

Samvardhana Motherson International

Estimate changes

TP change

Rating change



CMP: INR129

TP: INR165 (+28%)

Buy

Below our estimate; delayed cost pass-through hurts

Customers' production schedule suggests strong demand

- MOTHERSO's 1QFY23 performance was a mixed bag as strength in revenue was more than offset by cost pressures, leading to a miss in our profit estimate. While some of these cost headwinds may persist in the near term, it will see a sharp bounce back, given its leadership position, as these supply-side and cost headwinds recede most likely in 2HFY23.
- We cut our FY23/FY24 EPS estimate by 8%/3%, factoring in a slower than expected cost pass-through. We maintain our **Buy** rating with a TP of INR165.

SMRPBV sees strong revenue traction; cost pressures persist

- MOTHERSO has transitioned to a new reporting structure from 1QFY23, moving to a four business classification from company-level reporting.
- Consolidated revenue grew 7% QoQ to INR176b (est. INR162b), but adjusted EBITDA/adjusted PAT fell 21%/55% YoY to INR10.8b/INR1.4b (est. INR11.5b/INR2.2b).
- Revenue from the Wiring Harness business (MSWIL, PKC, Stoneridge Kyungshin JV, etc.) grew 11.5% YoY to INR61b. EBITDA margin contracted by 80bp YoY and 140bp QoQ to 7.9%.
- Revenue from the Modules and Polymers business (SMP, MATE India, etc.) grew 3% YoY to INR94b. EBITDA margin eroded by 250bp YoY and 70bp QoQ to 5.1%.
- Revenue for Vision Systems (SMRPBV) grew 5.5% to INR34.8b, with EBITDA margin eroding 300bp and 90bp QoQ to 8.4%.
- Revenue in the other business (the remaining businesses of SAMIL standalone and the businesses of erstwhile SAMIL) grew 8% QoQ to INR16.2b, with EBITDA margin expanding 10bp QoQ to 10.9%.
- Margin across businesses was impacted by sustained cost pressures (mathematical impact) and delayed pass-through of higher energy and logistics costs, particularly in SMRPBV. Also, an adverse EUR:INR impacted exports from India as well as translation of SMRPBV and PKC.
- Net debt (excluding lease liabilities) increased QoQ to INR82.7b (v/s INR115.5b/INR77.7b in 1Q/4QFY22) due to a higher working capital needs.

Highlights from the management commentary

- The management said demand remains strong and that there were signs of a volume recovery towards the end of 1QFY23.
- Constructive discussions are ongoing with customers across regions to offset inflationary pressures.
- PKC has seen normalization of higher costs for supporting the launch of new programs of its customers (ramp-up for one customer is complete, and another is underway).

Bloomberg	MOTHERSO IN
Equity Shares (m)	4,518
M.Cap.(INRb)/(USD\$b)	581.2 / 7.3
52-Week Range (INR)	219 / 112
1, 6, 12 Rel. Per (%)	0/-30/-45
12M Avg Val (INR M)	1590

Financials & Valuations

Y/E March	2022	2023E	2024E
Sales	644.2	751.0	838.4
EBITDA	49.0	59.5	80.0
Adj. PAT	8.2	17.3	31.5
EPS (Rs)	1.8	3.8	7.0
EPS Growth (%)	-22.2	109.8	82.1
BV/Share (Rs)	45.6	48.2	53.1

Ratios

Net D:E	0.3	0.2	0.2
RoE (%)	5.0	8.2	13.7
RoCE (%)	3.2	6.4	10.3
Payout (%)	36.5	30.0	30.0

Valuations

P/E (x)	70.6	33.6	18.5
P/BV (x)	2.8	2.7	2.4
Div. Yield (%)	0.7	1.3	2.3
FCF Yield (%)	-0.2	12.0	10.0

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	68.2	68.2	61.7
DII	10.5	10.5	13.0
FII	9.5	9.8	16.9
Others	11.9	11.5	8.4

FII Includes depository receipts

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- The salience of EVs is increasing, with its revenue contribution at 5%. In Vision Systems (its Mirror business), 33% of new orders are for EV platforms. It has developed high voltage solutions in the Wiring Harness business for e-PV/CV/2W in India and e-Trucks in Europe.
- CIM Tools (Aerospace business) has seen a 70% increase in its order book to INR25b since the announcement of its acquisition in Oct'21.
- Capex in 1QFY23 was controlled ~INR3.6b. The same for FY23 is pegged at INR25b (+/- INR2.5b).

Maintain our positive outlook on the stock with a Buy rating

- Our positive view on MOTHERSO remains intact based on an industry recovery, contribution from the greenfield plant, and execution of a strong order book of SMRPBV. The stock trades at 33.6x/18.5x FY23E/FY24E consolidated EPS. We maintain our Buy rating with a TP of ~INR165 (premised on Sep'24E SoTP).

Quarterly performance (Consol.)

Y/E March	(INR m)											
	FY22				FY23E				FY22	FY23E	FY23E	
	1Q	2QE	3Q	4Q	1Q	2QE	3Q	4Q			1Q	
Net Sales	164,080	144,150	164,350	171,610	176,147	175,923	187,567	211,411	644,200	751,049	161,830	
YoY Change (%)	0.0	0.0	0.0	0.0	7.4	22.0	14.1	23.2	10.6	16.6	-1.4	
EBITDA	13,670	10,820	12,320	12,220	10,768	12,845	15,688	20,198	49,030	59,498	11,511	
Margins (%)	8.3	7.5	7.5	7.1	6.1	7.3	8.4	9.6	7.6	7.9	7.1	
Depreciation	7,780	7,640	7,600	7,370	7,324	7,700	7,900	8,066	30,390	30,990	7,500	
Interest	1,208	1,313	1,294	1,612	1,694	1,500	1,500	1,506	5,115	6,200	1,600	
Other income	1,548	871	1,227	1,412	978	600	500	289	4,957	2,367	700	
PBT after EO Expense	6,225	2,738	4,653	4,175	2,729	4,245	6,788	10,914	18,002	24,675	3,111	
Tax Rate (%)	173.4	350.5	212.8	228.1	34.0	30.0	30.0	29.0	222.5	30.0	30.0	
Min. Int & Share of profit	70	-630	80	190	389	-136	-100	-154	-290	0	-3	
Adj PAT	3,141	1,410	2,270	1,291	1,412	3,107	4,851	7,902	8,040	17,273	2,181	
YoY Change (%)	-142.4	-51.7	-65.6	-76.2	-55.0	120.4	113.7	511.9	-24.1	114.8	-30.6	

E: MOFSL Estimates

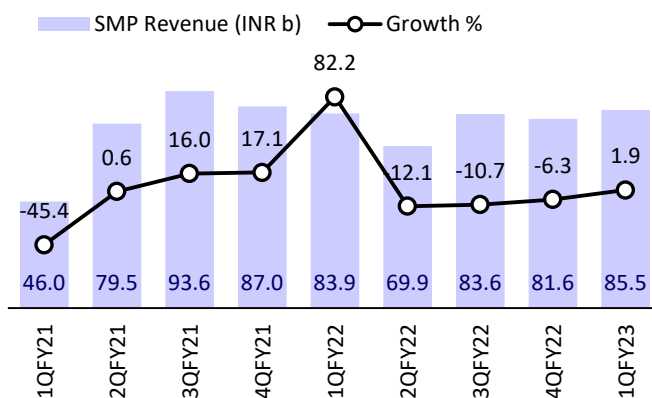
Key Performance Indicators

Y/E March	(INR m)									
	FY22				FY23				FY22	FY23E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Business Wise Revenues (INR m)										
Wiring harness	54,680	52,590	52,560	59,570	60,960	61,390	61,961	74,584	219,400	258,895
Modules & Polymer products	91,270	76,790	92,600	92,540	94,130	89,263	96,696	103,038	353,200	383,127
Vision systems	32,990	29,820	35,280	36,390	34,820	36,159	39,030	44,104	134,480	154,114
Others	3,280	3,640	3,710	14,970	16,170	15,362	16,130	16,030	25,600	63,691
Less: Inter-segment	3,330	3,120	3,400	5,220	5,400	5,250	5,250	5,596	15,070	21,496
Less: Revenues of Associates/JVs	10,390	9,540	9,770	2,640	24,530	21,000	21,000	20,752	56,100	87,282
Net Revenues	168,500	150,180	170,980	195,610	176,150	175,923	187,567	211,408	661,510	751,049
Business Wise EBITDA Margins (%)										
Wiring harness	8.7	9.7	7.1	9.3	7.9	9.4	10.1	10.8	8.7	9.6
Modules & Polymer products	7.6	6.6	7.7	5.8	5.1	5.4	6.8	8.7	6.9	6.6
Vision systems	11.5	8.3	9.2	9.3	8.4	9.2	10.0	10.9	9.6	9.7
Others	6.1	9.6	3.8	10.8	10.9	10.0	10.0	10.0	9.0	10.3
Consol EBITDA Margins (%)	8.7	8.0	8.1	6.6	6.5	7.2	8.2	9.4	8.1	7.9

Note: Segmental EBITD margins include part of other income; E: MOFSL Estimates

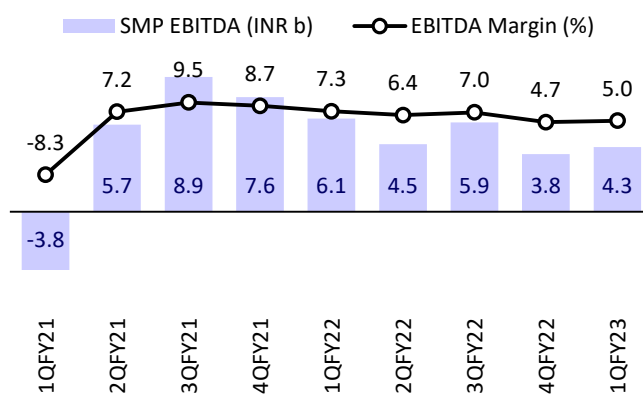
Key exhibits

Exhibit 1: Trends in SMP revenue and growth



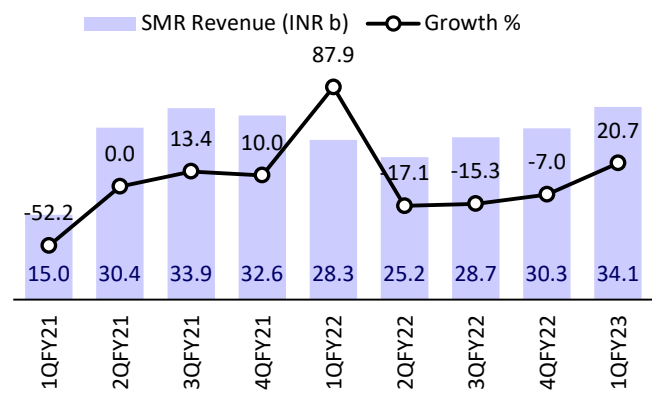
Source: Company, MOFSL

Exhibit 2: SMP EBITDA and EBITDA margin



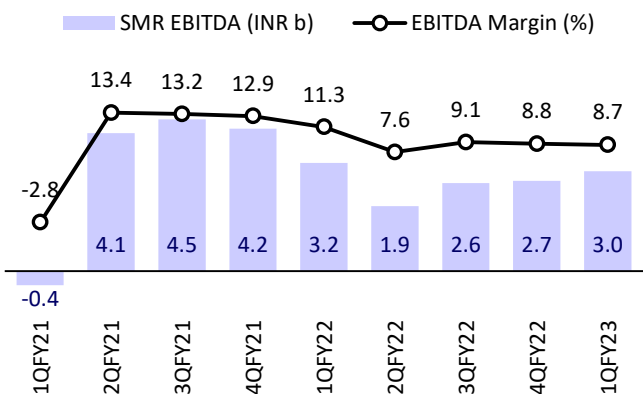
Source: Company, MOFSL

Exhibit 3: SMR revenue and growth trends



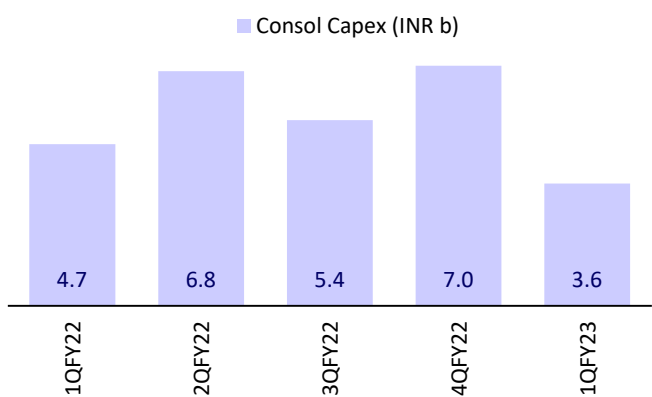
Source: Company, MOFSL

Exhibit 4: SMR EBITDA and EBITDA margin



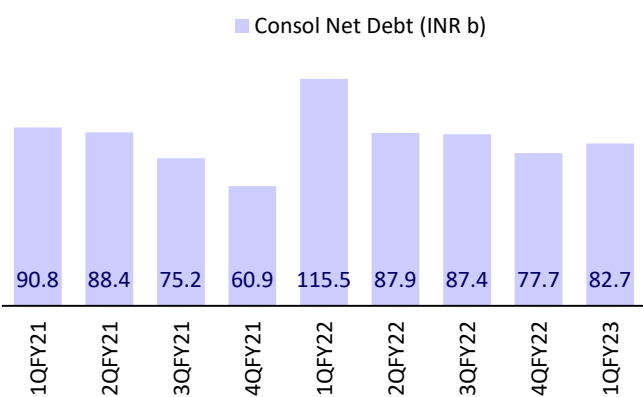
Source: Company, MOFSL

Exhibit 5: Trend in Capex (INR b)



Source: Company, MOFSL

Exhibit 6: Trend in Net Debt (excl. lease liabilities, INR b)



Source: Company, MOFSL

Valuation and view

- **On the right side of global automotive megatrends:** The global automotive industry is on the cusp of disruption, led by megatrends in the forms of: (a) EVs, (b) connect cars, (c) autonomous cars, (d) shared mobility, (e) stricter emission norms, and (f) platform and vendor consolidation. These trends have the potential to disrupt the automotive supply chain and challenge incumbents. We believe with its diverse product base and market presence, MOTHERSO is set to leverage these trends to drive its next wave of growth.
- **Cyclical recovery in all the key businesses:** MOTHERSO's all key businesses are on the brink of a cyclical recovery with India PVs, global PVs and the US/EU CVs being well placed for a revival in FY22. MOTHERSO enjoys strong positioning in its respective product categories (either #1 or #2) and hence would benefit from this cyclical recovery. This would drive operating leverage, mainly in its overseas businesses.
- **SMRPBV – fully prepared for growth:** SMRPBV's order book growth lends us comfort in building a faster recovery for SMRPBV. As of Mar'22, its order book stood at EUR16.1b (with 27% of order book coming from BEVs). SMP offers revenue visibility with orders on hand and capacity ready to execute those orders. We estimate SMP's revenue to report a ~9% CAGR to reach EUR4.7b during FY22-FY25E and the EBITDA margin to expand 3.2pp to ~9.5% by FY25E – driven by improving efficiencies of new plants, cost absorption and operating leverage. SMR continues to be the #1 PV mirror company globally and has gained share across markets through continuous innovation. We estimate SMR's revenue to recover at 10% CAGR over FY22-25E and its EBITDA margin to expand 280bp to 12% by FY25E led by mix absorption of cost inflation and operating leverage.
- **MSUMI Wiring Harness business** is likely to grow faster than the PV industry, led by an increase in content (due to the ongoing premiumization). BS-6 has increased the complexity of wiring harnesses and raised the value by 10-20%. Further, it has opened 2W segment for MOTHERSO, as 2Ws shift to electronic fuel injection systems with more sensors. MOTHERSO is already a market leader in 2W wiring harness in the EU. It is estimated to grow at 18% CAGR over FY22-25E. The EBITDA margin is likely to expand 1.7pp to 14.7% over the same period led by mix and operating leverage.
- **PKC – Macro headwinds ahead:** After benefitting from strong growth for Class 8 trucks in the US, PKC is expecting a cyclical downturn in its biggest market (~45% of revenues). PKC is also highly focused on the world's largest truck market – China – where it has three JVs targeting different customers. Lastly, PKC entered the Rolling Stock business (~USD2b opportunity) in 2015. PKC already has global partnership with Bombardier since 2016 and is also working with other OEMs to develop a global supply chain for electrical systems in rolling stocks. PKC's revenue is estimated to post a 9% CAGR over FY22-25E; and, we expect its margin to improve to 7.7% (v/s 4.1% in FY22) driven by ramp-up in new programs, cost absorption and operating leverage.
- **Valuation and view:** We cut our FY22E/FY23E EPS by 8%/3%, respectively, factoring for slower than expected cost pass-through. Our positive view on MOTHERSO remains intact based on – industry recovery + contribution from

Greenfield plant + execution of strong order book of SMRPBV. The stock trades at 33.6x/1x FY23E/24E consolidated EPS. Maintain **BUY** with a TP of ~INR165 (premised on Sep'24 SOTP).

Exhibit 7: Revised forecast (consolidated)

(INR M)	FY23E			FY24E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	751,049	691,868	8.6	838,428	770,676	8.8
EBITDA	59,498	60,750	-2.1	80,017	80,999	-1.2
EBITDA (%)	7.9	8.8	-90bp	9.5	10.5	-100bp
Adj. PAT	17,273	18,697	-7.6	31,453	32,444	-3.1
EPS (INR)	3.8	4.1	-7.6	7.0	7.2	-3.1

Source: Company, MOFSL

Exhibit 8: SOTP-based Target Price of INR165 (Sep-24E) for SAMIL

INR Sh	Target PE (x)	FY24E	FY25E
Equity Value			
Standalone	25	32	39
SMRPBV	15	44	65
PKC	15	11	14
Others	20	42	47
New businesses	15	-1	0
MSWIL @ 20% HoldCo Discount	35	17	19
Target Price (INR/Sh)		144	185
Upside (%)		12.3	43.5

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement					(INR Million)
Y/E March	FY21	FY22	FY23E	FY24E	FY25E
Total Income from Operations	5,82,250	6,44,200	7,51,049	8,38,428	8,90,257
Change (%)	-4.1	10.6	16.6	11.6	6.2
EBITDA	46,880	49,030	59,498	80,017	94,673
Margin (%)	8.1	7.6	7.9	9.5	10.6
Depreciation	30,260	30,390	30,990	31,590	32,190
EBIT	16,620	18,640	28,508	48,427	62,483
Interest Charges		5,115	6,200	5,890	5,419
PBT bef. EO Exp.	16,620	18,482	24,675	44,715	59,069
Tax Rate (%)	33.6	59.6	30.0	30.0	30.0
Minority Interest	440	-290	0	-152	-332
Reported PAT	10,590	8,040	17,273	31,453	41,681
Adjusted PAT	10,590	8,234	17,273	31,453	41,681
Change (%)	30.8	-22.2	109.8	82.1	32.5
Margin (%)	1.8	1.3	2.3	3.8	4.7

Consolidated - Balance Sheet					(INR Million)
Y/E March	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	4,518	4,518	4,518	4,518	4,518
Total Reserves	1,21,088	2,01,365	2,13,456	2,35,472	2,64,649
Net Worth	1,25,606	2,05,882	2,17,973	2,39,990	2,69,166
Minority Interest	40,233	17,763	19,763	22,263	25,063
Total Loans	1,07,580	1,27,609	1,12,609	1,04,109	97,609
Deferred Tax Liabilities	-10,224	-13,767	-13,767	-13,767	-13,767
Capital Employed	2,63,195	3,37,487	3,36,578	3,52,595	3,78,071
Net Fixed Assets	1,92,782	1,75,128	2,00,128	2,23,128	2,46,128
Goodwill	24,718	33,743	33,743	33,743	33,743
Capital WIP	8,769	13,097	7,000	7,000	7,000
Total Investments	2,581	7,212	7,212	7,212	7,212
Curr. Assets, Loans&Adv.	1,78,716	1,94,908	2,01,100	2,11,134	2,26,145
Inventory	49,956	64,417	61,730	64,318	68,294
Account Receivables	56,931	65,731	72,018	78,100	80,489
Cash and Bank Balance	59,062	49,994	51,302	50,798	58,337
Loans and Advances	12,768	14,766	16,050	17,918	19,025
Curr. Liability & Prov.	2,07,430	2,11,447	2,37,451	2,54,468	2,67,002
Account Payables	1,11,407	1,24,775	1,39,748	1,56,518	1,75,300
Other Current Liabilities	89,575	81,567	90,968	90,432	83,719
Provisions	6,449	5,104	6,734	7,518	7,983
Net Current Assets	-28,714	-16,538	-36,351	-43,334	-40,858
Other non-current asset	63,060	1,24,846	1,24,846	1,24,846	1,24,846
Appl. of Funds	2,63,195	3,37,487	3,36,578	3,52,595	3,78,071

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)					
EPS	2.3	1.8	3.8	7.0	9.2
BV/Share	27.8	45.6	48.2	53.1	59.6
DPS	1.0	0.9	1.6	3.0	4.0
Payout (%)	30.0	36.5	30.0	30.0	30.0
Valuation (x)					
P/E	54.9	70.6	33.6	18.5	13.9
P/BV	4.6	2.8	2.7	2.4	2.2
EV/Sales	1.1	1.1	0.9	0.8	0.7
EV/EBITDA	13.5	13.5	10.4	7.8	6.6
Dividend Yield (%)	0.8	0.7	1.3	2.3	3.1
FCF per share (Eco. Int. basis)	5.8	-0.3	15.4	12.9	14.4
Return Ratios (%)					
RoE	8.9	5.0	8.2	13.7	16.4
RoCE (post-tax)	4.2	3.2	6.4	10.3	12.4
RoIC	5.6	3.3	7.4	12.1	14.7
Working Capital Ratios					
Fixed Asset Turnover (x)	2.4	2.4	2.6	2.7	2.6
Asset Turnover (x)	2.2	1.9	2.2	2.4	2.4
Inventory (Days)	31	36	30	28	28
Debtor (Days)	36	37	35	34	33
Creditor (Days)	70	71	68	68	72
Leverage Ratio (x)					
Current Ratio	0.9	0.9	0.8	0.8	0.8
Interest Cover Ratio	NA	3.6	4.6	8.2	11.5
Net Debt/Equity	0.4	0.3	0.2	0.2	0.1

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	16,129	19,088	24,675	44,715	59,069
Depreciation	29,764	29,964	30,990	31,590	32,190
Interest & Finance Charges	4,544	4,346	6,200	5,890	5,419
Direct Taxes Paid	-5,600	-8,324	-7,403	-13,414	-17,721
(Inc)/Dec in WC	6,432	-20,797	21,120	6,480	5,062
CF from Operations	51,268	24,276	75,583	75,260	84,019
Others	-757	351	2,000	2,652	3,132
CF from Operating incl EO	50,512	24,627	77,583	77,912	87,151
(Inc)/Dec in FA	-19,325	-24,363	-23,706	-26,687	-27,609
Free Cash Flow	31,187	264	53,876	51,225	59,542
(Pur)/Sale of Investments	-45	-123	0	0	0
Others	436	1,367	0	0	0
CF from Investments	-18,934	-23,119	-23,706	-26,687	-27,609
Issue of Shares	0	0	0	0	0
Inc/(Dec) in Debt	-11,324	2,456	-15,000	-8,500	-6,500
Interest Paid	-4,141	-5,528	-6,200	-5,890	-5,419
Dividend Paid	-1,576	-6,457	-5,182	-9,436	-12,504
Others	-3,859	-2,570	0	0	0
CF from Fin. Activity	-20,900	-12,099	-26,382	-23,826	-24,423
Inc/Dec of Cash	10,678	-10,591	27,495	27,399	35,119
Opening Balance	48,688	59,367	48,775	76,270	1,03,669
Closing Balance	59,367	48,775	76,270	1,03,669	1,38,789

NOTES

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