

November 11, 2020

## Q2FY21 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	147		139	
Sales (Rs. m)	736,133	820,560	710,682	791,548
% Chng.	3.6	3.7		
EBITDA (Rs. m)	64,499	78,989	64,013	73,843
% Chng.	0.8	7.0		
EPS (Rs.)	6.4	8.2	6.0	7.9
% Chng.	6.7	4.5		

### Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	635	625	736	821
EBITDA (Rs. bn)	52	42	64	79
Margin (%)	8.2	6.8	8.8	9.6
PAT (Rs. bn)	12	8	20	26
EPS (Rs.)	3.7	2.7	6.4	8.2
Gr. (%)	(27.5)	(28.2)	141.5	28.1
DPS (Rs.)	1.5	0.9	1.7	2.2
Yield (%)	1.2	0.7	1.4	1.7
RoE (%)	10.4	7.1	15.9	18.1
RoCE (%)	10.8	7.0	15.7	20.4
EV/Sales (x)	0.7	0.7	0.6	0.5
EV/EBITDA (x)	8.9	10.9	7.0	5.5
PE (x)	34.4	47.9	19.8	15.5
P/BV (x)	3.5	3.3	3.0	2.6

### Key Data

MOSS.BO | MSS IN

52-W High / Low	Rs.151 / Rs.49
Sensex / Nifty	43,278 / 12,631
Market Cap	Rs.402bn/ \$ 5,424m
Shares Outstanding	3,158m
3M Avg. Daily Value	Rs.3674.96m

### Shareholding Pattern (%)

Promoter's	61.73
Foreign	15.99
Domestic Institution	13.62
Public & Others	8.67
Promoter Pledge (Rs bn)	26.55

### Stock Performance (%)

	1M	6M	12M
Absolute	5.2	65.5	(1.4)
Relative	(1.5)	21.0	(8.2)

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## Cost efficiencies drive EBITDA beat, PAT in-line

### Quick Pointers:

- Green field plants turned EBITDA positive at Eur3mn (v/s loss of Eur19mn in 1QFY21).
- 1HFY21 net consol debt declined to Rs75.1bn (v/s Rs87.9bn in 1HFY20).
- 1HFY21 SMRP BV order book at Eur13.1bn (flat YoY).

**MSS 2QFY21 consol operating performance was better helped by improved plant utilizations globally along with cost efficiencies. EBITDA grew 15% YoY to Rs13.9bn (PLe Rs11.9bn) with 9.3% margins (PLe 7.6%, +140bp YoY). We expect margins to sustain at ~9% even in 2HFY21 led by improving performance at green field (~15% of SMP) and cost efficiencies. SMRP BV order book too remains healthy at Eur13.1bn (with Eur1.7bn new orders in 1HFY21), where management indicated no major order cancellation by OEMs. We upgrade FY22/23 consol EPS by 6.7%/4.5% to factor in cost efficiencies. We maintain BUY with revised price target of Rs147 (earlier Rs139).**

**Q2FY21 performance operationally better-** MSS consol revenue came in line at Rs149.6bn (-2% YoY) with improved utilizations across plants globally. However, EBITDA came in better at Rs13.9bn (+15% YoY, PLe Rs11.9b) led by lower other cost at Rs16.6bn (PLe Rs24bn). Better operating performance was offset by higher depreciation at Rs7.4bn (PLe Rs7.1bn) and higher tax at rate 28.3% (PLe 27%) resulting in 4% YoY decline in Adj PAT at Rs2.9bn (in-line).

**Strong SMR/SMP performance drive margin expansion:** Both SMR/SMP margins expanded 190bp YoY/ 290bp YoY at 13.4%/ 7.2% (PLe of 11%/5.5%) respectively. Performance at greenfield (Tuscaloosa and Kecskemet) improved as company reported positive EBITDA for the first time at Eur3mn (v/s loss of Eur19mn in 1QFY21) led by effective cost efficiencies.

Consol net debt for the quarter declined further at Rs75bn (v/s 90.8bn in 1Q and Rs87.9bn in 2QFY20). Total order book as on H1FY21 is at Eur13.1bn (v/s Eur13.6bn in FY20).

**Call takeaways:** 1) **Demand outlook:** Expect business normalcy to continue in the coming quarters as customers are not hinting factory shutdown. 2) Strong industrial recovery as **~80% of facilities are running at >75% capacity utilization.** 3) **Tuscaloosa plant** – Some variant and models are yet to be launched plus there is headroom for further growth. All green field plants have achieved EBITDA breakeven. 4) **PKC-** Customers' orders are picking up. China is doing good while US and EU still under pressure. 5) **Capex guidance for FY21** remain unchanged at ~Rs20bn.

**Exhibit 1: Q2FY21 Result Overview - Consolidated (Rs m)**

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
<b>Net Revenues</b>	<b>1,49,572</b>	<b>1,52,597</b>	<b>(2.0)</b>	<b>83,484</b>	<b>2,33,056</b>	<b>3,20,523</b>	<b>(27.3)</b>
Raw Materials	83,829	88,012	(4.8)	49,558	1,33,386	1,84,598	(27.7)
<i>% of Net Sales</i>	<i>56.0</i>	<i>57.7</i>		<i>59.4</i>	<i>57.2</i>	<i>57.6</i>	
Personnel	35,185	34,637	1.6	27,839	63,024	73,807	(14.6)
<i>% of Net Sales</i>	<i>23.5</i>	<i>22.7</i>		<i>33.3</i>	<i>27.0</i>	<i>23.0</i>	
Manufacturing & Other Exp	16,640	17,867	(6.9)	11,594	28,234	37,486	(24.7)
<i>% of Net Sales</i>	<i>11.1</i>	<i>11.7</i>		<i>13.9</i>	<i>12.1</i>	<i>11.7</i>	
Total Expenditure	1,35,654	1,40,516	(3.5)	88,990	2,24,644	2,95,891	(24.1)
<b>EBITDA</b>	<b>13,918</b>	<b>12,082</b>	<b>15.2</b>	<b>-5,507</b>	<b>8,411</b>	<b>24,632</b>	<b>(65.9)</b>
<i>EBITDA Margin (%)</i>	<i>9.3</i>	<i>7.9</i>		<i>-6.6</i>	<i>3.6</i>	<i>7.7</i>	
Depreciation	7,346	6,390	15.0	6,994	14,340	12,755	12.4
<b>EBIT</b>	<b>6,572</b>	<b>5,692</b>	<b>15.5</b>	<b>-12,501</b>	<b>-5,928</b>	<b>11,877</b>	<b>(149.9)</b>
Interest Expenses	1,269	1,240	2.3	1,101	2,370	2,799	(15.3)
Non-operating income	553	805	(31.3)	473	1,026	1,352	(24.1)
<b>PBT</b>	<b>5,856</b>	<b>5,256</b>	<b>11.4</b>	<b>-13,128</b>	<b>-7,273</b>	<b>10,430</b>	<b>NA</b>
Tax-Total	1,657	1,716	(3.5)	-1,914	-258	3,490	(107.4)
<i>Tax Rate (%) - Total</i>	<i>31.5</i>	<i>32.6</i>		<i>14.6</i>	<i>3.5</i>	<i>33.5</i>	
<b>Reported PAT</b>	<b>4,199</b>	<b>3,541</b>	<b>18.6</b>	<b>-11,214</b>	<b>-7,015</b>	<b>6,940</b>	<b>NA</b>
Minority Interest	1,088	496	119.6	-3,810	-2,722	579	NA
<b>Profit after MI</b>	<b>2,923</b>	<b>3,045</b>	<b>(4.0)</b>	<b>-7,404</b>	<b>-4,481</b>	<b>6,361</b>	<b>NA</b>
<b>Adj. PAT</b>	<b>2,923</b>	<b>3,045</b>	<b>(4.0)</b>	<b>-7,404</b>	<b>-4,481</b>	<b>6,361</b>	<b>NA</b>

Source: Company, PL

**Exhibit 2: Operational performance of Key Segments**

Y/e March	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	YoY gr. (%)
<b>Revenue</b>					
SMR	30,415	30,510	(0.3)	15,037	102.3
SMP	79,514	79,091	0.5	84,960	(6.4)
PKC	21,783	24,251	(10.2)	14,620	49.0
<b>EBITDA margin (%)</b>					
SMR	13.4	11.5		(2.8)	
SMP	7.2	4.3		-4.5	
PKC	8.7	11.9		-4.0	

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>635,369</b>	<b>624,850</b>	<b>736,133</b>	<b>820,560</b>
YoY gr. (%)	0.0	(1.7)	17.8	11.5
Cost of Goods Sold	362,715	330,843	380,074	405,099
Gross Profit	272,654	294,007	356,059	415,461
Margin (%)	42.9	47.1	48.4	50.6
Employee Cost	150,769	173,384	199,392	229,300
Other Expenses	69,871	78,142	92,168	107,171
<b>EBITDA</b>	<b>52,014</b>	<b>42,481</b>	<b>64,499</b>	<b>78,989</b>
YoY gr. (%)	(2.7)	(18.3)	51.8	22.5
Margin (%)	8.2	6.8	8.8	9.6
Depreciation and Amortization	27,780	26,194	26,869	27,493
<b>EBIT</b>	<b>24,234</b>	<b>16,287</b>	<b>37,630</b>	<b>51,496</b>
Margin (%)	3.8	2.6	5.1	6.3
Net Interest	5,986	6,435	5,121	4,471
Other Income	2,307	2,353	2,588	2,718
<b>Profit Before Tax</b>	<b>20,555</b>	<b>11,609</b>	<b>35,097</b>	<b>49,743</b>
Margin (%)	3.2	1.9	4.8	6.1
Total Tax	8,184	3,483	10,529	14,426
Effective tax rate (%)	39.8	30.0	30.0	29.0
<b>Profit after tax</b>	<b>12,370</b>	<b>8,127</b>	<b>24,568</b>	<b>35,318</b>
Minority interest	1,244	2,439	6,570	11,626
Share Profit from Associate	575	2,298	2,298	2,298
<b>Adjusted PAT</b>	<b>11,701</b>	<b>8,403</b>	<b>20,296</b>	<b>25,990</b>
YoY gr. (%)	(27.5)	(28.2)	141.5	28.1
Margin (%)	1.8	1.3	2.8	3.2
Extra Ord. Income / (Exp)	-	(417)	-	-
<b>Reported PAT</b>	<b>11,701</b>	<b>7,986</b>	<b>20,296</b>	<b>25,990</b>
YoY gr. (%)	(27.5)	(31.7)	154.1	28.1
Margin (%)	1.8	1.3	2.8	3.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,701	7,986	20,296	25,990
<b>Equity Shares O/s (m)</b>	<b>3,158</b>	<b>3,158</b>	<b>3,158</b>	<b>3,158</b>
<b>EPS (Rs)</b>	<b>3.7</b>	<b>2.7</b>	<b>6.4</b>	<b>8.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>281,171</b>	<b>302,480</b>	<b>324,358</b>	<b>346,822</b>
Tangibles	281,171	302,480	324,358	346,822
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>98,927</b>	<b>125,121</b>	<b>151,990</b>	<b>179,483</b>
Tangibles	98,927	125,121	151,990	179,483
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>182,244</b>	<b>177,359</b>	<b>172,368</b>	<b>167,339</b>
Tangibles	182,244	177,359	172,368	167,339
Intangibles	-	-	-	-
Capital Work In Progress	8,154	8,154	8,154	8,154
Goodwill	24,060	24,301	24,544	24,789
Non-Current Investments	1,614	1,662	1,712	1,763
Net Deferred tax assets	5,030	5,030	5,030	5,030
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	51,566	48,287	52,437	78,684
Trade receivables	51,784	56,493	66,554	74,188
Cash & Bank Balance	48,789	53,345	60,749	71,738
Other Current Assets	69,913	69,913	69,913	69,913
<b>Total Assets</b>	<b>449,928</b>	<b>452,011</b>	<b>471,153</b>	<b>512,979</b>
<b>Equity</b>				
Equity Share Capital	3,158	3,158	3,158	3,158
Other Equity	112,719	117,355	131,267	149,082
<b>Total Networkth</b>	<b>115,877</b>	<b>120,513</b>	<b>134,425</b>	<b>152,240</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	77,995	82,995	79,995	77,995
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	33,795	31,795	30,295	29,295
Trade payables	103,091	115,462	129,317	144,836
Other current liabilities	88,159	67,795	57,100	56,967
<b>Total Equity &amp; Liabilities</b>	<b>449,928</b>	<b>452,011</b>	<b>471,153</b>	<b>512,979</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	21,129	11,609	35,097	49,743
Add. Depreciation	27,780	26,194	26,869	27,493
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	46,536	69,386	84,005
Net Changes-WC	16,202	(10,116)	(13,277)	(20,184)
Direct tax	(10,776)	(3,483)	(10,529)	(14,426)
<b>Net cash from Op. activities</b>	<b>63,521</b>	<b>32,938</b>	<b>45,580</b>	<b>49,396</b>
Capital expenditures	(23,171)	(21,550)	(22,121)	(22,710)
Interest / Dividend Income	946	-	-	-
Others	(175)	(48)	(50)	(51)
<b>Net Cash from Invt. activities</b>	<b>(22,399)</b>	<b>(21,598)</b>	<b>(22,171)</b>	<b>(22,761)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	1,726	3,000	(4,500)	(3,000)
Dividend paid	(12,794)	(3,349)	(6,384)	(8,175)
Interest paid	(5,667)	(6,435)	(5,121)	(4,471)
Others	(11,294)	-	-	-
<b>Net cash from Fin. activities</b>	<b>(28,029)</b>	<b>(6,784)</b>	<b>(16,005)</b>	<b>(15,646)</b>
<b>Net change in cash</b>	<b>13,092</b>	<b>4,556</b>	<b>7,404</b>	<b>10,989</b>
Free Cash Flow	41,578	11,388	23,459	26,686

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	3.7	2.7	6.4	8.2
CEPS	10.2	8.3	11.9	14.8
BVPS	36.7	38.2	42.6	48.2
FCF	13.2	3.6	7.4	8.5
DPS	1.5	0.9	1.7	2.2
<b>Return Ratio(%)</b>				
RoCE	10.8	7.0	15.7	20.4
ROIC	8.4	6.4	14.7	20.3
RoE	10.4	7.1	15.9	18.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.5	0.5	0.4	0.2
Net Working Capital (Days)	0	(6)	(5)	4
<b>Valuation(x)</b>				
PER	34.4	47.9	19.8	15.5
P/B	3.5	3.3	3.0	2.6
P/CEPS	12.4	15.3	10.7	8.6
EV/EBITDA	8.9	10.9	7.0	5.5
EV/Sales	0.7	0.7	0.6	0.5
Dividend Yield (%)	1.2	0.7	1.4	1.7

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
<b>Net Revenue</b>	<b>156,611</b>	<b>151,591</b>	<b>83,484</b>	<b>149,572</b>
YoY gr. (%)	(4.9)	(11.7)	(50.3)	(2.0)
Raw Material Expenses	90,417	84,411	49,558	83,829
Gross Profit	66,194	67,179	33,926	65,744
Margin (%)	42.3	44.3	40.6	44.0
<b>EBITDA</b>	<b>12,358</b>	<b>13,916</b>	<b>(5,507)</b>	<b>13,918</b>
YoY gr. (%)	(11.3)	12.0	(143.9)	15.2
Margin (%)	7.9	9.2	(6.6)	9.3
Depreciation / Depletion	6,938	7,927	6,994	7,346
<b>EBIT</b>	<b>5,420</b>	<b>5,989</b>	<b>(12,501)</b>	<b>6,572</b>
Margin (%)	3.5	4.0	(15.0)	4.4
Net Interest	1,791	1,382	1,101	1,269
Other Income	783	151	473	553
<b>Profit before Tax</b>	<b>4,412</b>	<b>4,759</b>	<b>(13,128)</b>	<b>5,260</b>
Margin (%)	2.8	3.1	(15.7)	3.5
Total Tax	1,227	3,315	(1,914)	1,657
Effective tax rate (%)	27.8	69.7	14.6	31.5
<b>Profit after Tax</b>	<b>3,185</b>	<b>1,444</b>	<b>(11,214)</b>	<b>3,603</b>
Minority interest	698	(477)	(3,812)	1,364
Share Profit from Associates	218	(87)	(2)	276
<b>Adjusted PAT</b>	<b>2,705</b>	<b>1,834</b>	<b>(7,404)</b>	<b>2,923</b>
YoY gr. (%)	(30.5)	(55.3)	(323.3)	(4.0)
Margin (%)	1.7	1.2	(8.9)	2.0
Extra Ord. Income / (Exp)	-	-	-	(408)
<b>Reported PAT</b>	<b>2,705</b>	<b>1,834</b>	<b>(7,404)</b>	<b>2,515</b>
YoY gr. (%)	(30.5)	(55.3)	(323.3)	(17.4)
Margin (%)	1.7	1.2	(8.9)	1.7
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>2,705</b>	<b>1,834</b>	<b>(7,404)</b>	<b>2,515</b>
Avg. Shares O/s (m)	3,158	3,158	3,158	3,158
<b>EPS (Rs)</b>	<b>0.9</b>	<b>0.6</b>	<b>(2.3)</b>	<b>0.9</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	12-Oct-20	BUY	139	121
2	09-Oct-20	BUY	139	121
3	11-Aug-20	BUY	125	107
4	11-Jul-20	BUY	116	96
5	03-Jul-20	BUY	116	104
6	02-Jun-20	BUY	116	102
7	09-Apr-20	BUY	87	66
8	18-Mar-20	BUY	115	62
9	10-Feb-20	Accumulate	153	125
10	03-Jan-20	Accumulate	162	148

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	100	84
2	Bajaj Auto	Hold	3,108	3,006
3	Bharat Forge	Hold	446	466
4	CEAT	Accumulate	1,223	1,148
5	Eicher Motors	Accumulate	2,291	2,218
6	Exide Industries	BUY	191	164
7	Hero Motocorp	Accumulate	3,282	2,894
8	Mahindra & Mahindra	BUY	703	633
9	Maruti Suzuki	BUY	7,642	7,118
10	Motherson Sumi Systems	BUY	139	121
11	Tata Motors	Hold	146	136
12	TVS Motors	Sell	386	422

**PL's Recommendation Nomenclature (Absolute Performance)**

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



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