March 02, 2020

Motherson Sumi Infotech & Designs Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Export Packing Credit/Cash Credit Facilities	15.0	15.0	[ICRA]A (Stable); Reaffirmed
Standby Line of Credit	2.0	2.0	[ICRA]A1; Reaffirmed
Non-Fund Based Facilities	4.0	4.0	[ICRA]A1; Reaffirmed
Unallocated Limits	1.5	1.5	[ICRA]A (Stable); Reaffirmed
Total bank limits	**22.5**	**22.5**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to take into account the strong parentage of Motherson Sumi Infotech & Designs Limited (MIND), with the company being a joint venture between the Samvardhana Motherson Group (SMG), India (flagship company of the group, Motherson Sumi Systems Limited, rated [ICRA]AA+ (stable)/[ICRA]A1+) and Sumitomo Wiring Systems, Japan (a leading global tier-I automotive supplier). MIND's revenue growth has historically been driven by the strong growth and geographic expansion of SMG. Being a captive Information Technology (IT) company of SMG, most of MIND's revenues emanate from SMG companies even as it continues its investments in new customer development in India as well as select geographies around the globe. The high reliance on promoter group companies (and consequently the prospects of the automotive sector) is mitigated to an extent by the captive IT solutions provider status enjoyed by MIND for its promoter group entities, and an expectation of continued growth in business from the SMG Group.

Over the past few years, MIND has also developed proprietary solutions such as iDACS, cloud based IoT, analytics and data migration services, among others, and has been able to gain repeat as well as incremental business for the same from various customers. An expectation of steady growth in business from promoter group entities, coupled with a ramp up in business for new products, is likely to aid a steady growth in revenues of MIND over the medium term.

The rating reaffirmation also takes into account the company's healthy financial risk profile, characterised by a conservative capital structure (i.e., TD/TNW at 0.7 time as of March 31, 2019) and strong coverage indicators (i.e., interest coverage at 6.8 times and TD/OPBDITA at 1.8 times in FY2019). While the company has significant capex plans to enhance its seating capacity over the next three years (capex of ~Rs. 200-220 crore for construction of a new building over a period of three years), the same is expected to be supported by equity infusion from promoter entities. While the capex plans have not been finalised yet, any significant debt undertaken to fund the capex could result in a moderation in the company's return and debt coverage indicators and would remain a monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company's revenue and earnings growth are expected to remain at stable levels over the medium term, supported by continued business gained from SMG Group companies. ICRA expects the company to continue to maintain a moderate financial risk profile, while taking comfort from the promoter profile of the entity and expected funding support in the form of equity infusion to fund the company's proposed capex plans.

Key rating drivers and their description

Credit strengths

Assured business from promoter group entities as the captive IT solutions provider; access to financial support from strong promoter group – SMIL and SWS with their combined stake of ~74% are the principal shareholders of MIND. Over the years, as the captive IT service provider to its promoter group (SMG India), MIND has reported healthy growth in revenues on the back of increased IT requirements in line with the growth of the SMG Group. The healthy growth prospects of promoter group companies continue to provide steady revenue visibility for MIND 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 its credit profile, while continuing to pursue its business growth plans.

Group expansion as well as new products addition to aid steady growth in scale of operations - MIND's business operations have scaled up over the past few years, primarily aided by enhanced business from group companies, following SMG's expansion through various inorganic initiatives. Over the past few years, MIND has also developed new products such as iDACS, 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 the SMG Group, coupled with a ramp up in business gained for new product developments, is likely to aid a steady growth in scale of operations of MIND over the medium term.

Credit challenges

High client concentration risk with dependence on promoter group entities – Besides catering to promoter group companies, MIND has also been focused on enhancing business from entities outside the promoter group (both in the domestic and international markets). Even as the company has been able to enhance its business sourced from outside the promoter group over the past few years, it continues to remain heavily dependent on business sourced from the promoter group entities, which constituted ~75% of the revenues in 9m, FY2020. Consequently, the business prospects of MIND remain significantly linked to the prospects of the automotive segment (wherein a majority of the promoter group entities operate). The dependence on promoter group companies is mitigated to an extent on account of the captive IT solutions provider status enjoyed by MIND for its promoter group entities.

Significant capital expenditure plans over next three years likely to impact financial risk profile - The company has significant capex plans to enhance its seating capacity over the next three years, in line with the increasing scale of business. MIND aims to incur capex of ~Rs. 200-220 crore for construction of a new building, over a period of three years funded by equity infusion, internal accruals and external debt. While the capex plans have not been finalised yet and are expected to be part funded through equity support from promoter group, significant debt undertaken to fund the capex could result in a moderation in the company's return and debt coverage indicators from current levels (Total Debt/OPBDITA) could increase to levels of ~3.0 times by FY2022 even if the capex is funded through a debt-to-equity mix of 1:1).

Liquidity position: Adequate

The company's liquidity profile is **adequate**, supported by expectation of healthy cash flow generation and available credit facilities of ~Rs. 37 crore (utilised to the extent of approximately 55% over the past 12 months). ICRA expects the company's cash flows to be adequate to support its normal capex plans (~Rs. 7.0 crore in FY2021). The management has indicated that the company is evaluating proposals to incur cumulative capex of ~Rs. 200-220 crore over the next 2-3 years to construct a new office space; the same is expected to be funded through a mix of equity and debt. ICRA takes comfort from the promoter profile of the entity and expected funding support in the form of equity infusion to fund its capex plans. Furthermore, if the company proceeds with the capex plans, the Group's strong financial profile is likely to also support the company in raising debt in a timely manner to fund its capex plans and maintain adequate liquidity.

Rating sensitivities

Positive triggers – The rating may be revised upwards if the company demonstrates sustained track record of registering healthy revenue growth, led by scale-up in new product/service offerings to customers outside the group.

Negative triggers – 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 (currently under evaluation) and the impact of the same on the company's credit metrics would remain a monitorable; timely funding support from parent entity to meet the proposed capex plans would remain a key rating sensitivity. Any reduction in linkages with the parent entity, SMIL, and a moderation in SMIL's credit profile is also likely to result in a downgrade in ratings.

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 Considerations	Parent Group: Samvardhana Motherson Group
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MIND. As on March 31, 2019, the company had eight subsidiaries, which are enlisted in Annexure-2.

About the company:

Motherson Sumi Infotech & Designs Limited, incorporated in 2000, is a joint venture between Samvardhana Motherson Group, India, and Sumitomo Wiring Systems Limited (SWS), 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.

Apart from providing IT infrastructure services, the company is engaged in product engineering, tooling, prototyping and small batch production across multiple domains such as automotive, home appliances, consumer durables and industrial products. The company has execution centres in India (Noida, Uttar Pradesh), USA, Germany, Japan and Singapore besides support locations at Chennai and Pune.

Key financial indicators (Audited) - Consolidated

	FY2018	FY2019
Operating Income (Rs. crore)	332.1	395.6
PAT (Rs. crore)	14.8	17.1
OPBDIT/OI (%)	6.5%	7.6%
RoCE (%)	32.1%	30.1%
Total Outside Liabilities/Tangible Net worth (times)	2.0	2.4
Total Debt/OPBDIT (times)	1.0	1.8
Interest coverage (times)	12.6	6.8
DSCR	9.5	5.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					02-Mar-2020	06-Dec-2018	22-Feb-2018	07-Dec-2016
1	Export Packing Credit/ Cash Credit	Long Term	15.0	-	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A-(Stable)
2	Standby Line of Credit	Short Term	2.0	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
3	Non-Fund Based Facilities	Short Term	4.0	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Unallocated Limits	Long Term	1.5	-	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A(Stable)	[ICRA]A-(Stable)

Source: MIND; amount in Rs crore

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
NA	Export Packing Credit/ Cash Credit	-	-	-	15.0	[ICRA]A(Stable)
NA	Standby Line of Credit	-	-	-	2.0	[ICRA]A1
NA	Non-Fund Based Facilities	-	-	-	4.0	[ICRA]A1
NA	Unallocated Limits	-	-	-	1.5	[ICRA]A(Stable)

Source: MIND

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
MSID US Inc.	100.00%	Full Consolidation
Mothersonsumi INfotekk And Design GmbH	100.00%	Full Consolidation
MothersonSumi Infotech and Designs SG Pte. Ltd.	100.00%	Full Consolidation
MothersonSumi Infotech and Designs KK	85.71%*	Full Consolidation
Motherson Auto Engineering Service Ltd.	100.00%	Full Consolidation
Samvardhana Motherson Virtual Analysis Ltd.	100.00%	Full Consolidation
Samvardhana Motherson Healthcare Solution Ltd.	100.00%	Full Consolidation
SMI Consulting Technologies	100.00%	Full Consolidation

**Held by MothersonSumi Infotech and Designs SG Pte. Ltd.*

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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.

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