



September 17, 2010

ICRA revises the long-term rating for bank facilities of Motherson Sumi Systems Limited; reaffirms short-term rating

ICRA has revised the long-term rating for the bank facilities of Motherson Sumi Systems Limited (MSSL) from "LAA-" (pronounced L double A minus) to "LAA" (pronounced L double A)[†]. The outlook for the long-term rating has been reaffirmed as "Stable". ICRA has also re-affirmed the short-term rating for the bank facilities of MSSL as "A1+" (pronounced A one plus). The rated amount for the bank facilities is enhanced from Rs.300 Crore to Rs. 585 Crore. Also, ICRA has reaffirmed the "A1+" rating for the Rs. 100 Crore short term debt programme (including commercial paper) of MSSL[†].

The rating upgrade reflects the strong business growth registered by the key business divisions of MSSL over the last several quarters, steady improvement in MSSL's profitability indicators and conversion of the entire amount of FCCBs into equity improving the capital structure. MSSL has also benefited from external funding support received by select operating units of SMR in the form of customer grants and government subsidies for funding restructuring costs. In ICRA's opinion, MSSL's business position has strengthened following its acquisition of SMR in March 2009 making it a global tier-1 supplier of automotive components, expanding its global footprint with presence of customer base and manufacturing locations across four continents. This is complimented by its strong domestic market position in the wiring harness segment for passenger vehicles, and improving market position in the polymer components business. The ratings also factor in MSSL's established relationship with major passenger vehicle manufacturers in India and abroad, improving diversity of business, increasing content per vehicle and strong order book position which are expected to drive the company's business growth going forward. The rating in the long term is constrained by challenges related to integration and turnaround of SMR's operations, as select operating units are currently loss making. SMR's financial risk profile over the short to medium term would be sensitive to its ability to rationalize costs and sustain a favourable working capital cycle. The acquisition has increased MSSL's revenue dependence on Europe and North American markets, where automotive demand outlook remains uncertain. This, coupled with MSSL's large capex plans, and the recurring requirement of financially supporting its various other subsidiaries and JVs, may put some pressure on the company's financial risk profile going forward. However, ICRA draws comfort from the execution capabilities of MSSL's management team, its strong track record of managing multiple JVs across the globe and its healthy order book position across business divisions.

Recent Results

In Q1 2010-11, MSSL's (standalone) Net Sales at Rs. 542.5 Crore reported a growth of 56% over the corresponding previous quarter. Also, the company's profit before depreciation, interest and tax at Rs. 82.1 Crore in Q1 2010-11 reported a growth of 60% over the corresponding previous quarter. MSSL's (standalone) profit after tax (PAT) decreased from Rs. 31.0 Crore in Q1 2009-10 to Rs. 29.3 Crore in Q1 2010-11.

In Q1 2010-11, MSSL's (consolidated) Net Sales at Rs. 1,858.6 Crore reported a growth of 32% over the corresponding previous quarter. Also, the company's profit before depreciation, interest and tax at Rs. 193.0 Crore in Q1 2010-11 reported a growth of 120% over the corresponding previous quarter. MSSL (consolidated) reported a PAT of Rs. 72.0 Crore in Q1 2010-11 as against a net loss of Rs. 12.9 Crore in Q1 2009-10.

[†] For complete rating scale and definitions, please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

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Company Profile

MSSL is the flagship company of the Samvardhana Motherson Group. The company was promoted in 1986 in technical and financial collaboration with Sumitomo Wiring Systems (SWS) and Sojitz Corporation (erstwhile Nissho Iwai Corporation), both of Japan. Currently, MSSL's shareholding is distributed between Samvardhana Motherson Finance Limited (SMFL, 36.3%), Sumitomo Wiring Systems, Japan (SWS, 25.0%), the Sehgal family (3.8%) and Public (34.8%).

MSSL started as a single product (wiring harness) company but has since expanded its product range to include polymer products, machined metal components and automotive mirrors. In India, MSSL has plants at Noida and Greater Noida (Uttar Pradesh), Gurgaon, Manesar and Faridabad (Haryana), Pune (Maharashtra), Bangalore (Karnataka), Chennai and Pondicherry (Tamil Nadu).

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For further details, please contact:

Vivek Mathur (Tel. No. +91-124-4545310)

Subrata Ray (Tel. No. +91-22-30470027)

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

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