

Motherson Sumi Systems Ltd

Industry Auto Ancillary
Bloomberg MSS
BSE CODE 517334

Global demand scenario remains subdued; new plants to put pressure on bottom-line ahead

RATING Under Review

CMP 133

Price Target

Potential Upside

Rating Change 

Estimate Change 

Target Change

3QFY19 Result Update

- ❑ MOTHERSUMI posted decent set of numbers with revenue growth of 14.4% YoY to Rs. 16,473 crores (vs. our estimates of Rs. 16,401 crores).
- ❑ Commissioning of new plant has led to increase in manpower cost and higher startup cost which reduced EBITDA margins by 20bps on sequential basis to 8.5% despite reduction in commodity prices.
- ❑ PAT declined by 1%YoY to Rs.555 crores (vs. our estimate of Rs.584 crores) during the quarter largely due to increased depreciation and amortization cost because of new plants. However the interest cost remained down due to retiring of a high rate bond in September 2018.
- ❑ Net debt during the quarter was reduced by Rs.1597 crores. However, going forward management might raise debt further in case of acquisitions.
- ❑ There will not be any huge capex going ahead as the company is done with green field expansions.
- ❑ The management expects recent slowdown in class-8 truck sales may impact only after 8-10 months, because the company is sitting with good amount of order book.

View and Valuation

MOTHERSUMI posted lowest EBITDA margin of 8.5% in last 14 quarters. However the company continues to report decent double digit growth on the revenue front but higher cost on new plants remains a concern going ahead. The global demand scenario seems sluggish due to factors such as; WLTP, Brexit, emission norms and US-China trade war. The slowdown in European region due to WLTP norms will continue to persist for next couple of quarters. The management has also indicated that the revenue guidance of USD 18 billion may extend from FY20 to FY21 considering the demand side headwinds. The company has commenced production in Tuscaloosa (USA) plant in 3QFY19 and therefore the startup cost and depreciation cost will continue to weigh on profitability of the company going ahead. The debt level has been reduced by Rs.1600 crores but considering the scope of future acquisitions in order to achieve revenue target we expect debt level may maintain at the current level. However, 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

- ❑ Prolonged slowdown in European region
- ❑ Sharp increase in commodity prices

Stock Info

52wk Range H/L	244/127
Mkt Capital (Rs Cr)	42014
Free float (%)	38%
Avg. Vol 1M (,000)	5458
No. of Shares (Cr.)	316
Promoters Pledged %	4%

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KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	37,216	42,475	56,293	64,138	74,547
EBITDA	3,548	4,285	5,123	5,706	7,245
EBIT	2,461	3,226	3,547	3,620	4,856
PAT	1,774	2,172	2,260	2,390	3,261
EPS (Rs)	13	15	11	8	10
EPS growth (%)	37%	15%	-31%	-30%	36%
ROE (%)	40%	26%	23%	21%	24%
ROCE (%)	27%	18%	20%	19%	23%
BV	33	59	47	36	44
P/B (X)	4.9	4.2	7.6	3.7	3.0
P/E (x)	12.2	16.1	33.3	17.6	12.9

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3QFY19 Results

Revenue in-line with expectation

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	14,398	15,407	14,775	15,105	16,473	14%	9%	42,475	56,293	33%
Other Income	15	62	45	46	61	304%	32%	146	170	16%
Total Income	14,413	15,469	14,820	15,151	16,534	15%	9%	42,622	56,463	32%
COGS	8,850	9,338	8,509	8,746	9,509	7%	9%	25,751	34,312	33%
Staff Cost	2,812	3,016	3,230	3,277	3,706	32%	13%	8,091	11,068	37%
Other Exp.	1,477	1,553	1,624	1,782	1,864	26%	5%	4,367	5,791	33%
Expenditure	13,138	13,908	13,363	13,805	15,080	15%	9%	38,191	51,171	34%
EBITDA	1,259	1,500	1,412	1,300	1,393	11%	7%	4,285	5,123	20%
Depreciation	394	407	447	488	571	45%	17%	1,059	1,575	49%
EBIT	866	1,093	965	812	822	-5%	1%	3,226	3,547	10%
Interest	103	113	100	132	88	-15%	-33%	375	411	10%
PBT	776	1,021	909	727	795	2%	9%	2,997	3,307	10%
Excpt. Item	(2)	(21)	-	-	-			97	178	82%
Tax	252	288	327	258	269	7%	4%	910	1,007	11%
PAT	524	733	582	469	526	0%	12%	2,172	2,260	4%

Decent revenue growth led by SMP and PKC group

Net sales grew by 14.4% YoY to Rs.16,473 crores due to growth in SMP and PKC group by 20% and 17% YoY respectively. Growth in SMP business was driven by Reydel which contributes revenue of around 250 million Euros in 3QFY19. PKC group is expected to grow based on healthy order book. SMR grew by 10% YoY during the quarter. India business has declined by 4% YoY largely due to lower demand from OEMs. And also, others segment revenue grew by 20% YoY. Management has indicated that the revenue guidance of USD 18 billion may extend from FY20 to FY21.

Higher fixed cost on new plants impacted Margins

Gross Margins grew by 20bps QoQ to 42.3% largely on account of reduced raw material cost. However, India's business inventory was higher due to sluggish demand scenario. Increased employee cost and other expenses during the quarter due to commissioning of new plants reduced EBITDA margins by 10bps QoQ to 8.5%.

Increased depreciation and amortization cost crippled the PAT

PAT for the quarter stood at Rs.555 crores. However, PAT de-grew by 1.2% YoY mainly on account of new plants coming up which raised depreciation expense in 3QFY19. PAT margins were at 3.4% during the quarter.

Concall Highlights :

- The management has indicated that the revenue guidance of USD 18 billion may extend from FY20 to FY21.
- Volumes in the European region will get further impacted by WLTP norm.
- There will not be any huge capex going ahead as the company is done with green field expansions.
- The management expects recent slowdown in class-8 truck sales may impact only after 8-10 months, because the company is sitting with good amount of order book.
- Net debt during the quarter was reduced by Rs.1597 crores. However, going forward management might raise debt further in case of acquisitions.
- The management expects BS-VI implementation may increase the value per content of wiring harness by 10-15%.
- The standalone (India) business margin declined due adjustment of inventory which was higher due to sluggish demand scenario.
- Depreciation and amortization cost was higher due to commencement of production in new plants.
- Interest cost reduced as high rate bond on PKC retired in the last week of September.
- Strike for two weeks on new Hungary plant impacted the production during the quarter.
- The recently acquired Reydel has contributed 250mn Euros and it is part of SMP division.

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

Net Sales growth of 14.4% largely driven by growth in SMP and PKC group by 20% and 17% YoY respectively.

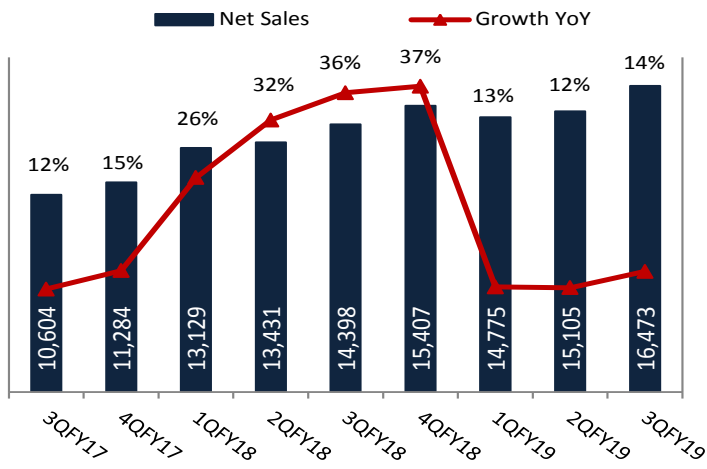


Exhibit: COGS (Rs. Crore) and Gross Margin Trend

Increase in gross margins on account of reduction in raw material cost.

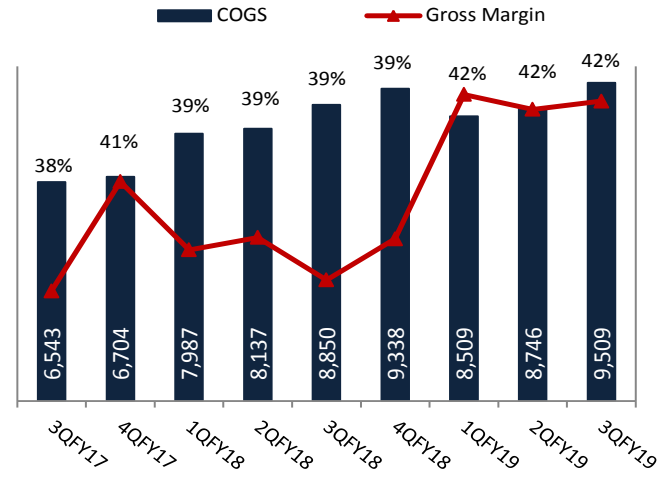


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Higher employee and other expense reduced EBITDA margins.

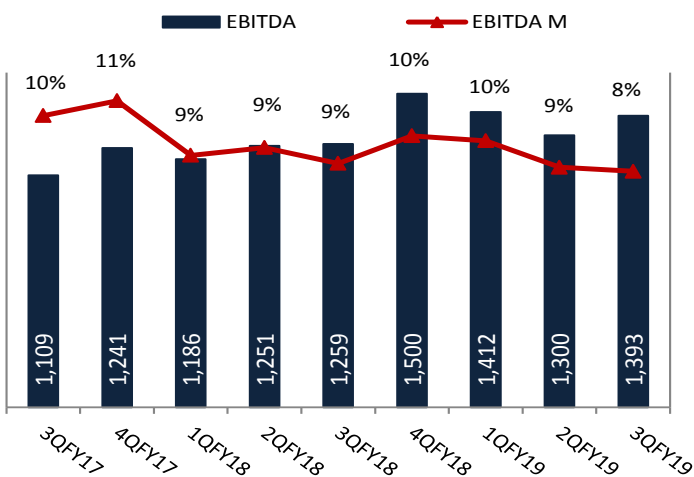


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Increase in depreciation expense restrain PAT margins to grow.

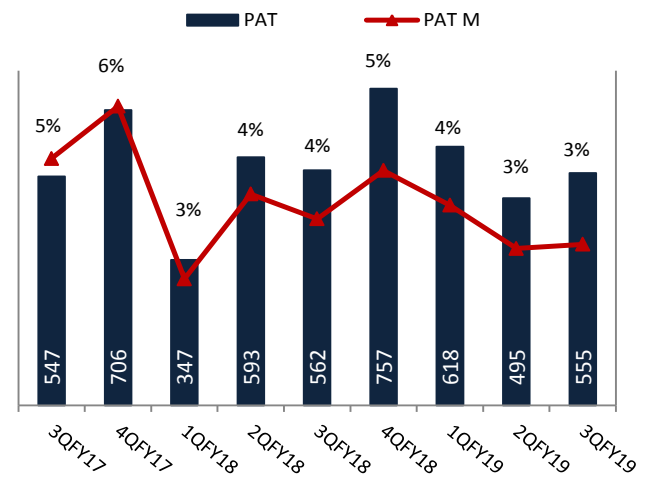


Exhibit: Trend in copper prices

Copper prices remains flattish during the quarter.

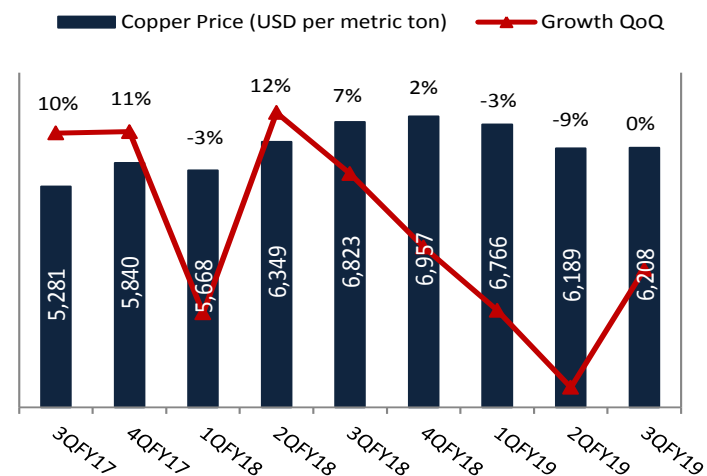
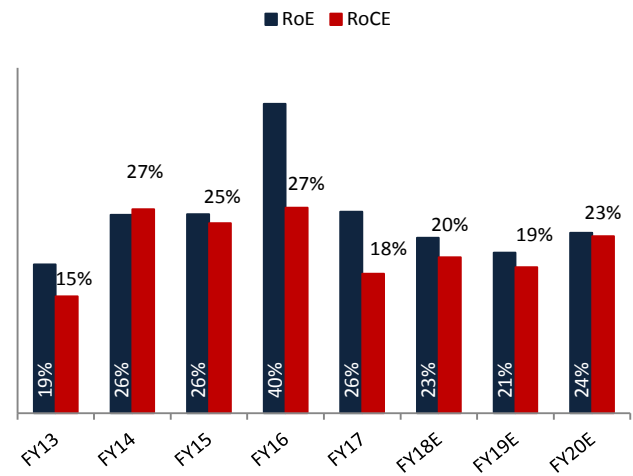


Exhibit: Return Ratios

Return ratios to decline in FY19 sharply due to uncertain demand scenario.



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	11,097	13,544
Networth	2,289	2,959	3,324	4,397	8,273	9,884	11,413	13,860
Debt	4,071	3,995	4,910	5,742	10,142	9,477	12,503	10,539
Other Non Cur Liab	551	581	673	817	1,232	2,011	2,441	2,446
Total Capital Employed	5,005	5,943	7,410	9,183	17,717	17,454	19,001	21,044
Net Fixed Assets (incl CWIP)	5,663	6,566	7,085	8,309	12,189	15,033	17,873	17,184
Non Cur Investments	72	75	65	59	68	247	100	142
Other Non Cur Asst	374	666	1,003	1,759	4,024	5,118	5,118	5,118
Non Curr Assets	6,109	7,307	8,152	10,127	16,282	20,398	23,092	22,444
Inventory	2,604	3,282	3,750	2,285	3,072	4,013	4,576	5,314
Debtors	2,940	3,238	3,014	4,654	6,607	5,624	6,412	7,447
Cash & Bank	594	906	1,892	1,772	4,887	2,782	3,970	5,466
Other Curr Assets	581	629	762	1,066	1,523	4,682	6,037	6,044
Curr Assets	6,719	8,056	9,419	9,777	16,088	17,100	20,995	24,272
Creditors	3,181	4,092	4,864	5,163	7,317	9,064	10,335	12,003
Provisons (both)	526	674	775	157	163	162	189	218
Other Curr Liab	1,808	2,272	2,011	2,302	3,205	4,201	4,509	4,823
Curr Liabilities	5,514	7,038	7,650	7,622	10,685	13,427	15,033	17,044
Net Curr Assets	1,205	1,017	1,769	2,155	5,403	3,673	5,962	7,228
Total Assets	12,828	15,362	17,571	19,904	32,370	37,498	44,087	46,716

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	64,138	74,547
Change (%)	71%	20%	14%	8%	14%	33%	14%	16%
Other Income	322	311	464	39	146	170	244	224
EBITDA	1,477	2,397	2,756	3,548	4,285	5,123	5,706	7,245
Change (%)	65%	62%	15%	29%	21%	20%	11%	27%
Margin (%)	6%	8%	8%	10%	10%	9%	9%	10%
Depr & Amor.	715	817	921	1,087	1,059	1,575	2,086	2,389
EBIT	762	1,580	1,835	2,461	3,226	3,547	3,620	4,856
Int. & other fin. Cost	250	294	318	345	375	411	400	348
EBT	834	1,596	1,982	2,155	2,997	3,307	3,464	4,732
Exp Item	-	-	165	-	97	178	-	-
Tax	384	499	526	519	910	1,007	1,205	1,609
Minority Int & P/L share of Ass.	8	331	430	138	183	138	131	138
Reported PAT	451	1,097	1,292	1,636	1,989	2,122	2,258	3,123
Adjusted PAT	444	765	862	1,292	1,554	1,597	1,744	2,445
Change (%)	71%	72%	13%	50%	20%	3%	9%	40%
Margin(%)	1.8%	2.5%	2.5%	4.8%	5.1%	4.0%	3.7%	4.4%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	19%	26%	26%	40%	26%	23%	21%	24%
ROCE	15%	27%	25%	27%	18%	20%	19%	23%
Asset Turnover	2.0	2.0	2.0	1.9	1.3	1.5	1.5	1.6
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	9	14
P/E	7.0	12.7	23.3	12.2	16.1	33.3	17.6	12.9
Price / Book Value	1	3	6	5	4	8	4	3
EV/EBITDA	4	5	8	7	9	16	8	6
FCF per Share	6	15	16	1	7	1	(4)	14

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	3,464	4,732
(inc)/Dec in Working Capital	(102)	240	1,265	(899)	664	(1,329)	(950)	235
Non Cash Op Exp	715	817	921	1,087	1,059	1,575	2,086	2,389
Int Paid (+)	250	293	317	345	375	411	400	348
Tax Paid	(366)	(560)	(617)	(690)	(843)	(1,005)	(1,205)	(1,609)
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	3,696	6,233
(inc)/Dec in FA & CWIP	(1,139)	(1,412)	(1,944)	(2,039)	(2,809)	(3,062)	(4,926)	(1,700)
Free Cashflow	347	1,283	1,445	150	991	202	(1,230)	4,533
(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)	(4,780)	(1,742)
inc/(dec) in NW	-	-	-	-	-	-	105	-
inc/(dec) in Debt	184	(600)	1,138	717	3,409	(947)	3,026	(1,964)
Int. Paid	(254)	(288)	(299)	(323)	(347)	(394)	(400)	(348)
Div Paid (inc tax)	(213)	(194)	(354)	(668)	(1)	(633)	(597)	(814)
others	28	2	10	10	10	(247)	138	131
CF from Fin. Activities	(256)	(1,080)	495	(263)	3,072	(2,221)	2,273	(2,995)
Inc(Dec) in Cash	151	243	1,031	19	63	(2,152)	1,189	1,496
Add: Opening Balance	443	585	831	1,743	1,766	4,877	2,782	3,970
Closing Balance	594	827	1,870	1,762	2,410	2,726	3,971	5,466

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