

HOLD
 TP: Rs 550 | ▲ 5%

SYRMA SGS

| Consumer Durables

| 07 February 2024

Margin slide continues; retain HOLD

- Q3 topline growth strong at 38% YoY but EBITDA margin shrank 380bps to 5.5% on weak product mix
- Revenue guidance maintained for FY24 and FY25; however, EBITDA margin guided to remain soft
- We cut FY24/FY25/FY26 EPS by 4%/12%/1% and roll forward to new TP of Rs 550 (vs. Rs 560); maintain HOLD

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Strong topline, soft margins: Syrma posted strong topline growth of 38% YoY to Rs 7.1bn but a steep 380bps YoY EBITDA margin reduction to 5.5% due to high raw material costs and a larger revenue share of plain-vanilla electronics manufacturing services (EMS) as compared to original design manufacturing (ODM) in its consumer vertical.

Segment performance sound, healthcare stands out: The company’s auto vertical grew 40% YoY, consumer 24%, industrials 21%, and IT and railways 26%, while healthcare surged 7.5x. Syrma has a Rs 4.8bn order book, largely consisting of projects in the consumer segment, and expects ~Rs 4.5bn of these to be fulfilled over the next 12 months.

Revenue guidance intact but margin guidance cut: Management retained its revenue guidance of Rs 30bn for FY24 and continues to expect a ~35% growth rate in FY25 and FY26. The FY24 outlook implies revenue of Rs 10bn in Q4FY24, of which the company has already clocked Rs 3.6bn in the month of January. EBITDA margin is guided to be lower than earlier anticipated, at 7-7.5% for FY24 and FY25, on account of a reduced share of ODM business in the consumer segment. This is also below the 9.2% EBITDA margin reported by the company in FY23.

New capacity to boost growth: Syrma has incurred capex of Rs 2.4bn in 9MFY24 and expects to spend Rs 400mn-500mn in Q4FY24. It has added new manufacturing facilities in Gurgaon and Noida and is setting up plants in Bawal (Haryana) and Pune covering 350,000sq ft. This apart, surface mount technology (SMT) capacity has been raised to 6.3mn components per hour from 3.2mn, which should help the company achieve its guided growth trajectory

Maintain HOLD: Syrma is facing margin headwinds due to the shift in product mix in its consumer vertical, with ODM share guided to remain low till FY25. We reduce our FY24/FY25/FY26 EPS estimates by 4%/12%/1% to build in lower margins. On rolling valuations over to Dec’25E, we have a new TP of Rs 550 (vs. Rs 560), based on an unchanged target P/E of 38x.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	SYRMA IN/Rs 524
Market cap	US\$ 1.1bn
Free float	53%
3M ADV	US\$ 5.2mn
52wk high/low	Rs 705/Rs 251
Promoter/FPI/DII	47%/5%/9%

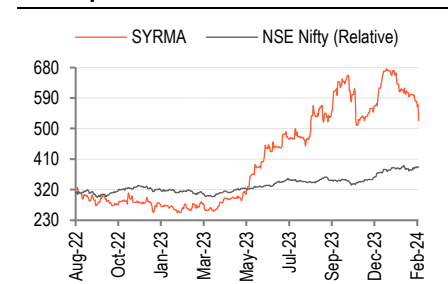
Source: NSE | Price as of 7 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	20,484	30,014	40,165
EBITDA (Rs mn)	1,878	2,249	3,304
Adj. net profit (Rs mn)	1,193	1,468	2,073
Adj. EPS (Rs)	6.7	8.3	11.7
Consensus EPS (Rs)	6.7	9.3	13.0
Adj. ROAE (%)	11.3	9.2	11.8
Adj. P/E (x)	77.7	63.1	44.7
EV/EBITDA (x)	49.4	41.2	28.1
Adj. EPS growth (%)	56.1	23.0	41.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	7,067	5,126	37.9	7,117	(0.7)	20,197	13,689	47.5
EBITDA	388	478	(18.9)	490	(20.8)	1,247	1,286	(3.0)
EBITDA Margin (%)	5.5	9.3	(380bps)	6.9	(140bps)	6.2	9.4	(320bps)
Depreciation	139	81		116		357	224	
Interest	101	64		80		256	177	
Other Income	121	118		89		431	221	
PBT	269	451	(40.3)	370	(27.2)	1,052	1,106	(4.9)
Tax	67	108		64		261	304	
Adjusted PAT	155	332	(53.4)	284	(45.5)	720	802	(10.3)
Exceptional item	-	-		-		-	-	
Reported PAT	155	332	(53.4)	284	(45.5)	720	770	(6.5)
Adj. PAT Margin (%)	2.2	6.5	(430bps)	4.0	(180bps)	3.6	5.9	(230bps)
EPS (Rs)	1.1	1.9	(40.9)	1.7	(33.7)	4.5	5	(1.6)

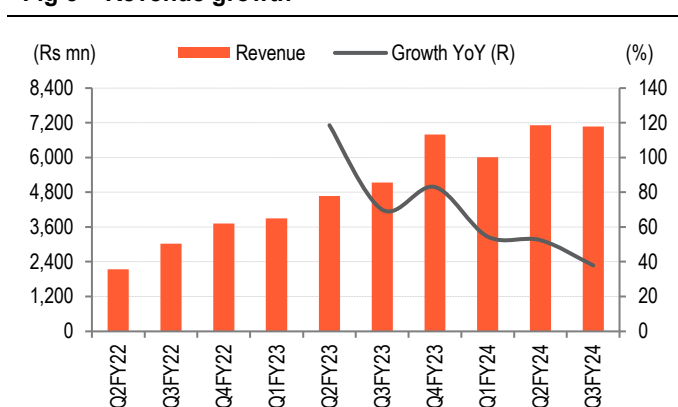
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Auto	1,510	1,076	40.3	1,725	(12.5)	4,686	2,811	66.7
Consumer	2,551	2,053	24.3	2,519	1.3	7,394	3,898	89.7
Healthcare	693	92	653.3	512	35.4	1,362	1,162	17.2
Industrials	1,949	1,614	20.8	1,984	(1.8)	5,708	4,576	24.7
IT and Railways	364	290	25.5	376	(3.2)	1,047	1,242	(15.7)

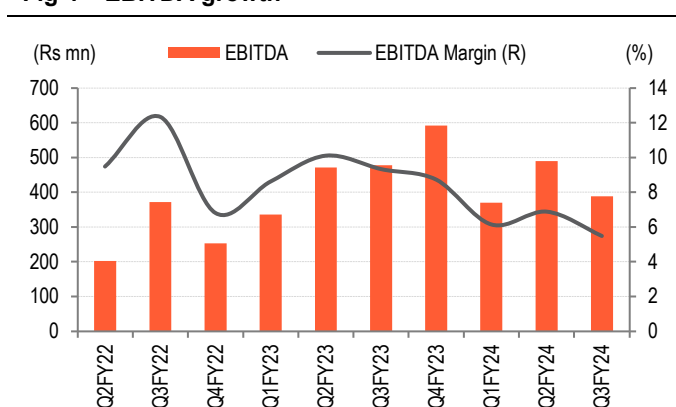
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



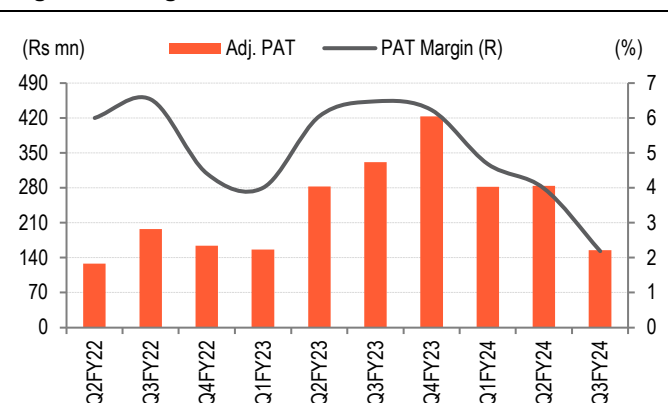
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



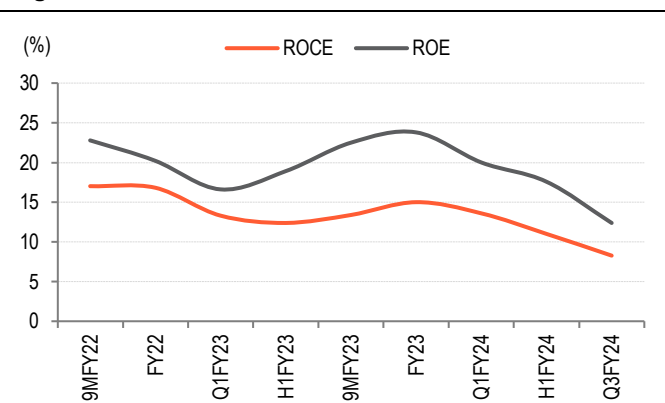
Source: Company, BOBCAPS Research

Fig 5 – Profit growth



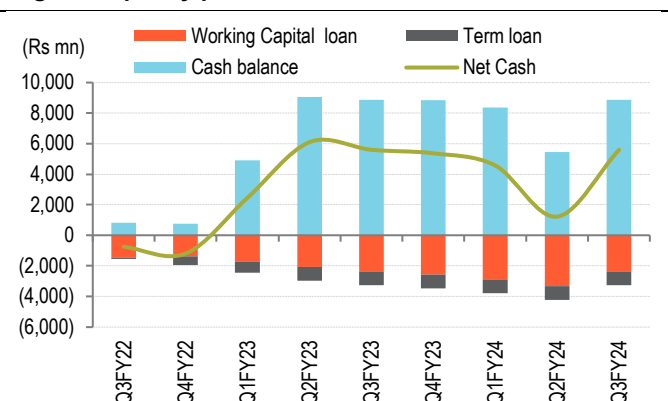
Source: Company, BOBCAPS Research

Fig 6 – Return ratios



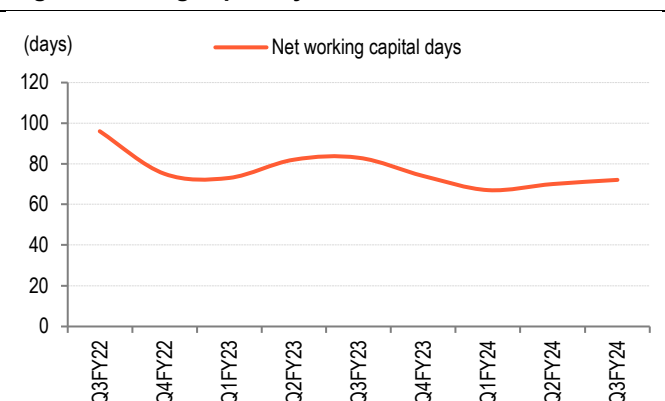
Source: Company, BOBCAPS Research

Fig 7 – Liquidity profile



Source: Company, BOBCAPS Research

Fig 8 – Working capital cycle



Source: Company, BOBCAPS Research

Earnings call highlights

- Guidance:** Management reiterated its revenue guidance of Rs 30bn for FY24 and continues to expect a ~35% growth rate for FY25 and FY26. EBITDA margin is guided to be lower than earlier anticipated at 7-7.5% on account of a reduced share of ODM business in the consumer segment.
- Margins:** The Q3FY24 EBITDA margin was lower at 5.5% compared to 9.3% in the year-ago period due to an unfavourable product mix. Also, management highlighted a delay in realisation of ~Rs 1bn in the automotive and consumer segments.
- Order book:** Syрма has a Rs 4.8bn order book as of Q3FY24 and expects to fulfill Rs 4.5bn of these over the next 12 months. The consumer segment forms the bulk of the order book at 40-45% share, followed by industrials (30-35%), auto (18-20%), healthcare (8-10%), and IT and railways.
- Consumer business:** Revenue from the consumer business increased 24% YoY in Q3 and 90% in 9MFY24, primarily due to high growth in plain-vanilla EMS business as compared to the previous year when ODM commanded a larger share.

- **Healthcare:** Healthcare segment revenue surged over seven-fold YoY in Q3. Management expects Rs 3.5bn-4bn in revenue from healthcare each in FY24 and FY25, which includes the RFID business and the Johari Digital Healthcare (JDHL) acquisition.
- **IT and railways:** This segment grew 26% YoY in Q3 and management expects railways to contribute Rs 700mn-750mn of revenue in FY25.
- **Exports:** Export revenue stood at Rs 2bn, forming 27% of the topline. Management expects exports to do well but to contribute only 25-30% of the topline in FY24 and FY25 given aggressive growth expectations for the domestic market.
- **New facilities:** Syrma has added new manufacturing facilities in Gurgaon and Noida, and is setting up plants in Bawal (Haryana) and Pune covering 350,000sq ft. Further, SMT capacity has been raised to 6.3mn components per hour from 3.2mn.
- **Customer onboarding:** The company has onboarded new clients in the industrial segment and indicated that these are high-volume accounts which will deliver revenues from FY25.
- **Talent acquisition:** Syrma has hired a new CEO for its RFID segment, which is a high-margin business. It has also inducted a new Chief People Officer, which will help bridge the talent gap between segments.
- **Working capital:** Net working capital days stood at ~72 days as of Q3, slightly higher than the 70 days recorded in Q2, largely due to an increase in inventory days. Management expects a reduction in working capital cycle to the tune of 5-7 days over the next 2-3 quarters.
- **Capex:** The company incurred capex of Rs 2.4bn in 9MFY24 and expects to spend Rs 400mn-500mn in Q4FY24.

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.

That said, the company is facing margin headwinds due to the shift in product mix in its consumer vertical, with ODM share guided to remain low till FY25. We reduce our FY24/FY25/FY26 EPS estimates by 4%/12%/1% to build in lower margin assumptions. On rolling valuations over to Dec'25E, we have a new TP of Rs 550 (vs. Rs 560), based on an unchanged target P/E of 38x – a 30% discount to sector leader DIXON to build in a weaker margin outlook. Our TP carries 4% downside potential, leading us to retain our HOLD rating.

Fig 9 – Revised estimates

Particulars (Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	30,014	40,165	51,724	30,014	39,474	50,237	0.0	1.8	3.0
EBITDA	2,249	3,304	4,451	2,404	3,730	4,541	(6.5)	(11.4)	(2.0)
PAT	1,468	2,073	2,785	1,535	2,357	2,818	(4.4)	(12.0)	(1.2)
EPS (Rs)	8.3	11.7	15.8	8.7	13.3	15.9	(4.4)	(12.0)	(0.9)
EBITDA Margin (%)	7.5	8.2	8.6	8.0	9.4	9.0	(50bps)	(120bps)	(40bps)

Source: Company, BOBCAPS Research

Key risks

Key risks to our estimates are:

- **Upside risk:** Better traction in the automotive and industrial segments, which are more margin-accretive
- **Downside risk:** Above-expected proportion of plain-vanilla EMS business which will likely weigh on margins

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Blue Star	BLSTR IN	2.7	1,169	1,300	BUY
Crompton Greaves	CROMPTON IN	2.2	288	330	BUY
Havells India	HAVL IN	10.3	1,351	1,600	BUY
KEI Industries	KEII IN	3.6	3,295	3,120	HOLD
Orient Electric	ORIENTEL IN	0.6	215	240	HOLD
Polycab India	POLYCAB IN	8.0	4,388	5,200	BUY
Syrma SGS	SYRMA IN	1.1	524	550	HOLD
V-Guard Industries	VGRD IN	1.7	314	310	HOLD
Voltas	VOLT IN	4.2	1,039	1,060	HOLD

Source: BOBCAPS Research, NSE | Price as of 7 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	12,666	20,484	30,014	40,165	51,724
EBITDA	1,260	1,878	2,249	3,304	4,451
Depreciation	249	312	487	666	802
EBIT	1,010	1,566	1,762	2,638	3,649
Net interest inc./(exp.)	(80)	(216)	(306)	(403)	(492)
Other inc./(exp.)	177	437	569	597	627
Exceptional items	0	0	0	0	0
EBT	1,108	1,787	2,025	2,833	3,785
Income taxes	343	556	510	713	953
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	765	1,193	1,468	2,073	2,785
Adjustments	0	0	0	0	0
Adjusted net profit	765	1,193	1,468	2,073	2,785

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,405	4,881	7,401	9,904	12,754
Other current liabilities	921	1,088	2,467	3,521	4,535
Provisions	0	0	0	0	0
Debt funds	1,942	3,747	5,105	6,708	8,193
Other liabilities	554	293	417	549	699
Equity capital	1,376	1,768	1,768	1,768	1,768
Reserves & surplus	4,344	13,635	14,838	16,645	19,165
Shareholders' fund	5,721	15,403	16,606	18,413	20,933
Total liab. and equities	11,542	25,412	31,995	39,096	47,114
Cash and cash eq.	732	1,325	(509)	(1,346)	(3,585)
Accounts receivables	2,722	4,032	5,592	7,153	9,211
Inventories	2,913	5,874	7,401	8,803	11,337
Other current assets	645	1,032	1,233	1,321	1,701
Investments	47	7,535	11,041	14,775	19,026
Net fixed assets	3,793	5,373	6,887	7,921	8,819
CWIP	391	204	299	400	515
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	299	36	52	70	90
Total assets	11,542	25,412	31,995	39,096	47,114

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	(126)	(703)	2,567	3,245	2,478
Capital expenditures	(901)	(1,893)	(2,000)	(1,700)	(1,700)
Change in investments	43	(7,488)	(3,506)	(3,734)	(4,252)
Other investing cash flows	4,849	236	13	13	15
Cash flow from investing	3,992	(9,145)	(5,493)	(5,421)	(5,936)
Equities issued/Others	2,715	392	0	0	0
Debt raised/repaid	1,021	1,805	1,357	1,604	1,484
Interest expenses	0	0	0	0	0
Dividends paid	85	7,771	(265)	(265)	(265)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	3,821	9,968	1,092	1,339	1,219
Chg in cash & cash eq.	7,687	120	(1,834)	(837)	(2,239)
Closing cash & cash eq.	732	1,325	(509)	(1,346)	(3,585)

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	4.3	6.7	8.3	11.7	15.8
Adjusted EPS	4.3	6.7	8.3	11.7	15.8
Dividend per share	0.0	1.5	1.5	1.5	1.5
Book value per share	32.4	87.1	93.9	104.2	118.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	7.3	4.5	3.1	2.3	1.8
EV/EBITDA	73.6	49.4	41.2	28.1	20.8
Adjusted P/E	121.2	77.7	63.1	44.7	33.3
P/BV	16.2	6.0	5.6	5.0	4.4

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	69.0	66.8	72.5	73.2	73.6
Interest burden (PBT/EBIT)	109.6	114.2	114.9	107.4	103.7
EBIT margin (EBIT/Revenue)	8.0	7.6	5.9	6.6	7.1
Asset turnover (Rev./Avg TA)	3.3	3.8	4.4	5.1	5.9
Leverage (Avg TA/Avg Equity)	0.7	0.5	0.4	0.5	0.4
Adjusted ROAE	13.8	11.3	9.2	11.8	14.2

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	42.7	61.7	46.5	33.8	28.8
EBITDA	26.1	49.0	19.8	46.9	34.7
Adjusted EPS	16.7	56.1	23.0	41.2	34.4
Profitability & Return ratios (%)					
EBITDA margin	9.9	9.2	7.5	8.2	8.6
EBIT margin	8.0	7.6	5.9	6.6	7.1
Adjusted profit margin	6.0	5.8	4.9	5.2	5.4
Adjusted ROAE	13.8	11.3	9.2	11.8	14.2
ROCE	13.4	10.0	8.3	10.1	11.6
Working capital days (days)					
Receivables	78	72	68	65	65
Inventory	84	105	90	80	80
Payables	69	87	90	90	90
Ratios (x)					
Gross asset turnover	3.1	3.8	4.1	4.4	4.8
Current ratio	1.3	1.4	1.0	0.9	0.8
Net interest coverage ratio	12.7	7.3	5.8	6.6	7.4
Adjusted debt/equity	0.3	0.2	0.3	0.4	0.4

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

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BUY – Expected return >+15%

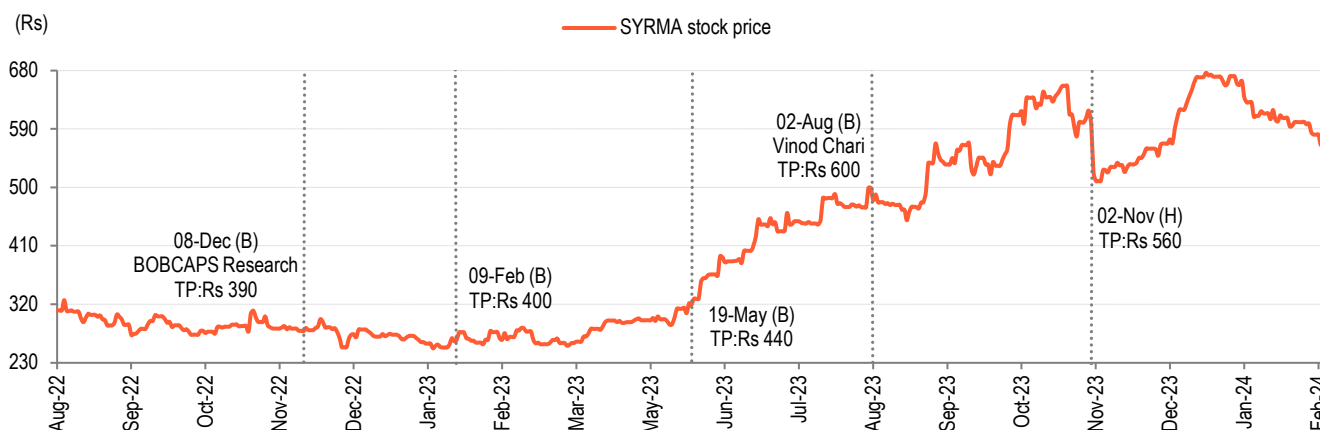
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): SYRMA SGS (SYRMA IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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