

HOLD
 TP: Rs 480 | ▲ 11%

SYRMA SGS

| Consumer Durables

| 28 October 2024

Modest revenue growth; margins to revive

- Modest topline growth of 17%; EBITDA margin expanded 160bps due to better product mix
- FY25 revenue growth guidance remains steady, with new capacities set to accelerate expansion
- We maintain our FY25E/FY26E/FY27E EPS and value the stock at 30x Sep'26 P/E. We roll forward our valuation and raise TP to Rs 480. HOLD

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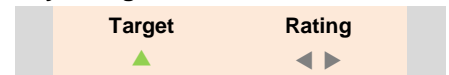
Revenue below estimates, margins beat: SYRMA's topline showed modest growth of 17% YoY to Rs 8.3bn, while EBITDA margin expanded sharply by 160bps to 8.5%. This increase was primarily due to the increased contribution from Auto, Healthcare and Industrials and a notable decrease in revenue from the Consumer segment, which typically has lower margins than the Original Design Manufacturer (ODM) segment. APAT rose 40% YoY to Rs 396mn.

Consumer segment capped; Auto and Healthcare to drive future growth: SYRMA's Auto vertical grew 22% YoY. Industrials experienced healthy growth of 23%, and Healthcare revenue grew 30%, whereas Consumer and IT and Railways grew a modest 8%. SYRMA's order book is at Rs 4.8bn, with the Consumer segment holding a 35-38% share, followed by Industrials with 25-28%, Auto 24-26%, Healthcare 6-8%, 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 maintained; shifts focus to boost margins: Management 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 the Healthcare and Auto segments, we maintain our FY25/FY26/FY27 EPS estimates. We continue to value the stock at an unchanged P/E of 30x. Rolling forward to Sep'26, we raise our TP to Rs 480 (from Rs 450).

Key changes



Ticker/Price	SYRMA IN/Rs 432
Market cap	US\$ 908.6mn
Free float	53%
3M ADV	US\$ 4.2mn
52wk high/low	Rs 705/Rs 376
Promoter/FPI/DII	47%/5%/9%

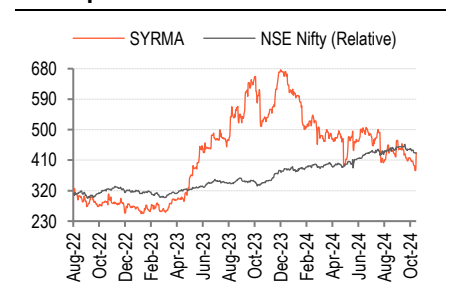
Source: NSE | Price as of 28 Oct 2024

Key financials

Y/E 31 Mar	FY24A	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)	70.3	43.1	31.2
EV/EBITDA (x)	38.5	25.5	18.4
Adj. EPS growth (%)	(8.9)	63.1	38.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	Q2FY25E	Variance
Revenue	8,327	7,117	17.0	11,599	(28.2)	19,926	20,484	(2.7)	9,608	15.4
EBITDA	710	490	44.8	446	59.2	1,155	1,878	(38.5)	489	(31.1)
EBITDAM (%)	8.5	6.9	160bps	3.8	470bps	5.8	9.2	(340bps)	5.1	(40.3)
Depreciation	167	116		174		341	312			
Interest	136	80		130		266	216			
Other Income	100	89		153		253	437			
PBT	507	370	37.2	295	71.9	802	1,787	(55.1)		
Tax	110	64		91		202	556			
Adjusted PAT	396	284	39.8	203	94.9	600	1,231	(51.3)	256	(35.4)
Exceptional item	-	-		-		-	-			
Reported PAT	396	284	39.8	203	94.9	600	1,193	(49.7)		
Adj. PATM (%)	4.8	4.0	80bps	1.8	300bps	3.0	6.0	(300bps)		
EPS (Rs)	2.2	1.7	29.9	1.2	94.9	3.4	6.7	(49.7)		

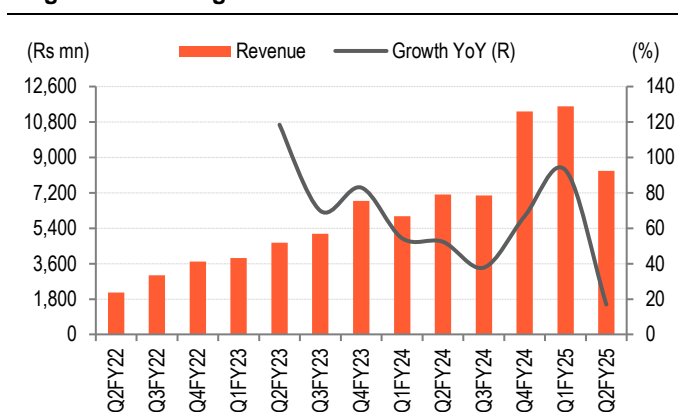
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Auto	2,109	1,725	22.3	1,877	12.4	3986	3,176	25.5
Consumer	2,715.0	2,519.0	7.8	6,166.0	(56.0)	8881	4,843	83.4
Healthcare	661	512	29.1	589	12.2	1250	669	86.8
Industrials	2,439	1,984	22.9	2,152	13.3	4591	3,759	22.1
IT and Railways	405	376	7.7	814	(50.2)	1219	790	54.3

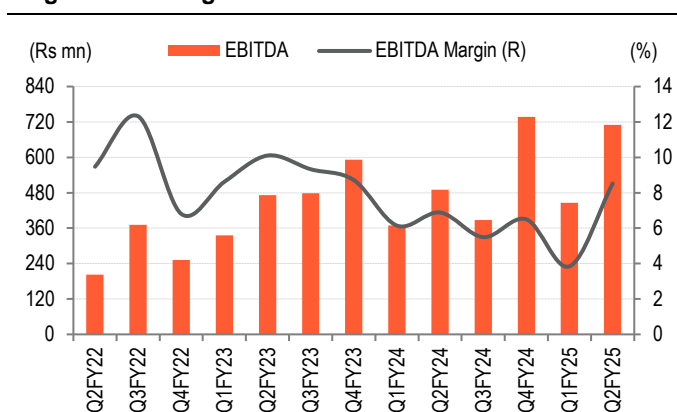
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth



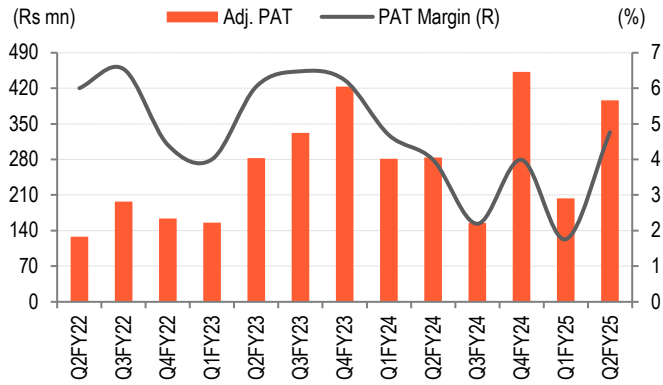
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



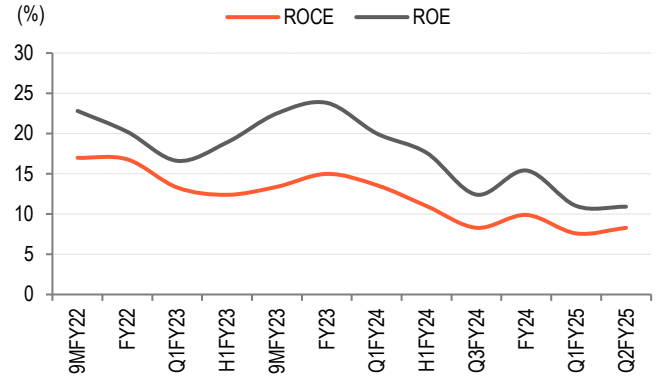
Source: Company, BOBCAPS Research

Fig 5 – PAT growth



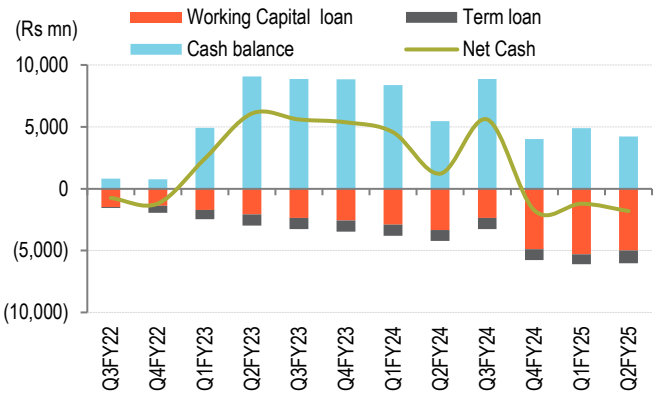
Source: Company, BOBCAPS Research

Fig 6 – Return ratios



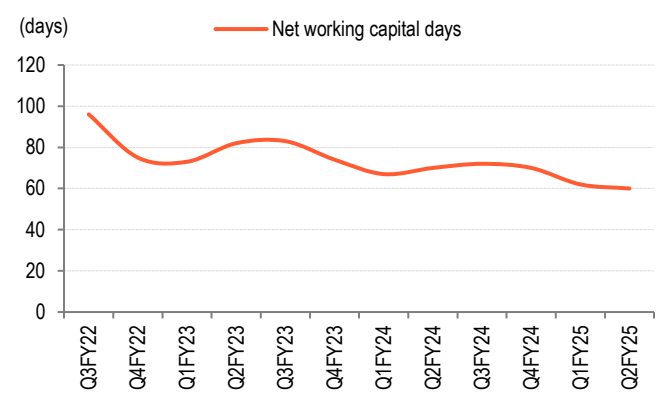
Source: Company, BOBCAPS Research

Fig 7 – Liquidity profile



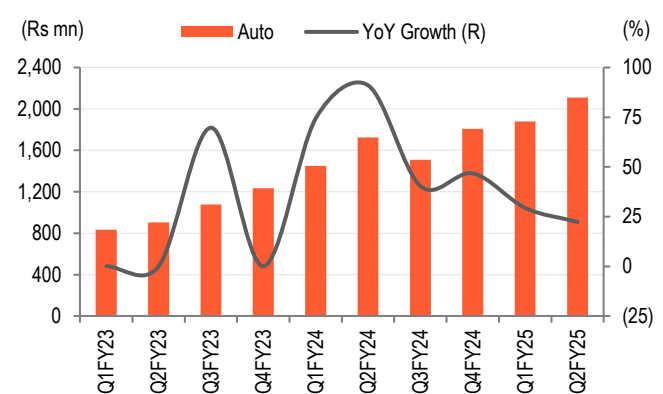
Source: Company, BOBCAPS Research

Fig 8 – Working capital cycle



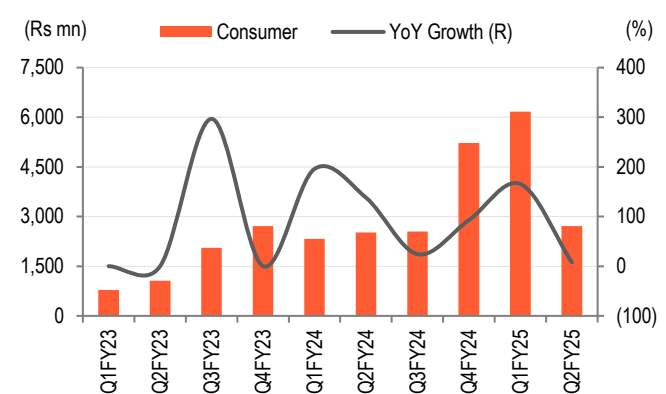
Source: Company, BOBCAPS Research

Fig 9 – Auto segment growth trend



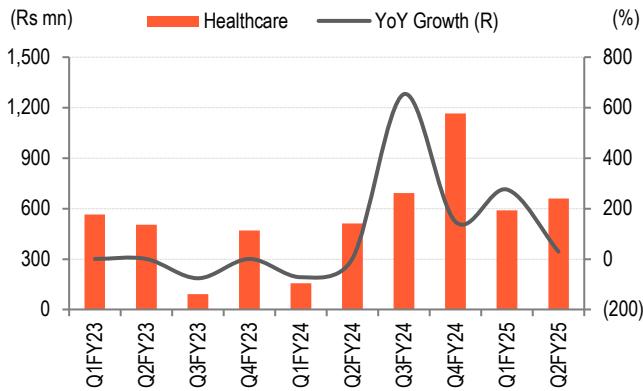
Source: Company, BOBCAPS Research

Fig 10 – Consumer segment growth trend



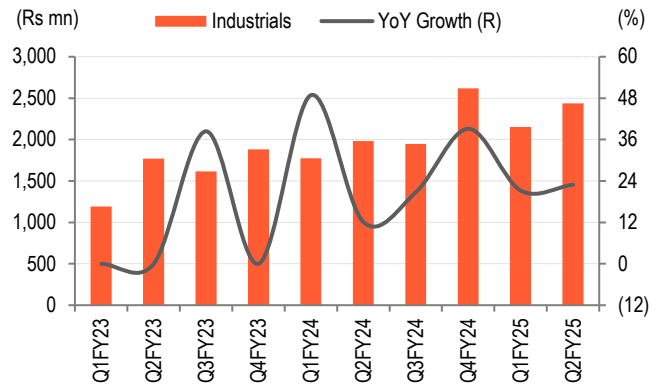
Source: Company, BOBCAPS Research

Fig 11 – Healthcare segment growth trend



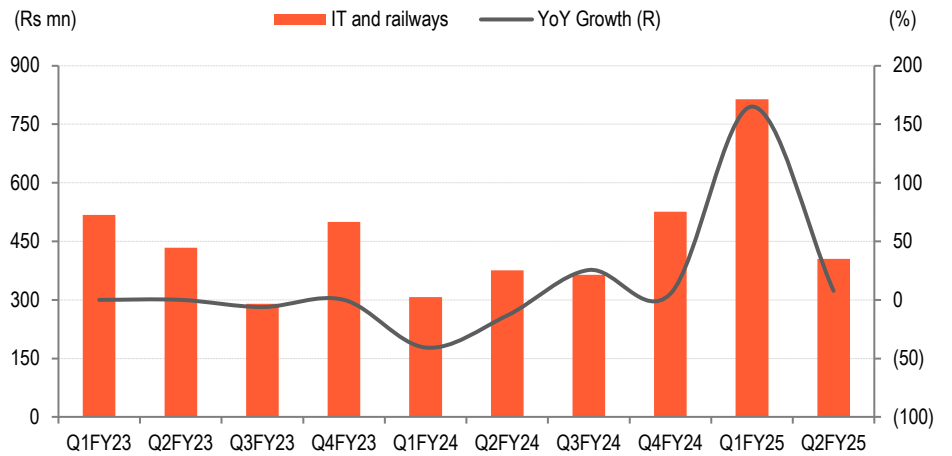
Source: Company, BOBCAPS Research

Fig 12 – Industrials segment growth trend



Source: Company, BOBCAPS Research

Fig 13 – IT and Railway segment growth trend



Source: Company, BOBCAPS Research

Valuation methodology

SYRMA is rapidly expanding its footprint in the Electronics Manufacturing Services space, domestically and internationally. The recent acquisition of Johari Digital Healthcare 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 P/E of 30x. Factoring in our Sep'26 estimates, we have raised our TP to Rs 480 from Rs 450. We maintain our HOLD rating.

Key risks

Key upside and downside risks to our estimates are:

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	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	FY24A	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	2,067	3,927	7,152
Accounts receivables	4,022	9,301	12,576	16,986	22,745
Inventories	5,874	10,043	13,507	14,155	14,742
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	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	(703)	(1,136)	(2,609)	2,672	3,686
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	857	1,859	3,225
Closing cash & cash eq.	1,325	1,210	2,067	3,927	7,152

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	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	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.7	2.4	1.8	1.3	1.0
EV/EBITDA	40.7	38.5	25.5	18.4	14.0
Adjusted P/E	64.0	70.3	43.1	31.2	23.6
P/BV	5.0	4.7	4.3	3.9	3.4

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	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	FY24A	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	108	108	108
Inventory	105	116	116	90	70
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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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

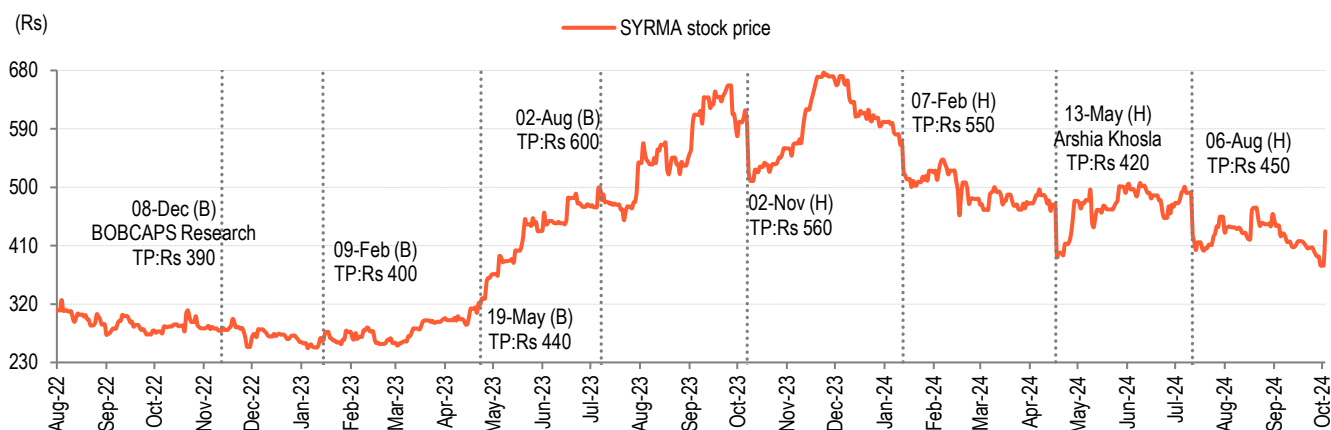
HOLD – Expected return from -6% to +15%

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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