January 31, 2025

SGS Tekniks Manufacturing Pvt Ltd: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
LT/ST – Fund-based/Non-fund based	140.00	140.00	[ICRA]AA-(Stable)/ [ICRA]A1+; reaffirmed
LT – Non-fund based - Interchangeable	(40.00)	(40.00)	[ICRA]AA-(Stable); reaffirmed
Total	**140.00**	**140.00**	

**Instrument details are provided in Annexure I*

Rationale

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

The reaffirmation of ratings factors in the large scale of the Group, which as per ICRA's expectation, is likely to register a significant increase in FY2025 (with H1 FY2025 reporting 52% growth on YoY basis), on account of the strong demand for various electronic products from the end-user industries and sound execution levels. The consolidated operating margins, however, declined to ~6.5% in FY2024 from ~9.4% in FY2023 on account of low margin telecom business at SSTL, high fixed overheads, merger expenses and delay in receipt of Production Linked Incentives (PLI) benefits. This resulted in significant moderation in the Group's operating profit and subsequent impact on coverage metrics in FY2024. Nevertheless, the Group is likely to post a recovery in margins in the current fiscal on account of stabilisation of the new telecom business and expectation of partial receipt of PLI benefits. The Group reported an outstanding order book position of Rs. 4,800 crore as of September 2024, which along with the favourable demand outlook provides healthy revenue visibility in the near to medium term. The debt coverage indicators, which were impacted in FY2024 due to lower-than-expected profitability, is likely to recover in the current fiscal with improvement in profitability and some moderation in working capital intensity. Despite a higher working capital intensity, the liquidity position remains strong with cash and equivalents of close to Rs. 421.7 crore as of September 2024 and sufficient cushion available in fund-based limits. The company raised Rs. 840 crore in IPO in FY2023. The proceeds from the same are in the process of utilisation for the new capacity addition, which is expected to support growth in earnings, going forward. The ratings 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. ICRA notes that the company is in the process of amalgamating STMPL within SSTL.

The long-term ratings are, however, constrained by the relatively low entry barriers in the industry in terms of investments and the company`s exposure 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 nearly 50% of the total sales in FY2024. The ratings consider its working capital-intensive operations with an elongated receivable cycle for debtors and inventory requirements. Moreover, the Group's profitability remains exposed to fluctuations in raw material prices as well as foreign exchange rates.

The Stable outlook reflects ICRA's belief that the Group will be able to maintain its healthy liquidity profile and its revenues will be supported by its strong order book position amid favourable demand outlook for electronic products. Further, the Group would fund its working capital requirement and capex in a manner that its credit metrics would remain commensurate with the rating levels.

Key rating drivers and their description

Credit strengths

Large scale of operations – The Group's revenues grew significantly to ~Rs. 3,155 crore in FY2024, registering a sharp annual growth of ~54%, majorly driven by delivery of large orders, especially for the newly added business and customers. Its revenue is projected to increase by ~30-35% in FY2025, 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.

Presence across diversified product profile catering to diverse end-user industries – The Group is catering to a diverse user industry within the EMS business segment, ranging from automobile, consumer, healthcare, and industrial, having a varied product profile customised to meet the needs of diverse clients.

Comfortable financial risk profile with healthy liquidity position – Despite moderate profitability, the Group's capital structure remains healthy with a gearing of less than ~0.5 times in FY2024 on account of a strong net worth position. The debt coverage indicators, such as DSCR, remained healthy at 4.5 times in FY2024 due to low repayment obligations. Further, the liquidity position remains strong, given the healthy cash balances and liquid investments of close to Rs. 421.7 crore as on September 30, 2024 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 resulted in generation of substantial repeat business, aiding in its revenue growth. The Group's track record has helped it acquire new clients over the years.

Credit challenges

Exposed to fluctuations in raw material prices, high working capital requirements – The Group's profitability remains exposed to fluctuations in raw material prices as well as foreign exchange rates. While 60-70% of the raw material requirement of the Group is imported, this is partly compensated by a natural hedge as 20-25% of its revenue comes from exports. The business remains working capital intensive, as witnessed by an elongated receivable cycle and high inventory requirements, which would remain a concern. However, the associated risks are partly mitigated by the Group's healthy liquidity.

Low entry barriers and risk of obsolescence associated with electronic industry – 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 clients 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 FY2024. This rendered the company vulnerable to the sourcing decisions of these entities. However, the long track record of repeat orders mitigates the same to an extent. Also, it has been adding new customers, which will reduce the concentration risk, going forward.

Liquidity position: Strong

The company's liquidity profile is strong as reflected in unencumbered cash of around Rs. 421.7 crore as on September 30, 2024 and cash accruals of more than Rs. 200 crore expected in the near term. The liquidity is further supported by unutilised working capital limits, providing additional cushion. The liquidity profile is likely 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 profitability, resulting in favourable returns and debt coverage indicators, while maintaining healthy liquidity.

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

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	NA.
Consolidation/Standalone	ICRA has taken the consolidated view of SGS Tekniks Manufacturing Pvt. Ltd. and Syrma SGS Technology Ltd., given the common management, strong business linkages and presence in similar industry. (details of companies considered for consolidation is mentioned in Annexure II).

About the company (SGS Tekniks Manufacturing Pvt Ltd)

SGS Tekniks Manufacturing Private Limited (SGS) was incorporated in 1986 and commenced operations in 1990. It undertakes electronic manufacturing services and primarily assembles PCBs for its clients. The company mounts either with the help of machines such as surface mount technology (SMT) or manually. It mounts components such as resistors, transistors, light emitting diodes (LEDs), capacitors, etc, on the PCBs.

About the Group (Syrma SGS Technonology Limited)

Syrma SGS, incorporated in 2005, undertakes electronic manufacturing services, box products and RFID tags. The Group has 11 manufacturing facilities across the country. The company was incorporated as 'Syrma Technology Private Limited' on August 23, 2004. Thereafter, following the acquisition of SGS Tekniks Manufacturing Private Limited, pursuant to a resolution passed by the shareholders in the extraordinary general meeting held on August 28, 2021, the company's name was changed from 'Syrma Technology Private Limited' to 'Syrma SGS Technology Private Limited'. Thereafter, it was converted from a private limited company to a public limited company, pursuant to a resolution passed in the extraordinary general meeting of the shareholders held on October 6, 2021, and the name was changed to Syrma SGS Technology Limited.

Key financial indicators (audited)

Syrma SGS Technology Limited (consolidated)	FY2023	FY2024	H1 FY2025*
Operating income	2,048.4	3,155.2	1,992.6
PAT	135.9	124.3	60.0
OPBDIT/OI	9.2%	6.5%	5.8%
PAT/OI	6.6%	3.9%	3.0%
Total outside liabilities/Tangible net worth (times)	0.6	1.2	1.3
Total debt/OPBDIT (times)	2.0	3.1	2.8
Interest coverage (times)	8.7	4.9	4.2

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Key financial indicators (audited)

SGS Tekniks Manufacturing Private Limited (Standalone)	FY2023	FY2024
Operating income	848.2	1,151.2
PAT	53.5	73.7
OPBDIT/OI	10.4%	10.6%
PAT/OI	6.3%	6.4%
Total outside liabilities/Tangible net worth (times)	0.7	0.6
Total debt/OPBDIT (times)	1.3	0.8
Interest coverage (times)	9.5	11.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years							
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Jan 31, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based/Non-fund based	Long-term/ Short-term	140.00	[ICRA]AA-(Stable) /[ICRA[A1+	-	-	Oct-27-2023	[ICRA]AA-(Stable) /[ICRA[A1+	Sept-29-2022	[ICRA]A+ (Stable)/ [ICRA]A1	-	-
Cash credit	Short-term	-	-	-	-	-	-	-	-	Jul-29-2021	[ICRA]A1
Term loans	Long-term	-	-	-	-	-	-	-	-	Jul-29-2021	[ICRA]A (Stable)
Non-fund based limits	Long-term	-	-	-	-	-	-	-	-	Jul-29-2021	[ICRA]A (Stable)
Unallocated – Long-term	Long-term	-	-	-	-	-	-	-	-	Jul-29-2021	[ICRA]A (Stable)
Non-fund based – Interchangeable	Long-term	(40.00)	[ICRA]AA-(Stable)	-	-	Oct-27-2023	[ICRA]AA-(Stable)	Sept-29-2022	[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 are available on ICRA's website: Click here

Annexure I: 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 based	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 (rated entity)	100%	Full Consolidation
Perfect ID India Private Limited	100%	Full Consolidation
Johari Digital Healthcare Limited	51%	Full Consolidation
Syrma SGS Electronics Pvt Ltd*	100%	Full Consolidation
Syrma SGS Design & Manufacturing Private Limited*	100%	Full Consolidation
Syrma SGS Engineering and Technology Services Limited*	100%	Full Consolidation
Syrma Semicon Private Limited	100%	Full Consolidation
Syrma Strategic Electronics Private Limited	100%	Full Consolidation
Syrma Mobility Private Limited	100%	Full Consolidation
Syrma Technology, Inc, USA	100%	Full Consolidation

**Yet to commence operations*

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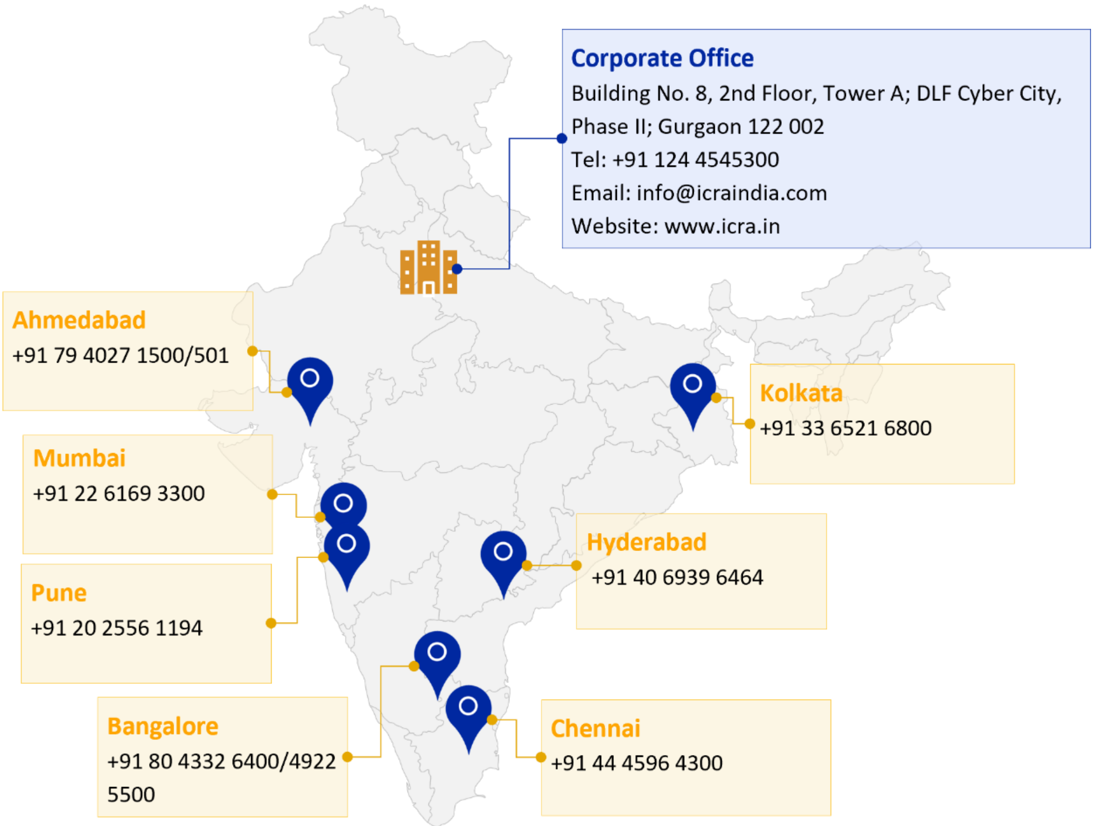

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