

# Retail Equity Research

## Motherson Sumi Systems Limited

**HOLD**

Auto Ancillary

BSE CODE: 517334

NSE CODE: MOTHERSUMI

Bloomberg CODE: MSS:IN

SENSEX: 32,287

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.

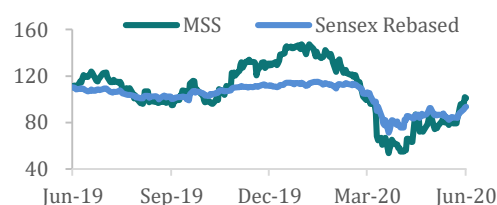
### Company Data

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.

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