March 28, 2024

Motherson Technology Services Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – EPC/CC	7.00	7.00	[ICRA]AA- (Stable); Reaffirmed
Short-term – Non-fund based	8.50	10.00	[ICRA]A1+; Reaffirmed
Long-term/ Short-term – Fund-based/Non-fund based limits	35.00	35.00	[ICRA]AA- (Stable)/ [ICRA]A1+; Reaffirmed
Long-term – Unallocated limits	1.50	0.00	-
Total	**52.00**	**52.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation continues to factor in the strategic importance of Motherson Technology Services Limited (MTSL, formerly Motherson Sumi Infotech & Designs Limited) as the captive IT solutions provider for the Samvardhana Motherson Group (SMG). MTSL is subsidiary of Samvardhana Motherson International Limited (SAMIL; rated [ICRA]A1+), along with shareholding from Sumitomo Wiring Systems (SWS, Japan,) a leading global tier-I automotive supplier. SAMIL, the flagship company of SMG, has increased its shareholding in MTSL (90.4% as on date, against 62.9% till FY2023 post infusion of funds via rights issue) and has provided financial support to its Group companies historically. In addition to supporting the entity through inter-corporate deposits (ICDs) over the recent past (Rs. 71.5 crore outstanding as of January 31, 2024), SAMIL has also infused funds via rights issue (a total of ~Rs. 200 crore received over two tranches in March 2023 and March 2024) in the entity. The infusion of funds has helped fund the company's growth initiatives/operational losses and limit its dependence on external borrowings, thereby providing comfort.

MTSL's dependence on revenues from the domestic and overseas entities of SMG remains high, with ~3-5% of its revenues emanating from SWS and the remaining 20-25% from non-promoter clients (increased to 37% in FY2023). The company's portfolio of services includes enterprise resource planning (ERP) solutions, IT infrastructure services, application development and maintenance (ADM), cloud services, IoT and analytics; and it caters to clients from the automotive, manufacturing, pharmaceuticals and FMCG sectors. The continued business growth registered by SAMIL over the years aided by several acquisitions, and the resultant enhanced IT application requirement of the Group companies have aided MTSL's revenue growth. As a result, the company has grown at a healthy CAGR of 18% over the past four years, recording total revenues of Rs. 776.2 crore in FY2023, on a consolidated level. The company has a diversified presence across 41 locations, including India, the US and Europe.

Despite healthy revenue growth, MTSL's profitability margins remained negative in FY2023 driven by high employee costs, higher trading licenses and infrastructure costs. While the losses continued in Q1 FY2024, the company has turned profitable in Q2 and Q3 FY2024 and has achieved breakeven for 9M FY2024. MTSL's capex plans are expected to remain elevated in the near term, amounting to as high as ~Rs. 250-300 crore over the next three years as the company proceeds to construct its new office premises to support the expected growth in business. The actual outlay towards the project is expected to be linked to the company's ability to gain new businesses. The parent group has already infused funds to support the capex plans of the entity, and financial closure for the remaining project cost is expected to be achieved soon.

As on March 31, 2023, the company had external debt of Rs. 105.3 crore (excluding lease liabilities); primarily driven by short-term borrowings and term loans for the standalone entity and subsidiaries. Negative operating margins have led to considerable moderation of coverage and leverage indicators. An expectation of improved cash accruals led by business growth and expansion, should support improvement in debt coverage metrics over the medium term.

The Stable outlook takes into consideration the assured business for the company from its promoter group entities, which is expected to help the company report healthy earnings growth over a medium term. The company's credit profile is expected to continue to be supported by the parent group for any funding requirements.

Key rating drivers and their description

Credit strengths

Healthy revenue visibility from promoter group entities as their captive IT solutions provider; access to financial support from strong promoter group – SMG and the Sumitomo Group are the majority shareholders of MTSL, as they directly or indirectly own ~100% of the shares in MTSL. Over the years, as the captive IT service provider to its promoter group, MTSL has reported healthy growth in revenues on the back of increased IT requirements in line with the growth of SMG. The healthy growth prospects of the promoter group companies continue to provide steady revenue visibility for MTSL 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 a healthy 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 – MTSL's business operations have scaled up over the past few years, primarily aided by enhanced business from group companies, following SAMIL's expansion through various inorganic initiatives. Over the past few years, MTSL has also developed new products, such as iDACS (a smart manufacturing solution), cloud-based IoT, analytics and data migration services, among others, which command 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 SMG, coupled with a ramp up in business gained for new product developments, is likely to aid a steady growth in MTSL's scale of operations over the medium term.

Credit challenges

High client concentration risk with dependence on promoter group entities – MTSL continues to remain heavily dependent on business from its promoter group entities, with ~65-70% of the consolidated revenues coming from SMG. Consequently, the business prospects of MTSL remain significantly linked to the prospects of the automotive sector (wherein most of the promoter group entities operate). This client concentration risk is mitigated to an extent by the captive IT solutions provider status enjoyed by the company for its promoter group entities and its focus on further increasing revenues from other companies.

Continued losses have impacted financial profile; gradual recovery in operational performance expected, going forward – The company has incurred OPBITDA and net losses over the past two years on account of significant ramp up of manpower in overseas entities for acquiring non-Group related business. Continued losses have eroded the net worth of the company and significantly impacted its capital structure; however, continuous support from SAMIL in the form of ICDs and equity infusion has supported its financial profile to an extent. With gradual improvement in the business of the standalone entity and its subsidiaries, the operational performance is expected to improve over the medium term.

Significant capex plans over medium term may 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. MTSL has plans to incur capex of ~Rs. 250-300 crore for constructing a new building over a period of three years, funded by equity infusion, internal accruals and external debt. The company currently has a seating capacity of ~1,700 employees, which is expected to increase to ~5,000, once its new office premise becomes fully operational. The capex is expected to be part-funded by equity support from the promoter group as well as additional debt. The planned capex is expected to result in moderation in the company's return and debt coverage indicators over the medium term and would remain a monitorable. However, improving operational performance and access to funding support from the parent entity are expected to support the financial profile to an extent.

Liquidity position: Adequate

MTSL's liquidity profile remains adequate, given its access to funding support from the parent group and adequate buffer in working capital limits. The company has been sanctioned fund-based limits of ~Rs. 102 crore at the standalone level, of which ~Rs. 56.0 crore was utilised as on January 31, 2024, providing some buffer. The debt repayment for the entity is expected to average at ~Rs 15-20 crore over the next 12 months, for the outstanding borrowings. Even as the cash flow from operations is expected to improve and remain sufficient to meet the same, the entity is expected to continue to enjoy financial support from its parent entity for any funding gaps.

Rating sensitivities

Positive factors – A sustained track record of registering healthy revenue growth and improvement in profitability profile, led by scale-up in new product/service offerings to customers outside the group would be favourably considered for upward movement in the ratings. Any improvement in the credit profile of the parent entity could also be a trigger for an upward revision in ratings.

Negative factors – 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 and the impact of the same on its credit metrics would remain a monitorable; timely funding support from the parent entity to meet the proposed capex plans would remain a key rating sensitivity. Any weakening in linkages with the parent entity, or downward revision in the parent entity's credit profile would also be a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	IT - Software & Services Corporate Credit Rating Methodology
Parent/Group support	Parent Group: Samvardhana Motherson Group The rating assigned to MTSL factors in the very high likelihood of its parent entity, SAMIL, extending financial support to it because of the close business linkages between them. ICRA also expects SAMIL to be willing to extend financial support to MTSL out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of MTSL. As on March 31, 2023, the company had 11 subsidiaries, which are enlisted in Annexure-II.

About the company

Motherson Technology Services Limited, incorporated in 2000, is a subsidiary of Samvardhana Motherson International Limited, India, along with shareholding from Sumitomo Wiring Systems Limited, Japan. The company provides IT services in the fields of ADM, ERP, mobility applications, assembly line automation, etc, primarily in the automotive sector, across domestic as well as international markets. It has execution centres in India (Noida, Uttar Pradesh), the US, Germany, Japan, and Singapore, besides support locations at Chennai and Pune.

Key financial indicators (audited)

MTSL Consolidated	FY2022	FY2023
Operating income	538.1	776.2
PAT	(60.3)	(42.0)
OPBDIT/OI	-7.6%	-2.1%
PAT/OI	-11.2%	-5.4%
Total outside liabilities/Tangible net worth (times)	(122.0)	4.2
Total debt/OPBDIT (times)	(4.4)	(9.4)
Interest coverage (times)	(3.7)	(1.0)

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	FY2023	FY2022		FY2021
					Mar 28, 2024	Dec 23, 2022	Sep 09, 2021	Apr 06, 2021	-
1	**EPC/CC**	Long term	7.0	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	--
2	**Non-Fund Based Facilities**	Short term	10.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	--
3	**Fund based /Non-fund based limits**	Long term & short term	35.0	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	--	--
4	**Unallocated limits**	Long term	-	-	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Export Packing Credit/ Cash Credit Facilities	Simple
Non-Fund Based Facilities	Very Simple
Fund Based & Non-Fund Based Limits	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Export Packing Credit/ Cash Credit Facilities	NA	NA	NA	7.00	[ICRA]AA- (Stable)
NA	Non-Fund Based Facilities	NA	NA	NA	8.50	[ICRA]A1+
NA	Non-Fund Based Facilities – CEL	NA	NA	NA	1.50	[ICRA]A1+
NA	Fund Based & Non-fund Based Limits	NA	NA	NA	35.00	[ICRA]AA-(Stable)/ [ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company name	MTSL ownership	Consolidation approach
Motherson Technology Services Limited	Rated entity	Full Consolidation
Motherson Technology Services USA Limited	100%	Full Consolidation
Motherson Technology Services Gmbh	100%	Full Consolidation
Motherson Technology Service SG Pte Ltd.	100%	Full Consolidation
Motherson Technology Services KK	85.71% by MIND SG	Full Consolidation
Motherson Auto Engineering Service Ltd.	100%	Full Consolidation
Samvardhana Motherson Virtual Analysis Ltd.	100%	Full Consolidation
Samvardhana Motherson Healthcare solution Ltd.	100%	Full Consolidation
SMI Consulting Technologies	100%	Full Consolidation
Motherson Technology Services United Kingdom Limited	100%	Full Consolidation
Motherson Technology Service Mid East FZ-LLC	100%	Full Consolidation
Motherson Technology Services Spain S.L.U.	100%	Full Consolidation

*Source: Annual Report of MTSL of FY2023, Amount in Rs crore * Motherson Technology Services KK (Formerly known as MothersonSumi Infotech & Designs KK) is a subsidiary of Motherson Technology Service SG Pte Ltd. which in turn is held by Motherson Technology Services Limited*

Note: ICRA has considered consolidated financials of of the parent (MTSL) and its subsidiaries while assigning the ratings.

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About ICRA Limited:

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