SMRP Q4FY15 Investor Update Call — Monday, 01 June 2015

Vaaman Sehgal - Good afternoon, ladies and gentlemen. Welcome to Samvardhana Motherson Automotive Systems Group, or in short SMRP BV, annual results conference call. I have with me members of the management team, Mr G.N. Gauba, Mr Kunal Malani and Mr Vipin Jain who will assist me in answering some of your questions today. We will start with a presentation by Vipin who is the CFO of the company to give you the highlights of the year gone by. Vipin over to you.

Vipin Jain - Thank you, Vaaman. Good morning, good afternoon, ladies and gentlemen. My name is Vipin Jain and I am the CFO of the company, and I will be taking you through the presentation on the audited financial results of the company for the year ended 31st March 2015. During the call I will be referring to a presentation which is already hosted on the company's website and we hope that the participants will be having this presentation for reference.

I am on slide number two and I would like to give an explanation on this particular slide. The results of SMRP BV are prepared under IFRS. The company used to follow the calendar year as the accounting year which was January to December, but last year the accounting year was changed from January to December to April to March. Therefore, the information for the prior period is for a period of 15 months which is from January 2013 to March 2014.

SMRP BV also acquired business of SMR Group in a share exchange deal in June 2014, but since SMR was under common control, the performance of SMR Group is also included in the prior period financial for the entire 15 months, so in that sense the results are comparable. The 15 months also includes the entire SMR and SMP, and current year also includes the entire SMR and SMP. But to facilitate comparison on a full year basis, we have reproduced some of the information from the combined audited financial statement which was prepared at the time of bond offering.

We move to the next slide which is slide number three, and this slide gives some highlights for 2014-15. We had healthy revenue growth of 16% in terms of the annual revenue with respect to the previous year. The margin improvement is also on a consistent basis, 6.9% for 13-14, and for 14-15 the EBITDA is 7.4%. We also acquired the business of Scherer & Trier which we renamed as SMIA. This was done on 30th January 2015, and the results of Scherer & Trier, which is now SMIA, is consolidated under SMP during the current fiscal year. There is also a significant improvement in the net debt which is leading to a healthy leverage ratio.

We are working on lot of new greenfield sites. During the year we started production from three greenfield sites. One was in US, a place called Marysville; this is for the mirror business. One plant started production in Schierling in Germany and this is for SMP. And one plant also started production in Foshan in China, which is again for the SMP business.

There are three greenfield sites which are under construction. One plant we are working is for the SMR business in Chongqing in China. We have a plant which is under construction in Beijing which is for the SMP business, and we also have a big plant coming up in Mexico which is again for SMP business.

We also got during the year an award from Daimler and this is a supplier award for the global partnership, and Daimler recognised Samvardhana Motherson Group as a strategic partner who is supporting Daimler group in terms of capacity expansion in setting up of new plants following the footprint of Daimler. The new orders won during the year is 4.2 billion, which is the lifetime sales value, and we have a robust order book of 10.8 billion as on 31st March 2015.

We now move to slide number four. This slide gives the group structure of SMRP BV Group. There is no change in the group structure since the last quarterly call and to clarify this is not a legal structure but a business structure. And you can see that the businesses of SMP, SMR and SMIA gets consolidated under SMRP BV and the results are on a consolidated basis.

Slide number five represents the global presence of SMRP BV and this represents a global and diversified footprint of the group. This is a little modified slide than the earlier presentation because now we have included the locations of SMIA in this particular chart, plus a couple of other plants which have started already the commercial production and some of the plants which are almost approaching the commercial production. We have 45 plants in total; 20 plants in SMR, 23 plants in SMP and 2 plants in SMIA and with presence over 16 countries. We have 11 module centres, and a workforce of more than 21,000 employees.

Slide number six represents the revenue and EBITDA of the group for the current year, and we have also given the last two years comparative information on a 12-month basis to facilitate the Y-on-Y comparison. This information is also split into the performance of SMR and SMP businesses, and if you look at the revenue, it grew by 16% on consolidated basis, and SMP business had a growth of 17%, growth in SMR is 14%.

Revenue growth is largely driven by strong demand in the American market, recovery in the Spanish market, which was partly offset by some slowdown in Brazil. Other European markets like Germany, China and South Korea also showed stable growth. During the year, revenue has also been contributed by commencement of new plants in Schierling for SMP and the US plant for SMR.

EBITDA also showed consistent improvement, moving from 6.9% to 7.1%. You will notice a small note over there, because when we acquired the business of Scherer & Trier it resulted into a negative goodwill for €13.3 million, so the EBIDTA of 7.1% is excluding negative goodwill. Otherwise, on the printed result, EBIDTA is 7.4%. So on a consolidated basis EBITDA improved from 6.9% to 7.1%, and SMP moved from 5.4% to 5.6%, and SMR improved from 9.4% to 9.8%. So there is an all-round consistent improvement in EBITDA.

We move to the next slide which is slide number seven and this slide gives the split of the business into geographical and over various customer, and there is no major change in the customer wise portfolio. Currently we have 70% of the revenue coming from Europe, followed by Asia Pacific 18% and Americas 12%. But important is to note that with the commencement of new plants in China and Mexico, the geographical spread will further improve.

Audi is the largest customer at 28% of the revenue, followed by other leading OEMs. During the current year we got orders worth €4.2 billion and out of which we got a significant order from Daimler for €2.2 billion, and with this new, order which will be starting production in 2018, the portfolio of the customer is going to further balance.

Slide eight is the status on the trade working capital. We observed in the previous calls that there were a lot of questions on the trade working capital, so we thought of incorporating this slide in the presentation itself. And if you look at, from the presentation, the trade working capital on the overall basis improved from 28 days to 21 days and currently it is eight days.

Creditors as on 31st March were comparatively high because of the significant capitalisation for new plants and a significant portion of these were under engineering approval, and the cash outflow happened in the first quarter of FY 16. Inventory shows improvement from 19 days moving to 18 to 17, and even receivables, if you look at, shows improvement moving from 55 to 51 and now at 50 days.

We move to the next slide which is on the capital expenditure. For the year on a consolidated basis we did a capital expenditure of €218 million which was divided into SMP and SMR business. SMP did a capital expenditure of €163.4 million and SMR €54.3 million, but again important to notice that 66% of the total capital expenditure was only for the expansion or the capacity expansion or the greenfield project for the business.

The slide gives detail about the new plants. Schierling, Germany where we spent € 59.2 million. We had a new plant in Mexico, a new paint shop in Polinya, Spain. Bötzingen, Germany is a Brownfield extension for

SMP, Oldenburg is a new paint shop again for SMP and Beijing, China is a greenfield site for SMP. And for SMR we had a new plant in USA, and we did some vertical integration in France.

Slide number 10 and 11 give some pictorial information on the new plant, and on slide ten, there are plants which started commercial production in the current year, and slide 11 are the plants which are under construction phase and which will be starting commercial production in 2015-16.

I move to slide number 12 which is the slide on the working capital. If you look at the last column which is the cash flow movement for the current year 14-15, we look at the operating profitability which continues to be strong, generating cash of €249 million from the business. Working capital released €103 million, leading to a cash flow from operating activity at €314 million. Cash outflow on account of capital expenditure was €183.5 million, which is lower than the capital expenditure, which was €217 on the previous slide, and the difference was because of the increase in that capital creditors.

The company also paid €28.9 million for the purchase of minority shareholding from Cross Industries, and we also spent €36 million for the acquisition of Scherer & Trier. Cash flow from financing activity reflects the bond proceed and the repayment of existing third party indebtedness, which is in line with the offering memorandum when we did the bond. Closing cash was high at €184 million, largely due to the pending payments which I explained already and which is getting partly normalised in the current quarter.

Slide number 13 is the slide on the cash and debt status as of 31st March 2015, and due to strong operating profitability and the efficient working capital management, which I already explained, there has been a decline in the net debt. The net debt of the company marginally improved from €402 million to €401 million. In March 13 net debt was €504 million. And if you look at the graph, gross debt moved up from €488 million to €585 million. There are couple of key highlights which I mentioned there on the slide, which are €500 million bond, RCF1 for €125 million, RCF2 for €50 million, and working capital facility for €30 million which we've entered into to fund our expansion.

Slide 14 gives the status on the liquidity for the company as of 31st March 2015 and as of 31st March the company had access to liquidity of €313 million which represented the unutilised portion of the committed revolver credit faculty which was RCF1 €113 million, RCF2 €16 million and cash & cash equivalent of €184 million. So in totality there was a liquidity of €313 million as of 31st March 2015.

The leverage ratio if you look at, we were at a gross leverage ratio of 2.43x which was significantly better than the threshold of 3.5x, and the net leverage ratio was 1.67x against 3.25x under the RCF covenants. On the maturity analysis, there's a small graph on the right-hand side which shows that the maturity of these loans in the next one year is €71 million, but again out of €71 million, €46 million is the revolver credit facility 1 and 2 which is a committed credit facility for the next five years. Maturity from 1 to 5 years is €26 million which is coming from the finance leases and couple of term loan repayment at the non-obligor and maturity more than 5 years is a significant portion which is represented by the bond.

Slide number 15 represents the customer recognition. During the year we were honoured as Reliable Partner to support Daimler's global growth by investment in capacity expansion and new plants. So were awarded supplier award in the category of partnership by Daimler. We also got significant order from Daimler and we would be setting up two greenfield sites to support these orders. One plant would be coming up in Hungary and one plant would be coming up in USA, and these plants would be starting commercial production in 2018.

With this I conclude my presentation and we are proud to be associated with our global customers, collaborators, employees, society and all the stakeholders, including investors who have trust in our capabilities. I now hand over back to Mr Vaaman Sehgal.

Vaaman Sehgal - Thanks, Vipin. As you can see, ladies and gentlemen, it's been an action packed year, full of very strong performance, and was well supported by our customers and even got some good recognition during the year. Now we will open up the floor to questions. So, Laura, could you please help us out with that?

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, please press star followed by two. When preparing to ask your question, please ensure your phone is unmuted locally. Our first question comes from James Maxwell from Henderson. James, please go ahead.

James Maxwell - Yes, good afternoon. Thanks for taking my call. Three things, if I might? The first one: could you give me an idea how the Daimler order, surely it was for a couple of billion, actually translates into annual revenues, i.e. how that's spread? The second question was to do with, could you just explain again the difference between the capex that you explained on the slide to what's in the cash flow statement? And the third question, on the parent company call I understand the business to have some pretty aggressive plans with regards to growth, which I presume is coming through acquisition, and I'm wondering how that would fit into this entity?

Vaaman Sehgal - Okay, thanks for those questions. I'll take the first one. The Daimler order is going to start around 2017-18 and average life of that will probably be six to seven years, so just to give you a rough estimate on that. Vipin, you want to take the capex question?

Vipin Jain - Yes. James, on the capital expenditure, the capital expenditure incurred during the year is €217 million, but the cash outflow happened only €184 million which was lower, which is reflected into the increase in the creditors. For some of the capital expenditure, while we already got the invoices for the capitalisation, but since all these new plants need a lot of engineering approval before we finally pay off to these suppliers, because there is takeover process for the big paint shop or building, these were not paid during the year. So the payment for these would be happening in the current year and even if you look at the trade creditors which were there on the trade working capital slide, you will also see that the creditors were also relatively higher. So this increase in the creditors is partly getting explained by the difference in the capitalisation versus the cash outflow on the capex side.

James Maxwell - So how that, is that…? Like, I mean, if that's got unwound since the beginning of the year, how is that likely to impact in the first quarter? What can I expect to see around that?

Vipin Jain - In the first quarter we have seen this getting normalised. Some of the payment for the plant which were related to Schierling, because Schierling was a plant which capitalised under last year in quarter four, some of the payment related to Schierling has been paid in the current year. And if you look at the cash balance, which was at €184 million, has partly reduced during the current year and the payments have been made, which leads to a decrease in the creditor and decrease in the cash.

James Maxwell - Okay, I don't know whether you give any guidance what we might expect this year for the actual pass out relating to capex in the current year.

Vipin Jain - Capital expenditure guidance, as we would be incurring capex in the range of €250 million in the next three years and this is largely coming from the new plants, the new orders and the order book which I talked about – €10.8 billion. And Daimler order would be warranting setting up two new plants in Hungary and USA. So the capital expenditure for the next three years on an average would be in the range of €240 to €250 million.

James Maxwell - Okay, and finally, with regards to the parents' ambitions to grow revenues for the business?

GN Gauba - Thanks, James. I'm Gauba this side, the CFO of MSSL. Yes, thank you very much. We have come out with a vision 2020 for MSSL which is US$18 billion revenues. SMRP BV forms integral part of MSSL and we see a good growth coming from that. However, we would not like to guide market entity by entity and would encourage you to look back to our revenue guidance on a consolidated basis.

James Maxwell - Okay, thank you.

Operator - Our next question comes from Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati - Yes, good evening. Thanks for the opportunity. First of all, can you help me understand how would your working capital look like on a consistent basis? There has been an amazing decline, you know, from 21 to almost 8 days. What should be the normalised number one can look at?

Vipin Jain - The normalised number in terms of the working capital I would say would be in the range of 16 to 17 days. 31st March 2015 is a little abnormal because of the increase in creditors which I was trying to explain. But the creditors, if you look at, used to be in the range of 48 days which we expect to be in the range of 50-52 days, which means that net working capital would be close to 15 days, 15 to 17 days I would say.

Puneet Gulati - 15 to 17 days. And on slide 14 you mentioned 26 million, is that for each year ?

Vipin Jain - So you're talking about the maturity profile?

Puneet Gulati - Yes.

Vipin Jain - For this maturity profile, 26 million is for the total four years which is year one to year five. So this 26 million is for four years.

Puneet Gulati - So you'll pay only 26 for next four years, next one to five years?

Vipin Jain - Yes.

Puneet Gulati - So in all, roughly 50 million, 25 plus 26?

Vipin Jain - Yes.

Puneet Gulati - Okay. And lastly, you know, if you can give some more colour on, you commissioned three plants; how big is the capex for each of these three plants? If you can give some more colour, and what is the total capex for the next three plants which are going to be commissioned this year?

Vipin Jain - Out of the three plants which we commissioned in the current year, one plant was the mirror plant which is in USA. We are seeing a lot of new orders in the US so there is always expansion which is happening in US. The capex in the US plant would be close to I would say, just a ballpark number, $30 million. Schierling is a plant which is for the exterior and exterior plant has significant investment in the paint shop and the building. For Schierling plant a total capex, again a ballpark number, would be close to €110 Euros.

Puneet Gulati - Okay.

Vipin Jain - And the third plant which is our plant Foshan, China, it's a very small plant and this is under the joint venture with CPAT which is a Chinese partner. And this is a 50/50 joint venture and it's a very small plant, so I think that the investment would not be more than, I would say $10 million. It's a small plant.

Puneet Gulati - Okay, and for Oldenburg I think?

Vipin Jain - Oldenburg is a brownfield extension, so there is a new paint shop because when we took over SMP and we were looking at the plants, this was a modernisation need because the old paint shop was running over its life, so this is a new paint shop which has been set up in Oldenburg. So it's a brownfield expansion which leads to higher capacities, better productivity and better margins for us.

Puneet Gulati - So how much would you have spent in all for this, the brownfield?

Vipin Jain - Oldenburg I would say in the range of €20 to €22 million would be the investment in the paint shop, and also ancillary equipment for the paint shop.

Puneet Gulati - Okay, and for the coming three greenfield plants? Mexico?

Vipin Jain - Again, you know, it becomes a little difficult. While we can discuss these numbers but, on an overall basis we are investing, we are giving a guidance of close to €240 to €250 million for the next three years. And, again, each of the plants for SMP, again depending on exterior plant or interior plant, investment will vary again. Investment is dynamic and keeps changing on getting new order since you keep on increasing the capacity. So, again, it would be little unfair to put a number because there are plants still under construction.

Puneet Gulati - But as of now based on the orders that you have, what is the budget for, say, Zitlaltepec?

Vipin Jain - Listen those plants are still being finalised so we would not like to put a number there. We've given you an overall guidance. We request you to work with that, please.

Puneet Gulati - Okay, thank you so much.

Operator - Our next question comes from Sonal Gupta from UBS. Please go ahead.

Sonal Gupta - Hi, good evening. Thanks for taking my question. Two things. One is, I mean, while you've commissioned some plants, the depreciation has not yet kicked in so I just wanted to understand when do we see this jump in depreciation really coming in? And, I mean, is your policy in terms of depreciation related to the volume or revenue that you do from those plants, or do you do it on a fixed cost, I mean, straight-line basis?

Vipin Jain - Okay, to answer this question, we don't have a policy of charging depreciation which is linked to revenue or linked to the volume. The depreciation is charged on the straight-line method. So if you look at the financial statements which are already uploaded on the website, it has a complete disclosure in terms of depreciation. So there would be deprecation depending upon the life of the asset, so this is what we charge. Now, the second question, why the depreciation is not increasing in the current year, because most of the investment have been capitalised towards the end of the year and if you look at the presentation, there are two slides from the new plant, you will see that most of the plants have started production either towards end of quarter three or end of quarter four. So the depreciation in the current year, you will see some impact. And, again, in the current year we are setting up new plants so I think it's a number which is a moving number, but then definitely you will see an increase in depreciation for the current year. Last year was not there because we commissioned the plant towards the end of quarter four.

Sonal Gupta - Right. And just the other question was on non controlling interest. I mean, there is a line in the annual report on dividend to a non-controlling interest of €12 million, which seems like a substantial number and which is similar last year as well, so I just wanted to understand what exactly is this. And it seems like a high number relative to the profits or sort of from the non-controlling entities, the share of profits of non-controlling entities, so if you could just explain that?

Vipin Jain - We have joint venture partners in China, we have joint venture partners in Korea, and Chinese and Korean joint ventures are good profitable businesses and we have been declaring dividends from those businesses. This line represents the dividend paid to the joint venture partners.

Sonal Gupta - Right. And lastly, would you be able to give any comments on what, when do we see further improvement in profitability for SMP, and anything on SMIA? What's been the negative impact in this quarter with the merger of SMIA?

Vaaman Sehgal - Right now it's too early to comment on SMIA. We've just taken that over and we will give you more colour in the following quarters to come. But, as you can see, we do not guide on margins. We only guide on return on capital employed and it's our endeavour to get as close to all and succeed 40% as time goes by. But if you compare the performance, so quarter-on-quarter since we've taken over these companies, you will see that there has been gradual and better performance coming on all fronts. We are fairly confident that, you know, we can continue to do this and we would like to get as close to that 40% number which is our internal target.

Sonal Gupta - Thanks. I'll join back the queue. Thank you.

Operator - Our next question comes from Sanjay Satpathy from Merrill Lynch. Please go ahead.

Sanjay Satpathy - Yes, thanks for the opportunity. First, I just wanted to confirm the capex guidance that you have given for next year. That is €240 to €250 million. This is the three years combined, €240-250 million, per annum number? So just confirm, please.

Vipin Jain - This is per annum.

Sanjay Satpathy - Okay, so total would be about €750 million?

Vipin Jain - Correct.

Sanjay Satpathy - Lastly, we can see that there's a huge amount of liquidity sitting in your balance sheet so, I mean, is it do you declare that number or is it, like, going to be used of, like, there is specific plans for it?

Vaaman Sehgal - So that's a good question. Look, we are going to use that cash. So hopefully we will be able to use all of it for our own expansion and where we need to do that, so we are quite cognisant of that and we will make sure that we have effective use of that.

GN Gauba - And Sanjay, we give a healthy dividend pay-out at the parent level so we are not expecting cash because we don't need beyond this, no?

Sanjay Satpathy - Thanks.

Operator - Our next question comes from Sahil Kedia from Barclays. Please go ahead.

Sahil Kedia - Thank you for this opportunity. Most of my questions have been answered. Just one question. In all these plants, you've said that there are some plants that are starting up. What is the time by which these plants normally would ramp up to full production? Is it two quarters, three quarters? How should we think about this, especially for Polinya which has been an area of concern and now which is coming back on-stream, so when should we see it going back into full production?

Vaaman Sehgal - So Sahil, first of all, you know, it's a dynamic thing.

Sahil Kedia - Sure.

Vaaman Sehgal - As these plants are taking off, there are many different plants coming up. Because you picked up the Polinya example, the start of operations will already be in the first quarter of this year and it would have ramped up towards the end of this year, starting of next year, so you do see a couple of quarters of, you know, of it but then it certainly jumps up as the full volumes and everything take off. So towards the end of this year you will see that plant running at, you know, capacity.

Sahil Kedia - And would that be a similar kind of thumb rule for others? Obviously this would depend on the products that you are making and on the complexity of the products, but would it be a similar kind of thumb rule for the others as well?

Vaaman Sehgal - Thanks, Sahil. I think you answered your own question. With the different products and the complexities and different customers and geographies and launch programmes, you know, some go much faster, some go slow. But, you know, we do emphasise that we plan it per, as tightly as possible not to waste, you know, any of the capacities that we have. So we try to match it as close to the customer as possible. Sometimes there is a little bit more, sometimes a little bit less. But, yes, in a few quarters, as soon as it started we do emphasise it, you know, producing significant order out of those plants.

Sahil Kedia - All right. Thank you so much. I'll come back in the queue.

Vaaman Sehgal - Thanks, Sahil.

Operator - Our next question comes from Chirag Shah from Edelweiss. Please go ahead.

Chirag Shah - Thanks for the opportunity. Just a clarify on that question. In China, the plant that we put would always be under a joint venture arrangement given the requirement over there, right? We don't have a scope to have a higher shareholding over there?

Vaaman Sehgal - No, it actually depends on, you know, which plants we are putting up for which customer. For example, in SMR we do have plants which are 100% Motherson plants, they're not anything of the joint venture. And also, the new plant of SMP in Beijing is 100% owned by Motherson. So it depends on a whole bunch of factors, but these ones particularly that I've mentioned to you are 100% owned by us.

Chirag Shah - So if you want to understand when you set up a plant in China, how should we look at it? Under what conditions it would be a part of a JV? It means there has to be [unclear] Is it region in which you put up a plant that determines that is a joint venture is required, or it's a customer who asks you, you have to do a JV? How does it work, the intricacies? What are the key parameters that can help us understand?

Vaaman Sehgal - So, you know, again, there is no hard and fast rule like that as such. There are open discussions we have with joint venture partners. We always talk it through and whichever is the best business case sense, that's what moves forward. So I really can't give you, you know, a hard and fast rule on something like that.

Chirag Shah - But there's no, nothing like regulatory requirement as such?

GN Gauba - There's no regulatory requirement in China or for Scandinavia in any of the other jurisdictions that we are in.

Vaaman Sehgal - It's our choice what we choose to do. So, you know, we see what's best.

Chirag Shah - Yes, and just a question on this order backlog of 10.8 billion that you highlighted. Is it possible to give a broad indication how the flow would be like, how much of that would be in first two years and then on a broad basis, how should we understand this 10.8 billion number?

Vaaman Sehgal - Okay, first of all, it's not a backlog. I think I repeat this on almost every single call. It's the new order wins of a new order book that we have. You know, every quarter as we go around, this is a rolling number due to the number of businesses, plus the new order wins that we've had in that quarter minus the business that has already started in that quarter. So, you know, I can tell you that obviously within the next two years this entire book that I've, the number I've told you today would have already started, so that's how you look at the number. It's not a number that you can calculate on how, you know, which quarter, which business will start. It's just an indication to you that the book is growing. We are still winning orders. We are getting new orders and orders are being executed, so the company is doing very well with winning orders. That's all it's supposed to indicate.

Chirag Shah - And last question on capex. You highlighted €250 odd million per annum. I presume it's a moving target in the sense it would also depend upon how your ramp-up, how the customer requirements pan out, so this number can actually be lower going ahead. Is it the right way of looking at it, or this is more of a phase beyond the current order book requirement that you have in terms of outlook from the customer?

GN Gauba - Chirag, the way it works is there is an existing order book and an existing set of plants that needs to be set up or need to be refurbished. That's been embedded in. There is a set of repeat orders that we believe that we will win and there are estimates around, what is the capital expenditure that will go against with those orders, so there is a fair amount of estimation that has gone behind it. Ultimately, you know, what happens in reality is a little unknown animal.

Chirag Shah - Yes, fair point.

GN Gauba - You know, it could be lower and, you know, at least historically whenever we have done our estimates and, you know, you will have seen it on a year-on-year basis, we tend to overestimate it in our planning and then, you know, over perform by reducing the capex, actual capex spend.

Chirag Shah - Fair point. And just one clarification, of this rolling order book that you have, is it possible in this update to highlight how much of this are for new product launches in the system in the sense of new product that is being introduced, and how much of this are order wins for an existing upgrade? You know, you have completed maybe providing and you may have won the order, kind of thing, for an existing model which is coming for an upgrade. Is it possible to give a flavour of that?

Vaaman Sehgal - All the products ultimately, Chirag, is for an OEM and it'll ultimately go into the, you know, automotive market.

Chirag Shah - Fair point.

Vaaman Sehgal - So it doesn't matter really whether it's a completely new platform or it's a platform that has been won by someone and, frankly, it's not an area that we really look at. At the end of the day, we are concerned with, you know, creating a robust order book and, you know, whether we have won it out of competition or it's a new platform it's irrelevant from our perspective.

Chirag Shah - Fair point. Thank you very much.

Operator - Our next question comes from Nitij Mangal from CLSA. Please go ahead.

Nitij Mangal - Hi, thanks for the opportunity. Just one quick question. When you give your geographical breakup, is it terms of where the vehicles are produced or where it is sold? You see, what I'm trying to get at is, what is the? Does the Asia Pacific exposure include, let's say, cars manufactured in Europe but exported to China?

Vaaman Sehgal - No, good question. We actually just counted by where we are selling to the customer from that plant. So whether that plant, that product is then being exported, being domestically used or, you know, bought, anything, we really are not privy to that information. That's the output that is coming out of our plants in that location.

Nitij Mangal - Okay, and would it be possible to get some sense of what would be your, let's say, total China exposure including the indirect at SMRP?

Vaaman Sehgal - Exposure in what sense?

Nitij Mangal - As in, so selling directly in China, plus selling to European OEMs who are then exporting the ultimate products to China.

Vaaman Sehgal - Okay, look, our pie out of what we produce in China out of our total sales is about 18% and that is Asia Pacific as we include. So China & Korea is the biggest portion of that. So, you know, after that, again, where those products are actually going and where the customer is using it, for domestic or export, that information that the customer holds to themselves, does not share with us since our production delivery schedule is only to that customer in that location. So we really don't, you know, don't care so much what, where that product is going after that.

Nitij Mangal - Okay, understood. Thanks.

Operator - As a reminder, ladies and gentlemen, if you would like to ask any further questions, please press star followed by one on your telephone keypad now. We have a follow-up question from Sonal Gupta from UBS. Please go ahead.

Sonal Gupta - Hi, thanks for taking the questions again. Just one on the tax rate, the effective tax rate has dropped to 21% which is substantially down year-on-year. Should we take this as sort of thing going forward, or was there any sort of other factor which sort of drove this decline in tax rate?

GN Gauba - Again, this is a difficult question because we love to make profit in all the geographies and pay the taxes, and of course there were some geographies where we were earlier not making profits and now have started making money, so that obviously drives down the effective tax rate. Difficult to guide on this, but we expect normally in a similar range or few basis point here or there.

Sonal Gupta - Okay. Just also on, the employee cost has sort of jumped significantly quarter-on-quarter for SMRP BV as a whole. I'm looking at it. So, I mean, is this related to primarily SMIA acquisition, or is this because you're nearing completion of some of these plants and commercialisation?

Vaaman Sehgal - I would say that it's more due to all the new plants that we're setting up and the people that we're training for the upcoming new sales increase that we're having with the new order wins. So for the ramp-ups it depends on, you know, what phase the ramp-up is. Sometimes we frontload some of the new projects that are coming, so hire a lot more people at the front rather than towards the end of the launch cycle. So, you know it varies, but it's definitely due to having a lot more coming into the pipeline and preparing for that.

Sonal Gupta - Right, and just my last question on the foreign exchange side. Is there any, I mean, transaction exposure that you have and what sort of transaction exposure would you have in terms of SMR and SMP really speaking? I mean, is that translation exposure which could be there. I just want to understand what is your, where your costs are and where your revenues are. I mean, is there a significant mismatch, or there's a very minor mismatch?

Vipin Jain - Sonal, this is Vipin. In terms of the forex exposure, if you look at our geographical spread, we would be setting up the plants which would be closer to the customer location. So we have a natural hedge because we buy and sell in the same currencies, so we don't have any significant forex exposure at the SMR or SMP level and at SMRP BV level.

Sonal Gupta - So there is no, like, import of components in some other geographies?

Vipin Jain - It would be insignificant. It would not be very significant.

Sonal Gupta - Okay, right. Thanks a lot. Thanks for taking this.

Operator - We have no further questions on the phone lines.

Vaaman Sehgal - Okay, since there are no more questions we thank everybody for taking the time to join this call. We appreciate all your support and we look forward to delivering better results moving forward and continuing all our efforts to keep giving better results to you guys. Thank you so much, and we're always available in case of any other further clarifications or questions are sought. The information is on the website for you to ask those questions. Thank you very much for your support.