

BSE SENSEX	S&P CNX
60,059	17,895



Stock Info

Bloomberg	MSS IN
Equity Shares (m)	3,158
M.Cap.(INRb)/(USDb)	748.7 / 10
52-Week Range (INR)	273 / 104
1, 6, 12 Rel. Per (%)	9/-11/48
12M Avg Val (INR M)	3033

Financials Snapshot(INR b)

INR million	2021	2022E	2023E
Sales	601.9	719.1	866.0
EBITDA	49.7	70.0	105.0
Adj. PAT	10.7	17.3	34.9
EPS (Rs)	3.4	5.5	11.0
EPS Growth (%)	-8.2	61.2	101.4
BV/Share (Rs)	39.8	43.8	51.8

Ratios

Net D:E	0.4	0.1	-0.3
RoE (%)	9.0	13.1	23.1
RoCE (%)	7.9	11.0	18.8
Payout (%)	45.1	27.0	27.0

Valuations

P/E (x)	69.7	43.2	21.5
P/BV (x)	6.0	5.4	4.6
Div. Yield (%)	0.6	0.6	1.3
FCF Yield (%)	2.4	4.6	7.2

CMP: INR237
TP: INR270 (+14%)
Buy

Enters Aerospace components via the CIM Tools acquisition

Also acquires a small Mirror business in China through a JV

MSS on 8th Oct'21 announced two smaller acquisitions: a) CIM Tools (Aerospace components), and b) Nanchang JMCG Mekra Lang Vehicle Mirror Company (a Mirror company in China). Acquisition of CIM Tools marks the entry of MSS in the Aerospace segment, which is one of the focus areas for driving non-Auto business revenue to USD9b by FY25. These acquisitions, however, won't materially change consolidated financials.

MSS acquires Aerospace component supplier CIM Tools (India)

- MSS has acquired 55% stake in Bengaluru-based CIM Tools (one of the top five machining companies in India). The balance stake will be retained by its three founders, who will continue to drive the business.
- This marks MSS' entry into the Aerospace segment, which is part of the non-Automotive sectors identified for diversification in its five-year plan. CIM Tools has more than 60 accreditations and qualifications in place, which act as high barrier to entry.
- The management said the deal valuation was at 7.5-8x EV/EBITDA, implying an EV of INR3.5-4b. The net debt stands at INR1.5-1.75b.
- CIM Tools will operate in the material and the aero structure, which is an over USD2t opportunity (out of a cumulative USD9t Aerospace industry by CY40). It will benefit from large packages from present customers and also decentralize supply chains from America and Europe.
- It is engaged in machining and sub-assembly of components for the Aerospace industry, with key products being detailed structural machined parts and sub-assemblies for aircraft doors, wings, tail, fuselage, and landing gears. This acquisition provides access to a pedigreed customer base across the Aerospace components supply-chain, along with specialized machining, treatment, and sub-assembly capabilities.
- CIM Tools will hold 83% stake in Aero Treatment (ATPL) and 49.99% stake in Lauak CIM Aerospace (LCA, a JV with Lauak International). ATPL is a vertically integrated unit, engaged in surface treatment of machined parts, and LCA is engaged in hard metal machining.
- The present capacity of CIM Tools is sufficient to deliver 1.5x revenue over the next two years. Additional expansion capex would be in the low double-digits.
- CIM Tools has a cumulative booked business potential of over INR15b currently, which span 4-8 years. These orders are from Boeing and Airbus as it is their Tier I supplier. It also acts as a Tier II supplier to other Tier I suppliers.
- It reported a pro forma consolidated turnover of INR2b/INR1.3b in FY20/FY21, and enjoys over 20% EBIDTA margin. It has four facilities in Karnataka and over 400 personnel.

A JV of SMR acquires 60% stake in a Chinese mirror company

- SMR NBHX (a 50:50 JV between SMR and Huaxiang) has acquired 60% stake in Nanchang JMCG Mekra Lang Vehicle Mirror Company. The balance stake will remain with the existing owner: JMCG.
- The acquisition is at a cash consideration of CNY33.6m (~EUR4.5m) for the 60% stake.
- This acquisition will expand SMR's portfolio in the Chinese CV segment, as it is already supplying to PVs, Pickup Trucks, and LCVs (overlap of portfolios with the acquired company).
- At present, Huaxiang has JVs with OEMs like Isuzu and Ford. It has a 7% market share in the CV Mirror business.
- This acquisition will benefit from synergies from the five existing plants of SMR in China and will strengthen its presence in the Southeast China region.
- The acquired company had a revenue of EUR17m in CY20. It is a positive cash flow business and would benefit from SMR's vendor base.

Our view: Acquisition of CIM Tools is a stepping stone for MSS in the non-Auto space as outlined in Vision CY25, which targets USD9b revenue from the non-Auto segment. MSS is looking to further expand in this space, through the organic and the inorganic route. The near term impact of the semiconductor shortage notwithstanding, our positive view on MSS remains intact (industry recovery + turnaround in greenfield plant + execution of a strong order book of SMRPBV). The stock trades at 43.2x/21.5x FY22E/FY23E consolidated. EPS. We maintain our **Buy** rating with a TP of ~INR270/share (Sep'23E SoTP).

Exhibit 1: CIM Tools acquisition is a stepping stone for MSS in the non-Auto (Aerospace) space

Aerospace remains a highly attractive industry



Strong cyclical tailwinds and sourcing rationale

US\$9 T market demand* expected in commercial aerospace over next 20 years

Passenger traffic recovering, hence production rates trending back towards pre-COVID levels

Potential Upside for Aerospace industry

COVID has created opportunity to realign supply chain and rationalize cost

Strong demand for new airplanes fuelled by growing passenger traffic & aviation infrastructure, across emerging markets like India

Increased sourcing from Strategic Low-Cost countries like India

CIM Tools has strong credentials

Partnership with a Leading Global supplier (Lauak International) to Aerospace OEMs

Strong relationship with Large Tier 1 customer base within Aerospace industry

CIM Tools along with Motherson's existing capabilities are well positioned to support the aerospace value chain globally

Source: Airbus GMF



Source: Company, MOFSL

Exhibit 2: CIM Tools has a wide product range in the Aerospace industry...

CIM Tools is vertically integrated with a diverse product range...

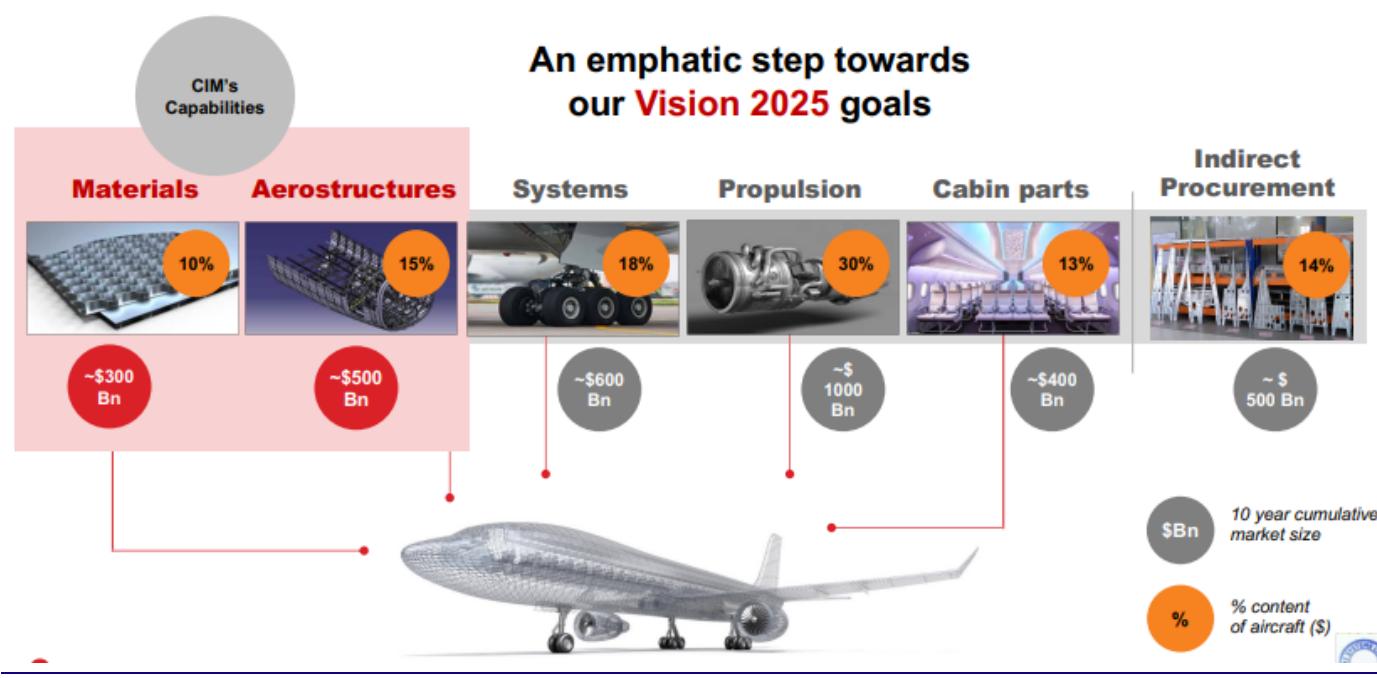


Key Facts	Capabilities	Key Products
Incorporation (CIM) 1997 Legal Entities: <ul style="list-style-type: none"> • CIM Tools Pvt. Ltd. (including its minority stake in JV with Lauak International) • Aero Treatments Pvt. Ltd. Building Area* ~130,000 sq ft Employees* 400+	Machining Treatment Sub-Assembly 	Door parts Wing parts Fuselage parts

Source: Company, MOFSL

Exhibit 3: ...which will help MSS achieve its USD9b revenue target in the non-Auto space

... with an established base ready to capture a large market opportunity



Source: Company, MOFSL

NOTES

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