

# Motherson Sumi Ltd

## MARKET PERFORMER

Sector: Auto-Ancillary /Large-Cap | Earnings Update – 1QFY22

11 August 2021

**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).

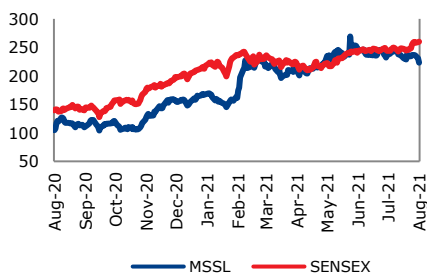
Sensex	54,555
Nifty	16,280
Price	₹223
Target Price (12 months)	₹235
Recommendation	MARKET PERFORMER
52 Week High/Low	₹272.9/99.6
Bloomberg / Reuters	MSS IN/MOSS.BO
Equity (shares in mn)	3157.93
Mkt. Cap in mn	₹9086.6/\$9.5
Avg. Daily Vol. ('000)	13,229.8
Avg. Daily Vol. (mn)	₹2,952.9/\$39.7

Shareholding	Jun 20	Mar 21	Jun 21
Promoters (%)	61.7	61.7	61.7
FII (%)	15.6	16.6	16.9
DII (%)	13.4	13.4	13.0
Others (%)	9.3	8.3	8.4
Pledge (% of promoter holding)	11.5	4.2	3.7

Valuation Summary (₹ bn)			
Y/E March	2021	2022E	2023E
Revenue	573.7	682.9	736.4
EBITDA	43.6	67.3	83.2
Adj PAT	10.4	21.4	29.7
Adj EPS*	3.3	6.8	9.4
% growth	-11%	106%	39%
P/E	76.1	36.9	26.6
P/ BV	6.8	6.2	5.5
EV/EBITDA	13.7	8.8	7.2
EV/Sales	1.0	0.9	0.8
Div Yield (%)	0.4%	0.8%	1.1%
ROE (%)	10%	17%	21%

\*Cons. Earnings

Performance(%)	1M	3M	12M
MSSL	-5.6%	-5.0%	112.7%
SENSEX	4.1%	10.2%	42.9%



### A miss on margins front; earnings dragged by industry headwinds

- **Motherson Sumi Systems Ltd (MSSL)** reported consol. revenue of ₹161.6bn (+95.2% YoY/-4.8% QoQ) for 1QFY22 despite disruptions at production facilities (~20 days). EBITDA came at ₹12.2bn (down 29.2% QoQ) while EBITDA margin stood at 7.6% registering a contraction of 250 bps on QoQ basis. Company reported Adj. PAT of ₹2.9bn (down 59.4% QoQ). Irregular production halts undertaken by OEMs during the quarter primarily cascaded its effect on MSSL's revenue profile. A lag in commodity price pass through, higher logistics cost & lower revenues weighed on EBITDA. Management anticipates the impact of supply constraints (chip shortages and other materials) at OEMs to persist in near term and to only improve from 2HFY22.
- **Revenue drops across the segments-** SMRPBV metrics registered ~7.3% QoQ drop in revenues despite the strong registrations in European region. MSSL standalone business registered 20.6% QoQ decline. The domestic business declined on account of OEM production shutdown for most part of May-21. Despite facing multiple headwinds such as copper price pass-through lag, component shortages, higher logistics and product launch related costs, PKC business managed a marginal growth of 2.9% QoQ to ₹323 mn.
- **Margins plunge after reaching the highs-** EBITDA margins plunged by 250 bps QoQ to 7.6% on account of lower revenues & higher costs. The lag in pass-through of commodity inflation (~14.5% QoQ surge in LME copper prices) & one-off items casted its repercussions on PKC business ultimately impacting the overall EBITDA. Cost and efficiency improvement at SMRPBV and turnaround in Greenfields plants during recent quarters partly mitigated the impact industry headwinds. MSSL's margins had touched the double digits during the previous two quarters (14-qtr high of 10.5% in 3QFY21 & 10.1% in 4QFY21).
- **EV order book continues to inflate-** MSSL continues to book new orders under EV segment. MSSL is just in book building stage for EV orders yet the constant rising quantum indicate strong revenue visibility. OEMs are developing electronic versions for their existing models thus creating more opportunities for MSSL. EV order book had augmented to ₹3.9 bn (25% of total SMRPBV order book) during FY21 against ₹2.4 bn in FY20. Use of higher electronic content in EV auger well for MSSL.
- **Reorganization update-** Board of Directors has approved a group reorganization at the start of July-21 which involves demerger of the domestic wiring harness (DVH) business from it into a new company Motherson Sumi Wiring India Ltd (MSWIL). The proposed reorganization plan aligns the interests of varied stakeholders and creates a roadmap for future growth.
- **Capex & debt-** MSSL is expected to maintain its business activities under the current production capacities and likely to refrain from any major capex (FY22 capex expected to remain at similar levels to FY21: ₹ <20bn) in the wake of unconventional business conditions due to covid pandemic. Increase in working capital resulted in debt expansion as consol. net debt stood at ₹61.6bn in Jun-21 against ₹48bn of March-21 with additional lease liabilities of ₹13.1bn.

**Valuation:** MSSL anticipates the near-term headwinds to persist for OEMs in form of supply chain constraints (global shortage of semi-conductors, higher input & logistics costs) & susceptibility over further production shutdowns. We believe, MSSL's long-term growth levers remain intact in form of healthy order book, diversified business operations with increasing market share, Inflating EV orders and recovery in underlying auto industry. At CMP, the stock trades at PE of 26.6x on FY23E. We retain our MARKET PERFORMER rating on the stock with a revised target price of ₹235 (earlier ₹238), valuing the company at 25x FY23E EPS.

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

### Results Summary 1QFY22

Y/E March (₹ mn)	1QFY22	1QFY21	YoY Growth	4QFY21	QoQ Growth
<b>Net sales</b>	1,61,574	82,780	95.2%	1,69,719	-4.8%
<b>EBITDA</b>	12,200	(5,507)	NA	17,223	-29.2%
<b>Depreciation</b>	7,513	6,994	7.4%	7,568	-0.7%
<b>Other Income</b>	1,548	473	227.2%	616	151.5%
<b>PBT</b>	5,022	(13,128)	NA	8,904	-43.6%
<b>Tax</b>	1,548	(1,914)	NA	656	135.8%
<b>PAT</b>	3,475	(11,214)	NA	8,247	-57.9%
<b>Adj. PAT</b>	2,896	(8,105)	NA	7,136	-59.4%
<b>EBITDA Margin (%)</b>	7.6%	NA		10.1%	
<b>PAT Margin (%)</b>	2.2%	NA		4.9%	

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Served as an officer, director or employee	No

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