Syrma Technology Private Limited

February 24, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long-term Bank Facilities	39.90 (Enhanced from 19.45)	CARE A- (CWD) (Single A Minus) (Under Credit watch with Developing Implications)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable); Placed on Credit watch with Developing Implications
Long-term / Short-term Bank Facilities	65.00 (Reduced from 75.00)	CARE A- / CARE A2 (CWD) (Single A Minus / A Two) (Under Credit watch with Developing Implications)	Revised from CARE BBB+; Stable / CARE A2 (Triple B Plus ; Outlook: Stable / A Two); Placed on Credit watch with Developing Implications
Short-term Bank Facilities	35.25 (Enhanced from 25.00)	CARE A2 (CWD) (A Two) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Total Bank Facilities	**140.15 (Rs. One hundred forty crore and fifteen lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Syrma Technology Private Limited (STPL) factors in the consistent growth in the scale of operations, addition of new clients thereby diversifying the customer profile and improved profitability margins.

Furthermore, CARE notes the infusion of capital by a private equity firm and other existing shareholders, substantial part of which has been used for the acquisition of SGS Tekniks Manufacturing Private Limited (SGS). SIPL's exposure in SGS is presently in the form a major shareholder and SGS is operating as an independent entity. However, SIPL intends to merge SGS with itself and in light of the possible impact of the same on the credit profile of the company, CARE has also placed the ratings on credit watch with developing implications. CARE will monitor the developments in this regard and review the ratings when the exact implications of the merger on the credit profile of SIPL are clear.

The ratings continue to derive strength from experience of the promoters in the electronics industry, STPL's long track record of operations, strong relationships with well-reputed customer base and comfortable capital structure. However, the ratings are constrained by STPL's working capital intensive nature of operation, and the technological obsolescence risk present in the industry.

<u>Rating Sensitivities</u>

Positive Factors

- Consistent increase in the scale of operations with a lower single client /vertical concentration.
- Maintaining a comfortable capital structure as reflected by an overall gearing ratio of below unity.
- Ability to integrate operations and derive synergies from the recent acquisition.

Negative Factors

- Any large-sized debt-funded capex marked by deterioration in capital structure.
- Drop in operating margins below 10%.

Detailed description of the key rating drivers

Experienced promoters and established track record of the company

Syrma Technology belongs to the Tandon group headed by Mr. Manohar Lal Tandon who has over five decades of experience in the electronics industry. Mr. Sandeep Tandon, the Managing Director of STPL, has over two decades of experience in the electronics industry. He is qualified computer engineering graduate from University of Southern California, USA and holds a management degree from the same university.

Consistent growth in the scale of operations with a reputed customer base
Major chunk of the revenues of STPL comes from PCB Assemblies and RFID tags and the company's growth in scale of operations over the last few years has been primarily driven by the growth in these product lines. Overall, the company has recorded a growth of 13.47% in the TOI in FY20. STPL reported Rs. 178.85 crore in revenue for H1FY21.
The company has a strong customer base which includes many globally reputed companies with exports accounting for 92% of TOI in FY20. In FY21, the company has also diversified its customer base by adding new accounts and has reduced the dependence on single client from 47% in FY20 to 27% in H1FY21.

Improved profitability margins
With increase in income from manufacturing activities, the PBILDT margin of STPL has improved sharply from 6.41% during FY17 to 12.30% during FY19. The PBDIT margins further improved to 18.58% in FY20 aided by the favourable product mix comprising high margin products like RFID.

Comfortable capital structure and debt coverage indicators
The capital structure of the company improved and was at a comfortable level with an overall gearing of 0.70x as on March 31, 2020. The interest coverage ratio has improved from 5.91x as during FY19 to 9.42x during FY20. With infusion of funds, improved profitability and no major capex, the capital structure is expected to remain comfortable going forward.

Infusion of funds and acquisition of SGS Tekniks Manufacturing Private Limited
Fund infusion of about Rs.92.04 crore has happened in STPL in FY21, partly as equity and partly as preference capital which has been utilized for the purpose of inorganic growth by way of acquisition of SGS Tekniks Manufacturing Private Limited (SGS). STPL is now a major shareholder in SGS and it is planning to merge SGS with itself.
SGS, incorporated in 1986, is an Indian EMS company which primarily assembles PCBs for its clients. The company has partnership records of servicing customers in India and Europe. The company has overall six manufacturing SGS reported a PAT of Rs.35.98 crore on a TOI of Rs.426.75 crore on a standalone basis for FY20.

Liquidity- Adequate
The company's operations are working capital intensive in nature. Most of the contracts of STPL with its suppliers are back-to-back contracts. Hence, in most of the cases, the company pays its suppliers once it receives the money from its customers. The company extends longer credit period to its overseas customers of around 95 days and for domestic customers is around 60 days. In return, the company enjoys a credit period of around 60 days. The company had free cash and bank balances of Rs.30.77 crore as on March 31, 2020. Liquidity position of the company has been aided by the strong accruals over the year as a result of which the dependence on working capital borrowings has been lower. The company generated a GCA of Rs. 52.88 crore against a repayment obligation of Rs. 6.45 crore in FY21. The company had availed moratorium from RBL during the COVID phase on principal portion of the term loans due to which tenor has increased by 6 months.

Key Rating Weaknesses
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. STPL has recently moved into RFID tags, a market which is expected to grow exponentially in the future. The ability of the company to continuously enter new advanced product categories will be key to its future prospects.

Exposure to volatility of raw materials and forex rate fluctuations
STPL's raw materials consist of many component including ICs, etc. Majority of the components like chips and PCB ICs are imported and STPL has the liberty to choose the buyer in most of the cases. Most of the contracts of STPL with its suppliers are back-to-back contracts. Also, with most of STPL's customers, though the prices are negotiated and agreed to initially, they are reviewed once in 6 months and variations in the prices of major raw materials are incorporated in the pricing during every review. Recent times have seen severe shortage of key components like ICs and this may also impact operating margins.
The company derives almost 90% of the revenue in the form of exports and while a portion of the raw material purchase is through imports, giving a natural hedge, the company remains exposed to forex rate fluctuations for the balance.

Prospects of the Industry
The electronics sector is typically divided between consumer electronics, electric utilities, and general electronics. Within the consumer electronics sector, companies that focus on emerging technology are driving significant growth through smart home products. With the demand for novel features and products ramping up in recent years, manufacturers are turning to more innovative and sophisticated technological solutions to streamline their production processes.High demand for

advanced electronic gadgets and equipment across the industrial arena has pushed the government to introduce several new schemes to promote electronics manufacturing like the PIL (production linked incentive) and SPECs (Scheme for Promotion of Manufacturing of Components and Semiconductors).

Analytical Approach: Standalone

Applicable Criteria
CARE's Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
Rating Methodology-Manufacturing Companies
Rating Methodology - Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios - Non-Financial Sector
Liquidity Analysis – Non-Financial Sector

About the Company
STPL 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. STPL is an Electronics Manufacturing Services (EMS) company producing various electronic sub-assemblies, box builds for multinational companies. Their range of products includes Printed Circuit Boards (PCBs), magnetic disk drives and coils and RFID tags

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	355.65	403.55
PBILDT	43.75	74.98
PAT	21.68	45.46
Overall gearing (times)	1.39	0.70
Interest coverage (times)	5.31	9.42

A: Audited
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	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	-	-	-	65.00	CARE A- / CARE A2 (CWD)
Fund-based - LT-Term Loan	-	-	Jul 2025	34.90	CARE A- (CWD)
Non-fund-based - ST-BG/LC	-	-	-	35.25	CARE A2 (CWD)
Fund-based - LT-Stand by Limits	-	-	-	5.00	CARE A- (CWD)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	65.00	CARE A- / CARE A2 (CWD)	-	1)CARE BBB+; Stable / CARE A2 (05-Feb-20)	1)CARE BBB; Stable / CARE A3+ (08-Nov-18)	1)CARE BBB-; Stable / CARE A3 (13-Jul-17)
2.	Fund-based - LT-Term Loan	LT	34.90	CARE A- (CWD)	-	1)CARE BBB+; Stable (05-Feb-20)	1)CARE BBB; Stable (08-Nov-18)	1)CARE BBB-; Stable (13-Jul-17)
3.	Non-fund-based - ST-BG/LC	ST	35.25	CARE A2 (CWD)	-	1)CARE A2 (05-Feb-20)	1)CARE A3+ (08-Nov-18)	1)CARE A3 (13-Jul-17)
4.	Fund-based - LT-Stand by Limits	LT	5.00	CARE A- (CWD)	-	1)CARE BBB+; Stable (05-Feb-20)	1)CARE BBB; Stable (08-Nov-18)	-

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 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

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

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