



“Motherson Sumi Wiring India Limited (MSWIL) Q1 FY24 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Mother'son Sumi Wiring India Limited (MSWIL) Q1 FY24 Earnings Conference Call. As a reminder, all participants' 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 "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. V. C. Sehgal. Thank you and over to you, sir.

Vivek Chaand Sehgal: Good evening ladies and gentlemen. Welcome to the conference call of MSWIL. We had a wonderful quarter and I know you would be having questions. So, I will hand it back. Please ask your questions and we will answer to the best of our capability. Thank you.

Moderator: Ladies and gentlemen, we will now begin the question & answer session. We will wait for a moment while the question queue assembles.

We take the first question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: Good evening, Sir. On the results, firstly I just wanted to check, we have seen an improvement in raw material to sales ratio for the quarter. Does this reflect a drop in commodities or cost reduction? And going ahead, what is the outlook on both cost reduction and commodity prices?

Anurag Gahlot: Right sir, Anurag this side, I will take this question. Kapil Singh ji, as you have requested for this raw material cost, see it's very difficult because the product mix is different from one quarter to another, so what we make or manufacture the harnesses from one quarter to another quarter, requirement of the customer, and product mix is very different. So, it's not easy to say that.... Apple-to-apple comparison is a little bit difficult in this. But as said that raw material, there are many other things which we are taking actions internally, say on the localisation front which is actually going to give a benefit to us in the coming times.

Kapil Singh: Okay understood, but if you could just explain this reflects more of, in your view, mix or did we realize anything from commodity prices softening or you expect that to come in future?

Mahender Chhabra: This is mainly related to the product mix and the content mix of that. As far as commodity prices are concerned, one of the main components that we use is the copper for which we have pass-through arrangement with our customers – with some customers at a quarter lag and with some customers at a half year lag. So, it's more to do with the products that we are doing, the mix of the components within that product.

Kapil Singh: Okay, and second, in the press release, we have also mentioned that there are inflationary pressures on wages. Does the current quarter reflect the full impact of that or should we expect more wage increases also to come through the year?

- Mahender Chhabra:** Good question, As far as wages are concerned or manpower cost is concerned, there are some external factors which control it, which is basically related to minimum wages, which are governed by the state government and there is something which is internal. As far as external factors are concerned, slightly difficult to comment on that whether there will be another increase in the minimum wages, and if yes, which state or how many states, and it all depends on that. Otherwise, whatever increase has been there effective 1st of April, that has been considered into these numbers.
- Kapil Singh:** Okay that's helpful. Also, we have talked about initiating supplies to two leading players in the EV commercial segment. Could you just throw some light on which type of product it is? Is it a light commercial vehicle? And are these high-voltage wiring harnesses or inverters? What all does it include?
- Anurag Gahlot:** This is very specific to the customer. We are unable to tell you the customer names into that. But these are related to the high-voltage harnesses only where we have started supplying. Though electric and high voltage, we are in all the segments whether it is passenger vehicle, commercial, two-wheeler, or buses; it's across. But there are new segment customers also adding as well as the established customers also we are supplying these parts.
- Kapil Singh:** EV commercial segment means LCVs? Just the category I wanted to understand.
- Anurag Gahlot:** Kapilji, I need to check and offline I can confirm it.
- Kapil Singh:** Okay, I will come back in the queue.
- Moderator:** The next question is from the line of Jinesh Gandhi from Motilal Oswal. Please go ahead.
- Jinesh Gandhi:** Hi Sir. Just a clarification on the RM cost side. So as we see some moderation in the RM Cost on Q-Q basis or on Y-Y basis. This will be pass with the lag... so when you pass it on our RM cost or percentage of sales are declined right?
- Anurag Gahlot:** Sir, I would like Jinesh ji to repeat the question again.
- Jinesh Gandhi:** What I'm asking is, when we pass on the RM cost to our customers based on the contracts, it will have implications on RM as a percentage of sales for us while absolute impact on EBITDA may not be there.
- Anurag Gahlot:** Okay what I understand from your question is that you are saying that at the time of start of any business the RM cost mentioned into the products is... actually Jinesh ji I am sorry I am not able to understand.
- Jinesh Gandhi:** Okay, let me put it the other way around. Our RM cost as a percentage of sales which we see on our financial statement on a quarterly basis or on an annual basis, does that get influenced by RM cost pass-through contracts which we have with our customers? The reason I am asking this

is because we have seen a good moderation on QoQ basis for our RM cost as a percentage of sales. And you are broadly indicating this is because of the mix-related changes. So, would there be any influence of commodity costs on this number?

Anurag Gahlot: As far as commodity is concerned, particularly on the RM cost as Chhabraji has also confirmed that whatever the impact on the commodity, for say copper or for the exchange rate, that is being on the pass-through. It's a straightaway pass-through. There is no as such of very big impact of these commodities going to impact anything on the raw material cost. Is this the question you were asking?

Jinesh Gandhi: No. Maybe I'll take it separately with you. No worries. The second question is with respect to the CAPEX side. Can you give any indication of what kind of CAPEX-related investments we will be doing this year considering the order wins have been also quite strong on the EV side? Would we need to incur further CAPEX for this growth?

Anurag Gahlot: Yes, in this year '23-24, we see a CAPEX of approximately Rs. 125 crores. And this does not include land & building. And this is mainly for directly, as you said, customer increased demand. As you know that land & building we have taken on rentals from SAMIL. For the future investment, this depends upon the availability of land; and all that will be done by the appropriate company.

Jinesh Gandhi: Lastly, would it be possible to share what would be our revenues from EVs now given that we are seeing good traction? Would it be possible to share as a percentage what kind of revenues we get from EVs?

Vivek Chaand Sehgal: Are you asking about the order book? We are not disclosing that number.

Jinesh Gandhi: Not the order book, of the revenues.

Vivek Chaand Sehgal: Pankaj, are we giving that number from MSWIL?

Jinesh Gandhi: Similar to what we give in SAMIL, I was wondering if....

Vivek Chaand Sehgal: That's what I'm thinking. Because, SAMIL we give.

Jinesh Gandhi: Yes, we haven't shared yet.

Vivek Chaand Sehgal: But don't think we are giving it in MSWIL.

Jinesh Gandhi: No worries. If you can consider sharing it later, that will be helpful.

Vivek Chaand Sehgal: Anurag, take a note of that. If we can, from the next time, we can give them what's the EV number. But EV number is normally very very....

- Jinesh Gandhi:** Currently, it's very small, I understand.
- Anurag Gehlot:** As Mr. Sehgal has suggested, we don't give these EV numbers separately.
- Vivek Chaand Sehgal:** Because, it's too small. If you want, then I'm sure they can work it out. But anyway, as you all desire, we will try if we can give it from the next time.
- Jinesh Gandhi:** That would be great.
- Moderator:** The next question is from the line of Sonal Gupta from HSBC Mutual Fund. Please go ahead.
- Sonal Gupta:** I just wanted to understand, in Q3 last year, you had guided that we will get the margins back to normal levels by Q1. But yet we see that the margins are still quite low. I am just trying to understand what has changed since then in terms of what was your understanding then versus now, which is leading to sort of margins remaining at extremely low levels.
- Vivek Chaand Sehgal:** When you say extremely low, what is the margin according to you? Because, we never guide you on margins.
- Sonal Gupta:** No, sir, you didn't put out any absolute margin number, but if I look at the presentation as well as....
- Vivek Chaand Sehgal:** Then, how are you saying it's extremely low? Extremely low because of your thinking or because we had guided you?
- Sonal Gupta:** You had guided for margins to improve more towards the average. If I look at FY22, it was closer to 13%. It would be closer to that sort of a level was what I would expect when you are saying the margins will normalise back to previous levels.
- Vivek Chaand Sehgal:** Fair enough. Can you remember who guided you at that time, in the second quarter or third quarter you are talking about, 6 months back?
- Sonal Gupta:** I believe Mr. Gauba was on CNBC talking about that.
- Vivek Chaand Sehgal:** Mr. Gauba is now not the CFO anymore. Is Gauba there on the line? No? Mr. Gupta, we will get back to you. I don't remember us guiding you for the margin, but I'm sure we will try and find out from Mr. Gauba because he is still here till 31st of August. So, we will find out and get back to you.
- Sonal Gupta:** The point was you had highlighted certain factors like the new plant capacities are ramping up and there were certain cost pressures that you were in negotiations with the customers to pass those on. Given that you have expanded capacity by almost 25%, I am just trying to understand where are we in terms of absorption of those costs and the ramp up that we expected? You have talked about in the annual report also that you are supplying for 23 new models including the

changes, etc., which are going to be a significant part of the overall revenue. So, I am just trying to understand where we are in terms of that journey? Is there still a lot of distance to travel in terms of ramp up and cost optimisation?

G. N. Gauba:

Sonal, first of all, we have always said and maintained, including on CNBC, we never guide on the margins. What we talked about, you subsequently try to cover that. The new capacities which we have established will start getting better utilised by the end of quarter 1 or next year subject to customer pickup or customer plans being met as per the scheduled plan. There was no guidance on the margins. As far as we are concerned, we have only been guiding on the return on capital employed. Definitely, if you look at the quarter 1 of this year, the performance compared to quarter 2 and quarter 3 when we started expanding our capacities and introduction of new models, the performance is far better and improved compared to those if you will look at in terms of the operational performance.

Pankaj Mital:

And just to add to the point that if you know from the market information and as we have also mentioned in our release that there have been in this quarter block holidays with some of the main customers. Some of them were planned and some of them were not planned. And as we would have seen from the market information already that many of the models couldn't achieve the volumes which they were envisaged to achieve due to some of the supply chain issues as well. So, the capacities which we have created are currently not in full use. They will continue to get ramped up over a period of time with these ups and downs in the market.

Sonal Gupta:

And just lastly, in terms of the annual report, you also mention about the increase in cost of some of the components like connectors, etc., which you were in negotiation with customers to sort of being able to pass on these costs. I just wanted to understand, because we were quite optimistic over the last 2 quarters that we will get some sort of a pass-through. How do you see that? Are we able to pass on these increased costs or as of now, a significant portion is still sort of under recovered?

Anurag Gahlot:

Sonalji, this is a continuous process. These are work in progress with the customer. Whenever such things are there, we are discussing regularly with them and we are recovering also. It's a work in progress and ongoing activity, actually.

Vivek Chaand Sehgal:

And Sonal, you should also just remember that it's a never ending process at the moment it appears because the components and all that are increasing on virtually a quarter-on-quarter basis kind of thing. By the time you get the recovery for the last thing, you already have another negotiation started for the next particular thing. There are many moving parts in that. The currencies, the components itself, also electrification, and a lot of these things are moving parts. I think the best thing is that we look at the end of the year. That's the time when all of them come into some sort of a culmination, hopefully, and let's hope in this high inflation kind of a thing, we can give you guys some more guidance.

Moderator:

The next question is from the line of Kapil Singh from Nomura. Please go ahead, sir.

- Kapil Singh:** Thanks again, I just wanted to check, we have talked about supply chain issues at customer end and this issue has been going on for some time. What is the visibility that you have now for Motherson Wiring as well as for customers? Are you seeing that these are largely easing off or by when do you think where we can see production levels at the desired levels by the customers?
- Vivek Chaand Sehgal:** There is no lack of intention by the customers to produce. If they can produce even one car more, they will. But there are so many moving parts, Kapil, and that is something that you have to understand. We have a war going on. We have the China factor. I can keep on trying to explain the whole thing, but I think the will from our customer side and from the supplier side is to provide as much clarity as they can. But things go wrong without you even knowing but it goes on. Pankaj do you want to add something on this or Anurag?
- Pankaj Mital:** No, Actually you are right, sir. Kapil, the point is that these are sometimes so unforeseen that even the customer is not able to predict. These are all making best efforts and trying to do the best. And to put it in perspective, yes, the supply chain issues are not completely over. They keep coming back and hitting sometimes.
- Anurag Gahlot:** I just want to add one more thing that as a company, we are getting ready for that because at times, they change the plan also but we are there to service the customer so that they should not have any interruption into their supplies also. We get ready at our end to make sure that we continue supplying parts to them.
- Kapil Singh:** So, at this stage, it's not possible to say whether we are likely to see better production in the coming few months or is there enough visibility right now or not?
- Vivek Chaand Sehgal:** On the contrary, I am saying if the car makers can make even one more car, they are willing to make it. In fact, the thing is so volatile in the world at this moment that we are doing everything possible to make. And I don't think you will hear this kind of commentary from the car makers that they are not able to sell or something. It's more about supply chain and if they can supply, definitely they will sell. According to me, the contrary is true.
- Moderator:** The next question is from the line of Basudeb Banerjee from ICICI Securities. Please go ahead.
- Basudeb Banerjee:** A couple of things. One, if you can explain what has been the favourable change in mix which resulted in improving gross margins so that one can understand that these are the segments of better margins going ahead just from a mix perspective?
- Vivek Chaand Sehgal:** Are you talking about production? What are you talking about, sir?
- Basudeb Banerjee:** You said because of a favourable mix and not because of any commodity movement, the gross margins have turned favourable. If you can explain which are the segments where the mix improved resulting in better gross margins?
- Vivek Chaand Sehgal:** You mean we should tell you about the customers? Is that the question?

- Basudeb Banerjee:** Segment mix. Which segment revenue mix improved?
- V.C. Sehgal:** Segment means what? Pankaj, Anurag can please.... I couldn't understand the question.
- Anurag Gahlot:** Banerjee Saab, the thing is that, as you are seeing that sequentially, we are growing up and we don't talk about margins. We always remain on the monitoring of the ROCE. And as per our group philosophy, we have to be more than 40%. We have given more than 40% in the last financial year, and we are very much on the track. So, we are just monitoring that part only. Is that the one you are looking for?
- Basudeb Banerjee:** The word favourable mix, so just wanted to understand what turned favourable? From that angle only, I was just trying to understand what a favourable mix would it be for us.
- Vivek Chaand Sehgal:** Favourable Mix, maybe he is referring to the comment that was there in the commentary, maybe that. The favourable mix was actually that in spite of shorter days, in spite of the closedown with the customer and all that, and they were selling a bit more of the luxurious side, I think that might be the favourable mix that you are looking for. As you see, the entry level cars almost everywhere are underselling. That probably should explain it to you.
- Basudeb Banerjee:** But anyways, entry level car weakness has been there for a long period. Just this quarter specifically, I don't think there is any change particularly from that angle. Leaving that aside; second thing, sir, those new facilities which were added last year and as you explained that gradually they are ramping up. What is the level of utilisation on those new facilities now?
- Anurag Gahlot:** See the efficiency, the utilisation of one of the plants has reached to around 55% plus at this moment. And we are seeing that in Q2, that is going to grow up to another 10% to 15% going to add over there. The other facility is already reaching to approximately 80%. Majorly, only there is 1 plant left out which is still at 50% to 55% which will grow in the coming quarters.
- Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to Mr. V. C. Sehgal for his closing comments. Over to you, sir.
- Vivek Chaand Sehgal:** Thank you very much. I think the board congratulated the team for doing a great job. All the customers are at the moment very busy trying to get all the supply-related issues and all that thing sorted out. Some cases, semiconductor is also still an issue. And I think all of you are aware of the logistic challenge and all those things are unavailable across the world. But in spite of that, I think Motherson has done a phenomenal job. MSWIL has performed very well. All the customers have been taken care of to the best of their abilities. Whatever the demand was, they were met. Thank you very much for joining and I hope we answered all the questions that you were wanting.
- Moderator:** On behalf of Motherson Sumi Wiring India Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.

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