

BUY

TP: Rs 390 | ▲ 38%

SYRMA SGS

Consumer Durables

20 December 2022

Capacity expansion on course

- Capacity addition on track to meet expected EMS demand boom, with a total of five SMT lines to be added by end-FY23
- Strong demand traction from auto vertical amid EV transition; bright outlook for industrials as well
- Expect Syрма to outpace industry growth backed by a Rs 18bn order book; reiterate BUY, TP Rs 390

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We hosted an investor roadshow with Syрма's senior management. Key takeaways:

Industrial and auto verticals to propel growth: Management indicated that demand from the automobiles segment along with consumer electricals & appliances is witnessing strong traction and expected to fuel growth for the next couple of years. In auto, the transition to electric vehicles remains a key factor behind rising demand for Syрма's core PCBA (printed circuitry board assembly) business. Management also sees high-margin opportunities in the industrial and healthcare segments, and expects to beat industry growth in FY23 with operating margins in early double digits.

Capex on schedule: Given the robust demand and order book, Syрма has embarked on a capacity addition drive. The company has added three surface mounted technology (SMT) lines at a cost of Rs 1bn till date in FY23 & aims to have another two in place during later half. This apart, the greenfield and brownfield capacity additions at Bengaluru, Hosur and Chennai are on track for completion by FY25.

Government push aiding EMS growth: Favourable domestic policies as well as the global China-Pus-One strategy have provided tailwinds to India's electronic manufacturing services (EMS) industry. Syрма believes the manufacturing capabilities of domestic EMS players are now at par with global peers.

Competition to emerge but pricing pressure unlikely in near term: Management anticipates higher competition due to low entry barriers in the business, but believes the large opportunity size will keep pricing pressure at bay in the near term. Besides stronger product design capabilities and a better product mix than peers, Syрма aims to become the supplier of choice for OEMs and expects operating leverage to kick in as revenue generation scales up.

Maintain BUY: We expect Syрма to outpace industry growth given a strong order book (Rs 18bn H1FY23), new product pipeline and capacity addition (for details, see our recent initiation report: [Niche ODM player](#)). We retain BUY and a TP of Rs 390 based on 35x Sep'24E P/E, conservatively set at 15% discount to the industry multiple.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	SYRMA IN/Rs 282
Market cap	US\$ 600.3mn
Free float	53%
3M ADV	US\$ 2.2mn
52wk high/low	Rs 343/Rs 256
Promoter/FPI/DII	47%/4%/8%

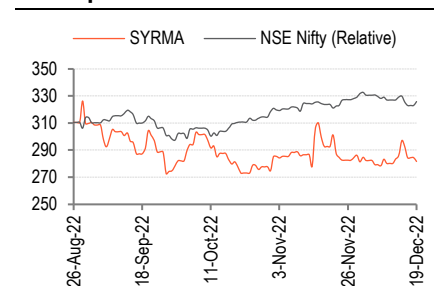
Source: NSE | Price as of 19 Dec 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	12,666	17,391	25,319
EBITDA (Rs mn)	1,260	1,787	2,708
Adj. net profit (Rs mn)	765	1,093	1,661
Adj. EPS (Rs)	4.3	6.2	9.4
Consensus EPS (Rs)	4.3	-	-
Adj. ROAE (%)	13.8	10.3	10.2
Adj. P/E (x)	64.9	45.4	29.9
EV/EBITDA (x)	39.4	27.8	18.3
Adj. EPS growth (%)	16.7	43.0	52.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	8,874	12,666	17,391	25,319	36,236
EBITDA	999	1,260	1,787	2,708	3,875
Depreciation	228	249	354	434	714
EBIT	772	1,010	1,432	2,274	3,161
Net interest inc./(exp.)	(71)	(80)	(157)	(249)	(340)
Other inc./(exp.)	169	177	186	195	205
Exceptional items	0	0	0	0	0
EBT	869	1,108	1,461	2,220	3,026
Income taxes	213	343	368	559	762
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(1)	0	0	0	0
Reported net profit	655	765	1,093	1,661	2,264
Adjustments	0	0	0	0	0
Adjusted net profit	655	765	1,093	1,661	2,264

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	1,902	2,405	4,288	5,896	8,538
Other current liabilities	526	921	1,129	2,081	2,780
Provisions	0	0	0	0	0
Debt funds	925	1,942	3,147	4,975	6,803
Other liabilities	352	554	370	489	653
Equity capital	7	1,376	1,762	1,762	1,762
Reserves & surplus	5,355	4,344	13,838	15,147	17,014
Shareholders' fund	5,363	5,721	15,600	16,909	18,777
Total liab. and equities	9,068	11,542	24,534	30,350	37,550
Cash and cash eq.	1,092	732	9,983	8,054	7,389
Accounts receivables	2,084	2,722	3,335	5,203	7,148
Inventories	1,789	2,913	4,622	6,590	9,431
Other current assets	467	645	1,144	1,526	2,184
Investments	31	47	65	94	135
Net fixed assets	3,304	3,793	4,438	7,504	9,290
CWIP	0	391	536	781	1,117
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	301	299	411	598	856
Total assets	9,068	11,542	24,534	30,350	37,550

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	371	(126)	719	437	874
Capital expenditures	(187)	(901)	(1,000)	(3,500)	(2,500)
Change in investments	(50)	43	(18)	(29)	(41)
Other investing cash flows	(886)	4,849	(441)	(313)	(431)
Cash flow from investing	(1,123)	3,992	(1,459)	(3,842)	(2,971)
Equities issued/Others	1,079	2,715	386	0	0
Debt raised/repaid	(75)	1,021	1,204	1,828	1,829
Interest expenses	0	0	0	0	0
Dividends paid	(288)	85	8,400	(352)	(397)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	716	3,821	9,990	1,476	1,432
Chg in cash & cash eq.	(36)	7,687	9,251	(1,929)	(665)
Closing cash & cash eq.	1,092	732	9,983	8,054	7,389

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	3.7	4.3	6.2	9.4	12.8
Adjusted EPS	3.7	4.3	6.2	9.4	12.8
Dividend per share	0.0	0.0	0.0	2.0	2.3
Book value per share	30.4	32.5	88.5	95.9	106.5

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	5.6	3.9	2.9	2.0	1.4
EV/EBITDA	49.7	39.4	27.8	18.3	12.8
Adjusted P/E	75.7	64.9	45.4	29.9	21.9
P/BV	9.3	8.7	3.2	2.9	2.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	75.4	69.0	74.8	74.8	74.8
Interest burden (PBT/EBIT)	112.6	109.6	102.0	97.7	95.7
EBIT margin (EBIT/Revenue)	8.7	8.0	8.2	9.0	8.7
Asset turnover (Rev./Avg TA)	2.7	3.3	3.9	3.4	3.9
Leverage (Avg TA/Avg Equity)	0.7	0.7	0.4	0.5	0.5
Adjusted ROAE	13.2	13.8	10.3	10.2	12.7

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	2.5	42.7	37.3	45.6	43.1
EBITDA	(26.8)	26.1	41.8	51.6	43.1
Adjusted EPS	(32.5)	16.7	43.0	52.0	36.3

Profitability & Return ratios (%)

EBITDA margin	11.3	9.9	10.3	10.7	10.7
EBIT margin	8.7	8.0	8.2	9.0	8.7
Adjusted profit margin	7.4	6.0	6.3	6.6	6.2
Adjusted ROAE	13.2	13.8	10.3	10.2	12.7
ROCE	11.8	11.6	9.1	9.0	10.6

Working capital days (days)

Receivables	86	78	70	75	72
Inventory	74	84	97	95	95
Payables	78	69	90	85	86

Ratios (x)

Gross asset turnover	2.5	3.1	3.5	3.5	3.6
Current ratio	1.8	1.3	2.3	1.7	1.5
Net interest coverage ratio	10.8	12.7	9.1	9.1	9.3
Adjusted debt/equity	0.2	0.3	0.2	0.3	0.4

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

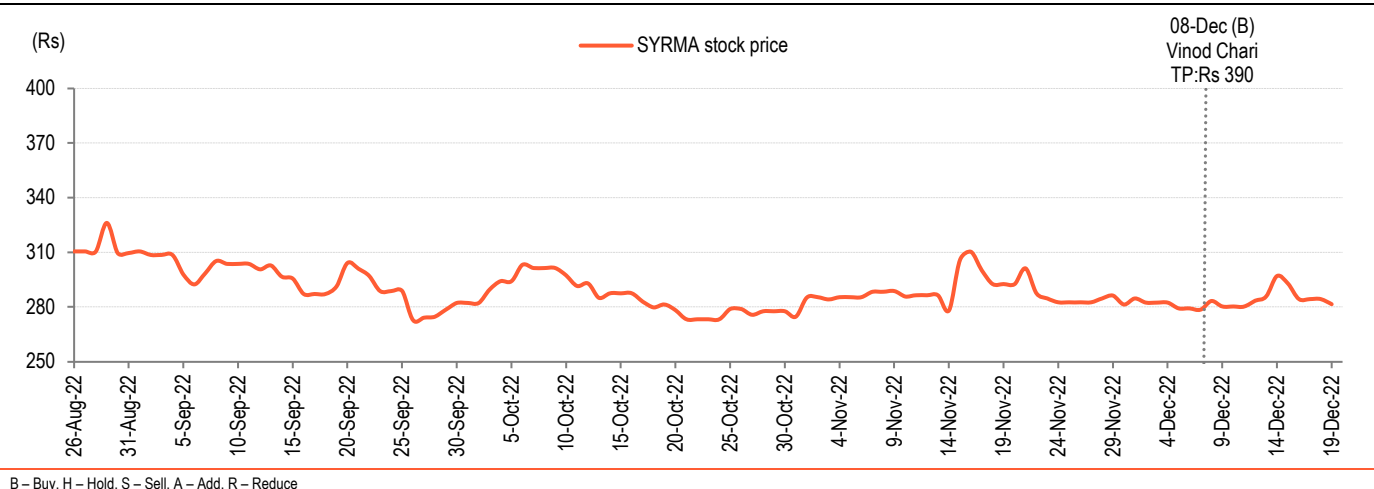
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): SYRMA SGS (SYRMA IN)



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