



Cyient DLM Ltd

Q2FY25

Cyient DLM Ltd.

CMP* INR 661	Target INR 842	Potential Upside 27.4%	Market Cap (INR Mn) INR 52,814	Recommendation BUY	Sector Electronic-Component
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Result Highlights of Q1FY25:

- Cyient DLM reported 33%/34% YoY growth in revenue/EBITDA during Q2FY25 on account of 82% growth in defense & 20% growth in aerospace. Despite seeing a beat on topline, PAT in Q2FY25 came lower than expected due to higher interest cost.
- Q2FY25 witnessed higher proportion of execution for a large domestic company in defence segment which led to higher domestic mix as opposed to normal quarters. Though EBITDA margin expanded to 8.1% but higher domestic mix impacted the margins.
- The PAT for the quarter recorded a growth of 5.5% on YoY basis during the quarter, lower than the EBITDA growth of 34%. The PAT growth number trailed the EBITDA growth due to higher interest cost on account of increased debt.
- The order book for the company was recorded at INR 19,790 Mn for the quarter and the order book is expected to turn better in the coming quarters given more than \$500 Mn weighted order pipeline.
- We believe the margin is on an improving trajectory and meaningful expansion should be reflected in FY26E while in FY25E the margins should be in double digit/ close to double digit. **Consequently, we have slightly revised our FY26E earnings estimates by -3.5% to INR 19 (Previous INR 20) and maintain our BUY rating on the stock with target price of INR 842 (27.4% upside), valued at a PE of 45x FY26E EPS.**

MARKET DATA

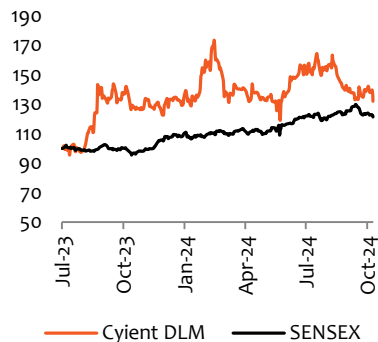
Shares outs (Mn)	79.3
Equity Cap (INR Mn)	9,090
Mkt Cap (INR Mn)	52,814
52 Wk H/L (INR)	884/581
Volume Avg (3m K)	369
Face Value (INR)	10
Bloomberg Code	Cyient DLM IN

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	8,320	11,919	15,336	20,251	26,742
EBITDA	878	1,110	1,569	2,381	3,266
EBITDA margin (%)	11%	9%	10%	12%	12%
PAT	317	612	954	1,498	2,105
PAT margin (%)	4%	5%	6%	7%	8%
EPS	4	8	12	19	27
P/E (x)	165x	86x	55x	35x	25x

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Defense & Aerospace Segment Driving the Growth but Interest Cost Impacted the PAT

- The defense segment recorded a growth of 82% on YOY basis on account of ramp-up in execution for one of the large clients in India. The aerospace segment also delivered a growth of 20% on YoY basis.
- Despite delivering 32%/ 34% Gross Profit/ EBITDA growth (YoY basis) during the quarter, the PAT growth moderated to mid single digit largely on account of increase in interest cost (+37% YoY) and moderation in other income (-20% YoY).
- However, the short-term debt should come down in H2 as the free-cash flow turns positive during the second half of the year. The net working capital days also reduced to 127 days in Q2 and it should improve to 90-100 days in the coming quarters.

Strong Order Pipeline and Order Book Should Strengthen in H2

- The order pipeline remains strong for H2 and the order book stood at 19,790 Mn during Q2FY25.
- It won new logo from premier defense PSU in India, specializing in missile systems and allied defense equipment. The second one was from global oilfield service company.
- The recent acquisition should also help in grabbing multiple fortune 500 clients through in Industrial and medical.

MARKET INFO

SENSEX	80,221
NIFTY	24,482

SHARE HOLDING PATTERN (%)

Particulars (%)	Sep-24	June-24	Mar-24
Promoters	52.2	66.7	66.7
DII's	27.8	17.4	7.0
FII's	7.7	5.1	12.6
Others	12.3	10.8	13.7
Total	100.0	100.0	100.0

*Based on Today's closing



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Key Concall Highlights:

- The acquisition of Altek Electronics is expected to strengthen Cyient DLM's position in the Industrial and Medical segments. Altek Electronics has 96% exposure in these segments, with strong capabilities in precision, quality control, and advanced inspection methods, including automated testing and assembly services.
- Altek Electronics operates with double-digit EBITDA margins, aligning well with Cyient DLM's organic EBITDA margin levels. Additionally, Cyient DLM will leverage Altek Electronics' ITAR certification to expand into the U.S. defense sector. The closer proximity to U.S. clients is expected to help the company tap into the U.S. defense market. Furthermore, Altek Electronics will enhance Cyient DLM's build-to-spec (B2S) capabilities.
- On the acquisition front, most of Altek's assets are tangible, meaning there should be no significant impact from goodwill amortization.
- The order book has been declining for several quarters, standing at INR 19,790 million in Q2FY25. However, management is confident that the strong order pipeline will convert into confirmed orders by the second half of FY25.
- The geopolitical situation in Israel has also affected the supply chain during the quarter, though the company managed the situation effectively. The impact was not cost-related, but component scheduling has been increasingly delayed, which presents a risk in the coming quarters. The Israel operations contribute approximately 20 days to the overall working capital cycle, with net working capital days in Q2FY25 standing at 127.
- In terms of focus, Cyient DLM is looking to expand into new geographies and sectors, while continuing to emphasize its existing areas of operation. The company is also exploring opportunities in the electric vehicle (EV) space, and we believe that the automotive sector will be a key area of focus in the coming years. Expansion into this segment is expected to be ROCE-accretive, as working capital days are more favorable in the automotive industry.
- The management also clarified that the resignation of the head of sales was due to medical reasons.
- Regarding margins, the company stated that FY26E margins are expected to improve significantly, as the large domestic order with lower margins is concluding. The rest of the business operates with very healthy margins, which should lead to a notable margin improvement.

Valuation and view:

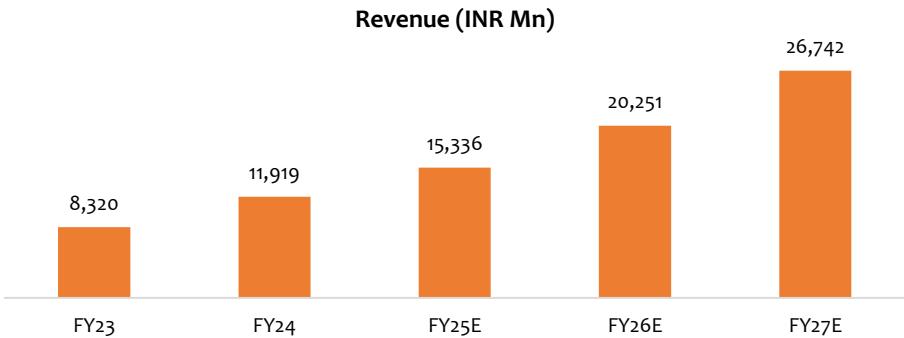
Cyient DLM delivered strong performance in terms of topline and operating profit, but its bottom-line growth was hindered by higher interest costs. However, the second half of FY25 is expected to perform better than the first half. The recent acquisition of Altek Electronics is projected to start contributing to revenue from Q3FY25 onwards and should positively impact EBITDA margins. Management has guided that margins in the second half will be significantly improved, approaching double-digit levels, as the company completes a large domestic order with lower margins. This healthier margin mix, combined with strong growth in the aerospace and defense sectors, is expected to drive robust growth in both topline and bottom line. Following the Q2FY25 conference call, we have slightly revised our earnings estimates, expecting major margin expansion in FY26, with FY25 margins hovering near double digits. As a result, we have revised our FY26E earnings estimate slightly downwards by 3.5%. **We project the company to achieve a revenue/PAT CAGR of 30%/56% during FY24-FY26E. We maintain our "BUY" rating on the stock, valuing it at a P/E multiple of 45x on FY26E EPS of INR 19 (previously INR 20), resulting in a target price of INR 842 (27.4% upside) per share.**

Cyient DLM Ltd.

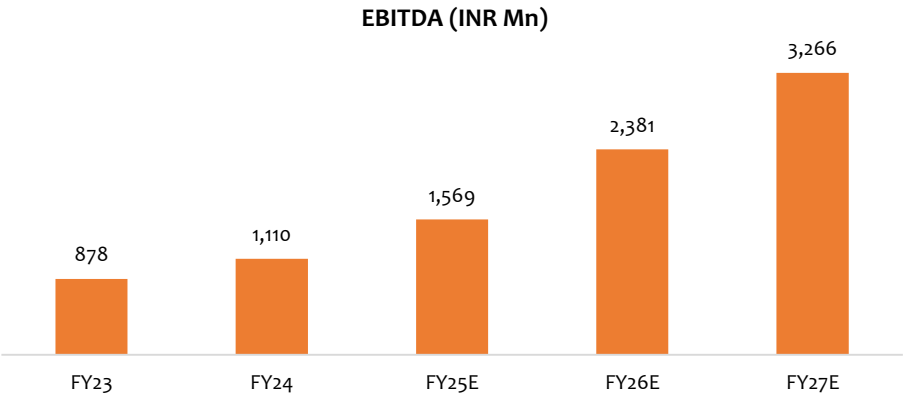
Q2 FY25 Result:

Particulars (INR Mn)	Q2FY24	Q1FY25	Q2FY25	Q-o-Q	Y-o-Y	H1FY24	H1FY25	YoY
Revenue From Operations	2,918	2,579	3,895	51%	33%	5,090	6,473	27%
COGS	2312	1927	3092	60%	34%	3,940	5,019	
COGS% of revenue	79%	75%	78%			77%	78%	
Gross Profit	607	652	802	23%	32%	1,150	1,454	26%
Gross Margin (%)	20.7%	25.3%	20.6%	-467	-18 bps	23%	22%	
Employee Expenses	267	328	336	2%	26%	511	664	
Other Expenses	104	124	150	21%	44%	204	274	
EBITDA	235	200	316	58%	34%	435	516	19%
EBITDA Margin %	8.1%	7.8%	8.1%	37 bps	6 bps	8.6%	7.9%	
Other Income	93	89	71	-20%	-24%	102	160	
Depreciation	55	67	69	3%	25%	103	136	
Finance Cost	76	80	110	37%	45%	167	190	
Profit Before Tax	198	142	209	47.5%	5.7%	268	351	31%
Tax								
Total Tax	51	36	54	53%	6%	68	90	
Tax %	26%	25%	26%			25%	26%	
Profit After Tax	147	106	155	46%	5%	200	261	30%
PAT Margin %	5.0%	4.1%	3.9%	-14 bps	-105 bps	3.9%	4.0%	

Source: Company, KRChoksey Research



Source: Company, KRChoksey Research



Source: Company, KRChoksey Research

Cyient DLM Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

Particulars (INR Miillion)	FY23	FY24	FY25E	FY26E	FY27E
Revenue From Operations	8,320	11,919	15,336	20,251	26,742
Other income	63	278	280	124	96
Total Revenue	8,383	12,197	15,616	20,375	26,838
COGS	6,452	9,200	11,797	15,398	20,283
Gross Profit	1,868	2,719	3,539	4,853	6,459
Gross Profit Margin%	22.5%	22.8%	23.1%	24.0%	24.2%
Employee Benefit Expenses	647	1,174	1,390	1,663	2,167
Other expenses	343	435	580	810	1,027
Operating Expenses	7,443	10,809	13,768	17,870	23,476
EBITDA Profit	878	1,110	1,569	2,381	3,266
EBITDA %	10.6%	9.3%	10.2%	11.8%	12.2%
Finance Cost	315	344	303	179	191
Depreciation	194	223	263	315	345
Total Expenses	7,952	11,376	14,334	18,364	24,012
Profit Before Taxes	432	821	1,282	2,011	2,826
Total Tax Expenses	114	209	327	513	721
Profit After Tax	317	612	954	1,498	2,105
PAT Margin %	3.8%	5.1%	6.2%	7.4%	7.9%
Adjsuted EPS	4	8	12	19	27

Exhibit 2: Cash Flow Statement

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net cash generated from operating activities	540	(705)	1,170	1,590	2,296
Net cash (used in) investing activities	(1,418)	(4,277)	1,068	831	75
Net cash generated from / (used in) financing activities	722	4,790	720	(1,019)	(46)
Net (Decrease)/Increase in cash and cash equivalents	(157)	(193)	2,958	1,402	2,324
Cash & Cash Equivalents at the beginning of the year	769	612	417	3,375	4,777
Exchange Diff. on translation of foreign currency	0	(2)	0	0	0
Cash & Cash Equivalents at the end of the year	612	417	3,375	4,777	7,101

Exhibit 3: Key Ratios

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Gross Profit Margin%	22%	23%	23%	24%	24%
EBITDA %	11%	9%	10%	12%	12%
PAT Margin %	4%	5%	6%	7%	8%
Return on Equity %	23%	11%	10%	14%	17%
Return on Capital %	15%	11%	11%	16%	21%
Adjsuted EPS (INR)	4.0	7.7	12.0	18.9	26.5

Source: Company, KRChoksey Research

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Non-Current Assets					
(a) Property, plant and equipment	1,218	1,374	1,537	1,645	1,725
(b) Capital work in progress	13	10	10	10	10
(c) Right-of-use assets	345	494	490	486	482
(d) Goodwill	30	30	30	30	30
(e) Intangible assets	16	22	22	22	22
(f) Financial assets :	0	0	0	0	0
(i) Investments	895	662	662	662	662
Other Non-current assets	132	181	181	181	181
Total non-current assets	2,650	2,774	2,932	3,036	3,113
Current Assets					
Inventories	4,251	4,642	5,252	6,658	8,059
(b) Financial assets :	0	0	0	0	0
(i) Trade receivables	1,617	2,259	2,983	3,606	4,396
(ii) Cash and cash equivalents	773	417	3,375	4,777	7,101
(iii) Bank balances Other than (ii) above	903	4,949	3,456	2,200	1,700
(iv) Other financial assets	55	249	200	200	200
(c) Other current assets	798	743	771	757	764
Total current assets	8,397	13,259	16,037	18,199	22,221
Total Assets	11,047	16,033	18,969	21,235	25,333
EQUITY AND LIABILITIES					
Equity					
(a) Equity Share Capital	529	793	793	793	793
(b) Other Equity	1,450	8,297	9,251	10,749	12,854
TOTAL EQUITY	1,979	9,090	10,044	11,542	13,647
Liabilities					
Non-Current Liabilities					
(a) Financial Liabilities					
i. Borrowings	996	747	1,735	850	850
ii. Lease liabilities	363	515	540	580	620
iii. Other financial liabilities	166	181	181	181	181
(b) Other non-current liabilities	0	0	0	0	0
(c) Provisions	95	106	106	106	106
Total non-current liabilities	1,620	1,549	2,561	1,717	1,757
Current Liabilities					
(a) Financial liabilities :					
i. Borrowings	2,149	589	600	600	700
ii. Lease liabilities	53	70	70	75	80
iii. Trade payables	2,853	3,200	0	0	0
Total Trade Payable	2,853	3,200	4,158	5,766	7,614
iv. Other financial liabilities	76	217	217	217	217
(b) Other Current Liabilities	2,292	1,281	1,281	1,281	1,281
(c) Income tax liabilities (net)	22	34	34	34	34
(d) Provisions	3	3	3	3	3
Total current liabilities	7,449	5,394	6,363	7,975	9,929
Total Liabilities	9,068	6,943	8,925	9,692	11,686
TOTAL EQUITY AND LIABILITIES	11,047	16,033	18,969	21,235	25,333
Check	0	0	0	0	0
(d) Provisions	3	3	3	3	3
Total current liabilities	7,449	5,394	6,363	7,975	9,929
Total Liabilities	9,068	6,943	8,925	9,692	11,686
TOTAL EQUITY AND LIABILITIES	11,047	16,033	18,969	21,235	25,333

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Date	CMP (INR)	TP (INR)	Recommendation
22-Oct-24	661	842	BUY
16-Oct-24	713	842	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

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