

BUY**Samvardhana Motherson International****Emkay**[®]

Your success is our success

Muted Q2; positive growth outlook sustainsAuto & Auto Ancillaries ▶ Result Update ▶ **November 10, 2023****TARGET PRICE (Rs): 110**

SAMIL's Q2 performance was muted (margins down by 52bps QoQ to 8% vs. our est. of 8.8%), affected by seasonality and one-offs (labor strikes in North America, one-time costs for restructuring some Europe plants). We continue to believe that cyclical recovery in global automotive production (with markets well below their previous highs) and higher wallet share from premiumization and electrification (given SAMIL's engine-agonistic offerings) will continue to drive healthy 15% revenue CAGR over FY23-26E. We cut FY24E EPS by ~9% (on the Q2 margin miss and elevated interest cost run-rate), with FY25E-26E EPS largely unchanged. We retain BUY on SAMIL, with revised SOTP-based TP of Rs110 (assign 27x/14x/24x rolled over multiples on FY26E to standalone/SMRPBV/MSUMI operations; previous TP: Rs107/share).

Samvardhana Motherson International: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	6,37,740	7,87,007	9,73,085	11,28,566	12,02,756
EBITDA	46,994	62,077	83,762	1,10,721	1,20,753
Adj. PAT	7,934	15,951	26,562	38,891	45,588
Adj. EPS (Rs)	1.2	2.4	3.9	5.7	6.7
EBITDA margin (%)	7.4	7.9	8.6	9.8	10.0
EBITDA growth (%)	7.8	32.1	34.9	32.2	9.1
Adj. EPS growth (%)	(15.9)	71.1	77.6	46.4	17.2
RoE (%)	5.1	7.5	11.4	15.3	16.1
RoIC (%)	4.4	8.6	12.5	17.2	18.7
P/E (x)	76.9	38.2	23.0	15.7	13.4
EV/EBITDA (x)	15.1	11.3	8.7	6.3	5.6
P/B (x)	3.0	2.7	2.5	2.3	2.0
FCFF yield (%)	0.0	3.5	(0.5)	6.6	8.0

Source: Company, Emkay Research

Muted Q2 affected by seasonality, one-offs

Consolidated revenue grew ~28% YoY to Rs234.7bn (largely in-line) vs. ~4% global light-vehicle industry production growth. Production was affected by annual plant shutdowns of OEM customers in Europe due to summer holidays as well as temporary hit in North America due to labor strikes. EBITDA margin declined by ~52bps QoQ to 8% (Emkay: 8.8%) on the back of ~30bps lower gross margins and increase in other expenses. There was an exceptional charge to the tune of ~Rs2.5bn in respect of provision for expenditure to be incurred for phased operational restructuring of certain units located in Europe; also, finance costs were partly higher on account of impact of loss on net monetary position with respect to subsidiaries located in a hyperinflationary economy in Argentina (~Rs1.3bn net of interest income). Adjusted PAT grew ~39% YoY to Rs4.5bn (Emkay: Rs.6.5bn). Net debt stood at Rs134bn, up ~Rs51bn QoQ led by ~Rs38bn for payouts for transactions closed during the quarter.

Earning call KTAs

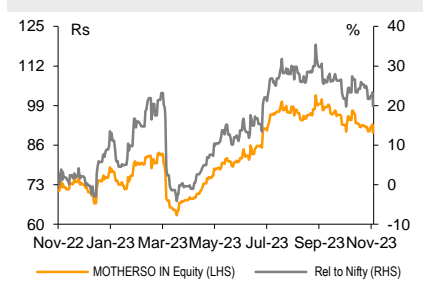
1) Automotive booked business (i.e., sum of lifetime sale value of orders yet to start production and orders currently under production) rose to USD77bn vs. USD69bn as of Mar-23; share of EVs within this stands at 22%. 2) SAMIL has announced 15 acquisitions in the past year; expects these to add ~USD2.6bn to revenue (on net basis). 3) The business environment continues to offer several opportunities for further acquisitions; SAMIL's 'last man standing strategy' is playing out well. 4) Raw material/energy prices have largely stabilized at elevated levels; however, wage inflation and higher interest rates are still posing challenges; most of the wage inflation has been factored into the current run-rate; Company remains in discussion with customers for sharing of inflationary cost structures. 5) Capex guidance has been revised up, to ~Rs45bn (+/- 5%; earlier guidance: ~Rs33bn); to support capex in newly-acquired assets and growth in emerging markets (number of new facilities in India increased to 10 vs. 6 announced earlier). 6) Interest cost run-rate to be ~Rs3.2-3.4bn.

Target Price – 12M	Sep-24
Change in TP (%)	3.0
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	22.5
CMP (09-Nov-23) (Rs)	90.0

Stock Data	Ticker
52-week High (Rs)	104
52-week Low (Rs)	62
Shares outstanding (mn)	6,776.4
Market-cap (Rs bn)	610
Market-cap (USD mn)	7,323
Net-debt, FY24E (Rs mn)	1,18,485
ADTV-3M (mn shares)	9
ADTV-3M (Rs mn)	885.1
ADTV-3M (USD mn)	10.6
Free float (%)	35.2
Nifty-50	19,395
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	64.8
FPIs/MFs (%)	11.4/15.0

Price Performance

(%)	1M	3M	12M
Absolute	(0.5)	(8.8)	31.8
Rel. to Nifty	0.1	(7.7)	23.4

1-Year share price trend (Rs)**Jaimin Desai**

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Exhibit 1: Q2FY24 Results: Muted performance amid seasonality and one-off impacts

(Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Revenue	1,82,608	2,02,672	2,24,769	2,24,622	2,34,738	28.5	4.5
Expenditure	1,68,577	1,86,509	2,04,564	2,05,376	2,15,850	28.0	5.1
<i>as % of sales</i>	92.3	92.0	91.0	91.4	92.0		
Consumption of RM	1,07,173	1,15,328	1,27,124	1,27,010	1,33,407	24.5	5.0
<i>as % of sales</i>	58.7	56.9	56.6	56.5	56.8		
Employee Cost	41,002	45,966	49,620	53,169	54,688	33.4	2.9
<i>as % of sales</i>	22.5	22.7	22.1	23.7	23.3		
Other expenditure	20,402	25,215	27,820	25,197	27,755	36.0	10.2
<i>as % of sales</i>	11.2	12.4	12.4	11.2	11.8		
EBITDA	14,031	16,163	20,205	19,246	18,888	34.6	(1.9)
EBITDA margin (%)	7.7	8.0	9.0	8.6	8.0		
Depreciation	7,487	8,150	8,397	8,389	8,674	15.8	3.4
EBIT	6,544	8,013	11,808	10,857	10,215	56.1	(5.9)
Other Income	940	811	751	529	1,654	75.9	212.7
Interest	1,837	1,494	2,784	2,526	4,879	165.6	93.1
PBT	5,647	7,330	9,774	8,860	6,989	23.8	(21.1)
Total Tax	1,914	2,172	2,539	2,610	2,292	19.7	(12.2)
Adjusted PAT	3,733	5,158	7,236	6,250	4,697	25.8	(24.8)
(Profit)/loss from JV's/Ass/MI	485	609	695	241	188	(61.3)	(22.3)
Adj. PAT after MI	3,248	4,549	6,541	6,009	4,510	38.8	(25.0)
Extra ordinary items	(784)	(10)	(1)	-	(2,494)		
Reported PAT	2,464	4,539	6,540	6,009	2,016	(18.2)	(66.5)
Adjusted EPS (Rs)	0.5	0.7	1.0	0.9	0.7	38.8	(25.0)
(%)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
EBITDAM	7.7	8.0	9.0	8.6	8.0	36	(52)
EBITM	3.6	4.0	5.3	4.8	4.4	77	(48)
EBTM	3.1	3.6	4.3	3.9	3.0	(12)	(97)
APATM	1.8	2.2	2.9	2.7	1.9	14	(75)
Effective Tax rate	33.9	29.6	26.0	29.5	32.8	(110)	334

Source: Company, Emkay Research

Exhibit 2: Actual vs. Estimates

(Rs mn)	Actual	Emkay Est	% Var.	Consensus	% Var.
Net Sales	2,34,738	2,29,114	2.5	2,30,837	1.7
Adj. EBITDA	18,888	20,162	(6.3)	20,682	(8.7)
<i>EBITDA margin (%)</i>	<i>8.0</i>	<i>8.8</i>	<i>(75) bps</i>	<i>9.0</i>	<i>(91) bps</i>
APAT	4,509	6,491	(30.5)	6,991	(35.5)
AEPS (Rs)	0.7	1.0	(30.5)	1.0	(35.5)

Source: Company, Emkay Research

Exhibit 3: Segmental performance – Double-digit YoY growth across the board; healthy QoQ margin expansion in Wiring

	Q2FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Segment revenue (Rs mn)					
Wiring harness	63,828	76,327	77,631	22	2
Modules and polymer products	97,581	1,19,778	1,14,771	18	-4
Vision systems	39,396	46,152	46,892	19	2
Integrated Assemblies	-	-	16,195		
Emerging businesses	17,555	18,116	20,222	15	12

	Q2FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Segment results (Rs mn)					
Wiring harness	5,223	7,784	8,256	58	6
Modules and polymer products	6,516	8,978	8,149	25	-9
Vision systems	3,585	4,323	4,301	20	-1
Integrated Assemblies	-	-	1,652	-	-
Emerging businesses	1,749	2,040	2,507	43	23

	Q2FY23	Q1FY24	Q2FY24	YoY (bps)	QoQ (bps)
Segment Margin (%)					
Wiring harness	8.2	10.2	10.6	245	44
Modules and polymer products	6.7	7.5	7.1	42	-40
Vision systems	9.1	9.4	9.2	7	-19
Integrated Assemblies	-	-	10.2	-	-
Emerging businesses	10.0	11.3	12.4	244	114

Source: Company, Emkay Research

Exhibit 4: Fifteen acquisitions done since Sep-22; SAMIL expects addition of net revenue of USD2.6bn

Acquisition	New Capability/ Rationale to support customers	Closing Status
DICV Frame & Assembly	Frame Assembly business for Daimler trucks	Closed (Feb 2023)
FMCEL	Full benefit of impending growth in off highway segment	Closed (Mar 2023)
Bolta	Chrome plated polymer part	Closed (April 2023)
YMAT	Full benefit of vertical integration	Closed (June 2023)
SAS Autosystemtechnik	Further strengthens position as Tier 0.5 supplier	Closed (July 2023)
Saddles	Foray into automotive upholstery business	Closed (July 2023)
Prism Systems	Touch-enabled display with embedded collaborative software	Closed (July 2023)
Rollon Hydraulics	Manufacturing of high precision turned parts	Closed (July 2023)
Ichikoh Industries	Entry into Japanese automotive market	Closed (Aug 2023)
Dr Schneider Group	High-end, innovative and integrated electronic polymer components	Closed (Oct 2023)
Cirma Enterprise	Electrical Wiring Interconnect Systems for aerospace and allied industries	Q3FY24
Irillic Pvt.	Real-time Fluorescence Imaging and 4K Laparoscopy Imaging system	Q3FY24
SMAST	Electrical Wiring and Interconnect Systems for aerospace and advanced systems	Q3FY24
AD Industries	Manufacturing of components for aero engines and health & medical equipment	Q4FY24
Yachiyo 4W	Sunroofs and Fuel Tanks	Q1FY25

Source: Company, Emkay Research

Exhibit 5: Revenue Model – We expect SAMIL to register 15% revenue CAGR over FY23-26E

(Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Consolidated Revenue	5,73,699	6,37,740	7,87,007	9,73,085	11,28,566	12,02,756
Growth YoY (%)	-5.5	11.2	23.4	23.6	16.0	6.6
EBITDA	43,590	46,994	62,077	83,762	1,10,721	1,20,753
EBITDA margin (%)	7.6	7.4	7.9	8.6	9.8	10.0
EBIT	14,329	17,412	30,719	50,355	74,452	82,060
EBIT margin (%)	2.5	2.7	3.9	5.2	6.6	6.8
Interest	5,115	5,426	7,809	13,739	10,131	8,898
PBT	10,885	14,082	24,485	41,118	69,269	78,303
Tax rate (%)	(6)	43	30	30	30	30
PAT	12,201	7,209	18,129	28,759	48,712	54,682
PAT margin (%)	2.1	1.1	2.3	3.0	4.3	4.5
EPS (Rs)	1.1	0.6	2.4	3.9	5.7	6.7
Capex	18,023	39,196	48,965	53,546	29,970	30,300
% of sales	3.1	6.1	6.2	5.5	2.7	2.5

Source: Company, Emkay Research

Exhibit 6: We cut FY24E EPS on margin miss and elevated interest cost run-rate; FY25E-FY26E largely unchanged

(Rs mn)	FY24E				FY25E				FY26E			
	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY	Earlier	Revised	% Change	% YoY
Revenue	9,66,182	9,73,085	0.7	24	11,21,820	11,28,566	0.6	16	12,01,577	12,02,756	0.1	7
EBITDA	85,875	83,762	-2.5	35	1,11,125	1,10,721	-0.4	32	1,21,543	1,20,753	-0.6	9
EBITDA margin (%)	8.9	8.6	-28 bps	72 bps	9.9	9.8	-9 bps	120 bps	10.1	10.0	-8 bps	23 bps
EPS (Rs)	4.3	3.9	-9.2	67	5.8	5.7	-1.5	46	6.7	6.7	-0.2	17

Source: Emkay Research

Exhibit 7: Emkay vs. Consensus

(Rs mn)	Emkay Estimates			Bloomberg estimates			Difference		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net revenue	9,73,085	11,28,566	12,02,756	9,53,019	10,94,623	11,78,016	2.1%	3.1%	2.1%
EBITDA	83,762	1,10,721	1,20,753	84,964	1,02,312	1,11,592	-1.4%	8.2%	8.2%
EBITDA margin (%)	8.6	9.8	10.0	8.9	9.3	9.5	-3.4%	5.0%	6.0%
EPS (Rs)	3.9	5.7	6.7	4.3	5.8	6.9	-9.5%	-0.9%	-3.1%

Source: Bloomberg, Emkay Research

Samvardhana Motherson International: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	6,37,740	7,87,007	9,73,085	11,28,566	12,02,756
Revenue growth (%)	11.2	23.4	23.6	16.0	6.6
EBITDA	46,994	62,077	83,762	1,10,721	1,20,753
EBITDA growth (%)	7.8	32.1	34.9	32.2	9.1
Depreciation & Amortization	29,582	31,358	33,407	36,269	38,693
EBIT	17,412	30,719	50,355	74,452	82,060
EBIT growth (%)	21.5	76.4	63.9	47.9	10.2
Other operating income	0	0	0	0	0
Other income	1,292	2,570	4,502	4,948	5,140
Financial expense	5,426	7,809	13,739	10,131	8,898
PBT	18,123	25,480	41,118	69,269	78,303
Extraordinary items	(805)	995	0	0	0
Taxes	7,272	7,352	12,359	20,557	23,620
Minority interest	3,077	1,740	2,809	10,987	10,836
Income from JV/Associates	160	(438)	611	1,166	1,741
Reported PAT	8,738	14,956	26,562	38,891	45,588
PAT growth (%)	(15.9)	71.1	77.6	46.4	17.2
Adjusted PAT	7,934	15,951	26,562	38,891	45,588
Diluted EPS (Rs)	1.2	2.4	3.9	5.7	6.7
Diluted EPS growth (%)	(15.9)	71.1	77.6	46.4	17.2
DPS (Rs)	0.7	0.7	1.2	1.8	2.2
Dividend payout (%)	50.4	29.5	30.5	31.5	32.5
EBITDA margin (%)	7.4	7.9	8.6	9.8	10.0
EBIT margin (%)	2.7	3.9	5.2	6.6	6.8
Effective tax rate (%)	40.1	28.9	30.1	29.7	30.2
NOPLAT (pre-IndAS)	10,425	21,856	35,220	52,357	57,307
Shares outstanding (mn)	6,776.4	6,776.4	6,776.4	6,776.4	6,776.4

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	18,123	25,480	41,118	69,269	78,303
Others (non-cash items)	34,649	37,763	44,948	36,579	38,496
Taxes paid	(8,324)	(8,535)	(12,359)	(20,557)	(23,620)
Change in NWC	(20,785)	(6,846)	(23,692)	(9,460)	(8,917)
Operating cash flow	24,627	46,431	50,016	75,831	84,261
Capital expenditure	(24,363)	(21,829)	(53,546)	(29,970)	(30,300)
Acquisition of business	(1,204)	(3,264)	(5,000)	(5,000)	(15,000)
Interest & dividend income	1,950	2,672	0	0	0
Investing cash flow	(23,119)	(22,448)	(58,546)	(34,970)	(45,300)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	2,456	(10,562)	40,821	987	836
Payment of lease liabilities	(2,645)	(3,936)	0	0	0
Interest paid	(5,528)	(8,083)	(13,739)	(10,131)	(8,898)
Dividend paid (incl tax)	(6,457)	(3,308)	(8,088)	(12,232)	(14,794)
Others	1,599	(1,101)	0	0	0
Financing cash flow	(10,576)	(26,990)	18,994	(21,376)	(22,855)
Net chg in Cash	(9,068)	(3,007)	10,464	19,486	16,106
OCF	24,627	46,431	50,016	75,831	84,261
Adj. OCF (w/o NWC chg.)	45,412	53,276	73,708	85,292	93,179
FCFF	264	24,602	(3,530)	45,861	53,961
FCFE	(3,212)	19,465	(17,269)	35,730	45,063
OCF/EBITDA (%)	52.4	74.8	59.7	68.5	69.8
FCFE/PAT (%)	(36.8)	130.1	(65.0)	91.9	98.8
FCFF/NOPLAT (%)	2.5	112.6	(10.0)	87.6	94.2

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	4,518	6,776	6,776	6,776	6,776
Reserves & Surplus	2,01,365	2,17,739	2,36,213	2,62,873	2,93,667
Net worth	2,05,883	2,24,515	2,42,989	2,69,649	3,00,443
Minority interests	17,763	19,254	22,062	33,049	43,885
Deferred tax liability (net)	(8,322)	(7,049)	(7,049)	(7,049)	(7,049)
Total debt	1,51,849	1,37,923	1,75,935	1,65,935	1,55,935
Total liabilities & equity	3,67,172	3,74,644	4,33,939	4,61,585	4,93,215
Net tangible fixed assets	1,45,252	1,59,707	1,79,846	1,73,546	1,65,153
Net intangible assets	47,588	47,588	47,588	47,588	47,588
Net ROU assets	16,031	19,181	19,181	19,181	19,181
Capital WIP	13,097	14,779	14,779	14,779	14,779
Goodwill	0	0	0	0	0
Investments [JV/Associates]	69,859	67,892	72,892	77,892	92,892
Cash & equivalents	49,994	46,987	57,451	76,936	93,042
Current assets (ex-cash)	2,07,113	2,50,119	3,07,238	3,61,645	3,92,009
Current Liab. & Prov.	1,81,760	2,31,608	2,65,036	3,09,982	3,31,430
NWC (ex-cash)	25,353	18,510	42,202	51,662	60,580
Total assets	3,67,172	3,74,644	4,33,939	4,61,585	4,93,215
Net debt	1,01,855	90,936	1,18,485	88,999	62,893
Capital employed	3,65,509	3,72,981	4,32,276	4,59,922	4,91,552
Invested capital	2,47,319	2,59,765	3,03,595	3,06,756	3,07,281
BVPS (Rs)	30.1	32.9	35.6	39.5	44.1
Net Debt/Equity (x)	0.5	0.4	0.5	0.3	0.2
Net Debt/EBITDA (x)	2.2	1.5	1.4	0.8	0.5
Interest coverage (x)	0.3	0.2	0.3	0.1	0.1
RoCE (%)	3.5	6.4	9.5	12.5	12.8

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	76.9	38.2	23.0	15.7	13.4
P/CE(x)	16.3	12.9	10.2	8.1	7.2
P/B (x)	3.0	2.7	2.5	2.3	2.0
EV/Sales (x)	1.1	0.9	0.7	0.6	0.6
EV/EBITDA (x)	15.1	11.3	8.7	6.3	5.6
EV/EBIT(x)	40.9	22.8	14.5	9.4	8.2
EV/IC (x)	2.9	2.7	2.4	2.3	2.2
FCFF yield (%)	0.0	3.5	(0.5)	6.6	8.0
FCFE yield (%)	(0.5)	3.2	(2.8)	5.9	7.4
Dividend yield (%)	0.7	0.7	1.3	2.0	2.4
DuPont-RoE split					
Net profit margin (%)	1.2	2.0	2.7	3.4	3.8
Total asset turnover (x)	2.0	2.1	2.4	2.5	2.5
Assets/Equity (x)	2.1	1.7	1.7	1.8	1.7
RoE (%)	5.1	7.5	11.4	15.3	16.1
DuPont-RoIC					
NOPLAT margin (%)	1.6	2.8	3.6	4.6	4.8
IC turnover (x)	0.0	0.0	0.0	0.0	0.0
RoIC (%)	4.4	8.6	12.5	17.2	18.7
Operating metrics					
Core NWC days	14.5	8.6	15.8	16.7	18.4
Total NWC days	14.5	8.6	15.8	16.7	18.4
Fixed asset turnover	1.9	2.0	2.2	2.4	2.4
Opex-to-revenue (%)	35.0	34.5	33.5	32.9	32.7

Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
10-Aug-23	96	107	Buy	Chirag Jain
04-Jul-23	85	105	Buy	Chirag Jain
27-May-23	81	101	Buy	Chirag Jain

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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