SMRPBV Quarter Ending 31st December 2015

Wednesday, 10 February 2016

Vaaman Sehgal: Ladies and gentlemen, welcome to SMRP BV quarter three results call. As, like last time, I am joined by Mr Vipin Jain, Mr Gauba and Mr Kunal Malani, with me, to answer your questions. In a tough environment, our team has delivered spectacular results, and without further ado, I'll request Vipin to please take you through the presentation. Thank you.

Vipin Jain: Thank you, Vaaman. Good morning, good afternoon, ladies and gentlemen. My name is Vipin Jain, and I am the Chief Financial Officer of the company. I would like to present unaudited interim consolidated financial result of the company for the quarter and nine months, ended 31st December, 2015.

During this call, I will be referring to a presentation, which is already there on the website. And I hope that most of the listeners on this call will be having access to this presentation, because I would be referring to this presentation and the slides numbers in the presentation.

Currently, I'm on slide number two, which represents SMRP BV group structure. And this slide is just for information and there is no change on the group structure since the last quarterly call. We have two businesses under SMRP BV umbrella. We have SMR, which is the mirror business and we have SMP business, which is the module business. And both of them are doing strong, as we see in the following slides.

So I move to slide number three, and slide number three, again, is for information. This slide represents the global presence of the company. If you look through the slide, we have 47 manufacturing plants in 16 countries. We also have 11 module centres, because we have to be close to the customers. We have approximately 21,500 employees, serving the complete business.

I will move to slide number four, which gives more colour on revenue and EBITDA, and this is an important slide. This slide will give you comparison only for the quarter, so this is the quarter three performance, as compared to quarter three of the last year, as well as sequential quarter two of the current year.

And this performance, again, is splitted into SMR and SMP businesses. As you can see on the slide, the company has achieved significant revenue growth of 17% on a consolidated basis if you compare to quarter three of the last year. And this has been contributed by growth in SMP by 18%, and SMR by 15%.

Even if you compare with sequential quarter of the current year, which is quarter two, the revenue grew by 11%. This revenue growth is driven by strong demand in American markets, Spanish markets and German markets. And we also had start of commercial production from one of our new plants, which we were working since last year at Scherling.

We also had higher engineering sales growth because we are working on new customer projects. This growth is partly offset by some decline in Brazilian markets. We all know the Brazilian market, is not in the best of shape at this current point of time, so there is a marginal decline in the Brazilian market operations.

EBITDA also grew by 27% over quarter three of the previous year, and 13% if we look at with respect to the sequential quarter. As percentage to revenue, EBITDA improved from 6.8% in quarter three of the previous year to 7.4% in the current year.

We also see consistent improvement in the EBITDA for SMR and SMP businesses. And one comment, which I would like to make on this EBITDA comparison. You will see on the slide, there is a small box, and there is an asterisk mark. So what we have done, we have excluded incomeof Euro 7.1 million, which was there in quarter three of the last year in the SMP business, which was due to a final settlement of the insurance claim due to fire, an unfortunate incident which happened at Polynia in Spain, one of the plants of SMP. But to have a normalised comparison on EBITDA, we have excluded that impact.

There are more details, which are explained in the MD&A, on SMRPBV website and there is complete financial interim report, explaining the particular item in the MD&A section

We move to the next slide, which is slide number five, and slide number five is, again, a similar information, but this is on a nine-month basis. So if we look at, again, here, we see the company has achieved revenue growth of 19%on a consolidated basis, and EBITDA has grown by 22% on a consolidated basis. And again, we have consistent improvement in SMR, as well as SMP businesses, in this period.

I now move to slide number six, which gives us the information on customer portfolio for the nine months ended 31st December 2015. If we look at on an overall basis, there is a revenue growth of 19%, as I explained in the previous slide. There is significant growth in some of the key customers, which are Daimler, BMW, Ford, Porsche, and due to this, their share in the overall sales pie has increased significantly.

The inner circle on this chart explains nine months of last year, and the outer circle, explains the nine months of the current year. So if we look at BMW, as a share of our total revenue, it has move from 8% to 9%. If we look at Daimler, it has move from 5% to 8%.

But if we look at the other customers, like Audi and VW, which are important customer for the group, Audi has come down in portion of the pie, of SMRP business from 28% to 25%, and VW has come down from 15% to 12% despite growth in these customers as well in absolute terms.

This trend is in line with our Group philosophy of 3CX 15, which means that no customers, country or components should be more than 15%. And this trend is leading to a more balanced customer portfolio.

We move to slide number seven, this gives us a similar information, but it's by geographical split. On nine months, Europe continues to be the largest region, contributing 72% of the revenue and within Europe, we have plants in Germany, Spain, Hungary, UK, France, Portugal, and Slovakia.

Asia Pacific region contributes 16%, of which, China is 6% and 10% is rest of APAC region excluding China which is represented by Kora, Australia, India, and Thailand. America region contributes something like 12%, of which, Brazil is 2% and 10% comes from the plant in North America, which is close to Detroit, and plants in Mexico.

The geographical spread of revenue would further get diversified with the commencement of the new plants, which would be commencing somewhere in quarter one of next year, which is, Greenfield site in Mexico for the SMP business and a new plant in Beijing for SMP.

So these plants would start commercial production end of quarter one of next year, and then over the year, they will start ramping up.

The next slide is on trade working capital. And this time, we have tried to give some more information on the various elements of trade working capital.

This time, we have given the split of total creditor into trade creditor and capital creditors. And even on the receivable side, we have tried to split into the current and non-current portion of the receivable. We can see, from the current slide, that there has been a marginal increase in the net working capital of the company, if we compare from December 14 to December 15 We have increased marginally from 20 days to 22 days. This is due to some project invoicing, which was done in the latter part of December 2015, and we are expecting collection from the customer in the current quarter, which is quarter four.

Trade payables has been consistent at 41 days level. And if you look at the inventory, as a number of days, it is, again, consistent, rather there is a small improvement, coming down from 17 days to 16 days, as on end of December 2015.

Capital creditors are related to the new sites which are under construction and this will move in line with progress of new projects. While we have expressed these in number of daysbut I think it would be appropriate to look at the absolute number.

So if you look at capital creditors moved from 40 million in March 2015 marginally increased to 41 Million in September 2015 and they have come down to 23 million in December 15. And again, since we are working on various new sites, capital creditors would be a moving number, which will move with the progress of various plants.

On the receivables side, if you look at the non-current portion, it has shown a little increase, and this is, again, due to the new launches, which are planned in the coming quarter. And this would be recovered from the OEM over the project's life, because some of the portion is recovered from the OEM over the components price, as part of the amortisation.

We move to the next slide, which is slide number nine on capital expenditure. Total capital expenditure incurred during the nine months was €164 million, which is divided between SMP, €108 million, and €56 million is coming from SMR. This capital expenditure is in line with the business plan of the company.

And if listeners remember, we had been giving guidance of €250 million average capital expenditure in the past. And if we look at €164 million, this is perfectly in line with the run rate of the business plan and the guidance of the company.

One thing, which I would like to emphasise on this slide, in reference to small graph on the right hand side. Out of €164 million CAPEX, more than 70% of the CAPEX is coming from the new plant, which are either Greenfield plants, or Brownfield expansion in an existing plant.

Andthere is a lot of capital expenditure happening for the growth of the company, and I referred to couple of plants on the previous explanation. We have Mexico and Beijing, which are coming up in the next quarter, and then we are also working on new plants in Hungary, in Kecskemet region, and Tuscaloosa in the USA, which will be starting the production towards end of 2017- 18.

So there is a lot of investment going for the Greenfield site and the Brownfield site expansion within SMR and SMP businesses.

Now I move to slide number ten, which is a summary of cash flow. And this time again, we have given, summary of cash flow for the nine months to December 15 and comparison to nine months of previous year.

If we look at the operating profitability, it continues to be strong, generating a cash flow of €189 million. Changes in working capital, and as I have explained, in the previous slide, has consumed €155 million, due to payment of trade payables and increase in the receivables, as we've already explained.

Income Tax paid was €47 million for the nine months. Cash outflow on the account capital expenditure was €179 million. If we look at capital expenditure on slide number nine, it was €164 million and if we add the changes in the capital creditors, which was on slide number eight, this total will match up to the €179 million, which is in the cash flow impact.

Cash flow from financing activities reflects bond proceeds. We had bonds of €100 million in the earlier part of this year, which were partly used for repayment of certain revolving credit facilities and capital expenditure.

Interest payment for the period was €18 million, on a cash flow basis. Closing cash as at 31st December was €118 million,.

Now I move to slide number 11, which gives details on the cash and debt status of the company, as at the end of December 2015. And if we look at the gross debt of the company, it has increased from €662 million, which was on 30th September, to €727 million as at end of December 2015.

And as I already explained, this increase in debt is largely coming from the capital expenditure, which we have been doing for the new sites. Net debt of the company as at end of December 2015, was €608 million against €551 million as at 30th September 2015.

We now move to slide number 12, which explains a little bit more on the liquidity status which is available to the company as at 31st December 2015. If we look at the table, which is on the top of the slide, it shows that we had access to liquidity of €438 million, which is represented the unutilised portion of committed revolver credit facilities.

These credit facilities are committed for a period of five years, when we had entered into these credit facilities in the earlier part of this year. And then we have cash and cash equivalent of close to €118 million as on 31st December 2015.

Gross and net leverage ratios were also significantly lower than the threshold. If you look at the gross leverage, we were at 2.67, against the threshold of 3.5. And the net leverage, was 2.24 against threshold of 3.25.

We now move to slide number 13, and slide number 13 to slide number 23, I will not explain in detail, because this gives us pictorial information on the new sites, which we are working on. And these, slides are self explainable, and we can just glance through these slides to talk about the new project we're working on, which will start commercial production in times to come.

With this, I would like to conclude my presentation, and hand it back to Vaaman, and then we will open for Q&A. Vaaman, back to you.

Vaaman Sehgal: Thank you, Vipin. I hope all of you got a chance to go through the rest of the slides, as well. Now we request the moderator to please open up the floor for question and answer.

Operator: Ladies and gentlemen, if you would like to ask a question, please press star, followed by one, on your telephone keypad now. If you change your mind and wish to withdraw your question, then please, press star, followed by two. When preparing to ask your question, please ensure that your lines are not muted locally.

The first question today comes from the line of Sven Kreitmair from Unicredit. Please go ahead.

Sven Kreitmair: Good afternoon. My first question would be on the US market. If you can see, already, any signs of weakening here? And what would be, in general, on the Group level, your EBIT break even, in terms of revenues? Second question would be if you strip out of your growth rate in the first nine months, which was pretty strong at 19%. If you strip out the FX effect and acquisition effects, what would be the organic growth rate? The next one, can you confirm the CAPEX plan in 2016 and 17 of 280 million and 300 million? And the last question would be; can you explain why the margin, in general, on the SMP side, why the EBITDA margin is so much lower than the SMR division? Thank you.

Vaaman Sehgal: Okay, a lot of questions. I think the first bit, the first question, was on the Americas region. Right now, as of now, actually, the US has been one of the best performing markets globally, in terms of the numbers that have been shown. So we have not seen any weakness in any of the numbers coming from the US markets.

As you know, when we say Americas, we also take Mexico. And SMP is setting up a large plant in Mexico. There has been no delay in any of the orders, from the customers, or any of the launches or the launch dates. Everything is exactly as planned.

We take all our investment decisions on the back of confirmed orders from customers, and as of now, I don't think there is any deferral in any of the order flow or the new programme launches. And we still see America as being one of the strong markets that will continue this year, moving forward at well.

For the FX and the CAPEX, I will ask Vipin to shed some light on that, please.

Vipin Jain: In terms of the CAPEX guidance, we have been consistent in the CAPEX guidance, and we had given a guidance of average capital expenditure of €250 million over the next three years. And if you look at the current capital expenditure, this is, , in line with the guidance.I would say little lower than the guidance, but then there can be some timing effect,. Because when you set up a new plant, then there can be a timing difference. But , we still hold our guidance of €250 million, average capital expenditure for the next three years. .

In terms of FX effect or in terms of acquisition, we have not done any significant acquisitions. If you look at whatever growth is coming, it's from organic CAPEX, which is like expanding a little bit here and there, for example Scherling one of our new plant.

But again, it's the same business, same customer, while we've got new platform from Daimler, which is, contributing an increase in the business. But not acquisition. SMIA is again, an automotive business, which was very, very close to our business.

This is fully integrated into the SMP business, so I would, not term this as an inorganic business or an acquisition so as to say, and it is not a very, very sizeable business. So I would say the growth, which is getting represented here, is more of an organic growth.

And again, you know, as we would be growing with a new plant in Mexico, a new plant in Beijing. And as you move forward down the line, you know, we would be having more plants in Kecskemet and Tuscaloosa. These are, again, going to give us growth. But all this growth is coming from our organic customers, organic business, by getting into new geographies,

Vaaman Sehgal: Thanks. Also there's another question on comparison as to why SMP does not have margins as compare to SMR. Is that correct?

Sven Kreitmair: Yes. On the EBIT break even, can you give us a revenue number on that? Is that possible?

Vaaman Sehgal: Unfortunately, we do not give revenue guidance on what the break even levels are. But again, we give guidance that we are targeting, 40% ROCE. That's our target. We don't always get there, but that is the target, and we ensure that we move with the marketand if there is difficulty then we have to breath with the market.

So, of course, that comes into more challenging times and ensure the performance. But, you know, we sell 100% OEM business, so our business is directly correlated to the number of cars that the OEMs are selling.

And you have to understand that SMR and SMP are different products. And consequently, have also come into our fold at different points of time. SMR has been with us for much longer, and has shown improvement over a longer period of time and in our efforts with SMP to keep it improving and you are seeing it slowly consistently improving in the direction that we want. We are still far from the 40% ROCE, but we are investing heavily in the growth. As you can see, we have significant new orders, for which, we are building a sizeable new plant. And as these plants take these orders and the sales start coming out of these plants, I am sure we will also consistently see improving trend in this business as well.

Sven Kreitmair: Thank you.

Operator: The next question comes from André Fougerat from Alliance. Please go ahead.

André Fougerat: Good evening, gentlemen, and congratulations for your results. Most of my questions have been answered, but I've still got one on the working capital. There has been a significant increase in the first three quarters. Do you expect it to revert in Q4, or will there be a net negative effect? Thank you.

Vaaman Sehgal: Vipin, please take this one.

Vipin Jain: André, you are correct. If you look at the working capital, you can see that, most of the cash, which is generated from the operations, is being consumed by the working capital. But again, as Vaaman was explaining, it's a growth phase, I would say.

Because when we work on the new project, we have to invest a lot of money. Not only into the capital expenditure, but we put lot of investment into the tooling, into the special purposes equipment, and sometimes, there is timing gap between when we keep on building these toolings and we sell the equipment to the customer.

So it goes and sits into our working capital, which, under IFRS, is reflected into the receivables, because we have to reclassify this under percentage completion method. So I would say I don't see a significant change in the working capital trend in the near future; say in next one month or two months.

But again, if you look at elements, like trade payables, or elements like inventory, long-term receivables or capital creditors which we tried to split in the presentation. If you look at payables, they are pretty consistent at 41 days inventories pretty consistent at 16 days. And even the receivables are pretty consistent in the range of 40 days plus and minus.

There are a couple of invoicing, which we have done to the customers towards end of December 15. There would be cash in flows in this quarter, which is quarter four. And we would be getting some money from the customer, which means that there would be a marginal improvement in the working capital.

But when we are working on a growth phase, there would be a new engineering project, so it is a bit difficult to say. But if we look at it from the business side, the working capital is pretty consistent.

André Fougerat: Okay. Thank you.

Operator: The next question comes from the line of Sanjay Sathpaty from BAM. Please go ahead.

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Sanjay Sathpaty: My question is that in this quarter, we see a significant increase in tooling and engineering revenue. I just wanted to ask, do these revenues have good margins, or are they sold at cost to the customers?

Vaaman Sehgal: To answer that question, definitely, the tools are owned by the customer. So our opportunity, definitely, is to make more money on the parts that are coming out of it. But there is definitely a little bit of margin, which goes in, obviously, the management costs of that tooling. But our real incentive more is to make the margins on the products, and of course, the running of the entire programme.

Sanjay Sathpaty: Thanks. So the question that I wanted to understand from your side is your SMP revenue, if we knock off for this engineering and SMIA then the growth is quite muted. Is it because of lack of capacity in the existing factories?

Vaaman Sehgal: Sorry, I didn't understand that. Could you repeat that?

Sanjay Sathpaty: So as it is explained in the MD&A that the increase in revenue of SMP during this quarter, you've given the numbers of how much has come from tooling and how much has come from SMIA. So if I remove that, there has not been much growth from the existing factories. Is it because all of them are operating in full utilisation? Why is there not much growth?

Vaaman Sehgal: Look, I think you're looking at it at very short perspectives. One quarter, maybe they're delay in programme launches, or some delay in that particular quarter, there may be not so many launches etc. Some programmes will be coming to an end, so there are a lot of things like that.

So just looking at it on a one quarter, and coming from a generalised, base on that, I don't think that has much, real effect on the business. We have to understand that there are multiple launches. You are seeing the tooling and all those things are there, so there are significant orders in the pipeline.

There may be a quarter or two where there is a period where the old programmes are running off, but there's no such thing that there is no growth in the quarter or something. We think we're on a very consistent growth pathand it will show some quality growth in the coming quarters.

Sanjay Sathpaty: Thanks. Can I just ask one last question? If I look at the pipeline of factories that are getting added, then it looks like there will be a peak of in the first quarter for 17. And then that will be a fair amount of gap for the next round of factories to come up. So when will there be a phase where we will really see a normalised margin coming in from SMP?

Vaaman Sehgal: Our endeavour is to consistently improve and keep improving. So, you know, normalised, we're not making cement where, you know, the product is stable. The product changes, there's more value add, there are different designs, there are different programmes, more technology being embedded.

So, hopefully, in our products, we continue to keep delivering better and better results, and keep moving up the value chain. So I'm sorry, I'm not able to give you an answer on what is normalised EBITDA margin. You know, if we had 40%, I think that's somewhere where we can start thinking of what else to do.

Sanjay Sathpaty: Understood. Thanks.

Operator: The next question comes from Kabore Boubacar from OFI Asset Management. Please go ahead.

Kabore Boubacar: Good morning, everybody. I have just heard you have CAPEX programme of 250 million per year. Is that correct? And the second question is related to the gross margin. You have a big decrease in the cost of good sold. Can you elaborate on that more deeply? And if this kind of drop is sustainable or not. Thank you very much.

Vaaman Sehgal: Vipin, please take that and Gauba Sir, Kunal please add

Vipin Jain: In terms of the CAPEX for guidance, yes, your understanding is correct. So our guidance is €250 million per year, each year, for the next three years. In terms of raw material consumption, if I understand your question, you are saying that we have an improvement in the raw material consumption, whether this is sustainable ? Is that the correct question?

Kabore Boubacar: Yes. It's the correct question.

Vipin Jain: My comment on this would be because now we are working on new projects, and we are getting new orders. And these orders have been won when we've acquired the company, Peguform. And now we are getting new orders, which are built on the margins, which we work on.

I think as we move forward, I see that these numbers are sustainable, and there should be an improvement as we go forward. Because we would be working on new programmes, and the new programmes will come with better margins but there can be someinitial start-up cost when we work on new projects.

And then sometimes, there will be some changes in the product mix, because we, work on different products We have seen that the the value addition is getting more and more into the product. The component is getting more and more advanced.

So sometimes, there are a lot of components, which are nominated by the OEMs, wherein we can't control the pricing. So there can be some product mix, which is there, but again, in terms of the overall pricing, we are working on the pricing at our terms and we see that there should be improvement in times to come.

Kabore Boubacar: Okay. Just another one, quickly. Based on your CAPEX programme, the cash interest you are paying, and maybe the taxes, I'm struggling to find how you will generate some free cash flow going forward.

Vaaman Sehgal: Vipin.

Vipin Jain: I think, if you look at, in terms of the CAPEX guidancewe have given €250 million, but it is our endeavour to squeeze whatever best we can do. And than again, the CAPEX is linked with launch timing of various projects.

if you see that on a nine month basis, we have done €164 million of CAPEX, and majority of this is growth CAPEX. And when we talk about the growth CAPEX, we have a little bit of gestation period. Because if we go back to the slide which showed the capital expenditure, more than 70% is coming from the new plant.

And the new plant will start making profit and generating free cash flow when they start commercial production. But just to give a reference, our plant in Mexico, which is a huge plant, will start commercial production towards the end of quarter one of the next year, which will, start ramping up as we move forward.

And then this plant will start paying back whatever we have invested in this plant. We are also working on new plants, which will be in the Hungary region and the USA region. So there, is amount of the overlap between the existing business and the new plant.

And once we achieve, a stable level of, growth, then the free cash flows are there. Kunal, you want to add anything?

Kunal Malani: Look, you know, the way to think about it is very simple. When we had done the refinancing and when we had borrowed the money, at that time, as we have mentioned, this was to fulfil what we thought was required, in order to get our order book going.

Now, please appreciate that setting up a plant requires a couple of years, and at the same time, requires both capital investment, as well as some locking that happened on the working capital side. So that financing structure that exists right now is capable of handling that.

And what you're seeing right now is, potentially, closer to the peak, in terms of, , what the best levels etc look like. And as the sequencing of the plant starts ramping up, we would see cash flow getting generated to, kind of, bring it down.

So the objective is that there is a period in which this investment phase is happening, and then a period that once the plant starts ramping up is when the de-leveraging will happen.

Kabore Boubacar: Okay, thank you.

Operator: The next question comes from Nishit Jalan from Kotak. Please go ahead.

Nishit Jalan: Thanks for taking my question. Can you give us a sense on what is the capacity utilisation at SMR & SMP facilities would be ?I'm not talking about the new plants but the existing plants, Just to get a sense.

Vaaman Sehgal: Thanks for that question. Look, it's a difficult question for us to answer. We're not a company that makes cement, or you know, uses fixed components or something like that. Our products are dynamic. We run multiple shifts. The real bottleneck in our plants are more of the paint shops, more than anything else. And even there, we have space to increase additional shifts.

The capacity that you're seeing are expansions into areas, in which, we are not present, and locations of customers where we are not present. So that is why increase in capacity is taking place, based on the back end of new orders.

So, you know, giving you a number on what that capacity is, it's really not going to help, in any way, to derive any information out of that.

Because we are making new technological products, they're quite advanced, and we're not limited to producing more. We can just add more machines and make more parts.

Nishit Jalan: Sure. Thanks for that. I just wanted to understand because, you know, if you look at top line growth of SMR, it is going pretty well. And given that employee costs is a big part of abroad operations. The operating leverage, is not getting in and the margins are not improving much.

So, you know, I just wanted to get a sense, going forward, also most of the plants are coming into SMP. So is the margin of 10-11% kind of, is peak for SMR. And margin extension won't be much in store and it will be more of a top line growth story.

Vaaman Sehgal: Look, I think that's the your way of looking at it. We think that there are still several upsides to grow, in terms of margin improvement. There are technological advances that our product can take, there are more features that we can bring, and a lot more other things that we can do.

So I really don't agree with your take over that. I think, as long as we continue to deliver more and more technology into our products, and move up the value chain. And as you know, there are big changes happening in the automotive industry, which are driving changes in technology.

And if we're able to get on that curve, I don't see why we can't go to 30% margin. Definitely, it will take time, but I really don't see an end or think that we have peaked out at this level.

Nishit Jalan: Okay, thank you very much.

Operator: If there are any further questions, please press star, one on your telephone keypad now. We have a follow-up question from Sven Kreitmair from Unicredit. Please go ahead.

Sven Kreitmair: Hello. I just have one follow-up on your revenues in China. I have seen that in the first nine months, the revenues went down, if I've calculated right, by 16%, and in the third quarter by 14%. So what is the background here, please?

Vaaman Sehgal: Vipin, can you take this question, please?

Vipin Jain: Yes. Sven, your understanding is correct. If we look at the graph, which is on slide number seven, and if you compare nine months versus nine months, yes, there is a decline in the revenue in China. But I would say there are no specific reasons. I think, its general trend, which was there in the Chinese market, the China market was not going very well in the first two quarters. We all know that.

There are statistics, which are available on the automotive market. On the Chinese market, we have seen some improvement, in quarter three. So quarter three was comparatively better than quarter one and quarter two of the current fiscal year.

So I would say it was a general market trend. It was nothing specific, in terms of our product, or in terms of our customers. But the general Chinese market was low during quarter one and quarter two of the current fiscal year.

Sven Kreitmair: So you would expect, with the government incentives from October, the fourth quarter will be better?

Vaaman Sehgal: You know, probably, the Chinese customers better than us, on a forecast. Look, you know, we follow a system of breathing with the market. So in case there are things like that, we would move very fast to reduce our fixed costs over there and try to breath with that market.

Unfortunately, we can't control what policy makers are doing in China, but definitely, in the last quarter, we have seen the enthusiasm, the Chinese market coming back, the volumes coming back, so we hope that will continue. But we are prepared if that drops off.

Sven Kreitmair: Okay, thank you.

Operator: The next question comes from Prateek Gupta from Goldman Sachs. Please go ahead.

Prateek Gupta: Hi. Thanks for taking my question. I had a quick question on your expansion plans. From what I understand, you are doing quite a lot of CAPEX focused currently, and going out two to three years in the US, as well as China. And globally, there is increasing concern over, you know, increased incremental growth in the US market.

And questions also around where the Chinese market is. So how much headroom do you have in cutting Capex, if volumes don't match your expectations currently? And what are your expectations on volumes coming out of the plants, which you are establishing right now? Thank you.

Vaaman Sehgal: Thanks for the question. Look, the CAPEX is going to be done before the orders start. So we have to be ready six months, , sometimes almost up to a year, before the programme starts. So unfortunately, there is no room for cut of CAPEX in that sense, but please understand that the machines that we are making are able to service any customer.

So it is only the tooling and that too is paid for by customer, and owned by the customer. So we definitely have the policy of,3CX15 which means no customer, country , commodity, should be more than 15% of our business, and therefore, we try to diversify the business, but our machines and our plants are able to service any customer.

So we don’t see huge risk over there. Sometimes, customer numbers match, and sometimes, they exceed them also, and sometimes, they're a little bit less. But usually, we see that they do match up, and the customers do compensate us, in case they don't, in some way, or giving us another programme, or something like that.

So it's a relationship business. There's no hard and fast rule like that. I hope you understand it enough.

Prateek Gupta: Okay, great. Thanks, very clear. That's all I have, thank you.

Operator: As a final reminder, press star, one, if you'd like to ask a question. We have one more question from Kabore Boubacar from OFI Asset Management. Please go ahead.

Kabore Boubacar: Another one, quickly. This is on the CAPEX programme and the relative incremental EBITDA should expect, due to the CAPEX. Let's say, on the run rate, what kind of size of EBITDA are you expecting to add on to today EBITDA on the long term?

Vaaman Sehgal: Thank you for that question. Unfortunately, we cannot guide you on the EBITDA margins, we can guide you on ROCE, and our endeavour is that each programme we take on, the investments and the profits correlate to 40% return on capital deployed.

Not all programmes do. Sometimes, we exceed, sometimes we come under, but as a plant, and as a group, and the company, we plan to hit those levels. The beauty of the businesses and when we win the programme, we have about two years to be able to deliver the start of that programme.

And it is in those two years that we endeavour to get that programme as close to 40%, if not beat 40%. Because if you understand we're quoting competitively for these programmes. So definitely no programme starts at 40%. It's much lower than that. And through better purchasing efficiencies, planning, the entire team working together, removing costs from the programme, working with the customer to value engineering. We try to get it as close to 40% as possible.

Kabore Boubacar: Okay, great. Thank you.

Operator: And we have another question from Pradeep Chandel from Aviva. Please go ahead.

Pradeep Chandel: Hi. Thanks for taking my question. My question is; do you have any plans for acquisitions in the next couple of years? And the second question is; you have short term debt maturity of 120 million coming up, so how are you planning to finance that? Thank you.

Vaaman Sehgal: Thank you. Nice question. We always call ourselves not yet company. There are many opportunities that come to us that we study. As of right now, there's nothing that I can confidently say we are going to take over, but definitely we're a customer solution provider.

The customer keeps putting opportunities on our table, and we are assessing them at different points in time. But, you know, we will not hesitate to do something, if the customer is giving to us, and it's making a lot of sense to us, in terms of our return numbers and things like that.

But as of right now, there is nothing that I could say confidently that we're going after, or something like that. And, for the next part of the question, I'll ask Vipin to answer that question, please.

Vipin Jain: In terms of the debt, which is classified as a current debt, which you will see a number, €118 million. The majority of that is coming from the committed revolving credit facilities, which we have for the next five years. So while it is classified as a short-term maturity, but again, it is coming from committed RCF, if you look at slide number 11, there is RCF1, which is €80 million.

For this €80 million is a committed revolving credit facility for the next five years. But again, by the very virtue of the nature of this debt instrument, it is classified as a current liability in the financial statement.

Pradeep Chandel: Okay, thank you.

Operator: We have no further questions on the line.

Vaaman Sehgal: Okay. If there are no more questions, then I would like to take this opportunity to thank everybody for dialling in. I hope we were able to answer all your questions. We are always available. Our credentials is on the website, and the aim of that is if there are any follow-up questions, we would always be happy to respond to any questions.

And thank you, once again, for all your support, and your confidence in the team. And we hope to continue to deliver better and better results. Thank you very much.