Samvardhana Motherson

Estimate changes	↓
TP change	↔
Rating change	↔

Bloomberg	MOTHERSO IN
Equity Shares (m)	6776
M.Cap.(INRb)/(USDb)	547.5 / 6.6
52-Week Range (INR)	123 / 62
1, 6, 12 Rel. Per (%)	7/-8/-35
12M Avg Val (INR M)	1258

MOTHERSO: Financials & Valuations

INR million	2023E	2024E	2025E
Sales	774.6	861.7	911.8
EBITDA	56.9	77.4	91.1
Adj. PAT	14.1	26.7	35.7
EPS (Rs)	2.1	3.9	5.3
EPS Growth (%)	71.4	89.4	33.7
BV/Share (Rs)	31.9	34.6	38.3
Ratios			
Net D:E	0.3	0.2	0.0
RoE (%)	6.7	11.9	14.5
RoCE (%)	6.0	9.6	11.7
Payout (%)	30.0	30.0	30.0
Valuations			
P/E (x)	38.8	20.5	15.3
P/BV (x)	2.5	2.3	2.1
Div. Yield (%)	0.7	1.5	2.0
FCF Yield (%)	2.3	8.5	12.3

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	68.2	68.2	61.7
DII	12.0	10.6	13.9
FII	8.2	8.8	16.4
Others	11.6	12.5	8.0

FII Includes depository receipts

CMP: INR81 TP: INR100 (+24%) Buy

Above estimates; sustainable recovery underway

Benefits of moderation in commodity/energy prices to reflect from 4Q

- MOTHERSO's 3QFY23 performance beat our estimates, driven by a consistent recovery in auto production in key markets. Easing supply-side issues and receding cost headwinds should drive strong growth and balance sheet deleverage for MOTHERSO.
- We cut our FY23E/FY24E EPS by 4.5%/3% to factor in higher depreciation and a lower profit share from associates. Maintain **BUY** with a TP of INR100 (premised on Dec'24 SOTP).

SMRPBV revenue continues to rise, but inflationary pressures persist

- **Consol. business performance:** Consol. revenue grew 23% YoY to INR202.3b (vs est. INR189.8b). Consol. EBITDA grew 28% YoY to INR15.75b (vs est. INR14.8b) and consol. adj. PAT grew 100% YoY to INR4.55b (vs est. INR3.9b). 9MFY23 revenues/EBITDA/PAT grew 19%/10%/33%. It is yet to see material benefits of softening commodity and energy prices.
- **Wiring harness business** revenue grew 24% YoY to INR65.2b (vs est. INR63b). EBITDA margins improved 150bp YoY (+40bp QoQ) to 8.6% (in line), benefitting from a INR610m favorable outcome of tax litigation. QoQ revenue growth was driven by strong CV volumes in North America and Europe. Fluctuations in the OEMs' production schedule led to operational inefficiencies and high operating costs, curtailing margin expansion.
- **Modules & Polymer business** revenue grew 18% YoY to INR109.45b (vs est. INR101.5b) and EBITDA margins declined 110bp YoY (+40bp QoQ) to 6.6% (vs est. 6.8%). Strong QoQ revenue growth was driven by volume recovery in Europe, partly offset by muted growth in other regions. Inflationary pressures have started to recede with a softening in commodity prices and energy costs, which would reflect from 4Q.
- **Vision system** revenue grew 29% YoY to INR45.4b (vs est. INR41.9b) and EBITDA margins expanded 80bp YoY (+85bp QoQ) to 10% (vs est. 9.5%). QoQ revenue growth was driven by PV volume growth in Europe & Korea. China was weak due to Covid-related challenges. The product mix also supported growth. Op. leverage aided EBITDA margin expansion.
- Other business grew 4.4x to ~INR16.3b (vs est. INR17.2b) and EBITDA margins expanded 760bp YoY (+140bp QoQ) to 11.4% (vs est. 10%).
- Net debt (ex. lease liab) declined QoQ to INR84.42b (vs INR85.46b), partly offset by an adverse FX translation impact of INR3.5b. Over 60% of debt is at a fixed rate of interest.

Highlights from the management commentary

- The availability of semi-conductors has started to improve, though challenges still remain. The Global Supply Chain Pressure Index is now inching closer to pre-Covid levels.
- China auto volumes are significantly below normal levels; however, with the lifting of Covid-related restrictions, volume recovery should start soon.

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- While energy prices have softened in EU, commodity prices remain volatile and there is a sharp rise in minimum wages across geographies. As per the management, a large part of inflationary pressure is already reflected in numbers, and benefits should start reflecting from 4Q.
- Working capital remains elevated; however, it is expected to normalize by the end of 4QFY23.

Valuation & view

The stock trades at reasonable valuations at 20.5x/15.3x FY24E/FY25E consolidated EPS. With high operating leverage, reasonable financial gearing and no risk of EVs, MOTHERSO is our preferred pick in the auto component industry. We reiterate our Buy rating with a TP of INR100 (Dec-24 based SOTP).

Quarterly performance (Consol.) (INR m)

Y/E March	FY22				FY23E				FY22	FY23E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			3Q
Net Sales	**1,64,080**	**1,44,150**	**1,64,350**	**1,71,610**	**1,76,147**	**1,82,608**	**2,02,262**	**2,13,630**	**6,44,200**	**7,74,647**	**1,89,838**
YoY Change (%)	0.0	0.0	0.0	0.0	7.4	26.7	23.1	24.5	10.6	20.2	15.5
RM Cost (% of sales)	0.0	0.0	0.0	0.0	58.8	58.7	57.0	0.0	0.0	0.0	56.7
Staff Cost (% of sales)	0.0	0.0	0.0	0.0	24.3	22.5	22.7	0.0	0.0	0.0	22.0
Other Exp (% of sales)	91.7	92.5	92.5	92.9	10.8	11.2	12.5	92.3	92.4	92.7	92.2
Total Expenditure	1,50,410	1,33,330	1,52,030	1,59,390	1,65,379	1,68,577	1,86,509	1,97,248	5,95,170	7,17,713	1,75,066
EBITDA	**13,670**	**10,820**	**12,320**	**12,220**	**10,768**	**14,031**	**15,753**	**16,382**	**49,030**	**56,934**	**14,772**
Margins (%)	8.3	7.5	7.5	7.1	6.1	7.7	7.8	7.7	7.6	7.3	7.8
Depreciation	7,780	7,640	7,600	7,370	7,324	7,487	8,150	8,216	30,390	31,178	7,650
Interest	1,208	1,313	1,294	1,612	1,694	1,837	1,494	1,775	5,115	6,800	1,800
Other income	1,548	871	1,227	1,412	978	940	1,221	860	4,957	4,000	500
PBT after EO Expense	**6,225**	**2,738**	**4,653**	**4,175**	**2,729**	**4,663**	**7,320**	**7,251**	**18,002**	**21,963**	**5,822**
Tax Rate (%)	173.4	350.5	212.8	228.1	34.0	30.3	29.6	30.5	58.1	30.6	33.0
Min. Int & Share of profit	70	-630	80	190	389	485	609	17	-290	1,500	32
Reported PAT	**3,140**	**1,410**	**2,270**	**1,220**	**1,412**	**2,464**	**4,539**	**5,019**	**8,040**	**13,435**	**3,868**
Adj PAT	**3,142**	**1,410**	**2,270**	**1,412**	**1,412**	**3,133**	**4,546**	**5,019**	**8,234**	**14,110**	**3,868**
YoY Change (%)	-142.4	-51.7	-65.6	-74.0	-55.1	122.2	100.3	255.4	-22.2	71.4	70.4

E: MOFSL Estimates

Key Performance Indicators (INR m)

Y/E March	FY22				FY23				FY22	FY23E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE
Business Wise Revenues (INR m)											
Wiring harness	54,680	52,590	52,560	59,570	60,960	63,940	65,170	69,127	2,19,400	2,59,197	63,234
Modules & Polymer products	91,270	76,790	92,600	92,540	94,130	97,440	1,09,450	1,13,294	3,53,200	4,14,314	1,01,554
Vision systems	32,990	29,820	35,280	36,390	34,820	39,360	45,430	46,638	1,34,480	1,66,248	41,870
Others	3,280	3,640	3,710	14,970	16,170	17,530	16,260	17,221	25,600	67,181	17,179
Less: Inter-segment	3,330	3,120	3,400	5,220	5,400	5,410	6,560	5,303	15,070	22,673	5,500
Less: Revenues of Associates/JVs	10,390	9,540	9,770	2,640	24,530	30,250	27,490	27,349	56,100	1,09,619	28,500
Net Revenues	**1,68,500**	**1,50,180**	**1,70,980**	**1,95,610**	**1,76,150**	**1,82,610**	**2,02,260**	**2,13,627**	**6,61,510**	**7,74,647**	**1,89,838**
Business Wise EBITDA Margins (%)											
Wiring harness	8.7	9.7	7.1	9.3	7.9	8.2	8.6	9.0	8.7	8.4	8.6
Modules & Polymer products	7.6	6.6	7.7	5.8	5.1	6.2	6.6	6.5	6.9	6.1	6.8
Vision systems	11.5	8.3	9.2	9.3	8.4	9.1	10.0	10.8	9.6	9.7	9.5
Others	6.1	9.6	3.8	10.8	10.9	10.0	11.4	10.9	9.0	10.8	10.0
Consol EBITDA Margins (%)	**8.7**	**8.0**	**8.1**	**6.6**	**6.5**	**7.9**	**8.3**	**7.9**	**8.1**	**7.7**	**8.0**

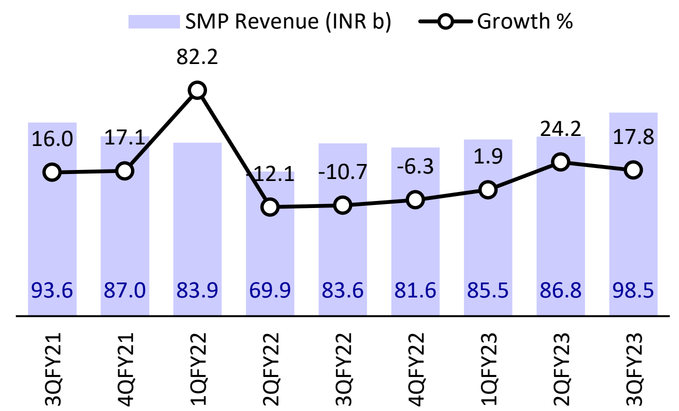
Note: Segmental EBITD margins include part of other income; E: MOFSL Estimates

Highlights from the management commentary

- The availability of semi-conductor has started to improve, though challenges still remain. The Global Supply Chain Pressure Index is now inching closer to pre-Covid levels at 1.18 in 3QFY23 (v/s 1.4 in Sep'22, 4.22 in Dec'21 and 2.88 in Jun'21).
- Global automotive production in 3QFY23 remained stable QoQ, as volume recovery in Europe was offset by the Covid-led decline in China. Global production for light vehicles was up 2% YoY/flat QoQ (EU +4% YoY/+15% QoQ) and for CVs, it was down 6% YoY/up 5% QoQ (EU +0% YoY/+18% QoQ). China auto volumes are significantly below normal levels; however, with the lifting of Covid-related restrictions, volume recovery should start soon.
- While energy prices have softened in EU, commodity prices remain volatile and there is sharp rise in minimum wages across geographies. It is continuously engaging with its customers for sharing inflationary cost structures. As per the management, a large part of inflationary pressure is already reflected in numbers, and benefits should start reflecting from 4Q.
- The Lighting & Electronics business has won a lighting solutions order from a leading Indian OEM for its EV program. The HVAC business has developed HVAC solutions for the new generation Hydrogen fuel cell bus. Also, it has entered into battery cooling solutions for buses and CVs.
- Working capital remains elevated; however, it is expected to normalize by the end of 4QFY23.
- Capex is expected to be at INR22.5b-25b for FY23 (vs 9MFY23 INR14.5b). Capex for 3QFY23 increased QoQ to INR6.19b due to new programs from customers.

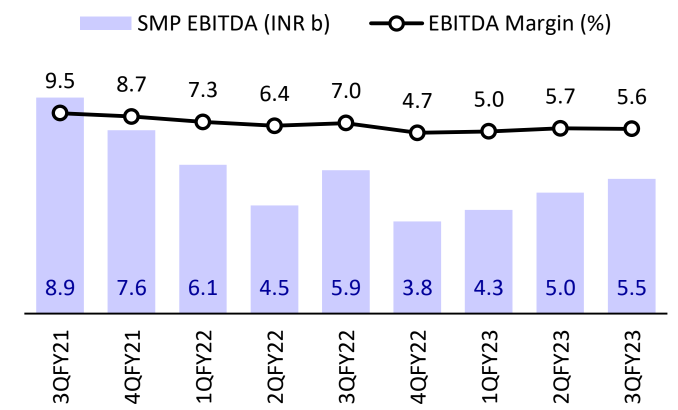
Key exhibits

Exhibit 1: Trends in SMP revenue and growth



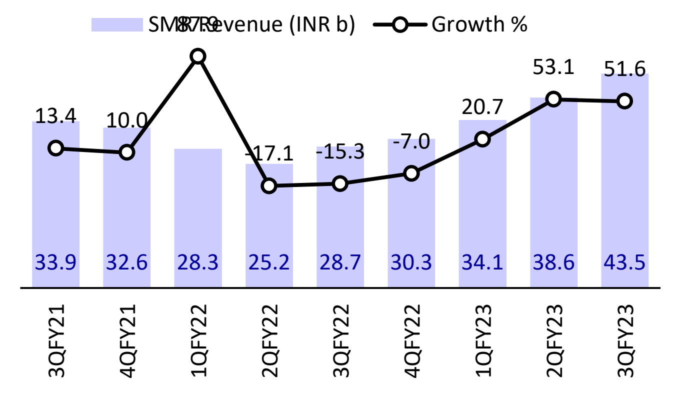
Source: Company, MOFSL

Exhibit 2: SMP EBITDA and EBITDA margin



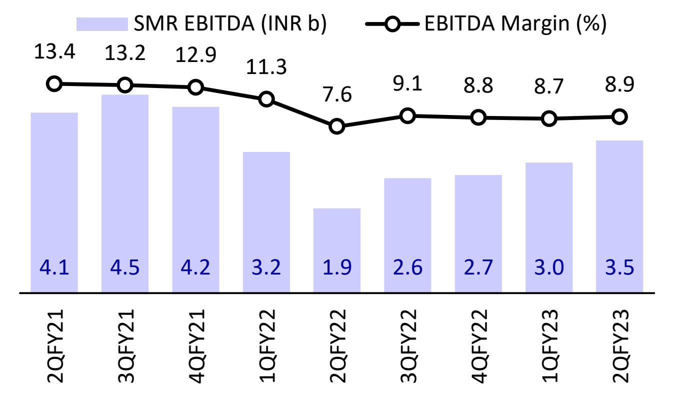
Source: Company, MOFSL

Exhibit 3: SMR revenue and growth trends



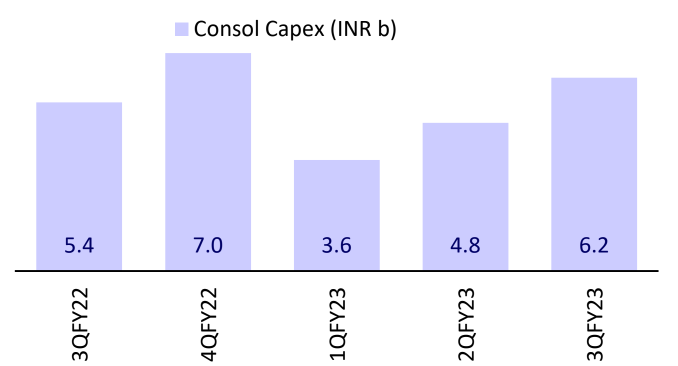
Source: Company, MOFSL

Exhibit 4: SMR EBITDA and EBITDA margin



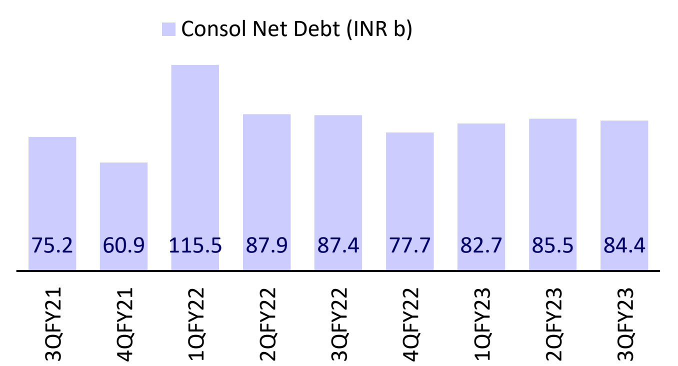
Source: Company, MOFSL

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 Auto megatrends:** The global Auto industry is on the cusp of disruption, led by megatrends in the form 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 Auto supply chain and challenge incumbents. 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 key businesses:** All of MOTHERSO's key businesses are on the brink of a cyclical recovery, with India PVs, global PVs, and the US and the EU CVs well placed for a revival from 2HFY23. The company enjoys strong positioning in its respective product categories (either rank one or two), and hence will benefit from this cyclical recovery. This will drive operating leverage, mainly in its overseas businesses.
- **SMRPBV fully prepared for growth:** Growth in the order book lends us comfort in building a faster recovery for SMRPBV. As of Sep'22, its order book stood at EUR18.2b (with 37% of orders accruing from BEVs). SMP offers revenue visibility, with orders on hand and ready capacity to execute those orders. We expect a ~7% revenue CAGR to EUR5b for SMP over FY23E-25E, and EBITDA margin to expand by 2.4pp to ~8% by FY25, driven by improving efficiencies of new plants, cost absorption, and operating leverage. SMR remains the numero uno manufacturer of PV mirrors globally and has gained share across markets

through continuous innovation. We expect revenue for SMR to recover at a 5% CAGR over FY23-25 and EBITDA margin to expand by 160bp to 11.5% by FY25, led by absorption of cost inflation and operating leverage.

- **MSUMI's Wiring Harness business** is likely to grow faster than the PV industry, led by an increase in content (due to the ongoing premiumization and electrification). It is estimated to clock an 18% CAGR over FY23-25. EBITDA margin is likely to expand by 3.9pp to 12.3% over the same period, led by the product mix and operating leverage, driving a PAT CAGR of 41%.
- **PKC – cyclical downturn ahead:** After benefitting from strong growth for Class 8 Trucks in the US, we expect a stable FY24, but expect a cyclical downturn in its biggest market (~45% of revenue) in FY25. PKC is highly focused on the world's largest Truck market (China), where it has three JVs targeting different customers. It entered the Rolling Stock business (~USD2b opportunity) in CY15. The company already has global partnerships with Bombardier since CY16, and is working with other OEMs to develop a global supply chain for electrical systems in rolling stocks. We expect a 3% revenue CAGR over FY23-25, and expect its margin to improve to 7.5% (v/s 4.2% in FY23E), led by a ramp-up in new programs, cost absorption, and operating leverage.
- **Valuation and view:** We cut our FY23E/FY24E EPS by 4.5%/3% to factor in higher depreciation and lower share of profit from associates. Our positive view on MOTHERSO remains intact, based on an industry recovery, execution of a strong order book for SMRPBV, receding cost inflation, and capacities in place for growth. MOTHERSO will benefit substantially from the easing of supply-side issues and receding cost headwinds, thereby driving strong growth and help deleverage the balance sheet. The stock trades at 20.5x/15.3x FY24E/FY25E consolidated EPS. We maintain our **Buy** rating with a TP of ~INR100 (premised on Dec'24 SoTP).

Exhibit 7: Revised forecast (consolidated)

(INR M)	FY23E			FY24E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	7,74,647	7,48,599	3.5	8,61,727	8,26,727	4.2
EBITDA	56,934	56,800	0.2	77,425	75,733	2.2
EBITDA (%)	7.3	7.6	-20bp	9.0	9.2	-20bp
Adj. PAT	14,110	14,780	-4.5	26,720	27,529	-2.9
EPS (INR)	2.1	2.2	-4.5	3.9	4.1	-2.9

Source: Company, MOFSL

Exhibit 8: SOTP-based Target Price of INR100 (Dec-24E) for SAMIL

	Target PE (x)	FY24E	FY25E
Standalone	25	22	26
SMRPBV	15	30	42
PKC	15	5	8
Others	20	14	17
New businesses	15	0	0
MSWIL @ 20% HoldCo Discount	35	11	13
TP (INR/Sh)		**82**	**106**
Dec-24 TP		**100**	

Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement					(INR m)
Y/E March	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Total Income from Operations	**5,82,250**	**6,44,200**	**7,74,647**	**8,61,727**	**9,11,754**
Change (%)	-4.1	10.6	20.2	11.2	5.8
EBITDA	**46,880**	**49,030**	**56,934**	**77,425**	**91,073**
Margin (%)	8.1	7.6	7.3	9.0	10.0
Depreciation	30,260	30,390	31,178	31,878	32,578
EBIT	**16,620**	**18,640**	**25,756**	**45,548**	**58,495**
Interest Charges		5,115	6,800	6,630	6,299
PBT bef. EO Exp.	**16,620**	**18,482**	**22,956**	**42,418**	**55,847**
Tax Rate (%)	33.6	59.6	32.0	33.0	33.0
Minority Interest	440	-290	1,500	1,700	1,700
Reported PAT	**10,590**	**8,040**	**13,435**	**26,720**	**35,717**
Adjusted PAT	**10,590**	**8,234**	**14,110**	**26,720**	**35,717**
Change (%)	30.8	-22.2	71.4	89.4	33.7

Consolidated - Balance Sheet					(INR m)
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	2,09,186	2,27,890	2,52,892
Net Worth	**1,25,606**	**2,05,882**	**2,15,962**	**2,34,666**	**2,59,668**
Minority Interest	40,233	17,763	19,563	21,763	24,263
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**	**3,34,367**	**3,46,771**	**3,67,773**
Net Fixed Assets	**1,92,782**	**1,75,128**	**1,80,047**	**1,76,170**	**1,71,592**
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**	**2,20,562**	**2,53,181**	**2,90,586**
Inventory	49,956	64,417	80,648	82,631	82,433
Account Receivables	56,931	65,731	84,893	89,714	87,429
Cash and Bank Balance	59,062	49,994	33,171	56,529	1,01,240
Loans and Advances	12,768	14,766	21,850	24,306	19,485
Curr. Liability & Prov.	**2,07,430**	**2,11,447**	**2,39,043**	**2,55,381**	**2,67,205**
Account Payables	1,11,407	1,24,775	1,39,748	1,56,518	1,75,300
Other Current Liabilities	89,575	81,567	92,348	91,136	83,730
Provisions	6,449	5,104	6,946	7,727	8,175
Net Current Assets	**-28,714**	**-16,538**	**-18,481**	**-2,199**	**23,380**
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**	**3,34,367**	**3,46,771**	**3,67,773**

Financials and valuations

Ratios					
Y/E March	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
Basic (INR)					
EPS	**1.6**	**1.2**	**2.1**	**3.9**	**5.3**
BV/Share	18.5	30.4	31.9	34.6	38.3
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	51.7	66.5	38.8	20.5	15.3
P/BV	4.4	2.7	2.5	2.3	2.1
EV/Sales	0.7	0.7	0.8	0.7	0.6
EV/EBITDA	8.2	8.8	10.4	7.2	5.6
Dividend Yield (%)	0.6	0.5	0.7	1.5	2.0
FCF per share (Eco. Int. basis)	4.6	0.0	1.9	6.9	9.9
Return Ratios (%)					
RoE	8.9	5.0	6.7	11.9	14.5
RoCE (post-tax)	4.2	3.2	6.0	9.6	11.7
RoIC	5.6	3.3	6.3	10.8	14.8
Working Capital Ratios					
Fixed Asset Turnover (x)	2.4	2.4	2.7	2.7	2.6
Asset Turnover (x)	2.2	1.9	2.3	2.5	2.5
Inventory (Days)	31	36	38	35	33
Debtor (Days)	36	37	40	38	35
Creditor (Days)	70	71	66	66	70
Leverage Ratio (x)					
Current Ratio	0.9	0.9	0.9	1.0	1.1
Interest Cover Ratio	NA	3.6	3.8	6.9	9.3
Net Debt/Equity	0.4	0.3	0.3	0.2	0.0

Consolidated - Cash Flow Statement					(INR M)
Y/E March	**FY21**	**FY22**	**FY23E**	**FY24E**	**FY25E**
OP/(Loss) before Tax	16,129	19,088	21,963	42,418	55,847
Depreciation	29,764	29,964	31,178	31,878	32,578
Interest & Finance Charges	4,544	4,346	6,800	6,630	6,299
Direct Taxes Paid	-5,600	-8,324	-7,028	-13,998	-18,429
(Inc)/Dec in WC	6,432	-20,797	-14,881	7,077	19,131
Others	-757	351	300	500	800
CF from Operating incl EO	**50,512**	**24,627**	**38,331**	**74,505**	**96,224**
(Inc)/Dec in FA	-19,325	-24,363	-25,481	-28,023	-28,898
Free Cash Flow	**31,187**	**264**	**12,850**	**46,482**	**67,326**
(Pur)/Sale of Investments	-45	-123	0	0	0
Others	436	1,367	0	0	0
CF from Investments	**-18,934**	**-23,119**	**-25,481**	**-28,023**	**-28,898**
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	-6,800	-6,630	-6,299
Dividend Paid	-1,576	-6,457	-4,030	-8,016	-10,715
Others	-3,859	-2,570	0	0	0
CF from Fin. Activity	-20,900	-12,099	-23,572	-23,146	-23,514
Inc/Dec of Cash	**10,678**	**-10,591**	**-10,722**	**23,336**	**43,812**
Opening Balance	48,688	59,367	48,775	38,054	61,390
Closing Balance	**59,367**	**48,775**	**38,054**	**61,390**	**1,05,202**

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

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