



IPO Report

11th Aug' 22

Snapshot

Syrma SGS Technology Ltd is a technology-focused engineering and design company engaged in turnkey electronics manufacturing services, specialising in precision manufacturing for diverse end-use industries, including industrial appliances, automotive, healthcare, consumer products and IT industries.

VALUATION

Company is bringing the issue at price band of Rs 209-220 per share at p/e multiple of 68x on post issue FY22 PAT basis. Company being one of the leading design and electronic manufacturing services companies has consistent track record of financial performance. Company is diversified and continuously evolving and expanding product portfolio and service offerings catering to customers across various industries, backed by strong R&D capabilities. Also company has established relationships with marquee customers across various countries & state-of-the-art manufacturing capabilities supported by a global supplier network, with a focus on vertical integration. Hence . looking after all above ,we recommend “Subscribe” on issue.

Price Band (Rs./Share)	209-220
Opening date of the issue	12th Aug 2022
Closing Date of the issue	18th Aug 2022
No of shares pre issue	141,410,956 Eq Shares
Issue Size	Rs 836-Rs 840 Cr
Offer For Sale	3,369,360 Equity Shares
Fresh Issue	Rs 766.00 Cr
Face Value (Rs/ share)	10
Bid Lot	68

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 19093769 Eq Shares)
Non-Institutional	15% of the offer (Approx 5728132 Eq Shares)
Retail	35 % of the offer (Approx 13365640 Eq Shares)
Lead managers	DAM Capital Advisors Ltd, ICICI Securities Ltd, IIFL Securities Ltd
Registrar to the issue	Link Intime India Pvt. Ltd.

WHAT WE LIKE

One of the leading design and electronic manufacturing services companies in terms of revenue in Fiscal 2021, driven by company’s focus on quality and customer relationships

Company is one of the fastest growing Indian-headquartered ESDM companies. Further, company is leaders in high mix low volume product management and are present in most industrial verticals. Company is one of the leading PCBA manufacturers in India, supplying to various OEMs and assemblers in the market. Company is also amongst the top key global manufacturers of custom RFID tags.

Established relationships with marquee customers across various countries

Company’s product portfolio has helped forge strong relationships with major clients. Several global brands are company’s customers both in India and overseas. Certain of company’s marquee customers across the end-use industries that company cater to, include TVS Motor Company Limited, A. O. Smith India Water Products Pvt. Ltd., Robert Bosch Engineering and Business Solution Pvt Ltd, Eureka Forbes Ltd Limited, CyanConnode Limited, Atomberg Technologies Private Limited, Hindustan Unilever Limited and Total Power Europe B.V. O

Diversified and continuously evolving and expanding product portfolio and service offerings catering to customers across various industries, backed by strong R&D capabilities

Company have, over the years, diversified and expanded its product portfolio, and evolved its operations to provide design and engineering services and original design manufacturing services, that cater to various industries, including automotive, healthcare, IT, industrial appliances, energy management, water purification, power supply, and consumer products industries.



COMPANY BACKGROUND

Company is among the large bouquet of EMS players in India & it is one of the fastest growing Indian-headquartered ESDM companies. Company has a track record of technical innovation which involves working with the engineering teams of company's marquee customers, and over the years, company have evolved to provide integrated services and solutions to OEMs, from the initial product concept stage to volume production through concept co-creation and product realization. Company's manufacturing infrastructure enables to undertake a high mix of products with flexible production volume requirements. Company is leader in high mix low volume product management and is present in most industrial verticals. Further, company is one of the leading PCBA manufacturers in India, supplying to various OEMs and assemblers in the market. Company is also amongst the top key global manufacturers of custom RFID tags .Company's current product portfolio may be categorised as follows:

Company currently operate through 11 strategically located manufacturing facilities in north India (i.e. Himachal Pradesh, Haryana and Uttar Pradesh) and south India (i.e. Tamil Nadu and Karnataka). Company's presence in these states enables it to efficiently cater to the requirements of its customers in north and south India. Company's manufacturing facilities in Tamil Nadu are located in a special economic zone and its manufacturing facility in Haryana has been set up under the Electronic Hardware Technology Park scheme, which allow to avail certain tax and other benefits in respect of the products manufactured out of these facilities. In addition, company's manufacturing facilities are strategically located in Tamil Nadu, Karnataka and Haryana, which allow to cater to its export requirements (in light of the proximity of these facilities to the respective city airports and Chennai port).

Company's current product portfolio may be categorised as follows:

- Printed circuit board assemblies ("PCBA"): Company's PCBAs are used in products manufactured in the automotive, medical, industrial, IT and consumer products industries, and shall include box-build products;
- Radio frequency identification ("RFID") products: Company's RFID products are used in products manufactured in the shipping, healthcare, manufacturing, retail and fintech industries;
- Electromagnetic and electromechanical parts, which include magnetic products like chokes, inductors, magnetic filters, transformer as well as high volume manufacturing assemblies: Company's electromagnetic and electromechanical parts are used in products manufactured in the automotive, industrial appliances, consumer appliances and healthcare industries, among others; and
- Other products, which include motherboards, DRAM modules, solid state drives, USB drives and other memory products.

Company have a wide product portfolio with applications across diverse end-use industries Its products are primarily focussed toward ODMs and OEMs serving end-use industries including the automotive, healthcare, IT, industrial appliances, energy management, water purification, power supply and consumer products industries. In Fiscals 2020, 2021 and 2022, based on the Proforma Condensed Combined Financial Information, company's proforma revenue from operations attributable to its customers in each of the relevant end-use industries have been set out below:

Industry	Revenue (in Rs Million)			As a % of revenue from operations		
	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2020	Fiscal 2021	Fiscal 2022
Automotive	1332.07	1302.92	2514.94	15.39%	14.68%	19.86%
Consumer	1944.95	2084.60	2577.13	22.47%	23.49%	20.35%
Healthcare	2067.3	1243.79	1619.10	23.88%	14.02%	12.78%
Industrial	3288.22	3929.04	4412.04	37.99%	44.28%	34.83%
IT	15.28	205.04	1296.47	0.18%	2.31%	10.214%
Railway & Others	8.90	108.56	246.79	0.10%	1.22%	1.958%
Grand Total	8656.54	8873.94	12666.48			



INVESTMENT RATIONALE

<p><i>Diversified and continuously evolving and expanding product portfolio and service offerings catering to customers across various industries, backed by strong R&D capabilities</i></p>	<p>Company have, over the years, diversified and expanded its product portfolio, and evolved its operations to provide design and engineering services and original design manufacturing services, that cater to various industries, including automotive, healthcare, IT, industrial appliances, energy management, water purification, power supply, and consumer products industries. The diversification and expansion of company's product portfolio is primarily driven by the continuously evolving needs of its customers and technological advancements in the industry. Company's continuously evolving product portfolio has helped accelerate its growth and in innovating the manner company cater to and thus retain both new and existing customers. In addition, company have also evolved its operations to include design and engineering services and original design manufacturing services as part of its service offerings, which have helped increase company's wallet share with is existing customers, in addition to bringing in new customers. This has also helped hedge company's operations against the potential risk of its offerings becoming obsolete.</p>
<p><i>State-of-the-art manufacturing capabilities supported by a global supplier network, with a focus on vertical integration</i></p>	<p>Company currently operate through 11 manufacturing facilities spread across five states namely Tamil Nadu, Karnataka, Himachal Pradesh, Haryana and Uttar Pradesh, that are supported by 849 permanent employees and 3,886 persons employed as contract labour / temporary employees and retainership employees (as on March 31, 2022). Company's presence in these states enables to efficiently cater to the requirements of its customers in north and south India. Company's manufacturing facilities in Tamil Nadu are located in a special economic zone and its manufacturing facility in Haryana has been set up under the Electronic Hardware Technology Park scheme, which allow to avail certain tax and other benefits in respect of the products manufactured out of these facilities. In addition, company's manufacturing facilities are strategically located in Tamil Nadu, Karnataka and Haryana, which allow to cater to company's export requirements (in light of the proximity of these facilities to the respective city airports and Chennai port). The common manufacturing capabilities across company's facilities gives it the flexibility to seamlessly migrate production between different facilities in case of emergencies. Company have migrated its ERP platforms to the Hana S4 platform with effect from April 1, 2022 which has resulted in common centralised databases for components, vendors, quality and supply chain, which will lead to productivity improvements and efficient working capital management.</p>
<p><i>Experienced promoters supported with senior management team with proven track record of performance</i></p>	<p>Syrma Technologies is led by a management team with extensive experience in the EMS sector with a proven track record of performance. Company's Board comprises eminent individuals with significant experience across various industries and functions. Company's Promoter and Executive Chairman, Sandeep Tandon, has approximately 18 years of experience in this industry and provides valuable guidance on all strategic matters. In addition, company's Promoter and Managing Director, Jasbir Singh Gujral, has in-depth industry knowledge and extensive managerial experience in the EMS sector, with over 30 years of experience in the EMS sector. In addition, members of company's management team, which comprises a mix of homegrown talent and lateral talent from leading multinational companies and firms, possess complementary skills and have extensive experience and knowledge of company's business.</p>



OBJECTS OF OFFER

Offer for Sale:

The respective portion of the proceeds from the Offer for Sale (which is, proceeds from the offer for sale of 3,369,360 Equity Shares) shall be received by Veena Kumari Tandon (Selling Shareholder).

Fresh Issue:

Company proposes to utilise the Net Proceeds towards funding the following objects: \

1. Funding capital expenditure requirements for development of a R&D facility and expansion / setting up of manufacturing facilities
2. Funding working capital requirements
3. General corporate purposes.

RISKS

Company's customers do not make long-term commitments and may cancel or change their production requirements. Such cancellations or changes may adversely affect company's financial condition, cash flows and results of operations.

Source:RHP

INDUSTRY OVERVIEW

Growth Drivers for EMS industry

Key Growth Drivers for EMS industry

Import Substitution: As per MeiTY, electronic imports accounted for ₹ 3.9 Trillion (USD 56 Billion) in FY1, which is 21% of the total electronics market in India. Imports are expected to reach USD 68 Billion by FY25, accounting for 12.6 % of total electronics market demand.

Enhancing local value add: India is evolving as an innovation-driven R & D destination for global companies. India is registering increasing EV investment in the country. Sub-assembly modules and the finished goods assemblies are things that are happening currently in India and are very lucrative opportunities given in the Indian ecosystem. Current Indian wages stand at roughly 20 % of the Chinese average wages, and India offers a 500 million plus workforce in the age bracket of 15 to 39 years, which is 15 % larger than that of China. Even though component manufacturing is currently being dominated by China, Japan, and South Korea, India has showcased strong potential in this part and is on the path to developing a strong component manufacturing base. The opportunities in India ominously offset the hurdles. It is also clear from the World Bank report's improvement in rank of ease of doing business in India, which has risen from 142nd in 2015 to 63rd in 2020.

China + 1 Strategy: As the Chinese electronics contract manufacturing cost structure continues to be on the rise, so has the OEM customer's interest been amplified in moving the electronics production to other countries having similar prices, quality, and receptiveness. There is a new urgency now to examine practical alternatives to manufacturing in China given the tariff conflicts and the COVID 19 pandemic. Company is a strong contender for China+1. According to a recent global survey, 20-30 % of industrial firms will leave China in the next few years.

Export focus on USD 5 Trillion GDP: With a larger focus on CAPEX and R&D, Budget 2021 has given a strong push to the domestic marketplace, which is very significant to India's economic growth. India has the potential to be one of the most attractive manufacturing destinations and support the objective of 'Make in India for the World'. The government and industry need to collaborate and drive initiatives to help India move among the top 5 countries in ESDM production and the top 3 in ESDM consumption.

Investments by Local and Global players: The higher growth rate in India vis-à-vis the Global market is because of multiple factors: consistent local demand for Electronics products, Government's focus on domestic manufacturing, programs like Make in India and Digital India, which have led to increasing manufacturing investment in the country.



Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22
Total Revenue (A)	4383.03	10197.20
Total Expenditure (B)	3915.46	9252.92
EBIDTA	467.57	944.28
EBIDTA Margin	10.67	9.26
Other Income	61.77	126.88
Depreciation	120.74	194.32
EBIT	408.60	876.84
Interest	45.24	67.82
PBT	363.36	809.02
Tax	77.21	267.62
PAT	286.15	541.40
NPM	6.53	5.31
ROE %	12.01	9.76
EPS	2.33	4.12
Eq Cap	7.48	1376.17
Net Worth	2381.71	5547.32

(Source: RHP)

Peer Comparison

Company Name	OPM%	NPM% %	ROE%	Export Sales %	PE
Syrma SGS Technology	9.9%	6.0%	13.6%	36.9%	---
Dixon technologies	3.5%	1.8%	19.1%	0.1%	110.76
Amber Enterprises	6.5%	2.6%	6.3%	0.5%	75.54
Bharat FIH Ltd	2.7%	1.1%	6.4%	0.0%	---

(Source: RHP)



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