

HOLD

TP: Rs 420 | ▲ 7%

SYRMA SGS

| Consumer Durables

| 13 May 2024

Strong topline, but margins remain subpar

- Robust topline growth in Q4, but EBITDA margin dipped due to product mix
- FY25 revenue growth guidance remains unchanged, new capacities poised to drive growth
- We trim our FY25E/FY26E EPS by 15%/12% and value stock at 30x (vs. 38x). We roll over valuations and cut TP to Rs 420 (vs. Rs 550). HOLD

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Topline strong; margin drag apparent: Despite Syrma's topline growth jumping 67% YoY to reach Rs 11.3bn, EBITDA margin declined a notable 220bps YoY to 6.5%. This drop is primarily attributed to heightened raw material expenses and a substantial increase in revenue contribution from the telecom consumer segment, known for its lower-margin nature, as opposed to original design manufacturer (ODM), which held a larger share in the previous year. FY24 revenue was ~Rs 32bn, up 54%.

Segments performance solid, Healthcare stands out: The company's Auto vertical grew 47% YoY, while the Consumer segment surged by 93%. Industrials saw healthy growth of 39%, and IT and Railways increased by 5.2%. Healthcare surged 2.5x times. Syrma boasts a Rs 4.5bn order book, with a significant portion comprising projects in the consumer segment. Additionally, exports constitute 22-25% of the total order book.

Guidance upheld: Management reaffirmed its growth targets of 35-40% for both FY25 and FY26, while providing guidance for EBITDA margin of 7% for the current fiscal year. Margins will be subdued, especially given their significant dependence on the consumer segment, which traditionally operates with narrower profit margins. They have also articulated a strategy to reduce the overall share of the consumer segment in the topline, a move expected to yield improved margins post FY25.

Maintain HOLD: With the Consumer vertical being the largest contributor to the topline, Syrma is presently facing margin challenges due to alterations in its product mix. Management expects the share of ODM to remain subdued until FY25. To address this situation, we cut our FY25/FY26 EPS estimates by 15%/12% to reflect expected lower margins. Additionally, we have lowered our target P/E to 30x from 38x. We roll over valuations to Mar'26E, with a new price target of Rs 420 (previously Rs 550).

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	SYRMA IN/Rs 392
Market cap	US\$ 844.3mn
Free float	53%
3M ADV	US\$ 3.7mn
52wk high/low	Rs 705/Rs 302
Promoter/FPI/DII	47%/5%/9%

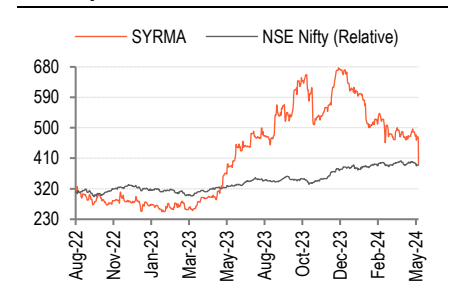
Source: NSE | Price as of 13 May 2024

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)	63.8	39.1	28.3
EV/EBITDA (x)	34.9	23.2	16.7
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)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	11,341	6,795	66.9	7,067	60.5	31,538	20,484	54.0
EBITDA	737	592	24.4	388	89.9	1,986	1,878	5.7
EBITDAM (%)	6.5	8.7	(220bps)	5.5	100bps	6.3	9.2	(290bps)
Depreciation	158	88		139		515	312	
Interest	123	39		101		378	216	
Other Income	156	216		121		586	437	
PBT	612	681	(10.2)	269	127.4	1,678	1,787	(6.1)
Tax	160	252		67		421	556	
Adjusted PAT	452	423	6.9	155	192.4	1,257	1,231	2.1
Exceptional item	-	-		-		14	-	
Reported PAT	452	423	6.9	155	192.4	1,074	1,193	(10.0)
Adj. PATM (%)	4.0	6.2	(220bps)	2.2	180bps	4.0	6.0	(200bps)
EPS (Rs)	2.6	2.4	5.5	1.1	123.5	6.1	6.7	(8.9)

Source: Company, BOBCAPS Research

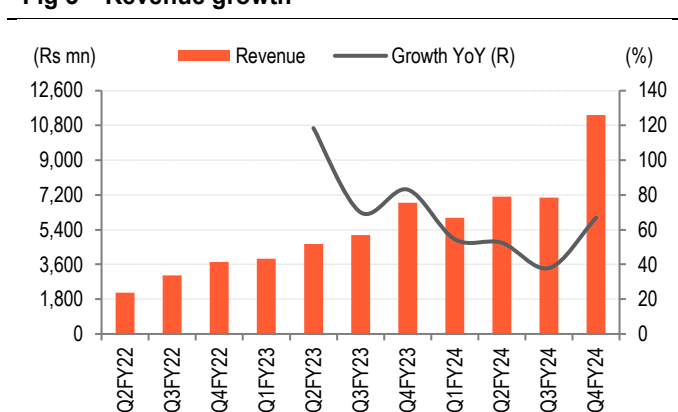
Fig 2 – Segmental performance

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Auto	1,809	1,233	46.7	1,510	19.8	6495	4,044	60.6
Consumer	5,220.0	2,708.0	92.8	2,551.0	104.6	12614	6,606	90.9
Healthcare	1166	471	147.6	693	68.3	2528	1,633	54.8
Industrials	2,619	1,882	39.2	1,949	34.4	8327	6,458	28.9
IT and railways	526	500	5.2	364	44.5	1573	1,742	(9.7)

Source: Company, BOBCAPS Research

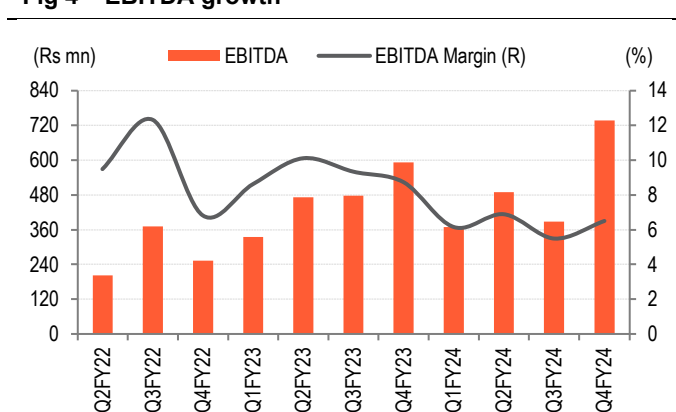
Key metrics: Quarterly

Fig 3 – Revenue growth



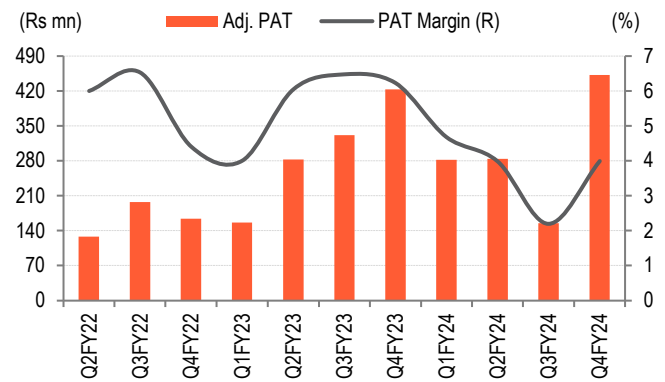
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth



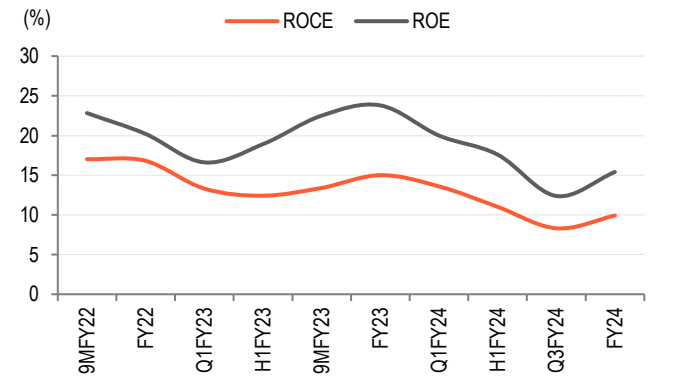
Source: Company, BOBCAPS Research

Fig 5 – PAT growth



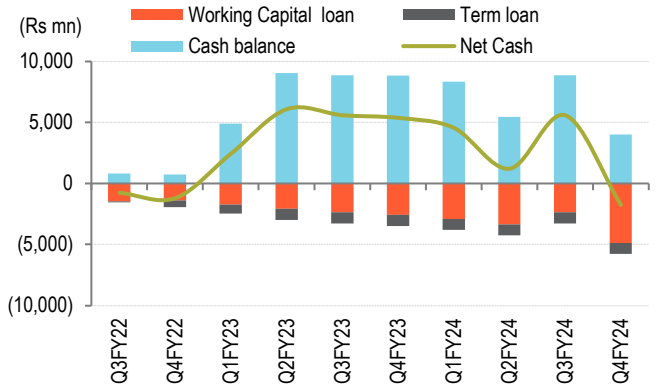
Source: Company, BOBCAPS Research

Fig 6 – Return ratios



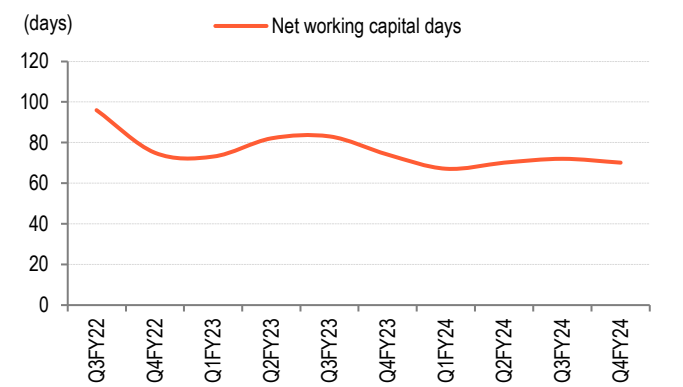
Source: Company, BOBCAPS Research

Fig 7 – Liquidity profile



Source: Company

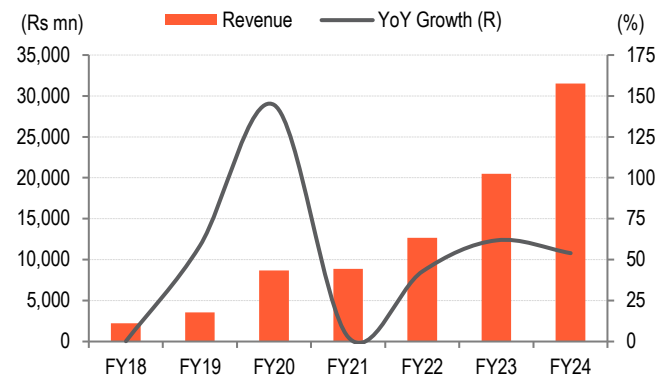
Fig 8 – Working capital cycle



Source: Company

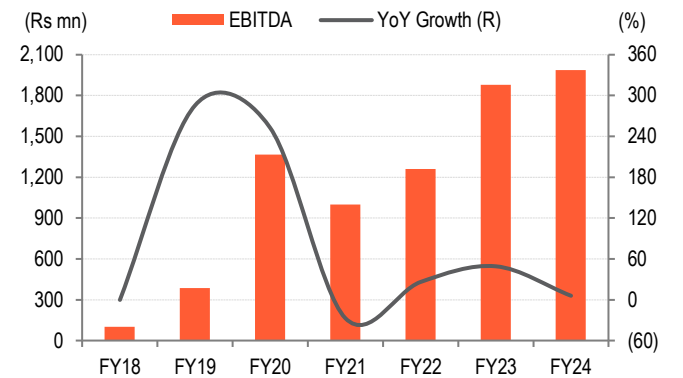
Key metrics: Yearly

Fig 9 – Revenue growth



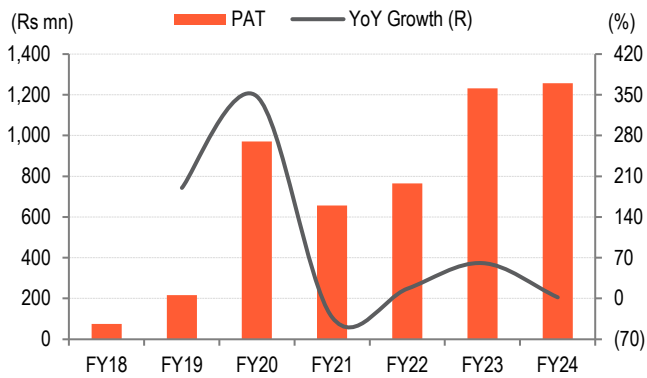
Source: Company, BOBCAPS Research

Fig 10 – EBITDA trend



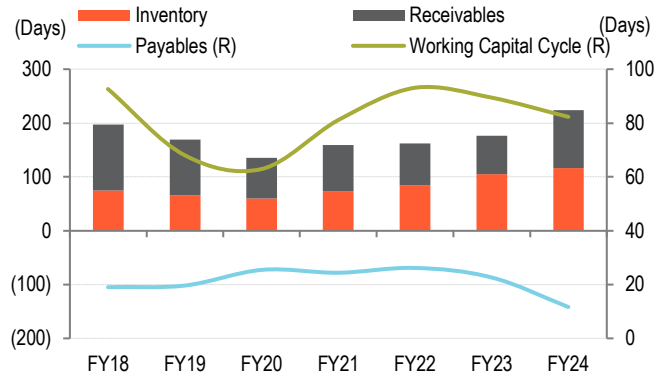
Source: Company, BOBCAPS Research

Fig 11 – PAT trend



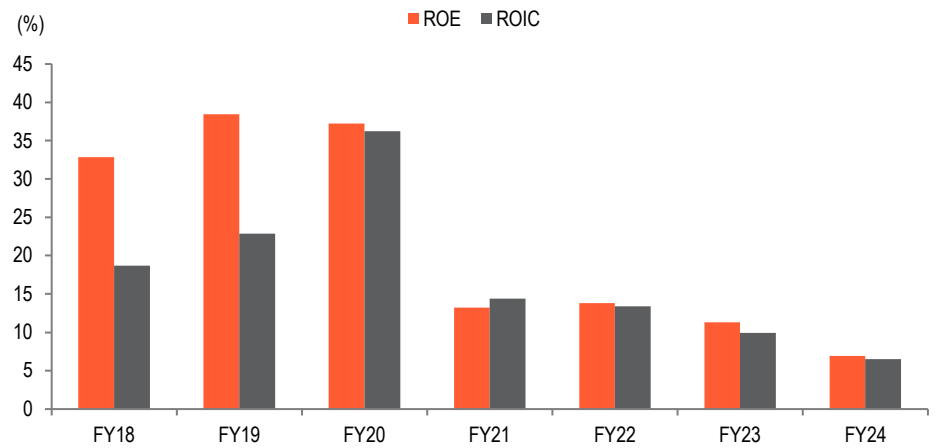
Source: Company, BOBCAPS Research

Fig 12 – Working capital cycle



Source: Company, BOBCAPS Research

Fig 13 – Return ratios



Source: Company, BOBCAPS Research

Earnings call highlights

Key highlights

- **Guidance retained:** Management reiterated its growth targets of 35-40% for both FY25 and FY26, while guiding for EBITDA margin of 7% this fiscal year. This projection is particularly notable considering its heavy reliance on the Consumer segment, which typically operates on lower margins.
- **Margins dipped in Q4FY24:** EBITDA margin dropped to 6.5% from 8.7% in the previous year, primarily due to an unfavourable product mix.
- **Order book:** As of Q4FY24, Syrma boasts a robust order book totalling Rs 4.5bn. The Consumer segment dominates the order book, comprising 40-45% of the share, followed by Industrials (20-25%), Auto (20-22%), Healthcare (5-7%), with the remainder allocated to IT and Railways.
- **Working capital:** Net working capital days remained relatively stable at around 70 days as of Q4, a minor change from the previous quarter's 72 days. Management anticipates a reduction in the working capital cycle by ~8-10 days over the next 2-3 quarters.
- **Net debt position:** The company's gross debt stands at Rs 5.7bn, primarily comprising working capital debt amounting to Rs 4.9bn. With a cash position of Rs 4bn, the net debt is Rs 1.7bn.
- **Capex:** The company incurred capex of Rs 1.56bn in FY24 and expects to spend Rs 1.7bn-1.85bn in FY25.

Consumer

- **Consumer business:** Revenue from the Consumer business increased ~93% YoY in Q4 and around 91% for the full FY24. This surge can be attributed primarily to the rapid expansion of the plain-vanilla Electronics Manufacturing Services (EMS) business, contrasting with the previous year when ODM held a larger share. The Consumer segment comprises two main components: firstly, the ODM business, characterised by higher margins, akin to the margin profile seen in the Auto and Industrial segments which includes Radio-frequency Identification (RFID); and secondly, the Consumer Telecom business, which constitutes the major portion, with comparatively lower margins, staying below 10%.
- **Guidance:** Management has provided guidance indicating a reduction in the contribution from the Consumer business to 37-40% in FY25. This strategic shift is expected to bolster the overall margin profile of the company.

Healthcare

- **Healthcare:** Healthcare segment revenue saw a strong increase of over 2.5 times in Q4. Despite this significant growth, Healthcare currently represents about 8% of the total topline. Even if it were to contribute 30%, its impact on margins would remain relatively insignificant. Moreover, the healthcare segment is profitable, with Johari margins showing no significant variation, making it a robust and healthy business component.

- **Johari Digital:** For Johari Digital, with a flattish base in FY23, management expects growth of 25-30% in FY25, and anticipates significant expansion in its business lines, focusing on surgical, diagnostic, and patient care segments in FY25 and beyond. With a projected growth rate of 30% over the next two years and further acceleration in subsequent years, these endeavors are poised to establish a strong foundation for the business.

Exports

- Exports contributed Rs 8.3bn to the FY24 revenue, accounting for 26% of the total topline. The major countries where exports were conducted include the US and Europe.
- **Order book:** Of the Rs 4.5bn order book, exports constitute 22-25%.

New facilities

- The commissioning of the Pune facility is progressing as planned and expected to be ready for production by Q2 or early Q3 of FY25. Additionally, the establishment of a new facility with enhanced capacity in Germany aims to attract a greater volume of business from the European market.
- The expansion in Germany encompasses an area of 40,000 sq ft, slated to commence operations by the end of Q2 or Q3 of FY25, equipped with facilities to showcase existing products and attract potential new customers. This integration facility will involve manufacturing all boards in India, which will then be shipped to Germany and assembled into final products. This strategic move aims to augment the company's exports and tap the burgeoning market potential in Western India.

Valuation methodology

Syrma is rapidly expanding its presence in the EMS space – domestically and internationally. The recent JDHL acquisition has allowed Syрма entry into the medical devices business, with further inorganic expansion on the horizon.

However, margin challenges persist due to shifts in the product mix, particularly in the Consumer vertical, with the ODM share expected to remain low until FY25. Consequently, we have adjusted our FY25/FY26 EPS estimates downward by 15%/12% to reflect lower margin expectations, along with reducing our target P/E to 30x from 38x. Based on these revisions and rolling valuations to Mar'26E, our new price target stands at Rs 420 (previously Rs 550), maintaining our HOLD rating.

Fig 14 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	42,501	57,406	40,165	51,724	5.8	11.0
EBITDA	2,991	4,154	3,304	4,451	(9.5)	(6.7)
PAT	1,773	2,452	2,073	2,785	(14.5)	(12.0)
EPS	10.0	13.9	11.7	15.8	(14.5)	(12.0)
EBITDAM (%)	7.0	7.2	8.2	8.6	(120bps)	(140bps)

Source: BOBCAPS Research

Key risks

The key risks to our estimates are:

- Upside risk: better-than-guided margins.
- Downside risk: Increased consumer segment contribution in topline.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.6	3,798	3,200	SELL
Blue Star	BLSTR IN	3.3	1,421	1,670	BUY
Havells India	HAVL IN	13.0	1,702	1,780	HOLD
KEI Industries	KEI IN	4.3	3,905	3,680	HOLD
Orient Electric	ORIENTEL IN	0.5	210	230	HOLD
Syrma SGS	SYRMA IN	0.8	392	420	HOLD
Voltas	VOLT IN	5.2	1,302	1,260	HOLD

Source: BOBCAPS Research, NSE | Price as of 13 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23P	FY24P	FY25E	FY26E
Total revenue	12,666	20,484	31,538	42,501	57,406
EBITDA	1,260	1,878	1,986	2,991	4,154
Depreciation	249	312	515	602	787
EBIT	1,010	1,566	1,471	2,389	3,367
Net interest inc./(exp.)	(80)	(216)	(378)	(461)	(605)
Other inc./(exp.)	177	437	586	674	741
Exceptional items	0	0	0	0	0
EBT	1,108	1,787	1,678	2,602	3,504
Income taxes	343	556	421	658	882
Extraordinary items	0	0	14	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	765	1,193	1,074	1,773	2,452
Adjustments	0	0	14	0	0
Adjusted net profit	765	1,193	1,087	1,773	2,452

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23P	FY24P	FY25E	FY26E
Accounts payables	2,405	4,881	12,232	10,480	14,155
Other current liabilities	921	1,088	1,028	3,726	5,033
Provisions	0	0	0	0	0
Debt funds	1,942	3,747	6,299	8,541	10,993
Other liabilities	554	293	1,208	1,405	1,671
Equity capital	1,376	1,768	1,774	1,774	1,774
Reserves & surplus	4,344	13,635	14,352	15,860	18,047
Shareholders' fund	5,721	15,403	16,126	17,634	19,821
Total liab. and equities	11,542	25,412	36,894	41,786	51,673
Cash and cash eq.	732	1,325	1,210	11,266	12,261
Accounts receivables	2,722	4,022	9,301	7,569	10,223
Inventories	2,913	5,874	10,043	9,315	12,582
Other current assets	645	1,057	2,207	1,397	1,887
Investments	47	7,535	64	86	117
Net fixed assets	3,793	5,373	6,674	7,772	8,686
CWIP	391	204	3,029	4,082	5,514
Intangible assets	0	0	4,144	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	299	36	223	300	406
Total assets	11,542	25,426	36,897	41,788	51,675

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23P	FY24P	FY25E	FY26E
Cash flow from operations	(126)	(703)	(1,136)	6,590	1,809
Capital expenditures	(901)	(1,893)	(3,377)	(1,700)	(1,700)
Change in investments	43	(7,488)	(2,293)	(22)	(30)
Other investing cash flows	4,849	236	5,388	3,210	(1,270)
Cash flow from investing	3,992	(9,145)	(282)	1,488	(3,001)
Equities issued/Others	2,715	392	(80)	0	0
Debt raised/repaid	1,021	1,805	2,320	2,242	2,452
Interest expenses	0	0	0	0	0
Dividends paid	85	7,771	(694)	(265)	(265)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	3,821	9,968	1,547	1,977	2,187
Chg in cash & cash eq.	7,687	120	129	10,055	995
Closing cash & cash eq.	732	1,325	1,210	11,266	12,261

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23P	FY24P	FY25E	FY26E
Reported EPS	4.3	6.7	6.1	10.0	13.9
Adjusted EPS	4.3	6.7	6.1	10.0	13.9
Dividend per share	0.0	1.5	1.5	1.5	1.5
Book value per share	32.4	87.1	91.2	99.8	112.1

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23P	FY24P	FY25E	FY26E
EV/Sales	5.5	3.4	2.2	1.6	1.2
EV/EBITDA	55.1	36.9	34.9	23.2	16.7
Adjusted P/E	90.7	58.1	63.8	39.1	28.3
P/BV	12.1	4.5	4.3	3.9	3.5

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23P	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	69.0	66.8	64.8	68.2	70.0
Interest burden (PBT/EBIT)	109.6	114.2	114.1	108.9	104.1
EBIT margin (EBIT/Revenue)	8.0	7.6	4.7	5.6	5.9
Asset turnover (Rev./Avg TA)	3.3	3.8	4.7	5.5	6.6
Leverage (Avg TA/Avg Equity)	0.7	0.5	0.4	0.5	0.5
Adjusted ROAE	13.8	11.3	6.9	10.5	13.1

Ratio Analysis

Y/E 31 Mar	FY22A	FY23P	FY24P	FY25E	FY26E
YoY growth (%)					
Revenue	42.7	61.7	54.0	34.8	35.1
EBITDA	26.1	49.0	5.7	50.6	38.9
Adjusted EPS	16.7	56.1	(8.9)	63.1	38.3
Profitability & Return ratios (%)					
EBITDA margin	9.9	9.2	6.3	7.0	7.2
EBIT margin	8.0	7.6	4.7	5.6	5.9
Adjusted profit margin	6.0	5.8	3.4	4.2	4.3
Adjusted ROAE	13.8	11.3	6.9	10.5	13.1
ROCE	13.4	10.0	6.5	8.5	10.0
Working capital days (days)					
Receivables	78	72	108	65	65
Inventory	84	105	116	80	80
Payables	69	87	142	90	90
Ratios (x)					
Gross asset turnover	3.1	3.8	4.4	4.7	5.4
Current ratio	1.3	1.4	1.2	1.4	1.3
Net interest coverage ratio	12.7	7.3	3.9	5.2	5.6
Adjusted debt/equity	0.3	0.2	0.4	0.5	0.6

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

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

BUY – Expected return >+15%

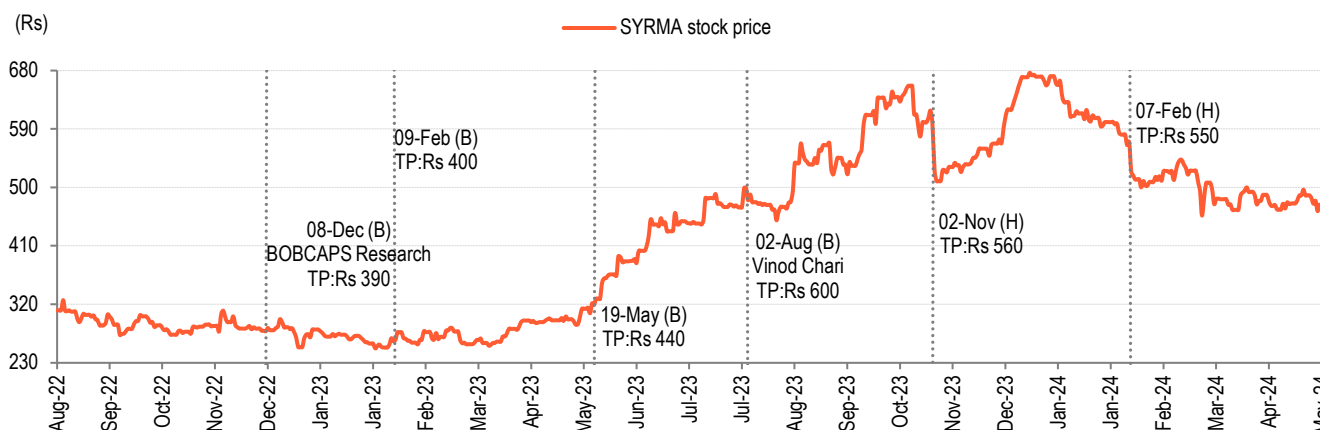
HOLD – Expected return from -6% to +15%

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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