

June 2, 2020

Q4FY20 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		BUY	
Target Price	116		87	
Sales (Rs. m)	6,62,175	7,65,137	6,45,165	7,23,139
% Chng.	2.6	5.8		
EBITDA (Rs. m)	52,752	72,417	46,913	63,624
% Chng.	12.4	13.8		
EPS (Rs.)	4.2	6.4	3.6	5.4
% Chng.	15.2	18.6		

Key Financials - Consolidated

Y/e Mar	FY19	FY20	FY21E	FY22E
Sales (Rs. bn)	635	635	662	765
EBITDA (Rs. bn)	53	52	53	72
Margin (%)	8.4	8.2	8.0	9.5
PAT (Rs. bn)	16	12	13	20
EPS (Rs.)	5.1	3.7	4.2	6.4
Gr. (%)	(5.2)	(27.5)	12.8	54.2
DPS (Rs.)	1.5	1.5	1.1	1.7
Yield (%)	1.5	1.5	1.1	1.7
RoE (%)	15.9	10.4	11.0	15.4
RoCE (%)	16.1	11.0	12.7	19.4
EV/Sales (x)	0.6	0.6	0.6	0.5
EV/EBITDA (x)	7.4	7.3	7.0	5.0
PE (x)	19.9	27.4	24.3	15.8
P/BV (x)	2.9	2.8	2.6	2.3

Key Data

MOSS.BO | MSS IN

52-W High / Low	Rs.151 / Rs.49
Sensex / Nifty	33,826 / 9,979
Market Cap	Rs.321bn/ \$ 4,257m
Shares Outstanding	3,158m
3M Avg. Daily Value	Rs.4049.62m

Shareholding Pattern (%)

Promoter's	61.73
Foreign	15.50
Domestic Institution	13.55
Public & Others	9.22
Promoter Pledge (Rs bn)	25.92

Stock Performance (%)

	1M	6M	12M
Absolute	16.0	(23.6)	(11.9)
Relative	15.7	(7.9)	3.4

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Healthy margin beat at SMR, PKC and S/A

Quick Pointers:

- SMRP BV order book as on FY20 stands at Eur13.6bn (excluding Eur10.1bn worth of SOP orders) with Eur5.5bn orders added in FY20.
- Consolidated net debt declined to Rs69bn in FY20 (v/s Rs80bn in FY19).
- The management hinted no new likely acquisitions over 1-2 quarters.

MSS Q4FY20 consolidated performance was healthy led by healthy margin beat across key business such as SMR at 14.6% (+300bp YoY, PLe 11%), PKC 8% (-50bp YoY, PLe 7%) and S/A at 17% (-120bp YoY, PLe 15%). While these performances will not sustain in 1QFY21, it will see sharp recovery from 2Q led by cost savings from 'Project victory' and ramp-up of plants across business. Going ahead with further ramp-up of greenfield plants, healthy order book at Eur13.6bn with SOP (start of production) of Eur10.1bn orders and BS6 content increase at S/A level, we factor in revenue/EBITDA CAGR of 10%/18%. We upgrade FY21/22 EPS by 15-19% as we increased margins by 70bps each to factor in for cost efficiencies. We have also increased target multiple to 18x (from 16x) due to improved order execution and continued focus on debt reduction. We maintain BUY with price target of Rs116 (Rs87).

Q4FY20 revenue beat at Rs151.6bn (-11.7% YoY, PLe Rs139.2bn) led by better than expected performance at SMP and SMR. Operating performance too remained strong as EBITDA grew ~12% YoY to Rs13.9bn (PLe Rs9.4bn) and margins came in at 9.2% (PLe 7%, +190 bp YoY/ +130 bp QoQ). Consol Adj PAT declined by ~55% YoY to Rs1.8bn (PLe Rs2.2bn) led by higher depreciation at Rs7.9bn (PLe Rs6.6bn) and tax rate at 69.7% (PLe 47%).

SMP margins declined QoQ after a growth for 3 consecutive quarters at 4.2% (-60bp QoQ, PLe 5%). Other business margins came higher with S/A margins at 17% (+190bp QoQ, PLe 15%), PKC margins at 8% (-140bp QoQ, PLe 7%) and SMR margins at 14.6% (+400bp QoQ, PLe 11%).

Call takeaways: 1) **Demand outlook:** Expect 1Q to be softer as things have started picking up from last 2 weeks. Farm/2W segment to recover faster but supply challenges to continue. 2) **Exports:** Seeing good exports demand from Europe and Japan. Plants in US have restarted from May'20. 3) **PKC:** China has recovered faster while Europe and America are also picking up gradually 4) **5-years plan:** Focus on inorganic opportunities but don't see anything coming over next 3-6 months. Have plans to diversify to aerospace, defense, healthcare and IT vertical. 5) **Capex guidance** at ~Rs20bn, indicated no major delay in launch and platform. 6) **Operation level post Covid-19 recovery:** ~39% plants are operating at >75% capacity, ~22% plants are operating between 50-75%, ~27% are operational between 25-50% while rest are operating at less than 25% capacity.



Exhibit 1: Q4FY20 Result Overview - Consolidated (Rs m)

Y/e March	Q4FY20	Q4FY19	YoY gr. (%)	Q3FY20	FY20	FY19	YoY gr. (%)
Net Revenues	1,51,591	1,71,695	(11.7)	1,56,611	6,35,369	6,35,229	0.0
Raw Materials	84,411	99,740	(15.4)	90,417	3,62,715	3,67,383	(1.3)
<i>% of Net Sales</i>	<i>55.7</i>	<i>58.1</i>		<i>57.7</i>	<i>57.1</i>	<i>57.8</i>	
Personnel	38,028	39,552	(3.9)	37,259	1,50,769	1,41,694	6.4
<i>% of Net Sales</i>	<i>25.1</i>	<i>23.0</i>		<i>23.8</i>	<i>23.7</i>	<i>22.3</i>	
Manufacturing & Other Exp	15,235	19,975	(23.7)	16,577	69,872	72,668	(3.8)
<i>% of Net Sales</i>	<i>10.1</i>	<i>11.6</i>		<i>10.6</i>	<i>11.0</i>	<i>11.4</i>	
Total Expenditure	1,37,675	1,59,267	(13.6)	1,44,253	5,83,355	5,81,745	0.3
EBITDA	13,916	12,428	12.0	12,358	52,014	53,484	(2.7)
<i>EBITDA Margin (%)</i>	<i>9.2</i>	<i>7.2</i>		<i>7.9</i>	<i>8.2</i>	<i>8.4</i>	
Depreciation	7,927	5,518	43.7	6,938	27,780	20,582	35.0
EBIT	5,989	6,910	(13.3)	5,420	24,234	32,902	(26.3)
Interest Expenses	1,382	1,030	34.2	1,791	5,986	4,232	41.5
Non-operating income	151	682	(77.8)	783	2,307	2,202	4.8
PBT	4,759	6,562	(27.5)	4,412	20,554	30,872	(33.4)
Tax-Total	3,315	2,479	33.7	1,227	8,184	11,022	(25.7)
<i>Tax Rate (%) - Total</i>	<i>69.7</i>	<i>37.8</i>	<i>84.3</i>	<i>27.8</i>	<i>39.8</i>	<i>35.7</i>	<i>11.5</i>
Reported PAT	1,444	4,082	(64.6)	3,185	12,370	19,850	(37.7)
Minority Interest	-390	-17	2,153.2	480	669	3,719	(82.0)
Profit after MI	1,834	4,100	(55.3)	2,705	11,701	16,132	(27.5)
Adj. PAT	1,834	4,100	(55.3)	2,705	11,701	16,132	(27.5)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Net Revenues	6,35,229	6,35,369	6,62,175	7,65,137
YoY gr. (%)	12.8	0.0	4.2	15.5
Cost of Goods Sold	3,67,383	3,62,715	3,56,321	3,99,798
Gross Profit	2,67,846	2,72,654	3,05,854	3,65,339
Margin (%)	42.2	42.9	46.2	47.7
Employee Cost	1,41,694	1,50,769	1,73,384	1,99,392
Other Expenses	72,668	69,872	79,717	93,531
EBITDA	53,484	52,014	52,752	72,417
YoY gr. (%)	4.4	(2.7)	1.4	37.3
Margin (%)	8.4	8.2	8.0	9.5
Depreciation and Amortization	20,582	27,780	24,203	27,030
EBIT	32,902	24,234	28,550	45,387
Margin (%)	5.2	3.8	4.3	5.9
Net Interest	4,232	5,986	6,072	6,126
Other Income	2,202	2,307	2,353	2,400
Profit Before Tax	30,872	20,554	24,831	41,661
Margin (%)	4.9	3.2	3.7	5.4
Total Tax	11,022	8,184	9,684	15,623
Effective tax rate (%)	35.7	39.8	39.0	37.5
Profit after tax	19,850	12,370	15,147	26,038
Minority interest	4,850	1,244	4,250	7,991
Share Profit from Associate	1,131	575	2,298	2,298
Adjusted PAT	16,132	11,700	13,196	20,345
YoY gr. (%)	(6.1)	(27.5)	12.8	54.2
Margin (%)	2.5	1.8	2.0	2.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	16,132	11,700	13,196	20,345
YoY gr. (%)	1.0	(27.5)	12.8	54.2
Margin (%)	2.5	1.8	2.0	2.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	16,132	11,700	13,196	20,345
Equity Shares O/s (m)	3,158	3,158	3,158	3,158
EPS (Rs)	5.1	3.7	4.2	6.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
Non-Current Assets				
Gross Block	2,06,513	2,25,190	2,46,449	2,65,686
Tangibles	2,06,513	2,25,190	2,46,449	2,65,686
Intangibles	-	-	-	-
Acc: Dep / Amortization	71,720	99,500	1,23,703	1,50,733
Tangibles	71,720	99,500	1,23,703	1,50,733
Intangibles	-	-	-	-
Net fixed assets	1,34,793	1,25,689	1,22,746	1,14,953
Tangibles	1,34,793	1,25,689	1,22,746	1,14,953
Intangibles	-	-	-	-
Capital Work In Progress	10,463	8,154	8,154	8,154
Goodwill	22,646	22,646	22,646	22,646
Non-Current Investments	2,389	1,614	1,614	1,614
Net Deferred tax assets	6,123	5,030	5,030	5,030
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	46,635	51,566	51,172	59,128
Trade receivables	61,663	51,784	59,868	69,177
Cash & Bank Balance	35,469	48,789	52,729	60,756
Other Current Assets	99,512	1,27,882	1,27,882	1,27,882
Total Assets	4,27,179	4,49,928	4,60,054	4,79,612
Equity				
Equity Share Capital	3,158	3,158	3,158	3,158
Other Equity	1,06,470	1,12,718	1,21,763	1,35,709
Total Network	1,09,628	1,15,876	1,24,921	1,38,867
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	1,06,613	1,03,091	1,15,462	1,29,317
Other current liabilities	72,835	93,521	80,982	67,747
Total Equity & Liabilities	4,27,179	4,49,928	4,60,054	4,79,612

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY19	FY20	FY21E	FY22E
PBT	32,003	21,129	24,831	41,661
Add. Depreciation	20,582	27,780	24,203	27,030
Add. Interest	3,878	5,626	6,072	6,126
Less Financial Other Income	2,202	2,307	2,353	2,400
Add. Other	(622)	3,561	2,298	2,298
Op. profit before WC changes	55,841	58,095	57,404	77,115
Net Changes-WC	(2,219)	16,202	(9,297)	(18,704)
Direct tax	(10,498)	(10,776)	(9,684)	(15,623)
Net cash from Op. activities	43,124	63,521	38,423	42,788
Capital expenditures	(33,798)	(23,171)	(21,260)	(19,237)
Interest / Dividend Income	349	946	-	-
Others	344	(175)	-	-
Net Cash from Invt. activities	(33,105)	(22,399)	(21,260)	(19,237)
Issue of share cap. / premium	-	-	-	-
Debt changes	8,147	1,726	(3,000)	(3,000)
Dividend paid	(6,395)	(12,794)	(4,151)	(6,400)
Interest paid	(4,159)	(5,667)	(6,072)	(6,126)
Others	161	(11,294)	-	-
Net cash from Fin. activities	(2,246)	(28,029)	(13,223)	(15,525)
Net change in cash	7,773	13,092	3,940	8,027
Free Cash Flow	16,543	41,578	17,163	23,552

Source: Company Data, PL Research

Key Financial Metrics

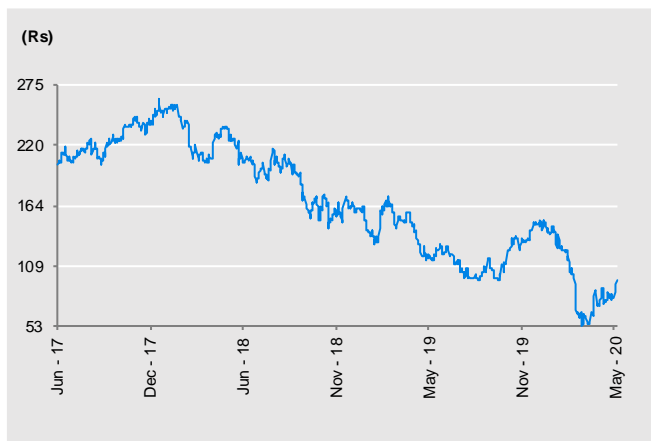
Y/e Mar	FY19	FY20	FY21E	FY22E
Per Share(Rs)				
EPS	5.1	3.7	4.2	6.4
CEPS	9.7	10.2	9.3	12.1
BVPS	34.7	36.7	39.6	44.0
FCF	5.2	13.2	5.4	7.5
DPS	1.5	1.5	1.1	1.7
Return Ratio(%)				
RoCE	16.1	11.0	12.7	19.4
ROIC	12.6	8.5	10.1	16.4
RoE	15.9	10.4	11.0	15.4
Balance Sheet				
Net Debt : Equity (x)	0.7	0.5	0.4	0.3
Net Working Capital (Days)	1	0	(2)	0
Valuation(x)				
PER	19.9	27.4	24.3	15.8
P/B	2.9	2.8	2.6	2.3
P/CEPS	10.5	9.9	11.0	8.4
EV/EBITDA	7.4	7.3	7.0	5.0
EV/Sales	0.6	0.6	0.6	0.5
Dividend Yield (%)	1.5	1.5	1.1	1.7

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY20	Q2FY20	Q3FY20	Q4FY20
Net Revenue	1,67,925	1,59,242	1,56,611	1,51,591
YoY gr. (%)	13.7	5.4	(4.9)	(11.7)
Raw Material Expenses	96,586	91,300	90,417	84,411
Gross Profit	71,340	67,942	66,194	67,179
Margin (%)	42.5	42.7	42.3	44.3
EBITDA	12,550	13,190	12,358	13,916
YoY gr. (%)	(11.1)	1.5	(11.3)	12.0
Margin (%)	7.5	8.3	7.9	9.2
Depreciation / Depletion	6,365	6,551	6,938	7,927
EBIT	6,185	6,639	5,420	5,989
Margin (%)	3.7	4.2	3.5	4.0
Net Interest	1,559	1,254	1,791	1,382
Other Income	547	825	783	151
Profit before Tax	5,173	6,211	4,412	4,759
Margin (%)	3.1	3.9	2.8	3.1
Total Tax	1,774	1,869	1,227	3,315
Effective tax rate (%)	34.3	30.1	27.8	69.7
Profit after Tax	3,399	4,342	3,185	1,444
Minority interest	291	732	698	(477)
Share Profit from Associates	207	237	218	(87)
Adjusted PAT	3,315	3,846	2,705	1,834
YoY gr. (%)	(25.2)	3.6	(30.5)	(55.3)
Margin (%)	2.0	2.4	1.7	1.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,315	3,846	2,705	1,834
YoY gr. (%)	(25.2)	3.6	(30.5)	(55.3)
Margin (%)	2.0	2.4	1.7	1.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,315	3,846	2,705	1,834
Avg. Shares O/s (m)	3,158	3,158	3,158	3,158
EPS (Rs)	1.0	1.2	0.9	0.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Apr-20	BUY	87	66
2	18-Mar-20	BUY	115	62
3	10-Feb-20	Accumulate	153	125
4	03-Jan-20	Accumulate	162	148
5	11-Nov-19	Accumulate	142	134
6	03-Oct-19	Accumulate	111	99
7	13-Aug-19	Accumulate	111	97
8	04-Jul-19	Accumulate	131	127

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Accumulate	59	46
2	Bajaj Auto	Hold	2,504	2,556
3	Bharat Forge	Hold	345	246
4	CEAT	Accumulate	899	810
5	Eicher Motors	BUY	17,990	13,742
6	Exide Industries	Accumulate	167	148
7	Hero Motocorp	Accumulate	2,225	1,991
8	Mahindra & Mahindra	Hold	420	381
9	Maruti Suzuki	BUY	5,830	5,036
10	Motherson Sumi Systems	BUY	87	66
11	Tata Motors	Hold	84	75
12	TVS Motors	Hold	318	333

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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