

August 11, 2020

Q1FY21 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	125		116	
Sales (Rs. m)	7,10,682	7,91,548	7,65,137	8,31,328
% Chng.	(7.1)	(4.8)		
EBITDA (Rs. m)	64,013	73,843	72,417	79,077
% Chng.	(11.6)	(6.6)		
EPS (Rs.)	6.0	7.9	6.4	7.9
% Chng.	(6.5)	0.2		

Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	635	605	711	792
EBITDA (Rs. bn)	52	39	64	74
Margin (%)	8.2	6.4	9.0	9.3
PAT (Rs. bn)	12	8	19	25
EPS (Rs.)	3.7	2.6	6.0	7.9
Gr. (%)	(27.5)	(31.0)	135.6	30.8
DPS (Rs.)	1.5	0.7	1.6	2.1
Yield (%)	1.4	0.6	1.5	2.0
RoE (%)	10.4	6.8	14.9	17.4
RoCE (%)	10.8	5.5	15.2	20.0
EV/Sales (x)	0.6	0.7	0.6	0.5
EV/EBITDA (x)	7.7	10.3	6.2	5.0
PE (x)	29.0	42.0	17.8	13.6
P/BV (x)	2.9	2.8	2.5	2.2

Key Data

MOSS.BO | MSS IN

52-W High / Low	Rs.151 / Rs.49
Sensex / Nifty	38,407 / 11,323
Market Cap	Rs.339bn / \$ 4,535m
Shares Outstanding	3,158m
3M Avg. Daily Value	Rs.3849.78m

Shareholding Pattern (%)

Promoter's	61.73
Foreign	15.64
Domestic Institution	13.35
Public & Others	9.28
Promoter Pledge (Rs bn)	24.11

Stock Performance (%)

	1M	6M	12M
Absolute	11.6	(14.1)	-
Relative	6.4	(7.8)	(2.1)

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Improving utilizations to drive performance

Quick Pointers:

- With gradual increase in plant utilization, revenues to reach pre-covid level in India/overseas by Sept-20/Dec-20.
- Spike in net debt at Rs90bn (v/s Rs69bn in FY20) was led by increase in working capital debt by ~Rs9bn. The same to reverse with improved revenues recognition.

MSS Q1FY21 consolidated performance missed expectations led by lower utilization impacting operating leverage. The company disclosed weaker than expected margins in key business such as SMP -8.3% (PLe -4%), SMR -2.8% (PLe +2%), PKC -4% (PLe +3%) and S/A at -26% (PLe 3%). However, from 2QFY21 the consol margins can turn positive at 4-5% based on improved plant utilization (~84% of plants have reached utilization of +50-75% as of July). Cost control led improvement in green field operations with EBITDA loss of Eur19mn (v/s cumulative loss of Eur175mn in FY20) aiding margins improvement at SMP. We cut FY21/22 EPS by 28%/6.5% while maintaining FY23 EPS. We maintain BUY with revised price target of Rs125 (Rs116) at 18x (unchanged) roll forwarded to Sep-22 EPS.

Weak SMR/SMP performance dragged overall profitability: Both SMR/SMP margins turned negative at 2.8% (+11.2% in Q1FY20, PLe +2%) and 8.3% (+2.7% Q1FY20, PLe -4%) respectively. This was led by negative operating leverage and lower gross margins. However, performance at greenfield (Tuscaloosa and Kecskemet) improved with narrowed EBITDA loss at Eur19mn (v/s loss of Eur175mn in FY20). The same is expected to contribute positively from 3QFY21.

Net debt to decline in coming quarters: Consol net debt increased to Rs90bn (v/s Rs69bn in FY20) primarily led by rise in working capital debt by ~Rs9bn and exchange impact of Rs1.2bn. With improved revenues, the management expects the same to get repaid in coming quarters.

Call takeaways: 1) **Demand outlook:** Believe pre-COVID level revenue level can be achieved by December'20. ~84% of plants are operating at ~50-75% capacity globally. 2) **Plants operating at >75% utilization level:** America- ~73%; ME, Africa and Europe- ~45%; Asia (ex-India) and Australia- ~77%; India- ~44%. 3) **Exports:** China (~70%+ utilization) has bounced back strongly while seeing gradual recovery in Europe and America as well. 4) **Acquisition plans:** Will focus on completing acquisitions by Dec'20 which should have been done by March'20. 5) **Tuscaloosa and Kecskemet-** Initial focus is to achieve EBITDA breakeven followed by EBT breakeven. 6) **Capex guidance for FY21** remain unchanged at ~Rs20bn, indicated major part of capex has already been done. 7) No cancellation in orders while order inflows have picked up pace due to increased transition in orders from weaker supplier.

Exhibit 1: Q1FY21 Result Overview - Consolidated (Rs m)

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY21E	FY20	YoY gr. (%)
Net Revenues	85,039	1,67,925	(49.4)	1,51,591	6,04,653	6,35,369	(4.8)
Raw Materials	50,402	96,586	(47.8)	84,411	3,14,469	3,62,715	(13.3)
<i>% of Net Sales</i>	<i>59.3</i>	<i>57.5</i>		<i>55.7</i>	<i>52.0</i>	<i>57.1</i>	
Personnel	28,882	39,171	(26.3)	38,028	1,73,384	1,50,769	15.0
<i>% of Net Sales</i>	<i>34.0</i>	<i>23.3</i>		<i>25.1</i>	<i>28.7</i>	<i>23.7</i>	
Manufacturing & Other Exp	12,054	19,619	(38.6)	15,235	77,819	69,872	11.4
<i>% of Net Sales</i>	<i>14.2</i>	<i>11.7</i>		<i>10.1</i>	<i>12.9</i>	<i>11.0</i>	
Total Expenditure	91,339	1,55,375	(41.2)	1,37,675	5,65,672	5,83,355	(3.0)
EBITDA	-6,300	12,550	NA	13,916	38,415	52,014	(26.1)
<i>EBITDA Margin (%)</i>	<i>-7.4</i>	<i>7.5</i>		<i>9.2</i>	<i>6.4</i>	<i>8.2</i>	
Depreciation	7,123	6,365	11.9	7,927	26,194	27,780	(5.7)
EBIT	-13,423	6,185	NA	5,989	12,221	24,234	(49.6)
Interest Expenses	1,115	1,559	(28.5)	1,382	6,435	5,986	7.5
Non-operating income	481	547	(12.2)	151	2,353	2,307	2.0
PBT	-14,058	5,173	NA	4,759	8,139	20,554	(60.4)
Tax-Total	-2,143	1,774	NA	3,315	2,612	8,184	(68.1)
<i>Tax Rate (%) - Total</i>	<i>NA</i>	<i>34.3</i>		<i>69.7</i>	<i>32.1</i>	<i>39.8</i>	
Reported PAT	-11,915	3,399	NA	1,444	5,528	12,370	(55.3)
Minority Interest	-3,810	84	NA	-390	-5,378	669	NA
Profit after MI	-8,105	3,315	NA	1,834	10,906	11,701	(6.8)
Adj. PAT	-8,105	3,315	NA	1,834	10,906	11,701	(6.8)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	6,35,369	6,04,653	7,10,682	7,91,548
YoY gr. (%)	0.0	(4.8)	17.5	11.4
Cost of Goods Sold	3,62,715	3,14,469	3,55,543	3,81,712
Gross Profit	2,72,654	2,90,184	3,55,139	4,09,836
Margin (%)	42.9	48.0	50.0	51.8
Employee Cost	1,50,769	1,73,384	1,99,392	2,29,300
Other Expenses	69,872	77,819	91,734	1,06,693
EBITDA	52,014	38,981	64,013	73,843
YoY gr. (%)	(2.7)	(25.1)	64.2	15.4
Margin (%)	8.2	6.4	9.0	9.3
Depreciation and Amortization	27,780	26,194	27,469	23,493
EBIT	24,234	12,787	36,544	50,350
Margin (%)	3.8	2.1	5.1	6.4
Net Interest	5,986	6,435	5,121	4,471
Other Income	2,307	2,353	2,588	2,718
Profit Before Tax	20,554	8,705	34,011	48,597
Margin (%)	3.2	1.4	4.8	6.1
Total Tax	8,184	2,612	10,884	16,037
Effective tax rate (%)	39.8	30.0	32.0	33.0
Profit after tax	12,370	6,094	23,128	32,560
Minority interest	1,244	319	6,403	9,983
Share Profit from Associate	575	2,298	2,298	2,298
Adjusted PAT	11,700	8,073	19,023	24,875
YoY gr. (%)	(27.5)	(31.0)	135.6	30.8
Margin (%)	1.8	1.3	2.7	3.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	11,700	8,073	19,023	24,875
YoY gr. (%)	(27.5)	(31.0)	135.6	30.8
Margin (%)	1.8	1.3	2.7	3.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,700	8,073	19,023	24,875
Equity Shares O/s (m)	3,158	3,158	3,158	3,158
EPS (Rs)	3.7	2.6	6.0	7.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	2,25,190	2,46,739	2,68,860	2,91,570
Tangibles	2,25,190	2,46,739	2,68,860	2,91,570
Intangibles	-	-	-	-
Acc: Dep / Amortization	99,500	1,25,694	1,53,163	1,76,656
Tangibles	99,500	1,25,694	1,53,163	1,76,656
Intangibles	-	-	-	-
Net fixed assets	1,25,689	1,21,045	1,15,697	1,14,914
Tangibles	1,25,689	1,21,045	1,15,697	1,14,914
Intangibles	-	-	-	-
Capital Work In Progress	8,154	8,154	8,154	8,154
Goodwill	22,646	22,646	22,646	22,646
Non-Current Investments	1,614	1,614	1,614	1,614
Net Deferred tax assets	5,030	5,030	5,030	5,030
Other Non-Current Assets	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	51,566	46,727	54,920	61,169
Trade receivables	51,784	54,667	64,253	71,565
Cash & Bank Balance	48,789	50,227	54,873	79,248
Other Current Assets	1,27,882	1,27,882	1,27,882	1,27,882
Total Assets	4,49,928	4,45,054	4,64,252	5,03,022
Equity				
Equity Share Capital	3,158	3,158	3,158	3,158
Other Equity	1,12,718	1,18,252	1,31,291	1,48,342
Total Network	1,15,876	1,21,410	1,34,449	1,51,500
Non-Current Liabilities				
Long Term borrowings	77,995	78,995	75,995	72,995
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	33,795	34,295	34,295	34,295
Trade payables	1,03,091	1,15,462	1,29,317	1,44,836
Other current liabilities	88,159	63,562	52,462	51,680
Total Equity & Liabilities	4,49,928	4,45,054	4,64,252	5,03,022

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	21,129	8,705	34,011	48,597
Add. Depreciation	27,780	26,194	27,469	23,493
Add. Interest	5,626	6,435	5,121	4,471
Less Financial Other Income	2,307	2,353	2,588	2,718
Add. Other	3,561	2,298	2,298	2,298
Op. profit before WC changes	58,095	43,632	68,900	78,859
Net Changes-WC	16,202	(10,559)	(17,145)	(441)
Direct tax	(10,776)	(2,612)	(10,884)	(16,037)
Net cash from Op. activities	63,521	30,462	40,872	62,380
Capital expenditures	(23,171)	(21,550)	(22,121)	(22,710)
Interest / Dividend Income	946	-	-	-
Others	(175)	-	-	-
Net Cash from Invt. activities	(22,399)	(21,550)	(22,121)	(22,710)
Issue of share cap. / premium	-	-	-	-
Debt changes	1,726	1,500	(3,000)	(3,000)
Dividend paid	(12,794)	(2,539)	(5,984)	(7,824)
Interest paid	(5,667)	(6,435)	(5,121)	(4,471)
Others	(11,294)	-	-	-
Net cash from Fin. activities	(28,029)	(7,474)	(14,105)	(15,295)
Net change in cash	13,092	1,438	4,646	24,375
Free Cash Flow	41,578	8,912	18,751	39,671

Source: Company Data, PL Research

Key Financial Metrics

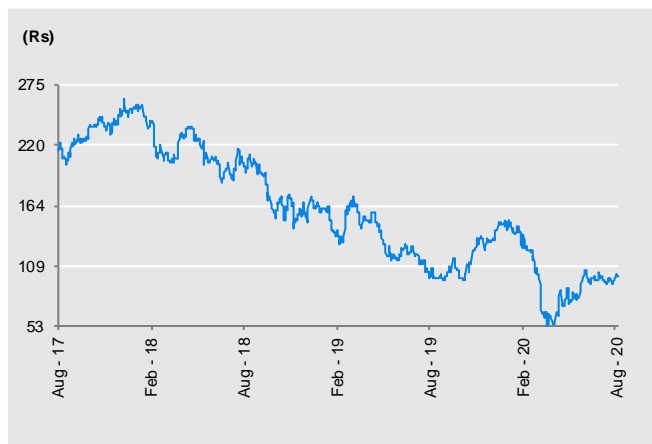
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	3.7	2.6	6.0	7.9
CEPS	10.2	8.2	11.7	13.2
BVPS	36.7	38.4	42.6	48.0
FCF	13.2	2.8	5.9	12.6
DPS	1.5	0.7	1.6	2.1
Return Ratio(%)				
RoCE	10.8	5.5	15.2	20.0
ROIC	8.4	4.9	13.4	19.6
RoE	10.4	6.8	14.9	17.4
Balance Sheet				
Net Debt : Equity (x)	0.5	0.5	0.4	0.2
Net Working Capital (Days)	0	(8)	(5)	(6)
Valuation(x)				
PER	29.0	42.0	17.8	13.6
P/B	2.9	2.8	2.5	2.2
P/CEPS	10.5	13.1	9.2	8.2
EV/EBITDA	7.7	10.3	6.2	5.0
EV/Sales	0.6	0.7	0.6	0.5
Dividend Yield (%)	1.4	0.6	1.5	2.0

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	1,59,242	1,56,611	1,51,591	85,039
YoY gr. (%)	5.4	(4.9)	(11.7)	(49.4)
Raw Material Expenses	91,300	90,417	84,411	50,402
Gross Profit	67,942	66,194	67,179	34,637
Margin (%)	42.7	42.3	44.3	40.7
EBITDA	13,190	12,358	13,916	(6,300)
YoY gr. (%)	1.5	(11.3)	12.0	(150.2)
Margin (%)	8.3	7.9	9.2	(7.4)
Depreciation / Depletion	6,551	6,938	7,927	7,123
EBIT	6,639	5,420	5,989	(13,423)
Margin (%)	4.2	3.5	4.0	(15.8)
Net Interest	1,254	1,791	1,382	1,115
Other Income	825	783	151	481
Profit before Tax	6,211	4,412	4,759	(14,058)
Margin (%)	3.9	2.8	3.1	(16.5)
Total Tax	1,869	1,227	3,315	(2,143)
Effective tax rate (%)	30.1	27.8	69.7	15.2
Profit after Tax	4,342	3,185	1,444	(11,915)
Minority interest	732	698	(477)	(3,812)
Share Profit from Associates	237	218	(87)	(2)
Adjusted PAT	3,846	2,705	1,834	(8,105)
YoY gr. (%)	3.6	(30.5)	(55.3)	(344.4)
Margin (%)	2.4	1.7	1.2	(9.5)
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,846	2,705	1,834	(8,105)
YoY gr. (%)	3.6	(30.5)	(55.3)	(344.4)
Margin (%)	2.4	1.7	1.2	(9.5)
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,846	2,705	1,834	(8,105)
Avg. Shares O/s (m)	3,158	3,158	3,158	3,158
EPS (Rs)	1.2	0.9	0.6	(2.6)

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jul-20	BUY	116	96
2	03-Jul-20	BUY	116	104
3	02-Jun-20	BUY	116	102
4	09-Apr-20	BUY	87	66
5	18-Mar-20	BUY	115	62
6	10-Feb-20	Accumulate	153	125
7	03-Jan-20	Accumulate	162	148
8	11-Nov-19	Accumulate	142	134
9	03-Oct-19	Accumulate	111	99
10	13-Aug-19	Accumulate	111	97

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Accumulate	59	51
2	Bajaj Auto	Hold	2,713	2,985
3	Bharat Forge	Hold	347	355
4	CEAT	Accumulate	951	845
5	Eicher Motors	BUY	20,852	19,465
6	Exide Industries	BUY	183	155
7	Hero Motocorp	Accumulate	2,855	2,681
8	Mahindra & Mahindra	BUY	703	600
9	Maruti Suzuki	BUY	6,858	6,192
10	Motherson Sumi Systems	BUY	116	96
11	Tata Motors	Hold	108	105
12	TVS Motors	Sell	365	402

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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