

**NOT
RATED**
SYRMA SGS TECH

| Consumer Durables

| 22 September 2022

Niche player in EMS

- **Leading EMS player with best-in-class EBITDA margins of 11-13% vs. 4-8% for listed peers**
- **Offers a diverse product suite across industrial, auto, consumer electronic and medical applications**
- **FY23 revenue guided to grow on par with industry at 40%, with ODM share in the mix stable at >25%**

Vinod Chari | Nilesh Patil
 Tanay Rasal
 research@bobcaps.in

We interacted with the Syrma SGS (SYRMA, Not Rated). Key takeaways are:

Niche player: SYRMA is a leading electronics engineering and design manufacturer that distinguishes itself from industry peers via its high mix and low-volume approach, diverse industry offerings and focus on high-margin products.

Differentiated ODM capabilities: Unlike listed peers DIXON and AMBER, SYRMA generates significant contribution as an original design manufacturer (ODM). Its product design segment contributed 27% of FY22 revenue and is guided to hold at similar levels ahead. Further, SYRMA offers diverse products across industrial, auto, consumer electronic and medical applications, whereas DIXON (majorly mobiles, electronics) and AMBER (air conditioners) are limited to select verticals.

Bright future for EMS: India's electronics manufacturing services (EMS) sector is witnessing rapid growth and looks set to outpace the global EMS market with a 41% CAGR to US\$ 81bn in FY26 from US\$ 14bn in FY21 (~6x growth), as per the company. Favourable sectoral tailwinds by way of the government's performance-linked incentive scheme, China Plus One, import substitutions and increased investments are catalysing demand.

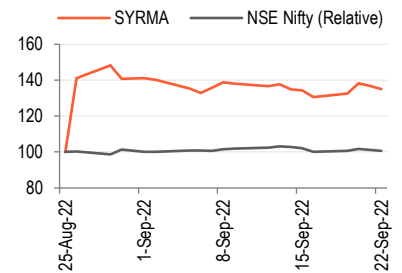
Expanding ahead of expected demand boom: Besides its existing manufacturing plants, SYRMA is establishing greenfield capacity at Manesar (Haryana). It has also announced brownfield/greenfield capacity additions to be commissioned by H2FY23/Q1FY24. The company expects expansion to yield an added ~Rs 20bn (FY22: Rs 12.6bn) in revenue at peak capacity, enabling it to replicate industry growth (~40%).

Margin guided to settle in early double digits: SYRMA expects operating margins to stabilise post a deterioration from the mid-teens in FY20 to early double-digits in FY22 (still ahead of DIXON/AMBER: 3.5%/6.5%). The addition of a marquee client in FY20 had resulted in a spike in margins. The company expects to maintain an 11-13% threshold over the long term and believes its focus on high-value products would help sustain its margin outperformance vis-à-vis peers.

Ticker/Price	SYRMA IN/Rs 297
Market cap	US\$ 668mn
Free float	15%
3M ADV	US\$ 0.01mn
52wk high/low	Rs 343/Rs 256
Promoter/FPI/DII	47%/4%/7%

Source: NSE | Price as of 21 Sep 2022

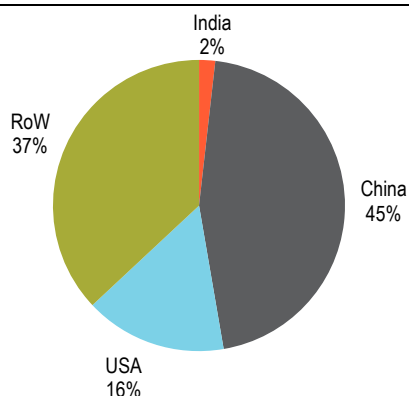
Stock performance



Source: NSE

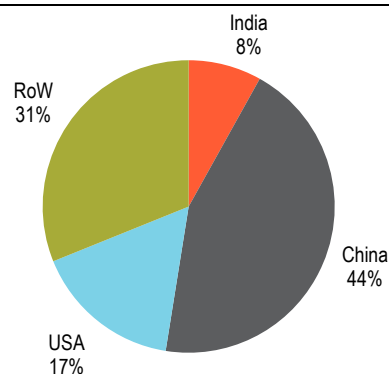


Fig 1 – EMS industry (2020: US\$ 804bn)



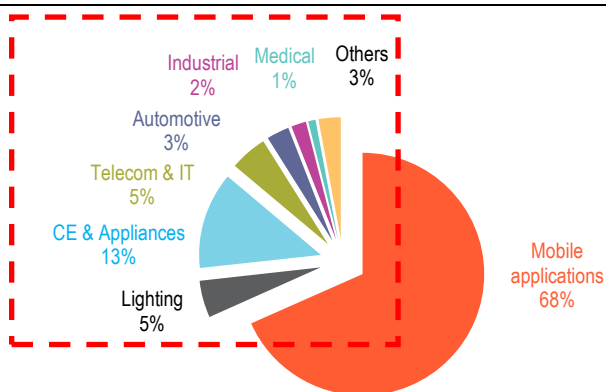
Source: Company, BOBCAPS Research

Fig 2 – EMS (2025E: US\$ 1,002bn): India's share rising



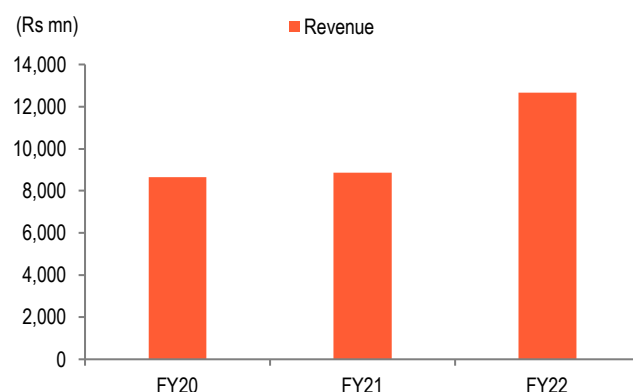
Source: Company, BOBCAPS Research

Fig 3 – SYRMA's focus areas (largely a low-volume play)



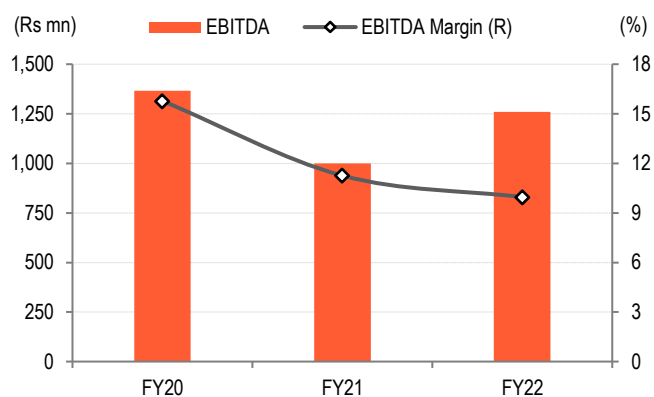
Source: Company, BOBCAPS Research | CE – Consumer Electronics

Fig 4 – Revenue trend



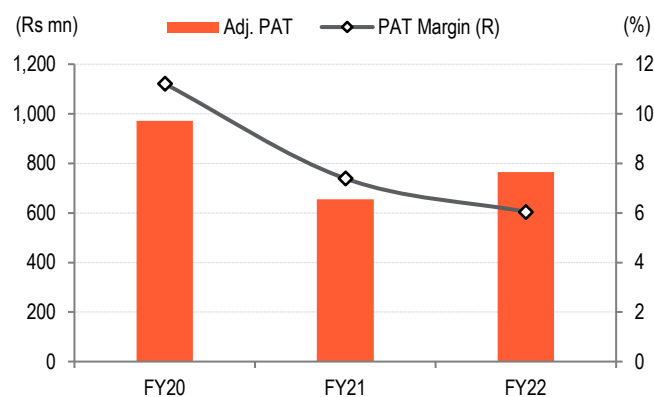
Source: Company, BOBCAPS Research

Fig 5 – EBITDA margin trend



Source: Company, BOBCAPS Research

Fig 6 – PAT trend



Source: Company, BOBCAPS Research

Fig 7 – Peer comparison

Company	FY20-22 (%)			FY22 (%)			Fixed Asset Turnover (x)
	Revenue CAGR	EBITDA CAGR	PAT CAGR	EBITDA margin	ROE	ROIC	
AMBER	3.0	(5.6)	(17.6)	6.5	6.7	6.0	3.9
DIXON	55.9	30.4	27.5	3.5	22.0	19.1	11.2
SYRMA	21.0	(4.0)	(11.3)	9.9	13.8	11.6	4.9

Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A
Total revenue	8,657	8,874	12,666
COGS	5,541	5,980	8,921
Employee Expense	529	571	750
Other expense	1,221	1,324	1,735
EBITDA	1,366	999	1,260
EBITDA margin (%)	15.8%	11.3%	9.9%
Depreciation	191	228	249
EBIT	1,175	772	1,010
Net interest inc./(exp.)	128	71	80
Other inc./(exp.)	143	169	177
Exceptional items			
EBT	1,190	869	1,108
Income taxes	219	213	343
Extraordinary items	56	-	-
Min. int./Inc. from assoc.	-	-	-
Reported net profit	915	655	765
Adjustments	56	-	-
Adjusted net profit	971	655	765

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A
Accounts payables	1,731	1,902	2,405
Other current liabilities	572	526	921
Debt funds	1,134	925	1,942
Other liabilities	239	285	445
Minority Interest	41	66	108
Equity capital	7	7	1,376
Reserves & Surplus	4,535	5,355	4,344
Total liab. and equities	8,259	9,068	11,542
Cash and cash eq.	1,055	1,092	732
Accounts receivables	1,804	2,084	2,722
Inventories	1,419	1,789	2,913
Other current assets	377	467	645
Investments			
Net fixed assets	2,130	2,099	2,578
CWIP	12	0	391
Other assets	1,462	1,536	1,561
Total assets	8,259	9,068	11,542

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A
Cash flow from	1,558	371	(126)
Capital expenditures	(479)	(187)	(901)
Change in investments	(19)	(50)	43
Other investing cash flows	7	(886)	4,849
Cash flow from investing	(491)	(1,123)	3,992
Equities issued/Others	45	1,079	2,715
Debt raised/repaid	(417)	(75)	1,021
Other financing cash flows	(222)	(288)	85
Cash flow from	(593)	716	3,821
Chg in cash & cash eq.	474	(36)	7,687

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A
Reported EPS	5.19	3.72	4.34
Adjusted EPS	5.51	3.72	4.34
Book value per share	25.8	30.4	32.5

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A
EV/Sales	6.2	6.0	4.2
EV/EBITDA	39.2	53.5	42.4
Adjusted P/E	53.8	79.7	68.3
P/BV	11.5	9.7	9.1

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A
Tax burden (Net profit/PBT)	0.8	0.8	0.7
Interest burden (PBT/EBIT)	1.0	1.1	1.1
EBIT margin (EBIT/Revenue)	0.1	0.1	0.1
Asset turnover (Rev./Avg TA)	4.1	4.2	4.9
Leverage (Avg TA/Avg Equity)	0.9	0.4	0.5
Adjusted ROAE	42.8	13.2	13.8

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A
YoY growth (%)			
Revenue	145	3	43
EBITDA	252	(27)	26
Adjusted EPS	348	(33)	17
Profitability & Return ratios (%)			
EBITDA margin	15.8	11.3	9.9
EBIT margin	13.6	8.7	8.0
Adjusted profit margin	11.2	7.4	6.0
Adjusted ROAE	42.8	13.2	13.8
ROCE	20.7	12.3	13.2
Working capital days (days)			
Receivables	76	86	78
Inventory	60	74	84
Payables	73	78	69
Ratios (x)			
Gross asset turnover	4.1	4.2	4.9
Current ratio	2.0	2.2	2.1
Net interest coverage ratio	9.2	10.8	12.7
Adjusted debt/equity	0.2	0.2	0.3

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

Disclaimer

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.

Rating distribution

As of 31 August 2022, out of 119 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 67 have BUY ratings, 30 have HOLD ratings, 5 are rated ADD*, 1 is rated REDUCE* and 16 are rated SELL. Of these, 2 companies rated BUY and 1 rated ADD have been investment banking clients in the last 12 months. (*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by

foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company or third party in the past 12 months in connection with research report/activities. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.