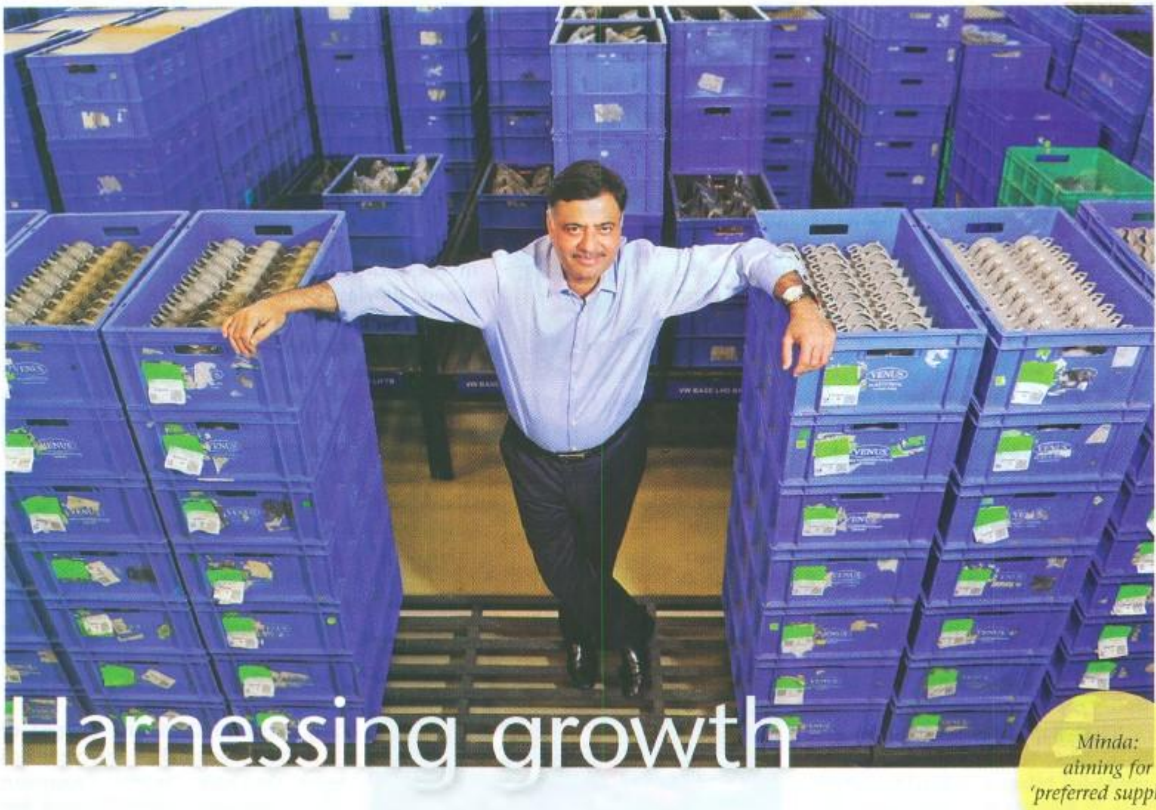


PHOTOS SANJAY BORADE

Minda: aiming for 'preferred supplier' status

Harnessing growth

MCL positions itself strongly in the market, with a well-diversified clientele and portfolio

Minda Corporation Ltd (MCL), the New Delhi-based automotive component major, has not only shown a great deal of resilience, but also kept its momentum going in difficult market conditions. Bucking the market trend, the ₹2,000-crore company has grown at a CAGR of over 35 per cent in the last four years, even as the automobile sector was showing a moderate growth of only 6 per cent (CAGR) or so during the same period.

In fact, the company, catering to all major OEMS (two/three-wheelers, passenger and commercial vehicles) such as Bajaj Auto, M&M, Honda, TVS, Yamaha, Ashok Leyland, Maruti Suzuki, Volkswagen, Audi, Daimler, Volvo, Hyundai, BMW, Ford and Tata Motors, is all set to post a growth of about 25 per cent in the current fiscal year. For the nine-month period ended December 2015, it has already clocked a revenue of about ₹1,800 crore, as against ₹1,971 crore (consolidated) registered for 2014-15. Last year, it registered a growth of 23.64 per cent.

This impressive performance comes after the company has put up a concerted effort to expand its offering by launching newer products, as well as adding new customers to its diversified client base. In the case of its existing customers too, there have been conscious attempts to enhance the share of business. MCL, the flagship company of the Spark Minda group, is engaged in making a wide range of auto components like lock sets, latches and door handles for electronic and mechanical security & safety systems; wiring harnesses, instrument clusters, speedometers and sensors for driver information & telematics systems; as also plastic injection-moulded interior parts. It has proactively tried to provide its clients (OEMs, as also replacement market) products with the latest technologies, as part of its customer-centric approach, where it consistently aims to add value to the customer's value chain.

From being primarily a supplier to the two-wheeler segment a few years ago, the company has diversified across all automotive segments. Currently, it derives 39 per cent of its revenue from two-wheelers, 32 per cent from passenger vehicles and 18 per cent from the commercial vehicle segment. It also supplies 11 per cent of its production to the replacement market where it is competing with suppliers like JaiUshin, Sandhar, Pricol, Rainbow, Mckay and others.

While there have been moves to upgrade and expand the existing facilities, the company has always looked out for inorganic and organic opportunities in both domestic and overseas markets. Amidst all headwinds, MCL has invested in excess of ₹400 crore in the last four years. It has set up new facilities for wiring harnesses in Chennai for OEMs like Ashok Leyand, Honda Motor Cycles and TVS. It has also expanded its wiring harness capacity for Nissan in Chennai, Honda Motors in Noida and Maruti Suzuki in Wabal (Manesar). The company has also built a new facility (it already has a plant in Noida) for die-casting parts under its safety and security system in Pune. These products are supplied to customers such as Bajaj, M&M, KTM, Honeywell, New Holland, Schneider Electric and others.

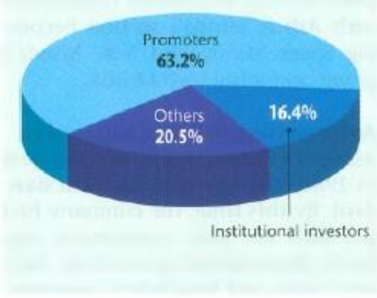
MCL has also expanded its presence in the overseas markets by exploring opportunities in the plastic interior business, which is one of the focus areas for it, going forward. After the acquisition of KTSN, Germany (engaged in the manufacture of plastic injection-moulded interior parts) in 2007, Minda KTSN Plastic Solutions, a 100 per cent subsidiary of MCL, set up a new facility in Germany recently, catering to OEMs such as Volkswagen, Audi and DaimlerChrysler.

Expansion

Enhancing its presence further in the EU in the plastic interior business, Minda KTSN Plastic also acquired a new unit in Poland in 2012-13, besides commissioning a new capacity in the Czech Republic in May last year. A new capacity (to be commissioned in March 2017) is being put up in Mexico too. MSL has also built up a new facility in Indonesia (PT Minda Automotive) and Vietnam (Minda Vietnam Automotive Co) for the manufacture of security systems and driver information systems, such as electronic and mechanical lock sets, sensors as also wiring harnesses. The company is also exploring the possibilities of setting up a plant in China.

"Despite being faced with sluggish market conditions, we have been able to maintain a healthy growth," says D.C. Sharma, group chief finance officer, Spark Minda group. "This is primarily due to our consistent efforts to launch newer products for our customers, with whom our close relationship has helped increase our business. We have always tried to provide our customers with the best technologies through collaborative efforts with global players". The company has technological tie-ups with global players like Furukawa Electric of Japan for wiring harnesses; Stoneridge of the US for instrument clusters and sensors; and Vehicle Access Systems Technology (VAST), USA for locksets, door handles, latches and other security products (recently).

Shareholding



These tie-ups have helped the company immensely in increasing its business with OEMs, as also launching newer products in a regular manner in a market where it has carved its own position competing with players like Motherson Sumi, Bosch, Sandhar, Pawna, Adeep Auto, JaiUshin, Toka Rika and others. MCL, the market leader in wiring harnesses for two-wheelers (33 per cent share) and tractors (41 per cent), is also the largest supplier of instrument clusters to commercial vehicles and tractors. Besides, the company is the top supplier of locksets to both two-wheeler and four-wheeler OEMs. It is the sole supplier of wiring harness to TVS Motors and locksets to Mahindra Two Wheelers and Ford India. Moreover, it has more than 70 per cent business share of locksets for Bajaj Auto, Yamaha India and Mahindra utility vehicles, and wiring harnesses for Mahindra tractors and Ashok Leyland.

Backed by a strong workforce of more than 10,000 employees, MCL has built up a solid manufacturing base across 30 facilities of which three are in Europe and two in South East Asia. Its entire business is divided into three major segments. Safety & security systems, the largest segment, accounts for about 41 per cent of the company's revenue, while driver information & telematic systems contributes over 36 per cent to the total revenue. Under interior systems, the company, in plants in Germany, the Czech Republic and Poland, makes and supplies plastic products like glove boxes, cup holders, ashtrays, door & steering columns are engine compartments to OEMs like Audi, Mercedes, VW group, Bosch and Magna.

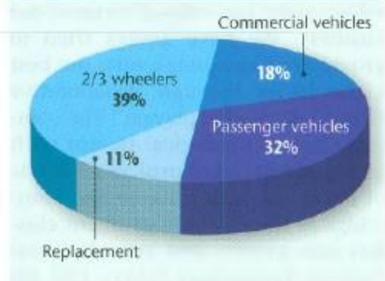
Apart from its stand-alone operation, MCL's overall business (consolidated) is operated through six major manufacturing subsidiaries and a JV. The flagship, MSL, along with 50:50 JV MindaVAST Access Systems, is into the manufacture of a wide range of components related to safety and security segments, whereas subsidiaries like Minda Furukawa Electric (51 per cent), Minda Sai (100 per cent) and Minda Stoneridge Instrument (51 per cent) are into driver information and telematics systems. MindaKTNA Plastic Solutions, Germany (100 per cent) is engaged in the manufacture of plastic interior systems. The company, though primarily an OEM supplier, has also created a separate subsidiary, Minda Automotive Solutions (a trading entity) for catering to the replacement market, which accounts for around 12 per cent of its total revenue.

"As a company, MCL has always been ahead of its time in adopting the latest technologies," says D.V. Ranganath, vice-president, materials, Bajaj Auto. "It enjoys an impeccable track record of offering consistent and superior product quality at competitive pricing". Bajaj Auto has been sourcing auto parts from MSL for more than two-and-half decades, contributing almost 13 per cent to the auto component maker's revenue.

"While MCL has kept pace with the times in introducing newer products and solutions, it has always been customer-centric and has maintained

Revenue breakup by business segment, FY2015

Revenue breakup by end user market, FY2015



a strong relationship with its customers," says Nitin Tikle, vice-president, strategic sourcing, Mahindra & Mahindra. "More than being a mere supplier, it is our partner, who helps us come up with better products in the market."

"MSL is a customer-focussed company," comments R. Laxman, director, private equity, Kotak Private Equity group. "Over the years, it has transformed into a strong system-oriented organisation which is well supported by a solid management team. The last few years have been quite eventful for the auto parts maker." Kotak picked up about 15 per cent stake (at about ₹140 crore) in MCL in 2012.

"We want to be a preferred supplier for our diversified customer base," says Ashok Minda, 55, group chairman & CEO, Spark Minda group. "Our recent efforts have not only helped us sail through a difficult time but also sustained our growth trajectory in a very effective manner. Going forward, we are looking to enter our next phase of growth, where we would like to pursue accelerated profitable growth."

The group was originally founded by the late S.L. Minda, way back in 1958, as a partnership firm which would make ampere meters at a small facility in Delhi's Azadpur area. In 1974, he was joined by his elder son Nirmal Minda (currently chairman & managing director, UNO Minda group, which is led by flagship Minda Industries Ltd, engaged in the manufacture of auto ancillaries). Nirmal and Ashok separated in 1994, with the understanding that they would not compete with each other and make different products. Minda Industries, also a listed entity, is into horns, lightings, switches, alloy wheels and batteries. Both the groups have recently re-branded themselves, with Ashok Minda's section becoming Spark Minda and N.K. Minda's group becoming UNO Minda.

Aggressive push Big business

Ashok had joined his family business in 1985, after passing his 12th standard. By this time, the company had got into the auto component segment, manufacturing switches, keysets, locks and headlights (turnover: ₹7 crore). And, in 1987, the company entered into a technical collaboration for the first time – with an Italian company for the making keysets. In 1988, S.L. Minda handed over the entire business to his sons, who were showing a great deal of grit and determination to turn the company into a big business. They hired AF Ferguson & Co (now part of Deloitte) to restructure the entire business and bring about a greater degree of professionalism in the organisation. Professionals were hired from across the industry and results gradually started getting reflected in the overall performance.

In 1990, showing an aggressive intent, the group entered into two more technical collaborations, even as the domestic market was expanding in the wake of the opening up of the economy. While group company Minda Industries tied up with Tokai Rika Co, Japan, for switches, another group company Minda Switch Auto formed a joint venture with HUF, Germany, for the manufacture of keysets.

New products were being gradually added to the portfolio. By 1994, the company's turnover had jumped to about ₹400 crore, because of its presence in six major segments, such as security systems, instrumentation, wiring harnesses, switches, headlamps and horns. It was the year the brothers decided to separate. "My father was a visionary and it was he who suggested thet we should separate to chase our dreams. Today, both of us are happy and independently pursue our goals," says Minda.

On separation, Minda Industries went to his elder brother, while another major unit of the group, Minda Switch Auto, came to Ashok. Minda Switch Auto was later merged with Minda HUF and was subsequently rechristened to Minda Corporation.

The next few years were quite a learning curve for Minda, as he was trying to infuse the desired momentum into his business. Since the economy was opening up, there were challenges as well as opportunities. He went to Germany and Japan to understand the nuances of business and subsequently tried to implement newer processes and systems into his own organisation. On the technology front, he realised that, though the company was making mechanical components, the portfolio was short of electronic instruments. He set up a new facility in 1996 in Chakan, Pune, to cater to the needs of customers like Bajaj Auto, Yamaha, Kinetic and others. The new facility, labelled Minda Instruments (investment ₹18 crore), got into trouble soon, as it failed to perform due to lack of direction. The growing competition only added to its woes.

As the condition of the Chakan unit worsened, Minda decided to shift his base (along with his family) to Pune from Delhi in 2000, in order to bail this business out, even as the responsibility to carry out day to day affairs in Delhi was left to his employees.

Things started falling in place gradually. With determination, he managed to turn the company around in less than two years. In fact, this operation (revenue of about ₹300 crore) is today the most profitable activity for the group. Currently, the business is operated under a subsidiary, Minda Stoneridge Instrument – a joint venture (49:51) with the global player Stoneridge Inc in 2004. Recently, Minda group increased its stake in the joint venture to 51 per cent from 49 per cent. The subsidiary supplies instrument clusters and sensors to all major OEMs including Tata Motors, M&M, Bajaj Auto, Ford, GM, Hero and Suzuki. Stoneridge Inc is a global designer and manufacturer of electronic and control devices.

Growing in confidence, in 2003, the group went on to acquire Sylea Automotive India from French automotive component supplier Valeo. Sylea had five facilities in India manufacturing wiring harnesses for passenger cars and other four-wheelers. This acquisition gave the company which was so far into wiring harnesses for only two-wheelers (Bajaj Auto, Hero Honda and LML), easy access to the four-wheeler segment. The acquisition also provided it with major clients including Fiat India, Mahindra Scorpio, Telco and General Motors India. Sylea, though a profitable venture with a turnover of about ₹70 crore, was not blending with the synergy of its French parent, while it was a perfect fit for the Minda group, which was manufacturing harnesses under its group name Minda Wirelinks.

Both the companies – Sylea and Minda Wirelinks – were merged to form Minda Sai, which now has eight facilities in India and one each in Vietnam (step-down subsidiary: Minda Vietnam Automotive Co) and Indonesia (step-down subsidiary: PT Minda Automotive). With a revenue of ₹517 crore (for 2014-15), Minda Sai (India operation) is the largest wiring harness manufacturer in the two-wheeler market in India (also supplies toCVs and tractor OEMs). The Vietnam and Indonesia operations cater only to two-wheelers (Yamaha, Suzuki and Kawasaki), even as there are moves to add other products like instrument clusters and sensors to the portfolio.

By 2004, the overall business of Minda had stabilised and was seeing a gradual upsurge (revenue: ₹300 crore). Looking to provide some more momentum to the business, Minda looked for opportunities overseas – and the South East Asian market was the first choice. This time in a strategic move, he along with his brother (Nirmal Minda) jointly set up a facility in Indonesia (PTMA Indonesia) in 2005 to make components like switches, security systems and other parts for two wheelers at an investment of about ₹50 crore. "The move was strategic since we brothers wanted to divide our risk. It was the first time that we were starting any operations outside India," says Minda.

Overseas acquisitions

The operation in Indonesia turned out to be a big success and that gave Ashok Minda enough confidence to explore other markets in the region as well as markets in the EU in the following years. The joint venture between the brothers continued till he decided to put up his own facility (independently) in Indonesia in 2012.

In the next few years, the group carried out a series of acquisitions overseas, besides striking joint ventures with global players in the domestic market. Among them, JVs with French auto parts maker Valeo and Furukawa Electric, Japan (both in 2007) have been significant ones. However, in 2013, Valeo exited the 50:50 JV; the same stake was last year taken over by VAST of the US, one of the global leaders in security and access control products for fourwheelers. VAST is a global alliance of three companies – WITTE Automotive, Germany, and Strattec Security Corporation and ADAC Automotive, both of the US. Backed by superior technological strength in security systems, VAST ($1.2 billion in sales) supplies to most of the big OEMs globally.

Sharma: maintain a healthy growth

Minda VAST has two facilities (Chakan, Pune and Delhi NCR). The JV has access to VAST's modern technology for current products in security systems and several new products such as electronic steering column locks, door modules, latches and hinges, passive entry and start systems. These new products are likely to be key growth drivers for the company in future.

"The strategic alliance with VAST is a step towards ensuring support to meet the expectations of targeted customers. VAST's global presence will help us reach out to more areas and expand our base and offer newer products with the latest technologies to our customers," says Minda.

In August 2007, the Minda group entered into a 49:51 JV with Furukawa Electric, Japan (the group has increased its share to 51 per cent from 49 per cent in October 2014) to serve wiring harnesses to Japanese companies in India. It also makes (five plants in Bawal, Haryana, Noida, New Delhi and Chennai) steering roll connectors used for the airbag system, as also other products like terminals, relay boxes and junction boxes.

Financials

(₹ crore)	FY2011	FY2012	FY2013	FY2014	FY2015
Net sales	735	1,385	2,173	1,594	1,971
EBITDA	88	138	141	171	211
PAT	35	51.5	4.96	78	84

Starting the next level of growth

Furukawa has about 3 per cent market share in wiring harnesses globally and a strong relationship with Japanese OEMs, particularly Suzuki.

Leveraging this, the alliance has now acquired a 7 per cent market share in the domestic market (wiring harnesses for passenger vehicles), which is likely to more than double in the next three-four years. The JV has received 100 per cent business share for Maruti's new launches and Renault Kwid. Furukawa is the market leader in steering roll connectors and this will help the company explore the airbag space in the future with crash norms becoming mandatory in the next couple of years.

In order to bring about more efficiency to its business model, the management has in the last five years consciously tried to consolidate its entire operation, which is spread across a number of subsidiaries and JVs. Prior to 2011, apart from the stand-alone business (two-wheeler locksets and die-casting), only Minda KTSN Plastic Solution was a part of the listed entity – Minda Corporation. All other subsidiaries and JVs were held directly by the Spark Minda group. Over the last few years, the group has made considerable efforts to simplify the organisational structure.

As part of this exercise, MSL has acquired most of the key companies of the group under its fold and has also become a holding and operating company. Moreover, the group also has a separate 100 per cent subsidiary, Minda Management Services, which is an apex body consisting of core management team, led by Minda and other key personnel from different fields like strategy, marketing, finance, HR and legal. The subsidiary based out of Gurgaon, acts as a think tank and helps the company (group) chalk out its plans (and visions) and provides much-needed direction to reach its set goals.

Multiple initiatives

"Over the last few years, the group has made a conscious effort to simplify the corporate structure by acquiring companies from promoters and making them part of the listed entity," says Deven Choksey of KR Choksey Shares and Securities. "This has also helped it increase transparency and instill investor confidence in the company". Choksey also believes that MCL is currently well placed in the auto market, which is now showing signs of revival. On the BSE, the stock was priced at ₹94 (as on 2 February 2016), with a market capitalisation of ₹1,989 crore (52 week H/L: ₹68.50/90.80).

"In the last few years, we have carried out multiple initiatives to streamline our entire organisational set-up. These have gone on to make our company much more result-oriented. Going forward, all these will help drive our next level of growth," says Minda. He is aiming to more than double MSL's turnover in the next three years. This growth will come from the kind of measures the company has undertaken in terms of organization, as also product mix and offering. The company has also put in place a strategy where it will focus on improving margins (as also ROC), even as it will continue to pursue its organic and inorganic growth approach.

"Going forward, operational efficiency will hold the key to further improvement of our margins. The three factors we have identified to focus on are increased utilization of our new facilities, structured reduction on material cost and steady reduction of finance cost over the next few years," says Sharma.

With all these developments in place, MSL is all geared up to start its next level of growth. The company has been quite customer-centric in its approach and is enjoying a well-diversified customer base. Besides, the customer base is also spread across all automotive segments. This augers well for it, as it reduces concentration risk. Moreover, the company also exports about 12 per cent of its production to overseas markets.

Due to its tie-ups with global suppliers, MCL has got a distinct edge in terms of access to the latest technology and innovative products. The company has been proactively launching newer products and this is something that has not only helped it expand its business with existing clients but also acquire new customers. Over the years, it has also developed very strong relationships with some of the major OEMs, which is expected to fetch good business. Despite all these, it remains to be seen how it executes its plans going forward. The relationship with its partners (tie-ups) as also managing of overseas operations will also be crucial in its future progression.

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