5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

MOTHERSON SUMI SYSTEMS

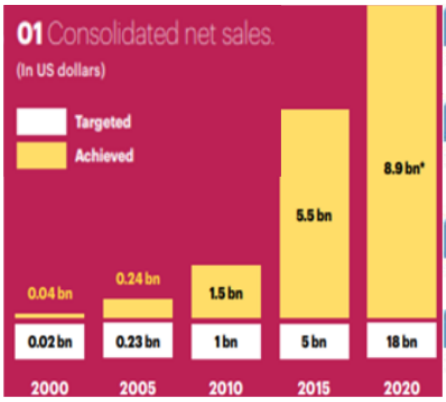
WHAT WE LIKE

VIVEK SEHGAL: INTELLIGENT FANATIC
Started the Samvardhana Motherson group in 1975 with his mother (**that's how the name Mother & Son = Motherson**). In 1986, the group formed Motherson Sumi Systems, as a joint venture with Japan's Sumitomo Wiring Systems (SWS). **MSS today is a leading automotive component manufacturer with strong global market position across many segments. Acquisitions have been the way to go for Vivek Sehgal and his company with 22 deals completed in the last 17 years.**

MAJOR ACQUISITIONS AT ATTRACTIVE VALUATIONS
Sehgal & his team typically evaluates an M&A opportunity only if his customer(s) asks him to do so. **Some of the group's best acquisitions are:**

YEAR	Target	Business Vertical	Deal Valn (Price/Sales)
2009	Visiocorp (SMR)	Rear View Mirrors	0.04
2011	Peguform (SMP)	Interior & exterior Polymer Modules	0.08
2017	PKC Group	Wiring Harness	0.67
2018	Reydel	Interior & exterior Polymer Modules	0.20

GREAT TRACK RECORD OF REACHING 5 YEAR TARGETS & AMBITIOUS 5 YEAR PLANS



No 1 REVENUES & ROCE
- USD 36 Billion Revenues in 2024-25 with 40% ROCE

No 2 DIVERSIFY (3CX10)
- No Country, Customer or Component should contribute more than 10% of Revenues

No 3 NEW DIVISION GROWTH
- 75% from Automotives & 25% from New Divisions

No 4 CAPITAL RETURN
- 40% of consolidated profit as dividend

PRODUCT PORTFOLIO: AGNOSTIC TO PROSPECTIVE TRANSITION TOWARDS ELECTRIC MOBILITY
Aided by its in-house product development capabilities and technical collaborations (Sumitomo Wiring Systems Ltd. for wiring harness), **MSSL has a strong presence in all markets they cater. Transition to electric vehicle will open up even more opportunities for MSSL going forward.**

WHAT WE DON'T LIKE

RISKS RELATED TO ACQUISITION LED GROWTH
To achieve its ambitious revenue target of $36 Billion for 2025, MSS may **become aggressive** in its pursuit of new acquisitions. This may lead to a strain in the financial health. Also, **we at SSS believe, that often a hurried acquisition does not fit into a company's culture, the pain of which is felt only years later.**

COMPLEX STRUCTURE
Due to the acquisition led growth, the structure of the company has been very complex. This increases the operational redundancies and makes it harder to value the company properly. and In fact, SWS wants to be a part of only the wiring harness entity and has asked for simplification of the holding structure. Post restructuring:
- Domestic Wiring Harness Business will be demerged into a new company DWH
- SAMIL (The international arm) will be merged in to MSS

EXPOSED TO CYCLICAL GLOBAL AUTO MARKET
MSS derives roughly half of its revenue from Europe. **Around 65-70% of the revenue is dependent upon European OEMs. Hence, it remains exposed to cyclicality across global automotive market.** The past couple of years has been very sluggish in terms of demand. It remains to be seen if the recent pickup is a sustainable one or only derived by pent-up demand.

HIGHLY LEVERAGED BALANCE SHEET
Since 2012, **the Balance Sheet has taken up a lot of leverage over the years due to large sized acquisitions.** And going forward too, it looks like debt on the Balance Sheet will remain significantly high. **Hence, any slowdown or a calamity like COVID-19 can be a big dampener to their sustenance or growth prospects.** As on September, 2020, **Debt Equity is almost 1.5** times and **Interest Coverage Ratio of less than 2 times.**

DIFFICULT COMPANY TO VALUE
With such a complex structure, it is almost impossible to project earnings and cashflows going forward for MSS. The only tool (which is not perfect) available is Price/Sales ratio. Over the last several years MSS has traded @ **P/S between 0.3 and 1.4. If we compare CMP and FY20 Sales, this figure comes to 0.8 times. And that is not attractive.**