



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

07 February 2024

Syrma SGS Technology

Strong revenue growth visibility; margins to improve gradually

RESULT UPDATE

Sector: EMS **Rating:** HOLD
CMP: Rs 510 **Target Price:** 565

Stock Info

Sensex/Nifty	72,186/21,929
Bloomberg	SYRMA IN
Equity shares (mn)	176.8
52-wk High/Low	677/256
Face value	Rs 10
M-Cap	Rs 90bn/USD 1.1bn
3-m Avg volume	USD 4.7mn

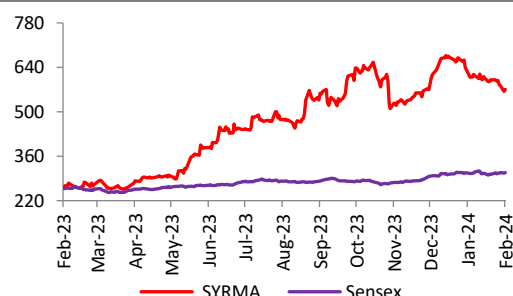
Financial Snapshot (Rs mn)

Y/E Mar	FY24E	FY25E	FY26E
Net sales	28,808	37,450	48,685
EBITDA	1,869	2,935	4,229
OPM (%)	6.5	7.8	8.7
PAT (adj.)	1,237	1,975	2,855
EPS (adj.) (Rs)	7.0	11.2	16.2
PE (x)	72.9	45.7	31.6
P/B (x)	5.5	5.1	4.5
EV/EBITDA (x)	49.1	31.0	21.6
RoE (%)	7.6	11.1	14.3
RoCE (%)	10.3	14.1	18.6
Net-D/E (x)	0.1	0.0	0.1

Shareholding Pattern (%)

	Dec'23	Sep'23	Jun'23
Promoter	46.9	47.2	47.3
- Pledged			
FII	11.1	10.1	9.3
DII	8.2	9.6	9.2
Others	33.8	33.0	34.2

Stock Performance (1-year)



SYRMA SGS (SYRMA) continued to report weak results (3Q revenue up 38% YoY and down 1% QoQ, missed our estimate by ~10%; EBITDA margin 5.5%, down 351bps YoY and 139bps QoQ). A Rs 1.1bn worth order execution shift to 4Q (reflected in Rs 3.6bn revenue in Jan'24) impacted 3Q revenue; upfront investment on future growth levers (such as building capacities and processes, hiring of senior people etc.) drove other expenses (up 51% YoY) and impacted margin. The current Rs 48bn order book (over 1.6x FY24E revenue; 20% export mix) and the addition of many large global customers last year provide strong growth potential for SYRMA. Tracking current run rate (9M revenue Rs 20bn, Jan'24 Rs 3.6bn), management is confident to meet its Rs 30bn revenue guidance; EBITDA margin will be restricted to ~7.5% on greater mix of consumer products. While revenue is likely to grow at 30-40% CAGR over the next few years, margins will improve gradually only as newly added customer mature. It has hired McKinsey to guide in achieving robust growth. A Rs 3bn capex in FY24E (9M Rs 2.4bn) is ongoing at its all 4 locations. SMT lines capacity has doubled to 6.3mn components/hr from 3.2mn a year ago. We cut earnings estimates by ~15% and now estimate 33%/31%/34% CAGR in revenue/EBITDA/ PAT over FY23-26E with EBITDA margin of ~9% and ~19% RoIC in FY26E despite high capex. Maintain HOLD with a lower TP of Rs 565 (earlier Rs 662), at 35x FY26E P/E. Strong growth and margin uptick are keys to support such high valuation.

3Q – weakness continued: Revenue of Rs 7.1bn (up 38% YoY, down 1% QoQ) missed our estimates by ~10% due to delay in order execution. Soft revenue and upfront investment on future growth levers drove other expenses (up 51% YoY) and impacted EBITDA margin (5.5%, down 351bps YoY and 139bps QoQ), despite a flattish gross margin (22.6%). JDHL clocked Rs 300mn revenue and 30% EBITDA margin. Gross debt stood at Rs 4.94bn (net-debt Rs 656mn). OCF was negative in 9M (should improve in coming quarters with likely reduction in working capital).

4Q revenue likely to be strong; upfront investment on growth levers to restrict EBITDA margins at ~8%: A ~Rs 1.1bn worth order execution shift to 4Q (reflected in Rs 3.6bn revenue in Jan'24) impacted 3Q revenue. Management is confident to achieve ~Rs 10bn revenue in 4Q taking FY24 total to Rs 30bn (9M ~Rs 20bn). Upfront investment in various activities (such as building capacities and processes, hiring of senior people etc.) to drive future growth may limit margins in near term; strong volume growth and greater mix of ODM (by 3-4%; currently 19%) and healthcare (<10%) augur well for margins uptick in the medium term. ([concall KTAs](#))

Strong order book, new customer additions to drive 30-40% revenue CAGR: The current Rs 48bn order book (over 1.6x FY24E revenue; 20% export mix) and the addition of many large global customers in the last year provide strong growth potential for SYRMA. Tracking current run rate (9M revenue Rs 20bn, Jan'24 Rs 3.6bn), management is confident to meet its Rs 30bn revenue guidance; EBITDA margin will be restricted to ~7.5% on greater mix of consumer products. While revenue is likely to grow at 30-40% CAGR over the next few years, margins will improve gradually only as newly added customer mature. It has hired McKinsey to guide in achieving robust growth. A Rs 3bn capex in FY24E (9M Rs 2.4bn) is ongoing at its all 4 locations. SMT lines capacity has doubled to 6.3mn components/hr from 3.2mn a year ago.

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Investors are advised to refer disclosures made at the end of the research report.

3QFY24 concall key highlights and outlook

3QFY24 & Outlook

- 3Q revenue growth was flattish as Rs 1.1bn worth order execution shifted to 4Q
- Greater revenue mix of consumer segment impacted material margins
- FY24E: revenue Rs 30bn (9M Rs 20bn, Jan Rs 3.6bn) with ~7.5% EBITDA margin
- FY25E: revenue CAGR of 30-40% with 7-8% EBITDA margin
- Investing upfront in various activities to drive future growth
- SMT lines – capacity 2x to 6.3mn components/hr from 3.2mn components/hr a year ago
- Onboarded senior people to drive business verticals and take organisation to next level
- Hired McKinsey to guide in achieving robust growth
- 3Q: Exports Rs 2bn, ODM mix 19%
- Johri Digital 3Q: Revenue Rs 300mn, 30% EBITDA margin
- Gross debt: Rs 4.94bn; Net-debt: Rs 656mn
- OCF negative in 9M; should improve in coming quarters
- ATO aimed at 6-7x
- Customers onboarded in last 9 month to scale up FY25 onward
 - o added a large high-volume client in industrials

Order book: Rs 48bn (executable over 12-15 months)

- Mix - Consumer 40-45%, Auto 18-20%, Industrial 30-35%, 10% Healthcare (incl Johri Digital), rest IT & Hardware
- Exports - 20% of orderbook (4QE/FY24E: Rs 2.2bn/ 9bn)

Capex: FY24E Rs 3bn (9M Rs 2.40bn)

- Ongoing capex at Gurgaon, Noida, Bawal, Pune
- Unutilized IPO money: Rs 2bn

Exhibit 1: Syрма (Consolidated) – Quarterly results

(Rs mn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)	9MFY24	9MFY23	YoY (%)
Total Income	5,126	6,795	6,013	7,117	7,067	38	(1)	20,197	13,689	48
Raw material costs	3,825	5,336	4,686	5,517	5,473	43	(1)	15,677	9,819	60
Employee costs	293	268	331	311	381	30	22	1,022	834	23
Other expenses	547	617	626	799	826	51	3	2,251	1,732	30
EBITDA	461	575	369	490	388	(16)	(21)	1,247	1,303	(4)
Depreciation	81	88	101	116	139	71	20	357	224	59
Finance costs	64	39	75	80	100	56	26	256	177	45
Other income	134	234	221	89	121	(10)	36	431	204	111
PBT	450	681	413	370	270	(40)	(27)	1,052	1,106	(5)
Tax	108	252	130	64	67	(38)	4	261	304	(14)
PAT (after JV/asso./ NCI)	332	423	285	284	155	(53)	(45)	724	770	(6)
EPS (Rs)	1.9	2.4	1.6	1.6	0.9	(53)	(45)	4.1	4.3	(6)
As % Total Income						YoY (bps)	QoQ (bps)			YoY (bps)
Gross margin	25.4	21.5	22.1	22.5	22.6	(283)	7	22.4	28.3	(588)
Emp cost	5.7	3.9	5.5	4.4	5.4	(33)	102	5.1	6.1	(103)
Other exp	10.7	9.1	10.4	11.2	11.7	101	45	11.1	12.7	(151)
EBITDA margin	9.0	8.5	6.1	6.9	5.5	(351)	(139)	6.2	9.5	(334)
Dep	1.6	1.3	1.7	1.6	2.0	39	34	1.8	1.6	13
Interest	1.3	0.6	1.3	1.1	1.4	17	30	1.3	1.3	(3)
Other income	2.6	3.4	3.7	1.3	1.7	(91)	46	2.1	1.5	64
PBT margin	8.8	10.0	6.9	5.4	3.8	(497)	(157)	5.3	8.1	(280)
Effective tax rate	24.1	37.1	31.5	17.4	24.8	70	734	24.8	27.5	(264)
PAT margin	6.5	6.2	4.7	4.0	2.2	(428)	(179)	3.6	5.6	(204)
Segment Revenues						YoY (%)	QoQ (%)			YoY (%)
Auto	1,076	1,233	1,451	1,725	1,510	40	(12)	4,686	2,796	68
Consumer	2,053	2,707	2,331	2,519	2,544	24	1	7,394	3,890	90
Healthcare	92	471	157	512	693	653	35	1,362	1,162	17
Industrials	1,614	1,882	1,768	1,985	1,955	21	(2)	5,708	4,540	26
IT & Railways	290	501	306	376	365	26	(3)	1,047	1,301	(20)

Source: Company, Systematix Institutional Research

Quarterly performance

Exhibit 2: Revenue mix trend

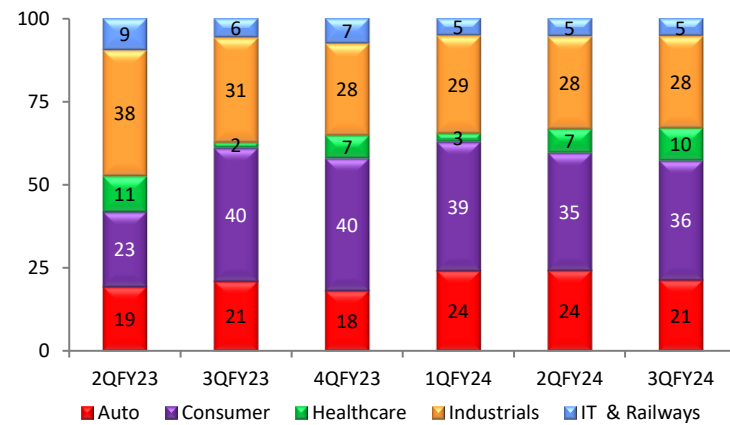


Exhibit 3: Exports mix (% of revenue)

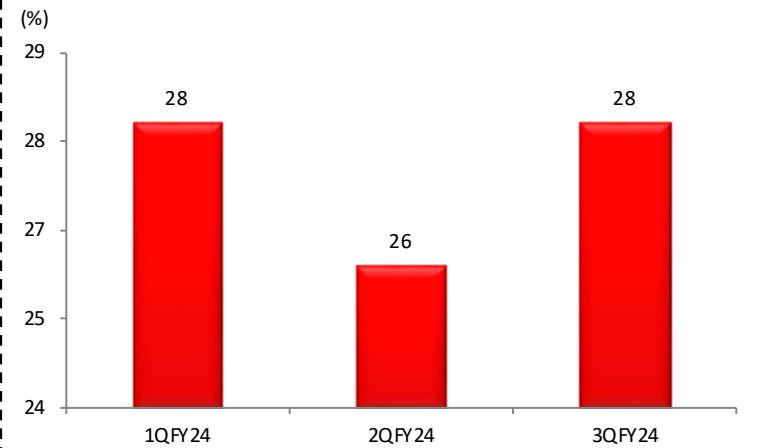


Exhibit 4: Total income- quarterly trend

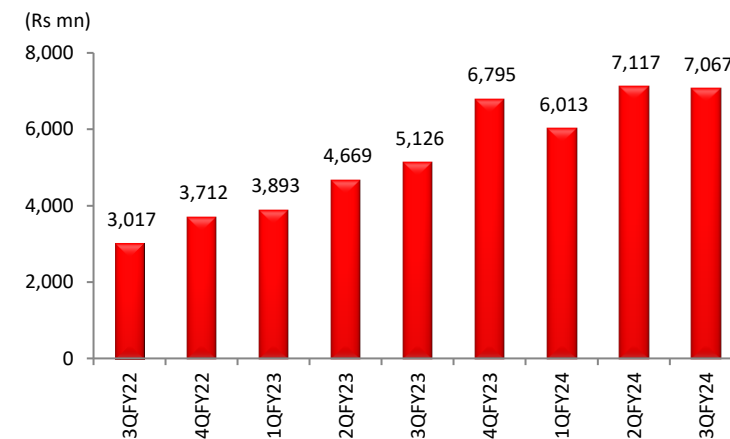


Exhibit 5: Expenses as % total income - quarterly trend

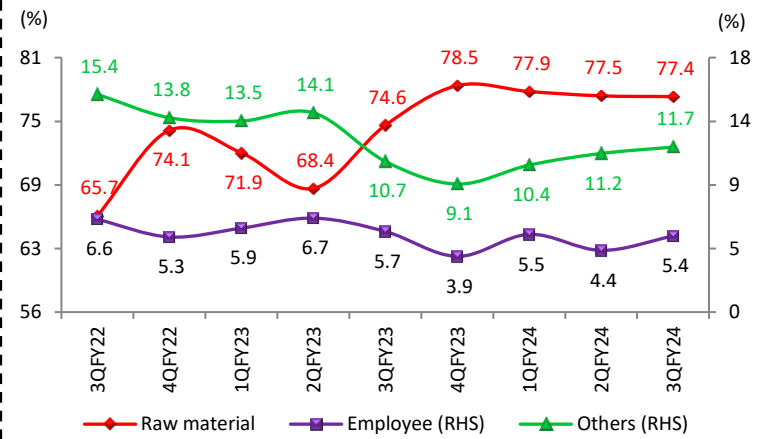


Exhibit 6: EBITDA, PAT & margin trend

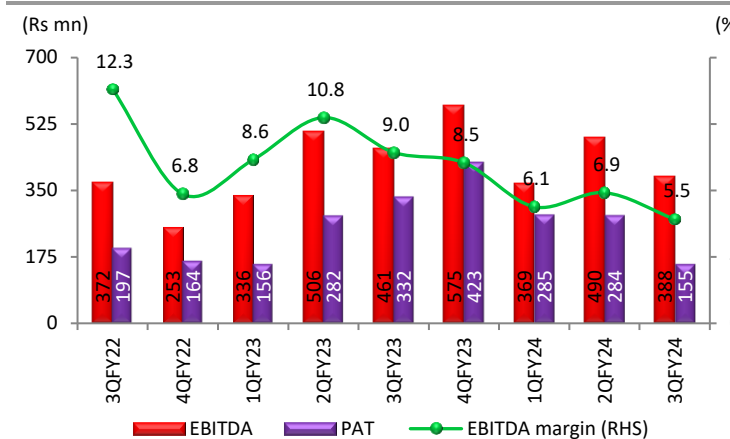
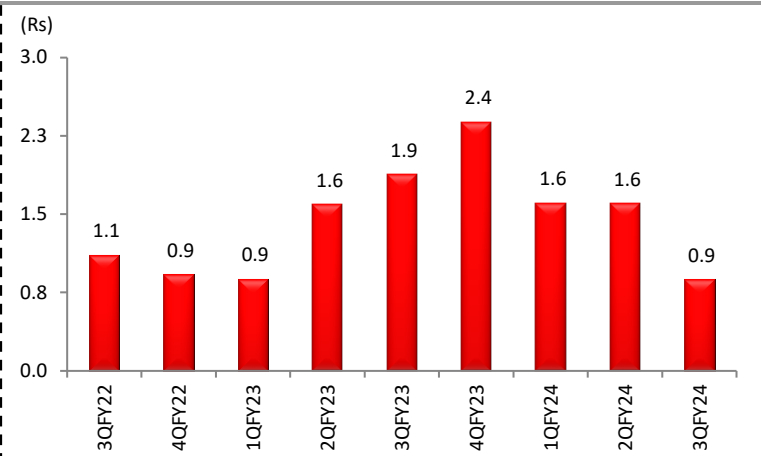
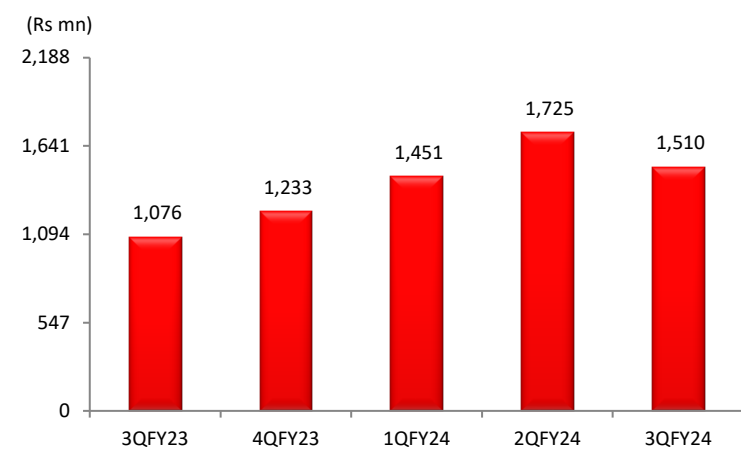
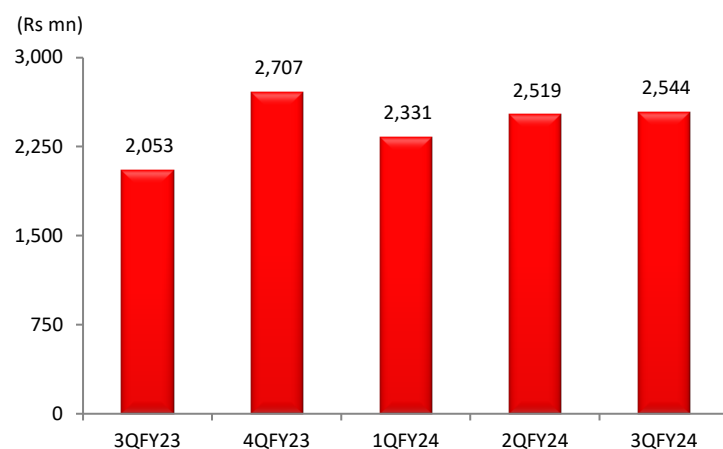
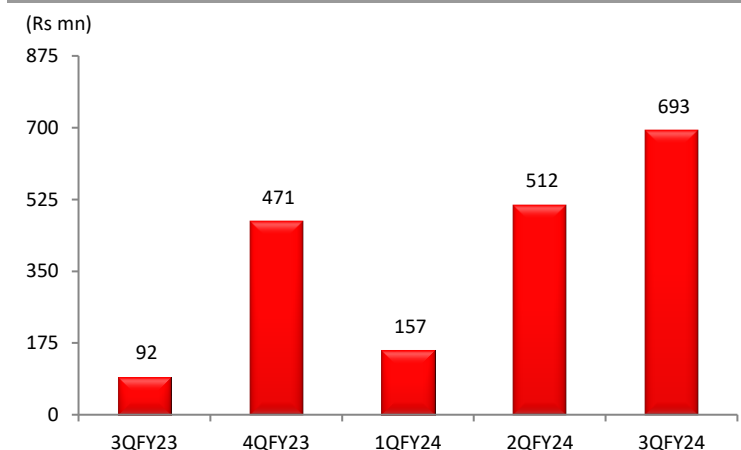
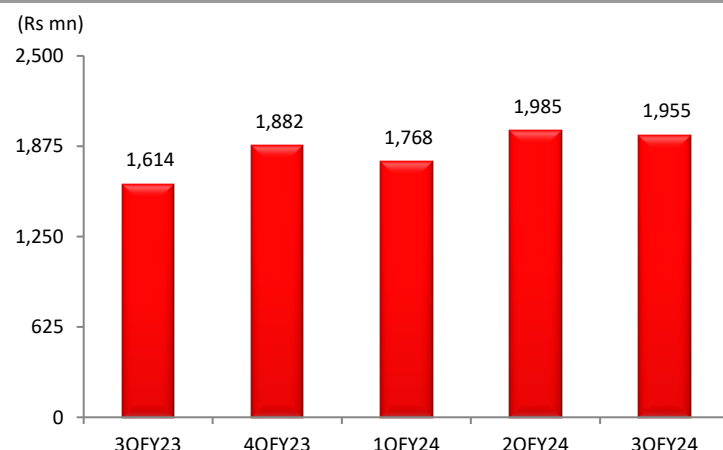
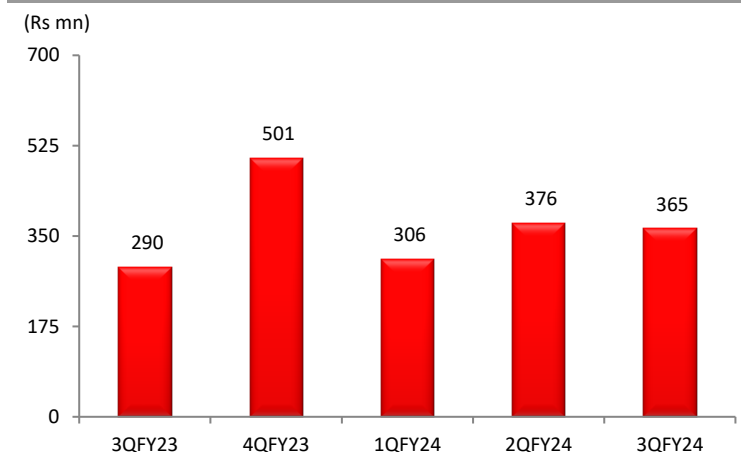


Exhibit 7: Earnings - quarterly trend

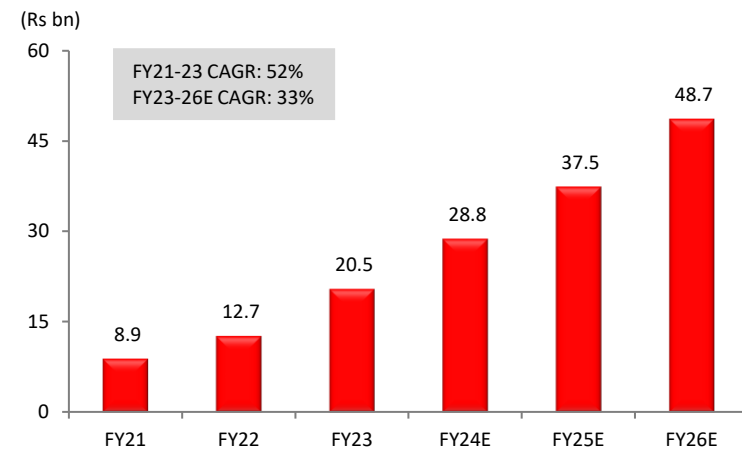
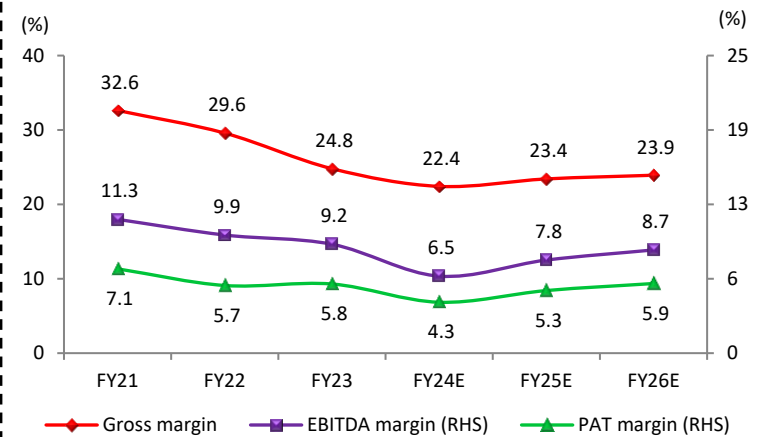
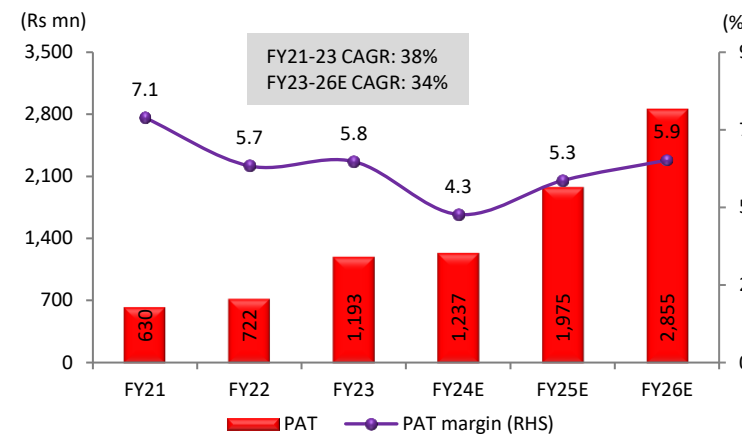
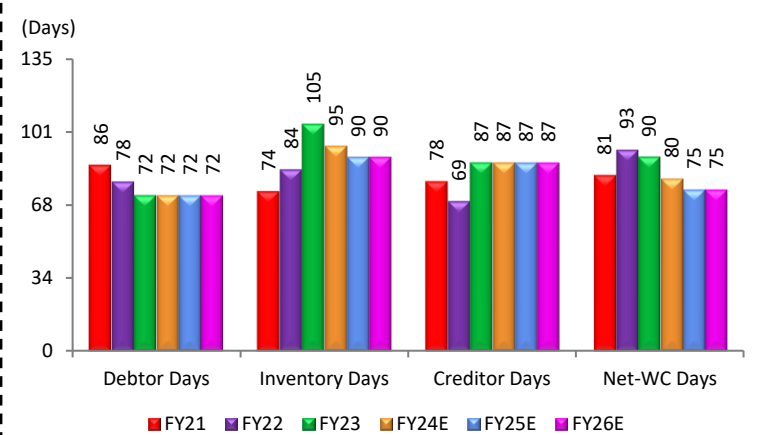
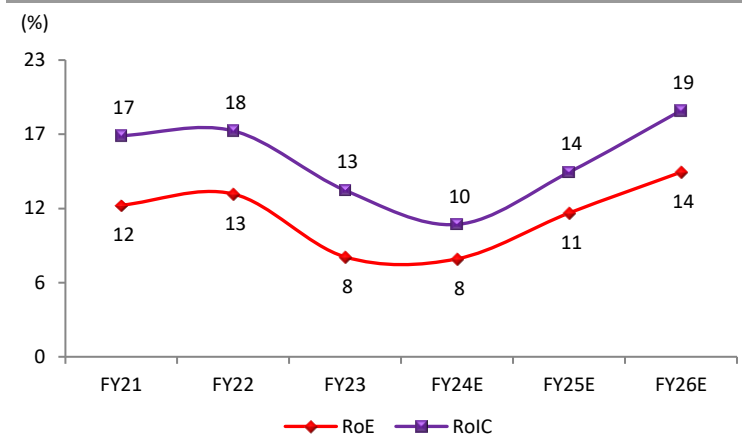
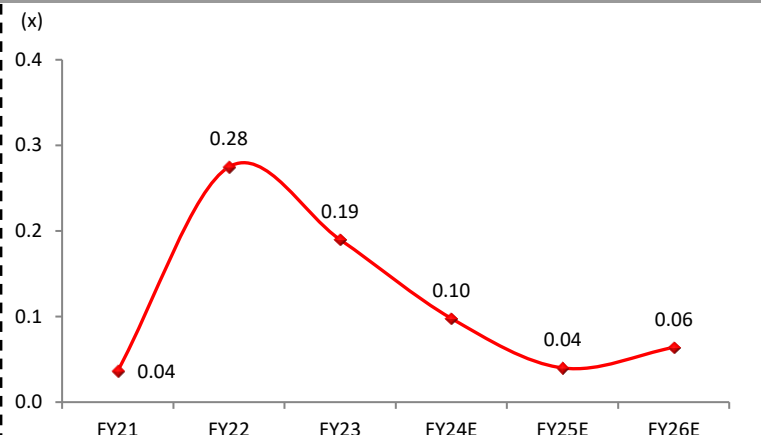


Source: Company, Systematix Institutional Research

Exhibit 8: Auto - Revenue trend**Exhibit 9: Consumer - Revenue trend****Exhibit 10: Healthcare - Revenue trend****Exhibit 11: Industrials - Revenue trend****Exhibit 12: IT & Railways - Revenue trend**

Source: Company, Systematix Institutional Research

Annual performance

Exhibit 13: Revenue growth trend

Exhibit 14: Gross, EBITDA and PAT margin trend

Exhibit 15: PAT growth trend

Exhibit 16: NWC cycle trend

Exhibit 17: RoIC, RoE trend

Exhibit 18: Net-debt/Equity trend


Source: Company, Systematix Institutional Research

Exhibit 19: Revenue mix (segment-wise)

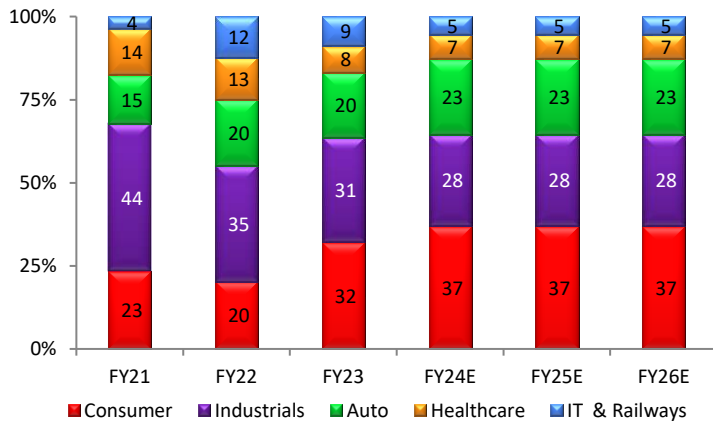


Exhibit 20: Automotive - Revenue, margin trend

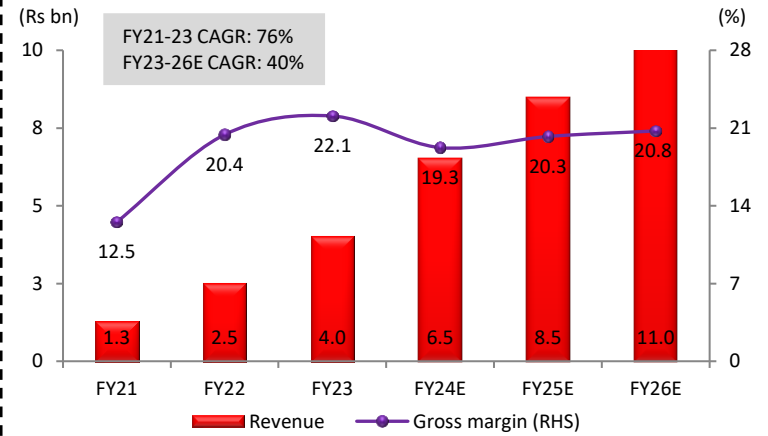


Exhibit 21: Consumer - Revenue, margin trend

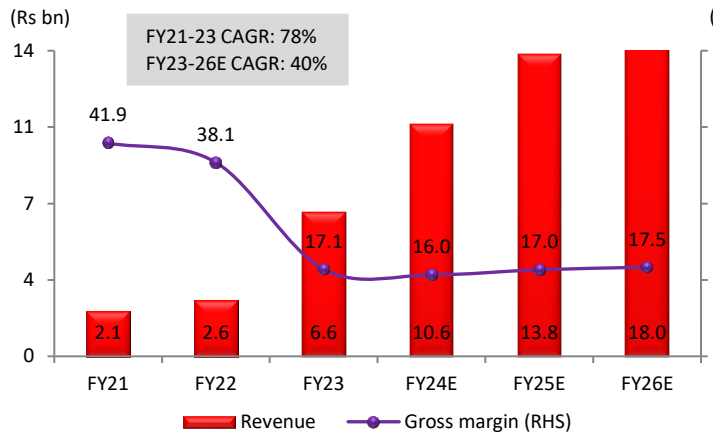


Exhibit 22: Healthcare - Revenue, margin trend

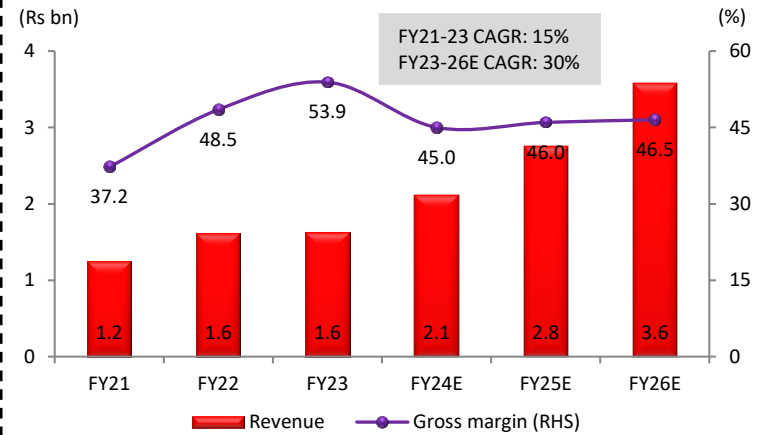


Exhibit 23: Industrials - Revenue, margin trend

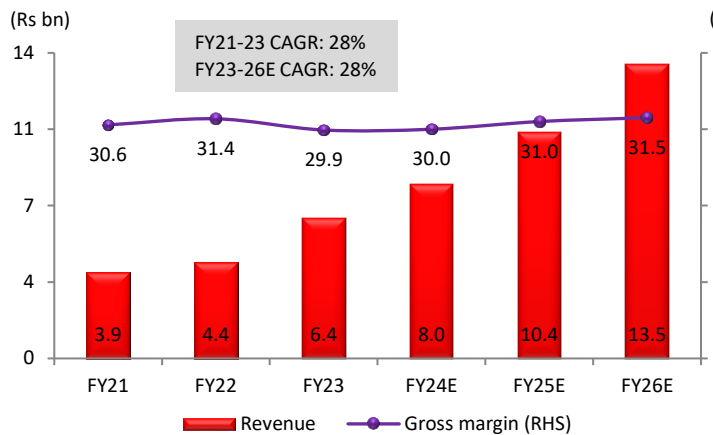
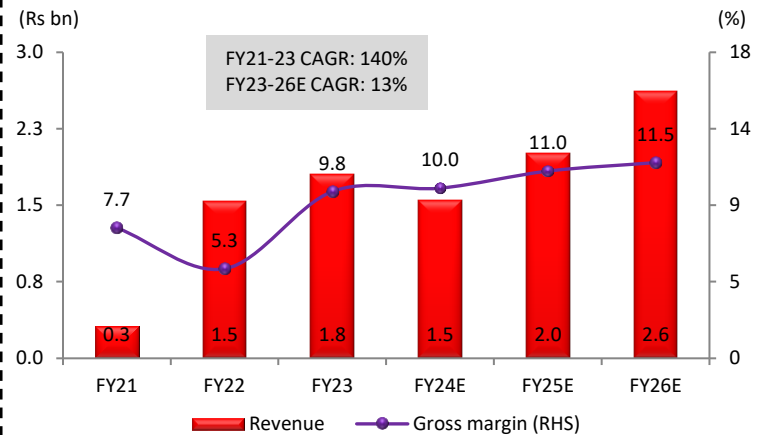


Exhibit 24: IT & Railways - Revenue, margin trend



Source: Company, Systematix Institutional Research

Valuation and View

SYRMA is a technology-focused engineering and design company engaged in turnkey EMS. The company's products primarily cater to ODMs and OEMs that find end use in automotive, healthcare, IT, industrial appliances, energy management, water purification, power supply and consumer product industries. Its 13 manufacturing facilities efficiently cater to the needs of its customers in north and south India. Marquee customers include, TVS Motor, A.O.Smith India Water Products, Robert Bosch, Eureka Forbes, CyanConnode, Atomberg, HUL and Total Power Europe, etc. Exports contributed 31% of total FY23 revenue, with its products being sold in over 24 countries; these include, the US, Germany, Austria and the UK. SYRMA acquired SGS Tekniks in Sep 2021 and Perfect ID in Oct 2021 to expand its geographical footprint and market share in the domestic market.

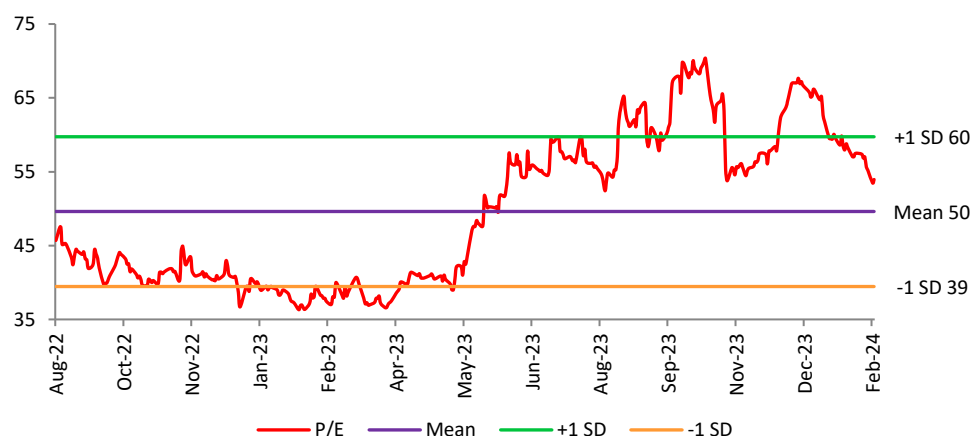
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Exhibit 25: Change in estimates

(Rs mn)	Old estimates			New estimates			% Var		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	29,344	38,148	47,684	28,808	37,450	48,685	(2)	(2)	2
EBITDA	2,186	3,395	4,721	1,869	2,935	4,229	(15)	(14)	(10)
Margin (%)	7.4	8.9	9.9	6.5	7.8	8.7			
PAT	1,429	2,341	3,341	1,237	1,975	2,855	(13)	(16)	(15)
EPS	8.1	13.2	18.9	7.0	11.2	16.2	(13)	(16)	(15)

Source: Systematix Institutional Research

Exhibit 26: P/E band – One-year-forward and standard deviation



Source: BSE, Systematix Institutional Research

Key Risks

- Demand slowdown in the key user segments (automotive, industrial etc.)
- Loss in key customer's market share

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net revenues	12,667	20,484	28,808	37,450	48,685
Growth (%)	43	62	41	30	30
Direct costs	8,921	15,405	22,350	28,680	37,041
Gross Margin (%)	29.6	24.8	22.4	23.4	23.9
SG&A	2,486	3,201	4,589	5,835	7,415
EBITDA	1,259	1,878	1,869	2,935	4,229
EBITDA margins (%)	9.9	9.2	6.5	7.8	8.7
- Depreciation	249	312	506	674	852
Other income	177	437	581	449	487
Interest Exp	80	216	356	150	122
PBT	1,107	1,787	1,575	2,560	3,742
Effective tax rate (%)	31.0	31.1	24.9	25.5	25.5
+ Associates/(Minorities)	(42)	(38)	67	67	67
Net Income	722	1,193	1,237	1,975	2,855
Adjusted income	722	1,193	1,237	1,975	2,855
WANS	138	177	177	177	177
FDEPS (Rs)	4	7	7	11	16
FDEPS growth (%)	15	65	4	60	45

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,376	1,768	1,768	1,768	1,768
Net worth	5,721	15,403	16,286	17,730	19,967
Total debt	1,943	3,468	2,268	1,768	1,768
Minority interest	108	26	28	30	32
DT Liability/(Asset)	123	138	148	158	168
Capital Employed	7,896	19,035	18,730	19,686	21,935
Net tangible assets	2,578	4,106	6,600	7,926	9,074
Net Intangible assets	32	86	86	86	86
Goodwill	1,182	1,182	1,182	1,182	1,182
CWIP	391	204	204	204	204
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	51	60	60	60	60
Current Assets	6,936	19,230	18,487	19,937	24,429
Cash	369	544	617	1,002	432
Current Liabilities	3,644	6,377	8,505	10,709	13,531
Working capital	3,292	12,853	9,982	9,227	10,897
Capital Deployed	7,896	19,035	18,730	19,686	21,935
Contingent Liabilities	935	566	-	-	-

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
EBIT (incl. other income)	1,125	1,682	1,349	2,261	3,377
+ Non-cash items	250	312	506	674	852
OCF before WC changes	1,375	1,994	1,855	2,935	4,229
- Incr./(decr.) in WC	1,212	9,561	(2,872)	(754)	1,670
Others including taxes	289	(6,864)	403	664	966
Operating cash-flow	(126)	(703)	4,323	3,025	1,594
- Capex	3,991	1,706	3,000	2,000	2,000
Free cash-flow	(4,117)	(2,409)	1,323	1,025	(406)
Acquisitions	-	-	-	-	-
- Dividend	-	265	354	530	619
+ Equity raised	2,715	392	-	-	-
+ Debt raised	1,176	1,525	(1,200)	(500)	-
- Fin Investments	-	9	-	-	-
- Misc. Items (CFI + CFF)	71	(897)	(302)	(390)	(456)
Net cash-flow	(297)	131	72	385	(569)

Ratios @ Rs 510

YE: Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	124.9	75.6	72.9	45.7	31.6
EV/EBITDA (x)	72.9	49.6	49.1	31.0	21.6
EV/sales (x)	7.2	4.5	3.2	2.4	1.9
P/B (x)	12.3	5.9	5.5	5.1	4.5
RoE (%)	12.6	7.7	7.6	11.1	14.3
RoCE (%)	16.5	14.9	10.3	14.1	18.6
ROIC	17.5	12.9	10.3	14.3	19.1
DPS (Rs per share)	-	1.5	2.0	3.0	3.5
Dividend yield (%)	-	0.3	0.4	0.6	0.7
Dividend payout (%)	-	22.2	28.6	26.9	21.7
Net debt/equity (x)	0.3	0.2	0.1	0.0	0.1
Receivables (days)	78	72	72	72	72
Inventory (days)	84	105	95	90	90
Payables (days)	69	87	87	87	87
CFO:PAT (%)	(17)	(59)	350	153	56

Source: Company, Systematix Institutional Research

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