

## India

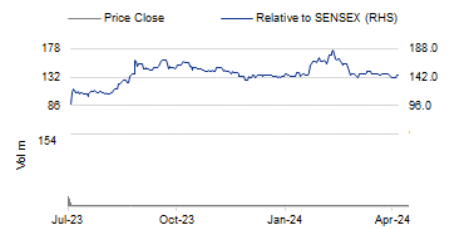
## ADD (no change)

Consensus ratings\*: Buy 5 Hold 0 Sell 1

Current price:	Rs687
Target price:	Rs1,049
Previous target:	Rs1,049
Up/downside:	52.7%
InCred Research / Consensus:	23.8%

Reuters:	
Bloomberg:	CYIENTDL IN
Market cap:	US\$653m
	Rs54,444m
Average daily turnover:	US\$3.1m
	Rs260.6m
Current shares o/s:	79.3m
Free float:	(8,485.0%)

\*Source: Bloomberg



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(0.5)	4.5	0.0
Relative (%)	(1.7)	0.7	0.0

<b>Major shareholders</b>	% held
Promoters	66.7
FII	7.2
DII	12.0

## Research Analyst(s)

## Vipraw SRIVASTAVA

T (91) 22 4161 1565  
E vipraw.srivastava@incredresearch.com

## Arafat SAIYED

T (91) 22 4161 1542  
E arafat.saiyed@incredcapital.com

## Anirvan DIVAKERA

T (91) 02241611548  
E anirvan.divakera@incredresearch.co

## Cyient DLM Ltd

## Margin expansion to drive next leg of growth

- Cyient DLM posted 4QFY24 revenue of Rs3,618m, up 31% YoY. The EBITDA margin declined by 100bp YoY to 10.5%.
- PAT increased by 81% YoY and 25% QoQ, aided by topline growth and other income.
- We maintain our topline estimates but raise margins by 30/130bp for FY25F/26F, respectively. Retain ADD rating with a target price of Rs.1,049.

## Stabilization of employee costs to aid margin expansion

Cyient DLM posted 4QFY24 growth of 31% and 81% YoY in revenue and PAT, respectively. Gross margin improved by 30bp YoY (23.9% vs. 23.6%). Other expenses, as a percentage of sales, increased by 100bp YoY (3.5% vs. 2.5%) and employee expenses increased by 30 bp YoY. At a full-year level, Cyient DLM's employee costs almost doubled from Rs640m to Rs1,174m. Going ahead, we expect employee costs to be outpaced by revenue growth. This, we feel, will result in significant margin expansion for the company.

## Export orders to also lead to higher margins; improving NWC a plus

Cyient DLM generated 66% of its revenue from exports in FY24. Going ahead, this trend is likely to continue and hence, will also aid margin growth. Export orders tend to have higher margins in the range of 11-12%, compared with domestic orders having 5-6% margins. As the company wins more export orders, this is going to be another trigger for margin expansion. Net working capital or NWC days improvement is also on the cards, as the company strives to improve its working capital requirement from 105 days in FY24 to approx. 90 days in FY25F. This was also visible in 4Q results, as it improved the net working capital requirement to 79 days.

## Europe's defence spending also acts as a tailwind

As European countries increase their defence budgets due to the Russia-Ukraine war and also to achieve the target of spending 2% of their gross domestic product or GDP on defence set by the North Atlantic Treaty Organization or NATO, this could be a good medium-term trigger. Countries closer to the Ukrainian border, like Poland and Finland, are procuring air defence systems due to the carpet bombing of Ukrainian cities by Russia and Cyient DLM's clients, Thales and Rafale (Dassault Systemes) are the world's largest manufacturers of the same. This has led to a huge order inflow for these players, which will ultimately trickle down to electronics manufacturing services or EMS players like Cyient DLM, resulting in order book growth.

## Cyient DLM is high-conviction pick; retain ADD with a TP of Rs1,049

We remain bullish on Cyient DLM's long-term prospects. Its exposure to the aerospace and defence sector, which is in a multi-year upcycle, will aid its order book growth. We value Cyient DLM at 45x FY26F EPS to arrive at a target price of Rs1,049. Key downside risks are a slowdown in new order wins coupled with execution challenges due to geopolitical problems.

## Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	7,205	8,320	11,918	16,420	21,423
Operating EBITDA (Rsm)	840	878	1,109	1,795	2,594
Net Profit (Rsm)	398	317	611	1,205	1,862
Core EPS (Rs)	7.5	6.0	7.7	15.2	23.5
Core EPS Growth	237.2%	(20.3%)	28.3%	97.4%	54.5%
FD Core P/E (x)	91.20	114.38	89.14	45.16	29.23
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)	45.22	43.02	46.17	26.33	17.22
P/FCFE (x)	48.27	(43.14)	(6.82)	17.71	32.82
Net Gearing	222.3%	74.2%	(35.5%)	(69.6%)	(80.4%)
P/BV (x)	47.06	18.34	5.99	5.29	4.48
ROE	69.4%	23.1%	11.0%	12.4%	16.6%
% Change In Core EPS Estimates				7.06%	12.06%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Key conference-call takeaways

- Guidance: Management expects 30% revenue CAGR over a three-year period. It expects 25% RoCE in the next five years.
- 4QFY24 revenue was up 12.7% qoq and 30.5% yoy at Rs3,618m. The growth was led by the defence segment's (56% of revenue) growth of 77.9% yoy (vs. >100% yoy growth in 3QFY24) followed by the aerospace segment's (25% of revenue) growth of 52.3% yoy (vs. 75% yoy growth in 3QFY24). The industrial segment (~9% of revenue) continues to witness weakness (down 57% yoy vs. 34% yoy in 3QFY24). MedTech (8% of revenue) recorded a decline of 9.8% qoq but was up 26% yoy.
- The order backlog was down by 5.4% qoq and 10.8% yoy to Rs21,705m. Likely conversion from the robust order pipeline could aid order backlog in the coming quarters.
- The company is looking to address the defence offset opportunity due to the recent geopolitical challenges. Supply chain issues have stabilized over the last 12-15 months.
- The growth strategy includes: a) Strengthening its current business – building strategic engagements through large deals, account-specific strategy to tap opportunities and strengthen B2S offerings. b) Inorganic expansion – looking for acquisitions in the NAM & EMEA regions, accessing target clients and expanding capabilities. c) New industries & new geographies – looking to tap growing EMS opportunities in new geographies and strategizing the foray into disruptive industries like electric vehicles and 5G.
- The EBITDA margin in 4QFY24 stood at 10.5% (in line with the double-digit guidance) but down 100bp yoy. There was sequential softness in margins in 1HFY24 due to lower revenue seasonality but management expects margin trajectory improving in FY25F.
- Planned investments in SG&A led to higher employee expenses in 2HFY24. Growth leverage in FY25F could aid margins.
- Operating cash flow or OCF stood at -Rs705m in FY24 vs. +Rs539.6m in FY23. Capex in FY24 was at Rs338m vs. Rs76m in FY23. Gross debt stood at Rs1,336m. Gross cash stood at Rs6,028m.

**Figure 1: Our revised earnings estimates (Rs m)**

	Old		New		Change	
	FY25F	FY26F	FY25F	FY26F	FY25F	FY26F
Revenue	16,783	21,895	16,420	21,423	-2%	-2%
EBITDA	1,709	2,345	1,795	2,594	5%	11%
PAT	1,126	1,662	1,205	1,862	7%	12%

SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Margin analysis**

Margin Analysis	4QFY24F	4QFY23	YoY bp chg	3QFY24	QoQ bp chg	FY24	FY23 YoY (%)
Raw Material Costs	76.1%	76.4%	-31	78.1%	-193	77.2%	77.5%
Employee Expenses	9.9%	9.6%	25	9.5%	33	9.9%	7.8%
Other Expenses	3.5%	2.5%	104	3.3%	23	3.7%	4.1%
<b>EBITDA Margin</b>	<b>10.5%</b>	<b>11.5%</b>	<b>-99</b>	<b>9.1%</b>	<b>137</b>	<b>9.3%</b>	<b>10.6%</b>
EBIT Margin	11.1%	9.3%	179	10.2%	85	9.8%	9.0%
PAT Margin (%)	6.3%	4.5%	175	5.7%	58	5.1%	3.8%
Effective Tax Rate (%)	25.9%	26.9%	(100)	25.5%	45	25.5%	26.5%

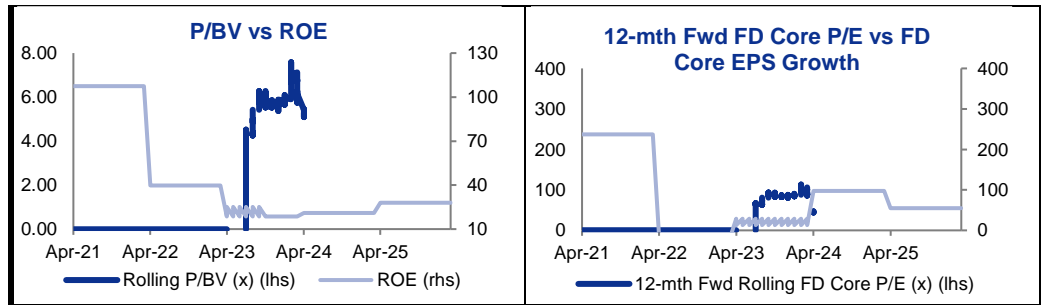
SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Quarterly earnings snapshot (Rs m)**

	4QFY24F	4QFY23	YoY (%)	3QFY24	QoQ (%)	FY24	FY23	YoY (%)
<b>Net Sales</b>	<b>3,618</b>	<b>2,774</b>	<b>30.5%</b>	<b>3,210</b>	<b>12.7%</b>	<b>11,918</b>	<b>8,320</b>	<b>43.2%</b>
COGS	2,754	2,120	29.9%	2,506	9.9%	9,200	6,452	42.6%
Employee Expenses	357	267	33.8%	306	16.7%	1,174	647	81.5%
Other Expenses	127	68	86.0%	105	20.6%	435	343	26.7%
<b>Total Expenses</b>	<b>3,238</b>	<b>2,455</b>	<b>31.9%</b>	<b>2,917</b>	<b>11.0%</b>	<b>10,809</b>	<b>7,443</b>	<b>45.2%</b>
<b>EBITDA</b>	<b>380</b>	<b>319</b>	<b>19.2%</b>	<b>293</b>	<b>29.7%</b>	<b>1,109</b>	<b>878</b>	<b>26.4%</b>
Other Income	83	-13	-744.3%	93	-10.5%	278	63	341.1%
Depreciation	62	48	29.4%	58	8.3%	223	194	15.0%
<b>EBIT</b>	<b>401</b>	<b>258</b>	<b>55.5%</b>	<b>329</b>	<b>22.1%</b>	<b>1,164</b>	<b>747</b>	<b>55.9%</b>
Interest Costs	94	86	9.9%	83	13.5%	344	315	9.1%
<b>PBT before Eol</b>	<b>307</b>	<b>172</b>	<b>78.3%</b>	<b>246</b>	<b>25.0%</b>	<b>820</b>	<b>432</b>	<b>90.0%</b>
<b>PBT</b>	<b>307</b>	<b>172</b>	<b>78.3%</b>	<b>246</b>	<b>25.0%</b>	<b>820</b>	<b>432</b>	<b>90.0%</b>
Tax Expenses	80	46	71.7%	63	27.2%	209	114	83.2%
<b>PAT</b>	<b>227</b>	<b>126</b>	<b>80.7%</b>	<b>183</b>	<b>24.2%</b>	<b>611</b>	<b>317</b>	<b>92.5%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>7,205</b>	<b>8,320</b>	<b>11,918</b>	<b>16,420</b>	<b>21,423</b>
<b>Gross Profit</b>	<b>1,766</b>	<b>1,868</b>	<b>2,719</b>	<b>3,694</b>	<b>4,820</b>
<b>Operating EBITDA</b>	<b>840</b>	<b>878</b>	<b>1,109</b>	<b>1,795</b>	<b>2,594</b>
Depreciation And Amortisation	(193)	(194)	(223)	(243)	(244)
<b>Operating EBIT</b>	<b>648</b>	<b>684</b>	<b>886</b>	<b>1,552</b>	<b>2,350</b>
Financial Income/(Expense)	(220)	(315)	(344)	(222)	(170)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	80	63	278	288	320
<b>Profit Before Tax (pre-EI)</b>	<b>507</b>	<b>432</b>	<b>820</b>	<b>1,618</b>	<b>2,500</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>507</b>	<b>432</b>	<b>820</b>	<b>1,618</b>	<b>2,500</b>
Taxation	109	114	209	413	637
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>398</b>	<b>317</b>	<b>611</b>	<b>1,205</b>	<b>1,862</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>398</b>	<b>317</b>	<b>611</b>	<b>1,205</b>	<b>1,862</b>
Recurring Net Profit	398	317	611	1,205	1,862
<b>Fully Diluted Recurring Net Profit</b>	<b>398</b>	<b>317</b>	<b>611</b>	<b>1,205</b>	<b>1,862</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>591</b>	<b>511</b>	<b>1,044</b>	<b>1,861</b>	<b>2,744</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(329)	(229)	(1,676)	2,773	784
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	158	140	53		
<b>Other Operating Cashflow</b>					
Net Interest (Paid)/Received	175	267	69	(66)	(150)
Tax Paid	(109)	(168)	(195)	(413)	(637)
<b>Cashflow From Operations</b>	<b>485</b>	<b>521</b>	<b>(705)</b>	<b>4,156</b>	<b>2,741</b>
Capex	(84)	(76)	(4,277)	(282)	(282)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(240)	(1,343)			
<b>Cash Flow From Investing</b>	<b>(324)</b>	<b>(1,419)</b>	<b>(4,277)</b>	<b>(282)</b>	<b>(282)</b>
Debt Raised/(repaid)	591	57	(1,669)	(800)	(800)
Proceeds From Issue Of Shares		889	6,694		
Shares Repurchased					
Dividends Paid					
Preferred Dividends					
Other Financing Cashflow	(130)	(205)	(235)	66	150
<b>Cash Flow From Financing</b>	<b>461</b>	<b>740</b>	<b>4,790</b>	<b>(734)</b>	<b>(650)</b>
Total Cash Generated	622	(158)	(192)	3,140	1,809
<b>Free Cashflow To Equity</b>	<b>752</b>	<b>(841)</b>	<b>(6,651)</b>	<b>3,074</b>	<b>1,659</b>
<b>Free Cashflow To Firm</b>	<b>(13)</b>	<b>(1,165)</b>	<b>(5,051)</b>	<b>3,940</b>	<b>2,609</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

**Balance Sheet**

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	1,218	1,676	5,366	8,506	10,314
Total Debtors	1,552	1,653	2,259	3,689	4,813
Inventories	2,696	4,251	4,642	4,499	4,989
Total Other Current Assets	475	896	992	1,125	1,467
<b>Total Current Assets</b>	<b>5,941</b>	<b>8,475</b>	<b>13,259</b>	<b>17,818</b>	<b>21,583</b>
Fixed Assets	1,756	1,593	1,879	1,918	1,956
Total Investments	3	895	807	807	807
Intangible Assets					
Total Other Non-Current Assets	69	84	89	89	89
<b>Total Non-current Assets</b>	<b>1,829</b>	<b>2,572</b>	<b>2,775</b>	<b>2,814</b>	<b>2,852</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	1,925	2,853	3,200	4,274	5,576
Other Current Liabilities	2,141	3,070	1,605	4,724	6,163
<b>Total Current Liabilities</b>	<b>4,066</b>	<b>5,923</b>	<b>4,805</b>	<b>8,997</b>	<b>11,739</b>
Total Long-term Debt	2,932	3,145	2,138	1,338	538
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>2,932</b>	<b>3,145</b>	<b>2,138</b>	<b>1,338</b>	<b>538</b>
Total Provisions					
<b>Total Liabilities</b>	<b>6,998</b>	<b>9,068</b>	<b>6,943</b>	<b>10,335</b>	<b>12,277</b>
Shareholders Equity	771	1,979	9,090	10,295	12,158
Minority Interests					
<b>Total Equity</b>	<b>771</b>	<b>1,979</b>	<b>9,090</b>	<b>10,295</b>	<b>12,158</b>

**Key Ratios**

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	14.7%	15.5%	43.2%	37.8%	30.5%
Operating EBITDA Growth	82.9%	4.5%	26.4%	61.8%	44.5%
Operating EBITDA Margin	11.7%	10.6%	9.3%	10.9%	12.1%
Net Cash Per Share (Rs)	(32.42)	(27.79)	40.71	90.39	123.29
BVPS (Rs)	14.59	37.43	114.63	129.84	153.32
Gross Interest Cover	2.95	2.17	2.58	6.99	13.81
Effective Tax Rate					
Net Dividend Payout Ratio					
Accounts Receivables Days	95.92	68.89	59.36	65.11	70.66
Inventory Days	142.59	196.48	176.41	131.09	104.29
Accounts Payables Days	128.33	135.13	120.07	107.18	108.27
ROIC (%)	19.5%	20.0%	13.1%	50.0%	111.6%
ROCE (%)	20.2%	15.5%	10.8%	13.6%	19.3%
Return On Average Assets	11.0%	8.3%	9.5%	12.0%	14.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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