

11 August 2022

## Syrma SGS Technology – SUBSCRIBE

### Investment Thesis

Syrma SGS Technology Ltd. (Syrma SGS) is coming out with an initial public offering (IPO) on August 12, 2022. The issue comprises of fresh issue of equity share worth Rs.7,660mn and offer for sale of 3,369,360 equity share. Objective of the issue is to finance the development of an R&D facility and expansion/setting up of manufacturing facilities (Rs. 4,300mn) and working capital requirements (Rs.1,316mn).

Syrma SGS is engineering and design company engaged in electronics manufacturing services (EMS) and one of India's leading exporters of electronics. It provides a high-value integrated design and production solution for internationally recognized OEMs. Syрма SGS is one of the leading EMS with a focus on technology-based solutions and original design manufacturer business. It is more focused towards advancements in product technology, structure and functional design to meet customer requirements and lead the industry in development. Syрма SGS's operates through 11 manufacturing facilities in Himachal Pradesh, Haryana, Uttar Pradesh, Tamil Nadu and Karnataka. Manufacturing facilities in Tamil Nadu are located in SEZs while Haryana facility has been set up under the Electronic Hardware Technology Park scheme, which allow the company to avail tax and other benefits. Syрма SGS Technology is the first in India to manufacture Radio Frequency Identification (RFID) products and continued to lead the industry.

Syrma SGS is focused on technological innovation through its R&D capabilities. It has developed 3 dedicated R&D facilities, 2 of which are located in India in Chennai and Gurgaon respectively and one is located in Stuttgart, Germany, which are equipped with state-of-the-art research and development infrastructure. R&D facilities are supported by a team of 106 full-time employee specifically earmarked for R&D. Syрма SGS' R&D provide its design & engineering services and original design manufacturing services across all the end-use industries primarily in healthcare, industrial and automotive industries.

### Financials

- During the past 3 years, revenue of Syрма SGS grew at a CAGR of 22.2% while PAT grew at a CAGR of 13.4% in same period.

Standal. (Rs.Mn.)	FY20	FY21	FY22	FY23E	FY24E
Revenue	3,971	4,383	6,463	7,432	8,547
EBITDA	699	529	648	745	857
% growth	NA	-24.3	22.4	15.0	15.0
PAT	439	286	306	352	405
EPS (Rs.) #	2.5	1.7	1.8	2.0	2.3
P/E (x) *#	86.4	132.6	123.9	107.8	93.7
RoE (%) #	16.1%	7.0%	5.3%	5.7%	6.1%

\* At highest price band # Post listing

### IPO Details

Issue Open Date	12 August 2022
Issue Close Date	18 August 2022
Price Band (Rs.)	Rs. 209 - Rs. 220
Issue Size (Rs Mn)*	Rs. 8,400mn
Issue Size (Shares)*	38,187,542 Shares
Market Lot	68 Shares
Listing Exchanges	BSE and NSE
Face Value (Rs.)	Rs. 10

\* At highest price band

### Key Details

Fresh Issue	Rs. 7,660mn.
Offer for Sales*	Rs. 741.2mn.
Issue Type	Book Building
Book Running Lead Manager	DAM Capital Advisors, ICICI Securities, IIFL Securities
Issue structure	QIB – 50%, Retail – 35% Non Institutional – 15%
Credit of Shares to Demat Account	25 August 2022
Issue Listing Date	26 August 2022

\* At highest price band

## Key Business Highlights

- Syrma SGS is a technology-focused engineering and design company engaged in electronics manufacturing services (EMS), specializing in precision manufacturing for diverse end-use industries, including industrial appliances, automotive, healthcare, consumer products, and IT industries.
- Syrma SGS has developed a diversified product portfolio, which helped to forge strong relationships with major clients. It has established and will continue to focus on strengthening long-standing relationships with well-known customers across the end-use industries it serves.
- Syrma SGS operate through 11 manufacturing facilities spread across five states, Tamil Nadu, Karnataka, Himachal Pradesh, Haryana and Uttar Pradesh. Its manufacturing facilities are equipped with modern and high-speed equipment that can handle surface mount components and through hole components.

## Valuation

- Syrma SGS leverages its strengths such as global sourcing capabilities and long-standing relationship with its vendors to consolidate and bring down the cost of raw materials and components. It has incorporate a concept of co-creation initiative which enables it to design products for customers from the idea / concept phase that it initiate and give its client the preliminary prototypes for testing and trials. Once the design and quality are approved, client help Syrma SGS to seamlessly transition to volume manufacturing at its high-speed fully integrated manufacturing facilities. Syrma SGS has continuously diversified its product portfolio to keep pace with developments in technology. In addition, Syrma SGS' continued focus on technology innovation and design infrastructure has also enabled to undertake services for its customers over time.
- As part of business strategy to expand market share in the EMS sector and to widen geographical footprint in the national market, Syrma SGS has acquired 'SGS Techniks' in September 2021 and 'Perfect ID' in October 2021. The acquisition of SGS Techniks provided ample headroom for growth as there was almost no overlap of customers and the geographies being serviced by Syrma SGS and SGS Techniks. Pursuant to this acquisition, Syrma SGS increased its manufacturing capacities and in-house R&D capabilities as well as expanded its existing supplier network. Acquisition also helped consolidate its component purchases, which account for a majority of its expenditure on raw materials, resulted into improves its procurement costs as well. This acquisition has also opened opportunities for cross selling their RFID and magnetic products to customers of SGS Techniks.
- With one of India's leading exporters of electronics and provides a high-value integrated design and production solution, focused on technological innovation through its R&D capabilities, long-standing relationship with its vendors and acquisition of SGS Techniks and Perfect ID to expand market share in the EMS sector, we are recommending **SUBSCRIBE** to the IPO of Syrma SGS Technology Ltd.

## Risk & Concern

- Syrma SGS doesn't enter into long-term contract with its customers, which expose it to cancel or change of production requirements. Any cancellations or changes may adversely affect future growth.
- Syrma SGS has to stick with industry standards and failing to meet stringent industry standards and strict quality may hurt the company's future growth prospects.
- Syrma SGS generates ~55% of its revenue from export which expose cross-currency fluctuation. Any negative movement of rupee against major currency may negatively impact margins of Syrma SGS.

## Graphs & Charts

Figure 1: Revenue & Revenue Growth

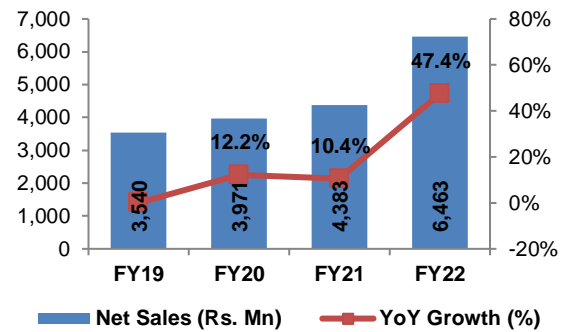


Figure 2: EBITDA & EBITDA Margin Trend

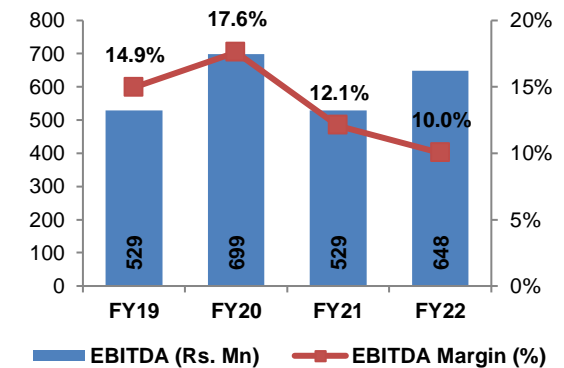


Figure 3: PAT & PAT Margin Trend

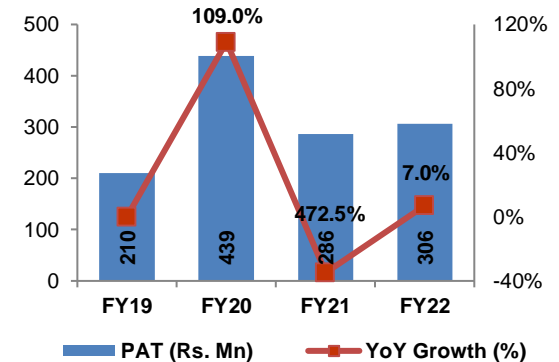
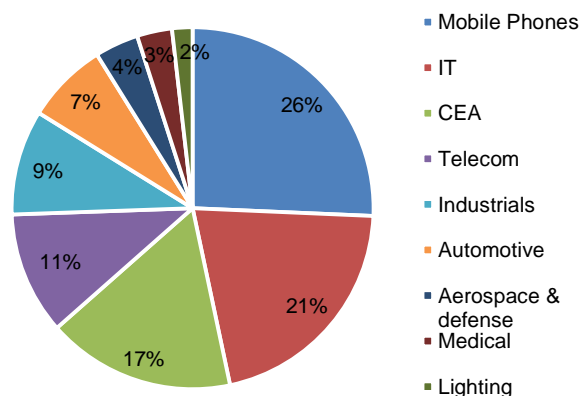


Figure 4: End Users Customers



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