December 23, 2022

Motherson Technology Services Limited: Ratings reaffirmed

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	17.00	7.00	[ICRA]AA- (Stable); Reaffirmed
Short-term – Non-fund Based Facilities	11.50	8.50	[ICRA]A1+; Reaffirmed
Long-term & short-term – Fund-based & Non-fund based limits	35.00	35.00	[ICRA]AA- (Stable)/ [ICRA]A1+; Reaffirmed
Long-term Unallocated Limits	1.50	1.50	[ICRA]AA- (Stable); Reaffirmed
Total	**65.00**	**52.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation continues to factor in the strategic importance of Motherson Technology Service Limited (MTSL, formerly Motherson Sumi Infotech and Designs) as the captive IT solutions provider for the Samvardhana Motherson Group (SMG). MTSL is a joint venture between Samvardhana Motherson International Limited (SAMIL; rated [ICRA]A1+), and Sumitomo Wiring Systems (SWS, Japan,) a leading global tier-I automotive supplier. SAMIL, the flagship company of SMG remains the major shareholder (62.9% as on date) in MTSL and has provided financial support to its group companies historically. In addition to supporting the entity through inter corporate deposits over the recent past (~Rs. 94 crore outstanding as of September 30, 2022), a rights issue to infuse ~Rs. 200 crore in the entity is currently under evaluation (expected to be completed by the end of the fiscal). The infusion of funds will help fund the company's growth initiatives and limit its dependence on external borrowings, thereby providing comfort.

MTSL 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 includes enterprise resource planning (ERP) solutions, IT infrastructure services, application development and maintenance (ADM), cloud services, IoT and analytics; and it caters to clients from the automotive, manufacturing, pharmaceuticals and FMCG sectors. The continued business growth registered by SAMIL over the years aided by several acquisitions, and the resultant enhanced IT application requirement of the Group companies have aided MTSL's revenue growth. As a result, the company has grown at a healthy CAGR of 10% over the past five years, recording total revenues of ~Rs. 540 crore in FY2022, on a consolidated level. The company has a diversified presence across 41 locations, including India (~36% of revenues on a consolidated basis), the US and Europe.

Despite healthy revenue growth, MTSL's profitability margins turned negative in FY2022 driven by high employee costs and higher trading licenses and infrastructure costs driven by the company's ongoing expansion plans. While losses have continued in H1 FY2023, the company has shown a QoQ reduction in operating losses and expects to break even by the end of the fiscal. MTSL's capex plans will remain elevated in the near term, amounting as high as ~Rs. 300 crore over the next three years as the company proceeds to construct its new office premises to support the expected growth in business; the actual outlay towards the project would be linked to the company's ability to gain new businesses.

As on March 31, 2022, the company has external debt of ~Rs. 115 crore (excluding lease liabilities); primarily driven by increase in short-term borrowings. While the increase in debt and negative operating margins have led to considerable moderation of coverage and leverage indicators, proceeds from the planned rights issue will be used to pay off a portion of the debt, fund the capex partly, and support the company's financial metrics. Further, improved cash accruals from business growth and expansion, driven by growth at the Group level and diversification outside the Group, should support debt repayments and capex plans over a medium term.

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 earnings growth over a medium term. The company's credit profile is expected to continue to be supported by the parent group for any funding requirements.

Key rating drivers and their description

Credit strengths

Healthy revenue visibility from promoter group entities as the captive IT solutions provider; access to financial support from strong promoter group – SMG and the Sumitomo Group are the majority shareholders of MTSL, as they directly or indirectly own ~100% of its shares. Over the years, as the captive IT service provider to its promoter group, MTSL 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 MTSL 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 product additions to aid steady growth in scale of operations – MTSL's business operations have scaled up over the past few years, primarily aided by enhanced business from group companies, following SAMIL's expansion through various inorganic initiatives. Over the past few years, MTSL 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 MTSL's scale of operations over the medium term.

Credit challenges

High client concentration risk with dependence on promoter group entities – MTSL continues to remain heavily dependent on business sourced from the promoter group entities, with ~70% of the consolidated revenues coming from SMG. Consequently, the business prospects of MTSL 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 the company for its promoter group entities and MTSL's focus on further increasing revenues from non-group companies.

Significant capex plans over medium term may impact financial risk profile; remains contingent upon demand and 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. MTSL has plans to incur capex of ~Rs. 300 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 a seating capacity of ~1,700 employees, which is expected to increase to ~5,000 once the new office premise is fully operational. In line with the industry trends, MTSL has shifted to a hybrid working model, which is expected to continue in the medium term. The capex is expected to be part funded by equity support from the promoter group as well as additional debt. The planned capex may result in moderation in the company's return and debt coverage indicators over the medium term and would remain a monitorable.

Liquidity position: Adequate

MTSL's liquidity profile remains adequate, given the access to funding support from its parent group and adequate buffer in working capital limits. The company has been sanctioned fund-based limits of ~Rs. 73 crore at the standalone level, of which ~Rs. 49 crore was utilised as on September 30, 2022, providing some buffer. Going forward, the planned promoter equity infusion is expected to help fund the company's capex plans and reduce its reliance on external borrowings to an extent. The debt repayment for the entity is expected to average about ~Rs 16 crore per annum in FY2023 and FY2024, for the outstanding borrowings.

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 the 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 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 weakening in linkages with the parent entity, or downward revision in the parent entity's credit profile would also be a negative rating 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 MTSL factors in the very high likelihood of its parent entity, SAMIL, extending financial support to it because of the close business linkages between them. ICRA also expects SAMIL to be willing to extend financial support to MTSL 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 MTSL. As on March 31, 2022, the company had 11 subsidiaries, which are enlisted in Annexure-2.

About the company

Motherson Technology Services Limited, incorporated in 2000, is a joint venture between Samvardhana Motherson International Limited, 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)

Consolidated	FY2021	FY2022	H1 FY2023*
Operating income	420.5	538.1	361.7
PAT	-16.0	-60.3	NA
OPBDIT/OI	3.4%	-7.6%	NA
PAT/OI	-3.8%	-11.2%	NA
Total outside liabilities/Tangible net worth (times)	4.0	-122.0	NA
Total debt/OPBDIT (times)	6.9	-4.4	NA
Interest coverage (times)	2.0	-3.7	NA

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; NA- Not Available; *Provisional financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2020	Date & rating in FY2019
					Dec 23, 2022	Sep 09, 2021	Apr 06, 2021	Mar 02, 2020	Dec 06, 2018
1	Export Packing Credit/ Cash Credit Facilities	Long term	7.00	--	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Non-Fund Based Facilities	Short term	8.50	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1
3	Fund Based & Non-fund Based Limits	Long term & short term	35.00	--	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	--	--	--
4	Unallocated Limits	Long term	1.50	--	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
5	Standby Line of Credit	Short term	--	--	--	--	--	[ICRA]A1	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Export Packing Credit/ Cash Credit Facilities	Simple
Non-Fund Based Facilities	Very Simple

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 analysing 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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Export Packing Credit/ Cash Credit Facilities**	NA	NA	NA	7.00	[ICRA]AA- (Stable)
NA	**Non-Fund Based Facilities**	NA	NA	NA	8.50	[ICRA]A1+
NA	**Fund Based & Non-fund Based Limits**	NA	NA	NA	35.00	[ICRA]AA- (Stable)/ [ICRA]A1+
NA	**Unallocated Limits**	NA	NA	NA	1.50	[ICRA]AA- (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Motherson Technology Services Limited	Rated Entity	Full Consolidation
Motherson Technology Services USA Limited	100%	Full Consolidation
Motherson Technology Services Gmbh	100%	Full Consolidation
Motherson Technology Service SG PTE. LTD.	100%	Full Consolidation
Motherson Sumi Inforech & Designs KK*	85.71% by MIND SG	Full Consolidation
Motherson Auto Engineering Service Limited	100%	Full Consolidation
Samvardhana Motherson Virtual Analysis Limited	100%	Full Consolidation
Samvardhana Motherson Health Solution Limited	100%	Full Consolidation
SMI Consulting Technologies Inc.	100%	Full Consolidation
Motherson Technology Services United Kingdom Limited	100%	Full Consolidation
Motherson Technology Service Mid East FZ-LLC	100%	Full Consolidation
Motherson Information Technologies Spain S.L.U.	100%	Full Consolidation

*Source: Company; * MothersonSumi Infotech & Designs KK is a subsidiary of MothersonSumi INfotech and Designs SG Pte. Ltd. which in turn is held by MIND India*

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44-45964318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545 808
rohan.kanwar@icraindia.com

Debadrita Mukherjee
+91 124 4545 394
debadrita.mukherjee@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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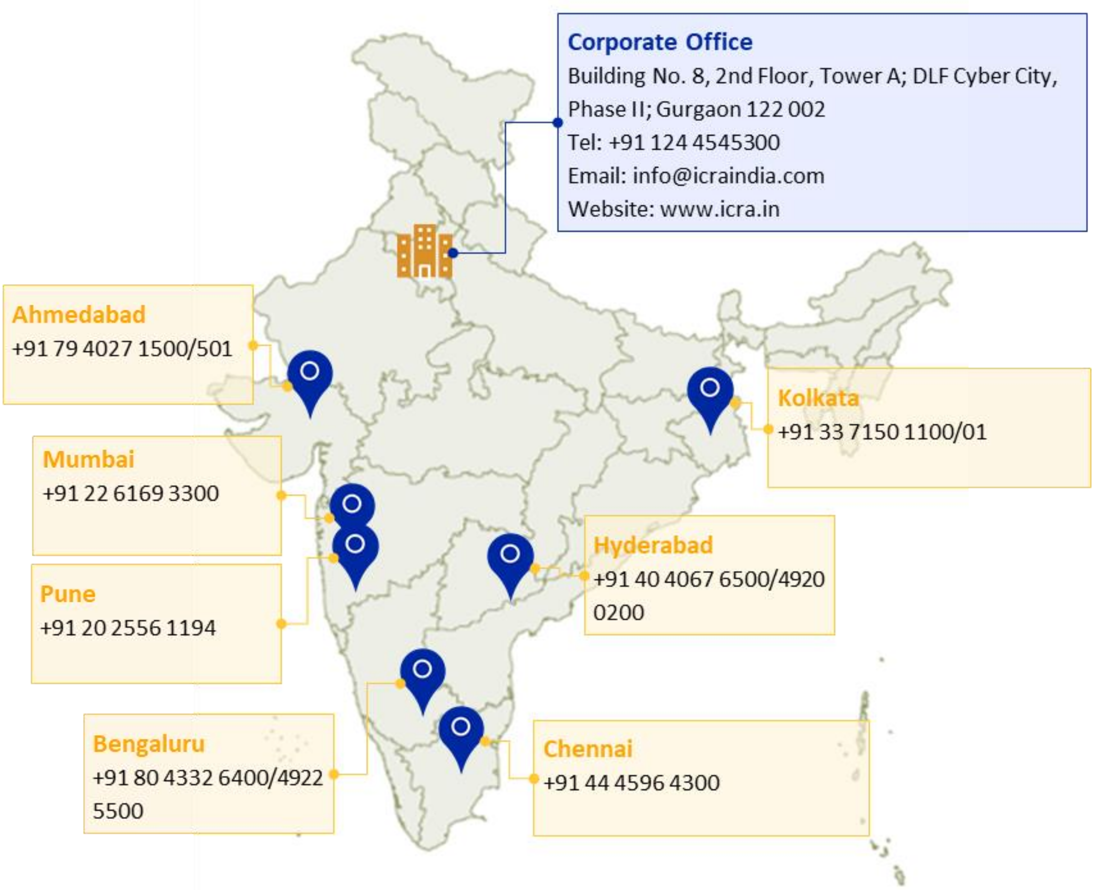

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