

Motherson Sumi Systems Ltd

Sector: Auto-Ancillary /Large-Cap | Earnings Update – 3QFY22

OUT PERFORMER

18 February 2022

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. 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. As a part of re-organization strategy, MSSL has de-merged its Domestic Wiring Harness (DWH) business into a separate entity named as Motherson Sumi Wiring India Ltd (MSWIL). Additionally, merger of SAMIL (the promoter entity) into MSSL will club all the allied businesses together under one roof, thus, simplifying the group structure.

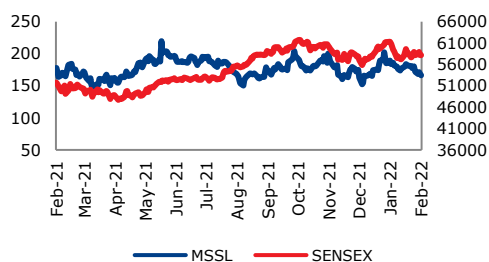
Sensex	57,592
Nifty	17,305
Price	₹167
Target Price (12 months)	₹186
Recommendation	OUT PERFORMER

52 Week High/Low	₹273/165
Bloomberg / Reuters	MSS IN/MOSS.BO
Equity (shares in mn)	3157.93
Mkt. Cap in bn	₹526.3/\$7.1
Avg. Daily Vol. ('000)	7,565.1
Avg. Daily Vol. (mn)	₹1,275.9/\$17.2

Shareholding	Sep 20	Jun 21	Sep 21
Promoters (%)	61.7	61.2	61.7
FII (%)	16.1	16.4	16.4
DII (%)	14.3	13.6	13.9
Others (%)	7.9	8.2	8.0
Pledge (% of promoter holding)	7.2	4.4	4.4

Valuation Summary (₹ bn)			
Y/E March	2021	2022E	2023E
Revenue	582.3	630.1	724.6
EBITDA	46.9	49.1	58.9
Adj PAT	10.6	9.1	25.5
Adj EPS	2.3	2.0	5.6
P/E	71.1	57.8	29.6

Performance(%)	1M	3M	12M
MSSL	-12.3%	-14.6%	-6.5%
SENSEX	-5.1%	-3.1%	12.5%



Weak quarter; commodity cost inflation & supply chain constraint weighs on overall performance

- Motherson Sumi Systems Ltd (MSSL) reported subdued earnings for 3QFY22, as operational performance was depressed by elevated input costs. Additionally, the continued supply chain disruptions exacerbated the underperformance. The revenue/EBITDA/PAT were down by 5.7%/40%/69.3% YoY. The EBITDA margin remain debilitated at 6.7%, down by 380bps YoY. The QoQ performance reflects improvement as the production trend showcased signs of recovery. The revenue & EBITDA grew by ~14% while PAT improved by 13% on QoQ basis.
- The revenue for new entity SAMIL was up by 14% QoQ to ₹164.4bn while EBITDA & PAT came at ₹12.3bn (+13.6%) & ₹2.3bn (+61%) respectively. The company has cash position of ₹47.2bn with net debt of ₹87.4bn which excludes lease liabilities.
- Soaring input costs, cast shadow on margins-** In 3QFY22, MSSL's EBITDA languished around 6.7% mark, similar to last quarter, over the continued effect of inflating input costs on gross margins (down by 200bps YoY at 41.6%). In addition to sharp inflation amongst key raw materials, higher freight & wage charges dampened the margin recovery. The management anticipates supply side challenges to persist in coming quarters thus weighing on operational performance.
- Debt-** Net debt stands reduced at ₹84.5bn (cumulative of lease liabilities) as of Dec-21 vs ₹89bn in 2QFY22. In 3QFY22, MSSL raised ₹10bn via NCDs which would be majorly utilized for working capital & repayment of debt.
- Segmental performance-** For 3QFY22, MSSL's standalone business recorded strong performance with 10.9% YoY growth to ₹22.9bn but PAT lowered to ₹2.1bn (-14% YoY). The revenue for SMRPBV decreased in 3QFY22 to Euro 1.3bn (-9.6% YoY/+20.2% QoQ) due to sharp rise in key materials of aluminum & resin. The PKC segment registered moderate growth of 2.4% YoY/3.5% QoQ to Euro 293mn amidst supply chain disruptions in North America & lower volumes in China.

Valuation: The continuance in RM cost inflation & other supply chain disruptions are likely to dampen MSSL's revenue and profitability in near-term. But MSSL has insulated itself via pass-through of cost & diversification strategy. The robust order book, strong global PV demand & marginally improved situation at semi-conductor issue will aid the performance in coming quarters. At CMP, the stock trades at 29.6x consolidated FY23 EPS. We revise our MARKET PERFORMER rating on the stock to OUT PERFORMER with a revised target price of ₹186.

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

Results Summary 3QFY22

Y/E March (₹ mn)	3QFY22	3QFY21	YoY Growth	2QFY22	QoQ Growth
Net sales	1,61,175	1,70,924	-5.7%	1,40,764	14.5%
EBITDA	10,765	17,955	-40.0%	9,438	14.1%
Depreciation	7,334	7,353	-0.3%	7,373	-0.5%
Other Income	1,227	652	88.2%	871	40.8%
PBT	3,364	9,849	-65.8%	1,622	107.3%
Tax	1,010	(1,092)	-192.5%	856	17.9%
PAT	2,451	7,983	-69.3%	2,169	13.0%
Adj. PAT	2,451	7,983	-69.3%	2,169	13.0%
EBITDA Margin (%)	6.7%	10.5%		6.7%	
PAT Margin (%)	1.5%	4.7%		1.5%	

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