

Motherson Sumi Systems Limited (MSSL), the flagship company of the Samvardhana Motherson Group, was established in 1986. Motherson Sumi Systems Ltd (MSSL) is a JV between Samvardhana Motherson International (SMIL) and Sumitomo Wiring Systems, Japan (SWS). MSSL is a diversified auto parts maker with presence in automotive mirrors, wiring harness and moulded plastic parts.

Investment Rationale

Healthy growth in revenue: Consolidated sales grew by robust 36.9% YoY supported by strong performance of India (22% YoY) & SMP operations (10.5% YoY in Eur terms) and contribution from PKC acquisition (not there in Q4FY17). However, SMR witnessed 3.3% decline (in Eur terms) in revenue due to forex impact (strong Eur) and lower volumes at Hyundai and Kia. Growth in standalone business was aided by strong growth in OEM volumes, however, part growth also came from higher copper prices.

Multiple levers for margin expansion: Consolidated EBITDA margin declined by 114 bps YoY to 9.7% as higher raw material and start-up cost (at SMP) dented margins. EBITDA margin in standalone business declined by 90 bps YoY mainly due to higher copper prices (lag in cost pass-through) that impacted gross margin by 117 bps. SMP too reported 30 bps YoY decline in EBITDA margin mainly due to higher start-up cost related to new plants which stood at Eur 20 mn in Q4FY18 (Eur 11 mn in Q4FY17). PKC also witnessed margin pressure due to higher raw material cost and supplier related issues. On the other hand, SMR reported improved profitability (+100 bps YoY) despite lower sales. Going forward, we expect overall margin to improve by 140 bps to 10.5% over FY18-20E led by operating leverage, improvement in PKC margin (through increasing backward integration) and tapering off start-up expenses as production commences at greenfield plants (SMP).

Strong growth outlook across businesses: SMRPBV won new orders worth Rs. 35,464 cr during FY18 and the current order book stands at robust Rs. 1,29,785 cr (highest ever) providing strong growth visibility. Further commissioning of Hungary plant in 1QFY19 and Alabama plant in 3QFY19 will support growth in SMP (potential of adding Eur 1 bn to SMP's topline). As a result, we expect 13% sales CAGR for SMRPBV (holding company of SMR & SMP) over FY18-20E. Strong traction in global truck volumes will support 13.5% revenue CAGR for PKC business. On standalone, robust growth outlook for the PV segment will aid revenue CAGR of 14% over FY18-20E.

Valuation: We remain positive on MSSL given its strong order book position, ramp-up of new plants (SMP) and continuous increase in content per vehicle driven by diversified product offerings and premiumization. Overall, we build robust revenue/PAT CAGR of 16%/30% with strong growth expected across SMP, standalone and PKC businesses. We recommend BUY rating on the stock with a target price of Rs. 343 based on 24x FY20E EPS.

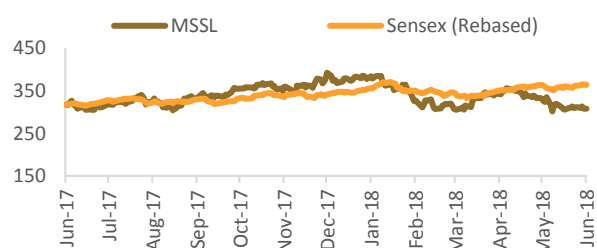
Market Data

Rating	BUY
CMP (Rs.)	302
Target (Rs.)	343
Potential Upside	14%
Duration	Long Term
Face Value (Rs.)	1.0
52 week H/L (Rs.)	395/295
Adj. all time High (Rs.)	395
Decline from 52WH (%)	23.5
Rise from 52WL (%)	2.4
Beta	1.2
Mkt. Cap (Rs.Cr)	63,570

Fiscal Year Ended

Y/E	FY17	FY18	FY19E	FY20E
Net sales (Rs.Cr)	42,493	56,293	66,977	75,586
Net profit (Rs.Cr)	4,285	5,122	6,675	7,950
EPS (Rs.)	7.8	8.4	11.6	14.3
P/E (x)	38.5	35.8	26.1	21.1
P/BV (x)	7.7	6.4	5.5	4.6
ROE (%)	26.1	19.5	22.7	23.9

One year Price Chart

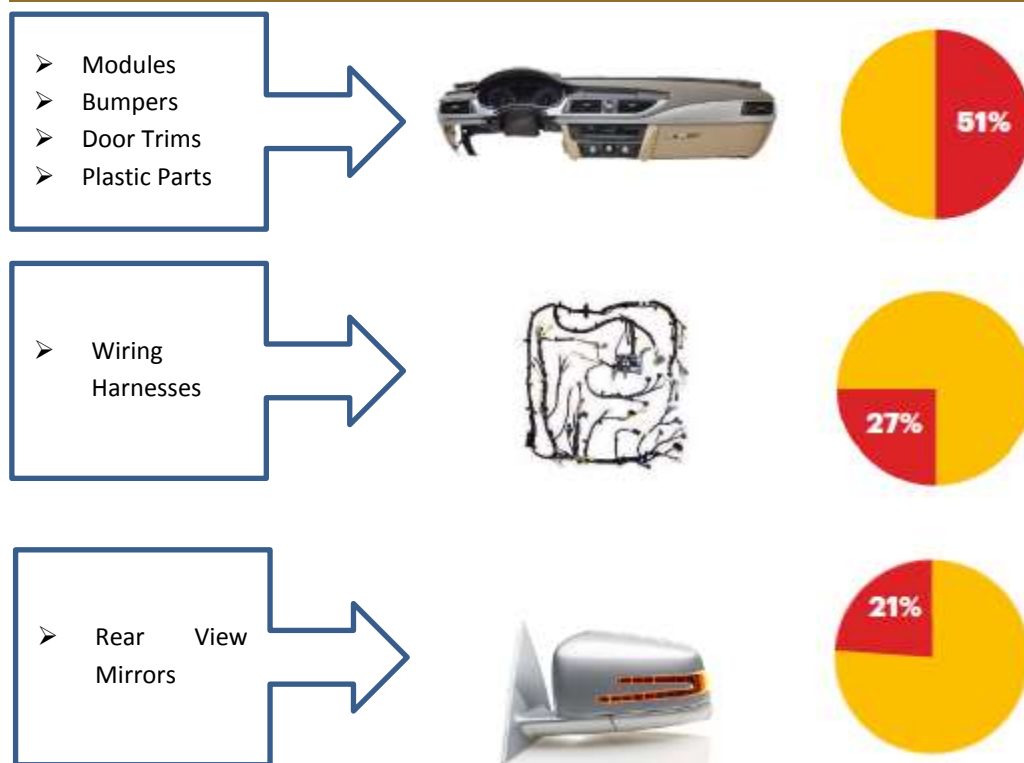


Shareholding Pattern	Mar-18	Dec-17	Chg.
Promoters (%)	61.7	61.7	-
Public (%)	38.3	38.3	-

Motherson Sumi Systems Limited: Business Overview

Motherson Sumi Systems Limited (MSSL), the flagship company of the Samvardhana Motherson Group, was established in 1986. Motherson Sumi Systems Ltd (MSSL) is a JV between Samvardhana Motherson International (SMIL) and Sumitomo Wiring Systems, Japan (SWS). MSSL is a diversified auto parts maker with presence in automotive mirrors, wiring harness and moulded plastic parts. Its broad business portfolio includes wiring harnesses, mirrors for passenger car, injection moulded products, modules including dashboards, door trims, bumpers, blow moulded components, liquid silicone rubber moulded components, injection moulding tools, extruded rubber products, precision machined metal components and waste recycling systems.

MSSL's core business units contribution (% of sales)



Source: Company, In-house research

Quarterly Financials (Consolidated)

(Rs cr)	Q4FY18	Q4FY17	YoY Growth %	Q3FY18	QoQ Growth %
Sales	15,408	11,254	36.9	14,388	7.1
EBITDA	1,500	1,224	22.5	1,249	20.1
EBITDA Margin (%)	9.7	10.9	(114bps)	8.7	105bps
Depreciation	407	271	50.3	394	3.3
EBIT	1,093	954	14.6	856	27.8
Interest	113	84	34.8	103	9.5
Other Income	62	125	(50.6)	25	143.3
Exceptional Items	(21)	(111)	(81.4)	(2)	893.3
PBT	1,021	883	15.6	776	31.7
Tax	288	220	30.9	252	14.3
PAT	733	664	10.5	524	40.0
Minority Interest/P&L from associates	(215)	(189)	14.0	(160)	34.8
Reported PAT	518	475	9.2	364	42.2

Healthy growth in revenue

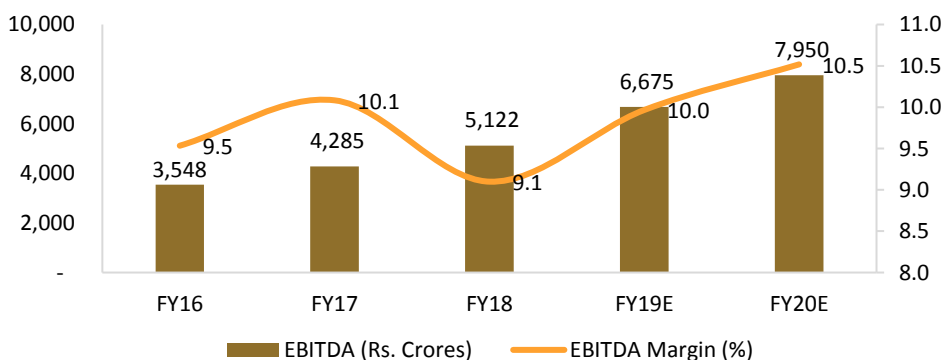
Consolidated sales grew by robust 36.9% YoY supported by strong performance of India (22% YoY) & SMP operations (10.5% YoY in Eur terms) and contribution from PKC acquisition (not there in Q4FY17). However, SMR witnessed 3.3% decline (in Eur terms) in revenue due to forex impact (strong Eur) and lower volumes at Hyundai and Kia. Growth in standalone business was aided by strong growth in OEM volumes, however, part growth also came from higher copper prices.

Multiple levers for margin expansion

Consolidated EBITDA margin declined by 114 bps YoY to 9.7% as higher raw material and start-up cost (at SMP) dented margins. EBITDA margin in the standalone business declined by 90 bps YoY mainly on account of higher copper prices (lag in cost pass-through) that impacted gross margin by 117 bps. SMP too reported 30 bps YoY decline in EBITDA margin mainly due to higher start-up cost related to new plants which stood at Eur 20 mn in Q4FY18 (Eur 11 mn in Q4FY17). PKC also witnessed margin pressure due to higher raw material cost and supplier related issues. On the other hand, SMR reported improved profitability (+100 bps YoY) despite lower sales. However, Adj. PAT declined by 8% YoY mainly due to higher interest & depreciation charges and tax rate. With the acquisition of PKC, the company recognized intangibles worth Rs. 1630 cr. in its books which is being amortized leading to sharp increase in depreciation and amortization expenses.

Going forward, we expect overall margin to improve by 140 bps to 10.5% over FY18-20E led by operating leverage, improvement in PKC margin (through increasing backward integration) and tapering off of start-up expenses as production commences at greenfield plants (SMP).

EBITDA margin to improve by 142 bps over FY18-20E



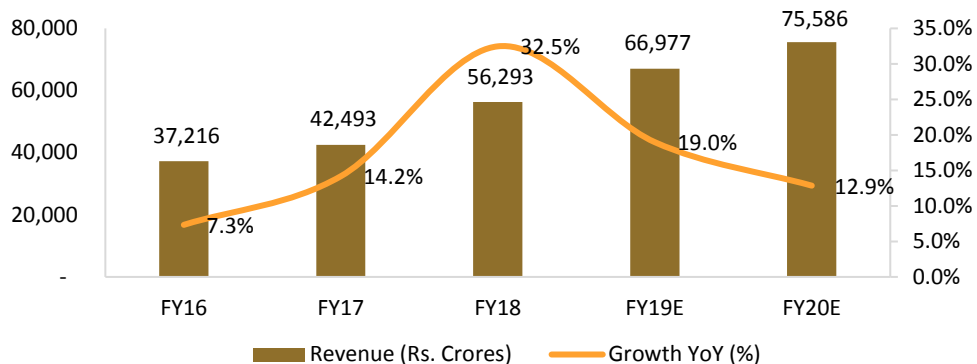
Source: Company, In-house research

Strong growth outlook across businesses

SMRPBV won new orders worth Rs. 35,464 cr during FY18 and the current order book stands at robust Rs. 1,29,785 cr (highest ever) providing strong growth visibility. Further commissioning of Hungary plant in 1QFY19 and Alabama plant in 3QFY19 will support growth in SMP (potential of adding Eur 1 bn to SMP's topline). As a result, we expect 13% sales CAGR for SMRPBV (holding company of SMR & SMP) over FY18-20E. Strong traction in global truck volumes will support 13.5% revenue CAGR for PKC business. On standalone, robust growth outlook for the PV segment will aid revenue CAGR of 14% over FY18-20E.

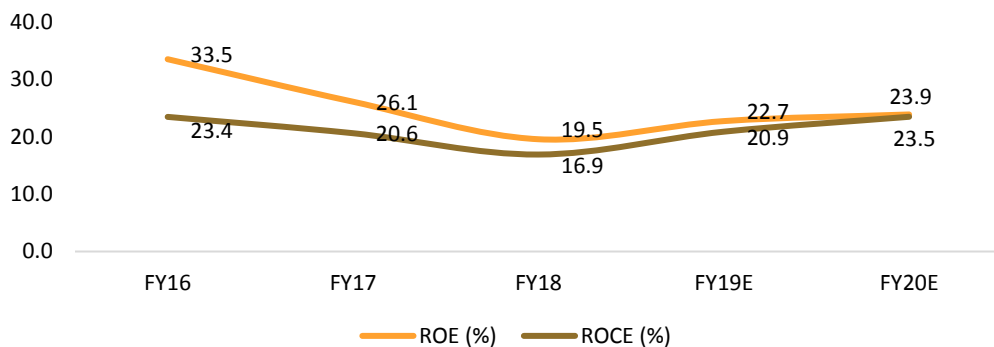
Further the company has acquired Reydel Automotive (manufactures interior components and modules for automotive) for \$201 mn and the deal is expected to be completed in the next six months. We have currently not factored it into our estimates.

Revenue to grow at a CAGR of 16% over FY18-20E



Source: Company, In-house research

Return ratios trend



Source: Company, In-house research

Key risks

- Delay in ramp up of new plants
- Adverse foreign exchange fluctuation

Profit & Loss Account (Consolidated)

Y/E (Rs. Cr)	FY17	FY18	FY19E	FY20E
Total operating Income	42,493	56,293	66,977	75,586
Raw Material cost	25,751	34,312	40,969	46,107
Employee cost	8,091	11,068	12,969	14,493
Other operating expenses	4,367	5,791	6,366	7,037
EBITDA	4,285	5,122	6,675	7,950
Depreciation	1,059	1,575	1,879	2,172
EBIT	3,226	3,547	4,796	5,778
Interest cost	375	411	364	316
Other Income	146	170	187	215
Profit before tax	2,997	3,306	4,619	5,676
Tax	910	1,007	1,409	1,731
Profit after tax	2,087	2,299	3,210	3,945
Minority Interests	618	663	875	1,043
P/L from Associates	183	138	99	109
Adjusted PAT	1,652	1,774	2,434	3,011
E/o income / (Expense)	(97)	(178)	-	-
Reported PAT	1,554	1,597	2,434	3,011

Balance Sheet (Consolidated)

Y/E (Rs. Cr)	FY17	FY18	FY19E	FY20E
Paid up capital	140	211	211	211
Reserves and Surplus	8,132	9,674	11,350	13,477
Net worth	8,273	9,884	11,560	13,687
Minority interest	2,232	2,960	3,835	4,879
Total Debt	10,325	10,373	9,173	7,973
Other non-current liabilities	612	1,226	1,226	1,226
Total Liabilities	21,442	24,443	25,795	27,765
Total fixed assets	10,255	12,448	14,154	14,381
Capital WIP	1,935	2,585	1,000	600
Goodwill	1,938	2,264	2,264	2,264
Investments	474	792	792	792
Net Current assets	6,198	5,514	6,745	8,888
Deferred tax assets (Net)	76	103	103	103
Other non-current assets	566	737	737	737
Total Assets	21,442	24,443	25,795	27,765

Cash Flow Statement (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Pretax profit	3,180	3,444	4,718	5,786
Depreciation	1,059	1,575	1,879	2,172
Chg in Working Capital	664	(1,005)	(538)	(454)
Others	(261)	241	177	101
Tax paid	(843)	(1,007)	(1,409)	(1,731)
Cash flow from operating activities	3,800	3,248	4,828	5,874
Capital expenditure	(6,854)	(4,418)	(2,000)	(2,000)
Chg in investments	73	(318)	-	-
Other investing cashflow	(27)	170	187	215
Cash flow from investing activities	(6,808)	(4,566)	(1,813)	(1,785)
Equity raised/(repaid)	2,538	(0)	-	-
Debt raised/(repaid)	3,491	48	(1,200)	(1,200)
Dividend paid	(83)	(505)	(758)	(884)
Other financing activities	(347)	(411)	(364)	(316)
Cash flow from financing activities	5,599	(868)	(2,322)	(2,401)
Net chg in cash	2,591	(2,186)	693	1,689

Key Ratios (Consolidated)

Y/E	FY17	FY18	FY19E	FY20E
Valuation(x)				
P/E	38.5	35.8	26.1	21.1
EV/EBITDA	16.6	14.5	11.0	9.0
EV/Net Sales	1.7	1.3	1.1	0.9
P/B	7.7	6.4	5.5	4.6
Per share data				
EPS	7.8	8.4	11.6	14.3
DPS	1.3	2.0	3.0	3.5
BVPS	39.3	46.9	54.9	65.0
Growth (%)				
Net Sales	14.8	33.0	19.1	12.9
EBITDA	20.8	19.6	30.3	19.1
Net profit	27.8	7.4	37.2	23.7
Operating Ratios				
EBITDA Margin (%)	10.1	9.1	10.0	10.5
EBIT Margin (%)	7.6	6.3	7.2	7.6
PAT Margin (%)	3.9	3.2	3.6	4.0
Return Ratios (%)				
RoE	26.1	19.5	22.7	23.9
RoCE	20.6	16.9	20.9	23.5
Turnover Ratios (x)				
Net Sales/GFA	3.9	3.6	3.5	3.4

Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Upside or downside is less than 10%	Accumulate*	Upside between 10% & 15%
Reduce	Less than equal to -10%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

* MSSL is a large-cap company.

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