



“Motherson Sumi Systems Limited Q1FY2015-2016 Results Conference Call”

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(Unedited Transcript)



**MANAGEMENT: MR. VIVEK CHAAND SEHGAL – CHAIRMAN,
MR. LAKSH VAAMAN SEHGAL – DIRECTOR,
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Moderator: Ladies and gentlemen good day and welcome to the Q1FY2015-2016 Results Conference Call of Motherson Sumi Systems Limited. As a remainder, all participants' line 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 by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vivek Chaand Sehgal, Chairman of Motherson Sumi Systems Limited. Thank you and over to you sir.

Vivek Chaand Sehgal: Thank you. Welcome everybody for our conference call. In the room here, we have Laksh Vaaman Sehgal, we have Pankaj Mital, and we have G N Gauba. The four of us are welcoming you and are available to you for the question-answers. I think we have already gone through the presentation that we have put up. That is a new format. So do tell us if you want more information here. As we have always maintained every quarter we will either give you the new plants that are coming up in the group and then 6 months later you will get the update on that, and in the next half yearly results we will give you the total order book position, the new order that have been won.

The sales of the company have been fantastic. Please remember that almost 83%-84% of our business is in Europe. So please do not get carried away by whatever the numbers that was being told to us. We believe that we are a very steady company. We are growing very well. The board in fact congratulated the management saying that these are superlative results that they have come out with. So without any further ado, we would love to have your questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from the line of Jay Kale from Elara Capitals. Please go ahead.

Jay Kale: My first question was regarding your standalone revenues. We see a 1% revenue growth, just wanted to comprehend as in how much of your sales income is JPY and Euro denominated and second is versus passenger vehicle growth of 7%, this 1% growth looks low. So just wondering if there is a mix probably in the sense more of petrol vehicles would attract lower realization? Is that the case for the revenue growth?

Pankaj Mital: This is Pankaj here. If you see the India growth, this 1% is the standalone result which is mixed with both domestic and international sales which are exports from India. So the international sales are mainly in Euro denominated as well as in Japanese Yen and the domestic business is in Indian Rupee but it has a lot of content which is made up of copper and in Yen imports and these are both pass-through. So the result is to be seen in that light and if you look at the consolidated all India domestic business, the business has grown by about 4.5%.

Jay Kale: Sir your SMR and SMP revenue growth has been extremely strong. So just wanted to know that with a lot of premium manufacturers now a kind of cutting production due to the China slowdown, have you seen any impact of that; going forward have you seen any slowing of orders or is it basically lead by a market share gains especially in BMW and Mercedes?

- Vivek Chaand Sehgal:** I think it is a mix bag. There is definitely a bit of slow this thing that is happening in China but it does not affect the kind of numbers that our main customers are posting. As you know Volkswagen is already taken over as the number #1 position globally, Daimler sales are very robust and so is BMWs, and amongst all this we are more lineated towards Audi. Audi is being doing very well. So I would not be unduly concerned but yes, we are watching the Chinese situation closely because China is an important market for us. We believe that at this particular moment still China constitutes about 7%-8% of our business. So it is not very crazy effect on us but yes, there is always an effect. The weakening of the Euro actually gives tremendous amount of scope for these particular cars to be sold all over the world and that is exactly what is happening. So I would not be unduly concerned but we are watching China and Brazil very carefully.
- Jay Kale:** Sir but this year when China contributes 7% of your revenues but China linked revenues will be higher right because there would be certain imports in China from say Europe which gets recorded in your European revenues that is actually China demand?
- Vivek Chaand Sehgal:** I would not really get into that because then the total number of vehicles, the American cars and the Japanese cars would have been much higher than that of Volkswagen group, is not it? So really it is very difficult to get into that and we do not track that anyway. We are only looking at our plants that are performing in China and what is going there? What are the imports of cars from outside to China, really we cannot answer on that.
- Moderator:** Thank you. Our next questions from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Two questions. First on the India side, I was trying to understand is there a lead-lag effect on the commodity pass through and hence numbers are actually looking suppressed on your profitability performance in the quarter because both even crude linked plastic business is there a lead-lag effect? So is your RM to sales actually higher than what it should be or something of that sort because you have not received the benefit in the result. On account of inventory right down you may have taken and the impact is yet to be seen?
- Vivek Chaand Sehgal:** Chirag in contra to your question, there is also the effect of the year-end discounts that we give to all our customers. That is also a part of our presentations. So if there is any pass through this thing which is actually happening, there is also a discount that we are giving to the car makers and all. That is a yearly discount that we have to give. Every year, at the end of the year we give. So even that is also included as part of it. So its really difficult to calculate that.
- Chirag Shah:** But I believe discounts would be a normal every year in this quarter, there would be some impact every year. It is a normal business feature that would be happening in this quarter right?
- Vivek Chaand Sehgal:** That was the first quarter of the year. So we are already on the discounted prices.
- Chirag Shah:** Yes and the second was on SMR and SMP stellar performance on the revenue front but just trying to understand that our margin trajectory, the operating leverage does not seem to be

coming in with this kind of thing. Is that the plants that are in ramp up mode or in the startup phase?

Vivek Chaand Sehgal: Those plants are in ramp up mode.

Chirag Shah: So that costs are actually over shadowing the performance and how does one look at...?

Vivek Chaand Sehgal: We will write off. We will not carry forward anything to our balance sheet. So we will write off whatever those particular costs are. So that is a fair statement from me.

Chirag Shah: But would it possible for you to give an indication of what kind of impact it has on P&L? Would it be possible? I know it may not be that simple but for us to understand how the margin trajectory and written profile looks like, is it possible to see what is the suppression on your profitability in both the businesses because of the ramp up stage of various plants?

Vivek Chaand Sehgal: Think about it, how difficult a task you are asking us to do.

Chirag Shah: Yes, I am aware of that.

Vivek Chaand Sehgal: So I think one must be contested to the fact that these are very tough saying that when we ask our people to get involved in this, something more important could also be at stake. So we would rather focus on that but I would request Gauba if there is some this thing in the future that can be put on to the net, we will try and do that but it is always changing, it is one of thing, it is not everything that is going to happen all the time. It is really tough. Motherson is a miracle, M for Motherson and M for miracle.

MitalG N Gauba There are new plants as well as extension in the new existing plants.

Vivek Chaand Sehgal: There are a lot of complications on that but anyway we will see we can that I really doubt it.

Chirag Shah: Fair point. Sir one last thing, on this announcement done by Volkswagen on the FAST, this program and where SMP has been shortlisted, how does it change things for you? Does that mean that for door trims and for bumpers for which you have been selected do you have first write off refusal for all the models or how want you look at this or is an ongoing process but you are always the preferred supplier for them?

Vivek Chaand Sehgal: Understood. I will explain this to you. This is basically if you open this particular page from Volkswagen it actually explains to you that just on the basis of price they are not going to decide all this thing. They are also going to decide on that quality and the deliverability and all those particular things. So what they have done is they have created a kind of a fast track for certain suppliers like us in 2 categories, that is the bumpers and the door trims, there is a fast-track thing that is involved. So that means they will not have to go through whether you have capacity, whether you have the capability to make it. All those particular studies are not required anymore. It is just a thing that let us sit down, let us discuss, what are the terms, where is the deliveries, and things like that. There is a faster order-ability. In that sense, Volkswagen imagines that they

will be in a position to actually speed up the order processes and thereby cut the lag which is there normally for selection process of having vendors, things like that. So it is a very good system that Volkswagen is trying to do because there is a lot of time that is required for even established companies to go through that whole process of eligibility and things like that. So this is a shortcut to eligibility.

Chirag Shah: Yes but does it give you advantage of getting more business versus your competitor? Say a competitor who is also a number #2 player in the system. For example, do you get an edge that if a new upgrade or a new model is coming, you have a first preference or something like that or each business as usual actually does not change much of the dynamics except for that you are more integrated and with them right from the inception.

Vivek Chaand Sehgal: Definitely you get a first call If you are there. The other guys will have to go through the eligibility and all that, but if a supplier has also got eligibility like what Motherson has, then definitely it would come down to the logistics, it would come down to the country where this particular production is required, it would come down to the global supplybility.. So there would be some other this thing which might be there but I do not think it is only that you guys are special, so we give you the orders without discussing with you. No company could do that.

Chirag Shah: But broadly versus the previous 5 years or previous 3 years the way VW used to work and you had a reasonable share of business from VW, it does not really change the metrics in a meaningful manner, it helps you to be more integrated with them? That is the right way of looking at it?

Vivek Chaand Sehgal: Also I think you should take into account what are the orders that we have already announced to you. If we are going to grow, definitely we are getting lot of more orders and I think if you put that also into the context just I think what you are saying is pretty fair.

Moderator: Thank you. Our next question is from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: If you can give some little more color on this FAST program here because I have noticed that guys like Bosch is missing. So if you can explain what kind of metrics or checks did you go through? What kind of information did you share with them to get into this preferred supplier list?

Vivek Chaand Sehgal: Puneet, I would not be in a position to answer that. I think Volkswagen is the right company to tell you about that. I wish I was powerful enough to be deciding and knowing what is going to happen, but in last month, there was a vendor supply meet in which Motherson got the Global Champion Award; which actually for Motherson it is a really proud moment. I got it from Prof. Dr. Martin Winterkorn, Chairman of the Board of Management of Volkswagen AG. And Dr. Francisco Javier Garcia Sanz, Member of the Board of Management responsible for Procurement, Volkswagen AG. I think the whole topic was about the ability to speed up the models expectations in the new cars that they want to launch and things like that. This is very exciting and I think what it does is it cuts off a lot of wasted time just for eligibilities and all that.

Definitely price is always something which they would also do, we would also do, but it is a sort of reduces the feel and gives you the advantage that you are the one company which is there while Bosch is not FAST list probably maybe Bosch's components may not be having a competitor. I do not know.

- Puneet Gulati:** So was is the first time you have got this award?
- Vivek Chaand Sehgal:** Yes, for Motherson it is the first time global award, as a global champion award. We are very proud of the team that made us get that award.
- Puneet Gulati:** Excellent. Secondly if you can give some color on where is the progress in terms of Motherson global wiring and its business acquired from Stoneridge?
- Pankaj Mital:** We are doing well. We have got a lot of response from our customers and the company is profitable now. So we are on a growth phase, which as we have said it takes about 2 years to get new orders from the customers. So we are into the right mode of discussions with the customers for the new businesses, with the current customers as well as adding new customers. So the team in both Mexico and US have been very focused and have cut a lot of cost and consolidating.
- Vivek Chaand Sehgal:** I think Pankaj is being very modest. These guys have done a fantastic job. They have identified every single unit and looked at the problem each unit has, what the customer issues were, and very great job done, in fact the board was very pleased with this particular news because in less than a year, the company has turned around and is already in profit. So I would say kudos to Pankaj & team. He has been very modest here.
- Puneet Gulati:** That is great but lastly on SMR, this quarter the margins were 9% which was actually sequentially down 10.6 versus last quarter. So what has really changed this time and what is the added component to this?
- Vivek Chaand Sehgal:** I think there could be multiple reasons though Vaaman is here to answer this question. If you wanted in detail but we are a company which just follows what the carmakers is asking us to do? So product mix is changing, country mix is changing,
- Laksh Vaaman Sehgal:** You have to compare it to year-on-year. If you see year-on-year, there is no real big change over there. All the discounts everything kick in the first one. We then have 3 quarters to build on top of that. So sequentially viewing it is a very short way of looking at it. I think on year on year
- Puneet Gulati:** But year-on-year you would have added a new plant as well, right? So I thought it is important.
- Vivek Chaand Sehgal:** By adding a plant we have not reduced the sale, however the sales have gone up also.
- Puneet Gulati:** Yes, absolutely. So that is what I am wondering. I thought newer plants would be even higher margin accretive and...

Laksh Vaaman Sehgal:Mital At the same time there are 4 more plants also whose margins are coming up by the same time. So those plants are also included. If it is a dynamic thing we do not take these things out because then it take away from the focus of the team to be delivering those results and taking these things are normal course of business. If we take these as exceptional items, then the focus kind of goes away to make sure that these exceptional items are absolutely minimized and controlled to the tightest. So we will be preferred to keep it like that.

Puneet Gulati: So what you are saying is that the startup cost for the plants which are still under construction are also being expensed out in this format?

Laksh Vaaman Sehgal Yes.

Puneet Gulati: Just last thing sorry, I noticed that SMP Polinya is delayed by 2 quarters. Earlier it was 1Q and now it is 3Q and similarly MATE's Sanand Plant is moved by quarter. Is that some delay on our side or is it more like a customer requirement?

Vivek Chaand Sehgal: We can get into the details of it but Polinya is delayed, it could be because the car is delayed or shifting has delayed. Sanand I think there was a phenomenal rains over there. So the construction is being delayed but also the Ford program is also delayed. I think you are talking about the Sanand's MATE plant.

Puneet Gulati: Yes.

Vivek Chaand Sehgal: I think there is a slight delay on Ford side also. We have to keep responding to that.

Moderator: Thank you. Our next question is from the line of Ashish Nigam from Axis Capital. Please go ahead.

Ashish Nigam: There are a lot of fears about volume collapse in China specifically for luxury cars. So what feelers are you getting from the customers about how bad it could be?

Vivek Chaand Sehgal: I think we have already said that China constitutes about 7%-8% of our business. There is some slow down on the luxury cars that are there but it is not something that is going to sort of in anyway impact us in the huge way or something but we definitely will focus more on China to understand what are the consequences of that but it is a very closed country. So you really cannot do much rather than just to wait and see what is happening over there.

Laksh Vaaman SehgalMitalAshish, We also followed 3CX15 which is no country, no component, no customer, more than 15% of our business and this happens and we have seen it every single year one country or the other goes down, one country goes up. So we have a very balanced portfolio. We have very balanced customers in that sense and this is something what we says breathing with the market for us. So China is a little bit down absolutely if that gives us an opportunity to cut a fat over there, make our operations stronger, and look for opportunities in that sense. So there is something that we deal with everything a day, it is a part of our business. So we are not concerned

that much in that sense following what our guidelines of the group are but we will definitely keep a close watch on.

Ashish Nigam: I am trying to understand has there sudden deterioration in outlook that is in the last 2-3 months because what happened in the stock market, etc.?

Vivek Chaand Sehgal: Definitely, that has been the effect but you cannot really quantify.

Ashish Nigam: Also just if you can just share the revenue, EBITDA and margin if possible for the new acquisition? So MSSSL global wiring harness and Scherer & Trier

G N Gauba: That is included within the SMP and it would be unfair to take out each component and because over a period of time, we have been rationalizing the capacities because then we have to see which is the best place to manufacturer and it loses its identity in that sense.

Moderator: Thank you. Our next question is from the line of Hitesh Goel from Kotak. Please go ahead.

Hitesh Goel: On the net debt on a Q-on-Q basis it has gone up, is it totally driven by Euro and if I am also looking at standalone, the debt has actually reduced. So has the working capital requirement gone up in the SMRBV business likely?

G. N. Gauba: Yes, as you have seen there is a growth of 24% in both SMR and SMP, SMRP BV business. So definitely there would be a corresponding increase in the working capital. At the same time as you had seen that we have a CAPEX plan for which we have incurred the CAPEX in line with that and in order to make sure we have already upfront funded the CAPEX apart from the cash accruals which we are doing. So that is the main reason.

Hitesh Goel: So can you just outline the CAPEX line both for standalone and SMRP BV business for this year?

G. N. Gauba: Our total CAPEX plan is 1,500-2,000 crores because currency has been very volatile to come to exact number and our India CAPEX is in the range of 200 crore.

Moderator: Thank you. Our next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.

Sonal Gupta: Just a clarification. There seems to be difference between the sale received, selling the WOCO JVs between the consolidated and the standalone, 35 crores versus 22 crores?

G. N. Gauba: Yes, I think what happens is in consolidated books you create a virtual identity. Of course that also includes what has been sold by MSSSL Mauritius, the joint ventures in Sharjah was held by Mauritius and so whatever profit attributable to our profit share is accounted for, so in that sense 33% of the net worth is reduced from the sales considerations whereas for the standalone identity, it is sales price minus the cost price. That is the technical way.

Sonal Gupta: I got. So you were proportionally consolidating under the JV. So that is why it will be different. Sir could you give the MWSI revenues for this quarter?

G. N. Gauba: I think it is in the range of US \$60 million per quarter approximately. This is the run rate we are having.

Sonal Gupta: If you could just talk about long-term how do you see the SMP business profitability? What is the ideal range because right now you are going through a lot of new plant and capacity addition and therefore like you rightly said there is a lot of startup cost which is coming on these numbers but any numbers in terms of what is the sort of operating margins that this business would operate on a steady state?

Vivek Chaand Sehgal: I think the advantage of the group is just that we have multitudes of units in companies which are supporting a particular group for example SMP is supported by our wire harness division, by our plastic division, by our tooling division, by our software and design division, and all that. So when you buy the share of Motherson Sumi if you only focus on just say SMP then what it does is this is actually unfair and you will make a wrong deduction from that. So that is the reason we do not go for margins in a particular this thing. We always ask you to focus on the ROCE, because ROCE is a very good way of establishing good flow through the mother company which is Motherson Sumi and eventually you will then have the benefit of the real advantage of setting up SMP. There are a lot of competitors of SMP in the world and I am sure you would be knowing what kind of margins they are doing because probably they are doing only this business. We feel it is not so critical for us to guide our people that look your competitor is doing this, but in fact our job is to make sure that every unit is doing better and better and hence there is totally unlimited growth in that particular unit that it can do. Most of our products that we are making have a very short life, maybe 3 years, 5 years, 7 years max., and in such a scenario there is always a restart and a new technology, a new product is coming in, all these particular things really make it very difficult for us to keep guiding you in the margins. So we would request you that you should please focus on ROCE and believe me the ROCE of SMP as per itself and also as a group is always improving. That is what we are very proud off.

Moderator: Thank you. Our next question is from the line Nikhil Despande from Sharekhan. Please go ahead.

Nikhil Despande: In your presentation you have mentioned the standalone revenue growth of 1% is marched by the currency movement in Japanese Yen and copper but how do you see the growth in the domestic industry in volume terms? How is it growing? What is the outlook for domestic and SMP currently does not have too much of a presence in India? How do you see it going forward?

Vivek Chaand Sehgal: No, the reason why Motherson bought SMP was MATE and MATE has a huge presence in India and so but just for reasons of just ending up paying taxes, is the reason why we are not merging SMP with MATE. So definitely there is a strong presence of SMP in India and your first question was about the standalone and you were wanting to know about the wiring harness standalone?

- Nikhil Despande:** No, the standalone revenue as such you have shown 1% growth. You said in your presentation also it is marched due to the negative currency and the copper prices but overall how are you seeing the demand growth scenario pan out in the domestic market?
- Vivek Chaand Sehgal:** Yes, I think it is very good. Our customers are doing phenomenally well and in spite of those particular currencies and copper down and everything else down, we have still grown 1%. That is a huge effort. I do not know people do not seem to understand that.
- Nikhil Despande:** Yes, it does not hit us kind of.
- Vivek Chaand Sehgal:** Yes because you are looking at that 1 and what we are saying is no, actually it should have been negative around 15% or 20% and because of the growth we are still giving you a positive one. So it is like something like the Lehman crisis, all companies were down and we still grew 13% in that year. So we look at it that way. We think that it this is the real thing and we will not camouflage it in anyway. So it is a real number which is there and we are very pleased that 1 % is there.
- Moderator:** Thank you. Our next question is from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** How does the commodity and the currency part affect us? Is it a pass through or we do stand to benefit or lose out in certain scenarios? How one should look at that aspect or are even they adverse for us currently?
- Vivek Chaand Sehgal:** I think the businesses outside India or there is not much pass through there in anyway but in the Indian business definitely there is a pass through and it has held us in good stead but it also reduces our capital employed; we need less money; So everything it helps. Yes but we pass on the major effect of this. For example the Yen or the copper or dollar or the Euro, we pass that all to the customer.
- Chirag Shah:** That is in India.
- Vivek Chaand Sehgal:** Yes.
- Chirag Shah:** But sir if with correction in crude for example if the plastics or the wiring harness that you may be supplying as a part to SMR? For there if the commodity benefit stay with you till the re-negotiation comes up again, is that the right way of looking at it?
- Vivek Chaand Sehgal:** Always Chirag. You always catch us. Yes, you are right. I said on the business outside India you are right. So that is in fact the majority portion of our business.
- Chirag Shah:** A repeat question every quarter on minority interest, it keeps on moving. So now can we assume that some of the loss making entities have normalized and the variations will not be significant or the rest is some scope of surprises over there in terms of quarterly movements or annual movement because we had some in China which were profitable where we had lower share and then some of the plants which were loss making.

- Vivek Chaand Sehgal:** Lower share?
- Chirag Shah:** Lower equity interest. So it goes in minority interest former than some of the businesses which were suffering...
- Vivek Chaand Sehgal:** No, we have no business in China where we have minority interest either it is equal or it is majority.
- Chirag Shah:** So what I was trying to understand is that is there any more variations or some of the businesses or plants which were not contributing to profits, is it normalized now we can assume? How it does the minority interest look going ahead? That piece keeps on moving.
- G. N. Gauba:** Chirag, the movement in minority is dependent on a shareholding not on the profitability. So from our side we are giving a disclosure of SMRPBV and showing you what is the profit attributable to MSSL shareholders and the balance is there are some minority in other companies also, and tomorrow SMRPBV will also release its results under IFRS which are slightly different than this because the minority interest there is before SMIL. So I think there is a lot of clarity now on the minority interest, yet if there is any clarifications required you can do it offline.
- Moderator:** Thank you. Next question is from the line of Sudhir Kedia from ASK Investments. Please go ahead.
- Sudhir Kedia:** Sir just wanted to understand that on the standalone side when you say that your sales have grown just 1% in spite of Yen depreciation and commodity change, how does it sort of grown on like-on-like basis if such thing would not have changed?
- Vivek Chaand Sehgal:** Probably I think nobody does that calculation because it is over a period of 3 months but would definitely be up more than 15%-17%. I am just giving you on the corner of envelope.
- Sudhir Kedia:** What would be exposure to Yen because that is a pass through, right? Your imports will be Yen?
- Vivek Chaand Sehgal:** Yes, the imports for wiring harness are in Yen. We are also exporting in Yen. We are also importing in dollars. We are exporting in dollars. We are importing in Euro and exporting in Euro. So there is a cross that is happening there but definitely majority is in Yen.
- Sudhir Kedia:** So what would be your net exposure to Yen?
- G.N. Gauba:** That would be difficult. As on 31st March balance sheet if you see there our exposure given in the printed balance sheet. I will take that out.
- Sudhir Kedia:** No, I am asking from standalone part.
- G. N. Gauba:** Yes, standalone balance sheet also does have a FOREX note there. So you can take it from offline. I will take you through the annual report there.

- Moderator:** Thank you. Our next question is from the line of Vaishali from Aegon Religare Life Insurance. Please go ahead.
- Vaishali Jajoo:** So just an update on your US ventures. Last time when we had spoken, we were more supplying to the Japanese and European OEs and you were talking about taking that to the US OEs also. So is there any progress? Are you seeing any schedule on that front?
- Vivek Chaand Sehgal:** Are you are talking about wiring harness, you are talking about mirror, what is that?
- Vaishali Jajoo:** Most of our US business expansion whatever is going on, that is fine.
- Vivek Chaand Sehgal:** In that case definitely there is a lot of talk happening with 2 of the big 3 in US and these are basically for the SMP product. On the commercial vehicle side and other off-the-highway type vehicles I think MWSI and SMP and SMR are working together with them. So there is a lot of excitement in USA. I think our USA office does not sleep now a days, They are 24x7. **Vaishali Jajoo:** Sir, the initiative has started. So we can see the results adding to the US OEs as well in next maybe 4-5 quarters?
- Vivek Chaand Sehgal:** No, I do not say 4-5 quarters. I think we have to look at it a bit longer. I would say 10-12 quarters. You would probably see breakthroughs.
- Vaishali Jajoo:** Is there anything inorganic you are saying in US or anywhere else which may be the OEs have approached you to look at and which is interesting they can come in next 1 year or so?
- Vivek Chaand Sehgal:** Yes, I think there is possibility because we have a lot of products that we are making in the group and in the group presentations wherever I have gone in USA, I am spending a lot of time in US now a days, there is a fantastic pull that, oh! you are making this also. In that kind of a sense there is a lot of excitement and what we are doing is we are asking the Indian companies to go there and because we have manufacturing facilities sitting in US and Mexico they will piggyback on that and eventually come in with their own production. So I think small but big steps as small in quantity and value but big steps as far as the breakthrough is concerned would be taken in US in the next year.
- Moderator:** Thank you. The next question from the line of Kapil Singh from Nomura. Please go ahead.
- Kapil Singh:** I think this question was asked but just trying to get more granularity. In terms of the overall industry growth in India any range that you would be hearing from the customer based on that any expectations that you have like what could be the domestic passenger industry vehicle growth?
- Vivek Chaand Sehgal:** It depends up on what you call domestic passengers with all the crossover coming and everything happening there is going to be...
- Kapil Singh:** Yes everything put together.

- Vivek Chaand Sehgal:** Thin line is dividing what you call as Pass Car. I would really urge all of you to look at not just the numbers but also the value per car, that is also going up dramatically and in such a scenario where the numbers are equal or less or higher by little bit, it is not so exciting as the value of cars going up is concerned. So please believe me that the value of the car is going up dramatically. The shift is clearly towards A+, B-, B segment kind of cars or crossovers coming in that particular thing. A huge plethora of models that are going to come in which is actually going to take the value of the car even further on the higher side. Yes, I think one would be very happy if there is a double digit automotive growth but I am not so concerned on the plane numbers per se. I am more excited when the value for car goes up.
- Kapil Singh:** Secondly on the commodity side just wanted to understand, how did the reset happened with the OEMs. Is it like with the lag of one quarter in India.
- Vivek Chaand Sehgal:** For different customers it is different; some is quarters, some is two quarters or something like that, so it depends.
- Kapil Singh:** For the raw material cost side what would be the typical cycle for example if copper we are saying \$6000 and when would that reflect in our cost?
- Vivek Chaand Sehgal:** You mean the lag on copper?
- Kapil Singh:** Yes, exactly.
- Vivek Chaand Sehgal:** It is a limited thing, isn't it?
- Pankaj Mital:** Yes, what we buy today will be around the same as whatever would be the LME.
- Vivek Chaand Sehgal:** Are you talking with the customer, you are talking within ourselves?
- Kapil Singh:** With yourselves, like how much lag is there of that reflecting your cost because there will be some inventory as well.
- Vivek Chaand Sehgal:** Yes, Pankaj is right, it is almost immediate.
- Kapil Singh:** Lastly just wanted to check, some of these movements that we have discussed on Slide #8, Euro and copper and JPY, how do they affect the EBITDA growth?
- Vivek Chaand Sehgal:** It is more translation first but I think you can understand for example, if I am exporting \$10 harness to Europe per se, so last year I was exporting it at €10 then the thing was at Rs. 800. Today it is Rs. 700. So that is how it translate to the sales.
- G. N. Gauba** Mathematically it is very difficult to make a construct, that is how we always keep on requesting, you look at us as return on capital employed.

- Vivek Chaand Sehgal:** That is just the calculation to tell you that your sales is already depressed by 15% just because of the Euro over the years has lost. I am just giving an example.
- G. N. Gauba:** Very simplified, as simple as it could be.
- Kapil Singh:** I appreciate that and obviously we look at return on capital employed but I was just trying to understand that, exports I do understand but in India also does it affect for example the copper price movement, will it affect EBITDA growth in India?
- G. N. Gauba:** Yes, it will impact but it would be difficult to make a mathematical equation, we can do it offline but assume price of 400 and assume a price of 300 assume x% selling price also comes down, raw material costs also comes down.
- Vivek Chaand Sehgal:** But logistics cost will be the same, there are so many variables.
- G. N. Gauba:** Depending upon number of circuits the manpower cost would move. So as I said, given the huge part numbers in the business, it is very difficult to draw a mathematical conclusion.
- Moderator:** Thank you. Our next question from the line of Sahil Kedia from Barclays. Please go ahead.
- Sahil Kedia:** I have a question on SMR. If I look at the last few quarters on SMR, there seems to be somewhat of a drop in Q1 and towards the end of the year, that number starts to go up. So just trying to understand is there seasonality in the first half or something like that in SMR, that is number one. Number two, within SMR in your annual report you have said that there will be new plants starting up in France and Thailand, etc., where you are doing some amount of backward integration towards actuators and glass making. How should we think about that from a profitability perspective and when should we see some of those benefits coming in?
- Laksh Vaaman Sehgal:** Fine set of questions. This is Vaaman here. I will answer second one first, definitely our aim is always to get as much horizontally and vertically integrated. So these are decisions that each unit is making. So likely said we are increasing our in-house glass production; we are increasing our motor max production and shifting that around and making sure that we are not exposed just to one country making it and using it for all the other countries, bringing that in at the right time with right amount of programs that are going to be using it. So all that is constantly happening. We do not quantify that as one number but the aim is absolutely to keep having those make or buy decisions and as it makes sense to bring it in house and to invest into those capabilities. To answer your first question on Q1 and of course the quarter one is always when all the discounts and everything come in and also there is a change in the product mixes and the launches and what is happening in that quarter. So you will always see that the first quarter is always slightly lower and over the years, all the efficiencies and everything come in and all the teams are very focused on reducing the cost and making sure that we get us to have 40% ROCE and all those kind of figures that we do. So definitely you will see improvement as always the teams are focused and as the quarters go along you will see steady improvement, so I always recommend you to evaluate it year-on-year rather than quarter-on-quarter because it is too short of a period

to really come to any logical conclusion as to what happens. Some time you may even find that Q1 would be up for the product mix might have changed.

Vivek Chaand Sehgal: I think that **in hindsight** it is a very key point. Again, there is a lot of dynamics that is happening. For example there is a mirror that is made in Australia but it is been exported to US and likewise many things are moving from country to country to Euro and dollar and things like that. So all these particular things we try and give you the best closest to the result. So that shareholders are always informed as to the closest numbers that you can and the auditors agree to that. So please understand that the movement is huge and there are a lot of things that it are happening over there and secondly the last quarter cannot be compared to the first quarter because there are lot of other things which are like for example provisioning and things that are coming to effect in the last quarter, which people would definitely provide more than what the thing would be, just because they are not sure. So these things, all those into account and the provisioning in the first quarter is always on the higher side and all that. So a marginal difference here and there already is not to be really considered as something which is dangerous or scary or something like that.

Sahil Kedia: One more question if I may, on the SMP side we obviously have a few plants that are starting up, the bigger one at least this year would be the Scherling plant. Just wanted to get a sense of the size of the plant in terms of what would be the size once it fully ramps up. Just trying to get a sense of how much it could add to the business and more importantly is it fair to think that, this point was raised earlier, as some of these plans ramp up your overall profitability for Peguform should go up. Aligning question to this would be similar to SMR where you are doing a lot of forward and backward integration can you help us understand some of the initiatives that you are starting, not necessarily this year but over the longer period, for Peguform as well from an in-sourcing from the group perspective?

Vivek Chaand Sehgal: Yes, I think Scherling is going to get inaugurated by the President of the Bavaria which is the biggest industrial zone in Germany. He is going to come in and inaugurate it on 18th September. So we are really looking forward to that. The inauguration of the plant is basically handing over to the production 100%, but as you are aware there is always production that is already going on over there because sampling is happening, the color testing is happening, the approvals from the customers and all these things are happening. So the eventual ramp up of this particular plant would be somewhere around 2016, third quarter, fourth quarter, I do not know where the thing is going to be there. It also depends up on the customer readiness and things like that. But yes, there is a steady growth that is going to happen. Eventually the Scherling plant would be doing close to 250-300 million. I do not know what the eventual this thing would be, it will depend up on the product mix, as you know certain colors are more expensive, certain colors are cheaper. So cannot guess what should be the thing but it could it be anywhere between 250-300 or something like that. There are more plants that are coming up in different stages of this thing as we have attached now in the 20 plants that we have done there. In the next 6 months report Scherling would have gone out and whatever new that we would be doing would have come in by then. I think there is tremendous amount to focus, people sitting from MATE, people sitting from the wiring harness division, everybody is tied up straight into SMP; they are sitting there whatever the things that can be done by the group is already looked at very seriously and the

orders have already commenced. In fact if you remember about two years ago we used to do a particular plants in Pondicherry which was making Hindustan Levers water purifiers if you remember, that plant does not make water purifiers anymore and a massive plant like that is 100% supplying only to SMP the plastic parts that are there. I just visited that plant, day before yesterday and I think there are lot of such new such things that are happening. Sharjah plant is also looking at them, the Czech plant is now almost 2.5 times and it is almost going to be exclusively supplying to SMP and to SMR as well. So there is a lot of activity that is happening over there. You will see in the coming time that the group is going to be focusing more and more on the SMP bought out parts and bring them in-house and actually give value to them also as well as to ourselves. So I think that is the real success. In the SMR, as of now there is hardly any plant which is in trouble, all of them are profit making or are doing well or at least breaking even including France that is the beauty of what the question were to Vaaman was trying to tell you, by making the MM5 there, they have also broken even and the impact have gone in the profitability. We still have two plants in SMP which are little bit of a concern but they will also come around. We have to work out on how that is because though we are worried about China we are also very concerned about Brazil because Brazil is also not doing very well as a country. So of course we have frozen all our investments in Brazil, but China we have not frozen our investment. We think they will come out much faster than Brazil. So SMP is definitely, thanks for asking this question, because it is very important for us to localize and to bring good set that are being product outside in-house and thereby increasing margins and of course the ROCE.

- Moderator:** Thank you. Our next question is from the line of Jatin from Credit Suisse. Please go ahead.
- Jatin:** This is Jatin from Credit Suisse. One question was on the commodity side you mentioned that in the overseas business there is no pass through. So given how sharp the fall in all these commodities has been, there should have been some benefit that either we should have seen already or we are likely to see going forward, so just wanted to get your thoughts on that.
- Vivek Chaand Sehgal:** We are likely to see.
- Jatin:** So is it likely to come in the future quarter, is that the answer?
- Vivek Chaand Sehgal:** I really cannot get you on that because you should see that in the future, yes. Think about it, we do not use copper outside. We are using a lot of plastics and these are engineered plastics. Engineered plastics, the cost of crude in that particular thing is not such a big thing, even in the past many years we have been saying this particular thing that the effect of the increase of crude is not so much because there is a percentage, it is more engineering cost which the guys recover; crude is not such a big thing. I think in the future you will see little bit of softening and the kind of raw materials that we are using but I do not see this is going to be so substantial.
- Jatin:** This price cuts that you take in the start of the year, in both SMR and SMP are they taken in the March quarter or in the June quarter or in SMP they happen in the March quarter because when I look at your results, in SMP in the March quarter you always seem to have some margin impact. So just wanted to clarify that.

Vivek Chaand Sehgal: Definitely the effect of SMR, SMP is on the 1st of January when the new-year starts but if you compare it to the last thing it comes in the first quarter as well because a lot of things are happening all over the world. So in different geographies is different this thing but in the European if I am not wrong it is the 1st of January.

Moderator: Thank you. Our next question from line of Joseph from IIFL. Please go ahead.

Joseph: This is Joseph from IIFL. I have two questions, one is that when you quote your order book number, I guess that is based on a forecast or volumes that we get from the OEMs and eventually if the volume off take happens to be lower than what was originally planned, I wanted to understand what happens to the pricing and to the contribution margins. Do you get any compensation from the OEMs from the lower volumes or when volumes are lower do OEMs put pressure from pricing margin standpoint?

Vivek Chaand Sehgal: The whole thing about orders is that there is a contract between them and us, the volumes that they have guided us, we build our capacities based on those, that is why if it is (+/-10%) is not really an issue but if there is something which is larger than that, then I am sure, Joseph you will appreciate that my loss is going to be much smaller than his loss. I mean if you think about it, car maker will spend about 800-900 million for a minor change and for a full change in the car he will be spending somewhere around 1.3-1.5 billion dollars or Euros, it is almost same now anyway. So in such a scenario the tooling is always owned by the car marker. So really our loss on volumes are much lower other than we have spare capacity which is standing over there. So we ride the boat together with the car maker, that is very important for us. We have seen that in the past 35 years of experience that we have with car makers, it's very seldom that a car maker has not been able to keep its numbers and by and large they are pretty accurate at least to us. What we are seeing to the market is different set of numbers, we do not comment on that. But to us very rare that we have seen a car maker and not being able to match its numbers and in such a scenario if the recovery has to be done from us it is a sealed contract, we will get the compensation for whatever has been agreed upon. But if it is (+/-10%), we do not worry too much about it.

Joseph: The corollary was in a situation where volumes come down because of forces outside the OEMs control, like for example if demand in China collapses for whatever reason, would that result in the OEMs kind of squeezing you because that is something that we have heard in the past from other component guys about OEM putting pressure on pricing in a situation where volumes are lower than earlier predicted because of demand issue?

Vivek Chaand Sehgal: Here is my answer to you, how fast are you going, I mean you going 5 years, 10 years, 20 years 25 years, because it appears that you are talking about a situation which is 20-25 years ago. As I told you, we have a contract with the car maker. So what do you mean by squeeze. I do not understand the meaning of squeeze. There is no squeeze. There is a set contract for 5 years, 6 years. So I do not understand the term squeeze. You think we are selling vegetables that he comes and he says we do not buy from you I buy from the guy next door. You have to understand the engineering business and it is related to a particular car, the car market cannot say I cannot

sell in China and hence you have to reduce the price by 20%. I do not understand that. Tooling is owned by them. So in my case it will be that I will not produce that component that much more.

Joseph: The second question I had was in relation to the 24%-25% growth that you have reported in SMP and SMR, would it be possible to give us a sense of what the organic growth of the plants that were existing in 1Q of FY15 would be which is basically organic growth excluding new plants, excluding acquisition?

Vivek Chaand Sehgal: I understand that, thank you very much, but the problem is we are here to make a very profitable organizations. We are not the data network of the world that we will keep on doing these kind of things. Our people are very few and we are focused on what jobs they have to do. So after a particular point we can keep on dissecting the data as much as you want, but we are wasting our time then. So I really apologize, but we cannot get into what was organic, what was inorganic because in Motherson other than wiring harness everything is inorganic anyway. We cannot go on that really.

Moderator: Thank you. Our next question is from the line of Hitesh Goel from Kotak. Please go ahead.

Hitesh Goel: Sir my question is on China, basically if I look at your new plant, most of the plants in SMP are coming on the interior side, so this is what we check are you supplying bumpers also in China through your facilities in Europe or there are more orders to follow on Bumper side in China, just want some clarity there?

Vivek Chaand Sehgal: We are supplying bumpers, but as few of your predecessors before must have asked, is that going on the car or is it going on the machine. We do not supply the bumpers on the boats or on the ships. If the car is gone to China my bumpers are on it. That is the only way we can say that.

Laksh Vaaman Sehgal: We have painted parts, they have painted the exact same paint as the car has been painted on. So it almost impossible to colorship bumpers and sell them abroad. The blue on Tuesday is a different one than the blue on Wednesday. The same supplier blue has to be used for those parts. So they are produced close to the customer and supplied just in time, just in sequence, and just in line.

Hitesh Goel: In the new plants that are coming through, they are only for interior parts. You have not won any orders on the bumper side in China. Is that reasoning right?

G. N. Gauba: Hitesh, it will be very difficult to check what the current capacities available are. The expansion which is there is on interior side as you can see that.

Moderator: Thank you. Our next question from the line of Nitij Mangal from CLSA. Please go ahead.

Nitij Mangal: Just a simple clarification question. The business of Scherer & Trier is being consolidated at the SMP level starting 30th Jan, is that understanding correct?

- G. N. Gauba:** That is correct.
- Nitij Mangal:** If I assume that the revenue run rate for S&T is broadly similar to what it was at the time of acquisition, then let us say 1QFY16, SMP revenues would have roughly 60 million Euros of revenue contribution coming from S&T, would that be fair?
- G. N. Gauba:** I mean plus minus few basis points here or there should be right.
- Moderator:** Thank you. Our next question is from the line of Sonal Gupta from UBS Securities. Please go ahead.
- Sonal Gupta:** Just coming back to the question on commodity prices for SMR and SMP, so what sort of contracts do you have on the raw material cost side, I mean do you generally take a long term raw material contracts to avoid mismatches because end of the day on the plastics, etc., you will still have seen volatility and now that you are seeing a significant drop in petchem prices you should see some benefit right?
- G. N. Gauba:** Gauba this side. I think you have to break this into two parts. There are certain customer nominated parts, there are certain parts which require processing and these are all engineering plastics and these do not vary in the same proportion as the crude oil. Definitely you will have some contracts with the suppliers, some variation clauses, but they are not based on the crude oil as simple as that.. It is a complex engineering plastics, it is not simple products.
- Sonal Gupta:** Just to be clear then, we should not expect too much variation in margins at SMR, SMP because of commodity price is moving up or down?
- G. N. Gauba:** Does not change significantly and that is where we encourage to look at the return of capital employed. There are so many variables, so just to focus on EBITDA margin it is not a right business from our point of view.
- Moderator:** Thank you. Our next question from the line of Ambrish Mishra from JM Financials. Please go ahead.
- Ambrish Mishra:** Just one question, you mentioned about the annual discount which we generally pass on at the start of the year, this year is there a formula or a fixed percentage that we pass on every year or it depends up on what kind of environment we are in and what is the discount this year for any reason higher or lower than what we passed on last year?
- G. N. Gauba:** There are 800 parts and there will be a contract for each of the part, what will be the discount over the lifetime?
- Laksh Vaaman Sehgal:** It differs from customer to customer, program to program and you must understand that when it is awarded it is already fixed for the entire lifetime of the program. There is never any change in any year or anything like that.

- Vivek Chaand Sehgal:** This is Chaand Sehgal here. I would just add one thing, basically, , what is important is those contracts which are continuing before we took over the company we have to follow them. But in Motherson once Motherson has started quoting and taking its orders, when we give a particular thing then, let us say the life of the contract is say 3-5 years, in that particular scenario exactly 5 years, what exact discount, is already calculated and we know it. So it is nothing of a shock or surprise, or there is no squeeze factors.
- Ambrish Mishra:** So it is a fixed number that we worked with right at the start of the contract.
- Vivek Chaand Sehgal:** Yes, marketing guys are the best guys to work because they try and get the lowest and of course the car makers try to get the highest.
- Moderator:** Thank you. The next question from the line of Chirag Shah from Edelweiss. Please go ahead.
- Chirag Shah:** Just wanted to understand some of the plans that we have started in last 6 months, is there a delay in ramp or any of that kind of events have happened where there could be some miss on revenue or cost side. So 2-3 plans have started in 3QFY15 if I look at the presentation and, some plans are starting in Q1 so and so forth.
- Vivek Chaand Sehgal:** As I said the plant has to be ready, 6 months before the full volume production of the car maker. So when we start our plant, we still have 6 months, 9 months, one year in between, so there are different products, different gestation period is there for that. But in those particular times we have to show the FVP which is the full volume reduction that we do for the customers, so which is a test and that actually happens almost 6 months, 8 months before the full volume production starts from the customer side. So it is a process because if you are launching a new car and your products are very critical to that particular car, so they do not want to take a chance that they have started the production and suddenly one guy says, oops, my plant is not working yet. So it is a process of going through, if you remember when we were doing the SMR, Hungary plant everybody was very concerned at that time and we actually showed you how different models of different cars are coming and how the whole thing comes and today nobody asks us about the Hungary plant anymore, but with this new big plants coming you will have those 3-6 months, but they are all planned. Nothing is unplanned.
- Moderator:** Thank you. Our next question from the line of Kumar Saumya from Wealth Managers. Please go ahead.
- Kumar Saumya:** The question is that how much of this growth margin do you attribute to commodity prices and to internal efficiencies?
- Vivek Chaand Sehgal:** I definitely think the kind of questions you guys ask me I need a crey computer. I cannot answer that question, just pure weight of the question would crush us.
- Laksh Vaaman Sehgal:** So many products, countries, plants, different product mixes, what is being launched, which unit at that time is going to bring in more efficiencies, it is like a 1000 thing in play. So if you go into product supply these products have so many variations, it is not possible to calculate that.

- Kumar Saumya:** How is the outlook for the wiring harness export from the standalone basis?
- Pankaj Mital:** See what we are doing is we have been growing the business and the business is coming closer to the customer. If you see our past history, initially we were only having plants in India and then we started plants in Sharjah, we acquired an entity in UK, we have established plants in Thailand and Mexico and now we have multiple plants in US and then Mexico region, so slowly and steadily we have been bringing our manufacturing closer to the customer in the same geographies which helps us to give them better support. The growth happens. While the growth happens for export of wiring harnesses from India, more and more we are moving closer to the customers.
- Moderator:** Thank you. The next question is from the line of Puneet Gulati from HSBC. Please go ahead.
- Puneet Gulati:** This might be a difficult one but will it be possible to tell us between your wiring harness, mirror and the SMP business which do you think is the most exciting business for you and which do you think would probably out pace in terms of growth everybody else?
- Vivek Chaand Sehgal:** I think try choosing between three kids, if you have.
- Puneet Gulati:** It is a tough one but there would still be some favorite right?
- Vivek Chaand Sehgal:** Definitely your first one is always your favorite, but that does not mean that my mirror business or SMP business is the child of the neighbor or something, it is our child only. We are very excited in all of them and I think one of the key things that you should remember is, the connectivity between these three businesses is unbelievable. Lot of people do not understand this but let me give you an example. People gets carried away by the EBITDA of SMR, they say oh look the EBITDA is only 9%. But here I want to put this particular thing, in the transfer pricing and all these particular things assuming the wiring harness business gives you another 2% EBITDA about the R&D cost that is about 2.5-3%, then you go for the plastic part. How about the molds and dyes they are buying. Now if you look at that whole particular thing the only thing that you can own is Motherhood Sumi and that gives you a collective EBITDA of actually 17%-18% now. So you see it actually destroys the whole crux of Motherhood when you say the SMR business the EBITDA is not growing up. So you have to understand the nuance of the business of Motherhood and collectively we are so strong, that is the main thing. I mean think about it. Here in Motherhood you are spending everything, you are doing everything, and yet your net debt is down. Every time you guys are very worried about debt, now the debt is going to be debt free nobody wants to ask a question on that.
- Puneet Gulati:** Just in terms of growth outlook from the industry perspective or where you can see are much bigger?
- Vivek Chaand Sehgal:** I think definitely as a number, SMP would probably be the biggest growth, SMR would be the second biggest and the third it would be the wiring harness. But when you look at it in a different

way and that is the connectivity of this you will probably find as a percentage may be the wiring harness is growing much faster.

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

Vivek Chaand Sehgal: Thank you all very much. I hope we have been able to give lot of clarity on the numbers and we do look back with lot of pleasure. This is the first quarter of our new five year plan, all I can tell you is the story has just started. The next five years is very exciting for us and we look forward to all your support. Thank you so very much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Motherson Sumi Systems Limited that concludes this conference call. Thank you all for joining us and you may now disconnect the lines.