

IPO Report

Choice

“SUBSCRIBE” to
Cyient DLM Ltd.

Providing complex EMS services to highly regulated sectors



Salient features of the IPO:

- **Cyient DLM Ltd.** (CDLM), an integrated electronic manufacturing services (EMS) and solution company, is coming up with an IPO to raise around Rs. 590cr, which opens on 27th Jun. and closes on 30th Jun. 2023. The price band is Rs. 250 - 265 per share. It is promoted by Cyient Ltd., a leading engineering services provider.
- The IPO consists of fresh issue (Rs. 592cr) only. From the fresh issue net proceeds, it will be utilizing Rs. 291.1cr for funding the incremental working capital requirement; Rs. 160.9cr for the repayment/prepayment of the certain borrowings; Rs. 70cr for future acquisitions and another Rs. 43.6cr for funding the capital expenditure of the company. Residual funds will be used for general corporate purposes.
- On 6th Jun. 2023, CDLM in consultation with the BRLM's has undertaken a pre-IPO placement and allotted 0.408cr shares to Amansa Investments Ltd. at Rs. 265 per share. Total amount raised was Rs. 108cr, consequently, the fresh issue portion was reduced from Rs. 700cr (as per DRHP) to Rs. 592cr.
- On 9th Sept. 2022, CDLM has allotted 0.157cr share (via right issue) to the promoter company at an effective price of Rs. 31.4 per share.
- Pre-IPO, the promoter & promoter group had 92.84% stake in the company, which will get reduced to 66.68% post the conclusion of the IPO. Public shareholding in the company will increase to 33.32% from pre-IPO stake of 7.16%.

Key competitive strengths:

- Ability to provide integrated engineering solutions with capabilities across the product value chain
- High entry barriers for competitors due to its technical expertise, capabilities in safety-critical electronics in highly regulated sectors and customer engagement
- Robust and sector leading order book with marquee customers, with whom it enjoys sustained and long-standing relationships as their preferred partner
- Manufacturing infrastructure, stringent quality, diverse in-house capabilities and robust supply chain, enabling it to provide high quality end-to-end integrated solutions to the customers
- Parentage of promoter, Cyient Ltd., and a long history of industry expertise, an experienced board and senior management team

Risk and concerns:

- General slowdown in the global economic activities
- Unfavorable government policies & regulations
- Revenue concentration risk
- Unfavorable forex rates
- Difficulty in maintaining the profitability
- Competition

Below are the key highlights of the company:

- The Indian EMS market was worth USD 20bn, contributing to 2.2% to the global EMS market in CY22. Indian EMS market is the fastest growing among all countries at a CAGR of 32.3% and is expected to contribute 7.0% (USD 80bn) to the global EMS market by CY26. The expansion of the domestic EMS market is likely to be fuelled by favorable government policies & regulations, developing value chain, cheap labor and higher manufacturing outsourcing by the original equipment manufacturers (OEM) to the EMS players.

Issue details

| | |
|---|--|
| Price band | Rs. 250 - 265 per share |
| Face value | Rs. 10 |
| Shares for fresh issue | 2.234 - 2.368cr shares |
| Shares for OFS | Nil |
| Fresh issue size | Rs. 592cr |
| OFS issue size | N/a |
| Total issue size | 2.234 - 2.368cr shares (Rs. 592cr) |
| Reserved for employees | 0.057 - 0.06cr shares (Rs. 15cr) |
| Net issue size | 2.177 - 2.308cr shares (Rs. 577cr) |
| Bidding date | 27 th Jun. - 30 th Jun. 2023 |
| Implied MCAP at higher price band | Rs. 2,101cr |
| Implied enterprise value at higher price band | Rs. 1,614cr |
| Book running lead manager | Axis Capital Ltd. and JM Financial Ltd. |
| Registrar | KFin Technologies Ltd. |
| Sector | Electronics Manufacturing Services |
| Promoters | Cyient Ltd. |

Issue break-up

| Category | Percent of issue (%) | Number of shares |
|-----------------------------------|----------------------|------------------------|
| QIB portion | 75% | 1.633 - 1.731cr shares |
| Non institutional portion (Big) | 10% | 0.218 - 0.231cr shares |
| Non institutional portion (Small) | 5% | 0.109 - 0.115cr shares |
| Retail portion | 10% | 0.218 - 0.231cr shares |

Indicative IPO process time line

| | |
|------------------------------------|----------------------------|
| Finalization of basis of allotment | 5 th Jul. 2023 |
| Unblocking of ASBA account | 6 th Jul. 2023 |
| Credit to demat accounts | 7 th Jul. 2023 |
| Commencement of trading | 10 th Jul. 2023 |

Pre and post - issue shareholding pattern

| | Pre-issue | Post-issue |
|---------------------------|----------------|----------------|
| Promoter & promoter group | 92.84% | 66.68% |
| Public | 7.16% | 33.32% |
| Total | 100.00% | 100.00% |

Retail application money at higher cut-off price per lot

| | |
|--------------------------|-------------------------|
| Number of shares per lot | 56 |
| Employee discount | Rs. 15 per equity share |
| Application money | Rs. 14,840 per lot |

Key highlights of the company (Contd...):

| Company name | Face value (Rs.) | CMP (Rs.) | MCAP (Rs. cr) | EV (Rs. cr) | Stock return | | | | Total operating revenue (Rs. cr) | EBITDA (Rs. cr) | PAT (Rs. cr) | Gross margin | EBITDA margin | PAT margin |
|------------------------------|------------------|------------|---------------|--------------|--------------|--------|--------|--------|----------------------------------|-----------------|--------------|--------------|---------------|-------------|
| | | | | | 1 M | 3 M | 6 M | 1 Y | | | | | | |
| Cyient DLM Ltd. | 10 | 265 | 2,101 | 1,614 | | | | | 832 | 88 | 32 | 22.5% | 10.6% | 3.8% |
| Avalon Technologies Ltd. | 2 | 513 | 2,971 | 2,855 | 22.1% | | | | 945 | 113 | 53 | 35.8% | 11.9% | 5.6% |
| Centum Electronics Ltd. | 10 | 1,237 | 1,593 | 1,814 | 52.3% | 100.4% | 102.3% | 199.6% | 923 | 75 | 7 | 55.0% | 8.1% | 0.7% |
| DCX Systems Ltd. | 2 | 262 | 2,532 | 2,446 | 35.2% | 67.7% | 30.6% | 0.0% | 1,414 | 115 | 99 | 11.5% | 8.1% | 7.0% |
| Elin Electronics Ltd. | 5 | 166 | 822 | 774 | 13.3% | 12.6% | | | 1,047 | 63 | 26 | 25.9% | 6.0% | 2.5% |
| Kaynes Technology India Ltd. | 10 | 1,499 | 8,716 | 8,366 | 17.4% | 57.4% | 120.8% | | 1,076 | 163 | 95 | 31.4% | 15.1% | 8.8% |
| Syrma SGS Technology Ltd. | 10 | 432 | 7,640 | 7,855 | 20.1% | 61.9% | 69.9% | | 2,048 | 188 | 119 | 26.0% | 9.2% | 5.8% |
| Average | | | | | | | | | | | | 30.9% | 9.8% | 5.1% |

| Company name | 4Y revenue growth (CAGR) | 4Y EBITDA growth (CAGR) | 4Y PAT growth (CAGR) | 4Y average EBITDA margin | 4Y average PAT margin | 4Y capital employed growth (CAGR) | 4Y CFO growth (CAGR) | 4Y average working capital cycle (Days) | 4Y average fixed asset turnover (x) | 34 average total asset turnover (x) | 4Y average RoE | 4Y average RoIC |
|------------------------------|--------------------------|-------------------------|----------------------|--------------------------|-----------------------|-----------------------------------|----------------------|---|-------------------------------------|-------------------------------------|----------------|-----------------|
| Cyient DLM Ltd. | 22.1% | 85.6% | | 8.1% | 2.4% | 31.6% | 47.5% | 116.6 | 3.8 | 0.8 | 15.1% | 10.0% |
| Avalon Technologies Ltd. | 13.7% | 20.5% | 65.9% | 10.8% | 4.5% | 91.4% | | 100.3 | 7.3 | 1.3 | 35.7% | 42.9% |
| Centum Electronics Ltd. | -0.2% | 1.2% | -30.5% | 9.1% | 0.3% | -5.6% | -13.8% | 139.6 | 3.5 | 0.9 | 1.4% | 9.0% |
| DCX Systems Ltd. | 46.6% | 164.9% | 116.6% | 4.3% | 4.9% | -59.5% | | 28.6 | 57.6 | 0.9 | 48.2% | 22.3% |
| Elin Electronics Ltd. | 10.0% | 4.5% | 11.9% | 7.0% | 3.1% | 24.8% | -9.1% | 60.7 | 5.4 | 1.8 | 10.1% | 11.7% |
| Kaynes Technology India Ltd. | 43.0% | 56.5% | 115.3% | 12.5% | 4.9% | 62.6% | | 133.1 | 6.0 | 1.0 | 11.7% | 19.5% |
| Syrma SGS Technology Ltd. | 72.8% | 39.4% | 39.6% | 11.8% | 7.4% | 151.2% | | 71.5 | 4.1 | 0.9 | 18.5% | 20.3% |
| Average | 31.0% | 47.8% | 53.1% | 9.2% | 4.2% | 44.2% | -11.4% | 89.0 | 14.0 | 1.1 | 20.9% | 21.0% |

| Company name | EPS (Rs.) | BVPS (Rs.) | DPS (Rs.) | Debt equity ratio (x) | Fixed asset turnover ratio (x) | Total asset turnover ratio (x) | RoE | RoCE | P / E (x) | P / B (x) | EV / Sales (x) | EV / EBITDA (x) | MCAP / Sales (x) | Earning yield |
|------------------------------|------------|--------------|------------|-----------------------|--------------------------------|--------------------------------|-------------|--------------|-------------|------------|----------------|-----------------|------------------|---------------|
| Cyient DLM Ltd. | 4.0 | 113.3 | 0.0 | 0.4 | 5.1 | 0.5 | 3.5% | 35.6% | 66.2 | 2.3 | 1.9 | 18.4 | 2.5 | 1.5% |
| Avalon Technologies Ltd. | 9.1 | 92.7 | 0.0 | 0.6 | 8.7 | 0.8 | 9.8% | 44.5% | 56.6 | 5.5 | 3.0 | 25.3 | 3.1 | 1.8% |
| Centum Electronics Ltd. | 5.2 | 163.5 | 2.5 | 1.2 | 4.6 | 0.9 | 3.2% | 11.2% | 238.0 | 7.6 | 2.0 | 24.2 | 1.7 | 0.4% |
| DCX Systems Ltd. | 10.2 | 58.6 | 0.0 | 0.9 | 87.3 | 1.2 | 17.4% | | 25.7 | 4.5 | 1.7 | 21.2 | 1.8 | 3.9% |
| Elin Electronics Ltd. | 5.2 | 99.3 | 0.8 | 0.2 | 4.5 | 1.4 | 5.3% | 10.9% | 31.6 | 1.7 | 0.7 | 12.2 | 0.8 | 3.2% |
| Kaynes Technology India Ltd. | 16.3 | 164.9 | 0.0 | 0.1 | 7.5 | 0.8 | 9.9% | 28.1% | 92.0 | 9.1 | 7.8 | 51.5 | 8.1 | 1.1% |
| Syrma SGS Technology Ltd. | 6.7 | 87.1 | 0.0 | 0.2 | 3.9 | 0.8 | 7.7% | 10.1% | 64.0 | 5.0 | 3.8 | 41.8 | 3.7 | 1.6% |
| Average | | | 0.6 | 0.5 | 19.4 | 1.0 | 8.9% | 21.0% | 84.7 | 5.5 | 3.2 | 29.4 | 3.2 | 2.0% |

Note: Financials as of FY23 (with IPO adjustments); Source: Choice Broking Research

- Incorporated in Jun. 1993, CDLM is one of the leading integrated EMS and solutions providers with market share of 0.5% in the domestic EMS market in FY22. It has capabilities across the value chain and the entire life-cycle of a product. The company is engaged in the business of developing high-mix, low-to-medium volume highly complex systems. 'Low-volume, high-mix' is a type of contract manufacturing setup which typically has a very high emphasis on quality and customization which changes according to the requirements of the customer.
- CDLM is a qualified supplier to global OEMs in the highly regulated sectors like aerospace, defence, medical technology and industrial. As of FY23, it derived 37.6% of the business from the defence vertical, 25.1% from the industrials, 20% from aerospace and 16.3% from the medical technology vertical. Over FY20-23, business from these verticals has increased by 22.6% CAGR. During FY23, CDLM derived around 60% of the business from overseas, while the rest from the domestic operations.
- The company is promoted by Cyient Ltd., a leading engineering services provider with over three decades of domain expertise providing engineering and design solutions globally with a focus on multiple industries. CDLM leverages the designing capabilities of the promoter company.
- It provides its manufacturing services through "Build-to-Print" (B2P) and "Build-to-Specification" (B2S) mode. Under B2P, the company provides manufacturing services based on the design provided by the client. While under B2S, CDLM uses the design capabilities of the promoter company to design the product based on the specification provided by the client. B2S services have relatively higher profitability margins, compared to B2P. Over FY20-23, almost all of the business was through B2P channel. Going forward, CDLM intends to expand the business contribution from the B2S channel via the promoter company.
- Its solutions primarily comprises of printed circuit board assembly (PCBA), cable harnesses, and box-builds, which are used in safety critical systems such as cockpits, inflight systems, landing systems, and medical diagnostic equipment. During FY20-23, PCBA and box-build contributed an average 62.2% and 34.1%, respectively, to the total business.
- CDLM's customers belong to a diverse range of high-entry-barrier sectors that have stringent quality and qualification requirements. As an integrated partner, the company enjoys long-term relationships with multiple marquee customers such as Honeywell International Inc., Thales Global Services S.A.S, ABB Inc., Bharat Electronics Ltd. and Molbio Diagnostics Pvt. Ltd. As of 31st Mar. 2023, it had an average relationship of over 11 years with the above mentioned customers. Cumulatively these customers contributed around 55% to the total business of CDLM. It engages with the clients early from product design stage, thereby providing a high customer stickiness. This coupled with higher proportion of repeat business, there is some certainty in the revenue visibility for the company.

Key highlights of the company (Contd...):

- The company provides manufacturing services and solutions from its manufacturing facilities situated at Mysuru, Hyderabad and Bengaluru. Mysuru and Hyderabad facilities are primarily engaged in the manufacturing of PCBA, cable harnesses and box-builds for clients based in the aerospace and defence sectors; medical technology and healthcare sector, respectively. Bengaluru facility is focused on high-precision manufacturing of items like body valves, hinges, elbow adaptors, assemblies like bracket assembly, lanyard assembly and hinge arm locking assembly etc. Cumulatively, Mysuru and Hyderabad facilities had six SMT lines with an installed capacity of around 950mn components placement per annum. In FY23, these plants operated at around 40% capacity utilization. Over FY20-23, CDLM's order-book increased by 35.9% CAGR and stood at Rs. 2,432.5cr by the end of FY23. This provided a revenue visibility for the next three years.
- On the back of robust demand across the application sectors, CDLM reported a strong profitable business growth over FY2023. It reported a 22.1% CAGR rise in consolidated revenue to Rs. 832cr in FY23. Net cost of material consumed increased by 20.9% CAGR (a rate lower than top-line growth), thereby leading to a 229bps expansion in the gross/material margin. Further with relatively lower growth in the employee expenses and other expenses, EBITDA margin expanded by 755bps to 10.6% in FY23. Consolidated EBITDA increased by 85.6% CAGR to Rs. 87.8cr. With expansion in the asset base, depreciation charge increased by 22.4% CAGR, while higher interest rates led to a 20.1% CAGR rise in finance costs. Baring FY20, reported PAT was in green, which stood at Rs. 31.7cr with a margin of 3.8% in FY23. Over FY21-23, reported PAT increased by 63.9% CAGR. The company reported positive operating cash flows during FY20-23, which increased by 47.5% CAGR. Average operating cash flow during the period stood at Rs. 37.9cr. Financial liabilities increased by 5.4% CAGR, however, with improved profitability debt-to-equity ratio improved to 1.9x in FY23, compared to 12.6x in FY20. Average pre-issue RoIC and RoE stood at 13.5% and 18.2%, respectively.
- Based on our conservative estimates over FY23-25E, we are forecasting a 19.5% CAGR growth in the business to Rs. 1,187.5cr in FY25E. EBITDA margin is likely to be flat during the period, but mainly on account of lower finance cost, PAT margin is likely to expand by 88bps to 4.7% by FY25E. RoIC and RoE is forecasted to be at 6.3% and 5.6%, respectively, compared to 5.3% and 3.5% in FY23 (adjusted for the fresh issue).

Peer comparison and valuation: The domestic EMS sector is witnessing a strong tailwinds. CDLM is not an ordinary EMS company. It provides complex EMS services to highly regulated sectors, which has stringent quality and qualification requirements. Over the period, CDLM has developed expertise, which acts as entry barrier for a new competitor. Order book is healthy and is largely from key clients, which demonstrates the client stickiness.

At higher price band, CDLM is demanding a P/E multiple of 66.2x (to its FY23 earning), which is at premium to the peer average. However, considering the robust order book, strong parentage and benefits of lower finance costs in the near-to-medium term, we feel the demanded valuation is attractive. Thus we assign a **"SUBSCRIBE"** rating for the issue.

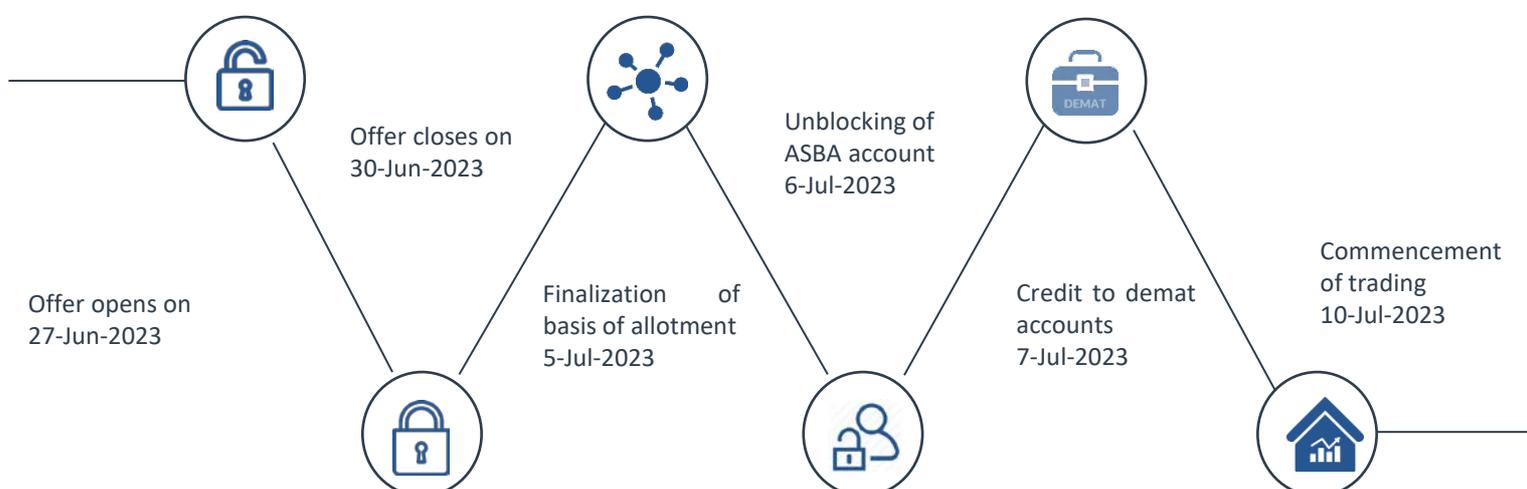
About the issue:

- CDLM is coming up with an IPO with 2.234 - 2.368cr shares (fresh issue: 2.234 - 2.368cr shares; OFS shares: nil) in offering. This offer represents 28.18 - 29.37% of the post-issue paid-up equity shares of the company. Total IPO size is Rs. 592cr.
- The issue is through book building process with a price band of Rs. 250 - 265 per share.
- Lot size comprises of 56 equity shares and in multiple of 56 shares thereafter.
- The issue will open on 27th Jun. 2023 and close on 30th Jun. 2023.
- 0.057 - 0.06cr shares are reserved for eligible employees. The company has offered a discount of Rs. 15 per equity share for the employees.
- The IPO consists of fresh issue (Rs. 592cr) only. From the fresh issue net proceeds, it will be utilizing Rs. 291.1cr for funding the incremental working capital requirement; Rs. 160.9cr for the repayment/prepayment of the certain borrowings; Rs. 70cr for future acquisitions and another Rs. 43.6cr for funding the capital expenditure of the company. Residual funds will be used for general corporate purposes.
- On 6th Jun. 2023, CDLM in consultation with the BRLM's has undertaken a pre-IPO placement and allotted 0.408cr shares to Amansa Investments Ltd. at Rs. 265 per share. Total amount raised was Rs. 108cr, consequently, the fresh issue portion was reduced from Rs. 700cr (as per DRHP) to Rs. 592cr.
- 50% of the net issue are reserved for qualified institutional buyers, while 15% and 35% of the net issue is reserved for non-institutional bidders and retail investors, respectively.
- Promoter currently holds 92.84% stake in the company and post-IPO this will come down to 66.68%. Public holding will increase from current 7.16% to 33.32%.

| Pre and post-issue shareholding pattern (%) | | |
|---|-----------|-----------------------------------|
| | Pre-issue | Post-issue (at higher price band) |
| Promoter & promoter group | 92.84% | 66.68% |
| Public | 7.16% | 33.32% |

Source: Choice Equity Broking

Indicative IPO process time line:



Pre-issue financial performance:

Performance over FY20-23: On the back of robust demand across the application sectors, CDLM reported a strong profitable business growth over FY2023. It reported a 22.1% CAGR rise in consolidated revenue to Rs. 832cr in FY23. Aerospace, defence, industrials and medical technology verticals reported business growth of 36.4%, 14.2%, 35.5% and 16.1% CAGR, respectively.

Net cost of material consumed increased by 20.9% CAGR (a rate lower than top-line growth), thereby leading to a 229bps expansion in the gross/material margin. Further with relatively lower growth in the employee expenses and other expenses, EBITDA margin expanded by 755bps to 10.6% in FY23. Consolidated EBITDA increased by 85.6% CAGR to Rs. 87.8cr.

With expansion in the asset base, depreciation charge increased by 22.4% CAGR, while higher interest rates led to a 20.1% CAGR rise in finance costs. Baring FY20, reported PAT was in green, which stood at Rs. 31.7cr with a margin of 3.8% in FY23. Over FY21-23, reported PAT increased by 63.9% CAGR.

The company reported positive operating cash flows during FY20-23, which increased by 47.5% CAGR. Average operating cash flow during the period stood at Rs. 37.9cr. Financial liabilities increased by 5.4% CAGR, however, with improved profitability debt-to-equity ratio improved to 1.9x in FY23, compared to 12.6x in FY20. Average pre-issue RoIC and RoE stood at 13.5% and 18.2%, respectively.

| Pre-issue consolidated financial snapshot (Rs. cr) | FY20 | FY21 | FY22 | FY23 | CAGR over FY20-23 | Y-o-Y (FY23 annual) |
|--|--------|--------|--------|---------|-------------------|---------------------|
| PCBA | | 380.0 | 456.5 | 521.0 | | 14.1% |
| Cable Harnesses | | 3.9 | 6.4 | 11.4 | | 76.5% |
| Box-Builds | | 229.1 | 241.0 | 269.7 | | 11.9% |
| Others | | 15.0 | 16.7 | 30.0 | | 80.0% |
| Revenue from operations | | 628.0 | 720.5 | 832.0 | | 15.5% |
| Gross profit | 92.2 | 132.7 | 176.6 | 186.8 | 26.6% | 5.8% |
| EBITDA | 13.7 | 45.9 | 84.0 | 87.8 | 85.6% | 4.5% |
| Reported PAT | (6.7) | 11.8 | 39.8 | 31.7 | | -20.3% |
| Restated reported EPS | (0.8) | 1.5 | 5.0 | 4.0 | | -20.3% |
| Cash flow from operating activities | 16.2 | 34.9 | 48.5 | 52.1 | 47.5% | 7.4% |
| NOPLAT | 2.9 | 20.8 | 50.8 | 50.3 | 157.9% | -1.1% |
| FCF | | (31.0) | (23.2) | (41.6) | | 79.6% |
| RoIC (%) | 2.3% | 11.8% | 20.5% | 19.5% | 1,727 bps | (91) Bps |
| Revenue growth rate | | 37.4% | 14.7% | 15.5% | | |
| Gross profit growth rate | | 44.0% | 33.0% | 5.8% | | |
| Gross profit margin | 20.2% | 21.1% | 24.5% | 22.5% | 229 bps | (205) bps |
| EBITDA growth rate | | 234.6% | 82.9% | 4.5% | | |
| EBITDA margin | 3.0% | 7.3% | 11.7% | 10.6% | 755 bps | (111) bps |
| EBIT growth rate | | 771.6% | 135.6% | 5.6% | | |
| EBIT margin | 0.7% | 4.4% | 9.0% | 8.2% | 753 bps | (77) bps |
| Restated reported PAT growth rate | | | 236.8% | -20.3% | | |
| Restated reported PAT margin | -1.5% | 1.9% | 5.5% | 3.8% | 528 bps | (171) bps |
| Inventory days | 177.7 | 109.9 | 107.6 | 152.4 | -5.0% | 41.5% |
| Debtor days | 43.6 | 81.6 | 95.9 | 68.9 | 16.5% | -28.2% |
| Payable days | (83.7) | (85.7) | (96.9) | (104.8) | 7.8% | 8.2% |
| Cash conversion cycle | 137.6 | 105.8 | 106.7 | 116.5 | -5.4% | 9.2% |
| Fixed asset turnover ratio | 2.5 | 3.3 | 4.1 | 5.1 | 27.2% | 24.9% |
| Total asset turnover ratio | 0.8 | 1.0 | 0.9 | 0.8 | -0.7% | -18.8% |
| Current ratio | 0.9 | 1.0 | 1.1 | 1.1 | 8.8% | -1.1% |
| Quick ratio | 0.4 | 0.6 | 0.6 | 0.6 | 14.2% | -10.3% |
| Total debt | 324.5 | 289.0 | 352.3 | 380.3 | 5.4% | 7.9% |
| Net debt | 258.4 | 254.8 | 230.5 | 212.7 | -6.3% | -7.7% |
| Debt to equity | 12.6 | 7.7 | 4.6 | 1.9 | -46.6% | -57.9% |
| Net debt to EBITDA | 18.8 | 5.5 | 2.7 | 2.4 | | -11.6% |
| RoE (%) | -26.1% | 31.4% | 51.6% | 16.0% | 4,211 bps | (3,557) bps |
| RoA (%) | -1.1% | 1.8% | 5.1% | 2.9% | 400 bps | (225) bps |
| RoCE (%) | 3.7% | 17.8% | 58.9% | 35.6% | 3,182 bps | (2,338) bps |

Note: Pre-IPO financial and ratios; Source: Choice Equity Broking

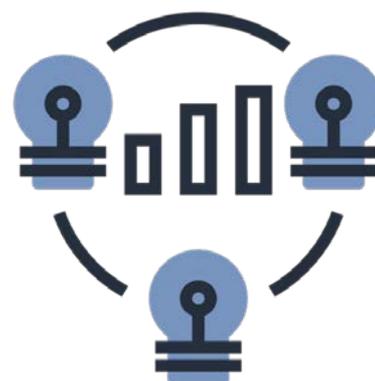


Competitive strengths:

- Ability to provide integrated engineering solutions with capabilities across the product value chain
- High entry barriers for competitors due to its technical expertise, capabilities in safety-critical electronics in highly regulated sectors and customer engagement
- Robust and sector leading order book with marquee customers, with whom it enjoys sustained and long-standing relationships as their preferred partner
- Manufacturing infrastructure, stringent quality, diverse in-house capabilities and robust supply chain, enabling it to provide high quality end-to end integrated solutions to the customers
- Parentage of promoter, Cyient Ltd., and a long history of industry expertise, an experienced board and senior management team

Business strategy:

- Strengthening core capabilities across focus industries and building scale
- Strengthen B2S value proposition by investing in design capabilities to enhance value addition and increase ownership in the engagements
- Expanding inorganically to increase the geographic footprint and proximity with clients, further strengthen the capabilities and gain access to target customers
- Strengthening supply chain ecosystem and building-on operational efficiency
- Further enhancing capabilities in after-market services and value-added services, and exploring new adjacencies



Risk and concerns:

- General slowdown in the global economic activities
- Unfavorable government policies & regulations
- Revenue concentration risk
- Unfavorable forex rates
- Difficulty in maintaining the profitability
- Competition

Financial statements:

| Consolidated profit and loss statement (Rs. cr) | | | | | | |
|--|--------------|--------------|--------------|--------------|---------------------|-------------------------|
| | FY20 | FY21 | FY22 | FY23 | CAGR over FY20 - 23 | Annual growth over FY22 |
| Revenue from operations | 457.1 | 628.0 | 720.5 | 832.0 | 22.1% | 15.5% |
| Cost of materials consumed | (388.2) | (477.9) | (555.3) | (634.2) | 17.8% | 14.2% |
| Change in inventories of finished goods and work-in-progress | 23.3 | (17.4) | 11.3 | (11.1) | -178.0% | -197.7% |
| Gross profit | 92.2 | 132.7 | 176.6 | 186.8 | 26.6% | 5.8% |
| Employee benefits expenses | (44.1) | (46.9) | (51.7) | (64.7) | 13.6% | 25.2% |
| Other expenses | (34.4) | (39.9) | (40.9) | (34.3) | 0.0% | -16.0% |
| EBITDA | 13.7 | 45.9 | 84.0 | 87.8 | 85.6% | 4.5% |
| Depreciation & amortization expenses | (10.6) | (18.5) | (19.3) | (19.4) | 22.4% | 0.7% |
| EBIT | 3.2 | 27.5 | 64.8 | 68.4 | 178.8% | 5.6% |
| Finance costs | (18.2) | (20.8) | (22.0) | (31.5) | 20.1% | 43.4% |
| Other income | 7.8 | 8.9 | 8.0 | 6.3 | -6.9% | -20.6% |
| PBT | (7.2) | 15.6 | 50.7 | 43.2 | | -14.9% |
| Tax expenses | 0.5 | (3.8) | (10.9) | (11.4) | | 4.6% |
| Reported PAT | (6.7) | 11.8 | 39.8 | 31.7 | | -20.3% |

| Consolidated balance sheet statement (Rs. cr) | | | | | | |
|---|--------------|--------------|--------------|----------------|---------------------|-------------------------|
| | FY20 | FY21 | FY22 | FY23 | CAGR over FY20 - 23 | Annual growth over FY22 |
| Equity share capital | 1.4 | 1.4 | 1.4 | 52.9 | 238.2% | 3767.3% |
| Other equity | 24.3 | 36.3 | 75.7 | 145.0 | 81.3% | 91.4% |
| Non-current borrowings | 78.1 | 99.6 | 99.6 | 99.6 | 8.4% | 0.0% |
| Non-current lease liabilities | 41.8 | 40.0 | 37.7 | 36.3 | -4.6% | -3.9% |
| Other non-current financial liabilities | | 5.7 | 11.3 | 16.6 | | 47.1% |
| Non-current provisions | 4.9 | 5.4 | 6.0 | 9.5 | 24.6% | 59.8% |
| Other non-current liabilities | | 1.7 | 26.1 | | | |
| Trade payables | 104.9 | 190.0 | 192.5 | 285.3 | 39.6% | 48.2% |
| Current borrowings | 183.2 | 134.2 | 193.6 | 214.9 | 5.5% | 11.0% |
| Current lease liabilities | 4.8 | 5.3 | 6.0 | 5.3 | 3.3% | -10.9% |
| Other current financial liabilities | 16.6 | 4.3 | 4.1 | 7.6 | -22.7% | 85.1% |
| Net income tax liabilities | 0.2 | 2.7 | 6.1 | 2.2 | 108.7% | -63.9% |
| Current provisions | 1.2 | 1.2 | 1.3 | 0.3 | -37.8% | -77.6% |
| Other current liabilities | 132.0 | 117.3 | 115.5 | 229.2 | 20.2% | 98.4% |
| Total liabilities | 593.5 | 645.0 | 776.9 | 1,104.7 | 23.0% | 42.2% |
| Property, plant and equipment | 57.2 | 140.1 | 129.5 | 121.8 | 28.6% | -6.0% |
| Intangible assets | 0.7 | 0.5 | 1.4 | 1.6 | 35.7% | 16.6% |
| Capital work-in-progress | 77.4 | 2.3 | 3.4 | 1.3 | -74.2% | -60.7% |
| Right-of-use assets | 45.3 | 42.0 | 38.3 | 34.5 | -8.6% | -9.8% |
| Goodwill | 3.0 | 3.0 | 3.0 | 3.0 | 0.0% | 0.0% |
| Non-current investments | 0.3 | 0.3 | 0.3 | 89.5 | 552.7% | |
| Other non-current financial assets | 5.6 | 4.6 | 3.9 | 3.5 | -14.5% | -9.9% |
| Net deferred tax assets | 6.2 | 5.1 | 3.9 | 5.4 | -4.6% | 38.0% |
| Non-current net income tax assets | 0.9 | 0.6 | 0.5 | 0.5 | -16.2% | 0.0% |
| Other non-current assets | 8.9 | 3.6 | 0.8 | 3.8 | -24.5% | 373.6% |
| Inventories | 222.6 | 155.4 | 269.6 | 425.1 | 24.1% | 57.7% |
| Trade receivables | 54.6 | 226.4 | 152.3 | 161.7 | 43.6% | 6.2% |
| Cash & cash equivalents | 66.1 | 34.2 | 121.8 | 167.6 | 36.3% | 37.6% |
| Other current financial assets | 2.9 | 3.1 | 2.2 | 5.5 | 23.8% | 144.8% |
| Other current assets | 41.8 | 23.8 | 46.0 | 79.8 | 24.0% | 73.6% |
| Total assets | 593.5 | 645.0 | 776.9 | 1,104.7 | 23.0% | 42.2% |

Note: Pre-IPO financials; Source: Choice Equity Broking

Financial statements (Contd...):

| Consolidated cash flow statement (Rs. cr) | | | | | | |
|--|---------------|---------------|---------------|----------------|---------------------|-------------------------|
| | FY20 | FY21 | FY22 | FY23 | CAGR over FY20 - 23 | Annual growth over FY22 |
| Cash flow before working capital changes | 26.5 | 54.8 | 87.6 | 91.8 | 51.3% | 4.8% |
| Working capital changes | (10.5) | (20.0) | (32.9) | (22.9) | 29.4% | -30.4% |
| Cash flow from operating activities | 16.2 | 34.9 | 48.5 | 52.1 | 47.5% | 7.4% |
| Purchase of fixed assets and CWIP | (83.0) | (27.4) | (8.4) | (89.2) | 2.4% | 960.1% |
| Cash flow from investing activities | (88.3) | (0.9) | (32.4) | (141.8) | 17.1% | 337.6% |
| Cash flow from financing activities | 72.3 | (42.8) | 46.1 | 74.0 | 0.8% | 60.7% |
| Net cash flow | 0.2 | (8.8) | 62.2 | (15.7) | | |
| Opening balance of cash | 23.3 | 23.5 | 14.7 | 76.9 | 48.9% | 424.0% |
| Closing balance of cash | 23.5 | 14.7 | 76.9 | 61.2 | 37.6% | -20.4% |

| Consolidated financial ratios | | | | |
|-------------------------------------|--------|--------|--------|--------|
| Particulars | FY20 | FY21 | FY22 | FY23 |
| Profitability ratios | | | | |
| Revenue growth rate | | 37.4% | 14.7% | 15.5% |
| Gross profit growth rate | | 44.0% | 33.0% | 5.8% |
| Gross profit margin | 20.2% | 21.1% | 24.5% | 22.5% |
| EBITDA growth rate | | 234.6% | 82.9% | 4.5% |
| EBITDA margin | 3.0% | 7.3% | 11.7% | 10.6% |
| EBIT growth rate | | 771.6% | 135.6% | 5.6% |
| EBIT margin | 0.7% | 4.4% | 9.0% | 8.2% |
| Restated adjusted PAT growth rate | | | 236.8% | -20.3% |
| Restated adjusted PAT margin | -1.5% | 1.9% | 5.5% | 3.8% |
| Turnover ratios | | | | |
| Inventory receivable turnover ratio | 2.1 | 3.3 | 3.4 | 2.4 |
| Trade receivable turnover ratio | 8.4 | 4.5 | 3.8 | 5.3 |
| Accounts payable turnover ratio | 4.4 | 4.3 | 3.8 | 3.5 |
| Fixed asset turnover ratio | 2.5 | 3.3 | 4.1 | 5.1 |
| Total asset turnover ratio | 0.8 | 1.0 | 0.9 | 0.8 |
| Return ratios | | | | |
| RoIC (%) | 2.3% | 11.8% | 20.5% | 19.5% |
| RoE (%) | -26.1% | 31.4% | 51.6% | 16.0% |
| RoA (%) | -1.1% | 1.8% | 5.1% | 2.9% |
| RoCE (%) | 3.7% | 17.8% | 58.9% | 35.6% |
| Per share data | | | | |
| Restated adjusted EPS (Rs.) | (0.8) | 1.5 | 5.0 | 4.0 |
| DPS (Rs.) | 0.0 | 0.0 | 0.0 | 0.0 |
| BVPS (Rs.) | 3.2 | 4.7 | 9.7 | 25.0 |
| Operating cash flow per share (Rs.) | 2.0 | 4.4 | 6.1 | 6.6 |
| Free cash flow per share (Rs.) | | (3.9) | (2.9) | (5.2) |
| Dividend payout ratio | 0.0% | 0.0% | 0.0% | 0.0% |

Note: Pre-IPO financial ratios; Source: Choice Equity Broking

IPO rating rationale

Subscribe: An IPO with strong growth prospects and valuation comfort.

Subscribe with Caution: Relatively better growth prospects but with valuation discomfort.

Avoid: Concerns on both fundamentals and demanded valuation.

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