



# Motherson Sumi Systems Ltd

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ValuePickr Chintan Baithak - Jun 2019



# Brief Intro

Auto Ancillary company run by Sehgal family.

MSSL was established in 1986 & went public in 1993.

Huge wealth compounder since IPO over decades.

Up 1250% over the last 10 years.

Businesses: Wiring Harnesses. Polymers / Engineered Plastics. Rear view mirrors. Connected Car features (upcoming).



# Auto slowdown worries?

$$\text{Ancillary Content} = \text{Content / Car} \times \# \text{ of Cars}$$

Even if Number of Cars go down, you can still build business by increasing your share of business with your customers.

Business can also grow by adding premium products into the portfolio. Even if number of cars remain constant over decades in developed countries, they premiumize over time.

Can be achieved only if you are top-quality manufacturer.



# Company's Style

Focus on content-per-car

Aggressive growth targets laid out each five years, with excellent track record of achieving it each and every time

MSSL keeps acquiring distressed companies to increase their revenues and later brings the company to 40% ROCE

Acquisition spree not to be confused with Deworsefication as those are driven by customers and they have a good track record of turning around the business

Top line is Vanity. Bottom is Sanity. Cash in bank is Reality.



# Management

## **Positives:**

Target-oriented.

More Numbers. Less Adjectives.

Growth-hungry.

No succession risk.

Competency and Execution skills.

## **Negatives:**

Adamant.

# Capital Efficiency

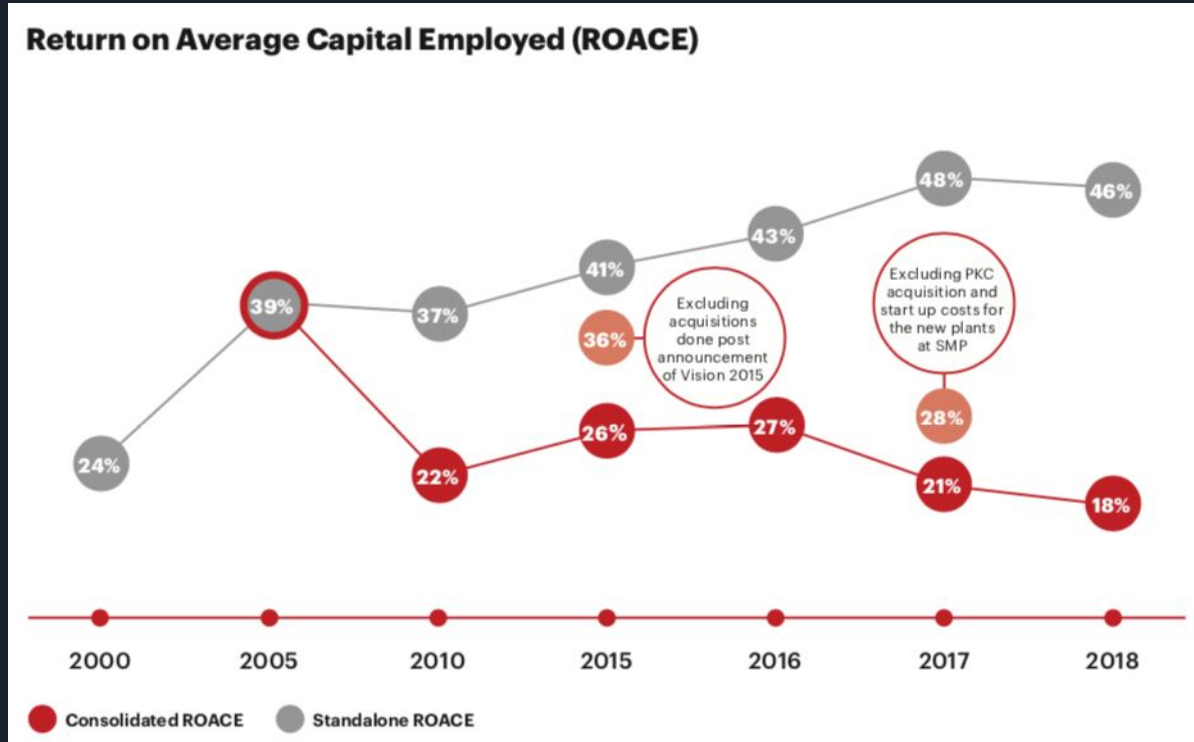


Image taken from Motherson Sumi Systems Ltd Annual Report FY18

# Track Record of achieving five year targets

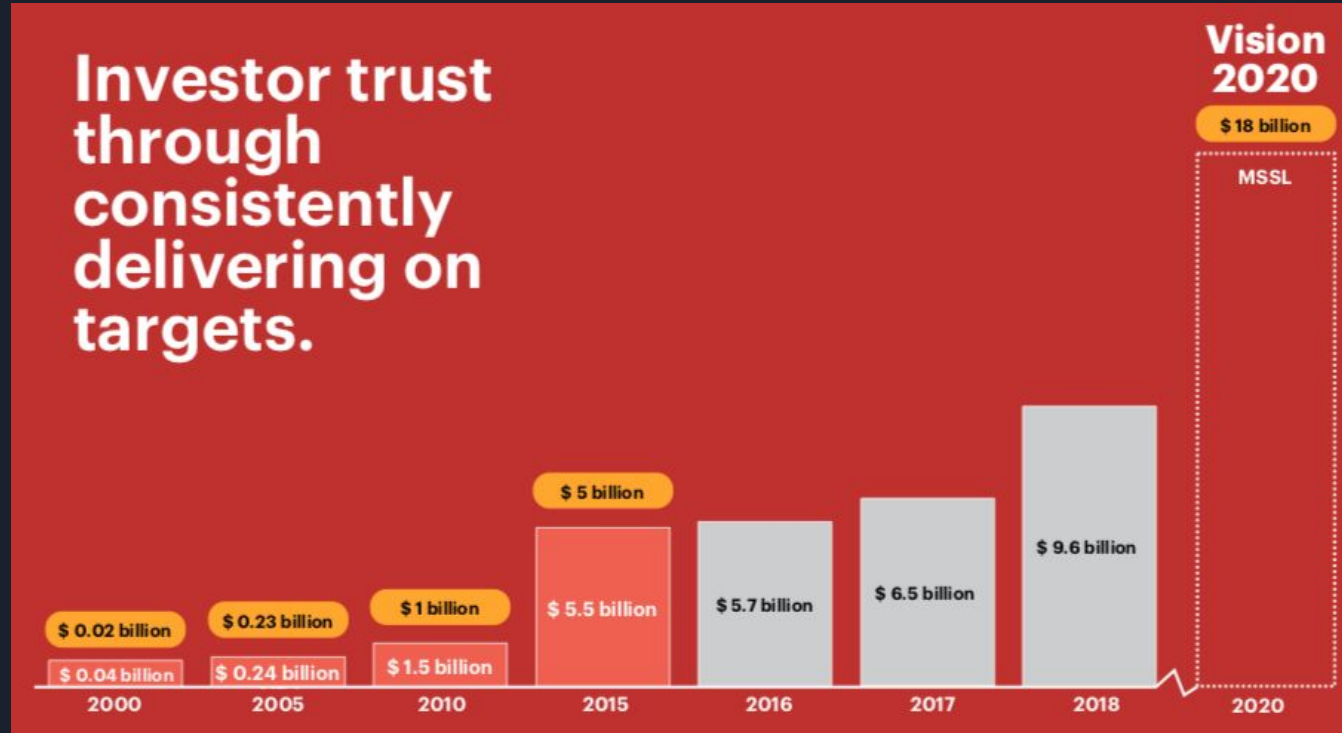


Image taken from Motherson Sumi Systems Ltd Feb19 PPT



## Meta Info

Company is jointly started by Samvardhana Motherson Group (33.43%) and Sumitomo Wiring Systems (25.34%)

Sumitomo Wiring Systems raised their stake in FY17 via pref allotment.

Operates a lot in Europe and North America than India.

More than 50% revenue is from Europe and upto 25% from North America.

Most important components of the business are:

Standalone - Wiring harnesses + Polymers

SMR - Rear View Mirrors

SMP - Polymers + Elastomers

PKC - Wiring harnesses + Rolling Stock



# Subsidiary Holding

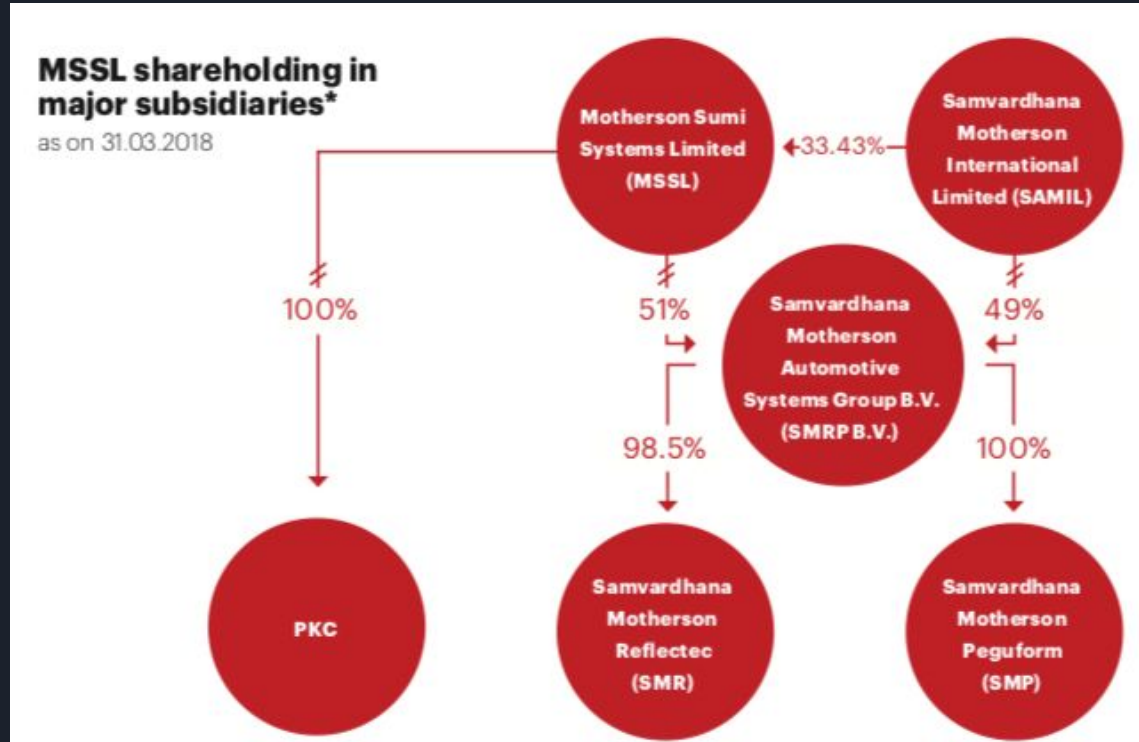


Image taken from Motherhood Sumi Systems Ltd Annual Report FY18



# Prospects of Segments - I

## **Wiring Harnesses:**

Cars are getting more tech-featured. Increasing wire-penetration. BS-VI to increase wiring harnesses penetration in cars by 10-15% and in two wheelers by 2x to 3x.

## **Polymers / Engineered Plastics:**

Cars are becoming more fuel-efficient with time. So steel is being replaced with engineered plastics, which are lighter and stronger. This is happening not just in EVs but also Petrol vehicles.



## Prospects of Segments - II

### **Rear-view Mirrors:**

Not much premiumization going on here. Only observable improvement in sight is replacement of mirror with camera. However, a rear view mirror costs \$70 while a rear view camera costs \$700.

### **Connected Car:**

IOT. Autonomous Driving. Sensors. What not?



# Revenues Breakup

<b>Company (mns)</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Standalone	75812	73084	61418	51656	49198	44737
SMR	131808	118833	115867	100726	98866	90598
SMP	301791	260437	219656	189208	172200	155411
PKC	96430	78738	0	0	0	0
Others	29836	27488	22901	24213	26467	13533
<b>Total</b>	<b>635228</b>	<b>558580</b>	<b>419842</b>	<b>365803</b>	<b>346731</b>	<b>304279</b>



# Standalone

<b>Component (millions)</b>	<b>FY18</b>	<b>FY17</b>	<b>FY16</b>	<b>FY15</b>	<b>FY14</b>
Wiring Harnesses	52289	43647	37104	36043	33634
Modules & Polymers	19840	17008	13988	12681	10708
Rubber / Metal machined	955	763	564	474	395
<b>Total</b>	<b>73084</b>	<b>61418</b>	<b>51656</b>	<b>49198</b>	<b>44737</b>

- Wiring harness division has 34 facilities & Polymer division has 17 facilities
- Polymers constitute injection-moulded components, assemblies, blow moulded components, integrated modules



# SMR

- Rear view vision systems
- 24% global market share of PV exterior rear view mirror in 2016
- 8% global market share of interior mirror market in 2016
- Product Portfolio: Wide spectrum of vehicle and price segments, from low-cost mirrors to highly complex premium mirrors incorporating a variety of electronic features
- 21 manufacturing facilities



# SMP

- Polymer-based interior and exterior products
- Product Portfolio: Door panels, Instrument panels, Bumpers, Other plastic components
- Global market share of 28%, 11% and 20% in door panels, instrument panels and bumpers respectively in 2016
- Focuses on the premium segment
- 27 manufacturing facilities



# PKC

- Recently acquired in FY18
- Wiring Harnesses, Electrical distribution systems, Electronics and related architecture components for CVs
- Leading supplier of wiring harnesses to CVs globally
- Entry into Rolling Stock business





# Revenues Breakup

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# What's been happening recently?

Stock corrected more than 50% since the last 18 months.

Falling margins due to startup costs of three upcoming SMP plants; acquisition of Reydel and PKC; and Amortization of intangibles.

Falling behind in revenue target for FY20 of \$18 Billion USD.  
FY19 Revenues were ~ \$9 Billion USD.



# What's coming next?

Huge acquisition is on the pipeline. Revenues might grow organically from \$9 Billion to \$11 Billion. MSSL would have to acquire a company of size \$7 Billion (revenue terms)

Startup costs of three SMP plants were affecting the margins. They are going to scale up in an year. Expected to contribute over a billion dollars in revenue. Breakup of other expenses show that items like 'Electricity, water & fuel,' 'Repairs and Maintenance,' 'Conversion charges,' 'Freight and Forwarding' have risen a lot in FY18.

BS-VI regulation would improve standalone wiring harnesses sales of the company

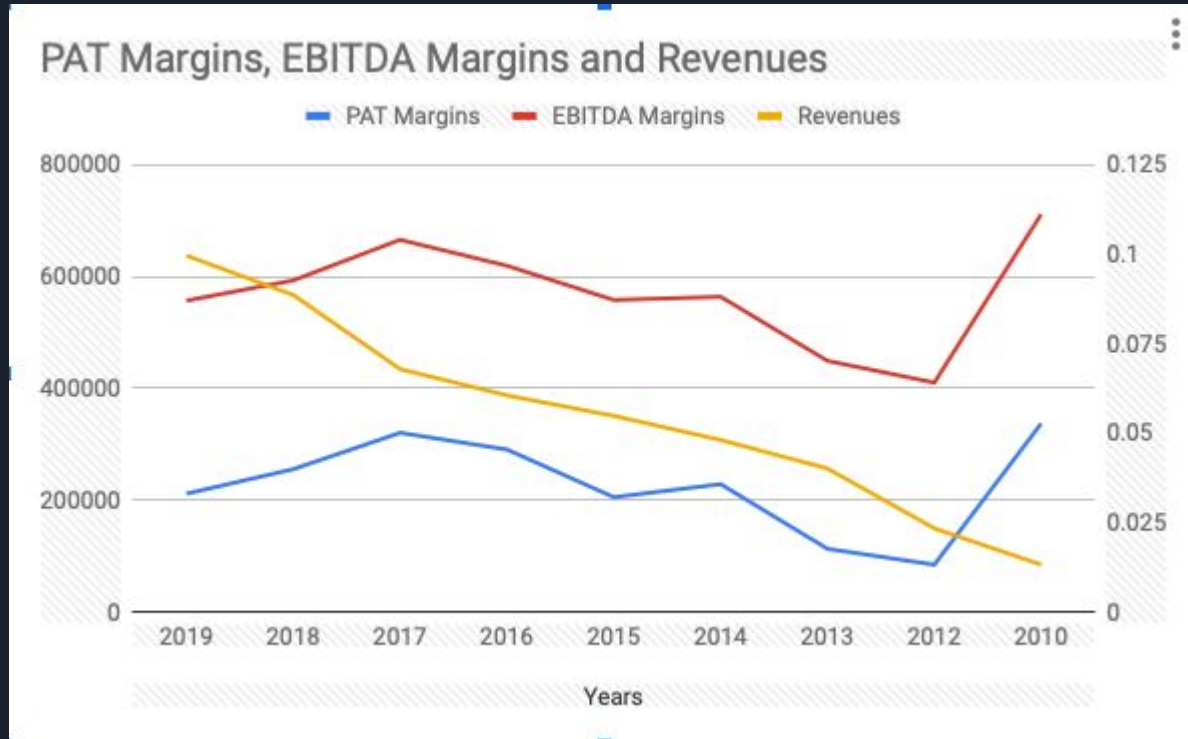


# Margins Analysis

- Following the company's acquisition strategy, one can observe that margins fall after the company does a huge acquisition
- Over time margins expand as the company improves its ROCE
- Visiocrp acquisition in 2009
- Peguform acquisition in 2011
- PKC acquisition in 2017 + Reydel acquisition in 2018
- Larger the acquisition, harder the margins fall

Year	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Margins	3.3%	3.9%	5%	4.5%	3.2%	3.5%	1.7%	1.3%	5.2%	3.2%	8%

# Revenues & PAT Margins





# Confidence on Turnaround of Acquisition

- Strong operations in Standalone and SMR
- All 21 acquisitions were guided by customers
- Improving working capital => Quality of Products / Trust
- Declaring dividend every year (including 2009 & 2011)
- Past acquisitions were segment-focussed

<b>Year</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Inventory Days	26	26	42	39	39	37	55	45	35	80
Receivable Days	36	39	33	31	38	42	74	41	40	81
Payable Days	58	61	52	51	49	45	76	49	68	164



# Past Huge Acquisitions

- SMR reached 40% ROCE in six years
- SMP's ROCE is improving and will get a boost once the USA and Hungary plants reach full production
- PKC PAT Margins rising fast. Up from 2.7% to 4.9% from FY18 to FY19

Year	Company	Sales	EBITDA	Deal Value
FY10	Visiocorp (Euros)	660 Million		25 Million
FY12	Peguform (Euros)	1.37 Billion	66.87 Million	141.5 Million
FY18	PKC (Euros)	846 Million	64.4 Million	571 Million



# Cashflows

Flow (millions)	2018	2017	2016	2015	2014	2013	2012
Profit before tax	34448	31801	23396	18175	15960	8350	4927
D&A	15752	10591	11357	9206	8172	7145	3814
Operating profit before WCC	57755	40760	39773	27414	30144	19541	12040
<b>Cash generated from operations</b>	<b>32640</b>	<b>37997</b>	<b>23109</b>	<b>33897</b>	<b>26950</b>	<b>14860</b>	<b>5888</b>
Capex	-30308	-27789	-20236	-18390	-13517	-10895	-10337
Acquisitions	-1225	-40453	0	-10438	0	0	-10413
<b>Cash used in investing</b>	<b>-31941</b>	<b>-67261</b>	<b>-20024</b>	<b>-28529</b>	<b>-13723</b>	<b>-10790</b>	<b>-20698</b>
<b>Cash from financing</b>	<b>-22214</b>	<b>55176</b>	<b>-2829</b>	<b>4945</b>	<b>-10801</b>	<b>-2558</b>	<b>13800</b>





# Risks

Failed Acquisition

Further Fall in Margins

Severe Auto Slowdown

Complicated Holding Structure

Reputational Damage



# Disclosures

Planning to initiate position in small amounts over the time of an year.

Not a SEBI Registered Analyst.

Not a buy / sell recommendation.

Presenting just for sharing my knowledge.



Thank  
You  
For  
The  
Opportunity