November 4, 2022

National Stock Exchange of India Limited Exchange Plaza, 5th Floor Plot No.C/1, G-Block Bandra-Kurla Complex Bandra (E) MUMBAI – 400051, India	BSE Limited 1st Floor, New Trading Ring Rotunda Building P.J. Towers, Dalal Street Fort MUMBAI – 400001, India
Scrip Code : MSUMI	**Scrip Code : 543498**

Ref.: Transcript of the Investor call

Dear Sir (s)/ Madam(s),

This is with reference to our letter dated October 31, 2022, for Audio of Conference Call with the investors on the financial results for the 2nd quarter ended September 30, 2022, in this connection please find enclosed herewith the transcript of the aforesaid conference call.

The above information has also been made available on the website of the company www. mswil.motherson.com.

This is for your information and records.

Thanking You,

Yours truly
For Motherson Sumi Wiring India Limited

POOJA MEHRA

Digitally signed by POOJA MEHRA
Date: 2022.11.04 18:05:09 +05'30'

Pooja Mehra
Company Secretary

Encl:a/a

"Motherson Sumi Wiring India Limited Q2 FY23 Earnings Conference Call"

(Unedited Transcript of the conference call held on 31st October 2022)

October 31, 2022

MANAGEMENT:

MR. VIVEK CHAAND SEHGAL
CHAIRMAN,
MOTHERSON SUMI WIRING INDIA LIMITED (MSWIL)

MR. LAKSH VAAMAN SEHGAL
DIRECTOR,
MOTHERSON SUMI WIRING INDIA LIMITED (MSWIL)

MR. ANURAG GAHLOT
COO AND WHOLE TIME DIRECTOR,
MOTHERSON SUMI WIRING INDIA LIMITED (MSWIL)

MR. G. N. GAUBA
CFO,
MOTHERSON SUMI WIRING INDIA LIMITED (MSWIL)

MR. PANKAJ MITAL
COO AND WHOLE TIME DIRECTOR,
SAMVARDHANA MOTHERSON INTERNATIONAL LIMITED (SAMIL)

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY23 Results Conference Call of Motherson Sumi Wiring India Limited. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vivek Chaand Sehgal. Thank you and over to you, Mr. Sehgal.

Vivek Chaand Sehgal: Thank you very much. Good evening ladies and gentlemen. We are here to answer your questions on our results. A brief about this year it is a work in progress kind of a quarter, good indication will be available at the moment you see the half yearly results with the first quarter. The turnover is up almost about 31% with cost net figure of Rs. 1,800 crores which is very heartening. We have 2 new branches that have been started in this quarter, so the results on the quarter might look damp but we are very sure that the things would be mitigated very soon with the customer because most of the costs have been done in consultation along with the customer. With this, I hand this back and would be ready for your questions. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Kapil Singh from Nomura. Kindly proceed.

Kapil Singh: My first question is on the onetime cost that you have talked about in the presentation, would it be possible to explain in slightly more detail on both of these bullets that we have, the initial startup costs, ideally if you can quantify both of these initial startup costs and additional costs to meet increase volume because at least on a Q-on-Q basis, what we have seen is about 10% increase in revenues, so was there some element like excess capacity requirement which led to higher freight cost or manpower cost and also how will these onetime costs shape up in the coming quarter, will they be mostly eliminated in the coming quarter itself or it could take some time?

Vivek Chaand Sehgal: Gauba, can you answer this question along with Anurag?

G. N. Gauba: Kapil, as Mr. Sehgal said in preamble and we have also explained that we have begun two plants which are at a final stage, one in Chennai and another one in Bangalore, while we have employed the manpower who are being trained and in certain reasons as you might be aware there is a significant increase in the minimum wage cost from this quarter, so while it may be possible to quantify some part of it, but not all because these costs will get offset in two ways, number one, when the volumes come, the matching revenues will come more likely from next 2 quarters, more so in quarter 4 as well as the efficiency level was up, whatever is the front uploading of the resources that got reduced as well as the support from the mother plant in the other region. So, this is how this cost will get neutralized. The second question, in terms of the excess capacity or those things, that is also in relation to the other customers where we had a demand and in order to meet the demand we had to ensure that we will meet the customer demands for which we have to incur additional cost on the manpower as well as both incoming and outgoing freight expedited cost.

Kapil Singh: Sir, will it be possible to quantify this, the costs that we have incurred ballpark what range it would be?

G. N. Gauba: Let me see if we can share it in some form or the other, but we would like to, because it gets distributed from the support coming from the other plants also. That is the reason we are not able to put it in one cost bucket, but surely we will try if we can put it in some form, but on a ballpark, you can say between Rs. 30 crores or so plus minus.

Kapil Singh: And sir, one question, the second question was on the commodity cost as well, we have seen copper prices dropping by 15% for the quarter, but we have seen an increase in raw material to sales for the company, so if you could just help us understand how does the pricing work with the customer and when will we see the benefit of lower copper price?

G. N. Gauba: As you are aware, we have a passthrough arrangement with the customers which could be different for different customers, I mean it is mostly quarterly, but that quarterly need not be a calendar quarter. When we are talking about a comparison either with the previous quarter as well as from the last year, while there is a decline, but there is also a Japanese Yen movement which is also impacting the sales price or the material consumption. At the same time, we do have purchases in the US dollar which will have adverse impact on the raw material cost, but I would say Kapil, it is in our given the number of child parts what we do and the number of customers which we are adding, the new products, which we have added in the last quarter, it is almost difficult to do comparison 1:1 from the previous quarter or same period last year, but yes, on an overall basis, the impact of these factors would get neutralized because we have always said that copper is a passthrough arrangement. Surely, there will be some additional cost which goes including the raw material when you are training the people or when you are setting up of the units.

Kapil Singh: So, sir, can we at least say that the cost has peaked for you and if directionally things should improve going ahead?

G. N. Gauba: Yes, we hope the prices become stable and then there is always a condition that future is something which is neither you are aware nor I am, but if the things get more stabilized, then the things should do better.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal. Kindly proceed.

Jinesh Gandhi: Just a clarification first, this Rs. 30 crores impact which you mentioned that is for both the items, right, startup cost as well as higher cost to meet demand?

G. N. Gauba: No, these cost would be more in the nature of the manpower costs which are not being fully utilized, expedited cost as well as in terms of certain costs which go into a new unit in the initial setup including some of the assembly boards or tools which we have to develop for the new plants.

Jinesh Gandhi: And secondly, with respect to commodity side, so would it be fair to say we saw some increase in commodity cost in this quarter because of reasons like sale purchase effect which is there and which may normalize the cost stabilizers going forward?

G. N. Gauba: I mean it is a factor of many aspects, I mean you are right, there could be a cycle, there could be also foreign exchange which could have an impact as well as the product mix because you are not producing the same set of harnesses which were produced in the previous quarters, so this will always remain into a broader range rather than being specific, but as we have always focused on how we can improve upon what the current business is, so this is where the focus of the team is how we can going forward, a, mitigate some of the cost escalations which has actually happened or will continue or get a compensation from the customer, b, improve upon internal efficiencies as we stabilize on the new units.

Vivek Chaand Sehgal: The customers have been asking us for lot of increase on the supply side and that has also helped us to actually negotiate with them in a much faster pace the compensation of the same that can be there_ but go ahead for the second question, please.

Jinesh Gandhi: Second question is on the CAPEX side, so first half we incurred close to 85 crores of CAPEX , would you expect similar run rate for second half or last part of this CAPEX for Bengaluru and Chennai plant is done, so second half would be much lower than that?

G. N. Gauba: Jinesh, as we had given a guidance for Rs. 125 crores plus minus 25 plus or minus, but so we have Bangalore and Chennai, most of the CAPEX is already over, but as we are seeing a good robust demand coming from the customer, so there we will always we need to balance more and more capacity, but we should remain within our range what we guided originally.

Jinesh Gandhi: So, primarily between Rs. 125 to Rs. 150 crores is what it should be for FY23?

Vivek Chaand Sehgal: Yes.

Moderator: Thank you. The next question is from the line of Raghunandan NL from Emkay Global. Kindly proceed.

Raghunandan NL: Sir, with reference to the new projects company has been focusing on high voltage wiring harness for EVs and earlier you had indicated that supplies have commenced to customers in EVs, two-wheelers and buses, if possible can you provide some color in terms of how the customer additions are proceeding and what portion of revenues or future order books will be EV related projects?

Vivek Chaand Sehgal: These are early days definitely we can give some more color, but still differentiation of EV as the percentage there is more, but Pankaj, Gauba, Anurag if you can add some color to this.

Pankaj Mital: Ragunandanji, this is Pankaj, so on the high voltage side, of course as Mr. Sehgal said the penetration is not so big at the moment, but then as we had mentioned earlier, we are continuously engaged with the customers and adding on more customers in the three areas of be it pass cars, two-wheelers or the buses as well and even on the smaller segments like the small trucks and other things, whatever and even the machine maker, so wherever the customers have required that, you company is at the forefront of providing solutions to the customers.

Raghunandan NL: On the high voltage part, would it be possible to indicate what would be the current level of localization, how do you see this localization increasing in future over the coming quarters or years?

Pankaj Mital: It is depending on the customers and some of the customers, there is good amount of localization, although most of the connectors are imported as of now, but some localization is going to take place even on the charging side and we all are working together with our customers to provide more and more localization as the time passes, be it the cables or some of the connections. As you know that there is a huge variety at the moment and as things stabilize a step by step approach between us and the customers together.

Moderator: Thank you. The next question is from the line of Vinod Malviya from Union Mutual Fund. Kindly proceed.

Vinod Malviya: Sir, my first question was regarding the raw material, so was there any inventory loss during the quarter when I say inventory loss and the copper price have fallen by 15% on quarter-on-quarter basis, so where you are holding any copper inventory which led to inventory write-offs during the quarter?

G. N. Gauba: Sir, we are not holding any stocks of the copper, what we buy wire and then based on the MOQs or the economic order quantity, there could be some stocks, but normally even the wires that we buy from our parent company, SAMIL as you are aware of MSEW, we buy just for next 2 days or 3 days, so the inventories of wires would also be limited, I mean it is such a bulky item, you can't stock of it either and we do not do any hedging or those things, because it is a passthrough with the customer.

Vinod Malviya: The second question was on the employee cost, as you said that there were two new facilities which have started and there was an initial startup cost, should the Rs. 17 crores are employee cost in this particular quarter what we have seen, should we see this as a normalized run rate and from here onwards we should see a very normalized growth in the employee cost or there could be some further increase in the employee cost in the coming quarter?

G. N. Gauba: I think there are two parts to it, number one we are talking about the new units which we have set up and where we have not yet got the matching revenues coming to that. Secondly, growth, one of the important aspect which you have seen is that there is a robust growth which is coming and there is a demand, so if there is a demand and we are expanding the capacities and adding more lines even in the existing capacity, so the direct manpower cost in absolute amount can vary, but surely our endeavor would be to achieve the ramp-up and the efficiency sooner, so that we are able to bring down these cost as a percentage to sales, but we do see a good growth in the market.

Vinod Malviya: Any number which you would like to quote over here as a percentage of sales, employee cost should ideally in what range currently it is 17.5%, what should be the ideal numbers which one should work with?

G. N. Gauba: That would be too micro guidance for me to give because product mix as well as the ramp-up of the new programs or those things, so as of now, we have not been guiding on a quarter or for a year basis.

Moderator: Thank you. The next question is from the line of Gunjan from Bank of America. Kindly proceed.

Gunjan: I just had two quick followups, I am not very clear on this copper contractual passthrough, I understand it is the passthrough and I shouldn't focus too much on the percentage, but would you give some sense on what is the typical time lag, is it 6 months, is it 3 months for the copper correction to start reflecting in the contracts? And the second question, I think you mentioned is that there could be various moving parts in terms of mix in terms of currency, if you can give some color on mix, by mix you mean the vehicle categories or how should I be thinking about the mix, is it OEM mix, is it segment mix, what is it that really dragged the gross margin is what I am trying to understand?

G. N. Gauba: One, as far as the copper contractual is concerned, as you might be aware the wiring harness part numbers are too many, too large, no two harnesses go into one model, so you have given the number of path numbers where the copper is being used and one needs to carry out the adjustment, there is normally a quarter lag, so something like may be in a simple word this quarter will, average copper price will apply to the next quarter. In some cases, the calendar quarter may not be followed by the customer, it could be a different basis which may be adopted by the customer, so when we talk about a lag, that is what we talk about a lag and that lag is not only for copper but also for Japanese Yen, particularly when we talk about the moving parts or the product mix, we are talking about there are many new part numbers, new models which have been introduced recently and which are also in the pipeline, so the harnesses or the products which we were supplying a year ago or 2 years ago are not the same as today. Some of these product mix has also necessitated because of the supply chain issue, for example, when the chips are in short supply, some of the customers have focused on supplying those models where the uses of the chips is lower. So, the point which we are making within a customer, there could be a change in the part numbers, which we are actually supplying which could have a varying local content, which could have a varying copper content as well as the varying contribution levels. So, this is what we talk about. On the foreign exchange, as you know the Japanese Yen has been at a historical lowest level, in fact it touched the US dollar to Yen is 150 whereas US dollar has been strengthening, so in terms of if we have imports also child parts which are coming in US dollar that will have adverse impact on the cost whereas on the Japanese Yen, it will get neutralized till the time the customer had to adjust these prices is over.

Gunjan: This is clear, just one quick if I can add on, just these new plants, the Bangalore and the Chennai one, these are both in the high voltage segment, right, these were to address the EV segment if I recall, so the ramp up as it flows through from these two plants should be at higher margins, is that a fair assessment, particularly the Chennai one?

Vivek Chaand Sehgal: I don't think we ever mentioned that, but these are for both, the EV and the ICE engine, also for the hybrid engine, so I don't think Pankaj, have we advised on what the **harness we will be making** because that is contrary to Motherson?

Pankaj Mital: No, these are not the plants, as these are as you rightly said, these are for both low voltage and hybrid vehicles and ma'am may be referring to the earlier discussions we had in the previous discussions that we had set up EV facilities also in our current plant in Chennai, because in Chennai we have multiple plants, so this is not about the new plant, but the earlier plant where we have mentioned that we have EV harness processing in Chennai as well as Pune as well.

Moderator: Thank you. The next question is from the line of Basudeb Banerjee from ICICI Securities. Kindly proceed.

Basudeb Banerjee: It can be a repeat question, in the initial part when you said the Rs. 30 crores cost incrementally for ramping up the new facilities which got distributed between staff cost and other expenses, so does the percentage of sales that will come down with revenue ramping up or this absolute cost will go out in subsequent quarter, so if you can help out to understand that?

G. N. Gauba: Yes, I think I had also answered in the previous question, the cost in relation to the manpower cost or those will come down as the revenues will come from these facilities. There could be some front ending of the resources also, so that efficiency levels it gets more evened out. Certain costs which are onetime cost like if we are spending on the assembly boards or some tools or fixtures, these get eliminated altogether, so it is a combination of the two.

Basudeb Banerjee: So, out of the Rs. 30 crores, how much is for those oneoff which will get eliminated?

G. N. Gauba: Sir, I think that would be too micro details. We can get it more as the revenue growth in that case.

Basudeb Banerjee: And second question as a continuation of the last couple of questions, so like because of product mix, currency moves and all those reasons that we mentioned in this gross margin further deteriorated and overall margin is at the single digit level, so as an external percentage of expense how to look at the gross margin volatility down the line, how one should look at the factors which will deliver the stability of the gross margin down the line, how to look at that from our 2-4 quarters perspective?

G. N. Gauba: I think this is the reason why we don't guide you on the margins and we say our focus is on return on capital employed because I think the moment we get into more discussion on the gross margins which can vary because of different factors and MSWIL business is now very focused on the domestic market business depending upon the import content, localization and all those things, it can actually put us into the same mode, so that is why we have been since 90 we have been guiding on the return on capital employed.

Basudeb Banerjee: And from gross margin perspective, any preventive headwinds till persisting or remaining which can potentially impact in subsequent quarters or largely you see as today's rate that cause dynamic moving parts, gross margin would have bottomed out?

Vivek Chaand Sehgal: You are assuming that we can predict the future, but we are grateful that you think we have that confidence that we can do that, but Gauba I am sure you can answer this question as like you are looking at magic ball.

G. N. Gauba: I think we have already said this in our presentation as well as in Chairman speech that whatever we had the change in the cost structure whether current, so we are ongoing discussion with the customer, so that we can mitigate some of these cost escalations. So, to that extent, there is a change in the cost structure and that is for all, so that gets offset from the price and rest of it is internal efficiency improvements, setups and all that so it is like all the 3 parts.

Moderator: Thank you. The next question is from the line of Kapil Singh from Nomura. Kindly proceed.

Kapil Singh: So, can you talk about these new facilities, Bangalore and Chennai by when can we expect a reasonable level of ramp-up at this time, this is going to happen in the current financial year itself or it could take a year or so?

Pankaj Mital: This is Pankaj here. We expect ramp-ups happening and we can't give a specific date because these are all car maker related volumes, but maybe we would see Q4, Q1 of next year, so not like another one year or something, but may be next 2-3 quarters.

Kapil Singh: And if you could also elaborate a little bit, you mentioned that we are in discussions with the customers for alignment to new cost structure, if you could just elaborate a bit what do we exactly mean by new cost structure?

Pankaj Mital: Kapilji, it means that whenever there are some unprecedented costs which have been increasing, then that is what we mean by the new cost structure, so if the human resource costs have gone up beyond normal levels with which it goes up, then that is the thing we are discussing. That is anything which is because that is the way it is a very transparent working with our customers.

Kapil Singh: So, this is mainly referring to the human resources cost which we had to incur because of minimum wages?

G. N. Gauba: Yes, as well as like freight cost or during the ramp-up if there are certain things, so all those things are part of our discussions with our customers.

Moderator: Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Kindly proceed.

Sonal Gupta: Just continuing with Kapil's questions, like I am just trying to understand he asked, like we have passthrough for the raw material and related costs and I would imagine that like may be some cost like you are pointing out that may be there is a sudden beyond minimum wage increase etc., which is impacting you, but is there a new cost element here or is it because RM etc., of course FX you have been passthrough, right?

G. N. Gauba: Sonalji, we have a passthrough only for the copper that was the past because historically, we have never seen component makers asking for price revisions and all that. So, there is a passthrough for copper as well as for Japanese Yen, so when it comes to certain other inflationary trends as you have seen, globally component manufactures, supply chain issues or those were the costs which were historically at the same level, similar level, they have changed quiet substantially. So, that is something which is a change in the cost structure or cost scenario, just to answer your question at a broad prospective, but surely, some of the factors which you talked about on a product mix or those things can vary the raw material cost, but that can change our value addition and all that depending upon the localization level, import contents, etc.

Sonal Gupta: But just to clarify, so you only have for Japanese Yen, is it because you don't have much of US dollar imports or you don't have a passthrough for US dollar imports?

G. N. Gauba: These are very specific details. It can vary from customer to customer here, Sonal.

Sonal Gupta: At a general level we don't have a large US dollar imports, would be correct assumptions, is it?

Vivek Chaand Sehgal: Car makers are not here anymore, so on the lighter side, but Gauba, you can answer that.

Pankaj Mital: Sonalji, wherever we do have now a large, if there are projects which have large US dollar we do, undertake also for those projects to cover ourselves up on that is the volatility which is there in the US dollars, but like Mr. Gauba said, it is true that in the past the major imports were from dollars and then we had a good localization content and it is not just a currency, but it is also as you mentioned about the inflationary tendencies globally which have impacted the component makers which led to the cost increase as well.

Moderator: Thank you. The next question is from the line of Priya Ranjan from HDFC. Kindly proceed.

Priya Ranjan: Just one thing, what is the imported content in your raw material?

Vivek Chaand Sehgal: The tough questions, there are so many important new models, old models, very difficult to quantify, but Gauba, can you give the answer to this.

G. N. Gauba: Normally, we do this exercise at the year-end as part of the requirement, but let us see if we can take that data separately, but as of now, I don't have this number available with me.

Priya Ranjan: Has it changed dramatically with more of a hybrid etc., models going on stream?

G. N. Gauba: I mean as a percentage, hybrid and EV will not be a larger percentage, but from model to model, it can vary as Mr. Sehgal already said in the preamble that it is very difficult to describe on that with it.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Vivek Chaand Sehgal for closing comments.

Vivek Chaand Sehgal: Thank you very much. It is a work in progress kind of quarter because we had huge expansion on the same side, the plants are almost ready for production, so I think you would see the efforts of team to mitigate whatever pressures for last quarter and it happened very soon and I think you would see that the company comes up very strong in the coming quarter and the quarters. So, thank you all very much and thank you very much for attending this. Good bye.

Moderator: Thank you. On behalf of Motherson Sumi Wiring India Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.