RETAIL EQUITY RESEARCH

Motherson Sumi Systems Ltd

Auto Ancillary

BSE CODE: 517334 **NSE CODE: MOTHERSUMI**

Bloomberg CODE: MSS:IN **SENSEX:** 31,146

BUY

Rating as per Largecap **12months investment period**

CMP Rs451 **TARGET** Rs495 **RETURN 10%**

01st June, 2017

Stellar quarter

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.

- **During Q4FY17, consolidated revenue grew by 14.5% YoY owing to healthy performance witnessed across SMP & standalone businesses.**
- **Standalone revenues grew by healthy 19% YoY led by strong performance of its key customer Maruti Suzuki & rising content per vehicle.**
- **EBITDA margin of SMP business came in at 8% highest since acquisition.**
- **We increase our EPS estimates by 10.6%/10% for FY18E/FY19E as we build in PKC acquisition in our estimates.**
- **Revenue/PAT to grow at 21.5%/30.4% CAGR over FY17-19E owing to execution of strong order book, rising content per car & impact of PKC acquisition.**
- **Given its diversified product offerings & strong order book, we maintain 'BUY' rating with a target price (TP) of Rs495 based on 25x FY19E PE.**

Topline growth mainly aided by India & SMP businesses

Q4FY17 consolidated revenues registered a strong growth of 14.5%YoY driven by healthy growth of 19%/21%/15% YoY witnessed in standalone/SMP/SMR business. India business registered strong growth driven by rising content per vehicle & new model launches. Likewise, SMP business witnessed robust traction in revenue growth as USD2.2bn Daimler order is being ramped-up.

Strong operating performance

Consolidated EBITDA rose ~26% YoY in Q4FY17 with EBITDA margin expanding by 98 bps YoY to 11.1%. Notably, the robust operating performance of SMP business primarily led to overall margin beat. SMP margin witnessed a healthy ~140bps YoY expansion (posted highest ever margin of 8% since acquisition) due to better operating leverage & gradual phase out of low margin orders. Riding high on robust EBITDA growth, Adj. PAT rose 37% YoY led by higher other income & lower depreciation. Further, we project overall EBITDA margin to expand from 10% in FY17 to 10.8% in FY19E on the back of better profitability in the standalone & subsidiary businesses.

Outlook remains healthy

Management stated that SMRP BV margin would continue to remain healthy led by strong revenue growth and new orders being executed at better margins. The order book at the end of FY17 stood at Euro12.9bn & MSSL has won new orders worth Euro4bn during FY17. Notably, MSSL is continuously striving to increase the contribution of existing clients along with addition of new clients. As a result, the contribution of premium clients like Daimler is on the rise from 8% in FY16 to 13% in FY17.Likewise, standalone business is expected to benefit from the strong outlook for PV demand in India backed by new launches.

PKC acquisition- a step in the right direction

During Q4FY17, MSSL has completed the acquisition of PKC Group (Finnish company), which is one of the largest manufacturers of wiring harness for commercial vehicles in Europe and USA. With this acquisition, MSSL would gain an access to the wiring harness business in CV segment. Further, no overlapping with PKC's customer base positions MSSL to take advantage of the synergies and add more clients to its existing business lines. The management has highlighted that the acquisition impact of PKC would reflect from April 1, 2017. While PKC revenue was about Euro 846mn in 2016, PKC is expected to add Euro 950mn (nearly Rs7,000cr) in FY18. This acquisition would bring MSSL a step closer to its target of achieving sales of USD 18bn by 2020.

Outlook & Valuation

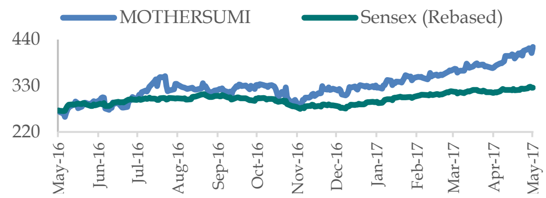
We increase our EPS estimates by 10.6%/10% for FY18E/FY19E as we build in PKC acquisition in our estimates. We factor in a) 9.5% revenue CAGR for PKC over FY17-19E & b) 80bps expansion in EBITDA margin during the period under review. Given its diversified offerings, leadership position, strong order book & the acquisition impact of PKC, we expect revenue/PAT to grow at a CAGR of 21.5%/30.4% over FY17-19E. Maintain 'BUY' with a revised TP of Rs495 (earlier Rs396) based on 25x FY19E PE.

Company Data	
Market Cap (Rs cr)	63,293
Enterprise Value (Rs cr)	68,006
Outstanding Shares (cr)	140.4
Free Float	37%
Dividend Yield	0.5%
52 week high	Rs455
52 week low	Rs265
6m average volume (cr)	0.2
Beta	1.0
Face value	Rs1

Shareholding %	Q2FY17	Q3FY17	Q4FY17
Promoters	63.1	63.1	63.1
FII's	19.7	19.7	19.8
MFs/Insti	6.6	6.8	6.8
Public	6.9	6.8	6.4
Others	3.7	3.6	3.9
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	27%	46%	62%
Absolute Sensex	8%	17%	17%
Relative Return*	19%	29%	45%

***over or under performance to benchmark index**



Consolidated (Rs.cr)	FY17	FY18E	FY19E
Sales	42,475	54,424	62,720
Growth (%)	14.1	28.1	15.2
EBITDA	4,267	5,539	6,755
Margin(%)	10.0	10.2	10.8
PAT Adj	1,634	2,187	2,778
Growth (%)	23.5	33.9	27.0
Adj.EPS	11.6	15.6	19.8
Growth (%)	16.4	33.9	27.0
P/E	38.7	28.9	22.8
P/B	7.7	6.3	5.1
EV/EBITDA	16.6	12.8	10.3
RoE (%)	25.8	23.9	24.8
D/E	1.0	0.8	0.6

Quarterly Financials (Consolidated)

Profit & Loss Account

(Rs cr)	Q4FY17	Q4FY16	YoY Growth %	Q3FY17	QoQ Growth %
Sales	**11,284**	**9,855**	*14.5*	**10,604**	*6.4*
EBITDA	**1,254**	**999**	*25.6*	**1,075**	*16.7*
Margin (%)	11.1	10.1	*98 bps*	10.1	*98 bps*
Depreciation	271	336	*(19.5)*	273	*(0.9)*
EBIT	**984**	**662**	*48.5*	**801**	*22.7*
Interest	84	70	*20.4*	108	*(22.7)*
Other Income	95	5	*1,629.0*	43	*118.6*
Exceptional Items	(111)	(3)	-	35	-
PBT	**883**	**595**	*48.4*	**771**	*14.6*
Tax	220	53	*316.8*	285	*(22.7)*
PAT	**664**	**542**	*22.3*	**486**	*36.4*
Minority Interest/ PL from associates	(189)	(117)	*60.7*	(71)	*167.5*
Reported PAT	**475**	**425**	*11.7*	**416**	*14.2*
Adjustment	111	3	-	(35)	-
Adj PAT	**586**	**428**	*36.9*	**381**	*53.7*
No. of shares (cr)	140.4	132.3	-	140.4	-
EPS (Rs)	4.2	3.2	*29.0*	2.7	*53.7*

Source: Company, Geojit Research

Change in estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**
Revenue	48,431	56,028	54,424	62,720	*12.4*	*11.9*
EBITDA	5,019	6,157	5,539	6,755	*10.4*	*9.7*
Margins (%)	10.4	11	10.2	10.8	*(20) bps*	*(20) bps*
PAT	1,972	2,529	2,187	2,778	*10.9*	*9.8*
EPS	14.1	18.0	15.6	19.8	*10.6*	*10.0*

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Sales	**34,673**	**37,216**	**42,475**	**54,424**	**62,720**
% change	14.0%	7.3%	14.1%	28.1%	15.2%
EBITDA	**2,844**	**3,579**	**4,267**	**5,539**	**6,755**
% change	18.6%	25.8%	19.2%	29.8%	22.0%
Depreciation	921	1,087	1,059	1,376	1,552
EBIT	**1,923**	**2,492**	**3,207**	**4,164**	**5,203**
Interest	318	345	375	479	479
Other Income	376	39	146	168	193
PBT	**1,982**	**2,186**	**2,979**	**3,853**	**4,918**
% change	24.2%	10.3%	36.3%	29.3%	27.6%
Tax	526	519	910	1,178	1,503
Tax Rate (%)	26.5%	23.8%	30.6%	30.6%	30.6%
Reported PAT	**862**	**1,292**	**1,554**	**2,187**	**2,778**
Adj*	(165)	(31)	(79)	-	-
Adj PAT	**1,027**	**1,323**	**1,634**	**2,187**	**2,778**
% change	34.3%	28.8%	23.5%	33.9%	27.0%
No. of shares (cr)	88.2	132.3	140.4	140.4	140.4
Adj EPS (Rs)	**7.8**	**10.0**	**11.6**	**15.6**	**19.8**
% change	34.3%	28.8%	16.4%	33.9%	27.0%
DPS (Rs)	2.0	2.5	2.0	2.5	3.0

Balance Sheet

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Cash	1,892	1,772	4,887	5,433	7,544
Accounts Receivable	3,014	4,654	6,607	6,118	7,050
Inventories	3,750	2,285	3,072	5,021	5,808
Other Cur. Assets	762	1,066	1,522	1,541	1,553
Investments	65	532	474	474	474
Gross Fixed Assets	12,342	14,510	18,911	21,846	24,146
Net Fixed Assets	5,832	6,912	10,255	11,814	12,562
CWIP	955	1,397	1,935	1,000	700
Intangible Assets	298	293	1,938	1,938	1,938
Def. Tax (Net)	45	121	76	76	76
Other Assets	812	634	1,179	1,179	1,179
Total Assets	**17,425**	**19,665**	**31,944**	**34,594**	**38,884**
Current Liabilities	7,483	7,622	10,685	10,877	12,025
Provisions	-	-	-	-	-
Debt Funds	5,077	5,742	10,142	10,142	10,142
Other Liabilities	527	392	612	612	612
Equity Capital	88	132	140	140	140
Reserves & Surplus	3,236	4,265	8,132	9,906	12,186
Shareholder's Fund	3,324	4,397	8,273	10,046	12,327
Minority Interest	1,014	1,512	2,232	2,917	3,778
Total Liabilities	**17,425**	**19,665**	**31,944**	**34,594**	**38,884**
BVPS (Rs)	25.1	33.2	58.9	71.6	87.8

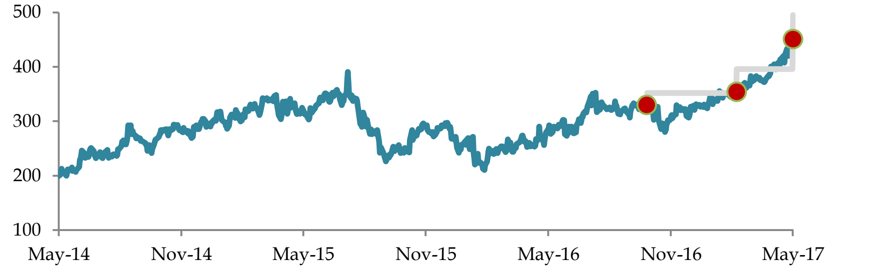
Cash flow

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	**1,818**	**2,340**	**3,162**	**4,049**	**5,142**
Depreciation	921	1,136	1,059	1,376	1,552
Changes in W.C	1,265	(914)	(413)	(1,287)	(584)
Others	3	502	229	311	285
Tax paid	(617)	(753)	(863)	(1,178)	(1,503)
C.F.O	**3,390**	**2,311**	**3,174**	**3,271**	**4,892**
Capital exp.	(1,944)	(2,245)	(6,584)	(2,000)	(2,000)
Change in inv.	0	(10)	58	-	-
Other invest.CF	(909)	253	146	168	193
C.F - investing	**(2,853)**	**(2,002)**	**(6,380)**	**(1,832)**	**(1,807)**
Issue of equity	-	-	2,557	-	-
Issue/repay debt	1,138	693	4,400	-	-
Dividends paid	(354)	(739)	(331)	(414)	(497)
Other finance.CF	(290)	(236)	(304)	(479)	(479)
C.F - Financing	**495**	**(283)**	**6,321**	**(893)**	**(976)**
Chg. in cash	1,031	26	3,115	547	2,110
Closing cash	1,892	1,772	4,887	5,433	7,544

Ratios

Y.E March	FY15	FY16	FY17	FY18E	FY19E
Profitab. & Return					
EBITDA margin (%)	8.2	9.6	10.0	10.2	10.8
EBIT margin (%)	5.5	6.7	7.6	7.7	8.3
Net profit mgn.(%)	3.0	3.6	3.8	4.0	4.4
ROE (%)	32.7	34.3	25.8	23.9	24.8
ROCE (%)	25.6	24.0	20.8	19.8	21.9
W.C & Liquidity					
Receivables (days)	31.3	45.6	56.4	40.8	40.8
Inventory (days)	45.4	26.1	30.7	39.5	39.8
Payables (days)	55.8	56.0	69.9	55.8	56.0
Current ratio (x)	1.3	1.3	1.5	1.7	1.8
Quick ratio (x)	0.8	1.0	1.2	1.2	1.3
Turnover &Levg.					
Gross asset T.O (x)	2.8	2.7	2.5	2.6	2.7
Total asset T.O (x)	2.1	2.0	1.6	1.6	1.7
Adj. debt/equity (x	1.2	1.0	1.0	0.8	0.6
Valuation ratios					
EV/Sales (x)	1.8	1.8	1.7	1.3	1.1
EV/EBITDA (x)	22.5	18.2	16.6	12.8	10.3
P/E (x)	58.1	45.1	38.7	28.9	22.8
P/BV (x)	18.0	13.6	7.7	6.3	5.1

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
25-Oct-16	HOLD	352
08-Mar-17	BUY	396
01-June-17	BUY	495

Investment Rating Criteria

Large Cap Stocks;

Buy	**-**	**Upside is 10% or more.**
Hold	**-**	**Upside or downside is less than 10%.**
Reduce	**-**	**Downside is 10% or more.**

Mid Cap and Small Cap;

Buy	**-**	**Upside is 15% or more.**
Accumulate*	**-**	**Upside between 10% - 15%.**
Hold	**-**	**Absolute returns between 0% - 10%.**
Reduce/Sell	**-**	**Absolute returns less than 0%.**

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

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.
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