

Cyient DLM

Estimate change	↑
TP change	↔
Rating change	↔

Bloomberg	CYIENTDL IN
Equity Shares (m)	79
M.Cap.(INRb)/(USDb)	55.4 / 0.7
52-Week Range (INR)	884 / 580
1, 6, 12 Rel. Per (%)	5/-6/-27
12M Avg Val (INR M)	315

Financials & Valuations (INR b)

Y/E Mar	FY25E	FY26E	FY27E
Sales	17.2	24.7	31.5
EBITDA	1.7	2.9	3.8
Adj. PAT	1.0	2.0	2.7
EBITDA Margin (%)	9.8	11.6	12.2
Cons. Adj. EPS (INR)	13.1	24.7	34.3
EPS Gr. (%)	70.3	87.9	38.9
BV/Sh. (INR)	127.8	152.5	186.8

Ratios

Net D:E	-0.3	-0.4	-0.5
RoE (%)	10.8	17.6	20.2
RoCE (%)	12.1	18.1	20.7

Valuations

P/E (x)	54	29	21
EV/EBITDA (x)	31	18	13

Shareholding pattern (%)

As on	Sep-24	Jun-24	Sep-23
Promoter	52.2	66.7	66.7
DII	27.8	17.4	12.3
FII	7.8	5.1	6.2
Others	12.3	10.8	14.8

Note: FII includes depository receipts

CMP: INR699 TP: INR870 (+25%) Buy

Defense momentum fuels growth trajectory

PAT misses estimates due to higher interest cost

- Cyient DLM (CYIENTDL) reported a strong quarter, with revenue growth of ~33% YoY in 2QFY25, led by significant traction in the defense (up 82% YoY) and aerospace (up 20% YoY) verticals. Margins were flat YoY at 8.1%.
- However, the order book continued its downward trend, with 13% YoY/7% QoQ decline in 2Q to INR19.8b. The management indicated the trend will change in 4Q, with a healthy order pipeline and the finalization of key deals. We believe the order book will witness an uptick in 4QFY25, factoring in the conversion of orders from new client additions happened over the last few quarters.
- Factoring in the higher-than-anticipated interest cost in FY25 due to an increase in debt, we reduce our FY25E EPS by ~5%, while we increase our FY26E EPS by ~12% considering the recent Altek acquisition (integration from 2HFY25). We retain our BUY rating on the stock with a TP of INR870 (35x FY26E EPS).

Margins remain soft due to unfavorable business mix

- Consol. revenue grew 33% YoY to INR3.9b (in line with est.) in 2Q, mainly led by the defense (+82% YoY) and aerospace (+20% YoY) verticals. The order book stood at ~INR19.8b as of 2Q (down 13% YoY and 7% QoQ).
- Margin was flat YoY at 8.1% (est. 8.4%); however, it is still lower than historical margins due to a higher mix of low-margin business. EBITDA grew 34% YoY to INR316m (in line).
- Adjusted PAT grew 6% YoY to INR155m (est. INR197m). Adjusted PAT missed our estimate due to higher interest costs (INR110m vs. est. INR50m) in 2Q as the company took incremental short-term debt to fund the business due to negative cash flow from operations in 1HFY25.
- For 1HFY25, revenue/EBITDA/adj. PAT grew 27%/19%/30% YoY to INR6.5b/INR516m/INR261m. Based on our estimates, implied revenue/EBITDA growth for 2HFY25 is 58%/74% YoY, led by the integration of the Altek acquisition. Organic growth is likely to contribute to 32% of revenue growth, with incremental growth expected from acquisitions in 2HFY25.

Highlights from the management commentary

- **Outlook:** The company maintains its guidance of ~30% revenue CAGR. It expects EBITDA margins to reach near to its earlier guidance of double digits, but they will be largely flat YoY.
- **Altek's** EBITDA margin and business profile (low volume high margin) is similar to that of CYIENTDL. Accordingly, this acquisition will be EPS-accretive for the company from FY26 (CYIENTDL will incur one-time transaction cost in FY25). The company will have better client proximity and will get access to multiple fortune 500 clients through this acquisition.
- **The Middle East conflict** is impacting the supply chain of the business. Apart from this, there is no significant impact on the operations, although company is closely monitoring the situation.

Valuation and view

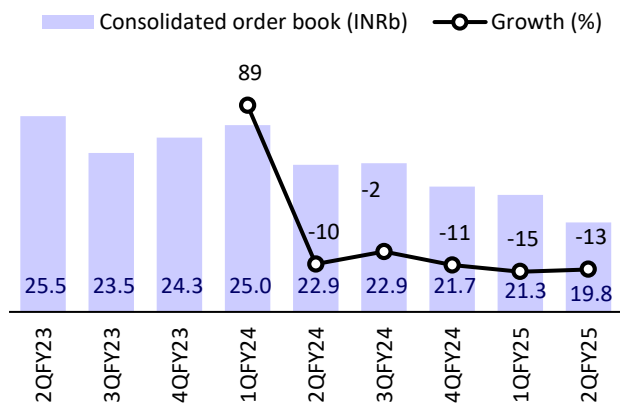
- CYIENTDL witnessed strong revenue growth during the quarter, led by robust traction in the defense segment, while margins remained flat. Going ahead, the growth is likely to accelerate with 2H being seasonally strong for the company. This, coupled with the integration of Altek, will lead to strong financial performance from the company.
- In the medium term, we expect CYIENTDL to sustain its growth momentum, aided by: 1) expected healthy order inflows (from 4QFY25 onward); 2) integration and synergy from the Altek acquisition.
- We estimate CYIENTDL to report a CAGR of 38%/51%/64% in revenue/ EBITDA/ Adj. PAT over FY24-27E. We retain our BUY rating on the stock with a TP of INR870 (35x FY26E EPS).

Consolidated - Quarterly Earning Model**(INR m)**

Y/E March	FY24				FY25E				FY24	FY25E	FY25E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	%
Gross Sales	2,171	2,918	3,210	3,618	2,579	3,895	5,137	5,634	11,919	17,244	3,837	1
YoY Change (%)	27.6	71.5	49.7	30.5	18.8	33.4	60.0	55.7	43.2	44.7	31.5	
Total Expenditure	1,972	2,683	2,916	3,238	2,379	3,578	4,620	4,974	10,809	15,551	3,515	
EBITDA	200	235	294	380	200	316	516	661	1,110	1,693	323	-2
Margins (%)	9.2	8.1	9.2	10.5	7.8	8.1	10.1	11.7	9.3	9.8	8.4	
Depreciation	48	55	58	62	67	69	74	77	223	287	69	
Interest	91	76	83	94	80	110	90	70	344	350	50	
Other Income	9	93	93	83	89	71	85	94	278	339	60	
PBT before EO expense	70	198	247	307	142	209	437	608	821	1,395	264	
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	0	
PBT	70	198	247	307	142	209	437	608	821	1,395	264	
Tax	16	51	63	80	36	54	110	153	209	353	66	
Rate (%)	23.3	25.9	25.3	25.9	25.2	26.0	25.2	25.2	25.5	25.3	25.2	
Minority Interest & Profit/Loss of Asso. Cos.	0	0	0	0	0	0	0	0	0	0	0	
Reported PAT	54	147	184	227	106	155	327	455	612	1,042	197	
Adj PAT	54	147	184	227	106	155	327	455	612	1,042	197	-22
YoY Change (%)	-15.2	106.4	222.9	80.7	97.7	5.5	77.4	99.9	92.9	70.3	34.7	
Margins (%)	2.5	5.0	5.7	6.3	4.1	4.0	6.4	8.1	5.1	6.0	5.1	

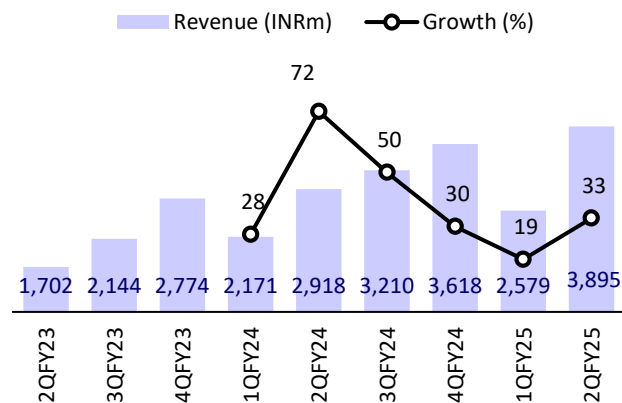
Key Exhibits

Exhibit 1: Consolidated order book trend



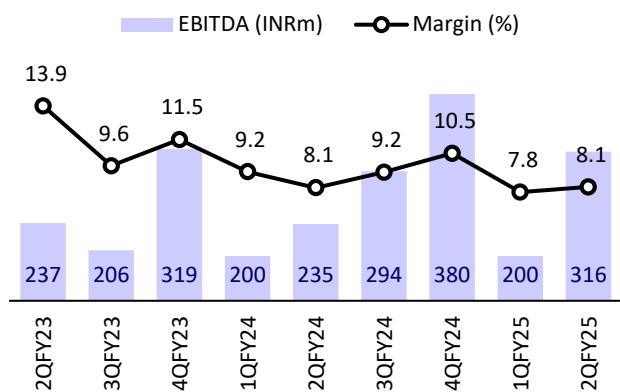
Source: Company, MOFSL

Exhibit 2: Consolidated revenue trend



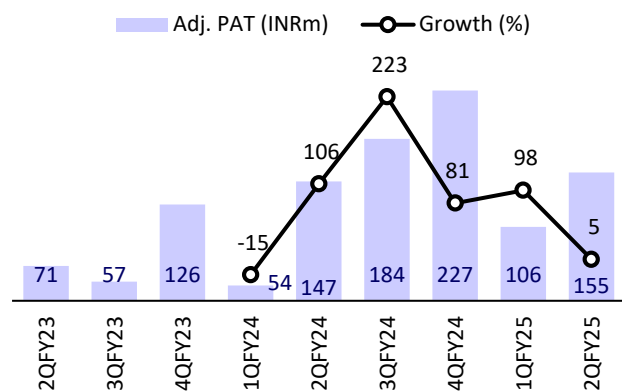
Source: Company, MOFSL

Exhibit 3: Consolidated EBITDA trend



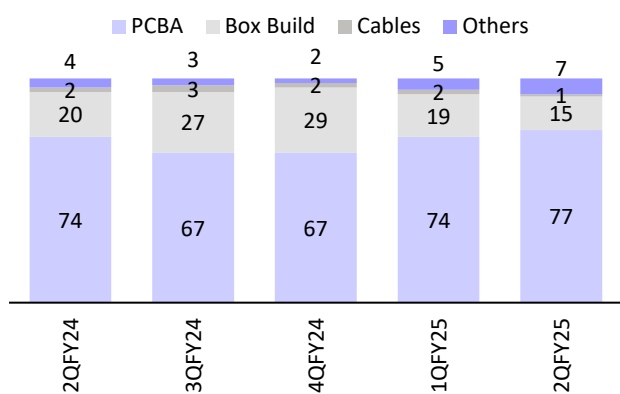
Source: Company, MOFSL

Exhibit 4: Consolidated Adj. PAT trend



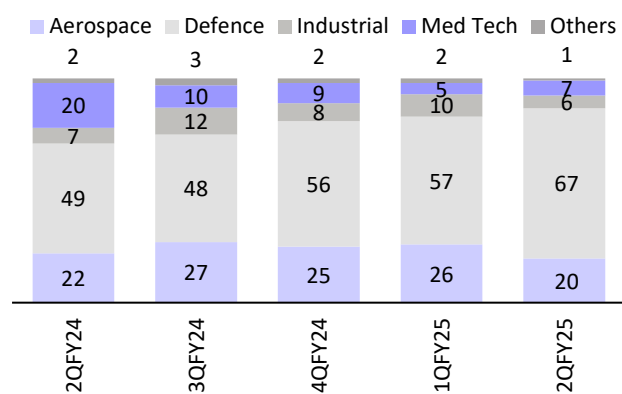
Source: Company, MOFSL

Exhibit 5: Product-wise revenue mix



Source: Company, MOFSL

Exhibit 6: End-user industry-wise revenue mix



Source: Company, MOFSL

Exhibit 7: Rationale for Altek acquisition

Source: MOFSL, Company

Exhibit 8: CYIENTDL 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: MOFSL, Company



Highlights from the management commentary

Order Book

- The pipeline continues to be healthy as key deals get closer to finalization.
- The company added two new global logos in 2Q – a premier defense PSU in India and a global oilfield service company.
- It expects the lumpiness of the order book to continue and order inflows to improve once the repeat orders from clients are received.
- Order book mix: ~60% export orders and rest 40% domestic orders.

Altek Acquisition

- Altek is based in Connecticut, providing high-value electronic manufacturing service in medical and industrial segment.
- The company made upfront payout of USD23.4m. The acquisition will be EPS-accretive from FY26 as it will incur a one-time transaction cost in FY25.
- Altek's product profile is similar to that of Cyient DLM (high mix of low-volume products). Altek also has ITAR certification.
- It has a manufacturing setup of ~80,000 sq. ft. with ~209 employees.
- The acquisition will lead to positive impact on financials of Cyient DLM. It will get access to multiple fortune 500 clients through this acquisition
- The company will comment on goodwill and amortization of the same in the next quarter.

Guidance and Outlook

- The company maintains its guidance of ~30% revenue CAGR, excluding any inorganic growth opportunity.
- Cyient DLM expects flat EBITDA margins YoY in FY25. It expects to reach near its double-digit margin guidance given earlier.
- The company expects the business mix to change in FY26 (one low-margin contract dragged margins in FY25), which would boost EBITDA margins.
- Cyient DLM has action plan to bring down inventory days to ~90-100 days going forward.
- Net working capital has improved sequentially. Going ahead, the company expects this to further improve.

Middle East conflict

- The conflict in the Middle East is impacting the supply chain of the business. There was delay in inward as well as outward shipment from Israel.
- Apart from this, there is no significant impact on business operations due to this conflict, but company is closely monitoring the space.

Debt

- Cyient DLM has taken short-term debt in 2Q to fund the inventory.
- Organic debt will go down as and when the company generates sufficient cash flow.
- It has also taken debt for M&A transaction.
- The unutilized IPO proceeds have to be utilized only for earmarked purposes.

Others

- The company has to borrow funds as free cash flow was negative in 1HFY25, leading to higher finance costs. Going ahead, free cash flow is expected to turn positive in 2HFY25.
- Generally H2 is stronger than H1 and that trend is expected to continue in FY25.
- This was an unusual quarter in which domestic sales were higher. Going ahead, the company expects exports to continue to account for ~70% sales.
- The Head of Sales of Cyient DLM has resigned during the quarter.

Valuation and View

- CYIENTDL witnessed strong revenue growth during the quarter, led by robust traction in the defense segment, while margins remained flat. Going ahead, growth is likely to accelerate with 2H being seasonally strong for the company. This, coupled with the integration of Altek, will lead to strong financial performance from the company.
- In the medium term, we expect CYIENTDL to sustain its growth momentum, aided by: 1) expected healthy order inflows (from 4QFY25 onward); 2) Integration and synergy from the Altek acquisition.
- We estimate CYIENTDL to report a CAGR of 38%/51%/64% in revenue/ EBITDA/ Adj. PAT over FY24-27E. We retain our BUY rating on the stock with a TP of INR870 (35x FY26E EPS).

Exhibit 9: Summary of our revised estimates

Earnings change (INR m)	Old		New		Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	15,944	21,206	17,244	24,675	8%	16%
EBITDA	1,616	2,502	1,693	2,862	5%	14%
Adj. PAT	1,099	1,745	1,042	1,959	-5%	12%

Financials and valuations

Consolidated - Income Statement

(INRm)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	4,571	6,280	7,205	8,320	11,919	17,244	24,675	31,528
Change (%)	-4.9	37.4	14.7	15.5	43.2	44.7	43.1	27.8
RM Cost	3,649	4,953	5,440	6,452	9,200	13,277	18,951	24,151
Employees Cost	441	469	517	647	1,174	1,634	1,925	2,396
Other Expenses	344	399	409	344	435	640	938	1,135
Total Expenditure	4,434	5,821	6,365	7,442	10,809	15,551	21,813	27,682
% of Sales	97.0	92.7	88.3	89.4	90.7	90.2	88.4	87.8
EBITDA	137	460	840	878	1,110	1,693	2,862	3,846
Margin (%)	3.0	7.3	11.7	10.6	9.3	9.8	11.6	12.2
Depreciation	106	185	193	194	223	287	368	391
EBIT	31	275	647	684	887	1,407	2,495	3,455
Int. and Finance Charges	182	208	220	315	344	350	250	230
Other Income	78	89	79	63	278	339	373	410
PBT bef. EO Exp.	-72	156	507	432	821	1,395	2,617	3,636
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	-72	156	507	432	821	1,395	2,617	3,636
Total Tax	-5	38	109	114	209	353	659	915
Tax Rate (%)	7.2	24.2	21.6	26.5	25.5	25.3	25.2	25.2
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	-67	118	398	317	612	1,042	1,959	2,720
Adjusted PAT	-67	118	398	317	612	1,042	1,959	2,720
Change (%)	760.3	-276.3	236.0	-20.2	92.9	70.3	87.9	38.9
Margin (%)	-1.5	1.9	5.5	3.8	5.1	6.0	7.9	8.6

Consolidated - Balance Sheet

(INRm)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	14	14	14	529	793	793	793	793
Total Reserves	243	363	757	1,450	8,297	9,339	11,298	14,018
Net Worth	257	377	771	1,979	9,090	10,132	12,091	14,811
Total Loans	3,080	2,790	3,369	3,145	1,336	1,000	500	500
Deferred Tax Liabilities	-62	-51	-39	0	0	0	0	0
Capital Employed	3,275	3,116	4,101	5,123	10,425	11,132	12,590	15,311
Gross Block	1,705	2,650	2,668	2,750	3,285	5,433	5,750	6,143
Less: Accum. Deprn.	674	824	977	1,171	1,394	1,680	2,048	2,439
Net Fixed Assets	1,032	1,826	1,692	1,579	1,891	3,753	3,702	3,704
Goodwill on Consolidation	30	30	30	30	30	30	30	30
Capital WIP	774	23	34	13	10	177	210	267
Total Investments	3	3	3	895	662	662	662	662
Curr. Assets, Loans&Adv.	4,034	4,517	5,971	8,529	13,440	14,646	19,366	25,168
Inventory	2,226	1,555	2,696	4,251	4,642	6,002	7,788	9,263
Account Receivables	546	2,264	1,523	1,617	2,259	2,835	4,056	5,183
Cash and Bank Balance	661	342	1,218	1,676	5,366	4,258	5,302	7,884
Loans and Advances	601	357	534	985	1,173	1,552	2,221	2,838
Curr. Liability & Prov.	2,599	3,284	3,629	5,924	5,607	8,137	11,381	14,521
Account Payables	1,205	1,928	1,932	2,853	3,200	4,365	6,230	7,940
Other Current Liabilities	1,330	1,262	1,564	2,973	2,297	3,621	4,935	6,306
Provisions	64	93	134	98	110	151	215	275
Net Current Assets	1,435	1,233	2,342	2,605	7,832	6,509	7,986	10,647
Appl. of Funds	3,274	3,116	4,101	5,123	10,425	11,132	12,590	15,311

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	-0.8	1.5	5.0	4.0	7.7	13.1	24.7	34.3
Cash EPS	0.5	3.8	7.4	6.4	10.5	16.8	29.3	39.2
BV/Share	3.2	4.7	9.7	25.0	114.6	127.8	152.5	186.8
Valuation (x)								
P/E	-836.8	474.6	141.3	177.0	91.8	53.9	28.7	20.6
Cash P/E	1,450.9	185.4	95.1	109.8	67.2	42.2	24.1	18.0
P/BV	218.4	149.1	72.8	28.4	6.2	5.5	4.6	3.8
EV/Sales	12.8	9.3	8.1	6.9	4.4	3.1	2.1	1.5
EV/EBITDA	426.9	127.5	69.4	65.6	46.9	31.2	17.9	12.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	-8.4	0.9	5.2	5.8	-15.6	15.2	17.9	30.3
Return Ratios (%)								
RoE	-22.1	37.3	69.3	23.1	11.1	10.8	17.6	20.2
RoCE	3.8	8.5	15.6	11.9	11.2	12.1	18.1	20.7
RoIC	1.9	9.1	18.1	18.7	19.1	20.2	30.0	40.0
Working Capital Ratios								
Fixed Asset Turnover (x)	2.7	2.4	2.7	3.0	3.6	3.2	4.3	5.1
Asset Turnover (x)	1.4	2.0	1.8	1.6	1.1	1.5	2.0	2.1
Inventory (Days)	201	139	143	196	176	165	150	140
Debtor (Days)	70	82	96	69	59	60	60	60
Creditor (Days)	108	115	130	135	120	120	120	120
Leverage Ratio (x)								
Current Ratio	1.6	1.4	1.6	1.4	2.4	1.8	1.7	1.7
Interest Cover Ratio	0.2	1.3	2.9	2.2	2.6	4.0	10.0	15.0
Net Debt/Equity	9.4	6.5	2.8	0.7	-0.4	-0.3	-0.4	-0.5

Consolidated - Cash Flow Statement

(INRm)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	-67	118	398	317	821	1,395	2,617	3,636
Depreciation	106	185	193	194	223	287	368	391
Interest & Finance Charges	133	171	175	267	66	11	-123	-180
Direct Taxes Paid	3	1	-62	-168	-209	-353	-659	-915
(Inc)/Dec in WC	-105	-200	-329	-229	-1,537	215	-432	-79
CF from Operations	69	275	375	381	-637	1,555	1,771	2,853
Others	93	74	111	158	-68	0	0	0
CF from Operating incl EO	163	349	486	539	-705	1,555	1,771	2,853
(Inc)/Dec in FA	-830	-274	-77	-76	-531	-350	-350	-450
Free Cash Flow	-667	75	409	463	-1,236	1,205	1,421	2,403
(Pur)/Sale of Investments	-3	0	0	-892	0	0	0	0
Others	-51	265	-247	-450	-3,746	-1,627	373	410
CF from Investments	-884	-9	-324	-1,418	-4,277	-1,977	23	-40
Issue of Shares	0	0	0	889	7,000	0	0	0
Inc/(Dec) in Debt	905	-336	534	-4	-1,809	-336	-500	0
Interest Paid	-183	-92	-73	-145	-344	-350	-250	-230
Dividend Paid	0	0	0	0	0	0	0	0
Others	0	-232	0	-19	-58	0	0	0
CF from Fin. Activity	723	-660	461	721	4,789	-686	-750	-230
Inc/Dec of Cash	2	-320	622	-158	-192	-1,108	1,044	2,583
Opening Balance	596	662	342	1,218	1,676	5,366	4,258	5,302
Other cash & cash equivalent	64	0	254	616	3,882	0	0	0
Closing Balance	662	342	1,218	1,676	5,366	4,258	5,302	7,884

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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