

MOTHERSON SUMI SYSTEMS LTD

Industry Auto Ancillary
Bloomberg MSS IN
BSE CODE 517334

Global demand outlook seems sluggish

RATING UNDER REVIEW

CMP 143

Price Target

Potential Upside

Rating Change 

Estimate Change 

Target Change 

Stock Info

52wk Range H/L 263/141
Mkt Capital (Rs Cr) 45172
Free float (%) 38%
Avg. Vol 1M (,000) 8054
No. of Shares (Cr.) 211
Promoters Pledged % 0%

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Key Highlights

- ❑ MOTHERSUMI is the market leader in wiring harness business in India with the market share of 65% and a leading manufacturer of electrical and plastic parts for automobiles globally
- ❑ The company has completed the acquisition of Reydel on 2nd August 2018. Revenue contribution by Reydel business during the quarter was Euro130 million .
- ❑ MOTHERSUMI has reported EBITDA margin of 8.6% (down by 100bps QoQ) which is lowest in last 13 quarters due to increase in commodity prices and higher start up cost on new plants (Mexico and Kecskemet).
- ❑ The debt level has increased due to summer holidays in Europe in August-September (steep working capital requirement), forex movement (Rs.500 crores) and capex on on-going new plant. Also the borrowings were higher on standalone business due to dividend payout.

2Q FY19 Result Update

The The company reported healthy revenue growth of 12.5% YoY to Rs.15105 crores in 2QFY19. This was mainly driven by strong growth in PKC and SMP division which grew by 22% and 14%YoY respectively. There was a decline in EBITDA margins by 95 bps QoQ to 8.6% during the quarter due to increase in commodity prices and higher start up cost on new plants (Mexico and Kecskemet). PAT for the quarter was Rs. 495 crores.

View and Valuation

The automobile industry in European region remained sluggish led by Germany where vehicle registrations were down by 15-17% due to confusion regarding new emission norm (WLTP). Global headwinds such as Brexit, emission norms and tariff wars may lead to further slowdown in demand. The OEMs have already shown concerns over profitability due to muted demand scenario going ahead. The company has started another plant in 3QFY19 in Tuscaloosa (USA) and therefore the startup cost and depreciation cost will continue to weigh on profitability of the company going ahead. The management has also stated that margins will remain under pressure for next couple of quarters due to new plants. Debt level has also increased to over Rs.14000 crores in 1HFY19 from Rs.9500 crores in FY18 which will further drag down the profitability. However, with the order book of Euro 19.53bn (USD 22 bn) it can achieve its revenue guidance of USD 18bn by March 2020. The company may emerge as one of the biggest beneficiaries of rise in electric vehicles demand but it still remains a distant story for the industry. **Hence considering the uncertain growth prospects of the company we keep the stock Under Review.**

Key Risks to our rating and target

- ❑ Slow down in Europe region: over 40% of total revenue.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	37216	42475	56293	63989	74348
EBITDA	3548	4285	5123	5842	7663
EBIT	2461	3226	3547	3907	5352
PAT	1774	2172	2260	2508	3546
EPS (Rs)	6	7	7	8	11
EPS growth (%)	106	22	4	11	41
ROE (%)	40	26	23	22	25
ROCE (%)	27	18	20	20	24
BV	33	59	47	36	45
P/B (X)	4.9	4.2	7.6	4.1	3.3
P/E (x)	12.2	16.1	33.3	18.6	13.2

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2QFY19 Results

PAT below estimates

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	13,431	14,398	15,407	14,775	15,105	12%	2%	42,475	56,293	33%
Other Income	16	15	62	45	46	197%	4%	146	170	16%
Total Income	13,447	14,413	15,469	14,820	15,151	13%	2%	42,622	56,463	32%
COGS	8,137	8,850	9,338	8,509	8,746	7%	3%	25,751	34,312	33%
Staff Cost	2,659	2,812	3,016	3,230	3,277	23%	1%	8,091	11,068	37%
Other Exp.	1,385	1,477	1,553	1,624	1,782	29%	10%	4,367	5,791	33%
Expenditure	12,181	13,138	13,908	13,363	13,805	13%	3%	38,191	51,171	34%
EBITDA	1,251	1,259	1,500	1,412	1,300	4%	-8%	4,285	5,123	20%
Depreciation	398	394	407	447	488	23%	9%	1,059	1,575	49%
EBIT	853	866	1,093	965	812	-5%	-16%	3,226	3,547	10%
Interest	77	103	113	100	132	71%	31%	375	411	10%
PBT	787	776	1,021	909	727	-8%	-20%	2,997	3,307	10%
Excpt. Item	(5)	(2)	(21)	-	-	0%	0%	97	178	0%
Tax	234	252	288	327	258	10%	-21%	910	1,007	11%
PAT	593	562	757	618	495	-17%	-20%	2,172	2,260	4%

Revenue by Business

Revenue	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
MSSL Std	1,562	1,544	1,717	1,683	1,856	1,794	2,107	2,004	1,996
SMR	2,870	3,024	3,099	2,898	2,898	3,026	3,285	3,257	3,159
SMP	5,125	5,529	5,859	6,096	6,124	6,868	7,089	6,404	6,967
PKC	-	-	-	1,823	1,860	2,079	2,177	2,390	2,270
Others	844	795	901	906	998	929	1,122	1,112	1,086

Revenue growth of 12.5%YoY driven by growth in across verticals

The company reported healthy revenue growth of 12.5% YoY to Rs.15105 crores in 2QFY19. This was mainly driven by strong growth in PKC and SMP division which grew by 22% and 14%YoY respectively. The company has completed the acquisition of Reydel on 2nd August 2018 and the revenue contribution during the quarter was Euro 130 million

Higher startup cost on new plants dented EBITDA margins

Gross Margin declined by 30 bps QoQ to 42.1% due to higher commodity prices and currency fluctuation. There was a decline in EBITDA margins by 95 bps QoQ to 8.6% during the quarter due to increase in commodity prices and higher start up cost on new plants (Mexico and Kecskemet).

PAT declined due to higher depreciation and interest cost

PAT for the quarter was Rs. 495 crores. Other income was Rs. 46 crores during Q2FY19, which included dividend received from subsidiaries. However, PAT margin declined by 90 bps QoQ to 3.3% on the back of higher finance cost and depreciation expenses. The depreciation cost remained on the higher side due to operations started at new plants.

Concall highlights

- ❑ Revenue guidance of USD 18 billion and ROCE of 40% by FY20.
- ❑ Revenue growth was somewhat impacted due to some deflections in Germany market. The car registrations were down by 15%-17% in Germany.
- ❑ The company has completed the acquisition of Reydel on 2nd August 2018. Revenue contribution by Reydel business during the quarter was 130 million Euro.
- ❑ The company expects the Hungary plant, Tuscaloosa plant and Reydel business will 53% growth to the topline.
- ❑ Tuscaloosa Plant to start production from Q3FY19.
- ❑ New orders worth 2.83 billion Euro have been received during H1FY19.
- ❑ Margins were impacted during the quarter due to holidays in Europe and startup costs of new plants.
- ❑ Capex for FY19: Rs.2000 crores and the capex cycle will be lower for next couple of years as most of the capex has been incurred

Exhibit: Net sales (Rs. Crore) and Growth Trend

Strong revenue growth of 22% and 14%YoY in PKC and SMP division respectively led to overall growth.

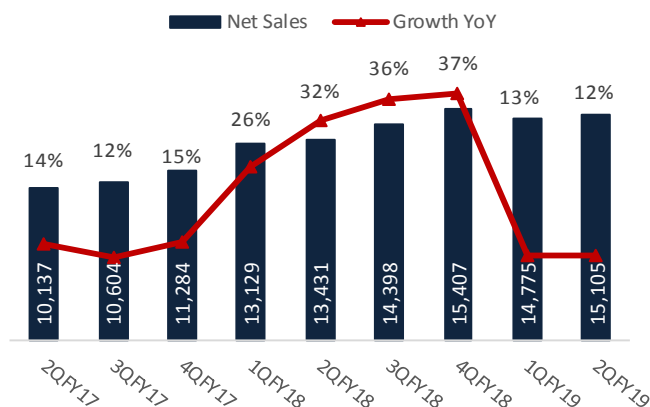


Exhibit: COGS and Gross Margin Trend

Higher commodity prices and currency fluctuation led to 30bps QoQ decline in gross margins

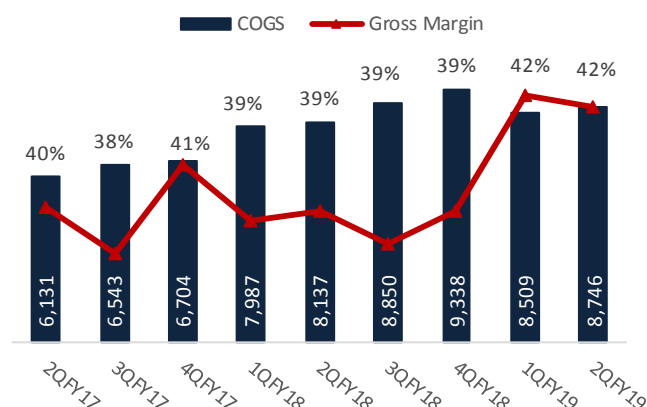


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA margin dented due to increase in commodity prices and higher start up cost on new plants

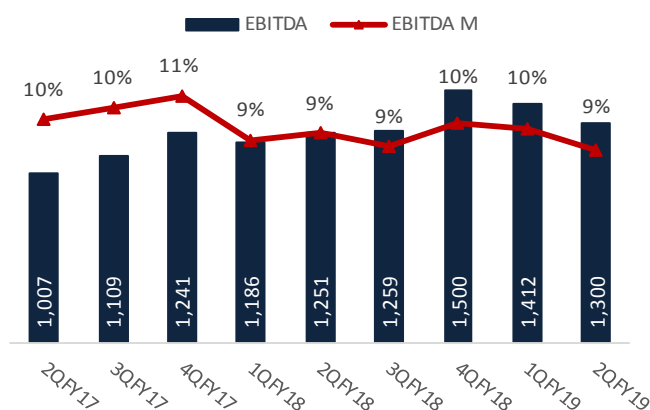


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Higher depreciation cost on Mexico and Hungry plants dented PAT margins

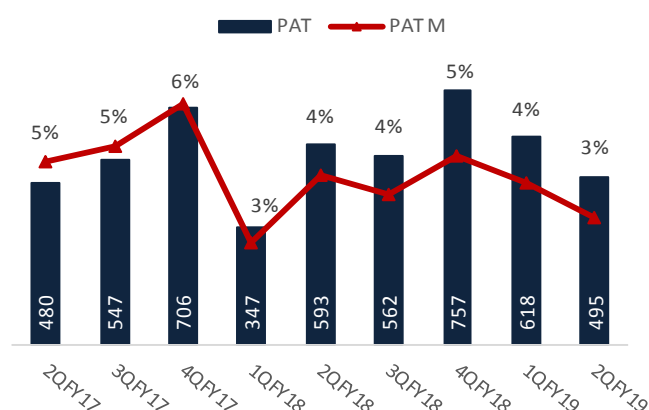


Exhibit: Trend in Copper Prices

Copper prices have started to decline, the major raw material used in wiring harness business

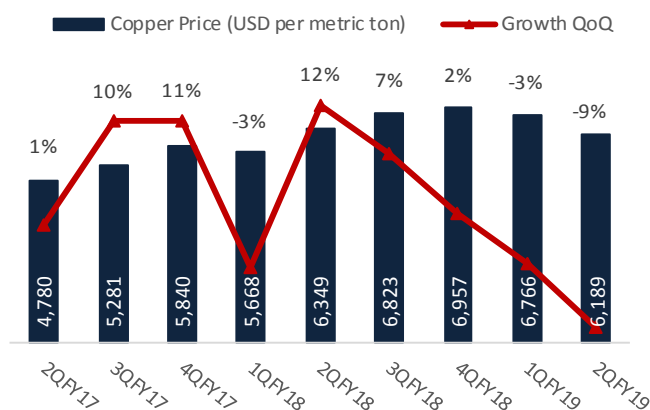
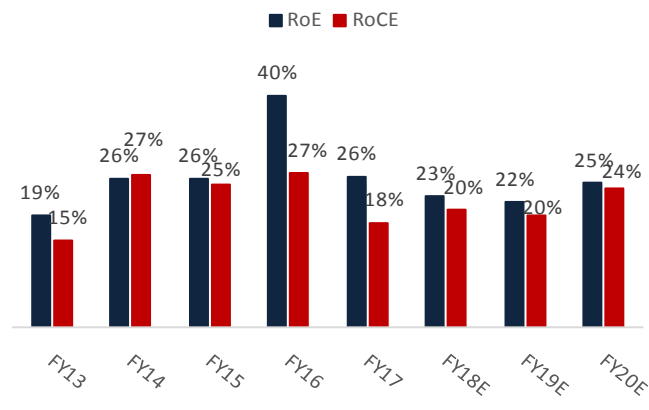


Exhibit: Return Ratios

Return ratios are expected to improve going ahead but demand scenario seems uncertain going ahead



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	59	88	88	132	140	211	316	316
Reserves	2,230	2,871	3,236	4,195	8,280	9,304	11,186	13,846
Networth	2,289	2,959	3,324	4,397	8,273	9,884	11,502	14,162
Debt	4,071	3,995	4,910	5,742	10,142	9,477	10,686	10,273
Other Non Cur Liab	551	581	673	817	1,232	2,011	2,440	2,443
Total Capital Employed	5,005	5,943	7,410	9,183	17,717	17,454	19,948	22,205
Net Fixed Assets (incl CWIP)	5,663	6,566	7,085	8,309	12,189	15,033	17,925	17,314
Non Cur Investments	72	75	65	59	68	247	100	142
Other Non Cur Asst	374	666	1,003	1,759	4,024	5,012	5,012	5,012
Non Curr Assets	6,109	7,307	8,152	10,127	16,282	20,398	23,144	22,575
Inventory	2,604	3,282	3,750	2,285	3,072	4,013	4,564	5,304
Debtors	2,940	3,238	3,014	4,654	6,607	5,624	6,395	7,432
Cash & Bank	594	906	1,892	1,772	4,887	2,782	3,533	6,715
Other Curr Assets	581	629	762	1,066	1,522	4,681	4,687	4,694
Curr Assets	6,719	8,056	9,419	9,777	16,088	17,100	19,179	24,147
Creditors	3,181	4,092	4,864	5,163	7,317	9,064	10,307	11,979
Provisions (both)	358	470	557	143	140	133	151	176
Other Curr Liab	1,976	2,477	2,229	2,316	3,228	4,230	4,541	4,861
Curr Liabilities	5,514	7,038	7,650	7,622	10,685	13,427	14,999	17,015
Net Curr Assets	1,205	1,017	1,769	2,155	5,403	3,673	4,180	7,131
Total Assets	12,828	15,362	17,571	19,904	32,370	37,498	42,323	46,721

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	25,312	30,428	34,585	37,216	42,475	56,293	63,989	74,348
Change (%)	71	20	14	8	14	33	14	16
Other Income	322	311	464	39	146	170	217	274
EBITDA	1,477	2,397	2,756	3,548	4,285	5,123	5,842	7,663
Change (%)	65	62	15	29	21	20	14	31
Margin (%)	5.8	7.9	8.0	9.5	10.1	9.1	9.1	10.3
Depr & Amor.	715	817	921	1,087	1,059	1,575	1,934	2,311
EBIT	762	1,580	1,835	2,461	3,226	3,547	3,907	5,352
Int. & other fin. Cost	250	294	318	345	375	411	481	462
EBT	834	1,596	1,982	2,155	2,997	3,307	3,644	5,163
Exp Item	-	-	165	-	97	178	-	-
Tax	384	499	526	519	910	1,007	1,268	1,756
Minority Int & P/L share of Ass.	8	331	430	138	183	138	131	138
Reported PAT	451	1,097	1,292	1,774	2,172	2,260	2,508	3,546
Adjusted PAT	444	765	862	1,292	1,554	1,597	1,812	2,780
Change (%)	71	72	13	106	22	4	11	41
Margin(%)	1.8	2.5	2.5	4.8	5.1	4.0	3.9	4.8

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	19%	26%	26%	40%	26%	23%	22%	25%
ROCE	15%	27%	25%	27%	18%	20%	20%	24%
Asset Turnover	1.97	1.98	1.97	1.87	1.31	1.50	1.51	1.59
Debtor Days	42	38	31	46	57	36	36	36
Inv Days	37	39	39	22	26	26	26	26
Payable Days	45	49	51	51	63	59	59	59
Int Coverage	3	5	6	7	9	9	8	12
P/E	7.0	12.7	23.3	12.2	16.1	33.3	18.6	13.2
Price / Book Value	1.4	3.3	6.0	4.9	4.2	7.6	4.1	3.3
EV/EBITDA	3.5	4.9	8.1	7.0	9.2	15.6	8.8	6.3
FCF per Share	6	15	16	1	7	1	1	15

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	835	1,596	1,818	2,293	3,180	3,445	3,644	5,163
(inc)/Dec in Working Capital	(102)	240	1,265	(899)	664	(1,329)	394	234
Non Cash Op Exp	715	817	921	1,087	1,059	1,575	1,934	2,311
Int Paid (+)	250	293	317	345	375	411	481	462
Tax Paid	(366)	(560)	(617)	(690)	(843)	(1,005)	(1,268)	(1,756)
others	155	308	(314)	52	(636)	167	(98)	138
CF from Op. Activities	1,486	2,695	3,390	2,188	3,800	3,264	5,087	6,553
(inc)/Dec in FA & CWIP	(1,139)	(1,412)	(1,944)	(2,039)	(2,809)	(3,062)	(4,826)	(1,700)
Free Cashflow	347	1,283	1,445	150	991	202	260	4,853
(Pur)/Sale of Inv	(1)	(1)	0	(15)	78	(165)	146	(42)
others	61	40	(909)	148	(4,077)	33	-	-
CF from Inv. Activities	(1,079)	(1,372)	(2,853)	(1,906)	(6,808)	(3,194)	(4,680)	(1,742)
inc/(dec) in NW	-	-	-	-	-	-	105	-
inc/(dec) in Debt	184	(600)	1,138	717	3,409	(947)	1,209	(413)
Int. Paid	(254)	(288)	(299)	(323)	(347)	(394)	(481)	(462)
Div Paid (inc tax)	(213)	(194)	(354)	(668)	(1)	(633)	(626)	(885)
others	28	2	10	10	10	38	138	131
CF from Fin. Activities	(256)	(1,080)	495	(263)	3,072	(2,221)	345	(1,629)
Inc(Dec) in Cash	151	243	1,031	19	63	(2,152)	752	3,182
Add: Opening Balance	443	585	831	1,743	1,766	4,877	2,782	3,533
Closing Balance	594	827	1,870	1,762	2,410	2,726	3,534	6,715

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