

# Motherson Sumi Wiring India (MOTSU)

CMP: ₹ 55

Target: ₹ 70 (27%)

Target Period: 12 months

May 22, 2023

BUY

## Healthy performance, fundamental levers of content increase remain sacrosanct, retain positive stance...

**About the stock:** Motherson Sumi Wiring India (MSWIL) was established in 1986 as a JV with Sumitomo Wiring Systems (Japan). MSWIL is a leading, full-system wiring harness solutions provider in India catering to all major OEMs like Maruti Suzuki, Toyota Motors, Ashok Leyland, Tata Motors, etc. Listed on March 28, 2022.

- FY22 segment mix: PV: 60%; CV: 11%; 2-W: 12%; Others: 17%

### Q4FY23 Results: Posted a healthy set of numbers for Q4FY23.

- Net sales came in at ₹ 1,857 crore. up 10.8% QoQ
- EBITDA came in at ₹ 209.3 crore with margins at 11.2%, up 62 bps QoQ. Gross margin contracted 264 bps QoQ but was offset by lower employee (down 215 bps) & other expense (down 109 bps QoQ)
- Consequently, PAT came in at ₹ 138.5 crore, up 30.4% QoQ
- MSWIL also recommended a dividend of ₹ 0.65 per share for FY23

**What should investors do?** MSWIL's share price has grown ~18% (from ~₹ 46 in April 2022) underperforming the wider Nifty Auto index in that time frame.

- We retain our **BUY** rating on the stock amid a superlative return ratio profile (RoCE ~40-50%) and structural levers for content/vehicle increase due to rise in electronic content in vehicles as well as electrification

**Target Price and Valuation:** Revising our estimates, we now value MSWIL at ₹ 70 i.e. 40x P/E on FY25E EPS of ₹ 1.7 per share (earlier TP of ₹ 75 per share).

### Key triggers for future price performance:

- Good proxy on domestic auto industry with potential increase in content per vehicle by ~1.5-2x in PV space amid greater share of UVs, increased use of electronics and technologies like ADAS, coupled with likely increase in content by ~8x in E-2-Ws vs. ICE 2W and ~2.4x in E-PVs vs. ICE variants
- We build 16.5% net sales CAGR in FY23-25E riding on OEM ramp up, focus on premiumisation (i.e. greater share of technological advanced features like ADAS, Sensors, etc) and greater share of UVs in pass car segment
- Asset light model with expandable capacity along with operating leverage gains to push margins, RoCE to 12.5%, 46%, respectively, by FY25E

**Alternate Stock Idea:** Besides MSWIL, in our auto coverage we like Mahindra CIE.

- Focused on growth capex in India and efficiencies at European operations
- BUY with a target price of ₹ 520

### Key Financial Summary

Key Financials	FY21	FY22	FY23P	FY24E	FY25E	2 year CAGR (FY23-25E)
Total Operating Income	3,937.7	5,635.0	7,057.4	8,116.0	9,575.7	16.5%
EBITDA	553.1	730.3	781.4	933.3	1,197.0	23.8%
EBITDA Margins (%)	14.0	13.0	11.1	11.5	12.5	
Net Profit	396.2	410.7	487.0	581.7	773.3	26.0%
EPS (₹)	1.3	1.3	1.1	1.3	1.7	
P/E	43.8	42.3	49.9	41.8	31.4	
RoNW (%)	55.8	41.1	36.6	36.8	40.4	
RoCE (%)	60.5	45.1	39.1	41.2	46.1	

Source: Company, ICICI Direct Research; FY23-25E EPS adjusted for bonus issue



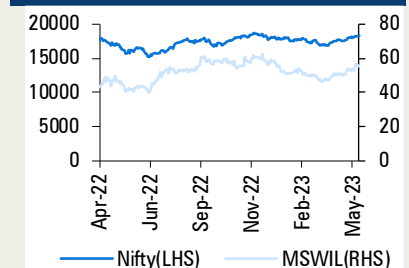
### Particulars

Particulars	₹ crore
Market capitalisation	24,316.6
Total Debt (FY23P)	81.8
Cash & Investment (FY23P)	36.8
EV (₹ crore)	24,361.6
52 week H/L (₹)	71 / 42
Equity capital (₹ crore)	442.1
Face value (₹)	1.0

### Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	61.7	61.7	61.7	61.7
FII	8.6	10.5	11.0	9.9
DII	20.8	19.1	18.3	18.9
Other	8.9	8.7	9.0	9.4

### Price Chart



### Recent event & key risks

- Posted healthy Q4FY23 results
- Key Risk:** (i) Slower than expected shift in premiumisation and electrification trend, (ii) Delay in margin recovery amid volatile copper prices & currency swings

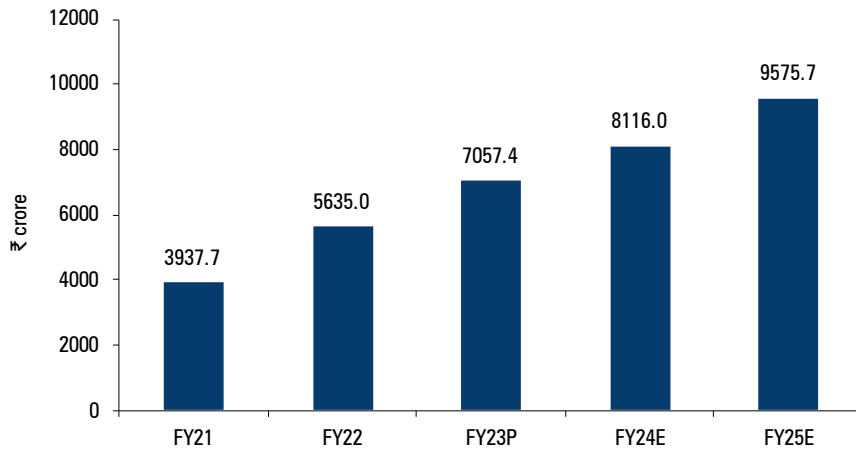
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### Key financial charts

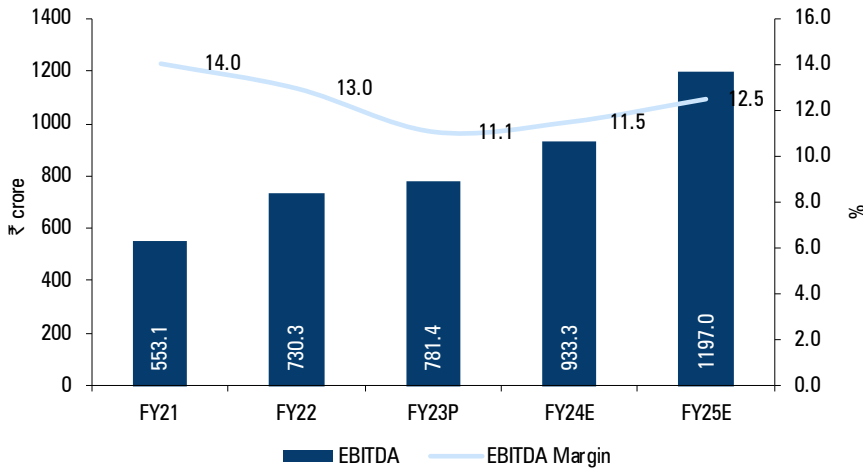
Exhibit 1: Trend in topline



Net sales are expected to grow at 16.5% CAGR over FY23-25E at ₹ 9,576 crore as of FY25E

Source: Company, ICICI Direct Research

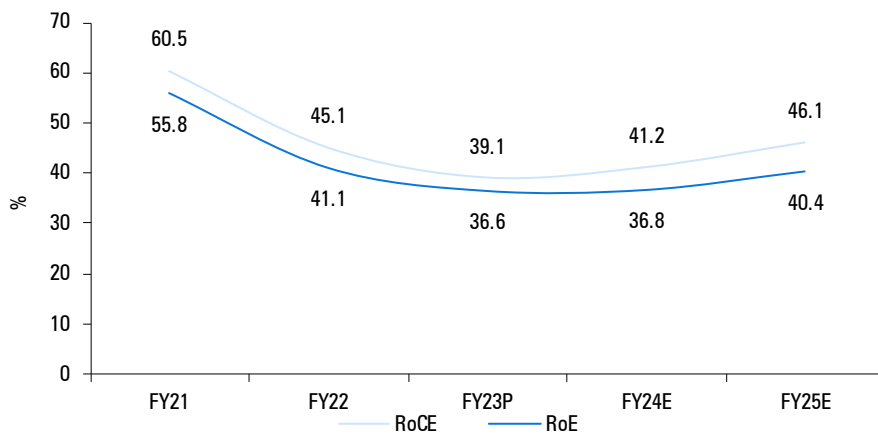
Exhibit 2: Trend in EBITDA & margins



EBITDA is expected to grow at 23.8% CAGR over FY23-25E to ₹ 1,197 crore in FY25E with margins reaching 12.5% as at FY25E

Source: Company, ICICI Direct Research

Exhibit 3: Trend in return ratios



Higher return ratios are the USP at MSWIL with RoCE consistently at ~40%+ mark

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Net Sales	5587.2	7022.6	8076.0	9529.7
Other Operating Income	47.8	34.8	40.0	46.0
<b>Total Operating Income</b>	<b>5,635.0</b>	<b>7,057.4</b>	<b>8,116.0</b>	<b>9,575.7</b>
Growth (%)	43.1	25.2	15.0	18.0
Raw Material Expenses	3,609.3	4,631.7	5,356.5	6,272.1
Employee Expenses	946.4	1,183.1	1,339.1	1,532.1
Other Operating Expense	349.0	461.2	487.0	574.5
Total Operating Expenditure	4,904.7	6,276.0	7,182.6	8,378.7
<b>EBITDA</b>	<b>730.3</b>	<b>781.4</b>	<b>933.3</b>	<b>1,197.0</b>
Growth (%)	32.0	7.0	19.4	28.2
Depreciation	105.5	123.7	141.7	161.5
Interest	28.5	27.8	22.3	17.8
Other Income	30.0	22.3	11.4	20.3
<b>PBT</b>	<b>626.3</b>	<b>652.2</b>	<b>780.9</b>	<b>1,037.9</b>
Exceptional Item	65.4	0.0	0.0	0.0
Total Tax	150.2	165.2	199.1	264.7
<b>PAT</b>	<b>410.7</b>	<b>487.0</b>	<b>581.7</b>	<b>773.3</b>
Growth (%)	3.7	18.6	19.4	32.9
<b>EPS (₹)</b>	<b>1.3</b>	<b>1.1</b>	<b>1.3</b>	<b>1.7</b>

Source: Company, ICICI Direct Research; FY23-25E EPS adjusted for bonus issue

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Profit after Tax	410.7	487.0	581.7	773.3
Add: Depreciation	105.5	123.7	141.7	161.5
(Inc)/dec in Current Assets	-148.9	-420.3	-326.7	-436.7
Inc/(dec) in CL and Provisions	238.7	38.1	223.9	258.8
Others	-1.5	5.5	10.8	-2.5
<b>CF from operating activities</b>	<b>604.5</b>	<b>234.1</b>	<b>631.4</b>	<b>754.3</b>
(Inc)/dec in Investments	-24.4	-10.3	-2.0	-2.0
(Inc)/dec in Fixed Assets	-400.1	-265.5	-150.0	-150.0
Others	172.8	21.7	16.4	25.3
<b>CF from investing activities</b>	<b>-251.7</b>	<b>-254.1</b>	<b>-135.6</b>	<b>-126.7</b>
Issue/(Buy back) of Equity	315.7	126.3	0.0	0.0
Inc/(dec) in loan funds	-62.5	62.5	-25.0	-25.0
Dividend paid & interest outgo	-296.9	-315.2	-353.8	-459.9
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-53.1	-110.1	0.0	0.0
<b>CF from financing activities</b>	<b>-96.8</b>	<b>-236.5</b>	<b>-378.8</b>	<b>-484.9</b>
<b>Net Cash flow</b>	<b>256.0</b>	<b>-256.5</b>	<b>117.0</b>	<b>142.7</b>
Opening Cash	37.3	293.3	36.8	153.8
<b>Closing Cash</b>	<b>293.3</b>	<b>36.8</b>	<b>153.8</b>	<b>296.4</b>

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	315.8	442.1	442.1	442.1
Reserve and Surplus	798.8	888.3	1,138.5	1,469.6
<b>Total Shareholders funds</b>	<b>1,114.6</b>	<b>1,330.5</b>	<b>1,580.6</b>	<b>1,911.8</b>
Total Debt	19.3	81.8	56.8	31.8
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	252.0	271.5	286.5	301.5
<b>Total Liabilities</b>	<b>1,385.9</b>	<b>1,683.7</b>	<b>1,923.9</b>	<b>2,245.0</b>
<b>Assets</b>				
Gross Block	781.4	1,052.2	1,214.2	1,369.2
Less: Acc Depreciation	349.3	473.0	614.6	776.1
Net Block	432.1	579.2	599.6	593.1
Capital WIP	32.3	27.0	15.0	10.0
<b>Total Fixed Assets</b>	<b>464.4</b>	<b>606.2</b>	<b>614.6</b>	<b>603.1</b>
Investments	35.2	45.5	47.5	49.5
Inventory	960.0	1,209.6	1,327.6	1,566.5
Debtors	659.3	800.4	995.7	1,174.9
Loans and Advances	1.0	4.1	4.7	5.6
Other Current Assets	59.1	85.6	98.4	116.1
<b>Cash</b>	<b>293.3</b>	<b>36.8</b>	<b>153.8</b>	<b>296.4</b>
Total Current Assets	1,972.7	2,136.5	2,580.1	3,159.6
Current Liabilities	912.9	925.7	1,106.3	1,305.4
Provisions	1.2	1.3	1.6	1.9
Current Liabilities & Prov	1,175.8	1,213.9	1,437.8	1,696.6
<b>Net Current Assets</b>	<b>796.9</b>	<b>922.5</b>	<b>1,142.3</b>	<b>1,463.0</b>
Others Assets	89.4	109.5	119.5	129.5
<b>Application of Funds</b>	<b>1,385.9</b>	<b>1,683.7</b>	<b>1,923.9</b>	<b>2,245.0</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY22	FY23P	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	1.3	1.1	1.3	1.7
Cash EPS	1.6	1.4	1.6	2.1
BV	3.5	3.0	3.6	4.3
DPS	0.9	0.7	0.8	1.0
Cash Per Share	0.9	0.1	0.3	0.7
<b>Operating Ratios (%)</b>				
EBITDA Margin	13.0	11.1	11.5	12.5
PAT Margin	7.3	6.9	7.2	8.1
Inventory days	62.7	62.9	60.0	60.0
Debtor days	43.1	41.6	45.0	45.0
Creditor days	59.6	48.1	50.0	50.0
<b>Return Ratios (%)</b>				
RoE	41.1	36.6	36.8	40.4
RoCE	45.1	39.1	41.2	46.1
RoIC	58.9	40.6	45.1	53.4
<b>Valuation Ratios (x)</b>				
P/E	42.3	49.9	41.8	31.4
EV / EBITDA	32.9	31.2	25.9	20.1
EV / Net Sales	4.3	3.5	3.0	2.5
Market Cap / Sales	4.4	3.5	3.0	2.6
Price to Book Value	15.6	18.3	15.4	12.7
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.1	0.1	0.0
Debt / Equity	0.0	0.1	0.0	0.0
Current Ratio	1.8	2.3	2.2	2.2
<b>Quick Ratio</b>	<b>0.8</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>

Source: Company, ICICI Direct Research; FY23-25E EPS adjusted for bonus issue

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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