

20 May 2010

Motherson Sumi Systems

Rating: Buy

Target Price: Rs192

Share Price: Rs134

SMR improvement drives performance; re-iterate Buy

- 4Q impresses.** MSS' 4Q standalone performance was driven by good demand for cars at home. SMR benefited from restructuring and efficiency improvements. We expect MSS to benefit from the earnings-growth trajectory (a two-year 47.4% CAGR), 93% FCCB conversion completed, high possibility of more new orders at SMR, and continuing domestic growth. We maintain Buy, and raise our target price to Rs192 from Rs171.
- Strong standalone performance.** Standalone revenue rose 67.6% yoy, while EBTDA margin improved 150bps yoy to 19.4%; EBITDA growth was 84.5% yoy. Higher tax outflow in the quarter resulted in adjusted profit increasing by a relatively lower 61.7% yoy.
- SMR drives consolidated profitability.** SMR sustained its faster-than-expected recovery; it reported an adjusted profit of Rs309m in 4Q (compared with an adjusted loss of Rs22m in 9MFY10 and a profit of Rs91m in 3Q). Consolidated profit rose 66.1% qoq to Rs956m, driven largely by SMR.
- Raising estimates.** We raise FY11 earnings estimate by 12% to factor in the rapidly improving performance at SMR.
- Valuation.** Our revised target price is Rs192 (20x FY11e earnings). Risks: uncertainty in Europe and the complicated company structure.

Key data	MSS IN /MOSS.BO
52-week high/low	Rs157/Rs63
Sensex/Nifty	16408/4920
3-m average volume	US\$1.8m
Market cap	Rs51.9bn/US\$1.2bn
Shares outstanding	374.6m
Free float	32.55%
Promoters	67.45%
Foreign Institutions	8.60%
Domestic Institutions	7.67%
Public	16.28%

Consolidated quarterly results

Year end 31 March	4QFY09	4QFY10	% yoy	FY09	FY10	% yoy
Sales (Rsm)	8,433	20,279	140.5	26,397	69,240	162.3
EBITDA (Rsm)	898	2,493	177.5	3,278	6,301	92.2
EBITDA margin (%)	10.9	12.9	206bps	12.6	9.4	-323bps
Interest (Rsm)	112	215	91.7	354	620	75.0
Depreciation (Rsm)	354	777	119.6	979	2,601	165.7
Other income (Rsm)	24	7	-71.7	50	129	159.5
Extraordinary income (Rsm)	946	579	-38.8	566	219	-61.3
PBT (Rsm)	1,403	2,087	48.8	2,560	3,428	33.9
Tax (Rsm)	172	368	114.0	349	1,094	213.6
Adjusted PAT (Rsm)	12	956	7,681.4	1,310	2,252	71.9

Source: Company, Anand Rathi Research

Consolidated financials

Year end 31 March	FY11e	FY12e
Sales (Rsm)	81,536	102,221
Net profit (Rsm)	3,714	4,892
EPS (Rs)	9.6	12.6
Growth (%)	64.9	31.7
PE (x)	14.0	10.6
PBV (x)	4.1	3.1
RoE (%)	35.0	36.0
RoCE (%)	24.5	28.1
Dividend yield (%)	1.5	1.7
Net gearing (%)	74.6	71.7

Source: Bloomberg, Anand Rathi Research

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Appendix 1

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% who are investment banking clients	8%	0%	0%

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