

Motherson Sumi Ltd

Sector: Auto-Ancillary /Mid-Cap | Earnings Update – 1QFY21

OUT PERFORMER

13 August 2020

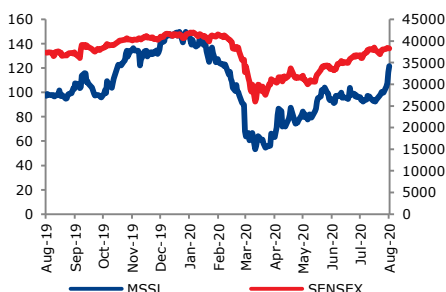
Background: Motherson Sumi Systems Limited (MSSL) is one of the world's leading, specialized automotive component manufacturing companies for OEMs. MSSL was established in 1986 as a joint venture with Sumitomo Wiring Systems. MSSL is a focused, dynamic and progressive company providing customers with innovative and value-added products, services and solutions. With a diverse global customer base of nearly all leading automobile manufacturers globally, the company has a presence in 36 countries across six continents. MSSL is currently the largest auto ancillary in India and among the Fab SO companies of India. MSSL is the flagship company of the Samvardhana Motherson Group (SMG).

Sensex	38,278
Nifty	11,293
Price	₹ 116
Target Price (12 months)	₹ 128
Recommendation	OUT PERFORMER
52 Week High/Low	₹ 151/48
Bloomberg / Reuters	MSS IN/MOSS.BO
Equity (shares in mn)	3157.93
Mkt. Cap in mn	₹ 340/ \$ 4.5
Avg. Daily Vol. ('000)	10544.13
Avg. Daily Vol. (mn)	₹ 1306.4 / \$ 18.3

Shareholding	Jun 19	Mar 20	Jun 20
Promoters (%)	61.7	61.7	61.7
FII (%)	16.4	15.5	15.6
DII (%)	11.1	13.5	13.4
Others (%)	10.9	9.2	9.3
Pledge (% of promoter holding)	4.6	13.1	11.5

Valuation Summary (₹ bn)			
Y/E March	2020	2021E	2022E
Revenue	645.0	622.0	675.6
EBITDA	52.0	45.6	56.3
Adj PAT	11.7	10.3	17.6
Adj EPS*	3.7	3.3	5.6
% growth	-27%	-12%	70%
P/E	31.3	35.4	20.8
P/ BV	3.3	3.1	2.9
EV/EBITDA	11.2	6.8	5.5
EV/Sales	0.5	0.5	0.5
Div Yield (%)	1.0%	0.8%	1.4%
ROE (%)	11%	9%	14%

Performance(%)	1M	3M	12M
MSSL	26.5	44.2	25.0
SENSEX	4.4	23.2	2.7



Weak quarter, impacted by the pandemic; gradual lifting of lockdowns to aid recovery in volumes, while improving utilization to support margins

- MSSL's consolidated revenues for 1QFY21, declined by 49% YoY to ₹85bn. Most of the company's plants remained closed for a large part of the quarter due to the outbreak of pandemic and consequent lockdowns in many of the jurisdictions in which the group operates.
- As a result of lower utilization and sales the company witnessed sharp contraction in margins. The EBITDA for the quarter stood at ₹-6.5bn, while EBITDA margins declined by 1488 bps to 16.6%. The company reported net loss of ₹8.1bn compared to profit of ₹1.4bn same period last year.
- With lifting of lockdowns a majority of company's plants are now working and operating at over 75% utilization as of Jul'20; 73% of America's plants; 45% of Europe, Middle East & Africa plants; 77% of Asia (excl. India) & Australia plants; and 44% of India plants. Utilization levels have further improved in Aug'20 and expected to reach pre-Covid-19 levels in 3QFY21.
- We expect the resumption of plant operations to pre-covid levels coupled with opportunities arising from BS-VI emission norms to drive earnings growth in coming quarters.
- During the quarter losses in Greenfield plants of SMP (Tuscaloosa and Kecskemét) have narrowed to EUR 19mn in 1QFY21. The company remains on track of achieving the EBITDA break-even for the facility.
- Liquidity position of MSSL as of June 2020 remains healthy with cash reserves of ₹48.7bn and undrawn limits of ₹56.6bn.
- The Management has reiterated Vision 2025 – revenue target of \$33-35bn with ROCE of 40% (vs. 2020 revenue of \$12bn and adjusted ROCE of 25%). To achieve this vision, the company will retain emphasis on the auto segment and also focus on new segments.

Valuation: At CMP, the stock is trading at 35.4x FY21E and 20.8x FY22E earnings. Given the strong revenue visibility on account of healthy order book, sequential recovery in domestic demand and expected ramp-up in new facilities we remain optimistic on earnings recovery prospects. We maintain our rating of an OUT PERFORMER with a revised price target of ₹128; valuing the company at 23x FY22E EPS.

Risks: Sustained slowdown in domestic and global PV sales, adverse EUR/INR movement and slower than expected improvements in new plants.

Results Summary 1QFY21

Y/E March (₹ mn)	1QFY21	1QFY20	YoY Growth	4QFY20	QoQ Growth
Net sales	85,039	167,925	-43.9%	151,591	-43.9%
EBITDA	-6,300	12,550	12.0%	13,916	-145.3%
Depreciation	7,123	6,365	11.9%	7,927	-10.1%
Other Income	481	547	-12.1%	151	218.5%
PBT	-14,058	5,173	-371.8%	4,759	-395.4%
Tax	-2,143	1,774	-220.8%	3,315	-164.6%
PAT	-11,915	3,399	-450.5%	1,444	-925.1%
EBITDA Margin (%)	-7%	8%		9%	
PAT Margin (%)	-9.5%	2.0%		1.0%	

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