

Transcript

SMRPBV Results Update Call

Friday, 19 September 2014

Management Participants :

Mr V C Sehgal, Chairman, Samvardhana Motherson Group (SMG)

Mr Laksh Vaaman Sehgal, Chairman & CEO (SMRP BV)

Mr G N Gauba, CFO (SMG)

Mr Kunal Malani, Head of Strategy & M&A (SMG)

Mr Vipin Jain, CFO (SMRP BV)

Mr Aviral Khandelwal, AVP, Strategy & M&A, (SMG)

Time : 10 : 04 BST

Organizer : Incommglobal

Vivek Chaand Sehgal

Good morning and good afternoon to all the people who have dialled in. My name is Vivek Chaand Sehgal. I'm the Chairman of the Group. On the call today I have the pleasure to introduce Mr Gauba, he's the CFO of SMG, Mr Kunal, he's responsible for all the M&A and SMRP BV. I've got Vaaman Sehgal on the line, he's from SMRP BV. I've got Vipin who's the new CFO of SMRP BV and Aviral.

I now hand it over to Gauba to give you a brief summary as to what happened in the last quarter.

G N Gauba

Good afternoon, good morning, ladies and gentlemen. My name is G N Gauba. It gives me great pleasure to welcome you to the inaugural first call that we are having for SMRP BV. We had yesterday circulated and also put on the website the presentation along with the unaudited interim financial results. We hope you have those presentations as well as the copies of the results with you. I would like to take you through the presentation so that we can give more information and then follow it up with questions and answers.

On the first page, I would like to again emphasise this is the first time, we are presenting quarterly results and these results are for the period prior to issuance of the bonds which was done on 10th July 2014 whereas these results are for the period April to June 2014. We would also encourage and look forward for your suggestions and feedback so that in times to come we can consider them for enhancing our disclosure requirements to meet your expectations.

As you are aware the SMRP BV structure was created post March 2014. IFRS consolidation is being done for the first time, and due to this reason, the prior period figures are not provided in the current presentation. We had also mentioned this in our offering document, and I'm sure people have had a chance to look at that. At the same time, as I said, we want to always enhance the disclosures.

At our parent level, Motherson Sumi Systems Limited, which is listed at stock exchanges in India, is not required to disclose SMR and SMP results separately, yet they disclose both SMR and SMP results separately since their acquisition

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by the Group. Of course, those results which are published are under Indian GAAPs and are in Indian Rupee. In fact, to facilitate the investors in the Group we have yesterday also uploaded the highlights of the gaps between Indian GAAP and IFRS which impact SMRP BV results, on motherson.com. So whenever you have a chance you can have a look at that in case you want to use that as a proxy for the past trend.

Now I would like to move to the next slide on the Group structure. The Group structure is something with which all of us are quite familiar because this was amply explained and disclosed in the offering memorandum. Of course the highlight has been that the minority shareholding in SMP and SMR which was about 16% and 4.5% was acquired by us during the quarter April to June 2014 which enhances the cash flow for SMRP BV because there is no more a minority at the parent level in these businesses.

I would now move to the next slide on the global presence. I think from the map it is quite clear that we have a very strong presence in developed markets, like Europe and the Americas, as well as in the emerging markets - China, Brazil and India. All across, we have 37 manufacturing locations across 16 countries.

I would now like to move to slide number four which presents the financials for the first quarter - April to June 2014. We can confirm that these revenues and EBITDAs are in line with our expectations. Results from the operations are showing consistent improvement including over the same period last year. As I said, if we were to use a proxy of Indian GAAPs which has a comparative numbers for the previous period, in Euro terms under the Indian GAAPs the revenue growth on a combined basis of SMR and SMP has been 6.4%. EBITDA improved both for SMR and SMP business, and if we will aggregate both, it improved from 6.6% to 7.1%.

In terms of the geographical trend of the sales progress, we have seen that SMR witnessed 7% growth in Europe and 3% in the Americas. SMP growth was largely driven by European markets. Of course, we had some negative growth in Brazilian markets, particularly at SMP. As we have emphasised that we focus on the operational improvement, there has been a consistent and considerable improvement in EBITDA, so the improvement has been largely contributed by the operational improvement.

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I would now like to move to the next slide which gives the geographical spread as well as the customer-wise profile. We can see that we have a quite dispersed customer profile as well in terms of geographical spread. Europe, particularly the German car makers, constitute the larger portion of our pie. We can also say that with the addition of the new orders which will start and come into production at the new plant, this distribution, both in terms of customer as well as geography, will further be dispersed. So our idea is to grow the pie in such a manner that any single customer, single geography becomes less in the overall contribution.

I would now like to move to slide number six which gives a summary of the cash flow. At the operating level we have generated strong cash EBITDA at €57 million. There has been an increase in the receivables, as I mentioned, due to the growth in the revenues also on account of engineering sales which are booked as a revenue under IFRS based on the percentage completion on a progressive basis.

We would also like to mention here that in order to finance these receivables we had also taken the RCF2 facility and this was at €23.5 million which is the same as was disclosed in the offering memorandum as part of the use of proceeds.

In terms of the capital expenditure we have incurred additional capital expenditure of €33.7 million in this quarter which is in line with our plan for the capex for the new plants which we had explained during our presentation or the offering memorandum. When we move to the capex we will talk more in detail on this.

As I mentioned at the time of the Group structure, we acquired the shareholding of SMP, 16% plus, from the erstwhile shareholder Cross and an amount of €28.9 million was paid for this.

The increase in borrowings at €56.9 million I will be touching on when we move to the next slide.

On slide number seven I would like to explain more on the increase in the borrowings which is compared to March at a gross level from €487.8 million to

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€564.7 million. However, this should be referred to the borrowings as we had disclosed on the latest date in the offering memorandum document. At that point of time the borrowings had been at €549 million, so the real increase is from €549 million to €565 million which is not a significant amount.

And also just to explain here that we have grossed up the debt level by €5 million which was the unamortised portion of the issue expenses or the syndication fees at the time of original loans, so therefore the increase of €5 million is coming more on a notional basis than on actual inflow of the debt which we have taken. While there is also an increase in shareholders' loans, but this is also the same as was disclosed in the offering circular barring less than €1 million on account of foreign currency fluctuation.

As far as the cash is concerned, cash continues to be at a similar level as was on 31st March, 2014, in actual Euro terms. As against €85.7 million in March, 2014, it is €80 million at 30th June, 2014.

I would like to move onto the next slide which is on the capital expenditure, slide number eight. While the total capital expenditure during the quarter has been €33.7 million, the significant part, as we have budgeted, is spent on the new plants which is during the quarter approximately €22 million. The major plants which we are building are SMP Schierling, which is a new plant close to the Munich airport, where we had a capex of €9.3 million. We are rebuilding the plant at Polinyà, Spain, where we had a capex of €6.4 million.

At Boetzingen we are again expanding our facilities and building another plant which is brownfield, as people call it. We have spent about €2 million, close to €2.1 million, and at SMR, USA and France, we've spent close to €2 million each. So in total approximately two thirds of the capex has gone into new facilities. We would emphasise here that the entire capex is driven by the customers' orders, so this is all customer driven capital expenditure which we are incurring.

I would now like to update on the bond proceeds. First of all we use this opportunity to thank you for participating in our bond issuance. As we had agreed, we have used the proceeds of the bond as per the offering memorandum. All the loans which were proposed to be repaid we have already done that except

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an amount of €30 million which is from one of the banks at SMP Automotive, the Schierling plant which we are building. We are also proposing to repay this amount within this month though we had agreed that this amount can be repaid by us by 15th April 2015.

Accordingly based on the repayment which is already done, we have complied with the security requirement, be it guarantee, be it pledge, and the security creation as we had agreed in the offering memorandum document.

I would now handover to Mr Sehgal.

Vivek Chaand Sehgal

Yes. I think probably you would have questions so I hand it back to Andy. Andy, could you please facilitate the question and answer session please.

Andy

Ladies and gentlemen, to ask a question on today's call, please press star one on your telephone keypad. To remove your question, press star two and please ensure to unmute your phone locally. And the first question is from Richard Phelan of Deutsche Bank. Richard, please go ahead.

Richard Phelan

Good morning and thanks for the call. You explained that the revenues on the Indian GAAP basis quarter on quarter were up 6.4%. I guess that's the Indian GAAP. Would you have a similar percentage in terms of the improvement in EBITDA quarter on quarter? And I know that in the offering memorandum we used a figure of approximately 205 million for the fiscal audited EBITDA. Is there a comparable last 12 months EBITDA figure you can provide for the Group as of June 30th?

G N Gauba

Yes, the EBITDA margin has improved from 6.6% to 7.1% under Indian GAAPs.

Richard Phelan

And then how about the notional figure, not just the margin?

Vipin Jain

The Euro EBITDA has increased from €51 million to €58.6 million in terms of the absolute number.

Richard Phelan

51.0, great.

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- Vipin Jain** 51.4 to 58.6.
- Richard Phelan** Okay.
- Vipin Jain** This is under the Indian GAAP.
- Richard Phelan** Okay, great and so therefore we can then calculate the LTM figure using those figures?
- Kunal Malani** Phelan, the way to think about is the difference between Indian GAAP and IFRS is quite insignificant. I would refer you to the presentation on Motherson.com. On it I think the difference is in the plus/minus 1% levels and hence you could use Indian GAAP as a good proxy for it.
- Richard Phelan** Okay. You've obviously reported the quarterly EBITDA 56.7 and you're saying that the Indian GAAP was 58.6, right, so that's the difference for the quarter. Okay, thank you.
- Andy** The next question is from Michael Boam of Claren Road. Michael, please go ahead.
- Michael Boam** Hi. I just want to go back to your comments on the debt position of the Group. The pro forma as of March 31st totalled that was 346. The number you declared in this set of financial statements is 415.6 and yet you say that debt has only increased by €5 million odd. I'm a little bit lost as to the way you've come up with that number.
- Kunal Malani** If you look at what was there in the pro forma numbers as per the offering memorandum, right, the way we are comparing, what you are talking about is from a net debt perspective. What we are looking at...
- Michael Boam** Yes, sorry. The gross that was 431. The gross debt today is 495.
- G N Gauba** Yes. This is the third party, the outside debt. As of 30th June it is 495. As of 31st March it is 431. As on the offering circular date it was 487.8, so the real increase what we have to see changes from 487.8 to 495.5, which I explained 5 million

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is coming because of the grossing up of the unamortised portion being added to the debt portion, which is written off to the P&L account.

So while you are right, there is an increase in the debt from 31st March to the date of offering circular or to 30th June, which has been largely on account of the buyout of the minority shareholding which we mentioned €29 million which we paid, and on the operating side there has been an increase in the engineering receivables which was financed to an RCF2 of 23 million. Again, this was already covered in the offering memorandum update on the schedule.

Michael Boam

Okay. And, then secondly, I just want to confirm your guidance again for capital expenditure for 2014. I believe you said you were looking to spend €240 million?

G N Gauba

On average for the next three years we expect that capex will be in the range of 175 and, you are right, it is likely to be more upfront or front ended and the capex which we have incurred is in line with our budgeted plan.

Michael Boam

Okay. Thank you very much.

Andy

The next question is from Aryn Pirani of Deutsche Bank. Aryn, please go ahead.

Aryn Pirani

Hi. Thanks for taking my questions. So just on the capex number, sorry I missed it. What was your annual guidance for capex?

G N Gauba

We have given guidance for the next three years to be on an average €175 million including the growth capex and maintenance capex.

Aryn Pirani

So annually €175 million?

G N Gauba

The average for the next three years including 2014/2015.

Aryn Pirani

Okay. And on the break-up of your capex which you have provided I just wanted to check there is a China plant which you are also investing in but I didn't find it in the break-up, so I just wanted some clarification on whether

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there is any change in the timelines for that new China plant, the 100% China plant?

G N Gauba

No, there is no change in that plan, the land has been acquired. I have highlighted the main points.

Amyr Pirani

Okay, and any sense of by when we could see that plant coming online? Will it happen in fiscal 2016 or could be it later?

G N Gauba

As part of the management discussion and analysis, we have tried to give the schedule for each of the plants, so there we have tried to cover the plants which are immediately under construction and more so we have tried to bring the focus to plant for which capex is mentioned separately.

Amyr Pirani

Okay. Thank you.

G N Gauba

I can in the meantime come back to you on which page this was described. Page 15.

Amyr Pirani

Thank you.

Andy

Our next question is from Sven Kreitmair of UniCredit. Sven, please go ahead.

Sven Kreitmair

Yes, hello. This is Sven Kreitmair from UniCredit. Just some questions and the first would be, what is the impact of the US dollar on your raw material costs, in particular on the oil derivatives and plastics side in the second half of 2014? Will it go more expensive for you and what do you think the impact of EBITDA margin would be? This would be the first question.

The second question would be what is really the difference, the structural difference, in the EBITDA margin in SMP being 6% and being 9% in SMR? So what is the structural difference of the EBITDA margin, the higher EBITDA margin?

And then the last one would be what is your exposure in North America to Volkswagen?

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Vivek Chaand Sehgal

Okay, the first question about the raw material costs and the conversion of Euro to US, Motherson has a policy, it tries and buy where it sells, so we buy the raw materials locally and things like that. At the moment there seems to be good news. The oil prices are coming down, but I must caution you that in the kind of products that we make, we have more engineering cost than the cost of naphtha or crude. So while there would be some positive effects of that, whatever loss or profit would be there would be a notional one if we have to translate from dollar to euro, or the other way round. Normally we believe in natural hedging.

The second part of your question I think that's more work in progress. You know, SMR is now plus five years with the Group and SMP is more two and a half/three years kind of timeframe with the Group, so give it five years and you'll see SMR will be doing even better and SMP will be doing even better.

Sven Kreitmair

Okay.

Vivek Chaand Sehgal

And the third part of your question was...North America, Volkswagen. Whatever is being supplied is being supplied to the Mexican plants. I don't think there is anything very substantial just now, so if there are some exports going via Volkswagen in Mexico, well I wouldn't know that, but by and large not much exposure in the US yet. Our next five year plan we will start to think more on the USA side, but nothing as of now.

Sven Kreitmair

Okay, one last one if I may. What is the undrawn part of all your Revolvers, the 125 and the 50 million? What is the undrawn part as of 30th June please?

Kunal Malani

The 125 million facility came into being after June, so anyway it's not drawn as of June. The 50 million facility, that has been part of the June 30th numbers. The drawn amount is 23.5.

Sven Kreitmair

23.5. Okay. Thank you very much.

Andy

If you have any further questions, ladies and gentlemen, please press star one on your telephone keypad now. It appears we have no further questions coming through from the telephone lines.

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Vivek Chaand Sehgal

One question from our side would be if there is any place where the bondholders feel more improvement can be done on the presentation, please do tell us. That would also be a very good thing because this is our first, so we want your feedback. You may even email it to us at SMRP BV. Any which way, the feedback would be very much appreciated.