Syrma Technology Private Limited

February 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	19.45 (enhanced from 18.80)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE BBB; Stable (Triple B; Outlook: Stable)**
Short term Bank Facilities	25.00 (enhanced from 20.00)	**CARE A2 (A Two)**	**Revised from CARE A3+ (A Three Plus)**
Long term/ Short term Bank Facilities	75.00 (enhanced from 34.00)	**CARE BBB+; Stable /CARE A2 (Triple B Plus; Outlook: Stable/A Two)**	**Revised from CARE BBB; Stable/CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)**
Total Facilities	**119.45 (Rs. One hundred and Nineteen crore and forty five lakhs only)**		

Details of 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) factor in the sharp growth in scale of operations and profitability margins on the back of the successful completion of the capacity expansion program and improvement in capital structure. The ratings continue to derive strength from experience of the promoters in electronics industry, STPL's long track record of operations, strong relationships with well-reputed customer base.

The ratings however, are constrained by STPL's working capital intensive nature of operation, exposure of profitability to volatility in raw material and forex rates and the technological obsolescence risk present in the industry.

Rating Sensitivities:

Positive Factors

- Consistent increase in 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

Negative Factors

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

Detailed description of the key rating drivers

Key Rating Strengths

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.

Strong product profile and well-established relationship with globally reputed clients

STPL, in the past, was involved in trading of memory chips and modem from global players. Gradually from FY17 the management has been focussing on value adding manufacturing segment which has resulted in a diversified product mix. STPL's product profile comprises of – PCBs, magnetic coils, magnetic tapes and RFID tags which cater to the requirements of reputed consumer durables companies in diverse industries including FMCG, healthcare, electronics etc.

Sharp growth in scale of operations

The income from operations has grown at a rate of 56.67% from Rs.227.01 crores during FY18 to Rs.355.65 crores during FY19. STPL has already generated total revenue of Rs.308.11 crores during 9MFY20 representing an

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

annualised growth of 15.35% over FY19. With installation of customised assembly lines, STPL has successfully catered to the newer orders from its major customers on which contributed to the increase in Income.

Sharp improvement in 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 company's profitability on the manufactured products is expected to sustain going forward, with high margin products like RFID which is expected to take a larger share in the overall revenue composition.

Comfortable capital structure and coverage indicators

The capital structure of the company improved on account of the improved net worth base aided by the higher accretions. The net worth base though, remains moderate at Rs. 62.74 crores as on March 31st, 2019. The debt profile included unsecured loans from the promoter group entities to the extent of Rs.15.33 crores as on March 31st, 2019 on an overall debt of Rs.87.15 crores. The overall gearing stood at 1.39x as on March 31, 2019 as against 1.63x as on March 31, 2018. The gearing ratio improved further to 0.75x as on December 31st, 2019. The interest coverage ratio has improved from 3.44x as during FY18 to 5.31x during FY19. The total debt to GCA has also improved from 5.29x to 2.66x against previous year. Going forward with major capex completed and improved profitability, the capital structure of the company is expected to be comfortable.

Completion of capacity expansion program

The manufacturing plant at Bawal for PCBs, which had commenced its commercial operation from July 2018, was established at a cost of Rs.15 crore. The location adds a strategic advantage by enabling just in time supplies to its existing domestic customers who are based out in Delhi Mumbai Industrial Corridor. Further during FY19, STPL had set up an additional assembly line for RFID at the Chennai facility at a cost of Rs.15 crores.

Key Rating Weaknesses

Technological obsolescence risk

Syrma Technology being an electronics manufacturing company is exposed to technology obsolescence risk. Syrma has been in the industry since the time of manufacture of floppy disks and has constantly updated its technology and changed its product profile in order to keep up with the advancement. However, electronics segment is prone to a lot of changes mainly due to the technology obsolescence risk present. Ability of the company to keep abreast with the latest technology will be key to its future prospects.

Exposure to Volatility of raw materials and forex rate fluctuations

With 80% of the company's revenue concentrated in exports and major portion of the raw material requirements met through imports the company's margins are exposed to forex rate fluctuations and adverse movement in raw material prices. The risk is mitigated to some extent as the company negotiates the price with its clients on a periodic basis and has a natural hedge with respect to forex rate fluctuations.

Liquidity- Adequate

The company's operations are working capital intensive in nature. The company extends longer credit period to its overseas customers of around 90 days. For domestic customers the credit period offered is around 60 days. In return the company enjoys a credit period of around 60 days. Apart from this the company had cash and bank balances of Rs. 6.15 crores and margin money in lien with banks of Rs. 9.11 crores as on March 31st 2019. The current ratio stood at 1.08x as on March 31st, 2019 compared to 1.05x as on March 31st 2018. Liquidity is also marked by strong accruals of Rs. 35.58 crores for 9MFY20 as against repayment obligations of Rs. 7.41 crores for FY20. The average working capital utilization stood at 65.69% for the 9 months period ended December 2019. It had unutilized bank lines of around Rs. 24.50 crores as on December 31st, 2019.

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)

About the Company

STPL was incorporated in August 2005 with its registered office at Mumbai and primary manufacturing facilities at Chennai. 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), Mangnetic disk drives, magnetic coils, RFID tags and magnetic disk drives & coils.

(Rs. Crore)

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	224.39	355.65
PBILDT	16.93	43.75
PAT	7.49	21.68
Overall gearing (times)	1.63	1.39
Interest coverage (times)	3.44	5.31

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

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	-	-	-	75.00	CARE BBB+; Stable / CARE A2
Fund-based - LT-Term Loan	-	-	December 2024	14.45	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	25.00	CARE A2
Fund-based - LT-Stand by Limits	-	-	-	5.00	CARE BBB+; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST	75.00	CARE BBB+; Stable / CARE A2	-	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	14.45	CARE BBB+; Stable	-	1)CARE BBB; Stable (08-Nov-18)	1)CARE BBB-; Stable (13-Jul-17)	-
3.	Non-fund-based - ST-BG/LC	ST	25.00	CARE A2	-	1)CARE A3+ (08-Nov-18)	1)CARE A3 (13-Jul-17)	-
4.	Fund-based - LT-Stand by Limits	LT	5.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (08-Nov-18)	-	-

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

Contact Us

Media Contact
Name: Mr. Mradul Mishra
Contact no.: 022-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name: Mr. P. Sandeep
Contact no.: 044 2850 1000
Email ID: sandeep.prem@careratings.com

Relationship Contact
Name: Mr. V Pradeep Kumar
Contact no. : 044 2850 1001
Email ID: pradeep.kumar@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.