

Industry **Auto Ancillary**
 Bloomberg **MSS**
 BSE CODE **517334**

Weaker operating leverage continue to weigh on margins

RATING	NEUTRAL
CMP	125
Price Target	137
Potential Upside	10%
Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	179/91
Mkt Capital (Rs Cr)	39456
Free float (%)	38%
Avg. Vol 1M (,000)	41957
No. of Shares (Crs)	316
Promoters Pledged %	6%

3QFY20 Result Update

- MOTHERSUMI revenue declined by 5% YoY to Rs. 15661 crores (vs. our estimates of Rs. 16909 crores) during the quarter.
- SMRP BV India business declined by 5%YoY to Rs.1643 crores because of sluggish domestic OEM volumes.
- SMR and SMP revenues de-grew by 9%YoY and 2%YoY respectively due to slowdown in passenger vehicle industry globally.
- PKC Group registered a decline of 7% YoY led by slow down in production of commercial vehicles in USA & Europe.
- Gross margin contracted by 40 bps QoQ to 42.3% because of increase in commodity prices & forex movement. EBITDA margins also declined by 40 bps on sequential basis to 7.9%.
- PAT for the quarter stood at Rs. 340 crores (vs. our estimate of Rs.604 crores). PAT margins declined by 70 bps QoQ to 2.2%.
- Gross debt as on 9MFY20 stood at Rs. 11484 crores on consolidated basis (as against Rs11784 crores in 1HFY20).

View and Valuation

Globally the demand scenario continues to be uncertain while the European market has seen gradual improvement in last 2-3 months. Though the industry may witness some production headwinds led by corona virus in China. We expect that margin to remain under pressure based on weak volumes across OEMs. However, the management seems completely focused on improving the profitability of new SMP Alabama plant in terms of cost efficiencies and employee rationalization. The management reiterated it USD18 bn revenue guidance for which it may go for acquisitions that can lead to further increase in the debt level going ahead. We value the stock at 15x FY21E EPS to arrive at target price of Rs.137 and maintain NEUTRAL.

Key Risks to our rating and target

- Production headwinds related to corona virus in China
- Sharp increase in commodity prices and currency movement

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	42,475	56,293	63,523	64,969	70,322
EBITDA	4,285	5,123	5,348	5,187	6,173
EBIT	3,226	3,547	3,290	2,534	3,568
PAT	2,172	2,260	2,098	1,705	2,695
EPS (Rs)	15	11	7	5	9
EPS growth (%)	15%	-31%	-38%	-19%	58%
ROE (%)	26%	23%	19%	14%	19%
ROCE (%)	18%	20%	17%	13%	16%
BV	59	47	35	38	44
P/B (X)	4.2	7.6	3.4	3.3	2.8
P/E (x)	16.1	33.3	17.9	23.1	14.6

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Result below expectation

3QFY20 Results

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	16,473	17,169	16,793	15,924	15,661	-5%	-2%	56,293	63,523	13%
Other Income	61	68	55	83	78	28%	-5%	170	220	29%
Total Income	16,534	17,238	16,847	16,007	15,739	-5%	-2%	56,463	63,743	13%
COGS	9,509	9,974	9,659	9,130	9,042	-5%	-1%	34,312	36,738	7%
Staff Cost	3,706	3,955	3,917	3,631	3,726	1%	3%	11,068	14,169	28%
Other Exp.	1,864	1,997	1,962	1,844	1,658	-11%	-10%	5,791	7,267	25%
Expenditure	15,080	15,927	15,538	14,605	14,425	-4%	-1%	51,171	58,175	14%
EBITDA	1,393	1,243	1,255	1,319	1,236	-11%	-6%	5,123	5,348	4%
Depreciation	571	552	637	655	694	21%	6%	1,575	2,058	31%
EBIT	822	691	618	664	542	-34%	-18%	3,547	3,290	-7%
Interest	88	103	156	125	179	103%	43%	411	423	3%
PBT	795	656	517	621	441	-44%	-29%	3,307	3,087	-7%
Excpt. Item	-	-	-	-	-	-	-	178	-	NA
Tax	269	248	177	187	123	-54%	-34%	1,007	1,102	9%
PAT	526	408	340	458	340	-39%	-26%	2,260	2,098	-7%

Concall Highlights :

- The Indian consumers seems confused due to BS-IV to BS-VI emission changeover and the demand may improve from 1st April 2020 once the transition will complete as per the management.
- The management stated that the second hand car demand has reached its peak which suggests the demand will improve for new cars in domestic market.
- There is a possibility that production can hamper globally due to corona virus causing shortage of components sourced from China. China accounts for 7% of companies revenues.
- The demand scenario in the European market has seen gradual improvement in last 2-3 months.
- The Brazilian passenger car market has not been improving and hence the capex done on new products has been completely impaired in order to avoid any future risk.
- The management is completely focused on improving the profitability of new SMP Alabama plant in terms of cost efficiencies and employee rationalization. The plant will be supplying to Daimler.
- SMR business has seen 9%YoY decline due to weakness in Korean and Indian market.
- The PKC business has declined by 7%YoY because of slow down in production of commercial vehicles in USA & Europe. The company has 65-70% market share in USA.
- The margins have declined due to increase in copper prices.
- Gross debt as of 3QFY20 stands at Rs. 11484 crores (as against Rs. 11784 crores in 2QFY20).

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

Revenue declined by 5%YoY because of degrowth in all the businesses.

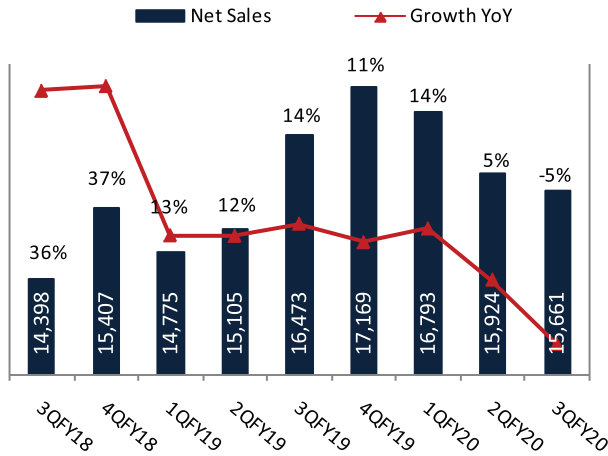


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Reduction in gross margins transferred to EBITDA level.

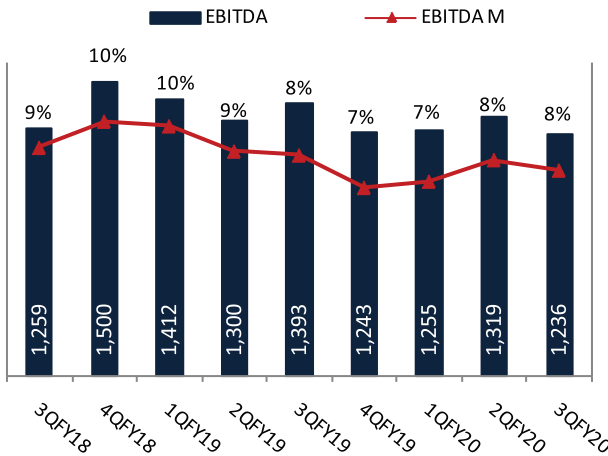


Exhibit: Trend in copper prices

Copper prices started to increase during the quarter.

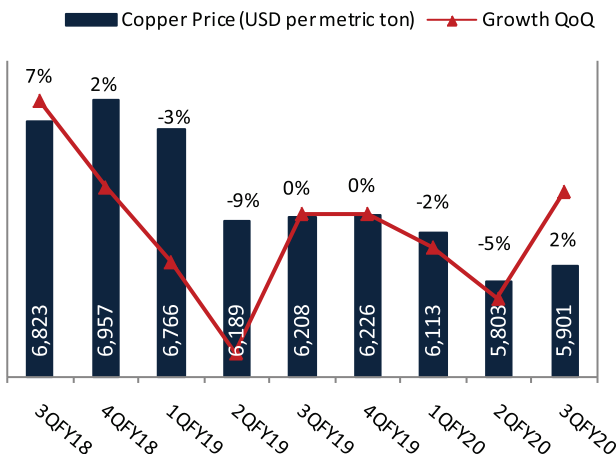


Exhibit: COGS (Rs. Crore) and Gross Margin Trend

Increased commodity prices and currency fluctuations led to margins contraction.

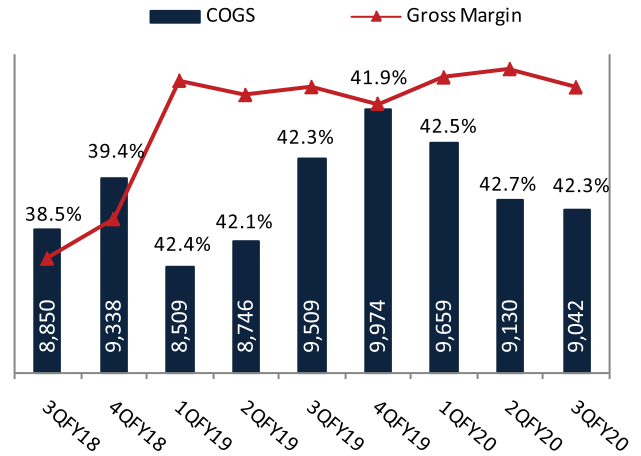


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Higher depreciation and interest cost led to contraction in PAT margins.

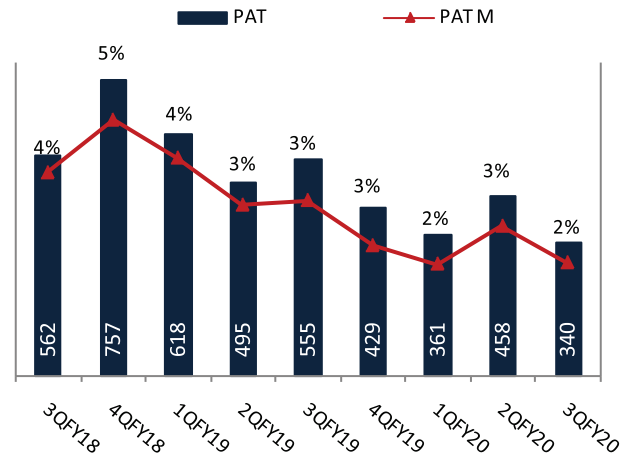
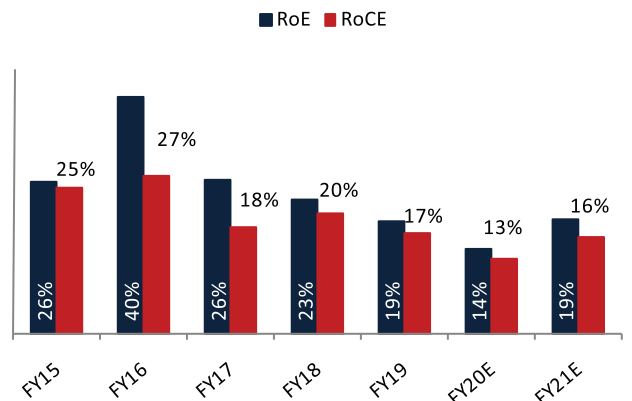


Exhibit: Trend in copper prices

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	11,573	13,595
Networth	2,959	3,324	4,397	8,273	9,884	10,963	11,889	13,911
Debt	3,995	4,910	5,742	10,142	9,477	10,943	11,039	10,835
Other Non Cur Liab	581	673	817	1,232	2,011	2,344	2,350	2,356
Total Capital Employed	5,943	7,410	9,183	17,717	17,454	19,062	20,085	21,903
Net Fixed Assets (incl CWIP)	6,566	7,085	8,309	12,189	15,033	17,278	16,825	16,420
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	23,089	22,934
Inventory	3,282	3,750	2,285	3,072	4,013	4,663	4,773	5,171
Debtors	3,238	3,014	4,654	6,607	5,624	6,166	6,312	6,838
Cash & Bank	906	1,892	1,772	4,887	2,782	3,547	5,163	7,403
Other Curr Assets	629	762	1,066	1,523	4,682	5,573	5,605	5,720
Curr Assets	8,056	9,419	9,777	16,088	17,100	19,949	21,853	25,132
Creditors	4,092	4,864	5,163	7,317	9,064	10,661	10,725	11,619
Provisons (both)	674	775	157	163	162	247	257	275
Other Curr Liab	2,272	2,011	2,302	3,205	4,201	5,139	5,163	5,267
Curr Liabilities	7,038	7,650	7,622	10,685	13,427	16,047	16,145	17,161
Net Curr Assets	1,017	1,769	2,155	5,403	3,673	3,902	5,708	7,971
Total Assets	15,362	17,571	19,904	32,370	37,498	43,330	44,942	48,066

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	64,969	70,322
Change (%)	20%	14%	8%	14%	33%	13%	2%	8%
Other Income	311	464	39	146	170	220	278	362
EBITDA	2,397	2,756	3,548	4,285	5,123	5,348	5,187	6,173
Change (%)	62%	15%	29%	21%	20%	4%	-3%	19%
Margin (%)	8%	8%	10%	10%	9%	8%	8.0%	8.8%
Depr & Amor.	817	921	1,087	1,059	1,575	2,058	2,653	2,606
EBIT	1,580	1,835	2,461	3,226	3,547	3,290	2,534	3,568
Int. & other fin. Cost	294	318	345	375	411	423	574	498
EBT	1,596	1,982	2,155	2,997	3,307	3,087	2,238	3,431
Exp Item	-	165	-	97	178	-	-	-
Tax	499	526	519	910	1,007	1,102	652	865
Minority Int & P/L share of Ass.	331	430	138	183	138	113	119	128
Reported PAT	1,097	1,292	1,636	1,989	2,122	1,985	1,586	2,567
Adjusted PAT	765	862	1,774	2,172	2,260	2,098	1,705	2,695
Change (%)	72%	13%	106%	22%	4%	-7%	-19%	51%
Margin(%)	2.5%	2.5%	4.8%	5.1%	4.0%	3.3%	2.6%	3.8%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	26%	26%	40%	26%	23%	19%	14%	19%
ROCE	27%	25%	27%	18%	20%	17%	13%	16%
Asset Turnover	2.0	2.0	1.9	1.3	1.5	1.5	1.4	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	60	60
Int Coverage	5	6	7	9	9	8	4	7
P/E	12.7	23.3	12.2	16.1	33.3	17.9	23.1	14.6
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	7	11

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	2,238	3,431
(inc)/Dec in Working Capital	240	1,265	(899)	664	(1,329)	(96)	(183)	(18)
Non Cash Op Exp	817	921	1,087	1,059	1,575	2,058	2,653	2,606
Int Paid (+)	293	317	345	375	411	423	574	498
Tax Paid	(560)	(617)	(690)	(843)	(1,005)	(1,050)	(652)	(865)
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	4,396	5,781
(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	2,196	3,581
(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	-	-	-	-	-	-	0	-
inc/(dec) in Debt	(600)	1,138	717	3,409	(947)	220	96	(204)
Int. Paid	(288)	(299)	(323)	(347)	(394)	(416)	(574)	(498)
Div Paid (inc tax)	(194)	(354)	(668)	(1)	(633)	(640)	(426)	(673)
others	2	10	10	10	(247)	611	485	284
CF from Fin. Activities	(1,080)	495	(263)	3,072	(2,221)	(225)	(419)	(1,091)
Inc(Dec) in Cash	243	1,031	19	63	(2,152)	777	1,616	2,240
Add: Opening Balance	585	831	1,743	1,766	4,877	2,771	3,547	5,163
Closing Balance	827	1,870	1,762	2,410	2,726	3,548	5,163	7,403

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