

India

ADD (no change)

Consensus ratings*: Buy 14 Hold 0 Sell 0

Current price:	Rs525
Target price:	Rs660
Previous target:	Rs700
Up/downside:	25.7%
InCred Research / Consensus:	-2.1%
Reuters:	
Bloomberg:	SYRMA IN
Market cap:	US\$1,114m
	Rs92,720m
Average daily turnover:	US\$7.1m
	Rs593.7m
Current shares o/s:	176.8m
Free float:	43.5%

*Source: Bloomberg

Key changes in this note

- Raise FY24F/25F/26F revenue by 5.8%/5.4%/5.6%.
- Lower FY24F/25F/26F PAT by 10.5%/7.4%/4.6%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(14.2)	9.2	83.8
Relative (%)	(12.3)	11.1	74.5

Major shareholders	% held
PROMOTERS	47.3
FII	9.3
DII	9.2

Analyst(s)



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Syrma SGS Technology

Change in mix towards consumer segment

- 2Q EBITDA grew by a mere 4% YoY & 17% QoQ to Rs490m, 10% below our estimate & 8.4% below the consensus estimate. Margins fell by 322 bp YoY.
- For FY24F, management gave revenue guidance of ~Rs30bn, with the EBITDA margin at ~8.5%. Capex for FY24F is at Rs2.5bn, (Rs1.1bn in 1HFY24).
- We cut our earnings estimates by 11%/7%/5% for FY24F/25F/26F.respectively. Retain ADD rating with a lower target price of Rs660 (Rs700 earlier).

Consumer business drives 2QFY24 revenue

Syrma SGS Technology (Syrma) posted a healthy revenue growth of 52% YoY (18% QoQ) at Rs7.1bn, 6% above our estimate and 3% above consensus estimate, mainly led by a healthy growth in the domestic EMS sector. Revenue of the consumer segment grew by 138% YoY to Rs2.5bn. or 35% of sales, followed by the automotive segment, up 91% YoY at Rs1.7bn. Raw material expenses were up 67% YoY, impacting the overall margin profile. Gross margin declined by 687 bp YoY and improved by 42 bp QoQ to 22.5%.

Lower margins to continue in near term

Despite the strong revenue growth, EBITDA grew by a mere 4% YoY and 17% QoQ to Rs490m, 10% below our estimate and 8.4% below the consensus estimate. The EBITDA margin declined by 322 bp YoY (+74 bp QoQ) to 6.9%. Higher depreciation (+64% YoY) and interest costs (+27% YoY), coupled with lower gross margin, restricted the PAT to Rs319m, up 10% YoY and 12% QoQ. Total debt increased by 42% YoY to Rs4.2bn while total cash and investments declined by 40% YoY to Rs5.5bn at the end of 1HFY24. During 1HFY24, net working capital or NWC improved to 70 days from 82 days YoY while RoCE declined to 11% from 12.4% YoY.

Gives FY24F revenue guidance of Rs30bn

For FY24F, management is looking at a revenue of Rs30bn, with the EBITDA margin at ~8.5%. Capex for FY24F stands at 2.5bn, of which Rs1.1bn has already been incurred in 1HFY24. The current order book stands at Rs38bn, of which Rs32bn of orders are likely to be executed over the next 12 months. The consumer segment has a 45% share in the order book followed by the automotive and industrial segments at 20% each while 15% is accounted for by the IT, railway and healthcare segments.

Retain ADD rating with a lower target price of Rs660

Syrma has a comprehensive EMS portfolio, which has moved towards the consumer segment. The company has witnessed significant traction in new orders, with its order book at Rs38bn, thus providing improved revenue visibility. Factoring in a higher share of the consumer segment with a low margin, we cut our earnings estimates by 11%/7%/5% for FY24F/25F/26F, respectively. Retain ADD rating with a target price of Rs660 (Rs700 earlier), valuing the stock at 42x Sep 2025F EPS. Short-term contracts and dependence on China for raw materials are the key downside risks.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	10,197	20,484	30,465	41,725	56,026
Operating EBITDA (Rsm)	944	1,878	2,285	3,465	4,894
Net Profit (Rsm)	567	1,231	1,483	2,271	3,281
Core EPS (Rs)	3.2	7.0	8.4	12.8	18.6
Core EPS Growth	(13.5%)	117.3%	20.5%	53.1%	44.5%
FD Core P/E (x)	163.61	75.31	62.51	40.83	28.26
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	99.98	50.95	41.50	27.42	19.24
P/FCFE (x)	(30.68)	(11.14)	134.59	52.27	36.00
Net Gearing	27.0%	19.0%	12.2%	11.8%	6.2%
P/BV (x)	16.21	6.02	5.49	4.84	4.13
ROE	13.9%	11.7%	9.2%	12.6%	15.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY24 conference-call highlights

- **Guidance:** For FY24F, management is looking at a revenue of Rs30bn, with the EBITDA margin at ~8.5%. Capex for FY24F is at Rs2.5bn, of which Rs1.1bn has already been incurred in 1HFY24.
- **Change in the mix towards the consumer segment:** The revenue of low-margin consumer business grew by 138% YoY while the mix also changed towards B2P (build-to-print) pure vanilla business in 2QFY24, which led to a significant erosion in margins. Last year, the consumer segment was driven by ODM products, but has now shifted to vanilla EMS. The healthcare segment's revenue was largely flat in 2QFY24, which led to a further margin erosion. The revenue mix of the healthcare segment is likely to remain low in FY24F but may recover significantly in FY25F. The consumer business has low working capital requirement.
- **New products and client additions:** The company has added new clients for whom prototyping has already started while production is on stream, as expected. The company expects a revenue of ~Rs2bn from new clients in FY24F. Syrma has onboarded one of the largest IOT players and the discussions on the products have already started. The company expects a significant order uptick from this client in the coming years. Syrma is also evaluating the OSAT business but has not taken a final decision on the capex plan for this business.
- **Export business:** Syrma is looking to set up a new design centre in the US by FY24F. Export revenue declined to 27% of sales in 2QFY24 from 30% in FY23. Management gave guidance of a strong growth in the domestic business while the export mix is likely to remain at ~27%.
- **Acquisition of Johari Digital Healthcare:** Syrma has acquired a 51% stake in Johari Digital Healthcare for Rs2.3bn and an additional consideration of up to Rs280m based on milestones. It also provided a one-time expense of Rs45mn for this acquisition, which impacted the operating performance in 2QFY24. The acquisition is likely to help Syrma to enter the lucrative medical devices segment, which is a fragmented and fast-growing market with high demand for quality and innovation.
- **Order book:** The current order book stands at Rs38bn, of which Rs32bn of orders are likely to be executed over the next 12 months. The consumer segment has a 45% share in the order book followed by the automotive and industrial segments at 20% each while 15% of the order book is accounted for by the IT, railway and healthcare segments.
- **PLI scheme:** The production-linked incentive or PLI scheme benefit in FY23 stood at Rs90m, while for FY24F the company expects PLI benefit of ~Rs500m, in which two-thirds is likely to be shared with the clients.

Figure 1: Results snapshot

(Rs m)	2QFY24	2QFY23	YoY	1QFY24	QoQ	InCred Estimates	Diff. with InCred estimates	Consensus	Diff. with Consensus estimates
Net revenue	7,117	4,669	52%	6,013	18%	6,683	6%	6,935	2.6%
Raw material costs	5,517	3,298	67%	4,686	18%				
Staff costs	311	299	4%	331	-6%				
Other expenditure	799	600	33%	626	28%				
Total expenses	6,627	4,197	58%	5,644	17%				
EBITDA	490	472	4%	369	33%	543	-10%	535	-8.4%
OPM (%)	6.9%	10.1%	-322 bp.	6.1%	74.2 bp				
Other income	89	79	12%	221	-60%				
Interest	80	63	27%	75	6%				
Depreciation	116	71	64%	101	14%				
PBT	383	417	-8%	413	-7%				
Tax	64	128	-49%	130	-50%				
PAT	319	290	10%	283	12%				
Share of JV loss / subsidiaries	-	-	1	-100%	-				
PAT after minority interest	319	291	10%	283	12%	381	-16%	376	-15.3%
Extraordinary items	14	-		-					
Reported PAT	305	288	6%	283	8%				
PAT margin	4.3%	6.2%	-189 bp	4.7%	-42.4 bp				

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Cost analysis

Cost Analysis	2QFY24	2QFY23	YoY	1QFY24	QoQ
Total Raw Material	78%	71%	687 bp	78%	-42.3 bp
Staff Cost	4%	6%	-204 bp	6%	-113.9 bp
Other Expenditure	11%	13%	-162 bp	10%	82 bp
Total expenses	93%	90%	322 bp	94%	-74.2 bp

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 3: Segmental analysis

Segmental (Rs m)	2QFY24	2QFY23	YoY	1QFY24	QoQ
Automotive	1,725	903	91.0%	1,451	18.9%
Consumer	2,519	1,059	137.9%	2,324	8.4%
Healthcare	512	504	1.6%	157	226.1%
Industrials	1,984	1,770	12.1%	1,775	11.8%
IT and Railways	376	434	-13.4%	307	22.5%
Total	7,116	4,669	52.4%	6,014	18.3%
Revenue Share (%)					
Automotive	24.2%	19.3%	490 bp	24.1%	10.6 bp
Consumer	35.4%	22.7%	1,271 bp	38.6%	-325.6 bp
Healthcare	7.2%	10.8%	-360 bp	2.6%	458.3 bp
Industrials	27.9%	37.9%	-1,003 bp	29.5%	-164.3 bp
IT and Railways	5.3%	9.3%	-401 bp	5.1%	17.7 bp

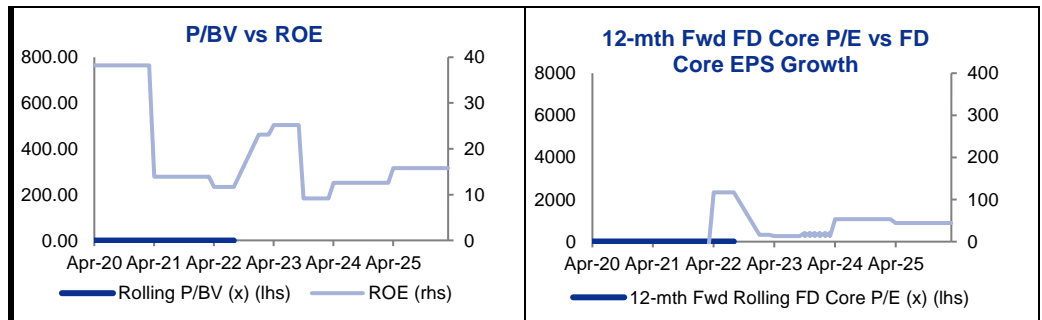
SOURCE: COMPANY REPORTS, INCRED RESEARCH

Figure 4: Change in our earnings estimates

(Rs m)	Old estimates			New estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	28,790	39,571	53,065	30,465	41,725	56,026	5.8%	5.4%	5.6%
EBITDA	2,373	3,650	5,073	2,285	3,465	4,894	-3.7%	-5.1%	-3.5%
Core PAT	1,658	2,453	3,439	1,483	2,271	3,281	-10.5%	-7.4%	-4.6%

SOURCE: COMPANY REPORTS, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	10,197	20,484	30,465	41,725	56,026
Gross Profit	3,012	5,079	6,660	9,513	12,886
Operating EBITDA	944	1,878	2,285	3,465	4,894
Depreciation And Amortisation	(194)	(312)	(493)	(659)	(767)
Operating EBIT	750	1,566	1,792	2,806	4,127
Financial Income/(Expense)	(64)	(216)	(320)	(339)	(328)
Pretax Income/(Loss) from Assoc.	25				
Non-Operating Income/(Expense)	123	437	515	602	635
Profit Before Tax (pre-EI)	834	1,787	1,988	3,069	4,434
Exceptional Items					
Pre-tax Profit	834	1,787	1,988	3,069	4,434
Taxation	(268)	(556)	(504)	(798)	(1,153)
Exceptional Income - post-tax					
Profit After Tax	567	1,231	1,483	2,271	3,281
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	567	1,231	1,483	2,271	3,281
Recurring Net Profit	567	1,231	1,483	2,271	3,281
Fully Diluted Recurring Net Profit	567	1,231	1,483	2,271	3,281

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	809	1,787	1,988	3,069	4,434
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(659)	(2,299)	(618)	(1,768)	(1,986)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	194	312	493	659	767
Other Operating Cashflow	(31)	(321)			
Net Interest (Paid)/Received	64	216	320	339	328
Tax Paid	(232)	(397)	(504)	(798)	(1,153)
Cashflow From Operations	145	(703)	1,678	1,501	2,390
Capex	(817)	(1,110)	(2,500)	(1,350)	(1,200)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments					
Other Investing Cashflow	(3,120)	(8,035)	381	1,773	1,536
Cash Flow From Investing	(3,936)	(9,145)	(2,119)	423	336
Debt Raised/(repaid)	769	1,523	1,130	(150)	(150)
Proceeds From Issue Of Shares	2,715	8,760			
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	103	(316)	(320)	(339)	(328)
Cash Flow From Financing	3,587	9,967	810	(489)	(478)
Total Cash Generated	(204)	120	369	1,435	2,248
Free Cashflow To Equity	(3,022)	(8,325)	689	1,774	2,576
Free Cashflow To Firm	(3,855)	(10,063)	(761)	1,585	2,398

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	369	544	2,532	2,194	2,906
Total Debtors	2,722	4,032	4,537	6,131	7,900
Inventories	2,913	5,874	6,979	9,296	12,051
Total Other Current Assets	645	1,032	1,284	1,819	2,463
Total Current Assets	6,650	11,483	15,332	19,440	25,321
Fixed Assets	1,487	4,127	6,134	6,825	7,258
Total Investments	51	60	60	60	60
Intangible Assets	1,197	1,218	1,218	1,218	1,218
Total Other Non-Current Assets	534	7,779	5,779	5,779	5,779
Total Non-current Assets	3,269	13,184	13,191	13,882	14,315
Short-term Debt	1,903	2,599	3,599	3,449	3,299
Current Portion of Long-Term Debt					
Total Creditors	2,405	4,881	5,768	7,827	10,286
Other Current Liabilities	845	962	1,210	1,718	2,312
Total Current Liabilities	5,153	8,442	10,577	12,994	15,896
Total Long-term Debt	39	870	1,000	1,000	1,000
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	252	284	284	284	284
Total Non-current Liabilities	291	1,154	1,284	1,284	1,284
Total Provisions	269	387	495	606	736
Total Liabilities	5,713	9,983	12,355	14,884	17,916
Shareholders Equity	5,721	15,403	16,886	19,157	22,438
Minority Interests	108	26	26	26	26
Total Equity	5,829	15,429	16,912	19,183	22,464

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	14.9%	100.9%	48.7%	37.0%	34.3%
Operating EBITDA Growth	(5.5%)	98.9%	21.7%	51.6%	41.2%
Operating EBITDA Margin	9.3%	9.2%	7.5%	8.3%	8.7%
Net Cash Per Share (Rs)	(8.90)	(16.54)	(11.69)	(12.75)	(7.88)
BVPS (Rs)	32.36	87.13	95.52	108.37	126.93
Gross Interest Cover	11.77	7.25	5.60	8.27	12.58
Effective Tax Rate	32.1%	31.1%	25.4%	26.0%	26.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	71.61	60.18	51.33	46.66	45.71
Inventory Days	93.56	104.10	98.54	92.21	90.31
Accounts Payables Days	90.24	86.31	81.64	77.03	76.63
ROIC (%)	9.0%	6.4%	7.1%	9.8%	12.8%
ROCE (%)	13.9%	11.6%	8.8%	12.4%	16.3%
Return On Average Assets	8.4%	8.1%	6.5%	8.2%	9.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
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