

4th October, 2010.

SENSEX: 20476
NIFTY : 6159

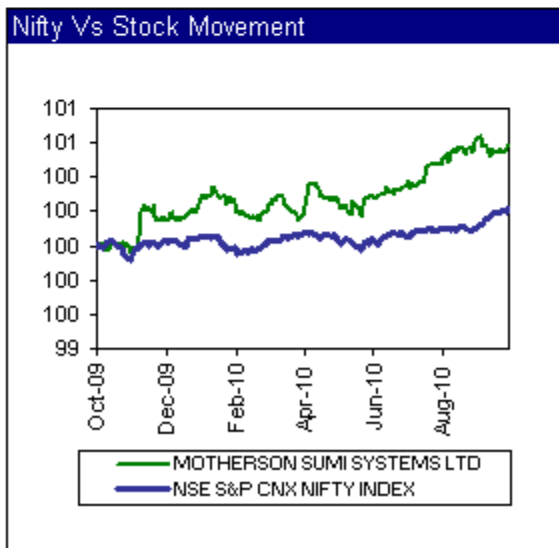
Recommendation: BUY
Target Price : Rs 225

Key Statistics	
Latest Price	182.1
52 Week High	200.7
52 Week Low	102.1
Traded on	BSE,NSE

Share Holding Pattern	
Promoters	65.2%
FII's	8.2%
DII's	10.2%
Others	16.5%

Market Data	
PE Ratio	29.8
EPS	6.1
Market Cap (Cr)	7,053.9
Outstanding Shares(Cr)	38.7
Book Value/Share(Rs)	31.0
Beta	0.7
Face Value	1.0

Technical Indicators	
200 day MA	148.6
100 day MA	160.9
50 day MA	178.7



Company Overview:

Motherson Sumi Systems Ltd. (MSSL) primarily operates in the automotives sector. The Company is among the largest auto ancillaries in India and is one of the most diversified groups in the Indian automotive industry.

MSSL has leadership position across a wide range of products it manufactures:

- The Company is one of the largest manufacturers of automotive rear view mirrors for passenger cars in India, with nearly 48% market share in the segment.
- MSSL is the largest manufacturer of automotive wiring harnesses in India, with more than 65% market share in passenger car segment.
- The Company is also the largest manufacturer and suppliers of plastic components to automotive industry.

MSSL's product portfolio comprises of wiring harnesses, rear view Mirrors, polymer processing, elastomer processing, modules and systems, high precision machined metal products and injection molding tools.

Over the years, the Company added manufacturing capacities to take its total number of facilities to over 90, spread over 21 countries in 2010, in line with the changing customer requirements.

MSSL has a very strong client base which includes almost every car manufacturer in India like Maruti, Hyundai, Honda, Tata Motors and Daimler across their different models.

The customer and export profile of the Company has undergone a major transformation to become leaner and stronger. Since 2000, the contribution from a single largest customer has come down from 80% to 15% and sales to customers outside India have increased to 70%. The CAGR of Sales over the past 10 years stands at 45%.

Industry Overview:

The automotive industry faced a challenging situation in FY10, with bankruptcy filings of Chrysler and General Motors. In spite of globally tough situations, the Indian economy witnessed a strong recovery within a short period of time as a result of fiscal initiatives initiated by the Government and the Central Bank. During 2009-10, Indian vehicle market posted an impressive increase in passenger vehicle, commercial vehicle & two wheelers market, all registered positive double digit growth over the previous year.

Segment	FY10	FY09	FY08
Passenger Vehicles			
Number	2351	1846	1754
Growth Rate	27%	5%	14%
Commercial Vehicles			
Number	566	417	545
Growth Rate	36%	-23%	5%

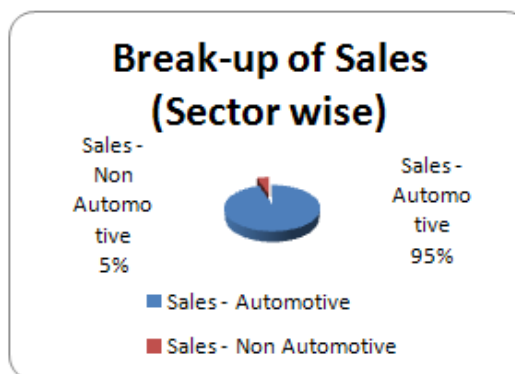
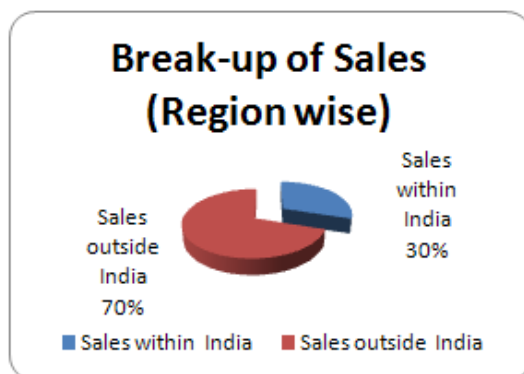
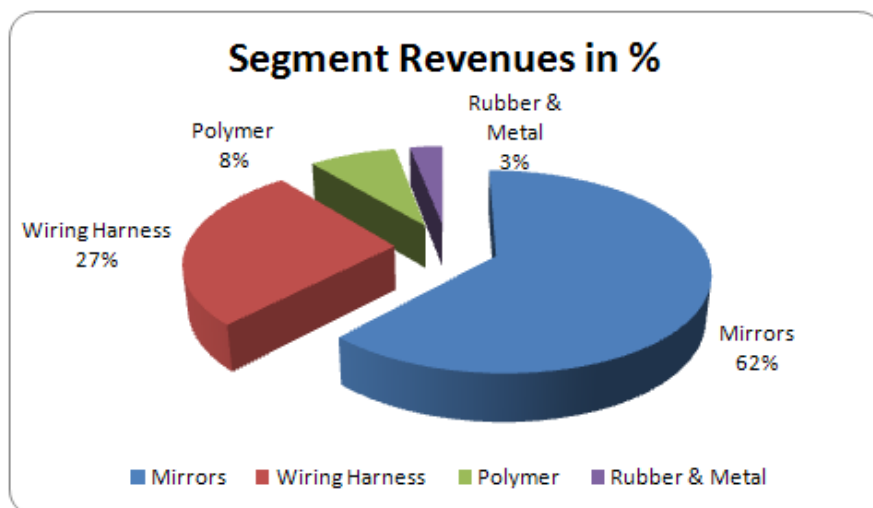
Per Capita income in India is growing at 12.4% over the past 6 years, while per capita expenditure is growing at 5%. With the economy returning to 8-9% GDP growth, and consumer confidence improving, consumption led expenditure is set to increase. The youth in India is seen purchasing automobiles in the early stages of their career as opposed to practices of the older generation. Thus, consumption led demand will drive the Auto sector. Further, global auto majors like Volkswagen and Renault ramping up their production capacities in India. All of this will help the country's automotive industry is to enter into a new growth phase.

Investment Rationale:

1. Consolidated Financial Performance:

- 1st Quarter ended June 2010:** Motherson Sumi Systems Ltd posted a topline increase of 32% YoY to Rs. 1858 cr in 1QFY11 as against Rs 1404 cr in 1QFY10. The Company's EBITDA improved to Rs 186 cr as against Rs 87 cr on YoY basis, mainly due to better cost control measures. The EBITDA margins improved to 10% from 6.2% in the year ago period. The Company's Net Profit grew by a phenomenal 439% to Rs. 60 cr as against Rs 11 cr in the year ago period. On the same lines, EPS grew by around 5 times to Rs. 1.45 from Rs. 0.31.

- Full year ended March 2010:** On a full year consolidated basis, the Company's topline grew by 158% YoY to Rs. 6702 cr as compared to Rs. 2595 cr in the year ago period. However, on the EBITDA front, the Company's operating margins declined by a percentage point to 10.4% in 1QFY11 as against 11.4% on YoY basis. MSSSL's bottomline grew by 42% YoY to Rs. 248 cr as against Rs 175 cr in the same period last year. The Company's EPS increased by 1.3 times to Rs 6.1 as against Rs 4.7 in the year ago period.



2. Growing through Joint Venture:

In March 09, Motherson Sumi along with a group company has acquired 100% stake in the rear-view mirror business of Visiocrp. Visiocrp is one of the largest manufacturers of rear-view mirrors and has all major OEM's as its customers. This acquisition has helped achieve the following:

- The acquisition has added global clients such as BMW, General Motors, Ford and Hyundai to MSSSL's client base.
- The acquisition translates to an addition of around \$ 18 bn to MSSSL's revenues. The cost of acquisition was Rs. 1.8 bn. Thus, making a significant contribution.

3. Long running partnership with Sumitomo Wiring Systems Ltd.:

The Company has a two decade long partnership with Sumitomo Wiring Systems Ltd, a 100% subsidiary of Sumitomo Electric Industries (Japan). The Company enjoys second highest share in wire harnesses worldwide. This Joint Venture formed in 1986, covers the manufacture of wiring harnesses, catering mainly to the needs of Japanese OEM's. The two companies have also entered into a Joint Venture for wiring harness manufacture in Sharjah.

4. Tie up with Global leaders in technology:

Motherson Sumi has technology tie-ups with globally leading companies like Magna, Sumitomo and Kyungshin Industrial. These partnerships have served the multiple purposes of securing technology, penetrating overseas markets and venturing into new product ranges.

Key Concern:

Foreign Exchange Fluctuations: With a significant proportion of its revenues arising from overseas ventures, MSS is highly exposed to the risks posed by currency fluctuations.

Peer Comparison:

Company	Latest Price	Equity Base (Cr)	FY 2010 (Rs in Cr)		PAT Margins	EPS	PE Ratio
			Sales	PAT			
MOTHERSON SUMI SYSTEMS LTD	182.1	38.7	6,924.0	242.8	3.5%	6.1	30.0
BHARAT SEATS LTD	18.5	6.3	336.0	3.8	1.1%	1.2	15.2
DENSO INDIA LTD	107.3	27.9	736.3	18.8	2.6%	6.8	15.8

Financial Performance:

(Rs. In Cr.)

ANNUAL RESULTS	201003 (12)	200903 (12)	200803 (12)	200703 (12)
Income Statement				
Operating Income	6702.2	2595.6	2028.1	1527.6
Total Income	7058.2	2741.8	2136.2	1582.3
Operating Profit	666.4	403.3	339.7	256.1
Gross Profit	602.9	365.0	310.8	226.9
Profit Before Tax	342.8	255.9	226.2	162.3
Net Profit	233.6	221.2	175.0	128.7
Adjusted Net Profit	247.7	175.2	158.8	129.2
Operating Margin (%)	10%	16%	17%	17%
PAT Margin (%)	4%	7%	8%	8%
EPS (Rs)	6.1	4.7	4.8	3.5
Book Value (Unit Curr.)	31.0	22.0	15.0	16.1
Debt equity Ratio	0.7	1.1	0.9	1.2
Balance Sheet				
SOURCES OF FUNDS :				
Share Capital	37.5	35.6	35.6	23.5
Reserves Total	1127.5	747.6	500.3	356.1
Total Shareholders Funds	1164.9	783.1	535.9	379.6
Minority Interest	202.7	200.0	22.6	13.9
Secured Loans	651.9	559.1	175.0	115.7
Unsecured Loans	166.0	336.0	314.1	344.5
Total Debt	817.9	895.1	489.1	460.2
Net Deferred Tax	4.0	14.5	4.0	7.3
Total Liabilities	2,189.6	1,892.7	1,051.6	861.0
APPLICATION OF FUNDS :				
Net Block	1454.8	1348.7	603.1	485.0
Capital Work in Progress	180.8	176.4	28.2	17.8
Investments	47.1	54.7	5.0	4.8
Total Current Assets	2097.1	1883.5	903.9	676.8
Total Current Liabilities	1592.1	1597.1	530.6	381.8
Net Current Assets	505.1	286.5	373.3	294.9
Miscellaneous Expenditure Not w/o/	1.8	26.5	42.0	58.5
Total Assets	2,189.6	1,892.7	1,051.6	861.0

* Results for all years are on consolidated basis

** Company Annual Reports

Valuation:

Based on fundamental analysis, at an estimated EPS of Rs. 7.5 for FY11E and PE of 30x, we recommend a 'BUY' on Motherson Sumi Systems Ltd. with a target price of Rs. 225, a potential upside of 22%.

Technical Analysis:

Source: Bloomberg, Weekly Chart, Motherson Sumi systems

Technically, Motherson Sumi Systems is looking bullish on weekly charts. It has formed rising upward channel pattern on weekly charts. As long as the stock continues to trade in this channel pattern, the stock is in bullish phase. The stock is trading well above its 50, 100 and 200 day weekly EMA (standing respectively at 179, 161 & 148). This configuration is positive. We advise long term investors to accumulate this scrip around support zone of 174 / 162 for Target of 201 / 238 levels.

Note:

Recommendations that are given are purely based on technical analysis. While utmost care has been taken to give the recommendation, the analyst or the organization does not take any responsibility for the consequences of this recommendation. Investors who trade on the basis of these recommendations do so purely at their own risk.

Retail Research Team			
Sanjit Sen	VP - Retail Broking & Retail Research	sanjit.sen@tatacapital.com	022-67940932
Priyanka Damle	Analyst	priyanka.damle@tatacapital.com	022-67940961
Praveen Kumar Dodda	Analyst	praveen.dodda@tatacapital.com	022-67940957

Tata Securities Limited

3rd Floor, One Forbes, Dr V.B. Gandhi Marg, Fort, Mumbai – 400 001

Tel: 91 22 6745 9000 **Fax:** 91 22 6610 6722**Web:** www.tatasecurities.com**DISCLAIMER**

Analyst Certification: We, Praveen Kumar Dodda and Priyanka Damle, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Tata Securities Limited, hereinafter referred to as TSL) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. TSL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of the TSL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. TSL will not treat recipients as customers by virtue of their receiving this report. Neither this document nor any copy of it may be taken or transmitted into the United States (to US Persons), Canada or Japan or distributed, directly or indirectly, in the United States or Canada or distributed, or redistributed in Japan to any residents thereof. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

It is confirmed that Mr. Praveen Kumar Dodda and Priyanka Damle, the author of this report have not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of TSL, which include earnings from other business. Neither TSL nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. TSL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. TSL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

TSL and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities related to the information contained in this report. To enhance transparency, TSL has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement in Motherson Sumi Systems Ltd. as on 4th October 2010:

- | | |
|--|---------------------------------------|
| 1. Name of the analyst | : Praveen Kumar Dodda, Priyanka Damle |
| 2. Qualifications of the analysts | : B.E., MBA; B.Com, C.A. |
| 3. Analysts' ownership of any stock related to the information contained | : NIL |
| 4. TSL ownership of any stock related to the information contained | : NIL |
| 5. Broking relationship with company covered | : NO |

This information is subject to change without any prior notice. TSL reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, TSL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employee of TSL accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research.

Copyright in this document vests exclusively with Tata Securities Limited.