



“Minda Industries Limited Q3 FY-14 Earnings  
Conference Call”

**February 18, 2014**



**MANAGEMENT: MR. SUDHIR JAIN – CFO, MINDA INDUSTRIES LIMITED.**

**Moderator**

Ladies and gentlemen good day and welcome to the Minda Industries Limited Q3 FY14 Earnings Conference Call. As a remainder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sudhir Jain – CFO Minda Industries Limited. Thank you and over to you sir.

**Sudhir Jain**

Good afternoon colleagues. Let me just first go through the summary of quarterly results of Minda Industries Limited, for quarter 3 ending December. Along with me is my colleague Praveen and Narender.

To begin with I would like to summarize the results and the key developments, in this quarter, in the sector as well as in the economy. On the economy and industry front, I will start with. The past 24 months have been very tough for the Indian economy as well as for the auto sector. With increased fuel prices, rupee weakening, high interest rates have dampened the optimism and the demand in the sector. Even that sector is very hopeful of seeing positive developments post election. We are also witnessing a change in the needs of the customers. Today electronics and infotainment is as important as fuel efficiency. These changes in the consumer demand profile are changing the face of the entire supply value chain in the Indian automotive market. Today most OEMs and tier 1 companies have set up their R&D centers in India which play crucial role in developing vehicles and technologies for the Indian market. And this leads us to believe that the fundamentals are still good and medium to long term prospects for the sector are good.

Now I come to the specifics with reference to Minda Industries for Q3. On standalone basis, Minda industries for quarter ended 31<sup>st</sup> December 13, registered revenue of Rs.283 crores as against Rs 263 crores in the same period last year, thereby year on year growth of 8% in this quarter. EBITDA is at Rs.18 crores against Rs.21 crores. EBITDA margin is 6.23% for the quarter which was expanded by 40 basis points sequentially. Profit after tax stood at Rs.4 crores against Rs5 crores. So as far as the profitability, where EBITDA and PAT is concerned, there is slight decline in this quarter.

Financial results year to date that is for the first 9 months are as under. On a standalone basis, Minda industries has registered revenue of Rs800 crores against Rs780 crores in the first 9 months. So year on year growth is 3%. EBITDA is Rs47 crores against Rs59 crores. Net margin is 5.8%. PAT is Rs13 crores as against Rs22 crores. So there is a decline in EBITDA as well as PAT during these 9 months. At a consolidated level, we have generated revenue of Rs.1,332 crores against Rs.1,021 crores with an EBITDA of Rs53 crores and PAT of Rs.4 crores. Our consolidated debt as on December 31<sup>st</sup> is Rs. 287 crores. This increase in debt since FY13 is mainly on account of acquisition of Carlton, which was partly funded through debt.

Now I will come to domain wise performance:

Electrical and Electronics domain contributed 45% of the total consolidated turnover in 9 months with an EBITDA margin of 7%. Our switch plant at Hosur has begun the commercial production in this quarter. Some of the other developments are, we have started our supply for slide stand sensor to HMCL. We have received new business from JCB and BMW. Our switch team at Manesar won HMSI suppliers competition award.

Now I come to another domain which is Body and Structure:

This domain has contributed 19% of our total turnover in first 9 months. Our unit in Pune, which began operations in the beginning of the year, I am referring to lighting unit which started production in beginning of the year, is expected to reach breakeven level in the next quarter. We should enhance our profitability. Our new unit coming at Chennai, lighting expansion in Chennai to service DATSUN demand is progressing as per schedule. We expected it to start operations by H1 2015. We have received new orders from Toyota and Tata Motors in this segment. Currently we are also working with some multinationals to develop LED lamps for automobiles and box roof console. This quarter board has also approved a brown field expansion at our Manesar unit, lighting division, to cater to the increased demand of MSIL.

Coming to chassis and motor domain, contribution from this domain has increased significantly. Post our acquisition of Carlton Horn in April 13. Currently this is contributing 28% of the turnover in the first 9 months of this year with the healthy EBITDA margin of 10%. Some of the developments in this quarter are our supplies for Hyundai Grand i10 has begun this quarter. This quarter, we have also begun supplying to Korea based S&T Motors. We have also received orders from Ashok Leyland, Nissan and MSIL. Our acoustics team was honored with quality gold award by Bajaj. Other than this, we have also started regular supplies to MSIL and Honda for some of our blow molding products - Duct and spoilers.

To summarize, I would like to state that the market conditions are tough. Every automotive manufacturer is facing issues of numbers. As a result there is a pressure on pricing. That pressure automotive is passing on or is trying to pass on to the auto component. Faced with the situation, definitely margins are under pressure. Over and above what had happened, that automotive industry, particularly HMSI is also expanding. Nissan has already set a plant in Chennai. So there is a demand for the component from new players also, plus expansion by the existing players. In view to satisfy their demands, we set up manufacturing facilities in Chennai particularly for switches, for casting components and in case of lighting in Chennai, we are expanding. Now these expansions which have already been set up have just come into operations are not reaching the level of production which we expected. This being first year of their set up, there is under utilization of capacity on one hand. On the other hand, there is interest and depreciation burden. Had this industry grown the way they had made projections, I think our bottom line would have been better than the corresponding period for the last year. Definitely we are optimistic, post elections the economy should improve. With economic development and

growth, demand in automotive sector will also improve. With these remarks, I would like to open the floor for any questions, queries, suggestions.

**Moderator**

Thank you very much sir. We will now begin with the question and answer session. The first question is from the line of Saurabh Jain from Sushil Finance. Please go ahead.

**Saurabh Jain**

Could you please throw some light on the dampening profitability because margins have been under pressure but as we compare on an annual basis, there has been significant erosions. So is it due to the shift in the product mix or as you just said that it can be due to under utilization of new ventures or some exceptional items like we had one with regards to Carlton Horn acquisition. So is this shift a structural shift and is going to stay for long? How should we see this and what kind of trend would you like to show going forward?

**Sudhir Jain**

You mentioned 2 – 3 things. As far as Carlton is concerned, we are perfectly as per plan. So whatever we estimated we are achieving that. So clearly I will say due to Carlton, the profitability has not gone down. So whatever we planned, whatever we expected, we have achieved. Having said that 2 expansions were made during this year and last year and this year which came into operation, one is switch factory at Hosur, which was set up for TVS switches already we were supplying from our Manesar plant. But then HMSI set up the plant in south. So we thought and set up additional capacity at Hosur to take care of TVS as well as HMSI. And we invested about 30 crores in that plant which became operational during this financial year, first 9 months. And there was some issues in the first 3 – 4 months of start of production. Some were internal issues, yes. Certain lines were transferred. New tooling was made for HMSI. So there were certain delays in that. HMSI plan was also affected. Due to that, our production didn't stabilize for 4 – 5 months in this year vis-à-vis our plan our budget which contributed to interest and depreciation without corresponding increase in the top line. Whatever contribution was there, little contribution, less than what we expected got eroded because of the fixed cost in that plant. Second which is not the major reason, similarly we set up fuel cap facility at Manesar. We expected that from September onwards, it will run at fairly high capacity, supplies were to be made to Maruti. Of course Maruti numbers are not affected but there is a delay because there is some already there were importing fuel cap. So they have got the inventory of the fuel cap at their end. That's why there is a delay in lifting of materials. Again 3 – 4 months so far, we have not been able to reach the expected level. I will say these are the 2 main reasons which has affected the bottom line, as far as switch and fuel cap is concerned. As far as lighting is concerned, lighting is under pressure due to customers particularly VW because their volumes have not picked up. So in that case also again due to the less sales, and secondly because of the Tata Motors. Tata motors volumes have been reduced to quite significantly to the extent of 40% of their estimated numbers. So that's why lighting Pune is running at more than optimum level of capacity which is affecting the bottom line. Carlton is as per plan. Nothing to worry about hopefully in the future also. Hosur switch plant has stabilized and hopefully from April onwards teething problems would be over. So there should not be an issue in this plant also. As far as Tata motors and VW is concerned, everyone knows I think that it depends on their revival in the

market which may have come only after the election. So I will say Tata motor and VW affecting lighting is something which might take some more time.

**Saurabh Jain** So primarily there are 2 issues, one is underutilization and some delayed decisions by the OEMs. As we are targeting, going back to 2 digit EBITDA margin. So when can we see that happening, sometime during the mid of next year, next fiscal?

**Sudhir Jain** Frankly speaking again it will depend on the overall improvement in the sentiments in the economy. I think then only automotive sentiments will also improve. Now naturally everybody is feeling major event is the election. After election new government will be in place. And naturally then few changes might take place. That may also will take time for things to change at the ground level. In case personally you ask me there may be H2 is the time for 14 – 15 H2 September to March, then things should come back to normal situation.

**Saurabh Jain** Could you please share with us the numbers of Carlton Horns revenue and EBITDA because I just want to understand how the consolidated entity excluding Carlton Horn is growing?

**Sudhir Jain** I think I can share with you, I will tell Praveen to share that number, we are together, top line and EBITDA margin.

**Praveen** Carlton numbers for the 9 months, the revenue is 253 Cr and the EBITDA is around, it's breakeven. If we consider the expenses for the acquisition also, then the EBITDA is 3.5 Cr for 9 months.

**Saurabh Jain** During the last con call, you had mentioned that in coming 3 – 12 months most of our new ventures would start maturing in the terms they will start contributing to the top line and the bottom line. So as we saw during this quarter, 2 plant at Hosur, switch plant and die casting plant began operations. And we saw this brown field expansion at Manesar also. So what contributions did these new ventures make for the quarter and what can we expect for full year at full capacity from these new plants and new ventures?

**Sudhir Jain** You would have noticed that overall top line has grown year on year, first 9 months and quarter on quarter also but there is a slight dip in EBITDA and PAT margin. So these plants have contributed to the top line but still in losses, they are making losses because of the under utilization of the capacity. Now what we again hope, both the plants particularly Hosur switch as well as MJCL of course has stabilized. From 1<sup>st</sup> April onward switch should be normal in MJCL, we should be at cash break even. But the real improvement will get reflected according to me in H2 of 14 – 15.

**Saurabh Jain** Could you please elaborate on your long term vision for the lighting division and how do you see competition growing, where do we stand in terms of competition right now? And what would be your growth strategy and what kind of growth rate industry is witnessing?

- Sudhir Jain** In reference to lighting?
- Saurabh Jain** Yes sir.
- Sudhir Jain** Let me tell you lighting is one of our core products and in case you recollect, the last 15 year history of lighting, we were only in small lamp. And then we entered into tail lamp of the passenger car and 3 – 4 years ago even at the head lamp. And let me tell you the technology, the price points and the profitability margins of all these 3 categories of the light are different. Head lamp is totally different from the tail lamp of a car. And tail lamp is different from the small lamps which goes into inside the car. So first big achievement for us is that now we are into all categories of lighting. Secondly we have got plants at practically all locations. 15 years ago we were having only 1 plant at Sonipat near Delhi. Today we have another plant at Manesar, full fledged plant for which our expansion is undergoing. Then at Pune also and now we are setting up small plant at Chennai which is very important for lighting. Lighting being heavy and big item, and easily breakable. So that way it was necessary to set up plants at various locations. So I think we are ready for take off. All infrastructure is in place. Orders are in hand not only Tata motors, we have got Maruti is there, Nissan is there, other all major players are there. So I think we are ready for take off as far as lighting is concerned. And as in future we should make a decent return on the investment already. Yes, we have to deal with the market conditions. We may not be in the very short term, but in medium to long term, we are recognized as a very major player by automotive industry as far as lighting is concerned. Market share etc I am not very sure but definitely at one point of time, or market share was 5 – 7%. Today it should be 20% plus.
- Saurabh Jain** And sir who are our competitors in this segment?
- Sudhir Jain** Lumex is the major player in lighting, historically. And then there are Fiam, IGL is also there, but I think, we are competing with Lumex actually now in the market and not recently but since last 6 – 7 years, a lot of orders are coming to us in competition with Lumex.
- Saurabh Jain** And sir what kind of EBITDA margins do we generate from this business segment?
- Sudhir Jain** As on date, on a consolidated basis, would not be more than 7 – 8% let me tell you, because every year investment is also being made in this product, geographical expansion as well as expansion at the existing site. But market conditions being okay, may be in '15 – 16, as far as lighting EBITDA is concerned, it should touch double digit, according to my estimate in '15 – 16. That is my intelligent guess based on my experience only.
- Saurabh Jain** And sir one last question about replacement revenues, the contribution from replacement revenues has come down from 15% to 11% during this quarter. So what are your comments about the same?
- Sudhir Jain** I think it should not, because on a standalone basis, our aftermarket sales has grown. But let me check, the total turnover of the Minda Industries. Year on year, after market sales are growing. In

the first 9 months also it is substantially higher than the corresponding period last year. You are referring to that, my after market sales is 11% of the total sales.

**Saurabh Jain**

During last con call it was like 15% in H1 FY14 con call?

**Sudhir Jain**

Because of addition of Carlton. Otherwise in absolute terms there is a growth. Carlton 250 crores turnover has been added. So in percentage terms it has gone down, you are right.

**Saurabh Jain**

Just talking about this previous quarter, so I believe.

**Sudhir Jain**

Apparently it should not go down. We need to check the calculation and number. So you are right, 2 – 3 things with reference to the immediately preceding quarter, it should not go down. On absolute terms, we are doing better than the last year and this is doing as good as planned in the budget also as far as after market is concerned.

**Moderator**

The next question is from the line of Rinki Gureja from Axis. Please go ahead.

**Rinki Gureja**

Just had a couple of questions. One was, seeing your segments, which segment has contributed profits in this 9 months and which segment has suffered losses. So can you please elaborate on that a little?

**Sudhir Jain**

You are referring to domains?

**Rinki Gureja**

Yes.

**Sudhir Jain**

In these chassis and mortar, which is basically horn, is contributing the most in terms of percentage profit, EBITDA margins. Percentage terms chassis and motor is doing the highest. In absolute terms, electrical and electronic is contributing the most.

**Rinki Gureja**

And which domain is running into losses sir, as such?

**Sudhir Jain**

I will say today lighting which is part of body and structure, overall is not making money.

**Rinki Gureja**

And when do we expect this to turn profitable and what plans have we laid down for this particular domain?

**Sudhir Jain**

I think in accounting '15 – 16 financial year, H2 would be crucial to turn it around. As I was mentioning earlier also, in lighting today we are recognized as a major force in the market. We are directly competing with the Lumex which is a leader in this product line. We are getting orders practically from all OEMs in competition with Lumex. So infrastructure is in place, customer is there, orders are there. We are at various stages of converting these orders into turnover and better and better capacity utilization. I am quite sure that '15 -16, this product line will definitely turn the corner and will contribute this decently to the bottom line. So whatever

investments have been made in this particular line, in last 3 years, is contributing to the top line but will contribute to the bottom line in H2 of the next year or worst come worst, next to next year.

**Rinki Gureja**

Sir, if I were to ask about the company plans that 3 years down the line, which domain do you see contributing to the company's growth the most? So what domain would it be?

**Sudhir Jain**

In this let me tell you, all the domains will grow. The issue is what rate the sector is growing and our growth would be as a thumb rule according to me, 1.5x of the sector growth, as far as top line is concerned.

**Rinki Gureja**

Is it that we are growing by taking market share from other players because we are over growing the sector?

**Sudhir Jain**

Two things are happening, first this growth is coming from the new products which are being added over a period of time. Second of course, you are right, by increasing the market share in case of existing products.

**Moderator**

The next question is from the line of Saurabh Jain from Sushil Finance. Please go ahead.

**Saurabh Jain**

I just wanted to know, in your opening remarks you said infotainment, so this would be the high value and high margin business, I just wanted to know what part of the auto ancillary industry, does this segment consist of? What would be the size of this business and what would be the growth opportunities, what can we expect going forward from this particular segment contribution, contributing to a top line?

**Sudhir Jain**

Firstly we have just set up this facility, and today this infotainment is being introduced in various vehicles. So may be when we meet next quarter, I would be in a better position to tell you something about, share the information about this particular line. So we have just set up and we are in touch with customers, of course orders are there but I think, it requires 2 – 3 months before some number, etc., we are in a position to share with you.

**Saurabh Jain**

About the lighting division, if we look at the competitors like Lumex and Fiam, they are running at quite high EBITDA margin, as compared to our EBITDA margin. So is it due to the fact that we have just started up with this and we are ongoing and making investments in to this particular business segment. So why are we lacking behind them in terms of margins?

**Sudhir Jain**

I think we have also said as far as Lumex and Fiam are concerned, this is their core product. More than 90% of the turnover and the profit of those companies come from this product. As far as we are concerned, switch has remained traditionally our main product. So this product has come up and because of the investment made in last 4 – 5 years, and I think, the real results will be seen only in the next H2 or may be next to next year.

- Saurabh Jain** Just last one question about the one-offs and non-recurring items, if you can mention during this quarter?
- Sudhir Jain** I don't think there is any such item in this quarter.
- Moderator** The next question is from the line Avnish Chandra from East India securities. Please go ahead.
- Avnish Chandra** I was off the call, so maybe I am repeating the question. Today government has announced for excise duty cut for different vehicle in different segment. Definitely it is very positive for the whole auto industry but how do we see the impact of the overall industry especially for Minda industries?
- Sudhir Jain** I think first it will have a very positive impact on the sentiments. I think which is very important and that is the starting point. So this will improve the sentiments of the auto sector, of the customers also. But I would be frank, only tangible benefit of this would be reflected only in H2. I don't think immediately any substantial improvement is going to happen in the auto sector.
- Avnish Chandra** Then why do we say that because we don't know even in H2 new government comes it will revert everything?
- Sudhir Jain** So that's why I said sentiments, it's not something to do with government and government policies. Whichever government will come to power cannot just reverse all these policies of economics but at least one of the major events is over. That is more important. Once a major political event in the country is over, then everybody is looking at that and may be holding decisions or delaying decisions of investment or expansion, foreign companies investing in India and things like that. So that's why I am saying H2 and H1 is just around the corner in any case. So that's why I am referring to that, but whatever concessions have been given, yes. Sentiments will improve. This shows the seriousness of the government also and whichever government will come to power will take it forward only. So there is unanimity in all political parties that some improvement is required and government need to support that to bring that change in to the economy.
- Avnish Chandra** How do see auto OEMs reacting to this move because they are anyway giving so many discounts, so will they pass on the benefit for the sales growth or it will come in to the margins?
- Sudhir Jain** Very difficult to say. As in they are the best persons to decide and as you are also saying they are promoting sales, they are giving discounts, etc., so naturally I think they will pass on because today the issue is that number should increase. The customer demand should increase. Everybody has set up the facilities, capacity and it is a very fiercely competitive market. So many new players have come and they are very long term players. They have to remain in India, automotive players, so they will pass on. In any case they are passing on by way of discounts and other promotional measures.

- Avnish Chandra** And sir one fundamental question related to Minda, if I see your product profile, the new one like fuel cap and other products, I really don't understand what is so much technology in these products. Like you mentioned that earlier Maruti was importing fuel caps, now you are going to supply the same thing, can you highlight what is this technological advancement in these kind of products? It is a very commoditized product.
- Sudhir Jain** Let me tell you, everybody even I used to feel it is very simple and a commodity product but the very fact that Maruti is importing practically 100% of their requirement till today after setting up their plant 20 years ago, shows that it's a very key component and highly technical. This is a very safety product in a vehicle and I am not a technical person but once we started negotiating and discussing for this product with our joint venture partner, I realized that I don't know what kind of fumes, what kind of chemicals reactions take place within the tank. So that you have to have to have a particular kind of fuel cap with a particular technology and this is a fairly high value component. Ordinary one we feel its value would be Rs.30 – 40, it is in 100s. Anyway, there is a technology. It is a safety product. And that's why we entered into this and it is an import substitution for Maruti and others also in times to come.
- Avnish Chandra** I understand there must be some chemical reaction thing but is there anything technology wise like design wise?
- Sudhir Jain** There is a design, there is a technology involved. There is some electronics also involved which either user of the car even I don't understand. You go to a filling station, cap is opened before me but I never realize what all is into this. You are 100% correct please. Today even after knowing things I can't understand why it is so costly.
- Sudhir Jain** But anyway you are making good margins on fuel cap.
- Sudhir Jain** Hopefully, yes.
- Avnish Chandra** And sir I assume that your replacement must be having higher margin than the OEMs, so how much of total revenue is bifurcated between replacement and this?
- Sudhir Jain** About 15% comes from replacement market of the total turnover.
- Avnish Chandra** And 85% is OEM. So anyway you are still very much dependant on the OEMs growth.
- Sudhir Jain** But high margin in the replacement depends because you are in OEM otherwise more than 50% of the replacement market is flooded with ordinary component. Because we are supplying anyone who supplies to OEM that can command premium in the aftermarket. So you are right we are highly OEM focused.
- Sudhir Jain** You don't supply through Maruti or this parts, aftermarket parts?

- Sudhir Jain** That also goes, there are 2 channels, one is OEM what we call the SPD division in each OEM - Spare parts division. So we supply component to Maruti, Bajaj, practically everyone for their in house consumption which is fitted on the vehicle and for SPD which they sell through their dealer and distributor, authorized dealer. But we have got our own distribution channel also which is independent which directly goes to the retailer in your neighborhood.
- Avnish Chandra** So this 15% you are talking about, is your direct channel?
- Sudhir Jain** Direct channel, not through OEM channel.
- Avnish Chandra** So what steps you are taking to increase this 15% component because anyway this is the most margin generating part?
- Sudhir Jain** Here I tell you what happens, 15% is in terms of a percentage, the 15% of my total turnover. So in case my turnover increased by 50%, so this also increased by 50%. Then only the overall remains 15%. So year-on-year, our aftermarket sales are growing at the rate of 12 – 15%.
- Avnish Chandra** And sir due to this slowdown for the last 2 years don't you think this after market will have some kind of slower growth? Whatever growth we have been witnessing for the last 2 – 3 years, in the aftermarket was the outcome of 26 – 27% growth in FY10-12, but now last 2 years, we are seeing slow down to de-growth in the industry. So don't you think this will affect your aftermarket growth in coming 2 years?
- Sudhir Jain** Yes, you are right it will affect because lesser number of old vehicles on the road will affect the aftermarket, but I think 1 – 1.5 year is too short a time who majorly impact the aftermarket. But in case the de-growth continues for another 2 years or 1 year, then there is a block of 3 years in which there is no growth and then it will affect after market after 5 years.
- Moderator** As there are no further questions, I now hand the floor back to Mr. Sudhir Jain for closing comments. Over to you sir.
- Sudhir Jain** First let me thank all of you for sparing time and closely reviewing what we are doing and also suggesting that what needs to be done. Having said that, yes, the performance is not as we expected. Partly it is due to the external factor and sometimes definitely the internal factors also. But one thing I will assure that internally we are very closely reviewing how to improve the productivity performance of the group. How to increase top line and more than that now, bottom line also. And we are very closely in touch with our business partners, JV partners and working with them to innovate on products and technology and being latest to the OEM in India. With these remarks I will thank all of you, my colleagues here and thank you very much.
- 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.