

**BUY**

TP: Rs 400 | ▲ 51%

**SYRMA SGS**

Consumer Durables

09 February 2023

**Strong topline but margins soften**

- Q3 topline growth robust at 70% YoY led by resilient domestic demand; order book expands further to Rs 21bn
- EBITDA margin down 300bps YoY to 9.3% on higher RM cost and weakness in exports & healthcare business
- We revise FY23/FY24 EPS by +7%/-3%; on rollover, our TP moves to Rs 400 (from Rs 390) – retain BUY

Nilesh Patil | Vinod Chari  
 Tanay Rasal  
 research@bobcaps.in

**Q3 ahead of estimates:** Syрма beat our Q3FY23 estimates as resilient domestic demand more than compensated for weakness in exports. The topline increased 70% YoY to Rs 5.1bn (Rs 4.1bn est.) as the auto/consumer electricals & appliances segments continued to witness strong traction, growing 70%/3x YoY. This offset a 76% YoY contraction in the healthcare segment amidst inflationary pressures in overseas markets, especially Europe. A stronger topline coupled with higher other income aided Q3 net profit of Rs 332mn (Rs 233mn est.), up 68% YoY.

**Margins moderate:** A doubling of raw material cost YoY dragged the gross margin down to 25.4% (-890bps YoY, -400bps QoQ). Additionally, the margin-accretive industrials and healthcare segments delivered slower growth than the low-margin auto and durables businesses. EBITDA margin thus moderated 300bps YoY (-80bps QoQ) to 9.3% vs. 9.8% expected. Net working capital days inched up marginally to 83 days on a sequential basis.

**Strong order book; guidance maintained:** As of Dec'22, Syрма had outstanding orders worth Rs 21bn (vs. Rs 17bn in Q2FY23), with fresh intake of ~Rs 9bn from the industrial, consumer and auto verticals. Management continues to guide for revenue growth in line with the industry over the next couple of years and aims to achieve lower-double-digit margins on a sustainable basis. Exports (currently 35-40% of business) are guided to remained muted for the next two quarters but should be compensated for by domestic demand, thereby minimising the topline impact.

**Maintain BUY:** We believe Syрма has multiple growth levers in the form of a strong order book, timely capacity addition and traction in the auto, industrial and consumer verticals. Exports and working capital management are, however, key areas to watch in the near term. We adjust our FY23/FY24 EPS estimates by +7%/-3% to incorporate the Q3FY23 print as well as the shift in product mix. On rolling valuations forward to Dec'24, our TP increases to Rs 400 (earlier Rs 390), based on an unchanged 35x P/E multiple, a 15% discount to our EMS coverage comprising DIXON and AMBER. Maintain BUY.

**Key changes**

Target	Rating
▲	◀ ▶

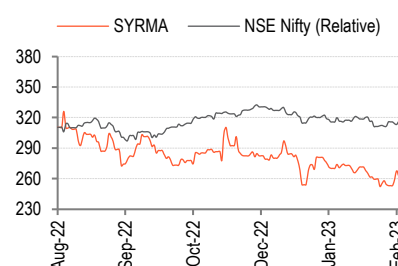
Ticker/Price	SYRMA IN/Rs 265
Market cap	US\$ 566.7mn
Free float	53%
3M ADV	US\$ 1.6mn
52wk high/low	Rs 343/Rs 248
Promoter/FPI/DII	47%/5%/8%

Source: NSE | Price as of 9 Feb 2023

**Key financials**

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	12,666	18,945	25,319
EBITDA (Rs mn)	1,260	1,783	2,502
Adj. net profit (Rs mn)	765	1,170	1,606
Adj. EPS (Rs)	4.3	6.6	9.1
Consensus EPS (Rs)	4.3	-	-
Adj. ROAE (%)	13.8	11.0	9.9
Adj. P/E (x)	61.2	40.0	29.1
EV/EBITDA (x)	37.1	26.2	18.7
Adj. EPS growth (%)	16.7	53.0	37.3

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	5,126	3,017	69.9	4,669	9.8	13,689	6,485	111.1
EBITDA	478	372	28.6	472	1.4	1,286	692	85.9
EBITDA Margin (%)	9.3	12.3	(300bps)	10.1	(80bps)	9.4	10.7	(130bps)
Depreciation	81	68	-	71	-	224	128	-
Interest	64	22	-	63	-	177	39	-
Other Income	118	17	-	79	-	221	42	-
PBT	451	298	51.1	417	8.0	1,106	566	95.4
Tax	108	96	-	128	-	304	194	-
Adjusted PAT	332	197	68.3	282	17.6	770	392	96.5
Exceptional item	-	-	-	-	-	-	-	-
Reported PAT	332	197	68.3	282	17.6	770	392	96.5
Adj. PAT Margin (%)	6.5	6.5	(10bps)	6.0	40bps	5.6	6.0	(40bps)
EPS (Rs)	1.9	1.1	69.7	1.6	18.2	4.6	2.1	115.7

Source: Company, BOBCAPS Research

**Fig 2 – Actual vs. Estimates**

Particulars (Rs mn)	Actual	Estimates	Variance (%)
Revenue	5,126	4,107	24.8
EBITDA	478	403	18.8
EBITDA Margin (%)	9.3	9.8	(50bps)
Adj. PAT	332	233	42.6

Source: Company, BOBCAPS Research

## Earning call highlights

- **Order book:** Syрма closed Q3FY23 with an outstanding order book of Rs 21bn (vs. Rs 17bn in Q2), with fresh intake of ~Rs 9bn from the industrial, consumer and auto verticals. The company expects to complete orders worth Rs 8bn in the next 12 months.
- **Guidance:** Management continues to guide for revenue growth in line with the industry over the next couple of years and aims to achieve lower-double-digit margins on a sustainable basis.
- **Exports:** Exports, which act as a natural currency hedge and earn better margins for Syрма than domestic markets, were weighed down by inflationary pressures in western markets, especially Europe, in Q3. Management expects recovery after a couple of quarters. Currently, exports contribute 35-40% of total business and largely cater to the healthcare and industrial verticals.
- **Healthcare:** Syрма's healthcare vertical is largely export-oriented and is a solution-based business that caters to lifestyle and life-caring products rather than life-saving products. Lower discretionary spend amid the slowdown in western countries is, therefore, dampening growth in this segment.

- **PLI:** Syrma has attained the threshold capex and turnover limits in telecom, and is thus eligible for production-linked incentive (PLI) benefits. The company will file for these benefits in early-FY24 and expects to receive them toward the end of Q2FY24. Syrma hasn't initiated the investment capex cycle for white goods.
- **Supply chain:** Management indicated that semiconductor supply chain constraints have eased but that shortages still persist for products such as microcontrollers, which may take a couple more quarters to normalise. Freight cost has eased slightly.
- **Business mix:** The printed circuit board assembly (PCBA) vertical currently contributes 70-71% of revenue, box build forms 14-15% and electro-mechanical products make up the balance. The company has high capabilities in the box build business which match industry thresholds and typically manufactures products belonging to the industrial vertical that generate moderately higher margins than the PCBA business.
- **Seasonality:** Syrma caters to multiple industries and is thus well-diversified and not much impacted by seasonality. The monthly revenue run-rate has been rising (~Rs 1.2bn in Q1, ~Rs 1.4bn in Q2 and ~Rs 1.7bn in Q3), which implies strong structural growth. Additionally, the company is not materially dependent on government orders, which typically results in a better Q4 for a few of its peers. Thus, Q4 is likely to be a normal growth quarter for Syrma.
- **Client concentration:** The top-10 clients contribute ~46% of revenue which is lower than industry peers.
- **Capex & Debt:** The company has incurred capex worth Rs 350mn in Q3FY23 and aims to deploy another Rs 400mn-600mn in Q4. Further, it projects capex requirements of Rs 2bn-2.5bn for FY24. The debt position as of Dec'22 stands at Rs 3.3bn (Rs 2.4bn for working capital and Rs 0.9bn for long-term capex needs).

## Valuation methodology

We believe Syrma is set to outpace the industry given multiple growth levers in the form of a strong order book, timely capacity addition and traction in the auto, industrial and consumer verticals. Exports and working capital management are, however, key areas to watch in the near term. We adjust our FY23/FY24 EPS estimates by +7%/-3% to incorporate the Q3FY23 print as well as the shift in product mix towards the lower margin auto and consumer businesses.

On rolling valuations forward to Dec'24, our TP increases to Rs 400 (earlier Rs 390), based on an unchanged 35x P/E multiple – a 15% discount to our electronic manufacturing services (EMS) coverage comprising DIXON and AMBER. Our TP carries 52% upside potential; maintain BUY.

**Fig 3 – Revised estimates**

Particulars (Rs mn)	New			Old			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Sales	18,945	25,319	36,236	17,391	25,319	36,236	8.9	0.0	0.0
EBITDA	1,783	2,502	3,657	1,787	2,708	3,875	(0.2)	(7.6)	(5.6)
PAT	1,170	1,606	2,205	1,093	1,661	2,264	7.0	(3.3)	(2.6)
EPS	6.6	9.1	12.5	6.2	9.4	12.8	7.0	(3.3)	(2.6)
EBITDA Margin (%)	9.4	9.9	10.1	10.3	10.7	10.7	(90bps)	(80bps)	(60bps)

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- below-expected revenue growth due to intensifying competition in the EMS space,
- inability to yield desired results from the added capacity, and
- margin compression from an adverse product mix and pricing pressure.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.8	1,887	2,100	HOLD
Blue Star	BLSTR IN	1.6	1,369	1,450	BUY
Crompton Greaves	CROMPTON IN	2.4	314	440	BUY
Dixon Technologies	DIXON IN	1.9	2,690	4,100	BUY
Havells India	HAVL IN	9.4	1,235	1,500	BUY
KEI Industries	KEII IN	1.8	1,640	1,900	BUY
Orient Electric	ORIENTEL IN	0.7	275	290	HOLD
Polycab India	POLYCAB IN	5.4	2,996	3,300	BUY
Syrma SGS	SYRMA IN	0.6	265	400	BUY
V-Guard Industries	VGRD IN	1.3	246	260	HOLD
Voltas	VOLT IN	3.3	825	950	HOLD

Source: BOBCAPS Research, NSE | Price as of 9 Feb 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Total revenue</b>	<b>8,874</b>	<b>12,666</b>	<b>18,945</b>	<b>25,319</b>	<b>36,236</b>
EBITDA	999	1,260	1,783	2,502	3,657
Depreciation	228	249	310	434	714
EBIT	772	1,010	1,473	2,068	2,943
Net interest inc./.(exp.)	(71)	(80)	(220)	(247)	(338)
Other inc./.(exp.)	169	177	310	326	342
Exceptional items	0	0	0	0	0
EBT	869	1,108	1,563	2,146	2,947
Income taxes	213	343	393	540	742
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(1)	0	0	0	0
<b>Reported net profit</b>	<b>655</b>	<b>765</b>	<b>1,170</b>	<b>1,606</b>	<b>2,205</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>655</b>	<b>765</b>	<b>1,170</b>	<b>1,606</b>	<b>2,205</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	1,902	2,405	4,671	5,896	8,538
Other current liabilities	526	921	1,257	2,081	2,780
Provisions	0	0	0	0	0
Debt funds	925	1,942	3,380	4,939	6,752
Other liabilities	352	554	424	531	713
Equity capital	7	1,376	1,762	1,762	1,762
Reserves & surplus	5,355	4,344	13,838	15,092	16,900
Shareholders' fund	5,363	5,721	15,600	16,854	18,662
<b>Total liab. and equities</b>	<b>9,068</b>	<b>11,542</b>	<b>25,333</b>	<b>30,300</b>	<b>37,445</b>
Cash and cash eq.	1,092	732	9,834	7,960	7,239
Accounts receivables	2,084	2,722	3,633	5,203	7,148
Inventories	1,789	2,913	5,035	6,590	9,431
Other current assets	467	645	1,246	1,526	2,184
Investments	31	47	70	94	135
Net fixed assets	3,304	3,793	4,483	7,549	9,334
CWIP	0	391	584	781	1,117
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	301	299	448	598	856
<b>Total assets</b>	<b>9,068</b>	<b>11,542</b>	<b>25,333</b>	<b>30,300</b>	<b>37,445</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Cash flow from operations</b>	<b>371</b>	<b>(126)</b>	<b>449</b>	<b>684</b>	<b>815</b>
Capital expenditures	(187)	(901)	(1,000)	(3,500)	(2,500)
Change in investments	(50)	43	(23)	(24)	(41)
Other investing cash flows	(886)	4,849	(471)	(241)	(413)
<b>Cash flow from investing</b>	<b>(1,123)</b>	<b>3,992</b>	<b>(1,495)</b>	<b>(3,765)</b>	<b>(2,953)</b>
Equities issued/Others	1,079	2,715	386	0	0
Debt raised/repaid	(75)	1,021	1,438	1,559	1,813
Interest expenses	0	0	0	0	0
Dividends paid	(288)	85	8,324	(352)	(397)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>716</b>	<b>3,821</b>	<b>10,147</b>	<b>1,206</b>	<b>1,417</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(36)</b>	<b>7,687</b>	<b>9,102</b>	<b>(1,874)</b>	<b>(721)</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,092</b>	<b>732</b>	<b>9,834</b>	<b>7,960</b>	<b>7,239</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	3.7	4.3	6.6	9.1	12.5
Adjusted EPS	3.7	4.3	6.6	9.1	12.5
Dividend per share	0.0	0.0	0.0	2.0	2.3
Book value per share	30.4	32.5	88.5	95.6	105.9

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	5.3	3.7	2.5	1.8	1.3
EV/EBITDA	46.8	37.1	26.2	18.7	12.8
Adjusted P/E	71.4	61.2	40.0	29.1	21.2
P/BV	8.7	8.2	3.0	2.8	2.5

### 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	106.1	103.8	100.1
EBIT margin (EBIT/Revenue)	8.7	8.0	7.8	8.2	8.1
Asset turnover (Rev./Avg TA)	2.7	3.3	4.2	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	11.0	9.9	12.4

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
<b>YoY growth (%)</b>					
Revenue	2.5	42.7	49.6	33.6	43.1
EBITDA	(26.8)	26.1	41.5	40.4	46.2
Adjusted EPS	(32.5)	16.7	53.0	37.3	37.3
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	11.3	9.9	9.4	9.9	10.1
EBIT margin	8.7	8.0	7.8	8.2	8.1
Adjusted profit margin	7.4	6.0	6.2	6.3	6.1
Adjusted ROAE	13.2	13.8	11.0	9.9	12.4
ROCE	14.4	13.4	9.9	8.7	10.4
<b>Working capital days (days)</b>					
Receivables	86	78	70	75	72
Inventory	74	84	97	95	95
Payables	78	69	90	85	86
<b>Ratios (x)</b>					
Gross asset turnover	2.5	3.1	3.8	3.5	3.6
Current ratio	1.8	1.3	2.2	1.7	1.5
Net interest coverage ratio	10.8	12.7	6.7	8.4	8.7
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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**BUY** – Expected return >+15%

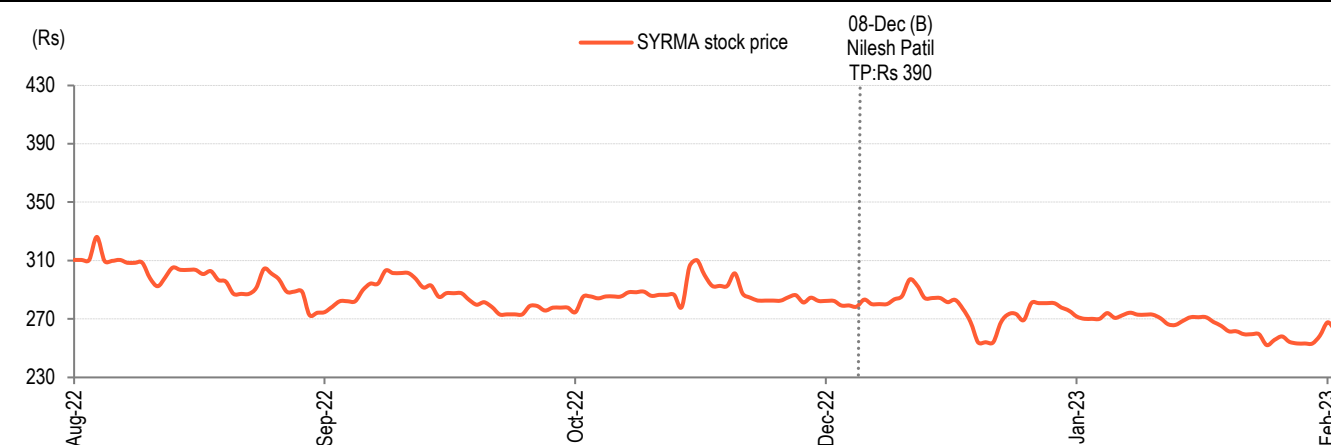
**HOLD** – Expected return from -6% to +15%

**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)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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