
Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

Vaaman Sehgal:

Ladies and gentlemen, welcome to Samvardhana Motherson Automotive Systems Group or SMRPBV Financial Results Quarter Four and Year Ended 31st March 2016 Results Call. We as the management are very pleased to have a strong set of results this quarter and for the year-end. I'd like to introduce everybody who's here with me. I have Mr GN Gauba, Mr Kunal Malani and Mr Vipin Jain with me on this call today. Without further delay, I'll request Vipin to jump into the presentation, which has been uploaded onto the website and take you through the results of the quarter and year ending.

Vipin Jain:

Thanks, Vaaman. Good morning, good afternoon, ladies and gentlemen. My name is Vipin Jain, and I'm the CFO of SMRPBV. I would like to present the audited, consolidated financial statement for SMRPBV Group, and this also contains the results for the quarter ending 31st March 2016. As Vaaman mentioned, I will be referring to the presentation which is already on the website, and then I would be making a brief presentation. And after that, we can open the calls for the Q&A.

I move to Slide Number Two, which gives the SMRPBV Group's structure. And this group structure is the same structure which we have been reviewing for the last two quarters; there is no change in the group structure. We have SMRPBV as a parent company, and then we have two businesses, which is SMR Business; we have SMP Business; and within SMP Business we also have SMIA, which we acquired last year, Scherer & Trier business, which gets consolidated into SMP Business.

Slide Number Three gives a reflection of the global presence of SMRPBV. In all, we have 47 manufacturing plants spread over 16 countries. We have 11 module centres because we have to be close to the customer, because of the OEM business, and we have a workforce of close to 22,300 motivated employees.

Slide Number Four: We have tried to capture some of the key highlights for the fiscal year 2015/2016. FY 2015/2016 was another successful year of the growth, with revenues crossing €4 billion for the first time, and with a growth of 15% over the previous year. EBITDA also grew from 7% as percentage to sales to 7.8%, which is a significant improvement on EBITDA.

We also have won new orders, for close to €6.5 billion during the current fiscal year and order book is €13.5 billion as of 31st March 2016. These orders are spread across SMR, SMP, SMIA and all the businesses are going strong on the new orders. Consistent leverage ratio is one of the major key highlights to look at despite the capital expenditure close to €231 million which we did in the current fiscal year. We are at a

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

leverage of 1.77x, which is much below the threshold and in line with the guidance which we have been giving to the market in the last couple of quarters.

We also commenced production from some of the facilities during the year. We had brownfield expansion in USA for SMR business. This is a significant expansion for SMR business in the Americas region. We ramped up Scheirling plant in Germany, which is for one of the key customers. We had a small plant which opened during the current fiscal year in Foshan, China. We also had new plant for SMR in Chongqing, which is in Central China. We also had expansion into our facility in Botzingen, and this is for Daimler, the new door-trims for the E-class.

We also are working on two Greenfield, which are very close to the completion, and the production is expected to start in the current fiscal year. We have a plant in Beijing which is a Greenfield site. The production would be starting by end of this quarter. And then we have a plant in Zitlaltepec; this is in Mexico, and this is for Audi Q5, and this is again a Greenfield plant. This, again, would be starting production as we speak, maybe towards the end of next quarter.

We also have two new Greenfields under construction, and we had announced already that we won a €2.2 billion order from Daimler. And to cater to Daimler for these new orders, we are setting up two new plants, and one plant is in Tuscaloosa, which is in Alabama State of USA, and one plant is in Kecskemet, Hungary, and both the plants are for the SMP business.

These were some of the key highlights which I wanted to mention before we get into the detailed numbers, and with this, I would like to take you to Slide Number Five, which gives details of revenue and EBITDA for the quarter ended 31st March 2016. If you look at SMRPBV, we had a revenue growth of 4%, and SMP business also had a growth of 4%; SMR grew up by 3%. But important to note on the slide is, if you look at the adjusted EBITDA number, it improved by 29%, and as a percentage to revenue, it moved from 7.2% to 8.9%. And the growth was coming from both the businesses, SMR and SMP. SMP grew by 30%; SMR grew by 28%.

I move to the next slide, which is Slide Number Six, and this slide again gives the similar information, but for the full year. So if you look at SMRPBV, revenues were up by 15%. Again, SMP was up by 17%; SMR was up by 13%; and adjusted EBITDA as a percentage to revenue is up by 28%; and on a consolidated basis for the full year and we moved from 7% to 7.8% as a percentage to revenue. SMP grew by 35% and SMR grew by 20%.

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

I move to Slide Number Seven, and Slide Number Seven gives some details on the adjusted EBITDA. We have included adjusted EBITDA for the first time, and we felt that it was important to highlight a couple of items which are in the nature of non-recurring items, both on the income side as well as the expense side, and adjusted EBITDA gives the correct reflection of the operating performance of the company.

If we look at the table which is there on the slide, there are three items which we have shown as the adjusting item while calculating the adjusted EBITDA. There was a gain of €13.3 million in the last year, and this was due to the acquisition of SMIA, so we had this gain as a non-recurring item for the last year. We had the unfortunate incident of fire in one of the plants, in Polinya in Spain, and we had an insurance settlement because of this fire. And because of the difference between the replacement value of the asset and the written-down value of the asset, we had some gain over there, which is again in the nature of non-recurring items. So we have adjusted both these gains to arrive at the correct EBITDA.

And we also have some expenses which are like start-up cost for the new Greenfield plants. As a conservative accounting policy, we charge off all the start-up costs to the P&L and we don't capitalise any start-up costs. But since these start-up costs are getting significant, because we are setting up new Greenfield plants, and as we move forward, we are working on these two plants which I talked about, in Kecskemet and Tuscaloosa. So if we look in the current fiscal year, we had incurred €22 million as a start-up cost in setting up these new plants. So while we had charged it off to P&L, but then we thought maybe it is appropriate to show this as an adjusting item in the EBITDA table. So if you look at the adjusted EBITDA, we move from 7% as a percentage to revenue to 7.8%, and, again, that table also showed that SMR and SMP both had increment in EBITDA.

I move to Slide Number Eight, which gives the revenue split by customer. And, again, there is a pie-chart, and some of the investors will be familiar with this pie-chart. The inner circle is for the last year, which is FY 14/15, and the outer circle is for FY 15/16. We are trying to demonstrate that the customer base is getting more and more diversified as we move forward. While on top line there is a growth of 15%, there is a small table on the right-hand side which shows that Daimler grew by 70%, Ford grew by 34%, BMW by 29%, Porsche by 22%. And because of the significant increase in some of the other customers, which were relatively smaller in the past, the customer base is becoming more and more diversified.

If we look at the Daimler, the share of Daimler in the overall pie of SMRPBV revenue was 5% in the last year, which moved to 8%. And on the other hand, some of the big customers, like Audi the overall share of the pie is getting little balanced, so they came down from 28% to 26%, and VW came down from 14% to

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

12%, whereas we see an increase in Daimler business, we see an increase in BMW business, and we see an increase in a couple of other businesses, like Ford.

We now move to Slide Number Nine which gives details of the geographical split of the revenues of the company. Europe continues to be still the largest geography for the Group, for SMRPBV Group, which contributes to 72%. Europe constitutes Germany, Spain, Hungary, UK, France, Portugal and Slovakia and we have plants across all these locations. Asia-Pacific is 16%; out of 16%, 6% is China, and the remaining 10% comes from locations like Korea, Thailand, Australia and India. America, we have small revenue coming from Brazil, which is 2% of total revenue, and 10% of the other revenue comes from plants in Mexico and North America.

If we move to Slide Number Ten, and Slide Number Ten, we have tried to give a flavour on the order book, and we have been giving this order book every six months. Last time when we had declared the order book in September 2015, it was at €12.5 billion, and as at 31st March we had an order book of €13.5 billion. And when we talk about the order book, order book is the incremental orders which we have already won from the customers and which have not been put into production. So the order book is increasing and we have also tried to give you a historical perspective, how we have moved from €7.7 billion to €10.8 billion and now we are at €13.5 billion order book.

We move to Slide Number 11, which gives some information on the net working capital. If you look at the net working capital graph on the right-hand side, which is presented in Number of Days, we are at a consistent level of 13 days in terms of the net working capital. In the previous quarters we have been explaining that our net working capital should be in the range of 14 to 15 days. If you look at the number, it is 13 days, so it also showing an improvement, coming from 28, 21 to 13. In March '15 we had some extra Trade Payables pulling it down to 8 days, but then 14 or 15 days should be a steady number going forward.

Slide Number 12 is on capital expenditure, we incurred €231 million on the total capital expenditure, but important to note here is that approximately 67% of the capital expenditure was incurred on the new facilities, which means that significant portion of money is going into the growth capex, which is going to give the returns as we move forwards.

Slide Number 13 is a summary of cash flow. Again, we look that operating profitability continues to be strong, generating cash flow of €285 million. We had changes in working capital, €53 million; we had income tax payment €60 million; we had capital expenditure on a cash flow basis €240 million. We had the

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

bond proceeds of €500 million in the last year, and there was a €100 million bond this year, and this is getting reflected in the cash flow from financing activity. We had interest payment of €29 million; and we had opening cash of €184 million, which now as at 31st March 2016, is €192 million as closing cash.

Next slide, Slide 14, gives status on cash and debt status, we had a gross debt of €694 million and cash of €192 million, but important to note on the slide is the net leverage ratio, which is showing improvement. If we compare from FY '14 to FY '15 to FY '16, we are at a steady level of 1.8.

Slide number 15 gives liquidity status which is available to the group as at 31st March 2016, and we had unutilised portion of RCF1, RCF2, RCF3, which are the committed credit lines available to the company.

We also had cash and cash equivalent of €192 million, which leads to a total liquidity of €534 million to the group as at 31st March 2016. The lower table shows the gross leverage ratio we were at 2.4x, which is much lower than the threshold of 3.5x and on the net leverage ratio, we were at 1.8x, which is much lower than 3.25x, and which is significantly better than the leverage ratio which were there in the previous quarters.

So this was a short presentation on the financial results. With this, I hand over back to Mr Vaaman Sehgal to take it forward.

Vaaman Sehgal:

Thanks, Vipin, for that thorough presentation. With that, we conclude our presentations and we will open it up to the floor for questions. Laura, can you please take over?

Operator:

Ladies and gentlemen, if you would like to ask a question, please press star followed by one on your telephone keypad now. If you change your mind, please press star followed by two. And when preparing to ask your questions, please ensure your phone is unmuted locally. Our first question today comes from Andre Fougerat from Allianz. Please go ahead.

Andre Fougerat:

Yes, good evening. Andre Fougerat from Allianz Global Investors. I just have two quick questions. First of all, in terms of M&A, do you have anything in sight? And, secondly, could you give us a rough idea of how much capex you will spend this year? Because you invested quite heavily last year; will it be the case for 2016? Thank you.

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

Vaaman Sehgal:

Okay, for the first one, no, there is nothing that is going on that we have to disclose to the market. And for the capex one, Vipin, will you take that?

Vipin Jain:

On the capex, we have been telling the market, we are setting up new plants, and we have been giving the guidance of average capital expenditure of €250 million every year. If you look at the last year, we did €231 million. Depending upon the project, some of the capex can go a little bit higher, a little bit lower. That is the reason we have given a guidance of an average capital expenditure of €250 million per year.

Andre Fougerat:

Okay, thank you.

Vaaman Sehgal:

Thank you.

Operator:

Our next question today comes from Mel Siew from Muzinich. Please go ahead.

Mel Siew:

Hi, just wondering if you could give some more information around the order book. I guess you said that these are based on orders that haven't yet gone into production, but just wondering how you see that 13.5 million getting released into revenues. Do you disclose them sort by any phasing you have? And I expect it's probably based on expected production volumes that the OEMs are sharing with you.

Vaaman Sehgal:

Yes, thanks for that question. You're absolutely right; that's the total amount of orders which are not being produced today. They will be executed over the five-year period on average, and the total orders book that we have. So it depends on the launch times of the OEMs, when those programmes will be launched, but definitely they will be completely launched in the next five years, towards the end of their production. So that's a rough estimate to take.

Mel Siew:

Okay, so they would start probably any time, what, from next year to two years' time and then over the model life?

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

Vaaman Sehgal:

Yes, that's over the model life, but they have models that are starting now, there are models that are starting next quarter, next year, and so on.

Mel Siew:

Okay.

Vaaman Sehgal:

Exactly, it's a continuous number that we give, so when we update it after six months, those programmes which have started, they fall off and the new programmes that we have won in those six months get added to this number. So it's a continuous number we give you.

Mel Siew:

Okay. I think I missed it when you disclosed some of the order received. I don't know if you could run through the orders you received over the course of 2015/2016 that have led to the increase that we've seen, just quickly.

Vaaman Sehgal:

Yes, well, so at the full year this year we have got €6.5 billion worth of new orders in this year, and the total order book is sitting at €13.5 billion.

Mel Siew:

Okay. Have you disclosed clients? I know that Daimler was a quite big win for you. What was these?

Vaaman Sehgal:

Daimler was a special case that we had said, but according to the NDAs, we're not allowed to disclose the customers or the programmes, we gave you some colour on the presentation, the revenue spread by customer, so you can understand which are the new customers, which programmes are starting.

Mel Siew:

Okay, that's helpful, thank you.

Operator:

Our next question today comes from Stephanie Vincent from JP Morgan. Please go ahead.

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

Stephanie Vincent:

Hi, thank you so much for taking my questions. Just on the order book again, when you're looking at this in terms of, you were seeing pretty significant growth, so I'm just wondering, in terms of market share, how much market share do you think that you're gaining versus peers, and how much do you think is just market growth, and how much is gaining new customers? And my second question is just on operating leverage, because we're seeing pretty significant, at least in the fourth quarter for your fiscal year, pretty significant growth in EBITDA versus the revenues. So I'm just wondering what cost items are running into that and what should we expect in terms of operating leverage, going forward, when we're modelling you guys out?

Vaaman Sehgal:

Okay. Look, we have multiple programmes, multiple customers, multiple geographies, so we don't really map our market share in that way to be able to model it. We are setting up these Greenfield and brownfield expansions on the customer orders that we get, all these orders are backed and new construction sites are all built backed by these new orders that are coming in. We have very, very strong growth in the different regions and where we have just announced all the Greenfield programmes that are projects that are coming in. So I hope that kind of gives you some sort of an understanding where the new programmes are coming.

Unfortunately, I'm sorry, I'm not able to tell you more about, market share gains or what we are taking, but I can tell you the order book is a healthy mix of repeat business as well as new businesses, so there's the greenfield expansion sites, locations, where we are absolutely not there, where we are setting up our footprint, and the brownfields are where we are taking on more orders from the customers due to successful execution of the current product.

We have talked a lot about setting up of these new plants that we expense out in the P&L, so some of these new plants that have now come and started taking the new programmes are obviously showing the sales, and, correspondingly, the margins are looking better. But we don't usually guide on margins; we always guide on return on capital employed, which is our target to hit, 40%. We're still a way far from there, but we announced that SMR has already hit that target, and SMP is also on its way with these as new plants and new programmes come into certifications.

Stephanie Vincent:

Okay. Thanks very much.

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

Operator:

Our next question today comes from Binay Singh from Morgan Stanley. Please go ahead.

Binay Singh:

Hi, thanks for the opportunity. Just continuing on order book, just to sort of understand better, is it fair to assume that the €13.5 billion order needs capex? This cannot come out of existing plants? Is that the correct understanding?

Vaaman Sehgal:

So the existing order book, which we have of €13.5 billion, all the capex that we are doing in the current facilities and the new upcoming facilities is enough to take care of this order book. But, of course, like I said, every quarter we are winning more orders and more programmes, so as and when those things happen, the number changes. But therefore the order book that we have told you about today, the existing capacities and what we are setting up is enough to take care of it all.

Binay Singh:

So, basically, like what I was trying to understand is that, your order book has grown from around €10.8 billion to around €13.5 billion. You have won new orders of around €6.7 billion during the year, which means that your order execution during the year should be around 4 billion. Assuming a five-year order cycle, that effectively would imply somewhere close to €800 million incremental revenues you should have called in FY16. The incremental revenues for the business is around €450 million or so. So just trying to understand will it be all incremental revenue or some of it could be the business that you were already doing and there's a model upgrade and that's coming in now?

Vaaman Sehgal:

Yes, exactly. Some of that order book has been executed during the last six months or so. So that number has actually come out of the order book and everything that we speak now is incremental.

GN Gauba:

See, yes, so you have got the answer, what you rightly said, that when we are executing orders, these orders of €13 billion-plus, to also include some of the programmes as will get phased out.

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

Binay Singh:

Also, it's in a way. I think if you could share that breakdown it will be very helpful to transfer or translate order book to revenue growth, going ahead.

Vaaman Sehgal:

Yes, unfortunately, we have a limitation to share that information about customers and their programmes. So this is what we have found a consistent way of disclosing in consent with the stakeholders.

Binay Singh:

Okay. A second question, firstly, thanks for sharing this incremental data on your ramp-up cost. It's very helpful; the slide is really good. Could you directly say that the start-up costs in FY17, will they be higher than FY16, or lower, I mean, directionally?

GN Gauba:

While we expect to be in the same region, what have been there in the last year, but then at the same time depending upon the launch of the programme and how much variants of programmes are there, these can vary significantly from one location to another. So from an accounting point of view, we have still not changed our policies. We have disclosed, because, as you rightly said, there was a lot of requests from the analysts, so from an accounting point of view, we'll continue to charge that to P&L account. So the pressure on the operating teams to perform even after this cost is the same.

Binay Singh:

So in that sense, broadly, they can at least remain similar for next year and then come down? Is that the understanding?

GN Gauba:

Yes, that is what as of now we anticipate.

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

Binay Singh:

Great! Thank you so much. That's it from my side.

Operator:

Our next question today comes from Jamshed Dadabhoy from Citigroup. Please go ahead.

Jamshed Dadabhoy:

Yes, hi, so good afternoon. Thanks for the opportunity. So could you give us a sense of what your tax is going to be like in SMRPBV over the next two, three years, just the effective tax rate?

Vipin Jain:

I think, to give guidance on the effective tax rate becomes very difficult, because if we are expanding into different geographies, there would be locations there, we would be setting up new plants, there we'd be having some start-up costs which would not be tax-deductible against the profit of some of the regions. So I think giving guidance on SMRPBV level becomes a little difficult, but, again, you will see that once we have all the plants which are coming into production, the overall profitability will keep on improving, which will sort of balance the tax rate. So as of now, maybe if you try to work out the tax rate, it may look a little higher or lower, but that's not a right way of looking at it, because each of the countries have their own tax rate and you have to pay taxes in the respective countries. There are no global tax pooling schemes, but a general tax rate in all the jurisdictions where we are having a tax rate in the range of 30% \pm , so that should be directionally the effective tax rate once we've stabilised the business.

Jamshed Dadabhoy:

Okay, fine. And second question: when you talk about 40% target ROCE, could you directionally help us in terms of when you think about the ROCE, what sort of asset turnover are you thinking about in these businesses?

Kunal Malani:

Given the number of products and given what goes in the product, frankly, there is no way that anyone can determine an asset turnover on that. Look, you can make, for example, a bumper of a C-segment car and a bumper of a top-end luxury segment car; the fact is the moulding machine required, to some extent, would be somewhat the same, right, but the end products are very, very different. Now, how do you compute an asset turnover on that, right? So, frankly, that's not the way we really run our business.

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

So at the end of the day, for the combined combinations, in certain cases, the asset turnover of product would be very high, the margins would be very low, right, and vice versa for some of the other products. Within the same domain of the product also it will be very, very varied, as I just explained to you in terms of the complexity of the variance of the products that we make. So it's really done on a programme-to-programme basis, and try to maximise on a programme-to-programme basis.

Jamshed Dadabhoy:

Yes, I appreciate the complexity, Kunal, but what I am sort of trying to grapple with this one is that when you think about the ROCE, going ahead, especially since there is an ROCE metric, are we thinking that returns improve or, directionally, the margins improve, or is it a judicious combination of both?

GN Gauba:

I mean, you could have a better ROCE even through just better working capital management.

Kunal Malani:

Yes, that's what I'm saying; at the end of the day there are multiple areas that exist. You are taking those levers and trying to do it at a company level, right. The fact is this is done at the shop floor level, right, and it is done at the level of each programme. So I'm saying these attract at that level and different levers are required to be pressed for different programmes. And hence it's the combined effort of all that, of what you see at the company level. So, for us, the company level is the output, right, but the actual, let's say, management focus is really at the shop floor level.

Jamshed Dadabhoy:

Okay, all right. Thanks, Kunal. Thank you.

Operator:

Our next question today comes from Sonal Gupta from UBS. Please go ahead.

Sonal Gupta:

Hi, good afternoon. Thanks for taking the questions. Was this Audi Q5 a new programme for you?

Vaaman Sehgal:

Sorry, we can't talk about individual contracts of customers. Sorry about that.

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

Sonal Gupta:

No, because, I mean, the Mexico plant is dedicated for that, right, so that's what you just announced.

Vaaman Sehgal:

We have a dedicated new contract, but we're not allowed to disclose programmes and other details if you are looking for any guidance on that.

Sonal Gupta:

Okay. And just in terms of again clarifying on the start-up cost, if I look at the start-up costs as a proportion for the full year number for this quarter, it is fairly high for this quarter. And given that you have already had some four facilities sort of coming online this year. So for these kind of facilities which have started production, you are not counting any start-up costs, or is it related to these facilities?

GN Gauba:

I mean, Sonal, this is only for the facilities which have not come into the commercial production. So the facilities which have been already started, they will not get reckoned in the March quarter.

Sonal Gupta:

Right, so like SMP Germany, like you've mentioned, the Schierling plant, I guess, which started earlier, right, so it won't be covered?

GN Gauba:

Yes, it is not covered, yes. This is a repeat clarification; it is not covered.

Sonal Gupta:

Right. And on the China SMP facility, could you remind us, is this 100% owned, or is this a JV, which is coming?

Vipin Jain:

There are two facilities which are coming up. Yes, the new one which is coming up is 100% subsidiary.

Sonal Gupta:

And when is it starting? Sorry, I missed that.

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

GN Gauba:

We will have to look at the December presentation. I think it is in 2016-17, third quarter or so. But let's check on the presentation which is there.

Sonal Gupta:

Okay, sir. Okay, sure. Thanks for the explanation.

Operator:

Our next question today comes from Hemand Gaichare from Citicourt Services. Please go ahead.

Hemand Gaichare:

Yes, thanks for taking my question. Just a couple of questions I have; one is on the SMR EBITDA margin. I mean, for the fourth quarter we can see there was an improvement from 10.6% last year to 13.1%. So just curious to understand like what has driven this sharp improvement and do we expect it to remain at this level, going forward? And the second question is related to the revenue development; in the fourth quarter '16 the revenue grew by around 4% year-on-year, which is a bit lower than what we had seen in the last three quarters. I know in the third quarter you have disclosed that company now sticks to the engine, but I just want to understand like are you seeing any kind of an impact from emission issues at Volkswagen? Yes, that's it, thank you.

Vaaman Sehgal:

Okay, for the first question of SMR, we do not guide on margin again, but I think the more important point is that they crossed 40% ROCE and we're extremely proud of the effort done by the entire management team. It's not a one-off or something like that; it's a continuous effort you see quarter-on-quarter in a yearly comparison. So, for us, since we have taken over, you see continuous improvement in all sorts, and which is leading to that result. Of course, that said, that we don't want to stop here; we want to push on further. And we have a huge opportunity also with the new technologies that are coming up in that area, so we are quite excited about that. And definitely all the improvements on the shop floor continue to push forward, and, hopefully, the management team will give even better results. That's the effort there.

For the second question, look, we've constantly clarified that we cannot give any comment on any of those issues that are happening, but from our end, our customer programmes are all strong. Our demand is quite strong. All the new programmes which have been given to us are on track. So we have constantly said that we have not seen any impact on that coming on current production or any future programmes, and we'll stick with that.

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

Hemand Gaichare:

Okay, yes, thanks for the explanation. That was helpful.

Vaaman Sehgal:

Thank you.

GN Gauba:

Before we move to the next question, another question, to SMP China start-up, as per the presentation, we check, this is to start in Quarter One of financial '16/'17, so the current quarter is the start-up date for this.

Hemand Gaichare:

Thank you.

Operator:

Our next question today comes from Joseph George from IIFL. Please go ahead.

Joseph George:

Thank you for this. My question is, on your start-up costs, again, so when I look at your December presentation, what I notice is that you have a couple of new plants opening in the first quarter of FY17, and post that there is a break of almost six quarters with the next one opening in 4Q FY18, which is the one in Hungary. So, see, I'm not very sure of what you classify under start-up costs. But would I be right in assuming that in the period of those six quarters, in the post 1Q FY17 till 4Q FY18, start-up costs will fall drastically?

Vaaman Sehgal:

Till the time, sales are not being realised from that plant. We're not talking about prototype; we're talking about commercial production here. We will continue to classify that as a start-up. Obviously, there are some dates that move around closer to the launch that may get just a little late, but that's why we give you more of a quarter numbers that is in a fixed month or something like that. So, after these two plants that we're talking about right now, which are at a later stage, which is the Tuscaloosa and the Hungary plant, that's, as far as we see now, for, the start-up costs to be there, once these two are up and running, you're absolutely right, most of the things will come into force unless we announce that we are building some new plants or a new geography or something.

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

Joseph George:

Okay, all right. The second question was on the China situation, because I just work out the China revenue space on the regional split that you have given for the last two years, I notice that there's a big drop in China revenues. So could you help us understand whether that's a function of the China market as a whole, or have you lost a customer there? And what is the situation on the ground right now?

Vaaman Sehgal:

No, nothing like that. You have to remember that the pie is growing quite significantly; there is significant growth in the region as well. Definitely, in the calls we had talked about, macroeconomic situation in China, which they have now pulled out from and are showing growth, and hence the new facilities also that are coming up and that will come up into this quarter. So you'll see that get reflected in those numbers. But there's overall growth in all the regions. There is no such a place where we have not seen growth. We've talked about our hotspots and we've talked about the Brazil macroeconomic situation, but other than that, all the regions are growing well.

Joseph George:

Okay, and the last question that I had was on the Mexico plant that you highlighted. Could you give us an understanding of how big is that plant, maybe in terms of the capex that you are undertaking there?

Vaaman Sehgal:

So just going after what we have disclosed earlier, we have done a capex of €120 million over there.

Joseph George:

For the Mexico plant? All right, thank you.

Vaaman Sehgal:

That's euros, yes.

Joseph George:

Sure, yes. Thanks a lot.

Operator:

Our next question today comes from Sanjay Satpathy from Bank of America. Please go ahead.

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

Sanjay Satpathy:

Yes, hi, thanks a lot for this opportunity. Once again, I want to get a clarification about the way you were classifying this order book. You said that the moment the programme starts; it is taken out of the order backlog. Just to clarify that part, you have got about €2.2 billion orders from this Daimler for which you are building these two factories. Can I ask: that the moment it starts, the entire €2.2 billion will be taken out of the order backlog, or it will be taken out to the model getting executed?

Vipin Jain:

Sanjay, your understanding is correct, you have to appreciate €2.2 billion is a consolidated order – within this €2.2 billion there would be different plants, so we have plant in Tuscaloosa, we have plant in Hungary, in Kecskemet. Again, the SOP of these plants would vary; it is not falling on the same day. And within this €2.2 billion there would be multiple variants; it is not that, there is only one variant. But, again, the understanding is correct: the moment we have start-up production, this will fall off. Whether €2.2 billion will fall off on a single date or it will taper down between the quarters that will depend upon the actual production.

Sanjay Satpathy:

Understood. So, basically, if €2.2 billion is for one model at one plant, then the entire model will be taken out on that same day?

Vipin Jain:

Correct.

Sanjay Satpathy:

And thanks a lot for clarifying that, sir. And the second question that I have is about this growth rate of this quarter. Were there any one-offs or something which is why the growth rate came down to 4% level, and how do you really see the growth rate coming up for the subsequent period, sir?

Vipin Jain:

Sanjay, I think the best way to look at is not the quarter-on-quarter basis. It depends on the launches of the new programmes, the exchange rates, what's happening, because you're consolidating it all into euro. A lot of what's going on, the best way to look at it is on year-on-year, and you see healthy growth coming, which is a good indicator. Just one quarter sequentially is too small to come to any kind of a reason as to why that happened.

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

Sanjay Satpathy:

Understood. And then, basically, you also had some kind of an indication you gave that there is some new product in SMR that you think that will improve the profitability even further. Can you just give us some more colour on that in terms of how meaningful they are going to become and when?

Vaaman Sehgal:

Sanjay, thanks for that question. Definitely, we have been talking a lot about mirrorless cars in SMR, and we were the first people to come up with mirrors with cameras, and cameras becoming more dominant in the future to come. But that's still a while away, as we are still seeing most of the orders that are coming with mirrors. And when that change does happen, first, it's a legislation issue; the legislation has to allow mirrorless cars coming.

In the meantime, we are putting cameras in coming hybrids, where we are putting the mirrors and the cameras together, and we are receiving good response from the customers and, of course, therefore improving our value in those products that we are supplying, and continuously building our technology there, building partnerships there, to secure future growth, and will be a big contender when that change does happen. So your guess is as good as mine when NITSA and all these legal agencies do allow us to completely change; that's when we will be able to give you a lot more colour. But with all the major customers, we are working with them. We are in partnership with them to develop these products. And I'm unfortunately not allowed to disclose too much, but we are very much in there.

Sanjay Satpathy:

Understood. Thanks a lot for clarifying this, and I wish you all the very best for the next financial year.

Vaaman Sehgal:

Thank you so much.

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

Operator:

Our next question today comes from Ardrmod Amdhe from CIMB. Please go ahead.

Ardrmod Amdhe:

Yes, hi. Congrats on SMR reaching your scale of 40%-plus ROCE. I have a question regarding the SMP, on two facts. One, the margin seems to be hovering range-bound at 6%. When do you expect it to come up to the double-digit margins that SMR has reached? And what timeline we should look for SMP to come up to the ROCE requirement of yours?

Vaaman Sehgal:

Okay, thanks for that question. Look, if we take out all these start-up costs and things like that, you will see that definitely SMP is also delivering good results and we are quite satisfied with how they are progressing, improving. You have to understand that the scale of SMP is much larger, and, correspondingly, the investments and everything are much larger than what happens in SMR. But at the same time, we are extremely pleased with the efforts of the management team, how they are coping with these massive new plants, new geographies. And if you look at from the start of, when we took it over to where we are today, you will see significant growth. And, again, while we can't guide you on the margins, we are confident that year-on-year we will continuously show improved ROC figures and eventually hit our target before our five-year period that ends this year, it will be a complete effort to deliver those numbers. Please understand these are quite high numbers in the industry, but our effort is 100% to reach those numbers.

Ardrmod Amdhe:

Sure. Thanks a lot for this.

Vipin Jain:

Thank you.

Operator:

Our next question comes from Aryn Pirani from Deutsche Bank. Please go ahead.

Aryn Pirani:

Yes, hi. Thanks for the opportunity. My first question is again on SMR. Would it be possible for you to maybe quantify that your order book or in your sales how much of your mirror revenues have moved

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

towards these value-added kind of mirrors which have cameras? Just to get a sense as to what is the scope of value addition improvement, as in like would it be only 10%, or, is it 40% already?

Vaaman Sehgal:

Actually, right now, in the complete book, I would not say the number is anywhere close to those significant numbers, but it's growing quite rapidly. A lot of customers are now opting for having more and more electronics on the mirror. So it depends what level – if you're talking about cameras, specifically, I don't think it is specifically in the overall range or... but, like I said, it's growing quite fast. But in terms of electronics, not only cameras; we do a lot more things with the mirror, with the turn signals, with the electronics on there, side-turn indicators, actuators, power falls, a lot of those things are also... we are continually improving, the technology on it. For example, we talked about the puddle lamp and, the logo lamp, so there are a lot of technologies that are actually coming in, so it's not just the camera thing, but definitely more and more electronics are increasing quite significantly and helping us to move up the chain.

Amyr Pirani:

Okay. So just in case of vision-based active safety components, so most of this would still be in discussion stage, you're saying, because you wouldn't have received orders because you're saying the regulations are not yet finalised? Is that correct?

Vaaman Sehgal:

I mean, for mirrorless completely, like having no mirror and only camera, we're only in discussion stage, but for ones where mirrors have the cameras in there, those are already out on the road and on new models. And you're seeing them on the premium vehicles, you're seeing them on the road today, so they're already there.

Amyr Pirani:

Okay. And just on your capex - you have mentioned around 67% was being spent on Greenfield or brownfield – I just want to understand, the remaining 30%, what other areas where it would have been spent? Where I'm coming from is that, I mean, are you doing this capex to maybe modernise your plants or do more automation which could obviously help in improving profitability at a later date. So some explanation there would be helpful.

Vipin Jain:

When we say the 67% it is in the Greenfield or the brownfield but within the existing plant, also we are getting new projects. So if we get a new project within the existing plant, it will have some element of

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

capex. You would need to have assembly line or something like that. So we don't classify the new project capex within the existing plant as a Greenfield or a brownfield. So there would be some capex, which would be the new project within the existing plant, and then there would be replacement capex, which would be a normal maintenance capex.

Amyr Pirani:

Okay. And does this include R&D also, or is R&D separate?

Vipin Jain:

R&D, we don't capitalise. R&D, whatever efforts is there for the R&D, it goes into the P&L as an expense.

Amyr Pirani:

Okay, so you expense your entire R&D?

Vipin Jain:

Yes.

Amyr Pirani:

Okay. That was helpful. Thanks for the opportunity.

Vipin Jain:

Thank you.

Operator:

We have a follow-up question from Binay Singh. Please go ahead.

Binay Singh:

Hi, my question was on the order book number, the new order wins that you announced. You were saying it's €6.7 billion, whereas in the Motherson presentation we heard the number was around 66,000 crores. So I just wanted to match up the two numbers. What exactly is the new order wins for SMRPBV?

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

Vipin Jain:

No, I think, Binay, the order which we have won in the current year is €6.5 billion, and we had a special order of €2.2 billion, which was toward the end of the last year. I think in the Motherson presentation it also includes the Daimler order, which is €2.2 billion, because I think it was not announced the last time, because this order came in the last week of March or the first week of April, so that's the only anomaly, I would say the number is consistent

Binay Singh:

The €13.5 billion number year-end order book, is that including 2.2 billion?

Vipin Jain:

Yes, the order book, as of 31st March, includes €2.2 billion; that's correct.

Binay Singh:

Okay, thank you. That's it. Thank you so much.

Operator:

Our next question comes from Tejas Dhulla from Citi. Please go ahead.

Tejas Dhulla:

Yes, hi, thanks for the opportunity. I had a question regarding the future prospects on the mirrorless aspect of car components. So just to understand, does the legislation towards the okay of a mirrorless car impact the future prospects for SMR?

Vaaman Sehgal:

Yes, because we are very much running for those changes and having the technology in-house and very excited to bring these new technologies to the market once it becomes legislation.

Tejas Dhulla:

Right. So how do you see that, going forward, impacting you, and how well are you prepared on that front?

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

Vaaman Sehgal:

So the transition will take time; it's not something that can happen overnight. There are safety aspects, there are a lot of elderly drivers that are used to looking into mirrors while changing lanes, so there are a lot of aspects that need to be considered before it can happen overnight or something like that. We are quite prepared. We are gearing up our facilities to be able to transform and move into this transition.

We're also setting up new facilities bearing in mind that there could be prospects in the future where these kind of technologies come into play. All our R&D is geared towards bringing new and exciting products once this thing happens. And in the meantime, in fact, because we are in a unique place where we can offer integrated products all around the car, we are also working to make sure that our group as such is able to deliver more exciting products, working much closer together within these companies to be able to give these products out in the market.

So we are watching the market very closely. We have our ears and eyes close to the floor, making sure that we are updated with every single development. We are working extremely closely with the car makers and on the development projects for these kind of things. So I would say we are fairly ready for a change like that, but, again, your guess is as good as mine how much time it will take and how much time it will take to become like a global thing.

Tejas Dhulla:

Thanks for that answer. And one more follow-up, on the Volkswagen side of things, from what I see in the presentation, the mix or the contribution of Volkswagen in your total revenues I think has come down from 57%-odd to 52%. I believe this is a combined effect of Volkswagen's relatively lower performance versus its peers which are also your customers. So I believe the mix is bound to improve a lot in this year as well. So do you have any thoughts or plans in mind where you see the Volkswagen contribution being?

Vaaman Sehgal:

No, even before this whole issue about Volkswagen thing, we have been very clear that we are moving towards 3CX15 where no customer should be more than 15% of our business. So we have already put these things way long before to try and win orders from the other customers as well, in a significant portion, so that we reduce the risk on any one customer. So this cannot happen in one quarter short time, when the new orders come in or something like that, so it's an effort that has been there since we have taken over the company. And in all our companies, that's our effort to bring into 3CX15, where no customer, no country or no component is more than 15% of our business.

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

Like we have said even with Volkswagen, all our programmes, all our new programmes, everything is running on track. We are absolutely okay with where we are right now and don't see any risk of anything, any programme dropping off or anything like that. And it will be a continuous effort to keep making this product more and more, or let me say, less and less risk towards any one customer, any one product, and it will continue to grow that way.

Tejas Dhulla:

Okay, yes, thanks for the explanation. Thank you.

Operator:

Our next question today comes from Kapil Singh from Nomura. Please go ahead.

Kapil Singh:

Hi, sir. I have a couple of questions related to commodity, price movement. Just wanted to check how much of revenue growth would have been shaved away because of the fact that commodity prices have declined? I know you won't have calculated this somewhere, but any ballpark estimate that how much commodities would be done on a year-on-year basis, taking out raw materials cost index?

Vaaman Sehgal:

Thanks, Kapil, but, I'm sorry, we don't really calculate that; don't have any numbers to share with you of my cost for that.

Kapil Singh:

Okay. And in terms of EBITDA impact, does the rise or fall in commodities in any way affect EBITDA for SMR, SMP?

Vaaman Sehgal:

It's not in a material way. There are indexing contracts for the customers, so it doesn't really affect us in any material way. A lot of our raw materials are also highly engineered plastics which don't move exactly as the indexes are moving for certain commodities. So I would not say that they have affected us in any material way.

Year ended March 31, 2016 Investors Update Call

Friday, 27 May 2016

Kapil Singh:

Okay. And, lastly, have the commodity prices bottomed out in your raw material costs? We're seeing some bottom and there is some rise that we are seeing now, so I just wanted to see where we are in terms of that cycle.

Vaaman Sehgal:

Look, again, it's not in a material way for us where there's one commodity or something like that which is SMRPBV, which is moving around that much, that's having a material gain. It's part of the everyday business and we're managing that. There's no material impact of that.

Kapil Singh:

Okay. And the indexes that we talked about, that are linked to the customer revenues or costs, how often are they reset?

Vaaman Sehgal:

It depends all again on customer to customer, the location, the geography and what norm is over there. And so, look, it's really not very helpful to get into these things, as it won't, again, bring any material difference into how the numbers are looking after these indexing contracts.

Kapil Singh:

Okay, all right, that's all. All the best.

Vaaman Sehgal:

Thank you.

Operator:

We have no further questions on the phone lines.

Vaaman Sehgal:

Okay. I guess we have answered all the questions that you had for us this time. The website, as you all know, is up and has been up with all the latest information, so if there are any further questions, please do write into our website. We as management thank you for taking your time and listening to us, and look forward to your support, and we'll speak to you in the next quarter. Thank you very much.