

SMFL provides solution to diverse industries with principal focus of the company being automotive industry globally and in India. The company operates its business through number of subsidiaries, joint ventures and other entities. The Company's Principal business in the automotive sector is held through Motherson Sumi Systems Limited ("MSSL") and Samvardhana Motherson Reflectec Group Holdings Limited ("SMR"). The Company holds 36.3% of the equity share capital of MSSL, a company listed on the Indian stock exchanges. SMFL, along with MSSL, holds an equity interest in SMR, which is engaged in the manufacture of exterior and interior rear view vision systems. SMFL has 120 manufacturing facilities with a presence in 25 countries across the world and the company is in the process of establishing new manufacturing facilities in India, Brazil, Mexico, Spain and Thailand.) The Company has 18 subsidiaries, 19 JVs and 86 other consolidated entities. The two joint ventures (JVs) - SMR (Visiocorp) and SMP (Peguform) and a subsidiary named MIND contributed 95% to consolidated sales. Within the automotive industry, the company is one of the largest manufacturers of exterior rear view vision systems in the world. It supplies components to automotive original equipment manufacturers namely Volkswagen group, BMW, Daimler, Renault, Nissan, Ford India, Volvo Car Corporation, Maruti Suzuki, Tata Motors, Honda SIEL Cars India, Toyota, Kirloskar Motor and Fiat India Automobiles. At the upper band of the issue price, SMFL is valued at Post Issue Market Capitalization/9MFY12 annualized sales of 0.86x which seems reasonable. However, we believe, the following factors like a) complex business structure, b) poor profitability margin and low return ratios, c) unfavorable debt/equity ratio of 2.73x, d) unclear visibility going ahead, e) incurred a loss on a consolidated basis in the nine month interim period ended December 31, 2011, e) recessionary trend in global markets may affect business performance, f) too much dependence on turnaround of acquired companies, would act as a headwind. Owing to SMFL's edge in automotive technology & marquee client base, we recommend Long Term investors to "SUBSCRIBE" the issue and short term investors may avoid the issue for short term listing gains.

#### Financial summary (Consolidated)

| Y/e 31 Mar (Rs. cr) | 9MFY 12 | FY11   | FY10   | FY09   |
|---------------------|---------|--------|--------|--------|
| Total income        | 6024.5  | 5716.5 | 5061.3 | 936    |
| EBITDA              | 263.9   | 503.5  | 377.8  | 138    |
| EBITDA Margin (%)   | 4.38    | 8.8    | 7.5    | 14.7   |
| PBT                 | (33.5)  | 270.9  | 125.1  | 80.1   |
| Reported PAT        | (111.4) | 159.3  | 70.4   | 47.6   |
| PAT margin (%)      | (1.85)  | 2.78   | 1.39   | 5.08   |
| Equity Capital      | 473.6   | 468.4  | 539.8  | 347.1  |
| Networth            | 1433.2  | 1476.9 | 1293.5 | 1033.4 |
| Total Debt          | 3917.7  | 1095.4 | 867.7  | 693.4  |
| Debt/Equity (x)     | 2.73    | 0.74   | 0.67   | 0.67   |
| RoNW (%)            | (7.77)  | 10.7   | 5.44   | 4.6    |

Source: RHP, Ajcon Research

|  |   |            |
|--|---|------------|
| Issue date                             | May 2 - 4, 2012   |            |
| Issue size                             | Rs. 16.65 bn at upper end of the price band             |            |
| FV                                     | Rs.10   |            |
| Price Band                             | Rs. 113-118 per share                                   |            |
| Fresh Issue                            | 113.9 -118.9 shares                                     |            |
| Offer for sale                         | 27.54 mn shares   |            |
| Issue structure                        | QIB: 50%<br>Retail: 35%<br>Non - Institutional: 15%     |            |
| Equity shares post issue               | 588 mn shares   |            |
| Post issue market capitalization       | Rs. 69,384 mn at upper end of the price band            |            |
| Book Running Lead Managers             | Standard Chartered and JP Morgan                        |            |
| IPO Grading                            | Grade 4/5 by ICRA indicating above average fundamentals |            |
| Registrar to the issue                 | Link Intime India Pvt. Ltd.                             |            |
| Shareholding Pattern (%)               | Pre Issue   | Post Issue |
| Promoters                              | 23.53   | 18.95      |
| Individuals (NRIs/Foreign Individuals) | 47.88   | 38.55      |
| Bodies Corporate                       | 18.94   | 6.31       |
| Current Public Issue                   | -   | 36.19**    |
| Others                                 | 9.65  | -          |
| Total                                  | 100   | 100        |

\*\* includes sale of shares to QIBs, Retail and Non Institutional Investors.

## ABOUT THE COMPANY

The Company's promoter, Mr. V.C. Sehgal, Chairman Samvardhana Motherson Group & Vice Chairman, Motherson Sumi Systems Ltd. established Motherson in 1975 along with his mother Late Mrs. Swarn Lata Sehgal and aptly named the company as "Motherson". Promoters (Sehgal family) except Radha Rani Holdings hold more than 71% stake in the company. The company holds 36.3% stake in Motherson Sumi Systems Limited (listed entity).

Initially, started with cable and wire manufacturing in 1977 by signing the first collaboration for wiring harness manufacturing with Sumitomo Wiring Systems in 1983, forming Motherson Sumi Systems Limited in 1986. The group has evolved over the years. From a single product, single unit company, SMFL has become a multi-company, multi-product group having presence in 20 countries with over 80 manufacturing facilities. The group is one of the leading supplier of components and modules to the Indian Automotive industry and with this acquisition establishes itself as a major Tier-I supplier globally. The Group business portfolio comprises electrical distribution systems (wiring harnesses), automotive rearview mirrors, polymer processing, injection molding tools, elastomer processing, modules and systems, machined metal products, cutting tools, IT services, design engineering, CAE services, sunroofs, vehicle air conditioning systems, lighting systems, cabins for off-highway vehicles, cutting tools and thin film coating metals. The Group has invested in technologies that provide manufacturing support, including compressors, paint coating equipment, auxiliary equipment for injection molding machines, sales, installation and servicing of industrial robots and automotive manufacturing engineering services.

## OBJECTS OF THE ISSUE

The Issue comprises the Fresh Issue and the Offer for Sale. The Company will not receive any proceeds from the Offer for Sale:

### Requirement of Funds and Utilization of Net Proceeds (Fresh Issue): (Rs. in mn)

| Sr. No. | Particulars  | Total Estimated Cost |
|---------|--|----------------------|
| 1.      | Funding pre payment and repayment of debt facilities availed by its Company and certain of its Subsidiaries  | 3,385                |
| 2.      | Funding strategic investments in Samvardhana Motherson Polymers Limited, its Joint Venture, and Samvardhana Motherson Holding Private Ltd., its subsidiary | 6,275                |
| 3.      | Funding investments in its rear view vision systems business   | 1,560                |
| 4.      | General Corporate Purposes   | -                    |
|         | <b>Total</b>   | <b>13,440</b>        |

Source: RHP, Ajcon Research

The funding requirements and deployment of Net Proceeds are based on internal management estimates based on current conditions and have not been appraised by any bank, financial institution or any other external agency. The company operates in a highly competitive and dynamic market environment. The funding requirements are subject to changes in external circumstances, its financial condition, business and strategy and the company may have to change its funding requirements accordingly. Any such change in the plans may also require rescheduling of the expenditure within the heads indicated in the table above, at the discretion of its Board.

### Offer for sale:

The issue consists Offer for Sale by Radha Rani Investments worth Rs. 3,250 million.

## RISKS AND CONCERNS

### Incurring a loss on a consolidated basis in the nine month interim period ended December 31, 2011

In the nine month interim period ended December 31, 2011, the company has incurred a loss before taxation and adjustments of Rs. 335.4 mn and a net loss of Rs. 1,527.9 mn.

For research related queries contact Mr. Akash Jain, VP - Research at [research@ajcon.net](mailto:research@ajcon.net)

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#### Research Analyst

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Akash Jain, MBA (Financial Markets)

Regd. Off. : 101, Samarth, Off. Hinduja Hospital, LT. P.N. Kotnis Road, Mahim (West),  
Mumbai - 400 016. Tel : 91-22-40280400, 24460335  
mail : [research@ajcon.net](mailto:research@ajcon.net) Website : [www.ajcononline.com](http://www.ajcononline.com)