18 August 2023

Annual Report Update | Sector: Automobiles

Motherson Wiring

BSE SENSEX	S&P CNX
64,949	19,310

CMP: INR60 **TP: INR70 (+18%)** **Buy**

Bloomberg	MSUMI IN
Equity Shares (m)	4421
M.Cap.(INRb)/(USDb)	263.7 / 3.2
52-Week Range (INR)	71 / 45
1, 6, 12 Rel. Per (%)	4/10/-3
12M Avg Val (INR M)	367
Free float (%)	38.3

Financials & Valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	70.6	82.6	95.0
EBITDA	7.8	10.3	12.7
Adj. PAT	4.9	6.6	8.3
EPS (INR)	1.1	1.5	1.9
EPS Gr (%)	4.3	36.3	25.5
BV/Share (INR)	3.0	3.9	4.8
Ratios			
Net D/E	0.0	-0.1	-0.2
RoE (%)	39.8	43.7	43.3
RoCE (%)	42.7	47.4	48.7
Payout (%)	59.0	60.0	60.0
Valuations			
P/E (x)	54.1	39.7	31.6
P/BV (x)	19.8	15.4	12.3
Div. Yield (%)	1.1	1.5	1.9
FCF Yield (%)	0.1	2.3	2.7

Capacity in place to support future growth

Stable RM costs and new plant ramp-up to drive operational turnaround

Motherson Sumi Wiring (MSWIL)'s FY23 annual report underlined its focus on leveraging the electrification trend, localization, and maintaining ROCE >40% (~42.7% pre-tax in FY23). It has consistently taken proactive approach to capacity expansion and R&D initiatives and added three new facilities this year, which are expected to reach optimum utilization in FY24. Its focus on electrification is reflected in adding a dedicated line for producing EV and high-voltage wire harnesses in Chennai. FY23 was operationally challenging for MSWIL, as its EBITDA margin contracted ~190bp YoY to 11.1%, due to multiple headwinds. However, we expect gradual recovery in the operating performance starting from 2HFY24, led by increased utilization of the new plants and stable copper prices. We believe it deserves rich valuations driven by a) its strong competitive positioning, b) top decile capital efficiencies, and c) it being a beneficiary of EVs and other mega trends. The stock trades at 39.7x/31.6x FY24E/25E EPS. We reiterate our BUY rating on the stock with a TP of INR70 (~35x Sep'25E EPS).

Well positioned to capitalize on mega trends and drive content

- **Increasing preference for SUVs:** Given the size and feature complexity, SUVs typically require more wiring harnesses than smaller vehicles. This is due to the extra wiring needed to support the advanced infotainment systems, navigation systems, and safety features in these vehicles.
- **EVs:** The development of the electric drivetrain necessitates the need for advanced technology, particularly in handling the high-voltage power required by EVs.
- **Connected cars:** As connected vehicles require more complex wiring harnesses and advanced electrical components to transmit and manage large amounts of data, the demand for advanced electrical distribution systems also increases.
- **Hybrids:** Hybrid vehicles require complex wiring systems to ensure the smooth integration and operation of the internal combustion (IC) engine and electric motor. These vehicles require more intricate and extensive wiring harnesses than traditional vehicles.
- As leading full-system wiring harness solutions provider, it is uniquely positioned to capitalize on these industry trends. Its pan-India footprint and strong support from our parent companies, SWS and SAMIL, allows it to support customers.

Added three new facilities to meet customer demand

- Adhering to its principle, the company initiates its expansion plans once it achieves ~80% utilization of its existing capabilities. For new orders, it would start looking at new capacity enhancement almost a 1-1.5 years before the predicted date of supply.
- The capex investments are aligned with its long-term strategy and growth projects on hand. For the orders in hand, it has capacity in place.

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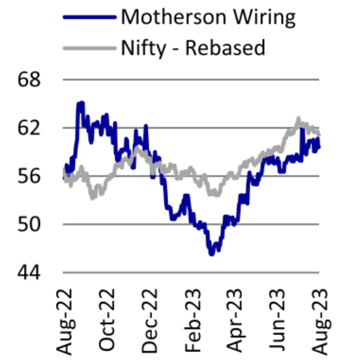
Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	61.7	61.7	61.7
DII	18.0	19.0	20.8
FII	11.0	9.9	8.6
Others	9.3	9.3	8.9

Stock Performance (1-year)



- In FY23, it incurred a capex of INR1.98b (vs. INR1b in FY22), or ~2.8% of revenue in FY23 (vs. 1.8% in FY22).
- Out of the overall FY23 capex, INR0.67b was allocated toward the construction of the new plant at Chennai and Noida facility (INR0.3b incurred in FY22). The remaining INR1.3b was directed toward capacity enhancement and for facilitating other customer-centric and improvement in projects across the existing plants.
- The company has added three new facilities, taking it to total of 26 facilities strategically located across India. For these new plants, it expects to have optimum utilization early next year.

Set up a dedicated line for EV and high voltage wiring harness

- MSWIL is currently supplying to two out of top three EV models in the PV segment and two out of the top five EV models in the 2W segment.
- It has set up a dedicated line for manufacturing EV and high-voltage wiring harnesses in Chennai to cater to a diverse set of customers in the proximity.
- The company can provide unique solutions to meet the demand for high voltage systems, which is related to charging and motor operations specific to EVs. As the demand for advanced features and functionalities increases, it can provide wiring harness solutions that support these enhanced capabilities.
- In CY22, the industry saw the highest ever sales of hybrid vehicles with over 19k units. Hybrid vehicles require complex wiring systems to ensure the smooth integration and operation of IC engine and electric motor. Given its strong parentage and advanced technological capabilities, MSWIL is well-positioned to effectively fulfill these specific requirements.

Investing in R&D to develop new solutions for EVs and light weighting

- Wiring harness related R&D activities are performed by its parent company Samvardhana Motherson International Ltd (MOTHERSO) for the India region. The company has reimbursed its share of expenses to MOTHERSO.
- MSWIL is consistently dedicated to pioneering innovative solutions, primarily focusing on EVs and alternate fuels. In FY23, it invested INR299m in R&D (vs. INR264m in FY22) towards EV ecosystems, light weighting solutions, smart junction boxes and exploring alternative materials.
- It had incurred ~35%/4% of R&D in FY22/FY23 mainly to support OEMs for introducing vehicles less emission (such as Bharat VI) as well as establishing the EV ecosystem.
- As the process of wiring harness manufacturing is human intensive, it is leveraging technology to streamline and enhance various aspects of its operations. It is using Automated Guided Vehicles (AGVs), Collaborative Robots (Cobots), and Robotic Process Automation (RPA) to make manufacturing more efficient. Also, it is increasingly using technology for certain quality checks. Further, it is using the digital boards for the wiring harness assembly, which will facilitate the training process and make the transition from one model to the next much simpler.

Sustained focus on returns over margin

- The company reported ~25% YoY growth to INR70.6b in FY23 led by healthy demand in PV segment specially in SUVs, easing supply challenges from 2HFY23 onwards and new launches by its key customers. However, against the healthy revenue growth, EBITDA grew just ~7% YoY to INR7.8b. This, as a result, led to EBITDA margin contraction of ~190bp YoY to 11.1%.
- The margin contraction was led by multiple levers, including i) a rise in RM costs, particularly copper, ii) a ~31% growth in cost per employee, attributed to the commencement of operations in new facilities and iii) a doubling of stores and spares cost in FY23 due to incremental purchases in response to new customer launches. Adj. PAT grew ~4% YoY to INR4.9b.
- We believe most of these costs are reversible as- i) copper and other metal costs have stabilized in FY24, ii) employee cost (as % of revenue) should come down due to ramp up in new facilities and iii) operating leverage benefits should improve overall efficiencies.
- The company operates with a pass through arrangement for copper, on a quarterly lag. It has maintained an ongoing collaboration with its customers to mitigate the impact of rising costs of components. This includes efforts to offset the increase in the landed expenses of child parts. Additionally, the company is actively engaged in localizing specific components like cables & connectors, and exploring alternate options for certain parts.

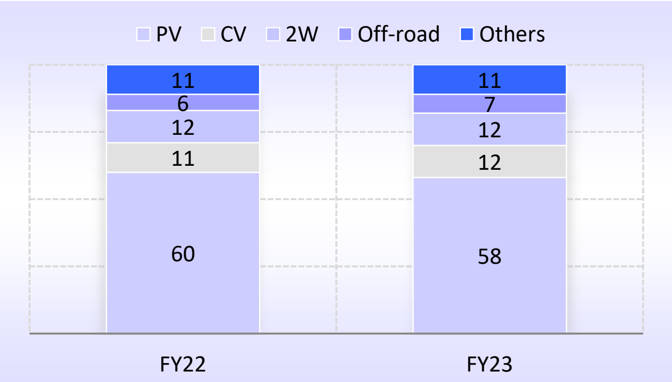
Other takeaways

- The company has been part of 23 new launches and 17 facelift models across PV, CV, and 2W segments. Consequently, it has a full order book across vehicle segments that will further secure its position in the Indian market. The company is supplying to 10 out of 12 top-selling passenger vehicle models in India, including several premium vehicles
- The company does not hold much stock of copper as it procures the wires from its parent company SAMIL, usually for the next two to three days. Hence, there is limited inventory of wires and helps company to manage the stock levels efficiently. It relies on pass-through and effective inventory management to address the price.
- For FY23, the company effectively managed shared expenses amounting to INR451m in collaboration with MOTHERSO. These expenditures were either directly associated with MSWIL or were appropriately allocated on identifiable criteria. This allocation predominantly followed the ratio of sales between the domestic and non-domestic wiring harness businesses in India.
- The company has provided an amount of INR395m toward management fees to MOTHERSO, equivalent to the amount of royalty to Sumitomo Wiring Systems (SWS).

Valuation & view

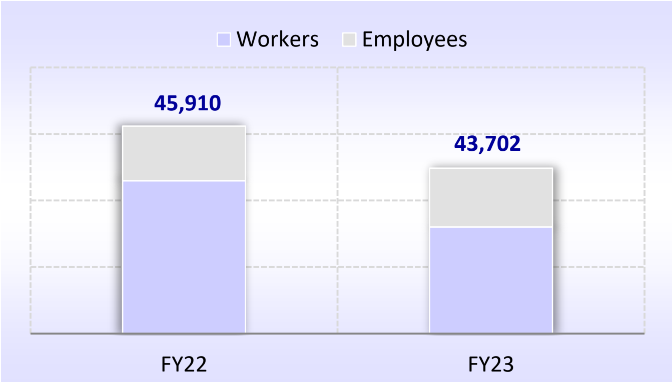
- MSWIL offers a pure play on the India automotive market (>95% of revenues from India). With over 40% market share, the company enjoys a market leadership position in the Indian wiring harness industry, with strong headroom for sustained increase in content, benefiting from mega trends witnessed in the automotive industry (premiumization, electrification, connected vehicles, etc.).
- It enjoys exceptional profitability, led by superior efficiencies and economies of scale, good margins, higher asset turn, and lower capex requirements. This provides for high capital efficiencies and superior cash-flow generation.
- We estimate MSWILs revenue/EBITDA/PAT CAGR of 16%/27%/31% over FY23-25E. This is expected to drive RoIC to 46.7% by FY25E from 37.2% in FY23. RoE would also improve to 43.7% by FY25E from 39.8% in FY23.
- We expect gradual recovery in the operating performance from 2HFY24, primarily driven by the increased production and utilization of the new plant. We believe it deserves rich valuations driven by a) its strong competitive positioning, b) top decile capital efficiencies, and c) it being a beneficiary of EVs and other mega trends in Autos. The stock trades at 39.7x/31.6x FY24E/25E EPS. We reiterate our BUY rating on the stock with a TP of INR70 (~35x Sep'25E EPS).

Exhibit 1: FY24E product-wise mix % (pre-acquisition)



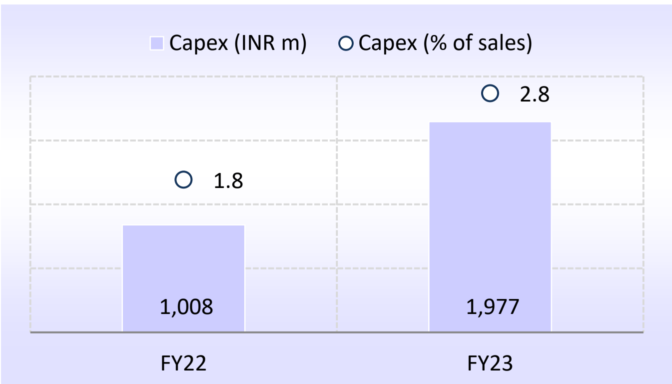
Source: Company, MOFSL

Exhibit 2: Employee count trend



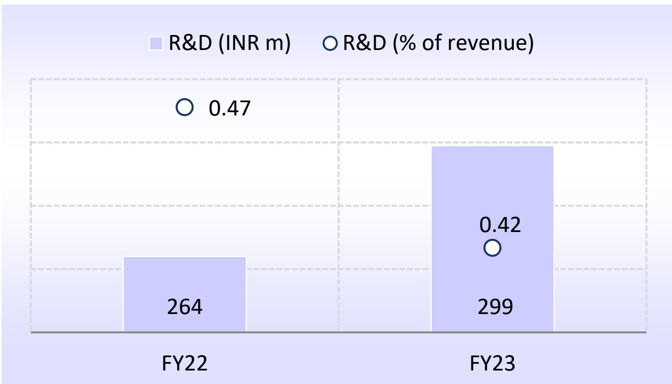
Note- FY23 data is weighted average whereas FY22 is year-end
Source: Company, MOFSL

Exhibit 3: Added 3 new plants in FY23 as a part of capex



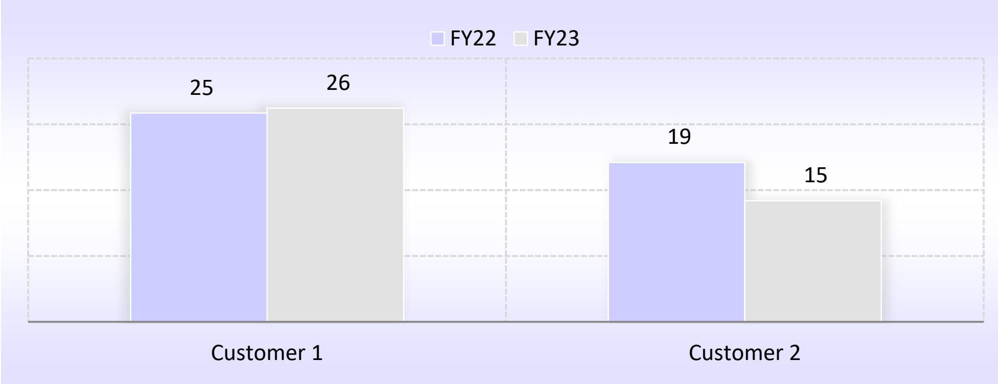
Source: Company, MOFSL

Exhibit 4: R&D focusing on EV solution and light weighting



Source: Company, MOFSL

Exhibit 5: Share (%) of top two customers in total revenue



Source - Company, MOFSL

Exhibit 6: Transaction with related parties (SAMIL) during the year

Particulars (Amount in INR m)	FY22	FY23
Purchase of goods	23,643	28,656
% of revenue	42.0	40.6
Purchase of services	346	587
% of revenue	0.6	0.8
Payment of lease liability	564	636
% of revenue	1.0	0.9
Reimbursements made of common costs	1,544	870
% of revenue	2.7	1.2
Royalty	335	395
% of revenue	0.6	0.6

Source- Company, MOFSL

Key operating indicators

Exhibit 7: Revenue to grow 16% CAGR over FY23-25E

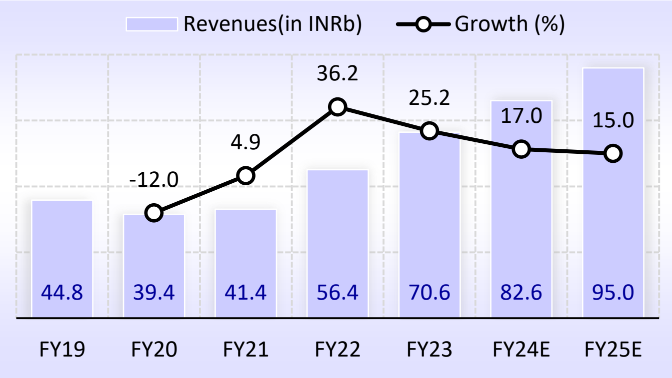


Exhibit 8: EBITDA margin to expand 120bp by FY25E

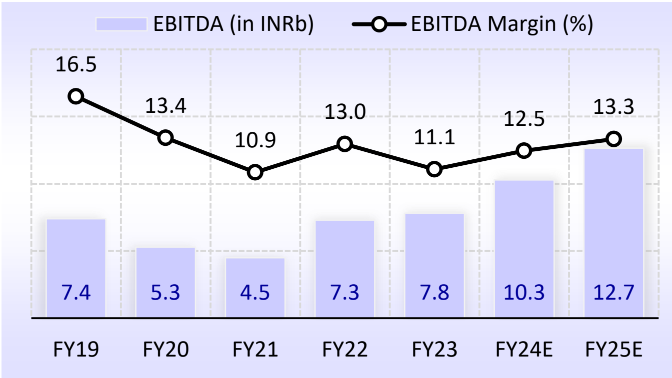


Exhibit 9: PAT to grow 21% CAGR over FY23-25E

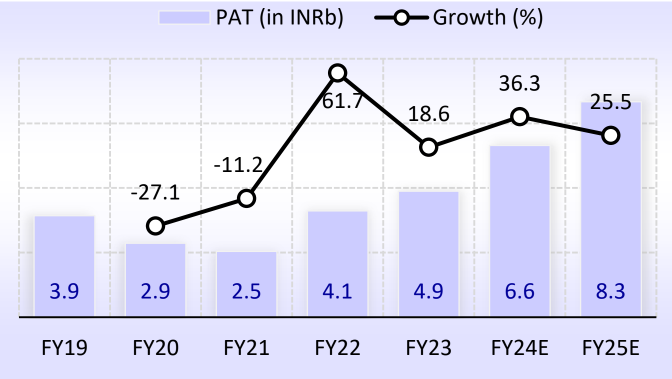
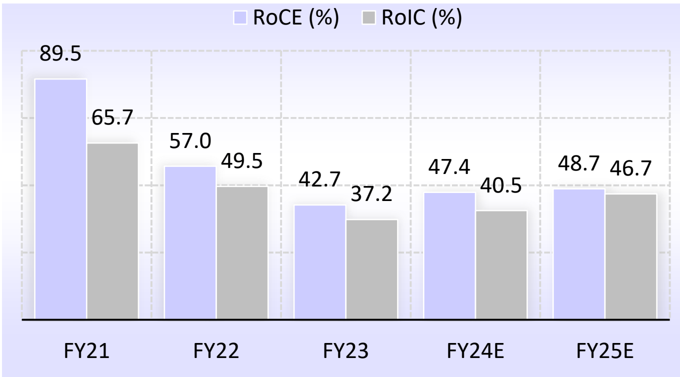


Exhibit 10: Trend in MSUMI's Return profile



Financials and valuations

Income Statement							(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Net Revenues	**44,838**	**39,439**	**41,380**	**56,350**	**70,574**	**82,572**	**94,957**
Change (%)	NA	-12.0	4.9	36.2	25.2	17.0	15.0
EBITDA	**7,399**	**5,294**	**4,490**	**7,303**	**7,814**	**10,281**	**12,656**
EBITDA Margin (%)	16.5	13.4	10.9	13.0	11.1	12.5	13.3
Depreciation	973	1,000	930	1,055	1,237	1,437	1,714
EBIT	**6,426**	**4,294**	**3,560**	**6,248**	**6,578**	**8,844**	**10,942**
EBIT Margin (%)	14.3	10.9	8.6	11.1	9.3	10.7	11.5
Interest Charges				285	278	300	250
Other Income				300	223	321	448
PBT bef. EO Exp.	**6,426**	**4,236**	**3,472**	**6,263**	**6,522**	**8,865**	**11,140**
EO Exp/(Inc)	0	0	0	654	0	0	0
PBT after EO Exp.	**6,426**	**4,236**	**3,472**	**5,609**	**6,522**	**8,865**	**11,140**
Total Tax	0	0	932	1,502	1,652	2,225	2,807
Tax Rate (%)	0.0	0.0	26.8	26.8	25.3	25.1	25.2
Reported PAT	**3,923**	**2,860**	**2,540**	**4,107**	**4,871**	**6,640**	**8,333**
Adjusted PAT	**3,923**	**2,860**	**2,540**	**4,670**	**4,871**	**6,640**	**8,333**
Change (%)	NA	-27.1	-11.2	83.9	4.3	36.3	25.5
Margin (%)	8.7	7.3	6.1	8.3	6.9	8.0	8.8

Balance Sheet					(INR m)
Y/E March	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Equity Share Capital	3,158	3,158	4,421	4,421	4,421
Total Reserves	3,942	7,988	8,884	12,650	16,998
Net Worth	**7,100**	**11,146**	**13,305**	**17,071**	**21,419**
Minority Interest					
Total Loans	820	193	818	818	818
Other non-current liabilities	640	3,059	3,348	3,348	3,348
Capital Employed	**8,560**	**14,397**	**17,471**	**21,237**	**25,586**
Net Fixed Assets	**1,699**	**4,321**	**5,792**	**5,625**	**5,411**
Capital WIP	1	323	270	300	300
Other non-current assets	260	928	1,259	1,376	1,495
Current Assets	**15,670**	**19,642**	**21,244**	**27,467**	**34,001**
Inventory	7,990	9,600	12,096	14,026	16,130
Account Receivables	6,750	6,593	8,004	9,501	10,927
Cash and Bank Balance	370	2,933	368	3,032	5,901
Other current & fin.assets	560	516	776	908	1,044
Current Liabilities	**9,330**	**11,220**	**11,506**	**13,942**	**16,033**
Creditors	7,520	9,129	9,257	11,311	13,008
Other current & fin.liabilities	1,810	2,091	2,249	2,631	3,025
Net Current Assets	**6,340**	**8,422**	**9,738**	**13,525**	**17,968**
Deferred Tax assets	260	403	411	411	411
Appl. of Funds	**8,560**	**14,397**	**17,471**	**21,237**	**25,586**

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)					
EPS	**0.6**	**1.1**	**1.1**	**1.5**	**1.9**
Cash EPS	0.8	1.3	1.4	1.8	2.3
BV/Share	1.6	2.5	3.0	3.9	4.8
DPS		0.61	0.65	0.90	1.13
Payout (%)		65.4	59.0	60.0	60.0
Valuation (x)					
P/E	103.8	56.5	54.1	39.7	31.6
Cash P/E	76.0	46.1	43.2	32.6	26.2
P/BV	37.1	23.7	19.8	15.4	12.3
EV/Sales	4.6	3.3	3.7	3.2	2.7
EV/EBITDA	42.0	25.4	33.8	25.4	20.4
Dividend Yield (%)		1.0	1.1	1.5	1.9
FCF Yield (%)		2.1	0.1	2.3	2.7
Return Ratios (%)					
RoE	35.8	51.2	39.8	43.7	43.3
RoCE (pre-tax)	89.5	57.0	42.7	47.4	48.7
RoIC	65.7	49.5	37.2	40.5	46.7
Working Capital Ratios					
Asset Turnover (x)	4.8	3.9	4.0	3.9	3.7
Inventory (Days)	70	62	63	62	62
Debtor (Days)	60	43	41	42	42
Creditor (Days)	66	59	48	50	50
Leverage Ratio (x)					
Current Ratio	1.7	1.8	1.8	2.0	2.1
Net Debt/Equity	0.1	-0.2	0.0	-0.1	-0.2

Cash Flow Statement (INR m)

Y/E March	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	5,320	6,263	6,522	8,865	11,140
Depreciation	374	1,055	1,237	1,437	1,714
Interest & Finance Charges	73	285	278	300	250
Direct Taxes Paid	-1,142	-1,962	-1,775	-2,225	-2,807
(Inc)/Dec in WC	-4,454	44	-3,925	-1,123	-1,574
Others	-57	-23	-102		
CF from Operations	**114**	**5,662**	**2,236**	**7,254**	**8,723**
EO item	0	-654	0		
CF from Operating incl EO	**114**	**5,008**	**2,236**	**7,254**	**8,723**
(Inc)/Dec in FA	-281	-1,008	-1,977	-1,300	-1,500
Free Cash Flow	**-168**	**3,999**	**259**	**5,954**	**7,223**
(Pur)/Sale of Investments					
Others	0	0	40	-116	-120
CF from Investments	**-281**	**-1,008**	**-1,937**	**-1,416**	**-1,620**
Issue of Shares				0	0
Inc/(Dec) in Debt	292	-1,129	78	0	0
Interest Paid	-43	-310	-272	-300	-250
Dividend Paid	0	0	-2,677	-2,874	-3,984
Others	1	0	0		
CF from Fin. Activity	**250**	**-1,439**	**-2,871**	**-3,174**	**-4,234**
Inc/Dec of Cash	**82**	**2,561**	**-2,572**	**2,664**	**2,869**
Opening Balance	290	373	2,933	361	3,025
Closing Balance	**373**	**2,933**	**361**	**3,025**	**5,894**

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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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