

# Motherson Sumi

**BSE SENSEX**

39,950

**S&P CNX**

11,966

**CMP: INR118**
**TP: INR144 (+22%)**
**Buy**

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Bloomberg	MSS IN
Equity Shares (m)	3,158
M.Cap.(INRb)/(USDb)	372.8 / 5.4
52-Week Range (INR)	218 / 112
1, 6, 12 Rel. Per (%)	-14/-38/-56
12M Avg Val (INR M)	1201
Free float (%)	38.3

## Financials & Valuations (INR b)

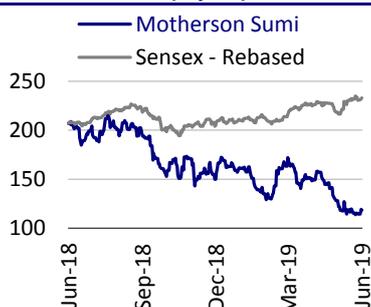
Y/E Mar	2019	2020E	2021E
Net Sales	635.2	709.3	771.1
EBITDA	53.5	61.6	76.5
PAT	16.1	18.6	22.7
EPS (INR)	5.1	5.9	7.2
Gr. (%)	-5.2	15.2	21.9
BV/Sh (INR)	35.7	36.9	41.8
RoE (%)	15.7	16.2	18.2
RoCE (%)	9.8	10.4	12.9
P/E (x)	23.1	20.1	16.4
P/BV (x)	3.3	3.2	2.8
EV/EBITDA (x)	8.4	7.3	5.4

## Shareholding pattern (%)

As On	Mar-19	Dec-18	Mar-18
Promoter	61.7	61.7	61.7
DII	9.7	9.9	9.4
FII	18.1	17.5	18.8
Others	10.5	10.9	10.1

FII Includes depository receipts

## Stock Performance (1-year)



## Challenges at SMP are transient

Scope of increase in content | Value accretive M&A core part of strategy

While underlying automotive trends are not supportive, MSS has been impacted by ramp-up issues at its recently commissioned plants (particularly the Tuscaloosa plant). These issues are transient in nature, partly due (a) teething trouble for the large greenfield plant and (b) visa-related issues. We expect a strong recovery as these plants drive growth based on orders on hand. MSS in on right side of global megatrends in the automotive industry, which will drive a further increase in content. This, coupled with disciplined capital allocation toward value-accretive acquisitions, would add to the organic growth potential.

- Strong order book to dilute impact of weak demand environment:** SMBPBV had an exit order book of ~EUR18.2b (net addition of EUR1b over Mar-18 after EUR6.8b orders started commercial production in FY19). The weak demand environment has not resulted in any deferment of in-hand orders. On the contrary, car manufacturers are accelerating their new product launches to create excitement in a weak environment, in turn expediting timelines of new projects at vendor level. Also, EU passenger vehicle volumes have stabilized and base should turn favorable from Sep-19. While WLTP-2 norms would be implemented from Sep-19, it is likely that OEMs will be relatively better prepared this time round resulting in less impact.
- Orders worth EUR6.8b commenced commercial production in FY19, but yet to ramp up:** In FY19, SMRPBV commenced execution of orders worth EUR6.8b (of this, ~EUR4.3b started in 2HFY19) at SMRPBV, implying estimated annual revenue potential of over EUR1b. These orders would be largely executed at the recently commissioned new plants. After production commenced for orders worth EUR6.8b in FY19, SMRPBV had a balance order book of EUR18.2b as of Mar'19. It can service entire existing order book from expanded capacities, implying strong growth in revenues as well as substantial reduction in capex at SMRPBV.
- Unusual problems at two green-field plants, issues sorted out with normalcy expected in six months:** Impact of the ramp-up of green-field plants at Hungary and Alabama should remain for another six months due to unusual problems with these sites — issues that it seldom faced in the 33 green-field plants commissioned in the last 3.5 years. It was challenging to get trainers from Germany to train workers at its Alabama plant due to visa issues in the US. This led to higher wastages and inefficiencies. But, visa issues have now been sorted; and plant stabilization is expected in six months. Once processes have stabilized, 60-65% utilization is needed for a plant to break-even. The current utilization at the Hungary plant is 60-65%, with the Alabama plant at 40%; but both these plants are not fully stable yet.

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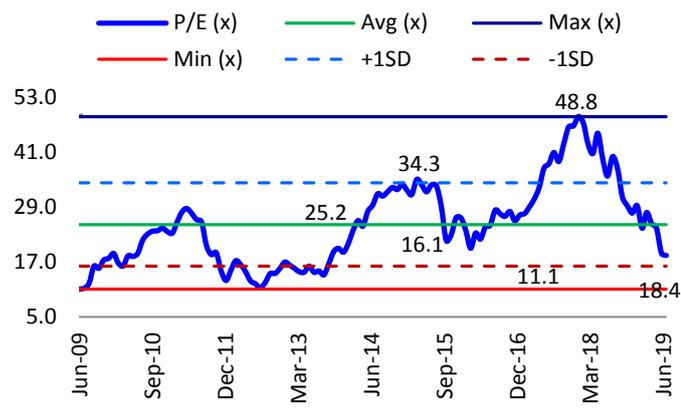
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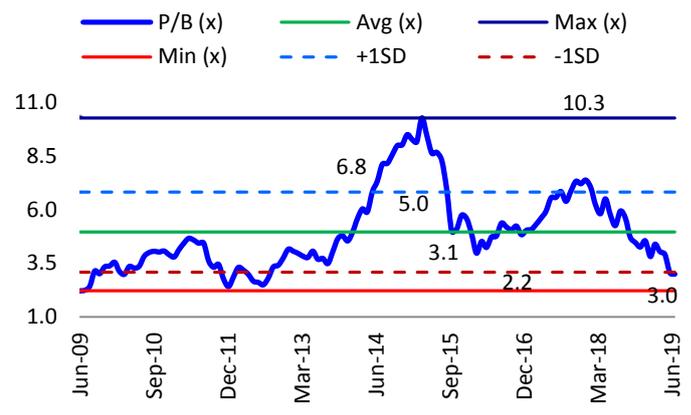
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- **No material impact of 5% tariff imposed on Mexico by the US:** The 5% tariff imposition by the US on imports from Mexico should have limited impact as the quantum of direct exports from Mexico to the US is very small. Also, it doesn't change their competitive positioning materially as the tariff is imposed on all players exporting from Mexico. Imposition of tariff would not materially change competitive positioning of OEMs or component suppliers. However, threat of trade war (particularly between the US and China) could have an adverse impact on consumer sentiments and demand.
- **Content increase scope still high:** MSS' core businesses would benefit significantly from mega trends influencing the automobile industry viz. electrification, increasing electronic content, light weighting, premiumization, vendor consolidation, etc. Also, we expect minimum 10-15% increase in content for the India wiring harness business in the BS6 era. Increase in content in electric vehicle should be substantial as OEMs would like to project these as futuristic products, and in-turn have more premium content. It would benefit in the space of interiors, exteriors, lightings, etc., apart from wiring harness. While margins on these richer content products could be lower due to higher amount of bought-out components, profit per car and RoCE would be substantially higher. For e.g. an exterior mirror would cost ~EUR30/car with 10% margin. Camera system, which replaces mirrors would fetch ~EUR300/car and have ~5% margins. This would result in 5x increase in margin per car despite having 50% lower margins.
- **Value accretive acquisition part of core strategy to grow:** Value accretive acquisitions will continue to play an important part in MSS' growth strategy, as organic growth on high base would be limited. Also, any acquisition should give MSS access to customers, products and/or technology, as the organic route would have a very long gestation period. For e.g. acquisition of Reydel gave MSS access to customers like PSA, Renault, etc., a feat that would have taken the company a long time to gain organically. While it is difficult for investors to factor in the inorganic growth and potential synergies, MSS has a good track record of being an efficient allocator of capital, maintaining discipline on price paid for M&A as well as deriving synergies.
- Holding company SAMIL has pledged shares as a security for debt on its books. Recent increase in pledged shares (increase of 47bp to 2.81% stake) was due to the need for additional margin money because of the share price decline.
- **Valuation and view:** MSS has witnessed a triple whammy of adverse macros, commissioning of three big plants in a weak environment and consolidation of Reydel, which impacted its operating performance. However, the EU business should see favorable base from Sep'19 onwards, stabilization of green-field plants, execution of strong order book, limited capex at SMPBV, and the India business benefitting from content increase in BS6. Valuations are at 20.1x/16.4x FY20E/FY21E consol. EPS. Maintain **Buy** with TP of INR144 (~20x Mar'21 Consol. EPS, a ~20% discount to LPA).

Exhibit 1: MSS PE and PB band



Source: MOFSL



Source: MOFSL

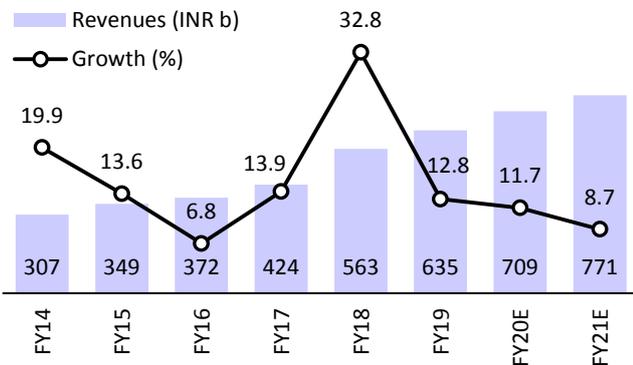
Exhibit 2: Comparative Valuation

	CMP		TP	P/E (x)		EV/EBITDA (x)		RoE (%)		Div Yield (%)		EPS CAGR.%
	(INR)	Rating		(INR)	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	
<b>Auto OEM's</b>												
Bajaj Auto	2,990	Neutral	3,050	17.2	15.7	11.7	10.3	21.9	21.5	2.2	2.3	7.2
Hero MotoCorp	2,776	Neutral	2,912	15.7	15.0	9.2	8.5	26.1	24.8	3.2	3.4	4.4
TVS Motor	477	Neutral	480	26.3	20.8	13.7	11.1	23.5	24.6	0.8	0.8	27.4
M&M	638	Buy	810	13.8	13.9	10.1	10.4	13.7	11.9	1.6	1.6	3.8
Maruti Suzuki	6,973	Buy	8,047	25.1	20.9	14.4	12.1	16.4	18.1	1.8	2.0	16.2
Tata Motors	171	Neutral	195	12.3	11.3	3.2	3.1	7.5	7.6	0.2	0.2	LTP
Ashok Leyland	91	Buy	107	12.6	14.6	7.0	7.7	24.2	19.2	3.7	3.7	-5.0
Eicher Motors	20,096	Buy	23,500	22.9	19.9	18.9	16.0	24.4	23.6	0.6	0.6	11.3
Escorts	590	Neutral	671	10.5	10.3	-0.6	-0.9	17.2	15.2	0.5	0.6	3.9
<b>Auto Ancillaries</b>												
Bharat Forge	475	Buy	595	19.4	17.6	10.9	10.1	19.8	19.1	1.3	1.3	10.3
Exide Industries	214	Buy	281	19.6	17.5	10.8	9.6	14.0	14.2	1.5	1.5	16.1
Amara Raja Batteries	639	Buy	761	19.2	16.8	9.9	8.5	16.1	16.4	1.3	1.5	15.9
BOSCH	17,155	Neutral	18,200	29.7	25.5	20.1	16.6	19.9	23.2	1.1	1.3	11.5
Endurance Tech	1,198	Buy	1,350	28.0	24.2	12.3	10.6	21.7	21.5	0.9	1.0	16.9
<b>Motherson Sumi</b>	<b>118</b>	<b>Buy</b>	<b>144</b>	<b>20.1</b>	<b>16.4</b>	<b>1.8</b>	<b>1.0</b>	<b>16.2</b>	<b>18.2</b>	<b>1.3</b>	<b>1.6</b>	<b>18.5</b>
Mahindra CIE	243	Buy	290	14.2	12.6	8.4	7.0	14.0	13.8	0.0	0.0	17.1
CEAT	974	Buy	1,277	13.3	10.7	3.3	3.1	10.3	11.7	1.3	1.3	19.7

Source: Company, MOFSL

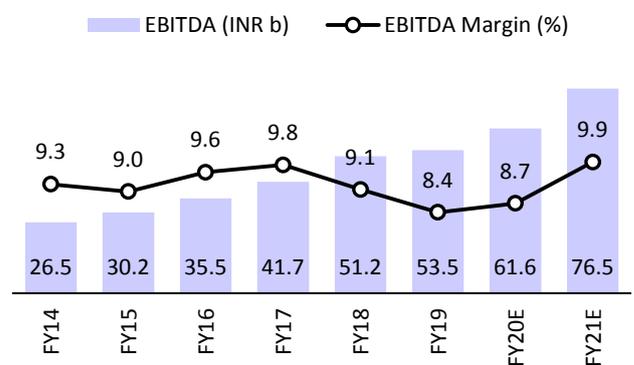
## Motherson Sumi | Story in Charts

**Exhibit 3: Revenues and growth trend**



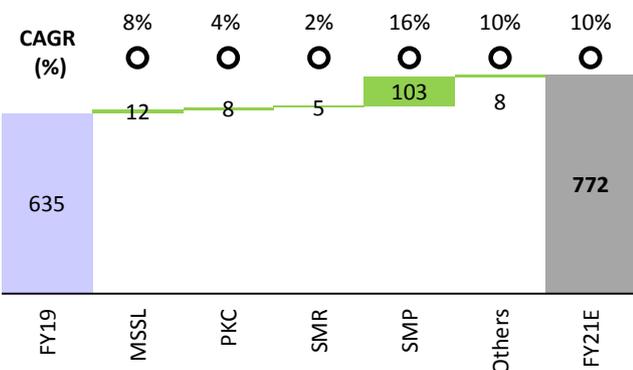
Source: Company, MOFSL

**Exhibit 4: Consol EBITDA and margin trend**



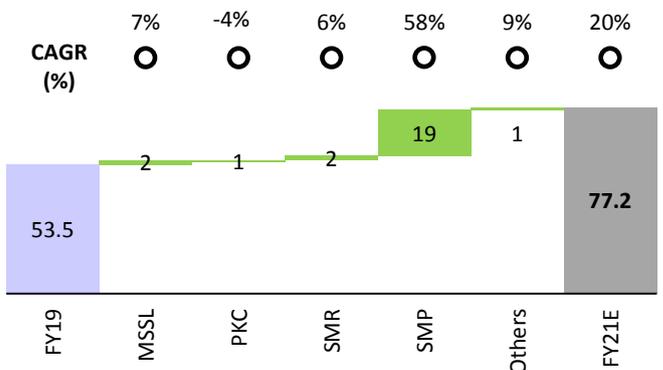
Source: Company, MOFSL

**Exhibit 5: Business wise consolidated revenue buildup**



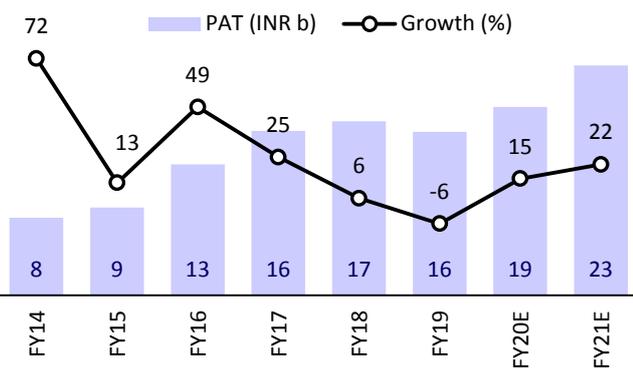
Source: Company, MOFSL

**Exhibit 6: Business wise EBITDA margins buildup**



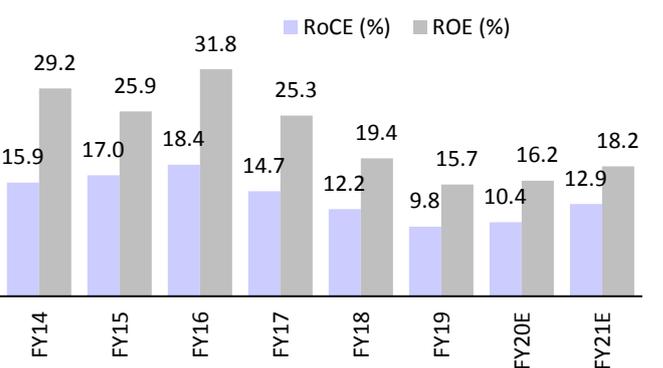
Source: Company, MOFSL

**Exhibit 7: Consolidated PAT growth trend**



Source: Company, MOFSL

**Exhibit 8: Trend in return profile**



Source: Company, MOFSL

## Financials and valuations

<b>Consolidated - Income Statement</b>						<b>(INR Million)</b>
<b>Y/E March</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	
<b>Total Income from Operations</b>	<b>423,755</b>	<b>562,933</b>	<b>635,229</b>	<b>709,276</b>	<b>771,142</b>	
Change (%)	13.9	32.8	12.8	11.7	8.7	
Raw Materials	257,507	343,121	367,383	401,808	411,575	
Employees Cost	80,909	110,678	141,694	162,948	187,391	
Other Expenses	43,671	57,908	72,668	82,919	95,673	
<b>Total Expenditure</b>	<b>382,087</b>	<b>511,707</b>	<b>581,745</b>	<b>647,676</b>	<b>694,639</b>	
% of Sales	90.2	90.9	91.6	91.3	90.1	
<b>EBITDA</b>	<b>41,668</b>	<b>51,226</b>	<b>53,484</b>	<b>61,600</b>	<b>76,503</b>	
Margin (%)	9.8	9.1	8.4	8.7	9.9	
Depreciation	10,590	15,752	20,582	23,290	25,706	
<b>EBIT</b>	<b>31,078</b>	<b>35,474</b>	<b>32,902</b>	<b>38,310</b>	<b>50,797</b>	
Intrest Charges	3,749	4,108	4,232	3,950	3,939	
Other Income	2,642	1,701	2,202	1,800	1,900	
<b>PBT bef. EO Exp.</b>	<b>29,971</b>	<b>33,067</b>	<b>30,872</b>	<b>36,161</b>	<b>48,758</b>	
EO Items	-974	-1,777	0	0	0	
<b>PBT after EO Exp.</b>	<b>28,997</b>	<b>31,290</b>	<b>30,872</b>	<b>36,161</b>	<b>48,758</b>	
Total Tax	9,103	10,072	11,022	12,295	16,334	
Tax Rate (%)	31.4	32.2	35.7	34.0	33.5	
Minority Interest	4,350	5,249	3,719	5,280	9,762	
<b>Reported PAT</b>	<b>15,543</b>	<b>15,970</b>	<b>16,132</b>	<b>18,587</b>	<b>22,662</b>	
<b>Adjusted PAT</b>	<b>16,058</b>	<b>17,024</b>	<b>16,132</b>	<b>18,587</b>	<b>22,662</b>	
Change (%)	24.3	6.0	-5.2	15.2	21.9	
Margin (%)	3.8	3.0	2.5	2.6	2.9	

<b>Consolidated - Balance Sheet</b>						<b>(INR Million)</b>
<b>Y/E March</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	
Equity Share Capital	1,404	2,105	3,158	3,158	3,158	
Total Reserves	53,265	63,015	81,569	85,316	100,850	
<b>Net Worth</b>	<b>82,727</b>	<b>93,178</b>	<b>112,785</b>	<b>116,531</b>	<b>132,066</b>	
Minority Interest	22,322	29,600	34,797	41,817	53,318	
Total Loans	101,418	94,770	109,428	106,428	103,428	
Deferred Tax Liabilities	-5,024	-6,266	-6,123	-6,123	-6,123	
<b>Capital Employed</b>	<b>201,443</b>	<b>211,282</b>	<b>250,888</b>	<b>258,653</b>	<b>282,689</b>	
Gross Block	135,237	174,332	190,917	212,212	231,220	
Less: Accum. Deprn.	33,590	51,138	71,720	95,010	120,716	
<b>Net Fixed Assets</b>	<b>101,647</b>	<b>123,194</b>	<b>119,197</b>	<b>117,203</b>	<b>110,504</b>	
Goodwill	19,379	22,646	22,646	22,646	22,646	
Capital WIP	19,348	25,849	10,463	10,463	10,463	
<b>Total Investments</b>	<b>684</b>	<b>2,467</b>	<b>2,389</b>	<b>2,389</b>	<b>2,389</b>	
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>137,061</b>	<b>133,905</b>	<b>157,377</b>	<b>154,023</b>	<b>195,973</b>	
Inventory	30,716	40,132	46,635	44,694	48,593	
Account Receivables	46,552	56,236	61,663	64,126	69,720	
Cash and Bank Balance	48,866	27,816	35,469	32,176	63,499	
Loans and Advances	10,927	9,722	13,610	13,026	14,162	
<b>Curr. Liability &amp; Prov.</b>	<b>117,230</b>	<b>157,430</b>	<b>176,291</b>	<b>163,177</b>	<b>174,393</b>	
Account Payables	73,003	90,640	106,613	119,407	133,735	
Other Current Liabilities	42,600	65,168	67,213	41,488	38,177	
Provisions	1,628	1,622	2,465	2,282	2,481	
<b>Net Current Assets</b>	<b>19,831</b>	<b>-23,525</b>	<b>-18,914</b>	<b>-9,154</b>	<b>21,580</b>	
Misc Expenditure	40,554	60,652	115,107	115,107	115,107	
<b>Appl. of Funds</b>	<b>201,443</b>	<b>211,282</b>	<b>250,888</b>	<b>258,653</b>	<b>282,689</b>	

E: MOSL Estimates

## Financials and valuations

### Ratios

Y/E March	FY17	FY18	FY19	FY20E	FY21E
<b>Basic (INR)</b>					
<b>EPS</b>	5.1	5.4	5.1	5.9	7.2
Cash EPS	7.1	9.1	9.6	10.9	12.6
BV/Share	26.2	29.5	35.7	36.9	41.8
DPS	0.9	1.5	1.5	1.6	1.9
Payout (%)	23.6	34.6	34.2	31.5	31.5
<b>Valuation (x)</b>					
P/E	23.2	21.9	23.1	20.1	16.4
P/BV	4.5	4.0	3.3	3.2	2.8
EV/Sales	0.5	0.6	0.7	0.6	0.5
EV/EBITDA	5.2	6.2	8.4	7.3	5.4
Dividend Yield (%)	0.8	1.3	1.3	1.3	1.6
FCF per share	7.3	1.1	17.8	5.9	14.4
<b>Return Ratios (%)</b>					
RoE	25.3	19.4	15.7	16.2	18.2
RoCE (post-tax)	14.7	12.2	9.8	10.4	12.9
RoIC	20.0	16.7	11.8	12.2	16.1
<b>Working Capital Ratios</b>					
Fixed Asset Turnover (x)	3.1	3.2	3.3	3.3	3.3
Asset Turnover (x)	2.1	2.7	2.5	2.7	2.7
Inventory (Days)	26	26	27	23	23
Debtor (Days)	40	36	35	33	33
Creditor (Days)	63	59	61	61	63
<b>Leverage Ratio (x)</b>					
Current Ratio	1.2	0.9	0.9	0.9	1.1
Interest Cover Ratio	8.3	8.6	7.8	9.7	12.9
Net Debt/Equity	0.6	0.7	0.6	0.6	0.3

### Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	31,801	34,448	30,872	36,161	48,758
Depreciation	10,591	15,752	20,582	23,290	25,706
Interest & Finance Charges	3,324	3,777	4,232	3,950	3,939
Direct Taxes Paid	-8,433	-10,048	-11,022	-12,295	-16,334
(Inc)/Dec in WC	4,813	-14,820	11,524	-13,052	588
<b>CF from Operations</b>	<b>42,096</b>	<b>29,109</b>	<b>56,188</b>	<b>38,053</b>	<b>62,657</b>
Others	-4,099	3,531	1,131	1,740	1,740
<b>CF from Operating incl EO</b>	<b>37,997</b>	<b>32,640</b>	<b>57,319</b>	<b>39,793</b>	<b>64,397</b>
(Inc)/Dec in FA	-27,789	-30,308	-1,200	-21,295	-19,007
<b>Free Cash Flow</b>	<b>10,208</b>	<b>2,332</b>	<b>56,119</b>	<b>18,498</b>	<b>45,390</b>
(Pur)/Sale of Investments	-39,675	-2,876	79	0	0
Others	203	1,243	0	0	0
<b>CF from Investments</b>	<b>-67,261</b>	<b>-31,941</b>	<b>-1,121</b>	<b>-21,295</b>	<b>-19,007</b>
Issue of Shares	25,277	0	8,994	-8,994	0
Inc/(Dec) in Debt	34,092	-9,471	14,658	-3,000	-3,000
Interest Paid	-3,471	-3,944	-4,232	-3,950	-3,939
Dividend Paid	-826	-6,332	-5,518	-5,846	-7,129
Others	104	-2,467	0	0	0
CF from Fin. Activity	55,176	-22,214	13,902	-21,790	-14,067
<b>Inc/Dec of Cash</b>	<b>25,912</b>	<b>-21,515</b>	<b>70,100</b>	<b>-3,292</b>	<b>31,323</b>
Opening Balance	17,717	48,866	27,816	35,469	32,176
<b>Closing Balance</b>	<b>43,629</b>	<b>27,351</b>	<b>97,916</b>	<b>32,176</b>	<b>63,499</b>

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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