

## Syrma SGS Technology Limited

April 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term / Short-term Bank Facilities	-	-	Reaffirmed at CARE A+; Positive / CARE A1+ and Withdrawn
Long-term Bank Facilities	-	-	Reaffirmed at CARE A+; Positive and Withdrawn
Short-term Bank Facilities	-	-	Reaffirmed at CARE A1+ and Withdrawn

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

CARE Ratings Ltd. has reaffirmed and withdrawn the outstanding ratings of 'CARE A+; Stable/ CARE A1+' [Single A Plus; Outlook: Positive/ A One Plus] assigned to the bank facilities of Syrma SGS Technology Limited (SSTL) with immediate effect. The above action has been taken at the request of SSTL and 'No Objection Certificate' received from the banks that have extended the facilities rated by CARE Ratings Limited (CARE Ratings)

### Analytical approach: Consolidated.

CARE Ratings had 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 reflected the 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 was also expected to improve with healthy accruals and majority of capex being met out IPO funds.

### Detailed description of the key rating drivers:

#### Key strengths

#### Extensive experience of the promoters 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.

SGS Teknics Manufacturing Private Limited (SGS Teknics) which was an entity acquired by SSTL in August 2021 also has nearly three decades track record in the electronics manufacturing industry.

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. 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.

#### Robust growth in scale of operations over last few years, 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 has doubled in FY23 and grown by about 33% in 9MFY24 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 Teknics 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

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

healthy order book position of about ₹ 4500 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 PBILDT margins, however, have been declining in the recent times to below 10% largely due to increase in the raw materials costs, decline in share of ODM business during FY23 and FY24 (which declined from 27% in FY22 to about 18% in FY23) and decline the share of exports.

### **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 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 30% 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 update itself and provide advanced product categories will be key to its prospects.

#### **Liquidity: Strong**

Liquidity is marked by strong cash accruals of about ₹ 160-170 crore and free cash balances of ₹ 53 crore as on March 31, 2023. The liquidity is further strengthened by net IPO proceeds to be utilised for capex and working capital purposes as well as against negligible loan obligations. The balance of unutilised IPO proceeds as on December 31, 2023, was at ₹ 202 crore as per the monitoring agency report.

The operations are working capital intensive due to the lead time involved in imports and inventory requirements. Most of the contracts of SSTL 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 is booked. However, with a good mix of domestic customers also with SGS Tekniks, the average collection period was at 60 days for FY23. With a cool down in the chip shortage, the inventory period has also seen a slight improvement from 93 days in FY22 to 86 days in FY23.

#### **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.

**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. 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 financial services.

## Applicable criteria

- [Consolidation](#)
- [Definition of Default](#)
- [Liquidity Analysis of Non-financial sector entities](#)
- [Rating Outlook and Rating Watch](#)
- [Manufacturing Companies](#)
- [Financial Ratios – Non financial Sector](#)
- [Withdrawal Policy](#)
- [Short Term Instruments](#)

## About the company and industry

### Industry classification

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

SSTL 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. SSTL 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, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	1,027.45	2055.59	2062.72
PBILDT	102.65	195.29	133.35
PAT	56.67	123.08	79.13
Overall gearing (times)	0.47	0.26	NA
Interest coverage (times)	11.41	7.65	5.22

A: Audited UA: Unaudited; NA: Not Available; Note: 'these are latest available financial results'

**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:** 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		-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan		-	-	Jul 2025	0.00	Withdrawn
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	0.00	Withdrawn
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn

**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	-	-	1)CARE A+; Positive / CARE A1+ (07-Apr-23)	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	-	-	1)CARE A+; Positive (07-Apr-23)	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	-	-	1)CARE A1+ (07-Apr-23)	1)CARE A1 (07-Apr-22)	-	1)CARE A2 (CW with Developing Implications) (24-Feb-21)
4	Fund-based - LT-Stand by Limits	LT	-	-	1)CARE A+; Positive (07-Apr-23)	1)CARE A; Stable (07-Apr-22)	-	1)CARE A- (CW with Developing Implications) (24-Feb-21)

LT: Long term; ST: Short term; LT/ST: 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: List of all the entities consolidated**

	Name of the entity	Extent of consolidation	Rationale for consolidation
1	SGS Tekniks Manufacturing Private Limited	Full	Similar line of business
2	Perfect ID India Private Limited	Full	
3	Syrma Technology Inc.	Full	
4	Syrma SGS Design and Manufacturing Private Limited	Full	
5	Syrma SGS Technology and Engineering Private Limited	Full	
6	Syrma SGS Electronics Private Limited	Full	
7	Johari Digital Healthcare Private Limited	Full	
8	Syrma Semicon Private Limited	Full	
9	Syrma Strategic Electronics Private limited	Full	
	<i>Step down subsidiaries:</i>		
10	SGS Solutions GMBH	Full	
11	SGS Infosystem Private Limited	Full	
12	Perfect IOT Wireless Solutions LLP	Full	
13	Johari Digital Healthcare Inc	Full	

\*as on Dec 31, 2023.

**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.

## Contact us

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