

Motherson Sumi Systems

Performance Highlights

Y/E March – Consol. (₹ cr)	2QFY16	2QFY15	% chg (yoy)	1QFY16	% chg (qoq)
Net Sales	9,198	8,017	14.7	9,385	(2.0)
EBITDA	957	729	31.3	838	14.2
EBITDA Margin (%)	10.4	9.1	130 bp	8.9	150 bp
Adjusted PAT	289	229	26.5	290	(0.3)

Source: Company, Angel Research

For 2QFY2016, Motherson Sumi Systems Ltd (MSS)'s results have come in ahead of estimates. The top-line grew strongly by 15% yoy led by robust growth in SMP and pick up in the standalone business. Given the healthy revenue growth and soft commodity prices, the adj net profit grew at a faster pace of 27% yoy.

Top-line growth remains strong: MSS maintained its double digit top-line growth momentum, reporting sales of ₹9,198cr for 2QFY2016, implying a growth of 15%. The growth was led by SMP, whose revenues grew 18% yoy to ₹4,399cr, despite the depreciation in the Euro. Pick-up in order execution boosted growth. (In Euro terms SMP grew 31% yoy). Standalone revenues grew 10% yoy to ₹1,393cr led by recovery in the passenger vehicle industry. However, SMR's revenue growth moderated to 3% (at ₹2,424cr) impacted by the Euro depreciation. But in Euro terms, SMR's growth continued to remain strong growing by 14%.

Operating leverage along with soft commodity prices boost profitability: Given the robust double digit top-line growth and soft commodity prices, MSS' operating margins expanded 130bp yoy to reach 10.4%. Given the strong operating performance, MSS' net profit grew strongly by 27% yoy to ₹289.3cr.

Outlook and valuation: MSS continues to report improvement in its operating performance, driven by its strategy of increasing the content per car, improvement in utilization levels at the new plants and profitability improvement measures at SMP. However, the emission scandal at MSS largest customer, Volkswagen (Volkswagen currently accounts for ~40% of the topline) could have a near term impact on the revenues as the brand takes a knock leading to loss of volumes. The issue is likely to remain a key overhang on the stock, unless further clarity emerges on the same. Nevertheless, we expect the company to sustain its strong performance in the long term through increased internal sourcing by subsidiaries and improvement in utilization levels at the plants led by execution of new orders (new order book currently stands at Euro 12.5 billion which gives a strong outlook). We expect MSS to register a strong revenue and net profit CAGR of ~14% and ~27% respectively over FY2015-17E. **Thus, we assign Accumulate rating on the stock with a target price of ₹313 (based on 25x FY2017 earnings).**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net Sales	30,428	34,585	39,343	45,100
% chg	20.2	13.7	13.8	14.6
Net Profit	765	1,027	1,333	1,654
% chg	72.1	34.3	29.7	24.1
EBITDA (%)	7.9	8.0	8.8	9.1
EPS (₹)	8.7	11.6	10.1	12.5
P/E (x)	33.8	30.0	29.1	22.5
P/BV (x)	8.7	7.8	8.8	6.9
RoE (%)	29.2	32.7	35.5	34.6
RoCE (%)	20.5	20.5	23.5	24.8
EV/Sales (x)	0.9	0.8	1.0	0.9
EV/EBITDA (x)	12.0	10.4	12.1	9.8

Source: Company, Angel Research

ACCUMULATE

CMP	₹281
Target Price	₹313

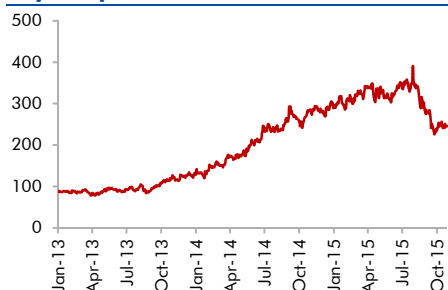
Investment Period	12 Months
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Stock Info	
Sector	Auto Ancillary
Market Cap (₹ cr)	37,202
Net Debt (₹ cr)	2,954
Beta	1.1
52 Week High / Low	396/217
Avg. Daily Volume	268,937
Face Value (₹)	1
BSE Sensex	25,483
Nifty	7,732
Reuters Code	MOSS.BO
Bloomberg Code	MSS@IN

Shareholding Pattern (%)	
Promoters	65.6
MF / Banks / Indian FIs	9.1
FII / NRIs / OCBs	17.8
Indian Public / Others	7.5

Abs. (%)	3m	1yr	3yr
Sensex	(8.4)	(9.5)	39.2
MSS	(17.6)	(4.3)	287.6

3-year price chart



Source: Company, Angel Research

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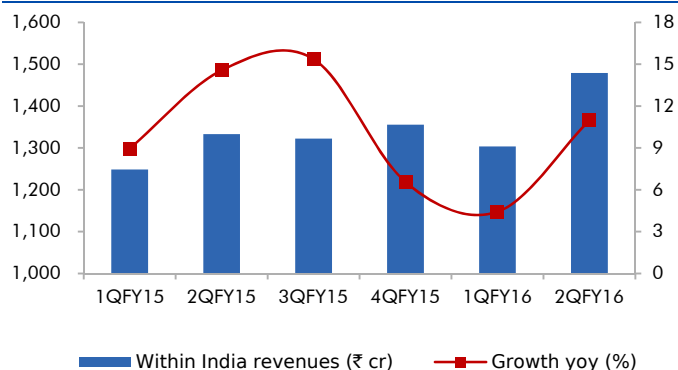
Exhibit 1: Quarterly financial performance (Consolidated)

Y/E March (₹ cr)	2QFY16	2QFY15	% chg (yoy)	1QFY16	% chg (qoq)	1HFY16	1HFY15	% chg (yoy)
Net Sales	9,198	8,017	14.7	9,385	(2.0)	18,582	16,408	13.3
Consumption of RM	5,478	4,846	13.0	5,759	(4.9)	11,236	10,082	11.5
(% of Sales)	59.6	60.5		61.4		60.5	61.4	
Staff Costs	1,751	1,502	16.5	1,783	(1.8)	3,533	3,030	16.6
(% of Sales)	19.0	18.7		19.0		19.0	18.5	
Other Expenses	1,012	940	7.7	1,005	0.7	2,017	1,840	9.6
(% of Sales)	11.0	11.7		10.7		10.9	11.2	
Total Expenditure	8,240	7,288	13.1	8,546	(3.6)	16,787	14,951	12.3
Operating Profit	957	729	31.3	838	14.2	1,795	1,457	23.2
OPM (%)	10.4	9.1		8.9		9.7	8.9	
Interest	65	96	(32.0)	68	(4.9)	133	158	(15.5)
Depreciation	270	237	13.9	235	15.0	505	456	10.6
Other Income	5	5	8.8	25	(78.5)	30	10	206.6
Foreign exchange difference	61	20	205.4	5	1061.1	66	67	(0.6)
PBT (excl. Extr. Items)	567	381	48.6	555	2.1	1,121	786	42.7
Extr. Income/(Expense)	2	124		25		27	124	
PBT (incl. Extr. Items)	564	257	119.5	530	6.4	1,094	662	65.4
(% of Sales)	6.1	3.2		5.7		5.9	4.0	
Provision for Taxation	182	109	67.4	164	10.9	345	261	32.4
(% of PBT)	32.2	42.2		30.9		31.6	39.4	
PAT before minority interest (MI)	382	148	157.6	367	4.4	749	401	86.8
Minority interest	96	44	116.6	101	(5.1)	196	133	47.7
Share of profit/(loss) of associates	0	0		0		0	0	
Reported net profit	287	104	174.7	266	8.0	553	268	106.1
Adjusted net profit	289	229	26.5	290	(0.3)	580	392	47.7
PATM (%)	3.1	2.9		3.1		3.1	2.4	
Equity capital (cr)	132	88		88		132	88	
Adjusted EPS (₹)	2.2	2.6		3.3		4.4	4.4	

Source: Company, Angel Research

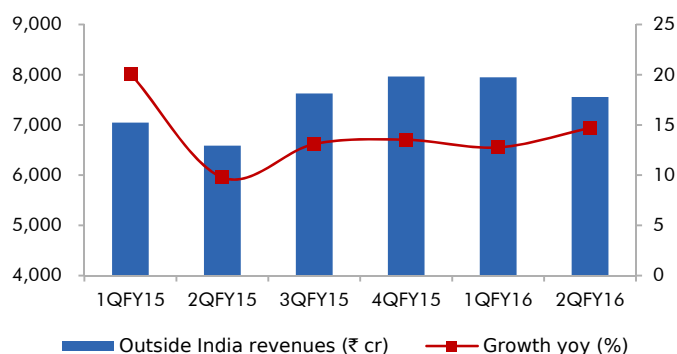
Robust top-line growth continues despite currency impact: MSS maintained strong double digit top-line growth, with the consolidated revenues growing strongly by 14.7% yoy to ₹9,198cr in 2QFY2016. The growth at key overseas subsidiaries viz SMP and SMR was strong led by new client additions. They grew by 31% and 14% in Euro terms, respectively. In INR terms the growth of SMP and SMR moderated to 18% and 3%, respectively, due to Euro devaluation. The standalone business reported a healthy 10% growth led by recovery in passenger vehicle demand and increasing content per vehicle. At the consolidated level, while India revenues grew by 11% yoy, overseas revenues grew by 15% yoy, during the quarter.

Exhibit 2: India revenues continue to recover



Source: Company, Angel Research

Exhibit 3: Overseas revenue growth remains strong

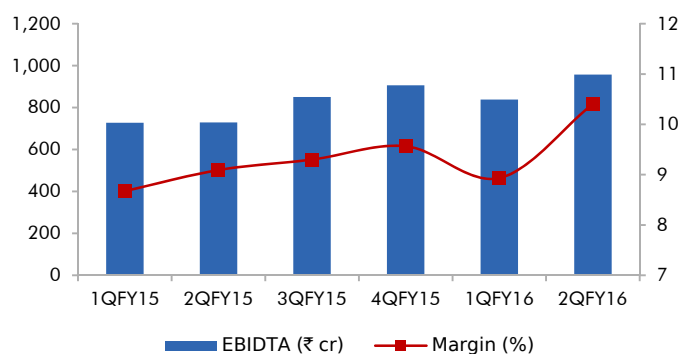


Source: Company, Angel Research

Operating performance continues to improve: At the operating level, MSS reported the highest operating margin of 10.4% in the last four years. The margins improved 130bp yoy to reach the double-digit mark. Benign commodity prices coupled with operating leverage led to margin improvement. Margins improved across verticals. SMP's margins at 6.7% improved 40bp yoy while SMR's margins at 9.6% improved 60bp on a yoy basis. Standalone business' margins improved 160bp yoy to 19.6%.

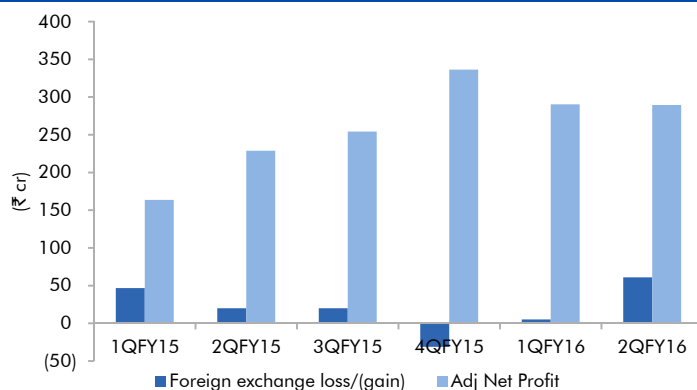
During the quarter MSS registered a foreign exchange loss of ₹61cr. Adjusted for the same, the bottom-line grew strongly by 26.5% yoy to ₹289cr.

Exhibit 4: EBITDA margin at four-year high level



Source: Company, Angel Research

Exhibit 5: Operating performance boosts Net profit



Source: Company, Angel Research

Exhibit 6: Standalone performance

Y/E March (₹ cr)	2QFY16	2QFY15	% chg (yoy)	1QFY16	% chg (qoq)	1HFY16	1HFY15	% chg (yoy)
Revenues	1,393	1,271	9.6	1,237	12.6	2,630	2,496	5.4
EBITDA	273	229	19.2	214	27.8	486	437	11.4
EBITDA margin (%)	19.6	18.0		17.3		18.5	17.5	
Adj Net Profit	197	145	36.3	159	24.2	356	255	39.5

Source: Company, Angel Research

Exhibit 7: SMR performance

Y/E March (₹ cr)	2QFY16	2QFY15	% chg (yoy)	1QFY16	% chg (qoq)	1HFY16	1HFY15	% chg (yoy)
Revenues (Euro Mn)	335	293	14.3	365	(8.2)	700	588	19.0
Revenues	2,424	2,348	3.2	2,565	(5.5)	4,989	4,766	4.7
PBIDT	232	214		230		462	433	
PBIDT margin (%)	9.6	9.1	5.0	9.0	6.7	9.3	9.1	1.9

Source: Company, Angel Research

Exhibit 8: SMP performance

Y/E March (₹ cr)	2QFY16	2QFY15	% chg (yoy)	1QFY16	% chg (qoq)	1HFY16	1HFY15	% chg (yoy)
Revenues (Euro Mn)	608	464	31.0	666	(8.7)	1274	995	28.0
Revenues	4,399	3,719	18.3	4,678	(6.0)	9,077	8,076	12.4
PBIDT	295	224		290		585	486	
PBIDT margin (%)	6.7	6.0	11.3	6.2	8.2	6.4	6.0	7.1

Source: Company, Angel Research

Investment arguments

- Focus on increasing content per car to sustain leadership position:** MSS' wide product portfolio, global manufacturing presence, good relationships with original equipment manufacturers (OEMs) and ability to provide end-to-end solutions have enabled it to increase the content per car that it supplies to its customers. Further, SMP's acquisition has enhanced MSS' product offerings significantly and strengthened its position as a key tier-I supplier globally. Further, MSS is setting up manufacturing facilities in the US and China to cater to its customer base which would results in robust growth going ahead.
- Pick-up in order execution at SMR and SMP coupled with new orders to boost performance:** SMR and SMP have witnessed continuous improvement in operating performance since being taken over by MSS and have bagged new orders to be supplied over the life of the new models, which would be launched in the near future. SMR and SMP currently have a huge order book of Euro 12.5bn as of September 2015, which would help the company to achieve its long term target of USD 18bn revenues by FY2020. MSS is gradually progressing towards achieving its target of double-digit EBITDA margins at the SMR front.

Exhibit 9: Five-year milestone set in FY2005

To cross US \$1bn in revenue by FY2010	Achieve US \$1.5bn topline
To achieve 60% of sales from outside India	Achieved over 65% of sales from outside India
Not more than 20% from one customer	Largest customer constituted 15% of total turnover
To strive to maintain business RoCE of 40%	RoCE 37% standalone & 22% consolidated basis
To achieve dividend payout of 40% on consolidated profit	Achieved payout ratio of 23% for FY2010

Source: Company, Angel Research

Exhibit 10: Five-year milestone set in FY2010

To cross US \$5bn in revenue by FY2015	Clocked US \$5.5bn topline
To attain RoCE of 40% on consolidated basis	Achieved RoCE of 41% for standalone. Consol RoCE stood at 26%
To achieve 70% of sales from outside India	85% of sales is contributed by exports
Global presence in 26-27 countries	Has presence in 25 countries thru JV/subsidiaries
To achieve dividend payout of 40% on consolidated profit	Achieved payout ratio of 30% for FY2015

Source: Company, Angel Research

Five year milestones set in 2015

- **MSS has set a target to attain turnover of USD 18 bn by FY20:** This would be achieved through increased sourcing for existing customers (specifically targeting US and China markets), gaining new customers and through acquisitions (inorganic route). MSS has planned a massive growth aim (the revenue target points to a robust CAGR of 28% for the next five years).
- **To attain RoCE of 40% on consolidated basis:** MSS aims to attain 40% RoCE level by FY20. Improving subsidiary performance through enhanced capacity utilization and cost control measures would enable MSS to achieve the return targets.
- **3Cx15:** In order to achieve more balanced and diversified growth, MSS has proposed 3Cx15 which implies that no single customer, country or component should constitute more than 15% of the turnover.
- **To achieve dividend payout ratio of 40%:** In order to reward the shareholders, MSS aims to reach a dividend payout ratio of 40% by FY20.

Outlook and valuation

MSS continues to report improvement in its operating performance, driven by its strategy of increasing the content per car, improvement in utilization levels at the new plants and profitability improvement measures at SMP. However, the emission scandal at MSS largest customer, Volkswagen (Volkswagen currently accounts for ~40% of the topline) could have a near term impact on the revenues as the brand takes a knock leading to loss of volumes. The issue is likely to remain a key overhang on the stock, unless further clarity emerges on the same. Nevertheless, we expect the company to sustain its strong performance in the long term through increased internal sourcing by subsidiaries and improvement in utilization levels at the plants led by execution of new orders (new order book currently stands at Euro 12.5 billion which gives a strong outlook). We expect MSS to register a strong revenue and net profit CAGR of ~14% and ~27% respectively over FY2015-17E. **Thus, we assign Accumulate rating on the stock with a target price of ₹313 (based on 25x FY2017 earnings).**

Company background

Motherson Sumi Systems (MSS), a JV between Samvardhana Motherson Group (SMG, 36.9% stake) and Sumitomo Wiring Systems, Japan (25.3% stake), is the world's largest supplier of rear view mirrors and India's biggest supplier of wiring harness. MSS is considered to be a JV specialist (12 JVs) and has a successful history of acquisitions, which have helped it expand its product portfolio, gain access to technology and evolve into a leading global OEM supplier. MSS' most notable acquisitions include Visiocrp (now referred to as Samvardhana Motherson Reflectec [SMR]) in FY2009, which is a global leader in automotive rear view mirrors; and Peguform in FY2012, which is a leading supplier of door and instrument panels and cockpit assemblies. The company is present across 25 countries and has over 145 manufacturing facilities worldwide.

Profit and loss statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Total operating income	14,777	25,312	30,428	34,585	39,343	45,100
% chg	76.5	71.3	20.2	13.7	13.8	14.6
Total expenditure	13,884	23,836	28,031	31,829	35,881	40,996
Net raw material costs	9,544	16,484	19,361	21,632	24,590	28,187
Other mfg costs	0	0	0	0	0	0
Employee expenses	2,317	4,283	5,106	6,365	7,082	8,073
Other	2,024	3,069	3,563	3,833	4,210	4,735
EBITDA	893	1,477	2,397	2,756	3,462	4,104
% chg	0.4	65.5	62.3	15.0	25.6	18.5
(% of total op. income)	6.0	5.8	7.9	8.0	8.8	9.1
Depreciation & amort.	380	715	817	921	1,035	1,186
EBIT	513	762	1,580	1,835	2,428	2,918
% chg	(20.1)	48.6	107.3	16.2	32.3	20.2
(% of total op. income)	3.5	3.0	5.2	5.3	6.2	6.5
Interest and other charges	165	250	294	318	305	305
Other income	145	322	311	464	525	593
Recurring PBT	493	834	1,596	1,982	2,647	3,206
% chg	(17.6)	69.4	91.3	24.2	33.6	21.1
Extraordinary items	(81)	0	0	(165)	(27)	0
PBT (reported)	412	834	1,596	1,817	2,620	3,206
Tax	215	384	499	526	811	982
(% of PBT)	52.3	46.0	31.3	28.9	30.6	30.6
PAT before MI	196	451	1,097	1,292	1,810	2,224
Minority interest	(63)	6	332	429	504	570
Reported PAT	260	444	765	862	1,306	1,654
ADJ. PAT	341	444	765	1,027	1,333	1,654
% chg	(2.6)	30.5	72.1	34.3	29.7	24.1
(% of total op. income)	2.3	1.8	2.5	3.0	3.4	3.7
Basic EPS (₹)	3.0	5.0	8.7	9.8	9.9	12.5
Adj. EPS (₹)	3.9	5.0	8.7	11.6	10.1	12.5
% chg	(2.6)	29.2	72.1	34.3	(13.5)	24.1

Balance sheet statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS						
Equity share capital	39	59	88	88	132	132
Reserves & surplus	1,833	2,230	2,871	3,236	4,058	5,256
Shareholders' Funds	1,871	2,289	2,959	3,324	4,190	5,389
Minority interest	503	403	790	1,014	1,518	2,088
Total loans	4,129	4,071	3,995	4,910	4,710	4,710
Deferred tax liability	60	56	50	(45)	(45)	(45)
Other long term liabilities	164	239	208	309	309	309
Long term provisions	110	168	204	218	218	218
Total Liabilities	6,838	7,225	8,206	9,730	10,901	12,669
APPLICATION OF FUNDS						
Gross block	9,432	10,743	12,634	12,644	14,572	16,704
Less: Acc. depreciation	4,740	5,466	6,715	6,515	7,550	8,736
Net Block	4,692	5,277	5,919	6,129	7,022	7,968
Capital work-in-progress	446	386	647	956	874	835
Investments	94	72	75	65	65	65
Long term loans and adv.	156	151	357	569	750	1,000
Other noncurrent assets	140	135	191	243	300	350
Current assets	6,439	6,719	8,056	9,419	10,057	11,385
Cash	456	594	906	1,892	1,681	1,783
Loans & advances	721	581	616	744	866	992
Other	5,262	5,544	6,533	6,783	7,511	8,610
Current liabilities	5,128	5,514	7,038	7,650	8,168	8,935
Net current assets	1,311	1,205	1,017	1,769	1,890	2,451
Misc. exp. not written off	0	0	0	0	0	0
Total Assets	6,838	7,225	8,206	9,730	10,901	12,669

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	412	834	1,596	1,817	2,620	3,206
Depreciation	2,685	725	1,249	(200)	1,035	1,186
Change in working capital	(412)	245	499	234	(332)	(458)
Others	82	132	(56)	(32)	(58)	(50)
Direct taxes paid	(215)	(384)	(499)	(526)	(811)	(982)
Cash Flow from Operations	2,551	1,553	2,789	1,294	2,455	2,902
(Inc.)/Dec. in fixed assets	(5,667)	(1,250)	(2,152)	(319)	(1,846)	(2,093)
(Inc.)/Dec. in investments	(47)	22	(3)	10	0	0
(Inc.)/Dec. in loans and adv	(63)	5	(206)	(213)	(181)	(250)
Cash Flow from Investing	(5,777)	(1,223)	(2,362)	(522)	(2,027)	(2,343)
Issue of equity	0	20	29	0	44	0
Inc./Dec. in loans	2,987	(58)	(77)	916	(200)	0
Dividend paid (Incl. Tax)	(107)	(143)	(269)	(322)	(483)	(483)
Others	448	(10)	200	(380)	0	0
Cash Flow from Financing	3,328	(191)	(116)	214	(639)	(483)
Inc./Dec. in cash	103	139	312	986	(211)	76
Opening Cash balances	353	456	594	906	1,892	1,681
Closing Cash balances	456	594	906	1,892	1,681	1,756

Key ratios

Y/E March	FY2012	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)						
P/E (on FDEPS)	98.5	58.1	33.8	30.0	29.7	22.5
P/CEPS	40.0	22.3	16.3	14.5	16.6	22.5
P/BV	13.7	11.3	8.7	7.8	8.9	6.9
Dividend yield (%)	0.5	0.7	0.9	1.0	1.0	1.1
EV/Sales	1.7	1.1	0.9	0.8	1.0	0.9
EV/EBITDA	29.5	19.8	12.0	10.4	12.1	9.8
EV / Total Assets	4.3	4.0	3.5	3.0	3.8	3.2
Per Share Data (₹)						
EPS (Basic)	3.0	5.0	8.7	9.8	9.9	12.5
EPS (fully diluted)	3.9	5.0	8.7	11.6	10.1	12.5
Cash EPS	7.3	13.1	17.9	20.2	17.7	21.5
DPS	1.0	1.3	2.5	3.0	3.0	3.0
Book Value	21.3	25.8	33.6	37.7	31.7	40.5
Dupont Analysis						
EBIT margin	3.5	3.0	5.2	5.3	6.2	6.5
Tax retention ratio	0.5	0.5	0.7	0.7	0.7	0.7
Asset turnover (x)	3.2	3.9	4.4	4.6	4.6	4.5
ROIC (Post-tax)	5.4	6.3	15.6	17.2	19.7	20.1
Cost of Debt (Post Tax)	3.0	3.3	5.0	5.1	4.4	4.5
Leverage (x)	1.2	1.7	1.2	0.9	0.8	0.6
Operating ROE	8.3	11.5	28.5	28.8	31.7	29.7
Returns (%)						
ROCE (Pre-tax)	10.3	10.8	20.5	20.5	23.5	24.8
Angel ROIC (Pre-tax)	8.0	11.5	21.6	23.4	26.3	26.8
ROE	19.6	21.4	29.2	32.7	35.5	34.6
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.2	2.5	2.6	2.7	2.9	2.9
Inventory / Sales (days)	41	35	35	37	37	37
Receivables (days)	49	43	37	33	33	33
Payables (days)	80	72	70	72	77	75
WC cycle (ex-cash) (days)	16	11	4	(0)	0	4
Solvency ratios (x)						
Net debt to equity	1.9	1.5	1.0	0.9	0.7	0.5
Net debt to EBITDA	4.0	2.3	1.3	1.1	0.9	0.7
Interest Coverage (EBIT / Int.)	3.1	3.1	5.4	5.8	8.0	9.6

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Disclosure of Interest Statement	Motherson Sumi Systems
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	Buy (> 15%)	Accumulate (5% to 15%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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