

Company update

Automobiles

Target price: Rs110

Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	68.2	68.2	68.2
Institutional investors	20.0	20.0	20.2
MFs and others	7.7	7.8	8.9
FIs/Banks	2.7	2.6	3.1
FII	9.6	9.6	8.2
Others	11.8	11.8	11.6

Source: BSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	31.1	35.0	4.0
Environment	2.4	2.4	0.0
Social	12.0	23.9	11.9
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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INDIA

Samvardhana Motherson International BUY

Maintained

Scaling up – inorganically and profitably

Rs82

Samvardhana Motherson International (SAMIL) has reached an agreement to acquire 100% equity stake in **SAS Autosystemtechnik GmbH** from **Faurecia** for an enterprise value of EUR540mn. **SAS** is a leading global provider of cockpit module assemblies for cars with manufacturing facilities/offices across 12 countries with a total headcount of ~5,000. For **SAS**, ~50% of its revenue comes from EV programmes and its largest customer is a leading global EV maker with other key customers being **VW Group**, **Daimler** and **Stellantis**. With net revenue of ~EUR900mn and EBITDA margin of ~11.5% in CY22, the said deal is valued at a trailing EV/EBITDA of ~5.4x. **SAS** will give **SAMIL** capability for cockpit module assembly, door panels, cooling modules, front-end modules, logistics-related services for just-in-time supply-chain management, etc. Our analysis suggests (assuming cost of debt at ~5%), post funding EUR540mn through fresh debt, **SAS** would deliver ~Rs2.5bn in terms of PAT for **SAMIL** in FY25E as against our existing FY25E PAT estimate of Rs34bn. Thus the deal will likely help **SAMIL** grow its earnings more profitably than the existing portfolio – other than giving exposure to key EV-making global OEMs and exposure to efficient logistical management in the automotive industry. Post the deal, we expect 'net debt / equity' for **SAMIL** at ~0.2x by FY25E vs being a net-debt-free entity otherwise. We retain our **BUY** rating on **SAMIL** with DCF-based price target of Rs110, implying ~20x FY25E earnings.

Our views on the deal:

- ▶ **Scope to add to SAMIL's revenue beyond reported figure; group's diversified portfolio and backward integration capabilities to help generate higher revenues:** For **SAS**, ~80% of the final product value is based on components sourced by OEMs at their discretion for final assembly to be done by **SAS**. Thus **SAS**'s net revenue reflects ~20% value-addition done by it, with the rest being sourced externally. Thus we believe **SAMIL** would target to supply plastic/electronic/mirror/camera based components to the target OEMs, worth ~20-30% of ~EUR4.5bn gross revenue value, enhancing Motherson group's revenue potential.
- ▶ **Will help improve SAMIL's relations with leading global EV makers; will also help it improve EV-based revenue mix:** As against ~20% revenue mix for **SAMIL** with the **VW** group and ~15% with **Daimler** group, exposure to the leading EV OEMs is hardly 1%. The deal with **SAS** would take it up to ~3% and help **SAMIL** cross-sell its portfolio more efficiently, helping the latter to enhance its value addition per car through the same set of components, but with higher complexity. The deal, we believe, would also help **SAMIL** enhance its logistical practices – in turn saving on costs and adding new business opportunities.

Market Cap	Rs555bn/US\$6.7bn	Year to Mar (Std)	FY22	FY23E	FY24E	FY25E
Bloomberg	MOTHERSO IN	Revenue (Rs bn)	635.4	773.9	911.5	987.2
Shares Outstanding (mn)	6,776.3	Rec. Net Income (Rs bn)	8.5	14.0	30.3	34.1
52-week Range (Rs)	105/62	Rec. EPS (Rs)	1.4	2.2	4.8	5.4
Free Float (%)	31.8	% Chg YoY	(18.5)	55.5	116.1	12.6
FII (%)	8.2	P/E (x)	57.6	37.0	17.1	15.2
Daily Volume (US\$/'000)	15,363	CEPS (Rs)	6.0	7.2	10.1	11.1
Absolute Return 3m (%)	13.5	EV/E (x)	13.4	10.6	7.3	6.8
Absolute Return 12m (%)	(22.0)	Dividend Yield (%)	0.6	0.9	2.0	2.2
Sensex Return 3m (%)	(1.4)	RoCE (%)	3.3	5.7	9.9	10.4
Sensex Return 12m (%)	6.3	RoE (%)	4.4	6.5	12.9	13.3

Please refer to important disclosures at the end of this report

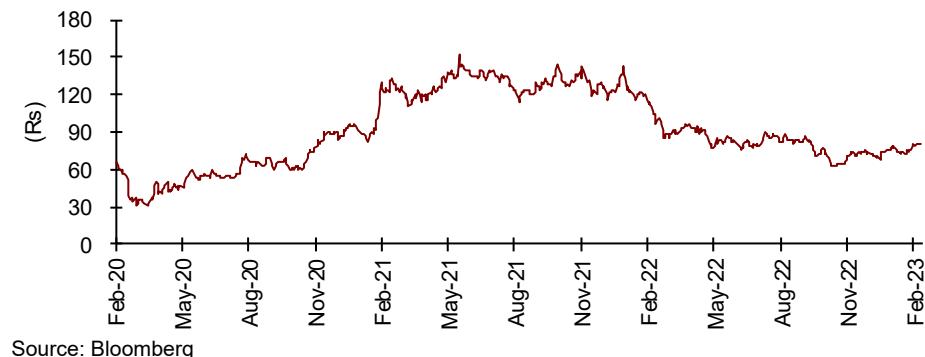
- ▶ **Should add ~6-7% to SAMIL's FY25E PAT:** As against the existing plastics part business under SAMIL delivering sub-10% EBITDAM, we believe this ~11.5% EBITDAM business acquired at a trailing ~5.4x EV/EBITDA would add value for SAMIL. Assuming cost of debt at ~5%, depreciation/sales ratio at 5% and tax rate at ~25%, SAS should deliver a PAT margin of ~3%, resulting in additional earnings of Rs2.5bn as against our estimated FY25E PAT at Rs34bn for SAMIL. Thus, we believe, the said deal would enable SAMIL to grow profitably and potentially add fresh revenue opportunities beyond ~EUR1bn p.a.

Key risks

Upside risks: 1) Faster than expected revival in PVs in the key developed markets such as EU/NA/China. 2) Faster than expected acceptance of EVs, which would add to the value proposition per unit much faster than anticipated. 3) Acquisition of SAS enabling SAMIL to do margin-enhancing deals with limited debt addition – in turn adding to the bottom line and helping SAMIL grow profitably.

Downside risks: 1) Supply-chain issues continuing to hurt global car production across FY24, similar to that in FY22-FY23. 2) Input cost inflation / power inflation / freight inflation resurfacing and consequently hurting SAMIL's profitability. 3) Any large debt-driven M&A would enhance risk to SAMIL's balance sheet and its ability to withstand steep interest outgo amidst muted EBITDA generation in adverse times.

Price chart



Financial summary (consolidated)

Table 1: Profit and Loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Net Sales	6,35,360	7,73,934	9,11,470	9,87,212
Raw material expenditure	3,67,363	4,64,267	5,39,380	5,94,286
Staff cost	1,53,746	1,78,005	2,09,638	2,17,187
Other expenses	69,637	75,208	81,225	87,723
Operating expenditure	5,90,746	7,17,480	8,30,244	8,99,196
EBITDA	44,614	56,453	81,226	88,017
<i>EBITDA Margin (%)</i>	7.0%	7.3%	8.9%	8.9%
Depreciation	29,582	31,504	33,653	36,074
EBIT	15,032	24,949	47,573	51,943
Interest expenditure	5,426	6,750	7,000	7,000
Non-operating income	4,957	3,965	5,552	7,217
Adj. PBT	14,562	22,164	46,125	52,160
Tax	6,275	6,649	13,837	15,648
Adj. PAT	8,287	15,515	32,287	36,512
Discontinued PAT	3,642	-	-	-
Adj. PAT (cont. + discontinued)	11,929	15,515	32,287	36,512
Minority Interest/Share of JVs	2,917	1,500	2,000	2,400
Adj. consol PAT after MI	9,012	14,015	30,287	34,112
Exceptionals	481	-	-	-
Reported PAT after MI	8,531	14,015	30,287	34,112

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Shareholders' equity	4,518	6,325	6,325	6,325
Reserves & surplus	2,01,365	2,08,667	2,28,353	2,50,805
Total networth	2,05,883	2,14,991	2,34,678	2,57,129
Minority Interest	17,763	19,263	21,263	23,663
Debt	1,27,609	1,27,609	1,27,609	1,27,609
Deferred tax liability	(8,322)	(8,322)	(8,322)	(8,322)
Total liabilities	3,42,932	3,53,541	3,75,228	4,00,079
Gross block	3,59,032	3,82,250	4,09,594	4,39,210
Net block	2,14,113	2,05,826	1,99,517	1,93,059
CWIP	13,097	13,097	13,097	13,097
Investments (non-current)	64,617	64,617	64,617	64,617
Cash & equivalents	49,994	80,328	1,20,196	1,53,373
Debtors	80,247	84,815	94,893	1,02,778
Inventory	64,417	67,852	74,915	81,141
Loans & advances	62,449	80,849	95,168	1,03,053
Total current assets	2,57,107	3,13,843	3,85,172	4,40,345
Current liabilities	1,94,373	2,33,240	2,74,690	2,97,516
Provisions	11,629	10,602	12,486	13,523
Total current liabilities	2,06,002	2,43,842	2,87,175	3,11,040
Net current assets	51,105	70,001	97,996	1,29,306
Total assets	3,42,932	3,53,541	3,75,228	4,00,079

Source: Company data, I-Sec research

Table 3: 5-stage DuPont analysis

(year ending March 31)

All figures in %	FY22	FY23E	FY24E	FY25E
Tax Burden (Adjusted PAT/PBT)	58.6	63.2	65.7	65.4
Interest Burden (PBT/EBIT)	96.9	88.8	97.0	100.4
EBIT Margin (EBIT/Sales)	2.4	3.2	5.2	5.3
Asset Turnover (Sales/Total Assets)	185.3	218.9	242.9	246.8
Financial Leverage (Total Assets/Equity)	1.7	1.6	1.6	1.6
ROE	4.4	6.5	12.9	13.3

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Operating cashflow before WC changes	43,181	53,769	72,940	79,586
(Incr) / decr in net working capital	(31,159)	11,438	11,873	1,868
Cashflow from operations	12,022	65,208	84,813	81,454
Capex (net)	(47,032)	(23,218)	(27,344)	(29,616)
(Incr) / decrease in investments	-	-	-	-
Cashflow from investments	(47,032)	(23,218)	(27,344)	(29,616)
Net borrowings	39,347	-	-	-
Interest paid	(5,426)	(6,750)	(7,000)	(7,000)
Dividend paid	(2,937)	(4,905)	(10,601)	(11,661)
Others	(7,287)	(78,969)	-	-
Issue of Equity	1,360	(1)	-	-
Cashflow from financing	25,058	(90,625)	(17,601)	(18,661)
Net change in cash	(9,952)	(48,636)	39,869	33,177
Free cashflow	(35,010)	41,990	57,469	51,837

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Per Share Data (in Rs)				
EPS (Rs)	1.4	2.2	4.8	5.4
Diluted EPS (Rs)	1.4	2.2	4.8	5.4
CEPS (Rs)	6.0	7.2	10.1	11.1
Dividend per share (Rs)	0.5	0.8	1.7	1.8
Book value per share (Rs)	32.6	34.0	37.1	40.7
Growth Ratios (%)				
Total Op. Income (Sales)	10.7	21.8	17.8	8.3
EBITDA	2.3	26.5	43.9	8.4
Net Income (Adjusted)	38.7	3.1	6.1	6.6
EPS (Adjusted)	(18.5)	55.5	116.1	12.6
Cash EPS	(4.0)	19.4	40.5	9.8
BVPS (Adjusted)	63.9	4.4	9.2	9.6
Valuation Ratios (x)				
P/E (x)	57.6	37.0	17.1	15.2
P/BV (x)	2.5	2.4	2.2	2.0
EV/Sales (x)	0.9	0.8	0.7	0.6
EV/EBITDA (x)	13.4	10.6	7.3	6.8
Return/Profitability Ratios (%)				
EBITDA Margin	7.0	7.3	8.9	8.9
Net Income Margin (Adjusted)	1.4	1.8	3.3	3.5
RoCE	3.3	5.7	9.9	10.4
RoNW	4.4	6.5	12.9	13.3
Dividend Payout Ratio	32.6	35.0	35.0	34.2
Dividend Yield	0.6	0.9	2.0	2.2
Solvency/Wkg. Cap. Ratios (x)				
Net D/E	0.4	0.2	0.0	(0.1)
Debt/EBITDA	2.9	2.3	1.6	1.4
EBIT/Interest	2.8	3.7	6.8	7.4
Inventory (days)	33	32	30	30
Receivables (days)	44	40	38	38
Payables (days)	117	110	110	110

Source: Company data, I-Sec research

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