

CYIENT DLM LIMITED

Challenging Quarter, order book concern persist

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Cyient DLM reported a challenging quarter. While consolidated revenues grew 38% YoY, aligning with expectations, the growth was just 11% YoY excluding Altek. Adjusted EBITDA came in at ₹360 mn (excluding a one-time M&A expense of ₹80 mn), falling short of expectations due to increased operating expenses. As a result, margins declined by ~100 bps to 8.1%, driven by the accelerated execution of a low-margin defense order. Adjusted PAT fell 8% due to lower margins and higher interest costs. Concerns around the order book remained, with a 7% YoY decline to ₹21.2 bn, and weak order inflows. On a positive note, margins are expected to improve as some lower-margin defense orders are likely to conclude by 4Q. Additionally, management reiterated its FY24-27E revenue growth guidance of 30% CAGR. After reviewing the 9MFY25 results, we have updated our estimates and continue to maintain our Buy rating, with a target price of ₹650 (32x FY27E)

Q3FY25 Result Summary

Cyient reported consolidated revenue of ₹4.4 bn, in line with expectations, primarily driven by contributions from Altek (₹870 mn). Altek's impact was notable, with the industrial and medical sectors showing impressive YoY growth of 50% and 149%, respectively. However, excluding Altek, the standalone business saw only modest growth of 11% YoY. Profitability faced pressure, with adjusted EBITDA of ₹360 mn (an 8.1% margin), falling around 100 bps short of expectations. Adjusted PAT dropped 8% due to lower margins and higher interest costs. Looking ahead, management suggested that revenue growth could be softer in H1FY26, as a large order is being completed more quickly than initially planned, and order book growth has been sluggish. On a positive note, the company remains hopeful for an improvement in profitability, driven by Altek's EBITDA margin expansion from 7.3% in Q3FY25 to 10% in the near term, along with potential gains from its standalone business as a low-margin defense order nears completion.

Order book concern remains: Concerns about the order book persisted, with the consolidated order book standing at ₹21.2 bn, marking a 7% YoY decline. This includes ₹2.9 bn from Altek, so excluding this, the order book totaled ₹18.3 bn, down 20% YoY. The decline was mainly due to the accelerated completion of a low-margin defense contract, along with the typically uneven order inflows in the aerospace and defense sectors, which have remained weak. However, during the earnings call, management highlighted ongoing discussions for potential contracts worth over USD 1 bn and mentioned that three large deals are in advanced stages.

Key Financials	FY23	FY24	FY25E	FY26E	FY27E
Total Sales (₹ mn)	8,320	11,919	16,030	21,242	26,340
EBITDA Margins (%)	10.6	9.3	8.4	9.4	10.0
PAT Margins (%)	3.8	5.1	4.3	5.2	6.0
EPS (₹)	4.0	7.7	8.7	13.9	20.0
P/E (x)	128.0	66.4	59.1	36.9	25.6
P/BV (x)	20.5	4.5	4.2	3.7	3.3
EV/EBITDA (x)	48.4	33.5	26.5	17.7	12.8
RoE (%)	23.1	11.1	7.3	10.7	13.6
RoCE (%)	11.3	10.5	8.1	10.3	12.7

BUY

Current Market Price (₹)	512
12M Price Target (₹)	650
Potential upside (%)	27

Stock Data

Sector :	Electronics Manufacturing Services
FV (₹) :	10
Total Market Cap (₹ bn) :	41
Free Float Market Cap (₹ bn) :	19
52-Week High / Low (₹)	884 / 506
BSE Code / NSE Symbol	543933 / CYIENTDLM
Bloomberg :	CYIENTDLM.NS

Shareholding Pattern

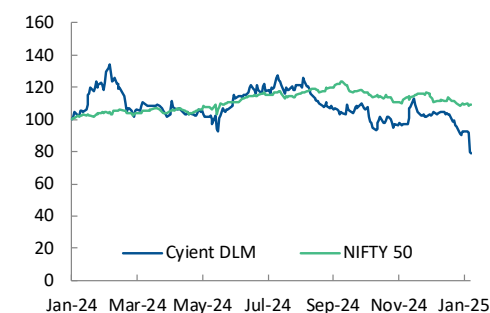
(%)	Dec-24	Sep-24	Jun-24	Mar-24
Promoter	52.16	52.16	66.66	66.66
MFs	28.29	27.12	16.84	11.17
FPIs	3.64	7.76	5.14	7.04
AIFs	0.17	0.16	0.38	1.30
Bodies Corporate	1.00	0.79	1.12	5.90
Others	14.74	12.01	9.86	7.93

Source: BSE

Price Performance

(%)	1M	3M	6M	11M
Cyient DLM	-23.3%	-20.0%	-31.9%	-39.0%
Nifty 50	-2.3%	-5.0%	-5.2%	4.5%

* To date / current date : January 23, 2025

Cyient DLM vs Nifty 50

Quarterly Financial Snapshot

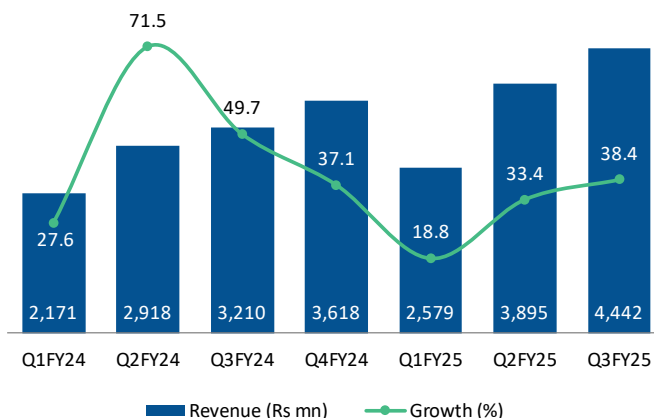
YE Mar (₹ mn)	Q3FY25	Q3FY24	YoY(%)	Q2FY25	QoQ(%)
Gross Sales	4,442	3,210	38.4	3,895	14.1
Total Expenditure	4,081	2,916	40.0	3,578	14.1
EBITDA	361	294	22.8	316	14.2
<i>Margins (%)</i>	<i>8.1</i>	<i>9.2</i>	<i>-104bps</i>	<i>8.1</i>	<i>1bps</i>
Depreciation	100	58	73.9	69	45.9
Interest	100	83	19.9	110	-9.3
Other Income	69	93	-26.5	71	-3.5
PBT before EO expense	230	247	-6.8	209	10.1
Extra-Ord expense	59	0		0	
PBT	171	247	-30.7	209	-18.1
Tax	61	63	-3.0	54	11.6
Rate (%)	35.5	25.3	1013bps	26.0	944bps
Minority Interest & P/L of Asso. Cos.	0	0	-	0	-
Reported PAT	110	184	-40.1	155	-28.5
Adj PAT	169	184	-8.1	155	9.6
<i>Margins (%)</i>	<i>3.8</i>	<i>5.7</i>	<i>-193bps</i>	<i>4.0</i>	<i>-15bps</i>

Source: Company, LKP Research

Outlook & Valuation

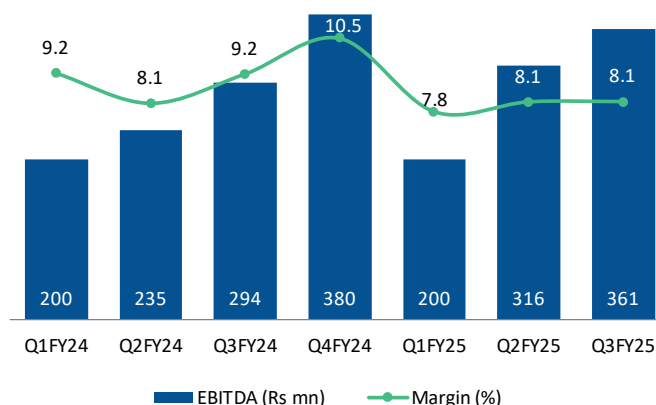
The company has maintained its guidance of 30% revenue CAGR for FY24-27E. It remains optimistic about improving profitability, driven by Altek's EBITDA margin expansion in the near term and a recovery in the standalone business as a low-margin defense order nears completion. The stock has experienced a sharp price decline, presenting a strong opportunity to buy at a favorable valuation. After reviewing the 9MFY25 results, we have updated our estimates and introduced FY27E projections. We continue to recommend a **BUY** with a target price of ₹650 (32x FY27E).

Revenue

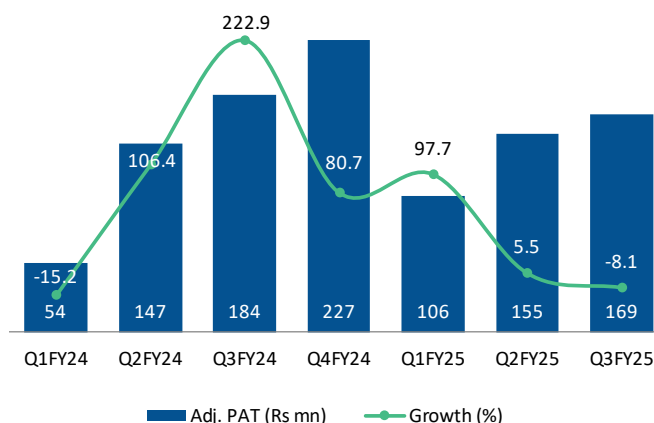


Source: Company, LKP Research

EBITDA

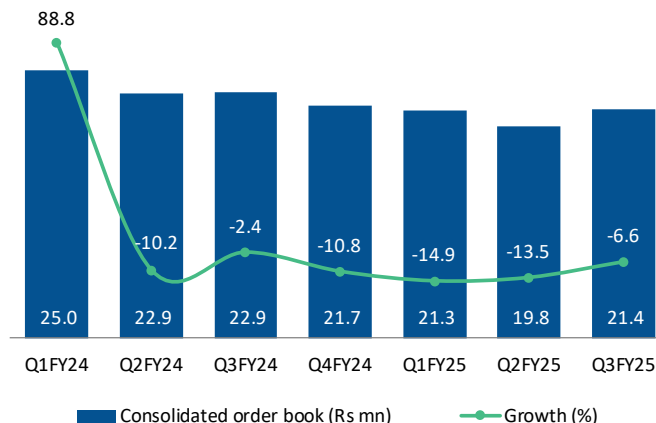


PAT

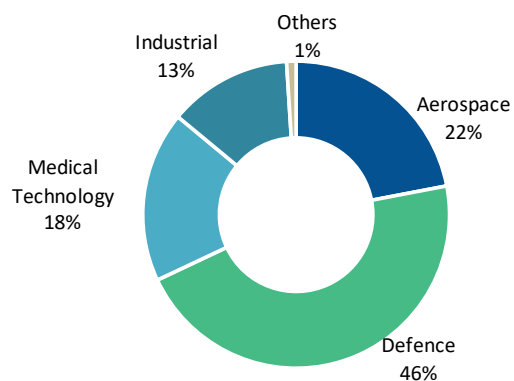


Source: Company, LKP Research

Consolidated Order book

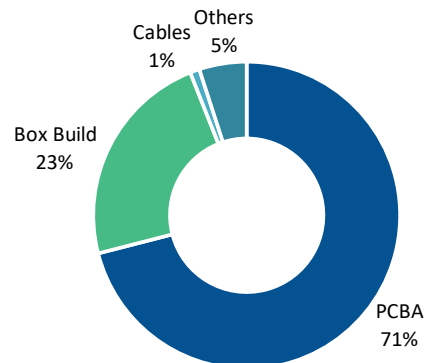


Product wise revenue mix (Q3 FY25)



Source: Company, LKP Research

End user wise revenue mix (Q3 FY25)



Concall Highlights

Industrial Outlook

- The company sees a significant opportunity in the US due to political developments that favor localization of manufacturing. President Trump's policies are expected to strengthen domestic manufacturing, leading to opportunities for companies like Altek.
- The industrial and medical science sectors are showing signs of recovery.
- Cyient DLM's acquisition of Altek is intended to diversify its industry base, with a larger focus on industrial and medical sectors.
- There's a mixed outlook for clients outside of aerospace and defense, with some softness in the industrial and medical segments.
- A leading global technology company focused on energy services has been secured as a client in the industrial sector, seen as a key growth driver.

Margin Outlook

- The adjusted EBITDA margin for the quarter is 8.1%, which is lower year-on-year due to various factors.
- Altek's EBITDA margins are similar to Cyient DLM's in this quarter, but they have a roadmap to reach over 10%. Altek has historically operated at around 10% margin.
- The company aims to consistently deliver 10% EBITDA margins and grow from there.
- A large deal that has been a drag on margins is expected to ramp down significantly in Q4, which should improve margins.
- The full-year margin is expected to be close to flat compared to the previous year, with an improved exit quarter in terms of margin.

Guidance

- The company previously discussed a 30% CAGR, which is a mid-to-long-term guidance and may vary year-on-year. There may be some variability in this number due to program transfers and business ramps.
- The first half of the next financial year may be soft in terms of growth due to the large order coming down.

Different Segments Performance and Outlook

- The company has seen a growth of 47% YoY in the industrial sector and 156% in the medical sector.
- The revenue mix is changing, with less emphasis on aerospace and defence and more on industrial and medtech, due to the Altek acquisition.
- The mix of PCBA, box build, and cable has not changed significantly, with a large portion of business still coming from PCBA and box build.
- The geographic mix is also shifting, with 61% of revenue now coming from the rest of the world (including Altek) and 39% from India.
- The company expects higher growth in North America due to the Altek acquisition and political changes.
- The company sees opportunities for manufacturing for US Defense due to the "Made in the USA" initiatives.
- Margins in aerospace & defense, medical and industrial sectors are similar, with more variability at the client or program level.

M&A

- The acquisition of Altek Electronics is complete, and the integration process is progressing well.
- Altek is a 50-year-old EMS company based in Connecticut, primarily serving the industrial, medical and defense sectors.
- Altek's capabilities are complementary, focusing on high-value, low-volume, high-mix, mission-critical electronics.
- The acquisition provides geographic diversity and new client access.
- The acquisition was funded using 10% of the IPO proceeds and a part of the general corporate proceeds.
- There were one-off M&A expenses of approximately ₹80 mn in Q3.
- The acquisition is expected to be accretive to PAT on a full year basis.
- There will be an annual depreciation of USD \$1 mn for the acquisition, with the rest being goodwill.

Order Book and Macro Outlook

- The order backlog is ₹21.43 bn, which includes ₹2.92 bn from Altek.
- The organic order book has declined this quarter.
- The company is working on several large opportunities, with some in advanced stages of discussion.
- Altek has a shorter sales cycle compared to Cyient DLM, so will contribute to the order book within the year.
- The company is also working on some transfer programs.
- The execution timeline for the order book is between 18 to 24 months.
- Pipeline in excess of USD \$1 bn (Total Contract Value), 3 Large deals at advanced stages.
- The macroeconomic environment is mixed with some clients outside of A&D showing signs of softness.

Other Key Points

- The company has achieved positive free cash flow for the quarter. A significant release of working capital contributed to strong free cash flow generation in the quarter.
- The company's DSO (Days Sales Outstanding) is at 76 days, a drop both quarter-on-quarter and year-on-year.

Income Statement (Consolidated)

(₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Total Income	8,320	11,919	16,030	21,242	26,340
Change (%)	15.5	43.2	34.5	32.5	24.0
RM Cost	6,452	9,200	12,375	16,378	20,282
Employees Cost	647	1,174	1,571	1,912	2,371
Other Expenses	344	435	737	956	1,054
Total Expenditure	7,442	10,809	14,684	19,245	23,706
% of Sales	89.4	90.7	91.6	90.6	90.0
EBITDA	878	1,110	1,347	1,997	2,634
Margin (%)	10.6	9.3	8.4	9.4	10.0
Depreciation	194	223	347	416	492
EBIT	684	887	999	1,580	2,142
Int. and Finance Charges	315	344	397	374	314
Other Income	63	278	320	272	299
PBT bef. EO Exp.	432	821	923	1,478	2,127
EO Items	0	0	0	0	0
PBT after EO Exp.	432	821	923	1,478	2,127
Total Tax	114	209	235	377	543
Tax Rate (%)	26.5	25.5	25.5	25.5	25.5
Minority Interest	0	0	0	0	0
Reported PAT	317	612	687	1,101	1,585
Adjusted PAT	317	612	687	1,101	1,585
Change (%)	-20.2	92.9	12.3	60.2	43.9
Margin (%)	3.8	5.1	4.3	5.2	6.0

Balance Sheet (Consolidated)

(₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	529	793	793	793	793
Preference Capital	0	0	0	0	0
Total Reserves	1,450	8,297	8,984	10,085	11,670
Net Worth	1,979	9,090	9,777	10,878	12,463
Minority Interest	0	0	0	0	0
Total Loans	3,561	1,921	3,368	2,868	2,368
Deferred Tax Liabilities	-54	-59	-59	-59	-59
Capital Employed	5,485	10,952	13,087	13,688	14,773
Gross Block	2,642	3,177	3,434	4,136	4,801
Less: Accum. Deprn.	1,063	1,286	1,633	2,049	2,541
Net Fixed Assets	1,579	1,891	1,802	2,087	2,260
Goodwill on Consolidation	30	30	30	30	30
Capital WIP	13	10	252	550	335
Total Investments	895	662	662	662	662
Current Investments	0	0	0	0	0
Curr. Assets, Loans&Adv.	8,476	13,381	17,930	20,196	23,675
Inventory	4,251	4,642	5,594	6,731	7,779
Account Receivables	1,618	2,259	2,635	3,492	4,330
Cash and Bank Balance	1,676	5,366	8,258	8,062	9,195
Loans and Advances	931	1,114	1,443	1,912	2,371
Curr. Liability & Prov.	5,508	5,022	7,590	9,838	12,190
Account Payables	2,867	3,200	4,069	5,384	6,668
Other Current Liabilities	2,521	1,712	3,366	4,248	5,268
Provisions	120	110	155	205	254
Net Current Assets	2,968	8,359	10,341	10,358	11,485
Misc Expenditure	0	0	0	0	0
Appl. of Funds	5,485	10,952	13,087	13,688	14,773

Ratios

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Basic (Rs)					
EPS	4.0	7.7	8.7	13.9	20.0
Cash EPS	6.4	10.5	13.0	19.1	26.2
BV/Share	25.0	114.6	123.3	137.2	157.2
DPS	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0
Valuation (x)					
P/E	128.0	66.4	59.1	36.9	25.6
Cash P/E	79.4	48.6	39.2	26.8	19.6
P/BV	20.5	4.5	4.2	3.7	3.3
EV/Sales	5.1	3.1	2.2	1.7	1.3
EV/EBITDA	48.4	33.5	26.5	17.7	12.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
FCF per share	5.6	-16.8	19.2	5.1	20.8
Return Ratios (%)					
RoE	23.1	11.1	7.3	10.7	13.6
RoCE	11.3	10.5	8.1	10.3	12.7
RoIC	17.5	16.9	16.9	28.3	35.5
Working Capital Ratios					
Fixed Asset Turnover (x)	3.1	3.8	4.7	5.1	5.5
Asset Turnover (x)	1.5	1.1	1.2	1.6	1.8
Inventory (Days)	196	176	165	150	140
Debtor (Days)	69	59	60	60	60
Creditor (Days)	136	120	120	120	120
Leverage Ratio (x)					
Current Ratio	1.5	2.7	2.4	2.1	1.9
Interest Cover Ratio	2.2	2.6	2.5	4.2	6.8
Net Debt/Equity	1.0	-0.4	-0.5	-0.5	-0.5

Cash Flow (Consolidated)

(₹ mn)	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	317	821	923	1,478	2,127
Depreciation	194	223	347	416	492
Interest & Finance Charges	267	66	77	102	15
Direct Taxes Paid	-168	-209	-235	-377	-543
(Inc)/Dec in WC	-229	-1,702	911	-214	7
CF from Operations	381	-801	2,022	1,406	2,098
Others	140	0	0	0	0
CF from Operating incl EO	521	-801	2,022	1,406	2,098
(Inc)/Dec in FA	-76	-531	-500	-1,000	-450
Free Cash Flow	445	-1,332	1,522	406	1,648
(Pur)/Sale of Investments	-892	0	0	0	0
Others	-450	278	320	272	299
CF from Investments	-1,418	-253	-180	-728	-151
Issue of Shares	889	7,000	0	0	0
Inc/(Dec) in Debt	-4	-1,639	1,447	-500	-500
Interest Paid	-145	-344	-397	-374	-314
Dividend Paid	0	0	0	0	0
Others	0	0	0	0	0
CF from Fin. Activity	740	5,017	1,050	-874	-814
Inc/Dec of Cash	-157	3,963	2,893	-196	1,133
Opening Balance	1,218	1,676	5,366	8,258	8,062
Other cash & cash equivalent	615	-273			
Closing Balance	1,676	5,366	8,258	8,062	9,195

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