

Issue Snapshot:

Issue Open: May 02 – May 04, 2012

Price Band: Rs. 113 - Rs.118

Issue Size: Fresh issue of Rs.1344 crs + offer for sale of Rs 321 crs

*Issue Size: 141,101,695 equity shares
 QIB upto 50% eq sh
 Retail atleast 35% eq sh
 Non Institutional atleast 15% eq sh
 *= assuming cut-off price at higher end

Face Value: Rs 10

Book value: Rs 30.30 (based on restated consolidated financial statements as on December 31, 2011)

Bid size: - 50 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs. 473.61 cr
 Post issue Equity: Rs. 587.51 cr *
 *= assuming cut-off price at higher end

Listing: BSE & NSE

Lead Manager: Standard Chartered Securities India Ltd, JP Morgan India Pvt Ltd.

Registrar to issue: Link Intime India Pvt Ltd

Shareholding Pattern

	Pre issue %	* Post issue %
Promoters & Promoter Group	90.35	68.20
Public (incl institutions & employees)	9.65	31.80
Total	100.0	100.0

*= assuming cut-off price at higher end

ICRA IPO grading: 4/5 indicating above average fundamentals**Background & Operations:**

Samvardhana Motherson Finance Ltd (SMFL) is an integrated design and manufacturing company providing full system solutions to diverse industries by being a holding company of diverse companies focused on these activities. Its principal focus is the automotive industry, globally and in India, and is expanding the expertise and skills acquired in its automotive business into other sectors where it anticipates significant future growth. Within the automotive industry, SMFL is one of the largest manufacturers of exterior rear view vision systems in the world. Its businesses and products cover multiple areas of the automotive value chain as well as several non-automotive industries. It supplies its components to automotive original equipment manufacturers ("OEMs") and other customers across the world. SMFL's automotive OEM customers use its components primarily in passenger vehicles and commercial vehicles, which are sold in India and internationally. It has 120 manufacturing facilities, including 48 manufacturing facilities outside India, with a presence in 25 countries across the world and is in the process of establishing new manufacturing facilities in India, Brazil, Mexico, Spain and Thailand.

SMFL's major customers include the Volkswagen group (largest customer =>50% sales), BMW, Daimler, Renault Nissan, Ford India Private Limited, Volvo Car Corporation, Maruti Suzuki, Tata Motors, Honda Siel Cars India Limited, Toyota Kirloskar Motor Private Limited and Fiat India Automobiles Limited. The 10 largest automotive OEM manufacturers in the world are its customers. Major nonautomotive customers include Hindustan Unilever Limited, Schneider Electric India Private Limited, GE Medical Systems India Ltd, Caterpillar India Ltd, and Ashok Leyland Limited. 3.7% of its consolidated income was contributed by its non-automotive products in the nine month interim period ended December 31, 2011. During the nine month interim period ended December 31, 2011, approximately 22.5% of its consolidated income was from customers located in India, while 76.6% was from customers located outside India. SMFL provides an end-to-end range of design and manufacturing solutions to its automotive customers, including product concept and product design, engineering, prototyping and tool manufacturing, manufacturing and subassembly and the production of integrated modules.

SMFL operates its businesses through a number of Subsidiaries, Joint Ventures and Other Consolidated Entities. Its principal businesses in the automotive sector are held through Motherson Sumi Systems Limited (MSSL), Samvardhana Motherson Reflectec Group Holdings Limited (SMR) and the Peguform Group. SMFL's other automotive businesses include metalworking and modules such as automotive lighting products and heating, ventilation and air conditioning systems, all of which are undertaken through various Subsidiaries, Joint Ventures and Other Consolidated Entities. SMFL's principal non-automotive businesses is also conducted through various Subsidiaries and Joint Ventures, including Fritzmeier Motherson Cabin Engineering Limited, which is engaged in the manufacture of drop-down cabins for off-highway vehicles and Motherson Zanotti Refrigeration System Limited, which undertakes the manufacture of transport and stationary refrigeration systems. It also undertakes the provision of IT and engineering and design services to non-automotive customers through Motherson Sumi Infotech and Designs Limited.

Objects of Issue:

The objects of the Issue are:

- Funding pre-payment and repayment of debt facilities availed by the Company and certain of its Subsidiaries.
- Funding strategic investments in Samvardhana Motherson Polymers Limited, its Joint Venture, and
- Samvardhana Motherson Holding (M) Private Limited, its Subsidiary.
- Funding investments in its rear-view vision systems business.
- General corporate purposes.

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Cost of Project:
Rs. Mn

S. No.	Particulars	
1	Funding pre-payment and repayment of debt facilities availed by the Company and certain of its Subsidiaries	3385.0
2	Funding strategic investments in Samvardhana Motherson Polymers Limited, its Joint Venture, and Samvardhana Motherson Holding (M) Private Limited, its Subsidiary	6275.0
3	Funding investments in its rear-view vision systems business	1560.0
4	General corporate purposes	*
	Total	13440.0

(Source: RHP)

Means of Finance:

The fund requirement will be met from the proceeds of the Issue and from internal accruals of the Company.

Triggers:

Global customer base and strong relationships with major automotive OEMs: SMFL has long-standing relationships with most of its customers, which include many of the major global automotive OEMs. Its reputation for quality and consistent performance is a key factor in its relationships with its customers and carry out most of its critical manufacturing processes in-house, which allows it to monitor the quality of its manufactured products throughout the production process. Further, SMFL seeks to develop relationships with its vendors so as to ensure that it is supplied with high quality input materials for its products. Its trust-based relationships with its customers ensure that SMFL is constantly in communication with them and enable its products to meet their exacting specifications. This is a significant competitive advantage, as its customers insist on suppliers who can provide high quality and reliable components for their products.

Market leadership position in exterior rear view vision systems: SMFL is one of the largest manufacturers of exterior rear view vision systems in the world and was the leading player in the European exterior rear view vision systems market with a market share of approximately 34.0% in 2010, and enjoyed a leading position in the North America and Asia-Pacific regions with a market share of approximately 25.0% and 17.0%, respectively, in 2010. In 2010, it had 57.0% of the market for exterior rear view vision systems in India.

Long term partnerships and collaborations with global technology leaders, facilitating access to cutting-edge Technology: SMFL has entered into joint ventures and partnerships with several multinational companies its partners are industry and technology leaders in their respective markets, and that their technological capabilities and global reach and presence provide it with significant advantages and benefits across its businesses. It has developed strong and long-standing relationships with these joint venture partners. These joint venture arrangements enables SMFL to access and capitalise on the technologies and expertise developed by its partners while building a reputation for innovation and technical capability. It is able to leverage the combination of its partners' technologies with its own existing know-how and manufacturing capabilities to provide high quality automotive components to the customers. Additionally, it also benefit from training offered to its employees by some of its joint venture partners.

Wide range of capabilities, enabling SMFL to provide end-to-end solutions to its customers: SMFL has established a strong presence across various product lines of the automotive components industry, such as rear view vision systems, wiring harnesses, polymer processing and tool manufacturing, metal cutting tools and integrated module systems. It provides design-engineering services at its product design and research facilities located around the world, which complements the development of new products. It is committed to working closely with its customers from the early stages of design and product development to engineering and manufacturing, which allows it to anticipate and develop solutions and provide value-added services to its customers at each stage of the process. SMFL's suite of capabilities enables it to expand the range of products and services that it provides to its existing customers as well as pursue opportunities in other potentially high growth sectors. Its range of capabilities and its diversified product portfolio position it as an end-to-end solutions provider to its customers, while protecting it from variable demand for one or more particular products and against the obsolescence of some of its products.

Achieving synergies through horizontal and vertical integration: SMFL is present across various levels of the automotive component value chain, providing products and services that range from product design and prototyping to tool manufacturing, assembly and the production of integrated modules. It has been able to harness its synergies through horizontal and vertical integration across its different product and service segments. Its wiring harnesses business produces all the major components required in-house, ranging from wires to connectors. These synergies extend across its various businesses, enhancing its ability to become an integrated full-system solutions provider. Further, SMFL is able to coordinate its manufacturing activities across its Subsidiaries, Joint Ventures and Other Consolidated Entities through its integrated supply chain and inventory management, engineering and design and information technology functions. Therefore, this horizontal and vertical synergy provides SMFL with a significant operational advantage and helps to achieve economies of scale.

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Global manufacturing footprint arising from its philosophy of establishing production facilities close to the Customers: SMFL has global production, engineering, project management and customer support capabilities, with a presence in 25 countries across five continents, with a total of 120 manufacturing units. Its global presence gives access to its customers on a localised basis, with most of its manufacturing facilities located in recognised automotive 150 manufacturing areas and generally in close proximity to its automotive OEM customers. This proximity allows SMFL to optimise its deliveries to its customers and facilitates greater interaction with its customers while enabling it to respond to their requirements in a timely manner. In addition, SMFL's global engineering team is structured to provide technical and design support for its global product development efforts. It has separate but inter-connected design and research centres located in the various regions in which it operates, to cater to the design needs of its automotive OEM customers on a regional basis.

Experienced and well qualified management team and a strong employee base: SMFL's operations are conducted by a well-qualified management that has significant experience in all aspects of its business. The strength and quality of its management team and its understanding of the global automotive component business enables it to identify and take advantage of strategic market opportunities. In addition, SMFL's management team has demonstrated its ability to effectively respond to changing local market conditions, and has the ability to adapt effectively while continuing to expand in its current markets as well as into new geographic and market segments.

Business Strategy:

Evolve into an integrated, full system solutions provider to the automotive industry: SMFL intends to expand its product range and services and increase its capability to cater to every step in the chain of supplying automotive components to its major customers, from the initial product design and validation, through tool design and manufacturing, finishing and processing, assembly, production of integrated modules and sequencing in-line supplies. Similarly, it plans to source raw materials from various Subsidiaries, Joint Ventures and other Consolidated Entities of SMFL for the plastics components business of the Peguform Group. It also plans to leverage its production capabilities, design expertise and information technology capabilities to enhance the vertical and technological integration of its global operations. By ensuring close cooperation across its product segments and operations, SMFL intends to continually improve its engineering and product innovation processes and aid the conversion of new technologies into high quality, well-priced products.

Grow inorganically and through overseas ventures to broaden geographical footprint: SMFL look for strategic acquisitions that will offer advantages across its businesses and provide it with access to new geographies, enhancing its technological capabilities and expanding product range. Its strategy is to seek to acquire such assets with high growth potential, along with their existing customer contracts and relationships, and improve and stabilize their business through enhanced quality and delivery parameters and engineering support, coupled with its management know-how and experience. SMFL's strategy is to seek to acquire such assets with high growth potential, along with their existing customer contracts and relationships, and improve and stabilize their business through enhanced quality and delivery parameters and engineering support, coupled with its management know-how and experience.

Expansion into emerging markets: SMFL's growth strategy is based on the philosophy of following its customers into the markets in which they expand. Its strong ties with major automotive OEM customers enables it to communicate and coordinate with them and seek to establish or acquire manufacturing facilities in areas that they propose to target for growth. SMFL intends to continue to capitalise on its global presence and diversify by expanding its current operations into economies with high growth potential such as Brazil, Mexico, India, Spain and Thailand, where automotive OEMs are expanding their production and automobile ownership is expected to continue to grow rapidly.

Focus on increasing customer penetration through additional products and technological innovation: SMFL seeks to leverage its relationships with the major automotive OEMs to increase sales of its products through a combination of "topdown", "bottom-up" and "cross-product" penetration. "Top-down" penetration focuses on expanding the sales of those products that it develops for the performance and premium segments of the automotive market to the costdriven segment of the automotive market. Further, it increasingly seek to partner with its customers from the design stage in relation to each product, providing development support through its design and research centres located around the world. It further seeks to enhance its technological capabilities through inorganic acquisitions as well as through partnering with global technology leaders. SMFL intends to use these to expand into new product categories and segments, leveraging its existing knowledge base and new technologies to increase its product and customer base.

Diversify and invest in businesses with high growth potential: SMFL intends to utilise itsmanagement's experience and industry knowledge to expand its businesses into ancillary industries with high growth potential. In the context of India's developing economy, the market for metal working solutions in India for the automotive industry as well as certain non-automotive sectors is showing significant growth potential. These industries source their metal working solutions largely from external suppliers. It is also seeking to tap this market through the expansion of its metal working division, to provide a wide range of cutting tools, broaches and hobs, precision metal machining and film coating to these customers. This, in addition to its power train components manufacturing capabilities, represents a potential growth segment for SMFL.

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Industry:

Overview of the Global Passenger Vehicles Market

The automotive industry is one of the most important contributors to the global economy with global revenues estimated around €1.78 trillion in 2010 (*Source: Frost & Sullivan Report*). It generates significant employment opportunities via its complex supply chain comprising component manufacturers, OEMs, dealers, distributors, service providers and providers of other ancillary products and services. The demand for vehicles - cars and trucks - is considered to be an important indicator in gauging a nation's economic health. The global economic downturn impacted the automotive industry significantly from 2007 to 2009. However, the automotive industry rebounded strongly in 2010. LV production for 2010 was approximately 74.3 million units, which is an increase of 24.8% over the 2009 recessionary production level (*Source: Frost & Sullivan Report*). Improved economic conditions and consumer confidence together with stable oil prices have resulted in higher demand for vehicles in 2010.

Industry Volumes and Trends

Total global automotive LV production reached approximately 67.5 million units in 2008. Due to the global economic downturn, production volumes declined at an annual rate of 11.8% to reach approximately 59.5 million units in 2009. Following improved economic conditions and consumer sentiment, production volumes increased by 24.8% to 74.3 million units in 2010. Despite the overall declining market volumes during 2008 and 2009, the basic and small car segments cumulatively grew from approximately 15.8 million in 2008 to approximately 18.9 million in 2010 at an annual rate of 9.3%. (*Source: Frost & Sullivan Report*) The global production of LV is expected to grow at a CAGR of 7.6% between 2010 and 2013 to reach approximately 92.5 million units in 2013. Enhanced purchasing power in emerging economies, further introduction of environmentally friendly vehicles, new/upgraded model line-ups and pent-up demand are likely to drive this growth. All major regions are expected to witness an increase in the production of passenger vehicles - NA (7.8%), EU (4.2%) and APAC (9.0 %) (*Source: Frost & Sullivan Report*)

Overview of the Indian Automotive Industry

The Government of India, through the Ministry of Heavy Industries and Public Enterprises, has implemented the Automotive Mission Plan 2006-2016, a 10-year plan aimed to sustain and accelerate the growth of the Indian automotive sector. This plan intends to double the contribution of the automotive sector to Indian GDP by increasing the sector's output to US\$ 1.45 billion in 2016. The plan aims to achieve this output by emphasising the export of small cars, multi-utility vehicles, two- and three-wheelers and automotive components. The plan projects that the size of the automotive industry will reach between US\$ 122 billion and US\$ 159 billion by 2016, including US\$ 35 billion in exports. This translates into a 10%-11% contribution to Indian GDP in 2016, or double the 2006 contribution from the automotive industry. (*Source: Automotive Mission Plan 2006-2016*) There has been an increase in the production of commercial vehicles from 520,000 units in 2006-2007 to 752,597 units and of cars from 1,544,850 units to 2,986,797 units in 2010-2011.

Indian Automotive Components Market

Production of automotive components can be divided on the basis of usage patterns across end-user segments. The broad classification would cover automotive component demand from OEMs, exports segment and after-markets. Further, within OEM demand, there is segregation based on different vehicle segments. CRISIL Research estimates production for OEM demand at about 72%, followed by production for after-market at 17% and production for exports at 11%. Of the OEM demand, about 53% is driven by cars and utility vehicles.

Growth Drivers

Several key drivers have attributed to growth in the Indian automotive component industry. These include:

- Rising per capita income and changing demographic distribution are conducive for growth. The trends indicate that small and medium cars are dominant, with a shift towards high-end cars expected at a faster rate. Higher disposable incomes coupled with availability of easy finance options have driven the passenger vehicle segment.
- In the commercial vehicle segment, increased investment in road infrastructure and the availability of cheaper finance has led to growth in multi-axle vehicles. This is expected to be followed by a shift to tractor-trailer combinations on account of operating economics of higher power-to-weight ratio vehicles.
- Automotive component industry growth is directly linked to the growth of the automobile industry, since a significant proportion of sales is to OEMs. However, in recent years, component exports are becoming an important growth driver and it is expected to assume greater importance in the future.

Concerns:

- SMFL has, in the past, applied for compounding an offence in relation to investment by an overseas Subsidiary in a joint venture in India.

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- A failure to comply with financial and other restrictive covenants imposed on SMFL under its financing agreements could cause it to default on these agreements, which could adversely affect its ability to conduct business and operations.
- Inability of SMFL to identify and understand evolving industry trends and preferences and develop new products to meet its customers' demands may adversely affect the business.
- A significant part of SMFL's operations are conducted by Joint Ventures that it cannot operate solely for its benefit. The performance of its Joint Ventures may adversely affect the results of operations and SMFL may in the future conduct more of its business through Joint Ventures, exposing it to certain risks.
- Substantially all of SMFL's operations are conducted through its Subsidiaries, Joint Ventures and Other Consolidated Entities; therefore, its ability to pay dividends on the Equity Shares depends on SMFL's ability to obtain cash dividends or other cash payments.
- The loss of or reduction in sales to any of SMFL's major customers would have a material adverse effect on it.
- SMFL has restructured and improved the financial condition, cash flows and results of operations of Visiocorp acquired by it in March 2009; however, it cannot be assured that such improvement will be sustainable. It may suffer future asset impairment and other restructuring charges.
- SMFL's planned capital expenditures may not yield the benefits intended.
- SMFL has entered into, and will continue to enter into, related party transactions and it cannot be assured that it could not have achieved more favourable terms had such transactions not been entered into with related parties.
- Certain secured and unsecured loans taken by certain of SMFL's Subsidiaries, Joint Ventures and Other Consolidated Entities may be recalled by their respective lenders at any time, which could lead to termination or default under such loans.
- SMFL has incurred a loss on a consolidated basis in the nine month interim period ended December 31, 2011.
- SMFL is subject to conditions affecting the global automotive industry, which has witnessed fluctuations in recent years and substantial uncertainty in respect of its future prospects.
- SMFL's diverse and complex global operations subject it to risks in multiple countries that could adversely affect the business.
- SMFL has applied for classification as a systemically important core investment company ("CIC-NDSI") and is required to be registered with the RBI and comply with certain requirements.
- SMFL has undertaken and may continue to undertake strategic investments and alliances, acquisitions and mergers in the future, which may be difficult to integrate and manage. Its future success depends on its ability to achieve and manage growth, whether through internal growth or strategic acquisitions.
- The Company has given corporate guarantees in relation to certain debt facilities provided to certain of its Subsidiaries, Joint Ventures and Other Consolidated Entities, which, if invoked, will require SMFL to pay the guaranteed amounts.
- In the future, there may be potential conflicts of interest between SMFL's Subsidiaries, Joint Ventures and Other Consolidated Entities, including Motherson Sumi Systems Limited (MSSL) and Samvardhana Motherson Reflectec Group Holdings Limited (SMR).
- The discontinuation of, the loss of business with respect to, or lack of commercial success of, a particular vehicle model for which SMFL is a significant supplier could affect its business and results of operations.
- Most of SMFL's customers do not commit to firm purchase orders for more than one month in advance and alterations in customer forecasts or orders could adversely affect its operating results and result in a mismatch in SMFL's inventory of pre-constructed components or raw materials and of its finished products.
- SMFL continued operations are critical to its business and any shutdown of its manufacturing facilities may have an adverse effect on its business, results of operations and financial condition.
- SMFL depends on its suppliers, some of whom are its competitors, for the supply of raw materials and components that are critical to its manufacturing processes.

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- A loss of suppliers or interruptions in the delivery of raw materials or quality defects in materials supplied by SMFL's suppliers could adversely affect its results of operations and cash flows.
- SMFL's manufacturing processes and products sold to its customers may result in exposure to intellectual property infringement, product liability or other claims.
- SMFL has substantial capital requirements and will require additional financing to meet those requirements.
- The success of SMFL newly designed products and other innovations depends in part on its ability to obtain, protect and leverage intellectual property rights to its designs.
- Start-up costs and inefficiencies related to new products or programs can adversely affect SMFL's operating results and such costs may not be fully recoverable if new programs are cancelled.
- Product liability and other civil claims and costs incurred as a result of product recalls could have a material adverse effect on SMFL's business, prospects, results of operations, cash flows and financial condition.
- If manufacturing processes and services do not comply with applicable statutory and regulatory requirements, demand for these products and services may decline and SMFL may be subject to fines or other penalties.
- SMFL relies upon contract labour for carrying out some of its activities at its manufacturing facilities, and any shortage of such contract labour or work stoppages caused by disagreements with independent labour contractors could adversely affect its business, financial condition and results of operations.
- Fluctuations in the exchange rate of the Rupee and other currencies could have a material adverse effect on the value of the Equity Shares, independent of SMFL's financial results.

Financials - P&L:

Particulars	Rs. Mn			
	9MFY12	FY11	FY10	FY09
Net Sale of Finished Goods	58615.5	55121.4	48414.0	8279.8
Income from Services	959.2	1223.7	730.6	149.5
Other Income	670.5	819.9	1468.3	930.8
Total Income	60245.2	57165.0	50612.9	9360.1
Expenditure	57606.3	52130.1	46834.8	7980.0
% of sales	98.3	94.6	96.7	96.4
Operating Profit	2638.9	5034.9	3778.1	1380.1
OPM %	4.5	9.1	7.8	16.7
Interest & Financial Charges	1290.6	621.7	623.4	210.7
Depreciation	1683.7	1704.2	1903.4	368.9
PBT	-335.4	2709.0	1251.3	800.5
PBTM %	-0.6	4.9	2.6	9.7
Tax (incl. FBT & DT)	952.1	1032.5	507.3	120.6
Effective Tax Rate %	-283.9	38.1	40.5	15.1
PAT	-1287.5	1676.5	744.0	679.9
PATM %	-2.2	3.0	1.5	8.2
Add: Share of profit of associates (net)	9.3	9.9	13.0	7.0
Adj PAT	-1278.2	1686.4	757.0	686.9
Equity	4736.1	4684.1	5397.5	3470.5
EPS (on pre-issue equity)	-2.7	3.6	1.4	2.0
EPS (on fully diluted equity)	-2.2	2.9		

(Source: RHP)

Balance Sheet:

Particulars	Rs. Mn			
	9MFY12	201103	201003	200903
Fixed Assets				
Gross Block	77479.1	33809.1	30259.4	26456.7

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Less: Depreciation	36595.4	15287.0	13227.0	11455.0
Net Block	40883.7	18522.1	17032.4	15001.7
Less: Revaluation Reserve	27.6	27.6	0.0	0.0
Net Block after adjustment of Revaluation Reserve	40856.1	18494.5	17032.4	15001.7
Capital Work in Progress (including Capital Advances)	4295.1	2859.3	1218.3	765.6
Total	45151.2	21353.8	18250.7	15767.3
Investments	1090.9	475.5	990.8	548.0
Current Assets, Loans and Advances				
Inventories	16865.8	6561.2	4528.2	3897.3
Sundry Debtors	17144.8	6813.9	5568.5	4147.3
Cash and Bank Balances	5961.8	2758.6	2547.2	2553.4
Loans and Advances	5542.7	2758.8	2463.4	2984.6
Sub Total	45515.1	18892.5	15107.3	13582.6
Deferred Tax Assets	680.1	279.2	163.9	17.8
Liabilities & Provisions				
Secured Loans	35343.7	9349.9	7828.9	5492.5
Unsecured Loans	3833.1	1604.0	847.8	1440.9
Liabilities	30563.1	12008.9	9508.2	9104.9
Provisions	2498.2	1367.7	1694.3	2398.7
Deferred tax liabilities	1014.4	159.8	122.0	135.1
Total liabilities	73252.5	24490.3	20001.2	18572.1
Minority Interest	4852.4	1741.5	1576.8	1009.4
NET WORTH	14332.4	14769.2	12934.7	10334.2
Represented by:				
Share Capital (including Preference Capital)	4736.1	4684.1	5397.5	3470.5
Share Application Money	0.0	0.0	0.0	2250.0
Reserves and Surplus	9678.4	10112.7	7544.0	4705.0
Less: Revaluation Reserve	27.6	27.6	0.0	0.0
Reserves and Surplus (net of Revaluation Reserve)	9650.8	10085.1	7544.0	4705.0
Miscellaneous Expenditure (to the extent not written off/adjusted)	54.5	0.0	6.8	91.3
NET WORTH	14332.4	14769.2	12934.7	10334.2

(Source: RHP)

Extract from grading rationale by ICRA:

“The assigned grading favorably factors in the group’s diversified product portfolio which includes rear view mirrors, wiring harnesses, polymer components, HVAC systems, lighting systems etc. for automotive industry, which are further supported by backward integration into support functions such as tooling and IT. The grading also reflects the strong global market position in rear view mirrors and dominant domestic position in wiring hiring of SMFL’s key investee companies. The grading also takes into account the established relationship with major global as well as domestic OEMs and further strengthening of ties with the global OEMs post acquisition of Peguform, thus enabling cross-selling opportunities for the group’s diversified products. SMFL enjoys a majority stake in Samvardhana Motherson Reflectec (SMR) and Peguform on account of indirect holding through Motherson Sumi Systems Limited (MSSL). ICRA also draws comfort from the growth prospects of MSSL and its favourable dividend payout policy, which has lent stability to SMFL’s standalone revenues in the past. However, the standalone cash flows to SMFL are expected to remain dependent upon the performance and the dividend payout policies of its investee companies.

The assigned grading is constrained by currently weak profitability and asset intensive nature of Peguform’s business. The managements’ ability to improve Peguform’s profitability by harnessing synergy benefits and cost rationalization would be beneficial for the consolidated profitability. Also, with two big overseas acquisitions in the past three years, SMFLC’s dependence on Europe and the US has increased significantly. The relatively weaker demand outlook of these geographies remains a concern, though the risk is partially mitigated by the healthy volume growth reported by its some of its customers such as Volkswagen and Renault-Nissan. Further, a number of SMFLC’s other businesses which are carried out in association with international partners are operating at losses or having weak profitability on account of their relatively small scale of operations or adverse cost structure. These businesses which include automotive lighting, cabins for off road vehicles, gear cutting tools, refrigeration etc. have high growth potential and are supported by the technical expertise of the JV partner, however, the improvement in financial profile will remain contingent upon the company’s ability to tie-up new customers and carry out cost rationalization”.

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