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Rating	Accumulate
Price	Rs333
Target Price	Rs406
Implied Upside	21.9%
Sensex	33,371
Nifty	10,245

(Prices as on April 03, 2018)

Trading data

Market Cap. (Rs bn)	440.0
Shares o/s (m)	1,322.9
3M Avg. Daily value (Rs m)	1253

Major shareholders

Promoters	61.73%
Foreign	20.10%
Domestic Inst.	8.44%
Public & Other	9.73%

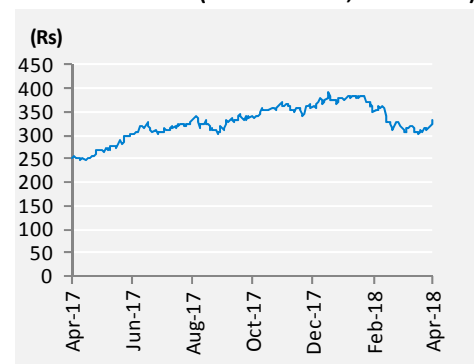
Stock Performance

(%)	1M	6M	12M
Absolute	4.0	(1.9)	32.7
Relative	6.0	(7.9)	21.1

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	11.9	13.0	-7.8
2020	16.9	16.4	3.3

Price Performance (RIC: MOSS.BO, BB: MSS IN)



Source: Bloomberg

Motherson Sumi (MSS), through its subsidiary SMRP BV, will acquire Reydel Automotive from Cerberus capital management. Reydel Automotive is in the same line of business as SMP, i.e., instrument panels, door panels, console modules, etc., with presence across Europe (66% of revenues), Asia (28%) and South America (6%). Purchase price for the transaction is at US\$201mn for 100% equity stake, implying an attractive valuation at EV/EBITDA multiple of 2x and EV/sales of 0.13x. The transaction is expected to close over the next six months, with the acquisition to be EPS accretive from day one.

- Favourable valuations:** On the conference call conducted by MSS, concerns were raised on why the exiting PE, Cerberus, would sell a profitable business at 2x EV/EBITDA. However, we note that Cerberus acquired the business from Visteon at a mere US\$1 in 2013 and has managed a significant turnaround in the business. As per media articles the business was in fact loss-making when acquired by Cerberus and since then has been able to reach 6%+ EBITDA margin. The deal appears to have generated significant returns for Cerberus.
- In-line with the 3CX15 target:** The proposed acquisition would take MSS a step closer to its 3CX15 (no customer, country or component to be >15% of overall revenues) strategy and helps MSS further diversify its customer base as the two largest customers for Reydel (PSA and Renault group) would see their revenue share go up from 5% to 11%. Geography wise, Reydel's revenues come in largely from France, South Korea and South America. Post the acquisition, the share of France in MSS' revenues would increase from 1% to 5% and Korea from 3% to 5%.
- Valuation & View:** We remain positive on MSS' prospects from a long-term perspective and this acquisition is a step closer to achieving their target for FY20E to attain US\$18bn revenue in addition to the standard RoCE expectation of 40% and a dividend payout ratio of 40%. Given the company's track record in terms of accomplishing its published targets, revenue targets seem plausible. With this acquisition we see an upside risk of ~4% increase to our EPS estimates. We maintain 'Accumulate' with a price target of Rs406, based upon 24x Mar'20E EPS. At CMP, the stock trades at 27.8x FY19E & 19.6x FY20E Consol EPS.

Key financials (Y/e March)	2017	2018	2019E	2020E
Revenues (Rs m)	424,752	511,769	608,358	690,300
Growth (%)	14.1	20.5	18.9	13.5
EBITDA (Rs m)	42,665	49,451	61,488	70,598
PAT (Rs m)	16,074	19,146	25,156	35,645
EPS (Rs)	11.5	9.1	11.9	16.9
Growth (%)	22.4	(20.6)	31.4	41.7
Net DPS (Rs)	4.0	4.5	4.5	5.5

Profitability & Valuation	2017	2018	2019E	2020E
EBITDA margin (%)	10.0	9.7	10.1	10.2
RoE (%)	25.4	22.1	25.8	30.8
RoCE (%)	15.7	14.2	16.9	18.3
EV / sales (x)	1.2	1.4	1.2	1.1
EV / EBITDA (x)	12.2	14.9	12.0	10.3
PE (x)	29.0	36.6	27.8	19.6
P / BV (x)	5.6	7.7	6.7	5.5
Net dividend yield (%)	1.2	1.4	1.4	1.7

Source: Company Data; PL Research

Income Statement (Rs m)

Y/e March	2017	2018	2019E	2020E
Net Revenue	424,752	511,769	608,358	690,300
Raw Material Expenses	257,507	317,743	375,009	424,692
Gross Profit	167,246	194,026	233,349	265,608
Employee Cost	80,909	87,001	103,421	117,351
Other Expenses	43,671	57,574	68,440	77,659
EBITDA	42,665	49,451	61,488	70,598
Depr. & Amortization	10,590	11,183	12,190	14,018
Net Interest	4,724	5,326	3,901	4,135
Other Income	1,645	1,609	1,770	1,947
Profit before Tax	28,996	34,551	47,168	54,392
Total Tax	9,103	11,747	16,037	18,493
Profit after Tax	19,893	22,804	31,131	35,899
Ex-Od items / Min. Int.	7,481	8,235	11,925	7,991
Adj. PAT	16,074	19,146	25,156	35,645
Avg. Shares O/S (m)	1,403.5	2,105.3	2,105.3	2,105.3
EPS (Rs.)	11.5	9.1	11.9	16.9

Cash Flow Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
C/F from Operations	37,973	56,696	44,341	53,503
C/F from Investing	(65,940)	(20,652)	(25,000)	(25,000)
C/F from Financing	59,115	(21,871)	(23,960)	(20,937)
Inc. / Dec. in Cash	31,149	14,174	(4,618)	7,566
Opening Cash	17,717	48,866	63,039	58,421
Closing Cash	48,866	63,039	58,421	65,988
FCFF	(37,707)	9,115	9,367	24,015
FCFE	6,294	6,115	6,367	21,015

Key Financial Metrics

Y/e March	2017	2018	2019E	2020E
Growth				
Revenue (%)	14.1	20.5	18.9	13.5
EBITDA (%)	19.2	15.9	24.3	14.8
PAT (%)	22.4	19.1	31.4	41.7
EPS (%)	22.4	(20.6)	31.4	41.7
Profitability				
EBITDA Margin (%)	10.0	9.7	10.1	10.2
PAT Margin (%)	3.8	3.7	4.1	5.2
RoCE (%)	15.7	14.2	16.9	18.3
RoE (%)	25.4	22.1	25.8	30.8
Balance Sheet				
Net Debt : Equity	0.6	0.4	0.4	0.2
Net Wrkng Cap. (days)	(3)	(19)	(20)	(20)
Valuation				
PER (x)	29.0	36.6	27.8	19.6
P / B (x)	5.6	7.7	6.7	5.5
EV / EBITDA (x)	12.2	14.9	12.0	10.3
EV / Sales (x)	1.2	1.4	1.2	1.1
Earnings Quality				
Eff. Tax Rate	31.4	34.0	34.0	34.0
Other Inc / PBT	5.7	4.7	3.8	3.6
Eff. Depr. Rate (%)	4.8	4.3	4.3	4.5
FCFE / PAT	39.2	31.9	25.3	59.0

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018	2019E	2020E
Shareholder's Funds	82,727	90,484	104,555	126,651
Total Debt	101,418	98,418	95,418	92,418
Other Liabilities	21,558	21,658	21,758	21,858
Total Liabilities	205,703	210,560	221,731	240,927
Net Fixed Assets	141,274	150,742	163,552	174,534
Goodwill	—	—	—	—
Investments	692	692	692	692
Net Current Assets	63,737	59,126	57,487	65,702
<i>Cash & Equivalents</i>	<i>48,866</i>	<i>63,039</i>	<i>58,421</i>	<i>65,988</i>
<i>Other Current Assets</i>	<i>127,841</i>	<i>134,109</i>	<i>156,328</i>	<i>175,759</i>
<i>Current Liabilities</i>	<i>112,970</i>	<i>138,023</i>	<i>157,262</i>	<i>176,045</i>
Other Assets	—	—	—	—
Total Assets	205,703	210,560	221,731	240,927

Quarterly Financials (Rs m)

Y/e March	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Net Revenue	112,839	130,959	134,313	143,979
EBITDA	12,543	11,760	12,507	12,595
<i>% of revenue</i>	<i>11.1</i>	<i>9.0</i>	<i>9.3</i>	<i>8.7</i>
Depr. & Amortization	2,707	3,768	3,978	3,937
Net Interest	838	1,176	771	1,032
Other Income	948	143	156	151
Profit before Tax	9,946	6,959	7,914	7,777
Total Tax	2,198	2,343	2,336	2,516
Profit after Tax	4,748	2,780	4,362	3,645
Adj. PAT	5,638	3,981	4,396	3,659

Key Operating Metrics

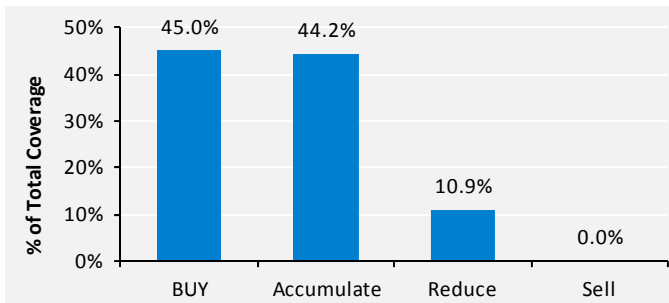
Y/e March	2017	2018	2019E	2020E
Standalone EBITDA Margin	19.7	18.3	18.6	19.0
SMR EBITDA Margin	10.9	10.5	10.8	10.8
SMP EBITDA Margin	7.3	7.1	7.5	7.5

Source: Company Data, PL Research.

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Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
Trading Sell	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock
Under Review (UR)	:	Rating likely to change shortly

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