



IPO Report

26th June'23

Snapshot

Cyient DLM is an integrated EMS and solutions provider with a focus on the entire life cycle of a product, including design, build and maintain. Company's solutions primarily comprise manufacture of: (i) printed circuit board ("PCB") assembly ("PCBA"), (ii) cable harnesses, and (iii) box builds which are used in safety critical systems such as cockpits, inflight systems, landing systems, and medical diagnostic equipment, which company provide to its clients as B2P or B2S services.

VALUATION

Company is bringing the issue at price band of Rs 250-265 per share at p/e multiple of 66x on post issue FY23 PAT basis.

Company has ability to provide integrated engineering solutions with capabilities across the product value chain. Also there are high entry barriers for company's competitors due to technical expertise, capabilities in safety-critical electronics in highly regulated industries and customer engagement. Company has robust and industry leading order book with marquee customers, with whom company enjoy sustained and long-standing relationships as their preferred partner.

We like Company's manufacturing infrastructure, stringent quality, diverse in-house capabilities and robust supply chain as it enable company to provide high quality end-to end integrated solutions to its customers. Also, with strong parentage of its Promoter, Cyient Limited, and a long history of industry expertise, an experienced Board and senior management team, company is well poised to cater opportunities present in sector. Hence we recommend to "Subscribe" issue.

Price Band (Rs./Share)	250-265
Opening date of the issue	27 th June 2023
Closing Date of the issue	30 th June 2023
No of shares pre issue	56941471 Eq Shares
Issue Size(In Rs)	Rs 592 Cr
Issue Size (in No of Shares)	23718297-22373584 Eq Shares
Fresh issue	Rs 592 Cr
Face Value (Rs/ share)	Rs 10/share
Bid Lot	56

BIDDING DETAILS	
QIBs (Including Anchor)	75% of the offer (Approx 16,330,189 Eq Shares)
Non-Institutional	15% of the offer (Approx 3,266,037 Eq Shares)
Retail	10 % of the offer (Approx 2,177,358 Eq Shares)
Employee Reservation	600,000 Equity Shares
Employee Discount	Rs 15/ share
Pre Issue Promoter & Group Holding	92.84%
Post Issue Promoter & Group Holding	66.65%
Lead managers	Axis Capital, JM Financial
Registrar to the issue	KFin Technologies Ltd.

KEY HIGHLIGHTS

High entry barriers for company's competitors due to its technical expertise, capabilities in safety-critical electronics in highly regulated industries and customer engagement

Company's position as one of the few EMS companies in India offering electronics solutions for safety and mission-critical applications in highly regulated industries acts as a significant entry barrier to new entrants. Company's clients are primarily engaged in industries such as aerospace and defence, medical technology and industrials which are typically highly regulated industries.

Robust and industry leading order book with marquee customers, with whom company enjoy sustained and long-standing relationships as their preferred partner

Company have an industry leading order book 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. Company's long-term contracts with its clients have a term ranging between three years and more than 15 years.

Parentage of company's Promoter, Cyient Limited, and a long history of industry expertise, an experienced Board and senior management team

Company have derived significant advantages and a competitive edge from the sectoral expertise of its Promoter, which was named as a Rising Star in Managed Services by the Information Services Group and was named in the 'Leadership zone' across aerospace, telecommunication, semiconductors, industrial, and medical devices verticals. 'Cyient' is a brand associated with global engineering capabilities, quality of service and reliability. Company's association with the 'Cyient' brand and the domain experience of its Promoter gives company an advantage in attracting talent, corporate governance practices, and together with its Promoter's design team, allows company to offer a larger value proposition on the 'design, build and maintain' value chain.



COMPANY BACKGROUND

Company was incorporated on June 30, 1993 and have over 22 years of experience in developing high mix, low-to-medium volume highly complex systems.

Company's Electronic Manufacturing Services are provided as Build to Print ("B2P") and Build to Specification ("B2S") services to its clients. Company's B2P solutions involve its client providing the design for the product for which company provide agile and flexible manufacturing services. Company's B2S services involve utilising its Promoter's design capabilities to design the relevant product based on the specifications provided by the client and manufacturing the product. Company's solutions primarily comprise: (i) printed circuit board ("PCB") assembly ("PCBA"), (ii) cable harnesses, and (iii) box builds which are used in safety critical systems such as cockpits, inflight systems, landing systems, and medical diagnostic equipment.

Company's manufacturing infrastructure comprises three facilities spread across two states in India, at Mysuru, Hyderabad and Bengaluru, with a total manufacturing area of 229,061 sq. ft. Company's Mysuru facility has a manufacturing area of 65,929 sq. ft. and is primarily engaged in the manufacture of PCBA, cable harnesses and box builds for clients in the aerospace and defence industries. Company's Hyderabad facility, which is located in a special economic zone, has a manufacturing area of 150,932 sq. ft. and is primarily engaged in the manufacture of PCBA, cable harnesses and box builds for clients based in non-aerospace and nondefence industries, such as medical technology and healthcare. Company's Bengaluru facility has a manufacturing area of 12,200 sq. ft. and is focused on high-precision manufacturing. Some of the items manufactured include, body valves, hinges, elbow adaptors, assemblies like bracket assembly, lanyard assembly and hinge arm locking assembly etc. Company's NPI capabilities are dedicated towards supporting seamless product introduction for its customers, through to market launch, and assisting them optimize the time to market for a new product.

Company's customers belong to a diverse range of high-entry-barrier industries that have stringent quality and qualification requirements. Company enjoy long-term relationships as an integrated partner to multiple marquee customers such as Honeywell International Inc. ("Honeywell"), Thales Global Services S.A.S ("Thales"), ABB Inc, Bharat Electronics Limited and Molbio Diagnostics Private Limited, having had an average relationship of over 11 years as on March 31, 2023 with the aforementioned customers. Company provide services across the product life cycle for its clients by acting as an integrated service provider who can support their manufacturing and after-market services needs, as well as their design needs by leveraging its Promoter's design team. As a strategic partner to clients across highly regulated industries, company enjoy long-term relationships with high customer stickiness and a high proportion of repeat business, which allows it to have visibility on future revenue and a stable client base.

The table below sets out the details of company's order book as of March 31, 2023, March 31, 2022 and March 31, 2021:

	FY23	FY22	FY21
Number of customers	35	50	47
Order book (₹ in million)	24325.47	12029.76	9061.18

The table below sets out details of the revenue from operations attributable to each of company's facilities:

Facility	Fiscal 2023		Fiscal 2022		Revenue from operations (₹ in million)	As a percentage of total revenue from operations (%)
	Revenue from operations (₹ in million)	As a percentage of total revenue from operations (%)	Revenue from operations (₹ in million)	As a percentage of total revenue from operations (%)		
Mysuru facility	7550.93	90.75	6531.35	90.65	6093.41	97.02
Hyderabad facility	719.93	8.65	658.74	9.14	154.68	2.46
Bengaluru facility	49.47	0.60	15.24	0.21	32.20	0.51



INVESTMENT RATIONALE

<p><i>Manufacturing infrastructure, stringent quality, diverse in-house capabilities and robust supply chain, enabling company to provide high quality end-to end integrated solutions to customers</i></p>	<p>Company’s operations are currently undertaken through its manufacturing facilities spread across two states and three cities in India, at Mysuru, Hyderabad and Bengaluru, with a total manufacturing area of 229,061 sq. ft. Company’s Mysuru and Hyderabad facilities are focused on electronics manufacturing processes including PCBA, cable harnesses and box builds, which closely align with company’s core competence in electronics systems, integration and manufacturing services, and are equipped with surface mount assembly (SMT) lines, printed through hole (PTH) assembly lines, X-ray inspection systems, in-circuit testers, flying probe testers, boundary scan testers, functional testers, environmental stress screening (ESS) chambers, HASS and HALT machines, vibration testers and other advanced equipment. Company’s Bengaluru facility is focused on producing high-precision, low-volume mechanical manufacturing products and is equipped with milling, drilling, turning and grinding machines.</p>
<p><i>Parentage of company’s Promoter, Cyient Limited, and a long history of industry expertise, an experienced Board and senior management team</i></p>	<p>Company have derived significant advantages and a competitive edge from the sectoral expertise of its Promoter, which was named as a Rising Star in Managed Services by the Information Services Group and was named in the ‘Leadership zone’ across aerospace, telecommunication, semiconductors, industrial, and medical devices verticals. Cyient has also been rated as an Expansive-Established player in Digital Engineering and ER&D Services – USA region by Zinnov Zones. ‘Cyient’ is a brand associated with global engineering capabilities, quality of service and reliability. Company’s association with the ‘Cyient’ brand and the domain experience of Promoter gives company an advantage in attracting talent, corporate governance practices, and together with its Promoter’s design team, allows company to offer a larger value proposition on the ‘design, build and maintain’ value chain. Company’s end-to-end capabilities, backed by the design capabilities as well as the heritage of its Promoter of over three decades provides company with an edge over its competitors, and has enhanced its B2S capabilities, differentiating company from its competition. In addition, company is led by its diversified Board with an average of over seven years in the EMS industry, which is supplemented by company’s professional management team with an average of over 20 years of industry experience.</p>
<p><i>Strong Industry Outlook</i></p>	<p>The EMS market is witnessing strong tailwinds. The India EMS is a sizeable industry, contributing to 2.2% (USD 20 billion) of the global EMS market in 2022. India’s EMS industry is the fastest growing among all countries at a CAGR of 32.3% and is expected to contribute 7.0% (USD 80 billion) of the global EMS market in 2026. There continues to be a strong push from the government to make India an ideal location for electronics manufacturing in the region. With clear benefits in terms of production efficiency, reduced overhead, labour costs, and faster new product introductions, OEMs today continue to collaborate with EMSs to develop their products. In addition, OEMs are also increasingly moving product design and development processes, to EMS partners (Source: Frost & Sullivan Report). Company is well positioned to take advantage of these tailwinds on the back of its solutions-oriented approach, client-focused service and track record of reliability. Being a whollyowned subsidiary of Cyient Limited, company’s relationship with its Promoter allows it to benefit from its reputation, customer relationships, global salesforce, network and technical expertise, making company one of the industry’s leading integrated EMS and solutions providers in India (Source: Frost & Sullivan Report).</p>



OBJECTS OF OFFER

Company proposes to utilise the Net Proceeds towards funding the following objects:

1. Funding incremental working capital requirements of company;
2. Funding capital expenditure of company;
3. Repayment/prepayment, in part or full, of certain of company's borrowings;
4. Achieving inorganic growth through acquisitions; and
5. General corporate purposes

RISKS

Company's business is dependent on the sale of its products to certain key customers. Company's top 10 customers constituted 91.08% of its total revenue from operations for the year ended March 31, 2023. Further, as at March 31, 2023, company's Trade Receivables were ₹ 1,617.48 million. The loss of any of company's key customers or loss of revenue from sales to its customers or any defaults or delays in payment by a significant portion of company's customers could have a material adverse effect on company's business, results of operations, financial condition and cash flows.

Source:RHP

INDUSTRY OVERVIEW

Key growth drivers for the electronics industry in India

Improvement in demand and supply scenario: factors such as a stable growth outlook for the economy, the Digital India program, rising disposable incomes, changing lifestyles, emerging work-from-home culture, expansion of organized retails to tier 2 & tier 3 cities, improving electricity and internet infrastructure, and better logistics infrastructure will provide additional impetus to the industry. It is with these strong fundamentals, many global brands along with their supply chain partners have invested in electronics manufacturing infrastructure in the country in recent years.

China + 1 Strategy: OEMs are considering an alternative country for additional production rather than completely replacing China. India is well positioned to benefit from global OEM's strategy towards "China + 1" for supply chain diversification. Localization of supply chain: High domestic volumes and consumption, and higher outsourcing volumes will influence domestic electronics manufacturers to bring in the component ecosystem locally and enhance local capabilities of component sourcing, thus making the ecosystem stronger and closer.

Emerging technologies: Electronic product life cycles are becoming shorter due to rapid technological advancement and newer products with upgraded technology. Emerging technologies such as IoT, AI, and the incorporation of robotics and analytics in the industrial and strategic electronics segments have all contributed to the overall development of electronic products, which has boosted local demand. System automation: the rapid growth of AI, ML, the deployment of 5G technology, edge computing, and cloud computing has necessitated hardware innovation, resulting in high demand for electronic design automation.



Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23
Total Revenue (A)	6280.28	7205.33	8320.33
Total Expenditure (B)	5820.84	6364.93	7442.53
EBIDTA	459.44	840.40	877.80
EBIDTA Margin	7.32	11.66	10.55
Other Income	88.83	79.51	63.11
Depreciation	184.62	192.86	194.15
EBIT	363.65	727.05	746.76
Interest	207.70	219.75	315.16
PBT	155.95	507.30	431.60
Extraordinary item	0.00	0.00	0.00
PBT	155.95	507.30	431.60
Share of Profit in Associates	0.00	0.00	0.00
PBT	155.95	507.30	431.60
Tax	37.81	109.35	114.33
PAT	118.14	397.95	317.27
NPM%	1.88	5.52	3.81
Eq Cap	13.67	13.67	528.66
Net Worth	376.52	771.12	1,978.72
EPS	4.80	16.17	7.75
ROE %	31.38	51.61	16.03
ROCE%	11.48	17.56	13.48

(Source: RHP)

Peer Comparison

Company Name	Total Income (Rs in million)	EPS	PE	RONW%	NAV (in Rs)
Cyient DLM Limited	8383.44	7.75		48.33	16.03
Peers Group					
Syrma SGS Technology Ltd	20921.37	7.59	51.57	87.13	11.60
Kaynes Technology India Limited	11375.12	19.84	71.45	164.95	13.14
DCX Systems Limited	12831.82	8.44	26.33	58.59	15.13



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