

# Motherson Sumi Wiring India (MOTSU)

CMP: ₹ 60

Target: ₹ 75 (25%)

Target Period: 12 months

BUY

December 5, 2022

## Integral part of "Route 36", remains preferred pick to play upon premiumisation, electrification in PV space

**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%

### Group Analyst Meet key takeaways:

- The group reiterated its commitment towards US\$36 billion revenue target by FY25 with 40% RoCE & 40% dividend payout. It also aims to realise 75% of revenues from the auto space and rest 25% from non-auto domain. The aim is also to have no component, country and customer > 10% of sales. It counts domestic wiring business (MSWIL) as an integral part of this vision
- Key takeaway for domestic wiring harness business include: (i) **1.5x wiring harness content in an SUV** vs. a hatchback car (ii) **1.2x wiring harness content in a top variant of PV model** vs. the base variant (iii) **1.1x wiring harness content in a top variant 2-W** vs. base variant (iv) **2.4x wiring harness content in an electric PV** vs. ICE driven PV and (v) **8x wiring harness content in an electric 2-W** vs. ICE powered 2-W

**What should investors do?** MSWIL's share price has grown ~30% (from bonus adjusted ~₹ 46 in April 2022) vastly outperforming Nifty Auto index in that time.

- With fundamentals remaining unchanged, we retain our **BUY** rating on the stock. MSWIL is a good proxy to play upon the recovery in the domestic automobile space with superlative return ratio profile (RoCE ~40-50%) and structural levers for long term growth given the content/vehicle increase due to rise in electronic content in vehicles as well as electrification

**Target Price and Valuation:** Rolling over our valuations, we now value MSWIL at ₹ 75 i.e. 40x P/E on FY25E EPS.

### Key triggers for future price performance:

- We build 17.2% net sales CAGR in FY22-25E riding on OEM ramp up, focus on premiumisation (i.e. greater share of technological advanced features like ADAS, Sensors, etc) and greater share of UVs in pass car segment
- FY22: Net cash positive b/s: ₹ 280 crore, healthy CFO/FCF generation

**Alternate Stock Idea:** Besides MSWIL, in our auto coverage we like M&M.

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



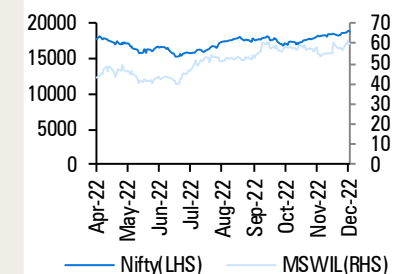
### Particulars

Particulars	₹ crore
Market capitalisation	26,527.2
Total Debt (FY22)	19.3
Cash & Investment (FY22)	293.3
EV (₹ crore)	26,253.2
52 week H/L (₹)	71 / 40
Equity capital (₹ crore)	442.1
Face value (₹)	1.0

### Shareholding pattern

	Mar-22	Jun-22	Sep-22
Promoter	61.7	61.7	61.7
FII	14.9	8.6	10.5
DII	13.4	20.8	19.1
Other	10.0	8.9	8.7

### Price Chart



### Recent event & key risks

- Reiterates long term growth, RoCE aspiration at analyst meet
- Key Risk:** (i) Slower than anticipated pickup in domestic auto volumes, (ii) Delay in margin recovery amid benign RM prices

### Research Analyst

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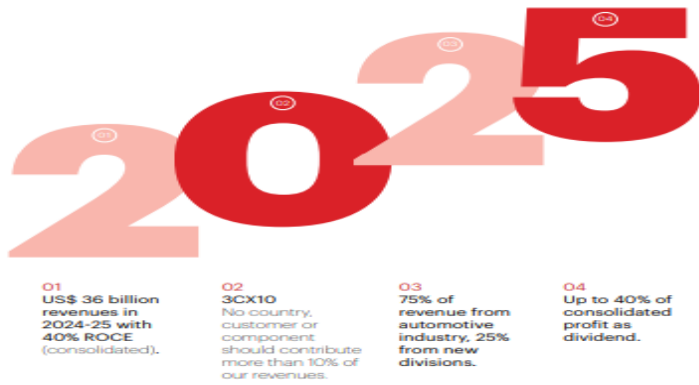
### Key Financial Summary

Key Financials	FY21	FY22	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Total Operating Income	3,937.7	5,635.0	6,866.6	7,891.5	9,070.0	17.2%
EBITDA	553.1	730.3	789.7	1,005.4	1,224.5	18.8%
EBITDA Margins (%)	14.0	13.0	11.5	12.7	13.5	
Net Profit	396.2	410.7	505.4	659.1	819.1	25.9%
EPS (₹)	1.3	1.3	1.1	1.5	1.9	
P/E	47.8	46.1	52.5	40.2	32.4	
RoNW (%)	55.8	41.1	41.3	45.7	47.9	
RoCE (%)	60.5	45.1	44.1	49.8	53.0	

Source: Company, ICICI Direct Research; FY23-25E EPS adjusted for bonus issue

Key Slides from Analyst Day presentation

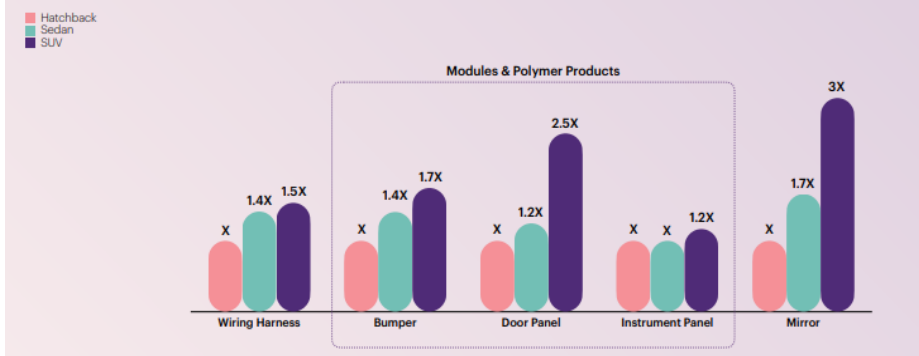
Exhibit 1: Unchanged Vision 2025



The group reiterated its commitment towards US\$36 billion revenue target by FY25 with 40% RoCE and 40% dividend payout. It also aims to realise 75% of revenues from the auto space and rest 25% from non-auto domain. The aim is also to have no component, country and customer > 10% of sales

Source: Company, ICICI Direct Research

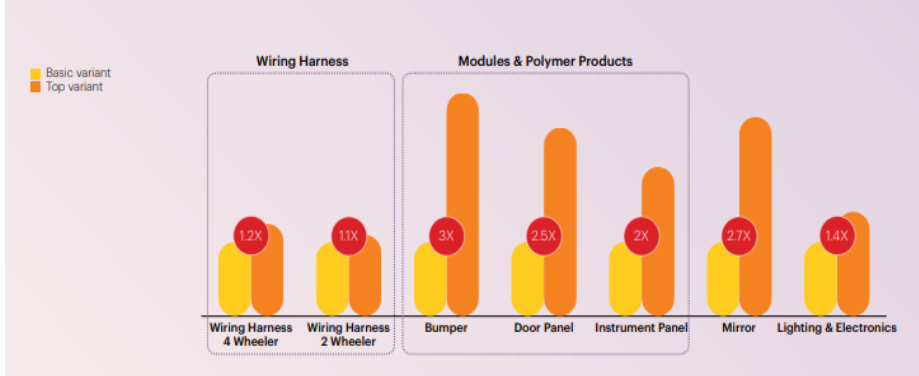
Exhibit 2: Illustrative content increase for group across PV segments



The company guided for ~1.5x wiring harness content in an SUV vs. a hatchback car while the same print for sedan was at ~1.4x. Positive for MSWIL

Source: Company, ICICI Direct Research

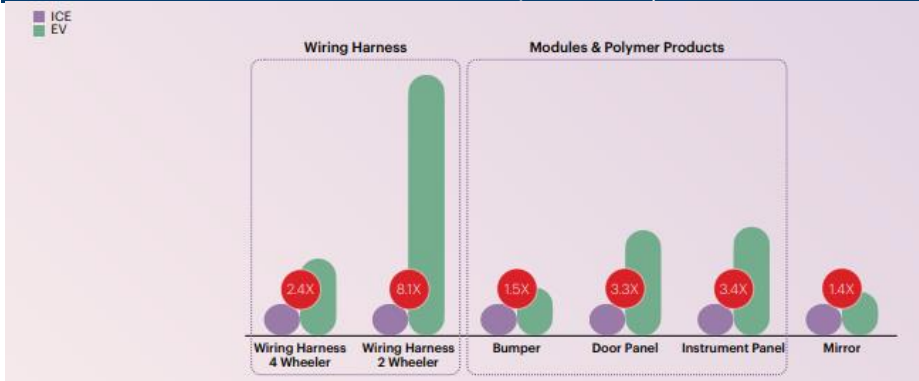
Exhibit 3: Illustrative content increase for Group – driven by premiumisation



The company guided for ~1.2x wiring harness content in a top variant of PV model vs. the base variant and ~1.1x wiring harness content in a top 2-W variant vs. base variant. Positive for MSWIL

Source: Company, ICICI Direct Research

Exhibit 4: Illustrative content increase for Group – driven by electrification

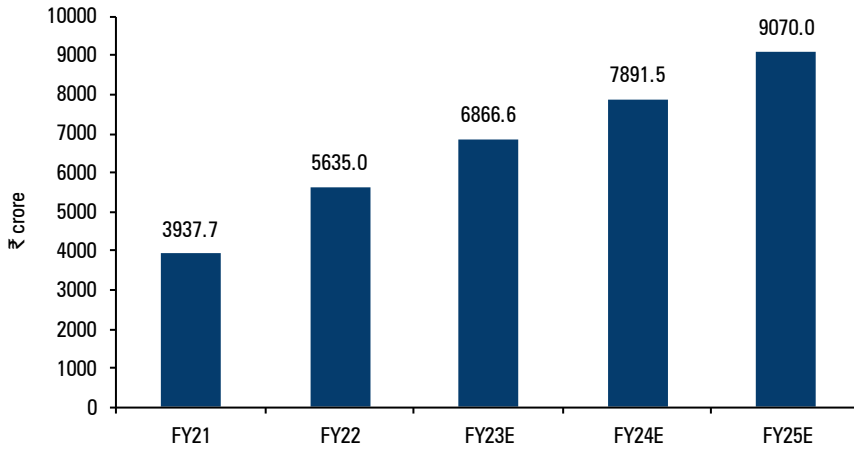


The company guided for ~2.4x wiring harness content in an electric PV vs. ICE driven PV and ~ 8x wiring harness content in an electric 2-W vs. ICE powered 2-W. Positive for MSWIL

Source: Company, ICICI Direct Research

### Key financial charts

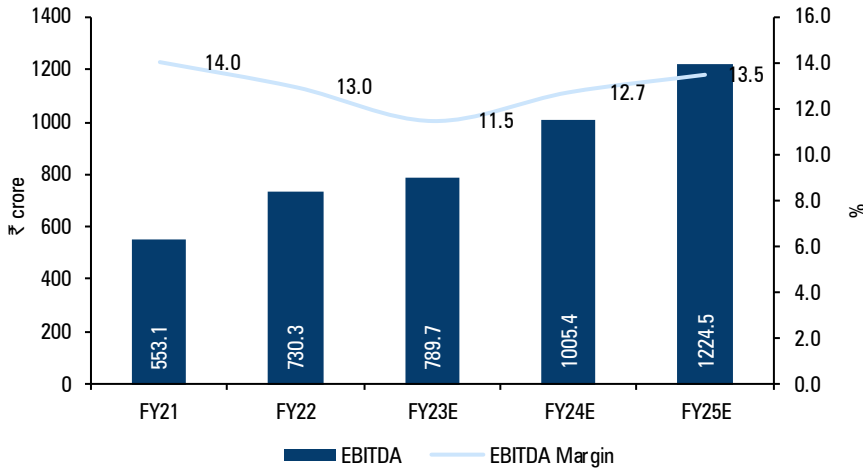
Exhibit 5: Trend in topline



Net sales are expected to grow at 17.2% CAGR over FY22-25E at ₹ 9,070 crore as of FY25E

Source: Company, ICICI Direct Research

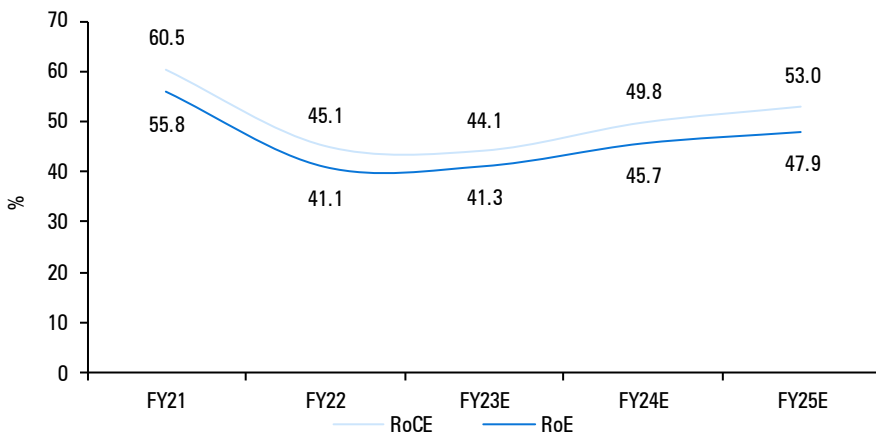
Exhibit 6: Trend in EBITDA & Margins



EBITDA is expected to grow at 18.8% CAGR over FY22-25E to ₹ 1,225 crore in FY25E with margins reaching 13.5% as at FY25E.

Source: Company, ICICI Direct Research

Exhibit 7: Trend in return ratios



Higher return ratios are the USP at MSWIL with RoCE consistently at ~40-50% mark

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	6816.4	7838.8	9014.7
Other Operating Income	47.8	50.2	52.7	55.3
<b>Total Operating Income</b>	<b>5,635.0</b>	<b>6,866.6</b>	<b>7,891.5</b>	<b>9,070.0</b>
Growth (%)	43.1	21.9	14.9	14.9
Raw Material Expenses	3,609.3	4,463.3	5,090.0	5,850.2
Employee Expenses	946.4	1,167.3	1,302.1	1,451.2
Other Operating Expense	349.0	446.3	494.0	544.2
Total Operating Expenditure	4,904.7	6,076.9	6,886.2	7,845.6
<b>EBITDA</b>	<b>730.3</b>	<b>789.7</b>	<b>1,005.4</b>	<b>1,224.5</b>
Growth (%)	32.0	8.1	27.3	21.8
Depreciation	105.5	120.8	136.0	150.1
Interest	28.5	25.7	20.5	16.4
Other Income	30.0	35.2	35.9	41.6
<b>PBT</b>	<b>626.3</b>	<b>678.5</b>	<b>884.7</b>	<b>1,099.5</b>
Exceptional Item	65.4	0.0	0.0	0.0
Total Tax	150.2	173.0	225.6	280.4
<b>PAT</b>	<b>410.7</b>	<b>505.4</b>	<b>659.1</b>	<b>819.1</b>
Growth (%)	3.7	23.1	30.4	24.3
<b>EPS (₹)</b>	<b>1.3</b>	<b>1.1</b>	<b>1.5</b>	<b>1.9</b>

Source: Company, ICICI Direct Research; FY23-25E EPS adjusted for bonus issue

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	410.7	505.4	659.1	819.1
Add: Depreciation	105.5	120.8	136.0	150.1
(Inc)/dec in Current Assets	-148.9	-354.8	-305.1	-350.9
Inc/(dec) in CL and Provisions	238.7	265.4	216.2	248.6
Others	-1.5	-9.6	-15.3	-25.2
<b>CF from operating activities</b>	<b>604.5</b>	<b>527.3</b>	<b>690.8</b>	<b>841.8</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	50.2	40.9	46.6
<b>CF from investing activities</b>	<b>-251.7</b>	<b>-101.8</b>	<b>-161.1</b>	<b>-155.4</b>
Issue/(Buy back) of Equity	315.7	126.3	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	-462.6	-569.1
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-53.1	-126.3	0.0	0.0
<b>CF from financing activities</b>	<b>-96.8</b>	<b>-425.4</b>	<b>-464.6</b>	<b>-571.1</b>
<b>Net Cash flow</b>	<b>256.0</b>	<b>0.1</b>	<b>65.1</b>	<b>115.3</b>
Opening Cash	37.3	293.3	293.4	358.5
<b>Closing Cash</b>	<b>293.3</b>	<b>293.4</b>	<b>358.5</b>	<b>473.8</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	442.1	442.1	442.1
Reserve and Surplus	798.8	783.2	1,000.2	1,266.6
<b>Total Shareholders funds</b>	<b>1,114.6</b>	<b>1,225.3</b>	<b>1,442.3</b>	<b>1,708.8</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>1,516.6</b>	<b>1,746.6</b>	<b>2,026.1</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	756.2
Net Block	432.1	473.6	542.6	597.5
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>607.5</b>
Investments	35.2	37.2	39.2	41.2
Inventory	960.0	1,120.5	1,288.6	1,481.9
Debtors	659.3	840.4	966.4	1,111.4
Loans and Advances	1.0	1.2	1.4	1.6
Other Current Assets	59.1	72.1	82.9	95.4
<b>Cash</b>	<b>293.3</b>	<b>293.4</b>	<b>358.5</b>	<b>473.8</b>
Total Current Assets	1,972.7	2,327.6	2,697.8	3,164.0
Current Liabilities	912.9	1,120.5	1,288.6	1,481.9
Provisions	1.2	1.5	1.7	1.9
Current Liabilities & Prov	1,175.8	1,441.2	1,657.4	1,906.1
<b>Net Current Assets</b>	<b>796.9</b>	<b>886.4</b>	<b>1,040.3</b>	<b>1,258.0</b>
Others Assets	89.4	99.4	109.4	119.4
<b>Application of Funds</b>	<b>1,385.9</b>	<b>1,516.6</b>	<b>1,746.6</b>	<b>2,026.1</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	1.1	1.5	1.9
Cash EPS	1.6	1.4	1.8	2.2
BV	3.5	2.8	3.3	3.9
DPS	0.9	0.9	1.0	1.3
Cash Per Share	0.9	0.7	0.8	1.1
<b>Operating Ratios (%)</b>				
EBITDA Margin	13.0	11.5	12.7	13.5
PAT Margin	7.3	7.4	8.4	9.0
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	41.3	45.7	47.9
RoCE	45.1	44.1	49.8	53.0
RoIC	58.9	55.6	63.3	69.7
<b>Valuation Ratios (x)</b>				
P/E	46.1	52.5	40.2	32.4
EV / EBITDA	35.9	33.2	26.0	21.3
EV / Net Sales	4.7	3.9	3.3	2.9
Market Cap / Sales	4.7	3.9	3.4	2.9
Price to Book Value	17.0	21.6	18.4	15.5
<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; FY23-25E EPS adjusted for bonus issue

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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