



Fiem Industries Limited  
Q4FY19 Conference Call  
May 15, 2019  
Hosted by Monarch Network Capital Limited



|            |                                                                                                                                                                                                                                                                                                        |
|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Analyst    | : Mr. Awanish Chandra – Monarch Network Capital Limited                                                                                                                                                                                                                                                |
| Management | : Mr. J.K. Jain – Chairman and Managing Director<br>Mr. Rahul Jain – Whole-time Director,<br>Ms. Aanchal Jain – Whole-time Director,<br>Mr. Rajesh Sharma – Executive Director,<br>Mr. O.P. Gupta – CFO,<br>Mr. Arvind K. Chauhan – Company Secretary and<br>Senior Team members of Finance Department |

**Fiem Industries Limited**  
**Q4 and FY19 Earnings Conference Call**  
**May 15, 2019**

**Moderator:** Ladies and gentlemen, Good afternoon and welcome to the Fiem Industries Limited Q4 and FY19 Earnings Conference Call hosted by Monarch Network Capital Limited.

**Disclaimer:** This conference call may contain forward-looking statements about the company which are based on belief, opinions, and expectations of the company as on date of this call. The statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

I would now like to hand over the conference to Mr. Awanish Chandra. Thank you and over to you sir.

**Awanish Chandra:** Good afternoon everyone on behalf of Monarch Network Capital, I welcome you all to Quarter-4 FY19 Conference Call of Fiem Industries. We are pleased to host the senior management of the company today and we have with us Mr. J.K. Jain – Chairman and Managing Director of the company, Mr. Rahul Jain – Whole-time Director, Ms. Aanchal Jain – Whole-time Director, Mr. Rajesh Sharma – Executive Director, Mr. O.P. Gupta – CFO, Mr. Arvind Kumar Chauhan – Company Secretary and other team members of finance department. We will start the call with the initial comment about the results and the future outlook of the company and then we will open the floor for question and answers. So, without any much delay, now I will hand over this call to Mr. J.K. Jain, CMD of the company. Over to you sir.

**J.K. Jain:** Good afternoon to you all. I welcome you all to the Q4 and 12 months FY19 earnings call of the company. I believe you all got the chance to go through the results which were released yesterday. Before going to the financial and question-answer session, I would like to give you a brief about the industry and our performance.

FY19 has been a difficult year for the two-wheeler industry. As per the data available from SIAM, two-wheeler industry has shown a growth of 6.29% during the FY18-19 as against the growth of 15.44% during FY17-18. Domestic sales of the two-wheeler has grown by even lower number of 4.86%. In this background, your company registered a growth of 16.77% in the top line during last financial year.

We have been able to grow at much higher than the industry. This is driven by the new model LED auto sales and increase in share with other customers. Our growth with Yamaha and Suzuki has been 82% and 67% respectively while maintaining modest growth with Honda and TVS. We continue to be one of the most preferred suppliers to the OEMs and supplying product to more than 35 domestic and global OEMs. We have dominant market share with our key OEMs. For example, with HMSI, our market share in headlamp is 39% while for tail lamp is 80% and blinker is 85% demonstrating our leadership with them.

As you are aware, two-wheeler is our core business for which we will talk about in detail. However, I would like to start by informing that we have decided to stop any further investment in our LED luminary business. This business contributed a modest 29 crores in current year in the top line. Going forward, the focus of your company will be completely on our core two-wheeler business. Let me give you a snapshot of the how we see the two-wheeler industry moving forward. As you are aware, the industry has been facing challenges due to the multiple constraints like 5-year mandatory insurance, ABS, CBS, and further adoption of BS-VI norms. New regulatory norms have also increased the cost of two-wheeler and more impact is still to come on implementation of upcoming BS-VI norms. Further, IL&FS crisis last year also resulted in slow financing of the two-wheeler which had also impacted the sales. As you are aware, almost 3/4th of the total two-wheeler are finance and thus any impact in financing does impact sales adversely. Still I believe, this is a temporary phase and consumer will take some time to adjust for higher purchasing cost as two-wheeler remains the most affordable commuting means for a large part of our population and virtually a necessity rather than luxury.

Our focus has been on development of in-house design and testing capability and going ahead with the new technology product like bank angle sensor, fuel pump module, etc., by forging partnerships with the world renowned manufacturers. During the year, we formed a wholly-owned subsidiary in Italy namely Fiem Research and Technology SRL and set up a design center which we believe will significantly strengthen our designing capabilities further.

Our leadership in the technology development has been further reinforced as we have received the global award from Yamaha Motor Company, Japan, for excellence in technology and development. We developed the world's smallest bifunctional LED lighting module for two-wheelers. This LED lighting module is now patented worldwide by Yamaha and Fiem together. This is a big global award showcasing our capability.

Further, I would like to share that we have added another prestigious customer India Kawasaki Motor for development and supply of headlamp, tail lamp, and rearview mirror for one of their upcoming model. The automotive lighting equipment is a safety and styling product for the vehicle which largely contributes in the improving esthetic of the vehicle. The change in lighting style is imperative with the model change. These factors encourage us to remain innovative and enable us to offer new technology products to our OEM customers.

Thus, we remain optimistic about the future and would continue to grow in the years to come with a much higher rate than the industry's growth.

Now, I hand over the line to Mr. Gupta and his team to update on financial performance.

**O.P. Gupta:** Good afternoon everyone. Let me take you through the financial performance of the company for Quarter-4 and FY2019. I am pleased to inform you that our sales growth in FY19 is 16.77% equivalent to Rs. 1434 Cr. It is important to highlight that during the same period, industry has grown by only 6.29% while HMSI, our key OEM has degrown by 4.41%. We have managed to grow our business with a few OEMs like Yamaha and Suzuki significantly, thus achieving overall growth figure of 16.77%. Further EBITDA for FY19 stands at 10.83% as against 11.45% during the FY2018. This decline is due to increase in raw material cost during the year. Profit before tax stands at 85.11 Cr. Last year, our income included Rs. 3.5 Cr of income coming from balances held in mutual funds. This amount got fully utilized during the year for expansion of business. Thus, there is no corresponding income from this source in the current year. During the year, the company has invested a sum of Rs. 62 crores in additional fixed assets.

For FY19, finance cost of the company stands at Rs. 22.1 Cr. This has largely remained the same over previous year. We continue to follow prudent capital structure and our leverage remained very comfortable with a debt-to-equity ratio of 0.35:1. PAT of the company after taking into account all the associates of the JV companies stood at Rs. 55.64 Cr during the FY2019 as against 52.56 Cr during the FY2018. EPS of the company stands at Rs. 42.29 per share for FY2019 as against Rs. 39.94 per share for FY2018.

Our company has been declaring dividend every year which have steadily increased. During the current financial year ending March '19, the company has declared a dividend of 120% which would amount of INR 12 per share.

With this, the financial commentary is over and now we are open to question and answers.

**Moderator:** We will now begin the question and answer session. We have the first question from Mr. Kashyap Zaveri from M K Global. Please go ahead.

**Kashyap Zaveri:** My first question is our HMSI revenues have grown by roughly about 3% Y-on-Y I am just looking at the proportion of revenue in FY18 was about 45% to 46% which is about 41% now. I understand that production has declined by about 4% or 5% but almost about 60% of other volume which was Activa was now coming with LED lamp which is significantly higher-priced product for us, and despite that, the overall revenue growth is just about 3%. Where is this mismatch coming from?

**J.K. Jain:** As explained, the revenue is coming from other customers like Yamaha. Now our percentage for Yamaha is 8.7% as compared to previous year, it was 6.7%.

**Kashyap Zaveri:** I understand that, but at least Honda Motors scooter should have actually grown much faster, right? Because in case of Activa, we would have a significant market share in terms of supplies, right?

**J.K. Jain:** You know that the total sales announced earlier by the HMSI was reduced. It has de-grown by 4.41%.

**Kashyap Zaveri:** I understand that, but the whole production now in 5G Activa would have migrated to LED which is almost about 2.5 times in terms of value. So, though volumes have declined by about 4% but value-wise, it should have grown quite strongly because of the value proposition that we offer, though it is just about 3% growth.

**O.P. Gupta:** I think you are matching the data with our growth and the HMSI. You please understand there is a difference what we are supplying to every model. You cannot exactly match the data of our growth with the HMSI growth or degrowth. You have to go into details which product we supply how much percentage. Then only, this kind of matching can be done.

**Kashyap Zaveri:** So, in case of Activa, what would be our market share?

**O.P. Gupta:** Activa 5G model you are talking about, in headlamp, we are supplying around 39% to 40% of their volume.

**Kashyap Zaveri:** And in 4G, what was that market share?

**J.K. Jain:** 4G was about 60%. In LED, it was reduced. And last 3 months, actually it was 39% but due to the last 3 months, January, February, and March, it increased to 60%. But normally it is coming to 39%.

**Kashyap Zaveri:** Would that be because one of our competitors probably had quality issues with supplies to HMSI?

**J.K. Jain:** We cannot comment on that. Basically, it was the requirement of HMSI.

**Kashyap Zaveri:** And in terms of the cost pass-through where polycarbonate prices as well as other material prices went up significantly plus the currency depreciation which happened in the first 6 to 9 months of this year, anything that we are yet to receive in terms of price assimilation from our customers?

**O.P. Gupta:** Actually you would appreciate that this is such an industry where every price increase in the raw material is very well in the knowledge of the customer. So, whatever is the increase in the price is automatically settled, discussed across the table, and then negotiated. So, definitely when you pay a higher price, it takes time of 6 to 9 months to settle down. So, definitely whatever price increase is there, it will surely be recovered.

**Kashyap Zaveri:** That's what my question is that the amount that you have already settled, how much of have you already received and how much is yet to probably come in let's say forthcoming quarters?

**O.P. Gupta:** Actually, if you talk of the escalation, then we have worked up to September 2018 and for last 2 quarters, it is still to come.

**Kashyap Zaveri:** The last question is that we were supposed to make headways in Hero with the Chittoor plant which is 1.8 billion units. Any initial supplies to other Hero plants have we started or we will supply straight to the Chittoor?

**J.K. Jain:** Hero we have not started and not moved towards.

**Moderator:** We have next question from Mr. Arun Agarwal from Kotak Securities. Please go ahead.

**Arun Agarwal:** Sir, my first question is we already are seeing the overall production being pretty low in the two-wheeler segment in the past couple of months. Could you just help us out what sort of indications you would have received from your key clients like say HMSI or even TVS as to what they would be guiding for the production in the near term and maybe for FY20?

**J.K. Jain:** As we had pointed out earlier, two-wheeler industry has seen a number of issues over the past 12 months that continues to impact the industry adversely. We believe the industry will continue to face challenges in the short term and till the implementation of BS-VI. However, given the overall positive macroeconomic factor, we continue to be optimistic for the medium to long term. Current year, we expect to grow in the range of 10% to 15% in spite of adverse market conditions.

**Arun Agarwal:** This 10% to 15% when we talk about, how much would we ascribe to value and how much to volume here?

**J.K. Jain:** We expect that most of the growth in the current year will be coming from the new projects. Presently, more than 50 projects are under development and some will come in the production this year and some will be in subsequent years.

**Arun Agarwal:** My second question is on the LED portion. Now, LED forms almost around like in the presentation you all have mentioned it is around 25% of our revenues from the auto side, at the end of say FY20 and maybe at the end of FY21, where do you see this percentage of LEDs in the auto lamps for you to increase?

**J.K. Jain:** Basically, the LED lamps constitute 34% of our automotive lamps sale at present and we expect by 50% in next 2 to 3 years.

**Arun Agarwal:** Sir, with BS-VI coming in, do you expect a lot of other mass models will also move towards LED now or will they continue to stay on halogen?

**J.K. Jain:** Basically, it depends on the customer to customer. Most of the customers are converting into LEDs but some are going for conventional also.

**Arun Agarwal:** There is another question I have on this Yamaha and Suzuki. We already talked about we grew by almost 82% with Yamaha this year and 67% with Suzuki. Could you just highlight or help us out in which product categories did you grow? Was it in the auto lamp business or was it in say plastics or rearview mirrors?

**J.K. Jain:** We are talking about I just for an example Yamaha, I would like to say, in headlights, it is 91%.

**Arun Agarwal:** That's the share of business we are talking about, right?

**J.K. Jain:** Yeah. And in taillight, it is 82%, so in the same range and blinker it is almost 27% and mirror around 36%.

**Arun Agarwal:** And what that would be with Suzuki?

**J.K. Jain:** Suzuki we have 100% in headlamp, 25% in blinker lamp, and 87% in taillamp, and mirrors 100%.

**Arun Agarwal:** It is like we already are at a pretty high share of business both with Yamaha and Suzuki, especially on the lamp side. So, going forward, in FY20-21, what sort of growth do we look? Is it that we want to increase the share of business in the mirror segment or is it like we will grow along with whatever volume growth they show, so we will growing along with them?

**J.K. Jain:** It will grow in all segments.

**Arun Agarwal:** Sir, could you just help us out with your CAPEX plans for this year and next year?

**O.P. Gupta:** In next year actually as such, company is not going to make very heavy investments but of course as the company has 9 plants, maintenance CAPEX come in the tune of 40 to 50 crores including maintenance.

**Arun Agarwal:** Do we have any plans of some new plants or something in FY21?

**J.K. Jain:** Not at the moment, unless the customer gives us some new opportunity.

**Moderator:** We have next in the queue Mr. Ashutosh Tiwari from Equirus Capital. Please go ahead.

**Ashutosh Tiwari:** Firstly, you mentioned the share in Yamaha and Suzuki. What is your share in TVS Motors?

**J.K. Jain:** TVS Motors, headlights we are 71%, taillight we are 77%, TSL we are 78%, and rearview mirror we are 47%.

**Ashutosh Tiwari:** Also you mentioned was Activa your share was 65% over the last 3 months. This is March quarter or February-March-April?

**J.K. Jain:** This was March quarter.

**Ashutosh Tiwari:** So, has the same share continued in this quarter as well or it will become normalized to the previous 29% level?

**J.K. Jain:** I think after this quarter, it will be normalized.

**Ashutosh Tiwari:** 29% levels?

**O.P. Gupta:** You are talking about Activa 5G headlamps?

**Ashutosh Tiwari:** Yeah.

**O.P. Gupta:** Then 39%.

**Ashutosh Tiwari:** And what is utilization level do we have across the plants? Utilization of automotive lighting segment?

**J.K. Jain:** We have almost 75% utilization except our Tapukara plant which is around 25%.

**Ashutosh Tiwari:** Tapukara is basically your non automotive LED?

**J.K. Jain:** New plant.

**O.P. Gupta:** That is in Bhiwadi.

**J.K. Jain:** In front of HMSI.

**Ashutosh Tiwari:** So, you will be utilizing that plant also for automotive?

**J.K. Jain:** Yes, that plant is totally converted into automotive.

**Ashutosh Tiwari:** The OEM growth looks quite weak evidently as well because of higher stock levels and all. So, if the industry is probably growing in say 0% to 5% band in this current year, what kind of growth we foresee for us and what will be in line for that?

**J.K. Jain:** As I have told earlier, our range will be 10% to 15% in spite of the adverse market condition.

**Ashutosh Tiwari:** This will mainly be driven by Yamaha and all?

**J.K. Jain:** Not only Yamaha but across all the new projects. Many, many more new projects are coming to meet this BS-VI norm.

**Ashutosh Tiwari:** You mentioned LED contribution of 25% of total sales in FY19. What was the number in FY18?

**J.K. Jain:** It was 10% of total sales.

**Ashutosh Tiwari:** Our debt is only 130 crores but if I look at interest cost, it is almost like 22 crores. Why our interest cost is so high?

**O.P. Gupta:** No, it is not that 130 crores. It is 130 crores plus 100 crores of working capital which you see 38 crores in the balance sheet. So, the total debt is 170 crores but throughout the year if you see, it will come to 22 crores. If you calculate 130 crores and 100 crores, it is 230 crores and 10% it comes to virtually 22 crores. That cost is there which has virtually remained the same over the year.

**Ashutosh Tiwari:** That should come down in the current year FY20?

**O.P. Gupta:** Actually, we are expecting it to come down because the company is not looking for any further loans. You will appreciate that loans are not increasing, and in the current year also as we do not have much CAPEX plans, the company would not go for any further loans rather the existing loan will get repaid. So, this interest cost will naturally come down.

**Ashutosh Tiwari:** Can you provide some update on the Aisan JV? What is the progress over there and what kind of revenue you would be targeting for FY20?

**J.K. Jain:** Basically, the factory is already installed and the trial production is going on and this is a BS-VI application. We expect that the sale will come from November onwards. So, we expect during this year, the it will generate the revenue of 50 to 60 crores.

**Ashutosh Tiwari:** Who are the OEMs from which we have got some orders in place?

**J.K. Jain:** Bajaj Auto is the OEM for this.

**Ashutosh Tiwari:** You will be supplying IC connector to them?

**J.K. Jain:** No, we will be supplying the complete fuel pump module including the IC connector.

**Ashutosh Tiwari:** Generally, what is the content of per bike for this?

**J.K. Jain:** Basically, it is ranged between 800 to 1100 depending on various models.

**Ashutosh Tiwari:** So, we are sole supplier for Bajaj or there are some other guys also?

**J.K. Jain:** There will be other guys also.

**Ashutosh Tiwari:** So, in FY21, how much revenue we can target from here?

**J.K. Jain:** 2.4 million capacity we are going to supply them.

**Ashutosh Tiwari:** To Bajaj basically.

**J.K. Jain:** Yes.

**Ashutosh Tiwari:** On the canister part, what is the progress? That was part of standard only.

**J.K. Jain:** In canister, we were the last. The Idea canister was to bring this fuel pump injection system. Basically, we were the last to enter into and now we are supplying to TVS and we are expecting many more customers now in line for which the development is going on and next 2 months onwards, we will have good sales.

**Ashutosh Tiwari:** I guess in case of Activa 5G headlamp, the cost increase was almost 2 to 2.5 times versus previous halogen-based model. In case of Yamaha and all which are more complicated lamps, is the cost increase higher or similar range?

**J.K. Jain:** Basically, it depends on the models and what type they are asking. Basically, the Yamaha cost is a little higher because they have different kind of models.

**Ashutosh Tiwari:** And we will be supplying to Yamaha global as well, right?

**J.K. Jain:** We got the global award and this is the first item for Yamaha for global. We are supplying to Indonesia, Thailand as well as Japan. Now, this model is also coming to India shortly.

**Ashutosh Tiwari:** So, we are already supplying for that model and then that model is now coming to India.

**J.K. Jain:** Hopefully, yes.

**Ashutosh Tiwari:** So, is there other models also in pipeline for those export geographies?

**J.K. Jain:** Yes, there are many models in the pipeline.

**Moderator:** We have next in queue Mr. Parth Kotak from Keynote Capital. Please go ahead.

**Parth Kotak:** Just wanted to know basically because the BS-VI and AHO scenario, what would be our normal case margins? Because they have consistently reduced from the past 3 or 4 years. So, going forward, what will be our sustainable level of margins?

**O.P. Gupta:** Actually, as the industry grows, you very well appreciate that margins in this industry, we have definitely passed through mechanism with the customer, and there could be a little burden that will impact on the raw material. Initially if you see in the results, over a period of time of 1% or 2%, it could be higher but that impact we are regularly interacting with the customers and telling them because every raw material price is in the knowledge of the customer and every customer is very well introduced. We are trying that as the sale grows, the current EBITDA margins we are able to maintain though of course you will appreciate that we are still the best in the peer group and we are doing still the best in EBITDA margins.

**Parth Kotak:** Secondly, how will this impact the replacement market? Will the structure change or by and large, it will still remain the same whereby it will be a smaller portion of our revenue?

**O.P. Gupta:** It will grow steadily but as we are focused on OEMs, it should be in the same range of what is the present.

**Parth Kotak:** And if you could help with the total market share for headlamps in two-wheelers this year?

**J.K. Jain:** Total market share is between 27% to 30%.

**Moderator:** We have next in queue Mr. Ashwin Hasyagar from A&S Investments. Please go ahead.

**Ashwin Hasyagar:** Can you talk a little bit about your current capacity utilization on an average across your 9 plants and also a little bit more specifically about how much of your LED capacity are you utilizing?

**J.K. Jain:** Basically, as I mentioned earlier, all our plants are working around 75% capacity except Tapukara plant which is around 25% where the LED is taking place.

**Ashwin Hasyagar:** How do you expect to generate more revenues from the LED segment? I guess when you got into the LED business a few years back, your intention was different and of course the LED market underwent some changes. What is your strategy going forward from a revenue perspective for the LED business?

**J.K. Jain:** You are talking about luminaries, right?

**Ashwin Hasyagar:** That's correct, that's what I meant.

**J.K. Jain:** As you are aware that we set up LED luminary division to leverage our existing capabilities and experience in our core LED auto lighting business. However, this business serves predominantly the government for us at this point. The growth that we envisaged has not come through due to the various reasons. We have thus decided that we will not put any further investment in the LED luminary business. We are actively considering some options including utilizing our existing facilities for contract manufacturing. We will keep you posted as this develops.

**Ashwin Hasyagar:** So, nothing currently in the pipeline for that, right?

**J.K. Jain:** No, nothing.

**Ashwin Hasyagar:** As you look at your core business over the next year, you have talked about the revenues. Do you also expect the EBITDA margins to come down significantly because of the industry scenario?

**J.K. Jain:** As he mentioned that it is a pass-through system, any increase or decrease is always passed through the customer. So, we don't envisage any EBITDA margin coming down.

**Ashwin Hasyagar:** When the pass-through happens, what's the typical timeline?

**J.K. Jain:** 6 to 9 months.

**Moderator:** We have next in queue Ms. Harini Dedhia from Truffle Investments. Please go ahead.

**Harini Dedhia:** I just wanted to clarify on the fuel pump module. When we talk about 50 to 60 crores turnover, we mean for this entire JV or this is an increment that will be applicable for Fiem?

**J.K. Jain:** We are talking about entire JV till.

**Moderator:** We have next in queue Mr. Shashank from Rockstead Capital. Please go ahead.

**Shashank:** Sir, my question is regarding I wanted to understand as you mentioned in the capacity that in Tapukara, you have 25%. Is this the only plant where you manufacture LED?

**J.K. Jain:** Yes, basically we are manufacturing, now we are shifting. Earlier we were manufacturing some of the LED lamps in Rai plant. Now, we are slowly shifting to Tapukara plant and we are going to make this exclusive for LED plant because as you know that to shift the lamp assembly from one factory to another, it requires various QAV process by the customers. So, one by one it is going and we hope that in next 6 months or 8 months' time, the LED business will be totally in Tapukara plant.

**Shashank:** Going forward, as we said that the share for LED will increase from 25% currently to 50% overall, is it that the other plants' utilization will fall down of the old halogen lamps?

**O.P. Gupta:** We did not say that percentage of 25 will increase to 45 but the 34% of the contribution in LED auto versus the total lamp will go to 50%. So, this 25% against the total turnover will be 35%. It is not that 50% will be only LED against the total sales.

**Finance Member:** The question was about the penetration of the LED further. This is what will be the conventional percentage and what will be the LED? This is the expectation in next 2 to 3 years.

**Shashank:** So, halogen sales will actually remain the same. There will be no fall in revenue from them?

**J.K. Jain:** Various other models are coming that will take place there.

**Shashank:** I wanted to understand is there is a technology benefit that we have compared to any other competitor in our industry? Just subjectively I wanted to understand are we better or is there some mote that we have in the auto LED lamps?

**J.K. Jain:** Basically, we have our own R&D and we have started recently our wholly-owned subsidiary at Italy for designing and development. So, in-house R&D and faster development is the core strength of our company.

**Shashank:** And that helps us to maintain this market share?

**J.K. Jain:** Yes.

**Shashank:** Sir, I wanted to understand as Yamaha, Suzuki, and TVS, do we have the percentage of LED lamps compared to halogen lamps proportion?

**J.K. Jain:** The customer-wise we can't give you at the moment. If you need, you can talk directly later. We will give you all data.

**Moderator:** We have next in queue Mr. Yash Agarwal from JM Financial. Please go ahead.

**Yash Agarwal:** I just wanted to understand how much have we invested in the LED luminary business till now and have we written-off this investment or what is the plan?

**J.K. Jain:** Our investment in the fixed asset of the LED business is 27 crores and we have not wiped out anything. We are still working as I told you that we are doing contract manufacturing. So, we still have some hope left.

**Yash Agarwal:** So, our investment is only 27 crores, is it? The fixed asset?

**J.K. Jain:** Yes, basically for the machines.

**Yash Agarwal:** Incrementally, how much CAPEX are we going to do in both the businesses for the next 2 years.

**J.K. Jain:** Basically, as I told that LED luminary business, we will not do any investment. We have no plans, no investment any further, but it is a normal that around 40 to 50 crores normally it is there because of the various models introduced by the customers and we have to have all the infrastructure for that. Although the tooling belongs to the customers but other enterprise structures like zig fixtures, etc., is required. For that, this CAPEX is required which we will do from internal accruals.

**Yash Agarwal:** So, about 40 to 50 crores you will increment the CAPEX?

**J.K. Jain:** Yes.

**Yash Agarwal:** How many of your JVs will get operationalized in the next 2 financial years?

**J.K. Jain:** Already all the JVs are operational like we have a JV with Aisan which is there already will operate in November. Although the factory is ready and trial production has begun, since it is a BS-VI model, it will come in basically November onwards. And there is another JV where we are making the moulds. It is with the Kyowa Company of Japan for manufacturing moulds, zigs, and fixtures which is already started and the plant is in Hong Kong. And all the technical assistance also like we have in Toyodenso for manufacturing bank angle sensor. That will also start from November onwards. And canister is already existing one which is already working and we are already supplying. So, everything what we had announced earlier is already working and will come forth from November onwards.

**Yash Agarwal:** So, putting it in another way, what would be the incremental revenue from these JVs in the next 2 years that you are expecting from all these?

**J.K. Jain:** As explained to you that we are expecting 40 to 50 crores for the fuel pump module this JV.

**Yash Agarwal:** And the other JVs?

**J.K. Jain:** Other is technical collaboration that will be with the Fiem Industries as such.

**Yash Agarwal:** So, only the fuel pump JV will be adding about 50-crore revenue to your top line that you are expecting in the current financial year?

**J.K. Jain:** Yeah, through the joint venture.

**Moderator:** We have next in queue Mr. Ronak Sarda from Systematrix Group. Please go ahead.

**Ronak Sarda:** What was our content per vehicle in two-wheeler say 2 or 3 years back and what is it today. Just trying to understand how the halogen versus LED mix has changed and maybe over the next 2 years, how will that change when we add the canister, the fuel pumps, and these angle sensors as well? How does that change for the two-wheeler and four-wheeler segments?

**J.K. Jain:** Basically earlier, headlamp, tail lamp, rearview mirrors, and blinkers used to be from Rs. 800 to 1500.

**Ronak Sarda:** All put together?

**J.K. Jain:** Yeah. Now with the LED, it is coming from Rs. 2000 to 2500 and going forward, it depends on the models. We are going to supply this fuel pump module only to Bajaj which is not our existing customer of Fiem.

**Ronak Sarda:** That is the Rs. 800 to 1000. And what about the other 2 products? Canister, how would that be?

**J.K. Jain:** Canister, as I told, we are the last people we are working out very hard to come faster but it will not give much revenue and this sensor will have a revenue of 50 to 60 crores.

**Ronak Sarda:** Whom are we targeting in that?

**J.K. Jain:** This is a basically patented product of HMSI.

**Ronak Sarda:** So, it will go to HMSI?

**J.K. Jain:** Yes.

**Ronak Sarda:** And sir, for HMSI, what would be our share of business overall and what was the reason why we lost share in Activa when we shifted from halogen to LED?

**J.K. Jain:** Basically, some of the models are decided in Japan and LED still they consider that Japanese are ahead than others. So, based on that, we have started our own company in Taurine and that was the reason that we have lost this LED business as versus the conventional.

**Ronak Sarda:** Is it true we have lost share of business across HMSI because they have shifted most of their products?

**J.K. Jain:** No, only one model.

**Ronak Sarda:** So, we have lost only in Activa, not others?

**J.K. Jain:** Yes.

**Ronak Sarda:** Are we trying to penetrate in two-wheeler or four-wheeler segment or we will continue with more of different products and not entering other customers? What is the strategy for the next 5 years?

**J.K. Jain:** As you know, we are among the most preferred suppliers in two-wheeler industry. There we have all the customers and our main focus is two-wheeler but we are working for four-wheeler industry and we hope that in 5 years we should enter in four-wheeler business.

**Ronak Sarda:** A question on the luminary side. We strive to gain share there, we have not been successful. What is the point of continuing that business? There is enough potential in the automotive side. Any thoughts to exit that business and recoup the amount?

**J.K. Jain:** Basically, we have shifted most of the machines which were possible towards auto and only the specific machines have remained there and we are on the way if we get good opportunity, we will think it over.

**Ronak Sarda:** Last question on the profitability side and ROC. What is the target there from an ROC perspective? Where do we see the ROCs from the current 17% to 18% level? Is there any target you have in mind?

**O.P. Gupta:** Yeah, definitely the company will try to maintain the same ROE and ROC in the times to come though still you see the market trend in the current year immediately but the company is very hopeful to maintain the same ROC and improving this in a year or two.

**Ronak Sarda:** Would it be driven by more cost control or mainly new products?

**J.K. Jain:** Basically, it will depend on the volumes. As I told earlier that due to the insurance cost plus other things plus ABS, CBS, and now BS-VI, there is a little slow in market but this will not be there all the time

because as this is a necessity and this is not a luxury item. So, we believe that it should stabilize by the second quarter of 2020. Things will improve very fast.

**Ronak Sarda:** Just one feedback. If you can at least have a 6-monthly call or some presentation which can be shared so as to keep the investors and analysts up to date?

**J.K. Jain:** We will try to do it every quarterly.

**Moderator:** We have next in queue Mr. Sreemant Dudhoria from Unifi Capital. Please go ahead.

**Sreemant Dudhoria:** Sir, while you have answered to the multiple queries on the luminaries segment, this quarter at the EBIT level, it turned positive. Is that sustainable?

**O.P. Gupta:** Of course, that is what is the sole target of this company that whatever sales you make in LED at least you are able to have your EBIT positive.

**Finance Member:** We just want to add that that's not our core business now. The way we look at it, the luminary segment is not presenting us with opportunities that what our other segments. If we were to put in that effort, we actually are doing far better on the auto side. So, as of now, our resources are being deployed there. If market changes and we find that some new opportunities have emerged where we can go and use our technology to our advantage, we shall do that.

**J.K. Jain:** Moreover, we are not making any losses in that further. There is no cash loss.

**Sreemant Dudhoria:** And that is sustainable?

**J.K. Jain:** Yeah, sustainable.

**Moderator:** We have next in queue Mr. Manoj Dua from Geometric Securities. Please go ahead.

**Manoj Dua:** Sir, as I understood, you told that your halogen lamp in automobile, percentage will go down but absolute amount will remain the same. Is this right?

**J.K. Jain:** In nonconventional bulbs, yes, maybe short term.

**Manoj Dua:** If there is any CAPEX fungible that halogen can be shifted toward LED or something like some part of the CAPEX or for increasing the LED auto?

**J.K. Jain:** You are talking about LED auto or you are talking about luminary?

**Manoj Dua:** LED auto.

**J.K. Jain:** Already the production line is there. So, as I told that there will be a small CAPEX if the quantity is increased and that is always there. Huge funds are not required. All infrastructure is there.

**Finance Member:** I think if your question is if the existing capacity can be utilized for LED going forward, the answer is yes, with a small amount of CAPEX.

**Manoj Dua:** You have a good dividend policy also. Is it a fixed dividend policy or it is according to the balance sheet?

**O.P. Gupta:** Actually, you will witness that every year, the company has been steadily increasing the dividend of course and in earlier year, we had been paying 20% of the profits but this year definitely management took a call and then increased the percentage. And this year, the company has gone for 120% which works out to approximately 34% of the profit. So, hopefully, the company would like to maintain the same payouts.

**Manoj Dua:** Does company have a view on buyback it is more effective way of paying back money to the shareholder?

**O.P. Gupta:** Yeah, that we have not still considered but in the time to come, one can think of.

**Moderator:** We have next in queue Mr. Akshay Patel, an individual investor. Please go ahead.

**Akshay Patel:** What is the inventory and credit receivable in LED luminary business?

**Finance Member:** You want the exact inventory of that business. That is what you are asking?

**Akshay Patel:** Yes, inventory and credit receivable both.

**Finance Member:** We will come back to you with the exact numbers. You can send us an email. We mentioned that our CAPEX has been 27 crores in fixed assets. Exact inventory we will get back to you.

**Akshay Patel:** My next question is why plastic moulded a part of business degrowth of 198 crores to 130 crores in FY19?

**J.K. Jain:** Because of the low production in automobile sector.

**Moderator:** We have next in queue Mr. Ashutosh Tiwari from Equirus Capital. Please go ahead.

**Ashutosh Tiwari:** We had some receivables from ESL in the luminaries business. What was the amount and do we need to write-off that amount?

**J.K. Jain:** Basically, they are deposits.

**O.P. Gupta:** Actually, the company is very hopeful because every amount there is nothing that which is going to turn back and we are regularly following and trying to recover that amount.

**J.K. Jain:** Moreover, there are deposits for 7-year deposit for the streetlights. So, naturally that will come back.

**Ashutosh Tiwari:** What is the amount?

**J.K. Jain:** The amount is about 20 crores.

**Ashutosh Tiwari:** Only 20 crores is locked in that luminary business?

**J.K. Jain:** Yes, with the ESL.

**Ashutosh Tiwari:** Rest is all related to auto only?

**J.K. Jain:** Yes.

**Moderator:** We have next in queue Mr. Mohit Gupta from Siddhi Vinayak Investment. Please go ahead.

**Mohit Gupta:** Sir, do we expect LED auto lamps price to come down a little bit in the near future?

**J.K. Jain:** Yeah, like in luminary, the more usage of LED, naturally the LED price will come down.

**Mohit Gupta:** By what percent? Maybe 10% to 15% or 20% to 25%?

**J.K. Jain:** It depends. How much usage versus this. Can't say.

**Mohit Gupta:** My second question is how R&D is going to help us as what I understand this auto industry, as we get designs from the OEMs, how you are investing in the R&D? How it is going to help us in the revenue?

**J.K. Jain:** Basically, our products come into esthetics. If you remove lamps and mirror out of any vehicle, it becomes a structure of steel or plastic. So, basically, the development of the lamp is very, very imperative and if you don't have the R&D in-house, then you can't compete in the market. Because of the R&D in-house and because of the R&D state and because of the capability of R&D, we are getting the newer models and you can compete the world. Today, as a non-Japanese company, we are competing in this segment is a big thing. It is not a small thing. Basically, this is because of the R&D capability. If there is no R&D in the company, I think that company will die not slowly and it will die very soon. Through the basic strength of R&D, we are surviving since long. In our company, basically the R&D is playing a big role.

**Mohit Gupta:** Sir, my last question is conversant from the conventional auto lamps to LED is around to be 34% as told by you but what time we are expecting it to take a tick to the 90% level?

**J.K. Jain:** What the data are coming for the next 2 to 3 years we can go by and it seems to be 50%.

**Mohit Gupta:** By FY20?

**J.K. Jain:** By FY22.

**Moderator:** We have next in queue Mr. Akshat Kumar from A K Capital. Please go ahead.

**Akshat Kumar:** I just have one question for you sir. Could you throw some light on the amount of investments that you have done in the JVs and collaborations?

**J.K. Jain:** Like in Aisan, the total investment is 100 crores. Out of this, 26% is Fiem. The other JV in moulding is very minimal.

**Moderator:** We have next in queue Mr. Rohit Gupta an individual investor. Please go ahead.

**Rohit Gupta:** Sir, you mentioned that Aisan JV will contribute 50 crores. That is the revenue in FY20 or that is the peak revenue that we expect from this?

**J.K. Jain:** No, we are talking FY20.

**Rohit Gupta:** What can be the peak revenue from this JV?

**J.K. Jain:** Peak level at the moment, it is going to be around 200 crores.

**Rohit Gupta:** When do you expect the JV to reach that level?

**J.K. Jain:** Next year we will be able to utilize 2.4 million capacity.

**Rohit Gupta:** So, in fact by FY21 only, you expect revenue of 200 crores?

**J.K. Jain:** Because basically this is a BS-VI model and it will compulsorily start fully from 1st April onwards.

**Rohit Gupta:** This JV will be profitable operationally from the first year itself?

**O.P. Gupta:** Actually, no JV is profitable in the first year because in the first year, you set up a plant and then you have of course the fixed overheads. That is why you will see in our result, in the first year of course because of the fixed overhead there is certain amount of loss but next year of course, when the company does a proper production, then the sale will start and then company will start coming in profit. March '20 and then effectively March '21 you will see the full production and full potential of this JV will come.

**Rohit Gupta:** Let me rephrase this. In '20, when it is expected to do a top line of 50 crores....

**O.P. Gupta:** No, in 19-20, it will be 50 to 60 crores, and in 20-21, we are expecting that it will reach to 200 crores which is the full target of this JV company.

**Rohit Gupta:** But in FY19-20, will it be operationally break-even or it will still be in losses?

**O.P. Gupta:** Yeah, should be, because every quarter, things will come and then definitely one will be able to view it.

**J.K. Jain:** It will not be break-even during this year also. Break-even will start from 2021 onwards after the full year.

**Rohit Gupta:** In FY21 then what can be the EBITDA margin for the JV?

**J.K. Jain:** That we can't disclose at the moment and not yet worked out.

**Rohit Gupta:** This 200 crores that you mentioned, this will be hours year or the total revenue of this JV?

**J.K. Jain:** This is the total JV company turnover.

**Rohit Gupta:** Beyond FY21, what can be the growth potential?

**J.K. Jain:** We are going to install another 2.4 million capacity.

**Rohit Gupta:** Who will be the customer for that?

**J.K. Jain:** That we are working out and we will inform you shortly. It is too early to say.

**Rohit Gupta:** For the sensor business, again, what can be the kind of ramp-up? What can be the pre-sales?

**J.K. Jain:** We expect to maintain what we are, better than the industry.

**Rohit Gupta:** I am asking about the new sensor business, the bank angle sensor.

**J.K. Jain:** Bank angle sensor as I told you, 2020-21 it is going to be around 50 to 60 crores.

**Rohit Gupta:** For the bank angle sensor, the 50 crores is kind of the peak revenue you expect or it can grow beyond that?

**J.K. Jain:** As of now, it is a one customer HMSI and the peak level is going to be 50 to 60 crores.

**Moderator:** We have next in queue Mr. Manoj Dua from Geometric Securities. Please go ahead.

**Manoj Dua:** Sir, as you told that as the use of LED auto increases, their price also decreases. So, my question is as going forward, our EBITDA if you talk profit in terms of EBITDA margin, when the price is decreased, our profit also decreases per unit or we increase our EBITDA margin if the prices of LED auto increases?

**O.P. Gupta:** No, of course, the EBITDA will definitely remain the same because if the price is less, it is such a close working with the customer, your prices are not hit.

**J.K. Jain:** What he meant to say is the margins are not going to hit. Our EBITDA is going to be the similar.

**Manoj Dua:** EBITDA in terms of absolute per unit or margin will be same? Because if the prices fall and if we are talking profit in terms of EBITDA margin, we may get our more profit by more volume, but our profit per light will decrease or we can increase our prices correspondingly?

**O.P. Gupta:** We are talking about the percentage.

**J.K. Jain:** Overall percentage. We are talking product mix. We are not only talking about LED. The company is product mix. It is not only LED company.

**Moderator:** I now hand over the floor to Mr. Awanish Chandra for closing comments. Please go ahead, sir.

**Awanish Chandra:** Jain sir, any final comments before closing?

**J K Jain:** We expect our company to grow in a big way and let us hope this slowdown comes to an end and we grow faster as we have been growing earlier. Thank you.

**Awanish Chandra:** Thank you very much Jain sir and the whole management team for sparing your valuable time.

**Moderator:** Thank you very much ladies and gentlemen on behalf of Monarch Network Capital Limited. This concludes your conference for today. Thank you for joining us. You may now disconnect your lines and have a great evening ahead.

---

Note: In this transcript small corrections made to remove the errors.