

EDITORIAL – Motherson Sumi's acquisition of PKC will help diversify customer base, product offering and global presence

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Om Prakash Sharma

S&P Global

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Takeover to help Indian supplier achieve 'Vision 2020' revenue goals

Indian automotive supplier Motherson Sumi Systems Limited (MSSL) has reached an agreement to acquire Finland-based PKC Group for EUR571 million (USD607 million). MSSL, the flagship company of India's Samvardhana Motherson Group (SMG), agreed to offer PKC's outstanding shareholders EUR23.55 per share, which reflected a premium of 51.1% to the closing price of Finish supplier's share on the Nasdaq. The board of directors of PKC has unanimously recommended the offer, beginning today (6 February).



PKC is a major supplier of wiring systems and electronics for commercial vehicles. The company supplies electrical distributions systems, vehicle electronics, wire and cables, electrical cable and power packs and other components such as power distribution center, connection systems, terminal systems and fuse boxes, among others. Recently, PKC has been focusing on streamlining its operations. In 2016, PKC divested its light vehicle business and associated assets in North America; and last month, the company sold its electronics business, which catered to industrial applications.

New opportunities

The acquisition will be the most expensive ever made by MSSL and will significantly strengthen MSSL's position as a major supplier of wiring harnesses to the automotive industry. The company currently has 46 manufacturing facilities in 13 countries. The takeover will have minimal overlap, as MSSL has strong presence in the passenger vehicles wiring harness business, while PKC mainly deals in wiring systems for commercial vehicles and off-the-road (OTR) vehicles.

The acquisition is expected to help MSSL and PKC further expand their wiring business globally. PKC has a strong presence in Europe and North America, which could offer new growth opportunities for MSSL. The Indian supplier had significantly expanded its presence in wiring harnesses two years ago by acquiring global wiring harness business of Stoneridge. PKC can leverage MSSL's strong presence in Asia, especially in China and India, where many commercial vehicle manufacturers are establishing production bases to cater local demand.

Strategic acquisitions

MSSL was created in 1986 as a joint venture between SMG and Japan's Sumitomo Wiring Systems (now part of Sumitomo Electric Industries), and supplied wiring harnesses to the then leading Indian automaker Maruti Udyog, now Maruti Suzuki. The company made its first acquisition, of Ireland-based Wexford Electronics, in 2002. For the next five years, MSSL continued to make small-size acquisitions, expanding its international presence in the process. In 2009, the Indian supplier agreed to acquire the rearview mirror business of former Visiocrp. The acquisition positioned MSSL as a major supplier of rearview mirrors to major automakers. Two years later, MSSL agreed to acquire another distressed supplier, Germany-based polymer specialist Peguform.

Buoyed by successful integration of acquired businesses, MSSL appears always on the lookout for potential acquisitions. Last year, MSSL was reportedly in discussions to acquire IAC Group from the US-based billionaire investor Wilbur Ross. However, when the two parties failed to reach a deal, the Indian supplier shifted its attention to PKC. MSSL has been reportedly pursuing a PKC takeover for over eight months.

Following 'Vision 2020'

MSSL is one of only a few Indian suppliers that have well-defined five-year goals. The company is currently pursuing its 5th five-year plan, 'Vision 2020'. Under the plan, the company aims to more than triple its sales to USD18 billion by 2020, and realise return on capital employed (ROCE) of 40% by the end of plan. MSSL expects 65% of fiscal year (FY) 2019/20 sales to come from existing business, and the remainder through the acquisition route. To meet the goals set under this five-year plan, MSSL plans to invest INR60 billion (around USD940 million) in the next five years.

The acquisition of PKC, which generated sales of EUR846 million (USD891 million) in 2016, will be a key milestone for MSSL in meeting its revenue goal of USD18 billion under Vision 2020. It will also help the Indian supplier further diversify its global presence, product offering and customer base. Under Vision 2020, MSSL is looking at diversification as a major goal, so that no customer, country and components contributes more than 15% of total turnover by 2020. In FY 2015/16, Polymer & Tooling accounted for 56% of MSSL sales, followed by Rear View Mirrors at 28% and Wiring Harness at 16%. In terms of customer base, MSSL generates around 40% of its sales from the Volkswagen Group. Most of the company's other major customers accounted for less than 10%, except Daimler, which contributed 11% of its sales in the first half of FY 2016/17. MSSL generated 85% of its FY 2015/16 revenue outside India.

CONTACTS

The Americas

+1 877 863 1306

Europe, Middle East & Africa

+44 20 7176 1234

Asia-Pacific

+852 2533 3565

www.spglobal.com/mobility

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