

Motherson Sumi Ltd

OUT PERFORMER

Sector: Auto-Ancillary /Mid-Cap | Earnings Update – 4QFY20

8 June 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	34,287
Nifty	10,142
Price	₹ 104
Target Price (12 months)	₹ 111
Recommendation	OUT PERFORMER

52 Week High/Low	₹ 151/48
Bloomberg / Reuters	MSS IN/MOSS.BO
Equity (shares in mn)	3157.9
Mkt. Cap in mn	₹ 328.4 / \$ 4.4
Avg. Daily Vol. ('000)	36,009
Avg. Daily Vol. (mn)	₹ 3744.9 / \$ 49.6

Shareholding	Mar 19	Dec 19	Mar 20
Promoters (%)	61.7	61.7	61.7
FII (%)	18.1	16.4	15.5
DII (%)	9.7	12.6	13.5
Others (%)	10.4	9.3	9.2
Pledge (% of promoter holding)	3.7	9.2	13.1

Valuation Summary (₹ bn)

Y/E March	2020	2021E	2022E
Revenue	645.0	622.0	672.7
EBITDA	52.0	45.6	56.1
Adj PAT	11.7	10.3	17.6
Adj EPS*	3.7	3.3	5.6
% growth	-27%	-12%	70%
P/E	28.1	31.7	18.7
P/ BV	2.9	2.8	2.6
EV/EBITDA	11.2	6.3	5.1
EV/Sales	0.4	0.5	0.4
Div Yield (%)	1.1%	0.9%	1.6%
ROE (%)	11%	9%	14%

Performance(%)	1M	3M	12M
MSSL	0.40	-0.05	-0.17
SENSEX	0.09	-0.14	-0.14

Good show amidst challenging times; decline in revenues largely anticipated while margins surprise positively; robust order book, ramp-ups in new facilities, increase in content per vehicle & recovery in domestic demand to drive growth

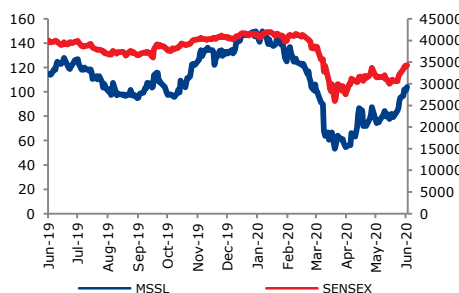
- Despite COVID19 disruption impacting Chinese operations since January 2020 and European operations from March 2020, MSSL managed to arrest the decline in topline at 12% YoY to ₹ 151.6bn while EBITDA witnessed healthy expansion to 9.2% (up 190 bps YoY). Substantial portion of the benefit towards EBITDA came from ~230 bps YoY improvement in gross margins.
- Standalone revenues came in at ~₹ 17.4bn, down 6% YoY and up 6% QoQ on account of content gains due to BS VI production ramp up and higher demand. Gross margins at 47.7% improved by 389bps YoY / 205bps QoQ following 6%/3% decrease in copper prices during the quarter. EBITDA margin at 16.9% declined 125bps YoY largely due to higher staff costs and other expenses in a declining revenue scenario. PAT at ₹ 3.8 bn grew 83% on the back of high other income driven by dividend inflow to standalone entity.
- The efforts under project "Victory" towards cost reduction and improving efficiency at new plants coupled with rising contribution of high margin new orders are supporting MSSL's profitability. Net debt levels have decreased to ~₹ 69.2bn during 4Q'FY20 compared to ~₹ 85.9bn in 3QFY20. The company's efforts on improving cash position enabled it to bring down net debt levels to lowest in last 10 quarters.
- SMP revenues were reported at €931mn, down 12% YoY / 8% QoQ. SMP EBITDA Margins at 4.2% was up 229 bps YoY and down 63 bps QoQ. SMR revenue came in at ~€371mn, down 12% YoY and 8% QoQ. SMR Margins at 14.6% improved significantly by 294 bps YoY / 398 bps QoQ, driven by cost reduction measures. PKC revenues came in at €259mn, down 18% YoY and 9% QoQ primarily due to weak demand in the global CV market.
- Order book:** At SMRPBV level, the order book stands at €13.6bn. During the year, €5.5bn worth of new orders were added while orders worth €10.1 bn were executed. The company has built adequate capacities to service all new orders.
- Capex:** Capex spend during the year was least in last 4-years as FY20 marked the end of five-year plan. Capex for FY21 expected to be ~₹ 20bn.
- The Management expects domestic demand to revive swiftly than expected due to, 1) Excess liquidity due to reduction in household expenditure, 2) lower inventory in the system, 3) rising need of personal mobility post COVID
- The management has indicated that 1QFY21 results will be an abrasion, as there has been a shut down across all manufacturing facilities except China. They also expect supply constraints to continue, as ramp up in manufacturing and supply chain will take time to reach pre COVID levels.

Valuation: At CMP, the stock is trading at 31.7x FY21E and 18.7x FY22E earnings. Given the strong revenue visibility on account of healthy order book, sequential recovery in domestic demand scenario and expected ramp-up in new facilities we remain optimistic on earnings recovery. We maintain a **OUT PERFORMER** rating on the stock with a revised price target of ₹ 111, valuing the company at a 20x 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 4QFY20

Y/E March (₹ mn)	4QFY20	4QFY19	YoY Growth	3QFY20	QoQ Growth
Net sales	1,51,591	1,71,695	-12%	1,56,611	-2%
EBITDA	13,916	12,428	12%	12,358	0.3%
Depreciation	7,927	5,518	44%	6,938	22%
Other Income	151	682	-78%	783	-5%
PBT	4,759	6,562	-27%	4,412	-29%
Tax	3,315	2,479	34%	1,227	-34%
PAT	1,444	4,083	-65%	3,185	-12%
EBITDA Margin (%)	9%	7%		8%	
Tax Incidence (%)	70%	38%		28%	
PAT Margin (%)	1%	2%		2%	



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Served as an officer, director or employee	No

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