

Company Name: Motherson Sumi Systems  
 Company Ticker: MSS IN  
 Date: 2011-07-29  
 Event Description: Q1 2012 Earnings Call

Market Cap: 88,769.59  
 Current PX: 229.1  
 YTD Change(\$): +47  
 YTD Change(%): +25.810

Bloomberg Estimates - EPS  
 Current Quarter: 2.780  
 Current Year: 12.420  
 Bloomberg Estimates - Sales  
 Current Quarter: 23518.000  
 Current Year: 98034.400

## Q1 2012 Earnings Call

### Company Participants

- Vivek Chaand Sehgal, Vice Chairman
- G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary
- Corporate Participant
- Pankaj K. Mital, Alternate Director
- Laksh Vaaman Sehgal, Director

### Other Participants

- Chirag Shah
- Vaishali Jajoo
- Ruchit Mehta
- Analyst
- Sahil Kedia
- Basudeb Banerjee

### Presentation

#### Operator

Ladies and gentlemen, welcome to the Q1 FY12 Results Call of Motherson Sumi Systems Limited, hosted by Emkay Global Financial Services. We have with us today Mr. V. C. Sehgal, Vice-Chairman; Mr. Pankaj K. Mital, Chief Operating Officer; Mr. G. N. Gauba, Chief Financial Officer and Mr. Vaaman Sehgal, CEO, SMR and Director, Motherson Sumi.

As a reminder all participants lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. [Operator Instructions]. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Chirag Shah, Senior Research Analyst of Emkay Global. Thank you and over to you, Mr. Shah.

#### Chirag Shah

Good evening, everyone. Thank you for joining us today. We would like to welcome the management of Motherson Sumi Systems Limited, and thank them for giving us the opportunity to host this call.

I would now like to handover the call to Mr. Sehgal, for initial remarks. Over to you, sir.

#### Vivek Chaand Sehgal, Vice Chairman

Thank you and good evening and good day to all of you. The first quarter results for Motherson Sumi Systems, I'd like to just give you a little brief up on that and then I'll take the questions after that.

I think you have to look at the results coming from our consolidated result. On a consolidated basis Motherson Sumi's top line has grown by 22%, on stand-alone basis the gain is... The PAT for consolidated has grown by 10% and on the

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standalone has grown by 134%.

The ability of Motherson Sumi even though the car numbers are going on the lower side, still to outperform the market has clearly still been maintained and will be maintained in the future. This is in spite of the growth in Maruti was a bit centered because of a little bit of labor shortage, and also because of the block closure.

The performance of SMR which is a bit on the lower side is only because two new plants. One in Hungary and one which is in Brazil, have already put up commissioned and in automotive industry, you have to have what is known as the high volume test where the production has to be closed even though even though the car has not totally launched and there is a test drive trial for the plants, so that the plant is commissioned a high volume test okay.

This normally happens three to six months before the launch of the products, and hence that means that all the people or the employees, everybody has to be hired and everything has to on a system on go.

We believe that in our plants in South Africa for Motherson Sumi for SMR of the Hungary and for Brazil, in total we have already spent about \$85 million approximately. I think within the next quarter and the next quarter after that, in the second and third quarter you will find that these particular companies will be producing almost full or near about and that would then help us to recover these particular costs and you will find normalization of SMR numbers and all other numbers as well.

With this, I think I will go for your questions. But just one particular number which I wanted to give, is EPS on a diluted basis has gone up on a consolidated by 16%, and on standalone has gone up by 156%. So we feel that these are very strong results in such kind of a market and also there is such a huge growth mode. Thank you.

## Questions And Answers

### Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions]. The first question is from the line of Vaishali Jajoo from Aegon Religare Life Insurance. Please go ahead.

### Vaishali Jajoo

Hi, good evening everyone and the management also. This is regarding the overall performance, I think most of the margin pressure is because of SMR. Is it because of only lower utilization at the new plant or some cost pressure or the raw material cost pressure is also seen. I think that is also impacting the margins, is it correct?

### Vivek Chaand Sehgal, Vice Chairman

Yeah, I think there is a slight pressure on the raw material. I mean that is well known fact to all of us. But I think it's all due to the new plant readiness and being not able to utilize that.

### Vaishali Jajoo

But I mean how much it will account for to the total fields at those new plants -- I mean, and I just want to guess, if I you take us through the investment number?

### Vivek Chaand Sehgal, Vice Chairman

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I mean as we had already advised all of you that about 1.5 year, two years ago we had taken over fresh orders from BMW and Volkswagen and Daimler and all that for about €800 million.

### **Vaishali Jajoo**

Okay.

### **Vivek Chaand Sehgal, Vice Chairman**

If you remember, we had said that in 2011, July -- this particular thing is going to start.

### **Vaishali Jajoo**

Okay.

### **Vivek Chaand Sehgal, Vice Chairman**

That's where we are. So we are a bit surprised, why everybody is shaken by up SMR, because we feel that it's something very normal.

### **Vaishali Jajoo**

Okay, okay, that is fine. The second is on the overall scenario on the European side because if you look at, the numbers are not really giving any indication on the trend. So do you see the growth in Europe will be subdued in the current years?

### **Vivek Chaand Sehgal, Vice Chairman**

See, it's based upon the car maker actually. And our car makers to whom we are supplying, these are the German car makers. So for us, when we talk Europe we are talking the German car makers and in that sense, we feel that there is hardly any program because when you look at numbers coming from them all over, you will find that the German car makers is doing very well.

### **Vaishali Jajoo**

Okay. And again one question on the SMR, there is one note call about the additional estimated 4.3 million, probable tax expenses for the prior acquisition, can you explain a bit more and how will you be accounting that if it is happening in positive?

### **G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary**

Vaishali, this side.

### **Vaishali Jajoo**

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Yeah, yeah.

**G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary**

This is some kind of a tax estimation done for a period priority acquisition as all of us know that prior to our acquisition, Group was making losses, particularly on the European side.

**Vaishali Jajoo**

Okay.

**G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary**

Where the tax risk has risen, not in some of these jurisdiction there is something called the hidden distribution or something like that. So we are not very clear on that and the tax preparation has been done only recently in the last fortnight. So, the tax rate which has been assessed by the tax advisors, so we are working on the details of that.

And more likely is we don't think that this liability would actually come on us, but in the worst case, if it comes the amount is 4.2 million which is estimated. That becomes more kind of a acquisition cost, but under the Indian gaps it will charge to the -- period in which the tax as its prior to year...

**Vaishali Jajoo**

So it will be charged one time if it is at all?

**G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary**

If it is at all there.

**Vaishali Jajoo**

Yeah. One more thing on the new acquisition, if you can give any plan of action there, what is our target of taking may be the margin is going forward-looking at the overall objective of achieving 40% ROCE? Is there any indication how we take it from 5% to may be around 8-9%, and what is the timeline for that, if you can?

**G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary**

Okay, I think one important question from our side, I'll try and answer this particular thing, we believe it's a very important question. In SMR fees, we took over the assets in 2009 March, which was the last year of our five year period and hence even though our standalone growth was picking 10% deposit that acquisition of our growth came down to 22%.

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## Vaishali Jajoo

Yeah.

## G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary

Secondly, in the case of -- we are taking over the asset in the second year and hence at 3.5 years now to get this particular asset to close to 40% growth.

## Vaishali Jajoo

Yeah.

## G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary

I think the total turnover of this company is €1.6 billion and of that we have a buy, they buyout component and raw materials and things like that of approximately €1.1 billion. So that means that we have a huge buy of which I think it we should take out raw materials like the polymers and stuff like that, it would be approximately about €700-800 million business.

## Vaishali Jajoo

Okay.

## G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary

I think harnesses constitute about 300 million, of which plastic parts constitute about 250 and other things are constituting 100 million. So we see ample opportunity even if we can reduce price by 5 to 7%, it's a huge number. So we are very confident that within the next few years we will bring the, at least the Peguform side to very close to 40%, SMR definitely will come to 40% growth. And the reason of buying these assets quite in a reasonable cost, at a very low cost, we believe that growth -- become very, very good chance to achieve the growth of 40% as we have predicted.

## Vaishali Jajoo

Just one question on the environment side of the reforms is it's a German-based company, so the legal laws are quite different from the European. So it will be difficult for you to actually rationalize the cost over there or?

## Corporate Participant

I think, if you'll read the history of Peguform, it was taken over by cross industry in 2009, if I'm not wrong.

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## Vaishali Jajoo

Yeah.

## Corporate Participant

And when we were taking over SMR.

## Vaishali Jajoo

Right.

## Corporate Participant

And hence the last two years, this company has already been, they have already rationalized as done whatever they had to. So the restructuring is almost already done. So we don't see any huge restructuring or something in Peguform at all. There is hardly any...

## Vaishali Jajoo

I mean, in case of improvement on the EBITDA side, to get the ROCE at 40% in next three years, there will be some plan of action you have to take or it's not required?

## Corporate Participant

Well the plan of action is that if you are seeing that the customers are driving debt, and they are not there in India, they are not there in South Africa and in Thailand, these are three very important geographies for a company like Peguform and because Volkswagen is 25% of the business. So these guys are very -- really wanting Motherson to get net amalgamated with Peguform. So that we can deliver all the requirements of Volkswagen and Audi and Skoda and Fiat, all over these geographies.

## Vaishali Jajoo

Okay.

## Corporate Participant

So, it's a huge opportunity. So the sales what we are looking, what we organic growth for this would -- together, so we are phenomenal. Well, I mean we're still trying to get to terms, what kind of number we'll be talking about but believe me it's plus 2 billion.

## Vaishali Jajoo

Okay. And it will be consolidated in second half?

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## Corporate Participant

Yes, at double rate actually.

## G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary

And we expect the closing to be done by 30th September so we want some -- December quarter was consolidated. So I would like to add what Mr. Sehgal said if you remember our earlier...

## Vaishali Jajoo

Discussion of it is a PAT positive. Can you just able to share the PAT number?

## G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary

Yeah, that is already there in the earlier press release that I will give you separately. But -- yeah, it is there on the 15 July press release.

## Vaishali Jajoo

Okay.

## Corporate Participant

Also Vaishali, one of the important aspect is that this company supplies modules. It does not do the component manufacturing.

## Vaishali Jajoo

Okay.

## G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary

So this will continue to be close to the customers and as Mr. Sehgal explained, that what opportunities come from a leading -- from the other Group companies of SMFL Group including MSSL and other divisions, nine of us go into these...

## Vaishali Jajoo

Okay, that's all from my side. Thanks.



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## Corporate Participant

Thanks.

## Operator

Thank you. [Operator Instructions]. The next question is from the line of Ruchit Mehta from SBI Mutual Fund. Please go ahead

## Ruchit Mehta

Yeah, hi, good afternoon guys. Just in that component buyout ratio that you gave for Peguform like recently brought out wiring harnesses of almost €300 million. Is that something that you may look to sort of in-house and within Motherson itself on your local acquisitions and then supply it over. Is that a possibility or you're looking at...

## Corporate Participant

This is one particular thing which is very interesting, why we look at Peguform very, very seriously and very quickly, as because that we do get all these opportunities of supplying wiring harnesses and smaller parts, plastic parts to Peguform.

In plastic moulding and wiring harnesses assembly, I'm sure it is possible for us to give a better offer, may not be for the existing ones so much, but I am sure some portion of existing also can be made back that and supplied in SMR. But in the new orders, that's where the real power of Motherson will come when you could combine the channel panels of SMR, wiring harnesses and whole component listing and supply a full module to the car maker and see that's where the good power will show in its true sense.

## Ruchit Mehta

So it won't necessarily be either of an immediate impact. It is something that might happen over at three to four year cycle as the new models keep coming in and therefore, you work on those platforms and supply methods. It's not like here and you can replace €300 million and do it...

## Corporate Participant

No, no, no. I don't think so. No, that would be visual thinking. I'd love that but no.

## Ruchit Mehta

Do we already talking about any material to Peguform or?

## Corporate Participant

No, not yet. But very soon we will because the point which I was trying to make, is just to give you a little bit of technical... Peguform has machine sizes which are ranging from the size of 2,000 tonnes to 4,400 tonnes.

Motherson has machines, almost 1,200 machines which are from 40 tonnes to 3,200 tonnes and the way these machines merge with each other is fantastic, because Peguform for all the parts below 2,000 is buying it out from other vendors.



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So those particular things are under the control of Peguform and they can shift at the Motherson or SMR very, very quickly.

## Ruchit Mehta

Okay, okay. And how long in your opinion will it take, I mean I'm not asking about a pin point time period but say would it take at least a year, year and a half for all of these benefits that starts picking in.

## Corporate Participant

I would say, we would look at the first year to try and get all the feedback and let's get all the approvals and things like that and I think all benefits will start taking from the second year second year onwards, 1.5 to two years onwards.

## Ruchit Mehta

And so a final question. Did we take over any debt as part of the acquisition and what would be the working capital component of that and what will be the long term component? And our financing is purely that or is there some portion of cash or equities that we are also contributing?

## Corporate Participant

First of all, it is important to know that the company is profit making and company is growing concern which we are buying. So there would be working capital, there would be a debt. We had in the press release on 15th July given that...

## Ruchit Mehta

Okay.

## Corporate Participant

These figures as on 31st December, 2000, and which has included balance sheet. So on the closing dates, the balance sheet will be drawn and that is the debt or profit each year, it belongs to the new share.

## Ruchit Mehta

Okay. And our financing is how are we financing the equity component of the buyouts?

## Corporate Participant

We are proposing this to finance this year debt.

## Ruchit Mehta

Okay, okay. Thank you.

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## Corporate Participant

Thanks, thanks.

## Operator

Thank you. The next question is from the line of Sanjay Satpathy from DSP Merrill Lynch. Please go ahead.

## Analyst

Hello, sir. My first question is relating to SMR. I just wanted to know that if we adjust for those start-up expenses, then what could have been the margin in this quarter, sir? Is it possible to continue to that way?

## Corporate Participant

It's very difficult to answer that question because like, we have a new plant in Hungary, so all these expenses over there are being carried as one expense of the entire plant. So to tell you exact what's coming out of each program is very difficult to do that, but overall this plant is going to be inaugurated next month and to put samples in car productions has already started. So that is our ramp up from the third quarter and move on the fourth quarter.

## Vivek Chaand Sehgal, Vice Chairman

Because when we are producing high volume tests from all that, we are wasting a lot of material, we are wasting a lot of -- there is a lot of wastage that happens in the initial listing, but that was normal launch. The car maker has to be ready, if he is going to be produce 2,000 cars a day then he wants to see 4,000 mirrors being produce to be on that line.

And if the ramp up in six months is going be 4,000 cars, he has to see 8,000 doors coming out per day. So it's very difficult to quantify all that, so this is comes into the existing plant because it doesn't come into the new plant. So this kind of things are where we don't bisect all that we just take it as it comes.

## Analyst

The net working investments for all the new programs, they come right now, so all the tools that are delivered now, so all the...

## Corporate Participant

Yeah, tooling is -- it is difficult to calculate all these things.

## Analyst

Okay sir. I am just trying to understand little bit better is that in terms of capital employed, how big is this Hungry plant compared to your existing plant?

## Corporate Participant

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In terms of size, it is going to be similar to our existing Hungry plant and then that plant is in the range of €30 million plus.

### **Analyst**

\$30 million.

### **Corporate Participant**

\$30 million.

### **Analyst**

\$30 million or euro?

### **Corporate Participant**

Euro.

### **Analyst**

Okay, okay. And how has been your investment in your Brazil and South African plant, sir?

### **Corporate Participant**

I mean the total investment between these three plants is \$85 million which we have already made.

### **Corporate Participant**

And the other 750 was exercised.

### **Analyst**

Okay, okay. And also because you are very confident that you will be able to deliver about 40% growth in SMR. I just wanted to know what will be the capital employed at that time in SMR?

### **Corporate Participant**

You are talking of 2014-15?

### **Analyst**

No, sir whichever way, because I just wanted to know understand that what kind of -- one can look forward...

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## Corporate Participant

We started -- 40% is 2014-15. So, if you want we can -- Gauba give you a flavor of that a bit later, but we don't have those numbers on that at the moment.

## Analyst

Okay, sir just wanted to know the next thing on the Peguform, we had seen that the company had seen several management changes and also we see that it has a very huge client concentration that is customer contributes to almost 75% as you said, what kind of -- how do you planning to address that fully?

## Corporate Participant

Can you first of all, I think it is important for all of us to understand what is the ratio of Peguform, just by giving a numbers that five people have changed the hands, doesn't mean that there is something wrong with the company. I think the first thing is that British Tobacco owns this company, well you tell me what is a cigarette company doing in this particular thing, because the buyout they wanted to -- they had a lot of cash, they wanted to buy this company, how these guys change their mind, they changed their mind and then Larry Winget from here they bought this company. When Larry Winget bought it, he took away a lot of chunk of this money from this company away, and it was sold to Cerberus.

Cerberus, then brought this costing under control, made a very good effort onto it. But eventually Cerberus told this to POLYTEC. POLYTEC was a small company in Austria, who bought it three months before the Lehman crises, three or four months before the Lehman crisis.

Then Lehman crises, he went bankrupt. We went bankrupt, this particular company will be Cross. Cross is asked by Volkswagen if they want to please take this company over. Cross is more and more a motorcycle manufacturer, did that, and had clearly said when they took over the company that even two to three years, he wants to sell this particular company.

So, I don't see why everybody keeps reminding us that the five people has changed. I think there was no entrepreneur who actually took this company over. However, if you see in March, this year March, this company was already sold to Magna which is our biggest competitor and Volkswagen said to no that and said no, Motherson will buy this particular, this is directed from their side.

So I really don't think if there is any logic on this thing, except POLYTEC all four has clearly already mentioned that they are going to sell this company because they were a hedge fund or CE or a big company over putting that...

Secondly, what's important is that on the second part...

## Analyst

Hello?

## Operator

This is the operator, the management has been disconnected and please be on line while we connect them back. Yes, we have the management back.

## Analyst

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Yes, sir you giving us the answer about the client concentration...

## Corporate Participant

Okay, the client listing is of 75%, it's a matter that's going to be addressed over a period of three to four years. I think one should take a hint from what Motherson has been doing for the last 15 years, we have clearly said that no customer will be more than 20% of our total turnover. So definitely Peguform is going to be a challenge for us, but I am sure that the ability of Motherson to include Peguform products with the Japanese customers and then customers like Daimler and BMW, we are very sure that we will bring the time will become bigger and hence Volkswagen group's listing should come down to a reasonable 40-45% initially and then even more as the time goes by. And please remember that the 1999 Maruti was 80% of our turnover, 80%, so definitely we will work on this.

## Analyst

Sir, my last question...

## Operator

Excuse me Mr. Satpathy, I am sorry to interrupt, sir, but there are still some participants waiting in the queue. If you could you come back in the queue for further questions.

## Analyst

Do I have a choice?

## Operator

Okay. Do you have one last question, sir?

## Analyst

Can I ask just ask you a last question sir, I mean, we saw in domestic growth in 36%, and you said that you have done it, congratulations on that. Just wanted to know how?

## Corporate Participant

Pankaj I think you should take this.

## Pankaj K. Mital, Alternate Director

Well, Sanjay as we have always been discussing and explaining in our con calls, this has been possible only because of the content of car growing up. With the market scenario changing, we have always been ahead and giving good solutions to our customers, so that the market share has been maintained. We had made the strong loads in various car maker's products by introducing newer products and then while we enter that one model, but then bringing them up to different models of different car makers.

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So, like we added door trims into one car maker and then slowly we have moved to many more car makers. Mirrors have made been -- we have been able to increase our air conditioners to Calsonic Kansei has been able to give better solutions to them. So over a period of time, the consumers in India have also desired to have more and more features into the cars. The ability of -- product, which meet these expectation, and this is the reason why our growth has been better than the market shows.

## Analyst

Thanks a lot, sir.

## Operator

Thank you. The next question is from the line of Ruchi Vohra from UBS. Please go ahead.

## Analyst

Hi, thank you for taking my question.

First, is on the new CapEx. I was just wondering if you could just elaborate a bit on the CapEx and how plants will start with the next couple of years.

Second question is on Peguform if you could elaborate a bit more a part from the raw material sourcing synergies, where else can we really cost, and could there be any one-off restructuring cost in the next couple of quarters?

## Corporate Participant

I think the first one Gauba will answer and I'll answer the second one.

## G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary

Yeah. The CapEx estimated for this year is 650 crores as we had -- and this is excluding the acquisition of Peguform, because that CapEx plan -- that investment is not considered in to the same.

## Analyst

Right.

## G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary

It is also covering the past investment, which will go to complete the plants, which are under construction like Hungary, Brazil.

## Analyst

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 YTD Change(\$): +47  
 YTD Change(%): +25.810

Bloomberg Estimates - EPS  
 Current Quarter: 2.780  
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Right.

**G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary**

At the same time, there are land building under construction or flow of plans, which will start maybe next year, because we had to start the process of building the plants for at least once in advance.

**Analyst**

Sir, could you elaborate a bit apart from Hungary and Brazil, which are the other plants?

**G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary**

Yeah, outside of India, Hungary and Brazil are within SMR and another plant in South Africa, which is 100% subsidiary of MSSL...

**Analyst**

Okay

**G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary**

...where we have already made the investment. It's ready for the products to be supplied to port in South Africa.

**Analyst**

Correct.

**G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary**

Hello?

**Analyst**

Yeah. Sorry sir, continue.

**G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary**



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And another plant, which is again from SMR is under construction in Thailand. Then we'll come to India. In India, in the northern region, we are establishing two plants immediately, which are under construction: one from the polymer part, one from the wiring harness.

Apart from that, we are setting up another plant in Bangalore to augment our capacity for wiring harness meeting Toyota Kirloskar demand. Another plant, which will get constructed is in Lucknow, which will start by commercial supply this year.

## Analyst

Okay.

## G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary

Okay. In plants, in northern region are on the border of Haryana and Rajasthan, it is technically in Rajasthan. One that will be one in particular.

## Analyst

Right sir. Sir, what I was actually trying to figure out is that how these plants will be capitalized over the next couple of years. And will there be incremental start up cost also associated with these plants and how large are they in terms of capacities, which could kind of impact our margins temporarily.

## G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary

I think what is really important is that these plants have been under construction for Motherson Sumi Systems India over a period of time. Each year, we'll keep on adding the plants. Then the base becomes continuous and we'll have a continuous addition of these capacities. There are associated cost, which goes into each quarter each year to just performance on each quarter is very, very challenging.

In case of SMR, there is a difference for the first two years when we have taken over the plant or the SMR. This cost prior to us was not getting any orders for only one and half year. So, that incremental capacity, which needed to be added suddenly was quite substantial. At the same time, we do or have been working on the other cost initiatives.

So overall, the company, which was into a bad situation, we have tried to bring it up to the ground level. And we are now improving the performance not only operationally, but also building the growth into it. That is why we always set a target for five years rather than doing it year-over-year or quarter-on-quarter basis.

So definitely, we feel that the company is at the right path, the people are working in the direction, which will make the company very strong and competitively on the good footage. And also I think Ruchi, land has to be continuously bought. Motherson, as we have guided before, almost about 45-50% of our CapEx goes to land and towards building. If you take that, it's almost goes to 60-65%.

I think what's important is that if you look at -- we are sitting at almost about 1,400 acres of industrial land all across wherever the car makers are there, and we have to continuously keep adding to that. The car production is likely to grow from less than 2 million in 2010 to approximately 5 million in '14, '15.

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So, there is a clear jump of 150% on the car production itself. And Motherson because of the increasing content so far, that number goes even higher. And hence we can maintain a 40% CAGR over the next sometime to come. So every time when we are giving you a quarter number, believe me, there is a lot of land that has been bought, which will keep increasing, how do I say, the number of land, because otherwise, you really can't commensurate with the growth the car makers have.

## Analyst

Right, sir. Thanks for that, and that answers my question. Could you also highlight on the possible synergies and the potential for restructuring costs?

## G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary

See, we have absolute complete access to every information from Peguform, and that is because this becomes the joint venture and also 100% take over. So, the partner that we have cross industries has been very clear and has said that we must -- they will open up everything. So, we have complete access to their purchase pricing and things like that. And we believe that these particular products cannot be shifted out from Germany or from Spain or from Portugal or Brazil and brought to India. Motherson does not believe in that kind of industry. So, these industries have to remain, where they are.

The good part about this thing is that the car makers is very happy that Motherson is picking it all, because Motherson is their choice. Hence the order situation will definitely go up over here. That will bring a lot of new opportunities to... And then the existing businesses that we have, I have told you that they have a buy of €1.1 billion year, of which almost about -- 40% of that would be something, which they can't change, they have to buy from whomever the customers nominated that. But 60% is open to us, which is a huge number, it's about €616 million.

So, we can work. How quickly can we at Motherson try and take those particular -- is one hell of a exercise by itself and we would probably have to come up another 10 plants for that; I don't know whomever is going to get it. At this particular moment, as we speak, we have a lot of people, who are sitting in Germany. We are working together with their team -- people for example, the purchase guys are sitting with the purchase fellows, the manufacturing guys are sitting with the manufacturing people. We have a lot of business in the IT side, we have our own IT company, which Motherson also own. We have a lot of design, which is happening. We are already using two distinct companies in India for outsourcing from the designing and engineering. They are all being brought in now to Motherson.

So, I think there is huge opportunity. And as we take it over, we will be guiding you, we will be telling you what are the opportunities that are there. But to be realistic, I think one particular thing I would like to say that in the next nine months, three quarters, one should imagine that it would be possible for us to shift gradually from about 20, €25 million going up to maybe 70, 80, 100, something like that is what is being planned. And after that, we will see how it goes.

## Analyst

Sir, what is this number 70, 80, €100million?

## G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary

That's the number that we hope we will be able to shift without much problem. But again as I said, we are talking to 23 plants. So it's not easy to get those -- it is not one plant that we are talking to. There are 23 plants that we are talking to.

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So, each one is going to come out with those information that is the customer needs approval, we have to take -- all these things have to be worked out, which will take time.

## Analyst

Right, sir. And just my last question on SMRs. In terms of -- I mean just on the tax out go was quite high. I was wondering this is only related to those start up costs and it's more like a one-off higher tax rate?

## Corporate Participant

No, you are absolutely right, it is because of the start up cost, because your reported profit becomes lower than the aggregate of profit, which are subject to tax in the profit making, Ruchi.

## Analyst

Okay, just wanted to confirm it's one-off. Thank you. All my other questions have been answered.

## Operator

Thank you. The next question is from the line of Sahil Kedia from Enam. Please go ahead.

## Sahil Kedia

Sir, thank you for taking my question. Most questions have been answered. Just wanted to check in one of the press conferences. You did give a sense of order book or advance orders of Peguform. Just kind of wanted to kind of check those numbers in terms of do you have like an order book situation at Peguform as well?

## Vivek Chaand Sehgal, Vice Chairman

Okay. We did not give any such guidance. What we had said was that Peguform has advised us that in this calendar year...

## Sahil Kedia

Okay.

## Vivek Chaand Sehgal, Vice Chairman

...we will do against the projection of 1.4 billion, we will do 1.66 billion.

## Sahil Kedia

Okay.

## Vivek Chaand Sehgal, Vice Chairman

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From the card numbers that we have been asked to provide by the customers.

## **Sahil Kedia**

Okay, okay.

## **Vivek Chaand Sehgal, Vice Chairman**

If that plain mathematics and its number is coming from Peguform, I can't.

## **Sahil Kedia**

Sure, all right. And sir, I think most of my questions otherwise have been answered. Is there any CapEx program that has been outlined for Peguform as well? The earlier number was for India, which I think was 650 in the...

## **Vivek Chaand Sehgal, Vice Chairman**

Sahil, it's too early for us to guide you on that. But as I said, we will still see something over in 1st of August, we have two months to work on these -- our finance guys including -- our deposit of setting in Peguform guidance taken out through the whole numbers coming to. So they are all working with that. However, they have given us a prime initial, which say, yes, that they will be doing about €35.5 million of CapEx this year, which is next six or five months. And that has already been taken into account in their cash flow.

## **Sahil Kedia**

So to...

## **Vivek Chaand Sehgal, Vice Chairman**

Please don't hold me to it.

## **Sahil Kedia**

Sure sure. So, just drive a little deeper into Peguform, give us an understanding how much are we working in terms of either capacity utilization at Peguform. Just trying to assess the inherent business plus strength.

## **Vivek Chaand Sehgal, Vice Chairman**

I appreciate your concern for this. But as I said -- we have just, on the July 15, neutralized the submit...

## **Sahil Kedia**

Sure.

## **Vivek Chaand Sehgal, Vice Chairman**

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And at that point, our access to information has increased to infinite. So, you have to be a bit patient with us for that. But I'll tell you one thing that many of the plants because of Volkswagen and Audi doing very, very well, are working 21 shifts a week, which means non-stop 365.

## Sahil Kedia

Okay

## Vivek Chaand Sehgal, Vice Chairman

That's the problem area.

## Sahil Kedia

All right, sir. Thank you so much. I'll come back with more question.

## Vivek Chaand Sehgal, Vice Chairman

Thanks.

## Operator

Thank you. [Operator Instructions]

The next question is from the line of Lalita Preeti from Unified Capital. Please go ahead.

## Analyst

Hello.

## Corporate Participant

Hello.

## Analyst

You convinced me through the numbers, sir. I guess -- I have an understanding of content of car -- a percentage also.

## Vivek Chaand Sehgal, Vice Chairman

Which car do you want to know?

## Analyst

Any car -- I mean you're focusing more on...

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## Operator

Excuse me, this is the operator. The management line has been disconnected yet again. It's because of the technical glitch from their side. Kindly hold the line while we connect them back. Thank you.

Yes sir, please go ahead.

## Vivek Chaand Sehgal, Vice Chairman

Yeah. As I was saying, there are over 400 models. So, it's very difficult to keep track of which model is -- how much percentage of content... on average, we are talking about 2.5% if we take 400 models.

## Analyst

Okay, sir. Thank you and best of luck.

## Operator

Thank you. The next question is from the line of Gaurav Agrawal from CRISIL. Please go ahead.

## Analyst

Yeah hi. Thanks for taking up my question, sir. Just wanted to know if you have some demand decline from that domestic car makers or if they have revised the guidance for the full year to you?

## Vivek Chaand Sehgal, Vice Chairman

I think domestic car makers -- mostly the numbers are already available. However, net present a little bit of stagnation there, but 40% is...

## Vivek Chaand Sehgal, Vice Chairman

As far as the annual numbers from the car makers are concerned, it's not something, which they would have revised so far, but from a short term basis, there will be gap, where some car makers would have met their projected numbers and some may not have met.

## Analyst

Okay, that's all from my side, sir. Thank you.

## Operator

Thank you. The next question is from the line of Saurabh Agarwal from Ekvira Securities. Please go ahead.

## Analyst

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Hi, sir. Thanks for taking my question. Yeah, my question is -- right, so sir, can you give me the profit for first six months of this calendar year for Peguform?

### **Vivek Chaand Sehgal, Vice Chairman**

I think that is something, which we cannot give you in at this particular moment. The numbers, which are coming are all MIS and we are not really in a position to give that just now.

### **Analyst**

Okay.

### **Vivek Chaand Sehgal, Vice Chairman**

They are restricted to give that number.

### **Analyst**

Okay. Sir, then how susceptible is profitability of this business to crude prices?

### **Vivek Chaand Sehgal, Vice Chairman**

What prices?

### **Analyst**

Crude, crude.

### **Vivek Chaand Sehgal, Vice Chairman**

Crude?

### **Analyst**

Yes, sir.

### **Vivek Chaand Sehgal, Vice Chairman**

Well. Raw material, which is coming from crude would be approximately I think about 10 to 12% of the cost through the whole product. It's a polymers, so there is a lot of assembly as well. Those are electric -- well, very tough question there, but I don't think it's more than 15% and that could be of another 2 or 3%; I don't think it's more than 15 on the crude side.

### **Analyst**



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Okay, so we are not exactly making plastic parts over here?

### **Vivek Chaand Sehgal, Vice Chairman**

We are making plastic parts over here, but it's not something, which is shipping through. It is I mean, for example, we make skin, we make the skin of the whole thing, then we make the plastic substrate. And then, we infuse -- in order to take that. These are not as well as polymer... These are know how -- they took all these, which makes it a soft patch. This was flush molding.

We do a lot of high-tech, high-end stuff. So, in that sense, the raw material content is not -- I mean including all the buffer parts and all that will not be more than 55%. This also includes electronics. This also includes so many other thing, I mean steel parts -- prominent parts, so many things are included in that.

### **Analyst**

Okay.

### **Vivek Chaand Sehgal, Vice Chairman**

For example, if you take the cost rate, there are air -- there are -- molded part, there are steel parts, there are -- so we explained in that. It is not just something related to us.

### **Analyst**

Okay. And another question, broadly to Mr. Gauba: what has been the CapEx for this quarter for the consolidated business?

### **G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary**

I mean, we are inline with 650 crores, it would be very difficult to the cash flow, which is CapEx at this cost. If there is something requirement, we will try to put it on the presentation. However, we have been disclosing lot of information that is -- SMRs, which are registered in the loan numbers.

### **Analyst**

Okay.

### **G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary**

Let's go on the yearly basis for CapEx, which are -- it's very difficult.

### **Analyst**

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Yes, sir I understand. My concern is that we are already at about close to 0.9, 10 debt equity. So, is it a possibility that you will have raise more debt to fund our pending CapEx?

**G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary**

I mean the debt, which goes -- doesn't go only to fill the CapEx, there are working capital requirements. The diversity market has grown by 36% for us. So, that's a standalone number if you see. I mean the turnover has grown by 37%. And so that will increase for that funding, they're working capital.

**Analyst**

Okay. And sir, we are also planning to raise foreign debt to fund acquisition of Peguform. Is that right, sir? So, is the foreign debt going to be only for this acquisition or are we going to raise some extra debt to...

**G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary**

Only for the acquisition.

**Analyst**

Okay. Sir, and just one more clarification: which country in Europe would be the biggest contributor to revenues of SMR?

**G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary**

I am going to answer your question step-by-step. I think debt -- composition of a debt level will borrow by the two or by borrowing the foreign currency, is it financing decision, which we take at an appropriate time to keep the cost of borrowings under check.

Because, if you borrow everything and the cost of borrowing would be substantially higher than what it is to the reported buyer. So while -- what we borrow is something different, how we borrow is a freedom, which is given to the company. Second question to answer is that largest shares in Europe would be coming from the German car makers. It includes Volkswagen, BMW as well GM Opel and Ford. And also including Tata Jaguar in UK. That incidentally -- supply to Tata Jaguar. They don't buy from anybody else.

**Analyst**

Okay, right sir. Thanks for answering my questions.

**G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary**

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Thanks.

## Operator

Thank you. The next question is from the line of Sanjay Doshi from Reliance Mutual Fund. Please go ahead.

## Analyst

Good evening, sir.

## Vivek Chaand Sehgal, Vice Chairman

Good evening.

## Analyst

Thank you for taking my questions. I have a couple of questions on Peguform. Sir, I am not sure if you have disclosed what's the total gross block for Peguform or how different the asset turnover is for this business as compared to other part of our business?

## Vivek Chaand Sehgal, Vice Chairman

See, the balance sheet will be drawn in 30th of September.

## Analyst

Okay.

## Vivek Chaand Sehgal, Vice Chairman

And that has become our opening balance sheet. So, very difficult to preempt all these particular things, and we would not like to answer this question, because -- I'll be practical.

## Analyst

Right.

## Vivek Chaand Sehgal, Vice Chairman

If you get the numbers, you will get... It's a company audited by KPMG. We will open the book and it will be declared to you, definitely.

## Analyst

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Sure. And sir, when we have taken over the business, what we understand about the pricing environment for the products that Peguform gives? How often is it changed or does it work the same way for our current business?

### **Vivek Chaand Sehgal, Vice Chairman**

Lifetime, for seven years.

### **Analyst**

Okay. And lastly sir, since there are too many plants for each and every location, by any chance, do we have any current results to be managed for Peguform business?

### **Vivek Chaand Sehgal, Vice Chairman**

Yeah, the things is very clear. Gauba will guide you if it is necessary. But all I can tell you is Motherson's objective is very clear. Instead of looking at companies, we look at plants as where the action takes place.

### **Analyst**

Sure.

### **Vivek Chaand Sehgal, Vice Chairman**

If the plants are profitable, we don't necessarily have to transfer money around. And that's one thing that we do very well. We make sure that every plant, every unit in that company makes money. So, if there is any losses, I think it's only calculation losses.

### **Analyst**

Right, okay. And sir, lastly if I look at our SMR results, what has been given roughly the tax comes out to around 23 odd crores or 24 odd crores. Am I right in this calculation or there is something missing?

### **Vivek Chaand Sehgal, Vice Chairman**

Yeah, you are right, because in another question, we have explained that because of the product cost in the jurisdiction other than they can be setup...

### **Analyst**

Right.

### **Vivek Chaand Sehgal, Vice Chairman**

It's actually on the reported file.

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## Analyst

Right, but if I then try to work things backward, if I assumed this is around 35% at the max as a tax rate, the margins would have been significantly higher. Will it be too early to make those conclusions?

## Vivek Chaand Sehgal, Vice Chairman

That is one way of looking at it. I had to guide you to any...

## Analyst

No problems. Okay, thank you very much. Thank you.

## Operator

Thank you. The next question is from the line of Basudeb Banerjee from Quant Broking. Please go ahead.

## Basudeb Banerjee

Yeah. Thanks a lot for taking my question.

Firstly, okay, congrats for great set of grouping the stand-alone revenue. I saw that your RM sales is almost at a record high. What is your specific reason for that, sir?

## Vivek Chaand Sehgal, Vice Chairman

What is very high? I didn't understand that.

## Basudeb Banerjee

Raw material cost.

## Vivek Chaand Sehgal, Vice Chairman

Raw material cost is very high?

## Basudeb Banerjee

The percentage of sales at around 64%, 63.5. Generally, it hovers around that 58 to 60%. So, this quarter, that has moved up quite sharply. So any reason for that, sir?

## Vivek Chaand Sehgal, Vice Chairman

For the stand-alone, you are looking at?

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## Basudeb Banerjee

Yes, yes.

## Vivek Chaand Sehgal, Vice Chairman

See, I'll tell you something, there is a lot of -- in the stand-alone, there is a lot of fluctuations that are passed on to the customer. So, it maybe because the copper or something like that -- the Japanese yen, which is gone through roof may show some kind of -- because we will take the last date of the rate for the ForEx rate et cetera.

So, I think in the next quarter, you'll find the correction, and it will start to come back again. We've always said that there could be a three to six month lag between the numbers, but this is not the growth rate.

## Basudeb Banerjee

So, basically passing on the cost inflation, we can take three to six months of lag?

## Vivek Chaand Sehgal, Vice Chairman

It can happen, but as I said, it works both ways; it could go up, it can go down also. Also I think, two positions, one as a percentage, it will look different, secondly in the last few quarters, the copper price has been up significantly... This raw material cost is around that percentage only. It is not 58%, we love it to be there.

## Basudeb Banerjee

Yeah. Other than that, one broader question: if I look at your this quarter's levels, in the standalone also, somewhere around 650 crore is from domestic market and compared to a console revenue of around 2,300 crore.

So going ahead, having -- console numbers that domestics secular demand, car demand, growth India story, the exposure to that business will be nearly you say 25% of the consolidated revenue, and Motherson will be more exposed to the global car market cycle, where the...

## Vivek Chaand Sehgal, Vice Chairman

I think -- I know where you are trying to go to, but what is important is that we've always given the guidance that we will be 60 to 70% outside of India, we are not anywhere far away. We've always given that guidance.

In 2009-10 balance sheet, it clearly says that if we look at 70% outside of India, and this can be -- 75%. But I want to use this particular question to get one very important information to you. If you look at the GM numbers, you will find that in 2020, they are guiding that there will be about 10 to 11 million cars produced in India. And about in China, they have been told that 29 million cars are going to be produced in China.

At this particular moment, they are sitting at 12 to 13, depending upon how you look at the cars industry. And Peguform and Motherson will be the major beneficiary of that particular volume rise, because as you are seeing more and more things are required in the smaller car also, the medium car also, in the large extend on the upper segment of the cars.

We have a total solution to the car makers. And hence, Peguform and its combination is going to give Motherson a very strong footing in India, in South Africa, in China, and in Thailand. As these four are very, very important markets. Of course, Russia is something that nobody is there. But together, I think all of our companies can go to Russia as well.

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 Date: 2011-07-29  
 Event Description: Q1 2012 Earnings Call

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Bloomberg Estimates - EPS  
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## Basudeb Banerjee

Yeah. And sir, what we have is looking at that in a different angle, India and China, you said then the cycle in the auto car market is in a bad shape. The growth can get muted down to lower single digit. But in the developed markets -- that time of the car cycle, the growth can be even double digit decline in the volume. So, the exposure to those kind of high -- whenever the times in the cycle is bad, one might get exposed to that kind of severe contraction in OEM demands. On that angle I was looking, not on a secular long term basis, but when the cycle is in a bad shape.

## Vivek Chaand Sehgal, Vice Chairman

Fair enough. I think Motherson is quite aware of this particular thing, that phenomena. Motherson breathes; we breathe in the market. We have lot of things in our control. If you look at it, in 2008-2009, when the Lehman crisis happened, the doubt of looking at the numbers, we grew -- on an standalone basis, we grew 18%. And together with the acquisition, we grew to 31% or something like that.

I think conversely when the cycle is bad, there is a double digit reduction. And if you are sitting on cash, I'm sure you will understand that we will be in a much better position to apply more and consolidate more. And when the double digit down, the government and the industry is very much, how do you say, agreeable to reduction in work forces and do the corrections.

So, I think the automotive industry has topped up that we have to be very, very reactive, fast reaction to whatever situation that happens in the globe. So, I don't get worried by that particular thing that what is going to happen, because we are not going to be sitting with our hands on hand. We will be taking whatever actions are necessary to make sure that we are breathing with the market.

## Basudeb Banerjee

Sure sir. Thanks, sir.

## Operator

Thank you.

## Vivek Chaand Sehgal, Vice Chairman

Is that the last question or any other? We can close now.

## Operator

Sir, we have one last question from the line of Chirag Shah himself from Emkay Global.

## Chirag Shah

Thanks sir, for allowing to ask the question.

So, one -- just a clarification: is it correct that most of these new start up costs are a part of this quarter, and we can expect ramp up in the production and utilization level just to new plant and the impact will be much lower? Is it the right way of looking at it or there is one more quarter of ramp up left before that for SMR, business for SMR?



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## **Laksh Vaaman Sehgal, Director**

This is Vaaman.

You are absolutely correct, Chirag. The costs are all -- but you'll see that the sales volumes and this will get rationalized over the next few quarter and they will keep increasing quarter-by-quarter. Next quarter is going to start and then go into the peak volume following year. So the third, fourth quarter and the whole of next year you would see the reach -- the new plants are producing towards that higher volume.

## **G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary**

I mean just -- Chirag, to add there, it is not just one program. When we have got the other, we had said that it is three-four programs. So each program launch is at a different date. So the ramp up is based on the program launches.

## **Chirag Shah**

Fair enough, sir. What I think -- what everybody is or even including me, what we are trying to understand is, this two projects seem to be among the biggest one for SMR, among the relevant -- plants that you are setting up, this two plants seems to be among the larger ones. And when the other plant come up and the ramp up cost happened, the intake may not be as big as it seems as of now for this two particular time as it was visible in this quarter?

## **Vivek Chaand Sehgal, Vice Chairman**

Absolutely, I think I just want to add one more thing here. See, what happens is ramp up the cost reduction cannot go from zero to 10,000 cars per day just like that. So it is a slow process, it goes to 200 cars per day, 500 cars, 1,000 cars; like that, it increases.

So, we will commensurate our production exactly to what the car maker is doing. We don't produce over and above what the car maker is producing. So, different program were starting as Gauba said rightly. Actually, not just a different programs, but different variants of the car is also coming.

## **Chirag Shah**

Fair enough.

## **Vivek Chaand Sehgal, Vice Chairman**

So, Vaaman was right when he said that the next quarter would be better. The next quarter would be even better; and after that, it's going to get better than better.

## **Chirag Shah**

And sir, if I can ask, say, the new Hungry plant and the new Brazil plant, what is the kind of top-line you can do at say peak capacity. I mean if we say in one and a half years, you maybe touching our in one at a time, maybe touching a peak capacity. So what kind of revenue you can generate from this four plants before putting up more capacities or adding more lines or something like that? Is it possible to share this?

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## **Vivek Chaand Sehgal, Vice Chairman**

Yeah, we're trying to answer that question. The thing is that we have already announced 800 million worth of orders starting from 2011, which is on the third quarter of their, so it's our second quarter. And if you divide that by five, it comes to about €150 million approximately per year. We have already done in March quarter €200-plus million, we put that into fourth quarters at the straight rate or the 800 million, plus another 150 million. I mean you can do your maths.

## **Chirag Shah**

Okay, fair enough, fair enough. I had one -- hello?

## **Vivek Chaand Sehgal, Vice Chairman**

Last year we did 755.

## **Chirag Shah**

Yeah, fair enough, fair enough, sir. One thing on Peguform, that Peguform is present in China?

## **Vivek Chaand Sehgal, Vice Chairman**

Yes, yes. In fact production in China specially depends upon Peguform.

## **Chirag Shah**

Okay and how big -- because SMR is not that big in China, right? SMR's presence in China is negligible.

## **Vivek Chaand Sehgal, Vice Chairman**

No, they are there; they have four plants in China.

## **Chirag Shah**

But in your contribution in SMR's overall revenue, it will not be that big. How big would be China if I can ask like that for SMR?

## **Vivek Chaand Sehgal, Vice Chairman**

The Hyundai business is done 100%, and the other business for other customer form any joint venture 50-50.

## **Chirag Shah**

Okay.

## **Vivek Chaand Sehgal, Vice Chairman**

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And revenue for SMR, we will take 50% of the revenue contribution.

## Chirag Shah

Fair enough. Is it possible to share on approximate number how big China would be for SMR in terms of revenue contribution? So, your -- 50% of your JV share is not necessarily 50% of the JV share.

## Vivek Chaand Sehgal, Vice Chairman

We will try to come out with this in the presentation.

## Chirag Shah

And Peguform is also present in China, fair enough.

And sir, one last thing if I can ask: the tax rate seems to be very kind of wavering. I understand it is because different locations have different taxation et cetera and there is no set up is available. But when you look at your business say, from a two year or three year perspective, what is the kind of tax rate you work with in terms of it, because their tax rate seems to be fluctuating significantly. At times, it goes to 50%, then it down level to 27-28%. So for outsiders... Yeah?

## Vivek Chaand Sehgal, Vice Chairman

Listen, one of, should I say, problems in acquisitions is that you acquire structures, which have been made maybe four, five, 10, 15, 20 years ago, all right? And in the case of Peguform, its credit goes to our CFO -- 59.

So, we have to work together with international lawyers. We have to work with the tax consultants to try to collapse these particular things. And believe me, we have a clear plan in the next three years, where we want these particular groups to be. But tax is something, which is always changing everywhere. So, it's very difficult to predict something.

I think would Gauba would like to add something on that.

## G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary

See, globally the tax rate is in the range of 30-35%; some jurisdiction, it can go to 38%. But the tax rate -- I mean, the Indian tax rates are also at global level. And we don't get any more significant incentive or concession. As Mr. Sehgal rightly said, it is very difficult to change the structure. There are extra costs, which are taken because of to form a holding company or to unwind a structure and the accounts is a good example that even the group is making huge model, yet there is a potential hidden tax or risk, which is there.

## Chirag Shah

Yeah, fair enough.

## G.N. Gauba, Chief Financial Officer, Vice President - Finance, Compliance Officer, Company Secretary

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Definitely, we are not in a position to say what will be the tax rate in Germany or in Australia two years later. So, it is better to work as if -- basis and again Chirag, just everything -- quarter-on-quarter basis, the tax rate is something expecting too much because the tax rates are something, which can vary from one quarter to another. You have -- so many things can impact.

## **Vivek Chaand Sehgal, Vice Chairman**

And also Chirag, those particular things you would need to do exactly on lawyers and people working over here and then the charges will be too high on the -- charges will be too high there.

## **Chirag Shah**

Fair enough, sir. Sir, these are helpful.

And I think that we can conclude now. So, thanks a lot for sparing time with us, sir. And I would also like to thank participants for sparing their time to attend the call. All the best to everybody and have a great day.

## **Vivek Chaand Sehgal, Vice Chairman**

Thank you very much. Have a good day.

## **Chirag Shah**

Thank you.

## **Operator**

Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference.

Thank you for joining us. You may now disconnect you lines. Thank you.

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