

Cyient DLM | BUY

Eyes on margin expansion and order book uptick in H2FY25

Cyient DLM Limited (CDLM) 2QFY25 quarterly numbers vs. JM est. saw inline performance. Rev at INR 3.9bn, up 33% yoy and 51% qoq. As % of sales: Aerospace was 20% vs. 22% yoy, defence was 66% vs 49% yoy and industrials was 7% vs. 20% yoy. GP margin at 20.6%, down 18bps yoy and 467bps qoq. EBITDA at INR 316mn, up 34% yoy and 58% qoq. OPM at 8.1% flat yoy and up 37bps qoq. Other income (as % of sales) at 1.8% vs 3.2% yoy vs. 3.4% qoq. PAT at INR 155mn, up 5% yoy and 46% qoq. PAT margin at 4% down 105bps yoy and 14bps qoq.

- **Strong growth in Defence while industrial declined significantly:** On YoY basis, Aerospace grew 21%, Defence grew 80%, Medtech 15% and Industrial de-grew 53% - due to over-inventorisation issue by one key client (will need 2 more quarters for recovery and order book to pick up). Overall, volumes improved. EBITDA margins impacted due to execution of large low margin orders. In Q2, supply chain challenges continued (both inward and outward) led by Middle East conflict – Delay and scheduling is having a bigger impact than cost. NWC days at 127 days vs. 111 days yoy and 171 days qoq. Debt: Borrowed funds for M&A requirements.
- **Acquisition of Altek Electronics:** An EMS company with focus on industrial (46%), medical (50%) and defence (2%). CY23: Revenue of USD 37.2mn and EBITDA Margin at 10.5%. Basis of acq: (1) Access to International Traffic in Arms Regulations (ITAR) work for US Defense (2) Increased B2S capabilities (3) Access to multiple fortune 500 clients and (4) assist in diversification by industry type. Will add revenues from Q3FY25 and will be EPS accretive from FY26 - We are factoring revenue from FY26.
- **Order book at INR 19bn:** Mix: 60% export and 40% domestic. Order inflow at INR 2.4bn up 207% yoy while order book down by 13.5% YoY. Expect positive trend from H2FY25. Added 2 Global new Logos in Q2: (1) Premier defense PSU in India - specializing in missile systems and allied defense equipment (2) Global oilfield services company. Order pipeline is healthy.
- **Guidance:** One time acquisition cost to be reported in Q3FY25. Expect order book to increase in H2FY25. In FY25 – (1) expect minimum flat yoy EBITDA margin (2) c.30% CAGR organic growth over 3-5 years. and (3) NWC – 90/100 days (customer advances to reduce). From FY26, mix of rev shall change. Sustainable domestic share to be c.30%. Looking for acquisition in North America (NAM) and the Europe, Middle East, and Africa (EMEA).
- **Maintain BUY with TP of INR 960:** 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) diversifying revenue via inorganic expansion. Based on these factors, we expect Revenue/EBITDA/PAT CAGR of 44%/54%/66% over FY24-26E with OPM of 9.7%/10.6% in FY25/26E and revised earnings YoY growth of 38%/101% in FY25/26E. We maintain BUY rating with a target of INR 960 (unchanged) at 45x (unchanged) on FY26 EPS.



Deepak Agarwal
deepak.agarwal@jmfl.com | Tel: (91 22) 66303037

Nikhil Kandoi
nikhil.kandoi@jmfl.com | Tel: (91 22) 69703622

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	960
Upside/(Downside)	37.4%
Previous Price Target	960
Change	0.0%

Key Data – CYIENTDL IN

Current Market Price	INR699
Market cap (bn)	INR55.4/US\$0.7
Free Float	48%
Shares in issue (mn)	79.3
Diluted share (mn)	79.3
3-mon avg daily val (mn)	INR444.0/US\$5.3
52-week range	884/580
Sensex/Nifty	81,151/24,781
INR/US\$	84.1

Price Performance

%	1M	6M	12M
Absolute	1.0	5.7	0.3
Relative*	5.2	-4.1	-19.2

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	7,205	8,320	11,919	15,959	24,847
Sales Growth (%)	14.7	15.5	43.2	33.9	55.7
EBITDA	840	878	1,110	1,542	2,644
EBITDA Margin (%)	11.7	10.5	9.3	9.7	10.6
Adjusted Net Profit	398	317	612	842	1,692
Diluted EPS (INR)	7.5	6.0	7.7	10.6	21.3
Diluted EPS Growth (%)	236.8	-20.3	28.6	37.6	101.0
ROIC (%)	20.9	20.0	19.0	19.0	26.1
ROE (%)	69.4	23.1	11.1	8.9	15.7
P/E (x)	92.9	116.5	90.6	65.9	32.8
P/B (x)	1.2	18.7	6.1	5.6	4.8
EV/EBITDA (x)	67.7	64.6	46.1	34.8	20.7
Dividend Yield (%)	0.2	0.0	0.0	0.0	0.0

Source: Company data, JM Financial. Note: Valuations as of 21/Oct/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	15,959	24,847	15,237	24,336	4.7%	2.1%
EBITDA	1,110	1,542	2,644	1,628	2,601	-5.3%	1.7%
EBITDA Margin (%)	9.3%	9.7%	10.6%	10.7%	10.7%	-102bps	-4bps
PAT	612	842	1,692	881	1,696	-4.4%	-0.2%
EBITDA Margin (%)	5.1%	5.3%	6.8%	5.8%	7.0%	-51bps	-16bps

Source: JM Financial, Company

Exhibit 2. Quarterly performance

Conso (INR mn)	Q2FY25	Q2FY24	YoY growth %	Q1FY25	QoQ growth %
Revenue	3,895	2,918	33%	2,579	51%
Gross profit	802	607	32%	652	23%
Gross margin	20.6%	20.8%	-18bps	25.3%	-467bps
EBITDA	316	235	34%	200	58%
EBITDA margin (%)	8.1%	8.1%	6bps	7.8%	37bps
Depreciation	69	55	25%	67	3%
Other income	71	93	-24%	89	-20%
Interest	110	76	45%	80	37%
PBT	209	198	6%	142	48%
Exceptional Item	-	-	NA	-	NA
PBT (incl. EI)	209	198	6%	142	48%
Tax	54	51	6%	36	53%
Tax rate (%)	0.26	0.26		0.25	
PAT	155	147	5%	106	46%
PAT margin (%)	4.0%	5.0%	-105bps	4.1%	-14bps

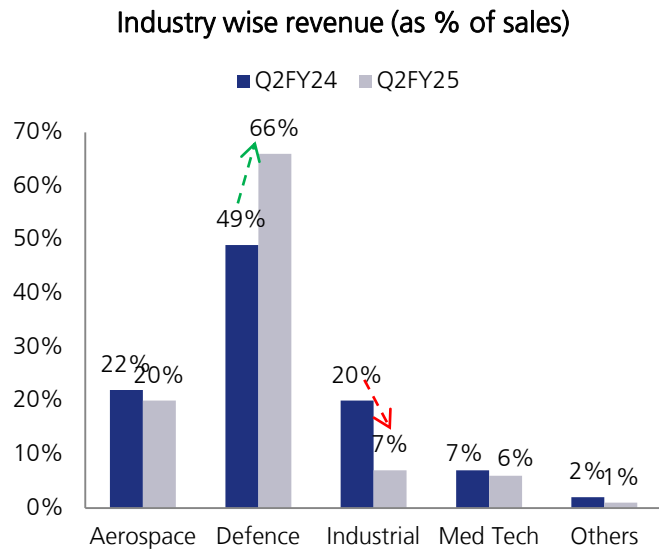
Source: JM Financial, Company

Exhibit 3. Valuation table

Stock name	Valuation basis	FY26 P/E (actual)	FY26 P/E (target)
Kaynes	SOTP	81	NA
Syrma SGS	P/E	28	35
Cyient DLM	P/E	33	45
Avalon	P/E	37	36*
Shivalik Bimetal	P.E	29	30

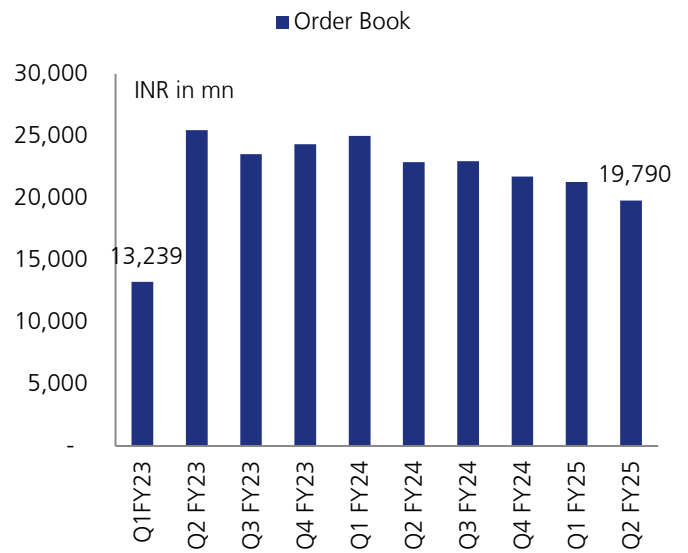
Source: JM Financial *Note: to be revised post its Q2FY25 results.

Exhibit 4. Segment wise revenue bifurcation – Q2FY24 vs. Q2FY25



Source: JM Financial, Company

Exhibit 5. Order book from Q1FY23 to Q2FY25



Source: JM Financial, Company

Management call key takeaways continued..

- **Semiconductor:** There is a synergy with Cyient. Impact will take few years.
- **Strategies for Cyient DLM:** (1) Focus in India Defense - by strengthening sales team (2) Looking for inorganic expansion (3) exploring new industries like electric vehicle and (4) Strengthen B2S offerings across verticals
- Israel contributes c.20 days in NWC.

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	7,205	8,320	11,919	15,959	24,847	
Sales Growth	14.7%	15.5%	43.2%	33.9%	55.7%	
Other Operating Income	0	0	0	0	0	
Total Revenue	7,205	8,320	11,919	15,959	24,847	
Cost of Goods Sold/Op. Exp	5,440	6,452	9,200	12,427	19,954	
Personnel Cost	517	647	1,174	1,432	1,690	
Other Expenses	409	343	435	559	969	
EBITDA	840	878	1,110	1,542	2,644	
EBITDA Margin	11.7%	10.5%	9.3%	9.7%	10.6%	
EBITDA Growth	82.9%	4.4%	26.5%	38.9%	71.5%	
Depn. & Amort.	193	194	223	292	314	
EBIT	648	684	887	1,250	2,331	
Other Income	80	63	278	260	170	
Finance Cost	220	315	344	380	230	
PBT before Excep. & Forex	507	432	821	1,130	2,271	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	507	432	821	1,130	2,271	
Taxes	109	114	209	288	579	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	398	317	612	842	1,692	
Adjusted Net Profit	398	317	612	842	1,692	
Net Margin	5.5%	3.8%	5.1%	5.3%	6.8%	
Diluted Share Cap. (mn)	52.9	52.9	79.3	79.3	79.3	
Diluted EPS (INR)	7.5	6.0	7.7	10.6	21.3	
Diluted EPS Growth	236.8%	-20.3%	28.6%	37.6%	101.0%	
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	1,130	2,271	
Depn. & Amort.	193	194	223	292	314	
Net Interest Exp. / Inc. (-)	175	285	69	120	60	
Inc (-) / Dec in WCap.	-329	-229	-1,676	-1,055	-2,535	
Others	111	140	53	0	0	
Taxes Paid	-62	-168	-195	-288	-579	
Operating Cash Flow	485	540	-705	199	-470	
Capex	-84	-76	-338	-250	-250	
Free Cash Flow	401	464	-1,043	-51	-720	
Inc (-) / Dec in Investments	-240	-1,342	-3,940	-1,956	-92	
Others	0	0	0	0	0	
Investing Cash Flow	-324	-1,418	-4,277	-2,206	-342	
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	1,100	-900	
Others	-130	-224	-563	-380	-230	
Financing Cash Flow	461	722	4,790	720	-1,130	
Inc / Dec (-) in Cash	622	-157	-193	-1,287	-1,942	
Opening Cash Balance	147	930	5,561	5,368	4,081	
Closing Cash Balance	769	773	5,368	4,081	2,139	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	771	1,979	9,090	9,932	11,624	
Share Capital	14	529	793	793	793	
Reserves & Surplus	757	1,450	8,297	9,139	10,831	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	2,932	3,145	1,336	2,436	1,536	
Def. Tax Liab. / Assets (-)	0	0	0	0	0	
Total - Equity & Liab.	3,703	5,123	10,426	12,367	13,159	
Net Fixed Assets	1,756	1,623	1,931	1,889	1,826	
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	1,086	1,400	
Capital WIP	34	13	10	10	10	
Investments	3	895	662	2,878	3,140	
Current Assets	6,010	8,529	13,440	14,443	17,436	
Inventories	2,696	4,251	4,642	6,121	9,394	
Sundry Debtors	1,523	1,617	2,259	3,017	4,629	
Cash & Bank Balances	1,218	1,676	5,366	4,081	2,139	
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	6,842	9,242	
Current Liabilities	1,925	2,853	3,200	4,433	6,833	
Provisions & Others	2,141	3,071	2,407	2,409	2,409	
Net Current Assets	1,944	2,605	7,832	7,601	8,194	
Total - Assets	3,703	5,123	10,425	12,368	13,159	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Margin	5.5%	3.8%	5.1%	5.3%	6.8%	
Asset Turnover (x)	2.2	1.9	1.5	1.4	1.9	
Leverage Factor (x)	5.6	3.2	1.4	1.2	1.2	
RoE	69.4%	23.1%	11.1%	8.9%	15.7%	

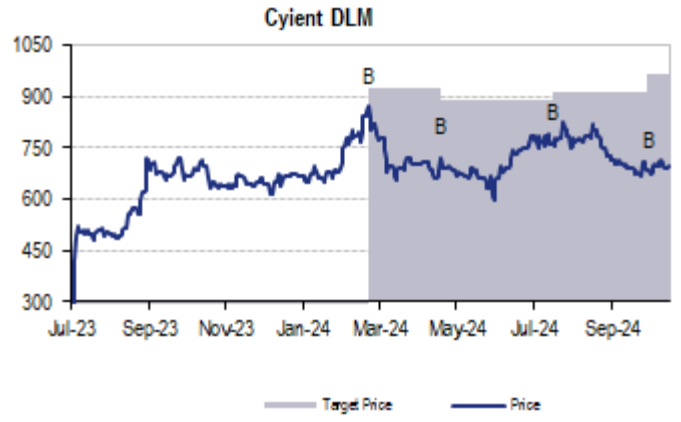
Key Ratios						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
BV/Share (INR)	564.1	37.4	114.6	125.2	146.6	
ROIC	20.9%	20.0%	19.0%	19.0%	26.1%	
ROE	69.4%	23.1%	11.1%	8.9%	15.7%	
Net Debt/Equity (x)	2.2	0.7	-0.4	-0.2	-0.1	
P/E (x)	92.9	116.5	90.6	65.9	32.8	
P/B (x)	1.2	18.7	6.1	5.6	4.8	
EV/EBITDA (x)	67.7	64.6	46.1	34.8	20.7	
EV/Sales (x)	7.9	6.8	4.3	3.4	2.2	
Debtor days	77	71	69	69	68	
Inventory days	137	186	142	140	138	
Creditor days	110	140	108	112	110	

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
22-Jul-24	Buy	910	2.6
5-Oct-24	Buy	962	5.7

Recommendation History



APPENDIX I

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Member of BSE Ltd. and National Stock Exchange of India Ltd.

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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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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