

Date: August 13, 2023

To,

Listing Department
National Stock Exchange of India Limited
Exchange Plaza, C-1, G Block,
Bandra Kurla Complex,
Bandra (East), Mumbai - 400 051.
Symbol: SYRMA

Department of Corporate Service
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001.
Scrip Code: 543573

Subject: Intimation under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Intimation regarding new credit rating by India Ratings & Research (Ind -Ra).

Pursuant to Regulation 30 read with clause 3 of para A of part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, ('Listing Regulations') read with the SEBI circular no. SEBI/HO/CFD/CFD-PoD-1/P/CIR/2023/123 dated July 13, 2023, we wish to inform you that India Ratings and Research (Ind-Ra) has rated Syrma SGS Technology Limited's (Syrma SGS) bank facilities, as follows:

Name of the Company	Credit Rating Agency	Instrument Type	Size of the Issue (Million)	Rating Type	Rating
Syrma SGS Technology Limited	India Ratings and Research (Ind-Ra)	Proposed fund-/non- fund based working capital limits	INR 500	Long Term Rating	Long term IND AA-/Stable
				Short term Rating	IND A1+
Syrma SGS Technology Limited	India Ratings and Research (Ind-Ra)	Fund-based limits	INR 1000	Short Term Rating	IND A1+

The above information will also be made available on the website of the Company at <https://syrmasgs.com/>.

You are requested to take the above information on record.

Thanking You.

Yours faithfully,

For **Syrma SGS Technology Limited**

Rahul Sinnarkar
Company Secretary & Compliance Officer
Membership No: A39709

Place: Gurgaon

Encl: as above



India Ratings Assigns Syrma SGS's Bank Facilities 'IND AA-'/Stable

Aug 11, 2023 | Diversified

India Ratings and Research (Ind-Ra) has rated Syrma SGS Technology Limited's (Syrma SGS) bank facilities as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating	Rating Action
Proposed fund-/non-fund based working capital limit	-	-	-	INR500	IND AA-/Stable/IND A1+	Assigned
Fund-based limits	-	-	-	INR1,000	IND A1+	Assigned

Analytical Approach: Ind-Ra has taken a consolidated view of Syrma SGS and its subsidiaries (including material subsidiaries SGS Tekniks Manufacturing Private Limited (contributing 40%-45% to the consolidated revenue) and Perfect ID India Private Limited (about 5%)) while assigning the ratings, given the strong operational and strategic linkages among them, driven by similar business lines and a common management team.

Key Rating Drivers

Strong Business Profile: The ratings factor in the strong consolidated business profile as indicated by its robust and diversified presence in the engineering, designing, assembling and manufacturing of products including printed circuit boards (PCBs), magnetic coils, radio frequency identification (RFID) products, among others. The company has a strong presence in the original design manufacturing (ODM) market (FY23: about 18% of the consolidated revenue), which involves providing high-margin designing and engineering services. While the revenue from ODM services increased in absolute amount over FY21-FY23, the proportion of ODM as a percentage of the overall revenue declined 10%-12% over the period to about 20% in FY23 from about 30% in FY21. Ind-Ra believes Syrma SGS still has a reasonable presence in the ODM segment, higher than some of the industry peers. The management expects the proportion of ODM revenue to the total revenue to grow from the current levels over the medium term on account of some new engineering projects.

The revenue profile also comprises of a reasonable mix of exports (FY23: about 30% of revenue), domestic sales, high-margin low-volume business (healthcare segment) and high-volume low-margin business (consumer segment), supporting its business profile. Additionally, the company's presence in the business of manufacturing of customised RFID tags and labels, apart from PCB assembly, provides it an opportunity to enter the Internet of Things-led businesses globally.

Any weakening of the business profile owing to a change in revenue composition and/or regulatory requirements, leading to a decline in the revenue and margin will be a key rating monitorable.

Diversified Sector Presence and Customer Portfolio: Syrma SGS has a presence in diversified industries with the consumers sector contributing 32% to the revenue in FY23, followed by industrial (31%), automotive (20%), healthcare

(8%), with information technology and railways contributing the remaining. This protects the company's business profile against a major decline/downturn in demand from any particular sector. Furthermore, the company has a strong clientele with the presence of several reputed and marquee domestic and international customers such as TVS Motor Company Limited, A. O. Smith India Water Products Pvt. Ltd., Robert Bosch Engineering and Business Solution Pvt Ltd, among others. The top three customers accounted for about 25% of the consolidated revenue in FY23, while the top 10 customers accounted for about 50%. Syrma SGS's longstanding relationships with its clients and strong credit profile of its customers support the ratings.

Robust Revenue Growth: Syrma SGS's financial profile is supported by a consistent increase in the revenue and EBITDA over FY21-FY23. The consolidated revenue grew at a CAGR of about 115% to INR20,484 million over FY21-FY23 (FY22: INR10,197 million, FY21: INR4,383 million), supported by (a) organic growth of about 60% CAGR over FY21-FY23 for the standalone business; and (b) an increase in revenue owing to acquisitions of SGS Teknics Manufacturing and Perfect ID India in FY22. These acquisitions have not only helped the company increase the scale in terms of revenue but also provided additional capabilities (increased product offerings and expansion in additional sectors) and opportunities of cross sell, thus supporting the overall revenue profile. The company reported revenue of INR 6,016 million in 1QFY24 (up 55% yoy).

Furthermore, the acquisition of Johari Digital Healthcare Limited (JDHL) in August 2023 is likely to strengthen the company's market position and revenue profile in the high-margin healthcare segment on consolidation by either 2QFYE24 or 3QFYE24. Further, a strong and consistently growing order book (1QFYE24: INR35,000 million, FYE23: INR30,000 million, FYE22: INR12,000 million) provides revenue visibility for the next two-to-three years.

Ind-Ra believes a strong demand for the company's products, favourable regulatory policies for expansion of such businesses/industry in India through various schemes such as Production-Linked Incentive Scheme and increased focus of the global original equipment manufacturers' for shifting production and manufacturing to India will continue to support revenue growth in the short-to-medium term.

Fluctuations in EBITDA Margins, However, Absolute EBITDA Continues to Grow: On a consolidated basis, the company's absolute EBITDA grew at a CAGR of about 95% to INR1,950 million over FY21-FY23. However, the EBITDA margins remained volatile and declined to 9.5% in FY23 from about 11.8% in FY21 (FY22: 10%) owing to the reducing share of high-margin export and ODM businesses in the overall revenue over FY21-FY23. Further, a higher growth in the relatively low-margin businesses such as consumers, resulted in the decline in EBITDA margins. The EBITDA margins declined further to 7.1% in 1QFY24 owing to the decline in revenue contribution from the high-margin healthcare business as compared to previous quarters. However, management expects the EBITDA margins to be in double-digit over the medium term and expects the revenue from the high-margin businesses (including healthcare) to pick up in the coming quarters.

Ind-Ra does not expect the margins to decline further in the medium term with no significant change in the business mix, which is a key rating monitorable. Any adverse change in the duty structure of the key finished products or raw materials, and its resultant impact on the margins, along with any change in composition of the company's overall revenue impairing the margins from the current levels will also remain key monitorable.

Liquidity Indicator - Adequate: On a consolidated basis, the cash and equivalents was INR8,585 million at FYE23, including unutilised initial public offering proceeds of INR7,345 million. The average utilisation of the working capital limits is generally moderate and was at about 64% during the 12 months ended March 2023. The liquidity is supported by strong cash and equivalents, and undrawn lines of about INR1,700 million, against scheduled debt repayments of INR280 million in FY24. Since the company is in the expansion phase with a likely revenue growth of more than 35% yoy over the next two years, it could incur capex of INR3,800 million-4,200 million over FY24 and FY25. Syrma SGS acquired 51% shareholding in JDHL for a total cash consideration of INR2,575 million, of which INR2,295 million is an upfront payment and INR280 million is payout on achieving of milestones over the next two to two and a half years. Ind-Ra takes comfort from the fact that the acquisition and significant amount of capex will be funded through unutilised IPO proceeds (including utilisation of INR3,690 million earmarked for capex purposes) with a minimal dependence on debt.

Further, since the company is in the revenue growth phase and the nature of operations is working capital intensive, there will be need of incremental working capital requirement, which the agency believes will also be either funded through internal accruals or through unutilised IPO proceeds with minimal dependence on debt. Therefore, the cash flow from

operations could remain slightly negative over FY24-FY25. The cash flow from operations turned negative to over INR500 million in FY23 (FY22: positive about INR100 million). Nevertheless, the company's strong revenue growth, no major elongation of working capital cycle and strong cash availability support the ratings. The company also declared dividends of INR300 million-350 million in FY24. Ind-Ra has not factored into any further stake purchases by Syrma SGS in JDHL and/or any further acquisition, which will remain a key monitorable.

Strong Credit Metrics: On a consolidated basis, the gross leverage (gross debt/EBITDA) was 1.2x-1.9x over FY21-FY23 and net leverage (total adjusted net debt/operating EBITDA) was 0.6x-1.5x over FY21-FY22. In FY23, the company turned net cash positive owing to the strong cash and equivalents (including unutilised IPO proceeds). The total debt of INR3,749 million at FYE23 comprised of INR2,565 million of working capital debt, INR904 million of term debt and INR279 million of lease liabilities. Although there could be a moderate increase in the debt levels, Ind-Ra expects the company to majorly rely on internal accruals, and cash and equivalents to fund the capex and working capital requirements over FY24 and FY25. Thus, Ind-Ra expects the overall credit metrics will remain comfortable in the near-to-medium term. Ind-Ra has not assumed any debt-funded acquisitions in its projections, which will remain a monitorable.

Long Working Capital Cycle: Since Syrma SGS's operations are working capital intensive, it had a long net working capital cycle of 115 days in FY23 (FY22: 150 days, FY21: 98 days). The reduction in the working capital cycle was driven by a decline in the receivable period to 72 days in FY23 (FY22: 97 days, FY21: 106 days) and inventory holding period to 139 days (148 days, 100 days), and a marginal increase in the payable period to 96 days (96 days, 108 days). Further, Ind-Ra draws comfort from the company's longstanding relationships with its strong clients.

While the inventory holding period is long, the agency takes comfort from majority of the raw material being purchased against back-to-back orders from customers. Additionally, the agency has considered inventory on an adjusted basis for Syrma SGS since the company has been reporting high revenue growth on a quarter-on-quarter basis from the last eight quarters and the revenue in 4QFY23 constituted about one third of the total revenue. Despite adjusting the same, the inventory days are in line with the historical numbers, which provides comfort. The company has guided for a reduction in the net working capital cycle by 10 days in the near term, which will remain a key monitorable for the agency as well. The agency has not envisaged any major increase in working capital cycle in the medium term from FY23 levels.

Forex Risk; Intense Competition and Other Industry Risks: The company imports 60% of its material requirements, which exposes it to foreign exchange fluctuation risk. While part of the forex exposure is naturally hedged from exports (about 30% of total revenue) and the company takes three months forwards to cover part of the open exposure and is also able to pass on the impact of foreign exchange fluctuation to customers to some extent, any major forex fluctuation can impact the margins. Moreover, Syrma SGS is in business of technology contract manufacturing, which exposes it to risk of frequent changes in technology. It also has to constantly upgrade and adopt its manufacturing processes and supply chain to meet the requirement of its customers. Also, the company operates in a highly competitive business environment, due to the presence of several organised and unorganised players. This limits its bargaining power/pricing ability, thereby constraining any major uptick in margins to an extent.

Standalone Financial Performance: The company's revenue was INR11,356 million in FY23 (FY22: INR6,463 million) and EBITDA margins were 7.1% (8.7%). The total debt stood at INR2,512 million FYE23, against cash and equivalents of INR7,976 million, resulting in a net cash position. The gross interest coverage was 5.8x in FY23 (FY22: 16.8x).

Rating Sensitivities

Positive: A significant growth in the revenue and operating profits while maintaining comfortable credit metrics on a consolidated and sustained basis, will lead to a positive rating action.

Negative: Any greater-than-expected growth in the revenue, resulting in dilution of margins and/or an elongation of the working capital cycle and/or any additional stake purchases in JDHL /new acquisitions resulting in a significant depletion in liquidity or the net leverage exceeding 1.0x on a sustained basis could lead to a negative rating action.

Company Profile

Syrma SGS (formerly Syrma Technology Private Limited), a public limited company, manufactures various electronic sub-assemblies, assemblies and box builds, disk drives, memory modules, power supplies/adapters, fiber optic assemblies, magnetic induction coils and RFID products, and other electronic products. The company is a part of Tandon Group with Sandeep Tandon as chairman of the company. Its manufacturing facilities are spread across Northern India (Bawal, Haryana, Manesar, Haryana, Baddi, Himachal Pradesh) and southern India - Chennai (Tamil Nadu), Bengaluru (Karnataka). The company also has three research centres, of which two are in India and one is in Germany.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	FY23	FY22
Revenue (INR million)	20,484	10,197
EBITDA (INR million)	1,950	1,018
EBITDA margin (%)	9.5	10.0
Interest coverage (x)	9.0	16.0
Total adjusted debt (INR million)	3,747	2,183
Cash and equivalents (INR million)	8,585	648
Net leverage* (x)	-	1.5
Source: Syrma SGS, Ind-Ra		
*Including lease liabilities		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Bank wise Facilities Details

[Click here to see the details](#)

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limit	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

Contact

Primary Analyst

Prasad Vadnere

Analyst

India Ratings and Research Pvt Ltd

For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst

Priyanka Bansal
Associate Director
+91 22 40356148

Chairperson

Vivek Jain
Director
+91 124 6687249

Media Relation

Ameya Bodkhe
Marketing Manager
+91 22 40356121

APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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