

November 8, 2011

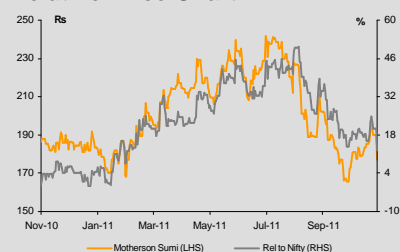
Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs177	Rs210
EPS change FY12E/13E (%)	(11)/(1)
Target Price change (%)	(19)
Nifty	5,289
Sensex	17,570

Price Performance

(%)	1M	3M	6M	12M
Absolute	7	(19)	(17)	(5)
Rel. to Nifty	(1)	(21)	(13)	13

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Auto Ancillaries
Bloomberg	MSS@IN
Equity Capital (Rs mn)	387
Face Value(Rs)	1
No of shares o/s (mn)	387
52 Week H/L	256/162
Market Cap (Rs bn/USD mn)	69/1,394
Daily Avg Volume (No of sh)	211642
Daily Avg Turnover (US\$m)	0.8

Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	65.2	65.2	65.2
FII/NRI	11.0	11.6	10.2
Institutions	9.5	9.0	9.4
Private Corp	7.7	7.4	8.1
Public	6.7	6.9	7.0

Source: Capitaline

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- **Results abv. est. with Sales/EBITDA/APAT at Rs 23bn/ 2bn/ 986mn vs est. of Rs 22.7/1.9bn/806mn. However, SMR disappoints with adjusted margins at 3.3%**
- **SMR margins to remain subdued as new Hungary plant is in gestation phase (utilization at <5%). Low utilization level to continue in H2FY12**
- **Expect margin uptick with commencement of ~Euro 800mn order in FY13. Lower our FY12/13 EPS by 11%/1% to Rs 10.4/ Rs 15.5**
- **Retain ACCUMULATE but lower our target multiple to 13.5x PER to factor in lower asset utilization and rising macro headwinds for demand**

SMR – Disappoints yet again

SMR reported sales of Euro 195mn (~13% YoY), ~5% below our est. of Euro 207bn. In line exchange rate of 64.7 Euro/INR led to top line of Rs 12.6bn (21.6% YoY). However, adjusted PBDIT margins declined 290bps YoY/150 bps QoQ to 3.3% (our est. of ~5%). Margins were impacted by low capacity utilization (< 5%) in new plant of Hungary which began operation in Q1FY12.

SMR – Summary Financials

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	%YoY	%QoQ
Sales/Other Inc.	10,403	11,231	13,030	12,930	12,646	21.6	(2.2)
PBIDT	646	879	996	629	420	(35.0)	(33.2)
Margins (%)	6.2	7.8	7.6	4.9	3.3	-289 bps	-154 bps
Depreciation	310	313	375	303	325	4.9	7.2
Int.(derived)	57	251	24	65	83	44.2	27.0
PBT	278	315	597	260	12	-95.7	-95.4
Forex / Other (loss)/ gain	36	0	0	32	-195		
Tax(derived)	180	61	281	231	205		
PAT	134	254	316	61	-388	-389.0	-734.4
MI	66	120	162	34	-206	-414.6	-703.5
PAT(for group)	69	134	155	27	-181	-364.5	-773.6
APAT(for group)	32.9	134.2	154.8	-5.3	13.6	-58.7	-356.6

Source: Company, Emkay Research

Key Financials

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	EPS APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY10	69,022	6,104	8.8	2,696	7.2	28.8	24.1	24.6	11.6	5.7
FY11	81,985	7,161	8.7	3,906	10.1	40.0	28.2	17.6	10.8	4.3
FY12E	98,713	8,145	8.3	4,095	10.4	3.7	21.2	16.9	10.1	3.8
FY13E	110,057	10,638	9.7	6,062	15.5	48.0	30.3	11.4	7.4	3.2

Source: Company, Emkay Research

Quarterly Summary - Consolidated

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY(%)	QoQ(%)	YTD'12	YTD'11	YoY(%)
Revenue	19,576	21,276	23,560	23,002	23,387	19.5	1.7	46,388	38,625	20.1
Expenditure	17,657	19,060	20,957	21,128	21,351	20.9	1.1	42,479	34,807	22.0
<i>as % of sales</i>	<i>90.2</i>	<i>89.6</i>	<i>89.0</i>	<i>91.9</i>	<i>91.3</i>			<i>91.6</i>	<i>90.1</i>	
Consumption of RM	11,937	13,238	14,659	14,555	14,536	21.8	(0.1)	29,091	23,557	23.5
<i>as % of sales</i>	<i>61.0</i>	<i>62.2</i>	<i>62.2</i>	<i>63.3</i>	<i>62.2</i>			<i>62.7</i>	<i>61.0</i>	
Employee Cost	3,005	3,195	3,438	3,554	3,675	22.3	3.4	7,229	5,955	21.4
<i>as % of sales</i>	<i>15.3</i>	<i>15.0</i>	<i>14.6</i>	<i>15.4</i>	<i>15.7</i>			<i>15.6</i>	<i>15.4</i>	
Other expenditure	2,715	2,627	2,860	3,020	3,139	15.6	4.0	6,159	5,295	16.3
<i>as % of sales</i>	<i>13.9</i>	<i>12.3</i>	<i>12.1</i>	<i>13.1</i>	<i>13.4</i>			<i>13.3</i>	<i>13.7</i>	
EBITDA	1,919	2,216	2,602	1,874	2,036	6.1	8.7	3,910	3,819	2.4
Depreciation	610	601	673	622	700	14.9	12.7	1,322	1,192	10.9
EBIT	1,310	1,615	1,930	1,252	1,335	2.0	6.6	2,588	2,627	(1.5)
Other Income	30	28	41	33	33	11.9	(1.2)	66	61	9.8
Interest	152	171	139	212	234	53.6	10	445	264	68.8
PBT	1,187	1,472	1,832	1,074	1,135	(4.4)	5.6	2,209	2,424	(8.9)
Total Tax	471	359	506	513	367	(22.1)	(28.4)	880	947	(7.0)
Adjusted PAT	716	1,113	1,326	561	767	7.2	36.8	1,328	1,477	(10.1)
(Profit)/loss from JV's/Ass/MI	(20)	(136)	(117)	(20)	219			198	(147)	
Adj. PAT after MI	695	977	1,209	541	986	41.8	82.4	1,527	1,331	14.7
Extra ordinary items	164	193	180	112	(743)			(631)	123	(611.9)
Reported PAT	860	1,170	1,389	653	243	(71.8)	(62.8)	895	1,454	(38.4)
Reported EPS	2.2	3.0	3.5	1.7	0.6	(71.8)	(62.8)	2.3	3.7	(38.4)

Margins (%)					(bps)	(bps)					(bps)
EBIDTA	9.8	10.4	11.0	8.1	8.7	(110)	56	8.4	9.9	(146)	
EBIT	6.7	7.6	8.2	5.4	5.7	(98)	27	5.6	6.8	(122)	
EBT	6.1	6.9	7.8	4.7	4.9	(121)	18	4.8	6.3	(151)	
PAT	3.7	5.2	5.6	2.4	3.3	(38)	84	2.9	3.8	(96)	
Effective Tax rate	39.7	24.4	27.6	47.8	32.4	(734)	(1,540)	39.9	39.1	80	

Standalone performance – ~28% above est.

Standalone net profits at Rs 648 mn was above our est. of Rs 507mn led by improved operating performance. Net sales stood at Rs 7.8bn vs our est. of Rs 7bn. Reported EBITDA was impacted by forex loss of Rs 471 mn during the quarter. Adjusting for the same EBITDA was at Rs 1.2 bn, ~25% above our est. of Rs 965mn.

Standalone – Summary Financials

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	%YoY	%QoQ
Sales/Other inc.	6,788	7,826	8,587	7,751	7,951	17.1	2.6
Adj PBIDT	1,077	1,400	1,589	1,192	1,310	21.6	9.9
Margins(%)	15.9	17.9	18.5	15.4	16.5	61 bps	109 bps
Depreciation	199	211	233	228	240	20	5
Interest (derived)	81	100	100	122	151	87	24
Reported PAT	659	776	1,149	655	316	-52	-52
APAT	577	759	1,065	615	648	12	5

Source: Company, Emkay Research

Other Subsidiaries (ex SMR & Standalone) – Above est.

Other subsidiaries reported net profit of Rs 96 mn, 10% YoY growth. Net sales of Rs 2.3bn (17% YoY, 13% QoQ) was ~6% above our est. of Rs 2.2bn. Adjusted EBITDA margins at ~14.5% were also significantly ahead of our est. of ~8% mainly driven by better utilization of capacity in existing plants

Other subsidiaries (derived) – Summary Financials

Rs mn	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	%YoY	%QoQ
Sales/Other inc.	2,000	1,802	1,602	2,068	2,337	16.8	13.0
Adj PBIDT	226.2	-35.1	58.4	86.1	338.9	49.8	293.6
Margins (%)	11.3	-1.9	3.6	4.2	14.5	28.2	248.3
Depreciation	100	76	65	90	136	35.2	50.8
Interest	14	-180	15	24	0		
PBT	112	68	-21	-28	203	81.4	-820.9
Forex/Extraordinary (loss)/ gain	88	7	81	89	-77		
Tax (derived)	41	33	19	40	30		
PAT	88	293	42	(43)	96	10.0	-326.5
MI Profit/(loss)	(45)	140	(43)	(13)	(12)		
Reported PAT(for group)	133	153	85	(29)	108	-18.5	-469.9
APAT (for Group)	85	83	(9)	(69)	324	280.7	-570.7

Source: Company, Emkay Research

Revision of Estimates

We have lowered our FY12 EPS by 11% to Rs 10.4 to factor in lower asset utilization of new plant at Hungary. Commencement of Euro 800mn orders will bring the required uptick in margins. This is expected from 1QFY13. We have fine tuned our FY13 est by lowering EPS by ~1% to Rs 15.5 per share.

Rs mn	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Sales	102,778	98,713	(4.0)	109,507	110,057	0.5
EBIDTA	10,090	8,145	(19.3)	12,024	10,638	(11.5)
EBIDTA margins (%)	9.8	8.3		11.0	9.7	
Net Profits	4,577	4,095	(10.5)	6,143	6,062	(1.3)
EPS	11.7	10.4	(10.5)	15.7	15.5	(1.3)

Valuation & view

We have lowered our target multiple on the stock to factor in lower asset utilization and rising macro headwinds for demand. We now value the company at target PER/EVBIDTA multiple of 13.5x/8.6x vs earlier 16.5x/8.8x. We are still not factoring in any value from Peguform acquisition. Assuming ~5% EBITDA margin for CY11, Peguform can potentially add Rs 2 earning per share to MSSL in its second year of operation (refer to table below). We retain our ACCUMULATE rating with a target price of Rs 210.

Euro Mn	CY11E	CY11E	CY11E	Comments
Sales	1600	1600	1600	Target of the company
EBIDTA	64	80	96	
Margin	4%	5%	6%	
Depreciation	46	46	46	As per CY10
EBIT	18	34	50	
Interest	7	7	7	Euro 141.5 mn @ 5%
PBT	10.9	26.9	42.9	
Tax (30%)	3	8	13	
Net profit	7.6	18.8	30.0	
MI	1.5	3.8	6.0	
Profit for the group	6.1	15.1	24.0	
MSSL share (51%)	3.1	7.7	12.3	
Exchange rate	65	65	65	
Profit in Rs mn	203	500	797	
No of shares	392	392	392	
EPS (Rs)	0.5	1.3	2.0	
Current FY12 EPS (Rs)	10.4	10.4	10.4	
% existing EPS	4.5%	11.0%	17.5%	

Key highlights of conference call

- New plants are in the process of “plant-readiness” before actual production begins. This phase normally extends for 6 months. Hungary plant achieved a utilization level of ~3% during the quarter. Expect ramp up to happen from Q4FY12 onwards. Also, Brazil plant to be launched in Dec 2011.
- SMR margins to benefit from higher inhouse sourcing from MSSL for wiring harnesses and other components. Also, increasing contribution of new orders (better margins) as compared to existing orders for old cars provide additional scope of margin improvement.
- MTM loss of Rs ~620 mn in consolidated financials are notional unrealized translation loss pertaining to loans that do not become due this year. Company has a foreign currency debt of Rs 7.4bn, out of which only ~3% are due for repayment before March 2012.
- Component production largely uses engineered plastics. Hence, Management does not expect any significant benefit from moderation in metal prices going ahead.
- Order book remains strong and management indicated no severe signs of slowdown going ahead both for MSSL and SMR.
- Capex target of Rs 7bn – 7.5 bn maintained for FY12. Management indicated that the company had already incurred a significant part of planned capex in H1FY12.

Key Consolidated Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	69,022	81,985	98,713	110,057
<i>Growth (%)</i>				
Expenditure	62,918	74,824	90,569	99,419
Materials Consumed	41,659	51,454	61,827	68,504
Employee Cost	12,004	12,588	15,406	16,600
Other Exp	9,255	10,782	13,336	14,315
EBITDA	6,104	7,161	8,145	10,638
<i>Growth (%)</i>				
EBITDA margin (%)	8.8	8.7	8.3	9.7
Depreciation	2,601	2,465	2,859	3,189
EBIT	3,503	4,696	5,286	7,449
EBIT margin (%)	5.1	5.7	5.4	6.8
Other Income	812	2,192	2,174	2,674
Interest expenses	493	573	893	862
PBT	3,822	6,315	6,567	9,261
Tax	1,219	1,889	1,773	2,501
Effective tax rate (%)	31.9	29.9	27.0	27.0
Adjusted PAT	2,603	4,427	4,794	6,761
<i>Growth (%)</i>				
Net Margin (%)	3.8	5.4	4.9	6.1
(Profit)/loss from JV's/Ass/MI	(93.6)	521.1	699.0	699.0
Adj. PAT After JVs/Ass/MI	2,696	3,906	4,095	6,062
E/O items	268	2	461	-
Reported PAT	2,428	3,903	3,634	6,062
<i>Growth (%)</i>	37.4	60.8	(6.9)	66.8

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	3,010	4,123	4,393	6,587
Depreciation	2,601	2,465	2,859	3,189
Interest Provided	493	573	893	862
Other Non-Cash items	(503)	2,032		
Chg in working cap	-291	-3,111	-5,808	-1,318
Tax paid	-1,219	-1,889	-1,773	-2,501
Operating Cashflow	4,090	4,193	563	6,820
Capital expenditure	(3,780)	(9,182)	(3,900)	(3,000)
Free Cash Flow	310	-4,989	-3,336	3,820
Other income	812	2,192	2,174	2,674
Investments	(790)	(1,065)	0	0
Investing Cashflow	-3,758	-8,055	-1,725	-326
Equity Capital Raised		13	4	0
Loans Taken / (Repaid)	1,176	5,577	5,000	0
Interest Paid	-493	-573	-893	-862
Dividend paid (incl tax)	-786	-1,244	-1,394	-2,466
Income from investments				
Others	409	237		
Financing Cashflow	305	4,010	2,718	-3,328
Net chg in cash	637	135	1,556	3,166
Opening cash position	2,766	3,431	3,565	4,660
Closing cash position*	3,403	3,565	5,121	7,826

* Difference for FY09 and FY10 is due to inclusion of cash equivalents and forex adjustments

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	375	388	392	392
Reserves & surplus	11,274	15,700	17,940	21,536
Net worth	11,648	16,087	18,332	21,928
Minority Interest	2,027	2,276	2,976	3,676
Secured Loans	6,519	10,818	15,818	15,818
Unsecured Loans	1,660	1,817	1,817	1,817
Loan Funds	8,179	12,635	17,635	17,635
Net deferred tax liability	40	10	145	145
Total Liabilities	21,895	31,008	39,088	43,383
Gross Block	31,821	38,210	43,710	47,710
Less: Depreciation	17,273	20,553	23,412	26,601
Net block	14,548	17,657	20,298	21,109
Capital work in progress	1,808	4,600	3,000	2,000
Investment	470	453	453	453
Current Assets	20,971	27,930	35,218	42,419
Inventories	6,752	10,376	12,042	13,473
Sundry debtors	7,688	9,557	11,814	13,212
Cash & bank balance	3,431	3,565	4,660	7,826
Loans & advances	3,101	4,433	6,703	7,907
Other current assets				
Current lia & Prov	15,921	19,633	20,019	22,735
Current liabilities	13,060	16,291	17,724	19,762
Provisions	2,861	3,342	2,295	2,973
Net current assets	5,051	8,296	15,200	19,684
Misc. exp	18	-	136	137
Total Assets	21,895	31,008	39,088	43,383

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	8.8	8.7	8.3	9.7
Net Margin	3.8	5.4	4.9	6.1
ROCE	20.8	26.1	21.3	24.6
ROE	24.1	28.2	21.2	30.3
RoIC	22.3	24.4	19.9	23.3
Per Share Data (Rs)				
EPS	7.2	10.1	10.4	15.5
CEPS	14.1	16.4	17.7	23.6
BVPS	31.0	41.5	46.4	55.6
DPS	1.8	2.8	3.1	5.5
Valuations (x)				
PER	24.6	17.6	16.9	11.4
P/CEPS	12.5	10.8	10.0	7.5
P/BV	5.7	4.3	3.8	3.2
EV / Sales	1.1	1.0	0.9	0.7
EV / EBITDA	11.6	10.8	10.1	7.4
Dividend Yield (%)	1.0	1.6	1.7	3.1
Gearing Ratio (x)				
Net Debt/ Equity	0.4	0.5	0.7	0.4
Net Debt/EBIDTA	0.7	1.2	1.5	0.9
Working Cap Cycle (days)	7.3	16.2	22.7	23.0

Recommendation History: Motherson Sumi Systems – MSS IN

Date	Reports	Reco	CMP	Target
07/09/2011	Auto Sector Report Cruising through barriers			
29/07/2011	Motherson Sumi Q1FY12 Result Update	Accumulate	230	260
14/07/2011	Motherson Sumi Event Update	Accumulate	231	260
26/05/2011	Motherson Sumi Q4FY11 Result Update	Accumulate	226	260

Recent Research Reports

Date	Reports	Reco	CMP	Target
04/11/2011	Ashok Leyland Q2FY12 Result Update	Hold	28	30
03/11/2011	TVS Motor Q2FY12 Result Update	Hold	66	72
31/10/2011	Maruti Suzuki Q2FY12 Result Update	Hold	1,128	1,140
24/10/2011	Bajaj Auto Q2FY12 Result Con Call Update	Buy	1,693	2,210

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