

November 10, 2022

RESULT REPORT Q2 FY23 | Sector: Automobile

Samvardhana Motherson (SAMIL)

Healthy order wins to speed up earnings

Valuation and View

Samvardhana Motherson (MOTHERSON) 2QFY23 reported a healthy beat of 25%/22% at EBITDA to out/street estimates. Such a strong beat was driven by higher than expected QoQ ramp-up across business, especially SMR where revenue grew 16% (v/s 4% at SMP). This was led by recovery in volumes from North America and Chinese markets where SMR do have large market share with organized OEMs. Also at co level, contribution of premium variants went in Europe/NA from 26%/14% to 28%/18% in 2QFY23 also contributed towards margins. Co continues to gain strong traction in EVs with its share in consol revenues at >5% in 1HFY23 (v/s >4% in 4QFY22). SMRP BV orderbook came in healthy at EUR18.2b (up from EUR16.1b as on Mar'22) with share of EV is now at 37% (v/s 27% in Mar'22). New orders won in 1HFY23 at EUR4.9b. Total booked business as of Sep'22 stands at EUR33.9b.

The management hinted no signs of demand moderation especially in premium car segment bode well for SAMIL as normalization of production would not only help expand margins but also ease in WC, which would result in overall net debt decline. We therefore, build in revenue/EBITDA CAGR of ~11%/27% over FY22-25E. Moreover, margins are likely to expand to ~10.6% by FY25E (v/s 7% in FY22) led by ready capacity to execute healthy orders. We maintain FY23 EPS while upgrade FY24 EPS by 7% to factor in execution of higher content EV orders. Maintain BUY with revised TP of Rs93 (earlier Rs85, based on 27x, Sep-24 EPS). Our estimates do not factor any inorganic-led growth, which is critical for Motherson group's outlined ambition of USD36b sales by 2025.

Result Highlights-Significant beat at EBITDA to our and street estimates

- Consol revenues grew 3.7% QoQ (+30% YoY) at Rs182.6b (est Rs177b). There was sequential revenue growth in Wiring Harness/Vision system/Modules & Polyester Products/Emerging Business by 5%/13%/4%/8% on QoQ basis.
- Gross margins expanded 130bp QoQ at 42.5% (in-line). Led by better operating leverage, EBITDA grew 30% QoQ to Rs14b (est Rs11.5) with ~160bp QoQ margins expansion (+100bp YoY) at 7.7%.
- This coupled with lower tax rate at 30% (est 40%), drive Adj.PAT beat at Rs3b (120% QoQ, est Rs2b). Consol net debt increased to Rs85.5b as of Sep'22 (v/s Rs82.3b in Mar'22) led by inflated working capital.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	182,608	177,909	170,877	2.6	6.9	Revenue increase resulted Adj.PAT increase to Rs3b (120% QoQ, est Rs2b).
EBITDA	14,031	11,170	11,503	25.6	22.0	
EBITDA margins %	7.7	6.3	6.7	140bp	100bp	
Adjusted PAT	3,087	1,971	2,345	56.6	31.6	

Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 71
Target Price	: Rs 93
Potential Return	: +31%

Stock data (as on November 10, 2022)

Nifty	18,028
52 Week h/l (Rs)	145/ 62
Market cap (Rs/USD mn)	477383 / 5836
Outstanding Shares (mn)	6776
6m Avg t/o (Rs mn):	950
Div yield (%):	0.6
Bloomberg code:	MOTHERSON IN
NSE code:	MOTHERSON

Stock performance



Shareholding pattern (As of Sept'22 end)

Promoter	68.2%
FII+DII	20.0%
Others	12.5%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	93	85

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	2.2	3.1
EPS (Old)	2.2	2.9
% change	-	6.8%

Financial Summary

INR bn	2022	2023E	2024E
Sales	635.4	710.6	784.2
EBITDA	44.6	60.5	77.6
Adj. PAT	5.4	20.2	27.8
EPS (Rs)	0.6	2.2	3.1
EPS Growth (%)	(50.8)	271.8	37.6
BV/Share (Rs)	22.8	24.4	26.7
RoE (%)	3.3	9.5	12.1
RoCE (%)	3.7	8.5	10.2
Payout (%)	55.9	27.0	27.0
P/E (x)	117.3	31.5	22.9
P/BV (x)	3.1	2.9	2.6
EV/EBITDA (x)	7.0	5.1	3.9
EV/Sales (x)	0.5	0.4	0.4

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Exhibit 2: Quarterly snapshot

Y/e Mar (Rs mn)	Q2FY23	Q2FY22	YoY chg	Q1FY23	1HFY23	1HFY22	YoY chg
Net Revenues	182,608	140,764	29.7	176,147	358,755	302,337	18.7
Raw Materials	107,173	80,876	32.5	103,550	210,723	172,841	21.9
% of Net Sales	57.5%	57.5%		58.8%	58.7%	57.2%	
Personnel	41,002	35,045	17.0	42,725	83,727	74,697	12.1
% of Net Sales	22.5%	24.9%		24.3%	23.3%	24.7%	
Manufacturing & Other Exp	20,402	15,405	32.4	19,104	39,506	33,162	19.1
% of Net Sales	11.2%	10.9%		10.8%	11.0%	11.0%	
Total Expenditure	168,577	131,326	28.4	165,379	333,956	280,700	19.0
EBITDA	14,031	9,438	48.7	10,768	24,799	21,637	14.6
EBITDA Margin (%)	7.7%	6.7%		6.1%	6.9%	7.2%	
Depreciation	7,487	7,373	1.5	7,324	14,811	14,886	(0.5)
EBIT	6,544	2,064	217.0	3,444	9,988	6,751	47.9
Interest Expenses	1,837	1,313	39.9	1,694	3,531	2,521	40.1
Non-operating income	940	871	7.9	978	1,919	2,419	(20.7)
Extraordinary Expenses	(984)	-	#DIV/0!	-	-	(5)	(100.0)
PBT	5,647	1,622	248.1	2,729	8,376	6,650	26.0
Tax-Total	1,714	856	100.1	928	2,641	2,404	9.9
Tax Rate (%) - Total	36.8%	52.8%		34.0%	31.5%	36.1%	(12.8)
Reported PAT	3,933	766	413.4	1,801	5,735	4,246	35.1
Minority Interest	485	(67)	(819.7)	389	874	1,300	(32.7)
Profit after MI	3,087	834	270.3	1,412	4,499	2,945	52.8
Adj. PAT	3,087	834	270.3	1,412	4,499	2,945	52.8
PAT Margin	1.7%	0.6%		1.8%	1.3%	1.0%	

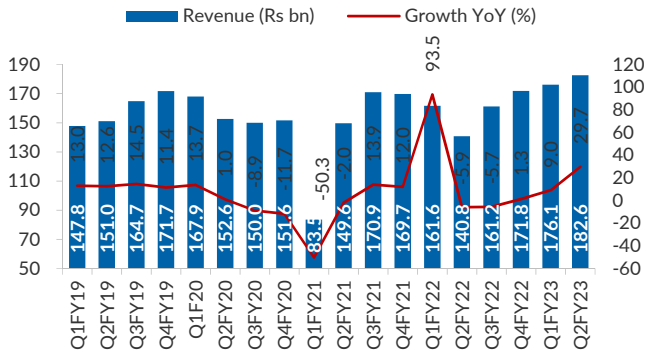
Source- Company, Yes Sec

KEY CON-CALL HIGHLIGHTS

- **SMPR BV orderbook** at EUR18.2b (up from EUR16.1b as on Mar'22). Total booked business as of Sep'22 stands at EUR33.9b. **Aerospace segment booked business stands at USD400m (+30% QoQ) spanning over 6 odd years.**
- **EV component pricing is better than ICE counterparts.** Seeing more nominations for EV programs not only from new age OEMs but also from legacy OEMs. **Expect share of EVs to continue increase ahead.**
- **Vision systems revenues growth of 16% QoQ** – drivers for the same are 1) markets like NA and China did see recovery, 2) launch of programs and good offtake by OEMs. New acquisition will further help growth ahead. **Most of QoQ growth is largely led by China.** Share of China in other business is relatively lesser. So due to geography mix. Among major suppliers among organized manufactures in China.
- Revenues from operations included exceptional income of Rs980m led by impairment provisions on the assets as well as other costs related to production suspension in Russia and Rs1.4b on account of deferred tax reversal. Also, received insurance claim for the flood in South African plant in Durban (EUR5.7m – Rs464m).
- **Net Debt at Rs85.5b v/s Rs82.3b** led by inflated working capital. Improvement in supply chain situation to aid reduction in WC. Higher inventory is consuming >Rs20b currently led by supply chain pressure...however the same is receding which shall reduce inventory.
- Capex guidance maintained at Rs25b.

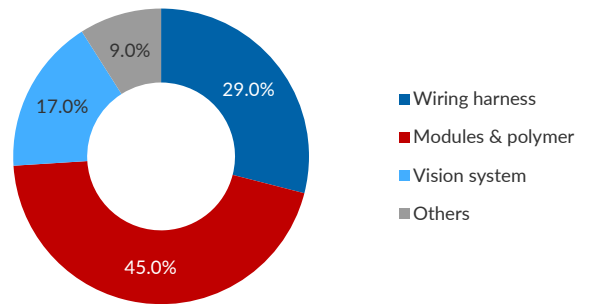
CHARTS

Exhibit 1: 2QFY23 consol revenue grew 3.7% QoQ



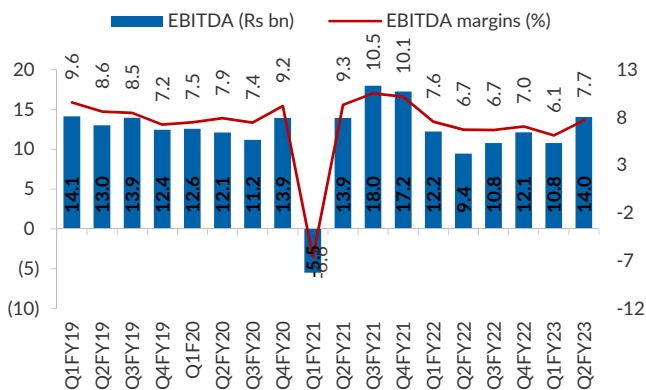
Source: Company, YES Sec

Exhibit 2: Revenue pie of Motherson for 2QFY23



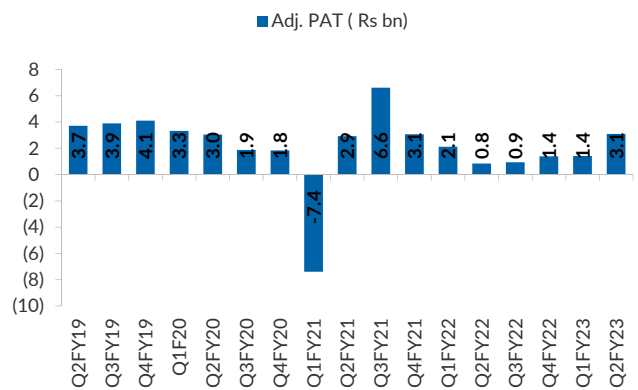
Source: Company, YES Sec

Exhibit 3: Q2FY23 Margins increased by 320bp QoQ



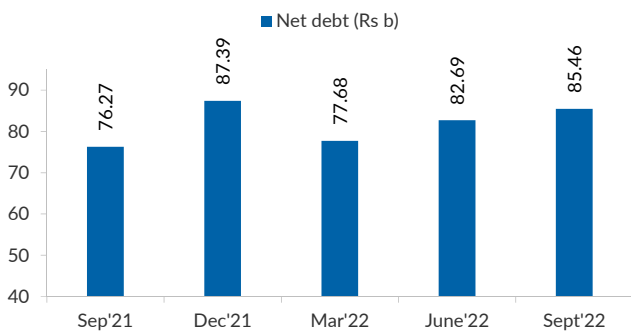
Source: Company, YES Sec

Exhibit 4: Adj. PAT grew ~120% QoQ in Q2FY23



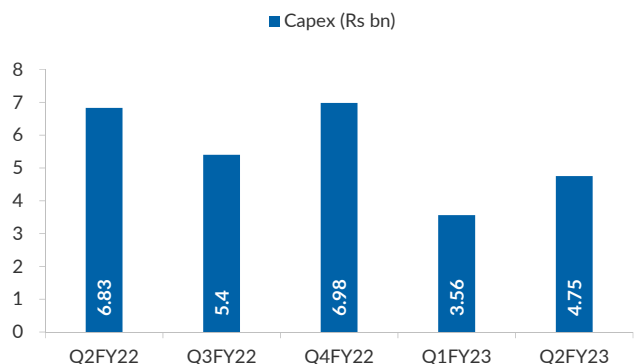
Source: Company, YES Sec

Exhibit 5: Debt increased due to inflated WC



Source: Company, YES Sec

Exhibit 6: Capex intensity increased in 2Q to 32%



Source: Company, YES Sec

FINANCIALS

Exhibit 7: Balance Sheet

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	3,158	3,158	4,518	4,518	4,518	4,518
Eq. Share Warrants & App. Money	26,303	26,303	26,303	26,303	26,303	26,303
Preference Capital	-	-	-	-	-	-
Total Reserves	83,148	96,145	175,062	189,825	210,133	235,029
Net Worth	112,609	125,606	205,882	220,646	240,954	265,850
Minority Interest	35,650	40,233	17,763	24,237	32,951	45,126
Total Loans	130,354	119,295	141,360	138,360	135,360	132,360
Deferred Tax Liabilities	(5,030)	(10,224)	(13,767)	(13,767)	(13,767)	(13,767)
Capital Employed	273,584	274,910	351,238	369,476	395,498	429,569
Gross Block	281,171	298,537	328,707	349,999	371,380	392,851
Less: Accum. Deprn.	98,927	123,544	153,581	178,587	210,102	243,553
Net Fixed Assets	182,244	174,993	175,126	171,411	161,278	149,299
Goodwill	24,060	24,718	33,743	34,080	34,421	34,765
Capital WIP	8,154	8,769	13,097	13,097	13,097	13,097
Total Investments	1,614	1,288	1,958	2,017	2,077	2,139
Curr. Assets, Loans&Adv.	163,943	178,717	194,908	211,923	261,513	322,591
Inventory	51,566	49,956	64,417	77,878	85,943	118,675
Account Receivables	51,784	56,931	65,731	64,250	85,943	106,807
Cash and Bank Balance	48,789	59,062	49,994	54,397	56,089	60,061
Loans and Advances	11,804	12,768	14,766	15,398	33,538	37,049
Curr. Liability & Prov.	176,344	195,715	197,695	193,154	206,990	222,424
Account Payables	103,091	111,407	113,603	127,235	142,504	159,604
Other Current Liabilities	70,342	77,860	77,929	58,866	56,702	54,221
Provisions	2,912	6,449	6,163	7,053	7,783	8,598
Net Current Assets	(12,401)	(16,998)	(2,787)	18,769	54,523	100,168
Misc Expenditure	69,913	82,142	130,102	130,102	130,102	130,102
Appl. of Funds	273,584	274,910	351,238	369,476	395,498	429,569

Source: Company, YES Sec

Exhibit 8: Income statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income from Operations	607,290	573,699	635,360	710,640	784,231	866,324
Change (%)	(4.4)	(5.5)	10.7	11.8	10.4	10.5
Total Expenditure	560,748	530,109	590,746	650,176	706,590	774,373
% of Sales	92.3	92.4	93.0	91.5	90.1	89.4
EBITDA	46,542	43,590	44,614	60,464	77,641	91,951
Margin (%)	7.7	7.6	7.0	8.5	9.9	10.6
Depreciation	27,210	29,261	29,582	25,006	31,515	33,451
EBIT	19,332	14,329	15,032	35,458	46,126	58,500
Intrest Charges	5,928	5,115	5,426	5,526	3,626	3,605
Other Income	2,246	2,293	4,957	5,452	5,998	6,597
PBT bef. EO Exp.	15,649	11,508	14,562	35,384	48,498	61,493
EO Items	575	226	(321)	-	-	-
PBT after EO Exp.	16,223	11,734	14,242	35,384	48,498	61,493
Total Tax	6,881	(693)	6,068	8,846	12,125	15,373
Tax Rate (%)	42.4	(5.9)	42.6	25.0	25.0	25.0
Minority Interest	669	4,454	2,917	6,314	8,554	12,015
Reported PAT	8,673	7,973	5,256	20,224	27,819	34,105
Adjusted PAT	8,342	7,734	5,440	20,224	27,819	34,105
Change (%)	(48.3)	(7.3)	(29.7)	271.8	37.6	22.6
Margin (%)	1.4	1.3	0.9	2.8	3.5	3.9

Source: Company, YES Sec

Exhibit 9: Cash Flow Statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	21,129	16,129	19,088	35,384	48,498	61,493
Depreciation	27,780	29,764	29,964	25,006	31,515	33,451
Interest & Finance Charges	5,626	4,544	4,346	5,526	3,626	3,605
Direct Taxes Paid	(10,776)	(5,600)	(8,324)	(8,846)	(12,125)	(15,373)
(Inc)/Dec in WC	16,202	6,432	(20,785)	(17,153)	(34,062)	(41,672)
CF from Operations	59,959	51,268	24,288	39,917	37,452	41,503
Others	3,561	(757)	339	160	160	160
CF from Operating incl EO	63,521	50,512	24,627	40,077	37,611	41,663
(Inc)/Dec in FA	(21,943)	(19,325)	(24,363)	(21,629)	(21,722)	(21,816)
Free Cash Flow	41,578	31,187	264	18,448	15,889	19,847
(Pur)/Sale of Investments	(1,195)	(73)	136	(59)	(60)	(62)
Others	738	464	1,109	-	-	-
CF from Investments	(22,399)	(18,934)	(23,119)	(21,688)	(21,783)	(21,878)
Issue of Shares	-	-	-	0	-	(0)
Inc/(Dec) in Debt	1,726	(4,894)	2,456	(3,000)	(3,000)	(3,000)
Interest Paid	(5,667)	(4,141)	(5,528)	(5,526)	(3,626)	(3,605)
Dividend Paid	(12,794)	(1,612)	(6,457)	(5,460)	(7,511)	(9,208)
Others	(11,294)	(10,328)	(2,644)	-	-	-
CF from Fin. Activity	(28,029)	(20,975)	(12,173)	(13,987)	(14,137)	(15,813)

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Inc/Dec of Cash	13,092	10,603	(10,665)	4,403	1,692	3,972
Opening Balance	35,469	48,789	59,062	49,994	54,397	56,089
Closing Balance	48,561	59,392	48,397	54,397	56,089	60,061

Source- Company, Yes Sec

Exhibit 10: Growth and Ratio matrix

Y/E March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)						
EPS	2.6	2.4	1.2	4.5	6.2	7.5
Cash EPS	8.4	8.5	5.7	8.4	10.9	12.5
BV/Share	35.7	39.8	45.6	48.8	53.3	58.8
DPS	1.8	1.5	0.9	1.7	2.4	2.9
Payout (%)	74.7	76.2	55.9	27.0	27.0	27.0
Valuation (x)						
P/E	26.7	28.8	58.6	15.8	11.5	9.4
P/BV	2.0	1.8	1.5	1.4	1.3	1.2
EV/Sales	0.5	0.5	0.5	0.4	0.4	0.3
EV/EBITDA	6.5	6.5	7.0	5.1	3.9	3.2
Dividend Yield (%)	2.6	2.1	1.3	2.4	3.4	4.1
FCF per share	13.2	9.9	0.1	5.8	5.0	6.3
Return Ratios (%)						
RoE	7.5	6.5	3.3	9.5	12.1	13.5
RoCE (post-tax)	4.8	6.4	3.7	8.5	10.2	11.8
RoIC	5.4	7.2	3.5	9.1	11.1	12.9
Working Capital Ratios						
Fixed Asset Turnover (x)	2.2	1.9	1.9	2.0	2.1	2.2
Asset Turnover (x)	2.2	2.1	1.8	1.9	2.0	2.0
Inventory (Days)	31.0	31.8	37.0	40.0	40.0	50.0
Debtor (Days)	31.1	36.2	37.8	33.0	40.0	45.0
Creditor (Days)	62.0	70.9	65.3	65.4	66.3	67.2
Leverage Ratio (x)						
Current Ratio	0.9	0.9	1.0	1.1	1.3	1.5
Interest Cover Ratio	3.3	2.8	2.8	6.4	12.7	16.2
Net Debt/Equity	0.7	0.5	0.4	0.4	0.3	0.3

Source- Company, Yes Sec

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2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

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