

## SMR Automotive Systems India Limited

May 25, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper/ Short-term debt programme	10.00	10.00	[ICRA]A1+ reaffirmed
<b>Total</b>	<b>10.00</b>	<b>10.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs.10-crore commercial paper/short-term debt programme of SMR Automotive India Systems India Limited (SMRA/the company).

### Rationale

The short-term rating reaffirmation continues to factor in the strong parentage of SMRA with Motherson Sumi Systems Limited (MSSL, rated [ICRA]AA (Positive)/ [ICRA]A1+) being the ultimate parent having a strong credit profile. The re-affirmation also takes into consideration the robust credit metrics of the company that also benefits from its established business position in the automotive mirrors segment in the domestic passenger vehicle (PV) industry. SMRA's business position is supported by healthy business awards for new programmes of some original equipment manufacturers (OEMs) while maintaining its share of business in the existing programs, improving product mix and localisation as well as backward integration for some critical components. ICRA expects SMRA to maintain strong financial metrics driven by a healthy revenue growth that emanates from its strong relationships with various OEMs with an expectation of 8-10% volume growth in the domestic PV industry translating into strong cash generation.

Over the past three years, SMRA has invested Rs. 113.2 crore in strengthening its manufacturing infrastructure to keep a check on the product quality as well as in localisation and backward integration to reduce its forex exposure and ensure timely supply unlike its past strategy of following an asset light model. These investments included setting up a glass manufacturing line in Chennai, a side turn indicator (STI) facility in Pune, a new manufacturing facility in Noida with a fully-automated paint shop during FY2015-2017. This is being followed by consolidation of manufacturing infrastructure at Chennai at a single location during FY2019- 2020. With the management pursuing increased localisation approach as large volume supports viability of these investments, it has planned to set up an actuator line at its new facility at Chennai, besides an additional injection moulding line at its Noida plant.

Notwithstanding around Rs. 113.2-crore capex outflow over the last three years to support the localisation activities, the credit metrics as well as profitability indicators of SMRA remains strong, benefitting from its strong accruals. The capitalisation and coverage metrics also remain robust given its zero-debt position (as of March 31, 2018). As the company continues to invest substantial amount towards localisation and backward integration (around Rs. 178.0 crore over FY2019 and FY2020), ICRA expects this capex to be funded by a combination of internal cash accruals and external borrowings.

However, the ratings remain constrained by the lack of geographical diversity as well as high concentration on the PV segment of automobiles and the single product line of its business. SMRA's geographical diversity of revenues is also limited, with less than 5% contribution from exports sales considering the logistics unfriendly nature of the product. Moreover, the Samvardhana Motherson Group (SMG) has global presence in the automotive mirror business through Samvardhana Motherson Automotive Systems Group B.V. (SMRP BV), in 16 countries. The ratings continue to remain

sensitive to any deterioration in its market position or higher-than-expected debt-funded capex that can adversely affect the financial risk profile of the company.

## Key rating drivers

### Credit strengths

**Strong parentage** – SMRA is primarily held by MSSL and benefits from the access to operational and technical support from the promoter group. SMRP BV, a joint venture of MSSL and its holding company Samvardhana Motherhood International Limited, enjoys ~24% share in the global automotive exterior mirror market and has relations with key global PV OEMs that also aids business in India by their Indian subsidiaries.

**Strong relationship with various OEMs** - The company has a strong relationship with various OEMs as reflected in its healthy order book comprising various existing as well as upcoming programmes of the OEMs. This ensures good revenue visibility for SMRA.

**Favourable shift in product mix** - The increasing demand of premium mirrors, which can be electrically adjusted, with power fold and STI have led to an increase in SMRA's realisation due to the higher value addition in these mirrors.

**Robust financial risk profile** - The company's zero-debt position as of March 31, 2018 ensures robust capitalisation and coverage indicators with the interest coverage ratio at 1677.7 times for FY2018. Its healthy cash accruals of ~Rs. 61.1 crore for FY2018 with minimal working capital limit utilisation ensure a strong liquidity position. Overall, the company's financial risk profile is likely to remain strong in the near term even with the debt-funded capex being undertaken in FY2019.

### Credit challenges

**Low segment diversification** - High concentration on the PV segment with limited focus on the commercial vehicle and the two-wheeler segment exposes the company to segment concentration risks. However, the risk is mitigated by the fact that SMRA supplies to almost all major PV OEMs in the country.

**Low geographical diversification** - Exports remain constrained because of the logistics unfriendly nature of the parts leading to a lack of geographical diversity with exports accounting for less than 5% of the company's revenues. However, SMG has global presence in the automotive mirror business through SMRP BV, in 16 countries, provides some comfort.

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

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Auto Component Manufacturers](#)

[Impact of Parent or Group Support on an Issuer's Credit Rating](#)

### About the company:

SMR Automotive Systems India Limited (SMRA) was known as Visiocrp Motherhood Limited (VML), till February 2009, a 51:49 JV between Visiocrp Plc (UK) and Motherhood Sumi Systems Limited (MSSL). On March 6, 2009, the Samvardhana Motherhood Group (SMG), through its two Group entities - MSSL and Samvardhana Motherhood International Limited (SMIL) - took over the global automotive mirrors business of Visiocrp which was under administration in the ratio of 51:49. With

this takeover, MSSL has become the ultimate parent of SMRA. Post-acquisition, the name of the company has been changed from VML to SMRA (following the change in name of Visiocorp to Samvardhana Motherson Reflectec or SMR<sup>1</sup>).

SMRA is involved in manufacturing automotive mirrors which include outside rear view mirrors (ORVM), inside rear-view mirrors (IRVM) and other lighting and vision systems. Overall, the company manufactures around 100 design variants of automotive mirrors mainly for applications in passenger vehicles. At present, the company has five manufacturing facilities, located at Noida (Uttar Pradesh), Chennai (Tamil Nadu), Nasik (Maharashtra), Bengaluru (Karnataka) and Pune (Maharashtra).

### Key financial indicators

	FY2017 (Audited)	FY2018(Provisional)
Operating Income (Rs. crore)	545.4	606.1
PAT (Rs. crore)	46.8	48.1
OPBDIT/OI (%)	14.6	14.1
RoCE (%)	48.6	40.5
Total Debt/TNW (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	58.1	1677.7

### Status of non-cooperation with previous CRA: Not applicable

### Any other information: None

### Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					Apr 2017	Mar 2016	Jan 2015
1 Commercial paper	Short-term	10.00	0.00	[ICRA]A1+ May 2018	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

### 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](http://www.icra.in)

<sup>1</sup>Globally, SMR operates 22 production sites and 12 engineering centres in 16 countries across four continents – North America, Europe, Asia and Australia. With a network of manufacturing, design and marketing centres in the USA, Mexico, UK, Spain, France, Hungary, Germany, India, China, Japan, South Korea, Thailand, Brazil and Australia, SMR's business operations cover all the major regions of the global automotive industry.

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial paper	NA*	NA	7-365 Days	10.00	[ICRA]A1+

\*CP has not been placed.

Source: SMRA

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