Samvardhana Motherson International Limited

November 13, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
NCD Programme	400.0	400.0	[ICRA]AA- (positive) reaffirmed
Total	**400.0**	**400.0**	-

*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. 400.0 crore[1] Non-Convertible Debenture (NCD) Programme of Samvardhana Motherson International Limited (SMIL)[2]. The outlook on the long-term rating remains Positive.

Rationale

The rating reaffirmation continues to take into account SMIL's status as the principal holding company of Motherson Sumi Systems Limited (MSSL, rated [ICRA]AA+ (Positive)/[ICRA]A1+), the flagship company of the Samvardhana Motherson Group (SMG), a full-system solution provider for the automotive industry. SMIL continues to enjoy significant financial flexibility in the form of its shareholding of MSSL (market value of ~Rs, 17,187 crore as of October 31, 2018). Even as SMIL's debt coverage indicators have historically remained weak at a standalone level characterised by dependence on refinancing to meet it debt servicing obligations, the financial flexibility enjoyed by the company continues to provide comfort. ICRA notes that the financial flexibility enjoyed by SMIL remains exposed to market-related risk with regard to any adverse movement in share price of MSSL.

In FY2018, there was an improvement in the credit profile of SMIL that was supported by strong dividend flows as well as cash flows from stake sale that allowed for reduction in debt. A healthy dividend income from MSSL aggregating to Rs. 146.6 crore, and proceeds of Rs. 1,076.5 crore from partial stake sale (1.37% of the erstwhile 34.81% stake) in MSSL, resulted in strong cash generation which was deployed partially towards debt reduction (to the tune of ~Rs. 500.0 crore in FY2018). Consequently, the total debt on SMIL's books also declined to levels of Rs. 639.0 crore as of March 31, 2018 (from Rs. 1,194.9 crore as of March 31, 2017). MSSL's strong business and customer diversity coupled with a healthy order book is likely to help generate a steady flow of dividend income for SMIL going forward. This coupled with limited funding commitments of SMIL for supporting the requirements of its various investee companies (expected to range around Rs. 60-70 crore/annum), are expected to limit SMIL's incremental borrowings going forward.

Apart from being the largest shareholder in MSSL (33.43% as on September 30, 2018), the company also acts as the holding company for other companies in SMG operating across various product segments, thereby providing limited diversification benefits. SMIL's cash flows on a standalone basis would continue to remain linked to the performance of its investee companies (primarily dividend from MSSL), and the company thus remains exposed to refinancing risk to meet its debt repayments. It also has commitments towards supporting investment requirements of its various investee companies, going forward, and any significant inorganic growth plans of SMG, given the group's track record of

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

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

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

Outlook: Positive

The positive outlook factors in an expected improvement in the credit profile of SMIL going forward, with SMIL expected to continue to benefit from being the primary holding company of MSSL, which has an established track record of dividend payment. The rating may be revised upwards if substantial growth in revenue and profitability of the key investee company, and resultant increase in dividend income, strengthens SMIL's financial risk profile. The outlook may be revised to Stable if cash accruals are lower than expected, or if any major debt funded investment (to fund the group's likely inorganic growth plans) weakens its credit profile.

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 enjoys a strong market position as well as share of business in catered products. Its strong presence as a tier-I supplier with major global automotive OEMs in the domestic and overseas markets, coupled with a healthy order book, provides strong revenue visibility in the form of dividend income for SMIL going forward.

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.

Investment funding requirements of existing group companies likely to be largely met through dividend receipts – Apart from the debt on the company's books, SMIL has also supported debt taken on the books of its subsidiaries and group companies through corporate guarantees. The holding company has also 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 few businesses, which would require incremental funding support from SMIL. Apart from any significant fund requirements to fund SMG's inorganic growth plans, the healthy dividend income from MSSL is expected to help SMIL

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

largely meet its investment requirements, and lead to only a gradual increase in its borrowings over the medium to long-term.

Credit challenges

Standalone cash flows dependent on the dividend policy as well as performance of MSSL by virtue of being a holding company – The key source of income for SMIL over the years has been dividend from key investee company, MSSL. It'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, is expected to support the management's intent of healthy dividend pay-out.

Moderately weak financial risk profile, characterised by dependence on refinancing to meet its debt obligations – SMIL had a total long-term debt of Rs. 639.0 Crore on its balance sheet as on March 31, 2018; the decline in debt outstanding coupled with improved net worth (even post an interim dividend of Rs. 130.2 crore in March 2018) helped improve the company's capital structure (gearing of 0.4 times as of March 31, 2018). The company is likely to remain dependent on refinancing to meet its existing debt obligations due in November 2018-January 2019; the significant financial flexibility available to SMIL in the form of its shareholding of MSSL (market value of ~Rs, 17,187 crore as of October 31, 2018) however mitigates this risk to an extent.

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:

SMIL is the principal holding company of the SMG, whose flagship company is 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 - Standalone

	FY2017 (Audited)	FY2018 (Audited)
Operating Income (Rs. crore)	46.9	1,208.0
PAT (Rs. crore)	-122.2	817.7
OPBDIT/OI (%)	-40.7%	82.5%
RoCE (%)	-0.6%	50.1%
Total Debt/TNW (times)	1.5	0.4
Total Debt/OPBDIT (times)	-62.6	0.6
Interest Coverage (times)	-0.2	10.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years						
						Date & Rating in FY2018		Date & Rating in FY2017		Date & Rating in FY2016		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating November 2018	January 2018	October 2017	September 2016	August 2016	February 2016	October 2015	September 2015
1	NCD Programme	Long Term	200.0	**200.0**	**[ICRA]AA- (positive)**	**[ICRA]AA- (positive)**	**[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	**200.0**	**[ICRA]AA- (positive)**	**[ICRA]AA- (positive)**	**[ICRA]AA- (positive)**	**[ICRA]AA- (stable)**	**[ICRA]AA- (stable)**	**[ICRA]AA- (stable)**	**[ICRA]AA- (stable)**	**-**
3	NCD Programme	Long Term	-	**0.0**	**-**	**-**	**[ICRA]AA- (positive)**	**[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE750H07071	NCD-4	19-Nov-15	0%	19-Dec-18	200.0	[ICRA]AA- (positive)
INE750H07089	NCD-5	2-Dec-15	0%	3-Jan-19	200.0	[ICRA]AA- (positive)

Source: Samvardhana Motherson International Limited

ANALYST CONTACTS

Subrata Ray
+91 22 6114 3408
subrata@icraindia.com

Anupama Arora
+91 1244545303
anupama@icraindia.com

Rohan Kanwar Gupta
+91 1244545808
rohan.kanwar@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

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

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
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