Date: February 13, 2024

To,

Listing Department
National Stock Exchange of India Limited
Exchange Plaza, C-1, G Block, Bandra Kurla Complex,
Bandra (East), Mumbai - 400 051.
Symbol: SYRMA

Department of Corporate Service
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai - 400 001.
Scrip Code: 543573

Subject: Earnings Call transcript of the Investors Conference Call held for results of quarter and nine months ended December 31, 2023

Dear Sir/ Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find attached the Transcript in respect to the Earning Conference Call on the financial and operational performance of the Company for the quarter and nine months ended December 31, 2023, held on Wednesday, February 07, 2024, at 10:30 a.m.(IST).

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

We request you to take the same on your record.

For **Syrma SGS Technology Limited**

Komal Malik

Digitally signed by Komal Malik
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Date: 2024.02.13 19:23:18 +05'30'

Komal Malik
Company Secretary & Compliance Officer
Membership No: F6430
Place: Gurgaon

"Syrma SGS Technology Limited
Q3 FY24 Earnings Conference Call"

February 07, 2024

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

Moderator: Ladies and gentlemen, good day and welcome to Syrma SGS Technology Limited Q3 FY24 Earnings Conference Call hosted by ICICI Securities. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone phone.

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

Anniruddha Joshi: Yes, thanks Manuja. On behalf of ICICI Securities, we welcome you all to Q3 FY24 Results Conference Call of Syrma SGS Technology. We have with us senior management of the company.

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

Nikhil Gupta: Thank you, Aniruddha. Hi, very good morning to all. Welcome to Syrma SGS Q3 FY24 Earnings Call.

We have with us today Mr. J. S. Gujral, Managing Director, Mr. Jayesh Doshi, Director, Mr. Satendra Singh, Chief Executive Officer, and Mr. Bijay Agrawal, Chief Financial Officer, Syrma SGS, to discuss the performance of the company during the third quarter of fiscal 2024, followed by a detailed question and answer session. During this call, certain statements that will be made are forward-looking, which involves several risks, uncertainties, assumptions, and other factors that can cause 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 this call to Mr. J. S. Gujral, Managing Director, Syrma SGS. Thank you.

J.S Gujral: Good morning, ladies and gentlemen. It is my pleasure to host this Q3 earnings call for FY23-24. The three quarters, April to December of this year, have seen a robust growth of 48% in revenues to INR2,062 crores, which is almost touching the annual figures which we did last time. So, the growth is intact. This despite a flattish Q3, which is not a reflection of our annual growth prospects. We had some major push-out of orders, sales, dispatches during Q3, which resulted in a flattish Q3 compared to Q2.

Year on year, we have grown in revenues. Our EBITDAs for the nine months stand at 6.6%. 48% growth has resulted in a saving of 2.6% to 2.7% of overhead, which has partially offset the increase in the material margin because of the change in product mix. What I would like to share with you is that the industry profile of margins, gross material margin of various industrial segments are stable and are not seeing any major contraction.

Our exports have grown by 18% year on year for the nine months, and if I was to see Q3 of this year compared to Q3 of last year, they have gone a significantly higher percentage, which is close to about 50%. We have orders in hand of INR4,500 crores to be executed over the next 12 to 15 months. During these nine months, we have commissioned over new facilities at Gurgaon.

We have put up a new facility at Noida, and we are also in the process of setting up a new facility at Bawal and Pune. Cumulatively, these facilities will give us an additional 3.5 lakh square feet of area, which will cater to the future growth prospects of the company. For an EMS company, the basic capacity is the SMT, and between April of this year and December of this year, we have increased our SMT placement capacity from 3.2 million components per hour to approximately 6.3, which is almost a 95% increase, a doubling of the capacity.

So this will help us in achieving the growth trajectory which we are envisaging and have budgeted for our company. For the current year, we maintain over the guidance given earlier of achieving INR3,000 crores of revenue, with an EBITDA of approximately 7% to 7.5%. For the next year, we expect this growth trajectory to be maintained. So we expect that next year will also grow in the same level as we have grown this year, which is between 40%-45%.

And this will primarily be led by the rebounding of the healthcare sector, which we expect to have significant contributions in the coming year, automotive, industrial, and consumer. During this period, we have onboarded, in the last quarter, senior resources to drive various business verticals. For example, we have hired a CEO for our RFID business to drive this vertical, because this is a high-margin creative vertical.

We have also hired a Chief People Officer to take the organization to the next level. I would also like to share with you that we have hired, during this quarter, Mckinsey, who will be assisting us in driving operational efficiencies and growth trajectories over the coming years, the results of which will be visible not in the short term, but in the long term. Before I hand over to Bijay Agarwal, our CFO, to delve in detail on the financials, I would now request Satendra Singh, our CEO, to introduce himself and share his thoughts, and then Bijay will share the financial details with you. Thank you.

Satendra Singh: Thank you, Mr. Gujral. Good morning, everyone, on the call. Good to be here in our Q3 FY24 results call. As Mr. Gujral said, there is a strong growth, which we have had over the last three quarters. We expect to continue a similar trajectory as Mr. Gujral covered in his remarks. At this point, I think, Syrma SGS is in a phase wherein we are investing, investing in our ability to deliver the future.

We have invested in hiring the leadership talent, the CEO for one of the business units, the Chief People Officer, and we are working through bridging some of the areas where we believe we could enhance our capabilities. In addition, we are continuing to invest in our manufacturing facilities, the four facilities Mr. Gujral mentioned, along with the SMT capacity. So, essentially, we are in an investment cycle wherein we are investing in our people, process, and manufacturing capabilities.

We, as a company, and I, as an individual professional, continue to remain very long and very bullish on manufacturing. With this, I'll say thank you and turn it over to Bijay for his coverage of numbers. Over to you, Bijay. Thank you.

Bijay Agrawal: Good morning, everyone. I'll now take you through our brief financials for the quarter and nine-month period ended December 2023. Our revenue for the nine-month is approximately INR2,028 crores, up by almost 48% year-on-year. And, same way, for the quarter, it is INR709 crores, up by 38% year-on-year.

Out of this revenue, almost 27% is being contributed through export sales. Export sales for the quarter is almost INR200 crores for this quarter. ODM revenue for this nine-month period is almost 19% for us. The gross margin for the quarter ended at nine-month period is approximately 24% for us. Our operational expenses for the quarter are slightly higher in this particular quarter, as explained by our MD and CEO.

Some push out of revenues and some upfront investments towards the organizational building, team building across multiple focus areas and geographies. Our operating EBITDA for the quarter is approximately INR41 crores. And, for the nine-month, it is INR133 crores, which is 6.6% of operating EBITDA margin. PBT for the quarter is INR27 crores. And, again, for the nine-month, it is INR107 crores, which is, again, 5.2% of PBT margin. Similar way, PAT for the quarter is INR20 crores and, for the nine-month, it is approximately INR79 crores, which is 3.8% of PAT margin.

My net working capital days for the quarter is 72 days, slightly higher than the last quarter where we were running at around 70 days. So, two days difference mainly because of some additional inventories being carried for the businesses over here.

Now, coming to the order book which we have in our hand. Currently, we are carrying an order book of approximately INR4700 to INR4800 crores of total order book, out of which, near about INR4500 crores which need to be serviced in the next 12 months period. And, again, if we see the breakup of this order book, about 88% to 20% is towards auto sector and maybe about 40% to 45% is towards consumer sector.

And, similar way, about 30% to 35% is for industrial sector. Balance sheet for healthcare, IT, and railway segment as of now. Again, on the debt and treasury side, we have a debt of approximately INR494 crores as on December end, against which we are carrying a total treasury position of INR405 crores or maybe INR428 crores. So, my net debt position as on quarter end is INR65 crores. Out of this debt also, near about INR88 crores is a long term debt. Balance INR400 crores approximately is towards working capital debt.

Coming to the capex number, in the 9 month period, we have spent almost INR240 crores of capex towards multiple different facilities. And, we expect another INR40 crores to INR50 crores of capex spent in the upcoming quarter, which is quarter 4 of this financial year. We still have about INR200 crores of unutilized IPO funds towards capex, which we expect to spend in another next 12 to 15 month period.

With this, I will now hand it over to Nikhil to open the forum for the Q&A session. Thank you very much.

Nikhil Gupta: Thank you Bijay. Manuja, over to you for the Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rahul Gajare from Haitong securities. Please go ahead.

Rahul Gajare: Good morning, gentlemen, and thanks for the opportunity. I have a couple of questions. I will start with the revenue and margin, which were tied lower during this quarter. Can you talk about the reasons specifically for lower revenue and margin in this particular quarter? Given that you had a strong order backlog, there was a clear roadmap in terms of execution. And I think you also indicated earlier that H2 normally is 55% of your revenue.

And I think the guidance that you have just talked about basically talks about being able to do about INR900 to INR1000 crores of revenue in the fourth quarter with 10% EBITDA margin. So I want to understand which has the segment that you are confident that will drive this 10% margin? So that is the first question. Thank you.

J.S Gujral: See, this quarter we had a push-out in the automotive and consumer segments, which led to a decline of revenue. And once the revenue declines, the overheads things fixed, it has a direct impact on margins. For clarity, for example, if we consider the nine-month figure, we have grown by 49% post operating overheads have come down by 2.6%. But if I was to compare Q3 with the Q2, my overheads have actually gone up to approximately 15.5% to 17%. So, 1.5% increase in overheads, especially because the revenues are lower. We are very confident that we will recover this revenue.

And for your information, in the month of January, we have done a revenue of INR362 crores, which is the highest ever. And we expect that whether it is INR360 or INR330, that's a separate issue. But the INR300 breach has been done and it will continue in the future. So, this Q3 is a one-off operation on missing the revenue growth. Though in nine months, we have grown by 48%. And this shows the resilience of the business, that despite a flattish quarter, nine months' revenue has still shown a very healthy growth of 48%.

So, we are very confident that going forward in Q4 of this year and the coming quarters of FY'24, '25, the revenues will be met. Honestly, quarter-on-quarter meeting the last figure or the last two digits or whatever, it's a thing we are focused on, but we are not too sort of worried if one quarter is going because of a special circumstance. What we are focused on is what is the long-term picture. Is the long-term picture, the long-term growth trajectory, the customer onboarding, penetration in different geographies, is that intact or not? On that, it is very intact. I hope that answers your question.

Rahul Gajare: Yes, you talked about push-out. Is it possible you can quantify the push-out of revenue in this particular quarter?

J.S Gujral: I'll just ask Bijay to share that figure with you. It's about INR100, INR110 crores.

Rahul Gajare: My second question is on, you talked about pretty strong order backlog at almost INR4,500 crores. How much is export out of it? I remember export is something which will aid margin expansion for this company.

J.S Gujral: See, we expect order backlog, I'll just ask Bijay to pull out the figures of the order backlog of exports. But if exports account for about 27%, 28% of all revenues, I expect the exports should be in the same proportion, maybe a little less. This year, we have done 9 months, we have done INR550 crores of exports.

And going forward, we expect the exports to grow further in the coming year on the back of renewed growth in healthcare. And the customers which we onboarded during the first 9 months of this year, they would start yielding serious revenues in the coming year. The figure on the exact export orders in hand out of this INR4,500 crores, overhead and taken out, it will be shared by Bijay.

Bijay Agrawal: Approximately, we have 20% of export orders in the overall open order book there. And in the next quarter also, we are expecting somewhere around 20% to 30% of export in the next quarter.

J.S Gujral: So that would translate into export business of export orders of about INR900 crores or of the INR4,500 crores.

Rahul Gajare: Sir, while you have said that working capital will actually decline as we go along. We have not seen that really happen. So where are we on that journey? And I think connected with this, I also want to understand, there was a litigation where you settled some amount. Is it possible you can share some details of that litigation and what is it that you have done in terms of risk management? So that these kinds of things do not reoccur? Because as the order book revenue quantum goes, I think if there are litigations, this number can also increase. So what are the risk management tools or things that you have put in place, so that these things do not reoccur?

J.S Gujral: See we had projected inventory go as a net working capital going down, which is slightly two days up. But in absolute terms, if we see the inventory and the net working capital has gone up, now if a INR100 crores, INR110 crores revenue gets pushed down, it would be lying in the shop floor. And with average material cost of 70%, 75% or whatever is that, approximately it is what, about 74%, 75%, it means a direct hit on inventories to that extent. So on a long-term basis, we still maintain that. We said that, we would try to bring it down to 70 days. We are still holding that and sliding it down to 60 days.

Quarter-on-quarter meeting every target at times in this dynamic business environment is a challenge. What we concentrate on is, is the business outlook from that customer stable for the coming quarters or not? And there we don't see any challenge. Quarter-on-quarter, it will always be there. Some odd thing, not of this magnitude, but we started off with 90 days at the beginning of the year and then we have come down to 70 days last quarter. This time it is 72 days and I think in March, we should be below 70 days.

Bijay Agrawal: Now on the contingent liability or maybe that litigation thing, this is an 8-year or maybe 9-year-old litigation which was going on with one of the customer. Again, regarding this thing, this was always disclosed in our contingent liabilities. This was reflecting as a contingent liability worth around approximately INR6 crores in our balance sheet previously.

We settled it out of the court with that particular party during quarter two of this financial year and overall impact is INR1.35 crores is what we have agreed to pay. And this was already factored in our finances in quarter two of this financial year. And again, because it was a litigation, it was already disclosed and related, I would say measures internally from a risk point of view was always being taken care of.

Rahul Gajare: Thank you very much and all the very best.

Bijay Agarwal: Thank you.

Moderator: Thank you very much. The next question is from the line of Alok Deshpande from Nuvama Institutional Equities. Please go ahead.

Alok Deshpande: Yes, good morning everyone. Thanks for the opportunity. My question is about the order book. You mentioned an order book of about INR4,500 crores. Would it be possible to share the split of the order book between the different verticals that you have? I think I remember you mentioning about 40%-45% is consumer.

That's what you mentioned in last quarter. And then based on that, the guidance that we are giving on margins for next year which is 7%-7.5%, then before you bought Johari Digital, you had a margin which was 9%-10% and Johari is about 35% margin business. Then are we looking at a scenario where the business margins or the blend mix is taking the margins down?

So order book and margins are the two questions that I have.

J.S Gujral: Okay. The breakup of the order between the various vertical and the segments I think Bijay will share with you after my reply on the margin profile. See, again as I said in my opening statement, what we are focused on is maintaining or increasing the margin profile of each vertical.

Now each vertical would have its own margin profile. Automotive vertical margin profile cannot be compared to a consumer vertical margin profile. And if tomorrow, for example, we were to do the IT business, the margin profile would be entirely different.

So what we internally work is that A, is my vertical profile sustained, stable or is it getting under stress? Then within the vertical, we look at the customers. So, margin profile, if the product mix changes, would undergo a change.

And keeping into account the profile of potential sale mix in the coming year, we believe that with the mix which we have envisaged for the next year, that is FY '24-FY '25, we should be in the range of 7%-8% EBITDA. For FY '24-FY '25.

Bijay Agrawal: Now on the order book breakup, I can just take you through. Broadly, the largest contributor here is consumer, which is almost 40%-45% is being contributed by consumer segment here. Thereafter, industrial segment which is contributing almost 30%-35% of the order book.

And then comes auto which is 18%-20%. And then we see healthcare, IT and railways is the balance. Healthcare is slightly higher this time, about 8%-10% is what we are expecting out of the healthcare in this particular quarter.

Alok Deshpande: And Bijay, the business from Johari would be part of this healthcare vertical, right?

Bijay Agrawal: You say INR 4700 - 4800 crores, this includes Johari also.

Alok Deshpande: No, the healthcare includes, healthcare part which you mentioned 8%-10%, that will include Johari also.

Indrajit Agarwal: Absolutely.

Alok Deshpande: Okay, understood. Thank you so much, gentlemen, the response is very helpful.

J.S Gujral: Thank you, Alok. Thank you.

Alok Deshpande: Thank you.

Moderator: Thank you very much. The next question is from the line of Aditya Bagul from Tata Mutual Fund. Please go ahead.

Aditya Bagul: Hi, sir. Good morning to everyone. Thank you so much for taking my question. First of all, heartiest congratulations. We are very enthused by the overall growth momentum that we have maintained so far. My question is on EBITDA margins, right? So, when we go back, let's say a year or two, with somewhat of a similar mix, we used to do close to 28%-29% gross margins flowing into a double-digit sort of EBITDA margin profile.

My question is, over the last nine months and running into FY '25, is there a structural change in terms of thought process to chase, let's say, an auto or a consumer set of customers, which are essentially driving a negative mix for us? So, my question is, is there a change in thought process for us to drive a particular set of customers?

J.S Gujral: No, I don't think there is a change in the mindset to drive a particular set of customers. We being in business, it's a management call or business call that if an opportunity is existing in a particular segment, should that opportunity be taken up or not taken up? Now, when we take up an opportunity, we evaluate various parameters.

For example, if I was a INR1,000 crores company, my buying power, the muscle power with my vendors, the negotiation power with my vendors would be quite different if I was to buy material worth INR3,000 crores. So, while a particular segment has its own margin profile, the positive rub-off effects on the overall business as we grow are there. So, it is not that the management is changing its focus from automotive to consumer.

Automotive, we have grown. Nine months, we have grown almost like -- just a sec. Nine months, we have grown by 67% in automotive, whereas we have grown 90% in consumer. In absolute figures, we have done an additional automotive core business of INR168 crores. So, it's not that the focus has shifted. It's just that a business which is available, formidable names, global players, which bring in sort of manufacturing expertise, we have taken that business. It's not one at the expense of the cost of the other.

Aditya Bhagat: Right. Understood, sir. That's very helpful. Can you also clarify, I think you made some comments earlier in terms of raw material cost. So, when I look at the RM margins, right, your gross profit margins, you've come down from 29% to 24%. Is that purely on mix or is there some other elements to that as well?

J.S Gujral: That's what I said. We very minutely, closely monitor first the vertical-wise gross material margin and then within the vertical, the customer margins. This change is purely, purely because of change in the product mix. And if I was to see, FY 9 months, it has gone up by, gone down by about 5%. And my consumer business has gone up by 90%. So, the heavy reliance on the consumer business is bringing down this gross material margin.

Aditya Bhagat: Sure, sir. Loud and clear. Thank you so much for this. Just a small suggestion, sir. If you can…

J.S Gujral: Increase in material cost by about 5%, because of the operating leverages which the consumer business has brought in, has saved me 2.7%, 2.6% on overheads. So, while on the gross material margin, we see a negative, on the operating margins, the overheads, we see a positive. So, the net impact could be half of that.

Aditya Bhagat: Understood, sir. This is very clear. Just a small suggestion, sir. If possible, it would be great if you can articulate a medium-term strategy, not necessarily right now, but maybe heading into FY'25, if you can articulate a medium-term strategy, a 3-year, a 5-year outlook, that would be very helpful, sir.

J.S Gujral: Point well taken. But I'll tell you the strategy is very clear. To grow at an industry-plus rate, year-on-year, for the next 3 to 5 years. So, if the industry is growing at 30%, 35%, we should be growing at greater than 35%.

Aditya Bhagat: Understood, sir. Thank you, so much and good day, gentlemen.

Bijay Agarwal: Thank you.

Moderator: Thank you very much. The next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: Yes. In railway, we have seen a 20% kind of degrowth in 9 months. So, and we are seeing a higher opportunity in railway. And also, healthcare, we have only 17% growth. So, what is the outlook for healthcare and whatever the order book you are getting, it is not showing we are getting a higher order book for healthcare as well as for railway. So, can you talk about what are the challenges we are facing in this segment?

J.S Gujral: Okay. I'll come to railways first. In my last call, I had shared that we had called the RDSO approval for railway signalling equipment. And we have got a business of about INR35 crores from there. There was an existing business of INR5 crores. We were expecting this INR35 crores business, part of it to be shipped out by March '24. Unfortunately, because of some component shortages at the global level from very specialized controllers, this sale is being pushed out to the next quarter.

This quarter, we should be doing about INR5 crores of railways for the railway signalling equipment. And the railway business, since we have just started off, the base is small. Once the base of the customer goes up over a period of time, then it becomes less immune to fluctuation. If I have two customers in the railways, and if one of them was to get pushed out for material shortage, it has almost a 40% chance. Is it okay?

Moderator: Yes, sir. Please continue.

J.S Gujral: Yes. So, once the base of railway consumer customers expands, the sensitivity to the fluctuation gets diffused on a longer base and it's less immune to major fluctuations. This will take time because railways is a long gestation business acquisition. With this RDSO approval, we have made the initial breakthrough. So, we expect that in next year, railways should contribute about INR70 to INR75, INR80 crores of revenue at the minimum.

Sumant Kumar: And about healthcare?

J.S Gujral: Healthcare is, essentially, I think next year, my healthcare business should be approximately INR300, INR350, INR400 crores, INR375 to INR400 crores business next year. All inclusive, whether it's RFID, whether it's EMS, whatever is that.

Rahul Gajare: Thank you so much, sir.

Moderator: Thank you very much. The next question is from the line of Indrajit Agarwal from CLSA Capital Partner. Please go ahead.

Indrajit Agarwal: Hi, sir. Two questions from my side. First, the difference that we see in material margin across various businesses, is it offset by better asset turn? The meaning is, are the ROCs across businesses similar or consumer generates a lower ROC than, say, healthcare?

J.S Gujral: See, the high-volume businesses that always have a lower – some of a lower gross material margin and a higher asset turn. It would also have a less impact on net working capital. Businesses which are low to medium volume will attract high margins. High margins would be higher on EBITDA, but maybe they would not be as high on the asset turn as the consumer business.

So, it's a mix, and it's not one off against the other, and they cannot be compared. So, a high-volume business, lower gross material margin, higher asset turn, and comparatively, less working capital involvement, net working capital involvement. Low to medium volume businesses, they would have comparatively higher gross material margin, they would have lower asset turn, and there would be involvement of working capital also.

Bijay Agrawal: So, the ROC should be in the similar range for almost all the verticals across. Only difference can be wherever we have started a new business, there the ROC can reflect probably after a full ramp up, till the times of ramp up you having. You can see a slightly lesser or subdued

ROC during that interim period.

Indrajit Agarwal: Sure, this is helpful. My second question is, on your EBITDA margin guidance of 7% to 8%, is there any proportion of other income, that is non-treasury other income or other operating income that you are including, either in revenue or EBITDA?

J.S Gujral: This is the operating margin which you are referring to.

Indrajit Agarwal: Yes.

J.S Gujral: And even for the 7% to 8% they are the operating things, with the other income, the margin would be higher – the EBITDA margin would be higher.

Indrajit Agarwal: Okay, that's clear. Thank you so much.

Moderator: Thank you very much. The next question is from the line of Keyur from ICICI Prudential Life Insurance. Please go ahead.

Keyur: Thank you for the opportunity. Just one clarification. So, right now, what would the gross block, if you can help us and by end of FY'24 or '25, the possible operational gross block, what would that number and just if you can validate the gross asset, gross block asset turnover should be around in the range of 4 to 5 is at document. Is it correct understanding?

J.S Gujral: I think Bijay will just share the figures with you. But yes, while he is sharing the gross block figure, I believe that by the FY'25 end, over a set time should be upwards of 5, could be closer to 6. From the current, I think it's below 5. Bijay will share the exact details with you.

Bijay Agarwal: So, my gross block is approximately INR700 crores as of now. But out of it, there are about INR150 crores of assets which are there, which are not deployed to put to use. We have already acquired a facility there in Manesar as a new expansion facility. The expansion work is already going on. And similar way, the project expenses, whatever we have incurred related to Hosur location and that project, till the time we commission that project, all the expenses are there in the CWIP and it is not put to use.

So, there will be approximately INR150 crores of capex which we have incurred in last 12 to 15 months, which is still not resulting or will be delivering anything into the operational performance so far. So, which will be reflecting into going forward in the next financial year.

J.S Gujral: What I will request Bijay is that he should take out the capital work in progress which is just not, which is not being put to productive use and share offline with people, all the panellist, what is the assets actually deployed in production and excluding the CWIP. When CWIP comes into full production, the asset turn will be calculated with that. Because that's the true measure of the effectiveness or the efficiency with which the assets are being used.

Keyur: No, correct. That is why I asked for operational cross-block. Fair enough. Just one data point. 9 months cash flow from operations, if you can share, that would be helpful? Thank you.

Bijay Agrawal: 9 months OCF is almost negative here for this period. But we see in the full year basis, we should be having a good, decently positive numbers. Because there is an incremental working capital investment during this period. So, overall OCF is negative.

Keyur: At around? Could you possible to quantify?

J.S Gujral: Its around negative? See, the sale push out which has happened in December has resulted in an increase in working capital.

Keyur: Understood. Understood. Noted. Okay. Thanks a lot.

J.S Gujral: Only bought the material, made it. It could be in the lagging finish goods or in the advanced stages of completion. So, that's a push out.

Keyur: So, end of year OCF should be positive?

Bijay Agrawal: That's what we are targeting and we hope we should be able to deliver a positive OCF EBITDA.

Keyur: Noted. All the best. Thank you.

Moderator: Thank you very much. The next question is from the line of Deepak Krishnan from Kotak Institutional Equities. Please go ahead.

Deepak Krishnan: Hi, sir. Thank you for the opportunity. I hope you can hear me fine.

J.S Gujral: Yes, yes. Please continue.

Deepak Krishnan: Sir, I just wanted to sort of understand again on the margin front. Because, essentially, if you look at order book, while healthcare is ramping up, its higher margin, but a large part of consumer will be still driving growth. Its 37% for 9 months, goes up to 40% , 45%. And auto is where you are sort of seeing the negative mix impact. So, except for whatever you sort of have a delay in shipment and some sort of recovery, beyond 7%, 7.5%, do we kind of see margin going ahead with this mix or that is sort of the steady state? And specifically, for Q4, the ask rate is pretty high, closer to 10%. So, what gives us confidence is that with go little deliver 7%, 7.5% for this year also?

J.S Gujral: See, we have mapped out the budgeted sales, which we are envisaging, which you are targeting in FY'24 and FY'24, '25. And it's based on that, that we are giving the guidance on 7% to 8% for the next year. It will be basically on two accounts. A, my assets starting to get optimally utilized. The capacities which you have created this year will start getting optimally utilized next year. So, this will give me operating leverage benefits.

And then, based on the sale profile, we have calculated the gross material margin. That if this was my sale profile, vertical wise, my gross material margin would be 24%, 25%, or 26%, or whatever it's at. And then the operating leverages, which will come in with the increased revenues and the assets being sweated more. With that, we have come at a figure of 7%-8%.

Deepak Krishnan: And essentially, with 7%-8% sort of, margins, what kind of receipts will we finally target with 70%? 70% of working capital base? And over time, we should be seeing FTA generation coming through, right?

J.S Gujral: Sorry, I couldn't get your question.

Deepak Krishnan: I was just saying that 7%-7.5% sort of margins and about 70 days of working capital, what kind of receipt profile are we targeting? And do you think that sort of covers up for, you know, free capital generation also over time?

J.S Gujral: Okay, yes. With this margin, and we are targeting the net working capital to glide down further. The target, as you said, that old wish list is it should come down to 60 days.

We have come down from 90 odd days when we started our journey with the markets. So, over the last 18-20 months, we have come down by almost like 20 days. 18-20 days, and we expect this to go down.

Now, how will it go down? There is a rationality behind it. See, the moment I onboard high volume customers, the inventory holdings come down.

Doing INR100 crores of revenue with, say, 6 customers or 5 customers, the inventory holding will be different than doing INR100 crores of revenue with 1 customer. As my model mix goes down, the inventory levels automatically go down. So, when we are scaling up, we are obviously targeting anchor customers, which will give us good annual revenues, so that there is efficiency built into the inventory holding.

Deepak Krishnan: Sure, sir. Those were my questions and best of luck for future quarters.

Moderator: Thank you very much. The next question is from the line of Chirag Lodhia from ValueQuest Investment Advisors. Please go ahead.

Chirag Lodhia: Thank you for the opportunity. Sir, if you can just help us understand with Johari Digital's performance, how it has been for this quarter, and how is the order book, etc., shaping there?

J.S Gujral: See, Johari Digital, we are on track with doing what we did last year, approximately the same level of turnover. Next year, we are expecting a decent growth of about 25%-30% in Johari Digital turnovers. Now, the Johari Digital business is quite different than the organic business, which is the EMS, because that's a product-based business.

So, whenever new products get onboarded, the growth in that particular year will see a higher, steeper trajectory. And then, it will come down to the rationale, the rational trajectory once the same products go into two years. And we have a decent product line in pipeline, which is under approval.

But all depends upon when do we get those approvals. But we expect that Johari Digital next year should be approximately, maybe 5% or 6% of our revenues. So, it will not be a major contributor to the revenues, but it will be a mainstay of the margins.

Chirag Lodhia: Right. And if you can just call out this quarter performance?

J.S Gujral: Bijay, can you share that?

Bijay Agrawal: So, this quarter, we have done almost INR30 odd crores of revenues for this quarter through Johari Digital. And with approximately 30% EBITDA margin over there.

Chirag Lodhia: Okay, okay. And apart from this, can you help us understand any new big client or deal you would have done in the last 2-3 months?

J.S Gujral: See, we have onboarded some very good clients in the industrial space, but the revenues of which will come in the coming quarters. They are high volume clients. They are into the industrial, whether it's IOT, energy, automotive.

Consumer, we are sticking with the current base, other than the RFID part. In the consumer, we are with the current level of clients. So, the new clients which are in pipeline is very strong.

And they would yield results in '25-'26. The '24-'25 projections which we are sharing, the guidance which we are sharing is with clients already onboarded and sort of order visibility received from that. The new clients which are being onboarded now and in the coming quarters would essentially yield revenues towards the end of this calendar year or at best this financial year end, that is March '25.

And the volumes will start in April '25. Because all these major clients have a 12-18 month gestation period for value series production, high volume production.

Chirag Lodhia: Right. And how is the trajectory for healthcare divisions in export markets? What is happening there?

J.S Gujral: See, healthcare, we are very focused on it. And in Johri, for example, we have hired a new CEO and he is coming from Tata Alexey. So, he has just joined us maybe a month back.

So, that is the focus to grow that business. And he has grown that business in Tata Alexey from almost scratch to whatever Tata Alexey is doing today in healthcare business. So, he has joined us in the month of January.

And that is only with the focus on growing the business. And as I said in my last call earning, what we have acquired is not the business of Johri, we have acquired is a platform. And platform is for long-term growth.

Chirag Lodhia: Right. In terms of base business of healthcare?

J.S Gujral: Sorry?

Chirag Lodhia: Base business of healthcare division, how that would shape up going ahead?

J.S Gujral: Healthcare in Syrma was RFID and that has bounced back. As I shared in my earlier call, we did only INR15 crores in Q1. We did about INR35 crores-INR36 crores in Q2. It has started bouncing back. Q3, it has again seen INR33 plus crores of business. And it is now slowly and steadily picking up.

So, we will come back to where we were 2 years ago. It has been a year of lull and then a year of recovery. Last year was a degrowth. This year has started coming back to the original level.

Chirag Lodhia: Right. Right. And we are quite confident of achieving the INR3000 crores number which we have shared earlier. So, Q4 should have that delay what we saw in Q3, right?

J.S Gujral: We have done INR2000 odd crores up to December. January we have done INR362 crores. That is the figure I am sharing with you. The shipment total is INR362 crores. So, that gives us the confidence of achieving the INR3000 crores target.

Chirag Lodhia: Okay. Got it. Thank you and all the best.

Moderator: Thank you very much. The next question is from the line of Amar Maurya from Lucky Investment Manager, Private Limited. Please go ahead.

Amar Maurya: Hi, sir. Thanks a lot for the opportunity. Sir, what is the kind of asset and we will be targeting let us say the peak level with the INR720 crores of cross-block?

J.S Gujral: Bijay, you take that and operational cross-block.

Bijay Agrawal: Peak level once we ramp up the full capacity there, we are always targeting a asset on somewhere between 6 to 7 times.

Amar Maurya: Okay.6 to 7 times. Got that. And secondly, this 7.5% margin which we are looking for is like the margin we should assume for at least like the full next 2 years, 3 years kind of thing?

J.S Gujral: I think yes. If the product mix remains the same, if there is a shift away from the consumer, more of other things, the margin could go up. But I think this is the margin profile we should look at considering everything into account.

Amar Maurya: Okay. And thirdly, sir, basically with this kind of investment, at the internal level, what kind of ROC we would be targeting?

Bijay Agrawal: Our ROC target is always 25% plus and if we are able to deliver the desired 7% to 7.5% EBITDA margin, my ROC should be in the range of 25% plus.

Amar Maurya: Basically, at INR720 crores of gross block or INR750 crores of gross block, 7 times, so INR5200 crores kind of a top line. 7.5% meaning INR400 crores of EBITDA. Your current capital employed is something around INR2050 crores.

So basically I am trying to understand how you will make a 20% ROC. Either your margin has to go up, otherwise you will be making 14.5% to 15% kind of a ROC.

Bijay Agrawal: My capital employed is approximately INR1400 crores.

Amar Maurya: Your debt equity, like currently your debt equity of September quarter number is around INR1560 crores. Your debt was something around INR80 crores and then another, I think, short term debt of around INR334 crores. So if I include all those things and plus the half year of profitability which I have included.

Bijay Agrawal: There are goodwill and unutilised IPO funds also. So maybe what we can see, Nikhil our IR person can share the working with you also. But broadly within the CE, my capital employed should be in the range of around INR1400crores to 1500 crores.

And that's why we see if we are able to deliver EBITDA of somewhere in the range of around INR350crores to INR380 crores, my ROC should be in the range of 25% to 35%.

J.S Gujral: I think Bijay can share the detail working with you, but I would like to add on a macro level basis. ROC is a function of asset term, EBITDA and your networking capital. As I alluded to in one of my earlier answers to one of the questions is that as we are scaling up, we are bringing in customers with high wallet.

So if I have to do a INR5000 crores revenue, I cannot do it with a INR50 crores-INR60 crores market of customers. So I have to bring in and in fact I have brought in customers who have to be INR200 crores, INR300 crores, INR400 crores, INR500 crores customers. So the moment there is a customer which is worth INR500 crores, the inventory and the working capital level with that customer goes down significantly.

So once the revenue goes up to what level we are targeting and what we have achieved, the profile of the customers will take a turn. It will be a different profile which will result into lower working capital, networking capital. And once there is a lower networking capital, it has a direct impact on the ROC.

Amar Maurya: Okay. So basically you are saying this cash conversion cycle of 80-90 days will further reduce once you change this direction.

J.S Gujral: Today it is at about 72 days. My networking capital is about 72 days. We are endeavouring and targeting to bring it down and that's where the operational efficiencies will come in.

I will ask Bijay, request Bijay to share a sort of a model that with a INR5000 crores or INR4500 crores revenue, this working capital, this EBITDA, what will be the ROC?

Amar Maurya: Okay. Okay, sir.

J.S Gujral: I think that will be helpful for everyone. Bijay and Nikhil can share, you can get in touch with them and they will share the complete model with you.

Amar Maurya: Sure, sir. And one last, this McKinsey & Company which we are hiring, so what would be the cost involved for how much time this cost will be there? And what is the basic purpose to hire McKinsey & Company? What are the key things they will be focusing on?

J.S Gujral: The first purpose of McKinsey & Company is to drive operational efficiency and Satyendra is leading this project from the front, so he will answer it to you. McKinsey & Company are not the ambassadors in PH. They are the Mercedes Benz and BMW.

So, they come with their costs. Confidentiality doesn't permit me to share the costs, but

McKinsey is McKinsey, so we cannot compare it with Maruti or Hyundai. So the costs, whatever are being incurred, are being expensed over a period of time.

We are expensing it and we have expensed it in the current period also. So for confidentiality, we cannot share the costs, but what will this project drive? Satyendra is leading it from the front and I hand it over to Satyendra to share what benefits we expect to get from this project.

And obviously if we are investing so much and we call ourselves businessmen, we expect that what we invest, we will get several times that in our projections.

Satendra Singh: All right, Satendra here. I think to quickly add on to what Mr. Gujral said, this is a period of investment for us at SyrmaSGS. I talked to you about investment in plant. I talked to you about investment in people and this is investment in the process plus business strategy. That's the third piece.

We are working with the firm and we are looking at the operating efficiencies. That's one part of the thing. And secondly, we're also looking at the business strategy for the future as to where we will double down and where we would say it's business as usual.

So those are the two main areas where we are focusing with our own resources and with the outside help.

Amar Maurya: Sure sir. Thank you.

Moderator: Thank you very much. The next question is from the line of Hardik Rawat from IIFL Securities. Please go ahead.

Hardik Rawat: Hello. Yes. Am I audible?

Moderator: Yes, please.

Hardik Rawat: Yes, just wanted to know the segment-wise cross margins.

Bijay Agarwal: Yes.

Hardik Rawat: What are the segment-wise cross margins?

J.S Gujral: We have been asked by our clients and there's been a pushback from the clients because when we declared the quarterly sort of cross margin client-wise, they always come back that we are earning this much, we are earning that much. So, we have refrained from publishing that. But nonetheless, in our meetings and one-to-one calls, you can get back to Bijay and Nikhil. They will share the figures with you.

Hardik Rawat: All right. Thank you so much.

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

Arafat: Yes. Hi, sir. Thank you for your question. So my question is again on margins, sir. Let's say, if you exclude Johari, which is 30%, so then our margins are 4.4%. So you don't think it's very low compared to what we have in the past? And again, let's say, if you look at the last quarter, it was around 7% and that's also 9.3%. So any thought on that, that we have done just a 4% margin in this quarter?

J.S Gujral: It's 4%. Bijay will share the details with you.

Bijay Agrawal: Again, it's a seasonality thing for Johari, what we are saying. So we cannot look on a quarter-on-quarter basis. On a full-year basis, we see definitely it is related to the volume numbers also. Last quarter, they did about INR30 odd crores. With this quarter, we are expecting much better revenues because it's depending upon the order book and in which quarter those are scheduled that way. So we expect the performance to be similar to the last year in this particular financial year.

And again, post the joining of the new CEO, the entire next year strategy work is going on. So going forward, we expect that kind of a growth, which Mr. Gujral has already explained to you.

J.S Gujral: And we now see the company as in totality and not in bits and parts. So there is no north-south divide in a lighter way, as the political people call it. So we see our business as a composite in totality. So someone will be driving margin, someone will be driving growth, someone will be driving the cash flows, someone will be driving the sector. So what we have to see is what we put as a composite thing on the table. The acquisition was done with a certain objective. And now it's part and parcel of our business.

Arafat: Okay, so last question again on Johari, let's say, it is 30% EBITDA. So how this business, how we can, let's say, add to, let's say, how to add the margin on the consol basis?

J.S Gujral: Sorry, you said what will be the contribution of Johari to the consolidated figures?

Arafat: Yes, yes. Going forward, let's say, FY '25, you're looking at 5% growth. So Johari should double, right, in this case, which -- lower margin…

J.S Gujral: Johari would be less than 5% of our total revenues going forward. So if I'm expecting, I'm just taking a off the cuff figure of INR4,500 crores business or INR4,000 crores business, Johari does INR200 crores, it's only 5% of the business. So it will not be a dominant player in the revenues, but it will be contributing a decent amount to the EBITDA.

Arafat: Yes. So again, what kind of revenue look Johari for FY '25?

J.S Gujral: We are looking to grow this year about 20%, 25% in FY '24, FY '25.

Arafat: Fine, fine, sir. Thank you.

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

Vipin Goel: Hi, sir. Thank you for the opportunity. Vipin Goel, this side from Mirabilis. One question on the order book side, you mentioned that you've got some order on the industrial front. And it appears that until last quarter, about INR110 crores kind of intake we're doing, which has now jumped to INR170 crores kind of number, if I just back calculate that number. So can you just provide some colour, some clarity on the kind of product that we are doing on this new order and the possible margin profile of this particular order? Also on the size, if you can just give some colour? Thank you.

J.S Gujral: Vipin, I don't know what figure you're referring to. We did about 1955 last quarter, which is more than 650 per month. In nine months, we have done 5700, which is again more than 650 per month revenue.

Vipin Goel: Sir, I'm talking about the order intake.

J.S Gujral: Order intake. So I'm saying the order intake -- sorry, I was talking to millions. Sorry, 5,708 million. Sorry, sorry. So INR570 crores. Order intake, Bijay shared with you that industrial is approximately…

Bijay Agrawal: 30% to 35% of order book currently, which is from industrial segment over here, which is approximately INR1,300 crores, INR1,400 crores.

J.S Gujral: And these would be in the energy sector, the power sector, power supplies, industrial cleaning, energy storage, energy metering. So it has a comparatively better margin profile. The industrial vertical historically has had a better gross margin profile than the consumer.

Vipin Goel: Okay. Particularly, just on the order intake of this quarter, is it a large one single thing order or is it like a mix of multiple orders?

Bijay Agrawal: It is a mix of multiple orders. We don't have an exact figure of what was the order intake into this quarter. We have a total order book with us as of now. But yes, it is a mix of multiple customer related orders and multiple application related orders.

J.S Gujral: And for the order balance, which is INR4,500 crores, Bijay shared with you that out of this approximately 40-odd percent is consumer…

Bijay Agrawal: Consumer is 40-odd percent.

J.S Gujral: For consumer is approximately 40 odd percent and industrial is in 30s. Consumer is about 45 percent.

Vipin Goel: What is the margin profile of these orders, the industrial orders?

J.S Gujral: I said industrial orders are better than consumer orders and it will increase the gross material margin and it will not increase the material cost as a percentage of the sales.

Vipin Goel: Okay. There is one more question. This quarter you said that INR100 crores has been pushed to the next quarter in terms of execution. But isn't it that the gross margin should have declined because of that this quarter?

J.S Gujral: The gross margin because material goes into the finished goods. It affects my inventory. It doesn't -- margin declines, it affects the absorption of overheads. If I sell INR100 crores sale at MAP and assuming 74% is the material cost I am taking, so INR74 crores my inventory would have come down. My sale would have gone up by INR100 crores or whatever and the overhead absorption would have been higher. So the operating leverage which in nine months is about 2.6% would have been higher by some maybe 2.7% or whatever. So it doesn't affect the gross material margin.

Vipin Goel: Okay, thank you sir. That's it from my side. Thanks.

Moderator: Thank you very much. The last question for the day is from the line of Anupam Goswami from SUD Life. Please go ahead.

Anupam Goswami: Hi, in this quarter what kind of margin we did segment wise? If not, was there any change or degradation in margin in each segment or is it just because the consumer segment was higher this time? That's why we saw the margin being beaten down?

J.S Gujral: What I shared with you in my opening statement is we very closely work at analysing the industry-wise gross margin and we don't see any stress on that. They are stable. That's why if you see the gross material margin has increased from 23.4% in Q2 of '24 to 23.9%. So, in fact there is a positive rub and that is because there is no stress industry-wise in the margin. There may be some savings somewhere. The gross material margin profile is purely linked to the product mix and the industry mix.

Again, if I am saying hypothetically, purely hypothetically, if I was to do INR1,000 crores of IT business, IT business would come at a gross margin of about 3% to 4%. That's what all the industry people are saying and that's what we also believe in. But it will be highly accretive on the, what you call, asset turn and ROCE. So, a INR1,000 crores of IT business would change this gross material margin profile significantly. So, what we analyse, as I have been repeatedly saying, is that we analyse industry-wise margin and whether they are changing or not. Whether it's automotive, whether it's healthcare, whether it is industrial or consumer or railways, we are not seeing a stress on that. We see stable margins per se in each of these verticals.

Anupam Goswami: Okay. Understood, sir. And when you guided 7% to 8% margin in next year, are you taking auto to be back to where it was in the proportion? Or are you continuing with the consumer segment growing at such a rate?

J.S Gujral: Our business would be primarily on three legs, which is auto, industrial and consumer. On a long-term sustained basis. Again, quarter on quarter is a different thing. So, we would love the three verticals to contribute about 75% or 80%. Whether they contribute a secular percentage or it is higher in one and lower in another, it's very tough to predict today. But on a yearly basis, I expect my automotive business to be about, Bijay, 25%, 27% of the same?

Bijay Agrawal: Yes, 20% to 25%.

J.S Gujral: 25% of the same. Industrial would be the same, maybe growing up in the next year. So, the margin profile, as I said to an earlier question, has been communicated, calculated based on the profile of my sales and the operating leverages which would emerge from this thing. And that's why we have arrived at this. There's a complete backward exercise which has been done to arrive at this.

Anupam Goswami: Okay. And the last question, in this order book, did we add any more wallet share or customer additions in this order and going forward, how is the pipeline?

J.S Gujral: See, typically when you do a business, you always increase the wallet share with the customer. And that's one of the strengths. That's one of the internal metrics which we sort of use to evaluate. Am I doing something good for the customer vis-a-vis my competition? If my growth was to come by seeding market share of existing customers, the growth would be reflected, but the quality of the growth, I would not be satisfied. The quality of the growth is that, A, not only you bring in new customers on board, but B, you snatch wallet share from competition. That's the quality of growth and we are focused on both.

Anupam Goswami: Okay. Understood. Thank you so much.

Moderator: Thank you very much. In the interest of time, that will be the last question. I would now like to hand the conference over to Mr. J.S Gujral for closing comments. Please go ahead.

J.S Gujral: Ladies and gentlemen, we are in exciting times. In 37-38 years of my career in the electronics industry, we have never ever, I repeat, never ever seen such a positive macro level, tailwind and environment for the electronics sector. We are very, very confident of long-term sustenance of the business with margins. And as [Satendra] has shared in his comments, we are investing on people, resources, systems. So there would be a short-term cost involved, but the long-term benefits would accrue over a longer period of time.

We believe that Syrma SGS is uniquely placed among the industry peers with a very healthy export component of about 27%, well-diversified product mix, strong R&D, which we are investing, and those results have yet to come in. In fact, we have not discussed on that. The design and development efforts which we are putting in will bear fruits in the coming year. The hiring of the CEOs for RFID, for medical, would bring in greater revenues in these verticals in the coming year.

So the focus of the management is to grow the high margin areas in the coming years and that's why these leadership positions have been filled up so that they can drive the business from the front and it becomes a truly professional managed company, diverse from the ownership. Currently, the owners are also wearing the functional hats, but in the coming years, we would like to pass on this baton to professionals to drive the business so that Syrma becomes a truly board-managed company and is respected.

Apart from that, this is the normal financial figures. What we are very focused on is ESG. So we are internally targeting to be sourcing, I think, 50% of our energy from green sources over the next two years to three years. We are tying-up with the renewable energy companies in South and North. Unfortunately, there is a constraint in the supply. So we would like to be a truly global company in terms of systems, in terms of work ethics, and in terms of social and corporate governance. We are very confident and we are committed to build this into a worldclass institution. Thank you very much.

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