



# GNAM Investment Competition

Indian Institute of Management Bangalore

**MOTHERSON SUMI LTD.**

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# Motherson Sumi – Executive summary

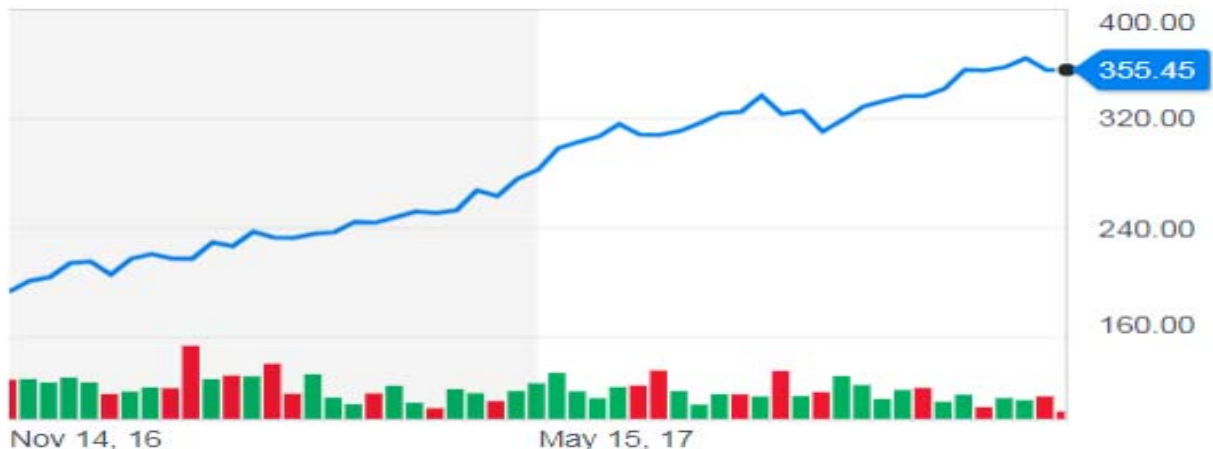
Current Price	₹ 359.5
Target Price	₹ 411
Recommendation	BUY
Upside	14%

The company is the largest supplier of EDS to the Indian automotive industry. They offer a range of products in the fields of electrical distribution systems, plastic molding, elastomers processing, tooling, metal machining, automotive rear view mirrors and integrated modules.

MSSL reported a good set of numbers in the Q2FY18 quarter ending September 2017. Net profit of Motherson Sumi Systems rose 23.67% to Rs 593.45 crore in the quarter ended September 2017 as against Rs 479.85 crore during the previous quarter ended September 2016.

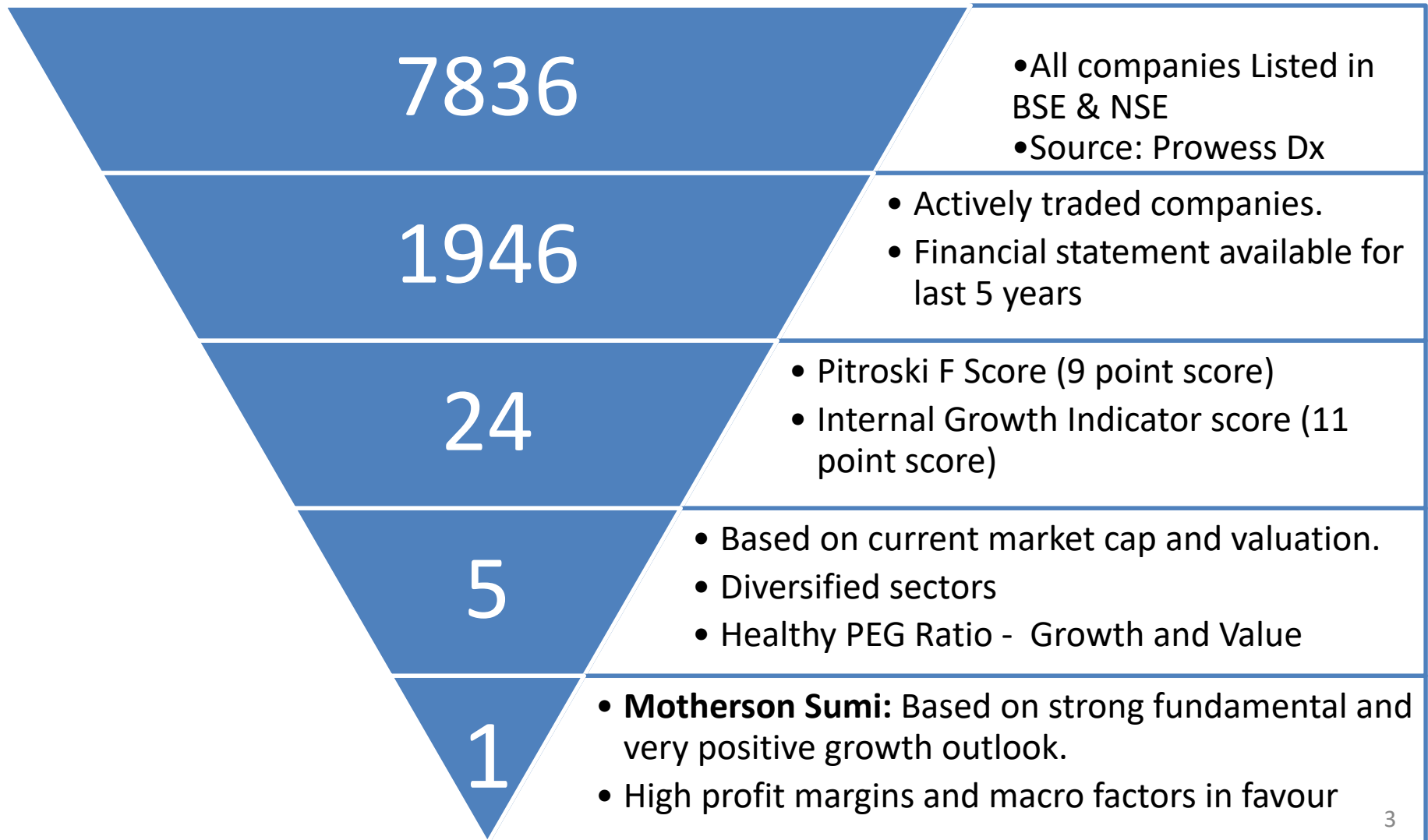
- **Strong and Diversified product line and Strong Fundamentals**
- **Implementation of the GST in India**
- **New GST Regime**
- **7<sup>th</sup> Pay Commission Stimulus**
- **Make In India Boost**

Annual Ratios (%)			
	2017	2016	2015
<b>Growth</b>			
Revenue Growth	18%	8%	10%
Book Value	124%	-23%	10%
<b>Average</b>			
Operating Margin %	19.58	16.99	16.67
Profit Margin	13.03	13.40	10.32
RONW	14.25	29.33	24.60
ROCE	11.78	26.54	20.91
ROA	9.99	18.57	13.77
RONW	30.54	30.78	30.91
ROI	35.75	37.07	33.83





# Shortlisting Methodology (Funnel)





# The India Story

- Indian economy is on the verge of paradigm shift with GDP growth at >7%\*
- Much expected Goods and Services Tax Rolled out – expected to add to growth in long run
- Increased thrust by Govt on Manufacturing industry (Make in India) shall help strengthen the Auto ancillary industry
- The good monsoon on the back of the and 7<sup>th</sup> Pay Commission to be rolled out will boost consumption cycle.

\*IMF Economic Outlook



# Auto Ancillary Industry

The Indian automotive component aftermarket segment is expected to reach Rs 75,705 crore (US\$13 billion) by 2019-20, growing at a rate of 10.5%, according to industry body ACMA

Under the AMP 2026, the auto component aftermarket is estimated to reach a size of Rs 1.79-2 lakh crore.

## Industry Growth Drivers:

- ✓ Stable government framework
- ✓ increased purchasing power and large domestic market Low consumption level
- ✓ Thrust and Improvement in physical infrastructure
- ✓ Boost from GST Regime in 2017
- ✓ 7<sup>th</sup> Pay Commission bonanza in 2017-18
- ✓ Good Mansoon in 2017



The auto-components industry accounts for almost **7%** of India's GDP




# Motherson Sumi


MSSL has a strong product portfolio diversified across multiple sectors. This has helped it cushion the impact of changing industrial cycles.

Consistent Growth of CAGR over 29%


**01** Wiring harnesses.




**02** Rear view mirrors.




**03** Polymers and modules.




**04** IT, engineering and design.



**05** Metal working.



**06** Elastomers.

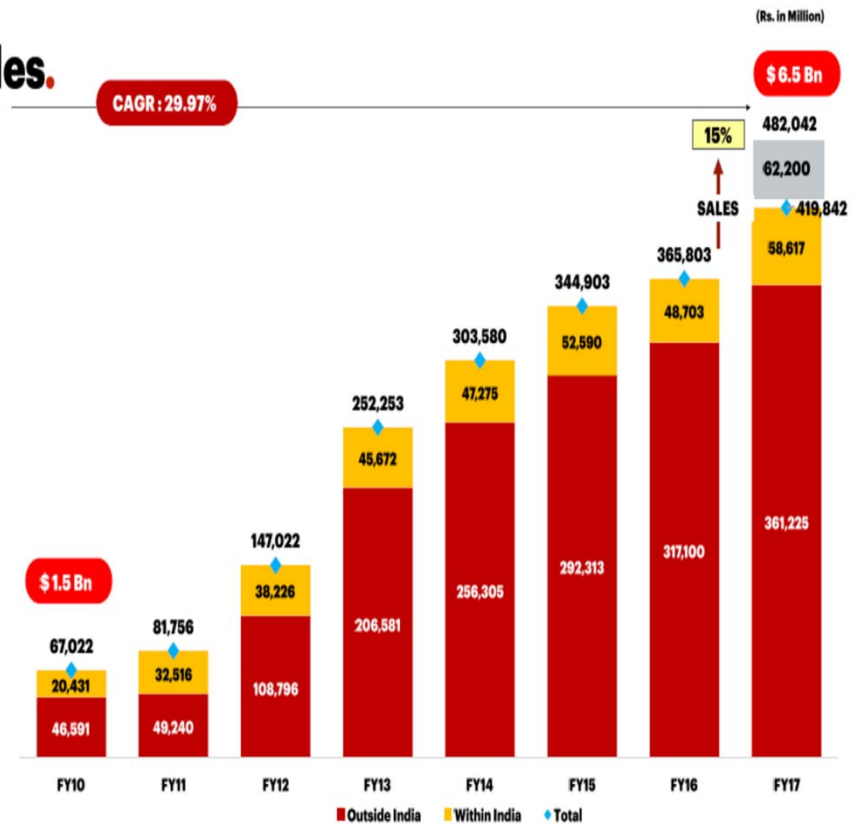


**07** Manufacturing support.



A growing portfolio that is diverse and scalable.

## Sales.





# Motherson Sumi - Valuation



- ✓ Motherson Sumi Systems Ltd valuation using the DCF method is expected to be INR 444.
- ✓ Projecting a nearly 23% rise in the stock price

DCF Summary	in INR crores
Cost of Debt	7.79%
Equity Beta (Levered)	1
Debt to Equity ratio	21%
Cost of Equity	12%
WACC	11.27%
PV from cash flow, years 1 to 6	12,191
PV horizon value	50,173
PV of company	62,364
PV of Debt	1,220
Present Value of Equity (INR Million)	61,144
No. of outstanding shares	1,403,526,327
Forecasted Value per share	436



# Motherson Sumi - Peer Comparison

- Motherson Sumi Systems Limited(MSSL) has a high PE, but the nominal PE for its segment is 71. Hence MSSL has still some headroom to grow from its current PE of 34.
- MSSL Divided yield is lower compared to its peers. This shows that the management is retaining earning for expansion.
- MSSL P/E & P/B ratio clearly reflects investor confidence in the Company's expansion and diversification.

Particulars	Motherson Sumi	Bosch	Exide Ind	Amara Raja Batt	WABCO India
Enterprise value (EV)	53,310.12	67,757.13	19,186.41	15,082.21	5.20
Enterprise value to EBIDTA (EV/EBIDTA)	38.55	26.28	16.17	16.77	5.33
Price to Earnings (PE)	34.1	-	-	29.25	57.09
Price to Book (PB)	9.02	7.9	3.84	5.86	5.33
Dividend Yield	0.02	0.03	0.04	0.03	0.03
ROCE	11.78	18.98	13.42	16.93	16.52





# Conclusion

- DCF valuation indicates that stock has an upside 23 %.
- Very favourable Macro Outlook
- Peer comparison also reveals there is a momentum for Motherson Sumi.



**WE STRONGLY  
RECOMMEND A BUY!**