

Viewpoint

Well poised to outpace industry

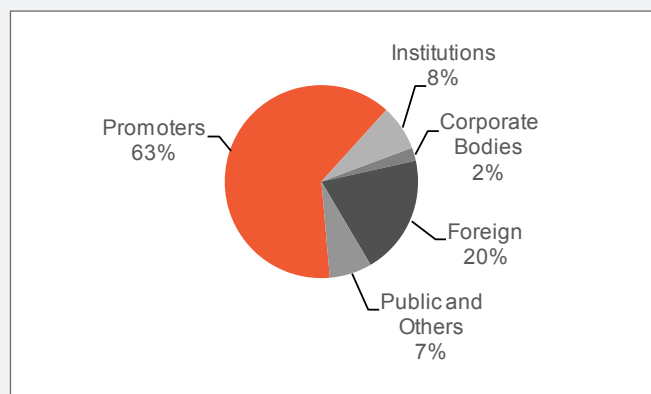
Motherson Sumi Systems

View: Positive | CMP: Rs355

Company details

Market cap:	Rs74,797 cr
52-week high/low:	Rs373/185
NSE volume: (No of shares)	22.7 lakh
BSE code:	517334
NSE code:	MOTHERSUMI
Sharekhan code:	MOTHERSUMI
Free float: (No of shares)	77.66 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.4	10.5	34.7	76.9
Relative to Sensex	1.7	5.4	20.0	43.1

Key points

- Q2FY2018 performance lower than estimated impacted by start up costs at subsidiary:** Motherson Sumi systems (MSSL) reported a lower than estimated operating performance for Q2FY2018. The numbers however are not comparable on a YoY basis due to the acquisitions made in the recent past. The topline for the quarter at Rs 13,431 crore is up sharply by 33% YoY on account of PKC acquisition and the execution of strong order book at subsidiaries. The operating margins for the quarter at 9.3% (as against estimated 10.3%) shrank by 50 BPS YoY on account of start up costs at subsidiary upcoming plants. The Tax rate for the quarter stood at 29.5% as against 32.4% for Q2FY2017 on account of a tax credit at PKC (tax credit Rs 56 crs). PAT at Rs 436 crore is up 21% YoY but was lower than our estimates.
- MSSL to outpace industry; aims for a three-fold revenue by FY2020:** MSSL has put in place an aggressive growth plan and aims to triple its revenues by FY2020 from USD 6.5bn as of FY2017 to USD 18 bn. As per MSSL, organic growth would contribute about 6 mn USD to its growth plans (MSSL currently has order book of Euro 1.4 billion and is expecting fresh order wins from its clients). Further as per the management, inorganic growth avenues would contribute about 6 mn USD to its topline. Cumulatively, we expect MSSL's topline to grow at a CAGR of 23% over FY2017-2019, which is significantly above the expected industry growth of ~ 8-10% for the same period.
- Concentrated efforts to bring in margin improvement; MSSL aims to restructure PKC operations:** MSSL is in the midst of an exercise to improve its overall margins profile. MSSL is introducing best practices and focusing on streamlining processes aimed at improving operational efficiencies across its plants. This would result in better margin performance. It is fastening up the restructuring process at the recently acquired PKC Group and has targeted to improve the ROCE at PKC to around 40% from the current 7-8% levels. Further receding of start up costs at upcoming plants would also aid in margin expansion. Going ahead, the margins are expected to improve from here on. We expect MSSL's consolidated margins to improve from 9.3% in Q2FY2018 to 10.2% in FY2019.

- ♦ **Outlook:** MSSL is well on track to achieve its long term target of trebling its revenues and improving its margin profile. Also the strong order book position of around Euro 1.4 bn provides ample visibility on its topline growth. We expect topline and earnings to grow at 23% / 25% CAGR over the next 2 years, making it one of the fastest growing auto-ancillary company. Also opening up cross-selling opportunities through PKC's acquisition would enable MSSL to comfortably outpace industry growth.
- ♦ **Valuation:** MSSL is a quality auto ancillary company having a diversified product and customer profile with a proven track record of outpacing industry growth and posting successful improvement in the performance of its subsidiaries. Given the weak performance for Q2FY2018, we have reduced our earnings estimates for FY2018/FY2019 by 6% / 14%. We have also introduced FY2020 estimates in this note. We maintain our Positive View on the stock and expect it to generate 12-15% returns over the next 6-8 months.

Results (Consolidated)

Particulars	Rs cr				
	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)
Net Sales	13431.3	10123.1	32.7	13095.9	2.6
EBIDTA	1250.7	993.0	26.0	1176.0	6.4
EBITDA Margin %	9.3	9.8	(50) BPS	9.0	30 BPS
Depreciation	397.8	264.3	50.5	376.8	5.6
Interest	77.1	98.0	(21.3)	117.6	(34.4)
Other Income	15.6	18.3	(14.7)	14.3	9.2
PBT	791.4	648.9	22.0	695.9	13.7
Tax	233.6	210.5	11.0	234.3	(0.3)
Extraordinary items	4.8	0.0		150.2	(96.8)
Minority Interest	157.3	118.9	32.3	69.3	126.8
Reported Net Profit	436.2	361.0	20.8	278.0	56.9
Adjusted Net Profit	439.4	361.0	21.7	378.6	16.1
EPS	2.1	2.6		1.8	

Segmental performance

Particulars	Rs cr				
	Q2FY18	Q2FY17	YoY (%)	Q1FY18	QoQ (%)
Revenues					
Standalone	1856.28	1757.74	5.6%	1910.66	-2.8%
SMR	2898.32	2869.66	1.0%	2897.83	0.0%
SMP	6124.09	5124.79	19.5%	6096.08	0.5%
PKC	1860.43	-		1822.68	2.1%
Others	998.44	843.53	18.4%	906.26	10.2%
EBIT (Rs cr)					
Standalone	305.47	271.1	12.7%	259.38	17.8%
SMR	214.1	189.61	12.9%	231.83	-7.6%
SMP	228.04	205.66	10.9%	192.35	18.6%
PKC	75.18	-		84.49	-11.0%
Others	29.47	69.86	-57.8%	27	9.1%
EBIT Margins (%)					
Standalone	16.5%	15.4%	90 bps	13.6%	290 bps
SMR	7.4%	6.6%	80 bps	8.0%	(60 bps)
SMP	3.7%	4.0%	(30 bps)	3.2%	50 bps
PKC	4.0%	-	-	4.6%	(60) bps
Others	3.0%	8.3%	530 bps	3.0%	-
Overall	6.4%	7.1%	(70 bps)	6.0%	40 bps
Ex- PKC	6.5%	6.9%	(40 bps)	6.0%	50 bps

Valuation (Consolidated)

Particulars	Rs cr				
	FY16	FY17	FY18E	FY19E	FY20E
Revenues (Rs cr)	38,395.2	42,475.2	54,875.1	64,695.5	76,310.6
Growth (%)	10.7	10.6	29.2	17.9	18.0
EBIDTA (Rs cr)	3,455.0	4,266.5	5,261.5	6,598.9	8,394.2
OPM (%)	9.0	10.0	9.6	10.2	11.0
Minority Interest (Rs cr)	481.4	618.1	668.3	863.1	1141.8
Share of JV/Associate profit (Rs cr)	137.7	183.1	242.8	307.3	346.2
Net Profit (Rs cr)	1,303.5	1,633.5	1,868.9	2,551.1	3,449.1
Growth (%)	26.9	25.3	14.4	36.5	35.2
EPS	6.1	7.4	8.1	12.1	16.4
P/E (x)	58.6	48.1	43.6	29.3	21.7
P/BV (x)	17.6	9.0	7.5	6.0	4.7
EV/EBIDTA (x)	22.8	18.7	15.0	11.6	9.0
ROE (%)	30.0	18.8	17.2	20.3	21.6
ROCE (%)	21.8	15.5	16.0	19.4	21.9

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