

Motherson Sumi Ltd

Sector: Auto-Ancillary /Large-Cap | Earnings Update – 2QFY22

MARKET PERFORMER

14 November 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).

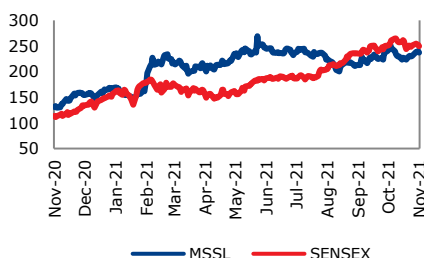
Sensex	60,687
Nifty	18,102
Price	₹245
Target Price (12 months)	₹255
Recommendation	MARKET PERFORMER
52 Week High/Low	₹273/126
Bloomberg / Reuters	MSS IN/MOSS.BO
Equity (shares in mn)	3157.93
Mkt. Cap in mn	₹7,75,746.6/₹10.4
Avg. Daily Vol. ('000)	16,132.6
Avg. Daily Vol. (mn)	₹3,963.0/₹53.3

Shareholding	Sep 20	Jun 21	Sep 21
Promoters (%)	61.7	61.7	61.7
FII (%)	16.0	16.9	16.4
DII (%)	13.6	13.0	13.6
Others (%)	8.7	8.4	8.2
Pledge (% of promoter holding)	11.5	3.7	3.7

Valuation Summary (₹ bn)			
Y/E March	2021	2022E	2023E
Revenue	573.7	700.9	796.5
EBITDA	43.6	69.1	90.0
Adj PAT	10.4	22.0	32.2
Adj EPS*	3.3	7.0	10.2
% growth	-11%	112%	46%
P/E	76.1	36.0	24.6
P/ BV	6.8	6.2	5.4
EV/EBITDA	13.7	8.6	6.6
EV/Sales	1.0	0.8	0.7
Div Yield (%)	0.4%	0.8%	1.2%
ROE (%)	10%	18%	23%

*Cons. Earnings

Performance(%)	1M	3M	12M
MSSL	0.2%	9.8%	87.1%
SENSEX	0.7%	10.7%	39.2%



Sectoral headwinds eclipse recouping demand & strong India performance

- **Motherson Sumi Systems Ltd (MSSL)** reported muted performance for 2QFY22 as revenues lowered by 5.2%/12.2% YoY/QoQ to ₹140.7bn, majorly on account of subdued volumes across key geographies. EBITDA stand reduced to ₹9.4bn (-32.2% YoY/22.6% QoQ) while margin plunged to 6.7% (-270bps YoY/ 90bps QoQ) as commodity inflation weigh on operational performance. PAT came lower at ₹2.2 bn down by 35.8% YoY/25.1% QoQ. Revenue/EBITDA/PAT came lower than consensus estimates by ~8%/17%/12% respectively. Interrupted OEM production owing to supply chain constraints casted its ripples on MSSL's revenue and profitability. Robust order book, strong global PV demand and marginally improved situation at semi-conductor issue will bode well for MSSL in coming quarters.
- **Better India operations anchor overall revenues-** MSSL's standalone operating revenue at ₹22bn registered a strong growth of 29%/21% YoY/QoQ led by recuperating demand environment. Domestic wiring harness improved by 28%/24% YoY/QoQ to ₹13.8bn. SMRPBV profile, on contrary, registered ~14% revenue decline on both YoY as well as QoQ, as volumes plunge in key PV markets. PKV revenues got impacted due to sharp drop in QoQ volumes in China & Europe. Western Europe & US saw 22%/23% volume drop in PV markets while China Truck volumes plunged by 59% QoQ thus, upsetting MSSL's global revenues. MSSL's 3CX10 diversification strategy (implying each segment contributing <10% to overall revenues) seems to be rolling out well as it mitigated the risks under current challenging business environment.
- **Cost control initiatives aid margins-** MSSL partly managed to offset the effect of sharp rise in RM & logistics costs on margins (at 6.7% down by 270bps YoY/90 bps QoQ). DWH segment recorded 180bps YoY improvement while PKC margins plunged by 480bps YoY. New product launches resulting in additional costs and supply chain disruptions depressed PKC margin profile. SMRPBV metrics witnessed 210bps EBITDA margin contraction over elevated input, labour & freights cost in key geographies.
- **Capex & debt-** Amidst challenging business landscape, MSSL has refrained itself from any major capex and is expected to operate at current capacity. MSSL has incurred ₹11.85bn capex in 1HFY22 and expects it to be lower than ₹20bn for entire FY22. Net debt increased by ₹15bn QoQ to ₹76.3bn in 2QFY22 with additional lease liabilities of ₹12.7bn. Additional working capital requirements in the wake of disrupted OEM productions caused by higher debt requirements. In October-21, MSSL acquired 55% in CIM Tools (India) & 60% in Nanchang JMCG (China).
- **Robust order book-** MSSL has bagged new orders worth €2.1bn in 1HFY22 thus, total order book stands at €15.3bn as of September-21. The share of EV orders with respect to SMRPBV total order book has surged to 27% against 25% in FY21 as EV product action further intensifies. Use of higher electronic content in EV auger well for MSSL.

Valuation: We anticipate 3QFY22 to remain in the shadow of industry headwinds but the recouping PV demand globally & improving India operations bode well for MSSL. Over the longer horizon, the growth triggers seem to remain intact as robust order book, diverse business operations and EV evolution offer revenue visibility. We retain our MARKET PERFORMER rating on the stock with a revised target price of ₹255 (earlier ₹235), 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 2QFY22

Y/E March (₹ mn)	2QFY22	2QFY21	YoY Growth	1QFY22	QoQ Growth
Net sales	1,40,764	1,48,451	-5.2%	1,60,237	-12.2%
EBITDA	9,438	13,918	-32.2%	12,200	-22.6%
Depreciation	7,373	7,346	0.4%	7,513	-1.9%
Other Income	871	553	57.6%	1,548	-43.7%
PBT	1,622	5,260	-69.2%	5,022	-67.7%
Tax	856	1,657	-48.3%	1,548	-44.7%
PAT	2,169	3,376	-35.8%	2,896	-25.1%
Adj. PAT	2,169	3,376	-35.8%	2,896	-25.1%
EBITDA Margin (%)	6.7%	9.4%		7.6%	
PAT Margin (%)	1.5%	2.3%		1.8%	

Nilesh Patil +91-44-4004 7266

nileshmp@chola.murugappa.com

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Served as an officer, director or employee	No

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OUT PERFORMER: The stock's total return is expected to be within 5-15% over the next 12 months.

MARKET PERFORMER: The stock's total return is expected to be between -5% to +5% over the next 12 months.

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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
Balaji H	Compliance Officer	044-30007226	balajih@chola.murugappa.com
Gayathri Devi	Customer service	1800 425 4477	gayathrids@chola.murugappa.com