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MSS
517334

Pressure on bottom-line continued

1QFY20 Result Update

- MOTHERSUMI posted a revenue growth of 13.7% YoY to Rs. 16793 crores (vs. our estimates of Rs. 16,767 crores) during the quarter.
- There has been strong revenue growth of 32%YoY in SMP business and PKC grew by 8%YoY while India business and SMR declined by 8%YoY and 2%YoY.
- Gross margin improved by 57 bps QoQ to 42.5% due to softening of commodity prices. EBITDA margins also improved by 24bps on sequential basis to 7.5% due to improvement in gross margin and cost cutting initiatives.
- The decline in volumes in India business and SMR led to 200bps contraction in margins on sequential basis for both the segment.
- PAT for the quarter stood at Rs. 361crores (vs. our estimate of Rs. 413 crores). PAT margins declined by 35 bps QoQ to 2.1% due to higher depreciation and finance cost.
- There has been gradual improvement in performance of new plants of SMP. The profitability is still be impacted by adverse ramp-up costs at SMP green field projects and tough market conditions.
- Net debt during the quarter was Rs.8375 crores.

View and Valuation

Global demand scenario continues to be benign and margin pressure on OEMs gets passed on to component manufacturers also. Going ahead we expect that volumes in the European region will get further impacted by WLTP norm, emission norms and slow-down in class-8 truck volumes may further impact growth prospects. The margins are expected to improve gradually based on the stable commodity prices and cost cutting initiatives. However higher fixed cost on new plants due to lower utilizations will keep the margins in 8-9% range. Higher depreciation cost and increased borrowings will continue to put bottom-line under pressure. The company is expected to go for acquisitions in order to achieve its USD18 bn revenue guidance which will further increase the debt level going ahead. Hence considering the uncertain growth prospects we keep the stock under review.

Key Risks to our rating and target

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

| RATING | UNDER REVIEW |
|------------------|--------------|
| CMP | 97 |
| Price Target | |
| Potential Upside | |
| Rating Change | ↔ |
| Estimate Change | ↓ |
| Target Change | |

| STOCK INFO | |
|---------------------|--------|
| 52wk Range H/L | 209/91 |
| Mkt Capital (Rs Cr) | 30378 |
| Free float (%) | 38% |
| Avg. Vol 1M (,000) | 7471 |
| No. of Shares (Crs) | 316 |
| Promoters Pledged % | 3% |

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Fig in Rs Cr

| KEY FINANCIAL/VALUATIONS | FY17 | FY18 | FY19 | FY20E | FY21E |
|--------------------------|--------|--------|--------|--------|--------|
| Net Sales | 42,475 | 56,293 | 63,523 | 70,655 | 77,948 |
| EBITDA | 4,285 | 5,123 | 5,348 | 5,759 | 6,845 |
| EBIT | 3,226 | 3,547 | 3,290 | 3,296 | 4,324 |
| PAT | 2,172 | 2,260 | 2,098 | 2,202 | 2,949 |
| EPS (Rs) | 15 | 11 | 7 | 7 | 9 |
| EPS growth (%) | 15% | -31% | -38% | 5% | 34% |
| ROE (%) | 26% | 23% | 19% | 18% | 20% |
| ROCE (%) | 18% | 20% | 17% | 17% | 20% |
| BV | 59 | 47 | 35 | 39 | 46 |
| P/B (X) | 4.2 | 7.6 | 3.4 | 2.5 | 2.1 |
| P/E (x) | 16.1 | 33.3 | 17.9 | 13.9 | 10.4 |

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Revenue in-line with expectation

1QFY20 Results

Fig in Rs Cr

| FINANCIALS | 1QFY19 | 2QFY19 | 3QFY19 | 4QFY19 | 1QFY20 | YoY % | QoQ% | FY18 | FY19 | YoY % |
|--------------|--------|--------|--------|--------|--------|-------|------|--------|--------|-------|
| Net Sales | 14,775 | 15,105 | 16,473 | 17,169 | 16,793 | 14% | -2% | 56,293 | 63,523 | 13% |
| Other Income | 45 | 46 | 61 | 68 | 55 | 23% | -20% | 170 | 220 | 29% |
| Total Income | 14,820 | 15,151 | 16,534 | 17,238 | 16,847 | 14% | -2% | 56,463 | 63,743 | 13% |
| COGS | 8,509 | 8,746 | 9,509 | 9,974 | 9,659 | 14% | -3% | 34,312 | 36,738 | 7% |
| Staff Cost | 3,230 | 3,277 | 3,706 | 3,955 | 3,917 | 21% | -1% | 11,068 | 14,169 | 28% |
| Other Exp. | 1,624 | 1,782 | 1,864 | 1,997 | 1,962 | 21% | -2% | 5,791 | 7,267 | 25% |
| Expenditure | 13,363 | 13,805 | 15,080 | 15,927 | 15,538 | 16% | -2% | 51,171 | 58,175 | 14% |
| EBITDA | 1,412 | 1,300 | 1,393 | 1,243 | 1,255 | -11% | 1% | 5,123 | 5,348 | 4% |
| Depreciation | 447 | 488 | 571 | 552 | 637 | 42% | 15% | 1,575 | 2,058 | 31% |
| EBIT | 965 | 812 | 822 | 691 | 618 | -36% | -10% | 3,547 | 3,290 | -7% |
| Interest | 100 | 132 | 88 | 103 | 156 | 55% | 51% | 411 | 423 | 3% |
| PBT | 909 | 727 | 795 | 656 | 517 | -43% | -21% | 3,307 | 3,087 | -7% |
| Excpt. Item | - | - | - | - | - | | | 178 | - | -100% |
| Tax | 327 | 258 | 269 | 248 | 177 | -46% | -28% | 1,007 | 1,102 | 9% |
| PAT | 582 | 469 | 526 | 408 | 340 | -42% | -17% | 2,260 | 2,098 | -7% |

Decent double digit revenue growth led by SMP and PKC group

Net sales grew by 13.7% YoY to Rs. 16793 crores during the quarter led by strong revenue growth of 32%YoY in SMP business, contributed by new plants and consolidation of SMRC. There has been gradual improvement in performance of new plants of SMP. The profitability is still be impacted by adverse ramp-up costs at SMP green field projects and tough market conditions. The PKC group also grew by 8% YoY during the quarter. The PKC business revenue mix includes:-US and North America – 40-45%, China – 10%, Europe and South America – 45.-50%. India business and SMR declined by 8%YoY and 2%YoY respectively. Going forward, the SMP business is expected to improve with the new launches. The SMR business is also expected to grow going ahead as it has started to execute orders for electric vehicles.

Softening of commodity prices led to margins improvement

Gross margin improved by 57 bps QoQ to 42.5% due to softening of commodity prices. EBITDA margins have also improved by 24bps on sequential basis to 7.5% due to lower employee cost. The margins are expected to improve gradually going ahead.

Higher depreciation and finance cost crippled PAT margins

PAT for the quarter stood at Rs. 361crores. PAT margins declined by 35 bps QoQ to 2.1% due to higher depreciation cost on new plants and higher finance cost on increased borrowing levels.

Concall Highlights :

- The management expects volatility in the market to continue going ahead. However, the company businesses are expected to improve after 1-2 quarters.
- There has been strong revenue growth of 35% at SMP level, contributed by new plants as well by SMRC.
- There has been gradual improvement in performance of new plants of SMP. The profitability is still be impacted by adverse ramp-up costs at SMP greenfield projects and tough market conditions.
- The SMP business is expected to improve going forward with the new launches.
- The SMR business is expected to grow going ahead as it has started to execute orders for electric vehicles.
- There has been strong performance by PKC with growth in revenues and profit. PKC business will continue to post strong growth and the margins will move upward going ahead.
- The PKC business revenue mix: - US and North America – 40-45%, China – 10%, Europe and South America – 45.-50%
- The rolling stock business is expected to grow going ahead with the acquisition made in UK. It is 10% of PKC revenue.
- Volumes in the European region will get further impacted by WLTP norm.
- The management has plans for expansion of Germany plant.
- In India business, the company has got orders from Kia motors.
- Net debt during the quarter was Rs.8375 crores.
- Capex guidance for FY20 is Rs. 2000 crores.

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

Decent double-digit revenue growth led by SMP and PKC group

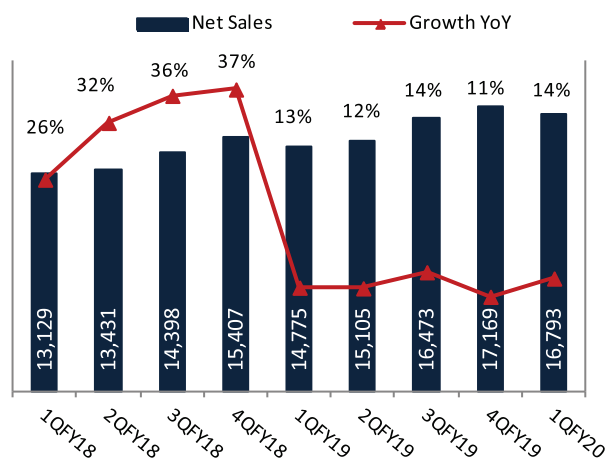


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Lower employee cost led to improvement in EBITDA margins

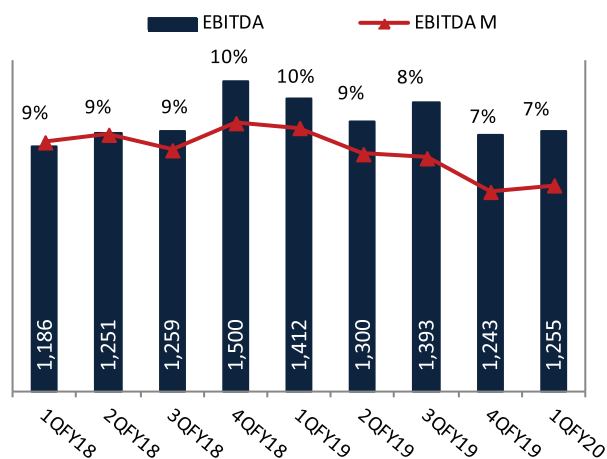


Exhibit: Trend in copper prices

Copper prices continue to decline during the quarter

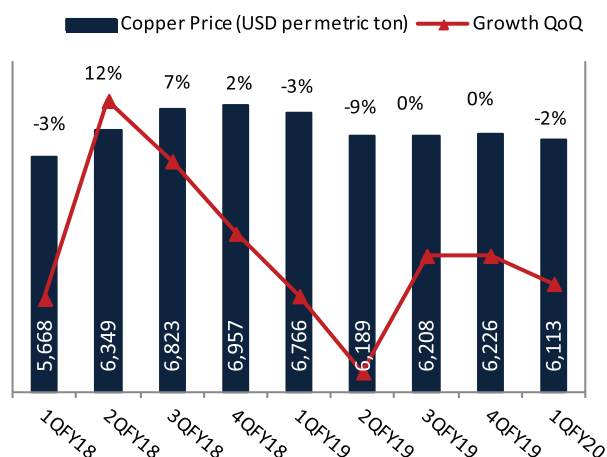


Exhibit: COGS (Rs. Crore) and Gross Margin Trend

Softening of commodity prices led to margins improvement

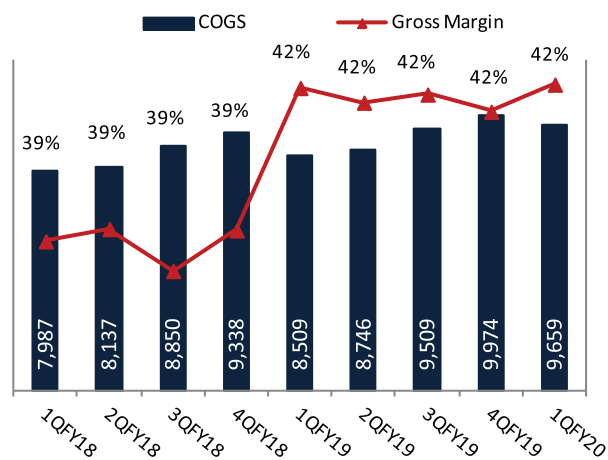


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Higher depreciation and finance cost crippled PAT margins

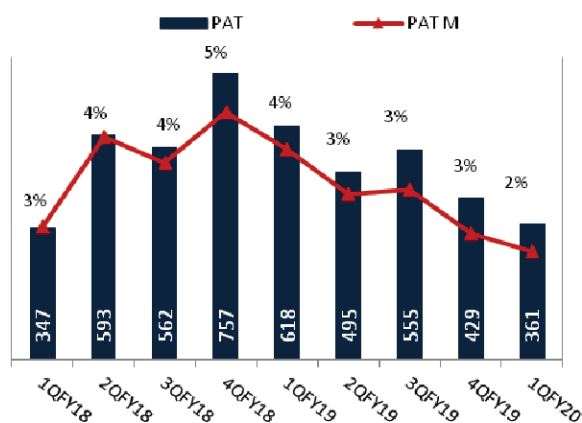
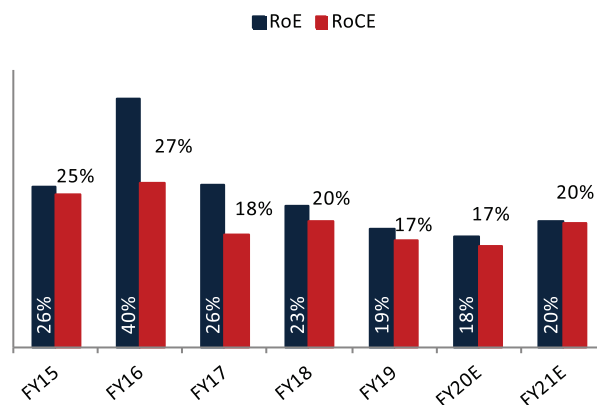


Exhibit: Return Ratios

Return ratios to decline in FY20 sharply due to uncertain demand scenario.



Financial Details

Balance Sheet

Fig in Rs Cr

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E | FY21E |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Share Capital | 88 | 88 | 132 | 140 | 211 | 316 | 316 | 316 |
| Reserves | 2,871 | 3,236 | 4,195 | 8,280 | 9,304 | 10,294 | 11,946 | 14,159 |
| Networth | 2,959 | 3,324 | 4,397 | 8,273 | 9,884 | 10,963 | 12,262 | 14,475 |
| Debt | 3,995 | 4,910 | 5,742 | 10,142 | 9,477 | 10,943 | 10,539 | 9,935 |
| Other Non Cur Liab | 581 | 673 | 817 | 1,232 | 2,011 | 2,344 | 2,356 | 2,365 |
| Total Capital Employed | 5,943 | 7,410 | 9,183 | 17,717 | 17,454 | 19,062 | 19,958 | 21,567 |
| Net Fixed Assets (incl CWIP) | 6,566 | 7,085 | 8,309 | 12,189 | 15,033 | 17,278 | 17,014 | 16,694 |
| Non Cur Investments | 75 | 65 | 59 | 68 | 247 | 239 | 400 | 650 |
| Other Non Cur Asst | 666 | 1,003 | 1,759 | 4,024 | 5,118 | 5,864 | 5,864 | 5,864 |
| Non Curr Assets | 7,307 | 8,152 | 10,127 | 16,282 | 20,398 | 23,381 | 23,278 | 23,207 |
| Inventory | 3,282 | 3,750 | 2,285 | 3,072 | 4,013 | 4,663 | 5,189 | 5,727 |
| Debtors | 3,238 | 3,014 | 4,654 | 6,607 | 5,624 | 6,166 | 6,861 | 7,573 |
| Cash & Bank | 906 | 1,892 | 1,772 | 4,887 | 2,782 | 3,547 | 5,032 | 6,888 |
| Other Curr Assets | 629 | 762 | 1,066 | 1,523 | 4,682 | 5,573 | 5,725 | 5,882 |
| Curr Assets | 8,056 | 9,419 | 9,777 | 16,088 | 17,100 | 19,949 | 22,808 | 26,071 |
| Creditors | 4,092 | 4,864 | 5,163 | 7,317 | 9,064 | 10,661 | 11,863 | 13,094 |
| Provisons (both) | 674 | 775 | 157 | 163 | 162 | 247 | 276 | 304 |
| Other Curr Liab | 2,272 | 2,011 | 2,302 | 3,205 | 4,201 | 5,139 | 5,272 | 5,409 |
| Curr Liabilities | 7,038 | 7,650 | 7,622 | 10,685 | 13,427 | 16,047 | 17,410 | 18,807 |
| Net Curr Assets | 1,017 | 1,769 | 2,155 | 5,403 | 3,673 | 3,902 | 5,397 | 7,264 |
| Total Assets | 15,362 | 17,571 | 19,904 | 32,370 | 37,498 | 43,330 | 46,086 | 49,278 |

Income Statement

Fig in Rs Cr

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E | FY21E |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Revenue from Operation | 30,428 | 34,585 | 37,216 | 42,475 | 56,293 | 63,523 | 70,655 | 77,948 |
| Change (%) | 20% | 14% | 8% | 14% | 33% | 13% | 11% | 10% |
| Other Income | 311 | 464 | 39 | 146 | 170 | 220 | 271 | 339 |
| EBITDA | 2,397 | 2,756 | 3,548 | 4,285 | 5,123 | 5,348 | 5,759 | 6,845 |
| Change (%) | 62% | 15% | 29% | 21% | 20% | 4% | 8% | 19% |
| Margin (%) | 8% | 8% | 10% | 10% | 9% | 8% | 8% | 9% |
| Depr & Amor. | 817 | 921 | 1,087 | 1,059 | 1,575 | 2,058 | 2,464 | 2,521 |
| EBIT | 1,580 | 1,835 | 2,461 | 3,226 | 3,547 | 3,290 | 3,296 | 4,324 |
| Int. & other fin. Cost | 294 | 318 | 345 | 375 | 411 | 423 | 408 | 384 |
| EBT | 1,596 | 1,982 | 2,155 | 2,997 | 3,307 | 3,087 | 3,159 | 4,279 |
| Exp Item | - | 165 | - | 97 | 178 | - | - | - |
| Tax | 499 | 526 | 519 | 910 | 1,007 | 1,102 | 1,076 | 1,455 |
| Minority Int & P/L share of Ass. | 331 | 430 | 138 | 183 | 138 | 113 | 119 | 125 |
| Reported PAT | 1,097 | 1,292 | 1,636 | 1,989 | 2,122 | 1,985 | 2,084 | 2,824 |
| Adjusted PAT | 765 | 862 | 1,774 | 2,172 | 2,260 | 2,098 | 2,202 | 2,949 |
| Change (%) | 72% | 13% | 106% | 22% | 4% | -7% | 5% | 34% |
| Margin(%) | 2.5% | 2.5% | 4.8% | 5.1% | 4.0% | 3.3% | 3.1% | 3.8% |

Financial Details

Key Ratios

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E | FY21E |
|--------------------|------|------|------|------|------|------|-------|-------|
| ROE | 26% | 26% | 40% | 26% | 23% | 19% | 18% | 20% |
| ROCE | 27% | 25% | 27% | 18% | 20% | 17% | 17% | 20% |
| Asset Turnover | 2.0 | 2.0 | 1.9 | 1.3 | 1.5 | 1.5 | 1.5 | 1.6 |
| Debtor Days | 38 | 31 | 46 | 57 | 36 | 35 | 35 | 35 |
| Inv Days | 39 | 39 | 22 | 26 | 26 | 27 | 27 | 27 |
| Payable Days | 49 | 51 | 51 | 63 | 59 | 61 | 61 | 61 |
| Int Coverage | 5 | 6 | 7 | 9 | 9 | 8 | 8 | 11 |
| P/E | 12.7 | 23.3 | 12.2 | 16.1 | 33.3 | 17.9 | 13.9 | 10.4 |
| Price / Book Value | 3 | 6 | 5 | 4 | 8 | 3 | 2 | 2 |
| EV/EBITDA | 5 | 8 | 7 | 9 | 16 | 8 | 6 | 4 |
| FCF per Share | 15 | 16 | 1 | 7 | 1 | 5 | 8 | 12 |

Cash Flow Statement

Fig in Rs Cr

| Y/E March | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY20E | FY21E |
|------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| PBT | 1,596 | 1,818 | 2,293 | 3,180 | 3,445 | 3,200 | 3,159 | 4,279 |
| (inc)/Dec in Working Capital | 240 | 1,265 | (899) | 664 | (1,329) | (96) | 1 | (1) |
| Non Cash Op Exp | 817 | 921 | 1,087 | 1,059 | 1,575 | 2,058 | 2,464 | 2,521 |
| Int Paid (+) | 293 | 317 | 345 | 375 | 411 | 423 | 408 | 384 |
| Tax Paid | (560) | (617) | (690) | (843) | (1,005) | (1,050) | (1,076) | (1,455) |
| others | 308 | (314) | 52 | (636) | 167 | (224) | (234) | 125 |
| CF from Op. Activities | 2,695 | 3,390 | 2,188 | 3,800 | 3,264 | 4,312 | 4,722 | 5,853 |
| (inc)/Dec in FA & CWIP | (1,412) | (1,944) | (2,039) | (2,809) | (3,062) | (2,763) | (2,200) | (2,200) |
| Free Cashflow | 1,283 | 1,445 | 150 | 991 | 202 | 1,550 | 2,522 | 3,653 |
| (Pur)/Sale of Inv | (1) | 0 | (15) | 78 | (165) | (1) | (161) | (250) |
| others | 40 | (909) | 148 | (4,077) | 33 | (547) | - | - |
| CF from Inv. Activities | (1,372) | (2,853) | (1,906) | (6,808) | (3,194) | (3,311) | (2,361) | (2,450) |
| inc/(dec) in NW | - | - | - | - | - | - | 0 | - |
| inc/(dec) in Debt | (600) | 1,138 | 717 | 3,409 | (947) | 220 | (404) | (604) |
| Int. Paid | (288) | (299) | (323) | (347) | (394) | (416) | (408) | (384) |
| Div Paid (inc tax) | (194) | (354) | (668) | (1) | (633) | (640) | (550) | (736) |
| others | 2 | 10 | 10 | 10 | (247) | 611 | 485 | 178 |
| CF from Fin. Activities | (1,080) | 495 | (263) | 3,072 | (2,221) | (225) | (876) | (1,546) |
| Inc(Dec) in Cash | 243 | 1,031 | 19 | 63 | (2,152) | 777 | 1,485 | 1,857 |
| Add: Opening Balance | 585 | 831 | 1,743 | 1,766 | 4,877 | 2,771 | 3,547 | 5,032 |
| Closing Balance | 827 | 1,870 | 1,762 | 2,410 | 2,726 | 3,548 | 5,031 | 6,889 |

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