Motherson Sumi Wiring India Ltd — FY 2024 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**MSWIL operates as a dominant, powertrain-agnostic "nervous system" provider for the Indian auto sector, leveraging a JIT/JIS moat to capture growth in both EV and ICE segments.**	Positive
2	**Revenue grew 17.8% YoY to □8,328 Cr, significantly driven by the premiumization trend and increasing wiring complexity in the SUV and Hybrid vehicle categories.**	Positive
3	**EBITDA margins expanded to 12.1% as the company demonstrated strong operational leverage, with top-line growth comfortably outpacing fixed cost increases.**	Positive
4	**Profitability surged with PAT reaching □638 Cr, supported by a conservative accounting stance including accelerated depreciation (7.5 years) and "Net" revenue reporting for agency contracts.**	Positive
5	***High customer concentration remains a systemic risk, with 39.5% of total revenue derived from just two major OEM clients, creating significant volume dependency.***	Negative
6	**The balance sheet has transitioned to a "harvest phase," with Net Debt/EBITDA plunging from 0.42x to a negligible 0.09x, rendering the company virtually debt-free.**	Positive
7	**Cash flow generation is robust, with CFO exceeding PAT and a disciplined dividend payout of □168 Cr well-covered by internal accruals.**	Positive
8	**Working capital efficiency improved markedly as inventory days fell from 94 to 76, though inventory write-downs spiked 133% to □43 Cr due to ICE-to-EV transition obsolescence.**	Neutral
9	**Capital productivity is world-class with a 48% ROCE, supported by a 97% reduction in capital advances as major expansion projects became operational and revenue-generating.**	Positive
10	***Governance is characterized by high ecosystem dependency, with 65.5% of material costs sourced via Related Party Transactions, limiting independent margin control and transparency.***	Negative
11	***A technical internal control lapse was noted regarding the failure to enable database-level audit trails (edit logs) for specific accounting software during FY24.***	Negative
12	**Investment View: ACCUMULATE; the thesis rests on superior capital productivity and SUV tailwinds, with key monitorables being Pune/Navagam plant utilization and RPT sourcing levels.**	Positive

Final research summary: Motherson SUMI wiring india LTD (MSWIL) | FY 2024

1. Business overview (In Bullet Points)

- **Business Segments:** MSWIL operates as a full-system solutions provider for wiring harnesses in the Indian automotive industry, serving as a powertrain-agnostic proxy for the sector.
- **Revenue Drivers:** Growth is primarily driven by "content per vehicle" increases through premiumization (SUVs) and the transition to Electric Vehicles (EVs) and Hybrids, which require complex high-voltage wiring systems.
- **Cost Drivers:** Major costs include **Cost of Materials Consumed** (65.56% of revenue), particularly copper, and Employee Benefit Expenses (16.27% of revenue) due to the human-intensive nature of assembly.

- **Industry Position:** Market leader with a "sticky" moat created by its Just-in-Time (JIT) and Just-in-Sequence (JIS) delivery model, operating 26 facilities in every major Indian auto hub.
- **Expansion Plans:** Management follows an "80% Rule," commencing new plant planning once capacity utilization hits 80%. Two new greenfield facilities in Pune and Navagam are coming online in FY25.
- **Acquisitions & Partnerships:** Operates as a Joint Venture between Motherson Group and Sumitomo Wiring Systems (SWS), providing access to global R&D and specialized components.
- **Capacity Additions:** Aggressive localization of complex components like CCS2 charging connectors and high-voltage shielded wires to move up the value chain.
- **Segment Performance:** Revenue is almost entirely domestic (99.97% India), with Sale of Products accounting for 98.96% of the top line.
- **Geographical Presence:** 26 facilities strategically located kilometers away from major OEM assembly lines to ensure proximity and operational integration.

2. Management commentary & outlook

- Management is shifting focus from simple "market share" to "value per OEM" by localizing high-spec component integration for EVs and Hybrids.
- The "80% Rule" for capacity expansion ensures a disciplined, demand-led capex model, avoiding over-leverage during industry downturns.
- Strategic positioning is powertrain-agnostic; management highlights that even if EV volumes are lower than ICE, the higher dollar-value per car protects the top line.
- To counter rising wage inflation, management is aggressively implementing "Digital Boards," "Cobots," and "AGVs" to shift away from pure reliance on cheap labor.
- The localization strategy is touted as a sustainability and cost-saving win, though much of this occurs within the Motherson/Sumitomo ecosystem.
- Growth guidance is tied to the premiumization of the Indian PV market, where SUVs require exponentially more wiring nodes for sensors and infotainment.
- Management emphasizes "long-term partnership" and "trust" with OEMs, evidenced by deep ties with Maruti Suzuki, Toyota, and Tata Motors.
- The long-term vision involves becoming the "Nervous System" provider for the next generation of electrified and autonomous-ready vehicles in India.
- **Management Tone:** The tone is one of **Pragmatic Optimism**. While management is bullish on the EV transition and premiumization, they remain disciplined regarding capacity expansion and are defensively automating to protect margins against labor inflation. There is a clear focus on maintaining the "ecosystem" moat while delivering high ROCE (48%) and consistent shareholder returns.

3. Financial analysis

3.1 Financial statements

3.2 Financial analysis summary

- **Revenue** grew by 17.8% YoY to □8,328.20 Cr, primarily driven by Sale of Products (98.96% of total), while Trade Receivables grew at a slower pace of 11.9% to □895.90 Cr, indicating high collection efficiency where 91% of dues are not yet due.

- The company exhibits high **Customer Concentration** risk with two major OEMs accounting for 39.5% of Revenue (₹2,063.30 Cr and ₹1,227.00 Cr), making the Balance Sheet utilization highly sensitive to the production cycles of these specific clients.
- **EBITDA** margin improved to 12.10% from 10.23% as Revenue growth outpaced the 14.5% rise in Employee Benefit Expense (₹1,355.10 Cr) and 9.7% rise in Other Expenses (₹506.20 Cr), demonstrating positive operating leverage.
- **Cost of Materials Consumed** remains the largest P&L drag at 65.56% of Revenue (₹5,459.60 Cr), with a significant 65% of these materials (₹3,575.60 Cr) sourced from related parties like Sumitomo and SAMIL, highlighting deep supply chain integration and transfer pricing dependency.
- **Inventory** management showed exceptional efficiency, contracting by 5.76% to ₹1,139.90 Cr despite the 17.8% Revenue jump, which reduced Inventory Days from 93.9 to 76.2 and suggests a successful shift toward a "Just-in-Time" model.
- **Working Capital** efficiency improved as Working Capital Days dropped to 48.7, supported by the Inventory reduction and stable Trade Payables (₹924.50 Cr), which directly contributed to the "robust cash generation" noted by auditors.
- **Total Debt**-like obligations, including Lease Liabilities, fell by 27.8% to ₹427.50 Cr, which combined with rising EBITDA led to a sharp improvement in the Net Debt to EBITDA ratio from 0.42x to 0.09x.
- **Finance Cost** decreased to ₹58.50 Cr from ₹62.10 Cr, which, alongside higher EBIT, boosted Interest Coverage to 14.70x, while the only non-lease borrowing is a ₹0.20 Cr interest-free government loan.
- **Depreciation** rose 19% to ₹147.30 Cr, reflecting a conservative accounting policy with accelerated useful lives (e.g., 7.5 years for Plant & Machinery) and the capitalization of projects as Capital Advances plummeted from ₹36.00 Cr to ₹1.10 Cr.
- **Capital Expenditure** appears to be cooling as Capital Commitments fell to ₹110.30 Cr from ₹162.60 Cr, signaling a transition from an investment phase to a harvest phase that should further bolster FCF.
- **PAT** increased significantly to ₹638.30 Cr at an effective tax rate of 24.5%, closely aligned with the statutory rate, while Dividend payouts to promoters remained steady at ₹168.20 Cr, supported by strong CFO.
- **Other Assets** analysis shows a clean balance sheet with Capital Advances dropping 97% to ₹1.10 Cr, indicating successful project capitalization, while Other Expenses like Power and Fuel (₹114.30 Cr) rose only 12%, trailing revenue growth and suggesting improved capacity utilization.
- **The dominant financial theme of the year is a transition from an intensive investment phase to a high-efficiency "harvest phase," characterized by superior operating leverage, debt reduction, and world-class working capital management.**

3.3 Contingent liabilities & commitments

- **Tax Matters: ₹1.10 Cr** related to Excise, Customs, and GST disputes. Management assesses these as "possible but not probable," and they are immaterial relative to net worth.
- **Capital Commitments: ₹110.30 Cr** (net of advances), down from ₹162.60 Cr in the prior year, indicating a cooling capex cycle.
- **Guarantees:** No major third-party guarantees or workmen claims were disclosed as material contingencies.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↑ — robust cash generation	—	Improvement in leverage ratios suggests PAT is well-supported by operating cash flows.
2	Receivables & channel-stuffing signal	Revenue ↑ — high quality growth	—	Receivables growth (+11.9%) is significantly lower than sales growth (+17.8%), indicating no aggressive channel stuffing.
3	Revenue timing	Neutral — stable revenue timing	—	Revenue recognition follows strict delivery-based control; "Agent" accounting for specific contracts ensures net reporting.
4	Revenue from related parties %	Revenue ↑↓ — concentration risk	—	Note 37: High dependency on two major customers poses systemic risk to utilization levels.
5	Inventory vs revenue growth	Profit ↑ — operational efficiency	—	Note 9: Inventory contracted 5.76% despite 17.8% revenue jump, reducing carrying costs and improving JIT model.
6	Inventory valuation method change	Neutral — consistent valuation	—	Note 9: 133% increase in write-downs suggests conservative cleanup of older stock/EV-transition parts.
7	Exceptional items in operating profit	Neutral — clean operating earnings	—	Financial statements show recurring operating income without one-time distortions.
8	Depreciation rate vs useful life policy	Profit ↓ — conservative accounting	—	Note 2.2.13: Accelerated depreciation (7.5 years for machinery) vs standard 15-year Schedule II reflects rapid obsolescence.
9	Provision reversals boosting PAT	Neutral — no earnings manipulation	—	Note 6: 91% of receivables are not yet due; 100% considered good with zero historical defaults.
10	Tax rate consistency	Neutral — tax transparency	—	Note 27: Effective tax rate of 24.5% aligns closely with 25.17% statutory rate.
11	CWIP age and stalling projects	Profit ↑ — project capitalization	—	Sharp drop in advances from □36 Cr indicates transition from investment phase to production phase.
12	Deferred tax asset recognition adequacy	Neutral — standard recognition	—	Deferred tax movements are driven by standard temporary differences in fixed asset accounting.
13	RPT quantum and trend	Profit ↑↓ — margin sensitivity	—	Note 36: RPT purchases represent 65% of material costs; small pricing shifts by parent impact overall margins.
14	Dividend paid vs FCF adequacy	Profit ↑ — sustainable payouts	—	Note 33: Massive liquidity cushion and near-zero bank debt support high dividend payout capacity.
15	Audit Trail Compliance	Neutral — technical lapse	—	Auditor reported edit log was not enabled at database level for one software; enabled post-year-end.
16	Principal vs Agent Accounting	Revenue ↓ — conservative reporting	—	Company records revenue "Net" for specific assembly contracts, preventing top-line inflation.

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion:** Unqualified. * **KAM 1: Revenue Recognition:** Auditor flagged risks regarding the timing of transfer of control and cut-off. Management utilizes automated systems and delivery-based recognition to mitigate this. * **KAM 2: Inventory Valuation:** Auditor highlighted the risk of obsolescence due to high SKU volumes and the shifting mix between EV and ICE components. Management performs regular physical verification and technical reviews. * **Internal Control Lapse:** The auditor reported that the **audit trail (edit log) feature** was not enabled at the database level for one accounting software during the

year. While no tampering was found and it was enabled post-year-end, this represents a technical internal control deficiency.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | ------- | ---------- | -------- | ---------- | --------- | | Joint Control Entities (SAMIL/SWS) | Promoter/JV Partner | Purchase of Goods | 3,339.50 Cr | High structural dependency | | Other Related Parties | Group Entities | Purchase of Goods | 236.10 Cr | Supply chain concentration | | Other Related Parties | Group Entities | Sale of Products | 113.30 Cr | Operational synergy | | Promoters | Parent Entities | Dividend Paid | 168.20 Cr | Cash outflow to parent | | Joint Control Entities | Promoter/JV Partner | Trade Payables | 442.40 Cr | Liquidity tied to ecosystem |

- **Dependency:** Purchases from related parties (□**3,575.60 Cr**) account for 65.49% of total material consumption.
- **Shared Costs:** Functional support costs (HR, IT, Finance) are allocated by SAMIL based on relative revenue, introducing subjectivity.

C. Shareholding | Category | Percentage (%) | | :--- | :--- | | SAMIL (Promoter) | 33.43% | | Sumitomo Wiring Systems (Promoter) | 25.34% | | Sehgal Family (Promoter) | 2.96% | | Public & Others | 38.27% |

- **Pledged Shares:** 0.00%

D. Board Composition + KMP Compensation * **Board:** 10 Directors; 50% Independent; 1 Woman Director (Ms. Geeta Mathur, replaced by Ms. Suparna Pandhi and Ms. Anisha Motwani post-FY24). * **Family Relations: Vivek Chaand Sehgal** (Chairman) is the father of Laksh Vaaman Sehgal (Non-Executive Director). * **KMP Compensation: Anurag Gahlot** (WTD) received □36.8 Cr (18% YoY growth), which is lower than the 26.98% EBITDA growth, indicating disciplined pay. Total KMP remuneration is a negligible fraction of operating profit.

F. Capital Allocation & Capex | Action | FY current (□Cr) | FY prior (□Cr) | % of CFO | Signal | | ------- | ---------- | -------- | ---------- | --------- | | Dividends | 287.40 Cr | 268.40 Cr | 28.74% | — | | Capex (R&D/PPE) | 332.00 Cr | Not disclosed | 33.20% | — | | Net Debt Change | -164.70 Cr | — | — | — | | Inventory Write-down | 43.00 Cr | 18.40 Cr | 4.30% | — | | Lease Liabilities (Total) | 427.30 Cr | 518.20 Cr | — | — |

CAPEX Analytical Notes: * **CFO Coverage of Capex**: Ratio is >3.0, indicating growth is entirely self-funded. * **Nature of Capex**: Primarily **growth capex** for two new Greenfield facilities in Pune and Navagam to support EV demand. * **Deployment Efficiency**: Revenue grew 17.8% while **Capital Advances plummeted 97%**, signaling successful capitalization of previous investments. * **Key Takeaways**: The **133% jump in inventory write-downs (□43.00 Cr)** suggests an aggressive cleanup of legacy ICE stock during the EV pivot.

H. Risks * ***Customer Concentration***: Two customers account for 39.5% of revenue. A slowdown at these OEMs would lead to immediate idle capacity and margin collapse (High Impact). * ***Audit Trail Lapse***: Edit log not enabled at database level for one software; potential for undetected data tampering (Medium Impact). * ***Inventory Obsolescence***: □43.00 Cr write-down in FY24 signals risk of further stock devaluations during the ICE-to-EV transition (Medium Impact). * **Commodity Volatility**: High sensitivity to copper prices; fluctuations can squeeze EBITDA margins if pass-through is delayed (Medium Impact). * **RPT Sourcing**: 65% of materials from related parties; transfer pricing adjustments by the parent could impact MSWIL's profitability (Medium Impact).

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	5	—	48% ROCE; JIT/JIS moat; Powertrain agnostic	Dominant market position with high entry barriers and scalable, demand-led growth.
Financial health	5	↑	Net Debt/EBITDA 0.09x; Interest Coverage 14.7x	Virtually debt-free with robust cash generation and high interest serviceability.
Earnings quality	4	—	CFO > PAT; Receivables growth < Revenue growth	High-quality earnings with conservative depreciation and no channel stuffing, though RPTs remain high.
Management & governance	3	—	65% RPT sourcing; Audit trail lapse; Promoter-led	Strong operational execution but high ecosystem dependency and minor technical control gaps.
Capital allocation & earnings visibility	5	↑	ROCE > WACC; Self-funded capex; 80% utilization rule	Disciplined reinvestment in greenfield plants with clear visibility from EV/SUV premiumization.

Business positives (for this company this year) * **Superior ROCE:** Maintained a world-class **ROCE of 48%** while remaining virtually debt-free. * **Operational Leverage: EBITDA margins expanded to 12.1%** as revenue growth (17.8%) outpaced fixed cost increases. * **Working Capital Excellence: Inventory Days reduced from 93.9 to 76.2**, with total inventory contracting despite higher sales. * **De-leveraging: Net Debt to EBITDA improved to 0.09x** from 0.42x, with total debt-like obligations falling by 27.8%. * **Project Execution: Capital Advances dropped 97% to ₹1.10 Cr**, signaling that major expansion projects are now operational and generating revenue.

Business negatives / concerns (for this company this year) * **Customer Concentration: 39.5% of revenue** is derived from just two customers, creating high systemic risk. * **RPT Dependency: 65.49% of material costs** are sourced from related parties, limiting independent margin control. * **Inventory Write-downs:** Recognized a **₹43.00 Cr write-down** (up 133% YoY), indicating obsolescence risks in the ICE-to-EV transition. * **Governance Technicality: Audit trail (edit log) feature** was not enabled at the database level for one accounting software during the year.

OVERALL SCORECARD SUMMARY MSWIL exhibits exceptional financial strength and operational efficiency, evidenced by its 48% ROCE and near-zero net debt. The company's earnings quality is high, with cash flows comfortably exceeding profit and capital expenditure. While governance is generally compliant, the heavy reliance on related-party sourcing (65%) and high customer concentration (40%) remain structural risks. Overall, the business is on an **improving trajectory** as it successfully transitions from an investment-heavy phase to a high-utilization harvest phase.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Final line: "Total: 8/10 — Governance Rating: 4"

Part c: investor verdict

Thesis: MSWIL is a high-efficiency, powertrain-agnostic play on Indian auto premiumization with world-class capital productivity.

Overall stance: ACCUMULATE

Rationale: Strong operational leverage and debt-free balance sheet outweigh the risks of high RPT dependency. Re-evaluate when: EBITDA margins drop below 10% for two consecutive quarters or RPT sourcing exceeds 75%. BULL CASE: Rapid SUV/EV adoption drives "content per vehicle" up by 2x, leading to 25%+ PAT CAGR. BEAR CASE: Major volume slowdown at Maruti Suzuki or unfavorable transfer pricing shifts by the parent company. Key monitorable: Capacity utilization of new Pune/Navagam plants: Current 80% → Watch < 65%.

7. Year-over-year analysis

7.1 Changes

Metric / theme	Summary a status (FY23)	Summary b status (FY24)	Forensic takeaway
Cash Conversion (CFO/PAT)	Poor (<46%); PAT □487 Cr vs CFO □223.6 Cr.	Robust (>100%); CFO comfortably exceeds PAT.	The company successfully reversed a severe liquidity crunch by optimizing working capital cycles.
Capital Allocation Phase	Intensive Investment; liquidity exhausted to fund Capex/Dividends.	Harvest Phase; growth is now entirely self-funded with rising FCF.	Management has pivoted from aggressive cash depletion to a sustainable, self-funding operational model.
Inventory Efficiency	26% YoY growth; inventory build absorbed 54% of PAT.	5.76% contraction; inventory days dropped from 94 to 76.	A major shift toward Just-in-Time (JIT) efficiency has unlocked significant trapped capital.
Margin & ROCE Trajectory	ROCE deteriorated from 59.4% to 43.5%.	ROCE expanded to 48% with EBITDA margin improvement.	Positive operating leverage and higher capacity utilization are driving superior returns on incremental capital.
Liquidity Position	Strained; Cash plummeted 99.8% to □0.50 Cr.	Strong; Net Debt/EBITDA improved to 0.09x with high undrawn lines.	The entity has restored its financial fortress, reducing dependence on external credit lines.
Management Tone	Aggressive growth at the expense of the cash buffer.	Pragmatic optimism focusing on automation and "value per OEM."	Leadership has shifted focus from raw volume growth to margin protection through technological intervention.

7.2 Persistent patterns

- **Structural dependency on Related Party Transactions (RPT)** remains extreme, with 60-65% of raw materials sourced from the Motherson/Sumitomo ecosystem.
- **High customer concentration** persists as a systemic risk, with two major OEMs consistently accounting for approximately 40% of total revenue.
- The company maintains a **strictly debt-free balance sheet** regarding traditional borrowings, utilizing lease liabilities as the sole form of financial leverage.
- **Conservative accounting through accelerated depreciation** (useful lives shorter than Schedule II) continues to be used, likely understating the true economic life of assets.
- The business remains a **powertrain-agnostic proxy** for the Indian automotive sector, successfully capturing "kit value" increases in both ICE and EV segments.
- **Aggressive dividend payout behavior** is a recurring theme, though the current year shows better alignment with actual cash generation compared to the prior year's capital erosion.
- **Strategic proximity to OEMs** via 26 facilities remains the core operational moat, ensuring JIT/JIS integration that is difficult for competitors to displace. No material persistent pattern identified.