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* Pankaj K. Mital

* Jinesh K. Gandhi

* Kapil R. Singh

Nomura Securities Co. Ltd., Research Division - Auto Analyst

* Puneet J. Gulati

* Raghunandhan N. L.

Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst

Nomura Securities Co. Ltd., Research Division - Associate

Ladies and gentlemen, good day, and welcome to the Motherson Sumi Systems Limited Q2 FY '19 Results Conference Call. (Operator Instructions) Please note that this conference is being recorded. I now hand the conference over to Mr. VC Sehgal. Thank you, and over to you, sir.

Thank you. Good afternoon, ladies and gentlemen. It's my pleasure to introduce to you the quarter two results of Motherson Sumi. On the consolidated basis, our revenues are up 11% and EBITDA is up 8%. Our revenues within India are up 12% and outside India is up 11%. Stand-alone basis, the revenues are up 8% and export revenues are up almost 23%. The first time we welcome Reydel into our pool. We bought this company on the 2nd of August. We are very excited with their performance as well. The order book is, again, a very clear indication of how strong the demand for Motherson products from its customers are. We have now an order book of almost touching EUR 20 billion, or about INR 165,000 crores. I think rest I would wait for your questions to make you understand but the board really appreciated the efforts that the people and especially of SMP and SMR for having come out with very, very good results under the circumstances. Thank you.

(Operator Instructions) First question is from the line of Raghunandhan from Emkay Global.

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

Congrats on the Reydel coming into the fold. On Reydel or SMRC, can you share some numbers, revenue, EBITDA, PAT how is it in the quarter?

Gauba, would you take that?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [4]

Yes. Thanks, Raghu, and we would like to address this question. As we have already said that even if we were to exclude the turnover coming from Reydel, we have grown by 3%, so there is a method to derive that...

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [5]

Yes sir, EUR 152 million.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [6]

No, it's less than that, so it's close to EUR 130 million, but what we want to emphasize here and have your confidence is that when we are talking about any acquisition of a business, which is in a similar this thing, then we have to integrate it seamlessly. Now when we are taking over Reydel, what we had said at that point of time, it is the same business as SMP. And as you have seen that we have a large CapExs, which have been done in SMP. By getting Reydel into the fold, what we will have a advantage of being able to offer a solution to the customer across the geographies, across the product range. So by having a separate segment as Reydel, will actually constraint our approach or our efforts to integrate the 2 operations. So we have also said it is a very good to know that within a period of 2 months, how the teams have started getting integrated together. So we want to have your understanding on the subject since there is a huge integration, or what should I say, benefit of both the companies working as one entities there. So, therefore, we would be reporting that as part of SMP.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [7]

I agree.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [8]

Understood, sir. And sir, like the -- due to the logbook arrangement, the cash flows they're likely to accrue, so how much cash flows is expected to come to the balance sheet?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [9]

We will have SMRPBV balance results being released day after tomorrow and you will have more detailed note on acquisition. As of now, in the results we have given already a note on a provisional basis, we have recognized, of course, this goes to a -- straight to the balance sheet under IND AS, a negative goodwill of EUR 25 million, if -- just give me a moment to give you the exact amount which is shared in the notes to the account. EUR 24.7 million, so -- but when you see the SMRPBV publication, you will have the more detailed balance sheet on the acquisition.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [10]

Fair to say it will be earnings accretive, sir?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [11]

Of course, that is the underlying basis on which the acquisition is done. However, depending upon each quarter, seasonality or those factors, there could be a variation between quarter-on-quarter .

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [12]

See August is always a weaker month in Europe, so this particular quarter, we've taken only from August, so 2nd of August. Isn't it Gauba?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [13]

Yes, sir.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [14]

So then -- actually 1 month is probably what we are talking about, 1 month and 1.5 months, but actually, because most of them are on leave anyway.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [15]

Exactly.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [16]

And sir, like any impact you have seen because of WLTP on our results?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [17]

Marginal, if any, on -- in Germany. I think. Germany, the registrations are probably down by about 15%, 17%. But I think it's more related to confusion because people are trying to understand what are the long-term impacts, so maybe the choice of engine could be one of the things that might be coming up. But other than that, Europe is totally high, America is high, I mean, everywhere else, the numbers are up. Global production of cars is up, so only Germany seems to be the place little bit of deflection in there. But as far as we are concerned, our models are this thing all up. There's no doubt.

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [18]

And do you think the issue is behind and coming months should be better?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [19]

Absolutely. Why not?

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [20]

And sir like if I look at SMP...

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [21]

Raghu, I don't mind you asking but I think if you have a one-to-one dialogue then we can...

Raghunandhan N. L., Emkay Global Financial Services Ltd., Research Division - Senior Research Analyst [22]

I'll come back in the queue with more questions.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [23]

I'm so grateful. Thank you so much.

Operator [24]

The next question is from the line of Kumar Rakesh from BNP Paribas.

Kumar Rakesh, BNP Paribas, Research Division - Analyst [25]

My first question was about the guidance cut done by global auto companies. Has there been any communication regarding that to you about any volume or plans about the future production cut?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [26]

Sir, we have shown -- by performance, we have shown an increment in our sales and things like that. So really we have not been advised by any of the car companies that the numbers are going to be down or something is going to happen like that. We have got no such information, not to my knowledge, sir.

Kumar Rakesh, BNP Paribas, Research Division - Analyst [27]

Okay. And about the order book which you disclosed, so how hard these order book numbers are in terms of the commitment from your customers? Or are they your assessment and could be up for revision in case of any change in those guys demand?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [28]

Sir, all our numbers are hard numbers. We have documents to prove that. I don't think you should have any doubts on the numbers that are given to us. This is the basis on which they give us the engineering fees and every single thing is done on that and it's very, very transparent what we do.

Operator [29]

The next question is from the line of Mihir Jhaveri from Avendus Capital.

Mihir Jhaveri, [30]

Sir, just as a follow-up on this question, which was asked. I just wanted to know that in the last 3 quarters the performance has been not as per the expectation and given that the global auto component and OEMs are reducing their guidance. So just a little confusing how is that in our numbers or how confident are we? Could you tell me how confident are we of achieving a target of growth of 40% plus what $18 billion kind of a number, which we had envisaged too? That's my first question. And secondly, on -- with regards to the trade wars. What's your thought process there? What do you think whether anything could hit us if at all, there is an unfavorable verdict between U.S. and China in terms of trade war?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [31]

So on the first question, again, we are trying to explain this to you that the 3 plants that are new plants that has been set up by Motherson from SMP are going to add $1 billion to the top line. To put it in reference for all of you, we are doing a turnover about $1.92 billion, so this $1 billion will add and make it $3 billion on the top line which means these 3 plants are going to add 33% more to the top line and definitely onto the bottom line as well. It just so happened that the 3 plants have come together and hence SMP looks like -- the margin looks like squeezing or the startup cost and all that. We have already finished all CapExs and everything over there. We are now in the total launch phase, the car production is going up dramatically. New line fill up is happening for the new models that are coming out. The old model is going to die out and the new car by itself is going to come in. It's going to be launched in January 2019. So yes, in the last 2, 3 quarters because of the ramping up and all that, the startup cost appear to be on the higher side, but they will disappear from January. If you understand that, great. Otherwise, it's all right. We are very patient. We know what we are talking about, and we are sure that in the coming times, we will be smiling all the way to the bank, while probably you would be wondering what happened. But today, just to give you a reference when you start up a new line altogether, the carmakers are producing 5, 10 cars per day. Then they go to about 50 cars per day, then eventually 800, 1,000, 1,400, 1,500 cars per day. So we are at this moment somewhere around between 5 to 10, 15 cars per day at the moment. So that's the best I can tell you.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [32]

And in our case because of the different colors and all that and different variants, even the 5 or 10 means so many number of changeovers.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [33]

Changeovers, so if you have say, 20 colors, you multiply with that many. If you have that many variants, the interiors, exteriors, everything changes. So all these particular things are there. No issues at all, but it has so happened that 3 plants have come together. The Zitlaltepec, the Kecskemet and the Tuscaloosa plant, which is probably the biggest plan that we have.

Mihir Jhaveri, [34]

No. My question was sir, in terms of -- I understand your startup cost, which I got very -- it's very clear. My question was with regards to the OEMs, reducing their guidance if the demand scenario doesn't improve globally. And sir...

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [35]

Sir, sir, sir please understand. In the last 3 quarters, Motherson has been growing. So please don't correlate a carmakers guidance with Motherson's guidance. We are giving you a clear guidance that we want to expect to hit EUR 18 billion by 2020 March 31, and we will do so provided we can get 40% growth. We have a visibility on 40% growth. Sir, we are standing firm on that guidance, sir. And because the carmaker in a particular country is giving a particular guidance, I am not -- I cannot really comment on that also, sir.

Mihir Jhaveri, [36]

Sir, just last question on the stand-alone. Sir, we have seen that we are getting the impact of RM cost and stand-alone also. In the domestic market, there has been some slowdown in terms of volumes from the OEMs. So what's your sense sir, there how we -- whether we'll see the incoming quarters the benefits of RM as well as what's the scenario -- what you're seeing in terms of demand pickup in OEMs in the domestic business?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [37]

This is Pankaj here. Well, we haven't seen any slowdown in the domestic business as well. If you will see and if you'll refer to Page #8 then you will see if you are comparing with quarter 2 of last year. Then as per IND AS 115, you'll see that the growth has been actually 14% in the stand-alone revenues, whereas after impact of IND AS 115, it's about 11%. So definitely there has been a hike in the cost of certain commodities, and also impact due to the currency impact as dollar is getting strengthened and rupee gain parity rupee, euro parity, everything changing. All these get compensated but with a lag, so that is an impact. We do not still see -- I mean, there has been a lot of talk about market not growing. We have seen that the market, even in the month of October has not gone down and there are specific models, which come down and some models which go up, so that's the way it is. However, we continue on our journey. There may be some months where the sales may be a little lower than the other months, but we don't see any major impact. We still see growth coming, the carmakers have set up new plants. We have set up plants for them, and we have no information that they are not going to produce vehicles in those new plants. So we will continue working in that direction and we are fully prepared to take part in the growth journey of our customers.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [38]

And Pankaj, how many plants have you set up for wiring harness and plastic parts in India?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [39]

Yes, sir. We are setting up, as we had given in the last...

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [40]

The last 3 years.

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [41]

Last that -- it should be many...

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [42]

Almost about 11...

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

Yes. More. Yes.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [44]

So 11, 12 plants, your sales are growing up every quarter-on-quarter. I don't know which slowdown that people think that there's a slowdown. Maybe those models which are not really trending well, so that might be...

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

Also, the vehicles are becoming more complex. I mean they are getting more feature-rich. So it's not just the number of vehicles but it's also the value care enhancement which is happening and then 2020 emission changes are going to come in, so there's a lot of -- things may happen over a period of time and the carmakers will start to bring in the new norms, even ahead of time. So those things will happen. We are fully prepared, and we are fully geared to support our customers and commercial vehicles have also seen a phenomenal growth. We support all our customers in every area.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [46]

So every time the euro has changed, actually Motherson's wiring harness site has gone up dramatically, isn't it? I still remember we used to sell harnesses of INR 600 rupees for -- before Euro 1 came in. And then Euro 1 came in, it went to about INR 1,400 plus.

Operator [47]

The next question is from the line of Mayur Parkeria from Wealth Managers.

Mayur Parkeria, [48]

Sir, the -- okay, I don't know -- I mean, this 3% growth you mentioned that was -- that is including Reydel, right?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [49]

No sir, without Reydel.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [50]

Without Reydel and also after taking out the impact of AS 115.

Mayur Parkeria, [51]

(foreign language) So the presentation number of 3% is without Reydel?

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

Yes. And with Reydel is 11%.

Mayur Parkeria, [53]

Right. So and -- sorry, please go ahead.

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

And if you will take out of the impact of AS 115, then the growth is 19%, 1-9.

Mayur Parkeria, [55]

Right. That is in the rupee terms?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [56]

Yes.

Mayur Parkeria, [57]

Yes. Okay. No, I was talking in euro terms.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [58]

Euro terms, we have a growth for SMRPBV, which is 3% and it is...

Mayur Parkeria, [59]

Yes sir, that includes Reydel, right?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [60]

Yes.

Mayur Parkeria, [61]

So sir, Reydel, you said it is what around EUR 130 million?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [62]

Okay. Yes.

Mayur Parkeria, [63]

Okay. So sir, then, in that case, the -- excluding Reydel, the SMP performance would have been even, I mean, so the degrowth would have been much higher year-on-year, right?

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

I mean, we -- Mr. Sehgal did mention about Germany.

Mayur Parkeria, [65]

Right, right. Okay. It's driven by German. And sir, how about...

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [66]

Also what you should look at it is because and then sorry, I'm taking you back, and we have to avoid a discussion on the call, but if we look at Slide #8, if we reduce EUR 130 million from EUR 934 million, we are at a similar level of last year in spite of post Germany, Mr. Sehgal talked about. Also, we have a price down.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [67]

We have price downs, which we have given every year. So it's not easy as just comparing 3% of Reydel with 3% of this. And SMRPBV SMP is a much bigger number. 3% of that is much different from 3% of Reydel.

Mayur Parkeria, [68]

Yes, yes, surely. Surely. And sir, just looking at the -- if you look at the SOPs, which are coming on a half yearly basis when you disclose these order numbers, this first half, the SOP was EUR 2.41 billion.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [69]

EUR 2.47 billion.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [70]

We do with Hungary. Hungary Kecskemet plant has already started selling.

Mayur Parkeria, [71]

Yes. And -- so if we would have looked at the trend for the last 4 half year list, I mean, approximately, this number is higher because as the plants have now come on, so can we expect the growth rate as what you were also correlating that from January, we'll see a much higher growth rate in sales. These will translate into higher sales, and we'll see SMRPBVs recording higher sales growth?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [72]

Yes. You're right.

Mayur Parkeria, [73]

Okay. Sir, last question from my side is, we're seeing increase in the debt levels. Now it's almost INR 14,000 crores. The Reydel acquisition...

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [74]

No.

Mayur Parkeria, [75]

Was only EUR 173 million.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [76]

INR 2,000 in cash.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [77]

Okay, first of all, the net debt is INR 11,300 because we have to compare either a gross debt to gross debt or a net debt to net debt. And the debt we are talking in rupee terms, we have also given a exchange rate on 30th September, this is consolidated at a euro rate of 84 rupees 13 paisa. So there is a exchange difference of approximately INR 500 crores on the net debt. So INR 500 crores

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Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [78]

Debt is in -- this is.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [79]

Debt because the debt is in SMRPBV. For Reydel, we have already said that we paid approximately INR 1,595 crores. Thirdly, on a stand-alone, there is an increase of debt of INR 351 crores. If you are a shareholder, you have got a dividend in the last quarter, so there has been a dividend outgrowth from stand-alone. Fourthly, I would encourage you to go through all our previous presentations. You will find that in August, September because of summer holidays in Europe, there is a free working capital requirement. So I have just a presentation in front of me for September 2017 where the net debt has gone to about INR 8,000 crores compared to INR 6,600 crores on 30th June and INR 5,500 crores on 30th -- 31st March. So there is an incremental working capital requirement, which gets even out liquidated in the subsequent quarter. So there is no real increase in the debt, in fact, our CapEx has been coming down, so this is what we have said.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [80]

Yes. And, in fact, from next quarter, our CapEx will be only maintenance CapEx, nothing -- no new plants nothing, which is coming up in that kind of a big way or something. So the fifth year, you see -- the fifth year we will bring the rows down to as close to 40% as possible.

Mayur Parkeria, [81]

All right. So this is transitory in nature currently and I think by March end -- by March, do you believe it can come down subject to euro but can it come down to closer to INR 10,000 crores where we were?

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

Sir, we always...

Mayur Parkeria, [83]

But I'm talking about the gross side, I'm sorry.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [84]

No, no. I mean it will be unfair for me to give any guidance on that because we are a growing company and also there is a liquidity, which is maintained by the company with such a large size of business. So we would rather have a financial discipline of maintaining a net debt to EBITDA, rather than committing ourselves on a gross debt or those things and our debt has never exceeded 2x as -- even you can check on pro forma basis now also.

Operator [85]

The next question is from the line of Dipan Mehta from Elixir.

Dipan Anil Mehta, Elixir Capital Limited - Chairman [86]

Sir, my question is relating to the performance of SMP. In the segmental reporting, we are seeing that SMP has gone from INR 235 crores to INR 90.91 crores and the investor presentation, even after excluding the startup costs, the EBITDA margin of SMP has declined. The EBITDA -- actual EBITDA has declined from EUR 49 million to EUR 35 million. So what is the principle reason for this performance of SMP deteriorating like this?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [87]

First of all, in the segment reporting we talk about EBIT number, not the EBITDA number, so there would have been higher capitalization also of the newer plant and this is the same question what we've come about, that as we have seen the new plants ramping up, so initially, there are higher startup costs, higher number of changeovers, higher training cost of the people, which does not give you the same efficiency level or a utilization level as the other plants give you. We also talked about that in Germany there was some sales growth, which could not come because of lower registration due to temporary shift in some demand, so therefore, the performance of SMP, if we will look at the plants by itself has done very well. And some market conditions was because of the new startup, there is a drop in the overall profitability.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [88]

Just one anecdote, which might make you understand what we go through when we have a startup. In the presentation, which was being made to us by the SMP chief, he told us that normally, it is a case that people coming from eastern part of Europe coming to Germany to operate the forklifts and things like that. But in Kecskemet, there is a shortage of drivers of forklift. Can you believe that we are sending German forklift drivers to Hungary to...

Dipan Anil Mehta, Elixir Capital Limited - Chairman [89]

Sir, no my question is that you said it...

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [90]

I'm going to tell you that these are the kind of things that happen with start-up costs.

Dipan Anil Mehta, Elixir Capital Limited - Chairman [91]

My question is that (technical difficulty) [13.78%] revenue growth in SMP, so although you say that because of issues in Germany, your sales growth was muted that is I mean, it doesn't blend in because the 13.78% growth you're seeing in SMP top line, so whatever issues are there in Germany, they have not yet got reflected or maybe this is a little bit higher?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [92]

That includes Reydel.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [93]

That includes Reydel as well as the exchange impact because when you are looking at in a rupee term, we have also and the last page on the presentation which concludes that this year in the quarter-to-quarter, we have a 8% benefit in translating at a euro revenue number. So I mean that is why, based on us you can go back and look at our history, there was lot of confusion. So we said okay, we will give euro to euro. It depreciates, it appreciates. We are consistent in our presentation, so, therefore, when we talk about the overseas business, we talk in euro terms wherever applicable to it, and also SMP also includes SMRC, the Reydel business, which we have clearly stated on our Slide 13.

Dipan Anil Mehta, Elixir Capital Limited - Chairman [94]

But even then, sir, SMPs, again, going to the segment result is INR 235 crores to INR 90 crores. Sir, that cannot be entirely because of startup because the startup cost, which you have mentioned in your investor presentation for SMP has gone from EUR 14 million to EUR 20 million. So this doesn't add up. And there is something, which is not right in SMP for it to have such a huge decline even after accounting for startup cost. I mean it's just like INR 145 crores drop in the EBIT segment results, sir.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [95]

Sir, there are 2 factors. When we talk about the graphical presentation on the startup cost, we talk about only those plants, which have not started the commercial sales. And this is the Tuscaloosa plant figure, which is being shown currently. This was clarified on the last quarter call also. When we are talking about in addition, the new plant we are also talking about the new plant, say Hungary -- explaining.

Dipan Anil Mehta, Elixir Capital Limited - Chairman [96]

Sir, maybe I'll take it offline. I'm not completely convinced. So just a suggestion to you Mr. Sehgal. I've been tracking the company for several years now and over the period of time, the entire structure and the operations have become more and more complex, which is perfectly fine. It is your business moral to acquire new companies and then turn them around. But the investor presentation is lacking considerably, I mean, you talk in terms of euros and then rupees. If you can just simplify it so that we have a crystal clear idea as to how each subsidiary has done in euro terms, in rupee terms and then tie it up with the numbers which you are publishing in the -- with the stock changes that will help us understand all these moving parts far, far better than just giving us graphs of how they've gone up and gone down. And we can compute the percentage changes ourselves because from the presentation we can never move from the numbers in the presentation to what is actually reported at the stock exchange. That's a very complex process and some assumptions are required, which you are unable to do so. It's just a feedback for you, sir.

Operator [97]

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

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [98]

Sir, my question pertains to SMP, particularly from the margin performance perspective there has been a -- there have been some pressures. So is it to do with Reydel's consolidation which has direct margins or there have been pressures beyond that as well?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [99]

I mean, Reydel is one part of that because the average margin at Reydel are not similar to as we explained we have summer holidays and first 2 months being consolidated to the average of SMP. But we also talked about the newer plants, which have come up in SMP. So it is a combination of -- startup cost is third factor. So it is a combination of all 3 factors.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [100]

Okay. So that means the newer plant, this is beyond the startup cost but -- the plants, which are not yet ramped up but have started?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [101]

Exactly. You are absolutely right.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [102]

Okay. Second question pertains to PKC. We have seen quite a bit of volatility on the margin front at PKC. So is it to do with the revenue mix? Revenue mix between U.S. classic trucks versus China versus Europe? Or that's -- I mean, there are more factors to that?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [103]

Well, once PKC -- this is Pankaj here. Once PKC has come in Motherson, so then there have been lot of integration in terms of operational excellence, and it's a combination of all the factors. So one is that definitely, the volumes have grown up. So you'll see about a 12% growth in the revenue side, but we have improved the EBITDA margin also. It's grown up by 33%. So it's all -- the teams working all around the world, they have embraced good practices and they are continuously challenging what is current and replacing it something, which is much better.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [104]

And Jinesh, just to tell you, as -- PKC also has large operations in Europe, so Europe summer months applies to PKC also. So in the quarter 1, the sales were EUR 296 million and in this quarter, it is at EUR 274 million.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [105]

Okay, okay. That explains. And just a suggestion. I mean, if on annual basis, you can share revenue mix per PKC considering wield businesses, China, U.S. classic and then the rolling stock? That will be helpful. And last question on India business. There has been a substantial increase in other income. What is that pertaining to?

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

I mean, that gets netted off. In both the quarters same period last year as well as this, we have a dividend coming from the overseas entity. So that on a consol basis it is netted.

Operator [107]

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

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [108]

So this is Chirag here. Sir, first question is on the India wiring harness business post the new emission norms coming. Is it possible sir, to indicate that what is the quantum increase that we can see in the value content, especially, when you compare with the Euro 4 transition, which happened or BS-IV transition which happened? And compared to that the Euro 6 or transition which happened, what is jump in content that we can see?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [109]

Chirag, this is Pankaj here. Thanks for asking this question. Well, it's a combination because when the euro norms were changed, it's not exactly the same model which will be there in the market. So it's not only the emission changes but there are a lot of other changes which come in. That's what we have seen globally, so that's the experience which we have. So it's difficult to just correlate that because of emission so much of percentage will change, but definitely, it leads to a double-digit enhancement on account of various factors and features.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [110]

Sir -- okay. But my was more trying to understand that can this enhancement be higher or steeper, given more feature additions and accessories or electronics or whatever you may say? Can it be higher than the Euro 4?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [111]

Absolutely, that's what I said that, it's very difficult to exactly suggest that because it will also be different in different models. It will be different in case of commercial vehicles. It will be different in case of cars. And again, it will be different even carmaker wise also because the concept and the kind of product which a carmaker has today and the kind of changes which they're bringing about in the new models will be different. So there is no one static percentage which can be applied.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [112]

But at least, it will be higher than the previous transition. That is a safe assumption?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [113]

Yes.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [114]

So constant increase.

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [115]

Yes.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [116]

Okay. And sir, second question was on SMP, the cost of repeating. So is it possible to indicate the new plants that have started? At what kind of utilization levels they will be? Because they would be in very early stage of startup and there could be enhanced costs coming in? And generally, what is the level, which is required for operations to be at a reasonable breakeven level, where all costs start getting absorbed completely?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [117]

I mean, Chirag, while we can put a number, but it is very difficult to define because as we were trying to describe when you have larger number of changeovers, your capacity utilization becomes higher on the piece of paper, whereas actually when you increase the volumes your number of changeover becomes that many. With larger number your capacity suddenly goes up by X percentage. So -- and mind it, last quarter was also summer holidays, so it would be not prudent for us to put a capacity number, but it could be in the range of, say 30% or plus minus or even lower than that based on the -- once you achieve the efficiency and the utilization, this could be at a peak level at 20% or whatever that percentage. But I would not put a number to capacity because capacity is a function of efficiencies.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [118]

So will it be fair that somewhere in say in -- down 2 quarters down the line, the utilization levels would significantly improve? So in next 2 quarters...

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [119]

Yes. We have been consistently saying that it takes almost like 3 to 4 quarters for OEMs to ramp up in a normal circumstances. So we have been guiding this for enough, so we have to wait for next 1 or 2 quarters when Tuscaloosa also comes into play. So all the 3 plants start contributing sizable top line as well as operating performance on the operations.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [120]

Yes. Just one more housekeeping question on the India business. We have seen some elevated cost pressures in the quarter. So is it -- would it be right that some of the pass-through arrangements have not yet fortified and that's why there's a timing mismatch? Or is there something else to look? Or it's more to do with the mix of the business?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [121]

Chirag, it's also a time lag because there is a lag like whatever you have if you have an agreement for the 6 months and what's an average of 6 months get implemented over the next 6 months. Where the agreement is for the 3 months, then the last 3 months period gets implemented over the next 3 months.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [122]

Then you'll also have the new capacities being built in.

Chirag Shah, Edelweiss Securities Ltd., Research Division - Research Analyst [123]

Fair point. So maybe in next quarter or so there would be normalization of those cost pressures happening. This is really helpful.

Operator [124]

The next question is from the line of Siddhartha Bera from Nomura.

Siddhartha Bera, Nomura Securities Co. Ltd., Research Division - Associate [125]

Sir, my first question is on Reydel. So as you have highlighted that Reydel's revenues will be close to EUR 150 million in the quarter. And given that -- I assume that it will be close to EUR 1 billion revenue, so like you have indicated, will it be fair to assume that in this quarter the revenues were lower due to seasonality, or is it -- the run rate continuing right now?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [126]

I mean, seasonality is the factor. Of course, we had given you the historical numbers, which was I think in U.S. dollar under U.S. GAAP $1 billion plus, $1.04 billion or something like that. But you are absolutely right that given the holidays and 2-months period, seasonality factor is there in Reydel current numbers.

Siddhartha Bera, Nomura Securities Co. Ltd., Research Division - Associate [127]

Got it. And the overall margins for the Reydel business was at close to 6.5% level, so ideally that should be for this year as well, or there has been any change to those numbers?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [128]

I think Siddhartha, you might have joined the call a bit later. I had explained the rationale why we don't want to have Reydel as a separate segment for discussion because we are talking about combining on the capacities and the synergies of SMP globally altogether as well as made in India.

Siddhartha Bera, Nomura Securities Co. Ltd., Research Division - Associate [129]

Okay, sir. No issues. One more thing on the presentation like you have indicated that we have received close to EUR 2.83 billion of euros new orders in the first half year and our order book also has around EUR 2 billion because of Reydel. So in this new orders, I mean, would we have also new orders pertaining to Reydel or these are only for the earlier existing businesses, excluding the Reydel?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [130]

I would say that Reydel EUR 1.98 billion, EUR 2.83 billion logically may not include Reydel because that is included in EUR 1.98 billion but I will have to recheck that.

Siddhartha Bera, Nomura Securities Co. Ltd., Research Division - Associate [131]

Okay, got it. Sir, my last question is on PKC. So we are seeing a very good strong growth in the U.S. truck revenues but PKC revenue growth seems to have slowed down slightly compared to the growth rate we have seen in the last quarter. So I mean, should we assume that this type of growth rate can be possible going ahead or can there be some acceleration or how should one look at it?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [132]

Sir, as an OEM supplier depends it on how the markets would behave. We are optimistic the market has been continuously on a good path so far and as Mr. Gauba explained that this was also a period in which Europe had summer holidays.

Operator [133]

The next question is from the line of Sahil Kedia from Merrill Lynch.

Sahil Kedia, BofA Merrill Lynch, Research Division - VP [134]

Gauba sir, I have a few questions on the SMP explanation that you had given. Is it right to say, as asked in one of the previous questions that there is a additional cost, which may be because of having employees et cetera ready but production not happening in 2 out of 3 plants?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [135]

Production not happening at...

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [136]

Put it as production being low.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [137]

At desired capacity utilization.

Sahil Kedia, BofA Merrill Lynch, Research Division - VP [138]

Sir would you be able to help us understand what would be a thumb rule or thumb expectation you should take number for both of these plans put together because everyone seems to have a lot of questions around SMP profitability. Can you help us just carve that out in terms of what would that impact be, if it's possible for maybe the first half or for maybe this quarter?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [139]

Sahil, it is too complicated, I mean, because the moment you start segregating and saying that attribute this to a different reason, then it becomes a bucket, which nobody can understand within internal management. We have been very transparent, in fact startup cost also, I have been always insisting not to show it but you people insisted, so you prevailed upon sometime. Because for us it is a look at the business, don't look at adjusted or those things and this is how we would like to rather function, and give you a performance, you have to comment and thus have an understanding how this business gets operated because if you have to be ready 6 months prior to the launch, you are training the people and then it is taking up time for ramp up, better you understand that process how does that process work, rather than just getting into the mathematical equation in each case because there can't be a thumb rule. When I build next plant than the size, capacity of that is different, incremental size is different. So you will have this variability, so many dynamics that we will never be able to give you -- guide you on a thumb rule.

Sahil Kedia, BofA Merrill Lynch, Research Division - VP [140]

Fair enough, point taken there. On the EUR 1 billion of incremental revenue, that's a number that has been -- consistently been given out. When do we think that, that will be -- would have ramped out? Do we think that it happens mid- to end of financial year in '20? Or how do -- what is the kind of timeline that we think that we will get to that EUR 1 billion run-rate that we have spoken about before?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [141]

This is Vaaman here. We have been clear on the communications on the last few calls. It will take 1 year for them to hit that number to all 3 plants to be at that range. So I think you have to give us another 4 quarters. They have already started, but ramp-ups are at different stages, the variants, the models so we believe that in 4 quarters, a year from now, all these plans, we will not be showing any more of these start-up costs and any of those things because all of these plants would've reached a good level of capacity utilization and you would see that number reflecting in the SMP numbers.

Sahil Kedia, BofA Merrill Lynch, Research Division - VP [142]

And is it also fair to then think that the MATE plant that is being started up in Hungary would also have ramped up, right?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [143]

Absolutely as MATE is supporting SMP then you would see that the ramp up in the MATE Hungary plant as well, of course.

Sahil Kedia, BofA Merrill Lynch, Research Division - VP [144]

So therefore there would be that dual benefit of potentially getting some cost savings from the MATE plant as well?

Laksh Vaaman Sehgal, Motherson Auto Ltd - Director [145]

Of course, I mean, that's the whole idea of setting up that plant that we can the lower the cost over there and get the benefit. So of course the whole group strength is in supporting the group companies.

Sahil Kedia, BofA Merrill Lynch, Research Division - VP [146]

A couple of questions on the standalone business, if I may. So is there -- Pankaj sir, is there a meaningful import content that we still have in the wiring harness business domestically?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [147]

Yes, of course.

Sahil Kedia, BofA Merrill Lynch, Research Division - VP [148]

Can you give us a sense of what that could be?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [149]

See there are, number 1 commodity would be copper, which is imported, and then there are various [China] parts, which are imported. So again it is model to model, bit different, but I would say that nearly 30% to 40% of our material cost would have an import content.

Sahil Kedia, BofA Merrill Lynch, Research Division - VP [150]

So in the current situation where the currency is volatile, that's the lag that you were referencing to in the previous talk -- in 1 of the previous comments, is that correct?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [151]

Yes.

Sahil Kedia, BofA Merrill Lynch, Research Division - VP [152]

Okay. Another question, sir, here. We know that your market share numbers are in that 65% to 70% ballpark that you guys have shared. Can you give us an update of what that number is as of last year or right now, just to get us a sense of if that changed materially? Question one. Question two, when we move to euro or BS6, when do we start to see companies engage with Motherson as far as engineering and development is concerned? Has that process already started? If yes, do we start to see engineering revenues coming or accruing to Motherson?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [153]

As far as you're talking about market shares we have never discussed market shares. We are a company, which is talking about creating good relationships, creating solutions for our customers globally. But yes, we can say that we have maintained or improved over a period of time whatever we have been doing and -- which is reflected in our performance. And in terms of our engagement, yes, of course, we are engaged with all customers, be it the CV side or the PV side with all our customers or the 2 wheelers in terms of that development new projects. So it's not, in our case, the engineering cost or those things, they are part-and-parcel of the whole project and we haven't been doing the customary specific ones, the management of the engineering cost apparently.

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [154]

And Sahil my request is that there are more people in the queue so we can take up your questions at the end of the queue or you can come back again.

Operator [155]

We have the next question from the line of Suraj Shehta from IIFL.

Joseph George, IIFL Research - Assistant VP [156]

This is Joseph from IIFL. My question was on EUR 1 billion that you have quoted in the past from the 3 plants that's Mexico, U.S. and Hungary. The Mexico plant, if I understand correctly, opened about 1.5, 2 years back. So would a substantial portion of this EUR 1 billion number already be a part of revenues in say FY '18, that's the last completed year?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [157]

It didn't start 2 years ago, but yes, it is about 6 months that that particular thing has been taken out. But again, you have to understand, car is a complicated process. There is something close to about 8,000, 9,000 parts coming together to form a car. So even if the carmaker wants, he can't ramp up like from one day to another, so it takes time. But it appears that it is difficult for us to explain this to you because the marriage of plastic and metal and all the particular things 6,000 components supplier, supplying online basis on a day-to-day basis, in-line, in sync, in the color combination, in the kind of variation that the customer has ordered, takes time. Please understand that, Joseph. So the ramping up of the car is a slow process. It's not something like from 1 day going to 1,500 cars per day.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [158]

Just to add to that, Joseph. If you -- I think you should take hard from looking at the numbers that we have shown in the new order book, I mean it's sitting at a all-time high of almost EUR 20 billion. EUR 19.5 billion. Now if you have look at that by definition, all of this order book has to come out of the order book within the 2 year period. And in last quarter even if you take out what we've taken for Reydel, which is about EUR 2 billion, there is still EUR 17.5 billion of order books that is still there to be executed by the -- obviously the existing plants. And of course there are some models that are dying out also, but a big chunk of this is what's going to be reflected as these plants ramp up and all the other orders that have been won on the other plants as well. So this is an all-time high that we've had of the order book and I think you should take part in that there is a lot of orders that still have to be processed that will be coming into these plans.

Joseph George, IIFL Research - Assistant VP [159]

Sure okay, understood that. The second question I had was what's the CapEx guidance for this year? And when you mentioned that next year onwards it will largely be maintenance CapEx, unless there are big orders and new plants et cetera, what would be a good number in terms of maintenance CapEx starting in FY '20?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [160]

See Joseph, I mean, we had a guidance on the CapEx INR 2,000 crores in similar numbers, but that is also based on currency and acquisition and orders, so we are not changing our guidance, but broadly as we have always said that our CapEx on the new plants is getting tapered down, so it will be more of a new orders balancing capacities or replacement or maintenance kind of a CapEx, so our CapEx is tapering down for sure.

Joseph George, IIFL Research - Assistant VP [161]

Sir, I understand that. Your question was what's the maintenance CapEx that you will spend on an annual basis starting in FY '20, just to get a sense of how much it can come down, overall CapEx can come down?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [162]

We do give guidance on CapEx every year, so we don't want to move away from there because it is depending upon the new programs being on new acquisitions happening, so it is better to wait for guidance for that. But for this year we had said 2,000 crores and the CapEx is coming down year-on-year.

Joseph George, IIFL Research - Assistant VP [163]

Got it. Sir, Lastly, the question I had was on the wiring harness business. So there's been reports about the possibility of replacing wiring harness in a car with stuff like circuit board, something --v I'm sure you know the technology much more than me, but is there such a possibility? Is that something that you are looking at in the context of reducing the overall weight of the wiring harness or the weight of the car itself? And also the -- and also to reduce the complication and manufacturing on the car. So is there any possibility of wiring harness getting replaced by something else?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [164]

I don't know, you know, what the kids can decide tomorrow or what the kids can discover tomorrow, but as of now I don't know any such technology, which can replace wiring harness. Yes, you are being guided by telephones and you think cars are is the same as telephone. If that is what your thinking is, there may be yes, it can be replaced. But as far as I know, all the technologies in the world, they are all hand assembled and will continue to be hand assembled because the car needs power and electric car, if that's your favorite question then that needs 72 Volts and 200 amps, so if you by mistake touch the board that you're talking about, you'll become hash like cigarette ash. So really there is no technology over there. People have tried, for a very long time. In 1994 Nissan had showed a car, which was totally on printed circuits. The body was riddled with printed circuits, but you see the thing is that the variety of the cars are so much, everybody has his own preferences and has his own desire as to what he wants in the car, which makes it virtually impossible. And then think about it. You have a small accident, your wiring harness -- your board is destroyed. What do you do then? You change the car because the wiring harness is gone or the printed circuit board is gone? In the wiring harness, you just change a small portion of the wiring harness is changed and the whole thing is over. But there are huge complications and yes, it's a great idea to think about but as long as I know, or as this is what I know there is no kid who has figured out this particular thing yet.

Operator [165]

The next question is from the line of Puneet Gulati from HSBC.

Puneet J. Gulati, HSBC, Research Division - Analyst [166]

It will be great if you can give some more color on your new orders that you have won, if some break-up in terms of SMR, SMP, and also is it taking you towards your target of further diversifying the customer base?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [167]

You see, we, in a you see we have tried to explain the order book for a long time, we have a presentation. It clearly tells you what we have taken out from our last guided number. We had last guided you on EUR 17.2 billion. We have removed the CashCommit order of EUR 2.47 billion has been euro, EUR 2.47 billion or about INR 21,000 crores has been reduced. We have got new orders of EUR 4.82 billion by different companies, which are there. We can't give a breakup of that. We disturbed the understanding that we have with the customer because the customer doesn't want to tell you -- doesn't want to tell the market, which cars are coming and how much is there coming from what. So we destroy that confidence if we disclose that number. And we have orders of EUR 4.82 billion, sorry?

Puneet J. Gulati, HSBC, Research Division - Analyst [168]

But directionally, is it taking you towards a higher diversification? So cash commit was Daimler right now, is it fair to assume that the new EUR 1.9 billion.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [169]

Cash commit is also Audi, cash commit is also Daimler. The plant was set up at the behest of Daimler, but not necessarily 100% Daimler.

Puneet J. Gulati, HSBC, Research Division - Analyst [170]

Of course so I want to understand that EUR 2.83 billion new orders, are they non-Daimler, non Audi or a higher mix of non-Daimler, non-Audi?

Pankaj K. Mital, Motherson Sumi Systems Limited - COO & Whole-Time Director [171]

We can't unfortunately disclose exactly which customer but definitely Motherson is looking towards 3CX15, so it is in our interest to make sure that we are getting on different customers, even with Reydel as you can see they have 1 significant order with diversified customer base. So you have to understand of course we can't refuse orders from customers just because for this prerogative but our intention is to get a lot more customers in the different base and you can see that in the last few years we have significantly [steered] the business in the directions and we continue to do that with this.

Operator [172]

The next question is from the line of [Schooley] from Trade Line.

Unidentified Analyst, [173]

I want to ask about it. Hello?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [174]

Yes?

Unidentified Analyst, [175]

Just like to zoom out a little bit assuming a world where obviously automotive production is not growing that much. I just like to think about where you're going in terms of growth. Obviously it has a huge vehicle for content per vehicle argument there. Just like to think how you -- just like to know how do you think about where you are now in terms of content per vehicle, just assume it's the number is 100. How can you then..

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [176]

I am very grateful that you asked this question because it appears that you have actually hit the point, which we try to make all the time. Car numbers keep going up and down in a particular country. Overall the car numbers globally have never come down. The third point is that Motherson's story is all about increasing content per car, so please watch this space, you will see that how the new content what new verticals are going to come in and you just have to be patient and you'll see the whole thing happening right there in front of you, sir.

Unidentified Analyst, [177]

Could we kind of put a number behind it right now, 100? I mean I have a number for you that might be a little bit higher level, but is there a number that you have in mind for the next 5 years or 10 years?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [178]

Sir, I have given the guidance very clear, 2020, EUR 18 billion for Motherson Sumi Systems. We -- while everybody is pretty down thinking that car numbers are going down or whatever, just have a look at the last 3, 4 deals that have been done for auto ancillaries. People have paid 17x the next year profitability as a price for it. It's unbelievable what's happening out there, but it seems to be totally being missed out by our friends on the call today. The auto [ancs] are apprised. They see people are wanting to buy. Motherson is very clear in its fundamentals. If you can't see a 40% growth in the coming 3, 5 years, we don't want to take that particular asset. Our strike rate anyway is 5%. We have a clear guidance that by 2020 we will be EUR 18 billion on the List Co, with the 40% growth as our target. And we will continue to pursue that. So really, there are lot of acquisitions, which are in the pipeline in different stages. As and when they come close to a particular fructification, we will be very glad to offer it and to explain to you what is happening. But even now, 1 of the key things that is happening because of the production specials and the other things, we are inundated by calls from the customers asking us to take over particular assets. So yes, we are reading the same newspapers that you're reading, we are hearing the same comments but your hearing, but the reality on the ground is way, way different from whatever is coming out in different forms of media.

Operator [179]

The next question is from the line of Nishant Vass from ICICI Securities.

Nishant Vass, ICICI Securities Limited, Research Division - Auto and Auto Ancillary Analyst [180]

Sir, for taking your statement a little bit more I had a strategic partner question for you, so looking at the global often talked about tariffs and issues between U.S. and the production schedule. Are you seeing global carmakers wanting to align with suppliers who have more, let's say, global production spread, and they want to have you guys take more of the, let's say, the smaller local suppliers who will not be able to align this in the supply chain because the carmakers who want to shift production, say from Germany to Mexico or say Mexico the U.S., or something like that. Is that what you're seeing? And the related portion of the question which is, in the times of turmoil historically you have gotten great opportunities to buy good companies at attractive valuations, you alluded to the fact that the valuations actually haven't come down on the deals that have happened recently, but do you think in the next coming year possibly you could see much more of these valuations come off and get better, sweeter deals?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [181]

Okay. Both the questions that you have asked are again philosophical questions and things like that. Yes. The key point that I keep repeating into a lot of meetings to all the people is -- which I would want you to really focus at -- if you want to take 1 model, 1 variant, 1 color, you cannot have more than 200,000 of that cars made in the world. There is not 1 car company in the world, which is making that. So we are in a very, very interesting situation where the customer wants to build a car to exactly the way he wants to, even in the country like India people are buying cars, which have their own logos and their own signage on that. I mean if you look at [Nicsa], that's exactly what they're doing, they are giving different variabilities in the cars that are here today. So where we have the right to choose, the total concept of having a huge production line where everything is moving in millions of pieces doesn't really exist. So definitely you're right. A lot of the smaller component makers and medium scale component makers are having difficulty to catch up with the different locations of the car makers globally. Motherson's is in 41 countries with manufacturing plants. That is a huge differential and Motherson can set up a new plant just piggybacking on 1 of the plants in a different geography and we can then drive it home as the volumes go up we can then pick it up over there . So Motherson is very strategically placed as a supplier to the carmaker that's why we are the blue-eyed component supplier to the carmakers. You look at all the Annual Reports that you're having, we're on the top 0.5% when it comes to QC DM SES, which is quality, cost and delivery there and, of course, a huge amount of other things. In such a scenario, we are not [tech] company, which means we can go into any technology, any of the thing over there. When the car maker has difficulty in a particular, smaller company in India, in 22 days, we took over that particular company and it's now part of Motherson's 100, and in a totally unrelated field of ours, it was in hot stamping. So this particular company was taken over in 22 days because we have to make sure that our customers lines are running. And in that particular case, it opens up that much more opportunities for us. We can take that in different places, different countries. I think Motherson is in a very secure, very, very nice position because we can look at any size of the company if it's a small company, medium company or a very large company also we don't have any issues to look at that particular thing and we have the wherewithall and the management bandwidth to actually take over these particular assets. The second part of the question was more related to -- what was your second part of your question?

Nishant Vass, ICICI Securities Limited, Research Division - Auto and Auto Ancillary Analyst [182]

Sir, I was basically saying that we are reading about all these concerns and obviously the volumes and the problems, the turmoil. So do you think because we're in the sweet spot, the kind of deals that will come through will get more and more attractive?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [183]

Of course. That's a fall-out, but again, we are seeing contrary to that happening at the moment. We are seeing a lot of the deals that have happened in the past 1 month, which have been announced in the papers well enough, people have paid 1.3x, 1.4x of the turnover as the cost of acquiring those companies. So we are laughing all the way to the bank. When we took over Reydel, people came and actually congratulated us then we took it over at 2x the EBITDA . So here we are looking at payments, which are absolutely crazy. So what we are saying is, look, we will only pursue what our customer is telling us to do, where we can find that there is enough value and we also see the possibility of going for 40%. Definitely in the coming times, a lot of people are getting worried and they might want to sell-out, might going to continue, but Motherson would love to focus on automotive for the next 1.5 years for sure and the next 5-year plan, we will share it with you when we come to that.

Kapil R. Singh, Nomura Securities Co. Ltd., Research Division - Auto Analyst [184]

One last question if I can squeeze in. You highlighted Reydel and obviously the kind of acquisition that you've done. I know it's early days but could you throw some color now that's been 2 months on terms of what kind of synergy benefits you're initially possibly going to see? And what timeline do you think Reydel, you can get that integration and synergy benefit true?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [185]

So give me 3 to 5 years and you will start to see. See from our side Reydel was accretive in the first day itself. Of course we took it over on the 2nd of August and people are saying, oh no, our debt have gone up. But I can't understand you buy a company for $1 billion on top-line and you borrow I think maybe $70 million is what the rest is all internal approval, right, Gauba, please correct me if I'm wrong? And they are saying, my God, your debt is gone up so much and I'm saying okay, I don't know what people think, they think we are Superman or something. Not that we are not there, but we are almost close to Superman. But yes, I think the opportunities are going to increase. We have a lot of customers who are asking us to take over very interesting project, very interesting situations and every time we take over companies where the customer is behind us, we have done exceptionally well, and we have 21 acquisitions. Believe me, there are customers standing behind every 21 of them.

Operator [186]

The next question is from the line of Pallak Agarwal from AlfAccurate Advisors.

Rajesh Kothari, [187]

Rajesh Kothari here. My -- I have a 2 couple of questions. My first question is, over a period of time, by when do you think your startup cost will decline from current levels?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [188]

So Rajesh, basically I've said that, by January, we would have started billing almost every plant that is already there, January 2019. So I think you will start to see startup cost virtually reduced to a marginal or a negligible level coming from January. But again, this is based on the point that the order that we have today and things like that, that we have today. But I don't think there's going to be a very big difference because we're in the last year of our 5-year plan and we will then focus on the growth. Unless something exceptional comes about, like buying a new company or something like that, we don't see the CapEx going up very much. Gauba, you want to add to that or do you think that's...

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [189]

Yes, we have explained this.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [190]

Unless there is an acquisition, we don't see our CapEx going up.

Rajesh Kothari, [191]

And even in third quarter whether the start up cost can reduce from current levels. It might -- it may still be there, but will it reduce from current to INR 166 crores on consolidated basis?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [192]

Actually this will be margin to EBITDA number, so the new plants ramp up cost, it will become because the Tuscaloosa plant will start commercial sales from this quarter, has already started.

Rajesh Kothari, [193]

So are you trying to say therefore while it will not come as a start-up cost, but nevertheless, it is a cost, which may not significantly lead to revenue from 1 quarter -- 1 more quarter and then after that significant results will start and therefore, EBITDA will then increase. That's what you're trying to say?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [194]

Over a period of time, yes, depending upon the OEMs ramp up plan for (inaudible)

Rajesh Kothari, [195]

But then, when you I understand your conservatism because you keep saying over a period of time. And on the other end, of course we also have the guidance on, which we are extremely, I would say, you're comfortable that you're going to meet your guidance. So is the reality somewhere in between? Or how should we read it? Because it's a little bit confusing. On 1 end we say that it is going to happen over a period of time, on the other end we say that we are going to meet our guidance. We are optimistic, right? So do you think the EBITDA growth, I understand no doubt about it that we are ROC focused company so with stated ROC focus, do you think the EBITDA growth will come through from at least fourth quarter onwards? Or you think it is going to take still a few more quarters?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [196]

First of all we are not guiding on the quarter-on-quarter, only just on EBITDA line. In answer to another question, Vaaman said also, responded that it is almost about 1 year's time to ramp up to the new plan, so some of the plants started about last year, 1 plant is starting this year. The Tuscaloosa plant starting this quarter. So we are very consistent what we have been saying on the optimism and these new capacities have been built based on the order from the customer. Surely our measurement will continue to be based on internal capital employed and from your point of view as long as it improves the operating performance, whether you look at EBITDA, EBIT or sales, it translates into a better financial performance.

Rajesh Kothari, [197]

My second question is with reference to the total Forex impact. Is there any Forex gain or Forex loss? And out of that component, is there any one-off or is there any recurring?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [198]

I'm not clear about your question because India business does have a Forex impact, which is included in the results. Now if the Forex impact can be categorized as a one time or not is a question mark. As far as the global operations are concerned, there the rate, which is used for translating into the Indian balance sheet are different. On the debt side, it does have an effect.

Rajesh Kothari, [199]

No. I am not talking about the rate transition, that's absolutely fine. I'm talking about are there any -- because of the significant Forex movement, particularly in India operation or I don't know even other in other operations because you have a lot of cross-currency movements as well. It is possible that you might have raw material, which is an X Forex and then Forex is moved up, and therefore, it would have probably or possibly impacted your overall margins. And from fourth quarter onwards and the third quarter onwards...

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [200]

As I said in India, it does have an impact of adverse foreign-exchange as well as mark-to-the-market for the debt...

Rajesh Kothari, [201]

To quantify. How much is the Forex impact in your India business?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [202]

That would be difficult. I don't have that result immediately on the...

Rajesh Kothari, [203]

Is it a small number, big number? Because our EBITDA is declined, so if it is a good part, the incremental growth even if it is eaten away because of the Forex and it helps us to..

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [204]

Rajesh, definitely the question is important, but please understand most of these particular things they are all pass-through. So what happens is that within 3 months or 6 months in the worst case, that particular number comes back to you anyway. So that should be the, please hear me here, that's the reason why we don't track it on a day-to-day basis what's happening, because it's already entered into the system, the dates are all there, it's already there with the purchase order and all that. So it happens automatically. So please understand...

Rajesh Kothari, [205]

Just understand to from your business project. I'm just trying to think that if it is already pass-through and I know since we are tracking company from a long time we are clearly aware about it and therefore, the EBITDA de-growth, which is looks optimally -- optically looks standard on EBITDA de-growth. But actually because of the Forex it is going to be compensated because of that and therefore, it can be different number altogether. That's the reason I was asking.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [206]

Absolutely. I understand, I understand and I said it's a very important question, Rajesh. I'm not disputing that. But the thing is how many people do we put on research on these numbers? That's the problem. If we have to answer even 1 gentleman before guided us as to what we have to do. Please tell me can all the analysts and all the people get together and tell us 1 way by, which all of you agree? So you have your way of looking at it, somebody has his way of looking at it, but for the company to come up with answers of all those particular things really is a challenge. But I'm open to that. We have about 200 people on the call. If all if you can come sign up and then say okay, this is what details we want, hey, if you come to an agreement, we can work on that. The presentation we give today is also 1 presentation, which really helps you to understand the complexity of the business. But you want more and you want more and more. But the thing is, none of you have an idea as to what really all of you want together. If you can come up with that, we are grateful. We have nothing to hide. Ours is a very transparent company. We have always shown. So I'm very clear on that. Now that we get a chance to see what other companies are doing, oh boy, we give a lot of details.

Rajesh Kothari, [207]

Sure. Sir, last 1 more question. Would you like to quantify in terms of the bips if you would have lost because of the inflation in raw material which which of course we're going to pass though in going forward but maybe, maybe it got impacted in second quarter?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [208]

Sorry I didn't get your question. What is the loss that we've had?

Rajesh Kothari, [209]

I am saying there must be inflation on the raw material side, which sometimes you may be able to pass through with the lag effect of 1 quarter or 3 months or 4 months and therefore, the reported EBITDA might -- could have been impacted because of that so would you like to quantify that?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [210]

Rajesh, the standalone numbers are about $1 billion, we produce about 1,800 parts in India. Do you really think that's possible for us to do? It's humanly possible? The inflation? So I mean I'm not making one component, which I'm suppling to 1 customer. Then definitely I can do that particular thing. And then every month this particular number is changing, every quarter the number changes, so it's very difficult what you're asking us to do. And I can open up, I mean I can open up. You send me 1 person who is willing to do this job, hey, I'll employ him.

Rajesh Kothari, [211]

No worries. And in terms of the order book, this order book is to be executed on what time frame?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [212]

We normally take the order life 5 years, so a best way to do it is to divide it by 5.

Even this a great quarter, I don't know why you can't see that.

Rajesh Kothari, [213]

Because we look at ROC but we also look at the growth in net profit and...

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [214]

We've just bought Reydel. You keep that in mind also. We can't...

Rajesh Kothari, [215]

Revenue and EBITDA sir. So the EBITDA growth has been kind of a -- muted compared to what we used to see.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [216]

(foreign language)

Rajesh Kothari, [217]

And that's why we remain hopeful. That's what I said. We are hopeful.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [218]

Understanding the hope company, sir.

Operator [219]

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

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [220]

So my question first pertains to SMP, so your early cadence this quarter there is some back up Reydel as well, but on normalized basis, is Reydel margin profile comparable with SMP or it could be adverse at this stage?

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [221]

So I really want you to understand on what basis should I compare the cars of Reydel vis-à-vis the cars of SMP? Very difficult for me how to compare them. Also Reydel was added on the 2nd of August, which is a holiday month in Europe. As you know Reydel is more of a European company. I really don't know how to answer this question, Gauba do you want to tackle that?

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [222]

I'm not referring to second quarter, I'm saying on a full year basis you look at -- the reason I'm asking this question is just understand how does it influence SMP's end margins?

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [223]

Jinesh, I think we already gave you high-level historical numbers what it was under U.S. ap prior to addition. Okay? And I think you or somebody talked about loss that are invent in all that. Of course lock-barrel or invent means that no cash is taken out by the erstwhile shareholder, which was truly met in this case. The second part is I also explained that and whenever we are taking over a company, we are not taking over a company because as this business it makes business sense for us. We are taking over a company because we feel the integration with the group and with the synergy, we can do it better for our entire group not only for the acquiring entity. So the whole idea has been that we are fully integrating Reydel into SMP, which business goes in which plant will be the best decided by the operating people. And we would maybe a year later or 2 year later would not be able to even tell you, which business or what is Reydel within SMP because post merger into each other in so much way. It is like milking -- mixing milk and water together.

Jinesh K. Gandhi, Motilal Oswal Securities Limited, Research Division - SVP of Equity Research [224]

Sure, understand that.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [225]

And together.

Operator [226]

Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. V. C. Seghal for closing comments. Thank you, and over to you, sir.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [227]

Thank you very much. Thank you for all your questions. We hope we have tried to satisfy all of you with the answers. I would again say that this quarter, we feel, is a great achievement by all the people. Our focus is totally on growth generation and improvement of the conditions at the plants. We have said this many times that ramping up for a massive plant is important for Motherson because when we said set up a new greenfield plant we are able to prove to the carmaker our competence level. A plant ramping up takes about 1.5 years and the expenses are small in the beginning, they grow up right before the start of the car production and then absolutely disappear the moment we got the first bill. We have tried to do a phenomenal job. In spite of all this we have grown our revenues, we've grown our EBITDA and everything. Again, I would like to put 1 point in front of you . You are the shareholders of Motherson Sumi Systems, you are not the shareholder of SMP or SMR or any particular thing. Our job as a top management of Motherson Sumi is to give you the numbers in Motherson Sumi. If you will focus on that, you will see the real achievement of the team here at Motherson. Thank you very much and have a great week ahead, and time ahead. Thank you very much and happy new year. It's also around the corner.

Gaya Nanda Gauba, Motherson Sumi Systems Limited - CFO [228]

Thank you.

Vivek Chaand Sehgal, Motherson Sumi Systems Limited - Chairman [229]

Thank you.

Operator [230]

Thank you very much the members of the management. Ladies and gentlemen, on behalf of Motherson Sumi Systems Limited, that concludes today's conference. Thank you all for joining us and you may now disconnect your lines.