Motherson Sumi Wiring India Ltd — Jun 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Inline (MSWIL) / Weak Miss (SAMIL) **One-line:** This is a "baseline" quarter post-demerger; MSWIL is emerging as the high-quality domestic growth engine while SAMIL navigates severe European macro headwinds and energy inflation.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Inline	MSWIL revenue □1,662 Cr (up 14% QoQ); SAMIL margins under pressure.	□
Earnings Quality	Low	Distorted by demerger accounting and a □65 Cr one-off management fee accrual in SAMIL standalone.	□
Guidance Confidence	Neutral	Management expects IC/chip issues to ease by Sept/Dec but avoids specific margin guidance.	□
Management Credibility	Strong	High transparency on macro headwinds; successful completion of complex demerger.	□
Business Quality Signal	Improving	MSWIL shows strong pricing power and content growth; SAMIL remains an acquisition-led recovery play.	□
Key Q&A Exchange	Q10: Cash deployment	Mgmt signals focus on shareholder returns (dividends) and electrification investments for MSWIL.	□
The Street's Primary Anxiety	Margin pass-through	Concerns over SMP's German exposure to energy costs; mgmt confirms active negotiations.	□
Capital Cycle Stage	Consolidation	Post-demerger clean-up; focusing on asset utilization and selective acquisitions.	□
Margin Trajectory	Deteriorating	Global inflationary pressures (labor, energy) hitting SMP harder than SMR.	□
Pricing Power	Stable	Strong pass-through mechanisms for copper/forex in MSWIL; annual negotiations in SMP.	□
FCF Conversion & Quality	Distorted	Working capital spike (□2,000 Cr) due to inventory buffering for supply chain security.	□
Competitive Moat	Widening	MSWIL's deep localization and relationship with Sumitomo remain formidable barriers.	□
Balance Sheet Strength	Adequate	Deleveraging path signaled, though temporarily halted by working capital needs.	□
Working Capital Efficiency	Deteriorating	Intentional build-up of inventory to mitigate supply chain volatility.	□
Mgmt Guidance Track Record	Reliable	Historically delivery-focused; "Work in progress" label suggests realistic outlook.	□
Key Vulnerability	European Macro	German plant exposure to energy and labor inflation (minimum wage up 22% in Mexico).	□
Management Tone	Confident/ Opportunistic	"Never waste a crisis" - Chairman signals a predatory stance on global acquisitions.	□

Key Takeaways (Positives & Negatives): * **Positives:** MSWIL (Wiring India) is the group's "shining point" with 14% QoQ revenue growth and 31% EBITDA growth, benefiting from high localization and content increase. The demerger is complete, providing a clean play for the Indian wiring harness market. Management remains opportunistic, viewing global headwinds as a funnel for future acquisitions. * **Negatives:** SAMIL is facing acute margin pressure in Europe (SMP) due to the decoupling from Russian gas and high labor costs. Working capital has expanded by □2,000 Cr as the company is forced to hold excess inventory to protect against supply chain breaks. * **Street Concern:** Analysts are skeptical about the speed of cost pass-throughs in the global business. Management responded that while copper/Yen are pass-throughs, energy and labor require complex, case-by-case negotiations with OEMs. * **Forward Watchpoint:** Monitor the recovery of SMP margins in Q1/Q2 FY23 as price resets with European OEMs take effect.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT not available — all numbers sourced from concall transcript.

Metric	Current Qtr (Q4FY22)	YoY Change	QoQ Change	Trend	Mgmt Commentary
MSWIL (Wiring India)					
Revenue	□1,662 Cr	Not in doc	↑ 14%	↑	Growth driven by volume and content increase.
EBITDA	Not explicitly stated	Not in doc	↑ 31%	↑	Outpacing revenue growth; efficiency gains.
PAT	Not in doc	Not in doc	Not in doc	→	Post-tax figures distorted by first-time demerger accruals.
ROCE (%)	40% (implied)	Not in doc	Not in doc	→	Analysts noted 40%+ profile; mgmt did not dispute.
SAMIL (Consolidated)					
Revenue	□16,911 Cr	Not in doc	Not in doc	→	Reflects "tough quarter" with rising costs.
EBITDA	□1,287 Cr	Not in doc	Not in doc	↓	Pressure from energy/labor in Europe.
PAT	□122 Cr	Not in doc	Not in doc	↓	Impacted by one-time demerger legal costs.
Net Debt / (Cash)	Not in doc	Not in doc	Not in doc	↓	Working capital increased by □2,000 Cr.
Working Capital	□2,000 Cr increase	Not in doc	Not in doc	↓	Higher inventory held due to supply disruptions.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
MSWIL	1,662	Not in doc	High	↑	Above	Domestic outperformance; EV content rising.
SMP	Not in doc	Not in doc	Low	↓	Below	Hit by German energy costs/labor.
SMR	Not in doc	Not in doc	Stable	→	In line	Hungary plants less affected by Russian gas exit.
PKC	Not in doc	Not in doc	↓	↓	Below	Labor cost spikes in Mexico (min wage +22%).

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate	Historical Delivery	Risk Flag
Guidance	Chip Supply	Easing considerably by Sept/Dec 2022.	N/A	First entry	Medium; geopolitical risk dependent.
Guidance	Pass-through	Energy/Labor costs being transparently shared for resets.	N/A	First entry	High; OEM resistance possible.
Strategy	Acquisitions	"More headwinds = more opportunities to acquire."	N/A	First entry	Low; proven track record.
Strategy	MSWIL EV	Focusing on "Make or Buy" based on volume.	N/A	First entry	Medium; technology risk.
Macro	Inflation	22% minimum wage hike in Mexico (PKC).	N/A	First entry	High; structural cost shift.

4. ANALYST Q&A

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Mgmt Response & Investment Implication	Evaded	Credibility	Verdict
1	5.0	Kapil Singh, Nomura	Margins	Financials	"What is the impact of energy/labor costs on SMP vs SMR and timelines for pass-through?"	Management indicated SMP is harder hit due to German energy exposure, while SMR (Hungary) is more stable; discussions for compensation are active but vary by OEM. Forward margins depend on the speed of these "unprecedented" negotiations.	Specific timelines for resets.	3.5	Directiona with evidence
2	4.5	Raghunandhan NL, Emkay	EV	Business	"What is the increase in content per vehicle in EVs and risk from Flex PCBs?"	Management stated content increases as high-voltage components replace engines, though ICE features remain; they dismissed Flex PCB risk for high-amperage needs. This confirms MSWIL's wallet share will likely grow in the EV transition.	Specific □/ vehicle content value.	3.0	Vague bu consisten
3	4.0	Raghunandhan NL, Emkay	Competition	Business	"Can MSWIL sustain market share against Yazaki/Aptiv in a changing powertrain environment?"	Management argued they don't focus on market share but on value creation and long-term partnerships, citing their superior localization. This reinforces the "moat" narrative based on the	Specific market share % figures.	3.0	Deflected — key signal

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Mgmt Response & Investment Implication	Evaded	Credibility	Verdict
						Sumitomo-Motherson JV.			
4	3.5	Joseph George, IIFL	Accounting	Financials	"Explanation of ₹65 Cr management fee and Ind AS 116 adjustments?"	Management clarified that MSWIL pays a management fee and rent to SAMIL, which was accrued for 9 months in Q4; this is a recurring intra-group transfer. This sets a quarterly expense run-rate of ~₹22 Cr for MSWIL going forward.	None	5.0	Clear and quantified
5	3.0	Amyn Pirani, JP Morgan	Gross Margin	Financials	"How were gross margins flattish despite commodity spikes?"	Management credited operational efficiency and cost containment by plant-level teams in a volatile environment. Suggests high operational control but lacks specific quantification of cost-saving levers.	Specific cost-saving breakdown.	3.0	Directional
6	4.0	Ronak Sarda, Systematix	Leverage	Financials	"How should we look at the ₹2,000 Cr working capital impact and debt trend?"	Management explained the inventory build-up was necessary for supply chain security and expects debt to trend down as realizations improve and inventory normalizes. Investors should monitor OCF-to-	Specific debt reduction target.	3.5	Directional

Q#	Relevance	Analyst	Theme	Category	Underlying Concern	Mgmt Response & Investment Implication	Evaded	Credibility	Verdict
						PAT once supply chains stabilize.			
7	4.5	Ronak Sarda, Systematix	Strategy	Allocation	"How will MSWIL deploy strong free cash flow and 40%+ ROCE?"	Management suggested a mix of dividends to shareholders and investments in special technologies for EVs and Hydrogen cars. Signals a shift from "harvesting" to "selective investment" for the Indian entity.	None	4.0	Specific timeline given
8	3.5	Jay Kale, Elara Capital	Localization	Business	"How localized is high-voltage wiring vs competition?"	Management emphasized a "make or buy" decision based on volume, noting it's currently cheaper to import some components due to low EV scale in India. This highlights a pragmatic, ROCE-focused approach over blind localization.	None	4.0	Directiona with evidence
9	3.0	Chirag Shah, Edelweiss	Chips	Macro	"What is the pace of the chip supply ramp-up?"	Management cited visible daily improvement and expects a considerable easing by September 2022. This provides a clear bottoming-out signal for volume growth.	None	4.0	Specific timeline given

PATTERN FLAGS & SENTIMENT * **The "Market Share" Evasion:** Analysts repeatedly pressed for market share and content-per-vehicle data. Management consistently deflected, focusing instead on "value creation" and "operational focus." This suggests management prefers to be judged on absolute bottom-line delivery rather than relative positioning metrics, which can be opaque in the wiring segment. * **The "Work in Progress" Defensive:** The recurring theme of "unprecedented" costs was met with a confident but vague posture on negotiations. While management is personally leading these talks (especially Laksh Vaaman Sehgal), the timeline for recovery remains the biggest unresolved risk. * **Analyst Sentiment:** Generally skeptical regarding global margins but optimistic about MSWIL's standalone prospects. Friction was highest around the SMP energy cost exposure and the lack of granular market share data. Credibility remains intact due to the "straight-talk" on headwinds like the 22% wage hike in Mexico.

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5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.

What Changed	Prior Quarter	This Quarter	Direction
Corporate Structure	Consolidated MSSL	Demerger complete: SAMIL & MSWIL	→
Working Capital	Baseline	□2,000 Cr inventory buffer build	↓
Input Costs	Inflationary	Unprecedented energy/labor spikes in EU	↓
MSWIL Run-rate	Baseline	□1,662 Cr Revenue; □22 Cr/qtr mgmt fee	↑
Management Fee	N/A	□65 Cr accrual (9 months)	↓

INVESTOR NOTES: * **CFO-to-PAT Divergence:** Working capital build of □2,000 Cr has significantly impacted cash flow conversion this quarter. This was a deliberate choice to ensure supply chain continuity but remains a key lever to watch for debt reduction. * **One-off Adjustment:** Strip out the □65 Cr management fee income from SAMIL’s standalone results to assess core operating performance. This was a "catch-up" accrual. * **Thesis Impact:** The demerger successfully isolates the high-return Indian business (MSWIL). The long-term thesis on MSWIL as a "proxy for Indian PV growth + EV content" is strengthened, while SAMIL remains a more complex macro recovery play.

STOP HERE.