

One Stop Investment Avenue



GEPL
CAPITAL

IPO Note

CYIENT DLM LIMITED

Jun 27, 2023





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Details of the Issue

Price Band	₹ 250 - ₹ 265
Issue Size	₹ 592 Cr
Face Value	₹ 10
Bid Lot	56
Listing on	BSE, NSE
Post Issue Mcap	₹ 2,102 Cr
Investment Range	₹ 14,000 - ₹ 14,840

Important Indicative Dates (2023)

Opening	27 - Jun
Closing	30 - Jun
Basis of Allotment	05 - July
Refund Initiation	06 - July
Credit to Demat	07 - July
Listing Date	10 - July

Lead Manager

JM Financial Limited
Axis Capital Limited
Kfin Technologies Limited

No of shares (Mn)

Fresh Issue of Shares	2.23
Offer for Sales	-
Total No of Shares	2.23

Offer Details

Offer Size	-
Fresh Issue	₹ 592 Cr
OFS	₹ 592 Cr

Type	In Rs Cr	No of Shares (Mn)		% of Issue
		Upper	Lower	
QIB	432.75	16.33	17.31	75%
NIB	86.55	3.26	3.46	15%
Retail	57.70	2.18	2.31	10%
Empl.	-	0.60	0.64	-
Total	592	22.37	23.72	100

Invest Now**Company Profile**

Established in 1993, Cyient DLM Limited is a prominent provider of Electronic Manufacturing Services (EMS) and solutions. The company specializes in offering two types of services: Build to Print (B2P) and Build to Specification (B2S). Under B2P, clients provide the product design, and Cyient DLM delivers flexible and agile manufacturing services. On the other hand, B2S involves designing the product based on client specifications and subsequently manufacturing it.

The company primarily focuses on three core areas: printed circuit board and assembly, cable harness, and box builds. These components are crucial for safety critical systems like cockpits, inflight systems, landing systems, and medical diagnostic equipment. Cyient DLM's diverse client portfolio includes renowned organizations such as Honeywell International Inc., Thales Global Services S.A.S, ABB Inc, Bharat Electronics Limited, and Molbio 152 Diagnostics Private Limited, among others.

Business Highlights & Services

Cyient DLM Ltd one of the leading integrated Electronic Manufacturing Services ("EMS") and solutions providers (Source: Frost & Sullivan Report) with capabilities across the value chain and the entire life cycle of a product. It has over 22 years of experience in developing high-mix, low-to-medium volume highly complex systems, and are a qualified supplier to global OEMs in the aerospace and defence, medical technology, and industrial sectors. 'Low volume, high mix' (LVHM) 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.

Cyient DLM Ltd utilizes the design expertise of its Promoter, Cyient Limited, a leading engineering services provider with over three decades of global experience. They offer Electronic Manufacturing Services (EMS) as Build to Print (B2P) and Build to Specification (B2S) options. B2P involves manufacturing based on client-provided designs, while B2S utilizes the Promoter's design capabilities to create and manufacture products according to client specifications. Their solutions mainly include printed circuit board assembly (PCBA), cable harnesses, and box builds used in critical systems like cockpits, inflight systems, landing systems, and medical diagnostics equipment.

The EMS market in India is growing rapidly, contributing 2.2% (USD 20 billion) to the global EMS market in 2022. With a remarkable CAGR of 32.3%, India's EMS industry is the fastest-growing among all countries. It is projected to reach 7.0% (USD 80 billion) of the global EMS market by 2026. The Indian government's strong focus on promoting electronics manufacturing in the country has been instrumental in this growth. EMS providers are becoming preferred partners for OEMs due to their ability to enhance production efficiency, reduce costs, expedite new product launches, and handle product design and development outsourcing. Cyient DLM Ltd is poised to excel in the current market. By focusing on solutions, commitment to clients, and proven reliability give them a competitive edge. As a wholly-owned subsidiary of Cyient Limited, they leverage Promoter's strong reputation, customer relationships, global salesforce, extensive network, and technical expertise. This solidifies position as a leading integrated EMS and solutions provider in India.

Cyient DLM Ltd serves a diverse range of industries with strict quality requirements and high entry barriers. With long-term relationships averaging over 11 years with marquee customers like Honeywell, Thales, ABB, Bharat Electronics Limited, and Molbio Diagnostics Private Limited, they act as an integrated partner throughout the product life cycle. By leveraging Promoter's design team, it provide comprehensive services, including manufacturing, after-market support, and design solutions.



Company strategic partnerships and high customer loyalty result in a stable client base and recurring business, ensuring future revenue visibility.

Product & Services portfolio

PCB Assembly: PCB assembly is the process of connecting electronic components onto PCBs. Components are placed onto the foot prints or inserted into the via holes and soldered to complete the electronic circuitry. There are two main categories of assembly: i) Surface Mount Device assembly; and ii) Plated Through Hole assembly.



Cable Harnesses: Cable harnesses solutions involve the process of assembly of electrical cables or wires. Cable harnesses solutions are also accredited by NADCAP. The following are the steps involved in the manufacture of cable harnesses:

- Cutting
- Stripping
- crimping / tinning / soldering / splicing;
- connector installation / labelling / braiding;
- inspection; and
- testing - continuity / insulation resistance / hipot / pull test / retention.



Box build: Box build also known as systems integration, box builds can be anything from a simple PCBA housed in a small enclosure, to a cabinet housing a complex electromechanical system. The box build process involves enclosure fabrication, assembling the various PCBAs and cables harness assemblies, installation of sub-assemblies and components and routing of cabling or wire harnesses. Company assemble box builds ranging from very simple to complex devices with a wide range of applications as outlined below:

Aerospace application: Electronics that it manufacture may be used in Avionics engine control, cockpit communication, auxiliary power supply unit, door control unit, USB charger, parachute ejection systems, aircraft lighting and GPS systems.

Defence applications: RADAR electronics, communication, computers, power supply, ground equipment, ground radio communication systems.

Railway applications: Railway signaling, train protection and warning systems and vehicle control units.

Their manufacturing capabilities enable them to manufacture a wide range of complex boards and devices, such as:

CPU Board: A CPU card is a printed circuit board (PCB) that contains the central processing unit (CPU) of a computer.

Power Electronics Board: Power electronic systems are used in a variety of applications, such as power generation, power transmission, power distribution, power control.

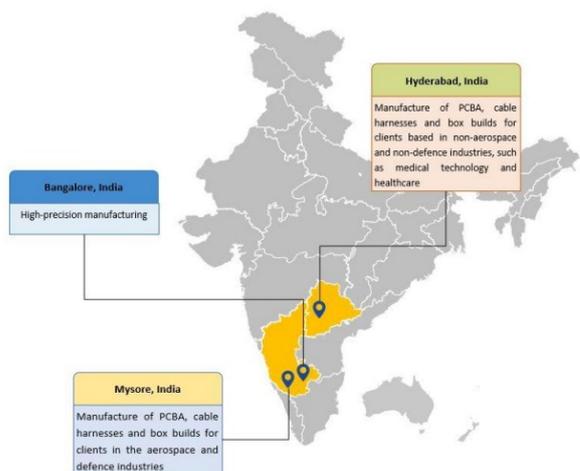
I/O Module: An I/O module is a subsystem in an integrated circuit that performs the functionality specific to interfacing a CPU to the rest of the system.





Manufacturing Facilities

Cyient DLM Ltd have three manufacturing facilities spread across two states, with two facilities in the state of Karnataka, situated at Mysuru and Bengaluru, and one in the state of Telangana, situated at Hyderabad. Manufacturing facilities are equipped with state-of-the-art equipment for the purposes of the advanced electronics manufacture. Staff at Mysuru and Bengaluru manufacturing facilities operate from product development areas, which span 65,929 sq. ft. and 12,200 sq. ft., respectively, with dedicated SMT lines and PTH lines.



Particular	2023	2022	2021
Mysure			
Number of SMT lines	4	4	4
Installed capacity	449.41	449.41	430.69
Total placements achieved	172.71	244.75	200.46
Utilised capacity (%)	38.43%	54.46%	46.54%
Hyderabad			
Number of SMT lines	2	2	2
Installed capacity	500	500	500
Total placements achieved	38.08	45.69	35.63
Utilised capacity (%)	7.61%	9.13%	7.12%

Competition

The Indian EMS market comprises various tiers of companies including global EMS companies with operations in India and large and mid/small Indian EMS companies. Cyient face competition from Indian EMS providers such as SFO Technologies Private Limited, Bharat FIH Limited, Avalon Technologies Limited, Syrma SGS Technology Limited and Elin Electronics Limited, and international players such as Hon Hai Precision Industry Co. Ltd. (Foxconn), Pegatron Corp, Quanta Computer, Inc., Plexus Corp., Flex Ltd., Compal Electronics, Inc., Wistron Corp, Jabil, Inc.

Particular	Kaynes Tech Ltd	Sryma SGS Tech Ltd	DCX System Ltd	Cyient DLM Ltd
Market share(%)	0.5	0.7	0.8	0.5
Revenue from operation	7062	12666	11023	7205
Domestic Revenue(%)	19.99	45.23	78.57	55.02
International Revenue(%)	80.01	54.77	21.43	44.98

Order Book

Cyient DLM Ltd has an industry leading order book (Source: Frost & Sullivan Report) amounting to ₹ 24,325.47 million as of March 31, 2023 and a pipeline of prospective projects for which the contracts are currently at various stages of negotiation. The table below sets out the details of order book as of March 31, 2023, March 31, 2022 and March 31, 2021.

Details of order book	As at March 31, 2023	As at March 31, 2022	As at March 31, 2021
Number of customers	35	50	47
Order book* (₹ in million)	24,325.47	12,029.76	9,061.18

Utilization of IPO Proceeds

The company propose to utilize the Net proceeds of fresh issue towards funding of the objective:

- Funding capital expenditure of Company of ₹ 44 Cr.
- Funding incremental working capital requirement of company of ₹ 291 Cr.
- Repayment/ prepayment, in part or full, of certain of borrowings of ₹ 161 Cr.
- Achieving inorganic growth through acquisition of ₹ 70 Cr.

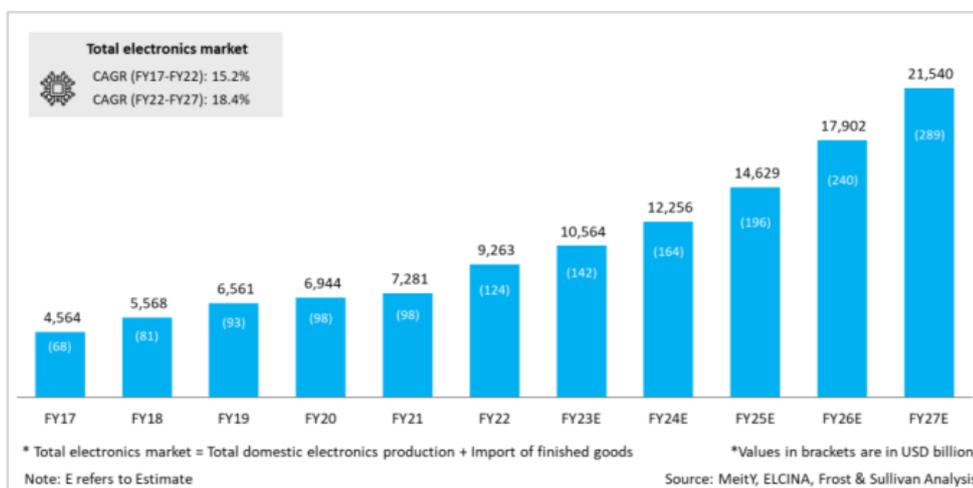


Industry Outlook

Electronics is one of the fastest-growing industries in the country. The total electronics market (domestic electronics production and imports of finished goods) in India was valued at INR 9,263 billion (USD 124 billion) in FY22, expected to grow at a CAGR of 18.4% to reach INR 21,540 billion (USD 289 billion) in FY27. The landscape of the industry is changing significantly, and revised cost structures have shifted the focus of multinational companies in India.

At present, the Indian government is striving to strengthen manufacturing capabilities across several electronics industries and fill the gaps to make the Indian electronics sector globally competitive. India is positioned as both a high-quality destination for design and a cost-effective option. Low manufacturing costs, a skilled workforce, and a vast geographical area are some of the driving elements behind the development of India's electronics ecosystem. Also, the manufacturers are slowly shifting their focus on product mix from high-volume, low-mix (HVLM) products to low-volume, high-mix (LVHM) products.

The demand for electronic goods in India has grown significantly in recent years. The domestic electronics consumption market is estimated at INR 8,117 billion (USD 109 billion) in FY22, expected to grow by 10.6% to reach INR 13,463 billion (USD 181 billion) in FY27. Increasing electronics penetration in semi-urban and rural markets, a shift in lifestyle among the Gen Y population, and the adoption of smart gadgets are some key drivers supporting domestic consumption.



Peer Comparison

Name of the company	Face Value (₹)	Total Income (₹ Cr)	EPS	NAV (₹)	P/E	RoNW(%)
Cyient DML Ltd	10	8,383	7.75	48.33	NA	16.30%
Peers Group						
DCX System Ltd	10	12,832	8.44	58.59	26.33	15.13%
Syrma SGS Technology Ltd	10	20,921	7.59	87.13	51.47	11.60%
Kayens Technology Ltd	10	11,375	19.61	165	71.45	13.14%

Source: Company Data RHP, Gepl Research



Companies Competitive Strength :

- Ability to provide integrated engineering solutions with capabilities across the product value chain.
- High entry barriers for competitors due to technical expertise, capabilities in safety-critical electronics in highly regulated industries and customer engagement .
- Robust and industry leading order book with marquee customers, with whom they enjoy sustained and long-standing relationships as their preferred partner.
- Manufacturing infrastructure, stringent quality, diverse in-house capabilities and robust supply chain, enabling to provide high quality end-to-end integrated solutions to customers.
- Parentage of Promoter, Cyient Limited, and a long history of industry expertise, an experienced Board and senior management team Strong management capabilities with a demonstrated ability to deliver robust financial performance.

Key Strategies Implemented by Company

- 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 engagements.
- Strengthening supply chain ecosystem and building on operational efficiency.
- Further enhancing capabilities in after-market services and value-added services, and exploring new adjacencies.

Particulars (Rs Cr)	2023	2022	2021
Equity Share Capital	52.87	1.37	1.37
Reserves	145.01	75.75	36.29
Net worth as stated	197.87	77.11	37.65
Revenue from Operation	832.03	720.85	628
Revenue Growth (%)	15.42%	15%	-
EBITDA as Stated	87.78	84.04	45.94
EBITDA margin (%)	10.55%	11.66%	7.32%
Profit Before Tax	43.16	50.73	15.60
Net Profit for the period	31.78	39.80	11.81
Net Profit (%) as Stated	3.81%	5.52%	1.88%
EPS (₹)	7.75	16.17	4.80
RoNW (%)	16.03%	51.61%	31.38%
ROCE(%)	13.48%	17.56%	11.48%

Valuations and Recommendation:

- Cyient DLM earning arrives at ₹ 31.78 Cr for FY23. At upper price band of ₹ 265, Company is looking for post issue market cap of ₹ 2,102 Cr, Which implies a earning multiple (P/E) of 66.14(x).
- Cyient DLM's expertise, complex product manufacturing, end-to-end solutions, and customer trust give them a strong competitive edge in the EMS and solution-providing sectors. With well-executed strategies, they are poised to seize promising opportunities driven by industry trends. Hence, We recommend “ Subscribe ” rating to the Issue for listing gains.



Notes

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