

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 170 manufacturing plants in 25 countries across all habitable continents. As per FY16 Annual Report, the group comprises of MSSL and its directly and indirectly held 95 subsidiaries (including step-down subsidiaries), 9 JVs and 1 associate. MSSL is a 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 31st December, 2016). SWS, 100% subsidiary of Sumitomo Electric Industries (Japan) owns 25.10% stake in MSSL through a JV which was set up in 1986.

Investment Thesis

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

- a) **Diversified revenue profile** (MSSL derives only 15% of consolidated revenues (9MFY17) from standalone business and 85% from subsidiaries which include SMP (52%), SMR (27%) and others. Less than 15% of consolidated revenues are from India with rest coming from plants across 24 countries. Revenue concentration from customers is low with top 3 customers contributing less than 50% to total revenues and the rest contributing in single digits. Management's stated policy that no single customer, single country or single component to contribute over 15% of revenues; is a step in the right direction for insulating the business across vagaries of business cycles).
- b) **Increasing share of OEM wallet** (MSSL has made great strides in terms of increasing content per car – 3 times in 5 years, growing market share in its product segments and steady outperformance w.r.t. auto sector).
- c) **Structural growth factors** (MSSL with its well-diversified revenue base and 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 and consumer aspirations).
- d) **Exemplary track record amidst in-organic led growth** (The management, since year 2000 has been announcing 5-year targets and roadmap. The track record has been exemplary; indeed what makes it special is that targets are not just for size and growth but across a range of well thought financial parameters such as focus on high return metrics, which reflects their ethos of financial prudence and balance sheet discipline. It also has a track record of acquiring companies of significant size if it deems fit and successfully turning them around).

Outlook

We have strong reasons to believe that the growth story of MSSL as a global Tier-1 auto ancillary company is yet to unfold. The company's business complexion has changed drastically in the last 5 years from being a domestic auto ancillary vendor specializing in wiring harness to a complete auto solutions provider with more than 60% 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 over 70% of consolidated net profits along with steady core EBITDA margin improvement led by operational cost efficiencies and execution of higher margin orders, continued focus on increasing content supplied per car and managements' proven past track record of delivering ahead of its guidance. MSSL forms part of our top conviction investment ideas. We have high levels of confidence in the business model and management's ability to continue to deliver going forward. In our opinion, the next 3-5 years could see shareholder wealth creation surpassing all past records.



From : 06-03-2014
To : 28-02-2017
Performance : 120%
Recommendation : OPEN



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