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New Delhi Aug 13, 2019 (Thomson StreetEvents) -- Edited Transcript of Motherson Sumi Systems Ltd earnings conference call or presentation Tuesday, August 13, 2019 at 4:30:00am GMT

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* Jinesh K. Gandhi

* Kapil R. Singh

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* Puneet J. Gulati

* Raghunandhan N. L.

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Ladies and gentlemen, good day, and welcome to Q1 FY '20 Results Conference Call of Motherson Sumi Systems Limited. (Operator Instructions) Please note that this conference is being recorded. I now hand the conference over to Mr. Laksh Vaaman Sehgal. Thank you, and over to you, sir.

Thank you very much. I welcome everybody to the call. I'm joined on the call by Mr. Gauba and Mr. Pankaj and present the key highlights for the quarter and then open the floor to question and answers.

Overall revenues grew by 14% in the last quarter. It's compared to the same time year on year, we've crossed INR 16,000 which for a total in the quarter. And a strong revenue growth of 35% at SMP level, which is contributed by the new plants and as well as SMRC. There is strong performance illustrated by PKC with growth in revenues and profit. There has been gradual improvement in performance of the new plants in SMP, but the profitability is still impacted by adverse ramp up costs at SMP greenfield projects and tough market conditions.

I apologize that my father is not able to join the call today. He has other commitments and we're unable to have him on the call due to conflict in schedule.

Now I'll open the floor for questions and answers, please.

(Operator Instructions) Your first question is Raghunandhan from Emkay Global.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [2]

Sir, the first question was the losses on the new greenfield seem to have reduced your Q on SMP. How do you see the strength going ahead over the next 2, 3 quarters?

Thank you for the question. As you rightfully have pointed out, definitely the quarter has been in the right direction. We still feel there is a lot of work to do to improve that, to bring that into a breakeven situation. There are tough market conditions, as you all know. But apart from that, the teams are working very, very hard. And definitely in the next 1 or 2 quarters the strength will continue as long as the market conditions get better and there is no further degradation in the market. But other than that, our efforts seem to be in the right direction and the trends should be better and better every quarter.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [4]

Can you share update on the utilization level of greenfields at SMP? Do you still maintain the thought that it will reach optimal utilization levels over the next 2, 3 quarters?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [5]

Yes, definitely. I think there is still growth that needs to be had in the Alabama plant. Utilization levels as such for us is not something that we really go by. Because as you can imagine, we do not do static products. We have diverse products, but there is still launches that are happening in the new plants. So we expect that the utilization level to further increase from where we are right now, whereas we believe that definitely in the next couple of quarters, as that happens and the new launches dictates, those numbers should further improve in SMP.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [6]

If I may, just one more question. Europe daily production was lower by 7% in the June quarter. How do you see the impact of the coming RDE norms? How do you see Europe car market shaking up in the next few quarters? And when do you see a recovery? Your thoughts?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [7]

Thank you. I think there's a lot of uncertainty in the market right now. Together with you I only informed as much as what the customers are telling us. Definitely, I think all the markets are working in ways to improve the situation over there. But really, our guess is as good as yours. The new launches and everything that are happening, like we said, these are not affected by any of those norms going in on the existing models. So that continues to be the uncertainty over there. But even with that, if you see how Motherson has been, the impact has been less due to our focus on diversification of the customer and making sure that no country is also more than 15% of our business, which is 15% our mantra that we use. So we have been lesser impacted with that diversification strategy which is being modeled in these times of uncertainties. I think everybody understands how important the auto market is, how good it needs to be for the economy to push forward. So I think a lot of effort are being done, but they are yet to see a good pan out in the quarter that we just had. So hopefully this improves in the next coming quarters. I think that's all that I can really comment on that.

Operator [8]

The next question is from the line of Jinesh Gandhi of Motilal Oswal Securities.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [9]

My question pertains to SMP. So you look at logistic margins for greenfield, AS 116 and SMRC. There is a decline of about 110 basis points y-o-y. Is that just a reflection of negative operating leverage in Q2 decline in volumes or is there something more to it?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [10]

Yes, Jinesh, as Vaaman was just explaining there are some research introduced in the market. So some of the plants have their lower utilization and it is also a question of the product mix because further we have also informed that we are also having an expansion on one of the plants in Germany. So therefore it is very difficult to pinpoint a single factor but surely there is some drop in the revenues in the plants as you can see.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [11]

Sir, SMRC this quarter it could be about EUR 150 million, EUR 160 million or it can be lower than that?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [12]

It should be higher than that, but we are not, as of now, disclosing separately numbers. Because that is now almost like getting fully integrated into SMP.

Operator [13]

The next question is from the line of Kapil Singh. Nomura Securities.

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Executive Director [14]

On SMP I want to understand regarding Tuscaloosa plant. Any indication you can give that from a revenue potential level, how far below RDE right now? And what is it that we should look for, for margins to improve? What are the key challenges there? Some insights there.

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [15]

Okay. I think those -- that information we cannot really disclose as we are bound by confidentiality norms of the new product launches of the carmakers. But definitely, if you have been on the call that Daimler has done, they talked about further launches and they will give you more color on that. As far as we are concerned, we have the full team in place. We have also made sure that we have sufficient training put in place for all the people over there, the issue that we talked about before with our processes and the discipline are being felt over there due to nonavailability of manpower. We have also reinforced the teams that like I just said. So we believe we have the right team there now. And all the new launches definitely that are coming up we should be much better prepared than we were in the past due to the problems that we highlighted. And I think every single month, there should be improvement going forward. That said, definitely, there are still a few more launches yet to come, so I don't want to jump the gun too much. But actually, that team is now sufficiently prepared to go over that. And we are tracking it very closely. And we have a lot of actions in place to bring in the improvements mentioned in the last call. The first most important thing is make sure we deliver to the customers' expectations, and then look at really improving the efficiency over there. So I think now is the time that we really push forward with our improvements and we put on a detailed action plan with the new team over there and now it's a question of execution, and that should show colors in the next 1 or 2 quarters and should show improvement as you can already see in the right direction with the numbers we have disclosed in this quarter, and that should continue.

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Executive Director [16]

May I follow up? When I look at your business plan and you see the losses, which is the key area where we are missing our original estimate? Is it that the revenues right now are lower? And whenever they increase you should see the profitability improving or there are some other parameters where the losses have got higher than we had originally estimated?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [17]

Yes, of course, the costs are higher than estimated, definitely in the new car launches. The carmakers get pretty close to the number that they want. But Daimler has also said there are issues in the ramp up. So like I said, it's something I can't comment on further. There is still room for us to grow in terms of the numbers. But there are inefficiencies in our costs, so definitely we're having more manpower. Like we said, we have to make sure that we reduce some of the inefficiencies that are happening over there. We have to improve the production efficiency as well, the number of rejects that we are having, the number of scrap that we are generating over there. In the painting also we have to make sure that we reduce the rejects in that. These are all inefficiencies that we have and there is scope for tremendous improvement over there and as I said we have put a detailed action plan with the right people now finally having the training that we should have had a while back due to the utilization we've seen where we could not have the right manpower in place. But it's improving continuously. This is again, as I maintained in the last call as well that will take some more quarters to lead to a breakeven level. And then from that, we will then further push on to move into the profitability and get back to where we anticipated.

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Executive Director [18]

Okay. Probably we look forward to that happening over the next few quarters. Secondly, just 1 accounting question to Mr. Gauba. What we can see is when I look at the IND AS 116 impact, it's around for SMRP it's around EUR 7 million and for India it's roughly around INR 5 crores whereas on an consolidated basis it is INR 89 crores kind of impact. Can you just highlight where the bulk of the impact has come from?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [19]

The EUR 7 million will be INR 56 crores. This will cause you to guide EUR 3 million [for SMRC], which is again INR 24 crore approximately for SMRC . So you have sufficient disclosure on the presentation.

Operator [20]

The next question is from Puneet Gulati from HSBC.

Puneet J. Gulati, HSBC, Research Division - Analyst [21]

While you did mention that markets are being tough, are you seeing similar slowdown in new ordering side as well?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [22]

No. I think definitely in the order side there is no slowdown as such with canceled orders or anything like that. But definitely, some of the new programs of the carmakers continue to reject in the current market conditions. But none of the programs that we have been awarded have changed. There could be programs where the carmakers are seeing that future RFQs that are coming up they could be postponed or changed due to difference in market. That definitely is that there is more ambiguity. But in terms of the order book that we have won, that is strong. If you look at the number that we disclose every 6 months and we'll disclose in the next quarter, but the last one that we gave, there was an INR 18.2 billion order book factor that we talked about. That's strong. That's one of the highest order books that we have had. So in that sense, you continue to win the confidence of the carmaker with the new orders. But definitely in the current market scenario, again, the numbers that the carmakers are thinking about in further launches from here backs definitely in our thinking more that they can inter-reject with certain market conditions.

Puneet J. Gulati, HSBC, Research Division - Analyst [23]

So for the existing orders there is no risk of pushback on the timeline of the launches?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [24]

Nothing that we have seen in the new orders. Because there again all compliant and they have no pushback over there.

Puneet J. Gulati, HSBC, Research Division - Analyst [25]

And on the SMRC side, how is your experience there in terms of margins? Are they living up to the margins that you thought they would when you actually bought it? Or is there some difference in the way they are behaving versus what they were reported to have done?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [26]

Thank you for that question. I request that to be the last question because there are a lot of people in the queue and I request you to come back into the queue. But to answer that question, we are very well pleased with how SMRC is integrating. We definitely have thus different customer -- the different customer focus. The customer has been quite happy with us taking it over and our expectations has been matched and it's positively contributing to SMP. So we're quite pleased with that acquisition and it seems to have integrated very well with SMP and has definitely contributed in a positive manner.

Operator [27]

The next question is from the line of Mayur Parkeria with Wealth Managers India Private Limited.

Mayur Parkeria, Wealth Managers Pty Limited - Head of PMS & Fund Manager [28]

Vaaman, when you said that the improvement in the new plants are subject to market conditions or further deterioration if any -- what -- if you had to look at -- how much of the current worry is a little more prolonged in terms of 2, 3 or 4 year situation and how much of it is just because of the current impact of maybe some regulations or launch delay or specific issues which can be dealt with in the next 2, 3 quarters. If you are just to break that, the probability of further deterioration, just the qualitative outlook. How do you see that -- what can we further -- how much of it is maybe a little more prolonged situation and how much of it can be really addressed in the next 2, 3 quarters?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [29]

Okay, this is, again, my personal opinion on that. I think most of these things are short-term impacts. I don't see any fundamentally long-term impacts. I think all the carmakers are quite focused in the new launches that are already happening. They want to push the cars out as fast as possible. As you know, there's also the focus coming on more towards electrification that continues and we being a supplier that is not affected by the type of engine that is in the car, we could greatly benefit from that. I think -- so most of the macroeconomic environments and driven mostly in the short term we believe. And again, I can't speak for our customers. We can only produce as much as the cars that they make. But we believe that most of these things are short term in the next couple of quarters and things should look up from there.

Mayur Parkeria, Wealth Managers Pty Limited - Head of PMS & Fund Manager [30]

The second again, on a little bit -- Mr. Gauba, I just wanted to ask on the same analogy that someone asked before. So if we understand the gap between the reported SMP number and the numbers excluding SMRC and new plants. There's approximately EUR 400 million approximately give and take EUR 10 million, EUR 15 million here and there. If you see the run rate of approximately EUR 220 million should be the quarterly run rate for SMRC. So will it be right in your opinion that the new plants will be at around closer to 50%, 55%, 60% utilization? If we just do the reverse math and try and understand that around EUR 170 million would be the, for some reason new plants on a quarterly run rate and we were supposed to add $1 billion revenue from that. So will it be right analogy to look at?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [31]

First of all, it's EUR 1 billion, not...

Mayur Parkeria, Wealth Managers Pty Limited - Head of PMS & Fund Manager [32]

Yes, sorry, EUR 1 billion.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [33]

There is -- in this exclusion there are 2 plants, there are 3 plants because the current plant already started about 2 years ago, so which we have not included in the like-for-like comparison. But it will not be fair to include the utilization rate from this. But I mean, by and large, we could be there.

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [34]

Definitely, you need to understand that as these new plants are coming up and basically some of these new orders, some of the old plants are also commissioned from other program cycles. So while these plants will add back, it won't -- the exactly EUR 1 billion per the timing, the different plants are coming on different times. But that's the scope of the growth that these plants could give. So we won't see it exactly in 1 quarter how the math adds up like that because of new launches and U.S. also continues to launch, and the other plants are coming in, they go through their own cycle. But directionally, it is what we have called it.

Mayur Parkeria, Wealth Managers Pty Limited - Head of PMS & Fund Manager [35]

And just 1 small observation. I would request you to take it in the right spirit. Whether it's the WLTP which was the impact which we had and now the most greenfield plants issues that you had. I think in terms of setting the expectations for investors, we have told only one that even happened. And directionally it will be appreciable if there are certain, even a quarter before, obviously the outlook is there in terms of that. So in terms of there are issues on the order side or because of the current impact if there is furthermore, while we have rightly indicated about the profitability aspect for a few more quarters, but is there a further impact that will come on the top line, you would appreciate if there is some setting of the right expectations from the entire investor situation it's on the top line also as it happens.

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [36]

So just a comment on that. If we are aware, we will communicate to you, but I can see it happening in a very dynamic market because the margin presence is now in 41 countries. We are selling in every single carmaker. Believe me we also find out simultaneously like all of you. So if we are privy to more information, but it is really not the case, we'll let you get call ups every single day and that's how we produce our parts. So our intention has always been to be transparent and we give information as we receive it. But we take your suggestion in the right spirit and if we can improve further, we will definitely do so. But you need to understand that we at Motherson are a very transparent company and we try to give you the information in the clearest manner as we get it.

Operator [37]

The next question is from the line of Priya Ranjan from Antique Stock.

Priya Ranjan, Antique Stockbroking Ltd., Research Division - Research Analyst [38]

A couple of things. 1 is on the debt side. If I look at the quarter-on-quarter, the debt has slightly increased. And number two is on -- in there I'm seeing an impact on the -- you have too levered the EBITDA level, what is the impact on the PBT level, if you can just clarify?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [39]

Okay. This is Gauba. I will take this question. So increasing traditionally, there is an increase in the debt levels compared to March always, and it is -- part is also because of the exchange fluctuation because of the euro decrease. And further, if you compare it same period last year, then our revenues are growing. We have also taken over SMRC. In relation to the impact on the PBT and that, that impact is insignificant. And most of the accounts we are talking on, the impact on EBITDA as well as in the impact increase in the utilization and interest. So you will get from there that the impact on the PBT is very low.

Priya Ranjan, Antique Stockbroking Ltd., Research Division - Research Analyst [40]

So, so explaining the quarter-on-quarter jump, that is primarily because of the exchange rate fluctuations?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [41]

Also. Yes.

Priya Ranjan, Antique Stockbroking Ltd., Research Division - Research Analyst [42]

And one thing is on the PKC side. You have been doing commendable job in that business for quite some time, but I mean that business is also exposed to U.S. Class 8 trucks and all. So which is kind of slightly -- I mean, the outlook is going to -- is slightly weakening there in terms of new order books and all. So how do you read that business going ahead? You have got some new orders, you have got diversified into other categories, but if sudden slow down in the U.S. Class 8 happens then how do you see that kind of offsetting the new orders?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [43]

We always remain prepared. But as of now, as you see, there has been a lot of talk for the last many quarters. We are hearing that there is a slowdown and the volumes are coming down. But contrary to that, the volumes have gone up so far. So we remain prepared as the volumes can't be predicted exactly when what will happen to agree with the market, and all the teams around the world are prepared to handle that situation when it comes.

Priya Ranjan, Antique Stockbroking Ltd., Research Division - Research Analyst [44]

And then just for you. Introducing balance for it just to put a number there also quite exposed to that impact. They have quite weak number there. But that's why have in there -- so typically, the order book and the actual numbers starts trending down by say 6 to 8 months, so?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [45]

So we are reporting what we actually executed in the last quarter and it is higher. But of course we all know there have been reports that fresh order bookings have been lower than what it has been in the past, but there have been very strong backlog with the truck makers so far. And in the coming months, if the bookings increase then there can be a lot of possibilities and that's what we are talking about.

Priya Ranjan, Antique Stockbroking Ltd., Research Division - Research Analyst [46]

And just lastly on the SMR. So how do you see like the key customers and kind of outlook you are seeing there, because that business has been kind of steady and has been steady in terms of profit as well? So can we see some kind of bump up in terms of growth over the next 2 or 3 quarters based on the new orders, et cetera, for the key customers?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [47]

Yes, SMR, I think there is growth for a bump up in those numbers for it to come through on a big acquisition or something like that. We are very pleased in that product and we definitely want to make sure we maintain our margins, in new orders to increase our top line, and start taking orders where we can't execute the same level of profitability. But also on the part, SMR revenues, as the cameras become more and more mainstream it will probably come at that time, but still it's a fraction of the numbers that have seen in the market for camera replacement. But the teams are geared up. We are starting to execute small orders that are more electronic focused on the camera systems. And we continue to see that company does well. So we are in a good zone with that, and the growth of that company reported plus 40% as well, so our 5-year plan and we want to make sure that we are focusing on the growth as we come to the end of the 5-year plan. The next 5-year plan we will perhaps provide some more color to you as to how we plan to increase [the new orders] on that moving forward and what opportunity presents itself in the next 5-year plan with SMR. But the team does phenomenally over there, even in tough market conditions and we are maintaining the revenues and the profitability which is great feat.

Operator [48]

(Operator Instructions) The next question is from the line of Sonal Gupta of UBS Securities.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [49]

Just wanted to understand, like clearly, you talk about [breed] with the market. And like you're saying, the conditions are challenging in some markets as of now, maybe in U.S. trucks it's not. I just want to understand what can you change in terms of your cost structure? If your top line because of lower demand should drop 15%, 20%. So could you tell us like how will you be able to partly mitigate that impact?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [50]

Sonal, always there are plans which are in place in each of our business as to what costs which are always being incurred when the markets are going up. So we eliminated those costs. So there are a lot of things which are there when you're gearing up for new plants, new launches and increases and enhancements. And when you see that the markets are slipping then you have to contract. And that's what we do. So we don't see that there are any issues in that because you see most of the things are variable, that's how we work it out. There can be of course certain fixed costs, but we try and ensure that as much as -- in terms of our mindset, we try and see how we can overcome those and bring them down. So you would have seen in the past also even during the Lehman crisis how we all reacted, and acted well. So our company is basically always into a reaction more rather than trying to predict what will happen, so as it happens, that's the time that we react to the situation in the best possible manner.

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [51]

And any update on the CapEx numbers for this year, and how do we see that?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [52]

Sonal, we have guided for INR 2,000 crores. And as you know we don't keep on revising our guidance of the region, so as the year passes we are [still on the right road].

Sonal Gupta, UBS Investment Bank, Research Division - Director and Research Analyst [53]

Okay. No, I thought there was some like SMP or SMRP BV was already looking at the CapEx plan, so that's why I was checking it.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [54]

No. That is the ongoing process. So our focus is clearly to conserve cash and manage our working capital as well as CapEx [model] and it is reflected in the lower CapEx as well as on the lower debt levels.

Operator [55]

The next question is from the line of Raghunandhan with Emkay Global.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [56]

One clarification. 2 greenfields which have been excluded from SMP. What would be the peak revenue from these plants?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [57]

I think it is better to state what we have already guided. It will not be possible to keep on adding each -- adding separately. Let's stay with the overall guidance and other priorities still won't stabilize these plants as of now.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [58]

Fair point, sir. On the 4 main plants, 3 in India and 1 in Thailand, can you please provide some update on the commencement of operations, utilization levels, how are things progressing there?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [59]

It is running on the plants where we had a small plant and with regard only the (inaudible) has been issued. Similarly there were other plants which added (inaudible). So as we said that, we had already established facilities -- large facilities which were required to be for 2020 organic growth. And this is the reason why we are not giving plants -- giving update because we had given -- and they are (inaudible) what we have given in the last [presentation meeting] 6 months ago.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [60]

One last question. Given the continuing weakness in the industry, are there acquisition opportunities at better valuations. How do you see that? And do you still remain confident of INR 18 billion revenue target?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [61]

Yes. Thank you for that questions. Definitely, if you look at the multiples and everything in the local sector, we see across the board that they have come down in the markets. And Motherson is a company that is always open to acquisitions.

So definitely, it makes probability of something happening that much greater because the valuation is much more palatable. But again, we haven't reached a point where we can disclose something that we see is on the cusp. But we have posted, we are confident and we are guided by the customers in the acquisition. So we believe until the 31st of March we are not give up on that dream. So we have -- we are optimistic and again, our focus remains to make sure that greenfields launch well. And if an acquisition comes and we see a good synergy in that acquisition, definitely, we will pursue it.

But like I said, our focus right now remains to make sure that the greenfields launch well. And we remain optimistic that we can hit our target for the end of the year.

Operator [62]

The next question is from the line of Jay Mehta from Edelweiss Financial.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [63]

It's Chirag, here. Sir, 2 questions. First on PKC...

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [64]

Chirag, can you be a bit loud, sir?

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [65]

First question on PKC. Is it possible to indicate our revenue mix in terms of geography how much will be U.S. how much would be Europe and even China? And also, how big is the rolling stock develops because we were expected to get some news on the rolling stock rate?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [66]

Chirag, this is Pankaj here. In terms of rolling stock, it's approximately 10% of the PKC, the initiative's grown very well. And also if you recollect we also acquired assets of Bombardier in U.K. in Derby which is now known as Motherson Rolling Stock, MRSS, and that was done from 1st April 2019.

So taking that into account, the overall rolling stock was approximately 10,000. And the other question that you asked was that how much is the revenue recently. Well ballpark, if I remember, correctly, it will be about 40%, 45% coming from North America, and 10% from China and the balance from Europe and South America, that's how we are restructured.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [67]

And is it also the possible to indicate any new business wins because [a generally the cycle] on the truck side are quite longer than car. So when do we expect that process to start if it has not started, where do we start participating in new orders?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [68]

Of course, we have been very strong with our customers and we have had a lot of wins around during this period. So we are on a good growth path and that's why we are also enhancing our capacity as well. And PKC growth is also going for the new plant. So we will continue to grow and we are very strong about that, so a very good relationship.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [69]

So just clarification, so has this new business [showed in your] revenue or they will -- they are yet to happen? [you have won the business but it's not] started slowing the revenues?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [70]

A lot of wins are relating to replacements, because some of the models are old and the new models come in. And some of the wins are completely new. So the businesses which we were not doing earlier, they will come in.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [71]

Okay, and one last question if I can squeeze in. Is this [indiscernible] is this for you, given that we have traditionally been very good at managing costs or turning around that -- the hotspots, let me use the word. So how different are the current hotspots for you? And would it be right to say that over a period of a year [or so] this is on the cost side the rejection rate , these manpower issues, we will be able to [sort it out and it will become business] as usual for us?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [72]

I think if you look at the number of companies and the number of setups we have done over the last few years, that record really speaks for itself. So where SMR was, when we took it over, where SMP was, when we took it over. A very different situation, there were no [greenfields] when we started up. To speak about how many greenfields that we have really started in the last few years and you know, you really haven't heard many of those greenfields except for the couple that are right now in the hotspots of -- so you know, when you are building plants, when you are taking over companies, always there will be some issue or the other, whether it is customer-specific or whether it's [company or] a macroeconomic issue.

So we [always] See that there are some plants that are of course -- there is a scope to be much better than those. For me it's been a wonderful experience. Luckily have been blessed to see startups of greenfields as well as acquisitions where [you know these] steel plants have beginning to turn round operationally since you have to [little bit] improve over there.

Like we say, at the end of the day, we are making engineered car parts, so if we follow good production disciplines, we had financial discipline also to make sure that we are not looking at bad prices as you get -- you can get stuck with those for 5 year and just make sure that you have good operational excellence being put into those plants, being able to get a good result. And we believe that we'll make all our money on the [shop floor].

So that focus means whenever we look at a turnaround situation or a greenfield, we definitely to the best of our ability and all the lessons that we have learned, tried to inject the Motherson way of doing things. But sometimes not everything clicks.

But if you really look at it from where Motherson was in the 2015 time of 5 million top line to already about 12-plus. So if you look at it, in that perspective, we have more than 2.5x the growth and we continue to grow.

So overall, amazing revenue experience for me. Definitely, the size of the plants now are getting bigger and bigger. So any mistakes that are happening in terms of efficiencies and things like that, they are much greater a number, so that much more careful we have to be. And we continue to learn.

So I believe that even with this launch of these new plants, we have learned significantly a lot that will help us to be even better as we continue to build new plants and do acquisitions and there's a lot of experience that we have gained in this journey.

And definitely the focus is that in a year's time, that we post the profitability and the [rise in] availability of these plants as per what we envisaged. But you have to keep in mind that at the end of the day, we only supply to the carmakers and there are only so many carmakers in the world so the priority remains to make sure that we continue to run their lines as a first priority and then look at our improvements to make sure that we can develop that profitability as what is expected from that plant. And we continue to do that.

So I'm confident that I'll give you, one, quarter-on-quarter the improvements should be there and further opportunities to continue to grow and build new plants. But like I said, that's a directional way in the current CapEx cycle we have already set up all the new plants that we need for the order book. So we're excited as we move to the next phase of getting these plants to the expectation that we set when we had first planned them.

Operator [73]

The next question is from the line of [Anav Plant] from [Mount Indra Finance].

Unidentified Analyst, [74]

Sir, my question has been answered but I'd just like to know first, [could we be] dividing the market share of SMP in [two years since][indiscernible] your colleagues have been here? Hello?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [75]

Yes, so [Gaya], Please go ahead.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [76]

See that policy is [the growth] we don't focus on the market share, because if we are going only by the market share, then what we will leave is the bottom line. And the [building on] Market share is really not very well -- because then we will be changing each other's, you don't know which car will sell and how much.

Surely we focus on the performance and growing [content per] car. And as you can see SMP was only a focus on -- only on -- more on the luxury car as well as more on Europe. And you will have seen now we diversified getting into the North America U.S. market as well as the acquisition of SMRC, we've covered a broader range of vehicles which are there on to the market.

Similarly, SMR also is the -- one of the largest player or the leading player on the (inaudible) side and there also we are focusing on maintaining or improving our profitability in spite of cost pressures as well as costs down to the customer. Hello?

Operator [77]

(Operator Instructions) (inaudible) May I request you repeat your sentence again please, you are not audible.

Unidentified Analyst, [78]

I just want to say that [used] to be focused on market share [every year] so have you maintained it or has it gone now, just to, at that plant.

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [79]

So, again, we don't judge ourselves based off market share. Again, our focus has always been to look at diversification strategies, to enter new customers. So those are the kind of things more that we look at. So we look at 3CX15, that no customer, no country , no component being already 15% of our business. And those kind of things is something that's more [more valuable] to us because just [looking at] market share is more relevant for companies where the product is static and there's only 1 product that we are doing. We are multi-product, multi-country, a multi-customer sort of company where market share doesn't really guide us or give us any relevant information in that sense. Where our customers are very maintained -- more than significant market share out of (inaudible) there are also customers that we have 100% of that business.

So market share for us is not really something that we believe is the right measure for our performance or something that helps us to go for -- I believe, because again like Mr. Gauba said, if it's something that we are just chasing market share, then we remove the focus of our good companies into making sure that we deliver top line growth and maintain that 40% growth at the bottom line.

So if market share becomes then the key, then we move the focus on these other 2 because not everything -- you can't have everything in that sense.

So we are very different drivers here at Motherson And market share is definitely not one that gets discussed or is a key driver for us. I hope you understand what I'm saying.

Operator [80]

The next question is from the line of Joseph George from IIFL.

Since there is no response from the line of Mr. George we will move to the next question that is from the line of Deepak Jain from IDFC Securities.

Deepak Jain, IDFC Securities Limited, Research Division - Analyst [81]

Just a question on the covenants related to SMRP BV. If I look at them on the gross leverage, I'm assuming this is debt by EBITDA, that's what my assumption would be. The gross leverage, you're allowed 3.5 and it's gone up to 3.35. So one, are we confident of not reaching the covenants given the situation in the market, even if it's temporarily.

And secondly, are there any penalties or what -- if it gets breached on a temporary basis, are there any penalties or anything involved with that?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [82]

Deepak, [you see] this is not a maintenance covenant, this is a [incurrence] covenant, but I would like this question to be addressed [via SMP].

Operator [83]

The next question is from the line of [Pramod Varda] from [Systematix].

Unidentified Analyst, [84]

A question on the standalone business. So previously you said performance there are not -- (inaudible) can you highlight to the leaders for our performance and whether they're sustainable going ahead in FY '20?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [85]

Yes, see our -- we have multiple products and different types of -- all the customers and all the models around. So it depends on which models do well, which models don't do well. So primarily being an OEM supplier completely. We've to align that what the customers uptake from us. So we continue to breathe with the market, as I said earlier even in India, and continue to focus on maintaining our costs.

Unidentified Analyst, [86]

And so any significant orders in the India business across [indiscernible] the quality products which can sustain -- which [could] show some strong growth in this weak demand environment?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [87]

See this is a continuous business and there has been many others and these others are always there. So we have been doing very well, if you look at our history. We are not giving details of order books, or all our businesses. We started with giving order books and SMR, SMP came in because that was the time when there was a requirement in the sense that was [inquiry] that how will these acquired entities will do.

So this is a matured business, they're in India and we are quite happy that our customers are satisfied with our businesses and we have very good relationships with them. And we continue to work with them on most of the new things which they are bringing out in the market.

Operator [88]

The next question is from the line of Pramod Kumar of Goldman Sachs.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [89]

My question again pertains to the India business in particular. I think (inaudible) was asking the outperformance. Just wanted to understand, there are a few of new launches which are hitting the market. If you can just provide some color as to how do you see the new entry, especially from Kia. We do understand we do have some kind of relationship with them. If you can just throw some light as to are we exposed to the new Kia rollout in India? And also is there anything else which you are doing with either MG Hector or any other name which you can come from in terms of the launches going forward.

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [90]

Well, we are and as a company and as a group we are involved with most of the new launches as you mentioned. So when these vehicles come in the market you will see a lot of Motherson in them in different ways. And yes with Kia also, and we have a joint venture with [several models] of which we are supporting them.

All these new products as they come, it creates an excitement in the market. We hope that they all lead to growth for everyone.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [91]

And, Pankaj, with this new trend of Internet insight and connectivity which is becoming very important for incremental launch, that's with -- what is the implication for our business there? Because there is far more connectivity which is being offered by these cars with the [emitter] SIM inside the car. So what does it do to our electronic [wiring harness business] here, does it increase our content?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [92]

Yes, any kind of connectivity, any new feature definitely needs to -- comes for the enhancement, so you're right in that sense.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [93]

Understood. And final question on the overall group level on the commodity side, that's been probably one silver lining in terms of [fodder] for correction. So if you can just throw some light as to whether have we started seeing improvements on the raw material side, some of this is visible in the [benefit] business this quarter. But how much more benefit can you expect on the commodity side going forward?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [94]

Yes, in commodity, they have started to come down, but then you know in India, again it will depend on how the currency works, [agile]. So internationally, if you look at copper especially, it has come down a bit. But then in India because of the currency, the benefit was negative. And most of it for us, is about true. So in terms of optical, when you see it as a percentage, it definitely gives the reflection of that, but otherwise, most of it is pass-through, so if there will be any benefits we will pass them onto our customers also.

Pramod Kumar, Goldman Sachs Group Inc., Research Division - Executive Director [95]

So there -- in a way, there couldn't be any material upside from the current level on the RM correction side, is that fair to understand?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [96]

Sir, it's the same, like when the RMs go up, we get the corrections done from the customers, and then it goes down, we pass it on to them. So it's a very transparent system with them.

Operator [97]

The next question is from the line of Jay Mehta from Edelweiss Financial.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [98]

So I have again a question on the India business. So how do you -- how does the order flow from the OEM customer look like because we have been hearing that there was continuous downscaling of your production. And in that scenario, how does the pressure on margin or the negative operating leverage hits us?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [99]

Is that Mr. Mehta or Chirag?

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [100]

Yes, Chirag here.

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [101]

Well, as I said earlier that volumes which come from the customers are another short-term base, it's actual numbers, because carmakers will make those numbers which are actually deliverable at that point of time in the market, and that's what we deliver to them.

So from an overall order level, it's one thing. And then it's the delivery basis. So we believe that the market, as I mentioned earlier, we are always synchronizing ourselves, we're always aligning ourselves in terms of what each of the customer for different models want. And how we work through those plants which are supporting them. So there are multiple plants in different geographies which keep aligning themselves to the carmakers or other [players].

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [102]

And just a small clarification on SMR. So if I understood correctly, (inaudible) were you alluding that for the next level of growth in SMR is largely to come from new products like the camera systems, is that the right way of looking at it? We are reasonably well-penetrated to market. And apart from premiumization, the next level of degrowth is going to come from newer products like camera systems or something else?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [103]

Look, the efforts are definitely they had to also increase some of the penetration that we had in some of the customers what the products -- different aspect of growth for SMR. I was only giving a different flavor as to how we can further grow for SMR.

But definitely our penetration, for example, in the Japanese customers, in markets such as Japan, are still very low at the moment. So those are opportunities also for growth but they are quite sticky markets, they are also possible of acquisitions that we can do to grow over there. And hopefully with that good performance the carmakers will continue to grow our business which is more in a slower manner.

So again I will just [throwing out ways and means] that we as a team put our growth in SMR and how we can continue to grow the top line. And the camera systems that are -- I was alluding to the cameras, replacing the mirror systems which everybody thought was going to come very fast but it hasn't come as fast as we perhaps had envisaged as a [greater] market for it to come because some markets still have not utilized it for complete mirror replacement and some markets have and even in growth markets in Japan where they have completely legalized -- complete mirror replacement with camera, the [RSP] That we have seen for complete replacement are still at a very, very small fraction level.

So that's what I was trying to say that if some of these things kind of change, definitely you will see us also grow as these camera systems become more popular. Again, the trend is kind of staying with the integrated cameras and the [mirror] systems and in that sense we continue to deliver strong results with our existing customers. So that's what I was trying to say on that [piece].

Operator [104]

The next question is from the line of (inaudible) from [Equitas Capital].

Unidentified Analyst, [105]

I refer to your presentation on Page #12 -- pardon me, my voice is really bad. On Page #12, I can see that your consolidated gross debt is more than [INR 118 billion]. So while our debt equity ratio may be within our reach of our targeted growth, this is still a large number in absolute terms. So do you have a plan to, say X number of years from now, that you will be bringing down your absolute debt levels to a certain level?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [106]

I think the -- this is also to be seen in terms of our ability and the value growth or the turnover what we have. So I think while it is good to see that [total] amount but at the same time really look at the interest coverage ratio, the net debt to EBITDA ratio which is less -- much below [2] to be more closer to 1.6, 1.7 . The debts are at a comfort level.

But having said, as we always focus on the return on capital employed, our job is always to get [a right mix] of debt and liquidity because we also have a very transparent and a consistent (inaudible) policy of 40%. So we have a really clear focus on the shares or shareholders or the stakeholders as well as the credit rating what we have and a clear focus on maintaining a very conservative financial policy. We make sure that our debt levels really are far superior in terms of service levels.

Unidentified Analyst, [107]

Okay. Okay. So does that mean that we do not have any plans of bringing down the debt in the near term?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [108]

It's not a question of bringing down because debt is a question of cash flow and a clear link to revenue growth. We have grown by 14%, our debts are mostly outside [availability of] the international [financing] of the entire -- of the international debt. And they are satisfied those subsidiaries by themselves. So it is a question of choosing the right capital structure.

So definitely, we will maintain a healthy, capital structure, mainly because that shows a strong balance sheet but it would not be fair only to guide on actually the amount of debt because we are a growing company.

Operator [109]

Ladies and gentlemen, that was the last question for today.

I now hand the conference over to Mr. Laksh Vaaman Sehgal for closing comments. Thank you, and over to you, sir.

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [110]

Yes, thank you very much for being on the call. As always, we are available for any further questions or clarifications should it need be. And we look forward to presenting you the next quarter's numbers.

Thank you very much for your time. Bye-bye.

Operator [111]

Thank you very much. Ladies and gentlemen, on behalf of Motherson Sumi Systems Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.