

CMP: ₹ 225

Target: ₹ 270 (20%)

Target Period: 12 months

BUY

August 11, 2021

Well placed to capitalise on global PV recovery...

About the stock: Motherson Sumi (MSS) primarily serves global PV industry with wiring harnesses, vision systems (mirrors) & plastic body parts as key product lines.

- History of successful turnarounds in acquisitions and inorganic-led growth
- SMRPBV order book was at €15.6 billion as of FY21

Q1FY22 Results: The company posted muted Q1FY22 results.

- Consolidated net sales dipped 6.6% QoQ to ₹ 17,271 crore
- Margins stood lower by 287 bps sequentially to 7.7%
- Consequent consolidated PAT stood at ₹290 crore, down 59.4% QoQ

What should investors do? MSS' stock price has grown at ~10% CAGR from ~₹ 145 levels in August 2016, widely outperforming the Nifty Auto index.

- We retain **BUY** rating on global PV premiumisation play, EV neutral products

Target Price and Valuation: We value MSS at 30x P/E on FY23E basis for a revised target price of ₹ 270 (earlier ₹ 300).

Key triggers for future price performance:

- Backed by healthy expected revival for worldwide OEM client volumes and strong orderbook, we expect 12.6% FY21-23E net sales CAGR
- Minimal EV risk, with share of EV within orderbook at 25% (FY21)
- Focus on higher content per vehicle to gain further traction
- Margins seen rising to 10.8% by FY23E on the back of higher capacity utilisation at greenfield plants and general operating leverage benefits
- Well poised to post ~20% RoCE by FY23E

Alternate Stock Idea: Besides MSS, in our ancillary coverage we like Apollo Tyres.

- India CV revival beneficiary focused on debt reduction, higher return ratios
- BUY with a target price of ₹ 275



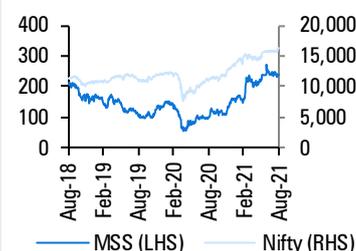
Particulars

Particular	₹ crore
Market Capitalization	71,054
Total Debt (FY21P)	10,758
Cash & Investments (FY21P)	5,906
EV (₹ Crore)	75,906
52 week H/L (₹)	273 / 99
Equity capital	₹ 315.8 Crore
Face value	₹ 1

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	61.7	61.7	61.7	61.7
FII	16.0	16.1	16.6	16.9
DII	13.6	14.3	13.4	13.0
Other	8.7	7.9	8.2	8.4

Price Chart



Recent event & key risks

- Posted muted Q1FY22 results
- Key Risk:** (i) Semiconductor shortage impact on global PV production volumes, (ii) Input cost pressure on margins

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Key Financial Summary

Key Financials	FY19	FY20	FY21P	5 year CAGR (FY16-21P)	FY22E	FY23E	2 year CAGR (FY21P-23E)
Net Sales	63,522.9	63,536.9	61,462.9	10.6%	71,864.5	77,975.2	12.6%
EBITDA	5,348.4	5,201.4	4,840.2	6.4%	6,433.7	8,437.3	32.0%
EBITDA Margins (%)	8.4	8.2	7.9		9.0	10.8	
Net Profit	1,613.2	1,170.1	1,039.9	-4.3%	1,712.6	2,836.8	65.2%
EPS (₹)	5.1	3.7	3.3		5.4	9.0	
P/E	44.0	60.7	68.3		41.5	25.0	
RoNW (%)	14.7	10.4	8.8		12.7	18.8	
RoCE (%)	12.4	8.9	6.7		12.4	19.5	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results:

- Standalone revenues for the quarter de-grew 19.8% QoQ to ₹ 2,228 crore with EBITDA margins at 10.8%, down 402 bps QoQ
- Consolidated performance was dragged down by overseas subsidiaries, which recorded lower than expected revenues as well as margins QoQ
- SMR reported revenues of €318 million (down 14.3% QoQ) while SMP posted revenues of €944 million, down 4.7% QoQ. EBITDA margins in SMR & SMP was at 11.3% (down 160 bps QoQ) & 7.3% (down 140 bps QoQ)

Q1FY22 Earnings Conference Call highlights

- The management said that supply chain disruption related to shortage of semiconductors and other materials is a near term headwind for OEM production. The same is expected to improve from H2FY22E onwards
- Globally, amid the semiconductor shortage, OEMs are tweaking production mix in favour of premium models. However, underlying demand remains healthy across the PV industry
- Greenfield plant ramp up continues but Hungary saw some OEM shutdown related impact in Q1FY22
- PKC margins (4%; down ~400 bps QoQ) were impacted by lagged pass through of copper cost increase, component shortages and some one-offs
- Uncertainties in OEM production is leading to higher inventory and consequent working capital requirements currently
- FY22E consolidated capex guidance is unchanged at ₹ 1,800-2,000 crore

Peer comparison

Exhibit 1: ICICI Direct coverage universe (auto ancillaries)

Company	CMP	TP	Rating	Mcap	EBITDA margin (%)			RoE (%)			RoCE (%)			P/E (x)		
	₹	₹		₹ crore	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Motherson Sumi (MOTSUM)	225	270	Buy	71,054	7.9	9.0	10.8	8.8	12.7	18.8	6.7	12.4	19.5	68.3	41.5	25.0
Minda Industries (MININD)	719	725	Buy	19,550	11.4	11.5	13.5	10.4	14.2	19.6	9.1	10.6	16.7	94.6	57.4	32.6

Source: Company, ICICI Direct Research

We like MSS as it provides a premiumisation play in the global PV space, with EV neutral product profile (wiring harnesses, mirrors, plastic parts) leaving it largely immune to the electrification mega change. Backed by higher utilisation levels, operating leverage gains and controlled capex, MSS is well poised to touch ~20% consolidated RoCE by FY23E. Longer term focus on profitable growth along with healthy diversification (Vision 2025) provides directional comfort.

Exhibit 2: Variance Analysis

Continued operations + DWH	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Operating Income	17,271.3	17,046.1	8,504	103.1	18,482	-6.6	Topline was broadly in line with our estimates
Raw Material Expenses	9,855.9	9,690.2	5,040.2	95.5	10,430.6	-5.5	RM costs increase ahead of estimates and for the quarter were at 57.1% of sales, up 63 bps QoQ
Employee Expenses	4,125	3,863	2,888	42.8	4,191	-1.6	
Other expenses	1,955.5	1,847.4	1,205.4	62.2	1,901.3	2.9	Other expenses for the quarter were at 11.3% of sales, up 100 bps QoQ
Operating Profit (EBITDA)	1,335.0	1,645.8	-630	-311.9	1,959	-31.9	
EBITDA margin (%)	7.7	9.7	-7.4	1514 bps	10.6	-287 bps	EBITDA margins for the quarter came in lower than our estimates tracking lower than anticipated margin profile at the company's key overseas subsidiaries
Other Income	159.3	69.1	48.1	231.5	77.7	105.0	
Depreciation	775	783	712	8.8	780	-0.6	Depreciation charge was broadly on expected lines
Interest	121	119	112	8.3	139	-12.8	
PAT	289.6	417.4	-810	-135.7	714	-59.4	PAT came in lower than estimates tracking muted operating margin profile for the quarter
EPS	0.9	1.3	-2.6	-135.7	2.3	-59.4	
Key Metrics							
Standalone revenue (₹ crore)	2228	2011	438	408.2	2779	-19.8	Standalone revenues (including DWH) declined 20% QoQ
Standalone margin (%)	10.8	10.2	14.8	-402 bps	14.8	-402 bps	
SMR revenue (€ million)	318	360	180	76.7	371	-14.3	
SMR margin (%)	11.3	13.0	-2.8	1408 bps	12.9	-160 bps	Margins at SMR declined 160 bps QoQ to 11.3%
SMP revenue (€ million)	944	964	551	71.3	991	-4.7	
SMP margin (%)	7.3	9.0	-8.3	1565 bps	8.7	-140 bps	Margins at SMP declined 140 bps QoQ to 7.3%

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	74,323	71,864	-3.3	79,971	77,975	-2.5	Marginally revise downward our revenue estimates at MSSSL. We now expect revenues at the company to grow at a CAGR of 12.6% over FY21-23E
EBITDA	7,639	6,434	-15.8	9,028	8,437	-6.5	
EBITDA Margin (%)	10.3	9.0	-133 bps	11.3	10.8	-47 bps	Lowered margin estimates for FY22E-23E incorporating Q1FY22 results and lagged pass through of rise in RM costs
PAT	2,346	1,713	-27.0	3,153	2,837	-10.0	
EPS (₹)	7.4	5.4	-27.0	10.0	9.0	-10.0	Downward revision in sales and margin estimates leads to double digit decline in PAT estimates for FY22E-23E

Source: ICICI Direct Research

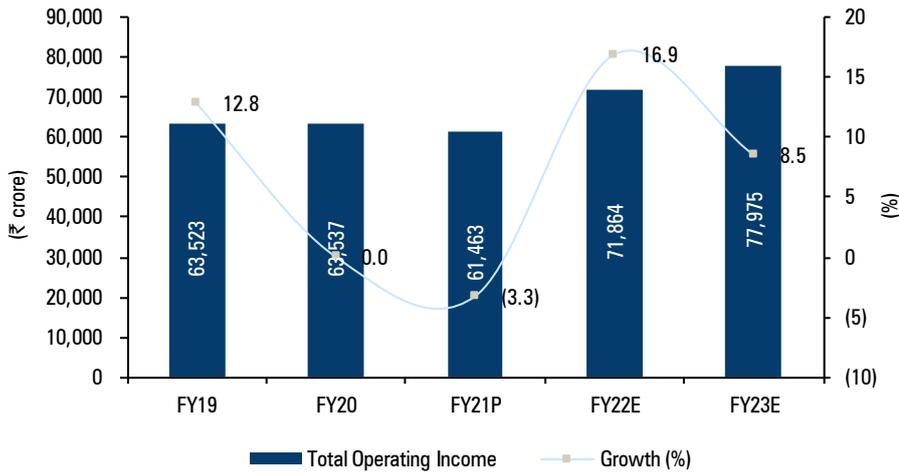
Exhibit 4: Assumptions

	Current						Comments
	FY18	FY19	FY20	FY21P	FY22E	FY23E	
Standalone revenues (₹ crore)	7,478	7,581	6,874	7,767	10,011	11,496	We expect consolidated revenues to grow at a CAGR of 12.6% over FY21-23E. Leading the revenue growth are standalone operations with revenue CAGR at ~22% in the aforesaid period. Revenue growth at key overseas subsidiaries SMP & SMR is seen growing at a CAGR of ~9% in that time
Standalone margins (%)	18.5	16.8	16.0	11.8	11.3	13.0	
SMR revenues (€ million)	1,576.0	1,603.0	1,540.0	1,286.0	1,388.3	1,533.2	
SMR margins (%)	11.5	11.3	11.8	11.0	12.0	13.5	
SMP revenues (€ million)	3,451.0	3,678.0	4,030.0	3,521.0	3,942.3	4,215.6	
SMP margins (%)	7.2	3.9	3.9	6.0	8.2	10.3	

Source: ICICI Direct Research

Financial story in charts

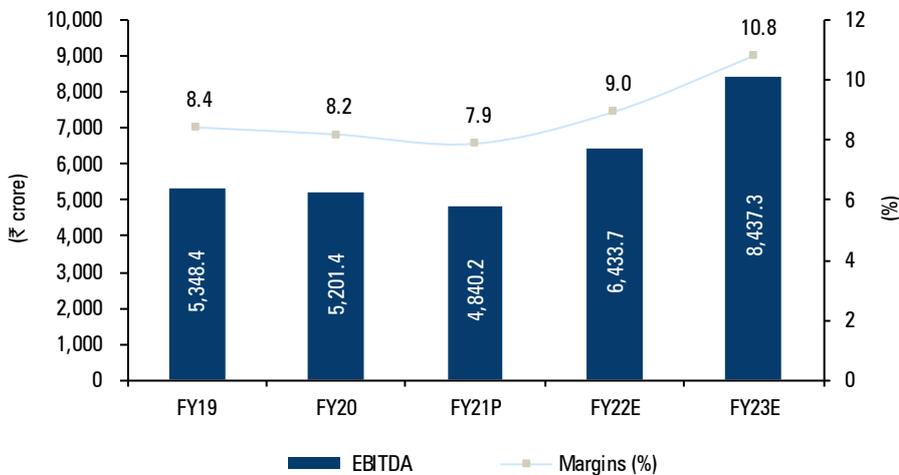
Exhibit 5: Topline trend



We expect sales to grow at 12.6% CAGR in FY21-23E

Source: Company, ICICI Direct Research

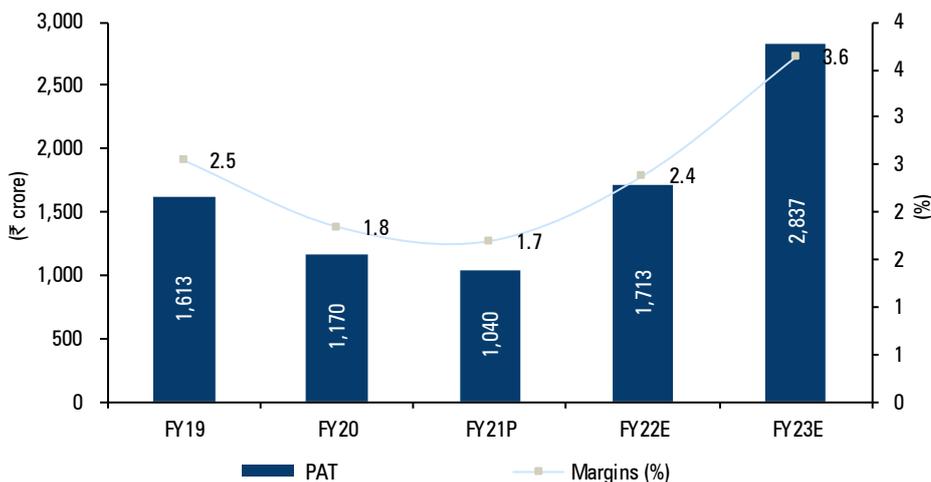
Exhibit 6: EBITDA and EBITDA margin trend



We build in 9% & 10.8% as EBITDA margins in FY22E and FY23E, respectively

Source: Company, ICICI Direct Research

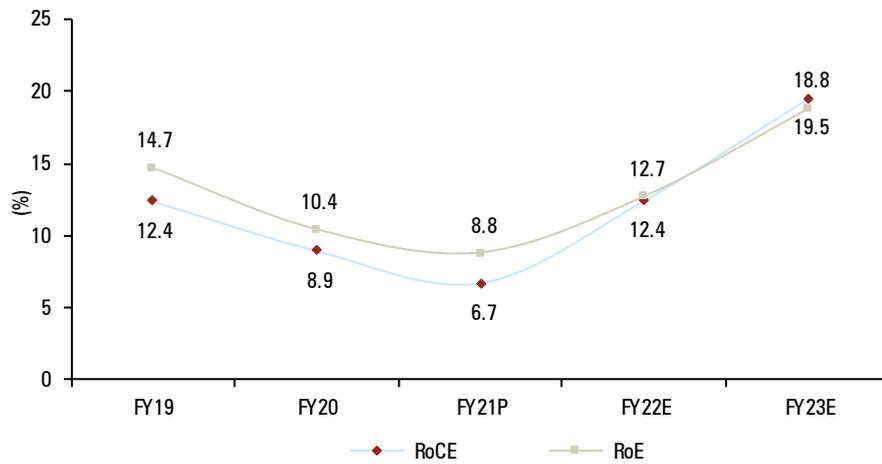
Exhibit 7: Profitability trend



PAT is expected to grow to ₹2,837 crore by FY23E

Source: Company, ICICI Direct Research

Exhibit 8: Return ratios trend



RoCE profile at MSS is seen improving to ~20% levels by FY23E

Source: Company, ICICI Direct Research

Exhibit 9: Valuation Summary

	Revenues (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	63,523	12.8	5.1	1.0	44.0	14.8	14.7	12.4
FY20	63,537	0.0	3.7	(27.5)	60.7	15.0	10.4	8.9
FY21P	61,463	(3.3)	3.3	(11.1)	68.3	15.7	8.8	6.7
FY22E	71,864	16.9	5.4	64.7	41.5	11.4	12.7	12.4
FY23E	77,975	8.5	9.0	65.6	25.0	8.3	18.8	19.5

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	71,864.5	77,975.2
Growth (%)	0.0	-3.3	16.9	8.5
Raw Material Expenses	36,271.4	34,769.2	41,093.4	44,169.7
Employee Expenses	15,076.9	14,891.4	16,445.8	16,995.6
Other expenses	6,987.1	6,962.0	7,891.6	8,372.6
Total Operating Expenditure	58,335.4	56,622.6	65,430.8	69,537.9
EBITDA	5,201.4	4,840.2	6,433.7	8,437.3
Growth (%)	-2.7	-6.9	32.9	31.1
Depreciation	2,778.0	2,986.5	3,090.2	3,236.0
Interest	598.6	519.0	475.4	337.9
Other Income	230.7	254.3	306.6	286.8
PBT	2,055.4	1,589.0	3,174.7	5,150.2
Total Tax	818.4	41.4	815.6	1,287.6
Minority Interest	124.4	530.3	738.0	1,125.7
Profit from Associates	57.5	84.8	92.0	99.9
Reported PAT	1,170.1	1,039.9	1,712.6	2,836.8
Growth (%)	-27.5	-11.1	64.7	65.6
EPS (₹)	3.7	3.3	5.4	9.0

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	1,712.6	2,836.8
Add: Depreciation	2,778.0	2,986.5	3,090.2	3,236.0
(Inc)/dec in Current Assets	1,579.3	-1,628.2	-2,193.3	-1,684.3
Inc/(dec) in CL and Provisions	574.6	1,798.4	1,856.4	1,228.5
CF from operating activities	6,102.0	4,196.6	4,466.0	5,617.1
(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	-2,200.0
Others	617.0	153.2	1,050.2	1,087.3
CF from investing activities	(4,165.5)	(2,397.1)	(949.8)	(1,112.7)
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	-789.5	-1,263.2
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)	(3,289.5)	(4,263.2)
Net Cash flow	1,331.9	1,027.3	226.7	241.2
Opening Cash	3,547.0	4,878.9	5,906.2	6,132.9
Closing Cash	4,878.9	5,906.2	6,132.9	6,374.0

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	13,167.9	14,741.6
Total Shareholders funds	11,260.9	12,560.6	13,483.7	15,057.4
Total Debt	11,790.1	10,758.2	8,258.2	5,258.2
Deferred Tax Liability	462.8	336.3	393.2	426.7
Minority Interest / Others	3,565.0	4,023.3	4,761.3	5,887.0
Total Liabilities	29,453.9	30,244.7	29,897.1	29,885.0
Assets				
Gross Block	24,876.4	27,401.6	29,678.5	31,978.5
Less: Acc Depreciation	8,603.0	11,589.5	14,679.7	17,915.7
Net Block	16,273.4	15,812.1	14,998.8	14,062.8
Capital WIP	851.8	876.9	600.0	500.0
Total Fixed Assets	17,125.2	16,689.0	15,598.8	14,562.8
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	5,906.7	6,408.9
Debtors	6,578.2	7,187.6	8,269.3	8,972.5
Loans and Advances	31.9	27.2	31.8	34.5
Other Current Assets	4,219.6	5,404.1	5,600.0	6,076.2
Cash	4,878.9	5,906.2	6,132.9	6,374.0
Total Current Assets	20,865.2	23,520.7	25,940.6	27,866.1
Creditors	10,309.1	11,140.7	12,600.9	13,245.1
Provisions	205.2	496.8	561.9	590.6
Other current liabilities	5528	6203	6534	7090
Total Current Liabilities	16,041.9	17,840.3	19,696.7	20,925.2
Net Current Assets	4,823.3	5,680.4	6,243.9	6,940.9
Other non-current Asset	1589.8	1567.9	1833.2	1989.1
Deferred Tax Asset	503.0	1,022.4	836.1	907.2
Application of Funds	29,453.9	30,244.7	29,897.1	29,885.0

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21P	FY22E	FY23E
Per share data (₹)				
EPS	3.7	3.3	5.4	9.0
Cash EPS	12.5	12.8	15.2	19.2
BV	35.7	39.8	42.7	47.7
DPS	3.0	1.5	2.5	4.0
Cash Per Share	15.4	18.7	19.4	20.2
Operating Ratios				
EBITDA Margin (%)	8.2	7.9	9.0	10.8
PBIT / Net sales (%)	3.8	3.0	4.7	6.7
PAT Margin (%)	1.8	1.7	2.4	3.7
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	12.7	18.8
RoCE	8.9	6.7	12.4	19.5
RoIC	11.4	8.9	16.6	26.3
Valuation Ratios (x)				
P/E	60.7	64.6	41.5	25.0
EV / EBITDA	15.0	15.7	11.4	8.3
EV / Net Sales	1.2	1.2	1.0	0.9
Market Cap / Sales	1.1	1.2	1.0	0.9
Price to Book Value	6.3	5.7	5.3	4.7
Solvency Ratios				
Debt/EBITDA	2.3	2.2	1.3	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 (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)			FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E
Apollo Tyre (APOTYR)	222	275	Buy	14,098	5.5	10.2	16.6	40.3	21.7	13.4	6.7	6.9	5.0	7.6	6.1	9.1	6.4	5.5	8.4
Ashok Leyland (ASHLEY)	131	150	Buy	38,448	-1.1	1.1	4.4	-122.9	119.2	29.9	77.4	30.1	14.8	-1.9	4.8	15.7	-4.4	4.5	16.5
Bajaj Auto (BAAUTO)	3,798	4,350	Hold	1,09,903	157.4	167.7	193.6	24.1	22.6	19.6	17.9	16.9	14.2	18.2	19.3	22.5	18.1	18.9	21.4
Balkrishna Ind. (BALIND)	2,319	2,825	Buy	44,830	59.8	67.0	78.4	38.8	34.6	29.6	26.8	23.5	20.4	19.3	19.9	21.0	19.2	18.7	19.0
Bharat Forge (BHAFOR)	751	875	Buy	34,955	-2.7	15.9	25.0	NM	47.3	30.1	43.2	23.2	16.6	2.2	8.0	12.1	3.3	12.3	16.9
Eicher Motors (EICMOT)	2,734	2,970	Hold	74,538	49.3	66.7	87.4	55.5	41.0	31.3	37.0	28.4	21.6	11.3	13.5	15.8	11.8	14.3	16.6
Escorts (ESCORT)	1,270	1,325	Hold	15,568	71.2	67.7	78.2	17.8	18.8	16.2	10.7	11.4	9.3	18.7	14.7	15.1	16.2	13.6	13.8
Hero Moto (HERHON)	2,797	3,440	Buy	55,856	148.4	170.8	196.5	18.8	16.4	14.2	12.2	10.3	8.8	20.8	23.1	24.5	19.5	20.7	21.7
M&M (MAHMAH)	786	1,000	Buy	97,753	2.3	33.6	39.1	349.2	23.4	20.1	14.6	13.2	11.5	9.5	9.8	10.9	2.7	10.9	11.4
Maruti Suzuki (MARUTI)	7,002	6,400	Reduce	2,11,516	140.0	153.1	228.5	50.0	45.7	30.6	32.3	27.0	18.4	4.3	5.9	9.5	8.2	8.5	11.7
Minda Industries (MININD)	719	725	Buy	19,550	7.6	10.9	19.1	94.6	66.1	37.6	28.1	20.6	14.5	9.1	10.6	16.7	10.4	14.2	19.6
Motherson (MOTSUM)	225	270	Buy	71,054	3.3	5.4	9.0	NM	41.5	25.0	15.7	11.4	8.3	6.7	12.4	19.5	8.8	12.7	18.8
Tata Motors (TATMOT)	294	375	Buy	1,12,649	-35.0	0.9	37.9	NM	341.6	7.8	5.1	4.9	3.2	6.3	7.9	14.8	-23.6	0.6	20.3

Source: Company, 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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