

SYRMA SGS TECHNOLOGY: FEAR OVER IPO STREET EASES?

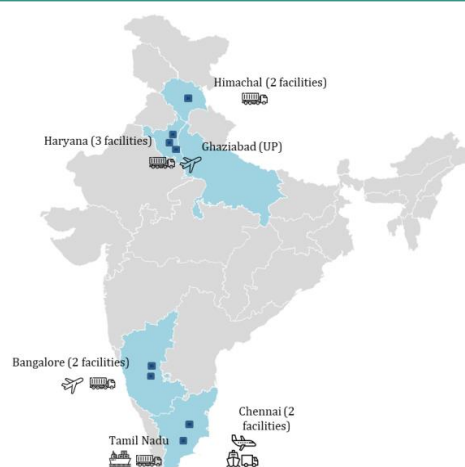
Offer Details

- The IPO will be a combination of fresh issue of up to ₹ 766 crore and offer for sale of up to ₹ 74 crore by existing shareholders
- The IPO is open for subscription between August 12, 2022 and August 18, 2022
- The shares are proposed to list on both NSE and BSE on 26th August, 2022
- The net proceeds from the fresh issue will be used to fund capex requirements for development of a R&D facility and expansion of manufacturing facilities, long term working capital requirements and general corporate purposes

Key Highlights

- Engineering and design firm Syрма SGS Technology provides comprehensive Electronics Manufacturing Services (EMS). It specializes in precision manufacturing for a variety of end-use sectors, including the IT, automotive, healthcare, consumer items, and industrial appliance sectors
- Syрма SGS Technology presently conducts business out of 11 manufacturing facilities located in Himachal Pradesh, Haryana, Uttar Pradesh, Tamil Nadu, and Karnataka
- The company also has one research and development facility in Germany and three dedicated facilities in India
- The company served more than 200 customers in the previous fiscal year, 16 of whom have been a part of the business for more than ten years. This contributed to proforma revenue of Rs. 262.8 crores in FY22, while exports accounted for 44% of proforma revenue in FY22 compared to 53% in FY21

Exhibit 1: Manufacturing facilities of Syрма SGS Technology across India



Source: Syрма SGS Technology, DRHP

Key Financials

Particulars (In ₹ mn) except ratios	FY19	FY20	FY21	H1FY22
Revenue	3,539.97	3,970.76	4,383.03	1,331.90
EBITDA	430.76	699	529.34	121.81
EBITDA Margin (%)	12.17	17.60	12.08	9.15
Profit After Tax (PAT)	209.67	438.8	286.15	55.57
PAT Margin (%)	5.92	11.05	6.53	4.17
Return on Equity (ROE) (%)	45.45	55.81	16.92	9.25
Return on Capital Employed (ROCE) (%)	36.66	50.46	25.87	20.32
Net Debt	801.19	486.37	259.15	238.26
Debt/Equity Ratio	1.65	0.82	0.24	0.21
Asset Turnover	4.68	5.07	5.84	7.23

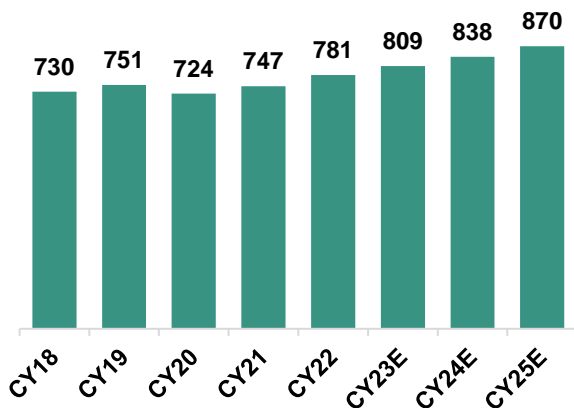
Source: SYRMA SGS Technology, DRHP

Industry Analysis

Electronics Manufacturing Services (EMS) is a term used for companies that design, manufacture, test, distribute, and provide return/repair services for electronic components and assemblies for original equipment manufacturers (OEMs). The concept is also referred to as Electronics Contract Manufacturing (ECM).

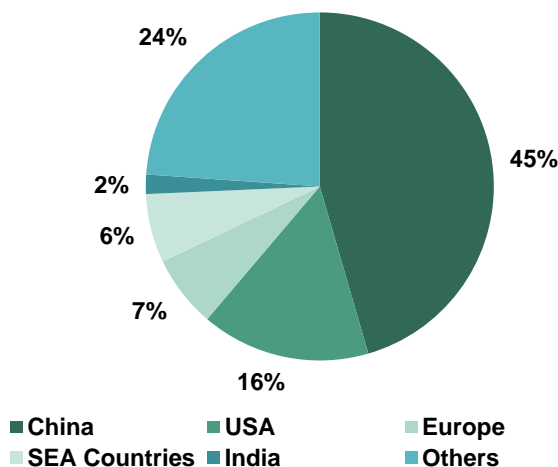
The demand for IOT based devices is expected to accelerate at CAGR of 15.0 % till 2025. In the next five years, demand for EMS will be driven by a rise in electronic device demand, a well-established EMS infrastructure, and evolving government policies that encourage local production. Linking the region's quantum of R&D activities to the total available market, EMS providers can expect good growth opportunities from product development if EMS providers can solve scalability and time-to-develop challenges.

Exhibit 2: Electronics Manufacturing Services (EMS) Industry, Global, Value In USD Billion, CY2017 - CY2025



Source: Syrma SGS Technology, DRHP

Exhibit 3: EMS Market break-up by select countries, Global, Value in USD Billion, CY2020

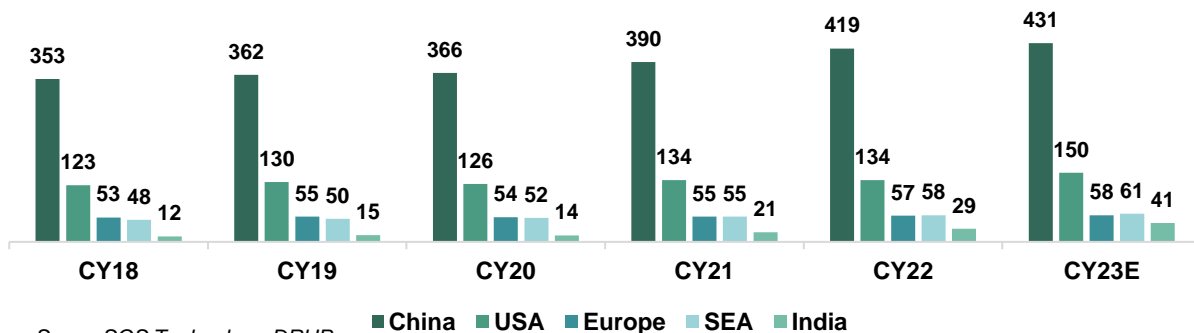


Source: Syrma SGS Technology, DRHP

China and Taiwan account for 40% of the global electronics manufacturing services (EMS) market. Currently, India accounts for less than 5% of the global EMS market and a large part of India's electronics manufacturing caters to its domestic market.

As a result of government initiatives (e.g., Invest India) and efforts undertaken by industry, electronics manufacturing in India has grown rapidly from USD \$29B in 2014-15 to USD \$70B in 2018-19, at a compound annual growth rate (CAGR) of about 25%. Improved customs procedures, state of the art infrastructure and reduced bottlenecks have led to a positive change in the ease of doing business.

Exhibit 4: EMS Market break-up by select countries, (\$ bn)



Source: Syrma SGS Technology, DRHP

Company Analysis

Incorporated as 'Syrma Technology Private Limited' on 23rd August 2004, it is an engineering and design company engaged in turnkey electronics manufacturing services ("EMS"). It specialises in precision manufacturing for diverse end-use industries, including industrial appliances, automotive, healthcare, consumer products and IT industries.

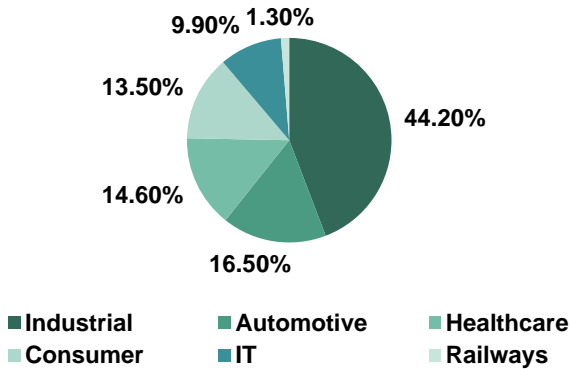
It serves global OEMs in 20+ countries and has supplied several hundreds of million units. It is the leader in high mix low volume product management and is present in most industrial verticals. The company currently operates through manufacturing units in India and Germany. It is one of India's leading exporters of electronics, providing a high-value integrated design and production solution for internationally recognized OEMs

Design and engineering services have been primarily focused on the healthcare, industrial and automotive industries end-use industries in the last three Fiscals.

Business Strategy

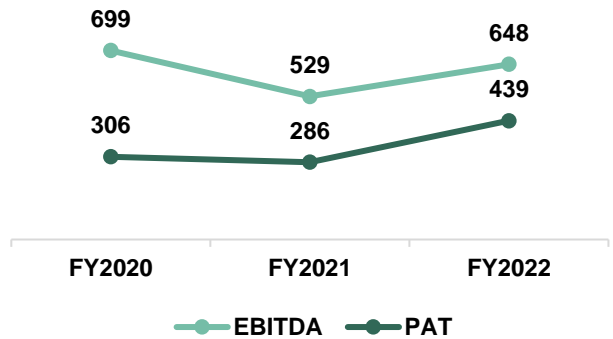
Solidify and strengthen core competitiveness of technology innovation	Pursue inorganic growth through strategic acquisitions	Increase the wallet share from existing customers
Expand the customer base and geographic reach by marketing existing products and developing new ones.	Cater to more end-use industries. Intending to focus on Lighting, Medical Electronics and Aerospace and Defence	

Exhibit 5: % of revenue from operations attributable to different industries



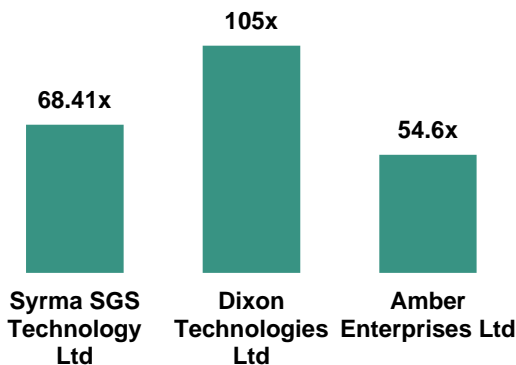
Source: DRHP, SYRMA SGS

Exhibit 6: EBITDA & PAT performance for the past 3 years



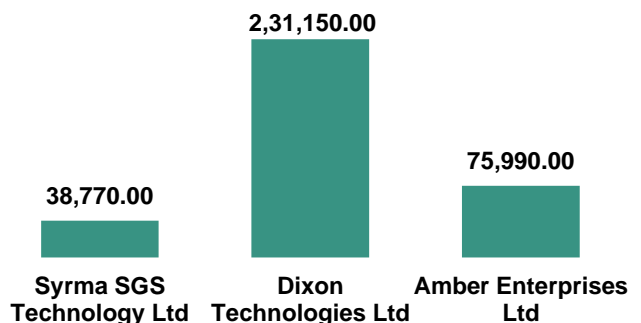
Source: DRHP, SYRMA SGS

Exhibit 7: Peer Comparison - P/E ratio



Source: Brokerage Report

Exhibit 8: Valuations, Market Cap in comparison to peers in the industry (Rs in million)



Source: Brokerage Report

PROS	<ul style="list-style-type: none"> The company's three-year average ROE is 39.39% and its three-year average ROCE is 37.66%. Its H1FY22 ROE and ROCE are 9.25% and 20.32% respectively On a proforma basis, Syrma SGS increased its revenue by 21% and by 28% p.a. on a standalone basis. Company trades at a P/B value of 2.9 times against peers' average level of 13.1 times. Company trades at a P/E of 71.6 times on a consolidated against peers' median level of 79.4 times.
CONS	<ul style="list-style-type: none"> The company imports 61% of its raw materials and 44% of its revenue are derived from exports in FY22. Thus any major geopolitical risks may affect operations. The company's operating earnings yield is just 2.2% on a consolidated basis and 2.9% on proforma basis. PAT Margin and net margin have declined by more than 500 basis points from FY20 to FY22, and have been falling consistently in the last three years. While Syrma SGS has 11 manufacturing facilities, four facilities contribute to 75% of revenue and any disruptions in them may affect operations.

Exhibit 9: ROE & ROCE generated by the firm

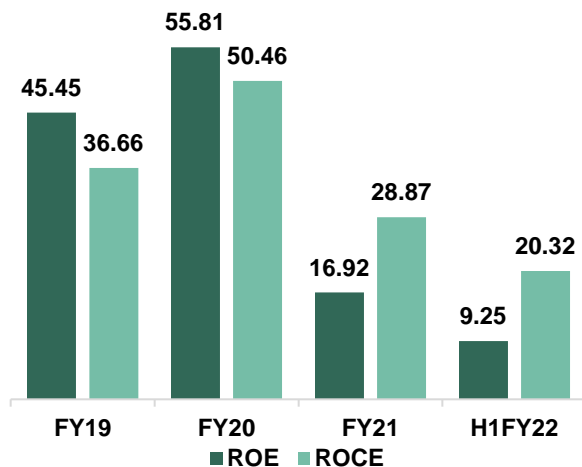
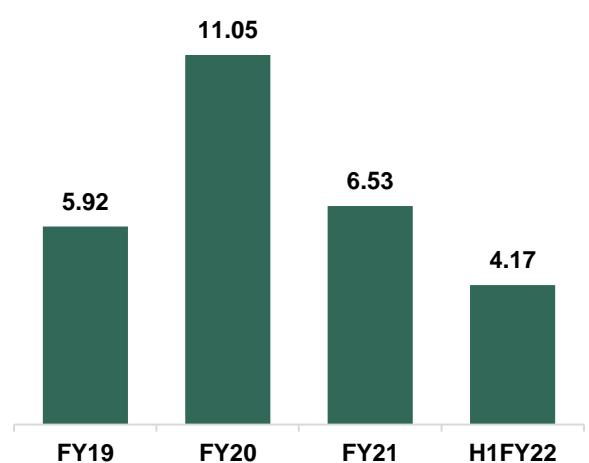


Exhibit 10: Declining returns in the PAT Margin over the years



Key Risks

- The global shortage of semiconductor chips has resulted in an increase in the cost of raw materials and components, this may depress margins to the extent that it is not possible to pass these higher component prices on to customers.
- Technical knowledge is a significant independent asset, which may not be adequately protected by intellectual property rights such as patent registration. This could erode the competitive advantage.
- Since a significant percentage of revenues are denominated in U.S. Dollars and other foreign currencies and a significant percentage of costs are denominated in Indian Rupees, the company faces currency exchange risks.
- Failure to integrate newly acquired businesses into operations successfully, as well as liabilities or claims relating to such acquired businesses, could adversely affect the business.
- SYRMA's dependence on third parties for the supply of raw materials and import majority of raw materials, and delivery of products and such providers could fail to meet their obligations, which may have a material adverse effect on business, results of operations and financial condition.

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