be paid off by July 2015 and right now every year we are making the repayment about Rs.25 to Rs.30 Crores on yearly basis.

- Vishal Kothari:** On a consolidated basis our debt is close to 450 to 500 Crores and out of that we are paying 30 Crores every year?
- D. C. Sharma:** Yes, total debt is about 490 Crores. You rightly said one is the working capital where there is no repayment working capital is about 260 Crores and 228 Crores is the some debt where the prepayment applies.
- Vishal Kothari:** Thank you very much Sir. All the best for the future.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand over the floor back to Mr. Siddhartha Bera for his closing comments? Over to you Sir!
- Siddhartha Bera:** Thanks for the opportunity. Special thanks to the management for giving us this opportunity to conduct the call. Have a great day ahead.
- D. C. Sharma:** Thank you.
- Moderator:** Thank you very much Sir. Ladies and gentlemen on behalf of Edelweiss Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.