

MOTHERSON SUMI SYSTEMS LIMITED



Motherson Sumi is the largest producer of integrated wiring harnesses in India and the supplier of choice to leading automotive companies.

Background

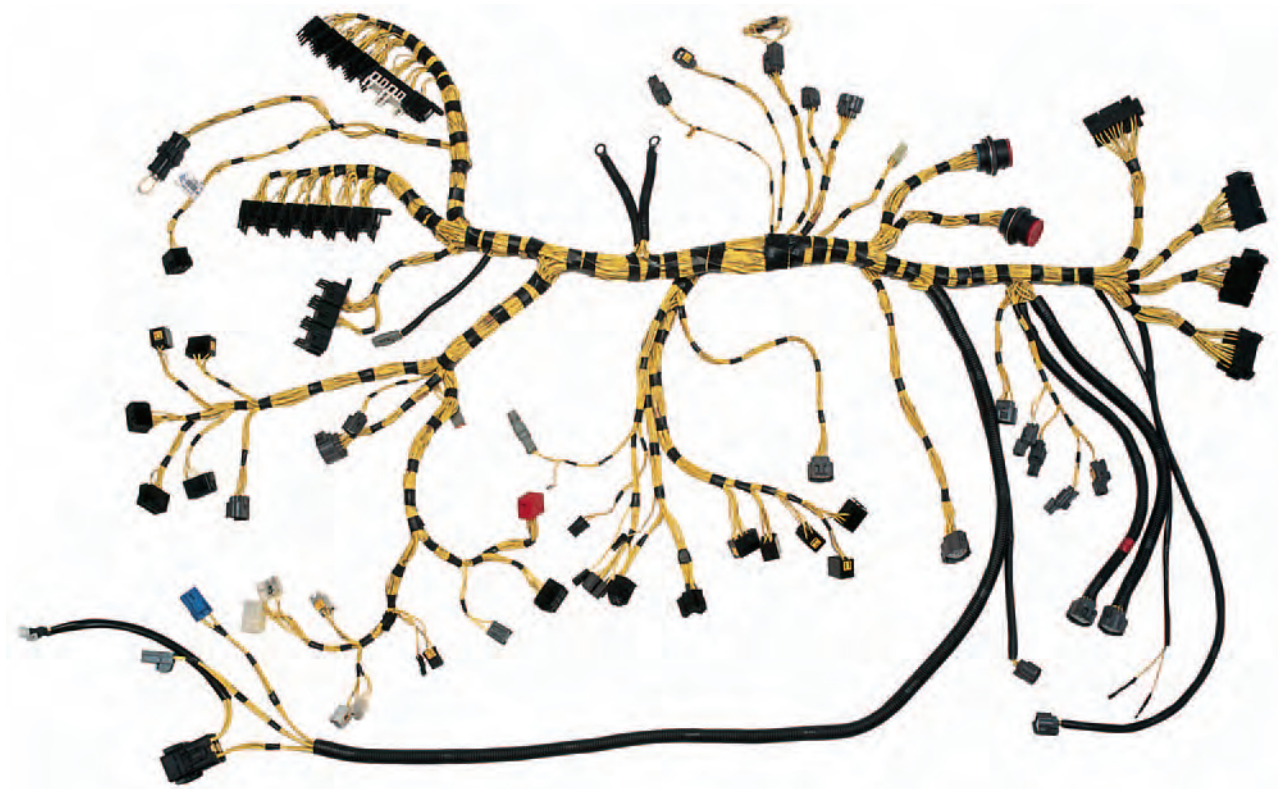
Motherson Sumi Systems Limited (MSSL) is the flagship company of the Sumi Motherson group. The Delhi-based Sehgal family initially promoted it as Motherson Auto Private Limited in 1986 as a single product (wire harnesses) company, supplying mainly to Japanese customers, namely Maruti Suzuki, Hero Honda, DCM Toyota etc. In 1986, Sumitomo Wiring Systems (SWS), Japan, which was till then the technical collaborator, picked up equity stake in MSSL along with Nissho Iwai Corporation, Japan. Thereafter the company changed its strategy and tied up with other tier-1 suppliers to cater to the needs of other OEM in India. MSSL became a public limited company in 1992.

The company is a pioneer in integrated wiring harnesses has over 50 per cent share of the Indian automotive market. It enjoys a privileged status as the main supplier to a large number of automotive and auto components industries in India. It offers its customers the complete range of services from design concept to prototyping, mass production and logistics.

MSSL is headquartered in Noida (Uttar Pradesh) and has 20 manufacturing plants spread across the country - Noida, Delhi, Gurgaon (Haryana), Pune (Maharashtra), Bangalore (Karnataka), Chennai (Tamil Nadu) and Pondicherry. An additional 18 manufacturing plants belong to its joint ventures and subsidiaries. Its plant at Pondicherry has been set up recently for supply of plastic components to the export division of Whirlpool India. Outside India, its manufacturing facilities (including those of its subsidiaries and joint ventures) are located in Sharjah, Germany and Sri Lanka. These plants produce over 3500 different types of harnesses with an annual production of about 13 million harnesses. They are located strategically to efficiently service the customers' requirements. For example, the unit manufacturing wiring harnesses at Pune is located in close proximity to the manufacturing units of DaimlerChrysler and Tata Motors. The processes at its manufacturing plants are supported by continuous Kaizen activities and process upgradation. MSSL also has an in-house facility for design and development and fabrication of jigs and assembly modules.

The promoters are the majority stakeholders in the company with 71.7 per cent share. The Indian promoters own 34.5 per cent of the shares and the foreign promoters have 37.2 per cent share. Indian public holds 14.3 per cent shares and non-

Company	Products	Established	Founder	Distribution	Production plants
Motherson Sumi	Automotive components	1986	Sehgal family	India, USA, Europe, Middle East, Asia Pacific	India, UAE, Germany, Sri Lanka



promoter corporates hold 8.1 per cent of the shares. Institutional investors and non-resident Indians hold the remaining shares.

Products

The product range of MSSL includes wiring harness, battery cables, high tension cords, wires, plastic and rubber components, heat sinks, higher level assemblies and modules, including door trims and cockpits. MSSL supplies wiring harnesses to a spectrum of industries including automotive, office automation products, consumer electronics, medical equipment, electrical and electronic equipment. Wiring harnesses constitute more than 75 per cent of the company's total turnover. Plastic components are manufactured under the plastic division of the company Motherson Automotive Technologies & Engineering (MATE), and include a wide range of injection-moulded components and assemblies, blow moulded components, compression moulded door trims and integrated modules, including dashboards (Instrument Panel

Modules). The share of these products in the total turnover is about 18 per cent. The business segment of rubber components, heat sinks and others is currently small and its growth has been driven mainly by automotive mirror sales.

Maruti is the company's largest customer accounting for 27 per cent of its consolidated annual turnover. Other renowned customers include Ford, Honda Siel, Toyota Kirloskar, Daimler-Chrysler, Piaggio, Hero Honda and Honda Motor Cycle & Scooters. In the non-automotive segment its key customers are Nacco Material Handling Group (NMHG), MCFE, JCB, CLAAS and Hewlett Packard.

Financial analysis

The consolidated sales of the company as well as its subsidiaries and joint ventures was US\$ 202 million in 2005, having witnessed a CAGR of 43 per cent since 2002. Consolidated net profit grew at a CAGR of 77 per cent in the same period. On a

standalone basis, the turnover of MSSL in 2005 was US\$ 145.7 million and the net profit was US\$ 14.2 million. A substantial increase was also seen in exports, which grew from only US\$ 9.8 million in 2002 to US\$ 51 million in 2005, an impressive CAGR of 73 per cent.

The company's sales have benefited from the growth in the domestic automotive market as well as higher exports and strengthening of the Euro internationally since a large part of company's exports is Euro denominated. Its operating margin has fallen in the last year due to the impact of increase in raw material costs resulting from a rise in oil and commodity prices. However the company was able to reduce its finance costs significantly by better working capital management and by taking advantage of the low interest regime. As a result the fall in net margin was lower. MSSL has strong cash inflows from operations, which have enabled the company to finance its capital expenditure from internal accruals. Low level of debt has ensured that the company has a high return on capital employed.

MSSL's contribution in making “Made in India” global



Over the years, MSSL has strategically created a network of overseas manufacturing facilities and representative offices through its subsidiaries and joint ventures to serve its export customers mainly in the European market. Outside India, manufacturing facilities are located in Sharjah, Germany and Sri Lanka. Representative offices are located in Mauritius, Sharjah, Singapore, Austria, Germany and UK. The company also has a design and logistics centre in Ireland. The initial foray into the global markets was done by MSSL through joint ventures with several international companies in order to acquire technology and supply to companies within India as well as exports. Some of these joint ventures include

Draexlmaier & Motherson Electrical Systems India Limited (DMSIL)

DMSIL, incorporated in 1996 as a joint venture with Lisa Draexlmaier, caters exclusively to the electrical distribution systems requirements of Daimler Chrysler and John Deere in India. Its range of products includes wiring harness assemblies and cockpit modules. In 2005, MSSL acquired the entire holding of Lisa Draexlmaier to make it a wholly owned subsidiary. It is now being merged into MSSL, subject to necessary approvals.

Kyungshin Industrial Motherson Ltd. (KIML)

KIML, established in 1997 as a joint venture with Kyungshin Industrial Co. Limited of South Korea, is a leading manufacturer of integrated wiring harnesses in Korea and the major supplier to

Hyundai Motors, Korea. In India the manufacturing facilities of KIML are dedicated fully to Hyundai Motors.

Schefenacker Motherson Ltd. (SML)

SML, formed in 2001 as a joint venture with Schefenacker International, Germany, is a black box designer and manufacturer of rear vision systems for automobiles. Its products are manufactured at its Chennai plant. In India almost 80 per cent of the cars manufactured by Hyundai Motors have SML rear view mirrors fitted on them.

Motherson PUDENZ WICKMANN Limited (MPWL)

MPWL, a joint venture with Wickmann Werke GmbH and Wilhelm Pudenz GmbH, Germany, is engaged in manufacturing of defuse links and fuse holders for the automotive industry. Its trading division distributes circuit protection components and discrete semiconductor products like diodes, rectifiers, transistors and mosfets that are used in electronics and electrical industries.

Subsidiary / Joint venture	Location	Gross sales (Rs million)	PAT (Rs million)	Role
Draexlmaier & Motherson Electrical Systems India Limited	India	India	0.15	Manufacture of wiring harnesses and cockpit assembly for Daimler Chrysler India and John Deere
Kyungshin Industrial Motherson Ltd	India	India	77.3	Manufacturing of integrated wiring harnesses on a dedicated basis to Hyundai Motors
Schefenacker Motherson Ltd.	India	India	54.3	Manufacturing of rear-vision systems for automobiles
Woco Motherson Ltd	Sharjah	Sharjah	57.5	Manufacturing of liquid silicon rubber injection moulding for automotive, medical and kitchen appliances
Motherson PUDENZ WICKMANN Limited	India	India	4.8	Manufacture of blade fuse links and fuse holders for automotive industry
MSSL Mideast (FZE)	Sharjah	Sharjah	112.4	Manufacturing base for wiring harnesses, plastics and new products for the European market
MSSL HAG Toolings Limited	Sharjah	Sharjah	-4.5	Manufacturing of moulds as well as carrying out moulding of plastic components to support MSSL Mideast for its plastic customers in Europe
Motherson Electrical Wires Lanka Pvt. Ltd	Sri Lanka	Sri Lanka	15.8	Manufacturing of wires
Woco Motherson Elastomer Limited	India	India	19.4	Manufacture and export of elastomers to WOCO, Germany
Woco Motherson Advanced Rubber Technologies Limited	India	India	NA	Currently setting up facilities for manufacturing of rubber and rubber to metal/plastic components

Source: Company Annual Report, IMAcS Analysis

Woco Motherson Elastomer Limited (WMEL)

WMEL, a joint venture with WOCO, has taken over the Elastomer division of MSSL with effect from 1st June 2005. Presently, the company is exporting most of its production to WOCO, Germany.

Woco Motherson Advanced Rubber Technologies Limited (WMART)

WMART, another joint venture between WOCO and MSSL is setting up facilities for manufacturing and export of rubber and rubber to metal/plastic components at the SEZ at Kandla (Gujarat). Exports to WOCO are expected to grow once the company's third joint venture WMART being set up at Kandla becomes operational.

In addition to the above, MSSL has strategically expanded its manufacturing operations to international locations in order to support its globalisation efforts. These include the following:

Woco Motherson Ltd. (FZC) (WML)

WML, a joint venture formed with WOCO, is located at Sharjah Airport International Free Zone and specialises in liquid silicon rubber injection moulding.

MSSL Mideast (FZE)

MSSL Mideast was set up as a 100 per cent



subsidiary of MSSL in 2002 and is strategically located at Sharjah. It is the main window and manufacturing base for wiring harnesses, plastics and new products for the European market. It specialises in manufacturing of wiring harnesses for material handling and off-road vehicles and has begun to focus on the growth in the automotive segment. It also supplies plastic components to Ford Europe through contract manufacturing at Austria.

MSSL HAG Toolings Limited (FZC) (MHTL)

MHTL was established in 2003 in Sharjah and is engaged in the manufacture of moulds as well as moulding of plastic components to support MSSL Mideast for its plastic's customers. The operations of MHTL are expected to enable the group to offer an enhanced product range to its European customers. MSSL's equity stake in MHTL is 53.3 per cent, held through MSSL Mauritius Holdings Ltd.

Motherson Electrical Wires Lanka Pvt. Ltd (MEWL)

MEWL is a 100 per cent subsidiary of MSSL and has a wire manufacturing facility in Sri Lanka. It commenced commercial operations in January 2004 and is currently operating at almost full capacity.

MSSL together with its wholly owned subsidiaries



Motherson Sumi's technology partners

Wiring harnesses & components	<ul style="list-style-type: none"> • Sumitomo Wiring Systems Ltd., Japan • Kyungshin Industrial Co., South Korea • Lisa Draexlmaier, Germany
Cockpits/ IP Assemblies	<ul style="list-style-type: none"> • KE Protec, Japan
Injection moulding	<ul style="list-style-type: none"> • Sumitomo Wiring Systems Ltd., Japan
Fuses	<ul style="list-style-type: none"> • Sumitomo Wiring Systems Ltd., Japan
Rubber components	<ul style="list-style-type: none"> • WOCO, Germany
Moulds	<ul style="list-style-type: none"> • Sumitomo Wiring Systems Ltd., Japan • Center Tooling, Australia
Rear Vision Systems	<ul style="list-style-type: none"> • Schefenacker International AG

Source: Company

has incorporated several overseas 100 per cent subsidiaries. These include two holding companies MSSL Mauritius Holding Limited (Mauritius), and MSSL GmbH (Germany) and subsidiaries formed to support its international purchasing and facilitating communication with the market MSSL Handels GmbH (Austria), MSSL GB Limited (UK), MSSL (S) Pte Ltd (Singapore) and MSSL Ireland Limited (Ireland). MSSL Ireland has the additional role of providing design and engineering support to wiring harnesses customers in the region.

In 2005, MSSL made two acquisitions in Germany. One was that of Reiner Präzision GmbH, a manufacturer of precision machined components. The company has been placed under a new joint venture Mothersonsumi Reiner GmbH. The other acquisition is that of G+S Kunststofftechnik GmbH, which is involved in manufacturing of injection moulded components.

On the customer front, MSSL has a strong presence in wiring harnesses for the two-wheeler market in Europe, with supplies to major manufacturers like Piaggio, Derbi, Ducati, MBK, KTM and Yamaha. It is also focusing on tier-1 and tier-2 suppliers as well as non-automotive industries. A significant contribution to exports

comes from supplies to material handling and earthmoving equipment companies like JC Bamford, NACCO Material Handling Group and Mitsubishi Caterpillar Forklift Europe.

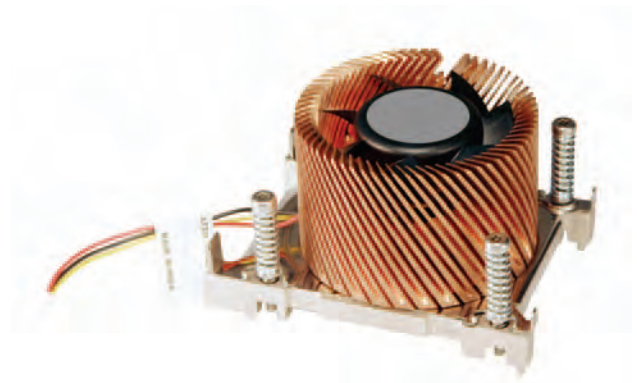
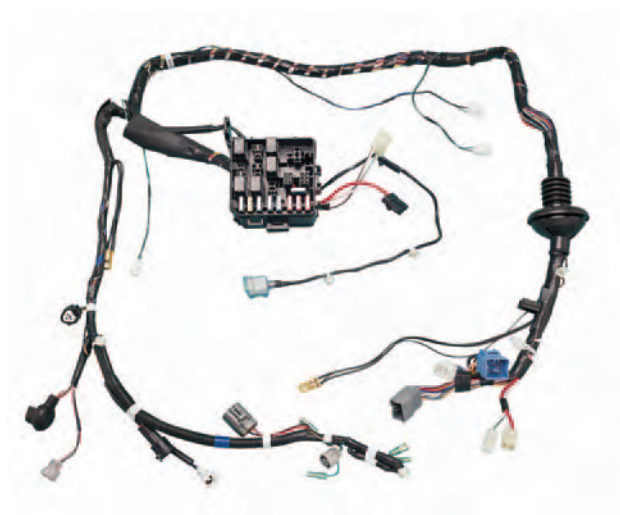
Besides Europe, exports are also made to Japan, USA and Asian countries. The items exported include rubber components, wiring harnesses, plastic components and assemblies, rear vision system components, machined metal assemblies, rubber components and injection moulding tools. Besides direct exports many of the joint venture companies of MSSL export to their own collaborators. For example, wiring harnesses are exported by the company to Sumitomo Wiring Systems, Japan. MSSL's subsidiary MSSL Mideast exports harnesses to SEWS Hungary from its Sharjah plant. Rubber products are exported to WOCO, Germany. Exports of the company constitute almost 30 per cent of its total sales.

Factors fuelling MSSL's global initiatives

Global OEM are increasingly looking for cheaper cost locations for their requirements of auto components so as to better manage their shrinking margins. Similarly tier-1 suppliers are also relocating

their manufacturing to low cost destinations. India is one of the cheapest cost locations, with proven records in design and engineering capabilities. Established quality systems of companies like MSSL and experience in working with global OEM have helped in boosting exports. MSSL's competitive advantage, which has enabled it to go global comes primarily on the strength of low labour costs in India (average Indian wages are currently 60 per cent cheaper than those in developed markets) as well as low minimum economic scales and possession of established technology.

MSSL also has an advantage in terms of strong engineering skills and machining and processing capabilities. Through backward integration, MSSL has acquired capabilities that range from designing of the product to its manufacturing. Its manufacturing facilities, spanning across polymer processing to higher level modules and assemblies, help it in providing end-to-end solutions to the customers. Vivek Chaand Sehgal, MSSL's Chairman, says "We strive to develop newer and better products and acquire new technologies to service our customers as Full System Solutions Provider". Moreover MSSL's tie-ups with global tier-1 suppliers have helped the company in not only getting the technical designs for the components but has also given it an access to the OEM sourcing their requirements from these tier-1 vendors.



MSSL has strategically chosen to locate its manufacturing plants near to its customers. To cater to European customers, it has set up a manufacturing facility in Sharjah. This gives the company the benefit of nearness to its customers. This also helps it in managing the inventories more efficiently by reducing the lead-time.

Future plans

MSSL has set itself the ambitious target of becoming a billion-dollar company by 2010. According to the company's Chairman, "By 2010, we envisage that 60 per cent of our consolidated turnover will cater to the requirements of customers outside India. We would continue to work with our customers and increase our value content per car. We are also continuously looking for new products and segments to expand our portfolio". The company also expects its dependence on any particular customer or market to reduce in the coming years as the scope and scale of work increases. It is expected that by 2010 contribution from any individual customer in the company's turnover shall not be more than 20 per cent.

Going forward the company expects to make capital investments to the tune of US\$ 23-28 million for setting up new facilities for manufacture of wire harnesses as well as plastic moulding and expansion of current capacities at Sharjah, Noida

and Sri Lanka. The Chairman emphasises, “While investments are being made for capacity expansion, we continue to remain a lean and flexible organisation in line with the business needs of an ever changing environment. Besides expansion of existing businesses, we are actively looking at mergers and acquisitions, particularly in the European markets that are in line with our vision and hold good potential”.

Globalisation at a glance

- *Exports constitute nearly 30 per cent of the consolidated turnover of MSSL*
- *Manufacturing facilities in UAE, Germany and Sri Lanka; design and logistics centre in Ireland*
- *Representative offices in Mauritius, UAE, Singapore, Austria, Germany and UK*
- *Strong presence in wiring harnesses for two-wheeler market in Europe*
- *In 2005, made acquisitions of two companies, involved in the manufacture of precision machined components and injection moulded components*