

September 09, 2021

Motherson Sumi Infotech & Designs Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Export Packing Credit/Cash Credit Facilities	17.0	17.0	[ICRA]AA- (Stable); Reaffirmed
Short-term: Non-Fund Based Facilities	11.5	11.5	[ICRA]A1+; Reaffirmed
Long term & short term: fund based & non-fund based limits	-	35.00	[ICRA]AA- (Stable)/ [ICRA]A1+; Assigned
Long-term: Unallocated Limits	1.5	1.5	[ICRA]AA- (Stable); Reaffirmed
Total	30.0	65.0	

*Instrument details are provided in Annexure-1

Rationale

The rating continues to take into consideration an expected improvement in the credit profile of the company's parent entity, Samvardhana Motherson International Limited, and the strategic importance of Motherson Sumi Infotech & Designs Limited (MIND) as the captive IT solutions provider for the Samvardhana Motherson Group (SMG). MIND is a joint venture between SMG, India (key operating company of the group, Motherson Sumi Systems Limited (MSSL), rated [ICRA]AA+ (stable)/[ICRA]A1+), and Sumitomo Wiring Systems (SWS), Japan (a leading global tier-I automotive supplier). SMG has provided financial support to the company through its holding company, Samvardhana Motherson International Limited (SMIL), which remains the major shareholder (53.7% as on date). The board of directors of MSSL had approved a re-organisation plan in July 2020, which is expected to result in a merger of SMIL into MSSL (w.e.f. April 1, 2021, subject to receipt of pending regulatory approvals), thus resulting in a stronger parent entity (a merged entity) for MIND.

MIND continues to derive ~75-80% of its revenues from the domestic and overseas entities of SMG, while deriving ~8-10% of its revenues from SWS and the remaining 15-20% from non-promoter clients. The company's portfolio of services include enterprise resource planning (ERP) solutions, IT infrastructure services, application development and maintenance (ADM), cloud services, IoT and analytics. It caters to clients from the automotive, manufacturing, pharmaceuticals and FMCG sectors. On the back of steady business growth registered by SMG over the years, coupled with several acquisitions, the enhanced IT application requirement of the group companies have aided MIND's revenue growth. As a result, the company has grown at a healthy CAGR of 13%¹ over the past five years, recording total revenues of ~Rs. 340 crore¹ in FY2021. The company has a diversified presence across 47 regions, including India (~34%), the US (~15%), the EU (~40%) and Japan (~3%). ICRA notes that the revenue growth in FY2020 and FY2021 has been marginal due to slow down in the auto sector in FY2020, followed by the onset of the Covid-19 pandemic, and has mainly been contributed by the growth in business from SMG entities.

The ratings continue to take into consideration the healthy financial risk profile of the company, characterised by low external borrowings and comfortable debt coverage indicators. As on March 31, 2021, the company has external debt of ~Rs. 30 crore (excluding lease liabilities); the same was marginally higher than March 31, 2020 debt levels with the company availing a term loan to fund the construction of a new building in the office premises. Despite increase in debt, external debt/ OPBITDA and

¹ Based on standalone financial statements

gearing (excluding unsecured debt from promoters and lease liabilities) remained at comfortable levels of 0.9x² and 0.4x² in FY2021. The company's operating profitability improved to 9.3%² in FY2021 from 8.6%² in FY2020, despite fresh hiring and geographical expansion, aided by cost efficiency measures. The debt coverage metrics of interest coverage and DSCR also remained at comfortable levels and are expected to remain so going forward, considering healthy cash accruals.

The planned construction of a new office tower with a capex of Rs. 200-220 crore is expected to be deferred because of the excess seating capacity and chances of adoption of work from home (WFH) norms for a healthy proportion of the workforce in lieu of the current pandemic situation. The company is expected to incur Rs. 40-50 crore of IT capex for setting up a global Security Operations Centre (SOC) and new product launches for non-promoter clients; the same would be funded primarily by a mix of debt and internal cash accruals, which are expected to witness healthy growth with growth in revenues. The company continues to maintain a strong liquidity profile, supported by considerable unutilised sanctioned bank limits and financial support from its parent group.

The Stable outlook takes into consideration the assured business for the company from its promoter group entities, which is expected to help the company report healthy revenue and earnings growth over the medium term. The company is expected to maintain a healthy credit profile, with continued support from the parent group for any funding requirements.

Key rating drivers and their description

Credit strengths

Assured business from promoter group entities as the captive IT solutions provider; access to financial support from strong promoter group – SMIL and SWS with their combined stake of ~74% are the principal shareholders of MIND. Over the years, as the captive IT service provider to its promoter group, MIND has reported healthy growth in revenues on the back of increased IT requirements in line with the growth of SMG. The healthy growth prospects of the promoter group companies continue to provide steady revenue visibility for MIND over the medium term. Apart from operational benefits, the company also enjoys access to financial support from its parent group, which is likely to help the company maintain a healthy credit profile, while continuing to pursue its business growth plans.

Group expansion as well as new products addition to aid steady growth in scale of operations - MIND's business operations have scaled up over the past few years, primarily aided by enhanced business from group companies, following SMG's expansion through various inorganic initiatives. Over the past few years, MIND has also developed new products, such as iDACS (a smart manufacturing solution), cloud based IoT, analytics and data migration services, among others, which command relatively higher margins (as incremental investments for these products are low) and has been able to gain business for the same in the recent past. An expectation of continued growth in business from SMG, coupled with a ramp up in business gained for new product developments, is likely to aid a steady growth in MIND's scale of operations over the medium term.

Credit challenges

High client concentration risk with dependence on promoter group entities – Besides catering to promoter group companies, MIND has also been focused on enhancing business from entities outside the promoter group (both in the domestic and international markets). Even as the company has enhanced its business sourced from outside the promoter group over the past few years, it continues to remain heavily dependent on business sourced from the promoter group entities, which constituted ~88% of its revenues in FY2021. Consequently, the business prospects of MIND remain significantly linked to the prospects of the automotive sector (wherein most of the promoter group entities operate). The dependence on promoter group companies is mitigated to an extent by the captive IT solutions provider status enjoyed by MIND for its promoter group entities.

² Based on standalone financial statements

Significant capital expenditure plans over medium term may impact financial risk profile; remains contingent on demand and ongoing pandemic impact on WFH policies - The company has significant capex plans to enhance its seating capacity over the next three years, in line with the increasing scale of business. MIND has plans to incur capex of ~Rs. 200-220 crore for constructing a new building over a period of three years funded by equity infusion, internal accruals and external debt. The company currently has 1,700-1,800 employees and its current infrastructure supports a seating capacity of 2,000-2,200. With the adoption of WFH policies for a healthy percentage of its total employee strength, there exists no urgent requirement for the company to build the new tower in the near term. Over a medium term, as and when the company proceeds with its capex plans, the funding mix for the same is expected to remain a combination of debt and equity (to be brought in by its parent entity as and when the need arises). While the capex plans have not been finalised yet and are expected to be part funded by equity support from the promoter group, significant debt undertaken to fund the capex could result in a moderation in the company's return and debt coverage indicators from current levels and would remain a monitorable.

Liquidity position: Strong

The company has a **strong** liquidity profile, characterised by adequate buffer in sanctioned fund-based limits as well as access to funding support from its parent group. The company had an average buffer of Rs. 46 crore out of the total fund based working capital facilities of Rs. 57 crore in the 12- month period ended June 2021. Going forward, the company's fund flows are expected to grow at a healthy pace, which would be used to support IT capex. The capex for the planned construction of the new tower is expected to be funded partially by promoter equity infusion to reduce its reliance on external borrowings, when the need arises. The debt repayment for the entity is expected to remain in the range of Rs. 12-16 crore over the medium term.

Rating sensitivities

Positive factors – A sustained track record of registering healthy revenue growth and improvement in profitability profile, led by scale-up in new product/service offerings to customers outside the group, would be favourably considered for upward movement in ratings. Any improvement in the credit profile of the parent entity could also be a trigger for an upward revision in ratings.

Negative factors – The ratings may be revised downwards if a deterioration in cash accruals results in a weakening of its liquidity and financial risk profile. The company's capex plans to construct a new office (currently under evaluation) and the impact of the same on its credit metrics would remain a monitorable; timely funding support from the parent entity to meet the proposed capex plans would remain a key rating sensitivity. Any reduction in linkages with the parent entity, or downward revision in the parent entity's credit profile would also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Information Technology (IT) Services Industry Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent Group: Samvardhana Motherson Group The rating assigned to MIND factors in the very high likelihood of its parent entity, SMIL, extending financial support to it because of the close business linkages between them. ICRA also expects SMIL to be willing to extend financial support to MIND out of its need to protect its reputation from the consequences of a Group entity's distress.

Consolidation/Standalone

For arriving at the ratings, ICRA has considered the consolidated financials of MIND. As on March 31, 2021, the company had eleven subsidiaries, which are enlisted in Annexure-2.

About the company

Mother'son Sumi Infotech & Designs Limited, incorporated in 2000, is a joint venture between Samvardhana Mother'son Group, India, and Sumitomo Wiring Systems Limited, Japan. The company provides IT services in the fields of applications development and maintenance (ADM), enterprise resource planning (ERP), mobility applications, assembly line automation, etc, primarily in the automotive sector, both in the domestic as well as international markets. It has execution centres in India (Noida, Uttar Pradesh), the US, Germany, Japan and Singapore, besides support locations at Chennai and Pune.

Key financial indicators (audited)

MIND Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	420.2	420.5
PAT (Rs. crore)	1.4	-16.0
OPBDIT/OI (%)	3.6%	2.2%
PAT/OI (%)	0.3%	-3.8%
Total Outside Liabilities/Tangible Net Worth (times)	3.2	4.0
Total Debt/OPBDIT (times)	6.2	7.8
Interest Coverage (times)	4.5	1.5

MIND Standalone	FY2020	FY2021
Operating Income (Rs. crore)	340.5	340.2
PAT (Rs. crore)	11.2	8.2
OPBDIT/OI (%)	8.3%	9.3%
PAT/OI (%)	3.3%	2.4%
Total Outside Liabilities/Tangible Net Worth (times)	2.4	2.2
Total Debt/OPBDIT (times)	2.8	2.6
Interest Coverage (times)	8.8	5.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All calculations are as per ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)					Chronology of Rating History for the past 3 years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding	Current Rating	Earlier Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
				9-Sep-2021	6-Apr-2021	02-Mar-2020	06-Dec-2018	22-Feb-2018
1 Export Packing Credit/ Cash Credit	Long-Term	17.00	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)
2 Standby Line of Credit	Short-Term	-	-	-	-	[ICRA]A1	[ICRA]A1	[ICRA]A1
3 Non-Fund Based Facilities	Short-Term	11.50	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1
4 Fund based & Non-fund based limits	Long-Term and Short-term	35.00	-	[ICRA]AA-(Stable)/[ICRA]A1+	-	-	-	-
5 Unallocated Limits	Long-Term	1.50	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Export Packing Credit/Cash Credit Facilities	Simple
Non-Fund Based Facilities	Very Simple
Long term & short term- fund based & non-fund based limits	Simple
Unallocated Limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
State Bank of India	Export Packing Credit/ Cash Credit	-	-	-	17.0	[ICRA]AA- (Stable)
State Bank of India	Non-Fund Based Facilities	-	-	-	11.5	[ICRA]A1+
HDFC Bank	Fund based & Non-fund based limits	-	-	-	20.00	[ICRA]AA- (Stable)/ [ICRA]A1+
ICICI Bank	Fund based & Non-fund based limits	-	-	-	15.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	Unallocated Limits	-	-	-	1.5	[ICRA]AA- (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	MIND Ownership	Consolidation Approach
Motherhood Sumi Infotech and Designs Limited	Rated Entity	Full Consolidation
MSID US Inc.	100.00%	Full Consolidation
Motherhoodsumi INFOTEK And Design GmbH	100.00%	Full Consolidation
MotherhoodSumi Infotech and Designs SG Pte. Ltd.	100.00%	Full Consolidation
MotherhoodSumi Infotekk and Designs GmbH, Germany	100.00%	Full Consolidation
Motherhood Auto Engineering Service Ltd.	100.00%	Full Consolidation
Samvardhana Motherhood Virtual Analysis Ltd.	100.00%	Full Consolidation
Samvardhana Motherhood Health Solution Ltd.	100.00%	Full Consolidation
SMI Consulting Technologies Inc, USA	100.00%	Full Consolidation
MotherhoodSumi Infotech & Designs KK	85.71%	Full Consolidation
Motherhood Infotech & Solution U.K. Ltd.	100.00%	Full Consolidation
Motherhood Infotekk Designs Mid-East FZ-LLC	100.00%	Full Consolidation
Motherhood Information Technologies Spain SLU*	100.00%	Full Consolidation

Source: Company data; *effective from April 1, 2021

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