

Date: August 10, 2024

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: Earnings Call transcript of the Investors Conference Call held for the Unaudited Financial Results (Consolidated and Standalone) of the Company for the quarter ended June 30, 2024.

Dear Sir/ Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the Transcript in respect to the Earning Conference Call on the Unaudited financial results (Consolidated and Standalone) of the Company for the quarter ended June 30, 2024, held on Tuesday, August 6, 2024, at 10:30 AM (IST).

The transcript of the conference call will also be accessed at the website of the Company at <https://www.syrmasgs.com/investor-relations>.

We request you to take the same on your record.

For **Syrma SGS Technology Limited**

Komal Malik

Company Secretary & Compliance Officer

Membership No: F6430

Place: Gurgaon



“Syrma SGS Technology Limited
Q1 FY '25 Earnings Conference Call”

August 06, 2024



MANAGEMENT: **MR. J. S. GUJRAL – MANAGING DIRECTOR – SYRMA
SGS TECHNOLOGY LIMITED**
**MR. JAYESH DOSHI – DIRECTOR – SYRMA SGS
TECHNOLOGY LIMITED**
**MR. SATENDRA SINGH – CHIEF EXECUTIVE OFFICER –
SYRMA SGS TECHNOLOGY LIMITED**
**MR. BIJAY AGRAWAL – CHIEF FINANCIAL OFFICER –
SYRMA SGS TECHNOLOGY LIMITED**
**MR. NIKHIL GUPTA – HEAD, INVESTOR RELATIONS –
SYRMA SGS TECHNOLOGY LIMITED**

MODERATOR: **MR. ANIRUDDHA JOSHI – ICICI SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Syрма SGS Technology Limited Q1 FY25 Earnings Conference Call and hosted by ICICI Securities Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities Limited. Thank you and over to you, sir.

Aniruddha Joshi: Yes, thanks, Neha. On behalf of ICICI Securities, we welcome you all to Q1 FY25 Results Conference Call of Syрма SGS Technology Limited. We have with us today Senior Management from the company.

Now I hand over the call to Mr. Nikhil Gupta, Head of Investor Relations, to introduce the management and take the call proceedings further. Thanks and over to you, Nikhil.

Nikhil Gupta: Yes, thank you, Aniruddha. Hi, very good morning to all. Welcome to Syрма SGS Q1 FY25 Earnings Call. We have with us today Mr. J.S. Gujral, Managing Director, Mr. Jayesh Doshi, Director; Mr. Satendra Singh, Chief Executive Officer, and Mr. Bijay Agrawal, Chief Financial Officer, Syрма SGS to discuss the performance of the company during the first quarter of FY25, followed by a detailed question-and-answer session.

During this call, certain statements that will be made are forward-looking, which involves server risks, uncertainty assumptions and other factors that can cause results differed materially from those in such forward-looking statements. Request is to kindly refer the disclaimer statements as presented in the earnings release for the same.

With this, I now hand over the call to Mr. J.S Gujral, Managing Director, Syрма SGS. Over to you.

J.S. Gujral: Ladies and gentlemen, a very warm welcome to the Q1 FY25 Earnings Call of Syрма SGS Technology Limited. We have had a good quarter, Q1 of FY25, maintaining the growth tempo of the last year, we are happy to share that our sales grew by 92% year-on-year and for the second quarter in succession, we have crossed the INR1,000 crores sales mark.

EBITDA for Q1 grew by 26% to INR54 crores. The first quarter saw subdued export sales, which stood at 16% of the total revenue from operations. We expect and are confident that the exports will pick up in the coming nine months and we would be seeing a 20% growth in the export sales. During the quarter, as explained in the earlier calls, we have achieved a gliding down of working capital to 62 days from the 70 days of last year.

During the quarter, we generated positive operating cash flows. The order book as of 30th June 2024 stood at a healthy INR4,500 plus crores and the order intake during this quarter was approximately INR1,200 crores. All our planned expansions are on schedule, and we expect our Medtech design Centre to go on stream later part of this month and our Pune campus to go on stream in Q3 of this year.

Now, doubling on the business front, the order intake is healthy, and we have received significant orders in smart metering. And in this year, we expect the smart metering business to contribute INR200 plus crores to our revenue. We have also received a sizable contract for design of medical devices from a global company, which would result in MedTech devices business going up in the coming years.

The HVAC segment also continues to see strong traction with onboarding of a new multinational German client, where we have got the green go ahead for doing the sample series. We have on-boarded significant customers in auto segment and added new products in the auto vertical and this would continue to be one of the mainstays of the business of the company.

Now, I hand over to Bijay Agrawal to dwell on the financials in detail.

Bijay Agrawal:

Hi, good morning everyone. I will now quickly take you through our brief financial performance for the quarter Q1 FY25. Our consolidated total revenue for the quarter is INR1175 crores, up by 89% year on year and primarily the growth has been contributed by strong demand growth in the auto sector and the consumer segment. Consumer segment mainly led by high volume telecom business contributed 53% of my total operating revenue for the quarter.

Our export revenue for the quarter is about INR180 odd crores, which is 16% of my total operating revenue. And same way, ODM revenue for the quarter is about 10% of the total revenue for the quarter. Our gross margin for the quarter is 16%, as against 18% last quarter, mainly on account of business mix change wherein the consumer business contributed higher on the mix side by about 53%.

Our operating EBITDA for the quarter is INR53.8 crores, which is 4.6% as operating EBITDA margin. PBT for the quarter is INR29.5 crores and PAT for the quarter is INR20 crores, which is 1.7% of my total revenue. During the quarter, we have also received a Telecom PLI claim related to FY'23, which we have already accounted for on a net basis, which is approximately INR4 crores of benefit, and we are expecting another INR15-16 crores on a net basis during this financial year, which is related to FY'24 claim.

Moving to working capital, with consistent focus on the working capital efficiency, we have been able to reduce our working capital investment from 70 days last quarter to 62 days in this quarter. There is a saving of about 8 days, and we still are focused to continue to further reduce it going forward during this year.

Coming to our debt and treasury position, our total debt outstanding as of 30 June 2024 is about INR610 odd crores and we have a total treasury investment with us is about INR490 crores, which gives me a total net debt position of about INR120 crores as on quarter end, which is almost INR55 crores lower or maybe a reduction in the net debt from my last quarter position.

This treasury balance also includes my unspent IPO proceeds of INR150 odd crores. Coming to capex, we have spent almost INR70-75 crores during this quarter, and we are expecting to spend another INR50-70 crores during this financial year. All these capex as our MD has already explained is going towards newly commissioning or under commissioning facilities in

Pune and Stuttgart, Germany. Our ROCE for the quarter is 11% if we exclude the unutilized IPO proceeds and goodwill from the capital employed.

Our open order book position is almost INR4500 crores as on June end and which comprises almost 23-25% from auto segment, near about 38-40% from consumer segment, 22-25% from industrial segment, about 6-7% from healthcare and balance from IT and railways business.

Another update regarding merger of our subsidiaries, SGS Tekniks and SGS Infosystems into parent entity Syrma SGS, we have already received an order from NCLP for first motion and next steps are in process. We are expecting the merger to be concluded in another 6-9 months. We are confident to continue similar growth of 40-45% in the revenue and operating EBITDA delivery as guided previously also for about INR310-325 crores for the full year. We continue to focus further on the reduction of working capital, improving free cash flows for the full year and reduction in the net debt position for the company.

With this, thank you very much. Now, I will hand over this call to Neha and Anirudh to open the forum for the questions and answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question we have is from the line of Deepak Krishnan from Kotak Institutional Equity. Please go ahead.

Deepak Krishnan: I just wanted to understand the margins because if we remove the FX and the PLI benefit, then on an effective basis, the margins come to about 3.6% for the quarter. We are guiding to about 7% for the full year. Obviously, we understand there will be some impact of Johari that will add up. But are you confident of 8% plus operating margins for the second half of the year or the remaining part of the year to get us to 7%? And what kind of gives us the confidence that this will flow through in terms of numbers?

J.S. Gujral: You see, the margin is 4.6% and not 3.6% because PLI is part of the business. The very fact that we have taken the consumer business is because of the PLI. So, PLI is an integral part of the business and hence we include it in our business profitability and the guidance.

Similarly, the forex exchange fluctuations are related to the purchase and sale and purely operational in nature. They are not related to the treasury incomes. Hence, we stand at 4.6% of the EBITDA margin in the current quarter. Going forward, based on the orders in hand which Bijay has just shared, the composition of the orders in hand and the sales mix, put together we are confident of achieving the earlier guided figure of INR315 crores, INR310 crores to INR320 crores of EBITDA. These may translate into 7.1 or 6.9 margin. That's the only thing. But we are confident of achieving that figure and a growth rate of 40%-45% over the FY '24 period.

Deepak Krishnan: Sure. Just a follow-up on revenue, given that we are indicating 45% at the top end, would imply that this quarterly run rate continues for the next three quarters plus. Does that mean that deceleration in consumer business is partially offset by increase in healthcare? Does the consumer revenue flatten out or slightly decrease from these levels for the coming quarters?

J.S. Gujral: See, in the first quarter, the consumer business accounted for 53% of my revenue against the

guided figure of 40% for the full year. This logically implies that we are expecting, and we are seeing the softening of the consumer business in the coming quarters. It has been front-loaded in Q1.

Now, if we have to achieve the budgeted sales, we have the order pipeline for high-margin, low-volume business which is in the automotive, Medtech, industrial and healthcare. So, that would be the thing. The softening of the consumer will be offset by increase in exports, increase in industrial and so on.

Automotive accounts for only 16% of my revenue in Q1. We are targeting about a 20%-25% approximately automotive segment to contribute to our business. So, this quarterly play, as I have always been saying, we are focused on the annual figures and the long-term. Quarter variations will continue to happen. Sometimes, it will be a positive variation. Sometimes, it will be a negative variation. And in the coming nine months, we see a positive play in that direction.

Deepak Krishnan:

Sure, sir. Maybe just one last question on order inflow. So, this particular quarter, Q1-Q2, the order book is relatively flat, even though we have won large orders in smart metering and medical. But how are you in terms of order inflow guidance for the full year? Do you have any sort of range of where do you think order inflow or order book will reach by the end of the year?

J.S. Gujral:

See, order inflow continues to be strong. And in the last quarter, we had an order inflow of approximately INR1200 crores. It was INR800-odd crores in Q4 of last year. So, we expect the order pipeline to continue to grow. And as we progress in the years, this number of INR1200 crores quarterly intake will only go up.

Moderator:

Thank you. The next question is from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare:

Good morning, gentlemen, and thanks for the opportunity. Sir, your consumer business, like you said, was front-loaded in this particular quarter. But that 40% contribution that you're talking about, do you think that is a more sustainable contribution to balance the profitability? Is that how one should look at this company?

J.S. Gujral:

See, we are expecting consumers to constitute about 40% of the sales based on the order pipeline which we have got. Ideally, we would love this consumer business to come down to 35%, or even lower. But based on the order pipeline which we have, we should expect around 40% of consumer business in the current financial year. And the guided figures which we had shared earlier factored in a 40% consumer business, 60% non-consumer business. Okay.

Rahul Gajare:

Sir, and you did also indicate an uptick expected in the healthcare business based on some new orders. I just wanted to understand what particularly happened in this particular quarter, given that, sequentially, that business is halved in the healthcare business. I just want to understand what is happening on the healthcare front also? Thank you.

J.S. Gujral:

See, healthcare business for us consists of two segments. One is the RFID healthcare business;

one is the EMS and the Medtech devices business. The Medtech devices business has been soft in the Q1. And it was not there in Q1 of last year because the company was acquired somewhere in September of 2023. As you see in terms of percentages, the healthcare business is going up. But we expect significant contribution from the Medtech devices business in the coming quarters.

And typically, it is a low first quarter, a higher second quarter, a still higher third quarter and a highest fourth quarter. That's the normal trajectory of the medical devices business. And we expect this year, the healthcare business including RFID, including EMS, including Medtech devices to be the tune of about 350 plus crores, 350-360 crores.

Rahul Gajare: Okay. So, my last question, you know, we've done about 4.5-odd percent in this particular quarter. And you're pretty much sticking to your guidance for the full year. So we are basically looking at about 8% plus in the balance nine months. You think based on the order book composition and the execution that is lined up, you think that kind of margin is something which you can easily achieve?

J.S. Gujral: Well, it can be achieved, and we are confident of achieving it. Easily or not, I would not comment on that.

Rahul Gajare: Okay.

J.S. Gujral: Yes, based on the order pipeline and the operational efficiency. For example, if we see this particular quarter, Q1, we have had almost like a 4% operational efficiency, 4.7% operational efficiency in overheads. But this was partly or a significant offset completely because of the change of the product mix. But once the product mix gets back to normal, this operational efficiency will also help us in achieving the guided figures of margin.

Moderator: Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies. Please go ahead.

Sonali Salgaonkar: Sir, thank you for the opportunity. Sir, my first question is regarding the order book for INR4500 crores as of now and also the order intake of INR1200 crores during this quarter. Could we get an approximate segmental split of both these numbers just to gauge which segment is currently higher in the order book?

J.S. Gujral: I'll request Bijay to take this because he has all the details with him.

Bijay Agrawal: Sure. Of the current order book, I've already given a breakup of that thing. It's like about 23% to 25% is there from auto segment and about 38% to 40% from my consumer segment and again 22% to 25% from industrial segment. About 6% to 7% from healthcare and balance is IT and railway. And order intake for the quarter is about INR1,200. And if you see this intake mainly is increasing on the auto and industrial segment here apart from the consumer one.

Sonali Salgavkar: Understood. That's very helpful. So secondly about the exports, you did mention about some weakness in Q1 and your confidence of ramping it up over the next few quarters. Could you throw some light as to what gives us the confidence that exports can ramp up? And secondly

we are targeting 20% full year growth or 30% because I think last quarter we did mention 30%?

J.S. Gujral: What we had mentioned last quarter also that in Q1 we were seeing some slowdown in exports, it was planned by the customer, it was nothing as a surprise. The uptake has already started from this month which is August. We grew exports last year at about 26% and they stood at about USD100 million or INR800 crores. We expect the exports to touch 1,000 plus crore this year. So 20% to 25% growth in the exports would happen on an annualized basis. Quarter-on-quarter it would see an increasing trend.

16% was the composition of the exports in my total revenue which we had shared that the long-term mission or objective of the management is to have a third of our revenues coming in from exports on a long-term basis. It may not happen this year. This year we may be around 22% to 25% of my total revenue coming in from the exports. 1,000 plus crore that is the export figure which we targeted and that's what we shared last time 800 plus crore 25% plus or something more.

Sonali Salgavkar: Understood, sir. Very clear. So my third question is about IT hardware PLI. We have been a recipient of that. So any updates as to from when we can start the production, and have we inked any packed with any of the leading customers on that front?

J.S. Gujral: We have not as yet tied up with any major player for IT. I'll request Satendra because he's spearheading this to answer on the IT part. But as of date we have not tied up with, there's no concrete tie up with any player.

Satendra Singh: Thank you, Gujralji. And a quick comment on this. So like Gujralji mentioned we don't have a tie up with a large player, but we are working as of now with one ODM and we've got the order with them. So we will start to see some IT revenue kicking in which is relevant to the PLI next quarter.

Another quick comment on the exports. I think exports as Gujralji mentioned there was a known softness in the business with an existing customer and then we have a ramp up of a customer which is going to start from next quarter onwards. So that's a new business which will ramp up.

Sonali Salgavkar: Understood. Sir, just my last question. What's our average capacity utilization right now?

J.S. Gujral: For the Q1 my average capacity utilization was again sub 70% on an average closer to 60-65 on an average.

Sonali Salgavkar: Got it sir. Very helpful. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Vipraw Srivastava from Incred Capital. Please go ahead.

Vipraw Srivastava: Just two questions. So first on the smart metering part, I just want to understand that what kind of margin profile does smart metering order carry? I mean, is it with the current margins or

higher than the current margins?

J.S. Gujral: See the smart metering business in India would typically have the profile of an industrial product which is a domestic-based business. The export business on the utility metering would have slightly higher margins.

Vipraw Srivastava: Okay so by that you mean around 7%, 8% margins?

J.S. Gujral: Are you talking about the gross material margins?

Vipraw Srivastava: In terms of gross margins, how much was it 20%?

J.S. Gujral: Yes approximately.

Vipraw Srivastava: Okay, thank you. Second question sir regarding the forex part. So I mean if you're taking forex as a part of your operating income then are you betting that forex will always be in your favour? I mean, let's say in the second quarter forex goes against you then is there a probability that you might miss your guidance?

J.S. Gujral: At the end of the day these foreign exchange variations are part of the operational income. If it goes negative we have contracts with the customers to have a pass-through. So the only point which I was trying to make is that it is related purely to the purchase and sale of materials. It's not related to trading. So you can factor it into the cost of the material or the sale value either way.

Vipraw Srivastava: Okay, fair point. Sir last question so sir there's an order with the export part which you're talking about ramping up there. The international environment currently is still not favourable, and the demand has still not come in the US. So you're still confident right that the export will start picking up from next quarter?

J.S. Gujral: Yes, absolutely. You see as Satendra just mentioned it was a known softness for existing customers in Q1 and uptake from Q2 and going back to the original figures and the growth in Q3 and Q4. Plus the new customers which we have onboarded we have just done the sampling and the prototyping. They would see the series production, the volume production starting in from later part of Q2 running into Q3 and Q4.

Hence, we are confident that we would cross the INR1000 crores export sales figure this year up from INR800 last year. So whether we end at INR1100 crores, INR1050 crores I think that's guidance we can share during the course of the second quarter or the third quarter, but we're very confident we'll cross the INR1000 crores mark.

Vipraw Srivastava: Okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Ashutosh Parashar from Mirabilis Investment Trust. Please go ahead.

Ashutosh Parashar: Sir I was trying to calculate the order intake for this quarter for the consumer segment and I could be off by some margin, but it does seem that of the INR1200 crores order intake, roughly

about INR500 crores is from the consumer segment. While this number was a bit lower in the previous quarter and I also understand that the execution pace for consumer has increased, but on the other hand it seems that the incremental order still carries a large portion of the consumer segment. So I wanted to understand the nature of these orders and by nature I mean the margins of the incremental consumer orders?

J.S. Gujral: So, I think Bijay has already answered. I'll request him to clarify once more.

Bijay Agrawal: So on the order intake side if you see the order intake during the quarter we have received another INR1,200 crores of order. And if we analyse the order intake about INR400 crores out of it is related to auto segment. Similarly, another INR400 crores which is towards consumer segment, about INR130 odd crores is from healthcare, another INR360 from industrial and the rest is Railways and IT.

Coming to your question of consumer here, we can see in this quarter, quarter one we have delivered about INR600 crores plus of consumer business, but the order intake in this quarter is only INR400 crores and that is where we were saying there is a softness in the overall consumer segment which is where we are saying in the full year this number will be around 38% to 40% of my total thing. And if we say margins accordingly, so margins for the full year we have already guided. Based on this mix, this overall margins will be delivered.

Ashutosh Parashar: Right sir. But specifically for this INR400 crores order intake I mean for the INR500, INR600 crores that we executed, large part was the FTTH orders. So does this incremental INR400 also constitute the FTTH orders or is it something else broadly I mean just in terms of mix size, if you can get some context?

J.S. Gujral: What Bijay is referring to is the consumer business, which is the high volume, low margin business, which was around INR600 crores plus in Q1. The intake of orders of the same nature is around INR400 crores. Consumer, which also include ODM, my own design, which has a higher margin, we don't consider it in this discussion. Though it forms part of the consumer, but specifically referring to the low margin, high volume business of consumer, the order intake is approximately INR400 crores in this quarter.

Ashutosh Prasad: And broadly, what would that margin be, about 2%-3% or a lower number?

J.S. Gujral: Well, the gross material margins are approximately 8%-9%, so it translates into the same figure what you are referring to.

Ashutosh Prasad: Got it. And the INR310-INR315 crores EBITDA guidance that we are providing, does that include the INR17-INR18 crores PLI incentive or is it excluding that?

J.S. Gujral: PLI is an integral part of the business and as I had guided in my earlier commentaries, earlier interactions, we are guiding for an operating EBITDA of about INR310-INR320 crores, which is all-inclusive.

Ashutosh Prasad: And PLI portion would be about INR18-INR20 crores in this?

- J.S. Gujral:** Yes, that's part of the business. Otherwise, without the PLI, the business will not make sense.
- Ashutosh Prasad:** Sure, sure. Great, sir. That's all from my side.
- Moderator:** Thank you. The next question is from the line of Manikantha Garre, from Franklin, Templeton, India. Please go ahead.
- Manikantha Garre:** Good morning, sir. Thank you for providing me this opportunity. Sir, the first question which I have is on the consumer business. This quarter, it was 53% of the total revenues and for the full year, you are expecting that to average at 40%. Out of the 53% in Q1, you said 40% is telecom. What would be the corresponding number for the full year, 40% expectation that you have?
- J.S. Gujral:** On the guidance of annual revenues, the 40% would translate into around INR1,800 crores.
- Manikantha Garre:** But of that, how much would be telecoms? It was 40% out of 53% of the total revenues in Q1. So what would that number be for the full year as per the order book visibility that you have got?
- Bijay Agrawal:** In Q1, consumer business is 53% and 40% is what we are targeting for the full year consumer business. It is not 40% out of 53%. So that's what we want to clarify here. And that 40% for the full year would be somewhere around INR1,800 crores of total business on the consumer side for the full year.
- Manikantha Garre:** Right. Okay. And, sir, just wanted to also understand on this telecom piece of the consumer business, how much of the products would have been towards 5G network-related products and how much would have been towards FTTH-related products? The composition of these two products of the telecom business, could you share that detail?
- J.S. Gujral:** Well, these are fibre-to-home products. And 5G is just to be rolled out. 5G on a pan-India basis is just to be rolled out. So these are fibre-to-home products, whether they are the Wi-Fi mesh, outdoor units, indoor units for connectivity. So I wouldn't be able to share the break-up between 5G and non-5G as of date.
- Manikantha Garre:** Sure. Can you at least give some understanding about whether the 5G exposure is meaningful or negligible as on today?
- J.S. Gujral:** Sorry, I couldn't get the question.
- Manikantha Garre:** Can you at least share if this 5G exposure is meaningful or it's not meaningful as on today?
- Bijay Agrawal:** We are saying this is a telecom business which we are referring. Telecom business is broadly a sizable business out of this. Somewhere around 1,500 crores is what we are expecting out of this telecom business. And balance 300 is something that we are saying that will be other non-telecom consumer business.
- Manikantha Garre:** Okay. So within telecom, predominantly FTTH is what you are saying. Is that the right understanding?

- Management:** That's right.
- Manikantha Garre:** Okay. Thank you, sir.
- Moderator:** Thank you. The next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.
- Keyur Pandya:** Thank you. Two questions. First, on the working capital reduction. So if you can just throw some light on, is it because of the change in mix? So, overall working capital days of around 90-95 days on full year basis last year. How each of the segments are different in terms of working capital?
- Bijay Agrawal:** Yes, you are right. Consumer business being a high-volume business demands or maybe requires a lesser number of working capital days. And as my consumer business was almost 50% plus, so my overall working capital days requirement was lesser for this business. That's right.
- And all other businesses also. Because of our continued focus and maybe I can say we have worked upon the inventory thing. So overall inventory days have also been reduced. So out of this total eight days, yes, primarily I would say this is being driven by high consumer business also and savings on the other businesses, both put together.
- Keyur Pandya:** If I look at the company level working capital intensity, how different each of these or at least key segments would be, say industrial, consumer, auto, from say company level working capital days. So I just want to understand that as the mix changes, I mean, or as the share of consumer goes up and whichever way it moves, how should we think about working capital days at the company level?
- J.S. Gujral:** Okay, see the working capital intensity is very clear. The low margin business have a low working capital intensity, net working capital. And as you go up, the working capital intensity becomes normal. Having said that, as we scale up and the client profiles change, we have bigger clients in our portfolio. The pressure on working capital goes down. Servicing 100 crores with 10 clients and servicing 100 crores one client, it is a different ballgame.
- And the working capital intensity is significantly lower when we are servicing bigger clients rather than smaller clients. So hence, the guidance which we have given that we would like the net working capital to be around 60 odd days is based on the mix. And we are very confident that it is there at the year-end also.
- Keyur Pandya:** So just one follow-up. So 60 odd days of working capital is a foreseeable future. And if I just calculate the trading 12-month fixed asset turn, that would be around 4.5 years. So that is what we should take in the near future or medium future and going for next one or two years for the fixed asset turn as well.
- J.S. Gujral:** Asset turn? I think it should be 4.5 to 5 going up. The objective is to have it 5+. But on a conservative basis, it could be anything between 4.5 to 5.

- Keyur Pandya:** Understood. We will get back in detail. Thank you. All the best.
- Moderator:** Thank you. The next question is from the line of Aditya Bharti from Investec. Please go ahead.
- Aditya Bharti:** Hi, good morning, sir. Sir, if we just compare this quarter's margins with last quarter, which is the preceding quarter, post-quarter FY24, even in that quarter, we had a fairly high mix of consumer business. Margins even in that quarter themselves were disappointing. But from there on, margins have further slid down despite having a INR4 crores PLI benefit, which we didn't have in the fourth quarter. So what kind of explains that?
- J.S. Gujral:** In the fourth quarter, we had a very high healthcare business also. Again, we have to see the composite picture. In bits and pieces, it will throw up conflicting views. We had a very high healthcare component in our turnover and EBITDAs in the fourth quarter, which is not there in this quarter. And export business was much higher. The export business in Q1 is subdued. It's only 16%. Last year, it was about, I think, my export business was about 25%, 24% of my total revenue.
- Aditya Bharti:** Sure, sure.
- J.S. Gujral:** So it's about 25% of my revenue was export. This is down to 16%. Now, if you take it, it's almost a 33% reduction in my export as a percentage. Healthcare has come down. So a INR4 crores PLI is there, fair enough. But then there are other offsetting factors also.
- Bijay Agrawal:** And it is a quarterly seasonality. If we compare it from Q1 of last year also, we can see the seasonalities are there across every year. Q1 generally is lower on this healthcare side, export business side, and which gradually picks up from Q2 to Q4.
- Aditya Bharti:** Understood, sir. And just taking a slightly longer-term trajectory, I'm just trying to arrive at the profitability of consumer business. We used to deliver, let's say, around 9% EBITDA margins until FY '23. And even at that time, in FY '23, you had shared the gross margin profile. The consumer business used to be the lowest gross margin business, which means that others, by definition, were higher margins. But let's say that, for the sake of simplicity, we assume that every business was 9% margin.
- Non-consumer business continues to operate at 9% margin. That essentially means that our consumer business is not yielding any profits. So, what has really happened? Is the consumer business extremely low, almost negligible margin business, or are we seeing a reduction in margins across every vertical?
- J.S. Gujral:** See, the high-volume consumer business is a low-margin business. Rather, a comparatively lower-margin business, very low-margin business. The ODM part of my consumer business is a standard business, which gives me the standard margins. Now, if this high-volume business content as a percentage of my total sales goes up, the overall reduction is there.
- But we are not, and I'm sort of re-emphasizing, we are not seeing any contraction in margins per vertical. The auto vertical continues to work at the same margin, or marginal accretion. The healthcare, the industrial, the export, the ODM, the RFID, each of these verticals continues

to operate at the same margin. There is no contraction of margin in the verticals. It's the product mix which is creating this distortion in the margin profile.

Aditya Bharti: See, in that case, essentially we are saying that the consumer business ramp-up that we have seen could very well be almost a 0% margin business?

J.S. Gujral: I won't call it a 0% margin business, but it would be sub-4%, sub-3% margin business.

Aditya Bharti: Okay, sure, sir. Thanks.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from DAM Capital. Please go ahead.

Bhoomika Nair: Yes. So, the first question is on the JDHL performance for the quarter. If we can get, what was the revenues and the EBITDA PAT for that entity?

Bijay Agrawal: So, definitely due to quarterly seasonality, the revenues were maybe about INR10-11 crores, for the quarter, and similarly, the profitability was also very low. EBITDA profitability was about INR1 crores, about a INR1 crores there for this quarter.

Bhoomika Nair: Okay, got it. The second aspect is we spoke about, scale-up in terms of the auto as also exports and scale-down relatively versus first quarter on the consumer segment, and thereby margins actually improving to about 7%, 7.5% or closer to 8% for the balanced nine months. Now, in the first quarter, we've seen a strong reduction in terms of the net working capital days to 60 days.

Given that there will be scale-up in these segments of auto and exports, do we expect that, you know, net working capital days will actually come back to 70, 80 days as we saw at the end of FY '24?

Bijay Agrawal: Primarily speaking, the saving is based primarily from auto businesses also. We don't expect the working capital days to increase back to 70 days. Yes, we are seeing that growth in the auto industrial business, but we are very much clearly focused on this working capital efficiency.

We are even targeting it should be furthermore down from here from 62 days to less than 60 days towards the end of the year. Between that, in any quarter, it may slightly change quarter-on-quarter basis, but there may not be any significant change here.

J.S. Gujral: Yes, just to add on, with the plans in place where we said that the high-volume consumer business will be around 40% and remaining 60%, with this mix maintained, we believe, we are very confident that we will be able to maintain the working capital at lower levels than the 70, 75 days. It could be 60 days; it could be 62 days or 58 days. So, four days here and there, I am not discussing, but the trend is very clear. We don't expect to go back to the earlier level with this product mix.

Bhoomika Nair: Understood. And the third question is on terms of the, we spoke about exports scaling up and auto also being a key driver of new order inflows. If you can just talk about in terms of exports, which are the areas which are driving growth with geographies?

And in autos, again, you spoke about new products and new client additions. If we could get some more details in terms of the end customers and areas where we are seeing what kind of, volumes we are seeing there, etc., some more color on both these.

J.S. Gujral: Exports primarily are RFID, healthcare, industrial. Very little of automotive. Industrial would include power controls, industrial cleaning, utility metering, solar. And these are primarily focused at Europe and America. If I was to sort of have a breakup of Europe and America, it could be 40% approximately going off to EU part and about 50% to 55% to the U.S. part.

The whole basket, which stood at INR800 crores last year, we expect this to grow to INR1,000 crores to INR1,100 crores, which would be also driven by some of the new customers which we have added last year. As Satendra just explained, they would see series production starting Q2 to Q3 of this year.

Bhoomika Nair: Yes, sir. On auto, sir?

J.S. Gujral: Auto exports are very less. On domestic, we are well placed in both ICT and EV. And we are seeing strong traction with existing customers. We are adding on new product lines, and we are also onboarding new customers. We have onboarded three new customers, which would result in revenues coming in the Q3 of this year. Additional, incremental revenues kicking in in Q3 of this year, apart from the normal business of the existing automotive customers.

Bhoomika Nair: And what would be the mix between EV and ICE?

Bijay Agrawal: About 60%-odd by EV business and the rest 40% from ICE.

J.S. Gujral: And you see, the way you classify EV, if the lighting of the vehicle, I may classify it as a neutral thing. To me, it is not EV. To me, the EV is the one which goes on the engine. The battery management is the engine control. Any periphery, it doesn't make a difference whether it's ICT or EV.

Bhoomika Nair: Sure. Understood, sir. I'll come back in the question queue. Thank you.

Moderator: Thank you. The next question is from the line of Arafat Saiyed from InCred Research. Please go ahead.

Arafat Saiyed: Yes. Hi, sir. Thanks for taking my question. And congrats on strong sales growth. So, my first question is on the business model. Where do you see Syrma over the next few years?

Let's say, are you looking to follow the model of Dixon or Keynes, which has a 14% EBITDA margin? Although, let's say, in smart metering, the margin, let's say, Keynes enjoys almost 14 percent, while your skills have been for 4% to 5% margin. So, can you just elaborate on that?

J.S. Gujral: See, we'll follow neither the Dixon nor the Keynes. We'll follow the Syrma model. We have our own story. We have our own plans. We have our own strategy. So, we will not follow one or the other model. Business, which makes sense to us in terms of margin accretion, in terms of cash flows, in terms of losses, we'll work on. And we are very clear that we will be a design-led manufacturing company focusing on industrial, automotive, healthcare. Exports would be

one of our significant contributors to the revenue.

And last year, we were INR800 crores of exports, and I think perhaps among the largest exporter of electronics other than mobile phones in the space. So, our strategy is very clear. The pillars, which I've already been alluding to would be industrial, automotive, MedTech, RFID and ODM.

Arafat Saiyed: Okay. And, sir, coming to your guidance, so let's say for FY '25, you're guiding for 45% to 50% revenue growth. So, let's say, does that mean that over the next three quarters, your revenue growth will be moderate to around 34%? Is that correct?

J.S. Gujral: See, we guided, end of the year, end of the day, we guided a 45%-50% growth rate over the previous year's target, which was about INR3,000 crores. We said about INR4,500 crores would be our target for this year. Now, whether it translates into INR1,000 crores a quarter or INR1,200 crores a quarter that's quarter-on-quarter. But what we are focused on is on annualized figures and long-term.

Arafat Saiyed: Got it, sir. Thank you. That's it from my side.

Moderator: Thank you. The next follow-up question is from the line of Ashutosh Parashar from Mirabilis Investment Trust. Please go ahead.

Ashutosh Parashar: Yes, hi, sir. Thanks again. Just one more question. On the receivables factoring, so I think you alluded also earlier in the call that after a certain point once a customer reaches a certain scale, we get some working capital benefits. So just wanted to know, I mean, in our current consumer set, how many customers are there who kind of qualify and who qualify us for us to be a part of the receivables factoring to help us in our working capital management? So are there any customers? And if not, then how many customers do you see in the future in the recent near term, who would qualify us for that?

J.S. Gujral: Okay, I'll let Bijay take that answer. But to the best of my knowledge the balance sheet doesn't have any factoring in it. I think Bijay will delve into this.

Bijay Agrawal: We are not doing any factoring at all on the receivables side. So this is all gross receivables, and, no factoring. But to answer your second question here, how many customers would be eligible? We are dealing with the best-in-class customers who are the known names. So almost maybe a majority of my customers on sales are eligible for any kind of factoring, discounting from any of the top banks here. But yes, deliberately, we have not yet decided to go for any factoring here.

J.S. Gujral: To put it another way, there's no off-balance sheet adjustments in the books. Everything is shown. We are not doing any factoring, anything of that sort.

Ashutosh Parashar: Sir, but I think in the industry even some of our peers kind of tend to do that to manage their working capital. So is it like a conscious decision or is it that we need to reach a certain scale for the customer to be able to qualify for that?

- J.S. Gujral:** As I said to our earlier question, Syrma is what Syrma is. We will do what we believe is the best in terms of corporate governance, best in terms of cost, best in terms of liquidity. And as of date, as of 30th of June, I can say with the full force that we have not done a penny worth of factoring. Whether we'll do it in the future or not that's a call to be taken at that point of time. Currently, whatever receivables, working capital, whatever we are sort of showing in the balance sheet is a plain, vanilla figure without any factoring without any bill discounting.
- Ashutosh Parashar:** Great, sir. That helps. Thank you.
- Moderator:** Thank you. The next follow-up question is from Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.
- Keyur Pandya:** Thanks for the opportunity. Just one question on the capital allocation. So first is on the capex you mentioned around INR75 crores to be done and some INR60 crores-INR65 crores to be done in rest of the year. So if you can just give more granular details of where the capex is going. This includes this expansion or onshoring in Germany as well. That is first part. And second part, we had set up a subsidiary for adjacent expansion in categories, adjacent categories. Any update or is there any capital allocation going or is planned to be going for any inorganic opportunity or any organic opportunity in the adjacent categories?
- J.S. Gujral:** The capital allocation, what we have done and what we propose to do, I will hand over to Bijay. He will answer that in detail. And then on the inorganic part, Satendra will delve on it.
- Bijay Agrawal:** So on the capital allocation side, as of now, the planned capex and the capex we have incurred so far for this year. So this year we are planning to spend about INR100 odd crores for my new under-commissioning facility there in Pune, which we are expecting should be on ground, maybe starting trial production starting from Q3 of this year. Same way, another about INR35 crores to INR40 crores is what we have allocated towards my new facility there in Stuttgart, Germany, which will be a prototype income assembling centre there in Europe. Broadly, these are the two allocations on the organic side.
- J.S. Gujral:** On the inorganic side, we are evaluating but currently there is nothing concrete proposal on the table. But we will address this and share it with the market once we have a concrete proposal on the table. On the Stuttgart facility, I would just like to add on that there we would be expanding our business by adding some new verticals like repairs, which we are already doing for one of the multinational companies. Now since we have got a better, a bigger facility, not a better, a bigger facility, it gives us scope for expanding that operation to a decent size operation in the coming years.
- Keyur Pandya:** And on the setting up of new subsidiary for a new line of business is it OSET or OSET is being planned or something else is being planned? Just more clarity on that.
- J.S. Gujral:** I will request Inder to take the question on OSET because he is spearheading that effort.
- Satendra Singh:** Alright, thank you for the question. I think OSET is a question which comes up in pretty much every call of ours. And like Gujralji said, we have our own style of doing the business, our own decision-making process and which basically means we try to dot all the I's and cross all

the T's before we come back and share information with the market.

In this case, now coming to OSET, it's an area which is of interest to us, but we are very clearly focused on making sure that we have done our homework before we jump into it. Essentially, around the product, around the technology and around the longevity of the business. It's a very different kind of business and we are working through the details and when we are ready to share further information, we would be able to share more with you.

But a little bit, one more comment on the capital side. I think the allocation, we are focused on building the capability in terms of the plant and manufacturing. So our major allocation is to the Pune facility, which we talked a couple of times about earlier as well as to the Stuttgart facility where we can provide more services to the customer closer to where they are, which namely is the German market. So it's all around the capability building for the future, which will pay off in the years and quarters to come.

Keyur Pandya:

Noted. Thanks a lot.

Moderator:

Thank you. The next question is from the line of Anand Trivedi from Nepean Capital. Please go ahead.

Anand Trivedi:

I had a question regarding the net working capital gains. We've gone down from 70 to 62, but at the same time your working capital loan has gone up from INR489 crores to INR529 crores. So can you explain why is the loan going up when is your data going down? And sorry, a related question is the cash and cash equivalents have gone up from INR85 crores last quarter to INR189 crores. So what has been the reason for the INR100 crores increase?

Bijay Agrawal:

The working capital loan increase is primarily just like business-related, whatever was required, we have borrowed. And simultaneously you can see my internal accruals have also increased. So there is an increase in the investments also. Internal accruals, internally we are keeping it separate as our investments. And simultaneously there is an increase in the working capital loan. It is offsetting on both sides. There is no other reason for that.

Anand Trivedi:

And the cash going up from INR85 crores to INR189 crores?

Bijay Agrawal:

We have got a good collection. Specifically on the very last day of the quarter that is where the cash has increased in the overall net debt position. But again, a portion of that was utilized towards paying for the creditors immediately after that in the upcoming 10-15 days. It was a better collection which happened towards the end of the quarter.

J.S. Gujral:

See, I think we are focused on long-term that our working capital cycle should be shortened as far as possible. Currently we are sitting at about 62 odd days. Our endeavour would be to bring it down further whether it is 62, 65 or 58. That's a year-end sort of play-out. You get one major collection. Your cash balance goes up. You don't get it two days later, your debtors go up. But on a long-term consistent basis, we would like to be at about two months of working capital cycle, net working capital cycle.

Anand Trivedi:

Okay, and my second question is that on the consumer business dimension where the margins

could be 3%-4%. But after taking into account the working capital intensity that business generally operating cash positive...

J.S. Gujral: See, as I said, the low-margin businesses typically as per industry have low working capital intensity.

Anand Trivedi: But at 3%-4%, I was wondering does that business have any positive cash flow

J.S. Gujral: I said, typically in the industry, a low-margin business is accompanied by a low intensity of working capital involvement. If a low-margin business was to be accompanied by a high working capital cycle, it would be not viable for any business to do it. So this is the nature of the business. Typically, the low-margin businesses have low working capital intensity. And as the margins go up the working capital intensity goes up slightly. We believe that based on what we are planning to do with the 40% consumer, 60% normal, we should be able to achieve a two-month net working capital cycle give or take a couple of days here and there.

Anand Trivedi: Okay, thank you.

Moderator: Thank you. Ladies and gentlemen, we'll take this as the last question. I would now like to hand the conference over to Mr. Gujral for closing comments.

J.S. Gujral: We are very well aware of what we are doing, and we work the Syrma model, the Syrma way. What we are engaged is in building our institution as I've always been saying all along in all the calls, bringing in leadership talent at the top, which can take care of the organization when it becomes a billion-dollar organization. So we are making the organization future-ready. We are expanding over it up front. We are building in systems. We are building in processes.

We are building in the human resources of the company. And we are very confident of our track, where we are going. We would continue to grow at our industry-plus growth rate with sustainable margins of around 7-odd percent going forward. In coming years, as my exports scale up, my ODM scale up, they could go up, generating positive cash flows and be a responsible citizen for the country. We are working to make India great as a manufacturing base. Thank you.

Moderator: Thank you. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.