# "Syrma SGS Technology Limited
# Q4 FY23 Earnings Conference Call"

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**MODERATOR:** **MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Syrma SGS Technology Limited Q4 FY23 Earnings Conference Call hosted by DAM Capital Advisors Limited. As a reminder, all participant 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors. Thank you and over to you, Ms. Nair.

**Bhoomika Nair:** Thank you. Good morning everyone and a warm welcome to the Syrma SGS Technology Q4 FY23 Earnings Call. I would like to thank the management for giving us this opportunity and would like to welcome them. Without any further delay, I will now hand over the call to Mr. Nikhil Gupta, Investor Relations, to take this call forward. Over to you, Nikhil.

**Nikhil Gupta:** Welcome to Syrma SGS Fiscal Year '23 Earnings Call. We have with us today, Mr. J. S. Gujral, Managing Director, Mr. Jayesh Doshi, Director and Mr. Bijay Agrawal, our Chief Financial Officer, to discuss the performance of the company during the fiscal year 2023 followed by details question-and-answer session.

During this call, certain statements that will be made are forward-looking, which involves several risks, uncertainty, assumptions and other factors that could cause actual results to differ materially from those in such forward-looking statements. All forward-looking statements made herein are based on the information presently available to the management and the company does not undertake to update any forward-looking statements that may be made in the course of this call. In this regard, please do review the disclaimer statements in the earnings release and all other factors that can cause a difference.

I will now hand over the call to Mr. J S Gujral, Managing Director, Syrma SGS.

**J. S. Gujral:** Ladies and Gentlemen, a very warm welcome to all of you for the first full year earnings call of Syrma SGS Technology Limited. I will first share with you the key financial metrics for the year gone by, then delve on the macroeconomic environment followed by plans for the years ahead. Bijay Agarwal, our CFO, will run you through the detailed financials and then we will go into the Q&A session.

The company has recorded a robust 63% growth in revenues in the year ended March 23. This is on the back of 45% growth recorded in the previous financial year. The EBIT, PBT and PAT have all grown by about 61% in the current year. Our order book as on 31st of March 2023 stands at about INR3,000 crores that compares to INR2,000 crores as on 31st of December 2022 and INR1,200 crores as on 31st of March 2022. So, if I was to compare March 22 to March 23, the order book has gone up from INR1,200 crores to INR3,000 crores.

In the board meeting which we held yesterday where the audited financials were approved, the board has recommended a 15% dividend or INR1.50 per equity share to the shareholders which will be taken up at the AGM.

Now I come down to the macroeconomic level environment in the country. Now India is currently witnessing a phenomenal interest from the global companies looking for a manufacturing base outside China. This interest is further strengthened by the demographic profile of our population. No other country in the world can offer a vast pool of English-speaking technical talent spread across disciplines. We have a growing demand in the country, a thriving democracy, independent judiciary, and a government focused on facilitating manufacturing in general and electronics in particular. And electronics in particular I would like to say it's in bold and uppercase.

The ecosystem for electronics manufacturing in India has never been so good. I have been in this industry for almost like close to 36 years now, we have never had a combination of positive global environment, a government-focused on encouraging manufacturing and the industry having come off the age. Now the push for e-mobility, smart metering, energy efficiency, 5G, the iodization of electronics has led to a significant increase in the electronic content in the product. Now everyone keeps working that when the economy is growing at 5%, 6%, 7%, how come electronics industry is growing at 30%, 35%. Now I will just share with you the context of electronics demand in some of the growing sectors.

A combustion two-wheeler for example has an electronic content of approximately INR 2,000 per vehicle, i.e. two-wheeler. While an EV two-wheeler it has INR15,000 to 20,000. So, there is a 7 to 10 times multiplier effect of migration from a combustion EV two-wheeler to an electric 2-wheeler.

Similarly in a four-wheeler the electronic content goes up from about INR5,000 to 6,000 in the engine. I am not talking about the periphery electronics, infotainment, air conditioning, dashboard, I am only referring to the content in the engine. It goes up to INR60,000 to 70,000 in an electric car. Periphery electronics would remain by and large the same.

Now from almost a 0% electronic content in a conventional fan, it goes up by INR350 to INR450 in a BLDC fan. Smart RF energy meters have an electronic content of almost 3 to 5 times of it the normal energy meter, which is INR350 to INR500, and about INR600 for a single phase to three phase. It goes up to INR1,200 to INR1,500 ina RF smart energy meter.

I just picked up four high-growth areas to give you a broad idea of where the demand is coming from. Now about the plans of the company, we are very focused on building up a sustainable, profitable, socially responsive organization for the long run. And towards this end, we have taken some significant steps in the quarter gone by. One, we have set up an exclusive subsidiary for exclusively focusing on design and development.

Till now we were doing the design and development as part of our activity, and we felt it was getting diffused because manufacturing would take a priority. Hence, we have carved out the design and development center and housed it into a 100% owned subsidiary called Syrma SGS Engineering and Technology Services Limited.

Now this is being headed by our CEO from Syrma. He has now migrated to the subsidiary company. Dr. Shriram Srinivasan, is a veteran in this industry, and he would be spearheading this effort. We have also hired a senior president from the industry who has about two decades plus of experience in software and engineering services industry to aid Dr. Shriram in this push.

Now this has just been done about two, three months ago. Actually, the subsidiary was formed only I think in April. The initial response from the customers has been very, very encouraging and going forward, that is in two to three years, this vertical will not only be a significant contributor to our revenues and margins but will also increase the stickiness with our customers.

The vintage of the customers in any case is very strong going back two decades, 15 years, three decades. But with this, we believe the stickiness will even go up further and this will help us in expanding over footprint both in terms of revenues and margins. We have also beefed up our marketing teams by having representations both in the East and West Coast of U.S.A., further strengthening our marketing team in Germany and sort of beefing up our teams in the domestic markets in India.

We are focused on R&D center of our subsidiary company in Germany as well. We are putting up a prototype line going forward, so that the new customers, can be serviced better from there and then the series productions will be migrated back into India. In the last two quarters gone by, we have onboarded 8 to 10 major customers, including some very formidable names, global names, and these customers are spread across the automotive, which is both combustion and EV, HVAC, which is refrigeration and air conditioning, industrial power, electric charging infrastructure, and infrastructure electronics, which would include energy metering, water metering, smart lighting, both for domestic and global requirements.

Now with all these things in place, we expect that the revenue in the coming year should grow by about 35% to 40%, that is in line with the growth in the industry with over a long-term objective of sustaining a double digit EBITDA margin in the coming years.

Now having taken this, I'll just hand over to Bijay Agarwal, who will run you through with the detailed financials, quarter-on-quarter, whatever it is, and then we are open for question-and-answer. Thank you very much.

**Bijay Agarwal:** Very good morning to everyone. I'll now quickly take you through the brief financials for the year FY 2023. I am delighted to say that the company has registered a strong growth during the FY '23. On a consolidated basis, our total income grew by almost 63% to INR2,092 crores. EBITDA also demonstrated a strong performance for the year at INR232 crores with a growth of 61% year-on-year, and this is despite the ongoing global challenges and inflation, we are able to control our costs to deliver margins.

Out of our total other income, which is approximately INR43.7 crores, includes a treasury income of approx INR35 crores, and the rest is other operating income, which is primarily or majorly related to forex mark to market impact on the raw material purchases and sale, and other miscellaneous items. So, if we exclude the treasury income out of the total EBITDA, my operating EBITDA is approximately INR197 crores, which is 9.6% of operating EBITDA margin.

Our PBT grew by 61% to INR179 crores. And same way, our PAT for the year, full year is INR123 crores with a growth of 61% over the FY '22. This year, gross material cost also increased by almost 400 bps to 73.6% as a factor of softening of exports, healthcare business, and coupled with a change in other business mix and revenue mix by other industry segments.

If we talk about the quarterly performance, our quarter revenue grew by almost 80% year-on-year to INR700 crores approx. EBITDA for the quarter demonstrated a strong performance with INR81 crores. And out of this, if we similar way exclude the treasury income of about approximately INR16 crores, net operating EBITDA is approximately INR65 crores for the quarter, which is 9.5% operating EBITDA margin for the quarter.

Coming to PBT for the quarter is approximately INR68 crores, which is 181% up year-on-year. And PAT for the quarter is INR43 crores.

Now, I will come to the treasury numbers as on March end, which is approximately INR884 crores. And we have a debt position as on March end of around INR347 crores. So, we are maintaining a net cash position of approximately INR537 crores as on 31, March 2023. On capex side, we had spent approximately INR170 crores for the full year. But going forward, as we see planning greenfield expansion capex, we should be able to deploy somewhere around INR200 crores to INR260 crores of capex in the year FY 2024.

Coming to our net working capital position, we have a net working capital investment of approximately 74 days, when calculated on average basis, which is probably the market standard. However, when we check ourselves on the year end position basis, we are running a total net working capital position of approximately 89 days, which is slightly three to four days lesser than the position that we were maintaining by end of FY 2022.

Going forward, we see it's a clear focus area for all of us. So, we should be able to save five to 10 days of net working capital position by FY 2024 end. That's what we are targeting.

So, from here onwards, I'll just hand over the call to Bhoomika to take it forward.

**Bhoomika Nair:** Sure, sir.

**Moderator:** Thank you very much. We'll now begin the question-and-answer-session. The first question is from the line of Aniruddha Joshi from ICICI Securities. Please go ahead.

**Aniruddha Joshi:** Yes, thanks for the opportunity. So, the question is the consumer business has got a relatively lower margin than the company average. So, what are the steps the company is taking to improve the margins here?

And secondly, on healthcare business, you slightly touched upon it, but when do we see the full recovery in healthcare business? And the last question is any update on the new customers that we would have signed during the quarter or during past, let's say six months? And lastly, the current order book. Yes. that's it from my side.

**J. S. Gujral:** Okay, now the order book which you said, I'll take the last one because that we have an order book of about INR3,000 crores as of 31st of March 2023. And out of this, approximately 70-odd percent, 70% will be executed within the current financial year,. And this order book is spread across verticals with the lead in automotive both combustion and EV and Consumer.

Now coming on to your consumer vertical, yes, the consumer vertical has a comparatively lower margin than the rest of the industry, but it is a very growing space and over consumer products are primarily into telecom and other smart products what you call electronics. And we expect that the lower margins on this product are compensated by the high volumes, the efficiencies which we achieve on the line. And going forward based on the programs of the government for encouraging local manufacturing, there will be backward integrations happening in. Now once the backward integration happens, then the margins automatically grow up because you start getting value on the value additions which you do in the domestic market.

On the healthcare, we have seen a rebound, little rebound in the last quarter of this financial year, but the rebound has been slower, and we expect that it may be a couple of quarters before the rebound happens. Now once the rebound happens, I think we all be very surprised by the steep rebound which will happen because the supply chain pipelines are obviously getting exhausted. And I expect that maybe by third quarter of this year, we should see a strong rebound on the medical healthcare part.

Your last question, one of the questions was on the customer order -- customer acquisitions. As I shared, we have on-boarded 8 to 10 customers and they're all big domestic and very formidable global giants' names, both for domestic and exports. And they're spread across verticals including automotive, industrial, power management, and I am not started calling infrastructure, electronics, energy metering, water metering, smart streets, lighting and all those things.

And these customers which are on-boarded, their initial plans and all those things, I think would really see us maintaining the gross tempo beyond FY'23-'24 because they've just been on-boarded and this year would be more for prototyping, product approvals and all that. Series production would only come in calendar year 24, because global customers work on calendar year, so the series volumes will come in calendar year '24, so it could be Q4 of '23-'24 for us or during FY'24-'25. But the dialogue is very robust, and we are very positive with what these new on-boarded customers would sort of contribute to our business.

**Aniruddha Joshi:** Okay, thank you. Thanks a lot sir. Just last question. The overall profitability margin, improving.

**Management:** Can you speak a little louder, clearer or can't hear you?

**Moderator:** Aniruddha, there is a bit of static from your line, may I request to join the queue please. Thank you. The next question is from the line of Rahul Gajare from Haitong Securities, please go ahead.

**Rahul Gajare:** Thanks gentlemen for the opportunity and congratulations for very good performance. First on the business front, you have a very strong order backlog at almost INR3,000 crores and we've seen a significant uptick in the order backlog during the last few quarters. You also indicated new on-boarded customers. Is it possible you could give us some sense on the kind of order intake that you could look for in FY ’24, from these new customers that you on-boarded and the existing business? That's the first question.

**J. S. Gujral:** Okay, now very rightly you said the order intake has been strong. Just to set the context, we had an order book of about INR2,100 crores as of 31st of December and if my memory serves me right, I think in the last quarter we had executed or we had a sales revenue of about INR700 crores. So INR2100 crores, minus INR700 crores would take it down to INR1,400 crores and if we have an order book when we say is INR3,000 crores, so the order intake during the quarter has been of INR1,500 crores toINR1,600 crores.

And the new customers which we have on-boarded, they would again, because the base in the current year is almost nil for those customers, the incremental revenues which will come from them in the calendar year ‘24 or financial year ‘24-‘25, I think it will be very, very significant. It will be a significant portion of the revenues, the growth driving for the next year.

Now apart from this, I missed out, I'll share that we have got the RDSO approval for one of our plants, that is for the railways. And going forward in this year also, we see a significant uptake in railways contributing to the revenues, though as a percentage it may still be very small because currently the base is small, but going forward, I expect railways also to be playing a significant share in our revenues.

**Rahul Gajare:** Okay, sir continuing with the same question, is it possible you could break this order backlog into how much is the share of exports and how the other industries are in terms of the order backlog break up? That will give us some sense on the profitability because like you said, the consumer at this point in time is a low margin business compared to your industrial business. So, if you can break up this order backlog, that will be very helpful for us to forecast the profitability and margin profile.

**J. S. Gujral:** See exports account for approximately 30%-31% of our revenues for the financial year gone by The back of the hand calculations show the orders of INR3,000 crores would have almost the same proportion of the export to the domestic, there will not be a significant difference in that.

So, if we say, INR3,000 crores is the order, the export orders would be in the range of INR700 crores to INR800 crores or something like that.

**Rahul Gajare:** Okay, and how would you break this into segments that you highlight in terms of auto, consumer, healthcare, industrial, IT and railways? If can you break this order backlog into these verticals?

**J. S. Gujral:** If we do break IT, the policy, new IT policy has been only announced a day before yesterday. So, we are still on the drawing board to work out how it will pan out and whatever it is. So, the impact of the new IT policy, which is positive, is not factored into whatever I'm saying because we are still working on that. But broadly the order breakup, again if we see the industry composition would be 25%, approximately 20%-25% would be Automotive, about 30%-32% or 35% would be Consumer, about 20% would be Industrial, 7%-8% would be ITs or whatever currently it is and Railways and other businesses. So, three, four buckets, 20%-25% Automotive, 25%-30% Industrial, 30%-32% Consumer and rest is others.

**Rahul Gajare:** Sir, my last question is if you can break up the revenue also in terms of the segments that you do, in terms of PCB box builds and actually if you can put some of this information in the presentation that you all put up, it would be very easy for us to gauge from the presentation itself, the breakup of order book, the breakup of revenue in terms of PCB box builds, RFID and obviously the share of ODM in the overall revenue. That's all for my question.

**Bijay Agarwal:** During financial year FY ’23, ODM business is approximately 18% for this year and similar way if we talk about box build also that is about 18.5% and if we talk about PCBs, that includes box build, is again approximately 80% there.

**Rahul Gajare:** You said ODM, and box build are both around 18%.

**Bijay Agarwal:** Yes, ODM is 18% and box build is 18.5%.

**Moderator:** Thank you, Rahul, sorry to interrupt you. I'll request you to join the queue again for a follow-up question. The next question is from the line of Piyush Khandelwal from Bank of India Mutual Fund. Please go ahead.

**Piyush Khandelwal:** Thanks for the opportunity. Sir just wanted to understand first on this consumer division because what I see, I mean in FY ‘22 the material margin on the consumer side was 38%, and by FY ‘23 was 17%. So is there any benchmark that you look because there must be many kind of order book available under the consumer division as well. So is there any benchmark that you guys said that you'll be looking under these kind of sectors only under consumer business. They'll be doing business but there's some threshold on the margin side, but you'll be majorly looking for volume under the consumer business.

**J. S. Gujral:** You see the consumer business I think we can classify into two buckets. One is the ODM consumer business, one is the bill to print consumer business. So, if I was to talk of the ODM consumer business the margins are in line with other industries. In bill to print of where Vanilla EMS is involved the values are large the volumes are large. And hence, the what you call margins are low but what is positive in this is we get a better asset turn because it's large volume the changeovers and the stoppage of lines are not there.

Once we have a better asset turnover and the working capital involvement because the skin of the technology provider is also into it or working capital environment also goes down. So that results a positive cash flows for that particular segment of the business. So, you see when we do a business, we take a lot of factors into account margin obviously is one, stability of the customer, volume which is giving, what is my working capital involvement, what is my capex turnover. So all these factors we consider and then arrive at a decision that on a long-term basis, it should be in sync with our objectives.

So, we are not hung up on quarter-on-quarter. We are focused on long-term. And in the consumer business if going forward based on the plans of the government and the PMPs, the Phase Manufacturing Programs and others how much more we can do backward integration to increase the value-add. So short-term it is there but long-term we'll see sort of aggression in margins even in consumer business as our volumes grow up or purchasing power goes up and the operating leverage is set up.

**Piyush Khandelwal:** Understood. Sir, just let me put it the question in a different way is there a material difference in the ROCE in the consumer segment versus let's say, overall company level or the other segments?

**J. S. Gujral:** See, ROCE is a function of capital employed. And if my capital employed is less because of the stake of the technology provider in the inventories that we don't have to fund the inventories up front then obviously the ROCE becomes better.

**Moderator:** Thank you. Piyush, I'll request to join the queue again for a follow-up question. The next question is from the line of Saurabh Mehta from East Lane Capital. Please go ahead.

**Saurabh Mehta:** Yes, hi sir, thanks for the opportunity. The first question is on working capital the control in this quarter is quite impressive. So just wanted to get a medium-term outlook on it. Initially, we were guiding for 10 days saving on this 85 days-90 days number. The second thing is on the gross block. We are at INR500 crores. So, what is the peak asset turn which we can generate from this? Right now, we are about at 4.9x.

Two housekeeping questions on this other income and tax rate. The other income has doubled quarter-on-quarter and the tax rate has gone up to 37% in this quarter, is there any losses in some subsidies or segments because of which the tax rate has gone up? And the last question is again harping on the consumer bid, wherein year-on-year our revenue has gone up by 1.6x but our gross profit or gross margin from the segment is only up 15%. So, we did 38% last year and this year we've done 17%. So, I know we've spoken a lot about it already on the call but still, how should we think about this segment going forward?

**J. S. Gujral:** Yesh, I take the last question first. As I just explained in the previous question, the consumer business has to be divided into two buckets, one is the ODM business, one is the Vanilla EMS business. Now the ODM business in the year gone by was forming a significant chunk of our consumer business and hence, gross margins were high in the last year..

Now because the EMS business of the consumer segment has grown significantly the ODM block as a percentage of the total consumer business has come down. And hence, it's impacted the gross margins or margins in percentage terms absolute time in absolute terms it could have gone up. And as I explained, because of involvement of the technology providers and others in the inventories and other so the working capital involvement in this consumer business of bill to print or vanilla EMS is significantly lower. And the asset turn is significantly higher. The asset turn from this consumer business could be almost 1.5x to 1.75x higher than the average asset turn which we are showing for the consolidated business.

Now on the inventories we had projected that we would try to come down to below 80 days in the inventories. We have come down by about four days. So, we are still lagging by about 60% in that reduction. Now I think, we should be very mindful of the fact that the inventories are built for future revenues, whereas the number of days are calculated on historical sales. So, if my run rate of the last quarter is 200 plus or 225, I calculate for the average which will be less than 200. And hence, we saw some of the industry peers calculating number of days based on average inventory.

The average inventory will be average of opening inventory on 1, April '22 my closing inventory on 31, March '23. Now if we were to adopt that yardstick we do both. One is for the comparison with the peers, and one is for our internal thing and internal thing to us is more important or in the inventory thing has come down to about 74 days. And compared to previous year, if I were to do the previous year comparison also on the same basis, just a minute

**Bijay Agarwal:** You were at around 75 days.

**J. S. Gujral:** So, 75 days. So, on an average basis we have come down by about 1 days, on a year-end basis we have come down by about 4 days. This is an area which needs to be mindful of it. Just because when you are growing at 60 odd percent, you sort of give this efficiency part of the inventory you are holding a little back seat. Because the thrust of it is to acquire customers on the market share.

The third question was that on a set turnover of 500, what is the thing, it is 4.9. You see if I was to classify a set, there would be two parts of a set. One is an infrastructure set, one is an income generating set, which is a plant and equipment. Now once I invest the infrastructure of a plant, it takes about 2-3 years for that facility to be optimally utilized. So, the infrastructure spread is not optimally utilized. And hence the set turn goes down. If I was to only calculate based on the revenue generating machineries, then I think we would be better off.

Going forward, I think we should, we are targeting a set turn of about 6 plus, once the whole thing stabilizes. On the tax part, I think I will leave it to Bijay, because we are on different tax regimes and different legal entities. And hence there could be…

**Bijay Agarwal:** In the 9-month number, there was approximately INR2.5 crores of lower provisioning, which has come to in this quarter 4. That's where you can see there is a higher tax rate for the quarter 4, but for the full year it is evenly distributed. Also, one more point on the asset turn, the asset turn which we are right now calculating, that is based on the revenue which we achieved during the year. The capex for which we have been incurred during the full year.

But the revenue for those new plants have impacted only for, or maybe benefited for the year, only for 4 months to 6 months. So that's where going forward in the next year, once we get the full revenue from those plants, asset turn will automatically improve from current 5x to 6x in the upcoming year.

**J. S. Gujral:** I hope that answers all your questions.

**Moderator:** Thank you. Next question is from the line of Rahul Hirawat from Multiples Private Equity. Please go ahead.

**Rahul Hirawat:** Hi Sir. Firstly, congratulations on the results that you achieved. I think this is a phenomenal growth. My question, while we have discussed a lot on the margin profile of the consumer business, if you could also elaborate a little more on, in terms of the type of clients we are signing, because a lot of, say, the consumer variables, clients are at a much lower margin as compared to certain other consumers. So, if you could just give a little more granular flavor in terms of that, which would help us understand that?

And the second question was around the IT part of it. The margins, the material margins, that business has been very fluctuating. So, going forward, what's like a stable material margin we expect from that business? And do we see a significant uptick in that business, given a lot of business coming from government as well? So, Yes, these two are my questions.

**J. S. Gujral:** Okay. On the IT part, the IT business last year constituted approximately, I think it was about 7% of our revenues,. And the IT policy, which was in the works for two years, has just been announced by the government the day before yesterday. And we have to submit our interest or application within 45 days.

Our teams have already started working on it. So whatever numbers or the guidance which I shared with you of the growth and all that, does not factor in the impact of the IT policy, which is very favorable. There's nothing negative in the new policy which has come in. So, we will share our guidance once we get the IT policy sort of registration and everything.

The margins in IT, the unit values being very high, the percentage margins are comparatively lower, in line with what they are for other products in the consumer space. In IT, they would be almost at the same level. But the offset is that, A, the unit value being very high, the absolute figures go up.

Your second question was on the composition of the consumer business. Consumer business consists of fiber-to-home products, Wi-Fi, wireless, ONT, G-PONS. It consists of water purification systems. It consists of what you call domestic water heating systems, and the smart electronics. The smart electronics, the wearables and all that, the government has come up with a phased manufacturing program, where some of the products have started attracting custom duty as of 1st of March, 1st of April 2023.

So going forward, we are evaluating that, if we were to backward integrate and make a PCB out of that, the value addition, while the sale price will remain the same, the value addition goes up significantly. Because we are manufacturing the PCB, currently the PCB is being imported. Similarly, there would be other components, the government has come up with a very detailed manufacturing program, with period, that effective X date duty will be liable on this, effective Y date duty will be liable on this component. So, we believe that going forward, there will be accretion to the margins on this segment, because of the backward integration, when we start manufacturing, assembling the boards, also in India.

**Rahul Hirawat:** Understood. And are we looking to increase our capabilities in the PCB manufacturing part?

**J. S. Gujral:** See, the PCB, I think we have the best of the capabilities, and we are capable of manufacturing any type of PCBs, any layer, flexible or whatever. It's only the capacity has to be increased, and capacity sort of in sync with the requirement. Because wearable electronics would have a very high capacity, and they have a different configuration of lines, they are fungible though, but to get the best efficiencies, they are configuring lines that would be the best line configuration for that.

But in terms of capability, I don't think it requires anything additional capability, because we are doing telecom, we are doing railways, we are doing defense, we are doing automotive, and in terms of technical capabilities, I think it doesn't require anything additional.

**Moderator:** Thank you. Next question is from the line of Umang Parekh from Ashika India Alpha Fund. Please go ahead.

**Umang Parekh:** Hi, thank you for the opportunity. My question is on the gross margins. So, the gross margins have come down significantly for this quarter, and on a yearly basis. So I just wanted to understand that what would be a sustainable gross margin going forward?

**J. S. Gujral:** As I said in my opening statement, we are looking at a sustainable gross margin. We are focused on delivering double digit EBITDA on a long-term sustainable basis. A couple of percentage points here and there, that's one issue. We don't see any significant downside in the margins with the composition of the business plans and the sales which we have envisaged for the coming years.

We don't see that. Quarter on quarter, or as I said, I'm not really hung up on quarter-on-quarter, because on quarter-on-quarter, the de-risk business, we may have a higher proportion of business which is on a lower margin, but on a year-on-year basis and sustained basis, it gets evened out. And even on quarter-on-quarter, the margins, the gross margins at times may be lower, but they are offset by the savings in the OPEC which we make.

So, if we see year on quarter four, for example, we are operating EBITDA margin of about 9.5% versus a full year of 9.6% excluding the treasury income. So, it's only a 10-basis points is only reduction. So, see, this is a game that we can't see gross margins, operating margins. We have to see everything in totality. So, if in everything in totality, my EBITDA margin has been 9.5% versus 9.6% operating EBITDA margin. The gross EBITDA with treasury income is lower by 10 basis points versus last year.

So, it is not desirable, but we are not hung up about it, because we are focused on the long term. And long term, we are very sure that with the design and development thing coming in, with beefing up of our export setups and marketing setups in Europe and America and venturing out into railways and other things, would have accretion to the EBITDA. And if it is an accretion to the EBITDA, it will be operating leverages and margins.

**Umang Parekh:** Okay, got it. And lastly, what would be the timeline for the execution of the current order book of 3000?

**J. S. Gujral:** As I said, out of this 3000, I think approximately 70%-75% will be executed within this financial year. And rest will be a spillover to financial year ‘24-‘25. And then we are just 45 days into this year. The new orders will keep coming in. So, I don't foresee a scarcity of inbound business. You are very positive on it.

**Moderator:** Thank you. Next question is from the land of Amar Maurya from AlfAccurate Advisors. Please go ahead.

**Amar Maurya:** Sir, thanks a lot for the opportunity. Firstly, sir, as you indicated that healthcare is going to remain muted in the first half. So, on a year-over-year basis, what kind of growth we see in healthcare and industrial, if you can help us?

**J. S. Gujral:** Industry growth rate is robust. I don't foresee any sort of issue on the industry growth rate. Just for a minute.

**Amar Maurya:** Healthcare and industrial segment, sir. I am talking about healthcare and industrial segment. As you indicated, I believe healthcare is largely export driven, right?

**J. S. Gujral:** Industrial has grown by about 46%. Healthcare has sort of grown by early teens. It's not gone up by 12-15%. So, we –in the coming one or two quarters also, we do not expect it to be stabilized. And then we may see an uptake in the Q3 of this financial year.

So, this year, we expect that it will be again a normal, what you call, growth rate in healthcare. Or at worst, it could be stagnation at what we are doing. But we are confident that we will grow at 10%-12% in healthcare also in the coming year. Industry is robust. We expect to grow significantly in industry.

**Amar Maurya:** Okay. So industrial would be this year, would be what, like 25-30%?

**J. S. Gujral:** If we are planning growth of about 35%-40% So industrial would be definitely growing at -- I have not taken the order book of industrial, but I think it should be growing at a good rate of 20 plus. But that's an off-the-cuff figure I have got in mind. But the order book from industrial, from whatever clients we have sort of onboarded, it looks good. And it will continue to be a significant part of our revenues going forward on a long-term basis.

**Amar Maurya:** Okay. So, sir, basically, do we see, because of the composition changing from, let's say, industrial growing at the higher rate now again, and obviously the consumer will grow at a faster rate, but do we see some inch up in the gross margin because of the mix changing in FY '24?

**J. S. Gujral:** See, the dynamics of margins because of change in composition of the product mix, we can't avoid, and we can't wish away. It is part and parcel of the game. What we are focused on is If it's a positive change, how do we maximize it? And if it's sort of a little bit of adverse composition, how do we improve upon it? And that is where over-operating leverages and over-purchasing power.

See, at a INR2,000 crores turnover, with a material content of approximately 75%, it is INR1,500 crores spent. I am just secularly saying, at a INR3,000 crores, it is a INR2,200 crores spent, and at a INR4,000 crores, it is a INR3000 crores spent. The bargaining power and the heft, muscle which we get, when we go into that league of purchasing, would offset some of these negativities or the change in the product mix, which we have.

And we have now created a specialized sort of a dealing procurement from sourcing strategic purchasing, with focus on value engineering, the designer thing kicking in, to ensure that any adverse impact because of a product mix change is compensated by better sourcing and cost efficiencies in operations. And hence, the EBITDA sustenance of double digits continues.

**Amar Maurya:** Okay. But then, sir, is there a scope for you now to improve your gross margin and reach to 30% level? Because this year, our gross margin is around 24%-25%. I think it has corrected. So, do we see that now again we can inch up, let's say, in 24-30% GP margin again?

**J. S. Gujral:** Very tough to say that. But again, I am focused more on the bottom line and the EBITDA. So, I would say gross margin is one measure and operating efficiencies are the second measure. Both these put together, they may complement each other, or they may help each other. We are confident of attaining double digit EBITDA.

**Moderator:** Thank you. Amar, I will request you to join the queue again for a follow-up question. The next question is from the line of Vinayak Mohta from Stallion Asset. Please go ahead.

**Vinayak Mohta:** Hi, good morning, sir. Congrats on a great set of numbers. I just have two broad questions. So, just wanted to understand, given your way forward, the kind of customers you are acquiring, will we be moving more towards ODM and box-to-build kind of business? So, I was just trying to understand the difference between the ODM and the contract manufacturing. What kind of change in percentage of revenue can we expect going forward? And what kind of margin differential remains between the two segments?

Because I presume that ODM has a higher share of the margin. And second question was basically, how are we pleased with the capacities as of today you have given, like the way forward that you have acquired 8 to 10 new customers. And adding to that, railways is going to add a significant, decent chunk to your revenues in the next couple of years.

So, how are the capacities placed with regards to that? And what kind of operating leverage do you presume will be driving the margins? What are the operating segments? Because I would presume that the next one to two years might have a decent amount of cost that would add up given the kind of expansion you have done. Apart from that, where do you see the operating leverage benefits coming from? Because if I push FY '25, I can see the levels. But at least until then. That would be three questions. Thank you.

**J. S. Gujral:** Okay. Now, on the composition of the sales going forward, the fact that we have put up a separate. We have housed our design and development and engineering efforts into a separate subsidiary is only a demonstration of the focus of the management in value creation. Now, this has just been done a couple of months back. The subsidiary has been only created in April. So now with that exclusive focus on design and engineering across verticals, I believe, FY'23-'24, we may get some benefits of it.

But going forward, on a long-term basis, design and engineering would form a significant portion of our revenues and it will also help us in enhancing the margins. Because we go into an ODM product. This coupled with the industrial growth and box build, all sort of project of -- point to the fact that even growing at 35, 40, 50% on 2, 3, 4 year basis consistently, if we take the back record from 800 to 1200 to 2000, and going forward, there would be an accretion in the margins and not a dilution.

Now, on the capacities, whatever we have installed capacities today, plus maybe a couple of lines, would be sufficient for us to achieve this year's growth projections. The capex cycle which is being done in financial year '23-'24 is essentially for the growth which we are expecting in '24-'25. So, as I said, we will be growing at about 35%-40% this year. The next year, if we grow at the same rate which we are confident of, it would require the capex. So, the growth capex cycle by and large which is now being done, would essentially be for 24-25, very little for 23-24. For 23-24, we are broadly in sync with the capacities, in sync with the requirements. Though the peak requirements at times is high, so we are putting in some buffer over there.

Now, the operating leverages, I think even if you see the FY23 numbers, the decrease in the gross margin of about 4% I think, has been offset by about 2% to 3.2% by operating. So, going forward, once the assets start optimum utilisation, reach the optimum utilisation stage, I think the operating leverages will further set in. And we believe that with, again as I shared, with the scale which we are now envisaging, we would be in a better position to negotiate better prices, better terms with global vendors also. So, there is a 2-3% operating leverage we have already got this year. And when the capex cycle has still not reached the optimum utilisation. So, going forward, I think this will play a very significant role in sustaining or sort of growing the margins.

**Vinayak Mohta:** Understood. Just a follow-up on the ODM side, what kind of margin differential do you think can be there between an ODM and a contract manufacturing business as an average? Not specifically, but over a period of time, what kind of margin differential have you...

**J. S. Gujral:** I think 2%-5% is a difference which could get you a long-term sustainable basis.

**Vinayak Mohta:** On the EBITDA front, right?

**J. S. Gujral:** See, end of the day, the effort involved is the same. Once I get a better material margin, then that results into a better EBITDA. The operating expenses don't change too much.

**Vinayak Mohta:** Understood. Perfect. Thank you so much and all the best.

**Moderator:** Thank you. Next question is from the land of Vinod Chari from BOB Capital. Please go ahead.

**Vinod Chari:** Good morning, sir. Thank you for the opportunity. I had a couple of industry-related questions. One is, recently I read that Fuji is one of our machine suppliers. And Fuji is also setting up PCB capacity in India. So, apart from that, even otherwise in the industry, I think we are hearing a lot of Chinese companies willing to set up capacity out of India now. So, what would that mean for an industry player like us?

**J. S. Gujral:** I don't think Fuji is setting up PCB capacity. I don't know. In fact, I was with the Indian MD the other day. There was no such thing. They are essentially into the equipment. And they will continue to build the equipment. But you have pointed out, I'll check it out. I'm not aware of it as of date. And I don't think they are into the PCB thing globally also.

Now, as far as the Chinese companies setting up base in India, I don't see it as a threat. I see it as an opportunity. It also opens up doors for me to tie up with some companies for some specialized products and start manufacturing in India. Whatever we have been discussing is all organic growth till now. So, I don't take Chinese companies coming into India and setting up a shop as a threat. In fact, I see it as a positive thing that it gives us an opportunity to see how we can participate in that thing and garner in some business from some verticals where we are not present.

**Vinod Chari:** Sir, on exports, EU is now talking of retaliatory tariffs for India. So, would that impact us in a big way? What are your thoughts on that? Do you think it will happen?

**J. S. Gujral:** I'm too small. I don't think anything. But again, if it were to happen, we are into the business. We are not here for candies. So, we have to work for it. In the electronics, should the things come, we will cross the bridge when it comes. But I don't see an adverse impact on EU or America. I, in fact, see a very strong interest coming in from all Western Europe and America for sourcing from India. In fact, my colleague is going off to America to have a chat with one of the major multinationals at the end of this month.

It may take 15 months for the business to think. But there is a proactive, positive interest in India. And this is coming from the mouths of the giants. And with Apple coming in, I think it sort of, the perception about India changes significantly for a company like Apple. You just imagine when Suzuki came in India in 80s, the automotive industry was nowhere in India. But one company has put India on the global map for automotive components. So, one Apple or one Samsung or one Intel or one XYZ, I think it changes the dynamics and the global perception.

While we may not be able to get business from the Apples and the Intels, I am just saying, the positive impact on the Tier 2 and Tier 3 companies when they come to India is where the majority of the business will be. And that business distribution will be democratized over a large number of vendors. Apple will bring it in its own vendor. Maybe down the line the component industry would benefit. But EMS, if you ask me, have I benefited from Apple coming in? No. In fact, I lost my manpower. But the moment the Tier 2, Tier 3 companies come in, that is where the growth is, as I used this word, democratized, and there will be a lot of companies who will benefit from it. And we believe we are the first among equals in this industry. So we should be there to capitalize on the emerging opportunities.

**Vinod Chari:** Again, that was a follow up question. If you look at Apple, I think they have shifted their entire ecosystem to India. So their suppliers and vendors have also relocated. But are these measures really percolating down to the Indian EMS industry? That was my next question actually.

**J. S. Gujral:** The EMS part, I am into EMS. EMS part, they will again go with Foxconn or Winstron or whatever. They may not take an EMS partner for their things. But for the periphery components, like the Apple chargers, they may come to people like us. But once, again, a Tier 2 vendor comes into the country, because of the perception, positive perception, which has been created by entry of Apple or Intel or XYZ with the new IT policy. When the tier 2 companies come in, these tier 2 companies are not companies which are doing 100, 200 crores, they are billion dollar companies. Multi-billion dollar companies. When they come into the country, and they want to tie up with the Indian companies, I think companies like us and OPRs are there to harvest the business which will be coming.

**Vinod Chari:** Lastly, I think the kind of growth this industry is looking at, do you think there will be a steady and adequate supply of manpower for the industry? Or do you think that will hit a ceiling at some point in time?

**J. S. Gujral:** I think that's one of the challenges we are there for. If there were no challenges, I think everyone would be a businessman. The fact that there are challenges, some people take that challenge head on. And manpower availability is not an issue. Chaining of manpower is a part and parcel of our culture. Attrition is an issue. But we have to see how do we best address it. By better interaction and engagement with the people and everything. But yes, that is one of the key factors going forward. But it will continue, I think, if the electronics industry grows at 30%-35%, manpower becomes one of the issues which we have to resolve. On a day-to-day basis.

**Vinod Chari:** Okay. Thanks a lot, sir.

**Moderator:** Thank you. Next question is from the line of Piyush Khandelwal from Bank of India Mutual Fund. Please go ahead.

**Piyush Khandelwal:** Thanks. So just one question on this capital, a thought process behind the capital location. Because I see that you guys have recommended a dividend this year. I mean, you just came to the capital markets, you've raised money, expecting across industry sectors to grow 35%-40%. ROIC in this business, my sense will be in the range of 18-20%. So you won't still be hitting the free cash flow over the next 2-3 years' time horizon. So just trying to understand the thought process behind this capital allocation policy.

**J. S. Gujral:** See, end of the day, we have been a profit-making company before listing, and we are a profit-making company going forward. So why shouldn't the shareholders participate? I think it's a progressive thinking. If I was to only think about myself, I think it's a progressive thinking that yes, the shareholders who have reposed faith in us, and we have made profits. Overall, we have made profits. It's not that we'll be borrowing money to pay the dividends. We have made profits. We have adequate cash reserve. Not even considering the IPO money, I'm not even talking of that operational thing. So I think it is a positive management thought process of taking along all the shareholders in our growth journey and sort of rewarding them as partners in progress.

**Piyush Khandelwal:** And also, for all the next 2-3 years' capex, that's why we raised the IPO money. We want to clearly distinguish that out of the profits made from the business, we will repatriate some dividends.

**J. S. Gujral:** As a progressive. So I'm saying we are not even using the capital available. We are using it from the operating profits which we have made. And it's a highly deliberated company. So we are not sacrificing long-term or short-term growth or investment cycle or growth of the company by making this dividend. Shareholders are an integral part of our ecosystem. That's what we believe in Syrma SGS. And it is our bounding duty to reward the shareholders who have invested in the company without compromising on the long-term objectives of the company. Why should I be only ploughing back everything and not rewarding the shareholders? This is a progressive thought process of the board.

**Piyush Khandelwal:** All right, sir. So this question was more on the free cash flow generation, not on the progressive. Because if the industry is growing, let's say 35%-40%, why not retain the money and then deploy the capital itself? It will create more value for the shareholders.

**Bijay Agarwal:** So I think for the capex thing, we are adequately funded. So that's why the plans are very clear for us going forward. What capital allocations we are doing. We have already said that we will be spending around Rs.200-250 crores of capex in the upcoming year. And that much of fund is already there with us. So it's a pure play, complete cash flow planning that way.

**Moderator:** Thank you very much..

**Bijay Agarwal:** Yes, please. Go ahead.

**Moderator:** Ladies and gentlemen, we'll take that as the last question. I now hand the conference over to the management for closing comments.

**J. S. Gujral:** Ladies and gentlemen, it's been wonderful interacting with you. I would close the Q&A session by reaffirming the management's vision of creating an organization which is growing at a rate superior to the industry average, maintaining double-digit EBITDAs, and being a responsive, responsible corporate citizen of the country. We are very mindful of the fact of where we want to be. We want to be a design-led engineering electronics manufacturing company.

And towards this end, we have already refocused our expertise and attention on design and development, which will help us to maintain the growth momentum with the margins in the coming year. The macroeconomic conditions are favourable. So it is favourable for all the industry peers. But we believe that we are there to take benefit of the emerging opportunities. And whatever we have discussed, it's all organic growth which we have discussed. The other opportunities which one of the gentlemen said about the Chinese companies coming in and all those things, those are additional fruits to be picked if available at logical terms.

And we are very mindful of not having a concentrated customer base. Top 5 customers contribute 35%, top 10 approximately 51%, and top 20 approximately 67%. No customer accounting for, as we said last year, more than 10-12% of our revenues. And we maintain this will continue in the coming year also. Minor 2-1-2 percentage abrasion set apart will not be dependent on any one industry vertical. It will be spread across industry vertical. And that will enable us to continue to grow at this scorching pace. 45-50% last year, 62-63% this year, a projected 30-45% in the coming year and the future year. I think we are in for a very exciting journey.

And when we are doing all this, the senior management team's attention and time is also taken up in building the organization. I think the only pitfall which any one of our company's peers can face with this scorching or the accelerated growth which we are having is not having an organization structure in place to cater to the growth. We are up-fronting the expenditure in our HR systems, HR initiatives, IT infrastructure, everything. And we have got the PLI for telecom which has already gone up, sort of it's positive. We have started manufacturing. The air conditioning PLI which we had will have fruits of it in this year. The IT PLI which has been announced two days back, I think will have a very, very positive impact on the business in general.

And I don't see any reason why we should not be able to take benefit of that. Having said that, I think I will conclude that we are in for an exciting next 3-4 years of growth with profitability. And with all the challenges which are attendant to any growth. And thank you very much for being part of this call. And if you have any other questions offline, I think you can get in touch with the concerned people. And Nikhil Gupta is always there to sort of sort out any queries which you may have. Thank you very much and a very good day to you, ladies and gentlemen.

**Moderator:** Thank you very much on behalf of DAM Capital Advisors Limited that concludes this conference. Thank you for joining us you may now disconnect your lines. Thank you.