Transcript

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SMRPBV - Quarter Ending 30th September 2015

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Laksh Vaaman Sehgal: Ladies and Gentlemen, Good afternoon. Welcome to the SMRPBV quarter ending September 30th 2015 results call. I'm joined by Mr Gauba and Mr Vipin Jain. As you can see, we've had very strong results this quarter in a very challenging macro environment. And without spending too much time, I'll ask Vipin to jump into the presentation to take you through the details of this quarter. Over to you, Vipin.

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. I would like to present the unaudited interim consolidated financial statements of the company for the quarter ended 30th September 2015.

During this call, I will be referring to our presentation which has already been uploaded on the company website and I would assume that most of the participants would be having that presentation as reference. So we will be referring to various slides from the presentation.

Currently I am on slide number two, which represents the legal structure of the group. If we look at the legal structure, the legal structure is the same which was there in the last quarter. There is no change since our last quarterly call.

We move to slide number three. Slide number three represents the global and diversified footprint of the growth. We have total 47 plants with presence in 16 countries. 20 plants are for the SMR business, 27 plants are for the SMP business, and we have a workforce of approximately 21,500 employees.

I move to slide number four and this is a little busy slide but I think there's a lot of information in there. Slide four represents revenue and EBITDA of the group and here we give the comparison from Quarter 1, which is the sequential previous quarter; and corresponding quarter 2 of the previous year to facilitate comparison. And this information has further been split into SMR and SMP businesses.

As we can see from the slide, the company has achieved significant revenue growth of 20% on a consolidated basis as compared to Quarter 2 of the previous year, and this has been contributed by 23% growth coming in the SMP business and 14% growth coming in the SMR revenues.

Quarter 2 is always a lean quarter due to summer holidays in Europe and therefore is not comparable to Quarter 1. Revenue growth in this quarter is largely driven by strong demand in the American/European market, start of commercial production from a Greenfield plant which we were constructing in Germany which is a plant at Schierling, and higher engineering revenues. This growth was partly offset by a slowdown in the Brazil and Chinese market, and as we all know, these two markets are not in the best shape during the current environment.

EBITDA also grew by 28% with impressive growth of 41% and 15% in the SMP and SMR business respectively. And as a percentage of revenue, EBITDA improved from 6.8% as a percentage to revenue in Quarter 2 of the previous year to 7.3% in the current quarter. And it also improved from 6.5% from Quarter 1 to 7.3% in Quarter 2. Again, if you look at both the businesses, SMR and SMP, they have shown consistent improvement in the EBITDA percentages.

We move to the next slide which is slide number five, which again gives similar information but on half-year basis and this is a comparison to the half-year of the previous year. And we also see similar trend with a revenue growth of 20% and EBITDA growth of 22% on a consolidated basis.

We move to the next slide which is slide six. And on this slide we have attempted to represent customer-wise profile for our current half-year – H1 of the current year – and its comparison to H1 of the previous year. If you look at the chart which is there on the slide, the inner circle represents information for H1 of the previous years and the outer circle represents the H1 of the current year.

While we see that all the customers have shown revenue growth but significant to highlight is the growth in the Daimler business which grew by 60% in the current half-year, Ford business which grew by 45%, BMW grew by 29% and Porsche grew by 43%.

Due to the significant growth in these customers, customer profile of the company has become much more diversified. And this trend is in line with our growth philosophy of 3CX15 which means no customer, no country and no component should be more than 15% of the revenue.

Now I move to the next slide which is slide number seven which represents the geographical spread of revenue among various regions. Europe continues to be the largest region, constituting 72% of our global revenues and this region constitutes various countries in Europe, largely contributed by Germany, Spain, Hungary, UK, France, Portugal and Slovakia.

APAC constitutes 16% of the total business of SMRPBV, of which China is 6% and 10% is the rest of the APAC region, represented by Korea, Australia, India and Thailand. America region constitutes 12% of which Brazil is 2% and 10% is rest of America, represented by plants in North America, close to Detroit, and Mexico.

We move to slide number eight which gives information on the order book and the new orders won during H1 of the current year. SMRPBV have received orders with lifetime values of €3.9 billion during the first half of the current year and with these new orders, the order book for SMRPBV stands at 12.5 billion which is a significantly higher number than the previous order book.

This indicates that we are winning incremental orders as compared to what we keep on putting into the production. And this is being reflected by the incremental order book. We would like to inform that the current order book will further diversify our customer base which is again in line with the group philosophy.

We move to slide number nine which is on the trade working capital. And if we look at the trade working capital as at 30th September 2015, it was at 17 days, which was better than 20 days in September 2014. Debtors were at 46 days, inventory at 17 days and accounts payable were at 46 days again. Quarter 2 normally has a higher working capital requirement due to summer holidays and this is a trend which we have been witnessing in the previous years as well.

We now move to the next slide which is slide number ten. And this represents the details on the capital expenditure. Total capital expenditure incurred during the first half was €118 million, which is divided again between the SMP business for 80 million and 38 million for the SMR business. And just a short comment here. Approximately 76% of the capital expenditure amounting to 90 million was incurred either on the new facilities or the expansion of existing facilities.

I move to the next slide which is slide number 11, which gives the detail of the cash flow movement during the half-year September 30th 2015. Operating profitability continues to be strong, generating cash flows of €120 million. Tax paid during this period was 29.5 million on a cash flow basis. Changes in working capital utilised 115 million due to payment of trade and other payables and also due to some of the seasonality effects, as I explained earlier.

Cash outflow on account of capital expenditure was 107 million and the cash flow from financing activities reflects the bond proceeds which we did in the earlier part of this year for €100 million and the repayment of existing third party indebtedness in the normal course of business. Interest paid was €15.5 million approximately during H1 of the current year. Closing cash balance was stable at €111 million as at 30th September 2015.

We move to the next slide which is slide 12, giving details on the cash and debt status. Gross debt increased marginally to € 662 million as compared to € 646 which was the 30th June number, and net debt increased to € 551 million. As explained in the previous slide, this is largely due to the capital expenditure and the changes in the working capital during the current half-year.

Slide 13 gives detail on the liquidity status of the company. As at 30th September the company had access to the liquidity lines of €498 million which represented the unutilised portion of committed revolver credit facilities and cash and cash equivalents in the financial statements.

Gross and net leverage ratios were also significantly lower than the thresholds. Gross leverage was at 2.59x against the threshold of 3.5 x and the net leverage was at 2.16 x against the threshold of 3.25 x.

So this was just a brief presentation on the financial results of the company. And with this, I would like to conclude my presentation. I now hand over back to Mr Vaaman Sehgal.

Laksh Vaaman Sehgal : Thank you, Vipin. Now, ladies and gentlemen, we would like to open it up for questions and answers. So Coordinator, if you could please help us with that.

Coordinator: Ladies and gentlemen, to ask a question, please press star one on your telephone keypad. If you wish to withdraw your question, press star two. When preparing to ask your question, please ensure your phone is unmuted locally. The first question today comes from Sudhesh from Kotak Mahindra Bank. Sudhesh, please go ahead.

Sudhesh: Thank you for taking my question. My question is on this order book of €3.9 billion that you have given. Can you give us some sense – sorry, on this €12.5 billion outstanding order book – how much of this order book is on the existing platform that you are supplying which will come up for refresh maybe three years down the line? So just wanted to get a sense if it's totally on the new models or is it some part of your existing business as well?

Laksh Vaaman Sehgal: Well, thank you very much for that question. Actually it's a mix. It's a mix of defending and new programmes. Don't have the breakup just off the back of my head, but, as you can imagine, the order book is growing. We've added, a significant part of that outstanding order book and out of the last summary that we gave, there's also been orders that have started to be executed. So we are very comfortable. We are thinking that the order book is swelling both with repeat and new platforms. So unfortunately I cannot give too much more information out on that but it's a healthy mix.

Sudhesh: Okay.

G.N. Gauba: We are thankful to our customers. It shows their growing customer confidence in the business which we have taken over.

Sudhesh: Okay. And my second question would be on the SMP growth. So if you look at the SMP growth, excluding SMIA, the growth is around 11% for this quarter in the half-year accounting which you have reported. So can you give us a sense on this growth, how much is coming from the existing business, existing growth and on new programmes?

Mr Gauba It'd probably be very difficult to pinpoint that because the product mix changes, the models change as well, so it's not a like-to-like comparison that we are making the same product because many of the programmes, as Vaaman said, would have got introduced and got deleted. I think both SMR and SMP combined together maybe roughly 800 programmes. I'm not very sure on the current numbers as of now.

Sudhesh: Okay. Thank you.

G.N. Gauba: Thanks.

Coordinator The next question today comes from Sanjay Dua from Bank of America Merrill Lynch. Sanjay, please go ahead.

Sanjay Dua: Yes, hi. So thanks a lot for the opportunity. Just two questions. Number one is that we see your staff cost has increased quite substantially and want to know why the average cost per employee is growing 10%, 12% now which used to grow at 3% to 4% earlier.

Laksh Vaaman Sehgal: Look, we'll just look into it a little bit more on those details. But you know we are in significant launch phase. A lot of the new programmes are coming up so we're definitely taking a lot of people. As you know, we have got a full volume test six to nine months before the programmes start. So that happens sometimes when we have a lot of new launches coming up. We are in the midst of doing significant model launches in both SMR and SMP so that would be a result of that. It's nothing that we think is spiralling out of control or something like that. . We think it's mostly because of the preparedness for the new programme launches that are about to happen.

Sanjay Dua: Okay. Because I see that the staff cost overall is increasing a lot more than the number of employees.

G. N. Gauba: Sanjay, we will check on that because sometimes the law of average may not work on the complete cost and this being summer holiday. But we'll just check and in case there is anything which we need to highlight, we will do it the next presentation. Thanks for highlighting.

Sanjay Dua: And just the other two things just want to understand is that you have given this customer-wise revenue breakup and it is fantastic to know that Daimler and a couple of others are showing such tremendous growth. Though I know that we should not be trying to figure out through the mix, etc. that you are giving, but we are trying to get the amount of growth that you have reported.

Laksh Vaaman Sehgal Sorry, didn't understand your point.

Sanjay Dua: What I'm saying is that there's this 60%, 40% kind of growth that you've reported for 100 basis point including contribution of Daimler, etc. It looks far more than what really is there though I don't want to really pick on that. But I just want to get a sense that… is it like the massive market share gain that you are doing there and how far are we from, kind of, reaching a much bigger number – a peak number?

Mr G. N. Gauba: I mean, it's a difficult question, Sanjay, we are still not very clear on the portion but yes, our revenues from these customers have grown in these higher percentages. As you are aware, Vipin also mentioned that we have just inaugurated Schierling plant which has begun commercial operation in the true sense in the last quarter. So obviously as new facilities come into the operation, so you'll see a higher growth coming up. But it's very difficult to be clear on what your expectation on this question is. Sorry about that.

Sanjay Dua: Thanks. No problem, sir. I'll take it up separately. Thanks. And once again, congratulations on a great result.

G.N. Gauba: Thank you, sir.

Coordinator As a reminder, if you would like to ask a question on today's call, please press star one on your telephone keypad. It appears we have no further questions on the phone lines.

Laksh Vaaman Sehgal: Okay, if there is no more question, we would like to conclude. But we do encourage everybody to take this opportunity to ask more questions. Otherwise also we're available through the website and you can have access to all the information over there. So please do feel free. If there is later on a follow-up question or something like that, you can always contact us through the website. Thank you very much for joining this call. It's leading up to Diwali so for all of you that know that, I want to wish everybody a very happy Diwali and we look forward to communicating with you in the next quarter. Thank you very much for joining the call, and thank you for your support.