

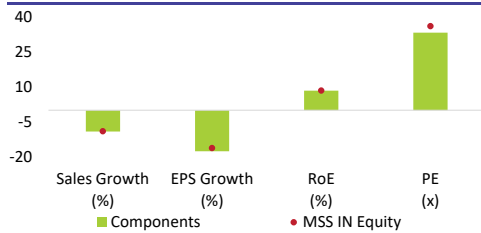
MOTHERSON SUMI

COMPANY UPDATE

KEY DATA

Rating	BUY
Sector relative	
Price (INR)	121
12 month price target (INR)	125
Market cap (INR bn/USD bn)	382/5.2
Free float/Foreign ownership (%)	3,827.3/1,564.1
What's Changed	
Target Price	---
Rating/Risk Rating	---

INVESTMENT METRICS

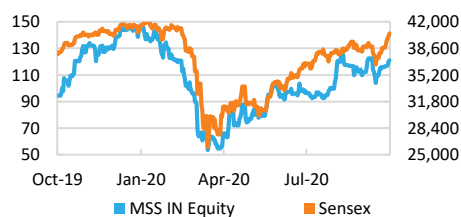


FINANCIALS

(INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Revenue	6,35,369	5,77,535	6,66,546	7,79,501
EBITDA	52,014	37,064	61,136	76,904
Adjusted profit	11,700	9,794	23,528	32,754
Diluted EPS (INR)	3.7	3.1	7.5	10.4
EPS growth (%)	(27.5)	(16.3)	140.2	39.2
RoAE (%)	10.5	8.4	18.4	22.4
P/E (x)	30.2	36.0	15.0	10.8
EV/EBITDA (x)	8.2	11.7	6.7	5.0
Dividend yield (%)	1.3	1.0	1.7	2.3

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Next line of growth

At its investor day, Motherson Sumi (MSS) promoters showcased SAMIL's (**post restructuring**) top ten incubated businesses and their growth potential. They make up about 85% of revenues, 90% of EBITDA (ex-MSS, -SMRPBV; glossary in Exhibit 3). Key takeaways: i) Eight of the ten businesses are self-sustaining and pay dividend. ii) Visible efforts to diversify into non-auto business. iii) Intra-group synergies being leveraged. iv) Focus on exports, inorganic growth.

The potential to scale up these businesses is encouraging. That said, they make up ~5% of total group revenue. We would wait for financials (post-demerger) for a clearer view on these incubated businesses. Maintain 'BUY' with a TP of INR125.

Key takeaways

- **Self-sustaining businesses:** Over the last ten years, the Sehgal family (Indian promoters of MSS) has re-invested their profits into these businesses. With the exception of MMAS and MSGI (acquired recently), all other businesses are now self-sustaining and can fund their own growth.
- **Export focus:** While some of these businesses already have a strong export footprint (e.g. exports account for ~56% of suspension business revenue), exports will be a key area of focus for all them. Over the long term, export markets will be a larger part of the overall revenue mix.
- **M&A opportunities:** Open to inorganic opportunities, with same underlying philosophy. In our view, in some JV businesses, there could be restrictions pertaining to inorganic opportunities.
- **Intra-group synergies:** From product design, tooling, testing and manufacturing to getting nominations for global programs, building scale and efficiency, businesses have benefited from the MSS's ecosystem.
- **Other business:** After the top ten, there are 17 other business (each sub INR500mn top line), which SAMIL is incubating. These are in the areas of aerospace, logistics, IT, healthcare, etc.

Outlook and valuation: Sound fundamentals; maintain 'BUY'

We reiterate 'BUY' on MSS, given: i) our current preference for businesses with a higher share of global business (expect global autos to recover faster than domestic ones); ii) post-course correction regarding new greenfield plants, the potential for earnings surprise exists as volumes ramp up.

That said, we are not factoring in new businesses that will be part of SAMIL once the restructuring completes. Prima facie, potential of positive surprises exist and the restructuring can be earnings-accretive based on a ramp-up in the incubating businesses as well as the recent greenfield plants. We maintain 'BUY/SO' with an unchanged TP of INR125 (valuing India business at 25x, SMR/SMP/PKC at 10x FY22E PE). The stock is trading at an FY22E PE of 15x.

Financial Statements

Income Statement (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Total operating income	6,35,369	5,77,535	6,66,546	7,79,501
Gross profit	2,72,654	2,28,848	2,90,979	3,43,229
Employee costs	1,50,769	1,27,058	1,49,973	1,75,388
Other expenses	69,872	64,726	79,870	90,938
EBITDA	52,014	37,064	61,136	76,904
Depreciation	27,780	19,392	20,556	21,723
Less: Interest expense	5,986	5,986	5,986	5,605
Add: Other income	2,307	2,669	3,231	3,299
Profit before tax	20,554	14,355	37,824	52,874
Prov for tax	8,184	4,307	11,196	15,651
Less: Other adj	575	1,950	1,950	1,950
Reported profit	11,700	9,794	23,528	32,754
Less: Excp.item (net)	0	0	0	0
Adjusted profit	11,700	9,794	23,528	32,754
Diluted shares o/s	3,158	3,158	3,158	3,158
Adjusted diluted EPS	3.7	3.1	7.5	10.4
DPS (INR)	1.5	1.1	1.9	2.6
Tax rate (%)	39.8	30.0	29.6	29.6

Important Ratios (%)

Year to March	FY20A	FY21E	FY22E	FY23E
Gross profit margin (%)	42.9	39.6	43.7	44.0
Staff cost % sales	23.7	22.0	22.5	22.5
Other expenses % sales	11.0	11.2	12.0	11.7
EBITDA margin (%)	8.2	6.4	9.2	9.9
Net profit margin (%)	1.8	1.7	3.5	4.2
Revenue growth (% YoY)	0	(9.1)	15.4	16.9
EBITDA growth (% YoY)	(2.7)	(28.7)	64.9	25.8
Adj. profit growth (%)	(27.5)	(16.3)	140.2	39.2

Assumptions (%)

Year to March	FY20A	FY21E	FY22E	FY23E
GDP (YoY %)	4.8	(6.0)	7.0	6.0
Repo rate (%)	4.4	3.5	3.5	4.0
USD/INR (average)	70.7	75.0	73.0	72.0
GDP (Y-o-Y %)	4.8	(6.0)	7.0	6.0
Inflation (Avg)	4.3	5.0	3.5	4.0
Repo rate (exit rate)	4.4	3.5	3.5	4.0
USD/INR (Avg)	70.7	75.0	73.0	72.0
4W domestic vol (% YoY)	(18.0)	(16.0)	15.0	15.0
2W domestic vol (% YoY)	(18.0)	(14.0)	16.0	16.0

Valuation Metrics

Year to March	FY20A	FY21E	FY22E	FY23E
Diluted P/E (x)	30.2	36.0	15.0	10.8
Price/BV (x)	3.1	2.9	2.6	2.3
EV/EBITDA (x)	8.2	11.7	6.7	5.0
Dividend yield (%)	1.3	1.0	1.7	2.3

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Share capital	3,158	3,158	3,158	3,158
Reserves	1,09,452	1,17,744	1,32,281	1,53,289
Shareholders funds	1,12,609	1,20,902	1,35,439	1,56,447
Minority interest	35,650	37,855	42,905	49,325
Borrowings	1,30,354	1,30,354	1,30,354	1,30,354
Trade payables	1,73,540	1,59,309	1,83,862	2,15,020
Other liabs & prov	(2,225)	(2,634)	(2,265)	(1,797)
Total liabilities	4,49,928	4,45,785	4,90,294	5,49,348
Net block	1,62,734	1,57,170	1,54,980	1,56,273
Intangible assets	43,934	44,542	40,964	37,385
Capital WIP	8,154	8,154	8,154	8,154
Total fixed assets	2,14,822	2,09,866	2,04,097	2,01,812
Non current inv	0	0	0	0
Cash/cash equivalent	59,074	50,934	71,778	96,059
Sundry debtors	65,782	66,456	76,698	89,696
Loans & advances	490	347	401	469
Other assets	1,09,761	1,17,089	1,35,135	1,58,036
Total assets	4,49,928	4,45,785	4,90,294	5,49,348

Free Cash Flow (INR mn)

Year to March	FY20A	FY21E	FY22E	FY23E
Reported profit	11,700	9,794	23,528	32,754
Add: Depreciation	27,780	19,392	16,978	18,144
Interest (net of tax)	3,603	4,190	4,214	3,946
Others	11,922	1,331	7,170	8,359
Less: Changes in WC	8,515	(22,501)	(3,420)	(4,340)
Operating cash flow	63,521	12,206	48,470	58,863
Less: Capex	(27,386)	(10,250)	(14,788)	(19,438)
Free cash flow	36,135	1,956	33,683	39,426

Key Ratios

Year to March	FY20A	FY21E	FY22E	FY23E
RoE (%)	10.5	8.4	18.4	22.4
RoCE (%)	10.0	7.2	14.7	18.1
Inventory days	49	49	45	45
Receivable days	40	42	39	39
Payable days	176	174	167	167
Working cap (% sales)	0	3.8	3.8	3.8
Gross debt/equity (x)	0.9	0.8	0.7	0.6
Net debt/equity (x)	0.5	0.5	0.3	0.2
Interest coverage (x)	4.0	3.0	6.8	9.8

Valuation Drivers

Year to March	FY20A	FY21E	FY22E	FY23E
EPS growth (%)	(27.5)	(16.3)	140.2	39.2
RoE (%)	10.5	8.4	18.4	22.4
EBITDA growth (%)	(2.7)	(28.7)	64.9	25.8
Payout ratio (%)	47.2	40.8	29.1	29.1

Exhibit 1: Financial snapshot of the key businesses

Name of the Company	Product/Service	Sub/JV Stake (%)	Operational Revenue (INRm)			EBITDA (INR mn)			EBITDA Margin (%)			RoACE (%)		
			FY15	FY19	FY20	FY15	FY19	FY20	FY15*	FY19	FY20	FY19	FY20	
Marelli Motherson Automotive Lighting India	Lighting Solutions	JV	50.0	2,071	7,118	8,679	219	1,253	1,697	10.6	17.6	19.6	32.0	39.0
Motherson Sumi Infotech and Design	Services & IT Solutions	Sub	53.7	1,754	3,960	4,202	152	380	267	8.7	9.6	6.4	26.0	9.0
MS Global India Automotive	Metal Solutions	Sub	100.0	4,251	4,673	3,429	257	416	147	6.0	8.9	4.3	8.0	-4.0
Marelli Motherson Auto Suspensions Parts	Metal Solutions	JV	50.0	936	1,725	1,485	-56	193	121	-6.0	11.2	8.1	7.0	-2.0
Motherson Techno Tools	Metal Solutions	Sub	60.0	1,215	1,710	1,392	244	457	242	20.1	26.7	17.4	21.0	5.0
CTM India	Engineering & Tooling	Sub	41.0	927	1,020	1,220	NA	370	360	NA	36.3	29.5	46.0	32.0
Valeo Motherson Thermal Commercial Vehicles India	Metal Solutions	JV	49.0	559	1,009	1,111	35	82	87	6.3	8.1	7.8	35.0	36.0
Anest Iwata Motherson Private	Metal Solutions	JV	49.0	437	856	926	39	172	152	8.9	20.1	16.4	32.0	27.0
Fritzmeier Motherson Cabin Engineering	Metal Solutions	JV	50.0	485	966	771	60	136	65	12.4	14.1	8.4	16.0	5.0
Matsui Technologies India	Services & IT Solutions	JV	50.0	245	664	705	14	119	156	5.7	17.9	22.1	92.0	84.0
Total				12,880	23,701	23,920	964	3,578	3,294	8.1	15.1	13.8	23.0	17.0
Share in SAMIL Aggregate Basis (%)														

Source: Company, Edelweiss research; * FY15 total EBITDA margin is ex CTM India

Exhibit 2: Brief business profiles

Name of the Company	Revenue mix (%)	Key customers
Marelli Motherson Automotive Lighting India	57% head lamps/24% Rear & Small lamps/9% Others	FCA, Ford, GM, Honda, M&M, Maruti, PSA, Renault Nissan, Skoda
Motherson Sumi Infotech and Design Ltd	73% Motherson / 27% Outside	VW, Suzuki, Tata Motors, Toyota, etc
MS Global India Automotive Pvt. Ltd.	73% Body in white / 22% Chassis / 5% Hot stamping	CSIR, Honda Cars, HUL, Iveco, Maruti, Motherson Group, Rane, Tata Autocomp, etc
Marelli Motherson Auto Suspensions Parts Pvt Ltd	56% domestic / 44% export	Daimler India CVs, Myoung Shin India, Renault Nissan, etc
Motherson Techno Tools Ltd	~75% auto / ~25% non-auto	Ashok Leyland, Dacia, Eicher, FCA, Maruti, Paccar, PSA, Renault, etc
CTM India Ltd.	NA	Bajaj Auto, Hero, TVS, Honda Cars, Maruti, Hyundai, Tata Motors, BHEL, Escorts, JCB, Siemens (Power), etc
Valeo Motherson / Motherson Bergstorm HVAC Solutions	~75% Bus / ~25% M&HCVs & Off-highway vehicles	Daimler, Hyundai-Kia, PSA, Maruti Suzuki, Tata Motors, VW, etc
Anest Iwata Motherson Private Ltd.	72% general business / 15% medical / 10% auto / 3% railways	Ashok Leyland, Caterpillar, CNH, Daimler India, Escorts, GTVS, JCBL, M&M, Sonalika, etc
Fritzmeier Motherson Cabin Engineering Pvt. Ltd.	NA	India railways, Instrument Research Associates, KYB Conmat, Linde India, Tata Motors, etc
Matsui Technologies India Ltd.	50% auto/25% packaging / 5% healthcare / 20% others	ACE, Ashok Leyland, BEML, Caterpillar, Escorts, JCB, John Dere, Komatsu, M&M, TAFE, Tata Hitachi, etc
		ASB International, Ashirvad Pipes, Hamilton India, Nipro India, etc

Source: Company, Edelweiss Research

Exhibit 3: Glossary

Acronym	Full name
SAMIL	Samvardhana Motherson International Limited
SMRPBV	Samvardhana Motherson Automotive Systems Group BV
MMAS	Marelli Motherson Auto Suspensions Parts
MSGI	MS Global India

Source: Company, Edelweiss Research

Company Description

Motherson Sumi Systems (MSS), is a JV between Samvardhana Motherson International (SMIL) and Sumitomo Wiring Systems, Japan (SWS). It is the flagship company of Samvardhana Motherson Group (SMG). With presence in 25 countries, the group supplies to all major automobile manufacturers across the world.

MSS can be regarded as inorganic growth specialist. Pertinently, the company has successfully turned around its recent two key acquisitions, SMR and SMP. Its latest acquisition of PKC, a Finland based M&HCV wiring harness player remains well placed to capitalised on growth across US and Europe geographies

Investment Theme

Historically, MSS's revenue and profits have catapulted ~5x every 5 years driven by rising content per vehicle, diversified geography & clients and acquisitions. Our analysis of successful global leaders—Bosch, Johnson Control, Magna—indicates acquisitions have been integral to growth; MSS is treading the same path.

We believe the India business is well placed to benefit from rising content per vehicle with upcoming safety and BS-VI emission norms. Though revenue visibility for the SMR and SMP business is improving, the pace of ramp up at new plants remains key to margin improvement.

Key Risks

Complex structure: Raises concerns MSS has too many subsidiaries/JVs, which complicates the ownership structures.

Weaker global demand: The company's key subsidiaries (SMR/SMP) are highly dependent on demand from the luxury car segment. Weakness in global premium car demand can impact order books of SMR/SMP. This in turn could delay expected turnaround in these subsidiaries.

Execution risks: Delays in turnaround of subsidiaries and/or lower-than-anticipated group synergies remain a concern for SMR/SM

Additional Data

Management

Chairman	V.C. Sehgal
CFO	G.N. Gauba
COO	Pankaj Mital
Director	Laksh Sehgal
Auditor	S.R. Batliboi

Holdings – Top 10*

	% Holding		% Holding
Lic of India	6.80	BlackRock	1.20
SBI Funds	1.68	Axis AM	1.17
JPMorgan Chase	1.46	GIC Pte Ltd	1.09
Vanguard Group	1.45	Capital Researc	1.08
Capital Group	1.25	Nomura Holdings	0.91

*Latest public data

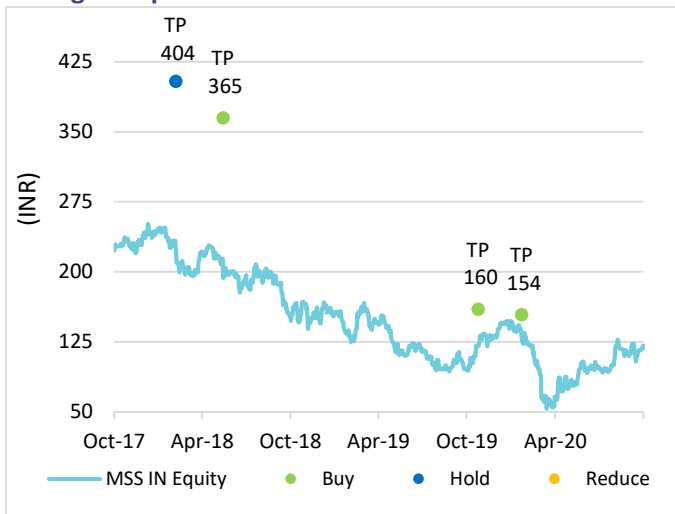
Recent Company Research

Date	Title	Price	Reco
21-Aug-20	Motherson Sumi - Post Conference Notes-D; <i>Company Update</i>	125	Buy
11-Aug-20	Motherson Sumi Systems - Result Update Q; <i>Result Update</i>	125	Buy
03-Jul-20	Motherson Sumi Systems - Demerger ratio;; <i>Company Update</i>	96	Buy

Recent Sector Research

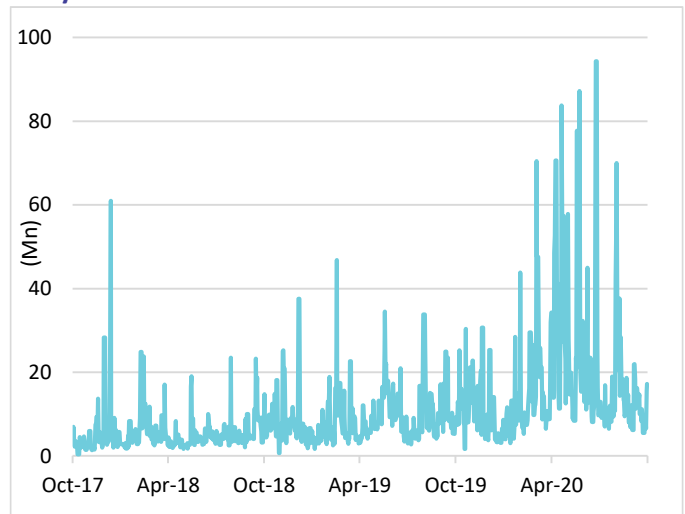
Date	Name of Co./Sector	Title
24-Aug-20	Suprajit Engineering	Suprajit Engineering - Result Update Q1F; <i>Result Update</i>
15-Aug-20	Minda Corporation	Minda Corp - Result Update Q1FY21 - Stor; <i>Result Update</i>
30-Jul-20	CEAT	CEAT - Result Update Q1FY21 - Replacemen; <i>Result Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	160	63	14	237
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	176	59	11	246

* stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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