

07 August 2024

India | Equity Research | Q1FY25 results review

Syrma SGS Technology

White Goods

Strong revenue growth: Margin likely to inch up in H2FY25

Takeaways: (1) Consumer segment (53% of total sales) reported strong revenue growth of +92.9% YoY. However, overall margin declined to record low of 3.8% (-230bps YoY/-265bps QoQ) due to weak margin in consumer segment. (2) Syрма has orderbook of INR 45bn+ as of Jun'24. It is well-diversified amongst all business segments. (3) Exports are likely to revive in H2FY25. Syрма targets INR 10bn+ of export revenue in FY25. We model Syрма to focus on margin expansion in FY25. It may recover to guided levels of 7% in FY25 led by (1) contribution of consumer segment declining to ~40% in FY25 and (2) revival in margin-accretive export segment. We cut our earnings estimates to factor in weak Q1FY25. We remain constructive on Syрма led by (1) strong orderbook, (2) export opportunities and (3) capacity expansion. Maintain **BUY** with DCF-based TP of INR 540 (implied P/E of 38x FY26E; earlier TP: INR 600).

Q1FY25 result review

Syрма reported revenue/EBITDA growth of 92.9%/20.7% YoY while APAT declined 32.3% YoY. Gross/EBITDA margin contracted 706bps/230bps YoY primarily due to change in revenue mix, in our view. Profitability was impacted due to higher depreciation and finance costs. Other income declined 30.7% YoY.

Segmental performance

In Q1FY25, auto, consumer, healthcare, industrials, and IT & railways segments reported YoY revenue growth of 29.4%, 165.4%, 275.2%, 21.2%, and 165.3%, respectively, YoY. Growth in consumer segment was led by strong execution of telecom-based consumer orders. Growth rates in healthcare and IT & railways segments were higher due to favourable base, in our view.

Product mix variation has weighed on margins

Syрма's EBITDA margin stood at 3.8% (-230bps YoY/-265bps QoQ), lowest in past 12 quarters). Change in revenue mix has primarily weighed on margins. Higher revenue share of volume-based consumer/automobile (69% in Q1FY25 vs 62% in Q1FY24) has impacted margins, in our view. The company indicated that contribution of consumer business may decline to ~40% in FY25 considering the orderbook positions. Syрма aims to register ~7% (inclusive of forex and PLI benefits) margin in FY25. We believe improvement in (1) export revenue (2) change in revenue mix towards industrial/healthcare and (3) operating leverage may lead to guided level of 7%.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	20,484	31,538	46,135	62,515
EBITDA	1,878	1,985	3,202	4,364
EBITDA Margin (%)	9.2	6.3	6.9	7.0
Net Profit	1,193	1,087	1,704	2,516
EPS (INR)	6.8	6.1	9.6	14.2
EPS % Chg YoY	21.5	(9.3)	56.8	47.6
P/E (x)	63.4	69.8	44.5	30.2
EV/EBITDA (x)	37.6	39.3	24.4	18.3
RoCE (%)	7.9	5.2	7.7	10.1
RoE (%)	11.2	6.7	9.7	13.0

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Market Data

Market Cap (INR)	76bn
Market Cap (USD)	905mn
Bloomberg Code	SYRMA IN
Reuters Code	SYRM.BO
52-week Range (INR)	705 /386
Free Float (%)	33.0
ADTV-3M (mn) (USD)	5.8

Price Performance (%)	3m	6m	12m
Absolute	(11.5)	(25.0)	(10.4)
Relative to Sensex	(17.9)	(33.9)	(29.9)

Earnings Revisions (%)	FY25E	FY26E
Revenue	-	-
EBITDA	(7.3)	(6.7)
EPS	(10.0)	(8.9)

Previous Reports

03-06-2024: [Company Update](#)

13-05-2024: [Q4FY24 results review](#)

Slowdown in export revenue is transient

Export revenue saw modest growth in Q1FY25 (+10.2% YoY). We note the contribution of exports to total revenue has declined to 16% from 28%/23% in Q1FY24/Q4FY24. Industrial and healthcare segments have higher contribution to export revenue. These segments typically yield higher margins than other segments. The company aims to register INR 10bn+ export revenue in FY25 (+25% YoY). Syrma aims strong revival in H2FY25 for its export business and it may aid in generating higher margins.

Maintain BUY

We model Syrma to report revenue/PAT CAGR of 40.8%/52.2% YoY over FY24-26E. We remain positive on Syrma's strong revenue trajectory and model recovery in H2FY25-FY26. Retain **BUY** with DCF-based revised TP of INR 540 (implied P/E of 38x FY26E; earlier TP: INR 600).

Key risks: Higher commodity prices and increase in competitive pressures.

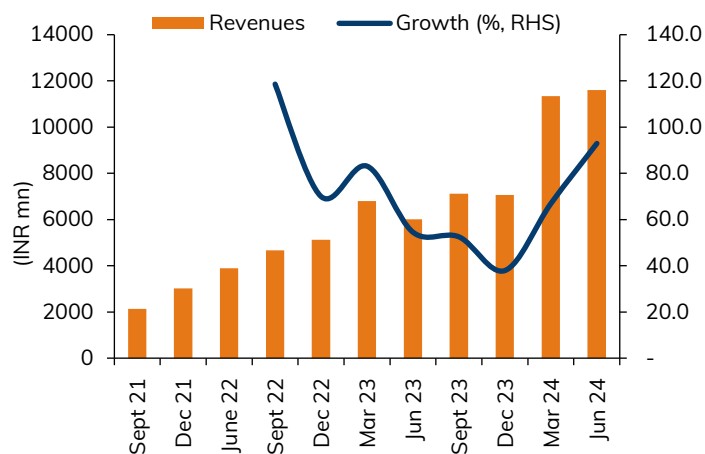
Exhibit 1: Q1FY25 consolidated financial performance

Y/e March (INR mn)	Q1FY25	Q1FY24	YoY % chg.	Q4FY24	QoQ % chg.
Revenue	11,599	6,013	92.9	11,341	2.3
Expenditure					
Raw materials	9,859	4,686	110.4	9,393	5.0
% of revenue	85.0	77.9		82.8	
Employee cost	454	331	37.1	403	12.5
% of revenue	3.9	5.5		3.6	
Other expenditure	840	626	34.2	808	4.0
% of revenue	7.2	10.4		7.1	
Total expenditure	11,153	5,644	97.6	10,604	5.2
EBITDA	446	369	20.7	737	(39.5)
EBITDA margin	3.8	6.1		6.5	
Other income	153	221	(30.7)	156	(2.1)
PBDIT	599	590	1.5	893	(32.9)
Depreciation	174	101	71.2	158	9.7
PBIT	425	489	(13.0)	735	(42.1)
Interest	130	75	73.0	123	6.1
PBT	295	413	(28.7)	612	(51.8)
Prov. for tax	91	130	(29.7)	160	(42.8)
% of PBT	31.0	31.5		26.1	
PAT	203	283	(28.2)	452	(55.0)
Minority Interest	10	(2)	-	103	(89.8)
Adjusted PAT	193	285	(32.3)	349	(44.7)
Extra ordinary items	(16)	(13)	-	(0)	-
Reported PAT	177	272	(34.8)	349	(49.1)

Source: Company data, I-Sec research

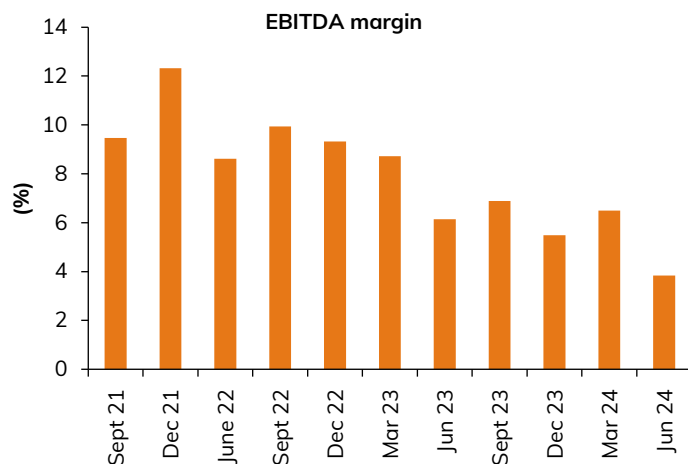
Key performance highlights

Exhibit 2: Revenue and revenue growth



Source: Company data, I-Sec research

Exhibit 3: EBITDA margin



Source: Company data, I-Sec research

Exhibit 4: Segment-wise revenue performance

Particulars	Q1FY25	Q1FY24	YoY % chg.	Q4FY24	QoQ % chg.
Revenues (INR mn)					
Auto	1,877	1,451	29.4%	1,809	3.8%
Consumer	6,166	2,324	165.4%	5,220	18.1%
Healthcare	589	157	275.2%	1,166	-49.5%
Industrials	2,152	1,775	21.2%	2,619	-17.8%
IT & Railways	815	307	165.3%	527	54.7%
Total	11,599	6,013	92.9%	11,341	2.3%

Source: Company data, I-Sec research

Exhibit 5: Segment-wise revenue contribution

Particulars	Q1FY25	Q1FY24	YoY % chg.	Q4FY24	QoQ % chg.
Auto	16.2%	24.1%	-794 bps	16.0%	23 bps
Consumer	53.2%	38.6%	1,452 bps	46.0%	713 bps
Healthcare	5.1%	2.6%	247 bps	10.3%	-520 bps
Industrials	18.6%	29.5%	-1,097 bps	23.1%	-454 bps
IT & Railways	7.0%	5.1%	192 bps	4.6%	238 bps
Total	100.0%	100.0%		100.0%	

Source: Company data, I-Sec research

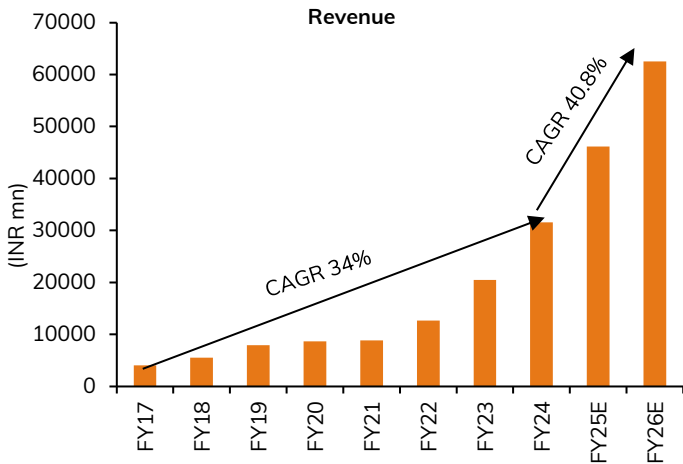
Takeaways from Q1FY25 result and conference call

- **FY25 guidance:** Syrma aims to register revenue of INR 40-45bn with EBITDA of INR 3.1-3.3bn. The company indicated strong revenue growth to sustain in FY25 (+40-45% YoY). EBITDA margin may stand at 7% (inclusive of forex and PLI benefits) in FY25. Additionally, the company aims to generate higher free cash from operations and reduce its net debt.
- **Reduction in working capital days:** Syrma's working capital days in Q1FY25 declined to 62 days from 70 days in Q4FY24. The company aims to further reduce to it in FY25. Consumer segment is a high-volume business thus requires lesser working capital days. Other segments require relatively higher working capital days. The higher revenue contribution of consumer segment in Q1FY25 primarily led to lower working capital days.
- **Johari Digital Healthcare Limited:** The entity generated revenue of INR 100-110mn with EBITDA of INR 10mn, primarily led by high quarterly seasonality in the healthcare business.
- **IT hardware:** Syrma has not tied up with any large player at present. Currently, it has received one order from an OEM. So, the company expects some revenue from IT hardware in coming quarters.
- **Smart metering business:** Smart metering business generates similar margin to industrial business in India. The margins are relatively higher in export market.
- **Export business:** Segment contributed 16% of total revenue in Q1FY25. Export segment contributed INR 8bn of total sales (26%) in FY24. The company aims to scale it to INR 10bn+ in FY25 (20-25% YoY growth). It has picked up pace in Aug'24, indicating strong revival in coming quarters. Syrma has target of ~33% revenue contribution from exports over long term.
- **Revival likely in healthcare business:** Healthcare segment comprises two major sub-segments: (1) RFID-based healthcare business and (2) EMS/Medtech devices business. Medtech business was soft in Q1FY25. However, it may significantly improve in rest of FY25. Typically, Q1FY25 is soft for healthcare business and there is gradual improvement in the rest of financial year.
- **Contribution of consumer segment to total sales may decline:** Contribution of consumer segment to total sales increased to 53% against 39% in Q1FY24. Higher telecom-based orders in consumer segment have resulted in higher contribution during the quarter. Contribution of consumer segment may decline to ~40% for FY25, considering the orderbook. Higher exports and industrial business may offset the impact of decline in consumer business. Consumer business may contribute INR 18bn to total sales in FY25 (considering 45% revenue growth YoY and 40% consumer business contribution). In consumer business, telecom may contribute INR 15bn while the rest may come from non-telecom consumer segments in FY25.
- **Capex:** Syrma has spent INR 0.7-0.8bn on capital expenditure in Q1FY25. Further, it intends to spend another INR 0.5-0.8bn in the rest of FY25. The company is likely to spend INR 1bn on Pune, Maharashtra (India) facility while rest (INR 0.3-0.4bn) will be on new facility development in Stuttgart, Germany. Syrma had average capacity utilisation of 60-65% in Q1FY25.
- **Capacity expansion is progressing well:** Syrma's capacity addition work is on-track as per schedule. Medtech design center may become operational before Aug'24-end. Pune, Maharashtra campus may become operational in Q3FY25.

- **Strong orderbook position:** Syrma has orderbook of INR 45bn+ as of Jun'24. The company has received orders for its smart metering segment. This segment may register INR 2bn of revenue in FY25. Syrma has onboarded one German multinational client. Also, it has added new customers in its automobile segment with new product additions. Orderbook is divided across verticals – automobile (23-25% contribution), consumer (38-40%), industrial (22-25%), healthcare (6-7%) and rest with IT & railways. Order intake in Q1FY25 stood at INR 12bn, majorly comprising orders from auto, industrial and consumer segments.
- **Telecom PLI:** Syrma received INR 40mn as telecom PLI claims for FY23. The company indicated that it might receive additional INR 150-160mn in FY25 as telecom PLI is pending for FY24.
- **Net debt:** Syrma has net debt of INR 1.2bn as of Jun'24. It has gross debt of INR 6.1bn with treasury investments of INR 4.9bn (includes IPO proceeds of INR 1.5bn). The company has reduced its net debt by INR 0.5bn since Mar'24 and aims to further reduce it in FY25.

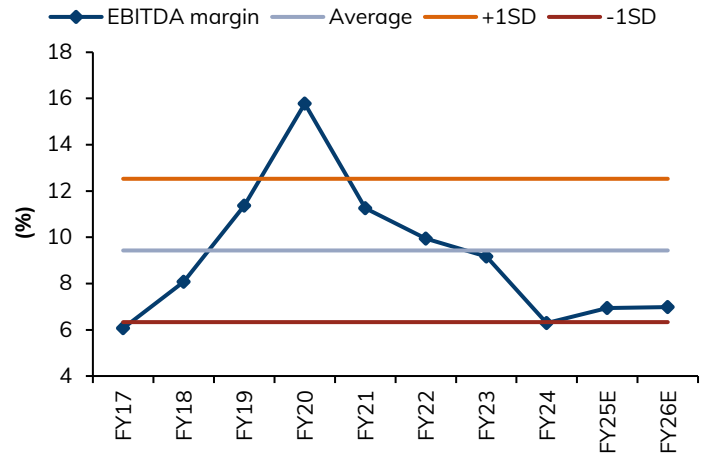
Key charts – Annual

Exhibit 1: Revenue and growth rates



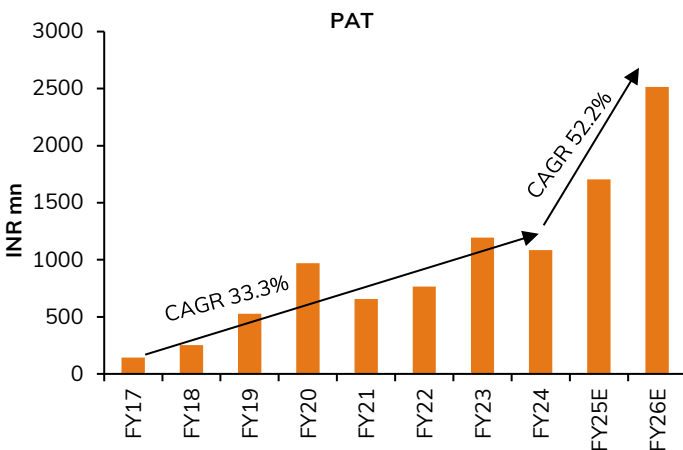
Source: Company data, I-Sec research

Exhibit 2: EBITDA margin



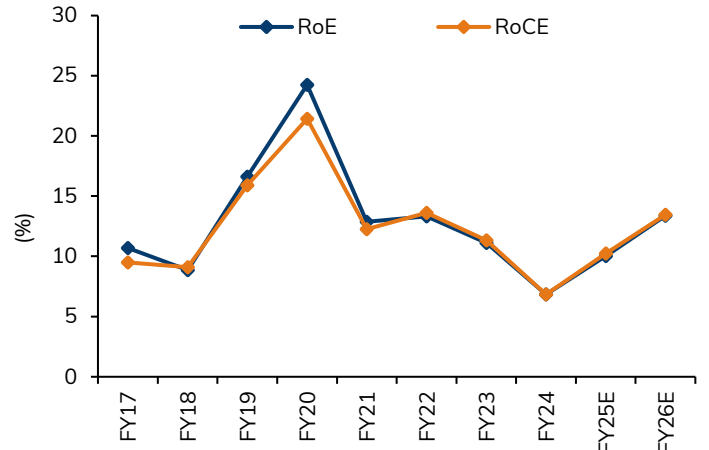
Source: Company data, I-Sec research

Exhibit 3: Net profit and growth rates



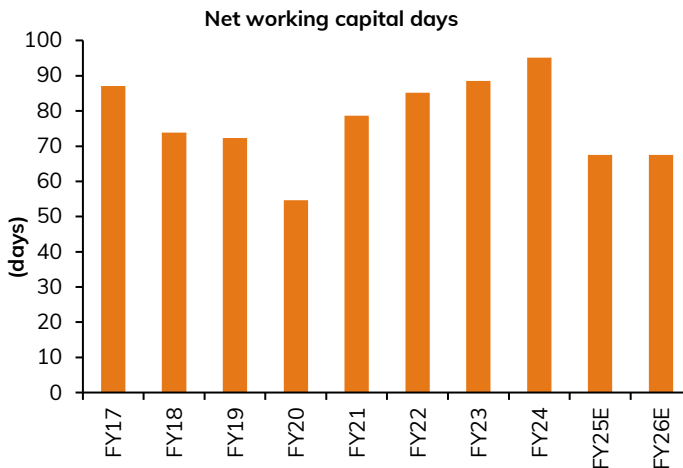
Source: Company data, I-Sec research

Exhibit 4: RoE and RoCE



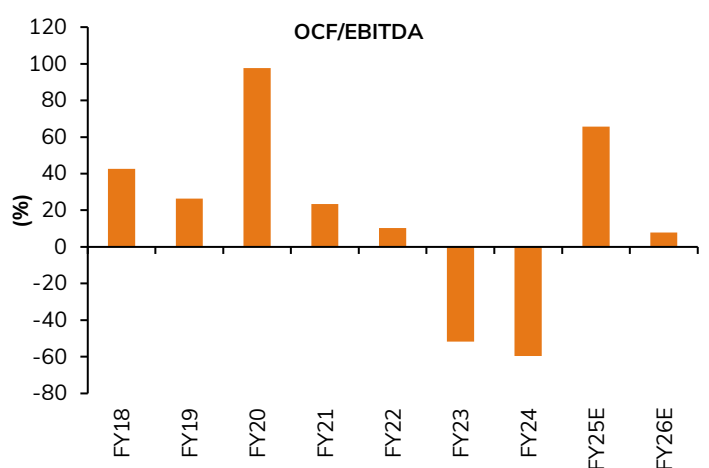
Source: Company data, I-Sec research

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

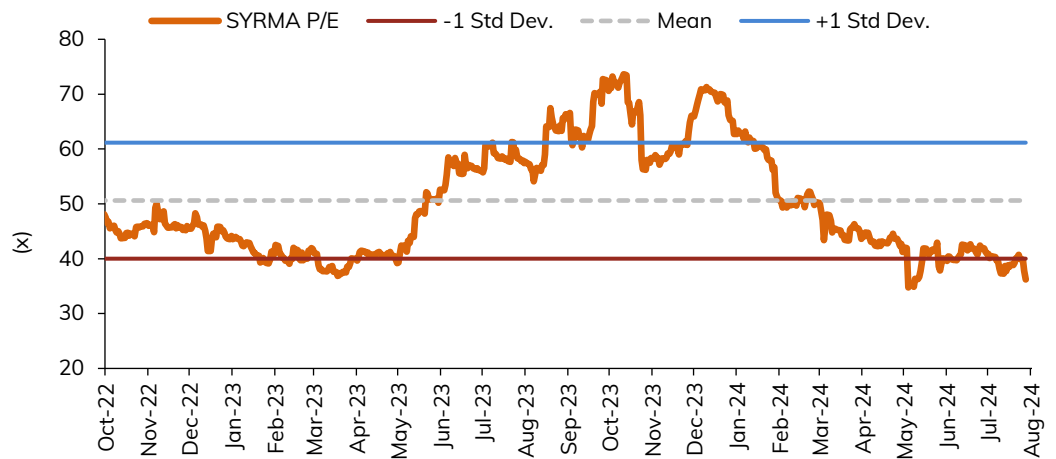
We model Syrma SGS to report revenue/PAT CAGR of 40.8%/52.2% over FY24-26E while RoE may move up to 10.1% in FY26E, from 5.2% in FY24. At our DCF-based revised TP of INR 540 (earlier: INR 600), implied P/E works out to 38x FY26E EPS. Maintain **BUY**.

Exhibit 7: DCF-based valuation

Particulars	
Cost of Equity (%)	11.6%
Terminal growth rate (%)	4.0%
Discounted interim cash flows (INR mn)	29,941
Discounted terminal value (INR mn)	65,869
Total equity value (INR mn)	95,811
Value per share (INR)	540

Source: Company data, I-Sec research

Exhibit 8: Mean PE (x) and standard deviations



Source: I-Sec research, Bloomberg

Risks

Sharp increase in input prices and competitive pressures

Major increase in input prices and/or increase in competitive pressures may result in downside to our estimates.

Delays in launch of new plants/products

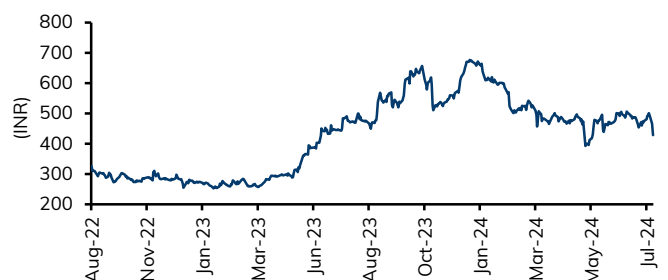
Any delays in launch of new products and/or plants may result in lower earnings than estimated.

Exhibit 9: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	46.9	46.9	46.9
Institutional investors	19.3	18.7	16.8
MFs and other	5.2	4.0	4.5
FIs/ Banks	0.0	0.0	0.0
Insurance Cos.	0.4	0.4	0.0
FIIIs	13.7	14.3	12.3
Others	33.8	34.4	36.3

Source: Bloomberg, I-Sec research

Exhibit 10: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	20,484	31,538	46,135	62,515
Operating Expenses	18,606	29,553	42,933	58,151
EBITDA	1,878	1,985	3,202	4,364
EBITDA Margin (%)	9.2	6.3	6.9	7.0
Depreciation & Amortization	312	515	716	858
EBIT	1,566	1,470	2,486	3,506
Interest expenditure	216	378	529	463
Other Non-operating Income	437	586	331	334
Recurring PBT	1,787	1,678	2,287	3,377
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	556	421	583	861
PAT	1,231	1,257	1,704	2,516
Less: Minority Interest	38	170	-	-
Extraordinaries (Net)	16	(25)	-	-
Net Income (Reported)	1,210	1,062	1,704	2,516
Net Income (Adjusted)	1,193	1,087	1,704	2,516

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	11,484	22,407	23,995	31,327
of which cash & cash eqv.	544	856	928	69
Total Current Liabilities & Provisions	5,969	13,330	14,533	19,692
Net Current Assets	5,515	9,077	9,463	11,635
Investments	8,351	3,552	3,552	2,452
Net Fixed Assets	4,142	7,533	8,736	9,878
ROU Assets	-	-	-	-
Capital Work-in-Progress	253	168	-	-
Total Intangible Assets	1,182	3,221	3,221	3,221
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	19,443	23,552	24,972	27,186
Liabilities				
Borrowings	3,876	6,618	6,618	6,618
Deferred Tax Liability	138	164	164	164
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	1,768	1,774	1,774	1,774
Reserves & Surplus	13,635	14,352	15,772	17,986
Total Net Worth	15,403	16,126	17,546	19,760
Minority Interest	26	644	644	644
Total Liabilities	19,443	23,552	24,972	27,186

Source Company data, I-Sec research

Exhibit 13: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	7,117	7,067	11,341	11,599
% growth (YoY)	52.4	37.9	66.9	92.9
EBITDA	490	388	737	446
Margin %	6.9	5.5	6.5	3.8
Other Income	89	121	156	153
Extraordinaries	(12)	1	(0)	(16)
Adjusted Net Profit	297	155	349	193

Source Company data, I-Sec research

Exhibit 14: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	(973)	(1,183)	2,106	343
Working Capital Changes	(2,299)	(2,804)	(314)	(3,030)
Capital Commitments	(1,184)	(3,377)	(1,750)	(2,000)
Free Cashflow	(2,157)	(4,560)	356	(1,657)
Other investing cashflow	(7,961)	2,734	-	1,100
Cashflow from Investing Activities	(9,145)	(643)	(1,750)	(900)
Issue of Share Capital	8,760	(80)	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	1,478	2,218	-	-
Dividend paid	-	(265)	(284)	(302)
Others	-	-	-	-
Cash flow from Financing Activities	10,238	1,873	(284)	(302)
Chg. in Cash & Bank balance	120	47	72	(859)
Closing cash & balance	465	520	928	69

Source Company data, I-Sec research

Exhibit 15: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	6.8	6.1	9.6	14.2
Adjusted EPS (Diluted)	6.8	6.1	9.6	14.2
Cash EPS	8.5	9.0	13.6	19.0
Dividend per share (DPS)	-	1.5	1.6	1.7
Book Value per share (BV)	87.1	90.9	98.9	111.4
Dividend Payout (%)	-	24.4	16.7	12.0
Growth (%)				
Net Sales	61.7	54.0	46.3	35.5
EBITDA	49.0	5.7	61.3	36.3
EPS (INR)	21.5	(9.3)	56.8	47.6
Valuation Ratios (x)				
P/E	63.4	69.8	44.5	30.2
P/CEPS	50.2	47.4	31.4	22.5
P/BV	4.9	4.7	4.3	3.8
EV / EBITDA	37.6	39.3	24.4	18.3
P / Sales	3.7	2.4	1.6	1.2
Dividend Yield (%)	-	0.3	0.4	0.4
Operating Ratios				
Gross Profit Margins (%)	24.8	20.5	21.5	21.5
EBITDA Margins (%)	9.2	6.3	6.9	7.0
Effective Tax Rate (%)	31.1	25.1	25.5	25.5
Net Profit Margins (%)	6.0	4.0	3.7	4.0
NWC / Total Assets (%)	25.6	34.9	34.2	42.5
Net Debt / Equity (x)	(0.3)	0.1	0.1	0.2
Net Debt / EBITDA (x)	(2.7)	1.1	0.7	0.9
Profitability Ratios				
RoCE (%)	7.9	5.2	7.7	10.1
RoE (%)	11.2	6.7	9.7	13.0
RoIC (%)	12.4	7.5	9.4	11.7
Fixed Asset Turnover (x)	5.1	4.5	4.7	5.3
Inventory Turnover Days	129	141	117	113
Receivables Days	89	131	80	78
Payables Days	131	186	132	128

Source Company data, I-Sec research

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