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Motherson Sumi Systems Limited

Date: May 24, 2017

National Stock Exchange of India Limited
Exchange Plaza, 5th Floor
Plot No.C/1, G-Block
Bandra-Kurla Complex
Bandra (E)
MUMBAI – 400051, India

Scrip Code : MOTHERSUMI

BSE Limited
1st Floor, New Trading Ring
Rotunda Building
P.J. Towers, Dalal Street
Fort
MUMBAI – 400001, India

Scrip Code : 517334

Sub. : Ratings of the Company

Dear Sir,

We wish to inform that Moody's Investors Service, ("Moody's") has assigned Baa3 foreign currency and local currency issuer ratings to Motherson Sumi Systems Limited (the "Company").

A copy of Press Release issued by Moody's in this regard is enclosed for your reference and record.

Thanking you,

Yours faithfully,
For Motherson Sumi Systems Limited

Pankaj

(Pankaj Mital)
Whole-time Director

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Baa3 rating to Motherson; outlook stable

Global Credit Research - 24 May 2017

Singapore, May 24, 2017 -- Moody's Investors Service, ("Moody's") has assigned Baa3 foreign currency and local currency issuer ratings to Motherson Sumi Systems Limited (Motherson).

The ratings outlook is stable.

This is the first time Moody's has assigned ratings to Motherson.

RATINGS RATIONALE

"Motherson's Baa3 ratings are supported by its solid business profile, reflective of its operational scale and leading market positions, which include long-standing relationships with most global automotive original equipment manufacturers (OEMs)," says Kaustubh Chaubal, a Moody's Vice President and Senior Analyst.

"The requirement of global auto OEMs that their suppliers set up manufacturing plants close to their own facilities -- therefore enabling just-in-time logistics -- serves as a strong entry barrier for new entrants, and is a key competitive advantage for established, well-entrenched players with multi-product offerings, including Motherson," adds Chaubal who is also Moody's lead analyst on Motherson.

Moody's notes favorably that Motherson has achieved sustainable growth in its revenue and earnings through a combination of organic and inorganic initiatives, while maintaining conservative financing policies.

This track record of sustained growth, while keeping adjusted consolidated leverage well below 3x and coverage metrics in the high single digits in five of the last six years, and raising equity to part fund acquisitions is a testament to the company's risk-averse policies, and is another credit strength underlining its Baa3 rating.

However, these credit strengths are somewhat diluted by the inherent cyclicality of the global automotive industry. At the same time, competitive and pricing pressures from influential large OEM customers have resulted in modest profitability for Motherson with EBITA margins in the 7%-8% area, although these levels are broadly comparable with some of its Baa-rated auto supplier peers.

Furthermore, while Motherson has demonstrated a strong track record in growing its market share with OEMs across various operating segments, it remains significantly exposed to the European automobile market and specifically Volkswagen Aktiengesellschaft (VW, A3 negative), which contributed over 40% of its consolidated revenues for fiscal 2017.

On the other hand, Motherson's widespread market penetration -- through VW's various brands, including VW, Audi, Seat and Porsche, and across product segments spanning premium cars to basic passenger cars -- to a large extent mitigates this concentration risk.

The Baa3 ratings also incorporate the increase in Motherson's consolidated adjusted leverage (including factoring) to 2.5x at March 2017 from 2.2x a year ago, following 1) incremental borrowings resulting from the partly debt-financed acquisition of PKC Group (unrated); and 2) a USD400 million senior secured bond issuance in 2016 by the company's European subsidiary to fund capacity expansion and other growth initiatives.

Nonetheless, Moody's believes that leverage will improve modestly from fiscal 2018 with earnings and cash flow generation from its recently commissioned plants.

We expect that Motherson will continue to explore acquisition targets. However, given the recently completed acquisition of PKC in March 2017 for a consideration of Euro 571 million, we do not expect the group to undertake any large or transformational acquisitions over the next 12--18 months.

Furthermore, we expect that it will maintain its judicious financial policies, modest leverage position, and strong coverage ratios at all times.

MOTHERSON SUMI SYSTEMS LTD.
Pankaj

Moody's notes that Motherson's direct ownership in Samvardhana Motherson Automotive Systems Group BV (SMRP) is 51% with Samvardhana Motherson International Limited (SMIL) holding the balance of 49%. SMIL is Motherson's founding family's investment vehicle.

Despite the family's minority stake, Moody's analytical approach incorporates a 100% consolidation of SMRP; mainly premised on Moody's view that the economic interests of SMIL and Motherson are aligned. Should there be any developments that alter Moody's view on this alignment of business interests, then such factors would weigh on the ratings.

We expect that Motherson's liquidity position will remain robust over the next 12 months, supported by: (i) high levels of cash and liquid assets of around INR49.9 billion compared to short-term borrowings of INR 6.5 billion and current debt maturities of INR 5 billion at March 2017; and (ii) substantially undrawn committed credit lines of INR 30.8 billion (EUR 350 million and EUR 90 million at SMRP and PKC respectively).

The ratings are solidly positioned at Baa3. The stable outlook reflects Moody's expectation that Motherson will continue to grow, as well as maintain its strong business and financial profile.

While its ongoing expansions in Hungary and Tuscaloosa (USA) will keep free cash flow under pressure over the next 12-18 months, earnings and cash flows from its newly commissioned plants in China and Mexico will somewhat mitigate the impact, such that its overall financial profile will remain commensurate with the assigned rating.

Fundamental factors that could lead to upward pressure on the rating include: a sustained improvement in EBIT margins to at least double digits and the generation of positive free cash flows.

Adjusted leverage (including Moody's standard adjustment on factoring) well below 2.0x and retained cash flows/net debt well above 45% would be leading indicators for a higher rating.

The Baa3 ratings could experience negative pressure if the company loses customers and is not able to replace these contracts, such that earnings fall, and EBITA margins slip to mid-single digits, or free cash flows turn negative.

Adjusted leverage (including factoring) positioned above 2.5x or retained cash flows/net debt positioned well below 30% could exert negative pressure on the ratings.

The principal methodology used in this rating was Global Automotive Supplier Industry published in June 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of the methodology.

Motherson Sumi Systems Limited, headquartered in Delhi and with global operations, is the flagship entity of the Samvardhana Motherson Group (SMG).

Motherson was formed in 1986 in technical and financial collaboration with Sumitomo Wiring Systems, Japan (unrated, a wholly owned subsidiary of Sumitomo Electric Industries, Ltd. (A1 stable)).

As of 31 March 2017, Sumitomo Wiring held a 25.1% shareholding in Motherson, while the founding Sehgal family held a direct 3.2% stake and indirect 34.8% stake through its investment vehicle SMIL.

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For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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