

Motherson Sumi Ltd

MARKET PERFORMER

Sector: Auto-Ancillary / Large-Cap | Earnings Update – 4QFY21

4 June 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).

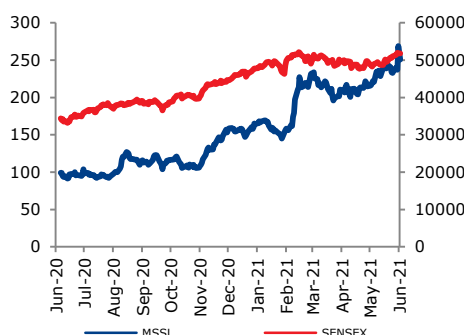
Sensex	52,214
Nifty	15,684
Price	₹ 250
Target Price (12 months)	₹ 238
Recommendation	MARKET PERFORMER

52 Week High/Low	₹ 273/87
Bloomberg / Reuters	MSS IN/MOSS.BO
Equity (shares in mn)	3,157.9
Mkt. Cap in mn	₹ 391.3/\$5.4
Avg. Daily Vol. ('000)	1,736.9
Avg. Daily Vol. (mn)	₹ 1306.4/\$18.3

Shareholding	Mar 20	Dec 20	Mar 21
Promoters (%)	61.7	61.7	61.7
FII (%)	15.5	16.1	16.6
DII (%)	13.5	14.3	13.4
Others (%)	9.2	7.9	8.2
Pledge (% of promoter holding)	13.1	7.2	4.2

Valuation Summary (₹ bn)			
Y/E March	2021	2022E	2023E
Revenue	573.7	688.0	745.1
EBITDA	43.6	67.8	84.3
Adj PAT	10.4	21.6	30.1
Adj EPS*	3.3	6.8	9.5
% growth	-11%	108%	39%
P/E	76.1	36.7	26.3
P/ BV	6.8	6.2	5.5
EV/EBITDA	13.7	8.8	7.1
EV/Sales	1.0	0.9	0.8
Div Yield (%)	0.4%	0.8%	1.1%
ROE (%)	10%	17%	21%

Performance(%)	1M	3M	12M
MSSL	14.2%	17.2%	147.7%
SENSEX	7.5%	1.6%	52.6%



Recovery in-progress; Growth on all fronts

- MSSL's consolidated revenues surged 18% YoY to ₹ 169.7bn on account of strong performance under domestic standalone, PKC segment and improving SMRPBV order book (19% rise YoY). The normalization of industrial activities across the globe post covid-led business disruption also came to aid as consolidated revenues surpassed the pre-covid levels. Consolidated EBITDA grew by 39% YoY to ₹ 17 bn with a margin expansion of ~150 bps although a 40 bps drop on sequential basis (14-qtr high of 10.5% in 3QFY21). PAT registered a 289% jump YoY owing to lower tax and improved operational performance.
- Strong growth on all fronts-** The domestic standalone business led the charge as it grew by 28% YoY to Rs 12.7 bn in the wake of improved vehicle volume and enhanced content use in the same. Led by strong revival in CV segment across the globe, the PKC segment registered a 30% growth to Rs 27.5 bn. PKC witnessed traction from customer during the quarter. In Euro terms, the revenues improved by 19% to €314 mn whereas EBITDA margin remained flat at 8% YoY.
- SMRPBV metrics sustained its recovery during the quarter. SMP revenues recorded 6% YoY growth to €991 mn with robust 420 bps improvement in EBITDA margin to 8.7%. On the other hand, SMR revenues remained flat at €371 mn with a 190 bps drop in EBITDA margin to 12.9%. The revival in the growth for couple of greenfield plants under SMP business led to better performance for the segment. Lower production by OEMs and extended holidays than usual course dragged the SMR business.
- Sustained profitability despite headwinds-** Multiple headwinds such as inflated commodity prices, chip shortages weighed on the performance yet the pickup in industrial activities and continuation in cost reduction boosted the consolidated revenues to above the pre-covid levels. Sharp spike in copper prices (49% rise YoY on LME platform) disturbed MSSL's calculation as company works with semi-annual contracts. Although the effect is passed on to end user the in-between lag impacted the cost calculations. Management believes in continuation of near term concerns in terms of semi-conductor shortages and susceptibility over further production shutdowns.
- EV order book continues to soar-** EV order book augmented to €3.9 bn (25% of total SMRPBV order book) during FY21 against €2.4 bn in FY20. Although MSSL is just in accumulative phase for EV orders the constant rising quantum signals strong revenue visibility. The EV are expected to be rich in electronic content and light weight in nature thus presumed to be beneficial for MSSL.
- Capex-** In view of unprecedented event of covid pandemic, management is expected to run the business activities under the similar production capacity and likely to refrain from any new capex (FY22 capex expected to remain at similar levels to FY21: ₹ <20bn)

Valuation: The strong order book coupled with cyclical recovery in core businesses assures revenue visibility for MSSL. We remain optimistic on long term growth prospects of the company, however at current valuation all near term positives look priced in. We retain our MARKET PERFORMER rating on the stock with revised target price of ₹ 238.

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

Results Summary 4QFY21

Y/E March (₹ mn)	4QFY21	4QFY20	YoY Growth	3QFY21	QoQ Growth
Net sales	169,719	144,345	17.6%	170,924	-0.7%
EBITDA	17,223	12,422	38.6%	17,955	-4.1%
Depreciation	7,568	7,794	-2.9%	7,353	2.9%
Other Income	615.5	197.6	211.5%	651.9	-5.6%
PBT	8,904	3,460	157.3%	9,849	-9.6%
Tax	656	2,974	-77.9%	-1,092	-160.1%
PAT	8,247	486	1596.3%	10,942	-24.6%
EBITDA Margin (%)	7,136	1,834	289.2%	7,983	-10.6%
PAT Margin (%)	10.1%	8.6%	17.9%	10.5%	

Nilesh Patil +91-44-40047366

Nileshmp@chola.murugappa.com

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

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RESEARCH			
Kedar S Kadam	DGM & Head of Research	+91-44 - 4004 7361	kedarsk@chola.murugappa.com
Mugilan K	Technical Analyst	+91-44 - 4004 7353	mugilank@chola.murugappa.com
Arjun Prasad Pasumarthi	Fundamental Analyst	+91-44 - 4004 7363	arjunpp@chola.murugappa.com
Nilesh Patil	Fundamental Analyst	+91-44 - 4004 7266	nileshmp@chola.murugappa.com
Ammar Haider	Associate	+91-44 - 4004 7360	amarh@chola.murugappa.com
Arvind Sai M	Associate	+91-44 - 4004 7360	arvindsm@chola1.murugappa.com
INSTITUTIONAL SALES			
Venkat Chidambaram	Head of FI Business & Corporate Finance*	+91-44 - 24473310	venkatc@chola.murugappa.com
Balaji H	Compliance Officer	044-30007226	balajih@chola.murugappa.com
Gayathri Devi	Customer service	1800 425 4477	gayathrids@chola.murugappa.com

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