October 09, 2017

Samvardhana Motherson International Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
NCD Programme	520.0	[ICRA]AA- reaffirmed; outlook revised from 'Stable' to 'Positive'
NCD Programme	200.0	[ICRA]AA- (stable) withdrawn

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed a long-term rating of [ICRA]AA- (pronounced as ICRA double A minus) for the Rs. 520.0 crore Non Convertible Debenture (NCD) Programme of Samvardhana Motherson International Limited (SMIL)[1]. The outlook on the long-term rating has been revised from Stable to Positive. ICRA has also withdrawn a long-term rating of [ICRA]AA- (pronounced as ICRA double A minus) for a further Rs. 200.0 crore[2] NCD Programme of the company.

Rationale

The revision in rating outlook factors in an expected improvement in the credit profile of SMIL going forward, led by a sustained growth in revenues in the form of dividend income from its principal holding company, Motherson Sumi Systems Limited (MSSL; rated [ICRA]AA(Positive)/[ICRA]A1+). A steady flow of dividend income, coupled with limited funding commitments of SMIL for supporting the requirements of its various investee companies, are expected to limit its incremental borrowings and lead to an improvement in its credit metrics over the medium term.

The rating reaffirmation continues to take into take into account SMIL's status as the principal holding company of MSSL, the flagship company of the Samvardhana Motherson Group (SMG), India's leading full-system solution provider for the automotive industry. Apart from being the largest shareholder in MSSL (34.81% as on June 30, 2017), the company also acts as the holding company for other companies in SMG operating across various product segments, thereby providing diversification benefits. SMG has a well diversified customer base and established relationships with major automotive Original Equipment Manufacturers (OEMs), in the domestic as well as overseas markets. In addition, despite primarily being dependent on the automotive industry, the group's revenues are well diversified across products lines and segments.

The rating assigned also favourably factors in the significant financial flexibility of SMIL in the form of its shareholding of MSSL (market value of ~Rs, 24,400 crore as of September 25, 2017). While the debt coverage indicators of SMIL at a standalone level remain weak, the significant financial flexibility arising from market value of listed companies provides comfort. However, this remains vulnerable to market-related risk with regard to any adverse movement in share price of MSSL, which remains a key rating sensitivity.

SMIL's cash flows on a standalone basis continue to remain linked to the performance of its investee companies (primarily dividend from MSSL), and the company remains exposed to refinancing risk to meet its debt repayments. It also has commitments towards supporting investment requirements of its various

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

[2] *100 lakh = 1 crore = 10 million*

investee companies, going forward, and any significant inorganic growth plans of SMG, given the group's track record of acquisitions, could lead to increased indebtedness for SMIL. Nonetheless, ICRA continues to draw comfort from the management's financial discipline and its stated intention to restrict the quantum of debt to be availed to fund the Group's investment plans.

Key Covenants[3] for SMIL's Compliance

- SMIL shall continue to hold at least 26% shareholding and management control of MSSL during the tenure of the facility.
- Promoters shall continue to hold at least 51% shareholding in SMIL during the tenure of the facility
- Total indebtedness (including Corporate Guarantees) of SMIL to be capped at USD 450.0 million
- SMIL to maintain at least 27% unencumbered shareholding out of the total shareholding in MSSL held by SMIL during the tenure of the facility

Key rating drivers

Credit strengths

- **Principal holding company status of MSSL provides stable source of dividend income –**MSSL is the largest Indian auto-ancillary in terms of revenues and its strong presence as a tier-I supplier with major global automotive OEMs in the domestic and overseas markets, provides strong revenue visibility in the form of dividend income for SMIL.
- **SMG has a diversified customer base, product profile and established relationship with major automotive OEMs –** SMG is a global solutions provider for the automotive industry, with the Group's diversified businesses including wiring harnesses, rear view mirrors, polymer processing, lighting products, heating and ventilation and air-conditioning systems among others. The Group's presence in providing design and manufacturing solutions to its customers across the automotive value chain, make it the leading automotive solutions provider in the country. It's diversified customer base across domestic and export markets has ensured revenue stability over the years.

Credit weaknesses

- **Standalone cash flows dependent on the dividend policy as well as performance of MSSL by virtue of being a holding company –** While SMIL also earns dividend contributed by other investee companies and interest income on loans given to various group companies, the key source of income for SMIL over the years has been dividend from key investee company, MSSL. The company's operating income is expected to continue to remain significantly dependent on dividends from MSSL, going forward as well, as the other investee companies remain relatively small in operations and are scaling up. Nevertheless, MSSL's expected revenue and earnings growth with commissioning of new plants in recent quarters as well as over next three quarters, coupled with strong order book position, is expected to support the management's intent of healthy dividend payouts.

[3] *These covenants are applicable to the entire NCD programme of the company*

- **Moderately leveraged capital structure; weak performance of few businesses in investment portfolio could require incremental funding support** – SMIL had a total long-term debt of Rs. 1108.0 crore on its balance sheet as on March 31, 2017, leading to a moderately leverage capital structure (gearing of 1.5 times). Apart from the debt on the company's books, it has also supported debt taken on the books of its subsidiaries and group companies through corporate guarantees or letters of comfort. SMIL has been supporting investments of various group companies over the years, either through equity investments or loans and advances. While a majority of its investee companies have ramped up and have become self sufficient, there could be incremental support requirements of a few businesses, which would require incremental funding support from SMIL.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below:

Links to applicable criteria:
[Corporate Credit Rating Methodology]

About the company:
Samvardhana Motherson International Limited (SMIL) is the principal holding company of the Samvardhana Motherson Group (SMG), whose flagship company is Motherson Sumi Systems Limited (MSSL). The group has diversified businesses including wiring harnesses, rear view vision systems, polymer processing, automotive lighting products, heating and ventilation and air-conditioning systems among others.

SMIL is promoted by Mr. V. C. Sehgal, who is the current chairman of the company. Mr. Sehgal and his family, along with other promoter group companies, hold 90.38% in the company. Additionally, equity stake of 6.46% is held by the Japanese trading corporation, Sojitz Corporation, with diversified interests in construction, petroleum, textiles, chemicals, and mining, etc.

Key Financial Indicators

Indicator	FY2016	FY2017
Operating Income (Rs. crore)	265.5	37.2
PAT (Rs. crore)	-103.4	-122.0
OBDITA/OI (%)	89.3%	12.6%
ROCE (%)	0.5%	-0.6%
Total Debt/ TNW (times)	1.2	1.5
Total Debt/ OPBDIT (times)	4.7	254.2
Interest coverage (times)	2.1	0.0
NWC/ OI (%)	5.3%	-9.1%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital; Source: Company Results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years					
		Type	**Amount Rated (Rs. crore)**	**Date & Rating**	**Date & Rating in FY2017**		**Date & Rating in FY2016**			**Date & Rating in FY2015**
				October 2017	**September 2016**	**August 2016**	**February 2016**	**October 2015**	**September 2015**	-
1	NCD Programme	Long Term	520.0	[ICRA] AA- (positive)	[ICRA]AA- (stable)	[ICRA] AA- (stable)	[ICRA] AA- (stable)	[ICRA] AA- (stable)	[ICRA] AA- (stable)	-
2	NCD Programme	Long Term	200.0	With drawn	[ICRA]AA- (stable)	[ICRA] AA- (stable)	[ICRA] AA- (stable)	-	-	-

Complexity level of the rated instrument:
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

Annexure-1

Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE750H07071	19-Nov-15	0%	19-Dec-18	200.0	[ICRA]AA- (positive)
INE750H07089	2-Dec-15	0%	3-Jan-19	200.0	[ICRA]AA- (positive)
INE750H07105	1-Sep-16	0%	30-Nov-17	120.0	[ICRA]AA- (positive)
INE750H07097	9-Mar-16	0%	8-Sep-17	200.0	Withdrawn

Source: Samvardhana Motherson International Limited

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