

July 29, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs 230	Rs 260
EPS change FY12E/13E (%)	(11.3)/(0.6)
Target Price change (%)	NA
Nifty	5,482
Sensex	18,197

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	2	26	36
Rel. to Nifty	7	7	27	35

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	256/163
Market Cap (Rs bn/USD mn)	89/2,014
Daily Avg Volume (No of sh)	106864
Daily Avg Turnover (US\$m)	0.6

Shareholding Pattern (%)

	Jun-11	Mar-11	Dec-10
Promoters	65.2	65.2	65.2
FII/NRI	11.6	10.2	9.4
Institutions	9.0	9.4	9.5
Private Corp	7.4	8.1	8.2
Public	6.9	7.0	7.7

Source: Capitaline

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- Consolidated performance below est. with EBIDTA/PAT being 25%/50% below est. at Rs 1.9bn/653mn. Sharp drop in SMR margins to 5.1% and high tax rate (48%) are the key reasons
- Drop in SMR margins due to start up cost of two new plants at Hungary/Brazil. As the ramp in production happens margins should return to normalized levels (from 3QFY12)
- Expect benefits of cross leveraging to start from 2HFY12. Lower our FY12 EPS by 11% to Rs 11.6 to factor in poor 1QFY12. Retain FY12 EPS at Rs 15.7 per share
- Retain ACCUMULATE rating with a price of Rs 260 per share valuing the company at PER/EV-EBIDTA of 16.6x/8.4x on FY13E. Expect Peguform consolidation from 3QFY12/4QFY12

SMR – EBITDA margins nosedive to 5.1% on new plant startup costs

SMR reported sales of Euro 201mn (+8% YoY) marginally below our est. of Euro 208bn. Favorable currency movement with Rs/Euro at 64.4 (vs 58.1 in 1QFY11) resulted in net sales at Rs 12.9bn (19.6% YoY). However, PBDIT margins declined 210bps YoY/250bps QoQ to 5.1% (our est. of 7.8%). Two new plants in Hungary and Brazil have begun operations in this quarter for SMR which led to higher fixed costs as the ramp up in volumes is yet to happen. We expect margins to reach normal level from 3Q

SMR – Summary Financials

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Sales and other income	10,807	10,403	11,231	13,030	12,930
PBIDT	779	681	879	996	661
PBIDT margins(%)	7.2	6.5	7.8	7.6	5.1
Depreciation	303	310	313	375	303
Interest(derived)	64	57	251	24	65
PBT	412	314	315	597	292
Forex (loss)/gain	0	0	0	0	0
Extraordinary (loss)/gain	0	0	0	0	0
Tax (derived)	149	180	61	281	231
PAT	263	134	254	316	61
MI	136	66	120	162	34
PAT (for group)	127	69	134	155	27

Source: Company, Emkay Research

Key Financials

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	69,022	6,104	8.8	2,696	7.2	28.8	24.1	32.0	14.8	7.4
FY11P	83,460	8,918	10.7	3,868	10.0	38.7	29.0	23.0	11.0	5.8
FY12E	102,774	10,241	10.0	4,563	11.6	16.6	27.3	19.8	9.4	5.0
FY13E	109,502	12,534	11.4	6,142	15.7	34.6	30.8	14.7	7.4	4.1

Source: Company, Emkay Research

Quarterly Summary - Consolidated

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	YoY(%)	QoQ(%)
Revenue	19,049	19,576	21,276	23,560	23,002	20.8	(2.4)
Expenditure	17,150	17,657	19,060	20,957	21,128	23.2	0.8
as % of sales	90.0	90.2	89.6	89.0	91.9		
Consumption of RM	11,620	11,937	13,238	14,659	14,555	25.3	(0.7)
as % of sales	61.0	61.0	62.2	62.2	63.3		
Employee Cost	2,950	3,005	3,195	3,438	3,554	20.4	3.4
as % of sales	15.5	15.3	15.0	14.6	15.4		
Other expenditure	2,579	2,715	2,627	2,860	3,020	17.1	5.6
as % of sales	13.5	13.9	12.3	12.1	13.1		
EBITDA	1,899	1,919	2,216	2,602	1,874	(1.3)	(28.0)
Depreciation	582	610	601	673	622	6.8	(7.6)
EBIT	1,317	1,310	1,615	1,930	1,252	(4.9)	(35.1)
Other Income	31	30	28	41	33	7.7	(19.1)
Interest	112	152	171	139	212	89.5	53
PBT	1,237	1,187	1,472	1,832	1,074	(13.1)	(41.4)
Total Tax	475	471	430	506	513	8.0	1.4
Adjusted PAT	761	716	1,042	1,326	561	(26.3)	(57.7)
(Profit)/loss from JV's/Ass/MI	(126)	(20)	(171)	(117)	(20)		
Adj. PAT after MI	635	695	870	1,209	541	(14.9)	(55.3)
Extra ordinary items	(41)	164	207	180	112		
Reported PAT	594	860	1,077	1,389	653	9.9	(53.0)
Reported EPS	1.5	2.2	2.7	3.5	1.7	9.9	(53.0)

Margins (%)						(bps)	(bps)
EBIDTA	10.0	9.8	10.4	11.0	8.1	(182)	(290)
EBIT	6.9	6.7	7.6	8.2	5.4	(147)	(275)
EBT	6.5	6.1	6.9	7.8	4.7	(182)	(311)
PAT	4.0	3.7	4.9	5.6	2.4	(156)	(319)
Effective Tax rate	38.4	39.7	29.2	27.6	47.8	934	2,014

Standalone performance – compensates for weak SMR and other subs

Standalone net profits at Rs 655 mn was ~16% above our est. primarily due to strong top line. Net sales stood at Rs 7.5bn vs our est. of Rs 6.5bn. EBITDA at Rs 1 bn was inline with our est.

Standalone – Summary Financials

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Sales and other income	5,616	6,788	7,826	8,589	7,751
PBIDT	795	1,189	1,424	1,686	1,247
PBIDT margins (%)	14.2	17.5	18.2	19.6	16.1
Adj PBIDT margins	821	1,077	1,400	1,589	1,192
PBIDT margins (%)	14.6	15.9	17.9	18.5	15.4
Depreciation	187	199	211	233	228
Interest (derived)	40	81	100	100	122
Reported PAT	293	659	776	1,149	655
APAT	307	577	759	1,065	615

Source: Company, Emkay Research

Other Subsidiaries (ex SMR & Standalone) – sub par performance

Other subsidiaries reported a loss of Rs 29 mn on lower than expected top line and weak margins. Net sales of Rs 2bn (-6% YoY, 29% QoQ) was below our est. of Rs 2.5bn. EBITDA margins also disappointed at 5.4% (our est. of ~10%).

Other subsidiaries (derived) – Summary Financials

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Sales and other income	2,194	2,000	1,802	1,600	2,068
PBIDT	317	243	-28	141	111
PBIDT margins (%)	14.5	12.1	-1.6	8.8	5.4
Adj PBIDT	330.3	190.6	-35.1	58.4	53.9
Adj PBIDT margins (%)	15.1	9.5	-1.9	3.6	2.6
Depreciation	92	100	76	65	90
Interest	11	14	-180	15	24
PAT	163	88	293	44	(43)
MI Profit/(loss)	(12)	(45)	140	(43)	(13)
Reported PAT (for group)	175	133	153	87	(29)

Source: Company, Emkay Research

Revision of Estimates

We have lowered our FY12 EPS by 11% to Rs 11.6 to factor in poor performance in 1QFY12. We expect SMR to report normalized margins from 3QFY12 as the ramp up in utilization of new plants commences.

Rs mn	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Sales	102,774	102,774	-	109,502	109,502	0.0
EBIDTA	10,943	10,241	(6.4)	12,534	12,534	(0.0)
EBIDTA margins (%)	10.6	10.0		11.4	11.4	
Net Profits	5,142	4,563	(11.3)	6,178	6,142	(0.6)
EPS	13.1	11.6	(11.3)	15.8	15.7	(0.6)

Valuation & view

1QFY12 results were impacted by start up costs pertaining to two new plants of SMR despite standalone performance remaining strong. We expect H2FY12 to see strong earnings due to benefit of operating leverage as volumes pick up from these plants. We have lowered our FY12 EPS by 11% to Rs 11.6 per share. 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 260, valuing the company at PER/EV-EBIDTA of 16.6x/8.4x our FY13 estimates.

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)	11.6	11.6	11.6	
% existing EPS	4.5%	11.0%	17.5%	

Key highlights of conference call

- Two new plants of SMR (in Brazil and Hungary) have been commissioned from this quarter. Normally, each plant needs to have 3 – 6 months of complete infrastructure in terms of employees, raw materials etc before the roll out of a product. This affected margins for SMR in 1QFY12. Expect costs to normalize in the next two quarters as volume ramp up happens.
- Company has a order book of Euro 800 mn from BMW etc which should get executed from July onwards from these plants.
- MSSL has invested Euro 30 mn in Hungary. Also, a total of USD 85mn has already been invested in all the three (Hungary/Thailand/South Africa) plants.
- Peguform acquisition was also driven by customer, VW group as it accounts of ~75% Peguform revenue
- Peguform acquisition to be consolidated from 3rd quarter onwards. Peguform mainly supplies modules for automobiles. Machine size of 2,000 ton – 4,400 ton for Peguform is complementary to 40 ton – 3,200 ton machine size of MSSL. Peguforms sources molding for less than 2000 ton machines from outside. This is an area of opportunity of MSSL. Also, while ~40% of Peguform's raw material sourcing is driven by customer, the balance can be sourced from anywhere
- Management believes strong synergies exist between Peguform and MSSL which would enable MSSL to supply the complete value chain of automotive parts to OEMs. Also, tangible benefits to margins and earnings should be visible from 2nd year onwards.
- Capex target of Rs 6.5bn maintained. This excludes any investment in Peguform but includes investment in the three plants. Peguform capex is expected to be around Euro 35 – 40mn in CY11.
- Higher tax rates – tax rates were higher due to some expenses did not qualify for deferred tax and also lack of set off loss in one subsidiary against loss in other subsidiary

Key Consolidated Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	69,022	83,460	102,774	109,502
Growth (%)				
Expenditure	62,918	74,542	92,533	96,968
Materials Consumed	41,659	51,454	63,405	67,537
Employee Cost	12,004	12,588	15,144	15,442
Other Exp	9,255	10,500	13,984	13,989
EBITDA	6,104	8,918	10,241	12,534
Growth (%)				
EBITDA margin (%)	8.8	10.7	10.0	11.4
Depreciation	2,601	2,465	2,844	3,123
EBIT	3,503	6,454	7,397	9,411
EBIT margin (%)	5.1	7.7	7.2	8.6
Other Income	812	378	465	550
Interest expenses	493	576	654	589
PBT	3,822	6,256	7,208	9,371
Tax	1,219	1,866	1,946	2,530
Effective tax rate (%)	31.9	29.8	27.0	27.0
Adjusted PAT	2,603	4,389	5,262	6,841
Growth (%)				
Net Margin (%)	3.8	5.3	5.1	6.2
(Profit)/loss from JV's/Ass/MI	(93.6)	521.0	699.0	699.0
Adj. PAT After JVs/Ass/MI	2,696	3,868	4,563	6,142
E/O items	268	(39)	-	-
Reported PAT	2,428	3,907	4,563	6,142
Growth (%)	37.4	60.9	16.8	34.6

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	3,010	5,878	6,743	8,821
Depreciation	2,601	2,465	2,844	3,123
Interest Provided	493	576	654	589
Other Non-Cash items	(503)			
Chg in working cap	-291	-4,903	60	-497
Tax paid	-1,219	-1,866	-1,946	-2,530
Operating Cashflow	4,090	2,149	8,355	9,506
Capital expenditure	(3,780)	(6,192)	(4,000)	(4,000)
Free Cash Flow	310	-4,042	4,355	5,506
Other income	812	418	465	550
Investments	(790)	0	0	0
Investing Cashflow	-3,758	-5,774	-3,535	-3,450
Equity Capital Raised		0	4	0
Loans Taken / (Repaid)	1,176	5,577	0	0
Interest Paid	-493	-576	-654	-589
Dividend paid (incl tax)	-786	-1,243	-1,756	-2,507
Income from investments				
Others	409			
Financing Cashflow	305	3,758	-2,405	-3,096
Net chg in cash	637	134	2,415	2,960
Opening cash position	2,766	3,431	3,564	5,979
Closing cash position*	3,403	3,564	5,979	8,938

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

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	375	388	392	392
Reserves & surplus	11,274	14,941	17,747	21,381
Net worth	11,648	15,328	18,139	21,773
Minority Interest	2,027	2,550	3,250	3,950
Secured Loans	6,519	12,096	12,096	12,096
Unsecured Loans	1,660	538	538	538
Loan Funds	8,179	12,634	12,634	12,634
Net deferred tax liability	40	145	145	145
Total Liabilities	21,895	30,658	34,168	38,502
Gross Block	31,821	38,821	42,821	46,821
Less: Depreciation	17,273	19,738	22,582	25,705
Net block	14,548	19,083	20,239	21,116
Capital work in progress	1,808	1,000	1,000	1,000
Investment	470	470	470	470
Current Assets	20,971	26,964	34,742	40,000
Inventories	6,752	8,215	10,060	10,824
Sundry debtors	7,688	9,579	11,921	12,790
Cash & bank balance	3,431	3,564	5,979	8,938
Loans & advances	3,101	5,607	6,783	7,447
Other current assets				
Current lia & Prov	15,921	16,877	22,301	24,101
Current liabilities	13,060	15,029	19,167	20,494
Provisions	2,861	1,848	3,134	3,607
Net current assets	5,051	10,087	12,441	15,899
Misc. exp	18	18	18	18
Total Assets	21,895	30,658	34,168	38,502

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	8.8	10.7	10.0	11.4
Net Margin	3.8	5.3	5.1	6.2
ROCE	20.8	26.0	24.3	27.4
ROE	24.1	29.0	27.3	30.8
RoIC	22.3	30.9	28.3	34.4
Per Share Data (Rs)				
EPS	7.2	10.0	11.6	15.7
CEPS	14.1	16.3	18.9	23.6
BVPS	31.0	39.5	46.2	55.5
DPS	1.8	2.8	3.7	5.3
Valuations (x)				
PER	32.0	23.0	19.8	14.7
P/CEPS	16.3	14.1	12.2	9.7
P/BV	7.4	5.8	5.0	4.1
EV / Sales	1.3	1.2	1.0	0.9
EV / EBITDA	14.8	11.0	9.4	7.4
Dividend Yield (%)	0.8	1.2	1.6	2.3
Gearing Ratio (x)				
Net Debt/ Equity	0.4	0.6	0.3	0.1
Net Debt/EBIDTA	0.7	1.0	0.6	0.3
Working Cap Cycle (days)	7.3	12.1	10.0	10.4

Recommendation History: Motherson Sumi Systems – MSS IN

Date	Reports	Reco	CMP	Target
14/07/2011	Motherson Sumi Event Update	Accumulate	231	260
26/05/2011	Motherson Sumi Q4FY11 Result Update	Accumulate	226	260
07/02/2011	Motherson Sumi Q3FY11 Result Update	Accumulate	186	210
02/11/2010	Motherson Sumi Q2FY11 Result Update	Accumulate	186	200

Recent Research Reports

Date	Reports	Reco	CMP	Target
28/07/2011	Tata Motors JLR FY11 Conference Call Update	Buy	951	1,450
26/07/2011	Maruti Suzuki Q1FY12 Result Update	Accumulate	1,178	1,400
25/07/2011	Ashok Leyland Company Update	Accumulate	52	57
21/07/2011	Hero Honda Q1FY12 Result Update	Hold	1,789	1,840

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