

Syrma SGS Technology

Estimate change	↓
TP change	↓
Rating change	↔

CMP: INR428 TP: INR540 (+26%) Buy

High mix of consumer business hurts overall margin

Operating performance below estimates

- SYRMA reported a weak operating performance in 1QFY25, with EBITDA margins declining 230bp YoY due to an unfavorable business mix (higher share of low-margin consumer business at 53% in 1QFY25 vs. 39% in 1QFY24). However, revenue growth was robust at 93% YoY, majorly driven by consumer segment (up 2.7x YoY).
- Factoring in the 1QFY25 performance, we have lowered our EPS estimate for FY25 by 7% while maintaining FY26E EPS. We retain our BUY rating on the stock with a TP of INR540 (35x FY26E EPS).

Broad-based growth across verticals

- Consolidated revenue grew 93% YoY to INR11.6b (est. INR10b) owing to strong growth across verticals (Healthcare/consumer/IT & Railways/automotive/ industrial vertical grew 3.8x/2.7x/2.7x/29%/21% YoY).
- EBITDA margins contracted 230bp YoY to 3.8% (est. 5.5%), led by gross margins contraction by 710bp YoY to 15%, due to an unfavorable business mix. EBITDA grew 21% YoY to INR446m (est. INR554m). Adj. PAT declined 32% YoY to INR193m (est. INR266m), led by increasing depreciation (up 71% YoY) and interest costs (up 73% YoY).
- The order book stood at ~INR45b as of Jun'24 vs. ~INR45b/INR35b in Mar'24/Jun'23. The consumer/industrial/automotive/healthcare segments accounted for ~38-40%/22-25%/23-25%/6-7% of total orders as of Jun'24. 1Q order inflow stood at INR12b, largely from consumer (~INR4b), auto (~INR4b) and industrial (~INR3.6b).
- Gross debt increased to ~INR6.1b as of Jun'24 vs. ~INR5.8b as of Mar'24. Net debt stood at ~INR4.9b as of Jun'24 (vs. net debt of ~INR4b as of Mar'24).

Highlights from the management commentary

- **Guidance:** The management has maintained its revenue growth target of ~40-45% for FY25, with EBITDA margins of ~7% (including PLI and forex gains/ losses). The increasing mix of industrial and healthcare segments and higher exports may boost margins in the rest of FY25.
- **Exports** accounted for ~16% of total sales in 1QFY25. SYRMA expects exports of ~INR10-11b in FY25 (~20-25% YoY growth), with an aim to take exports to 1/3rd of sales in the longer run.
- **Capex:** SYRMA expects to spend ~INR1.35-1.4b on capex in FY25 (INR700-750m already spent in 1Q). The major portion of capex (INR1b) will be incurred for Pune facility, while the rest will be for Germany facility (prototyping and assembly lines).

Bloomberg	SYRMA IN
Equity Shares (m)	178
M.Cap.(INRb)/(USDb)	76 / 0.9
52-Week Range (INR)	705 / 386
1, 6, 12 Rel. Per (%)	-13/-34/-33
12M Avg Val (INR M)	479

Financials & Valuations (INR b)

Y/E Mar	FY24	FY25E	FY26E
Sales	31.5	45.8	61.8
EBITDA	2.0	2.9	4.3
Adj. PAT	1.1	1.6	2.7
EBITDA Margin (%)	6.3	6.4	7.0
Cons. Adj. EPS (INR)	6.1	9.0	15.4
EPS Gr. (%)	-9.3	47.1	70.6
BV/Sh. (INR)	90.9	98.4	112.3

Ratios

Net D:E	0.3	0.2	0.1
RoE (%)	6.9	9.5	14.6
RoCE (%)	7.5	9.8	14.4

Valuations

P/E (x)	70	47	28
EV/EBITDA (x)	41	27	19

Shareholding pattern (%)

As on	Jun-24	Mar-24	Jun-23
Promoter	46.9	46.9	47.3
DII	6.5	5.8	9.2
FII	10.4	13.0	9.3
Others	36.2	34.4	34.2

Note: FII includes depository receipts

Valuation and view

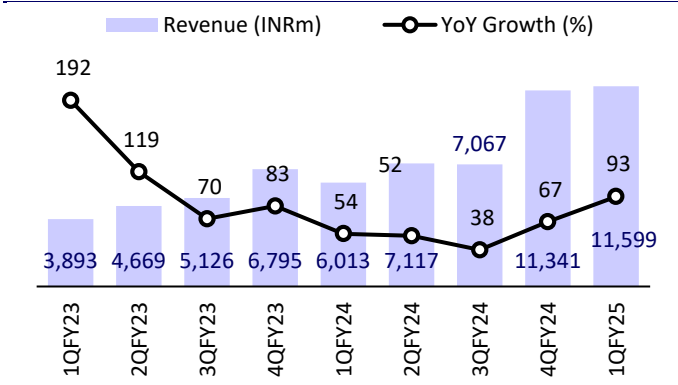
- SYRMA should significantly benefit from the rapid growth in the electronic systems design and manufacturing (ESDM) industry, given its: 1) rich experience of over three decades, 2) a strong order book of INR45b, 3) growing exports, and 4) strong executional capabilities.
- We estimate a CAGR of 40%/48%/58% in revenue/EBITDA/adj. PAT over FY24-26, driven by a robust revenue growth and a healthy order book.
- Factoring in the 1QFY25 performance, we have lowered our EPS estimate for FY25 by 7% while maintaining FY26E EPS. We retain our BUY rating on the stock with a TP of INR540 (35x FY26E EPS).

Consolidated - Quarterly Earning Model

Y/E March	FY24				FY25				FY24	FY25	FY25E	(INR m)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	Var %
Gross Sales	6,013	7,117	7,067	11,341	11,599	11,032	9,753	13,382	31,538	45,766	10,042	16
YoY Change (%)	54.4	52.4	37.9	66.9	92.9	55.0	38.0	18.0	54.0	45.1	47.8	
Total Expenditure	5,644	6,627	6,679	10,604	11,153	10,404	9,073	12,213	29,554	42,842	9,488	
EBITDA	369	490	388	737	446	628	680	1,170	1,984	2,923	554	-20
Margins (%)	6.1	6.9	5.5	6.5	3.8	5.7	7.0	8.7	6.3	6.4	5.5	
Depreciation	101	116	139	158	174	176	180	182	515	712	160	
Interest	75	80	100	123	130	115	100	86	378	431	115	
Other Income	221	89	121	156	153	165	180	177	587	675	150	
PBT before EO expense	413	383	270	612	295	502	580	1,078	1,678	2,455	429	
Extra-Ord expense	0	14	0	0	0	0	0	0	14	0	0	
PBT	413	370	270	612	295	502	580	1,078	1,664	2,455	429	
Tax	130	64	67	160	91	126	146	271	421	635	108	
Rate (%)	31.5	17.4	24.8	26.1	31.0	25.2	25.2	25.2	25.3	25.9	25.2	
Minority Interest & Profit/Loss of Asso. Cos.	-2	22	48	103	10	70	85	56	170	222	55	
Reported PAT	285	283	155	349	193	306	349	751	1,073	1,598	266	
Adj PAT	285	297	155	349	193	306	349	751	1,087	1,598	266	-27
YoY Change (%)	84.0	4.8	-53.2	-17.4	-32.3	3.0	124.7	114.9	-8.9	47.1	-37.1	
Margins (%)	4.7	4.2	2.2	3.1	1.7	2.8	3.6	5.6	3.4	3.5	2.7	

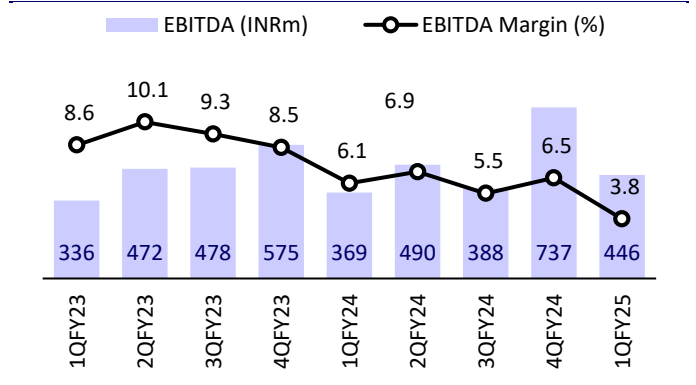
Key exhibits

Exhibit 1: Consolidated revenue trend



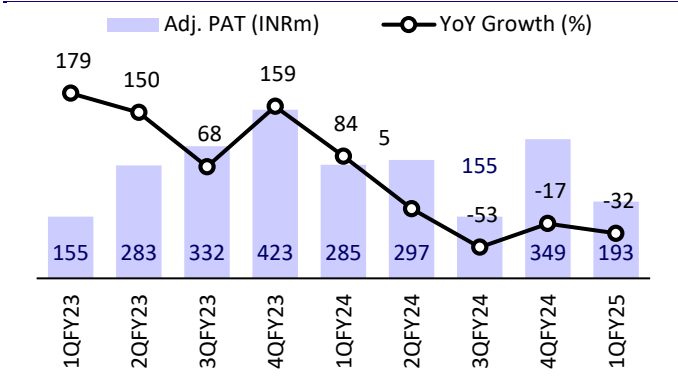
Source: Company, MOFSL

Exhibit 2: Consolidated EBITDA trend



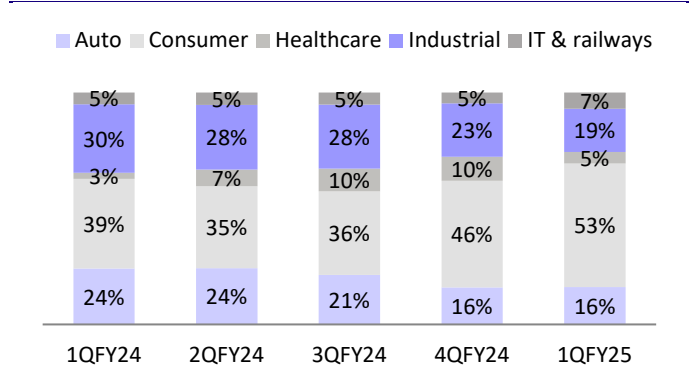
Source: Company, MOFSL

Exhibit 3: Consolidated Adj. PAT trend



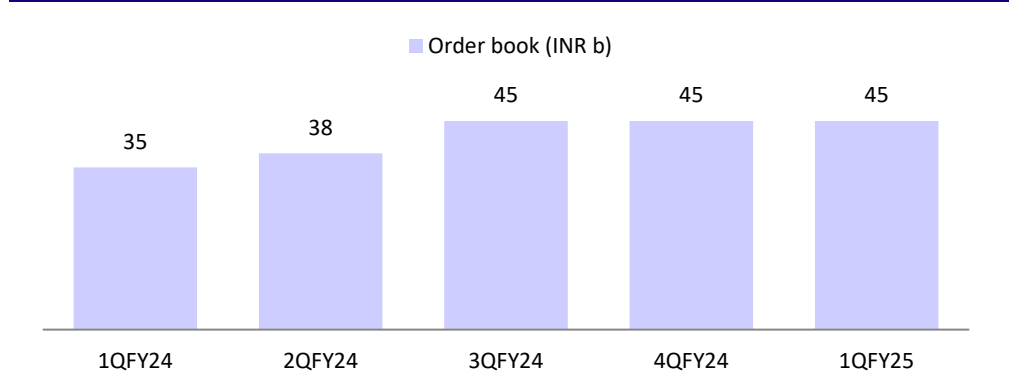
Source: Company, MOFSL

Exhibit 4: End-user industry mix



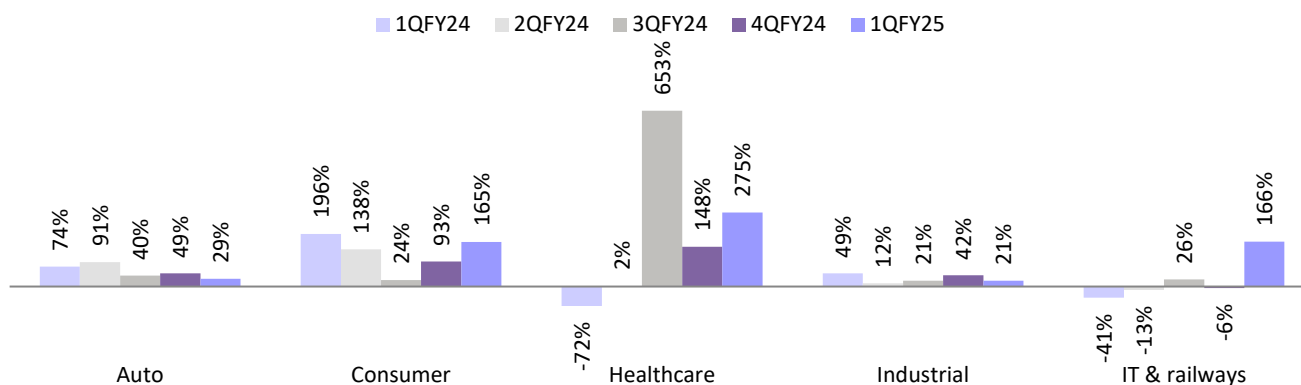
Source: Company, MOFSL

Exhibit 5: Closing order book trend



Source: MOFSL, Company

Exhibit 6: Revenue growth YoY across end-user verticals



Source: MOFSL, Company



Highlights from the management commentary

Operating Performance

- Revenue during the quarter was driven by the consumer segment (majorly by high volume telecom business – Gross/EBITDA margin of ~7-8%/2-3%) and auto segment.
- High-volume telecom business includes fiber-to-home products such as Wi-Fi mesh, outdoor or indoor unit for connectivity, etc.
- The company clocked ~INR1.8b of exports in 1QFY25 (~16% of revenue). Export revenues were subdued in 1Q as orders from existing customers were soft. However, they are bouncing back now.
- ODM sales accounted for ~10% of revenue during the quarter.
- EBITDA margins for 1Q stood at 3.8%. Adjusting for the PLI and forex income, the current quarter EBITDA margin will be ~4.6%.
- SYRMA did not witness margin reduction in any of its verticals. Consolidated margin contraction was driven by product mix only.
- The company witnessed positive CFO during the quarter.

Capacity and Capex

- SYRMA has already spent ~INR700-750m on capex in 1Q and it expects to spend another INR500-700m in the remaining three quarters of FY25. Capex is majorly for Pune and Germany facilities.
- Accordingly, total capex for FY25 is expected to be ~INR1.35-1.4b
- Of this, ~INR1b will be for a new facility in Pune and the rest ~INR350-400m will be allocated to Germany (prototyping and assembly line).
- Average capacity utilization was ~60-65% in 1QFY25.

Outlook and Guidance

- SYRMA maintains revenue growth guidance of ~40-45% in FY25.
- It expects EBITDA of INR3.1-3.2b in FY25 (~7% margins).
- PLI and forex gain/losses are a part of business and included in the guidance given by the company.
- The company expects a ramp-up in business from new customers from next quarter onward.
- The increase in industrials and healthcare segments and an increasing mix of exports will boost margins for FY25.

- SYRMA expects the order pipeline to keep growing healthily by FY25 end.
- The company aims to sustain working capital days to ~60 days by end of the year.

Expected business mix in FY25

- Full-year revenue mix of consumer segment will be ~40% in FY25 (based on the order book and pipeline). Out of this, telecom business is expected to generate revenue of ~INR15b, with the rest of the business coming from non-telecom segments.
- SYRMA expects ~INR2b of revenue from smart metering orders in FY25. This business has better gross margins (~20%).

Exports

- The company expects exports of ~INR10-11b in FY25, with the share of exports to total sales likely to increase to ~25% going ahead and 1/3rd in the longer run. RFID healthcare accounted for a significant portion of exports.
- The US accounted for ~55-60% of the exports, while EU accounted for ~40% of the total exports.

Healthcare Business

- Healthcare business is expected to clock over INR3.5b of revenues in FY25. It has two businesses – RFID healthcare business and medical devices business. Medical devices business was low in 1Q and is expected to increase going ahead.
- Johari Digital clocked ~INR110-120m of revenue and EBITDA of ~INR10m during the quarter due to seasonality.

Order Book

- The current order book stood at over INR45b as of Jun'24.
- Order book breakup: 23-25% from Auto segment; 30-40% from consumer; 22-25% Industrial, 6-7% healthcare, balance is from IT & Railways
- Order intake is mainly from Consumer, Auto and Industrials.
- Consumer order intake (excluding ODM consumer business) during the quarter was ~INR4b. Automotive/industrial/healthcare order inflows during the quarter stood at ~INR4b/INR3.6b/INR1.3b, with IT & other segments accounting for the rest of the orders.
- During the quarter, the company has also received an order for design of medical devices from a global company. This will result in healthcare mix going up in coming years.

Others

- Within automotive segment, ~60% of the sales come from EV business (battery management and engine control), while ICE accounts for the rest 40% of the sales. The company has on-boarded three new customers in Auto.
- Syrma aims to be a design led manufacturing company with a significant portion of revenue coming from Industrial, Automotive and Healthcare segment in longer run.
- The company's new design center is expected to go on stream by later this month.

- SYRMA has received a telecom PLI claim of INR40m related to FY23 claims and another INR150-160m is expected to be received in FY25 relating to FY24 claim. Total PLI for FY25 will be ~INR200m (which will be a part of revenue/ EBITDA).

Valuation and View

- SYRMA should significantly benefit from the rapid growth in the 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 40%/48%/58% in revenue/EBITDA/adj. PAT over FY24-26, driven by a robust revenue growth and a healthy order book.
- Factoring in the 1QFY25 performance, we have lowered our EPS estimates for FY25 by 7% while maintaining FY26E EPS. We retain our BUY rating on the stock with a TP of INR540 (35x FY26E EPS).

Exhibit 7: Changes to our estimates

Earnings change (INR m)	Old		New		Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	44,784	60,458	45,766	61,784	2%	2%
EBITDA	3,056	4,353	2,923	4,325	-4%	-1%
Adj. PAT	1,727	2,709	1,598	2,726	-7%	1%

Financials and valuations

Consolidated - Income Statement							(INRm)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	8,621	8,858	12,667	20,484	31,538	45,766	61,784
Change (%)	143.5	2.8	43.0	61.7	54.0	45.1	35.0
RM Cost	5,847	6,276	9,408	15,405	25,069	36,413	48,500
Employees Cost	748	781	823	1,060	1,426	2,019	2,780
Other Expenses	731	786	1,148	2,142	3,059	4,410	6,178
Total Expenditure	7,325	7,842	11,380	18,606	29,554	42,842	57,459
% of Sales	85.0	88.5	89.8	90.8	93.7	93.6	93.0
EBITDA	1,295	1,016	1,287	1,878	1,984	2,923	4,325
Margin (%)	15.0	11.5	10.2	9.2	6.3	6.4	7.0
Depreciation	191	228	249	312	515	712	761
EBIT	1,105	789	1,038	1,566	1,469	2,212	3,564
Int. and Finance Charges	154	97	108	216	378	431	309
Other Income	183	177	178	437	587	675	803
PBT bef. EO Exp.	1,134	869	1,108	1,787	1,678	2,455	4,058
EO Items	0	0	0	0	-14	0	0
PBT after EO Exp.	1,134	869	1,108	1,787	1,664	2,455	4,058
Total Tax	219	213	343	556	421	635	1,021
Tax Rate (%)	19.3	24.5	31.0	31.1	25.3	25.9	25.2
Minority Interest	31	25	42	38	170	222	310
Reported PAT	884	630	722	1,193	1,073	1,598	2,726
Adjusted PAT	884	630	722	1,193	1,087	1,598	2,726
Change (%)	321.5	-28.7	14.5	65.2	-8.9	47.1	70.6
Margin (%)	10.3	7.1	5.7	5.8	3.4	3.5	4.4

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	15,684	18,144
Net Worth	4,275	5,992	5,721	15,403	16,126	17,458	19,918
Minority Interest	2	6	108	26	644	866	1,176
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	22,763	25,034
Gross Block	2,089	2,264	3,233	4,821	8,134	8,968	10,305
Less: Accum. Deprn.	191	405	635	947	1,462	2,174	2,935
Net Fixed Assets	1,898	1,858	2,597	3,874	6,672	6,795	7,370
Goodwill on Consolidation	1,059	1,059	1,182	1,182	3,221	3,221	3,221
Capital WIP	12	0	408	253	168	734	897
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	26,899	33,561
Inventory	1,419	1,789	2,913	5,874	10,043	12,470	15,945
Account Receivables	1,804	2,084	2,722	4,032	9,301	9,028	12,187
Cash and Bank Balance	780	729	369	544	856	824	486
Loans and Advances	588	763	940	1,151	6,215	4,577	4,943
Curr. Liability & Prov.	2,338	2,509	3,407	6,377	14,185	15,303	20,434
Account Payables	1,707	1,848	2,405	4,881	12,232	12,470	16,610
Other Current Liabilities	506	554	857	1,362	1,778	2,580	3,483
Provisions	125	108	145	134	174	253	341
Net Current Assets	2,253	2,856	3,538	5,226	12,230	11,595	13,127
Misc Expenditure	0	0	0	0	0	0	0
Appl. of Funds	5,523	7,089	8,136	19,035	22,710	22,764	25,034

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	9.0	15.4
Cash EPS	7.8	6.2	7.1	8.5	9.0	13.0	19.7
BV/Share	31.1	43.5	41.6	87.1	90.9	98.4	112.3
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	16.7	9.8
Valuation (x)							
P/E	66.6	93.4	81.5	63.4	69.9	47.5	27.8
Cash P/E	54.8	68.6	60.6	50.2	47.4	32.9	21.8
P/BV	13.8	9.8	10.3	4.9	4.7	4.3	3.8
EV/Sales	6.9	6.7	4.8	3.8	2.6	1.7	1.3
EV/EBITDA	45.8	58.2	47.2	41.4	40.9	27.3	18.5
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	8.4	-0.4
Return Ratios (%)							
RoE	35.8	12.3	12.3	11.3	6.9	9.5	14.6
RoCE	29.4	11.7	11.2	10.3	7.5	9.8	14.4
RoIC	31.1	12.6	11.9	12.9	7.1	7.8	12.1
Working Capital Ratios							
Fixed Asset Turnover (x)	4.1	3.9	3.9	4.2	3.9	5.1	6.0
Asset Turnover (x)	1.6	1.2	1.6	1.1	1.4	2.0	2.5
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)							
Current Ratio	2.0	2.1	2.0	1.8	1.9	1.8	1.6
Interest Cover Ratio	7.2	8.1	9.6	7.3	3.9	5.1	11.5
Net Debt/Equity	0.1	0.1	0.3	0.1	0.3	0.2	0.1

Consolidated - 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	2,455	4,058
Depreciation	191	228	249	312	515	712	761
Interest & Finance Charges	117	52	54	-222	378	-243	-494
Direct Taxes Paid	-207	-220	-289	-556	-540	-635	-1,021
(Inc)/Dec in WC	301	-499	-1,212	-2,140	-2,804	603	-1,870
CF from Operations	1,535	430	-90	-818	-786	2,891	1,434
Others	23	-58	-36	115	-350	0	0
CF from Operating incl EO	1,558	371	-126	-703	-1,136	2,891	1,434
(Inc)/Dec in FA	-479	-187	-901	-1,433	-3,370	-1,400	-1,500
Free Cash Flow	1,079	184	-1,027	-2,136	-4,506	1,491	-66
(Pur)/Sale of Investments	-20	-51	11	0	-2,300	0	0
Others	42	-888	-2,844	-7,711	5,388	675	803
CF from Investments	-457	-1,127	-3,734	-9,144	-282	-725	-697
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	-431	-309
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	-2,198	-1,075
Inc/Dec of Cash	508	-51	-360	175	312	-32	-338
Opening Balance	143	780	729	369	544	856	824
Other cash & cash equivalent	130	0	0	0			
Closing Balance	780	729	369	544	856	824	486

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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

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