

Motherson Sumi Wiring India

BSE SENSEX

57,362

S&P CNX

17,153

Not Rated
Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Sales	41.4	55.4	66.4
EBITDA	4.8	7.2	9.0
Adj. PAT	2.5	4.4	5.9
EPS (Rs)	0.8	1.4	1.9
EPS Growth (%)		71.4	36.3
BV/Share (Rs)	2.2	3.2	4.5
Ratios			
Net D:E	0.1	0.0	-0.2
RoE (%)	35.8	50.5	48.5
RoCE (%)	89.3	62.0	59.9

MSWIL's shareholding pattern

	%
Motherson Sumi	33.4
Sumitomo Wiring Systems	25.3
Sehgal Family	3.0
Public	38.3

A pure play on India premiumization and EV trend

Leader in India Wiring Harness; to benefit from megatrends in Autos

- MSWIL's India Wiring Harness business, which was demerged from MSS, is getting listed on 28th Mar'22. It offers a pure India play on the Auto industry, with a focus on the attractive Wiring Harness business.
- The company enjoys market leadership in the Indian Wiring Harness industry, with an estimated market share of over 40%. It enjoys access to world-class technology (JV between Sumitomo Wiring Systems and MSS). MSWIL derives a lion's share part of its revenue from India and has limited direct exports.
- Beyond MSWIL, MSS directly owns wiring harness businesses in a) JV with Kyungshin (for supply to Hyundai/Kia in India) and b) PKC (global leader in wiring harnesses for CVs).
- The Wiring Harness business benefits from the mega trends (of premiumization, increasing use of electronics, and electrification) playing out in the Auto industry, resulting in an increase in content.
- This, coupled with a strong JV partner and market leadership, has resulted in a strong operating performance by MSWIL, as reflected in the sustained higher growth than underlying industry volumes, industry-leading capital efficiencies, and strong balance sheet.
- MSS holds a 33.4% stake in MSWIL, 25.3% by Sumitomo Wiring Systems, 3% by Sehgal family, and 38.3% by public shareholders.
- MSWIL's operating performance had been impacted by weak PV volumes (till FY21) and hyperinflation in copper prices (from FY21), resulting in a correction in EBITDA margin to 11.5% in FY21 from 16.5% in FY19. With a volume recovery underway, we conservatively estimate an improvement in EBITDA margin to 14.5% by FY24 (v/s 14.2% in 3QFY22).
- We expect the robust recovery to continue, with a revenue/EBITDA/PAT CAGR of 22%/31%/42% over FY21-24, led by a strong recovery in PV industry volumes, sustained mix improvement, and increasing penetration of electronics in all segments of Autos. This, coupled with its asset light (but labor heavy) nature of the business, will result in sustained top decile RoCE (55% in FY24E from 44.6% in FY21) and strong net cash balance sheet.
- We currently value MSWIL, as part of our SoTP for MSS, at 35x FY24E EPS or INR81/share of MSWIL. It deserves rich valuations due to a) its strong competitive positioning, b) top decile capital efficiencies, and c) being a beneficiary of the transition to EVs and other mega trends in the Auto space. Our target P/E of 35x is in line with other comparable Auto Component companies having similar competitive position, growth potential, and superior capital efficiencies (refer *Exhibit 7*).

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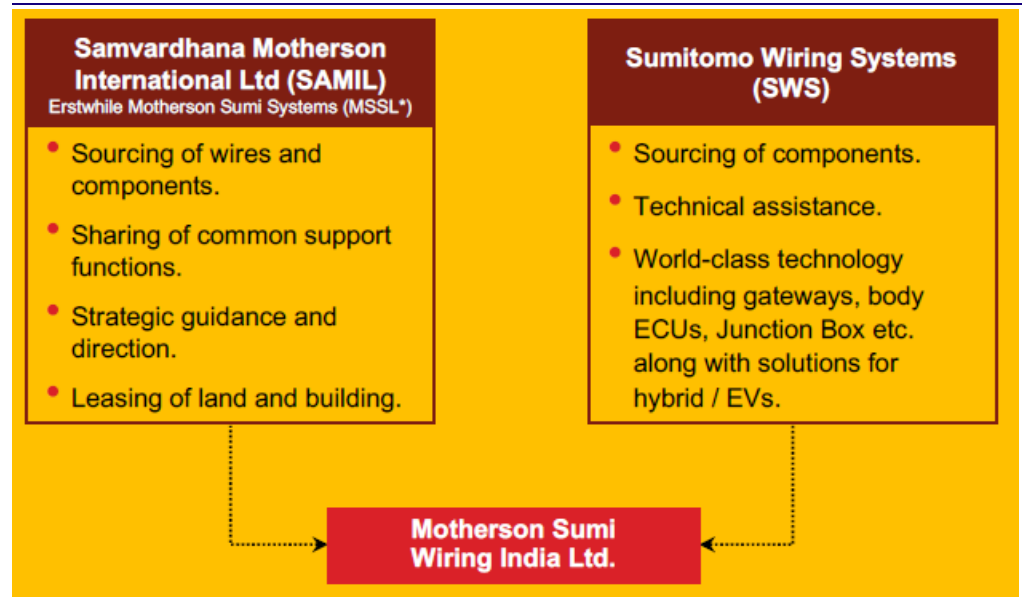
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Exhibit 1: Target price sensitivity to margin and target P/E multiple




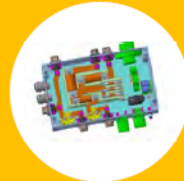
Target P/E (x)	FY24E EBITDA margin (%)				
	13.5	14	14.5	15	15.5
25	53	56	58	60	62
30	64	67	69	72	74
35	75	78	81	84	87
40	85	89	92	96	99
45	96	100	104	108	112

Exhibit 2: MSWIL enjoys strong parentage and access to world-class technology



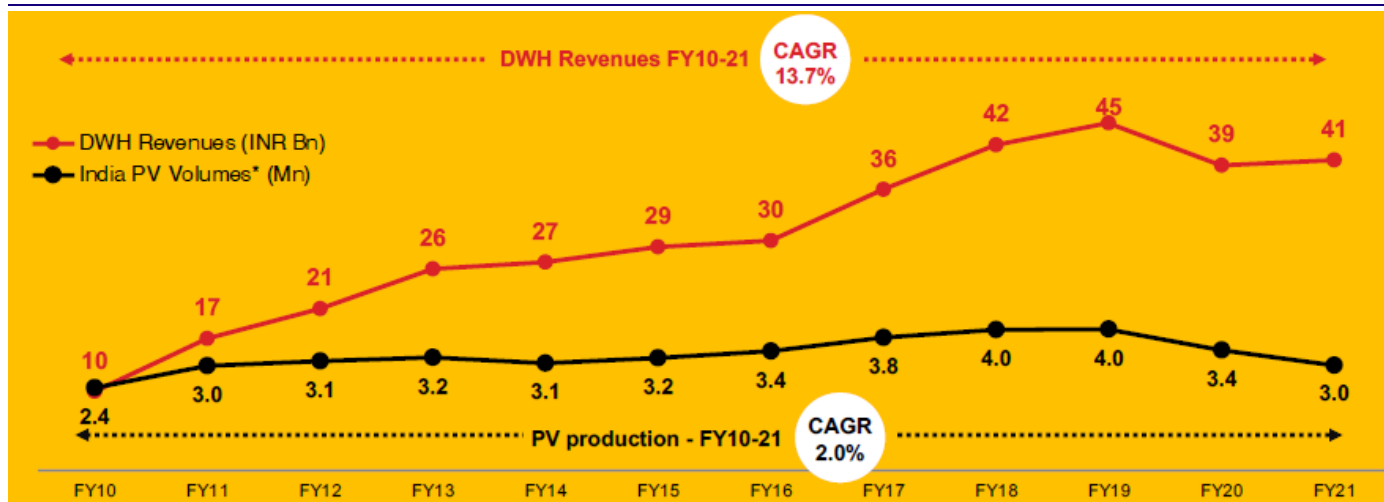
Source: Company, MOFSL

Exhibit 3: MSWIL is well-positioned to leverage mega trends seen in the Auto industry

Industry macro trends	Rising premiumization / customization	Alignment to user's digital lifecycle – connectivity	Sustainable technologies (BS VI / safety regulations)	Alternate / Electric Powertrain
Opportunities	Increasing content per vehicle	Adding high-value SMART components	Increasing value per harness	SWS leading global change, MSWIL fully prepared
Solutions	Wiring harnesses 	Harnesses components 	Electronics and EV solutions 	High-voltage solutions Harness and components 

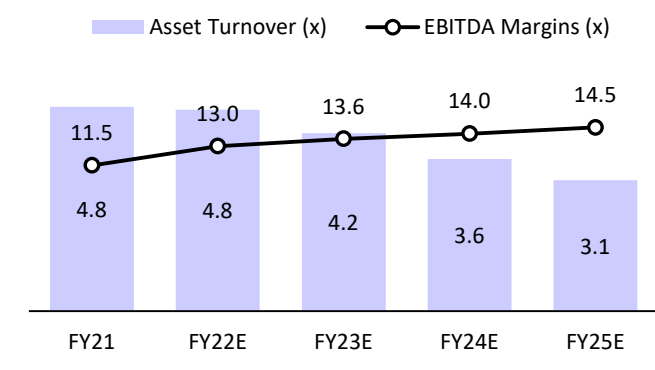
Source: Company, MOFSL

Exhibit 4: MSWIL (DWH) grows substantially ahead of the PV industry, led by an increase in content



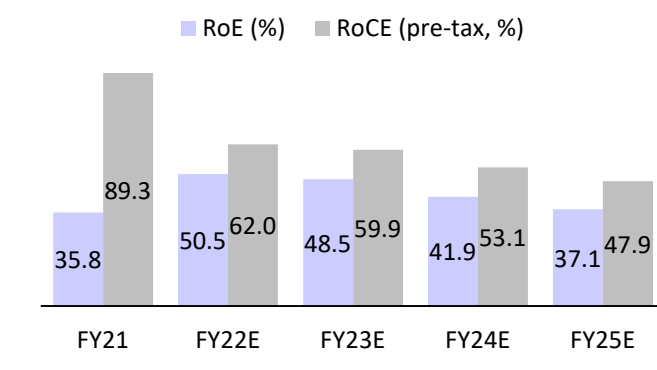
Source: Company, MOFSL

Exhibit 5: Enjoys reasonable margin and high asset turn...



Source: Company, MOFSL

Exhibit 6: ...leading to top decile capital efficiency



Source: Company, MOFSL

Exhibit 7: Snapshot of financials and valuations of large Auto Component players

Company	M-cap (INR b)	Revenue CAGR (FY21-24E)	EBITDA CAGR (FY21-24E)	EPS CAGR (FY21-24E)	RoE (%)			P/E (x)	
					FY22E	FY23E	FY24E	FY23E	FY24E
MSWIL		21.6	31.4	42.1	50.5	48.5	43.2		
Motherson Sumi Systems	613	43.2	49.3	45.4	11.4	19.6	23.2	18.2	13.4
Bosch	414	37.8	39.8	54.1	13.0	14.4	15.0	27.4	23.5
Sona BLW	387	21.0	24.4	50.2	20.7	26.7	29.4	75.0	52.0
Bharat Forge	321	13.7	27.8	LTP	16.6	18.8	19.7	25.1	20.3
Tube Investments	308	23.3	25.2	63.7	29.6	28.2	31.9	35.3	24.1
Schaeffler India	289	26.0	36.4	47.5	18.5	19.4	19.1	32.7	31.0
Minda Ind.	279	23.9	30.1	56.2	12.6	18.3	20.4	44.4	33.1
Sundram Fasteners	193	24.9	46.8	31.9	20.0	23.5	23.0	27.5	23.4
Endurance Tech.	167	24.8	36.2	20.8	12.8	17.2	18.1	22.3	18.3
SKF India	166	18.7	27.7	23.1	22.7	23.7	23.5	34.7	29.9
Timken India	161	16.3	16.5	44.3	18.8	21.1	21.2	43.9	37.5
WABCO India	140	32.2	45.8	59.8	6.7	13.0	15.9	46.6	32.9
Asahi India Glass	99	17.2	24.5	45.9	18.3	18.5	18.2	27.8	24.0
Average	272	24.8	33.1	45.3	17.1	20.2	21.4	35.5	27.9

Source: Bloomberg

Financials and valuations

Income Statement						(INR m)
Y/E March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net Revenue	44,838	39,439	41,380	55,362	66,434	74,407
Change (%)	NA	-12.0	4.9	33.8	20.0	12.0
EBITDA	7,399	5,294	4,760	7,211	9,035	10,789
EBITDA Margin (%)	16.5	13.4	11.5	13.0	13.6	14.5
Depreciation	973	1,000	940	960	1,016	1,091
EBIT	6,426	4,294	3,820	6,251	8,019	9,698
EBIT Margin (%)	14.3	10.9	9.2	11.3	12.1	13.0
Adjusted PAT	3,923	2,860	2,540	4,355	5,934	7,287
Change (%)	NA	-27.1	-11.2	71.4	36.3	22.8
Margin (%)	8.7	7.3	6.1	7.9	8.9	9.8

Balance Sheet					(INR m)
Y/E March		FY21	FY22E	FY23E	FY24E
Equity Share Capital		3,158	3,158	3,158	3,158
Net Worth		7,100	10,148	14,302	19,403
Total Loans		820	820	820	820
Other non-current liabilities		640	640	640	640
Capital Employed		8,560	11,608	15,762	20,863
Net Fixed Assets		1,700	1,490	1,474	1,383
Other non-current assets		260	311	351	380
Current Assets		15,670	21,980	28,414	35,345
Inventory		7,990	11,527	12,741	14,270
Account Receivables		6,750	9,101	10,921	12,231
Cash and Bank Balance		370	603	3,853	7,838
Other current and fin. assets		560	749	899	1,007
Current Liabilities		9,330	12,432	14,737	16,505
Creditors		7,520	10,011	11,831	13,250
Other current and fin. liabilities		1,810	2,422	2,906	3,255
Net Current Assets		6,340	9,548	13,677	18,840
Deferred Tax assets		260	260	260	260
Appl. of Funds		8,560	11,608	15,762	20,863

E: MOSL estimates

Ratios

Y/E March	FY21	FY22E	FY23E	FY24E
Basic (INR)				
EPS	0.8	1.4	1.9	2.3
BV/Share	2.2	3.2	4.5	6.1
Return Ratios (%)				
RoE	35.8	50.5	48.5	43.2
RoCE (pre-tax)	89.3	62.0	59.9	54.9
RoIC	96.3	67.1	52.6	58.5
Working Capital Ratios				
Asset Turnover (x)	4.8	4.8	4.2	3.6
Inventory (Days)	70	76	70	70
Debtor (Days)	60	60	60	60
Creditor (Days)	66	66	65	65
Leverage Ratio (x)				
Current Ratio	1.7	1.8	1.9	2.1
Net Debt/Equity ratio	0.1	0.0	-0.2	-0.4

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