"Minda Industries Limited
Q4 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Minda Industries Limited Q4 FY2020 earnings conference call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees 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 for an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sunil Bohra, Group CFO, Minda Industries Limited. Thank you and over to you Sir!

Sunil Bohra: Thank you very much. Good afternoon and a warm welcome to all the participants. I hope you all are keeping safe and healthy. These are unprecedented times. Please take care of yourselves and your near ones.

On the earnings update call today, I am joined by my colleague, Mr. Tripurari Kumar. While we have uploaded our financial results and presentation on Stock Exchange as well as company website, I am not sure if all of you had enough time available to look at the same, but I hope you had a quick view of the same. 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.

Q4 of FY2020 was a mixed quarter with initial part showing demand revival for passenger vehicles in the month of January and February 2020, followed by suspension of production in the second fortnight of March 2020 due to COVID-19 pandemic. The auto sector volumes declined by around 20% as against the volumes recorded in Q4 FY2019. The two-wheeler segment declined by 20%, three-wheeler by 24%, four-wheeler by 18% and CV segment declined steeply by 48%. Large part of decline is on account of suspension of production from March 22, 2020 onwards. Consequently, revenues and profitability have been adversely affected across the segments. Unlike the previous crisis of 2008 led by financial sector, both the government and the RBI were proactive in their responses by taking appropriate measures and announcing stimulus package for the economy. However, the much needed reduction in the GST rate to revive the demand has not happened and nothing tangible has been done towards this scrappage policy. Both the measures are going to play a crucial role in demand revival of the sector.

Looking ahead in FY2021, the sector is expected to see decline in volumes and is expected to recover with strong growth in FY2022. We firmly believe that the medium-to long-term demand for private vehicles is intact. The sector was under prolonged lockdown through the month of May 2020, with

April witnessing near zero production. COVID-19 pandemic is likely to coexist with us for some more time. There is little expectation that people might try to avoid public conveyance and prefer personal transport. Hence, we do expect to see increase in demand for entry-level two wheelers and passenger vehicle in the short- to medium-term. The industry has gradually started limping back in June, and current volumes are nearing to over 50% for two wheelers and around 30% to 40% of passenger vehicles as of pre-COVID levels with month-on-month increase in volumes. As we all know, we are in uncertain and unprecedented times, and it is difficult to look beyond the month. However, we do believe the growth will be back in medium term. India has seen a very good harvest of Rabi Crop. Timely arrival of monsoon, coupled with the DBT to Jan-Dhan account holders by the government auguring well for the revival of demand in the rural market. Accordingly, the rural demand has witnessed a strong pullback and sharp recovery in demand. Sectors and farm equipment have grown Y-o-Y basis in the month of May 2020 over May 2019. With a low base, we expect two-wheeler may witness an impetus in demand and a quicker recovery in comparison to passenger vehicles.

Coming down to our performance, post the suspension of production in second fortnight of March 2020, in May the company had started production at all manufacturing plants located in India and overseas with 50% staff and with current capability utilization in the range of 40% to 50% based on customer demand. The plants are being efficiently run to optimize cost. We do anticipate progressive pickup in demand as the government undertakes to open economy gradually. Safety of our employees and their well-being has always been paramount to us. Employees have been provided with appropriate infrastructure to facilitate work from home and exclusive app Minda Care has been developed for employees to ensure that there is timely communication in the time of crisis. The app also enables employees to file self-regulation on personal health status on a regular basis and also facilitate work from home. We have also developed a group level dashboard to monitor the situation and take appropriate actions based on the requirements. For employees who have resumed work from office, adequate precautions has been undertaken to ensure adherence to social distancing norms and hygiene. Some such initiatives have been highlighted in Slide 5.

Due to suspension of operations, there is a significant reduction in revenues and which in turn has adversely impacted profitability. In order to mitigate some of the impact, the company, has taken hard calls in eliminating waste, variabilization of some of the cost to revenue and have instilled tighter controls on working capital management. The company has taken actions to conserve cash, which is critical in times of crisis. The company has postponed and/or deferred most of its sustaining capex while ensuring the sustainability of the business. It has continued with the growth capex so as to ensure the medium- to long-term growth is not impacted adversely.

NCLT has pronounced the order to merge 4 wholly owned subsidiaries in MIL. This will further strengthen the standalone balance sheet of MIL and as you are aware Delvis acquisition has been completed in December and it has been consolidated for the full quarter.

So at a consolidated level, during Q4 FY2020, the company has registered revenue of Rs.1,339 Crores as against Rs.1,486 Crores in Q4 of FY2019, registering a decline of 10% Y-o-Y. As communicated earlier, the handlebar assembly is now being built on a job work basis, which has resulted in a decline of Rs.40 Crores in sales for these businesses. Adjusted for this, the revenue is lower by about 7.2%.

In terms of our revenue pie for the quarter ended March 31, 2020 FY2020, the OEM business accounted for 87% of overall revenue and aftermarket business is at around 13%. In terms of segment mix, four-wheelers have contributed around 48% of the overall revenue and the two-wheeler is at 52%.

Despite adverse business environment and suspension of production to contain the spread of COVID, EBITDA for Q4 was at Rs.127 Crores vis-à-vis Rs.185 Crores, registering a decline of around Rs.58 Crores in Q4 FY219. The EBITDA margin for Q4 is at 9.48% as against 12.5% in Q4 FY2020. The drop in EBITDA is primarily on account of two key reasons. One, there were some MTM losses due to depreciation of rupee and also Mexican peso. Secondly, the drop is also because on account of shutdown, wherein the fixed costs were incurred while there were no sales during 10 days of March, where we normally witness higher sales.

Profit before tax before exceptional items for Q4 FY2020 was at Rs.35 Crores as against Rs.110 Crores in Q4 FY2019. The decline in PBT is largely on account of lower operating leverage, suspension of production due to COVID and higher MTM losses in rupee and Mexican pesos, totaling around Rs.15 Crores due to sharp fluctuation in foreign exchange in Q4 FY2020.

The depreciation number is higher by around Rs.6 Crores for this quarter, largely on account of full quarter impact of Delvis and capitalization of Sensor and Controller plants.

PAT before minority interest and exceptional item declined to Rs.22 Crores in Q4 as against Rs.76 Crores in corresponding quarter last year. The exceptional item is primarily relating to the provisioning of costs relating to the merger of the 4 subsidiaries, for which we have recently received the order and accordingly, our standard of financials have been prepared, considering the merger of those 4 fully owned subsidiaries. The cost of those mergers related to banks generally, the stamp duty cost and other related regulatory cost at around totaling Rs.9 Crores.

The management is very cautious in making new capex decisions and is committed to its long-term growth plans.

Moving to the product lines, you may refer to Slides 9 and 10. First is switching system. This segment achieved a revenue of Rs.511 Crores for Q4, contributing about 38% of the total consolidated turnover. Two wheeler handlebar assembly has been restructured, as we talked a little while back, which resulted in lower sales by Rs.40 Crores. We are delighted to inform you that we have successfully started supplying four wheeler switches to Hyundai for meeting the requirements in Turkey and Indonesia for their upcoming platforms. The volume, while may not be very significant, it opens up new frontiers of growth for the business.

Moving to the Lighting System division, the Lighting division achieved revenue of Rs.283 Crores for Q4, contributing 21% of our total turnover. Acquisition of Delvis has been completed and revenue for full quarter has been captured in March 2020. Delvis is expected to augment capability of Lighting business in general and four wheeler lighting business in particular. Our four wheeler business has been awarded 2 new businesses from 2 large customers for LED taillights, which on an annual basis will be over Rs.100 Crores in annual revenue. This reinforces our belief on the acquisition of Delvis having significant impact potential on new business win in India.

Moving to Light Metal Technologies or LMT businesses as it has achieved revenue of Rs.171 Crores for Q4, contributing to 13% of our total turnover. We are happy to inform that we have secured one order from large customer for LPDC technology in their upcoming model last year. I think we also shared this in the last call. We expect the supplies to begin in the second half of calendar year 2021, which is primarily linked to the production of the new model launch for which the order has been secured. But obviously we expect to be ready by end of this calendar year and do the trial run and testing in December and January of 2020 and 2021.

Coming to acoustic or horns business. This business has achieved revenue of Rs.158 Crores for Q4, contributing 12% of our total turnover. The domestic business has been flat and overseas business has been tepid primarily being in the Euro zone. Clarton has received orders from Ford for electronics horns in Mexico and Spain. Also, we have secured orders for electronics horns in India from a couple of customers, which is Tata and Mahindra, and expected to resume production from September 2020. This will be the first time we will be producing electronics horns for Indian market, hence has more potential to grow further.

Moving to other business products it has achieved revenue of Rs.215 Crores for Q4, contributing 16% of overall top line. Most of the products in the segment are emerging businesses, including upcoming sensor business, controllers and telematic products. I am glad to inform that this business has received order from MSIL for wireless charger. In addition to it, it has already been supplying to Mahindra & Mahindra.

The total borrowings were at around Rs.1,180 Crores as on March 31, 2020 compared to Rs.1,080 Crores as on March 31, 2019. The increase in borrowings, were mainly for investment in Delvis GmbH, two wheeler alloy wheel and sensor projects. While the net increase in borrowing is only Rs.100 Crores, the incremental investment has been around Rs.508 Crores, which is the large portion is in alloy wheel two wheeler and sensor projects. As at March 2020, there was also a cash of Rs.327 Crores, implying a net debt of Rs.853 Crores only as of March 2020. Around Rs.95 Crores was released in the system on account of reduction in net working capital.

Moving on to business updates relating to the new projects, the two wheeler alloy wheel and BS-VI sensor business, both the businesses are expected to start commercial production from Q2 FY2021.

As in this brief a little while back I am glad to inform that the merger process of 4 wholly owned subsidiaries is complete, and the results are being presented along with their financial at standalone level. The objective, as you know, of this merger has been to realize synergies and economy of scale benefits besides strengthening the standalone balance sheet.

Moving to Harita Seating systems, the merger is now placed for hearing on July 23, 2020, with NCLT of Delhi. As you are aware, the matter had been delayed due to COVID-19. Once we have approval in place from NCLT for said mergers, it will take roughly around 3 months to complete the entire process thereafter. On Minda iConnect merger scheme, it has been filed with the exchanges for their approval.

Lastly, while the company's liquidity position is comfortable to meet its financial and other commitments in order to further strengthen its balance sheet, and also fund some of the equity investments, including further equity investment in TG Minda and UNO Katolec among others, the Board has announced raising of funds via Rights Issue of Rs.250 Crores, wherein the promoters have confirmed they will be subscribing to the full extent and also to unsubscribed portion, if any. The company shall also be looking to raise funds via NCDs primarily to help lower its cost of funds.

That is all from our side, and now we can open the floor for Q&A.

Moderator: Thank you very much Sir. Ladies and gentlemen 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: Sir firstly, I mean, the PPT is still not uploaded on the stock exchanges?

Tripurari Kumar: We have tried, and it is saying present, already uploaded, but I do not know why we are unable to sight it. We have done it from our end.

Ashutosh Tiwari: Okay so first question is this quarter margin is low so you mentioned Rs.9 Crores of this cost related to mergers so has it fully come up in this quarter?

Tripurari Kumar: There is onetime expense of merger of around Rs.8 Crores in the standalone balance sheet.

Ashutosh Tiwari: This is in this quarter only?

Tripurari Kumar: Yes.

Sunil Bohra: Yes so Ashutosh, while the expenses will get incurred now once we got the approval because we have to consolidate from the scheme effective date, which is April 1, 2019, there was a clear view that since we are consolidating for full financial year, orders are also clear that the cost relating to that has to be in the same period you have to provision so that is why we have provided for the cost in Q4 itself so the full cost relating to the 4 subsidiary merger has been provided for and that is what you see in the exceptional item.

Ashutosh Tiwari: Okay. Will there also be a cost related to Harita when it is done, Harita approval is done?

Sunil Bohra: Yes, there will be. For Harita also, when we close it there will be a 3% stamp duty cost in NCLT of 3% plus also the cost which you pay for transfer of your land and other assets, which is roughly, if I remember correctly, is around Rs.21 Crores.

Ashutosh Tiwari: Rs.21 Crores?

Sunil Bohra: Yes.

Ashutosh Tiwari: Okay so part of that would have been already incurred in terms of cash flow, but in profit as an account is reflected in...

Sunil Bohra: No, nothing is incurred, Ashutosh so actually you start incurring that cost only once you have approval in place. Nominal expenses you charge-off, right?

Ashutosh Tiwari: Okay. Yes so coming back to the business, basically, so two-wheeler alloy wheel will come up by August, September or I mean in end quarter only?

Sunil Bohra: No so we are expecting this already, we have taken some trials from the equipment. And as you know, that whatever sample is prepared has to get certified by ARAI, etc., so they have gone for the certification and we expect the production to resume in the first fortnight of August, not September.

Ashutosh Tiwari: Okay. Sir, now that actually, I think OEMs are also looking at derisking alloy wheel imports in China, do you think that the ramp-up of this plan could be faster than what we had anticipated earlier?

Sunil Bohra: You are right, Ashutosh. There has been a tremendous pressure from customers also to start supplies and supply it to the capacity whatever we can and the ball is in our court. But I think we are also to appreciate that there are 20 lines and you have to start commissioning one by one. You cannot start in one go so the commissioning process itself takes like 8 to 10 months so by the time you reach the full capacity it will be only next year.

Ashutosh Tiwari: Okay so this is how much we can do from there, I mean, in terms of our capability, I am saying?

Sunil Bohra: In terms of revenue, as per our latest assessment, it should be a little over Rs.100 Crores this year.

Ashutosh Tiwari: Okay and on the sensor plant, I mean, that also will commission in Q2 only?

Sunil Bohra: Yes, the sensor plant has 2 parts. One was the cam and crank and another was the wheel speed sensor. Wheel speed was the recent addition which we did, I think, in December, January so Cam and Crank BS-VI sensors will start immediately in July or August. The wheel speed sensor because these equipments were to come from China, and because of COVID, no movement has been happening so there, we expect to commission somewhere in the end of the calendar year, which earlier was in Q2 of this fiscal year. This will be delayed by around 3 to 4 months.

Ashutosh Tiwari: So sensors, how much you can do in the current year in terms of our capacity?

Sunil Bohra: So BS-VI related sensors and other sensors, again, depends on the customer demand. Our capacity will be up and running. There is no ramp-up like alloy wheel plant which will take 10 months, 12 months, the cam and crank sensors will be up and running maybe in a month or so. So there is no long lead period from start to reaching that capacity.

Ashutosh Tiwari: And sir, in the last quarter, was there any one-off in other expenses because it looks quite high even after removing this...

Sunil Bohra: So there have been some, what you call, cost relating to mark-to-market so you may call it strain, but like, for example, we have given the loan from one of our Clarton Spain entity to Clarton Mexico while it is an intercompany loan, because that Mexico currency is peso we have mark-to-market losses of around Rs.8-odd Crores there. Then again, on rupee, we have some forex loses so in all, we have around Rs.15 Crores to Rs.16 Crores of forex losses which are sitting in other so your observation is right.

Ashutosh Tiwari: Okay so this is like kind of one-off in this quarter?

Sunil Bohra: Yes.

Ashutosh Tiwari: So roughly Rs.15 Crores, Rs.16 Crores this and Rs.9 Crores, Rs.8 Crores is that stamp duty cost, Rs.24 Crores is kind of one-off in this quarter in terms of expenses?

Sunil Bohra: Yes.

Ashutosh Tiwari: And Sir, lastly, because obviously, these are tough times, so obviously, we must be taking a lot of measures to cut costs and capex as well so what are the plans in terms of cutting costs and which are the areas and also capex guidance for FY2021 considering the scenario right now?

Sunil Bohra: Yes so we have done everything possible under the sun in terms of reducing the costs so obviously, we had cut in staff salaries from starting at a lower level which is from assistant manager onwards to the top, to the CMD level. We have kept people who are on the shop floor, blue collar untouched and also even the staff below a salary level, we have not sort of had any salary cut there. We have been renegotiating all our rental agreements. We have been renegotiating all our procurement agreement with customers in terms of trying to see whether whatever we can defer in terms of the annual price reductions, etc., so we have also been working to how do we optimize our interest cost and that is why you see that NCD proposal also been coming on table so we have not left any stone unturned in terms of looking at our cost and the whole idea has been how do we reduce or bring down our breakeven point so from that perspective, I think we have been trying our best, and I am sure we will see the benefit of that in the coming quarters and I missed there was one more follow-up question on this.

Ashutosh Tiwari: Capex?

Sunil Bohra: Yes so capex also, as I am sure one would expect that sustaining capex is definitely sort of a full break scenario unless there is something which is relating to the development for the new project, etc., and in terms of project capex, so whatever we have been implementing that will continue. So in a nutshell, overall, our capex this year should be in the range of around Rs.250 Crores to Rs.300 Crores maximum.

Ashutosh Tiwari: Okay and Harita will be separate, whatever happens, whether in terms of share?

Sunil Bohra: Yes, Harita, also, unfortunately, it has been sort of extended beyond expectations. We were earlier thinking that by end of financial year we should be able to close. But because of this COVID, there has been no hearing and NCLT also has been closed in between. Now finally, we have got a date and let us hope that it gets cleared faster. But even the earliest optimistic case, if you have to ask me, even in July, suppose the final hearing, and we get order by the end of August, it will take 3 months thereafter to close the transaction so it will be like September, October, November so it is almost like end of the calendar year by the time we have this transaction closed.

Ashutosh Tiwari: Sir, on this Harita, I mean the shareholder had two options. One was the shares other was this Preference Shares?

Sunil Bohra: That is what will take time. When I say 3 months post approval it is primarily because we need to provide option to the shareholders to opt either preference or equity. That is what we have to give one month time to the shareholders of Harita to opt for that option, which is taking more time. Otherwise, once the High Court approves, this should not take so long, which in our case is roughly 3 months.

Moderator: Mr. Tiwari, may we request you to come back in the queue for a follow-up, please. The next question is from the line of Ronak Sarda from Systematix. Please go ahead.

Ronak Sarda: This Rs.15 Crores which you said on M2M due to currency fluctuation, what would be the nature of is it on the asset side or is on the P&L side because looks to be a very high number so this is basically related to?

Sunil Bohra: Assets or P&L?

Ronak Sarda: So these fluctuations are relating to on what? Is it the hedges on the sales which we book?

Sunil Bohra: That is what I said. Out of Rs.18 Crores, which is loan given from Clarton Spain to Clarton Mexico, while it is within the group because Mexico currency is peso and Mexican currency has depreciated from MXN 0.19 to $1 to MXN 0.24 to $1 in last quarter. That has led to that mark-to-market loss, which, again, purely a notional loss because it is within given the group. But unfortunately, we have to account for it considering the accounting standards. And also, the balance is on account of mark-to-market of your outstanding dues or the liability, which is sitting in various pockets.

Ronak Sarda: Got it. All right and the second point is on the rights issue. I mean given we are on the fag end of the capex cycle, and with Harita closing this year, I think on debt-to-EBITDA will be not more than 1.3x in or 1.4x so why is it necessary to raise the rights issue? I mean any specific earmarked investment or something happening over the next 12 to 18 months?

Sunil Bohra: So Ronak, our stated guidance has always been that Debt to equity below 1. We never want to over-leverage and cross 1. As you rightly said, it can go potentially beyond 1, which 1.2, 1.4. We, as a management, have always been, what we call, cautiously optimistic and also very cautious in terms of how we manage our balance sheet. We always wanted to be stronger. And that is the reason why we have thought of this Right Issue to strengthen the balance sheet one and two; we also know that these times have been a little uncertain. Had we seen no COVID, I am not sure whether we would have actually thought about it because then you would have at least added 9 months of profitability, which as in current scenario nobody can predict what it is going to be. It is like maybe shooting in the air so that is why I think it is always better. We maintain our, what we call, balance sheet strong. Second, I think what is also important to note is that it actually while we will be issuing new shares, it will actually be EPS accretive because at the current prices if we look at the interest savings will be more than the dilution so to see an impact on the EPS, it will actually be EPS accretive than EPS dilutive.

Ronak Sarda: Right and what kind of projects are we now looking beyond these 12 months or beyond 2021? What are the focus areas now, given how the industry is? I mean are we still bullish on the overseas operations? I mean are we looking to aggressively acquire new companies like we have done in the last two years or is there a change in strategy now?

Sunil Bohra: So first of all, I would say that we have not been very aggressive in M&A. If you see whatever we have done, we have been very, very cautious. You just saw that whatever acquisition we did last, which is Delvis, we are actually seeing the advantage in terms of new business wins. We have already won three large businesses post acquisition of Delvis. First, we got the headlamp from Maruti. Now we have got 2 tail lamps both from Japanese customers and with annual value of more than Rs.100 Crores so that shows why we have acquired Delvis and it is not very well that we are not a company which chases revenue. We never chase revenue so we are very, very clear whatever acquisitions we do, we do for a purpose and for a bigger picture, not for addition in topline, that is number one. Number two, in terms of mid year term growth, you know very well that today, all the assets definitely are not utilized, even if I see the pre-COVID levels. There was underutilization to the tune of, I would say, almost 25% so from here on, I do not think in existing businesses we will be need a material capex while there will be opportunities which will be sort of measured in, as a little while back we spoke about two wheeler business so two wheeler business itself, as you all know, India is importing almost like 60%, 65% of the wheels for two wheelers from China. Can that business be a potential game changer for future? Yes, why not. What we have invested currently is only Phase 1. Phase 2 is still to be started, right? We have not yet even given a time line as to when do we stabilize Phase 1 and then when do we start Phase 2. That itself will increase significant volumes there. In terms of other businesses, we have just entered into the LPDC technology tie-up which you know that we have just won a business from Kia, which will start what we call production in next year. But again will open new frontiers in terms of getting into LPDC technology, which was constrained because most of the European and American customers use LPDC technologies whereas we earlier had GDC technology only. There are lots of areas which we are continuously focusing on and be rest assured, we will be there on the path which we have been saying that whatever industry growth is we should be 1.5x of that industry growth, and we are very conscious about it and we will make sure that we will do it profitably.

Ronak Sarda: And Sir, final question is, what would be the current capacity utilization for various product lines on the bigger ones, if you can just help us with that and the average?

Sunil Bohra: Whatever we were pre-COVID, level, right, today, we are almost at around, I would say, 50% of those levels and when we see the indent for July, they seem to be much, much better than what we are today. I think things seem to be improving, but I think they should be sustainable that is what I would call it because every day is a new day and things have been very volatile. Let us hope the momentum which we are building continues for a longer time.

Ronak Sarda: Sure thank you Sir.

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

Mukesh Saraf: There is impairment in investment in associate, which associate is this entity, Sir, which entity?

Sunil Bohra: It is KMA, Kosei Minda so just to give a brief background what happens is in the consolidated financials, you anyway take your associate account for as your share of gain or loss so that is why you would see no impact in consolidated and in the standalone, there is an equivalent what we call impairment so both the carrying value and consolidated standalone is same.

Mukesh Saraf: Right and also, share of profits from associates as a whole is negative this quarter, which seem like declining over the quarters, but this quarter, it has come in negative so again...

Sunil Bohra: So if you see, there have been 3 key businesses, which have led to it being negative. One was Minda Onkyo, another was this largest was Kosei Minda and there was one more small business because of which we had one, losses, plus, the quarter profitability itself has been impacted so whatever other businesses which were in green, their profit also has been impacted so because of which, on a holistic basis, it is, I think, marginally in red.

Tripurari Kumar: Another company here is Minda TG that is also in red.

Sunil Bohra: Yes, that is very, very marginal.

Mukesh Saraf: Okay but what is the outlook for these businesses?

Sunil Bohra: If you see medium- to long-term, all these businesses are very sound business. If you see TG Minda, which is a huge business, TG Minda is doing revenue of more than Rs.200-odd Crores. It is into airbags and body sealing and steering wheel and other businesses so the future of this business definitely is very solid. I think this is, again, maybe a one-off, this entity. We have recently I think 8-10 months back or so in September we have increased our equity stake from low single-digit to almost 50%.

Mukesh Saraf: South India Limited?

Sunil Bohra: In this company we have also committed to invest further equity of around Rs.34 Crores as it will be acquiring another business, which is TG South India business, which is, again, Rs.400 Crores to Rs. Rs.500 Crores business under this umbrella so this entity will become almost like Rs.800 Crores to Rs.1000 Crores entity so this will be a large business and definitely, we are very positive about the future of this business. Then comes Minda Onkyo, Minda Onkyo, again, there have been delays because of localization. This entity has been mostly buying importing parts because of which its profitability has been very, very limited or I would say negative. Now we have got things in place and couple of parts has already been localized. Few more parts are in pipeline so as we move forward, we are hopeful that this company will turn green in the normal scenario, COVID I am not talking about and third was KMA so in Kosei Minda, this is the only business where we do not have much of, what we call, visibility and just an update that this company we might think of it may come up with a rights issue. We would have to think whether we will go with the rights issue or not. But this company is where somewhere we are having a little bit of concern while the equity holding is very low, it is almost 30%, we will come up with our plan as to what is our roadmap for Kosei Minda, maybe in the next results.

Mukesh Saraf: Sure and one last question is on the general kit value. We have seen the kit value broadly improve for us over the last 2 years or so. This year, do you see that this might not really go up too much because, in general, there is a trend towards down-trading and the mix of the OEMs also will come down closer to the economy segment will be higher so some of your new projects or new products in the sensors or maybe things like your TTE or your Denso Ten. Some of these products, do you think the usage might kind of be delayed because you might see down-trading this year?

Sunil Bohra: I did not hear you fully.

Mukesh Saraf: So my question is, basically, we are seeing, given the hit on the customers' income levels. The demand might be skewed towards the economy segment in passenger cars as well as two wheelers so because of this, do you see the kit value that we usually see an increase for us, do you see that it might probably remain flattish or come down this year because the economy segment vehicles might not have a lot of these new products that you are looking to introduce, something like a touch screen or something like TTE, some of your reverse parking sensors, they might be skewed towards the entry segment there?

Sunil Bohra: So definitely, your point is right in terms of obviously kit value. It differs from category to category or A category and B category and C category. The kit value definitely will be different so definitely, if the company or the OEs manufacture more of low category than obviously in terms of absolute sale it will lower, but that does not mean that our kit value reduces. In fact, if at all, our kit value actually segment by segment, if you see, has been increasing only. It is not reducing. Now even if you say entry-level car, you have now RPAS mandatory so it does not reduce your kit value it actually improves your kit value so kit value and overall sales, they are, I think, 2 different parameters, I would say so. So in terms of absolute kit value per car per segment, definitely, we are hopeful that, that will continue in upper momentum and unlikely that it will drop.

Mukesh Saraf: Okay understood, Sir and lastly, on the sensors and controllers business, what is your outlook for this year? I mean you did not mention the general revenue that you are expecting for this business in general?

Sunil Bohra: So controller also, I think we have been seeing some traction. We have got some business wins. We also shared in the last call; we have got some EV-related controllers businesses. We are also working on a couple of businesses. One, we have already got a business from REML for some controllers. I think we missed sharing that plus, we are also working on some other controllers in terms of supplying to, if I remember Mahindra & Mahindra so control business also seems promising in terms of adding kit value and road ahead. Maybe we can give you a little more clarity or visibility in both the sensor and control businesses in our next call, which is anyway, maybe maximum 6 weeks down the line or 5 weeks, 6 weeks down the line so Tripurari let us take note of it. We will give little more information on these two businesses.

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

Siddhartha Bera: Thanks for the opportunity. Sir, on the presentation, you have indicated that you have won a couple of new orders in the switches side also. So can you potentially indicate I mean what will be the size of these orders and when are we planning to start these orders?

Sunil Bohra: Sorry, which business, you said?

Siddhartha Bera: In switches, two wheeler switch from some leading American OEMs and in four-wheeler also from America in Minda...

Sunil Bohra: We have got orders from Piaggio for 2 Wand in terms of Minda Rika or 4 W; we got order from Hyundai for two new geographies Turkey and, Indonesia. So while, as I said, volumes may not be very, very significant, I think switch is roughly around Rs.9 Crores, Rs.10 Crores four wheeler switch. And two wheeler switch, Tripurari, you have the number?

Tripurari Kumar: Two wheeler switches will be around Rs.15 Crores per annum.

Sunil Bohra: Yes. So as I said, the volumes, is maybe Rs.25-odd Crores, but this again, opens up new geographies and new customer frontiers. Plus also establishes us as what we call a reliable product provider in terms of technology also. So this also reinforces our capability not only locally but also internationally, I think that is also very critical.

Siddhartha Bera: Okay and secondly, from the sensors side, also, you have indicated that there is a potential of around Rs.300 Crores of revenue over the next two years. So I mean, including both the sensors which you have talked about or is it particular to only one sensor Sir?

Sunil Bohra: No. So we spoke about last time about entire sensor business. So our existing sensor business plus the new one where we are investing around Rs.175 Crores, we said the total potential could be north for Rs.600 Crores in the next three to four years.

Siddhartha Bera: Okay. So how much will be the sensors business revenues for this year in FY2020?

Tripurari Kumar: Around Rs.130 Crores.

Siddhartha Bera: Okay and on top of that, we are expecting another Rs.300 Crores over the next two years?

Sunil Bohra: Yes, not another, total.

Siddhartha Bera: Total. Okay, but in the presentation it is mentioned additional sale of Rs.300 Crores. So I thought that it is...

Tripurari Kumar: Yes, that is along with the wheel speed and all BS-VI sensors that we have already started manufacturing.

Siddhartha Bera: Got it and Sir, on the telematics side also, we had started some business. Now what is the progress there and revenue potential for next year?

Tripurari Kumar: Telematics, we are estimating around Rs.75 Crores.

Siddhartha Bera: Rs. 75 Crores this year?

Tripurari Kumar: This is along with KPIT business, yes.

Siddhartha Bera: Yes. Okay and overall, sir, what will be our gross rate levels and any investments target we have for this year in subsidiaries overall?

Sunil Bohra: Yes. So gross debt, as I said a little while back, in March 2020, it was Rs.1,180 Crores and with a cash of Rs.327 Crores, which gives a net debt of roughly Rs.853 Crores and in terms of investment, as I said little while back, capex of roughly around Rs.250 Crores to Rs.300 Crores and the new investments which are already approved, which is equity infusion in some of our joint venture companies, plus also the major is going to be in Harita.

Siddhartha Bera: Okay. So the quantum will be how much, Sir, on the total investments?

Sunil Bohra: So total, if you see, Harita expense is around Rs.400 Crores plus maybe around capex and others put together maybe around, Tripurari around Rs.900 Crores, Rs.800 Crores to Rs.900 Crores?

Tripurari Kumar: This year, if you count out Harita, then we are expecting additional Rs.300 Crores, Rs.350 Crores.

Sunil Bohra: Yes. No, I was adding Harita Rs.400 Crores also.

Siddhartha Bera: Okay Sir and this majorly Rs.300 Crores will be in TG Minda?

Sunil Bohra: No. Already, I think, the answer was there in the past. TG Minda is around Rs.34 Crores.

Tripurari Kumar: Rs. 33 Crores. Yes

Sunil Bohra: Rs.10 Crores in Katolec, Rs.13 Crores in Onkyo. They are already approved investments, plus this capex and also Harita. These are what we now currently expect.

Siddhartha Bera: Okay Sir. Thank you.

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

Basudeb Banerjee: Yes, sir, just continuing with the last six months capex, and so next year, you said Rs.350 Crores of normal business capex and Rs.400 Crores of cumulative investment in all entities together, is that right?

Sunil Bohra: We saidRs.250 Crores of capex, Rs.400 Crores of Harita then the subsidiaries, three JVs, where we are already committed, is totaling around Rs.60 Crores.

Basudeb Banerjee: So on an average Rs. 700 Crores cash outflow from these things in 2021, roughly?

Sunil Bohra: Yes plus we have also been in discussion with, if you remember, one of our old objective is there has been entity called Tokai Rika Minda, TR MN out of MIL. So there also we are talking to the Tokai Rika. We have been talking for the last 12 months. How do we bring that under MIL and also increase our equity to some meaningful number of around 50% because currently it is held and outside of ambit only 11%-12%, so that, if it happens, that will be further addition to this number.

Basudeb Banerjee: Any ballpark area, how much it will cost that residual stake whatever you are targeting?

Sunil Bohra: It will be roughly around in the range of Rs.60 Crores to Rs.70 Crores for entire 50%.

Basudeb Banerjee: Okay so then Rs. 800 Crores. So basically, to look at that in a year where cash flows are under stress and you have visibility of Rs. 800 Crores that is why the need for rights issue in that way, one can justify that?

Sunil Bohra: Not fully necessary, Basudeb, because the Harita for Rs.400 Crores we are considering that has got the component of equity also. So we do not know what will that happen. That can be potentially maybe full equity, maybe fully preference shares, if it happens partially, then 50-50 anyway it happens. So it goes out of window, then what you left of, it is only Rs.350 Crores to Rs.400 Crores.

Basudeb Banerjee: So will you be open for double dilution through Harita and also rights issue or we will avoid doing that?

Sunil Bohra: Harita option will be given to the shareholders.

Tripurari Kumar: Harita's likelihood of dilution is around 2%, assuming 50% conversion in equity. So the 50% would come in form of preference shares which we have to redeem in three years hence. So there is no immediate need of cash flow in Harita, but for the other investments, yes, what you are pointing out.

Basudeb Banerjee: Okay. So you are saying half of Harita can be through dilution and half through preference shares?

Tripurari Kumar: Yes. That is a rough estimate assuming, and rest will depend on equity.

Sunil Bohra: The point, I think, Tripurari, is also trying to drive home is that the Harita Rs. 400 Crores, we may not get actually anything because preference shares are repayable after three years and equity anyways there is no issue left.

Basudeb Banerjee: Yes. So basically, the interest cost on the preference shares will at least continue on the P&L?

Sunil Bohra: Yes.

Basudeb Banerjee: Yes and second thing, Sir, like as all the companies are sharing in Q1, where two months of zero production literally, what was the fixed cost in that period?

Sunil Bohra: I am not sure if we are specifically expected to share the cost of two months because the fixed cost actually remains what it was earlier, the only thing is you save all your variable costs like power consumed, etc., and whatever cost reductions we have done in terms of maybe salaries, in terms of rent, etc.

Basudeb Banerjee: No. Sir, basically, in two months of zero production, what was the overall loss roughly you have incurred so ballpark that figure, most of the companies are sharing that kind of figure?

Tripurari Kumar: Okay. So rough estimate of what I think is around Rs.70 Crores, Rs.80 Crores ,on account of manpower expenses, lease rentals and certain other expenses. That will be the ballpark number.

Basudeb Banerjee: Sure and sir, unfortunately this...

Tripurari Kumar: That is monthly number.

Basudeb Banerjee: This is monthly or this was of two months?

Sunil Bohra: Monthly at a consol level, monthly. If you see the manpower cost itself for a quarter, Basudeb, it is roughly Rs.220 Crores so manpower itself will be around Rs.70 plus Crores.

Basudeb Banerjee: No Sir, basically, many have contractual manpower, so in COVID migration has happened, so maybe you have?

Sunil Bohra: No. We have paid salaries to all during the lockdown period. So we are not the one who did not pay salary to the contract manpower. We paid full salaries to our contract manpower during lockdown.

Basudeb Banerjee: Sir, last thing at current juncture, looking at the indent what you said, July looks better than June, so overall, from a holistic consolidated fiscal 2021 any broader outlook in terms of quantum of decline you have envisaged efforts, to get a broader perspective?

Sunil Bohra: I do not want to shoot in the dark, honestly.

Basudeb Banerjee: No, it is not a guidance perspective, but broader outlook as such.

Sunil Bohra: There are a lot of expectations that people will opt for personal mobility and avoid public transport, but again, the affordability will come into play. So India is not a country with a high disposable income. So even though people might have aspirations they might not be able to afford and that is what earlier we heard from Ronak also and Siddharth also in terms of car or the vehicle is being sold, maybe at the lower end, A or B category, more than a higher category, but there definitely is the fact that what we have seen in cars in early, I think it was in 2014, whatever has happened and then now, again, in China, there were clear indications, before that immediately or some time of the pandemic the preference for personal mobility is up. China, see whatever we hear they are anywhere close to pre-COVID levels specifically in the automobile sector. So if you have to go by that as a benchmark, I am not sure whether we have that deep pockets in terms of affordability, but if that was to repeat, we can see similar pre-COVID levels in the next few months.

Basudeb Banerjee: Okay thank you Sir.

Moderator: Thank you. The next question is from the line of Vijay Sarthy from Anand Rathi Institutional Securities. Please go ahead.

Vijay Sarthi: Thanks for the opportunity. Sir just want to understand this wireless chargers from MSIL order, could you help me with the order size for this and what is the prospect with other OEMS, too and are there any other players who are also looking at this product segment?

Sunil Bohra: So as we said earlier, we have started this business with M&M. Now we have added into one model of MSIL and definitely also depends on the success or the quantum of the models and we are in discussions with definitely some other OEMs also. As of now, it is not crystallized. Once it crystallizes, I am sure we will be able to let you know the progress on that, but as of now, I think we have been able to do well with entry into one more OE.

Vijay Sarthy: Okay and sorry, I did not hear this point very clearly about Basudeb what is the fixed cost on a monthly basis?

Sunil Bohra: So I appreciate the reason of asking fixed cost. So first of all, our manpower cost is roughly around since last quarter, Rs.280 Crores for the quarter and definitely, there have been plants and facilities on rental. Our annual rent outgo is, I would say, almost Rs.70 Crores to Rs. 80 Crores in totality across geographies put together and then definitely, you have fixed cost which is primarily interest, so these are some of the cash costs and some of the power and other costs which you have to have ongoing, even if there are no operations.

Vijay Sarthy: Sure, okay. Thank you.

Moderator: Thank you. The next question is from the line of Priya Ranjan from Antique Limited. Please go ahead.

Priya Ranjan: Thanks for taking my question. My question is broadly on the three to five-year horizon. So given these things are happening between India and China, so what kind of, I mean, opportunity do you see in terms of filling the gap in terms of rather than getting imported to domestic side and which line of business which you foresee that is going to happen maximum?

Sunil Bohra: Yes. So if you see from medium to long term, which you said three to five years, Priya Ranjan, I think it is a very good question. There has been a lot of discussion happening of course, we all know, because of what reasons people want to de-risk the supply chain. So there have definitely been a lot of requests even from customers in terms of relooking at our portfolio, what we can do more, how we can de-risk our supply chain and in terms of existing products you asked what looks more promising in the medium term, if I will take two products, one will be the sensor business because a lot of sensors continue to be imported and number two is we spoke a little while back is two-wheeler alloy wheel because we are actually getting a lot of inquiries from the customers. In fact, the plant which we have put up, there is a clear message that you please produce whatever is produced, there is a customer for it and it would have any issues in terms of demand supply. So whatever you can produce it can be sold. So this, I think, some businesses immediately comes to my mind, which has very good potential coming to future. We all know that in four-wheeler alloy wheel we started with one small plant in Bawal, then we put up another plant in Gujarat. Now we are going to another technology with LPDC in Gujarat. I personally believe that the two-wheeler alloy wheel may give that promising growth in future. This is the first plant, which we have put up and this itself has got the flexibility to enhance the capacity by another 50%, which will take it to almost like Rs.700 Crores to Rs.800 Crores of annual revenue and I believe this business can give even more potential coming into medium to long term. Same is the case for sensors. Tripurari, anything else I am missing or you want to add?

Tripurari Kumar: No, I think this is what it is. So in terms of existing business even in the four-wheeler alloy wheel we all know that even though we might, as a country, be having enough capacity, but this capacity has not been utilized again, thanks to the imports which are still happening in four-wheeler imports. So there again, we do believe if government take whatever action, which we all here impress in terms of what we call improving the domestic competitiveness, but four-wheeler alloy wheel also should benefit.

Tripurari Kumar: There are a lot of inquiries at this stage. Some may convert into business, but it is all at a very initial stage in terms of new businesses and market.

Priya Ranjan: In terms of I mean, the four-wheeler alloy wheel, how much is imported, any idea as of now for the industry?

Sunil Bohra: We have lot of customers who are actually importing four-wheeler alloy wheel still. I do not have actual data, maybe we can get back to you on that. So basically there is a good amount of import happening in four-wheeler.

Tripurari Kumar: Yes, around 35% is still imported, 30%, 35%.

Priya Ranjan: You have answered in one of the previous questions in that this year you are expecting around Rs.100 Crores from two-wheeler alloy wheel. So next year, can we assume roughly around Rs.200 Crores with the full capacity of that?

Sunil Bohra: No. Next year, actually, it should be more. I have not seen the number, maybe again we will take a note of this point, Tripurari, what should be the next year number because we do expect the plant to be running at full capacity by the same time next year. If that will be so, even if I take nine-month full capacity, it should be around Rs.300 Crores.

Tripurari Kumar: Yes, Sir.

Priya Ranjan: I mean, how soon we can do this 50% addition in capacity because the plant has...?

Sunil Bohra: No. So we have said very categorically clearly to our customers also that we will press the button or we will go to the board only once we complete the commissioning of the first full phase, and one, it should be for a short time so that when we go for the second phase we have our learning's built in into the second phase. So hopefully, we should be able to take decisions some time by end of next calendar year.

Priya Ranjan: Okay. Any thought on the switches side? I mean are the switches also getting imported from China, a lot of switches are still domestic mostly?

Sunil Bohra: See switch, anyway, we are the market leaders with almost 60%, 65% market share. The way we look at this business is more from outside perspective as to how now we can get the global pie of the business and that is where more of the focus also has been because in India if you see the second person to us might be maybe one-fifth or one-sixth of us. So in India, I do not see any significant competition, and I am not sure if any material import is happening in switches. It is mostly locally produced.

Priya Ranjan: That is all from my side. Thanks.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union Asset Management. Please go ahead.

Vimal Gohil: Thank you for the opportunity Sir. Pardon me if I am repeating some questions because I dropped off a while back. Sir, my first question is on the working capital. You have seen significant improvement this year versus last year. I guess your working capital has gone negative. So if you could just comment on the sustainability going forward, do we see this kind of working capital going ahead as well? Or what would be the sustainable level there? That is my first question.

Sunil Bohra: I will respond to that first question, and Tripurari can feel free to add wherever he can pitch in. From working capital perspective, you are right because last 10 days of volumes, and obviously, there was a need to look at the entire cash flow cycle. We have been relooking at our entire cash flow for next three months, and we wanted to be very, very conscious about what we do with the money we have. So to cut the answer in short, I would say, part of the drop in working capital is temporary and part is sustainable because we have been consistently been focusing on optimizing our working capital that has also bore some fruits in terms of lower working capital in some of the businesses and part also is partially because of the lockdown, which would reverse in the coming period.

Vimal Gohil: Would it be fair to say that the improvement will largely come from receivables and inventory going forward?

Sunil Bohra: Absolutely, we do not intend to delay the payment to the suppliers. Anyway, most of our suppliers might be MSME where you have to pay within 45 days.

Vimal Govind: Sir, my second question was on your investments. So basically, if I were to see your consolidated balance sheet at this time, your investments are currently at Rs.372-odd Crores. So taking the current visibility and the fundraising that you have planned, how much will this number go to in FY2021?

Sunil Bohra: We spoke this a while back. Harita has already been announced going on for last 15 months, we all know the numbers. So excluding Harita, our capex may be around, say, max Rs.250 Crores and around another investment in JV of around Rs.60 Crores for between TG, Katolec and Onkyo and maybe at best around Rs.70 crores in TR MN, so which makes it roughly around Rs.350 Crores to Rs.400 Crores.

Vimal Gohil: Okay. So was Rs.250 Crores for capex and Rs.130 Crores for investments in JVs, right?

Sunil Bohra: Yes.

Vimal Gohil: So, this investment number should go to around Rs. 500 Crores in FY2021?

Tripurari Kumar: No, not Rs.500 Crores. Sir said Rs.250 Crores plus Rs.60 Crores, which has already been announced and additional Rs.60 Crores to Rs.70 Crores which may come depending on Board approval and JV partner agreeing for that proposal. So that will be around Rs.60 Crores.

Vimal Gohil: Everything agreeing only then it will go to Rs.500 Crores. Maybe, otherwise, it will be around at?

Tripurari Kumar: So, Rs.350 Crores is what he has conveyed. Rs.350 Crores is what we are saying.

Vimal Gohil: Rs. 350 Crores including everything?

Tripurari Kumar: Yes other than Harita.

Vimal Gohil: Okay. No problem. Fair enough. Sir, any raw material dependence on China at this point in time? If yes, how much would it be? And are we looking to sort of diversify?

Sunil Bohra: There are very much small parts, if I remember something like magnets and registers, which we have been continuously working in terms of derisking assets. We already have alternate source identified, which is non-Chinese. So we are on the job. I am sure like everybody else, there has been a clear focus in terms of getting our alternate supply chain in place.

Vimal Gohil: Right. Sir, if I were to look at your opex, I think in Q3, you had reached to around Rs.160 Crores, total opex. That is excluding employee costs. This quarter, you have done Rs.200 Crores, out of which about Rs.25 Crores is one time, right? So your Rs.175-odd Crores of opex, is this a normalized level? Should we look at this as a normalized level going forward?

Sunil Bohra: Yes, because I think first of all if you see Q3 to Q4, Q3 did not have the impact of Delvis whereas Q4 had. So the large part of the delta which you spoke about is primarily because of the Delvis. Delvis has done revenue of roughly Rs.45 Crores in this quarter. So its cost also has been consolidated. So whatever increase you are seeing in terms of other costs, it is not that the cost has increased, it is primarily because of addition of costs related to the new business.

Vimal Gohil: Fair enough Sir. Thank you sir. All the very best.

Moderator: Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: Good evening. Thanks much for the opportunity. Sir, in FY2020, I was looking at your presentation, our potential kit value from all possible products in an entry-level motorcycle, for example, increases by Rs.3,000 on a base of close to Rs.5,000. And then an entry car, the increased potential kit value is close to Rs.20,000. So can you explain some of the new products that we introduced in FY2020 that has led to this nice jump in kit value both for even an entry-level motorcycle as well as the entry car segment?

Tripurari Kumar: One is alloy wheel two-wheelers that we have added. Then there is in passenger vehicle, we are talking about the wireless chargers. So that is also a potential addition. We have also started in two-wheelers, for example, in the EV segment, we have started with onboard chargers, DC DC converters. And then our lighting contribution has also gone up, considering recent announcements on the LED taillamp and headlamps, right? So these will see a net impact of increase in lamps.

Shyam Sundar Sriram: And RPAS also came into this year, right?

Tripurari Kumar: Yes. RPAS has also come in, airbag also has come in.

Shyam Sundar Sriram: Approximately how much does new product introduced in the last two years contribute to revenues in FY2020 approximate ballpark numbers? Because initially when we introduce a new product it will take time. How much do new products introduced in the last two years contribute to revenues in the year FY2020? So FY2020 revenue, how much of that can be attributed to new products introduced in the last two years, Sir? Sir, because initially, when we introduced a new product, it will take some time.

Sunil Bohra: I will have to come back to draw your number, which are new. There are alloy wheeled two-wheeler which will be new. On the sensor side, new, wireless charger is new. So I will have to come back. We will get back to you separately on this.

Shyam Sundar Sriram: Sure. Other point, given that these challenges on the macroeconomic front, for FY2021, are we seeing the model pipeline getting significantly shifted back into FY2022 and beyond? Have there been any deferrals that you are seeing in terms of launch pipelines from your customers?

Sunil Bohra: I am not able to follow the question.

Tripurari Kumar: He is basically asking the number of new platforms and new model launches that will be deferred to the next year, which appears to be so because already three, four months have gone. So we will see that there are some model launches on the smaller car variant. But you are right that some of the new developments which would have happened this year, otherwise, because of the COVID impact, there could be seeing some shift towards FY2022.

Shyam Sundar Sriram: Sir, one question, on the lighting system, our revenues were largely flat between FY2019 and FY2020, but EBITDA margins have come down by close to 250 basis points on year-on-year. So just trying to understand why was there a sudden cost up there, if you can help us understand that?

Tripurari Kumar: On the four-wheeler side, we had some business in a model called K2D in Indonesia, where we got good initial demand also. But now that model has not been very successful, and on that side, the contribution has come down that is one reason. Second, our LED headlamps' share is now going up. So we will see that those will come back in times to come. So for example, we have secured order from two leading Japanese OEMs, and we have also started supplying to the emerging EVs in 2Wheeler as well, we are supplying to both the TVS as well as Chetak platform of Bajaj. So we are hopeful that the lighting will come back.

Shyam Sundar Sriram: Sir, this orders from Japanese OEM that is for the taillamps, right?

Sunil Bohra: Yes, LED tail lamps.

Shyam Sundar Sriram: LED taillamps. Understood, Sir. Sir one last question, on the sensor side, whatever we announced for BS VI switch, crank sensors and the wheel speed sensors, these are largely import substitution products?

Sunil Bohra: Yes.

Shyam Sundar Sriram: Okay. So we are trying to localize it and bring down the past tariff. Sir, the point I am trying to understand is, what can be the opportunity size for us here broadly in the sensors and what is that we want to address that?

Tripurari Kumar: What is the point? Sorry, I did not get your full question, Sriram.

Shyam Sundar Sriram: Yes, Sir. Sorry. I was trying to ask what is the opportunity size here that we can meaningfully address in the sensor side?

Tripurari Kumar: So sensors, like we mentioned, we are expecting that this business could be as large as Rs.500 Crores to Rs.600 Crores, including the wheel speed sensor that we have just announced a quarter back, but this will take four to five years' time.

Shyam Sundar Sriram: Thank you very much. That is it from my side.

Moderator: Thank you. The next question from the line of Bhaskar Bukrediwala from ASK Investment. Please go ahead.

Bhaskar Bukrediwala: One question, Sir, on the gross margins this quarter. We did not see any material or hardly any improvement on the gross margins. It was similar to last quarter and a lot of auto ancs have seen that improvement this quarter. So do we see the benefit of gross margins to come in for us in the subsequent quarters? I mean, given that the raw material prices are largely favorable.

Sunil Bohra: So your point is right, Bhaskar. While our gross margin has been broadly same as what it was in previous quarter, the commodity prices has actually started coming down sharply, I would say, from March onwards. Obviously, I am sure any business has got this inventory in place already for maybe a month or so for imported items and local items is 15, 20 days. So because of which, definitely, you are not able to reap the benefits immediately, , obviously, when the prices go up, right, you tend to pass on with the customers. So same way, when the prices go down, you have to share with the customers. Now another thing is what currently we have been talking to customers in the sense that since the volumes are lower than what we have bidded for the pricing based on X volume, volume has been significantly lower. So the thing that the customer has to whether some of those price reductions, are delayed for pass-through, which means that we keep the benefit of price reduction for some time. Discussion is happening. But I think it is a double-edged sort of sword that you cannot expect fully the benefit of the drop in volumes to keep with you, and when the prices goes up, you pass on to customers. So it has to be fair on both sides. So as it is saying in past, if prices goes up, we pass on to the customer so same way when prices go down, naturally, it should be passed, but we do see requests floating from the businesses to the customers as to whatever they can help us also in this time during the low volume scenario.

Bhaskar Bukrediwala: One question on structural margins, just wanted to understand. I mean from a 2- to 3-year perspective, do you see margin improvement, given, I mean, on two accounts? One is some of the acquisitions that you have done, like Delvis or Harita, some of them could start scaling up their margins. Second, in terms of the premiumization of products like alloy wheel and like you said you are getting into new areas as they scale up, the better products. So on both the accounts do you see a margin improvement? If yes, what sort of number would you be able to give us any sense?

Sunil Bohra: So while I am sure nobody will say no because as you are in a business and you will definitely aspire for improving the margins. We do hope that we do have better margin because if you see our last few years earnings, we have been consistently been able to improve our margins year-on-year. Even if you see pre-COVID for first nine months, our margins have been better than what they were in the previous year despite the drop in the volumes for first nine months. So we have been in the past, and I am sure everybody knows that this has hit a roadblock by COVID. So let this phase pass-through, and I hope that we should be soon able to get to that pre-COVID margin zone. Not only that, we can actually think of doing better because the actions which we are taking today in terms of maybe reducing our fixed costs, etc., the benefits of those should last much longer than the COVID. So that should also help in terms of providing that good invest to improve ours. We are on the track and the actions whatever we are doing, I am pretty hopeful that we should be able to expand our margins once things normalize.

Bhaskar Bukrediwala: Sure. I was just looking for some specific inputs in terms of how much do you think that the acquisitions, as they scale up, companies like Harita and Delvis, they can add some margin?

Sunil Bohra: So if you see our last acquisition Delvis, the whole purpose of that acquisition, as we said, was not to improve margins of their business while the profitability of that business is important. The whole purpose was to get more market share in India and which we have been successful in getting. In the short span of six months, we have got three new businesses. It is a great achievement if you ask from the perspective as to how long it takes from start to closure of a business win. So it may not be if I do not get direct benefit in that business, if I am able to get more business in India that itself will improve my profitability in absolute terms, while even if my margin percentage remains same, my actual profitability will improve.

Bhaskar Bukrediwala: Sure. I mean would it be possible for the company, let us say, in two to three years, some of the margin levers play out to go to something like a 13% kind of EBITDA, I mean 12% to 12.5% is what we have done in the past in the last two, three years?

Sunil Bohra: Definitely, there is a zone we have been targeting without saying because till now we have been working on that path to achieve in the next two to three years. But I think we should be able to give you more clarity maybe once we see some volume stability because whatever products we have added, like maybe sensor or maybe 2W alloy wheel, these products are actually having better than our average margins. So if that was to continue, and if we see the benefits of the cost reduction what we have done that definitely it should take us into that range what you are talking about.

Bhaskar Bukrediwala: Last question I can ask a small one. What is our maintenance capex every year on the current gross block?

Sunil Bohra: So last year, our maintenance capex was Rs.126 Crores, how much it was, Tripurari, I forgot the number, sorry?

Tripurari Kumar: Rs.150 Crores.

Sunil Bohra: Rs.150 Crores for last year. So while we say maintenance capex, which also includes a lot of development capex, which we incur for developing of new products. All bundled together.

Bhaskar Bukrediwala: Pure maintenance would be somewhere around Rs.70 Crores, Rs.80 Crores probably?

Sunil Bohra: Maybe lower.

Bhaskar Bukrediwala: Sure. Thank you so much and wish you all the best.

Moderator: Thank you. Ladies and gentleman we take the last question from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Sir, I just wanted to understand what was the margin profile in Minda for aluminum? And I think we were given some preferential pricing from Maruti? And what is the expected margin fulfilling next year onwards?

Tripurari Kumar: So we are not giving division wise margin. But till the last call, we have guided that a long-term sustainable EBITDA margin of four-wheeler alloy wheel business would be around 20%, plus or minus 1% or 2%.

Shashank Kanodia: Second, Sir, if you can quantify because in this last 10 days of lockdown and probably for other divisions, consolidated basis, what was the loss of sales and profitability for us for this quarter in Q4 FY2020?

Sunil Bohra: So you are saying what is the impact of 10 days in terms of loss of sales and profitability, right, if I heard these questions correctly? Yes. So I would say 10 days, you would have lost sales of roughly maybe Rs.100 Crores to Rs.150 Crores, which means even if at our average contribution of around 20%, maybe around Rs. 30 Crores, plus also, what you call, have to spend the cost because we have paid the salaries to all the contract workmen, blue collar, everything, and the contribution. So that cost, we just spoke about, our monthly cost of salary is roughly around Rs. 70 Crores to Rs. 80 Crores plus some other maybe Rs. 20-odd Crores for all others, including rentals, et cetera, et cetera. So if you see a monthly cost of Rs. 100 Crores and divide it by 10 days, it should be roughly around Rs. 25-odd Crores.

Shashank Kanodia: Sir lastly, given your understanding with your key OEM clients, organically, what kind of decline can be seen in this year, FY2021?

Sunil Bohra: I wish I knew Shashank. I will try to give you a flavor that currently we are at around 50% of capacity. As we enter July, the numbers are looking better than that, and there has been month-on-month improvement. April was slowest. May was roughly around 20%. Now in June, we are exiting maybe at around 50%. Entering average maybe around 50% plus on an overall basis where two-wheeler is more than a four-wheeler. So I think directionally it is moving positive, but nobody knows what is going to happen. As I said a little while back, if we have to follow the China, what China is having, but China is a very different ball game. China, the COVID cases have actually almost gone to negligible number after the three, four months, whereas we are at crude stage still. So it is very, very difficult to say what market has to offer you six months down the line or three months down the line. I think we are living by the month in terms of indent. And I will give you visibility what actually we have in terms of July. In terms of moving forward, people are very optimistic. If this trend continues, we should see maybe a good festive season. But again, there is a big if there in terms of what surprise we have in offing in terms of COVID.

Shashank Kanodia: Sir, so the best case estimate is 15% to 20% decline is what you estimate? Or it can even get worse than that?

Sunil Bohra: I think you trying to put words to our mouth. I think it is anybody's guess now.

Tripurari Kumar: We will be seeing what the sector does, so we will be closely watching our OEMs.

Sunil Bohra: But I think I should be very clear, Shashank, I think that it is a little while back also. Our goal always has been very clear. We should be able to outperform the industry growth, which we have been consistently been able to do, even if it is the last quarter. The industry volumes are minus 20%, we are minus 10%. So that outperformance is visible, and we are pretty confident that we should be able to be on that path for some time even in this COVID era.

Shashank Kanodia: Fine Sir. That is pretty much from my side. Wish you all the best.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Bohra for closing comments.

Sunil Bohra: Thank you. I would like to thank everyone for joining the call. I hope we have been able to respond to your queries adequately. For any further information, request you to please get in touch with us. Thank you very much. I hope that the COVID pandemic will be behind us soon and make us more stronger than ever. Stay safe, stay healthy. 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. You may now disconnect your lines.