MOTILAL OSWAL
FINANCIAL SERVICES

2 November 2023
2QFY24 Results Update | Sector: Midcaps

Syrma SGS Technology

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	SYRMA IN
Equity Shares (m)	177
M.Cap.(INRb)/(USDb)	92.7 / 1.1
52-Week Range (INR)	665 / 248
1, 6, 12 Rel. Per (%)	-12/70/78
12M Avg Val (INR M)	356

Financials & Valuations (INR b)

Y/E Mar	FY24E	FY25E	FY26E
Sales	32.1	43.9	59.3
EBITDA	2.5	3.9	5.3
Adj. PAT	1.5	2.3	3.3
EBITDA Margin (%)	7.8	8.8	8.9
Cons. Adj. EPS (INR)	8.7	13.1	18.4
EPS Gr. (%)	29.4	49.4	40.9
BV/Sh. (INR)	95.9	108.9	127.3
Ratios			
Net D:E	0.1	0.1	0.1
RoE (%)	9.5	12.7	15.6
RoCE (%)	9.4	13.0	15.7
Valuations			
P/E (x)	60	40	28
EV/EBITDA (x)	38	25	18

Shareholding pattern (%)

As on	Sep-23	Jun-23	Sep-22
Promoter	47.2	47.3	47.4
DII	9.6	9.2	7.5
FII	10.1	9.3	4.1
Others	33.0	34.2	41.0

Note: FII includes depository receipts

CMP: INR525 TP: INR700 (+33%) Buy

High consumer biz mix drives revenue but dents operating performance

- SYRMA reported robust revenue growth of 52% YoY in 2QFY24, led by strong traction in the consumer (up 2.4x YoY) and automotive (up 91% YoY) verticals. However, margins declined (EBITDA margins down 320bp YoY) due to a high consumer-business mix (built-to-print, low margin business) to 35% (vs. 23% in 2QFY23).
- Factoring in the 2QFY24 performance, we have increased our revenue growth estimates for FY24/FY25/FY26 on the back of strong consumer order inflows but have reduced the margins. Accordingly, we have cut our earnings estimate by ~5% each in FY24/FY25/FY26. We retain our BUY rating on the stock with a TP of INR700 (38x FY26E EPS).

Robust revenue growth and healthy order inflows continue

- 2Q consolidated revenue grew 52% YoY/18% QoQ to INR7.1b and EBITDA grew 4% YoY/33% QoQ to INR490m. EBITDA margins contracted 320bp YoY (+70bp QoQ) to 6.9%. Gross margins contracted 690bp YoY/20bp QoQ to 22.5%. Adjusted PAT increased by 5% YoY/4% QoQ to INR297m.
- The order book saw strong growth and increased to ~INR38b as of Sep'23 vs. ~INR35b/INR30b in Jun'23/Mar'23, aided by strong inflows in the consumer segment (45-50% order book mix).
- For 1HFY24, revenue/EBITDA/adj. PAT grew 53%/6%/33% YoY to INR13.1b/INR859m/INR582m.
- Net working capital days improved to ~70 in 1HFY24 from ~82 in 1HFY23, as the consumer business has lower working capital days.

Highlights from the management commentary

- **Guidance**: The management expects revenue of ~INR30b (excluding JDHL revenue) and EBITDA margins of ~8.7-9.2% (including other income) in FY24. It expects a revenue CAGR of over 35% for the next three to four years, with double-digit EBITDA margins (~10%).
- **Exports** grew 9% YoY/12% QoQ in 2Q. The company has on-boarded multiple MNC clients and its benefits will be reflected next year (revenue potential of over INR2b in FY25). Exports generate ~5-7% higher margin vs. domestic sales.
- **Capex**: SYRMA has spent ~INR1.1b in 1HFY24 and expects to incur a total capex of ~INR2-2.5b in FY24.
- **Cash flow generation:** CFO/EBITDA ratio stood at 20%+ in 1HFY24 and is expected to improve in 2HFY24. The company is targeting CFO/EBITDA ratio of ~50% in the long run.

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Valuation and view

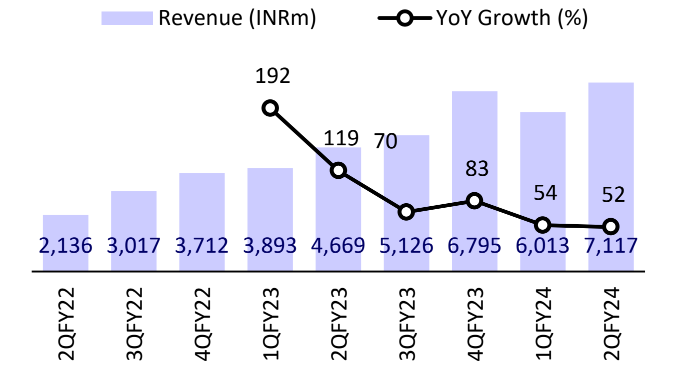
- SYRMA should significantly benefit from the rapid growth in the Electronic systems design and manufacturing (ESDM) industry, given its: 1) rich experience of over three decades, 2) strong order book of INR38b, 3) growing exports, and 4) strong executional capabilities.
- We estimate a CAGR of 43%/41%/40% in revenue/EBITDA/Adj. PAT over FY23-FY26, driven by a robust revenue growth and healthy order inflows.
- Factoring in the 2QFY24 performance, we have increased our revenue growth estimates for FY24/FY25/FY26 on the back of strong consumer order inflows but have reduced the margins. Accordingly, we have cut our earnings estimate by ~5% each in FY24/FY25/FY26. We retain our BUY rating on the stock with a TP of INR700 (38x FY26E EPS).

Consolidated - Quarterly Earning Model (INRm)

Y/E March	FY23				FY24				FY23	FY24
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Sales	**3,893**	**4,669**	**5,126**	**6,795**	**6,013**	**7,117**	**8,048**	**10,872**	**20,484**	**32,051**
YoY Change (%)	NA	250.6	140.0	125.2	62.0	52.4	72.4	112.1	100.9	56.5
Total Expenditure	3,558	4,197	4,648	6,220	5,644	6,627	7,361	9,921	18,624	29,553
EBITDA	**336**	**472**	**478**	**575**	**369**	**490**	**687**	**951**	**1,860**	**2,498**
Margins (%)	8.6	10.1	9.3	8.5	6.1	6.9	8.5	8.8	9.1	7.8
Depreciation	72	71	81	88	101	116	145	150	312	512
Interest	50	63	64	39	75	80	60	50	216	265
Other Income	24	79	118	234	221	89	95	105	455	510
PBT before EO expense	**239**	**417**	**450**	**681**	**413**	**383**	**577**	**856**	**1,787**	**2,230**
Extra-Ord expense	0	0	0	0	0	14	0	0	0	14
PBT	**239**	**417**	**450**	**681**	**413**	**370**	**577**	**856**	**1,787**	**2,217**
Tax	68	128	108	252	130	64	145	216	556	555
Rate (%)	28.5	30.6	24.1	37.1	31.5	17.4	25.2	25.2	31.1	25.1
Minority Interest & Profit/Loss of Asso. Cos.	16	6	10	6	-2	22	49	61	38	130
Reported PAT	**155**	**283**	**332**	**423**	**285**	**283**	**383**	**580**	**1,193**	**1,531**
Adj PAT	**155**	**283**	**332**	**423**	**285**	**297**	**383**	**580**	**1,193**	**1,544**
YoY Change (%)	NA	409.5	192.6	114.4	74.5	4.8	35.1	74.7	125.2	29.5
Margins (%)	4.0	6.1	6.5	6.2	4.7	4.2	4.8	5.3	5.8	4.8

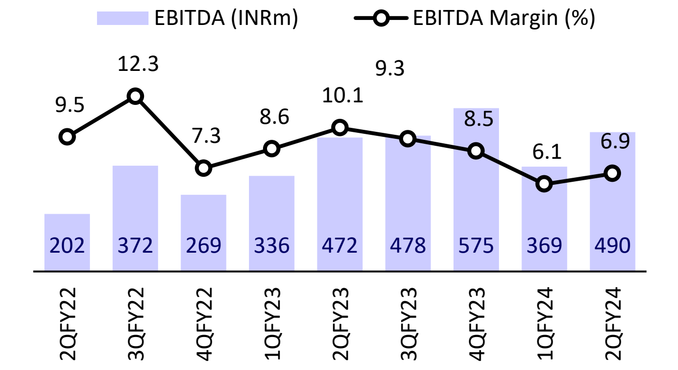
Key exhibits

Exhibit 1: Consolidated revenue trend



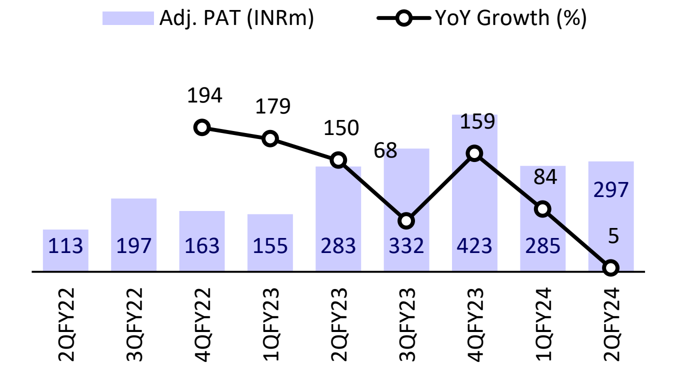
Source: Company, MOFSL

Exhibit 2: Consolidated EBITDA trend



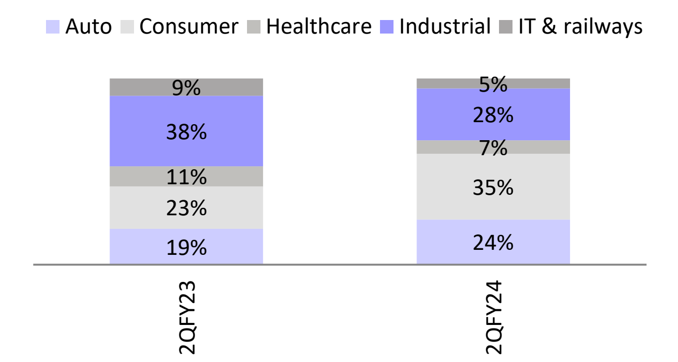
Source: Company, MOFSL

Exhibit 3: Consolidated Adj. PAT trend



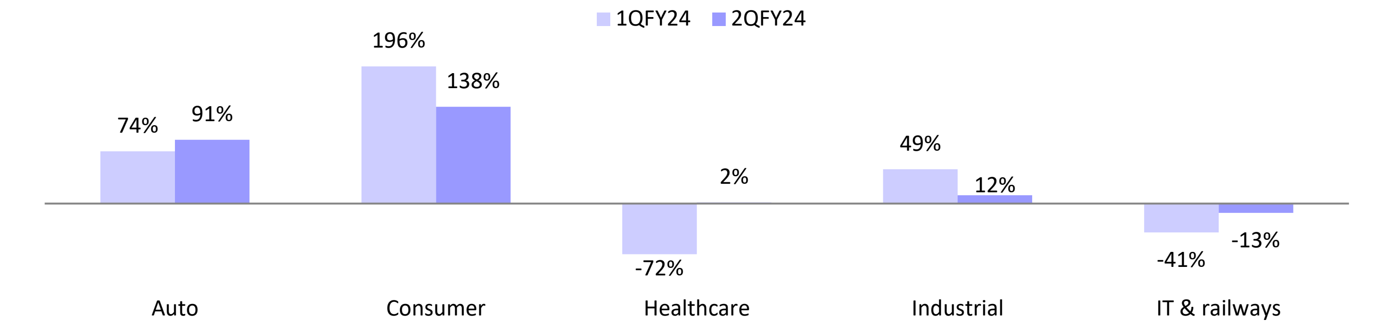
Source: Company, MOFSL

Exhibit 4: End user industry mix



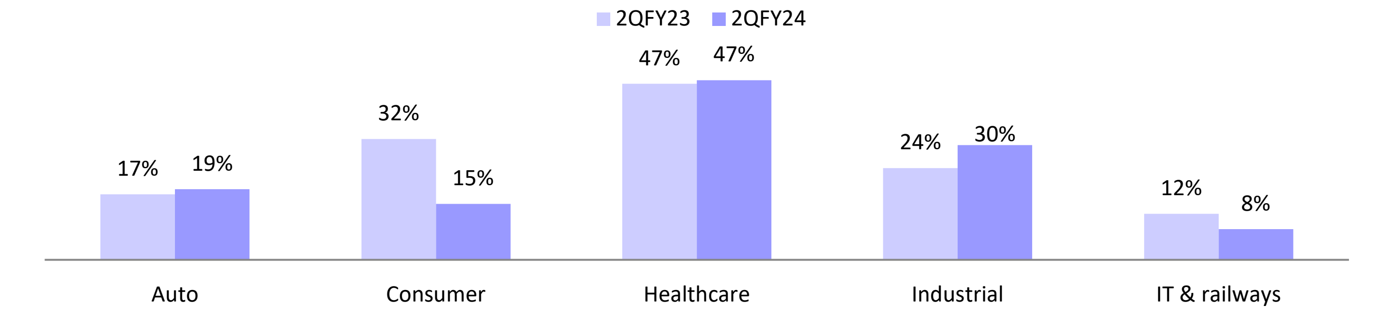
Source: Company, MOFSL

Exhibit 5: Revenue growth YoY across end-used verticals



Source: MOFSL, Company

Exhibit 6: Material (gross) margin comparison across end user industries



Source: MOFSL, Company

Highlights from the management commentary

Guidance

- The company is confident of maintaining the current growth rate. It expects a revenue CAGR of 35%+ over the next 3-4 years.
- 1H generally accounts for ~45% of annual revenue. The management expects the trend to continue, resulting in revenue of ~INR30b in FY24 (excluding revenue from JDHL; recent acquisition).
- It expects EBIDTA margins to be ~8.7-9.2% (including other income) in FY24, provided the company clocks revenue of ~INR30b.
- In the long run, the company aspires to maintain double-digit EBITDA margins (~10%), led by an uptick in product mix in FY24/FY25 (higher revenue from exports and Healthcare segment).

Business mix

- The share of the consumer vertical in total revenue has increased as SYRMA participated in a rapidly growing build-to-print business opportunity.
- This had led to lower margins. However, the company expects to witness improvements in the working capital days and ROCE, with an increasing mix of consumer business.
- Working capital for end-user verticals like Auto/Industrial/Healthcare is ~80-90 days, while for consumers built to print business has working capital requirement of ~30-40 days.
- Consumer vertical can have a higher share in the near term, but will settle down at ~30% of sales in the long run, as exports and healthcare businesses pick up.
- Healthcare vertical witnessed a slight revival on sequential basis. The company expects the share of healthcare to be significantly higher next year (double from current levels).
- The share of ODM was lower (~17%) in 1HFY24. The management expects this to improve to ~20% by next year. The company has set up a designing unit in London with senior members of the team.

Exports

- Exports accounted for ~27% of total sales in 2QFY24. Exports grew 9%/12% YoY/QoQ owing to increased orders from existing clients. Domestic business grew ~78% YoY in 2QFY24.
- SYRMA has on-boarded multiple MNC clients (export orders) and its benefits will be reflected next year (revenue potential of over INR2b in FY25).
- Exports generate ~5-7% higher margin than the domestic business.
- Export share is likely to be ~30% in the medium term.

Others

- SYRMA has adopted a three-pronged strategy for growth: 1) Revenue growth over and above the industry growth levels, 2) double-digit EBITDA margin (10%), and 3) working capital days of ~70. SYRMA have already achieved its targets for revenue growth and working capital, but is lagging in terms of margins.
- Other expenses include a one-time consulting expense of ~INR45 due to merger/JV.
- It has moved to a new tax regime and expects a tax rate of ~25-26% ahead.
- Exports account for 20% of the order book.

- Net working capital days stood at ~70 in 1HFY24 and may fall further by ~5-7 days in the next few quarters.
- **Debt:** The company has a debt of ~INR4.2b as on Sep'23 (~INR3.3b of working capital loan and ~INR0.9b of term loan).
- **Capex:** It has spent ~INR1.1b in 1HFY24 and expects to incur capex of ~INR2-2.5b for full year FY24.
- **Cash flow generation:** CFO/EBITDA ratio stood at 20%+ in 1HFY24 and is expected to improve in 2HFY24. SYRMA is targeting CFO/EBITDA ratio of ~50%.

Valuation and View

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- We estimate a CAGR of 43%/41%/40% in revenue/EBITDA/Adj. PAT over FY23-FY26, driven by a robust revenue growth and healthy order inflows.
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Exhibit 7: Changes to our estimates

Earnings change	Old			New			Change (%)		
(INR m)	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	28,678	39,288	53,039	32,051	43,910	59,278	12	12	12
EBITDA	2,746	4,175	5,675	2,498	3,864	5,276	-9	-7	-7
Adj. PAT	1,618	2,419	3,420	1,544	2,308	3,250	-5	-5	-5

Financials and valuations

Consolidated - Income Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	**8,621**	**8,858**	**12,667**	**20,484**	**32,051**	**43,910**	**59,278**
Change (%)	143.5	2.8	43.0	61.7	56.5	37.0	35.0
RM Cost	5,847	6,276	9,408	15,405	24,935	33,679	45,466
Employees Cost	748	781	823	1,060	1,392	1,932	2,608
Other Expenses	731	786	1,148	2,142	3,225	4,435	5,928
Total Expenditure	**7,325**	**7,842**	**11,380**	**18,606**	**29,553**	**40,046**	**54,002**
% of Sales	85.0	88.5	89.8	90.8	92.2	91.2	91.1
EBITDA	**1,295**	**1,016**	**1,287**	**1,878**	**2,498**	**3,864**	**5,276**
Margin (%)	15.0	11.5	10.2	9.2	7.8	8.8	8.9
Depreciation	191	228	249	312	512	699	831
EBIT	**1,105**	**789**	**1,038**	**1,566**	**1,986**	**3,165**	**4,445**
Int. and Finance Charges	154	97	108	216	265	302	302
Other Income	183	177	178	437	510	659	771
PBT bef. EO Exp.	**1,134**	**869**	**1,108**	**1,787**	**2,230**	**3,522**	**4,914**
EO Items	0	0	0	0	0	0	0
PBT after EO Exp.	**1,134**	**869**	**1,108**	**1,787**	**2,230**	**3,522**	**4,914**
Total Tax	219	213	343	556	555	887	1,237
Tax Rate (%)	19.3	24.5	31.0	31.1	24.9	25.2	25.2
Minority Interest	31	25	42	38	130	328	426
Reported PAT	**884**	**630**	**722**	**1,193**	**1,544**	**2,308**	**3,250**
Adjusted PAT	**884**	**630**	**722**	**1,193**	**1,544**	**2,308**	**3,250**
Change (%)	321.5	-28.7	14.5	65.2	29.4	49.4	40.9
Margin (%)	10.3	7.1	5.7	5.8	4.8	5.3	5.5

Consolidated - Balance Sheet

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	46	46	1,376	1,768	1,768	1,768	1,768
Preference Capital	47	0	0	0	0	0	0
Total Reserves	4,182	5,946	4,344	13,635	15,179	17,487	20,738
Net Worth	**4,275**	**5,992**	**5,721**	**15,403**	**16,947**	**19,255**	**22,505**
Minority Interest	2	6	108	26	156	485	911
Total Loans	1,205	1,029	2,183	3,468	3,968	3,968	3,968
Deferred Tax Liabilities	42	62	124	138	138	138	138
Capital Employed	**5,523**	**7,089**	**8,136**	**19,035**	**21,210**	**23,845**	**27,522**
Gross Block	2,089	2,264	3,233	4,821	7,678	9,369	10,907
Less: Accum. Deprn.	191	405	635	947	1,459	2,158	2,989
Net Fixed Assets	**1,898**	**1,858**	**2,597**	**3,874**	**6,219**	**7,210**	**7,917**
Goodwill on Consolidation	1,059	1,059	1,182	1,182	1,182	1,182	1,182
Capital WIP	12	0	408	253	1,176	985	947
Total Investments	**301**	**1,316**	**410**	**8,500**	**5,500**	**5,500**	**5,500**
Current Investments	0	0	0	780	780	780	780
Curr. Assets, Loans&Adv.	**4,591**	**5,365**	**6,945**	**11,603**	**17,330**	**22,785**	**30,629**
Inventory	1,419	1,789	2,913	5,874	8,540	11,349	15,322
Account Receivables	1,804	2,084	2,722	4,032	6,147	8,180	11,044
Cash and Bank Balance	780	729	369	544	720	621	707
Loans and Advances	588	763	940	1,151	1,923	2,635	3,557
Curr. Liability & Prov.	**2,338**	**2,509**	**3,407**	**6,377**	**10,197**	**13,818**	**18,654**
Account Payables	1,707	1,848	2,405	4,881	7,856	10,611	14,325
Other Current Liabilities	506	554	857	1,362	2,132	2,920	3,942
Provisions	125	108	145	134	209	286	387
Net Current Assets	**2,253**	**2,856**	**3,538**	**5,226**	**7,133**	**8,967**	**11,975**
Misc Expenditure	0	0	0	0	0	0	0
Appl. of Funds	**5,523**	**7,089**	**8,136**	**19,035**	**21,209**	**23,845**	**27,522**

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)							
EPS	**6.4**	**4.6**	**5.2**	**6.7**	**8.7**	**13.1**	**18.4**
Cash EPS	7.8	6.2	7.1	8.5	11.6	17.0	23.1
BV/Share	31.1	43.5	41.6	87.1	95.9	108.9	127.3
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)							
P/E	81.6	114.4	99.9	77.6	60.0	40.1	28.5
Cash P/E	67.1	84.0	74.2	61.5	45.0	30.8	22.7
P/BV	16.9	12.0	12.6	6.0	5.5	4.8	4.1
EV/Sales	8.4	8.2	5.8	4.6	3.0	2.2	1.6
EV/EBITDA	56.0	71.3	57.5	50.5	38.1	24.8	18.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	7.8	1.3	-7.5	-12.1	-20.2	-2.6	-2.2
Return Ratios (%)							
RoE	35.8	12.3	12.3	11.3	9.5	12.7	15.6
RoCE	29.4	11.7	11.2	10.3	9.4	13.0	15.7
RoIC	31.1	12.6	11.9	12.9	12.7	15.5	17.9
Working Capital Ratios							
Fixed Asset Turnover (x)	4.1	3.9	3.9	4.2	4.2	4.7	5.4
Asset Turnover (x)	1.6	1.2	1.6	1.1	1.5	1.8	2.2
Inventory (Days)	89	104	113	139	125	123	123
Debtor (Days)	76	86	78	72	70	68	68
Creditor (Days)	107	107	93	116	115	115	115
Leverage Ratio (x)	58.4	82.5	98.2	95.4	80.0	76.0	76.0
Current Ratio	2.0	2.1	2.0	1.8	1.7	1.6	1.6
Interest Cover Ratio	7.2	8.1	9.6	7.3	7.5	10.5	14.7
Net Debt/Equity	0.1	0.1	0.3	0.1	0.1	0.1	0.1

Consolidated - Cash Flow Statement (INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	1,134	869	1,108	1,787	2,230	3,522	4,914
Depreciation	191	228	249	312	512	699	831
Interest & Finance Charges	117	52	54	-222	-245	-357	-469
Direct Taxes Paid	-207	-220	-289	-556	-555	-887	-1,237
(Inc)/Dec in WC	301	-499	-1,212	-2,140	-1,731	-1,934	-2,921
CF from Operations	**1,535**	**430**	**-90**	**-818**	**212**	**1,043**	**1,118**
Others	23	-58	-36	115	0	0	0
CF from Operating incl EO	**1,558**	**371**	**-126**	**-703**	**212**	**1,043**	**1,118**
(Inc)/Dec in FA	-479	-187	-901	-1,433	-3,780	-1,500	-1,500
Free Cash Flow	**1,079**	**184**	**-1,027**	**-2,136**	**-3,568**	**-457**	**-382**
(Pur)/Sale of Investments	-20	-51	11	0	0	0	0
Others	42	-888	-2,844	-7,711	3,510	659	771
CF from Investments	**-457**	**-1,127**	**-3,734**	**-9,144**	**-270**	**-841**	**-729**
Issue of Shares	0	331	2,715	9,682	0	0	0
Inc/(Dec) in Debt	-416	-179	1,159	1,285	500	0	0
Interest Paid	-119	-70	-70	-216	-265	-302	-302
Dividend Paid	-20	0	0	0	0	0	0
Others	-37	622	-303	-730	0	0	0
CF from Fin. Activity	**-593**	**705**	**3,500**	**10,022**	**235**	**-302**	**-302**
Inc/Dec of Cash	**508**	**-51**	**-360**	**175**	**177**	**-100**	**87**
Opening Balance	143	780	729	369	544	720	621
Other cash & cash equivalent	130	0	0	0			
Closing Balance	**780**	**729**	**369**	**544**	**720**	**621**	**707**

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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