SMRPBV Q2FY15 Investor Update Call — Friday, 14 November 2014

Vaaman Sehgal: Ladies and gentlemen, welcome to the second call of SMRPBV. We thank you for your time to join this call. I would just quickly like to introduce the participants that are with me on this call today. They are Mr. G N Gauba, director, Mr. Kunal Malani, director, and Mr. Vipin Jain, who is the CFO of SMRPBV.

We have some exciting updates to share with you, and I think we have shown a very good performance over the last quarter. So without much further do, I will request Mr. Vipin Jain to take you through the presentation, and then we are happy to answer all your questions on the results that we have posted this quarter. Vipin, please.

Vipin Jain: Thank you Vaaman. Good morning, good afternoon ladies and gentlemen. My name is Vipin Jain, and I am the CFO of SMRPBV, and on behalf of the company I would like to present unaudited results for the quarter and six months ended 30th September 2014. These results have been prepared under IFRS, and these are the first set of results which are presented after the revised capital structure in place, post issuance of bonds.

And since this is the first fiscal year of consolidation under IFRS for SMR and SMP at SMRPBV level, there are no comparative prior period figures available under the IFRS. We would also like to draw your attention that during quarter July to September, automotive demand is generally lower due to summer holidays and customer block closure, mainly in the European market, and due to this seasonality effect, revenues and financial performance for the quarter ended September may not be directly comparable to the quarter ended June.

On the last call, we got lot of feedback from the investors and analysts that, we should present some quarter on quarter trends and analysis, so we have reproduced here the results which have been published under Indian GAAPs under MSSL, which is the parent company, and these results are there for the last six quarters, and these are referred on slide 13 of the presentation.

With this we can move to the next slide, which is on the group structure, which is slide number two. The group structure on this slide is the same structure which we declared in the offering memorandum, and there is no change in the group structure in the last three months, and just to refresh our memories, we also did the minority buy-out in the first quarter, which was for SMR and SMP, we had already completed this in the quarter ended June 14.

We now move to the third slide, which is in terms of the global presence. So slide three represents the global presence of SMRPBV and again there is no change in the geographical footprint of the company with respect to the last quarter. Current footprint reflects very strong presence in developed markets like Europe, America, as well as good presence over the emerging markets like China, Brazil and India. SMRPBV have 37 manufacturing locations spread across 16 countries, and employing more than 18,500 employees globally.

The next slide, which is slide number four, represents the revenues and EBITDA for the quarter and six months ended 30th September 2014, and this has been further split into individual performances of SMR and SMP businesses. As we explained in the earlier slide, quarter two is always a lean quarter in terms of revenues, due to summer holidays in Europe, and therefore quarter two revenues and financial performance is not comparable to quarter one, so we will have to keep this point in mind whenever we look at the numbers.

However, we would like to confirm that the revenues and the financial performance of SMRPBV in quarter two is in line with our expectations. And for the purpose of comparisons under Indian GAAP, we would like to take you to slide number 13, so maybe if you can flip to slide number 13, wherein we have shown a quarter on quarter revenue increases for SMR as well as SMP.

So if we look at SMR, it's revenue grew by 14% on a quarter two versus quarter two comparison, whereas SMP revenues grew by 7% on quarter on quarter comparison. Even on H1 versus H1 comparison, SMR and SMP revenues grew by 9% and 7% respectively.

EBITDA, also improved from 8.8% to 9.1% of revenues for SMR on a quarter on quarter comparison, whereas SMP is also performing consistently at EBITDA of 6% for quarter two.

We can now move to slide number five. Slide number five represents the revenue split among various customers and regions. If you look at the chart which is on the top left hand side of the slide, SMRPBV has a fairly diversified customer portfolio, with Audi as the largest customer contributing around 29% of the revenue for the six months ended September 14.

Europe continues to be the key market for SMRPBV, with the major revenues being contributed by the German OEM. We would also like to take the opportunity to inform everyone that we have been awarded incremental orders for €1.3 billion during the six months ended April to September 14, and this € 1.3 billion is the lifetime sales of these new order. And with these new orders, the total order book of SMRPBV, which was announced at € 7.7 billion during the time of offering memorandum now stands at € 8.0 billion plus.

We continue to grow in terms of all the product segments within SMRPBV. And with the execution of these new orders, and with the commissioning of new plants, which have been explained in the subsequent slides, the distribution, both in terms of the customers as well as the geography, is going to be further diversified.

We now move to the next slide, and I think this is the most important slide of this particular presentation, which gives the new capital structure, and as well as the status of cash and debt on at 30th of September 2014. If you look at that chart which is there, on 30th of September, which reflects the revised capital structure after the issuance of bonds, we look at the big bar, which represents bond issuance of €500 million, here it reflects €484 million, because under IFRS we have to do a netting of the issuance expenses.

So this € 484 million represents the bond issuance. This bond money was used to repay existing third party indebtedness, including the shareholder loans, which was in line with the capital structure proposed in the offering memorandum. The term debt, which is at € 14.7 million, and the working capital, which is € 4.3 million, this represents the residual facilities at the non-obligor group, mainly China, Korea and India, and this is also in line with whatever we had disclosed in the offering memorandum.

Finance leases at €23.8 million is slightly higher than the pro forma capitalisation table, which was in the offering memorandum, and this is because of the fact that the finance lease at Mexico of approximately € 3 million is still not paid. We have a period of 180 days, and we would be paying this facility within the stipulated time frame as per the offering document.

€44.1 million represents the utilisation of RCF2 facility, and if we recollect this facility was established to support funding requirements for the engineering project. As evident from the subsequent slide, there are various plants which would start commercial production in quarter three and quarter four, and therefore the utilisation of RCF2 as on 30th September is slightly higher at €44.1 million.

€34.7 million represents the utilisation under RCF1 facility, and this comprise of a short term withdrawal of €25 million to support the seasonality impact in quarter two, which I already explained, because of the customer shutdowns in quarter two. Balance € 9.7 million has been set up as ancillary facility to support the working capital requirement at locations like Brazil.

If we look at the cash, it has been at a consistent level of 80 million, with 82.1 million as at 30th of September 2014. So just to conclude on this particular slide, the revised cap structure is now in place, and revised cap structure is in line with the offering memorandum.

We move to the next slide, which is the liquidity status, which is slide number seven. Slide 7 represents the liquidity status at SMRPBV level as at 30th September 2014.

And as I explained in the previous slide, RCF1 and RCF2 were utilised end of September and the unutilised limits available under the facility are €96.2 million.

In addition to this we had cash and cash equivalent, which is at €82 million, making the total liquidity available to the company at €178 million. And we would also like to inform that out of RCF1, which was €25 million which was taken as on 30th of September, we have already repaid 15 million in the month of October, which is going to further increase the available liquidity to the company.

The next slide is on the capital expenditure, and if we look at the capital expenditure from April to September, we have incurred a capital expenditure of €94.7 million. And if we look at that capital expenditure on the new plant, which we have tried to explain in detail this time, approximately 70% of the total capital expenditure, amounting to €66 million, has been incurred on the new facilities.

SMP setting up a greenfield site in Schierling, Germany, on which we incurred €34.4 million during this period of six months. This facility is already into trial run, and is expected to start operations in the current quarter. SMP is also rebuilding its paint shop in Polinya, Spain, on which we had incurred €11 million during this particular period. SMR is also significantly expanding its capacities in North America to cater to the new orders which have already been won and is in the sales pipeline. €5.6 million equivalent has been spent on this particular facility. This plant is nearing completion, and this is expected to start commercial production from quarter one of fiscal year 16. We are also starting up a new paint line at an existing plant in Oldenburg, Germany. This paint line was inaugurated last month, in the month of October, and the supplies will start from the current quarter.

We are also setting up a brownfield expansion plant in Botzingen, Germany, in the existing facility, and this is to support our new orders on manufacturing of door trims. This would be a new generation door panel which would be made out of the natural fibre based materials. Apart from this, we incurred €3.5 million in setting up our Actuator facility, which is a vertical integration for the mirror business.

SMP is also starting construction of one of the biggest plants in SMP, which would be in Mexico, and the capital expenditures has just begun, and in the last six months we incurred something like €1.5 million on this new facility.

Next three slides, slide number nine to slide number 11, give some more information about the upcoming facilities in Europe, along with product profile and SOP date. So if we look at slide number nine, it gives the flavour of the upcoming facilities in Europe. Slide number ten gives the details in terms of Asia Pacific facilities, and slide number 11 talks about the new facilities which are coming up in America.

We move to slide number 12, which is a summary of cashflow for the period ended September. This slide explains cashflow movement for the six months of the company. Operating profitability continues to be strong, and this is in line with our expectation, generating operating profit of €113.8 million. Working capital in quarter two had been higher because of higher activities on the engineering projects. As I mentioned, couple of plants which are ready for commercial production from quarter three and quarter four, and as we move forward, we see release of some working capital. We also had a cash outflow of 82.6 million on account of capex expenditure, which we already explained. Minority shareholding was also acquired at €28.9 million, which i referred on the corporate structure slide, and this was the SMP minority buyout.

Cash flow from financing activities represents the entire change in the capital structure with the issuance of bonds, so we see big numbers over there, but as we described in the previous slide, with all these changes now the capital structure is already in place.

Closing cash was marginally lower at 82.1, but then this was consistent to our expectation, which is 80 million plus. So overall cash movement has been in line with the business plan.

The last slide, which is slide number 13 gives the EBITDA and the revenue performance for SMR and SMP businesses, which has been reported under Indian GAAP for MSSL consolidation.

So this information would facilitate the comparisons with the corresponding previous period, which is previous quarter, or H1 versus H1, and at the same time, this can also support the investors and analysts to work out some LTM ratios in case they want to work out.

Before I conclude the presentation, I would also like to quickly give an update on the status of refinancing and security creation, as was committed in the offering memorandum. All the securities have been created as per the provisions of bond and RCF transactions, except for one facility, which is in Germany, where SMP Automotive Exterior , which also is in the final stages of execution and this will be completed shortly and the due date for completing this security is April 15. So we would be doing this activity much ahead of the stipulated time.

In terms of the repayment, I talked about pending payment of our finance lease at Mexico, but again, this would be done within this month or the next month, so we have, enough time over there. So for overall offering memorandum, we are very much in line with security creation, as well as the repayment, and most of the activities have already been completed.

With this, I would like to conclude the presentation, and hand over back to Mr. Vaaman Sehgal.

Vaaman Sehgal: Vipin, thank you very much. So now we open up the call to questions and answers. We are happy to take the first question.

Operator: Ladies and gentlemen, to ask a question on today's call, please press *1 on your telephone keypad. To remove your question, press *2, and please ensure to unmute your phone locally. And the first question is from Richard Phelan of Deutsche Bank. Richard, your line is now open.

Richard Phelan: Good morning. Just two questions. I was wondering if you could provide some guidance on the scope of the working capital unwind expected in the next two quarters, in light of how the working capital has transpired for the first two quarters of the fiscal year. And secondly, if you could just provide an update in terms of the progress in timing with respect to the Schierling, Germany site, I guess, you know, that would be one of the larger sites in terms of the capex committed for bumpers, and how that's proceeding in light of the plan to get that on-line in the next two quarters. Thank you.

Vipin Jain: Okay Richard, I would like to take this question, the first part which is on the working capital cycle. If you look at the working capital cycle as on 30th September, our net working capital cycle is close to 20 days. As we move forward, and I tried to explain you that, in this particular quarter, which was a lean quarter, we had slightly higher working capital, and as well as because of the new engineering activities, the working capital was slightly higher.

We see improving trend as we move forward from quarter two to quarter three, and from quarter three to quarter four, because that would be the time when most of the plants would be starting their commercial production, especially the Schierling one which you talked about. So we see that the working capital should come down from 20 days to a better number, maybe close to 18 days, and I think that would be a steady level of working capital as we move forward.

Richard Phelan: Okay, great, thank you.

G N Gauba: On the Schierling plant, we have done, in the quarter two entire test runs on the paint shop, as well as on the injection moulding, so the plant is ready. We have started doing some assemblies as well, and from the current quarter, which is October to December 14 quarter, we will start the commercial production to supply this to our customers from this plant now.

Richard Phelan: Okay, so on track and no issues with getting it started?

G N Gauba: Well, the car makers don't allow that, so whatever launch date they decided we follow that. And we are committed to the OEM, and thankful to the customers for their confidence.

Richard Phelan: Great, thank you very much.

Operator: The next question is from Sven Kreitmair of UniCredit. Sven, please go ahead.

Sven Kreitmair: Yes, hi. You generated, in the first half, an EBITDA of 110 million, so whatcan we just double that for the fiscal year, or is that just too easy? Then the second question would be net debt, what do you think in the second half? Will it go up or down from the first half's level? The next question would be, the Stoneridge wiring business acquisition, this is only relating to your parent, or is this in any way also affecting the bond issuing balance sheet?

Then the next one would be, the sale of receivables programme, S&P adjusts here for 140 million. I think you mentioned in the quarterly report on page 24 that you have some receivable finance facilities, factoring agreement, so what is the usage, at the end of the second quarter here? And then the final one would be, if I see all, in the presentation, all your new upcoming plans and facilities, what would be the estimated revenue potential, by the end of all this expansion? I think it was first quarter 2016?

G N Gauba: Vaaman Sir why don't you take question one and two, because Guidance on EBITDA is too tough and normally we don't do that and then I can take questions related to wiring harness.

Vaaman Sehgal: Okay, so the first question was what will be the EBITDA for the next six months. Unfortunately, we can't guide you on that, but historically you can see our performance in the second half is always better than the first half. So of course the whole team will work, we'll need to do better from this point, not worse. So I am sorry, I can't share too much more, but I hope you get the direction of what I'm saying.

Sven Kreitmair: Okay.

Kunal Malani: Even if you look at it historically, year after year, the Q3 and Q4 are always better than Q1 and Q2. So the second half of the year is always better than the first half.

Sven Kreitmair: Okay.

Vaaman Sehgal: For the second question, Stoneridge, I think that's been completely funded from the parents. There is absolutely nothing that has come from SMRPBV, its core focus is on the growth of SMR and SMP and parent is fully sufficient to handle its own mergers and acquisitions, dividends, everything. So I don't think there's any concern that anything from here will be used to fund any acquisitions of MSSL. And of course MSSL has a very strong balance sheet to be able to do that themselves. Mr. Gauba, I'll hand over to you for question three.

G N Gauba: Just to add there as you rightly said, it's the wiring harness business of Stoneridge, and the wiring harness business is done at the parent level. So there is no conflict of interest, so that is very clear, that wiring harness business has to be done by the parent, and SMRPBV is focused on the mirror business and the module business as we have discussed.

Sven Kreitmair: Okay.

G N Gauba: As far as factoring is concerned, we have got the limits in place, and depending upon these levels at the particular point of time, discounting is done on receivable purchase and so as Vipin already explained, due to seasonality factors, the sales in the quarter July/September are lower, and actual utilisation would also be lower than the peak utilisation we would have considered in our document.

Sven Kreitmair: Okay.

G N Gauba: And on the net debt level, while Vaaman did mention to you about the EBITDA, our policies and our past trend record. We are spending on the new capexes on Schierling plant and other plants, I'm sorry, it would be very difficult to give turnover of each of the ten plants which are under construction, how the revenues would be generating. But at the same time, most of these new plants are doing new programmes which were not being done by the previous management. And some rebuilding of the capacities like Oldenburg and Polinya are likely to improve the operating performance of the company.

Our net debt we expect to be in the same range, not exceed 2.5 times of EBITDA. That's our guiding principle.

Sven Kreitmair: Okay. So the revenue potential cannot be estimated, for all these upcoming facilities?

G N Gauba: I mean, I cannot give this on the call, because there are multiple launches globally So if you want to have it, I will get that done, and we can take it off-line.

Sven Kreitmair: Okay.

G N Gauba: You will appreciate that the launches are not at one point all together. But definitely set up of the plant is on full volume test, which we do whenever the plant is set up, and I explained about Scherling so that was done during the July/September quarter. So we have the paint shop ready, we have the building ready, and as the programmes get launched, we keep on adding the assembly line and start delivering to the customers based on that individual programme.

Sven Kreitmair: Okay, thank you. Can I ask one add on, on the orders, because you reported a nice order intake. So what is your order book now, at the end of the second quarter? I think you mentioned in the bond prospectus, 7.7 billion at fiscal year end? What is it now? Is it now higher, or…?

Vipin Jain: Yes, with the new orders which we have won, which is 1.3 billion during the six months, our order book which was 7.7 as at 31st of March now stands at eight billion plus. So there are incremental orders which we are receiving from the customer.

Sven Kreitmair: Okay.

Kunal Malani: Just to add on that, the order book that we speak about, is the new order book that is for programmes which are not already running. So these are programmes which are yet to commence production.

Sven Kreitmair: What is the average maturity of this order book? Four years, or five years, or…?

Kunal Malani: It ranges from five to seven years.

Sven Kreitmair: Okay. Thank you very much, that's all from my side.

G N Gauba: Thanks.

Operator: To ask any further questions, ladies and gentlemen, please press *1 on your telephone keypad now. It appears we have no further questions coming through.

Vaaman Sehgal: Well, I think there's no further questions, we're also always available through our website, and through the communication that we've already shared with all the investors, if you have any further questions. We thank all of you to be on the call, and to be part of this company, and are grateful for your confidence in us to keep delivering a good, better and better results.

So thank you once again for being on this call, and we look forward to being in touch with you with the next quarter. Thank you.