"Motherson Sumi Wiring India Limited

Q2 FY'25 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Motherson Sumi Wiring India Limited Q2 FY '25 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 touch-tone telephone. Please note that this conference is being recorded.

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

V.C. Sehgal: Thank you. Good evening, ladies and gentlemen. Thank you for joining the results conference call of MSWIL. I'm pleased to announce the Board has approved the results for quarter 2 for financial year 2025. The quarter has delivered revenues of INR 2,326 crores, representing a growth of 10% year-on-year, outperforming the industry, which is attributed to an increase in content and change in the product mix.

The Indian passenger vehicle industry remained relatively flat year-on-year, registering a 6% growth sequentially. Similarly, 2-wheelers industry demonstrated 13% growth year-on-year and 7% sequentially. The uptick on quarter-on-quarter basis is due to the festival production build-up and demand. There has been a significant number of new models launched in the quarter and planned for second half financial year '25.

The automotive megatrends continue to augur well, adding to the content mix. Our EV shares of the revenue for the period is 4.1%. We continue to work on our innovative solutions for various platforms such as EV, hybrid, and other products which are -- such as battery management systems, etc. EBITDA for the quarter stood at INR 250 crores. While absolute profit remained resilient on a year-to-year basis, it is lower by 120 bps.

This can be explained by 2 greenfield sites being set up in Pune and Navagam for new customer programs. We are going through the ramp-up phase and in one of the plants we had a delay in customer's SOP than the other plant. We continue to focus on core operations and manufacturing excellence.

In alignment with the customer production requirements, we are setting up a new facility in Kharkhauda, expected to come on stream in financial year 2026, quarter one. Our capex guidance for the year remains at approximately INR 200 crores. We continue to remain debt-free and ROCE exceeding 40% in half one in financial year '25.

With this, I would like to conclude my remarks. I have Vaaman, Pankaj, Anurag, Mahender with me to answer any questions. Back to you, operator.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Siddhartha Bera from Nomura.

Siddhartha Bera: Sir, my first question is on cost side. We have seen a very sharp jump in some of the costs like employee and other costs in the quarter. While I understand that this new plant is in the ramp-up phase, so if you can just throw some more color on how to think about the costs, will most of the impact of the ramp-up is in the quarter and we should expect some normalization going ahead? Or how to think about some onetime if there is any cost element for the quarter?

V.C. Sehgal: I think you can understand that 2 new projects are there. That means the full impact of 2 plants without any production is happening at this moment, so it makes numbers a little fluctuate. But I think Rajender and Anurag can answer this question more clearly. Anurag?

Anurag Gahlot: Anurag this side. See, there are 2 projects. There are 2 greenfield projects. And one of that is having already -- because in this particular plant, there are multi customers. And one of the customer has already started SOP and second one is yet to happen. The other plant, which we are talking about has gone delayed. The project has gone delayed by 6 months by a customer.

So when we are talking about the greenfield projects, we have to hire these manpower and a few infrastructure-related costs has to come upfront, which takes some time. When the SOP starts and the production gets stabilised, then only the sales started coming to that. So you will find that these -- some costs are already part of our P&L and you assume those costs are there.

So as a window, it takes 6 to 9 months' time until the time the SOP and the production gets stabilised.

Siddhartha Bera: Okay, sir. So basically, would it be possible to highlight, sir, what is the final potential revenue from these 2 greenfield plants just to understand what size they sort of can scale up to in the future?

V.C. Sehgal: Mahender, sorry, I called your name Rajender. I apologise. But yes, normally, we don't give unit-wise details. That would be a new one for us. Pankaj, what do you think we can do here? Normally, we don't give unit-wise numbers.

Siddhartha Bera: Not unit-wise, but the greenfield plant at full potential, say it will be having INR400 crores or INR500 crores revenue. Something -- some color like that will help us understand the size.

V.C. Sehgal: Pankaj, see if you can help.

Pankaj Mital: I would say that these are not small businesses. So as they ramp up to their full potential, as you asked, that they are like relatively good numbers. So substantial numbers, not very small numbers. Everything goes well and these numbers once they get to their full bloom. So you're right that it will be quite a good number.

Siddhartha Bera: Got it. And the second plant, sir, you mentioned that it got delayed by 6 months. So plan is that it starts by first quarter of FY '26. Is it the right understanding?

Pankaj Mital: The plant is there. Our full -- the costs are there. The step-by-step SOP will start from quarter 1. Your assessment is right.

Moderator: The next question is from the line of Raghunandhan from Nuvama Research.

Raghunandhan: Sir, firstly, on the capacity addition. Last quarter, I remember that you had roughly alluded that 10% is the capacity addition due to new plants. Is it broadly in that range or is it much higher for these 2 plants?

V.C. Sehgal: Okay. Anurag and Pankaj, whatever you want to answer on this one?

Pankaj Mital: So as I mentioned that very difficult to give a precise number, but you're right that as you mentioned, that these are substantial businesses. So these 3, 4 plants which are coming up with the capacity expansions, yes, they will -- approximately, I mean, we can say around that as a ballpark figure as they come to their full projected volumes.

Raghunandhan: Understood, sir. And these new capacities, would they be both high-voltage and low-voltage harnesses?

V.C. Sehgal: Raghunandhan, thing is that we can't give details because our customers don't like it. Once we start to answer this, then you can already assume that it's an electric vehicle or an ICE vehicle or whatever. So we can't -- we are privy to a lot of confidence from the customers, so please understand.

Raghunandhan: Fair point, sir. My -- the objective was to try and understand that given that we are already having a basket of customers on the EV side and given that you are already doing high-voltage harnesses, trying to understand what could be the level of localisation? With scale, has the localisation been improving in high voltage? And if you compare it with low-voltage harnesses, how far do we need to go?

V.C. Sehgal: Fair question. Pankaj, can you give some idea on that?

Pankaj Mital: There is, still, as you would see that the penetration of electric vehicles is not -- has not reached the volume level. So you're right that as the volumes will keep growing, more and more localization possibilities get enhanced. From our side, as we had mentioned earlier that the group has already started and localised the cables, started localising and achieved success in the charging connectors completely made here in India.

So we continuously embark on this journey and work with various customers on the projects where things are stable and expected to continue. And as the volumes grow up, these localization levels for sure will keep growing.

Raghunandhan: Understood, sir. And on the EV side, I would not ask the names of the customers, but if you can broadly indicate among the top 5 customers in 4-wheeler, 2-wheeler, commercial vehicle, would we have the presence? And what would be the EV share in revenues?

Pankaj Mital: EV share of the revenues will be approximately 4%. I mean, we don't name the customers, but we are with most of the -- I mean, in all the segments, be it 2-wheelers, be it passenger cars, trucks, buses, all segments, we support our customers.

Raghunandhan: Got it, sir. On the cost side, for JPY appreciation, has there been any increase in cost due to this as there is some lag before you pass it through?

Mahender Chhabra: Yes. So like for all the ForEx-related transactions, we have a pass-through arrangement with our customers. With some customers, it is at a quarterly lag, and with some customers, it is at a half yearly lag. So there could be impact on the P&L but that's more of a timing gap. Over a period of time, it really doesn't kind of impact our P&L in either way.

Raghunandhan: Got it, sir. And on a quarter-on-quarter basis, your gross margin has slightly improved. Would that be mainly the benefit of lower copper prices?

V.C. Sehgal: **Who is** Take this question, please?

Anurag Gahlot: Yes, I'll answer this. Anurag this side. I think this is more of a product mix get changed from 1 quarter to another so it's very difficult to pinpoint the reason of that.

Moderator: The next question is from the line of Sachin from UTI Asset Managers.

Sachin: Just trying to understand on these 2 greenfield plants, how much capex that we are incurring and maybe what kind of asset turns typically we should be expecting from these new capex that we will do?

V.C. Sehgal: Mahender?

Mahender Chhabra: Mahender this side, so I'll take up this question. So, our capex plan for the year, for the current financial year is about INR 200 crores. And out of that, we have spent about INR 95 crores in H1 FY '24-'25. So as far as specific investments on individual plant is concerned, then we don't kind of get into the specific investment of the plant.

Sachin: Yes, sir, I'm not referring to just this. I'm just trying to understand how should we on the incremental capex that we would be doing, what kind of asset turn without being any specific to any client. Just trying to understand what kind of asset turn should we be assuming in this business going forward?

V.C. Sehgal: You want to know specifically the new plants?

Sachin: Yes, not just the new plants but on an incremental basis, the capex that we will do, how should we think about the asset turn for these new plants? I know that the company works with 40% ROCE background. But just trying to understand, is there any change in trajectory to that we should assume or how should we think about it?

Mahender Chhabra: Yes. So as far as turnover is concerned, it should be more or less in line with what we have with the existing plants once the full ramp-up had taken place.

Sachin: Sure. Sir, and the last question from my side is that on an incremental basis, I'm sure company is likely to generate a healthy cash flow over a period of time. So in terms of just trajectory, how should we understand maybe the capex intensity of this business? And also what kind of dividend policy or the cash return policies that the company will follow?

So just trying to understand broadly how much of the incremental cash flow, which on a yearly basis, company will generate? How much we're looking to deploy and maybe in the business and what should be the cash distribution policy for the company?

V.C. Sehgal: We have a stated policy that we will return to the shareholders 40% and the rest will be reinvested in the business. Please understand that there is tremendous amount of growth that's expected for the car industry in 2-wheeler industry and commercial vehicles also. So Motherson will keep on setting up new plants, as required, wherever the customer is close by.

So in that scenario, I can tell you that we are very enthused by the kind of demand that the customers are having for us, new plants, new areas. And Pankaj, would you want to add on that or not?

Pankaj Mital: No, that is very right, sir. And the market is very exciting. We do believe that customers have invested a lot and continue to invest and have further investment plans to grow the business in India. And therefore, we will continue to keep working and exploring more and more to work together with them for continued development and expansion of our business.

Moderator: As there are no further questions from the participants, I now hand the conference over to the management for their closing comments.

V.C. Sehgal: Thank you very much. The Board congratulated the teams for a great job done. Please understand that we are inundated by the customer requests and new models is the order of the day. So we are very much on our toes and working hard to make sure that we can take the maximum advantage in this scenario. Thank you very much, and have a good day. Bye-bye.

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