motherson
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August 21, 2024

BSE Limited
1st Floor, New Trading Ring
Rotunda Building
P.J. Towers, Dalal Street, Fort
MUMBAI – 400001, India

Scrip Code: 517334

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor
Plot No. C/1, G-Block
Bandra-Kurla Complex, Bandra (E)
MUMBAI – 400051, India

Symbol: MOTHERSON

Ref. **:** **Transcript of earning conference call**

Dear Sir(s)/ Madam(s)

This is with reference to our letter dated August 13, 2024, informing about the audio recording of earnings conference call on the unaudited financial results for the quarter ended on June 30, 2024.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the aforesaid earnings conference call.

The above information is also available on the website of the Company: www.motherson.com

Thanking you,

Yours truly,
For Samvardhana Motherson International Limited

ALOK GOEL
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Date: 2024.08.21 14:58:23 +05'30'

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"Samvardhana Motherson International Limited (SAMIL) Q1 FY25 Results Conference Call"

August 13, 2024

Management:

Mr. Vivek Chaand Sehgal,
Chairman

Mr. Laksh Vaaman Sehgal,
Director

Mr. Pankaj Mital,
COO and Whole Time Director, SAMIL

Mr. Kunal Malani,
CFO, SAMIL

Mr. Rajat Jain,
COO, Vision Systems Business Division

Moderator: Ladies and gentlemen, good day and welcome to Q1 FY25 Results Conference Call of Samvardhana Motherson International 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 "*" and then "0" on your touchtone phone.

I now hand the conference over to Mr. Laksh Vaaman Sehgal. Thank you and over to you, sir.

Laksh Vaaman Sehgal: Good evening ladies and gentlemen and welcome to the SAMIL's Earnings Call for Q1 FY2025.

The Company reported quarterly revenues of approximately Rs. 28,900 crores, which is up 29% EBITDA of Rs. 2,785 crores, which is up 44%; and PAT of Rs. 994 crores, which is up 65% compared to the same quarter last year. Being a ROCE focused Company, we monitor this metric diligently. And I would like to report that the consolidated ROCE based on Q1FY25 annualized basis is now sitting at 18%. While we have a bit to go towards 40%, we will surely make more progress on this number in coming quarters.

Both organic businesses and acquired assets have demonstrated strong performance in this quarter. While on one hand, the organic businesses continue to improve absolute profitability and provide growth over the market. On the other hand, acquired assets continue to contribute to our enhanced size and scale.

All the M&As announced over the past many quarters have been successfully closed in SAMIL. And SAMIL is now a more diversified and robust platform of growth for all stakeholders. It is important to highlight that all acquired assets together have been margin-accretive. And as synergies start to unfold, things should improve even further.

These results are to be viewed against an external environment, where on the macro side, certain pockets of challenges still remain, such as commodities like copper remain inflated during the quarter and is now showing signs of softening. The logistic costs creeped up significantly due to the Red Sea crisis and congestion at the Asian ports, which resulted in longer lead times and hence higher inventories. You can see more on this on Slide #6.

On the vehicle production side, I want to highlight that the light vehicle production remained largely flat on a year-on-year basis. Significant amounts of growth coming out of India and China is being offset by softness of demand in the developed markets, especially Europe. Some of the industry forecasts are projecting light vehicle production to be flat or even slightly de-grow in fiscal 2025 as compared to fiscal 2024. This is being attributed to the evolving platform mix due to sluggishness in EV pickup. Motherson, however, is a powertrain neutral Company which positions us well in the medium term. Further, the automotive trends of premiumization and SUV still hold forth and continue to drive content per vehicle growth, which again augurs well for us as well. Please refer to Slides #7 and #8 in the presentation for more information on this.

The diversification towards the non-automotive business, which we set out in our five-year plan, is now gaining traction. On the aerospace side, during the quarter, we closed the acquisition of ADI Industries, which brings in capabilities of soft and hard metal machining, which is critical for engine components, and setting our footprint right next to the customer. In India, we are setting up two plants to support new product lines and vertical integration and are expected to come on stream in the second half of FY25.

Another key non-auto business being developed is the consumer electronics. It is truly a testament of engineering and manufacturing capabilities we have at SAMIL. This new vertical, we envisage that will require investments of around Rs. 2,600 crores over a period of time. We are setting up state-of-the-art facilities with an estimated area of more than 130,000 square meters for this project. We expect start of production around September- October, with subsequent ramp up in production over the next year.

Our CAPEX for the quarter was Rs. 1,078 crores. As announced earlier, we are setting up new plants to support growth coming out of emerging markets. Out of the 18 Greenfields we have announced earlier, two have been operationalized and commenced production in India and China respectively. Additionally, we are adding one new plant in Mexico. I would like to highlight that seven Greenfield plants are being set up in the non-automotive space in line with our diversification aspirations.

For further details on this, please refer to Slide #12. Our CAPEX guidance remains the same at Rs. 5,000 crores plus minus 10%. However, with all the acquisitions closed and in light of the increased business parameter that we have with these new businesses, we are reassessing this. And businesses such as Yachiyo, Lumen and ADI have all come in.

During the quarter, net debt increased by Rs. 3,000 crores. This is primarily attributed to the M&A closures and increased working capital requirements due to the Red Sea crisis and volatility in customer schedules.

The increased working capital expected to normalize in the second half of FY 2025. Despite the increased net debt and CAPEX for growth, the net leverage ratio at the end of the quarter remained at 1.5x. This reflects a strong focus on our financial prudence. The net leverage ratio is well within our management targets and our comfort, and our focus is to constantly deliver. Our disciplined financial track record is demonstrated by multiple rating upgrades by esteemed agencies. Please refer to slide 11 for details.

On capital market actions, I would like to provide an update on the following. During the quarter, we also issued our first dual investment grade bonds of US $350 million being a debt neutral transaction for us. We are comfortable with our debt maturity profile and have access to well diversified set of capital resources with 1.4 billion available from committed and undrawn facilities and also unrestricted cash and cash equivalents. Please refer to the debt and liquidity profile on slide 13.

Our equity continues to be very dear to us. If we were to consider raising fresh capital, it will be for the growth of the Company. Over the past 18 months, we have closed a record number of M&As and we continue to see more opportunities in the developed markets.

On the organic side, we are continuing to invest in growth CAPEX in the emerging markets for both automotive and non-automotive businesses. As we evaluate these opportunities, we want to proactively develop our capital structure that will position us well to be able to undertake some of these opportunities. We hence thought it is prudent for us to take an enabling resolution for potential capital raise in the future. I would like to thank the team for delivering great results. And with this, I would like to conclude my remarks and open the floor for your questions. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Jinesh Gandhi from Ambit Capital. Please go ahead.

Jinesh Gandhi: A few questions from my side. One is if I look at the organic growth excluding acquired assets, the number which we provided, organic growth had been largely flat on YoY basis. Do you expect this trend to continue given the commentary of muted vehicle production growth or we should be continuing to grow ahead of the industry based on the Greenfield plants which are coming?

Laksh Vaaman Sehgal: Thanks, Jinesh. Which number are you referring to?

Jinesh Gandhi: Primarily deducting the Rs. 6,000 odd crore from the revenues and looking at organic growth.

Laksh Vaaman Sehgal: Right. So, look, I think definitely there is quarter on quarter variance that happens, Q4 versus Q1 and Q1 over what we had last year. We are also obviously adding in a lot of the new businesses that are coming in. Sometimes in quarters, depending on the launches and as they are taking, you could see some differences that happen on a quarter basis. But overall, we are seeing growth because of the macro factors of premiumization and the SUV trends that are happening and our growth in content. So, over a longer period of time, we are seeing definite growth that is happening, not just because of the acquisition, but also on the organic side. But like I said, there could be small variations that happen on quarters, depending on branches.

Jinesh Gandhi: Content obviously is one of the key drivers for our work on this category. And second question is on the consumer electronic component business where we are looking to invest about Rs. 2600 crores. So, is this entirely for JV with BIEL Crystal or this is beyond that?

Laksh Vaaman Sehgal: So, this was particularly for the investments that we are making for that JV, for our businesses that we are gearing up for that consumer electronics business. we believe that we will have a good chance for winning a lot of business from customers.

Jinesh Gandhi: And by what will be the timeline for this investment of Rs. 2600 crores, by when it should be up and running?

Laksh Vaaman Sehgal: So, we have already seen some of that business start towards the second half of this year and it will ramp up next year. And this investment will continue for over a period of time, so a couple of years as well. So, we are bringing that information out upfront, but as the facility comes up and the business picks up, this will be over a period of time.

Jinesh Gandhi: And the 18 Greenfield plants which we are investing for. Would they be largely operational by end of this financial year and ramp up by second half FY26? Is that the right way to look at it?

Laksh Vaaman Sehgal: We just mentioned that some of them have already been operationalized with two of them that have come on. The rest of them are in varying stages. So, yes, some will come on later half of this year and some will obviously push into the next year as well.

Jinesh Gandhi: And any sense on what could be revenue potential of these Greenfields?

Laksh Vaaman Sehgal: You know, it's because it's automotive and non-automotive. I think we want to stay focused on our FY25 number. This will add significantly to the organic side, but definitely a lot more will come as these businesses ramp up in coming years. So, cannot give you the number exactly on that, but definitely there is a lot of growth to come from this organic investments that we are making.

Jinesh Gandhi: Got it. And last question on the enabling resolution. So, this will be only if we get any good inorganic opportunity or this will also be to manage our organic opportunities in some of our debt covenants?

Laksh Vaaman Sehgal: We are very comfortable with the organic opportunities and the debt covenants. As we said, we are at 1.5x net debt to EBITDA. So, we are very far away from our covenants.

We will continue to deliver on the organic side. This is definitely enabling for what more comes in the future and if a larger inorganic opportunity comes. We have a clear target for FY25, which is to be 36 billion with a 40% ROCE. But that's just preparing us because we see a lot of challenges that are still there in the European markets and the amount of focus that we are getting as being a superior engineering Company in India and the further opportunities that we will get. So, this is only for what we don't have on our hand right now. Everything that we do have, we are fairly comfortable with our debt profile and how the businesses are delivering with the continued performance that they are giving. This was really a very spectacular quarter for us to have these kind of numbers on the first quarter.

Moderator: Thank you. The next question is from the line of Mumuksh Mandlesha from Anand Rathi Institutional Equities. Please go ahead.

Mumuksh Mandlesha: So, firstly, on consumer electronic business, can you talk about what kind of business opportunity site is there with this investment? And also, I mean, what kind of customers we have with us for this business?

Laksh Vaaman Sehgal: Look, these are all highly engineered products. Again, we are working with a joint venture of BIEL Crystal. So, we want to get into more of the glass side of products. They are varied customers, all consumer electronics customers, could be relevant customers for this. And I believe that as the push is coming in India to manufacture more and more electronics, this augurs well and gives us the capability. And we will build a lot of customers in this field. At this point, this is all that we are able to say.

Mumuksh Mandlesha: On this overall non-auto picture for us, what kind of growth we see over the medium term or what kind of revenue share we see for this non-auto side sir?

Laksh Vaaman Sehgal: Thanks. So, the target was always to be 25% business to come from non-automotive. So, of course, as you can see that not just the consumer electronics, even the aerospace and the defense businesses, these are also growing quite nicely. We also have a medical facility that is coming up in Chennai, which is helping us to diversify in that field. So, these are some of the segments that we have identified. We are building businesses, and I believe a large flavor of this will come in the next five-year plans as these businesses take scale.

Mumuksh Mandlesha: Got it sir. On the electronic assembly you mentioned in the previous question sir. I just want to understand what is this kind of product basically you are talking about?

Laksh Vaaman Sehgal: The JV is specifically for glass products that go on a lot of electronic instruments.

Moderator: Thank you. The next question is from the line of Raghunandan from Nuvama Research. Please go ahead.

Raghunandan: Sir, firstly, in consolidated numbers, the raw material cost to revenue has significantly reduced by 290 bps YoY. What would be the main factors leading to this reduction? I mean the copper prices have gone up 15%. Can you also indicate on the input commodity side, which would be the main commodities apart from copper and plastic for us?

Kunal Malani: Raghu, I think the way to think about it is two, three things are embedded. One, obviously, the mix of businesses has changed. In quarter one, as an example, you did not have the integrated assemblies part of the business, which traditionally does carry a lower amount of, let's say, raw material in comparison to some of our other businesses. 2) Needless to say, if you think about last year, this time you were seeing a fair amount of headwinds, a fair amount of unknown electricity cost etc. which were all getting bloated up. And hence, there was a pain period for which we had told you that we are working with the customers to reprice our products. And hence, what you are seeing in this quarter is how that repriced situation is looking like from our cost of raw materials perspective. 3) As part of some of the commodity conversations which had gone or been last year around similar time zones, some of them were constructed with the pass-through elements. And that, again, is what you are seeing now in terms of the raw material percentage.

Raghunandan: Got it, sir. So, integrated assemblies with higher margin, repricing from customers, and commodity pass-through would be the main elements. When I come to the standalone business, again here, if I look at raw material cost to revenue, it has reduced YoY and on a QoQ basis. In presentation, you have also referred to in sourcing activities leading to support for margins. If you can elaborate on the same please?

Kunal Malani: Look, the answers here also are somewhat similar. There is a whole host of new businesses which also got assimilated in this time zone. Some of our existing businesses were merged into SAMIL, so really the two numbers are really not comparable again.

Raghunandan: Got it sir. On the aerospace business, the revenue during the quarter was over Rs. 300 crore. In one of the earlier press releases, the order book was indicated at $1.3 billion. How much would be the current order book and over what period is it expected to be executed?

Laksh Vaaman Sehgal: We have not come up with independent numbers for the individual verticals. We will consider that and come back to you. But of course, there is a significant ramp up that will happen in later years as we have put up significant CAPEX for building up new facilities for the aerospace orders that we have won. So, you will see further growth that happens in this business. Also, we know that there is some slowdown that is coming in aerospace on the international side, but India still continues to be a buoyant market where we see a lot of growth opportunities. So, we will come back to you with more on that number.

Raghunandan: Thank you Vaaman for that. In one of the slides, you have mentioned about delay in launches in EVs, which has some impact on vision system integrated assembly. How much would be the share of EV in these segments and in overall revenue, how much would EV programs contribute?

Laksh Vaaman Sehgal: We can look at that number on the SMRPBV numbers that we disclose.

Kunal Malani: Vaaman, I will help on this. EV is currently 9% odd share.

Raghunandan: And this will be EV plus hybrid or pure EV?

Kunal Malani: This is just pure EV.

Laksh Vaaman Sehgal: Just so that I can add some more to what Kunal said, I think what is important for you to understand is again, we are powertrain agnostic. So, there are delays on the EV side. We are seeing extensions of the ICE programs, which we are also on. So, thanks to Papa's direction, we have always maintained that EVs will take some time to come on board. We cannot compress time. So, we always had a balanced approach and made sure that we were winning orders both on the ICE side and on the EV side so that if there is a slowdown which is happening and it's taking longer for the EVs to pick up, we are still very much growing still with the content that we have on our ICE programs. So, that augurs really well for us, as we are still seeing growth where there might be pockets of slowdown for others.

Raghunandan: So, ICE and hybrid would both help our growth. I remember that EV was 20% of order book. What would be the share of hybrid, if you remember offhand?

Laksh Vaaman Sehgal: I don't remember that number offhand, I am sorry. But again, hybrids are getting a lot more traction now. But we will look at that number and come back to you.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Ambit Capital. Please go ahead.

Jinesh Gandhi: My question is on the inorganic growth side. So, in the past, we had been staying away from powertrain related components. Do we still maintain that strategy or now we are open to both ICE and EV related powertrain components?

Laksh Vaaman Sehgal: Thanks for that question. I don't think we ever said we will stay away or stay close. I think our vision has always been to follow the customer. So, wherever the customer wants us, we will definitely be there. I think we always want to have a balanced approach. If you know that we have also taken over the business of the Yachiyo where a portion of that business is coming from fuel tanks, and we believe that the market is big enough for all sorts of different technologies to coexist and have opportunities for Motherson to grow. And for example, even in the future, if hydrogen is to come, then again fuel tanks will be necessary. So, we are staying very close to what the customer wants. And also, our acquisitions are only at the customer's behest. So, we really don't decide which way we go. We are just supporting our customers' ambitions. And in that, we will always maintain a balanced approach and look at both ICE and hybrid and of course, any other electric opportunities that also come.

Moderator: Thank you. The next question is from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh: I wanted to check; we have done these acquisitions recently. Where are we in the synergy journey for these? How much of it, according to you, has been explored up till now? Or is it very early days and there is a lot of ground to cover?

Laksh Vaaman Sehgal: Yes, thank you for that question. Motherson always believes that we take our time with the acquisitions to understand them deeply and integrate them and make sure that we take the right step forward. So, definitely it is early days, I think the journey has just begun with these acquisitions. So, please keep watching this space. We will definitely come back with a lot more on this, but definitely, when we acquire the companies, we set ourselves with a plan and we just started to execute that. Until one year, we are also very deeply understanding the functioning of that Company and understanding what the customer requirements are also. So, we are still in very early days and definitely more synergies will come as we go down the line.

Kapil Singh: And on the consumer electronic division, I wanted to understand is this currently the Rs. 2600 crores CAPEX, is this one line of CAPEX with the JV that we are doing, or is there, because you referred something to assembly as well, so I just want to be clear whether these are two separate lines of businesses, or currently we are looking at just one opportunity?

Laksh Vaaman Sehgal: So, there are multiple opportunities. And the Rs. 2,600 crores investment encapsulates all of them. So, of course, we are a highly engineering-focused Company, so we are not just going to be doing manufacturing. We will also be doing assembly and any post-operations that would require, we want to be the complete solution for our customers. So, obviously, that starts with the more basic assembly. But then as you keep building on that, you will get into more highly engineered parts which we are building for already as well. So, there is Rs. 2600 crores for the entire CAPEX for this entire project for all the businesses that we envisage that we need to build to make sure that we are delivering the solution to our customers.

Kapil Singh: Okay, so some of these will be outside the JV as well. Is that the right way to understand?

Laksh Vaaman Sehgal: That's right.

Kapil Singh: And in terms of the return profile, because it's a new division for us, so if you could get some color, are we following the same guidelines, which are 40% ROCE, and we have seen sometimes the Greenfields when they come up in automotive business, they are loss making initially, and then it takes some time to stabilize and increase the margin. So, just if you could give some qualitative color on return profile, asset turns and expected time to turn around or breakeven?

Laksh Vaaman Sehgal: Sure. Look, these are new businesses that we are getting into. So, definitely, we are also learning as we go along. But our focus has always remained at that 40% ROCE. We do envisage that since these are businesses that move much faster, automotive program takes almost two years to develop and lasts for five to seven years. But on consumer electronics side, the cycle is much, much shorter. Newer products come out every single year. So, definitely the margin profiles and the investments correspondingly are different for these businesses. And we will continue to give you the color as we continue to perform and deliver to our customer expectations. So, definitely the 40% ROCE target is maintained, and definitely we strive to be much faster in our development as required by the industry and also turn the asset turns and deliver more profit as required for achieving those 40% ROCE targets.

Kapil Singh: And if you could just refresh us on the CAPEX plan for this year and in light of this investment, is that included already or is there any change?

Laksh Vaaman Sehgal: Yes, Kunal can add on that, but like I said in my opening comments, we are still maintaining that Rs. 5,000 crores for all the businesses that we envisage right now. Of course, because the number of acquisitions is high and as we are getting deeper in, we are looking at those numbers constantly. But we still hope to cover around that Rs. 5,000 crore mark plus minus 10%. If there is some change or some significant new order wins as we have entered these businesses, that comes, we will come back to you on that, but this entire CAPEX is covering all the new facilities that we want to build in the automotive and non-automotive side.

Kunal Malani: That is right. We will come back next quarter if we have to change this around using the revised business parameter. But right now, we are still on the belief that it should lie within 5,000 plus minus 10%.

Kapil Singh: Sure. And just if you would share some, what kind of visibility you have on doing further acquisitions, how is the pipeline looking like? That would be my final question.

Laksh Vaaman Sehgal: Look, the market continues to be a challenging one. I think you've seen that the pace has really increased. We continue to see more opportunities that are there in the pipeline and are hopeful to hit our 2025 targets. But again, we will be extremely picky and we will only go after where the customer wants us to be. But that being said, there definitely are still challenges that exist. And again, we are hopeful that you will find good targets that will help us achieve our 2025 vision.

Moderator: Thank you. The next question is from the line of Amit Shah from Shine Capital. Please go ahead.

Amit Shah: I just wanted to congratulate the Company for crossing the 1 lakh crore revenue mark. It's probably one of the very few companies in India which has crossed this milestone. So, congratulations for that. Coming back to the quarter Q1 FY25, you all reported a super revenue growth of 29%. Just wanted to have a better clarity of what the numbers would look like for FY25 and probably FY26 because this year is going to be a year where you are going to see a ramp up of a lot of the acquisitions and we are almost coming into picture and a lot of these acquisitions actually have EBITDA where the margins are actually better than our Company level margins. So, according to you, what would be the revenue and the PAT estimate for FY25 because some of the brokerages that I was seeing in India, some of the brokers were looking at Rs. 5000 crore PAT number or another broker was looking at a Rs. 4000 crore PAT number. So, you think this number is a reasonable number according to you, or this number can be little more aggressive going ahead. So, what is your sense on that?

Laksh Vaaman Sehgal: Thank you for the kind words at the start of your comments, but I'll request Kunal to comment on this please.

Kunal Malani: Amit, as you are aware, we really do not guide on how the topline or the bottomline is going to play out. What we can certainly say is we are right now at 18% annualized ROCE for this quarter. Our target is 40%, as you know, in our five-year plan. This is the last year of our five-year plan. And we plan to traverse the maximum that we can between 18% to 40%. We do believe we should improve significantly from where we are right now as we head towards the end of the year. There are multiple levers for the same. Part of it, you rightly alluded to the fact that you are yet to see some of the synergy benefits from the M&A come into play. You are also yet to see some of the efficiency parameters that should help in reducing some of the capital inefficiencies or capital that is blocked right now in working capital which should get released in the later part of the year. As 83.4 billion order that we had announced last year as that comes into SOPs, you should see some of the equipment getting sold to the customer for which we are currently carrying it on our books and hence should again lighten the capital at our end. And we continuously work on building efficiencies on the supply chain side to be able to again optimize our capital deployment there. So, hence multiple levers by which we do believe that overall, the ROCE should be trending upwards as we head.

Amit Shah: Got it. This is probably the last year of this five-year plan. So, what do you aspire for the next five years plan? Is it going to be in terms of profitability? Is it going to be in terms of revenue? Because in terms of ROCE, we are still at around 18%, and our target of course is 40%. Probably this year, we may probably inject 300 or 400 basis points in terms of ROC. But do you see in the next five-year plan, are you all targeting a billion dollar kind of a profit in your next five year plan? Is that a possibility that you are thinking when you are looking at the acquisitions, is there a thing where you can build it in your organic business as well? A billion-dollar profitability, maybe for the next five year plan. Is that a number that you will be okay to work on?

Laksh Vaaman Sehgal: Thank you for those comments. Look, we will come back to you with our five-year plan. We usually kick that off around September, October with our internal team, so honestly we don't even know where that five-year plan will take us. We are really very much focused right now on delivering this five-year plan. I think you have to take all our targets with what is really going on in the world as well. All these targets were set before we knew that COVID was around the corner in 2020. And you can understand all the different events that have happened since that time. I think in lieu of all the events that have happened in the world, I think you would see that Motherson has really outperformed by any means on all the parameters of global growth and what has really happened in terms of circumstances in this world. That being said, we don't change our targets or just because COVID came or the Ukraine crisis or energy crisis or inflation or whatever you want to say that has happened, we do not deter from our targets. So, we have maintained it. We still believe that we have a very good shot of hitting them. But I think even in the ROCE targets, you have to understand that ROCE doesn't happen overnight. It's something that takes time. We are a growth Company. As you invest for growth, the ROCE goes the other way. But as those businesses then start to prosper and the businesses play out and the productions ramp up, the ROCE numbers also comes. So, if you take those targets with all the businesses that we have had at 2020 when you were deciding these targets, you will see that there is been a steady growth in the ROCE delivery. And of course, the ROCE always comes under pressure when we do the new acquisitions and growth as that will only come in the future. So, if you look at it like that, you will see that we have tended extremely well. The Company has definitely outperformed our targets on the organic side. And as these new organic businesses spent 5 to 7 years’ time with us, when we clean out the old issues with the Company, start building new pipelines and start delivering on the new orders, the ROCE starts to inch up a bit. The target of 40% is as a group. Multiple verticals have already achieved that 40% target with their organic business. And of course, no business is available at that 40% target when we start. It's a buildup process by a lot of hard work of the teams. So, we are extremely pleased with the efforts of the teams, what we have been able to achieve. And definitely we will push everything we have got for this last couple of quarters till the end of 2025. And then we will also come back to you with the next target. But rest assured, it's going to be a big number, and it will definitely not be diluted on our ROCE targets. And definitely we will push the teams to deliver to the best. But you'll have to be patient. We can't let any cats out of the bags because there really is no cat to be let out as we ourselves will decide that target in these coming months and we will disclose it to the market. I hope I was able to answer your question.

Amit Shah: I just have one last question. I was just referring to your Slide #7 where you have given the production volume for global light vehicles and global commercial vehicles. The Q2 numbers, estimated numbers are only lower end as per the slide. So, how are you seeing the Q2 numbers? Are they representative of these numbers for the Company? Or will we be doing a lot different what was we have been doing?

Laksh Vaaman Sehgal: No, look, Q2 globally for the automotive side is always weaker because it has a large number of holidays in August. So, that is a natural phenomenon that happens every single year. I think again, the best comparison would be to compare our performance Q2 over Q2 of last year. And as the teams again, like I said, continue to perform better, the volumes continue to happen due to the new launches. And of course, some impact will come because of the holiday season. But we do envisage that the next few quarters, we will continue to perform as all our plans of resilience and our customer focus and driving up of efficiencies continues to take shape. So, we are, again, very hopeful and positive and continue to deliver on all our programs that are running. And hopefully, we will be much better than where we were. Of course, cannot give any guarantee to what happens in the market, but this is generally what happens in Q2 because of the holiday season, you see a slight dip, but that catches up in Q3 and Q4.

Moderator: Thank you. The next question is from the line of Gunjan from Bank of America, please go ahead.

Gunjan: I just had a few clarifications. Firstly, on the acquisitions that have been concluded, is there anything pending to be paid out still for those transactions?

Laksh Vaaman Sehgal: Kunal, I don't think there is anything left there, is there?

Gunjan: So, while maybe Kunal joins back, maybe I can go to the other question if that's okay. So, the other question was on this non-auto, the emerging business as you call it. You know, you all had laid out this aspiration to get to 25% and we are roughly now at about 9% or so. Now that you have visibility on at least two or three of these businesses like electronics and aerospace with the ADI Industries transaction, could you just give us a sense on how should we think about this 25% now? Is it in the next two, three years, this seems like a very viable outcome? I am just trying to think about how to build this extremely new segment in Motherson where now there is a better handle. I mean completely the electronics business sounds quite optimistic, aerospace with ADI Industries sounds quite exciting. So, how should we think about the revenue growth over the next three, four years?

Laksh Vaaman Sehgal: Yes, thanks, Gunjan. I think again we will come back with a five-year plan on these diversified businesses as we get a much better handle on all of them. As you can imagine, there were a lot more imagination when we set them out in 2020 with, of course, plans in place to go after these businesses, but they have shaped up much better than what we envisaged with all of these taking grip at the right time. I think we will come back to you with more color on that, but definitely the idea of 25% of group revenue will only be there, perhaps even grow in the next five years. But at the same time, it's not that we want to lose focus of the automotive business. That's always been our main business. And that too will continue to grow. So, the pie will continue to grow. And these businesses will obviously grow tremendously because they are at a much lower base than where we are with the automotive business. But yes, a very exciting future is definitely on the cards. I think you are seeing the traction that we are receiving is probably from one of the highest levels that we have seen in these new areas of business. We are building the right partnerships, we are getting the right customers, and I think it's a very exciting future. And then what is the tailwind of what is happening on the India market, I think we are very well positioned to take advantage of these and grow very rapidly in the next few years. But please give us some time. We will give you a lot more clarity on the next five-year vision plan for all these new businesses.

Gunjan: Yes, I just wanted to check Kunal, if there is any pending payment for the acquisitions concluded?

Kunal Malani: No Gunjan, there should be nothing significant. There will be some payouts which has been withheld on account of how the contractual arrangements are. But nothing of any significance going ahead.

Gunjan: So, it's fair to assume that if there were to be nothing, not assessing any incremental acquisitions, but in the next two, three quarters, the debt should significantly come down because of the reversal of working capital and the cash flow generation in the business.

Kunal Malani: That is right. We should be looking at a deleveraging path going ahead. And we had anyway guided in the earlier part of the year as well that end of the year should be looking one or better in terms of net debt to EBITDA. And that's the trajectory that we still see. The only part from an M&A perspective, you may want to keep in mind we have announced a new one in this quarter, which is our joint venture with Sojitz, where we have bought Sojitz stake. That payout will happen in Q2.

Gunjan: How much is that, Kunal?

Kunal Malani: Around Rs. 230 to Rs. 240 crores.

Gunjan: Okay, just last on from a capital perspective that this enabling resolution that we have, is this keeping in mind that we don't want to really breach 1.5 net debt to EBITDA when we come across a large transaction should we keep 1.5 as a threshold in mind?

Kunal Malani: Look, our financial policy is two and a half, I think Vaaman alluded to the fact that this is for growth opportunities, and we are proactively looking at different opportunities. As you can imagine, there is a lot of pain in the Western world, given how the inflation is played out, given how excess capacity resides. And hence, M&A is an active space for us. And we are only trying to proactively manage our capital structure for any future opportunities that might come our way. One and a half is not really the guidance. It's at comfort level. Our financial policy remains 2.5x net debt to EBITDA.

Moderator: Thank you. The next question is from the line of Joseph George from IIFL. Please go ahead.

Joseph George: Just a couple of questions and one clarification. The first one is when I look at your depreciation line, despite the addition of 3 acquisitions in the June quarter, sequentially the depreciation amount has come down. So, is this a good starting point for upcoming quarters or is there any one-off in the quarter?

Kunal Malani: Maybe I can take that. Both depreciation amortization for the last quarter, that is 31st March 24, had certain items that had to be recalibrated at the end, specifically in regards to the lease pieces, given these are newly acquired assets that were still getting assimilated then. As of now, with what we know, what you are seeing in the current quarter is more reflective of what you should be seeing going ahead. Having said so, ADI Industries, Yachiyo as well as Lumen Industries, it's there for part of the quarter only. Yachiyo is for full, ADI and Lumen is for part of the quarter, so there might be some changes as we look through the full quarter piece as we move ahead. But these numbers are possibly more reflective. Also, there are PPA adjustments, as you know, which will happen as more data around this topic is picked up by our auditors. We booked Goodwill of around about 600 crores in this quarter, but the PPA is yet to be finalized. And there might be some variations but should not be very significantly different to what you are seeing right now, give or take.

Joseph George: The second question was for the accounting with respect to the JV with BIEL. Will it be a line-by-line consolidation or will it be accounted for a share of profits? Because we call it a JV, so, I am sure.

Kunal Malani: A line-by-line consolidation.

Joseph George: Perfect, thanks. And the last question was with respect to the commencement of the operation. So, just a clarification there. I thought you mentioned that the manufacturing in the JV with BIEL will start in September, October. Did I hear you right?

Laksh Vaaman Sehgal: That's correct.

Joseph George: Okay, and lastly, the assembly operation, when is that acceptable, sir?

Laksh Vaaman Sehgal: Testings already started.

Moderator: Thank you. The next question is from the line of Avish Bhansali from Chanakya Capital Services Private Limited. Please go ahead.

Avish Bhansali: Can you just talk about the slowdown that is currently going in Europe and America? Also, the slow adaption of EVs. How you see this impacting us in near term?

Laksh Vaaman Sehgal: Thank you for that question. I think the thing that Motherson is always focused on is 3CX10. No customer, no country, no component to be more than 10% of our business. I think obviously for the countryside, India is the largest one that crosses that threshold, but otherwise most of the other customers and the country that we are present in is much below that threshold. So, even though there is slowdown in the market, sometimes when it comes to like EVs that we are talking about or flattish growth, Motherson is still able to grow because of our diversification and customer profile in our products. And of course, that our products are constantly evolving and are growing in content as the new program develops. So, there is a lot more feature-rich content as we are doing interiors, exteriors, a lot of the attributes inside are constantly growing in product value for us. That's how we overcome some of the situations in the market when they may be dips in different product lines of the customer. And our diversification really helps us to overcome these patches. So, we are very cognizant of it. We track each and every unit of ours. We are seeing where the program launches are happening on time or are getting delayed. And we use those facilities to of course be able to do diversified business. So, if one customer or one product line is not doing well, hopefully the other customer product lines have a nice mix and there is uptake on the others. That's how we try to overcome and balance the effects that happen. And as you can see, Motherson has constantly beaten the market based on these principles. So, there would always be pockets of these kinds of times and definitely our diversification strategy and the presence that we have built now over in 44 countries, I think that's what really helps us to grow even in times where there may be, like I said, some slower offtakes of customers on certain product lines.

Moderator: Thank you. Ladies and gentlemen, we would take that as our last question for today. I would now like to hand the conference over to Mr. Laksh Vaaman Sehgal for closing comments.

Laksh Vaaman Sehgal: Yes, thank you. Thanks to everybody for being on the call and for asking all the questions. As you can see, Motherson is providing a lot of information on all our results, and all of these have already been posted on the website. If there is any, of course, any follow-on questions or any clarifications, we are very happy to take them. The board congratulated the team on a very successful quarter one. And as you will all agree, with a tough background, we have really done our best here and provided the best result possible with all the efforts of the teams. So, thank you for your faith and confidence in us and we continue to execute, and we look forward to talking to you all in the next quarter. Thank you so much. All the best.

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