

India
ADD (no change)

Consensus ratings*: Buy 7 Hold 0 Sell 1

Current price:	Rs699
Target price:	Rs1,000
Previous target:	Rs1,049
Up/downside:	43.1%
InCred Research / Consensus:	14.1%

Reuters:	
Bloomberg:	CYIENTDL IN
Market cap:	US\$659m
	Rs55,411m
Average daily turnover:	US\$5.2m
	Rs440.1m
Current shares o/s:	79.3m
Free float:	12.3%

*Source: Bloomberg

Key changes in this note

- For FY25F/26F, we lower our EBITDA estimates by 13.5%/12.5% and PAT by 21%/17%, respectively.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	1.0	(8.8)	0.3
Relative (%)	5.2	(9.5)	(19.2)

Major shareholders	% held
HDFC MF	8.6
Nippon Life	8.5
Aditya Birla Sun Life	5.1

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Cyient DLM Ltd

Order inflow is key monitorable

- While 2Q EBITDA grew 33% YoY to Rs316m, 5% below our estimate & 3% below consensus, PAT hit due to higher interest rates & lower other income.
- Order book at the end of 2QFY25 stood at Rs19.8bn, down 14% YoY. We expect Cyient DLM to execute the remaining BEL orders by the end of FY25F.
- For FY25F/26F, we lower our EBITDA estimates by 13.5%/12.5% and PAT by 21%/15%. We retain ADD rating with a lower TP of Rs1,000 (Rs1,049 earlier).

2QFY25 Revenue, EBITDA growth in line with expectations

Cyient DLM posted healthy 2QFY25 revenue growth of 33% YoY to Rs3.9bn, in line with our/ Bloomberg or BB consensus estimates. Management attributed the successful quarter to effective alignment of client engagements. While EBITDA grew 33% YoY to Rs316m, 5% below our estimate and 3% below BB consensus estimate, PAT was hit due to higher interest costs (up 45% YoY) and lower other income (down 24% YoY). Cyient DLM added two major new clients in 2Q - a defence contractor in India and a global oilfield services company.

Acquisition of Altek Electronics is EPS-accretive

The recent acquisition of Altek Electronics is likely to enhance Cyient DLM's capabilities and market position, especially in the North American region, in the medical and industrial segment. The acquisition is expected to be EBITDA-accretive. Starting from 3QFY25F, Cyient DLM expects to see a noticeable improvement in the overall business performance.

Concern over lower order book remains

The company's order book at the end of 2QFY25 stood at Rs19.8bn, down 14%YoY. We expect Cyient DLM to execute the remaining Bharat Electronics or BEL orders by the end of FY25F. Hence, excluding this, the company needs to win incremental orders for its growth prospects in FY26F and beyond. We expect Cyient DLM to win incremental orders in the coming quarters due to the prevailing macroeconomic tailwinds in the aerospace and defence space owing to Russia-Ukraine and Israel-Hamas wars.

Retain ADD rating with a lower target price of Rs1,000

Cyient DLM has a strong presence in the defence products segment, which is likely to benefit from policy tailwinds in the defence space in India and Europe. The air taxi optionality could also play out by FY27F, as Honeywell's largest client Lilium vies for type certification by the end of CY24F. For FY25F/26F, we lower our EBITDA estimates by 13.5%/12.5% and PAT estimates by 21%/17%, respectively, factoring in lower order inflow in 1HFY25 and lower sales. We introduce FY27F revenue estimate of Rs24.4bn, with an EPS of Rs26. We value Cyient DLM at 45x Sep 2026F EPS (from FY26F earlier) to arrive at a lower target price of Rs1,000 (Rs1,049 earlier). Key downside risks: Any slowdown in order execution due to the prevailing supply chain problems owing to geopolitical conflicts, coupled with the slowdown in order wins due to policy shift by European countries.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	8,320	11,919	16,061	20,475	24,390
Operating EBITDA (Rsm)	878	1,110	1,553	2,275	2,854
Net Profit (Rsm)	317	612	954	1,545	2,015
Core EPS (Rs)	4.0	7.7	12.0	19.5	25.4
Core EPS Growth	(20.3%)	92.9%	56.0%	61.9%	30.4%
FD Core P/E (x)	174.63	90.54	58.05	35.86	27.50
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend Yield	0.00%	0.00%	0.00%	0.00%	0.00%
EV/EBITDA (x)	64.79	46.28	33.60	23.13	18.12
P/FCFE (x)	(67.42)	(8.36)	35.19	2,185.89	(58.99)
Net Gearing	74.2%	(44.3%)	(32.2%)	(24.0%)	(27.2%)
P/BV (x)	28.00	6.10	5.52	4.78	4.07
ROE	23.1%	11.1%	10.0%	14.3%	16.0%
% Change In Core EPS Estimates			(20.88%)	(17.24%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

2QFY25 conference-call highlights

- Cyient DLM posted a healthy revenue and EBITDA performance in 2QFY25, meeting expectations, after a shift in some deliverables from 1Q to 2Q. Net profit growth was impacted due to higher interest costs and lower other income. Management attributed the successful quarter to effective alignment of client engagements. The company emphasized that 2H typically performs better than 1H, and this seasonality is expected to reflect in improved EBITDA margin in the latter half of FY25F.
- **Middle East conflict impact:** The ongoing Middle East conflict affected the supply chain, although the company managed to minimize disruption by working closely with suppliers and customers. The conflict caused delays in shipments and parts availability, although no significant cost impact was noted.
- **Key acquisition - Altek Electronics:** The acquisition of Altek Electronics, an US-based EMS company, was a key highlight of the quarter. Altek Electronics brings valuable capabilities in medical and industrial segments and helps Cyient DLM diversify geographically and in sector exposure, particularly in North America. Altek Electronics' specialization in high-value electronics manufacturing complements Cyient DLM's core offerings. It adds capabilities in ITAR-compliant manufacturing, defence contracts, and build-to-specification opportunities, providing new avenues for growth. The acquisition of Altek Electronics involved an upfront payment of US\$23.4m, with the earn-out capped at US\$5.85m. The acquisition is expected to deliver a ROCE of 15% and be earnings-accretive by FY26F. Altek Electronics is expected to add US\$10m in revenue in the first six months. The company projects at least 10% growth in FY26F, although meaningful synergies will take time to materialize. Altek Electronics' revenue increased to US\$37.2m in CY23 from US\$31.2m in CY22 and US\$27.8 in CY21. The acquisition includes an upfront payment of US\$23.4m and an earnout of US\$5.8m based on performance.
- **Order book:** The total order backlog stood at Rs19.8bn, down by ~Rs1.5bn QoQ, due to lower order inflow and healthy revenue in 2Q. Management explained that the decline in the order backlog was due to lumpiness in the business, as large orders were being executed quickly. It expects a recovery in the order book once the current orders are executed.
- **New client logos:** Cyient DLM added two major new clients in 2Q - a defence contractor in India and a global oilfield services company, broadening its client base.
- **Debt & working capital:** Debt level is expected to decrease in 2HFY25F as the company generates positive cash flows, particularly from organic business. Inventory days dropped from 184 days to 122 days, with a target to reach 90-100 days. Receivables also improved from 92 to 82 days, showing a positive trend in working capital management.
- **Margin:** While the EBITDA margin remained flat at 8.1%, the company expects an improvement in 2HFY25F. The goal of achieving double-digit EBITDA margin by FY25F may be pushed to FY26F, depending on cost optimization efforts.
- **Expansion into EV sector:** Cyient DLM is exploring expansion into the electric vehicle (EV) space, focusing on the automotive segment, with both India and the US as potential markets for this opportunity.
- **Use of IPO proceeds:** The company utilized Rs39m of initial public offering or IPO proceeds in 2QFY25 for meeting its working capital needs and expects to utilize the remaining funds for acquisitions and general corporate purposes by 3QFY25F.

Figure 1: Quarterly results snapshot

	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)
Net Sales	3,895	2,918	33.4%	2,579	51.0%
COGS	3,092	2,312	33.8%	1,927	60.4%
Employee Expenses	336	267	25.7%	328	2.4%
Other Expenses	150	104	44.4%	124	21.5%
Total Expense	3,578	2,683	33.4%	2,379	50.4%
EBITDA	316	235	34.4%	200	58.2%
Other Income	71	93	-23.5%	89	-20.2%
Depreciation	69	55	25.5%	67	2.6%
EBIT	319	274	16.5%	222	43.6%
Interest	110	76	44.6%	80	36.6%
PBT	209	198	5.7%	142	47.5%
Tax Expenses	54	51	6.4%	36	52.6%
PAT	155	147	5.5%	106	45.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Margin and cost analysis

Margin Analysis	2QFY25	2QFY24	YoY (bp)	1QFY25	QoQ (bp)
Raw Material Costs	79.4%	79.2%	18	74.7%	467
Employee Expenses	8.6%	9.1%	-53	12.7%	-410
Other Expenses	3.9%	3.6%	29	4.8%	-94
EBIDTA Margin	8.1%	8.1%	6	7.8%	37
EBIT Margin	8.2%	9.4%	-119	8.6%	-42
PAT Margin (%)	4.0%	5.0%	-105	4.1%	-14
Effective Tax Rate (%)	26.0%	25.9%	17	25.2%	86

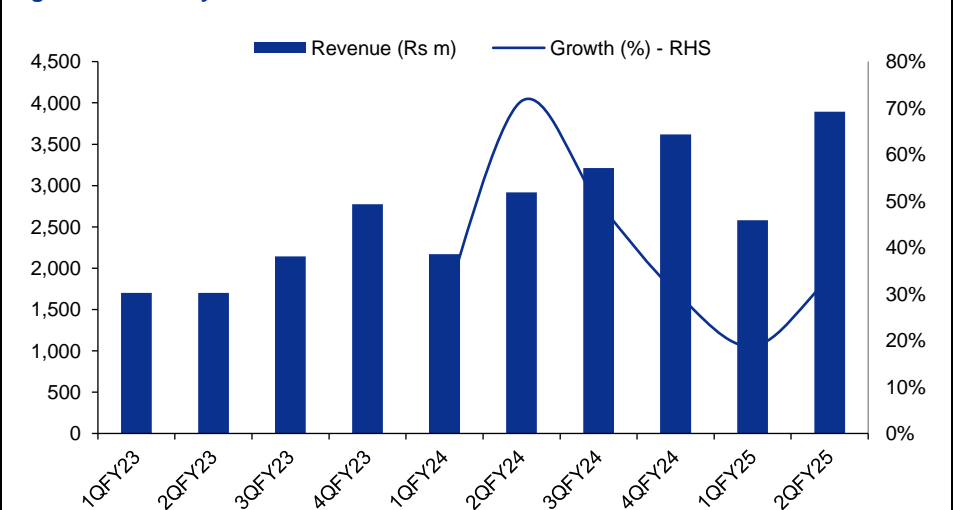
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Actuals vs estimates

Vs. InCred	2QFY25	2QFY25F	Diff
Revenue	3,895	3,881	0%
EBITDA	316	334	-5%
Margin	8.1%	8.6%	-49 bps
PAT	155	206	-25%
Vs. Consensus	2QFY25	2QFY25C	Diff
Revenue	3,895	3,876	0%
EBITDA	316	325	-3%
Margin	8.1%	8.4%	-25 bps
PAT	155	197	-21%

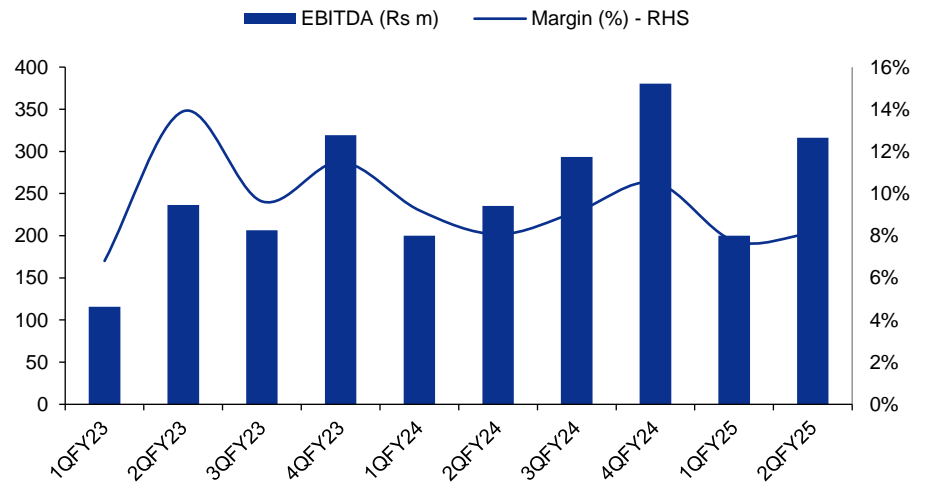
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Quarterly revenue trend



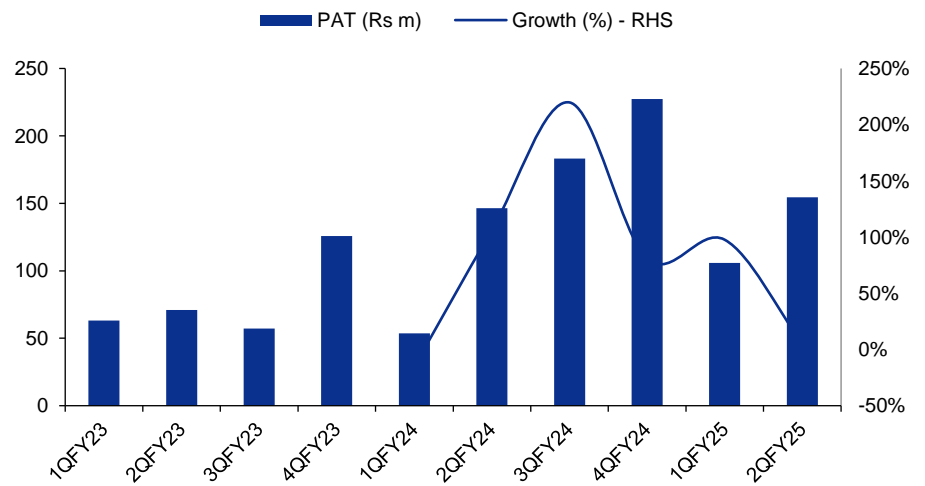
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Quarterly EBITDA trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Quarterly PAT trend



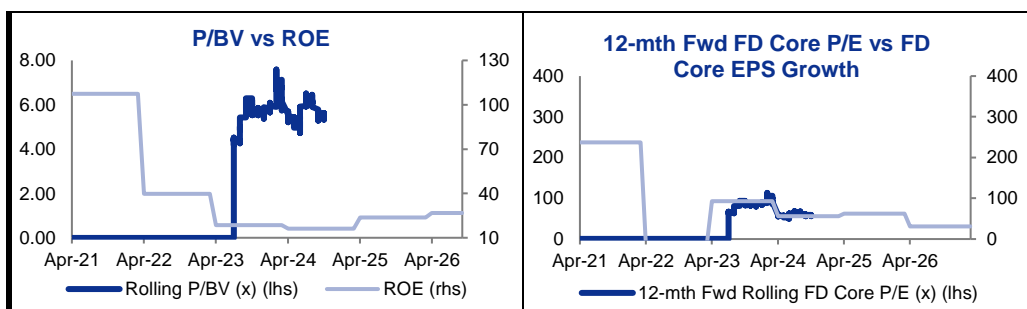
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Our revised earnings estimates

Rs m	New		Old		Change		Introduce
	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F	
Revenue	16,061	20,475	16,428	21,458	-2.2%	-4.6%	24,390
EBITDA	1,553	2,275	1,796	2,600	-13.5%	-12.5%	2,955
PAT	954	1,545	1,206	1,867	-20.9%	-17.2%	2,202

SOURCE: COMPANY REPORTS, INCRED RESEARCH

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	8,320	11,919	16,061	20,475	24,390
Gross Profit	1,868	2,719	3,659	4,709	5,610
Operating EBITDA	878	1,110	1,553	2,275	2,854
Depreciation And Amortisation	(194)	(223)	(277)	(285)	(319)
Operating EBIT	684	887	1,276	1,990	2,535
Financial Income/(Expense)	(315)	(344)	(348)	(233)	(245)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	63	278	324	303	397
Profit Before Tax (pre-EI)	432	821	1,252	2,060	2,687
Exceptional Items					
Pre-tax Profit	432	821	1,252	2,060	2,687
Taxation	114	209	297	515	672
Exceptional Income - post-tax					
Profit After Tax	317	612	954	1,545	2,015
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	317	612	954	1,545	2,015
Recurring Net Profit	317	612	954	1,545	2,015
Fully Diluted Recurring Net Profit	317	612	954	1,545	2,015

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	878	1,110	1,553	2,275	2,854
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(229)	(1,676)	(1,528)	(820)	(705)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	59	56	4	6	7
Net Interest (Paid)/Received					
Tax Paid	(168)	(195)	(297)	(515)	(672)
Cashflow From Operations	540	(705)	(268)	946	1,484
Capex	(76)	(338)	(489)	(529)	(529)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1,342)	(3,940)	2,041	(491)	(1,994)
Cash Flow From Investing	(1,418)	(4,277)	1,552	(1,021)	(2,523)
Debt Raised/(repaid)	57	(1,647)	290	100	100
Proceeds From Issue Of Shares	889	6,694			
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(62)	(259)	(69)	64	19
Cash Flow From Financing	884	4,788	221	164	119
Total Cash Generated	5	(195)	1,505	90	(921)
Free Cashflow To Equity	(822)	(6,630)	1,574	25	(939)
Free Cashflow To Firm	(879)	(4,983)	1,284	(75)	(1,039)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	1,676	5,366	4,856	4,512	5,524
Total Debtors	1,617	2,259	2,860	3,478	4,143
Inventories	4,251	4,642	6,160	7,573	8,687
Total Other Current Assets	853	992	1,320	1,683	2,005
Total Current Assets	8,397	13,259	15,197	17,246	20,359
Fixed Assets	1,593	1,901	2,145	2,390	2,600
Total Investments	895	662	892	2,047	2,439
Intangible Assets	30	30	30	30	30
Total Other Non-Current Assets	132	181	243	310	370
Total Non-current Assets	2,650	2,774	3,312	4,778	5,439
Short-term Debt	2,149	589	779	829	879
Current Portion of Long-Term Debt					
Total Creditors	2,853	3,200	4,180	5,329	6,348
Other Current Liabilities	2,444	1,602	1,540	1,963	2,339
Total Current Liabilities	7,446	5,391	6,499	8,121	9,566
Total Long-term Debt	996	747	847	897	947
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	624	802	1,081	1,378	1,641
Total Non-current Liabilities	1,620	1,549	1,927	2,274	2,588
Total Provisions	3	3	5	6	7
Total Liabilities	9,068	6,943	8,431	10,402	12,161
Shareholders Equity	1,979	9,090	10,044	11,589	13,604
Minority Interests					
Total Equity	1,979	9,090	10,044	11,589	13,604

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	15.5%	43.2%	34.8%	27.5%	19.1%
Operating EBITDA Growth	4.5%	26.5%	39.9%	46.5%	25.4%
Operating EBITDA Margin	10.6%	9.3%	9.7%	11.1%	11.7%
Net Cash Per Share (Rs)	(18.52)	50.82	40.74	35.14	46.64
BVPS (Rs)	24.95	114.63	126.66	146.15	171.56
Gross Interest Cover	2.17	2.58	3.67	8.56	10.35
Effective Tax Rate					
Net Dividend Payout Ratio					
Accounts Receivables Days	68.89	59.35	58.17	56.49	57.02
Inventory Days	196.48	176.42	158.97	158.97	158.01
Accounts Payables Days	135.13	120.08	108.61	110.08	113.47
ROIC (%)	16.1%	12.8%	13.6%	18.2%	20.7%
ROCE (%)	15.5%	11.4%	11.5%	15.9%	17.6%
Return On Average Assets	8.3%	9.5%	10.5%	13.6%	14.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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- c) Received compensation for investment banking or merchant banking or brokerage services from the subject company,
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Recommendation Framework

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.