

Motherson Sumi Ltd

Sector: Auto-Ancillary /Large-Cap | Earnings Update – 3QFY21

MARKET PERFORMER

18 February 2021

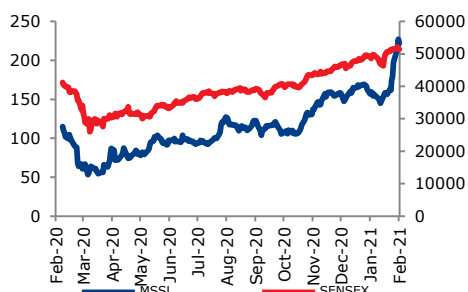
Background: Motherson Sumi Systems Limited (MSSL) is one of the world's leading, specialized automotive component manufacturing companies for OEMs. MSSL was established in 1986 as a joint venture with Sumitomo Wiring Systems. MSSL is a focused, dynamic and progressive company providing customers with 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	51,506
Nifty	15,166
Price	₹220
Target Price (12 months)	₹218
Recommendation	MARKET PERFORMER
52 Week High/Low	₹230/48
Bloomberg / Reuters	MSS IN/MOSS.BO
Equity (shares in mn)	3157.93
Mkt. Cap in mn	₹7,311/\$10.1
Avg. Daily Vol. ('000)	10,544.13
Avg. Daily Vol. (mn)	₹1,306.4/\$18.3

Shareholding	Dec 19	Sept 20	Dec 20
Promoters (%)	61.7	61.7	61.7
FII (%)	16.4	16.0	16.1
DII (%)	12.6	13.6	14.3
Others (%)	9.3	8.7	7.9
Pledge (% of promoter holding)	9.2	10.7	7.2

Valuation Summary (₹ bn)			
Y/E March	2021E	2022E	2023E
Revenue	660.6	740.2	785.3
EBITDA	48.8	70.3	83.2
Adj PAT	8.5	21.3	27.6
Adj EPS*	2.7	6.7	8.7
% growth	-28%	152%	30%
P/E	43.3	17.2	13.3
P/ BV	3.1	2.9	2.6
EV/EBITDA	6.4	4.4	3.8
EV/Sales	0.5	0.4	0.4
Div Yield (%)	0.7%	1.7%	2.3%
ROE (%)	8%	17%	20%

Performance(%)	1M	3M	12M
MSSL	36.4%	70.3%	117.4%
SENSEX	3.8%	18.4%	29.0%



Strong quarter; Top line driven by recovery in demand & improved execution across business segments while cost cutting measures boosted margins

- MSSL's consolidated revenues for 3QFY21 went up by 10.7% YoY to ₹170.9bn; led by sustained improvement in SMP's green field plants and continued cost reduction in all global business. EBITDA grew 61% YoY to ₹17.9b with 14 quarter high margins at 10.5% (+310bp YoY). The improved execution levels and limited capex at SMPBV coupled with growing India business augurs well for MSSL. Better operating performance, higher minority share at ₹4.4b and tax credit of ₹1.1bn led Adj. PAT beat at ₹10.9b.
- Cost control across businesses and benefits of operating leverage (as SMP's new greenfield capacities' production are gradually ramping up) fueled improvement in MSS' overall financial performance, also supported by deferred tax assets of ₹32mn in respect of prior years losses. (1) SMP's top line grew 4% YoY to ₹1,064mn and EBITDA margins improved by 470bps YoY to 9.5%. (2) SMR's revenue grew 2% YoY to ₹385mn and EBITDA margins improved by 260bps YoY to 13.2% (3) PKC's top line remained steady at ₹286mn and EBITDA margins dropped 40bps to 9.4%. (4) MSSL's standalone operations top line increased 17% YoY to ₹112.7bn and EBITDA margins expanded 60bps YoY to 11.5%.
- Pickup in the demand across international markets boosted utilization levels across MSSL's manufacturing facilities to nearly pre-Covid levels in 3QFY21. Although near-term concerns of global supply shortage in semi-conductors may impact production, these worries would be a short-term phenomenon (i.e. ~3-4 months).
- Electric vehicle order book stood at ₹2.7bn as on September 2020, which was 21% of total SMRPBV order book. Similar number was ₹2.4bn in March 2020 (i.e. ~21% of total SMRPBV order book). Execution of these orders is yet to start.
- Demand outlook: According to management, the demand scenario remains strong with no major impact due to the second wave of Covid in Europe.
- Capex for FY21 to remain lower than ₹20b while FY22E capex likely to remain at the same level. The company remains in position to service current order book from existing plants.

Valuation: At CMP, the stock is trading at 17.2x FY22E and 13.3x FY23E earnings. Given the strong revenue visibility on account of healthy order book and limited capex for SMPBV, improvement in domestic demand and expected ramp-up in new facilities we remain optimistic on earnings recovery prospects. We maintain our rating of a MARKET PERFORMER with a revised price target of ₹211; (earlier ₹134) valuing the company at 23x 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 3QFY21

Y/E March (₹ mn)	3QFY21	3QFY20	YoY Growth	2QFY21	QoQ Growth
Net sales	170,924	154,365	10.7%	149,572	14.3%
EBITDA	17,955	12,358	45.3%	13,918	29.0%
Depreciation	7,353	6,794	8.2%	6,348	15.8%
Other Income	651.9	782.9	-16.7%	552.8	17.9%
PBT	9,874	4,555	116.8%	6,854	44.1%
Tax	-1,092	1,227	-189.0%	1,657	-165.9%
PAT	10,966	3,329	229.5%	5,198	111.0%
EBITDA Margin (%)	10.5%	8.0%	31.2%	9.3%	
PAT Margin (%)	6.4%	2.2%		3.5%	

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Analyst holding in the stock	No
Served as an officer, director or employee	No

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