

Munjal Showa Limited

COMPANY SNAPSHOT					
*CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs152	Rs191	Rs191	26%	BUY	6.1

*as on 24th June, 2021

About the Company:

Established in 1985, Munjal Showa Limited is a product of technical and financial collaboration between Hero Group and Showa Corporation of Japan. The company designs and manufactures shock absorbers and struts for leading two-wheelers and four-wheelers where the primary products are front forks, shock absorbers, struts, gas springs and window balancers etc. Nearly 95% of company revenues come from the two-wheeler industry, out of which Hero Honda alone accounts for 85%. MSL is a virtually debt-free company.

Results Declared:

- The net sales for the quarter under review grew by 26.6% to Rs3165mn as compared to Rs2500mn in the same quarter last year
- The EBITDA margins for the quarter under review stood at 2.29% as compared to 4.15% in the same period last year
- The company reported a net profit of Rs58mn as against Rs104mn in Q4FY20
- The EPS stands at Rs1.46 as compared to Rs2.60 in the corresponding period last year
- The Board recommended a final dividend of Rs4.50 per equity share of FV of Rs2 each for FY21 subject to shareholders approval.

Financials:

Result Update (Q4&FY21)								
Q4&FY21 Result (Rs mn)	Mar-21	Mar-20	y-o-y	Dec-20	q-o-q	FY21	FY20	y-o-y
Total Revenue	3165	2500	26.6%	3484	(9.2%)	10854	12882	(15.7%)
EBITDA	72	104	(30.3%)	188	(100.2%)	239	547	(56.3%)
Other Income	37	84	(56.3%)	75	(50.8%)	240	246	(2.4%)
Interest	0.06	0.04	64.9%	0.03	96.8%	1.48	4.25	(65.3%)
Depreciation	37	46	(19.9%)	44	(15.8%)	163	204	(20.2%)
Exceptional Items	0	0	-	0	-	0	0	-
Tax	14	38	(63.5%)	46	(69.9%)	53	159	(66.7%)
Net Profit	58	104	(43.9%)	173	(66.3%)	261	425	(38.5%)

Outlook and Recommendations:

The company has reported tepid results for the quarter under reference. Despite a decent top-line as compared to the December quarter, the company couldn't fair well at the operational levels on account of increase in the raw material costs and employee expenses for the quarter under reference. One cannot underestimate the external factors related to hike in fuel prices, other inflationary cost related to steel prices, supply chain issues, etc, but at the same time many auto players are gradually taking a price hikes to offset the external manufacturing cost,; thus the impact on sales of 2W and ultimately how it shapes up for the auto sector would be a wait and watch situation where most of the auto ancillary players will try to fetch operational efficiencies at the plant level. Munjal Showa too, is strategizing to reduce its staff cost via a VRS scheme (last quarter) and stream lining the operations. As the world will gradually return to normal, with an anticipated uptick in the 2W segments and price hikes taken by the key customers in the auto segment which will essentially be a pass through of prices to the end users, the business of many auto ancillary companies including Munjal Showa will return to normal, thus we maintain our target price of Rs191.

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Registered Office Address:
Progressive Share Brokers Pvt. Ltd.,
122-124, Laxmi Plaza, Laxmi Indl Estate,
New Link Rd, Andheri West,
Mumbai-400053;
www.progressiveshares.com
Contact No.:022-40777500.

Compliance Officer:
Mr. Shyam Agrawal,
Email Id: compliance@progressiveshares.com,
Contact No.:022-40777500.