

Motherson Sumi Systems Limited (MSSL), the flagship company of the Samvardhana Motherson Group, was established in 1986. It is a joint venture between Samvardhana Motherson Group and Sumitomo Wiring Systems (Japan). The company is a leading global auto component player with presence across 25 countries. The acquisition of Visiocorp in 2009 and Peguform in 2011, has established MSSL as a global Tier-1 supplier to the major OEMs of the automotive industry. With a diverse global customer base comprising of almost all leading automobile manufacturers globally, MSSL is currently the largest auto ancillary in India and also ranked 55th in global auto component suppliers.

Investment Rationale

Opportunities abound - MSSL currently derives ~75% of its consolidated revenues from India and Europe, however these two geographies account for just ~25% of the global 75 mn car market. The management's recent comments indicate that the next target geography for them is the US and China which would mean that the addition of these geographies will significantly increase the company's exposure to the global car market. Setting up of plants in Mexico/China for SMR and SMP and recent acquisition of the North American firm Stoneridge's wiring harness business are the initial foundations which would possible yield fruitful results in the coming quarters.

Stoneridges' wiring harness business provides synergy benefits - MSSL's latest acquisition of the North American company Stoneridge's wiring harness business would enable it to have an access to the CV segment where it has a miniscule presence. The acquisition will help the company in further solidifying its footprint in the American market. With MSSL's capability of turning around acquisitions and expertise in wiring harness business, we see strong traction in revenues and profitability for the wiring harness division.

Inorganic route has been a critical part of MSSL growth strategy - One of the key drivers for the 47.8% 10-year CAGR in consolidated revenues has been the sound acquisition strategy of the company. MSSL's strategy is to acquire assets with high growth potential with their existing customer contracts and relationships. Further, it improves and stabilizes its business through enhanced quality and delivery parameters and engineering support, coupled with its management know-how and experience.

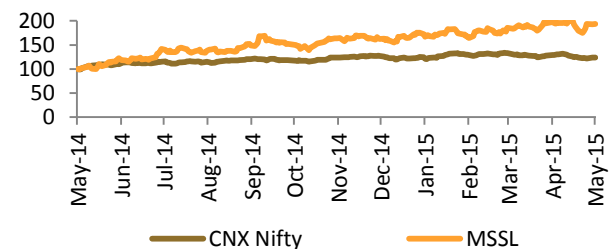
Market Data

Rating	BUY
CMP (₹)	478.3
Target (₹)	559
Potential Upside	~17%
Duration	Long Term
Face Value (₹)	1.0
52 week H/L (₹)	534.7/272.8
Adj. all time High (₹)	534.7
Decline from 52WH (%)	10.5
Rise from 52WL (%)	75.3
Beta	1.1
Mkt. Cap (₹bn)	421.8
EV (₹bn)	462.1

Fiscal Year Ended

Y/E	FY14A	FY15A	FY16E	FY17E
Revenue (₹bn)	304.3	350.3	412.3	494.8
EBITDA (₹bn)	24.0	32.0	36.3	45.5
Net Profit (₹bn)	7.7	8.6	11.3	16.4
EPS (₹)	8.7	9.8	12.8	18.5
P/E (x)	55.1	41.1	37.5	25.8
P/BV (x)	14.3	12.7	10.1	7.6
EV/EBITDA (x)	19.2	14.4	12.6	9.9
ROCE (%)	25.9	25.3	25.0	27.4
ROE (%)	25.9	30.9	26.8	29.3

One year Price Chart



Shareholding Pattern	Mar15	Dec14	Diff.
Promoters	65.6	65.6	-
FII	18.3	18.2	0.1
DII	5.2	5.1	0.1
Others	10.9	11.1	(0.2)

MSSL is a JV between Samvardhana Motherson Group and the Japanese firm, Sumitomo Wiring Systems.

The company is one of the largest manufacturers of wiring harnesses in India, serving the entire cross-section of the automotive industry.

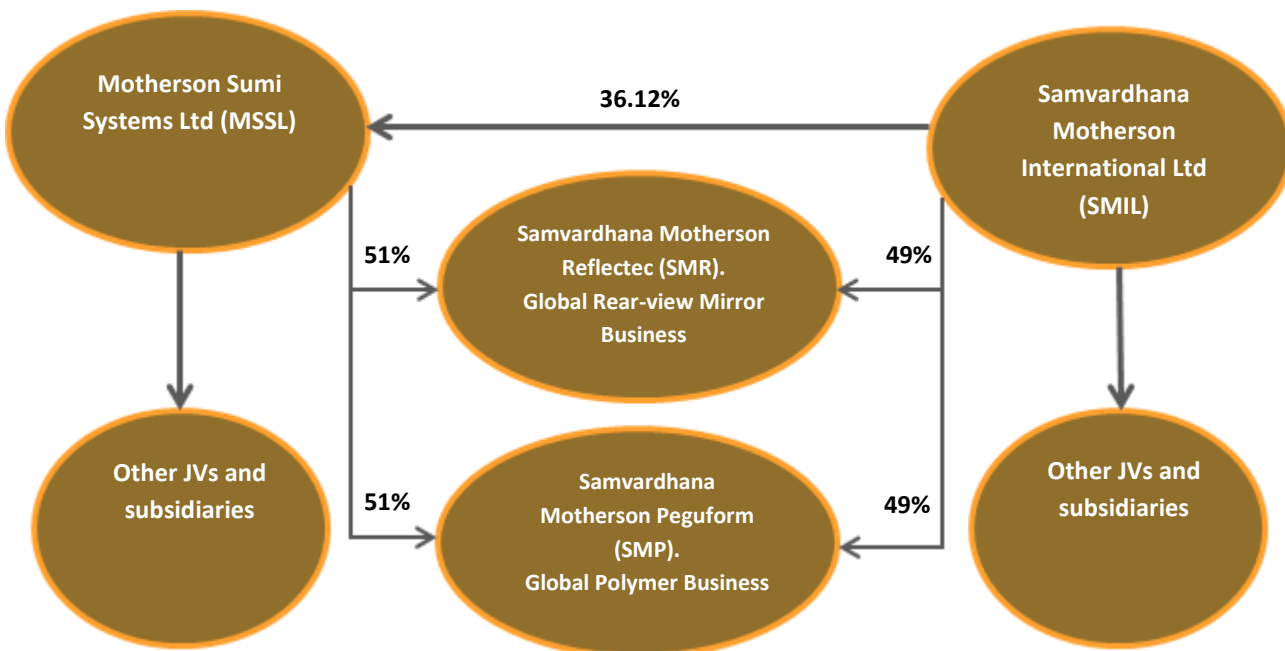
MSSL - a world-class supplier of high performance automotive components, modules and systems

MSSL, established in 1986, is a joint venture (JV) between Samvardhana Motherson Group and Sumitomo Wiring Systems (Japan). MSSL is a leading automotive mirror and wiring harness manufacturer for passenger cars. The wiring harness division of MSSL is one of the largest manufacturers of wiring harnesses in India, serving the entire cross-section of the automotive industry. MSSL also supplies wiring harnesses to material handling, earth moving & farm equipment, white goods & electronics, elevators, office automation and medical equipment industries. The company also offers a range of products in the fields of electrical distribution systems, plastic molding, elastomers processing, tooling, metal machining, automotive rear view mirrors and integrated modules.

Over the years MSSL has collaborated with global technology leaders and has further leveraged its competency in existing areas to create products fulfilling the technical needs of its customers. The acquisition of mirror business from Visiocorp [now renamed as Samvardhana Motherson Reflectec (SMR)] and Peguform [now named Samvardhana Motherson Peguform (SMP)] has helped MSSL evolve as one of the world's leading manufacturers of automotive rear view mirrors and a leading manufacturer of instrument panels, bumpers and door trims in Europe.

MSSL provides a range of services from design to manufacturing, supplies to logistics to its customers in India and abroad. The company as a supply partner provides complete solutions to their customers right from product design to mass supplies. With presence in 25 countries including India (Noida , Gurgaon, Manesar, Faridabad , Pune, Bengaluru, Chennai, Kandla, Pathredi, Tapukara, Lucknow & Puducherry), MSSL has manufacturing bases across six continents.

Business unit segregation

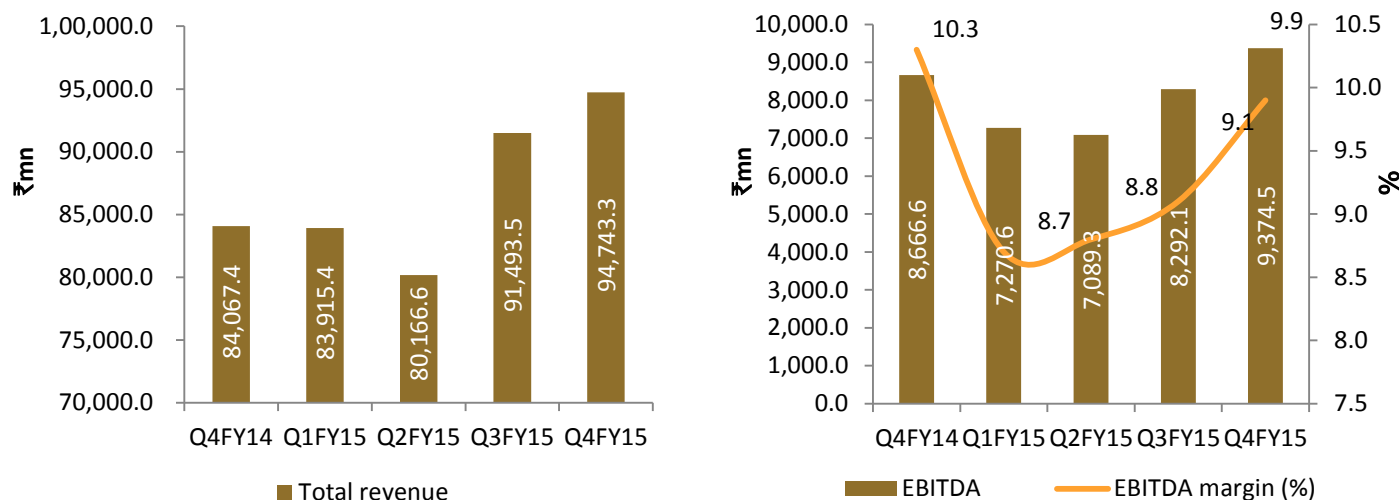


During the quarter, while the automotive segment registered a growth of 9.7% YoY to ₹90,582.2 mn, non-automotive segment grew by 179.6% YoY to ₹4,050.4 mn.

Recorded healthy numbers in Q4FY15 and FY15

MSSL recorded healthy numbers in Q4FY15 with 12.7% YoY growth in revenue at ₹94,743.3 mn compared to ₹84,067.4 mn in corresponding period a year ago, led by strong performance across its business segments. During the quarter, while the revenue from automotive segment registered a growth of 9.7% YoY to ₹90,582.2 mn, non-automotive segment revenue grew by 179.6% YoY to ₹4,050.4 mn. Further, revenue from international business (the major contributor to MSSL's performance, accounting for ~85% of total revenue) grew by 13.5% YoY followed by 6.6% revenue growth from the domestic business. For FY15, MSSL reported a revenue growth of 15.1% YoY to ₹350,318.9 mn as against ₹304,279.0 mn in FY14.

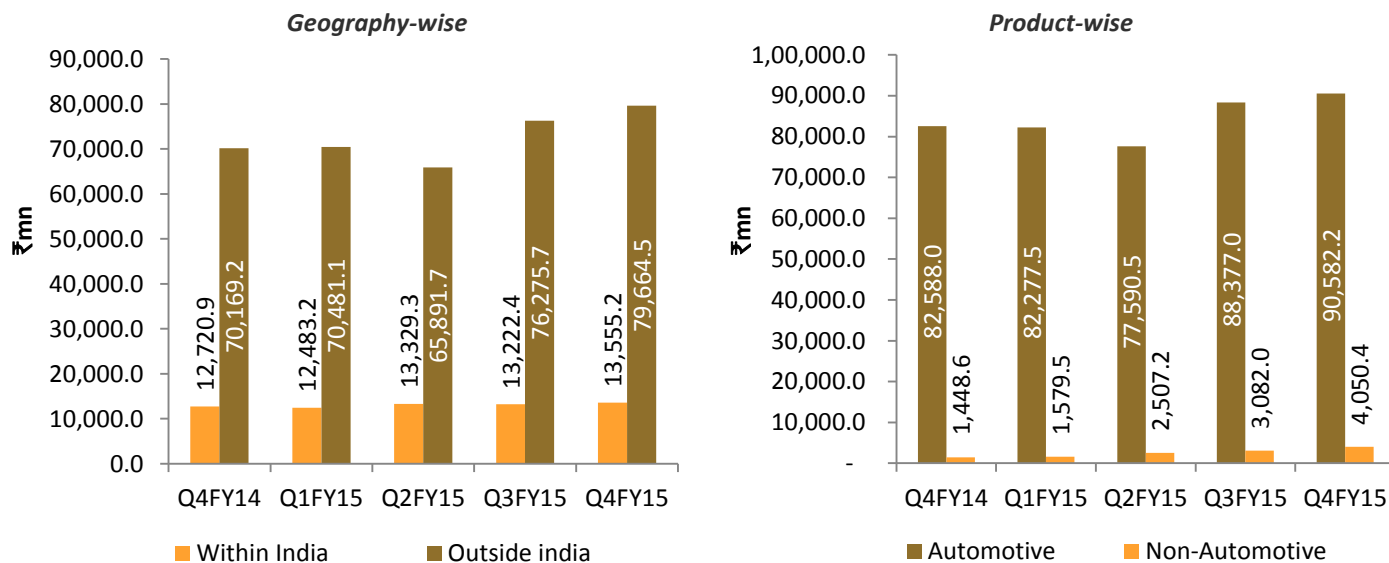
Quarterly performance trend



MSSL's EBITDA margin remained under stress, down by 40bps YoY to 9.9% in Q4FY15 from 10.3% in Q4FY14.

In line with growth in revenue, EBITDA also grew by 8.2% YoY to ₹9,374.5 in Q4FY15. However, MSSL's EBITDA margin remained under stress, down by 40bps YoY to 9.9% in Q4FY15 from 10.3% in Q4FY14 impacted by higher operating expenses. For FY15, MSSL posted 120 bps YoY expansion in EBITDA margin at 9.1% against 7.9% in FY14.

Segment-wise revenue break-up



In a move to acquire a stronger traction in the US market, MSSL acquired the Wiring harness business of North America based Stoneridge Inc. through asset purchase at transaction value of USD 65.7 mn.

With this acquisition, MSSL now has over 45 plants related to wiring harness business.

MSSL's subsidiary Samvardhana Motherson Automotive Systems Group BV of Netherlands has signed an agreement to buy Scherer & Trier assets including two manufacturing facilities situated in Germany and Puebla, Mexico.

Meanwhile, the company registered a decent growth in net profit by 12.4% YoY to ₹3,401.0 mn compared to ₹3,025.3 mn in Q4FY15. However, 20.8% and 8.3% YoY rise in taxation and depreciation charges, coupled with 7.4% YoY decline in other income, limited the gains. For FY15, MSSL reported a 12.7% YoY growth in net profit at ₹8,624.7 mn, as against ₹7,650.0 mn in FY14.

Stoneridge's acquisition to strengthen footprints in North America

In a move to acquire a stronger traction in the US market, MSSL acquired the Wiring harness business of North America based Stoneridge Inc. through asset purchase at transaction value of USD 65.7 mn. The company closed the deal in August 2014. Stoneridge's Wiring Business designs and manufactures wiring harness products for sale primarily to the commercial, agricultural and off highway vehicle markets, as well as assembles entire instrument panels that are configured specifically to an OEM customer's specification in the commercial vehicle market. The acquisition would provide MSSL access to the CV segment where it has a miniscule presence. The transaction comprises six manufacturing facilities located in Portland, Indiana (USA); Chihuahua, Mexico; Saltillo, Mexico; and Monclova, Mexico; as well as an engineering and administrative center located in Warren, Ohio. The addition of these manufacturing facilities would enable MSSL to service the growing requirement of the customers in the region. With this acquisition, MSSL now has over 45 plants related to wiring harness business. The transaction will allow MSSL to further strengthen its footprint in American market by building upon existing knowledge and customer relationships that the acquired business has in the region.

Acquisition of Scherer & Trier to boost market share

After ensuring sufficient ground in North America, MSSL inked a pact with Germany based Scherer & Trier group. Its subsidiary Samvardhana Motherson Automotive Systems Group BV of Netherlands has signed an agreement to buy Scherer & Trier assets including two manufacturing facilities situated in Germany and Puebla, Mexico. The consideration payable is approx. €36 million for the assets, including land and building & inventories along with the shareholding held in Mexican entities.

The acquired entity develops and manufactures extrusion profiles, moulded parts made of thermoplastics and hybrid components made of metal and plastic catering to OEMs like Audi, BMW, Daimler, Ford, GM, VW etc. along with other customers. It also has a strong vertical integration, including state-of-the-art tool room for injection moulding tools, process engineering and in-house material development capabilities. This acquisition will further consolidate MSSL's polymer business in Europe & North America.

SMP to sustain growth trajectory

With annual sales of €1.9 bn as in FY14 (+5% from FY13), Samvardhana Motherson Peguform (SMP) is the largest subsidiary of MSSL. The growth in sales in FY14 was mainly supported by an increase in revenue from Europe, which remains the major contributor to turnover with 81% share. Revenue contribution from China stood at 11%, while South America accounted for 8%. The company's consistent efforts to reduce costs reflected in improvement in margins in FY14. EBITDA stood at ₹8,466 mn (€104 mn) with EBITDA margins at 5.4% as against 3.8% in FY13. The division gained strategic support from customers through improvement of global supply footprint, investment in new technologies and increase of capacities and modernization.

In order to expand its customer base across the globe, SMP is currently in the process of expanding business base in China, Brazil and North America (including Mexico).

SMP has production facilities and engineering centers in 7 countries across the globe. The subsidiary specializes in developing, producing and distributing Polymer interior and exterior systems for the global automotive market. With a portfolio of +300 patents, SMP enjoys ~18% market share of the European premium bumpers market, 9% market share of the European premium instrument panels market and 23% market share of the European premium door panels market as assessed by the company. In order to expand its customer base across the globe, SMP is currently in the process of expanding business base in China, Brazil and North America (including Mexico).

SMP's capacity expansion initiatives, undertaken in FY14 in its plants in Latin America, Spain, China, Germany etc. will start yielding results in a quarter or two. Thus, we believe, the contribution to total revenue will increase significantly, which consequently will improve its overall revenue-base.

Upcoming projects

Location	Product	Company	Start of production
Spain	Painting Facility	SMP	Q1FY16
USA	Exterior Mirror	SMR	Q1FY16
India	Polymer Products	Motherson Sumi	Q1FY16
India	Polymer Products	Motherson Sumi	Q1FY16
India	Wiring Harness	Motherson Sumi	Q1FY16
India	Wiring Harness	Motherson Sumi	Q2FY16
Germany	Door Panels	SMP	Q3FY16
Mexico	Bumper & Rocker panels	SMP	Q1FY17
China	Door Panels	SMP	Q1FY17
Thailand	Wiring Harness	Motherson Sumi	N/A

The comprehensive design capabilities from the vehicle designing stage and extensive product portfolio facilitate continuous gain of market share and rapid growth in revenues.

Prospects of wiring harness business seems brighter

MSSL is a leading supplier of wiring harnesses to nearly all OEMs in India and together with its JVs it enjoys more than 65% market share of the passenger car segment in India, with over 40 manufacturing facilities and 7 design centers across India, UAE, Ireland, Sri Lanka, Italy, Japan, UK, Mexico, Thailand and South Korea. Manufacturing of wiring harnesses (the assembly of wires that transmit signals or electrical power in a vehicle) is the main business of the company. The comprehensive design capabilities from the vehicle designing stage and extensive product portfolio facilitate continuous gain of market share and rapid growth in revenues. The prospects of the segment remain encouraging with increasing demand for more features and functionality in vehicles which is a striving force for change in the traditional electrical distribution system in cars.

Meanwhile, the company has set an ambitious target of increasing its revenue base to US\$18 billion by FY20 from US\$5.5 billion at the end of FY15. The company's management said that the company aiming to achieve this target through organic growth, as well as through customer-led acquisitions and the organic growth of these acquisitions. Out of this, the company expects 30-40% growth to come from inorganic acquisitions going ahead, while, the rest from organic growth.

Balance Sheet (Consolidated)

Y/E (₹mn)	FY14A	FY15A	FY16E	FY17E
Share Capital	882.0	881.9	881.9	881.9
Reserves&surplus	28,711.0	32,356.3	41,058.1	54,858.9
Net Worth	29,593.0	33,238.2	41,940.0	55,740.8
Minority Interest	7,896.0	10,142.5	11,156.8	12,272.4
Total debt	39,945.0	49,104.5	53,602.7	58,530.1
Deferred tax liability	1,680.0	1,457.3	1,603.0	1,763.3
Provisions	6,742.0	7,747.9	9,079.5	10,655.7
Other non-current liabilities	2,083.0	3,090.9	3,709.1	4,450.9
Other current liabilities	65,684.0	70,927.5	82,438.6	97,000.7
Total equity & liabilities	153,623.0	175,708.8	203,529.7	240,413.9
Fixed assets	65,660.0	70,847.3	77,932.0	85,725.2
Investments	749.0	649.6	681.9	716.0
Deferred tax assets	1,184.0	1,908.6	2,328.5	2,840.8
Loans&advances	9,728.0	13,130.1	15,668.8	18,730.5
Other non-current assets	1,909.0	2,425.2	3,031.5	3,789.4
Other current assets	74,393.0	86,748.0	103,887.0	128,612.1
Total Assets	153,623.0	175,708.8	203,529.7	240,413.9

Key Ratios (Consolidated)

Y/E	FY14A	FY15A	FY16E	FY17E
EBITDA Margin (%)	7.9	9.1	8.8	9.2
EBIT Margin (%)	6.2	6.6	6.4	7.0
NPM (%)	2.5	2.5	2.7	3.3
ROCE (%)	25.9	25.3	25.0	27.4
ROE (%)	25.9	30.9	26.8	29.3
EPS (₹)	8.7	9.8	12.8	18.5
P/E (x)	55.1	41.1	37.5	25.8
BVPS (₹)	33.6	37.7	47.6	63.2
P/BVPS (x)	14.3	12.7	10.1	7.6
EV/Net sales (x)	1.5	1.3	1.1	0.9
EV/EBITDA (x)	19.2	14.4	12.6	9.9

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY14A	FY15A	FY16E	FY17E
Total revenue	304,279.0	350,318.9	412,325.3	494,790.4
Expenses	280,308.0	318,292.4	375,990.5	449,309.5
EBITDA	23,971.0	32,026.5	36,334.8	45,480.9
Other Income	3,106.0	176.5	194.2	213.6
Depreciation	8,172.0	9,206.3	10,126.9	11,139.6
EBIT	18,905.0	22,996.7	26,402.0	34,554.8
Interest	2,943.0	3,177.6	3,431.8	3,706.4
Profit Before Tax	15,962.0	19,819.1	22,970.2	30,848.5
Tax	4,994.0	5,256.3	6,990.9	9,297.9
Profit after tax	10,968.0	14,562.8	15,979.3	21,550.6
Exceptional item	-	(1,647.6)	-	-
Minority Interest	3,316.0	4,294.2	4,723.6	5,196.0
Share of profit/loss of asso.	(2.0)	3.7	3.7	3.7
Net Profit	7,650.0	8,624.7	11,259.4	16,358.3

Valuation and view

MSSL's performance remained healthy in Q4FY15 in terms of revenue as well as profitability. The company has recently acquired the wiring harness business of Stoneridge having a turnover of ~USD 300 mn from six manufacturing facilities in Americas and is in the process of acquiring Scherer & Trier. These are by far the largest acquisitions for the core business of wiring harnesses which will provide the company market recognition in North America & Europe and is expected to provide further headroom to growth. Meanwhile, the management has indicated of improving its return on capital employed (ROCE) to 40% on consolidated basis by FY20.

Considering the above aspects, we rate the stock as 'BUY' at the CMP of ₹478.3, attractively placed at EV/EBITDA of ~12.6x and ~9.9x, for FY16E and FY17E, respectively to arrive at a target price of ₹559, with a potential upside of ~17% for the coming 12 months.

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