

## India

## ADD (no change)

Consensus ratings\*: Buy 13 Hold 2 Sell 0

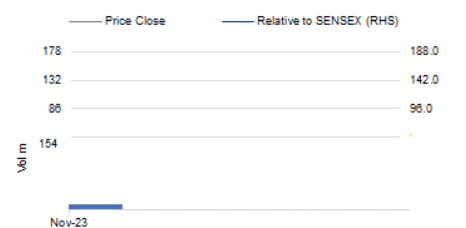
Current price:	Rs524
Target price:	Rs600
Previous target:	Rs660
Up/downside:	14.5%
InCred Research / Consensus:	-9.7%

Reuters:	
Bloomberg:	SYRMA IN
Market cap:	US\$1,122m
	Rs93,117m
Average daily turnover:	US\$5.2m
	Rs429.9m
Current shares o/s:	176.8m
Free float:	51.6%

\*Source: Bloomberg

## Key changes in this note

- ▶ We cut our EPS estimates by 20%/16%/10% for FY24F/25F/26F, respectively.
- ▶ We roll forward our valuation to FY26F, valuing it at 36x FY26F EPS, from 42x.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(16.9)	(0.4)	95.9
Relative (%)	(17.8)	(10.3)	64.7

Major shareholders	% held
Promoters	46.9
Franklin India	1.6
Government Pension Global	1.4

## Research Analyst(s)



## Arafat SAIYED

T (91) 22 4161 1542

E arafat.saiyed@incredcapital.com

## Vipraw SHRIVASTAVA

T (91) 22 4161 1565

E vipraw.srivastava@incredresearch.com

## Anirvan DIVAKERA

T (91) 02241611548

E anirvan.divakera@incredresearch.com

## Syrma SGS Technology

## Change in product mix hits 3Q margins

- 3Q EBITDA declined by 19% YoY (21%) QoQ to Rs388m, 26% below our and 31% below consensus estimates. EBITDA margin fell by 384bp YoY to 5.5%.
- For FY24F, management has given revenue guidance of Rs30bn, up 45%, and a similar growth in FY25F/26F based on the strong order book worth Rs45bn.
- We roll forward our valuation to FY26F and retain ADD rating with a target price of Rs600 (Rs660 earlier), valuing it at 36x FY26F EPS, from 42x earlier.

## Revenue growth on track

Syrma SGS Technology (Syrma) posted a healthy 3QFY24 revenue growth of 38% YoY (-1% QoQ) to Rs7.1bn, 5% below our estimate and ~6% below consensus estimate, mainly led by a healthy growth in the healthcare and export businesses. For 9MFY24, it reported a healthy growth across segments barring IT and railway; the revenue of the consumer sector grew by 90% YoY to Rs7.4bn, contributing 37% to sales, followed by the automotive segment, up 68% YoY at Rs4.7bn. Revenue of IT & railway segments declined by -20% YoY. Higher depreciation (+64% YoY) and interest costs (56% YoY), coupled with lower gross margin, led to a lower PAT of Rs203mn, down 41% YoY and 36% QoQ.

## Change in product mix hits 3QFY24 margins

In 3QFY24, other expenses were up 56% YoY, impacting the overall margin profile, while gross margin declined by 283bp YoY and remained flat QoQ at 22.6%. Despite strong revenue growth, EBITDA declined by 19% YoY and 21% QoQ to Rs388m, 26% below our estimate and 31% below Bloomberg consensus estimate. The EBITDA margin declined by 384bp YoY (-140bp QoQ) to 5.5%. Total debt increased by 17% QoQ to Rs4.9bn while total cash and investments declined by 22% QoQ to Rs4.3bn at the end of Dec 2023.

## Management gives 7-8% margin guidance for FY25F-26F

For FY24F, management is looking at a revenue of Rs30bn, up 45%, with a similar revenue growth in FY25 and FY26F based on the strong order book worth Rs45bn (1.7x TTM revenue). Capex for FY24F stands at Rs2.8bn, of which Rs2.4bn has already been incurred in 9MFY24. The order book currently stands at Rs45bn, 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 segment (18%) and the industrial segment (25%) while 10% is accounted for by the healthcare segment.

## Retain ADD rating with a lower target price of Rs600

Syrma has a comprehensive electronics manufacturing services or EMS portfolio, which has moved towards the consumer segment. Factoring in low margin guidance, we have cut our earnings estimates by 20%/16%/10% for FY24F/25F/26F, respectively. We roll forward our valuation to FY26F and retain ADD rating on Syrma with a lower target price of Rs600 (Rs660 earlier), valuing it at 36x FY26F EPS, from 42x earlier, factoring in the downgrade in margin guidance. 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	29,588	40,989	55,839
Operating EBITDA (Rsm)	944	1,878	1,886	2,973	4,394
Net Profit (Rsm)	567	1,231	1,190	1,916	2,944
Core EPS (Rs)	3.2	7.0	6.7	10.8	16.7
Core EPS Growth	(13.5%)	117.3%	(3.3%)	60.9%	53.7%
FD Core P/E (x)	163.57	75.29	77.86	48.38	31.48
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)	99.95	50.93	50.31	32.06	21.59
P/FCFE (x)	(30.67)	(11.13)	154.51	62.47	47.63
Net Gearing	27.0%	19.0%	13.2%	14.1%	10.0%
P/BV (x)	16.20	6.02	5.59	5.01	4.32
ROE	13.9%	11.7%	7.4%	10.9%	14.7%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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## 3QFY24 conference-call highlights

- **Overview:** Syrma reported healthy revenue growth but margin pressure hit the bottomline. Exports during the quarter were up 50% YoY while they were up 18% in 9MFY24. The order book stood at ~Rs45bn as of Dec 2023-end. Management stated that ~Rs35bn of orders will be executed over the next 12 months. The Original Design Manufacturer (ODM) segment's revenue share stood at ~19% during the quarter.
- **Guidance:** Management maintained its revenue guidance of Rs30bn and the EBITDA margin at 7-7.5% for FY24F. It expects a growth of ~40% in FY25F led by a rebound in the healthcare, automotive, industrial and consumer segments. Moreover, by FY25F, the asset turn is expected to be at +6x from the 5x level currently.
- **Investment strategy:** Syrma stated that it is currently in an investment phase and will continue to invest in people, processes and manufacturing capacity, all aimed at enhancing its capabilities. The company has increased its Surface Mount Technology (SMT) placement capacity for components from 3.2m/hr to 6.3m/hr, which will aid in achieving the growth trajectory.
- **Segments:** Syrma stated that there was a pushout in the automobile and consumer segments, which led to a decline in its overall revenue. The company continues to focus on customer onboarding and penetration in different geographies. In the railway segment, the company is awaiting RDSO or Research Design and Standards Organisation's approval for railway signaling equipment, which is ~Rs350m business. The segment faced component shortage during the quarter and sales will be pushed out to the next quarter. In FY25F, the company is expecting Rs750-800m in revenue contribution. From the healthcare segment, the company is expecting ~Rs3.8-5bn in FY25F.
- **Johari Digital Healthcare:** In 3QFY24, it posted a revenue of Rs300m with the EBITDA margin at 30%. The company is expecting a growth of 25-30% in FY25F with a strong product pipeline, which is under approval. The business is largely product-based and is different from the EMS business. It contributes 5-6% to the topline.
- **Exports:** They stood at ~Rs2bn, contributing 28% to the revenue during the quarter. Management stated that export share will increase in the coming quarters.
- **Capex:** Gross block is at ~Rs7bn. The company incurred a capex of Rs2.5bn in 9MFY24 and expects to incur another Rs400-500m in the next quarter.
- **Debt & working capital:** Net debt stood at ~Rs650m as of Dec 2023-end. For the long term, net working capital is expected to reduce to less than 70 days by the end of Mar 2024F from the current level of 72 days.
- **RoCE:** The company said that its RoCE profile is different across segments. In the consumer segment, which is a high-volume business, gross margin is lower, the asset turn is high and has less working capital requirement. The company is targeting RoCE of 25%+ going ahead.

Figure 1: Quarterly results snapshot

(Rs m)	3QFY24	3QFY23	YoY	2QFY24	QoQ	InCred Estimates	Diff	Consensus	Consensus Diff	9MFY24	9MFY23	YoY
<b>Net revenue</b>	<b>7,067</b>	<b>5,126</b>	<b>38%</b>	<b>7,117</b>	<b>-1%</b>	<b>7,430</b>	<b>-5%</b>	<b>7,500</b>	<b>-5.8%</b>	<b>20,197</b>	<b>13,689</b>	<b>48%</b>
Raw Material Costs	5,473	3,825	43%	5,517	-1%					15,677	9,819	60%
Staff Costs	381	293	30%	311	22%					1,022	834	23%
Other Expenditure	826	531	56%	799	3%					2,251	1,750	29%
<b>Total Expenses</b>	<b>6,679</b>	<b>4,648</b>	<b>44%</b>	<b>6,627</b>	<b>1%</b>					<b>18,950</b>	<b>12,403</b>	<b>53%</b>
<b>EBITDA</b>	<b>388</b>	<b>478</b>	<b>-19%</b>	<b>490</b>	<b>-21%</b>	<b>524</b>	<b>-26%</b>	<b>558</b>	<b>-30.5%</b>	<b>1,247</b>	<b>1,286</b>	<b>-3%</b>
OPM (%)	5.5%	9.3%	-384 bp	6.9%	-139.5 bp					6.2%	9.4%	-322 bp
Other Income	121	118	3%	89	36%					431	221	95%
Interest	100	64	56%	80	26%					256	177	45%
Depreciation	139	81	71%	116	20%					357	224	59%
<b>PBT</b>	<b>270</b>	<b>451</b>	<b>-40%</b>	<b>383</b>	<b>-30%</b>					<b>1,066</b>	<b>1,106</b>	<b>-4%</b>
Tax	67	108	-38%	64	4%					261	304	-14%
<b>PAT</b>	<b>203</b>	<b>342</b>	<b>-41%</b>	<b>319</b>	<b>-36%</b>					<b>805</b>	<b>803</b>	<b>0%</b>
<b>PAT after Minority Interest</b>	<b>203</b>	<b>352</b>	<b>-42%</b>	<b>319</b>	<b>-36%</b>	<b>339</b>	<b>-40%</b>	<b>326</b>	<b>-37.8%</b>	<b>805</b>	<b>803</b>	<b>0%</b>
Extraordinary Items	-	-		14						-	-	
<b>Reported PAT</b>	<b>203</b>	<b>332</b>	<b>-39%</b>	<b>305</b>	<b>-34%</b>					<b>805</b>	<b>803</b>	<b>0%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Cost analysis

Cost Analysis	3QFY24	3QFY23	YoY	2QFY24	QoQ	9MFY24	9MFY23	YoY
Total Raw Material Costs	77.4%	74.6%	283 bp	77.5%	-7.3 bp	78%	72%	588 bp
Staff Costs	5.4%	5.7%	-32 bp	4.4%	101.7 bp	5%	6%	-103 bp
Other Expenditure	11.7%	10.4%	133 bp	11.2%	45.1 bp	11%	13%	-163 bp
Total Expenses	94.5%	90.7%	384 bp	93.1%	139.5 bp	94%	91%	322 bp
Tax Rate (%)	24.8%	24.1%	71 bp	16.8%	795 bp	24.5%	27.5%	-295 bp

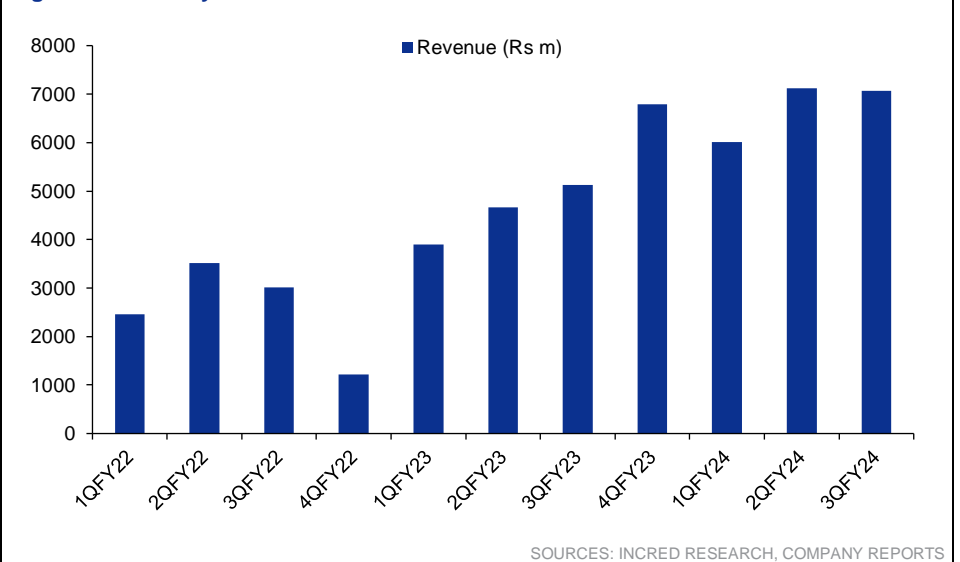
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Segmental revenue

Segmental (Rs m)	3QFY24	3QFY23	YoY	2QFY24	QoQ	9MFY24	9MFY23	YoY
Automotive	1,510	1,076	40.3%	1,725	-12.5%	4,686	2,796	67.6%
Consumer	2,551	2,053	24.3%	2,519	1.3%	7,394	3,890	90.1%
Healthcare	693	92	653.3%	512	35.4%	1,362	1,176	15.8%
Industrials	1,949	1,614	20.8%	1,984	-1.8%	5,708	4,540	25.7%
IT and Railways	364	290	25.5%	376	-3.2%	1,047	1,301	-19.5%
<b>Total</b>	<b>7,067</b>	<b>5,125</b>	<b>37.9%</b>	<b>7,116</b>	<b>-0.7%</b>	<b>20,197</b>	<b>13,703</b>	<b>47.4%</b>

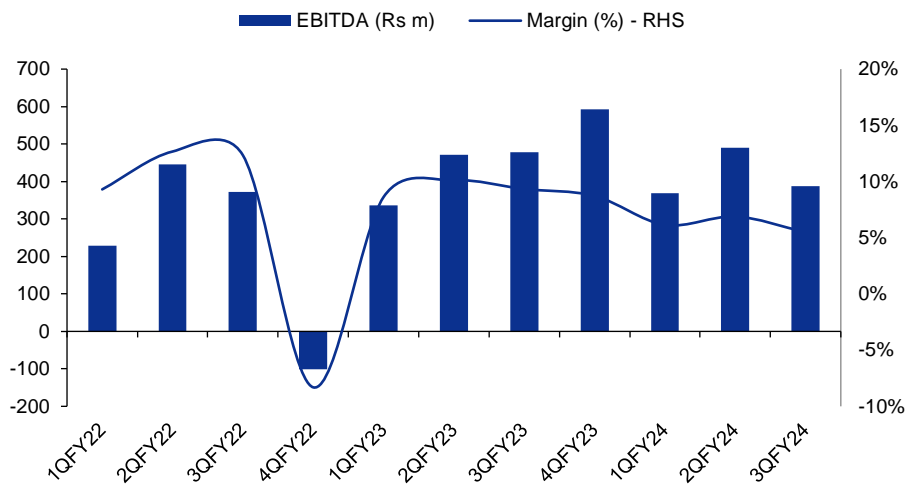
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Quarterly revenue trend



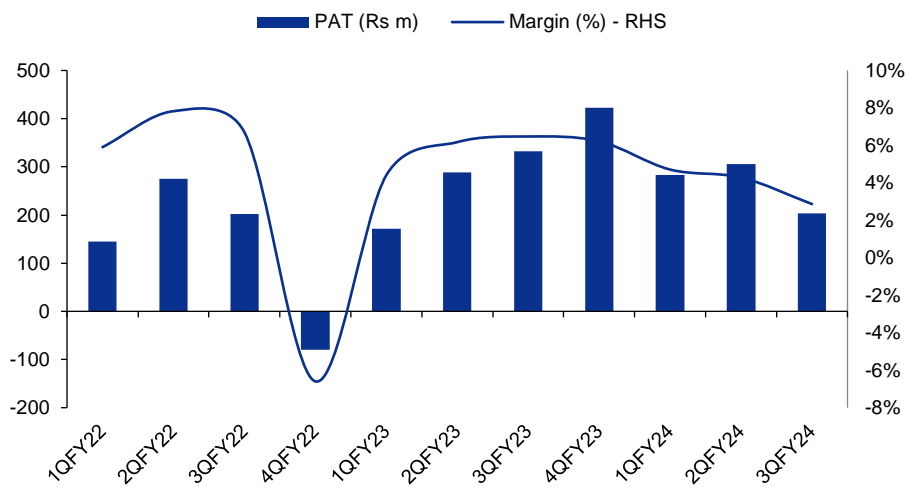
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Quarterly EBITDA trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Quarterly PAT trend



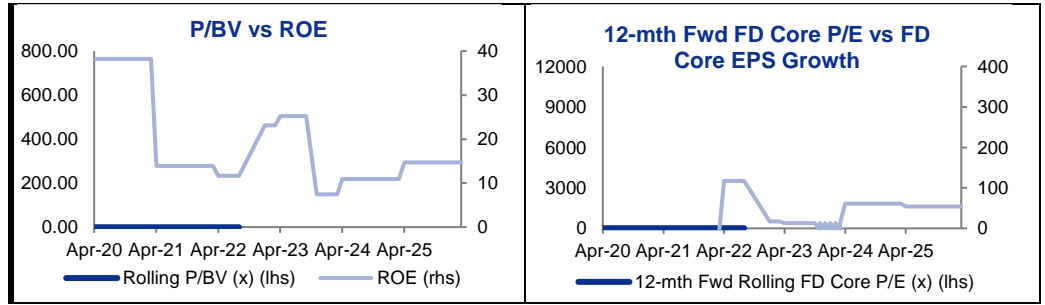
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Our revised earnings estimates

(Rs m)	Old estimates			New estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	30,465	41,725	56,026	29,588	40,989	55,839	-2.9%	-1.8%	-0.3%
EBITDA	2,285	3,465	4,894	1,886	2,973	4,394	-17.4%	-14.2%	-10.2%
Core PAT	1,483	2,271	3,281	1,190	1,916	2,944	-19.7%	-15.6%	-10.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS**



**Profit & Loss**

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>10,197</b>	<b>20,484</b>	<b>29,588</b>	<b>40,989</b>	<b>55,839</b>
<b>Gross Profit</b>	<b>3,012</b>	<b>5,079</b>	<b>6,463</b>	<b>9,223</b>	<b>12,564</b>
<b>Operating EBITDA</b>	<b>944</b>	<b>1,878</b>	<b>1,886</b>	<b>2,973</b>	<b>4,394</b>
Depreciation And Amortisation	(194)	(312)	(512)	(659)	(758)
<b>Operating EBIT</b>	<b>750</b>	<b>1,566</b>	<b>1,374</b>	<b>2,315</b>	<b>3,636</b>
Financial Income/(Expense)	(64)	(216)	(358)	(362)	(346)
Pretax Income/(Loss) from Assoc.	25				
Non-Operating Income/(Expense)	123	437	564	602	635
<b>Profit Before Tax (pre-EI)</b>	<b>834</b>	<b>1,787</b>	<b>1,580</b>	<b>2,555</b>	<b>3,926</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>834</b>	<b>1,787</b>	<b>1,580</b>	<b>2,555</b>	<b>3,926</b>
Taxation	(268)	(556)	(390)	(639)	(981)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>567</b>	<b>1,231</b>	<b>1,190</b>	<b>1,916</b>	<b>2,944</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>567</b>	<b>1,231</b>	<b>1,190</b>	<b>1,916</b>	<b>2,944</b>
Recurring Net Profit	567	1,231	1,190	1,916	2,944
<b>Fully Diluted Recurring Net Profit</b>	<b>567</b>	<b>1,231</b>	<b>1,190</b>	<b>1,916</b>	<b>2,944</b>

**Cash Flow**

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>809</b>	<b>1,787</b>	<b>1,580</b>	<b>2,555</b>	<b>3,926</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(659)	(2,299)	(472)	(1,636)	(2,042)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	194	312	512	659	758
Other Operating Cashflow	(31)	(321)			
Net Interest (Paid)/Received	64	216	358	362	346
Tax Paid	(232)	(397)	(390)	(639)	(981)
<b>Cashflow From Operations</b>	<b>145</b>	<b>(703)</b>	<b>1,589</b>	<b>1,300</b>	<b>2,006</b>
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	1,684	1,290
<b>Cash Flow From Investing</b>	<b>(3,936)</b>	<b>(9,145)</b>	<b>(2,119)</b>	<b>334</b>	<b>90</b>
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)	(358)	(362)	(346)
<b>Cash Flow From Financing</b>	<b>3,587</b>	<b>9,967</b>	<b>772</b>	<b>(512)</b>	<b>(496)</b>
Total Cash Generated	(204)	120	242	1,122	1,601
<b>Free Cashflow To Equity</b>	<b>(3,022)</b>	<b>(8,325)</b>	<b>600</b>	<b>1,484</b>	<b>1,946</b>
<b>Free Cashflow To Firm</b>	<b>(3,855)</b>	<b>(10,063)</b>	<b>(888)</b>	<b>1,272</b>	<b>1,751</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	369	544	2,405	1,843	2,154
Total Debtors	2,722	4,032	4,458	5,994	7,826
Inventories	2,913	5,874	6,859	9,088	11,938
Total Other Current Assets	645	1,032	1,262	1,779	2,440
<b>Total Current Assets</b>	<b>6,650</b>	<b>11,483</b>	<b>14,985</b>	<b>18,704</b>	<b>24,357</b>
Fixed Assets	1,487	4,127	6,114	6,806	7,248
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
<b>Total Non-current Assets</b>	<b>3,269</b>	<b>13,184</b>	<b>13,171</b>	<b>13,863</b>	<b>14,305</b>
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	5,709	7,742	10,294
Other Current Liabilities	845	962	1,198	1,699	2,314
<b>Total Current Liabilities</b>	<b>5,153</b>	<b>8,442</b>	<b>10,505</b>	<b>12,890</b>	<b>15,906</b>
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
<b>Total Non-current Liabilities</b>	<b>291</b>	<b>1,154</b>	<b>1,284</b>	<b>1,284</b>	<b>1,284</b>
Total Provisions	269	387	492	602	737
<b>Total Liabilities</b>	<b>5,713</b>	<b>9,983</b>	<b>12,281</b>	<b>14,776</b>	<b>17,927</b>
Shareholders Equity	5,721	15,403	16,593	18,509	21,453
Minority Interests	108	26	26	26	26
<b>Total Equity</b>	<b>5,829</b>	<b>15,429</b>	<b>16,619</b>	<b>18,535</b>	<b>21,480</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	14.9%	100.9%	44.4%	38.5%	36.2%
Operating EBITDA Growth	(5.5%)	98.9%	0.5%	57.6%	47.8%
Operating EBITDA Margin	9.3%	9.2%	6.4%	7.3%	7.9%
Net Cash Per Share (Rs)	(8.90)	(16.54)	(12.41)	(14.74)	(12.13)
BVPS (Rs)	32.36	87.13	93.86	104.70	121.36
Gross Interest Cover	11.77	7.25	3.84	6.40	10.52
Effective Tax Rate	32.1%	31.1%	24.7%	25.0%	25.0%
Net Dividend Payout Ratio					
Accounts Receivables Days	71.61	60.18	52.37	46.54	45.17
Inventory Days	93.56	104.10	100.49	91.62	88.67
Accounts Payables Days	90.24	86.31	83.58	77.28	76.06
ROIC (%)	9.0%	6.4%	5.5%	8.2%	11.4%
ROCE (%)	13.9%	11.6%	6.8%	10.4%	14.8%
Return On Average Assets	8.4%	8.1%	5.5%	7.2%	9.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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