

Play on strong industry tailwinds...

About the Company: Syrma SGS Technology (Syrma) is one of the fastest growing electronics system design and manufacturing companies. It is engaged in the turnkey electronics manufacturing services (EMS)

- The company has a large product portfolio, which includes printed circuit boards, RFIDS, electromagnetic, electromechanical parts and other products such as SSDs, USB flash drives, etc
- Its products are primarily focused towards end-use industries such as automotive, healthcare, IT, industrial appliances and others
- Syrma's consolidated revenues grew at CAGR of 21% over FY20-22

Key triggers/Highlights:

- India's electronic manufacturing services (EMS) industry is likely to grow at a healthy CAGR of 30% from ₹ 2,654 billion in FY21 to ₹ 9,963 billion by FY26. The strong growth is expected to be driven by robust demand for electronic products across all industries (automotive, consumer products, capital goods/ power) where Syrma is present
- Syrma's wide product portfolio aids faster customer addition and wallet share gains from existing customers
- Established relationship with diverse customer base across the world
- Increased focus on R&D to optimise current product offerings and launch of new products. The increased R&D spends to help the company increase its ODM revenue share
- Syrma is backed by a robust supplier network. Its suppliers are spread across 21 countries (apart from India), including US, Singapore and China

What should investors do? Syrma is one of the leading manufacturers in the fast growing domestic EMS industry. The company has a wide products portfolio with diverse customer base. The company's consolidated proforma revenue grew at 21% CAGR YoY driven by consolidation of new business and customer additions across product segments. The EBITDA margin declined 583 bps YoY to 9.9% due to change in product mix and raw material cost pressure. PAT came in at ₹ 76 crore, lower than its FY20 PAT tracking lower margins. At the upper price band at ₹ 220, the stock is priced at 50.7x at FY22EPS of ₹ 3.2/share (based on fully diluted post issue of equity).

- We assign **UNRATED** rating to the IPO

Key risk & concerns

- Lack of long-term commitments from customers
- Dependent on imports and third parties for the supply of raw materials
- Operates in a highly competitive industry wherein some of its competitors have substantially greater financial, manufacturing or marketing resources



IPO Details

Issue Details

Issue Opens	12th August 2022
Issue Closes	18th August 2022
Issue Size*	₹ 840 crore
Fresh Issue	₹ 766 crore
Price Band	₹ 209-220
No. of shares on offer (in crore)	3.8
QIB (%)	50
Retail (%)	35
Non-Institutional (%)	15
*based on upper price band	

Shareholding pattern (%)

	Pre-Issue	Post-Issue
Promoter	61.5	47.4
Group		
Public	38.5	52.6

Objects of the issue

Objects of the Issue	₹ crore
Capex funding	403.0
Funding working capital requirements	132
General Corporate Purposes	-
Fresh Issue	766
Offer for sale	836

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Key Financial Summary (Proforma Consolidated)

(₹ crore)	FY20	FY21	FY22	2 Yr CAGR (FY20-22)
Net Sales	865.7	887.4	1266.6	21%
EBITDA	136.6	99.9	126.0	-4%
EBITDA Margin (%)	15.8	11.3	9.9	
Net Profit	91.5	65.5	76.4	-9%
EPS (₹)	5.2	3.7	4.3	
P/E (x)	42.4	59.2	50.7	
RoE (%)	21.1	12.2	13.4	
RoCE (%)	22.3	14.3	15.0	

Company Background

Incorporated in 2004, Syrma is a technology-focused engineering & design company and is also engaged in the electronics manufacturing services (EMS) in India. The company is promoted by Sandeep Tandon and Jasbir Singh Gujral. Syrma is one of the leading printed circuit board assemblies (PCBA) manufacturers in India, supplying to various OEMs and assemblers in the market. The company is also among the top key global manufacturers of custom RFID tags. Syrma provides integrated services and solutions to OEMs, from the initial product concept stage to concept co-creation and product realisation. The company supplies products to various industries, which includes automotive, healthcare, consumer products, IT and industrials (capital goods/power industries). Syrma serves over 200 clients across the world, which includes names such as TVS Motor, CyanConnote, HUL, AO Smith India, Robert Bosch Engineering and Business Solution Pvt Ltd, Eureka Forbes etc. The industrial category contributes ~35% to its overall revenue followed by consumer products and automotive industry with revenue share of 20% each. The company acquired SGS Teknics and Perfect ID in Q3FY22 with an outlay of ₹ 366 crore and ₹ 34 crore, respectively, which helped it to expand its manufacturing footprint and add new customers.

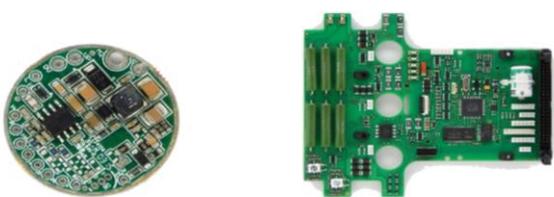
Exhibit 1: Product Portfolio

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

Source: RHP, ICICI Direct Research

Exhibit 2: Product types

PCBA



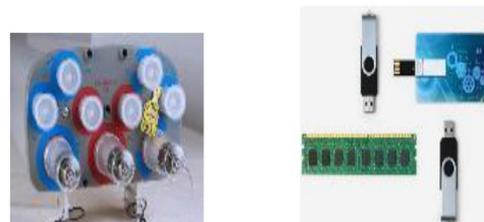
RFID



Electromagnetic and electromechanical parts



Other products

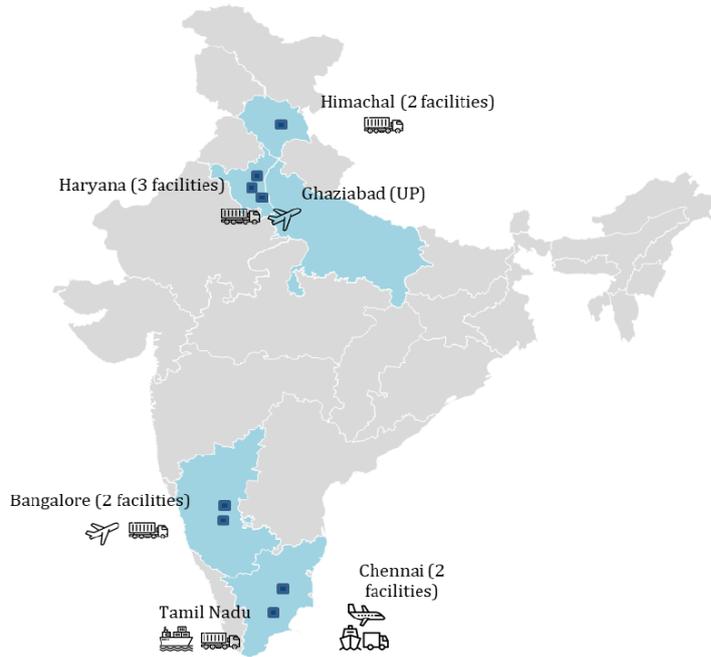


Source:RHP, ICICI Direct Research

Manufacturing footprint in north, south India

Syrma has 11 manufacturing facilities spread across five states viz. Tamil Nadu, Karnataka, Himachal Pradesh, Haryana and Uttar Pradesh. Most of Syrma’s manufacturing facilities are strategically located in proximity to the respective city airports.

Exhibit 3: Manufacturing facilities



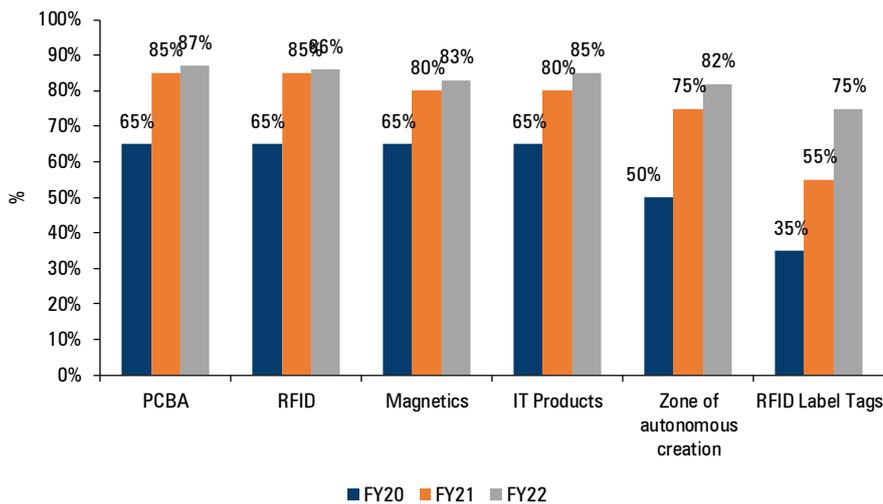
Source: RHP, ICICI Direct Research

Exhibit 4: Product wise installed capacity

Products	Capacity Installed as on 31st March 2022
PCBA	10,120 Million (M) Components per Annum (CPA) and 3.6 M Assemblies
RFID	300 M tags
Magnetics	6 M Coils
IT Products	7.2 M Modules
Zone of autonomous creation	180M CPA
RFID Label Tags	1,500,000 Tags per month

Source: RHP, ICICI Direct Research

Exhibit 5: Capacity utilisation



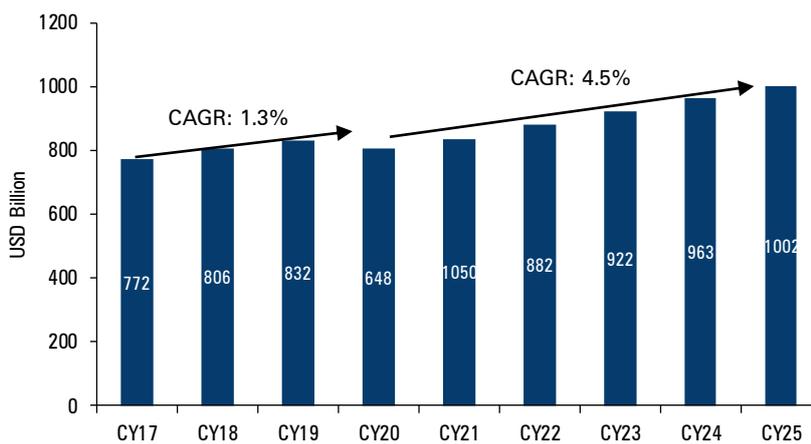
Source: RHP, ICICI Direct Research

Key Strategies

Increased demand for electronic goods to drive global EMS industry

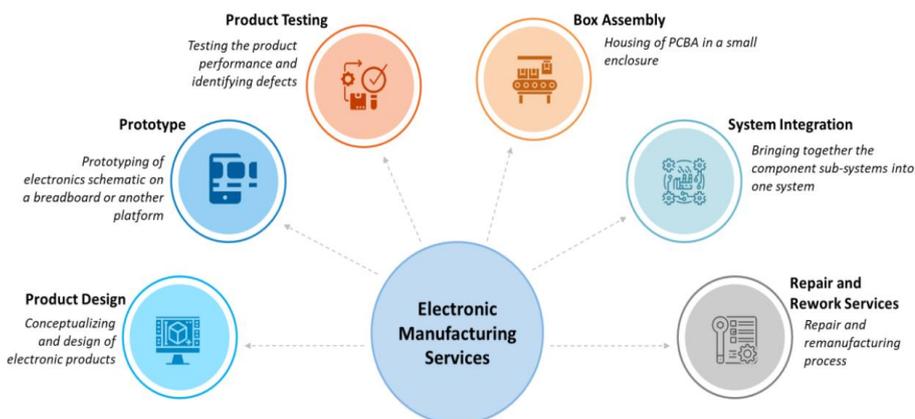
The global EMS industry is likely to grow at a CAGR of ~4.5% over CY20-25E to US\$1000 billion (bn) supported by rising demand for electronic products. The global EMS market traditionally comprised companies that manufacture electronic products, predominantly assembling components on printed circuit boards (PCBs) and box builds for OEMs. Today OEMs are seeing more value from EMS companies, leading to involvement beyond just manufacturing services to product design and development, testing, aftersales services, such as repair, remanufacturing, marketing, and product lifecycle management. EMS companies are equipped to provide a gamut of services, which includes design, assembly, manufacturing and testing of electronic components for the original equipment manufacturers.

Exhibit 6: Global EMS industry growth trend



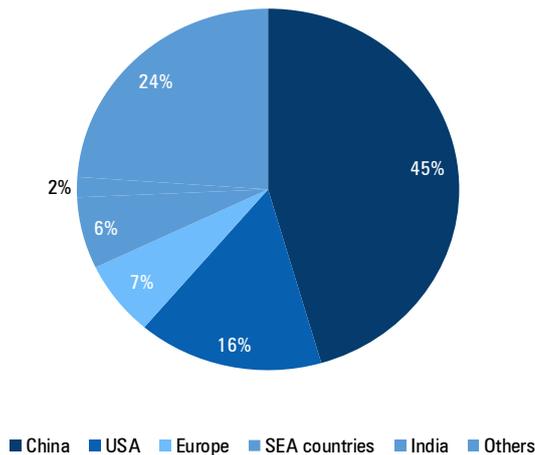
Source: RHP, ICICI Direct Research

Exhibit 7: Range of services offered by electronic manufacturing service companies



Source: RHP, ICICI Direct Research

Exhibit 8: Global EMS market break-up by countries



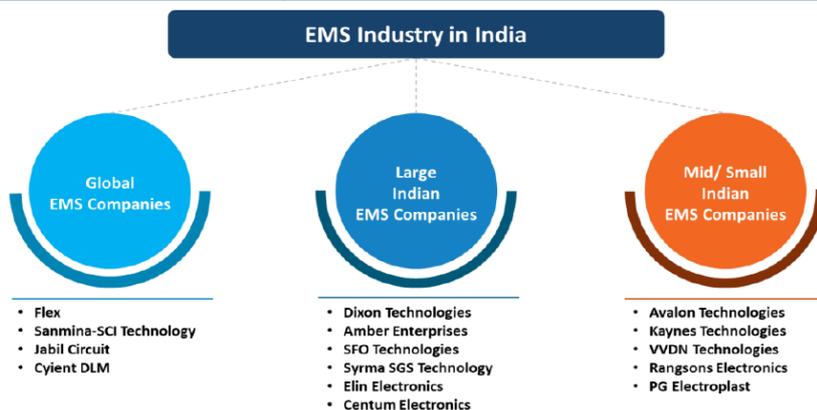
Source: RHP, ICICI Direct Research

India’s EMS Industry to grow at CAGR of ~30% by FY26

India’s electronic manufacturing services (EMS) industry is likely to grow at a healthy CAGR of 30% from ₹ 2,654 billion in FY21 to ₹ 9,963 billion by FY26. The strong growth is attributable to the government’s thrust on increasing domestic manufacturing of electronic goods in India. However, the industry is largely dominated by multinational companies due to their strong supply chain network and technology support from parent group. At ₹ 1,069 billion, the Indian EMS companies contribute 40% to total industry size. Domestic companies are likely to grow at a CAGR of 41.1% to ₹ 5,978 billion by FY26 supported by adoption of China + 1 strategy by key brands, production linked incentives by government and various export opportunities. Sourcing of manufacturing help original equipment manufacturers (OEMs) to keep their balance sheet light and focus on marketing and after-marketing services of their products. Mobile phones, consumer electronics and industrial electronics contribute to three-fourth of the total EMS market in India.

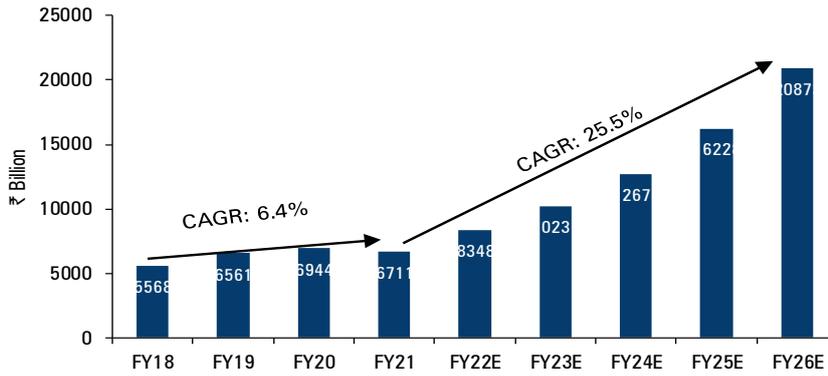
There are more than 30 organised companies in the EMS industry but the commercial semiconductor fabrication operation is almost non-existent. The competition concentration is moderate as the top three companies account for 28.5% of the market. EMS companies in India have matured from being mere contract manufacturers to end-to end support partners today. Companies are observed to follow either of the two unique business models – high volume / low mix or low volume / high mix. Seldom do companies adopt a mixed approach. Major players are Flextronics, Jabil, Dixon, SFO, Resolute, Elin, NTL, Cyient and Foxconn. EMS companies are slowly moving toward the ODM model offering complete end to end services including design, product development and also reverse logistics for certain products.

Exhibit 9: Indian EMS industry



Source: RHP, ICICI Direct Research

Exhibit 10: India’s EMS industry growth trend

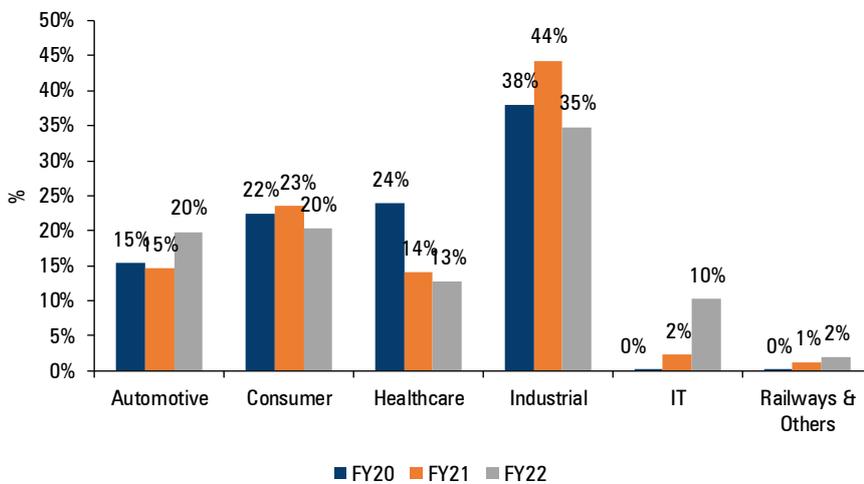


Source: RHP, ICICI Direct Research

Wide product portfolio of Syрма finds application in various industries

Syрма’s wide product portfolios, which includes PCBs, RFIDs, magnetic, electro mechanical products, etc, finds applications across diverse end-use industries. Its products are primarily focused toward ODMs and OEMs serving automotive, healthcare, IT, industrial appliances, energy management, water purification, power supply and consumer products industries. The diversification and expansion of product portfolio is primarily driven by evolving needs of customers and technological advancements in the industry. The company’s focus to increase product portfolios helped in new customer addition and wallet share gains of existing customers. Currently industrial sector (capital goods/power) contributes ~35% to its overall revenues followed by automotive and consumer products segments with revenue contribution of 20% each. The company is further looking to expand customer base into lightings, medical electronics, aerospace & defence industries.

Exhibit 11: Industry-wise revenue contribution



Source: RHP, ICICI Direct Research

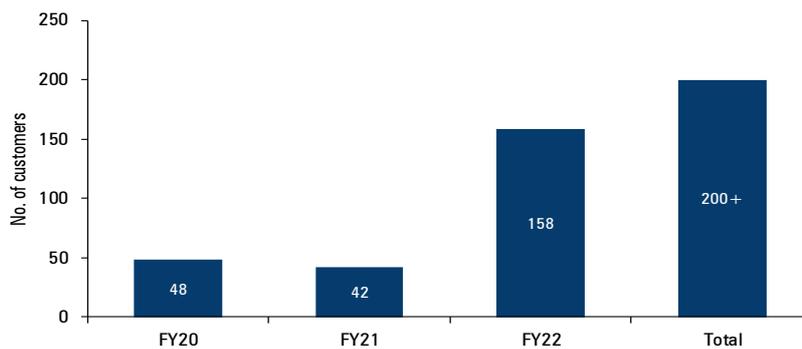
Focus on R&D driven product development

The evolution of Syrma's product portfolio and service offerings has been driven by its R&D capabilities. The company has three dedicated R&D facilities, two of which are located in India and one is located in Germany. The R&D efforts are focused on (i) development of new products and improvement of the quality of existing products; and (ii) driving the design and engineering capabilities and original design manufacturing (ODM) capabilities of the company. Revenues from the ODM business increased 31% YoY to ₹ 252 crore in FY22. Focus on R&D has helped the company to increase wallet share from existing customers through increased product offerings, and cross selling these products to other customers. Syrma further aims to increase its R&D expenditure improve its manufacturing process on existing products and reduce manufacturing costs. Syrma plans to utilise ~75% of its IPO proceeds to fund capital expenditure requirements for developing new R&D and manufacturing facility new plant.

Established relationships with marquee customers across various countries

In FY22, Syrma catered to over 200 customers of which 16 have been associated with the company for over 10 years. The company acquired 48, 42 and 158 new customers in FY20, FY21 and FY22, respectively. In addition, 93 customers have been associated with the companies for over three years. Syrma's product portfolio has helped it forge strong relationships with its major Indian and overseas clients. Syrma's marquee customers include TVS Motor Company, AO Smith India Water Products Pvt Ltd, Robert Bosch Engineering and Business Solution Pvt Ltd, Eureka Forbes Ltd, CyanConnode Ltd, Atomberg Technologies Pvt Ltd, Hindustan Unilever and Total Power Europe BV. It aims to continue strengthening its long-standing relationships with well-known customers across the end-use industries.

Exhibit 12: New customer additions



Source: RHP, ICICI Direct Research

Backed by robust supplier network

Syrma is backed by a robust supplier network. In FY22, it purchased raw materials and components from 1,669 suppliers across the globe. Its suppliers are spread across 21 countries (apart from India), including the US, Singapore and China. The company is not reliant on any single supplier for any of its raw materials and components and is able to leverage its wide and diverse network of suppliers to ensure that its supply chain remains unaffected. Having a diverse network also enables the company to be prompt and has a relatively faster access to suppliers for development of moulds/tools required for the manufacture of various products, which eliminates the extensive capital investment otherwise required for the development of such moulds or tools. The company leverages its global sourcing capabilities to optimise its costs while maintaining the quality of its products resulting in lower lead time to the market. Its raw materials and components can be broadly categorised as follows:

Exhibit 13: Raw materials and their procurement

Raw Materials	Description
Electronic Components	Micro controllers, IC, resistors, capacitors, LED, PCB and other semiconductors procured directly from overseas manufacturers or their authorized distributors
Wound Components	Wound components or magnetic components are either manufactured in-house or sourced from approved vendors
Wiring harness	Wiring harness for export products are manufactured in - house while those required for domestic markets are procured from approved vendors
Plastic Parts	These are procured from dedicated plastic moulding companies
Sheet Metal Parts	These are made based on the drawings and tools which are owned by the Company
Process consumables	These are sourced from various third-party manufacturers

Source: RHP, ICICI Direct Research

Pursue inorganic growth through strategic acquisitions

Syrma has continuously sought to diversify its product portfolio in order to cater to customers across various end-use industries and geographies. Accordingly, while it seeks to continue to strengthen its existing product portfolio, it also intends to further diversify into products with prospects for increased growth and profitability by leveraging its R&D capabilities. The company acquired SGS Teknics in September 2021 and Perfect ID in October 2021. The acquisition of SGS Teknics helped provide opportunities to consolidate and optimise the company's manufacturing network. It also helped consolidate component purchases, which account for a majority of the company's expenditure on raw materials. This acquisition has also opened opportunities for cross selling RFID and magnetic products to existing customers of SGS Teknics. Pursuant to the acquisition of Perfect ID, Syrma acquired the infrastructure and know-how for the manufacture of RFID label tags and passive inlay tags, which was in addition to its existing capabilities for the manufacture of RFID hard tags, thus expanding its RFID products portfolio.

Syrma also plans to continue to increase offerings in its current business segments as well as diversify into new products by tapping into segments, which have attractive growth prospects. The company intends to pursue similar organic growth opportunities as it has in the past.

Key Risks

Lack of long-term commitments from customers

The company does not generally obtain long-term purchase commitment from its customers. Its customers also cancel, change or delay design, production or aftermarket service quantities and schedules, or fail to meet their forecasts for a number of reasons. In addition, customers may fail to meet their commitments made to the company. Cancellations, reductions or delays by a significant customer, or by a group of customers, could seriously harm the company's operating results and negatively affect its working capital levels.

Dependent on imports, third parties for supply of raw materials

In FY22, FY21 and FY20, Syrma imported raw materials amounting to ~₹ 370 crore, ~₹ 1,91 crore and ₹ ~156 crore, which accounted for ~74%, ~71% and ~70% of its cost of raw materials and components, respectively. Any restrictions, either from the central or state governments of India, or from countries from which Syrma imports, on such imports may adversely affect its business, prospects, financial condition and results of operations.

Operates in highly competitive industry

Syrma competes against many providers of electronics manufacturing services. Some of its competitors have substantially greater financial, manufacturing or marketing resources than Syrma and have more geographically diversified international operations compared to Syrma. The company also faces competition from the manufacturing operations of its current and future customers, who are continually evaluating the merits of manufacturing products internally against the advantages of outsourcing to EMS providers.

Higher revenue contribution from four manufacturing facilities out of 11

The company currently operates through 11 manufacturing facilities spread across Tamil Nadu, Karnataka, Himachal Pradesh, Uttar Pradesh and Haryana, of which four of its manufacturing facilities at (i) Manesar, Haryana, (ii) Gurugram, Haryana, and (iii) Chennai, Tamil Nadu contributed largely to the company's revenues over the last three years. Due to the concentration of its manufacturing operations in these facilities, its operations are susceptible to local and regional factors relating to these facilities.

Financial summary (Proforma Consolidated)

Exhibit 1: Profit and loss statement				₹ crore
(Year-end March)	FY20	FY21	FY22	
Revenue	865.7	887.4	1,266.6	
Growth (%)		2.5	42.7	
Raw material expense	554.1	598.0	892.1	
Employee expenses	52.9	57.1	75.1	
Other expenses	122.1	132.4	173.5	
Total Operating Exp	729.1	787.5	1,140.7	
EBITDA	136.6	99.9	126.0	
Growth (%)		-26.8	26.1	
Depreciation	19.1	22.8	24.9	
Interest	12.8	7.1	8.0	
Other Income	14.3	16.9	17.7	
PBT	119.0	86.9	110.7	
Total Tax	21.9	21.3	34.3	
PAT	91.5	65.5	76.4	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement			₹ crore
(Year-end March)	FY21	FY22	
Profit after Tax	65.5	76.4	
Add: Depreciation	22.8	24.9	
Add: Interest Paid	7.1	8.0	
(Inc)/dec in Current Assets	-74.0	-194.1	
Inc/(dec) in CL and Provisions	13.5	90.1	
Others	0.0	0.0	
CF from operating activities	34.9	5.4	
(Inc)/dec in Investments	-9.4	34.3	
(Inc)/dec in Fixed Assets	-17.6	-110.7	
Others	-1.5	-18.1	
CF from investing activities	-28.5	-94.5	
Issue/(Buy back) of Equity	0.0	136.9	
Inc/(dec) in loan funds	-20.9	101.7	
Dividend paid & dividend tax	0.0	0.0	
Others	74.9	-109.1	
CF from financing activities	54.0	129.6	
Net Cash flow	60.4	40.5	
Opening Cash	78.0	72.9	
Closing Cash	72.9	36.9	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				₹ crore
(Year-end March)	FY20	FY21	FY22	
Liabilities				
Equity Capital	0.7	0.7	137.6	
Reserve and Surplus	453.5	535.5	434.4	
Total Shareholders funds	454.2	536.3	572.1	
Total Debt	113.4	92.5	194.2	
Other non current liabilities	11.7	14.1	3.3	
Total Liabilities	592.1	659.5	816.9	
Assets				
Gross Block	0.0	0.0	322.8	
Less: Acc Depreciation	0.0	0.0	63.5	
Total Fixed Assets	217.7	212.6	298.4	
Investments	0.0	0.0	36.3	
Inventory	141.9	178.9	291.3	
Debtors	180.4	208.4	272.2	
Loans and Advances	0.0	0.0	0.0	
Other Current Assets	37.7	46.7	64.5	
Cash	78.0	72.9	36.9	
Total Current Assets	438.0	506.8	665.0	
Creditors	173.1	190.2	240.5	
Provisions	7.9	9.4	11.0	
Other current liabilities	52.7	47.6	85.9	
Total Current Liabilities	233.8	247.3	337.3	
Net Current Assets	204.2	259.6	327.6	
Other Non Current	21.9	29.7	31.3	
Total Assets	592.1	659.5	816.9	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				₹ crore
(Year-end March)	FY20	FY21	FY22	
Per share data (₹)				
EPS	5.2	3.7	4.3	
Cash EPS	6.3	5.0	5.8	
BV	25.8	30.4	32.5	
DPS	0.0	0.0	0.0	
Operating Ratios (%)				
EBITDA Margin	15.8	11.3	9.9	
PAT Margin	11.1	7.4	6.0	
Asset Turnover	1.5	1.3	1.6	
Inventory Days	59.8	73.6	83.9	
Debtor Days	76.1	85.7	78.4	
Creditor Days	73.0	78.3	69.3	
Return Ratios (%)				
RoE	21.1	12.2	13.4	
RoCE	22.3	14.3	15.0	
RoIC	56.2	28.2	16.2	
Valuation Ratios (x)				
P/E	42.4	59.2	50.7	
EV / EBITDA	28.6	39.0	31.7	
EV / Net Sales	4.5	4.4	3.2	
Market Cap / Sales	4.5	4.4	3.1	
Price to Book Value	8.5	7.2	6.8	
Solvency Ratios				
Debt / Equity	0.2	0.2	0.3	
Current Ratio	2.0	2.2	2.3	
Quick Ratio	1.2	1.3	1.3	

Source: Company, ICICI Direct Research

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