

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

Research Analysts:

Basudeb Banerjee

basudeb.banerjee@icicisecurities.com
+91 22 6807 7260

INDIA

Samvardhana Motherson International **BUY**

Maintained

Rs82

Scaling up – inorganically and profitably

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

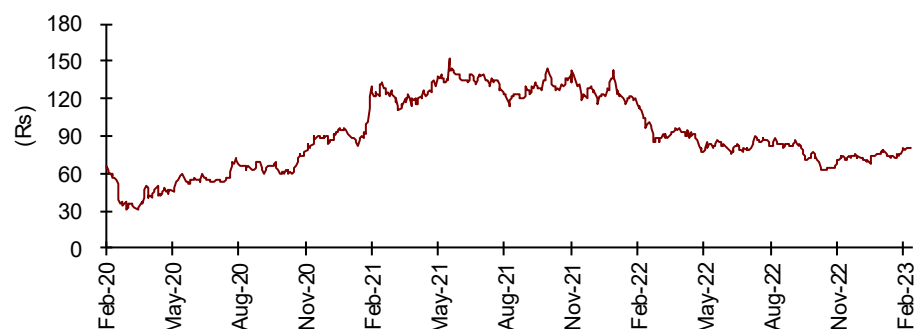
- **Should add ~6-7% to SAMIL's FY25E PAT:** As against the existing plastics part business under SAMIL delivering sub-10% EBITDAM, we believe this ~11.5% EBITDAM business acquired at a trailing ~5.4x EV/EBITDA would add value for SAMIL. Assuming cost of debt at ~5%, depreciation/sales ratio at 5% and 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



Source: Bloomberg

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
EBITDA Margin (%)	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 network	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

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40.92, Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)

BUY: >15% return; **ADD:** 5% to 15% return; **HOLD:** Negative 5% to Positive 5% return; **REDUCE:** Negative 5% to Negative 15% return; **SELL:** < negative 15% return

ANALYST CERTIFICATION

I/We, *Basudeb Banerjee, MBA (Finance)*; name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.