

Healthy profitability sustains, EV order book exciting

Motherson Sumi Systems (MSSL) reported a healthy operational performance in Q4FY21. The key highlight was sustained profitability at its overseas operations: SMR (EBITDA margins at 12.9%) & SMP (EBITDA margins at 8.7%). Consolidated revenues (including DWH) in Q4FY21 were at ₹ 18,482 crore, up 22% YoY. EBITDA on a consolidated basis were at ₹ 1,959 crore with EBITDA margins at 10.6%, down 20 bps QoQ. Consolidated PAT for Q4FY21 was at ₹ 714 crore vs. ₹ 183 crore in Q4FY20.

Longer term growth prospects remain healthy; minimal EV risk

MSSL is a global auto ancillary supplying plastic body parts, mirrors, wiring harness among other auto components to the global OEMs with present product profile being minimal susceptible to EV risk. It is a viable play on global PV growth and vehicular premiumisation with proven capabilities. In the near term, however, hiccups persist in terms of Covid related production as well as supply chain constraints including global semi-conductor shortage impacting global PV industry production. However, over the long term, as supply chain issues ease and given its focus on faster than industry growth via rising content per vehicle, we build 14.1% revenue CAGR for MSSL in FY21-23E. Our estimates do not factor in any inorganic-led growth, which is set to form a cornerstone of the company's outlined sales ambition of quadrupling sales to ~US\$36 billion by 2025. MSSL remains well placed to benefit from electrification, with ~25% of SMRPBV order book formed of EVs. As capacity utilisations improve and operating leverage benefits kick in amid a rise in raw material costs (a pass through, with a lag) EBITDA margins at MSSL are seen improving to 11.3% levels by FY23E.

Q4FY21 earnings conference call – highlights & key takeaways

MSSL said: (1) Its order-book (lifetime sales of awarded programs) at SMRPBV as of March 2021 were at € 15.6 billion (gained € 4.5 billion worth new orders in H2FY21) with share of EVs at ~25%. It will be supplying near similar products to electric vehicles. The content, however, marks a sharp increase amid focus on light-weighting, efficiency & premiumisation; (2) it is less impacted due to global semi-conductor chip shortage; (3) business prospects at PKC are healthy but during the quarter there was some pressure on margins due to rise in copper prices amid increased copper content in wiring harness supplied to trucks; (4) the company is exploring inorganic acquisitions with meaningful development expected post travel relaxations; (5) MSSL sees no pressure on gross margins in the near term.

Valuation & Outlook

On a low base, we build ~74% PAT CAGR in FY21-23E. Near to medium term supply challenges aside, it offers healthy long term growth prospects, with focus on ~40% RoCE and dividend payout. With healthy order book positioning as well robust capital efficiency in offering, we upgrade MSSL from HOLD to **BUY**, valuing it at ₹ 300 (30x P/E on FY23E earlier TP ₹ 225).

Key Financial Summary

Key Financials	FY19	FY20	FY21P	FY22E	FY23E	CAGR (FY21P -23E)
Net Sales	63,522.9	63,536.9	61,462.9	74,323.5	79,971.1	14.1%
EBITDA	5,348.4	5,201.4	4,840.2	7,638.8	9,028.0	36.6%
EBITDA Margins (%)	8.4	8.2	7.9	10.3	11.3	
Net Profit	1,613.2	1,170.1	1,039.9	2,346.2	3,153.3	74.1%
EPS (₹)	5.1	3.7	3.3	7.4	10.0	
P/E	48.9	67.5	75.9	33.6	25.0	
RoNW (%)	14.7	10.4	8.8	16.7	19.7	
RoCE (%)	12.4	8.9	6.7	16.2	20.5	

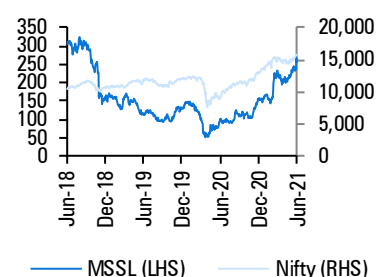
Source: Company, ICICI Direct Research; Note – Our estimates in this report include DWH financials



Particulars

Particular	₹ crore
Market Capitalization	78,948
Total Debt (FY21P)	10,758
Cash & Investments (FY21P)	5,906
EV (₹ Crore)	83,800
52 week H/L (₹)	273 / 87
Equity capital	₹ 315.8 Crore
Face value	₹ 1

Price Performance



Key Highlights

- Q4FY21 revenues up 22% YoY with limited 20 bps decline in operating margins at 10.6%
- Significant EV share of SMRPBV orderbook a positive. Operating leverage benefits to lift margins

Risks to our call

- Slower than anticipated recovery in global automotive volumes
- Pressure on margins due to steep rise in key commodity prices

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Exhibit 1: Variance Analysis

Continued operations + DWH	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Operating Income	18,482.3	17,650.0	15,159	21.9	18,440	0.2	Topline came in ahead of estimates led by outperformance of Indian operations
Raw Material Expenses	10,430.6	10,012.7	8,441.2	23.6	10,322.2	1.0	
Employee Expenses	4,191	3,999	3,803	10.2	4,078	2.8	Employee costs were at 22.7% of total operating income
Other expenses	1,901.3	1,905.8	1,523.5	24.8	2,047.0	-7.1	Savings were realised in other expenses and were down 80 bps QoQ to 10.3% of total operating income
Operating Profit (EBITDA)	1,959.4	1,732.0	1,392	40.8	1,994	-1.7	
EBITDA margin (%)	10.6	9.8	9.2	142 bps	10.8	-21 bps	EBITDA margins came in ahead of estimates tracking lower than anticipated gross margin decline and operating leverage benefits at play
Other Income	77.7	49.0	15.1	413.7	69.2	12.3	
Depreciation	780	750	793	-1.6	747	4.4	Depreciation was broadly on expected lines
Interest	139	122	138	0.2	140	-1.1	
PAT	713.6	458.9	183	289.1	799	-10.7	PAT was ahead of estimates, tracking beat on margins
EPS	2.3	1.5	0.6	289.1	2.5	-10.7	
Key Metrics							
Standalone revenue (₹ crore)	2779	2313	1735	60.2	2475	12.3	Standalone operations (incl DWH) reported sales of ~₹ 2,800 crore, up 12.3% QoQ
Standalone margin (%)	14.8	13.2	16.9	-209 bps	14.5	33 bps	
SMR revenue (€ million)	371	380	371	0.0	385	-3.6	SMR revenues were broadly on expected lines
SMR margin (%)	12.9	12.5	14.6	-170 bps	13.2	-30 bps	Margins came in ahead of estimates at 12.9%
SMP revenue (€ million)	991	996	931	6.4	1064	-6.9	
SMP margin (%)	8.7	8.5	4.2	450 bps	9.5	-80 bps	SMP margins for the quarter stood at 8.7%

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	73,524	74,323	1.1	77,682.0	79,971	2.9	Broadly maintained sales estimates. We expect sales to grow at a CAGR of 14.1% over FY21-23E
EBITDA	7,642	7,639	0.0	8,540.0	9,028	5.7	
EBITDA Margin (%)	10.4	10.3	-12 bps	11.0	11.3	30 bps	Upgrade margin estimates for FY23E, due to sustained profitability at MSSSL's overseas subsidiaries i.e. SMP & SMR
PAT	2,106	2,346	11.4	2,550.0	3,153	23.7	
EPS (₹)	6.7	7.4	11.4	8.1	10.0	23.7	Lowering of tax rate assumptions and marginal tweaking in sales and margins estimates leads to double digit rise in PAT estimates for FY22E, FY23E. On a low base, PAT is expected to grow at a CAGR of 74% over FY21-23E

Source: ICICI Direct Research

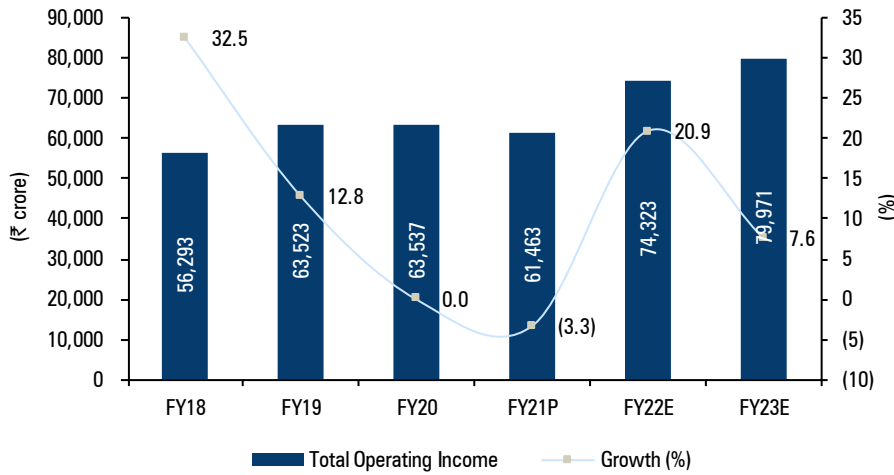
Exhibit 3: Assumptions

	Current						Comments
	FY18	FY19	FY20P	FY21P	FY22E	FY23E	
Standalone revenues (₹ crore)	7,478	7,581	6,874	7,767	9,721	11,768	Standalone operations are seen leading revenue growth
Standalone margins (%)	18.5	16.8	16.0	11.8	13.8	15.0	over FY21-23E with sales growth CAGR at ~23% vs.
SMR revenues (€ million)	1,576.0	1,603.0	1,540.0	1,286.0	1,574.8	1,653.5	overall revenue growth at MSSSL estimated at ~14% in
SMR margins (%)	11.5	11.3	11.8	11.0	13.0	13.5	the aforesaid period. Margins are seen improving in that
SMP revenues (€ million)	3,451.0	3,678.0	4,030.0	3,521.0	4,130.4	4,336.9	time frame with SMP seen clocking margins in excess
SMP margins (%)	7.2	3.9	3.9	6.0	9.3	10.4	of 10% by FY23E and 13.5% levels at SMR by FY23E

Source: Company, ICICI Direct Research

Financial story in charts

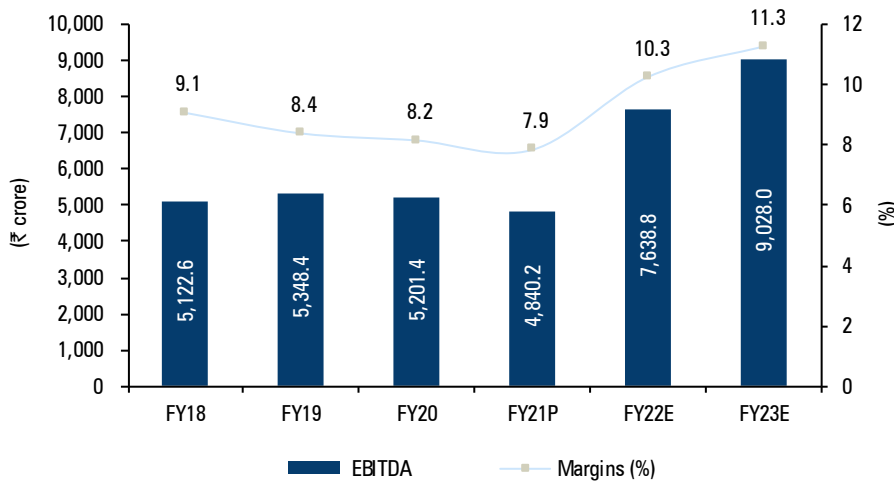
Exhibit 4: Topline trend



We expect consolidated sales to grow at 14.1% CAGR over FY21-23E to ₹ 79,971 crore.

Source: Company, ICICI Direct Research

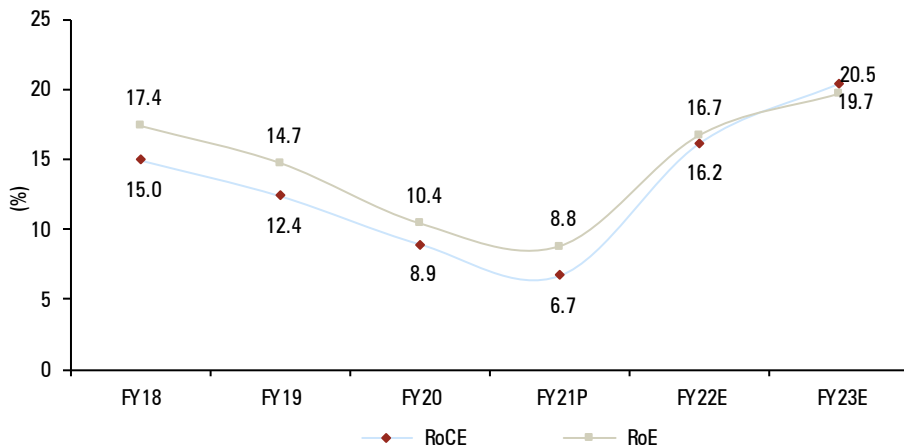
Exhibit 5: EBITDA and EBITDA margin trend



Margins are seen climbing to 11.3% by FY23E as operating leverage benefits kick in

Source: Company, ICICI Direct Research

Exhibit 6: Trend in return ratios



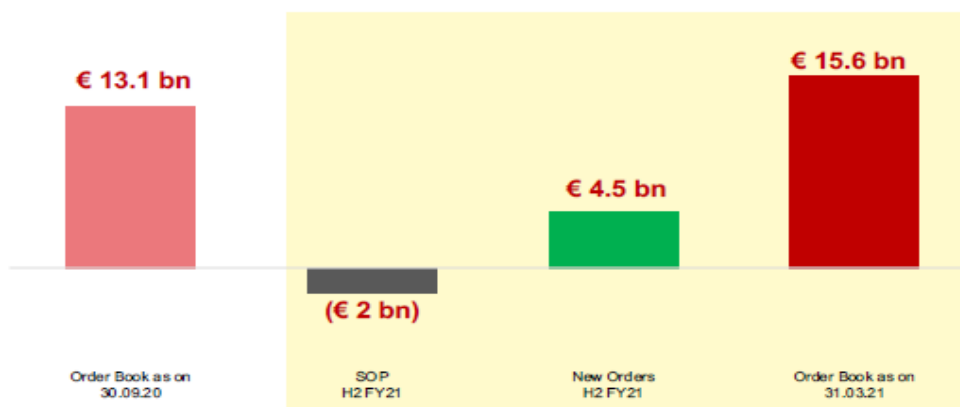
Return ratios are seen improving substantially to ~20% mark by FY23E amid improved asset turnovers as well as margin profile

Source: Company, ICICI Direct Research

Exhibit 7: SMRPBV Order book trend

Recovery also reflected in normalized activity in H2.

SMRPBV order book



* Order book is lifetime sales of awarded programs. Revenues are a function of execution of order book and net increase/decrease of ongoing programs.

- Note:
1. Order book includes JVs which are unconsolidated.
 2. EV order book includes only pure EV programs and not electric versions of multi powertrain vehicles

Source: Company, ICICI Direct Research

Exhibit 8: SoTP based valuation trend converges towards our P/E based target price

SOTP Valuation incorporating corporate restructuring		
Particulars	Units	Amount
FY23E Projected PAT (MSSL)	₹ crore	3153
FY23E Minority Interest Added Back (SMRPBV)	₹ crore	1202
MSSL + SMRPBV PAT estimates (FY23E)	₹ crore	4355
New No of Shares (post corporate restructuring)	crore	452
Per Share Value (₹)	₹/share	9.6
P/E Multiple Assigned	x	30
Per Share Value in Target Price (A; MSSL+SMRPBV)	₹/share	290

Particulars	Units	Amount
FY21 Sales of SAMIL Businesses (ex MSSL, ex- SMRP BV)	₹ crore	2650
Approximate SAMIL share	%	50
Apportioned SAMIL Sales	₹ crore	1325
MCap/Sales Multiple	x	3
Equity Value	₹ crore	3975
New No of Shares (post corporate restructuring)	crore	452
Per Share Value (B;SAMIL business Ex-SMRPBV)	₹/share	10

Total Fair Value (A+B)	₹/share	300
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Source: ICICI Direct Research

Exhibit 9: Shareholding pattern

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	61.7	61.7	61.7	61.7	61.7
FII	15.5	15.6	16.0	16.1	16.6
DII	13.6	13.4	13.6	14.3	13.4
Others	9.2	9.3	8.7	7.9	8.2

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Total operating Income	63,536.9	61,462.9	74,323.5	79,971.1
Growth (%)	0.0	-3.3	20.9	7.6
Raw Material Expenses	36,271.4	34,769.2	41,843.5	44,475.7
Employee Expenses	15,076.9	14,891.4	16,531.6	17,617.5
Other expenses	6,987.1	6,962.0	8,309.6	8,849.8
Total Operating Expenditure	58,335.4	56,622.6	66,684.7	70,943.1
EBITDA	5,201.4	4,840.2	7,638.8	9,028.0
Growth (%)	-2.7	-6.9	57.8	18.2
Depreciation	2,778.0	2,986.5	3,158.7	3,318.8
Interest	598.6	519.0	475.4	337.9
Other Income	230.7	254.3	280.1	299.3
PBT	2,055.4	1,589.0	4,284.7	5,670.6
Total Tax	818.4	41.4	1,071.2	1,417.7
Minority Interest	124.4	530.3	962.5	1,202.1
Profit from Associates	57.5	84.8	95.2	102.4
Reported PAT	1,170.1	1,039.9	2,346.2	3,153.3
Growth (%)	-27.5	-11.1	125.6	34.4
EPS (₹)	3.7	3.3	7.4	10.0

Source: Company, ICICI Direct Research

Exhibit 12: /Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Liabilities				
Equity Capital	315.8	315.8	315.8	315.8
Reserve and Surplus	10,945.1	12,244.8	13,722.5	15,691.6
Total Shareholders funds	11,260.9	12,560.6	14,038.3	16,007.4
Total Debt	11,790.1	10,758.2	8,258.2	5,258.2
Deferred Tax Liability	462.8	336.3	406.7	437.6
Minority Interest / Others	3,565.0	4,023.3	4,985.8	6,187.9
Total Liabilities	29,453.9	30,244.7	30,792.3	31,230.2
Assets				
Gross Block	24,876.4	27,401.6	29,678.5	32,278.5
Less: Acc Depreciation	8,603.0	11,589.5	14,748.3	18,067.1
Net Block	16,273.4	15,812.1	14,930.2	14,211.4
Capital WIP	851.8	876.9	600.0	500.0
Total Fixed Assets	17,125.2	16,689.0	15,530.2	14,711.4
Investments	3,006.7	2,813.3	2,913.3	3,013.3
Goodwill	2406.0	2471.8	2471.8	2471.8
Inventory	5,156.6	4,995.6	6,108.8	6,573.0
Debtors	6,578.2	7,187.6	8,552.3	9,202.2
Loans and Advances	31.9	27.2	32.9	35.4
Other Current Assets	4,219.6	5,404.1	5,791.6	6,231.7
Cash	4,878.9	5,906.2	7,001.5	7,482.0
Total Current Assets	20,865.2	23,520.7	27,487.1	29,524.2
Creditors	10,309.1	11,140.7	13,032.1	13,584.1
Provisions	205.2	496.8	581.1	605.7
Other current liabilities	5528	6203	6758	7271
Total Current Liabilities	16,041.9	17,840.3	20,370.7	21,460.8
Net Current Assets	4,823.3	5,680.4	7,116.4	8,063.3
Other non-current Asset	1589.8	1567.9	1895.9	2040.0
Deferred Tax Asset	503.0	1,022.4	864.7	930.4
Application of Funds	29,453.9	30,244.7	30,792.3	31,230.2

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Profit after Tax	1,170.1	1,039.9	2,346.2	3,153.3
Add: Depreciation	2,778.0	2,986.5	3,158.7	3,318.8
(Inc)/dec in Current Assets	1,579.3	-1,628.2	-2,871.0	-1,556.6
Inc/(dec) in CL and Provisions	574.6	1,798.4	2,530.4	1,090.2
CF from operating activities	6,102.0	4,196.6	5,164.3	6,005.6
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-4,782.5	-2,550.3	-2,000.0	-2,500.0
Others	617.0	153.2	1,299.5	1,159.1
CF from investing activities	(4,165.5)	(2,397.1)	(700.5)	(1,340.9)
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	267.2	-1,031.9	-2,500.0	-3,000.0
Dividend paid & dividend tax	-1,136.9	-473.7	-868.4	-1,184.2
Inc/(dec) in Sec. premium	265.0	733.4	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	(604.7)	(772.2)	(3,368.4)	(4,184.2)
Net Cash flow	1,331.9	1,027.3	1,095.4	480.4
Opening Cash	3,547.0	4,878.9	5,906.2	7,001.5
Closing Cash	4,878.9	5,906.2	7,001.5	7,482.0

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21P	FY22E	FY23E
Per share data (₹)				
EPS	3.7	3.3	7.4	10.0
Cash EPS	12.5	12.8	17.4	20.5
BV	35.7	39.8	44.5	50.7
DPS	3.0	1.5	2.8	3.8
Cash Per Share	15.4	18.7	22.2	23.7
Operating Ratios				
EBITDA Margin (%)	8.2	7.9	10.3	11.3
PBIT / Net sales (%)	3.8	3.0	6.0	7.1
PAT Margin (%)	1.8	1.7	3.2	3.9
Inventory days	29.6	29.7	30.0	30.0
Debtor days	37.8	42.7	42.0	42.0
Creditor days	59.2	66.2	64.0	62.0
Return Ratios (%)				
RoE	10.4	8.8	16.7	19.7
RoCE	8.9	6.7	16.2	20.5
RoIC	11.4	8.9	22.3	28.7
Valuation Ratios (x)				
P/E	67.5	71.7	33.6	25.0
EV / EBITDA	16.5	17.3	10.5	8.5
EV / Net Sales	1.4	1.4	1.1	1.0
Market Cap / Sales	1.2	1.3	1.1	1.0
Price to Book Value	7.0	6.3	5.6	4.9
Solvency Ratios				
Debt/EBITDA	2.3	2.2	1.1	0.6
Debt / Equity	1.0	0.9	0.6	0.3
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)	230	260	BUY	14,606	5.5	9.9	16.2	41.7	23.3	14.2	6.9	7.1	5.2	7.6	6.1	9.1	6.4	5.3	8.2
Ashok Leyland (ASHLEY)	125	150	Buy	36,589	-1.7	1.4	4.6	-72.7	89.8	27.5	124.5	25.7	13.9	-3.6	6.1	16.4	-6.9	5.9	17.5
Bajaj Auto (BAAUTO)	4,275	4,500	BUY	1,23,706	157.4	183.5	210.0	27.2	23.3	20.4	20.7	16.9	14.5	18.2	21.9	25.2	18.1	20.6	23.1
Balkrishna Ind. (BALIND)	2,240	2,250	Buy	43,303	59.8	68.2	80.5	37.5	32.8	27.8	24.5	21.1	17.9	19.3	20.4	21.6	19.2	19.0	19.4
Bharat Forge (BHAFOR)	690	670	Hold	32,124	-5.2	11.8	19.1	NM	58.7	36.2	47.5	25.4	18.4	1.2	7.1	11.1	3.7	10.2	14.9
Eicher Motors (EICMOT)	2,690	2,970	Hold	73,329	49.3	66.7	87.4	54.6	40.3	30.8	36.9	28.3	21.5	11.3	13.5	15.8	11.8	14.3	16.6
Escorts (ESCORT)	1,165	1,140	Hold	14,281	71.2	62.0	76.9	16.4	18.8	15.1	10.0	11.5	9.0	18.7	13.8	14.8	16.2	12.6	13.7
Exide Industries (EXIIND)	190	200	Hold	16,150	8.9	9.3	11.0	16.2	15.6	13.1	11.2	10.7	9.2	14.0	13.8	15.1	11.0	10.5	11.5
Hero Moto (HERHON)	2,975	3,440	Buy	59,411	148.4	170.8	196.5	20.0	17.4	15.1	12.8	10.8	9.3	20.8	23.1	24.5	19.5	20.7	21.7
M&M (MAHMAH)	810	1,000	Buy	1,00,699	2.3	29.9	37.8	359.8	27.1	21.4	15.0	15.8	12.6	9.5	8.2	10.5	2.7	9.6	11.1
Maruti Suzuki (MARUTI)	7,200	6,080	Reduce	2,17,498	140.0	172.9	225.1	51.4	41.6	32.0	32.6	24.3	18.1	4.3	6.6	9.1	8.2	9.5	11.4
Minda Industries (MININD)	575	625	Buy	15,635	5.8	11.6	17.9	98.8	49.4	32.2	24.1	16.7	13.1	8.7	14.2	19.1	8.7	15.9	19.5
Motherson (MOTSUM)	250	300	Buy	78,948	3.3	7.4	10.0	NM	33.6	25.0	17.3	10.5	8.5	6.7	16.2	20.5	8.8	16.7	19.7
Tata Motors (TATMOT)	325	400	Buy	1,16,925	-35.0	17.6	38.3	NM	18.4	8.5	5.2	4.2	2.9	6.4	9.7	14.3	-23.6	10.6	18.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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