

Company update and
price target revision

Automobiles

Target price: Rs98

Target price revision

Rs98 from Rs95

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	68.2	68.2	64.8
Institutional investors	20.0	20.2	25.7
MFs and others	7.8	8.9	11.4
FIs/Banks	2.6	3.1	3.1
FII	9.6	8.2	11.2
Others	11.8	11.6	9.5

Source: BSE

ESG disclosure score

Year	2021	2022	Chg
ESG score	31.1	40.6	9.5
Environment	2.4	17.3	14.8
Social	12.0	25.7	13.7
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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Samvardhana Motherson International BUY

Maintained

Bettering portfolio via Yachiyo's 4W biz acquisition;
deal valuation attractive

Rs85

Samvardhana Motherson (SAMIL) has entered into an agreement with Honda Motors to acquire 81% stake in Yachiyo Industry's 4W component business (Honda group currently owns 51% stake in it and is a publicly listed entity) for an equity consideration of Euro145mn, with the entity being net cash. With 9% share in global car sunroof market and catering across key geographies, we believe this acquisition would help SAMIL in expanding its presence amongst Japanese OEMs, especially Honda, as 90% of Yachiyo's revenue comes from Honda itself. This deal would not only add fuel tanks and sunroofs to SAMIL's portfolio but also help it cross sell other key products (such as plastic parts, wiring harness and vision systems) across key Japanese OEMs, including Honda (revenue mix of Honda to move from 1% to 6%). A sub-3x EV/EBITDA valuation for the deal, we believe, is a reflection of fuel tank business going extinct in the longer run and Honda's willingness to associate with Motherson group in a larger way. We retain BUY on SAMIL with a revised target price of Rs98 (earlier Rs95), implying 20x FY25E earnings. Revision in target price is driven by a quarter's rollover in DCF valuation.

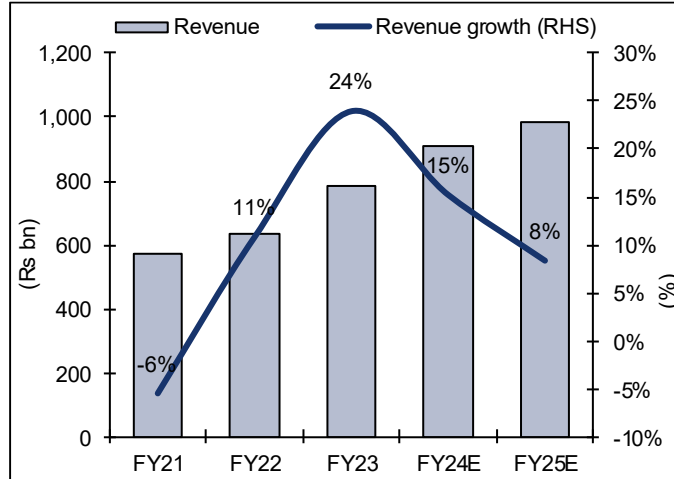
Key highlights of the deal and our takeaways:

- ▶ The 4W business of Yachiyo Industry in FY23 delivered revenue of Euro824mn, EBITDA of Euro92mn at an EBITDAM of ~11%. Approximately half of its revenue comes from plastic/metallic fuel tanks and the half from sunroofs (including panoramic ones for premium models). With 9% share in global sunroof market, Yachiyo caters to multiple large OEMs globally including the large Japanese OEMs beyond Honda. From growth perspective, rising penetration of sunroofs, larger client access through SAMIL, development of plastic fuel tanks for hydrogen-powered vehicles are the key catalysts ahead for this business.
- ▶ Nearly 90% of Yachiyo's revenue comes from Honda with sunroof capacity of 2.5mn units. With no condition of limiting supply to select OEMs going ahead, we believe this deal would open doors for SAMIL to tap the sunroof business opportunity in India and EU with more OEMs. Japan constitutes 18% of its revenue vs China at 43% and US at 33%. We believe this deal is likely to give SAMIL scope to cross sell its existing products to the Japanese market in a better way, including Honda, whose revenue mix for SAMIL would increase from mere 1% to 6% post the deal.
- ▶ With equity consideration for 81% of Yachiyo's 4W component business being valued at Euro145mn as against FY23 EBITDA of Euro92mn along with it being a net cash entity, the deal valuation looks extremely attractive. We believe the aspect of Honda's 4W business getting associated with a diversified global component supplier SAMIL has been factored in the valuation as against mere operational numbers. This would also help SAMIL enhance its consolidated RoCE from current sub-10% levels, we believe. The deal would get closed in Q1FY25E and thus, help SAMIL move one step forward towards its targeted revenue level of ~US\$30bn by FY26 from current ~US\$12bn level.

Market Cap	Rs577bn/US\$7.1bn	Year to Mar (Std)	FY22	FY23	FY24E	FY25E
Bloomberg	MOTHERSO IN	Revenue (Rs bn)	635.4	787.0	906.3	981.5
Shares Outstanding (mn)	6,776.4	Rec. Net Income (Rs bn)	8.5	14.7	26.9	31.2
52-week Range (Rs)	92/62	Rec. EPS (Rs)	1.4	2.5	4.2	4.9
Free Float (%)	35.2	% Chg YoY	(18.5)	73.7	71.7	16.0
FII (%)	11.2	P/E (x)	59.7	34.3	20.0	17.2
Daily Volume (US\$/'000)	16311	CEPS (Rs)	6.0	7.3	9.7	10.8
Absolute Return 3m (%)	26.0	EV/E (x)	13.8	9.9	7.7	6.9
Absolute Return 12m (%)	8.8	Dividend Yield (%)	0.5	0.8	1.5	1.6
Sensex Return 3m (%)	11.5	RoCE (%)	3.3	6.5	8.9	9.6
Sensex Return 12m (%)	24.6	RoE (%)	4.4	7.0	11.0	11.7

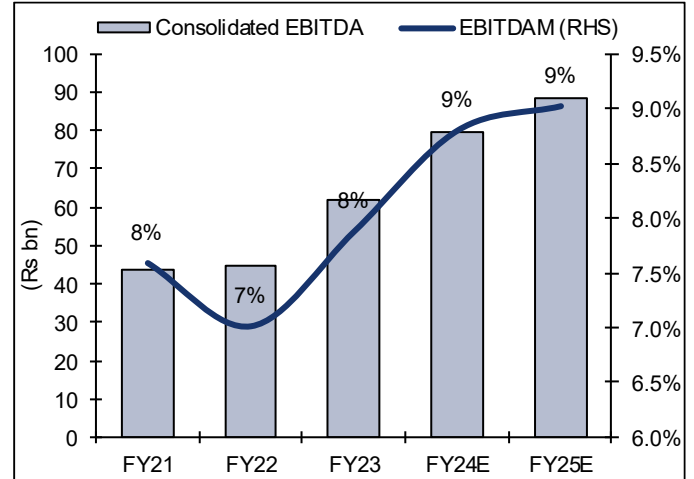
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Chart 1: Consolidated revenue vs growth trend



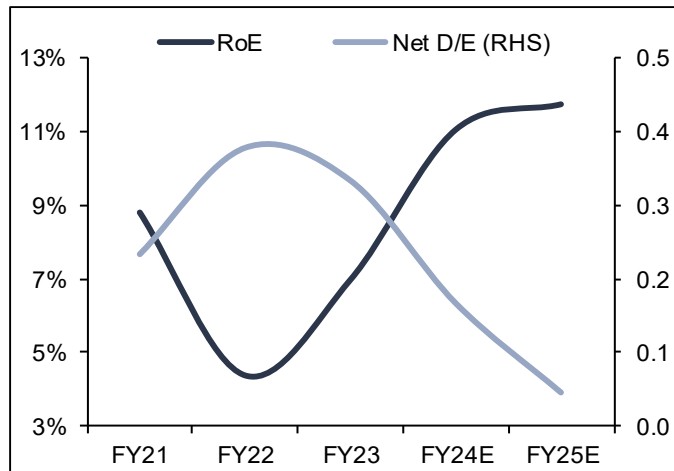
Source: Company data, I-Sec research

Chart 2: Consolidated EBITDA vs EBITDAM trend



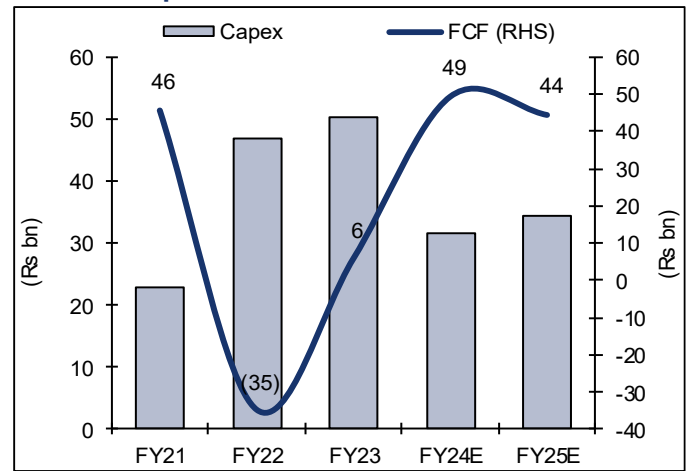
Source: Company data, I-Sec research

Chart 3: RoE vs net D/E trend



Source: Company data, I-Sec research

Chart 4: Capex vs FCF

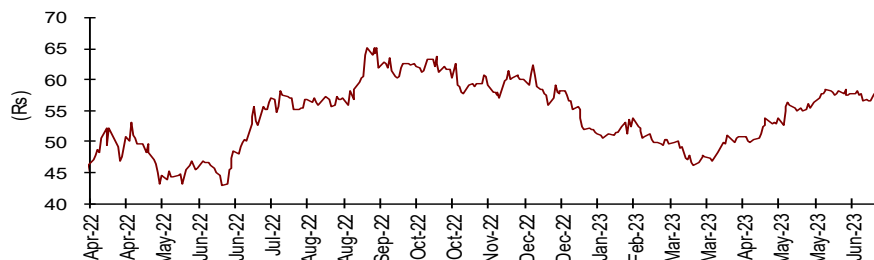


Source: Company data, I-Sec research

Downside risks:

- Slowdown in global car market would impact cashflow of SAMIL and in turn pose the risk of funding the deal through debt.
- Past profitability of Yachiyo might not get replicated going ahead, implying the deal valuation might look optically cheap only
- SAMIL not being able to generate synergistic benefits from Honda and other Japanese OEMs as expected from the deal.
- Fuel tank business coming under pressure with faster adoption of EVs globally.

Price chart



Source: Bloomberg

Financial summary (consolidated)

Table 1: Profit and loss statement
(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Net Sales	6,35,360	7,87,007	9,06,289	9,81,486
Raw material expenditure	3,67,363	4,53,174	5,18,186	5,69,116
Staff cost	1,53,746	1,79,314	2,08,446	2,15,927
Other expenses	69,637	92,442	99,837	1,07,824
Operating expenditure	5,90,746	7,24,929	8,26,470	8,92,867
EBITDA	44,614	62,077	79,819	88,619
EBITDA Margin (%)	7.0%	7.9%	8.8%	9.0%
Depreciation	29,582	31,358	34,648	37,350
EBIT	15,032	30,719	45,171	51,269
Interest expenditure	5,426	7,809	7,000	7,000
Non-operating income	4,957	2,570	3,084	3,701
Adj. PBT	14,562	25,480	41,256	47,971
Tax	6,275	7,650	12,377	14,391
Adj. PAT	8,287	17,830	28,879	33,580
Discontinued PAT	3,642	-	-	-
Adj. PAT (cont. + discontinued)	11,929	17,830	28,879	33,580
Minority Interest/Share of JVs	2,917	2,178	2,000	2,400
Adj. consol PAT after MI	9,012	15,652	26,879	31,180
Exceptionals	481	995	-	-
Reported PAT after MI	8,531	14,657	26,879	31,180

Source: Company data, I-Sec research

Table 2: Balance sheet
(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Shareholders' equity	4,518	6,325	6,325	6,325
Reserves & surplus	2,01,365	2,18,191	2,37,006	2,59,316
Total networth	2,05,883	2,24,516	2,43,331	2,65,640
Minority Interest	17,763	19,254	21,254	23,654
Debt	1,27,609	1,21,657	1,21,657	1,21,657
Deferred tax liability	(8,322)	(8,428)	(8,428)	(8,428)
Total liabilities	3,42,932	3,56,998	3,77,814	4,02,523
Gross block	3,59,032	4,07,746	4,39,467	4,73,819
Net block	2,14,113	2,31,469	2,28,541	2,25,543
CWIP	13,097	14,779	14,779	14,779
Investments (non-current)	64,617	62,899	62,899	62,899
Cash & equivalents	49,994	46,987	81,252	1,09,783
Debtors	80,247	98,379	99,319	1,07,560
Inventory	64,417	78,228	79,455	86,048
Loans & advances	62,449	72,133	87,179	94,390
Total current assets	2,57,107	2,95,726	3,47,206	3,97,782
Current liabilities	1,94,373	2,37,248	2,60,713	2,82,345
Provisions	11,629	10,627	14,898	16,134
Total current liabilities	2,06,002	2,47,875	2,75,611	2,98,479
Net current assets	51,105	47,852	71,595	99,302
Total assets	3,42,932	3,56,998	3,77,814	4,02,523

Source: Company data, I-Sec research

Table 3: 5-stage DuPont trends
(year ending March 31)

All figures in %	FY22	FY23	FY24E	FY25E
Tax Burden (Adjusted PAT/PBT)	58.6	57.5	65.2	65.0
Interest Burden (PBT/EBIT)	96.9	82.9	91.3	93.6
EBIT Margin (EBIT/Sales)	2.4	3.9	5.0	5.2
Asset Turnover (Sales/Total Assets)	185.3	220.5	239.9	243.8
Financial Leverage (Total Assets/Equity)	1.7	1.6	1.6	1.5
ROE	4.4	7.0	11.0	11.7

Source: Company data, I-Sec research

Table 4: Cashflow statement
(Rs mn, year ending March 31)

	FY22	FY23	FY24E	FY25E
Operating cashflow before WC changes	43,181	55,864	70,527	77,930
(Incr) / decr in net working capital	(31,159)	246	10,522	824
Cashflow from operations	12,022	56,110	81,049	78,754
Capex (net)	(47,032)	(50,397)	(31,720)	(34,352)
(Incr) / decrease in investments	-	-	-	-
Cashflow from investments	(47,032)	(50,397)	(31,720)	(34,352)
Net borrowings	39,347	(5,952)	-	-
Interest paid	(5,426)	(7,809)	(7,000)	(7,000)
Dividend paid	(2,937)	(4,111)	(8,064)	(8,870)
Others	(7,287)	10,110	-	-
Issue of Equity	1,360	(1)	-	-
Cashflow from financing	25,058	(7,763)	(15,064)	(15,870)
Net change in cash	(9,952)	(2,050)	34,265	28,532
Free cashflow	(35,010)	5,713	49,329	44,402

Source: Company data, I-Sec research

Table 5: Key ratios
(Year ending March 31)

	FY22	FY23	FY24E	FY25E
Per Share Data (in Rs)				
EPS (Rs)	1.4	2.5	4.2	4.9
Diluted EPS (Rs)	1.4	2.5	4.2	4.9
CEPS (Rs)	6.0	7.3	9.7	10.8
Dividend per share (Rs)	0.5	0.7	1.3	1.4
Book value per share (Rs)	32.6	35.5	38.5	42.0
Growth Ratios (%)				
Total Op. Income (Sales)	10.7	23.9	15.2	8.3
EBITDA	2.3	39.1	28.6	11.0
Net Income (Adjusted)	38.7	4.1	5.8	6.5
EPS (Adjusted)	(18.5)	73.7	71.7	16.0
Cash EPS	(4.0)	20.7	33.7	11.4
BVPS (Adjusted)	63.9	9.1	8.4	9.2
Valuation Ratios (x)				
P/E (x)	59.7	34.3	20.0	17.2
P/BV (x)	2.6	2.4	2.2	2.0
EV/Sales (x)	1.0	0.8	0.7	0.6
EV/EBITDA (x)	13.8	9.9	7.7	6.9
Return/Profitability Ratios (%)				
EBITDA Margin	7.0	7.9	8.8	9.0
Net Income Margin (Adjusted)	1.4	2.0	3.0	3.2
RoCE	3.3	6.5	8.9	9.6
RoNW	4.4	7.0	11.0	11.7
Dividend Payout Ratio	32.6	26.3	30.0	28.4
Dividend Yield	0.5	0.8	1.5	1.6
Solvency/Wkg. Cap. Ratios (x)				
Net D/E	0.4	0.3	0.2	0.0
Debt/EBITDA	2.9	2.0	1.5	1.4
EBIT/Interest	2.8	3.9	6.5	7.3
Inventory (days)	33	33	32	32
Receivables (days)	44	41	40	40
Payables (days)	117	100	105	105

Source: Company data, I-Sec research

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