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Company update

White Goods & Durables

Target price Rs350

Shareholding pattern

	Sep '22
Promoters	47.4
Institutional investors	11.6
MFs and others	7.5
FI/Banks	0.0
FII	4.1
Others	41.0

Source: NSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	-
Environment	NA	NA	-
Social	NA	NA	-
Governance	NA	NA	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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INDIA



Syrma SGS Technology

BUY
Maintain

Rs271

Strong growth momentum to continue

With recovery in auto production and electric vehicles, we expect demand for PCBA to increase resulting in higher domestic sales for Syrma. With correction in input prices, we model its margins to improve and inventory days to reduce. We believe there is still no material impact of China covid wave on the supply chain (China being a key country for sourcing raw materials). However, we do expect exports to be hit in the near term due to steep inflation and likely recession in the developed countries.

We forecast Syrma to gain market shares as well as wallet shares in the PCBA and RFID segments. We also model EBITDA margin expansion over FY22-FY25E on the back of operating leverage, benefits of PLI schemes and correction in input prices. We model revenue and PAT CAGRs of 33.3% and 47.9% respectively over FY22-FY25E. **Maintain BUY with a DCF-based TP of Rs350 (implied 25x FY25E EPS).**

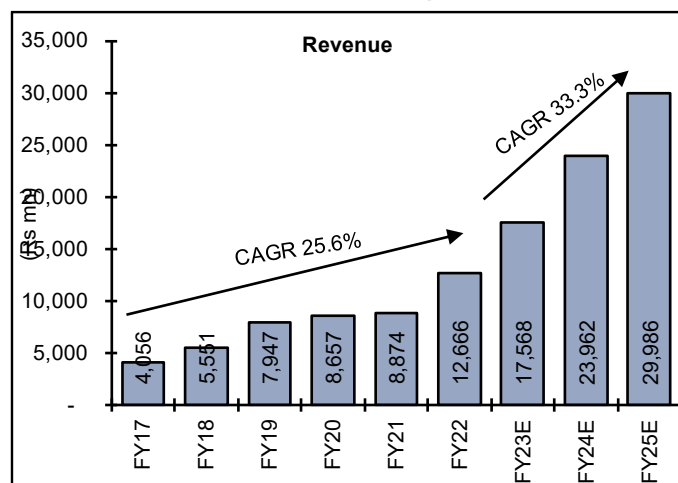
- **Healthy growth in domestic business:** With revival in automotive production and growth in production of electric vehicles, demand for PCBA is likely to increase resulting in higher growth for Syrma. However, flat demand for white goods and durables may impact growth in the near term.
- **Margin improvement and working capital reduction:** With correction in raw material prices as well as easing of supply chain post covid, Syrma will be able to reduce the excess investments in inventory. We model inventory days to correct to 75 in FY24 from 85 as at end of FY22. We also model EBITDA margins to expand to 12.2% in FY24E from 9.9% in FY22.
- **No material impact on RM sourcing despite covid wave in China:** Majority of raw materials for EMS companies including Syrma are sourced from China, Taiwan and other South-East Asian countries. However, there is still no impact of the rise in covid cases in China on the supply chain.
- **Likely near-term impact on exports:** We model Syrma's exports to grow at a softer pace in H2FY23E and H1FY24E due to steep inflationary pressures in the developed markets as well as the possibility of recession. However, with steep inflationary pressures and higher costs in those markets, the scope for outsourcing will likely increase and benefit Syrma in the medium-to-long term.
- **Maintain BUY:** We model revenue and PAT CAGRs of 33.3% and 47.9% respectively over FY22-FY25E, with RoE higher than the cost of capital. **Maintain BUY** with a DCF-based target price of Rs350 (implied 25x FY25E EPS). **Key risks:** Failure of some of the new products and sharp increase in commodity prices.

Market Cap	Rs47.9bn / US\$582mn	Year ending Mar	FY22	FY23E	FY24E	FY25E
Reuters/Bloomberg	SYRMA IN	Revenue (Rs mn)	12,666	17,568	23,962	29,986
Shares Outstanding (mn)	176.8	Adjusted PAT (Rs mn)	765	1,361	2,012	2,471
52-week Range (Rs)	343/249	Dil. Rec. EPS (Rs)	5.6	7.7	11.4	14.0
Free Float (%)	52.6	% Chg YoY	(36.6)	39.0	47.8	22.8
FII (%)	4.1	P/E (x)	48.8	35.1	23.7	19.3
Daily Volume (US\$/'000)	NA	CEPS (Rs)	7.4	9.9	14.1	17.7
Absolute Return 3m (%)	(8.9)	EV/EBITDA (x)	30.8	25.2	17.0	13.4
Absolute Return 12m (%)	NA	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	3.8	RoCE (%)	13.6	12.5	13.4	14.7
Sensex Return 12m (%)	0.8	RoE (%)	13.3	12.4	11.8	12.8

Please refer to important disclosures at the end of this report

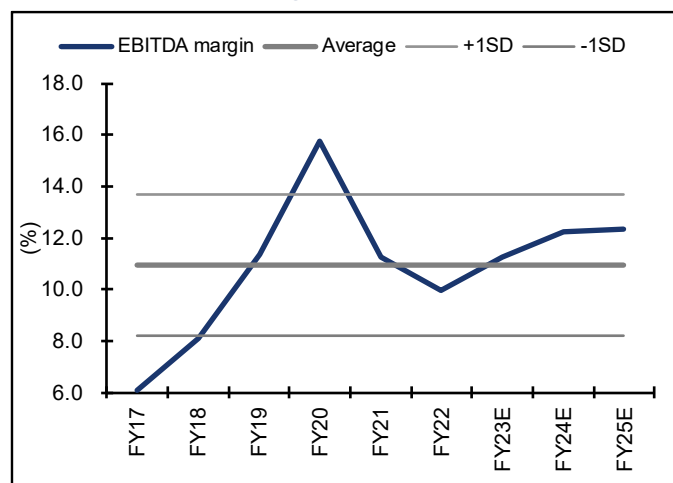
Key ratios – Annual

Chart 1: Revenue and revenue growth



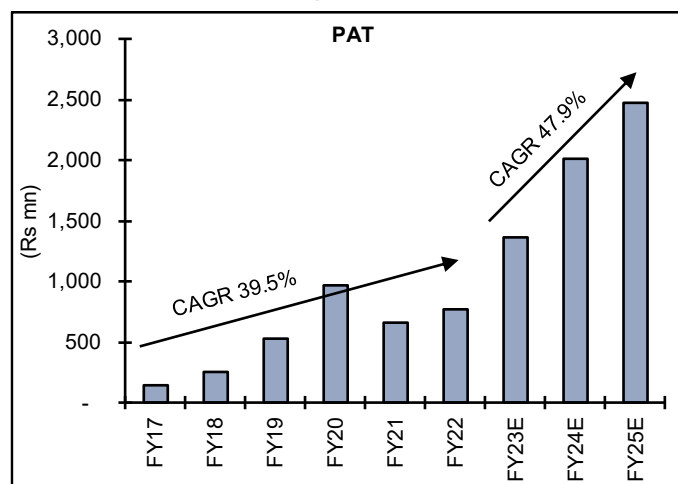
Source: Company data, I-Sec research

Chart 2: EBITDA margin



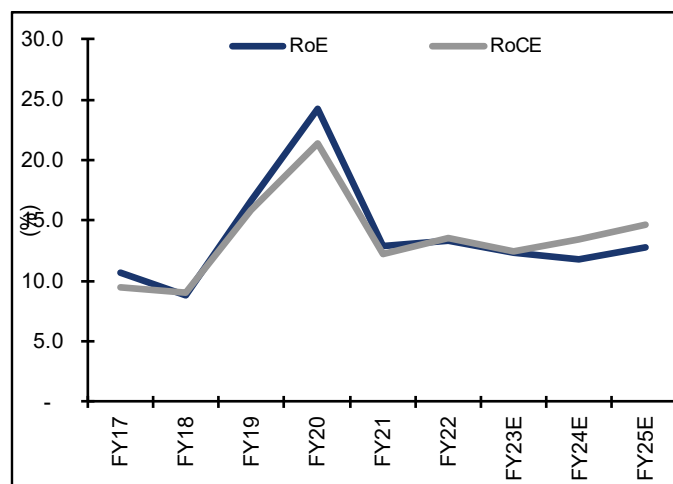
Source: Company data, I-Sec research

Chart 3: PAT and PAT growth



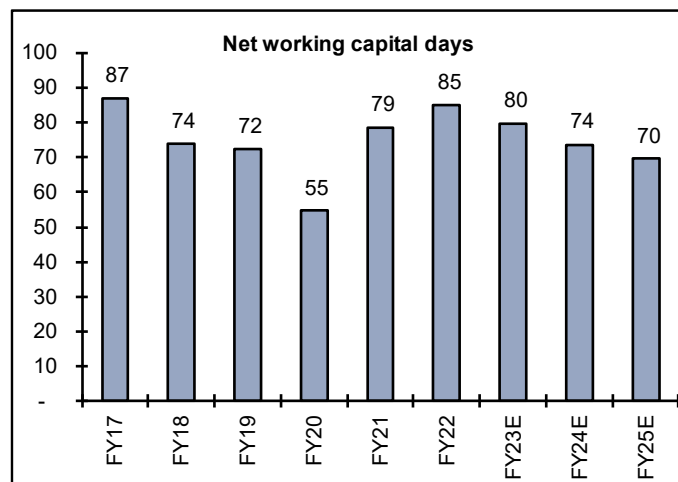
Source: Company data, I-Sec research

Chart 4: RoE and RoCE



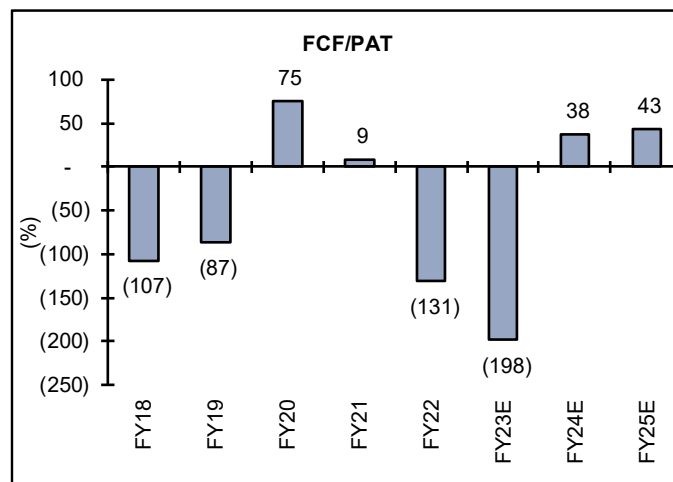
Source: Company data, I-Sec research

Chart 5: Net working capital days



Source: Company data, I-Sec research

Chart 6: FCF/PAT (%)



Source: Company data, I-Sec research

Valuation and risks

We model Syrma to report revenue and PAT CAGRs of 33.3% and 47.9% over FY22-FY24E and RoCE to move to 14.7% in FY25E from 13.6% in FY22. At our DCF-based target price of Rs350, the implied P/E works out to 25x FY25E EPS. Maintain **BUY**.

Table 1: DCF-based valuation

Particulars	Amt (Rs)
Cost of Equity (%)	11.5
Terminal growth rate (%)	4.0
Discounted interim cash flows (Rs mn)	20,469
Discounted terminal value (Rs mn)	41,211
Total equity value (Rs mn)	61,680
Value per share (Rs)	350

Source: Company data, I-Sec research

Risks

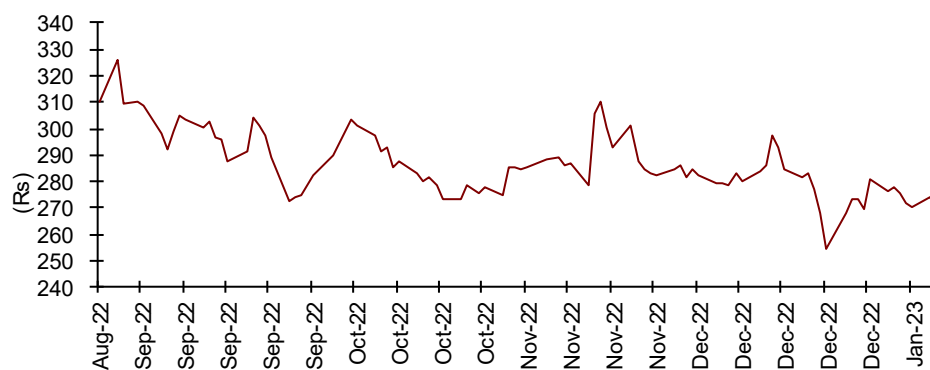
Sharp increase in input prices and competitive pressures

Major increase in input prices and/or increase in competitive pressures will likely 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.

Price chart



Source: Bloomberg

Financial summary (consolidated)

Table 2: Profit and Loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Net Sales	12,666	17,568	23,962	29,986
Operating Expenses	11,326	15,478	20,872	26,086
EBITDA	1,260	1,975	2,933	3,703
% margins	9.9	11.2	12.2	12.3
Depreciation & Amortisation	249	386	475	653
Gross Interest	80	92	54	62
Other Income	177	430	445	513
Recurring PBT	1,108	1,927	2,849	3,500
Less: Taxes	343	567	838	1,029
Less: Minority Interest	-	-	-	-
Net Income (Reported)	765	1,361	2,012	2,471
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	765	1,361	2,012	2,471

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Assets				
Total Current Assets of which cash & cash eqv.	6,650	13,450	16,528	20,181
	369	5,142	5,607	6,871
Total Current Liabilities & Provisions	3,325	4,469	6,083	7,594
Net Current Assets	3,324	8,981	10,445	12,587
Investments	1,890	2,126	2,337	2,465
Net Fixed Assets	2,372	4,842	5,459	7,181
Capital Work-in-Progress	629	1,350	1,092	-
Total Assets	8,216	17,298	19,334	22,233
Liabilities				
Borrowings	2,264	1,226	1,250	1,678
Deferred Tax Liability	123	123	123	123
Minority Interest	-	-	-	-
Equity Share Capital	1,376	1,762	1,762	1,762
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus*	4,453	14,187	16,199	18,670
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	5,829	15,950	17,961	20,433
Total Liabilities	8,216	17,298	19,334	22,233

Source: Company data, I-Sec research

Table 4: Quarterly trend

(Rs mn, year ending March 31)

	June 21	Sept 21	June 22	Sept 22
Net sales	1,332	2,136	3,893	4,669
% growth (YoY)	-	-	192.3	118.6
EBITDA	101	202	336	472
Margin (%)	7.6	9.5	8.6	10.1
Other income	21	21	24	79
Extraordinaries (Net)	14	10	(0)	(3)
Adjusted Net profit	69	123	155	281

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Operating Cashflow	1,163	1,747	2,487	3,125
Working Capital Changes	(1,033)	(864)	(889)	(777)
Capital Commitments	(1,129)	(3,577)	(835)	(1,283)
Free Cashflow	(999)	(2,694)	763	1,064
Cashflow from Investing Activities	(14)	(236)	(211)	(128)
Issue of Share Capital	(365)	8,760	-	-
Inc (Dec) in Borrowings	1,017	(1,058)	(86)	328
Dividend paid	-	-	-	-
Change in Deferred Tax Liability	-	-	-	-
Chg. in Cash & Bank balance	(359)	4,773	465	1,264

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Per Share Data (Rs)				
EPS	5.6	7.7	11.4	14.0
Cash EPS	7.4	9.9	14.1	17.7
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	43.2	91.2	102.6	116.6
Growth (%)				
Net Sales	42.7	38.7	36.4	25.1
EBITDA	26.1	56.8	48.5	26.2
PAT	16.7	78.0	47.8	22.8
Cash EPS	14.8	72.3	42.3	25.7
Valuation Ratios (x)				
P/E	48.8	35.1	23.7	19.3
P/CEPS	36.8	27.3	19.2	15.3
P/BV	6.3	3.0	2.6	2.3
EV / EBITDA	30.8	25.2	17.0	13.4
EV / Sales	3.1	2.8	2.1	1.7
Operating Ratios				
Raw Material / Sales (%)	77.1	77.9	78.3	79.0
Employee cost / Sales (%)	5.9	4.8	4.0	3.6
SG&A / Sales (%)	0.7	0.7	0.7	0.7
Other Income / PBT (%)	16.0	22.3	15.6	14.6
Effective Tax Rate (%)	31.0	29.4	29.4	29.4
Working Capital (days)	85.2	79.8	73.7	69.6
Inventory Turnover (days)	83.9	75.9	72.1	68.4
Receivables (days)	78.4	80.5	80.5	80.5
Payables (days)	94.7	90.9	91.2	91.1
Net D/E (x)	0.3	(0.3)	(0.3)	(0.3)
Profitability Ratios (%)				
Net Income Margins	6.0	7.7	8.4	8.2
RoACE	13.6	12.5	13.4	14.7
RoAE	13.3	12.4	11.8	12.8
Dividend Payout	-	-	-	-
Dividend Yield	-	-	-	-
EBITDA Margins	9.9	11.2	12.2	12.3

Source: Company data, I-Sec research

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