

February 10, 2020

Q3FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	153		162	
Sales (Rs. m)	750,749	845,246	770,688	868,686
% Chng.	(2.6)	(2.7)		
EBITDA (Rs. m)	69,071	80,291	71,492	83,156
% Chng.	(3.4)	(3.4)		
EPS (Rs.)	6.7	8.1	7.1	8.4
% Chng.	(4.7)	(4.6)		

Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	635	671	751	845
EBITDA (Rs. bn)	53	55	69	80
Margin (%)	8.4	8.2	9.2	9.5
PAT (Rs. bn)	16	16	21	25
EPS (Rs.)	5.1	5.1	6.7	8.1
Gr. (%)	(5.2)	(0.4)	32.4	19.6
DPS (Rs.)	1.5	1.4	1.8	2.2
Yield (%)	1.2	1.1	1.5	1.7
RoE (%)	15.9	14.0	16.6	17.7
RoCE (%)	16.1	14.5	19.3	22.0
EV/Sales (x)	0.7	0.7	0.6	0.5
EV/EBITDA (x)	8.7	8.5	6.3	5.0
PE (x)	24.4	24.5	18.5	15.5
P/BV (x)	3.6	3.3	2.9	2.6

Key Data

MOSS.BO | MSS IN

52-W High / Low	Rs.176 / Rs.91
Sensex / Nifty	40,980 / 12,032
Market Cap	Rs.394bn/ \$ 5,521m
Shares Outstanding	3,158m
3M Avg. Daily Value	Rs.2458.98m

Shareholding Pattern (%)

Promoter's	61.73
Foreign	16.38
Domestic Institution	12.58
Public & Others	9.32
Promoter Pledge (Rs bn)	22.50

Stock Performance (%)

	1M	6M	12M
Absolute	(16.0)	16.2	(7.8)
Relative	(14.8)	6.6	(17.8)

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SMP continues to deliver in challenging times

Quick Pointers:

- SMP continues to see margin expansion QoQ with healthy beat in margins at 4.8% (PLe 4.5%).
- While impact of Corona virus is yet to be known, none of MSS plants have taken any shutdown due to the same as yet.

(MSS Q3FY20 consolidated performance were mixed with consol margins were in-line at 7.9% (PLe 8.1%), with continues margin expansion at SMP at 4.8% (PLe 4.5%) led by ramp-up at greenfield plants. While S/A performance beat expectations with EBITDA margins at 15% (PLe 14.5%, flat YoY/QoQ), EBITDA margins at SMR/PKC were weak at 10.6% (PLe 11%)/9.5% (PLe 10%).

Going ahead with further ramp-up of greenfield plants, healthy order book at Eur18.4b (as of Sep-19 including new orders of Eur3.8b in 1HFY20) and SOP (start of production) of Eur3.7b orders in 1HFY20, SMRPBV's revenues is expected to grow at ~11.7% CAGR over FY19-21E. On the other hand, while management indicated it is yet to know impact of Corona virus, they also indicated none of MSS plants have taken any shutdown due to the same as yet. While we see near term weak performance at PKC and SMR, we believe SMP to continue lead the recovery. Therefore, we maintain the stock to 'Accumulate' with a target price of Rs153 (earlier Rs160), based on 19x Mar'22E EPS. We downgrade FY21/22 EPS by 5% each to factor in for higher depreciation and weak performance at SMR and PKC.

Weak consol performance: MSS consol revenue declined 4.9% YoY to Rs156.6b (PLe: Rs167b). This was led by lower than expected sales at SMP, SMR and PKC. Operating performance remained weak as EBITDA de-grew ~11.3% YoY to Rs12.4b (PLe Rs13.5b) with margins came in at 7.9% (PLe 8.1%, - 60bp YoY/ - 40bp QoQ). Consol Adj PAT stood at Rs2.7b (PLe Rs4b, -30.5% YoY) led by weak operating performance and higher interest cost at Rs1.8b (PLe Rs1.3b).

SMP margins continues to improve QoQ is a positive: Despite ramp-up in new plants, SMP margins continues to see QoQ margins recovery at 4.8% (PLe: 4.5%, +60bp QoQ v/s 2.6% in 1Q and 4.2% in 2Q). Excluding greenfield and SMRC impact, SMP's margins came in at 10.3% (v/s 9.2% in 3QFY19). Other business margins came lower with PKC margins at 9.5% (PLe 10.5%, -220bp QoQ) and SMR margins at 10.6% (PLe 11%, -50bp QoQ).

Call takeaways: 1) PKC outperformed sharp decline of 19% in North America and 15% decline in European heavy duty truck market. 2) Slowdown in Korea as well as Indian market led to weak performance at SMR. 3) Impairment of Brazil plant (due to market slowdown) and Ind-AS resulted in higher cost of depreciation. 4) Continues ramp-up in car production by Daimler and absence of high cost for consultants have led to improved financial performance at greenfield.

Exhibit 1: Q3FY20 Result Overview - Consolidated (Rs m)

Y/e March	Q3FY20	Q3FY19	YoY gr. (%)	Q2FY20	9MFY20	9MFY19	YoY gr. (%)
Net Revenues	156,611	164,730	(4.9)	159,242	483,778	463,534	4.4
Raw Materials	90,417	95,095	(4.9)	91,300	278,303	267,643	4.0
<i>% of Net Sales</i>	<i>57.7</i>	<i>57.7</i>		<i>57.3</i>	<i>57.5</i>	<i>57.7</i>	
Personnel	37,259	37,064	0.5	36,311	112,741	102,142	10.4
<i>% of Net Sales</i>	<i>23.8</i>	<i>22.5</i>		<i>22.8</i>	<i>23.3</i>	<i>22.0</i>	
Manufacturing & Other Exp	16,577	18,637	(11.1)	18,440	54,636	52,693	3.7
<i>% of Net Sales</i>	<i>10.6</i>	<i>11.3</i>		<i>11.6</i>	<i>11.3</i>	<i>11.4</i>	
Total Expenditure	144,253	150,796	(4.3)	146,052	445,680	422,478	5.5
EBITDA	12,358	13,934	(11.3)	13,190	38,098	41,056	(7.2)
<i>EBITDA Margin (%)</i>	<i>7.9</i>	<i>8.5</i>		<i>8.3</i>	<i>7.9</i>	<i>8.9</i>	
Depreciation	6,938	5,714	21.4	6,551	19,854	15,064	31.8
EBIT	5,420	8,220	(34.1)	6,639	18,245	25,992	(29.8)
Interest Expenses	1,791	882	103.2	1,254	4,604	3,202	43.8
Non-operating income	783	610	28.3	825	2,155	1,520	41.8
PBT	4,412	7,948	(44.5)	6,211	15,796	24,310	(35.0)
Tax-Total	1,227	2,693	(54.4)	1,869	4,870	8,542	(43.0)
<i>Tax Rate (%) - Total</i>	<i>27.8</i>	<i>33.9</i>	<i>(17.9)</i>	<i>30.1</i>	<i>30.8</i>	<i>35.1</i>	<i>(12.3)</i>
Reported PAT	3,185	5,256	(39.4)	4,342	10,926	15,768	(30.7)
Minority Interest	480	1,365	(64.8)	496	1,059	3,736	(71.6)
Profit after MI	2,705	3,891	(30.5)	3,846	9,867	12,032	(18.0)
Adj. PAT	2,705	3,891	(30.5)	3,846	9,867	12,032	(18.0)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	635,229	670,741	750,749	845,246
YoY gr. (%)	12.8	5.6	11.9	12.6
Cost of Goods Sold	367,383	369,720	397,338	436,396
Gross Profit	267,846	301,021	353,411	408,849
Margin (%)	42.2	44.9	47.1	48.4
Employee Cost	141,694	162,948	187,391	215,499
Other Expenses	72,668	83,299	96,949	113,059
EBITDA	53,484	54,774	69,071	80,291
YoY gr. (%)	4.4	2.4	26.1	16.2
Margin (%)	8.4	8.2	9.2	9.5
Depreciation and Amortization	20,582	22,487	24,088	26,270
EBIT	32,902	32,287	44,983	54,022
Margin (%)	5.2	4.8	6.0	6.4
Net Interest	4,232	5,486	5,557	5,456
Other Income	2,202	1,800	1,900	1,900
Profit Before Tax	30,872	28,601	41,326	50,466
Margin (%)	4.9	4.3	5.5	6.0
Total Tax	11,022	9,724	13,224	16,149
Effective tax rate (%)	35.7	34.0	32.0	32.0
Profit after tax	19,850	18,877	28,102	34,317
Minority interest	4,850	4,236	8,223	10,258
Share Profit from Associate	1,131	1,425	1,390	1,390
Adjusted PAT	16,132	16,066	21,269	25,448
YoY gr. (%)	(6.1)	(0.4)	32.4	19.6
Margin (%)	2.5	2.4	2.8	3.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	16,132	16,066	21,269	25,448
YoY gr. (%)	1.0	(0.4)	32.4	19.6
Margin (%)	2.5	2.4	2.8	3.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	16,132	16,066	21,269	25,448
Equity Shares O/s (m)	3,158	3,158	3,158	3,158
EPS (Rs)	5.1	5.1	6.7	8.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	190,917	211,393	232,408	251,008
Tangibles	190,917	211,393	232,408	251,008
Intangibles	-	-	-	-
Acc: Dep / Amortization	71,720	94,207	118,295	144,564
Tangibles	71,720	94,207	118,295	144,564
Intangibles	-	-	-	-
Net fixed assets	119,197	117,186	114,113	106,444
Tangibles	119,197	117,186	114,113	106,444
Intangibles	-	-	-	-
Capital Work In Progress	10,463	10,463	10,463	10,463
Goodwill	22,646	22,646	22,646	22,646
Non-Current Investments	2,389	2,389	2,389	2,389
Net Deferred tax assets	6,123	6,123	6,123	6,123
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	46,635	42,266	47,307	53,262
Trade receivables	61,663	60,642	67,876	76,419
Cash & Bank Balance	35,469	36,309	59,945	93,215
Other Current Assets	115,107	115,107	115,107	115,107
Total Assets	427,179	419,326	453,633	495,467
Equity				
Equity Share Capital	3,158	3,158	3,158	3,158
Other Equity	106,470	117,483	132,062	149,505
Total Network	109,628	120,641	135,220	152,663
Non-Current Liabilities				
Long Term borrowings	80,995	77,995	74,995	71,995
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	28,433	28,433	28,433	28,433
Trade payables	106,613	119,407	133,735	149,784
Other current liabilities	72,835	39,941	40,118	41,202
Total Equity & Liabilities	427,179	419,326	453,633	495,467

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	32,003	28,601	41,326	50,466
Add. Depreciation	20,582	22,487	24,088	26,270
Add. Interest	3,878	5,486	5,557	5,456
Less Financial Other Income	2,202	1,800	1,900	1,900
Add. Other	(622)	1,425	1,390	1,390
Op. profit before WC changes	55,841	57,999	72,361	83,581
Net Changes-WC	(2,219)	(13,419)	761	899
Direct tax	(10,498)	(9,724)	(13,224)	(16,149)
Net cash from Op. activities	43,124	34,856	59,897	68,331
Capital expenditures	(33,798)	(20,476)	(21,015)	(18,600)
Interest / Dividend Income	349	-	-	-
Others	344	-	-	-
Net Cash from Inv. activities	(33,105)	(20,476)	(21,015)	(18,600)
Issue of share cap. / premium	-	-	-	-
Debt changes	8,147	(3,000)	(3,000)	(3,000)
Dividend paid	(6,395)	(5,054)	(6,690)	(8,005)
Interest paid	(4,159)	(5,486)	(5,557)	(5,456)
Others	161	-	-	-
Net cash from Fin. activities	(2,246)	(13,540)	(15,247)	(16,460)
Net change in cash	7,773	840	23,635	33,270
Free Cash Flow	16,543	14,380	38,882	49,731

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Net Revenue	171,695	167,925	159,242	156,611
YoY gr. (%)	11.4	13.7	5.4	(4.9)
Raw Material Expenses	99,740	96,586	91,300	90,417
Gross Profit	71,955	71,340	67,942	66,194
Margin (%)	41.9	42.5	42.7	42.3
EBITDA	12,428	12,550	13,190	12,358
YoY gr. (%)	(17.2)	(11.1)	1.5	(11.3)
Margin (%)	7.2	7.5	8.3	7.9
Depreciation / Depletion	5,518	6,365	6,551	6,938
EBIT	6,910	6,185	6,639	5,420
Margin (%)	4.0	3.7	4.2	3.5
Net Interest	1,030	1,559	1,254	1,791
Other Income	682	547	825	783
Profit before Tax	6,562	5,173	6,211	4,412
Margin (%)	3.8	3.1	3.9	2.8
Total Tax	2,479	1,774	1,869	1,227
Effective tax rate (%)	37.8	34.3	30.1	27.8
Profit after Tax	4,082	3,399	4,342	3,185
Minority interest	194	291	732	698
Share Profit from Associates	211	207	237	218
Adjusted PAT	4,100	3,315	3,846	2,705
YoY gr. (%)	(23.1)	(25.2)	3.6	(30.5)
Margin (%)	2.4	2.0	2.4	1.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,100	3,315	3,846	2,705
YoY gr. (%)	(20.9)	(25.2)	3.6	(30.5)
Margin (%)	2.4	2.0	2.4	1.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,100	3,315	3,846	2,705
Avg. Shares O/s (m)	3,158	3,158	3,158	3,158
EPS (Rs)	1.3	1.0	1.2	0.9

Source: Company Data, PL Research

Key Financial Metrics

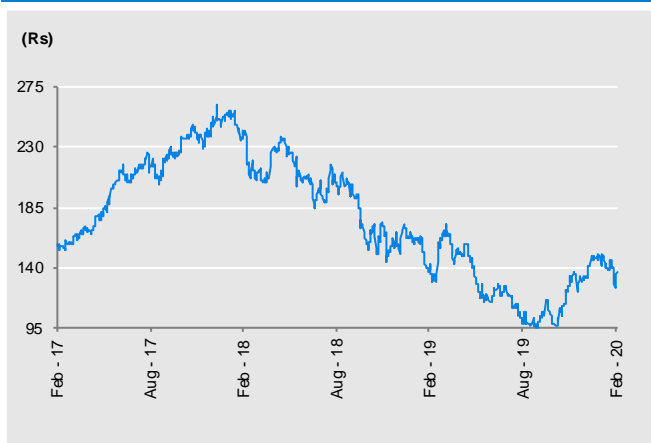
Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	5.1	5.1	6.7	8.1
CEPS	9.7	10.0	11.7	13.5
BVPS	34.7	38.2	42.8	48.3
FCF	5.2	4.6	12.3	15.7
DPS	1.5	1.4	1.8	2.2
Return Ratio(%)				
RoCE	16.1	14.5	19.3	22.0
ROIC	12.6	11.4	17.7	24.1
RoE	15.9	14.0	16.6	17.7
Balance Sheet				
Net Debt : Equity (x)	0.7	0.6	0.3	0.0
Net Working Capital (Days)	1	(9)	(9)	(9)
Valuation(x)				
PER	24.4	24.5	18.5	15.5
P/B	3.6	3.3	2.9	2.6
P/CEPS	12.9	12.5	10.6	9.3
EV/EBITDA	8.7	8.5	6.3	5.0
EV/Sales	0.7	0.7	0.6	0.5
Dividend Yield (%)	1.2	1.1	1.5	1.7

Source: Company Data, PL Research

Key Operating Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
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Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Jan-20	Accumulate	162	148
2	11-Nov-19	Accumulate	142	134
3	3-Oct-19	Accumulate	111	99
4	13-Aug-19	Accumulate	111	97
5	4-Jul-19	Accumulate	131	127
6	28-May-19	Accumulate	131	119
7	5-Apr-19	Accumulate	150	151
8	11-Feb-19	Accumulate	150	133

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Hold	80	84
2	Bajaj Auto	Reduce	2,969	3,142
3	Bharat Forge	Hold	479	487
4	CEAT	Sell	910	1,014
5	Eicher Motors	Hold	20,681	20,391
6	Exide Industries	Accumulate	214	188
7	Hero Motocorp	Accumulate	2,769	2,411
8	Mahindra & Mahindra	Hold	593	533
9	Maruti Suzuki	BUY	8,083	6,997
10	Motherson Sumi Systems	Accumulate	162	148
11	Tata Motors	Hold	185	186
12	TVS Motors	Hold	473	460

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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