



“Mother'son Sumi Wiring India Limited
Q3 FY '23 Results Conference Call”

February 07, 2023



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Moderator: Ladies and gentlemen, good day, and welcome to Motherson Sumi Wiring India Limited Q3 FY '23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. V. C. Sehgal, Chairman, Motherson Sumi Wiring India Limited. Thank you, and over to you, sir.

Vivek Chand Sehgal: Good afternoon, ladies and gentlemen. It's a pleasure to be on the call. The company has done very well under the circumstances, but many things have come into one quarter itself. While we have in the nine months, 10 months, we have opened three new plants, almost about 7000- 8000 people extra have been working.

But because of the chip situation for some customers and some other conditions of supply chains for some other customers, there has been a congruence of a little bit of confusion. So because they could not start models on time. And they have actually carried on with the old kind of models. But this clarity will be given by Anurag and Gauba. I would request you to have a patient hearing, and we think that this quarter is a work-in-progress kind of quarter, and you will see very good results coming in the next few quarters. Over to you back, open house for the questions, please.

Moderator: Thank you very much. Ladies and Gentlemen we will now begin question and answer session, anyone who wishes to ask a question may press star and 1 on their touchtone telephone. If you wish to remove yourself from the question queue you may press star and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen we will wait for a moment while the question queue assembles, We have a first question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Hi good afternoon sir, thanks for the opportunity. Sir, firstly, just on you know one-time items, which are there exchange loss and also one time cost of OP Cos. -- if you could just explain what are the reasons these are, we are coming through?

G.N. Gauba: Yes, sir. Thanks, Kapil. As you know, we have all 100% domestic business. So while there is a pass-through. But in the last quarter, we have seen the significant movement on the Japanese yen side, which got strengthened more towards December. And as a result, we have not only some Japanese yen exchange loss as well as onto the reinstatement of sundry creditor. So that loss is about INR 10 crores.

Of course, as we have a quarterly lag, this gets recovered over a period of time as the customer pricing gets adjusted to that extent. And this INR 4 crores expenses are onetime costs in respect of certain like we had a bonus issue, we also are separating the software between MSWIL and non-domestic wiring harness business because this business was working as one in India. So therefore, these are onetime costs, which we thought we will share with you as one-off items.

Kapil Singh: Okay got it Sir. And sir, second, we've also disclosed that we have you know six new or full model changes, which are you know planned. So and I just wanted to get clarity, these six models will represent 40% of our total business or it is the 11 we have already launched plus six?

G.N. Gauba: All models together, 11-plus six, will constitute 40% of the revenues.

Kapil Singh: Okay Okay, So for now, just wanted to understand, we have increased the capacity by 25%. That covers for all these models or do you think, when we think of capex requirements for next year, more capex will be required. So that's one question. And the second related to this is also if you could talk about how does the margin profile generally work when you have so many new models coming through. Is it that initially margins are lower and they sort of improve over a period of time or right from the start you have margins around average company level?

G.N. Gauba: Okay, Kapil, I will try to address and Anurag will help me out. First of all, I think we don't have to remind you again that we do not guide on margins. I mean, we have focused on Return on Capital Employed and your question is very pertinent given that when you start with a new model, you don't start with the same level of profitability, because it takes time for you to achieve certain level of efficiencies. Motherson has been known for localization and it's not possible to just start with a high level of localization on day one, given sometimes the volume visibility as well as the customer.

So straight away, it takes time for model profitability to mature over a period of time. Initially, you have the initial setup cost, initial training of the people cost and that is what we have highlighted and Mr. Sehgal also mentioned about 7000 net people we have added in last nine months. In fact, you will look at compared to September quarter to December quarter, our employees head cost has come down because as you achieve some level of efficiency or some level of ramp up, you are able to achieve certain better profitability or better efficiency level so as to say.

The second question in respect to the capex, yes our capacity for these models which we have described is currently available, but at the same time we have a golden rule that once we start crossing 80% of the capacity, touch 80% we start expanding the capacity. And we do have a lot of new models which will come during the later part of the year as well as following year. Given that our largest part of the expenditure goes into land and building, plus on the people's side, which is charged to the revenue, it's a continuous process and we will continue to add our capacities given our commitment or our traction from the customers as well as optimism about the volumes.

Kapil Singh: Okay perfect, thank you so much.

Moderator: Thank you. We have our next question from the line of Jinesh Gandhi from Motilal Oswal Financial Services.

Jinesh Gandhi: Hi Sir, thanks for the opportunity. First question pertains to the copper price related impact in this quarter. So, would you be trying to say that our revenue growth in the quarter would have

been higher, but for the RM cost, copper cost pass through, which we have taken it down, which is still a very good number, but just want you to understand whether there's any negative impact of cost pass through on the revenue growth?

Vivek Chand Sehgal: Gauba, can you take that?

G.N. Gauba: Jinesh, the movement between the two copper price has not been that very significant. At the same time, there are less number of working hours. We have tried to give the number of working hours also. As well as ERP maintenance. Plus, we are all aware how some of the customers have gone in public domain also, which you are tracking more than us. How many cars they could not build because of those supply chain issues. So therefore it is a cumulative effect and it's not just value proposition, it will not make a significant difference given that the movement has been more in a narrower range than in a significant duration.

Jinesh Gandhi: Got it, got it. And the second question pertains to the capex. So the investments which we have done for the new plants, would it be trying to say that this kind of capex may not come in FY '24 given that we'll be having adequate capacity for next year, year and half? Would we see moderation in capex from where we are in FY '23?

G.N. Gauba: I mean, Jinesh, there are two parts to it. Number one, given that we have to build our capacity more on the space side land and building, you can't build it just overnight. It takes time for you to, get the land, get everything in place. Secondly, we have to build our plants to the full capacity well in advance of launch. So '24-'25 models also we will need to start planning for those capex in '22-'23 or '23-'24 in that respect. Thus.

Jinesh Gandhi: Okay.

Vivek Chand Sehgal: Jinesh, we are continuously winning orders. So, for those things we will be doing it. And normal time when we start looking at new capacity enhancement, we start almost a year, year and a half before the predicted date of supply. So it's a very difficult question to answer. But I think what orders in hand we have the capacity. And as we win more orders, I'm sure with your good wishes, we are going to win even more orders. Definitely more plants will come.

Jinesh Gandhi: Got it, got it. And a couple of clarifications. So, one is at EBITDA level, as per segregated format, 2Q EBITDA was about INR 180.8 crores, whereas in PPT we are indicating INR 190 crores. So, what is the difference for?

G.N. Gauba: Jinesh, and this is where the first footnote starts with saying that this is the first quarter, this is the first financial year when we are reporting MSWIL results as a standalone company. The figures which are showing -- shown until December quarter last year are in the statutory format are from the discontinued operations what MSSL was reporting.

That did not have a proforma adjustment on account of management fee as well as the rentals, which is for the factory premises being used by MSWIL because until December, it was within the same company pocket in pocket out could not be accounted for in that respect. And in March,

we had done the adjustment for the full year, which has been spread out over the 4 quarters. And you can see that in each of the quarterly presentations last year as well as in March, we had given annexure for all the four quarters on the going forward basis. So, the comparison has been done based on that pro-forma numbers.

Jinesh Gandhi: Sorry, Gauba sir, you are referring to second quarter of FY '23? September quarter EBITDA?

G.N. Gauba: I mean, there may be something which we are adding, we can check that offline.

Jinesh Gandhi: Okay, sure. The second clarification was regarding the EBITDA again for the 2Q, we had indicated there was one-off items, would it be possible to quantify that? The 4 crores, which is there in third quarter, the similar number for second quarter?

G.N. Gauba: I just answered, no, this was not there in the previous quarter.

Jinesh Gandhi: Okay got it. Thank you.

Moderator: Thank you. We have a question from the line of Raghunandhan NL from Emkay Global. Please go ahead

Raghunandhan NL: Thank You Sir for the opportunity. Sir, it is heartening to see the number of orders, new models being added by the company. Of the new models, which company is working on, it would be a combination across powertrains. If possible, can you give some quantitative, qualitative colour on efforts or additions relating to EV and hybrids?

Vivek Chand Sehgal: Anurag would you be able to answer that question? We have it in the presentation, I think.

Anurag Gahlot: For Electric vehicle, as you know that we are already in the passenger vehicle, in buses, and obviously in the two-wheeler and commercial vehicle side. So we are available in all the segments in the electric vehicle. And coming forward also, we are winning the new orders also, which you are going to see in FY '23- '24. So those are already part of these financials, the electric also. And we are not bifurcating, but yes, we have a very-very positive from the market and we are winning in all the segments, the orders.

Raghunandhan NL: Thank you Anurag, heartening to hear that. Optimum utilization in new facilities is expected in Q1 FY '24 as per the presentation. How much would optimum utilization be? Would it be 70%-80%? And is it possible to indicate current utilization?

Anurag Gahlot: Current utilization of the plant is, yes, what you're saying. Like what we have explained to you that we have added the three new facilities also, and you know, enhanced our overall capacities by over 25%. And as Gauba ji was also talking about that we are keeping a 80% of our capacity and then we are expanding those capacity accordingly. So utilization goes one to 80% to our capacity. We go for the further, enhancing our capacities and doing the utilization accordingly.

Raghunandhan NL: Got it. And generally, there is some component sourcing that happens from Samvardhana Motherson. So will dependence on SAMIL be lesser in new capacities?

- Anurag Gahlot:** No, it is not. Within the group synergy, we are doing a lot of development like new type of wires we are moving into, which is the high temperature cables. We are going into the very, very specific cables like LVD cables and data cables and we are a lot of focus on the localization. So we are taking with the group's synergy and doing a lot of localization work also.
- Raghunandhan NL:** Got it. On the currency exposure side, would we have hedges? Is there an automatic pass through for yen or dollar movement? Or does it happen through negotiations?
- G.N. Gauba:** I'm Gauba this side. We have generally a pass through arrangement with the customer. It is a part of the process.
- Raghunandhan NL:** Got it sir. And Gauba sir, working capital is on the higher side. How do you see the reduction in working capital going ahead?
- G.N. Gauba:** Number one, it will get reduced the moment whatever are the planned orders they get executed. So, with the crucial stabilization of supply chain and with the incremental revenues coming, the working capital will get reduced. As well as given the uncertain situation, the customers have also asked us to maintain high level of inventories. So, it is a combination of the two.
- Raghunandhan NL:** Thank you very much Sir.
- Vivek Chand Sehgal:** Also, I think many of the customers, we can't take the names. Many of the customers are extending the life of the older models, because of supply chain issues or things like that. So there is two kind of inventory and also express inventories have been asked because of this confusion. So, I think over the period of time, maybe three months, six months, it's going to equalize and that will lead to reduction of the working capital.
- Raghunandhan NL:** Thankyou Sir, extremely helpful. If I can just add one more question, Company as you indicated in the opening remarks, the company has added 7,000 employees on a base of 40,000 employees in March '22. So almost like a 20% employee addition. Is it fair to assume that the percentage value addition or increasing content will be 20% or higher?
- G.N. Gauba:** I think, Raghu, this is a tough question, but it is in terms of the capacity. I mean, we have to understand that the wiring harness business is a people's job. And yes, you build your capacity not just by acquiring a building or a space, but also by training all the people. So I would not like to guide you on a specific number. But directionally I think we have said that we have expanded capacity.
- Vivek Chand Sehgal:** But quarter-on-quarter actually the workforce number has come down slightly. Even though it's still 7,000, but from last quarter to this quarter it's come down.
- G.N. Gauba:** We have a target, Mr. Sehgal, for productivity improvement all the time. We have a combination of the two.
- Raghunandhan NL:** Got it Sir, thank you very much.

- Moderator:** We have a question from the line of Yash Agarwal from IIFL Securities.
- Yash Agarwal:** Thanks for the opportunity. Just one question. Your other income has substantially reduced by 90% from INR 11 crores to less than an INR 1 crore in the current quarter, so any specific reason?
- G.N. Gauba:** See, this is largely on account of services which after the accounting standard 115 was introduced, so which are passed through phase wherein the component of those assembly risk is with the customer. And those volumes have come down in the current quarter.
- Yash Agarwal:** So but ideally that part would be reflected in the other operating income, right? This is the line item like below the revenue from operations. So this is more skewed towards the non-operating side.
- G.N. Gauba:** Okay, so you're talking about non-operating income, other income. I mean that. So that I would not . I mean, it's anyway not counted in EBITDA, so it's a non-operating income. It could be. I was focused on the services. I will check back and come back.
- Moderator:** We have our next question from the line of Siddhartha Bera from Nomura.
- Siddhartha Bera:** Sir, my first question again is on this new or full model change. I just wanted to understand first is that are these completely new models or we are sort of taking or these are not present earlier and we are now getting into that model. Any slightly minor detail can you share here?
- Vivek Chand Sehgal:** I think it's difficult for us to quantify, which one is what. But anyway, Anurag and Gauba, can you give some light on this? We normally don't talk about the customer.
- Anurag Gahlot:** Yes, sir. As it's difficult to go by model, model, but approximately the new model comes around 60% to 70% and 30% to 40% is the full model change comes out of this.
- Siddhartha Bera:** That means we are getting into the model which we were not present earlier, And it is a full model change?
- Anurag Gahlot:** Yes.
- G.N. Gauba:** Just to correct, it is also possible the customers have come all together with the newer model. So, I mean, as Mr. Segal said, it is very difficult for us to get into a discussion on the customer related matters. But for us, what is important is that what we have developed these products from an engineering side, what we have done in terms of setting up of the lines and ensuring that there is a successful launch from the customer end and train our manpower.
- So I think our focus is clearly on what we have to do. That's the whole point, irrespective of model is new, was there a competition or was not there. I mean, it does not matter to us. I think that's how...

- Siddhartha Bera:** Fair enough. Sir I wanted to ask this question because basically in many new models which are getting launched like a lot of content also which sort of increases in compared to the earlier version. So are we seeing an increase in content for us as we supply to a completely new model or is it similar for a full model change also compared to what we were supplying earlier. If you can give us an insight there.
- G.N. Gauba :** You have a question as well as the answer because the vehicles which come today have many more features.
- Siddhartha Bera:** So any number you share how much higher content we would be supplying to our sort of model which is getting fully changed compared to the earlier model?
- G.N. Gauba:** Let's avoid getting into that level of discussion.
- Vivek Chand Sehgal:** It's very difficult. I know it helps you, but the thing is for us to calculate all that and we've said, you know, certain models are model change. Sometimes it's complete change of the model. Very difficult to compare and tell you, because there is a possibility, but also if it will help you I told you that the customers are doing both the thing. The older model also is going on and the new model has started. And they're having supply chain issues on the new model so they're carrying on the old one. So it's very difficult to explain to you how we can do it without referring to the customers.
- Siddhartha Bera:** Sir, a few classifications. We said that the inventories have gone up by about INR 312 crores. So is it compared to the last quarter or FY '22? How to read that?
- G.N. Gauba:** As compared to March.
- Siddhartha Bera:** March '22. And we have also said that we are in discussions, I think in the last quarter also we had indicated that we are in discussions for some realignment of costs from our customers. Any clarity about how close we are to that or how much is under recovery, any number if you can share about, where are we in that journey?
- Vivek Chand Sehgal:** **Gauba** see, if you can help them with this information. But You know it is a continuous process. For example if the labour costs have gone up dramatically like in the north, south, anywhere then we start all negotiations all over again. Or if the component prices have changed, the Yen prices have changed. Whatever you can think about it there is a continuous team in our company which is, you know, if the changes happen, the effect happen, then they keep negotiating. So some are getting resolved, some are getting created. It's a continuous journey. I don't know how, but Gauba, see if you can help him.
- Pankaj Mital:** It's Pankaj here. What we can say is that we are very positively engaged with the customers, and as Mr. Sehgal said, that many of them have already been resolved, but then since it's a continuous process, it's continuing.

Moderator: Thank you. As there are no further questions from the participants. I now hand the conference over to Mr. V.C. Sehgal for closing comments. Over to you, sir.

Vivek Chand Sehgal: Thank you very much. I hope you have got answers for whatever points were concerning you. Negotiations in our business is a continuous process, because wirings harness is the most changed component in an automotive, whichever way you look at it. If an electrical part changes, the wiring harness changes. So all these particular going negotiations with the customer and with our suppliers, et. cetera, is an ongoing process. And we try and finalize everything in the fourth quarter, that's the last quarter, as much as possible.

But if there's a major change happening in that particular thing, we can't avoid it. But I think you will see the next coming quarters, the demand of the cars and everything is going up normally. We believe that you will be much better answered on our results. Thank you very much and wish you all a good day.

Moderator: Thank you. On behalf of Motherson Sumi Wiring India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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