

# Retail Equity Research

## Motherson Sumi Systems Limited

Auto Ancillary

BSE CODE: 517334

NSE CODE: MOTHERSUMI

Bloomberg CODE: MSS:IN

SENSEX: 32,287

**HOLD**

12M Investment period Rating as per Large Cap  
CMP Rs. 104 TARGET Rs. 111 RETURN 7%   
(Closing: 04-06-20)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

### Harnessing growth in challenging times

Motherson Sumi Systems Ltd (MSSL) is a JV between Samvardhana Motherson International (SMIL) and Sumitomo Wiring Systems, Japan (SWS). MSSL is a diversified auto parts maker with presence in automotive mirrors, wiring harness and molded plastic parts.

- Q4FY20 revenue declined 12.1% YoY to Rs. 14,870, while EBITDA margin improved 210bps YoY to 9.4% aided by lower costs. PAT dropped 55.3% YoY to Rs. 183cr on higher Depreciation and Tax expenses.
- Strong order book of Rs. 107,122cr at SMRP BV level.
- With almost all plants across locations operational now, along with gradual increase in plant utilization, MSSL is expected to get back on the growth trajectory soon.
- We reiterate our HOLD rating on the stock with a revised target price of Rs. 111 based on 17x FY22E EPS.

### Quarter mainly impacted on lockdown in China and Europe

MSSL's reported subdued Q4FY20 numbers, in-line with automotive OEMs across the globe impacted by COVID-19. The company's revenue stood at Rs. 14,870cr (-12.1% YoY), owing to decline in revenues across the board. SMP revenue came in at Rs. 7,525cr (-12.0% YoY), SMR at Rs. 3,064cr (-10.9% YoY) followed by PKC and MSSL Standalone declining 16.7% and 6.3% YoY, respectively. However, EBITDA margin improved 210bps YoY to 9.4%, driven by improved Gross profit margin with lower cost of material. Resultantly, EBITDA rose 12.0% YoY to Rs. 1,392cr (including Rs. 132cr related to IAS 116). PAT declined 55.3% YoY to Rs. 183cr on higher Depreciation (+43.7% YoY), interest (+34.2%) and Tax expenses (+33.7%).

### Key concall highlights

- In FY20, the company won new orders worth Rs. 43,321cr, while also executing orders of Rs. 79,554cr. Order book for SMRP BV stood at Rs. 107,122cr.
- Net debt continued to decline and stood at Rs. 6,917cr, as of March 2020.
- Strong liquidity position of Rs. 10,530cr, including recently issued NCDs worth Rs. 500cr along with other arrangements in place with various banks and Govt.
- Maintenance Capex is expected to remain below Rs. 2,000cr levels for FY21E.
- Almost all of MSSL's plants are now operational and running at varying capacities.

### Focus ahead for growth

The management expects demand for passenger vehicles to pick up in the upcoming quarters, as there might be shift in consumer preference towards owning private vehicles rather than using public transport, especially in India. The company is well positioned as it is backed by strong liquidity, a healthy order book and with its net debt levels expected to decline further over the next couple of years. With a continued focus on improving the ROCE and aiming to diversify to achieve further growth, the company is exploring opportunities in non-core verticals such as healthcare, IT and logistics.

### Valuation

With production being largely shut down in the months of April-May, the upcoming Q1FY21 should be significantly impacted and will resultantly present a bleak set of numbers. Despite weak earnings initially, we expect a recovery in the latter half of FY21, supported by strong order book. We estimate PAT to grow at ~32.8% FY20-22E CAGR and EBITDA margin to improve to 9.1% by FY22E. We reiterate our HOLD on the stock with a revised target price of Rs. 111 based on 17x FY22E EPS.

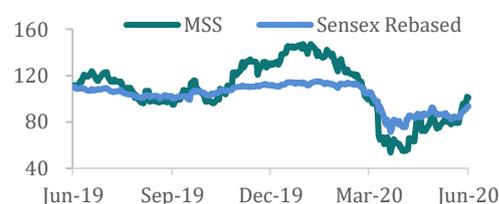
### Company Data

|                          |            |
|--------------------------|------------|
| Market Cap (cr)          | Rs. 32,069 |
| Enterprise Value (cr)    | Rs. 42,164 |
| Outstanding Shares (cr)  | 315.8      |
| Free Float               | 38.0%      |
| Dividend Yield           | 1.5%       |
| 52 week high             | Rs. 151    |
| 52 week low              | Rs. 49     |
| 6m average volume (lacs) | 9.5        |
| Beta                     | 1.3        |
| Face value               | Rs. 1      |

| Shareholding %    | Q2FY20 | Q3FY20 | Q4FY20 |
|-------------------|--------|--------|--------|
| Promoters         | 61.7   | 61.7   | 61.7   |
| FII's             | 15.0   | 16.4   | 15.5   |
| MFs/Insti         | 13.5   | 12.6   | 13.6   |
| Public            | 7.5    | 7.1    | 7.3    |
| Others            | 2.3    | 2.2    | 2.0    |
| Total             | 100.0  | 100.0  | 100.0  |
| Promoters' pledge | 5.4    | 9.2    | 13.1   |

| Price Performance | 3 Month | 6 Month | 1 Year |
|-------------------|---------|---------|--------|
| Absolute Return   | 2.5%    | -22.3%  | -9.1%  |
| Absolute Sensex   | -11.5%  | -16.8%  | -15.2% |
| Relative Return*  | 14.0%   | -5.5%   | 6.1%   |

\*over or under performance to benchmark index



| Consolidated (cr) | FY20A  | FY21E  | FY22E  |
|-------------------|--------|--------|--------|
| Sales             | 62,573 | 63,892 | 68,823 |
| Growth (%)        | 0.0    | 2.1    | 7.7    |
| EBITDA            | 5,201  | 5,147  | 6,237  |
| EBITDA Margin (%) | 8.3    | 8.1    | 9.1    |
| Adj. PAT          | 1,170  | 1,287  | 2,064  |
| Growth (%)        | (27.5) | 10.0   | 60.3   |
| Adj. EPS          | 3.7    | 4.1    | 6.5    |
| Growth (%)        | (27.5) | 10.0   | 60.3   |
| P/E               | 16.5   | 24.9   | 15.5   |
| P/B               | 1.7    | 2.7    | 2.4    |
| EV/EBITDA         | 6.0    | 8.2    | 6.4    |
| ROE (%)           | 10.4   | 10.6   | 15.4   |
| D/E               | 0.9    | 0.7    | 0.6    |

## Quarterly Financials (Consolidated)

### Profit & Loss Account

|                                | Q4FY20       | Q4FY19       | YoY Growth % | Q3FY20       | QoQ Growth % | FY20         | FY19         | YoY Growth % |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenue                        | 14,870       | 16,921       | (12.1)       | 15,436       | (3.7)        | 62,573       | 62,572       | 0.0          |
| <b>EBITDA</b>                  | <b>1,392</b> | <b>1,243</b> | 12.0         | <b>1,236</b> | 12.6         | <b>5,201</b> | <b>5,348</b> | (2.7)        |
| EBITDA margins                 | 9.4          | 7.3          | 210bps       | 8.0          | 140bps       | 8.3          | 8.5          | (20bps)      |
| Depreciation                   | 793          | 552          | 43.7         | 694          | 14.3         | 2,778        | 2,058        | 35.0         |
| <b>EBIT</b>                    | <b>599</b>   | <b>691</b>   | (13.3)       | <b>542</b>   | 10.5         | <b>2,423</b> | <b>3,290</b> | (26.3)       |
| Interest                       | 138          | 103          | 34.2         | 179          | (22.9)       | 599          | 423          | 41.5         |
| Other Income                   | 6            | 89           | (92.8)       | 100          | (93.6)       | 288          | 333          | (13.5)       |
| Exceptional Items              | -            | -            | -            | -            | -            | -            | -            | -            |
| <b>PBT</b>                     | <b>467</b>   | <b>677</b>   | (31.0)       | <b>463</b>   | 0.9          | <b>2,113</b> | <b>3,200</b> | (34.0)       |
| Tax                            | 331          | 248          | 33.7         | 123          | 170.2        | 818          | 1,102        | (25.7)       |
| Share of profit from Associate | (9)          | 21           | n.m.         | 22           | n.m.         | 57           | 113          | (49.2)       |
| Minority Interest              | (48)         | 19           | n.m.         | 70           | n.m.         | 429          | 485          | (11.5)       |
| <b>Reported PAT</b>            | <b>183</b>   | <b>410</b>   | (55.3)       | <b>271</b>   | (32.2)       | <b>1,170</b> | <b>1,613</b> | (27.5)       |
| Adjustments                    | -            | -            | -            | -            | -            | -            | -            | -            |
| <b>Adjusted PAT</b>            | <b>183</b>   | <b>410</b>   | (55.3)       | <b>271</b>   | (32.2)       | <b>1,170</b> | <b>1,613</b> | (27.5)       |
| No. of shares                  | 315.8        | 315.8        | -            | 315.8        | -            | 315.8        | 315.8        | -            |
| <b>EPS (Rs.)</b>               | <b>0.6</b>   | <b>1.3</b>   | (55.3)       | <b>0.9</b>   | (32.2)       | <b>3.7</b>   | <b>5.1</b>   | (27.5)       |

### Change in Estimates

| Year / Rs. cr | Old estimates |        | New estimates |        | Change % |         |
|---------------|---------------|--------|---------------|--------|----------|---------|
|               | FY21E         | FY22E  | FY21E         | FY22E  | FY21E    | FY22E   |
| Revenue       | 65,833        | 70,487 | 63,892        | 68,823 | (2.9)    | (2.4)   |
| EBITDA        | 5,741         | 6,858  | 5,147         | 6,237  | (10.3)   | (9.1)   |
| Margins (%)   | 8.7           | 9.7    | 8.1           | 9.1    | (66bps)  | (67bps) |
| Adj. PAT      | 1,512         | 2,278  | 1,287         | 2,064  | (14.9)   | (9.4)   |
| EPS           | 4.8           | 7.2    | 4.1           | 6.5    | (14.9)   | (9.4)   |

## PROFIT & LOSS

| Y.E March (Rs. cr)   | FY18A         | FY19A         | FY20A         | FY21E         | FY22E         |
|----------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Revenue</b>       | <b>56,086</b> | <b>62,572</b> | <b>62,573</b> | <b>63,892</b> | <b>68,823</b> |
| % change             | 31.1          | 11.6          | 0.0           | 2.1           | 7.7           |
| <b>EBITDA</b>        | <b>5,123</b>  | <b>5,348</b>  | <b>5,201</b>  | <b>5,147</b>  | <b>6,237</b>  |
| % change             | 17.9          | 16.1          | 6.9           | 14.9          | 28.8          |
| Depreciation         | 1,575         | 2,058         | 2,778         | 3,082         | 2,893         |
| <b>EBIT</b>          | <b>3,547</b>  | <b>3,290</b>  | <b>2,423</b>  | <b>2,065</b>  | <b>3,344</b>  |
| Interest             | 411           | 423           | 599           | 512           | 381           |
| Other Income         | 130           | 333           | 288           | 536           | 313           |
| <b>PBT</b>           | <b>3,267</b>  | <b>3,200</b>  | <b>2,113</b>  | <b>2,089</b>  | <b>3,275</b>  |
| % change             | 12.7          | (2.0)         | (34.0)        | (1.1)         | 56.8          |
| Tax                  | 1,007         | 1,102         | 818           | 627           | 983           |
| Tax Rate (%)         | 30.8          | 34.4          | 38.7          | 30.0          | 30.0          |
| <b>Reported PAT</b>  | <b>1,597</b>  | <b>1,613</b>  | <b>1,170</b>  | <b>1,287</b>  | <b>2,064</b>  |
| Adj*                 | 178           | -             | -             | -             | -             |
| <b>Adj PAT</b>       | <b>1,775</b>  | <b>1,613</b>  | <b>1,170</b>  | <b>1,287</b>  | <b>2,064</b>  |
| % change             | 7.4           | (9.1)         | (27.5)        | 10.0          | 60.3          |
| No. of shares (cr)   | 210.5         | 315.8         | 315.8         | 315.8         | 315.8         |
| <b>Adj EPS (Rs.)</b> | <b>8.4</b>    | <b>5.1</b>    | <b>3.7</b>    | <b>4.1</b>    | <b>6.5</b>    |
| % change             | (30.3)        | (39.4)        | (27.5)        | 10.0          | 60.3          |
| DPS (Rs.)            | 2.3           | 1.5           | 1.5           | 1.4           | 2.3           |
| CEPS (Rs.)           | 15.9          | 11.6          | 12.5          | 13.8          | 15.7          |

## CASH FLOW

| Y.E March (Rs. cr)      | FY18A          | FY19A          | FY20A          | FY21E          | FY22E          |
|-------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Net inc. + Depn.</b> | <b>3,172</b>   | <b>3,671</b>   | <b>3,948</b>   | <b>4,369</b>   | <b>4,957</b>   |
| Non-cash adj.           | 184            | 750            | 2,176          | 689            | 560            |
| Changes in W.C          | (93)           | (109)          | 228            | 67             | 122            |
| <b>C.F. Operation</b>   | <b>3,264</b>   | <b>4,312</b>   | <b>6,352</b>   | <b>5,125</b>   | <b>5,639</b>   |
| Capital exp.            | (3,031)        | (2,685)        | (2,194)        | (1,981)        | (1,858)        |
| Change in inv.          | (288)          | (723)          | (121)          | -              | -              |
| Other invest.CF         | 125            | 98             | 75             | -              | -              |
| <b>C.F - Investment</b> | <b>(3,194)</b> | <b>(3,311)</b> | <b>(2,240)</b> | <b>(1,981)</b> | <b>(1,858)</b> |
| Issue of equity         | (285)          | -              | -              | -              | -              |
| Issue/repay debt        | (947)          | 815            | (957)          | (2,039)        | (1,437)        |
| Dividends paid          | (552)          | (555)          | (1,142)        | (450)          | (722)          |
| Other finance.CF        | (438)          | (484)          | (704)          | (512)          | (381)          |
| <b>C.F - Finance</b>    | <b>(2,221)</b> | <b>(225)</b>   | <b>(2,803)</b> | <b>(3,001)</b> | <b>(2,541)</b> |
| Chg. in cash            | (2,152)        | 777            | 1,309          | 143            | 1,240          |
| Closing cash            | 2,782          | 3,547          | 4,879          | 5,022          | 6,262          |

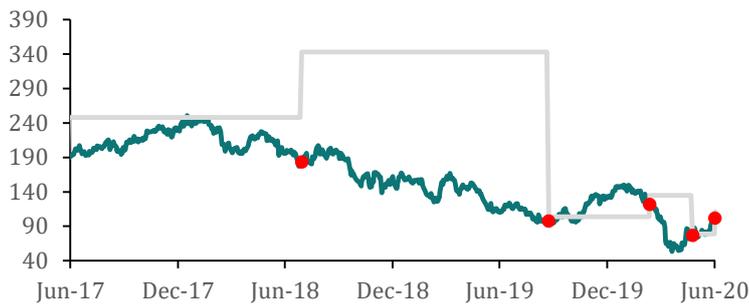
## BALANCE SHEET

| Y.E March (Rs. cr)       | FY18A         | FY19A         | FY20A         | FY21E         | FY22E         |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| Cash                     | 2,782         | 3,547         | 4,879         | 5,022         | 6,262         |
| Accounts Receivable      | 5,624         | 6,166         | 5,178         | 5,431         | 5,781         |
| Inventories              | 4,013         | 4,663         | 5,157         | 5,247         | 5,544         |
| Other Cur. Assets        | 4,682         | 5,573         | 4,252         | 4,309         | 4,381         |
| Investments              | 922           | 985           | 915           | 905           | 896           |
| Gross Fixed Assets       | 15,016        | 15,016        | 15,016        | 16,996        | 18,854        |
| Net Fixed Assets         | 10,136        | 14,054        | 16,273        | 15,254        | 14,292        |
| CWIP                     | 2,585         | 1,046         | 815           | 734           | 660           |
| Intangible Assets        | 4,445         | 4,259         | 4,393         | 4,321         | 4,251         |
| Def. Tax (Net)           | 627           | 612           | 503           | 413           | 339           |
| Other Assets             | 1,683         | 2,424         | 3,130         | 3,313         | 3,522         |
| <b>Total Assets</b>      | <b>37,498</b> | <b>43,330</b> | <b>45,496</b> | <b>44,948</b> | <b>45,928</b> |
| Current Liabilities      | 13,427        | 16,047        | 15,827        | 16,292        | 17,124        |
| Provisions               | 29            | 89            | 75            | 64            | 54            |
| Debt Funds               | 9,722         | 11,412        | 13,415        | 11,376        | 9,939         |
| Other Liabilities        | 1,475         | 1,340         | 1,353         | 1,377         | 1,402         |
| Equity Capital           | 211           | 316           | 316           | 316           | 316           |
| Reserves & Surplus       | 9,674         | 10,647        | 10,945        | 11,782        | 13,123        |
| Shareholder's Fund       | 9,884         | 10,963        | 11,261        | 12,097        | 13,439        |
| Minority Interest        | 2,960         | 3,480         | 3,565         | 3,741         | 3,970         |
| <b>Total Liabilities</b> | <b>37,498</b> | <b>43,330</b> | <b>45,496</b> | <b>44,948</b> | <b>45,928</b> |
| <b>BVPS (Rs.)</b>        | <b>47</b>     | <b>35</b>     | <b>36</b>     | <b>38</b>     | <b>43</b>     |

## RATIOS

| Y.E March                      | FY18A | FY19A | FY20A | FY21E | FY22E |
|--------------------------------|-------|-------|-------|-------|-------|
| <b>Profitab. &amp; Return</b>  |       |       |       |       |       |
| EBITDA margin (%)              | 9.1   | 8.5   | 8.3   | 8.1   | 9.1   |
| EBIT margin (%)                | 6.3   | 5.3   | 3.9   | 3.2   | 4.9   |
| Net profit mgn.(%)             | 2.8   | 2.6   | 1.9   | 2.0   | 3.0   |
| ROE (%)                        | 16.2  | 14.7  | 10.4  | 10.6  | 15.4  |
| ROCE (%)                       | 15.7  | 12.7  | 8.6   | 7.6   | 12.2  |
| <b>W.C &amp; Liquidity</b>     |       |       |       |       |       |
| Receivables (days)             | 36.6  | 36.0  | 30.2  | 31.0  | 30.7  |
| Inventory (days)               | 42.4  | 46.3  | 51.9  | 51.1  | 50.6  |
| Payables (days)                | 95.8  | 105.9 | 103.7 | 104.4 | 104.8 |
| Current ratio (x)              | 1.1   | 1.1   | 1.0   | 1.0   | 1.1   |
| Quick ratio (x)                | 0.5   | 0.5   | 0.5   | 0.5   | 0.6   |
| <b>Turnover &amp; Leverage</b> |       |       |       |       |       |
| Gross asset T.O (x)            | 4.8   | 4.2   | 4.2   | 4.0   | 3.8   |
| Total asset T.O (x)            | 1.6   | 1.5   | 1.4   | 1.4   | 1.5   |
| Int. coverage ratio (x)        | 8.6   | 7.8   | 4.0   | 4.0   | 8.8   |
| Adj. debt/equity (x)           | 0.8   | 0.8   | 0.9   | 0.7   | 0.6   |
| <b>Valuation</b>               |       |       |       |       |       |
| EV/Sales (x)                   | 1.0   | 1.2   | 0.5   | 0.7   | 0.6   |
| EV/EBITDA (x)                  | 10.5  | 14.4  | 6.0   | 8.2   | 6.4   |
| P/E (x)                        | 24.6  | 40.6  | 16.5  | 24.9  | 15.5  |
| P/BV (x)                       | 4.4   | 6.0   | 1.7   | 2.7   | 2.4   |

## Recommendation Summary



| Dates     | Rating | Target |
|-----------|--------|--------|
| 25-Oct-16 | HOLD   | 176    |
| 8-Mar-17  | BUY    | 198    |
| 31-May-17 | BUY    | 248    |
| 2-Jul-18  | BUY    | 343    |
| 26-Aug-19 | HOLD   | 104    |
| 14-Feb-20 | HOLD   | 135    |
| 27-Apr-20 | HOLD   | 79     |
| 06-Jun-20 | HOLD   | 111    |

## Investment Rating Criteria

| Ratings     | Large caps                 | Midcaps                   | Small Caps                |
|-------------|----------------------------|---------------------------|---------------------------|
| Buy         | Upside is above 10%        | Upside is above 15%       | Upside is above 20%       |
| Accumulate  | -                          | Upside is between 10%-15% | Upside is between 10%-20% |
| Hold        | Upside is between 0% - 10% | Upside is between 0%-10%  | Upside is between 0%-10%  |
| Reduce/sell | Downside is more than 0%   | Downside is more than 0%  | Downside is more than 0%  |
| Not rated   |                            |                           |                           |

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

## General Disclosures and Disclaimers

### CERTIFICATION

I, **Saji John** author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

### COMPANY OVERVIEW

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