

# MothersonSumi Systems Ltd.

Industry Auto Ancillary  
Bloomberg MSS IN  
BSE CODE 517334

## Bottom-line to remain under pressure

<b>RATING</b>	<b>NEUTRAL</b>
<b>CMP</b>	<b>135</b>
<b>Price Target</b>	<b>112</b>
<b>Potential Upside</b>	<b>-17%</b>

<b>Rating Change</b>	
<b>Estimate Change</b>	
<b>Target Change</b>	

### Stock Info

52wk Range H/L	179/91
Mkt Capital (Rs Cr)	42124
Free float (%)	38%
Avg. Vol 1M (,000)	10923
No. of Shares (Cr.)	316
Promoters Pledged %	3%

### Research Analyst

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### 2QFY20 Result Update

- ❑ MOTHERSUMI posted a revenue growth of 5% YoY to Rs. 15924 crores (vs. our estimates of Rs. 16536 crores) during the quarter.
- ❑ SMRP BV revenues grew by 15% and had 11% growth in EBITDA despite continued challenges in the recently setup Greenfield plants during the quarter.
- ❑ PKC Group had 12% growth in revenues and 73% growth in profit in 2QFY20.
- ❑ The company has taken various cost control initiatives in standalone business to maintain margins over 11% while revenue dropped by 18% due to lower demand in domestic market.
- ❑ Gross margin improved by 43 bps QoQ to 42.7% due to softening of commodity prices. EBITDA margins also improved by 81 bps on sequential basis to 8.3% due to various cost cutting initiatives taken by the company.
- ❑ PAT for the quarter stood at Rs. 458 crores (vs. our estimate of Rs. 530 crores). PAT margins improved by 70 bps QoQ to 2.9%.
- ❑ New orders worth Rs. 29708 crores (Euro 3.8 billion) has been received in H1FY20 while orders worth Rs. 28,926 crores (Euro 3.7 billion) has been executed during H1FY20.
- ❑ Net debt for the quarter stood at Rs. 1386 crs on standalone basis and Rs. 8792 crs on consolidated basis.

### View and Valuation

The global demand situation continues to be benign based on WLTP norms in Europe, uncertainty related to emission norms and transition towards electric vehicles. However the management expects demand scenario to improve in next 2-3 quarters. The margins are expected to improve gradually based on the stable commodity prices, value addition and cost cutting initiatives. But higher depreciation cost on new plants and increased borrowings will continue to put bottom-line under pressure. Going ahead the company is expected to go for acquisitions in order to achieve its USD18 bn revenue guidance which may increase the debt level going ahead. We value the stock at 11x FY21E EPS to arrive at target price of Rs.112 and maintain NEUTRAL.

### Key Risks to our rating and target

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

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	42,475	56,293	63,523	68,920	75,238
EBITDA	4,285	5,123	5,348	5,581	6,606
EBIT	3,226	3,547	3,290	2,976	4,068
PAT	2,172	2,260	2,098	2,198	3,152
EPS (Rs)	15	11	7	7	10
EPS growth (%)	15%	-31%	-38%	5%	43%
ROE (%)	26%	23%	19%	18%	22%
ROCE (%)	18%	20%	17%	15%	19%
BV	59	47	35	39	46
P/B (X)	4.2	7.6	3.4	3.5	2.9
P/E (x)	16.1	33.3	17.9	19.3	13.5

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## 2QFY20 Results

Result below expectation

Fig in Rs Cr

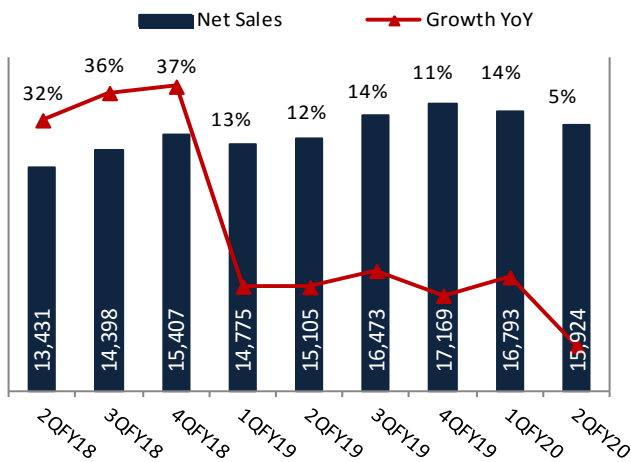
Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	15,105	16,473	17,169	16,793	15,924	5%	-5%	56,293	63,523	13%
Other Income	46	61	68	55	83	80%	51%	170	220	29%
Total Income	15,151	16,534	17,238	16,847	16,007	6%	-5%	56,463	63,743	13%
COGS	8,746	9,509	9,974	9,659	9,130	4%	-5%	34,312	36,738	7%
Staff Cost	3,277	3,706	3,955	3,917	3,631	11%	-7%	11,068	14,169	28%
Other Exp.	1,782	1,864	1,997	1,962	1,844	3%	-6%	5,791	7,267	25%
Expenditure	13,805	15,080	15,927	15,538	14,605	6%	-6%	51,171	58,175	14%
EBITDA	1,300	1,393	1,243	1,255	1,319	1%	5%	5,123	5,348	4%
Depreciation	488	571	552	637	655	34%	3%	1,575	2,058	31%
EBIT	812	822	691	618	664	-18%	7%	3,547	3,290	-7%
Interest	132	88	103	156	125	-5%	-20%	411	423	3%
PBT	727	795	656	517	621	-15%	20%	3,307	3,087	-7%
Excpt. Item	-	-	-	-	-	-	-	178	-	NA
Tax	258	269	248	177	187	-28%	6%	1,007	1,102	9%
PAT	469	526	408	340	434	-7%	28%	2,260	2,098	-7%

## Concall Highlights

- SMRP BV revenues grew by 15% and had 11% growth in EBITDA despite continued challenges in the recently setup Greenfield plants during the quarter.
- PKC Group had 12% growth in revenues and 73% growth in profit in 2QFY20.
- The company has made various cost control initiatives in standalone business while revenue dropped by 18% due to lower demand in domestic market.
- The company's revenue has improved on the rolling stock side from Europe, South America, Asia Pacific and China regions.
- The company has a robust order book of Rs. 143,851 crs (Euro 18.4 billion) at SMRP BV level.
- New orders worth Rs. 29708 crs (Euro 3.8 billion) has been received in H1FY20 while orders worth Rs. 28,926 crs (Euro 3.7 billion) has been executed during H1FY20.
- The company is planning to do Brownfield expansion in Serbia and will do Greenfield expansion in Ras al Khaimah, UAE.
- The Kecskemét plant is expected to fully ramp up soon while the SMP Alabama plant is ramping up.
- The Tuscaloosa plant profitability is expected to improve from March 2020 once all the new launches are made.
- Margins are expected to improve from H2FY20.
- Net debt for the quarter stood at Rs. 1386 crs on standalone basis and Rs. 8792 crs on consolidated basis.
- Capex guidance for FY20 is Rs. 2000 crs.

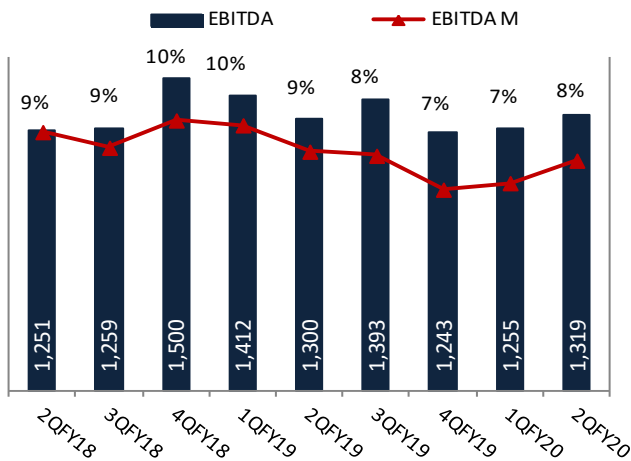
## Exhibit: Net sales (Rs. Crore) and Growth Trend

5% YoY revenue growth led by SMP and PKC group revenue growth



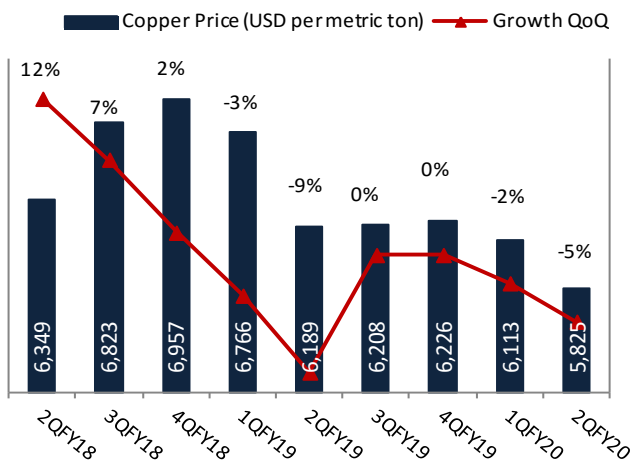
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Various cost cutting initiatives led to improvement in EBITDA margins



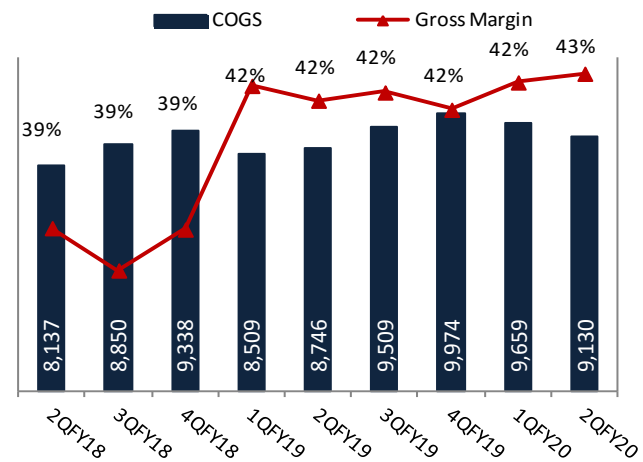
## Exhibit: Trend in copper prices

Copper prices continue to decline during the quarter



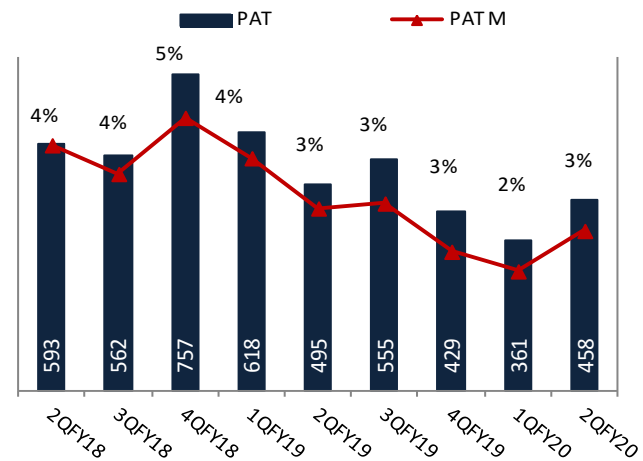
## Exhibit: COGS (Rs. Crore) and Gross Margin Trend

Softening of commodity prices led to margins improvement



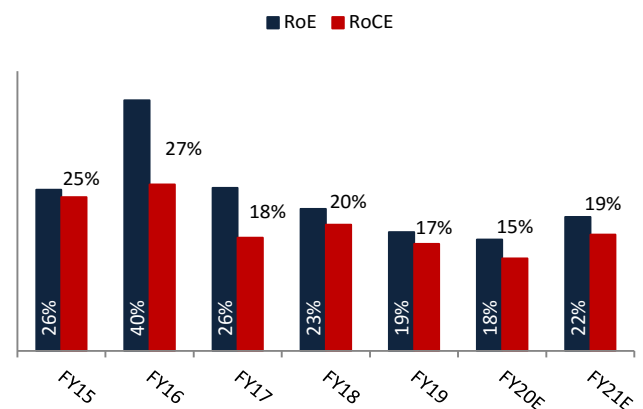
## Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT margins improved led by profits earned across its associates



## 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	11,943	14,308
Networth	2,959	3,324	4,397	8,273	9,884	10,963	12,258	14,624
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	2,354	2,362
Total Capital Employed	5,943	7,410	9,183	17,717	17,454	19,062	19,954	21,716
Net Fixed Assets (incl CWIP)	6,566	7,085	8,309	12,189	15,033	17,278	16,874	16,535
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	23,137	23,049
Inventory	3,282	3,750	2,285	3,072	4,013	4,663	5,063	5,531
Debtors	3,238	3,014	4,654	6,607	5,624	6,166	6,694	7,313
Cash & Bank	906	1,892	1,772	4,887	2,782	3,547	5,169	7,341
Other Curr Assets	629	762	1,066	1,523	4,682	5,573	5,689	5,825
Curr Assets	8,056	9,419	9,777	16,088	17,100	19,949	22,614	26,009
Creditors	4,092	4,864	5,163	7,317	9,064	10,661	11,574	12,644
Provisons (both)	674	775	157	163	162	247	269	293
Other Curr Liab	2,272	2,011	2,302	3,205	4,201	5,139	5,239	5,359
Curr Liabilities	7,038	7,650	7,622	10,685	13,427	16,047	17,082	18,297
Net Curr Assets	1,017	1,769	2,155	5,403	3,673	3,902	5,532	7,713
Total Assets	15,362	17,571	19,904	32,370	37,498	43,330	45,752	49,059

### 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	68,920	75,238
Change (%)	20%	14%	8%	14%	33%	13%	8%	9%
Other Income	311	464	39	146	170	220	278	359
<b>EBITDA</b>	<b>2,397</b>	<b>2,756</b>	<b>3,548</b>	<b>4,285</b>	<b>5,123</b>	<b>5,348</b>	<b>5,581</b>	<b>6,606</b>
Change (%)	62%	15%	29%	21%	20%	4%	4%	18%
<b>Margin (%)</b>	<b>8.0%</b>	<b>8.0%</b>	<b>10.0%</b>	<b>10.0%</b>	<b>9.0%</b>	<b>8.0%</b>	<b>8.0%</b>	<b>9.0%</b>
Depr & Amor.	817	921	1,087	1,059	1,575	2,058	2,604	2,538
EBIT	1,580	1,835	2,461	3,226	3,547	3,290	2,976	4,068
Int. & other fin. Cost	294	318	345	375	411	423	408	384
<b>EBT</b>	<b>1,596</b>	<b>1,982</b>	<b>2,155</b>	<b>2,997</b>	<b>3,307</b>	<b>3,087</b>	<b>2,847</b>	<b>4,043</b>
Exp Item	-	165	-	97	178	-	-	-
Tax	499	526	519	910	1,007	1,102	768	1,019
Minority Int & P/L share of Ass.	331	430	138	183	138	113	119	128
<b>Reported PAT</b>	<b>1,097</b>	<b>1,292</b>	<b>1,636</b>	<b>1,989</b>	<b>2,122</b>	<b>1,985</b>	<b>2,079</b>	<b>3,024</b>
<b>Adjusted PAT</b>	<b>765</b>	<b>862</b>	<b>1,774</b>	<b>2,172</b>	<b>2,260</b>	<b>2,098</b>	<b>2,198</b>	<b>3,152</b>
Change (%)	72%	13%	106%	22%	4%	-7%	5%	41%
<b>Margin(%)</b>	<b>3.0%</b>	<b>2.0%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>4.0%</b>	<b>3.0%</b>	<b>3.0%</b>	<b>4.0%</b>

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	26%	26%	40%	26%	23%	19%	18%	22%
ROCE	27%	25%	27%	18%	20%	17%	15%	19%
Asset Turnover	2.0	2.0	1.9	1.3	1.5	1.5	1.5	1.5
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	7	11
P/E	12.7	23.3	12.2	16.1	33.3	17.9	19.3	13.5
Price / Book Value	3	6	5	4	8	3	3	3
EV/EBITDA	5	8	7	9	16	8	8	6
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	2,847	4,043
(inc)/Dec in Working Capital	240	1,265	(899)	664	(1,329)	(96)	2	(1)
Non Cash Op Exp	817	921	1,087	1,059	1,575	2,058	2,604	2,538
Int Paid (+)	293	317	345	375	411	423	408	384
Tax Paid	(560)	(617)	(690)	(843)	(1,005)	(1,050)	(768)	(1,019)
others	308	(314)	52	(636)	167	(224)	(234)	128
CF from Op. Activities	2,695	3,390	2,188	3,800	3,264	4,312	4,858	6,074
(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	2,658	3,874
(Pur)/Sale of Inv	(1)	-	(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	-	-	-	-	-	-	-	-
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)	(549)	(787)
others	2	10	10	10	(247)	611	485	323
CF from Fin. Activities	(1,080)	495	(263)	3,072	(2,221)	(225)	(875)	(1,452)
Inc(Dec) in Cash	243	1,031	19	63	(2,152)	777	1,622	2,172
Add: Opening Balance	585	831	1,743	1,766	4,877	2,771	3,547	5,169
Closing Balance	827	1,870	1,762	2,410	2,726	3,548	5,169	7,341

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