Syrma SGS Technology Limited

April 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	109.50 (Enhanced from 11.00)	CARE A+; Positive	Revised from CARE A; Stable
Long-term / Short-term bank facilities	265.00 (Enhanced from 200.00)	CARE A+; Positive / CARE A1+	Revised from CARE A; Stable / CARE A1
Short-term bank facilities	75.00 (Enhanced from 35.00)	CARE A1+	Revised from CARE A1

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the rating assigned to the bank facilities of Syrma SGS Technology Limited (SSTL) takes into account the significant improvement in scale of operations over the past two years and healthy order book position providing good revenue visibility in the near term. The rating revision also takes into consideration the funds from initial public offer (IPO) which has led to sizeable improvement in the capital base augmenting the expansion plans of the company.

The ratings continue to factor in the experience of the promoters in the electronics industry, strong track record in the EMS sector, the diversification across industry verticals and strong client profile.

The ratings are however constrained by the working capital-intensive nature of operations, the technological obsolescence risk, and the high competition present in the industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Consistent increase in scale of operations over ₹3,000 crore on a consolidated basis while also showing sustainable improvement in ROCE above 20%.
- Maintaining comfortable capital structure with overall gearing less than 0.3x on a sustained basis

Negative factors

- Increase in working capital intensity leading to any significant elongation in operating cycle
- Deterioration in Total Debt/EBITDA beyond 2.5x
- Significant slowdown in its industry segments, or supply chain disruption further affecting the profitability of the company

Analytical approach:

Consolidated;

CARE Ratings Limited (CARE Ratings) has taken the consolidated view on the company as the subsidiaries also operate in the similar line of business. The subsidiaries consolidated are in annexure-6

Outlook: Positive

The positive outlook reflects CARE Ratings' expectation that the company will benefit significantly from its presence across diverse industry verticals and report healthy growth driven by a strong order book and capacity additions. The capital structure is also expected to improve with healthy accruals and majority of capex being met out IPO funds. The outlook may be revised to stable if the company is not able to achieve the envisaged growth in scale or profitability.

Key strengths

Extensive experience of the promotes and established track record in the electronic manufacturing industry

SSTL 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. Sandeep Tandon, Chairman of SSTL, 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. SSTL is a technology-focussed engineering and design company engaged in turnkey electronics manufacturing services, specialising in precision manufacturing.

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

SGS Tekniks Manufacturing Private Limited (SGS Tekniks) which was an entity acquired by SSTL in August 2021 also has nearly three decades track record in the electronics manufacturing industry. The company is led by four directors, who are also its founders. One of the original founders of SGS Tekniks J S Gujral is now the Managing Director of SSTL.
SSTL at a standalone level is predominantly into exports while the subsidiary SGS tekniks has a track record in domestic markets. On a consolidated level, the company operates through 13 manufacturing facilities in North India, i.e., Himachal Pradesh, Haryana, and Uttar Pradesh, and South India, i.e., Tamil Nadu and Karnataka. In addition to manufacturing, engineering, and design service offerings, the company introduced a 'Zone of Autonomous Creation' in 2018, in Chennai, Tamil Nadu, where it provides quick prototyping services, wherein, a design concept is provided by customers and the company helps create an early form of the final product. The company has three dedicated R&D facilities, two of which are located at Chennai, Tamil Nadu, and Gurugram, Haryana, respectively, and one is located in Stuttgart, Germany.

Strong relationship with marquee clients across diversified product segments
The company has a strong customer base, including several globally-reputed companies with whom it has well-established relationships built over a long period. Due to strong track record in the industry, the company has also seen addition of new marquee clients both in domestic and export markets. The customer base belongs to varied industries on a consolidated level there by reducing dependence on single client or industry. The company has presence in both high-volume segments like consumer, IT etc and in low-volume, high-margin segments like healthcare, industrial and RFIDs which balances the revenue portfolio of the company.
The company also has a strong supplier network, with almost 60-65% of raw materials being imported. The company has a supplier base of around 1,669 suppliers across 21 countries. Having a diversified supplier base has also aided the company in securing semi-conductor supply amidst shortages seen globally.

Robust growth in scale of operations over FY22 and 9MFY23, however high volatility exhibited in profitability margins
The company's TOI has been showing a significant growth momentum for the past few years. The company's TOI grew by 15% in FY22 and in 9MFY23, the company has already grown at 77% on an annualised basis and surpassed FY22 revenue levels driven by growth in domestic operations across all verticals. The growth is also backed by the synergies seen in the customer base and marketing with the acquisition of SGS Tekniks and SSTL has been able to cross-sell other products to the domestic customers as well. The revenue growth is expected to remain strong on the back of healthy order book position of about ₹ 2,100 crore also diversified across verticals. Furthermore, the company is also expanding capacities across locations for supporting the growth in revenue over the long term.
The company has been operating on a healthy margin of about 12-15% over the past few years driven by the company's strong presence in the Original Design Manufacturing (ODM) market in which it offers value-added services like designing and engineering services rather than just assembling the PCBs. The PBILDT margins, however, have been declining in the recent times to below 10% largely due to increase in the raw materials costs post the shortages in semi-conductors seen as well as decline in share of ODM business during 9MFY23 which declined from 27% in FY22 about 11% in 9MFY23. Furthermore, the share of exports, which are usually higher margins, moderated to about 34% in 9MFY23 from 44% in FY22. The margins are expected to remain at about 9-10% over the near term, however, pick-up in export demand with improved share of ODM business and kicking in of capabilities post-Capex is expected to support margin growth growing forward.

Successful fund raise from the IPO
Post the IPO of SSTL in August 2022 resulting in inflows of ₹766 crore, the net-worth has increased to ₹1,330 crore as on September 30, 2022 from ₹ 463 crore as on March 31, 2022 . The fund raise is expected to support the expansion plans of the company. While there was a delay in the IPO, the company had availed term debt to continue with the expansion plans.
The company has planned a capex of ₹ 570 crore for which it has raised a loan of ₹ 90 crore and ₹ 403 crore of IPO funds is also set aside. With the major part of the capex being funded out of the IPO proceeds, CARE Ratings expects the company to maintain a healthy capital structure supported by adequate cash flows and lower debt dependence.

Key weaknesses

Exposure to volatility of raw materials and forex rate fluctuations
SSTL's raw materials consist of many components, including ICs, among others. Majority of the components, like chips and PCB ICs, are imported and SSTL has the liberty to choose the buyer in most cases. Most of the contracts of SSTL with its suppliers are back-to-back contracts. With the increase in input costs recently, the company has seen contraction in margins over FY22 and FY23.
Furthermore, the company imports majority of its raw material requirements. The company is exposed to risks pertaining to any adverse regulatory changes (like changes in custom duty, taxation, etc.), foreign exchange fluctuation risk and risk of fluctuation

in prices of raw material. Although around 60-70% of the raw material requirement of the group is imported, this is partly compensated by a natural hedge as around 40% of revenues are export oriented.

Technology 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. The ability of the company to continuously enter update itself and provide advanced product categories will be key to its future prospects.

Industry prospects:
The Indian EMS industry, which accounts for little above 2% of the global EMS market, has emerged as a significant electronics manufacturing destination. The competition is pretty high with about 700 global and domestic players in the Indian EMS/ODM space with top three players contributing to about 26% of the market. 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. The group's established position in this market augurs well for the company on the backdrop of positive demand scenario. The company's ability to leverage the same to scale up operations and manage the working capital on the back of supply chain issues remain key to the prospects of the company.

Liquidity: Strong
Liquidity is marked by strong cash accruals of about ₹ 100 crore and free cash balances of ₹ 41 crore as on September 30, 2022. The liquidity is further strengthened by net IPO proceeds of about ₹ 725 crore to be utilised for capex and working capital purposes as well as against negligible loan obligations.
The operations are working capital intensive due to the lead time involved in imports and inventory requirements. Most of the contracts of Syrma with its suppliers are back-to-back contracts. The company 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. However, with a good mix of domestic customers also with SGS Tekniks, the average collection period was at 85 days for FY22. Recently, the lead time for the chips has increased from four to six weeks to 15-16 weeks, and in some cases, up to 52 weeks leading to increased inventory holding period has improved significantly from 75 days to about 90 days

Environment, social, and governance (ESG) risks
Environmental: To ensure adherence to the pollution control norms, the company does annual Annual EHS Objective planning and monitoring on emissions, pollution (air, water, noise), plantation, leakages & wastage checks, and proper disposals in check. SSTL follows compliance checklist on Emissions, leakage, waste management etc. and Conducts Periodical Testing of plant and machinery on emissions. SSTL also has Agreement with Best hospital on the Company's Bio medical waste disposal.

Social: The company has undertaken activities towards providing preventive health care, promoting education including special education and employment enhancing vocation skill etc. The company has also prepared a Safety, Health and Environment program to ensure safety of the workers. As on March 31, 2022, the company has 849 permanent employees and 3,886 persons employed as contract labour / temporary employees and retainership employee with over 80% of the employees being women.

Governance: The company is a listed company complying with the clause 49 of the listing agreement. The board of SSTL consists of 10 directors of which five are independent directors, two executive and three non-executive directors. The company has also formed the required statutory committees including Audit committee, Nomination and Remuneration Committee, CSR committee etc. The Audit committee is headed by Hetal Gandhi (Independent Director) who is a member of ICAI with 35 years experience in financials services.

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 and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Electrical Equipment	Other Electrical Equipment

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, Manohar Lal Tandon, who is ably supported by his sons, Sandeep Tandon and Jaideep Tandon. Syrma is an 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 (₹ crore)	March 31, 2021 (A)*	March 31, 2022 (A)	9MFY23 (UA)
		Consolidated with SGS Tekniks	
Total operating income	443.19	1,027.45	1,368.86
PBILDT	51.77	102.65	128.55
PAT (After def Tax)	32.02	56.67	80.19
Overall gearing ratio (times)	0.26	0.47	NA
Interest coverage (times)	8.62	11.41	7.27

*FY21 numbers are not fully consolidated with SGS Tekniks, therefore it is not strictly comparable with FY22 numbers; NA: Not Available
A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: NA

Any other information: NA

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Stand by Limits		-	-	-	5.00	CARE A+; Positive
Fund-based - LT-Term Loan		-	-	Mar 2028	104.50	CARE A+; Positive
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	265.00	CARE A+; Positive / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	75.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	265.00	CARE A+; Positive / CARE A1+	-	1)CARE A; Stable / CARE A1 (07-Apr-22)	-	1)CARE A- / CARE A2 (CW with Developing Implications) (24-Feb-21)
2	Fund-based - LT-Term Loan	LT*	104.50	CARE A+; Positive	-	1)CARE A; Stable (07-Apr-22)	-	1)CARE A- (CW with Developing Implications) (24-Feb-21)
3	Non-fund-based - ST-BG/LC	ST**	75.00	CARE A1+	-	1)CARE A1 (07-Apr-22)	-	1)CARE A2 (CW with Developing Implications) (24-Feb-21)
4	Fund-based - LT-Stand by Limits	LT	5.00	CARE A+; Positive	-	1)CARE A; Stable (07-Apr-22)	-	1)CARE A- (CW with Developing Implications) (24-Feb-21)

*Long term; **Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

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

Annexure-6: Subsidiaries consolidated:

Subsidiaries	**Shareholding as on December 31, 2022**
SGS Tekniks Manufacturing Private Limited;	100%
Perfect ID India Private Limited	75%
Syrma Technology Inc.	100%
Step-down subsidairies	
SGS Infosystem Private Limited	99.68%
SGS Solutions GMBH	66%
Perfect IOT Wireless Solutions LLP (Associate)	50%

Note on the complexity levels of the rated instruments: CARE Ratings 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 us:

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