

MOTHERSON SUMI SYSTEMS

Cache of opportunities

India Equity Research | Automobiles

Motherson Sumi's (MSS) revenue and profit are set to catapult ~5x over FY14-20E propelled by acquisitions and organic growth. Acquisitions have been an integral part of the company's growth strategy and its success in harnessing the same has been underpinned by: (1) restructuring; (2) rising share of new order wins; and (3) cross leveraging group synergies. SMR* (acquired in 2009) is a shining example of this strategy; SMP# (2011) and Stoneridge (2014) will track similar trajectory. Moreover, though big-bang acquisitions have overshadowed MSS's India business, we estimate its profit contribution to stabilise at 64% riding revival in domestic demand and new model launches. Initiate with 'BUY'.

Revenue, profit to catapult 5x; acquisitions propelling surge

Historically, MSS's revenue and profit have catapulted ~5x every five years driven by rising content per vehicle, diversified geography & clients and acquisitions. Our analysis of successful global leaders—Bosch, Johnson Control, Magna—indicates acquisitions have been integral to growth; MSS is treading the same path. Of the 11 acquisitions made till date, its recent big-ticket buys have augmented the company's scale and size.

India shining: To contribute 64% to profit, 80% to SoTP

Though big-bang acquisitions have long overshadowed MSS's India business, we believe it remains a vital cog owing to: (a) best-in-class RoCE; (b) near monopolistic position in products; and (c) robust growth opportunities. While India's share has declined during FY11-14, its contribution will stabilise at ~64% spurred by revival in domestic demand and a flurry of new model launches.

Outlook and valuations: Accelerating growth; initiate with 'BUY'

We estimate 57% EPS CAGR and RoCE to double to 47% over FY14-16 (ex Stoneridge). Going ahead, revenues will drive RoCE as against margins during FY12-14. We value standalone at INR297 (22x FY16E EPS, lower than peers despite superior growth/RoCE), SMR/SMP at INR88 (10x PER, lower than global peers) and others at INR49 (20% discount to standalone). Initiate with 'BUY/SO' with TP of INR435.

Financials	(INR mn)			
Year to March	FY13	FY14	FY15E	FY16E
Revenues (INR mn)	253,124	307,210	363,117	432,389
Rev. growth (%)	71.3	21.4	18.2	19.1
EBITDA (INR mn)	16,394	28,782	38,933	53,734
Net profit (INR mn)	5,324	8,942	14,434	22,110
Shares outstanding (mn)	882	882	882	882
Diluted EPS (INR)	6.0	10.1	16.4	25.1
EPS growth (%)	29.3	67.9	61.4	53.2
Diluted P/E (x)	58.3	34.7	21.5	14.0
EV/EBITDA (x)	30.1	17.9	12.7	8.9
ROAE (%)	25.6	34.1	42.6	49.5

Note: *Samvardhana Motherson Reflectec, #Samvardhana Motherson Peguform

EDELWEISS 4D RATINGS	
Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: MOSS.BO, B: MSS IN)

CMP	: INR 352
Target Price	: INR 435
52-week range (INR)	: 382 / 123
Share in issue (mn)	: 881.9
M cap (INR bn/USD mn)	: 315 / 5,232
Avg. Daily Vol.BSE/NSE('000)	: 1,124.3

SHARE HOLDING PATTERN (%)

	Current	Q2FY14	Q1FY14
Promoters *	65.6	65.6	65.6
MF's, FI's & BK's	7.4	7.8	9.0
FII's	16.9	17.2	16.1
Others	10.1	9.4	9.3
* Promoters pledged shares (% of share in issue)			16.7

PRICE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	0.2	13.6	13.5
3 months	11.5	44.6	33.1
12 months	27.1	146.2	119.1

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Valuation

We believe MSS is trading at relatively attractive valuations versus peers - global players for consolidated business and domestic players for standalone entity. Our FY16E target PE multiple of 10x for subsidiaries, SMR and SMP, is lower versus peers, despite better earnings and RoCE trajectory. Similarly, our FY16E target PE multiple of 22x for the standalone business is conservative versus peers, given its robust earnings CAGR of 48% and superior RoCE over FY14-16E. During FY14-16E, revenues will be the key driver of RoCE as against margins during FY12-14 (refer charts 34 to 39 on page 23). We initiate coverage with 'BUY/SO'.

Table 1: Comparative valuation

	Mkt Cap USD mn	EBITDA	APAT	P/E (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)
		(% CAGR) FY14-16E	(% CAGR) FY14-16E	2014E	2015E	2014E	2015E	2014E	2015E	2013
Global										
Gentex#	4,376	20.1	15.1	16.1	15.0	8.9	8.3	18.6	17.2	19.0
Motherson Sumi	5,232	36.6	57.2	21.5	14.0	12.8	9.0	42.6	49.5	24.6
Johnson Control#	33,693	11.1	15.8	16.2	13.6	10.6	9.5	16.7	18.1	15.4
Magna#	23,827	13.0	14.6	13.1	11.3	7.1	6.5	19.2	19.3	18.7
Plastic Omnium#	4,608	7.6	22.4	13.0	11.0	6.5	5.9	25.4	25.7	19.5
Lear Corp#	7,442	11.1	16.3	11.9	10.2	5.9	5.4	19.0	19.3	18.5
Faurecia#	4,852	15.5	51.3	14.7	9.9	4.3	3.7	13.9	17.8	13.9
SMR*		43.0	11.4	12.5	10.0	8.3	7.0	24.5	24.0	26.4
SMP*		49.9	125.2	18.1	10.0	10.0	7.0	NA	113.1	12.2
Domestic										
Bosch#	6,840	18.1	18.9	39.3	31.6	24.2	19.3	15.6	16.8	12.9
Wabco India	1,116	42.8	40.9	45.9	30.9	29.6	20.4	17.9	21.5	18.3
Cummins India	2,912	15.6	14.1	26.3	22.1	22.3	18.2	24.2	25.9	24.9
MSS (Standalone)*		41.9	45.6	35.1	22.0	24.2	12.0	37.7	53.9	31.9
SKF India^	973	21.5	22.5	25.8	20.0	16.8	12.6	16.2	18.2	32.3
Bharat Forge^	2,443	19.8	36.7	24.5	19.3	13.0	10.1	20.8	22.1	15.6
Exide Industries^	2,112	15.1	19.4	22.6	18.5	13.3	10.7	14.5	15.7	19.8
Amara Raja^	1,308	14.3	14.2	19.3	16.1	11.5	9.5	26.6	25.9	39.1

Source: Bloomberg, Edelweiss research

* based on target price

Calendar year ending; forecasts for CY14/CY15

^ Edelweiss estimates

Table 2: SOTP valuation

	FY16 EPS	Target Multiple (PE)	Value per share (INR)
MSS	13.5	22.0	297
SMR	3.9	10.0	39
SMP	5.0	10.0	50
Others	2.7	17.5	49
Total	25.1	17.4	435

Source: Edelweiss research

Our FY16 consolidated EPS estimates are ~22% ahead of consensus

We value other subsidiaries at a 20% discount to MSS (Standalone)

Table 3: Company at a glance...

Particulars	MSS	SMR	SMP	Stoneridge
Acquisition Date		Mar-09	Jul-11	May-14
Equity Interest		51%	51%	100%
Revenues (FY14) (INR mn)	45,378	90,690	155,411	18,000
ROCE (FY14) (%)	31.9	26.4	12.2	
Key products	Wiring harness (72%)	Rear view mirrors	Bumpers/Front-end modules (44%), Cockpits , interior trims (44%)	Wiring Harness (100%)
Key clients	MSIL, MM, Hyundai	VW (22%), Hyundai (21%), GM (14%)	VW (27%), Audi (23%), Seat (16), BMW (9%)	John Deere, Navistar, Scania, Daimler
Key geography	India (78%)	Europe (46), Asia Pacific (32), America (22)	Germany (48%), Spain (33%), china (10%)	North America
Market share	65% in Wiring harness	22% (exterior mirror)	Bumper (9%), Instrument panel (18%), Door panel (23%)	
Market Size		Euro 5.3bn	Bumper (Euro 5bn); Globally US 60bn market	US 35bn industry globally
Plants	32	22	17	6
Countries		14	7	
Major expansion plans		US, China	China , Germany	US

Source: Company, Edelweiss research

Investment Rationale

Revenue growth of 5x every 5 years

MSS has an impeccable track record of clocking >5x revenue and profit growth over a five-year period, driven by acquisitions and organic growth. We believe that if it maintains this trajectory, it will easily achieve revenue of USD25bn by FY20 and catapult it into the league of global auto part leaders. We expect the company to continue its trail-blazer growth trajectory, given its philosophy of setting aggressive five-year targets.

Table 4: Uptick in growth trajectory

(INR mn)	FY05	FY05/01 (x)	FY10	FY10/05 (x)	FY15E	FY15E/10 (x)
Revenue	7,812	5.1	67,022	8.6	363,117	5.4
APAT	862	5.4	2,801	3.2	14,075	5.0
Mcap*	14,680	11.5	49,140	3.3	313,700	6.4
ROCE (%)	37.2		19.5		37.9	

Source: Company, Edelweiss research

* M-cap for FY15E is as of July 15, 2014

Global auto parts leaders: Inorganic growth, key strategy

Our analysis of leading auto parts players across geographies indicates that inorganic growth has been a key driver of growth. Johnson Controls/Magna in the US, Robert Bosch/Faurecia in Europe and Denso in Japan (refer table 5) are few players, which have an illustrious acquisitions' history, which has helped expand their reach and product portfolio.

Geography-wise analysis indicates that Europe, in particular, has seen higher acquisitions, while USA and Japan have had very few acquisitions beyond the top-2-3 OEMs. We attribute this to fragmented nature of industry in Europe.

Table 5: Geography-wise comparison of auto component players

Companies	US			Europe			Japan				
	Revenues	Market cap	No of acquisition	Companies	Revenues	Market cap	No of acquisition	Companies	Revenues	Market cap	No of acquisition
Johnson Controls	42,730	33,819	50	Bosch	62,652		40	Denso	40,899	41,374	20
Magna	34,835	23,590	40	Faurecia	24,518	4,866	19	Aisin Seiki	28,180	11,580	9
Delphi	16,463	21,217	1	Valeo	16,470	10,800	29	Sumitomo Electric	25,650	11,320	22
Lear	16,234	7,387	1	Plastic Omnium	6,970	4,820	12	Toyota Boshoku	12,116	2,020	11
Visteon	7,565	4,789	2	Leoni	5,411	4,866	26	Calsonic Kansei	9,173	1,802	5
Gentex	1,172	4,801	3	SMRP	3,011			Keihin Corp	3,489	1,190	2
Total	118,999	95,603	97	Total	119,033	25,352	126	Total	119,507	69,286	69

Source: Companies, Edelweiss research

Note: All numbers in USD mn

Chart 1: Regional mix of acquisitions: US companies

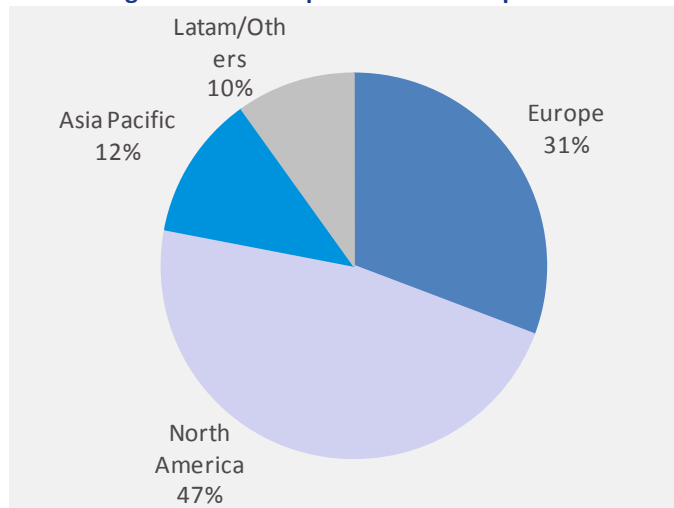
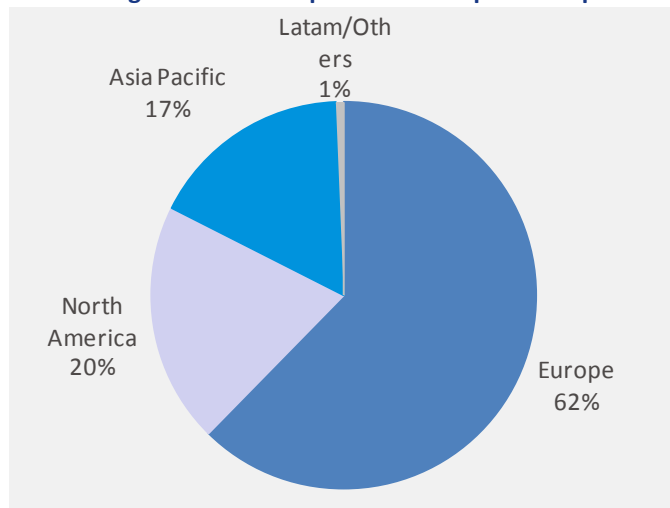


Chart 2: Regional mix of acquisitions: European companies



Source: Companies, Bloomberg, Edelweiss research

Chart 3: Regional mix of acquisitions: Japanese companies

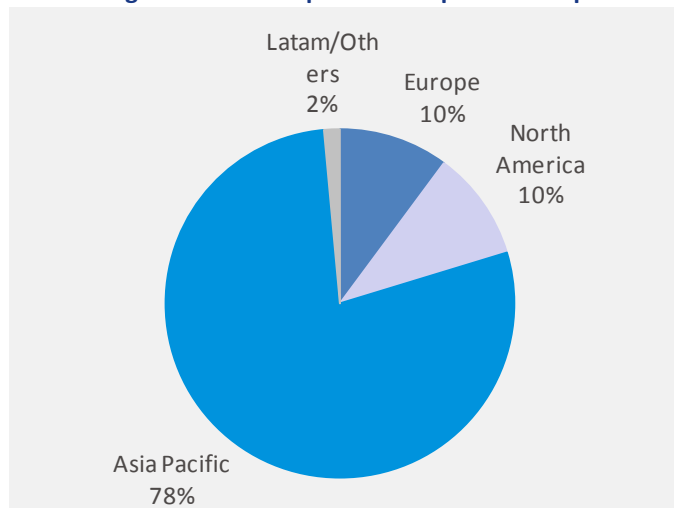
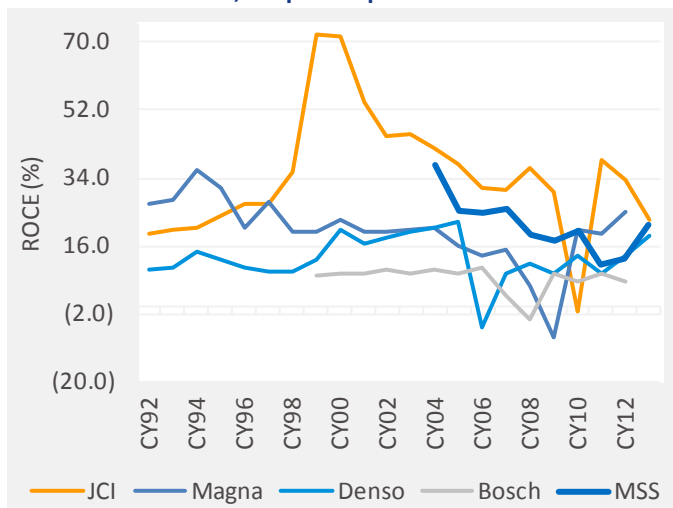
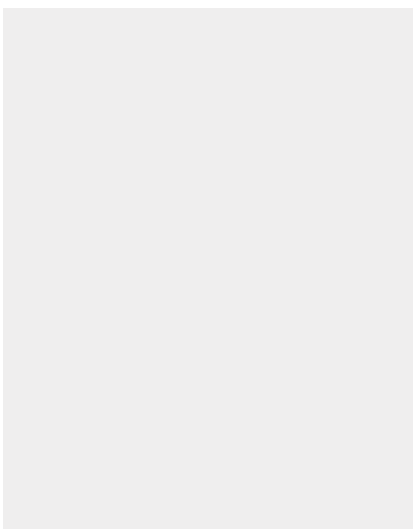


Chart 4: Stable RoCE, despite acquisitions



Source: Companies, Bloomberg, Edelweiss research



MSS acquired SMR (Visiocrp) during trough of the financial crisis in 2009 for only Euro25mn with Euro30mn of debt taken over despite the business having turnover of Euro660mn at the time of acquisition

Quantum leap: From local to global

MSS has evolved from being a single product/single location company to become a diversified play across geographies, products and customers. The company has almost excelled through its joint ventures (JVs)/acquisitions — 11 acquisitions and 11 JVs till date. Earlier acquisitions were on smaller scale, but the two big acquisitions of SMR and SMP has brought it into limelight. It is to MSS's credit that it has met with immense success in turning around the acquired companies and derived synergistic benefits from the same. Key success differentiators include distressed assets with customer backing, complementary business/customer profile, cost rationalisation opportunities, attractive valuations and under-utilised capacities.

Table 6 MSS – Trail of JVs/acquisitions

JV/ Acquisition History	Category	FY13 Revenues
1986 Formed JV with Sumitomo Wiring Systems	Wiring Harness	
1996 Formed 49% JV with SMR (erstwhile Britax Intl Plc/Visiocrp)	Plastic Components	3,088
1997 Formed 40% JV with BTR Motherson (MATE) (merged into MSSL in FY02)	Wiring Harness	10,194
50% JV with Kyungshin Corp	Wiring Harness	4,109
1998 33% JV with WOCO Industrietechnik	Elastomer	432
2002 Purchased Wexford Electronics (Ireland) (MSSL Middle East)	Wiring Harness	2,485
2005 49% JV with Calsonic Kansei	HVAC system	1,285
Purchased Reiner Precision	Machined Components	1,058
2006 Purchased G&S Kunststofftechnik (MSSL Polymers, MSSL Tooling)	Plastic parts	
Purchased F.P. Formagrau (MSSL Advanced Tooling)	Plastic parts	1,681
Purchased ASL Systems (MSSL GB)	Wiring Harness	1,272
2007 Purchased Empire Rubber (MSS Australia)	Rubber	1,230
2009 Acquired SMR	Rear view mirror	69,538
2011 Acquired Peguform (SMP)	Plastic Components	127,848
2014 Acquired Stoneridge Inc	Wiring Harness	18,000

Source: Edelweiss research

Table 7: MSS – Key JVs

Key Joint Ventures	Holding	Key products	Parent	Key customer of parent	Parent revenues (USD mn)
Kyungshin Industrial Motherson Limited	50	Integrated wiring harnesses	Kyungshin Industrial Company Ltd, Korea	Hyundai	1,754
Woco Motherson Limited (FZC)	33	Actuator, Polymers	Woco group	VW, Seat, Ford, BMW, Daimler	612
Woco Motherson Elastomers Limited	33				
Woco Motherson Advanced Rubber Technologies Limited	33				
Calsonic Kansei Motherson Auto Products Limited	49	Plastic Components	Calsonic Kansei	Nissan	9,173
Ningbo SMR Huaxiang Automotive Mirrors Co. Ltd.	50	Mirrors	Ningbo Huaxiang Electric Co. Ltd.		1181
Celulosa Fabril S.A.	50	Plastic Components		VW, Nissan, Ford, Renault	
SAKS Ancillaries Limited	40				
Re time Pty Limited	41				
Motherson ORCA Precision Technology		Metal Turning & Plastic-Metal Combined Parts	Dremotech GmbH & Co.		

Source: Company, Edelweiss research

SMP (Peguform) was a more recent acquisition (2011) and significantly larger (2010 revenue of Euro1.4bn) acquired for Euro142mn

The string of acquisitions has significantly changed the company's revenue mix with share of traditional wiring harness reducing from 72% in FY05 to 13% in FY14, while share of polymer products increased to ~57% in FY14.

D Increased component content per car

Key aspects

- Greater level of electronics
- High complexity systems with integrated electronic communication features
- Increased differentiation between segments
- Partially driven by increasing safety and environment focus

SMRP BV examples

- Camera systems replacing exterior mirror
- Lighting & Sensor integration
- Sensor based pedestrian protection

Table 8: Changing face of the company

Revenues (INR Mn)	FY05	FY10	FY14	FY16E
MSS	7,812	25,435	60,949	107,403
SMR		41,587	90,760	121,774
SMP			155,502	203,212
Total	7,812	67,022	307,210	432,389
Key product verticals (%)				
Wiring Harness	72	27	15	16
Mirrors		62	26	24
Polymer Products		11	59	60
Geographical mix				
India	72	32	13	17
Outside India	28	68	87	83

Source: Edelweiss research

Product and geography-wise diversification

We remain enthused with the rapidly evolving customer and product profile of MSS. The company's recent acquisition of SMR has enabled it to manufacture electric/high value-added rear view vision systems, intelligent vision sensor technology, plastic reflectors and decorative surfaces. Acquisition of SMP has given it access to high-quality instrument/interior door panels and the 'Pegu Trim' technology. With the Stoneridge acquisition (wiring harness), the company has gained access to the US market along with extending its customer profile to commercial vehicles.

Table 9: A peek into diversifications

	1986	2002	2009	Current
Products	Wiring Harness	Wiring Harnesses, Wires Rear View Mirrors Injection/Blow Molded Liquid Silicon Rubber Molded Products Cockpit, Door Trims	Wiring Harnesses, Wires Automotive Rear View Mirrors Injection/Blow Molded Products, Injection Liquid Silicon Rubber Molded Products Precision Machined Metal Components Cockpit, Door Trims, Bumpers, Air Filter, Car AC Systems Waste Recycling System	Wiring Harnesses, Wires, Components Rear view mirrors Polymer processing parts Elastomer processing parts Precision Machined Metal Components Modules: HVAC, Cabins, Lighting, Bumper, Front-end/Interior Modules Waste Recycling System Vaccum formed components
Technology	Wiring Harness	Wiring Harness Assembly, Wire Manufacturing Module Assemblies Injection Molding, Blow Molding Mold making	Wiring Harness Assembly, Wire Manufacturing Module Assemblies Injection Molding, Blow Molding Painting & printing Mold making Metal Machining	Wiring Harness Assembly, Wire Manufacturing Module Assemblies Injection Molding, Blow Molding Painting & printing Mold making Metal Machining Modules, Polymer products & Tooling Engineering, design, prototyping
Customers	Mostly Japanese OEMs	All leading domestic OEMs	More than 50 OEMs across the globe	Largest customer accounts for 20% of revenues
Geography	India	India, Europe, South-East Asia, Austria	India, UAE, Europe, Sri Lanka, Australia, Singapore, USA, Mexico, China, South Korea, Mauritius, Japan	India, Europe, Middle East, China, US, Australia, South-East Asia
Plants	1 Plant (India)	6 Plant (India), 1 in Sharjah	Over 80 facilities in 20 countries	Over 125 facilities in 25 countries; 12 India

Source: Company, Edelweiss research

Automobiles

Basic



Medium



Premium



Commercial



Interior mirrors



SMR: In a sweet spot

The company's first big acquisition, VisiCorp (now SMR), was done in FY09. SMR has since been on turnaround mode as apparent from its improving margin profile and uptick in revenues. Apart from restructuring efforts and operating leverage (higher utilisation of Hungary and Brazil plants), rising share of new businesses (giving opportunity to change inefficient vendors) have played an important role. Our analysis indicates share of new business has increased from 9% in FY13 to ~17% in FY14. Also, there exists scope for further uptick in margins with rising share of new business orders.

As for SMP, initial signs of turnaround are visible. The pre-requisites are largely similar to SMR.

Table 10: SMR/SMP fact-sheet

(Euro mn)	SMR	SMP
Acquisition Date	Mar-09	Jul-11
Acquisition Cost	25	142
Net debt	30	160
Enterprise Value	55	302
Sales (2010)	660	1,400
Sales (2014)	1,119	1,917
EBITDA (2010)	35	67
EBITDA (2014)	106	104
EV/EBITDA (Trailing)		
At time of acquisition	1.6	4.5
Based on FY14	0.5	2.9

Source: Edelweiss research

Chart 5: SMR – Improving performance

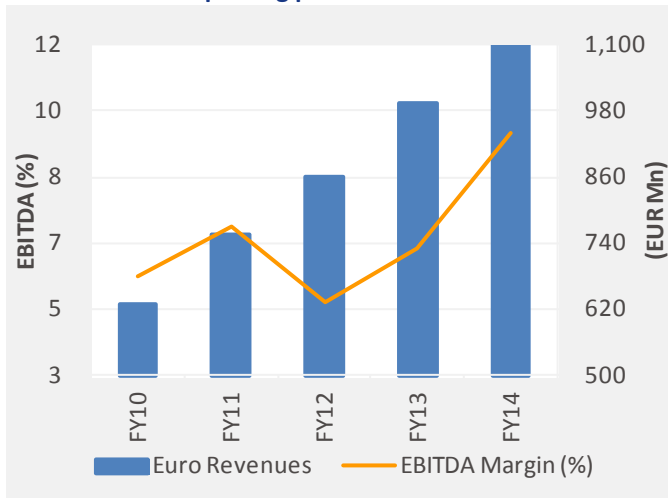
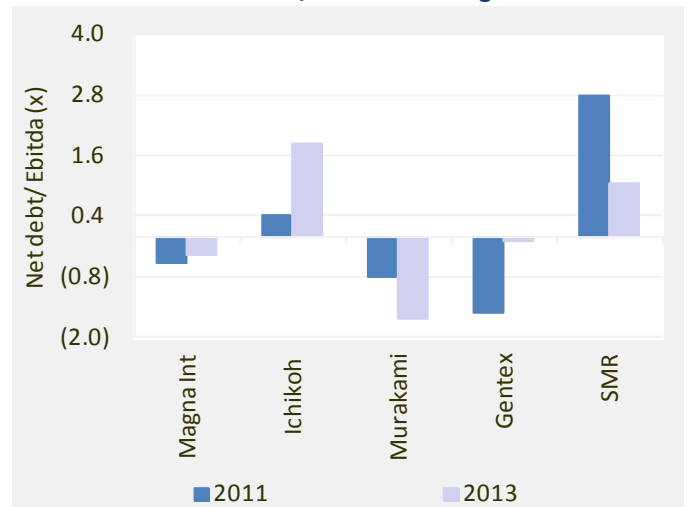


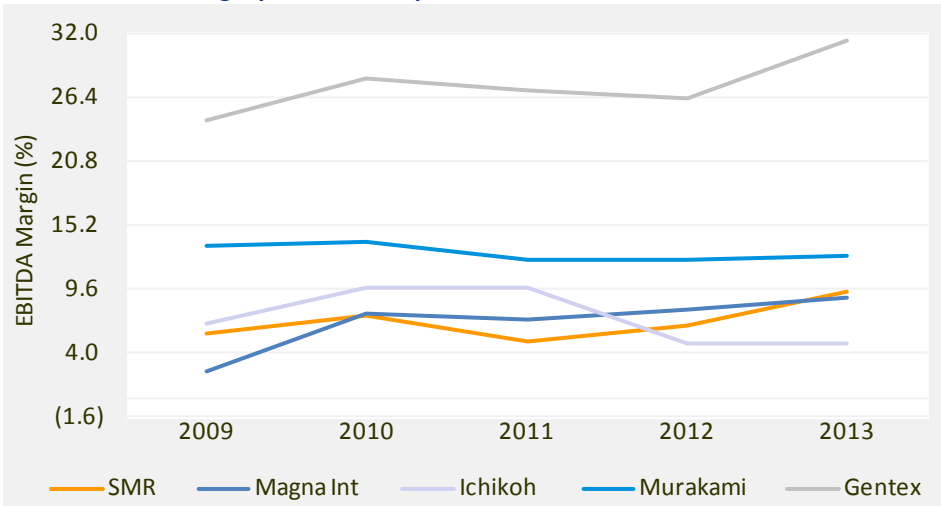
Chart 6: SMR – Better debt/ EBITDA coverage



Source: Company, Edelweiss research

When compared to peers, there exists scope for further improvement in SMR margins.

Chart 7: SMR – Margin profile versus peers



Source: Bloomberg, Edelweiss research

Bumper



SMP/Stoneridge: Pre-requisites of margin improvement similar to SMR

SMP (erstwhile Peguform) was the second big acquisition by MSS completed in July 2011 and currently under restructuring phase. Of the seven hotspots, the company has turned around six. Given the strong new order wins (Euro2.4bn) infuses confidence in us that SMP will track SMR’s margin trajectory over the medium term along-side integration with MSS — SMP sources EUR400mn worth components from outside, part of which can move in-house.

Chart 8: SMP – Quarterly margins yet to turnaround

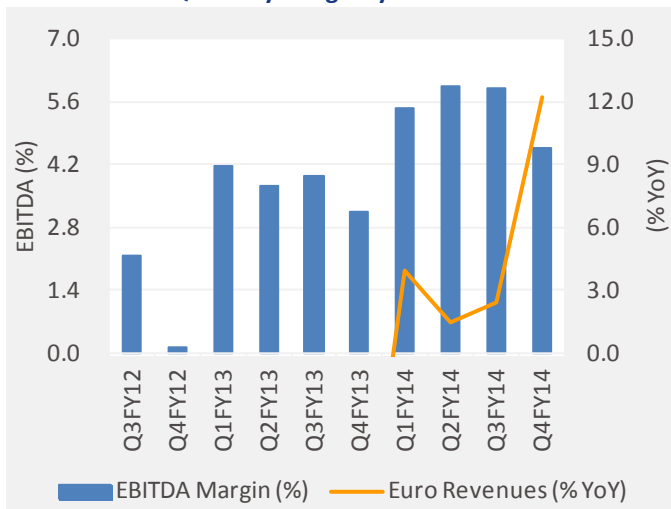
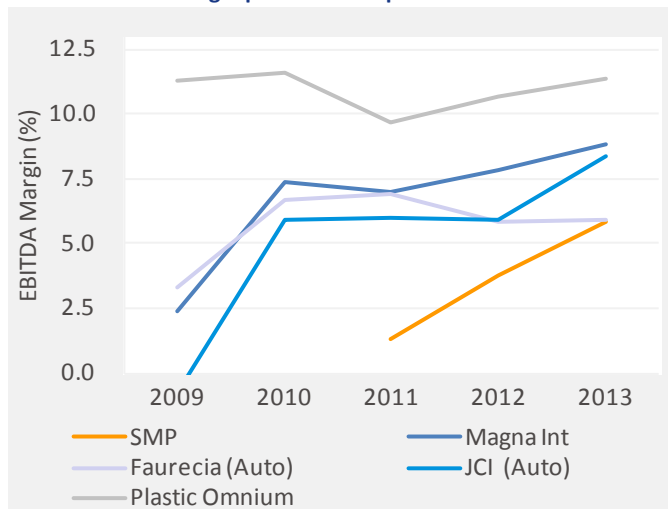


Chart 9: SMP – Margin profile versus peers



Source: Company, Bloomberg, Edelweiss research

Instrument Panel



Door Panel



Wiring Harness



Increased outsourcing by OEMs raises importance of supply chain

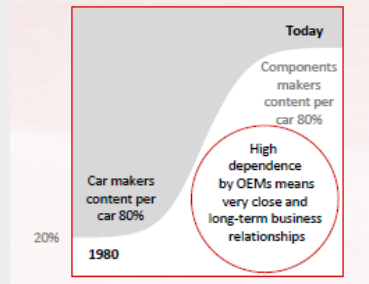
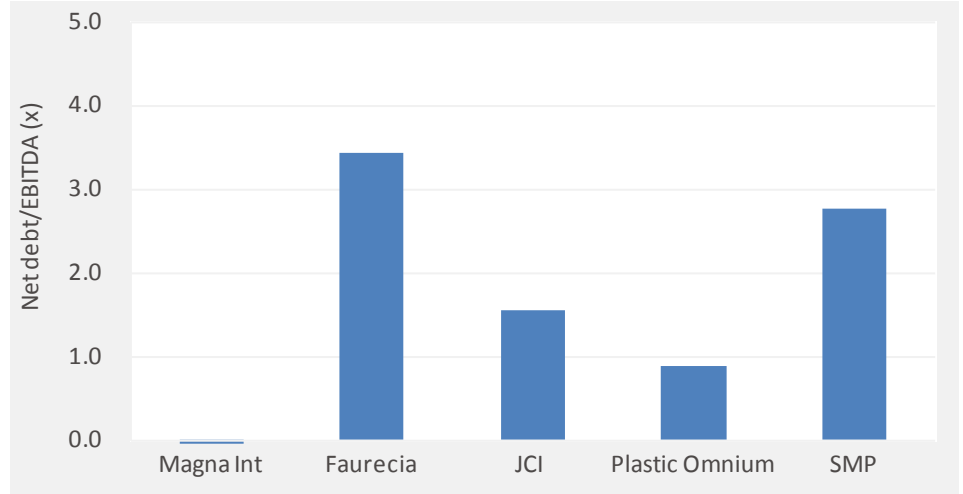


Chart 10: Net debt/EBITDA profile versus peers



Source: Bloomberg, Edelweiss research

Stoneridge Inc., MSS’s latest acquisition has almost similar attributes as SMR and SMP — revenue of USD300mn (2013) and marginal loss at EBITDA level (-1.6%). The company has six manufacturing facilities across USA and Mexico. As per management, Stoneridge enjoys strong synergistic advantages in terms of customer segments, products and global operations and new orders. Hence, we believe the latter can register turnaround similar to SMR. However, given lack of clarity, we are currently not factoring in this in our estimates

Table 11: Stoneridge – Financial performance

USD Mn	2009	2010	2011	2012	2013
Net Sales	195	261	328	330	296
% YoY		33.5	25.8	0.4	(10.3)
EBITDA			(13)	5	(5)
Margin (%)	-	-	(3.8)	1.5	(1.6)
Depreciation			4	5	5
Interest			0	0	0
PBT	2	4	(17)	(0)	(10)
Margin (%)	0.9	1.6	(5.2)	(0.1)	(3.4)

Source: Bloomberg

High growth opportunity in SMR/SMP/Stoneridge

We believe the recent three acquisitions (SMR/SMP/Stoneridge) provide tremendous growth potential for MSS owing to: (1) cross leveraging - customer reach, geographical reach and products; and (2) rising share of new business.

Complementary customers and geography mix will enable MSS to procure more business from its key clients. For instance, SMR sourced INR2.4bn of wiring harness from MSS in FY13 and is likely to further increase sourcing as new orders ramp up. Similarly, potential remains strong in SMP though we are yet to see similar improvement.

Cross-selling opportunity also remains immense for SMP as it can begin supplying to key customers of SMR (Ford, Hyundai, JLR, etc), which currently have nominal share in plastic parts, and to key German clients in its new geographies (US and China).

Chart 11: SMR – Client mix

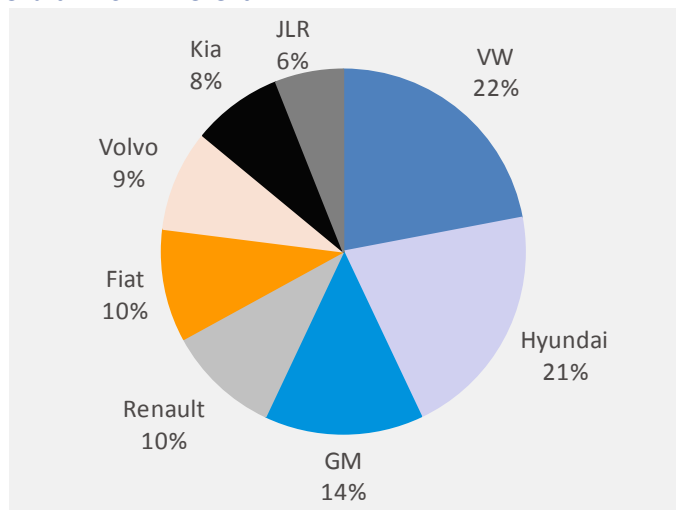
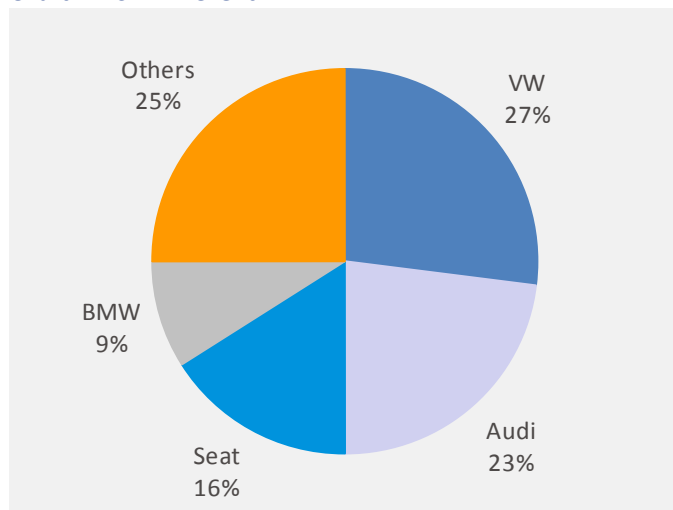


Chart 12: SMP – Client mix



Source: Company, Edelweiss research

Chart 13: SMR – Geography mix

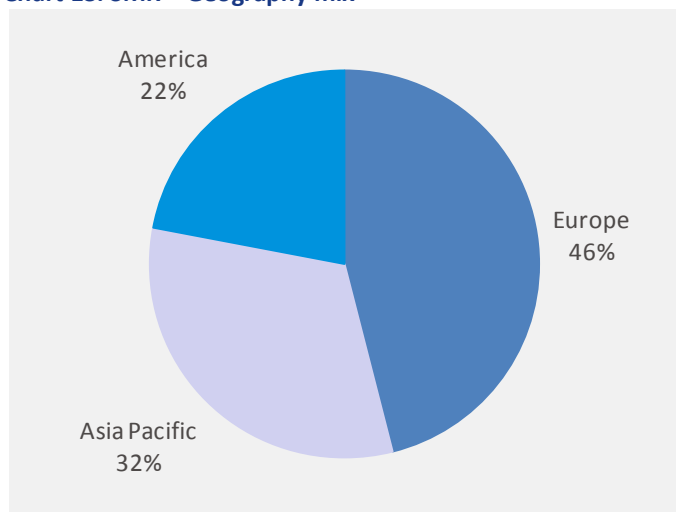
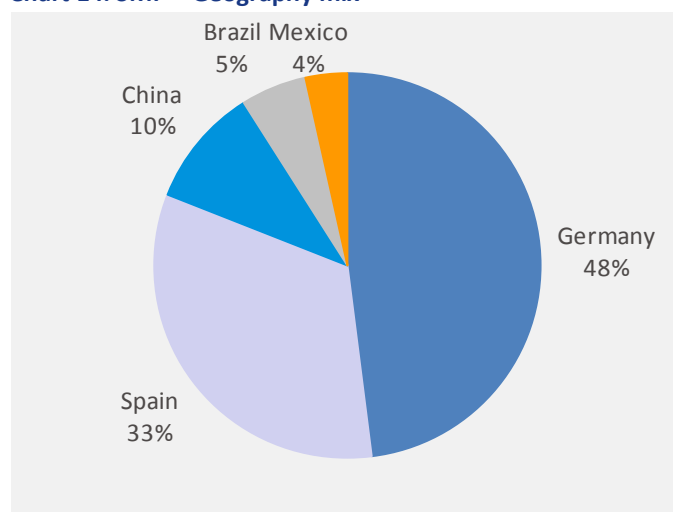


Chart 14: SMP – Geography mix



Source: Company, Edelweiss research

The largest and top-ten programs contributed 4.8% and 31.5% of SMR/SMP revenues in FY14

Global car model programs serviced by MSS continue to increase with 300 plus model programs in FY14

Combined order book of SMP/SMR continues to swell

Combined order book of SMP/SMR increased to Euro7.7bn. While SMP won new orders worth Euro2.44bn in FY14 (Euro2.4bn in FY13), SMR bagged new orders worth Euro1.56bn in FY14 (Euro1.33bn in FY13). Higher share of repeat business based on OEM relationships and well-diversified clients/geographies enhances revenue visibility of SMR/SMP.

Automobiles

Chart 15: SMP/SMR – New order build-up

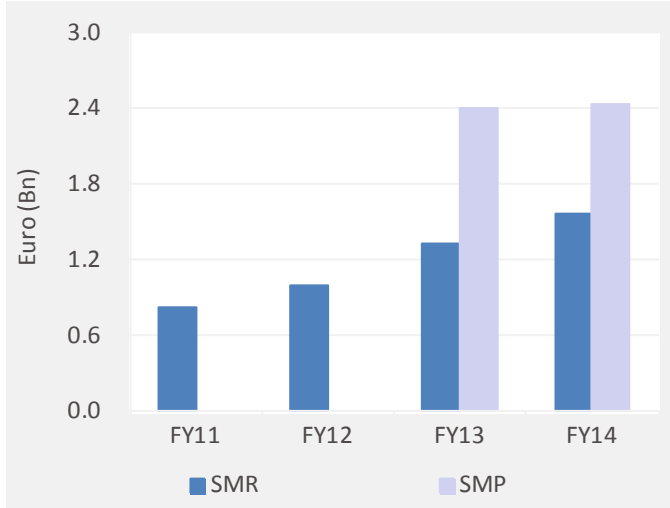
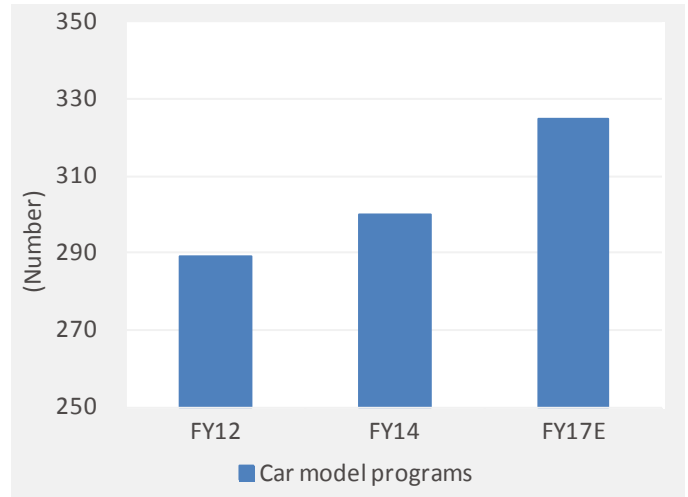


Chart 16: New car model programs globally



Source: Company, Edelweiss research

Table 12: SMR/SMP – Plant expansion in new geographies

Geographies	Share of revenues	Key Clients	New Plants	SOP	Remarks
SMR					
US	22	Ford, GM, Chrysler	Doubled capacities in Michigan plant	FY15	Expect sharp increase in market share
			Dedicated glass plant in Mexico for in-house supplies in USA	FY15	Rising vertical integration
China	10	VW, Toyota, Audi	2 Plants started in 2013 with high vertical integration, 1 new plant in Central China	2014	Aim to increase market share in China led by 16 new orders
Korea			Cater to exports in Japan	2014	Currently supplied from China and Thailand
SMP					
China	12	Audi, VW (95%)	Foshan and Beijing	2014	Interior systems for premium cars
Germany	48		Second plant to meet new orders	Sep-14	
US			Greenfield capacity replacing 2 smaller plant	FY14	
Wiring Harness					
Thailand			New plant for supply to ASEAN region	FY15	

Source: Company, Edelweiss research

India to remain largest contributor to profits

Excellent track record boosts confidence

MSS's historical performance in India is better than its peers with strong 24/30% revenue/profit CAGR over FY96-14 along-side limited equity dilution. This highlights the company's ability to generate adequate cash to fund future requirements. We attribute this to its focus on improving RoCEs (standalone and consolidated), which have remained superior to competition. More importantly, RoCE has been improving from one cycle to another (from 20% in FY99 to ~38% in FY14). Thus, the company has the ability to withstand cyclical downturns.

Table 13: Auto ancillaries – Peer group comparison

Particulars (Rs mn)	MSS*	Amtek Auto	Bharat Forge	Bosch	Exide Inds
Sales (FY96)	957	256	4,342	8,332	2,798
Sales (FY14)	45,378	23,893	33,053	88,201	59,726
CAGR (%)	23.9	28.7	11.9	14.0	18.5
Adj. EPS (FY96)	0.1	1.1	2.4	15.6	0.3
Adj. EPS (FY14)	6.5	10.2	16.8	266.5	5.8
CAGR (%)	29.3	12.9	11.4	17.1	17.7
Equity Capital ('mn shares Mar 14)	881.9	218.6	232.7	31.4	850.0
Equity dilution since FY96 (%)	4.5	80.8	9.6	-	12.7

Source: Companies, Edelweiss Research

Note * Standalone business

Chart 17: Standalone RoCE profile

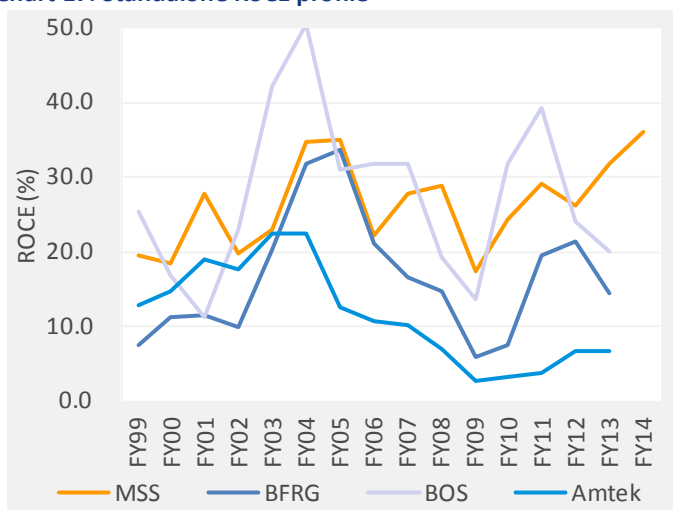
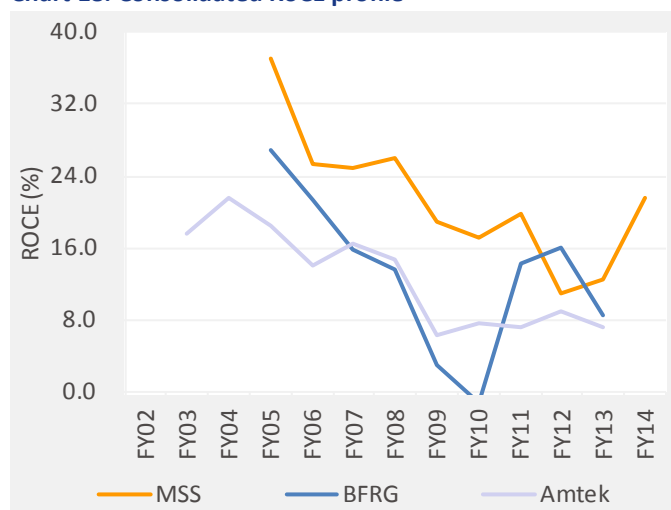


Chart 18: Consolidated RoCE profile



Source: Companies, Edelweiss research

India accounts for lion's share in profits, SoTP

The SMR/SMP businesses have been much talked about, but the India remains the key contributor to profits (64% of APAT in FY16E) and SoTP (80% of SoTP value). In the domestic passenger vehicle segment, MSS commands >65% market share in wiring harnesses, 53% share in rear view mirrors and has rising market share in polymer business (~35% currently).

Chart 19: India contributes lion's share of profits

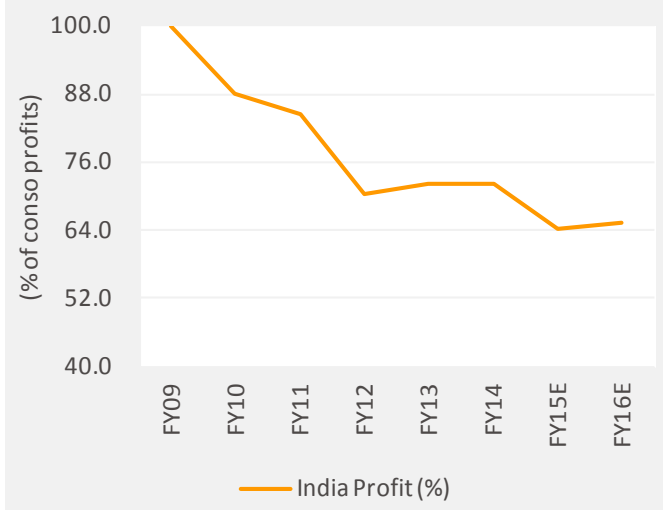
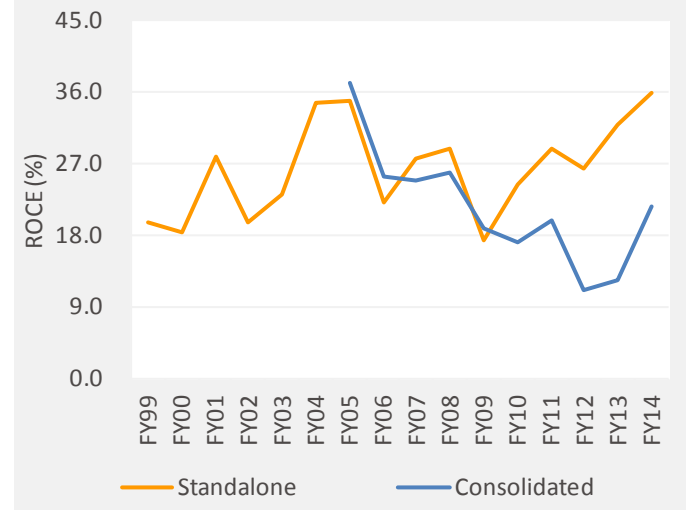


Chart 20: Superior standalone RoCE profile



Source: Edelweiss research

Share of India to rise

Over the past two years, contribution to profits by India business saw a dip, impacted by sluggish domestic automobile sector (refer chart 19 above) and SMR/SMP being on turnaround mode. However, going ahead, we expect share of India business to rise led by: (1) higher volume growth trajectory; (2) uptick in new launches/upgrades (refer our auto sector report *Get Set, Go!!* dated May 16, 2014); and (3) benefits of cross-leveraging.

Chart 21: Revenue growth trajectory – MSS vs industry

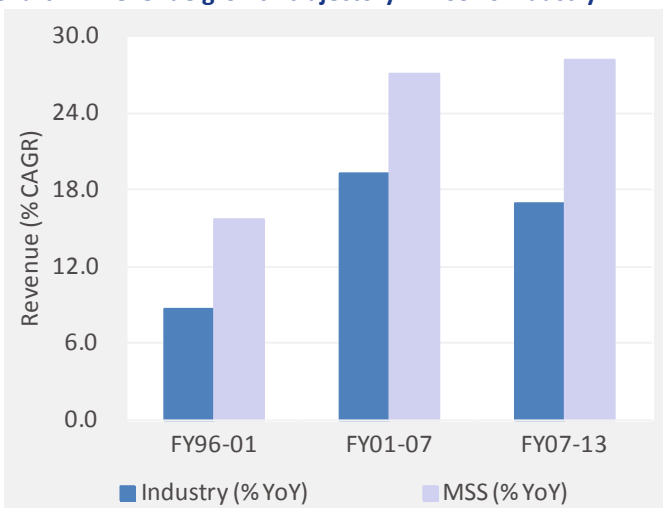
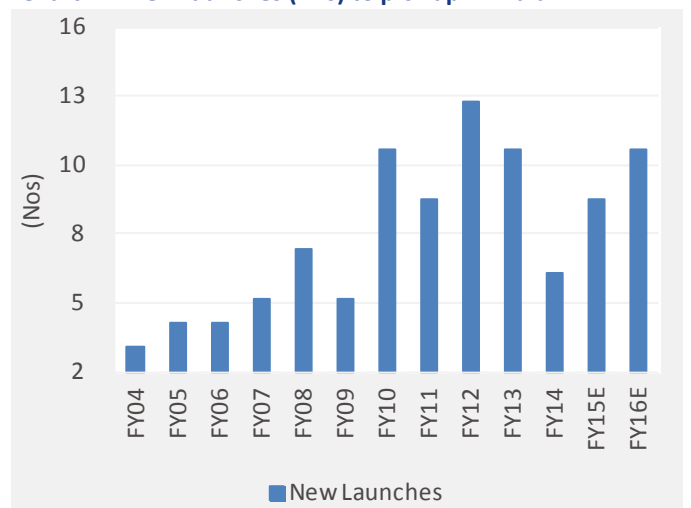


Chart 22: New launches (PVs) to pick up in India



Source: Companies, Edelweiss research

Globally, IC Insights, a semiconductor (electronics) research company, indicates that average value of semiconductor content in cars has increased at the rate of ~9% per year over 2010 to 2014 leading to ~\$425 of IC value per car in 2014

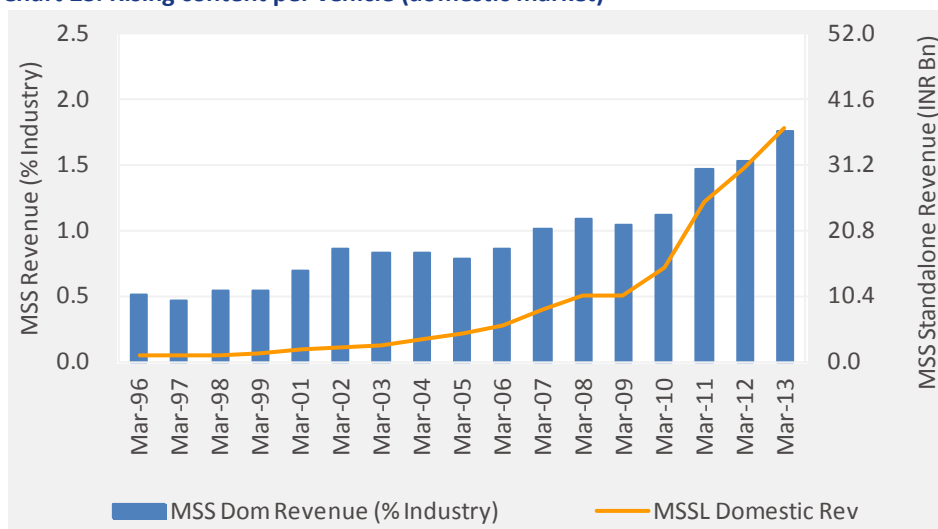
Expanding product, client and geography – Key to superior show

MSS has been successful in expanding its reach and diversifying operations over the years. From a modest beginning of focusing on a single product (wiring harness) from a single location and servicing only the Japanese OEMs, the company currently has a plethora of offerings from multiple locations spread across geographies. This superior growth trajectory has been an outcome of: 1) rising content per vehicle; 2) expanding product portfolio; and 3) increasing geographical reach.

Rising content per vehicle

We believe MSS is in a sweet spot as wiring harness/polymer content per car will continue to rise due to focus on higher electronics and weight reduction in all new launches/replacement across geographies.

Chart 23: Rising content per vehicle (domestic market)



Source: Edelweiss research

Chart 24: Better features in cars

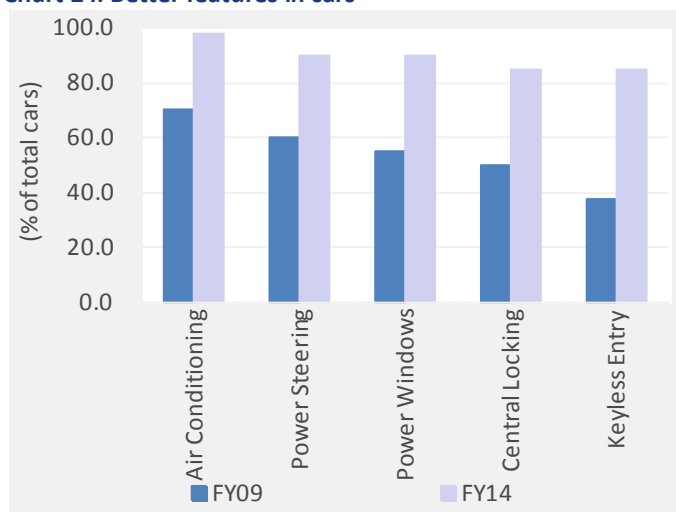
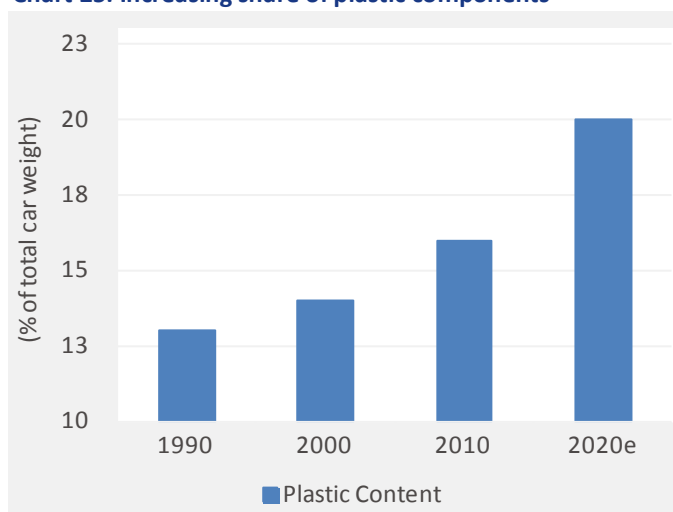


Chart 25: Increasing share of plastic components



Source: Media reports, Edelweiss research

Key Risks

Complex structure raises concerns

MSS has too many subsidiaries/JVs, which complicates the ownership structures.

Currency risk

Around 85% of the company's consolidated revenues originate from outside India on account of which it is exposed to currency movements. However, risks are largely translational as operations are mostly based in the respective home countries. Also, out of total debt of ~INR40bn, ~90% is denominated either in USD or Euro. Hence, unfavourable currency movement could result in MTM loss/gains on such debt.

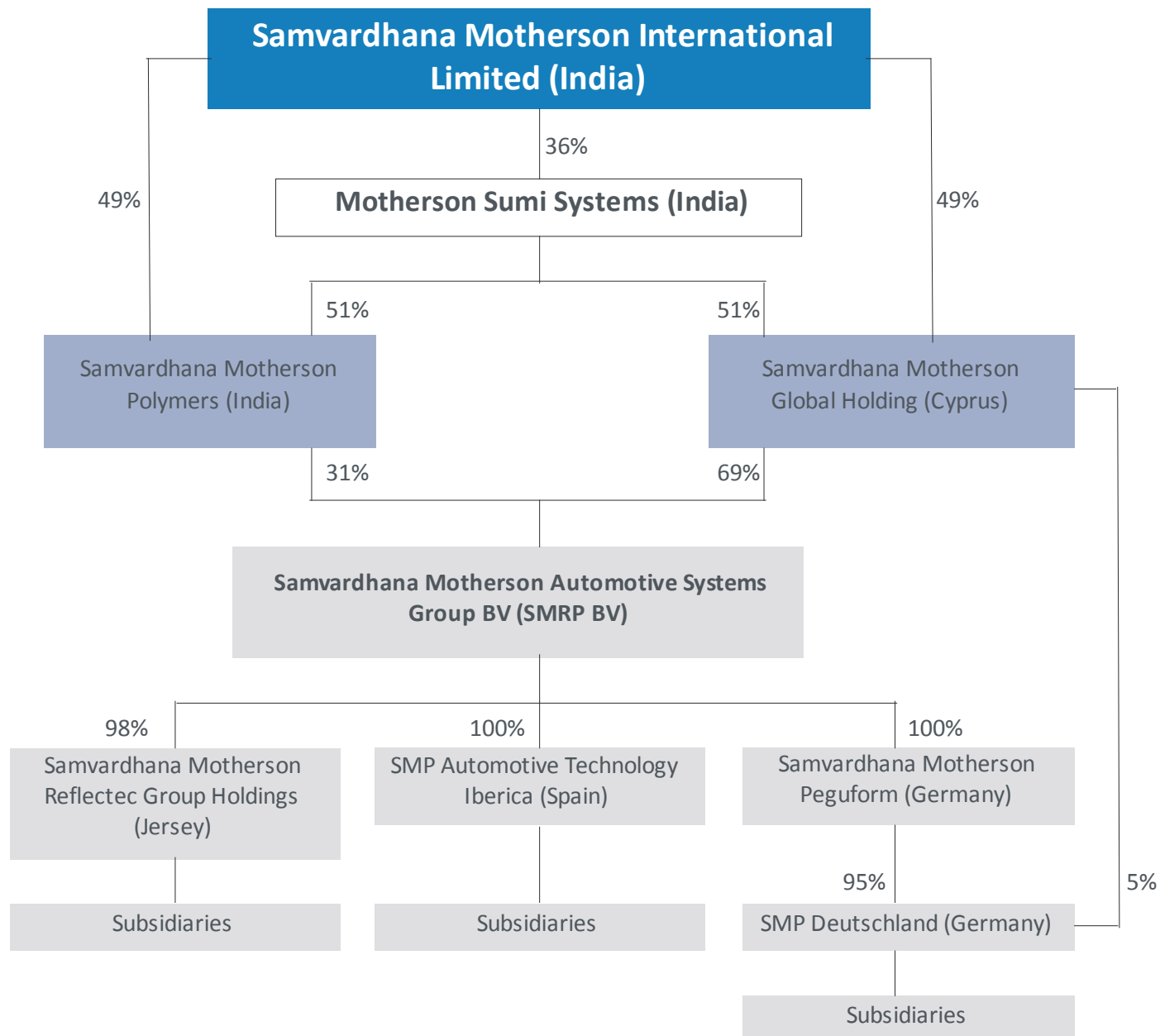
Weaker global demand

The company's key subsidiaries (SMR/SMP) are highly dependent on demand from the luxury car segment. Weakness in global premium car demand can impact order books of SMR/SMP. This in turn could delay expected turnaround in these subsidiaries.

Execution risks

Delays in turnaround of subsidiaries and/or lower-than-anticipated group synergies remain a concern for SMR/SMP.

Fig. 1: MSS group holding structure



Source: Company

Company Description

Overview

Motherson Sumi Systems (MSS), is a JV between Samvardhana Motherson International (SMIL) and Sumitomo Wiring Systems, Japan (SWS). It is the flagship company of Samvardhana Motherson Group (SMG). With presence in 25 countries and turnover of ~USD5 bn as of 2013-14, the group supplies to all major automobile manufacturers across the world.

The company is one of the largest manufacturers of rearview mirrors for passenger cars in the world as well as India's largest manufacturer of automotive wiring harnesses and mirrors for passenger cars. It is also one of the largest manufacturers of IP modules, door trims and bumpers mainly to the European OEMs. It is also a leading supplier of plastic components and modules to the global automotive industry.

MSS can be regarded as inorganic growth specialist. Pertinently, the company has successfully turned around its recent two key acquisitions, SMR and SMP. Its latest acquisition of Stoneridge Inc's wiring harness business for USD65.7mn is strategically placed to capitalise on the growth in its new markets of US.

Samvardhana Motherson Peguform

SMP, a leading supplier of bumper systems, plastic components for vehicle exteriors, cockpits, dashboards and interior trims, reported 5% revenue growth in FY14, benefitting from 107 automotive programs launched across OEMs.

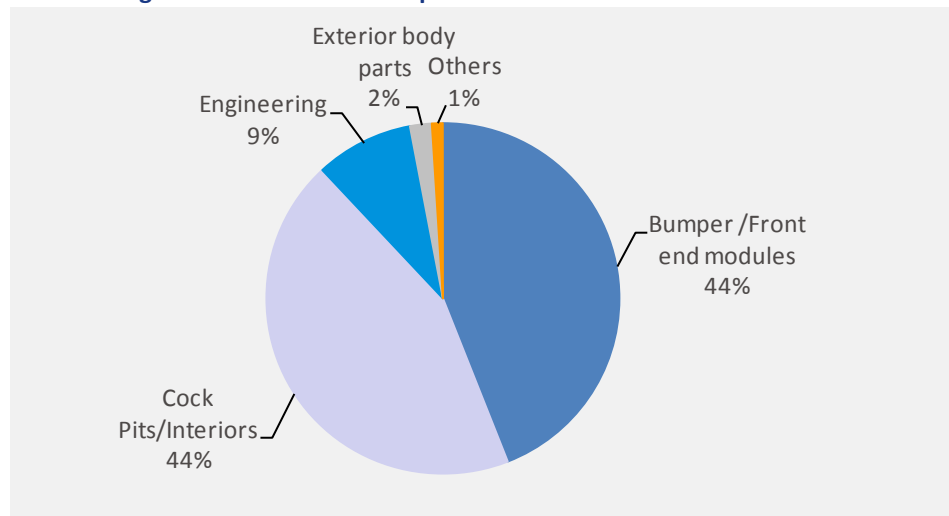
The company has strong presence in Europe with Volkswagen Group, BMW, Porsche, PSA Peugeot, Renault Nissan, Daimler & GM its key clients. It is the second largest supplier of door panels and third largest supplier of Instrument panels in Germany.

The company has 274 patents, over 200 injection molding machines and 25 facilities in seven countries.

Bumper modules are one of the largest business segments of SMP. The company is market leader in bumper covers in Germany and Spain. Other key areas include front-end modules, interior modules and other natural fibre re-inforced interior components.



Chart 26: Segment-wise revenue composition



Source: Company

Chart 27: Bumper segment market share

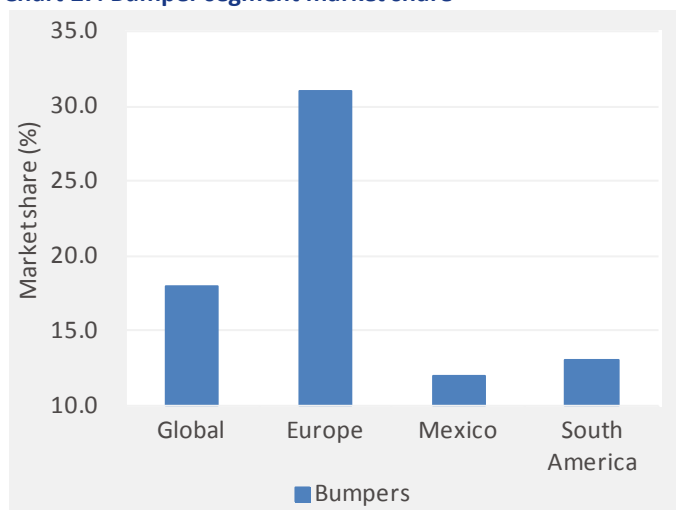
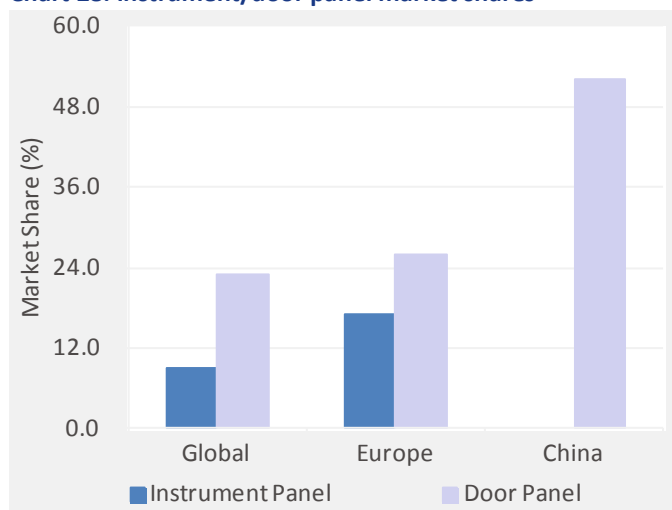


Chart 28: Instrument/door panel market shares



Source: Company

Samvardhana Motherson Reflectec

SMR is a global tier-1 supplier of rear view mirrors with global market share of 22% in passenger vehicles (PV), and commercial vehicles (CVs) in the exterior rear view mirror market (leader – Magna Mirror at 24%). The global market has been dominated by six major players contributing ~83% of sales volume - Magna Mirrors, SMR, Ficosa, Murakami, Ichikoh and Gentex

SMR clocked highest output of exterior mirrors in its history with the manufacture of ~40mn units in FY13.

Chart 29: Global exterior rear view mirrors' share

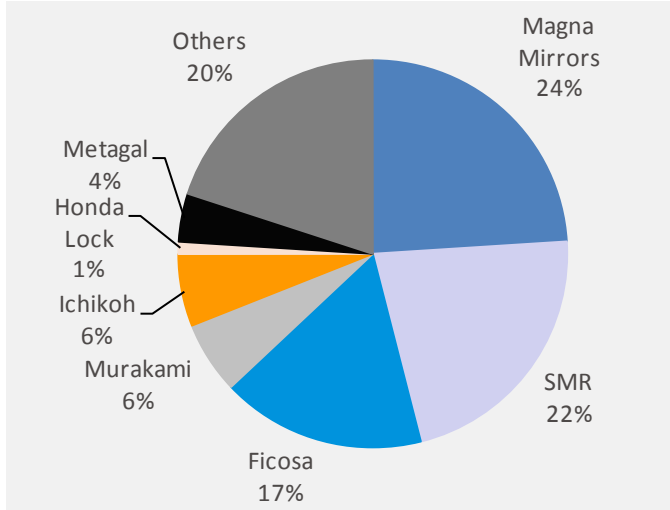
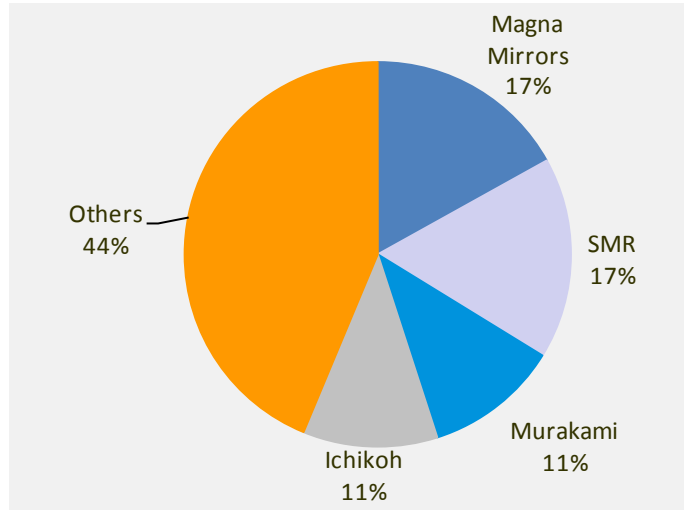


Chart 30: Asia-Pacific market share break-up



Source: Frost & Sullivan (2010), Edelweiss research

Chart 31: North America market share break-up

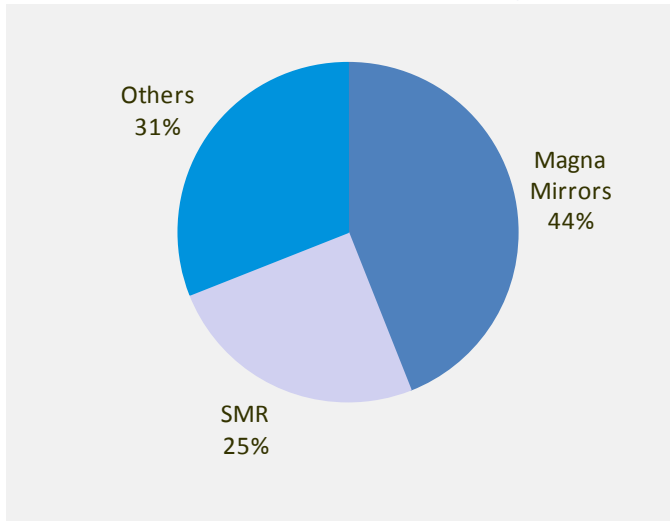
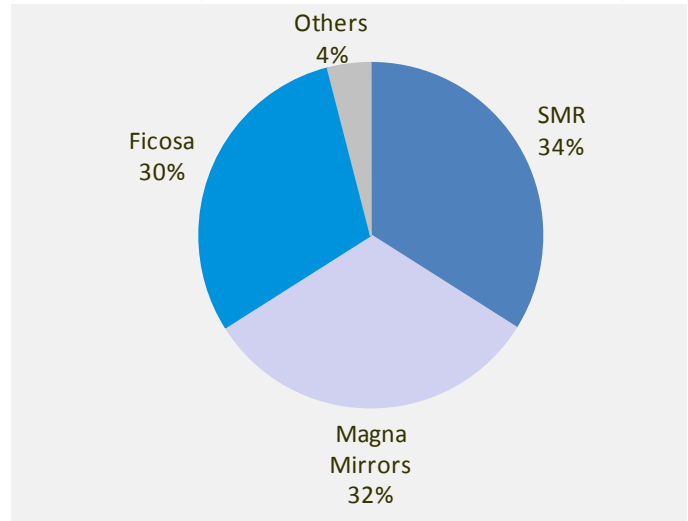


Chart 32: Europe (with Russia) market share break-up



Source: Frost & Sullivan (2010), Edelweiss research

Stoneridge

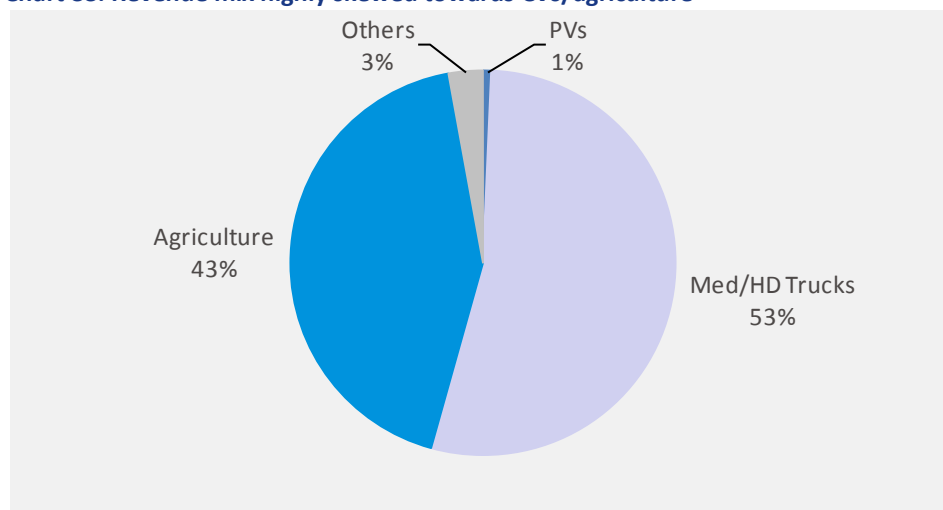
Stoneridge’s wiring business designs and manufactures wiring harness products for sale principally to the commercial, agricultural and off-highway vehicle markets. The company also assembles entire instrument panels that are configured specifically to an OEM customer’s specifications in the CV market. Key customers include John Deere, Scania, Navistar and Daimler. It primarily serves the markets in North America, Europe and Asia

Stoneridge has six manufacturing facilities located in Portland, Indiana (USA), Mexico, Chihuahua, Saltillo and Warren, Ohio (USA).

The segment was severely impacted in 2013 when volumes collapsed, as one of its key customers reduced its order due to weak market conditions. Thus, excessive premium freight, labour and overtime costs led to operating loss.

Key competitors include commercial vehicles group, Delphi Automotive Plc., Leoni, Nexans SA and PKC Group.

Chart 33: Revenue mix highly skewed towards CVs/agriculture



Source: Company

India (Standalone) business

Standalone business (25% of consolidated revenue) manufactures: (1) wiring harnesses – 76% of revenue; (2) plastic components (24% of revenues); and (3) others.

Wiring harness: The standalone business manufactures wiring harnesses meeting requirements of entire cross section of automotive industry. A typical car has five to six sets of wiring harnesses, namely, engine harness, roof harness, floor harness, tail harness and main harness. The product commands ~>65% of the domestic wiring harness market followed by Yazaki (16%). MSS is also vertically backward integrated in terms of critical wiring harness components, including wires, connectors, terminals and fuse boxes, thus providing full system solutions to its clients.

Plastic components: The group’s polymer processing operations cover a wide-range of polymer processing technologies. The facilities include high precision components to high aesthetic parts, state-of-the-art moulding machines ranging from 5 tonnes to 4,500 tonnes. Motherson Automotive Technologies Engineering (MATE), the polymer division of MSS, specialises in large size size injection moulding, blow moulding, compression moulding and vacuum forming, which are supported by post moulding operations. The company provides complete turnkey solutions supplying parts such as Instrument panel assemblies, door trims, under bonnet parts, and other Interior/exterior parts. It services most key OEMS like Hyundai, MSIL, Ford, Nissan, AL, TTMT, Honda and dashboard mouldings to Daimler CV. It has 12 manufacturing facilities in India.

Key Personnel

Mr. Vivek Chaand Sehgal, Chairman

Mr. Vivek Chaand Sehgal established Motherson Sumi in 1975. Earlier, he served as Executive Officer of Sumitomo Wiring Systems. Mr Sehgal has over 36 years of experience in the auto industry. He has been Chairman at Motherson Sumi since November 5, 2012. He is instrumental in overall functioning and operations of the Motherson Group. He is Executive Chairman of Samvardhana Motherson International Limited since September 14, 2009.

Mr. Laksh Vaaman Sehgal, Director

Mr Laksh Vaaman Sehgal has been a Director at MSS since April 30,2009. He holds a bachelor's degree in Business Administration from Boston University and a master's degree in Finance from Columbia University. Mr. Sehgal also spent three years working with the group's collaborators in Germany and Japan. He has over eight years of experience in the auto industry, being associated with the Motherson group since the beginning of his career

Mr. Pankaj Mittal, Whole-time Director/COO

Mr. Pankaj Mital has been Chief Operating Officer (COO) of MSS since January 29, 2005 and serves as its Whole-Time Director. Mr. Mital serves as Director of Schefenacker Motherson, Saks Ancillaries, Motherson Engineering Research & Integrated Technologies, Motherson Innovative Technologies & Research and MSS Ireland Pvt. Ltd. and MSS Mideast (FZE). Mr. Mital is a Science Graduate and Post graduate in Management.

Mr. G. N. Gauba, CFO

Mr. Gauba has been Company Secretary and CFO of MSS since 1997

Financial Outlook

Revenues to propel

We expect consolidated revenues to report 19% CAGR over FY14-16E. The standalone business will continue to remain a key driver, logging ~38% revenue CAGR benefitting from recovery in industry volumes and higher content per car. We expect SMR/SMP to deliver 15%/13% CAGR during the mentioned period on execution of new orders and expansion into new geographies.

Robust operating performance

We estimate consolidated EBITDA to post robust 37% CAGR over FY14-16. As a result, margins are set to expand by ~300bps to 12.4%.

We expect SMP to be the key beneficiary with margins moving up by ~400bps to 9.5% in FY16, led by: 1) turnaround of loss-making plants; 2) execution of high-margin new orders and #) higher supplies to China (fetches better margins). Standalone margins are expected to improve by a marginal ~100bps to 21%. Turnaround in SMR is likely to gather pace with margins improving by ~200bps to 11.5% in FY16 (up 100bps to over 10.6% in Q4FY14).

Superior earnings/RoCE trajectory

Consolidated earnings are expected to report robust 59% CAGR over FY14-16. While earnings trajectory will remain superior across businesses, turnaround in SMP will see its profits jump by ~6x. SMP/MSS standalone profits are likely to double over the period. Analysis of RoCE indicates that margin will be key driver of RoCE for SMP, whereas revenue growth will be key driver of RoCE for SMR/Standalone

Chart 34: SMP – RoCE drivers during FY13-14

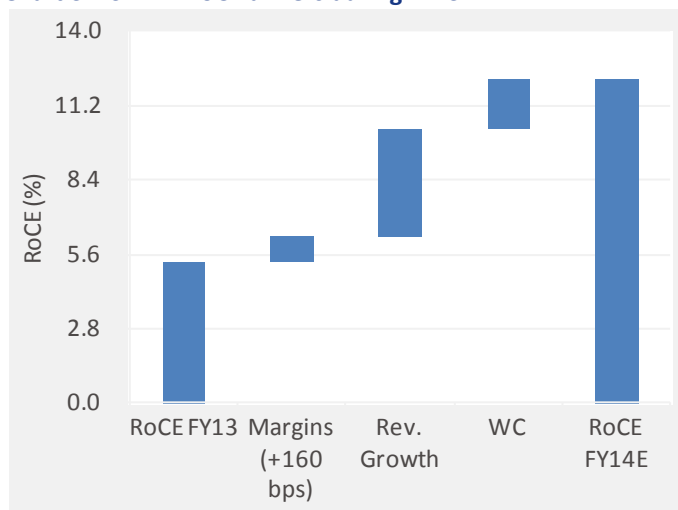
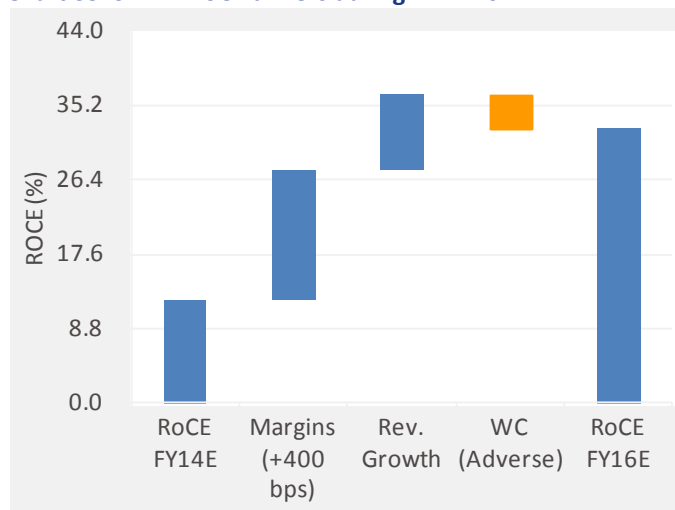


Chart 35: SMP – RoCE drivers during FY14-16E



Source: Edelweiss research

Chart 36: SMR – RoCE drivers during FY12-14

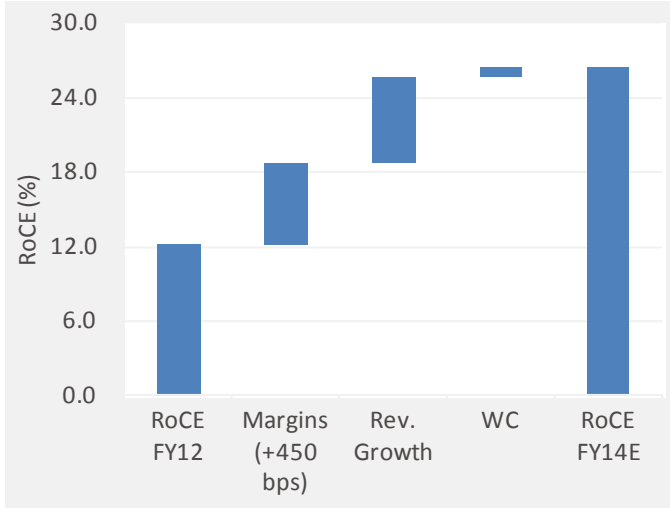
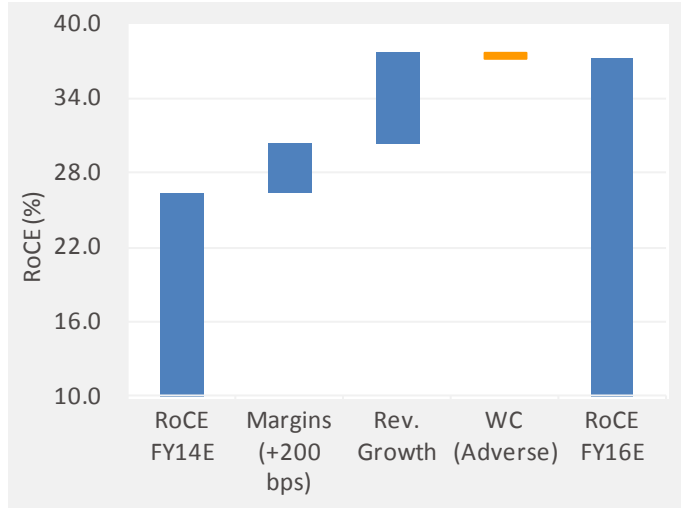


Chart 37: SMR – RoCE drivers during FY14-16E



Source: Edelweiss research

Chart 38: Standalone – RoCE drivers during FY12-14

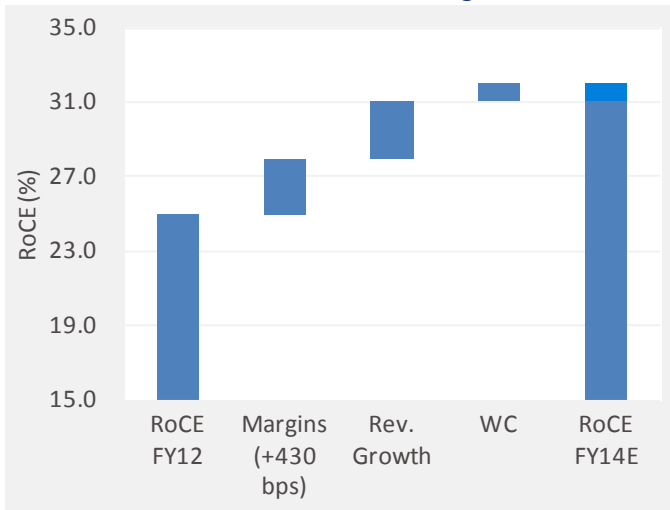
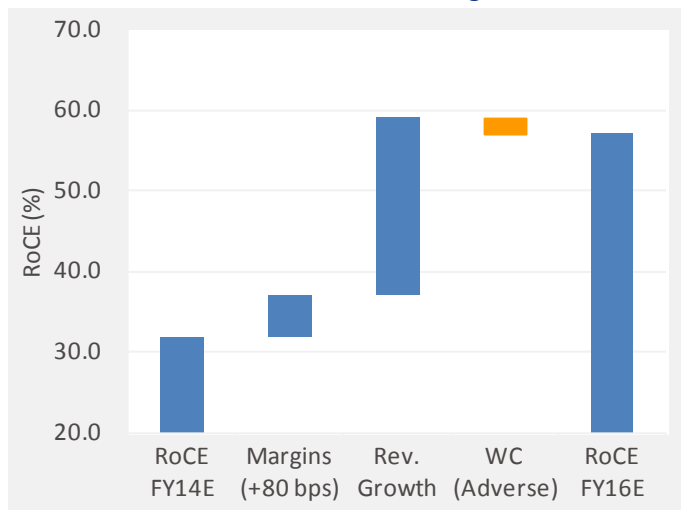


Chart 39: Standalone – RoCE drivers during FY14-16E



Source: Edelweiss research

Table 14: Key financials ^

(INR mn)	FY12	% YoY	FY13	% YoY	FY14E	% YoY	FY15E	% YoY	FY16E	% YoY
Net Sales	147,766	79.1	253,124	71.3	307,210	21.4	363,117	18.2	432,389	19.1
MSS*	35,718	26.5	43,041	20.5	45,508	5.7	58,180	27.8	86,376	48.5
SMR	56,652	24.6	69,538	22.7	90,760	30.5	106,819	17.7	121,774	14.0
SMP	45,279		127,848	182.4	155,502	21.6	179,833	15.6	203,212	13.0
Others	10,117	15.2	12,698	25.5	15,441	21.6	18,285	18.4	21,027	15.0
EBITDA	9,434	242.8	16,394	73.8	27,660	68.7	38,933	40.8	53,734	38.0
MSS*	5,615	30.5	7,767	38.3	9,096	17.1	11,867	30.5	18,322	54.4
SMR	2,832	(25.0)	4,481	58.2	8,622	92.4	11,750	36.3	14,004	19.2
SMP	602		4,831	702.5	8,397	73.8	13,488	60.6	19,305	43.1
Others	385	127.7	-684		1,544		1,828	18.4	2,103	15.0
Margin (%)	6.4		6.5		9.0		10.7		12.4	
MSS*	15.7		18.0		20.0		20.4		21.2	
SMR	5.0		6.4		9.5		11.0		11.5	
SMP	1.3		3.8		5.4		7.5		9.5	
Others	3.8		-5.4		10.0		10.0		10.0	
APAT#	2,453	(42.6)	5,324	117.1	8,942	67.9	14,434	61.4	22,110	53.2
MSS*	3,487	15.1	4,838	38.8	5,625	16.3	7,480	33.0	11,922	59.4
SMR	553	(32.6)	917	66.0	1,796	95.9	2,736	52.3	3,422	25.1
SMP	175		561	220.0	706	25.9	2,420	242.7	4,379	80.9
Others	-1,762		-992		815		1,797	120.6	2,387	32.8
EPS	2.8		6.0		10.1	67.9	16.4	61.4	25.1	53.2
MSS*	4.0		5.5		6.4	16.3	8.5	33.0	13.5	59.4
SMR	0.6		1.0		2.0	95.9	3.1	52.3	3.9	25.1
SMP	0.2		0.6		0.8	25.9	2.7	242.7	5.0	80.9
Others	-2.0		-1.1		0.9		2.0	120.6	2.7	32.8

Source: Edelweiss research

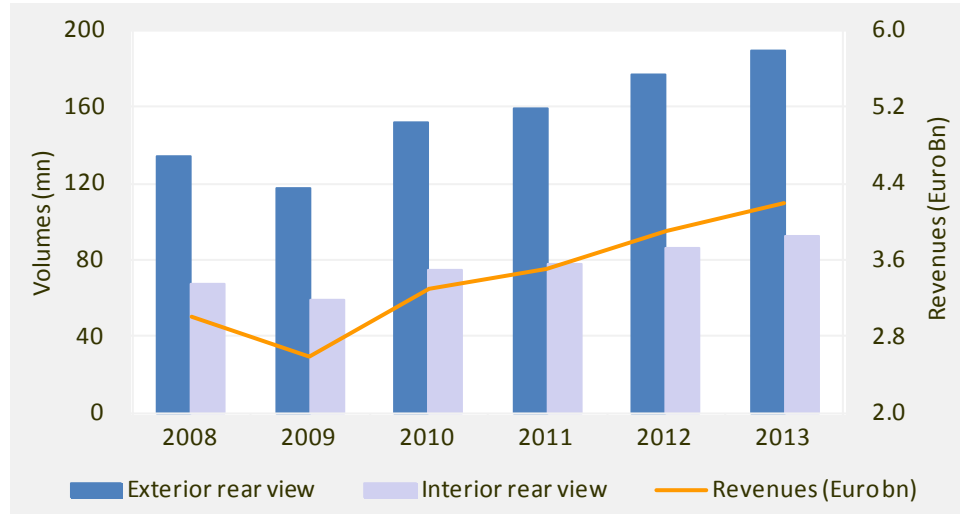
Note: *Standalone business #Concern share ^Excluding Stoneridge

Annexure

Global mirror industry

The ~226mn units mirror market is divided into two parts – exterior (~67% of industry) and interior (~33%). However, in terms of revenues, exterior rear view mirrors contribute lion's share of ~80%, while interior mirrors constitute mere 20% of global revenues of ~Euro5.3bn.

Chart 40: Global mirror industry snapshot



Source: Company

Exterior rear view mirrors play an important part in providing safety, aesthetics and convenience. Moreover, use of electrochromatic mirrors for auto dimming function and blind spot detection have been on the rise with ~50% of premium mirrors having the feature. With a premium mirror retailing at ~Euro35/unit versus ~Euro8/unit for a basic one, we believe premiumisation would drive healthy volume growth for SMR.

Chart 41: Exterior rear view mirror segment – Volumes ...

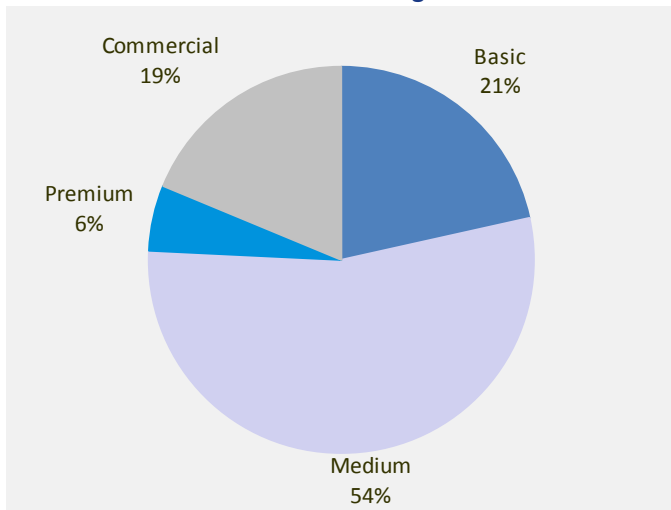
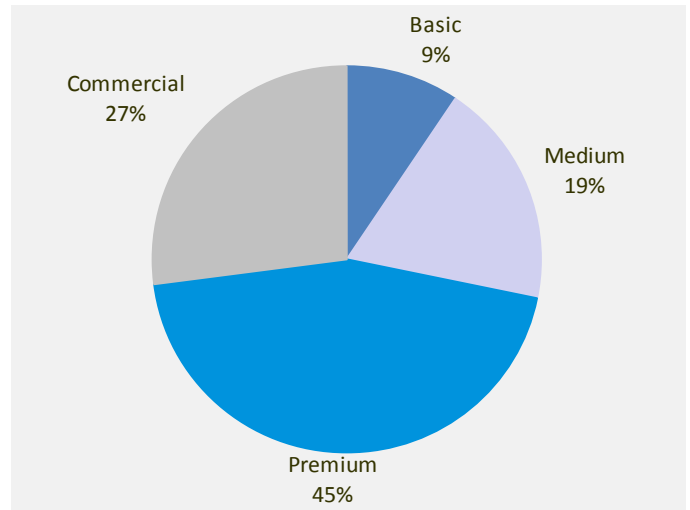


Chart 42: ...value wise



Source: Frost & Sullivan (2010), Edelweiss research

In case of interior rear view mirrors, while multi-functional mirrors constitute ~7% of overall volumes, given their high cost, they constitute ~50% of overall revenues.

Chart 43: Interior rear view mirror segment volumes

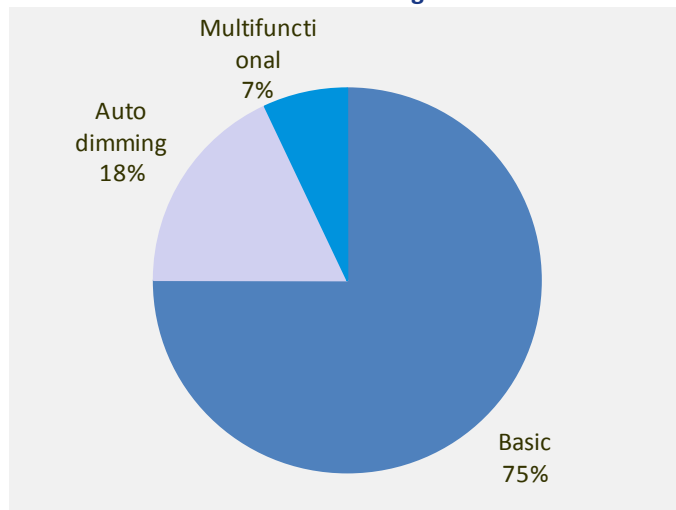
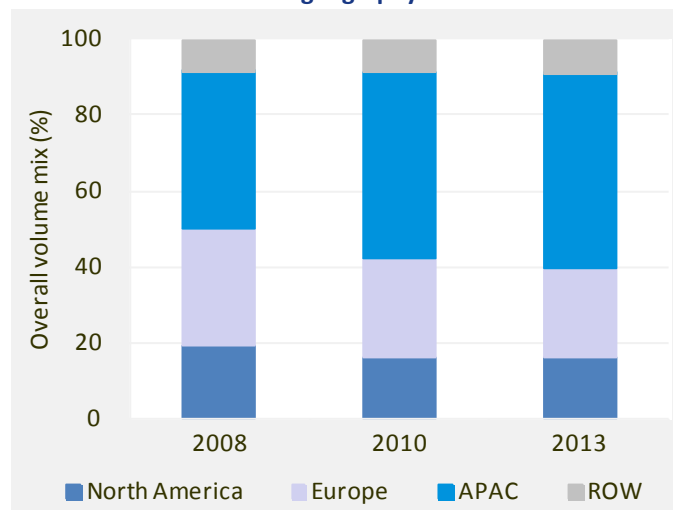


Chart 44: Global mirrors – geography mix



Source: Frost & Sullivan (2010), Edelweiss research

Overall geography-wise, Asia-Pacific with ~50% of total volumes is the largest market in global rear view mirror market, while North America and Europe contribute 16% and 24%.

In North America, Magna Mirror leads with ~44% share followed by SMR at 25%. SMR is the market leader in Europe at 34%, while Magna and SMR enjoy 17% market share in the APAC market, which is more fragmented. In India, SMR commands 57% market share for exterior rear view mirrors.

Plastic component industry

The interior modules segment is very fragmented with Faurecia being a dominant player with worldwide market share of 14%. It produces ~12m instrument panels/year and ~26m door panels/year.

Faurecia also dominates the automotive exterior modules market with 25% market share. The front-end module market is of ~7m vehicles of which ~40-50% is sourced in-house by the OEMs. Price ranges from Euro300 – 600/car and Faurecia is amongst the top-3 suppliers in Europe and North America.

Chart 45: Bumpers' market share

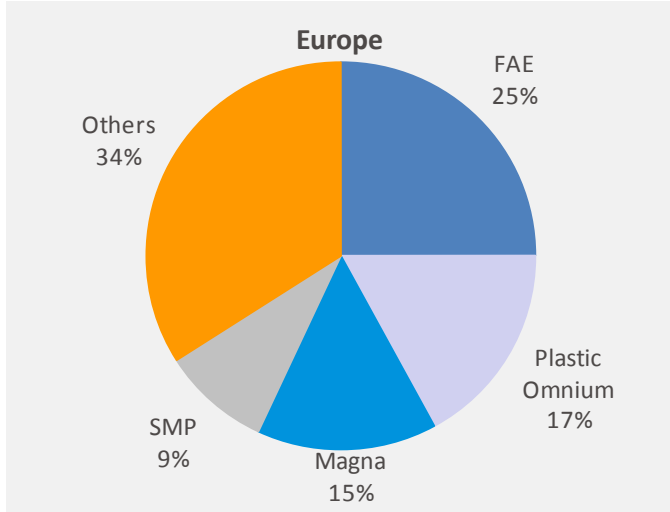
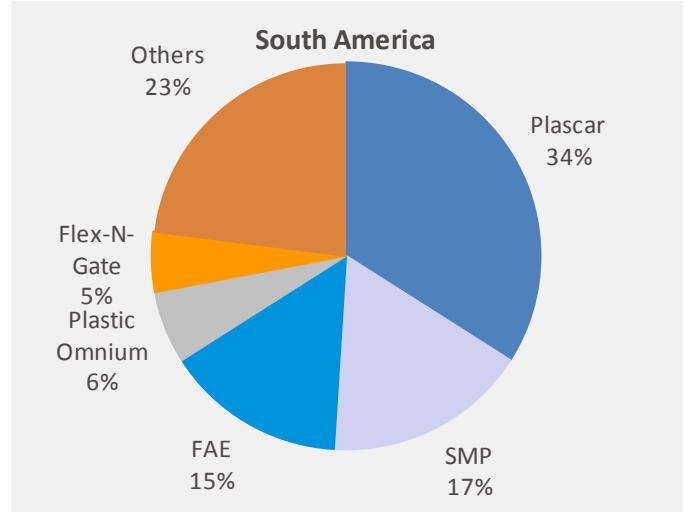


Chart 46: Automotive exterior market share



Source: Companies, Edelweiss research

Financial Statements

Key assumptions				
Year to March	FY13	FY14	FY15E	FY16E
Macro assumptions				
GDP (Y-o-Y%)	5.0	4.8	5.4	6.3
Inflation (Avg)	7.4	6.2	5.5	6.0
Repo rate (exit rate)	7.5	8.0	7.3	7.0
USD/INR (Avg)	54.5	62.0	60.0	58.0
Industry assumptions				
4W - domestic vol (% YoY)	2	(10)	4	19
2W - domestic vol (% YoY)	2.7	7	9	10
Steel prices (INR/t)	39,200	39,200	39,592	39,988
Aluminium prices (USD/t)	2,300	2,400	2,424	2,448
Company assumptions				
Revenue assumptions (% YoY)				
Mirrors	22.7	26.0	15.0	15.0
Wiring Harness	23.3	21.0	28.0	40.0
Polymer Components	149.2	20.0	17.0	15.0
Rubber & Other products	7.2	18.8	28.5	19.8
Cost assumptions				
Variable expenses (% sales)	3.9	4.5	4.6	4.6
Fixed expenses (% sales)	4.2	3.7	3.4	3.1
Financial assumptions (%)				
Avg interest rate (%)	5.1	7.4	7.0	6.0
Avg depreciation rate (%)	7.1	7.0	7.2	7.1
Tax rate (%)	46.0	31.3	30.0	30.0
Dividend payout ratio (%)	39.7	28.8	35.0	35.0
B/s assumptions				
Net borrowings (INR mn)	41,895	30,135	20,906	19,706
Capex (INR mn)	11,389	17,203	11,960	15,620
Inventory days	53.7	55.5	55.1	53.0
Debtors days	42.9	36.7	34.0	34.9
Payable days	101.2	107.3	112.6	101.7
Cash conversion cycle	(4.5)	(15.2)	(23.5)	(13.9)

Income statement *					(INR mn)
Year to March	FY13	FY14	FY15E	FY16E	
Income from operations	253,124	307,210	363,117	432,389	
Materials costs	164,838	193,615	227,464	266,339	
Staff costs	42,827	51,065	58,099	68,317	
SG & A expenses	29,064	33,749	38,620	43,999	
Total operating expenses	236,730	278,429	324,184	378,655	
EBITDA	16,394	28,782	38,933	53,734	
Depre. and amortisation	7,145	8,172	9,338	10,252	
EBIT	9,249	20,610	29,595	43,482	
Interest	2,495	2,944	2,376	1,737	
Non-operational income	3,215	176	999	1,199	
Profit before tax	9,969	17,842	28,217	42,943	
Provision for tax	4,583	5,583	8,465	12,883	
Current taxes	3,835	4,995	8,465	12,883	
Deferred taxes	748	588	-	-	
Adjusted net profit	5,386	12,259	19,752	30,060	
Extraordinary income/(loss)	(879)	(1,292)	-	-	
Profit after tax	4,507	10,967	19,752	30,060	
Minority interest	62	3,317	5,318	7,950	
Profit after minority int.	4,445	7,650	14,434	22,110	
Consolidated PAT	5,324	8,942	14,434	22,110	
Shares outstanding	882	882	882	882	
Earnings per share (EPS)	6.0	10.1	16.4	25.1	
Dilu. shares outstanding	882	882	882	882	
Diluted EPS	6.0	10.1	16.4	25.1	
Cash EPS	17.5	23.6	36.6	51.3	
Dividend per share	2.0	2.5	5.7	8.8	
Dividend payout (%)	39.7	28.8	35.0	35.0	

*Excluding Stoneridge

Common size metrics- as % of net revenues				
Year to March	FY13	FY14	FY15E	FY16E
Operating expenses	93.5	90.6	89.3	87.6
Materials costs	65.1	63.0	62.6	61.6
Staff costs	16.9	16.6	16.0	15.8
SG & A expenses	11.5	11.0	10.6	10.2
Depreciation	2.8	2.7	2.6	2.4
Interest expenditure	1.0	1.0	0.7	0.4
EBITDA margins	6.5	9.4	10.7	12.4
Net profit margins	2.1	2.9	4.0	5.1

Growth metrics (%)				
Year to March	FY13	FY14	FY15E	FY16E
Revenues	71.3	21.4	18.2	19.1
EBITDA	73.8	75.6	35.3	38.0
PBT	83.5	79.0	58.2	52.2
Net profit	30.8	67.9	61.4	53.2
EPS	29.3	67.9	61.4	53.2

Automobiles

Balance sheet *		(INR mn)			
As on 31st March	FY13	FY14	FY15E	FY16E	
Share capital	588	882	882	882	
Revenue and surplus	22,302	28,711	37,259	50,354	
Shareholder fund	22,890	29,592	38,141	51,236	
Minority interest	4,025	7,896	13,214	21,164	
Long term borrowings	35,003	29,834	24,834	22,834	
Short term borrowings	13,553	10,111	9,111	6,111	
Loan funds	48,556	39,946	33,946	28,946	
Deferred tax liability/asset	560	496	497	496	
Sources of funds	76,030	77,931	85,798	101,842	
Tangible assets	50,925	59,956	62,577	67,945	
Intangible assets	1,845	1,845	1,845	1,845	
CWIP (incl. intangible)	3,859	3,859	3,859	3,859	
Total net fixed assets	56,629	65,660	68,281	73,649	
Current investments	717	749	1,249	6,249	
Cash and cash equivalents	5,944	9,062	11,790	2,990	
Inventories	26,036	32,822	35,814	41,462	
Sundry debtors	29,400	32,384	35,317	47,385	
Loans & advances	7,311	9,728	10,943	11,846	
Other assets	1,356	2,035	1,990	2,369	
Total current assets (excash)	64,104	76,969	84,064	103,063	
Trade payable	46,108	67,766	72,623	75,816	
Other curr. lia. and provisions	5,255	6,742	6,964	8,292	
Total curr. lia. & provisions	51,363	74,509	79,587	84,108	
Net current assets (excash)	12,741	2,460	4,477	18,954	
Application of funds	76,030	77,931	85,798	101,842	
BV	26	34	43	58	

*Excluding Stoneridge

Free cash flow				
Year to March	FY13	FY14	FY15E	FY16E
Net profit	4,688	10,967	19,752	30,060
Depreciation	7,145	8,172	9,338	10,252
Deferred tax				
Others	4,046	2,942	2,376	1,737
Gross cash flow	15,879	22,081	31,467	42,049
Less: Changes in WC	1,019	(10,280)	2,016	14,477
Operating cash flow	14,860	32,362	29,450	27,572
Less: Capex	(11,389)	(17,203)	(11,960)	(15,620)
Free cash flow	26,249	49,564	41,410	43,192

Peer comparison valuation

Name	Market cap (USD mn)	PE (x)		P/BV (x)		ROE (%)	
		FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Motherson Sumi	5,232	21.5	14.0	8.1	6.1	42.6	49.5
Amara Raja Batteries	1,329	19.4	16.2	11.5	9.6	26.6	25.9
Bharat Forge	2,494	24.5	19.3	4.7	3.9	20.8	22.1
Exide Industries	2,152	22.6	18.5	13.3	10.7	14.5	15.7
Median		22.0	17.0	9.4	7.6	26.1	28.3
Average		22.1	17.4	9.8	7.9	23.7	24.0

Source: Edelweiss research

Cash flow metrics				
Year to March	FY13	FY14	FY15E	FY16E
Operating cash flow	14,860	32,362	29,450	27,572
Financing cash flow	(2,558)	(13,840)	(14,262)	(15,752)
Investing cash flow	(10,790)	(17,235)	(12,460)	(20,620)
Net cash flow	1,512	1,287	2,729	(8,800)
Capex	11,389	17,203	11,960	15,620
Dividend paid	(2,132)	(2,580)	(5,885)	(9,016)

Profitability & liquidity ratios

Year to March	FY13	FY14	FY15E	FY16E
ROAE (%)	25.6	34.1	42.6	49.5
ROACE (%)	17.1	27.0	37.4	47.6
Inventory days	54	55	55	53
Debtors days	43	37	34	35
Payable days	101	107	113	102
Cash conversion cycle (days)	(5)	(15)	(24)	(14)
Current ratio	1.4	1.2	1.2	1.3
Debt/EBITDA	3.0	1.4	0.9	0.5
Fixed asset turnover (x)	5.3	5.5	5.9	6.6
Debt/Equity	2.1	1.3	0.9	0.6

Operating ratios

Year to March	FY13	FY14	FY15E	FY16E
Total asset turnover	3.5	4.0	4.4	4.6
Net Fixed asset turnover	4.7	5.0	5.4	6.1
Equity turnover	12.2	11.7	10.7	9.7

Valuation parameters

Year to March	FY13	FY14	FY15E	FY16E
EPS (INR)	6.0	10.1	16.4	25.1
Y-o-Y growth (%)	29.3	67.9	61.4	53.2
CEPS (INR)	15.1	23.8	33.0	45.7
Diluted adjusted P/E (x)	58.3	34.7	21.5	14.0
Price/BV (x)	13.6	10.5	8.1	6.1
EV/Sales (x)	2.3	1.9	1.5	1.2
EV/EBITDA (x)	30.1	17.9	12.7	8.9
Dividend yield (%)	0.6	0.7	1.6	2.5

Additional Data

Directors Data

Vivek Chaand Sehgal, Chairman	Non-Executive Director	Maj. Gen. Amarjit Singh (retd.)	Independent Director
Laksh Vaaman Sehgal	Non-Executive Director	S.C. Tripathi, IAS (retd.)	Independent Director
Toshimi Shirakawa	Non-Executive Director	S.P. Talwar	Independent Director
Hideaki Ueshima	Non-Executive Director	Arjun Puri	Independent Director
Pankaj Mittal	Whole-time Director	Gautam Mukherjee	Independent Director

Auditors - Price Waterhouse

Holding – Top10

	Perc. Holding		Perc. Holding
Prudential ICICI Asset	2.33	ICICI Prudential life	1.75
Prudential PLC	1.75	William Blair	1.28
FIL ltd	1.27	Fidelity intern	1.24
FID funds mauritius	1.03	Birla sunlife	0.85
SBI funds	0.68	Columbia mgmt	0.68

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Date	Acquired / Seller	B/S	Qty Traded
02-Apr-14	Samvardhana Motherson International Ltd	B	7,025,000
02-Apr-14	Vivek Chaand Sehgal	S	7,025,000

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Amara Raja Batteries	BUY	None	None	Ashok Leyland	HOLD	SP	H
Bajaj Auto	BUY	SO	L	Eicher Motors	BUY	SO	M
Exide Industries	HOLD	SP	L	Hero MotoCorp	HOLD	SU	H
Mahindra & Mahindra Ltd	BUY	SO	M	Maruti Suzuki India Ltd	BUY	SO	H
Tata Motors Ltd	BUY	SP	H				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Automobiles

Ashok Leyland, Amara Raja Batteries, Bajaj Auto, Eicher Motors, Exide Industries, Hero MotoCorp, Mahindra & Mahindra Ltd, Maruti Suzuki India Ltd, Tata Motors Ltd

Recent Research

Date	Company	Title	Price (INR)	Recos
07-Jul-14	EDEL PULSE: Automobiles	Dealer diary: Discounts push demand; <i>Edel Pulse</i>		
02-Jun-14	Amtek Auto	Sharpening cash flow focus; <i>Visit Note</i>	194	Not Rated
30-May-14	Mahindra & Mahindra	Margin surprise continues; <i>Result Update</i>	1,236	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	149	40	12	202
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	139	57	6	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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