

November 11, 2019

## Q2FY20 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	142		131	
Sales (Rs. m)	688,102	770,688	686,102	770,688
% Chng.	-	-	-	-
EBITDA (Rs. m)	56,339	68,935	51,035	67,564
% Chng.	10.4	2.0	-	-
EPS (Rs.)	5.3	6.5	4.5	6.3
% Chng.	16.5	4.6	-	-

### Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	635	686	771	869
EBITDA (Rs. bn)	53	56	69	83
Margin (%)	8.4	8.2	8.9	9.5
PAT (Rs. bn)	16	17	21	26
EPS (Rs.)	5.1	5.3	6.5	8.1
Gr. (%)	(5.2)	3.2	24.2	23.5
DPS (Rs.)	1.1	1.1	1.3	1.6
Yield (%)	0.8	0.8	1.0	1.2
RoE (%)	15.9	14.4	16.1	17.7
RoCE (%)	16.1	15.2	19.2	22.9
EV/Sales (x)	0.8	0.7	0.6	0.5
EV/EBITDA (x)	9.3	8.8	6.8	5.2
PE (x)	26.3	25.5	20.5	16.6
P/BV (x)	3.9	3.5	3.1	2.8

### Key Data

MOSS.BO | MSS IN

52-W High / Low	Rs.179 / Rs.91
Sensex / Nifty	40,345 / 11,913
Market Cap	Rs.424bn / \$ 5,929m
Shares Outstanding	3,158m
3M Avg. Daily Value	Rs.2488.61m

### Shareholding Pattern (%)

Promoter's	61.73
Foreign	14.95
Domestic Institution	13.49
Public & Others	9.83
Promoter Pledge (Rs bn)	14.10

### Stock Performance (%)

	1M	6M	12M
Absolute	39.9	5.1	(21.4)
Relative	32.2	(2.4)	(31.5)

### Deep Shah

deepshah@plindia.com | 91-22-66322235

### Amber Shukla

ambershukla@plindia.com | 91-22-66322426

## Healthy order book and SMP performance

### Quick Pointers:

- Healthy beat in SMP margins at 4.2% (PLe 3.2%) drive consol performance.
- Order book healthy at record Eur18.4bn (with new orders of ~Eur3bn in 1HFY20, despite weak global automotive sales).

**Motherson Sumi Systems (MSS) Q2FY20 consolidated margins were above estimates at 8.3% (PLe: 7.2%) however, standalone results were in-line. Ramp-up at Kecskemet/Tuscaloosa and efficiencies at other plant resulted in sharp improvement in SMP margins at 4.2% (+160bp QoQ, PLe: 3.2%). Going ahead with further ramp-up of both these plants, healthy order book at Eur18.4b (as of Sep-19 including new orders of Eur3.8b in 1HFY20) and SOP (start of production) of Eur3.7b orders in 1HFY20, SMRPBV's revenues is expected to grow at ~13% CAGR over FY19-21E. On the other hand, while management sounded cautious on prevailing demand slowdown in European auto market, it also confirmed MSS has not witnessed any decline/cancellation in orders it has received. We maintain 'Accumulate' with a target price of Rs142 (earlier Rs131), based on 19x Sep'21E EPS. We upgrade FY20/21 EPS by 16.5%/4.5%.**

**SMP drive consol performance:** MSS' Q2FY20 consolidated revenue grew 5.4% YoY to Rs159b (PLe: Rs167.7b). Operating performance were better as EBITDA grew ~1.5% YoY to Rs13.2b (PLe: Rs12b) and EBITDA margins came in at 8.3% (- 30bps YoY, +80bp QoQ, PLe: 8.3%). While gross margins expand 60bp YoY to 42.7%, staff costs as a % of sales rose 100bps YoY to 22.8%. Adjusted profit stood at Rs3.8b (PLe: Rs3.8b, +3.6% YoY. S/A performance came in with revenues at Rs16.5b, EBITDA at Rs2.5b and margins at 15.1% (PLe 15.4%).

**SMP, PKC above estimates while SMR in-line:** With ramp-up in new plants, SMP margins were healthy at 4.2% (PLe: 3.2%, +160bp QoQ). PKC margins came in at 11.7% (PLe: 10%, +160bp QoQ). SMR margins came in-line at 11.1%.

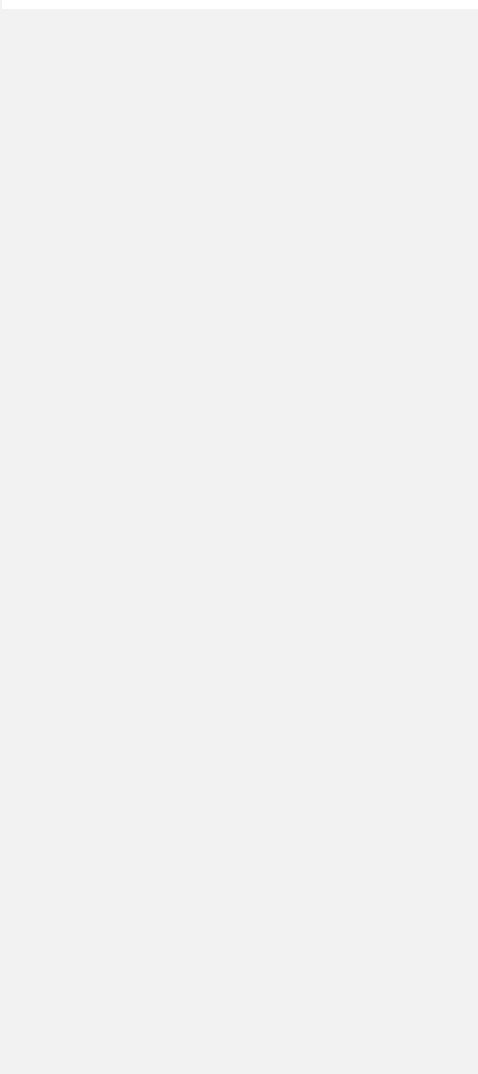
**SMRPBV Order book at record high** at Eur18.4b (including ~Eur3.8b orders coming in 1HFY20, despite weak global automotive sales).

**Other takeaways:** 1) Haven't seen any change or cancellation in orders from any customers globally in relation to weak global sales. 2) **SMRC has contributed positively to EBITDA** but greenfield plants are still negative. 3) Expect greenfield plants (Kecskemet breakeven will be soon and Tuscaloosa plant still in ramp-up) No change in guidance of Eur1bn in revenues from new plants. 4) **BS6 content** – expect double digit content improvement in in BS6 (v/s BS4). 5) PKC operational performance improvements led by China, and rolling stock. Will do brownfield expansion in Serbia and greenfield expansion in UAE a PKC. 6) FY20 capex at Rs20b.

**Exhibit 1: Q2FY20 Result Overview - Consolidated (Rs m)**

Y/e March	Q2FY20	Q2FY19	YoY gr. (%)	Q1FY20	H1FY20	H1FY19	YoY gr. (%)
<b>Net Revenues</b>	<b>159,242</b>	<b>151,050</b>	<b>5.4</b>	<b>167,925</b>	<b>327,167</b>	<b>298,804</b>	<b>9.5</b>
Raw Materials	91,300	87,458	4.4	96,586	187,886	172,548	8.9
<i>% of Net Sales</i>	<i>57.3</i>	<i>57.9</i>		<i>57.5</i>	<i>57.4</i>	<i>57.7</i>	
Personnel	36,311	32,775	10.8	39,171	75,482	65,078	16.0
<i>% of Net Sales</i>	<i>22.8</i>	<i>21.7</i>		<i>23.3</i>	<i>23.1</i>	<i>21.8</i>	
Manufacturing & Other Exp	18,440	17,817	3.5	19,619	38,059	34,056	11.8
<i>% of Net Sales</i>	<i>11.6</i>	<i>11.8</i>		<i>11.7</i>	<i>11.6</i>	<i>11.4</i>	
Total Expenditure	146,052	138,049	5.8	155,375	301,427	271,682	10.9
<b>EBITDA</b>	<b>13,190</b>	<b>13,001</b>	<b>1.5</b>	<b>12,550</b>	<b>25,740</b>	<b>27,122</b>	<b>(5.1)</b>
<i>EBITDA Margin (%)</i>	<i>8.3</i>	<i>8.6</i>		<i>7.5</i>	<i>7.9</i>	<i>9.1</i>	
Depreciation	6,551	4,879	34.3	6,365	12,916	9,350	38.1
<b>EBIT</b>	<b>6,639</b>	<b>8,122</b>	<b>(18.3)</b>	<b>6,185</b>	<b>12,824</b>	<b>17,772</b>	<b>(27.8)</b>
Interest Expenses	1,254	1,315	(4.7)	1,559	2,813	2,320	21.3
Non-operating income	825	463	78.1	547	1,373	910	50.8
<b>PBT</b>	<b>6,211</b>	<b>7,269</b>	<b>(14.6)</b>	<b>5,173</b>	<b>11,384</b>	<b>16,362</b>	<b>(30.4)</b>
Tax-Total	1,869	2,577	(27.5)	1,774	3,643	5,850	(37.7)
<i>Tax Rate (%) - Total</i>	<i>30.1</i>	<i>35.4</i>		<i>34.3</i>	<i>32.0</i>	<i>35.8</i>	
<b>Reported PAT</b>	<b>4,342</b>	<b>4,693</b>	<b>(7.5)</b>	<b>3,399</b>	<b>7,741</b>	<b>10,513</b>	<b>(26.4)</b>
Minority Interest	496	982	(49.5)	84	579	2,371	(75.6)
<b>Profit after MI</b>	<b>3,846</b>	<b>3,711</b>	<b>3.6</b>	<b>3,315</b>	<b>7,161</b>	<b>8,141</b>	<b>(12.0)</b>
<b>Adj. PAT</b>	<b>3,846</b>	<b>3,711</b>	<b>3.6</b>	<b>3,315</b>	<b>7,161</b>	<b>8,141</b>	<b>(12.0)</b>

Source: Company, PL



## Financials

### Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>635,229</b>	<b>686,102</b>	<b>770,688</b>	<b>868,686</b>
YoY gr. (%)	12.8	8.0	12.3	12.7
Cost of Goods Sold	367,383	383,008	416,755	456,749
Gross Profit	267,846	303,093	353,933	411,937
Margin (%)	42.2	44.2	45.9	47.4
Employee Cost	141,694	162,948	187,391	215,499
Other Expenses	72,668	83,806	97,607	113,833
<b>EBITDA</b>	<b>53,484</b>	<b>56,339</b>	<b>68,935</b>	<b>82,605</b>
YoY gr. (%)	4.4	5.3	22.4	19.8
Margin (%)	8.4	8.2	8.9	9.5
Depreciation and Amortization	20,582	22,487	24,088	26,270
<b>EBIT</b>	<b>32,902</b>	<b>33,852</b>	<b>44,848</b>	<b>56,336</b>
Margin (%)	5.2	4.9	5.8	6.5
Net Interest	4,232	5,729	5,815	5,730
Other Income	2,202	1,800	1,900	1,900
<b>Profit Before Tax</b>	<b>30,872</b>	<b>29,923</b>	<b>40,932</b>	<b>52,505</b>
Margin (%)	4.9	4.4	5.3	6.0
Total Tax	11,022	10,174	13,712	17,589
Effective tax rate (%)	35.7	34.0	33.5	33.5
<b>Profit after tax</b>	<b>19,850</b>	<b>19,749</b>	<b>27,220</b>	<b>34,916</b>
Minority interest	4,850	4,532	7,946	10,789
Share Profit from Associate	1,131	1,425	1,390	1,390
<b>Adjusted PAT</b>	<b>16,132</b>	<b>16,643</b>	<b>20,663</b>	<b>25,517</b>
YoY gr. (%)	(6.1)	3.2	24.2	23.5
Margin (%)	2.5	2.4	2.7	2.9
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>16,132</b>	<b>16,643</b>	<b>20,663</b>	<b>25,517</b>
YoY gr. (%)	1.0	3.2	24.2	23.5
Margin (%)	2.5	2.4	2.7	2.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	16,132	16,643	20,663	25,517
<b>Equity Shares O/s (m)</b>	<b>3,158</b>	<b>3,158</b>	<b>3,158</b>	<b>3,158</b>
<b>EPS (Rs)</b>	<b>5.1</b>	<b>5.3</b>	<b>6.5</b>	<b>8.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>190,917</b>	<b>211,393</b>	<b>232,408</b>	<b>251,008</b>
Tangibles	190,917	211,393	232,408	251,008
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>71,720</b>	<b>94,207</b>	<b>118,295</b>	<b>144,564</b>
Tangibles	71,720	94,207	118,295	144,564
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>119,197</b>	<b>117,186</b>	<b>114,113</b>	<b>106,444</b>
Tangibles	119,197	117,186	114,113	106,444
Intangibles	-	-	-	-
Capital Work In Progress	10,463	10,463	10,463	10,463
Goodwill	22,646	22,646	22,646	22,646
Non-Current Investments	2,389	2,389	2,389	2,389
Net Deferred tax assets	6,123	6,123	6,123	6,123
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	46,635	43,234	48,564	54,739
Trade receivables	61,663	62,031	69,679	78,539
Cash & Bank Balance	35,469	37,147	60,134	94,015
Other Current Assets	115,107	115,107	115,107	115,107
<b>Total Assets</b>	<b>427,179</b>	<b>422,803</b>	<b>457,248</b>	<b>500,295</b>
<b>Equity</b>				
Equity Share Capital	3,158	3,158	3,158	3,158
Other Equity	106,470	117,878	132,042	149,533
<b>Total Network</b>	<b>109,628</b>	<b>121,036</b>	<b>135,200</b>	<b>152,690</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	80,995	77,995	74,995	71,995
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	28,433	28,433	28,433	28,433
Trade payables	106,613	119,407	133,735	149,784
Other current liabilities	72,835	42,726	43,733	45,451
<b>Total Equity &amp; Liabilities</b>	<b>427,179</b>	<b>422,803</b>	<b>457,248</b>	<b>500,295</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	32,003	29,923	40,932	52,505
Add. Depreciation	20,582	22,487	24,088	26,270
Add. Interest	3,878	5,729	5,815	5,730
Less Financial Other Income	2,202	1,800	1,900	1,900
Add. Other	(622)	1,425	1,390	1,390
Op. profit before WC changes	55,841	59,564	72,225	85,895
Net Changes-WC	(2,219)	(13,273)	804	932
Direct tax	(10,498)	(10,174)	(13,712)	(17,589)
<b>Net cash from Op. activities</b>	<b>43,124</b>	<b>36,118</b>	<b>59,318</b>	<b>69,238</b>
Capital expenditures	(33,798)	(20,476)	(21,015)	(18,600)
Interest / Dividend Income	349	-	-	-
Others	344	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(33,105)</b>	<b>(20,476)</b>	<b>(21,015)</b>	<b>(18,600)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	8,147	(3,000)	(3,000)	(3,000)
Dividend paid	(6,395)	(5,235)	(6,500)	(8,026)
Interest paid	(4,159)	(5,729)	(5,815)	(5,730)
Others	161	-	-	-
<b>Net cash from Fin. activities</b>	<b>(2,246)</b>	<b>(13,964)</b>	<b>(15,315)</b>	<b>(16,757)</b>
<b>Net change in cash</b>	<b>7,773</b>	<b>1,678</b>	<b>22,987</b>	<b>33,881</b>
Free Cash Flow	16,543	15,642	38,303	50,638

Source: Company Data, PL Research

**Key Financial Metrics**

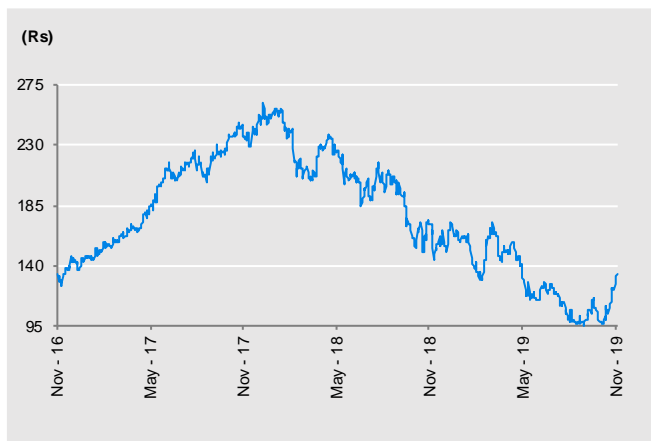
Y/e Mar	FY19	FY20E	FY21E	FY22E
<b>Per Share(Rs)</b>				
EPS	5.1	5.3	6.5	8.1
CEPS	9.7	10.1	11.6	13.5
BVPS	34.7	38.3	42.8	48.4
FCF	5.2	5.0	12.1	16.0
DPS	1.1	1.1	1.3	1.6
<b>Return Ratio(%)</b>				
RoCE	16.1	15.2	19.2	22.9
ROIC	12.6	12.0	17.2	24.7
RoE	15.9	14.4	16.1	17.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.7	0.6	0.3	0.0
Net Working Capital (Days)	1	(8)	(7)	(7)
<b>Valuation(x)</b>				
PER	26.3	25.5	20.5	16.6
P/B	3.9	3.5	3.1	2.8
P/CEPS	13.9	13.2	11.6	9.9
EV/EBITDA	9.3	8.8	6.8	5.2
EV/Sales	0.8	0.7	0.6	0.5
Dividend Yield (%)	0.8	0.8	1.0	1.2

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q3FY19	Q4FY19	Q1FY20	Q2FY20
<b>Net Revenue</b>	<b>164,730</b>	<b>171,695</b>	<b>167,925</b>	<b>159,242</b>
YoY gr. (%)	14.5	11.4	13.7	5.4
Raw Material Expenses	95,095	99,740	96,586	91,300
Gross Profit	69,635	71,955	71,340	67,942
Margin (%)	42.3	41.9	42.5	42.7
<b>EBITDA</b>	<b>13,934</b>	<b>12,428</b>	<b>12,550</b>	<b>13,190</b>
YoY gr. (%)	11.5	(17.2)	(11.1)	1.5
Margin (%)	8.5	7.2	7.5	8.3
Depreciation / Depletion	5,714	5,518	6,365	6,551
<b>EBIT</b>	<b>8,220</b>	<b>6,910</b>	<b>6,185</b>	<b>6,639</b>
Margin (%)	5.0	4.0	3.7	4.2
Net Interest	882	1,030	1,559	1,254
Other Income	610	682	547	825
<b>Profit before Tax</b>	<b>7,948</b>	<b>6,562</b>	<b>5,173</b>	<b>6,211</b>
Margin (%)	4.8	3.8	3.1	3.9
Total Tax	2,693	2,479	1,774	1,869
Effective tax rate (%)	33.9	37.8	34.3	30.1
<b>Profit after Tax</b>	<b>5,256</b>	<b>4,082</b>	<b>3,399</b>	<b>4,342</b>
Minority interest	1,659	194	291	732
Share Profit from Associates	294	211	207	237
<b>Adjusted PAT</b>	<b>3,891</b>	<b>4,100</b>	<b>3,315</b>	<b>3,846</b>
YoY gr. (%)	6.3	(23.1)	(25.2)	3.6
Margin (%)	2.4	2.4	2.0	2.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,891</b>	<b>4,100</b>	<b>3,315</b>	<b>3,846</b>
YoY gr. (%)	6.7	(20.9)	(25.2)	3.6
Margin (%)	2.4	2.4	2.0	2.4
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>3,891</b>	<b>4,100</b>	<b>3,315</b>	<b>3,846</b>
Avg. Shares O/s (m)	3,158	3,158	3,158	3,158
<b>EPS (Rs)</b>	<b>1.2</b>	<b>1.3</b>	<b>1.0</b>	<b>1.2</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	3-Oct-19	Accumulate	111	99
2	13-Aug-19	Accumulate	111	97
3	4-Jul-19	Accumulate	131	127
4	28-May-19	Accumulate	131	119
5	5-Apr-19	Accumulate	150	151
6	11-Feb-19	Accumulate	150	133
7	7-Jan-19	Accumulate	179	157
8	15-Nov-18	Accumulate	179	144

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Hold	75	68
2	Bajaj Auto	Reduce	2,922	3,163
3	Bharat Forge	Hold	453	426
4	CEAT	Sell	827	970
5	Eicher Motors	Reduce	19,152	21,640
6	Exide Industries	Accumulate	218	186
7	Hero Motocorp	Accumulate	2,856	2,713
8	Mahindra & Mahindra	Hold	593	582
9	Maruti Suzuki	BUY	7,809	7,391
10	Motherson Sumi Systems	Accumulate	111	99
11	Tata Motors	Hold	138	127
12	TVS Motors	Hold	439	446

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



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### **Prabhudas Lilladher Pvt. Ltd.**

**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

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