

Impressive margin profile, sustenance holds key...

Motherson Sumi's (MSSL) Q3FY21 results were strong across the board. Net consolidated sales (including domestic wiring harness, DWH) rose 17.7% YoY to ₹ 18,440 crore (SMR up 1.9%, SMP up 4.6%). Margins came in at 10.8%, up 135 bps QoQ on operating leverage benefits amid flat gross margin performance. Sharp uptick in profitability at key subsidiary SMP (margins up 230 bps QoQ to 9.5%) was the key highlight. EBITDA for the quarter were at ₹ 1994 crore with ensuing PAT at ₹ 799 crore, up 195% YoY.

OEM ramp up to aid sales, margins set to see significant uptick

As part of its Vision 2025, MSSL wants to achieve US\$36 billion in sales (vs. ~US\$9 billion in FY20) along with continued focus on profitability (40% RoCE). As part of its diversification strategy, 25% of the revenue ambition is sought to be achieved via non-automotive business. We believe inorganic route would form a lion's share of the proposed target. In the meantime, ongoing ramp up of OEM production across the world (notwithstanding temporary blips such as semiconductor shortage, Covid lockdowns, etc) are positive for MSSL. We build 13.3% revenue CAGR over FY21E-23E (exclusive of any M&A led growth). At SMRPBV level, pure EV platforms form ~5% of present revenues (9MFY21) but ~21% of order book – lending confidence about the company's response to longer term automotive business environment changes. On the margin front, EBITDA breakeven achieved at SMP's greenfield plants in US, Hungary bode well for overall profitability. Further cost efficiencies and operating leverage benefits are seen raising overall margins to 11% level by FY23E.

Q3FY21 earnings conference call – highlights & key takeaways

MSSL said (1) **SMP Greenfields are at EBITDA breakeven and will continue to see improvements over the next three to six months**, (2) cost controls have been achieved in a holistic manner and included operational leverage benefits, with further areas being looked at include manufacturing, sourcing, raw material procurement etc., (3) FY21E capex to be lower than earlier guided ~₹ 2,000 crore; FY22E capex to be ~₹ 2,000 crore, (4) Net consolidated debt as of December 2020 was at ₹ 6,206 crore vs. ₹ 7,512 crore as of H1FY21, (5) **under the reorganisation plan, the present entity is set to be EPS accretive from FY21E itself against earlier guidance of FY22E**, (6) **SMRPBV order book as of H1FY21 was at € 13.1 billion, of which EV orders were at 21% i.e., € 2.7 billion**. (7) SMRPBV working capital cycle has come down to 10 days as of December 2020 from 18 days YoY.

Valuation & Outlook

We build ~81% PAT CAGR for MSSL in FY21E-23E (albeit on low base). We note the smart upswing in SMP greenfield performance and remain excited about the company's larger picture focus on (i) increased content per car & (ii) profitable growth. However, with large part of vision 2025 at MSSL involving big ticket acquisition that has an element of uncertainty, we retain **HOLD** on the stock valuing it at ₹ 225 (earlier ₹ 165), 28x P/E on FY23E.

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
Net Sales	63,522.9	63,536.9	60,547.0	73,524.4	77,681.5	13.3%
EBITDA	5,348.4	5,201.4	4,618.5	7,642.3	8,540.3	36.0%
EBITDA Margins (%)	8.4	8.2	7.6	10.4	11.0	
Net Profit	1,613.2	1,170.1	780.6	2,106.2	2,549.7	80.7%
EPS (₹)	5.1	3.7	2.5	6.7	8.1	
P/E	41.1	56.7	85.0	31.5	26.0	
RoNW (%)	14.7	10.4	7.1	16.1	17.4	
RoCE (%)	12.4	9.0	6.0	16.3	18.9	

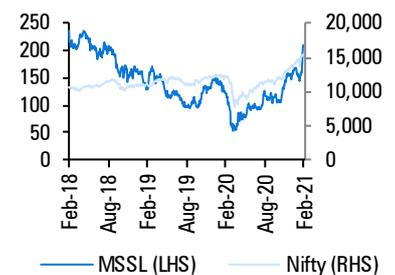
Source: Company, ICICI Direct Research



Particulars

Particular	₹ crore
Market Capitalization	66,317
Total Debt (FY20)	11,669
Cash & Investments (FY20)	4,879
EV (₹ Crore)	73,107
52 week H/L (₹)	221 / 49
Equity capital	₹ 315.8 Crore
Face value	₹ 1

Price Performance



Key Highlights

- Q3FY21 revenues up 17.7% YoY on broad-based healthy performance across businesses. Margins up 135 bps QoQ to 10.8% on operating leverage benefits
- Significant EV share of SMRPBV orderbook a positive. Margins set to gain from increased scale and efficiencies.

Risks to our call

- Better than anticipated margin profile at its overseas operations primarily at SMP & SMR entities
- Prolonged pressure on input costs could elongate margin upswing wait

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Exhibit 1: Variance Analysis

Continued operations + DWH	Q3FY21		Q3FY21E		Q3FY20		YoY (%)		Q2FY21		QoQ (%)		Comments
Total Operating Income	18,440.4	16,655.1	15,661	17.7	16,036	15.0	Topline came in ahead of estimates tracking outperformance across all the verticals						
Raw Material Expenses	10,322.2	9,394.1	9,041.7	14.2	8,976.3	15.0							
Employee Expenses	4,078	3,938	3,726	9.4	3,734	9.2	Employee costs came in lower at 22.1% of sales						
Other expenses	2,047.0	1,919.8	1,657.7	23.5	1,808.3	13.2							
Operating Profit (EBITDA)	1,993.5	1,403.0	1,236	61.3	1,517	31.4	EBITDA margins came in higher at 10.8% tracking operating leverage benefits as gross margins remained unchanged on QoQ basis						
EBITDA margin (%)	10.8	8.4	7.9	292 bps	9.5	135 bps							
Other Income	69.2	64.8	78.3	-11.6	59.3	16.7							
Depreciation	747	768	694	7.7	747	0.1	Depreciation was broadly on expected lines						
Interest	140	145	179	-21.8	129	8.6							
PAT	798.8	273.3	271	195.3	338	136.4	PAT came in substantially higher tracking beat on topline as well as margins						
EPS	2.5	0.9	0.9	195.3	1.1	136.4							
Key Metrics													
Standalone revenue (₹ crore)	2475	1887	1643	50.6	2075	19.3	Standalone revenues came in much higher at ₹2475 crore. It includes revenues of DWH division as well						
Standalone margin (%)	14.5	12.2	15.0	-51 bps	12.8	171 bps							
SMR revenue (€ million)	385	359	378	1.9	350	10.0	SMR revenues grew 2% YoY to Euro 385 million						
SMR margin (%)	13.2	12.5	10.6	260 bps	13.4	-20 bps							
SMP revenue (€ million)	1064	966	1017	4.6	915	16.3	SMP revenues grew 4.6% YoY to Euro 1064 million						
SMP margin (%)	9.5	6.0	4.8	470 bps	7.2	230 bps	SMP margins at 9.5% was the key highlight for Q3FY21						

Source: Company, ICICI Direct Research; (Note – Our estimates in this report include DWH financials)

Exhibit 2: Change in estimates

₹ Crore	FY21E			FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Revenue	57,460	60,547	5.4	69,275	73,524	6.1	73,149.6	77,682	6.2	Revised upward our sales estimates for FY21-23E. We expect sales at MSSSL to grow at a CAGR of 13.3% over FY21-23E
EBITDA	3,758	4,618	22.9	6,586	7,642	16.0	7,378.0	8,540	15.8	
EBITDA Margin (%)	6.5	7.6	109 bps	9.5	10.4	89 bps	10.1	11.0	91 bps	Revised upward our margin estimates tracking robust performance at SMP in Q3FY21 (EBITDA margins at 9.5%)
PAT	94	781	NM	1,604	2,106	31.3	1,996.4	2,550	27.7	
EPS (₹)	0.3	2.5	NM	5.1	6.7	31.3	6.3	8.1	27.7	Upward revision in margin estimates leads to large upgrade in earnings estimates for FY21-23E. PAT at MSSSL is expected to grow at a CAGR of 81% over FY21-23E, albeit on a low base

Source: ICICI Direct Research

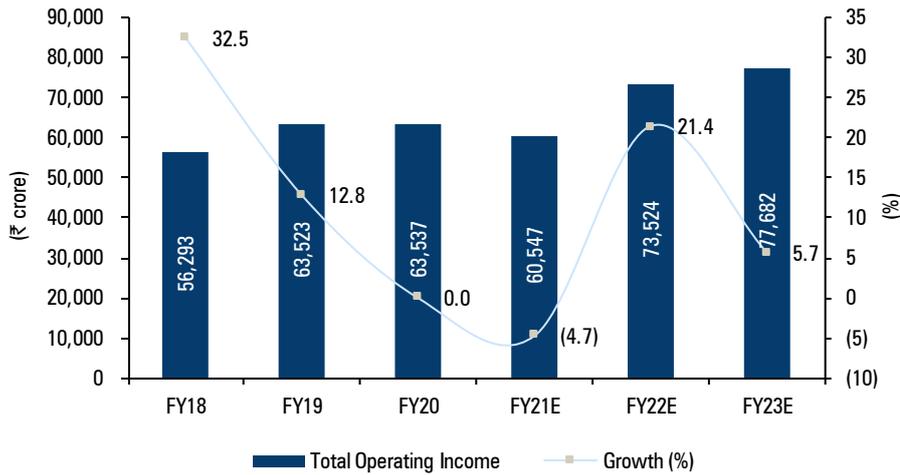
Exhibit 3: Assumptions

	Current						Comments
	FY18	FY19	FY20P	FY21E	FY22E	FY23E	
Standalone revenues (₹ crore)	7,478	7,581	6,874	7,300	9,713	10,685	Standalone/SMR/SMP revenues are seen growing at a CAGR of 21%/13%/11% respectively over FY21-23E with total consolidated topline growth at MSSSL pegged at 13.3% over FY21-23E. Margin improvement is seen across divisions with scale of improvement most notable at SMP
Standalone margins (%)	18.5	16.8	16.0	11.1	13.8	15.0	
SMR revenues (€ million)	1,576.0	1,603.0	1,540.0	1,304.6	1,594.3	1,674.0	
SMR margins (%)	11.5	11.3	11.8	10.9	13.0	13.5	
SMP revenues (€ million)	3,451.0	3,678.0	4,030.0	3,507.6	4,145.1	4,352.3	
SMP margins (%)	7.2	3.9	3.9	5.9	9.0	9.5	

Source: Company, ICICI Direct Research

Financial story in charts

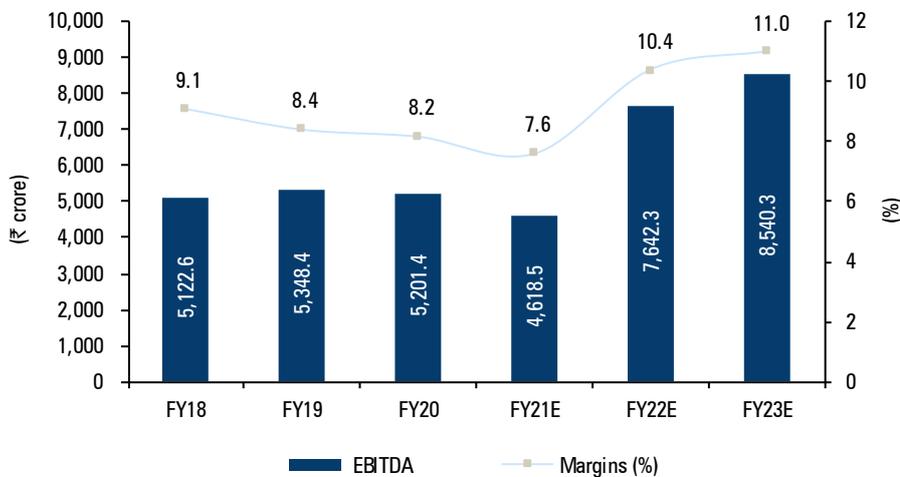
Exhibit 4: Topline trend



We expect consolidated sales to grow at 13.3% CAGR over FY21E-23E to ₹ 77,682 crore

Source: Company, ICICI Direct Research

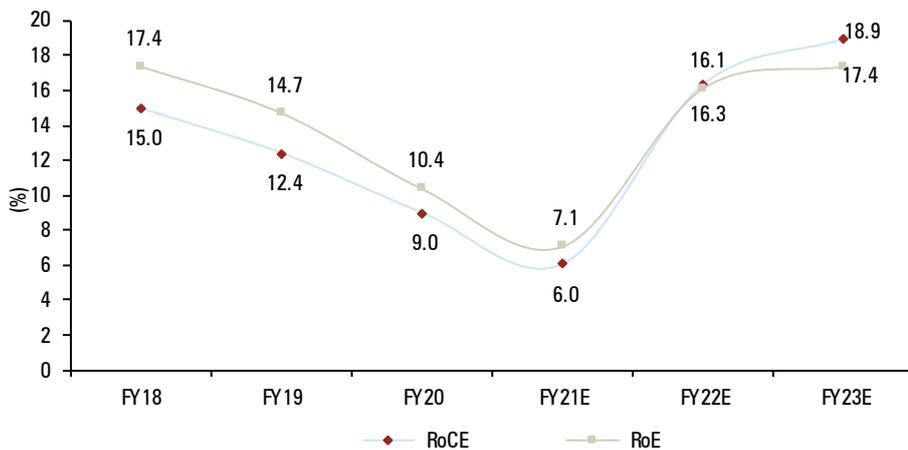
Exhibit 5: EBITDA and EBITDA margin trend



Consolidated margins seen improving to ~11% levels by FY23E, amid operating leverage benefits

Source: Company, ICICI Direct Research

Exhibit 6: Trend in return ratios

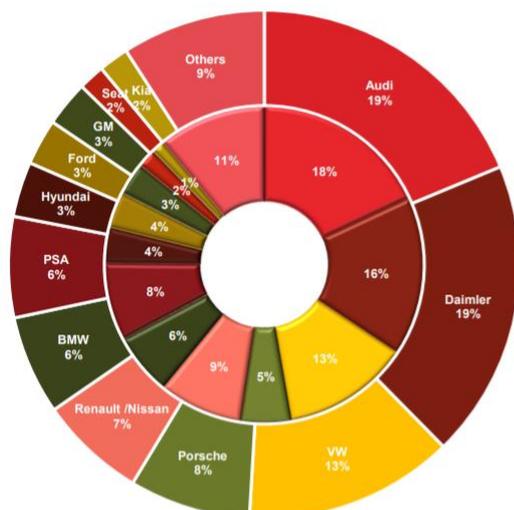


Return ratios are seen improving to ~18% levels by FY23E as margins improve amid bulky capex cycle behind us

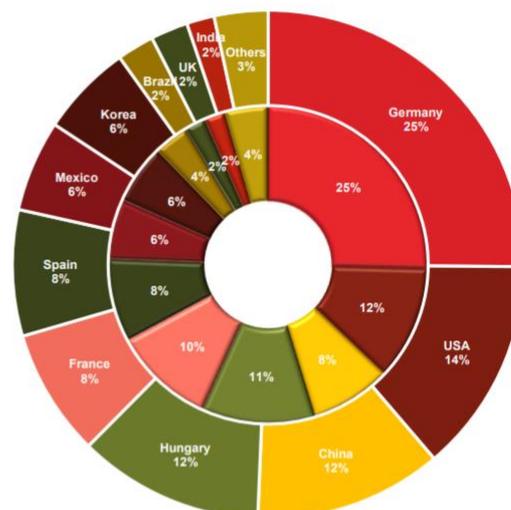
Source: Company, ICICI Direct Research

Exhibit 7: SMRPBV 9MFY21 revenue mix

Customer split



Geographical split



Inner circle – 9M 2019-20 & Outer circle – 9M 2020-21

Source: Company, ICICI Direct Research

Exhibit 8: SOTP valuation

SOTP Valuation incorporating corporate restructuring		
Particulars	Units	Amount
FY23E Projected PAT (MSSL)	₹ crore	2550
FY23E Minority Interest Added Back (SMRPBV)	₹ crore	1098
MSSL + SMRPBV PAT estimates (FY23E)	₹ crore	3648
New No of Shares (post corporate restructuring)	crore	452
Per Share Value (₹)	₹/share	8.1
P/E Multiple Assigned	x	27
Per Share Value in Target Price (A; MSSL + SMRPBV)	₹/share	220
SOTP Valuation incorporating corporate restructuring		
Particulars	Units	Amount
FY20 Sales of SAMIL Businesses (Ex- SMRPBV)	₹ crore	2393
Approximate SAMIL share	%	50
Apportioned SAMIL Sales	₹ crore	1197
MCap/Sales Multiple (premium to MSSL, better RoCE)	x	2
Equity Value	₹ crore	2393
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	225

Source: ICICI Direct Research

Exhibit 9: Shareholding pattern

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	61.7	61.7	61.7	61.7	61.7
FII	16.4	15.5	15.6	16.0	16.1
DII	12.6	13.6	13.4	13.6	14.3
Others	9.3	9.2	9.3	8.7	7.9

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	63,536.9	60,547.0	73,524.4	77,681.5
Growth (%)	0.0	-4.7	21.4	5.7
Raw Material Expenses	36,271.4	34,290.1	41,289.6	43,432.8
Employee Expenses	15,076.9	14,680.9	16,359.5	17,093.4
Other expenses	6,987.1	6,957.6	8,233.0	8,615.1
Total Operating Expenditure	58,335.4	55,928.6	65,882.1	69,141.2
EBITDA	5,201.4	4,618.5	7,642.3	8,540.3
Growth (%)	-2.7	-11.2	65.5	11.8
Depreciation	2,778.0	2,966.8	3,198.3	3,433.5
Interest	598.6	502.4	446.4	322.6
Other Income	230.7	225.8	263.3	285.3
PBT	2,055.4	1,375.0	4,260.9	5,069.5
Total Tax	818.4	189.4	1,278.3	1,520.8
Minority Interest	124.4	432.4	970.6	1,098.4
Profit from Associates	57.5	89.4	94.2	99.5
Reported PAT	1,170.1	780.6	2,106.2	2,549.7
Growth (%)	-27.5	-33.3	169.8	21.1
EPS (₹)	3.7	2.5	6.7	8.1

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	315.8	315.8	315.8	315.8
Reserve and Surplus	10,945.1	11,441.5	12,758.2	14,360.5
Total Shareholders funds	11,260.9	11,757.3	13,074.0	14,676.3
Total Debt	11,669.1	11,169.1	8,669.1	5,669.1
Deferred Tax Liability	462.8	441.0	535.5	565.8
Minority Interest / Others	3,565.0	3,997.4	4,968.0	6,066.5
Total Liabilities	29,332.9	29,628.1	29,995.1	29,881.5
Assets				
Gross Block	24,876.4	26,778.2	28,978.2	31,578.2
Less: Acc Depreciation	8,603.0	11,569.8	14,768.1	18,201.7
Net Block	16,273.4	15,208.4	14,210.1	13,376.5
Capital WIP	851.8	800.0	600.0	500.0
Total Fixed Assets	17,125.2	16,008.4	14,810.1	13,876.5
Investments	3,006.7	3,106.7	3,206.7	3,306.7
Goodwill	2406.0	2406.0	2406.0	2406.0
Inventory	5,156.6	4,976.5	6,043.1	6,384.8
Debtors	6,578.2	6,635.3	8,057.5	8,513.0
Loans and Advances	31.9	30.4	36.9	39.0
Other Current Assets	4,219.6	4,021.1	4,882.9	5,159.0
Cash	4,878.9	5,645.0	6,582.5	7,133.5
Total Current Assets	20,865.2	21,308.2	25,602.9	27,229.3
Creditors	10,309.1	9,621.2	11,683.3	12,343.9
Provisions	205.2	191.5	232.6	245.7
Other current liabilities	5649	5383	6536	6906
Total Current Liabilities	16,162.9	15,195.4	18,452.4	19,495.7
Net Current Assets	4,702.3	6,112.7	7,150.6	7,733.6
Other non-current Asset	1589.8	1515.0	1839.7	1943.7
Deferred Tax Asset	503.0	479.3	582.0	614.9
Application of Funds	29,332.9	29,628.1	29,995.1	29,881.5

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	1,170.1	780.6	2,106.2	2,549.7
Add: Depreciation	2,778.0	2,966.8	3,198.3	3,433.5
(Inc)/dec in Current Assets	1,579.3	323.1	-3,357.2	-1,075.4
Inc/(dec) in CL and Provisions	695.6	-967.4	3,256.9	1,043.3
CF from operating activities	6,223.0	3,103.0	5,204.2	5,951.1
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-4,782.5	-1,850.0	-2,000.0	-2,500.0
Others	617.0	297.3	1,022.8	1,047.2
CF from investing activities	(4,165.5)	(1,552.7)	(977.2)	(1,452.8)
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	146.2	-500.0	-2,500.0	-3,000.0
Dividend paid & dividend tax	-1,136.9	-284.2	-789.5	-947.4
Inc/(dec) in Sec. premium	265.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	(725.7)	(784.2)	(3,289.5)	(3,947.4)
Net Cash flow	1,331.9	766.1	937.6	550.9
Opening Cash	3,547.0	4,878.9	5,645.0	6,582.5
Closing Cash	4,878.9	5,645.0	6,582.5	7,133.5

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	3.7	2.5	6.7	8.1
Cash EPS	12.5	11.9	16.8	18.9
BV	35.7	37.2	41.4	46.5
DPS	3.0	0.9	2.5	3.0
Cash Per Share	15.4	17.9	20.8	22.6
Operating Ratios				
EBITDA Margin (%)	8.2	7.6	10.4	11.0
PBIT / Net sales (%)	3.8	2.7	6.0	6.6
PAT Margin (%)	1.8	1.3	2.9	3.1
Inventory days	29.6	30.0	30.0	30.0
Debtor days	37.8	40.0	40.0	40.0
Creditor days	59.2	58.0	58.0	58.0
Return Ratios (%)				
RoE	10.4	7.1	16.1	17.4
RoCE	9.0	6.0	16.3	18.9
RoIC	11.4	7.9	22.1	26.4
Valuation Ratios (x)				
P/E	56.7	79.5	31.5	26.0
EV / EBITDA	14.1	15.6	9.0	7.6
EV / Net Sales	1.2	1.2	0.9	0.8
Market Cap / Sales	1.0	1.1	0.9	0.9
Price to Book Value	5.9	5.6	5.1	4.5
Solvency Ratios				
Debt/EBITDA	2.2	2.4	1.1	0.7
Debt / Equity	1.0	0.9	0.7	0.4
Current Ratio	1.0	1.0	1.0	1.0
Quick Ratio	0.7	0.7	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Apollo Tyre (APOTYR)	240	300	Buy	15,241	3.5	13.7	20.6	68.8	17.6	11.7	7.8	6.7	5.0	7.1	8.0	11.3	5.4	7.4	10.2
Ashok Leyland (ASHLEY)	130	150	Buy	38,052	-1.7	1.4	4.6	-75.6	93.4	28.6	129.1	26.7	14.4	-3.6	6.1	16.4	-6.9	5.9	17.5
Bajaj Auto (BAAUTO)	4,150	4,500	Buy	1,20,089	154.1	184.5	219.6	26.9	22.5	18.9	21.1	16.8	13.5	25.3	26.6	27.5	19.7	20.6	21.3
Balkrishna Ind. (BALIND)	1,650	2,100	Buy	31,897	55.6	65.6	77.6	29.7	25.1	21.3	18.6	15.5	13.1	19.4	21.3	22.7	18.6	19.1	19.5
Bharat Forge (BHAFOR)	630	670	Hold	29,331	-5.2	11.8	19.1	NM	53.6	33.0	43.7	23.3	16.9	1.2	7.1	11.1	3.7	10.2	14.9
Eicher Motors (EICMOT)	2,750	3,050	Hold	74,965	48.7	73.3	94.2	56.5	37.5	29.2	37.8	26.2	20.7	11.7	15.3	16.7	12.0	15.8	17.5
Escorts (ESCORT)	1,400	1,500	Hold	17,161	62.8	65.7	77.8	22.3	21.3	18.0	14.6	14.1	11.6	16.8	14.6	14.9	14.7	13.5	13.9
Exide Industries (EXIIND)	215	225	Buy	18,275	8.0	9.9	10.9	21.0	17.1	15.5	13.8	11.2	9.9	12.9	14.7	15.0	10.2	11.6	11.8
Hero Moto (HERHON)	3,470	4,000	Buy	69,296	139.1	169.9	200.3	24.9	20.4	17.3	16.6	13.5	11.0	18.8	21.2	22.9	17.9	19.7	20.9
M&M (MAHMAH)	910	1,000	Buy	1,13,131	10.8	36.0	44.8	84.1	25.3	20.3	17.5	15.8	12.9	9.6	9.6	11.4	7.7	11.1	12.5
Maruti Suzuki (MARUTI)	7,600	7,000	Reduce	2,29,581	144.5	198.8	233.4	52.6	38.2	32.6	37.1	23.8	19.8	3.9	7.8	9.1	8.5	10.9	11.8
Minda Industries (MININD)	580	625	Buy	15,771	5.8	11.6	17.9	99.6	49.8	32.5	24.3	16.9	13.2	8.7	14.2	19.1	8.7	15.9	19.5
Motherson (MOTSUM)	210	225	Hold	66,317	2.5	6.7	8.1	NM	31.5	26.0	15.6	9.0	7.6	6.0	16.3	18.9	7.1	16.1	17.4
Tata Motors (TATMOT)	330	301	Buy	1,18,724	-14.7	9.0	21.7	NM	36.8	15.2	6.6	4.7	3.7	3.7	7.9	11.1	-9.3	5.3	11.5

Source: Bloomberg, ICICI Direct Research

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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