

Syrma SGS Technology

Estimate change	↓
TP change	↓
Rating change	↔

CMP: INR524 TP: INR720 (+37%) Buy

Healthcare, automotive verticals drive strong revenue growth

Bloomberg	SYRMA IN
Equity Shares (m)	177
M.Cap.(INRb)/(USDb)	93.1 / 1.1
52-Week Range (INR)	705 / 251
1, 6, 12 Rel. Per (%)	-18/-1/72
12M Avg Val (INR M)	452

- SYRMA reported strong revenue growth of 38% YoY in 3QFY24, led by robust traction in the healthcare (up 7.6x YoY) and automotive verticals (up 40% YoY). However, EBITDA margins declined by 380bp YoY due to an unfavorable business mix and a spillover of ~INR1.1b of revenue in the auto and consumer segments to 4QFY24.
- Factoring in the 3QFY24 performance and an increase in the consumer mix (low-margin vertical), we have lowered our EBITDA estimates for FY24/FY25/FY26 by 12%/11%/5%. Accordingly, we have cut our EPS estimates by ~14%/12%/4% in FY24/FY25/FY26. We retain our BUY rating on the stock with a TP of INR720 (40x FY26E EPS).

Financials & Valuations (INR b)

Y/E Mar	FY24E	FY25E	FY26E
Sales	30.1	42.7	57.6
EBITDA	2.1	3.2	5.0
Adj. PAT	1.2	1.9	3.2
EBITDA Margin (%)	7.0	7.6	8.7
Cons. Adj. EPS (INR)	7.0	10.6	18.1
EPS Gr. (%)	3.4	51.2	71.2
BV/Sh. (INR)	94.0	104.6	122.7

Ratios

Net D:E	0.2	0.2	0.1
RoE (%)	7.7	10.6	15.9
RoCE (%)	8.2	10.9	15.5

Valuations

P/E (x)	75	50	29
EV/EBITDA (x)	46	30	19

Shareholding pattern (%)

As on	Dec-23	Sep-23	Dec-22
Promoter	46.9	47.2	47.3
DII	8.2	9.6	7.6
FII	11.1	10.1	4.9
Others	33.8	34.2	40.2

Note: FII includes depository receipts

Unfavorable business mix drags down operating performance

- Consolidated revenue grew 38% YoY but declined 1% QoQ to INR7.1b (est. INR7.9b) owing to strong growth in the healthcare and automotive verticals.
- Gross margins declined 280bp YoY to 22.6% (up 10bp QoQ) and EBITDA margins declined 380bp YoY/140bp QoQ to 5.5% (est. 8.2%) on the back of an unfavorable business mix and a spillover of revenue in 4QFY24. EBITDA declined 19% YoY/21% QoQ to INR388m (est. INR650m).
- Adjusted PAT declined 53% YoY/48% QoQ to INR155m (est. INR355m).
- The order book stood at ~INR45b as of Dec'23 vs. ~INR38b/INR35b in Sep'23/Jun'23. The automotive/consumer/industrial segments accounted for 18-20%/40-45%/30-35% of total orders as of Dec'23.
- For 9MFY24, revenue grew 48% YoY to INR20.2b, while EBITDA/adj. PAT declined 3%/4% YoY to INR1.2b/INR737m.
- Net working capital days stood at ~72 days in 3QFY24 vs. ~70 days in 2QFY24.
- Gross debt increased to ~INR4.9b as of Dec'23 vs. ~INR3.3b as of Dec'22. Net debt stood at ~INR656m as of Dec'23 (vs. net cash of ~INR5.6b as of Dec'22).

Highlights from the management commentary

- **Guidance:** The management has guided for revenue of ~INR30b in FY24, with EBITDA margins of ~7-7.5%. It is confident of maintaining revenue growth of ~40-45% in FY25, with EBITDA margin of ~7-8%.
- **Exports** accounted for ~28% of total sales in 3QFY24. SYRMA expects exports to grow strongly going ahead, led by renewed growth in the healthcare segment and new client additions in 9MFY24.
- **Capex:** SYRMA incurred a capex of ~INR2.4b in 9MFY24 and expects to spend an additional ~INR400-500m in 4QFY24. The company has increased its SMT capacity to ~6.3m components from ~3.2m earlier. Further, it is setting up a new facility in Bawal and Pune (adding manufacturing area by ~0.35m sq. ft.).

Valuation and view

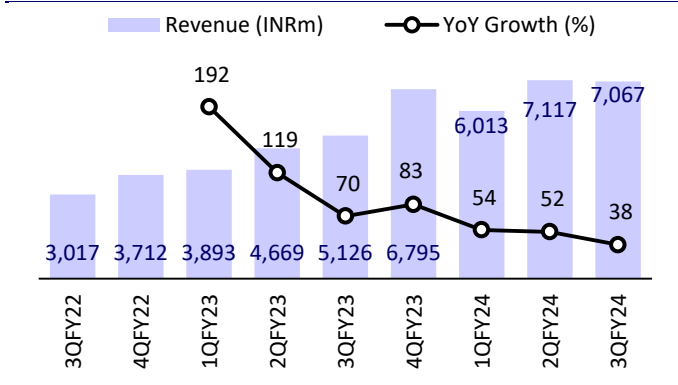
- SYRMA should significantly benefit from the rapid growth in the electronic systems design and manufacturing (ESDM) industry, given its: 1) rich experience of over three decades, 2) a strong order book of INR45b, 3) growing exports, and 4) strong executional capabilities.
- We estimate a CAGR of 41%/39%/39% in revenue/EBITDA/adj. PAT over FY23-26, driven by a robust revenue growth and healthy order inflows.
- Factoring in the 3QFY24 performance and an increasing consumer mix of low-margin products, we have reduced our EBITDA estimates for FY24/FY25/FY26 by 12%/11%/5%. Accordingly, we have cut our EPS estimates by ~14%/12%/4% in FY24/FY25/FY26.
- We retain our BUY rating on the stock with a TP of INR720 (40x FY26E EPS, premised on ~1x PEG ratio).

Consolidated - Quarterly Earning Model

Y/E March	(INR m)											Var %
	FY23				FY24				FY23	FY24	FY24E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	
Gross Sales	3,893	4,669	5,126	6,795	6,013	7,117	7,067	9,853	20,484	30,051	7,946	-11
YoY Change (%)	192.3	118.6	69.9	83.1	54.4	52.4	37.9	45.0	100.9	46.7	55.0	
Total Expenditure	3,558	4,197	4,648	6,220	5,644	6,627	6,679	9,007	18,624	27,957	7,296	
EBITDA	336	472	478	575	369	490	388	847	1,860	2,094	650	-40
Margins (%)	8.6	10.1	9.3	8.5	6.1	6.9	5.5	8.6	9.1	7.0	8.2	
Depreciation	72	71	81	88	101	116	139	150	312	507	145	
Interest	50	63	64	39	75	80	100	100	216	356	60	
Other Income	24	79	118	234	221	89	121	150	455	581	95	
PBT before EO expense	239	417	450	681	413	383	270	747	1,787	1,813	540	
Extra-Ord expense	0	0	0	0	0	14	0	0	0	14	0	
PBT	239	417	450	681	413	370	270	747	1,787	1,799	540	
Tax	68	128	108	252	130	64	67	188	556	449	136	
Rate (%)	28.5	30.6	24.1	37.1	31.5	17.4	24.8	25.2	31.1	25.0	25.2	
Minority Interest & P/L of Asso. Cos.	16	6	10	6	-2	22	48	61	38	129	49	
Reported PAT	155	283	332	423	285	283	155	497	1,193	1,221	355	
Adj PAT	155	283	332	423	285	297	155	497	1,193	1,235	355	-56
YoY Change (%)	178.8	149.8	68.2	158.9	84.0	4.8	-53.2	17.6	125.2	3.5	6.9	
Margins (%)	4.0	6.1	6.5	6.2	4.7	4.2	2.2	5.0	5.8	4.1	4.5	

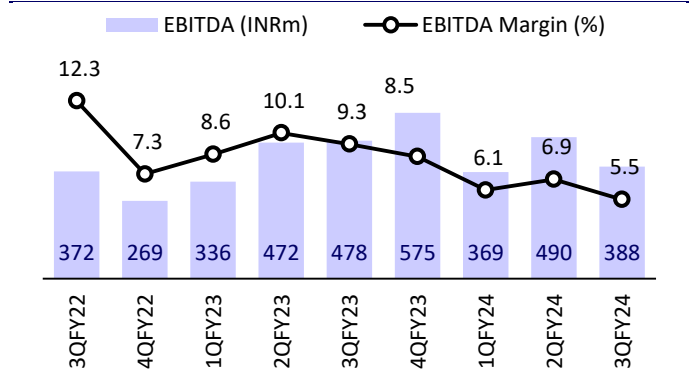
Key exhibits

Exhibit 1: Consolidated revenue trend



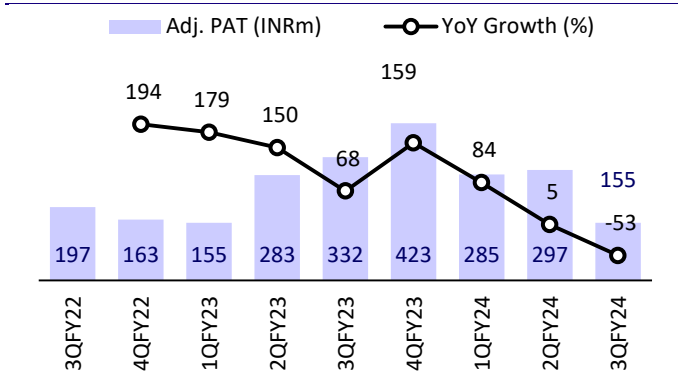
Source: Company, MOFSL

Exhibit 2: Consolidated EBITDA trend



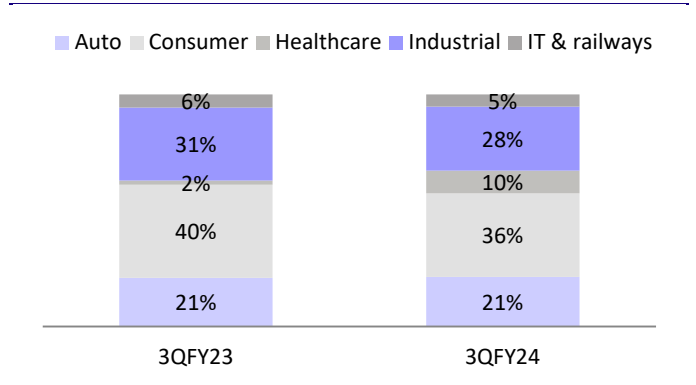
Source: Company, MOFSL

Exhibit 3: Consolidated Adj. PAT trend



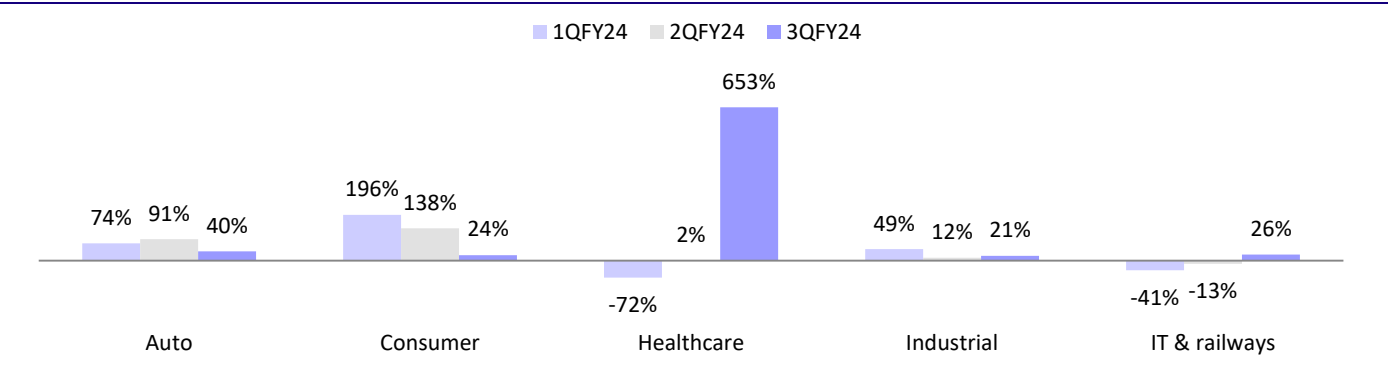
Source: Company, MOFSL

Exhibit 4: End-user industry mix



Source: Company, MOFSL

Exhibit 5: Revenue growth YoY across end-user verticals



Source: MOFSL, Company



Highlights from the management commentary

Guidance

- The company has guided for revenue of ~INR30b in FY24, with EBITDA margins of ~7-7.5%.
- It is confident of maintaining the revenue growth trajectory of ~40-45% in FY25 on the back of a strong order book and a rebound in the healthcare segment. EBITDA margins are expected to be in the range of ~7-8% in FY25.
- The company aims for RoCE of ~25%+ (EBITDA of ~INR3-3.5b on INR14-15b capital deployed).
- Going ahead, SYRMA will focus on maintaining and increasing the margin profile of each vertical.
- The company expects to achieve an asset turn of ~6x by FY25-end and targets an asset turn of ~6-7x going ahead.
- Going ahead, the company expects the automotive, consumer and industrial verticals to be key growth drivers, contributing to ~75% of the total revenue.

Operating performance

- SYRMA witnessed lower-than-expected sales growth due to a delayed execution of orders worth INR1.1b in the consumer and automotive segments. Revenue from this order is likely to be booked in 4QFY24.
- Lower-than-expected sales impacted operating leverage and resulted in lower margins. Further, it also led to a marginal increase in working capital requirements.
- Moreover, gross margins were adversely impacted by a change in the product mix. However, contribution margins for all verticals were stable.

Order book

- The order book stood at ~INR45b as of Dec'23 vs. ~INR38b/INR35b in Sep'23/Jun'23.
- The consumer/industrial/automotive/healthcare segments accounted for 40-45%/30-35%/18-20%/8-10% of total orders as of Dec'23, with segments such as IT and railways accounting for the rest.
- Export orders accounted for ~20% of the total order book.
- Orders worth ~INR45b (including ~INR9b export orders) are executable over the next 12-15 months.
- The order book for the healthcare segment includes orders from Johari as well (newly acquired company).

Capacity expansion

- The company has increased SMT capacity to ~6.3m components from ~3.2m earlier.
- Further, it is in the process of setting up a new facility in Bawal and Pune each. Cumulatively, these facilities will add a manufacturing area of ~0.35m sqft.

Railways

- SYRMA has got approval from RDSO for delivering the signaling system. It also received an order for INR350m in 2QFY24, which was expected to ship out in Mar'23. However, it was delayed due to the shortage of key components globally.

- Out of this, the company expects to execute ~INR50m of orders in 4QFY24.
- SYRMA expects revenue of ~INR700-800m from this contract in FY25.

Healthcare

- SYRMA expects revenue of ~INR3.75-4b from the healthcare vertical in FY25.
- Johri Digital (newly acquired company) recorded a revenue of ~INR300 in 3QFY24 with margins of ~30%.
- SYRMA expects ~25-30% revenue growth for Johari Digital in FY25. This company will contribute less than 5% to total revenue in FY25. However, the contribution to EBITDA will be significant.
- The company has hired a new CEO for Johri Digital in Jan'24. He was previously working with Tata Elxsi.

Exports

- Exports accounted for ~28% of total sales in 3QFY24.
- Exports for 9MFY24 stood at INR5.5b. The company expects this number to grow strongly in the coming years, led by renewed growth in the healthcare segment and new client additions in 9MFY24.

Other key highlights

- **Capex:** SYRMA incurred a capex of ~INR2.4b in 9MFY24 and expects to spend an additional ~INR400-500m in 4QFY24. After this capex, the company will still be left with unutilized IPO proceeds of ~INR2b.
- **Net working capital** days stood at ~72 in 3QFY24 vs. 70 in 2QFY24. SYRMA expects to end FY24 with working capital days of less than 70. With the increasing mix of high-volume orders, the company expects to bring down the net working capital to ~60 days going ahead.
- **Debt:** Gross debt increased to ~INR4.9b as of Dec'23 from ~INR3.3b as of Dec'22. Net debt stood at ~INR656m as of Dec'23 (vs. net cash of ~INR5.6b as of Dec'22).
- **Other points:** SYRMA has hired consulting company McKenzie to get better insights for driving operational efficiency and growth in upcoming years.
- The company will continue to invest in people and process.
- Revenue from ODM accounts for ~19% of the total revenue during the quarter.
- Gross block as of Dec'23 stood at INR7b. Out of this, assets worth INR1.5b have not been deployed for use yet. Therefore, operational gross block stood at ~INR5.5b.
- The company recorded operating cash outflow in 9MFY24. The company targets to generate operating cash flows by FY24 end.
- The company has on-boarded high-volume clients in the industrial space.

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 41%/39%/39% in revenue/EBITDA/adj. PAT over FY23-FY26, driven by a robust revenue growth and healthy order inflows.

- Factoring in the 3QFY24 performance and the increasing consumer mix of low-margin products, we have reduced our EBITDA estimates for FY24/FY25/FY26 by 12%/11%/5%. Accordingly, we have cut our earnings estimates by ~14%/12%/4% in FY24/FY25/FY26.
- We retain our BUY rating on the stock with a TP of INR720 (40x FY26E EPS, premised on ~1x PEG ratio).

Exhibit 6: Changes to our estimates

Earnings change (INR m)	Old			New			Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	31,269	42,838	57,832	30,050	42,671	57,606	-4%	0%	0%
EBITDA	2,368	3,641	5,263	2,093	3,243	5,012	-12%	-11%	-5%
Adj. PAT	1,436	2,129	3,328	1,234	1,866	3,195	-14%	-12%	-4%

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	30,050	42,671	57,606
Change (%)	143.5	2.8	43.0	61.7	46.7	42.0	35.0
RM Cost	5,847	6,276	9,408	15,405	23,313	32,985	44,299
Employees Cost	748	781	823	1,060	1,407	1,963	2,535
Other Expenses	731	786	1,148	2,142	3,237	4,480	5,761
Total Expenditure	7,325	7,842	11,380	18,606	27,957	39,428	52,594
% of Sales	85.0	88.5	89.8	90.8	93.0	92.4	91.3
EBITDA	1,295	1,016	1,287	1,878	2,093	3,243	5,012
Margin (%)	15.0	11.5	10.2	9.2	7.0	7.6	8.7
Depreciation	191	228	249	312	507	691	828
EBIT	1,105	789	1,038	1,566	1,587	2,552	4,184
Int. and Finance Charges	154	97	108	216	356	345	320
Other Income	183	177	178	437	581	640	864
PBT bef. EO Exp.	1,134	869	1,108	1,787	1,812	2,846	4,728
EO Items	0	0	0	0	-14	0	0
PBT after EO Exp.	1,134	869	1,108	1,787	1,799	2,846	4,728
Total Tax	219	213	343	556	449	716	1,190
Tax Rate (%)	19.3	24.5	31.0	31.1	25.0	25.2	25.2
Minority Interest	31	25	42	38	129	264	343
Reported PAT	884	630	722	1,193	1,221	1,866	3,195
Adjusted PAT	884	630	722	1,193	1,234	1,866	3,195
Change (%)	321.5	-28.7	14.5	65.2	3.4	51.2	71.2
Margin (%)	10.3	7.1	5.7	5.8	4.1	4.4	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	14,856	16,722	19,917
Net Worth	4,275	5,992	5,721	15,403	16,624	18,490	21,685
Minority Interest	2	6	108	26	155	419	761
Total Loans	1,205	1,029	2,183	3,468	3,968	4,668	3,868
Deferred Tax Liabilities	42	62	124	138	138	138	138
Capital Employed	5,523	7,089	8,136	19,035	20,884	23,714	26,452
Gross Block	2,089	2,264	3,233	4,821	8,003	9,954	11,544
Less: Accum. Deprn.	191	405	635	947	1,454	2,145	2,973
Net Fixed Assets	1,898	1,858	2,597	3,874	6,550	7,809	8,571
Goodwill on Consolidation	1,059	1,059	1,182	1,182	1,182	1,182	1,182
Capital WIP	12	0	408	253	1,501	1,050	960
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	15,691	21,681	28,402
Inventory	1,419	1,789	2,913	5,874	7,664	10,664	13,957
Account Receivables	1,804	2,084	2,722	4,032	5,763	7,950	10,416
Cash and Bank Balance	780	729	369	544	461	508	572
Loans and Advances	588	763	940	1,151	1,803	2,560	3,456
Curr. Liability & Prov.	2,338	2,509	3,407	6,377	9,540	13,509	18,164
Account Payables	1,707	1,848	2,405	4,881	7,345	10,392	13,957
Other Current Liabilities	506	554	857	1,362	1,998	2,838	3,831
Provisions	125	108	145	134	196	278	376
Net Current Assets	2,253	2,856	3,538	5,226	6,151	8,173	10,238
Misc Expenditure	0	0	0	0	0	0	0
Appl. of Funds	5,523	7,089	8,136	19,035	20,884	23,714	26,452

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	7.0	10.6	18.1
Cash EPS	7.8	6.2	7.1	8.5	9.8	14.5	22.8
BV/Share	31.1	43.5	41.6	87.1	94.0	104.6	122.7
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	75.1	49.6	29.0
Cash P/E	67.1	84.1	74.2	61.6	53.2	36.2	23.0
P/BV	16.9	12.0	12.6	6.0	5.6	5.0	4.3
EV/Sales	8.4	8.2	5.8	4.6	3.2	2.3	1.7
EV/EBITDA	56.0	71.3	57.5	50.5	45.6	29.7	19.1
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	-21.5	-5.4	1.8
Return Ratios (%)							
RoE	35.8	12.3	12.3	11.3	7.7	10.6	15.9
RoCE	29.4	11.7	11.2	10.3	8.2	10.9	15.5
RoIC	31.1	12.6	11.9	12.9	10.3	12.7	17.4
Working Capital Ratios							
Fixed Asset Turnover (x)	4.1	3.9	3.9	4.2	3.8	4.3	5.0
Asset Turnover (x)	1.6	1.2	1.6	1.1	1.4	1.8	2.2
Inventory (Days)	89	104	113	139	120	118	115
Debtor (Days)	76	86	78	72	70	68	66
Creditor (Days)	107	107	93	116	115	115	115
Leverage Ratio (x)							
Current Ratio	2.0	2.1	2.0	1.8	1.6	1.6	1.6
Interest Cover Ratio	7.2	8.1	9.6	7.3	4.5	7.4	13.1
Net Debt/Equity	0.1	0.1	0.3	0.1	0.2	0.2	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	1,812	2,846	4,728
Depreciation	191	228	249	312	507	691	828
Interest & Finance Charges	117	52	54	-222	-225	-295	-544
Direct Taxes Paid	-207	-220	-289	-556	-449	-716	-1,190
(Inc)/Dec in WC	301	-499	-1,212	-2,140	-1,009	-1,974	-2,001
CF from Operations	1,535	430	-90	-818	635	553	1,821
Others	23	-58	-36	115	-14	0	0
CF from Operating incl EO	1,558	371	-126	-703	621	553	1,821
(Inc)/Dec in FA	-479	-187	-901	-1,433	-4,430	-1,500	-1,500
Free Cash Flow	1,079	184	-1,027	-2,136	-3,809	-947	321
(Pur)/Sale of Investments	-20	-51	11	0	0	0	0
Others	42	-888	-2,844	-7,711	3,581	640	864
CF from Investments	-457	-1,127	-3,734	-9,144	-849	-860	-636
Issue of Shares	0	331	2,715	9,682	0	0	0
Inc/(Dec) in Debt	-416	-179	1,159	1,285	500	700	-800
Interest Paid	-119	-70	-70	-216	-356	-345	-320
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	144	355	-1,120
Inc/Dec of Cash	508	-51	-360	175	-83	47	65
Opening Balance	143	780	729	369	544	461	508
Other cash & cash equivalent	130	0	0	0			
Closing Balance	780	729	369	544	461	508	572

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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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