Indbank Merchant Banking Services Ltd (A Subsidiary of Indian Bank)

Motherson Sumi System Ltd.

EQUITY REPORT

September 19th, 2014

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Motherson Sumi Systems Limited (MSSL), the flagship company of the Samvardhana Motherson Group, was established in 1986. It is a joint venture between Samvardhana Motherson Group and Sumitomo Wiring Systems (Japan). The company is a leading global auto component player with presence across 25 countries. The acquisition of Visiocorp in 2009 and Peguform in 2011, has established MSSL as a global Tier-1 supplier to the major OEMs of the automotive industry. With a diverse global customer base comprising of almost all leading automobile manufacturers globally, MSSL is currently the largest auto ancillary in India and also ranked 55th in global auto component suppliers.

Investor's Rationale

Expects ~15-20% revenue growth in FY15 - MSSL has always been well focused in achieving the revenue targets it set for every coming 5 years. Further, the company's management is expecting a growth of ~15-20% in revenue in FY15 along with a 40% return on capital employed on the back of new plants, the company is setting up. MSSL is looking to set up 14 new plants in India, US and Mexico, out of which, production at 3 new plants is likely to begin by Sep-Oct 2014.

Opportunities abound - MSSL currently derives ~75% of its consolidated revenues from India and Europe, however these two geographies account for just ~25% of the global 75 mn car market. The management's recent comments indicate that the next target geography for them is the US and China which would mean that their target market would treble to 75% of the global car market. Setting up of plants in Mexico/China for SMR and SMP and recent acquisition of Stoneridge's wiring harness business US are the initial foundations on which the company is building on, for a much bigger foray into these markets.

Stoneridges' wiring harness business provides synergy benefits - MSSL's latest acquisition of the North American company Stoneridge's wiring harness business would enable it to have an access to the CV segment where it has a miniscule presence. The acquisition will help the company in further solidifying its footprints in the American market. With MSSL's capability of turning around acquisitions and expertise in wiring harness business we see strong traction in revenues and profitability for the wiring harness division.

Inorganic route has been a critical part of MSSL growth strategy - One of the key drivers for the 47.8% 10-year CAGR in consolidated revenues has been the sound acquisition strategy of the company. MSSL's strategy is to acquire assets with high growth potential with their existing customer contracts and relationships. Further, it improves and stabilizes their business through enhanced quality and delivery parameters and engineering support, coupled with its management know-how and experience.

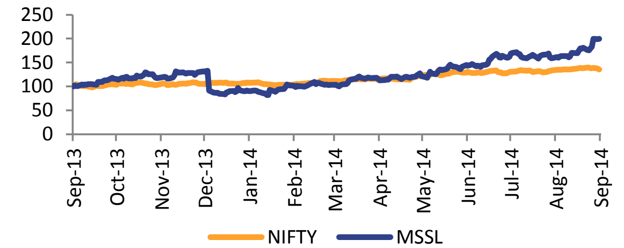
Market Data

Rating	**BUY**
CMP (₹)	414.9
Target (₹)	**485**
Potential Upside	~16.9%
Duration	Long Term
Face Value (₹)	1.0
52 week H/L (₹)	448.0/178.3
Adj. all time High (₹)	436.5
Decline from 52WH (%)	7.4
Rise from 52WL (%)	132.8
Beta	0.4
Mkt. Cap (₹bn)	366.0
Enterprise Value (₹bn)	404.8

Fiscal Year Ended

Y/E	FY13A	FY14A	FY15E	FY16E
Revenue (₹bn)	253.1	304.3	365.1	420.0
EBITDA (₹bn)	14.8	24.0	31.0	35.7
Net Profit (₹bn)	4.5	11.0	16.7	19.7
EPS (₹)	5	8.7	14	16.5
P/E (x)	87.7	51	31.6	26.8
P/BV (x)	17	13.2	9.9	7.6
EV/EBITDA (x)	29	17.9	14	12.4
ROCE (%)	18.2	25.9	27.9	26.1
ROE (%)	19.4	25.9	31.3	28.3

One year Price Chart



Shareholding Pattern	Jun'14	Mar'14	Diff.
Promoters	65.6	65.6	-
FII	15.5	16.9	(1.4)
DII	7.2	7.4	(0.2)
Others	11.7	10.1	1.6

MSSL is a JV between Samvardhana Motherson Group and the Japanese firm, Sumitomo Wiring Systems.

The company is one of the largest manufacturers of wiring harnesses in India, serving the entire cross-section of the automotive industry.

With a presence in 25 countries including India the company provides timely and quality delivery to its customers worldwide.

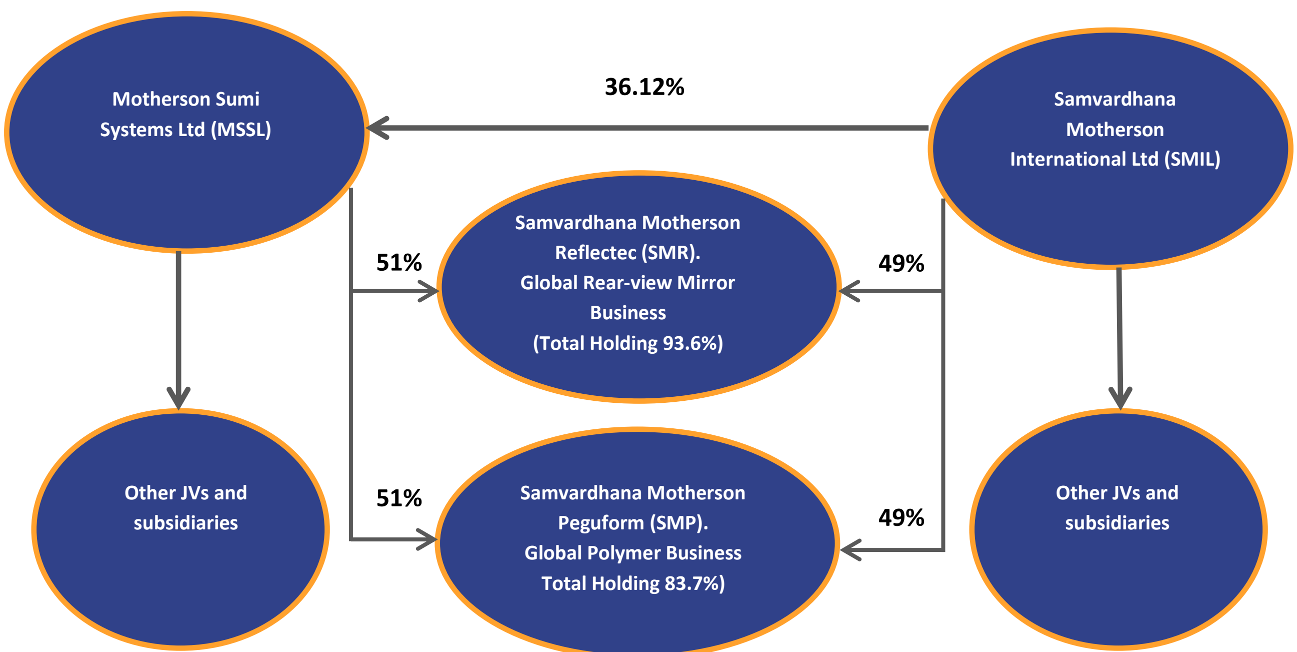
Motherson Sumi Systems Ltd – a world-class supplier of high performance automotive components, modules and systems

Motherson Sumi Systems Ltd (MSSL), established in 1986, is a joint venture (JV) between Samvardhana Motherson Group and Sumitomo Wiring Systems (Japan). MSSL is a leading automotive mirror and wiring harness manufacturer for passenger cars. The wiring harness division of MSSL is one of the largest manufacturers of wiring harnesses in India, serving the entire cross-section of the automotive industry. MSSL also supplies wiring harnesses to Material Handling, Earth Moving and Farm Equipment, White Goods & Electronics, Elevators, Office Automation and Medical Equipment industries. The company also offers a range of products in the fields of electrical distribution systems, plastic molding, elastomers processing, tooling, metal machining, automotive rear view mirrors and integrated modules.

Over the years MSSL has collaborated with global technology leaders and has further leveraged its competency in existing areas to create products fulfilling the technical needs of its customers. The acquisition of mirror business from Visiocorp [now renamed as Samvardhana Motherson Reflectec (SMR)] and Peguform [now named Samvardhana Motherson Peguform (SMP)] has helped MSSL evolve as one of the world's leading manufacturers of automotive rear view mirrors and a leading manufacturers of instrument panels, bumpers and door trims in Europe.

MSSL provides a range of services from design to manufacturing, supplies to logistics to its customers in India and abroad. The company as a supply partner provides complete solutions to their customers right from product design to mass supplies. With a presence in 25 countries including India (Noida , Gurgaon, Manesar, Faridabad , Pune, Bengaluru, Chennai, Kandla, Pathredi, Tapukara, Lucknow & Puducherry), MSSL has manufacturing bases across six continents - Asia, Europe, North America, South America, Africa & Australia to support its customers.

MSSL's shareholding in major subsidiaries



**As on 31st March 2014.*

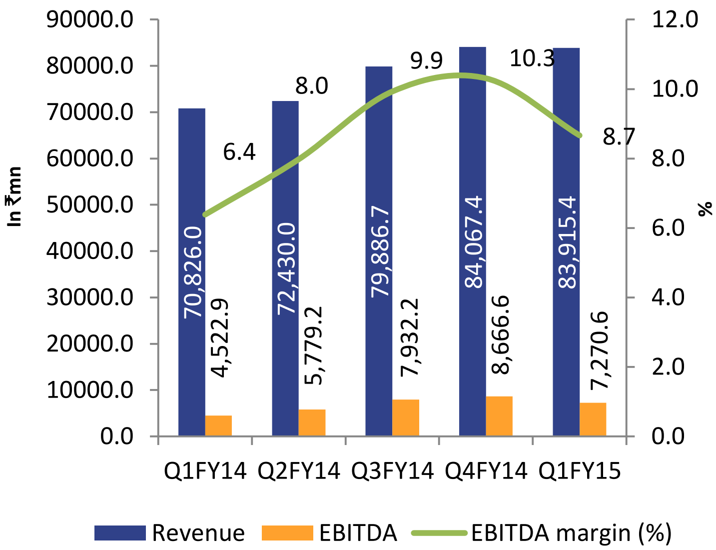
Q1FY15 - a robust quarter; bright outlook maintained

The company registered a growth of 18.5% YoY in its consolidated revenues, primarily on account of healthy growth in revenues from the domestic and international business.

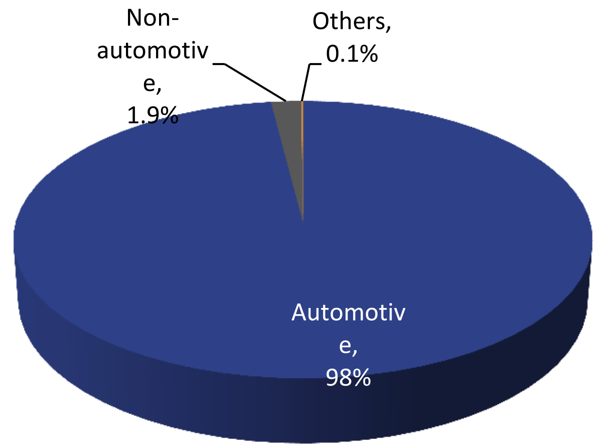
MSSL showcased a set of good numbers for the quarter ended June 2014, wherein its total consolidated revenue grew by 18.5% YoY and PAT reported a triple digit growth, up by 123.7% YoY; and the growth in SMR and SMP revenues was much healthier than expected. The mirror division, SMR registered a strong revenue growth of 13% YoY at €1.12 bn, while the polymer division, SMP posted a revenue growth of 5% YoY across all products, regions and key customers, with a turnover of €1.9 bn. Driven by robust operational improvement in its various business units, consolidated operating margins for the company improved to 8.7% (+228bps YoY) as against 6.4% in the same period a year ago.

Net sales grew decently; EBITDA margin continued to improve: MSSL witnessed a growth of 18.5% YoY in its net sales at ₹82,964.3 mn in Q1FY15 on the back of 20.1% YoY growth in revenues from outside India at ₹70,481.1 mn as against ₹58,676 mn in the same period a year ago. Revenue from domestic business grew by 9.0% YoY to ₹12,483.2 mn in Q1FY15. Further, revenue from its major segment i.e. automotive business grew by 18.7% YoY to ₹82,277.5 mn, while non-automotive business posted an 8.5% YoY increase at ₹1,579.5 mn. Other unallocated segments grew by 26.4% YoY to ₹58.4 mn.Moving ahead, MSSL reported a 60.8% YoY growth in EBITDA at ₹7,270.6 mn which resulted in a 228bps YoY increase in EBITDA margin at 8.7%.

Quarterly revenue & EBITDA growth trend



Segment-wise income contribution in Q1FY15



With a healthy growth in other income by 15% YoY at ₹49.1 bn, the company posted a triple digit growth in its consolidated net profit at ₹1,637.3 mn, up by 123.7% YoY, in Q1FY15.

Net profit saw a triple-digit growth, grew by 123.7% YoY: In line with better operational performance, MSSL saw a massive rise in its consolidated net profit at ₹1,637.3 mn, up by 123.7% YoY, led by a 15% YoY increase in other income at ₹49.1 bn and was further supported by a decline in interest cost by 19% YoY to ₹620.5%.

As per the company's management, the consistent growth across all divisions and product-line even in current sluggish market is due to strong global presence, diversified product portfolio and trust built among its customers which is expected to further create opportunity on revival of market conditions.

We expect the company to continue the growth trajectory, as the company is very well focused on expanding its capacities in international business which contributed ~85% to the total revenue in Q1FY15.

SMP's growth in sales in FY14 was mainly supported by increase in revenue from Europe, which remain the major contributor to turnover with 81% share.

SMP's capacity expansion initiatives, undertaken in FY14, in its plants in Latin America, Spain, China, Germany etc. will start yielding results in a quarter or too.

SMR reported a 13% growth in revenues at Euro 1.12 bn in FY14, led by a significant increase in sales across all geographical locations.

Going ahead, new plants capacity utilization and the in-sourcing opportunities would remain a key for the margin improvement at SMR.

SMP to sustain growth trajectory

With annual sales of €1.9 bn as in FY14 (+5% from FY13), Samvardhana Motherson Peguform (SMP) is the largest subsidiary of MSSL. The growth in sales in FY14 was mainly supported by increase in revenue from Europe, which remains the major contributor to turnover with 81% share. Revenue contribution from China stood at 11% while South America accounted for 8%. The company's consistent efforts to reduce costs reflected in improvement in margins in FY14. EBITDA stood at ₹8,466 mn (€104 mn) with EBITDA margins at 5.4% as against 3.8% in FY13. The division gained strategic support from customers through improvement of global supply footprint, investment in new technologies and increase of capacities and modernization. SMP has production facilities and engineering centers in 7 countries across the globe. The subsidiary specializes in developing, producing and distributing Polymer interior and exterior systems for the global automotive market. With a portfolio of +300 patents, SMP enjoys ~18% market share of the European premium bumpers market, 9% market share of the European premium instrument panels market and 23% market share of the European premium door panels market as assessed by the company. In order to expand its customer base across the globe, SMP is currently in the process of expanding business base in China, Brazil and North America (including Mexico).

SMP's capacity expansion initiatives, undertaken in FY14, in its plants in Latin America, Spain, China, Germany etc. will start yielding results in a quarter or two. Thus, we believe, the contribution to total revenue will increase significantly which consequently will improve its overall revenue-base.

SMR delivered strong results; recorded substantial improvement in profitability

The company's subsidiary, Samvardhana Motherson Reflectec (SMR) constituted ~30% share of the total business portfolio of MSSL in FY14 and is one of the largest suppliers of rear view mirrors to automotive OEMS (including Hyundai Kia, Ford, General Motors, PSA, Renault/Nissan, Suzuki, Fiat, Toyota, Tata JLR, Volvo, BMW, Daimler and Volkswagen). The company enjoys ~22% market share of the total global exterior mirror sales and has production facilities and engineering centers in 14 countries across the globe. SMR reported a significant increase in sales across all geographical locations, with a 13% YoY growth in revenues at ₹90,690 mn (€1.12 bn) in FY14. During the year, Europe remained the major contributor to total sales and accounted for 47% of revenues. Revenue contribution from other geographies include; Asia Pacific 34% (including India 3.6%) and Americas 19%. All the new plants of Hungary, Brazil and Thailand reported high utilization levels and led to the healthy revenue growth. Ramp up of these new facilities and the in-sourcing opportunities continued to reflect in EBITDA margins. The company saw a 93% uptick in EBITDA at ₹8,698 mn (€107 mn) with a growth of 9.6% in EBITDA margin. The profitability improved substantially with stabilization of operations at new facilities set up during previous year. PAT grew by 311% YoY at Rs. 1,167 mn (Euro 27 mn).

Going ahead, new plants capacity utilization and the in-sourcing opportunities would remain a key for the margin improvement. The company is also significantly increasing capacities in China and expects to double production volumes and increase market share significantly within the next 3-4 years, which would also drive the company's revenues.

Eyes ~15-20% growth in revenue in FY15; Insourcing, vertical integration and higher utilization to drive ROCE

Having achieved its revenue target of USD 5 bn for FY15 in advance (in FY14), MSSL is looking forward to ~15-20% growth in revenues in FY15 on the back of its plans to set up 14 new

MSSL is looking forward to a ~15-20% growth in revenues in FY15 on the back of its plans to set up 14 new plants in India, US and Mexico.

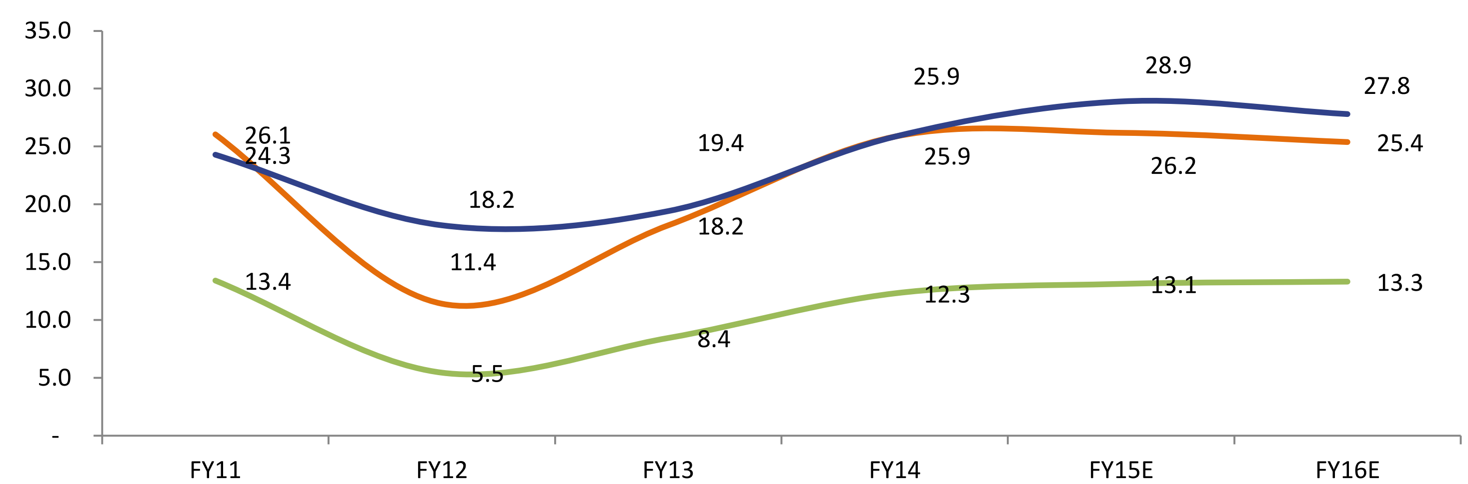
The company is also eyeing its ROCE to reach 40% in FY15 from 25.9% in FY14.

plants in India, the US and Mexico, out of which production in three plants may start by Sep-Oct 2014. The company is also eyeing its ROCE to reach ~40% in FY15 from 25.9% in FY14. In our view, the target ROCE would be driven by cost reduction from insourcing, vertical integration and also from higher plant utilizations. Two of the company's major subsidiaries, SMR and SMP are well focused on streamlining there operations, in order to see an improved performance in FY15. At SMR, the utilization levels of new plants in Hungary, Brazil and Thailand have inched up. Its strategy of focusing on vertical integration of selective high potential items, like glass, actuators and wiring harnesses has started giving cost advantage and competitive edge to the business. SMP, acquired in 2011, is focused on streamlining of operations, restructuring of manufacturing facilities in stress, rationalization of cost at other facilities, upgrading of facilities and focusing on removing inefficiencies from the system, improving the operating cash flow, restructuring of management and identifying opportunities for vertical Integration.

Besides, in the wiring harness business, MSSL's main business, new plants established in previous year in Mexico and Thailand have started contributing to revenue. At the group level, the company tries to source raw-materials and inputs from within MSSL wherever possible, so that cost can be reduced to some extent.

After the company has successfully achieved the target set five years back, We believe its target for the next five years ending 2020 (due for announcement next year), could again take the market by surprise as the company aims at becoming a global ancillary supplier of significantly scale.

Return Ratio Trend (%)



Prospects of wiring harness business seems brighter

The company's exports from India recorded a growth of 26% on standalone basis and 19% on consolidated basis.

MSSL is a leading supplier of wiring harnesses to nearly all OEMs in India and together with its JVs it enjoys more than 65% market share of the passenger car segment in India. Manufacturing of wiring harnesses (the assembly of wires that transmit signals or electrical power in a vehicle) is the main business of the company. The comprehensive design capabilities from the vehicle designing stage and extensive product portfolio facilitate continuous gain of market share and rapid growth in revenues. With over 40 manufacturing facilities and 7 design centers across India, UAE, Ireland, Sri Lanka, Italy, Japan, UK, Mexico, Thailand and South Korea, the company's exports from India recorded a growth of 26%

on standalone basis and 19% on consolidated basis (including sale of wiring harness of ₹1.7 bn to various locations of SMR) mainly driven by expanded customer base. The total sale of wiring harness outside India on a consolidated basis registered a growth of 2% at ₹6.42 bn mainly on account of increase in demand from existing and new customers. The prospects of the segment remain encouraging with increasing demand for more features and functionality in vehicles which is a striving force for change in the traditional electrical distribution system in cars.

Revenue trend of MSSL's wiring harness division

(In ₹mn)	FY11	FY12	FY13	FY14
Revenue from customers within India	21,677	26,110	32,240	32,788
% of net sales	*87.1*	*85.5*	*85.6*	*83.6*
Revenue from customers outside India	3,205	4,430	5,411	6,420
% of net sales	*12.9*	*14.5*	*14.4*	*16.4*
Total Wiring Harness	24,882	30,540	37,651	39,209

Stoneridge's acquisition to strengthen footprints in North America

The acquisition of the wiring harness business of Stoneridge Inc. would give MSSL access to the CV segment where it has a miniscule presence.

In a move to get a strong foothold in the US market, MSSL has acquired the Wiring harness business of North America based Stoneridge Inc. through asset purchase at transaction value of USD 65.7 mn. The company closed the deal in August 2014. Stoneridge's Wiring Business designs and manufactures wiring harness products for sale principally to the commercial, agricultural and off highway vehicle markets, as well as assembles entire instrument panels that are configured specifically to an OEM customer's specifications in the commercial vehicle market. The acquisition would give MSSL access to the CV segment where it has a miniscule presence. The transaction comprises six manufacturing facilities located in Portland, Indiana (USA); Chihuahua, Mexico; Saltillo, Mexico; and Monclova, Mexico; as well as an engineering and administrative center located in Warren, Ohio. The addition of these manufacturing facilities would enable MSSL to service the growing requirement of the customers in the region. With this acquisition, MSSL now has over 45 plants related to wiring harness business. The transaction will allow MSSL to further strengthen its footprint in American market by building upon existing knowledge and customer relationships that the acquired business has in the region.

Eyes a Capex of ~₹9-11 bn in FY15

MSSL has incurred significant capex of ₹13.5 bn in FY14 (₹10.9 bn in FY13) at consolidated level to enhance its capacity at Germany, the USA, China, Thailand, South Africa, Mexico, India and Spain.

The company is planning to spend ~₹9-11 bn at a consolidated level in FY15. MSSL has incurred significant capex of ₹13.5 bn in FY14 (₹10.9 bn in FY13) at consolidated level to enhance its capacity at Germany, the USA, China, Thailand, South Africa, Mexico, India and Spain. Major portion of this expenditure has been financed through internal sources. MSSL's motive is to focus on utilizing global capabilities in order to achieve new heights in terms of growth with optimal capital outlay. At SMP, capex spend stood at €43 mn in FY14 as compared to €60 mn in FY13. The ramp-up of commercial production and supplies at Tapukara and Chennai has started during the year, whereas the ramp up capcities at Foshan (China) and Durban (South Africa), will be commenced during 2014-15. Also construction of new plants and expansion is in progress at Schierling & Bötzingen (Germany), Polinya (Spain) and Sanand (India). Capex spend at SMR, stood at €38 mn in FY14 as compared to €42 mn in FY13. SMR has started commercial production and supplies from new facilities and additional capacities in Langfang (China), Yancheng (China), Mexico, Spain and Korea for mirror manufacturing and vertical integration. Further, construction of new plants and expansion is in progress at the USA, China, India, Thailand and France.

Balance Sheet (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Share Capital	588.0	882.0	882.0	882.0
Reserve and surplus	22,302.0	28,711.0	38,490.9	50,497.3
Net Worth	**22,890**	**29,593**	**39,372.9**	**51379.3**
Minority Interest	4,025.0	7,896.0	12,230.8	17,347.9
Total debt	40,712.0	39,945.0	41,412.5	43,154.6
Provisions	5,255.0	6,742.0	7,518.4	8,646.1
Deferred tax liability (net)	1,441.0	1,680.0	1,680.0	1,680.0
Other liabilities	53952.0	67767.0	71415.3	75393.0
Toatl equity and liabilities	**67,187.0**	**80,555.0**	**93,244.0**	**108,145.6**
Fixed assets	56,629.0	65,660.0	77,478.8	89,100.6
Investments	716.0	749.0	4,691.0	5,629.2
Deferred tax assets (net)	882.0	1,184.0	1,480.0	1,850.0
Loans	7,215.0	9,728.0	10,652.3	11,644.4
Cash&Cash eq.	5,944.0	9,061.0	9,061.0	9,061.0
Other assets	56,889.0	67,241.0	79,005.7	92,915.2
Total assets	**67,187.0**	**80,555.0**	**93,244.0**	**108,145.6**

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY13A	FY14A	FY15E	FY16E
Operating revenue	**253,124.0**	**304,279.0**	**365,134.8**	**419,905.0**
Expenses	238,357.0	280,308.0	334,098.3	384,213.1
EBITDA	**14,767.0**	**23,971.0**	**31,036.5**	**35,691.9**
Other Income	3,215.0	3,106.0	3,106.0	3,106.0
Depreciation	7,145.0	8,172.0	8,989.2	9,888.1
EBIT	**10,837.0**	**18,905.0**	**25,153.3**	**28,909.8**
Interest	2,495.0	2,943.0	3,237.3	3,722.9
Profit Before Tax	**8,342.0**	**15,962.0**	**21,916.0**	**25,186.9**
Tax	3,835.0	4,994.0	5,243.7	5,505.9
Minority Int	70.0	3,316.0	4,334.8	5,117.1
Share of Profit/loss of asso.	8.0	(2.0)	-	-
Net Profit	**4,507.0**	**10,968.0**	**16,672.3**	**19,681.0**

Key Ratios (Consolidated)

Y/E	FY13A	FY14A	FY15E	FY16E
EBITDA Margin (%)	5.8	7.9	8.5	8.5
EBIT Margin (%)	4.3	6.2	6.9	6.9
NPM (%)	1.8	2.5	3.4	3.5
ROCE (%)	18.2	25.9	27.9	26.1
ROE (%)	19.4	25.9	31.3	28.3
EPS (₹)	5.0	8.7	14.0	16.5
P/E (x)	87.7	51.0	31.6	26.8
BVPS (₹)	26.0	33.6	44.6	58.3
P/BVPS (x)	17.0	13.2	9.9	7.6
EV/Net sales (x)	1.7	1.4	1.2	1.1
EV/EBITDA (x)	29.0	17.9	14.0	12.4

Valuation and view

MSSL's performance remained healthy in FY14 in terms of revenue as well as profitability. While revenues saw an uptick by ~20.2% YoY, net profit surged ~72.1% YoY during the fiscal year. The company has recently acquired the wiring harness business of Stoneridge having a turnover of ~USD 300 mn from six manufacturing facilities in Americas. This is by far the largest acquisition for the core business of wiring harnesses which will further strengthen presence in North America where it has in recent past established wiring harness operations. Further, MSSL is undergoing capacity expansion across most of its facilities across the globe, which strengthens its prospects for the near-future. By 2020, we expect MSSL to become a player with extended reach in Americas and Asia. Looking at the company's efforts in enhancing its operations across the globe, the future prospects seems quite prosmising.

Considering the above aspects, we rate the stock as 'BUY' at a current CMP of ₹414.9, attractively placed at P/BVPS of ~9.9x and ~7.6x, for FY15E and FY16E, respectively to arrive at a target price of ₹485, with a potential upside of ~16.9% for the coming 12 months.

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