

July 07, 2020

## Motherson Sumi Systems Limited - Update on Material Event

### Summary of Rated Instrument:

Instrument	Rated Amount (Rs. crore)	Rating Outstanding
Term loans	1108.27	[ICRA]AA+ @
Fund-based facilities	600.00	[ICRA]AA+ @/[ICRA]A1+
Non-fund based bank facilities	100.00	[ICRA]AA+ @/[ICRA]A1+
<b>Total BLR</b>	<b>1808.27</b>	
CP/STD programme	150.00	[ICRA]A1+

*@Rating on watch with negative implications*

### Material Event

The board of directors of Motherson Sumi Systems Limited (MSSL) in their meeting held on July 2, 2020, approved a reorganisation of business within the group along the following lines:

- In the first leg of the business reorganisation scheme, MSSL would demerge the domestic wiring harness (DWH) business into a separate entity, mirroring the shareholding of the existing entity (MSSL).
- In the second leg of the scheme, MSSL plans to merge Sarmvardhana Motherson International Limited (SAMIL; holding company for Sehgal family promoted Motherson Group), which holds various businesses in auto ancillary as well as other verticals (including 49% stake in Samvardhana Motherson Automotive Systems Group B.V. (SMRP BV)), into itself through a share swap exercise (51 shares of MSSL for every 10 shares of SAMIL). The merged entity would subsequently be renamed as SAMIL. Initially in January 2020, when the board had given an in-principle approval for a business restructuring exercise, the company only planned to consolidate the entire 100% shareholding of SMRP BV under MSSL.

The management indicated that the group restructuring would aid MSSL in achieving the following objectives:

- It will meet the expectations of its shareholders to consolidate and simplify the group structure.
- It will help align the interests of the all stakeholders, for ex. the demerger of the DWH business would help fulfill a long-standing request from its Joint Venture partner - Sumitomo Wiring Systems, Japan (SWS) to keep the latter's participation focused to domestic wiring harness business in India (which remains SWS' core area of interest).
- It will create a strong platform for growth through dedicated focus.

The reorganisation remains subject to requisite statutory and regulatory approvals, including approval of the minority shareholders. The management indicated that the restructuring is expected to be completed by Q2 FY2022, and be effective from April 1, 2021.

## Impact of the Material Event

The proposed demerger of the domestic wiring harness business along with associated debt and other obligations into a separate listed entity, pursuant to the requisite approvals, is likely to help the management enhance focus on the domestic wiring harness business and help align the interests of the various stakeholders. The merger of SAMIL into MSSL would create a more diversified and larger entity, with presence in various new business segments, and also provide a stronger platform for future growth via organic and inorganic routes. The merger would be completed through a share swap arrangement with SMIL shareholders, and as per proforma financials declared, is unlikely to materially impact the credit profile of MSSL; however, ICRA would seek clarity regarding the business plans/potential of the proposed businesses to be merged (currently held by SAMIL) to completely evaluate the impact on MSSL's credit profile. ICRA would continue to monitor the developments in this regard and take appropriate rating action as and when more clarity emerges.

The long-term rating for the entity was placed on Rating watch with negative implications in April 2020, following the impact of the novel coronavirus (Covid-19) outbreak on the global auto component industry; ICRA will continue to monitor the situation as it evolves globally over the near term and assess its impact on the credit profile of MSSL.

The previous detailed rating rationale is available on the following link: [Click here](#)

## ANALYST CONTACTS

**Subrata Ray**

+91 22 6114 3408

[subrata@icraindia.com](mailto:subrata@icraindia.com)

**Shamsher Dewan**

+91 1244545328

[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Rohan Kanwar Gupta**

+91 1244545808

[rohan.kanwar@icraindia.com](mailto:rohan.kanwar@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumkar@icraindia.com](mailto:shivakumkar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

### Helpline for business queries:

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

[info@icraindia.com](mailto:info@icraindia.com)

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## 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](mailto:info@icraindia.com)

Website: [www.icra.in](http://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,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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