

Cyient DLM

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	CYIENTDL IN
Equity Shares (m)	79
M.Cap.(INRb)/(USDb)	54.6 / 0.7
52-Week Range (INR)	779 / 401
1, 6, 12 Rel. Per (%)	4/-/-
12M Avg Val (INR M)	657

Financials & Valuations (INR b)

Y/E Mar	FY24E	FY25E	FY26E
Sales	12.1	17.0	23.1
EBITDA	1.3	1.9	2.7
Adj. PAT	0.7	1.3	1.9
EBITDA Margin (%)	10.5	11.2	11.8
Cons. Adj. EPS (INR)	8.7	16.2	24.6
EPS Gr. (%)	117.5	86.8	51.2
BV/Sh. (INR)	121.9	138.2	162.7

Ratios

Net D:E	-0.6	-0.5	-0.6
RoE (%)	11.8	12.5	16.3
RoCE (%)	10.3	11.8	15.9

Valuations

P/E (x)	79	42	28
EV/EBITDA (x)	39	26	17

Shareholding pattern (%)

As on	Jun-23
Promoter	66.7
DII	12.2
FII	7.2
Others	14.0

Note: FII includes depository receipts

CMP: INR689 **TP: INR870 (+26%)** **Buy**

Robust revenue growth momentum continues

- CYIENTDL reported robust revenue growth of ~72% YoY in 2QFY24, led by strong traction in the Aerospace and Defense vertical. Margins were under pressure during the quarter (EBITDA margins declined 580bp YoY) due to an unfavorable business mix, one-time gains in 2QFY23 and relatively higher employee expenses.
- We maintain our FY24/FY25/FY26 EPS estimates and retain our BUY rating on the stock with a TP of INR870 (35x FY26E EPS).

Unfavorable business mix hurts margins

- Consolidated revenue grew 72% YoY to INR2.9b in 2QFY24, led by strong traction in the Aerospace and Defense vertical.
- The order book declined to INR22.9b as of 2QFY24 from INR24.3b as of FY23, mainly due to business seasonality (major orders are expected in 2H, primarily in Aerospace and defense).
- EBITDA margins declined 580bp YoY primarily due to 560bp decline in gross margins. The decline was mainly attributable to unfavorable business mix (higher share of low margin contract being executed during the quarter) and one-off Purchase Price Variance (PPV) gains in 2QFY23 (wherein company secured raw material at lower cost due to bulk procurement).
- Employee/other expenses as % of sales stood at 9.1%/3.6% vs. 7.6%/4.8% in 2QFY23. The company's focus on beefing up the management team resulted in higher employee costs.
- EBITDA was flat at INR235m in 2QFY24.
- Adjusted PAT grew 2.1x YoY to INR147m on the back of high other income of INR93m in 2QFY24.
- For 1HFY24, revenue/EBITDA/Adj. PAT grew 50%/24%/49% YoY to INR5.1b/INR435m/INR200m.
- Operating cash outflow for 1HFY24 stood at INR1.8b (vs. cash inflow of INR43m/INR521m in 1HFY23/FY23) due to increased working capital requirement (impact of business seasonality).

Highlights from the management commentary

- **Israel-Hamas war:** Israel accounts for a meaningful portion of CYIENTDL's revenue and supply chain. As of now, the company has not witnessed any changes in its business engagements from Israel.
- **Margins:** CYIENTDL aims to maintain double-digit margins going ahead. However, the company is in a high growth phase and will not compromise on making any additional investments required for growth.
- **New projects:** The company has won new projects worth USD16.4m in 2QFY24, primarily in the Aerospace, Defense & Industrial vertical, which will be executed over the next 2-5 years.

Valuation and view

- CYIENTDL, being an integrated EMS and solutions provider in the rapidly growing critical end-user industries, is likely to capture its share of the pie on the back of its strong core competencies and high technical capabilities.
- Going ahead, we expect CYIENTDL to sustain its growth momentum, aided by: 1) strong order book coupled with healthy order inflows; 2) high customer stickiness; and 3) strong promoter heritage.
- We estimate CYIENTDL to report a CAGR of 41%/46%/ 83% in revenue/EBITDA/ Adj. PAT over FY23-26
- We maintain our FY24/FY25/FY26 EPS estimates and retain our BUY rating on the stock with a TP of INR870 (35x FY26 EPS).

Consolidated - Quarterly Earning Model

(INR m)

Y/E March	FY23				FY24				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Gross Sales	1,701	1,702	2,144	2,774	2,171	2,918	3,173	3,802	8,320	12,064
YoY Change (%)	NA	NA	NA	NA	27.6	71.5	48.0	37.1	15.5	45.0
Total Expenditure	1,585	1,465	1,938	2,455	1,972	2,683	2,807	3,341	7,442	10,803
EBITDA	116	237	206	319	200	235	366	460	878	1,262
Margins (%)	6.8	13.9	9.6	11.5	9.2	8.1	11.6	12.1	10.6	10.5
Depreciation	49	50	47	48	48	55	57	60	194	220
Interest	67	78	85	86	91	76	60	45	315	272
Other Income	85	-7	-2	-13	9	93	20	30	63	152
PBT before EO expense	85	102	73	172	70	198	269	385	432	922
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0
PBT	85	102	73	172	70	198	269	385	432	922
Tax	22	31	15	46	16	51	68	97	114	232
Rate (%)	25.4	30.4	21.3	26.9	23.3	25.9	25.2	25.2	26.5	25.2
Minority Interest & Profit/Loss of Asso. Cos.	0	0	0	0	0	0	0	0	0	0
Reported PAT	63	71	57	126	54	147	202	288	317	690
Adj PAT	63	71	57	126	54	147	202	288	317	690
YoY Change (%)	NA	NA	NA	NA	-15.2	106.4	253.0	128.9	-20.2	117.5
Margins (%)	3.7	4.2	2.7	4.5	2.5	5.0	6.4	7.6	3.8	5.7

Key Exhibits

Exhibit 1: Consolidated order book trend

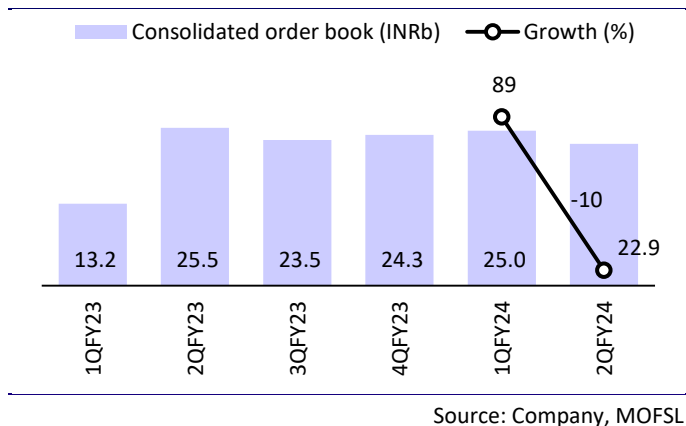


Exhibit 2: Consolidated revenue trend

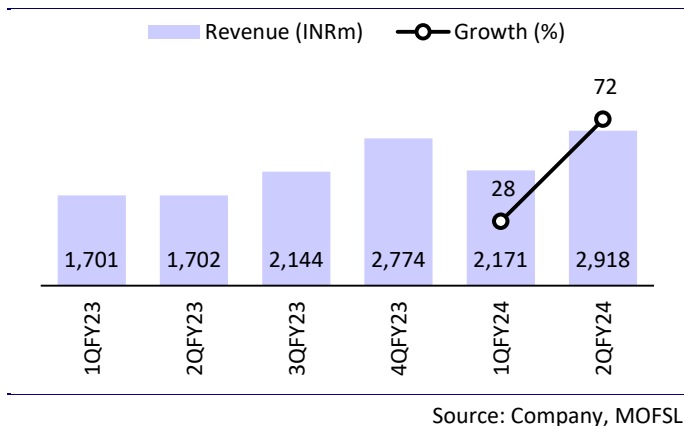


Exhibit 3: Consolidated EBITDA trend

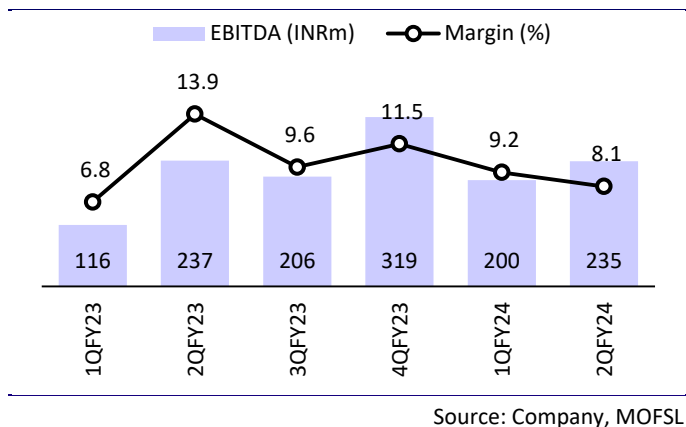


Exhibit 4: Consolidated Adj. PAT trend

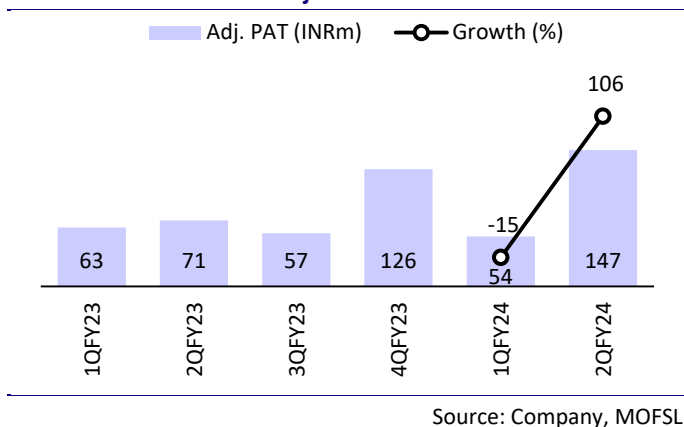


Exhibit 5: Product-wise revenue mix (2QFY24)

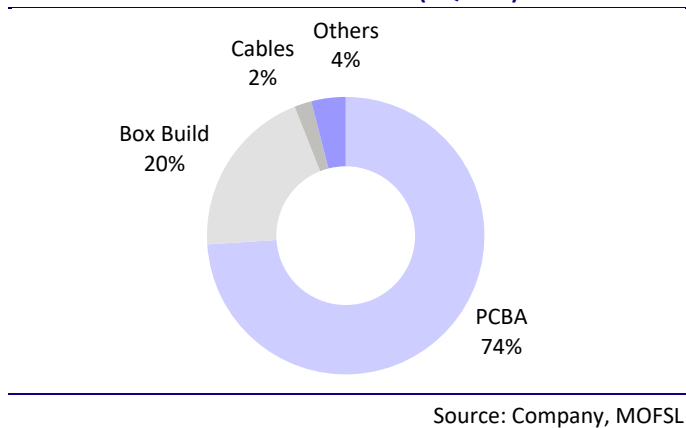


Exhibit 6: End user industry wise revenue mix (2QFY24)

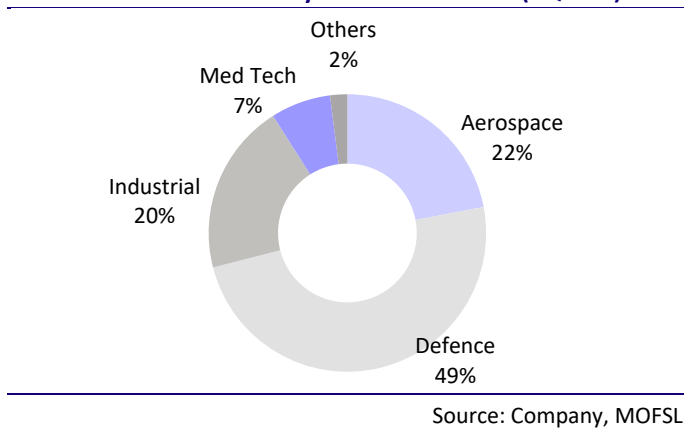
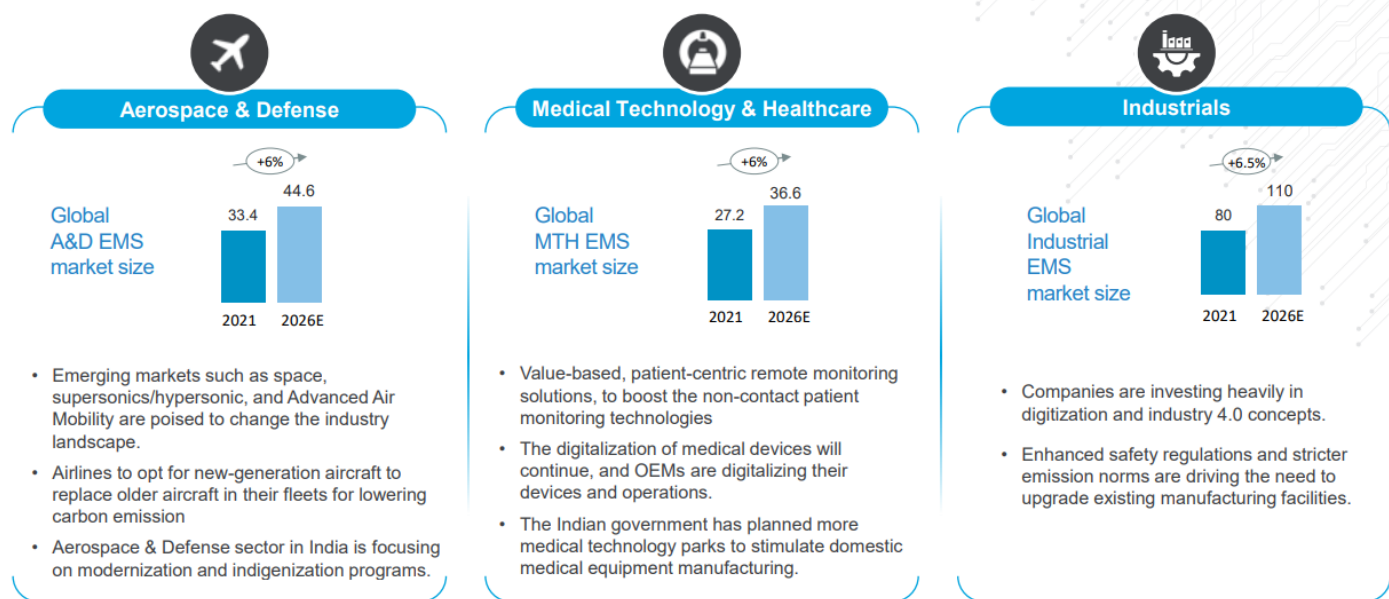


Exhibit 7: Key sectoral trend within EMS industry



Source: MOFSL, Company

Exhibit 8: CYIENTDL growth plans



Source: MOFSL, Company

Highlights from the management commentary

Israel-Hamas war

- Israel accounts for a meaningful portion of its revenue. The company has direct exposure to the country through Bharat Electronics Ltd also.
- Israel is also a part of the company's supply chain as CYIENTDL procures some of the components from the country.
- The management expects some sort of disruption/logistical issues due to the ongoing war in Israel. However, it remains cautiously optimistic about the situation.
- As of now, the company has not witnessed any changes in its business engagements from Israel.

Margins

- EBITDA margins declined due to an unfavorable business mix (higher share of low margin contract being executed during the quarter) and one-off purchase price variance (PPV) gains in 2QFY23 (wherein company secured raw material at lower cost due to bulk procurement).
- Further, the company's focus on beefing up the management team resulted into the higher employee cost.
- CYIENTDL aims to maintain double-digit margins going ahead. However, it is in high growth phase and will not compromise on making any additional investments.

Key Wins & Pipeline

- CYIENTDL has won new projects worth USD16.4m in 2QFY24 from Aerospace, Defense & Industrial customers. The total contract value of the projects is spread over 2-5 years.
- The company added two new logos (clients) in 2QFY24 (one each in aerospace and defense vertical). More details regarding the new clients will be shared once the company starts shipping to these clients.

Capacity expansion

- The company expects to inaugurate the new Bangalore facility in Dec'24.
- Further, it plans to expand its Mysore facility for the cable harness division.

Working capital and cash flow

- Inventory days declined to 144 days in 2QFY24 vs. ~187/211 days in 1QFY24/2QFY23. However, the same was offset by customer advances coming down to 57 days in 2QFY24 vs. ~81/88 days in 1QFY24/2QFY23.
- Further, payable days declined to 63 days in 2QFY24 vs. ~98/118 days in 1QFY24/2QFY23.
- Payable days have come down on the back of increased demand for raw materials (as lender had stop giving excess credit).
- Going ahead, the management expects free cash flow to be moderately positive for full year FY24.
- The management expects net working capital days to remain at ~90-100 days by FY24 end.

Others

- The order book as on 2QFY24 stood at INR22.9b vs. INR24.3b as on FY23. Higher execution of existing orders in 2QFY24 and seasonality of the business (major orders are expected in H2, primarily in Aerospace and defense) led to a decline in the order book.
- The company is planning to increase its association with large players in the industry and grow along with them. However, this means that the overall customer base for the company will be lower.
- Inorganic growth is a key part of the company's strategy. The company is in discussion with several players in the market.

Valuation and View

- CYIENTDL, being an integrated EMS and solutions provider in the rapidly growing critical end-user industries, is likely to capture its share of the pie on the back of its strong core competencies and high technical capabilities.
- Going ahead, we expect CYIENTDL to sustain its growth momentum, aided by: 1) strong order book coupled with healthy order inflows; 2) high customer stickiness; and 3) strong promoter heritage.
- We estimate CYIENTDL to report a CAGR of 41%/46%/ 83% in revenue/EBITDA/ Adj. PAT over FY23-26.
- We maintain our FY24/FY25/FY26 EPS estimates and retain our BUY rating on the stock with our TP of INR870 (35x FY26 EPS).

Exhibit 9: Changes to our estimates

Earnings change (INR m)	Old			New			Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	12,064	16,890	22,802	12,064	17,011	23,135	0%	1%	1%
EBITDA	1,303	1,942	2,736	1,262	1,905	2,730	-3%	-2%	0%
Adj. PAT	714	1,300	1,957	690	1,289	1,948	-3%	-1%	0%

Financials and valuations

Consolidated - Income Statement								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	4,805	4,571	6,280	7,205	8,320	12,064	17,011	23,135
Change (%)	23.9	-4.9	37.4	14.7	15.5	45.0	41.0	36.0
RM Cost	3,833	3,649	4,953	5,440	6,452	9,214	13,149	17,814
Employees Cost	455	441	469	517	647	1,078	1,242	1,619
Other Expenses	331	344	399	409	344	511	714	972
Total Expenditure	4,619	4,434	5,821	6,365	7,442	10,803	15,106	20,405
% of Sales	96.1	97.0	92.7	88.3	89.4	89.5	88.8	88.2
EBITDA	185	137	460	840	878	1,262	1,905	2,730
Margin (%)	3.9	3.0	7.3	11.7	10.6	10.5	11.2	11.8
Depreciation	83	106	185	193	194	220	242	269
EBIT	102	31	275	647	684	1,042	1,663	2,461
Int. and Finance Charges	141	182	208	220	315	272	111	48
Other Income	25	78	89	79	63	152	170	191
PBT bef. EO Exp.	-14	-72	156	507	432	922	1,722	2,603
EO Items	0	0	0	0	0	0	0	0
PBT after EO Exp.	-14	-72	156	507	432	922	1,722	2,603
Total Tax	-6	-5	38	109	114	232	433	655
Tax Rate (%)	43.1	7.2	24.2	21.6	26.5	25.2	25.2	25.2
Minority Interest	0	0	0	0	0	0	0	0
Reported PAT	-8	-67	118	398	317	690	1,289	1,948
Adjusted PAT	-8	-67	118	398	317	690	1,289	1,948
Change (%)	-79.7	760.3	-276.3	236.0	-20.2	117.5	86.8	51.2
Margin (%)	-0.2	-1.5	1.9	5.5	3.8	5.7	7.6	8.4

Consolidated - Balance Sheet								(INRm)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	14	14	14	14	529	793	793	793
Preference Capital	0	0	0	0	0	0	0	0
Total Reserves	336	243	363	757	1,450	8,876	10,164	12,112
Net Worth	349	257	377	771	1,979	9,669	10,957	12,905
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	1,603	3,080	2,790	3,369	3,561	2,061	561	561
Deferred Tax Liabilities	-49	-62	-51	-39	-54	-54	-54	-54
Capital Employed	1,904	3,275	3,116	4,101	5,485	11,675	11,464	13,412
Gross Block	1,039	1,705	2,650	2,668	2,642	2,853	3,190	3,537
Less: Accum. Deprn.	586	674	824	977	1,063	1,283	1,525	1,794
Net Fixed Assets	452	1,032	1,826	1,692	1,579	1,570	1,665	1,743
Goodwill on Consolidation	30	30	30	30	30	30	30	30
Capital WIP	10	774	23	34	13	203	216	218
Total Investments	0	3	3	3	895	895	895	895
Current Investments	0	0	0	0	0	0	0	0
Curr. Assets, Loans&Adv.	4,119	4,034	4,517	5,971	8,476	15,465	16,813	21,362
Inventory	1,789	2,226	1,555	2,696	4,251	4,670	5,944	7,321
Account Receivables	1,197	546	2,264	1,523	1,618	2,148	2,796	3,803
Cash and Bank Balance	596	661	342	1,218	1,676	7,560	6,541	8,156
Loans and Advances	537	601	357	534	931	1,086	1,531	2,082
Curr. Liability & Prov.	2,709	2,599	3,284	3,629	5,508	6,487	8,155	10,836
Account Payables	962	1,205	1,928	1,932	2,867	3,408	4,323	5,857
Other Current Liabilities	1,707	1,330	1,262	1,564	2,521	2,895	3,572	4,627
Provisions	39	64	93	134	120	184	259	353
Net Current Assets	1,411	1,435	1,233	2,342	2,968	8,977	8,658	10,525
Misc Expenditure	0	0	0	0	0	0	0	0
Appl. of Funds	1,904	3,274	3,116	4,101	5,486	11,675	11,464	13,412

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
EPS	-0.1	-0.8	1.5	5.0	4.0	8.7	16.2	24.6
Cash EPS	0.9	0.5	3.8	7.4	6.4	11.5	19.3	28.0
BV/Share	4.4	3.2	4.7	9.7	25.0	121.9	138.2	162.7
DPS	0.0	0.0	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	0.0	0.0
Valuation (x)								
P/E	-7,005.4	-814.3	461.9	137.5	172.3	79.2	42.4	28.0
Cash P/E	725.7	1,411.9	180.4	92.6	106.8	60.1	35.7	24.6
P/BV	156.4	212.5	145.1	70.9	27.6	5.7	5.0	4.2
EV/Sales	11.6	12.5	9.1	7.9	6.8	4.1	2.9	2.0
EV/EBITDA	300.2	415.9	124.2	67.6	64.4	38.9	25.5	17.2
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	2.2	-8.4	0.9	5.2	5.6	6.4	5.3	18.6
Return Ratios (%)								
RoE	-2.2	-22.1	37.3	69.3	23.1	11.8	12.5	16.3
RoCE	3.8	3.8	8.5	15.6	11.3	10.3	11.8	15.9
RoIC	3.9	1.9	9.1	18.1	17.5	26.3	36.4	46.3
Working Capital Ratios								
Fixed Asset Turnover (x)	4.6	2.7	2.4	2.7	3.1	4.2	5.3	6.5
Asset Turnover (x)	2.5	1.4	2.0	1.8	1.5	1.0	1.5	1.7
Inventory (Days)	143	201	139	143	196	185	165	150
Debtor (Days)	98	70	82	96	69	65	60	60
Creditor (Days)	104	108	115	130	136	135	120	120
Leverage Ratio (x)								
Current Ratio	1.5	1.6	1.4	1.6	1.5	2.4	2.1	2.0
Interest Cover Ratio	0.7	0.2	1.3	2.9	2.2	3.8	14.9	51.6
Net Debt/Equity	2.9	9.4	6.5	2.8	1.0	-0.6	-0.5	-0.6

Consolidated - Cash Flow Statement

(INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	-14	-67	118	398	317	922	1,722	2,603
Depreciation	83	106	185	193	194	220	242	269
Interest & Finance Charges	124	133	171	175	267	120	-59	-143
Direct Taxes Paid	-1	3	1	-62	-168	-232	-433	-655
(Inc)/Dec in WC	39	-105	-200	-329	-229	-126	-700	-253
CF from Operations	232	69	275	375	381	904	772	1,822
Others	57	93	74	111	140	0	0	0
CF from Operating incl EO	289	163	349	486	521	904	772	1,822
(Inc)/Dec in FA	-116	-830	-274	-77	-76	-400	-350	-350
Free Cash Flow	172	-667	75	409	445	504	422	1,472
(Pur)/Sale of Investments	0	-3	0	0	-892	0	0	0
Others	17	-51	265	-247	-450	152	170	191
CF from Investments	-100	-884	-9	-324	-1,418	-248	-180	-159
Issue of Shares	0	0	0	0	889	7,000	0	0
Inc/(Dec) in Debt	0	905	-336	534	-4	-1,500	-1,500	0
Interest Paid	0	-183	-92	-73	-145	-272	-111	-48
Dividend Paid	0	0	0	0	0	0	0	0
Others	-16	0	-232	0	0	0	0	0
CF from Fin. Activity	-16	723	-660	461	740	5,228	-1,611	-48
Inc/Dec of Cash	173	2	-320	622	-157	5,884	-1,019	1,615
Opening Balance	135	596	662	342	1,218	1,676	7,560	6,541
Other cash & cash equivalent	288	64	0	254	615	0	0	0
Closing Balance	596	662	342	1,218	1,676	7,560	6,541	8,156

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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

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