

12 August 2024

India | Equity Research | Q1FY25 results review

Dynamatic Technologies

Defence

Global aerospace supply chain issues, a near-term drag

Dynamatic Technologies' (DTL) Q1FY25 performance was stable. Key points: 1) EBITDA of INR 401mn (up 8% YoY) was aided by the aerospace division. 2) Hydraulics division recovered sequentially while the metallurgy division continues to transition from automotive to aerospace. 3) India performance was better than overseas. 4) Net debt, at INR 3.78bn, was down 4.8% QoQ. Despite intermittent hiccups stemming from ongoing supply chain issues, leading to rationalisation of build rates at OEMs, we remain positive on the DTL's prospects as the new contract wins in Q4FY24 are likely to reflect in earnings from FY27. We maintain **BUY** and our TP of INR 10,250, based on 45x FY26E EPS.

Aerospace performance results in resilient performance

DTL's Q1FY25 performance showed YoY improvement, led by the aerospace division, which now accounts for 74% of consolidated EBITDA compared to 36% a year ago. Key points: 1) Aerospace segment's revenue/EBITDA grew by 31%/69% YoY led by continued revenue growth from existing customers, especially Airbus. 2) Hydraulics division's EBITDA improved 32% QoQ (down 41% YoY) driven by improved demand, though margins remained restrained owing to reduced demand in aftermarket sales in India. 3) Metallurgy division was profitable at the EBIT-level, after two successive quarters of loss. The division continues to endure the implications of the ongoing transition from automotive to aerospace castings. 4) Net debt was down 4.8% QoQ, at INR 3.78bn, with net debt/EBITDA at 2.3x (Q4FY24: 2.5x).

Growth drivers intact despite intermittent issues

In the near-term, management envisions the ongoing supply chain issues across key customers to result in slower-than-expected build-rates. However, in the interim, it is focusing on industrialisation of the large orders that DTL received in Q4FY24. As a result, Dassault Falcon 6X Rear Fuel Tank FAI is expected by end-CY24; and earnings shall reflect the recent new orders in the next 2–3 years. In hydraulics, management envisages favourable monsoon in India to aid tractors demand. In metallurgy, the focus on high-margin products and development of aerospace castings could boost earnings.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	13,158	14,293	16,755	18,571
EBITDA	1,813	1,594	2,416	2,814
EBITDA Margin (%)	13.8	11.2	14.4	15.2
Net Profit	428	1,218	1,206	1,551
EPS (INR)	67.3	191.7	189.8	244.1
EPS % Chg YoY	33.2	30.1	102.7	28.6
P/E (x)	99.3	76.3	37.6	29.3
EV/EBITDA (x)	26.0	29.1	18.9	15.9
RoCE (%)	8.5	7.1	12.1	14.1
RoE (%)	9.9	23.0	18.2	19.6

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Market Data

Market Cap (INR)	45bn
Market Cap (USD)	541mn
Bloomberg Code	DYTC IN
Reuters Code	DYNM BO
52-week Range (INR)	9,083 /3,600
Free Float (%)	57.0
ADTV-3M (mn) (USD)	1.5

Price Performance (%)	3m	6m	12m
Absolute	(13.1)	(6.6)	60.5
Relative to Sensex	(23.2)	(17.9)	39.7

Previous Reports

30-05-2024: [Q4FY24 results review](#)

31-03-2024: [Initiating coverage](#)

Airbus has rationalised the build-rate for A320 series

In Jun'24, Airbus has flattened its build-rate forecasts, particularly for A320 series. The A220 ramp-up continues towards a monthly production rate of 14 aircraft in 2026 (unchanged), with a focus on the programme's industrial maturity and financial performance. Recently, DTL secured the order for all the doors for A220. The A320 family ramp-up trajectory has been adjusted to reflect specific supply chain challenges. The production rate of 75 A320 family aircraft per month is now expected in 2027 (earlier CY26). The A321 XLR powered by CFM engines received its Type Certification from the European Union Aviation Safety Agency (EASA) earlier in Jul'24. Entry-into-service is expected at the end of the summer 2024 (earlier Q3CY24). On widebody aircraft, the company continues to target a monthly production rate of four A330 in 2024 and 12 A350 in 2028.

Outlook: Improving earnings trajectory a positive

We are positive on DTL's performance in Q1FY25 with the aerospace segment further improving, aiding consolidated margins. The sequential improvement in the performance of hydraulics and metallurgy segments is also noteworthy; we believe that margin improvement in India and development of aerospace castings is critical to watch out for, respectively, for both the divisions. We also like DTL's strategy of industrialising the recent order wins in a time when supply chain distortions are resulting in rationalisation of build-rates for Airbus A320. Maintain our positive view on DTL stock with an unchanged TP of INR 10,250 based on 45x FY26E EPS.

Key Risks

- Further slowdown in Aerospace build rates
- Delay in development of Aerospace castings
- Continued low margins in Hydraulics segment

Exhibit 1: Dynamic Technologies consolidated Q1FY25 result performance

Consolidated (INR mn)	Q1FY25	Q1FY24	% Chg YoY	Q4FY24	% Chg QoQ	FY24	FY23	% Chg YoY
Net sales	3,463	3,625	(4.5)	3,704	(6.5)	14,293	13,158	8.6
Gross Margin	1,877	1,887	(0.6)	1,986	(5.5)	7,612	6,848	11.2
Gross Margin (%)	54.2	52.1		53.6		53.3	52.0	
Employee cost	774	744	4.0	756	2.5	3,017	2,534	19.0
Other expenditure	702	773	(9.2)	802	(12.4)	3,001	2,501	20.0
EBITDA	401	370	8.2	429	(6.5)	1,594	1,813	(12.1)
Margin (%)	11.6	10.2		11.6		11.2	13.8	
Other Income	30	203	(85.1)	58	(47.7)	428	98	338.7
Depreciation	173	159	9.0	173	0.3	664	704	(5.8)
EBIT	257	414	(37.8)	313	(17.9)	1,359	1,206	12.7
Interest	140	129	8.7	175	(20.0)	626	654	(4.3)
PBT	117	461		585		1,356	552	
Tax expense	3	47	(93.2)	14	(76.8)	138	124	11.2
PAT	114	414	(72.5)	571	(80.1)	1,218	428	184.7

Source: I-Sec research, Company data

Exhibit 2: Dynamic Technologies consolidated segmental performance

(INR mn)	Q1FY25	Q1FY24	% Chg YoY	Q4FY24	% Chg QoQ
Revenue					
Hydraulics	1,191	1,157	2.9	1,225	(2.8)
Aerospace	1,359	1,046	29.9	1,419	(4.3)
Metallurgy	913	1,422	(35.8)	1,060	(13.9)
Segment Result					
Hydraulics	62	158	(60.6)	70	(11.5)
Aerospace	267	160	66.8	456	(41.4)
Metallurgy	2	136	(98.6)	16	(87.9)
Margins (%)					
Hydraulics	5.2	13.7		5.7	
Aerospace	19.6	15.3		32.1	
Metallurgy	0.2	9.6		1.5	

Source: I-Sec research, Company data

Exhibit 3: Dynamic Technologies standalone Q1FY25 result performance

Standalone (INR mn)	Q1FY25	Q1FY24	% Chg YoY	Q4FY24	% Chg QoQ	FY24	FY23	% Chg YoY
Net sales	1,483	1,285	15.4	1,455	1.9	5,819	5,811	0.1
Gross Margin	768	653	17.7	826	(7.0)	3,040	3,109	(2.2)
Gross Margin (%)	51.8	50.8		56.8		52.2	53.5	
Employee cost	221	190	16.0	231	(4.5)	849	922	(7.9)
Other expenditure	275	261	5.5	283	(2.9)	1,081	1,045	3.4
EBITDA	273	202	35.0	312	(12.7)	1,110	1,142	(2.8)
Margin (%)	18.4	15.7		21.4		19.1	19.7	
Other Income	22	28	(23.7)	55	(61.0)	183	54	241.4
Depreciation	63	49	28.5	75	(15.7)	241	242	(0.4)
EBIT	231	181	27.6	293	(21.0)	1,052	954	10.3
Interest	103	99	3.6	143	(27.9)	503	516	(2.6)
PBT	128	82		663		1,063	438	
Tax expense	36	21	72.3	25	40.3	118	147	(19.5)
PAT	93	61	51.4	638	(85.5)	945	292	224.2

Source: Company data, I-Sec research

Exhibit 4: Dynamic Technologies standalone segmental performance

(INR mn)	Q1FY25	Q1FY24	% Chg YoY	Q4FY24	% Chg QoQ
Revenue					
Hydraulics	743	797	(6.8)	662	12.1
Aerospace	740	703	5.2	793	(6.6)
Metallurgy					
Segment Result					
Hydraulics	89	155	(42.4)	77	16.1
Aerospace	219	192	14.4	262	(16.2)
Metallurgy					
Margins					
Hydraulics	12.0	19.5		11.6	
Aerospace	29.7	27.3		33.0	
Metallurgy					

Source: Company data, I-Sec research

Exhibit 5: Dynamic Technologies subsidiary segmental performance

(INR mn)	Q1FY25	Q1FY24	% Chg YoY	Q4FY24	% Chg QoQ
Revenue					
Hydraulics	449	360	24.6	562	(20.3)
Aerospace	619	343	80.3	627	(1.3)
Metallurgy	913	1,422	(35.8)	1,060	(13.9)
Segment Result					
Hydraulics	(27)	3	(1,103.7)	(7)	310.6
Aerospace	47	(32)	(249.5)	194	(75.5)
Metallurgy	2	136	(98.6)	16	(87.9)
Margins					
Hydraulics	(6.0)	0.7		(1.2)	
Aerospace	7.7	(9.2)		30.9	
Metallurgy	0.2	9.6		1.5	

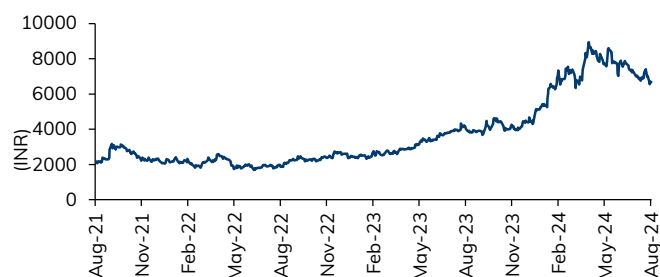
Source: I-Sec research, Company data

Exhibit 6: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	41.9	41.9	41.9
Institutional investors	28.2	27.9	28.4
MFs and other	5.7	5.6	5.5
Banks/ FIs	0.0	0.0	0.0
Insurance Cos.	0.0	0.0	0.0
FIIIs	22.5	22.3	22.9
Others	29.9	30.2	29.7

Source: Bloomberg, I-Sec research

Exhibit 7: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 8: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	13,158	14,293	16,755	18,571
Operating Expenses	5,035	6,018	6,685	7,225
EBITDA	1,813	1,594	2,416	2,814
EBITDA Margin (%)	13.8	11.2	14.4	15.2
Depreciation & Amortization	704	664	550	567
EBIT	1,108	931	1,866	2,246
Interest expenditure	654	626	458	398
Other Non-operating Income	98	428	200	220
Recurring PBT	552	733	1,608	2,068
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	124	138	402	517
PAT	428	595	1,206	1,551
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	428	1,218	1,206	1,551
Net Income (Adjusted)	428	1,218	1,206	1,551

Source Company data, I-Sec research

Exhibit 9: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	8,885	7,548	9,414	10,498
of which cash & cash eqv.	1,609	614	752	1,017
Total Current Liabilities & Provisions	3,522	2,970	3,695	3,563
Net Current Assets	5,363	4,578	5,719	6,935
Investments	3	3	3	3
Net Fixed Assets	4,434	5,729	5,479	5,212
ROU Assets	1,091	1,003	1,003	1,003
Capital Work-in-Progress	785	100	100	100
Total Intangible Assets	1,292	1,183	1,183	1,183
Other assets	198	156	156	156
Deferred Tax Assets	-	-	-	-
Total Assets	13,166	12,753	13,644	14,592
Liabilities				
Borrowings	6,184	4,582	3,982	3,382
Deferred Tax Liability	103	173	173	173
provisions	319	285	637	703
other Liabilities	1,140	1,036	1,036	1,036
Equity Share Capital	68	68	68	68
Reserves & Surplus	5,352	6,610	7,748	9,231
Total Net Worth	5,420	6,677	7,816	9,299
Minority Interest	-	-	-	-
Total Liabilities	13,166	12,753	13,644	14,592

Source Company data, I-Sec research

Exhibit 10: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	3,509	3,455	3,704	14,293
% growth (YOY)	15.3	12.3	15.4	14.0
EBITDA	389	407	429	1,594
Margin %	11.1	11.8	11.6	11.2
Other Income	79	89	58	-
Extraordinary	-	-	(447)	-
Adjusted Net Profit	121	112	571	1,218

Source Company data, I-Sec research

Exhibit 11: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	1,310	973	1,564	1,631
Working Capital Changes	(592)	(587)	(651)	(886)
Capital Commitments	(849)	(749)	(300)	(300)
Free Cashflow	461	225	1,264	1,331
Other investing cashflow	20	140	-	-
Cashflow from Investing Activities	(830)	(609)	(300)	(300)
Issue of Share Capital	1,129	-	-	-
Interest Cost	(545)	(593)	(458)	(398)
Inc (Dec) in Borrowings	624	(1,292)	(600)	(600)
Dividend paid	(19)	(81)	(68)	(68)
Others	-	-	-	-
Cash flow from Financing Activities	723	(2,311)	(1,126)	(1,066)
Chg. in Cash & Bank balance	1,203	(1,946)	138	265
Closing cash & balance	1,378	(568)	646	911

Source Company data, I-Sec research

Exhibit 12: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	67.3	87.6	177.6	228.4
Adjusted EPS (Diluted)	67.3	191.7	189.8	244.1
Cash EPS	178.1	277.1	258.6	312.0
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	852.8	983.4	1,151.1	1,369.5
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	5.0	8.6	17.2	10.8
EBITDA	7.1	(12.1)	51.6	16.4
EPS (INR)	33.2	30.1	102.7	28.6
Valuation Ratios (x)				
P/E	99.3	76.3	37.6	29.3
P/CEPS	37.5	24.1	25.8	21.4
P/BV	7.8	6.8	5.8	4.9
EV / EBITDA	26.0	29.1	18.9	15.9
P / Sales	3.2	3.0	2.5	2.3
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	52.0	53.3	45.7	45.9
EBITDA Margins (%)	13.8	11.2	14.4	15.2
Effective Tax Rate (%)	22.5	18.8	25.0	25.0
Net Profit Margins (%)	3.3	4.2	7.2	8.4
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	0.8	0.6	0.4	0.3
Net Debt / EBITDA (x)	2.5	2.5	1.3	0.8
Profitability Ratios				
RoCE (%)	8.5	7.1	12.1	14.1
RoE (%)	9.9	23.0	18.2	19.6
RoC (%)	9.3	7.7	13.3	15.2
Fixed Asset Turnover (x)	1.8	1.8	1.9	2.0
Inventory Turnover Days	89	84	105	103
Receivables Days	77	82	88	87
Payables Days	68	51	64	54

Source Company data, I-Sec research

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