



Cyient DLM Ltd Q3FY25

Cyient DLM Ltd.

CMP* INR 515	Target INR 753	Potential Upside 46.2%	Market Cap (INR Mn) INR 40,605	Recommendation BUY	Sector Electronic-Component
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Result Highlights of Q3FY25:

- Cyient DLM reported a 38%/14% year-over-year (YoY) revenue growth during Q3FY25, driven by INR 870 million in revenue from the recently acquired Altek. However, on a standalone basis, revenue grew by only 11%. Net profits were significantly impacted due to acquisition-related costs.
- The reported EBITDA stood at INR 281 million, reflecting a decline of 11% YoY and 4% sequentially, primarily due to higher employee and other expenses. This was further exacerbated by higher depreciation stemming from the amortization of goodwill and increased finance costs.
- The order book declined YoY due to the fulfillment of a major client order and subdued standalone inflows. Despite this, we remain positive on the company's strategic positioning, noting sequential improvement in Q3FY25 order inflows, even after excluding inorganic contributions.
- We have revised our EPS estimates downward to INR 8/14/22 (from INR 12/19/27) to reflect changes in the expense ratio mix arising from the integration of Altek and the extended timeline for margin expansion. Despite these revisions, **we reiterate our BUY rating with a forward P/E multiple of 35x (previously 45x on FY26E EPS) on FY27E EPS, resulting in a target price of INR 753 per share. This is supported by an improving portfolio mix, a recovery in the Industrial and Medical segments, and the company's strong positioning in the U.S. defense market, particularly under the new regime.**

MARKET DATA

Shares outs (Mn)	79.3
Equity Cap (INR Mn)	9,374
Mkt Cap (INR Mn)	40,605
52 Wk H/L (INR)	884/506
Volume Avg (3m K)	234
Face Value (INR)	10
Bloomberg Code	Cyient DLM IN

KEY FINANCIALS

INR Millions	FY23	FY24	FY25E	FY26E	FY27E
Revenue	8,320	11,919	15,547	19,934	26,544
EBITDA	878	1,110	1,270	1,963	2,795
EBITDA margin (%)	10.6%	9.3%	8.2%	9.8%	10.5%
PAT	317	612	646	1,122	1,707
PAT margin (%)	3.8%	5.1%	4.2%	5.6%	6.4%
EPS	4	8	8	14	22
P/E (x)	159x	83x	78x	45x	30x

Source: Company, DevenChoksey Research

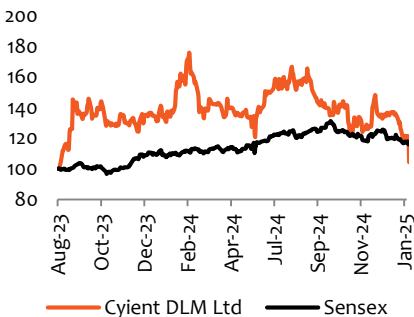
One off Items & Standalone Weakness Impacted the Margin

- A material ramp down in demand from one top client due to inventory adjustments impacted standalone growth leading to only 11% standalone revenue growth on YoY basis
- The integration of Altek resulted in one-off M&A expenses amounting to INR 80 Mn, including banker and legal fees, which weighed on EBITDA. The acquisition also introduced increased depreciation costs due to goodwill amortization, further affecting net profits.
- A conservative provision for expected credit loss on delayed receivables added to higher other expenses, reflecting cautious financial policies amidst delayed client payments. This provision is expected to reverse in subsequent quarters.

Order Book Yet to Turn Stronger but Early Signs of Improvement

- The order book saw a decline due to the consumption of a large order from a key client and slower inflow of new orders.
- Current pipeline stands strong at over INR 1 billion, with several large deals in advanced stages of negotiation.
- The addition of Altek's shorter sales cycle provides quicker order conversions, aiding near-term growth potential.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	76,405
NIFTY	23,155

SHARE HOLDING PATTERN (%)

Particulars (%)	Dec-24	Sep-24	June-24
Promoters	52.2	52.2	66.7
DII's	29.4	27.8	17.4
FII's	3.6	7.7	5.1
Others	14.8	12.3	10.8
Total	100.0	100.0	100.0

*Based on Today's closing
Note: All the market data is as of Today's closing

30.6%

Revenue CAGR between FY24 and FY26E

40.8%

Adj. PAT CAGR between FY24 and FY26E

Cyient DLM Ltd.

Key Concall Highlights:

- **Free Cash Flow and Working Capital:** The company generated strong free cash flow of INR 478 million during the quarter, aided by a seven-day reduction in working capital, which improved to 120 days. Efforts are underway to reduce it further to 90–100 days.
- **Order Book and Pipeline:** The consolidated order backlog stood at INR 2,142.9 crore, with INR 291.5 crore contributed by Altek. Standalone backlog declined due to the consumption of a large order and subdued inflows. The pipeline remains robust at over \$ 1 billion, with three large deals in advanced negotiation stages.
- **Altek Integration and Strategic Positioning:** The integration of Altek is progressing well, providing significant benefits in high-value industrial, medical, and defense sectors. Altek's U.S. manufacturing capabilities position it strategically to benefit from defense localization mandates, offering growth opportunities in critical markets.
- **Guidance and Outlook:** The first half of FY26 is expected to be softer due to the ramp-down of a major program and absorption impacts. However, Q4FY25 margins are projected to be strong, providing a solid foundation for FY26.
- **Margins and Profitability:** Adjusted EBITDA margins came in at 8.1%, impacted by higher employee expenses and one-off M&A costs of INR 80 Mn. Margins are expected to improve significantly in Q4FY25 due to a favorable business mix. Amortization of goodwill from the Altek acquisition also weighed on net profits.
- **Sector and Client Diversification:** The company reported strong growth in the industrial and medical sectors, reducing its earlier reliance on the aerospace and defense segments. Reduced demand from a key client due to inventory adjustments impacted standalone performance, but recovery is anticipated.
- **Comparable ROE Profiles:** Altek and Cyient DLM are expected to deliver similar Return on Equity (ROE) profiles over time. Both businesses share a focus on high-value, mission-critical sectors like industrial, medical, and aerospace defense, which align with Cyient DLM's existing capabilities.
- **Complementary Business Models:** Altek's expertise in safety-critical industrial and medical manufacturing complements Cyient DLM's strengths in aerospace and defense, creating a balanced portfolio while maintaining similar margin and cash generation profiles.
- **Provision for Expected Credit loss:** A conservative provision for expected credit loss was recorded during the quarter due to delays in receivables collection, primarily driven by timing and holiday-related factors. While such provisions have occurred occasionally in the company's past, they are not frequent. This current provision is expected to reverse in subsequent quarters as collections improve, with a high probability of recovery. The company remains confident in managing such risks effectively, supported by its prudent financial practices and client portfolio quality.

Valuation and view:

Cyient DLM delivered a weak quarter in Q3FY25 as the standalone business lagged to deliver meaningful growth. The integration of Altek should lead to higher gross profit profile but increased employee cost will have its bearings on the overall profitability. The order book continues to lack charm as it consumed large order from one key client but the management reiterated its conviction on winning new orders and growing the order book materially as reflected by three deals at advanced stages. The organic order inflow remained tepid on YoY basis but it delivered material growth on sequential basis. **Reflecting the integration of Altek and an extended timeline for margin expansion, we have revised our EPS estimates downward to INR 8/14/22 (from INR 12/19/27) for FY25E/FY26E/FY27E. Despite this adjustment, we reiterate our BUY rating, rolling over a forward P/E multiple of 35x (revised from 45x on FY26E EPS) on FY27E EPS of INR 22, arriving at a target price of INR 753 per share.** This is underpinned by Cyient DLM's strategic focus on a high-value, low-volume manufacturing mix, its expanding presence in mission-critical industrial and medical segments, and the synergies from the Altek acquisition. Additionally, the company's U.S. manufacturing capabilities uniquely position it to benefit from defense localization mandates and address client needs for proximity to production. With a diversified portfolio mix showing recovery, sequential improvement in organic inflows, and a robust pipeline of deals in advanced stages, Cyient DLM remains well-positioned for long-term value creation.

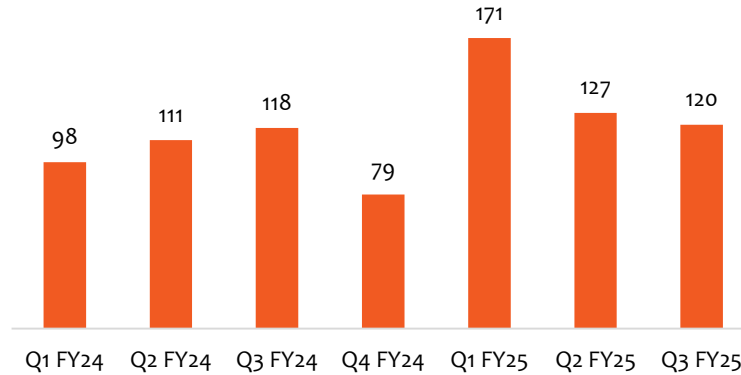
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Q3 FY25 Result:

Particulars (INR Mn)	Q3FY24	Q2FY25	Q3FY25	Q-o-Q	Y-o-Y	9MFY24	9MFY25	YoY
Revenue From Operations	3,210	3,895	4,442	14%	38%	8,300	10,916	32%
COGS	2506	3092	3257	5%	30%	6445	8276	28%
COGS% of revenue	78%	79%	73%			78%	76%	
Gross Profit	705	802	1,186			1,855	2,640	
Gross Margin (%)	22.0%	20.6%	26.7%			22.3%	24.2%	
Employee Expenses	306	336	588	75%	92%	817	1251	53%
Other Expenses	105	150	317	110%	202%	309	591	91%
EBITDA	294	316	281			730	798	ss
EBITDA Margin %	9.2%	8.1%	6.3%	105 Bps	284 Bps	8.8%	7.3%	-148 Bps
Other Income	93	71	69	-4%	-27%	195	228	17%
Depreciation	58	69	100	46%	74%	161	236	47%
Finance Cost	83	110	100	-9%	20%	250	290	16%
Profit Before Tax	247	209	150			514	501	
Tax								
Total Tax	63	54	40	-26%	-36%	130	130	0%
Tax %	25%	26%	27%			25%	26%	
Profit After Tax	184	155	110			385	370	
PAT Margin %	5.7%	4.0%	2.5%	178 Bps	327 Bps	4.6%	3.4%	-124 Bps

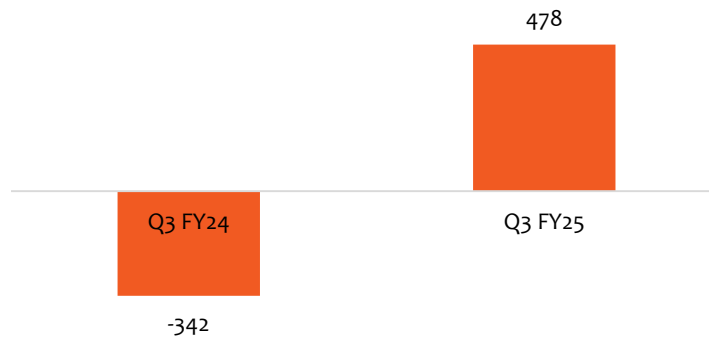
Source: Company, DevenChoksey Research

Net Working Capital Days



Source: Company, DevenChoksey Research

FCF for the Quarter (In Mn)



Source: Company, DevenChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

Particulars (INR Miillion)	FY23	FY24	FY25E	FY26E	FY27E
Revenue From Operations	8,320	11,919	15,547	19,934	26,544
other income	63	278	288	124	96
Total Revenue	8,383	12,197	15,836	20,058	26,640
COGS	6,452	9,200	11,703	14,950	20,013
Gross Profit	1,868	2,719	3,844	4,983	6,531
Gross Profit Margin%	22.5%	22.8%	24.7%	25.0%	24.6%
Employee Benefit Expenses	647	1,174	1,761	2,111	2,449
Other expenses	343	435	813	910	1,287
Operating Expenses	7,443	10,809	14,277	17,971	23,749
EBITDA Profit	878	1,110	1,270	1,963	2,795
EBITDA %	10.6%	9.3%	8.2%	9.8%	10.5%
Finance Cost	315	344	393	211	203
Depreciation	194	223	295	370	397
Total Expenses	7,952	11,376	14,965	18,552	24,348
Profit Before Taxes	432	821	870	1,506	2,292
Total Tax Expenses	114	209	225	384	584
Profit After Tax	317	612	646	1,122	1,707
PAT Margin %	3.8%	5.1%	4.2%	5.6%	6.4%
Adjsuted EPS	4	8	8	14	22

Exhibit 2: Cash Flow Statement

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net cash generated from operating activities	540	(705)	867	1,569	1,888
Net cash (used in) investing activities	(1,418)	(4,277)	210	831	75
Net cash generated from / (used in) financing activities	722	4,790	931	(1,350)	(58)
Net (Decrease)/Increase in cash and cash equivalents	(157)	(193)	2,008	1,050	1,905
Cash & Cash Equivalents at the beginning of the year	769	612	417	2,425	3,475
Exchange Diff. on translation of foreign currency	0	(2)	0	0	0
Cash & Cash Equivalents at the end of the year	612	417	2,425	3,475	5,380

Exhibit 3: Key Ratios

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Gross Profit Margin%	22.5%	22.8%	24.7%	25.0%	24.6%
EBITDA %	10.6%	9.3%	8.2%	9.8%	10.5%
PAT Margin %	3.8%	5.1%	4.2%	5.6%	6.4%
Return on Equity %	23.1%	11.1%	6.9%	10.9%	14.6%
Return on Capital %	15.5%	11.4%	8.6%	12.9%	18.2%
Adjsuted EPS (INR)	4.0	7.7	8.1	14.1	21.5

Source: Company, DevChoksey Research

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Non-Current Assets					
(a) Property, plant and equipment	1,218	1,374	2,365	2,424	2,457
(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	3,760	3,815	3,844
Current Assets					
Inventories	4,251	4,642	5,324	6,554	8,000
(b) Financial assets :	0	0	0	0	0
(i) Trade receivables	1,617	2,259	3,024	3,550	4,363
(ii) Cash and cash equivalents	773	417	2,425	3,475	5,380
(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	15,201	16,735	20,407
Total Assets	11,047	16,033	18,960	20,550	24,251
EQUITY AND LIABILITIES					
Equity					
(a) Equity Share Capital	529	793	793	793	793
(b) Other Equity	1,450	8,297	8,943	10,065	11,772
TOTAL EQUITY	1,979	9,090	9,736	10,858	12,565
Liabilities					
Non-Current Liabilities					
(a) Financial Liabilities					
i. Borrowings	996	747	2,035	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	2,861	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	9,225	9,692	11,686
TOTAL EQUITY AND LIABILITIES	11,047	16,033	18,960	20,550	24,251

Cyient DLM Ltd.

Cyient DLM Ltd			
Date	CMP (INR)	TP (INR)	Recommendation
22-Jan-25	515	753	BUY
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%

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KRChoksey Shares and Securities Pvt. Ltd.

CIN-U67120MH1997PTC108958

Registered Office: 1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: 91-22-6633 5000; Fax: 91-22-6633 8060

Corporate Office: 701-702, DLH Plaza, Opp Shoppers Stop, S V Road, Andheri (W), Mumbai 400 058

Phone: 91-22-66355000

Compliance Officer: Varsha Shinde

Email: varsha.shinde@krchoksey.com