

**BUY**

TP: Rs 440 | ▲ 34%

**SYRMA SGS**

| Consumer Durables

| 19 May 2023

**Strong show; positive outlook intact**

- Q4 topline/PAT up 83%/160% YoY spurred by strong growth in the auto and consumer segments
- FY24 revenue growth guidance of 35-40% intact, backed by Rs 30bn order book; 8-10 key clients added in H2FY23
- Maintain BUY with a revised TP of Rs 440 (vs. Rs 400) on rollover

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**Good quarter:** Syrma's Q4FY23 topline at Rs 6.8bn (+83% YoY) was ~30% ahead of our estimate on strong demand traction. The EMS-led auto (+60% YoY) and consumer segments (+155%) helped offset slower growth in the healthcare (+1%) and IT divisions (+17%). EBITDA more than doubled YoY to Rs 592mn with an 8.7% margin (+190bps YoY), and PAT expanded 160% YoY to Rs 423mn. With 8-10 major client additions in H2FY23, Syrma indicated that it is on track to beat industry growth.

**Strong guidance backed by expanding order book:** The company's order book has expanded to Rs 30bn with fresh intake of Rs 16bn and is well diversified, per management. Additionally, contribution from railways and IT segments is likely to move up on conducive government policies. Management reiterated its revenue growth guidance of 35-40% for FY24 with potential upsides from the new IT policy. It believes a 6x asset turnover is possible once new capacities ramp up. Net working capital days are targeted to reduce to 70 on average from 74 days currently.

**Operating leverage to kick in:** EBITDA margin rose 190bps YoY to 8.7% in Q4 but was flattish in FY23 at 9.2% due to a higher mix of consumer business and a sharp drop in material margin to 17%. Management expects operating leverage to kick in from higher volume growth along with cost benefits from backward integration efforts.

**ODM focus:** Syrma raised its focus on the EMS-led auto and consumer businesses owing to better demand, since ODM's share in revenue decreased. The company has carved out an exclusive subsidiary for design & engineering-led product development, which should raise ODM contribution in the medium term, ultimately aiding the margin profile.

**Maintain BUY:** The strong FY23 print and upbeat guidance backed by a robust order book and expanded capacity affirm our positive stance on Syrma. Client additions offer long-term revenue visibility while strong domestic demand supports the short-term outlook, though margin expansion could be capped near term amid a thrust on EMS-led divisions. We tweak estimates and roll valuations over to Mar'25E for a higher TP of Rs 440 (vs. Rs 400), based on an unchanged 35x P/E multiple – retain BUY.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	SYRMA IN/Rs 329
Market cap	US\$ 706.7mn
Free float	53%
3M ADV	US\$ 1.9mn
52wk high/low	Rs 343/Rs 248
Promoter/FPI/DII	47%/5%/9%

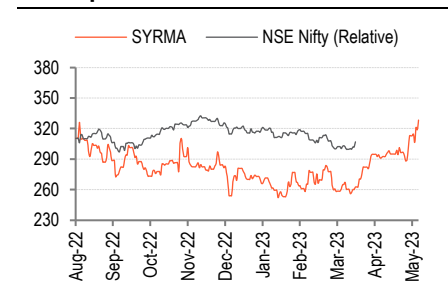
Source: NSE | Price as of 19 May 2023

**Key financials**

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	20,484	26,630	36,236
EBITDA (Rs mn)	1,878	2,502	3,505
Adj. net profit (Rs mn)	1,193	1,628	2,207
Adj. EPS (Rs)	6.7	9.2	12.5
Consensus EPS (Rs)	6.7	-	-
Adj. ROAE (%)	11.3	10.1	12.4
Adj. P/E (x)	48.7	35.7	26.3
EV/EBITDA (x)	30.9	23.2	16.6
Adj. EPS growth (%)	56.1	36.5	35.5

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

**Stock performance**



Source: NSE



**Fig 1 – Quarterly and Annual performance**

Particulars (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue	6,795	3,712	83.1	5,126	32.6	20,484	10,197	100.9
EBITDA	592	253	134.4	478	23.8	1,878	944	98.9
EBITDA Margin (%)	8.7	6.8	190bps	9.3	(60bps)	9.2	9.3	(10bps)
Depreciation	88	66	-	81	-	312	194	-
Interest	39	25	-	64	-	216	64	-
Other Income	216	81	-	118	-	437	123	-
PBT	681	243	180.5	451	51.2	1,787	809	120.9
Tax	252	73	-	108	-	556	268	-
Adjusted PAT	423	164	158.7	332	27.5	1,193	555	114.8
Exceptional item	-	-	-	-	-	-	-	-
Reported PAT	423	164	158.7	332	27.5	1,193	555	114.8
Adj. PAT Margin (%)	6.2	4.4	180bps	6.5	(20bps)	5.8	5.4	40bps
EPS (Rs)	2.4	1.0	153.1	1.9	25.3	7.0	3.1	127.4

Source: Company, BOBCAPS Research

**Fig 2 – Actual vs. Estimates**

Particulars (Rs mn)	Actual	Estimate	Variance (%)
Revenue	6,795	5,257	29.3
EBITDA	592	497	19.1
EBITDA Margin (%)	8.7	9.5	(70bps)
Adj. PAT	423	400	5.9

Source: Company, BOBCAPS Research

## Earnings call highlights

- Demand:** Syrma sees robust demand for its products and services on account of the growing push toward e-mobility, smart metering, energy efficiency and IoT. In the two-wheeler (2W) space, management estimates that electronic content rises 8-10x in EVs as compared to combustion 2Ws, whereas a four-wheeler (4W) engine carries demand expansion of 30-40x as compared to combustion 2Ws and 10x compared to combustion 4Ws.

Similarly, smart energy meters have 3-5x more electronic content than normal meters, and a shift from conventional to BLDC fans represents an increase in the total addressable market (TAM).
- Customers:** Syrma onboarded 8-10 new domestic customers during the second half of FY23 and indicated that these are key players in the automotive, EV, heating, ventilation and air conditioning (HVAC), industrial parts, electric charging infrastructure, energy metering, water metering and smart lighting industries. The top 5 customers contribute 35% of the topline and the top 10 contribute 51%.
- Order book:** The order book for FY23 closed at Rs 30bn vs. Rs 12bn in FY22 and Rs 21bn in Q3FY23. Of this, exports account for ~26% (Rs 6bn-7bn). The company expects to execute 70% of the current order book in FY24 and the balance in FY25. Order inflows for the quarter summed up to Rs 16bn, broken down as follows: auto (25%), consumer (30-32%), industrial (20%), and IT and railways (7-8%).

- **Guidance:** Management retained its 35-40% topline growth guidance for FY24 but expects to revise the same upward in a couple of months to incorporate benefits from the new IT policy. It has also guided for a double-digit EBITDA margin going forward.
- **Cost of materials consumed (COMS):** COMS increased during the year to 73% vs. 49% in FY22 due to softening of exports and a change in revenue mix.
- **Consumer segment:** The segment can be broken down into two parts, original design manufacturing (ODM) and build-to-print. The ODM margin is in line with others in the industry, whereas build-to-print earns lower margins but has better asset turn. Healthy asset turnover leads to better cash flows and, as backward integration kicks in, management expects consumer segment margins to expand.
- **Healthcare:** The healthcare business has seen green shoots in Q4FY23 and the company expects it to rebound fully by Q3FY24 as the supply chain pipeline is getting exhausted.
- **Railways:** Although railway contribution in total revenue is low, Syrma recently received Research Designs and Standards Organisation (RDSO) approval, which is expected to create a significant uptick in segmental revenue contribution.
- **Syrma SGS Electronics:** In April, the company set up a subsidiary to focus exclusively on design and development, which it believes will not only expand its topline and margins but also increase consumer stickiness.
- **Capex:** Capex was at Rs 700mn in FY23 with Rs 2bn-2.6bn planned for FY24.
- **Net working capital (NWC):** The company recorded NWC of 74 days on an average in FY23, ending at 89 days as on 31 Mar 2023. Management aims to reduce this to 70 days within the next fiscal. The company also expects to increase asset turnover from 5x to over 6x in FY24.

## Valuation methodology

The strong FY23 print and upbeat guidance backed by a robust order book and expanded capacity affirm our positive stance on Syrma. Client additions offer long-term revenue visibility while strong domestic demand supports the short-term outlook, though margin expansion could be capped near term amid a thrust on electronic manufacturing services or EMS-led divisions.

We tweak estimates and roll valuations over to Mar'25E for a higher TP of Rs 440 (vs. Rs 400), based on an unchanged 35x P/E multiple – a 15% discount to our EMS coverage comprising Dixon Tech and Amber Enterprises. Retain BUY.

**Fig 3 – Revised estimates**

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	26,630	36,236	25,319	36,236	5.2	0.0
EBITDA	2,502	3,505	2,502	3,657	0.0	(4.2)
PAT	1,628	2,207	1,606	2,205	1.4	0.1
EPS	9.2	12.5	9.1	12.5	1.1	(0.2)
EBITDAM (%)	9.4	9.7	9.9	10.1	(50bps)	(40bps)

Source: Company, 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	0.9	2,094	2,260	HOLD
Blue Star	BLSTR IN	1.6	1,403	1,650	BUY
Crompton Greaves	CROMPTON IN	2.0	255	440	BUY
Dixon Technologies	DIXON IN	2.2	3,035	4,100	BUY
Havells India	HAVL IN	9.6	1,260	1,500	BUY
KEI Industries	KEII IN	2.2	2,025	2,130	BUY
Orient Electric	ORIENTEL IN	0.6	220	240	HOLD
Polycab India	POLYCAB IN	6.3	3,441	3,900	BUY
Syrma SGS	SYRMA IN	0.7	329	440	BUY
V-Guard Industries	VGRD IN	1.3	251	260	HOLD
Voltas	VOLT IN	3.2	797	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 19 May 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>26,630</b>	<b>36,236</b>
EBITDA	999	1,260	1,878	2,502	3,505
Depreciation	228	249	312	506	666
EBIT	772	1,010	1,566	1,997	2,839
Net interest inc./(exp.)	(71)	(80)	(216)	(280)	(372)
Other inc./(exp.)	169	177	437	459	482
Exceptional items	0	0	0	0	0
EBT	869	1,108	1,787	2,176	2,949
Income taxes	213	343	556	548	742
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>1,628</b>	<b>2,207</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>655</b>	<b>765</b>	<b>1,193</b>	<b>1,628</b>	<b>2,207</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	1,902	2,405	4,881	6,931	9,431
Other current liabilities	526	921	1,088	2,189	3,177
Provisions	0	0	0	0	0
Debt funds	925	1,942	3,747	4,670	6,204
Other liabilities	352	554	293	373	498
Equity capital	7	1,376	1,768	1,768	1,768
Reserves & surplus	5,355	4,344	13,635	14,998	16,940
Shareholders' fund	5,363	5,721	15,403	16,766	18,708
<b>Total liab. and equities</b>	<b>9,068</b>	<b>11,542</b>	<b>25,412</b>	<b>30,929</b>	<b>38,017</b>
Cash and cash eq.	1,092	732	1,325	1,332	776
Accounts receivables	2,084	2,722	4,032	4,961	6,453
Inventories	1,789	2,913	5,874	6,566	7,942
Other current assets	467	645	1,032	1,094	1,191
Investments	31	47	7,535	9,796	13,329
Net fixed assets	3,304	3,793	5,373	6,868	7,902
CWIP	0	391	204	265	361
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>30,929</b>	<b>38,017</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>3,602</b>	<b>3,396</b>
Capital expenditures	(187)	(901)	(1,893)	(2,000)	(1,700)
Change in investments	(50)	43	(7,488)	(2,261)	(3,533)
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>(4,253)</b>	<b>(5,221)</b>
Equities issued/Others	1,079	2,715	392	0	0
Debt raised/repaid	(75)	1,021	1,805	923	1,534
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>658</b>	<b>1,268</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(36)</b>	<b>7,687</b>	<b>120</b>	<b>7</b>	<b>(556)</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,092</b>	<b>732</b>	<b>1,325</b>	<b>1,332</b>	<b>776</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	3.7	4.3	6.7	9.2	12.5
Adjusted EPS	3.7	4.3	6.7	9.2	12.5
Dividend per share	0.0	0.0	1.5	1.5	1.5
Book value per share	30.3	32.4	87.1	94.8	105.8

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	6.5	4.6	2.8	2.2	1.6
EV/EBITDA	58.1	46.1	30.9	23.2	16.6
Adjusted P/E	88.6	75.9	48.7	35.7	26.3
P/BV	10.8	10.2	3.8	3.5	3.1

### 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	109.0	103.9
EBIT margin (EBIT/Revenue)	8.7	8.0	7.6	7.5	7.8
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	10.1	12.4

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	2.5	42.7	61.7	30.0	36.1
EBITDA	(26.8)	26.1	49.0	33.3	40.1
Adjusted EPS	(32.5)	16.7	56.1	36.5	35.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	11.3	9.9	9.2	9.4	9.7
EBIT margin	8.7	8.0	7.6	7.5	7.8
Adjusted profit margin	7.4	6.0	5.8	6.1	6.1
Adjusted ROAE	13.2	13.8	11.3	10.1	12.4
ROCE	14.4	13.4	10.0	9.0	10.7
<b>Working capital days (days)</b>					
Receivables	86	78	72	68	65
Inventory	74	84	105	90	80
Payables	78	69	87	95	95
<b>Ratios (x)</b>					
Gross asset turnover	2.5	3.1	3.8	3.6	4.0
Current ratio	1.8	1.3	1.4	1.1	0.9
Net interest coverage ratio	10.8	12.7	7.3	7.1	7.6
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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**BUY** – Expected return >+15%

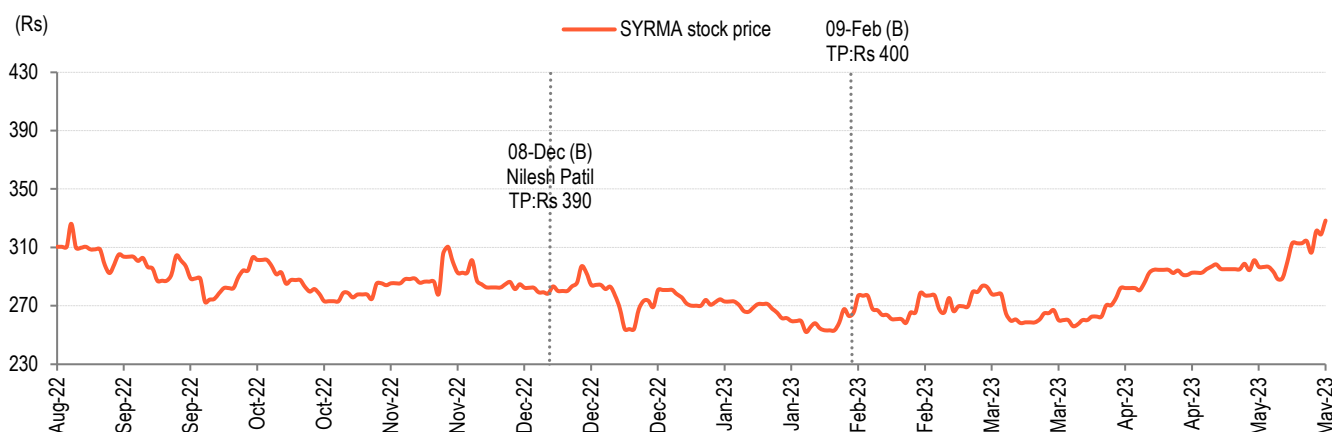
**HOLD** – Expected return from -6% to +15%

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

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

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