

March 18, 2020

Company Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY21E	FY22E	FY21E	FY22E
Rating	BUY		ACCUMULATE	
Target Price	115		153	
Sales (Rs. m)	722,331	811,681	750,749	845,246
% Chng.	(3.8)	(4.0)		
EBITDA (Rs. m)	59,306	74,158	69,071	80,291
% Chng.	(14.1)	(7.6)		
EPS (Rs.)	5.5	7.2	6.7	8.1
% Chng.	(18.7)	(11.0)		

Key Financials - Consolidated

Y/e Mar	FY19	FY20E	FY21E	FY22E
Sales (Rs. bn)	635	662	722	812
EBITDA (Rs. bn)	53	52	59	74
Margin (%)	8.4	7.8	8.2	9.1
PAT (Rs. bn)	16	15	17	23
EPS (Rs.)	5.1	4.6	5.5	7.2
Gr. (%)	(5.2)	(9.3)	18.1	31.0
DPS (Rs.)	1.5	1.3	1.5	1.9
Yield (%)	2.4	2.0	2.4	3.1
RoE (%)	15.9	12.8	13.8	16.3
RoCE (%)	16.1	13.2	15.3	19.9
EV/Sales (x)	0.4	0.4	0.3	0.3
EV/EBITDA (x)	5.0	5.1	4.1	2.9
PE (x)	12.1	13.3	11.3	8.6
P/BV (x)	1.8	1.6	1.5	1.3

Key Data

MOSS.BO | MSS IN

52-W High / Low	Rs.167 / Rs.51
Sensex / Nifty	28,870 / 8,469
Market Cap	Rs.195bn/ \$ 2,617m
Shares Outstanding	3,158m
3M Avg. Daily Value	Rs.2735.53m

Shareholding Pattern (%)

Promoter's	61.73
Foreign	16.38
Domestic Institution	12.58
Public & Others	9.32
Promoter Pledge (Rs bn)	22.50

Stock Performance (%)

	1M	6M	12M
Absolute	(50.0)	(40.4)	(62.0)
Relative	(29.2)	(24.5)	(49.9)

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Shutdown in Europe while China resumed – Upgrade to BUY

Quick Pointers:

- MSS hosted a call where it indicated production shutdown in Europe for 15 days while China has resumed considerably.
- With ~37% of SMRP BV revenues contribution consisting from European markets, where we see transitional issues to persist at-least over 1QFY21.

We cut FY20/21/22 EPS estimates by 8%/18%/11% to factor in for production shut down in China and Europe due to COVID-19. ~37% of SMRP BV revenues consisting from European markets, where we see transitional issues to persist at-least over 1QFY21. However, on the positive side, operations in China have recovered substantially with ~26 plants is now operational out of total 27. Whereas other key markets like US, South America and UK hasn't seen any shutdowns so-far. We believe, significant correction presents an opportunity to buy this stock at an attractive valuation at 11x FY21 estimates. We upgrade the stock to BUY (from Accumulate) with lowered fair value to Rs115 (from Rs153) led by earning cuts and lower 16x multiple (from 18x) to factor in for risk of prolonged impact of coronavirus.

Key takeaways from the call:

Production impact due to current situation: Shutdown in Europe, Recovery in China and US stable

- Production impacted in Europe due to COVID-19: Some of the OEMs are planning 15 days' plant closure. Germany and Spain are going for shutdown from today.
- PKC - China has recovered mostly, where production in 26 out of total 27 plants have been started with 75-80% attendance.
- Situation in US is stable as there is no much impact on demand so far, while Indian plants are also running smoothly.

Don't expect Corona impact to last even a month

- Governments across the globe are taking proactive measures while OEM's are also supporting the suppliers in spirit of such crisis.
- Don't expect COVID-19 impact to last for even a month taking lessons from China.
- There won't be much financial impact in Q4FY20 as there is no impact on working capital or operation side so far (financing, supply chain and man-power) even in unforeseen adversities.

Confident of no supply chain disruptions

- Most of the components are coming from collaborators and they are managing supply chain effectively (like wiring harness – Sumitomo, polymers – Reliance, etc).
- Further, ~90% of child parts are produced in-house by MSS.

Sufficient liquidity available

- Have **enough cash available** for SMR and SMP and there's no liquidity issue.
- No bank/ financial institutions is halting any credit to the company.

No plans for buy back

- No plans of buy back in the light of recent price correction as MSS is planning to conserve cash at this point of time.

Acquisition – re-iterated revenue target of USD18b

- Global valuations have come-off significantly than what it was one month before. Re-iterated revenue target of USD18b.

Capex for FY21 to be likely reduced

- **Capex for FY21 to remain much lower** than envisaged as its not looking for any greenfield acquisition.

Status of demerger plan

- Still going through the process of demerger and will happen as per the schedule.

Financials

Income Statement (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Net Revenues	635,229	662,084	722,331	811,681
YoY gr. (%)	12.8	4.2	9.1	12.4
Cost of Goods Sold	367,383	364,166	379,622	410,072
Gross Profit	267,846	297,918	342,709	401,609
Margin (%)	42.2	45.0	47.4	49.5
Employee Cost	141,694	162,948	187,391	215,499
Other Expenses	72,668	83,014	96,011	111,951
EBITDA	53,484	51,956	59,306	74,158
YoY gr. (%)	4.4	(2.9)	14.1	25.0
Margin (%)	8.4	7.8	8.2	9.1
Depreciation and Amortization	20,582	22,487	24,088	26,270
EBIT	32,902	29,469	35,219	47,889
Margin (%)	5.2	4.5	4.9	5.9
Net Interest	4,232	5,486	5,557	5,456
Other Income	2,202	1,800	1,900	1,900
Profit Before Tax	30,872	25,783	31,562	44,333
Margin (%)	4.9	3.9	4.4	5.5
Total Tax	11,022	8,766	10,100	14,187
Effective tax rate (%)	35.7	34.0	32.0	32.0
Profit after tax	19,850	17,017	21,462	30,147
Minority interest	4,850	3,807	5,567	8,888
Share Profit from Associate	1,131	1,425	1,390	1,390
Adjusted PAT	16,132	14,635	17,285	22,649
YoY gr. (%)	(6.1)	(9.3)	18.1	31.0
Margin (%)	2.5	2.2	2.4	2.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	16,132	14,635	17,285	22,649
YoY gr. (%)	1.0	(9.3)	18.1	31.0
Margin (%)	2.5	2.2	2.4	2.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	16,132	14,635	17,285	22,649
Equity Shares O/s (m)	3,158	3,158	3,158	3,158
EPS (Rs)	5.1	4.6	5.5	7.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
Non-Current Assets				
Gross Block	190,917	211,393	232,408	251,008
Tangibles	190,917	211,393	232,408	251,008
Intangibles	-	-	-	-
Acc: Dep / Amortization	71,720	94,207	118,295	144,564
Tangibles	71,720	94,207	118,295	144,564
Intangibles	-	-	-	-
Net fixed assets	119,197	117,186	114,113	106,444
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	-	-	-	-
Current Assets				
Investments	-	-	-	-
Inventories	46,635	41,720	45,517	51,147
Trade receivables	61,663	59,860	65,307	73,385
Cash & Bank Balance	35,469	34,817	52,878	82,810
Other Current Assets	115,107	115,107	115,107	115,107
Total Assets	427,179	416,347	441,685	479,296
Equity				
Equity Share Capital	3,158	3,158	3,158	3,158
Other Equity	106,470	116,502	128,350	143,874
Total Networkth	109,628	119,660	131,508	147,032
Non-Current Liabilities				
Long Term borrowings	80,995	77,995	74,995	71,995
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
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	38,371	34,965	35,116
Total Equity & Liabilities	427,179	416,347	441,685	479,296

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY19	FY20E	FY21E	FY22E
PBT	32,003	25,783	31,562	44,333
Add. Depreciation	20,582	22,487	24,088	26,270
Add. Interest	3,878	5,486	5,557	5,456
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	55,181	62,596	77,448
Net Changes-WC	(2,219)	(13,501)	573	850
Direct tax	(10,498)	(8,766)	(10,100)	(14,187)
Net cash from Op. activities	43,124	32,914	53,070	64,111
Capital expenditures	(33,798)	(20,476)	(21,015)	(18,600)
Interest / Dividend Income	349	-	-	-
Others	344	-	-	-
Net Cash from Inv. activities	(33,105)	(20,476)	(21,015)	(18,600)
Issue of share cap. / premium	-	-	-	-
Debt changes	8,147	(3,000)	(3,000)	(3,000)
Dividend paid	(6,395)	(4,604)	(5,437)	(7,124)
Interest paid	(4,159)	(5,486)	(5,557)	(5,456)
Others	161	-	-	-
Net cash from Fin. activities	(2,246)	(13,089)	(13,994)	(15,580)
Net change in cash	7,773	(652)	18,061	29,931
Free Cash Flow	16,543	12,438	32,055	45,511

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY19	FY20E	FY21E	FY22E
Per Share(Rs)				
EPS	5.1	4.6	5.5	7.2
CEPS	9.7	9.5	10.5	12.6
BVPS	34.7	37.9	41.6	46.6
FCF	5.2	3.9	10.2	14.4
DPS	1.5	1.3	1.5	1.9
Return Ratio(%)				
RoCE	16.1	13.2	15.3	19.9
ROIC	12.6	10.4	13.5	20.6
RoE	15.9	12.8	13.8	16.3
Balance Sheet				
Net Debt : Equity (x)	0.7	0.6	0.4	0.1
Net Working Capital (Days)	1	(10)	(12)	(11)
Valuation(x)				
PER	12.1	13.3	11.3	8.6
P/B	1.8	1.6	1.5	1.3
P/CEPS	6.4	6.5	5.9	4.9
EV/EBITDA	5.0	5.1	4.1	2.9
EV/Sales	0.4	0.4	0.3	0.3
Dividend Yield (%)	2.4	2.0	2.4	3.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY19	Q1FY20	Q2FY20	Q3FY20
Net Revenue	171,695	167,925	159,242	156,611
YoY gr. (%)	11.4	13.7	5.4	(4.9)
Raw Material Expenses	99,740	96,586	91,300	90,417
Gross Profit	71,955	71,340	67,942	66,194
Margin (%)	41.9	42.5	42.7	42.3
EBITDA	12,428	12,550	13,190	12,358
YoY gr. (%)	(17.2)	(11.1)	1.5	(11.3)
Margin (%)	7.2	7.5	8.3	7.9
Depreciation / Depletion	5,518	6,365	6,551	6,938
EBIT	6,910	6,185	6,639	5,420
Margin (%)	4.0	3.7	4.2	3.5
Net Interest	1,030	1,559	1,254	1,791
Other Income	682	547	825	783
Profit before Tax	6,562	5,173	6,211	4,412
Margin (%)	3.8	3.1	3.9	2.8
Total Tax	2,479	1,774	1,869	1,227
Effective tax rate (%)	37.8	34.3	30.1	27.8
Profit after Tax	4,082	3,399	4,342	3,185
Minority interest	194	291	732	698
Share Profit from Associates	211	207	237	218
Adjusted PAT	4,100	3,315	3,846	2,705
YoY gr. (%)	(23.1)	(25.2)	3.6	(30.5)
Margin (%)	2.4	2.0	2.4	1.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,100	3,315	3,846	2,705
YoY gr. (%)	(20.9)	(25.2)	3.6	(30.5)
Margin (%)	2.4	2.0	2.4	1.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,100	3,315	3,846	2,705
Avg. Shares O/s (m)	3,158	3,158	3,158	3,158
EPS (Rs)	1.3	1.0	1.2	0.9

Source: Company Data, PL Research

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Feb-20	Accumulate	153	125
2	3-Jan-20	Accumulate	162	148
3	11-Nov-19	Accumulate	142	134
4	3-Oct-19	Accumulate	111	99
5	13-Aug-19	Accumulate	111	97
6	4-Jul-19	Accumulate	131	127
7	28-May-19	Accumulate	131	119
8	5-Apr-19	Accumulate	150	151

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	Hold	80	82
2	Bajaj Auto	Reduce	2,969	3,142
3	Bharat Forge	Hold	481	499
4	CEAT	Sell	910	1,014
5	Eicher Motors	Hold	20,681	20,391
6	Exide Industries	Accumulate	214	188
7	Hero Motocorp	Accumulate	2,769	2,252
8	Mahindra & Mahindra	Hold	600	524
9	Maruti Suzuki	BUY	8,083	6,997
10	Motherson Sumi Systems	Accumulate	153	125
11	Tata Motors	Hold	185	186
12	TVS Motors	Hold	473	460

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



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