

Background & Business

MSSL is an auto ancillary company engaged in manufacturing of wiring harness, mirrors, polymers, modules, metal components, manufacturing support solutions and providing IT, engineering and design solutions. MSSL has over 180 manufacturing plants in 33 countries across all six continents. As per FY17 Annual Report, MSSL has 137 subsidiaries (direct + indirect), 6 JVs and 1 associate. MSSL is JV between Samvardhana Motherson International Ltd (SMIL) and Sumitomo Wiring Systems Ltd (SWS), Japan. SMIL is principal holding company of the group and owns 34.81% stake in MSSL as on 30th June, 2017. SWS, 100% subsidiary of Sumitomo Electric Industries (Japan) owns 25.10% stake in MSSL through a JV, set up in 1986.

Investment Thesis

MSSL has one of the most compelling propositions due to various factors –

- Diversified revenue profile** (derives only 14% of consolidated revenues – Q1FY18 from standalone business & 86% from subsidiaries - SMP (45%), SMR (21%), PKC (13%) & others (7%). Only 12% of MSSL's consolidated revenues are from India with rest coming from plants in 33 countries. Revenue concentration from customers is low with top 3 customers contributing <50% to total revenues & rest in single digits. Management's stated policy that no single customer, country or component to contribute >15% of revenues; is a step in right direction for insulating business across vagaries of business cycles).
- Increasing share of OEM wallet** (MSSL has made great strides in terms of increasing content per car 3xs in 5yrs, growing market share in its product segments & steady outperformance w.r.t. auto sector).
- Structural growth factors** (MSSL with well-diversified revenue base & strong relationship with global OEMs will continue to benefit from i) increased outsourcing by OEMs ii) Vendor consolidation as OEMs move towards lesser supplier model to cut costs, iii) higher content per vehicle driven by regulation & consumer aspirations).
- Exemplary track record amidst in-organic led growth** (Management, since year 2000 has been announcing 5yr targets & roadmap. Track record has been exemplary; indeed what makes it special is that targets are not just for size & growth but across range of well thought financial parameters such as focus on high return metrics, which reflects their ethos of financial prudence & balance sheet discipline. It also has track record of acquiring companies of significant size if it deems fit & successfully turning them around).
- PKC acquisition to propel position in CV wiring harness segment** (acquisition of the Finnish entity in Jan2017 for €571mn, funded entirely through internal accruals & proceeds from QIP, will open up truck wiring harness segment for MSSL in North America. It will also open up possibilities of extending the product range to cockpits, bumpers; thereby leading to significant synergies and cross-selling between MSSL and PKC).
- Low cost of debt demonstrates strong investor confidence** During Q1FY18, MSSL (through SMRPBV) replaced its debt worth €500mn raised at 4.125% with Senior Secured Notes (SSNs) worth €300mn at 1.8%, making it one of the lowest cost debt ever raised by an Indian corporate abroad).

From : 06-03-2014
To : 31-08-2017
Performance : 195%
Recommendation : OPEN



Outlook

MSSL's business complexion has changed drastically in last 5yrs from being a domestic auto ancillary vendor specializing in wiring harness to a complete auto solutions provider with majority of revenues from overseas businesses. We have strong conviction for MSSL's business momentum to be sustained; given its robust order book at key subsidiaries – SMR & SMP that account for >50% of consolidated EBIT along with steady EBITDA margin improvement led by operational cost efficiencies & execution of higher margin orders, continued focus on increasing content supplied per car & managements' proven past track record of delivering ahead of its guidance. Increasing content per car, entry into new geographies & new launches/facelifts by customers will continue to benefit MSSL over medium to long term.



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