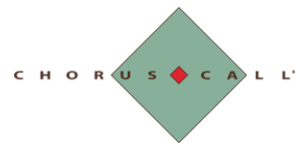




“Mother'son Sumi Wiring India Limited
Q4 FY '23 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Motherson Sumi Wiring India Limited Q4-FY23 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star, then zero on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. V.C. Sehgal from Motherson Sumi Wiring India Limited. Thank you and over to you, sir.

V.C. Sehgal: Thank you. Good afternoon, ladies, and gentlemen. We are very pleased to announce the final results for Q4 and then for the year of MSWIL. We crossed a turnover of INR 7,000 crores for the first time. This quarter has also highest quarterly sales of Rs. 1864 Crores and the EBITDA is INR221 crores, margin is approximately 11.9%, and the PAT is INR138 crores. I trust you have seen the presentation and hand it back for questions and answers, which our team is here to answer. Thank you.

Moderator: We have the first question from the line of Raghunandhan from Nuvama Institutional Research. Please go ahead.

Raghunandhan: Congratulations, sir, on good numbers and thank you so much for the opportunity. Firstly, good to see customer additions and participation in new models in FY23 and companies supplying to top players in electric vehicles. For the new high voltage wiring harness plant, can you provide some colour on the ramp-up? By when do you expect to reach optimal utilisation there?

Anurag Gahlot: Thank you, Raghunandanji, for asking this question. There are two parts of this question, actually. One is about the utilisation of the plant and second about the high voltage products you are talking about. I will just come to the first part of the utilisation. As we have a golden rule of wherever we are reaching to 80% of our utilisation, we start looking for expanding our capacities.

In tune of that, as soon as we are seeing that – this FY24, the orders in hand, we have already worked out and there will be expansion plans accordingly. The second part is that about the EV. We are already into the segment across the industry, whether it's PV, CV, two-wheeler and buses, we are already supplying in all and these are the products which are going into the same premises where we are making the other parts also. So, we are already there and a lot of RFQs are already in pipeline on which we are working.

Raghunandhan: Thank you, sir. Three related questions. Firstly, on the high voltage wiring harness, it has been a recent start and how do you see the ramp-up of utilisation for the new lines? Secondly, considering your strong relationships and localised manufacturing, can you elaborate on customer additions on the EV side? Would it be a mix of marquee customers and startups? And generally for the industry, what would be the share of imports in EVs for wiring harness?

- Pankaj Mital:** You know, as both the established players are also in electric and there are some new gen customers are also there. So, we do with both type of customers. And in terms of the ramp up and how the high voltage side of it, capacity utilisation and ramp-ups happen, they are in sync with the customers, as you know. So, the volumes are still taking off and we are completely aligned with them. In terms of the import content, initial import content were higher, but as we move forward, a lot of localisation is also taking place and all the customers would want that at least 50% of the product be localised. So, that's the direction in which everybody in the industry is moving forward. I hope that answers your question, Raghunandhanji?
- Raghunandhan:** Yes, sir. Thank you so much. Sir, on the raw material cost side, there is some pressure. What has led to higher costs and do you see any relief going forward?
- Pankaj Mital:** So, it's a, Raghunandhanji, we supply to, as you know, so many different segments and so many different types of products to our customers. So, when we look at overall raw material consumption, it's in totality. If you look on quarter by quarter, of course, there will be impact if there are copper increases or currency fluctuations also. But it's a overall total mix in which we are supplying.
- Moderator:** We have the next question from the line of Siddhartha Bera from Nomura. Please go ahead.
- Siddhartha Bera:** Hi, sir. Thanks for the opportunity. So, the first question is on the new model launches you are working on. So, basically, last time you had indicated about six new models which are planned to be launched in the coming year. Is there any change to that number? Any further orders you have won? Any colour on that?
- V.C Sehgal:** I think it's been explained. We can't go customer-wise, but, Pankaj, can you help? We have 23 new launches and 17 facelifts taken place in India and, Pankaj?
- Pankaj Mital:** So, basically, as Mr. Sehgal mentioned, we can't be very specific on which models we are in, but you would see that in most of the new launches which have been happening, you will see Motherson in it, and that's what we see. We are very grateful to our customers to have -- to make us part of their new programs. And that's what we have mentioned in this release also, that there have been so many new launches and facelifts which have taken place across. And, as you see, we are amongst most of the top sellers in the country that the company has the privilege to be a supplier to the car makers and other segments as well.
- Siddhartha Bera:** Okay. And, again, sir, on this, coming back to this question on gross margins, I mean, we have seen commodity prices much higher in the past, and, I mean, this is the -- I mean, the lowest ever gross margins we have reported in this quarter for M-Sumi. So, just wanted some more colour. I mean, whether it is more to do with some new launches or EV share going up, or can help us understand why it is lower, and, I mean, what will change this, or any price hikes you are expecting from customers? It'll be very helpful.
- G N Gauba:** Siddharth, I think when we look at the results on a sequential basis, we have improved our EBITDA margin. While EBITDA is not something which we talk about, we target on return on

capital employed, the inflationary pressure continues to be there, and the customer negotiation of those things is always work in progress. But, at the same time, there has been a significant improvement in the cost side of it. So, you can see our EBITDA margin improving on a sequential basis. So, if there is anything, we can take it offline, which makes you feel differently.

At the same point of time, you have seen a lot of new models which are under ramp-up or where the efficiencies are under improvement. So, we had earlier also said, quarter one, subject to customer schedules, all that is standing stable. We should see all the volumes ramping up. And you have also heard OEMs talking about the problem of just not being completely over.

Definitely, our teams have done a good job in cost management. And you see sequentially there is a marked improvement in the margins.

Siddhartha Bera: Got it, sir. So, last question on the working capital side. I mean, if I look at the whole year, it has remained high. So, do we expect these levels in terms of number of days to continue or do you believe it can normalise to some extent in the coming year?

G N Gauba: There is definitely a scope for improvement and the teams are working hard. At the same point of time, in absolute amounts, the working capital will go up because we have a growth rate of 25% we have achieved our highest ever turnover in the last quarter and on a yearly basis, a INR 7,000 crores crossed last year. So, at a particular point of time, because working capital will be better, for example, would be the same in the last 14 days or so. So, of course, the inventory levels are relatively higher because of unstable situations sometimes it happens.

As well as the shipping time and all that have not been completely come to the pre-COVID level. So, definitely we do see things getting better and we will be able to improve all the efficiencies on the inventory side as well as the full ramp-up of the new models will also ensure that our inventory levels become far more uniform, I would say.

Because sometimes you have to carry inventories which are kind of an unbalanced inventory but once the volumes are stabilised, then you have more uniform and balanced inventories. So, scope for improvement is surely there and we are working on that.

Siddhartha Bera: Got it, sir. Thanks a lot. I will come back in queue.

Moderator: Thank you. We have the next question from the line of Jinesh Gandhi from Motilal Oswal Financial Services. Please go ahead.

Jinesh Gandhi: Thanks. A couple of questions from my side. One is, on the two-wheeler segment, given that under IC side it was relatively more fragmented market, are we seeing now with increasing complexity because of electric two-wheelers, are competitive positioning becomes stronger there?

G N Gauba: Sorry, in between we were having difficulty. Can you repeat your question?

- Jinesh Gandhi:** Okay, sure. So, my question was on the two-wheeler segment. Given that in IC two-wheelers, wiring harness market was a bit more fragmented than other segments and now with EVs, wiring harness is getting a bit more complex in nature. Are we seeing improvement in our competitive positioning in electric two-wheeler wiring harness?
- Pankaj Mital:** Jinesh ji, I mean, we have been with the makers and there are some established players who have gone into electric, some new generation players who have come in. We are with both kinds of segments. So, to say that how is the competitiveness or is it improving, of course, our competitiveness always has been there and will continue to improve. That is the endeavor of the company.
- Jinesh Gandhi:** Okay. I mean, if you compare with the ICE and EVs, EVs on the two-wheeler side would be having higher market share. That's basically my question.
- Pankaj Mital:** I mean, as you know, that the company has never focused on forcing itself towards a market share. We have always focused in terms of creating solutions for our customers and they are also ensuring that we provide good results to all our stakeholders. In that sense, we always work together very closely with our customers and that's the way we continue to progress. You would have seen over a period of time that different segments, whether it is the CV side or commercial vehicles, as markets have evolved and as good products are acquired based on the new requirements, your company has done well. So, that's the endeavor.
- Jinesh Gandhi:** And second question is on the PLI incentive, given that we are one of the beneficiaries for PLI incentive. Would the recent investment in three new plants, qualify for the investment criteria or that has to be on the advanced products only?
- GN Gauba:** Jinesh, we are registered for PLI and of course, the scheme which is there is in public domain as per the Government of India, which has both the criteria of investment and revenue side. I think that's the Government of India PLI scheme we are referring to.
- Jinesh Gandhi:** So, my question is the investments which you have done, capex which you have done in FY23, would that be qualifying under the PLI requirement or we need to invest on the advanced products side only?
- GN Gauba::** This is too specific information.
- Jinesh Gandhi:** Okay. Sure. I understand. And lastly, any guidance on capex for FY24? Last year, we had invested materially, how would we anticipate the capex for FY 24
- Management:** In this year, 23-24, we see a capex of INR125 crores, which does not include land and building. This is mainly for the customer increased demand on that. As you know, land and building, we have taken on rentals from SAMIL and the future investment depending upon the availability of land and all that will be done by the appropriate company.
- Moderator:** We have the next question from the line of Joseph George from IIFL. Please go ahead.

- Joseph George:** Thank you. Just one question. So, when you reported 4Q FY22 results, you had given us a split of your revenues into PV, CV, 2-wheelers, etcetera. And in subsequent quarters that you had mentioned that, you will report this on an annual basis. Would it be possible to share it now for maybe the full year FY23 numbers?
- G N Gauba:** We have to give something in the annual report also. So, we will surely be sharing, but there is no significant change. But surely, we will be sharing that.
- Joseph George:** So, you said that will be reported in the annual report?
- GN Gauba:** That is what we think is the next opportunity to report that.
- Joseph George:** Okay. Thank you.
- Moderator:** We have the next question from the line of Kiran from Informist. Please go ahead.
- Kiran:** Sir, can you give us a bit more clarity on the kind of cost increase that you have seen in Q4 on a year-on-year basis?
- V C Sehgal:** Cost increase in? I didn't understand.
- Kiran:** I mean cost increase in the fourth quarter on a year-on-year basis?
- Management:** Gauba, can you understand? For some reason, I don't have clarity.
- Kiran:** Sir, I asked the kind of cost increase that you have seen in the fourth quarter on a year-on-year basis?
- G N Gauba:** Sir, actually the wiring harness is one product which undergoes a significant amount of changes. And also you have seen a lot of models. So for us to compare on a like-to-like basis which component or this is a very marathon exercise. So, I have not clearly understood what you want to really gain from that. Surely, we know how the inflationary pressure has been in terms of certain amount of cost, salary wages, or certain shipping cost or certain components or the copper price compared to say, last year it may have been at the same level or lower. Sequentially it would have gone up. So, I think it is a combination of various factors...
- Kiran:** Including currency?
- G N Gauba:** Including currency. And no like-to-like comparison is possible because we are not selling the identical product or the same product what we were doing last year.
- Kiran:** Got it, sir.
- Moderator:** Thank you. We have the next question from the line of Basudeb Banerjee from ICICI Securities. Please go ahead.

Basudeb Banerjee: Yes, just wanted to know the new facilities which got added and are gradually getting ramped up. So this staff cost expense of roughly INR300 crores which is there in the P&L for last couple of quarters. So, is that building in the staff cost along with those new facilities fully or that can add lumpiness to the staff cost other than annual inflation?

G N Gauba: I think an absolute number is to be seen with respect to the revenues of that quarter. As I said in the earlier question, we have improved on our cost parameter on a sequential basis. So, December '22 also our cost was INR300 crores. This quarter with the revenues up from INR1,665 to INR1,844, our employee cost is INR291 crores. I remember in September it was INR300 crores plus. So yes, there will be annual inflation in terms of performance reviews. Also, there are mandatory wage increase which come on a minimum wage which consequently increases the wages or salaries in each of the regions.

But I think it is to be compared with respect to the revenues which we generate for that particular period rather than fixing it in absolute amount. If I have understood your question correctly.

Basudeb Banerjee: Few concalls back when you are saying that the new capacity is adding 40% to the maximum revenue potential. So, on a curated basis, the staff cost potential can also be increasing with the incremental facilities being added. So I just wanted to know that the full staff cost of those new facilities are already in this number or that is yet to come? Or it is linked fully to revenue and as the revenue picks up, accordingly you will add the staff. So how to look at that?

G N Gauba: Let me address the question in two ways. Number one, the new facilities which have been created, we have made them indirect manpower or whatever staff we need to add. At the same point of time when we said 40% will come from the new models. So, what we were saying that there have been a complete change in the new models as well as the facelift. So, the revenues which will get contributed in future, 40% will come from the new parts which are done up which were not in production earlier.

So that is how we have. So, we added three facilities as we have said and these three facilities have been fully made at the same point of time as the capacity utilisation of these further improves. And as the volume of customers demand for volume factor increases, we may have additions of the indirect manpower to some extent indirect manpower. So that is what I am requesting that it is to be seen in relation to the customer orders as well as the revenues which are to be generated.

Moderator: Thank you. As there are no further questions from participants, I now hand the conference back to Mr. V.C. Sehgal for closing comments. Please go ahead, sir.

V.C. Sehgal: Thank you. Ladies and gentlemen, this being the first year, so the results are there. We are very optimistic on the orders and the kind of conditions that are present. We believe that there is still some supply chain problems on semiconductors and all that. Those things are being addressed and we think the future belongs to this good company. Thank you very much and wish you all a safe and healthy weekend. Thank you.

Moderator: Thank you, members of the management. Ladies and gentlemen, on behalf of Motherson Sumi Wiring India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.

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