

EDITORIAL – Motherson Sumi's potential acquisition of IAC could create yet another megasupplier

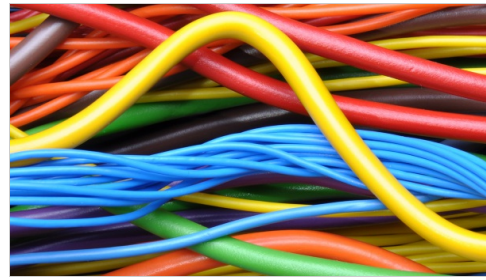
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Part of India's biggest supplier's ambitious plan to triple revenue by 2020

Motherson Sumi Systems Limited (MSSL), the flagship company of Samvardhana Motherson Group (SMG), is in advance negotiations with billionaire investor Wilbur Ross to buy International Automotive Components (IAC) Groups for USD700-800 million, reports the *Economic Times (ET)*, citing people familiar with the development.



The acquisition, if it happens, will further strengthen MSSL's position as the leading Indian auto parts supplier and diversify its international presence, product offerings, and customer base.

Wilbur Ross formed IAC in 2006, bringing together acquired assets of former bankrupt supplier Collin & Aikman and global interior business of Lear Corporation. Over the years, IAC has further expanded its business through small-ticket acquisitions and massive investments in key Asian markets including China and India. In recent past, Ross attempted to take this company public through an initial public offering (IPO), but had to withdraw in light of adverse business and market environment in Europe.

A merger of these two companies, while not quite in the megasupplier bracket, would still create a behemoth in automotive interiors. Both IAC and MSSL's parent, Samvardhana Motherson Group, are in the top 50 global suppliers. Their combined sales would push the group into the top 20. However, the deal has some similarities with the recent deals that have seen the creation of ZF-TRW and Magna's purchase of Getrag. Both companies have similar sales figures; Motherson Sumi recorded USD5.6 billion worth of sales in 2015, while IAC reports topline sales of USD5.9 billion in 2015.

Both suppliers have a product portfolio that can be considered complementary whilst having little overlap. Both companies are involved in automotive interiors and exteriors, but in differing parts therein. Motherson Sumi's portfolio is focused on wiring harnesses, rearview mirrors, lighting systems, air intake manifolds, HVAC systems. IAC's portfolio includes door and trim systems, instrument panels, consoles, flooring and acoustic systems, and headliner systems.

If the company reaches agreement with Wilbur Ross, this would be the boldest move in the Indian supplier's history. The acquisition will significantly reduce MSSL's reliance on European customers, especially the Volkswagen Group, which contributed 44% to its INR350.3 billion (USD5.6 billion) revenue in FY 2014/15.

MSSL has been looking at various acquisitions over the last year as a means of achieving a threefold jump in revenue to USD18 billion by 2020. In May of 2015, V. C. Sehgal, the chairman of MSSL, was quoted as saying the company was undertaking due diligence on three component manufacturers in Europe ahead of potential acquisitions. He added that he expects 65% of the company's targeted revenue for 2020 to come through its existing business, with the company investing INR60 billion (USD940 million) in the next five years. The rest of the targeted revenues is set to be realised via acquisitions.

Though MSSL's goal of tripling sales in the next five years may appear ambitious, it is not unachievable given the company's growth track record in the past 10 years. In 2005, when MSSL's sales were around USD200 million, the company set a goal of realising USD1 billion in sales by 2010. The company subsequently overachieved with sales of USD1.5 billion. In 2010, MSSL set a new goal of achieving USD5 billion by 2015; the company met that target one year ahead of schedule in 2014. In the past six years, MSSL has grown on the back of several acquisitions. The company has also

successfully turned around stressed assets of struggling suppliers such as Visiocrp and Peguform. These acquisitions have not only expanded MSSL's international presence but have also strengthened its relations with key European automakers such as Volkswagen and Daimler. These automakers account for more than half of MSSL's sales and have been instrumental in driving the supplier's performance. In FY 2014/15, MSSL secured business orders worth EUR1.92 billion (USD2 billion) from its customers.

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