# "Minda Industries Limited Q3 FY 2017 Earnings Conference Call"

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**Moderator:** Good Day, Ladies and Gentlemen, and Welcome to the Q3 FY 2017 Earnings Conference Call of Minda Industries Limited.

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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. Please note that this conference is being recorded.

I now hand the conference to Mr. Sudhir Jain – Executive Director & Group Chief Financial Officer, Minda Industries. Thank you and over to you, Mr. Jain!

**Sudhir Jain:** Thank You. Good Afternoon, Participants. With me, I have been joined by Sanjay, Tripurari, Rana and Ruchi from SGA, our IR Consultant. I hope you have had a look at our financial results and presentation that has been uploaded on the Stock Exchange as well as Company website.

I will speak briefly on the industry and then give an update on our performance. Following which, we will be happy to answer your queries.

About the auto industry, demonetization initiative of the Government of India led to 2% negative growth in auto sector volumes during the quarter under reference. Two-wheeler segment saw the highest impact with 3.6% decline in volumes for the quarter, the maximum impact was seen in the month of December which is 25% decline in two-wheeler sales. The fall was on the back of 4.1% decline for the quarter in scooter sale by liquidly squeeze in the rural as well as urban areas. The decline was witnessed across segment including leaders like Bajaj, Hero, etc.

On the passenger vehicle front, the industry saw a better performance with 12% growth for the quarter with Maruti Suzuki, Reno Nissan, and Hyundai leading the table. The growth was supported by new launches along with the festival sale and model with long waiting period.

Commercial vehicle segment also managed about 1.3% growth led by HCV segment growing at 5% while LCV remaining flat. In terms of production quarter witnessed growth in production for all four-wheeler segments with passenger vehicle leading the race with 12% growth followed by HCV two-wheeler segment looks subdued post monetization with 4% reduction for the quarter.

Some of the trends has steered reversing from the month of January with strong growth coming back in commercial vehicles. Similarly, passenger vehicles also witnessed double-digit growth by most of the leading OEMs. Two-wheeler had moderate recovery in January.

Post positive budget incentive for the rural and farm sector two-wheeler should be on a path to recovery in next financial year. Improved liquidity position in the market along with new launches and strong domestic micro indicators provide for a robust financial year 2017, 2018 for the entire sector.

Now, I come to the performance of Minda Industries Limited. At a consolidated level during Q3 2016, 2017 company registered revenue of Rs. 885 crores, growth of 41% year-on-year from Rs. 626 crores in Q3 of last year. This was driven by a consolidation of Roki Minda, and Minda TG, SOP at Minda Kosei Bawal Plant and acquisition of Rinder Group which was also instrumental to this growth.

In summary, I will say that Bawal Aluminum Wheel Plant and Hose plant which was new product had added to the top-line as well as the bottom-line besides of course Roki Minda which was part of our consolidation exercise during this quarter and also Rinder acquisition.

Coming to the profitability, operating EBITDA was at Rs. 107 crores growing by 89% year-on-year from Rs. 59 crores Q3 financial year 2016. EBITDA margins has been highest ever at 12.1% in the quarter under reference which amounts to an expansion of 270 basis points from 9.4% in Q3 of the last year. This has been achieved on the back of higher efficiency and operating leverage along with the improved performance from various group entities which include Minda Kosei, MJ Casting, Minda Kyoraku, and Roki Minda. We are putting all our efforts in sustaining current margin level and continuously monitor the cost.

The interest cost has been higher for the quarter compared to the same quarter of last year mainly because of acquisition of Rinder for which we borrowed some money and consolidation of Minda Kosei, Minda TG, and Roki Minda.

While the cost is reducing on a sequential basis led by improvement in our credit ratings and repayment of certain term loans. In spite of this I would like to add that still we are maintaining a debt-equity ratio of about 0.70. So, we are well within our group norms or 1:1 debt-equity ratio.

PBT before exceptional item for Q3 of financial year 2017 was at Rs. 65 crores growing by 71% year-on-year from Rs. 38 crores in Q3 of the preceding year. PAT after minority interest grew by 55% from Rs. 29 crores in Q3 of 2016 to Rs. 45 crores in Q3 of 2017. Margin improved from 4.6% in preceding quarter Q3 to 5.1% in the quarter under reference.

Cash PAT was at Rs. 82 crores for the quarter under reference. EPS has grown from Rs. 3.6 per share in the Q3 of last year to 5.6 per share in Q3 of FY 2017.

Company has also announced interim dividend of 60% against 40% in the last year.

Now, I will come to product wise performance. Switching system contributed about 33% of the consolidated turnover. India sales accounted for 85% of sale in the quarter under reference. This division grew by 4% year-on-year. Overall EBITDA margin is at 10%. However, in case we consider pure manufacturing EBITDA without trading sales which is of handle bar margin for this segment is 13.7%.

Next, lighting systems, lighting division contributed 29% to our total turnover. India sales accounted for 85% in Q3 of the year under reference. This division grew two times year-on-year on a comparable basis excluding Asian and Rinder lighting, the business grew by 19% year-on-year mainly driven by higher volumes and improved product mix.

The management continues to focus on high value-added products and the same is visible in improvement of EBITDA margins of 12% from 11.5%.

Rinder recorded a sale of Rs. 94 crores with EBITDA margin of 11%. We received in Rinder new orders from Hero Motors.

Coming to acoustic division. Acoustic division contributed 16% in Q3 of 2017 at consolidated level. India horns business contributed 31% of the total horns business. Clarton horn registered growth of 5% year-on-year despite adverse currency movements. EBITDA margin for the Indian business was 14% and Clarton recorded EBITDA margin of 7% in the quarter under reference. An additional line has been approved for expansion in Mexico for Clarton horn which would require a capital outlay of Rs. 20 crores. So, we are adding additional line at Mexico, the other product lines have also contributed and are showing good traction. With subsidiaries turning positive at PBT level they have started contributing positively to the company at PBT levels.

Our subsidiaries which is Minda Kosei Aluminum Wheel and MJ Castings have contributed positively vis-à-vis their performance in the same quarter last year.

In Minda Kosei additional capacity for alloy wheel will come up in Gujarat for 120,000 wheels per month with our total capital outlay of Rs. 300 crores which would be invested in two phases over a period of coming two years.

During Q3 2017 Roki Minda has been consolidated for the full quarter which is into filter business.

To maintain the growth momentum that we have reached and we have contined to work with three-pronged strategy, re-aligning, and simplify the group structure technological driven inorganic growth, continuous organic growth I existing new product line.

This is all from our side as of now and we open the floor for Question-and-Answers. All are most welcome to come up with questions and queries. Thank you.

**Moderator:** Thank you. We will now begin the Question-and-Answer Session. We will take the first question is from the line of Ashutosh Tiwari from Equirus Securities. Please go ahead.

**Ashutosh Tiwari:** Sir, firstly if I look at the slide number 11 in presentation which shows the EBITDA margin of different subsidiaries. Minda Kosei has 23.1% margin but what we have discuss in the past is that our business will have around 15%, 16% margin. So, are there any one-offs in that in this quarter or say last quarter?

**Sudhir Jain:** First, thank you, Ashutosh. Yes, Ashutosh in this quarter what has happened as this is a number which comes before interest and depreciation, you will notice that in Minda Kosei we have a lot of buyers' credit which is as a foreign currency hedge. So, what happen around Rs. 60 crores of borrowing was in Euro and Japanese Yen and these currency movements have led to a gain of around Rs. 4.5 crores in this quarter, so that is one-offs but others will continue.

**Ashutosh Tiwari:** But that happened below EBITDA, right?

**Sudhir Jain:** Pardon.

**Ashutosh Tiwari:** That happened below EBITDA as part of interest cost.

**Sudhir Jain:** That goes into other income, you are right.

**Tripurari Kumar:** But I tell you the main reasons is also that within this quarter the off take of alloy wheels is more than expected so, whatever we produce and whatever was the stock has been lifted by our OEMs the sale was really good as far as four wheel was concerned. And as you are aware in India most of the alloy wheels are imported and we are directly supplying to OEMs in India and during this particular quarter I will repeat is off take is really better.

**Ashutosh Tiwari:** Okay. But on a going ahead basis what kind of margins Minda Kosei will do, it will be 15%, 16% only or it can do higher?

**Sudhir Jain:** No, it will do between 20% and 25%. But I think for a safer side let me tell you, in medium-term to long-term let us take 15%, 16% only. In a short-term it could be higher but in the long-term 15%, 16% would be maintained.

**Tripurari Kumar:** In November, December, November particularly they had almost 95%, 96% utilization and peak sales also.

**Ashutosh Tiwari:** Okay. And Minda Kyoraku, is there sales drop in the current quarter because if you look at the numbers for first quarter and second quarter the sales was around Rs. 30 odd crores and this quarter total nine months' number is Rs. 97 crores only. Have we seen any drop in the sales number in Minda Kyoraku?

**Tripurari Kumar:** For the full year or?

**Ashutosh Tiwari:** Nine month if you look at revenue Rs. 76 97 crores and if I look at relation in the Q1 and Q2 sales was around 30% and 29% that means this quarter would have been around Rs. 17 crores, Rs. 18 crores only.

**Tripurari Kumar:** In MKL we have done a sale of around Rs. 27 crores this quarter.

**Ashutosh Tiwari:** This is mix match I think, if I compare previous quarters because what we have reported in total for the nine month is Rs. 76 crores only.

**Tripurari Kumar:** The sale is what goes into Minda Kyoraku, so this in average run rate.

**Sudhir Jain:** What he is saying is that in case we add the total nine months which is available now led two quarters then it is lower, there seems to be some mix match.

**Tripurari Kumar:** Rs. 27 crores, last quarter was Rs. 29 crores and prior to that so this means that…

**Sudhir Jain:** Three quarters number.

**Tripurari Kumar:** Last two quarter I have. Last quarter we did Rs. 54 crores but I think, this number should be correct Ashutosh I will come back to you.

**Ashutosh Tiwari:** Okay. And the margins over there also have some one-off, right Minda Kyoraku also? EBITDA margin is 20.

**Tripurari Kumar:** This time there was a good off take in the current model that we are supplying at Minda Kyoraku and Maruti did well. So, Maruti is the number one customer there so, the pick-up was good and there was some tool income.

**Sudhir Jain:** And there was some price increase also from the vendor which was for the preceding months and as you are aware that let me tell you one is of course the regular sale of the components, second is the tool billing which is pre-audit, it is not every month of year, and third is the price increase which we get from the customers as per our understanding. So, price increase is also periodic.

**Ashutosh Tiwari:** Okay. So, Minda Kyoraku normally would have 16% margin, right?

**Sudhir Jain:** Around 15% to 16%. There is price increase also this quarter.

**Ashutosh Tiwari:** Sorry.

**Sudhir Jain:** There is a price increase and tooling income which is one-off, so an average this number should be around 18%.

**Ashutosh Tiwari:** Okay. And lastly, SAM Global also look very hay margin on nine month basis.

**Sudhir Jain:** In PTMA there was around Rs. 4.8 crores of additional dividend income that was made…

**Sudhir Jain:** SAM Global is the investment company of the group which has invested into PTMA as well as in Vietnam. So, this is the dividend income which has been received by SAM Global from PTMA and Vietnam. And Ashutosh having said that, I tell you in our business first of course is that sales of regular components which is regular. Second is the sales of tooling, and price increase so, in one or the other business this is a regular cycle that ever quarter or every periodically sometimes sales is there sales of tools as well as price increase in one of the product or the other product.

**Ashutosh Tiwari:** Yes, so, it might be one-off for this quarter but on nine-month basis normal income, right for all the businesses?

**Sudhir Jain:** Yes, you are right.

**Moderator:** Thank you. The next question is from the line of Bharat Gyanani from Sharekhan. Please go ahead.

**Bharat Gyanani:** I just want to ask that last quarter we had taken board approval for raising an amount of about Rs. 500 crores, so that was primarily for the acquisition purposes or what is the objective for raising that amount?

**Sudhir Jain:** Yes, in the last quarter that approval was obtained so, enabling authorities with the company and primarily the purpose of raising that money in near future whenever we finally decide is to finance expansion and that is in Gujarat. As you are aware that number of OEMs I have set-up or are setting up base in Gujarat including Suzuki. Second, of course is that as you are aware that Minda industries are consolidating all group operations with Minda Industries so, for acquisition of shares also Minda Industries require cash and we have already shared with you our target is to conclude this consolidation exercise by March 2018.

**Bharat Gyanani:** Okay, fair enough, sir. And my other question is that the margins that we have given in this quarter of 12.1% so, I mean there are some one-offs in some of the subsidiary that you were highlighting to the previous speaker that you have received tooling income as well as some price hikes for the previous quarters. So, I was just trying to understand that as a sustainable margin at the console level for the operations, do you think margins that you reported in this quarter for 12.1% is sustainable for the entire year going ahead or will the margin trajectory tend to come down because you received one-offs in this quarter?

**Sudhir Jain:** Okay. As far as this particular product is concerned, third quarter is concerned, you are right. Having said that, let me again repeat that in Minda Industries Limited, we have got a number of products which is switches, horns, fuel, gas, plus products with the subsidiary and this is part of our regular business to develop tools, molds, and die's on behalf of the OEMs and which money we recovered depending upon the understanding and agreement with the OEMs so, what I am trying to convey is that, that in every quarter or over a period of say two quarters, three quarters, or four quarters, there is a regular sales of these tools, molds, etc., as well as price discussions in all the products so, which one will happen in which quarter of course is a question mark. So, in case you will see over a period of 12 months or in case we see these margins would be available and would be there.

**Tripurari Kumar:** If not in this entity we could see some of these incomes coming in other entity.

**Bharat Gyanani:** Sorry, sir, I did not get your point.

**Sudhir Jain:** Yes, I will repeat. Say we are having about 10 components under Minda Industries consolidated assume, okay. In most of these components of course we sell components which is the prime activity. In order to make those components we have to have and make manufacture and assemble tools, we say tools, molds, and die's part of I development cost, okay. And these fully or partly we recover this development cost from the OEM whenever there is a new model etc., so, what we are trying to say that in each quarter it is expected that one or the other products of course component continue to be sold but tooling etc., would be build.

**Bharat Gyanani:** Fair enough, got it. But sir, then the question arises that probably in this quarter there must be more of it but if I see the nine months' margin then it is about 10.6%. So, what I was trying to understand is that on a full year sustainable basis this is the kind of the margin that we are targeting or can we achieve higher margins of about 12% on a full year basis going ahead because if I see the last nine months the margin is about 10.6%. So, what I was trying to understand is that on a full year sustainable basis going ahead can we achieve the 12% mark or will be about slightly lower about 10.6% or 11% whatever.

**Sudhir Jain:** Now, understood Bharat. So, this 10% to 12% increase is on account of two things or rather three things: additional sales, second is on account of the productivity improvement, one-off sales made in a particular component which is tolling mode we had price increase. So, either it would be 12.12% continue very difficult to say yes or no but in the coming quarter I expect that there would be some improvement in margins because of its productivity etc., and some improvement because of the sales which means better capacity utilization. So, I think to be a on a safer side in case position I will take something in between 12% to 11%, 11% to 12%, the peak was 12% consistently four quarters or three quarters then 12% will become the base.

**Tripurari Kumar:** And just to add we have no loss-making subsidiary as of now except Minda TG which in purchase of operations so, that will also turn around and then you will see there is no negative drag down in the margin players.

**Sudhir Jain:** I think Tripurari intends to say is that initially new product a particular subsidiary incurring no losses PBT loss as soon as it is converted into profit because of better capacity utilization that permanently add to the margin.

**Bharat Gyanani:** Right, absolutely. And sir, just lastly I wanted to understand what is your top-line growth projections for the next year given that I mean the industry growth and what is your target of growth for FY 2018?

**Sudhir Jain:** Okay, I will make standard reply which I have been making earlier also in order to find out what would be the top-line growth in our group I will look at last five years or 10 years CAGR, okay. So, in last five years to 10 years in case CAGR my top-line is growing at the rate of 25% and if we see the sector growth, sector growth is 10% to 12% CAGR, okay. This is our estimate that our top-line growth 10%, 12% directly comes from the sector growth and the balance comes from because we are expanding capacity for the products or components and adding new components also. So, this combination will continue for some time to come and still I will maintain considering our history my top-line should grow at the rate of 20%, 25% year-on-year.

**Bharat Gyanani:** Right. FY 2018 would also be see some finalization of the consolidation of some group entities that can also add to the top-line?

**Sudhir Jain:** Yes, 30%, 35%, you are right 40%. That is for the consolidation.

**Moderator:** Thank you. The next question is from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.

**Dhananjay Mishra:** Sir, what is the volume for this alloy wheel segment for this quarter, volume number?

**Sudhir Jain:** For alloy wheels?

**Dhananjay Mishra:** Yes.

**Sudhir Jain:** On average we have done 52,000 wheels to 55,000 wheels per month in last three months, per month 55,000 wheels.

**Dhananjay Mishra:** Okay, average? And when do you expect to reach to 90,000 something in next year?

**Sudhir Jain:** Factory is being scaled up, so we have a capacity of 60,000 wheels only, we move up to 90,000 wheels by March or April 2017.

**Dhananjay Mishra:** Okay. And whom we are supply M&M and Maruti, right?

**Sudhir Jain:** Yes, we are supplying to both you are right Maruti and Mahindra and Mahindra.

**Dhananjay Mishra:** Okay. How was the sales for Q3 compared to last quarter?

**Sudhir Jain:** December there was a shutdown for a week in Maruti annual phase that is why there could be a lower number.

**Dhananjay Mishra:** So, this is customer specific, right?

**Sudhir Jain:** Yes, because of the annual maintenance shutdown.

**Dhananjay Mishra:** Okay. And sir, in Clarton or Rinder, we have seen dip. Even in the Clarton the business is down from Rs. 101 crores to Rs. 98 crores in this quarter. So, what is your full year target for both these company?

**Sudhir Jain:** Dhananjay, just to correct you in Minda Kosei we have done a sale of Rs. 49 crores as against Rs. 44 crores last year so, if there is a correction that we have to do we will do it.

**Dhananjay Mishra:** Because I have done the reconciliation from the presentation nine month number I have taken and…

**Sudhir Jain:** Rs. **49** crores top-line.

**Sudhir Jain:** 10% more.

**Dhananjay Mishra:** It is Rs. 49 crores?

**Sudhir Jain:** Yes.

**Dhananjay Mishra:** Okay. So, can again upload the revised presentation that would be useful.

**Sudhir Jain:** No, one minute Dhananjay, these are from latest presentation.

**Dhananjay Mishra:** No, page number 11 where we have given the subsidiaries information so, there is some mismatch if you update that base.

**Sudhir Jain:** It says Rs. 107 crores of sales only, but anyways I will check that is a nine months number.

**Dhananjay Mishra:** Because Q1 is if I see Q1 number was Rs. 28 crores and Q2 was Rs. 44 crores so, Q3 should be Rs. 36 crores.

**Sudhir Jain:** I will re-discuss this number with you.

**Dhananjay Mishra:** Okay.

**Sudhir Jain:** As per us, the cumulative number of turnover for alloy wheel is Rs. 122 crores.

**Sudhir Jain:** One minute just hold, whether we gave Rs. 107 crores or… I think there seems to some error on our part. We are showing Rs. 121 crores while in presentation it is Rs. 107 crores. So, we will check and come back to you.

**Dhananjay Mishra:** Okay. And sir, can you give the full year target for Clarton and Rinder for this year 2017?

**Sudhir Jain:** But I tell you the best, in case again we will give the target also but better to add Q3 number as it is for Q4 still we will get back.

**Dhananjay Mishra:** So, this quarter on console level we have Rs. 850 crores. So, can we do about Rs. 870 crores Rs. 875 crores in Q4 also?

**Tripurari Kumar:** No, we have done around Rs. 884 crores of sales.

**Dhananjay Mishra:** Okay. So, there would be flat growth in Q4 as well, at least?

**Tripurari Kumar:** I think better to be on safer side because still impact of demonetization of course it has improved but you never know and it is better to take same number same number in order to extrapolate for next quarter.

**Dhananjay Mishra:** Okay. And sir, in tooling business what proportion of our revenue coming from tooling business in general?

**Tripurari Kumar:** I will guess, I am not sure because that kind of exercise we have not done but about 3% to 4%.

**Dhananjay Mishra:** Okay, that happens in general?

**Tripurari Kumar:** Yes.

**Dhananjay Mishra:** Okay. In Q3 due to consolidation of that on this JV what was the absolute increment for this Q3?

**Tripurari Kumar:** Roki number.

**Sudhir Jain:** Yes, Rs. 30 crores in top-line.

**Dhananjay Mishra:** Rs. 30 crores in top-line.

**Sudhir Jain:** Yes, and PBT number would be up by around Rs. 1.5 crore, Rs. 2 crores.

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

**Bobby Jayram:** Referring to page 11 what is this MDSL that has a margin of 1%?

**Tripurari Kumar:** MDSL is our aftermarket arm and which is more like a cost center for us and all our products which are distributed in the aftermarket is done through this wholly owned subsidiary.

**Sudhir Jain:** I will add, the MDSL is basically Minda Distribution & Services Limited, it is a separate entity as Tripurari mentioned 100% subsidiary of Minda Industries. We are into OEM business as well as aftermarket sales about 80% of the group turnover comes from OEM. So, all group entities who are into manufacturing directly bill to OEM. But in order to control and manage aftermarket distribution which is through about 600, 700 dealer distributor and retailer is a separate entity. So, our manufacturing unit will bill to MDSL and MDSL will in turn bill and distribute to the 700 dealer, distributor, and retailer and internally as per the group policy we treat it as a cost center meaning thereby whatever is the price realization from the dealer, distributor, MDSL reduce its cost 0.50%, 1% margin and that becomes the purchase price for MDSL and sale price for our manufacturing units. Just to cut it short, whatever is the profit in the aftermarket is booked at manufacturing unit level.

**Bobby Jayram:** Okay. And this margin is pretty much meaning….

**Sudhir Jain:** Yes, you got right.

**Bobby Jayram:** Right. I mean the more fundamental question I have is, you are expanding into a lot of product but unless you build scale in those products you would not be able to maintain margins and return on capital employed, correct?

**Sudhir Jain:** Okay, your question is over?

**Bobby Jayram:** My question really is you can generate sales from going into different products but the return on capital and employee is that at a higher level because the margins are quite low, right for Clarton it is just 7.8%. So, are you operating at a sub-optimal scale because you are into so many products?

**Sudhir Jain:** Okay. As I have understood your question is very intelligent question. And of course, we are into multiple products and in the last two years to three years we have added more products. Having said that the group thinking and philosophy has been that; firstly, as per the guidelines lay down in whichever product we are or we have entered our target is to be in top three, one two or three, in India first, okay. In auto switches, we are already, in horn also we are, in other products we are not one or two or three but whenever we have entered into these products, we are targeting that may be soon in an alloy wheels may be already we could be but what I am trying to say that Indian economy will grow in coming 10 years to 20 years, the number of vehicles which we are making vis-à-vis China the population is almost similar is one-tenth. So, we see a big growth in auto numbers in coming 10 years to 20 years and that is why wherever we see an opportunity of adding products with right technology and good customer we have invested and we hope that this will bear fruits in times to come and not long we are looking at two years, three years, or five years, as far as the percentage, PBT or ROCE is concerned, we group our existing products into three categories, product number one category which is our legacy products where we enjoy good market share where we are number one or two in the market that are giving us double-digit profitability at EBITDA level. Similarly, is a second category of the products where we entered in last four years, five years, still there is a scope for further increase in capacity as well as prices also there may be the EBITDA margin would be 5% to 10% thee will be certain products which we have just started in last two years, there may be we are at a breakeven level. So, in all these category, we are making efforts to move to a higher level from break even to 5%, 5% category to 10% and from 10% to 12%, 14%, 15%, and 16%. So, this is the strategy of the group and accordingly ROCE is also improving. So, in case you see the trend of last three years our EBITDA percentage is improving as well as ROCE is also improving which we hope to maintain and coming years.

**Bobby Jayram:** Thank you. On horns and switches, what is the level of technology involved, they do not look to be very high tech product, so what is the barrier to entry really in this kind of assignment?

**Sudhir Jain:** I think, I will say there are two barriers – first technology is also may be it is not rocket science but still technology is something which is not readily available secondly more than that is high volume production with consistent quality practically at 10 ppm level. So, this is a challenge. As far as technology is cornered whether it is the switches or horns. Now in horns I will take first, there is electronic horns coming and electronic horns are not that common in India still we make mechanical horns, so now in our Clarton plant and one of the reason for acquiring Clarton was that they were making and they had the technology for electronic horns. So, there is a PCB inside the horn. Similarly, in the case of switches also of course in switches technology is changing very fast from mechanical to electrical, electrical to electronics and now touch screen is coming and so all these technological advancement is taking place. Just to give you an example, in case in mobile through touch screen we can operate the mobile similarly instead of switches, mechanical or electrical in times to come, touch screen switches will come. So, all this shift is taking place from one level to another level. Yes, once we see, or once we hear the terminology as switch or horns etc., it looks very simple but having said that, yes, it is not a rocket science.

**Moderator:** Thank you. The next question is from the line of Jigar Shah from Maybank. Please go ahead.

**Jigar Shah:** My question is how do you see the auto industries performance in FY 2018 following the subdued phase in different segments and overall, in particular for your customers.

**Sudhir Jain:** I think your question is not fully clear to us, so there was some problem in between. Could you understand?

**Sudhir Jain:** I think he was asking customer which are impacted by demonetization.

**Jigar Shah:** No, actually, can I just repeat. What I am trying to understand is that for FY 2018, how do you see the auto industry bouncing back from the set back that has been there for the last few months and how do you see your customers in particular performing, so that was my question.

**Sudhir Jain:** Okay, now we understand. And as far as the impact of demonetization is concerned, so, I think it is a winning out and things seems to be better in February then what it used to be in December. So, let us hope by March the adverse impact of demonetization is not there, there is enough liquidity into the system whether plastic money or cash both are required to run the economy. Now coming to the next financial year which is 2017 and 2018, as a component supplier our growth is directly linked to the sector growth auto sector. And as we see auto sector growth is directly linked to the infrastructure and the GDP growth and in case we see from medium-term to long-term Indian economy, GDP growth should be 7.5% to put it simply. So, in case the GDP is growing at 7.5% we look at that auto sector will grow in double-digit and in case auto sector and I think this is possible in 2017 and 2018. Basics of fundamentals of the economy are sound, whether it is inflation and whether it is imports, exports, oil prices are also very much under control. So, all basics are in our favor and this impact of demonetization should also be over. So, assuming 7.5% growth in the GDP next year should give us double-digit growth in auto sector could be 12%, 13% and with 12%, 13% our growth should be 20% plus in the top-line. We are very positive about financial year 2018 and onwards.

**Jigar Shah:** Sir, one more question on the CAPEX that you will incur in the next fiscal, and how do you plan to fund it, other than what you have proposed by way of raising some money in general course how do you see that and currently what must be the utilization of your different capacities?

**Tripurari Kumar:** Okay, we have a very sound capital allocation policy and if you look at the projects that we have already announced for example, let us say Minda Kosei, which is likely to be rolled out over next two years, it is going to funded by debt-equity ratio to ensure that it is one or below one and it will be through a mix of debt instruments which will include non-convertible debentures fully hedged ECB structure and term loans apart from the equity portion that will be coming into the company’s as wealth. We will ensure that the interest cost is low and the ROCE of the project is maintained.

**Jigar Shah:** Okay. But can you give some details in terms of what is the size of CAPEX and what is your current utilization for different products?

**Tripurari Kumar:** Utilization in the sense, you want product wise utilizations?

**Jigar Shah:** Yes.

**Tripurari Kumar:** Capacity utilization. Okay, most of the plants let us say the existing plant of Minda Kosei is already 90% to 95% utilized and that is the reason we are scaling up capacity there and if you look the entities in Minda Industries Limited switch has a capacity utilization of 85% on average while it could have been lower in December and January previous month then there is light which is utilized to the extent of 80% and horn is utilized to 85% extend.

**Moderator:** Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

**Sachin Kasera:** I had two, three queries, one was on this Rs. 300 crores of expansion we are doing in Minda Kosei in Gujarat, what is the timeline for that and when do we see the ramp-up happening?

**Sudhir Jain:** Okay, Rs. 300 crores investment would be merely in next two years, 24 months in two phases. First phase is about Rs. 200 crores and then expansion is another Rs. 100 crores and second phase expansion exact timeline would be determined once the first phase is over and up and running. This investment has been made primarily for the OEMs located in Gujarat and of course particularly Suzuki.

**Sachin Kasera:** Sure, if I understand right, we are currently at 60,000 wheels as far as Minda Kosei is concerned that is going to 90,000 wheels in March, April and it will increase by further 1,20,000 wheels once the Gujarat plant is fully commission in both the phases or mutual capacity will be 2,10,000 wheels per month.

**Sudhir Jain:** The Bawal facility will also expand to 1,20,000 wheels.

**Sachin Kasera:** Okay. So, total will be 2,40,000 wheels in that case.

**Sudhir Jain:** Yes.

**Sachin Kasera:** And what is the CAPEX totally when you are up to 1,20,000 wheels in Bawal sir, what is the total CAPEX once complete 1,20,000.

**Sudhir Jain:** We have already infused equity required already and the outlay to these borrowings is Rs. 106 crores and additional borrowing of Rs. 45 crores, so it is almost debt-equity.

**Sachin Kasera:** I want to know what will be the total project cost for company 1,20,000 wheel capacity…

**Sudhir Jain:** Rs. 290 crores.

**Sachin Kasera:** So, same as Gujarat, okay.

**Sudhir Jain:** Yes, same as Gujarat.

**Sachin Kasera:** And this basically at 1,20,000 wheels we can achieve a peak revenue of around Rs. 350 crores, Rs. 400 crores from Bawal with 1,20,000 wheels per month?

**Sudhir Jain:** Yes, Rs. (+350) crores.

**Sachin Kasera:** Okay. Secondly sir, this new order that we won from Hero in Rinder what is the additional revenue potential from this order?

**Sudhir Jain:** Around Rs. 20 crores.

**Sachin Kasera:** Rs. 20 crores, per year?

**Sudhir Jain:** Yes.

**Sachin Kasera:** Sir, on the standalone side this quarter the numbers are little lower, if you could highlight what was that mainly because of the demonetization the impact on the two-wheeler side is that the main reason why the standalone numbers are a little lower compare to last year?

**Sudhir Jain:** You are right in standalone numbers are lower primarily because of demonetization. Once we see ML consolidated then actually new products are added as well as in case of ML consolidated four-wheeler share of sales is higher than the two-wheeler sales. Number of products grows to four-wheeler for example alloy wheels, hoses, etc., that is why in two-wheeler the numbers are lower because of demonetization.

**Sudhir Jain:** Bajaj being a major customer in switch that has also impacted the top-line in switch business.

**Tripurari Kumar:** And last quarter dividend also which is not there in third quarter.

**Sudhir Jain:** And quarter-on-quarter if you look at standalone dividend which was from Indonesia, Vietnam, so which is not there this year but that was one-off item in sales volume.

**Sachin Kasera:** Sure. Joint venture with Onkyo Japan for the infotainment, is this a big opportunity in the sense initially we addressing Rs. 40 crores, but eventually it can be a much larger investment in three quarters can it be a big business for the company?

**Sudhir Jain:** Yes, it could be big business in that case we will have to export speakers from here. Now, this is a product which is a part of the audio system and that is why we are investing in this. As you are aware in audio infotainment already we have a JV with Fujitsu Ten. But big opportunity we will look at once this particular investment has been made then we are able to meet our requirements.

**Sachin Kasera:** So, what is the potential of revenue from Rs. 50 crores investment sir?

**Sudhir Jain:** It can go up to Rs. 184 crores in three years to four years' time line.

**Sachin Kasera:** And when will this plant start sir commercial production?

**Sudhir Jain:** We will start the production by end of next financial year hopefully.

**Sachin Kasera:** Thank you, sir. Just one last suggestion from my side this Slide #11 on the presentation if you could also here the nine-month number of the subsidiaries, if you could also give the quarterly number as well as same number last year it will be very helpful because we have shown them under subsidiary if we get the consolidated then I think a lot of queries will get automatically get answered.

**Tripurari Kumar:** Okay, we will capture this in the next presentation.

**Management:** You mean to say nine months we give the quarterly results.

**Sachin Kasera:** Your Y-T-D number for the first timer. Also if you give the comparative number of last year because currently you only give the current nine month number, we cannot compare it how was the number last year, we cannot make out the subsidiary has performed.

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

**Sunil Shah:** Sir, looking at the revenue numbers, I am just looking at ballpark numbers, so we could end this year with roughly about Rs. 3,400 to Rs. 3,500 crores of top-line? And sir, there was one mentioned during the call itself that because of the consolidation we see an incremental 40% growth in our top-line in FY 2018, so once all the consolidation ends that could still give us another 40% which could happen in FY 2018 is that correct?

**Sudhir Jain:** No, I will say as we have been saying earlier also in case we do not take into account the consolidation and once the full consolidation exercise over then we are looking at top-line growth of 20% to 25% on the basis that auto sector is growing at 12%-12.5% which will depend on GDP growth. The extra 15% is coming year-on-year on an average basis is because of the consolidation.

**Sunil Shah:** Okay. So, for FY 2018 we will be completing our all companies' consolidation, right?

**Sudhir Jain:** Yes, in March 2018 we are targeting to complete.

**Sunil Shah:** Correct. So, when we say 40% it means 20%, 25% is from the industry growth and the rest 15% odd is because of the mergers of all other companies, right?

**Sudhir Jain:** You are right but this 25% will also include in case any new product is added for example, we just mentioned about speaker which is not much of course and when this additional capacity for alloy wheel is added yes, you are right, 20%, 25% will come from existing products as well as new product if any.

**Sunil Shah:** Right. Sir, one more question is on the debt front, what will be our peak debt because even that would go up in FY 2018, right?

**Sudhir Jain:** As I explained earlier also, the group policy is not to exceed 1 today our debt is 0.7% of the net worth and in future also even after this expansion, we do not see that number will go up actually it will never cross one, it is not expected to cross one, 0.7% for some time become 0.8% or 0.85%.

**Moderator:** Thank you. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

**Ashish Kumar:** One of the things which I wanted to understand is the payout for purchase of the equity states how much more total outflow you expect between now and the end of March 2018?

**Sudhir Jain:** About Rs. 150 crores, Rs. 170 crores.

**Ashish Kumar:** Okay. And sir, in case suppose the fund raising does not happen will we still be sticking to the same timelines or will that need to be changed because of the debt constraint?

**Sudhir Jain:** So, far we are going as per our plan and we hope that we will able to implement as per plan whatever is left barring unforeseen circumstances.

**Moderator:** Thank you. The next question is from the line of Basudev Banerjee from Antique Finance. Please go ahead.

**Basudev Banerjee:** Sir, a couple of questions. One, as we last time discussed you saying Roki is not going to be consolidated and it will be income from associate. So, in this presentation you have consolidated Roki revenues so, why this….

**Sudhir Jain:** Basudev, I remember what I said was once IndAS comes in to the place from next year onwards you will see this will not be there in the top-line and we are still looking at this number for this first-half this number is being coming in as a joint venture company because we have a 49% stake.

**Basudev Banerjee:** So, when you will be shifting to IndAS sir?

**Tripurari Kumar:** This will be relooked at again.

**Sudhir Jain:** But as far as IndAS applicability to our Minda Industries is concerned is effective 1st April, 2017. You are right 2017, 2018 accounts would be in compliance with IndAS and corresponding figures of the last year which is 2016, 2017 running would also be re-casted.

**Basudev Banerjee:** So, that means while doing FY 2018 revenue figures we should not take Roki Minda in the console revenue numbers as reported this quarter?

**Sudhir Jain:** You are right, 2017, 2018 we have to see that what is the number based on IndAS.

**Basudev Banerjee:** And sir, that investment cash outflow which was pending for Roki has that been done?

**Sudhir Jain:** No, it is likely to happen in next month.

**Basudev Banerjee:** Next month. Next thing sir, like your margins for so many segments have been improving business size has also been improving. Two things regarding Clarton, sir overall size of Clarton revenue still not inching up remaining around that Rs. 80 crores, Rs. 85 crores and margin also not inching up for long. So, what is the strategy for Clarton down the line and any impact of this political issues in Mexico as you are planning to expand there?

**Tripurari Kumar:** Just to add to the first part, in Clarton Mexico if we look over the last two and half years euro versus rupee the number has come down from 82 to 72 as I speak. So, what happens is when I convert this number that you get in rupee is lower. That is reflecting otherwise, if you look at the euro sales it is higher. And the EBITDA number is around 7% which we think is considerably okay, concerning that is a Spanish market or a European market. now regarding the Mexico as you are aware, we have just expanded and we expect sale of around close to 14 million when the entire capacity is up. So, small volume compared to the enquire requirement in Mexico itself and we hope not major challenges would come across because Trump factor.

**Basudev Banerjee:** But the target market is Mexico or it is manufactured in Mexico and sold in other states?

**Sudhir Jain:** That is what I was going to say that. 75%, 80% target market is in Mexico only, only 20%, 25% exports and in case there is an adverse political impact also there is a plan which we have made. So, we do not see any major challenge as of now and that is why we are going ahead with expansion.

**Basudev Banerjee:** And sir like as you said because of Bajaj Auto weaker volumes I can see your Rinder quarterly number is also down to Rs. 79 odd crores but margin still looks pretty robust. So, how to look at that when revenue recovers back still one should expect (+11%) margin or it can move up further?

**Tripurari Kumar:** In Rinder we have done 94% this quarter, and last quarter we have done 105%.

**Basudev Banerjee:** Yes, so slight 10% reduction.

**Tripurari Kumar:** I think this number could be around 11%, 11.5% that band only.

**Basudev Banerjee:** Okay. So, that should be the sacrosanct margin for Rinder in the longer run.

**Tripurari Kumar:** Yes.

**Moderator:** Thank you. The next question is from the line of Prayesh Jain from IIFL. Please go ahead.

**Prayesh Jain:** Sir, just one thing in FY 2018, which other group companies are likely to be consolidated and what kind of revenue potential these companies have?

**Sudhir Jain:** Okay, I will say that one of course, is that already Mindarika Private Limited 26%, 27% is owned by Minda Industries and another 30% to 35% which we hold is likely to be transferred to Minda Industries which is one. Second is that which we mentioned about Minda Fujitsu Ten which is into infotainment, there is one more which is Mi Torica third company and similarly there is one more company TG Minda. So, there are four or five companies which are to be added under MIL. Total turnover of these companies would another Rs. 700 crores, Rs. 800 crores annual.

**Prayesh Jain:** Rs. 700 crores would be annual and what would be possible our stake in this?

**Sudhir Jain:** Okay. Of course, Mindarika we have majority and only balance is to be transferred and Fujitsu Ten Minda is almost 50, 50 and in TG Minda our stake is very low so, I will say to be on a safer side we can take this out of these say Rs. 700 crores, Rs. 800 crores less than half would be in Minda Industries. Now, as per IndAS which is to be added line by line or to be shown as minority interest we are working out.

**Prayesh Jain:** Okay. And the profitability of these companies is similar to the consolidated margins we have right now or it is….

**Sudhir Jain:** For some yes, and for some no. So, all this work now we are doing once we are through with this IndAS analysis which we are doing with reference to each company, Yes.

**Moderator:** Thank you. The next question is from the line of Aditya Bapat from Equentis Wealth Advisory. Please go ahead.

**Aditya Bapat:** I just have one question. We have announced that we would be showing issuing commercial paper worth about Rs. 30 crores, so, what is the rate at which this would be done?

**Sudhir Jain:** We have done this at 6.75%.

**Aditya Bapat:** 6.75%?

**Sudhir Jain:** Yes.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

**Sudhir Jain:** Yes, thank you very much. Thank you to all for joining the call. I hope we have been able to respond to your queries adequately. Wherever we have noted that we need to recheck certain figures, we will recheck and come back to you. For any further information, I request you to kindly get in touch with Ritu from SGA, our Investor Relations Advisors and may also contact us, as per your convenience. Once again, thank you very much and let us hope to meet you, talk to you during the coming quarter and the next call. Thank you.

**Moderator:** Thank you. On behalf of Minda Industries Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.