

November 13, 2020

Motorola Solutions India Private Limited: [ICRA]A- (Stable)/[ICRA]A2+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Non-fund Based Facilities	750.0	[ICRA]A-(Stable)/[ICRA]A2+; Assigned
Total	750.0	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings factor in Motorola Solutions India Private Limited's (MSIPL) parentage, i.e. Motorola Solutions Inc. (MSI; rated Baa3 (Stable) by Moody's Investors Services), which is an established player in the critical communications, video security and broadband equipment markets across the world. MSI reported annual revenues of around \$7.9 billion in CY2019. Globally, MSI enjoys a healthy business position in the communications equipment business. The company has undertaken several acquisitions over the years to build upon its capabilities and diversify its revenue streams. MSIPL derives a sizeable proportion of the revenues from the equipment sourced from MSI.

The rating also derives comfort from MSIPL's healthy liquidity position as evidenced by sizeable free cash and equivalents of more than Rs. 190 crore as of March 31, 2020 (as per provisional financials) and conservative capital structure as reflected in its zero-debt position. Benefitting from technical and business support from its parent, MSIPL has an established position in the Indian critical communications industry and has healthy relationship with a reputed client base with presence across diversified industries like airports, metros, police, security services, among others.

However, the ratings are constrained by the sizeable contingent liabilities in the form of income tax and customs duty issues pertaining to old litigations, the crystallisation of which can impact the liquidity position of the company. ICRA believes that in case of invocations of bank guarantees pertaining to the tax issues, MSI will be supporting MSIPL, if the need arises. Moreover, the liquidity may be impacted by any sizeable dividend or repatriation of funds to the parent, other than the \$10 million of capital reduction already planned. The ratings also take into account the elevated receivable levels, especially due to delays in collections from some Government agencies, and MSIPL's exposure to lumpiness in revenues, given the tender-based business with some customers and the fact that some of the orders get booked under MSI. The ratings also consider the vulnerability of the company's profitability to foreign exchange risks, given its limited scale of operations as most equipment is imported and hedging is largely done at the parent level and not in MSIPL.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that MSIPL will continue to benefit from its long track record of operations and healthy financial risk profile.

Key rating drivers and their description

Credit strengths

MSIPL derives strong support from its parent MSI – MSIPL is a wholly-owned subsidiary of MSI, which is a leading global player in the critical communications, video surveillance and broadband equipment market. By virtue of this, MSIPL

derives strong operational and financial support from MSI. While most of the equipment is procured from MSI, the latter also supports in terms of extended credit period for the payables of MSIPL. Moreover, the brand name Motorola drives the business for Indian operations.

Strong financial risk profile characterised by robust capitalisation and comfortable liquidity – MSIPL has healthy liquidity, as evidenced by cash and equivalents of Rs. 190 crore as on March 31, 2020 (provisional) amid zero debt position and limited capex plans. Although, the company has filed for a capital reduction scheme for around Rs. 75 crore, the liquidity will remain comfortable.

Credit challenges

High working capital intensity – MSIPL's working capital intensity has remains high on account of elongated receivable cycle and large amount of funds blocked in terms of income tax recoverable. The receivables remain elevated due to delays in recovery, especially from Government clients. This is negated to some extent by the extended credit period offered by the parent for equipment purchases.

Exposure of profitability to adverse movement in foreign exchange rates – MSIPL procures a large proportion of equipment from MSI and thus, there is sizeable foreign currency payable. While there is no hedging at the MSIPL level, hedging is done at the Group level at the parent entity. Moreover, in India, revenue booking is not entirely done in MSIPL; sometimes equipment revenues are booked in MSI as well, which exposes MSIPL to lumpiness in revenues and limits its scale of operations.

Sizeable contingent liabilities – MSIPL has sizeable contingent liabilities on its books in the form of income tax and customs duty litigations. While these pertain to very old issues and nothing has materialised in the past, there remains a risk in terms of crystallisation of these liabilities. The company has given bank guarantees to the respective departments against some of these demands. Since the amount is huge to the extent of Rs. 1,100 crore, ICRA believes that the parent will have to support this entity in case these bank guarantees are invoked.

Liquidity position: Adequate

MSIPL had free cash and bank balances of Rs. 190 crore as on March 31, 2020. However, the company is planning a capital reduction of around Rs. 75 crore. Notwithstanding the capital reduction, the cash balances will remain adequate at around Rs. 100–110 crore in absence of any long-term debt repayment and sizeable capex requirements.

Rating sensitivities

Positive triggers – Significant improvement in the operating income (OI) and profitability coupled with improvement in working capital cycle can lead to a rating upgrade. The rating would also be sensitive to change in credit profile of the ultimate parent.

Negative triggers – Negative pressure on the rating may arise in case of crystallisation of the contingent liabilities impacting the liquidity of the company. Any significant dividend payout or repatriation of funds to the parent, which impacts the liquidity profile of MSIPL, may also be a negative trigger. Further, weakening of the company's linkages with the parent company or change in support philosophy and ownership or moderation in credit profile of the parent entity can impact the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent Company: Motorola Solutions Inc. The ratings are based on implicit operational and financial support from Motorola Solutions Inc. (MSI); the rating assigned to MSIPL factors in the high likelihood of its parent, MSI, extending financial support to it because of close business linkages between them, whenever need arises
Consolidation/Standalone	Standalone

About the company

Motorola Solutions India Private Limited (MSIPL) is a wholly-owned subsidiary of Motorola Solutions Inc. (MSI), which is a global leader in critical communications equipment, video surveillance and broadband equipment. MSIPL serves a wide clientele in India including police, metros, airports and provides complete system integration services in the radio business. While the majority of the equipment is sourced by MSI, the system integration and other services are done by MSIPL.

In FY2020, on a provisional basis, the company reported a net profit of Rs. 9.9 crore on an OI of Rs. 123.7 crore compared to a net profit of Rs. 10.9 crore on an OI of Rs. 173.5 crore in the previous year.

Key financial indicators

	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	173.5	123.7
PAT (Rs. crore)	10.9	9.9
OPBDIT/OI (%)	2.9%	6.9%
PAT/OI (%)	6.3%	8.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.27	0.15
Total Debt/OPBDIT (times)	0.00	0.00
Interest Coverage (times)	1.28	1.81

Source: MSIPL Balance Sheets

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					Nov-13-2020			
1	Non fund based limits	Long Term/ Short Term	750.0	-	[[ICRA]A- (Stable)/ [ICRA]A2+	-	-	-

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non fund based limits	NA	NA	NA	750.0	[ICRA]A-(Stable)/ [ICRA]A2+

Source: MSIPL

Annexure-2: List of entities considered for consolidated analysis; Not Applicable

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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