

Motherson Sumi

Refer to important disclosures at the end of this report

Moving toward a better growth platform

At its analyst call, management reiterated that the proposed restructuring exercise aligns the interests of all stakeholders, and is earnings-accretive for minority shareholders. Management re-emphasized expectations of better content per vehicle, helped by increasing EV penetration, in both the entities – MSWIL (domestic wiring harness business) and SAMIL (new name for existing listed entity after the de-merger of domestic wiring harness business and merger with parent entity). Key takeaways:

- SAMIL shares will trade ex-MSWIL from 14th January. The merger with the promoter entity is expected to take place on 24th January. MSWIL's listing is expected in mid-March, subject to regulatory approvals.
- Led by restructuring, EPS accretion is expected for minority shareholders. In the past 12 months ending Sep'21, EPS accretion stood at ~5%.

SAMIL

- EV opportunity: Global high-voltage wiring harness market is expected to grow to US\$7bn in 2028, implying a 17% CAGR over 2021-28. In addition, the Power electronics market is likely to surge to US\$81bn in 2030 from US\$20bn in 2020. Further, the automotive software and electrical & electronic components market should grow to US\$469bn by 2030, implying a 7% CAGR over 2020-30 (Source: Based on external market research published in MSS presentation).
- Being powertrain-neutral, over 98% of the product portfolio is favorably positioned for upcoming mega-trends for SAMIL.
- EV-related updates: 1) In SMR PBV, 27% of the order book of EUR15.3bn as of Sep'21, is from EVs, 2) In PKC, there have been multiple order wins for wiring harness for electric trucks and buses globally, 3) In SMR, there has been strong traction with EV OEMs globally, with more than one-third of the market share for exterior mirrors, 4) In SMR, content has increased with the adoption of new technologies, such as light-weight mirrors and camera monitoring systems, 5) In Precision Metals, specialized solutions for EV-specific requirements have been developed (such as HVACs for E-buses in India).
- The share of non-automotive verticals stands at <1% of revenues, but management remains focused on increasing this share. SAMIL will pursue acquisition opportunities aggressively, and management is evaluating opportunities in both Auto and Non-auto segments.
- Focus remains on India and Emerging markets. India has a 20% revenue contribution and over 40% of profit contribution in H1FY22. Emerging markets contributed 57% of revenues in the same period.

MSWIL

- EV penetration should lead to higher content per vehicle. The company has won orders for E-PV components from multiple OEMs. The support of the parent company (Sumitomo Wiring Systems) will be in the form of: 1) Component supplies, 2) Technical assistance. 3) New technology products, including gateways, body ECUs, Junction box, etc., along with solutions for hybrids/EVs.

Retain Buy with a TP of Rs300 (23x Dec'23E EPS). We expect robust growth prospects for MSS in the medium term, driven by expectations of a cyclical upturn in the underlying Auto segment in domestic/global markets and increasing content per vehicle due to premiumization/electrification. In addition, the proposed restructuring exercise creates a platform for future growth through inorganic and organic routes. This restructuring exercise is a step toward the company's Vision 2025 – revenue target of USD36bn with ROCE of 40%.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Automobiles & Auto Ancillaries \(Page 10\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	607,290	573,699	671,470	749,275	816,813
EBITDA	46,541	43,590	60,477	79,034	91,690
EBITDA Margin (%)	7.7	7.6	9.0	10.5	11.2
APAT	11,700	11,014	23,468	35,541	43,155
EPS (Rs)	3.7	3.5	7.4	11.3	13.7
EPS (% chg)	(27.5)	(5.9)	113.1	51.4	21.4
ROE (%)	10.7	10.1	20.5	26.4	26.7
P/E (x)	64.5	68.5	32.1	21.2	17.5
EV/EBITDA (x)	17.7	18.4	13.0	9.5	7.8
P/BV (x)	6.8	7.1	6.2	5.1	4.3

Source: Company, Emkay Research

CMP	Target Price
Rs 239 as of (January 9, 2022)	Rs 300 (■) 12 months
Rating	Upside
BUY (■)	25.8 %

Change in Estimates

EPS Chg FY22E/FY23E (%)	-/
Target Price change (%)	0.1
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	7.4	11.3
Consensus	5.3	9.3
Mean Consensus TP (12M)	Rs 268	

Stock Details

Bloomberg Code	MSS IN
Face Value (Rs)	1
Shares outstanding (mn)	3,158
52 Week H/L	273 / 143
M Cap (Rs bn/USD bn)	754 / 10.15
Daily Avg Volume (nos.)	8,378,826
Daily Avg Turnover (US\$ mn)	26.1

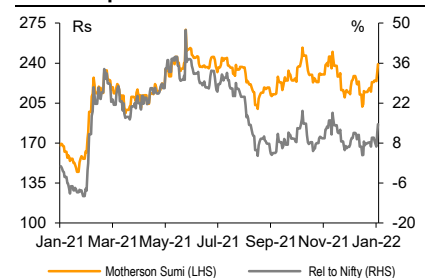
Shareholding Pattern Sep '21

Promoters	61.7%
FIIs	16.4%
DIIIs	13.6%
Public and Others	8.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	1	2	43
Rel. to Nifty	5	1	(9)	13

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Story in Charts

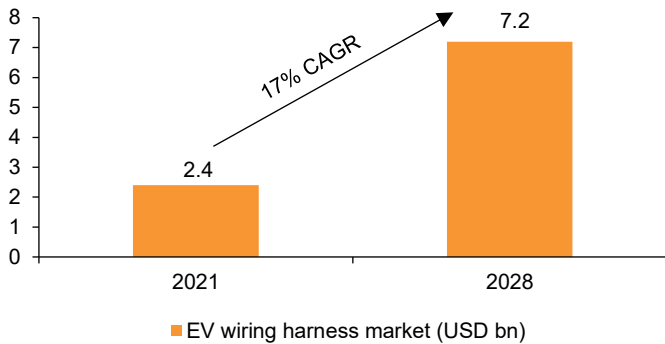
Exhibit 1: Restructuring exercise is an important step toward Vision 2025

Particulars	2005		2010		2015		2020		2025
	Target	Achieved	Target	Achieved	Target	Achieved	Target	Achieved*	Target^
Sales	Rs10bn	Rs10.3bn	USD1bn	USD1.5bn	USD5bn	USD5.5bn	USD18bn	USD8.9bn	USD36bn
Sales from non-automotive divisions									25%
Sales from customer outside India	30%	29%	60%	70%	70%	84%	85%	89%	90%
Largest customer turnover as % of sales/ Global presence	< 25%	27%	< 20%	15%	Global presence in 26-27 countries	Presence in 25 countries	< 15%	14%	<10%
ROCE	40%	39%	40%	37% (Consol.) 22% (Stand)	40%	26% (Consol.) 41% (Stand)	40%	10% (Consol.) 31% (Stand)	40%
Dividend pay-out	40%	43%	44%	32%	40%	37%	40%	49%	40%

Source: Company

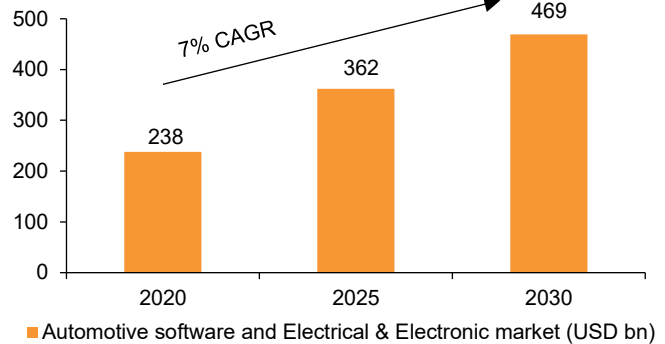
Global wiring harness opportunities

Exhibit 2: Global high voltage wiring harness market is expected to grow to US\$7bn in 2028 (17% CAGR over 2021-28)



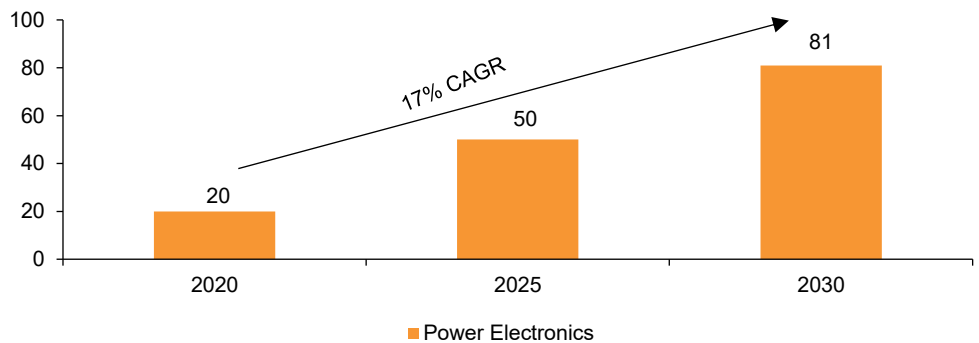
Source: Company

Exhibit 3: Automotive software and electrical & electronic components market to grow to US\$469bn by 2030 (7% CAGR over 2020-30)



Source: Company

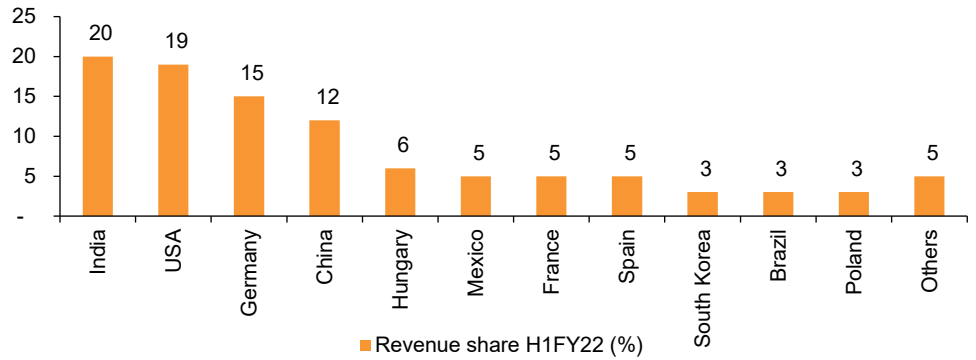
Exhibit 4: Power electronics market is expected to surge to US\$81bn in 2030 (vs. US\$20bn in 2020)



Source: Company

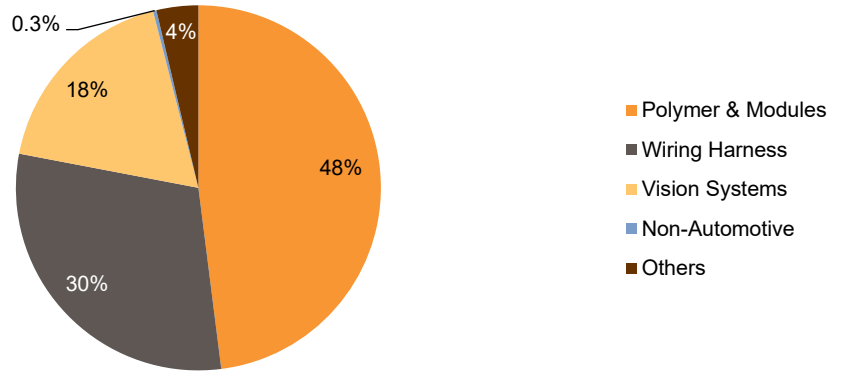
SAMIL

Exhibit 5: India accounted for 20% of revenues and over 40% of profits in H2FY22; Emerging markets account for 57% of revenues in H1FY22



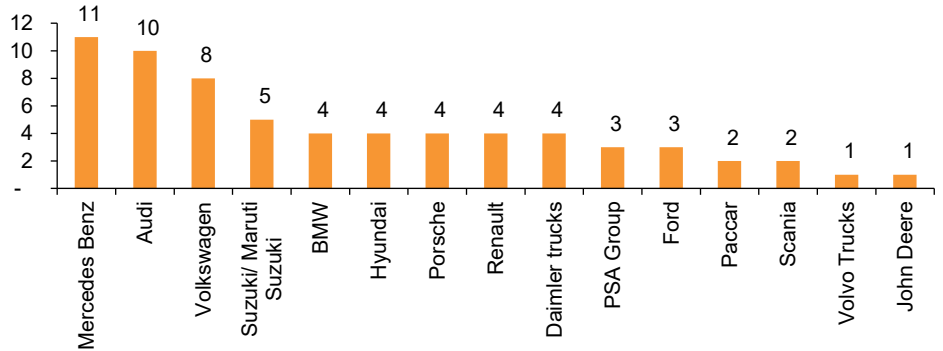
Source: Company

Exhibit 6: Well-diversified across four key verticals with leadership across most segments; Over 98% of portfolio is favorable positioned for changes from emerging trends



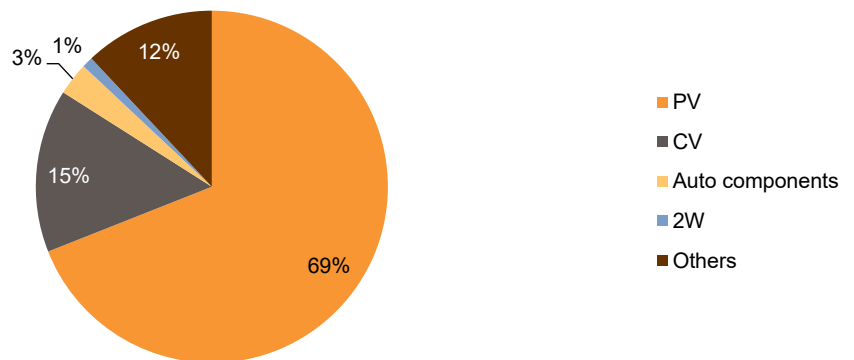
Source: Company

Exhibit 7: Moving towards C3X10: Top 20 customers account for 73% of overall revenues



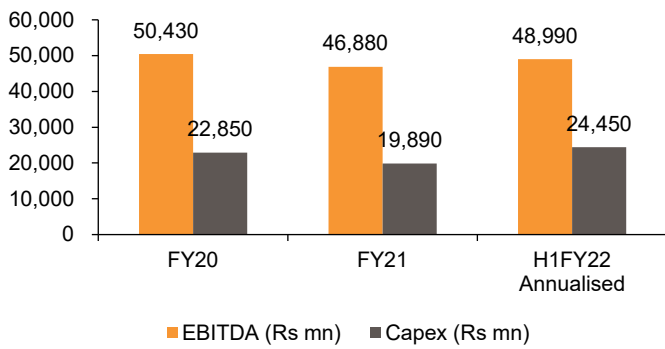
Source: Company

Exhibit 8: Revenues skewed toward PVs



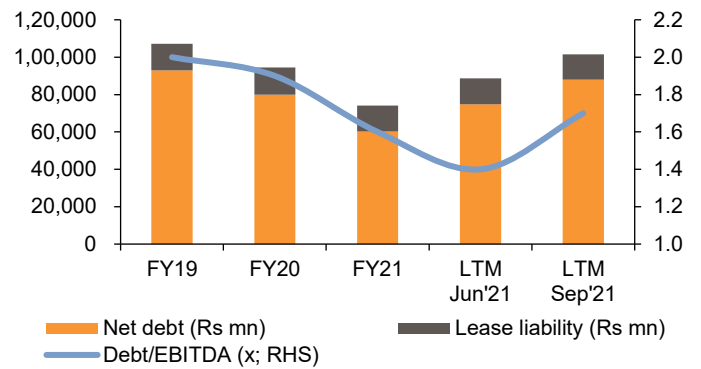
Source: Company

Exhibit 9: EBITDA at 2x of Capex...



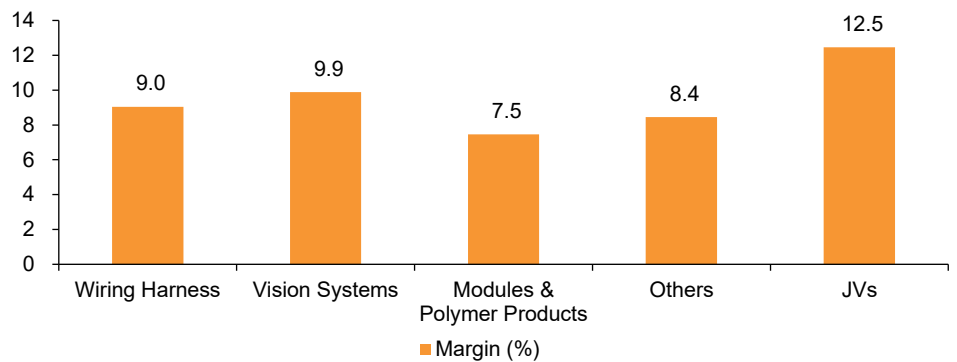
Source: Company

Exhibit 10: ... with lower leverage levels (remains well under the threshold of 2.5x)



Note: Data is proforma and for combined entity. Source: Company

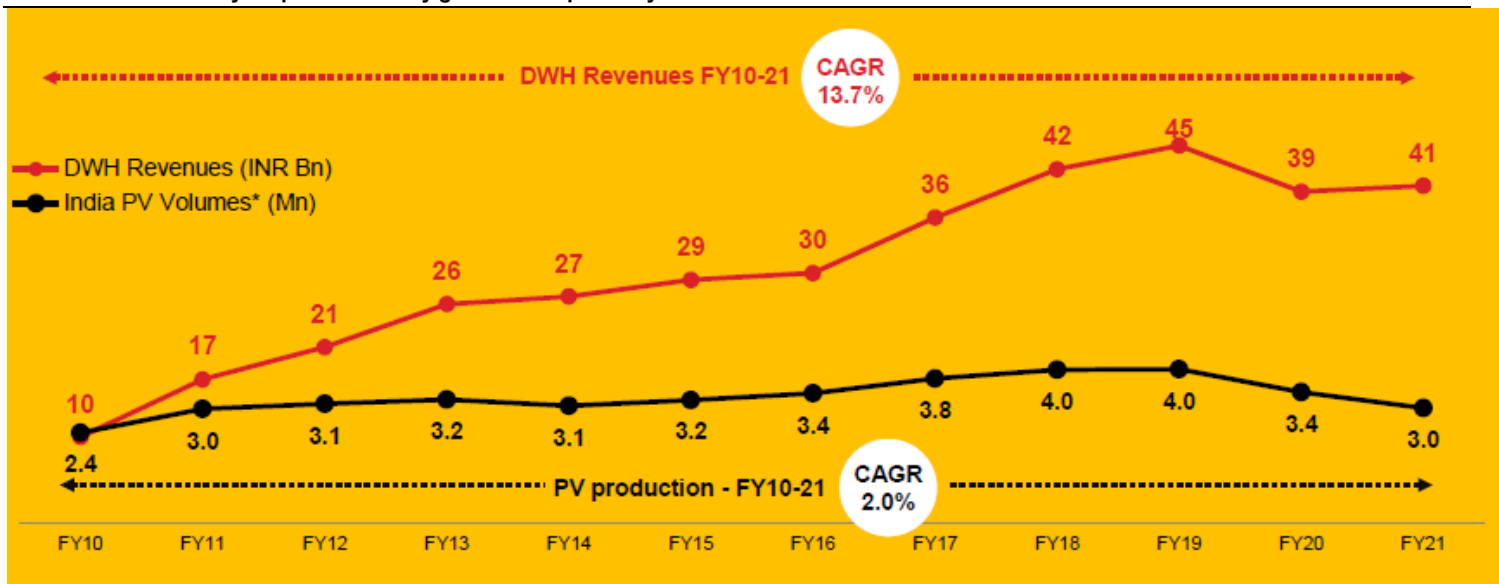
Exhibit 11: Healthy margins across segments in H1FY22



Note: Others includes – Lighting & Electronics, Precision Metals along with the new non-automotive verticals of Aerospace, Healthcare, Logistics and Technology & Industrial Solutions etc. Data for JVs consolidated as per equity method is net of inter-company transactions. Includes share in MSWIL. Source: Company

MSWIL

Exhibit 12: Has notably outpaced industry growth over past 10 years



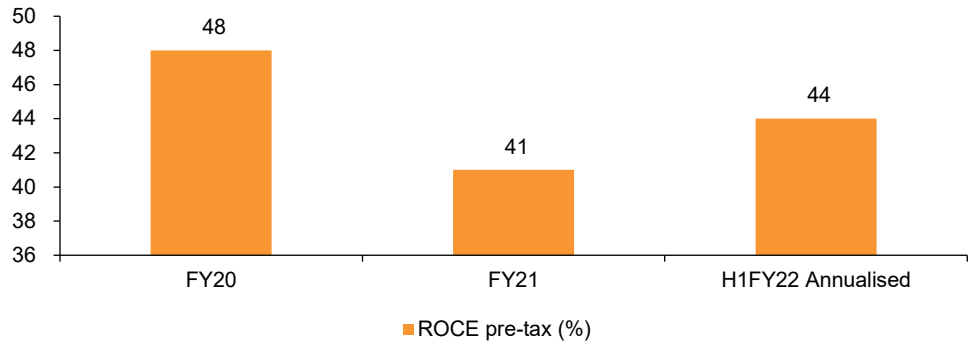
Source: Company

Exhibit 13: Well-positioned to leverage upcoming trends

Industry macro trends	Opportunities	Solutions
Rising premiumization/customization	Increasing content per vehicle	Wiring harnesses
Alignment to user's digital lifecycle - connectivity	Adding high-value SMART components	Harnesses components
Sustainable technologies (BS6/safety regulations)	Increasing value per vehicle	Electronics and EV solutions
Alternate/Electric Powertrain	Sumitomo leading global change, MSWIL fully prepared	High-voltage solutions Harness and components

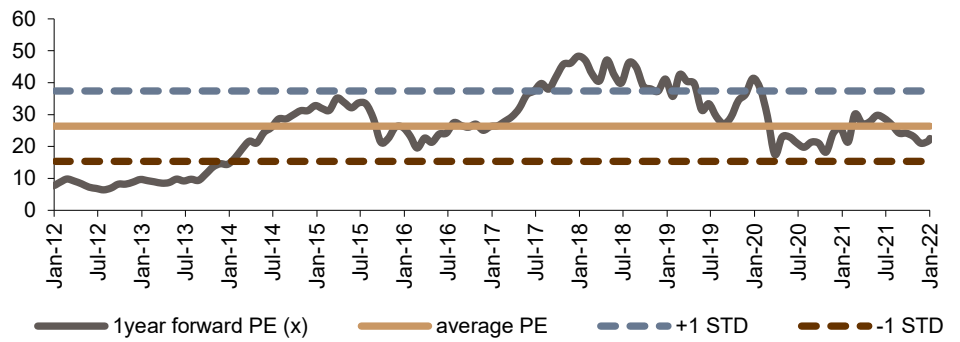
Source: Company

Exhibit 14: ROCE (pre-tax) at over 40%



Source: Company

Exhibit 15: MSS: One-year forward P/E (Average: 26x, +1sd: 37x, -1sd: 15x)



Source: Company

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	607,290	573,699	671,470	749,275	816,813
Expenditure	560,749	530,110	610,993	670,241	725,123
EBITDA	46,541	43,590	60,477	79,034	91,690
Depreciation	27,210	29,261	30,600	32,679	34,850
EBIT	19,331	14,329	29,876	46,355	56,839
Other Income	2,246	2,293	3,490	4,870	6,350
Interest expenses	5,928	5,115	3,962	3,552	3,306
PBT	20,553	15,903	35,701	56,233	69,826
Tax	8,184	435	8,924	14,058	17,457
Extraordinary Items	0	(623)	(5)	0	0
Minority Int./Income from Assoc.	(669)	(4,454)	(3,309)	(6,633)	(9,215)
Reported Net Income	11,700	10,391	23,463	35,541	43,155
Adjusted PAT	11,700	11,014	23,468	35,541	43,155

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	3,158	3,158	3,158	3,158	3,158
Reserves & surplus	109,451	122,448	138,870	163,394	192,739
Net worth	112,609	125,606	142,028	166,552	195,897
Minority Interest	35,650	40,233	44,476	52,136	62,480
Loan Funds	117,700	106,632	78,262	68,262	62,262
Net deferred tax liability	(402)	(6,861)	(6,861)	(6,861)	(6,861)
Total Liabilities	265,558	265,610	257,905	280,089	313,778
Net block	206,304	199,710	194,378	188,494	181,999
Investment	9,157	9,747	9,747	9,747	9,747
Current Assets	225,949	234,610	264,312	317,666	377,865
Cash & bank balance	48,789	59,062	46,552	68,124	102,202
Other Current Assets	59,323	52,999	66,809	75,192	82,327
Current liabilities & Provision	184,370	205,016	237,090	262,377	282,391
Net current assets	41,579	29,595	27,222	55,289	95,474
Misc. exp	0	17,790	17,790	17,790	17,790
Total Assets	265,558	265,610	257,905	280,089	313,778

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	18,883	13,836	32,216	51,363	63,476
Other Non-Cash items	0	0	0	0	0
Chg in working cap	16,202	6,432	(10,138)	(6,495)	(6,107)
Operating Cashflow	61,275	48,218	45,154	61,263	69,794
Capital expenditure	(21,943)	(19,325)	(26,025)	(27,650)	(29,295)
Free Cash Flow	39,332	28,894	19,129	33,613	40,499
Investments	(1,210)	(45)	0	0	0
Other Investing Cash Flow	753	436	0	0	0
Investing Cashflow	(20,154)	(16,641)	(22,535)	(22,780)	(22,945)
Equity Capital Raised	0	37	0	0	0
Loans Taken / (Repaid)	(6,214)	(11,324)	(24,127)	(2,340)	4,344
Dividend paid (incl tax)	(12,794)	(1,612)	(7,040)	(11,018)	(13,810)
Other Financing Cash Flow	(3,127)	(4,264)	0	0	0
Financing Cashflow	(27,801)	(21,305)	(35,129)	(16,910)	(12,771)
Net chg in cash	13,320	10,273	(12,510)	21,573	34,078
Opening cash position	35,469	48,789	59,062	46,552	68,124
Closing cash position	48,789	59,062	46,552	68,124	102,202

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	7.7	7.6	9.0	10.5	11.2
EBIT Margin	3.2	2.5	4.4	6.2	7.0
Effective Tax Rate	39.8	2.7	25.0	25.0	25.0
Net Margin	2.0	2.7	4.0	5.6	6.4
ROCE	8.3	6.5	13.8	20.5	22.8
ROE	10.7	10.1	20.5	26.4	26.7
RoIC	9.7	7.8	17.5	26.7	32.7

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	3.7	3.5	7.4	11.3	13.7
CEPS	12.3	12.8	17.1	21.6	24.7
BVPS	35.1	33.6	38.8	46.6	55.9
DPS	1.5	1.5	2.2	3.5	4.4

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	64.5	68.5	32.1	21.2	17.5
P/CEPS	19.9	19.3	14.3	11.4	9.9
P/BV	6.8	7.1	6.2	5.1	4.3
EV / Sales	1.4	1.4	1.2	1.0	0.9
EV / EBITDA	17.7	18.4	13.0	9.5	7.8
Dividend Yield (%)	0.6	0.6	0.9	1.5	1.8

Gearing Ratio (x)	FY20	FY21	FY22E	FY23E	FY24E
Net Debt/ Equity	0.6	0.4	0.3	0.0	(0.2)
Net Debt/EBIDTA	1.5	1.1	0.5	0.0	(0.4)
Working Cap Cycle (days)	(4.3)	(18.7)	(10.5)	(6.3)	(3.0)

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	(4.4)	(5.5)	17.0	11.6	9.0
EBITDA	(13.0)	(6.3)	38.7	30.7	16.0
EBIT	(41.2)	(25.9)	108.5	55.2	22.6
PAT	(27.5)	(11.2)	125.8	51.5	21.4

Quarterly (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Revenue	149,572	170,924	169,719	161,574	140,764
EBITDA	13,918	17,955	17,223	12,200	9,438
EBITDA Margin (%)	9.3	10.5	10.1	7.6	6.7
PAT	3,376	7,984	7,136	2,901	2,169
EPS (Rs)	1.1	2.5	2.3	0.9	0.7

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	61.7	61.7	61.7	61.7	61.7
FIs	16.0	16.1	16.6	16.9	16.4
DIs	13.6	14.3	13.4	13.0	13.6
Public and Others	8.7	7.9	8.2	8.4	8.2

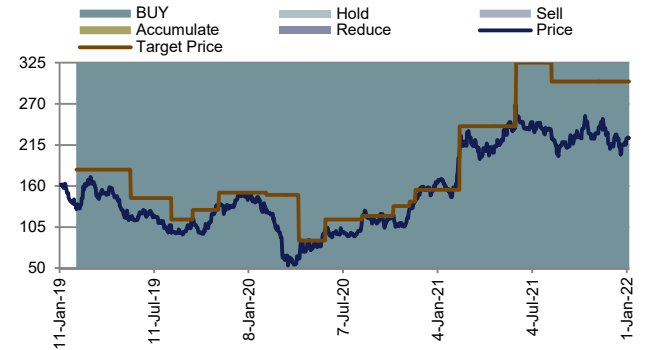
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
13-Nov-21	246	300	12m	Buy	Raghunandhan NL
8-Oct-21	237	300	12m	Buy	Raghunandhan NL
10-Aug-21	223	300	12m	Buy	Raghunandhan NL
2-Jul-21	245	325	12m	Buy	Raghunandhan NL
18-Jun-21	237	325	12m	Buy	Raghunandhan NL
3-Jun-21	251	325	12m	Buy	Raghunandhan NL
1-Jun-21	237	240	12m	Buy	Raghunandhan NL
30-May-21	235	240	12m	Buy	Raghunandhan NL
15-Feb-21	211	240	12m	Buy	Raghunandhan NL
22-Nov-20	140	155	12m	Buy	Raghunandhan NL
11-Nov-20	131	139	12m	Buy	Raghunandhan NL
11-Oct-20	121	133	12m	Buy	Raghunandhan NL
28-Sep-20	113	120	12m	Buy	Raghunandhan NL
12-Aug-20	117	120	12m	Buy	Raghunandhan NL
5-Jul-20	98	115	12m	Buy	Raghunandhan NL
29-Jun-20	95	115	12m	Buy	Raghunandhan NL
3-Jun-20	101	115	12m	Buy	Raghunandhan NL
4-May-20	77	87	12m	Buy	Raghunandhan NL
13-Apr-20	63	87	12m	Buy	Raghunandhan NL
27-Feb-20	109	148	12m	Buy	Raghunandhan NL
14-Feb-20	124	148	12m	Buy	Raghunandhan NL
11-Feb-20	125	148	12m	Buy	Raghunandhan NL
27-Dec-19	148	151	12m	Buy	Raghunandhan NL
27-Nov-19	134	151	12m	Buy	Raghunandhan NL
12-Nov-19	134	151	12m	Buy	Raghunandhan NL
23-Sep-19	116	128	12m	Buy	Raghunandhan NL
13-Aug-19	97	115	12m	Buy	Raghunandhan NL
27-May-19	116	144	12m	Buy	Raghunandhan NL
12-Feb-19	129	182	12m	Buy	Raghunandhan NL

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Automobiles & Auto Ancillaries



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Sector

Automobiles and Ancillaries

Analyst bio

Raghu holds an MBA and comes with total 13 years of research experience. His team currently covers 17 stocks in the Indian Automobiles and Ancillaries space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Auto & Auto Ancillaries	4.69	4.69	0%	0	100.00	
Amara Raja Batteries	0.05	0.00	-100%	-5	0.00	0
Apollo Tyres	0.00	0.00	NA	0	0.00	0
Ashok Leyland	0.17	0.21	18%	3	4.38	0
Atul Auto	0.00	0.00	NA	0	0.00	0
Bajaj Auto	0.43	0.39	-9%	-4	8.40	0
Bharat Forge	0.18	0.20	14%	2	4.34	0
Eicher Motors	0.35	0.38	11%	4	8.19	0
Escorts	0.00	0.00	NA	0	0.00	0
Exide Industries	0.08	0.00	-100%	-8	0.00	0
Hero Motocorp	0.32	0.27	-16%	-5	5.74	0
Mahindra & Mahindra	0.80	0.79	-2%	-1	16.76	0
Maruti Suzuki India	0.95	1.04	10%	9	22.26	0
Motherson Sumi	0.26	0.27	5%	1	5.82	0
Tata Motors	0.84	0.86	3%	2	18.34	0
Tata Motors DVR*	0.12	0.13	9%	1	2.74	0
TVS Motor	0.15	0.14	-6%	-1	3.02	0
Cash	0.00	0.00	NA	0	0.0	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	6-Jan-21	6-Jul-21	6-Oct-21	6-Dec-21	6-Jan-22
EAP - Auto & Auto Ancillaries	100.0	109.1	126.3	125.5	127.0	135.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	111.2	125.8	124.8	126.0	134.6

*Performance measurement base date 1st April 2019

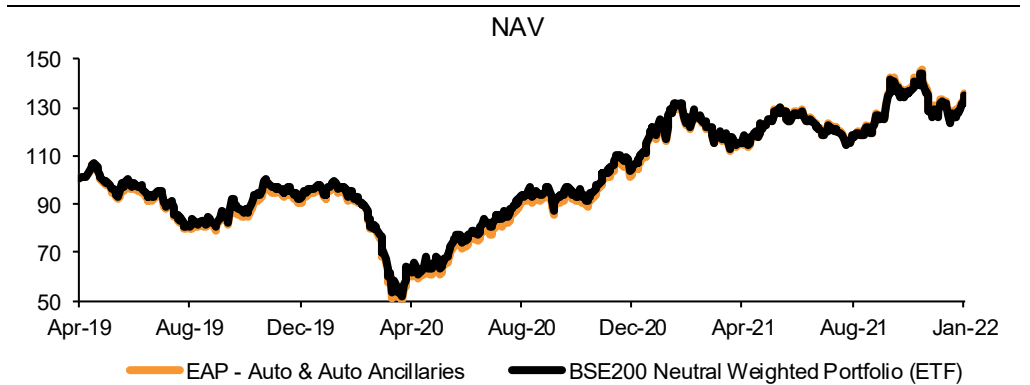
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Auto & Auto Ancillaries	6.8%	8.1%	7.4%	24.4%
BSE200 Neutral Weighted Portfolio (ETF)	6.8%	7.8%	7.0%	21.1%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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