

SAMIL integration to broaden product portfolio...

We attended Motherson Sumi's (MSSL) virtual investor conference about the top businesses in the promoter entity, Samvardhana Motherson International (SAMIL). The meet was informative with all business heads explaining their respective businesses in detail, the margin and RoCE profile that they operate in, the customer segment that they cater to, growth opportunities that lie ahead and also shared their journey towards attaining the group target of 40% RoCE in their respective businesses in due course of time. We were particularly enthused by SAMIL's lighting business (ahead of industry in terms of share of revenues in the LED segment) as well as other businesses that are likely to gain traction due to constant up-gradation in safety norms worldwide. As part of MSSL's corporate restructuring exercise, MSSL would be merging SAMIL into itself by acquiring the latter's other lines of business in auto ancillary and other support functions. This would consolidate all the group's automotive businesses in the present listed entity (ex-domestic wiring harness division, which would be listed separately on exchanges).

Brief overview of SAMIL

SAMIL plays a key role in several important facets for the Motherson group, including, *inter alia*, group vision, customer relationships, capital decisions, JV collaboration, financial planning & capex approvals, backward & forward integration, provision of shared services & strategic partnerships. As of FY20, SAMIL had a gross topline of ₹ 2,800 crore (25% revenue CAGR in FY15-20), with EBITDA margin of 13.3%. Total capital invested in SAMIL (ex MSSL, SMRPBV) was at ₹ 2,800 crore with RoCE pegged at ~23%, ~17% in FY19, FY20, respectively. It includes businesses in the domain of lighting solutions, suspension products, tooling, stampings, air-conditioning system for CV's, compressors, driver cabin, IT solutions etc, among others. As part of its future strategy, it is open to organic and inorganic route, with the overall focus remaining on increasing kit value and wallet share with OEM clients. As per the senior management at MSSL, its top 10 businesses showcased in the conference form part of an opportunity size of > US\$200 billion globally and are now ready for the next step in their growth journey.

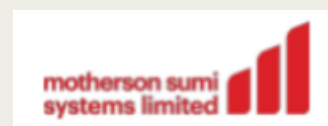
Valuation & Outlook

MSSL is a global auto ancillary player with varied exposure to different geographies, foreign currencies and product profile. MSSL's product profile is, however, less prone to EV risk as it is primarily into plastic products, mirrors, wiring harness, metal products among others. Given the complexities, healthy valuations at which it trades i.e. ~21 P/E, ~3 P/B with the return ratios metrics of mid-teens on FY22E numbers, we see limited upside to our target price calculation. We value MSSL at ₹ 120 i.e. 22x P/E on FY22E EPS of ₹ 5.4 and retain our **HOLD** rating on the stock. For simplicity we have retained MSSL numbers (ex-corporate restructuring) and P/E valuation methodology which depicts the same target price as our SOTP based fair value calculation exercise incorporating restructuring (Exhibit 14).

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20 -22E)
Net Sales	56,293.3	63,522.9	63,536.9	58,164.5	65,855.0	1.8%
EBITDA	5,122.6	5,348.4	5,201.4	4,277.4	6,363.7	10.6%
EBITDA Margins (%)	9.1	8.4	8.2	7.4	9.7	
Net Profit	1,597.0	1,613.2	1,170.1	732.2	1,714.7	21.1%
EPS (₹)	5.1	5.1	3.7	2.3	5.4	
P/E	22.7	22.5	31.0	49.6	21.2	
RoNW (%)	17.4	14.7	10.4	6.4	14.0	
RoCE (%)	15.7	13.2	9.8	6.3	13.9	

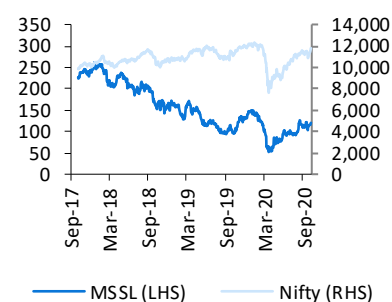
Source: Company, ICICI Direct Research



Particulars

Particular	₹ crore
Market Capitalization	36,316.2
Total Debt (FY20)	11,669.1
Cash & Investments (FY20)	4,878.9
EV (₹ Crore)	43,106.4
52 week H/L (₹)	151 / 49
Equity capital	₹ 315.8 Crore
Face value	₹ 1

Price chart



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Exhibit 1: Financial overview of top 10 SAMIL businesses

Name of the Company Year	Product/ Service Offerings	Sub / JV	Stake (%)	Revenue ^{1,2}		EBITDA ² (and %)		ROACE (%) ³	
				FY19	FY20	FY19	FY20	FY19	FY20
Marelli Motherson Automotive Lighting India Pvt. Ltd	Lighting Solutions	JV	50%	712	868	125	170	32%	39%
Motherson Sumi Infotech and Design Ltd ^{4,6}	Services & IT Solutions	Sub	53.7%	396	420	38	27	26%	9%
MS Global India Automotive Pvt. Ltd.	Metal Solutions	Sub	100%	467	343	42	15	8%	-4%
Marelli Motherson Auto Suspensions Parts Pvt Ltd	Metal Solutions	JV	50%	173	149	19	12	7%	-2%
Motherson Techno Tools Ltd ^{4,5} .	Metal Solutions	Sub	60%	171	139	46	24	21%	5%
CTM India Ltd.	Engineering & Tooling	Sub	41%	102	122	37	36	46%	32%
Valeo Motherson Thermal Commercial Vehicles India Ltd.	Metal Solutions	JV	49%	101	111	8	9	35%	36%
Anest Iwata Motherson Private Ltd.	Metal Solutions	JV	49%	86	93	17	15	32%	27%
Fritzmeier Motherson Cabin Engineering Pvt. Ltd.	Metal Solutions	JV	50%	97	77	14	7	16%	5%
Matsui Technologies India Ltd.	Services & IT Solutions	JV	50%	66	71	12	16	92%	84%
Total (Top 10)				2,372	2,393	358	331	23%	17%
Share in SAMIL Aggregate Basis				87%	85%	94%	89%		

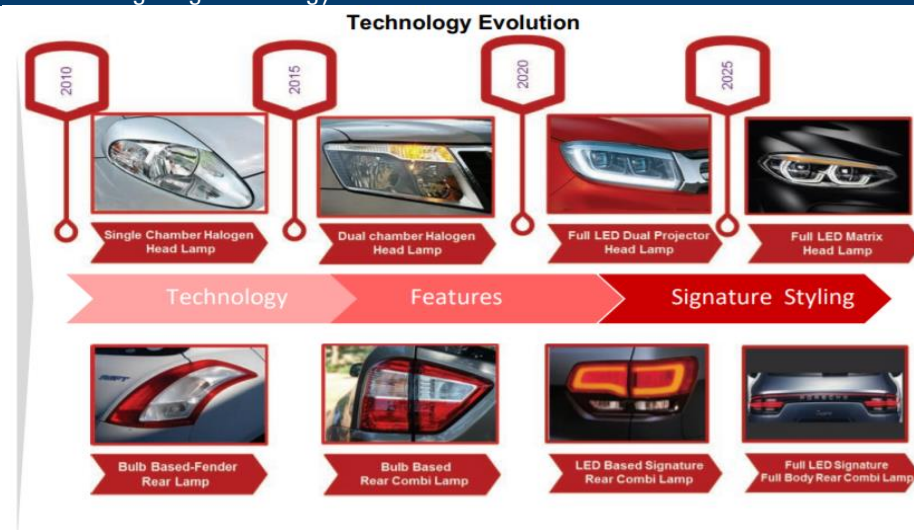
Source: Company, ICICI Direct Research

Overview of top 10 SAMIL businesses

Marelli Motherson Automotive Lighting (MMLI)

- A 50:50 JV between Marelli and SAMIL. Marelli is the second largest global exterior automotive lighting maker and has strong technological expertise
- The JV is the largest supplier of premium/LED exterior lighting in India and among the top three in terms of exterior automotive lighting and air intake manifold for passenger cars
- Revenue mix – 57% head lamps, 24% rear and small lamps, 9% others
- As per the company, headlamp and tail lamp ASPs have grown ~2.6x and ~2x respectively in FY10-20 amid increasing penetration of LED lighting. LED forms ~50% of MMLI’s revenues vs. ~30% for the industry
- LED penetration has risen over the years due to increase in PV volumes and greater demand for value added products and features
- The company has localised most modules in LED, with localisation levels set to improve further by 2022
- MSIL is the largest customer for MMLI, with other key clients consisting of M&M, TML, Honda, Renault Nissan, Toyota, etc
- Revenues have grown at 33% CAGR in FY15-20 to ₹ 868 crore while EBITDA has grown at 51% CAGR to ₹ 170 crore (margins 19.6%). MMLI realised 39% RoCE in FY20

Exhibit 2: Lighting technology evolution



Source: Company, ICICI Direct Research

Exhibit 3: Lighting product roadmap at MMLI

Product roadmap



Source: Company, ICICI Direct Research

Marelli Motherson Auto Suspension Parts (MMAS)

- MMAS is a 50:50 JV between Marelli Ride Dynamics and SAMIL. Marelli Ride Dynamics division is a US\$ 1 billion player in shock absorbers and suspension products
- Revenues have grown at 10% CAGR over FY15-20 to ₹ 149 crore, with EBITDA margins at 8.1%. It clocked 7% RoCE in FY19. MMAS has been able to improve operational profitability during the past five years (EBITDA loss in FY15) on account of improving product mix (passenger cars and LCV to UV and M&HCV) as well as greater thrust on exports and aftermarket
- Exports now form 44% of revenues, with key clients being Datsun, FCA, Meritor, Paccar and Renault. Key domestic clients include Ashok Leyland, Eicher, MSIL, TML and Renault
- MMAS currently has 7% market share in the domestic gas balancer segment that is set to improve to 25% by FY22E on the basis of acquired orders

Exhibit 4: Product profile at MMAS

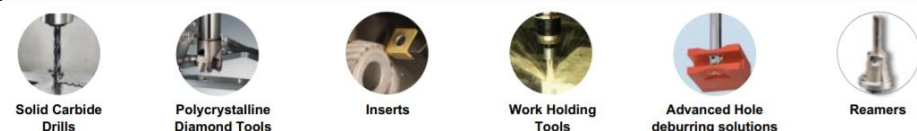


Source: Company, ICICI Direct Research

Motherson Techno Tools (MTTL)

- MTTL is a 75:25 JV between Motherson and Sumitomo Electric Industries of Japan. The company is engaged in providing cutting tools solutions for high precision manufacturing for automotive and non-automotive operations
- Cutting tools is a ~₹ 2,500 crore industry with average EBITDA margins at ~15%. It is characterised by high entry barriers and R&D intensity
- Total ~55% of the industry comprises automotive applications (~75% for MTTL)
- MTTL has a highly diversified client base (no client forms >4% of revenues), with major automotive customers consisting of BAL, Honda Cars, MSIL, Hyundai, TML, HMCL, M&M and TVS while major non-automotive clients include Bhel, Escorts (Railway), L&T Heavy Engineering, JCB, Siemens (Power) and Kirloskar Pneumatic
- As of FY20, the topline was at ₹ 139 crore (9% FY15-20 CAGR), with EBITDA margins at 17.4% and FY19 RoCE at 21%

Exhibit 5: Product profile at MMTL



Source: Company, ICICI Direct Research

MS Global India (MSGI)

- Part of acquisition done in FY18, with a focus on PVs, CVs in areas of body-in-white (BIW) and frames for chassis through cold and hot stamping. BIW and chassis form 73% and 22% of FY20 revenues, respectively. The company’s customers include Daimler (43% of sales), Renault Nissan (46% of sales) and Myoung Shin India
- Stamping is a US\$100 billion market globally, with hot stamping forming ~15% of overall industry. Hot stamping helps in weight reduction (25-30%) and is currently used largely for structural parts. In India, OEMs except Japanese ones are increasingly adopting hot stamping, with several popular new models such as Hyundai Venue, Hyundai Creta, Kia Seltos, Renault Triber and MG utilising the technology. MSGI supplies some hot stamped parts to Triber and Seltos
- The company expects hot stamping to be a growth driver amid increasing migration of cold stamping to hot stamping. It sees the share of hot stamping in sales increasing to ~25% by FY25 from the present ~5%
- MSGI clocked revenues of ₹ 343 crore in FY20 with EBITDA margins at 4.3% while RoCE as of FY19 was at 8%

Exhibit 6: Hot stamping road map at MSGI



Source: Company, ICICI Direct Research

CTMIL & MMDL

- The companies are leading automotive tooling manufacturers through technologies such as injection, compression, blow and low-pressure manufacturing. Total capacity was at >500 injection tools annually. FY20 revenues stood at ₹ 147 crore (5 year CAGR at 10%).
- Key customers include MSIL, M&M, TML, Renault, Hyundai, Kia, Toyota
- Going forward, the company has growth opportunities both within Motherson group (global tooling purchases of > €400 million annually) as well as from outside (new OEM launches, localisation drive, advent of new technologies like ambient lighting, soft touch and in-mould decoration)

Exhibit 7: Tooling expertise at CTMIL & MMDL

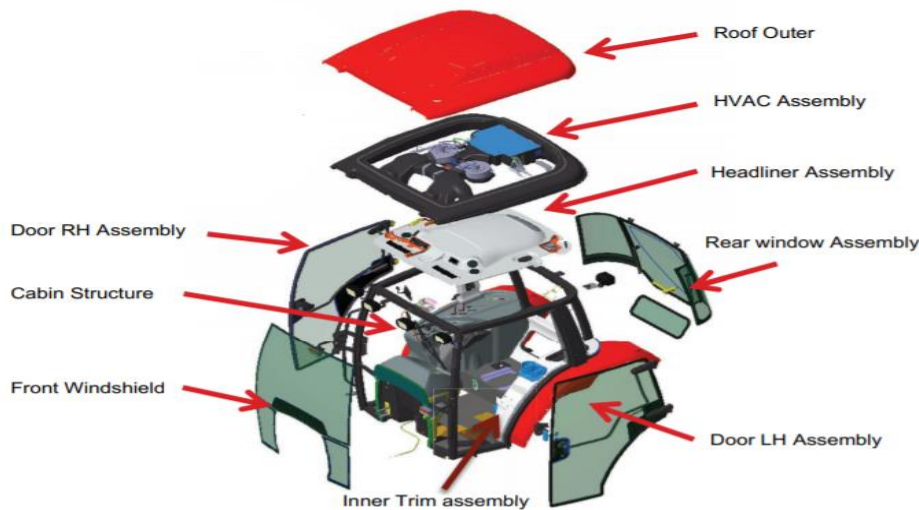


Source: Company, ICICI Direct Research

Fritzmeier Motherson Cabin Engineering (FMCEL)

- FMCEL is a 50:50 JV between SAMIL and Fritzmeier of Germany (global leader in complete operator cabin safety solutions for construction, mining, agri and machine handling equipment)
- The company has a strong south presence (Caterpillar, Ashok Leyland Defence, M&M, Komatsu) and is now expanding in the north (John Deere - Punjab, Escorts agri and construction equipment), West (M&M, John Deere) and East (Tata Hitachi)
- Mandatory roll over protection/fall over protection (ROPS/FOPS) regulations in India by 2022-23 is among one of the expected future growth drivers for cabin operator safety systems
- FMCEL’s revenues have grown at 10% CAGR in FY15-20 to ₹ 77 crore. It clocked 8.4% EBITDA margins in FY20, 16% RoCE in FY19

Exhibit 8: Product profile at FMCEL



Source: Company, ICICI Direct Research

Valeo Motherson Thermal Commercial Vehicles (VMTI) and Motherson Bergstrom HVAC Solutions (MBSL)

- VMTI and MBSL provide HVAC (i.e. heating, ventilation and air conditioning) solutions for CVs
- VMTI is a 51:49 JV between Valeo and SAMIL for bus HVAC and truck refrigeration systems. France based Valeo is a leader in thermal systems management. MBSL is a 50:50 JV between SAMIL and Bergstrom US for climate control systems in commercial trucks, off highway segment and military vehicles
- The companies have sold > 30,000 bus ACs and > 70,000 truck ACs/blowers
- VMTI’s key customers include Ashok Leyland, Tata Marcopolo, M&M, JCB and VECV. MBSL’s key customers include Ashok Leyland, Tata Hitachi, M&M, Caterpillar, Escorts, JCB. The companies have 97% wallet share with Tata, 70% wallet share with Ashok Leyland
- On the bus side, revenues have grown at 15% CAGR in FY15-20 to ₹ 111 crore with EBITDA CAGR at 20% (margins 7.8%). It clocked 20% RoCE in FY20
- On the M&HCV truck and off highway vehicles side, revenues have grown at 42% CAGR in FY15-20 to ₹ 29 crore with EBITDA margins at 11.7%. It clocked 24% RoCE in FY20
- The company expects 11% bus production CAGR over FY20-26, with medium and heavy truck and off highway vehicle production CAGR seen at 13% over FY20-25

Exhibit 9: VMTI product profile



Source: Bloomberg, ICICI Direct Research

Exhibit 10: MBSL product profile

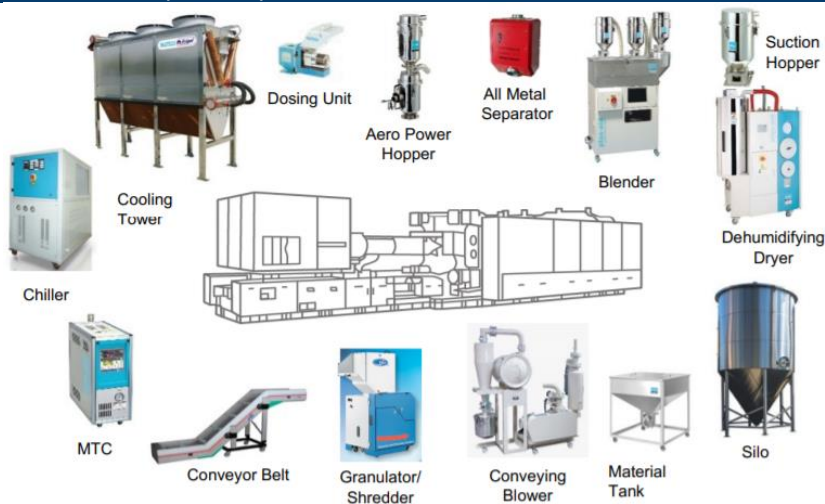


Source: Bloomberg, ICICI Direct Research

Matsui Technologies India Ltd (MTIL)

- MTIL is involved in manufacturing and sales of machinery and equipment for plastic processing (automotive, packaging, extrusion, healthcare), cooling solutions, food processing and pharma
- The company derives 50% revenues from the automotive segment while packaging, healthcare and others form 25%, 5% and 20%, respectively. Key customers include Samvardhana Motherson Group, Ashirvad Pipes, Suzuki Motors and ASB International
- MTIL has clocked 24% revenue CAGR over FY15-20 to ₹ 71 crore, with margins, RoCE as of FY20 at 22.1%, 84% respectively

Exhibit 11: MTIL product profile



Source: Bloomberg, ICICI Direct Research

Anest Iwata Motherson (AIM)

- AIM is a 51:49 JV between Anest Iwata and SAMIL. Anest Iwata of Japan is a ₹39 billion company (FY19). AIM’s product profile includes air compressors, vacuum pumps, electric bus compressors and medical air units
- The Indian air compressor industry is worth ₹ 5,100 crore, with screw type forming 55% of the industry. AIM has 25% market share in small reciprocal and other type (7% of total industry by size) while it entered the screw segment in 2018. It currently addresses only ~62% of the overall industry
- For AIM, general business form 72% of revenues, with automotive, medical and railways constituting 10%, 15% and 3%, respectively. Its chief clients include Indian Railways, TML, KYB Conmat, Linde India.
- Revenues have grown at 16% CAGR in FY15-20 to ₹ 93 crore, with EBITDA CAGR at 31% (16.4% margins). FY20 RoCE was at 27%

Exhibit 12: AIM product profile



Source: Bloomberg, ICICI Direct Research

Motherson Sumi Infotech and Designs (MIND)

- MIND is a global IT services company, with 70.4% stake held by Motherson and the rest by Sumitomo Wiring Systems
- The company provides solutions in Applications Development & Maintenance (ADM), IT infrastructure services, ERP, Industry 4.0, cloud, consulting & engineering design and manufacturing
- The company serves the Motherson group (73% of sales) as well as outside clients (27% of sales) across industries. Going forward, it expects growth from both higher wallet share in the Motherson group as well as external clients apart from significant inorganic opportunities. By FY25, share of the Motherson group in revenues is expected to come down to 47%
- MIND revenues have grown at 19% CAGR in FY15-20 to ₹ 420 crore with EBITDA margins at 6.4%

Exhibit 13: MIND – evolution over the years

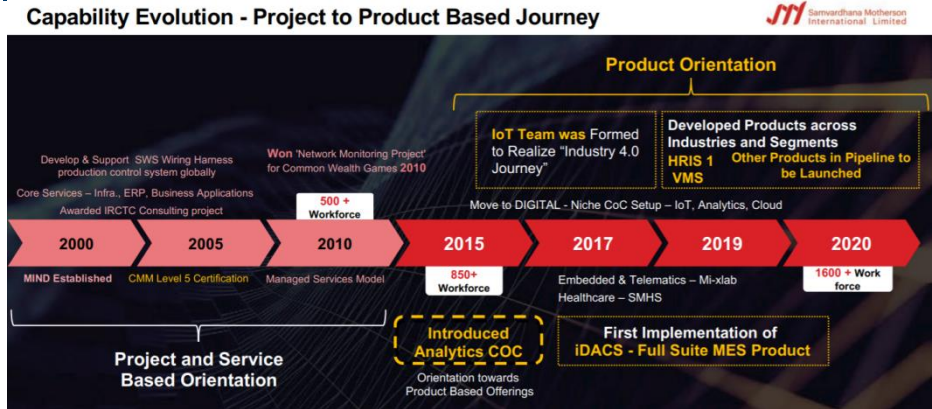


Exhibit 14: SOTP Valuation incorporating corporate restructuring

SOTP Valuation incorporating corporate restructuring		
Particulars	Units	Amount
FY22E Projected PAT (MSSL)	₹ crore	1714.7
FY22E Minority Interest Added Back (SMRPBV)	₹ crore	617.8
MSSL +SMRPBV PAT estimates (FY22E)	₹ crore	2332.4
New No of Shares (post corporate restructuring)	crore	452
Per Share Value (₹)	₹/share	5.2
P/E Multiple Assigned	x	22
Per Share Value in Target Price (A; MSSL +SMRPBV)	₹/share	115
SOTP Valuation incorporating corporate restructuring		
Particulars	Units	Amount
FY20 Sales of SAMIL Businesses (Ex- SMRPBV)	₹ crore	2393.0
MCap/Sales Multiple (premium to MSSL, better RoCE)	x	1.5
Equity Value	₹ crore	3590
Approximate SAMIL stake	%	50.0
Apportioned Value to SAMIL	₹ crore	1794.8
New No of Shares (post corporate restructuring)	crore	452
Per Share Value (B; SAMIL business Ex-SMRPBV)	₹/share	5
Total Fair Value (A+B)	₹/share	120

Source: ICICI Direct Research

Exhibit 15: Shareholding pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	61.7	61.7	61.7	61.7	61.7
FII	18.1	15.0	16.4	15.5	15.6
DII	9.7	13.5	12.6	13.6	13.4
Others	10.5	9.8	9.3	9.2	9.3

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 16: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Total operating Income	63522.9	63536.9	58164.5	65855.0
Growth (%)	12.8	0.0	-8.5	13.2
Raw Material Expenses	36,738.3	36,271.4	32,502.7	36,941.8
Employee Expenses	14,169.4	15,076.9	14,955.7	15,565.5
Other expenses	7,266.8	6,987.1	6,428.6	6,983.9
Total Operating Expenditure	58,174.5	58,335.4	53,887.0	59,491.3
EBITDA	5348.4	5201.4	4277.4	6363.7
Growth (%)	4.4	-2.7	-17.8	48.8
Depreciation	2,058.2	2,778.0	2,821.0	2,897.6
Interest	423.2	598.6	578.5	473.5
Other Income	220.2	230.7	252.9	228.2
PBT	3087.2	2055.4	1130.9	3220.8
Total Tax	1,102.2	818.4	339.3	966.2
Minority Interest	485.0	124.4	88.1	617.8
Profit from Associates	113.1	57.5	28.7	77.9
Reported PAT	1613.2	1170.1	732.2	1714.7
Growth (%)	1.0	-27.5	-37.4	134.2
EPS (₹)	5.1	3.7	2.3	5.4

Source: Company, ICICI Direct Research

Exhibit 17: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	1613.2	1170.1	732.2	1714.7
Add: Depreciation	2,058.2	2,778.0	2,821.0	2,897.6
(Inc)/dec in Current Assets	-2,300.4	1,579.3	939.5	-1,989.5
Inc/(dec) in CL and Provisions	2,913.9	695.6	-1,565.4	1,930.1
CF from operating activities	4284.9	6223.0	2927.2	4552.9
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-4,457.5	-4,782.5	-2,000.0	-2,200.0
Others	300.4	617.0	-74.9	607.9
CF from investing activities	-4157.1	-4165.5	-2074.9	-1592.1
Issue/(Buy back) of Equity	105.3	0.0	0.0	0.0
Inc/(dec) in loan funds	1,171.8	146.2	-200.0	-2,000.0
Dividend paid & dividend tax	-568.4	-1,136.9	-473.7	-947.4
Inc/(dec) in Sec. premium	34.3	265.0	0.0	0.0
Others	-105.3	0.0	0.0	0.0
CF from financing activities	637.7	-725.7	-673.7	-2947.4
Net Cash flow	765.4	1,331.9	178.6	13.4
Opening Cash	2,781.6	3,547.0	4,878.9	5,057.5
Closing Cash	3546.9	4878.9	5057.5	5070.9

Source: Company, ICICI Direct Research

Exhibit 18: Balance Sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	315.8	315.8	315.8	315.8
Reserve and Surplus	10,647.0	10,945.1	11,203.6	11,970.9
Total Shareholders funds	10,962.7	11,260.9	11,519.4	12,286.7
Total Debt	11,522.8	11,669.1	11,469.1	9,469.1
Deferred Tax Liability	576.2	462.8	423.6	479.6
Minority Interest / Others	3,479.7	3,565.0	3,653.1	4,270.9
Total Liabilities	27863.0	29332.9	29239.5	28968.1
Assets				
Gross Block	19,878.9	24,876.4	26,728.2	29,128.2
Less: Acc Depreciation	5,825.0	8,603.0	11,424.0	14,321.6
Net Block	14053.9	16273.4	15304.2	14806.6
Capital WIP	1,066.8	851.8	1,000.0	800.0
Total Fixed Assets	15,120.7	17,125.2	16,304.2	15,606.6
Investments	3,085.2	3,006.7	3,106.7	3,206.7
Goodwill	2211.8	2406.0	2406.0	2406.0
Inventory	4,663.5	5,156.6	4,780.6	5,412.7
Debtors	7,329.2	6,578.2	6,374.2	7,217.0
Loans and Advances	22.6	31.9	29.2	33.0
Other Current Assets	5,550.3	4,219.6	3,862.8	4,373.6
Cash	3546.9	4878.9	5057.5	5070.9
Total Current Assets	21,112.5	20,865.2	20,104.3	22,107.3
Creditors	10,661.3	10,309.1	9,242.6	10,464.6
Provisions	157.9	205.2	184.0	208.3
Other current liabilities	4648	5649	5171	5855
Total Current Liabilities	15,467.3	16,162.9	14,597.5	16,527.6
Net Current Assets	5645.3	4702.3	5506.8	5579.7
Other non-current Asset	1187.7	1589.8	1455.4	1647.8
Deferred Tax Asset	612.3	503.0	460.4	521.3
Application of Funds	27863.0	29332.9	29239.5	28968.1

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	5.1	3.7	2.3	5.4
Cash EPS	11.6	12.5	11.3	14.6
BV	34.7	35.7	36.5	38.9
DPS	1.5	3.0	1.5	3.0
Cash Per Share	11.2	15.4	16.0	16.1
Operating Ratios				
EBITDA Margin (%)	8.4	8.2	7.4	9.7
PBIT / Net sales (%)	5.2	3.8	2.5	5.3
PAT Margin (%)	2.5	1.8	1.3	2.6
Inventory days	26.8	29.6	30.0	30.0
Debtor days	42.1	37.8	40.0	40.0
Creditor days	61.3	59.2	58.0	58.0
Return Ratios (%)				
RoE	14.7	10.4	6.4	14.0
RoCE	13.2	9.8	6.3	13.9
RoIC	19.3	14.2	8.7	21.2
Valuation Ratios (x)				
P/E	22.5	31.0	49.6	21.2
EV / EBITDA	8.3	8.3	10.0	6.4
EV / Net Sales	0.7	0.7	0.7	0.6
Market Cap / Sales	0.6	0.6	0.6	0.6
Price to Book Value	3.3	3.2	3.2	3.0
Solvency Ratios				
Debt/EBITDA	2.2	2.2	2.7	1.5
Debt / Equity	1.1	1.0	1.0	0.8
Current Ratio	1.1	1.0	1.0	1.0
Quick Ratio	0.8	0.7	0.7	0.7

Source: Company, ICICI Direct Research

(Note - We have retained our financial statement estimates and not incorporated the restructuring fine prints as on date)

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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