

## THE COMPASS

### Motherson Sumi steps on the accelerator

Q1 results above expectations; strong outlook leads to stock upgrades

RAM PRASAD SAHU

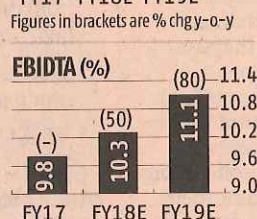
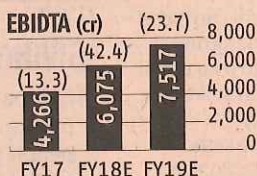
Brokerage upgrades on the back of a strong outlook for its domestic and overseas businesses resulted in the Motherson Sumi stock touching its 52-week high on Monday. Robust growth in the domestic passenger vehicle space and higher content per car as well as the rising order book and commissioning of new plants at its international subsidiaries will help bring in more revenues as well as margins for the firm, a global auto components maker. In addition, the recent acquisition of PKC will be yet another growth driver as it will expand its client base in the commercial vehicle wiring harness space in North America and Europe.

Given the strong order book of ₹13 billion (₹94,000 crore) for its two international subsidiaries as of March, up by about ₹1 billion (₹7,215 crore) since the first half of FY17, analysts expect the overseas subsidiaries to grow their revenues to the tune of 18 per cent annually in FY17-19. Revenues of the two key subsidiaries (SMR and SMP) in the March quarter grew 15-21 per cent year-on-year (y-o-y). Margins for both the rear view mirror business (SMR) as well as the plastic parts (SMP) subsidiary should improve from the current 8-13 per cent trajectory on high automation, relatively lower labour costs in new geographies and continued backward integration. While SMP recorded a lifetime high margin of 8.1 per cent in the March quarter, SMR's margins came in at 12.9 per cent. The kicker to Motherson's consolidated earnings should be greater given that so far these subsidiaries have seen high value but low margins.

The international wiring harness business (PKC) could also see improvement both in its profitability as well as return on capital employed. The management believes that return ratio on this count will double from the current 10 per cent over the next two years. Reduction in gross debt and margin gains (at PKC) should help achieve this target of 20 per cent return on capital employed (ROCE) by FY19, believe analysts at ICICI Securities. ROCE target for the consolidated entity is about 40 per cent.

Revenue growth in the Indian subsidiary on the back of higher volumes came in strong at 19 per cent. While analysts believe the Indian business will grow at similar levels going ahead, the management is more optimistic. It reiterated standalone operations will grow faster than the market given underlying business growth as well as improving share of content per vehicle. ICICI Securities expects earnings per share to grow from the current levels of ₹11.6 (FY17) to ₹26.5 by FY19 and set a target price of ₹521 a share.

### IMPROVING MARGINS



Figures in brackets are % chg y-o-y  
Figures in brackets are chg in basis points  
All figures are for consolidated entity  
E: Estimates Source: Emkay Research

## Stock upgrades

Analysts have raised price targets for key i  
Sensex, Nifty could see another 7-10% rise

PAVAN BURUGULA  
Mumbai, 22 May

Although the benchmark Sensex and Nifty indices have rallied 15 per cent since the beginning of 2017, there could be more room for further upside, going by analysts' projections. In the past one month, index heavyweights such as HDFC Bank, HDFC, Reliance Industries and Hindustan Unilever have seen their consensus 12-month price targets being upped between 10 and 15 per cent. Interestingly, the increase in price target was despite some of these stocks climbing to record highs.

An analysis of consensus price targets for Sensex components indicates an upside of up to 10 per cent in the medium-term for the index. The Sensex on Monday closed at 30,571, having gained 15 per cent since the start of the year and 21 per cent in the past one year.

The sharp gains notwithstanding, analysts see further upside in all Sensex components, barring just six. According to data compiled from Bloomberg, one-year target prices of all the Sensex companies, barring information technology (IT) and pharma sectors, have been upgraded in the past one month. Experts said improving macro-economic indicators, along with a revival in corporate earnings, was the key reason behind the sharp rise in the target prices. Global economic outlook too is supportive, they added.

According to Ridham Desai, managing director, Morgan Stanley India, although the current rally has not been logically driven by an improvement in fundamentals, this rise in Indian stocks was not completely irrational, given the positive outlook. "The growth cycle is turning. This could be the beginning of a new growth cycle. Earnings could compound at 20 per cent over the coming five years. Rising demand for equities from domestic households and potential M&A (merger and acquisition) activity would also push the markets in the coming months," Desai said.



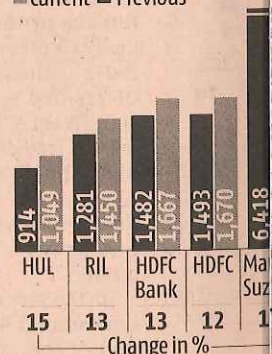
### MORE GAINS A

Analysts expect several inde

### HIGHEST PT UPGRADES

12-month PT (₹)

■ Current ■ Previous\*



Sources: Brokerage reports, NSE, BSE

Not just individual stocks have started to upgrade the benchmark indices. Mo increased its bull-case target

## Sensex rallies for second day as govt sets GST r

AMEYA KARVE  
Mumbai, 22 May

### UPWARD TRAJECTORY

Indian stocks extended a rally, paced by consumer-goods companies, as investors cheered the finalisation of rates for the national sales tax. The benchmark Sensex



NIFTY