

Motherson Sumi Systems

Q4FY11 Post Result Conference Call Transcript

Representative:

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Date: May 26, 2011

Operator

Ladies and gentleman good day and welcome to the Q4 Fiscal Year 2011 Results Conference Call of Motherson Sumi Systems hosted by Prabhudas Lilladher. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference please signal an Operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Surjit Arora from Prabhudas Lilladher. Thank you and over to you Sir.

Mr. Surjit Arora – Prabhudas Lilladher

Good afternoon everyone. I would like to welcome the management of Motherson Sumi, Mr. V. C. Sehgal, Chairman of Samvardhana Motherson Group and Vice-Chairman of Motherson Sumi Systems, Mr. Pankaj Mital, the COO and Mr. Gauba, the CFO of Motherson Sumi Systems. I would now like to request Mr. Sehgal to give his opening remarks on the FY '11 results and also the outlook for the future. Over to you sir.

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

Good afternoon or good morning to everybody who is listening. It's Sehgal here. We are very pleased on behalf of the team at the Motherson Sumi Systems to announce the results for 2010-11. Our consolidated total sales are up by 22%, very brisk businesses at the domestic side, up by 59%, standalone total sales are up by 63%, the domestic standalone sales are up by 68% and what is very heartening is that SMR, the mirror company sales are up by 22% in Euro terms and at about 9% up in Rupee terms. SMR profit is up by 1141% in euro terms and the consolidated EPS of Motherson Sumi is Rs. 10.01 compared to Rs. 6.07 in the previous year. We the Board have recommended a dividend of Rs. 2.75 per share as compared to Rs. 1.75 per share during the financial year 2009-10. I would stop at that and I would answer your questions. The future that you ask me I am sure there are going to be lot of questions on that, we believe the future for the next year and for the target that we have of \$5 billion is very strong. We are way ahead of our target in for the \$5 billion in the first year. So we believe that the future is very strong and robust. Thank you very much.

Mr. Surjit Arora – Prabhudas Lilladher

Operator, can we have the Q&A session please?

Operator

Sure sir. Thank you very much. We will now begin the questions and answer session. Anyone who wishes to ask the question may press “*” and then “1” on their touchtone telephone. Participants are requested to use only their handsets while asking their questions. Anyone who has a question at this time may press “*” and then “1”. The first question is from Sahil Kedia from Enam. Please go ahead.

Sahil Kedia – Enam

Sir, couple of questions. On the standalone business side of it we have seen a lot of traction coming in and the domestic business has grown you know 68%. This is far ahead of what has happened in the OEM side. Can you give us some color in terms of how you are content per car has moved in the standalone business because it seems that it has moved very sharply. I will come back with the questions on the SMR side.

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

I think that’s a very good question. Normally you know Sahil Motherson outperforms the growth of the car makers for the simple reason that our content per car is much higher than the other companies which are probably one to two products lines specific. So while the car company grows for example if you take for example say Maruti, we are growing in wiring harness, we are growing in plastic parts, we are also growing in mirrors. We are also growing in every single thing that you can imagine that we are already supplying to them. So that’s the reason why our standalone traction becomes better and better because more and more products are being sold to the same customer. So the multiplier applies.

Sahil Kedia – Enam

So sir can you give us some color in terms of how this content per car on an average would have moved because I know historically you have outpaced the OEM demand but this time it's in multiple, that is the reason?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd.

Because Maruti has done phenomenally well. You know Maruti has grown by if I am not wrong by 30%+. So you know its means that more things have been added. The first this thing is that the Calsonic Kansei Motherson which is the joint venture with Motherson Sumi Systems has started supplies of air conditioners to Nissan Micra and has also started supplies to Maruti Ritz. So you know all these things are adding up. There are so many other joint ventures which are all now started supplies.

Sahil Kedia – Enam

Ok. Sir my second question is on the SMR side. It seems like that for the quarter and for the year, the tax rate for SMR has been fairly high if I am not mistaken for the quarter it has been 47% tax and for the year it's has been roughly 42%. Just kind of wanted to understand what kind of reason, why this was there and secondly how much of the new orders that we had announced has any of that started yet in the numbers?

Mr. G N Gauba – Chief Financial Officer.

Good afternoon ladies and gentleman. This is Gauba this side. As far as the tax matter is concerned, in SMR yes there is a higher tax outgo this year. But in the first year we were befitted by the carry forward losses which were there initially in some of the jurisdiction. While this is higher than the average rate but in last year we have certain tax requirements which is taken care as we more understanding the company. We have now understood the whole company better. So this should be one time why the taxes are the higher than last year. From this year it should get to the normal tax rate.

Sahil Kedia – Enam

And sir second question, on the new business that was announced at SMR.

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

Yeah I will answer that one for you. This is Chaand Sehgal again. The SMR's new orders are a consistent phenomenon that is happening even from when we took over the company because you see we are talking about over 250 models. So some models are dying their natural death and new models are coming in all the time. So that is always happening but it gives me great pleasure to tell you that the customers have reposed phenomenal faith in our company €750 million plus sales of SMR is actually the highest ever in the life history of Visiocom, the highest it has ever done. And we believe that the more orders coming in the future are not yet kicking in 100%; but will start kicking in from July, September, October like that they will keep coming in.

Sahil Kedia – Enam

All right. I will come back with more questions. Thank you.

Operator

Thank you, the next question is from Vaishali Jajoo from AEGON Religare Life Insurance. Please go ahead.

Vaishali Jajoo - AEGON Religare Life Insurance

Yeah. Good afternoon everyone. My question is again on SMR and I am seeing the margins slightly improving on quarter on quarter basis, on 160 basis points but it's still lower than what you have achieved in maybe say in fourth quarter of FY '10. Just want to ask is there any scope for further to improve these margins going forward. I mean I know you don't give a margins outlook but some outlook on how it would; there is scope of improving in it.

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

I think it's an endless effort to improve the numbers and we are in for a sort of stop because you know for some reason or for the other. Another very interesting thing was I think the RoCE has gone up from 16% to 22% so which is a great indicator to us. I had in my earlier communications indicated the fact that we are trying to focus on RoCE because that's the more fair way of evaluating of how your company is performing. We have improved by 6 percentage points, the RoCE factor. The thing we will keep on increasing our target is to take it to 40%. I know people will feel it's difficult but hey we got to keep trying. There is lot of possibilities to us for improving the cost but please keep in mind we have three new plants that are coming in one is in Brazil which is almost ready and next to next month we will start production there. So a lot of cost in those projects have been bundled in without the income at the moment. Same is the case at Hungary the second plant is also coming in production by two months or so. We have a third plant which is coming up in Thailand and this plant will take I think another 8 to 9 months before it comes in. So a lot of growth is

happening everywhere so you do have these certain a little bit of a dip a little bit of a peak that might come up in the quarter and that's the reason why we try to resist from giving you quarter on quarter guidance because if it's not a met then everybody gets nervous. What we try and say is next year we will definitely be better. We are very excited with the numbers that we are getting from the customers and two new plants to add capacity in a good way.

Vaishali Jajoo - AEGON Religare Life Insurance

Are these plants coming under SMR or other?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

You asked about me SMR I mean others have its own this thing, polymer division has its own plants.

Vaishali Jajoo - AEGON Religare Life Insurance

Ok and can you just give me some outlook on how the European auto market moving on because you're serving the market and how what is going to be?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

Look it's a mixed bag and there are some customers who probably may not be doing very well but most of our customers are doing phenomenally well. As you are aware Hyundai and Kia we are almost about 80% of their businesses in worldwide for mirrors. I am taking now mirrors just. And when it comes to Volkswagen Group, Daimler and BMW, believe me there are very robust in their sales and they have long waiting periods for their cars. Some companies are not doing well I think it is unfortunate because of the Tsunami and the after effects of that the Japanese car makers and some of the global carmakers have faced some problems but the good news is that you know all of these companies which have suffered very badly and were predicting that they will come back around September October have actually worked very hard over night and have comeback and now we are seeing June July numbers are all coming you know pretty good. Almost 200% than what they had said. So there could be a small blip here and there but other than that the European demand is also good, America is doing phenomenally well I mean as far as we are concerned.

Vaishali Jajoo - AEGON Religare Life Insurance

And the third and the last is, how much you have spent during the year I mean including Capex and investments and what is the plan for the current year?

Mr. G N Gauba – Chief Financial Officer.

During last year we have spent close to Rs. 750 crores.

Vaishali Jajoo - AEGON Religare Life Insurance

Of which how much was Capex and how much was investment in subsidiaries?

Mr. G N Gauba – Chief Financial Officer.

I am talking about the consolidated Capex.

Vaishali Jajoo - AEGON Religare Life Insurance

Ok Rs750 crore.

Mr. G N Gauba – Chief Financial Officer.

Approximately I mean.

Vaishali Jajoo - AEGON Religare Life Insurance

And what is it going to be in FY 12?

Mr. G N Gauba – Chief Financial Officer.

FY '12 we expect the Capex to be in the range of 650 crores.

Vaishali Jajoo - AEGON Religare Life Insurance

Ok thank you sir.

Operator

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

Sanjay Satpathy – DSP Merrill Lynch

Hello sir and congratulations on good set of results yet again. Sir my first question is that that it has been pretty unbelievably strong year for you in the domestic market with 60% growth. Sir just wanted to know how much of it is because of pricing i.e. average selling price increase and the secondly how much of it is because of new market share or rise in product content.

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

While it sounds really great price increase but you know actually we all work together to give a discount to the customer so that he can sell more cars and improve our margins all the more better. Of course again the mixed bag over here, the demand specifically of the cars was fantastic and as my friend Pankaj is telling me that also we have kind of a movement taking place from the A segment to the B segment and from B segment to C segment. So it's not just the number of cars that is sold is important but also the range in which those cars are selling. Most of the cars selling are upper grade / upper versions of the car. So the result is that much more harnesses are required, and that much more plastic and more utilities that is the value that we give to the cars is required. So all these things have contributed to that and the good news according to us is that there is a marked preference of the carmakers to look for higher value add for the cars and which increases the price of the car a bit but not necessarily because of the raw materials, if I am not wrong that the raw material does not constitute more than 10 to 12% of the whole thing.

Sanjay Satpathy – DSP Merrill Lynch

Sir if you can share the segmental numbers that is how much of revenues came from wiring harness and how much is plastic and other, is it something that can give for annual basis for the fiscal?

Mr. G N Gauba – Chief Financial Officer.

Sanjay we will do it, we will make presentation and put it on the website.

Sanjay Satpathy – DSP Merrill Lynch

And sir my next question is that the Capex which you have just mentioned is that it is 750 crores we can see that it is much higher than what your initial guidance were which was about Rs500 crores, should one read something like some major new order has come in or how should one look at this number?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

Boss I am telling you I have a my sales are up on a standalone basis on 68% domestic sales and total sales are up by 63%, then definitely somewhat Capex would be required.

Sanjay Satpathy – DSP Merrill Lynch

So sir you think that the 68% was a surprise to you?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

Not a surprise to us. We actually come to know about it within six months and sometimes you have to respond to that you know so those particular things happen that is I mean more cars you buy, it is better for us and we can't really tell the customers that sorry I can't supply because you told me not to. I mean you only told me only this much.

Sanjay Satpathy – DSP Merrill Lynch

Sir last question is on this particular quarter and this Japan crisis happened, should one be looking at a particularly weak quarter because of that or is that the business is usual for you?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

Business as usual for me but as I said there could be small blips here and there and I am not at liberty to tell you how this quarter is going on but all I can tell you that it is looking great.

Sanjay Satpathy – DSP Merrill Lynch

Ok. I will come back with questions later on.

Operator

Thank you. The next question is from Saurav Agarwal from Equirus Securities. Please go ahead

Saurav Agarwal - Equirus Securities

Hi sir. A good set of numbers. Sir my question is on Samvardhana Motherson Innovative Engineering, so can you share EBITDA, PAT and revenue numbers for FY '11?

Mr. G N Gauba – Chief Financial Officer.

We take your request and put it as part of our presentation.

Saurav Agarwal - Equirus Securities

All right and interest cost in the standalone entity has come down substantially I mean even if we look at consolidated levels your debt has increased from around Rs.100 crores to Rs125 crores but interest cost have come down. So what is the explanation for that?

Mr. G N Gauba – Chief Financial Officer.

As you would know that that part of the order is also outside of India. So as we have discussed about that revenues that they have come down and that in Rupee terms they do not show up the full growth so that's may be because of the translation. Also the substantial part of the increase in borrowings compared to December has been done more towards end of the quarter rather than going through the whole quarter.

Saurav Agarwal - Equirus Securities

Sir are you talking about warrants? I could not understand Sir.

Mr. G N Gauba – Chief Financial Officer.

On the total borrowings there is the part of the borrowing which is by companies outside of India. So there the exchange rate translation also impacts the amount which gets debited which gets translated to the consolidated numbers. Increase in borrowings which is as compared to the previous quarters as come more in the later part of the quarter than just the beginning of the quarter.

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

I mean the third and fourth quarter were really phenomenally robust.

Saurav Agarwal - Equirus Securities

Sir but sequentially your year's numbers has declined from 17 crores to 13 crores? So it's slightly confusing I mean I am unable to know that is.

Mr. G N Gauba – Chief Financial Officer.

Let me check offline and tell you because there could be some some borrowings extra for short term in particular quarters.

Saurav Agarwal - Equirus Securities

Sir and one more question. Sir also when I look at the subsidiary numbers minus SMR, sequentially the revenue numbers for this subsidiary minus the SMR entity that has declined by 23% and EBITDA has also come down to 2.3% from last four quarters average of around 14%. So?

Mr. G N Gauba – Chief Financial Officer.

While giving the results for the October-December 2010 we had also announced that we had one of the joint ventures in Sharjah, MSWS and in the previous year correspondence, there would have been inclusion of those numbers. Similarly in this year in this quarter we have consolidated BALDA, so the Balda numbers for the quarter has actually moved for full year from consolidated to standalone. So there is a note to that impact.

Saurav Agarwal - Equirus Securities

So we can expect the current run rate for this entity to continue?

Mr. G N Gauba – Chief Financial Officer.

We do not like to give guidance for quarters or for each this thing. We set a target for 5 years for the consolidated numbers.

Saurav Agarwal - Equirus Securities

Ok. Sir and you also mentioned that you have figured out what should be the ideal tax rate for SMR, so I mean this year on a full year basis we have seen around 40% annual tax rate for SMR. So how much should I assume for over next year?

Mr. G N Gauba – Chief Financial Officer.

Globally on an average, current tax rate is in the range of 30 to 35%, that is what normally tax rate is, but as sometimes in some of the geographies where you are setting up the new plants or where you are making investments you may have the losses so in consolidation that may reduce the consolidated profit but at the same time it will show up as the higher tax rate as a percentage to the profit. At the end of the day, accounting is what it counts and we are very conservative, so the new plant all costs add up as a loss to the consolidated basis wherever we are putting the management as well as the trial run.

Saurav Agarwal - Equirus Securities

Ok and sir one last question, for the standalone business our tax rate was substantially low in the fourth quarter. So is it because we had paid higher tax that is it just that we were paying much higher tax in the first three quarters?

Mr. G N Gauba – Chief Financial Officer.

I think I have answered this question in another question of yours by saying that Balda has been consolidated in this year.

Saurav Agarwal - Equirus Securities

Ok, in the parent?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

Yeah.

Mr. G N Gauba – Chief Financial Officer.

In standalone.

Saurav Agarwal - Equirus Securities

Ok. Thank you Sir. I will get back with more questions.

Operator

Thank you. The next question is from Bharath Giyanani from Asit C Mehta. Please go ahead.

Bharath Giyanani – Asit C Mehta

Yeah, sir congratulations on a great set of numbers. Sir my first question would be I wanted some Capex guidance on SMR for this fiscal for the current fiscal?

Mr. G N Gauba – Chief Financial Officer.

Let's take the guidance on total basis 650 crores of which 50% may be goes in India, 50% outside of India.

Bharath Giyanani – Asit C Mehta

And my next question would be on like any current quarter if I remove the SMR numbers and also the standalone numbers, there has been a very high decline in profitability so as you mentioned.

Mr. G N Gauba – Chief Financial Officer.

I just answered this question.

Bharath Giyanani – Asit C Mehta

It's only because of Balda?

Mr. G N Gauba – Chief Financial Officer.

Balda as well as the new plants which we are setting up outside of the India.

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

That's the reason why we don't give quarter on quarter guidance because at this moment in total there are 11 plants which are coming up in different stages all over the world including about 7 to 8 plants in India and three plants outside India. So you know we don't like to keep it up to ourselves and we pass through the whole thing through the whole balance sheets and our profit and loss

account and we believe in that and we believe that it's the most transparent thing to do. So you will have these particular small blips that come in because new plants are also coming but when what will happen is that when all 11 of them are going to be operational you will suddenly see a huge profitability coming because that's the operational thing and we are being transparent with you about it.

Bharath Giyanani – Asit C Mehta

Ok fine sir. Thank you so much.

Operator

Thank you. The next question is from Chirag Shah from Emkay Global. Please go ahead.

Chirag Shah – Emkay Global

Good evening sir. Sir basic question if I can touch upon the earlier question that your standalone business has grown almost 2x to 3x to the automotive industry. Is it driven by any particular business product mix or is there any revenue mix change in this particular quarter because you are starting new businesses or broadly it has been more or less same with say wiring harness or polymers or mirrors the way it was, the growth is across or is there any new business additions apart from model client addition that you indicated?

Mr. G N Gauba – Chief Financial Officer

I think Chirag we have already said in another request that we will put by sales on the public domain next week.

Chirag Shah – Emkay Global

Fair enough and more importantly what I am trying to understand is one more thing significant that actually I am positively surprised by your standalone numbers, everybody is actually focusing on SMR but I see a lot of traction happening in standalone business itself. In your 2015 guidance how do you see the standalone business both as the topline as well as the profitability levels because as the numbers stand today, the standalone business accounts for a very big chunk of your profits. So how would this shape up according to you?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

I think you know Chirag what's important is that of course it's important for you guys to look at whether the standalone and you know consolidated which is more important but as Motherson we look at our consolidated numbers more focused because at the end of the day our promises to you are based upon the consolidated numbers that we are giving you and also you know when we are in 23 geographies all across the world, some of the geographies are going up and some of them are going down. And that's how we manage our growth that we make sure that wherever we have some pain, we remove the pain, wherever we have gain, we see how we can do the particular thing. The whole idea is it's very difficult to see why India went up and why India is not going to do the same this year and according to me, if India has gone up last year then definitely this year it's going to go up. We have predicted that 70% of our revenues will come from outside India but please also understand that as a group we would be doing 10 billion. So at 10 billion you are only looking at 2 billion just now just 50% I mean I am sorry at 5 billion and you are just looking at 2 billion just now. So what would happen is that you will end up in a situation where you will say that the car market doubles up. Even if it doubles up

and we keep our product lines same we probably would be doing 2 to 2.5 billion. So another 2.5 billion is coming. And that's probably coming from our side and that would be a 50:50 or it could be a 60:40. Our prediction is that we will be close to 70:30.

Chirag Shah – Emkay Global

Fair enough. And second thing if I understand the SMR business correctly there are basically two parts of the business, one is the current model order flow that you keep on getting on a recurring business and sometimes it's the new models or the new platforms or new upgrades of the platform that come into the SMR orders right?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

Yeah.

Chirag Shah – Emkay Global

Now if I have to understand the recurring part of the business it is safe to assume to that given the geographies where you are, it is a low single digit kind of a long term business way and the new models is what drives our growth? Is it the right way of understanding the business?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

No I really don't understand what you are saying. Could you repeat what you were saying?

Chirag Shah – Emkay Global

Ok sir what I am trying to understand is that if I look at SMR say for the year you did some €754 million for the overall SMR, ok. There could be a recurring business which is happening in existing models you know which have Swift which keeps on coming every year or we have Alto keeps on coming every year or something like that and then there is some new models or completely new models that comes into the P&L or SMR in terms of topline. So this existing business flow, existing models which doesn't really go for up gradation, these are is not really growing that fast, it is the new business that is driving your growth and that is actually to come into the SMR business? Is that the right way of looking into it?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

No, you can't look at it like that because every time a customer goes to buy a car I mean he has an option to buy a new car or can buy a existingly good model because if what you are saying is true then what would actually happen is that only the new models would sell and the old ones wouldn't. But as you know amongst the Maruti's brands, Alto is the number one seller and also it doesn't happen that like that what you are imagining that one car it doesn't go through any phase change. There are minor changes, there are major changes and there are big changes that take place. So you know it's a very difficult question that you have put to me because really I would have the study the car market and understand you know which model is selling and how much and what is the whole thing and it really doesn't add value to us because our line is very robust and if you want lower end model then you would sell the lower model, if you want high end the line is the same I don't have to put up new line for that. So new orders are definitely

very, very welcome and we always are hunting for them and different plants are coming up to take care of the newer models per se which are coming in for sale but definitely old models do die out not so much in India but globally models die out and new models comes in but 90% of the machinery and equipment I think is similar.

Chirag Shah – Emkay Global

Ok so if I am to understand correctly for example this 22% Euro term RoCE for SMR could be driven equally from what you call new businesses as well as say existing business for old models, is it the right way or not?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

Absolutely, the car numbers in the Europe are up by 9%, in America it's up. So all these numbers are up and so it leads to growth yes.

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

And if I have to look at in a shorter term year and year and a half view your SMR per se according to you which are the geographies which will actually drive the SMR topline. How would?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

Europe, Asia.

Chirag Shah – Emkay Global

Ok in that order?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

So you know you are asking me to predict which car will sell more. I think German cars will sell more because probably I make more money on that. Just kidding. It is so difficult, you are asking me hypothetical question as to which car will sell more. I can't predict that. But by and large we feel that Europe will do well.

Chirag Shah – Emkay Global

So if out of every Rs. 100, the share of Europe should actually go up for you that is how say from a year and year and a half perspective?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

Chirag see I will tell you something, the lowest end model of a particular car is going to be say €30. The same car with a high end model could be a €180. So you know the variables that you are talking about that you want me to predict are very difficult for me to

predict that. But it good to sees that Motherson does at €30 I make my money and at €180 also I will make my money. That's the secret of you know multiple products and multiple geographies and those kind of things.

Chirag Shah – Emkay Global

And is it possible for you to share here your geographical mix broadly for fourth quarter or for FY '11, revenue mix, you generally share every quarter broadly how that has been moving?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

I'll request Gauba to put that in because again you will probably get a bit confused with this one but please remember if you are putting it in rupees it will take into account also the various of the fluctuations, international fluctuations between Korean Yuan and Euro, Dollar and Euro, Pound and Euro, Japanese Yen and Euro and Australian Dollar and Euro, Indian Rupee and Euro, I mean all these are all variables.

Chirag Shah – Emkay Global

Ok great. And one last questions if I can sneak in, on depreciation if I can look at depreciation at consolidated levels it has actually gone down on year-on-year basis, so is it that was there extraordinary or one write-off last year or how it is because the depreciation, the amount has actually gone up?

Mr. G N Gauba – Chief Financial Officer.

Yeah Chirag, Gauba this side. The rate of translation does impact the total figure in the consolidated numbers.

Chirag Shah – Emkay Global

Those are largely translation issues rather than any specific large ones like that?

Mr. G N Gauba – Chief Financial Officer.

There could have been last year some charges that could also be there but let's look more on year-on-year basis rather than looking these.

Chirag Shah – Emkay Global

Because these are rather driving your YoY numbers down so I just wanted to understand that nothing else.

Mr. G N Gauba – Chief Financial Officer.

No, year-on-year last year in 2009-10 we had closed down two plants in SMR, one in Germany. So for which the depreciation was there for substantial part of the year.

Chirag Shah – Emkay Global

Ok that could be the reason, great. I will come back for more questions, thank you.

Operator

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

Sanjay Satpathy – DSP Merrill Lynch

Sir thanks for giving me another opportunity. Sir my first question is on this recent merger of SMIEL which we have announced I just wanted to look the rationale behind that and also the valuation that which has been done?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

The valuation has been done by an independent auditors Deloitte and it was done basically because I do not know whether you guys have realized but the wire harness business is almost a US\$1 billion just in India and abroad whatever we are doing, so definitely Motherson has earned the confidence of Sumitomo, where they want us to start ownership on the component side because the number of harnesses that we are doing for Japanese car makers and the non-Japanese car makers the gap is closing quite fast and if that happens definitely Motherson has to bring in the capacity of designing of its own components, has to bring in all the basic infrastructure. So the first thing that we have done is to request Sumitomo, they have agreed frankly to bring the component division also into Motherson Sumi Systems. So very soon you will see a component division which is only focused on the wiring harness to bring in more quick reaction and also to help the customer.

Sanjay Satpathy – DSP Merrill Lynch

Sir just to I mean I have no financial knowledge of this particular division so that is why we don't know at price to earnings and whatever price the acquisition implies, is it something that you can share it with us, that's one and the other thing is that you are talking I think that this component will be an additional capacity does this mean marginal improvement for you going forward or it is more of a ease of doing the business?

Mr. G N Gauba – Chief Financial Officer.

Sanjay instead of giving some figures we will just put down in the next week presentation and give the required information because there are intercompany sales which also happen and so we will tell you the complete. We have announced the number on the first time merger possibility and we had given March numbers at that point of time, so we will give more details giving the complete information.

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

All I can say is that as Gauba says he will make sure that that comes in next week but I would like to reassure that everybody that it is a very technological capable company, their tool room is one of the best in India. And profitability wise also they are a very profitable company and I am sure that you would be very pleased with the results that we posted on that company as well.

Sanjay Satpathy – DSP Merrill Lynch

And my last question is on, on your India initiatives like I mean can I just ask have you done any major new customer acquisition or expansion into some new product platform in recent times which will help you expand market share in FY '12?

Mr. G N Gauba – Chief Financial Officer.

Look I don't want to do any customer acquisition. My this thing is that my due diligence is to a customer who wants us to look at companies but upto now our experience has been that these are very, very difficult acquisitions and I don't know what could be the outcome of these due diligences. However new products in this particular thing I told you that in the SMR side there would be a lot of new products that have been launched by our customers which two years ago we had announced €800 million. This is the time when they are all going to be launched. So we are very busy in a lot of launches. In the Indian side, we have already announced a joint venture with Bergstrom which indirectly affects Motherson Sumi because they do the entire plastic modeling for that particular group. Lot of other things I mean lot of other companies coming in. so very exciting year for us.

Sanjay Satpathy – DSP Merrill Lynch

Can I ask just specifically Volkswagen has been doing quite well in India and our impression is that Motherson has done, was not doing probably a lot of business with them, is it going to change substantially going forward or?

Mr. G N Gauba – Chief Financial Officer.

I don't know where you are getting your news that we are not doing any work for Volkswagen. We are supplying the door panels for Polo, the entire door, the wire harnesses are done by, mirror we are doing. Volkswagen is one of the biggest globally. So we do a lot of work with Volkswagen and with Audi and with Fiat and all these companies of Volkswagen and definitely that's improving because initially they were more on a CBU kind of thing. So our product was coming but it was not coming from India but outside from India.

Sanjay Satpathy – DSP Merrill Lynch

So this wiring harness now you have fairly high market share and one can consider that to be 50-60% or how is it?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

In Volkswagen or are you talking globally?

Sanjay Satpathy – DSP Merrill Lynch

Volkswagen in India?

Mr. G N Gauba – Chief Financial Officer.

We are not supplying Volkswagen in India for wiring harness but we export orders.

Pankaj Mital – Chief Operating Officer

For Volkswagen India we are supplying some of the models.

Mr. G N Gauba – Chief Financial Officer.

I think Pankaj can give you a better idea for that I thought you were talking globally.

Pankaj Mital – Chief Operating Officer

Can you repeat your question please?

Sanjay Satpathy – DSP Merrill Lynch

I wanted to understand that earlier in the markets we got the impression that with Volkswagen in India the wiring harness we are not doing much business with them because of some pricing issues or something like that but probably it is changing now and I wanted to reconfirm that for the market share in wiring harness in Volkswagen to increase substantially for going into FY '12?

Pankaj Mital – Chief Operating Officer

Well we are supplying to Volkswagen to India and Sumitomo is quite strong for Volkswagen India if you remember, Sumitomo had taken over the wiring harness division which was owned by Volkswagen along with Siemens. And so we have all the requisites know-how about their requirements in India and we are a supplier. And as far as individual share as to how much we have with car maker it's a total market level that we do talk about that we are 65% but model to model it's very difficult to say that.

Sanjay Satpathy – DSP Merrill Lynch

Ok thanks a lot sir. Sir just wanted to reconfirm that if Volkswagen is growing fastest in the market then Motherson is a beneficiary of that, just wanted to reconfirm that?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

Absolutely.

Sanjay Satpathy – DSP Merrill Lynch

Thanks.

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

And we are very close to Volkswagen group.

Operator

Thank you, the next question is from Srinivas Rao from Deutsche Bank. Please go ahead

Mr. Srinivas Rao – Deutsche Bank

Thank you very much Sir and congratulations on strong numbers. Sir I have one question, broadly based on your results for the year and the Capex which you have given for fiscal '11, I mean you had a broad asset turnaround to two times odd, would it be fair to say that this is the kind of trend number to look at next two to three years as you said lot of plants are coming in so the scale for the next three years is to maintain these kind of ratios?

Mr. G N Gauba – Chief Financial Officer.

I think what is really important is instead of bifurcating capital employed between fixed assets and net current assets; we will come out with a return on capital employed guidance because turnover does not come in the year in which you spend the money.

Mr. Srinivas Rao – Deutsche Bank

Sir I mean in the longer term would that still be a?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

Almost 50 to 60% of our purchase are normally in land and building and it's a we always require space for whatever we do. So I think as Gauba, we always give guidance on gross but we don't go on all these because they might get skewed a bit.

Mr. G N Gauba – Chief Financial Officer.

Just to give you an example when we acquired them in SMR previous year reflected our original cost as well as WDV also. So whereas a portion of that has gone into capital reserve, so it's quite confusing. Sorry about that.

Mr. Srinivas Rao – Deutsche Bank

And the second question is that we have seen the trend of the OEMs to purchase sub-systems in effect pushing down the system Capex to the vendor. Is that which you are cognizant about this kind of trend?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

Yeah and we have no issues with them because what actually happens is the more the modules come in, the more the know-how comes in our hand and also the carmaker likes to then work closely with you because he wouldn't give you a module if he is not confident with you.

Mr. Srinivas Rao – Deutsche Bank

Sir in that sense, you are pushing down more Capex and value addition to the vendor or something which you think is ultimately beneficial to you?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

It is immediately beneficial because he pays the bill for that I mean we are not working for him for free or something.

Mr. Srinivas Rao – Deutsche Bank

I know not that but given that the Global OEMs are facing fair amount of pressure on thier businesses in terms of competitive activity, and if their margins which seems to be a long term trend, will that should over a period of time impact the vendors that's where I am coming from sir?

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

Yeah I agree with what you are saying and really I mean you must be doing a lot of research on this but we are not privy to that so I can't really confirm or deny what you are saying but all I can tell you is we have a head on our shoulders and whenever a customer is asking to do something we look at it very objectively and see whether that is going to be good thing for us or not. So honestly I can't comment on the research that you have but I can tell you that Motherson will not do something just to please the customer.

Mr. Srinivas Rao – Deutsche Bank

Thank you so much sir.

Operator

Thank you. Ladies and gentleman we will take one last question from Jackie Jain from Antique Stock Broking. Please go ahead

Jackie Jain – Antique Stock Broking

Good afternoon sir, congratulations on good set of numbers. First of all I actually missed the numbers in the starting could I just get the numbers, profit standalone and consolidated.

Mr. G N Gauba – Chief Financial Officer.

Ok they are available at Motherson.com but I can tell you consolidated total sales are up by 22%, our consolidated domestic sales are up by 59%, the total standalone sales are up by 63% and the standalone domestic sales are up by 68%.

Jackie Jain – Antique Stock Broking

I just needed that.

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

The mirror company is up by 22% in Euro terms and 9% in Rupee terms. Profitability is up 1141% in Euro terms and EPS is up from 6.07 from last year to 10.01.

Jackie Jain – Antique Stock Broking

All right got it Sir.

Operator

Mr. Jain do you have any further questions?

Jackie Jain – Antique Stock Broking

No thank you so much.

Operator

Thank you. Ladies and gentleman that was the last question. I would like to hand over the floor back to Mr. Surjit Arora for closing comments.

Mr. Surjit Arora – Prabhudas Lilladher

Yeah. Sehgal sir can you just give us a broad overview of how your business going on in Europe and just conclude with your outlook on the same.

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

Ok. I think everybody seems to be a bit worried on Europe but just to give you an example the European region has global passenger vehicle car production Jan to March versus Jan to March 2010 Europe is up 7%, Asia, excluding India is up is actually down 1%, North America is up 8%, South America is up 7%, and India is up 21%. So I think you should be more worried about China or some other country like that may be Japan and Korea but Europe believe me is showing very good signs on the automotive side. We have to understand that the general condition of the economy cannot be co-related with the car because in Europe if you can't drive you are virtually out of lot of problems. You have to replace your car on an average in Europe we do about close to 60 to 70,000 kilometers a year so you know that kind of driving people have to change the cars you know. The numbers are actually showing it that Europe is actually doing well. And in fact, the German carmakers per se, the European carmakers are actually doing well. Really we feel that Europe is strong, North America is doing very well. South America is doing very well. And these are places where SMR and Motherson is very, very active. China is doing well. Yes little bit of issues in the rest of Asia but really we are honestly not so much over there.

Mr. Surjit Arora – Prabhudas Lilladher

Sir just one last point I wanted to comment on or get your view on has not any supply chain being affected because of this earthquake in Japan I mean are you getting any indications on the supply chain side.

Mr. Vivek Chaand Sehgal, Chairman – Samvardhana Motherson Group & Vice Chairman – Motherson Sumi Systems Ltd

I will repeat myself. Earlier on, certain car companies had indicated that the recovery period because of the pigment loss, white pigment loss and the chip maker both had actually affected global car production and they were saying that it would take upto September and October to recoup those plants and things like that. But as I said I am very happy to announce that carmakers in fact in June July numbers has also come back with almost similar, almost 100% of what they had predicted before because these two key disruptants that were there have actually been overcome and these companies have actually come back with very fast recovery. So I don't see any reason why we would see you know depreciation of numbers because of the Tsunami or the earthquake.

Mr. Surjit Arora – Prabhudas Lilladher

Fair enough Sir. I would like to take this opportunity to thank Mr. Sehgal and as well as Mr. Gauba and Mr. Pankaj Mital for giving us their time to hold this call. That ends the call for today. And thank you very much for being on the call.

Operator

Thank you. On behalf of Prabhudas Lilladher, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.

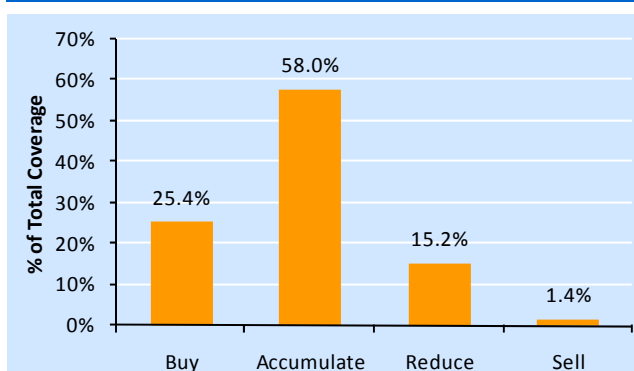


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