

06 December 2023

India | Equity Research | Company Update

Syrma SGS Technology

White Goods

CXO 1x1: Jasbir Singh Gujral, Managing Director

We met Jasbir Singh Gujral, Managing Director, Syrma SGS. Takeaways: (1) The company is evaluating opportunities in the field of Outsourced Semiconductor Assembly and Test (OSAT). The company will benefit from the subsidies offered by the governments as it could potentially make this business line RoCE attractive. (2) It is likely to add new global clients, thereby continuing growth in the export market (>20% CAGR over FY24-26, in our view). (3) Syrma is aiming to on-board IT OEM customers for end-to-end assembly capabilities. (4) It is aiming to fund capex via remaining IPO proceeds and internal accruals. We expect Syrma to continue outperforming its peers given strong visibility on the order book. We remain constructive – maintain **BUY** with a DCF-based TP of INR 711 (implied P/E of 57x FY25E).

Contemplating entry in OSAT – a new business stream

Syrma is contemplating an entry in OSAT the business. It will be a new line of business but considering the availability of central and state subsidies, there is potential to generate RoCE > cost of capital. Syrma has formed a subsidiary named Syrma Semicon Private Limited (SSPL), which will engage in the semiconductor business if the company plans to enter OSAT business. We believe the company needs to evaluate and develop opportunities in technology, JV partner, supply chain management and possibility of selling new generation products.

Export likely to maintain pace

In spite of the weakness in Healthcare segment, Syrma's export revenues segment grew 17% YoY in H1FY24. Considering the decline / low-single-digit growth in end-user consumption, we believe 17% growth is commendable. Syrma has entered into a contract with a USA-based engineering MNC and is likely to begin exports by H1FY25. We model Syrma's export revenue CAGR of 20%+ over FY24-26.

Update on capex

Syrma aims to fund its capex until FY25 from remaining IPO proceeds as well as internal accruals. The capex intensity thereafter will likely moderate and additional capex will be required only for the addition of assembly lines. We assess the company has built capabilities to generate INR 50bn revenue post completion capex over FY24-25. We believe the working capital days are also likely to be stable/ lower ahead with stability in global supply chain.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	20,484	30,931	41,432	55,715
EBITDA	1,878	2,351	3,252	4,513
EBITDA Margin (%)	9.2	7.6	7.8	8.1
Net Profit	1,193	1,625	2,210	3,077
EPS (INR)	6.8	9.2	12.5	17.4
EPS % Chg YoY	21.5	36.2	36.0	39.3
P/E (x)	87.4	64.2	47.2	33.9
EV/EBITDA (x)	52.9	42.5	30.8	22.3
RoCE (%)	7.9	7.2	9.3	11.8
RoE (%)	11.2	10.0	12.2	14.8

Aniruddha Joshi

aniruddha.joshi@icicisecurities.com
+91 22 6807 7249

Karan Bhuwania

karan.bhuwania@icicisecurities.com

Nilesh Patil

nilesh.patil@icicisecurities.com

Market Data

Market Cap (INR)	105bn
Market Cap (USD)	1,258mn
Bloomberg Code	SYRMA IN
Reuters Code	SYRM.BO
52-week Range (INR)	665 /248
Free Float (%)	32.0
ADTV-3M (mn) (USD)	7.6

Price Performance (%)	3m	6m	12m
Absolute	5.8	52.9	111.9
Relative to Sensex	5.9	11.7	12.7

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

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

Source: Bloomberg, I-sec research

Previous Reports

02-11-2023: [Q2FY24 results review](#)

03-08-2023: [Q1FY24 results review](#)

Likely to on-board an IT OEM

The company has built capabilities to assemble entire laptops. It already has proven the abilities to prepare mother board PCBA. We model localisation of laptops will be a key growth driver for the company. PLIs for IT hardware will also help the company to secure clients.

Weakness in healthcare business is transient

The healthcare business is likely to post flattish growth in FY24 while the long-term growth outlook is intact. While there was a reduction in orders from a large customer, there is some revival in orders. With the introduction of new products, the company is likely to see higher growth in FY25.

Johari business had a relatively smaller base. Hence, growth rates (in % terms) were strong in FY21-23. The run-rate still remains healthy for Johari. The company aims to hold its 51% controlling stake in Johari and does not aim to acquire additional share in near future.

EV business continues to expand

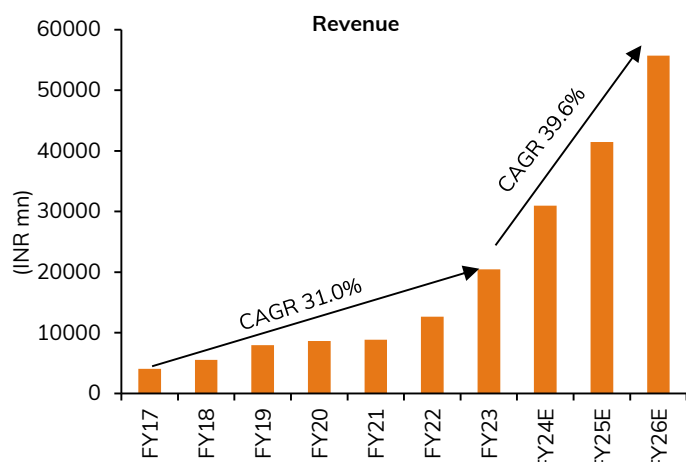
EV business contributes 40-45% of total automotive segment revenues. TVS Motors is a key client for Syrma in the EV business and it is a tier-1 supplier to TVS. While TVS may add more vendors, Syrma is likely to hold a dominant wallet share. The company has tied-up with multiple other clients in EV charger, battery and engine control segments. The segment is likely to post ~35% revenue growth in FY24.

Retain BUY

We expect the revenue growth momentum to continue in the near term with reasonable EBITDA margin. We model Syrma to report revenue and PAT CAGR of 42.2% and 36.1% over FY23-25, respectively YoY. We maintain **BUY** with a DCF-based target price of INR 711 (implied P/E of 57x FY25E).

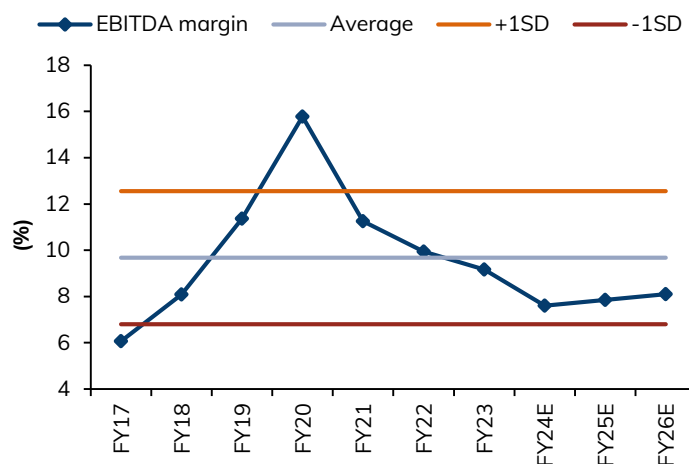
Key charts

Exhibit 1: Revenues and growth rates



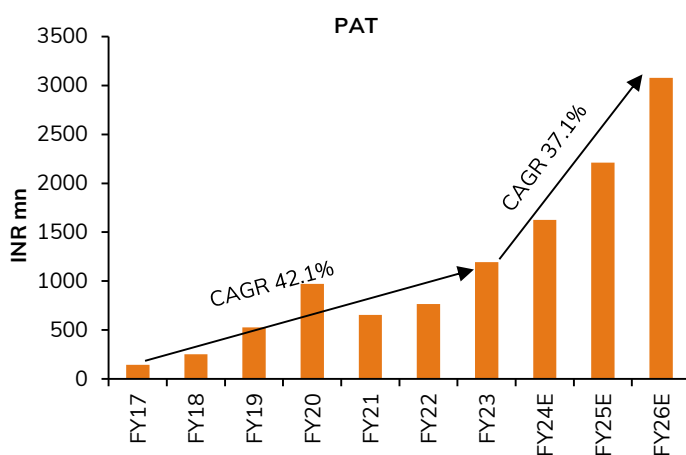
Source: Company data, I-Sec research

Exhibit 2: EBITDA margin



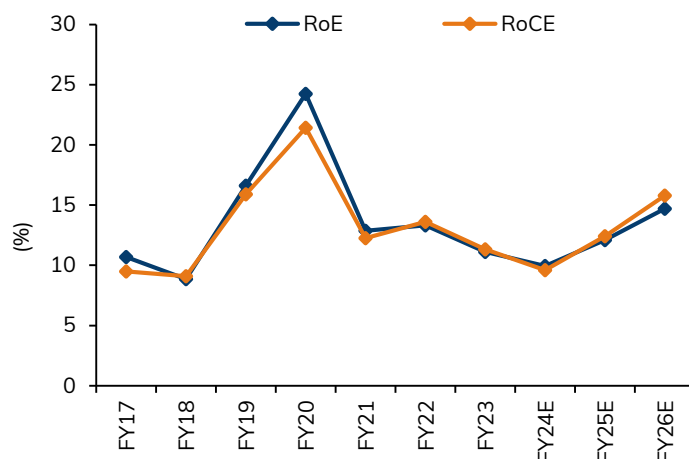
Source: Company data, I-Sec research

Exhibit 3: Net profit and growth rates



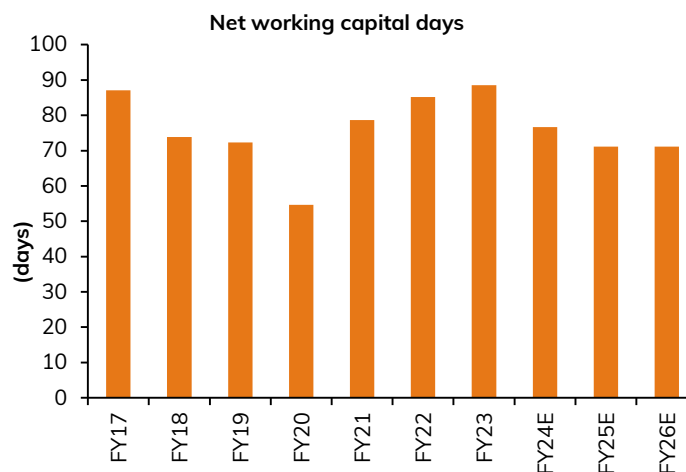
Source: Company data, I-Sec research

Exhibit 4: RoE & RoCE



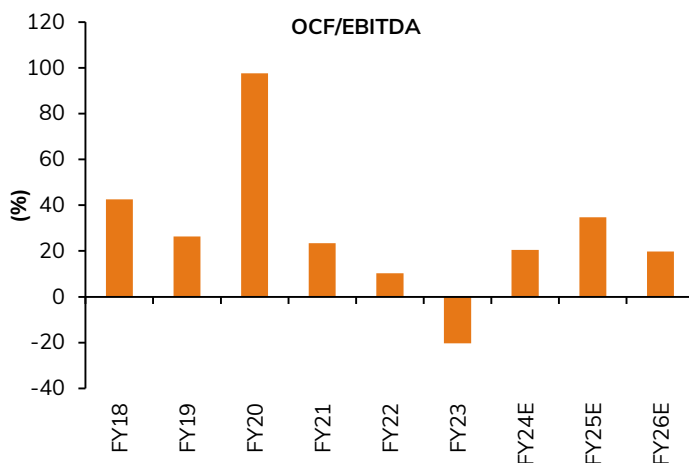
Source: Company data, I-Sec research

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 and PAT CAGRs of 42.2% and 36.1% over FY23-FY25E and RoE to move to 12.2% in FY25E from 11.2% in FY23. At our DCF-based target price of INR 711, the implied P/E works out to 57x FY25E EPS. Maintain **BUY**.

Exhibit 7: DCF-based valuation

Particulars	Amt (INR)
Cost of Equity (%)	12.0%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	41,081
Discounted terminal value (INR mn)	84,655
Total equity value (INR mn)	1,25,736
Value per share (INR)	711

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

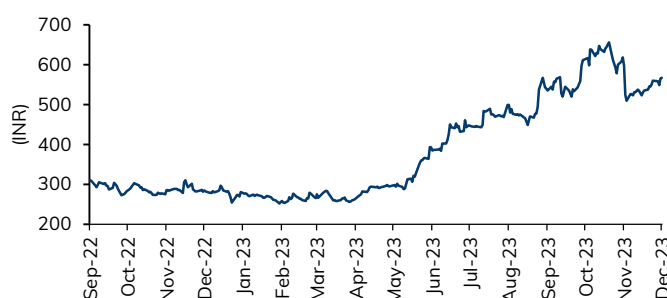
Any delays in launch of new products and/or plants may result in lower earnings than estimated.

Exhibit 8: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	47.3	47.3	47.2
Institutional investors	13.2	18.5	19.8
MFs and other	5.8	6.2	6.0
FIs/ Banks	0.0	0.0	0.0
Insurance Cos.	0.2	0.5	0.7
FIIIs	7.2	11.8	13.1
Others	39.5	34.2	33.0

Source: Bloomberg, I-Sec research

Exhibit 9: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	20,484	30,931	41,432	55,715
Operating Expenses	18,606	28,580	38,180	51,202
EBITDA	1,878	2,351	3,252	4,513
EBITDA Margin (%)	9.2	7.6	7.8	8.1
Depreciation & Amortization	312	408	503	601
EBIT	1,566	1,942	2,750	3,912
Interest expenditure	216	271	271	271
Other Non-operating Income	437	510	488	489
Recurring PBT	1,787	2,181	2,966	4,130
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	556	556	756	1,053
PAT	1,231	1,625	2,210	3,077
Less: Minority Interest	38	-	-	-
Extraordinaries (Net)	16	-	-	-
Net Income (Reported)	1,210	1,625	2,210	3,077
Net Income (Adjusted)	1,193	1,625	2,210	3,077

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	11,484	16,736	21,801	28,485
of which cash & cash eqv.	544	807	1,085	628
Total Current Liabilities & Provisions	5,969	9,434	12,637	16,993
Net Current Assets	5,515	7,302	9,165	11,492
Investments	8,351	7,571	7,071	7,071
Net Fixed Assets	4,142	4,987	5,834	6,583
ROU Assets	-	-	-	-
Capital Work-in-Progress	253	-	-	-
Total Intangible Assets	1,182	1,182	1,182	1,182
Other assets	-	-	-	-
Deferred Tax assests	-	-	-	-
Total Assets	19,443	21,042	23,251	26,328
Liabilities				
Borrowings	3,876	3,876	3,876	3,876
Deferred Tax Liability	138	138	138	138
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	1,768	1,768	1,768	1,768
Reserves & Surplus	13,635	15,260	17,470	20,547
Total Net Worth	15,403	17,028	19,237	22,314
Minority Interest	26	-	-	-
Total Liabilities	19,443	21,042	23,251	26,328

Source Company data, I-Sec research

Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	5,126	6,795	6,013	7,117
% growth (YOY)	69.9	83.1	54.4	52.4
EBITDA	478	592	369	490
Margin %	9.3	8.7	6.1	6.9
Other Income	118	216	221	89
Extraordinaries	(3)	22	(13)	(12)
Adjusted Net Profit	342	429	283	319

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	(381)	482	1,129	893
Working Capital Changes	(1,929)	(1,525)	(1,584)	(2,785)
Capital Commitments	(1,665)	(1,000)	(1,350)	(1,350)
Free Cashflow	(2,047)	(518)	(221)	(457)
Other investing cashflow	(7,643)	780	500	-
Cashflow from Investing Activities	(9,308)	(220)	(850)	(1,350)
Issue of Share Capital	8,760	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	1,612	-	-	-
Dividend paid	-	-	-	-
Others	-	-	-	-
Cash flow from Financing Activities	10,372	-	-	-
Chg. in Cash & Bank balance	683	262	279	(457)
Closing cash & balance	617	807	1,085	628

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	6.8	9.2	12.5	17.4
Adjusted EPS (Diluted)	6.8	9.2	12.5	17.4
Cash EPS	8.5	11.5	15.3	20.8
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	87.1	96.3	108.8	126.2
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	61.7	51.0	34.0	34.5
EBITDA	49.0	25.2	38.4	38.8
EPS (INR)	21.5	36.2	36.0	39.3
Valuation Ratios (x)				
P/E	87.4	64.2	47.2	33.9
P/CEPS	69.3	51.3	38.5	28.4
P/BV	6.8	6.1	5.4	4.7
EV / EBITDA	52.9	42.5	30.8	22.3
P / Sales	5.1	3.4	2.5	1.9
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	24.8	23.2	23.5	23.7
EBITDA Margins (%)	9.2	7.6	7.8	8.1
Effective Tax Rate (%)	31.1	25.5	25.5	25.5
Net Profit Margins (%)	6.0	5.3	5.3	5.5
NWC / Total Assets (%)	25.6	30.9	34.7	41.3
Net Debt / Equity (x)	(0.3)	(0.3)	(0.2)	(0.2)
Net Debt / EBITDA (x)	(2.7)	(1.9)	(1.3)	(0.8)
Profitability Ratios				
RoCE (%)	7.9	7.2	9.3	11.8
RoE (%)	11.2	10.0	12.2	14.8
RoIC (%)	7.9	7.2	9.3	11.8
Fixed Asset Turnover (x)	5.1	5.5	6.0	6.7
Inventory Turnover Days	129	123	113	113
Receivables Days	89	83	77	78
Payables Days	131	130	123	124

Source Company data, I-Sec research

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