

# Samvardhana Motherson

## Inorganic acquisitions coming to fruition

### Stellar margin performance

Samvardhana Motherson International's (MOTHERSO IN) Q3 EBITDA rose 47% YoY/26% QoQ to INR 23.7bn, with EBITDA margin at 9.2% (+125bp YoY/+120bp QoQ). EBITDA, adjusted for one-off expense from hyperinflationary environment in Argentina, was 9.5%. Consolidated revenue rose 27% YoY/10% QoQ to INR 256.9bn. Ex-hyperinflationary impact, adjusted PAT was INR 7.33bn (+16.1% YoY/QoQ).

Wiring harness revenue rose 21% YoY/2% QoQ to INR 79.3bn, led by PKC demand. Modules and polymer products revenue rose 16% YoY/11% QoQ to INR 127.5bn, driven by SMP. Vision Systems revenue spiked 6% YoY/3% QoQ to INR 48.1bn. SMRPBV's margin rose 190bps QoQ to 8.4%, and gross margins 220bps QoQ with softening commodity prices. Other expenses/sales dipped 10bps QoQ, on stabilization of energy costs at 2% of revenue.

### New acquisitions to be integrated from FY25

Yachiyo, Cirma Enterprise, Lumen Group and ADI Group are the key acquisitions that are yet to be completed and may contribute to incremental revenue of USD 1.1-1.2bn revenue from FY25. The Red Sea issue has had no major impact as production lines are in the same geography as customers. Net debt declined by INR 8.66bn to INR 125.5bn in Q3, despite M&A payouts for acquisitions of Dr Schneider, Deltacarb and SMAST of INR 7.5bn in Q3. Total M&A payout (net of cash) was ~INR 45.5bn in past three quarters. FY24 capex guidance was maintained at INR 45bn, with 11 new greenfield facilities in FY25/26.

### Valuations: Reiterate Buy; TP increased TP to INR 141

Hyperinflationary environment in Argentina temporarily hit operations and profitability. We factor in higher consolidated EBITDA margin of 9.5%/10% in FY25E/26E on operating leverage benefit from integration of inorganic acquisitions. We have yet to factor in the upcoming acquisitions of Yachiyo, Cirma Enterprise, Lumen Group and ADI Group, which may contribute further ~10% to the topline. SAMIL continues to score high on our LACE mega-trends framework of evaluating auto ancillaries as highlighted in our recent thematic. We reiterate **Buy** with a higher TP of INR 141 from INR 131, on 18x FY26E P/E.

## Rating: Buy

Target Price: INR 141

Upside: 24%

CMP: INR 114 (as on 12 February 2024)

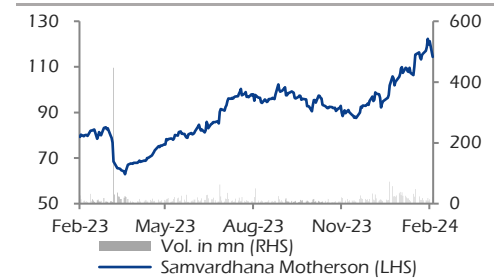
### Key data

Bloomberg /Reuters Code	MOTHERSO IN/ MOSS.BO
Current /Dil. Shares O/S (mn)	6,776/6,776
Mkt Cap (INRbn/USD mn)	775/9,339
Daily Vol. (3M NSE Avg.)	16,398,841
Face Value (INR)	1

1 USD = INR 83.0

Note: \*as on 12 February 2024; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Promoter	64.8	64.8	64.8	64.8
Institutional Investors	25.7	26.0	26.4	26.1
Other Investors	1.5	1.5	1.4	1.4
General Public	8.0	7.7	7.4	7.7

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	10.7	11.3	21.1
Samvardhana Motherson	25.7	17.2	42.6

Source: Bloomberg

YE March (INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	Q3FY24E	Variance (%)
Revenue	256,976	202,672	26.8	234,738	9.5	248,313	3.5
Operating costs	233,280	186,509	25.1	215,850	8.1	225,965	3.2
EBITDA	23,696	16,163	46.6	18,888	25.5	22,348	6.0
EBITDA margin (%)	9.2	8.0	12.5	8.0	11.7	9.0	2.2
Depn & amort.	10,164	8,150	24.7	8,674	17.2	8,700	16.8
EBIT	13,532	8,013	68.9	10,215	32.5	13,648	(0.8)
Interest expense	6,203	1,494	315.2	4,879	27.1	4,700	32.0
Other Income	547	811	(32.5)	1,654	(66.9)	1,000	(45.3)
Pretax profit	7,877	7,330	7.5	6,989	12.7	9,948	(20.8)
Tax	2,176	2,172	0.2	2,292	(5.0)	2,487	(12.5)
Tax rate (%)	27.6	29.6		32.8	(516.5)	25.0	10.5
Adjusted Net profit	5,428	4,549	19.3	4,509	20.4	7,274	(25.4)
Exceptional	(9)	(10)		(2,494)		0	
Reported Net Profit	5,420	4,539	19.4	2,015	168.9	7,274	(25.5)
EPS (INR)	0.8	0.7	19.3	0.7	20.4	1.1	(25.4)

### Key Financials

YE March	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	Adj. P/E (x)	EV/EBITDA (x)
FY23	787,007	23.4	62,077	7.9	15,951	186.0	2.4	7.4	9.0	48.9	7.3
FY24E	992,439	26.1	88,832	9.0	26,011	63.1	3.8	10.9	14.3	30.0	6.5
FY25E	1,140,334	14.9	108,376	9.5	39,171	50.6	5.8	14.6	17.5	19.9	5.4
FY26E	1,248,268	9.5	124,339	10.0	53,162	35.7	7.8	17.1	19.3	14.7	4.6

Note: Pricing as on 12 February 2024; Source: Company, Elara Securities Estimate

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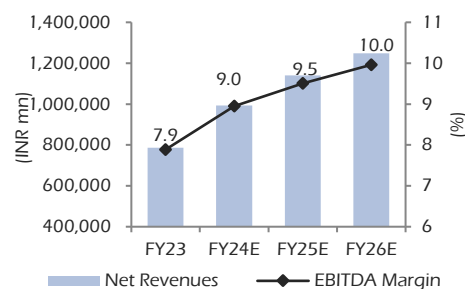
Elara Securities (India) Private Limited

## Financials (YE March)

Income Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Net Revenues	787,007	992,439	1,140,334	1,248,268
<b>EBITDA</b>	<b>62,077</b>	<b>88,832</b>	<b>108,376</b>	<b>124,339</b>
Add:- Non operating Income	2,570	3,892	3,941	4,026
<b>OPBITDA</b>	<b>64,648</b>	<b>92,725</b>	<b>112,317</b>	<b>128,364</b>
Less :- Depreciation & Amortization	31,358	36,754	40,223	42,853
<b>EBIT</b>	<b>33,289</b>	<b>55,971</b>	<b>72,094</b>	<b>85,511</b>
Less:- Interest Expenses	7,809	19,650	16,385	10,266
<b>PBT</b>	<b>25,480</b>	<b>36,321</b>	<b>55,709</b>	<b>75,245</b>
Less :- Taxes	7,351	10,170	16,713	22,574
Minority interest	1,740	2,176	2,284	2,398
Income from JV/associates	(438)	2,036	2,459	2,889
<b>Adjusted PAT</b>	<b>15,951</b>	<b>26,011</b>	<b>39,171</b>	<b>53,162</b>
Add/Less: - Extra-ordinaries	(995)	(2,503)	-	-
<b>Reported PAT</b>	<b>14,956</b>	<b>23,509</b>	<b>39,171</b>	<b>53,162</b>
Balance Sheet (INR mn)	FY23	FY24E	FY25E	FY26E
Share Capital	6,776	6,776	6,776	6,776
Reserves	221,820	242,472	278,787	329,093
<b>Net worth</b>	<b>228,596</b>	<b>249,249</b>	<b>285,563</b>	<b>335,869</b>
Borrowings	121,657	128,657	117,402	103,504
Deferred Tax (Net)	(8,428)	(8,849)	(9,292)	(9,756)
Other liabilities	31,809	33,984	36,268	38,667
<b>Total Liabilities</b>	<b>373,634</b>	<b>403,040</b>	<b>429,942</b>	<b>468,284</b>
Gross Block	431,018	476,018	516,018	556,018
Less:- Accumulated Depreciation	250,399	287,153	327,376	370,229
Net Block	180,619	188,866	188,642	185,789
Add:- Capital work in progress	65,629	69,401	73,551	78,116
Investments	62,870	66,013	72,615	83,507
Net Working Capital	(74,961)	(62,583)	(52,046)	(41,760)
Cash and Cash Equivalents	46,987	13,049	20,756	38,086
Other Assets	92,490	128,303	126,433	124,555
<b>Total Assets</b>	<b>373,634</b>	<b>403,049</b>	<b>429,951</b>	<b>468,292</b>
Cash Flow Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Cash profit adjusted for non cash items	41,660	82,555	95,605	105,791
Add/Less : Working Capital Changes	2,284	(12,378)	(10,537)	(10,286)
Operating Cash Flow	43,944	70,177	85,068	95,504
Less:- Capex	(22,211)	(45,000)	(40,000)	(40,000)
Free Cash Flow	21,733	25,177	45,068	55,504
Financing Cash Flow	(24,845)	(5,838)	(30,828)	(27,352)
Investing Cash Flow	(22,448)	(48,143)	(46,601)	(50,892)
<b>Net change in Cash</b>	<b>(3,349)</b>	<b>16,195</b>	<b>7,639</b>	<b>17,260</b>
Ratio Analysis	FY23	FY24E	FY25E	FY26E
<b>Income Statement Ratios (%)</b>				
Revenue Growth	23.4	26.1	14.9	9.5
EBITDA Growth	32.1	43.1	22.0	14.7
PAT Growth	186.0	63.1	50.6	35.7
EBITDA Margin	7.9	9.0	9.5	10.0
Net Margin	2.0	2.6	3.4	4.3
<b>Return &amp; Liquidity Ratios</b>				
Net Debt/Equity (x)	0.3	0.5	0.3	0.2
ROE (%)	7.4	10.9	14.6	17.1
ROCE (%)	9.0	14.3	17.5	19.3
<b>Per Share data &amp; Valuation Ratios</b>				
Diluted EPS (INR/Share)	2.4	3.8	5.8	7.8
EPS Growth (%)	186.0	63.1	50.6	35.7
DPS (INR/Share)	0.7	3.0	3.0	3.0
P/E Ratio (x)	48.9	30.0	19.9	14.7
EV/EBITDA (x)	7.3	6.5	5.4	4.6
EV/Sales (x)	1.1	0.9	0.8	0.7
Price/Book (x)	3.4	3.1	2.7	2.3
Dividend Yield (%)	0.6	2.6	2.6	2.6

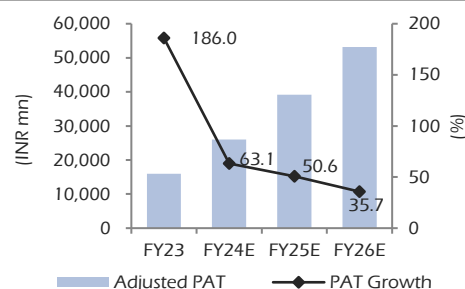
Note: Pricing as on 12 February 2024; Source: Company, Elara Securities Estimate

## Revenue & margin growth trend



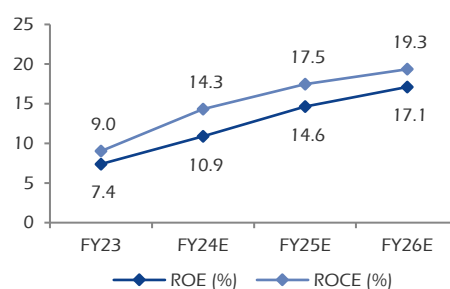
Source: Company, Elara Securities Estimate

## Adjusted profit growth trend



Source: Company, Elara Securities Estimate

## Return ratios



Source: Company, Elara Securities Estimate

**Conference Call – Highlights**

- **Global outlook:** Global automotive PV volumes remained positive overall, with YoY production growth across all key geographies. QoQ production was lower in India post-festive season highs in Q2 and in North America, on account of the impact from UAW strike. Most key macroeconomic factors have stabilized at higher levels. Wage pressures, however, remain a concern across geographies, along with geopolitical situation and the Red Sea conflict.
  - **Red Sea impact:** MOTHERSO saw no major impact as its production lines are located in the same geography as its customers. Any surge in freight cost may be discussed with the OEMs.
  - **New acquisitions – Financials:** Q3 included revenue from acquired assets of INR 39.91bn and EBITDA of INR 4.11bn (EBITDA margin 10.3%), while Q2 included revenue from acquired assets of INR 18.51bn and EBITDA of INR 1.8bn (EBITDA margin 9.7%). Expect new acquisitions to take a year to stabilize and integrate with the business.
  - **Pending acquisitions:** Yachiyo, Cirma Enterprise, Lumen Group and ADI Group are the key acquisitions that are yet to be completed and may contribute to incremental revenue of USD 1.1-1.2bn from FY25.
  - **Dr. Schneider – Financials:** Turnaround is manifesting well (profitable from day one of the acquisition).
  - **Lumen acquisition:** Lumen makes kits for dealer fitments of cars, which are imported to Australia. MOTHERSO is expanding presence in other countries. Around 30% of Lumen’s business is wiring harness.
  - **PKC business:** Europe may see some demand softening. Demand in the US is on strong footing.
  - **Debt profile:** Net debt declined by INR 8.66bn to INR 125.5bn in Q3FY24 (from INR 134.2bn in Q2FY24)
- despite M&A payouts (net of cash/debt) for acquisitions of Dr Schneider, Deltacarb and SMAST (of INR 7.5bn in Q3FY24). Total M&A payout (net of cash) was ~INR 45.5bn in the past three quarters. The leverage ratio improved to 1.7x from 1.9x. Overall leverage is at comfortable level. Net debt-to-EBITDA ratio is at 1.7x (1.9x in Q2FY24), well within the stated financial policy of 2.5x.
- **Debt repayment schedule:** The target is to repay debt (INR 68bn in FY25, INR 27bn in FY26 and INR 66bn in FY27 and beyond). MOTHERSO has USD 300mn, 8.1% bond payout upcoming in June-23.
  - **Cash levels:** MOTHERSO had adequate cash and bank balance on INR 66.36bn, as of Q3-end.
  - **Capex outlay:** MOTHERSO incurred a capex of INR 32.94bn in 9MFY24 (INR 12.31bn in Q3FY24), of which INR 9bn was invested in India towards growth capex. Approximately 50% of the INR 18bn growth capex has already been invested to support growth in emerging markets. Capex guidance was maintained for FY24 at INR 45bn, with 11 new greenfield facilities upcoming in FY25/26.
  - **Interest costs:** Refinancing of debt at higher rates, and hyperinflation in Argentina led to higher interest cost.

**Exhibit 1: Inorganic acquisitions aid margin expansion**

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
<b>Revenue (INR mn)</b>					
Organic	217,066	202,672	7.1	216,228	0.4
Inorganic	39,910	-	-	18,510	115.6
<b>Overall</b>	<b>256,976</b>	<b>202,672</b>	<b>26.8</b>	<b>234,738</b>	<b>9.5</b>
<b>EBITDA (INR mn)</b>					
Organic	19,586	16,163	21.2	17,088	14.6
Inorganic	4,110	-	-	1,800	128.3
<b>Overall</b>	<b>23,696</b>	<b>16,163</b>	<b>46.6</b>	<b>18,888</b>	<b>25.5</b>
<b>EBITDA Margin (%)</b>					
Organic	9.0	8.0	105	7.9	112
Inorganic	10.3	-	-	9.7	57
<b>Overall</b>	<b>9.2</b>	<b>8.0</b>	<b>125</b>	<b>8.0</b>	<b>117</b>

Source: Company, Elara Securities Research

**Exhibit 2: Quarterly financials**

	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
<b>Standalone (INR mn)</b>					
Revenues	22,029	19,543	12.7	23,122	(4.7)
EBITDA	2,583	2,312	11.7	2,916	(11.4)
EBITDA margin (%)	11.7	11.8	(10)	12.6	(88)
PAT	1,201	3,343	(64.1)	2,494	(51.9)
<b>Wiring harness (INR mn)</b>					
Revenues	79,331	65,301	21.5	77,631	2.2
EBITDA	8,509	5,587	52.3	8,256	3.1
EBITDA margin (%)	10.7	8.6	217	10.6	9
<b>Modules and polymer products (INR mn)</b>					
Revenues	127,534	109,565	16.4	114,771	11.1
EBITDA	11,168	7,205	55.0	8,149	37.0
EBITDA margin (%)	8.8	6.6	218	7.1	166
<b>Vision systems (INR mn)</b>					
Revenues	48,067	45,465	5.7	46,892	2.5
EBITDA	4,669	4,531	3.1	4,301	8.6
EBITDA margin (%)	9.7	10.0	(25)	9.2	54.1

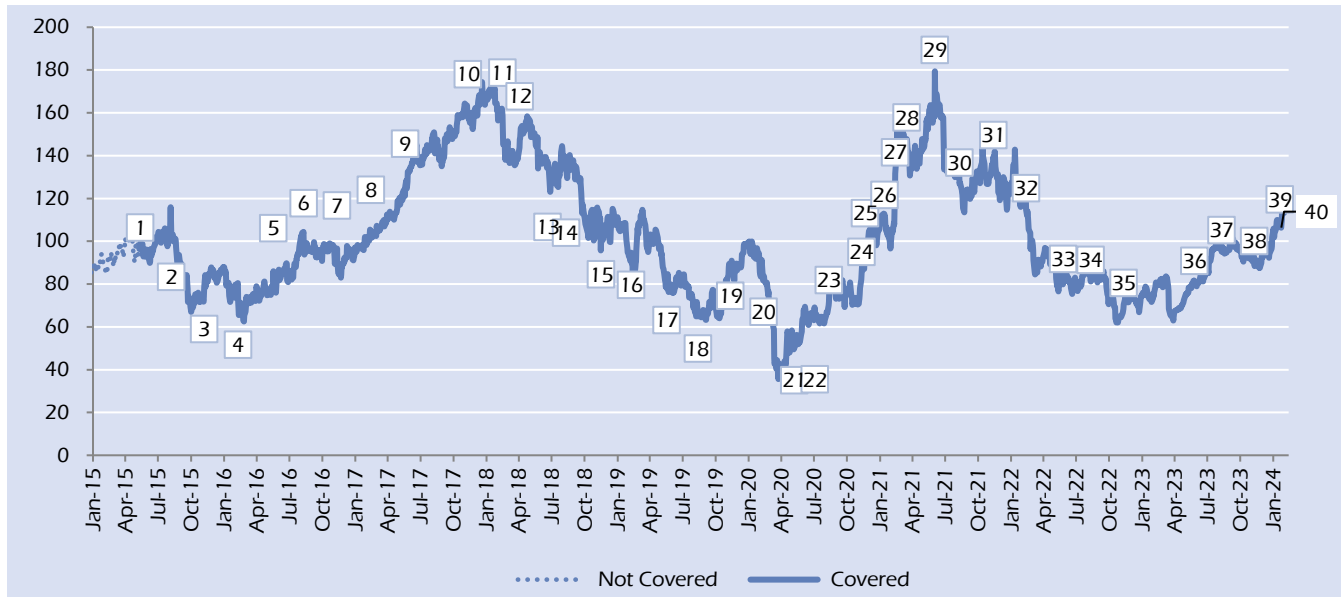
Source: Company, Elara Securities Research

**Exhibit 3: Change in estimates**

(INR mn)	Earlier			Current			% variation		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net sales	1,004,901	1,144,396	1,249,295	992,439	1,140,334	1,248,268	(1.2)	(0.4)	(0.1)
EBITDA	85,672	100,478	112,943	88,832	108,376	124,339	3.7	7.9	10.1
EBITDA margin (%)	8.5	8.8	9.0	9.0	9.5	10.0	43	72	92
PAT	29,638	40,142	49,157	26,011	39,171	53,162	(12.2)	(2.4)	8.1
<b>Target price (INR)</b>		<b>131</b>			<b>141</b>			<b>8.1</b>	

Source: Elara Securities Estimate

**Coverage History**



Date	Rating	Target Price	Closing Price	
26	13-Jan-2021	Accumulate	INR 189	INR 167
27	12-Feb-2021	Buy	INR 243	INR 197
28	16-Mar-2021	Buy	INR 271	INR 222
29	2-Jun-2021	Accumulate	INR 290	INR 269
30	11-Aug-2021	Buy	INR 270	INR 224
31	12-Nov-2021	Accumulate	INR 283	INR 246
32	11-Feb-2022	Buy	INR 212	INR 172
33	26-May-2022	Buy	INR 179	INR 123
34	10-Aug-2022	Buy	INR 162	INR 122
35	3-Oct-2022*	Buy	INR 108	INR 73
36	10-Nov-2022	Buy	INR 95	INR 70
37	26-May-2023	Buy	INR 108	INR 81
38	10-Aug-2023	Buy	INR 115	INR 96
39	9-Nov-2023	Buy	INR 125	INR 90
40	19-Jan-2024	Buy	INR 131	INR 110
	12-Feb-2024	Buy	INR 141	INR 114

\*ex-MSWIL at INR 74; #Bonus 1:2

**Guide to Research Rating**

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%



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