



“Minda Corporation Limited
Q3 FY '23 Business Update Conference Call”
February 20, 2023



Dolat Capital



MANAGEMENT: MR. AAKASH MINDA – EXECUTIVE DIRECTOR
MR. VINOD RAHEJA – GROUP CFO
MR. ANSHUL SAXENA – GROUP HEAD STRATEGY AND M&A
MS. PUSHPA MANI – LEAD INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day, and welcome to the Minda Corporation Business Update Conference Call hosted by Dolat Capital. 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Jain from Dolat Capital. Thank you, and over to you, sir.

Abhishek Jain: Thanks, Faizan. Good evening, everyone. On behalf of Dolat Capital, we welcome you all in the Business Update Conference Call of Minda Corporation. From the management side, we have with us Mr. Aakash Minda, Executive Director; Mr. Vinod Raheja, Group CFO; Mr. Anshul Saxena, Group Head, Strategy and Merger & Acquisition and Ms. Pushpa Mani, Lead Investor Relations of the company. We thank the management for providing us the opportunity to host the call. Now I hand the call to Mr. Aakash Minda for his opening remarks, followed by the question-and-answer session. Over to you, Mr. Minda

Aakash Minda: Thank you, Abhishek. Good evening, everyone. I would like to thank you all for joining us on this conference call here today, and hope you all are keeping safe and healthy. We truly believe that the automotive instrument as a product is set to grow and has big potential. It will go through lot of premiumization in the upcoming future. We believe an Indian company should lead this market space.

Minda Corporation has an advanced technology center, which is working and developing future technologies in the space of instrument clusters and electric vehicle mobility. We are very strongly positioned in technology and our own capabilities to lead this industry. We understand this sector and the business space very well. We understand and are very bullish on the instrument clusters business.

As a part of the long-term strategy for instrument clusters, we had invested about INR 161 crores in Minda Instruments last year by acquiring 49% stake of our joint venture partner which is in instrument cluster business.

As you are aware that Minda Corporation has purchased 15.7% equity for a cumulative amount of INR 400 crores through on-market transactions on February 17, 2022. The shares of Pricol purchased solely for the investment of the surplus funds available with the company.

There is a Board mandate to deploy cash, and this is the best use of the funds after evaluating various opportunities over a period of time. We have analysed the performance of Pricol over a period of time it has significant potential for growth. Minda Corporation investment in Pricol is through market purchases, constituting a minority stake, and this investment does not grant any special rights. Minda Corporation will continue to focus on its consistent, sustainable and market-leading performance.

Our objective and actions are in line to grow ahead of the market. We have never been more confident on our own businesses growth prospects and cash flow generation capabilities. Minda Corporation is and will be generating enough free cash flows from operations to build and to fund our organic and inorganic growth. The company has a well-positioned balance sheet. The debt to equity continues to be at comfortable levels.

After this investment, debt-to-equity ratio will be about 0.3. Our balance sheet is strong enough to support all the opportunities in the future. We will be able to support all our organic growth initiatives in addition to staying on the lookout for new value-creating inorganic growth opportunities. With this, I would like to open the floor for question and answers.

Moderator: We will now begin the question-and-answer session. First question is from the line of Hiral Dadia from BQ Prime.

Hiral Dadia: Thank you for taking us though the objective in terms of the investment that has been made in Pricol. My question to you will be, does this -- though we don't have special rights right now in terms of the investment, but is there any future plan to increase stake in Pricol from here on?

Aakash Minda: We will continue to explore all the opportunities of inorganic that will come for Minda Corporation, and we will present it to the Board to take the right call at right time.

Hiral Dadia: Okay. And my second question to this is in terms of synergies. We do see a lot of synergies in the instrument cluster business, right? So, how was it that in terms of timelines that we are looking at from a growth potential?

Aakash Minda: So here, as I mentioned, this is solely a financial investment, the purchase of equity shares. So we are not talking about any synergies right now.

Hiral Dadia: Right. But doesn't this already get in terms of competitive strengths because we are also trying to expand our portfolio in this cluster, right? So, then how does that actually benefit us?

Aakash Minda: As I mentioned, it is a part of our long-term strategy for the instrument clusters. We totally believe in the instrument cluster space and how it will go to premiumization. Minda Corporation became well placed to take on the leadership role and offer technologies in this aspect. We've been, again, very bullish on the instrument clusters segment. Based on this, we acquired our stake in the joint venture company also. And as I mentioned, we will continue to look for opportunities when they come across.

Hiral Dadia: Right. And my last question would be, but are there any products which are competing with each other between Minda and Pricol portfolio, which could become a hindrance for us?

Aakash Minda: Ma'am, we know Pricol they are in the similar business of product components manufacturing.

Hiral Dadia: Right. So no, no. So my question to you was basically in terms of the products, which are similar. If we are competing with each other, what is the growth strategy there?

Aakash Minda: We have similar products in the lines of instrument clusters, driver information sensors. So these are some of the products that we have in common.

- Moderator:** Next question is from the line of Jay Kale from Elara Securities.
- Jay Kale:** My first question is regarding your capital allocation in terms of how you plan to fund this? I mean, in Q3 call, I think you mentioned you had around INR 50 crores net debt, and this is an INR 400 crores concentration. So what are your plans in terms of these kind of strategic investments or financial investments versus your organic growth target? And what is the kind of debt to EBITDA or any metrics that you would be looking at that you would be comfortable with? Just to give a sense of how far you would want to go ahead with this financial investment?
- Aakash Minda:** Thanks, Jay. So as I mentioned now, our focus is on our organic growth. As I mentioned in my opening speech also, our objective is to consistently beat the market and perform better than them. We have never been more confident in our own business growth prospects and cash flow generation ability.
- Minda Corporation is and we'll be generating enough free cash flow from operations to fund our routine capex and organic growth. The company has well positioned balance sheet. We have -- after this investment, we'll have a debt to equity at about 0.3%, and the debt-to-EBITDA will be around 1:1. So, we have enough strong generation of our own funds to fuel all our inorganic opportunities that will come along.
- Jay Kale:** Understood. And just, I mean, partly kind of answered it in the earlier question. But just to understand the way forward in terms of you want to maybe have a controlling stake, if at all, in the target company. How do you see that going forward? And to what extent would you be ready in terms of financial investment in this firm?
- Aakash Minda:** Jay, we are a minority shareholder in Pricol, and we have all the rights that any other shareholder has. As I mentioned, we will not be having any special rights. Of course, as and when any inorganic opportunity come our way, which we continue to look always. We will present to the board, and then I'm sure the board will take the right decision.
- Moderator:** The next question is from the line of Vaibhav Agrawal from Motilal Oswal Asset Management.
- Vaibhav Agrawal:** So I just wanted to understand in terms of the management and Board's thought process towards capital allocation. So I'm sure, I mean, out of the cash that was on the balance sheet was also sort of QIP money that we raised a few years back. So while I'm sure Pricol, you may have great prospects going forward. But don't you think that it's kind of an aggressive step that your entire, I mean, a large chunk of the treasury is basically invested in one stock and the fortune of the stock will determine sort of how our treasury does, so it's basically sort of -- it's kind of an unprecedented move, I think on don't see it happening very often. So could you shed some light on that?
- Aakash Minda:** As I mentioned to you that our balance sheet itself is in a comfortable and conservative place. We have this as the surplus funds that we have deployed in the opportunity that has come from the market. And of course, going forward, Minda Corporation has enough free cash flow generation plan as well as strategy in order to fund our organic growth and needs. So that's the strategy that is there in pace right now, yes.

Vaibhav Agrawal: No, So from what I understand, I think at least as things stand today, we are a minority shareholder. So neither rather any operating synergies, neither do we have any sort of say on the board of Pricol. So don't you think God forbid but if supposing if Pricol call goes, if it does well, great, if it doesn't then is unless a very kind of aggressive move as far as treasury capital allocation is concerned.

I understand it might do well. But like it is unprecedented we've not seen this kind of aggressive capital allocation very recently in Indian corporate history. So what was the I mean, it's one thing that may be you generate your own cash and then you kind of invest in a company, but to take a lot of QIP money and then invested in sort of one stock. I don't know. I kind of think it's kind of quite weak. So I don't know at the moment part the question, but I just wanted to sort of ask your thoughts on that.

Aakash Minda: Yes, we believe in the automotive instrument cluster business and an Indian should lead this space particularly. And again, when we have the strength in our balance sheet and the free cash flow that we're generating, we have invested in this indeed in the right space that our Board thinks is the best way to invest and get the best returns. We have seen how this industry and the sector is performing and will perform. And again, it is in line with what investments we have done in Minda instruments business also last year.

Moderator: The next question is from the line of Vipul Shah from Sumangal Investment.

Vipul Shah: My question is, will we be content with this 15% odd stake or we have planned to increase it in a staggered manner?

Aakash Minda: So Vipul, this is a financial investment as of now. And as and when any inorganic opportunity comes across various platforms in a structured way, we'll take it to the Board.

Vipul Shah: Okay. And may I ask means, is there any possibility that we may initiate a hostile takeover at any future date?

Aakash Minda: As I mentioned, this is a financial investment only as of now.

Moderator: The next question is from the line of Mohit Khanna from Bayan Capital Advisors.

Mohit Khanna: I had two questions. Firstly, considering this is a minority shareholding that you would consider to have it for a longer period of time. How do you think it will impact the ROEs of Minda Corp. because as I see, we generated around INR 36 crores of interest income in the last 12 months hasn't paid any dividend in this is one of them, then I'll come back.

Aakash Minda: Mohit, so as I mentioned, again, this sector, which is starting to do well. And all the companies here should be looking at growth. Of course, we've invested in this company here has a significant amount. We will again look at how the growth takes place and then take those calls accordingly.

Mohit Khanna: Sure, sure. Now just flipping the coin side. Considering this would be, at some point in time, a strategic investment. What are the key technologies, products, which you consider acquiring

rather than developing them in-house? And what are the key synergies that you would look for if you do go for increasing your stake from here?

Aakash Minda: So no, I'd like to correct you, this is a financial investment. And Minda Corporation has its own technical center working on advanced electronics, advanced clusters and advanced technologies and the electric vehicle mobility space. As is mentioned, there's going to be a lot of premiumization that will happen from about INR 400 - 500 cluster, it will go to about INR 4,000 to 5,000. We are well positioned to become the market leader in the this market.

Mohit Khanna: I understand that this is a financial investment. One of the big chunks or the largest minority shareholder, if I would call so 15.7%. So just was trying to look far ahead. If this has to convert to a strategic investment at some point in time, what will be the key parameters to be considered by Minda Corp.?

Aakash Minda: So as and when any inorganic opportunity, we will evaluate all the parameters and synergies and then take it to the Board.

Moderator: The next question is from the line of Jinesh Gandhi from Motilal Oswal Financial Services.

Jinesh Gandhi: Question pertains to what will be the possible alternate you would have considered considering that this pace of instrument cluster/travel in commission system is seeing a substantial evolution not just in India, but globally. So would not it have been better off if you had invested in the future technology where you have got some technological capabilities and personal advantage?

Aakash Minda: So Jinesh, we are already currently investing in all our organic leads and also in technology, in our technical center for all the products. As you know, not only for cluster but all the product of Minda Corporation will be going to premiumization and having more of electronic software and other premium features.

So we are investing continuously on technology internally as well. And we continue to look for partners who we can invest in or tie up for technology for an instrument clusters space, particularly.

Jinesh. Gandhi: So, I understand that the organic approach we have been not doing. I'm saying from an inorganic perspective, which would have our approach towards this business materially? Or I mean, possibly, some of those opportunities might not be available for investment that could be the case.

Aakash Minda: Jinesh, your voice is not clear. Can I ask you to repeat your question, please?

Jinesh Gandhi: Sorry, I'm saying given that inorganic investment into something which has been done outside Minda Corp. could have leaped from our initiatives on reverences revenue information system by many months, if not years, if invested in the technology outside of site country. So just trying to understand where such opportunities available and consider?

Aakash Minda: So, we do continue to evaluate those opportunities also. If your question, if I understood correctly, on investments in overseas companies or in this technology outside the organization

as well. To answer that question, we do continue, and we will continue to evaluate on investments like we have done in the past on companies which have technology whether in India or overseas.

Moderator: The next question is from the line of Jyoti Singh from Arihant Capital Markets.

Jyoti Singh: Sir, if you can clarify on the premiumization, as you did mention that it will be INR 400 to INR 500 will lead to INR 4,000 to INR 5,000, first question. And a second question, if you can -- as you already mentioned, this is the financial investment. So we will be going to see the impact on margin front, if you can guide us along with the top line growth.

Aakash Minda: Yes. On the premiumization front, all the Minda Corporation products are going to go through premiumization route like entry solutions, instrument clusters, wiring harnesses, light weighting products, electric vehicle mobility etc. Particularly coming to the instrument clusters, like you know, there have been analog clusters, and now they'll be moving to advanced DFT clusters and more personalization because individualization may happen. In that concept, all the or most of the products are now going into DFT and touch screen. So, this is the driver information system premiumization that may happen.

In value terms, let's say a typical cluster cost about INR 500 to INR 700 right now, which is an analog cluster and a 2-wheeler, which is expected to grow to about INR 4,000 on an average with all the or most of the features having other telematics and other software solutions on that. On the margin front for the Minda Corporation, I would again say that we have never been more confident in our growth plans.

We have been focusing on consistent, sustainable and market-leading performance. Our objective and actions are in line to grow ahead of the market. When the market is growing, let's say, flat, we would like to grow ahead by 10% to 12%. And we have all our actions initiatives, investments strategies are focusing on that. We are heavily focusing on customer connection, technology, operational excellence and how we can get into newer markets for enhancing Minda Corporation values.

Jyoti Singh: Sir. And sir, a question if you can give us on the content per vehicle. So after acquiring Pricol, so is there any changes or it will be similar?

Aakash Minda: So Jyoti, it is not acquiring. We have simply purchased the equity shares from the market. So, as I would mention again that this is the product that we continue to believe in. And content of the vehicles would be about, let's say, INR 4,000 to INR 5,000 going forward.

Moderator: The next question is from the line of Kushal Kedia from Wallfort PMS.

Kushal Kedia: Considering if you utilize most of the treasury surplus, is there any plans for future fundraising?

Aakash Minda: So our balance sheet is strong enough to cater to all the organic needs. If there are any inorganic opportunities that do come, we have a conservative and strong balance sheet to look at all of these options that do come.

- Kushal Kedia:** Sir, what is the current debt as of today? The long term and short term? Can you please share the current long term and short term debt as of today?
- Aakash Minda:** So long-term debt as of today about INR 150 crores.
- Kushal Kedia:** And short Term?
- Aakash Minda:** Short-term is to the tune of about INR 350 crores.
- Kushal Kedia:** So that's total cumulative INR 500 crores of debt?
- Aakash Minda:** Total Net Debt is about INR 400 crores with Net short-term debt at INR 260 crores.
- Kushal Kedia:** But now since you utilize most of the cash of Pricol investment, I think you will require a fundraising because we are seeing so much growth in the sector. I think you require the funds for working capital also going forward.
- Aakash Minda:** Next question there is INR 260 crores. And again, for running our own business, we have been generating enough free cash flow to cater to all our needs. Again, as I said, if there is any inorganic opportunity, then we may look at various options how when the opportunity strikes.
- Kushal Kedia:** You also mentioned that you are currently at an EBITDA-to-debt ratio of 1:1. So should I understand that you generate EBITDA of upward to INR 500 crores?
- Aakash Minda:** So I will not be able to give you a future guidance as we don't as a practice. But yes, we continue to outperform ourselves as well as industry quarter-on-quarter.
- Moderator:** The next question is from the line of Aniket Mhatre from HDFC Securities. Please go ahead. Mr. Mhatre, this is the operator, we are not able to hear you.
- Aniket Mhatre:** Yes, sorry. Just one quick clarification. So, given that this is purely a financing investment opportunity, what are the parameters does that your Board considers for any investment to qualify from an investment perspective?
- Aakash Minda:** So, we have norms for our inorganic growth opportunities that we have clearly defined, and we would like to be in the Indian market and the products which are of synergies to Minda Corporation. These are the primary two factors. And of course, any products which are agnostic to electric vehicle mobility and gives us the technology image. These are the primary factors.
- And of course, we're looking at this as an assets that give us a higher return, we look at that and the Board give us direction to invest in those for the best utilization of the funds.
- Aniket Mhatre:** Sir, but the technology edge wouldn't matter in the case of an investment -- of financing option, right? I mean this is just purely investment option. You would not get any technology from here, right?
- Aakash Minda:** No, no, no.

- Aniket Mhatre:** It would be investing here just for returns, right? So that's what we are trying to gauge. What kind of returns or threshold returns does the Board consider before entering into such an investment option?
- Aakash Minda:** These are all some mathematic calculations and financial decisions that the Board takes. But we have seen this sector doing very well, and the company performing in the last few quarters also. And based on the technology, we continue to invest in our own cells, and we are the market leaders when it comes to instrument clusters and driver information space.
- Moderator:** The next question is from the line of Jaspreet Arora from Equentis PMS.
- Jaspreet Arora:** Just wanted a clarification. Before this transaction, did we approach the Pricol management for seeking any collaboration or investment maybe through the primary route or any such option before buying it to the secondary market?
- Aakash Minda:** No, we have not had any discussion with Pricol management.
- Jaspreet Arora:** Okay. And second was what are the possible exit options that would be there? I'm sure you would have presented that to the Board as well while making this suggestion. So what are the possible option that could emerge over the next -- I'm not talking about a particular thing that you would end up doing. But what are the possible options that you could: emerge over the next couple of years that will allow you to unlock value through this transaction?
- Aakash Minda:** So Jaspreet, of course, right now, we're not thinking about any exiting. We've just invested not even two days ago. So we will continue to observe the organization and see how the industry grows, and we are very confident on the instrument cluster space. So then we shall see in the future.
- Jaspreet Arora:** But nothing was presented to the Board, you're saying while making this suggestion?
- Ashok Minda:** Sorry, repeat that, please?
- Jaspreet Arora:** I'm saying that no options were presented to the Board while making the suggestion. I'm not talking about today, but I'm saying even a decade later or five, six years later. But let's say the company, Minda Corp. needs money. And then at what mediums would you be able to lighten up your balance sheet by unlocking value through this transaction? Anything that you could share is what I'm saying.
- Aakash Minda:** Yes. We present how any opportunity or any investment or any partnership is value accretive for Minda Corporation. And based on those parameters, the Board takes the call.
- Jaspreet Arora:** Okay. Any similar transaction that has happened, Aakash, in the company's history, maybe in the last decade or so, something on these lines, which we could just take as a...
- Aakash Minda:** No, I think it's better if we take that detail from the market itself.
- Moderator:** We'll take the next question from the line of Aditya Welekar from Axis Securities. .

- Aditya Welekar:** Sir, can you just put on the debt and cash numbers on the book?
- Aakash Minda:** Sorry, can you repeat the question, please?
- Aditya Welekar:** The debt and cash on the books post this Pricol transaction.
- Aakash Minda:** So I'll ask my CFO to answer the debt and cash position. But what I would like to share, as I mentioned in my opening speech as well, is that we are in well positioned in order to take care of all our free cash flow needs coming from operations to fund our capex for organic growth in the short term to mid-term.
- And if any inorganic opportunity comes, we'll take it to the Board and then evaluate options. On the long-term basis, on the long-term debt and the financial position, I ask our CFO to comment, please.
- Ashok Minda:** Yes. As Aakash mentioned already that so far we have around INR 150 crores. And the net short-term debt that we have is about INR 260 crores.
- Aditya Welekar:** Okay. So what I understood is that as a part of our capital allocation policy, you had been raising further debt fund our future inorganic projects. So our priority will be to generate free cash flow and utilize it for further acquisitions. Is that understanding correct?
- Aakash Minda:** So we believe in ourselves and our free cash flow that we'll be generating. And all inorganic opportunity comes, we will explore the option at that point of time. But we are very strong on what we are doing and how we are performing, and we believe in ourselves to generate free cash flow and make a very strong and healthy balance sheet.
- Moderator:** Mr. Welekar, may we request you to return to the question queue for follow-up questions. The next question is from the line of Shashank Kanodia from ICICI Securities.
- Shashank Kanodia:** I wanted to check since it's a financial transaction. So are we allowed to apportion this much percentage of Pricol PAT in a consolidated number going forward?
- Aakash Minda:** No, this is a financial investment as a minority. So we will not be looking at any of those.
- Shashank Kanodia:** Okay. Secondly, lawfully, are we allowed to come out with any voluntary open offer for the minority shareholders of Pricol?
- Aakash Minda:** Sorry, please?
- Shashank Kanodia:** Sir, lawfully, are we allowed to come up with a voluntary open offer for the minority shareholders of Pricol Limited?
- Aakash Minda:** I cannot comment on that. So we are just again simply invested in this company. So I really cannot comment on that.
- Moderator:** Mr. Kanodia, maybe request that return to the question queue for follow-up questions. The next question is from the line of Chirag Shah from Nuvama. The current participant has left the

question queue. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Aakash Minda for closing comments.

Aakash Minda:

Sure. Thank you, everybody, for joining. As I would like to conclude by saying that we strongly believe in the automotive instrument clusters space, and this product is set to have big potential going forward. There's a lot of premiumization that we'll be having in the upcoming future. We believe that Minda Corporation should be in the leading position and we have our technology centre, which is already working on such products.. The investment is purely a financial investment that is done from the open market. We look forward to your support, and thank you all very much.

Moderator:

Thank you. Ladies and gentlemen, on behalf of Dolat Capital, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.