

**BUY****TP: Rs 600 | ▲ 25%****SYRMA SGS**

Consumer Durables

02 August 2023

## Margin miss an aberration; guidance intact

- Q1 topline growth robust at 54% YoY but margins falter on lower healthcare business
- Acquired JDHL to foray into the medical devices segment; confident of strong growth ahead
- We raise FY25 EPS by 4% to bake in the new acquisition; maintain BUY with a revised TP of Rs 600 (vs. Rs 440)

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**Strong topline; miss on margin:** Syrma posted topline growth of 54% YoY in Q1FY24, but EBITDA margin contracted 250bps YoY to 6.1%. This can be attributed to low contribution from healthcare business during the quarter, which recorded a topline of Rs 150mn compared to Rs 450mn in Q4FY23 and Rs 550mn in Q1FY23. Management estimates that the temporary dip in healthcare had a negative YoY impact of close to Rs 170mn on EBITDA but expects sales to bounce back in Q2, suggesting a margin rebound.

**Guidance retained:** Management indicated that the Q1 margin miss was an aberration and expects a return to form in subsequent quarters, retaining guidance of a double-digit EBITDA margin for FY24. Syrma also reiterated both its full-year revenue growth guidance of 35-40% and expectation of outpacing the industry. Net working capital is guided to stay within the current range of 70-75 days.

**Order book:** The order book stands at Rs 35bn, of which Rs 22bn-23bn is expected to be delivered in the next 12 months. Syrma bagged a major contract in the electronics manufacturing services (EMS) space worth Rs 11bn during Q1, comprising automotive (25%), consumer electronics and original design manufacturing (40%), healthcare (8-9%), industrials (22%), and railways (3-4%). The rail order book has grown strongly and momentum is likely to continue, albeit off a small base.

**Johari acquisition to be accretive:** During Q1, Syrma acquired a 51% stake in Johari Digital Healthcare (JDHL), a medical devices company based out of Jodhpur, for a consideration of Rs 2.6bn. This acquisition marks the company's foray into the medical devices business. Syrma expects its own global reach, management bandwidth and financial strength to play a key role in fostering growth in this new venture. The business is also expected to grow rapidly as further USFDA approvals come through.

**Maintain BUY:** We raise our FY25 EPS estimate by 4% to bake in the acquisition and hike our target P/E to 40x (from 35x) given a strong growth outlook. Rolling valuations over to Jun'25E, we arrive at a revised TP of Rs 600 (vs. Rs 440). Our multiple is at a 30% discount to DIXON, the sector leader in the EMS space. BUY.

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SYRMA IN/Rs 480
Market cap	US\$ 1.0bn
Free float	53%
3M ADV	US\$ 6.0mn
52wk high/low	Rs 517/Rs 248
Promoter/FPI/DII	47%/5%/9%

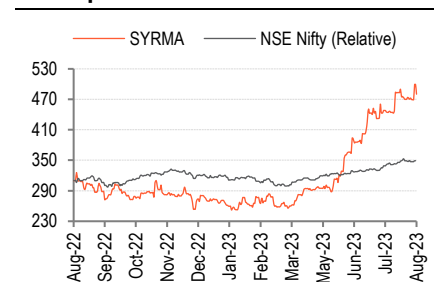
Source: NSE | Price as of 2 Aug 2023

## Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	20,484	26,682	36,371
EBITDA (Rs mn)	1,878	2,510	3,634
Adj. net profit (Rs mn)	1,193	1,634	2,303
Adj. EPS (Rs)	6.7	9.2	13.0
Consensus EPS (Rs)	6.7	-	-
Adj. ROAE (%)	11.3	10.2	12.9
Adj. P/E (x)	71.2	52.0	36.9
EV/EBITDA (x)	45.2	33.8	23.4
Adj. EPS growth (%)	56.1	36.9	41.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

## Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	6,013	3,893	54.4	6,795	(11.5)
EBITDA	369	336	10.0	592	(37.6)
EBITDA margin (%)	6.1	8.6	(250bps)	8.7	(260bps)
Depreciation	101	72	-	88	-
Interest	75	50	-	39	-
Other Income	221	24	-	216	-
PBT	413	239	73.2	681	(39.3)
Tax	130	68	-	252	-
Adjusted PAT	282	156	80.7	423	(33.5)
Exceptional item	-	-	-	-	-
Reported PAT	282	156	80.7	423	(33.5)
Adj. PAT margin (%)	4.7	4.0	70bps	6.2	(150bps)
EPS (Rs)	1.6	1.0	65.9	2.4	(33.9)

Source: Company, BOBCAPS Research

## Earnings call highlights

- **Margins:** Syrma's Q1FY24 EBITDA margin was lower at 6.1% compared to 8.6% in Q1FY23 due to a reduced contribution from the high-margin healthcare business. Management expects healthcare to bounce back in Q2 and has maintained its double-digit EBITDA margin guidance for FY24 (which includes the impact of foreign exchange). Gross margin is guided at 23-25% given the current product mix, though higher exports can lift margins.
- **Order book:** Syrma won a major contract worth Rs 11bn in the EMS space for utility metering systems, including gas, water and electricity, from a dominant global player. It expects to start production by end-Q3FY24 and believes this order will contribute significantly to exports in the coming years. Syrma views its entry in the US market as a derisking opportunity, as it diversifies its international business beyond Europe.
- **Capex:** The company incurred capex of Rs 550mn during the quarter and expects to spend a total of Rs 2bn-2.5bn during FY24 (excluding the JDHL acquisition). It has acquired land near Hosur (Tamil Nadu) and is setting up a manufacturing plant in Chennai for the domestic business. Syrma has also leased a plant in Noida for its consumer electronics business, given the growing market there.
- **Working capital:** The company has reduced its working capital cycle to 67 days during the quarter from 74 days as of Mar'23. On an average and quarter-end basis respectively, this includes inventory at 81 days (100 days), receivables at 59 days (67) and payables at 74 days (95).

**Johari Digital Healthcare (JDHL)**

- **Terms of acquisition:** During Q1FY24, Syrma acquired a 51% stake in JDHL for a consideration of Rs 2.6bn, which includes a milestone-based deferred payment of up to Rs 280mn. The transaction is expected to conclude by end-Q2FY24 and will be funded partly by proceeds from Syrma's IPO and partly by internal accruals.
- **Strategic move:** Per management, the JDHL acquisition fits perfectly into Syrma's long-term growth strategy. JDHL has USFDA approvals in medical devices, which usually require 2-3 years to obtain, and has a further pipeline of ~15 products awaiting approval. Syrma expects JDHL to grow rapidly as these approvals flow in.
- **JDHL's financials:** JDHL posted a topline of Rs 1.6bn in FY23 and has an EBITDA margin profile of 30%+. Syrma expects the acquisition to add 5-7% to its topline and 1-1.5% to EBITDA margin.
- **Promoter:** The promoters of JDHL include medical experts who are looking to tap into India's low-cost production. Promoters with strong domain expertise, combined with Syrma's effective management, financial strength and reach, are expected to expand this business in the coming years.
- **Capacity constraints:** JDHL achieved capacity utilisation of ~45% during FY23, pointing to the potential to raise production without significant capex. Should additional capacities be required in future, management does not foresee any difficulty in setting up a plant at its manufacturing hub coming up in Hosur.

## Valuation methodology

Syrma is increasing its presence in the EMS space and expanding rapidly in both domestic and international markets. With the JDHL acquisition, the company has also entered the medical devices business and is open to further inorganic expansion where management sees fit.

We raise our FY25 EPS estimate by 4% to bake in the new JDHL acquisition and hike our target P/E multiple to 40x (from 35x) given a strong growth outlook. Upon rolling valuations over to Jun'25E, we arrive at a revised TP of Rs 600 (vs. Rs 440). Our target multiple is at a 30% discount to DIXON, the sector leader in the EMS space, which we value at 55x. Maintain BUY.

**Fig 2 – Revised estimates**

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	26,682	36,371	26,630	36,236	0.2	0.4
EBITDA	2,510	3,634	2,502	3,505	0.3	3.7
PAT	1,634	2,303	1,628	2,207	0.3	4.4
EPS	9.2	13.0	9.2	12.5	0.3	4.4
EBITDAM (%)	9.4	10.0	9.4	9.7	0bps	30bps

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- below-expected revenue growth due to intensifying competition in the EMS space,
- inability to yield desired results from the added capacity, and
- margin compression from an adverse product mix and pricing pressure.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.0	2,359	2,500	HOLD
Blue Star	BLSTR IN	0.9	775	1,650	BUY
Crompton Greaves	CROMPTON IN	2.2	287	370	BUY
Dixon Technologies	DIXON IN	3.0	4,127	4,300	HOLD
Havells India	HAVL IN	10.0	1,312	1,600	BUY
KEI Industries	KEII IN	2.6	2,373	2,300	HOLD
Orient Electric	ORIENTEL IN	0.6	230	240	HOLD
Polycab India	POLYCAB IN	8.4	4,588	5,000	BUY
Syrma SGS	SYRMA IN	1.0	480	600	BUY
V-Guard Industries	VGRD IN	1.5	286	270	HOLD
Voltas	VOLT IN	3.2	801	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 2 Aug 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>8,874</b>	<b>12,666</b>	<b>20,484</b>	<b>26,682</b>	<b>36,371</b>
EBITDA	999	1,260	1,878	2,510	3,634
Depreciation	228	249	312	506	666
EBIT	772	1,010	1,566	2,004	2,969
Net interest inc./(exp.)	(71)	(80)	(216)	(281)	(373)
Other inc./(exp.)	169	177	437	459	482
Exceptional items	0	0	0	0	0
EBT	869	1,108	1,787	2,183	3,078
Income taxes	213	343	556	550	775
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(1)	0	0	0	0
<b>Reported net profit</b>	<b>655</b>	<b>765</b>	<b>1,193</b>	<b>1,634</b>	<b>2,303</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>655</b>	<b>765</b>	<b>1,193</b>	<b>1,634</b>	<b>2,303</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	1,902	2,405	4,881	6,945	9,466
Other current liabilities	526	921	1,088	2,193	3,189
Provisions	0	0	0	0	0
Debt funds	925	1,942	3,747	4,677	6,221
Other liabilities	352	554	293	373	500
Equity capital	7	1,376	1,768	1,768	1,768
Reserves & surplus	5,355	4,344	13,635	15,004	17,041
Shareholders' fund	5,363	5,721	15,403	16,771	18,809
<b>Total liab. and equities</b>	<b>9,068</b>	<b>11,542</b>	<b>25,412</b>	<b>30,959</b>	<b>38,185</b>
Cash and cash eq.	1,092	732	1,325	1,318	835
Accounts receivables	2,084	2,722	4,032	4,971	6,477
Inventories	1,789	2,913	5,874	6,579	7,972
Other current assets	467	645	1,032	1,097	1,196
Investments	31	47	7,535	9,815	13,379
Net fixed assets	3,304	3,793	5,373	6,868	7,902
CWIP	0	391	204	265	362
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	301	299	36	46	63
<b>Total assets</b>	<b>9,068</b>	<b>11,542</b>	<b>25,412</b>	<b>30,959</b>	<b>38,185</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>371</b>	<b>(126)</b>	<b>(703)</b>	<b>3,601</b>	<b>3,488</b>
Capital expenditures	(187)	(901)	(1,893)	(2,000)	(1,700)
Change in investments	(50)	43	(7,488)	(2,280)	(3,564)
Other investing cash flows	(886)	4,849	236	8	13
<b>Cash flow from investing</b>	<b>(1,123)</b>	<b>3,992</b>	<b>(9,145)</b>	<b>(4,272)</b>	<b>(5,251)</b>
Equities issued/Others	1,079	2,715	392	0	0
Debt raised/repaid	(75)	1,021	1,805	930	1,544
Interest expenses	0	0	0	0	0
Dividends paid	(288)	85	7,771	(265)	(265)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>716</b>	<b>3,821</b>	<b>9,968</b>	<b>664</b>	<b>1,279</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(36)</b>	<b>7,687</b>	<b>120</b>	<b>(6)</b>	<b>(484)</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,092</b>	<b>732</b>	<b>1,325</b>	<b>1,318</b>	<b>835</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	3.7	4.3	6.7	9.2	13.0
Adjusted EPS	3.7	4.3	6.7	9.2	13.0
Dividend per share	0.0	0.0	1.5	1.5	1.5
Book value per share	30.3	32.4	87.1	94.9	106.4

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	9.6	6.7	4.1	3.2	2.3
EV/EBITDA	85.0	67.4	45.2	33.8	23.4
Adjusted P/E	129.6	111.1	71.2	52.0	36.9
P/BV	15.8	14.8	5.5	5.1	4.5

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	75.4	69.0	66.8	74.8	74.8
Interest burden (PBT/EBIT)	112.6	109.6	114.2	108.9	103.7
EBIT margin (EBIT/Revenue)	8.7	8.0	7.6	7.5	8.2
Asset turnover (Rev./Avg TA)	2.7	3.3	3.8	3.9	4.6
Leverage (Avg TA/Avg Equity)	0.7	0.7	0.5	0.4	0.4
Adjusted ROAE	13.2	13.8	11.3	10.2	12.9

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	2.5	42.7	61.7	30.3	36.3
EBITDA	(26.8)	26.1	49.0	33.7	44.8
Adjusted EPS	(32.5)	16.7	56.1	36.9	41.0

### Profitability & Return ratios (%)

EBITDA margin	11.3	9.9	9.2	9.4	10.0
EBIT margin	8.7	8.0	7.6	7.5	8.2
Adjusted profit margin	7.4	6.0	5.8	6.1	6.3
Adjusted ROAE	13.2	13.8	11.3	10.2	12.9
ROCE	14.4	13.4	10.0	9.1	11.1

### Working capital days (days)

Receivables	86	78	72	68	65
Inventory	74	84	105	90	80
Payables	78	69	87	95	95

### Ratios (x)

Gross asset turnover	2.5	3.1	3.8	3.6	4.0
Current ratio	1.8	1.3	1.4	1.1	1.0
Net interest coverage ratio	10.8	12.7	7.3	7.1	8.0
Adjusted debt/equity	0.2	0.3	0.2	0.3	0.3

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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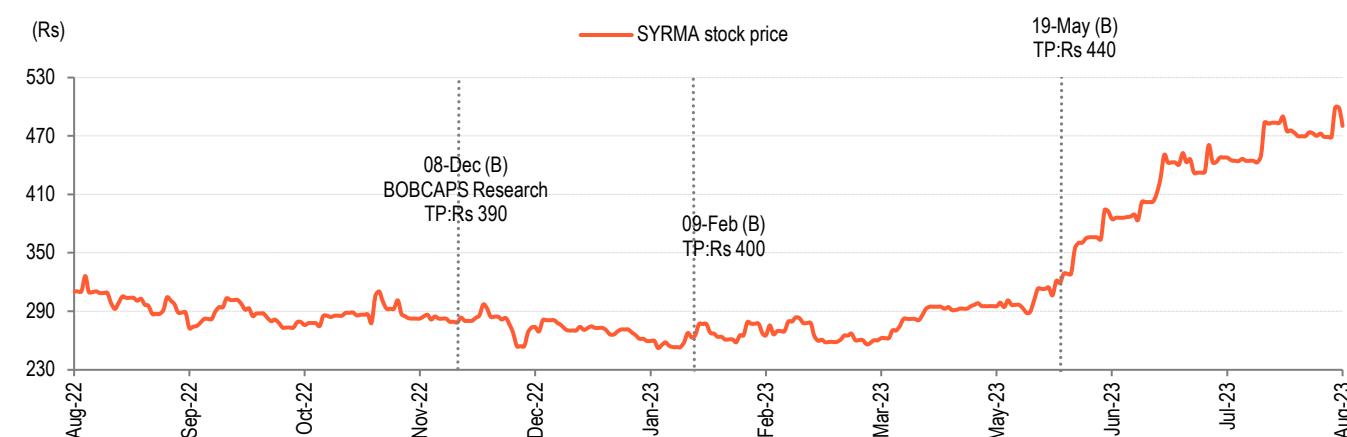
**HOLD** – Expected return from -6% to +15%

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**Note:** Recommendation structure changed with effect from 21 June 2021

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