



“Minda Industries Limited Q2 FY14 Earnings Conference Call”

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Moderator

Ladies and gentlemen good day and welcome to the Minda Industries Limited Q2FY14 Earnings Conference Call. As a reminder all participants' 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, please signal an operator by pressing '*' then '0' on your touch-tone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sudhir Jain – Executive Director and Group CFO. Thank you and over to you sir.

Sudhir Jain

Good morning friends I welcome all of you to the first earnings call of Minda Industries Limited. Along with me is Mr. Praveen Juneja who is heading finance and M&A with me in the group corporate office.

With your permission maybe I will take few minutes to appraise you about the background of Minda Group and Minda Industries. Minda Group actually started in 1958 by late Shree S L Minda, now his son Mr. Nirmal Minda is managing the group and Mr. N. K. Minda which is Nirmal Minda is the Group Chairman and MD of UNO Minda Group. In the group there are various companies but Minda Industries Limited which was incorporated in 1992 is the flagship company of UNO Minda Group. Company is only into auto component so we focus on auto component sectors and our customers are practically all OEMs in India and most of the OEMs outside India, say in Europe, in South East Asian countries. 80% of the group turnover of Minda Industries along with his consolidated companies comes from OEM and balance 20% from what we call after-market which is after market demands within India and outside India. In Minda Industries, there is a wide product portfolio ranging from switches which is the main product of the group, horns, lighting, fuel caps, to alternate fuel system which is basically CNG, LPG kits, batteries, die casting products, blow molding products which are like air ducting in the vehicle, sensors and other electronics. We have got about 23 manufacturing plants located across India and two plants location outside India, now three actually. One in Indonesia, one is Vietnam and one is Spain.

Since inception the focus of the group has been on research and development, that is engineering activities. In each of our plant which are the parent plant we have got R&D facilities. Within R&D, we develop products for various new models which OEMs introduce over a period of time. We develop the product, we develop the tooling required to manufacture the components which goes into the product which could be plastic components, metal components, requiring casting, forging etc, etc. So, the real strength of the group comes from this product engineering activity which we carry on within the Minda Industries and its companies. That's why we also get associated with the OEM at a very early stage as and when any new model is conceived by the OEM, OEM involve us in designing and developing the product which we supply, like switches, lamps, horns, kits etc.,.

Over the period, we have also entered into collaborations with various worlds' renowned auto component manufacturers. With them we have got technical agreements, financial joint ventures. With the support of whom, we have set up various plants in India and outside India.

As a consolidated entity we cater to different segments of automotive sector. In automotive sector, we generally say two-wheeler sector, four-wheeler. Four-wheeler includes passenger vehicles which are cars, commercial vehicles.

Another segment is three-wheeler and the fourth one is the off road vehicles. We supply our components to all these sectors. So, in automotive segment we cater to all segments, 80% of the MIL turnover goes to OEM, practically we supply to all OEMs in India.

We say with proud there is no vehicle on the roads in India which would not be having at least one of our product.

Now, how this Minda Industries is organized? There are about 15 different categories of the products, 23 manufacturing plants, about 7,000 people working at various locations, so the whole group is organized through what we call the domain structure.

By domain structure what we do is, these products have been grouped and regrouped into various domains like we call electrical and electronics domain, body and structure, chassis and motors, engine and exhaust, interior control and safety etc., These domains are headed by a CEO. CEO is responsible for top line and bottom line of the products falling in his domain. He is also responsible for the future growth of the products falling in its domain and also work for adding new products in its domain. All CEOs report to Mr. Minda who is the Chairman and MD of the group in group corporate office. In group corporate office, certain functions are centralized, one is of course finance, legal secretarial, M&A and new products, which I am heading. Another is group HR function, development of the senior executive, the manpower, appraisals, expansion, training etc, etc. Another is group marketing, group marketing takes care of the job of business development when the business is at a very, very early stage. A new OEM is coming to India, a new model is being introduced by particular OEM already existing, group corporate marketing head which is Mr. Walia would be in touch with the OEM, will explore the business opportunity for all existing products of the group, also if any new product which can be added. Once the business is finalized, what we call a letter of intent, once we get a letter of intent the product is handed over to the concerned domain. With this structure about 10 senior executives what we call the first line reports to Mr. Minda and each domain acts and functions independently within the parameters of what we call annual budgets and mid-range plan, which is a four-year plan what we make every year, which is a kind of a rolling plan.

Now, in domain the first electrical and electronic domain. In this domain there are two and three wheeler switches, off road switches. We make automotive electronic sensors, controllers, actuators and die casting components. We started switches, our main product in a group and about one-third of the turnover comes from switches and we started this group by assembling

ammeter for two wheelers somewhere in 1958-1960 and then we switched to switches and we make all kinds of switches, any switches which goes into the vehicle two-wheeler, three-wheeler, off road etc, in Minda Industries Limited. Then we added electronic component, electronic switches, low current switches, water proof switches, self-cancellation switches and various categories of switches and we enjoy more than 70% of all India OEM share as far as switches are concerned. Under this we have got manufacturing facilities, actually location wise we are present, there is automotive industry set up we have got our manufacturing set up. In North India it is Manesar and Bawal and Pantnagar, western India we are in Pune, southern India we are in Hosur as well as in Bangalore and now we are exploring possibility of setting up facilities in Gujarat as and when other OEMs will start setting up facilities there.

Within electrical and electronic domain we added die casting components primarily for Honda in joint venture with JBM Group which is another big group into auto component which is Jay Bharat Maruti Group headed by Mr. Arya. In 2011, we set up with 50-50 joint venture for die casting components facility in Bawal and Hosur. We are dominant supplier, as I have already mentioned, to domestic two wheeler OEMs like Bajaj Auto, Hero Motor Corp, Honda Motor, TVS. We also supply and export these switches internationally to Piaggio in Europe, to all Suzuki, Honda, Yamaha in Southeast Asian countries from our Indonesia plant. Southeast Asian countries particularly ASEAN region country's two wheeler population is very, very high and that's why before we set up, initially we exported and then somewhere in 2005 we set up Greenfield project in Indonesia after two years another Greenfield project in Vietnam were set up, starting with of course switches, then lamps were added, lighting was added and after that horns.

Another domain, second domain in chassis and motor system. One product is horn and Minda Industries is the leading manufacturer of horns in India. We are third largest in the globe, after acquiring one company whose name is Clarton Horn in Spain. Only this year in the month of April, we acquired this company in Spain, which is into horns from one of the PE fund. This company used to belong to Bosch Germany, prior the entry of the PE Fund. Here, our key clients are Bajaj Auto, Mahindra & Mahindra, Tata Motors, Mazda, BMW. Clarton has got electronic horn technology and is one of the major players in Europe for electronic horn, which technology we have acquired through Clarton and now we would introduce in India also. Further, it has got high quality, which we get market access for horns outside India.

The third domain is body and structure which constitute automotive lighting. Initially, we started making plastic lamps for two wheelers in 1980. Today MIL is one of the leading automotive lamp manufacturers in India. We do our own designing, development of lamps and all kinds of lamps and lighting for vehicles head lamp, tail lamp, interior lamp and small lamps. We have got out lighting plants in Manesar, Pune, Sonapat, Pantnagar and Haridwar. We have state of the art design centers, we have got our design center in Taiwan, which give necessary support for optical and mechanical designing of automotive lamps. In addition to capitalizing on this strategic advantage of Taiwan as it is an established and high quality, cost

effective destination for tooling. In lighting we have got technical arrangement with AMS Company Limited of Korea, which support us in designing manufacturing and selling, high engineered, automotive lamps. AMS is also a very prominent supplier to Hyundai in Korea. Key clients in lightnings are Maruti, Tata Motors, Mahindra & Mahindra, Piaggio, Kawasaki.

The fourth domain is what we call interiors controls and safety, mainly catering to four wheelers, with switches and blow molded products. For four wheeler switches, we entered into joint venture with Tokarika Company Limited of Japan. The plant is in Manesar, Pune, Chennai and we supply these switches to practically all major OEMs in India. For our blow molded parts, we have got joint venture with Kyoraku, Nagase of Japan. There were two plants, one in Bangalore and one in Bawal. Again, the customers are Maruti, Toyota, Nissan, Ford etc.

The next domain is engine and exhaust domain. The main product in this is alternate fuel kits, which is CNG kits and LPG kits. We entered into this alternate fuel business in 2001 with the financial and technical support of IMPCO USA, somewhere around 2007 – 2008 after Lehmann Brothers collapse, IMPCO decided to exit and we bought their equity and merged it with Minda Industries Limited. We are the only tier one auto component player localizing these components and supplying full kit to OEMs in India. Today we have got joint venture with Emer in Italy which support us in technology development of new products etc., In kits business our main customers are Maruti Suzuki, Tata Motors, Toyota and also of course in the replacement market. In this business, I mean of course, there is a demand in the replacement market but the OEMs also want us to assemble the kit with the vehicle what we call zero kilometer kit business so we used to assemble, our people used to work in the factories of Maruti at one point of time and used to assemble the kit during the process of assembling of the vehicle in Maruti, which is known as zero kilometer fitment of the kits before the vehicle comes out of or use to come out of the Maruti assembly line.

Another domain is slightly diversified which we called CleanTech Distribution and Services, which offer automotive batteries which is part of the auto component, LED lighting or non-automotive applications plus there is a company which is 100% owned by MIL what we called MDSL, Minda Distribution and Services Limited which distribute all group products in the aftermarket, all OEM sales are directly billed from Minda Industries Limited and its group companies aftermarket products whatever is manufactured Minda Industries Limited and if group companies are sold to MDSL which in turn sells it in the aftermarket through dealers and distributors and retailer. There are about 400 dealer distributors throughout India further supported by retailer and mechanics which runs into about 4,000 – 5,000 chains of mechanics which use our products in the replacement market.

Just to summarize in MIL and its group companies offer wide range of auto components, range is wide and we cater to all the segments of the auto industry because we have got in house development, engineering, tool design, tool development facilities we provide with the support

of our collaborators, world class quality through technical collaborations. We cater to Indian markets as well as the global markets, particularly Southeast Asia and Europe.

This is the brief history of MIL and its group companies, what these companies are doing, the products, the locations, and how we have grown in last 20 – 25 years particularly after 1990 once the Indian Economy was liberalized. Of course, Maruti Suzuki was already there so with this liberalization and growth of Maruti Suzuki first and then introduction of different OEMs in India both in two wheeler, three wheeler as well as auto sector. So, whole auto industry has grown and along with that MIL has also grown by adding new products, by entering into new partnerships etc.,

The core strength of the group is to assimilate and absorb technology as per the need and requirement of the OEMs. We have entered into number of joint ventures both financial and technical, which are running very, very successfully. With the same partners we have done more than one joint ventures in India that is one strength. Second strength of course is in-house R&D and engineering, third is of course is manpower team, development of the team, growth of the team, which has resulted into the growth this company has achieved.

Somewhere, in 1990 the turnover was all put together about 25 crores. Today the turnover would be MIL and its associated companies consolidated would be 2,000 crores plus. This is the numbers broadly.

Quarterly results are already been declared, published after the approval of the board. In case you want I will just briefly go through these numbers. So, our top line revenue for Q2 in '13-'14 was 273 crores which gives us a growth of 10% on quarter-on-quarter and growth of 5% on year-on-year. EBITDA was 16 crores we are giving a margin of 5.84% and PAT at 5 crores.

For the first half of the year financial year '14 standalone, these are standalone numbers so H1 '13-'14 was 522 crores against 518 crores in the same period last year. Consolidated revenue of MIL for H1 is 812 crores as against 627 crores year-on-year which gives us a growth of 30%.

Our key achievements of the first half year is acquisition of Clartron, as I mentioned, a company in Spain into horns which we acquired in Q1 of the current year and the integration process of the same with the group is going on. We set up two new plants, one of switches in Hosur, another for die casting in Hosur, which of course production has started, we need some more time to stabilize, need maybe some more time to reach 90% capacity utilization. New orders worth 80 crores has been received during the H1 period from various OEMs. With these background information and financials I would open the floor for any query, any questions, this is the first time I am sure you would be having number of queries, questions and would like to know more about us and the group. All of you are welcome to ask any query, information etc, etc, please.

Moderator Thank you very much sir, ladies and gentlemen we will now begin the question and answer session. First question is from Saurabh Jain of Sushil Finance. Please go ahead.

Saurabh Jain I am very glad the company has started doing these calls and I hope will continue with this in the next few quarters as well. I have some broader questions before I take up my bookkeeping questions. My first question is, through your website I came to know about revenue targets of 10,000 crores by FY15 or 12,000 crores by FY16. So, looking at the kind of growth, the auto industry is going through since last couple of quarters doesn't that look a bit optimistic, I would like you to share the road-map for the same and what could be the contribution from the listed entity?

Sudhir Jain Saurabh very good question and first I admit yes, I mean 10,000 crore today is very tall order to achieve which we would not be able to achieve but about five years ago, I think somewhere in 2010 we set up the target that we should target for 10,000 crore turnover by '15 – '16 at that time I think our turnover was around 500 crore or so and accordingly we were planning but down the line due to various reasons external as well as internal and due to some business considerations we did not move as fast as we should have to achieve this target. And in hind sight, I think, it was good decision. Also at various points of time how to calibrate the pace of investment and growth with the pace and growth of the automotive sector. About two years ago as I said earlier also that every year we do our mid-range plan and once in a year we do this strategic planning for the future. We internally also consider to revise this vision and the target but somehow collectively we decided that we will do it in '15 – '16. So, first is that 10,000 crore today is a very tall order and we will not achieve and today frankly speaking we are not aiming at. Our first milestone is now 3,000 and 5,000 crore that is one. Now, of course, there is a gap but in last two years, number of ventures and investments have been made. I already mentioned about two plants in Hosur, we have set up another three plants in Bawal and we have added some other products also in the group, so I am sure that in times to come in another one or two years we should cross about 4,000 crores but not 10,000 crores. So, 10,000 crore will definitely get extended. How long, when, I think next year we will sit down on our strategic plans we will decide. And one of the reason and in order to reach this target was that about two years ago, we identified two target companies in Europe, we did lot of work on those companies, we wanted to invest and acquire those companies but finally we could not succeed. So, we didn't acquire those companies which has also resulted in not reaching the target but anyway, I mean, that's part of the business and vision and target is one but we have to adjust, we have to calibrate our pace every time with the pace of growth in the sector as well as economy and not only domestic but international also. I hope I have explained your query.

Saurabh Jain Yes, but could you give us some kind of growth trajectory which internally you would have decided for the next two three years at least. I mean just looking for long term stable growth which you are expecting and particularly in the listed entity?

Sudhir Jain

Okay, on talking of listed entities, Saurabh in case you will see in last seven years our top line CAGR is about 25% to 30% and I am pretty sure that we will maintain this kind of growth in the future also. Of course, depending upon the overall economic growth as well as the auto sector, fate of the auto component sector is directly linked with the fate of the automotive industry. But personally, I am very optimistic today for Indian economic growth, Indian economy has to grow irrespective of whatever hurdles comes and auto sector will grow because which is very important for the whole Indian economy to grow. As soon as infrastructure etc., things will improve in times to come, auto sector will grow. Yes current year and the last year was an exception in the auto sector, otherwise auto sector was also growing on an average from 10% to 15% which is a very good growth and in case the sector grew at the rate of 10% to 15% we are sure considering our history that we should also grow at the rate of 25% to 30% top line.

Saurabh Jain

My next question is like we have a strong hold in businesses such as switches, lights and horns but towards the period of last two three years we have been investing in other businesses as well like infotainment and LEDs and many other things, so I would be interested to know like which other businesses are looking very promising in the long-term so accordingly my question would be which JVs and associate companies are looking very promising over the period of long like two three years and which can contribute substantially to the group turnover?

Sudhir Jain

You are right that switches, lights, horns is our traditional strong hold in the automotive sector and in the last two years we have entered into filters, alloy wheels, of course blow molding parts, etc., including now recently infotainment, LED.

The group thinking is that Indian automotive sector has yet to grow really. Since 1990, till say 2000 – 2005 it was a normal growth of 10% or 12% on an average of the Indian auto sector. In case, we compare per capita car, per capita vehicle owned, still we are at the bottom from world standards, We are no where near China. So, in case economy grows which will grow it's a matter of time whether the growth is in 5 years or 10 years and per capita numbers increases. The real growth in the auto sector is yet to come, this was the reason that we consciously took a decision to add new components to the basket and in each of these new components which we added, whether it is infotainment or others, we have joint ventures with the world leaders who are sole suppliers to one or the other OEMs globally. So, with the support of these kind of partners & their technologies, we having a very strong engineering and manufacturing base in India, practically in all corners of India, wherever the automotive so I think it's a very good combination what we have made and with the growth of this sector we will get an opportunity to gain leadership position in these products also. Now, which product will add substantially to the top line and the bottom line as far as value of the products are concerned yes infotainment is a high value product which stood at substantially depending upon our share of business in times to come. Alternate fuel is another which is a very high value product which will add substantially. Blow molding parts are increasing, electronic components are increasing so traditionally switches, lights and horns are there now -- but I think in next four to five years this

mix will change and all these products plus the new products all would be having 15% to 20% of the turnover in our total turnover.

Saurabh Jain

One question on the financial front. Over the last two years margins have eroded substantially like last to last year FY12, we had consolidated EBITDA margins of around 11% - 12% which has now come down to mid-single digits, so I understand that there is like slowdown in the industry and other things which are impacting industry wide margins but can you give us an idea like over the period of next two three years when growth stabilizes what kind of EBITDA margins can we see on a stable basis?

Sudhir Jain

I think you are right that the last year and this year because the automotive sector and our top line has not growth at that rate this is one of the factors that the cost is growing but the top line is not growing to that extent and more than that the another reason is that in last two to three years we have made reasonably very good investment in new products as well as setting up new plants for existing products. These new investment is yet to mature, when I say yet to mature means I mean 80% - 90% capacity utilization is very necessary. The whole plant need to stabilize so that quality issues, cost issues are not there, so in H1 we have taken a conscious decision not to immediately look for any other big investment and expansion by way of a product or by way of a region. So, let us consolidate whatever investments have been made in last two years, so our focus is on that and we are very closely reviewing all these new projects and effort is that all these new projects mature. I am pretty sure that in next 3 to 12 months most of these projects will mature and after that definitely it will add both to top line and bottom line and the group target is to of course come into double digit, we are highly focused on that.

Moderator

Thank you. Our next question is from Nitin Gandhi of KIFS Securities. Please go ahead.

Nitin Gandhi

I just take a little conclusion which I drew from previous question of Saurabh that your FY14 turnover will be 2000, FY15 will be 3000 and FY16 will be (+4000), am I right?

Sudhir Jain

Now, '15 - '16 is basically a target and depending upon the auto sector growth I mean we should achieve it that is the aim.

Nitin Gandhi

The standalone company at present is contributing roughly 512 out of 814 so roughly 60%, so going forward FY14, FY15, and FY16 also it will continue to contribute above 60% right?

Sudhir Jain

I think it should, yes it should in the next year it will be the same ratio but then ratio might shift in '16 or '17.

Nitin Gandhi

Do you see them rising going forward to 70% - 75% or will it remain at this juncture?

Sudhir Jain

You mean the ratio?

- Nitin Gandhi** Yes.
- Sudhir Jain** I think ratio from, yes it should remain in this range.
- Nitin Gandhi** Now, coming to other question you said your group aspires to get into double digit margin but can you give some timeframe when do you expect that to be achieved?
- Sudhir Jain** Mr. Gandhi I mean it's very difficult to say as such particularly in a forum like that we are a listed company you know but I will just say that whole focus today of the group is on consolidating existing investments what we have made in last two years. We are very optimistic I mean right decisions, right partners, right products but yes all these things need to mature and reach a particular level which will take one to two years and once it is done I think bottom line and other things will follow automatically.
- Nitin Gandhi** Third question which I have is, can you give some view on the Hosur plant, die casting plant and switch plant and Clarton Spain acquisition for H2 and going for the full year once you commence, some of your thought process?
- Sudhir Jain** As you know this Honda Motor has set up the factory in Hosur and for die casting they are one of the major customers for us so naturally we followed them and we have set up this facility for them and fortunately Honda Motor's number are rising, they are maintaining whatever they are forecasting, so advantage will come to us in the sense so whatever they are projecting they are achieving in numbers so our numbers will also improve and the capacity utilization in Hosur plant will also improve but that will take three to nine months. And as far as switch is concerned, switches are existing business, we were exporting switches from Manesar to Hosur, TVS is there and other units are there, as the volumes were increasing we thought to set up the plant in Hosur to be near to TVS and other OEMs in South. So, as far as switch is concerned, I mean there is no risk as such because it's almost an existing business going to south. As far as die casting is concerned Honda is achieving whatever they are forecasting so the issue now is stabilization of the plant and which in any case takes three to nine months.
- Nitin Gandhi** And Clarton?
- Sudhir Jain** As far as Clarton is concerned, we feel I mean, as I mentioned earlier also when Saurabh asked for the region of 10,000 crore. We were scouting for some good targets globally to gain technologies in lighting and other products also and in earlier two we were not successful but Clarton is a company which is highly focused on horns. Horn is the only product and in horn - electronic horn, they supply practically to all big names BMW, Audi, Mercedes in Europe and they enjoy more than 33% market share in Europe. So, this is one plant, it's a single unit company highly compact so fortunately no much restructuring, etc., is required. So this along with our existing horn operations in India is a perfect mix. I think electronic horn will come to India, we will leverage our manufacturing facilities in India and export maybe components through Clarton in times to come and Clarton has got plans also. Already we are setting up a

child plant in Morocco which would be an extension of Clarton and then they will further plan also to cater to China market either from Clarton or from India. So, it's a perfect match I think and our experience after acquisition we are managing this company from June so we are quite satisfied with the plant, with the quality, with the people and it should give a good return in times to come.

Nitin Gandhi Thanks, but can you put some numbers for H2?

Sudhir Jain Mr. Gandhi I tell I mean we can put, it is mathematics but you know better than me I mean rate of growth in the vehicle number. We are supplying to practically all OEMs, in all segments. So in case the auto sector is growing by say 6% - 7% our top line should grow by 15%, I am just giving you a thumb rule, no logic, no basis & no commitment. Rate of growth of the sector I think that's what I do in case I don't recollect number.

Nitin Gandhi Coming to the last question, about something on debt side almost 100 crores rise is there in last one year. How do you propose and what is the effective cost and what's your plan for next one or two years' prepayments and other things?

Sudhir Jain Okay, recently it has gone up because of the new investment but historically you will see now let me tell you we as a group are very conservative as far as I mean financing and financial issues are concerned. As Saurabh also mentioned you also mentioned that first time we are in contact with each other that is also we are very financial market shy group but we thought that we need to be in touch with all of you. Yes, as far as debt is concerned in last one - one-and-a-half year it has come up but historically will say our debt-equity ratio is below one and still I think it is below one or almost one, so we know our internal cash flows are enough to repay all these commitments and I can say with proud and certainty that since, I mean last 30 years we have not defaulted even for a day in any of our commitments to any institutions or lender or anyone. So, I think we are in a very, very safe zone as far as debt is concerned.

Moderator Thank you. Our next question is from Paras Adenwala of Capital Portfolio Advisors. Please go ahead.

Paras Adenwala I just wanted to have some feel of what the current trends in the industry are, while you give some feel about how the industry could do, but if you could be a little more specific on the two wheelers and the four wheelers how are they doing and what are your plans to really grow the replacement market I think that will be really helpful?

Sudhir Jain Mr. Paras very good question and we or also the whole lot of component industry is highly focused on and looking at how the auto sector numbers are moving. At a macro level everybody knows that of course Indian economy will grow, numbers will grow but in a short term, last 18 months are not as good as we expected. The recent H1 number the growth is almost flat four wheeler is (-4%), two wheeler is (+1.5%) there is some growth in three wheeler and off road, where the numbers are of course very, very less. Personally and in the group what

we feel that things will improve only from now. Recently, October and November are better than the preceding months, we can call it festival season, we can call it whatever maybe the reason but two wheeler growth is good. Four wheeler is not that but I think this low growth or no-growth period is and now in times to come say in next six months there may not be substantial increase in numbers but personally I feel overall industry should grow by at least 3% to 4% without any basis but the feeling and the experience of this industry of last 15 years. Then political issues you know elections are round the corner and after elections in case some stable government is in place I think then things will improve very, very fast. Otherwise things will definitely improve but the rate of improvement will depend upon the constitution of the government and parliament and the state assemblies, but we are positive and things can improve only from now that is our feeling.

Paras Adenwala

And my question on replacement market.

Sudhir Jain

Okay yes, replacement market is a very big segment and that is also undergoing a sea change from 10 to 15 years ago, I mean more than half of the market was with non-branded goods but in last 10 to 15 years there is a sea change in the consumer behavior and we are going for branded established components to ensure the life of the vehicle. We as a group are focused on that. There is a separate company 100% owned by Minda Industries which takes care of aftermarket. We are distributing of course our own group products through this company but recently we have decided to add even non-group products which meet our quality requirement, so number of new products are being added, regions are being added and even outside India also, we have established dealer distributor base. So, this company of which we know as MDSL firstly aftermarket is in priority today there are decent margins in the aftermarket, aftermarket is shifting towards branded goods, branded components so we are ready to take advantage of all these sectors and highly focused on that as a separate legal entity which is 100% part of MIL headed by an independent CEO with an independent vision and targets.

Paras Adenwala

I am just wondering, you have been in the industry for such a long time and it's a known fact that the replacement market is the more lucrative segment for business, then why is it that that segment contributes only 20% of your business?

Sudhir Jain

In percentage terms it maybe 20% but that business top line is also growing by 25% - 30% every year. Having said that we firmly believe that in aftermarket one can command premium and good price provided we are into OEM and OEM really educate us to upgrade the quality, upgrade management, upgrade organization, so OEM is the basic driver for the growth of the whole group and that is the global phenomena also. Of course, in India aftermarket will grow for another 5, 10, 15 years but our feeling is that OEM numbers will grow even faster as the life of the component is also increasing, life of the vehicle is increasing and the component is also increasing, so firstly we don't see, I mean, it as either or situation, so we need to focus on more and real volume comes from the OEM only.

- Paras Adenwala** You mentioned about 3% growth is what your expectation is in second half, in the vehicle growth so now is that two wheeler segment or how would you really break that 3% growth?
- Sudhir Jain** Now, of course in two wheeler it should be slightly more and then four wheeler, four wheeler is negative so far for six months and even in the month of October but the four wheeler should be neutral and two wheeler should grow even faster than overall auto sector growth would be 3% off road, commercial vehicle, three wheeler but out of this more growth should come in two wheeler.
- Paras Adenwala** Finally, the last question in terms of working capital how are you placed now, do you think you are better off in working capital management as compared to six months ago or with the status quo or do you think the trends are improving?
- Sudhir Jain** As far as working capital is concerned I think our terms with the OEMs are good and there is no issue and funds are not blocked in the working capital but yes internally we can improve it further but then it's more internal than external reason on which we are working.
- Paras Adenwala** So, is it better as compared to what you were six months ago or it is status quo?
- Sudhir Jain** No, it's better, it's better but even further improvement is possible by internal working which we are doing.
- Moderator** Thank you. We have a follow up question from Saurabh Jain of Sushil Finance. Please go ahead.
- Saurabh Jain** On your website I also came to know that we have an expansion program of around 400 crores so just wanted to understand what could be towards the existing businesses and what could be towards new businesses and how are we looking at inorganic growth?
- Sudhir Jain** As of now I think out of 400 crores more than 200 has already been committed and invested. As I said now we are focusing on all existing investments, some of the opportunities or investments we are deferring for the time being, not permanently but as far as inorganic growth is concerned again today we have deferred any new investment for the time being we will concentrate on consolidating existing investments which have been recently made maybe for another six months at least and then we will see how the auto sector is also improving, so the pace would be again related to the auto sector.
- Saurabh Jain** On the financials front also consolidated H1 FY14 PAT is just one crore as against 13 crores of last year whereas on the standalone basis it's around 9 crores so I just wanted to understand what kind of write offs and one offs are there?
- Sudhir Jain** I think partly it is because of the consolidation of Clarton, so in the first six months though the cash profit is there in Clarton but after depreciation there is some negative numbers and that is

also some related to the acquisition also, once we acquire the company we entered into some short-term arrangements with the PE fund from whom we acquire the equity, so I think more than half of that is one-time only.

Saurabh Jain

Half of them?

Sudhir Jain

Half of the loss is one-time.

Saurabh Jain

Can you throw some light on the lighting division which is coming upon in Chennai and the new switches division like capacity addition to the switches business in the Hosur plant?

Sudhir Jain

You would be knowing now recently Chennai has come up very fast a lot of big names are there, one of them of course is Renault Nissan. So, Renault Nissan is setting up a big facility there as far as the lighting plant is concerned that is related to Renault we have got LOIs for head lamp, tail lamp for various models of Nissan so that's why this facility is being set up and of course from this plant we will take care of other OEMs located in South India, so some of the capacity from Pune would be shifted to this Chennai plant and of course and OEMs in other south, so it's a good opportunity for us as far as lighting is concerned. For switch I already mentioned we were exporting the switch from Manesar to TVS in Chennai in Hosur, so we are setting up a facility for two wheeler switch there. We were not making two wheeler switch earlier in south, we were exporting either from Manesar or Pune, so now we would be closer to the customer and from Pune and Manesar whatever the capacity would be released will take care of the additional requirements of the OEMs with Manesar, around Manesar and Pune, so these are our existing products so I mean as far as existing products are concerned it's more or less no assured sales and things like that.

Saurabh Jain

Can you quantify how much capacity addition would be there in the lighting division in percentage terms, just wanted to understand how much is moving from Pune to Chennai?

Sudhir Jain

Pune to Chennai movement would not be much but what we will do in every auto component does that they develop a product in the existing site and do some numbers and then create full fledged facility at that location. So, we are also doing the same way but overall capacity we should be about 20% to 25%.

Saurabh Jain

Just last question, can you throw some light on exports front?

Sudhir Jain

Export has remained a focus area and as I mentioned that we started exporting to ASEAN region somewhere in 2000 and then we set up Greenfield projects in Indonesia and Vietnam so all that region is now taken care by Indonesian plant and Vietnam plant. Plus we export to Europe also and some small export to USA also. So, that we export from India but export would be about 5% to 7% of the group turnover and recently we have acquired Clarton and that will also take care of the local and regional demand for horn. Basic policy is that we start



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exports and then in case volume increases so we try to get some facility there itself to take care of that region.

Moderator

Thank you. And also there are no further questions from the participants, would you like to add a few closing comments.

Sudhir Jain

First, thank you very much to all of you that you spared your time and listen to whatever we mentioned and secondly, as I already mentioned we are very, very conservative particularly in the finance matters and financial markets but now on we would like to keep this dialog process on and some of you also mentioned that this is the first time whether it will continue or not and let me assure you that we will continue with that. So, once again I thank you very much. Still for any information or any query you kindly be in touch with Mr. Praveen Juneja or Strategic Growth Advisor who are our Investor Relation Advisor. So once again thank you.

Moderator

Thank you very much sir. Ladies and gentlemen on behalf of Minda Industries Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.