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Minda Learns from Rough Ride, Focus on Margins

Fightback

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ET Intelligence Group: Sometimes, a downturn is necessary to remind a company of charting a new path towards discovering the new focus point and improving operating efficiency. Minda Corporation, an auto ancillary firm — which supplies security system and wiring harness to auto makers — is one such company.

A rough phase during 2012 taught the firm to prioritise margin over revenue and that it needs to close down several products which were not value-accretive in the long-run. The result of this exercise is now visible in the company's financial performance.

In FY15, the margins expanded by 400 basis points to 9.7% from the FY12 levels. Also, revenue between FY12 and FY15 grew by 12% for two-wheelers segment and 15% for four-wheelers, on an annual basis.

"We decided to manufacture only those products which yielded decent margins and closed down number of units where margins were below our comfort level. We are targeting operating margin of 10.8-10.9% going ahead." said DC Sharma, group CFO of Minda Corporation. After a due diligence as well as consultation with auto-makers, Minda Corporation shut down its electroplating plant at Noida, its plastic division and a unit in Germany.

Profitability of the Delhi-based firm is expected to improve on three counts. The first and chief reason is increase in capacity utilisation of its new factories, which would help to increase supplies to market leader of two-wheelers, Hero Moto, and that of passenger vehicles, Maruti Suzuki.

It will now supply 16% of the wiring harness requirement of Hero MotoCorp from a zilch in FY15. The proportion of business share from the second-largest motorcycle-maker, Honda Motorcycle will increase to as much as 50% in FY16 from 16% seen in FY15. Similarly, it will now supply 30% of wiring harness requirement for Maruti Suzuki from 12% in FY15. A wiring harness is an assembly of cables or wires which transmits signals or electrical power. Minda Corporation has put up four new facilities across India to cater to demand of these big customers and once it starts supplying from its new plant, capacity utilisation will increase thereby, aiding margins expansion.

Profitability of the Delhi-based firm is expected to improve on counts of capacity utilisation and reducing costs

The second factor that may improve margin is its mandate to reduce material costs by 2% and to bring down its wastage cost to manufacture auto parts by 5% every year.

The third factor is that the firm is also trying to bring down interest cost by funding working capital requirement at lower interest rate and also by better debtor management.

"We are repaying loans of ₹27-30 crore every year and in the next two years our debt equity ratio will fall to 0.5 from 0.9 presently." said Sharma.

Among the new products, the firm is expecting a significant amount of incremental sales from Steering Rolling Connector and device for keyless entry for passenger vehicle. "We are expecting a top-line of ₹5,000 crore in the next three years. This would be mainly driven by new products, new clients and inorganic route." said Sharma.

Firm also needs to close down products not value-accretive in the long-run

Road to Recovery

Minda Corporation

Revenue Break Up by End-user Market