Syrma SGS Technology

White Goods

Strong revenue growth momentum to continue

We hosted Syrma's management in Mumbai to meet with institutional investors. We remain enthused about Syrma's growth prospects. Takeaways: (1) Strong revenue growth run-rate is expected to continue in FY25/FY26 due to demand tailwinds. Syrma is likely to maintain 40%-plus revenue growth YoY in FY25/FY26. (2) Higher contribution of volume-based consumer business (largely telecom business with lower margins) has led to overall margins declining. However, margins shall stabilise at 7% in FY25 [6.3% in FY24 (6.8% in forex)]. (3) Syrma's production capacity has almost doubled in FY24 (6.1mn components p.a. as of FY24, from 3.2mn in FY23) and is likely to further expand by FY25-end. (4) Exports are likely to continue its growth momentum in FY25 with revenues scaling past INR 10bn. (5) Syrma is scouting for inorganic acquisition opportunities in the aerospace/defence segments.

We believe Syrma is likely to continue its strong revenue growth momentum over the next two years led by a strong order book and capacity expansion. While margins have declined due to product mix change, it may revive, following growth in its margin-accretive exports segment, operating leverage and PLI benefits. Maintain **BUY**.

7% margin likely for FY25, in our view

Syrma's EBITDA margin contracted over past FY21–24 (11.3% in FY21 to 6.3% in FY24). Change in revenues mix has primarily weighed on the margins. Higher revenue share of volume-based consumer business has resulted in margin decline. However, the margin may stabilise to 7% in FY25 led by: (1) higher exports (margin accretive); and (2) operating leverage. We believe there is upside risks to 7% with likely PLI benefits.

2x capacity expansion in FY24

Syrma has almost doubled its production capacity in FY24 (6.1mn components p.a., as of FY24, from the earlier 3.2mn components p.a.). The capacity utilisation levels have declined to ~65% in FY24, from 75–80% in FY23 due to gradual ramp-up in new production capacities. We note, the profitability was impacted in FY24 due to: (1) higher overhead costs; (2) lower utilisation level; and (3) higher depreciation.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	20,484	31,538	46,135	62,515
EBITDA	1,878	1,985	3,456	4,676
EBITDA Margin (%)	9.2	6.3	7.5	7.5
Net Profit	1,193	1,087	1,893	2,764
EPS (INR)	6.8	6.1	10.7	15.6
EPS % Chg YoY	21.5	(9.3)	74.2	46.0
P/E (x)	71.1	78.4	45.0	30.8
EV/EBITDA (x)	42.5	44.0	25.2	19.0
RoCE (%)	7.9	5.2	8.4	10.8
RoE (%)	11.2	6.7	10.8	14.1

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Market Data

Market Cap (INR)	85bn
Market Cap (USD)	1,022mn
Bloomberg Code	SYRMA IN
Reuters Code	SYRM.BO
52-week Range (INR)	705 /381
Free Float (%)	33.0
ADTV-3M (mn) (USD)	4.7

Price Performance (%)	3m	6m	12m
Absolute	(8.4)	(15.1)	22.3
Relative to Sensex	(10.5)	(25.5)	4.2

Previous Reports

13-05-2024: Q4FY24 results review
08-02-2024: Q3FY24 results review

Automotive segment likely to grow on strong EV traction

Automotive segment has reported strong 61.2% YoY growth in FY24 (3-year CAGR: 70.7%). Strong client addition and higher use of electronics in EVs have primarily led to strong growth over the past three years. In our view, Syrma may continue the strong growth trajectory in its automotive business, following high traction for EV components. In addition to its anchor customer TVS Motors, the company has added eight–nine clients in the two-wheeler segment.

Strong momentum in exports to continue

Exports segment has registered 32.4% YoY growth in FY24. It contributes ~26% to total sales. Syrma has crossed the INR 8bn milestone in exports (3-year revenue CAGR: 19.4%). Industrial and healthcare segments contribute majorly to Syrma's exports segment.

The company has a strong order book for its exports segment, which offers revenue visibility. Traction in the exports segment is likely to continue in FY25 and exports are likely to scale past INR 10bn (INR 8bn ex-Johari). Growth in the margin-accretive export business will aid Syrma in improving its overall margin.

Scope for inorganic acquisitions

Syrma's Johari Digital Healthcare Limited (JDHL) acquisition in Sep'23 had further strengthened its offerings in healthcare segment. At present, Syrma has limited/low presence in aerospace and defence. We believe the company may acquire companies (relatively similar in size to JDHL) catering to these end-user industries.

We believe, such acquisitions will not only help Syrma have a strong presence across all major sectors in the EMS space, but also boost its margin profile (aerospace and defence segments yield relatively higher margins).

Maintain BUY

We model Syrma to report revenue/PAT CAGR of 40.8%/59.5% YoY over FY24–26E. Retain **BUY** with a DCF-based revised TP of INR 600 (implied P/E of 38x FY26E).

Key risks: Higher commodity prices; and increase in competitive pressures.

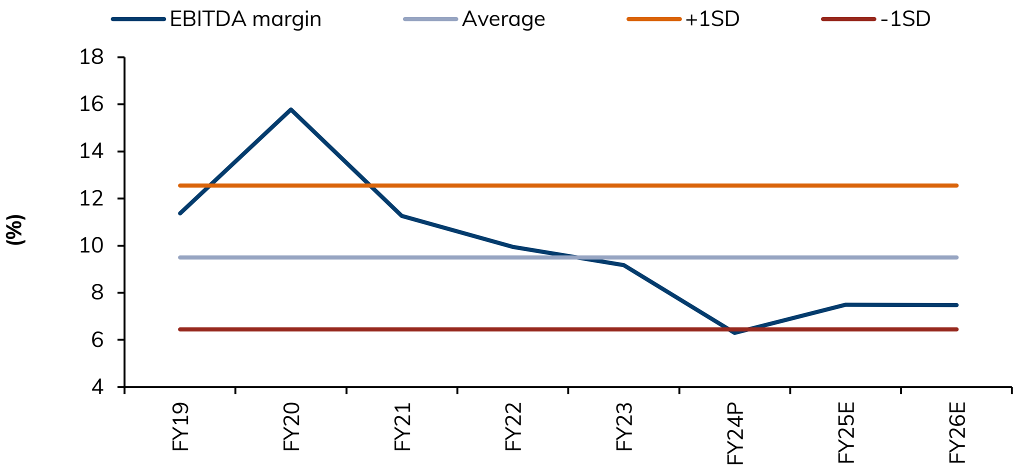
Strong revenue growth momentum to continue

Revival in EBITDA margin likely in FY25, in our view

We note Syrma's EBITDA margin band has deteriorated from 11–11.5% between FY19-21 to 9–10% in the FY22–23 period and further to <6.5% in FY24. Higher contribution to total sales from margin accretive industrial and healthcare segment (60-62%) has likely resulted in superior margins during FY19-FY22. However, we note, the contribution from its volume-based businesses such as automotive and consumer has significantly improved over the past two years (~40% in FY22 to 60%-plus in FY24). It has primarily led to a deterioration in its margin trajectory.

We believe margins may expand from its lows of 6.3% in FY24 to 7%-plus in FY25E led by: (1) strong growth traction in margin accretive exports business; and (2) operating leverage.

Exhibit 1: EBITDA margin trajectory to improve from low of FY24



Source: Company data, I-Sec research

Consumer segment's higher revenue contribution, drag on profitability

Syrma's consumer segment largely comprises of its telecom and electronics businesses, at present. Telecom business comprises of fibre-to-home consumer-oriented products that generates lower gross margin (<10%). Higher contribution of consumer segment (largely due to telecom business) has resulted in lower profitability in FY24. We believe the contribution from consumer business may reduce to ~37% in FY25, from its current 40%-plus levels. We reckon margin/profitability may improve led by: (1) lower contribution from the consumer business to total sales; and (2) operating leverage.

Exhibit 2: Contribution of consumer business grew 2x over FY22-FY24

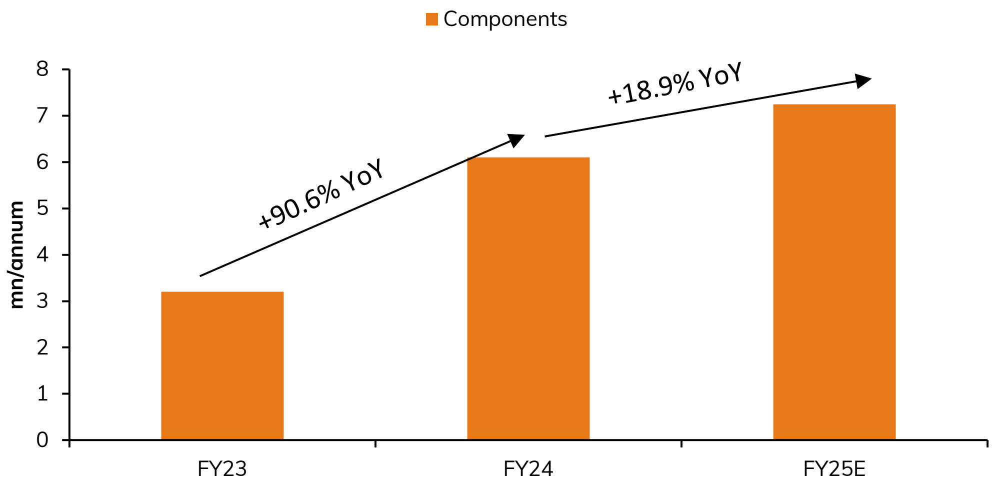
Revenue as % of Total Sales	FY19	FY20	FY21	FY22	FY23	FY24
Consumer	20.5%	22.6%	23.4%	20.3%	32.2%	40.0%
Other businesses	79.5%	77.4%	76.6%	79.7%	67.8%	60.0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Company data, I-Sec research

Strong capacity ramp-up to cater high demand

Syrma has expanded its production capacity from 3.2mn components earlier to 6.1mn p.a. in FY24. Capacity utilisation stood at 65% in FY24. With expanded capacity and higher utilisation levels, the company has the potential to generate revenues of INR 45bn in FY25E. The company is witnessing strong demand for all its operating segments, and thus, will likely continue its strong revenue growth run-rate in FY25E.

Exhibit 3: Production capacity has grown ~2x YoY



Source: Company data, I-Sec research

Electric vehicles (EV) boosting automotive segment

Syrma's automotive segment has consistently posted 50%-plus revenue CAGR in FY21–24. Marquee client additions, new product launches and strong traction in its EV segment have largely boosted growth for its automotive segment. The automotive business generates 19–22% gross material margins. The emergence of EVs (particularly in two-wheeler segment) is driving incremental growth for the segment. Syrma has added eight–nine clients in the two-wheeler segment in addition to its anchor customer i.e., TVS Motors. Segmental sales may scale to INR 8.5–10bn in FY25, from INR6.5bn in FY24.

Exhibit 4: Strong growth in automotive segment YoY

Particular	FY21	FY22	FY23	FY24
Automotive (INR mn)	1306.3	2514.9	4029.0	6495.0
Growth YoY (%)	-	92.5%	60.2%	61.2%

Source: Company data, I-Sec research

Growth in exports – a key driver for margin expansion

Syrma's exports revenue scaled past the INR 8bn mark in FY24 (3-year CAGR: 19.4%). The company's exports primarily comprise of industrial and healthcare orders. Contribution from automotive and consumer is relatively lower. Thus, high growth in the exports segment will likely lead to margin expansion for the company (industrial and healthcare are high margin businesses compared to automotive and consumer). We believe strong growth in its export business may continue in FY25 (likely to scale to INR 10bn-plus in FY25).

Exhibit 5: Strong growth in exports business YoY

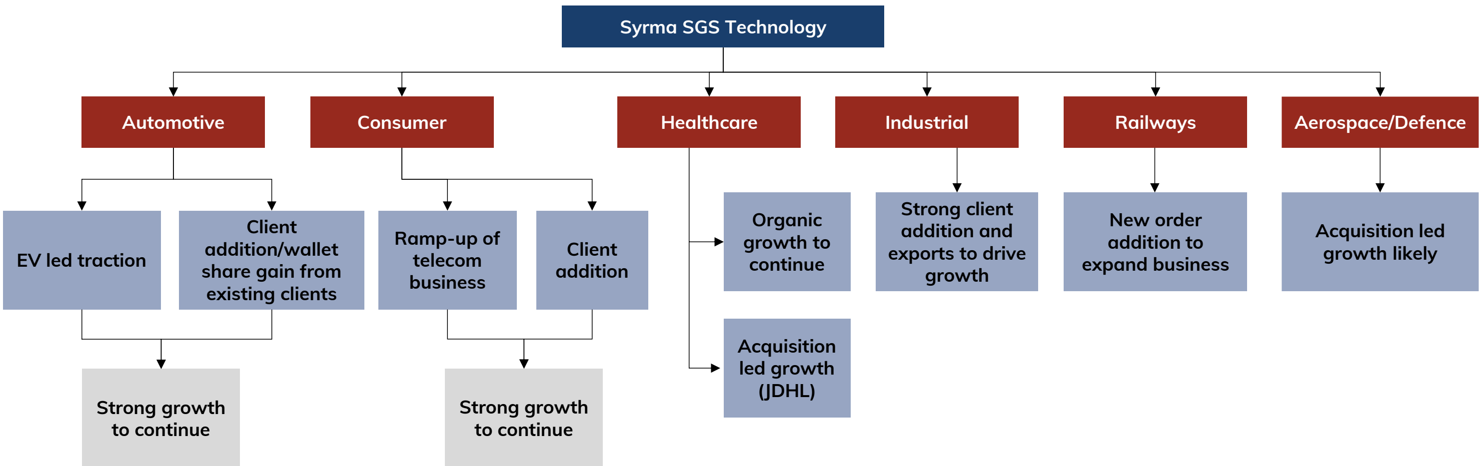
Particular	FY21	FY22	FY23	FY24	CAGR (%)
Exports (INR mn)	4823.0	5525.5	6195.6	8199.9	19.4%
Growth YoY (%)	-	14.6%	12.1%	32.4%	-

Source: Company data, I-Sec research

Likely expansion of aerospace/defence business via acquisition

Syrma acquired Johari Digital Healthcare Limited (JDHL) in Sep'23 to strengthen its healthcare business. We believe, Syrma is likely to continue a similar trend to strengthen its aerospace/defence business, which is relatively smaller in size at present. Aerospace/defence is a high margin business. We reckon Syrma may aim to acquire a similar JDHL-sized company for acquisition.

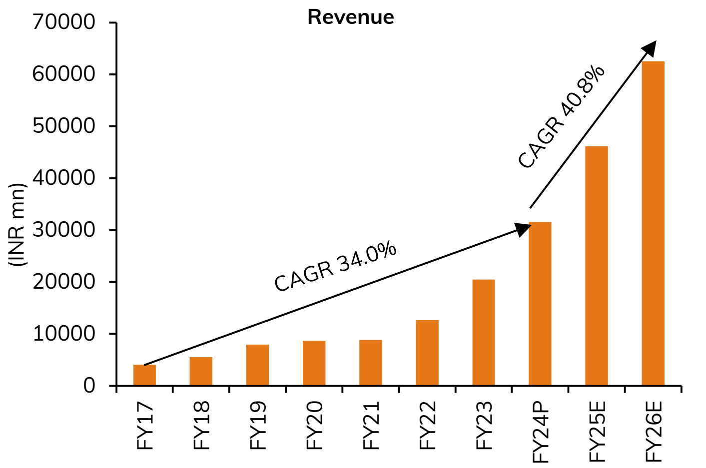
Exhibit 6: Syrma's segment-wise growth strategy



Source: Company data, I-Sec research

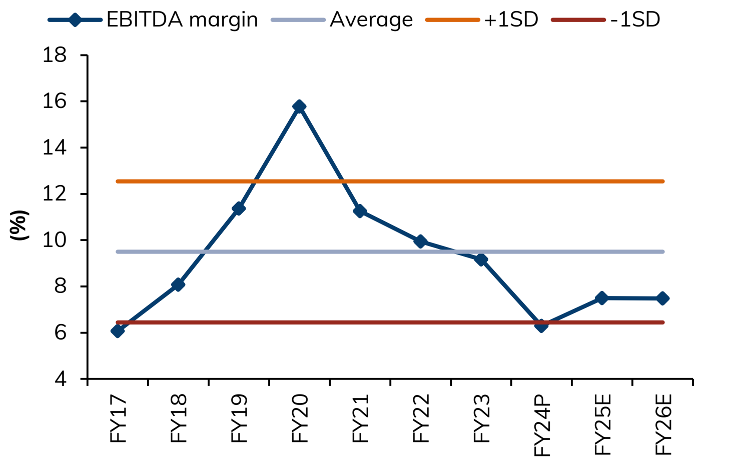
Key charts – Annual

Exhibit 1: Revenue and growth rates



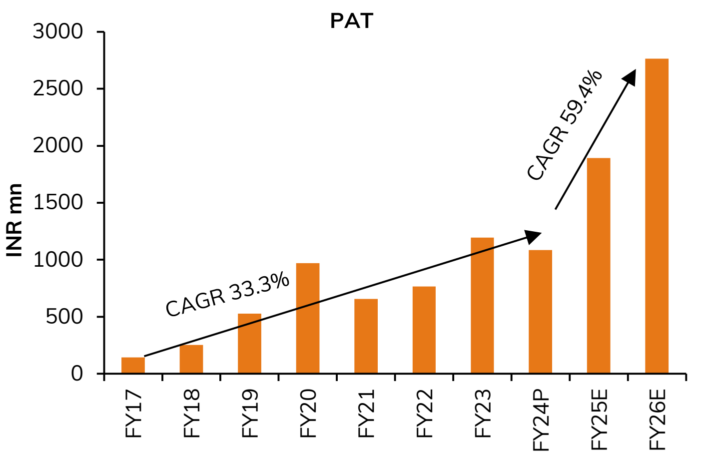
Source: Company data, I-Sec research

Exhibit 2: EBITDA margin



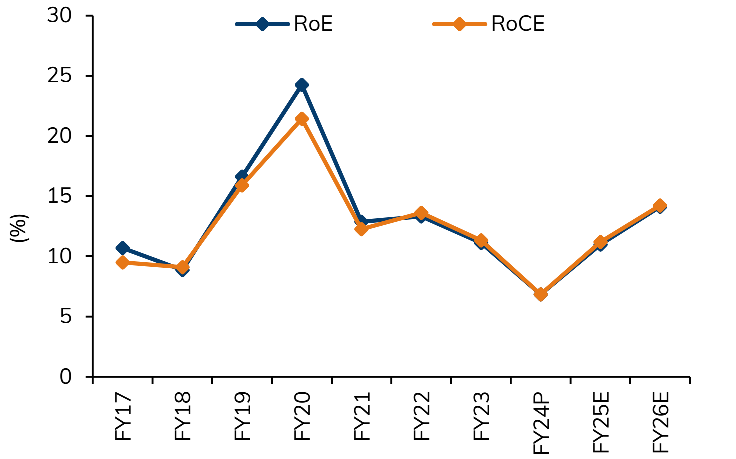
Source: Company data, I-Sec research

Exhibit 3: Net profit and growth rates



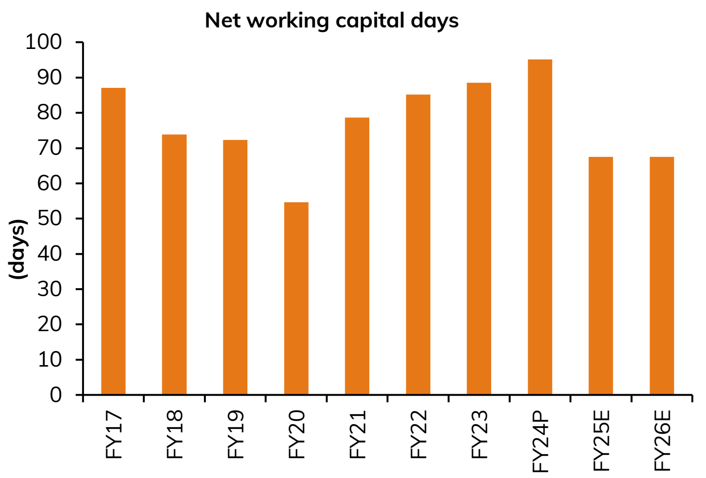
Source: Company data, I-Sec research

Exhibit 4: RoE and RoCE



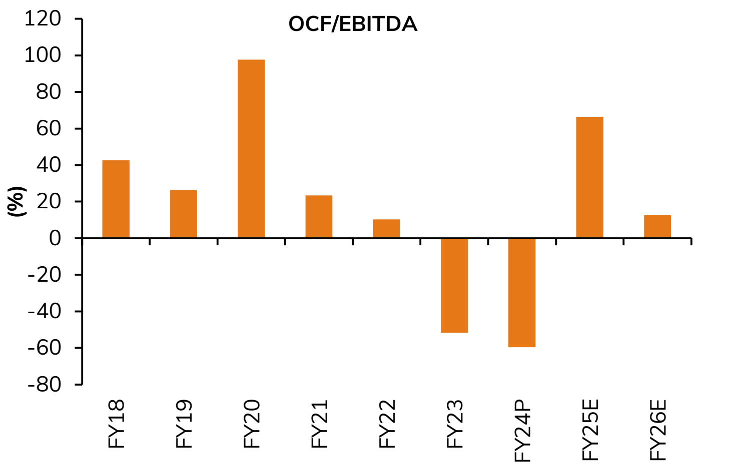
Source: Company data, I-Sec research

Exhibit 5: Net working capital days



Source: Company data, I-Sec research

Exhibit 6: OCF/EBITDA



Source: Company data, I-Sec research

Valuation and risks

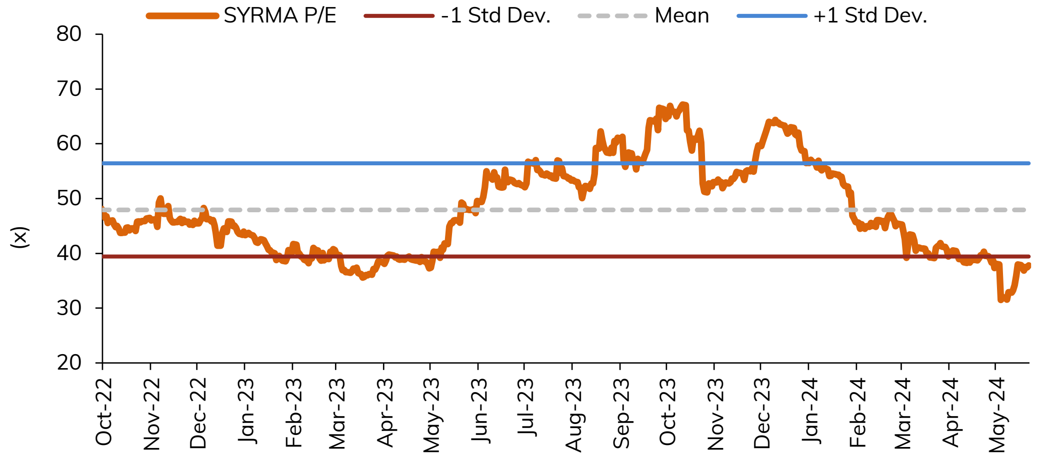
We model Syrma SGS to report revenue/PAT CAGRs of 40.8%/59.5% over FY24–26E while RoE may move up to 13.8% in FY26E, from 6.7% in FY24. At our DCF-based TP of INR 600, implied P/E works out to 38x FY26E EPS. Maintain **BUY**.

Exhibit 7: DCF-based valuation

Particulars	
Cost of Equity (%)	11.6%
Terminal growth rate (%)	4.0%
Discounted interim cash flows (INR mn)	34,218
Discounted terminal value (INR mn)	72,239
Total equity value (INR mn)	1,06,456
Value per share (INR)	**600**

Source: Company data, I-Sec research

Exhibit 8: Mean PE (x) and standard deviations



Source: I-Sec research, Bloomberg

Risks

Sharp increase in input prices and competitive pressures

Major increase in input prices and/or increase in competitive pressures may result in downside to our estimates.

Delays in launch of new plants/products

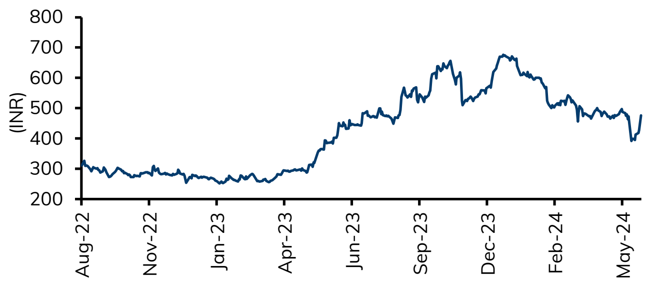
Any delays in launch of new products and/or plants may result in lower earnings than estimated.

Exhibit 9: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	47.2	46.9	46.9
Institutional investors	19.8	19.3	18.7
MFs and other	6.0	5.2	4.0
FIs/ Banks	0.0	0.0	0.0
Insurance Cos.	0.7	0.4	0.4
FIIs	13.1	13.7	14.3
Others	33.0	33.8	34.4

Source: Bloomberg, I-Sec research

Exhibit 10: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	20,484	31,538	46,135	62,515
Operating Expenses	**18,606**	**29,553**	**42,679**	**57,839**
EBITDA	1,878	1,985	3,456	4,676
EBITDA Margin (%)	**9.2**	**6.3**	**7.5**	**7.5**
Depreciation & Amortization	312	515	716	858
EBIT	1,566	1,470	2,740	3,818
Interest expenditure	216	378	529	463
Other Non-operating Income	437	586	331	354
Recurring PBT	1,787	1,678	2,541	3,709
Profit / (Loss) from Associates	**-**	**-**	**-**	**-**
Less: Taxes	**556**	**421**	**648**	**946**
PAT	1,231	1,257	1,893	2,764
Less: Minority Interest	38	170	-	-
Extraordinaries (Net)	16	(25)	-	-
Net Income (Reported)	1,210	1,062	1,893	2,764
Net Income (Adjusted)	**1,193**	**1,087**	**1,893**	**2,764**

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	11,484	22,407	24,184	31,664
of which cash & cash eqv.	544	856	1,117	406
Total Current Liabilities & Provisions	5,969	13,330	14,533	19,692
Net Current Assets	**5,515**	**9,077**	**9,652**	**11,972**
Investments	8,351	3,552	3,552	2,552
Net Fixed Assets	4,142	7,533	8,736	9,878
ROU Assets	-	-	-	-
Capital Work-in-Progress	253	168	-	-
Total Intangible Assets	1,182	3,221	3,221	3,221
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	**19,443**	**23,552**	**25,161**	**27,623**
Liabilities				
Borrowings	**3,876**	**6,618**	**6,618**	**6,618**
Deferred Tax Liability	**138**	**164**	**164**	**164**
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	1,768	1,774	1,774	1,774
Reserves & Surplus	13,635	14,352	15,961	18,423
Total Net Worth	**15,403**	**16,126**	**17,735**	**20,197**
Minority Interest	26	644	644	644
Total Liabilities	**19,443**	**23,552**	**25,161**	**27,623**

Source Company data, I-Sec research

Exhibit 13: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	6,013	7,117	7,067	11,341
% growth (YoY)	54.4	52.4	37.9	66.9
EBITDA	369	490	388	737
Margin %	6.1	6.9	5.5	6.5
Other Income	221	89	121	156
Extraordinaries	(13)	(12)	1	(0)
Adjusted Net Profit	283	319	203	452

Source Company data, I-Sec research

Exhibit 14: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	**(973)**	**(1,183)**	**2,295**	**591**
Working Capital Changes	(2,299)	(2,804)	(314)	(3,030)
Capital Commitments	(1,184)	(3,377)	(1,750)	(2,000)
Free Cashflow	**(2,157)**	**(4,560)**	**545**	**(1,409)**
Other investing cashflow	**(7,961)**	**2,734**	**-**	**1,000**
Cashflow from Investing Activities	(9,145)	(643)	(1,750)	(1,000)
Issue of Share Capital	8,760	(80)	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	1,478	2,218	-	-
Dividend paid	-	(265)	(284)	(302)
Others	-	-	-	-
Cash flow from Financing Activities	10,238	1,873	(284)	(302)
Chg. in Cash & Bank balance	**120**	**47**	**261**	**(711)**
Closing cash & balance	465	520	1,117	406

Source Company data, I-Sec research

Exhibit 15: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	6.8	6.1	10.7	15.6
Adjusted EPS (Diluted)	6.8	6.1	10.7	15.6
Cash EPS	8.5	9.0	14.7	20.4
Dividend per share (DPS)	-	1.5	1.6	1.7
Book Value per share (BV)	87.1	90.9	100.0	113.8
Dividend Payout (%)	-	24.4	15.0	10.9
Growth (%)				
Net Sales	61.7	54.0	46.3	35.5
EBITDA	49.0	5.7	74.1	35.3
EPS (INR)	21.5	(9.3)	74.2	46.0
Valuation Ratios (x)				
P/E	71.1	78.4	45.0	30.8
P/CEPS	56.4	53.2	32.6	23.5
P/BV	5.5	5.3	4.8	4.2
EV / EBITDA	42.5	44.0	25.2	19.0
P / Sales	4.1	2.7	1.8	1.4
Dividend Yield (%)	-	0.3	0.3	0.4
Operating Ratios				
Gross Profit Margins (%)	24.8	20.5	22.0	22.0
EBITDA Margins (%)	9.2	6.3	7.5	7.5
Effective Tax Rate (%)	31.1	25.1	25.5	25.5
Net Profit Margins (%)	6.0	4.0	4.1	4.4
NWC / Total Assets (%)	25.6	34.9	33.9	41.9
Net Debt / Equity (x)	(0.3)	0.1	0.1	0.2
Net Debt / EBITDA (x)	(2.7)	1.1	0.6	0.8
Profitability Ratios				
RoCE (%)	7.9	5.2	8.4	10.8
RoE (%)	11.2	6.7	10.8	14.1
RoIC (%)	12.4	7.5	10.4	12.7
Fixed Asset Turnover (x)	5.1	4.5	4.7	5.3
Inventory Turnover Days	129	141	117	113
Receivables Days	89	131	80	78
Payables Days	131	186	132	128

Source Company data, I-Sec research

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