

February 14, 2021

## Q3FY21 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	247		203	
Sales (Rs. m)	7,65,817	8,60,335	7,71,413	8,59,837
% Chng.	(0.7)	0.1		
EBITDA (Rs. m)	77,157	93,920	69,570	85,040
% Chng.	10.9	10.4		
EPS (Rs.)	7.8	9.9	6.9	8.8
% Chng.	13.2	11.7		

### Key Financials - Consolidated

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. bn)	635	667	766	860
EBITDA (Rs. bn)	52	54	77	94
Margin (%)	8.2	8.0	10.1	10.9
PAT (Rs. bn)	12	13	25	31
EPS (Rs.)	3.7	4.1	7.8	9.9
Gr. (%)	(27.5)	10.2	90.2	27.1
DPS (Rs.)	1.5	1.4	2.1	2.7
Yield (%)	0.8	0.7	1.1	1.4
RoE (%)	10.4	10.8	18.6	20.7
RoCE (%)	10.8	11.5	20.3	25.5
EV/Sales (x)	1.1	1.0	0.9	0.7
EV/EBITDA (x)	13.2	12.7	8.7	6.8
PE (x)	53.2	48.3	25.4	20.0
P/BV (x)	5.4	5.1	4.5	3.9

### Key Data

MOSS.BO | MSS IN

52-W High / Low	Rs.199 / Rs.49
Sensex / Nifty	51,544 / 15,163
Market Cap	Rs.623bn/ \$ 8,564m
Shares Outstanding	3,158m
3M Avg. Daily Value	Rs.4715.33m

### Shareholding Pattern (%)

Promoter's	61.73
Foreign	16.09
Domestic Institution	14.26
Public & Others	7.92
Promoter Pledge (Rs bn)	27.66

### Stock Performance (%)

	1M	6M	12M
Absolute	16.6	69.0	54.8
Relative	12.1	25.8	24.8

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## All round performance; reiterate BUY

### Quick Pointers:

- Reported double digit EBITDA margins at 10.5% after 14 quarters.
- Consol net debt declined further to Rs62b in Q3FY21 (v/s Rs75b in Q2FY21).
- EV accounts for 21% of SMRP BV total order book of Eur13.1b as on Sep-20.

**MSS 3QFY21 results were better with sharp beat at EBITDA/PBT by 14%/42% led by sustained improvement in SMP's greenfield plants and continued cost reduction in all global business. EBITDA grew 61% YoY to Rs17.9b (PLe Rs15.7b) with 14 quarter high margins at 10.5% (+310bp YoY, PLe 9.6%). Execution of a strong order book and limited capex at SMPBV as well as India business augurs well for MSS. Hence for FY22, we expect margins to sustain at elevated level of ~10% led by turnaround in green fields and cost efficiencies. We upgrade FY22/23 consol EPS by 13.2%/11.7% to factor in strong margins in all business. We maintain BUY with revised price target of Rs247 (vs Rs203) as we raise target multiple to 25x (in-line with 5yr LPA).**

**Healthy order execution and greenfield turnaround drive all round beat-** MSS consol revenue grew 14% YoY at Rs170.9b (PLe Rs162.9b) led by growth across business. EBITDA too came in better at Rs17.9b (+61% YoY, PLe Rs15.7b) led by turnaround at SMP's greenfield and cost efficiencies. Better op. performance, higher minority share at Rs4.4b (PLe Rs2b) and tax credit of Rs1.1bn led Adj. PAT beat at Rs6.6b (PLe Rs4.3b).

**Strong performance across businesses drive margin expansion:** SMR/SMP margins were higher at 13.2% (+240bp YoY, PLe 12.6%) and 9.5% (+460bp YoY, PLe 7.8%) respectively. PKC/SA business too reported healthy margins at 9.4% (-40bp YoY, PLe 8.3%) and 18.4% (+150bp YoY, PLe 16%).

**Consol net debt further declined to Rs62b in Q3FY21 (v/s Rs75b in Q2FY21 and Rs69b in Q4FY20). This is the lowest debt level in 14 quarters.**

**Call takeaways:** 1) Pure EV accounts for ~21% of overall SMRP BV order book at Eur13.1m as of Sep-20. 2) Controlled capex at SMRP BV with total capex of Eur95m in 9MFY21 (v/s Eur175m in FY20). 3) SMR with 40%+ ROCE is targeting 50% ROCE. It can look at inorganic opportunities to grow its top-line. There are opportunities in markets like Japan where footprint of MSS is miniscule. 4) SMP Greenfields – further scope left for efficiency and profitability improvement which can aid overall profits. 5) Operations have normalized, with most facilities running at pre-covid levels. Not seeing cancellation of orders as yet. 6) **PKC- CV business started to pick up** as demand is improving in NA and China. 7) **Capex for FY21 to remain lower than Rs20b** while FY22 capex to remain at the same level. Current order book can be serviced from existing plants. 8) Copper price inflation is largely pass through albeit with a lag of a quarter.

**Exhibit 1: Q3FY21 Result Overview - Consolidated (Rs m)**

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	9MFY21	9MFY20	YoY gr. (%)
<b>Net Revenues</b>	<b>1,70,924</b>	<b>1,50,001</b>	<b>13.9</b>	<b>1,49,572</b>	<b>4,03,980</b>	<b>4,70,524</b>	<b>(14.1)</b>
Raw Materials	96,897	87,344	10.9	83,829	2,30,283	2,71,941	(15.3)
<i>% of Net Sales</i>	<i>56.7</i>	<i>58.2</i>		<i>56.0</i>	<i>57.0</i>	<i>57.8</i>	
Personnel	38,477	35,511	8.4	35,185	1,01,502	1,09,319	(7.2)
<i>% of Net Sales</i>	<i>22.5</i>	<i>23.7</i>		<i>23.5</i>	<i>25.1</i>	<i>23.2</i>	
Manufacturing & Other Exp	17,595	15,974	10.1	16,640	45,829	53,460	(14.3)
<i>% of Net Sales</i>	<i>10.3</i>	<i>10.6</i>		<i>11.1</i>	<i>11.3</i>	<i>11.4</i>	
Total Expenditure	1,52,969	1,38,829	10.2	1,35,654	3,77,613	4,34,719	(13.1)
<b>EBITDA</b>	<b>17,955</b>	<b>11,172</b>	<b>60.7</b>	<b>13,918</b>	<b>26,367</b>	<b>35,804</b>	<b>(26.4)</b>
<i>EBITDA Margin (%)</i>	<i>10.5</i>	<i>7.4</i>		<i>9.3</i>	<i>6.5</i>	<i>7.6</i>	
Depreciation	7,353	6,794	8.2	7,346	21,693	19,549	11.0
<b>EBIT</b>	<b>10,602</b>	<b>4,379</b>	<b>142.1</b>	<b>6,572</b>	<b>4,674</b>	<b>16,255</b>	<b>(71.2)</b>
Interest Expenses	1,380	1,777	(22.4)	1,269	3,750	4,576	(18.1)
Non-operating income	652	717	(9.1)	553	1,678	2,069	(18.9)
<b>PBT</b>	<b>9,875</b>	<b>3,319</b>	<b>197.6</b>	<b>5,856</b>	<b>2,602</b>	<b>13,748</b>	<b>(81.1)</b>
Tax-Total	-1,092	968	(212.9)	1,657	-1,350	4,457	(130.3)
<i>Tax Rate (%) - Total</i>	<i>-11.1</i>	<i>29.2</i>		<i>31.5</i>	<i>-51.9</i>	<i>32.4</i>	
<b>Reported PAT</b>	<b>10,967</b>	<b>2,351</b>	<b>366.5</b>	<b>4,199</b>	<b>3,952</b>	<b>9,291</b>	<b>(57.5)</b>
Minority Interest	4,363	480	808.9	1,088	1,641	1,059	54.9
<b>Profit after MI</b>	<b>6,607</b>	<b>1,871</b>	<b>253.1</b>	<b>2,923</b>	<b>2,126</b>	<b>8,231</b>	<b>(74.2)</b>
<b>Adj. PAT</b>	<b>6,607</b>	<b>1,871</b>	<b>253.1</b>	<b>2,923</b>	<b>2,126</b>	<b>8,231</b>	<b>(74.2)</b>

Source: Company, PL

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

Y/e March	Q3FY21	Q3FY20	YoY gr. (%)	Q2FY21	YoY gr. (%)
<b>Revenue</b>					
SMR	33,884	29,884	13.4	30,415	11.4
SMP	93,643	80,742	16.0	79,514	17.8
PKC	25,171	22,551	11.6	22,855	10.1
<b>EBITDA margin (%)</b>					
SMR	13.2	10.8		13.4	
SMP	9.5	4.9		7.2	
PKC	9.4	9.8		8.7	

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>6,35,369</b>	<b>6,67,407</b>	<b>7,65,817</b>	<b>8,60,335</b>
YoY gr. (%)	0.0	5.0	14.7	12.3
Cost of Goods Sold	3,62,715	3,60,864	3,96,122	4,28,631
Gross Profit	2,72,654	3,06,543	3,69,696	4,31,704
Margin (%)	42.9	45.9	48.3	50.2
Employee Cost	1,50,769	1,73,384	1,99,392	2,29,300
Other Expenses	69,871	79,546	93,147	1,08,484
<b>EBITDA</b>	<b>52,014</b>	<b>53,613</b>	<b>77,157</b>	<b>93,920</b>
YoY gr. (%)	(2.7)	3.1	43.9	21.7
Margin (%)	8.2	8.0	10.1	10.9
Depreciation and Amortization	27,780	26,875	27,608	27,887
<b>EBIT</b>	<b>24,234</b>	<b>26,737</b>	<b>49,548</b>	<b>66,033</b>
Margin (%)	3.8	4.0	6.5	7.7
Net Interest	5,986	6,855	5,744	5,118
Other Income	2,307	2,537	2,791	3,070
<b>Profit Before Tax</b>	<b>20,555</b>	<b>21,824</b>	<b>46,595</b>	<b>63,985</b>
Margin (%)	3.2	3.3	6.1	7.4
Total Tax	8,184	6,547	13,979	18,556
Effective tax rate (%)	39.8	30.0	30.0	29.0
<b>Profit after tax</b>	<b>12,370</b>	<b>15,277</b>	<b>32,617</b>	<b>45,430</b>
Minority interest	1,244	5,093	10,386	16,544
Share Profit from Associate	575	2,298	2,298	2,298
<b>Adjusted PAT</b>	<b>11,701</b>	<b>12,899</b>	<b>24,529</b>	<b>31,184</b>
YoY gr. (%)	(27.5)	10.2	90.2	27.1
Margin (%)	1.8	1.9	3.2	3.6
Extra Ord. Income / (Exp)	-	(417)	-	-
<b>Reported PAT</b>	<b>11,701</b>	<b>12,482</b>	<b>24,529</b>	<b>31,184</b>
YoY gr. (%)	(27.5)	6.7	96.5	27.1
Margin (%)	1.8	1.9	3.2	3.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	11,701	12,482	24,529	31,184
<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>4.1</b>	<b>7.8</b>	<b>9.9</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>2,81,171</b>	<b>3,04,170</b>	<b>3,27,775</b>	<b>3,52,002</b>
Tangibles	2,81,171	3,04,170	3,27,775	3,52,002
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>98,927</b>	<b>1,25,802</b>	<b>1,53,411</b>	<b>1,81,297</b>
Tangibles	98,927	1,25,802	1,53,411	1,81,297
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>1,82,244</b>	<b>1,78,368</b>	<b>1,74,364</b>	<b>1,70,704</b>
Tangibles	1,82,244	1,78,368	1,74,364	1,70,704
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	51,576	62,944	82,498
Trade receivables	51,784	60,341	69,238	77,784
Cash & Bank Balance	48,789	58,534	62,360	87,876
Other Current Assets	69,913	69,913	69,913	69,913
<b>Total Assets</b>	<b>4,49,928</b>	<b>4,66,197</b>	<b>4,88,545</b>	<b>5,40,688</b>
<b>Equity</b>				
Equity Share Capital	3,158	3,158	3,158	3,158
Other Equity	1,12,719	1,19,966	1,36,779	1,58,154
<b>Total Networkth</b>	<b>1,15,877</b>	<b>1,23,123</b>	<b>1,39,937</b>	<b>1,61,312</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	1,03,091	1,15,462	1,29,317	1,44,836
Other current liabilities	88,159	76,716	62,509	64,215
<b>Total Equity &amp; Liabilities</b>	<b>4,49,928</b>	<b>4,66,197</b>	<b>4,88,545</b>	<b>5,40,688</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	21,129	21,824	46,595	63,985
Add. Depreciation	27,780	26,875	27,608	27,887
Add. Interest	5,626	6,855	5,744	5,118
Less Financial Other Income	2,307	2,537	2,791	3,070
Add. Other	3,561	2,298	2,298	2,298
Op. profit before WC changes	58,095	57,853	82,246	99,288
Net Changes-WC	16,202	(9,182)	(22,585)	(12,766)
Direct tax	(10,776)	(6,547)	(13,979)	(18,556)
<b>Net cash from Op. activities</b>	<b>63,521</b>	<b>42,123</b>	<b>45,682</b>	<b>67,967</b>
Capital expenditures	(23,171)	(23,240)	(23,847)	(24,473)
Interest / Dividend Income	946	-	-	-
Others	(175)	(48)	(50)	(51)
<b>Net Cash from Inv. activities</b>	<b>(22,399)</b>	<b>(23,288)</b>	<b>(23,897)</b>	<b>(24,524)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	1,726	3,000	(4,500)	(3,000)
Dividend paid	(12,794)	(5,235)	(7,716)	(9,809)
Interest paid	(5,667)	(6,855)	(5,744)	(5,118)
Others	(11,294)	-	-	-
<b>Net cash from Fin. activities</b>	<b>(28,029)</b>	<b>(9,090)</b>	<b>(17,960)</b>	<b>(17,927)</b>
<b>Net change in cash</b>	<b>13,092</b>	<b>9,745</b>	<b>3,825</b>	<b>25,516</b>
Free Cash Flow	41,578	18,883	21,835	43,494

Source: Company Data, PL Research

## Key Financial Metrics

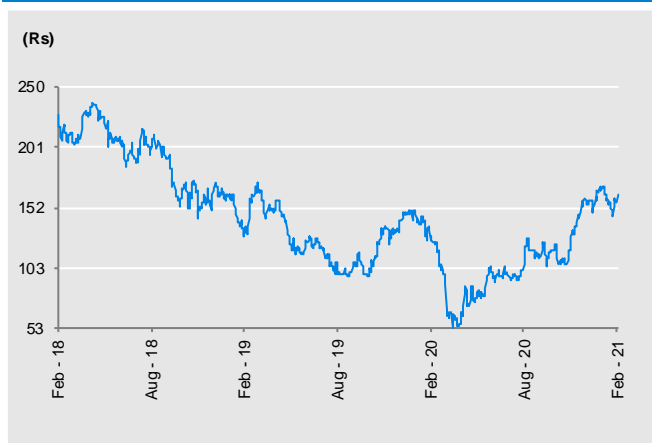
Y/e Mar	FY20	FY21E	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	3.7	4.1	7.8	9.9
CEPS	10.2	9.8	13.3	16.4
BVPS	36.7	39.0	44.3	51.1
FCF	13.2	6.0	6.9	13.8
DPS	1.5	1.4	2.1	2.7
<b>Return Ratio(%)</b>				
RoCE	10.8	11.5	20.3	25.5
ROIC	8.4	10.7	19.1	27.3
RoE	10.4	10.8	18.6	20.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.5	0.5	0.3	0.1
Net Working Capital (Days)	0	(2)	1	7
<b>Valuation(x)</b>				
PER	53.2	48.3	25.4	20.0
P/B	5.4	5.1	4.5	3.9
P/CEPS	19.3	20.1	14.8	12.0
EV/EBITDA	13.2	12.7	8.7	6.8
EV/Sales	1.1	1.0	0.9	0.7
Dividend Yield (%)	0.8	0.7	1.1	1.4

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q4FY20	Q1FY21	Q2FY21	Q3FY21
<b>Net Revenue</b>	<b>1,51,591</b>	<b>83,484</b>	<b>1,49,572</b>	<b>1,70,924</b>
YoY gr. (%)	(11.7)	(50.3)	(2.0)	13.9
Raw Material Expenses	84,411	49,558	83,829	96,897
Gross Profit	67,179	33,926	65,744	74,028
Margin (%)	44.3	40.6	44.0	43.3
<b>EBITDA</b>	<b>13,916</b>	<b>(5,507)</b>	<b>13,918</b>	<b>17,955</b>
YoY gr. (%)	12.0	(143.9)	15.2	60.7
Margin (%)	9.2	(6.6)	9.3	10.5
Depreciation / Depletion	7,927	6,994	7,346	7,353
<b>EBIT</b>	<b>5,989</b>	<b>(12,501)</b>	<b>6,572</b>	<b>10,602</b>
Margin (%)	4.0	(15.0)	4.4	6.2
Net Interest	1,382	1,101	1,269	1,380
Other Income	151	473	553	652
<b>Profit before Tax</b>	<b>4,759</b>	<b>(13,128)</b>	<b>5,260</b>	<b>9,850</b>
Margin (%)	3.1	(15.7)	3.5	5.8
Total Tax	3,315	(1,914)	1,657	(1,092)
Effective tax rate (%)	69.7	14.6	31.5	(11.1)
<b>Profit after Tax</b>	<b>1,444</b>	<b>(11,214)</b>	<b>3,603</b>	<b>10,942</b>
Minority interest	(477)	(3,812)	1,364	4,699
Share Profit from Associates	(87)	(2)	276	336
<b>Adjusted PAT</b>	<b>1,834</b>	<b>(7,404)</b>	<b>2,923</b>	<b>6,607</b>
YoY gr. (%)	(55.3)	(323.3)	(4.0)	253.1
Margin (%)	1.2	(8.9)	2.0	3.9
Extra Ord. Income / (Exp)	-	-	(408)	(28)
<b>Reported PAT</b>	<b>1,834</b>	<b>(7,404)</b>	<b>2,515</b>	<b>6,579</b>
YoY gr. (%)	(55.3)	(323.3)	(17.4)	251.6
Margin (%)	1.2	(8.9)	1.7	3.8
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,834</b>	<b>(7,404)</b>	<b>2,515</b>	<b>6,579</b>
Avg. Shares O/s (m)	3,158	3,158	3,158	3,158
<b>EPS (Rs)</b>	<b>0.6</b>	<b>(2.3)</b>	<b>0.9</b>	<b>2.1</b>

Source: Company Data, PL Research

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


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Jan-21	BUY	203	168
2	23-Nov-20	BUY	165	140
3	11-Nov-20	BUY	147	127
4	12-Oct-20	BUY	139	121
5	09-Oct-20	BUY	139	121
6	11-Aug-20	BUY	125	107
7	11-Jul-20	BUY	116	96
8	03-Jul-20	BUY	116	104
9	02-Jun-20	BUY	116	102
10	09-Apr-20	BUY	87	66

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	133	113
2	Bajaj Auto	Hold	3,489	3,727
3	Bharat Forge	Hold	515	603
4	CEAT	Accumulate	1,434	1,310
5	Eicher Motors	Accumulate	3,129	2,901
6	Endurance Technologies	BUY	1,662	1,483
7	Exide Industries	BUY	238	194
8	Hero Motocorp	Accumulate	3,753	3,429
9	Mahindra & Mahindra	BUY	1,011	866
10	Maruti Suzuki	BUY	8,428	7,589
11	Motherson Sumi Systems	BUY	203	168
12	Tata Motors	Reduce	231	263
13	TVS Motors	Sell	437	529

**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



## ANALYST CERTIFICATION

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