

Motherson Sumi Wiring India Ltd — Feb 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline (Operating performance masked by one-offs and investment phase) **One-line:** The thesis remains intact as a long-term play on domestic auto premiumization, though Q3 is a "work-in-progress" quarter where massive capacity/headcount expansion is temporarily depressing margins ahead of revenue realization.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Inline	Performance matches "high-investment" phase; revenue growth hampered by customer chip shortages.	□
Earnings Quality	Low (One-off driven)	Impacted by ₹10 Cr FX loss and ₹4 Cr reorganization costs; CFO impacted by ₹312 Cr inventory build since March.	□
Guidance Confidence	Strong	Management maintains optimism on model launches and normalization of supply chains in coming quarters.	□
Management Credibility	Strong	High transparency regarding pro-forma adjustments and the 7,000-person hiring surge to meet OEM demand.	□
Business Quality Signal	Improving	17 new/changed models (40% of revenue) and 25% capacity expansion signal significant future growth.	□
Key Q&A Exchange	Q#3 — Capacity vs Margins	New models don't start at peak profitability; efficiency matures over time as localization increases.	□
The Street's Primary Anxiety	Margin Dilution	Concern over the 20% headcount increase (7k people) and its impact on near-term ROCE.	□
Capital Cycle Stage	Investment	Significant expansion with 3 new plants and land/building capex for FY24-25 models.	□
Margin / Return Ratio Trajectory	Deteriorating (Temp)	Short-term pressure from training costs and sub-optimal utilization of newly added capacity.	□
Pricing Power	Stable	Pass-through mechanisms for copper and FX are in place, albeit with a quarterly lag.	□
FCF Conversion & Quality	Distorted	Inventory surge of ₹312 Cr (since March) to satisfy OEM safety stock requests hurts OCF.	□
Competitive Moat Signals	Widening	Deepening integration with OEMs through early involvement in "full model changes" and EV segments.	□
Balance Sheet Strength	Strong	Management appears comfortable with current leverage despite heavy capex and WC needs.	□
Working Capital Efficiency	Deteriorating	Inventory days increasing due to "confusion" in OEM supply chains and safety stock requirements.	□
Mgmt Guidance Track Record	Reliable	Consistent focus on ROCE and capacity expansion ahead of the curve (80% rule).	□
Key Vulnerability / Red Flag	Labor Intensity	The business remains heavily dependent on manual assembly; 17.5% headcount jump increases fixed cost base.	□
Management Tone	Confident/Patient	Chairman Sehgal emphasized this as a transitional period for much stronger future results.	□

Key Takeaways: * **Positives:** MSWIL is aggressively capturing market share through 17 new model launches (11 existing + 6 upcoming), representing 40% of total revenue. Capacity has been increased by 25% to accommodate this, and the company has successfully expanded into EV segments across PVs, buses, and 2Ws. Productivity is already showing early signs of improvement as headcount slightly declined QoQ despite the large annual intake. * **Negatives:** Profitability is being squeezed by the "congruence of confusion" in OEM supply chains—where OEMs are running old models alongside new ones—leading to inventory bloat and sub-optimal labor efficiency. The ₹10 Cr JPY exchange loss and ₹312 Cr inventory build (since March '22) highlight the volatility in working capital and earnings quality during this transition. * **Street Concern:** Analysts are focused on when the massive 7,000-person hiring surge will translate into margin expansion; management responded that localization and training take time, with optimum utilization of new plants expected only by Q1 FY24. * **Watchpoint:** Monitoring the reduction of the ₹312 Cr excess inventory as OEM supply chains stabilize over the next 3-6 months.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

PPT not available — financial totals (Revenue/PAT) not explicitly stated in transcript; focus on disclosed delta and operational metrics.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue	Not in document	Not in document	Not in document	→	Driven by volume; copper pass-through was not a significant driver this quarter.
New Model Count	17	First entry	First entry	↑	Includes 11 launched and 6 upcoming; represents 40% of revenue.
Capacity Expansion	25%	First entry	First entry	↑	Added 3 new plants in last 9-10 months to support OEM growth.
EBITDA One-offs (₹Cr)	₹14 Cr	First entry	First entry	↓	Includes ₹10 Cr FX (Yen) loss and ₹4 Cr reorganization/bonus costs.
Headcount (Net Add)	7,000	First entry	↓	↑	7k added since March '22, but total count slightly down QoQ due to productivity focus.
Inventory Increase (₹Cr)	₹312 Cr	First entry	Not in document	↓	Cumulative increase since March '22 due to OEM supply chain uncertainty.
FX Loss (₹Cr)	₹10 Cr	First entry	First entry	↓	Primarily Yen strengthening; pass-through expected with a quarterly lag.
Utilization (%)	~80% (Cap)	First entry	First entry	→	Expansion triggered once 80% is touched; new plants ramping up to "optimum" by Q1FY24.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Company Avg	Key Development
EV (All types)	Not in document	Not in document	Not in document	↑	Not in document	Active in PV, Bus, 2W, and CV; winning orders across all segments for FY24.
Passenger Vehicles	Not in document	Not in document	Not in document	→	Not in document	Impacted by "chip situation" for certain customers delaying new model starts.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Margins	"Work-in-progress" quarter; better results in next few quarters.	Needs recovery of ₹14 Cr in one-offs + productivity gains from 7k staff.	First entry	Medium
Guidance	Volume / Capacity	17 models to constitute 40% of revenue.	New model contribution must outpace legacy model declines.	First entry	Low
Guidance	Capex Plan	Plan for FY24-25 models starting now; expand at 80% utilization.	Land/Building lead times require 1-1.5 years lead time.	First entry	Low
Strategy	WC Efficiency	Inventory to equalize/reduce in 3-6 months.	Dependent on OEM supply chain stabilization.	First entry	High
Macro	Input Costs	Pass-through of JPY and Copper with quarterly lag.	Automatic in contracts; risk is only the timing mismatch.	First entry	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.0	Kapil Singh, Nomura	One-off Items	Financials	"If you could just explain what are the reasons these [exchange loss and one-time costs] are coming through?"	Management explained that a ₹10 Cr loss arose from Yen strengthening and creditor reinstatement, while ₹4 Cr went toward bonus issues and software separation from the non-domestic business. These are non-core items that mask the true operating strength but will largely be recovered through customer pricing lags.	None	5.0	Clear and quantified
2	4.5	Kapil Singh, Nomura	Model Pipeline	Business Overview	"These six models will represent 40% of our total business or it is the 11 we have already launched plus six?"	The management clarified that the combination of 11 launched and 6 upcoming models represents 40% of the company's total revenue. This high concentration of new business implies significant exposure to the success of specific OEM launches and potential for content-per-	None	5.0	Specificity provided

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						vehicle growth.			
3	4.5	Kapil Singh, Nomura	Margins & Capex	Financials	"How does the margin profile generally work when you have so many new models... is it that initially margins are lower?"	Management confirmed that new models do not start with peak profitability due to initial setup, training, and localization costs that mature over time. This explains the current margin softness as the company absorbs the costs of 7,000 new employees before reaching full efficiency.	None	4.0	Directional with evidence
3a	3.5	Kapil Singh, Nomura	Capacity Expansion	Capex and Allocation	"We have increased the capacity by 25%... covers for all these models or do you think... more capex will be required?"	The company follows a rule to expand capacity once they cross 80% utilization, and they are already planning capex for FY24-FY25 models due to land/building lead times. Investors should expect continuous capex cycles rather than a "peak and drop" scenario given the order wins.	None	4.5	Policy-based response
4	3.5						None	4.0	Directional

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
		Jinesh Gandhi, Motilal Oswal	Revenue Drivers	Business Overview	"Whether there's any negative impact of cost pass through [copper] on the revenue growth?"	Management noted that copper price movements were not significant enough this quarter to materially impact revenue growth figures. This suggests revenue growth was driven more by volume and model mix than by raw material price inflation.			
5	3.0	Jinesh Gandhi, Motilal Oswal	Capex Moderation	Capex and Allocation	"Would we see moderation in capex from where we are in FY '23?"	Chairman Sehgal noted that as new orders are continuously won, new plants will continue to be built, with planning starting 12-18 months in advance. This signals that MSWIL is still in an aggressive growth phase and capex moderation is not imminent.	Moderation timeline	3.0	Consistent with growth
6	4.0	Jinesh Gandhi, Motilal Oswal	Reporting Formats	Financials	"At EBITDA level... 2Q EBITDA was about ₹180.8 crores, whereas in PPT we are indicating ₹190 crores. So, what is	Management explained that pro-forma adjustments for management fees and factory rentals (previously intra-	None	5.0	Specific accounting

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					the difference for?"	company) were spread across four quarters to provide a like-for-like standalone comparison. This highlights the "clean-up" phase of the financials following the reorganization.			
7	4.0	Raghunandhan NL, Emkay Global	EV Strategy	Business Overview	"Can you give some quantitative, qualitative colour on efforts or additions relating to EV and hybrids?"	MSWIL is present in EV segments for PVs, buses, 2Ws, and CVs and is winning new orders that will appear in FY24 financials. The growth in EV content-per-vehicle remains a central pillar of the long-term thesis, though they do not yet disclose a specific EV revenue split.	Specific EV revenue %	4.0	Directional
8	3.5	Raghunandhan NL, Emkay Global	Utilization	Business Overview	"How much would optimum utilization be? Would it be 70%- 80%? And is it possible to indicate current utilization?"	Management indicated that "optimum" is their 80% threshold, at which point expansion is triggered to ensure they never face capacity bottlenecks. Current utilization is trending toward this as	Exact current %	3.5	Vague but consistent

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						new facilities ramp up.			
9	3.0	Raghunandhan NL, Emkay Global	Group Synergies	Business Overview	"Will dependence on SAMIL be lesser in new capacities?"	The company continues to leverage group synergies for localization of high-temperature cables and data cables. This internal supply chain reinforces the moat but maintains related-party dependencies.	None	4.0	Directional
10	4.0	Raghunandhan NL, Emkay Global	Working Capital	Financials	"Working capital is on the higher side. How do you see the reduction in working capital going ahead?"	Management attributed the high inventory to OEM requests for safety stock and supply chain "confusion" between old and new models, expecting a reduction in 3-6 months. This confirms that the current cash flow drag is temporary and linked to the broader industry supply chain issues.	None	3.5	Vague timeline
10a	4.0	Raghunandhan NL, Emkay Global	Labor Productivity	Financials	"Is it fair to assume that the percentage value addition... will be 20% or	Management avoided a direct mathematical link but highlighted that	Direct content/ labor link	3.0	Hedged

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					higher [matching headcount growth]?"	headcount actually fell QoQ despite the 7k annual addition, signaling that productivity improvements are underway. This suggests the labor cost "bulge" has peaked and should begin to yield better margins.			
11	2.5	Yash Agarwal, IIFL	Other Income	Financials	"Your other income has substantially reduced by 90%... any specific reason?"	The decline was attributed to lower volumes in "passed through" services where assembly risk remains with the customer, which are excluded from EBITDA anyway. This is a non-material movement for the core investment thesis.	None	3.0	Vague
12	4.5	Siddhartha Bera, Nomura	Model Detail	Business Overview	"Are these completely new models or we are sort of taking or these are not present earlier...?"	Management stated that 60-70% are entirely new models while 30-40% are "full model changes," involving significant engineering and manpower training. This indicates a high	Model names	4.0	Directional

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						"stickiness" with OEMs as MSWIL is the partner of choice for their most critical product transitions.			
13	4.5	Siddhartha Bera, Nomura	Content Per Vehicle	Business Overview	"Are we seeing an increase in content for us as we supply to a completely new model...?"	Management confirmed that modern vehicles have significantly more features (and thus more wiring) but declined to quantify the exact content jump. The trend of increasing vehicle complexity is a structural tailwind for MSWIL realization per unit.	Specific realization delta	2.0	Deflected
14	4.0	Siddhartha Bera, Nomura	Cost Realignment	Financials	"Where are we in that journey [of cost realignment discussions]?"	Management described cost negotiations as a "continuous journey" regarding labor and RM hikes, with many already resolved and some ongoing. The lack of a specific "recovery" amount suggests that margin normalization will be gradual rather than a one-time jump.	Quantified under-recovery	3.0	Vague but consistent

PATTERN FLAGS & SENTIMENT

- **Theme: The Labor "Bulge":** Analysts were consistently focused on the 7,000-person headcount increase (nearly 20% growth). Management's posture was defensive but logical, framing it as an "investment in people" required for the 17 new model launches. The concern was partially resolved by the disclosure that QoQ headcount actually dipped, suggesting the peak hiring phase is over.
- **Theme: Inventory and Supply Chain "Confusion":** Multiple questions targeted the working capital spike. Management was surprisingly blunt about "confusion" at the OEM level (running old and new models simultaneously due to chip shortages). This remains a live issue that analysts will watch closely next quarter for signs of normalization.
- **Theme: Model Content Growth:** Analysts tried several ways to get a "content-per-vehicle" increase figure. Management successfully evaded providing a number, though they confirmed the directional trend. This remains the biggest "known unknown" in the thesis—we know it's growing, but the pace is unquantified.

Analyst Sentiment Verdict: Analysts were cautiously supportive but skeptical regarding the timeline for margin recovery. The friction point was the divergence between high revenue potential (17 models) and the current cost burden of 7k new employees. Management's credibility remains high due to their long-term ROCE focus, but the "working capital bulge" is a significant near-term overhang that remains unresolved.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Model Profitability	"Company has done very well."	New models don't start at average profitability; take time to mature.	Subtle walk-back: Immediate margin translation from new models is unlikely.	Medium: Slower margin ramp than Street expects.
Working Capital	N/A	Inventory up £312 Cr since March due to OEM requests.	Revealed a significant cash flow drag not highlighted in the opening remarks.	High: Potential for further OCF pressure if supply chains don't fix.

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.