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India Auto Component Industry
In a sweet spot

Favorable Domestic Macro

Increase in content driven by

- Rising premiumisation
- EV transition
- Govt. regulatory mandate

Favorable Global Trends

- India a beneficiary of Global supply change derisking
- Increase in content driven by EV transition and premiumisation

Govt. Policy Support

- FAME subsidy driving EV transition
- PLI Scheme to boost EV investments
- PLI Scheme to push localization of high tech components

Inherent Advantage

- Low Cost
- Engg Talent
- Imrpoving R&D skills

Auto Component Industry

In a sweet spot

The domestic auto component industry appears to be in a sweet spot as several tailwinds collude to drive a sustainable long term growth opportunity which include: 1) Indian component industry emerging as one of the beneficiaries of the supply chain derisking strategy by global OEMs post continued supply chain disruptions over the last 3-4 years 2) outperformance to core likely to sustain going forward driven by rising content led by premiumization and EV transition 3) favorable Government policies advocating "Make In India" 4) India emerging as an auto hub for global OEMs. On the back of these tailwinds and its inherent core strengths (global quality at low cost + improving R&D skills), the auto component industry is expected to invest around USD 6.5-7bn over next 5 years, which is 2x of what they invested in the previous 5 years. Post the recent strong rally in the sector, companies that can outperform from here on the back of the above tailwinds include: SAMIL, Sansera and Suprajit (Initiate with Buy on all 3). We also Initiate on MSWIL with Add rating.

Auto Ancillary sector set to sustain strong outperformance to core led by:
(1) **Derisking strategy of global OEMs**: Given the multiple supply chain disruptions over last 3-4 years, global OEMs seek to derisk their supply chain and India seems to be emerging one of the key beneficiaries of this trend

(2) **Rising content driving sustainable outperformance**: Over the last few years, the auto component industry is seeing rising content supplied to OEMs which in turn is being driven by: 1) ever rising premiumization trend across segments in India, which is here to stay 2) Government regulatory push which is pushing up avg ASP 3) EV transition. We expect these trends to help drive a sustainable outperformance of the industry relative to core even going forward

(3) **Favorable Government policies**: Indian Government is strongly advocating "Make In India" across categories and has framed favorable policy incentives including PLI schemes to drive rapid localisation.

(4) **India emerging as an auto hub**: Given each of these tailwinds above and the fact that Indian emissions now are in line with many global markets, India is now emerging as an auto hub for global players, which in turn would benefit the Ancillary sector.

Given the above trends and its inherent core strengths (global quality at low cost + improving R&D skills), the auto component industry is expected to invest around USD 6.5-7bn over next 5 years, which is 2x of what they invested in the previous 5 years. We hence expect the Auto ancillary industry to continue to outperform core industry growth in the foreseeable future.

Sector has done well, selective bets to drive outperformance from here-on
Given the sector tailwinds and the domestic market exuberance, many ancillary companies have seen a sharp rally over the last 12 months. In light of the above, one needs to look at businesses which are fundamentally sound and have equally strong long-term potential but may have relatively underperformed peers in the recent past due to some macro/micro near-term issues. We Initiate with Buy on SAMIL (key beneficiary of premiumization trend + inorganic growth), Sansera (seems on track to achieve its ambitious Vision 20:20:20 by FY26) and Suprajit Engineering (one of the key beneficiaries of the global supply chain consolidation trend + strong orders from new products division). We Initiate with Add on MSWIL (key beneficiaries of the rising premiumization trend) but doesn't qualify amongst our top picks due to Valuation discomfort.

Company	Reco	Target
SAMIL	BUY	129
Sansera	BUY	1,190
Suprajit	BUY	468
MSWIL	ADD	67

Aniket Mhatre
aniket.mhatre@hdfcsec.com
+91-22-6171-7357

Maitreyee Vaishampayan
maitreyee.vaishampayan@hdfcsec.com
+91-22-6171-7308

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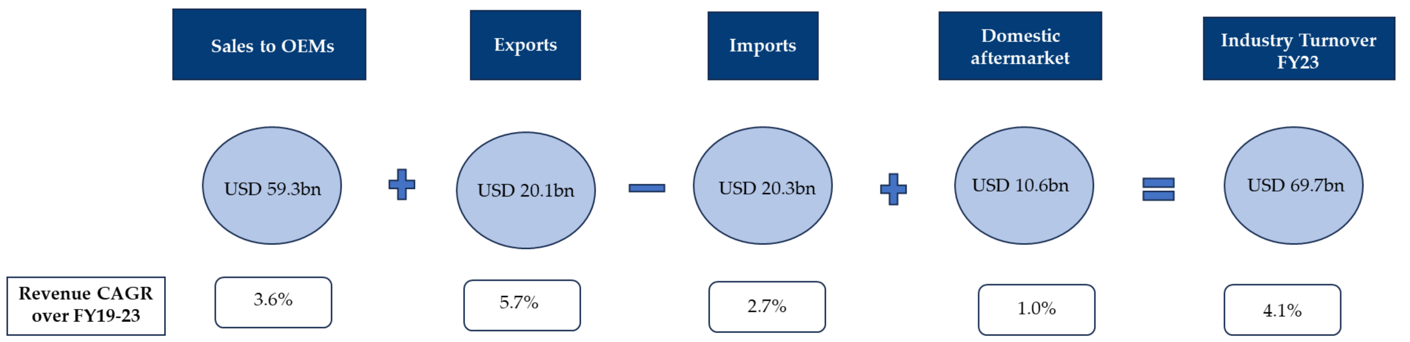
Indian Auto Component Industry – a snapshot

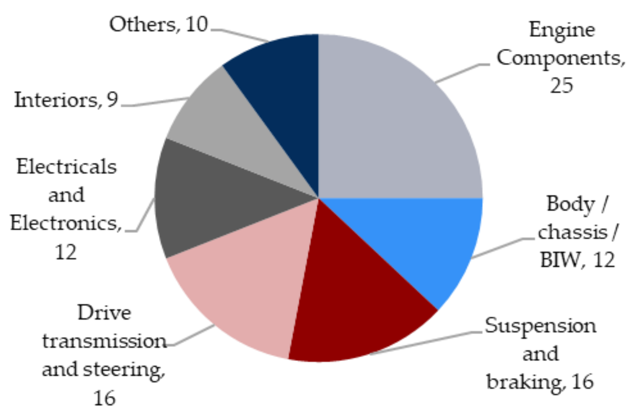
The auto component industry has grown 33% YoY to USD 69.7bn in FY23 on the back of pent-up vehicle demand, easing supply shortages and rising content supplied, which is in turn driven by premiumization. While sales to domestic OEMs contributed to USD59.3bn, exports contributed to USD20bn. Key markets in exports were North America (32%), Europe (31%) and Asia (26%). Imports were largely at par with exports at USD 20.3bn. Also, imports from China contributed to almost 30% of total industry imports in FY23. Continuing its momentum in FY23, the industry has posted 12.6% YoY growth in H1FY24 to USD36.1bn and it is confident of posting 10-15% growth for FY24E. The industry posted strong sales growth in H1 despite weak export growth of 2.7% YoY.

Exhibit 1: Indian auto component industry – a snapshot



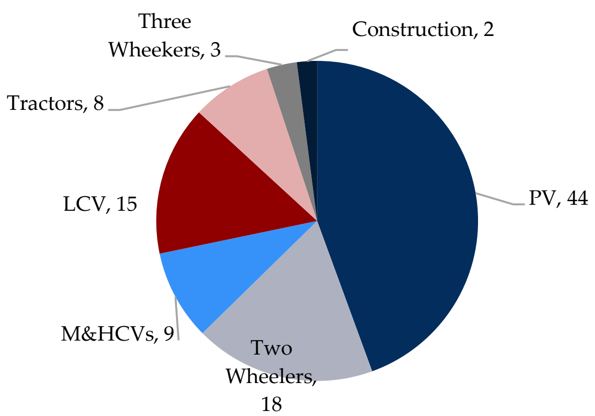
Source: ACMA

Exhibit 2: Industry revenue by category (%)



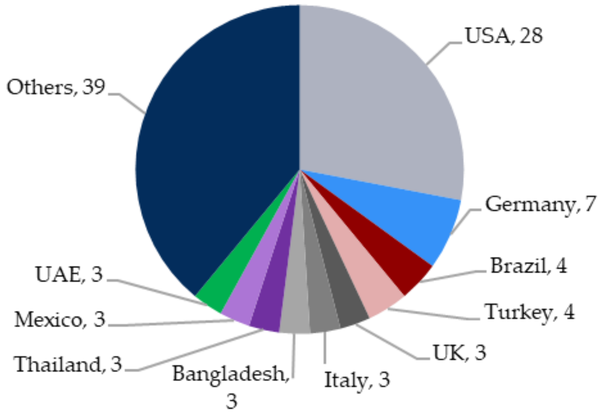
Source: ACMA

Exhibit 3: Industry revenue by segments (%)



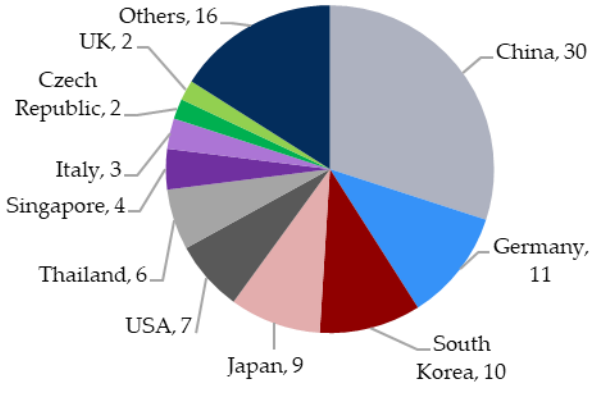
Source: ACMA

Exhibit 4: Region-wise Exports (%)



Source: ACMA

Exhibit 5: Region-wise Imports (%)



Source: ACMA

India Auto Component Industry – In a sweet spot

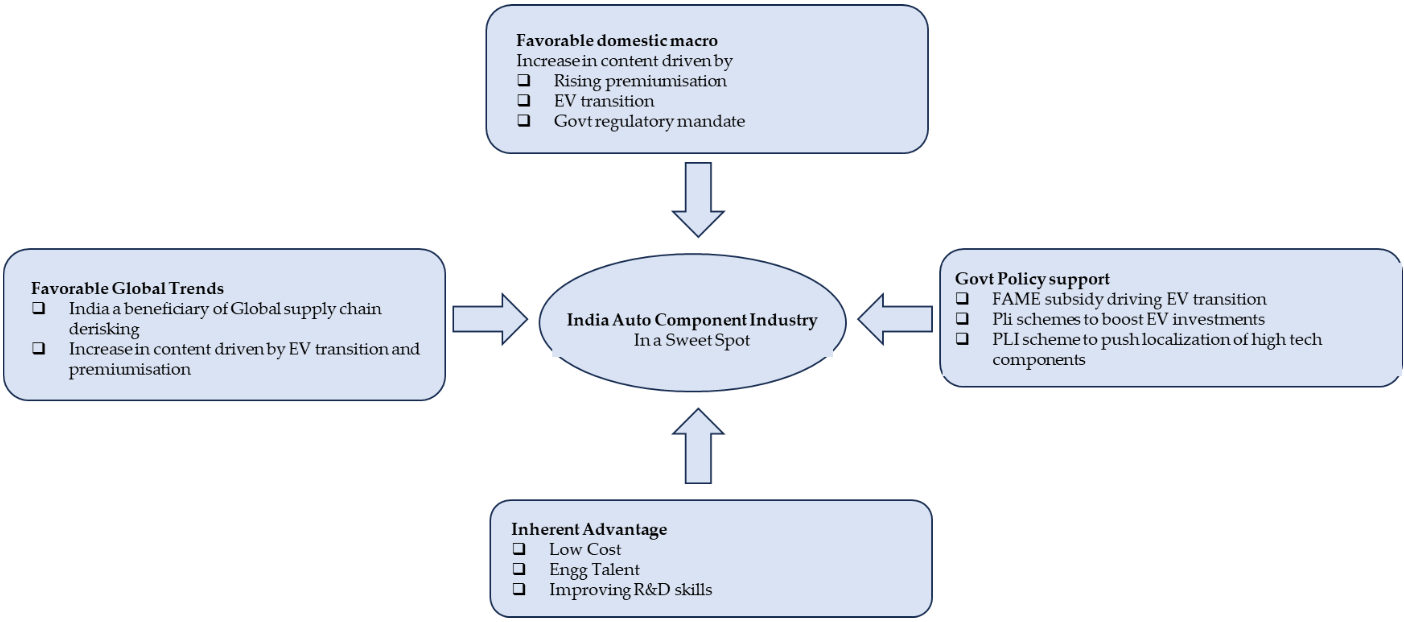
From just being another regional play, about a decade back, the Indian Auto component industry is now evolving as one of the critical links of the global automotive supply chain. Given its inherent advantages and aided by multiple local and global tailwinds, we believe the domestic auto component industry can sustain a strong growth momentum in the coming years.

Exhibit 6: India Auto Component Industry – SWOT Analysis

STRENGTHS ▪ Evolved into quality supply chain ▪ Low-cost advantage ▪ Large domestic Auto market to cater to	**WEAKNESS** ▪ Lack of technology prowess renders it as a "follower" than a "leader" ▪ Lack of favorable FTAs with key regions ▪ Relatively lower scale compared to China
OPPORTUNITY ▪ Global supply chain disruption is proving a huge opportunity ▪ Favorable Govt policies to provide multiple growth drivers ▪ Consolidation in global supply chain to provide inorganic growth opportunity for large Indian peers ▪ India emerging as a global automotive hub for key OEMs	**THREAT** ▪ ASEAN regions benefitting lot more from global supply chain derisking than India ▪ Geo-political conflicts

Source: HSIE Research

Exhibit 7: India Auto Component Industry – Multiple tailwinds to boost sector growth

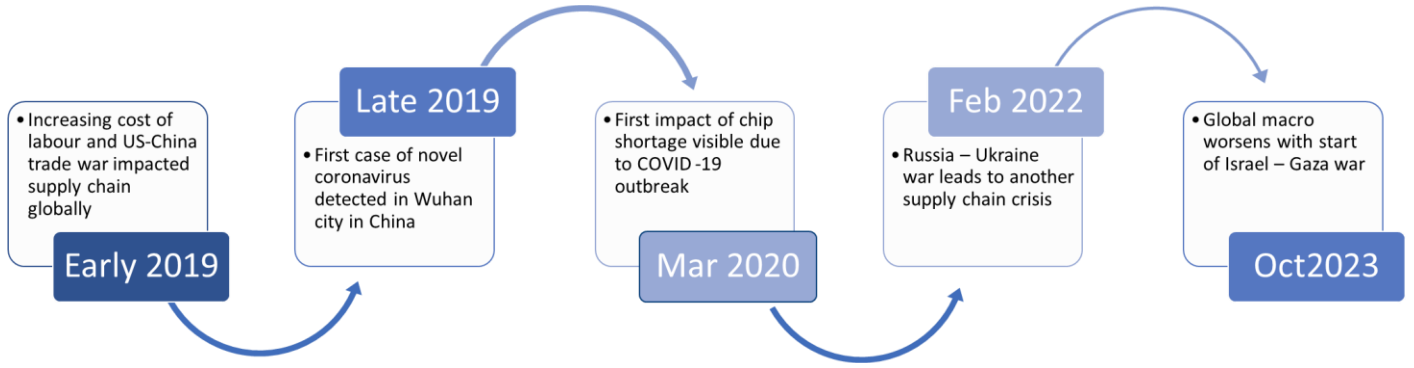


Source: HSIE Research

Global Supply chain derisking – an opportunity for India

Over the last 4-5 years, the global automotive supply chain has witnessed multiple disruptions at different intervals and for varied reasons. Some of these were driven by: 1) the COVID-19 pandemic, 2) the resultant chip shortage, 3) the US-China trade war, 4) the Russia-Ukraine war, and 5) the Israel-Gaza war. The result of these shocks was that an estimated ~12% of global automotive output was washed out between 2020-2022. The indicative timelines of these events have been charted out below.

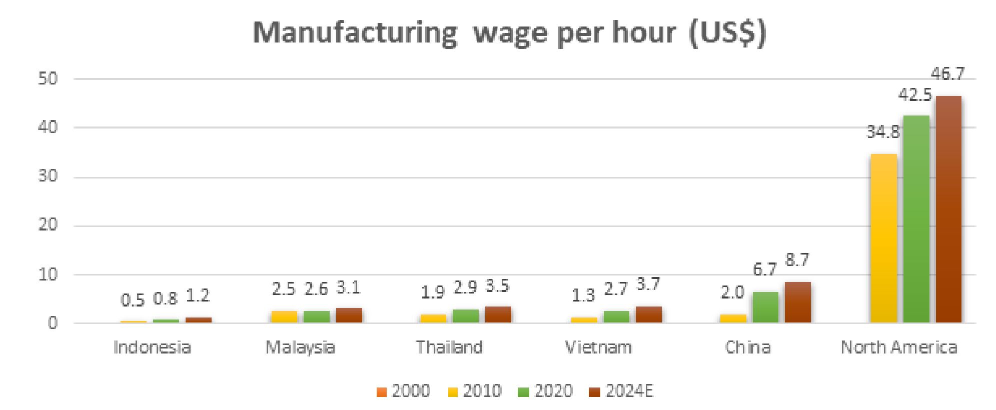
Exhibit 8: Global auto supply chain have been impacted by multiple disruptions in the recent past



Source: HSIE Research

While a lot of global firms were already considering derisking their global supply chains even before the COVID pandemic, both the pandemic and the US-China trade embroglio are now forcing global players to work towards various alternative sourcing options apart from China. Apart from the adverse global scenario, there have been a few China-specific issues that are driving this paradigm shift in sourcing strategies and one the key factors amongst this is the fact that China is no longer a low-cost destination as earlier. Since 2013, Chinese manufacturing wages have doubled to an average of USD 8.27 per hour. This rise stands in stark contrast to hourly manufacturing wages in Vietnam, Thailand or Malaysia which are at around USD 3 per hour. Further, as per BCG's calculations, the average cost of Indian-made goods imported into the US is 15% lower compared to goods manufactured in the US. In contrast, Chinese goods offer only a 4% cost advantage over US-made products and are 21% more expensive when subject to US tariffs related to the trade war. Further, China now has a shortage of factory workers, partly due to the younger workforce's inclination toward flexible and autonomous jobs.

Exhibit 9: Low wages no longer an advantage for China

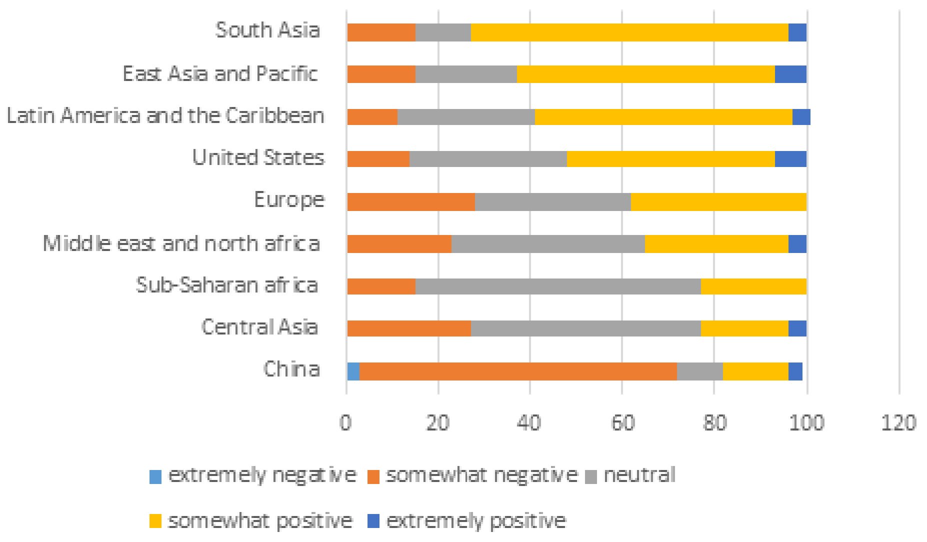


Source: EIU

The other key reason for considering alternatives to China is the risk of a political decoupling in the event of a breakdown in China's relations with large, developed economies. Some of the other concerning factors include the experience of a strict zero-COVID policy driving abrupt plant shutdowns, a property slowdown and tightening regulations on domestic technology companies.

Most of the chief economists surveyed by WEF say that they expect supply chain restructuring to have a negative impact on China's economic prospects.

Exhibit 10: Survey: Impact of global supply chain restructuring



Source: Chief Economists Survey, Apr2023

Each of these factors has led to a sharp exit of investors from China. This is evident in the fact that a measure of FDI in China (Direct Investment liabilities) has experienced its first-ever quarterly deficit in 15 years, reaching a historic low of $11.8 billion in Q3CY23. This is likely a result of the fact that foreign companies are taking out money from China, instead of reinvesting in the country, partly due to the highlighted issues above and partly due to better investing avenues elsewhere (interest rates are rising globally).

While a complete shift away from China is impossible and completely ruled out, de-risking from China would mean shifting part of their production base to Southeast Asian countries (e.g., Vietnam, Indonesia, Malaysia, Thailand, and Cambodia) and India in South Asia. These regions are increasingly emerging as alternative supply hubs to China as they have adaptable and high-quality industrial supplier bases. As per EIU Business Environment Rankings, key ASEAN economies and India seem to be based placed to capture the partial supply shift from China.

Exhibit 11: Regional ranking based on macro-parameters

Economy	Political Effectiveness	Macro Environment	Market opportunity	FDI policy	FT & exchange controls	Labour market	Infra	Tech readiness	Overall Score
Singapore	9	8	5.3	10	10	7.6	8.8	9.4	8.6
HongKong	7.6	8.3	6.2	8.7	10	7.4	9	8	8.3
Australia	8.6	7.8	6.8	7.8	9.6	6.8	7.3	8.6	8.1
Taiwan	6.7	7.8	5.7	8.2	9.1	6.8	7.8	9.2	7.8
South Korea	7.8	6.3	7.1	7.3	8.7	6.3	7.8	9.2	7.8
Japan	8.6	7.8	6.4	7.3	9.6	6.8	8.5	9.2	7.7
Malaysia	6.9	8.3	7.3	7.8	8.7	7.1	7	7.8	7.5
Thailand	5.5	8.3	6.7	7.3	8.7	6.6	5.8	7.5	7.2
Vietnam	5.5	8	8.3	6.4	8.2	6.7	5	6.1	6.6
India	5.5	7.2	7.8	6.9	6.9	6.3	5.3	6.3	6.3
Philippines	3.9	6.3	6.6	6.9	7.8	6.8	4.5	6.1	6.1
China	3.9	6.6	7.7	3.7	6.4	5.9	7	8.6	6
Indonesia	4.8	6.6	7.5	5.5	7.3	6.5	4.5	5.2	5.9
Bangladesh	4.1	6.1	6.4	5.1	6.4	5.8	3.8	3	5.1
SriLanka	4.3	4.1	4.5	8.2	4.2	6.1	7.3	5.2	5.2
Pakistan	2	3.8	4.9	5.1	4.6	6	3.3	3	4.1

Source: EIU Business Environment Rankings

India is also seeing its fair share of rise in investments from global players. India's attractiveness to leading foreign investors is linked to geopolitics, a large consumption market, skilled low-cost labour, the Government's push for localisation (Make In India) and renewed emphasis on preferential trade opening with trading partners through a flurry of bilateral trade deals since 2022. While US imports from China declined by 10% from 2018 through 2022 in inflation-adjusted terms, India exports to the US surged by $23 billion, a 44% increase from 2018 to 2022. Also, while the value of announced US and European greenfield investments in India has increased 400% to USD65bn in 2021 and 2022, the same in China declined to less than USD 20bn in 2022, from a peak of USD 120bn in 2018.

It is aptly visible that India is now emerging as one of the key beneficiaries of the global supply chain derisking in the Auto component industry. We highlight below multiple instances where large MNCs have announced big plans recently to include India as a long term credible sourcing partner for their global supply chain. While this covers some of the major announcements, it is not an exhaustive list but it does highlight how India is slowly emerging as an alternative sourcing destination for the global automotive supply chain.

We see high competitiveness for technology products made out of India in the global marketplace, we will be looking at exporting lighting, electronics and technology product

Exhibit 12: India: one of the beneficiaries of the supply chain de-risking globally

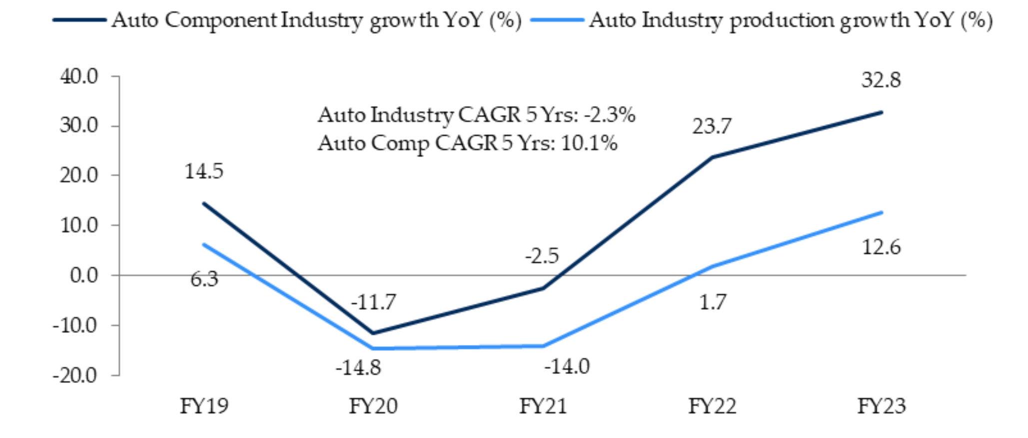
Company	Comments around India plans
Stellantis	has 40 parts suppliers which are exporting from India to LatAm to help get competitive prices by leveraging on volumes
Tesla	Tesla plans to double its sourcing from India to USD1.9bn in 2023
Continental	scaling up R&D and manufacturing capabilities for connected tech in India; this is expected to significantly boost its export share to Europe, East Asia and Asean
Bosch Mobility Global CTO	"There is such brilliant talent in India. India is a location where we are prepared to shift more competence, responsibility and accountability, particularly on the software side, on the software defined vehicles as well as application side"
Valeo	to invest close to the M&M Pune plant and localise electric powertrain in India
Schaeffler	Plans to make India manufacturing hub for specific product lines by shifting production from European plants
SEG Automotive India	positioning India as exports hub of light electromobility and software solutions
Magna	Opened an Asia Innovation Centre in Bangalore at an investment of USD120mn for assisting future trends like EVs, driver assistance systems etc
Grupo Antolin (Ramon Sotomayor, Global CEO)	"We see high competitiveness for technology products made out of India in the global marketplace, we will be looking at exporting lighting, electronics and technology product". "we have got every technology here in Pune. We are working on more advanced technology than in Detroit or Europe"
Delta Electronics	Taiwan based Delta has invested USD500mn in India so far on local manufacturing; plans to offer localised EV components, such as power electronics, from its global portfolio for automotive OEMs in India
Stuken	Plans to commence deep drawn parts production from India by 2025; setting up a plant in Pune which will be its 5th site globally
Saietta VNA	Commenced production of axial flux technology e-motor for EV's; while they are completely focussed on India, Make in India and export is a distinct possibility
Borg Warner	Set up new Tech Centre in Bangalore to offer end to end development, testing and valdiation support for its engg centres in North America, Europe and Asoa

Source: HSIE Research

Rising content to continue to drive outperformance

Over the last few years, the Auto Component industry has been witnessing a gradual rise in content supplied to OEMs. This has been one of the key reasons for the sector's outperformance over the years to the core auto sector. This rise in content has been driven largely by two factors: 1) premiumization trend 2) Government regulations

Exhibit 13: Component industry has outperformed auto sector led by rising content



Source: ACMA, SIAM, HSIE Research

Premiumisation trend in India is here to stay

About five years back, the total cost of ownership and resale value were the two primary considerations while purchasing a vehicle for an average Indian and, hence, India was tagged as a "cost-conscious" market. However, we are now seeing a massive change in buying patterns of consumers, especially post-COVID, where features (safety, driving experience and plush interiors), looks, and comfort have taken precedence in the purchasing decision of a vehicle over cost and customers these days are even willing to pay a higher price for the same. The key buying parameter has moved away from fuel efficiency/"value for money" to the "look and feel" of the product for a large section of society.

One of the key factors that could be driving this change is the fact that GenZ is now entering the workforce and their way of thinking is completely different. Their disposable incomes have gone up, their confidence is high and their propensity to spend is higher than that of saving. Another factor that could be driving this change is the rapid evolution of digitisation in India. With this, more and more Indians seem to be influenced by Western culture. Also, thanks to the rising influence of social media on consumers, more and more people crave the need to adopt the latest trends or become trend-setters themselves which seems to be driving this rapid change. Social media is also helping drive the latest lifestyles even beyond metros to Tier2-3 towns as well as rural regions. Apart from the above, favourable demographics and easy availability of finance are driving the trend towards premiumisation in India across categories.

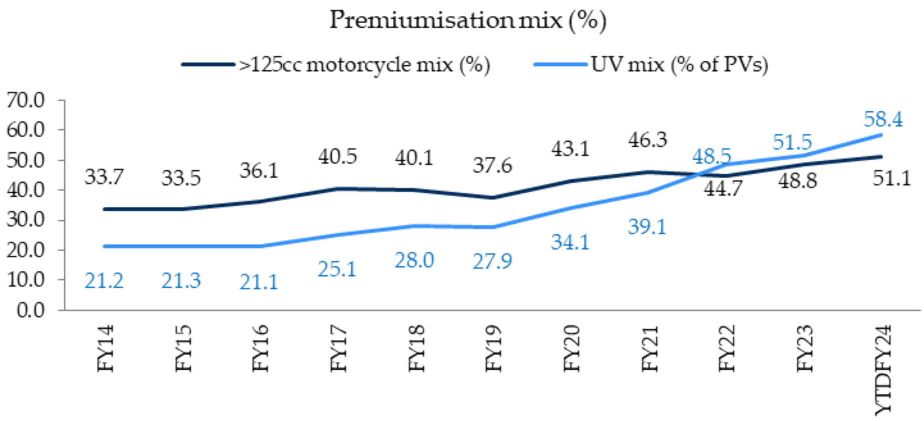
Examples Of Premiumisation in Vehicles

Industry level trends

- The UV mix in total PVs has now increased to 51.5% of sales in FY23 (59% for YTDFY24) from 21% in FY14. As a result, the average retail price of PVs in India has now exceeded Rs 10 lakh for the first time.
- The premiumisation trend is visible even in 2Ws wherein >125cc motorcycles mix has increased to 49% in FY23 (51% for YTDFY24) from 34% in FY14.

- As per reports, at an industry level in PVs, base variant contribution has now declined to 5% from 30% earlier. Similarly, top variant contribution has increased to 20-25% of industry sales from <5% earlier.
- Also, as per MSIL management, the share of top variants in the hatchback segment for the industry has increased to 67% from 60% over 5 years while the same for sedans has grown to 77%. Also, the same for SUVs has increased to 77% from 65% in the same period.

Exhibit 14: Premiumisation trend is visible both in PVs and two wheelers



Source: SIAM, HSIE Research

Korean OEMs: Hyundai and Kia

- 45% of Hyundai sales are from >Rs10 lakh price bracket
- 20% of vehicles sold are automatics, 26% come with connected tech and 38% come with a sunroof
- 75% of Exter sales are with sunroof-variant
- For i-10 Nios and Aura, the base variant contributes to <10% of their sales
- For Kia, 57% of Seltos, 58% of Sonet, 41% of Carens and 82% of Carnival sales come from its top variants

Tata Motors and Maruti Suzuki

- For MSIL, the contribution from top variants has gone up to 33% now from 25% 5 years back
- For TTMT, top variant sales have grown 30% YoY and now contribute to 55-60% of its sales

Volkswagen India

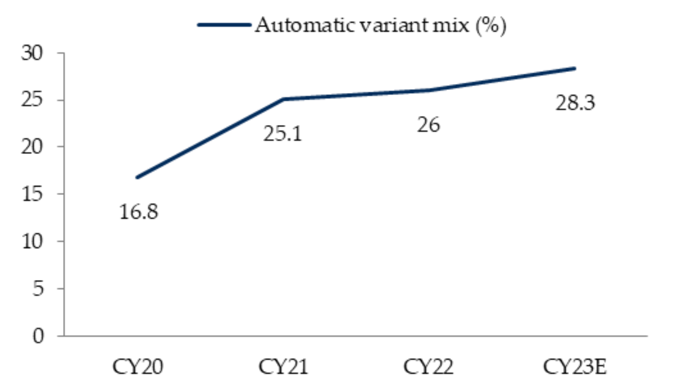
- While the top variant contributes to 40% of its mix, the model just below the top variant contributes to a similar proportion
- The demand for their more powerful 1.5 ltr engine has increased to 1/3rd of its sales from their expectation of 1/6th
- Automatic transmission accounts for 55% of its mix

Snapshot of Technology-wise trends

Connected car tech seeing rising adoption

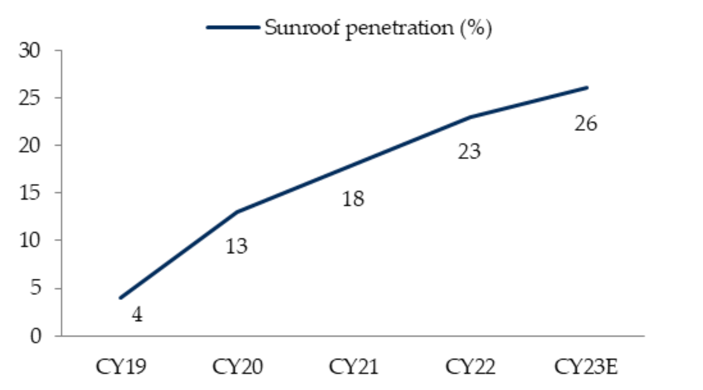
- As per media reports, penetration of connected cars in the Indian PV market has risen to 46% in CY22 from 35% in CY21 and is expected to further rise to 63% in CY23
- MG Motors has indicated that they have 50% penetration in their mix coming from Connected variants
- For Hyundai, connected car penetration has risen to 30.4% of total sales from 25% in H1CY22
- For Honda, more than 95% of its Honda City sales are connected
- For MSIL, the penetration of connected car tech in models like Baleno, Ertiga, XL6 and Grand Vitara was 45% in FY23. With the introduction of Fronx, penetration of connected cars is expected to reach 56% in these models in FY24, as per management.
- For TTMT, in 2022, sales of connected cars doubled, resulting in a 22% penetration of this tech for the company. Given rising consumer aspirations, management expects this penetration to surpass 26% by 2023 end.
- As per industry experts, the domestic connected car market is projected to grow at a 21% CAGR to reach USD 45bn by 2028 (from an estimated USD 17.2bn in 2023).

Exhibit 15: Penetration of automatic variants is rising



Source: HSIE Research

Exhibit 16: Sunroof penetration is on an uptrend



Source: HSIE Research

Automatic variants mix is rising rapidly

- In the domestic PV industry, automatic variants as a proportion of total PV sales have risen from around 15% in 2018 to more than 28% now. This mix may further rise to 45% by 2028 as per the FADA official.
- For MSIL, sales of automatic variants have increased to 12% of total sales from 10% earlier.
- For Hyundai, automatic variants contribute to about 25-30% of its overall sales. For its i-20, the mix of automatic variants stands at about 20%.
- For Honda, the automatic mix in various models is as below: Elevate: 60-70%, City: 65% and Amaze: 45%.
- For VW India, automatic variant sales contribute to 60% of its total sales

ADAS features seeing gradual rise despite the cost

- This high-end feature is also picking up in India in PVs with ADAS features contributing to almost 2% of total PV sales in India in FY23.
- For Hyundai models, about 85% of Tuscon and 36% of Verna sales come with ADAS features.
- As per Crisil, M&M leads the OEMs with a 40-50% market share in ADAS solutions in the industry, MG at 20-30%, Honda at 10-20%, TTMT at 10% and Hyundai and Toyota at <5%

It is pertinent to highlight here that this premiumization trend has not been restricted just to automobiles. This consumption pattern is being driven across various asset classes.

We list below a few examples of the premiumization trends catching up in various other segments beyond autos:

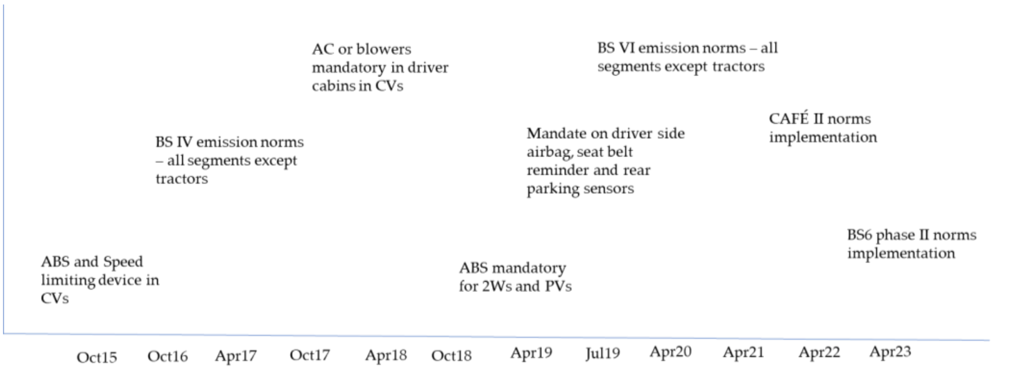
- The share of premium properties priced above 10 million Indian rupees in top cities has doubled, moving from 15% to 30%.
- Luxury hotels are similarly experiencing a surge in bookings, despite room rates seeing an upward trend.
- In smartphones, the premium and ultra-premium segments have seen 60-66% growth while smartphones priced below USD400 have seen a decline.
- Premium fans are seeing very strong growth and there's a significant uptick in inverter AC sales.
- In paints, customers are not just paying 20-30% higher for their preferred choice; they know exactly which type of paint they want including protective coats, washable, etc.
- Bata India has revealed that sneakers with an ASP of Rs 2,000, premium Hush Puppies with an ASP of Rs 4,000 and Comfit with an ASP of Rs 2,100 were the bestsellers for the company whereas shoes priced at an average of Rs 1,000 and below were witnessing a drop.

Thus, today's Indian consumer is looking beyond the "price" tag as he looks for the "differentiating" quotient at the time of purchasing discretionary products. Given the tailwinds highlighted above, we believe this premiumisation trend is here to stay in India in the long run.

Government's regulatory push has also boosted content increase for vendors

In the recent past, the Government has tightened regulations across segments to get the sector in sync with global standards. For the same, over the last 5 years, the Indian automotive industry has invested a lot to comply with regulatory mandates, particularly on safety and emissions. We have even leapfrogged from BS4 to BS6 in a matter of 3 years—the fastest globally. A snapshot of regulations implemented by the industry in the recent past is highlighted below.

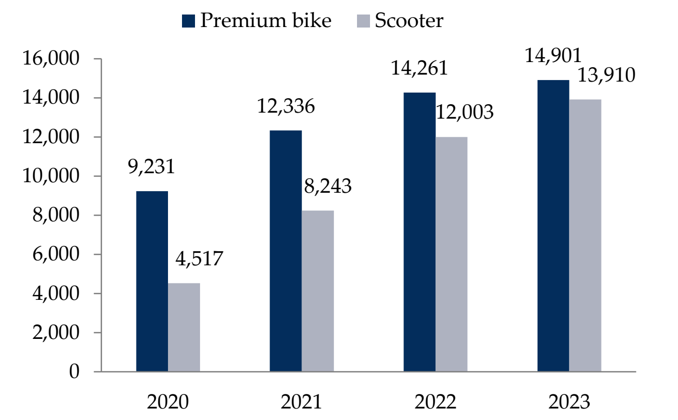
Exhibit 17: Government regulations have driven higher content for auto suppliers



Source: HSIE Research

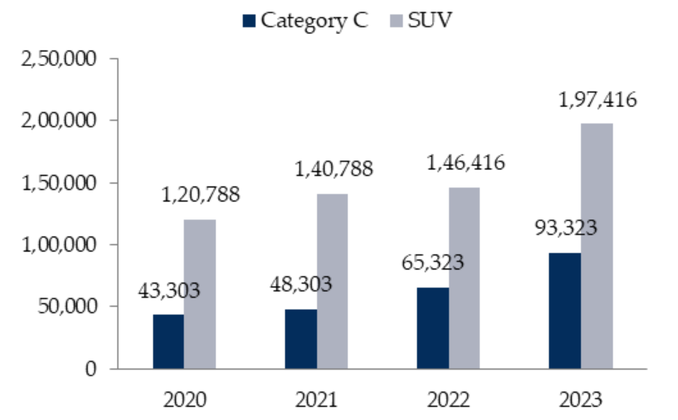
The above regulations have also helped the Indian automotive industry play catch up with global auto trends. This in turn has also thrown open opportunities for the sector as local production (automobiles or components) could now also find markets abroad with similar regulations.

Exhibit 18: Case study1: Uno Minda content rise in 2Ws



Source: Company, HSIE Research

Exhibit 19: Case study2: Uno Minda content rise in PVs



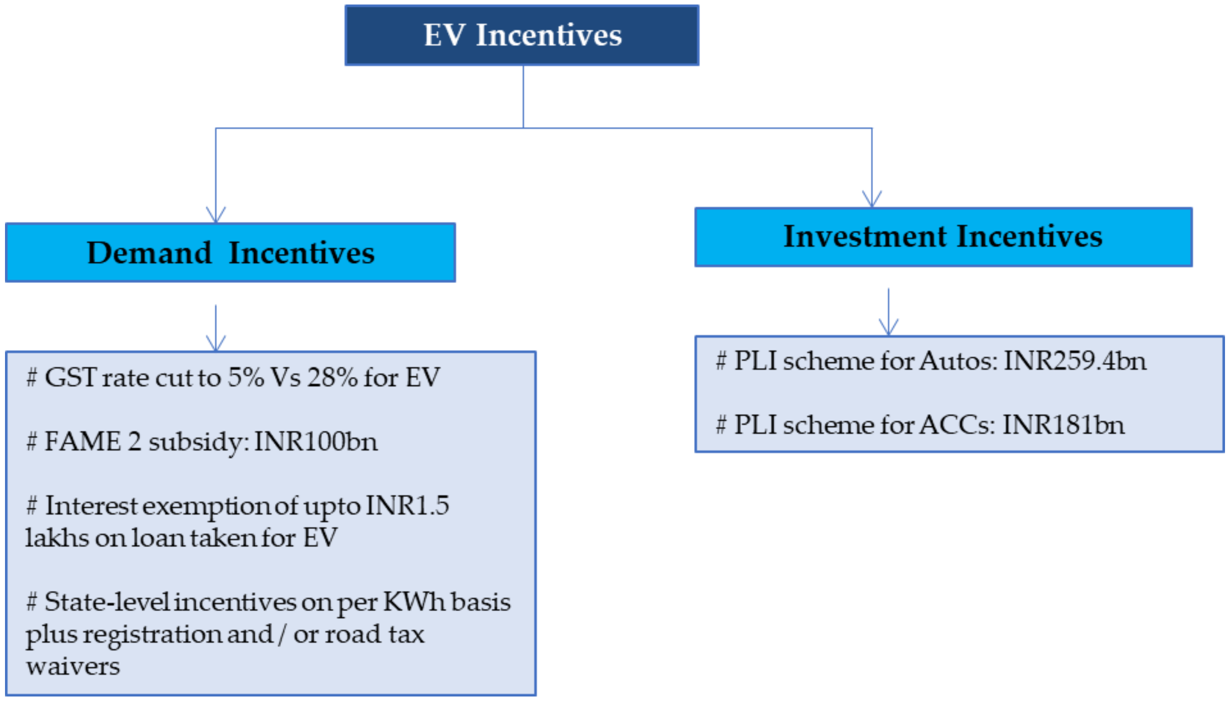
Source: Company, HSIE Research

Needless to say, on the back of the rising premiumisation and regulatory mandates mentioned above, the auto component sector has witnessed a marked increase in the content supplied to OEMs over the last few years. This has also in turn resulted in outperformance of most of the ancillary players over volume growth of the underlying auto industry. Given that we expect this premiumization trend to continue, auto ancillary companies are expected to continue to see content increase even in the coming years which would continue to be one of the key growth drivers for India auto ancillary companies in the coming years.

Government's 'Make In India' push is driving huge opportunities for the sector

Over the last many years, the Indian Government has been advocating and pushing Indian companies to "Make In India" as much as possible and reduce their dependence on imports. To provide adequate incentives for the same, the Government on its part has also doled out multiple incentives across many sectors. The Indian auto sector has also seen favourable policies from the Government in a bid to drive localization initiatives across the value chain, particularly to boost EV transition and localization of advanced technology components. We tabulate below some of the key policy-led incentives earmarked by the Government for the sector:

Exhibit 20: Government has doled out huge incentives to drive localization initiatives in Auto sector



Source: HSIE Research

Overview of FAME-2 incentives

As is a well-established fact, the FAME 2 scheme has helped accelerate EV transition for 2Ws in India once the Government raised the incentive per 2W to Rs15,000 per Kw hr w.e.f. June 2021. Various states also provided similar incentives for a limited period. Both these factors meant that 2W EV sales rose to almost 0.7mn in FY23 from just 0.2mn in FY22. As per media reports, and based on the EV transition so far, the Government is now finalizing the FAME 3 subsidy which is expected to drive the next leg of the EV transition across different segments.

Exhibit 21: FAME 2 Incentive highlights

Sr.No	Component	Total fund equivalent (INR Bn).
1	Demand Incentives	86.0
2	Charging Infrastructure	10.0
3	Administrative Expenditure Including Publicity, ICE activities	0.4
	Total of FAME-II	85.1
4	Committed expenditure of FAME-I	3.7
	Total	**88.8**

Source: MHI, HSIE Research

Exhibit 22: FAME 2 Incentives: segment-wise allocation raised w.e.f June2021

Sr. No	Vehicle Segment	Approximate size of battery in KWh	Total Approximate Incentive @ Rs15000/KWh for all vehicles and Rs20000/KWh for Buses & Trucks.	Maximum Ex-factory price to avail incentives	Total Fund support from DHL (in Rs Bn)
1	Registered e-2 Wheelers	2.0	30,000	1,50,000	20.0
2	Registered e-3 Wheelers (including eRikshaws)	5.0	50,000	5,00,000	25.0
3	e-4 wheelers	15.0	1,50,000	15,00,000	5.3
4	4W strong Hybrid Vehicle	1.3	13,000	15,00,000	0.3
5	e-Bus	250.0	50,00,000	2,00,00,000	35.5
	Total Incentives				**86.0**

Source: MHI, HSIE Research

Overview of PLI schemes

PLI scheme for Auto sector: This entails investment to the tune of INR259.4 bn, which includes OEM support (for OEMs that would invest in EVs and hydrogen fuel cells) as also support for ancillaries that invest in localization of advanced technologies. The Auto PLI scheme is divided into two parts as below:

Champion OEM incentive Scheme: This is for OEM manufacturers focused on producing BEVs and hydrogen fuel cell vehicles for all segments. This will include existing OEMs, new auto OEMs as well as non-auto OEMs based on various qualification criteria, which are based on revenue and investments over the scheme period. The criteria in turn ensures that only large-scale players would be eligible for this scheme

Component Champion Scheme: This is to provide incentives for localisation of advanced automotive components of vehicles, CKDs, and vehicle aggregates of all segments. This is aimed to push domestic production and the development of advanced automotive technologies in India. Some of the components that will receive incentives under this scheme include electronic power steering systems, automatic transmission assembly, sensors, sunroofs, supercapacitors, adaptive front lighting, TPMS, automatic braking and collision warning systems, high voltage connectors and cables, AC and DC charging inlet and outlets ports, etc.

This scheme does not qualify for investments done for ICE or CNG technologies.

PLI scheme for Advanced cell chemistries (ACCs) worth another INR181bn;
The second part of the PLI scheme for the auto sector is the one for Advanced Cell Chemistry (ACC) which is to the tune of Rs18,100 crores. This scheme has been designed to achieve domestic capability for battery cell manufacturing in India with an estimated capacity of 50 GW hr scale.

Exhibit 23: PLI Incentive slabs for Champion OEM

Determined Sales Value (in Rs Bn)	Incentives (%age of Determined Sales Value)
<=20	13%
>20 to 30	14%
>30 to 40	15%
>40	16%
Cumulative Determined Sales Value of INR 100 Bn over 5 years	Additional 2%

Source: MHI, HSIE Research

Exhibit 24: Incentives for Component Champion (PLI)

Determined Sales Value (in INR Bn)	Incentives (%age of Determined Sales Value)
<=2.5	8%
>2.5 to 5	9%
>5 to 7.5	10%
>7.5	11%
Cumulative Determined Sales Value of INR 12.5bn over 5 years	Additional 2%
Battery Electric vehicle & Hydrogen fuel cell vehicle components	Additional 5%

Source: MHI, HSIE Research

These favourable policies from the Government are expected to incentivise the localisation of advanced automotive technology in India and also help worthy suppliers participate in the evolving huge opportunity of these components in the global supply chain. It is also expected to help accelerate investments toward developing a local EV ecosystem. The entire auto supply chain is extremely excited about the PLI scheme which is evident from the fact that as many as 115 players applied for the same and 85 applicants were approved. The PLI scheme for the sector has attracted a proposed investment of INR 677bn over the next 5 years, far exceeding Govt's target of INR 425bn.

It is these favourable policies from the Government that will drive huge growth opportunities for the sector participants in the coming years. On the back of these favourable Government initiatives, the component industry is expected to invest around USD 6.5bn-7bn over the next 5 years in capacity expansion and technology upgradation, which is nearly double the USD 3.5-4 bn invested in the last 5 years.

EV transition: another long-term sector driver

Transition to EVs is picking up pace rapidly in key global markets and in a measured way in India. In India, EV transition is visible primarily in 2Ws and 3Ws currently. However, on the back of a significant push from the Government in terms of policy incentives discussed in the previous section, we expect the EV transition to pick up pace in multiple segments as highlighted below.

Exhibit 25: EV penetration to pick-up pace across key segments in India

	EV Penetration (%)	
	FY23	FY30E
Two Wheelers	4	30
Electric Bus	7	40
LCVs	Negligible	40
PVs	1	15

Source: ICRA Research

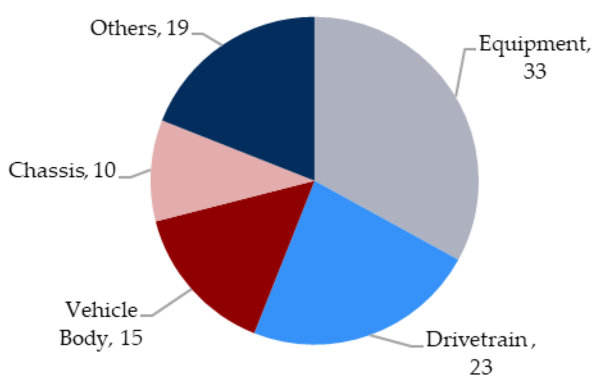
For traditional auto components, about 75% of revenues come from fuel-agnostic products like body parts, chassis, suspension, electricals, braking, lighting seating etc. However, players focused on the balance of 25% of auto components (cylinder blocks, pistons, clutch, gearbox, radiators, fuel injectors, exhaust system, etc.) may see some challenges after the EV transition. However, we observe that most of the ICE-only focused vendors are increasingly seeking to minimize their ICE engine-only exposure through product diversification either into other EV components or into the non-auto sector. Hence, overall, we expect the EV transition to drive significant growth opportunities for most players in the sector.

Exhibit 26: EV transition may pose a challenge for ICE-only focused suppliers

Negative impact	Neutral		Positive Impact
Engine parts	Steering systems		Electric motors
Clutch	Seats		wiring harness
Radiator	Brakes		inverters
	Shock absorbers	Leaf springs	microprocessors
			Controllers

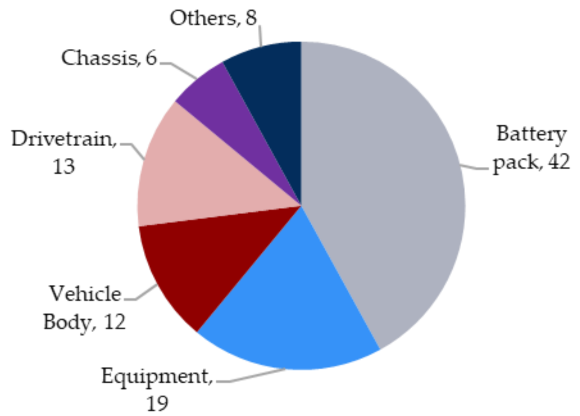
Source: ICRA Research

Exhibit 27: Cost break-up for ICE



Source: ICRA Research

Exhibit 28: Cost break-up for EV



Source: ICRA Research

As highlighted in the previous section, the Government's 'Make In India' push aptly supported by PLI schemes is expected to give a big thrust to EV transition in India across key segments. On the back of this ongoing transition, we are seeing multiple auto component suppliers develop capabilities in power electronics (i.e. DC-DC controllers, chargers, etc.), electric motor and transmission, thermal management, lithium-ion or other cell chemistries. Given the substantial ramp-up in EVs expected in coming years, ICRA estimates the potential market size for EV-based components to rise to Rs640-680bn by 2030 from an estimated Rs140-150bn in FY25E.

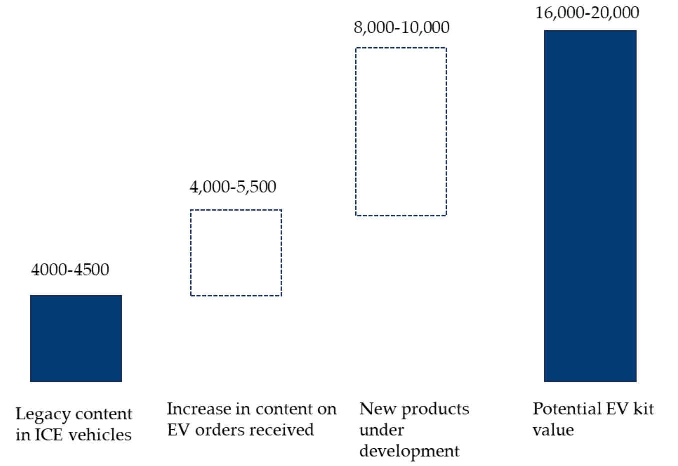
Exhibit 29: EV transition to provide huge opportunity for component suppliers

Segment	Potental market size Rs crs	
	2025	2030
Electric Motors and transmission	900-1,000	4400-4700
Thermal Management	1000-1100	4600-4800
Lithium ion battery	5000-5100	22000-23000
Electronics	2400-2500	10000-11000
Power Electronics	700-800	3000-3500
Others	4000-4500	20000-21000
Total	**14000-15000**	**64000-68000**

Source: ICRA Research

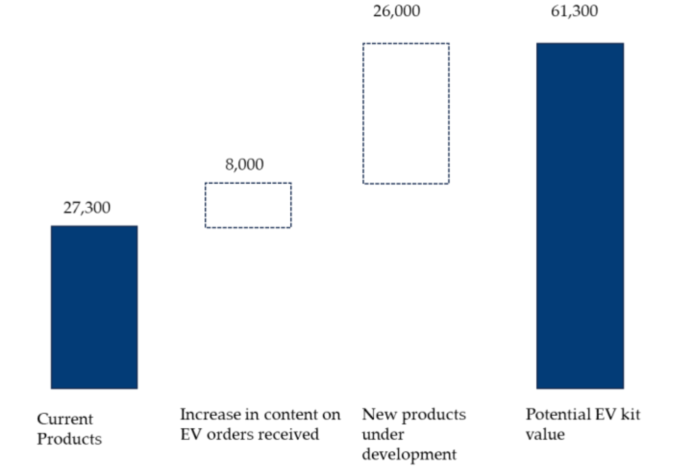
While EV-specific components are driving an increase in content for many suppliers, even tech-agnostic components like wiring harnesses, bumpers, rearview mirrors etc. are seeing a marked rise in content in EVs relative to ICE counterparts. Further, with the EV transition, OEMs are now focused more and more on lightweight which is leading to a sharp increase in demand for aluminium/plastic-based components.

Exhibit 30: Minda Corp seeing content increase



Source: Company, HSIE Research

Exhibit 31: Uno Minda sees content increase



Source: Company, HSIE Research

On the back of our discussion with multiple auto component players recently, we observe that the ongoing EV transition is providing multiple growth opportunities for lot of domestic suppliers.

We highlight below some of the listed ancillary suppliers who are seeing a material increase in order bookings due to the EV transition either in India or abroad.

Exhibit 32: Auto suppliers seeing sharp ramp-up in orders led by EV transition

Company	Comments on EV ramp-up trend
Ask Automotive	Aluminum castings segment for light weighting in EVs likely to be key growth driver going ahead
Alicon Castalloy	33% of orderbook comes from EVs
Endurance	42% of new order wins (ex BAL) in FY23 came from EVs in India business, 84% of new orders won in last 5 years in Europe business came from EVs and hybrids; Maxwell received orders with peak rev of INR 3.7bn in last 2.5 yrs
India Nippon Electricals	has developed EV controller and motors and has ambitious plans to expand in 2W and 4W EV solutions
Minda Corp	potential EV kit value likely to rise to Rs22-27k per unit from the current Rs4-4.5k
MM Forgings	forayed into EV space by acquiring Abhinava Rizvel that produces powertrain components
MSWIL	Wiring harness segment to see 2.4-8.1x content increase post EV transition
Uno Minda	potential EV kit value likely to rise to Rs61k per unit from the current Rs37k; EV order book has increased to Rs30bn
Varroc Engg	31% of orders in hand worth Rs36bn comes from Evs
Sona Comstar	Net order book from Evs has risen to Rs171bn (6x FY23 revenues)
Sundram Fasteners	signed EV business worth USD408mn over 6 years starting FY25;expects EV contribution to rise to 10% in 3 years from 3% currently
SAMIL	potential content in wiring harness to rise 2.4-8.1x; in modules and polymers to rise by 1.5x-3.4x and in mirrors by 1.4x
Tata AutoComp	To develop high voltage EV components for application in PV industry in Europe and North America
Suprajit Engg	New division (SED) seeing healthy order intake from EVs with sharp increase in content relative to cables
Sansera Engg	EV order intake sharply rising; now at 15% of total orders in Q2FY24
Subros	Expect to see significant rise in content once EV transition picks up in PVs and CVs in India

Source: HSIE Research

Thus, the EV transition, both in India and globally, is likely to be one of the key growth drivers for the domestic component industry in the foreseeable future.

India an emerging auto hub – finally seems a reality

India Auto market cannot be ignored

India continues to be the third-largest automotive market globally and is likely to end FY24 with 4.1mn PV sales. Also, given India's natural demographic advantage (young population + less penetration relative to developed economies), the Indian automotive market is likely to be one of the fastest-growing markets globally in the coming years.

Given this, many global OEMs have set up manufacturing plants over the last 10-15 years to grab a share of this all-important market. However, given formidable competition from domestic peers including Maruti, M&M and Tata Motors, very few MNCs have been able to establish some meaningful presence in this market. As a result, one has also seen multiple exits by MNCs (the likes of General Motors and Ford India) from this market in the last few years.

However, over time global OEMs have realized that if they want to get the Indian market right, they have to get their pricing right and to get their pricing right, they need to have scale, a process that takes many years. Hence, in order to scale up at a faster pace, a lot of global OEMs have now solidified their plans to make India their global hub for some of their models, to begin with.

One has heard for almost 7-8 years now that India has the potential to emerge as a global automotive hub for OEMs to produce locally for global markets. However, despite the low-cost natural advantage that India had, this theory had not played out meaningfully until COVID-19 took place. However, since the last 2-3 years now, quite a few enabling factors have been playing out in India's favour which is finally translating this "hope" into a reality.

We highlight below some of the critical enablers that are leading global auto OEMs to make India one of their hubs for manufacturing:

India no longer just a "cost conscious" market

With the ever-rising premiumization trend in India, global OEMs are now seeing quality/features sold in Indian markets that are comparable to a lot of their global markets. Further, post BS6 emissions, Indian emission regulations are now comparable to many global regions. Thus, some of the models sold in India can be sold in the same shape and form to multiple regions beyond India. Hence, many global OEMs are now finally considering India as a manufacturing hub for some of their global markets like ASEAN.

Evolution of Best in class Supply ecosystem

As highlighted in the previous section, over the years, India's supplier ecosystem has developed itself into being highly competitive relative to its global peers. The fact that a lot of the local suppliers are already supplying to global OEMs is also a testimony of their capabilities. Global OEMs are now confident that the Indian supplier base is mature enough to suffice their needs and that it can be used for their global requirements. Needless to say, a well-established and "accessible" supply chain is one of the key considerations before OEMs consider setting up a manufacturing base.

Favorable Government policies

As highlighted in the previous section, policy incentives are in place both for localizing at the OEM level as well as at the component level. This is in turn driving even global OEMs to invest in India, both to penetrate India and for their global needs.

Uncertain global dynamics

As elaborated in the previous section, multiple global events in the recent past have forced OEMs to reconsider working on an alternate supply chain strategy. On similar lines, these developments with the above enablers have forced global OEMs to think of India as a global sourcing hub for some of their upcoming models and for some of their similar markets that can be penetrated from India.

Given each of these tailwinds, many existing OEMs have announced major long-term expansion plans and India is now finally emerging as one of the export hubs for many global OEMs. We have summarised below a list of OEMs (domestic and global) that have earmarked long-term investments in India either for ramping up existing investment or to make India a sourcing hub. While this is not an exhaustive list, we have tried to capture material announcements in the this space in the recent past.

Exhibit 33: India emerging as an auto hub for global OEMs

OEM	India plans	Investment Rs bn
Maruti Suzuki	Doubling capacity to 4mn units pa by FY31 targeting 3x rise in exports to 0.75mn	500
Suzuki Corp	Rs31bn in BEV plant and Rs73bn in cell mfg plant To make India its EV global hub and start EV exports to Japan 2025 and also target to supply to Toyota for its European needs	104
Hyundai	Signed MoU with TN Govt for EV investments over next 10 years Will launch 5 EVs by 2032	200
Kia India	target mkt share to 10% by 2030 in India PVs from 6-7% currently to increase capacity by 100k units pa in 2024 to 440k units 1st mass mkt EV to be launched in 2025; target to have 15-17% share of India EV mkt by 2030; indicates that made in India Evs would be tailored for emerging markets	Rs20bn on EV related R&D, manufacturing and charging infra
Toyota Kirloskar	to set up 3rd plant in India of 100k units pa capacity	33
Honda Cars India	targets to focus on SUVs and Evs in India, would launch 5 new models in India by 2030; India to be future export hub for Elevate. Made in India Elevate soon to be exported to Japan	
Renault Nissan JV	to launch 6 new products including 2 Evs, all will be exported Nissan to use India as a big hub for exports; "India has the potential to beat Mexico as the "best plant in the world" for Nissan	53
Stellantis	India is critical export base for engine, gearboxes and all brands, they have sharp focus on localisation; May consider localising battery cells and parts in India as well and look for exports; their 40 suppliers are exporting from India to LatAm	
MG Motors	to set up 2nd plant in Gujarat to more than double capacity to 300k units pa; target to launch 4-5 cars by 2028; EV mix to be 65-75%	50
Skoda Auto India	Skoda's India unit will spearhead the group's expansion in SouthEast Asia; Skoda to make India its epxort hub	
Mercedes Benz	India is the 1st region outside Germany to assemble its EV EQS; Mgmt indicated that India could be a production hub outside of Europe as it has an edge over peers	
JSW Group	Announced JV with China's SAIC with a focus on green mobility, plans to invest in new plant for EV ecosystem in Odisha	400
HMSI	Make in India for the world, will export to 58 countries with 20 models in FY24	
Suzuki Motorcycles	Has made India export hub for 125-300cc 2Ws	
India Yamaha	India is amongst the key export hubs, will evolve as export hub for EVs as well	

Source: HSIE Research

Needless to say, India's evolution as a global automotive hub will in turn open up significant growth opportunities for domestic suppliers in the long run.

Sector View and top picks

The global auto supply chain has witnessed multiple disruptions in the last 3-4 years, which include COVID-led chip shortages and disruptions driven by the two recent wars. Apart from this, the US-China stand-off and a few China-specific factors like rising wage inflation relative to peers etc are forcing global OEMs to try and look at some alternative sourcing options apart from China in a bid to derisk their supply chain from such shocks. Given this background and also supported by favourable Government policies, the Indian auto component industry (apart from ASEAN regions) is evolving as one of the beneficiaries of an eminent supply chain derisking strategy by global OEMs.

The domestic auto comp industry is already seeing an outperformance to underlying industry growth as the auto industry is witnessing a significant premiumization trend across segments which is in turn driving a gradual content increase to its suppliers. Apart from this, the fact that India is now emerging as an auto hub for global OEMs also bodes well for the long-term growth prospects of domestic suppliers. Also, many domestic suppliers are seeing multiple opportunities for inorganic growth as many global suppliers face multiple headwinds and are at risk of shutting down. Thus, domestic suppliers appear to be in a sweet spot as most of the relevant parameters are in favour of sustainable long-term growth for the industry in the next 4-5 years. Hence, we expect the auto component industry to sustain its outperformance to underlying auto industry growth in the foreseeable future.

Further, while revenue growth is expected to be strong, operating leverage benefits and a weak commodity cycle are likely to drive strong earnings growth for the ancillary universe. As per Bloomberg, the auto component industry (summarised data for 40 auto ancillaries from Bloomberg) is expected to post a very strong 34% earnings CAGR over FY23-25E, driven by a healthy 13% revenue CAGR.

Given this and the domestic stock market exuberance, most ancillary companies (irrespective of their size) have seen a very strong rally over the last 12 months. In light of the above, one needs to look at businesses which are fundamentally sound and have equally strong long-term potential but may have relatively underperformed peers in the recent past due to some macro/micro near-term issues.

We categorise the listed players of the auto component industry based on market cap and compare their stock performance as well as their valuations relative to peers in the below tables.

Exhibit 34: Stock Performance of Large Cap Auto Component Companies

Company	6m	12m	2 Years	3 Years	5 Years
Bharat Forge	43.6	42.1	63.1	104.3	155.1
Balkrishna Industries	14.5	24.3	11.6	69.0	218.6
Bosch Ltd	21.8	35.8	36.9	51.6	19.8
Uno Minda Inds	20.9	34.9	21.6	231.6	356.6
SAMIL	10.7	47.1	NA	NA	NA
Schaeffler India	5.8	22.6	77.9	255.8	190.4
Tube Investments	25.6	53.5	124.7	378.3	1,083.7

Source: Bloomberg, HSIE Research

Exhibit 35: Stock Performance of MidCap Auto Component Companies

Company	6m	12m	2 Years	3 Years	5 Years
CIE India	-0.4	30.8	123.4	204.0	111.6
Endurance Technologies	22.0	45.2	22.3	56.1	76.2
Exide Industries	27.7	72.4	80.9	61.3	30.3
Motherson Sumi Wiring Systems	8.1	22.3	NA	NA	NA
SKF India	-11.8	1.6	17.3	158.9	140.4
Sona BLW	2.6	43.9	-20.3	NA	NA
Sundram Fasteners	3.8	28.7	43.3	129.0	145.5
ZF CV	42.0	93.1	99.4	213.1	172.4

Source: Bloomberg, HSIE Research

Exhibit 36: Stock Performance of Small Cap Auto Component Companies

Company	6m	12m	2 Years	3 Years	5 Years
Amara Raja	29.5	40.7	27.6	-18.6	3.3
Craftsman Automation	5.8	38.1	106.6	NA	NA
Minda Corp	34.9	77.9	95.4	354.0	169.9
RK Forgings	51.3	186.9	271.0	553.0	676.9
Rolex Rings	4.6	29.6	76.8	NA	NA
Sansera Engg	12.0	41.4	33.2	NA	NA
Suprajit Engg	-8.7	19.3	-9.4	87.0	78.2
Varroc Engg	61.9	88.9	27.0	29.4	-24.8

Source: Bloomberg, HSIE Research

Exhibit 37: Peer Comparison Table - Large Cap Auto Component Companies

Companies	Market Cap INR bn	EBIDTA margin (%)				EPS INR				EPS CAGR (%)	PE (x)		EV / EBIDTA (x)		RoE (%)		
		FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY24-26E	FY25E	FY26E	FY25E	FY26E	FY24E	FY25E	FY26E
Bharat Forge*	5,71,403	13.7	15.7	18.8	20.0	12.2	23.0	39.9	51.2	49.1	29.9	23.3	17.6	14.5	14.4	21.0	22.2
Balkrishna Industries*	5,35,489	20.1	24.8	27.0	27.5	55.8	70.7	93.6	106.5	22.7	28.0	24.6	17.3	15.2	15.9	18.4	18.2
Bosch Ltd	6,78,932	12.4	12.3	13.3	14.2	483.0	542.2	651.0	780.6	20.0	35.0	29.2	25.6	21.5	15.0	16.1	15.9
Uno Minda Inds	3,92,082	11.1	11.3	11.6	11.7	11.4	14.9	18.5	22.0	21.6	36.5	30.7	21.5	18.4	18.3	19.1	19.5
SAMIL*	7,35,227	7.9	8.6	9.0	9.5	2.2	3.2	4.7	6.5	42.2	22.6	16.5	8.0	6.8	9.0	12.4	15.4
Schaeffler India	5,10,488	18.8	19.1	16.6	15.0	56.3	68.4	78.3	92.8	16.5	39.7	33.5	25.4	22.9	21.2	21.5	21.0
Tube Investments	7,84,724	13.0	13.1	13.5	14.2	34.4	41.0	48.0	56.6	17.5	82.0	69.5	64.3	54.5	22.6	22.2	21.3

Source: * HSIE Research estimates, Rest: Bloomberg

Exhibit 38: Peer Comparison Table - MidCap Auto Component Companies

Companies	Market Cap INR bn	EBIDTA margin (%)				EPS INR				EPS CAGR (%)	PE (x)		EV / EBIDTA (x)		RoE (%)		
		FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY24-26E	FY25E	FY26E	FY25E	FY26E	FY24E	FY25E	FY26E
CIE Automotive India	1,85,888	14.0	15.6	16.1	16.5	18.8	23.1	26.9	31.0	15.8	17.8	15.5	10.8	9.6	15.8	16.5	16.6
Endurance Technologies*	2,91,500	11.8	13.1	13.9	13.8	34.8	46.9	57.1	63.6	16.5	35.9	32.2	18.0	15.8	13.4	14.4	14.2
Exide Industries	2,76,250	10.7	11.7	12.4	12.8	10.6	13.0	15.3	17.2	15.1	20.6	18.3	11.8	10.5	9.2	10.1	10.4
Motherson Sumi Wiring Systems*	2,76,500	11.1	11.6	12.6	13.1	1.1	1.3	1.7	2.0	22.5	38.9	31.3	24.8	20.3	37.3	39.0	40.1
SKF India	2,28,789	17.4	17.2	17.7	17.1	106.2	122.0	144.5	163.6	15.8	31.7	28.0	22.7	20.7	23.7	23.6	24.4
Sona BLW	3,44,447	26.3	28.1	28.6	28.8	6.8	9.5	13.2	16.8	32.9	44.1	34.4	27.2	21.8	22.2	25.8	27.3
Sundram Fasteners	2,70,708	15.5	16.5	17.6	18.4	23.5	27.1	38.3	46.2	30.6	33.7	27.4	22.1	18.1	18.0	21.1	21.5
ZF CV	3,27,570	13.9	15.1	16.1	16.4	167.5	240.3	315.2	383.4	26.3	54.8	45.0	39.3	34.4	15.8	17.0	16.8

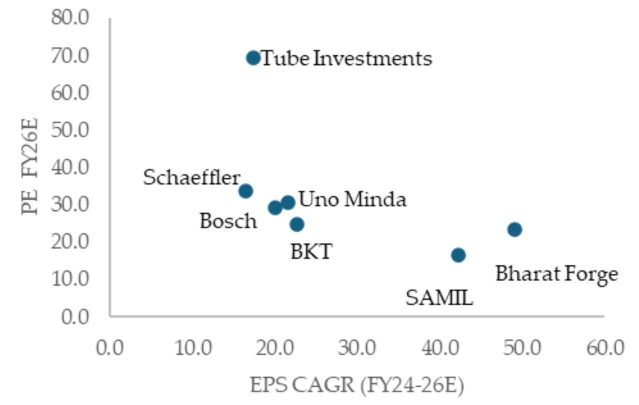
Source: * HSIE Research estimates, Rest: Bloomberg

Exhibit 39: Peer Comparison Table - Small Cap Auto Component Companies

Companies	Market Cap INR bn	EBIDTA margin (%)				EPS INR				EPS CAGR (%)	PE (x)		EV / EBIDTA (x)		RoE (%)		
		FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E	FY24-26E	FY25E	FY26E	FY25E	FY26E	FY24E	FY25E	FY26E
Amara Raja	1,38,973	13.0	13.5	13.8	14.0	40.7	48.5	54.6	59.5	10.7	14.4	13.3	7.8	7.1	14.5	14.5	13.9
Craftsman Automation	1,00,561	21.9	20.6	21.2	21.4	117.6	174.1	219.0	273.5	25.3	21.4	17.1	10.3	9.0	23.5	23.5	23.5
Minda Corp	97,114	10.7	11.1	11.6	12.0	11.9	10.9	13.9	17.2	25.6	28.6	23.2	15.5	13.3	15.1	16.6	17.9
RK Forgings	1,39,794	22.3	22.8	23.0	23.3	14.7	19.6	26.6	32.2	28.3	27.7	22.9	15.7	13.6	17.5	16.5	17.3
Rolex Rings	63,676	22.1	23.0	23.3	23.3	72.7	78.4	96.4	113.3	20.2	24.5	20.8	17.3	14.9	25.1	24.1	22.5
Sansera Engg*	55,300	16.2	17.2	18.0	18.5	27.2	35.4	50.4	66.1	36.6	20.1	15.3	9.8	7.9	14.2	17.1	18.8
Suprajit Engg*	54,400	11.4	10.6	12.0	13.1	11.0	11.3	16.6	22.3	40.3	23.3	17.3	14.4	11.3	11.6	15.1	17.5
Varroc Engg	83,421	8.4	9.8	10.5	10.5	2.4	15.2	24.7	30.5	41.4	21.1	17.1	9.8	8.9	19.2	24.8	25.1

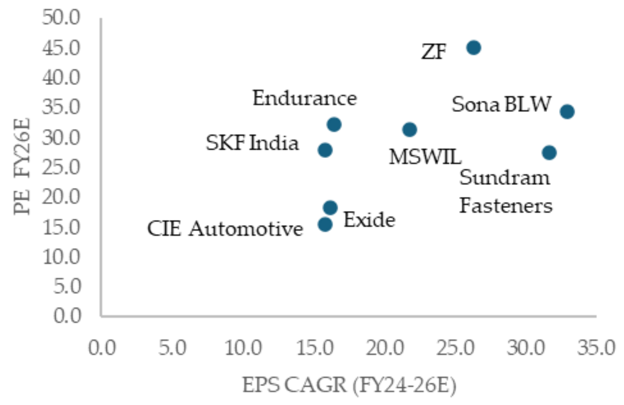
Source: * HSIE Research estimates, Rest: Bloomberg

Exhibit 40: Auto Comp Sector: Large Cap: PE Vs EPS



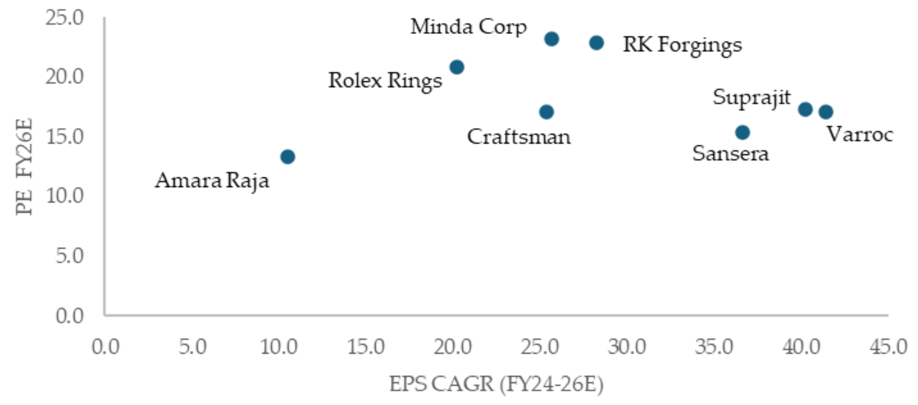
Source: Bloomberg, HSIE Research

Exhibit 41: Auto Comp Sector: MidCap: PE Vs EPS



Source: Bloomberg, HSIE Research

Exhibit 42: Auto Comp Sector: Small Cap: PE Vs EPS



Source: Bloomberg, HSIE Research

Against this backdrop and based on the relative valuation tables above, we like the below 4 names as potential long-term ideas in our ancillary coverage universe.

Samvardhana Motherson (SAMIL): SAMIL is a market leader in wiring harness PVs in India and CVs in the US and Europe, amongst the top players in the rearview mirror business globally, a large supplier of plastic components (dashboards, bumpers, etc.) to premium OEMs globally and a leading player in PV lighting systems in India. Given its well-diversified presence across components, geographies and customers, it is emerging as the key beneficiary of the growing popularity of electric cars and rising premiumisation trend across segments which is evident in a solid ramp-up in its order book wherein its booked business has scaled up to USD 77.3bn. Apart from this, SAMIL offers huge scope for growth from inorganic opportunities: it has closed 15 acquisitions since Sep 2022 with combined proforma revenue of USD 2.6bn (net). Given strong long-term growth opportunities and attractive valuation relative to peers, we initiate BUY on SAMIL with a TP of INR 129 – valued at 20x FY26E.

Sansera Engineering: Sansera is amongst the top 10 global suppliers of connecting rods (CR) to LV and CV markets and the largest supplier of CR and rocker arms for Indian 2W and PV OEMs. Sansera's business resilience is evident from the fact that: 1) it saw the least revenue (-10%) / earnings (-26%) decline even in COVID times 2) margins have remained resilient over the last few years despite sharp rise in costs. Its order backlog of INR 19.3bn has 52% contribution from non-ICE segment and is in line with its target set for FY26 to have 40% revenues from non-ICE segment (from 22% in FY23). Sansera has earmarked an ambitious Vision wherein it targets to achieve 20% revenue CAGR and deliver 20% margin and RoCE by FY26. Management's ability to set a 3-year target highlights its confidence in the long-term growth prospects of the business. Initiate with a BUY rating and a PT of INR 1,190 – valued at 18x FY26 earnings.

Suprajit Engineering (SEL): SEL has had a healthy track record of outperforming India's auto industry growth and is now emerging as one of the major beneficiaries of the global derisking strategy by OEMs in the cables business as it remains amongst the very few large players with the ability to supply from multiple low-cost locations globally based on OEMs requirements. Synergy benefits post-LDC acquisition are expected to be visible in the coming years which is likely to drive 62% EBITDA CAGR at SCD over FY24-26E. Further, the new products division of SEL (SED) is seeing an extremely encouraging response from OEMs and helping evolve SEL as a "beyond cables" player. On the back of the above tailwinds, we expect SEL to post 27% earnings CAGR over FY23-26E. Given attractive valuations at 17.3x FY26E, we Initiate with a BUY and TP of INR 468, valued at 21x FY26 earnings.

Motherson Sumi Wiring (MSWIL): MSWIL has developed a sustainable competitive advantage in India given its scale advantage, backward integration capabilities, and localisation efforts. In India wiring harness, it supplies to 10 of the top 12 PV OEMs, 2 of the top 3 EV OEMs in PVs, and 2 of the top 5 EV OEMs in the two-wheeler segment. Also, it has been part of 23 new launches and 17 facelifts in FY23 across various segments highlighting its strong position across segments. It is now emerging as one of the major beneficiaries of the evolving trends (premiumisation + EVs) in the auto sector in India wherein content is set to rise in the range of 1.1x-8x. The stock has recently underperformed the broader indices as its performance was impacted by the ramp-up of new facilities set up recently to service new orders. However, with the steady ramp-up of new facilities and aided by cost pass-through, we expect MSWIL's margins to improve 100bps over FY24-26E. Given its strong franchise with superior returns, we believe the stock deserves a premium valuation relative to peers. Initiate with ADD and TP of INR 67 (valued at 34x FY26 EPS).

Company section

Samvardhana Motherson International

Forgotten "star"

SAMIL is a market leader in wiring harness PVs in India and CVs in the US and Europe, amongst the top players in the rearview mirror business globally, a large supplier of plastic components (dashboards, bumpers, etc.) to premium OEMs globally and a leading player in PV lighting systems in India. Given its well-diversified presence across components, geographies and customers, it is emerging as the key beneficiary of the growing popularity of electric cars and rising premiumisation trend across segments which is evident in a solid ramp-up in its order book wherein its booked business has scaled up to USD 77.3bn. Apart from this, SAMIL offers huge scope for growth from inorganic opportunities: it has closed 15 acquisitions since Sep 2022 with combined proforma revenue of USD 2.6bn (net). Given strong long-term growth opportunities and attractive valuation relative to peers, we initiate BUY on SAMIL with a TP of INR 129 – valued at 20x FY26E.

SAMIL to be a key beneficiary of the evolving MEGA trends in Autos
SAMIL is emerging as one of the major beneficiaries of the rising premiumisation trend and EV transition, which in turn is expected to drive higher content in the range of 1.5x-8x. These favourable trends have led to a solid ramp-up in its order book wherein its booked business has scaled up to USD 77.3bn (22% from EVs).

Closure of recent acquisitions provides huge growth opportunities
Taking advantage of the global macro headwinds and at the customer's behest, SAMIL has acquired 15 entities since Sep 2022 whose combined proforma net revenue stands at USD 2.6bn. Apart from this, these entities offer multiple synergy benefits which include entry within the Japanese supplier network (Yachio + Ichikoh), evolution as a cockpit assembler (SAS), complimentary new segment addition (Yachiyo + Dr Schneider) and strong opportunities in aerospace and medical equipment (Cirma, AD Industries, Irillic, and SMAST). These acquisitions provide SAMIL with significant growth opportunities in the long run, in our view.

Aggressive targets indicate ambitions, disciplined approach has been the key
SAMIL has had a track record of setting ambitious five-year targets since 2000. Its 2025 targets include revenue of USD36bn, ROCE and dividend payout of 40% and 3C X 10. While most of its targets till 2015 have been achieved, it missed its target by a margin in 2020 and is likely to miss its target by a margin even for 2025. However, management has always refrained from acquiring entities just to achieve its targets which was evident immediately post-COVID. Thus, while its aggressive targets highlight management's growth aspirations, its disciplined approach would help generate long-term shareholder returns, in our view.

"Quality" company available at attractive valuations
Given its sub-par valuations relative to peers and its normalised historical average and the multiple growth opportunities highlighted above, we initiate on SAMIL with a BUY and TP of INR 129, valued at 20 x FY26 earnings.

Financial Summary

Year Ending March	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	6,35,360	7,87,007	9,87,017	11,07,614	12,12,047
EBITDA	44,614	62,077	84,841	99,181	1,15,225
APAT	6,525	15,653	23,376	31,935	43,734
Diluted EPS (Rs)	1.0	2.3	3.4	4.7	6.5
P/E (x)	110.5	46.0	30.8	22.6	16.5
EV / EBITDA (x)	18.1	12.9	9.5	8.0	6.8
RoCE (%)	5.8	9.3	15.0	17.2	19.9

Source: Company, HSIE Research

BUY

CMP *(as on 23 Jan 2024)*	**INR 106**
Target Price	**INR 129**
NIFTY	**21,239**

KEY STOCK DATA

Bloomberg code	MOTHERSO IN
No. of Shares (mn)	6,776
MCap (INR bn) / ($ mn)	721/8,812
6m avg traded value (INR mn)	1,301
52 Week high / low	INR 111/62

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	14.6	9.6	45.1
Relative (%)	7.0	4.1	29.0

SHAREHOLDING PATTERN (%)

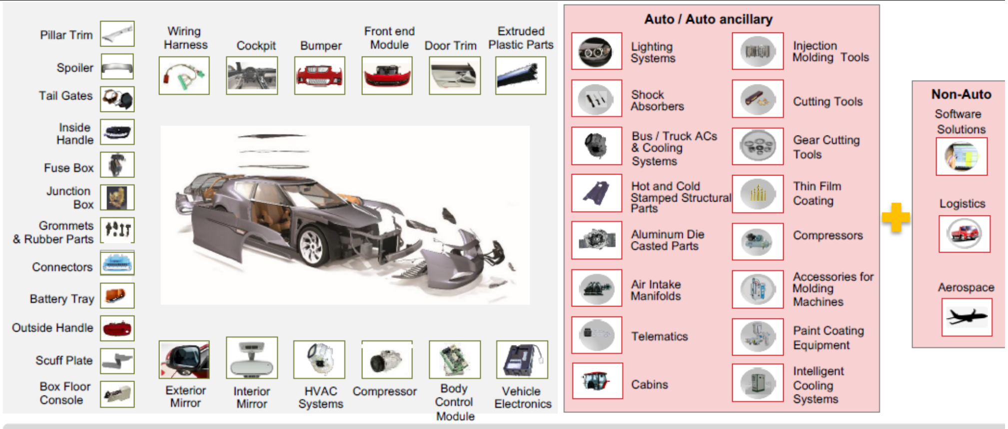
	Sep-23	Dec-23
Promoters	64.8	64.8
FIs & Local MFs	15.0	15.3
FPIs	11.4	10.8
Public & Others	8.8	9.1

Source : BSE

Aniket Mhatre
aniket.mhatre@hdfcsec.com
+91-22-6171-7357

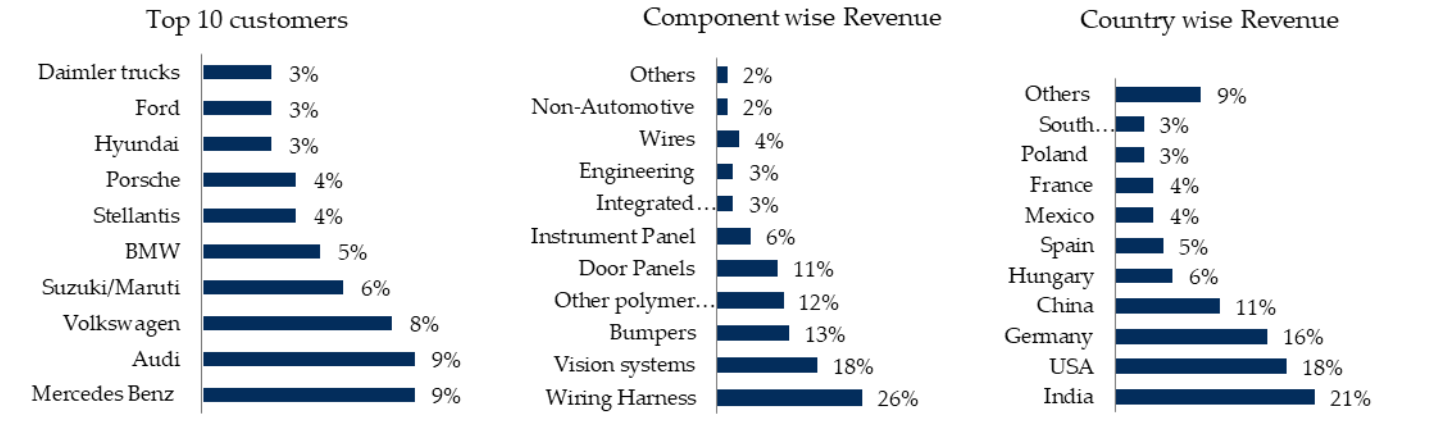
Maitreyee Vaishampayan
maitreyee.vaishampayan@hdfcsec.com
+91-22-6171-7308

Exhibit 43: SAMIL: well diversified product portfolio



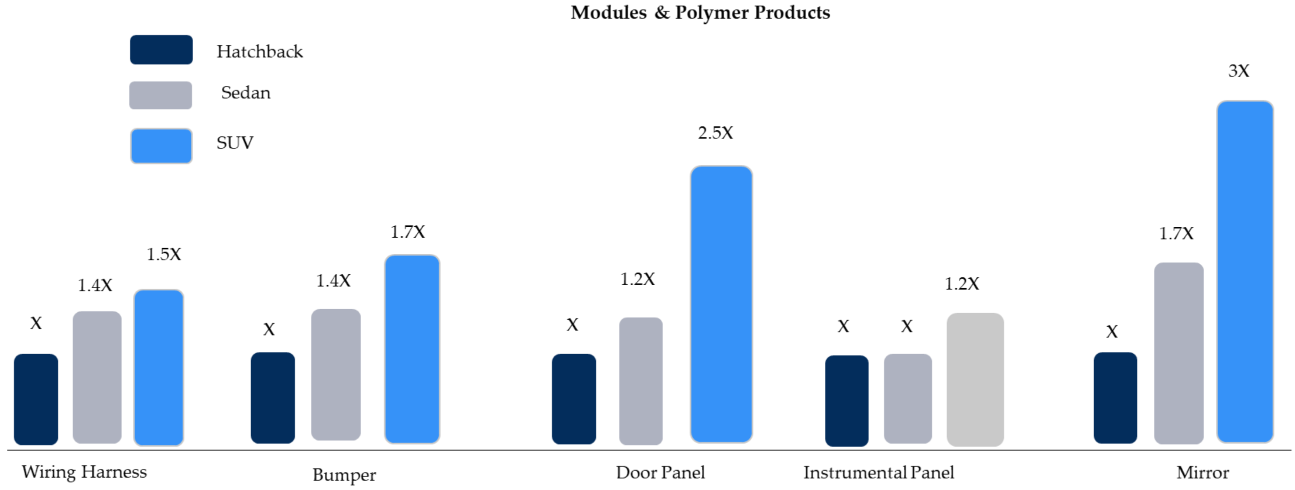
Source: Company

Exhibit 44: SAMIL: Working towards 3CX10



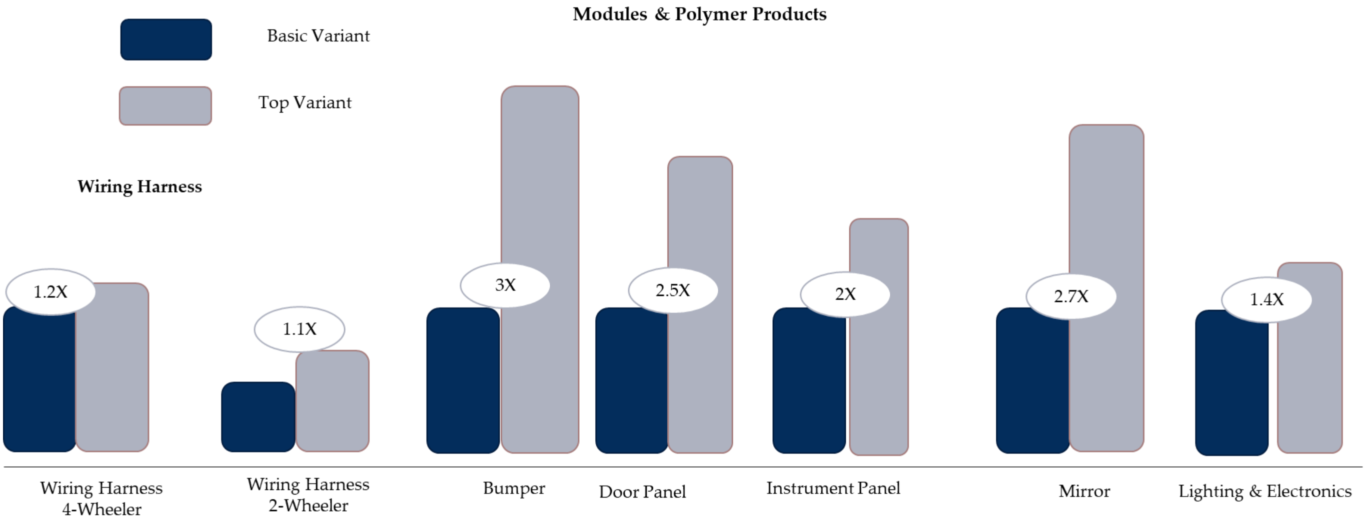
Source: Company

Exhibit 45: SAMIL: Eg1: Emerging as a major beneficiary of the rising premiumisation trend



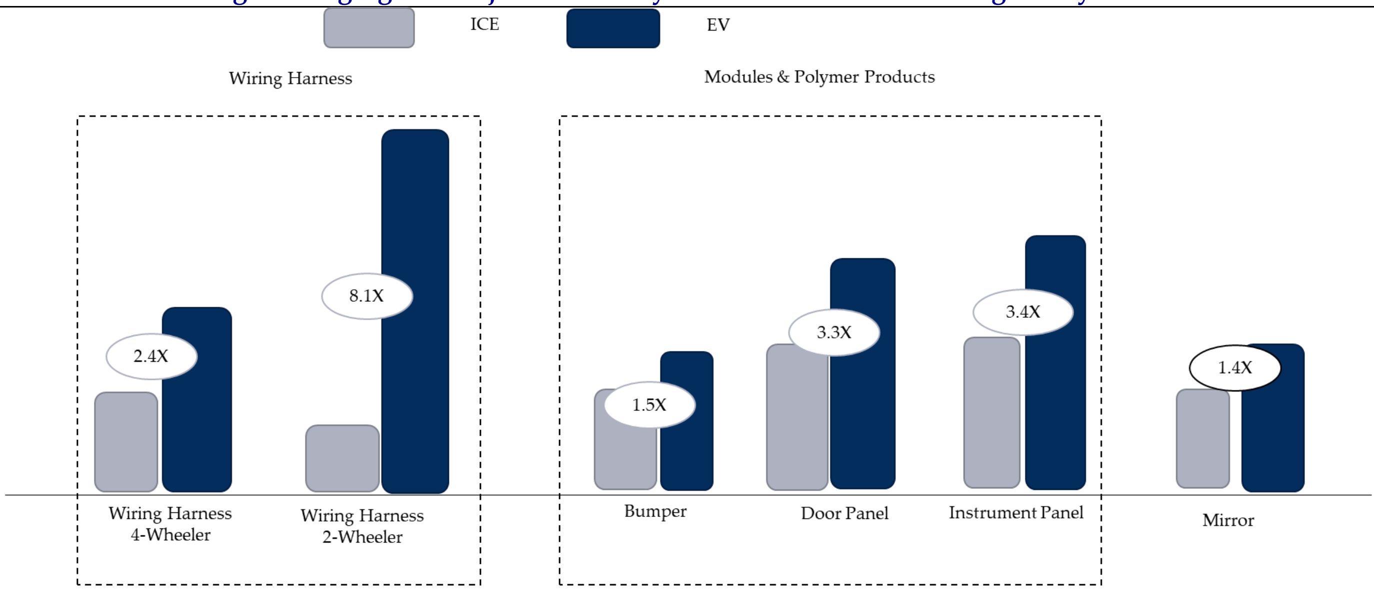
Source: Company

Exhibit 46: SAMIL: Eg1: Emerging as a major beneficiary of the rising premiumisation trend



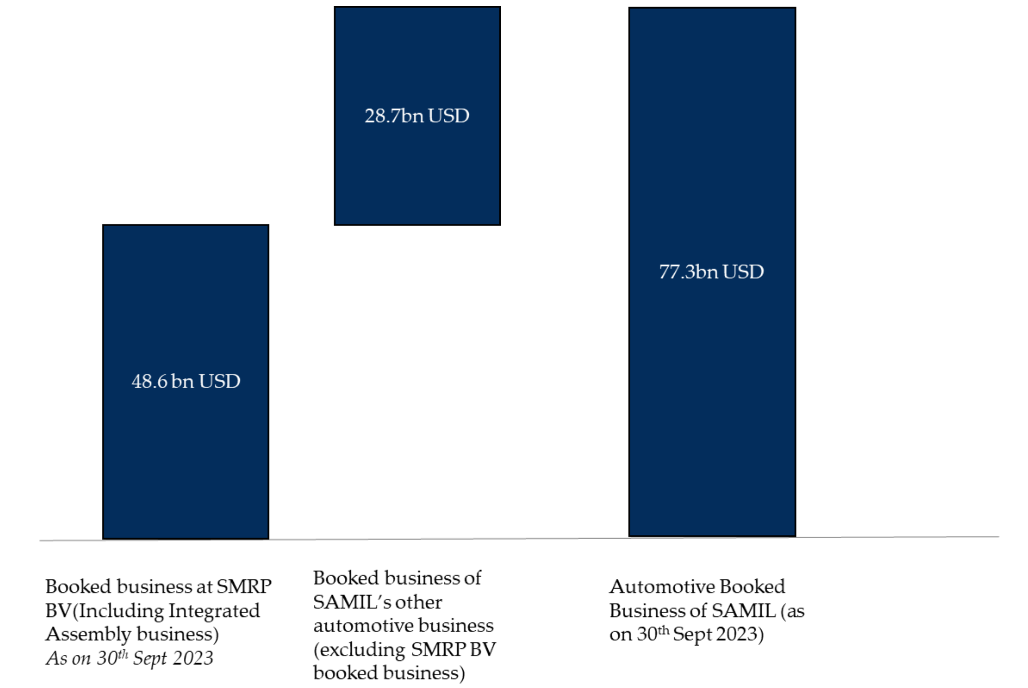
Source: Company

Exhibit 47: SAMIL: Eg1: Emerging as a major beneficiary of the EV transition trend globally and in India



Source: Company

Exhibit 48: SAMIL: healthy order book to drive strong revenue growth



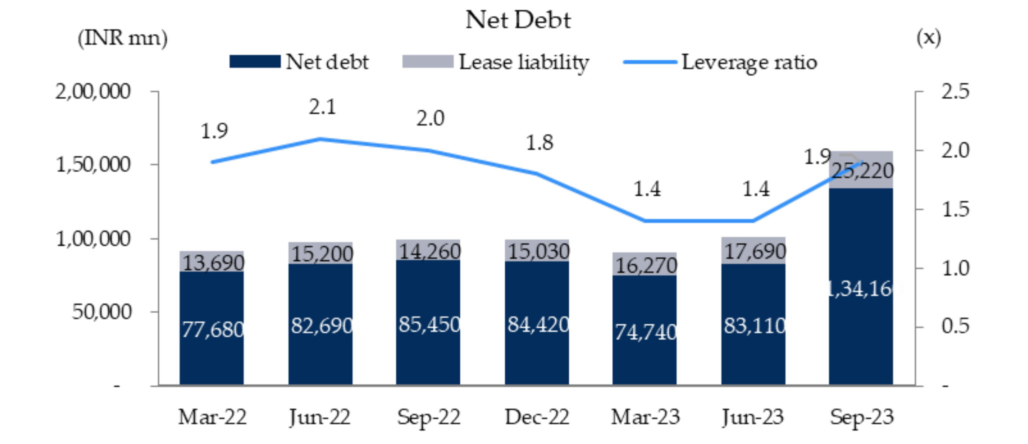
Source: Company

Exhibit 49: SAMIL: likely to benefit from synergies of recent acquisitions

	Closing status	Consolidation With SAMIL (FY24)			
		Q4 / Q1	Q2	Q3	Q4
DICV	Feb-23	Y			
FMCEL	Mar-23	Y			
Bolta	Apr-23	Y			
YMAT	Jun-23	Y			
SAS Autosystemtechnik	Jul-23		Y		
Saddles	Jul-23		Y		
Prysm Systems	Jul-23		Y		
Rollon Hydraulics	Jul-23		Y		
Ichikoh Industries	Aug-23		Y		
Dr Schneider Group	Oct-23			Y	
Cirma Enterprise	Q3FY24				
Inllic Pvt Ltd	Q3FY24				
SMAST	Q3FY24				
AD Industries	Q4FY24				
Yachiyo 4W	Q1FY25				

Source: Company

Exhibit 50: SAMIL: leverage under control despite multiple recent acquisitions



Source: Company

Exhibit 51: SAMIL: segmental growth estimates

Segment Revenue	FY22	FY23	FY24E	FY25E	FY26E
a) Wiring Harness	2,19,698	2,65,013	3,12,861	3,28,504	3,61,355
YoY (%)		20.6	18.1	5.0	10.0
b) Modules and Polymer Products	3,54,200	4,22,557	4,96,386	5,70,844	6,16,511
YoY (%)		19.3	17.5	15.0	8.0
c) Vision Systems	1,34,976	1,65,688	1,95,394	2,07,118	2,23,687
YoY (%)		22.8	17.9	6.0	8.0
d) Integrated Assemblies	0	0	68,294	92,197	99,573
YoY (%)				35.0	8.0
d) Emerging business	25,668	68,269	83,192	99,830	1,19,796
YoY (%)		166.0	21.9	20.0	20.0
Adjustments	70,641	1,34,520	1,69,110	1,90,878	2,08,876
Total Revenue from Operations	**6,63,901**	**7,87,007**	**9,87,017**	**11,07,614**	**12,12,047**
YoY (%)		18.5	25.4	12.2	9.4
EBIDTA Margin (%)					
a) Wiring Harness	8.7	8.6	10.5	10.5	10.8
b) Modules and Polymer Products	6.9	6.4	7.2	8.0	8.5
c) Vision Systems	9.5	10.3	9.8	10.2	10.5
d) Integrated Assemblies			10.2	10.5	11.0
d) Emerging business	9.0	11.3	12.0	12.0	12.0

Source: Company, HSIE Research

Financials

Income Statement

Year ending March	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	**6,35,360**	**7,87,007**	**9,87,017**	**11,07,614**	**12,12,047**
Growth (%)	*10.7*	*22.6*	*26.8*	*12.2*	*9.4*
Material Expenses	3,67,363	4,53,174	5,61,181	6,30,233	6,81,170
Employee Expenses	1,53,746	1,79,314	2,26,574	2,50,825	2,75,908
Other Operating Expenses	69,637	92,442	1,14,421	1,27,376	1,39,744
EBITDA	**44,614**	**62,077**	**84,841**	**99,181**	**1,15,225**
EBITDA Margin (%)	*7.0*	*7.9*	*8.6*	*9.0*	*9.5*
EBITDA Growth (%)	*2.3*	*39.1*	*36.7*	*16.9*	*16.2*
Depreciation	29,582	31,358	35,013	40,265	43,486
EBIT	**15,032**	**30,719**	**49,828**	**58,916**	**71,739**
Other Income (Including EO Items)	8,119	1,576	6,827	4,766	5,242
Interest	5,426	7,809	17,406	15,665	11,749
PBT	**17,724**	**24,485**	**34,261**	**48,017**	**65,233**
Tax (Incl Deferred)	6,068	7,352	11,173	14,405	19,570
Minority Interest	2,917	2,178	1,458	1,677	1,929
RPAT	**8,739**	**14,956**	**21,630**	**31,935**	**43,734**
APAT	**6,525**	**15,653**	**23,376**	**31,935**	**43,734**

Source: Company, HSIE Research

Balance Sheet

As at March	FY22	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS					
Share Capital - Equity	4,518	6,776	6,776	6,776	6,776
Reserves	2,01,365	2,17,739	2,32,592	2,51,650	2,77,764
Total Shareholders Funds	**2,05,882**	**2,24,515**	**2,39,368**	**2,58,427**	**2,84,541**
Total Debt	**1,27,609**	**1,21,657**	**1,11,657**	**1,01,657**	**91,657**
Net Deferred Taxes	**-8,322**	**-8,428**	**-8,428**	**-8,428**	**-8,428**
TOTAL SOURCES OF FUNDS	**3,42,932**	**3,56,998**	**3,61,851**	**3,70,910**	**3,87,024**
APPLICATION OF FUNDS					
Net Block	2,08,869	2,26,476	2,36,463	2,26,198	2,17,712
CWIP	13,097	14,779	14,779	14,779	14,779
Investments	69,859	67,892	77,892	97,892	1,17,892
Total Non-current Assets	**2,91,825**	**3,09,147**	**3,29,134**	**3,38,869**	**3,50,383**
Cash & Equivalents	**49,994**	**46,987**	**27,021**	**25,564**	**30,663**
Inventories	64,417	78,228	98,109	1,10,096	1,20,476
Debtors	80,247	98,379	1,23,381	1,38,456	1,51,510
Other Current Assets	62,449	72,133	80,789	90,484	1,01,342
Total Current Assets	**2,57,107**	**2,95,726**	**3,29,299**	**3,64,600**	**4,03,991**
Creditors	1,13,603	1,41,363	1,77,289	1,98,951	2,17,709
Other Current Liabilities & Provns	92,397	1,06,512	1,19,294	1,33,609	1,49,642
Total Current Liabilities	**2,06,000**	**2,47,875**	**2,96,583**	**3,32,560**	**3,67,351**
Net Current Assets	**51,107**	**47,851**	**32,717**	**32,040**	**36,640**
TOTAL APPLICATION OF FUNDS	**3,42,932**	**3,56,998**	**3,61,851**	**3,70,910**	**3,87,024**

Source: Company, HSIE Research

Cash Flow

Year ending March	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	15,032	30,719	49,828	58,916	71,739
Non-operating & EO Items	-19,308	496	-2,494	0	0
Interest Expenses	4,957	2,570	4,333	4,766	5,242
Depreciation	29,582	31,358	35,013	40,265	43,486
Working Capital Change	-12,791	249	-4,831	-780	498
Tax Paid	-7,530	-7,457	-11,173	-14,405	-19,570
OPERATING CASH FLOW (a)	**9,942**	**57,936**	**70,676**	**88,762**	**1,01,396**
Capex	-43,070	-50,648	-45,000	-30,000	-35,000
Free Cash Flow (FCF)	*-33,128*	*7,288*	*25,676*	*58,762*	*66,396*
Investments	-60,112	1,967	-10,000	-20,000	-20,000
INVESTING CASH FLOW (b)	**-1,03,181**	**-48,681**	**-55,000**	**-50,000**	**-55,000**
Debt Issuance/(Repaid)	20,977	-5,952	-10,000	-10,000	-10,000
Interest Expenses	-5,426	-7,809	-17,406	-15,665	-11,749
FCFE	*-17,577*	*-6,474*	*-1,730*	*33,097*	*44,647*
Others	68,620	1,499	-8,235	-14,553	-19,549
FINANCING CASH FLOW (c)	**84,172**	**-12,262**	**-35,641**	**-40,218**	**-41,298**
NET CASH FLOW (a+b+c)	**-9,068**	**-3,007**	**-19,965**	**-1,457**	**5,098**
EO Items, Others	59,062	49,994	46,987	27,021	25,564
Closing Cash & Equivalents	49,994	46,987	27,021	25,564	30,663

Source: Company, HSIE Research

Key Ratios

	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY (%)					
GPM	42.2	42.4	43.1	43.1	43.8
EBITDA Margin	7.0	7.9	8.6	9.0	9.5
APAT Margin	1.4	1.9	2.2	2.9	3.6
RoE	4.2	6.7	9.0	12.4	15.4
RoIC (or Core RoCE)	6.0	10.0	14.5	16.6	18.5
RoCE	5.8	9.3	15.0	17.2	19.9
EFFICIENCY					
Tax Rate (%)	34.2	30.0	32.6	30.0	30.0
Fixed Asset Turnover (x)	1.9	2.1	2.3	2.4	2.5
Inventory (days)	*37*	*36*	*36*	*36*	*36*
Debtors (days)	*46*	*46*	*46*	*46*	*46*
Other Current Assets (days)	*36*	*33*	*30*	*30*	*31*
Payables (days)	*65*	*66*	*66*	*66*	*66*
Other Current Liab & Provns (days)	*53*	*49*	*44*	*44*	*45*
Cash Conversion Cycle (days)	0.6	0.4	2.1	2.1	1.8
Debt/EBITDA (x)	2.9	2.0	1.3	1.0	0.8
Net D/E (x)	0.4	0.3	0.4	0.3	0.2
Interest Coverage (x)	2.8	3.9	2.9	3.8	6.1
PER SHARE DATA (Rs)					
EPS	1.0	2.3	3.4	4.7	6.5
CEPS	5.3	6.9	8.6	10.7	12.9
Dividend	0.6	0.7	1.0	1.9	2.6
Book Value	456	331	353	381	420
VALUATION					
P/E (x)	110.5	46.0	30.8	22.6	16.5
P/BV (x)	0.2	0.3	0.3	0.3	0.3
EV/EBITDA (x)	17.9	12.8	9.5	8.0	6.8
EV/Revenues (x)	1.3	1.0	0.8	0.7	0.6
OCF/EV (%)	1.2	7.3	8.8	11.1	13.0
FCF/EV (%)	-4.1	0.9	3.2	7.4	8.5
FCFE/Mkt Cap (%)	-2.4	-0.9	-0.2	4.6	6.2
Dividend Yield (%)	0.6	0.6	0.9	1.8	2.4

Source: Company, HSIE Research

Sansera Engineering

Diversifying away its risk

Sansera is amongst the top 10 global suppliers of connecting rods (CR) to LV and CV markets and the largest supplier of CR and rocker arms for Indian 2W and PV OEMs. Sansera's business resilience is evident from the fact that: 1) it saw the least revenue (-10%) / earnings (-26%) decline even in COVID times 2) margins have remained resilient over the last few years despite sharp rise in costs. Its order backlog of INR 19.3bn has 52% contribution from non-ICE segment and is in line with its target set for FY26 to have 40% revenues from non-ICE segment (from 22% in FY23). Sansera has earmarked an ambitious Vision wherein it targets to achieve 20% revenue CAGR and deliver 20% margin and RoCE by FY26. Management's ability to set a 3-year target highlights its confidence in the long-term growth prospects of the business. Initiate with a BUY rating and a PT of INR 1,190 – valued at 18x FY26 earnings.

Sansera is a very strong player in its domain

Sansera is amongst the top 10 global suppliers of CR to LV and CV markets and the largest supplier of CR and rocker arms for Indian 2W and PV OEMs. Also, it supplies to six of the top 10 LV OEMs and three of the top 10 CV OEMs globally. In India, it supplies to nine of the top 10 2W OEMs and the leading PV OEM.

Transforming into a tech-agnostic company

Sansera endeavours to diversify its mix to 60:20:20 (Auto ICE: EV/tech agnostic: non-auto) by FY26 from 78:10:12 in FY23. This shift in mix would be driven by its new order wins with peak annual revenues of INR19.3bn, which have 48% contribution from Auto ICE and the rest from tech agnostic components. While its focus remains on diversifying into non-ICE segments, it has recently seen a surge in orders even from ICE segments as 1) EV transition globally seems to be slowing down and 2) global OEMs are focusing on derisking their supply chain.

Vision 20:20:20 – to focus on improving operational efficiencies

Sansera has had a commendable track record as it has posted 16%/15%/20% CAGR in revenue/EBITDA/PAT over the last decade. On the back of this, strong order backlog and ever-rising traction seen in key segments, it has earmarked its Vision 2026 (20x20x20) to grow at 20% revenue CAGR and achieve 20% margin and RoCE each. Management's ability to set a three-year target highlights its confidence in the long-term growth prospects of the business, both auto and non-auto, and should help boost investor confidence.

Initiate with a BUY and a target price of INR 1190/sh

Despite the global headwinds, management remains confident of achieving its long-term targets. Given its healthy order backlog, we expect Sansera to post a 34% EPS CAGR over FY23-26E. The stock at 15.3x FY26 EPS is attractive relative to its peers. Initiate with a BUY rating and a price target of INR 1,190—valued at 18x FY26 earnings.

Financial Summary

Year Ending March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	15,493	19,890	23,383	27,730	33,018	38,885
EBITDA	2,743	3,355	3,795	4,770	5,943	7,194
APAT	1,080	1,305	1,462	1,905	2,711	3,556
Diluted EPS (Rs)	20.2	24.4	27.2	35.4	50.4	66.1
P/E (x)	50.3	41.6	37.3	28.6	20.1	15.3
EV / EBITDA (x)	38.1	17.2	15.5	12.3	9.8	7.9
RoCE (%)	14.0	14.1	14.6	16.4	19.5	21.8

Source: Company, HSIE Research

BUY

CMP *(as on 23 Jan 2024)*	**INR 1,014**
Target Price	**INR 1,190**
NIFTY	**21,239**

KEY STOCK DATA

Bloomberg code	SANSERA IN
No. of Shares (mn)	54
MCap (INR bn) / ($ mn)	54/665
6m avg traded value (INR mn)	164
52 Week high / low	INR 1,090/697

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	4.6	8.3	21.9
Relative (%)	6.8	15.5	3.7

SHAREHOLDING PATTERN (%)

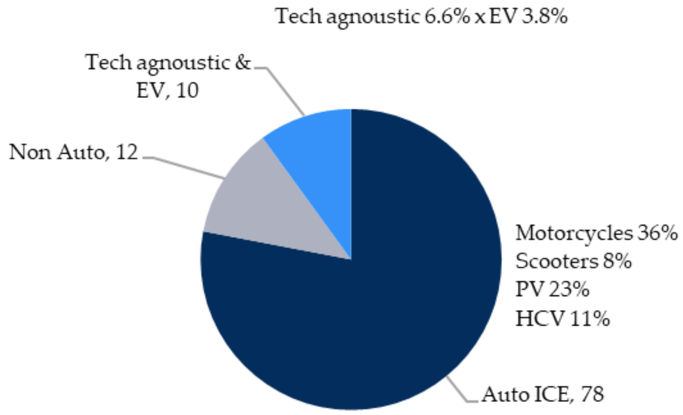
	Sep-23	Dec-23
Promoters	35.2	35.1
FIs & Local MFs	25.1	28.2
FPIs	29.0	22.7
Public & Others	10.7	14.0

Source : BSE

Aniket Mhatre
aniket.mhatre@hdfcsec.com
+91-22-6171-7357

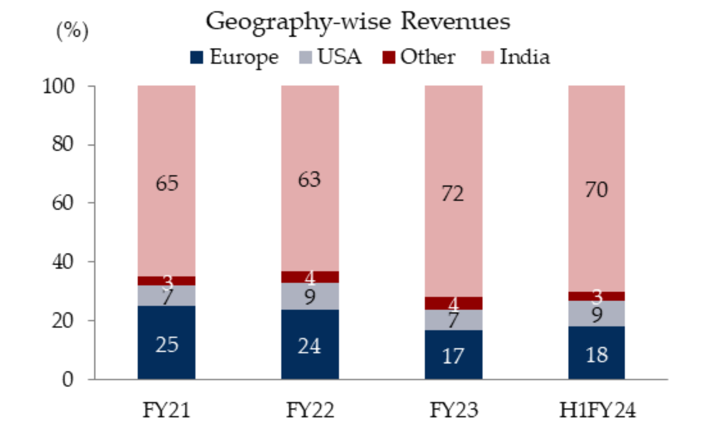
Maitreyee Vaishampayan
maitreyee.vaishampayan@hdfcsec.com
+91-22-6171-7308

Exhibit 52: Sansera Engg: Traditionally focused on ICE-Auto



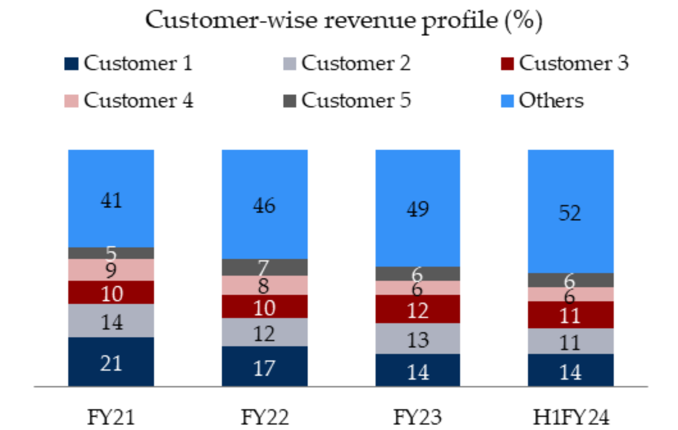
Source: Company

Exhibit 53: India and Europe are key regions



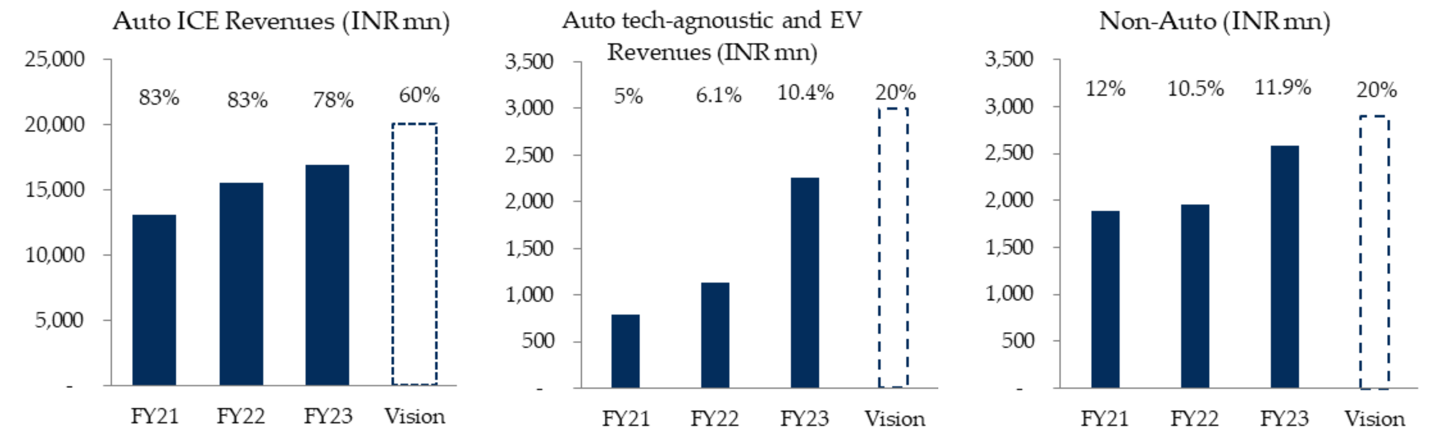
Source: Company

Exhibit 54: Well diversified customer mix



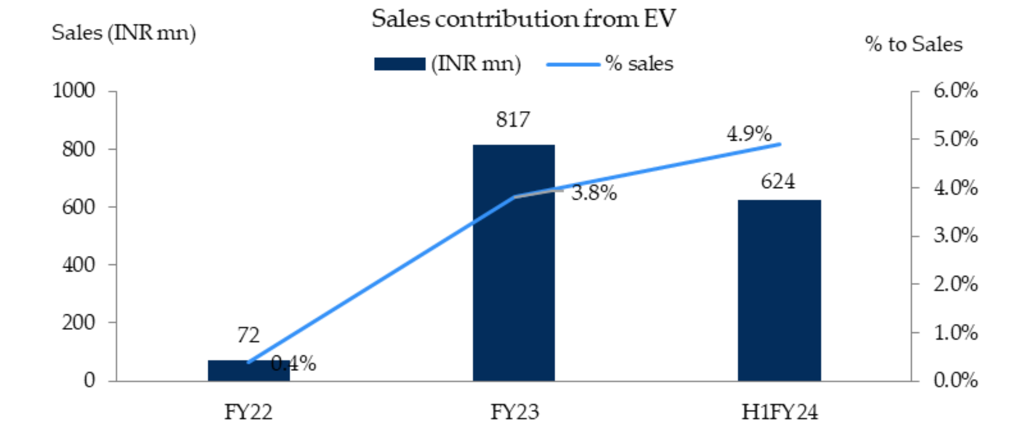
Source: Company

Exhibit 55: Long term target for revenue diversification: 60:20:20



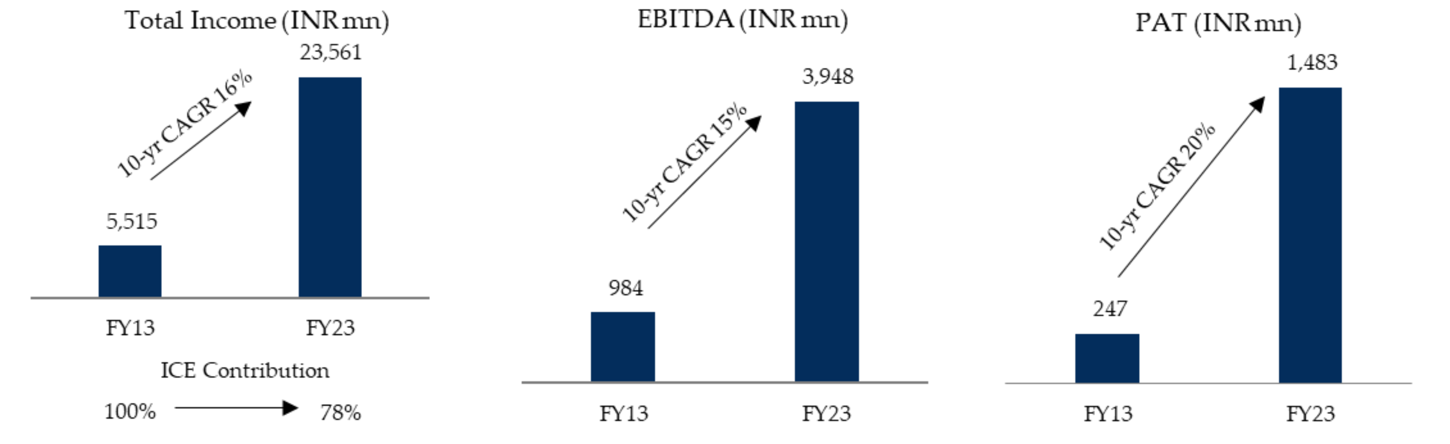
Source: Company

Exhibit 56: EV contribution rising sharply with new orders



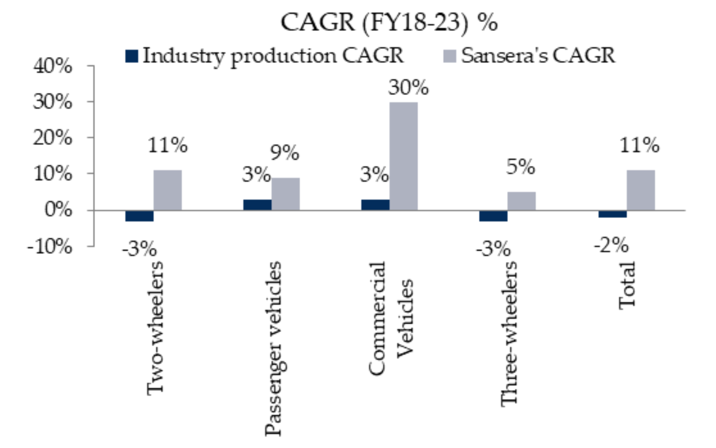
Source: Company

Exhibit 57: Sansera has had a track record of robust growth in the past



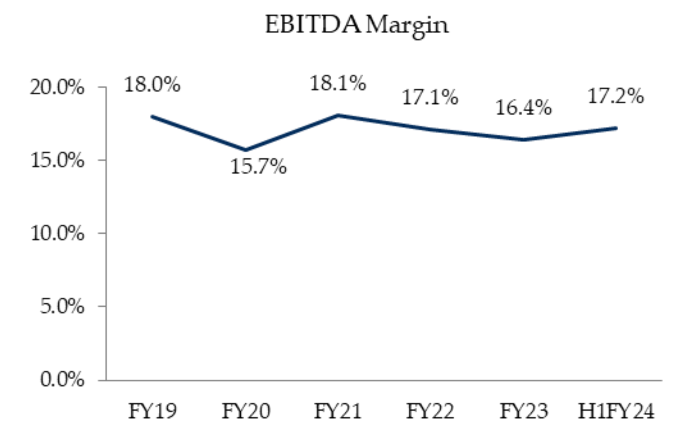
Source: Company

Exhibit 58: Sansera has outperformed industry growth



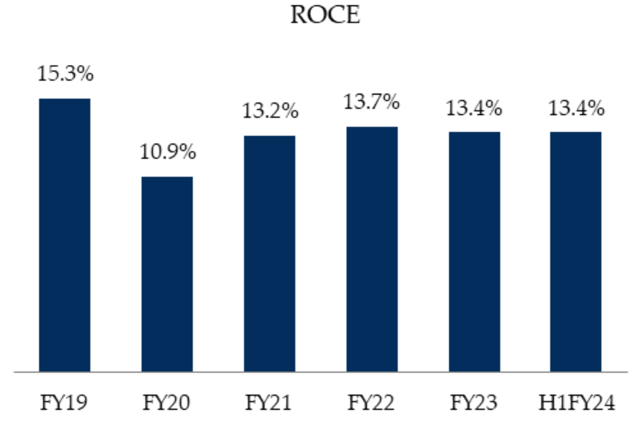
Source: Company

Exhibit 59: EBIDTA margins have remained fairly stable

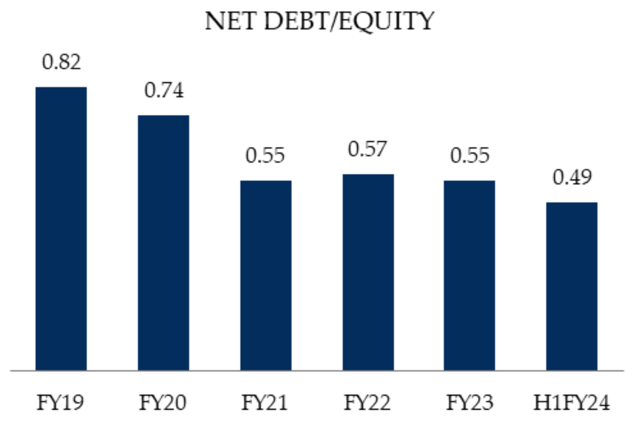


Source: Company

Exhibit 60: Track record of strong growth, healthy returns and low leverage highlights strong business model



Source: Company



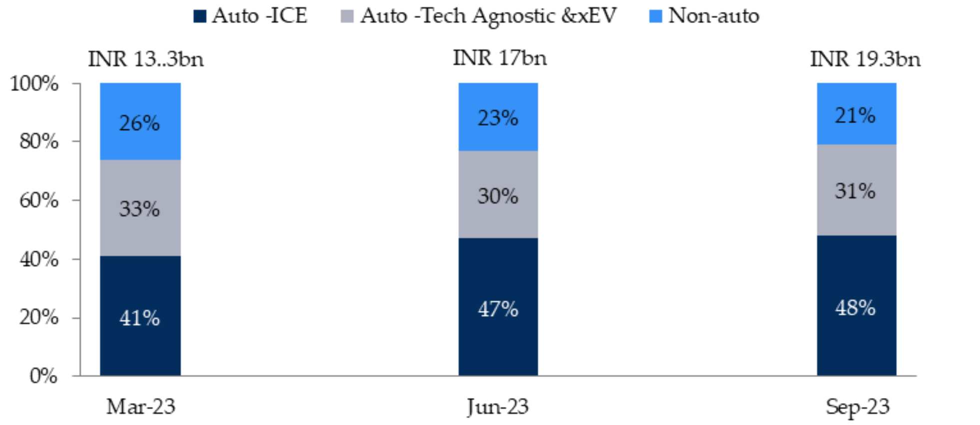
Source: Company

Exhibit 61: Sansera segmental growth estimates

	FY22	FY23	FY24E	FY25E	FY26E
Auto ICE	**16,589**	**18,169**	**20,836**	**23,609**	**26,867**
YoY (%)		9.5	14.7	13.3	13.8
Motorcycles	7,320	8,395	9,894	11,279	12,971
YoY (%)		14.7	17.9	14.0	15.0
Scooters	1,372	1,859	1,713	1,919	2,149
YoY (%)		35.4	-7.9	12.0	12.0
PVs	5,331	5,355	6,476	7,383	8,416
YoY (%)		0.5	20.9	14.0	14.0
CVs	2,566	2,560	2,753	3,028	3,331
YoY (%)		-0.2	7.5	10.0	10.0
Auto-Tech Agnostic & xEV	**1,213**	**2,432**	**3,373**	**4,919**	**6,164**
YoY (%)		100.4	38.7	45.8	25.3
Auto-Tech Agonstic	1,134	1,543	1,921	2,306	2,767
YoY (%)		36.1	24.5	20.0	20.0
xEV	80	889	1,452	2,613	3,397
YoY (%)		1016.8	63.4	80.0	30.0
Non-Auto	**2,088**	**2,783**	**3,521**	**4,491**	**5,854**
YoY (%)		33.2	26.5	27.6	30.3
Aerospace and Defence	636	982	1,312	1,969	2,953
YoY (%)		54.3	33.6	50.0	50.0
Off-Road	617	748	1,168	1,308	1,504
YoY (%)		21.4	56.1	12.0	15.0
Agriculture	557	725	615	738	849
YoY (%)		30.2	-15.1	20.0	15.0
Others	278	327	425	476	548
YoY (%)		17.6	29.9	12.0	15.0
Total	**19,890**	**23,383**	**27,730**	**33,018**	**38,885**
YoY (%)		17.6	18.6	19.1	17.8

Source: Company, HSIE Research

Exhibit 62: Sansera has a healthy Order book



Source: Company

Exhibit 63: Sansera – one-year forward PER

Source: Bloomberg, HSIE Research

Financials

Income Statement

Year ending March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	**15,493**	**19,890**	**23,383**	**27,730**	**33,018**	**38,885**
Growth (%)	*6.3*	*28.4*	*17.6*	*18.6*	*19.1*	*17.8*
Material Expenses	6,635	8,641	10,175	12,043	14,198	16,720
Employee Expenses	*2,138*	*2,774*	*3,180*	*3,740*	*4,424*	*5,133*
Other Operating Expenses	*3,978*	*5,120*	*6,234*	*7,176*	*8,453*	*9,838*
EBITDA	**2,743**	**3,355**	**3,795**	**4,770**	**5,943**	**7,194**
EBITDA Margin (%)	*17.7*	*16.9*	*16.2*	*17.2*	*18.0*	*18.5*
EBITDA Growth (%)	*20.6*	*22.3*	*13.1*	*25.7*	*24.6*	*21.0*
Depreciation	1,017	1,197	1,301	1,482	1,625	1,822
EBIT	**1,726**	**2,158**	**2,494**	**3,288**	**4,318**	**5,372**
Other Income (Including EO Items)	231	155	178	44	55	65
Interest	495	530	640	734	676	591
PBT	**1,461**	**1,784**	**2,032**	**2,598**	**3,698**	**4,845**
Tax (Incl Deferred)	363	465	549	671	961	1,260
Minority Interest	19	14	21	22	26	29
RPAT	**1,080**	**1,305**	**1,462**	**1,905**	**2,711**	**3,556**
EO (Loss) / Profit (Net Of Tax)						
APAT	**1,080**	**1,305**	**1,462**	**1,905**	**2,711**	**3,556**
APAT Growth (%)	*33.9*	*20.8*	*12.1*	*30.3*	*42.3*	*31.2*
Adjusted EPS (Rs)	**20.2**	**24.4**	**27.2**	**35.4**	**50.4**	**66.1**
EPS Growth (%)	*34%*	*21%*	*12%*	*30%*	*42%*	*31%*

Source: Company, HSIE Research

Balance Sheet

As at March	FY21	FY22	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS						
Share Capital - Equity	199	104	106	106	106	106
Reserves	8,584	10,130	11,573	13,303	15,718	18,844
Total Shareholders Funds	**8,782**	**10,234**	**11,679**	**13,409**	**15,824**	**18,950**
Total Debt	**4,429**	**5,356**	**5,832**	**6,000**	**5,750**	**5,000**
Net Deferred Taxes	618	642	689	702	716	731
TOTAL SOURCES OF FUNDS	**13,934**	**16,351**	**18,341**	**20,274**	**22,479**	**24,898**
APPLICATION OF FUNDS						
Net Block	11,270	12,394	13,936	15,254	16,429	17,607
CWIP	604	1,224	757	750	750	750
Investments	43	111	112	212	412	912
Total Non-current Assets	**11,917**	**13,729**	**14,804**	**16,216**	**17,591**	**19,268**
Cash & Equivalents	**651**	**503**	**616**	**694**	**827**	**858**
Inventories	2,486	2,776	3,710	4,178	4,975	5,753
Debtors	3,130	4,086	4,327	5,166	5,970	6,925
Other Current Assets	1,105	1,115	1,171	1,143	1,193	1,223
Total Current Assets	**7,372**	**8,480**	**9,824**	**11,181**	**12,966**	**14,758**
Creditors	2,270	2,653	2,927	3,495	4,161	4,901
Other Current Liabilities & Provns	3,084	3,205	3,361	3,628	3,917	4,228
Total Current Liabilities	**5,355**	**5,858**	**6,288**	**7,123**	**8,078**	**9,128**
Net Current Assets	**2,018**	**2,622**	**3,536**	**4,059**	**4,888**	**5,630**
TOTAL APPLICATION OF FUNDS	**13,934**	**16,351**	**18,341**	**20,274**	**22,479**	**24,898**

Source: Company, HSIE Research

Cash Flow

Year ending March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	1,726	2,158	2,494	3,288	4,318	5,372
Non-operating & EO Items	18	14	21	22	26	29
Interest Expenses	231	155	178	44	55	65
Depreciation	1,017	1,197	1,301	1,482	1,625	1,822
Working Capital Change	143	-752	-801	-445	-696	-711
Tax Paid	-297	-441	-502	-657	-947	-1,245
OPERATING CASH FLOW (a)	**2,838**	**2,331**	**2,691**	**3,734**	**4,380**	**5,332**
Capex	-1,564	-2,941	-2,375	-2,793	-2,800	-3,000
Free Cash Flow (FCF)	*1,274*	*-610*	*316*	*941*	*1,580*	*2,332*
Investments	-2	-68	-1	-100	-200	-500
INVESTING CASH FLOW (b)	**-1,566**	**-3,010**	**-2,376**	**-2,893**	**-3,000**	**-3,500**
Debt Issuance/(Repaid)	-844	927	476	168	-250	-750
Interest Expenses	-495	-530	-640	-734	-676	-591
FCFE	*-65*	*-212*	*152*	*374*	*655*	*990*
Dividend	0	0	-134	-175	-296	-430
Others	2	133	97	-22	-26	-29
FINANCING CASH FLOW (c)	**-1,337**	**530**	**-202**	**-764**	**-1,247**	**-1,801**
NET CASH FLOW (a+b+c)	**-65**	**-148**	**113**	**77**	**133**	**31**
EO Items, Others	716	651	503	616	694	827
Closing Cash & Equivalents	651	503	616	694	827	858

Source: Company, HSIE Research

Key Ratios

	FY21	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY (%)						
GPM	57.2	56.6	56.5	56.6	57.0	57.0
EBITDA Margin	17.7	16.9	16.2	17.2	18.0	18.5
APAT Margin	7.0	6.6	6.3	6.9	8.2	9.1
RoE	12.3	12.7	12.5	14.2	17.1	18.8
RoIC (or Core RoCE)	15.8	16.8	16.6	19.4	21.9	22.9
RoCE	14.0	14.1	14.6	16.4	19.5	21.8
EFFICIENCY						
Tax Rate (%)	24.8	26.1	27.0	25.8	26.0	26.0
Fixed Asset Turnover (x)	1.0	1.2	1.2	1.2	1.3	1.4
Inventory (days)	*58*	*50*	*57*	*54*	*54*	*53*
Debtors (days)	*73*	*74*	*67*	*67*	*65*	*64*
Other Current Assets (days)	*26*	*20*	*18*	*15*	*13*	*11*
Payables (days)	*53*	*48*	*45*	*45*	*45*	*45*
Other Current Liab & Provns (days)	*73*	*59*	*52*	*48*	*43*	*40*
Cash Conversion Cycle (days)	31	38	44	43	44	44
Debt/EBITDA (x)	1.6	1.6	1.5	1.3	1.0	0.7
Net D/E (x)	0.4	0.5	0.4	0.4	0.3	0.2
Interest Coverage (x)	3.5	4.1	3.9	4.5	6.4	9.1
PER SHARE DATA (Rs)						
EPS	20.2	24.4	27.2	35.4	50.4	66.1
CEPS	39.2	46.7	51.4	63.0	80.6	100.0
Dividend	0.0	2.0	2.5	3.3	5.5	8.0
Book Value	164.0	191.1	217.1	249.3	294.1	352.2
VALUATION						
P/E (x)	50.3	41.6	37.3	28.6	20.1	15.3
P/BV (x)	11.5	5.2	4.6	4.0	3.4	2.8
EV/EBITDA (x)	38.1	17.2	15.5	12.3	9.8	7.9
EV/Revenues (x)	3.7	3.0	2.6	2.2	1.8	1.5
OCF/EV (%)	4.9	3.9	4.5	6.2	7.4	9.1
FCF/EV (%)	2.2	-1.0	0.5	1.6	2.7	4.0
FCFE/Mkt Cap (%)	-0.1	-0.4	0.3	0.7	1.2	1.8
Dividend Yield (%)	0.0	0.2	0.2	0.3	0.5	0.8

Source: Company, HSIE Research

Suprajit Engineering

Fast evolving as a "beyond cables" player

SEL has had a healthy track record of outperforming India's auto industry growth and is now emerging as one of the major beneficiaries of the global derisking strategy by OEMs in the cables business as it remains amongst the very few large players with the ability to supply from multiple low-cost locations globally based on OEMs requirements. Synergy benefits post-LDC acquisition are expected to be visible in the coming years which is likely to drive 62% EBITDA CAGR at SCD over FY24-26E. Further, the new products division of SEL (SED) is seeing an extremely encouraging response from OEMs and helping evolve SEL as a "beyond cables" player. On the back of the above tailwinds, we expect SEL to post 27% earnings CAGR over FY23-26E. Given attractive valuations at 17.3x FY26E, we Initiate with a BUY and TP of INR 468, valued at 21x FY26 earnings.

Synergy benefits with LDC to be visible in coming quarters
SEL's acquisition of LDC provides multiple synergy benefits which include: 1) regional supply flexibility for OEMs given its multiple low-cost locations; 2) larger play in the US cables segment; and 3) entry into seat cables. We expect synergy benefits at LDC to start playing out in a meaningful way from FY25 onwards – hence, we factor in SCD to deliver 62% EBITDA CAGR over FY24-26E.

SEL emerging as a key beneficiary of global supply chain derisking by OEMs
As global OEMs now look to derisk their supply chain, they seem to prefer to partner with large suppliers with a presence in multiple locations globally. SEL is now emerging as one of the key beneficiaries of this trend as it is now the second largest control cables manufacturer globally with a presence in multiple low-cost locations (India, China, Mexico, and Hungary) having scale and quality as per global OEMs needs. Given this trend, we expect SEL to continue to outperform auto industry growth in the coming years (SEL is seeing double-digit growth in orders while the global auto industry is growing in low single digits).

New product division helps position SEL as "Beyond cables" company
SEL's new products division (SED) is seeing an extremely encouraging response in segments like instrument clusters, actuators, rotary sensors etc and has won a healthy order book with a peak annual revenue of INR 1.5bn. It is helping drive a sharp increase in content in the range of 1.2-25x of a normal cable. Further, this division has already achieved EBITDA break-even in its first year of operations. We expect this division to ramp up to INR 1.2bn by FY26E from a modest INR 300mn in FY23 and evolve as a major growth driver for SEL in coming years.

Initiate with a BUY and target price of INR468/sh
With the synergy benefits of the LDC acquisition expected to flow in soon and the scale-up of the SED division, we expect its sector outperformance to accelerate over FY23-26E. At 17.3x FY26E, SEL appears attractive relative to peers and given our estimate of 27% EPS CAGR over FY23-26E. Initiate with a BUY and a TP of INR 468, valued at 21x FY26 EPS.

Financial Summary

Year Ending March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	16,409	18,405	27,524	29,293	33,290	38,156
EBITDA	2,367	2,599	3,126	3,093	3,995	4,998
APAT	1,427	1,847	1,521	1,568	2,300	3,085
Diluted EPS (Rs)	10.3	13.3	11.0	11.3	16.6	22.3
P/E (x)	37.5	29.0	35.2	34.1	23.3	17.3
EV / EBITDA (x)	23.4	21.0	18.8	18.8	14.4	11.3
RoCE (%)	16.2	16.6	13.4	13.6	16.8	20.0

Source: Company, HSIE Research

BUY

CMP *(as on 23 Jan 2024)*	INR 387
Target Price	INR 468
NIFTY	21,239

KEY STOCK DATA	
Bloomberg code	SEL IN
No. of Shares (mn)	138
MCap (INR bn) / ($ mn)	54/655
6m avg traded value (INR mn)	108
52 Week high / low	INR 447/315

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.8	(9.7)	18.8
Relative (%)	(3.8)	(15.2)	2.7

SHAREHOLDING PATTERN (%)

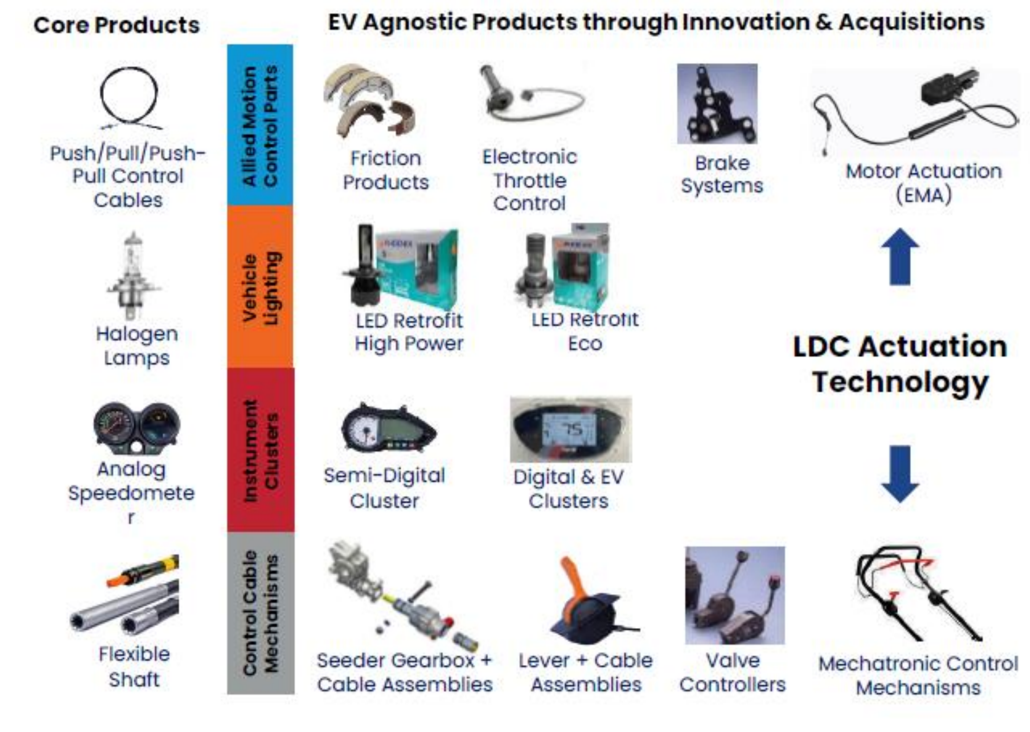
	Sep-23	Dec-23
Promoters	44.62	44.62
FIs & Local MFs	15.87	16.22
FPIs	4.76	4.56
Public & Others	34.8	34.6

Source : BSE

Aniket Mhatre
aniket.mhatre@hdfcsec.com
+91-22-6171-7357

Maitreyee Vaishampayan
maitreyee.vaishampayan@hdfcsec.com
+91-22-6171-7308

Exhibit 64: Suprajit Engg: Product mix



Source: Company

Exhibit 65: Suprajit Engg: Content rising with SED division products

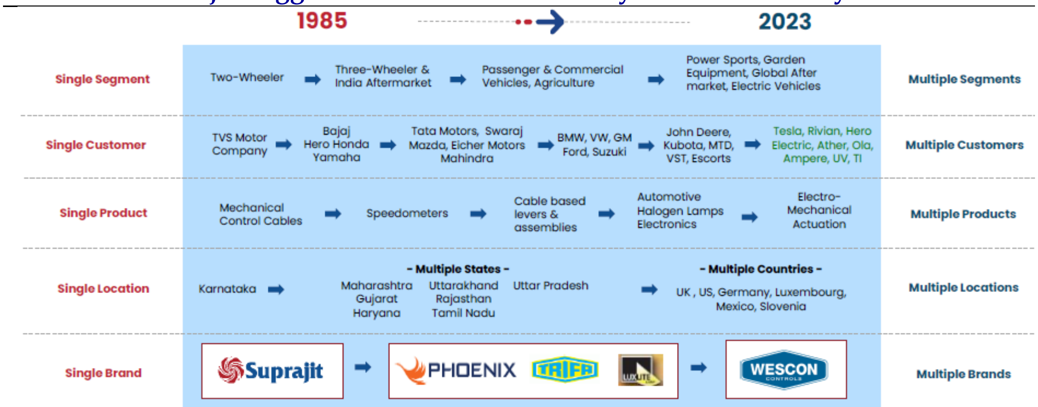
	Products	Customers	Price (INR)	Growth Potential
Clusters & Displays		TVS, HERO ELECTRIC, TORK, VST, Ultraviolette Automotive, ESCORTS	700-7500	PV + 2W + OFH
Electromechanical Actuation Systems		CNH INDUSTRIAL, ATHER	400-15000	PV + 2W + OFH
Braking & Brake Release Systems		ALSTOM, Kubota, BOMBARDIER, JOHN DEERE, HERO ELECTRIC	3000 - 20000	2W + OFH + Rail
Throttle & Rotary Sensors		MTD, JOHN DEERE, TORO	200-1500	2W + OFH

Source: Company

Exhibit 66: SED seeing strong customer traction with EV OEMs

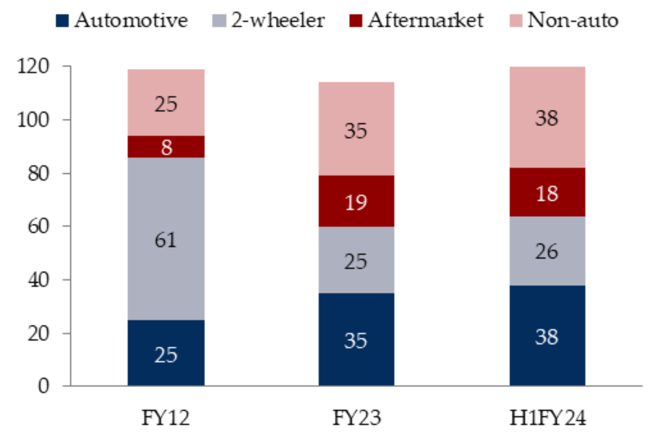
Source: Company

Exhibit 67: Surajit Engg: has done well to diversify its mix over the years



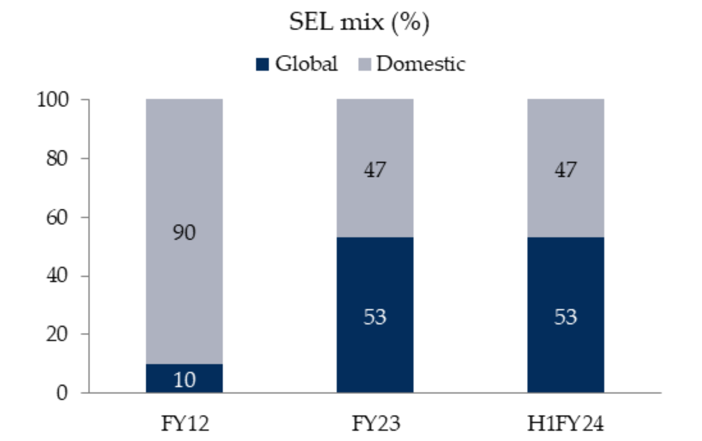
Source: Company

Exhibit 68: Suprajit has well diversified mix



Source: Company, HSIE Research

Exhibit 69: Suprajit has healthy regional mix



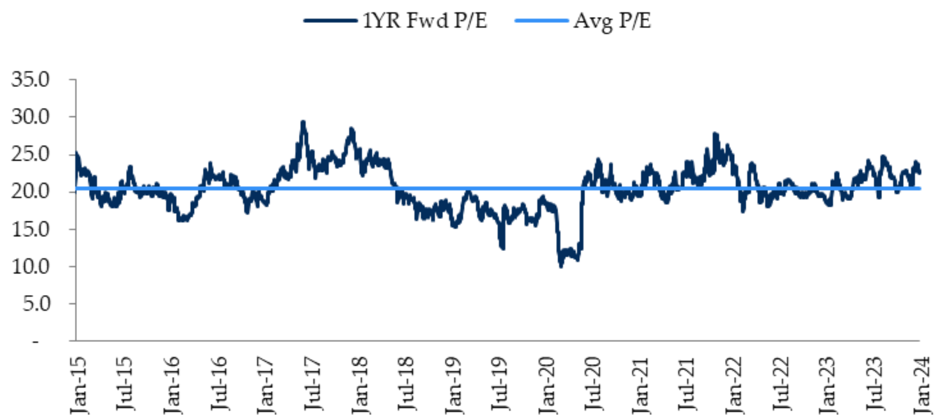
Source: Company, HSIE Research

Exhibit 70: Suprajit Engg: segmental growth estimates

Segmental Revenue INR mn	FY24E	FY25E	FY26E
Domestic Cables Division (DCD)	11,063	12,170	13,265
YoY (%)		10	9
Suprajit Controls Division (SCD)	14,038	16,003	19,203
YoY (%)		14	20
Phoenix Lamps	3,884	4,195	4,489
YoY (%)		8	7
Suprajit Electronics Division (SED)	308	923	1,199
YoY (%)		200	30
Total	**29,293**	**33,290**	**38,156**
YoY (%)		13.6	14.6
EBIDTA margin (%)			
Domestic Cables Division (DCD)	17.4	17.6	17.6
Suprajit Controls Division (SCD)	5.4	8.0	10.4
Phoenix Lamps	10.7	12.0	12.0
Suprajit Electronics Division (SED)	4.6	8.0	11.0
Total	**10.7**	**12.0**	**13.1**

Source: Company, HSIE Research

Exhibit 71: Suprajit Engg – one-year forward PER



Source: Bloomberg, HSIE Research

Financials

Consolidated Income Statement

Year ending March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	**16,409**	**18,405**	**27,524**	**29,293**	**33,290**	**38,156**
Growth (%)	*5.0*	*12.2*	*49.5*	*6.4*	*13.6*	*14.6*
Material Expenses	9,547	10,787	16,169	17,274	19,308	22,054
Employee Expenses	3,083	3,364	5,744	6,315	7,057	7,822
Other Operating Expenses	1,411	1,655	2,484	2,611	2,930	3,281
EBITDA	**2,367**	**2,599**	**3,126**	**3,093**	**3,995**	**4,998**
EBITDA Margin (%)	*14.4*	*14.1*	*11.4*	*10.6*	*12.0*	*13.1*
EBITDA Growth (%)	*8.2*	*9.8*	*20.3*	*-1.1*	*29.2*	*25.1*
Depreciation	568	585	955	1,029	1,117	1,209
EBIT	**1,800**	**2,014**	**2,172**	**2,064**	**2,878**	**3,789**
Other Income (Including EO Items)	336	483	386	701	757	818
Interest	192	145	356	527	350	200
PBT	**1,943**	**2,352**	**2,202**	**2,238**	**3,285**	**4,407**
Tax (Incl Deferred)	516	621	681	670	986	1,322
RPAT	**1,427**	**1,731**	**1,521**	**1,568**	**2,300**	**3,085**
APAT	**1,427**	**1,847**	**1,521**	**1,568**	**2,300**	**3,085**

Source: Company, HSIE Research

Consolidated Balance Sheet

As at March	FY21	FY22	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS						
Share Capital - Equity	216	233	138	138	138	138
Reserves	9,681	10,607	12,106	13,329	15,109	17,502
Total Shareholders Funds	**9,897**	**10,840**	**12,245**	**13,467**	**15,248**	**17,641**
Minority Interest	**0**	**0**	**0**	**0**	**0**	**0**
Total Debt	**2,704**	**2,944**	**6,417**	**6,417**	**5,917**	**4,917**
Net Deferred Taxes	**552**	**554**	**482**	**482**	**482**	**482**
TOTAL SOURCES OF FUNDS	**13,154**	**14,338**	**19,145**	**20,367**	**21,647**	**23,040**
APPLICATION OF FUNDS						
Net Block	5,981	5,876	6,711	7,082	7,465	8,056
CWIP	49	102	278	278	278	278
Goodwill	0	0	1,364	1,364	1,364	1,364
Investments	3,195	2,619	4,451	4,451	4,451	4,451
Other Non-current Assets	407	333	13	13	13	13
Total Non-current Assets	**9,633**	**8,930**	**12,817**	**13,189**	**13,572**	**14,163**
Cash & Equivalents	**941**	**1,879**	**1,068**	**1,838**	**1,981**	**1,846**
Inventories	3,145	3,433	4,826	5,136	5,837	6,690
Debtors	3,320	2,972	4,608	4,815	5,472	6,272
Other Current Assets	501	505	913	958	1,006	1,055
Total Current Assets	**7,907**	**8,788**	**11,416**	**12,748**	**14,296**	**15,864**
Creditors	2,476	1,940	2,923	3,210	3,648	4,181
Other Current Liabilities & Provns	1,503	1,108	2,153	2,347	2,559	2,792
Total Current Liabilities	**3,979**	**3,048**	**5,076**	**5,557**	**6,207**	**6,973**
Net Current Assets	**3,928**	**5,741**	**6,341**	**7,192**	**8,089**	**8,891**
TOTAL APPLICATION OF FUNDS	**13,154**	**14,338**	**19,145**	**20,367**	**21,647**	**23,040**

Source: Company, HSIE Research

Consolidated Cash Flow

Year ending March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	1,800	2,014	2,172	2,064	2,878	3,789
Non-operating & EO Items	0	116	0	0	0	0
Interest Expenses	336	366	386	701	757	818
Depreciation	568	585	955	1,029	1,117	1,209
Working Capital Change	-459	-874	-1,410	-81	-755	-937
Tax Paid	-527	-619	-753	-670	-986	-1,322
OPERATING CASH FLOW (a)	**1,718**	**1,588**	**1,350**	**3,043**	**3,012**	**3,557**
Capex	-312	-532	-3,329	-1,400	-1,500	-1,800
Free Cash Flow (FCF)	*1,406*	*1,056*	*-1,980*	*1,643*	*1,512*	*1,757*
Investments	-432	576	-1,833	0	0	0
INVESTING CASH FLOW (b)	**-744**	**44**	**-5,162**	**-1,400**	**-1,500**	**-1,800**
Debt Issuance/(Repaid)	-409	240	3,473	0	-500	-1,000
Interest Expenses	-192	-145	-356	-527	-350	-200
FCFE	*805*	*1,150*	*1,138*	*1,116*	*662*	*557*
Dividend	-242	-277	-318	-346	-519	-692
Others	175	-511	202	0	0	0
FINANCING CASH FLOW (c)	**-669**	**-694**	**3,002**	**-873**	**-1,369**	**-1,892**
NET CASH FLOW (a+b+c)	**305**	**938**	**-811**	**770**	**143**	**-135**
Closing Cash & Equivalents	**941**	**1,879**	**1,068**	**1,838**	**1,981**	**1,846**

Source: Company, HSIE Research

Key Ratios

	FY21	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY (%)						
GPM	41.8	41.4	41.3	41.0	42.0	42.2
EBITDA Margin	14.4	14.1	11.4	10.6	12.0	13.1
APAT Margin	8.7	10.0	5.5	5.4	6.9	8.1
RoE	14.4	17.0	12.4	11.6	15.1	17.5
RoIC (or Core RoCE)	10.4	10.8	9.0	7.3	9.6	11.9
RoCE	16.2	16.6	13.4	13.6	16.8	20.0
EFFICIENCY						
Tax Rate (%)	26.6	26.4	30.9	29.9	30.0	30.0
Fixed Asset Turnover (x)	2.0	2.1	2.7	2.5	2.5	2.6
Inventory (days)	*70*	*68*	*64*	*64*	*64*	*64*
Debtors (days)	*74*	*59*	*61*	*60*	*60*	*60*
Other Current Assets (days)	*2*	*3*	*12*	*12*	*11*	*10*
Payables (days)	*55*	*38*	*39*	*40*	*40*	*40*
Other Current Liab & Provns (days)	*33*	*22*	*29*	*29*	*28*	*27*
Cash Conversion Cycle (days)	57	70	70	67	67	67
Debt/EBITDA (x)	1.1	1.1	2.1	2.1	1.5	1.0
Net D/E (x)	0.2	0.1	0.4	0.3	0.3	0.2
Interest Coverage (x)	9	14	6	4	8	19
PER SHARE DATA (Rs)						
EPS	10.3	13.3	11.0	11.3	16.6	22.3
CEPS	9.2	10.5	17.9	18.8	24.7	31.0
Dividend	1.8	2.0	2.3	2.5	3.8	5.0
Book Value	45.8	46.6	88.5	97.3	110.2	127.5
VALUATION						
P/E (x)	37.5	29.0	35.2	34.1	23.3	17.3
P/BV (x)	8.4	8.3	4.4	4.0	3.5	3.0
EV/EBITDA (x)	23.4	21.0	18.8	18.8	14.4	11.3
EV/Revenues (x)	5.0	4.8	2.0	1.8	1.6	1.4
OCF/EV (%)	3.1	2.9	2.3	5.2	5.2	6.3
FCF/EV (%)	2.5	1.9	-3.4	2.8	2.6	3.1
FCFE/Mkt Cap (%)	1.5	2.1	2.1	2.1	1.2	1.0
Dividend Yield (%)	0.5	0.5	0.6	0.6	1.0	1.3

Source: Company, HSIE Research

INSTITUTIONAL RESEARCH

Motherson Sumi Wiring India

Solid business but limited upside

MSWIL has developed a sustainable competitive advantage in India given its scale advantage, backward integration capabilities, and localisation efforts. In India wiring harness, it supplies to 10 of the top 12 PV OEMs, 2 of the top 3 EV OEMs in PVs, and 2 of the top 5 EV OEMs in the two-wheeler segment. Also, it has been part of 23 new launches and 17 facelifts in FY23 across various segments highlighting its strong position across segments. It is now emerging as one of the major beneficiaries of the evolving trends (premiumisation + EVs) in the auto sector in India wherein content is set to rise in the range of 1.1x-8x. The stock has recently underperformed the broader indices as its performance was impacted by the ramp-up of new facilities set up recently to service new orders. However, with the steady ramp-up of new facilities and aided by cost pass-through, we expect MSWIL's margins to improve 100bps over FY24-26E. Given its strong franchise with superior returns, we believe the stock deserves a premium valuation relative to peers. Initiate with ADD and TP of INR 67 (valued at 34x FY26 EPS).

Multiple growth drivers in place to sustain its outperformance

Given the rising premiumisation trend in India, the wiring harness content is estimated to rise by 10-20% depending upon the segment. Further, as EV transition picks up pace in India, there would be a higher demand for specialised wiring harnesses to handle high voltage applications including charging infra and battery systems, which is expected to drive content increase by 2.4x (for 4Ws) to 8.1x (for 2Ws). MSWIL is amongst the major beneficiaries of this trend, given its decades of experience and strong parentage. This is likely to help accelerate its outperformance over domestic auto industry growth, going forward.

Solid business model to help sustain leadership despite rising competition

On the back of a strong parentage in the Motherson Group and Sumitomo Wiring, MSWIL has been able to create a dominant position in the domestic wiring harness segment. Such is the dominant position of MSWIL in the Indian wiring harness market that it supplies to 10 of the top 12 PV OEMs in India, 2 of the top 3 EV OEMs in PVs and 2 of the top 5 EV OEMs in the two-wheeler segment. Its scale developed over the years, backward integration capabilities and localisation of components like cables and connectors have ensured that it offers cost-effective solutions to its customers which is very difficult to replicate for its peers. Hence, despite rising competition, we believe its dominant position in the Indian market is here to stay in the long run.

Valuation premium to peers well deserved

MSWIL enjoys healthy returns (40%+) given its scale advantage, backward integration capabilities, higher asset turns and superior efficiencies. Due to these factors, we believe it deserves to trade at a premium to peers. Initiate with a ADD and a TP of INR 67 (valued at 34x FY26 EPS).

Financial Summary

Year Ending March	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	55,872	70,226	80,421	90,071	1,02,681
EBITDA	7,303	7,814	9,285	10,854	13,134
APAT	4,198	4,870	5,849	6,983	8,676
Diluted EPS (Rs)	0.9	1.1	1.3	1.6	2.0
P/E (x)	64.7	55.7	46.4	38.9	31.3
EV / EBITDA (x)	26.2	34.8	29.1	24.8	20.3
RoCE (%)	59.9	49.6	50.8	52.9	55.6

Source: Company, HSIE Research

ADD

CMP *(as on 23 Jan 2024)*	INR 61
Target Price	INR 67
NIFTY	21,239

KEY STOCK DATA

Bloomberg code	MSUMI IN
No. of Shares (mn)	4,421
MCap (INR bn) / ($ mn)	272/3,322
6m avg traded value (INR mn)	424
52 Week high / low	INR 68/45

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.0	6.1	20.3
Relative (%)	(7.6)	0.6	4.2

SHAREHOLDING PATTERN (%)

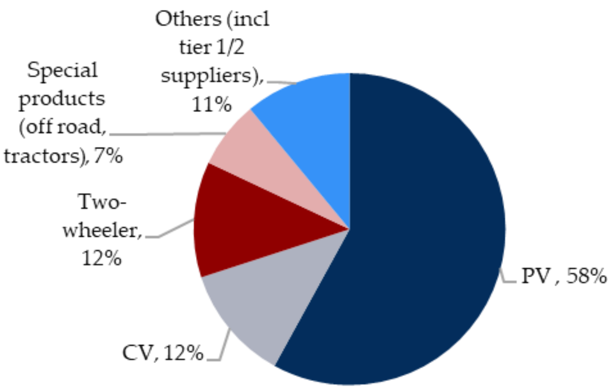
	Sep-23	Dec-23
Promoters	61.7	61.7
FIs & Local MFs	17.8	17.3
FPIs	11.1	11.0
Public & Others	9.4	9.9

Source : BSE

Aniket Mhatre
aniket.mhatre@hdfcsec.com
+91-22-6171-7357

Maitreyee Vaishampayan
maitreyee.vaishampayan@hdfcsec.com
+91-22-6171-7308

Exhibit 72: MSWIL segmental mix



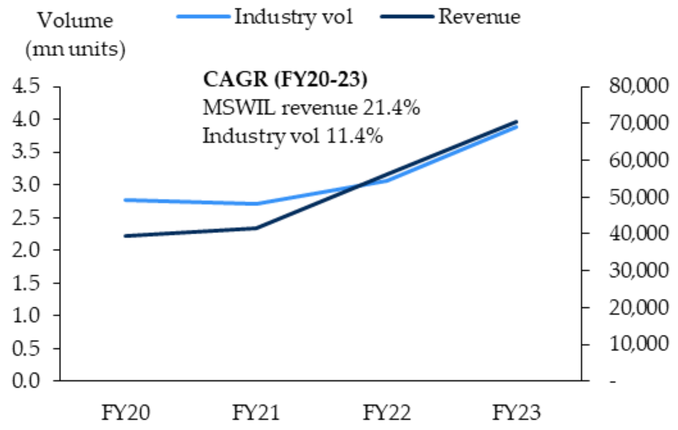
Source: Company

Exhibit 73: MSWIL has strong presence in PVs

OEM	top selling model
Maruti Cars	Alto, Baleno, Dzire, Swift, WagonR
Tata UVs	Nexon, Punch
Hyundai	Creta, Venue, Grand i10 Nios
Maruti Vans	Eeco
Maruti UVs	Brezza, Ertiga, Grand Vitara
Mahindra	Bolero

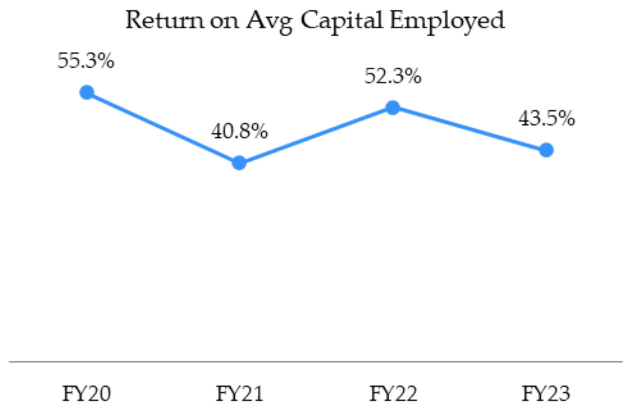
Source: Company

Exhibit 74: MSWIL has outperformed industry growth



Source: Company, HSIE Research

Exhibit 75: MSWIL has healthy returns track record



Source: Company, HSIE Research

Exhibit 76: MSWIL – one-year forward PER

Source: Bloomberg, HSIE Research

Financials

Income Statement

Year ending March	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	**55,872**	**70,226**	**80,421**	**90,071**	**1,02,681**
Growth (%)	*42.6*	*25.7*	14.5	12.0	14.0
Material Expenses	36,093	46,317	53,150	59,283	67,576
Employee Expenses	9,464	11,831	13,624	15,122	16,786
Other Operating Expenses	3,490	4,612	4,753	5,249	5,674
Operating Profits	**6,825**	**7,466**	**8,895**	**10,417**	**12,645**
Operating Profit Margin (%)	*12.2*	*10.6*	**11.1**	**11.6**	**12.3**
Other Operating Income	478	348	390	437	489
EBITDA	**7,303**	**7,814**	**9,285**	**10,854**	**13,134**
EBITDA Margin (%)	*13.0*	*11.1*	**11.5**	**12.0**	**12.7**
EBITDA Growth (%)	*32.0*	*7.0*	**18.8**	**16.9**	**21.0**
Depreciation	1,055	1,237	1,442	1,601	1,777
EBIT	**6,248**	**6,577**	**7,843**	**9,253**	**11,357**
Other Income (Including EO Items)	-354	223	356	428	513
Interest	285	278	305	244	146
PBT	**5,609**	**6,522**	**7,894**	**9,437**	**11,724**
Tax (Incl Deferred)	1,502	1,652	2,046	2,454	3,048
RPAT	**4,107**	**4,870**	**5,849**	**6,983**	**8,676**
EO (Loss) / Profit (Net Of Tax)	0	0	**0**	**0**	**0**
APAT	**4,107**	**4,870**	**5,849**	**6,983**	**8,676**
APAT Growth (%)	*6.0*	*16.0*	**20.1**	**19.4**	**24.2**
Adjusted EPS (Rs)	**0.9**	**1.1**	**1.3**	**1.6**	**2.0**
EPS Growth (%)	*6%*	*16%*	**20%**	**19%**	**24%**

Source: Company, HSIE Research

Balance Sheet

As at March	FY22	FY23	FY24E	FY25E	FY26E
SOURCES OF FUNDS					
Share Capital - Equity	3,158	4,421	4,421	4,421	4,421
Reserves	7,988	8,884	11,417	13,979	17,129
Total Shareholders Funds	**11,146**	**13,305**	**15,838**	**18,400**	**21,550**
Total Debt	**193**	**818**	**718**	**318**	**218**
Net Deferred Taxes	**-403**	**-411**	**-411**	**-411**	**-411**
Other Non-current Liabilities & Provns					
TOTAL SOURCES OF FUNDS	**10,936**	**13,712**	**16,145**	**18,307**	**21,357**
APPLICATION OF FUNDS					
Net Block	4,321	5,792	5,600	5,300	5,023
CWIP	323	270	270	270	270
Goodwill	0	0	0	0	0
Investments	0	0	1,200	2,700	4,500
Total Non-current Assets	**4,644**	**6,062**	**7,070**	**8,270**	**9,793**
Cash & Equivalents	**2,933**	**368**	**576**	**441**	**452**
Inventories	9,600	12,096	13,850	15,513	17,683
Debtors	6,593	8,004	9,165	10,265	11,701
Other Current Assets	1,443	2,036	2,240	2,464	2,710
Total Current Assets	**20,570**	**22,504**	**25,831**	**28,682**	**32,546**
Creditors	9,129	9,257	10,600	11,872	13,533
Other Current Liabilities & Provns	5,148	5,597	6,157	6,772	7,450
Total Current Liabilities	**14,278**	**14,854**	**16,756**	**18,644**	**20,982**
Net Current Assets	**6,292**	**7,650**	**9,075**	**10,037**	**11,564**
TOTAL APPLICATION OF FUNDS	**10,936**	**13,712**	**16,145**	**18,307**	**21,357**

Source: Company, HSIE Research

Cash Flow

Year ending March	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	6,248	6,577	7,843	9,253	11,357
Non-operating & EO Items	-654	0	0	0	0
Interest Expenses	300	223	356	428	513
Depreciation	1,055	1,237	1,442	1,601	1,777
Working Capital Change	2,225	-3,923	-1,217	-1,098	-1,515
Tax Paid	-1,645	-1,660	-2,046	-2,454	-3,048
OPERATING CASH FLOW (a)	**7,528**	**2,454**	**6,379**	**7,729**	**9,084**
Capex	-4,000	-2,655	-1,250	-1,300	-1,500
Free Cash Flow (FCF)	*3,528*	*-201*	*5,129*	*6,429*	*7,584*
Investments	0	0	-1,200	-1,500	-1,800
INVESTING CASH FLOW (b)	**-4,000**	**-2,655**	**-2,450**	**-2,800**	**-3,300**
Debt Issuance/(Repaid)	-625	625	-100	-400	-100
Interest Expenses	-285	-278	-305	-244	-146
FCFE	*2,618*	*146*	*4,724*	*5,786*	*7,338*
Dividend	-3,758	-2,874	-3,316	-4,421	-5,526
Others	3,700	163	0	0	0
FINANCING CASH FLOW (c)	**-967**	**-2,364**	**-3,721**	**-5,065**	**-5,773**
NET CASH FLOW (a+b+c)	**2,561**	**-2,565**	**208**	**-135**	**12**
Beginning Cash Balance	373	2,933	368	576	441
Closing Cash & Equivalents	2,933	368	576	441	452

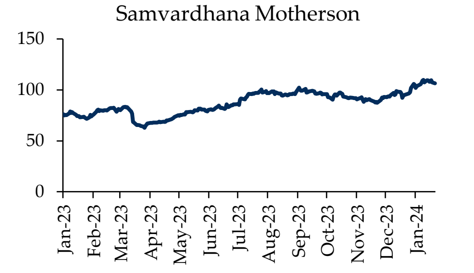
Source: Company, HSIE Research

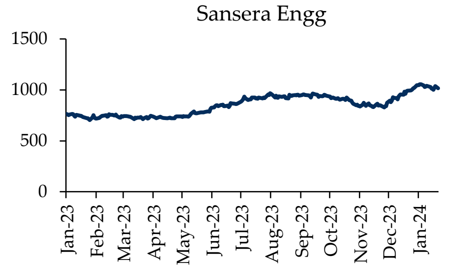
Key Ratios

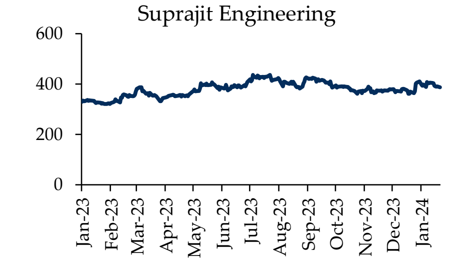
	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY (%)					
GPM	35.9	34.4	34.2	34.5	34.5
EBITDA Margin	13.0	11.1	11.5	12.0	12.7
APAT Margin	7.5	6.9	7.3	7.8	8.4
RoE	37.7	36.6	36.9	38.0	40.3
RoIC (or Core RoCE)	50.2	40.2	39.9	40.0	42.1
RoCE	59.9	49.6	50.8	52.9	55.6
EFFICIENCY					
Tax Rate (%)	26.8	25.3	25.9	26.0	26.0
Fixed Asset Turnover (x)	5.1	5.1	5.0	4.9	4.8
Inventory (days)	*62*	*63*	*63*	*63*	*63*
Debtors (days)	*43*	*41*	*41*	*41*	*41*
Other Current Assets (days)	*9*	*11*	*10*	*10*	*10*
Payables (days)	*59*	*48*	*48*	*48*	*48*
Other Current Liab & Provns (days)	*34*	*29*	*28*	*27*	*26*
Cash Conversion Cycle (days)	22	38	38	39	39
Debt/EBITDA (x)	0.0	0.1	0.1	0.0	0.0
Net D/E (x)	-0.2	0.0	0.0	0.0	0.0
Interest Coverage (x)	22	24	26	38	78
PER SHARE DATA (Rs)					
EPS	0.9	1.1	1.3	1.6	2.0
CEPS	1.7	1.4	1.6	1.9	2.4
Dividend	0.9	0.7	0.8	1.0	1.3
Book Value	3.5	3.0	3.6	4.2	4.9
VALUATION					
P/E (x)	64.7	55.7	46.4	38.9	31.3
P/BV (x)	17.4	20.4	17.1	14.8	12.6
EV/EBITDA (x)	26.2	34.8	29.1	24.8	20.3
EV/Revenues (x)	4.8	3.9	3.4	3.0	2.6
OCF/EV (%)	2.8	0.9	2.3	2.8	3.3
FCF/EV (%)	1.3	-0.1	1.9	2.4	2.8
FCFE/Mkt Cap (%)	1.0	0.1	1.7	2.1	2.7
Dividend Yield (%)	1.4	1.1	1.2	1.6	2.0

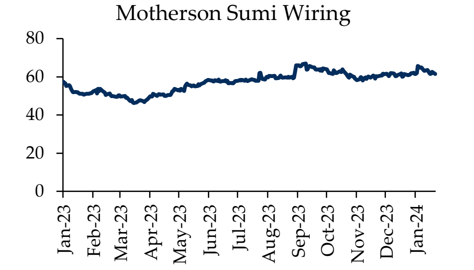
Source: Company, HSIE Research

1 Yr Price history









Rating Criteria

BUY:	>+15% return potential
ADD:	+5% to +15% return potential
REDUCE:	-10% to +5% return potential
SELL:	> 10% Downside return potential

Disclosure:

We, **Aniket Mhatre, MBA & Maitreyee Vaishampayan, MSc Finance** authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Murli V Karkera Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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HDFC securities

Institutional Equities

Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,

Senapati Bapat Marg, Lower Parel, Mumbai - 400 013

Board: +91-22-6171-7330 www.hdfcsec.com