

Motherson Sumi System Ltd

Sector: Auto-ancillaries /Mid-Cap | Earnings Update – 4QFY18

BUY

25 May 2018

Background: Established in 1975, Motherson Sumi Systems Limited (MSSL), a JV between Samvardhana Motherson Group (36.9% stake) and Sumitomo Wiring Systems, Japan (25.6%), is India's biggest supplier of wiring harness and one of the largest manufacturers of rear view mirrors in the world. With a strong workforce of over 60,000 qualified professionals and 140 manufacturing units spread across 25 countries, MSSL caters to major global OEMs such as Volkswagen group, BMW, Daimler, Renault Nissan, Ford, Volvo, Maruti Suzuki, Tata Motors, Honda, Toyota etc.

Sensex	34,833
Nifty	10,570
Price	INR 308
Target Price	INR 406
Recommendation	BUY
52 Week High/Low	INR 395/279
Bloomberg / Reuters	MSS IN/MOSS.BO
Equity (shares in mn)	2,105.3
Mkt. Cap in bn	INR 648 /\$9.5
Avg. Daily Vol. ('000)	3,843
Avg. Daily Vol. (mn)	INR 1,183.8/\$ 17.4

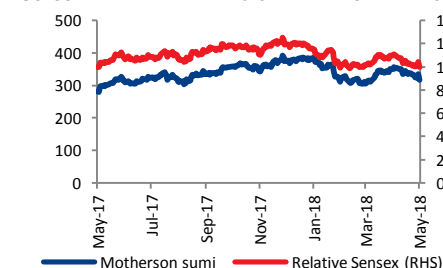
Shareholding	Mar 17	Dec 17	Mar 18
Promoters (%)	63.10	61.73	61.73
FII (%)	19.83	20.1	18.78
DII (%)	6.77	8.44	9.44
Others (%)	10.30	9.73	10.05
Pledge (% of promoter holding)	7.77	4.58	2.99

Valuation Summary (INR bn)

Y/E March	2018	2019E	2020E
Revenue	562.9	673.8	811.3
EBITDA	51.2	71.2	98.2
Adj PAT	16.0	25.3	35.7
Adj EPS	8.2	12.0	16.9
% growth	5.2	0.5	0.4
P/E	37.6	25.7	18.2
P/ BV	7.0	5.8	4.8
EV/EBITDA	14.3	9.8	6.9
EV/Sales	1.3	1.1	0.8
Div Yield (%)	0.7	1.0	1.6
ROE (%)	19.5	24.8	28.9

*Cons. earnings

Performance %	1M	3M	12M
Motherson	-10.8	-2.3	12.6
Sensex	-0.8	1.9	13.1



Healthy revenue growth across businesses; order book at a record high

- In 4QFY18, Motherson Sumi's (MSSL) consolidated revenues grew robustly 36.9% YoY to INR 154bn, aided by healthy growth in standalone (+21% YoY) revenue, SMP (+10.5% YoY) and PKC (+29.3% YoY). Standalone revenue came in at INR 17.2bn led by domestic sales and exports. However, SMR witnessed muted performance during the quarter.
- For FY18, revenue grew by 33% YoY to 562.9bn, EBITDA and PAT grew by 23%/6%YoY, respectively.
- In 4QFY18, Consolidated EBITDA grew by 23.9% YoY to INR 15.0bn. Consolidated EBITDA margin declined by 102bps YoY to 9.7% due to higher RMC cost and start-up cost relating to new plants. Cons. Adj. PAT grew by 9.2% YoY to INR 5.1bn. Standalone EBITDA margin declined by 90 YoY to 18.5%, impacted by sharp rise in copper prices (+19.3% YoY).
- SMP's revenue came in at EUR 895mn led by ramp-up of new plants. EBITDA margin declined by 30bps YoY to 6.7%. Management highlighted that Hungary plant to be operational by 1QFY19 (earlier 4QFY18) and Tuscaloosa plant is expected to be operational by 3QFY19. MSSL expects new plants will add EUR 1bn revenues on full ramp-up in FY19.
- SMR's revenues declined due to lower production at Hyundai and Kia. Management indicated that geo-political issues impacting Hyundai and Kia sales in South Korea. SMR's EBITDA margin increased by 100 bps YoY to 13.1%.
- Healthy CV sales in the U.S led the growth in PKC's revenue, however, component availability issues at suppliers end in European market impacted performance. PKC has received order from German OEM to supply harness for electric buses.
- The company's order book stands at EUR17.2bn (highest ever) as on FY18. Management indicated that no new capacity addition is required for current order book and guided a capex of INR 30bn.

Valuation: At CMP, the stock is trading at a valuation of 25.7X FY19E and 18.2X FY20E earnings. We maintain a BUY rating on the stock and arrive at a revised target price of INR 406; valuing the company at a P/E 24X FY20E EPS. **Risks:** Rise in copper prices and adverse cross-currency movement can pose a threat to the business.

Results Summary 4QFY18

Y/E March (INR mn)	4QFY18	4QFY17	YoY Growth	3QFY18	QoQ Growth
Revenue	154,078	112,540	36.9%	143,877	7.1%
EBITDA	15,001	12,107	23.9%	12,493	20.1%
Depreciation	4,069	2,707	50.3%	3,937	3.4%
Other Income	615	1246	-50.6%	252	144.0%
PBT	10,211	8,834	15.6%	7,756	31.7%
Tax	2,877	2,198	30.9%	2,516	14.3%
Reported PAT	7,334	6,635	10.5%	5,240	40.0%
Adjusted PAT*	5,184	4,748	9.2%	3,645	42.2%
EBITDA Margin (%)	9.7	10.8		8.7	
Effective Tax Rate (%)	28.2	24.9		32.4	
PAT Margin (%)	3.4	4.2		2.5	

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