October 27, 2023

SGS Tekniks Manufacturing Pvt Ltd: Ratings upgraded to [ICRA]AA-(Stable)/[ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/short term-fund based/non fund based	140.00	140.00	[ICRA]AA-(Stable)/[ICRA]A1+; upgraded from [ICRA]A+(Stable)/[ICRA]A1
Long term-non fund based Interchangeable	(40.00)	(40.00)	[ICRA]AA-(Stable); upgraded from [ICRA]A+(Stable)
Total	**140.00**	**140.00**	

**Instrument details are provided in Annexure-1.*

Rationale

While arriving at the ratings, ICRA has taken a consolidated view of SGS Tekniks Manufacturing Pvt. Ltd. (STMPL) and Syrma SGS Technology Ltd. (SSTL), together referred to as the Group on account of common management and business linkages between the entities.

The rating action primarily factors in ICRA's expectation of a healthy performance of the Group in FY2024, after a material improvement in FY2023, on account of higher execution of existing as well as new orders. The Group has added almost Rs. 1,000 crore of new orders in the current fiscal till date, resulting in a healthy outstanding order book position of Rs. 3,400-3,500 crore as of September 2023, which along with favourable demand outlook provides revenue visibility in the near-to-medium term. The Group's operating income grew by 62% on a year-on-year (YoY) basis to ~Rs. 2,048 crore in FY2023 from ~Rs. 1,266 crore in FY2022, supported by an increase in business from existing customers as well as addition of new customers. The operating margins also remained healthy at around 9%, resulting in healthy net cash accruals of close to Rs. 167 crore in FY2023. In FY2024, the overall scale and profits are expected to increase, and debt coverage indicators are likely to remain healthy. The liquidity position is strong with cash and equivalents of close to Rs. 860 crore as of March 2023 and sufficient cushion in fund-based limits.

While revising the ratings, ICRA also notes the recent acquisition of Johari Digital Healthcare Limited (JDHL), which manufactures end-to-end turnkey medical devices. The entity commands a high margin of 35-36% on its product portfolio. Consequently, the acquisition is likely to increase the revenue of the entity from the healthcare segment and would also support the overall margin of the Group. Apart from the same, the company is investing the IPO proceeds in new capacity addition, which is expected to support earnings growth, going forward. The ratings continue to draw comfort from the extensive experience of the promoters in the printed circuit board (PCB) assembly services and Radio Frequency Identification (RFID) tags business along with the established relationships with its clients.

The ratings are, however, constrained by the relatively lower entry barriers in the industry in terms of investments and technical knowhow. The company is exposed to the risk of technological obsolescence, which remains prevalent in the electronic manufacturing services (EMS) segment. The ratings factor in the Group's exposure to customer concentration risks, with its top ten clients accounting for around 50% of the total sales in FY2023. The ratings consider its working capital-intensive operations with high debtors and inventory days. Moreover, the profitability of the Group remains exposed to fluctuations in raw material prices as well as forex fluctuations.

The Stable outlook reflects ICRA's belief that the Group will maintain its healthy capital structure as well as a healthy liquidity profile and its revenues will be supported by its strong order book position amid favourable demand outlook.

Key rating drivers and their description

Credit strengths

Significant improvement in scale in FY2023, likely to continue in FY2024 – The Group's revenues have witnessed a sharp growth of ~60% in FY2023, driven by strong order execution and addition of new customers. Its revenues are likely to increase by 40-45% in FY2024, supported by a strong order book position and a favourable demand outlook for its products. The recent shift towards smart electronics, electric vehicles, and various Government incentives like the PLI scheme introduced to curb imports are likely to support the Group's operations. In FY2024, the overall scale and profits are expected to increase, and debt coverage indicators are likely to remain healthy.

Strong operational and financial profile of the Group – The Group has achieved significant synergies both in terms of procurement and business development apart from the benefits in terms of common management and business linkages. The same is likely to support the operating margins in the near-to-medium term.

Healthy financial risk profile with strong liquidity position – The operating margins stood at ~9.2% in FY2023, which resulted in healthy cash accruals of around Rs. 167 crore. The same has also resulted in comfortable debt coverage indicators, characterised by an interest coverage of ~8.7 times, total debt to operating profit ratio of ~2.0 times in FY2023, which is likely to remain healthy in FY2024 as well, driven by a strong growth in earnings and profit. Further, the liquidity position remains strong, given the healthy cash balances and liquid investments of close to Rs. 860 crore as on March 31, 2023 and sufficient cushion in its working capital limits.

Extensive experience of promoters in electronics industry and established relationships with clients – The promoters have more than three decades of experience in the electronics manufacturing industry, with operations spread across eleven manufacturing facilities. Its promoters are professionally qualified and have degrees in electronics engineering/management from reputed institutions. The promoters' long relationship with the clients has resulted in generation of substantial repeat business, aiding in its revenue growth. The Group's track record has also helped it acquire new clients over the years.

Credit challenges

Low entry barriers and risk of obsolescence – Given the low entry barriers in terms of required capex and technical knowhow, the competition is high for the Group. However, healthy relationships with major client provide comfort to an extent. This apart, as inherent in the EMS space, manufacturers need to constantly innovate and upgrade capabilities to avoid the risk of technological obsolescence.

Client concentration risk – The revenue concentration towards the top ten clients stood at around 48% in FY2023. This rendered the company vulnerable to the sourcing decisions of these entities. However, long track record of repeat orders mitigates the same to an extent. Also, the company has been adding new customers, which will reduce the concentration risks, going forward.

Fluctuations in raw material prices – The Group's profitability remains exposed to fluctuations in raw material prices as well as foreign exchange rates. Although 60-70% of the raw material requirement of the Group is imported, this is partly compensated by a natural hedge as 45-50% of its revenues comes from exports. The ratings also consider the working capital intensive operations of the Group, given the high debtor and inventory days.

Liquidity Position – Strong

The company's **strong** liquidity is reflected in unencumbered cash of around Rs. 860 crore as on March 31, 2023. The liquidity is further supported by unutilised working capital limits, providing additional cushion. The liquidity profile is expected to remain strong with healthy cash accruals over the next few years against minimal long-term debt repayments and capex funding against IPO proceeds.

Rating sensitivities

Positive factors – The ratings may be upgraded in case of a significant improvement in the Group's scale and profits, resulting in healthy returns and debt coverage indicators.

Negative factors – The ratings may be downgraded in case of a sustained decline in revenues and profitability, coupled with a deterioration in the working capital intensity, impacting the liquidity position. Specific triggers for ratings downgrade will be an interest cover of less than 7 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	ICRA has taken the consolidated view of SGS Tekniks Manufacturing Pvt. Ltd. and Syrma SGS Technology Ltd., given the common management and business linkages
Consolidation/Standalone	The consolidated financials of SGS Tekniks Manufacturing Pvt. Ltd., Syrma SGS Technology Ltd., Perfect Id India Pvt. Ltd. and Johari Digital Healthcare Ltd. (consolidation from September 1, 2023 due to acquisition in the current year) were considered while arriving at the ratings (mentioned in Annexure 2).

About the company

SGS Tekniks Manufacturing Private Limited (SGS) was incorporated in 1986 and commenced operations in 1990. It undertakes electronic manufacturing services and primarily assembles printed circuit boards (PCBs) for its clients. The company mounts either with the help of machines such as surface mount technology (SMT) or manually, components such as resistors, transistors, light emitting diodes (LEDs), capacitors etc, on the PCBs. Syrma SGS, incorporated in 2005, undertakes electronic manufacturing services, box products and RFID tags. The Group has 11 manufacturing facilities across the country.

Key financial indicators

Consolidated – Syrma SGS Technology Ltd	FY2022	FY2023	Q1 FY2024
Operating Income (Rs. crore)	1,266.65	2,048.4	606.9
PAT (Rs. crore)	76.45	135.9	28.3
OPBDIT/OI	10.17%	9.2%	7.0%
PAT/OI	6.04%	6.6%	4.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.98	0.6	
Total Debt/OPBDIT (times)	1.70	2.0	
Interest Coverage (times)	11.96	8.7	5.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding crore) as on Mar 31, 2023	Date and Rating on	Date & Rating		
						FY2023	FY2022	FY2021
					Oct 27, 2023	**Sep 29, 2022**	**Jul 29, 2021**	**-**
1	Fund-based/Non fund based	Long-term/ Short-term	140.00	-	[ICRA]AA-(Stable)/[ICRA]A1+	[ICRA]A+(Stable)/ [ICRA]A1	-	-
2	Cash Credit	Short-term	-	-	-	-	[ICRA]A1	-
3	Term Loans	Long-term	-	-	-	-	[ICRA]A (Stable)	-
4	Non-fund-based limits	Long-term	-	-	-	-	[ICRA]A (Stable)	-
5	Unallocated Long term	Long-term	-	-	-	-	[ICRA]A (Stable)	-
6	Non-fund based Interchangeable	Long-term	(40.00)	-	[ICRA]AA-(Stable)	[ICRA]A+(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/short term fund based Long term/short term non fund based	Simple Very Simple
Long term non fund based interchangeable	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA’s website: [Click Here](#).

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term/short term fund based/non fund	NA	NA	NA	140.00	[ICRA]AA-(Stable)/ [ICRA]A1+
NA	Long term non fund based interchangeable	NA	NA	NA	(40.00)	[ICRA]AA-(Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA.

Annexure-II: List of entities considered for consolidated analysis:

Company Name	Parent Ownership	Consolidation Approach
Syrma SGS Technology Limited	Parent	Full Consolidation
SGS Tekniks Manufacturing Pvt Ltd	100%	Full Consolidation
Perfect ID India Private Limited	100%	Full Consolidation
Johari Digital Healthcare Limited	51%	Full Consolidation

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
priyesh.ruparelia@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

Maitri Vira
+91 33 7150 1103
maitri.vira@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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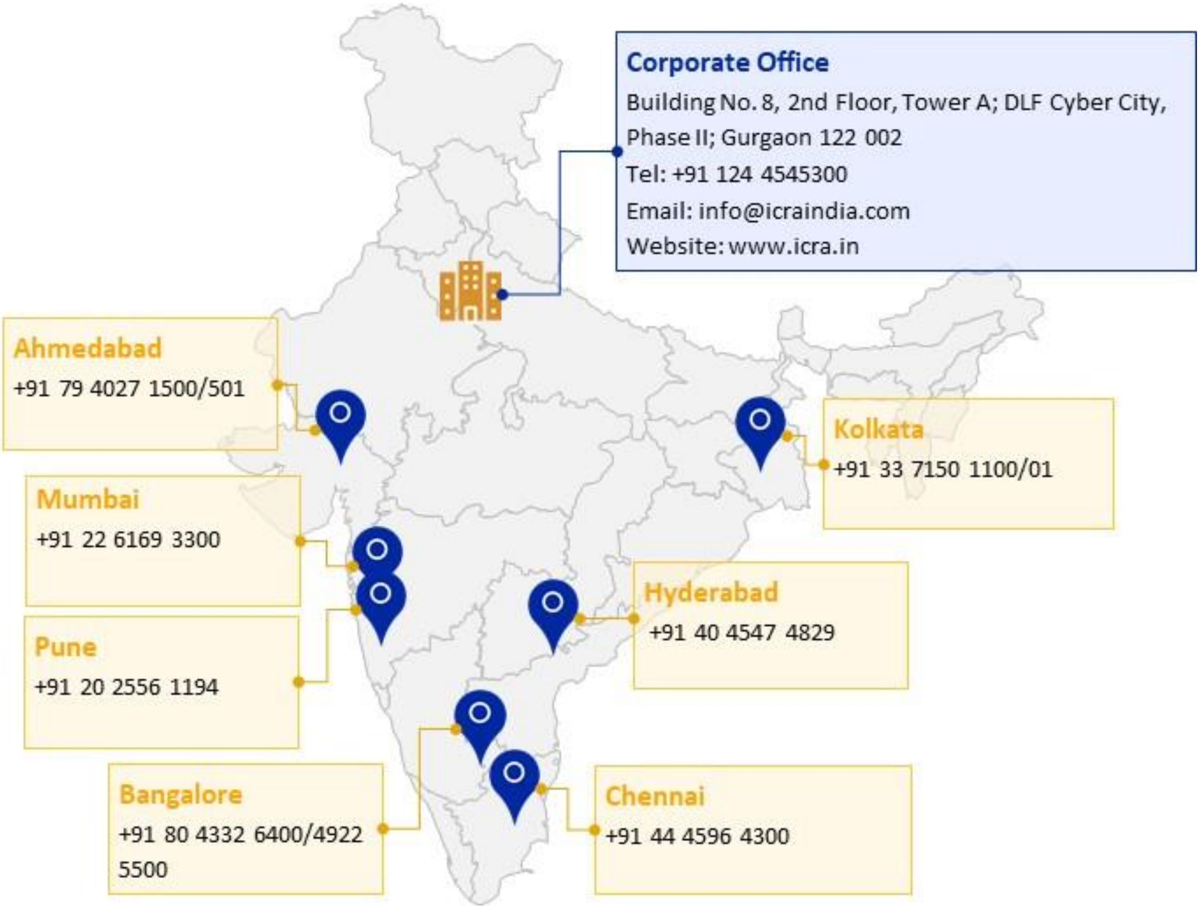

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