

Motherson Sumi Systems Ltd.

Rating: ◀▶ Target price: ◀▶ EPS: ◀▶

CMP	Rs. 183	Absolute	Add
Target	Rs. 197	Relative	Underperform

Standalone business shines; visibility on SMR remains intact

Motherson Sumi reported 10% qoq growth in consol revenues to Rs. 21.5bn; EBITDA margin expanded by 165bps qoq and PAT grew by 24% to Rs. 1.0bn. Adjusting for exchange differences and one-time income included in other operative income, the PAT grew by 21.5% to Rs. 912mn against our estimate of Rs. 872mn

Standalone business grew by 15% qoq to Rs. 7.5bn driven by strong growth in OEM business. Also, with launch of Nissan Micra and Toyota Etios, we expect strong business momentum (supplies wiring harness, polymer components and rubber parts to both models) in the ensuing quarters. EBITDA margin expanded by 200bps qoq predominantly driven by richer product mix and control in other expenses.

SMR business grew by 7% qoq in Euro terms and 8% qoq in Re terms to Rs. 11.2bn. This growth was driven on account of lower base as 2QFY11 posted lower growth due to plant holidays. Also, on yoy basis the sales was flat due to higher base in 2QFY11 driven by higher sales on the back of 'cash for clunkers' scheme. However, the visibility of EUR 800mn orders exist and continue to expect strong traction in the ensuing quarters. We continue to expect margin leverage to reflect as increased sourcing from the group companies get started.

Despite higher input cost inflation, primarily in the form of copper, however given its leadership position and pricing contracts with its customers, we expect cost pressures to be passed on completely.

Estimates and Valuations: We expect consol topline to grow at 18% CAGR for FY10-12E to Rs. 96.4bn and EBITDA margin expansion of 190bps to 11% by FY12; EPS of Rs. 8.6 for FY11 and Rs. 11.2 for FY12. We continue to maintain Add-Underperform rating on the stock at our target price of Rs. 197.

Highlights of the result and conference call takeaways

- Other operative income includes one time revenue of Rs. 250mn received by Motherson Sumi Wiring systems (MSWS), in which MSSL Mideast has 51% stake, from its customer who relocated its business
- Capex expected to be at Rs. 5bn for FY11 out of which Rs. 3bn is expected to be in domestic
- SMR revenue in Euro terms grew by 25% to EUR 543.6mn for 9MFY11
- The company has acquired the 60% stake held by Balda AG in Balda Motherson Solutions India Ltd

Financial summary (consolidated)

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	Adj. PAT (Rs. mn)	Adj. EPS (Rs.)	P/E(x)	EV/EBITDA(x)
FY10	69,240	6,301	2,283	6.1	30.2	11.6
FY11E	83,953	8,748	3,330	8.6	21.3	8.6
FY12E	96,445	10,564	4,326	11.2	16.4	6.7

3QFY11 Update

Date: Feb 07, 2011

Market Data

SENSEX	18037
Nifty	5396
Bloomberg	MSS IN
Shares o/s	388mn
Market Cap	Rs. 68.6bn
52-wk High-Low	Rs. 209-120
3m Avg. Daily Vol	Rs. 30.67mn
Index member	BSE 500

Latest shareholding (%)

Promoters	65.1
Institutions	18.6
Public	16.3

Stock performance (%)

	1m	3m	12m
MSS	-0.7	-2.2	41.2
Sensex	-8.4	-13.5	13.2
BSE Auto	-9.5	-16.6	25.3

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Quarterly Financial Results

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Consolidated financial results

Rs. mn\Period	31-Dec-10	31-Dec-09	yoy Growth	30-Sep-10	qoq Growth	FY11E	FY12E	yoy Growth
Revenue	21,526	18,148	18.6%	19,576	10.0%	83,953	96,445	14.9%
Raw Material	13,238	11,126	19.0%	11,937	10.9%	51,644	58,941	14.1%
Employee cost	3,195	2,934	8.9%	3,005	6.3%	12,675	14,542	14.7%
Other cost	2,627	2,403	9.3%	2,715	-3.2%	10,885	12,398	13.9%
Total Expenditure	19,060	16,463	15.8%	17,657	7.9%	75,205	85,881	14.2%
EBITDA	2,466	1,686	46.3%	1,919	28.5%	8,748	10,564	20.8%
<i>Margin %</i>	11.5%	9.3%	<i>217 bps</i>	9.8%	<i>165 bps</i>	10.4%	11.0%	<i>53 bps</i>
D&A	601	642	-6.5%	610	-1.5%	2,432	3,072	26.3%
EBIT	1,865	1,043	78.8%	1,310	42.4%	6,316	7,491	18.6%
Other income	28	48	-41.5%	30	-4.4%	134	-159	-218.8%
Net Interest exp (inc)	171	139	NM	152	12.6%	680	774	13.7%
PBT	1,753	1,170	49.9%	1,352	29.7%	5,927	6,558	10.6%
Tax provision	430	389	10.6%	471	-8.7%	1,875	2,035	8.5%
Tax rate %	-25%	-33%	<i>871 bps</i>	-35%	<i>1032 bps</i>	-32%	-31%	<i>61 bps</i>
PAT (Reported)	1,064	749	42.1%	860	23.7%	3,565	4,326	21.3%
PAT (Adjusted)	912	612	49.0%	751	21.5%	3,330	4,326	29.9%
<i>Adjusted PAT Margin %</i>	4.2%	3.4%	<i>86 bps</i>	3.8%	<i>40 bps</i>	4.0%	4.5%	<i>52 bps</i>
Shares Outstanding	388	356		388		388	388	
EPS (Reported)	2.7	1.9	42.0%	2.2	23.7%	9.2	11.2	21.3%
EPS (Adjusted)	2.4	1.7	36.7%	1.9	21.5%	8.6	11.2	29.9%

Motherson Sumi Systems Ltd.

Business Overview

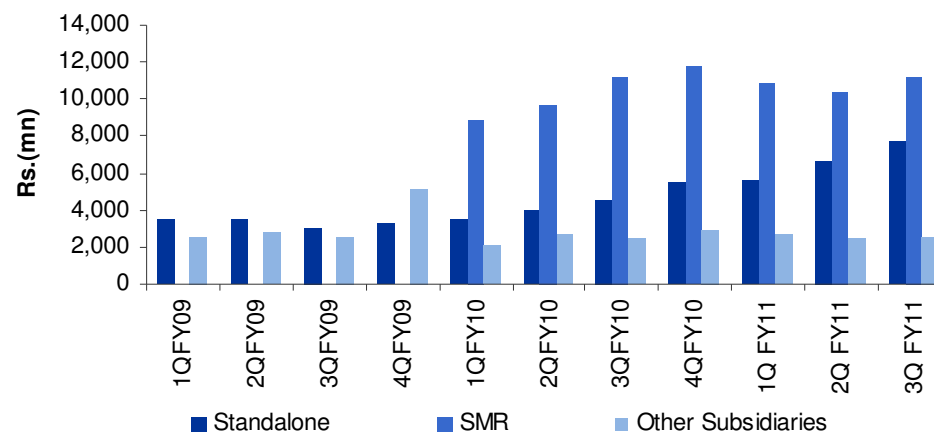
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Key estimate revision

	FY11E			FY12E		
	Old	New	Change	Old	New	Change
Revenue	81,681	83,953	2.8%	93,399	96,445	3.3%
EBITDA	8,428	8,748	3.8%	10,439	10,564	1.2%
Margin (%)	10.3%	10.4%	10 bps	11.2%	11.0%	-22 bps
PAT	3,130	3,330	6.4%	4,289	4,326	0.9%
PAT Margin	3.8%	4.0%	13 bps	4.6%	4.5%	-11 bps
EPS	8.1	8.6	6.4%	11.1	11.2	0.9%

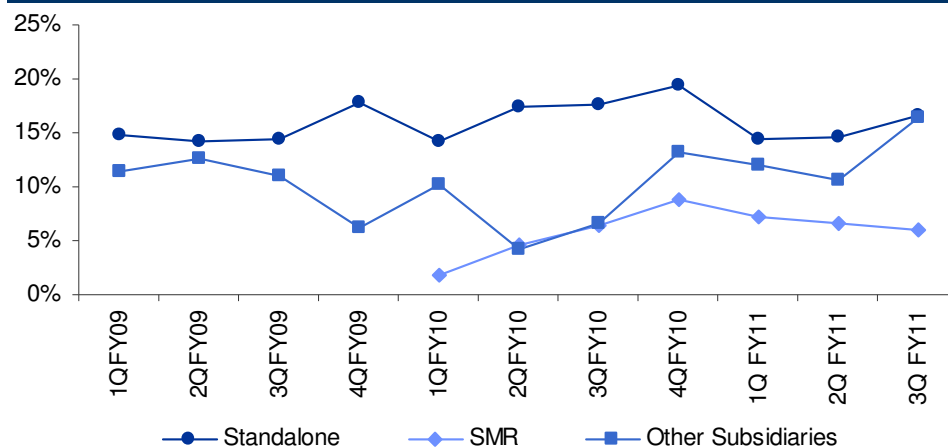
All figures in Rs. mn, except EPS, which is in Rs.

Revenue break-up



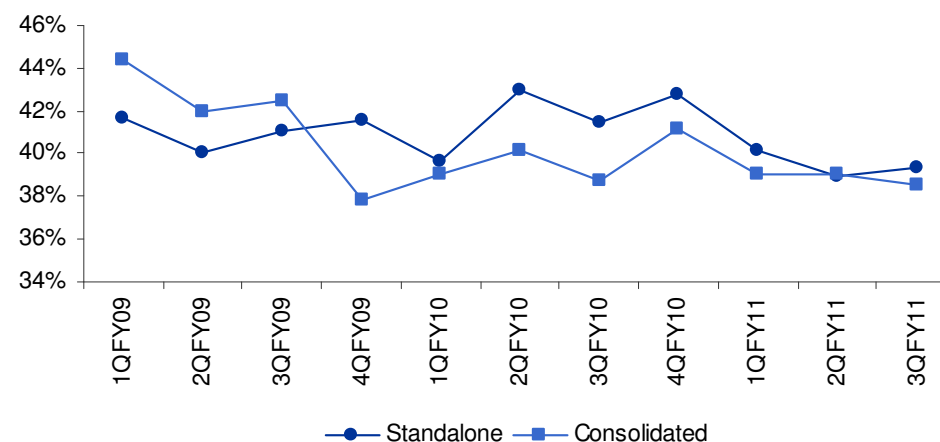
Source: Company, Spark Capital

EBITDA margin trend



Source: Company, Spark Capital

Gross margin trend



Source: Company, Spark Capital

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Financial Summary

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Abridged Financial Statements				
Rs. mn	FY09	FY10	FY11E	FY12E
Profit & Loss				
Revenues	26,398	69,240	83,953	96,445
Manufacturing & Other Expenses	23,120	62,939	75,205	85,881
EBITDA	3,278	6,301	8,748	10,564
Depreciation	979	2,601	2,432	3,072
EBIT	2,299	3,700	6,316	7,491
Net Interest Exp / (inc)	354	620	680	774
Profit Before Tax	2,560	3,428	5,927	6,558
Tax	349	1,094	1,875	2,035
Minority Interest	450	-91	488	198
Adj. Net Profit	1,279	2,283	3,330	4,326
Balance Sheet (Rs. mn)				
Shareholders Equity	7,831	11,649	15,375	18,900
Minority Interest	2,000	2,027	2,515	2,712
Loan funds	8,951	8,179	9,497	9,497
SOURCES OF FUNDS	18,927	21,896	27,427	31,150
Net block	13,487	14,548	16,863	16,601
Investments	547	471	500	600
Capital WIP	1,764	1,808	1,851	1,827
Current assets, loans & advances	18,835	20,971	26,908	30,609
Current liabilities & provisions	-15,971	-15,921	-18,713	-18,505
Net Current Assets	2,865	5,051	8,195	12,104
APPLICATION OF FUNDS	18,927	21,896	27,427	31,150
Cash Flows (Rs. mn)				
Cash flow s from operations	2,498	4,090	5,551	7,801
Capex	(2,756)	(4,129)	(4,790)	(2,786)
Cash flow s from investments	(4,312)	(3,758)	(4,819)	(2,886)
Cash flow s from financing	2,948	305	1,479	(802)
Free cashflow	-257	-39	761	5,016
Cash generated during the year	1,134	637	2,210	4,114

Key metrics				
	FY09	FY10	FY11E	FY12E
Growth ratios				
Revenues	28.9%	162.3%	21.2%	14.9%
EBITDA	2.3%	92.2%	38.8%	20.8%
PAT	-32.8%	78.5%	45.8%	29.9%
Margins				
EBITDA	12.4%	9.1%	10.4%	11.0%
EBIT	8.7%	5.3%	7.5%	7.8%
PAT	4.8%	3.3%	4.0%	4.5%
Leverage & WC ratios				
Debt to equity (x)	1.1	0.7	0.6	0.5
Current ratio (x)	1.2	1.3	1.4	1.7
Debtor days (Sales)	66	38	38	36
Inventory days (COGS)	106	56	55	54
Creditor Days (COGS)	165	93	88	85
Working Capital days	7	1	5	5
Performance & turnover ratios				
RoACE	13.5%	12.3%	17.5%	17.6%
RoAE	19.4%	23.4%	24.6%	25.2%
Total asset turnover (x)	1.1	1.9	2.0	1.9
Fixed asset turnover (x)	1.4	2.3	2.5	2.5
Working Capital turnover (x)	9.2	13.7	10.2	8.0
Valuation metrics				
Current price (Rs.)	183.20			
Shares outstanding (mn)	356	375	388	388
Market capitalisation (Rs. mn)	65,128	68,627	70,990	70,990
Enterprise value (Rs. mn)	71,312	73,375	74,846	70,732
EV/EBITDA (x)	21.8	11.6	8.6	6.7
Adj. Per-share earnings (Rs.)	3.6	6.1	8.6	11.2
Price-earnings multiple (x)	50.9	30.2	21.3	16.4
Dividend yield (%)	0.7%	1.0%	0.9%	0.9%

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Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of > 15% over a 1-year horizon
ADD	Stock expected to provide positive returns of <=15% over a 1-year horizon
REDUCE	Stock expected to fall <=15% over a 1-year horizon
SELL	Stock expected to fall >15% over a 1-year horizon

Relative Rating Interpretation

OUTPERFORM	Stock expected to outperform sector index /sector peers in our coverage
UNDERPERFORM	Stock expected to underperform sector index/ sector peers in our coverage

Recommendation History

Date	CMP	Target price	Absolute Rating	Relative Rating
10-Jan-11	183	197	Add	UPF
14-Dec-10	187	197	Add	UPF
02-Nov-10	184	197	-	OPF
08-Oct-10	190	197	-	OPF
20-Sep-10	182	197	-	OPF

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