

**MOTHERSON SUMI SYSTEMS LTD (MSSL)**

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Last report at Rs.497 on 16 March 2015

**ACCUMULATE**

<b>Current Market Price (Rs)</b> 497	<b>Target Price (Rs)</b> 547	<b>Potential Upside (%)</b> 10.1%	<b>52 Week H/L (Rs)</b> 509 / 217	<b>Mkt Cap (Rs mn)</b> 438314
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**INVESTMENT ARGUMENT**

- MSSL's India operation is expected to witness healthy earnings growth over the course of next two-three years. Company is also expected to benefit from rising demand for more features and functions in a car leading to increased wiring harness requirement
- Robust order book at SMR and SMP (MSSL's subsidiaries) provides adequate revenue visibility. We expect cross selling, increasing content per car, expansion in new geographies/segments and healthy repeat orders to keep order book robust.
- Acquisitions have played a critical role in propelling company's revenues. Given company's focus on aggressive revenue target in its five year plans, acquisitions will continue to be a key focus area for the company.
- MSSL's earnings are expected to grow by 40% over FY14-FY17E. Healthy revenue growth coupled with EBITDA margin expansion is expected to drive the profitability over the next 2-3 years.

**RISKS & CONCERNS**

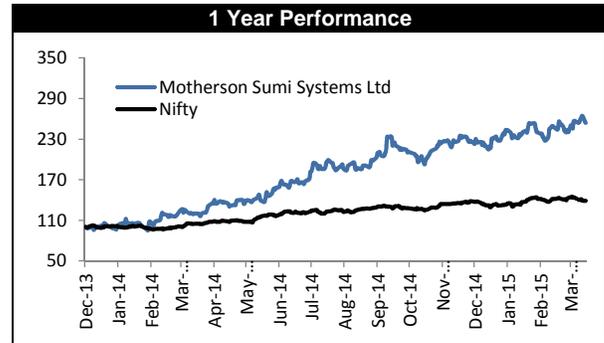
- Slower growth in Indian operations
- Weakness in global demand

**COMPANY BACKGROUND**

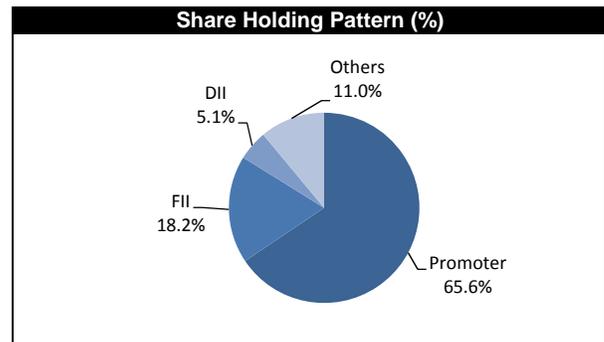
- MSSL is the flagship company of the Samvardhana Motherson Group (SMG) and was established in 1986. It is a joint venture between SMG and Sumitomo Wiring Systems (Japan). The company is one of the leading manufacturers of automotive wiring harnesses, mirrors, plastic components and modules.

**SECTOR BACKGROUND**

- Auto ancillary sector will be the key beneficiary of expected revival in the domestic automobile demand.



Source: Bloomberg



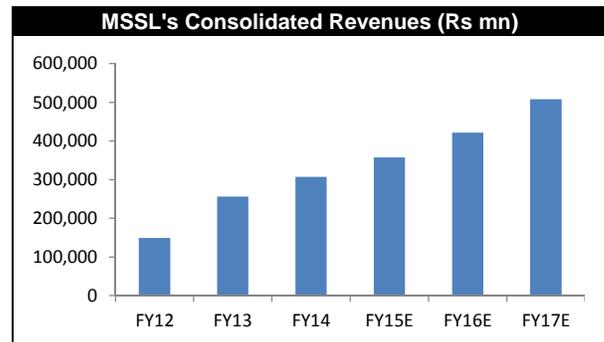
Source: Bloomberg

FINANCIALS (RS MN)	FY15E	FY16E	FY17E
Sales	357,222	421,831	507,875
Growth (%)	16.3	18.1	20.4
EBITDA	32,055	42,295	57,822
EBITDA margin (%)	9.0	10.0	11.4
PBT	17,243	28,240	43,039
Net profit	7,668	13,421	20,290
Adjusted EPS (Rs)	8.7	15.2	23.0
Growth (%)	0.2	75.0	51.2
CEPS (Rs)	19.2	26.4	35.2
BV (Rs/share)	39.3	51.6	71.7
Dividend / share (Rs)	2.5	2.5	2.5
ROE (%)	27.3	33.5	37.3
ROCE (%)	21.9	28.1	35.4
Net cash (debt)	(40,636)	(28,863)	(9,993)
NW Capital (Days)	25.9	24.3	23.4

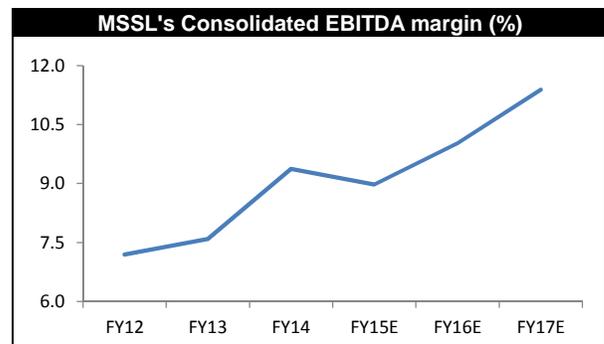
VALUATION PARAMETERS	FY15E	FY16E	FY17E
P/E (x)	57.2	32.7	21.6
P/BV (x)	12.6	9.6	6.9
EV/Sales (x)	1.3	1.1	0.9
EV/EBITDA (x)	14.9	11.0	7.8

PRICE PERFORMANCE (%)	1M	3M	6M
	3.5	15.8	15.3

Source: Bloomberg, Company, Kotak Securities - Private Client Research



Source: Company, Kotak Securities - Private Client Research



Source: Company

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### Definitions of ratings

- BUY** – We expect the stock to deliver more than 12% returns over the next 9 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 9 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 9 months
- SELL** – We expect the stock to deliver negative returns over the next 9 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
- RS** – **Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.
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