Syrma SGS Technology Limited
(Formerly known as Syrma Technology Private Limited)

April 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	11.00 (Reduced from 39.90)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A- (Single A Minus) and removed from Credit Watch with Developing Implications; Stable outlook assigned
Long-term/Short-term Bank Facilities	200.00 (Enhanced from 65.00)	CARE A; Stable/CARE A1 (Single A; Outlook: Stable/ A One)	Revised from CARE A-/CARE A2 (Single A Minus/A Two) and removed from Credit Watch with Developing Implications; Stable outlook assigned
Short-term Bank Facilities	35.00 (Reduced from 35.25)	CARE A1 (A One)	Revised from CARE A2 (A Two) and removed from Credit Watch with Developing Implications
Total Bank Facilities	**246.00 (Rs. Two hundred forty-six crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to Syrma SGS Technology Limited (Syrma) were placed on 'Credit Watch with Developing Implications', following the intention of the company to merge SGS Tekniks Manufacturing Private Limited (SGS) with itself. CARE Ratings Limited takes note of the fact that the merger has now been called off and the company has acquired 100% stake in SGS.

Following the acquisition, the company's scale of operations has nearly doubled on a consolidated basis; business profile has improved with manufacturing plants across multiple locations, presence across diverse customer verticals, and access to a strong client profile in the domestic market.

The ratings factor in the experience of the promoters in the electronics industry and is further strengthened with the acquisition of SGS. The ratings continue to derive strength from the track record of operations with a strong product profile catering to diversified industries and strong relationships with reputed clients and suppliers.

The ratings are however constrained by the working capital-intensive nature of operations, which is further intensified by the shortage of semi-conductor chips, the technological obsolescence risk, and the high competition present in the industry.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

- Consistent increase in the scale of operations with lower client/vertical concentration.
- Maintaining a comfortable capital structure as reflected by an overall gearing ratio of below unity.
- Successful completion of the IPO, leading to a primary infusion of Rs.926 crore in the company.
- Ability to integrate operations and derive synergies from the recent acquisition.

Negative Factors – Factors that could lead to negative rating action/downgrade:

- Any large debt-funded capex, marked by deterioration in capital structure.
- A drop in the operating margins below 10%.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established track record of the company

Syrma belongs to the Tandon group, which started its first manufacturing unit in 1976 for the manufacture of floppy drives for IBM. The unit was the first hard disk drive (HDD) manufacturing unit in South Asia then. Mr Sandeep Tandon, Chairman of Syrma, has over two decades of experience in the electronics industry. By 2000, the group diversified to high-volume electronics manufacturing services for leading IT majors of the world. The group's range of products includes printed circuit boards (PCBs), magnetic disk drives, magnetic coils, RFID tags, etc. The promoters of the acquired entity – SGS – have more than three decades of experience in the electronics manufacturing industry, with operations across six manufacturing facilities. The company is led by four directors, who are also its founders. The promoters of the company are professionally qualified and have degrees in electronics engineering/management from reputed institutions. Mr J S Gurjal, who was the promoter of SGS, is now the Managing Director of Syrma.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Acquisitions of SGS and PerfectID:
In November 2020, Syrma acquired a 20% stake in SGS. Funds of Rs.92.04 crore from private equity funds and other shareholders have been infused in Syrma in FY21, partly as equity and partly as preference capital, which has been utilised for the purpose of inorganic growth by way of acquisition of SGS. Earlier, SGS was to be merged with Syrma, however, the merger had been called off and Syrma has acquired 100% stake in SGS. The erstwhile promoters of SGS now hold 9.23% share each in Syrma, totaling to 37%.
SGS, incorporated in 1986, is an Indian EMS company that primarily assembles PCBs for its clients. In terms of customer and geographical profile, there is no overlap between Syrma and SGS, thereby diversifying the segment and client profile on a consolidated basis. Syrma also acquired 75% stake in Perfect ID India Private Limited in October 2021. PerfectID manufactures RFID label tags and passive inlay tags, which is in addition to the existing capabilities for the manufacturing of RFID hard tags, thus expanding the RFID products portfolio.

Established track record in the EMS and ODM segment with strong product profile:
The company's product profile consists of – PCBs, magnetic coils, magnetic tapes and RFID tags which cater to the requirements of reputed consumer durables companies. Syrma is technology-focussed engineering and design company engaged in turnkey electronics manufacturing services specialising in precision manufacturing. With acquisition of SGS, the company has added domestic customers also to its client profile. SGS which primarily assembles PCBs for its clients also has a long track record having commenced operations in 1990. On a consolidated level, the company operates through eleven manufacturing facilities in North India (i.e. Himachal Pradesh, Haryana and Uttar Pradesh) and south India (i.e. Tamil Nadu and Karnataka). The Company has three dedicated R&D facilities, two of which are located at Chennai, Tamil Nadu and Gurgaon, Haryana respectively, and one is located in Stuttgart, Germany.

Strong relationships with reputed customers and suppliers
The company caters to diverse end-use industries, including industrial appliances, automotive, healthcare, consumer products and IT industries. The industry profile includes FMCG, electronics etc on a standalone basis which stands to be further diversified with SGS catering to healthcare and automotive segment. On a standalone level, Syrma's product profile consists of – PCBs, magnetic coils, magnetic tapes and RFID tags of which PCB assemblies and RFID tags form major portion of the revenue. The company has a strong customer base including many globally reputed companies with whom it has a well-established relationship built over a long period. The company has maintained strong relationships with major consumer durable company and electronics company. The company also has strong supplier network with almost 60-65% of raw materials being imported.

Comfortable debt coverage indicators
The capital structure of the company has improved and was at a comfortable level, with an overall gearing of 0.26x as on March 31, 2021, as compared with 0.70x as on March 31, 2020. The interest coverage ratio is also healthy, at 8.94x in FY21. On a standalone basis, the debt profile, as on March 31, 2021, included term debts from banks, working capital borrowings, and lease liabilities.

Key Rating Weaknesses:
Exposure to volatility of raw materials and forex rate fluctuations
Syrma's raw materials consist of many components, including ICs, among others. Majority of the components, like chips and PCB ICs, are imported and Syrma has the liberty to choose the buyer in most cases. Most of the contracts of Syrma with its suppliers are back-to-back contracts. Also, though the prices with most of Syrma's customers are negotiated and agreed to initially, they are reviewed regularly. Recent times have seen a severe shortage of key components like ICs and this may also impact the operating margins and the working capital cycle of the company. Due to the high lead time for chips, which extends up to 52 weeks in some cases, the inventory-holding has increased. The company has to make advance payments in some cases to secure the raw materials, which has increased the working capital borrowings of the company. In the short term, this is expected to continue and the margins and working capital will remain affected by the shortage of semi-conductor chips.

Technological obsolescence risk
Electronics manufacturing companies are constantly exposed to obsolescence risk, which requires the company to keep up with the changes and advancements by constantly upgrading its products and technologies. But the company has seen and adapted to changes since inception and has been aware of the technological advancements, right from floppy disks manufacturing to RFID tags now. Syrma has recently forayed into manufacturing RFID tags, considering that the market for the same is expected to grow exponentially in future. The ability of the company to continuously enter new advanced product categories will be key to its future prospects.

IPO and capex plans
The company has filed a draft red herring prospectus (DRHP) with the Securities and Exchange Board of India (SEBI) for an initial public offering (IPO), to raise Rs.926 crore, of which Rs.571 crore will be for the capex, Rs.131 crore for meeting incremental working capital needs, and the balance for general corporate purpose. The capex will involve around Rs.38 crore for setting up a R&D facility in Chennai, Rs.108 crore for setting up and expanding the manufacturing facility at the Chennai Plant, around Rs.52 crore for setting up new manufacturing facilities in Hyderabad, around Rs.228 crore for setting up and expanding of manufacturing facilities in Manesar, around Rs.62 crore for setting up new facilities in Bawal, and around Rs.83 crore for setting up new facilities in Hosur.

As on date, minimal spending has taken place for the capex and there are no large debt commitments. The IPO will also have an offer for sale of 33.69 lakh share from one of the promoters.

Industry and prospects
The global EMS market traditionally comprised of companies that manufacture electronic products, predominantly assembling components on PCBs and box builds for OEMs. EMS differs by service providers, and any particular partner may provide any combination of the following: PCB assembly, cable assembly, electro-mechanical assembly, contract design, testing, prototyping, and aftermarket services. The market in India is highly competitive and there are more than 30 organised companies in the EMS industry, but the commercial semi-conductor fabrication operation is almost non-existent. The competition concentration is moderate as the top three companies account for about 30% of the market. The companies follow either of the two unique business models – high volume/low mix or low volume/high mix.
In terms of government initiatives for the sector, the Indian Government is attempting to enhance manufacturing capabilities across multiple electronics sectors and to establish the missing links in order to make the Indian electronics sector globally competitive. India is positioned not only as a low-cost alternative but also as a destination for high-quality design work. Many multinational corporations have established or expanded captive centres in India. Post the COVID-19 pandemic, many global electronics manufacturers are contemplating on the China+1 strategy and looking for alternate manufacturing locations for exports business, which is advantageous to Indian manufacturers. Syrma's presence in the ODM segment offers the company a better position and margins. However, the company's ability to scale up operations amid the improved demand for the sector and the capability of the company to manage the shortage of raw materials and the working capital cycle remains key to the prospects.

Liquidity: Strong
Most of the contracts of Syrma with its suppliers are back-to-back contracts. It procures its raw materials depending on the sales orders it receives from its customers. Hence, in most cases, the company pays its suppliers once it receives the money from its customers. Due to COVID, the shortage of containers and chips in the market, the lead time for the company has increased from four to six weeks to 15-16 weeks, and in some cases, up to 20-26 weeks.
The company also extends a longer credit period to its overseas customers, of around 95 days from the end of the month in which the invoice in booked. The actual collection period extends more than 120 days, depending on the date of the month the invoice is raised. In return, the company enjoys a credit period of around 60 days. This apart, the company had cash and bank balances of Rs.45 crore, as on November 30, 2021.

Analytical approach: Standalone financials considered for the past. However, CARE has considered the impact of the acquisition of 100% stake in SGS Tekniks, and has consolidated the business and financial risk profile of the following companies as they operate in the similar line of business and are controlled by the same promoters. The entites consolidated
(i) SGS Tekniks Manufacturing Private Limited;
(ii) Perfect ID India Private Limited;
(iii) SGS Infosystems Private Limited; and
(iv) SGS Solutions GmBH.

Applicable Criteria
Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the Company
Syrma was incorporated in August 2005 with its registered office at Mumbai and primary manufacturing facility at Chennai, and subsequently, added a plant in Bawal, Haryana. The company belongs to the Tandon group, headed by the Chairman, Mr Manohar Lal Tandon, who is ably supported by his sons, Mr Sandeep Tandon and Mr Jaideep Tandon. Syrma is an electronics manufacturing services (EMS) company, producing various electronic sub-assemblies and box builds for multinational companies. Its range of products includes printed circuit boards (PCBs), magnetic disk drives and coils, and RFID tags.

Brief Financials (Rs. Crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Prov.)
Total Operating Income	403.55	443.38	-
PBILDT	74.98	53.32	-
PAT	45.46	28.63	-
Overall Gearing Ratio (times)	0.7	0.26	-
Interest Coverage (times)	9.42	8.94	-

A: Audited; Prov. Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	200.00	CARE A; Stable / CARE A1
Fund-based - LT-Term Loan		-	-	Jul 2025	6.00	CARE A; Stable
Non-fund-based - ST-BG/LC		-	-	-	35.00	CARE A1
Fund-based - LT-Stand by Limits		-	-	-	5.00	CARE A; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	200.00	CARE A; Stable / CARE A1	-	1)CARE A- / CARE A2 (CWD) (24-Feb-21)	1)CARE BBB+; Stable / CARE A2 (05-Feb-20)	1)CARE BBB; Stable / CARE A3+ (08-Nov-18)
2	Fund-based - LT-Term Loan	LT**	6.00	CARE A; Stable	-	1)CARE A- (CWD) (24-Feb-21)	1)CARE BBB+; Stable (05-Feb-20)	1)CARE BBB; Stable (08-Nov-18)
3	Non-fund-based - ST-BG/LC	ST***	35.00	CARE A1	-	1)CARE A2 (CWD) (24-Feb-21)	1)CARE A2 (05-Feb-20)	1)CARE A3+ (08-Nov-18)
4	Fund-based - LT-Stand by Limits	LT	5.00	CARE A; Stable	-	1)CARE A- (CWD) (24-Feb-21)	1)CARE BBB+; Stable (05-Feb-20)	1)CARE BBB; Stable (08-Nov-18)

* Long Term / Short Term; ** Long term; *** Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Stand by Limits	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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