

Cyient DLM | BUY



Order inflow revival from H2 + Margin expansion on cards

Cyient DLM Limited (CDLM) 1QFY25 quarterly numbers vs. JM est. saw inline revenue but positive surprise on margins. Rev at INR 2.6bn, up 19% yoy and down 29% qoq. Gross Profit margin at 25.3%, up 24bps yoy and 139bps qoq. EBITDA at INR 200mn, flat yoy and down 47% qoq. OPM at 7.8% down 145bps yoy and 276bps qoq (JM est.: 6.3% at INR 164mn). Employee cost (as % of sales) was 12.7% vs 11.3% yoy vs 9.9% qoq. EBIT at INR 222mn, up 38% yoy and down 45% qoq. Other income (as % of sales) at 3.4% vs 0.4% yoy vs. 2.3% qoq. PAT at INR 106mn, up 98% yoy and down 53% qoq. PAT margin at 4.1% up 164bps yoy and down 218bps qoq (JM est. 2.5% at INR 65mn).

- **Strong growth in A&D while industrial declined significantly:** As % of sales: Aerospace was 26% vs. 18% yoy, defence was 57% vs 38% yoy and industrials was 5% vs 30% yoy - due to over-inventorization issue by one key client – expect it normalize by H2FY25. Overall, revenue growth slowed down mainly due to (1) temporary supply chain challenges - constraints in procuring raw materials from Israel and (2) Some deliverables shifting to Q2. Medical seg. – has upside potential from new logo added in Q4 + leverage from existing client relationship. Industrial seg. - has one key win that can be its top 3rd or 4th client in the coming years.
- **Strategies for Cyient DLM:** (1) Focused on the Indian defence segment by expanding sales team (2) expanding manufacturing capacity in Mysore (3) add western based clients (4) building the International Traffic in Arms Regulations (ITAR) capability to expand into the US defense segment (5) key investments in B2S capabilities and (6) exploring new industries – electric vehicle, infra related opportunity or enery, etc.
- **Order book at INR 21.3bn:** Order book down by c.15% YoY and 2% QoQ, Large deals in pipeline at advanced stage and except order backlog to be build up in H2FY25. Added 4 Global new Logos in Q1: (1) Global semiconductor company, providing electronic manufacturing (2) Won a transfer project from a global Defense OEM (3) Med-tech company with focus on building diagnostic equipment for global market and (4) Large Defense and Aerospace company.
- **Guidance:** Expect order book to increase in H2FY25. In FY25 – (1) B2S will constitute <5% of rev. (2) FCF is expected to breakeven (3) NWC – 100 days (4) Revenue growth of c.30% CAGR over FY25-28 (5) EBITDA margins to be c.10-11%. In FY26 – expect margin expansion due to revision of low margin defence orders.
- **Maintain BUY with TP of INR 910:** We remain positive on stock mainly due to (1) revenue being positively impacted by - addition of new logos, global tailwinds and increased offering of value added services (2) margin expansion led by change in mix – increasing share from higher margin segment and customers and higher share of export (3) inorganic expansion on cards – yet to utilise IPO proceeds. Based on these factors, we expect Revenue/EBITDA/PAT CAGR of 30%/45%/62% over FY24-26E with OPM of 10.7%/11.5% in FY25/26E and revised earnings YoY growth of 57%/67% in FY25/26E. We maintain BUY rating with a target of INR 910 (earlier INR 887) at 45x (unchanged) on FY26 EPS.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	910
Upside/(Downside)	18.8%
Previous Price Target	887
Change	2.4%

Key Data – CYIENTDL IN

Current Market Price	INR766
Market cap (bn)	INR60.7/US\$0.7
Free Float	33%
Shares in issue (mn)	79.3
Diluted share (mn)	79.3
3-mon avg daily val (mn)	INR381.4/US\$4.6
52-week range	884/450
Sensex/Nifty	80,502/24,509
INR/US\$	83.7

Price Performance

%	1M	6M	12M
Absolute	4.6	16.0	54.1
Relative*	0.3	1.4	27.7

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	7,205	8,320	11,919	15,237	20,230
Sales Growth (%)	14.7	15.5	43.2	27.8	32.8
EBITDA	840	878	1,110	1,628	2,330
EBITDA Margin (%)	11.7	10.5	9.3	10.7	11.5
Adjusted Net Profit	398	317	612	960	1,601
Diluted EPS (INR)	7.5	6.0	7.7	12.1	20.2
Diluted EPS Growth (%)	236.8	-20.3	28.6	56.9	66.7
ROIC (%)	20.9	20.0	19.0	21.0	25.9
ROE (%)	69.4	23.1	11.1	10.0	14.8
P/E (x)	101.8	127.6	99.3	63.3	37.9
P/B (x)	1.4	20.5	6.7	6.0	5.2
EV/EBITDA (x)	74.0	70.6	50.9	34.8	24.3
Dividend Yield (%)	0.2	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 22/Jul/2024

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Exhibit 1. Change in estimates

Particulars	Actual	Revised Estimates		Previous Estimates		% Change	
	FY24	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	11,919	15,237	20,230	15,731	20,475	-3%	-1.2%
Gross Profit	2,719	3,614	4,871	3,643	4,898	-1%	-0.6%
EBITDA	1,110	1,628	2,330	1,504	2,279	8%	2.2%
EBITDA Margin (%)	9.3%	10.7%	11.5%	9.6%	11.1%	113bps	39bps
PAT	612	960	1,601	995	1,563	-4%	2.4%

Source: JM Financial, Company

Exhibit 2. Quarterly performance

Conso (INR mn)	Q1FY25	Q1FY24	YoY growth %	Q4FY24	QoQ growth %
Revenue	2,579	2,171	19%	3,618	-29%
Gross profit	652	544	20%	864	-25%
Gross margin	25.3%	25.0%	24bps	23.9%	139bps
EBITDA	200	200	0%	380	-47%
EBITDA margin (%)	7.8%	9.2%	-145bps	10.5%	-276bps
Interest	67	48	39%	62	7%
Depreciation	89	9	875%	83	7%
Other income	222	161	38%	401	-45%
PBT	8.6%	7.4%	121bps	11.1%	-248bps
Exceptional item	80	91	-12%	94	-15%
PBT (incl. EI)	142	70	103%	307	-54%
Tax	-	-	NA	-	NA
Tax rate (%)	142	70	103%	307	-54%
PAT	36	16	119%	80	-55%
PAT margin	4.1%	2.5%	164bps	6.3%	-218bps

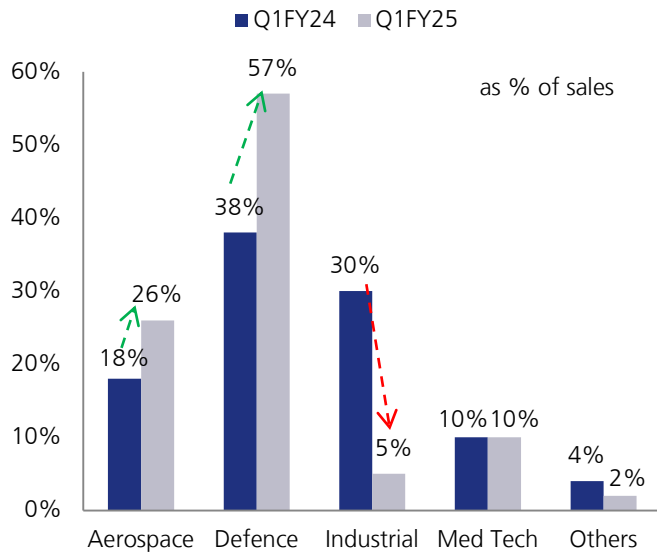
Source: JM Financial, Company

Exhibit 3. Valuation table

Stock name	Valuation basis	FY26 P/E (actual)	FY26 P/E (target)
Kaynes	SOTP	63	NA
Syrma SGS	P/E	32	35
Cyient DLM	P/E	37	45
Avalon	P/E	29	36
Shivalik Bimetal	P.E	26	30

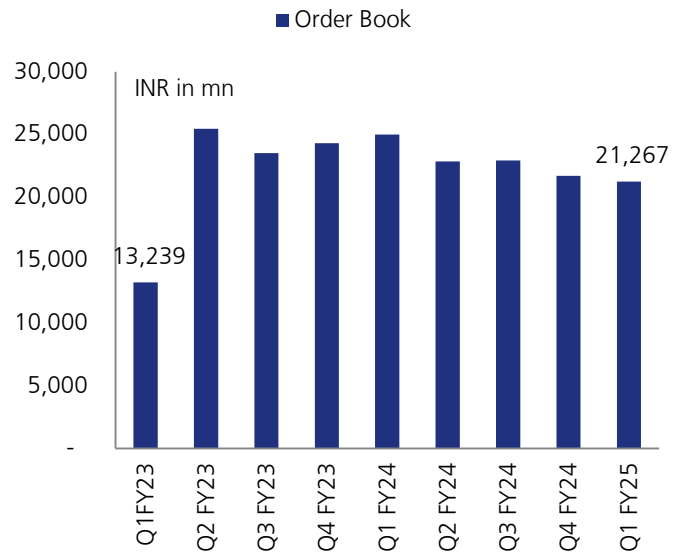
Source: JM Financial

Exhibit 4. Segment wise revenue bifurcation – Q1FY24 vs. Q1FY25



Source: JM Financial, Company

Exhibit 5. Order book over Q1FY23 to Q1FY25



Source: JM Financial, Company

Management call key takeaways continued..

Other KTAs:

- Capacity utilization is at c.55%.
- B2S currently is an export business.
- Not much exposure to Boeing.
- In general scenarios, ramp up period is shorter in logos belonging to industrial, medical seg. vs. A&D seg.
- Other expenses shall increase if there are M&A activities.
- H1: 40% and H2: 60%
- On semiconductor opportunity which parent Cyient has ventured into – can bring significant business but too early to comment.
- Inorganic expansion: looking at some acquisitions in North America and EMEA – expect announcement soon

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	7,205	8,320	11,919	15,237	20,230	
Sales Growth	14.7%	15.5%	43.2%	27.8%	32.8%	
Other Operating Income	0	0	0	0	0	
Total Revenue	7,205	8,320	11,919	15,237	20,230	
Cost of Goods Sold/Op. Exp	5,440	6,452	9,200	11,623	15,359	
Personnel Cost	517	647	1,174	1,467	1,731	
Other Expenses	409	343	435	518	809	
EBITDA	840	878	1,110	1,628	2,330	
EBITDA Margin	11.7%	10.5%	9.3%	10.7%	11.5%	
EBITDA Growth	82.9%	4.4%	26.5%	46.7%	43.1%	
Depn. & Amort.	193	194	223	271	264	
EBIT	648	684	887	1,358	2,066	
Other Income	80	63	278	241	243	
Finance Cost	220	315	344	310	160	
PBT before Excep. & Forex	507	432	821	1,289	2,149	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	507	432	821	1,289	2,149	
Taxes	109	114	209	329	548	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	398	317	612	960	1,601	
Adjusted Net Profit	398	317	612	960	1,601	
Net Margin	5.5%	3.8%	5.1%	6.3%	7.9%	
Diluted Share Cap. (mn)	52.9	52.9	79.3	79.3	79.3	
Diluted EPS (INR)	7.5	6.0	7.7	12.1	20.2	
Diluted EPS Growth	236.8%	-20.3%	28.6%	56.9%	66.7%	
Total Dividend + Tax	2	0	0	0	0	
Dividend Per Share (INR)	1.7	0.0	0.0	0.0	0.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Profit before Tax	398	317	821	1,289	2,149	
Depn. & Amort.	193	194	223	271	264	
Net Interest Exp. / Inc. (-)	175	285	69	69	-83	
Inc (-) / Dec in WCap.	-329	-229	-1,676	-842	-1,467	
Others	111	140	53	0	0	
Taxes Paid	-62	-168	-195	-329	-548	
Operating Cash Flow	485	540	-705	458	316	
Capex	-84	-76	-338	-250	-250	
Free Cash Flow	401	464	-1,043	208	66	
Inc (-) / Dec in Investments	-240	-1,342	-3,940	391	643	
Others	0	0	0	0	0	
Investing Cash Flow	-324	-1,418	-4,277	141	393	
Inc / Dec (-) in Capital	0	889	7,000	0	0	
Dividend + Tax thereon	0	0	0	0	0	
Inc / Dec (-) in Loans	591	57	-1,647	-300	-400	
Others	-130	-224	-563	-310	-160	
Financing Cash Flow	461	722	4,790	-610	-560	
Inc / Dec (-) in Cash	622	-157	-193	-11	148	
Opening Cash Balance	147	930	612	419	408	
Closing Cash Balance	769	773	419	408	557	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	771	1,979	9,090	10,050	11,651	
Share Capital	14	529	793	793	793	
Reserves & Surplus	757	1,450	8,297	9,257	10,858	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	2,932	3,145	1,336	1,036	636	
Def. Tax Liab. / Assets (-)	0	0	0	0	0	
Total - Equity & Liab.	3,703	5,123	10,426	11,086	12,287	
Net Fixed Assets	1,756	1,623	1,931	1,910	1,896	
Gross Fixed Assets	2,069	2,151	2,686	2,936	3,186	
Intangible Assets	30	30	30	30	30	
Less: Depn. & Amort.	377	572	795	1,065	1,330	
Capital WIP	34	13	10	10	10	
Investments	3	895	662	912	1,012	
Current Assets	6,010	8,529	13,440	14,905	17,407	
Inventories	2,696	4,251	4,642	5,844	7,759	
Sundry Debtors	1,523	1,617	2,259	2,880	3,769	
Cash & Bank Balances	1,218	1,676	5,366	4,957	4,606	
Loans & Advances	0	0	0	0	0	
Other Current Assets	573	985	1,173	1,223	1,273	
Current Liab. & Prov.	4,066	5,924	5,607	6,642	8,029	
Current Liabilities	1,925	2,853	3,200	4,232	5,619	
Provisions & Others	2,141	3,071	2,407	2,409	2,409	
Net Current Assets	1,944	2,605	7,832	8,264	9,379	
Total - Assets	3,703	5,123	10,425	11,086	12,287	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Margin	5.5%	3.8%	5.1%	6.3%	7.9%	
Asset Turnover (x)	2.2	1.9	1.5	1.4	1.7	
Leverage Factor (x)	5.6	3.2	1.4	1.1	1.1	
RoE	69.4%	23.1%	11.1%	10.0%	14.8%	

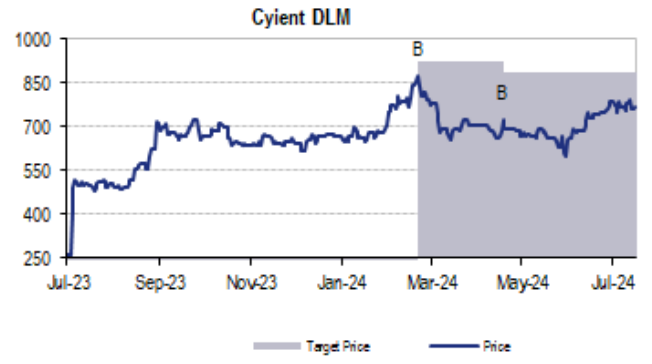
Key Ratios						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
BV/Share (INR)	564.1	37.4	114.6	126.7	146.9	
ROIC	20.9%	20.0%	19.0%	21.0%	25.9%	
ROE	69.4%	23.1%	11.1%	10.0%	14.8%	
Net Debt/Equity (x)	2.2	0.7	-0.4	-0.4	-0.3	
P/E (x)	101.8	127.6	99.3	63.3	37.9	
P/B (x)	1.4	20.5	6.7	6.0	5.2	
EV/EBITDA (x)	74.0	70.6	50.9	34.8	24.3	
EV/Sales (x)	8.6	7.4	4.7	3.7	2.8	
Debtor days	77	71	69	69	68	
Inventory days	137	186	142	140	140	
Creditor days	110	140	108	114	115	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
27-Feb-24	Buy	925	
24-Apr-24	Buy	887	-4.1

Recommendation History



APPENDIX I

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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