

CYIENT DLM LIMITED

Strong Performance, Expecting Order Book Improvement in H2

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Cyient DLM has delivered strong results, largely in line with expectations. The company reported 33% YoY revenue growth, driven by significant increases in the defense sector (up 82%) and the aerospace sector (up 20%). Margins remained steady at 8.1%. While the net order book decreased to ₹19.8 bn, management anticipates a positive shift in the H2FY25, citing a healthy order pipeline and expected finalizations of key deals in the coming quarters. The company also welcomed two new clients: a leading defense public sector unit in India specializing in missile systems and a global oilfield services firm. This expansion is promising for long-term visibility and potential conversions.

We maintain a positive outlook on Cyient DLM due to its strong backing from its parent company, solid client relationships, and the addition of new clients. The company boasts a resilient order book, robust order inflows, and specialized skills in high-growth sectors. Additionally, the recent acquisition of a 100% stake in Altek Electronic Inc. will enhance its geographical reach, client base and supply chain synergies, particularly in the medical, healthcare and industrial segments, contributing to incremental growth. The stock has seen a correction from its peak levels and presents attractive value prospects at reasonable valuations. After reviewing the H1FY25 results, we have adjusted our estimates but continue to recommend buying the stock, maintaining our price target at ₹851.

Q2FY25 and H1FY25 Result Summary

Cyient DLM reported revenues of ₹3.9 bn, meeting expectations with YoY growth of 33.4%. The strong performance in defense, which saw an 82% increase YoY, while key customer's demand drop led to de-growth in Industrial of 55% YoY, while Med-Tech posted 9% growth YoY. Aerospace Segment grew by 20% on YoY basis. EBITDA margins were flat at 8.1%, attributed to challenges in execution including supply-chain issues from Israel, and higher mix of low-margin business. Higher interest cost was reported due to an increase in debt which led to de-growth in reported PAT margins by 105 bps.

For H1FY25 topline grew by 27.2% YoY to ₹6,473 mn. Although EBITDA expanded to ₹516 mn by 18.6% YoY, margins declined by 58 bps to 8% on YoY basis due to higher investment in SG&A and Manufacturing overheads. Company reported PAT at ₹260 mn (+30.2% YoY).

Key Financials	FY23	FY24	FY25E	FY26E
Total Sales (₹ mn)	8,320	11,919	16,411	24,860
EBITDA Margins (%)	10.6	9.3	9.6	11.1
PAT Margins (%)	3.8	5.1	6.3	7.9
EPS (₹)	4.0	7.7	13.0	24.8
P/E (x)	166.3	86.2	51.2	26.8
P/BV (x)	26.7	5.8	5.2	4.4
EV/EBITDA (x)	62.2	44.4	30.2	17.0
RoE (%)	23.1	11.1	10.7	17.7
RoCE (%)	11.3	10.5	10.8	17.1

Rating	BUY
Current Market Price (₹)	665
12M Price Target (₹)	851
Potential upside (%)	28

Stock Data

Sector :	Electronics Manufacturing Services
FV (₹) :	10
Total Market Cap (₹ bn) :	53
Free Float Market Cap (₹ bn) :	18
52-Week High / Low (₹)	884 / 581
BSE Code / NSE Symbol	543933 / CYIENTDLM
Bloomberg :	CYIENTDLM.NS

Shareholding Pattern

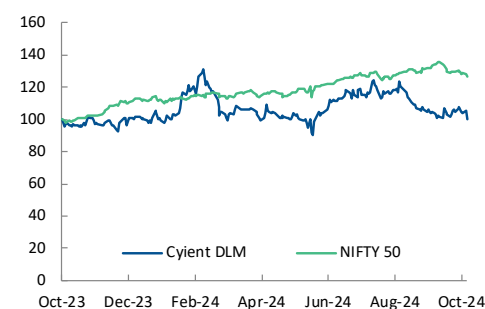
(%)	Sep-24	Jun-24	Mar-24	Dec-23
Promoter	52.16	66.66	66.66	66.66
MFs	27.12	16.84	11.17	9.78
FPIs	7.76	5.14	7.04	6.32
AIFs	0.16	0.38	1.30	1.34
Bodies Corporate	0.79	1.12	5.90	7.35
Others	12.01	9.86	7.93	8.55

Source: BSE

Price Performance

(%)	1M	3M	6M	11M
Cyient DLM	-3.9%	-13.2%	-0.7%	3.0%
Nifty 50	-5.1%	-0.2%	9.6%	23.5%

* To date / current date : October 22, 2024

Cyient DLM vs Nifty 50

Management continues to maintain its guidance of ~30% CAGR growth in revenue. The company is hopeful of achieving double-digit EBITDA margins, though these are expected to remain largely flat YoY. Management anticipates better performance in H2FY25 due to seasonal trends, noting that H1FY25 typically underperforms relative to H2. After several quarters of weak order inflows, significant orders in Q2FY25 are essential for clear growth prospects moving forward. Furthermore, the company plans to incorporate Altek's financials in Q3FY25. Altek will enable the company to achieve the right mix of competencies, geographic reach, and capabilities to support its growth strategy. Management anticipates an increase in export contributions from current levels, which is expected to enhance margins.

Outlook & Valuation

We maintain a positive outlook on Cyient DLM considering the acquisition of new clients, expected new orders, revenue diversification, and its specialized expertise in high-growth sectors. The stock has corrected from its peak prices and now offers attractive value opportunities at reasonable valuations. **Our estimates remain unchanged, and we reiterate a Buy rating on the stock with an unchanged price target of ₹851.**

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q2FY25	Q2FY24	YoY(%)	Q1FY25	QoQ(%)
Gross Sales	3,895	2,918	33.4	2,579	51.0
Total Expenditure	3,578	2,683	33.4	2,379	50.4
EBITDA	316	235	34.4	200	58.2
<i>Margins (%)</i>	8.1	8.1	-	7.8	37bps
Depreciation	69	55	25.5	67	2.6
Interest	110	76	44.6	80	36.6
Other Income	71	93	-23.5	89	-20.2
PBT before EO expense	209	198	5.7	142	47.5
Extra-Ord expense	0	0		0	
PBT	209	198	5.7	142	47.5
Tax	54	51	6.4	36	52.6
Rate (%)	26.0	25.9	17bps	25.2	86bps
Minority Interest & Profit/Loss of Asso. Cos.	0	0		0	
Reported PAT	155	147	5.5	106	45.8
Adj PAT	155	147	5.5	106	45.8
<i>Margins (%)</i>	4.0	5.0	-105bps	4.1	-14bps

Source: Company, LKP Research

Concall Highlights

Guidance

- Topline is projected to grow at a CAGR of ~30%, with additional growth anticipated from acquisitions in the second half of FY25.
- Cyient DLM anticipates flat EBITDA margins YoY for FY25 but aims to approach its previously set double-digit margin guidance.
- A shift in business mix is expected in FY26, as one low-margin contract negatively impacted margins in FY25. Management expects potential improvement in EBITDA margins.
- Cyient DLM plans to reduce inventory days to around 90-100 days in the future.
- Net working capital is expected to enhance further moving forward.
- In Q2 we witnessed a surprisingly higher than expected domestic sales. Moving forward, the company anticipates that exports will make up approximately 70% of sales.

Altek Electronics

- Altek Electronics, Inc. is an EMS company based in Connecticut – USA, focused on PCB Assemblies (PCBA), Box Builds and Cable Harnesses.
- It has manufacturing setup of over ~ 80,000 sqft., with major key certification(ITAR).
- Company reported revenue of USD37.2 mn for CY23 with EBITDA margins of over 10.5% & ROCE>15%.
- Acquisition is EPS accretive from FY26, with upfront payment of USD23.4 mn and two earnout's for the next consecutive years, capped at \$ 5.85 mn.
- Total Estimated Payout is at USD29.2 mn.
- The acquisition will provide access to several Fortune 500 clients. The company will address goodwill and its amortization in the next quarter.

Debt

- Company has taken loan to fund the inventory in Q2FY25 as well as for M&A activities.
- Cyient DLM borrowed funds as free cash flow was negative in H1FY25, which led to rise in finance cost. Going ahead, free cash flow is projected to become positive in the H2FY25.

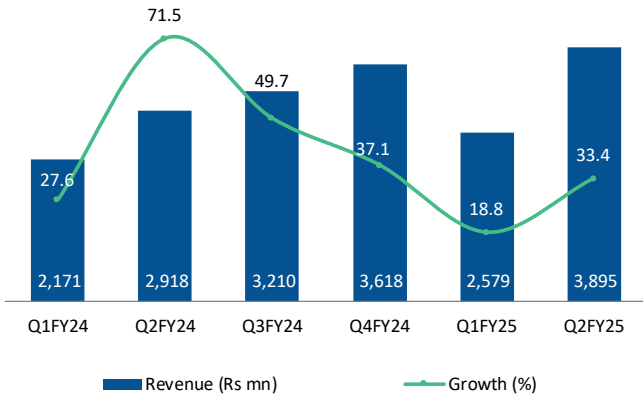
WC

- Cyient DLM is facing constraint in procuring raw materials from the Israel region. Company is facing shipment delays in this region.
- Company saw improvement in DIO from 184 days to 100 days, management sees further improvement in future as revenue picks up.
- DSO has been decreased on QoQ basis from 92 days to 82 days. Management has plans to improve it further, which they will talk about in the coming quarters.

Order Book

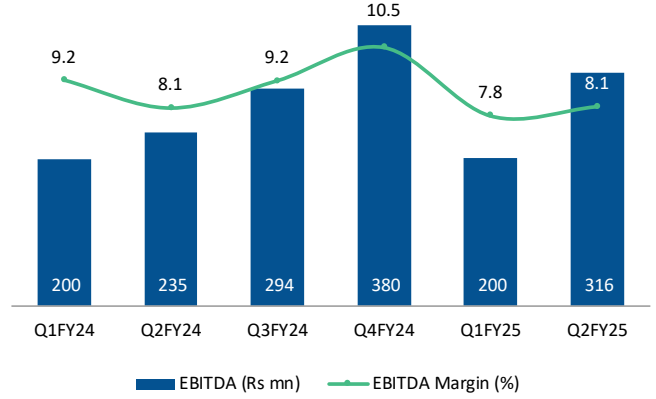
- The company acquired two new clients: one is a premier defense public sector unit in India focused on missile systems and related defense equipment, and the other is a global oilfield services firm.
- It foresees that the variability in the order book will continue, with order inflows expected to increase once repeat orders from clients come in.

Revenue

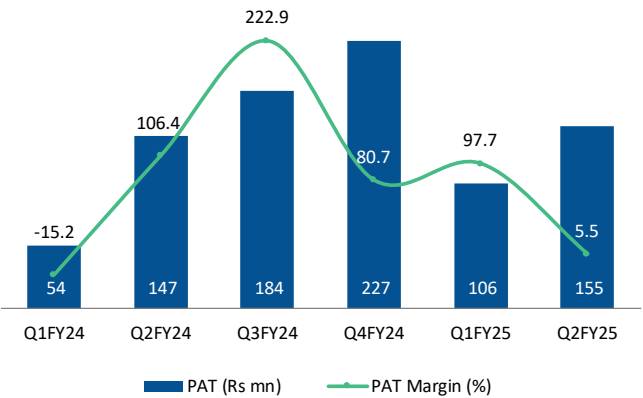


Source: Company, LKP Research

EBITDA

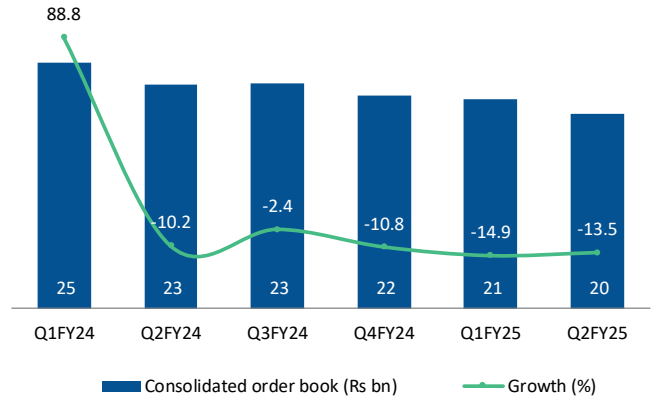


PAT

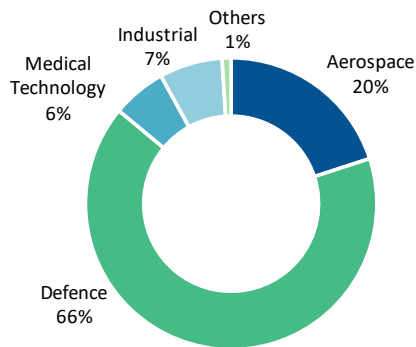


Source: Company, LKP Research

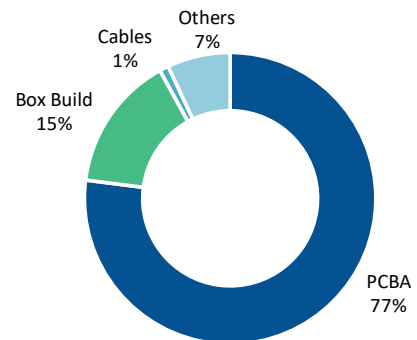
Consolidated Order book



Product wise revenue mix (Q2 FY25)



End user wise revenue mix (Q2 FY25)



Source: Company, LKP Research

Rationale for Altek acquisition



Source: Company, LKP Research

Cyient DLM growth plans



Strengthen Current Business

Large Deals: Building strategic engagements through large deals.

Focus in India Defense: by strengthening Defense sales team

Build to Specification: Strengthen B2S offerings across verticals

Focus on large OEMs



Inorganic Expansion

- Target inorganic expansion strategy for:
 - Client proximity and geographic footprint
 - Accessing target clients
 - Expanding our capabilities
- Looking for acquisition in NAM, EMEA

Acquisition of Altek will add revenues from Q3FY25



**New Industries
New Geographies**

- New Geographies: Look to tap growing EMS destinations
- New Industries: Strategize entering disruptive industries like Electric vehicles.

**Nearshore location in US
Access to ITAR work for US
Defense**

Source: Company, LKP Research

Consolidated - Income Statement

(₹ mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	6,280	7,205	8,320	11,919	16,411	24,860
<i>Change (%)</i>	37.4	14.7	15.5	43.2	37.7	51.5
RM Cost	4,953	5,440	6,452	9,200	12,653	19,142
Employees Cost	469	517	647	1,174	1,559	1,989
Other Expenses	399	409	344	435	624	970
Total Expenditure	5,821	6,365	7,442	10,809	14,836	22,101
<i>% of Sales</i>	92.7	88.3	89.4	90.7	90.4	88.9
EBITDA	460	840	878	1,110	1,576	2,759
<i>Margin (%)</i>	7.3	11.7	10.6	9.3	9.6	11.1
Depreciation	185	193	194	223	281	307
EBIT	275	647	684	887	1,295	2,453
Int. and Finance Charges	208	220	315	344	251	176
Other Income	89	79	63	278	334	351
PBT bef. EO Exp.	156	507	432	821	1,378	2,628
EO Items	0	0	0	0	0	0
PBT after EO Exp.	156	507	432	821	1,378	2,628
Total Tax	38	109	114	209	347	661
<i>Tax Rate (%)</i>	24.2	21.6	26.5	25.5	25.2	25.2
Minority Interest	0	0	0	0	0	0
Reported PAT	118	398	317	612	1,031	1,966
Adjusted PAT	118	398	317	612	1,031	1,966
<i>Change (%)</i>	-276.3	236.0	-20.2	92.9	68.5	90.7
<i>Margin (%)</i>	1.9	5.5	3.8	5.1	6.3	7.9

Consolidated - Balance Sheet

(₹ mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	14	14	529	793	793	793
Preference Capital	0	0	0	0	0	0
Total Reserves	363	757	1,450	8,297	9,328	11,294
Net Worth	377	771	1,979	9,090	10,121	12,087
Minority Interest	0	0	0	0	0	0
Total Loans	2,790	3,369	3,561	1,921	1,422	922
Deferred Tax Liabilities	-51	-39	-54	-59	-59	-59
Capital Employed	3,116	4,101	5,485	10,952	11,484	12,950
Gross Block	2,650	2,668	2,642	3,177	3,434	4,136
Less: Accum. Deprn.	824	977	1,063	1,286	1,567	1,873
Net Fixed Assets	1,826	1,692	1,579	1,891	1,868	2,263
Goodwill on Consolidation	30	30	30	30	30	30
Capital WIP	23	34	13	10	252	550
Total Investments	3	3	895	662	662	662
Current Investments	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	4,517	5,971	8,476	13,381	16,437	20,950
Inventory	1,555	2,696	4,251	4,642	5,720	7,867
Account Receivables	2,264	1,523	1,618	2,259	2,698	4,087
Cash and Bank Balance	342	1,218	1,676	5,366	6,542	6,759
Loans and Advances	357	534	931	1,114	1,477	2,237
Curr. Liability & Prov.	3,284	3,629	5,508	5,022	7,765	11,505
Account Payables	1,928	1,932	2,867	3,200	4,160	6,293
Other Current Liabilities	1,262	1,564	2,521	1,712	3,446	4,972
Provisions	93	134	120	110	158	240
Net Current Assets	1,233	2,342	2,968	8,359	8,672	9,445
Misc Expenditure	0	0	0	0	0	0
Appl. of Funds	3,116	4,101	5,486	10,952	11,484	12,950

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)						
EPS	1.5	5.0	4.0	7.7	13.0	24.8
Cash EPS	3.8	7.4	6.4	10.5	16.5	28.7
BV/Share	4.7	9.7	25.0	114.6	127.6	152.4
DPS	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)						
P/E	445.8	132.7	166.3	86.2	51.2	26.8
Cash P/E	174.1	89.3	103.1	63.2	40.2	23.2
P/BV	140.1	68.4	26.7	5.8	5.2	4.4
EV/Sales	8.8	7.6	6.6	4.1	2.9	1.9
EV/EBITDA	120.1	65.3	62.2	44.4	30.2	17.0
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	0.9	5.2	5.6	-16.8	20.1	6.8
Return Ratios (%)						
RoE	37.3	69.3	23.1	11.1	10.7	17.7
RoCE	8.5	15.6	11.3	10.5	10.8	17.1
RoIC	9.1	18.1	17.5	16.9	21.7	40.8
Working Capital Ratios						
Fixed Asset Turnover (x)	2.4	2.7	3.1	3.8	4.8	6.0
Asset Turnover (x)	2.0	1.8	1.5	1.1	1.4	1.9
Inventory (Days)	139	143	196	176	165	150
Debtor (Days)	82	96	69	59	60	60
Creditor (Days)	115	130	136	120	120	120
Leverage Ratio (x)						
Current Ratio	1.4	1.6	1.5	2.7	2.1	1.8
Interest Cover Ratio	1.3	2.9	2.2	2.6	5.2	14.0
Net Debt/Equity	6.5	2.8	1.0	-0.4	-0.5	-0.5

Consolidated - Cash Flow Statement

(₹ mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	118	398	317	821	1,378	2,628
Depreciation	185	193	194	223	281	307
Interest & Finance Charges	171	175	267	66	-83	-175
Direct Taxes Paid	1	-62	-168	-209	-347	-661
(Inc)/Dec in WC	-200	-329	-229	-1,702	863	-555
CF from Operations	275	375	381	-801	2,092	1,543
Others	74	111	140	0	0	0
CF from Operating incl EO	349	486	521	-801	2,092	1,543
(Inc)/Dec in FA	-274	-77	-76	-531	-500	-1,000
Free Cash Flow	75	409	445	-1,332	1,592	543
(Pur)/Sale of Investments	0	0	-892	0	0	0
Others	265	-247	-450	278	334	351
CF from Investments	-9	-324	-1,418	-253	-166	-649
Issue of Shares	0	0	889	7,000	0	0
Inc/(Dec) in Debt	-336	534	-4	-1,639	-499	-500
Interest Paid	-92	-73	-145	-344	-251	-176
Dividend Paid	0	0	0	0	0	0
Others	-232	0	0	0	0	0
CF from Fin. Activity	-660	461	740	5,017	-750	-676
Inc/Dec of Cash	-320	622	-157	3,963	1,176	217
Opening Balance	662	342	1,218	1,676	5,366	6,542
Other cash & cash equivalent	0	254	615	-273		
Closing Balance	342	1,218	1,676	5,366	6,542	6,759

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