



“Syrma SGS Technologies Limited
H1 FY23 Earnings Conference Call”

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MODERATOR: **MR. ANIRUDDHA JOSHI - ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Syrma SGS Q2 FY'23 Earnings Conference Call hosted by ICICI Securities. 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 the conference call please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you and over to you, Mr. Joshi.

Aniruddha Joshi: Yes. Thanks, Tanvi. Good afternoon to everybody and welcome to Syrma SGS Technology Q2 FY'23 and H1 FY'23 earnings call. I would like to welcome the Senior Management from Syrma SGS Technology and thank them for the opportunity.

Now, I hand over the conference call to Mr. Nikhil Gupta, from Investor Relations Syrma SGS. Thanks, and over to you, Mr. Nikhil.

Nikhil Gupta: Yes. Thank you, Aniruddha. Good afternoon, everyone. A very warm welcome to Syrma SGS H1 financial year '23 earnings call. We have with us today Mr. Sandeep Tandon, Chairman, Syrma SGS; 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 first half year of the fiscal to 2023, followed by a detailed Q&A.

Note, during this call, certain statements that will be made are forward-looking, which involve several risks, uncertainties, assumptions, and other factors that could cause actual results to differ materially from those in such forward-looking statements. All forward-looking statements made here 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 during this call. In this regard, please do review the disclaimer statements in the Investor release and all other factors that can cause the difference.

I now hand over the call to our Chairman, Mr. Sandeep Tandon. Over to you, sir.

Sandeep Tandon: Thank you, Nikhil. Thank you, Anirudh, and ICICI for hosting this, and thank you all for joining the call. This is our first analyst call post-IPO. And before we jump in, I would like to introduce Syrma SGS and the lineage and the legacy we come from. My father actually had started first electronics manufacturing export unit in India, and we actually were fortunate enough to build the first floppy drive that went into the first IBM PC. So we have tremendous experience of electronics manufacturing and specially the unique opportunities and challenges India offers.

And in addition to IBM back in 1978, we also have served long slew of customers like Apple, Dell with various of electronic needs. But in 2000, China was the person that the care, the government they had made a very strong move to move electronic manufacturing to their shores. And with this, they give various incentives, and capital subsidies and other subsidies that made India not a viable option for manufacturing and our government also didn't have clarity what we wanted to do. So, at that time, this opportunity, which had actually helped the growth of most of our South East and Far East neighbors like Japan and others grow this electronics manufacturing ended up being a playhouse for China. And you can see the growth they saw since 2000 onwards.

But this change, I mean with we started Syrma SGS as a new avatar in this change with the pandemic. I mean, the pandemic has really changed that look and then addition to the pandemic, the various geopolitical relationships as well as China's own aspirations have changed. So, that has opened the space for India to take a leadership in electronics manufacturing. As you know, this is a huge industry and we have barely even touched the surface of this industry.

But this pandemic, it has changed in attitude, has helped create an equivalent of what I would like to call a Y2K no moment. What Y2K took for IT services this pandemic

and geopolitical situation has created for electronics manufacturing services, because suddenly there's put a huge spotlight on India from all the major MNCs to have a Indian sourcing strategy. They were already there, very well accustomed to using India for their design strategies, but this has really helped in putting attention to the manufacturing strategy. So, that is something that has really helped, and we have always had the genetics or the DNA to be able to do export, so that has really helped us in being able to address these needs of these customers.

We shared our numbers yesterday that to me is just a forensic study of what we are doing. But more than anything, what we are seeing on the ground is what the numbers you saw is actually from effort that was done close to 18 months back. So, what we are seeing effort on the ground right now with all the interest that we are getting, we are seeing lot of interest and from export as well as domestic customers to meet the manufacturing and design needs of our customers to build their product.

In our industry, of course, as you know cost and quality are hygiene, you have to meet those. We don't have luxuries like software industry that we can send an update over the cloud we have to make sure a product works every time, so those are things that we really strive and build on that we have to have super quality, super price. And we also in addition to building the product, we also entirely manage the supply chain of this product and that's as you know has been a huge challenge in last 2 years with all the constraints that are there. But despite that, I mean I must acknowledge our team, we were able to meet our customers' needs, which is what that is most important to us is being customer-focused and meeting their needs and we've been able to do that and continue to be at zero defect levels.

We have delivered lot of growth and in addition to that, we've also activated 2 new facilities, though, the facilities have not yet provided the growth yet, there the numbers are still happening, there takes time to get these facilities ready and going of course the cost come first and the benefits come later, so we want you to be aware of that. We continue to have strong customer interest in helping design you know what trends we are seeing in design from a customer side is more sustainable footprints, so lot of designs and the power systems that can help make them more efficient then the second piece is we are seeing is more intelligence in the system that is adding more sensors or IoTs which is internet of things, more intelligence into the systems.

So, those are also creating some design wins for us to be able to add more value to our customers. And, of course, organic growth continues to grow. There is demand reduction from Europe or mainly, I think it's the uncertainty of energy size of Europe, which is causing a lot of supply chain issues or even on customer pick up, but we strongly believe that the interest and the value that we offer our customers will continue to be continued to help support us. And I don't believe we look at our business quarter-to-quarter, so what I am seeing today as you know forecast in the space is very, very encouraging in the growth that we're seeing.

So, thank you for the support that you're giving and thank you for listening to us. We strongly believe that this industry itself can be a very strong pillar for our nation to meet our GDP growth targets and also provide the kind of level of depth of inclusion, because manufacturing will provide that for the nation.

So thank you again and hand it back to you, Nikhil.

Jasbir Singh Gujral:

Thank you, ladies, and gentlemen for joining us on our first ever earning call, post the listing in August this year. Building on what Sandeep ji just shared with you, the environment for electronic manufacturing has never been as good as it is today. And we are fortunate to be present at this cusp of transformation of the electronic manufacturing and we have our plans ready. The CapEx cycle has started and as Sandeep explained to you, the CapEx cycle reaching its optimal stage would take a spot for 2 quarters. So, while the CapEx of the cost attendant to it are factored in the financial for the half year ended September '22, the full potential of the CapEx will be reflected in the coming quarters, which would reduce the operating costs as a percentage of sales.

Now, taking you through the broad financials, we have registered 147% year-on-year growth to INR867 crore on a consolidated basis and on a pro forma basis if we were

to consolidate all the subsidiaries for the last year is for a healthy 46% growth, higher than the industry growth witnessed in this half year. Profits have also continued to grow at a healthy pace, and our EBITDA is up on a proforma basis 35% and on a consolidated basis 164%, to INR91 crore in line with almost what we had budgeted. Similarly, our profit is also in line with what we had budgeted. Our EBITDA margins are at 10.5%, which is superior to what the industry is witnessing.

There's been a broad secular growth across industrial sectors, automotive being slightly more and hence our material gross margin is what we projected at about 30% odd in our financials and that's what we are having it today. One sector, which I would like to highlight to you is that there are certain non-cash expenses, non-operating expenses which have impacted in the P&L, which is related to the ESOPs and foreign exchange losses which will get neutralized in the coming quarter. So, if we were to adjust that, the cash PAT would be INR61 crore for the half year ended September '22.

Our ODM, business continues to grow at a healthy pace and it accounted for approximately 27% of our total revenues. We have till September spent approximately INR120 crore in the CapEx cycle and all the senior management teams are being strengthened to make the organization future ready for the sort of huge industrial growth, which we foresee in the coming years, especially for the next 3, 4 years. So, making the organization, the systems and the infrastructure ready, so that we catching on the emerging opportunities. We are seeing huge traction from global players both for domestic and export. Exports in the short run looks soft, so it will be growing at a decent pace but not matching the pace at which the domestic business would be growing.

As an organization, we are focusing on design led manufacturing that has been our motto and DNA as Sandeep just explain to you. And we believe and we are confident that going forward, we'll be able to match the industry growth rate with decent profit margins.

I now hand it over to Bijay, who our Chief Financial Officer to go through the detail financials. Thank you very much.

Bijay Kumar Agrawal:

Yes. Hi. Thank you everyone for joining this earning call of Syrma SGS. I'll now take you through brief financials. On a consolidated basis, our revenue has grown up by almost 147%, and on a pro forma basis revenue has grown by 46%. Gross margin for this period is about 30.8%, which is about 70 basis points higher than the previous year on pro forma consolidated basis. EBITDA for this first half year is INR91.1 crore, a growth of approximately 164% over consolidated numbers and 35% on a pro forma consolidated basis. Despite the ongoing global issues, we are able to control our costs and being able to deliver this EBITDA. Coming to PBT, it has grown by almost 145% on a consolidated basis and 24% on a pro forma consolidated basis.

Please note that as Gujral ji has already explained, in this PBT, we have certain provisions related to ESOPs and foreign exchange MTM, which is also factored in over here. Coming to PAT, our half year PAT has grown to INR46 crore, which is 135% on a consolidated basis increase, on a pro forma consolidated basis, this has increased to 22%. If we talk about treasury, currently treasury in hand is more than INR900 crore, and this is mainly because of the IPO money which we have received, a very smaller portion of it around INR11 crore is utilized so far, and rest is still there as an investment in FDs.

On the debt side, our total debt as on 30 September, 2022 is INR298 crore. On CapEx, as explained by Gujral ji, we had spent approximately INR120 crore near about till date and have plans to spend around INR80 crore to INR90 crore further in the coming second half of this financial year, seeing our CapEx plans. Working capital side, our net working capital investment as of 30th September is approximately INR376 crore, which comes around 80 days of sales. So, it is slightly lower than pro forma consolidated basis numbers for corresponding period previously about 3 to 4 days. But yes, we still continue to target a lower working capital number and with respect to new CapEx as we see that volume ramp up, this numbers of overall net working capital days should come further down going forward.

Thank you very much for this and now we are open to any questions.

Moderator: The first question is from the line of Renu Baid from IIFL Securities. Please go ahead.

Renu Baid: My first question is to understand a bit more in terms of the RFID portfolio which is a reasonably differentiated portfolio which Syrma has. What has been the performance of that segment in terms of revenue growth and gross margins? And also align with this if you can highlight, do we perceive any impact on the business especially with the impending slowdown which has been expected in the U.S. and the European market on our exports portfolio? This is the first question.

Jasbir Singh Gujral: RFID & Magnetics business together has grown at approximately 33% during the first 6 months. Slightly softer than the EMS growth, but that is because the EMS industry in India, the domestic demand is simply ballooning. And we expect that this sustain of growth in the RFID sector in the medium to long run. Short term there could be some softening because of the energy crisis in Europe and the reduction in the discretionary spend. If I was to talk of in absolute numbers or this business, this led also business have grown from INR140 crore to INR186 crore during this period. I hope that answers your questions.

Renu Baid: Sure. And sir, the impact of the slowdown in the European and the U.S. market would only on this portfolio? Or it could be in any of the other segments of the exports of EMS?

Jasbir Singh Gujral: In general, there's a softening of the growth, I would say there is a reduction but there is a softening of the growth which we had projected, which we believe is for maybe 2 quarters or I don't know, it's just the geopolitical situation. But because of the diversified portfolio which we have, we have been compensated by other segments of the business, which is the domestic-led business. So, we would see the export business impacting on our overall plan for this year, in terms of our customer mix.

Renu Baid: Sir, in this context, would it be possible for you to share the guidance if any for fiscal '23 as a year, as a whole, you've already done for first half in terms of sales and EBITDA margin?

Jasbir Singh Gujral: See, that we'll be, I think whether permitted or not, but let's put it this way, if the industry is growing at 40%, and we believe we are one of the best in the industry, so we should be able to exceed that growth target.

Renu Baid: And on maintaining this 10% to 11% EBITDA margins or we expect operating leverage to kick in and margins to expand further?

Jasbir Singh Gujral: I would be conservative in my estimation, if any operational benefits kick-in, that we will count the chickens after the year-end. Today, I would maintain our saying of double-digit margins going forward in the short-term.

Renu Baid: Sure. Sir, the second question would be, when we look at multiple sectors where we have received PLI licenses under various schemes. So if you can share any update in terms of how is the status of CapEx across some of these segments? And how far are we in terms of adding new customers, which would be driving revenues in the PLI-link sector for us?

Jasbir Singh Gujral: So we have received 2 PLI application Approvals in the telecom and in white goods air conditioning sector. As of date, the telecom PLI investments are on track, our new facility at Manesar has been commissioned, it has gone into production in the second quarter of this year and we expect huge traction in that business going forward in the coming quarters. The air conditioning PLI for products are under validation and it would be some quarters before we see whether we will be making the investments and all sort of takes-off. We'll cross the bridge when it comes. But we have developed the product for the Indian market both inverter and non-inverter which are what you call under validation. And because in Indian electronic manufacturing of air conditioning controls is at a very miniscule level, so there are challenges in getting very effective pricing from the chip manufacturers compared to the Big Daddy is working out of China. So we're working on it, clarity will emerge maybe Q1 of '23 or somewhere

around that. But on telecom, we're very bullish, the investments are on track and the business is also on track.

Renu Baid: Got it. And last question if I can, just a bookkeeping to Bijay. If you can quantify, what has been the ESOP charge in the current quarter and the FX impact as well MD&A?

Bijay Kumar Agrawal: So in the current first half of this year, total ESOP impact is about INR3.9 crore. And similarly if I talk about ForEx M2M, total M2M loss impact is INR6.7 crore, but that is Segregated in 2 different parts. Partly it is reflecting into my finance charge which is about INR3.4 crore and INR3.3 crore another is reflecting into my other expenses.

Moderator: The next question is from the line of Keshav Bharadia from PhillipCapital. Please go ahead.

Keshav Bharadia: Sir, I just had a 2 part question. First, if you could give an order book break up across industry and also the revenue break up across industry for both H1 and Q2?

Jasbir Singh Gujral: Okay. On the order book as of date, I have a broad figures, I'll ask Bijay to pull out the industry-wise. We have order book of INR1,700 plus crore, as of the month end, which is September. It would be split across automotive, industrial, health care and other. On the detail break up, I think we can share a top-line with you, that the order book is about INR1,700 plus crore, as of September.

Bijay Kumar Agrawal: And so far, as the quarter 2 revenue is around INR467 crore versus H1 revenue of INR856 crore of revenue from operations.

Jasbir Singh Gujral: Fairly secular sort of say, we now expect that the Q3 and Q4 would be having a higher gradient of growth than Q1 and Q2, because the CapEx cycle, which we have incurred till September.

Moderator: The next question is from the line of Amar Maurya from Alf Accurate PMS. Please go ahead.

Amar Maurya: Sir what would be your capacity utilization in this quarter?

Jasbir Singh Gujral: The capacity utilization of the plants which was there earlier till March would be approximately 75% to 80% on an average. The new plants which have been commissioned during this year, they would be working at less than 50% capacity.

Amar Maurya: Okay. So basically like when you say that, what would be the capacity which you now commission post March like what percentage?

Jasbir Singh Gujral: Post March till September, we calculate the capacity is in terms of the SMT line, we've commissioned 2 SMT line, and 3 more are in the process being set up now. So 1 line, we just bought it last month, which is just September, so that's the thing.

Amar Maurya: So you said 5 lines earlier and 3 lines are yet getting commissioned, right?

Jasbir Singh Gujral: See, 2 lines, 1 line was commissioned somewhere in June-July; the second line was received in September, it has been commissioned post that, series production has to start; 3 lines are under transit or custom clearance should be with us by November or December, and will be commissioned in January. So if I was to take the overall lines which are going to be with us till December or January, we would be working at about a 50% capacity.

Amar Maurya: Okay. Perfect. So that is why you are saying third quarter and fourth quarter will see a higher transit, because now you have the capacities lined up?

Jasbir Singh Gujral: Absolutely. You're right.

Amar Maurya: Okay. And secondly sir, if I see your basically set-ups. In terms of set up you have R&D center in Germany as well. So it is primarily for the RFID-related products or it is also for the EMS business?

- Jasbir Singh Gujral:** Okay. It is primarily for the EMS. RFID we are now adding on to it. It is primarily for the EMS. And this center has been there since 2008, it is primarily to give comfort to the European customers and be nearer to the customers to take care of the design requirements. So they get the concept from there and then it is transferred back to India and the details, manpower and legwork and everything is done in India, so it's more of a concept and delivery center to the European customers.
- Amar Maurya:** Okay. But then this is largely to cater the export market?
- Jasbir Singh Gujral:** Primarily to cater to the export market. Yes, absolute, you're right.
- Moderator:** The next question is from the line of Amit Bhide from Morgan Stanley. Please go ahead.
- Amit Bhide:** I just wanted to understand your outlook on the moment in net working capital, as mentioned in the opening remarks, that you are expecting it to go down. So what are the levers for it? And do you have any receivable factoring in this?
- Jasbir Singh Gujral:** We don't factor as of date any significant amount; it is very negligible. Going forward, it is once we are building up the scale, A; number 2, the supply chain constraint easing out. We expect that it will be our slighted sort of trajectory to bring the net working capital levels to below 70 days over the next couple of quarters or 3 quarter. As you are aware the last 4, 5 quarters that Sandeep was also referring to in his opening statement, we have never seen such shortages in semiconductors and electronics with lead times stretching to even 9 to 6 weeks, which forced us to take a conscious call to stock up inventory to meet the customer requirement.
- And I must share with you that we are the single source for a lot of customers. So we didn't want our customers' line to stop. So, it was a conscious decision of the management to stock sort of safety stock the raw material and component to ensure the lines are running or as a transparent. With the semiconductor shortage easing, the volume is growing up, it is natural factor that the number of days working capital would come down, also a conscious focus of the management now with easing of those component shortage to sort of have a more efficient system. We have put in place Hana S4, which also would facilitate us once it is matured in a better inventory management.
- Amit Bhide:** Sir, and the second question that I had was, if I understand 5 main industrial, consumer, automotive, health care and others, so which one is firing right now more? I mean, I'm sure when you're seeing 40% growth all are doing good, but I mean, if you have to rank them, how would the industry be in the order process?
- Jasbir Singh Gujral:** See in domestic, our automotive is on fire. Automotive industry is witnessing the highest growth rate. This is coupled sort of largely it is by the EV revolution, which is taking place in the two-wheeler segments, not so much in the four-wheeler segment. So both EV and combustion are growing at almost like automotive, for example, like half year view at about 70-odd percent, 65%, 70-odd percent followed by consumer and then health care and other industries.
- Amit Bhide:** Yes. So sir, in terms of your SMT lines that you have put up and the CapEx that you have invested, are these lines fungible across the 5 types of customers that you highlighted in your PPT? So are these fungible?
- Jasbir Singh Gujral:** See, in our manufacturing CapEx, the main heart and soul is the SMT and the way soldering assembly, only dedicated is a functional testing. So if I was to say INR100 CapEx, INR90 to INR95 is fungible, INR5 rupees will be dedicated to the functional testing of the product, which will make for the customer.
- Amit Bhide:** Right. Got it. So industry dynamics changing would not affect much on utilization that vehicle. Yes, those were my questions. Thank you.
- Moderator:** The next question is from the line of Nirmal Gopi from Goldman Sachs. Please go ahead.

- Nirmal Gopi:** Sir I just saw that over time the imports, there has been an increasing reliance of imports for raw materials over the years. So is that expected to increase going forward and in the term is that going to keep pressure on the margins?
- Jasbir Singh Gujral:** See, India as a country currently has a negligible electronic component base. So the electronic component by and large has to be imported. So what we believe and what we are witnessing is that once the electronic manufacturing industry in the country grows as it is growing currently. It will attract investment in assembly and some of the manufacturing of electronic components and I'm not referring to the semiconductor policy, which is the big policy of the government of India to have the Fab Lab. I'm talking of the normal components, the passive components like capacitors, resistors. Currently India didn't have a demand which justifies the setting of a component base. Now with the growth in the electronic manufacturing which we are witnessing, it is but natural that the component manufacturing base would come in. As an analogy I would say, when Maruti came in, there was hardly any automotive component based in India, but Maruti or Suzuki at that point of time revolutionized the whole state and today India has a very, very strong automotive component base compared to the best in the world.
- We believe that going forward, so it's not a short-term sort of a low fruit hanging, it's a long harvest. Going forward, the component base would naturally come up in India, once the electronic manufacturing goes up. Your second question was on margins because of imports. Well, we sort of have arrangements and contracts with the customers where margins are as a foreign exchange variation are absorbed by the customer and since we have an export content also, so to that extent it also gives us a natural hedge off currently.
- Moderator:** The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** Great set of numbers. Yes, my question is on the inorganic growth opportunity, is anything in the near future and your thoughts on the same? And how would inorganic contribute in the growth in the coming years?
- Sandeep Tandon:** Yes. So like we said, when we were going public, it's going to be very opportunistically determined by technology vertical or the customer requests to be geographically closer to them. So those are the 2 things that we look at. We as a nature and culturally, we are very strong in the looking and understanding what is needed for our customers and for our technological growth. So we constantly are looking at opportunities, but as of now, there's nothing that we would like to discuss, but we are very, very open and always seeing ideas that exist, that can help us make better relationships with our customers.
- Dhaval Shah:** Okay. So if at all we acquire a company, would that be limited to PCBs and RFIDs, or it can be some other product as well?
- Sandeep Tandon:** No. So we definitely see a huge opportunity for full box build assemblies also, so there might be requirements for bringing some technologies that can complete the box build or backward integration as well as box build forward integration. So both are opportunities we are looking at. And, of course, like I said, technology, when I say we talk IoT, not RFID is just 1 technology. So maybe adding to that IoT so that more intelligence can be added to the systems, as well as like being geographically closer to the customer if that's required.
- Dhaval Shah:** Okay. And by geographical, you mean, both in India, as well as outside India?
- Sandeep Tandon:** Both.
- Dhaval Shah:** Both. Okay. And does logistic play a very critical role in this being closer to the customer?
- Sandeep Tandon:** Yes, I mean its logistics as well as politics, right? I mean, when its overseas, politics, also plays a role. So those are the things we have to be very, very cautious, because running operations new plants just for 1 customer's always, so we're very careful in that. But if it adds, if there's a customer acquisition that we get, because of that it could be very interesting. And typically we are always looking at whatever is EBITDA

accretive, right, what will add to our EBITDA as a geography movement or technology movement.

Dhaval Shah:

Got it. And sir, my second question is on this commentary you mentioned the press release about this demand slowdown which might happen. So, A, so how are the schedules of the customers? So when they give you an order, when does that product go into their production line? So where are you in the entire production chain? And secondly, is there any change in terms of the order size what they were giving, or the timeline have they extended anything? Yes.

Sandeep Tandon:

Every customer is different. Bijay, do you want to answer it? But it's like, it's not 1 answer for all customers, a very different customer, different stories. But generally, if you were to see geographically Europe, we are seeing because of the energy situation there's muted demand for this quarter, which they have definitely not. They're just saying push it out this quarter that's the only little bit we're seeing. But a lot of customers are asking for accelerated supplies. But within our supply chain challenges, right, that we see most customers are even afraid to reduce, I mean because supply chain challenges also at the same time existing. So if you slow down you don't have, you get back in the queue. So it's a challenging situation.

Your question was also how the delivery works? I mean that depends on where you fit in the value of the product, right? If you're doing full box build, then they wanted last at the end this last time possible that close to the customer as possible. If you are sitting as a C-Class item, they'll build up inventory and ask you to ship as much as possible, so that they don't lose out. So it depends where the product finally goes, but we are in various different stages of that, right?

Dhaval Shah:

Okay. So where you are on the inventory side, are you seeing any destocking from the customer, any resource?

Sandeep Tandon:

So there's a slowdown, right? Because they think, well, we don't know if our plants will run full capacity during the winter, because of energy situations.

Moderator:

The next question is from the line of Dhananjai Bagrodia from ASK Group. Please go ahead.

Dhananjai Bagrodia:

Congratulations on your listing. Wanted to ask you, in interim this industry obviously has strong industry tailwinds, but let's say, over a longer period time, how scalable is his business considering where are high mix, low volume kind of business model compared to let's say, larger EMS listed player?

Jasbir Singh Gujral:

See, what we are talking about in number of say, we did INR800 crore or INR1,200 crore or whatever, it's a minuscule, we're not even scratching the surface of electronic manufacturing. The industry as such is so huge that low to medium volumes high mix will have its own traction of growth, high volume will have its own fraction of growth. I personally don't see that issue or a constraint in scaling it up. And going forward as a sort of journey pans out, we would be taking calls on how to maintain the scale of growth, but for the short-to-medium term, the segments that we're working and the segments that we're planning to work, offer us a huge opportunity for growth in line with what we have sort of plan internally.

The low-to-medium volume business is not a constant for growth, because we're not even scratching the surface of electronic manufacturing, the opportunities are so huge. And now with the focus of the multinational companies, shifting to India or pipeline of enquiries from multinational company, both for domestic and global demand is phenomenal, but then they take time, it doesn't happen overnight. The international agreements and arrangements with multinational customers it is 12 to 18 months, sort of a journey where they first visit you, they like you, then their quality teams come in, they do a quality audit, and then the inquiry is coming and all those things and the sampling starts, the process starts of products and the process are validated. So from the time, when we first have an eyeball contact with a customer to the time when it matures into series production, could be 2 years, sample production 18 months.

Dhananjai Bagrodia:

Okay. And sir another question, what levers do we have in terms of growing our ROCE, because let's say, compared to let's say larger player working capital sales is

much better than ours, but they also work on much lower margins. So what do we have in terms of neos to get our ROCE?

Jasbir Singh Gujral:

Perhaps increasing the ROCE are basically in 2 ways. One is increased our asset turn and the asset turn increases your milestone, you get more money into. And second is controlled of working capital in terms of number of days, I'm not talk about the absolute terms. In terms of number of days to bring it down to some 70 days level, 8 to 10 weeks level. Jayesh, would you like to add? Jayesh would like to share some?

Jayesh Doshi:

I want to also state that when we look at the published ROCE, yes, we are quite low at 13%- 14%. But would like to also keep informed that we've just raised about INR800 crore in month of September, August-end. And it would bedeployed over 2 to 3 years. So if you remove that, I'm not saying that arithmetically correct as what is published is published, but on the existing business our ROCE is 22% plus and endeavor is that with the new CapEx coming in, we will definitely endeavor to go beyond 24%- 25% of ROCE.

Moderator:

The next question is from the line of Amit Bhide from Morgan Stanley. Please go ahead.

Amit Bhide:

Thank you, sir for the repeat opportunity. I just wanted to understand that, as you said that there are supply chain challengers in semiconductor procurement, et cetera, and we're targeting the growth, which is like 40% plus. So how are we ensuring that semiconductor supply is sufficient for us for aiming the growth?

Jasbir Singh Gujral:

See, we grew at 40% last year, we grew at more than 40% in the half year. When the supply chain constraints of semiconductors were at the peak, it is over credibility with the distributors and the manufacturers supported by the customers, which enables us to meet the delivery timelines and the growth. And the facts that our inventory levels have gone up, that was a conscious decision as de-risking exercise to ensure enough material is available to meet the supply chain commitments to the customers.

Amit Bhide:

Got that. And sir, in the 2 PLIs that we have earned, we have the customers acquired or we would still be looking for a customer tie up, that does.

Jasbir Singh Gujral:

The telecom customers have already been acquired, we already started sort of sales, series have been delivered, the volumes that we are to kick in. So the customers are in place, the technology partners are in place. And obviously, we'll keep adding more customers of the same vertical. But to kick start the production and everything, both the technology partner and the customers are in place.

Amit Bhide:

So just to understand, I mean, what kind of business are we tied up for, are we able to reach the threshold levels? I mean, would we need more customer acquisition for that?

Jasbir Singh Gujral:

Over the current set off of customers whatever businesses we would meet the threshold or exceed the threshold levels required mandated by the PLI guidelines. But we are not guided by the PLI guidelines, if business is available, we would require irrespective of the PLI. But current customers enabled me to claim the PLI.

Moderator:

The next question is from the line of Keshav from Phillip Capital. Please go ahead.

Keshav Bharadia:

Sir, I just wanted to do understand if it's possible, if you can give us some data on what was the component assembly volumes in Q2 and H1 compared to last year? Just wanted to know sir, how many components were soldered?

Jasbir Singh Gujral:

component could be INR0.05 paisa to INR500 value, so we don't know, but that will go by what are the hours of capacity we have got and if I just take hypothetical case, if I got 10 lines, I got 5,000 hours by in the month. If I have 20 lines, I have multiple of that. So we go by the capacity based on that. We don't count how many component we have place, theoretically we can count what is the rated capacity, what is actual capacity. But essentially what we go by is the number of hours of SMT, which we have got at how much is the utilization, because the component would be a INR0.05 or INR500, so it would be very misleading if I was to see, i.e., sold billions of resistors, then we were some thousands of dollars or a hundred thousands of dollars and I sold thousands of microcontrollers. They may be equivalent to millions of dollars.

- Moderator:** The next question is from the line of Amar Maurya from Alfa Accurate PMS. Please go ahead.
- Amar Maurya:** Sir, thank you for the opportunity. My first question was answered, like as I wanted to look data gone up. So you indicated that it is basically because we have deliberately stopped the more inventory for the fulfillment of order. Secondly sir, in terms of your cash which we are having, like, indicated the CapEx plan, as well as the acquisition. So if you can mitigate how much of this portion is going to go for the CapEx going forward and what would be for the acquisition?
- Bijay Kumar Agrawal:** So out of the money, we have received, we have ear marked about INR400 crore for CapEx, out of which we have so far utilized only INR5-odd crore, so the balance may be approximately INR400 crore is still available for CapEx thing, and about INR120 crore is available for working capital use, and rest is available for any inorganic acquisition or other gen corporate use.
- Moderator:** The next question is from the line of Chintan Mehta from Prudent Broking. Please go ahead.
- Chintan Mehta:** Sir, if you can explain the strategy in a big detail to achieve a 40% growth? Strategy for the how do you achieve 40% growth.
- Sandeep Tandon:** I have a very interesting way of describing this, but please bear with me. When you go fishing, we have been doing 2 types of fishing, 1 is whale hunting and the other is normal fish laying out the net. So we do both. As when we whale hunting, I mean, we name customers that we're going after and really working to make sure that they come to us. And then the laying out the net is catching what in our chosen domains we can catch and those are 2 areas. But of course, in the traditional way of hunting and mining, our mining part is what you're seeing right now that work that we had done 2 years back, but now we're driving more for next engines of growth. And like I said, this is the Y2K moment for India in the certain spot light is making sure that most credible players get the attention and that's why 1 of the reasons we listed the company also, because that was the question we got, why?
- Because we want to be not only leaders in call it defects remanufacturing, we also want to be leaders in governance, we want to be leaders in giving return to shareholders. All those things are very important to us. So with that, we get the best customers as well, best employees, best customers will work for us. We work with that. So that's what we are really aiming for. So we want to make sure that all those engines make sure that this opportunity that is presented to us can be captured.
- Jasbir Singh Gujral:** Yes, Chintan, best captures the nutshells the philosophy of Syrma SGS. We have a serious business model which will ensure sustained growth with profits and benefits for all the stakeholders. And for me, all the stakeholders starts with my employees, customers, vendors, and the society. And investors in any case. Without that, we wouldn't be ahead in this cause. So we are here because of the investors.
- Chintan Mehta:** Sir, can I say that the wallet share gets improved when the products get appreciated in terms of engineering or design?
- Sandeep Tandon:** Yes, absolutely.
- Jasbir Singh Gujral:** Absolutely. You see, one of our strengths has been that when we enter with the customer or engage with our customer, over a period of time we have the highest wallet share with them for the products which we supply. Very rarely would be number 3 or number 4 vendor to our customer would be either number 1 or at worst number 2 vendor with our customer over a period of time. We may enter small, but gradually with the surveys and the value addition which we give because of our design-led approach, we tend to capture the wallet share with our customers.
- Moderator:** The next question is from the line of Saurabh from East Lane Capital. Please go ahead.
- Saurabh Mehta:** Congratulations on the very strong results. I have a couple of questions. The first 1 is, I wanted to understand what is theoretically the asset on which the SMT line could

reach on the higher side? And the second question is, wanted to understand, what is the margin profile around the value chain like in the box build or the plane assembly, like, what is the margin difference between the value chain? That's it.

Jasbir Singh Gujral:

See, theoretically if we were doing a very high volume products, as said, would be 10x to 12x. But we are factoring 9x of the asset turn would be, which would be good. That would also depend upon the type of products which we make. On the margin profile, as there is no one single answer, the margin profile keeps changing because of the value addition which we offer to the customers. With box builds, the CapEx is less. The value addition is more, so in terms of the value of the product increases because of that.

So obviously with box builds, the return is higher than vanilla PCB board on an average. But the real meat in this is the value engineering and the design support, which we give to the customer. That's the key differentiator from a plain vanilla EMS manufacturing. This brings in customer delight, because we have strong engineering footprint as Sandeep had explained in the opening remarks, it's in the genetics or the DNA. So even if the customer doesn't ask for it, when we are making a product, we go back to him with value engineering prepositions, that's where the whole sort of meat in the businesses. I hope that answers your question?

Saurabh Mehta:

Yes, it does. One small follow-up, is it only the SMT line CapEx or are you talking about the total CapEx, which could include some infrastructure investment as well?

Jasbir Singh Gujral:

As we talk CapEx side, we take in the total infrastructure, but the return actually is given by the SMT line, though it gets sort of divided by the overall CapEx, create a INR5 lakhs top of a building. And if I have only 1 SMT line, this cannot give a return. So SMT lines of the heart which churn of the material, which results in the high churn of the total assets. If I was to take only SMT lines, then the figures would be sort of different. When I am referring to 8 to 9, or 10 to 12, it is the total asset base or the fixed assets base of the company, including infrastructure.

Moderator:

That was the last question for today. I would now like to hand the conference over to the Chairman for closing comments.

Sandeep Tandon:

So, Yes, I think I have run out of words, but thank you so much for all of you for being here. I mean, like I told you, I mean this is a huge opportunity for India. I mean, honestly, if you look all our neighbors have really benefit from electronics manufacturing, and now that our government is supporting, the policies are in place, I think this is the time for India. So really the huge opportunities is presenting us and we really feel at the same very accountable to deliver on these results, I mean for the nation as such to build this nation. So thank you so much for being here and thank you all.

Moderator:

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