"Minda Industries Limited
Q1 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Minda Industries Limited Q1 FY2021 earnings conference call. This conference call may contain forward looking statements about the company, which are based on beliefs, opinions, and expectations of the company as on date of this call. These statements are not guaranteeing of future performance and involve risks and uncertainties that are difficult to predict. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sunil Bohra, Group CFO from Minda Industries. Thank you and over to you Sir!

Sunil Bohra: Thank you. Good afternoon and a warm welcome to all of the participants. I hope you and your near and dear ones are all keeping safe and healthy. On the earnings call today I am joined by my colleague, Mr. Tripurari Kumar. We hope you have had chance to look at our financial results and presentation that is uploaded on stock exchange as well as the company's website. I will briefly discuss about the business landscape and then update on our performance in the preceding quarter following which we will be happy to respond to your queries.

Q1 of FY2021 has been an unprecedented quarter, which witnessed suspension of production for significant period due to lockdown imposed by various governments to contain the spread of COVID-19 pandemic. It was followed by gradual reopening in the second half of the quarter. The auto sector volumes declined sharply by 78% as against the volumes recorded for Q1 of 2019-2020. The two-wheeler segment declined by 78%, three-wheeler by 77%, four-wheeler by 84% and CV segment declined steeply by 88%. The large part of decline is on account of suspension of production, which resulted in negligible sales in the month of April followed by gradual reopening of clients in staggered manner in second fortnight of May. With lockdown restrictions being eased out in various parts of the country since June started witnessed resumption of economic activity. Production level at June exit was close to 40%. Consequently, the revenues and profitability have been adversely affected across the segments. As you know the automotive industry has been facing headwinds since more than a year now. We had been taking cost optimization measures even prior to COVID and those efforts have been accentuated with the onset of pandemic and its resulted impact on the industry. Various cross functional teams were set up in order to look at each and every aspect of the cost with an objective to optimize it further with a very rigorous review mechanism. This has led to containment of costs in most areas. We are happy to inform that most of our service providers have supported in the initiative. At this point I would also like to thank and acknowledge the support from our employees who have also partnered in this initiative through temporary salary reductions.

The overall production levels have since grown progressively to around 70% in July and around 80% in August of the pre-COVID levels. Two-wheeler segment has so far done better than the four-wheeler segment backed by good harvest and direct benefit transfer by the government to Jan Dhan accountholders. We are optimistic that preference for private transport in COVID times will ensure that demand outlook improves, and vehicle ownership increases per capita. Indents received from OEMs month-on-month are also showing an improving trend, which to some extent might also be supported by the need to have adequate inventory before the festival season and if the momentum continues we might see September volumes to be in line or higher than the pre-COVID levels compared to September 2019. Secondly as we know last year there was lot of demand, which might not have fructified due to transition from BS-IV to BS-VI. Some part of their demand is also expected to convert and provide further support to the industry. Lastly, we hope the government will expedite the scrappage policy by taking concrete steps in that direction. Commodity prices have risen marginally in the previous quarter while the rupee against US dollar has been stable and rangebound. We firmly believe the growth will be back in medium-term.

Production at our overseas operations have also resumed and the production levels in August have reached around 85% of pre-COVID levels in Europe, 75% in Mexico and around 60% in ASEAN. India has so far witnessed good monsoon, adequate and well distributed rainfall, which augurs well for the kharif plantation. Accordingly, the rural demand is likely to sustain with sharp recovery in demand for two-wheeler sector and farm equipments on year-to-year basis. As the data trend suggest two-wheeler may see sustain momentum and expected to lead recovery followed by the passenger vehicles and CVs catching up fast.

Now, coming to our performance, you may refer to slide 5 and 6. At a consolidated level during Q1 of FY2021 the company registered a revenue of 417 Crores as against 1440 Crores for Q1 of FY2020 registering a decline of 71% Y-O-Y. The revenue for Q4 FY2020 was 1339 Crores. As updated earlier the decline was primarily on account of extended lockdown and low scale operations were last part of Q1 FY2020. Our product portfolio and customer mix has supported in limiting the decline to some extent. As mentioned earlier all the facilities are now operational across the globe and have witnessed month-on-month improvement in utilization levels. Despite adverse business environment and suspension of production to contain the spread of COVID, EBITDA loss for Q1 was at 71 Crores in comparison to EBITDA of 172 Crores for corresponding quarter end FY2020. EBITDA for the preceding quarter Q4 FY2020 was 122 Crores. The company has taken steps to manage its cost in this unprecedented quarter including negotiating its contract policies, rentals, service providers, employee cost and other overheads. The company has taken actions to conserve cash, which is critical in time of crisis. The management is very cautious of making new capex decision and is committed to its long-term expansion plans. PBT loss before exceptional items for Q1 FY2021 was at 156 Crores as against PBT of 84 Crores in Q1 FY2020. The decline in PBT is largely on account of lower operating leverage because of suspension of production due to COVID-19. PAT loss for the quarter was at 119 Crores as against 56 Crores in corresponding prior quarter.

Moving to the product lines you may please refer to slide#7 and 8. First is being switching system. The segment achieved revenue of 127 Crores for Q1 contributing about 30% of total consolidated turnover. While we have developed gear shifter switch and rooftop switch for PVs, for the first time we have been awarded business for the same by a Japanese OEM.

Moving to lighting system division, the division achieved revenue of 119 Crores for Q1 contributing 29% of our total turnover. As you know we had some strong order wins for PV lighting and have built robust order pipelines for India business supported by technology from our recent acquisition, which is Delvis**.**

Moving to light material technologies or what we call LMT business it has achieved revenue of only 26 Crores for Q1 contributing to 6% of our total turnover. We are happy to inform that we have secured one order of LPDC wheel from another large Korean customer in their upcoming model. The new two-wheeler alloy wheel plant is expected to be commissioned in September, which is coming month.

Coming to acoustic horn business, the business has achieved revenue of 66 Crores for the Q1 contributing 16% of our total turnover. Clarton Mexico has received orders from Ford for electronic horns in Mexico.

Moving to other product businesses, it has achieved revenue of 80 Crores for Q1 contributing 19% of overall topline. I am glad to inform that business has received orders for smart plugs for electric scooter. We have also been nominated for oil, temperature sensor from a Japanese two-wheeler OEM. Total borrowings as at June 30, 2020 were at 1159 Crores compared to 1180 Crores for Q4 FY2020.

Moving on to slide#9, in terms of our revenue pie for the quarter ended June 30, 2020 OEM business accounted for 84% of total overall revenue and aftermarket business is around 16% and in terms of segment mix four-wheelers have contributed around 53% while rest is for two-wheelers, which is at 47%.

Moving on to slide#10, Harita Seating Systems, the merger scheme is now placed for hearing on August 24, 2020 with the Delhi NCLT, which is today and on September 9, 2020 with NCLT Chennai. As you are aware the matter had been delayed due to COVID-19, once we have approval in place from both the NCLT for the set merger, it will take around three months to complete the process thereafter. The rights issue of 243 Crores has been launched by the company. The issue will remain open from August 25, 2020, which is tomorrow to September 8, 2020, we hope this provide long term value creation opportunity to all the existing shareholders. Also, to note here that immediately post completion of the transaction it will be EPS accretive since last part of the funds are expected to be used for reduction of debt.

The company has been proactively managing its cost of fund and liquidity position and a significant portion of its working capital limits underdrawn. Also, to note here that earlier post lockdown was imposed ICRA had praised our long-term credit rating under watch with negative implication in April. It has now been withdrawn and the credit rating has been reaffirmed at AA with stable outlook. The short-term rating continues to be at the highest level which is A1+. That is all from our side and now we can open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: Firstly on this new order of LPDC from Korean OEM, so in FY2022 what kind of revenue opportunity we have through LPDC alloy wheels?

Sunil Bohra: Ashutosh it is **a** little earlier to comment on revenue, as you know that in the previous quarter, where we have got business from first Korean OEM, the supply is expected to start in next year around Diwali to link with their next product launch, the another Korean OEM which you know who is the second, we recently got order from them as well and that is also expected to have its production starting somewhere from middle of next year while the project is also commissioned.

Ashutosh Tiwari: Both the orders will be started in the second half of the next year?

Sunil Bohra: Yes but in terms of annual value or quantum it is roughly around 75000 wheels a year.

Ashutosh Tiwari: Okay, from both together?

Sunil Bohra: No, from this new one.

Ashutosh Tiwari: New one, earlier order was how much?

Tripurari Kumar: Earlier that will be launched so we have just been nominated, we will let you know the time, but will be on the same line that is for SUV.

Ashutosh Tiwari: Okay and secondly on this gear shifter switch order that you got what exactly is this basically, how it is used in a car?

Sunil Bohra: For locking mechanism.

Ashutosh Tiwari: Okay, this is not a lever thing, this is something else?

Tripurari Kumar: No, not lever.

Sunil Bohra: Manufacturing earlier itself where it is part of that another JV called TRMN.

Ashutosh Tiwari: Okay and this oil temperature sensor that we mentioned from a two-wheeler Japanese OEM, is this part of sensata technologies that we acquired?

Sunil Bohra: Yes, it is high temperature sensor.

Ashutosh Tiwari: Okay, so from this side the sensors that we have got for BS-VI and all put together how do you see the revenue ramping up in FY2022 and FY2023?

Sunil Bohra: It is a little early Ashutosh, we all know that the sensor project as you also mentioned has been delayed a little bit because of COVID because the equipments were expected to come from China and there were three aspects or three legs of this sensor project because when it was started it was started with a very small HTS component then we added cam and crank and then we added wheel speed sensor, so the first component, which was our first product of HTS sensor that has been commissioned, the cam and crank and the wheel speed sensor will initially be sort of credit and also in terms of manufacturing facility it will be up and running in the Q4 of this fiscal, it is almost a six-month delay.

Ashutosh Tiwari: Okay, but I am not talking about this year I am talking about 2022-2023 so we had earlier talked about say around 300 Crores to 400 Crores revenue coming from over next three years to four years?

Sunil Bohra: That is still intact Ashutosh, that revenue is still intact from Korea perspective. If you ask me for FY2021-FY2022 it should have minimum around 100 plus Crores.

Ashutosh Tiwari: Okay, got it, thanks a lot.

Moderator: Thank you. The next question is from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Thanks for the opportunity. First question is on the LMT side in this quarter, the decline seems to be much sharper than what we have seen in other segments, any particular reason why it is so high?

Sunil Bohra: We all know that first of all the drop in PV has been significant in this quarter compared to two-wheeler and secondly we all know that as of now there are lower end of models being made more which have steel wheels more than the alloy wheels, but as we move forward we are expecting that to also pick up speed.

Tripurari Kumar: You will appreciate that unlike two-wheelers four-wheelers took a little bit more time, so only when June started, they had started the plant, so that is another reason why you see lower volumes.

Siddhartha Bera: Okay.

Sunil Bohra: Yes, two-wheeler started initially because we know that one of the major two-wheeler OEMs had lot of export orders in hand, so that was also one of the reasons why two-wheelers initially have done much better and in fact in terms of starting post COVID I think the two-wheeler segment has taken a lead as Trip also mentioned.

Siddhartha Bera: Okay but the number you indicated that September can be higher than pre-COVID levels were for the overall company or for any particular segment?

Sunil Bohra: Overall.

Siddhartha Bera: Got it, second is on this Delvis technology side can you just highlight what will be the current order book or order pipeline currently we have due to this technology in the lighting space?

Sunil Bohra: Siddhartha, unfortunately the gap of last call and this call is only less than six weeks, we had I think our Q4 call on June 30, 2020 or something like, so I am sure you will appreciate you do not have significant movement in five weeks or six weeks, but last time we shared that we have actually got three large businesses because of Delvis, two being LED tail lamps for both the Japanese OEMs, which we have got the first time, we have never got a LED tail lamp and we have also got a headlamp from MSIL and if you see from value terms all this put together is in terms of peak annual value what we capture is more than 150 Crores.

Siddhartha Bera: Okay so fair to assume that this should be visible from FY2022 onwards right?

Sunil Bohra: When the next model launches.

Siddhartha Bera: Okay got it and lastly on this associates part, so this losses from associates have been significantly higher again in this quarter, can you throw some colour on I think it might be coming from the three major entities like Onkyo, TG and Kosei, but any plan if you can share how to look at for this whole year or probably FY2022 what will be the extent of profitability or losses if you can throw some colour on that?

Sunil Bohra: Siddhartha I think from that perspective if you see our financials I think this is the first time we have our minority share and a share of associate exactly same otherwise our share of profit was used to be on higher than the minority interest, so from that perspective actually if you see with that light we have actually done better compared to the previous quarter.

Siddhartha Bera: But for the whole year as such what is the plan Onkyo losses, Kosei Minda losses how to look at these from a year or say FY2022 perspective?

Sunil Bohra: From FY2022 perspective let us start with Roki, Roki is doing as of now very well and that is one of the business, which is actually doing maybe more than pre-COVID levels even in August and we are expecting that to be in green even in this quarter in a very good number, so it should not be a cause of concern. Moving on to TG, TG is primarily is a four-wheeler heavy they are also doing good there also I think on a full year basis we should have good number in positive only. In terms of Onkyo the losses have been coming down, if you see Q4 loss to Q1 it is less than half then if you see Katolec, Katolec is also in the positive territory moving towards that if you see from Q2 perspective and what else?

Siddhartha Bera: Kosei Minda?

Sunil Bohra: So, Kosei Minda definitely there is a challenge in terms of customers so we are actually working with them and it is quite possible that Kosei is actually might be coming up with the rights issue, which we might not participate and our actually ownership in Kosei will go down by almost like 10%, 12%.

Siddhartha Bera: Okay, got it. Thanks a lot I will come back in the queue.

Moderator: Thank you. The next question is from the line of Basudeb Banerjee from Ambit Capital. Please go ahead.

Basudeb Banerjee: Thanks Sir, few questions. Recently on media there has been lots of news on electronic auto components, exports getting some PLI incentives, so Minda being one of the players who are into sensors and other electronic stuffs so do you have any plans under that scheme?

Sunil Bohra: I am not aware of any scheme, which has been announced from electronic components perspective Basudeb right?

Basudeb Banerjee: Yes, it was coming on TV multiple times for the last couple of months?

Sunil Bohra: Government is working on I do not think.

Basudeb Banerjee: Yes, working on it has not been finalized they are working on so will you be?

Sunil Bohra: I think we have to still wait and watch. I think we are in a lot of discussions and on various forums government has been asking us also as to what can be done in terms of derisking China strategy and I think we have also been very open and candid in our feedbacks because the large part of the import dependency is from electronic components and they are like LCD panels magnets or registers. Some of them are actually you can get alternate source and which we are getting from that perspective you will derisk, but from cost perspective definitely it is a challenge that is number one because you have to be first competitive, secondly if you have to manufacture in India you need large volumes because if Minda say for example has to put a facility it will be heavily capex intensive plus you need a huge market to sort of service to because the scale at which they are producing even the India market will become smaller. The component which are very small something like in Paisas or in Rupees it comes and to be competitive you have to have very large scale and to some of the products which we have examined it can easily cost you more than a billion dollars, so definitely it is not something which is on the radar immediately for us because we are not looking for any such kind of capex to start with, but in terms of opportunities if you see from Minda perspective there are definitely there, but as you know that the OE cycle is normally like two to three years before you get any business, and you know that Minda actually has grown in parts primarily because of localization, so if you see this sensor also is primarily localization, as of now it was primarily being imported from China, so I think we will get there first move advantage in terms of putting our facilities well in time in fact we have started even before COVID or China threat was there and also the alloy wheel it is primarily being imported from China for two wheelers, so there again I think we will stand to benefit. Now can there be additional products or small components, which Minda can get into profitability? I think it is too premature for us to discuss as of now because while there are discussions, I think it will take some time to frutify.

Basudeb Banerjee: Where I was coming on was much more larger strategic picture that Minda being much more domestic oriented, so if you get any good export incentives will you start focusing on exporting in a larger way if opportunities come or you will remain focused on domestic, so that would be the right way to us?

Sunil Bohra: So, I think it has to be basically if we are getting a product, which can be commercially advantageous for the company I think we will be open to look at it, but as you know that our primary focus has always been India, the reason being whatever project we do we always want to sort of being little conservative in a way that at least we should have one anchor customer to start with so that when you start the business you do not look out and scout for customers, so from that perspective obviously then your first thought or first strength comes from India.

Basudeb Banerjee: Sure, second thing perspective for full year fiscal 2021 with one quarter being gone and we are in the middle of the second quarter a few things like as you said two wheeler alloy wheel coming up end of September and Harita might come in from only for Q4 and OEM demand improving, so are we in a position to give a holistic view on full year consolidated revenue as of now?

Sunil Bohra: No, Basudeb unfortunately I wish I could, but I do not want to shoot in dark and then get question on that number because we all know that things have been changing by the day. While immediate month or two I will be happy to answer, but if you ask me beyond two months, I think it is very difficult.

Basudeb Banerjee: Sure, third thing Sir if I look at raw material to sales on a standalone basis and consolidated basis I can see standalone are into sales to a few not being much favorable, but at consolidated it is down almost 200 basis points sequentially, which means itself standalone RM cost has come down, so is it anything to do with this one off or the quarter and one should not take it on a sustainable basis or something major improvement or mix improvement or something happen and how should one look at?

Sunil Bohra: Yes, Basudeb I think it is a very good question, so what has happened is if you see from last Q4 we have added Delvis and Delvis is primarily engineering company where your RMC is not that significant and the weightage of Delvis sales to the total sales in Q4 was X and now it is like multifold of X because we have not seen that kind of drop in volumes in engineering services as you have seen in product, so just because of that sheer weightage also the RMC is actually being coming down.

Basudeb Banerjee: So is that seasonal revenue of Delvis?

Sunil Bohra: I would not say seasonal Basudeb, so once you go say for Q2 and if you see like this quarter sales is Rs.400 Crores odd next quarter say if I am Rs.1000 Crores plus at least revenue is not going to go two-and-a-half times, from that perspective your RMC again will increase a little bit.

Basudeb Banerjee: What is the annualized Delvis revenue run rate for now?

Tripurari Kumar: Almost Rs.250 Crores on a full year basis but the first quarter was around, Rs.30 Crores.

Basudeb Banerjee: Sure, like most of the auto component companies are cutting their SG&A cost with more focus on digital meetings and lesser traveling, so how should one look at your P&L other expenses line item with revenue recovering back, so how much you expect these cost cuts to be structural in nature and how one should look at it?

Sunil Bohra: Look if I start from few examples which you took say for example travelling, now traveling definitely I do not think even if volumes go up is going to be normal anytime soon unless we have vaccine or something because that restriction is always going to be there and we are not going to expose our employees where we can minimize that exposure and do more digital meetings, so from that perspective from immediate short-term yes there will be some lower cost of travel, but as we move in future while things normalize I think those old things might come back may not be at that level but definitely there will be some expenses. Say for example some rental cost we have actually been able to negotiate almost on an average if I remember 8% of our annual rental cost for full year basis we have negotiated some of that has got a compounding impact because there was say for example we had annual escalation clause 5%, 10% for our rental properties, so we have not given any 5%, 10% on top of it we have got 8%, so delta perspective if you see it is almost like 15% reduction which is sustainable reduction now, but if you ask me what is the weighted average number it is very difficult to say because what happens all your consumables, all your electricity everything are production linked, so those things will come back, but what we have done is maybe we will let you know a more detail next time, we are actually working on a large scale solar power initiative to see that almost 50% of power we get through solar and reduce our cost of electricity, so maybe we will share more details once we close maybe in the next call.

Basudeb Banerjee: Quarterly staff cost, which is roughly Rs.210 -. 215 Crores in general is Rs.166 Crores this time. How much of this reduction is because of pay cuts and job cuts, how should we look at it with revenue recovery model?

Sunil Bohra: Look if you ask me Basudeb we have also mentioned that these salary reductions have been temporary and once it will normalize and we are expecting this normalization now, so, these salaries should ideally get reinstated this month or next at best, so that basis I do not think we will have any sustainable reduction in people cost.

Basudeb Banerjee: So you mean bulk of the staff cost reduction is due to pay cuts and not because of.

Sunil Bohra: There are two factors Basudeb, one is pay cuts and other is whatever variable manpower you have, if you are able to reach numbers, which is 80%, 90%, 100% of pre-COVID level you will need that variable manpower back, I think plus minus 5%, 10% that can be a play not very significant.

Basudeb Banerjee: Last small question Sir, this quarter I remember Commercial papers raised and in Q1 everybody's debt in general moved up I can see your interest outgo in P&L being lower QoQ so how to look at that?

Sunil Bohra: I think Basudeb that again you have to give credit to the management team that has been able to manage the cash flow so well, so we have been able to control our working capital or maybe I think a blessing is that in India fortunately all the OEMs are well placed in terms of their financial strength, so we have been able to get all our dues on time so that has helped ease out lot of pressure on finances and also we have done different means of financing, we have raised CPs at something like around 5% to 5.5% so that also brings down cost little bit, so we have been looking at each and every aspect to bring down this financing cost.

Basudeb Banerjee: Okay, great Sir. Best of luck. Thank you.

Moderator: Thank you. The next question is from the line of Jeetu Panjabi from EM Capital Advisors. Please go ahead.

Jeetu Panjabi: I had a couple of questions, the first one is what the source of demand is in your view, is it the inventory rebuild, which could peak around Diwali or do you think there is genuine pass through demand in this cycle sustains over the next 18 months?

Sunil Bohra: Normally the festival demand inventory gets build 60 days around roughly or so before the festive season because it takes roughly around 15 days to 30 days based on which geography you are, so if I see 60 days from that perspective it starts only from middle of September, so Diwali is in I think middle of November 13, 2020 or November 14, 2020, so from that perspective I do not think as of now whatever demand we are seeing has got any festive link, so definitely it gives comfort that this is mostly a consumer driven demand it is not a demand which is going and filling up the inventory. Actually the data point, which we have been getting the inventories actually are lower than what they were compared to pre-COVID levels, so which means that the market is able to absorb more than the production, which is a good sign. I think the normal question would come is how much of this is a pent up demand and whether this is sustainable I think that is a question you are trying to ask, so we know normally a pent-up demand because whatever closure was there and this demand getting accumulated coming to market it is something which is in play for maybe a month, month-and-a-half or two at best, so if any sign of sustained demand, which you see more than 45 days to 60 days that pent up thing gets faded away, so we believe that the pent-up demand sort of behind us because we have started more than 60 days back in terms of the market demands May, June, July, August we are actually in the fourth month, so from that perspective we do expect that large part of this demand should be there in the market sustainable, but I think again here as I said little while back also it is very difficult to say what will happen two months down the line, but we all know as of today things are looking much better than what they were a month or two back.

Jeetu Panjabi: Right and tell me something in your pass through normalization I heard you make a comment that you could next month possibly be at 100% of pre-COVID levels in this pass through normalization what is the biggest challenge is it supply chain or is it logistics, what are the challenges in normalizing this supply chain?

Sunil Bohra: I think first thing is we need to give full marks to the industry in terms of its efficient supply chain management because despite being COVID and the number of parts you see in a vehicle even if I see my switch business, switch business has got more than 4000 parts, for a plant to be sustainable you have to have smallest of the small part be it a small spring be it a small screw you have to have every inventory, if you do not have one the line stops and it is not your line it is OE line stops, so from that perspective I think the entire automotive supply chain is very, very strong in India and the way it has sort of come up post the lockdown I think it is full marks to the entire industry, so from that perspective I think everybody has very geared up, now when we say pre-COVID while we are all talking pre-COVID, mind it pre-COVID was also not normal because in the last 12 months prior to March we have seen the demand sort of dropping continuously, so even if we are at pre-COVID we will be may around 70% or 80% of our peak, so there is still a lot of potential available or possible in terms of reaching the peak, which we have seen in FY2018. We do not see that challenges from supply side, initially there were challenges from migrant labor perspective, but I think there again people have done really well and migrants have actually started coming back, so that thing also has started easing up.

Jeetu Panjabi: My last question this new aluminum wheel capacity that is coming up, is that going to create over capacity in the industry in your view and the link question is there has also been pretty public talk of all the two wheeler aluminum wheels that come out of China, which are integral to the Indian supply chain, which might be delayed or whatever, how much of that localizing that demand and supplying from here is going to be in that aluminum wheel capacity resumption?

Sunil Bohra: So, Mr. Jeetu I think first let us look at the macro picture. The two wheeler alloy wheel consumption in India versus the import it is 65% and what capacity we are putting is just 10%, so even if once our plant is fully commissioned same time next year we still be importing more than half of country's total demand there is no other capacity coming up in the country what we know today, so from that perspective I really do not understand what can be the potential threat.

Jeetu Panjabi: This includes the Enkei's new capacity as well when you are putting this number?

Tripurari Kumar: Yes, two third of the entire requirement is currently imported and we are for example around 24 million, 23 million wheels almost 18 million to 20 million is imported so we are just manufacturing 3.5 million to 4 million now and even with our capacity of 4 million that we had we will still be 8 million out of 24 million and I am sure some additional capacities will come, but a lot of it is simply import substitution.

Jeetu Panjabi: Is this at the economic price like are you doing price parity with imports and still making money after that on the aluminum wheels?

Tripurari Kumar: We have not yet communicated anything on pricing so we will communicate once it starts.

Jeetu Panjabi: But if you assume market parity pricing like what is the local price for an equivalent product?

Sunil Bohra: It is about that it is not material difference from there.

Jeetu Panjabi: Okay, so it is a positive economics after calculating everything?

Sunil Bohra: Yes.

Jeetu Panjabi: Good luck. All the best. Take care.

Moderator: Thank you. The next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: First question is on the four-wheeler alloy wheels business you did mention that you have got these Korean orders given that your plant is in Gujarat they think you will be able to keep the margins at these levels at 23% to 24% margins because the freight cost might actually be higher there on the alloy wheel business?

Sunil Bohra: So, Mukesh I think this is a very good question, so let me tell you that we have made a strategic entry into LPDC and to get business from the Korean OEMs, so to start with definitely the margins are not as per the existing business they are definitely going to be lower, but as you know that once you get the business you continuously then work on how to optimize, how to improve the margins and those efforts are continuously being going on, but as of now what we know margins are definitely going to be lower than the current business, but I think what is also important to see is that the kind of capex, which we are doing is leveraging on the existing plant so we are not putting a new plant for manufacturing an LPDC wheel, we have a plant in Gujarat so we are utilizing that plant and we are just putting a separate line for LPDC and also sort of utilize lot of assets of the existing plant wherever there are common processors like painting, etc., so from that perspective we are trying to see that we have minimum investment if the returns is lower.

Mukesh Saraf: Got it. Ignoring this first quarter lockdown impact what would be the utilization rate at Gujarat, just a ballpark number say FY2020?

Sunil Bohra: FY2020?

Mukesh Saraf: Where did we end last year in terms of utilization rates for this quarter?

Sunil Bohra: Last year we were at almost.45000 in FY2020 out of 60,000 which is 75%.

Mukesh Saraf: On Harita seats, you had in the past mentioned that you have already started winning some new businesses for seating systems in passenger vehicles, so any updates on that any new businesses are working on for Harita?

Sunil Bohra: We are definitely working on, but I do not think we have reached a stage where we can communicate.

Mukesh Saraf: Okay and just my last one is on the tax rate for subsidiaries, so have we moved to the new tax regime for all the subsidiaries already or is there some more left?

Sunil Bohra: Yes, so wherever we have got MAT credit available there we will continue to be there in the old regime than where the MAT accumulate has been utilized there we will go to the new one because once you have MAT your cash outgo in the old regime can be lower than 25%.

Mukesh Saraf: Right, so in your assumption say FY2022 or something we can move to the new one for maybe FY2022 or FY2023 what do you think?

Sunil Bohra: FY2022 should be possible because I think this also depends on the rest of the year for FY2021 if everything goes as currently is, I think we should be able to move to FY2022.

Mukesh Saraf: Okay. That is it Sir. Thank you. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Rajesh Gupta, an individual investor. Please go ahead.

Rajesh Gupta: Just wanted to know how much of our RM comes from outside India?

Tripurari Kumar: In terms of imported raw materials?

Rajesh Gupta: Yes.

Tripurari Kumar: So that will be closed to Minda Kosei, which is a major importer where the entire raw material is imported, which will be 50% of their almost utilization levels, sales level, at other units the imported content will be close to 15% to 17%.

Rajesh Gupta: What would be our capacity across the product?

Tripurari Kumar: That will be a very detailed question I think generally we work in a batch process and the average utilization that we have conveyed for 2019-2020 was around 75% to 80%.

Rajesh Gupta: Okay and the new products that we are entering so then we have the same EBITDA margins in these?

Tripurari Kumar: Which company EBITDA margin you are saying?

Rajesh Gupta: The new products that we are entering.

Sunil Bohra: We declare normally our margins at a consolidated level as well as standalone level and these margins we do not release quarterly, on annual basis we do come back with these numbers because there can be some seasonality from QoQ as well.

Rajesh Gupta: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Ashutosh Tiwari from Equirus. Please go ahead.

Ashutosh Tiwari: Sir, in our lighting segment roughly what percent of sales come from LEDs if you have done that exercise?

Tripurari Kumar: I have not done for this quarter.

Ashutosh Tiwari: I am talking about last year not per quarter.

Tripurari Kumar: So for two-wheeler this number was around 35% last year.

Ashutosh Tiwari: In terms of whatever basically products that are in pipeline will the share grow multi yearly over the next three years to four years can go to 50% over next two years to three years so that will lead to higher revenues for us?

Tripurari Kumar: Recently also Ashutosh these three orders that we have announced post acquisition of Delvis we have seen they have all been on close to Rs.150 Crores as Sir has indicated will be the revenue addition per annum and these are all LED lamps and we are quite hopeful that the percentages will go up. While for four-wheeler it should be around 25% to 27% and it will increase after as well, so I do not know if 40- 50 will be immediate two-year exercise, but definitely the journey is towards that side.

Ashutosh Tiwari: This new order of Rs.150 Crores this is for head lamps in four-wheeler?

Tripurari Kumar: One head lamp and two tail lamp and all are LED.

Ashutosh Tiwari: Incrementally even the lighting business is something which will grow faster than the industry growth because of LED penetration increasing?

Tripurari Kumar: Correct.

Ashutosh Tiwari: Secondly on the alloy wheels front so the first stage capacity is 300,000 deals per month, by the end of this year by March what kind of capacity will be commissioned like out of this 300,000?

Sunil Bohra: We are expecting the commission activity to take roughly around 12 months and it will be almost sequential, so you can see around that.

Tripurari Kumar: So full capacity will reach by mid of next year by let us say June-July this time.

Ashutosh Tiwari: Okay, roughly around say 180 kind of level?

Sunil Bohra: Yes.

Ashutosh Tiwari: Okay. Thanks a lot.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Bora for closing comments.

Sunil Bohra: Thank you. I would like to thank everyone for joining on the call. I hope we have been able to respond to your queries adequately. For any further information we request you to please get in touch with us. Stay safe, stay healthy. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Minda Industries that concludes this conference. Thank you all for joining us and you may now disconnect your lines.