

30 May 2018

Initiating Coverage (BUY)

MOTHERSON SUMI SYSTEMS LTD

CMP

INR 311

Target Price

INR 379

Stock Details

Industry	Auto Parts & Equipment
Bloomberg Code	MSS:IN
BSE Code	517334
Face Value (Rs.)	1.00
Market Cap. (Rs. mn)	654742.1
52wk. Low/High (Adjusted) (Rs.)	295.05/395.00

Shareholding Pattern Dec '17

Promoter (%)	61.73
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	38.27
No. of Share Outstanding (mn)	2105.28

Valuation Summary

	FY 16A	FY 17A	FY 18P	FY 19P
P/E (x)*	18.13	27.35	27.00	26.00
EV/EBITDA (x)	7.31	15.86	15.01	15.43
P/BV (x)	5.77	7.91	6.82	6.41

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 16A	FY 17A	FY 18P	FY 19P
Net Sales	383,952	432,749	484,679	557,381
EBITDA	37,752	44,310	51,529	60,247
Net Profit	12,737	21,724	25,722	30,683
EPS (Rs.)*	09.6	11.4	12.2	14.6

*Un adjusted

Key Ratios

	FY 16A	FY 17A	FY 18P	FY 19P
EBITDA Margin (%)	9.8	10.2	10.5	10.7
EBIT Margin (%)	6.7	7.8	8.3	8.6
Net Pro. Margin (%)	3.3	5.0	5.3	5.5
Debt/Equity (x)	1.18	1.17	0.95	0.78
RoNW (%)	33.7	34.7	27.9	27.1
RoCE (%)	12.5	13.5	11.9	13.0

We recommend 'BUY' on MOTHERSON SUMI SYSTEMS LTD for a target of INR 379 - valuing the company at P/E 26x of FY19E Earning.

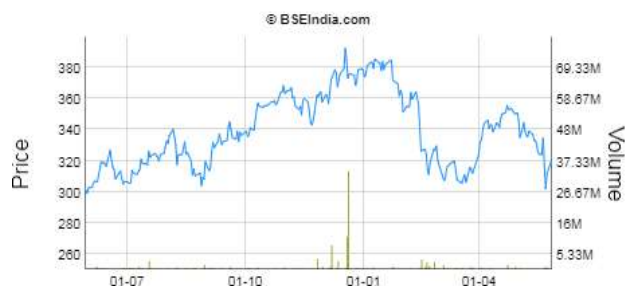
INVESTMENT RATIONALE:

- SMG is a global partner of a well balanced customer base spread across five continents, with more than 180 manufacturing plants and a global network of modern design centres.
- Its technologies help carmakers differentiate their products.
- Each division within the company has laid out plans to meet its growth targets, and its derisking policy.
- Specialised full system solutions provider to automotive and other industries, offering services from design and prototyping to production and delivery of solutions across a wide range of products.
- Extremely diversified customer portfolio.
- MSSL is developing several new facilities around the world and expanding some existing units to cater to customers' growing requirements.
- Growth via inorganic route is much needed to achieve its 2020 target.

VALUATIONS AND VIEW:

Over the years MSSL has successfully collaborated with global technology leaders to further enhance its competency to create technologically sound products in state-of-art facilities and infrastructure to ensure superior efficiencies & total customer satisfaction. **We value the business at 26x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 379 per share.**

One Year Price / Volume



RISK & CONCERNS:

The company in its capacity as an internationally active supplier for the automobile industry is exposed to various risks with each of its business segments and products. The company has global presence and decentralized management structure. Concentrating on the plants make it necessary for implementing an organized risk management system. The Company is therefore exposed to risks associated with global organizations and automotive industry in particular.

Below are the main areas of risks which can impact the company:-

- Price risk
- Forex risk
- Interest rate risk
- Credit risk
- Liquidity risk
- Market risk
- Information technology risk

COMPANY BACKGROUND:

Motherson Sumi Systems Limited (MSSL), the flagship company of the Samvardhana Motherson Group was established in 1986 in joint partnership with Sumitomo Wiring Systems, Japan. MSSL including its subsidiaries and JVs is one of the leading manufacturer of automotive wiring harnesses, mirrors for passenger cars and a leading supplier of plastic components and modules to the automotive industry. Its broad business portfolio includes wiring harnesses, mirrors for passenger car, injection moulded products, modules including dashboards, door trims, bumpers, blow moulded components, liquid silicone rubber moulded components, injection moulding tools, extruded rubber products, precision machined metal components and waste recycling systems.

Over the years MSSL has successfully collaborated with global technology leaders to further enhance its competency to create technologically sound products in state-of-art facilities and infrastructure to ensure superior efficiencies & total customer satisfaction. The company has evolved into a full system solutions provider and caters to a diverse range of customers in the automotive and other industries across Asia, Europe, the Americas, Australia and Africa. With a strong workforce of over 60,000 qualified professionals and 140 manufacturing units spread across 25 countries, MSSL caters to major global OEMs such as Volkswagen group, BMW, Daimler, Renault Nissan, Ford, Volvo, Maruti Suzuki, Tata Motors, Honda, Toyota etc.

INDUSTRY OVERVIEW:

The Indian auto-components industry has experienced healthy growth over the last few years. Some of the factors attributable to this include: a buoyant end-user market, improved consumer sentiment and return of adequate liquidity in the financial system. The auto-component industry of India has expanded by 14.3 per cent because of strong growth in the after-market sales to reach at a level of Rs 2.92 lakh crore (US\$ 44.90 billion) in FY 2016-17. The auto-components industry accounts for almost seven per cent of India's Gross Domestic Product (GDP) and employs as many as 25 million people, both directly and indirectly. A stable government framework, increased purchasing power, large domestic market, and an ever increasing development in infrastructure have made India a favourable destination for investment.

The Indian automotive aftermarket is expected to grow at a CAGR of 10.5 per cent and reach Rs 75,705 crore (US\$ 13 billion) by the year 2019-20, according to the Automotive Component Manufacturers Association of India (ACMA). These estimates are in sync with the targets of the Automotive Mission Plan (AMP) 2016-26.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Bosch	18,557	39.6	56,636.6	0.89	433.8	12.16	3,158.0	22.66	5.57
Exide Inds.	166	20.3	21,917.3	0.93	189.6	15.40	2,459.4	25.83	5.24
TI Financial	686	21.5	12,871.0	0.18	172.6	25.29	858.2	17.00	3.83
Amara Raja Batt.	792	28.7	13,520.7	0.55	109.8	10.70	1,580.7	17.57	4.41
Sundram Fasten.	576	32.9	12,106.0	0.78	95.2	6.44	945.5	19.38	7.20
Minda Inds.	1,267	37.1	11,047.6	0.16	140.0	70.37	1,370.9	52.87	10.44
Motherson Sumi	311.0	27.0	65,474.2	0.42	757.5	(0.11)	15,407.8	36.91	7.91

*TTM

FINANCIAL OVERVIEW

Q4 FY17 Performance Highlight							
(in Million)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	YoY (%)	QoQ (%)
Revenue	19,508.00	19,319.40	18,562.80	17,943.80	21,070.50	8.01%	17.42%
Other Income	457.4	15.6	661.7	102	111		
Total Income	19,965.40	19,335.00	19,224.50	18,045.80	21,181.50	6.09%	17.38%
Expenditure	-15,810.50	-16,220.80	-14,995.20	-14,891.70	-17,389.50		
<i>As a % of Sales</i>	81.05%	83.96%	80.78%	82.99%	82.53%		
Interest	123.7	-55.3	-73.2	-78.2	-226.5	-283.10%	189.64%
PBDT	4154.9	3114.2	4229.3	3154.1	3792		
<i>As a % of Sales</i>	21.30%	16.12%	22.78%	17.58%	18.00%		
Depreciation	-506.8	-529.2	-586.2	-536.8	-530.8		
PBT	3648.1	2585	3643.1	2617.3	3261.2	-10.61%	24.60%
<i>As a % of Sales</i>	18.70%	13.38%	19.63%	14.59%	15.48%		
Tax	-920.9	-673	-928	-871.4	-842.9	-8.47%	-3.27%
Net Profit	2727.2	1912	2715.1	1745.9	2418.3	-11.33%	38.51%
<i>As a % of Sales</i>	13.98%	9.90%	14.63%	9.73%	11.48%		
Equity	1403.6	--	--	--	--	#VALUE!	#VALUE!
EPS (Rs)	1.94	0.91	1.29	0.83	1.15	-40.72%	38.55%
CEPS (Rs)	2.3	--	--	--	--		
OPM %	21.3	16.12	22.78	17.58	18		
NPM %	13.98	9.9	14.63	9.73	11.48		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Net Sales	304,279	345,852	383,952	432,749	484,679	557,381	624,266
Other Operating Income	3,106	4,643	3,209	1,463	4,217	4,666	4,473
Expenditure	280,308	318,292	349,409	389,902	437,367	501,800	560,417
EBITDA	27,077	32,203	37,752	44,310	51,529	60,247	68,322
Depreciation	8,172	10,854	11,648	10,591	10,923	11,872	11,874
EBIT	18,905	21,349	26,104	33,719	40,606	48,375	56,447
Interest Expenses	2,943	3,178	2,706	3,749	3,819	4,622	5,041
PBT	15,962	18,171	23,398	29,970	36,787	43,754	51,407
Tax	4,994	5,256	5,836	9,103	11,065	13,071	15,274
Extraordinary Items	-	-	-	857	-	-	-
Net Income Before Adjustment	10,968	12,915	17,562	21,724	25,722	30,683	36,133
Minority Int./Income from Assoc.	3,318	4,290	4,825	-	-	-	-
Adjusted PAT	7,650	8,625	12,737	21,724	25,722	30,683	36,133

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Equity share capita	882	882	1,323	1,404	1,404	1,404	1,404
Reserves & surplus	28,711	32,356	41,133	81,323	100,366	123,083	149,834
Share Warrants	-	-	-	-	-	-	-
Net worth	29,593	33,238	42,456	82,727	101,770	124,487	151,238
Minority Interest	7,896	10,142	14,411	22,322	16,239	17,770	18,965
Share Application Money	-	-	-	-	-	-	-
Loan Funds	29,834	40,859	50,023	96,599	96,601	96,599	96,597
Net deferred tax liability	1,680	1,457	1,926	4,260	4,260	4,260	4,260
Other Long-term Liabilities	2,083	3,091	1,828	3,736	4,184	4,812	5,389
Long-term Provisions	2,043	2,180	2,424	226	253	291	326
Total Liabilities	73,129	90,968	113,069	209,872	223,309	248,221	276,778
Net block	65,660	70,847	87,329	141,274	157,910	149,418	140,664
Investment, Loan & Adv.	7,408	10,675	12,180	21,546	35,372	118,805	504,147
Total Current Assets	80,555	94,186	107,722	160,877	143,493	109,305	(224,143)
Current Liabilities & Provisions	80,494	84,741	94,163	113,827	113,467	129,309	143,891
Net Current Assets	61	9,445	13,559	47,050	30,026	(20,004)	(368,035)
Total Assets	73,129	90,968	113,069	209,872	223,309	248,221	276,778

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 17A	FY 18E	FY 19P	FY 20P
Operating Cash Flow	37,997	22,432	41,211	47,116
Cash Flow from Investments	(68,078)	(47,045)	(86,713)	(388,363)
Cash Flow from Financing	55,993	(6,302)	(7,532)	(9,460)
Net Changes in Cash	25,912	(30,915)	(53,033)	(350,707)
Opening Cash	23,464	48,772	17,857	(35,176)
Closing Cash Balance	49,376	17,857	(35,176)	(385,884)

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1.Analyst ownership of the stocks mentioned above	No
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Head Office

Wealth Discovery Securities Pvt. Ltd.

1206, 12th Floor,
Kailash Building K.G. Marg.
Connaught Place
New Delhi-110001

Telephone:
91 +11-43444-666
91 +11-43444-623

Email:
info@wealthdiscovery.in

Website:
<http://www.wealthdiscovery.in>