HOLD
TP: Rs 450 | ⮝ 5%

SYRMA SGS | Consumer Durables | 06 August 2024

Robust revenue; drag on margins apparent

- **Strong Q1 topline growth was offset by GM contraction due to higher RM costs; dip in EBITDA margin caused by unfavourable product mix**
- **FY25 revenue growth guidance remains steady, with new capacities set to accelerate expansion**
- **We maintain our FY25E/FY26E EPS and value the stock at 30x P/E. We roll forward our valuation and raise our TP to Rs 450 (vs Rs 420). HOLD**

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Revenue soars, margins dip: Despite SYRMA's topline growth jumping 93% YoY to Rs 11.6bn, EBITDA margin experienced a significant decline of 230bps, falling to 3.8%. This decrease is primarily due to increased raw material costs and a notable rise in revenue from the telecom consumer segment, which typically has lower margins than the Original Design Manufacturer (ODM) segment, which was more prominent in the previous year. APAT fell 28% YoY to Rs 203mn.

Consumer segment surges; Auto and Healthcare to drive future growth: The company's Auto vertical grew 29% YoY, while the Consumer segment surged 165%, driven primarily by the Telecom business, which has lower margins. Industrials experienced healthy growth of 21%, and IT and Railways rose by 165%. Healthcare revenue tripled. SYRMA's order book is at Rs 4.5bn, with the Consumer segment holding a 38-40% share, followed by Industrials at 22-25%, Auto at 23-25%, and Healthcare at 6-7%, and the remaining with IT and Railways. Management has indicated that the Consumer segment's contribution will decrease in the coming quarters, with Healthcare and Auto expected to be the leading contributors.

Guidance upheld; shifts focus to boost margins: Management has reaffirmed its growth target of 35-40% for FY25 and FY26, while projecting an EBITDA margin of 7% for FY25. The company expects margins to be under pressure, primarily due to its heavy reliance on the Consumer segment, which typically operates with narrower profit margins. To address this, management has outlined a strategic shift to reduce the Consumer segment's share of the topline and focus on more margin-accretive segments such as Auto and Healthcare. It expects this strategic realignment to enhance overall margins and drive improved profitability beyond FY25.

Maintain HOLD: SYRMA faces margin challenges due to shifts in its product mix, with the Consumer segment being the largest contributor to topline. However, given management's confidence in reducing the Consumer segment's contribution while increasing that of Healthcare and Auto segments, we maintain our FY25/FY26 EPS estimates. We continue to value the stock at an unchanged P/E of 30x. Rolling forward to Jun'26, we raise our TP to Rs 450 (from Rs 420).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SYRMA IN/Rs 428
Market cap	US$ 900.4mn
Free float	53%
3M ADV	US$ 5.7mn
52wk high/low	Rs 705/Rs 386
Promoter/FPI/DII	47%/5%/9%

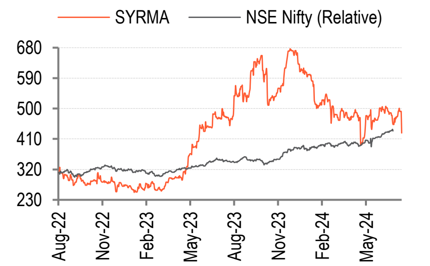
Source: NSE | Price as of 6 Aug 2024

Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	31,538	42,501	57,406
EBITDA (Rs mn)	1,986	2,991	4,154
Adj. net profit (Rs mn)	1,087	1,773	2,452
Adj. EPS (Rs)	6.1	10.0	13.9
Consensus EPS (Rs)	6.1	11.0	15.0
Adj. ROAE (%)	6.9	10.5	13.1
Adj. P/E (x)	69.6	42.6	30.8
EV/EBITDA (x)	38.1	25.3	18.2
Adj. EPS growth (%)	(8.9)	63.1	38.3

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

Stock performance



Source: NSE

Fig 1 – Quarterly performance

Particulars (Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue	11,599	6,013	92.9	11,341	2.3
EBITDA	446	369	20.7	737	(39.5)
EBITDAM (%)	3.8	6.1	(230bps)	6.5	(270bps)
Depreciation	174	101		158	
Interest	130	75		123	
Other Income	153	221		156	
PBT	295	413	(28.7)	612	(51.8)
Tax	91	130		160	
Adjusted PAT	203	282	(27.8)	452	(55.0)
Exceptional item	-	-		-	
Reported PAT	203	282	(27.8)	452	(55.0)
Adj. PATM (%)	1.8	4.7	(290bps)	4.0	(220bps)
EPS (Rs)	1.2	1.6	(28.2)	2.6	(55.0)

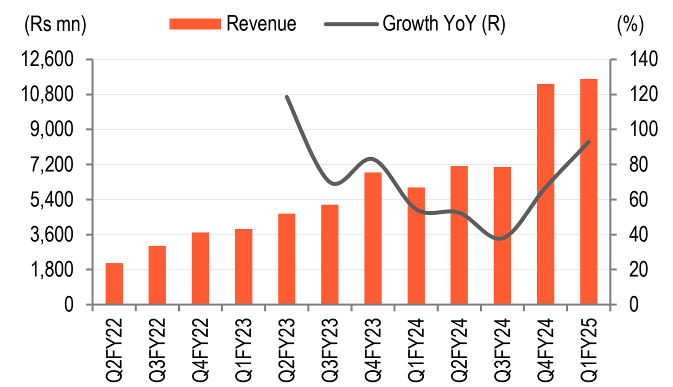
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

Particulars (Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Auto	1,877	1,451	29.4	1,510	24.3
Consumer	6,166.0	2,324.0	165.3	2,551.0	141.7
Healthcare	589	157	275.2	693	(15.0)
Industrials	2,152	1,775	21.2	1,949	10.4
IT and railways	814	307	165.1	364	123.6

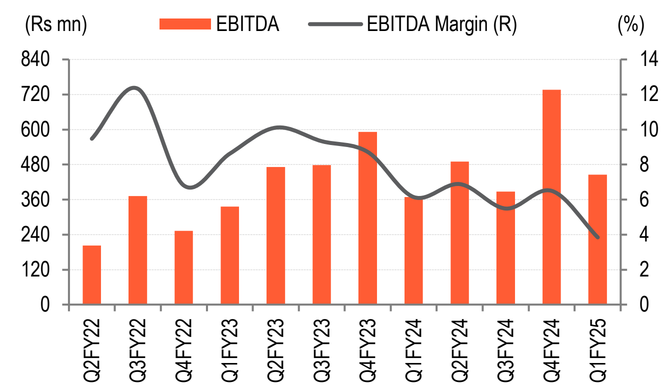
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



Source: Company, BOBCAPS Research

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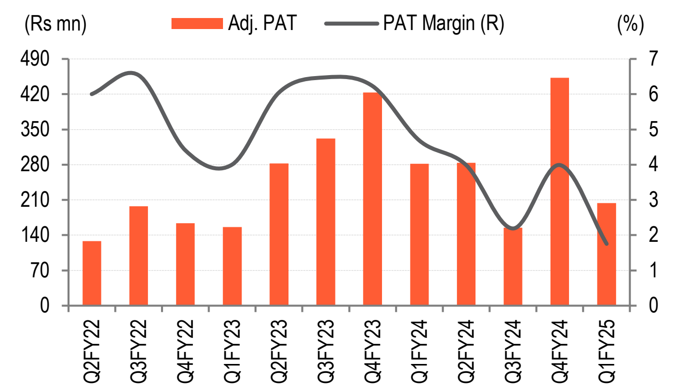
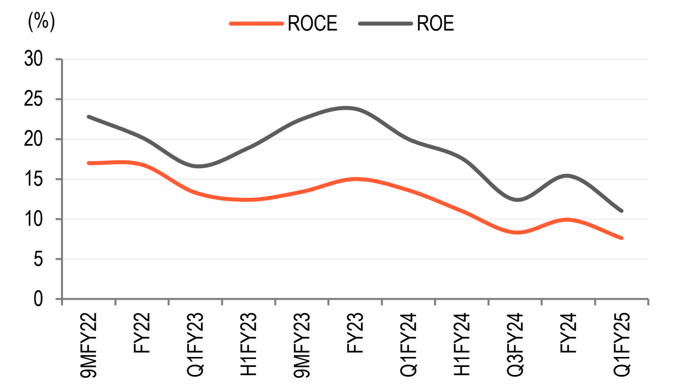
Fig 5 – PAT growth



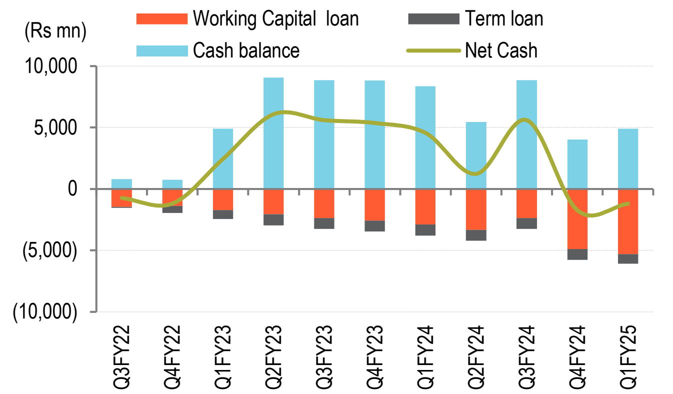
Source: Company, BOBCAPS Research

Fig 6 – Return ratios



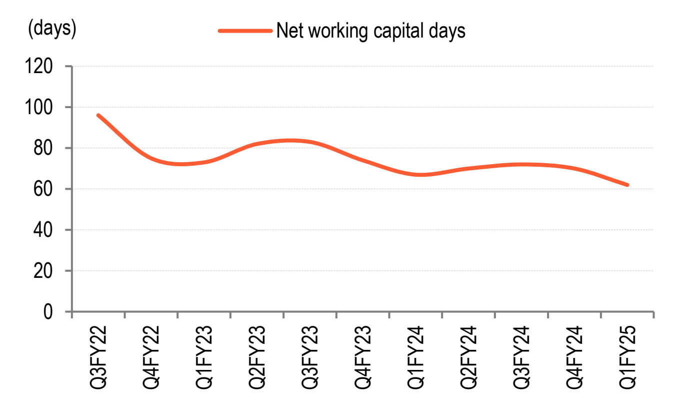
Source: Company, BOBCAPS Research

Fig 7 – Liquidity profile



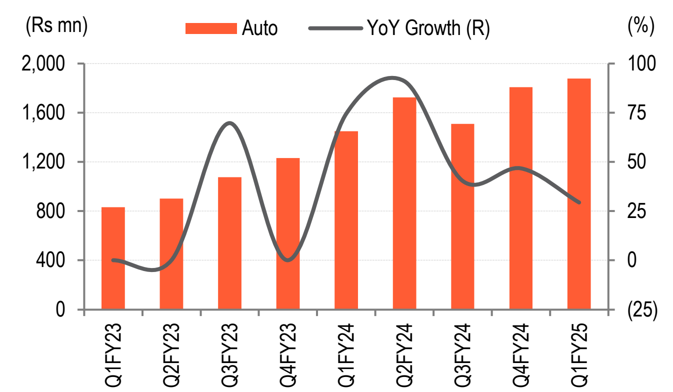
Source: Company, BOBCAPS Research

Fig 8 – Working capital cycle



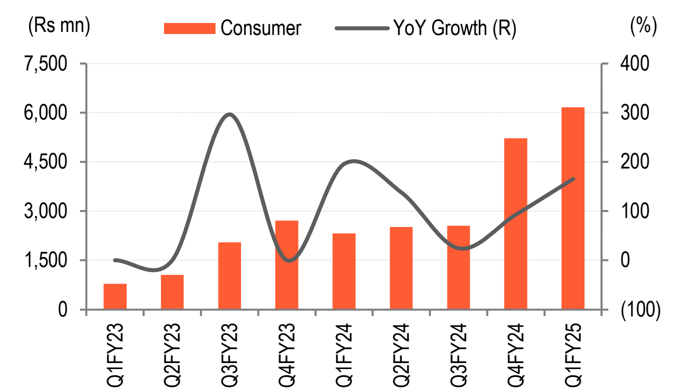
Source: Company, BOBCAPS Research

Fig 9 – Segment: Auto growth trend



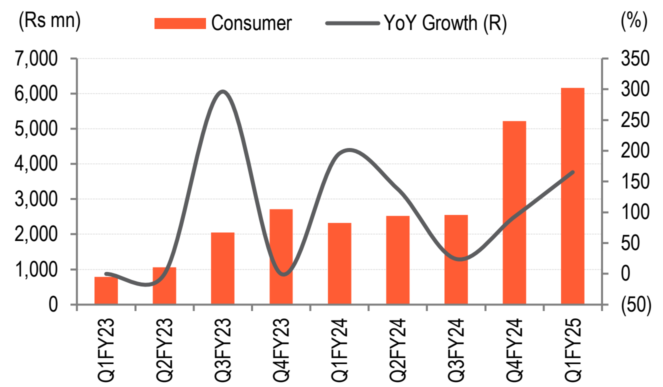
Source: Company, BOBCAPS Research

Fig 10 – Segment: Consumer growth trend



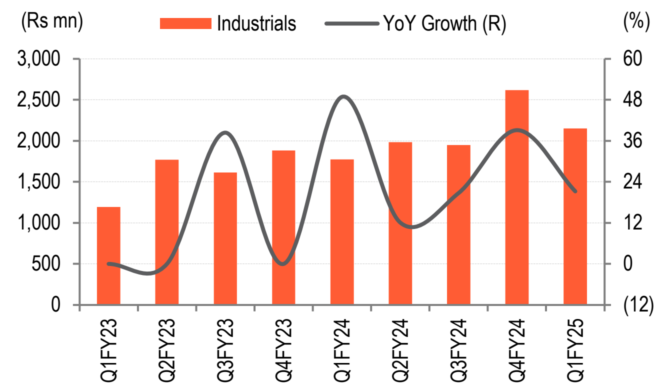
Source: Company, BOBCAPS Research

Fig 11 – Segment: Healthcare growth trend



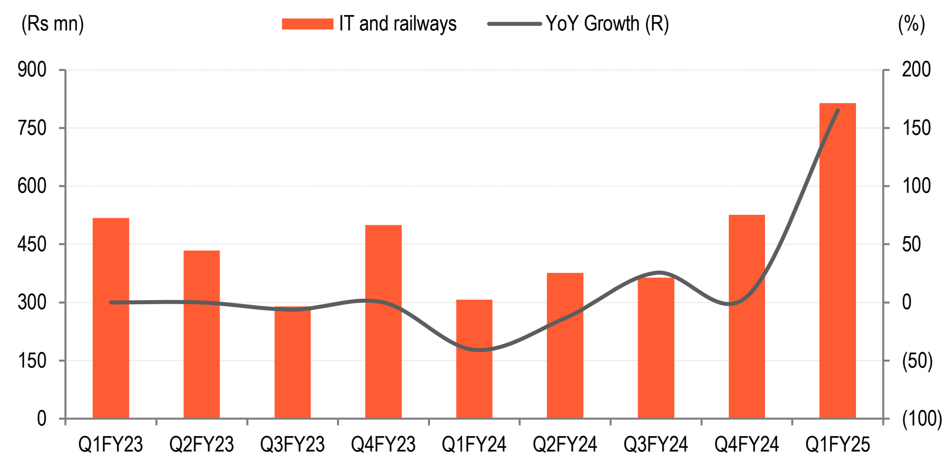
Source: Company, BOBCAPS Research

Fig 12 – Segment: Industrials growth trend



Source: Company, BOBCAPS Research

Fig 13 – Segment: IT and Railway growth trend



Source: Company, BOBCAPS Research

Earnings call highlights

- **Guidance retained:** Management reaffirmed its growth guidance of 35-40% for both FY25 and FY26, while projecting an EBITDA margin of 7% for the current fiscal year. This forecast is noteworthy given the company's significant dependence on the Consumer segment, which generally operates with lower margins. The Consumer segment contributed 53% to the company's topline this quarter, but management anticipates a reduction in this contribution in the upcoming quarters.

- **Margins dipped in Q1FY25:** The EBITDA margin declined to 3.8% from 6.1% in the previous year, mainly attributed to an unfavourable product mix that negatively impacted profitability.

- **Order book:** As of Q1FY25, SYRMA maintains a robust order book totalling Rs 4.5bn, consistent with the previous quarter. The order intake for this quarter stands at Rs 1.2bn. The Consumer segment continues to dominate the order book, comprising 38-40% of the total share. This is followed by the Industrials segment at 22-25%, the Auto segment at 23-25%, and the Healthcare segment at 6-7%. The remaining portion is allocated to the IT and Railways segments.

- **Working capital:** As of Q1FY25, net working capital days have decreased to 62, from 66 days in Q1FY24. This improvement is primarily due to the increased weightage of the Consumer business and a reduction in inventory days. Management expects the working capital cycle to shorten further by eight to ten days over the next two to three quarters.

- **Net debt position:** The company's gross debt stands at Rs 6bn, primarily comprising working capital debt of Rs 5.2bn. With a cash position of Rs 4.8bn, the net debt is Rs 1.2bn.

- **Capex:** The company plans to incur Rs 1.5bn for capital expenditure in FY25, with Rs 750mn already spent in Q1FY25. The remaining Rs 750mn will be allocated in the upcoming quarters, primarily towards the Pune and Germany facilities. Management expects these facilities to become operational by Q2 or early Q3 of this year.

Consumer

- **Consumer business:** Revenue from the Consumer business surged by about 165% YoY in Q1, reaching Rs 6.2bn and contributing 53% to the company's overall revenue. Management anticipates this contribution will decrease to 40% in the upcoming quarters. This strong performance can be primarily attributed to the rapid expansion of the plain-vanilla Electronics Manufacturing Services (EMS) business, in contrast to the previous year when Original Design Manufacturing held a larger share. The Consumer segment is divided into two main components: first, the ODM business, characterised by higher margins similar to those in the Auto and Industrial segments, which include Radio-frequency Identification (RFID); and second, the Consumer Telecom business, which constitutes the major portion and has comparatively lower margins remaining below 10%.

- **Guidance:** Management guidance indicates that the contribution from the Consumer business will decrease to 37-40% in FY25. This strategic shift is expected to enhance the company's overall margin profile.

Healthcare

- **Healthcare:** In Q1, the Healthcare segment experienced an over-threefold surge in revenue. Despite this substantial growth, Healthcare currently accounts for about 8% of the total topline. The segment remains profitable, with Johari margins showing stability and no significant fluctuation, underscoring its robust and healthy performance. Management also highlighted that Q1 is typically a slower period for medtech products, with contributions expected to rise quarter-over-quarter. It anticipates even stronger growth in the Healthcare segment in the upcoming quarters, reflecting an optimistic outlook for continued expansion.

Exports

- **Exports:** In the first quarter, export sales were relatively subdued, accounting for only 16% of total sales. However, according to management there is a strong expectation and confidence that exports will experience a significant uptick over the next nine months. It anticipated that export rates will grow by 20% during the upcoming quarters.

New facilities

- The commissioning of the Pune facility is advancing on schedule and expected to be fully operational by Q2 or early Q3 of FY25. Additionally, the establishment of a new, higher-capacity facility in Germany is strategically aimed at capturing a larger share of the European market.
- The expansion in Germany spans 40,000 square feet and is scheduled to begin operations by the end of Q2 or early Q3 of FY25. The facility will feature areas for showcasing existing products and attracting potential new customers. The integration process will involve manufacturing all boards in India, which will then be shipped to Germany for final assembly. This strategic initiative is designed to enhance the company's export capabilities and capitalise on the growing market potential in Western Europe.

Valuation methodology

Syrma is rapidly expanding its footprint in the EMS space, domestically and internationally. The recent acquisition of JDHL has enabled SYRMA to enter the lucrative medical devices market, with further inorganic growth anticipated in the near future.

Despite facing margin pressures due to shifts in its product mix, particularly with the Consumer vertical being the largest contributor to the topline, SYRMA's management is confident of strategically reducing the Consumer segment's contribution. Instead, it aims to increase contributions from the higher-margin Healthcare and Auto segments. This strategic realignment underpins our decision to maintain our EPS estimates for FY25 and FY26. We continue to value the stock at an unchanged price-to-earnings ratio of 30x. Factoring in our Jun'26 estimates, we have raised our TP to Rs 450 from Rs 420.

Key risks

Key upside and downside risks to our estimates are:

- better-than-guided margins, and
- increased consumer segment contribution in topline.

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Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Total revenue	**20,484**	**31,538**	**42,501**	**57,406**	**76,870**
EBITDA	1,878	1,986	2,991	4,154	5,450
Depreciation	312	515	602	787	923
EBIT	1,566	1,471	2,389	3,367	4,527
Net interest inc./(exp.)	(216)	(378)	(461)	(605)	(781)
Other inc./(exp.)	437	586	674	741	816
Exceptional items	0	0	0	0	0
EBT	1,787	1,678	2,602	3,504	4,562
Income taxes	556	421	658	882	1,148
Extraordinary items	0	14	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**1,193**	**1,074**	**1,773**	**2,452**	**3,244**
Adjustments	0	14	0	0	0
Adjusted net profit	**1,193**	**1,087**	**1,773**	**2,452**	**3,244**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Accounts payables	4,881	12,232	10,480	14,155	18,954
Other current liabilities	1,088	1,028	3,726	5,033	6,739
Provisions	0	0	0	0	0
Debt funds	3,747	6,299	8,541	10,993	14,194
Other liabilities	306	1,210	1,407	1,675	2,025
Equity capital	1,768	1,774	1,774	1,774	1,774
Reserves & surplus	13,635	14,352	15,860	18,047	21,025
Shareholders' fund	15,403	16,126	17,634	19,821	22,799
Total liab. and equities	**25,425**	**36,896**	**41,789**	**51,677**	**64,712**
Cash and cash eq.	1,325	1,210	11,266	12,262	14,102
Accounts receivables	4,022	9,301	7,569	10,223	13,689
Inventories	5,874	10,043	9,315	12,582	16,848
Other current assets	1,057	2,207	1,397	1,887	2,527
Investments	7,535	64	86	117	156
Net fixed assets	5,373	6,674	7,772	8,686	9,463
CWIP	204	3,029	4,082	5,514	7,383
Intangible assets	0	4,144	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	36	223	300	406	543
Total assets	**25,426**	**36,897**	**41,789**	**51,677**	**64,712**

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24P	FY25E	FY26E	FY27E
Cash flow from operations	**(703)**	**(1,136)**	**6,590**	**1,809**	**2,300**
Capital expenditures	(1,893)	(3,377)	(1,700)	(1,700)	(1,700)
Change in investments	(7,488)	(2,293)	(22)	(30)	(40)
Other investing cash flows	236	5,388	3,211	(1,269)	(1,658)
Cash flow from investing	**(9,145)**	**(282)**	**1,488**	**(3,000)**	**(3,397)**
Equities issued/Others	392	(80)	0	0	0
Debt raised/repaid	1,805	2,320	2,242	2,452	3,202
Interest expenses	0	0	0	0	0
Dividends paid	7,771	(694)	(265)	(265)	(265)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	**9,968**	**1,547**	**1,977**	**2,187**	**2,936**
Chg in cash & cash eq.	**120**	**129**	**10,056**	**996**	**1,839**
Closing cash & cash eq.	**1,325**	**1,210**	**11,266**	**12,262**	**14,102**

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24P	FY25E	FY26E	FY27E
Reported EPS	6.7	6.1	10.0	13.9	18.3
Adjusted EPS	6.7	6.1	10.0	13.9	18.3
Dividend per share	1.5	1.5	1.5	1.5	1.5
Book value per share	87.1	91.2	99.8	112.1	129.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24P	FY25E	FY26E	FY27E
EV/Sales	3.7	2.4	1.8	1.3	1.0
EV/EBITDA	40.3	38.1	25.3	18.2	13.9
Adjusted P/E	63.4	69.6	42.6	30.8	23.3
P/BV	4.9	4.7	4.3	3.8	3.3

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24P	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	66.8	64.8	68.2	70.0	71.1
Interest burden (PBT/EBIT)	114.2	114.1	108.9	104.1	100.8
EBIT margin (EBIT/Revenue)	7.6	4.7	5.6	5.9	5.9
Asset turnover (Rev./Avg TA)	3.8	4.7	5.5	6.6	8.1
Leverage (Avg TA/Avg Equity)	0.5	0.4	0.5	0.5	0.4
Adjusted ROAE	11.3	6.9	10.5	13.1	15.2

Ratio Analysis

Y/E 31 Mar	FY23A	FY24P	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	61.7	54.0	34.8	35.1	33.9
EBITDA	49.0	5.7	50.6	38.9	31.2
Adjusted EPS	56.1	(8.9)	63.1	38.3	32.3
Profitability & Return ratios (%)					
EBITDA margin	9.2	6.3	7.0	7.2	7.1
EBIT margin	7.6	4.7	5.6	5.9	5.9
Adjusted profit margin	5.8	3.4	4.2	4.3	4.2
Adjusted ROAE	11.3	6.9	10.5	13.1	15.2
ROCE	10.0	6.5	8.5	10.0	11.1
Working capital days (days)					
Receivables	72	108	65	65	65
Inventory	105	116	80	80	80
Payables	87	142	90	90	90
Ratios (x)					
Gross asset turnover	3.8	4.4	4.7	5.4	6.2
Current ratio	1.4	1.2	1.4	1.3	1.2
Net interest coverage ratio	7.3	3.9	5.2	5.6	5.8
Adjusted debt/equity	0.2	0.4	0.5	0.6	0.6

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

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BUY – Expected return >+15%

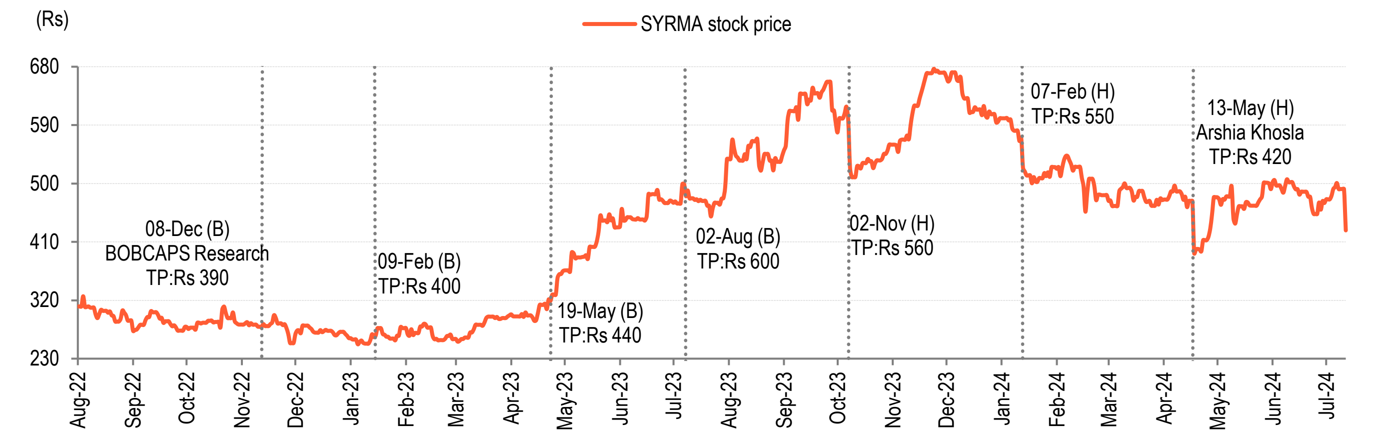
HOLD – Expected return from -6% to +15%

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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