

Samvardhana Motherson

Estimate changes

TP change

Rating change



Bloomberg	MOTHERSO IN
Equity Shares (m)	6,776
M.Cap.(INRb)/(USD\$)	463.2 / 5.7
52-Week Range (INR)	145 / 62
1, 6, 12 Rel. Per (%)	-14/-27/-50
12M Avg Val (INR M)	1431

MOTHERSO: Financials & Valuations

INR million	2022	2023E	2024E
Sales	644.2	742.4	816.2
EBITDA	49.0	56.4	74.9
Adj. PAT	8.2	14.5	26.9
EPS (Rs)	1.2	2.1	4.0
EPS Growth (%)	-22.2	76.3	85.6
BV/Share (INR)	30.4	31.9	34.7

Ratios

Net D:E	0.3	0.3	0.2
RoE (%)	5.0	6.9	11.9
RoCE (%)	3.2	5.8	9.1
Payout (%)	36.5	30.0	30.0

Valuations

P/E (x)	58.1	33.0	17.8
P/BV (x)	2.3	2.2	2.0
Div. Yield (%)	0.6	0.9	1.7
FCF Yield (%)	-0.2	9.4	7.6

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	68.2	68.2	61.7
DII	10.6	10.5	13.6
FII	8.8	9.5	16.4
Others	12.5	11.9	8.2

FII Includes depository receipts

CMP: INR68
TP: INR95 (+39%)
Buy

Strong recovery in seasonally weak quarter

Order book at EUR18.2b with EVs contributing 37%

- MOTHERSOs' 2QFY23 performance was above estimates, driven by rebound in the auto production across geographies and the benefits of partial cost inflation pass-through. MOTHERSO will benefit substantially from easing supply side pressures and receding cost headwinds, thereby driving strong growth and balance sheet deleverage.
- We cut our FY22E/FY23E EPS by 4%/5.5%, respectively, to factor in for lower share of profit from associates, higher interest and tax rate. We reiterate our **Buy** rating on the stock with a TP of INR95 (premised on Sep'24 SOTP).

Strong revenue traction

- Consol business performance:** Consolidated revenue/EBITDA/adj.PAT grew 27%/30%/2.2x YoY to INR182.6b/INR14b/INR3b (v/s est. INR168.4b/INR11.1b/ INR1.6b), respectively. 1HFY23 revenues grew 16% YoY while EBITDA/Adj.PAT remained flat in 2QFY23.
- Wiring business** revenues grew 22% YoY to INR63.9b (v/s est. INR60b) and EBITDA margins declined 150bp YoY to 8.2% (v/s est. 8%). Revenue growth was driven by India PV business, as global commercial vehicle and China markets remained subdued. Margins were adversely impacted by one-off start-up costs in India, diluted by commodity price savings.
- Modules & Polymer business** revenues grew 27% YoY to INR97.4b (v/s est. INR87b) and EBITDA margins declined 30bp YoY to 6.2% (v/s est. 5.4%). Revenue growth was driven by premiumization in key markets. Margins expansion on a QoQ basis was a result of pass through of some cost inflation. This is the most energy-intensive business in SAMIL's portfolio and elevated energy costs adversely impacted performance.
- Vision systems business** revenues grew 32% YoY to INR39.4b (v/s est. INR32.4b) and EBITDA margins expanded 80bp YoY to 9.1% (v/s est. 8.2%). While revenue growth was driven by strong growth in the US and China, margin improvements were driven by partial pass-through of cost and operating leverage.
- Other business** revenues grew 8% QoQ at ~INR17.5b (vs est INR15.4b) and EBITDA margins declined 90bp YoY to 10% (in-line) in 2QFY23.
- SMRPBV order book increased to EUR18.2b (v/s EUR16.1b as of Mar-22), with the share of EV at 37% (vs 27% as of Mar-22).
- 1HFY23 CFO improved to INR8.1b (v/s cash outflow of INR4.4b in 1HFY22), thereby reducing FCFF outflow to INR230m (v/s outflow of INR16.25b in 1HFY22). Capex in 1HFY23 was lower at INR8.3b (v/s INR11.8b in 1HFY22).
- Net debt (excl. lease liabilities) increased QoQ to INR85.5b (v/s INR82.7b in 1QFY23 and INR76.3b in 2QFY22) due to higher working capital.

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Highlights from the management commentary

- Strong growth in revenues was backed by increasing production volumes and premiumization. This, coupled with partial benefit of cost pass-through and operating leverage, drove profitability.
- SMRPBV order book increased to EUR18.2b (v/s EUR16.1b as of Mar-22), with the share of EV at 37% (vs 27% as of Mar-22).
- In the Aerospace business (part of Others), the company witnessed 30% QoQ growth in booked business (order book + business under execution) to USD400m in the quarter.
- Working capital expenses has increased in the post-covid era due to supply chain volatility necessitating higher inventory of INR20b (inventory days higher by 10 days). As supply chain issues normalize, working capital expenses should moderate.

Valuation & view

- Our preference for MOTHERSO remains intact based on – industry recovery, execution of strong order book of SMRPBV, and receding cost inflation. The stock trades at 33x/17.8x FY23E/24E consolidated EPS. We reiterate our Buy rating with a TP of ~INR95 (premised on Sep'24 SOTP).

Quarterly performance (Consol.)

(INR Million)

Y/E March	FY22				FY23E				FY22	FY23E	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			2QE
Net Sales	1,64,080	1,44,150	1,64,350	1,71,610	1,76,147	1,82,608	1,88,446	1,95,181	6,44,200	7,42,383	1,68,444
YoY Change (%)					7.4	26.7	14.7	13.7	10.6	15.2	16.9
EBITDA	13,670	10,820	12,320	12,220	10,768	14,031	14,670	16,933	49,030	56,403	11,092
Margins (%)	8.3	7.5	7.5	7.1	6.1	7.7	7.8	8.7	7.6	7.6	6.6
Depreciation	7,780	7,640	7,600	7,370	7,324	7,487	7,650	8,079	30,390	30,540	7,700
Interest	1,208	1,313	1,294	1,612	1,694	1,837	1,800	1,869	5,115	7,200	1,750
Other income	1,548	871	1,227	1,412	978	940	500	581	4,957	3,000	600
PBT after EO Expense	6,225	2,738	4,653	4,175	2,729	4,663	5,720	8,550	18,002	21,663	2,242
Tax Rate (%)	173.4	350.5	212.8	228.1	34.0	30.3	33.0	34.6	58.1	33.0	30.0
Min. Int & Share of profit	70	-630	80	190	389	485	32	-906	-290	0	11
Reported PAT	3,140	1,410	2,270	1,220	1,412	2,464	3,800	6,837	8,040	14,514	1,558
Adj PAT	3,142	1,410	2,270	1,412	1,412	3,123	3,800	6,178	8,234	14,514	1,558
YoY Change (%)	-142.4	-51.7	-65.6	-74.0	-55.1	121.5	67.4	337.5	-22.2	76.3	10.5

E: MOFSL Estimates

Key Performance Indicators

(INR Million)

Y/E March	FY22				FY23				FY22	FY23E	2QE
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			
Business Wise Revenues (INR m)											
Wiring harness	54,680	52,590	52,560	59,570	60,960	63,940	63,234	66,491	2,19,400	2,54,626	59,936
Modules & Polymer products	91,270	76,790	92,600	92,540	94,130	97,440	1,00,528	1,02,385	3,53,200	3,94,483	87,049
Vision systesm	32,990	29,820	35,280	36,390	34,820	39,360	41,505	41,452	1,34,480	1,57,136	32,347
Others	3,280	3,640	3,710	14,970	16,170	17,530	17,179	18,458	25,600	69,337	15,362
Less: Inter-segment	3,330	3,120	3,400	5,220	5,400	5,410	5,500	5,580	15,070	21,890	5,250
Less: Revenues of Associates/JVs	10,390	9,540	9,770	2,640	24,530	30,250	28,500	28,029	56,100	1,11,309	21,000
Net Revenues	1,68,500	1,50,180	1,70,980	1,95,610	1,76,150	1,82,610	1,88,446	1,95,176	6,61,510	7,42,383	1,68,444
Business Wise EBITDA Margins (%)											
Wiring harness	8.7	9.7	7.1	9.3	7.9	8.2	8.6	10.6	8.7	8.9	8.0
Modules & Polymer products	7.6	6.6	7.7	5.8	5.1	6.2	6.8	8.0	6.9	6.6	5.4
Vision systesm	11.5	8.3	9.2	9.3	8.4	9.1	9.5	9.8	9.6	9.3	8.2
Others	6.1	9.6	3.8	10.8	10.9	10.0	10.0	10.1	9.0	10.3	10.0
Consol EBITDA Margins (%)	8.7	8.0	8.1	6.6	6.5	7.9	8.0	8.9	8.1	7.9	6.4

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

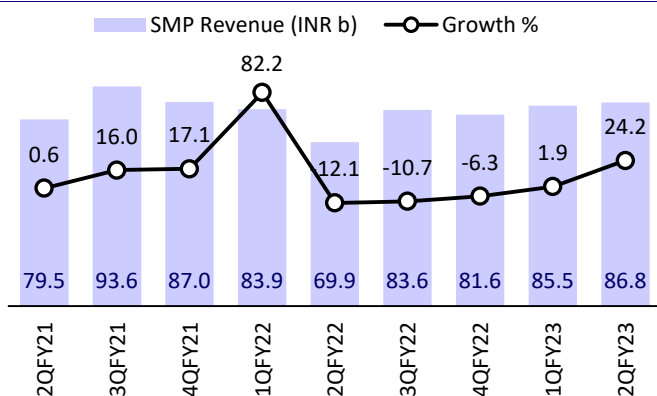


Highlights from the management commentary

- Strong growth in revenues backed by increasing production volume and premiumisation. This coupled with partial benefit of cost pass through and operating leverage drove profitability.
- SMRPBV order book increased to EUR18.2b (v/s EUR16.1b as of Mar-22), with share of EV at 37% (vs 27% as of Mar-22).
- Wiring harness business growth was driven by India PV business, as global CV and China markets were subdued.
- Modules & Polymer was driven by premiumisation in key markets. This business is most energy intensive in SAMILs portfolio and elevated energy costs impacted performance. It is evaluating several initiatives on active energy management, including installing captive solar on factory rooftop.
- Vision systems benefitted from strong growth in North America and China (SMR has large presence in China). SMP is seeing significant traction in new EV program nominations.
- In Aerospace business (part of Others), it saw 30% QoQ growth in booked business (order book + business under execution) to USD400m.
- For its SMRPBV and PKC operations in Russia, it has provided INR934m as impairment provision and other costs related to production suspension.
- India contributes 24% to revenues, 30% to EBITDA and over 50% to PAT.
- Working capital has increased in post-covid era as due to supply chain volatility necessitating higher inventory by INR20b (inventory days higher by 10 days). As supply chain issues normalize, working capital should moderate.
- Capex guidance maintained at INR25b (+/- 10%), of which it has already spent ~INR8.3b in 1H.
- Net Debt increased QoQ by INR2.8b to INR85.5b.

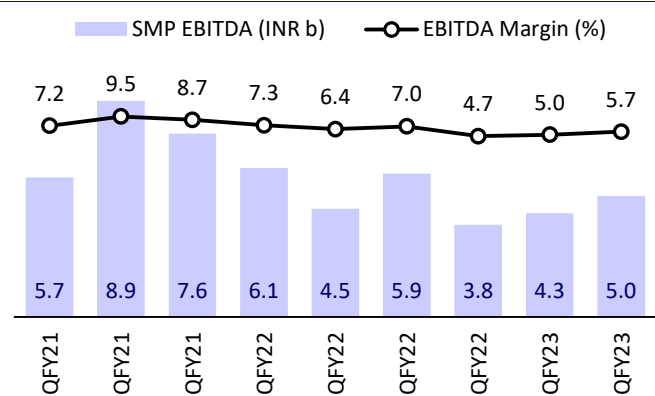
Key exhibits

Exhibit 1: Trends in SMP revenue and growth



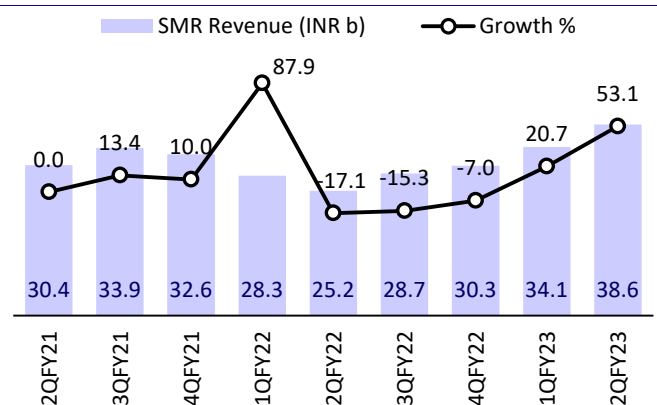
Source: Company, MOFSL

Exhibit 2: SMP EBITDA and EBITDA margin



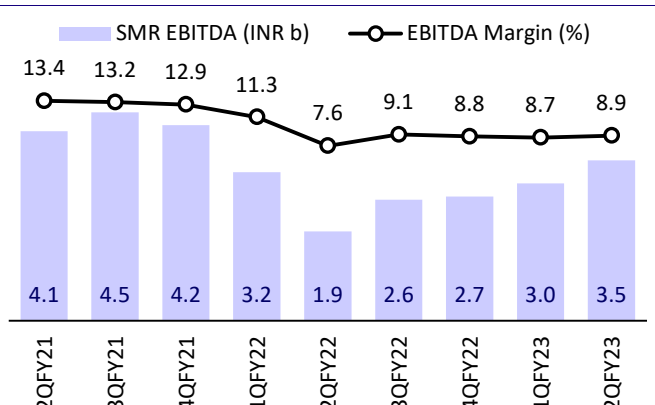
Source: Company, MOFSL

Exhibit 3: SMR revenue and growth trends



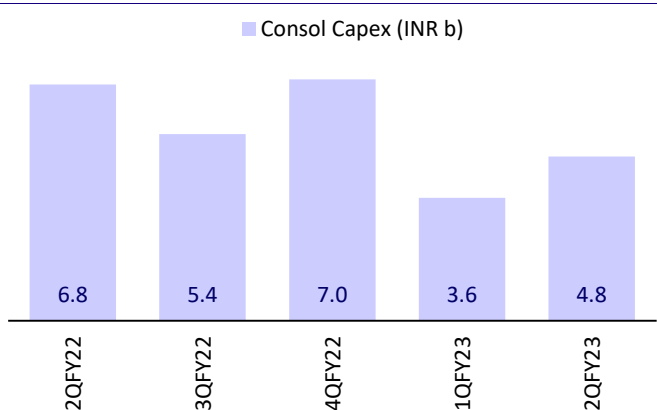
Source: Company, MOFSL

Exhibit 4: SMR EBITDA and EBITDA margin



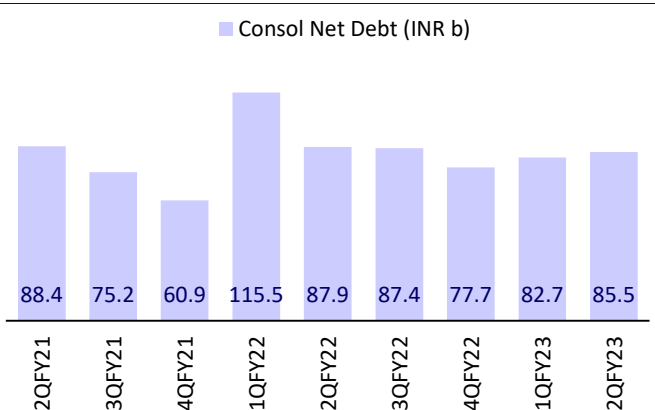
Source: Company, MOFSL

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, MOTHERSON is set to leverage these trends to drive its next wave of growth.
- **Cyclical recovery in all the key businesses:** MOTHERSON'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 FY23. MOTHERSON 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 Sep'22, its order book stood at EUR18.2b (with 37% 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 ~11% CAGR to reach EUR5b during FY22-FY25E and the EBITDA margin to expand 2.2pp to ~8.5% 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 17% CAGR over FY22-25E and its EBITDA margin to expand 230bp to 11.5% 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 MOTHERSON, as 2Ws shift to electronic fuel injection systems with more sensors. MOTHERSON is already a market leader in 2W wiring harness in the EU. It is estimated to grow at 21% 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, driving PAT CAGR of 29%.
- **PKC – cyclical downturn 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 6% CAGR over FY22-25E; and, we expect its margin to improve to 6.5% (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 4%/5.5%, respectively to factor in for lower share of profit from associates, higher interest and tax rate. Our positive view on MOTHERSON remains intact based on – industry recovery +

execution of strong order book of SMRPBV + receding cost inflation. MOTHERSO will benefit substantially from easing supply side issues and receding cost headwinds, thereby driving strong growth and balance sheet deleverage. The stock trades at 33 x/17.8x FY23E/24E consolidated EPS. Maintain **BUY** with a TP of ~INR95 (premised on Sep'24 SOTP).

Exhibit 7: Revised forecast (consolidated)

(INR M)	FY23E			FY24E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	7,42,383	7,22,708	2.7	8,16,184	7,96,326	2.5
EBITDA	56,403	56,694	-0.5	74,864	74,982	-0.2
EBITDA (%)	7.6	7.8	-20bp	9.2	9.4	-20bp
Adj. PAT	14,514	15,088	-3.8	26,941	28,522	-5.5
EPS (INR)	2.1	2.2	-3.8	4.0	4.2	-5.5

Source: Company, MOFSL

Exhibit 8: SOTP-based Target Price of INR95 (Sep-24E) for SAMIL

	FY23E	FY24E	FY25E
PAT			
Standalone	4,718	5,845	6,990
SMRPBV	7,139	14,066	19,323
PKC	431	1,408	2,489
Others	2,869	5,840	6,757
New businesses	-643	-218	144
Value (INR/sh)			
Standalone	17	22	26
SMRPBV	16	31	42
PKC	1	3	6
Others	8	17	20
New businesses	-1	0	0
MSWIL @ 20% HoldCo Discount	7	11	14
TP (INR/Sh)	48	84	107
Upside (%)	-31.9	18.4	52.1

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	7,42,383	8,16,184	8,67,386
Change (%)	-4.1	10.6	15.2	9.9	6.3
EBITDA	46,880	49,030	56,403	74,864	87,992
Margin (%)	8.1	7.6	7.6	9.2	10.1
Depreciation	30,260	30,390	30,540	31,340	32,140
EBIT	16,620	18,640	25,863	43,524	55,852
Interest Charges		5,115	7,200	7,020	6,669
PBT bef. EO Exp.	16,620	18,482	21,663	39,504	52,183
Tax Rate (%)	33.6	59.6	33.0	33.0	33.0
Minority Interest	440	-290	0	-473	-740
Reported PAT	10,590	8,040	14,514	26,941	35,703
Adjusted PAT	10,590	8,234	14,514	26,941	35,703
Change (%)	30.8	-22.2	76.3	85.6	32.5

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	4,518	4,518	6,776	6,776	6,776
Total Reserves	1,21,088	2,01,365	2,09,266	2,28,124	2,53,116
Net Worth	1,25,606	2,05,882	2,16,042	2,34,901	2,59,893
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	3,34,647	3,47,505	3,68,797
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	1,97,026	2,00,665	2,11,340
Inventory	49,956	64,417	61,018	62,611	66,539
Account Receivables	56,931	65,731	71,187	76,028	78,421
Cash and Bank Balance	59,062	49,994	48,956	44,583	47,843
Loans and Advances	12,768	14,766	15,865	17,442	18,537
Curr. Liability & Prov.	2,07,430	2,11,447	2,35,308	2,49,088	2,61,471
Account Payables	1,11,407	1,24,775	1,39,748	1,56,518	1,75,300
Other Current Liabilities	89,575	81,567	88,903	85,251	78,393
Provisions	6,449	5,104	6,657	7,318	7,777
Net Current Assets	-28,714	-16,538	-38,282	-48,423	-50,131
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	3,34,647	3,47,505	3,68,797

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)					
EPS	1.6	1.2	2.1	4.0	5.3
BV/Share	18.5	30.4	31.9	34.7	38.4
DPS	0.5	0.4	0.6	1.2	1.6
Payout (%)	30.0	36.5	30.0	30.0	30.0
Valuation (x)					
P/E	45.2	58.1	33.0	17.8	13.4
P/BV	3.8	2.3	2.2	2.0	1.8
EV/Sales	0.9	0.9	1.1	1.0	0.9
EV/EBITDA	10.8	11.0	13.6	10.2	8.6
Dividend Yield (%)	0.7	0.6	0.9	1.7	2.2
FCF per share (Eco. Int. basis)	2.7	-0.1	6.6	5.4	6.1
Return Ratios (%)					
RoE	8.9	5.0	6.9	11.9	14.4
RoCE (post-tax)	4.2	3.2	5.8	9.1	11.0
RoIC	5.6	3.3	6.4	10.4	12.6
Working Capital Ratios					
Fixed Asset Turnover (x)	2.4	2.4	2.6	2.6	2.5
Asset Turnover (x)	2.2	1.9	2.2	2.3	2.4
Inventory (Days)	31	36	30	28	28
Debtor (Days)	36	37	35	34	33
Creditor (Days)	70	71	69	70	74
Leverage Ratio (x)					
Current Ratio	0.9	0.9	0.8	0.8	0.8
Interest Cover Ratio	NA	3.6	3.6	6.2	8.4
Net Debt/Equity	0.4	0.3	0.3	0.2	0.2

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	16,129	19,088	21,663	39,504	52,183
Depreciation	29,764	29,964	30,540	31,340	32,140
Interest & Finance Charges	4,544	4,346	7,200	7,020	6,669
Direct Taxes Paid	-5,600	-8,324	-7,149	-13,036	-17,220
(Inc)/Dec in WC	6,432	-20,797	20,705	5,769	4,968
CF from Operations	51,268	24,276	72,959	70,597	78,739
Others	-757	351	2,000	2,973	3,540
CF from Operating incl EO	50,512	24,627	74,959	73,570	82,280
(Inc)/Dec in FA	-19,325	-24,363	-23,482	-26,229	-27,142
Free Cash Flow	31,187	264	51,477	47,341	55,138
(Pur)/Sale of Investments	-45	-123	0	0	0
Others	436	1,367	0	0	0
CF from Investments	-18,934	-23,119	-23,482	-26,229	-27,142
Issue of Shares	0	0	2,259	0	0
Inc/(Dec) in Debt	-11,324	2,456	-15,000	-8,500	-6,500
Interest Paid	-4,141	-5,528	-7,200	-7,020	-6,669
Dividend Paid	-1,576	-6,457	-4,354	-8,082	-10,711
Others	-3,859	-2,570	0	0	0
CF from Fin. Activity	-20,900	-12,099	-24,295	-23,602	-23,880
Inc/Dec of Cash	10,678	-10,591	27,182	23,738	31,258
Opening Balance	48,688	59,367	48,775	75,957	99,695
Closing Balance	59,367	48,775	75,957	99,695	1,30,953

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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