

## Superlative return ratio profile with fundamental levers for secular growth amid increasing content/vehicle...

**About the stock:** Motherson Sumi Wiring India (MSWIL) was established in 1986 as a JV with Sumitomo Wiring Systems (Japan). MSWIL is a leading, full-system wiring harness solutions provider in India catering to all major OEMs like Maruti Suzuki, Toyota Motors, Ashok Leyland, Tata Motors, etc. Listed on March 28, 2022.

- FY22 segment mix: PV: 60%; CV: 11%; 2-W: 12%; Others: 17%
- It has 23 plants in India with 40,000+ employees. It was recently carved out of the erstwhile Motherson Sumi (MSSL) at the behest of its JV partner

### Key Highlights:

- Wiring harness acts as a nervous system of an automobile primarily used to transport an electronic signal. Content is pegged at ~2-3% of vehicle price
- Content/vehicle is set to gain from increasing application of electronics (ADAS, TPMS, connected vehicle, etc.) in automobile & even electrification
- Content/vehicle in EV is pegged at ~1.5-2x of ICE vehicle
- MSWIL works on asset light model with land & building leased from SAMIL

**What should investors do?** Since demerger, MSWIL's share price has grown 31.5% (from ~₹ 64 in April 2022) vastly outperforming Nifty Auto index at same time.

- We bring MSWIL in coverage pursuant to de-merger and assign **BUY** rating amid structural levers for long term secular growth & ~50% RoCE profile

**Target Price and Valuation:** Introducing FY25E, we value MSWIL at ₹ 105 i.e. 42x P/E on average FY24-25E EPS of ₹ 2.5

### Key triggers for future price performance:

- With pent up demand in PV space amid strong order book across OEMs & increasing consumer preference for advance technology enabled vehicles i.e. better wiring harness content, we build 18% sales CAGR over FY22-25E
- With increasing capacity utilisation levels and associated operating leverage at play, margins are seen improving to 13.5% by FY24E-25E
- FY22: Net cash positive b/s: ₹ 280 crore, healthy CFO/FCF generation

**Alternate Stock Idea:** In our auto universe, we also like Mahindra & Mahindra.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,590



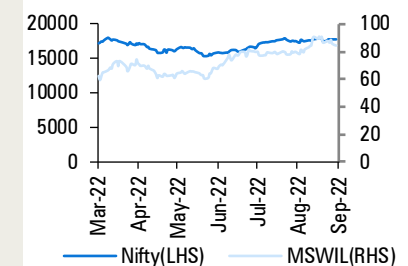
### Particulars

Particulars	₹ crore
Market capitalisation	27,158.8
Total Debt (FY22)	19.3
Cash & Investment (FY22)	293.3
EV (₹ crore)	26,884.8
52 week H/L (₹)	94 / 56
Equity capital (₹ crore)	315.8
Face value (₹)	1.0

### Shareholding pattern

	Mar-22	Jun-22
Promoter	61.7	61.7
FII	14.9	8.6
DII	13.4	20.8
Other	10.0	8.9

### Price Chart



### Recent Event & Key risks

- Board to consider bonus issue on September 30, 2022
- Key Risk:** (i) On boarding of second alternate supplier and consequent decline in wallet share at key OEMs, (ii) Slower than expected sales growth in PV space

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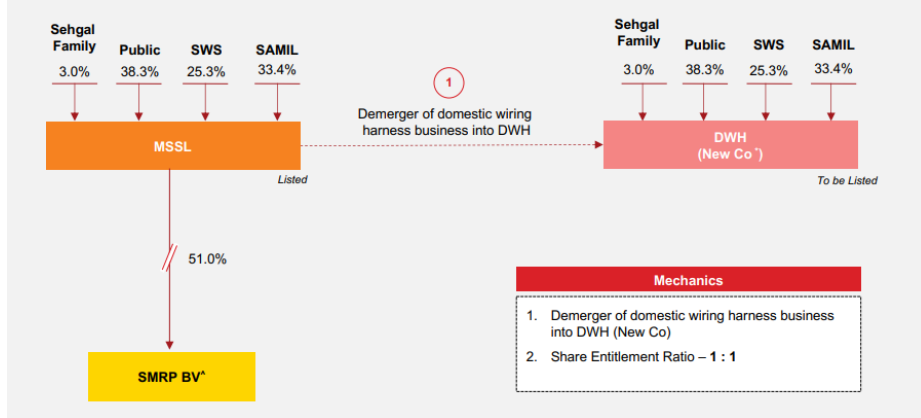
### Key Financial Summary

Key Financials	FY21	FY22	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Total Operating Income	3,937.7	5,635.0	7,034.2	8,084.3	9,291.7	18.1%
EBITDA	553.1	730.3	914.4	1,091.4	1,254.4	19.8%
EBITDA Margins (%)	14.0	13.0	13.0	13.5	13.5	
Net Profit	396.2	410.7	595.6	719.9	831.3	26.5%
EPS (₹)	1.3	1.3	1.9	2.3	2.6	
P/E	68.5	66.1	45.6	37.7	32.7	
RoNW (%)	55.8	41.1	45.3	46.1	45.2	
RoCE (%)	60.5	45.1	49.4	51.2	50.9	

## Motherson Sumi Wiring India

Motherson Sumi Wiring India (MSWIL), a JV between Samvardhan Motherson International (SAMIL; ~33.4% stake) and Japan’s Sumitomo Wiring Systems (SWS; ~25.3% stake), is headquartered in Noida and employs ~40,000+ people. It was recently listed on the exchanges following SAMIL’s (erstwhile MSSL) re-organisation exercise as a vertical demerger of its domestic wiring harness (DWH) business, fulfilling SWS’ long-standing request for focused participation in the domestic passenger car industry.

Exhibit 1: Vertical demerger of DWH business in ratio of 1:1



Source: Company, ICICI Direct Research

MSWIL forms an integral part of Motherson and is part of Vision 2025

Exhibit 2: Parent 2025 Vision – MSWIL an integral part



Source: Company, ICICI Direct Research

Motherson/SAMIL 2025 targets include:

- US\$36 billion revenues
- Total 25% of revenues to come from new divisions that Motherson has entered into
- 3CX10; i.e. exposure to any country, component or customer should not be more than 10% of total turnover
- 40% ROCE
- 40% dividend payout

## Triggers

### Best ride on secular PV demand amid outsized market share

MSWIL is a proxy to the domestic auto industry growth amid leading market position in the wiring harness segment especially the PV space. On a global scale, in the 4-W/passenger car domain, India is still an under-penetrated market thereby demonstrating ability for secular growth over long term horizon of 5+ years, with MSWIL a key beneficiary.

### Electrification to benefit along with rise in electronic content

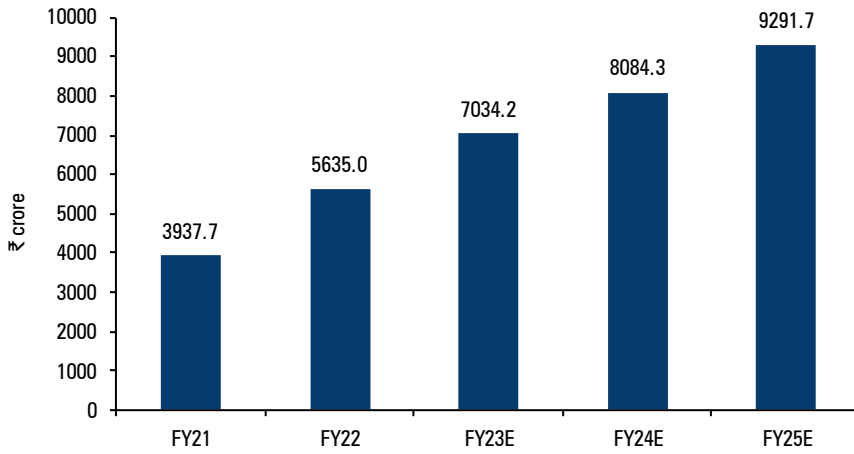
With a steady state base business, MSWIL is all set to reap the benefits of imminent trends in industry like electrification & premiumisation i.e. increase in electronic content with content per vehicle expected to increase by ~1.5-2x over the medium to long term. This is structurally positive for MSWIL.

### Healthy asset turn, margins leading to superlative RoCE

MSWIL works on an asset light model with healthy asset turns (>2x) and margin profile ~13-14%, thereby realising ~40-50% RoCE, an outlier in the domestic auto ancillary space, providing comfort for its premium valuations.

## Key Financial charts

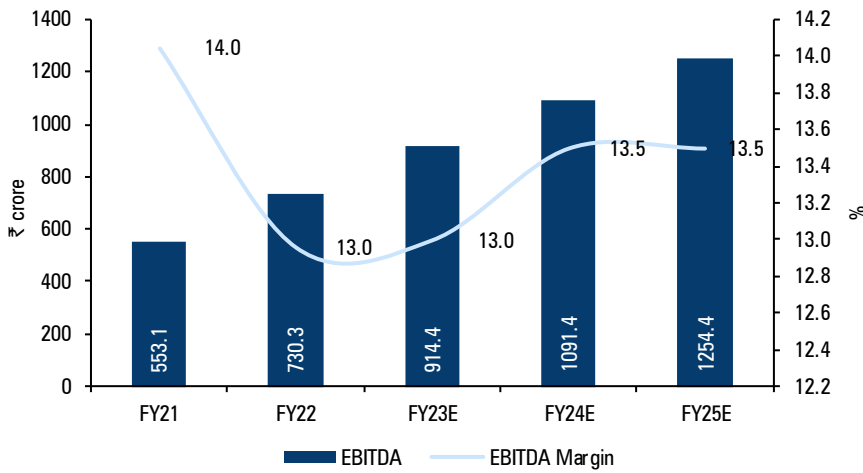
Exhibit 3: Trend in topline



Net sales are expected to grow at 18.1% CAGR over FY22-25E at ₹ 9,292 crore as of FY25E

Source: Company, ICICI Direct Research

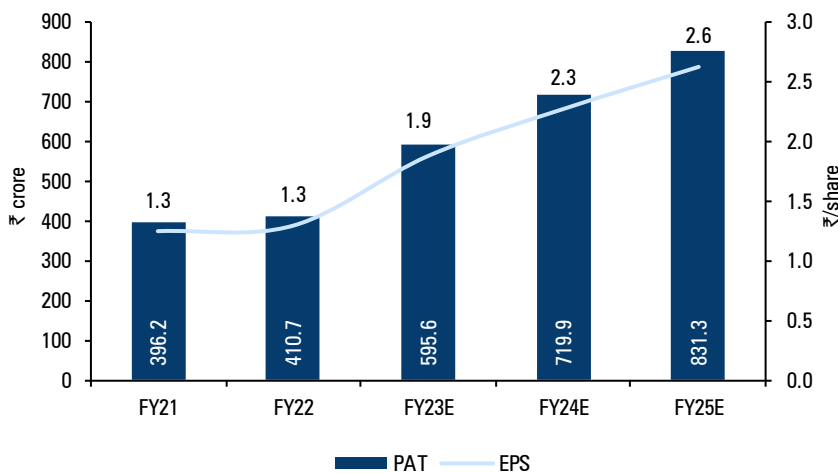
Exhibit 4: Trend in EBITDA & margins



EBITDA is expected to grow at 19.8% CAGR over FY22-25E to ₹ 1,254 crores in FY24E with margins reaching 13.5% as at FY25E

Source: Company, ICICI Direct Research

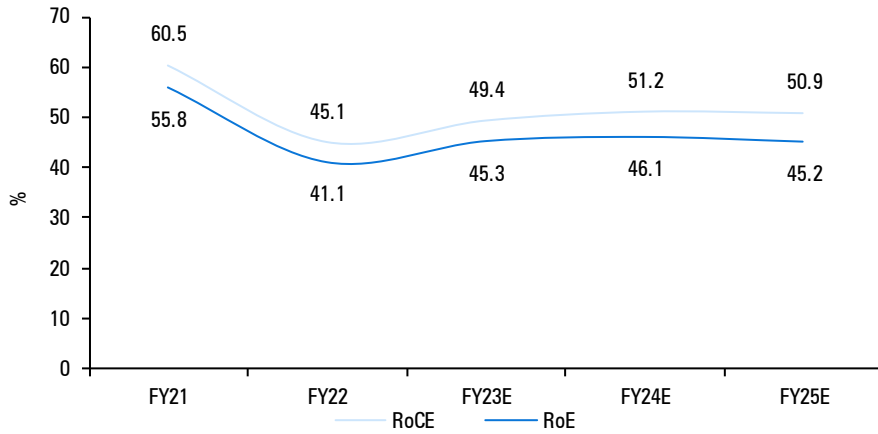
Exhibit 5: Trend in bottomline & EPS



PAT is expected to rise to ₹ 831 crore in FY25E with corresponding EPS seen at ₹ 2.6 in FY25E

Source: Company, ICICI Direct Research

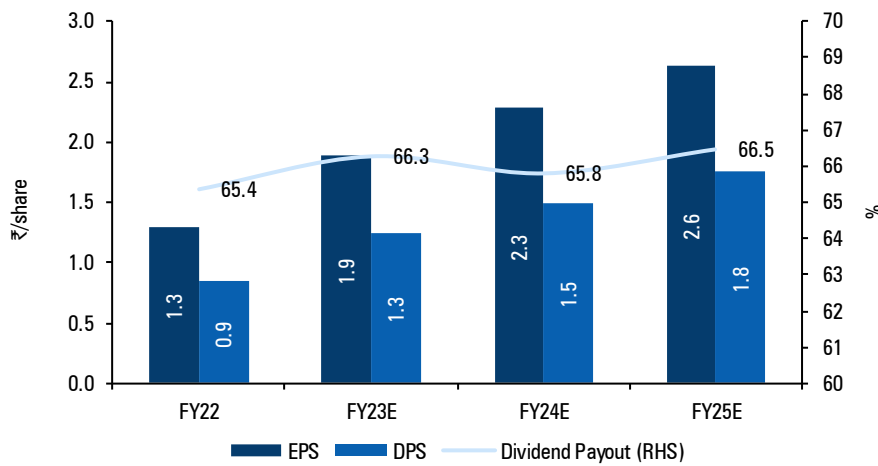
Exhibit 6: Trend in return ratios



Higher return ratios are the USP at MSWIL with RoCE consistently at ~50% mark

Source: Company, ICICI Direct Research

Exhibit 7: Trend in dividend payout



We have maintained consistent dividend payouts at ~65% levels, going forward

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Net Sales	5587.2	6984.0	8031.6	9236.3
Other Operating Income	47.8	50.2	52.7	55.3
<b>Total Operating Income</b>	<b>5,635.0</b>	<b>7,034.2</b>	<b>8,084.3</b>	<b>9,291.7</b>
Growth (%)	43.1	24.8	14.9	14.9
Raw Material Expenses	3,609.3	4,501.9	5,174.0	5,946.7
Employee Expenses	946.4	1,160.6	1,293.5	1,486.7
Other Operating Expense	349.0	457.2	525.5	604.0
Total Operating Expenditure	4,904.7	6,119.7	6,992.9	8,037.3
<b>EBITDA</b>	<b>730.3</b>	<b>914.4</b>	<b>1,091.4</b>	<b>1,254.4</b>
Growth (%)	32.0	25.2	19.3	14.9
Depreciation	105.5	120.8	136.0	156.4
Interest	28.5	25.7	23.1	20.8
Other Income	30.0	31.4	34.0	38.7
<b>PBT</b>	<b>626.3</b>	<b>799.4</b>	<b>966.3</b>	<b>1,115.9</b>
Exceptional Item	65.4	0.0	0.0	0.0
Total Tax	150.2	203.8	246.4	284.5
<b>PAT</b>	<b>410.7</b>	<b>595.6</b>	<b>719.9</b>	<b>831.3</b>
Growth (%)	3.7	45.0	20.9	15.5
<b>EPS (₹)</b>	<b>1.3</b>	<b>1.9</b>	<b>2.3</b>	<b>2.6</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	410.7	595.6	719.9	831.3
Add: Depreciation	105.5	120.8	136.0	156.4
(Inc)/dec in Current Assets	-148.9	-404.8	-312.6	-359.5
Inc/(dec) in CL and Provisions	238.7	266.0	216.3	248.7
Others	-1.5	-5.7	-10.9	-17.9
<b>CF from operating activities</b>	<b>604.5</b>	<b>571.7</b>	<b>748.6</b>	<b>859.0</b>
(Inc)/dec in Investments	-24.4	-2.0	-2.0	-2.0
(Inc)/dec in Fixed Assets	-400.1	-150.0	-200.0	-200.0
Others	172.8	46.4	39.0	43.7
<b>CF from investing activities</b>	<b>-251.7</b>	<b>-105.6</b>	<b>-163.0</b>	<b>-158.3</b>
Issue/(Buy back) of Equity	315.7	0.0	0.0	0.0
Inc/(dec) in loan funds	-62.5	-5.0	-2.0	-2.0
Dividend paid & dividend tax	-296.9	-420.4	-496.8	-573.4
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-53.1	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-96.8</b>	<b>-425.4</b>	<b>-498.8</b>	<b>-575.4</b>
<b>Net Cash flow</b>	<b>256.0</b>	<b>40.7</b>	<b>86.8</b>	<b>125.3</b>
Opening Cash	37.3	293.3	334.0	420.8
<b>Closing Cash</b>	<b>293.3</b>	<b>334.0</b>	<b>420.8</b>	<b>546.1</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	315.8	315.8	315.8	315.8
Reserve and Surplus	798.8	999.6	1,245.8	1,524.4
<b>Total Shareholders funds</b>	<b>1,114.6</b>	<b>1,315.4</b>	<b>1,561.6</b>	<b>1,840.2</b>
Total Debt	19.3	14.3	12.3	10.3
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	252.0	277.0	292.0	307.0
<b>Total Liabilities</b>	<b>1,385.9</b>	<b>1,606.7</b>	<b>1,865.9</b>	<b>2,157.5</b>
<b>Assets</b>				
Gross Block	781.4	943.7	1,148.7	1,353.7
Less: Acc Depreciation	349.3	470.1	606.1	762.5
Net Block	432.1	473.6	542.6	591.2
Capital WIP	32.3	20.0	15.0	10.0
<b>Total Fixed Assets</b>	<b>464.4</b>	<b>493.6</b>	<b>557.6</b>	<b>601.2</b>
Investments	35.2	37.2	39.2	41.2
Inventory	960.0	1,148.1	1,320.3	1,518.3
Debtors	659.3	861.0	990.2	1,138.7
Loans and Advances	1.0	1.3	1.4	1.7
Other Current Assets	59.1	73.9	85.0	97.7
<b>Cash</b>	<b>293.3</b>	<b>334.0</b>	<b>420.8</b>	<b>546.1</b>
Total Current Assets	1,972.7	2,418.2	2,817.7	3,302.4
Current Liabilities	912.9	1,148.1	1,320.3	1,518.3
Provisions	1.2	1.5	1.7	2.0
Current Liabilities & Prov	1,175.8	1,441.8	1,658.0	1,906.7
<b>Net Current Assets</b>	<b>796.9</b>	<b>976.5</b>	<b>1,159.6</b>	<b>1,395.7</b>
Others Assets	89.4	99.4	109.4	119.4
<b>Application of Funds</b>	<b>1,385.9</b>	<b>1,606.7</b>	<b>1,865.9</b>	<b>2,157.5</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	1.3	1.9	2.3	2.6
Cash EPS	1.6	2.3	2.7	3.1
BV	3.5	4.2	4.9	5.8
DPS	0.9	1.3	1.5	1.8
Cash Per Share	0.9	1.1	1.3	1.7
<b>Operating Ratios (%)</b>				
EBITDA Margin	13.0	13.0	13.5	13.5
PAT Margin	7.3	8.5	8.9	8.9
Inventory days	62.7	60.0	60.0	60.0
Debtor days	43.1	45.0	45.0	45.0
Creditor days	59.6	60.0	60.0	60.0
<b>Return Ratios (%)</b>				
RoE	41.1	45.3	46.1	45.2
RoCE	45.1	49.4	51.2	50.9
RoIC	58.9	63.4	66.8	68.6
<b>Valuation Ratios (x)</b>				
P/E	66.1	45.6	37.7	32.7
EV / EBITDA	36.8	29.4	24.5	21.2
EV / Net Sales	4.8	3.8	3.3	2.9
Market Cap / Sales	4.9	3.9	3.4	2.9
Price to Book Value	24.4	20.6	17.4	14.8
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	1.8	1.8	1.8
<b>Quick Ratio</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>

Source: Company, ICICI Direct Research

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Sell: <-15%



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