

Healthy performance; Positives priced in ...

MSSL reported decent Q4FY20 performance. Standalone revenues (largely includes Indian operations) came in at ₹ 1,735 crore (down 6% YoY), while EBITDA margins stood at 17%, up 200 QoQ on the back of savings realized in raw material costs. Consequent standalone PAT stood at ₹ 386 crore, supported by higher other income (dividend from subsidiaries). On consolidated basis, top line in Q4FY20 came in at ₹ 15,159 crore (down 12% YoY), while EBITDA margins stood at 9.2%, up 130 bps QoQ. Expansion in margins can be largely attributed to 130 bps gross margin expansion. Consequent consolidated PAT stood at ₹ 183 crore, down 55% YoY. Consolidated net debt declined by ~ ₹ 1,200 crore YoY to ~ ₹ 6,800 crore as of FY20 end.

Demand softness seen persisting

The demand picture at MSSL will continue to remain tied to global automotive industry performance, as ex-India geographies form ~87% of consolidated revenues. With the first two months of the year being a near washout in most economies on account of quarantine norms, H1FY21E would be severely impacted. Demand boosting measures in major auto markets in the form of direct cash assistance would, however, aid in meeting pent up demand in the short term. The company guided for H2FY21E surprising positively once supply chain issues die down and economies approach normality, with no major delays being reported currently in customer programs. Present order book of ₹1.07 lakh crore at SMRPBV level is expected to be executed within 2 years and offers some top line visibility. MSSL is targeting US\$33-35 billion revenues (~₹2.3 lakh crore, ~4x jump from present levels) by 2025. We feel such an achievement would depend upon success of inorganic acquisitions and unhampered kit value increase in chief products like wiring harnesses and mirrors. We build 1.8% FY20P-22E sales CAGR primarily due to lower growth nature of global PV market.

Strong bottom line performance up ahead

The company's emphasis on costs and eventual volume support from new greenfield plants are expected to help margins and profitability outpace top line growth. On the B/S front, MSSL has successfully reduced debt to lowest level of the past 10 quarters with 'Project Victory' furthering focus on RoCE via more efficient working capital management. We build 9.7% EBITDA margins by FY22E (after dip in FY21E to 7.4%) and expect PAT CAGR of 21.1% over FY20P-22E.

Valuation & Outlook

Valuing MSSL at ₹ 110 i.e. 20x P/E on FY22 EPS of ₹ 5.4, we retain **HOLD** rating on the stock. In our opinion MSSL is fairly valued post recent sharp appreciation and CMP prices in the positives. We await meaningful movement on demand recovery and business derisking before revisiting our stance, however we continue to draw comfort from MSSL's excellent capital efficiency (25% consolidated RoCE ex-greenfield).

Key Financial Summary

Key Financials	FY18	FY19	FY20P	FY21E	FY22E	CAGR (FY20P-22E)
Net Sales	56,293.3	63,522.9	63,536.9	58,164.5	65,855.0	1.8%
EBITDA	5,122.6	5,348.4	5,201.4	4,277.4	6,363.7	10.6%
EBITDA Margins (%)	9.1	8.4	8.2	7.4	9.7	
Net Profit	1,597.0	1,613.2	1,170.1	732.2	1,714.7	21.1%
EPS (₹)	5.1	5.1	3.7	2.3	5.4	
P/E	20.8	20.6	28.3	45.3	19.3	
RoNW (%)	17.4	14.7	10.4	6.4	14.0	
RoCE (%)	15.7	13.2	9.8	6.3	13.9	



Particulars

Particular	₹ crore
Market Capitalization	33,158.3
Total Debt (FY 20P)	11,669.1
Cash & Inv. (FY 20P)	4,878.9
EV (₹ Crore)	41,134.2
52 week H/L (₹)	163 / 49
Equity capital	₹ 315.8 Crore
Face value	₹ 1

Key Highlights

- Reported 12% YoY decline in consolidated sales at ₹ 15,159 crore in Q4FY20. Margins tracked higher by 130 bps QoQ on the back of gross margin expansion
- Demand prospects to remain soft amid higher dependence on global markets; acquisition success key to longer term revenue target
- Margins and bottom line to outpace sales growth led by greenfield profitability improvement, cost controls
- Maintain HOLD with target price of ₹ 110 valuing company at 20x P/E on FY22E EPS of ₹ 5.4

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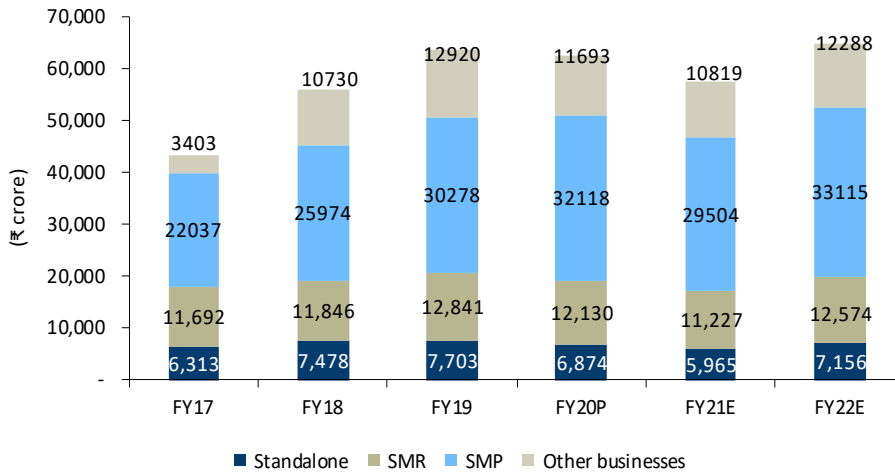
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Q4FY20 earnings conference call highlights

- *In terms of outlook, the management shared that tough business conditions would persist till Q2FY21E but H2FY21E could surprise positively.*
- Management sees shift from shared to personal mobility driving auto volumes in the near term for PV as well as 2-W segments
- Globally as well as domestically, the pick up in farm equipment space has been encouraging. Supplies to Japan were uninterrupted even during lockdown elsewhere in the world.
- The company's presence in China helped it react swiftly to Covid situation elsewhere. Costs were controlled, working capital reduced and entire focus was on cash generation and RoCE improvement.
- While exact details of the next 5-year plan are not yet disclosed, *the company would be looking at achieving ~US\$33-35 billion in sales (~₹ 2.3 lakh crore) with an unchanged RoCE focus (40%). Importantly, it indicated that business derisking efforts would be put in place to reduce dependence on auto space to 75% of consolidated top line by that time, with MSSL exploring capabilities in aerospace, defence, IT and pharma.*
- Standalone RoCE presently stands at 31% while consolidated RoCE (excluding greenfield and newer acquisitions) is at 25%.
- *The entire present order book of ₹1.07 lakh crore at SMRPBV level is expected to be executed within 2 years. New orders worth ₹43,321 crore were won during the year while orders worth ₹ 79,554 crore went into execution.*
- *39% of manufacturing facilities are operating at >75% capacity while 37% are operating below 50% capacity.* PKC China plants are at >100% capacity.
- MSSL is not witnessing any major delay in customer programs till now.
- SMP Tuscaloosa plant saw headcount reduction by 25% as part of cost initiatives.
- *FY21E maintenance capex is envisaged at ~₹ 2,000 crore. The management informed that no new greenfield would be needed to cater to present order book.*
- The company sees opportunities stemming from vendor consolidation by OEMs in India over the next 6-12 months.
- Government support in the Western world during Covid-19 disruption for employee costs and others is largely through low cost debt (~95%) debt and less in direct grants (~5%).
- MSSL has no major debt obligations in FY21E and is well placed on liquidity.

Financial story in charts

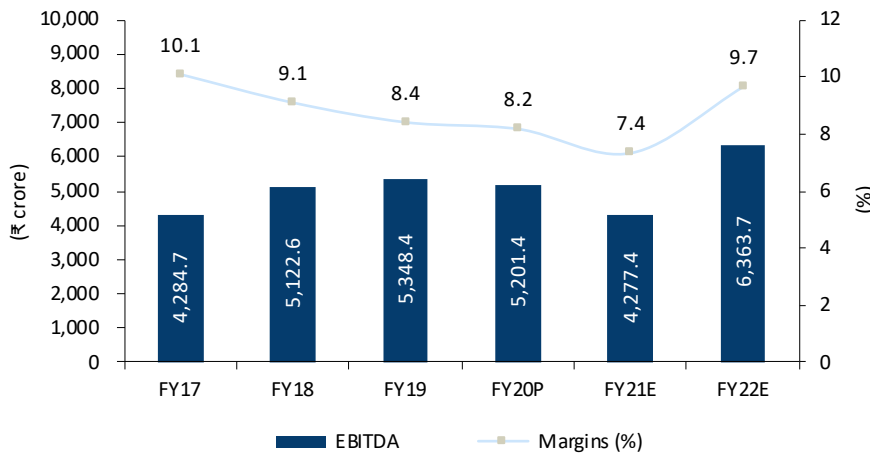
Exhibit 1: trend



We expect sales to grow at a CAGR of 1.8% over FY20E-22E

Source: Company, ICICI Direct Research

Exhibit 2: Consolidated EBITDA, EBITDA margin trend

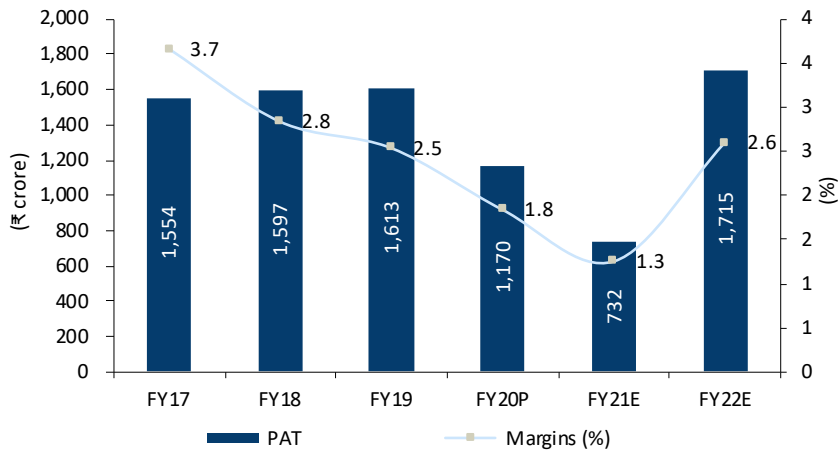


We expect EBITDA margins to improve to 9.7% in FY22E vs. 8.2% in FY20P

Source: Company, ICICI Direct Research

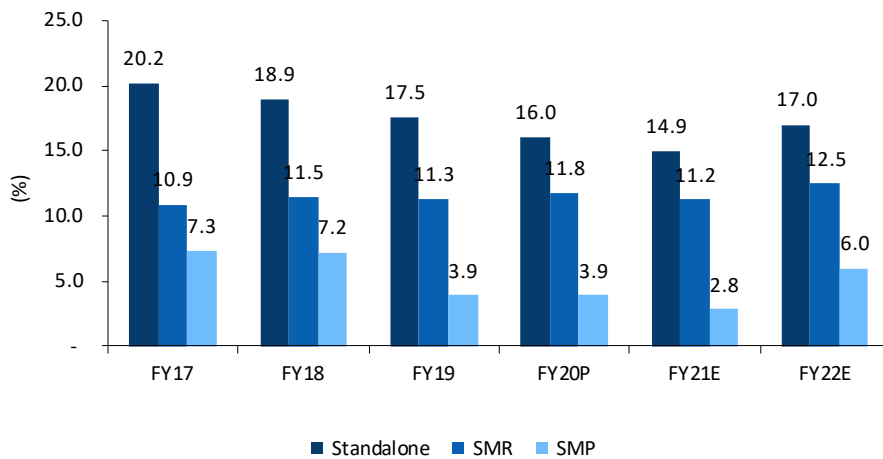
Exhibit 3: Consolidated profitability trend

We build in 21.1% CAGR PAT growth over FY20P-22E primarily tracking margin expansion and continued deleveraging



Source: Company, ICICI Direct Research

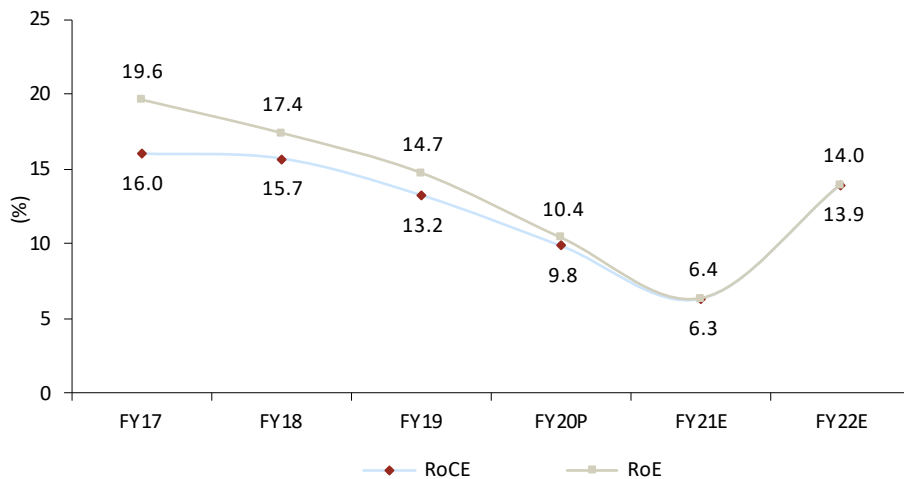
Exhibit 4: Segment wise EBITDA margin profile



EBITDA margins are expected to bottom out in current financial year across divisions. Standalone margins are seen improving from 16% in FY20P to 17% in FY22E while most importantly SMP margins are seen improving from 3.9% in FY20P to 6% in FY22E

Source: Company, ICICI Direct Research

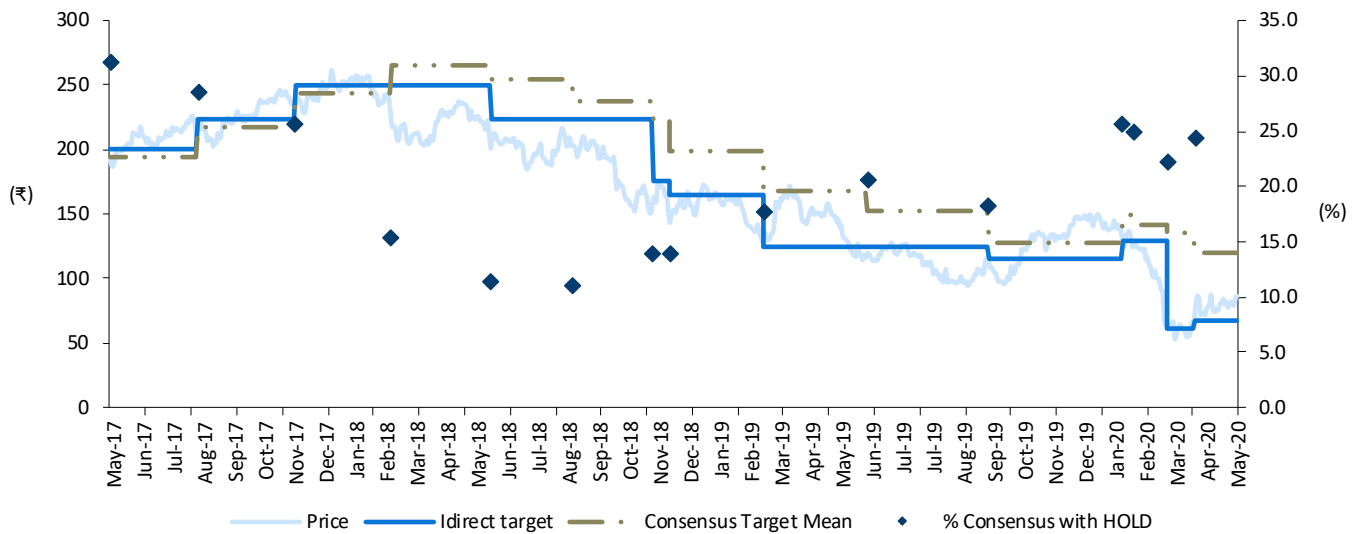
Exhibit 5: Consolidated return ratios trend



MSSL has a capital efficient business model and it is expected to continue to clock double digit return ratios after suffering a dip in FY21E.

Source: Company, ICICI Direct Research

Exhibit 6: Recommendation history vs. consensus



Source: Reuters, ICICI Direct Research

Exhibit 7: Top 10 shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	SAMVARDHANA MOTHERSO	30-06-2019	33.43	1,055.75M	0
2	SUMITOMO WIRING SYST	30-06-2019	25.10	792.64M	0
3	ICICI PRUDENTIAL ASS	30-04-2020	5.31	167.58M	-8.95M
4	Sehgal Vivek Chaand	30-06-2019	2.32	73.17M	0
5	FEDERATED INVESTORS	28-02-2020	1.14	36.07M	0
6	AXIS ASSET MANAGEMEN	30-04-2020	1.11	34.92M	+29.44M
7	RELIANCE CAPITAL TRU	27-05-2020	1.10	34.82M	+1.88M
8	SBI FUNDS MANAGEMENT	30-04-2020	1.08	34.06M	-16.99M
9	UTI ASSET MANAGEMENT	30-04-2020	0.90	28.51M	+1.91M
10	BLACKROCK	26-05-2020	0.84	26.43M	+0.02M

Source: Reuters, ICICI Direct Research

Exhibit 8: Shareholding pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	61.7	61.7	61.7	61.7	61.7
FII	18.1	16.4	15.0	16.4	15.5
DII	9.7	11.1	13.5	12.6	13.6
Others	10.5	10.9	9.8	9.3	9.2

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement				
(Year-end March)	FY19	FY20P	FY21E	FY22E
Total operating income	63522.9	63536.9	58164.5	65855.0
Growth (%)	12.8	0.0	-8.5	13.2
Raw Material Expenses	36,738.3	36,271.4	32,502.7	36,941.8
Employee Expenses	14,169.4	15,076.9	14,955.7	15,565.5
Other expenses	7,266.8	6,987.1	6,428.6	6,983.9
Total Operating Expenditure	58,174.5	58,335.4	53,887.0	59,491.3
EBITDA	5348.4	5201.4	4277.4	6363.7
Growth (%)	4.4	-2.7	-17.8	48.8
Depreciation	2,058.2	2,778.0	2,821.0	2,897.6
Interest	423.2	598.6	578.5	473.5
Other Income	220.2	230.7	252.9	228.2
PBT	3087.2	2055.4	1130.9	3220.8
Total Tax	1,102.2	818.4	339.3	966.2
Minority Interest	485.0	124.4	88.1	617.8
Profit from Associates	113.1	57.5	28.7	77.9
Reported PAT	1613.2	1170.1	732.2	1714.7
Growth (%)	1.0	-27.5	-37.4	134.2
EPS (₹)	5.1	3.7	2.3	5.4

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
(Year-end March)	FY19	FY20P	FY21E	FY22E
Profit after Tax	1613.2	1170.1	732.2	1714.7
Add: Depreciation	2,058.2	2,778.0	2,821.0	2,897.6
(Inc)/dec in Current Assets	-2,300.4	1,579.3	939.5	-1,989.5
Inc/(dec) in CL and Provisions	2,913.9	695.6	-1,565.4	1,930.1
CF from operating activities	4284.9	6223.0	2927.2	4552.9
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-4,457.5	-4,782.5	-2,000.0	-2,200.0
Others	300.4	617.0	-74.9	607.9
CF from investing activities	-4157.1	-4165.5	-2074.9	-1592.1
Issue/(Buy back) of Equity	105.3	0.0	0.0	0.0
Inc/(dec) in loan funds	1,171.8	146.2	-200.0	-2,000.0
Dividend paid & dividend tax	-568.4	-1,136.9	-473.7	-947.4
Inc/(dec) in Sec. premium	34.3	265.0	0.0	0.0
Others	-105.3	0.0	0.0	0.0
CF from financing activities	637.7	-725.7	-673.7	-2947.4
Net Cash flow	765.4	1,331.9	178.6	13.4
Opening Cash	2,781.6	3,547.0	4,878.9	5,057.5
Closing Cash	3546.9	4878.9	5057.5	5070.9

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
(Year-end March)	FY19	FY20P	FY21E	FY22E
Equity Capital	315.8	315.8	315.8	315.8
Reserve and Surplus	10,647.0	10,945.1	11,203.6	11,970.9
Total Shareholders funds	10,962.7	11,260.9	11,519.4	12,286.7
Total Debt	11,522.8	11,669.1	11,469.1	9,469.1
Deferred Tax Liability	576.2	462.8	423.6	479.6
Minority Interest / Others	3,479.7	3,565.0	3,653.1	4,270.9
Total Liabilities	27863.0	29332.9	29239.5	28968.1
Assets				
Gross Block	19,878.9	24,876.4	26,728.2	29,128.2
Less: Acc Depreciation	5,825.0	8,603.0	11,424.0	14,321.6
Net Block	14053.9	16273.4	15304.2	14806.6
Capital WIP	1,066.8	851.8	1,000.0	800.0
Total Fixed Assets	15,120.7	17,125.2	16,304.2	15,606.6
Investments	3,085.2	3,006.7	3,106.7	3,206.7
Goodwill	2211.8	2406.0	2406.0	2406.0
Inventory	4,663.5	5,156.6	4,780.6	5,412.7
Debtors	7,329.2	6,578.2	6,374.2	7,217.0
Loans and Advances	22.6	31.9	29.2	33.0
Other Current Assets	5,550.3	4,219.6	3,862.8	4,373.6
Cash	3546.9	4878.9	5057.5	5070.9
Total Current Assets	21,112.5	20,865.2	20,104.3	22,107.3
Creditors	10,661.3	10,309.1	9,242.6	10,464.6
Provisions	157.9	205.2	184.0	208.3
Other current liabilities	4648	5649	5171	5855
Total Current Liabilities	15,467.3	16,162.9	14,597.5	16,527.6
Net Current Assets	5645.3	4702.3	5506.8	5579.7
Other non-current Asset	1187.7	1589.8	1455.4	1647.8
Deferred Tax Asset	612.3	503.0	460.4	521.3
Application of Funds	27863.0	29332.9	29239.5	28968.1

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY19	FY20P	FY21E	FY22E
Per share data (₹)				
EPS	5.1	3.7	2.3	5.4
Cash EPS	11.6	12.5	11.3	14.6
BV	34.7	35.7	36.5	38.9
DPS	1.5	3.0	1.5	3.0
Cash Per Share	11.2	15.4	16.0	16.1
Operating Ratios				
EBITDA Margin (%)	8.4	8.2	7.4	9.7
PBIT / Net sales (%)	5.2	3.8	2.5	5.3
PAT Margin (%)	2.5	1.8	1.3	2.6
Inventory days	26.8	29.6	30.0	30.0
Debtor days	42.1	37.8	40.0	40.0
Creditor days	61.3	59.2	58.0	58.0
Return Ratios (%)				
RoE	14.7	10.4	6.4	14.0
RoCE	13.2	9.8	6.3	13.9
RoIC	19.3	14.2	8.7	21.2
Valuation Ratios (x)				
P/E	20.6	28.3	45.3	19.3
EV / EBITDA	7.7	7.7	9.3	5.9
EV / Net Sales	0.6	0.6	0.7	0.6
Market Cap / Sales	0.5	0.5	0.6	0.5
Price to Book Value	3.0	2.9	2.9	2.7
Solvency Ratios				
Debt/EBITDA	2.2	2.2	2.7	1.5
Debt / Equity	1.1	1.0	1.0	0.8
Current Ratio	1.1	1.0	1.0	1.0
Quick Ratio	0.8	0.7	0.7	0.7

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: < -15%



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