"Minda Industries Limited Q4 FY-15 Earnings Conference Call"

May 28, 2015

MANAGEMENT: **MR. SUDHIR JAIN-EXECUTIVE DIRECTOR & GROUP CFO, MINDA INDUSTRIES LIMITED**
MR. TRIPURARI KUMAR – MINDA INDUSTRIES LIMITED
MR. RAJESH RUSTAGI – MINDA INDUSTRIES LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Q4 FY15 Earnings Conference Call of Minda Industries 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.

This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. I now hand the conference over to Mr. Sudhir Jain-Executive Director and Group CFO, Minda Industries Limited. Thank you and over to you Mr. Jain.

Sudhir Jain: Thank you. Good afternoon friends, Sudhir Jain here. Along with me Rajesh, Tripurari and from SGA team is there SGA are IR Advisors. I'm sure you would have received our result and presentation on web by now. For those who have not you can view them along with the presentation and can be viewed on our website also.

I will speak briefly on the industry and then we will give update on our performance following which we will be happy to answer your queries. As you are aware auto industries fared well in the first half of the year while the second half was not as good as expected. Overall auto industry is riding on the back of market sentiment, excise duty cuts continuing through December 14 and opening up of mining and infrastructure sectors, it has grown by 8% year-on- year in February 15. With volume growth coming across segments in both domestic market and exports, two wheeler grew by 9% driven by growth in scooter segment 27% YoY. Three wheeler segments grew by 13% YoY, MHCV, medium and heavy and commercial vehicle witnessed improved volumes growing by 17% year-on-year. However light commercial vehicles, passenger car segment witnessed subdued growth.

Exports sales in this fiscal have been good traction. Q4 FY-15 could not keep faith with momentum that was built in the first half of the year. The biggest segment two wheeler declined by 6% in Q4 year over year, with scooters and motorcycles declining by 2% and 8% respectively. Also three wheeler segment declined by 17% quarter-on-quarter. This decline was to some extent offset by growth of 26% in medium, heavy commercial vehicles and stable passenger car segment. We believe auto sector is witnessing revival, however it is impacted by slowdown in the rural demand on account of unseasonal rains and concerns over delayed monsoon and volatility in crude prices. However, what comes to the rescue of auto ancillary companies like us, is the aggressive marketing and product relevant pipeline of the OEM. Over the last few years as we see, a lead time to introduce new models or facelift of the existing models has reduced significantly. Moreover OEMs are focused on offering something in each category in the respective auto segment. All of this has enabled continuous product development exercise for OEMs as well as opportunity for automotive component suppliers to participate in upcoming models platform. OEMs have developed product launch pipeline and has capacity expansion plans, providing us with good visibility of things to come in the upcoming years.

Now coming to the consolidated performance of Minda Industries Limited:

At the consolidated level, company crossed a milestone of 2000 crores revenue. In FY-15 it registered revenue of 2227 crores as against 1706 crores in FY-14, growth of 31% year-on-year. This was mainly driven by volume and value growth across product lines and automotive segment. The EBITDA grew by 98% YoY to Rs 154 crores in FY-15 from 78 crores in FY-14, EBITDA margin expanded by 237 basis points to 6.9% in FY-15. This has been achieved mainly on account of improved capacity utilization across product lines. This year the new Switch plant at Hosur and Lighting facility at Pune broke even contributing to increased operational efficiencies. These sectors ensured layout of operating leverage. Turnaround of 13 subsidiaries are more visible and these are likely to contribute the bottom line in the coming financial year. Clarton Horns performance has improved and has become profitable. Net profit for the company grew multifold by 847% from 7 crores to 68 crores in FY-15. Net profit margin expanded by 263 basis points to 3.1% in FY-15. The dividend declared is 60% of the face value including interim dividend of 25%, so 25% interim dividend and 35% final dividend which is the highest ever.

Coming to MIL standalone numbers – company registered revenue of 1370 crores in FY-15 as against 1108 crores in last year, the growth of 24% year on year. This growth came mainly on account of volume growth across product lines. We will discuss the product wise details shortly.

Coming to EBITDA – it grew by 49% YoY to 113 crores. EBITDA margin has expanded by 140 basis points year on year to reach 8.3% from 6.9%. Profit after tax in financial year almost doubled to 53 crores from 27 crores a growth of 96% and our net profit margin is 3.9% against 2.4% in the previous year.

Now moving on to the product wise details:

Switch – it contributed roughly 40% for the total consolidated turnover in 15 with India sales accounting for 95%. This division grew by 13% YoY mainly on account of higher volume, better capacity utilization in Hosur plant. EBITDA margin is at 14-16%. This division won fresh orders from Piaggio for exports. Switch division's latest plant at Hosur reached break even contributing positively to the bottom line. Pune Minda has been granted patents by Japan Patent Association for illuminated handle bar switches for SMD, LED based illumination technology and LED based illumination technology. With these company has three patents in Japan.

Moving to Lighting division – Lighting division contributed 19% to our turnover. This division grew by 41% year on year. The India sales accounted for 75% in financial year 15. EBITDA margins are at 8-10%. Plant at Pune reached break even in the beginning of the year. Also new Brownfield expansion at Manesar was supplying to MSIL Maruti Suzuki began operations in this year. From this plant we supply headlamp, tail lamp, fog lamp and others small lamps to Maruti Suzuki.

Coming to Acoustic division that is Horn:

Acoustic division contributed 28% in financial year 15. This division grew by 64% year- on-year. India sales accounted for roughly 27%. Keeping up with the performance our standalone horns division registered revenue of 166 crores in this year and EBITDA margin of 12-14% in 15. This division received fresh orders from Hyundai. Clarton has performed satisfactorily this year with revenue of 300 crores in 12 months FY-15 with EBITDA margin ranging 5-6%. Margins have expanded on account of operational synergies, playing out with the parent company and its group. We have changed Clarton year ending from December to March to bring the books in line with parent company. Hence this year consolidated results include 15 month Clarton results. A few of our subsidiaries are also showing clear signs of turnaround. Minda Industries Limited entered into new JV agreement with Kosei Group Japan to develop, manufacture and sell alloys wheels to OEM and aftermarket in India. The proposed plant will be located at Bawal for manufacturing and supply of alloy wheel for passenger vehicle. The proposed shareholding of the JV company is 70-30, 70 with Minda Group and 30 with Kosei Group. Project cost is estimated around 200 crores, commercial production is expected to start in Q1 of FY-17 with a monthly capacity of 60,000 wheels. As part of broader reorganization at the consolidated level MIL is increasing its stake in PT Minda Asean Automotive, Indonesia and Sam Global PT Limited- 100% holding company of PT Minda Vietnam to 51%. Minda Group has a strong thrust on R&D and innovation which is key enabler into introducing new products for enhanced features in the existing component.

We have added new patents and registered new design in various geographies total number of being 95 patterns, 525 design registrations.

Outlook:

As we have maintained previously and we continue to maintain that growing profitability is a strategy priority for the company and this growth will be driven by better capacity utilization across all product lines. We are continuously working towards adding new OEM and entering new platforms of existing OEM clients, across domestic markets and overseas markets. This impending auto revival augmented by company's increasing content per vehicle will enable it to grow it's revenue base profitability.

With this I would like to invite any query, questions from the participants.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Amit Doshi from Sushil Finance. Please go ahead.

Amit Doshi: I think we have met the revenue guidance which we had given last year. Sir just wanted to understand our chairman has guided for almost 25 to 30% revenue growth for this year and he has also mentioned that new projects and new products are going to drive the growth so if you can elaborate on that, what kind of new products that would drive this growth?

Sudhir Jain: As you see our last 10 years CAGR, top-line is growing at the rate of (+/- 25%). This is based on four basic assumptions, overall auto sector will grow at the rate of 12 to 15% per annum with this growth plus the existing products and the capacity utilization which we added in the last two years, the top line is targeted to grow by 25 to 30%. New products, fuel cap is one where there is a scope for growth and in auto gas we have developed a cylinder valve in-house manufacturing. So this is another product which has been developed for Maruti which is cylinder valve so fuel cap is a new product, cylinder valve is a new product in auto gas that will also drive the top line. Besides that, in our existing products also, we are getting orders for the new models, already the components are under development. So combination of these three sectors, one auto sector growth, second fuel cap and cylinder valve of course alloy wheels and batteries. Batteries already we are making but we are expanding capacity with Panasonic and alloy wheels being added. I hope I'm clear.

Amit Doshi: The second question is on the margin front I think we have been guiding since last two years that in couple of years time we would be reaching double-digit margin. I think this year we have improved from 4.6% to almost 7% so is this process on to achieve this, your guidance on double-digit margin is still on track?

Sudhir Jain: Yes of course internally there is a very clear target and we are working on two objectives – better capacity utilization, secondly better operating efficiencies and through these two targets we are making all efforts to drive the margins.

Amit Doshi: These two plants this year almost have reached the breakeven level, right that's what you have been indicating.?

Sudhir Jain: Which one I couldn't hear?

Amit Doshi: Hosur and Pune.

Sudhir Jain: Yes.

Amit Doshi: So how long it will take for these two plants to achieve our normalized margins?

Sudhir Jain: It should take normally not more than two years.

Amit Doshi: So by FY-17 we will be able to achieve these normal margins we are enjoying for both switch and light division for these two new plants?

Sudhir Jain: Yes that is the target.

Amit Doshi: And in terms of this alloy wheel JV which we have just formed, this is mainly for passenger vehicle, the entire 60,000 is for passenger vehicle?

Sudhir Jain: It's all for passenger vehicle.

Amit Doshi: And any particular OEM that we are targeting?

Sudhir Jain: Yes we are targeting Maruti Suzuki, Mahindra & Mahindra plus one or two others. Already we have got LOIs from Maruti Suzuki and Mahindra & Mahindra. Capacities are already booked.

Amit Doshi: My last question is on this MJ Casting, I think our chairman was very hopeful of this casting business to revive so since this quarter we have written-off almost 11 crores, do we see any future in terms of getting this money back or maybe this business growing?

Sudhir Jain: No here I would say two things, yes as per the prevailing accounting standards; we have provided onetime impairment of about 12 crores on the investment in MJCL that is one part. But there are two standards and the other standard which provides for impairment in the value of the assets of the company, it is noted also in the report and verified that in MJCL as such there is no impairment. Having said that profitability has substantially improved in MJCL during the year itself, profitability means losses have considerably reduced. So losses have reduced at a PBT level considerably and in the last quarter there is some cash profit also. Still while considering the future cash flows and enterprise value and so many other things the impairment has been provided. Internally we are working to further improve the situation in MJCL that there should be decent return on the investment already made in MJCL and once we achieve that, naturally we would be in a position to reverse this impairment charge.

Amit Doshi: So next year this would be able to break even? As you said in the last quarter we have seen any major improvement.

Sudhir Jain: Yes, we have seen major improvement, I won't commit that today but yes targeting that and in next two years' time for maximum three years' time we hope things would be different in MJCL.

Moderator: Thank you. The next question is from the line of Apoorva Kumar from Jefferies. Please go ahead.

Apoorva Kumar: First on GST so some of the OEMs have mentioned that once the GST comes and there will be some sort of consolidation in the auto ancillary space because they will be able to source components from all over India, I wanted to understand your view on this and secondly can you help us understand the operating model that you have basically in terms of whether you manufacture switches and gears for a particular model and that's how you win the order , then you will supply those products for the entire lifespan of that model or just a flavor on how does the operating model works?

Sudhir Jain: On your first question that on the implementation of GST, the OEMs source from any place in India. I'm not sure according to our experience and understanding, even today only because of the fact that there is some inter-state taxes or some sales tax they would be sourcing or there would be any restriction in sourcing because of this fact, I don't think. In any case today the policy of these main all OEMs practically is that suppliers should be located near to their plant, more on account of ensuring that there is no risk involved in shortage in supplies. So I don't think as far as OEMs purchase and sale is concerned GST will have a major impact but yes it will reduce the ultimate cost to the OEM because of the multiple tax affect will go and VAT would be available on all the taxes put together. It went on aftermarket distribution definitely and we also in Minda Industries Limited through MDSL distribute our components in the aftermarket. Since the aftermarket we have to dispatch the components in almost all states in India that will have an impact and lot of consolidation, warehousing etc. we are planning which will change.

Second on model, yes you are right. I will first say that we have got in-house all facilities to develop a component, designe it, design the tool and molds, complete engineering is in-house then there is a component production then there is assembly and testing. So all activities we do in-house which are critical, activities which are not very critical of course we depend upon our vendors who supply the components and the provide the services. As you said you are right we get associated with the OEMs as we conceive a new model so we become party to that, we designed the components whether it is switches, lights, etc., to suit the requirements of a new model. We provide them various solutions, they select one and then we get made it to that model so long that model is selling we supply the component depending upon the volume of that model again the volumes are not much there. Every OEM has got a threshold limit, up to this threshold number of that model per annum they will have a physical source and generally we are first source in most of the OEM so we will supply 100% of their requirement of that model. The numbers will exceed the threshold limit then they will go for the second supplier also. In any case that is the number one supplier supplies at least 70-75% numbers of particular model.

Apoorva Kumar: So currently what would be the models which you are associated with?

Sudhir Jain: In our two wheeler switches, I will say practically all models of TVS, Bajaj, most of the models of HMSI, some of the models of Hero. As far as lights are concerned our main customer are Maruti Suzuki, Nissan, Tata, HMSI so they are also consisting our market share at least 30-35% of the models are with us.

Apoorva Kumar: When you are say you are tend to situate your manufacturing units close to the OEM plants so for example Maruti and Honda, even HMSI as well as some of the other OEMs have plans to set up new plants. So are you also looking to set up new plants in those locations or that would not be needed or it would be more like an assembly unit which is closer to the OEM plant?

Sudhir Jain: I think you are right, now HMSI, Maruti are planning to set up their plants in Gujarat. Now we have got our plants in Manesar, in Pune, in South so we have also an unwritten policy but again we see what is the volume they are going to make. Once they reach a particular volume till that time we will supply the components from Pune plant or maybe from our Manesar plant. Once they cross a particular number then we start with assembly, so first assembly unit should be set up and later on full-fledged component manufacturing and assembly.

Apoorva Kumar: At the moment what would be your capacity utilization from whatever existing plants you have on a blended basis if you can share a number?

Sudhir Jain: On a blended basis in Switch I will say 80-85%, Light would be same 80-85%, Horn could be 90%, Fuel cap about 50%.

Moderator: Thank you. The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Of 75% of sales in Lighting division you said 70% comes from India so roughly how much will be from OEM and how much will be aftermarket?

Sudhir Jain: 80% OEM and 20% aftermarket.

Viraj Kacharia: You said that around 30 to 35% of business share is from the customers you mentioned in the Lighting?

Sudhir Jain: I said for the total market, our market share is 30-35% and accordingly at least that percentage of models are with us.

Viraj Kacharia: Overall market share in domestic OEM would be around 30-35 crores?

Sudhir Jain: In case of Lighting.

Viraj Kacharia: If we just look at other players in this market, they have been earning significantly higher margins versus us primarily earning around 8 to 10% EBIT margins, a bit more than us, why is such a big differentiation?

Sudhir Jain: You are talking lighting particularly?

Viraj Kacharia: Yeah automotive lighting basically.

Sudhir Jain: Yeah you are right. In India let me tell you historically and today also Lumex is the leader and then there is **Shyam** , they are the old players. We entered into light late and we invested also and created capacities particularly in last five years, and we started with small lamps which is blinkers, fog lamps and interior lamps and then to tail lamps and finally to headlamp. As a result last 4-5 years we have made heavy investment in Lighting. Parellely IJL also came- Indo-Japan Lighting, so naturally number of players are more so two things have happened in this market. Firstly for us, we made investment so naturally initially the cost of depreciation, interest & operating efficiencies etc is an issue which have more or less now settled and achieved. Second because of the more players initially there was a pressure on the prices also. We also took few orders not at a very very good price. Now the volumes are also going up, overall market volumes are going up. We are established in the Lighting market, we are catering to Maruti Suzuki requirement. We are supplying all three segments which is headlamps, tail lamp, and small lamps. As a result in case we see light standalone also during year profit margins have improved both EBITDA as well as PBT level.

Viraj Kacharia: You talked about number of years overall competition intensity increasing in the space. So what are the key differentiations for us in this market because even after 30-35% of our margins are still at low single digit.

Sudhir Jain: As far as we are concerned we are fast catching up on margins and profitability with the established players, that is one. Secondly, as I explained earlier for switches same thing is applicable to Lighting. We have all the technology and the facilities from concept to manufacturing and supplying, concept to supplying. That is second. Third is that we are entering into latest technologies LED lamps, headlamp leveling motors etc. Today we are making in-house headlamp leveling motor which we are supplying to various OEMs and also to some of our competitor. So we are now gradually increasing the technology into Lighting, catching up with the latest technology which is available globally. One more item, we have got a very good aftermarket base in India through our distribution company which is MDSL. So light is being distributed in the aftermarket through MDSL.

Viraj Kacharia: I have two more questions on this. We have seen a decent pick up in exports for Lighting. Are these primary to OEMs or primary to the aftermarket and which are the regions which we are looking at?

Sudhir Jain: As of now it is mainly to OEMs. But we are planning to target aftermarket also.

Viraj Kacharia: And mainly to which geographies?

Sudhir Jain: First we will be more active in ASEAN countries, Indonesia, Thailand, etc. and then we will move to European countries, Europe.

Viraj Kacharia: Globally, how big is our target market in Lighting?

Sudhir Jain: Potential etc. I won't be able to tell you offhand. Maybe we will send you but let me tell you for two wheeler Lighting ASEAN is one of the biggest market, Asia and China. In China there are innumerable players so that market is not that attractive but ASEAN is definitely. In ASEAN countries Indonesia, Thailand, Malaysia etc., mainly Japanese vehicles are there and we are supplying to them and then there is a good aftermarket in ASEAN countries. As far as European is concerned, in Europe in two wheeler it is very high-end vehicles, 500 cc, 600 cc. Number is small but value is high.

Moderator: The next question is from the line of Umesh Raut from Equirus. Please go ahead.

Umesh Raut: Just wanted to know performance of divisions during this quarter, how is the year-on-year growth and EBITDA margins for each division?

Sudhir Jain: So I will request **(Inaudible) ..**who will share?

Management: We have as stated in the call in the key segments that we are present; switch division has an EBITDA margin in the range of 14 to 16% while in the horns we are in the range of 10-12%.

Sudhir Jain: He is asking 4th Quarter.

Umesh Raut: For 4th Quarter.

Management: This would be the range for that period as well. And in the Lighting we will be in the range of 9 to 10% in the 4th Quarter.

Umesh Raut: And if I see our Employee Cost for the 4th Quarter that is on higher side as compared to year-on-year and also on sequential basis so why is it so?

Sudhir Jain: In the 4th quarter employee cost has gone up. It is higher by about 3.5 crore on account of additional gratuity provision and leave provision. So as per the Indian Accounting Standard, gratuity and leave provision is to be made. But in this year it is higher by 3.5 crores over the last year because of the lower interest rate as the standard provides and acturial valuation is a 10-year yield as on 31st March is lower by 1% over the 31st March of the last year and as a result additional provision has been made which is a non-cash entry.

Umesh Raut: On Clarton front our topline almost touched to 400 crore, so which are the major customers or geographies that are driving Clarton's topline?

Sudhir Jain: Actually this year Clarton's figures are for 15 months. Here I want to mention, prior to our acquisition Clarton was following Calendar Year as its financial year. After acquisition in 14-15 we changed the accounting year to financial year. So it is from 1st January to 31st March. As far as the customers are concerned we supply practically to all OEMs in Europe, Audi and VW, Daimler, Ford everybody.

Umesh Raut: On like-to-like basis if we take say April to March quarter, March year basically fully year, what would have been your revenue growth in Euro terms for Clarton, just on 12 month to 12 month basis?

Management: On a 12 month basis the number would be around 300 crores which is approximately 398 crores for 15 months.

Umesh Raut: And in Euro terms what it is? Euro revenue?

Management: Approximately 70, so it should be around roughly between 70-80 million.

Umesh Raut: Just wanted to get an update on the battery JV with Panasonic, how is it panning up and is it hived off from the standalone business?

Sudhir Jain: No, based on 31st March not, and we are working on certain CP conditions and the target is to hive it off effective July 1 from the 2nd Quarter, so the current quarter will also include battery division as a part of MIL. And all those activities are going on. Most of the approvals we have received and now we are in the process of some legal documentation and others.

Umesh Raut: Any CAPEX plan for FY16 and 17?

Sudhir Jain: New project is only this Minda Kosei Aluminum wheels, a 200 crore project but MIL contribution in that would be about 56 crores over a period of 18 months.

Moderator: The next question is from the line of Raghunandan from Quant Capital. Please go ahead.

Raghunandan: Just wanted to know your outlook on the replacement segment. Is it only the replacement cycle which drives the demand or do we also have market share gains from unorganized players and how is our focus on increasing our network there?

Sudhir Jain: I think good question. Firstly, market is also moving but slowly from unorganized to organized market and every year the shift is taking place and in case we compare today with 5 years ago and 10 years ago because of so many vehicle OEM, fixed network of the OEMs and more awakening on the part of the consumers also, the vehicle user is going for the original fitted components. So things are moving you are right, from unorganized to organized market I think because of this overall shift. Secondly, because we are adding products also in the range, we added fuel cap and before that auto gas and batteries now. Two wheeler batteries already we are supplying and now shortly we would be supplying the four wheeler batteries also. The second growth comes from the new products, new components for the new models. Finally at the end of the day it is the life cycle of a component in a vehicle and the life cycle of the vehicle which directly impacts the potential of this market.

Moderator: The next question is from the line of Hema Hariramani from Pi Square. Please go ahead.

Hema Hariramani: Just if you can give us the numbers for exports for the year and how much was the growth last year over current year?

Management: Exports would be approximately 7 to 8% . On account of currency depreciation that we have seen now because Euro has come down so the overall numbers have been same, despite volumes increasing.

Hema Hariramani: What is the current Debt Equity for the year?

Management: Approximately 0.32.

Hema Hariramani: Which is comparatively lower compared to last year what we had.

Sudhir Jain: You can see that our finance cost in absolute number has also come down during the year vis-à-vis last year.

Management: And that is also reflecting in the return on equity at both consolidated level and the standalone level which we have put forth in our earnings.

Hema Hariramani: What would be our total aftermarket sales?

Management: Aftermarket the segment-wise channel breakup was 17% would be my aftermarket sale that is primarily catering to replacement. It would be 17% of the overall sales.

Moderator: The next question is from the line of Shrimant Dodhia from Unifi Capital. Please go ahead.

Shrimant Dodhia: As you mentioned in your initial remarks that you have received some patents and switch divisions for some illuminated handle bar and some LED based technologies. So what kind of opportunity it presents to us in the switch division?

Sudhir Jain: Innovation and improvement is the greatest asset of our company and with this improvement and patents we become number one supplier for different models. And it is patented and slowly naturally all these additional features we will introduce to other customers also and that is actually the guarantee to get orders for the new models and improvement and upgradation in the existing models.

Shrimant Dodhia: So this is for opportunity in the domestic also in export markets?

Sudhir Jain: It is in both, yes.

Shrimant Dodhia: Secondly you also mentioned that the synergies are playing out with regards to the Clarton Horns, so what kind of synergies are visible in that? Is it that we have started localizing the manufacturing of Clarton horns in India or are we bringing electronic horns in the Indian markets?

Sudhir Jain: Yes, you are right this electronic horn is being now redesigned to suit the Indian condition that is one. Secondly now we are exporting some of the components from here to Clarton. The cost of the components here is lower than that being manufactured or procured in Spain. So that way the benefit goes to Clarton and more than that process technology and product technology available with Clarton we are using in our Indian operations which is affecting the operating efficiencies in foreign operations in India.

Shrimant Dodhia: I think if I got it right the Clarton Horns is making EBITDA margins of 5 to 6%, right?

Sudhir Jain: Yes.

Shrimant Dodhia: So do we see this going up in a year or so with this localizing of some of the parts of the horns manufacturing?

Sudhir Jain: You are right. Efforts are in that direction only.

Shrimant Dodhia: Next is, you have mentioned kind of changing the structure of the company in the PPT and we have increased the stake in an Indonesian company, so what does that company do, if you can just give us a brief about that?

Sudhir Jain: In Indonesia we have got a full-fledged manufacturing company which manufactures switches, lamps and horns. This company today we are having about 15-16% equity which Board has passed and given necessary approval to increase it to 51% and this way we would be able to bring global operations of switches, lamps and horns into MIL there in Indonesia and Vietnam both. There another company in Vietnam and these two companies today are supplying to OEMs in ASEAN countries, mainly OEMs are 100% Japanese motorcycle markets which is Suzuki, Yamaha, Kawasaki etc. and also small vehicle from Daihatsu.

Shrimant Dodhia: Do we see any other structural changes coming?

Sudhir Jain: Constantly we are reviewing our internal structure. Over a period of time in the last three decades we have grown, we have added new products, entered into various JVs and since last three years we are reviewing this structure and wherever possible we are bringing those companies under the umbrella of Minda Industries Ltd.

Shrimant Dodhia: For the Q4 FY15 quarter also our Gross Margins have declined when compared to Q4 FY14. So what could be the reasons for that?

Sudhir Jain: Gross Margin means EBITDA level or…..?

Shrimant Dodhia: No, I mean post the Raw Material Cost.

Management: This is primarily driven by some high accounting that we had do for personnel expenses.

Shrimant Dodhia: Can you please repeat that?

Sudhir Jain: Personnel cost that has contributed, this is higher in the 4th Quarter as compared to 3rd Quarter of the financial year.

Moderator: The next question is from the line of Sonal Gupta from UBS. Please go ahead.

Sonal Gupta: Just again coming back to the Employee Cost 3.5 crores has come fully in this quarter or you said employee gratuity payments are higher by 3.5 crores year-on-year.

Sudhir Jain: It has come fully in this quarter.

Sonal Gupta: So that is the reason for quarter-on-quarter increase as well?

Sudhir Jain: This is for full year but accounted for in this quarter.

Sonal Gupta: Is there any other reasons like we see a lower profitability, I mean other than employee cost your other Expenses also been increasing at a fast pace on a year-on-year basis, so anything there? I mean just to understand because the raw material cost has not really changed. So are these investments into some other businesses or something which is sort of increasing the Other expenses?

Sudhir Jain: No, I think in case we compare head wise, so there is no much change quarter-on-quarter. No new expenses have been added or no new heads have been added, no new products have been added. Yes there could be some minor year-end adjustments and in that gratuity is the major one.

Sonal Gupta: And just to understand, Other Operating Income is primarily I mean because there is a high number for this quarter, I am looking at standalone numbers basically.

Management: This is mainly actually on account of increase in some job work income and development cost recovery from customers.

Sonal Gupta: And higher Other Income is because of what?

Management: This is mainly on account of we got a receiver sales tax incentive from Pune / Maharashtra Government, so this is around 2 crores and there is some Other Income on account of profit on sale of fixed assets.

Sonal Gupta: Sales tax incentive, this would be an ongoing thing or this is a one time thing?

Management: This is one time.

Sudhir Jain: This particular is one time but yes we have got other plants also, I think we have to receive for one more plant.

Management: One more plant, yeah.

Sonal Gupta: In terms of the operations that you are sort of merging into the company could you just talk about what is the size of this operation, the profitability of these companies and the 49% is still held by the promoter group, is it?

Sudhir Jain: Yes, by the promoter group and the total turnover of these two companies is 150 crores with EBITDA margin of about 16-17%.

Sonal Gupta: What sort of growth do you see? This should again be growing pretty well, right?

Sudhir Jain: Yeah because these ASEAN countries is predominantly two wheeler markets and developing, Indonesia, Malaysia, Thailand and Vietnam.

Sonal Gupta: Finally any sense you can give us in terms of what sort of growth do you see in your main divisions for this year on the standalone side?

Sudhir Jain: As I mentioned in the beginning, let me tell you we target for 25–30% growth in the topline. This is in case from the assumption that the auto vehicle will grow at the rate of 12 to 15%. We are present in all segments two wheeler, three wheeler, four wheeler, and commercial vehicles as well as offload vehicles. So we see overall how the auto sector is performing. Say, two wheeler is growing faster than the four wheeler but overall we see whether the growth is 12 to 15% and considering the new government lot of initiatives taken, except of course one or two months because of rains etc. sentiments are down, still we feel the topline of the sector will grow. Once the sector grows at the rate of 12 to 15% historically it shows that our topline growth is almost double of that, mainly because of that. Secondly because these new products and new components being added, when I say new products and components means for new models, say in switches, lights, horns etc. and then with the change in technology with adding more and more features the value of the component also increases. That is on OEM side. Aftermarket we are into aftermarket also. Aftermarket potential and size also grows over a period of time from unorganized to organized, and that also gives us growth in topline.

Sonal Gupta: Coming back to the global operations which we are merging, any valuation decided for this thing? How much are you paying for this?

Sudhir Jain: Valuation has been obtained and which was put before the Board and it is almost at book value and the total cash outflow is about 25 crores for this.

Sonal Gupta: And you held 16% earlier?

Sudhir Jain: 19%, from 19 to 51% and the cash outflow of 25 crores.

Sonal Gupta: Lastly on the aftermarket so just to understand this better, so for aftermarket do you supply only for products say for models which you are supplying to the OEM or can you supply for some of the other models where you may not really be very present or something?

Sudhir Jain: We can supply for other models also. So firstly our focus is on our in-house manufactured products, when I say in-house means switches. So all kinds of switches whether I supply to OEMs or not, switches, lights and horns and fuel caps etc. But recently about a year ago we even decided to go for even those products which we are not supplying to OEM, so that we will do outsourcing and supply through our channel.

Moderator: The next question is from the line of Deepak Jain from Subhkam Ventures. Please go ahead.

Deepak Jain: This double digit margin target is in how many years?

Sudhir Jain: Of course we would love to have it as early as possible but let us see, as we wait for one or two quarters we would be in a better position to give specific period.

Deepak Jain: But on earlier occasions I guess you were saying 17 or 18 may be or kind of….?

Sudhir Jain: Yeah, we are playing safe and it should happen but you are right.

Deepak Jain: This 20% growth which you are expecting how much will come from the new products like fuel caps, you said you are adding one is cylinder valves so how much is new incremental growth from new products?

Sudhir Jain: For the new products in terms of percentage it would be far higher than that of existing products but in case of existing products also, in case the sector is growing 12-15% from the existing it would be at the order of up to 20% in our case and balance 5% would be additional incremental from new products.

Deepak Jain: But why do you think that that the sector will grow by 12 to 15% where except MHCVs most other players at least on the domestic side are not expecting more than 5 to 7% growth?

Sudhir Jain: Firstly I am not venturing into forecasting immediate one year or six months projection, but in case you see the Indian sector, Indian industry auto sector in last 10 years or in last five years, average growth comes to this only, that is one. Secondly in 14-15 also sector was growing decently, two wheeler particularly, and then four wheeler also started growing 7-8% except last one or two months because of rains, because of xyz reasons, actually sentiments were down. We feel it is a very short-term phenomenon because in case business will grow, investment will grow naturally jobs and income will grow.

Deepak Jain: But first half production projections of most….because I think last year tractor was in very badly on a full-year basis, but then right now two wheelers have joined and even cars except Maruti they are not talking about more than 5 to 7% at least on the OEM side. Everybody's sort of back ended their projections for second half; do you still think that 20% growth is an achievable thing?

Sudhir Jain: The baseline is in case the sector is growing 12 to 15%, in case our thinking and estimates are wrong in the sense sector grows by 5-6% or half of this, this will have a direct impact on our growth also, but we have not internally downgraded the growth so much still, we want to see one or two more months before we do that.

Deepak Jain: Sequentially on a stand-alone basis our raw material to sales has not come off whereas commodity price were as against.…do we expect some easing going forward or you think it is just a pass through and raw materials were remain at decent levels?

Sudhir Jain: It is a pass through in our industry as per our understanding we see OEMs. In case there is a rise in raw material cost they compensate us, similarly in case there is a reduction in the raw material that also we pass through.

Moderator: The next question is from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Just had a few more clarifications on the Lighting segment. The breakup which you gave for Lighting in terms of OEM is it right that the OEM sales have de-grown significantly for us on a year-on-year basis?

Sudhir Jain: Your voice was not clear, there was a breakage. Will you kindly repeat?

Viraj Kacharia: So the breakup which you gave in terms of OEM aftermarket and exports, it seems that OEM sales for Lighting have de-grown significantly.

Management: No, we have not de-grown.

Sudhir Jain: We will just confirm the numbers once again.

Management: In the Lighting segment I think OEM sales would constitute 85% of the overall sales which is in line with my….

Viraj Kacharia: That was the reason I was asking.

Management: It should be close to 80-85%.

Viraj Kacharia: Out of the total Lighting , OEM is around 80-85%, right?

Sudhir Jain: Yeah.

Viraj Kacharia: How much will be exports and aftermarket?

Sudhir Jain: Exports would be approximately 7% and aftermarket would contribute to approximately 8% from the number.

Viraj Kacharia: Just a follow-up on that, how big is the market for automotive Lighting in India, just a rough indication on the market size which we are looking at?

Sudhir Jain: Again the number is not right now available with us maybe we will send you a mail.

Management: Just a rough estimate if you would like to take assuming we have got 25 to 26% share in the Lighting business which amounts to, in the OEM segment at least if you look at the market size, this should be indicative of approximately if we have a sales of approximately 260 crores that should give you a number of approximately 1000, 1100, 1200 number, but this would be a very broad range.

Viraj Kacharia: And this 25-26% market share is on the OEM side, right?

Sudhir Jain: Yes. But this will be a very rough estimate.

Viraj Kacharia: Market share figure which we are talking about is on the OEM side?

Sudhir Jain: Yeah.

Viraj Kacharia: Last question, we indicated that just to get a chance to enter in the market we had been participating in contracts at a low margin. So now we started with tail lamps and small lamps and then we moved to head lamps. So between those products itself is there a significant differential in terms of the margins?

Sudhir Jain: Yes of course, in head lamp margins are better than tail lamps and in tail lamps better than small lamps. But let me clarify it didn't exactly mean that we entered at a low margin. What I said was that earlier there were few players and then the number of players increased including we and others. As a result initially there was a pressure on prices but then simultaneously the overall market has grown over a period of 5 to 7 years and also the number of the OEMs and models.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor over to Mr. Sudhir Jain for closing comments.

Sudhir Jain: Thank you very much all of you and I hope we were able to meet your expectations in terms of your queries, answers to your queries, etc. Still in case you have any query or information you need, do let us know. Kindly be in touch with SGA, our IR advisors. Thank you once again and look forward to meet you some day and definitely after Q1.

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.