



Rating  
**Buy**

Asia  
India

Automobiles &  
Components

Company  
**Motherson Sumi  
Systems**

Reuters  
MOSS.NS

Bloomberg  
MSS IN

Exchange  
NSI

Ticker  
MOSS

Date  
23 January 2015

**Company Update**

Price at 22 Jan 2015 (INR)	476.75
Price target - 12mth (INR)	530.00
52-week range (INR)	476.75 - 180.30
Bombay Stock Exchange (BSE 30)	28,889

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## NDR takeaways – focus on technology will drive business growth

### Acquisitions and R&D should strengthen company's preferred supplier position

We hosted Motherson Sumi (MSSL) management for investor meetings in the US. The themes were MSSL's focus on new product development and its plans to strengthen its ability to offer integrated solutions to its OEM customers through a partnership of its mirrors, plastics, and wiring harness divisions. The three key messages were a) turnaround of the mirrors and plastics businesses should accelerate from 2HFY15 as new orders are executed, b) access to strong R&D portfolios would drive future acquisitions, and c) MSSL is targeting a quadrupling of revenues (\$25bn) between FY15-FY20 and aspires to maintain ROCE at c.40%. We maintain our Buy rating with a target price of Rs 530.

### Technology ownership should help MSSL increase value addition

The company believes that technology investments through in-house R&D or acquisitions are necessary to become a strategic vendor to its OEMs. Over the next five years, the company aims to become a key player in the advanced driver assistance systems (ADAS) and vehicle safety segments by integrating its camera technology in mirrors and leveraging its strong position in bumpers/dashboards. MSSL believes that this would enable them to achieve a multi-fold increase in "content per car".

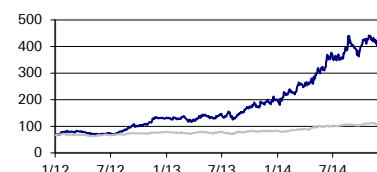
### MSSL will continue to pursue acquisitions

MSSL is continuously evaluating opportunities to acquire distressed assets or companies that have either strong R&D portfolios or close linkages to OEM customers. The hurdle rate for acquisitions is a potential 40% ROCE within five years of purchase. The turnaround of such assets is driven by a combination of process improvements, investments in plant upgradation, and sharing of best practices from within the profitable units in the group. In terms of size, MSSL is comfortable with a 2x net debt/EBITDA.

### Order execution and revenue concentration are the key risks to manage

Our PT of Rs 530 is based on 11x FY16E EV/EBITDA. The timely execution of its outstanding order book of c.Eur 8bn is crucial for the expected business turnaround to bear fruit. Currently, MSSL is significantly leveraged to the VW group (41% of revenues) and its revenues are concentrated in one region (Europe, 60%). The company is working toward diversifying its revenue base through its 3CX15 strategy. Downside risk includes Delay in execution of new orders at the SMR (mirrors) and SMP (plastics). See p. 7.

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	8.4	19.5	138.5
Bombay Stock Exchange (BSE 30)	4.3	7.8	35.4

Source: Deutsche Bank

### Forecasts And Ratios

Year End Mar 31	2013A	2014A	2015E	2016E	2017E
Sales (INRm)	252,253.0	303,579.0	346,909.3	413,766.7	473,922.7
EBITDA (INRm)	16,394.0	25,852.0	33,128.3	47,615.5	61,875.6
Reported EPS FD (INR)	5.04	8.67	13.70	20.97	28.11
DB EPS FD (INR)	6.83	10.80	13.70	20.97	28.11
DB EPS growth (%)	48.1	58.1	26.9	53.0	34.1
PER (x)	14.5	15.4	34.8	22.7	17.0
EV/EBITDA (x)	8.2	7.5	14.5	10.1	7.9

Source: Deutsche Bank estimates, company data

<sup>1</sup> DB EPS is fully diluted and excludes non-recurring items; <sup>2</sup> Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

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Model updated: 22 January 2015

### Running the numbers

Asia

India

Automobiles & Components

## Motherson Sumi Systems

Reuters: MOSS.NS

Bloomberg: MSS IN

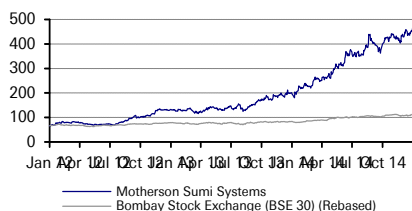
### Buy

Price (22 Jan 15)	INR 476.75
Target Price	INR 530.00
52 Week range	INR 180.30 - 476.75
Market Cap (m)	INRm 420,455
	USDm 6,826

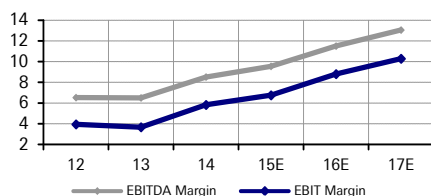
### Company Profile

Motherson Sumi Systems (MSSL) is the flagship company of the Samvardhan Motherson Group. The company is a joint venture between Samvardhana Motherson Group and Sumitomo Wiring Systems (Japan). MSSL is a global tier 1 supplier of automotive components in the segments of wiring harnesses, mirrors, and plastic components. The company expanded its global footprint through the acquisition of mirror business from VisiCorp (now renamed as SMR) in 2009 and polymer business from Peguform (now named SMP) in 2011.

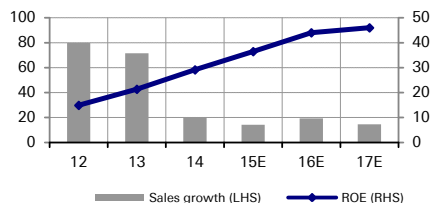
### Price Performance



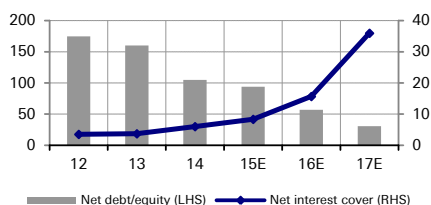
### Margin Trends



### Growth & Profitability



### Solvency



Fiscal year end 31-Mar

### Financial Summary

	2012	2013	2014	2015E	2016E	2017E
DB EPS (INR)	4.61	6.83	10.80	13.70	20.97	28.11
Reported EPS (INR)	2.94	5.04	8.67	13.70	20.97	28.11
DPS (INR)	1.01	1.33	2.50	4.84	7.60	11.33
BVPS (INR)	21.5	26.0	33.6	41.6	53.7	68.5
Weighted average shares (m)	882	882	882	882	882	882
Average market cap (INRm)	72,584	87,322	146,532	420,455	420,455	420,455
Enterprise value (INRm)	118,139	133,726	193,015	479,991	482,798	486,148

### Valuation Metrics

P/E (DB) (x)	17.8	14.5	15.4	34.8	22.7	17.0
P/E (Reported) (x)	28.0	19.6	19.2	34.8	22.7	17.0
P/BV (x)	3.78	4.94	7.62	11.46	8.88	6.96
FCF Yield (%)	nm	1.8	4.6	0.6	3.5	5.2
Dividend Yield (%)	1.2	1.3	1.5	1.0	1.6	2.4
EV/Sales (x)	0.8	0.5	0.6	1.4	1.2	1.0
EV/EBITDA (x)	12.3	8.2	7.5	14.5	10.1	7.9
EV/EBIT (x)	20.4	14.5	10.9	20.5	13.3	10.0

### Income Statement (INRm)

Sales revenue	147,023	252,253	303,579	346,909	413,767	473,923
Gross profit	8,852	15,523	25,152	32,323	46,690	60,811
EBITDA	9,595	16,394	25,852	33,128	47,616	61,876
Depreciation	3,672	6,896	7,879	9,375	10,826	12,696
Amortisation	124	249	293	328	363	421
EBIT	5,799	9,249	17,680	23,426	36,427	48,758
Net interest income/(expense)	-1,649	-2,495	-2,943	-2,807	-2,323	-1,355
Associates/affiliates	2	8	-2	0	0	0
Exceptionals/extraordinaries	-1,472	-1,581	-1,876	0	0	0
Other pre-tax income/(expense)	1,445	3,215	3,106	3,727	4,473	5,367
Profit before tax	4,125	8,396	15,965	24,346	38,576	52,770
Income tax expense	2,160	3,881	4,999	6,817	10,416	14,248
Minorities	-631	70	3,316	5,443	9,665	13,728
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	2,596	4,445	7,650	12,086	18,496	24,795
DB adjustments (including dilution)	1,472	1,581	1,876	0	0	0
DB Net profit	4,068	6,026	9,526	12,086	18,496	24,795

### Cash Flow (INRm)

Cash flow from operations	5,254	12,441	20,222	18,463	31,615	38,985
Net Capex	-10,337	-10,895	-13,517	-15,918	-16,918	-16,918
Free cash flow	-5,083	1,546	6,705	2,545	14,697	22,067
Equity raised/(bought back)	-100	0	150	0	0	0
Dividends paid	-1,237	-2,132	-2,580	-4,998	-7,839	-11,690
Net inc/(dec) in borrowings	16,603	1,835	-642	0	0	0
Other investing/financing cash flows	-11,172	276	555	-5,157	0	0
Net cash flow	-989	1,525	4,188	-7,610	6,859	10,377
Change in working capital	-3,357	-1,019	4,903	-8,769	-7,734	-12,655

### Balance Sheet (INRm)

Cash and other liquid assets	4,557	5,944	9,061	1,451	8,309	18,686
Tangible fixed assets	49,535	54,422	62,956	74,156	79,749	83,470
Goodwill/intangible assets	1,845	2,207	2,704	2,876	3,013	3,092
Associates/investments	938	716	749	749	749	749
Other assets	62,783	64,104	76,969	90,680	109,589	133,887
Total assets	119,658	127,393	152,439	169,912	201,409	239,885
Interest bearing debt	46,023	49,039	48,397	48,397	48,397	48,397
Other liabilities	49,891	51,439	66,553	71,495	82,669	94,314
Total liabilities	95,914	100,478	114,950	119,892	131,066	142,711
Shareholders' equity	18,717	22,890	29,593	36,681	47,338	60,443
Minorities	5,027	4,025	7,896	13,339	23,004	36,732
Total shareholders' equity	23,744	26,915	37,489	50,020	70,342	97,175
Net debt	41,466	43,095	39,336	46,946	40,088	29,711

### Key Company Metrics

Sales growth (%)	79.8	71.6	20.3	14.3	19.3	14.5
DB EPS growth (%)	15.8	48.1	58.1	26.9	53.0	34.1
EBITDA Margin (%)	6.5	6.5	8.5	9.5	11.5	13.1
EBIT Margin (%)	3.9	3.7	5.8	6.8	8.8	10.3
Payout ratio (%)	34.3	26.5	28.8	35.3	36.2	40.3
ROE (%)	14.9	21.4	29.2	36.5	44.0	46.0
Capex/sales (%)	7.3	4.5	4.5	4.6	4.1	3.6
Capex/depreciation (x)	2.8	1.6	1.7	1.6	1.5	1.3
Net debt/equity (%)	174.6	160.1	104.9	93.9	57.0	30.6
Net interest cover (x)	3.5	3.7	6.0	8.3	15.7	36.0

Source: Company data, Deutsche Bank estimates

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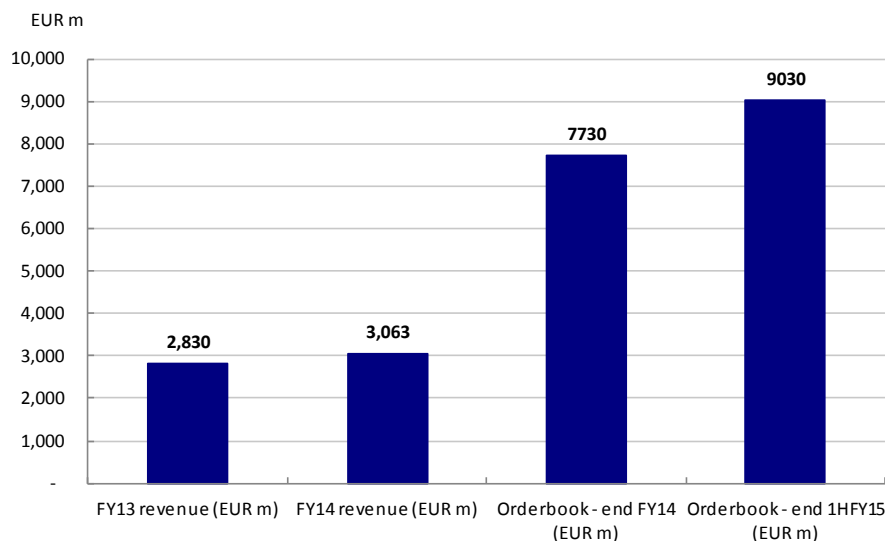


# Key highlights

## MSSL – key takeaways from management commentary

- Targeting aggressive growth in the next five-year cycle – MSSL highlighted that it had already achieved its FY15E revenue target of \$5bn by FY14 and was working toward moving close to the 40% ROCE level by the end of March-15. For FY20E, the company reiterated its first cut guidance of \$25bn revenue and indicated its aspiration of maintaining 40% ROCE.
- Outlook on new acquisitions – MSSL is continuously evaluating opportunities to acquire assets that can bring new technologies, customers, or geographies. The hurdle rate for any acquisition is a potential 40% ROCE within five years of purchase.
- Turnaround strategy – MSSL drives the turnaround of acquired assets through a combination of process improvements, investments in plant upgradation, and sharing of best practices from within the profitable units in the group. Because most acquisitions are done in consultation with the key OEM customers, the company also negotiates for better business terms.
- Complete business turnarounds require five to six years – MSSL highlighted that during the initial years after an acquisition, the company is executing legacy orders and has limited flexibility in making large improvements. As the company starts to execute newer orders, it should witness an acceleration in growth and margin improvement.

Figure 1: SMRPBV – strong order book position



Source: Company data, Deutsche Bank

- Ramp-up of order execution from the newer plants should drive business turnaround – the ramp-up of MSSL's new facilities at SMR (mirrors) and SMP (plastics) would be the key driver of the expected



margin improvement. Figure 2 details 14 new plants that are coming up in various geographies through FY17.

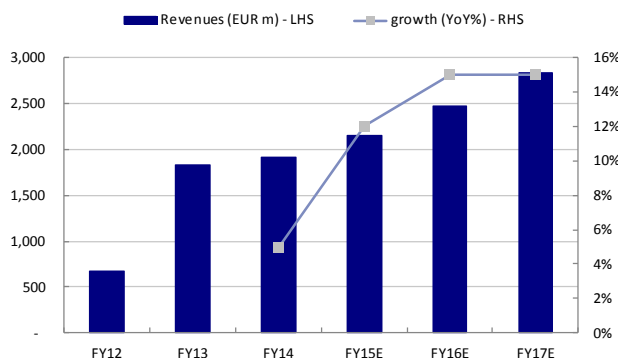
Figure 2: MSSL: details of upcoming facilities

Company	Location	Products	Start of operation
SMP (Plastics)	Oldenburg (Germany)	New painting facility (bumpers & rocker panels)	Q3 FY15
SMP (Plastics)	Schierling (Germany)	Greenfield plant (bumpers)	Q3 FY15
SMR (Mirrors)	Chongqing (China)	Greenfield plant (exterior mirrors)	Q4 FY15
SMP (Plastics)	Foshan (China)	Greenfield plant (A/B/C pillars)	FY15
SMP (Plastics)	Polinya (Spain)	New painting facility (bumpers)	Q1 FY16
SMR (Mirrors)	Marysville (USA)	New plant and significant capacity expansion (exterior mirrors)	Q1 FY16
MATE (Plastics)	Gujarat (India)	Greenfield plant (plastics)	Q1 FY16
MATE (Plastics)	Chennai (India)	Greenfield plant (plastics)	Q1 FY16
MSSL (Wiring Harness)	Chennai (India)	Greenfield plant (wiring harness)	Q1 FY16
MSSL (Wiring Harness)	Noida (India)	Reconstruction of entire plant (wiring harness)	Q2 FY16
SMP (Plastics)	Boetzingen (Germany)	Brownfield expansion (door panels)	Q3 FY16
SMP (Plastics)	Beijing (China)	Greenfield plant (door panels)	Q1 FY17
SMP (Plastics)	Zitlaltepec (Mexico)	Greenfield plant (bumpers, rocker panels, wheel covers, roof spoilers)	Q1 FY17
MSSL (Wiring Harness)	Thailand	Expansion (wiring harness)	

Source: Company, Deutsche Bank

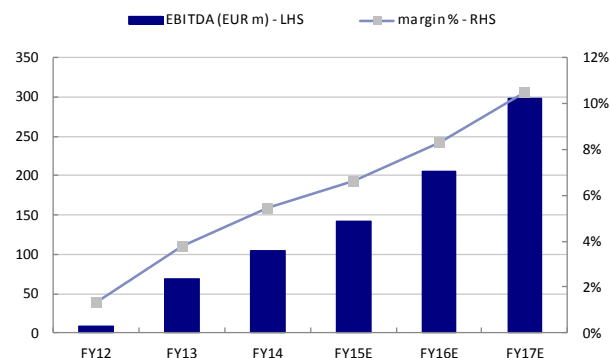
We have assumed that the new orders executed from these plants would lead to higher revenue growth and margin expansion at both SMR and SMP. We forecast SMR's EBITDA margins to expand from 9.6% in FY14 to 16% by FY17E. For SMP, we forecast the EBITDA margin to increase from 5.4% in FY14 to 10.5% in FY17E.

Figure 3: SMP – revenue and growth trend



Source: Company data, Deutsche Bank estimate.

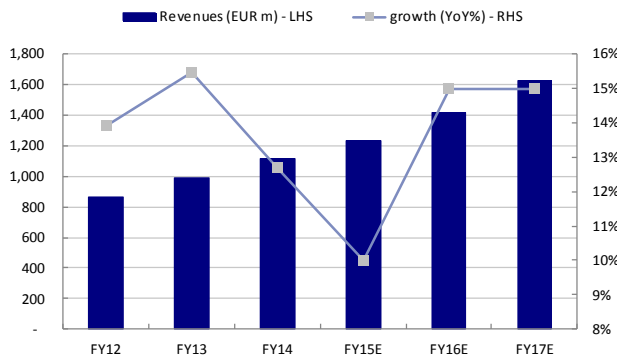
Figure 4: SMP – EBITDA and margin trend



Source: Company data, Deutsche Bank estimate

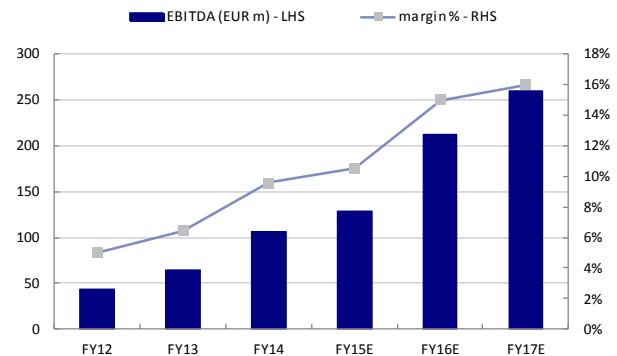


Figure 5: SMR – revenue and growth trend



Source: Company data, Deutsche Bank estimate.

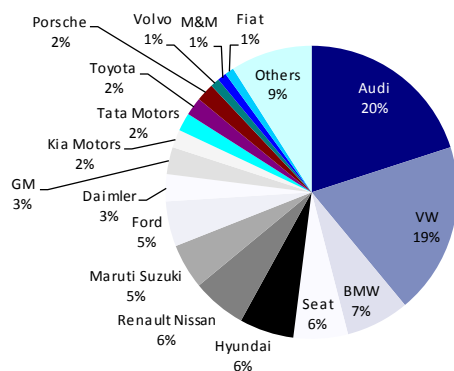
Figure 6: SMR – EBITDA and margin trend



Source: Company data, Deutsche Bank estimate.

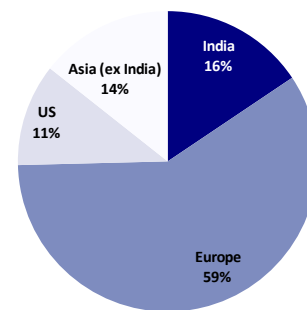
- Technology will be a key driver of future growth – the company will continue to strengthen its in-house product development activities and look to acquire companies with strong R&D portfolios. It also believes that it can integrate its camera technology in mirrors and leverage its strong position in bumpers/dashboards to provide vehicle safety solutions to OEMs.
- Risk management – the company is focused on minimizing the following business risks:
  - Revenue concentration – the company acknowledged that its current revenue mix is leveraged to a single OEM group (Volkswagen, 41% share) as well as to a particular geography (Europe, 60% share). The company is pursuing a strategy of 3CX15 through which it aims to limit the contribution of any single customer/country/component to less than 15% of overall turnover.

Figure 7: MSSL – customer-wise revenue breakdown (FY14)



Source: Company data, Deutsche Bank.

Figure 8: MSSL – geographic revenue breakdown (FY14)



Source: Company data, Deutsche Bank.

- Volume volatility –management is continuously working on converting its fixed cost base at each facility to variable costs so that it can withstand demand volatility of its end products.
- Capex and leverage – the company expects to spend Eur 150-180m/year over the next two years for building new capacities and on product development. The company is comfortable with a net



debt/EBITDA of 2x (currently 1.7x), which is a threshold, while considering the size of new acquisitions.



# Valuation and risks

## Target price and valuation methodology

We value MSSL at Rs 530/share using EV/EBITDA of 11x FY16E. Our target price implies FY16E PE of 25x. We forecast an EPS CAGR (FY14-17E) of 38%.

## Risks

Delay in execution of new orders at the SMR (mirrors) and SMP (plastics) is a key risk. A significant slowdown in global luxury car demand, especially in China, would also have a negative impact on our forecasts for MSSL.



# Appendix 1

## Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Motherson Sumi Systems	MOSS.NS	475.60 (INR) 22 Jan 15	1,7,14

\*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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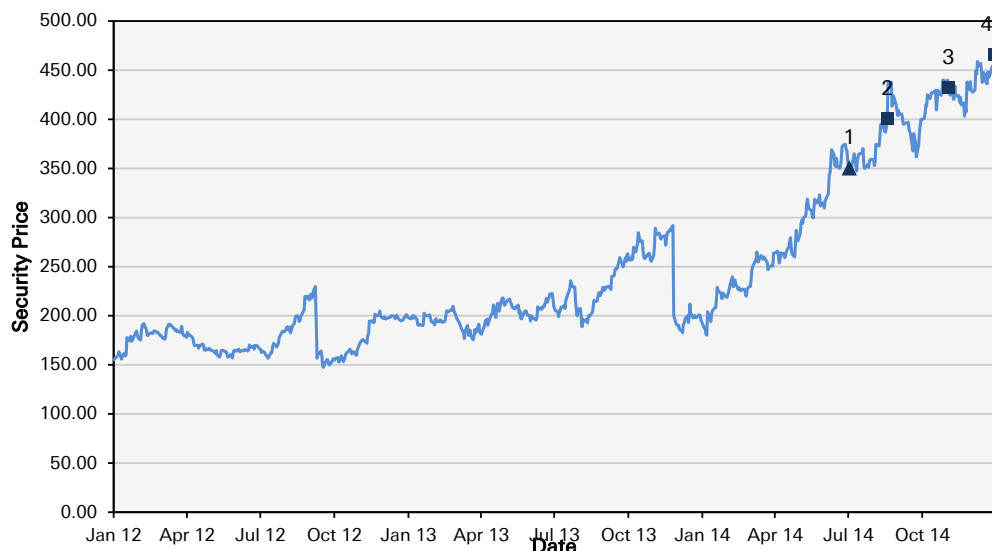
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## Historical recommendations and target price: Motherson Sumi Systems (MOSS.NS) (as of 1/22/2015)



### Previous Recommendations

Strong Buy  
Buy  
Market Perform  
Underperform  
Not Rated  
Suspended Rating

### Current Recommendations

Buy  
Hold  
Sell  
Not Rated  
Suspended Rating

\*New Recommendation Structure  
as of September 9, 2002

1.	26/07/2014:	Upgrade to Buy, Target Price Change INR430.00	3.	26/11/2014:	Buy, Target Price Change INR500.00
2.	11/09/2014:	Buy, Target Price Change INR485.00	4.	22/01/2015:	Buy, Target Price Change INR530.00

## Equity rating key

**Buy:** Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield ) , we recommend that investors buy the stock.

**Sell:** Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

**Hold:** We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

1. Newly issued research recommendations and target prices always supersede previously published research.

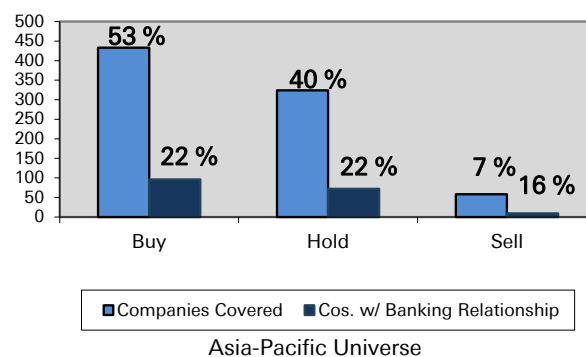
2. Ratings definitions prior to 27 January, 2007 were:

Buy: Expected total return (including dividends) of 10% or more over a 12-month period

Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period

Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

## Equity rating dispersion and banking relationships





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