

October 21, 2024

Synergy Systems & Solutions: Ratings upgraded; removed from issuer non-cooperation category; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term-Fund-Based-Cash Credit	2.45	28.0	[ICRA]BBB- (Stable); Upgraded from [ICRA]B+ (Stable) and removed from Issuer Not-Cooperating Category; Assigned for enhanced amount
Long Term- Fund based-Term loan	-	0.02	[ICRA]BBB- (Stable); Assigned
Long term/Short-Term-Non-Fund-Based-Others	-	70.0	[ICRA]BBB- (Stable)/[ICRA]A3; Upgraded from [ICRA]B+ (Stable) /[ICRA]A4 and removed from Issuer Not-Cooperating Category; Assigned for enhanced amount
Short -Term-Non-Fund-Based-Others	5.20	-	-
Total	7.65	98.02	

*Instrument details are provided in Annexure-I

Rationale

The ratings assigned to the bank lines of Synergy System & Solutions (Synergy/the entity) factor in the recommencement of cooperation by the entity in sharing the requisite information with ICRA for evaluation of its credit profile. The ratings factor in nearly three decades of track record of the entity in providing industrial automation solutions to varied industries like Power Transmission, Indian Railways, Metro rail services, Oil & Gas industry etc. The entity caters to the industry leaders in the end user industries resulting in low credit risk pertaining to client exposure. Although the order book is moderately concentrated particularly in the power and metro rail sector, the credit profile of the end users provides comfort. The ratings also factor in the healthy financial risk profile characterized by healthy operating margins of around 25-30% and a revenue growth of 11% CAGR over the period of FY2021 to FY2024. The credit metrics have also remained healthy with low dependence on external debt. The gearing has remained healthy at 0.03x as on March 31, 2024, unchanged from March 31, 2023. The financial leverage has also remained low at 0.07x as on March 31, 2024, and March 31, 2023, and the interest coverage ratio although moderated in FY2024 to 24.2x in FY2024 as against 30.5x in FY2023, still remains healthy.

The ratings however are constrained by the modest scale of operations which remain around Rs. 158 crores in FY2024 and is expected to increase to around Rs. 180-200 crores in FY2025. The operations of the entity also remain working capital-intensive owing to the long payment cycles under the tenders. Since a major part of the payments are made post the commissioning of the project and testing, a significant lag exists between supply and receipt of the complete payments. The ratings are also constrained by the exposure of the entity's earnings to foreign exchange fluctuations as it imports a major portion of its raw material and does not hedge its forex exposures. Since the company's contracts are fixed price in nature, it will not be able to pass on the variation in fluctuations in the raw material price or foreign exchange fluctuations. The ratings are also exposed to the risks associated with a proprietorship because of the potentials of the capital withdrawal and its impact on the net-worth. In case of the entity, despite healthy profitability, the overall net-worth has remained modest growing to Rs. 95.4 crore as on March 31, 2024, from Rs. 57.4 crore as on March 31, 2020, owing to capital withdrawals.

The stable outlook on the ratings for the entity reflects ICRA's expectation that the continued healthy demand for entity's products driven by particularly by the capex cycle underway for the Indian Railways and Power transmission sector will support the revenues and cash generation for the entity healthy and keep the credit profile stable.

Key rating drivers and their description

Credit strengths

Long and established track record in the industry: The entity has been an OEM and solution provider for industrial automation requirements for about 29 years now. The entity has catered to established companies across major verticals like Power, Railways and Oil & Gas both government and private. Over the years the entity has developed technology intensive software and hardware. The entity is also working on two of its new additions MSDAC (Multi Section Digital Axle Counter) and ADMS (Advanced Distribution management System) which would cater to the demand of Indian Railways and power sector respectively. This is expected to improve the overall scale of operations of the entity.

Reputed customer base; moderately concentrated order book: The entity majorly caters to Power, Railways and Oil and Gas sectors of which railways dominates the sales mix. While the company has an extensive customer base, Indian railways drives in a significant portion of tenders which has however, moderated over the years. The current orderbook of the entity comprises of about 41% of orders each from railways and Power sector and the remaining 18% of the orders are through metro, oil & gas and others which moderately concentrates the orderbook.

Healthy profitability margins and credit profile: The entity has had a competitive pricing advantage due to its technological intensive operations which has supported the healthy profitability margins over the years. The OPM stood in the range of 40-45% over FY2019-21, however, post covid, the price of key input have gone up which it has not been able to pass on to the customers and thus the operating margins have moderated to around 29% in FY2024. The credit metrics have also remained healthy with low dependence on external debt. The gearing has remained healthy at 0.03x as on March 31, 2024 unchanged from March 31, 2023. The financial leverage has also remained low at 0.07x as on March 31, 2024 and March 31, 2023 and the interest coverage ratio although moderated in FY2024 to 24.2x in FY2024 as against 30.5x in FY2023, still remains healthy.

Credit challenges

Modest scale of operations: SSS's scale of operations remains modest at around Rs. 157.5 crores in FY2024. The company is a relatively smaller player in an industry dominated by larger players like Siemens, Hitachi, General Electric etc. The scale of operations although has witnessed healthy improvement, growing by a CAGR of 11% since FY2021, the overall scale remains modest. Going forward with healthy order book position and a positive demand outlook for company's products from key consuming industries, the scale of operations is expected to grow further.

Working capital intensive operations: Due to the nature of business, the entity has a high level of debtors as major part of the revenue is booked in third and fourth quarters which is realized thereafter. Part of the entity's revenue is realized after the trial run of the project which contributes to higher debtors; however, the entity receives a healthy credit period from its suppliers which supports the working capital cycle to some extent.

Exposure to foreign exchange fluctuation risks as company imports a major part of its raw material: The entity largely imports a major part of its raw material which is evident in the imports data trend provided by the entity below. It does not have any hedging policy in place which exposes it to forex fluctuation risk. Since the company's contracts are fixed price in nature, it will not be able to pass on the variation in fluctuations in the raw material price or foreign exchange fluctuations, the exposure of the entity's earnings to foreign exchange fluctuations as it imports a major portion of its raw material is given below.

Inherent risks of a proprietorship firm because of capital withdrawals and potential impact on net worth: Since this entity is a proprietorship, there have been regular capital outflows and inflows as mentioned in the table below. The table below depicts the net outflows, however, there have been some inflows as well to keep the cash flowing in the entity to support its operations. The proprietor of the entity does not have any other business and infuses cash as when required keeping the overall liquidity of the entity in check which supports the overall credit profile of the entity. However, this also exposes the entity to a certain risks as high capital withdrawals can have potential impact on the credit profile of the entity. In case of the entity, despite healthy profitability, the overall net worth has remained modest standing at Rs. 95.4 crore as on March 31, 2024, from Rs. 57.4 crore as on March 31, 2020, owing to capital withdrawals.

Liquidity position: Adequate

SSS's liquidity position is adequate supported by the healthy cash flow from operations, Rs. 1.7 crore of free cash and bank balances at the end of FY2024 and largely unutilized fund-based limits. The company has minimal debt repayments while the capex to be incurred is to be funded using internal accruals. While the promoters have been withdrawing capital in the past, the same has not impacted the liquidity position of the company.

Rating sensitivities

Positive factors – The rating could be upgraded in case of significant scale up in the revenues and profits of the company, while maintaining healthy credit and liquidity profile along with strengthening of the net worth.

Negative factors – The ratings may be downgraded in a scenario of material moderation in the scale of operations and profits. Higher than the expected capital withdrawal and/or a stretch in the working capital cycle resulting in moderation in the liquidity and credit profile may also lead to a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SSS.

About the company

Synergy System & Solutions is a sole proprietorship concern with Mr. Vidhu Aggarwal being the proprietor. The firm is engaged in the business of designing, developing and manufacturing industrial automation solutions, and executing turnkey projects. The firm was established in 1994 and has more than 20 years of experience in providing turnkey solutions to the automation needs of its customers. Synergy also holds intellectual property rights with respect to its supervisory control and data acquisition systems.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	138.5	157.5
PAT	34.1	41.8
OPBDIT/OI	26.0%	28.5%
PAT/OI	24.6%	26.5%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	0.06	0.07
Interest coverage (times)	30.5	23.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
			Oct 21, 2024	Aug 23, 2023	Jun 23, 2022	Apr 29, 2021	
1 Cash Credit	Long term	28.0	[ICRA]BBB-(Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	
2 Term loan	Long Term	0.02	[ICRA]BBB-(Stable)	-	-	-	
4 Non-Fund-Based-Others	Long Term/Short Term	70.0	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-	
3 Non-Fund-Based-Others	Short Term	-	-	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4; ISSUER NOT COOPERATING	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term-Fund-Based-Cash Credit	Simple
Long Term- Fund based-Term loan	Simple
Long Term/Short-Term-Non-Fund-Based-Others	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	28.0	[ICRA]BBB- (Stable)
NA	Term loan	FY2024	NA	FY2029	0.02	[ICRA]BBB- (Stable)
NA	Non-Fund-Based-Others	NA	NA	NA	70.0	[ICRA]BBB- (Stable)/[ICRA]A3

Source: Company,

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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