

Mega-restructuring to materialise, new SAMIL arrives

About the stock: Motherson Sumi (MSSL) primarily serves global PV & CV industry with a history of successful turnarounds in acquisitions and inorganic-led growth.

- Post restructuring, new entity (SAMIL) revenue mix as of H1FY22 is: wiring harnesses: 30%, vision systems (mirrors): 18%, plastic body parts (polymer & modules): 48% with rest at ~4% also includes non-automotive sales
- The company has a largely EV immune product profile

Company Update: Announces timelines for executing the corporate restructuring

- Fixes January 17, 2022 as record date for determining shareholders for allocation of additional shares of domestic wiring harness division (DWH; Motherson Sumi Wiring India Ltd) in the entitlement ratio of 1:1 i.e. one share of DWH for every share of MSSL to all existing shareholders
- Motherson Sumi is then expected to trade ex-DWH starting January 14, 2022 (Friday) with DWH scheduled to listed separately by March 2022
- Erstwhile SAMIL (49% of SMPBV+ other businesses) set to be merged with MSSL on or before January 24, 2022 (post DWH de-merger) with name of new entity being changed to **SAMIL** (broadly: MSSL+100% SMPBV-DWH)

What should investors do? MSSL's stock price has grown at ~13% CAGR from ₹145 levels in January 2017, widely outperforming the Nifty Auto index.

- We retain our **HOLD** rating on the stock with separate fair value target prices of the demerged entity (DWH) as well as new SAMIL (SMPBV merged entity)

Target Price and Valuation: We value the combined entity post-merger of erstwhile SAMIL into MSSL at ₹270/share on SOTP basis. Consequently, our target for individual entities i.e. **DWH** and **new SAMIL (ex-DWH)** is at ₹70/share and ₹200/share, respectively. Given the high RoCE profile (~40%) and exposure to pure play domestic PV wiring harness segment at DWH, we assign a premium valuation to it at 40x PE on FY23E vs. new SAMIL being valued at ~26x PE on FY23E.

Key triggers for future price performance:

- Backed by revival of worldwide OEM client volumes, strong order-book and EV immune product profile, we expect 11.5% FY21-23E net sales CAGR
- Well poised to clock ~18-19% return ratios matrix by FY23E
- Committed to 2025 vision: US\$36 billion in sales, 40% RoCE & payouts

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

- India CV revival beneficiary. BUY with a target price of ₹275



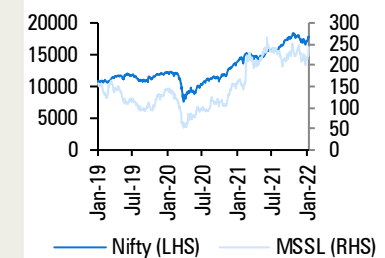
Particulars

Particular	₹ crore
Market Capitalization	75,790
Total Debt (FY21)	10,663
Cash & Investments (FY21)	5,906
EV (₹ Crore)	80,547
52 week H/L (₹)	273 / 143
Equity capital	₹ 315.8 Crore
Face value	₹ 1

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	61.7	61.7	61.7	61.7
FII	16.1	16.6	16.9	16.4
DII	14.3	13.4	13.0	13.6
Other	7.9	8.2	8.4	8.2

Price Chart



Recent event & key risks

- MSSL fixes 17th January 2022 as record date for de-merging DWH with 14th January 2022 seen as ex-date wherein price shall adjust
- **Key Risk:** (i) Pent up demand led, higher sales recovery over FY21-23E, (ii) pressure on margins due to input cost increase

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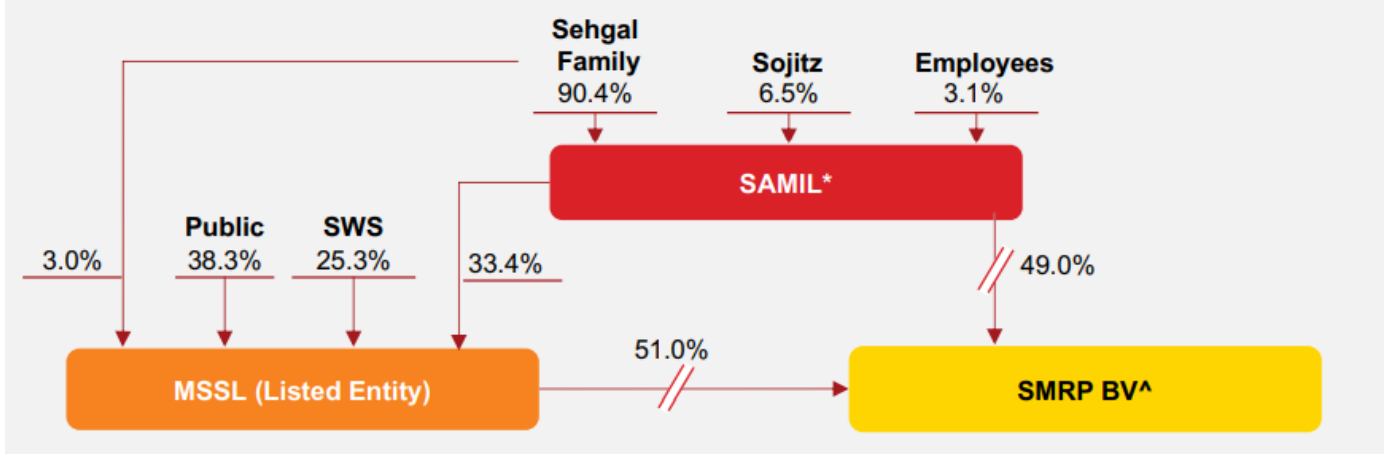
Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	63,522.9	63,536.9	61,462.9	10.6%	68,767.7	76,350.8	11.5%
EBITDA	5,348.4	5,201.4	4,840.2	6.4%	5,585.1	8,100.8	29.4%
EBITDA Margins (%)	8.4	8.2	7.9		8.1	10.6	
Net Profit	1,613.2	1,170.1	1,039.9	-4.3%	1,370.8	2,688.3	60.8%
EPS (₹)	5.1	3.7	3.3		4.3	8.5	
P/E	47.0	64.8	72.9		55.3	28.2	
RoNW (%)	14.7	10.4	8.8		10.3	18.3	
RoCE (%)	12.4	9.0	6.7		9.3	18.5	

Source: Company, ICICI Direct Research; PI note we have not altered our financials and await consolidated P&L, B/S and Cash-flow Statements of new SAMIL

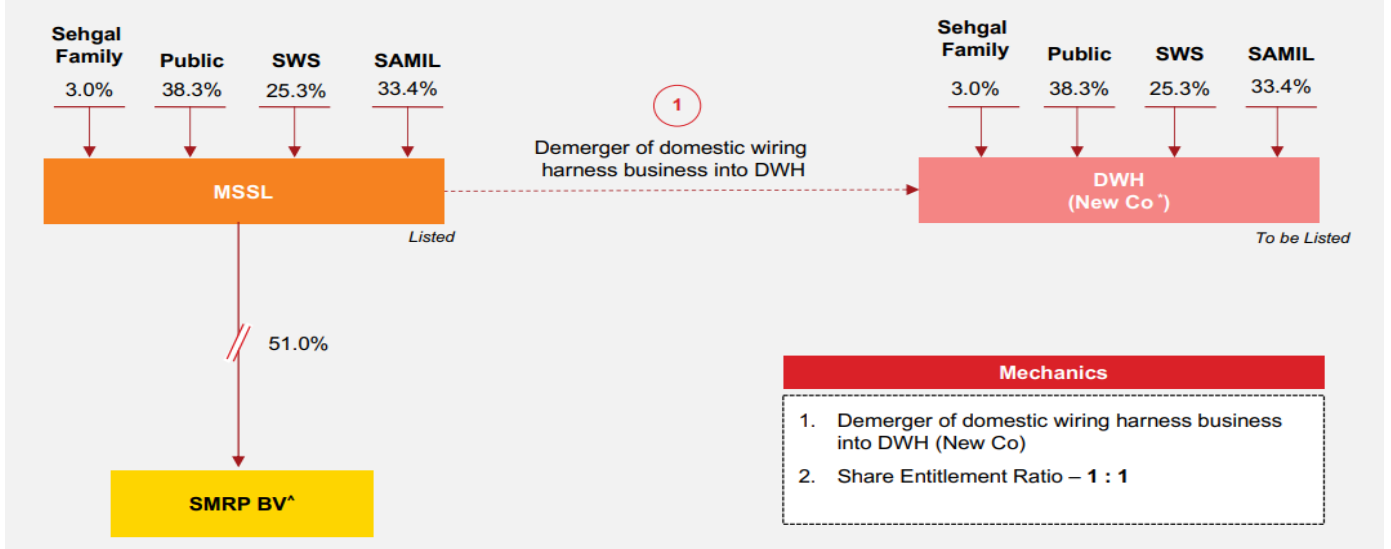
Re-structuring recap

Exhibit 1: Current group holding structure



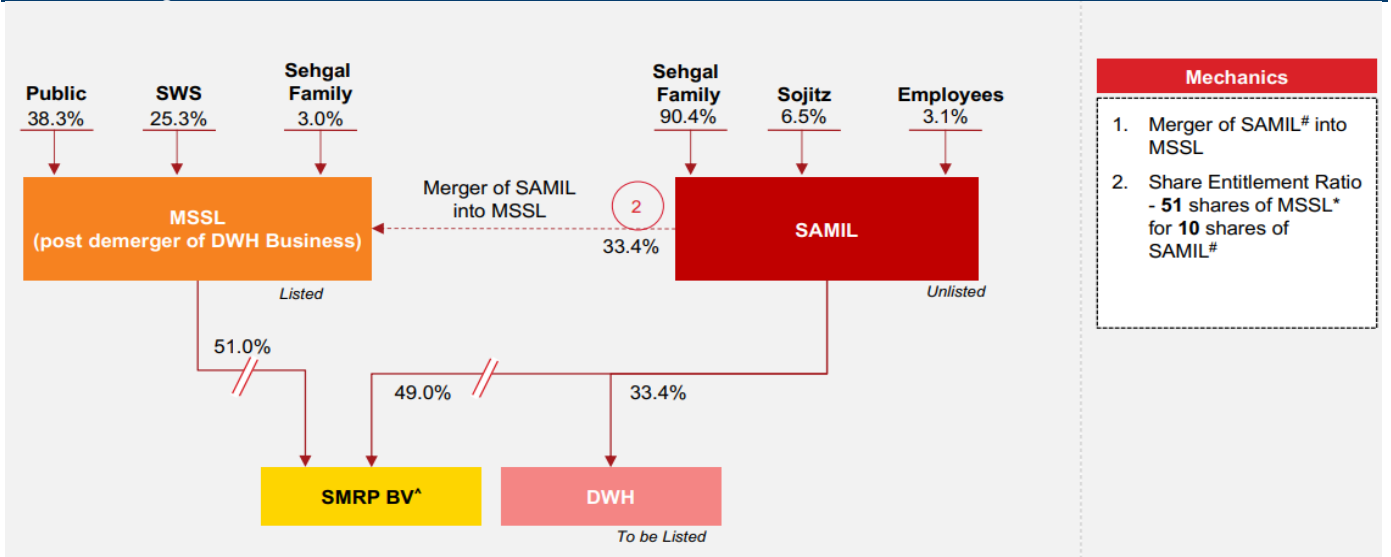
Source: Company, ICICI Direct Research

Exhibit 2: Vertical demerger of domestic wiring harness business into DWH



Source: Company, ICICI Direct Research

Exhibit 3: Merger of SAMIL into MSSL (new SAMIL)



Source: Company, ICICI Direct Research

Post restructuring, MSSL would hold 100% in SMRPBV, 33.4% in DWH

Target Price Calculation

Exhibit 4: SoTP based target price calculation (existing)

SOTP Valuation incorporating corporate restructuring (existing)		
Particulars	Units	Amount
FY23E Projected PAT (MSSL)	₹ crore	2,688
FY23E Minority Interest Added Back (SMRPBV)	₹ crore	1,006
MSSL + SMRPBV PAT estimates (FY23E)	₹ crore	3,694
New No of Shares (post corporate restructuring)	crore	452
Per Share Value (₹)	₹/share	8.2
P/E Multiple Assigned	x	32
Per Share Value in Target Price (A; MSSL+SMRPBV)	₹/share	260

Particulars	Units	Amount
FY21 Sales of SAMIL Businesses (ex MSSL, ex- SMRP BV)	₹ crore	1,216
MCap/Sales Multiple	x	3
Equity Value	₹ crore	3,648
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	270
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Source: ICICI Direct Research; Pl note we have not altered our financials and await consolidated P&L, B/S and Cash-flow Statements of new SAMIL

Exhibit 5: DWH (Motherson Sumi Wiring India Ltd.) – fair price calculation

Particulars	Units	FY20	FY21	FY22E	FY23E
Revenue from Operations	₹ crore	3,944	4,138	5,587	6,480
EBITDA	₹ crore	529	476	665	855
% margins	%	13.4%	11.5%	11.9%	13.2%
Depreciation	₹ crore	100	93	100	110
EBIT	₹ crore	429	382	565	745
PAT (Concern Share)	₹ crore	286	254	391	551
PAT margin	%	7.3%	6.1%	7.0%	8.5%
RoCE	%	48%	41%		
P/E Multiple (pure play PV domestic)	x				40
Implied Market Cap	₹ crore				22,033
No of Shares (Mirror existing MSSL)	no's				316
Effective Target Price	₹				70

Source: ICICI Direct Research

Exhibit 6: SoTP based target price calculation (new SAMIL)

Particulars	Units	Amount
FY23E Projected PAT (MSSL)	₹ crore	2,688
FY23E Minority Interest Added Back (SMRPBV)	₹ crore	1,006
MSSL + SMRPBV PAT estimates (FY23E)	₹ crore	3,694
Domestic Wiring Harness PAT (FY23E)	₹ crore	551
New SAMIL PAT (MSSL + SMRPBV - DWH)	₹ crore	3,143
New No of Shares (post corporate restructuring)	crore	452
Per Share Value (₹)	₹/share	7.0
P/E Multiple Assigned	x	26
Per Share Value in Target Price (A; MSSL+SMRPBV-DWH)	₹/share	180

Particulars	Units	Amount
FY21 Sales of SAMIL Businesses (ex MSSL, ex- SMRP BV)	₹ crore	1,216
MCap/Sales Multiple	x	1.5
Equity Value	₹ crore	1,824
New No of Shares (post corporate restructuring)	crore	452
Per Share Value (B; SAMIL business Ex-SMRPBV)	₹/share	5

Particulars	Units	Amount
DWH Implied Market Cap	₹ crore	22,033
New SAMIL Stake	%	33
Implied Equity Value to New SAMIL	₹ crore	7,359
No of Shares	crore	452
Per Share Value (C; SAMIL's stake in DWH)	₹/share	15

Total Fair Value (A+B+C)	₹/share	200
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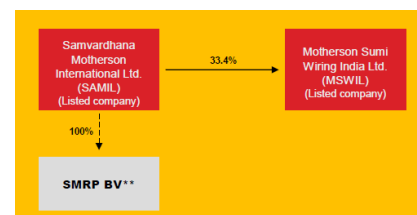
Source: ICICI Direct Research; Pl note we have not altered our financials and await consolidated P&L, B/S and Cash-flow Statements of new SAMIL

Given the high RoCE profile (~40%) and exposure to pure play domestic PV wiring harness segment at DWH, we assign a premium valuation to it at 40x PE on FY23E. Our consequent fair value based target price for DWH is at ₹ 70/share

DWH or Motherson Sumi Wiring India Ltd. Post demerger is expected to be listed separately by March 2022

This division is most likely to witness content increase under electrification (EV's)

New SAMIL



Market Capitalization Calculations

MSSL	CMP (₹)	No's (Crore)	MCap (₹ crore)
Existing	240	316	75,790

At ex-Date using CMP

DWH	70	316	22,106
SAMIL	170	452	76,840
Total Resultant MCap			98,946

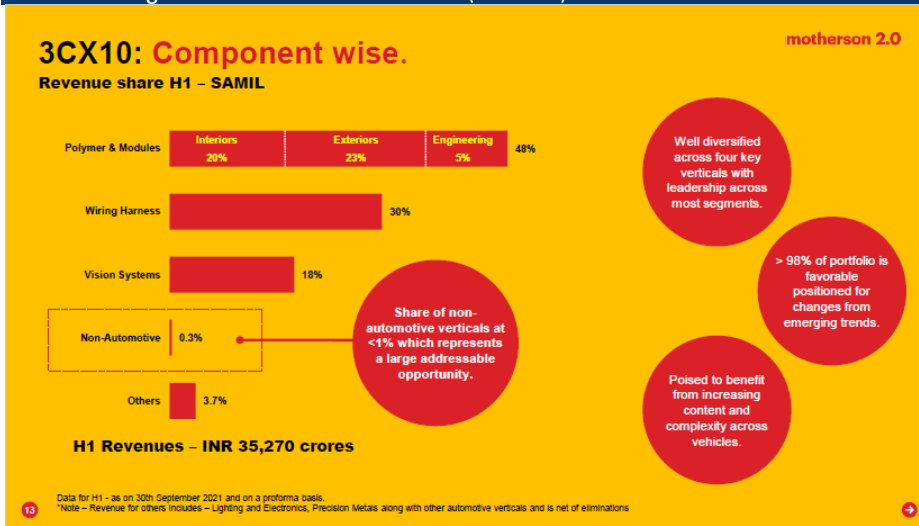
ICICI Direct Target Price

DWH	70	316	22,106
SAMIL	200	452	90,400
Total Resultant MCap			1,12,506

Source: ICICIDirect Research

New SAMIL – DNA highlights

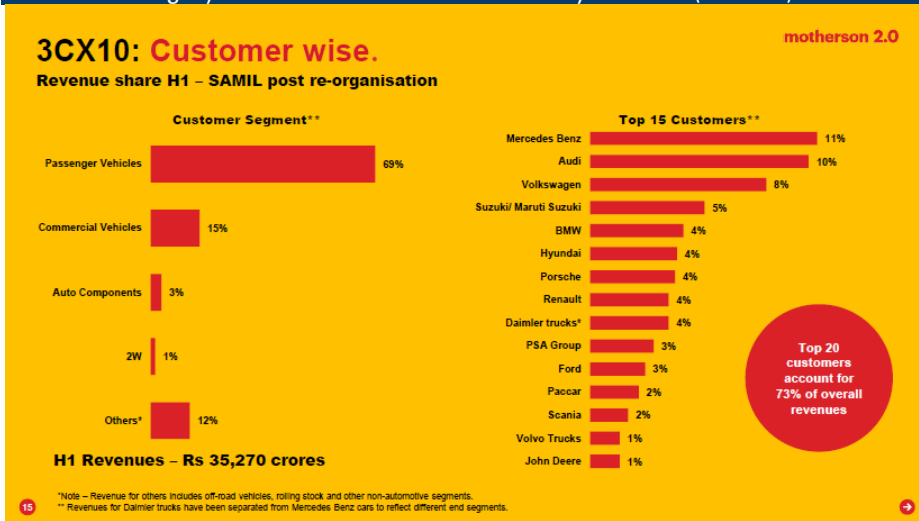
Exhibit 7: Segment wise sales bifurcation (H1FY22)



Post restructuring, new entity (SAMIL) revenue mix as of H1FY22 is pegged at: wiring harnesses: 30%, vision systems (mirrors): 18%, plastic body parts (polymer & modules): 48% with rest at ~4% which also includes non-automotive sales

Source: Company, ICICI Direct Research

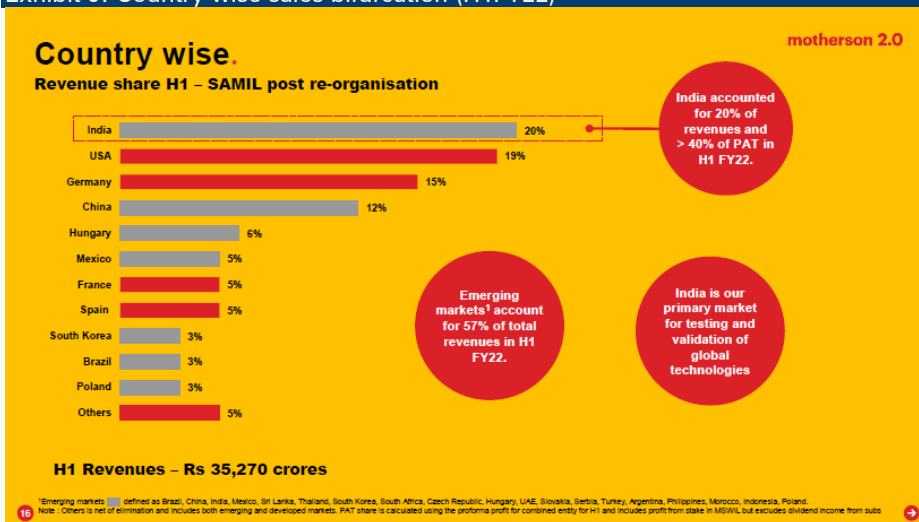
Exhibit 8: Category wise sales bifurcation as well key clientele (H1FY22)



Post restructuring as of H1FY22, PV constitutes ~69% of its customer segment followed by CV at ~15%. In terms of customers, top 20 customers account for ~73% of its consolidated sales

Source: Company, ICICI Direct Research

Exhibit 9: Country wise sales bifurcation (H1FY22)



Post restructuring as of H1FY22, in terms of geographical exposure, share of sales in India is pegged at ~20% followed by US at ~19% & Germany at ~18% among others

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating income	63,536.9	61,462.9	68,767.7	76,350.8
Growth (%)	0.0	-3.3	11.9	11.0
Raw Material Expenses	36,271.4	34,769.2	39,590.4	43,409.4
Employee Expenses	15,076.9	14,891.4	15,716.5	16,638.8
Other expenses	6,987.1	6,962.0	7,875.6	8,201.9
Total Operating Expenditure	58,335.4	56,622.6	63,182.5	68,250.1
EBITDA	5,201.4	4,840.2	5,585.1	8,100.8
Growth (%)	-2.7	-6.9	15.4	45.0
Depreciation	2,778.0	2,986.5	3,094.5	3,244.9
Interest	598.6	519.0	483.2	358.2
Other Income	230.7	254.3	387.9	297.4
PBT	2,055.4	1,589.0	2,395.4	4,795.2
Total Tax	818.4	41.4	659.9	1,198.8
Minority Interest	124.4	530.3	452.1	1,005.9
Profit from Associates	57.5	84.8	88.0	97.8
Reported PAT	1,170.1	1,039.9	1,370.8	2,688.3
Growth (%)	-27.5	-11.1	31.8	96.1
EPS (₹)	3.7	3.3	4.3	8.5

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	1,170.1	1,039.9	1,370.8	2,688.3
Add: Depreciation	2,778.0	2,986.5	3,094.5	3,244.9
(Inc)/dec in Current Assets	1,579.3	-1,628.2	-962.9	-2,048.6
Inc/(dec) in CL and Provisions	594.6	1,873.4	231.7	2,003.3
CF from operating activities	6,122.0	4,271.6	3,734.2	5,887.9
(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	533.1	982.3
CF from investing activities	(4,165.5)	(2,397.1)	(1,466.9)	(1,217.7)
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	247.2	-1,106.9	-2,000.0	-3,000.0
Dividend paid & dividend tax	-1,136.9	-473.7	-631.6	-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	(624.7)	(847.2)	(2,631.6)	(4,263.2)
Net Cash flow	1,331.9	1,027.3	-364.3	407.1
Opening Cash	3,547.0	4,878.9	5,906.2	5,541.8
Closing Cash	4,878.9	5,906.2	5,541.8	5,948.9

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	315.8	315.8	315.8	315.8
Reserve and Surplus	10,945.1	12,244.8	12,984.0	14,409.1
Total Shareholders funds	11,260.9	12,560.6	13,299.8	14,724.9
Total Debt	11,770.1	10,663.2	8,663.2	5,663.2
Deferred Tax Liability	462.8	336.3	376.3	417.8
Minority Interest / Others	3,565.0	4,023.3	4,475.4	5,481.3
Total Liabilities	29,433.9	30,149.7	29,686.0	29,475.1
Assets				
Gross Block	24,876.4	27,401.6	29,678.5	31,978.5
Less: Acc Depreciation	8,603.0	11,589.5	14,684.1	17,929.0
Net Block	16,273.4	15,812.1	14,994.4	14,049.5
Capital WIP	851.8	876.9	600.0	500.0
Total Fixed Assets	17,125.2	16,689.0	15,594.4	14,549.5
Investments	3,006.7	2,813.3	3,113.3	3,213.3
Goodwill	2406.0	2471.8	2471.8	2471.8
Inventory	5,156.6	4,995.6	5,652.1	6,275.4
Debtors	6,578.2	7,187.6	7,536.2	8,367.2
Loans and Advances	31.9	27.2	30.4	33.8
Other Current Assets	4,219.6	5,404.1	5,358.7	5,949.6
Cash	4,878.9	5,906.2	5,541.8	5,948.9
Total Current Assets	20,865.2	23,520.7	24,119.3	26,574.9
Creditors	10,309.1	11,140.7	11,304.3	12,550.8
Provisions	205.2	496.8	504.0	559.6
Other current liabilities	5548	6298	6359	7060
Total Current Liabilities	16,061.9	17,935.3	18,167.0	20,170.3
Net Current Assets	4,803.3	5,585.4	5,952.3	6,404.6
Other non-current Asset	1589.8	1567.9	1754.2	1947.6
Deferred Tax Asset	503.0	1,022.4	800.1	888.3
Application of Funds	29,433.9	30,149.7	29,686.0	29,475.1

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	3.7	3.3	4.3	8.5
Cash EPS	12.5	12.8	14.1	18.8
BV	35.7	39.8	42.1	46.6
DPS	3.0	1.5	2.0	4.0
Cash Per Share	15.4	18.7	17.5	18.8
Operating Ratios				
EBITDA Margin (%)	8.2	7.9	8.1	10.6
PBIT / Net sales (%)	3.8	3.0	3.6	6.4
PAT Margin (%)	1.8	1.7	2.0	3.6
Inventory days	29.6	29.7	30.0	30.0
Debtor days	37.8	42.7	40.0	40.0
Creditor days	59.2	66.2	60.0	60.0
Return Ratios (%)				
RoE	10.4	8.8	10.3	18.3
RoCE	9.0	6.7	9.3	18.5
RoIC	11.4	8.9	12.0	24.5
Valuation Ratios (x)				
P/E	64.8	68.9	55.3	28.2
EV / EBITDA	15.9	16.6	14.1	9.3
EV / Net Sales	1.3	1.3	1.1	1.0
Market Cap / Sales	1.2	1.2	1.1	1.0
Price to Book Value	6.7	6.0	5.7	5.1
Solvency Ratios				
Debt/EBITDA	2.3	2.2	1.6	0.7
Debt / Equity	1.0	0.8	0.7	0.4
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

Please note we have not altered our financials and await consolidated P&L, B/S and Cash-flow Statements of new SAMIL

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 (%)		
	(₹)	(₹)			FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Apollo Tyre (APOTYR)	231	275	BUY	14,685	5.5	12.3	18.9	41.9	18.8	12.2	6.9	7.1	5.1	7.6	6.8	9.7	6.4	6.6	9.4
Ashok Leyland (ASHLEY)	134	175	Buy	39,296	-1.1	-0.3	3.8	-125.6	-487.4	34.9	78.9	48.1	16.4	-1.9	1.2	14.9	-4.4	-1.2	15.5
Bajaj Auto (BAAUTO)	3,442	4,220	Hold	99,591	157.4	164.9	191.3	21.9	20.9	18.0	15.8	15.0	12.6	18.2	18.9	22.0	18.1	18.6	21.1
Balkrishna Ind. (BALIND)	2,379	2,900	Buy	45,999	59.8	72.3	85.1	39.8	32.9	28.0	26.0	22.6	18.4	19.3	18.8	20.4	19.2	19.9	20.1
Bharat Forge (BHAFOR)	763	950	Buy	35,544	-2.7	18.8	26.4	NM	40.5	28.9	44.1	19.3	15.4	2.2	10.2	13.1	3.3	15.0	17.4
Eicher Motors (EICMOT)	2,831	3,050	Hold	77,378	49.3	66.9	100.6	57.4	42.4	28.1	39.1	28.6	19.2	11.3	14.7	19.1	11.8	14.4	18.6
Escorts (ESCORT)	1,867	2,200	Buy	24,629	71.2	69.5	84.7	26.2	26.9	22.0	19.2	17.6	14.5	18.7	12.0	12.5	16.2	11.4	12.3
Hero Moto (HERHON)	2,572	3,070	Hold	51,366	148.4	147.8	192.2	17.3	17.4	13.4	10.7	10.6	7.9	20.8	19.1	23.1	19.5	17.7	20.8
M&M (MAHMAH)	842	1,125	Buy	1,04,659	2.3	35.3	40.5	373.9	23.9	20.8	15.6	14.9	12.5	9.5	9.6	11.2	2.7	11.8	11.7
Maruti Suzuki (MARUTI)	8,139	6,000	Sell	2,45,877	140.0	88.4	200.0	58.1	92.1	40.7	37.9	46.1	23.6	4.3	2.5	8.9	8.2	5.0	10.6
Minda Industries (MININD)	1,203	1,060	Hold	34,358	7.6	10.9	17.2	158.3	109.9	69.9	48.5	39.0	29.8	9.1	10.4	13.8	9.2	9.6	13.3
Motherson (MOTSUM)	240	270	Hold	75,790	3.3	4.3	8.5	NM	55.3	28.2	16.6	14.1	9.3	6.7	9.3	18.5	8.8	10.3	18.3
Tata Motors (TATMOT)	504	600	Buy	1,92,848	-35.0	-13.9	35.7	NM	-36.2	14.1	7.3	7.6	4.5	6.3	6.7	16.2	-23.6	-10.3	21.0

Source: Company, ICICI Direct Research

RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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