MOTILAL OSWAL
FINANCIAL SERVICES

13 May 2024
4QFY24 Results Update | Sector: Midcaps

Syrma SGS Technology

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	SYRMA IN
Equity Shares (m)	178
M.Cap.(INRb)/(USDb)	69.7 / 0.8
52-Week Range (INR)	705 / 302
1, 6, 12 Rel. Per (%)	-18/-40/5
12M Avg Val (INR M)	503

Financials & Valuations (INR b)

Y/E Mar	FY24	FY25E	FY26E
Sales	31.5	44.8	60.5
EBITDA	2.0	3.0	4.4
Adj. PAT	1.1	1.7	2.7
EBITDA Margin (%)	6.3	6.7	7.2
Cons. Adj. EPS (INR)	6.1	9.5	15.3
EPS Gr. (%)	-9.3	55.5	60.7
BV/Sh. (INR)	90.9	98.9	112.7
Ratios			
Net D:E	0.3	0.2	0.1
RoE (%)	6.9	10.0	14.5
RoCE (%)	7.5	10.3	14.4
Valuations			
P/E (x)	64	41	26
EV/EBITDA (x)	38	25	17

Shareholding pattern (%)

As on	Mar-24	Dec-23	Mar-23
Promoter	46.9	46.9	47.3
DII	5.8	8.2	8.6
FII	13.0	11.1	4.6
Others	34.4	33.8	39.5

Note: FII includes depository receipts

CMP: INR395 TP: INR535 (+36%) Buy

Unfavorable business mix continues to hurt margins

Operating performance below estimates

- SYRMA reported a weak operating performance in 4QFY24, with EBITDA margins declining 200bp YoY due to an unfavorable business mix (higher share of low-margin consumer business – 46% in 4QFY24 vs. 40% in 4QFY23).
- However, revenue growth was strong at 67% YoY in 4QFY24, led by broad-based growth across verticals.
- Factoring in the 4QFY24 performance and an increase in the consumer mix (low-margin vertical), we have lowered our EBITDA estimates for FY25/FY26 by 7%/13%. Accordingly, we have cut our EPS estimates by ~9%/15% in FY25/FY26. We retain our BUY rating on the stock with a TP of INR535 (35x FY26E EPS).

Broad-based growth across vertical drives revenue growth

- Consolidated revenue grew 67% YoY/60% QoQ to INR11.3b (est. INR9.9b) owing to strong growth across verticals (Healthcare/consumer/automotive/industrial vertical grew 2.5x/93%/49%/42% YoY).
- EBITDA margins contracted 200bp YoY and expanded 100bp QoQ to 6.5%, led by gross margin contraction of 430bp YoY/540bp QoQ to 17.2% due to an unfavorable business mix. EBITDA grew 28% YoY/90% QoQ to INR737m.
- Adjusted PAT declined 17% YoY (up 2.3x QoQ) to INR349m.
- The order book stood at ~INR45b as of Mar'24 vs. ~INR45b/INR38b in Dec'23/Sep'23. The consumer/industrial/automotive/healthcare segments accounted for ~40%/20-25%/20-22%/5-7% of total orders as of Mar'24.
- For FY24, revenue/EBITDA grew 54%/7% YoY to INR31.5b/INR2b, while Adj. PAT declined 9% YoY to INR1.1b.
- Gross debt increased to ~INR5.8b as of Mar'24 vs. ~INR3.5b as of Mar'23. Net debt stood at ~INR4.5b as of Mar'24 (vs. net debt of ~INR2.1b as of Mar'23).

Highlights from the management commentary

- **Guidance**: The management has guided for revenue growth of ~40-45% in FY24, with EBITDA margins of ~7%. It is confident of maintaining over 40% revenue growth going ahead.
- **Exports** accounted for ~23%/26% of total sales in 4QFY24/FY24. The US and Europe accounted for ~95% of the exports. SYRMA expects exports to grow by ~30% YoY in FY25.
- **Capex**: SYRMA has increased its SMT capacity to ~6.3m components from ~3.2m earlier. The company spent ~INR2.5b on capex in FY24. It expects capex of ~INR1.5-1.8b in FY25 mainly for the Pune design center and other ongoing expansions.

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Valuation and view

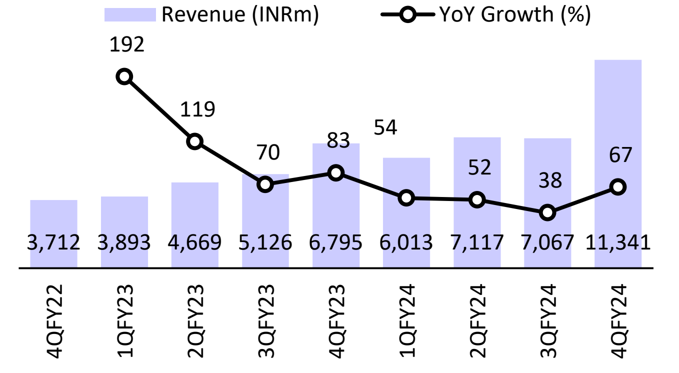
- SYRMA should significantly benefit from the rapid growth in the electronic systems design and manufacturing (ESDM) industry, given its: 1) rich experience of over three decades, 2) a strong order book of INR45b, 3) growing exports, and 4) strong executional capabilities.
- We estimate a CAGR of 38%/48%/58% in revenue/EBITDA/adj. PAT over FY24-26, driven by a robust revenue growth and a healthy order book.
- Factoring in the 4QFY24 performance and an increase in the consumer mix (low-margin vertical), we have lowered our EBITDA estimates for FY25/FY26 by 7%/13%. Accordingly, we have cut our EPS estimates by ~9%/15% in FY25/FY26. We retain our BUY rating on the stock with a TP of INR535 (35x FY26E EPS).

Consolidated - Quarterly Earning Model (INR m)

Y/E March	FY23				FY24				FY23	FY24	FY24E	Var
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	%
Gross Sales	**3,893**	**4,669**	**5,126**	**6,795**	**6,013**	**7,117**	**7,067**	**11,341**	**20,484**	**31,538**	**9,853**	**15**
YoY Change (%)	192.3	118.6	69.9	83.1	54.4	52.4	37.9	66.9	100.9	54.0	45.0	
Total Expenditure	3,558	4,197	4,648	6,220	5,644	6,627	6,679	10,604	18,624	29,554	9,007	
EBITDA	**336**	**472**	**478**	**575**	**369**	**490**	**388**	**737**	**1,860**	**1,984**	**847**	**-13**
Margins (%)	8.6	10.1	9.3	8.5	6.1	6.9	5.5	6.5	9.1	6.3	8.6	
Depreciation	72	71	81	88	101	116	139	158	312	515	150	
Interest	50	63	64	39	75	80	100	123	216	378	100	
Other Income	24	79	118	234	221	89	121	156	455	587	150	
PBT before EO expense	**239**	**417**	**450**	**681**	**413**	**383**	**270**	**612**	**1,787**	**1,678**	**747**	
Extra-Ord expense	0	0	0	0	0	14	0	0	0	14	0	
PBT	**239**	**417**	**450**	**681**	**413**	**370**	**270**	**612**	**1,787**	**1,664**	**747**	
Tax	68	128	108	252	130	64	67	160	556	421	188	
Rate (%)	28.5	30.6	24.1	37.1	31.5	17.4	24.8	26.1	31.1	25.3	25.2	
MI & Profit/Loss of Asso. Cos.	16	6	10	6	-2	22	48	103	38	170	61	
Reported PAT	**155**	**283**	**332**	**423**	**285**	**283**	**155**	**349**	**1,193**	**1,073**	**497**	
Adj PAT	**155**	**283**	**332**	**423**	**285**	**297**	**155**	**349**	**1,193**	**1,087**	**497**	**-30**
YoY Change (%)	178.8	149.8	68.2	158.9	84.0	4.8	-53.2	-17.4	125.2	-8.9	17.6	
Margins (%)	4.0	6.1	6.5	6.2	4.7	4.2	2.2	3.1	5.8	3.4	5.0	

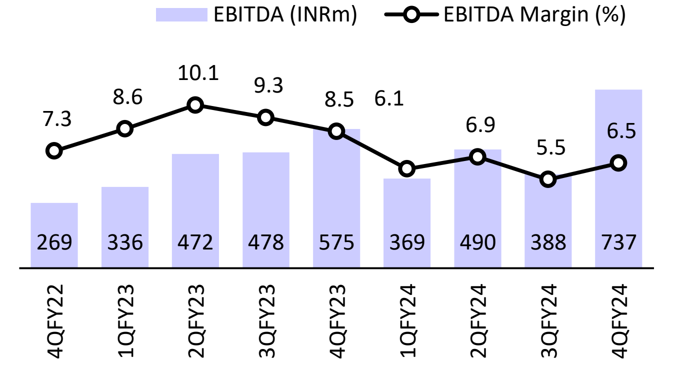
Key exhibits

Exhibit 1: Consolidated revenue trend



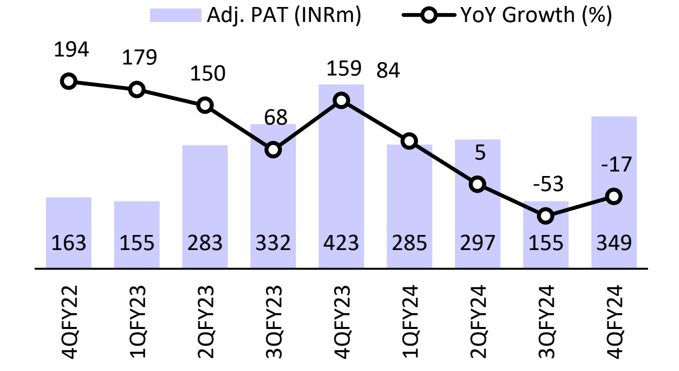
Source: Company, MOFSL

Exhibit 2: Consolidated EBITDA trend



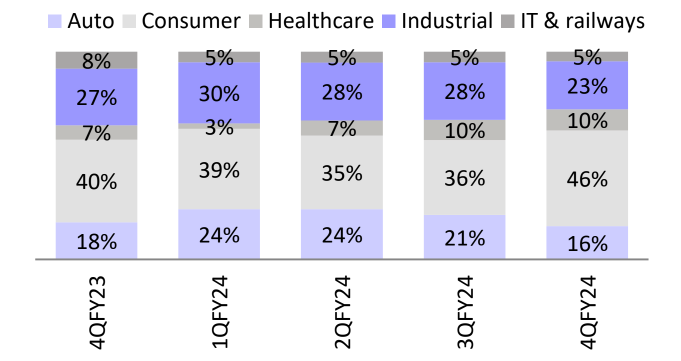
Source: Company, MOFSL

Exhibit 3: Consolidated Adj. PAT trend



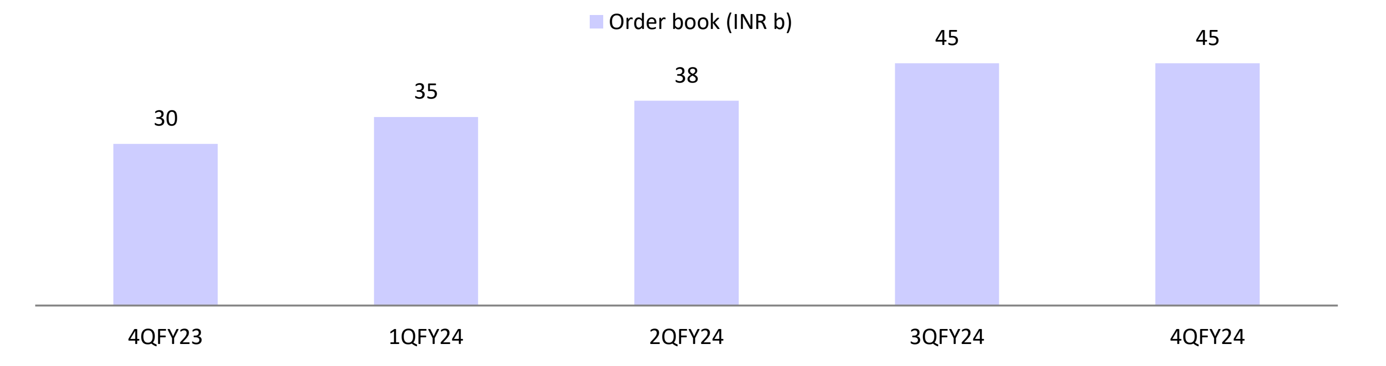
Source: Company, MOFSL

Exhibit 4: End-user industry mix



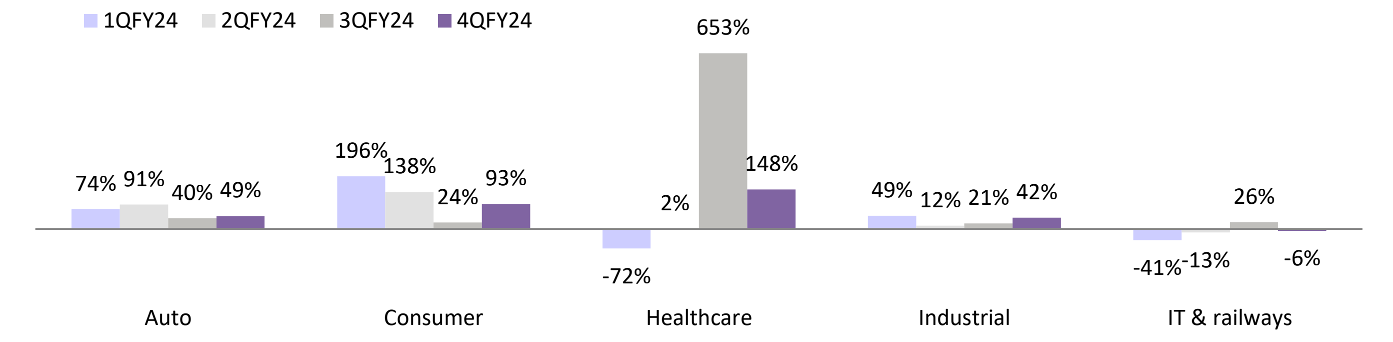
Source: Company, MOFSL

Exhibit 5: Closing order book trend



Source: MOFSL, Company

Exhibit 6: Revenue growth YoY across end-user verticals



Source: MOFSL, Company

CONFERENCE CALL

Highlights from the management commentary

Operating Performance

- Revenue growth during the quarter was driven by the consumer segment, followed by the auto and healthcare segments.
- The US and Europe accounted for around 95% of the exports.
- Higher depreciation (because of the capex cycle that is yet to be sweated) led to a relatively lower profit before tax.
- The current operating performance does not include benefits of the PLI scheme, which will be recorded as and when received.
- ODM sales stood at ~15% of revenue in FY24.
- SYRMA witnesses operating leverage benefits of ~1.5% during the year.

Capacity and Capex

- The company has doubled its manufacturing capacity from 3.2m component to ~6.3m component in FY24.
- It expects to Commission the Pune facility by 2QFY25.
- SYRMA spent ~INR2.5b on capex in FY24. It expects capex of ~INR1.5-1.8b in FY25 mainly for the Pune design center and other ongoing expansions.
- The company plans to set up a facility in Manesar. It has also acquired land for the Hosur project.
- For FY24, average asset utilization stood at ~65% of total capacity available as on Mar'24.

Outlook and Guidance

- SYRMA expects revenue growth of ~40-45% in FY25. Exports are expected to grow by ~30% YoY.
- The company aims to sustain revenue growth of over 40% going ahead.
- The consumer segment is expected to account for ~37-40% of revenue in FY25. The management targets to bring it down further going ahead (~30-35%).
- On a conservative basis, EBITDA margins for FY25 are expected to be ~7%.
- Depreciation for FY25 is expected to be ~INR600-700m, while interest cost is expected to be ~INR400-450m.
- The company will continue to focus on working capital and OCF improvement going ahead. It expects average net working capital to decrease to ~60 days going ahead from the current level of ~70 days.

Margins

- Overall gross margins declined due to a change in the business mix. The company is not witnessing any contraction in segment-level margin.
- The consumer segment accounted for ~46% of revenue, resulting into a decline in margins.
- SYRMA expects some improvement in margins as the share of ODM business improves.

Healthcare Business

- Healthcare business forms ~8-9% of total revenue.
- ~50% of healthcare business comes from SYRMA's core business and ~50% from Johari digital.

- Johari digital witnessed flat growth on YoY basis in FY24. However, the company expects ~30% revenue growth in FY25.
- Johari digital margins have been stable since the acquisition.

Order Book

- The current order book stood at ~INR45b as of Mar'24. Exports accounted for ~22-25% of the order book.
- Around 40% of the order book is coming from the consumer segment, ~20-25% from the industrial segment, ~20-22% from the auto segment, and ~5-7% from the healthcare segment.
- The order book was flat QoQ due to higher execution in 4QFY24.

Others

- Working capital (calculated on closing balance) declined from ~88 days to ~82 days. If calculated on average balance, it was largely similar at ~70 days.
- Generally, lower-margin business has lower working capital requirements.
- SYRMA aims to be free cash flow positive in FY25.
- ~INR160m of PLI benefits of FY24 have not been factored in FY24 results. It considers PLI scheme benefits on the cash basis and not on the accrual basis.
- Other current assets have increased due to GST paid on higher inventory levels. The company is enabling provision for fund raise (QIP) of INR10b for any inorganic acquisition and other capex plans.
- SYRMA has upgraded its Germany facility (~40,000 sq. ft.) to an integration facility. It expects healthy traction from the region going ahead. This facility is expected to scale to full manufacturing unit going ahead.

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) a strong order book of INR45b, 3) growing exports, and 4) strong executional capabilities.
- We estimate a CAGR of 38%/48%/58% in revenue/EBITDA/adj. PAT over FY24-26, driven by a robust revenue growth and healthy order book.
- Factoring in the 4QFY24 performance and an increase in the consumer mix (low-margin vertical), we have lowered our EBITDA estimates for FY25/FY26 by 7%/13%. Accordingly, we have cut our EPS estimates by ~9%/15% in FY25/FY26. We retain our BUY rating on the stock with a TP of INR535 (35x FY26E EPS).

Exhibit 7: Changes to our estimates

Earnings change	Old		New		Change	
(INR m)	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	42,671	57,606	44,784	60,458	5%	5%
EBITDA	3,243	5,012	3,001	4,353	-7%	-13%
Adj. PAT	1,866	3,195	1,690	2,714	-9%	-15%

Financials and valuations

Consolidated - Income Statement (INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	**8,621**	**8,858**	**12,667**	**20,484**	**31,538**	**44,784**	**60,458**
Change (%)	143.5	2.8	43.0	61.7	54.0	42.0	35.0
RM Cost	5,847	6,276	9,408	15,405	25,069	35,290	47,339
Employees Cost	748	781	823	1,060	1,426	2,015	2,721
Other Expenses	731	786	1,148	2,142	3,059	4,478	6,046
Total Expenditure	**7,325**	**7,842**	**11,380**	**18,606**	**29,554**	**41,783**	**56,105**
% of Sales	85.0	88.5	89.8	90.8	93.7	93.3	92.8
EBITDA	**1,295**	**1,016**	**1,287**	**1,878**	**1,984**	**3,001**	**4,353**
Margin (%)	15.0	11.5	10.2	9.2	6.3	6.7	7.2
Depreciation	191	228	249	312	515	663	756
EBIT	**1,105**	**789**	**1,038**	**1,566**	**1,469**	**2,337**	**3,597**
Int. and Finance Charges	154	97	108	216	378	401	301
Other Income	183	177	178	437	587	672	786
PBT bef. EO Exp.	**1,134**	**869**	**1,108**	**1,787**	**1,678**	**2,608**	**4,082**
EO Items	0	0	0	0	-14	0	0
PBT after EO Exp.	**1,134**	**869**	**1,108**	**1,787**	**1,664**	**2,608**	**4,082**
Total Tax	219	213	343	556	421	656	1,028
Tax Rate (%)	19.3	24.5	31.0	31.1	25.3	25.2	25.2
Minority Interest	31	25	42	38	170	262	341
Reported PAT	**884**	**630**	**722**	**1,193**	**1,073**	**1,690**	**2,714**
Adjusted PAT	**884**	**630**	**722**	**1,193**	**1,087**	**1,690**	**2,714**
Change (%)	321.5	-28.7	14.5	65.2	-8.9	55.5	60.7
Margin (%)	10.3	7.1	5.7	5.8	3.4	3.8	4.5

Consolidated - Balance Sheet

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	46	46	1,376	1,768	1,774	1,774	1,774
Preference Capital	47	0	0	0	0	0	0
Total Reserves	4,182	5,946	4,344	13,635	14,352	15,775	18,223
Net Worth	**4,275**	**5,992**	**5,721**	**15,403**	**16,126**	**17,549**	**19,998**
Minority Interest	2	6	108	26	644	906	1,247
Total Loans	1,205	1,029	2,183	3,468	5,763	4,263	3,763
Deferred Tax Liabilities	42	62	124	138	176	176	176
Capital Employed	**5,523**	**7,089**	**8,136**	**19,035**	**22,710**	**22,895**	**25,184**
Gross Block	2,089	2,264	3,233	4,821	8,134	9,093	10,530
Less: Accum. Deprn.	191	405	635	947	1,462	2,125	2,881
Net Fixed Assets	**1,898**	**1,858**	**2,597**	**3,874**	**6,672**	**6,968**	**7,650**
Goodwill on Consolidation	1,059	1,059	1,182	1,182	3,221	3,221	3,221
Capital WIP	12	0	408	253	168	859	922
Total Investments	**301**	**1,316**	**410**	**8,500**	**419**	**419**	**419**
Current Investments	0	0	0	780	355	355	355
Curr. Assets, Loans&Adv.	**4,591**	**5,365**	**6,945**	**11,603**	**26,414**	**26,286**	**32,927**
Inventory	1,419	1,789	2,913	5,874	10,043	12,085	15,563
Account Receivables	1,804	2,084	2,722	4,032	9,301	8,834	11,926
Cash and Bank Balance	780	729	369	544	856	888	601
Loans and Advances	588	763	940	1,151	6,215	4,478	4,837
Curr. Liability & Prov.	**2,338**	**2,509**	**3,407**	**6,377**	**14,185**	**14,858**	**19,954**
Account Payables	1,707	1,848	2,405	4,881	12,232	12,085	16,212
Other Current Liabilities	506	554	857	1,362	1,778	2,525	3,409
Provisions	125	108	145	134	174	247	334
Net Current Assets	**2,253**	**2,856**	**3,538**	**5,226**	**12,230**	**11,429**	**12,973**
Appl. of Funds	**5,523**	**7,089**	**8,136**	**19,035**	**22,710**	**22,895**	**25,184**

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)							
EPS	**6.4**	**4.6**	**5.2**	**6.7**	**6.1**	**9.5**	**15.3**
Cash EPS	7.8	6.2	7.1	8.5	9.0	13.3	19.6
BV/Share	31.1	43.5	41.6	87.1	90.9	98.9	112.7
DPS	0.0	0.0	0.0	0.0	1.5	1.5	1.5
Payout (%)	0.0	0.0	0.0	0.0	24.8	15.8	9.8
Valuation (x)							
P/E	61.5	86.2	75.3	58.5	64.5	41.5	25.8
Cash P/E	50.6	63.4	56.0	46.4	43.8	29.8	20.2
P/BV	12.7	9.1	9.5	4.5	4.3	4.0	3.5
EV/Sales	6.4	6.2	4.4	3.5	2.4	1.7	1.2
EV/EBITDA	42.3	53.8	43.7	38.3	37.9	24.7	17.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.4	0.4	0.4
FCF per share	7.8	1.3	-7.5	-12.1	-25.4	8.6	0.0
Return Ratios (%)							
RoE	35.8	12.3	12.3	11.3	6.9	10.0	14.5
RoCE	29.4	11.7	11.2	10.3	7.5	10.3	14.4
RoIC	31.1	12.6	11.9	12.9	7.1	8.3	12.2
Working Capital Ratios							
Fixed Asset Turnover (x)	4.1	3.9	3.9	4.2	3.9	4.9	5.7
Asset Turnover (x)	1.6	1.2	1.6	1.1	1.4	2.0	2.4
Inventory (Days)	89	104	113	139	146	125	120
Debtor (Days)	76	86	78	72	108	72	72
Creditor (Days)	107	107	93	116	178	125	125
Leverage Ratio (x)	58.4	82.5	98.2	95.4	75.8	72.0	67.0
Current Ratio	2.0	2.1	2.0	1.8	1.9	1.8	1.7
Interest Cover Ratio	7.2	8.1	9.6	7.3	3.9	5.8	12.0
Net Debt/Equity	0.1	0.1	0.3	0.1	0.3	0.2	0.1

Cash Flow Statement (INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	1,134	869	1,108	1,787	1,664	2,608	4,082
Depreciation	191	228	249	312	515	663	756
Interest & Finance Charges	117	52	54	-222	378	-271	-485
Direct Taxes Paid	-207	-220	-289	-556	-540	-656	-1,028
(Inc)/Dec in WC	301	-499	-1,212	-2,140	-2,804	834	-1,831
CF from Operations	**1,535**	**430**	**-90**	**-818**	**-786**	**3,178**	**1,494**
Others	23	-58	-36	115	-350	0	0
CF from Operating incl EO	**1,558**	**371**	**-126**	**-703**	**-1,136**	**3,178**	**1,494**
(Inc)/Dec in FA	-479	-187	-901	-1,433	-3,370	-1,650	-1,500
Free Cash Flow	**1,079**	**184**	**-1,027**	**-2,136**	**-4,506**	**1,528**	**-6**
(Pur)/Sale of Investments	-20	-51	11	0	-2,300	0	0
Others	42	-888	-2,844	-7,711	5,388	672	786
CF from Investments	**-457**	**-1,127**	**-3,734**	**-9,144**	**-282**	**-978**	**-714**
Issue of Shares	0	331	2,715	9,682	0	0	0
Inc/(Dec) in Debt	-416	-179	1,159	1,285	2,295	-1,500	-500
Interest Paid	-119	-70	-70	-216	-378	-401	-301
Dividend Paid	-20	0	0	0	0	-266	-266
Others	-37	622	-303	-730	-187	0	0
CF from Fin. Activity	**-593**	**705**	**3,500**	**10,022**	**1,730**	**-2,167**	**-1,067**
Inc/Dec of Cash	**508**	**-51**	**-360**	**175**	**312**	**33**	**-287**
Opening Balance	143	780	729	369	544	856	888
Other cash & cash equivalent	130	0	0	0	0	0	0
Closing Balance	**780**	**729**	**369**	**544**	**856**	**888**	**601**

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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