SMRPBV Q3FY15 Investor Update Call **Wednesday, 11 February 2015**

Mr. Vaaman Sehgal: Good afternoon, ladies and gentlemen. Welcome to the Q3 FY 15 results conference call for SMRP BV. I'm Laksh Vaaman Sehgal, Chairman of the company. I have with me Mr GN Gauba, Mr Kunal Malani, who are directors of the company, and Mr Vipin Jain, who is the CFO of the company. We will run through a short presentation, led by Mr Vipin Jain, to just explain the results of the quarter and then we'll open it up to question and answer session. So, without much further ado I'll pass it on to Mr Vipin Jain who will take you through the presentation.

Mr. Vipin Jain: Thanks, Vaaman. Good morning, good afternoon ladies and gentlemen. My name is Vipin Jain, and on behalf of the company I would like to present unaudited results for the quarter and nine months ended December 31 2014.

Before I commence my explanation on the presentation, I would like to mention that we have already uploaded the presentation on the company's website, and we will be referring to the same presentation during this call. We hope that all the participants will have this presentation for reference.

So, we start the presentation; we move to the first slide. If you look at the results of the company, these are prepared under IFRS and since this is the first year of consolidation under IFRS, there are no comparative prior period figures available. However, to facilitate comparisons with the corresponding period of the last year, which is quarter 3 versus quarter 3, we continue to report the financial performance or SMR and SMP in terms of Sales and EBITDA for the last seven quarters, which were used for consolidation in Motherson Sumi Systems Ltd, which is the parent company, and which were reported under the Indian GAAP. This information is provided in slide number 18 of this presentation.

We would also like to mention that during quarter 2, which was July to September quarter, automotive demand was low due to the summer holidays mainly in the European market, and which got partly normalised in quarter 3, which was October to December, but again, in December we had some winter holidays in the European and American market. Due to this fact, revenues and the financial performance may not be directly comparable between quarter 2 and quarter 3.

We move to the next slide, which is the slide on the Group Structure. If we look at this particular slide we find a new company, which is named Samvardhana Motherson Innovative Autosystems, which is short named as SMIA. This represents the acquired business of Scherer & Trier. This acquisition was completed on 30 January 2015, and now this is 100% owned subsidiary of SMRP BV as on date. There are some more details on this acquisition, which are explained in the subsequent slides.

We move to the next slide, which is slide number three, which represents the global presence of SMRP BV. If you look at the global presence, till last quarter we were reporting 37 manufacturing plants. In this quarter there are two more plants, which have already started production/or are ready for production. One plant is in Schierling, which is in Germany, and one plant is in China. These two plants are now ready for production.

These 39 plants are located in 16 different countries, employing more than 18,000 employees, globally. The current footprint of the company reflects strong presence in the developed markets like Europe and America, as well as presence in the emerging market like China, India and Brazil.

We move to the next slide, which is slide number four. Slide four gives more information on the recent acquisition done by SMRP BV, which I already referred to in the previous slide. This acquisition is done for a German based company, called Scherer & Trier. Scherer & Trier have two plants, one each in Germany and Mexico. German plant contributes to approximately 98% of the total revenue, and was acquired on an asset purchase deal, which includes land & building and inventories also, apart from the other assets of the company. The Mexican plant, which is a small plant in terms of the top line, was acquired on a share purchase deal.

Total purchase consideration for this acquisition was €35.8 million, and the deal was closed on 30th January and the acquisition cost was paid to the Administrator. This acquisition is now renamed as SMIA, which was on the corporate chart of the company. Prior to acquisition, the EBITDA of this company was in the range of 8% to 10%, and this company has been purchased from the Administrator on our own terms.

I move to the next slide, which is slide number five. Slide number five gives further details on the acquired business in terms of its manufacturing facilities and key technologies. So if you look through the slide there are approximately 2,200 employees in this business, with an approximate turnover of €245 million, out of which €240 million comes from Germany and €5 million from Mexico.

There are few products which are similar to SMP product portfolio, but in addition there are various products which are new to SMP, but have a lot of synergies in terms of the manufacturing capabilities. Scherer & Trier supplies components to the premium segment of the passenger car and they also have full-fledged tool room that will provide synergies to the SMP operations in Germany.

Next slide, slide number six, gives more detail in terms of the customer and product portfolio of this new business. So if you look at this particular business it has a fairly diversified customer portfolio with Daimler as the single largest customer, accounting to 25% of the total business, and BMW and VW group again as major customers. Product portfolio includes a large range of exterior components, such as rear spoiler, roof moulding, rocker panels, and a variety of interior decorative components.

Slide number seven, which is the next slide, represents the revenue and EBITDA for the quarter and nine months ended December 31 2014 for SMRP BV. This is further split into SMR and SMP business performances. If you look at the charts, both the businesses, SMR and SMP recorded impressive growth in terms of the revenue. The revenues for quarter three were at €885 million, which are the highest quarterly sales in the current year. Sales for the nine months ended December 31 2014 on YTM is at approximately €2.5 billion.

EBITDA for quarter 3 was at 7.6%, which is significantly higher than quarter 1 and quarter 2 EBITDA margins, and on YTM basis EBITDA was at 7.1%. Again, both SMR and SMP businesses are showing improvement in EBITDA with SMP at 6.1% and SMR at 10.4% for the quarter.

In terms of the customer portfolio and the geographical spread of the businesses, there has been no change and is consistent with the previous quarter presentation.

We now move to the next slide, which is slide number eight, which gives detail on the cash flow movement at SMRP BV for nine months ended December 31 2014. To facilitate better understanding on the cash flow movement for the quarter, we have also tabulated the cash flow which was reported in the last quarter for period of six months ended September 30th 2014.

If you look at the operating profitability, operating profitability continues to be strong and is in line with our expectations generating an operating profit of €174.2 million. As explained in the previous call, due to summer holidays in quarter two, working capital had increased temporarily, which has now been partly normalised, and a working capital of approximately 40 million has been released in the current quarter.

Cash flow on account of capital expenditure was €134.5 million during these nine months ended December 2014. With the release in working capital, coupled with the strong profitability, we were able to reduce our debt, which is reflected in the high repayment of borrowing at €441 million against €408 million for September.

Apart from these items there are no significant changes in the other element of cash flow. Closing cash was consistent at a level of €82.1 million, which was in line with the cash in September.

So, to summarise, overall cash flow movement was in line with the expectation and the business plan.

We now move to slide number nine. Slide number nine represents the details on capital expenditure incurred during these nine months. Upto December 2014 €150.3 million was spent on capital expenditure during these nine months, out of which €103 million was incurred on new facilities & expansion. This accounts for approximately 69% of the total capital expenditure. A significant part of the capital expenditure is going into setting up new plants or expanding the existing plants into brownfield expansion.

Germany had significant expansion, with the new plant in Schierling, which has been now completed and is under start up, and will gradually ramp up in the coming quarters. New paint shop in Oldenburg, again in Germany, has also started production during the current quarter in a small way. Again, we'll start ramping up in the current quarter.

Brownfield expansion in Bötzingen, which is again in Germany, is nearing completion, and would commence production in quarter 3 of FY 15/16, and is in line with the customer schedule, but since the customers have to do a lot of testing and validation prior to the commercial production, the plant has to be ready 3 or 4 quarters before the actual SOP.

SMP is also setting up a new paint shop in Polinya, which is in Spain, and which is again nearing completion, and would be ready to start production in quarter one of the next year. Currently this paint shop is in a trial and validation phase.

SMP is also setting up a greenfield plant in Mexico. This is going to be the biggest plant for SMRP BV, and we have incurred €14.1 million capital expenditure on YTM basis. This plant is expected to start commercial production from quarter 1 of FY 16/17.

In SMR business, we inaugurated a new plant in USA, which was done on 21st January 2015, and the commercial production is again expected to start from the current quarter, which is quarter 4 of the current fiscal. This plant is going to significantly increase the mirror business in the North American market.

We now move to the next slide, which is slide number ten, which represents the cash and debt status as at 31st December 2014. As explained in the previous quarter call there was an increase in the gross and net debt due to seasonality impact in the quarter 2 due to summer holidays. In the current quarter we can see that the working capital has normalised, which led to a reduction in the gross and net debt. If you look at the gross debt, it has reduced from €606 million to €577 million.

RCF 1, which was utilised for €25 million in quarter two, has now been repaid in the current quarter, and there is no utilisation as of now of RCF 1.

RCF 2 utilisation was also lower at €37.5 million as compared to €44 million in the previous quarter. Cash is consistent at €82 million.

We move to the next slide which is on liquidity status. As on 31st December 2014 the liquidity level on the committed credit facilities was in the range of €125 million, plus cash and cash equivalent of €82 million. This implies the total available liquidity of €208 million for SMRP BV.

In addition to this we also set up facility for €30 million to support the local requirements at USA, Mexico and Spain. As on 31st December the utilisation on this new facility was nil.

The next slide, slide number 12, gives us status update on the security creation and the compliances under the bond and RCF transaction. As per the terms of offering we have already created all the securities which were supposed to be created for asset cover, 1X asset cover security. All repayments of the existing third party indebtedness have been completed as per the offering memorandum.

We are also tracking various financial covenants on a regular basis, and as of 31st December 2014, we had a net leverage ratio of 2.52 and a gross leverage of 2.69 against a covenant level of 3.5 times, so there is significant headroom available to the company as on 31st December 2014.

Slide number 13 to slide number 17 give some more details on the new and upcoming facilities of SMRP BV Group. These slides are self-explanatory, so maybe you can just flip through these slides. These gives the detail of the new plants which have been set up or are in the process of setting up.

We can now move to the last slide, which is slide number 18 of the presentation. Slide number 18 reflects the sales and EBITDA performance of SMR and SMP businesses in the last seven quarters as reported under Indian GAAP for the purposes of MSSL consolidation. This information is provided to facilitate period on period comparison as well as to work out LTM ratios, taking Indian GAAP numbers as the proxy information.

So this was the last slide on the presentation, and with this I now hand over back to Mr Vaaman Sehgal.

Mr. Vaaman Sehgal: Thanks, Vipin. So with that we'd like to open it up for a question/answer session. Jo, if you could please lead that?

Coordinator: Thank you. 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 you can remove your question by pressing star followed by two. When preparing to ask your question please ensure that your phone is unmuted locally.

Our first question today comes from the Sahil Kedia of Barclays. Please go ahead.

Sahil Kedia: Hi, thank you for this opportunity. I have just one question. You mentioned that the financials of Scherer & Trier had an 8-10% EBITDA margin. Can you just help us understand what the reason was for them actually going bankrupt, and therefore going into administration? That will be helpful, please.

Mr. Vaaman Sehgal: Look, we can't really comment on why their business went wrong. There could be multiple reasons, management, structuring etc. I can only tell you that once we have come in we've set it up with the customers, we've set it up in a way that we feel that the forward running of that business is secured with the programme and as agreements with the customer that we are comfortable with, but we can tell you that the reason that they did, when they did file for insolvency it was due to a failed follow up financing, so again, we don't really focus so much on the past; we're only focusing on where to take it from here, and we're very confident that will give us the results that we need, moving forward, and bring in, you know, it is a credit for us.

Sahil Kedia: One more question, if I may; how quickly do you think that there can be synergies that can be achieved within SMIA and the existing businesses of SMP, considering that both are in Germany, and are in somewhat similar businesses?

Mr. Vaaman Sehgal: Look, right now the focus of the team is more about stabilising the current operations, so what we have focused upon is once the asset is brought into the group we want to ensure that the asset is running and it's profitable on its own. The synergy is focused upon once the operations get stabilised. So at this stage of the acquisition we want to first ensure that the asset and the business is profitable on its own.

Sahil Kedia: All right. Thank you. I'll come back in the queue.

Coordinator: Our next question is from Jay Kale of CIMB.

Jay Kale: Yes, thanks for taking my question. Firstly, on your SMR plant in the US I just want to know what will be the current size of that plant in terms of revenues, since you are planning to double it?

Mr. Vipin Jain: The current size of the plant in terms of the revenue would be in the range of US$200 million, and with the new plant coming up, once the plant is totally operational, it is going to, sort of, double the entire capacity. So just to give you a ballpark number, the current plant is in the range of $180-200 million, which is going to double up in the next three years, once the production ramps up.

Jay Kale: Okay, and secondly, on this Scherer & Trier acquisition, historically where have these, how have these revenues trended? I mean, what would be the peak for this company?

Mr. Vaaman Sehgal: Again, it's really not going to give you an indication of how the future is, because the existing programmes are different and coming up are the ones that we are looking at, so it's really no comparison to look at it from the past. We have just taken that over in the last quarter. You will get more colour on that as the operations are stabilised, but again, as we have done with our acquisitions in the past, there are back-to-back agreements with the customer, and we design it to make sure that they will perform to good efficiency, so again, you get some more colour on that as we move forward, and we show you a better picture of that acquisition.

Mr. Kunal Malani: So the core mantra is that it is designed for success. I hope that helps.

Jay Kale: Yes. I understand. One last question, if I may; you mentioned that in the Brazil plant, you are struggling to make it profitable. What is the key reason for that? Is it more to do with the orders, I mean, the OEM orders not coming through, or is it more on the cost side?

Mr. Vaaman Sehgal: This was more on the SMP side when we talked about the Brazil plant. There are a couple of issues there, of course; if you look at the macroeconomics of that place at the moment, the volumes are also down, and historically the programme that we're running over there was obviously at low profitability when we had taken over this company. So, it takes a little bit of time as the new programmes and things will start kicking in and those macroeconomic solutions and factors will start getting better. That will turn around. We've already mentioned on the previous call, I think that's where this question is coming from; we had quite reduced the outflow of the cash bleeding over there. It's come to almost a very small break even, and we are very confident, as the market turns around and the new programme will start kicking in, we will have kicked that problem completely.

Jay Kale: Okay, great. Thanks a lot. That answers thanks.

Coordinator: Our next question today is from Sonal Gupta of UBS Securities.

Sonal Gupta: Hi, good morning, good afternoon, thanks for taking my questions. Just a couple of clarifications; one, I just want to understand, there is still, if I look at SMRP BV company level, there's still a meaningful minority interest in the account, so what is the reason for that? I mean, in this quarter I think it's still to the order of, say, $2 million.

Mr. G.N. Gauba: Thanks for that. At SMRP BV level we have joint ventures, like in SMR we have at Korea and China we have SMP China, and one request we have, we should also let the opportunity go to the bondholders, the fixed income group people, to lead the question and then we will definitely listen to the equity analyst questions, but we would encourage that first we give priority to the bondholders, for whom this call is fixed for. But minority interest is at all the levels where you have a minority shareholding and SMRP BV structure by itself does give a full explanation in the document.

Sonal Gupta: Also, but from what I understand, and structure, only 1.5% of SMR is what you don't own, right? Other than that you own 100% of everything?

Mr. G.N. Gauba: I have just explained that there is a joint venture in China for SMP, as well as there is a joint venture in Korea.

Mr. Vaaman Sehgal: SMP China is a 50/50 joint venture, so obviously you'll take out 50% of that. In SMR also there's a joint venture, so these are all minority interests that are coming out of the joint ventures.

Sonal Gupta: Okay, sir, I'll take it offline, I think.

Mr. G.N. Gauba: You can take it offline for minority interest.

Sonal Gupta: Yes, sir. And, I mean, this is something old, but I just want to clarify. Minda Schenk, did this company acquire or we didn't acquire it?

Mr. G.N. Gauba: Minda Schenk is not related to SMRP BV, please.

Mr. Vaaman Sehgal: That is MSSL.

Sonal Gupta: Okay. Fine, sir. Thank you so much for taking this.

Coordinator: Our next question today is from Amyn Pirani of Deutsche Bank.

Amyn Pirani: Thanks for giving me the opportunity. I'll just keep it brief. On Scherer & Trier I just wanted to ask you the Mexican plant seems to be significantly smaller in size, and obviously in terms of revenue contribution, I just want to understand, is it because it is in the process of being expanded, or is it the structure that the company has envisaged?

Mr. Kunal Malani: My friend, it's an asset that we have just acquired. It's something that they had set up for reasons best known to them. We are relooking at the entire business right now, and we'll come back to you as we formulate more plans around it.

Amyn Pirani: Sure. Okay. Thank you.

Coordinator: Our next question is from Sven Kreitmair of Unicredit.

Sven Kreitmair: Hi, good morning. Can you please repeat the EBITDA on the Scherer & Trier acquisition? The IFRS EBITDA in 2013, what that amount was? And then on your capex guidance, second question, is I think you indicated for this fiscal year 180 million. Will this be larger next fiscal year, or will it be lower than this 180 million, or do you keep your guidance of 180 million?

And then, the next question would be on EBITDA: in the fourth quarter, because I have seen in the third quarter the EBITDA increased nicely, and you indicated for the second half also a little bit higher EBITDA than for the first half, so will this EBITDA in the fourth quarter be at the same level as in the third quarter?

My very last question would be on the factoring facilities. I think you said in the last call you have some factoring agreements and so on, and S&P adjusted 140 million as debt like. What is the utilisation of this 140 million as of the end of the third quarter?

Mr. G N Gauba: Okay, thanks a lot. I'm Gauba this side. On your question on Scherer & Trier, my colleague Vipin mentioned that prior to our acquisition the EBITDA was in the range of 8-10%, and that was under the local GAAPs, because they were preparing their accounts on German GAAPs. That's my understanding. However, as Vaaman emphasised that we focus more on the future or the current business pipeline, which is there, rather than going historical, so, we would come out with specific information as we get more into the details. It is just not more than 10-12 days that we have acquired the business, because the transaction got completed on 30th January 2015 only.

The second question on your capex for the full year, yes, we did mention that the average capex for last, next three years, are likely to be in the range of €175 million, and more likely front loaded, and we have spent, in nine months, €150 million, so on an average the run rate has been as per the business plan.

The actual capex for the fourth quarter and EBITDA, as per your other question, would be difficult for me to forecast because sometimes at the end of the quarter or the period you have some capex that gets preponed or postponed, and secondly, we don't guide on future. Historically our second half has been better than the first half, but beyond that I may not be able to guide you further on that.

Sven Kreitmair: Okay.

Mr. G N Gauba: On the factoring side our utilisation has been in the similar range of 30th September, so there has not been any significant variation compared to 30th September number.

Sven Kreitmair: Okay, and the utilisation was 140 million? Or, can you quantify that?

Mr. G N Gauba: No, that's a much lower amount, but we will have to get to the actual numbers looking at that.

Sven Kreitmair Okay. Thank you very much.

Mr. Kunal Malani: Again, just wanted to clarify, here, Kunal; in terms of factoring, from our perspective this is a completely non-recourse factoring. It's a true sale basis, and that's why, from a balance sheet perspective, it doesn't feature in. I know, you are right, S&P did take it and include it as debt like, but that's what S&P does. From our perspective it's completely non-recourse true sale basis and that's why it doesn't even appear as contingent liability on our balance sheet.

Sven Kreitmair Okay. Thank you.

Mr. Vaaman Sehgal: Thank you.

Coordinator: Our next question today is from Denis Piffaretti of JP Morgan.

Denis Piffaretti: Thank you for taking my questions. Most of my questions have already been answered, actually. I just wanted to quickly ask a clarification point on the capex. You mentioned € 175 million. Would that be for this current financial year or the next one?

Mr. G N Gauba: That was the average for the first three years when we came out with the bond document.

Denis Piffaretti: Okay, and do you have any visibility on what it would look like next year? Or you don't want to comment on that?

Mr. G N Gauba: As of now we don't want to comment on that because the car programmes, as they get finalised we will come out with that forecast.

Denis Piffaretti: Okay, that's fine. Thank you.

Mr. G N Gauba: Thank you.

Coordinator: 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.

It appears we have no further questions coming through on the phone lines.

Mr. Vaaman Sehgal: Okay, thank you. So we can then conclude this call if there are no further questions. We're all available. Our information is on the SMRP BV website if you have any further queries for us. We thank you for your support, and look forward to talking to you again on the next call. Thank you very much for dialling in, and your time.