

# MOTHERSON SUMI SYSTEMS

## Good quarter; margin scale up key

India Equity Research | Automobiles

Motherson Sumi's (MSS) Q4FY17 consolidated EBITDA, at INR12.4bn (up 25% YoY), was in line with our and Street's estimates. India business revenue outlook continues to improve led by increasing share of business from key clients and rising content. BS-VI transition in 2020 should aid wiring harness business. SMP's revenue trajectory is improving (21% YoY in Q4FY17 versus 12% YoY in 9mFY17), driven by increasing dispatches to Daimler and Audi. However, margin trajectory remains below expectations. SMP's margins should trend higher as low-margin legacy orders get phased out. Else, there is a risk to our estimates. Management reiterated its FY18 capex guidance of ~INR20bn. We believe capex intensity should moderate post FY19. In our view, the recent strong stock performance factors in most of the positives. Maintain 'HOLD'.

### Revenue traction seen across businesses

MSS' consolidated revenue of INR112.8bn (up 14.5% YoY) was ~2% below our estimate due to revenue miss in SMR business (7% lower). India business revenue, at INR17.3bn (up 19% YoY), was in line with our estimate. SMR's margins surprised positively at 12.9%, up ~110bps QoQ (our estimate 11.9%), but SMP's margins continue to remain subdued at 6.8%. We believe SMP's margin trajectory remains critical given SMRBPV remains FCF negative to neutral. We are factoring in 9% margin for SMP in FY19.

### India business shining; SMR/SMP margin trajectory remains key

We believe India business can maintain momentum driven by market share gains and rising content per vehicle. Though revenue visibility is improving for SMR/SMP, pace of ramp up at new plants remains key to margin improvement, else our FY19E margins for SMR/SMP at 12%/9% (FY17: 10.9%/6.4%) are at risk.

### Outlook and valuations: Positives priced in; maintain 'HOLD'

We estimate India business to clock revenue CAGR of 20.5% over FY17-19, driven by volume spurt and rising content per vehicle. For SMR and SMP, we forecast revenue CAGR of 14% each and estimate consolidated EPS CAGR of ~33% over FY17-19 with ~26% RoE. We maintain 'HOLD/SU' with TP of INR417 (India business 25x, SMR/SMP 15x FY19E PER). We have also valued PKC at INR30 (0.7x EV/sales). At CMP, the stock trades at 21.4x FY19E PER.

### Financials

(INR mn)

Year to March	Q4FY17	Q4FY16	% Chg	Q3FY17	% Chg	FY17	FY18E	FY19E
Net revenues	112,839	98,549	14.5	106,041	6.4	424,752	491,282	565,438
EBITDA	12,543	9,986	25.6	10,747	16.7	42,847	53,345	66,481
Adjusted Profit	6,182	4,278	44.5	3,813	62.1	16,211	19,816	27,809
Adjusted Diluted EPS	4.4	3.2	36.2	2.7	62.1	11.6	14.1	19.8
Diluted P/E (x)						36.5	29.9	21.3
EV/EBITDA (x)						24.6	17.2	13.5
ROAE (%)						27.2	23.4	26.1

### EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Underperform
Risk Rating Relative to Sector	High
Sector Relative to Market	Underweight

### MARKET DATA (R: MOSS.BO, B: MSS IN)

CMP	: INR 422
Target Price	: INR 417
52-week range (INR)	: 442 / 255
Share in issue (mn)	: 1,403.4
M cap (INR bn/USD mn)	: 593 / 9,138
Avg. Daily Vol.BSE/NSE('000)	: 2,768.0

### SHARE HOLDING PATTERN (%)

	Current	Q2FY17	Q1FY17
Promoters *	63.1	63.1	63.1
MF's, FI's & BK's	6.8	6.8	6.6
FII's	19.8	19.7	19.6
Others	10.3	10.4	10.7
* Promoters pledged shares (% of share in issue)	:	NIL	

### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Auto Index
1 month	11.3	2.9	5.2
3 months	20.9	5.0	6.0
12 months	60.0	21.4	28.4

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### Q4FY17 conference call: Key highlights

#### SMR/SMP

- SMP's revenue trajectory is improving led by:
  - o Ramp up of orders from Daimler, and the China and Germany plants are stepping up production.
  - o The Mexico plant that caters to Audi has commenced operation and is now in ramp up phase. The plant has already started supplying to Audi.
- New models have met with strong response and traction remains robust in new orders. Hence, management believes current revenue growth momentum should sustain.
- SMP margins
  - o Margins should trend higher over time as older legacy orders start phasing out and newer orders witness better execution in turn boosting profitability.
  - o Start up costs are involved before commencement of commercial production in green- and brown-field facilities including training of personnel and conducting various quality and other tests, etc. Once production ramps up, these costs will trend down. Start up costs are currently being incurred only for the 2 green-field facilities at Kecscomet (Hungary) and Tuscaloosa (Alabama).
- SMRPBV's order book stood at EUR12.9bn as of March 2017 versus EUR13.5bn as of March 2016. During the year, new orders worth EUR4bn were received and orders worth EUR4.6bn were executed. Management highlighted that new orders' mix remained healthy in SMR/SMP with SMP accounting for major share given its bigger size.
- Demand in South America is a bit weak, but demand across other regions like USA and Europe is holding up well.
- Capacities are in place to execute current order book. In case, the company secures huge orders going ahead, then it may consider further capacity expansion.

Management highlighted that the company would be a beneficiary of the shift towards electric vehicles (EVs). The company is currently supplying to Tesla. Overall content per vehicle for EVs is expected to increase due to higher share of interior content.
- Mirrorless technology
  - o Autonomous vehicles involve technologies like digital cameras, LIDAR and RADAR technologies. But, SMR is exploring opportunities in mirror replacement by camera systems. SMR has complete technological capability for mirror-less technologies and bagged few orders for same from some customers. The company can also be a systems integrator, whereby it can link all product offerings to 1 comprehensive solution for clients.
  - o Though few countries like Japan have legalised camera mirror systems, the company believes that camera mirror systems is a 5-10 year story as costs are currently very high. A glass mirror costs USD60-70, but a camera-based mirror can cost up to USD600-700.

## India

- Revenue growth is led by increasing share of business with clients and increasing content per vehicle.
- Commodity pass through occurs with a lag of 6 months across most customers.
- BS-VI norms
  - o Sees huge growth opportunity from implementation of BS-VI norms as wiring harness systems get increasingly complex with the rise in number of sensors and electronic systems.
  - o 2W contribution to overall revenues is currently insignificant, but there exists huge potential from BS-VI norms.
  - o Volume opportunity is immense in 2W space. As more complex features get added, the company will continue to pursue this business.

## 2020 targets reiterated

- Maintained top line target of USD18bn and 40% RoCE by 2020.
- With backing from customers, the company would not hesitate to pursue inorganic growth opportunities. Moreover, size is not a criterion for identifying acquisition targets.

## PKC

- The company sees PKC contributing well to overall growth of the group and there exists synergy potential by way of cross-selling of products and complementary nature of products.
- PKC has a good client base and MSS looks to expand supplies to these customers and increase cross-selling opportunities with PKC clients.
- Product offerings are also complementary in nature. As per management, there exists immense scope for learning about complexity management from PKC.
- Customers of PKC will feel more secure post enhanced scale of combined entity following acquisition and acceptability of MSS has improved a lot.
- Full consolidation of PKC will happen from April 1, 2017; so, Q1FY18 will see full impact of PKC performance. PKC will be consolidated on 100% basis.

## Others

- Consolidated gross debt of INR103bn includes debt on books of PKC as well as debt assumed for PKC acquisition.
- Capex
  - o Expects capex of INR16-18bn for the group, excluding PKC. Proposes to contain overall capex, including PKC, under ~INR20bn.
  - o Bulk of the capex would be directed for expansion of new facilities. Maintenance capex is ~30% of overall capex.
  - o FY18-19 will have sizable capex, but post that capex intensity will moderate. Existing capacities are well placed to address current order book.
- Under IND-AS currency fluctuations is part of finance cost. Due to INR appreciation, the earlier charge for currency fluctuation was reversed and hence negative during Q4FY17.
- Other income for the quarter comprises surplus from QIP proceeds and gains from re-organisation of some joint venture (JV) businesses.

Table 1: SoTP

	FY19E EPS	Target Multiple (PE)	Value per share
India	8.9	25.0	224
SMR	3.4	15.0	51
SMP	4.4	15.0	66
PKC	*	*	30
Others	3.1	15.0	46
<b>Total</b>	<b>19.8</b>	<b>21.0</b>	<b>417</b>

\*Valued at acquisition multiple of 0.7x EV/Sales implying CY2017 P/E (Bloomberg estimates) of 27x

Source: Edelweiss research

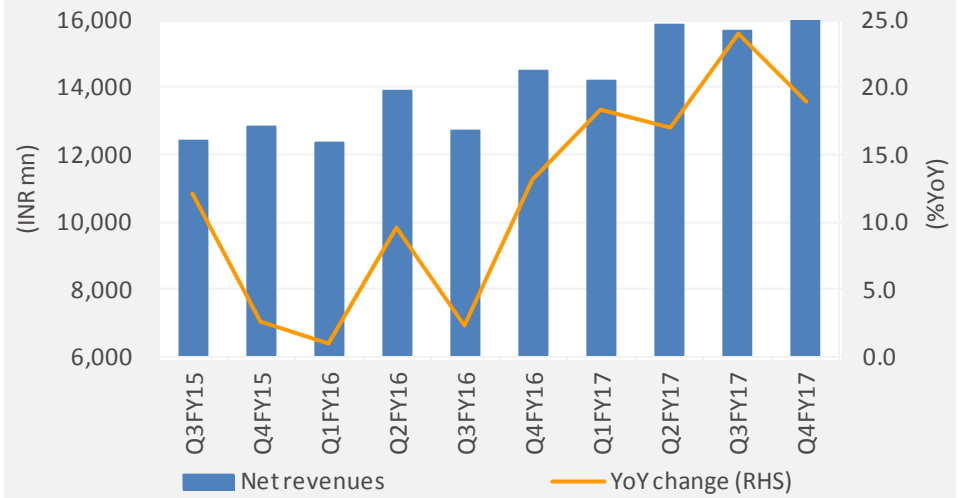
Table 2: Key assumptions

(INR mn)	FY17	% YoY	FY18E	% YoY	FY19E	% YoY
<b>Net Sales</b>	<b>424,752</b>	<b>14.1</b>	<b>491,282</b>	<b>15.7</b>	<b>565,438</b>	<b>15.1</b>
MSS	63,129	19.5	75,337	19.3	91,816	21.9
SMR	117,081	16.3	131,155	12.0	149,516	14.0
SMP	217,978	15.4	248,495	14.0	283,284	14.0
MWSI	15,600	0.0	17,940	15.0	20,631	15.0
Others	10,965	(22.5)	18,355	67.4	20,191	10.0
<b>EBITDA</b>	<b>41,394</b>	<b>13.5</b>	<b>53,345</b>	<b>28.9</b>	<b>66,481</b>	<b>24.6</b>
MSS	12,760	23.8	15,471	21.2	19,786	27.9
SMR	12,780	21.4	15,083	18.0	17,942	19.0
SMP	13,870	28.1	19,880	43.3	25,496	28.3
MWSI	1,326	41.7	1,076	(18.8)	1,238	15.0
Others	658	(82.9)	1,836	179.0	2,019	10.0
<b>Margin (%)</b>	<b>9.7</b>		<b>10.9</b>		<b>11.8</b>	
MSS	20.2		20.5		21.6	
SMR	10.9		11.5		12.0	
SMP	6.4		8.0		9.0	
MWSI	8.5		6.0		6.0	
Others	6.0		10.0		10.0	
<b>APAT#</b>	<b>16,211</b>	<b>18.7</b>	<b>19,816</b>	<b>22.2</b>	<b>27,809</b>	<b>40.3</b>
MSS	8,273	15.1	9,738	17.7	12,547	28.9
SMR	3,252	25.5	3,925	20.7	4,767	21.4
SMP	2,230	55.1	4,261	91.1	6,211	45.8
MWSI	530	0.0	636	20.0	795	25.0
Others	1,926	0.6	1,257	(34.8)	3,490	177.7
<b>EPS</b>	<b>11.6</b>	<b>11.9</b>	<b>14.1</b>	<b>22.2</b>	<b>19.8</b>	<b>40.3</b>
MSS	5.9	8.5	6.9	17.7	8.9	28.9
SMR	2.3	18.3	2.8	20.7	3.4	21.4
SMP	1.6	46.2	3.0	91.1	4.4	45.8
MWSI	0.4	(5.7)	0.5	20.0	0.6	25.0
Others	1.4	(5.2)	0.9	(34.8)	2.5	177.7

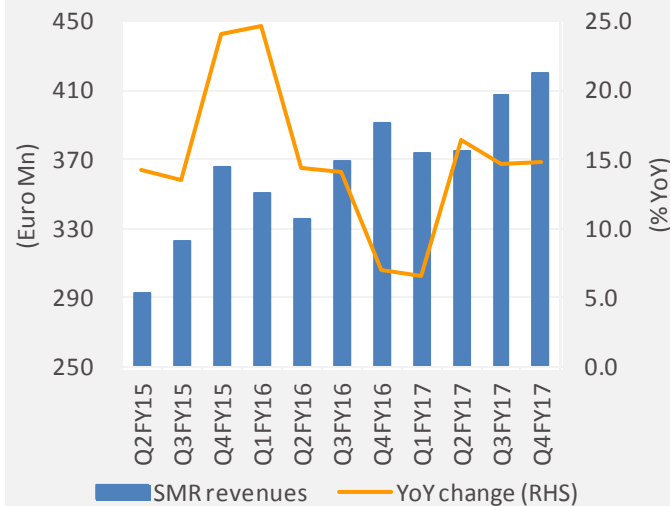
Note: \* - Standalone, #concerned share

Source: Edelweiss research

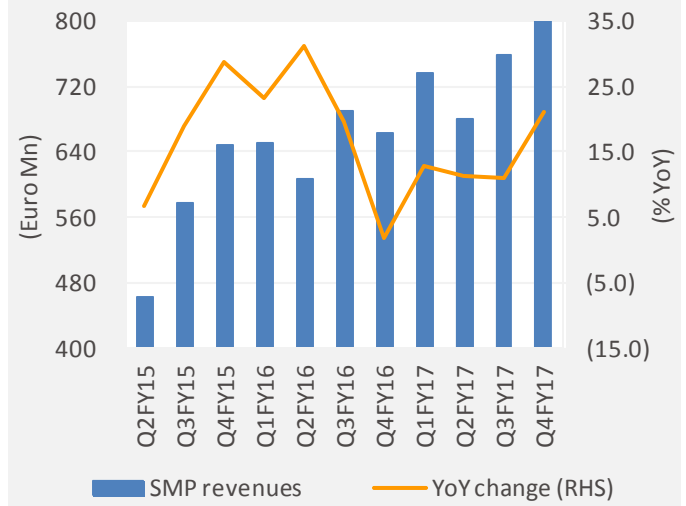
**Chart 1: Domestic business revenue momentum led by rising content per vehicle**



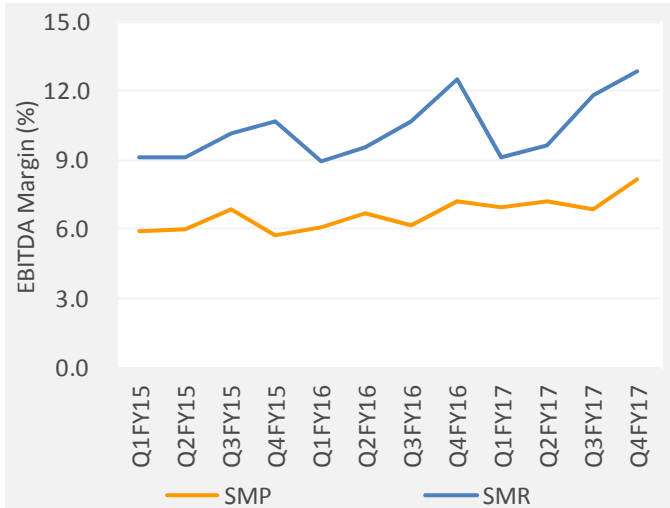
**Chart 2: SMR maintained its revenue growth momentum**



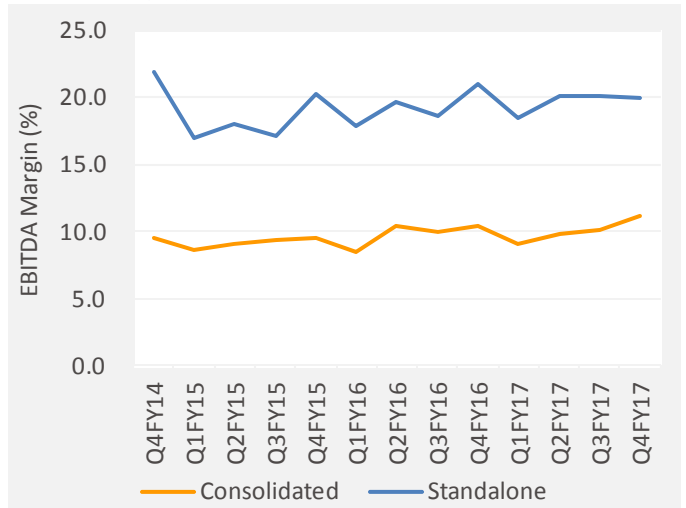
**Chart 3: SMP revenue growth accelerate led by new orders**



**Chart 4: SMR margin surprise positively, while SMP disappoints**



**Chart 5: Margin profile (Consolidated/standalone)**



Source: Edelweiss research

**Table 3: Financial snapshot (Standalone) - IND AS format**

Year to March	Q4FY17	Q4FY16	% change
<b>Total income</b>	17,390	14,620	<b>18.9</b>
Net RM cost	9,391	7,744	21.3
Employee expenses	2,476	2,051	20.7
Other expenses	2,056	1,752	17.4
<b>Adj EBITDA (ex forex)</b>	<b>3,467</b>	<b>3,073</b>	<b>12.8</b>
Other income	457	376	21.6
Interest	(124)	73	(268.8)
Depreciation	507	506	0.3
Total tax	990	454	118.3
<b>Adjusted PAT</b>	<b>2,647</b>	<b>2,412</b>	<b>9.7</b>

**As % of total income**

Year to March	Q4FY17	Q4FY16	bps change
Raw material	54.0	53.0	103
Staff costs	14.2	14.0	21
Other expenses	11.8	12.0	(16)
<b>EBITDA</b>	<b>19.9</b>	<b>21.0</b>	<b>(108)</b>
Adjusted PAT	15.2	16.5	(128)
Tax rate	28.0	15.8	1,216

Source: Edelweiss research

**Table 4: SMR and SMP financials**

SMR (EURmn)	Q4FY17	Q4FY16	YoY change (%)
Revenues	420	366	14.8
EBITDA	54	48	12.5
EBITDA margin (%)	12.9	13.1	(25.8)

SMP (EURmn)	Q4FY17	Q4FY16	YoY change (%)
Revenues	810	669	21.1
Reported EBITDA	55	35	57.1
Reported EBITDA margin (%)	6.8	5.2	155.8
Startup cost	11.0	10.0	10.0
Adjusted EBITDA	66	45	46.7
Adjusted EBITDA margin (%)	8.1	6.7	142.2

Source: Edelweiss research

**Financial snapshot**
**(INR mn)**

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Net revenues	112,839	98,549	14.5	106,041	6.4	424,752	491,282	565,438
Raw material costs	67,041	57,593	16.4	65,427	2.5	257,507	286,909	348,406
Staff costs	21,748	19,544	11.3	19,964	8.9	80,909	93,344	85,947
Other expenses	11,507	11,426	0.7	9,903	16.2	43,490	57,684	64,604
EBITDA	12,543	9,986	25.6	10,747	16.7	42,847	53,345	66,481
Depreciation	2,707	3,362	(19.5)	2,733	(0.9)	10,590	13,985	13,752
EBIT	9,836	6,624	48.5	8,015	22.7	32,257	39,360	52,729
Other income	948	55	1,629.0	433	118.6	1,463	1,373	1,908
Interest	838	696	20.4	1,084	(22.7)	3,749	3,550	2,840
Add: Exceptional items	974	-	-	-	-	(974)	-	-
Profit before tax	9,946	5,983	66.2	7,364	35.1	28,996	37,184	51,798
Provision for taxes	2,198	530	314.6	2,845	(22.7)	9,103	11,527	15,539
Minority interest	2,311	1,623	42.4	1,314	75.8	6,181	7,990	10,699
Associate profit share	424	448	(5.5)	609	(30.4)	1,831	2,150	2,250
Reported net profit	4,748	4,249	11.7	4,159	14.2	15,543	19,816	27,809
Adjusted Profit	6,182	4,278	44.5	3,813	62.1	16,211	19,816	27,809
Diluted shares (mn)	1,404	1,323	-	1,404	-	1,404	1,404	1,404
Adjusted Diluted EPS	4.4	3.2	36.2	2.7	62.1	11.6	14.1	19.8
Diluted P/E (x)	-	-	-	-	-	36.5	29.9	21.3
EV/EBITDA (x)	-	-	-	-	-	24.6	17.2	13.5
ROAE (%)	-	-	-	-	-	27.2	23.4	26.1
Raw material	59.4	58.4	-	61.7	-	60.6	58.4	61.6
Employee cost	19.3	19.8	-	18.8	-	19.0	19.0	15.2
Other expenses	10.2	11.6	-	9.3	-	10.2	11.7	11.4
EBITDA	11.1	10.1	-	10.1	-	10.1	10.9	11.8
Adjusted net profit	5.5	4.3	-	3.6	-	3.8	4.0	4.9
Reported net profit	4.2	4.3	-	3.9	-	3.7	4.0	4.9
Tax rate	22.1	8.9	-	38.6	-	30.4	31.0	30.0

### Company Description

Motherson Sumi Systems (MSS), is a JV between Samvardhana Motherson International (SMIL) and Sumitomo Wiring Systems, Japan (SWS). It is the flagship company of Samvardhana Motherson Group (SMG). With presence in 25 countries and turnover of ~USD5 bn as of 2013-14, the group supplies to all major automobile manufacturers across the world.

MSS can be regarded as inorganic growth specialist. Pertinently, the company has successfully turned around its recent two key acquisitions, SMR and SMP. It's latest acquisition of Stoneridge Inc's wiring harness business for USD65.7mn is strategically placed to capitalise on the growth in its new markets of US.

### Investment Theme

Historically, MSS's revenue and profits have catapulted ~5x every 5 years driven by rising content per vehicle, diversified geography & clients and acquisitions. Our analysis of successful global leaders—Bosch, Johnson Control, Magna—indicates acquisitions have been integral to growth; MSS is treading the same path.

We believe the India business is well placed to benefit from rising content per vehicle with upcoming safety and BS-VI emission norms. Though revenue visibility for the SMR and SMP business is improving, the pace of ramp up at new plants remains key to margin improvement.

### Key Risks

#### Complex structure raises concerns

MSS has too many subsidiaries/JVs, which complicates the ownership structures.

#### Weaker global demand

The company's key subsidiaries (SMR/SMP) are highly dependent on demand from the luxury car segment. Weakness in global premium car demand can impact order books of SMR/SMP. This in turn could delay expected turnaround in these subsidiaries.

#### Execution risks

Delays in turnaround of subsidiaries and/or lower-than-anticipated group synergies remain a concern for SMR/SMP.



## Financial Statements

### Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
<b>Macro</b>				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.3	6.3	6.3
USD/INR (Avg)	65.0	67.5	67.0	67.0
<b>Sector</b>				
4W - domestic vol (% YoY)	7.0	4.0	9.0	10.0
2W - domestic vol (% YoY)	3.0	8.0	9.0	10.0
<b>Company</b>				
<b>Revenue assumptions</b>				
Mirrors	6.8	18.7	14.0	14.0
Wiring Harness	13.2	8.0	15.0	20.0
Polymer Components	10.1	15.4	14.0	14.0
<b>Cost assumptions</b>				
Variable expenses (% sales)	3.5	2.9	4.6	4.6
Fixed expenses (% sales)	4.4	4.0	4.0	3.8
<b>Financial assumptions</b>				
Avg. Interest rate (%)	5.8	3.7	3.5	2.8
Depreciation rate (%)	7.9	6.7	7.8	7.0
Tax rate (%)	24.1	31.4	31.0	30.0
Dividend payout (%)	29.8	35.0	35.0	35.0
<b>B/S assumptions</b>				
Net borrowings (INR mn)	33,863	47,013	(18,474)	(42,784)
Capex (INR mn)	(22,452)	(15,693)	(17,045)	(17,275)
Debtor days	40	53	53	50
Inventory days	49	38	39	35
Payable days	124	139	146	128
Cash conversion cycle	(35)	(48)	(53)	(43)

### Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Income from operations	372,163	424,752	491,282	565,438
Materials costs	224,093	257,507	286,909	348,406
Employee costs	71,573	80,909	93,344	85,947
Total SG&A expenses	40,042	43,490	57,684	64,604
Total operating expenses	335,708	381,905	437,937	498,957
EBITDA	36,455	42,847	53,345	66,481
Depreciation	10,872	10,590	13,985	13,752
EBIT	25,583	32,257	39,360	52,729
Add: Other income	392.1	1,463.1	1,372.96	1,908.3
Less: Interest Expense	3,450	3,749	3,550	2,840
Add: Exceptional items	(973)	(974)	-	-
Profit Before Tax	21,552	28,996	37,184	51,798
Less: Provision for Tax	5,193	9,103	11,527	15,539
Less: Minority Interest	4,814	6,181	7,990	10,699
Associate profit share	1,377	1,831	2,150	2,250
Reported Profit	12,922	15,543	19,816	27,809
Exceptional Items	(739)	(668)	-	-
Adjusted Profit	13,661	16,211	19,816	27,809
Shares o/s (mn)	1,323	1,404	1,404	1,404
Adjusted Basic EPS	10.3	11.6	14.1	19.8
Diluted shares o/s (mn)	1,323	1,404	1,404	1,404
Adjusted Diluted EPS	10.3	11.6	14.1	19.8
Adjusted Cash EPS	18.5	19.1	24.1	29.6
Dividend per share (DPS)	2.5	3.3	4.2	5.9
Dividend Payout Ratio(%)	29.8	35.0	35.0	35.0

### Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	90.2	89.9	89.1	88.2
Materials costs	60.2	60.6	58.4	61.6
Staff costs	19.2	19.0	19.0	15.2
S G & A expenses	10.8	10.2	11.7	11.4
Depreciation	2.9	2.5	2.8	2.4
Interest Expense	0.9	0.9	0.7	0.5
EBITDA margins	9.8	10.1	10.9	11.8
Net Profit margins	5.0	5.3	5.7	6.8

### Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	7.6	14.1	15.7	15.1
EBITDA	31.7	17.5	24.5	24.6
PBT	18.6	34.5	28.2	39.3
Adjusted Profit	38.3	18.7	22.2	40.3
EPS	38.3	11.9	22.2	40.3

Balance sheet (INR mn)				
As on 31st March	FY16	FY17	FY18E	FY19E
Share capital	1,323	1,404	1,404	1,404
Reserves & Surplus	43,010	81,334	101,298	119,388
Shareholders' funds	44,333	82,737	102,701	120,791
Minority Interest	15,123	22,322	30,312	41,011
Short term borrowings	9,557	6,978	6,978	6,978
Long term borrowings	47,859	94,440	94,440	94,440
Total Borrowings	57,416	101,418	101,418	101,418
Def. Tax Liability (net)	(3,604)	(5,024)	(5,024)	(5,024)
<b>Sources of funds</b>	<b>113,267</b>	<b>201,452</b>	<b>229,407</b>	<b>258,196</b>
Gross Block	147,478	170,769	187,814	205,089
Net Block	68,076	80,777	43,584	47,107
Capital work in progress	13,970	19,349	19,349	19,349
Intangible Assets	3,393	40,253	40,253	40,253
Total Fixed Assets	85,439	140,379	103,186	106,709
Cash and Equivalents	23,553	54,404	119,892	144,202
Inventories	22,850	30,716	30,978	35,654
Sundry Debtors	50,876	72,597	71,406	82,185
Loans & Advances	384	710	633	728
Other Current Assets	12,334	19,867	18,622	21,433
Current Assets (ex cash)	86,444	123,891	121,640	140,000
Trade payable	80,598	115,593	113,460	130,586
Other Current Liab	1,571	1,628	1,850	2,129
Total Current Liab	82,169	117,221	115,310	132,716
Net Curr Assets-ex cash	4,275	6,670	6,329	7,285
<b>Uses of funds</b>	<b>113,267</b>	<b>201,452</b>	<b>229,407</b>	<b>258,196</b>
BVPS (INR)	33.5	59.0	73.2	86.1

Free cash flow (INR mn)				
Year to March	FY16	FY17	FY18E	FY19E
Reported Profit	12,922	15,543	19,816	27,809
Add: Depreciation	11,061	10,590	13,985	13,752
Interest (Net of Tax)	2,619	2,572	2,449	1,988
Others	5,646	7,358	9,091	11,551
Less: Changes in WC	9,139	2,395	(340)	955
Operating cash flow	23,109	33,669	45,681	54,144
Less: Capex	22,452	15,693	17,045	17,275
<b>Free Cash Flow</b>	<b>657</b>	<b>17,975</b>	<b>28,636</b>	<b>36,869</b>

Cash flow metrics				
Year to March	FY16	FY17	FY18E	FY19E
Operating cash flow	23,109	33,669	45,681	54,144
Investing cash flow	(20,024)	(15,428)	(17,045)	(17,275)
Financing cash flow	(2,829)	60,202	(10,475)	(12,559)
Net cash Flow	256	78,442	18,161	24,310
Capex	(22,452)	(15,693)	(17,045)	(17,275)
Dividend paid	(7,392)	(5,432)	(6,926)	(9,719)

Profitability and efficiency ratios				
Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	35.9	27.2	23.4	26.1
ROACE (%)	24.6	20.9	18.5	22.0
Inventory Days	49	38	39	35
Debtors Days	40	53	53	50
Payable Days	124	139	146	128
Cash Conversion Cycle	(35)	(48)	(53)	(43)
Current Ratio	1.3	1.5	2.1	2.1
Gross Debt/EBITDA	1.6	2.4	1.9	1.5
Gross Debt/Equity	1.0	1.0	0.8	0.6
Adjusted Debt/Equity	1.0	1.0	0.8	0.6
Net Debt/Equity	0.6	0.4	(0.1)	(0.3)
Interest Coverage Ratio	7.4	8.6	11.1	18.6

Operating ratios				
Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	3.6	2.7	2.3	2.3
Fixed Asset Turnover	5.6	4.4	4.8	6.6
Equity Turnover	7.2	5.2	4.1	3.8

## Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		P/B (X)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Amara Raja Batteries	2,302	25.8	22.2	14.9	12.9	5.0	4.2
Exide Industries	2,975	24.8	20.6	14.9	12.4	3.5	3.0
Suprajit Engineering	495	26.5		13.9		5.1	
Median	-	25.8	22.2	14.9	12.4	5.0	4.2
AVERAGE	-	25.7	22.0	14.6	12.5	4.5	3.9

Source: Edelweiss research

## Additional Data

### Directors Data

Vivek Chaand Sehgal, Chairman	Non-Executive Director	Laksh Vaaman Sehgal	Non-Executive Director
Toshimi Shirakawa	Non-Executive Director	Hideaki Ueshima	Non-Executive Director
Pankaj Mittal	Whole-time Director	Maj. Gen. Amarjit Singh (retd.)	Independent Director
S.C. Tripathi, IAS (retd.)	Independent Director	S.P. Talwar	Independent Director
Arjun Puri	Independent Director	Gautam Mukherjee	Independent Director

Auditors - Price Waterhouse

*\*as per last annual report*

### Holding – Top10

	Perc. Holding		Perc. Holding
Samvardhana motherso	34.81	Sumitomo wiring syst	25.1
Icici prudential ass	2.41	Sehgal vivek chaand	2.32
Capital group compan	1.7	Axis asset managemen	1.48
Icici prudential lif	1.23	Blackrock	0.98
Vanguard group	0.92	Sbi funds management	0.76

*\*in last one year*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*in last one year*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
26 Sep 2016	Sumitomo Wiring Systems Limited	Buy	17762460.00

*\*in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Amara Raja Batteries	BUY	None	None	Ashok Leyland	BUY	SO	H
Bajaj Auto	HOLD	SU	L	Ceat Ltd	BUY	SO	L
Eicher Motors	BUY	SO	M	Exide Industries	BUY	SP	L
Hero MotoCorp	HOLD	SU	H	Mahindra & Mahindra Ltd	BUY	SO	M
Maruti Suzuki India Ltd	BUY	SO	H	Minda Corporation	BUY	SO	M
Motherson Sumi Systems	HOLD	SU	H	Suprajit Engineering	BUY	SO	H
Tata Motors Ltd	HOLD	SP	H				

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Head of Research

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## Coverage group(s) of stocks by primary analyst(s): Automobiles

Ashok Leyland, Amara Raja Batteries, Bajaj Auto, Ceat Ltd, Eicher Motors, Exide Industries, Hero MotoCorp, Minda Corporation, Mahindra & Mahindra Ltd, Maruti Suzuki India Ltd, Motherson Sumi Systems, Suprajit Engineering, Tata Motors Ltd

### Recent Research

Date	Company	Title	Price (INR)	Recos
22-May-17	<b>Bajaj Auto</b>	Weak quarter, exports bottoming out; <i>Result Update</i>	2,914	Hold
11-May-17	<b>Hero MotorCorp</b>	Subdued performance; <i>Result Update</i>	3,462	Hold
05-May-17	<b>Eicher Motors</b>	In-line quarter; capacity expansion on track; <i>Result Update</i>	25,833	Buy

### Distribution of Ratings / Market Cap

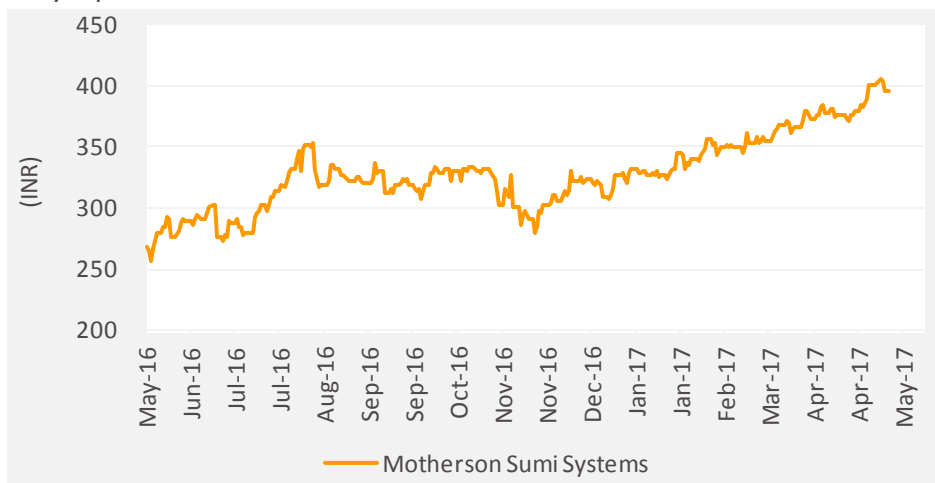
#### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

### Rating Interpretation

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

### One year price chart



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