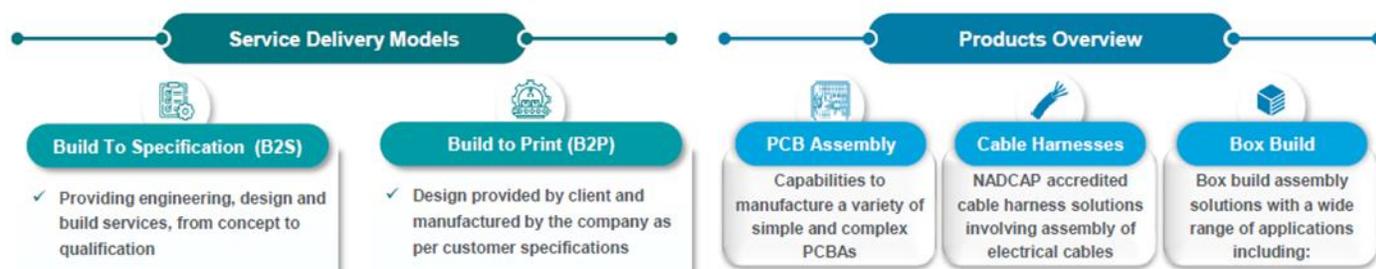


Recommendation	Subscribe	BACKGROUND		
Price Band	Rs. 250-265	<p>Incorporated in 1993, Cyient DLM is a subsidiary of Cyient. It provides electronic manufacturing services (EMS) and solutions. The company provides EMS as build-to-print (B2P) and build-to-specification (B2S) services. The core solutions provided by Cyient DLM encompass various key components, including printed circuit board assembly, cable harnesses, and box builds. These components play a crucial role in safety of critical systems such as cockpits, inflight systems, landing systems, and medical diagnostic equipment. It has a customer base which includes global OEMs in the aerospace and defence, medical technology and industrial sectors and its key customers include Honeywell International, Thales Global Services, ABB Inc, Bharat Electronics, and Molbio Diagnostics.</p> <p>Objects and Details of the Issue:</p> <p>The public issue consists of fresh Issue of Equity shares aggregating upto Rs. 592 Cr. The company proposes to utilise the Net Proceeds of the Fresh Issue towards funding working capital requirements, capital expenditures, repayment of debt and achieving inorganic growth through acquisitions.</p> <p>Investment Rationale:</p> <ul style="list-style-type: none"> • EMS industry has strong tailwinds • Provide end-to-end integrated solutions • High entry barriers to business and customer engagement capabilities • Expanding inorganically to increase geographic footprint <p>Valuation and Recommendation:-</p> <p>Cyient DLM has strong industry tailwinds working in its favour as domestic EMS (electronics manufacturing services) industry is expected to grow at 32% CAGR over FY22-27. Over FY21-23 period, Cyient DLM's revenue growth is lagging peers at 15% CAGR, however its strong order book provides decent visibility of accelerated growth going forward. It's valuation on P/E basis is reasonable compared to peers, at 66.2x FY23 earnings, considering the future growth opportunities. We recommend subscribing to the issue from long term perspective.</p>		
Bidding Date	27 th –30 th June			
Book Running Lead Manager	JM Financial, Axis Capital			
Registrar	KFin Technologies			
Sector	EMS			
Minimum Retail Application- Detail At Cut off Price				
Number of Shares	56			
Minimum Application Money	Rs. 14840			
Payment Mode	ASBA			
Consolidated Financials (Rs Cr)				
Total Income	720	832		
EBITDA	84	88		
Adj PAT	40	32		
Valuations(FY22)		Upper Band		
Market Cap (Rs Cr)	2100			
Adj EPS	4.0			
PE	66.2			
EV/ EBITDA	26.1			
Enterprise Value (Rs Cr)	2288			
Post Issue Shareholding Pattern				
Promoters	66.7%			
Public	33.3%			
Offer structure for different categories				
QIB (Including Mutual Fund)	75%			
Non-Institutional	15%			
Retail	10%			
Post Issue Equity (Rs. in Cr)	79.24			
Issue Size (Rs in Cr)	592			
Face Value (Rs)	10			
<p>Jehan Bhadha Research Analyst (+91 22 6273 8174) jehankersi.bhadha@nirmalbang.com</p> <p>Archi Jain Research Associate (+91 22 6273 8149) archi.jain@nirmalbang.com</p>				
Financials (Rs Cr.)		FY21	FY22	FY23
Net Revenues		628.0	720.5	832.0
Growth		NA	14.7%	15.5%
EBIDTA		45.9	84.1	87.8
EBITDA Margins		7.3%	11.7%	10.6%
PBT		15.6	50.8	43.2
Adjusted PAT		11.8	39.8	31.7
EPS		1.5	5.0	4.0
ROCE		11.5%	17.6%	13.5%
EV/Sales		3.7x	3.2x	2.8x
EV/EBITDA		51.0x	27.5x	26.1x
P/E		177.7x	52.7x	66.2x

Source: Company data, NBRR

Company Background

Cyient DLM stands as a prominent provider of integrated Electronic Manufacturing Services (EMS) and comprehensive solutions, offering a wide range of capabilities throughout the value chain and the complete product life cycle. It offers EMS in two main categories: Build to Print (B2P) and Build to Specification (B2S) services. B2P solutions involve clients providing the design for the product for which the company provides agile and flexible manufacturing services. B2S services involve designing the relevant product based on the specifications provided by the client and manufacturing the product.



Source: Company

The core solutions provided by Cyient DLM comprises of:

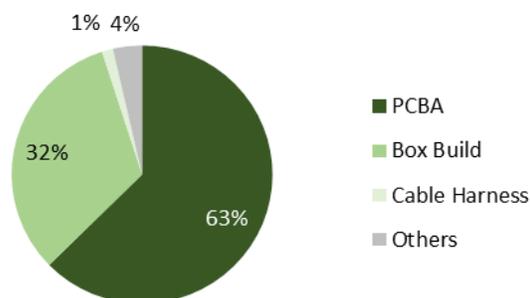
- (i) Printed circuit board ("PCB") assembly ("PCBA"),
- (ii) Cable harnesses, and
- (iii) Box builds.

These components play a crucial role in safety of critical systems such as cockpits, inflight systems, landing systems, and medical diagnostic equipment.

It has a customer base which includes global OEMs in the aerospace and defence, medical technology and industrial sectors and its key customers include Honeywell International, Thales Global Services, ABB Inc, Bharat Electronics, and Molbio Diagnostics among others.

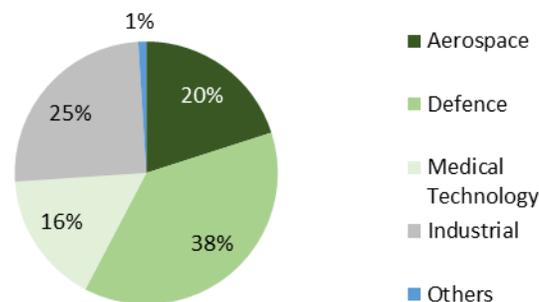
The manufacturing infrastructure comprises three facilities spread across two states in India at Mysore, Hyderabad and Bengaluru, with a total manufacturing area of 229,061 sq. ft.

Product-wise revenue mix



Source: RHP

Industry-wise revenue mix



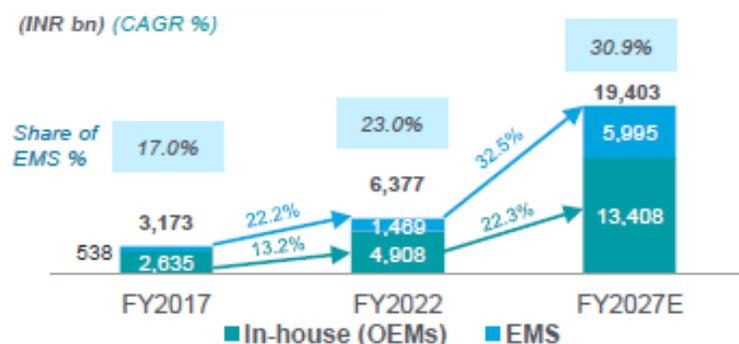
Source: RHP

Investment Rationale

EMS industry has strong tailwinds

The EMS sector is a sizeable industry globally and in India, and is expected to grow at a significant pace. While the EMS market in India was valued at Rs. 1,469 bn in FY22 and is expected to grow at a CAGR of 32.5% to reach a value of Rs. 5,995 bn in FY27. Cyient DLM stands to benefit from the tailwinds of Aatmanirbhar Bharat and the Production Linked Incentive Scheme (PLI Scheme) across verticals, which would help to reduce import dependence as well as position India as an export hub.

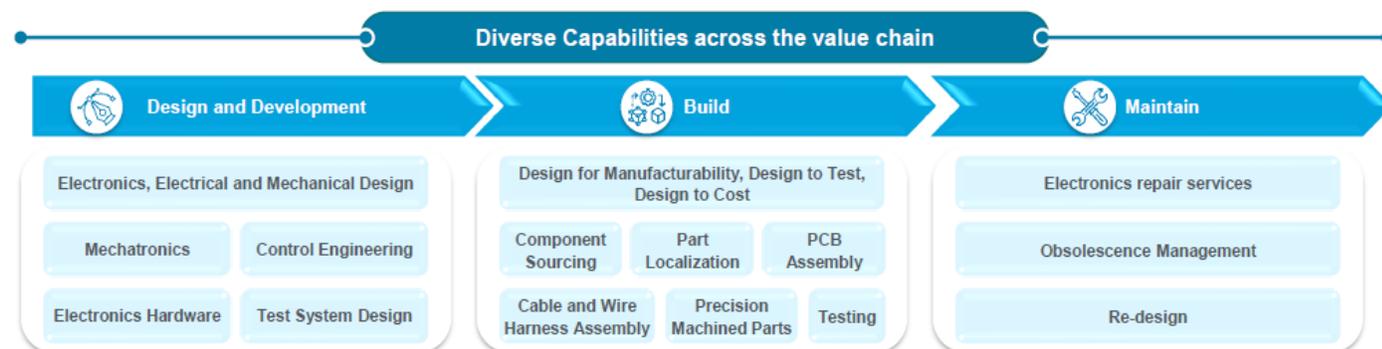
Share of Indian EMS industry expected to grow



Source: Company

Provide end-to-end integrated solutions

Cyient DLM is able to utilize promoter’s design capabilities and expertise which enables working with clients from conceptualisation stage. It offers an integrated and well diversified solution suite comprising PCB design and assembly, manufacture of cable assembly and wire harnesses, sheet metal fabrication, sheet metal machining, plastic injection moulding, magnetics, and electro-mechanical integration, which combined allows company to offer end-to-end box build solutions.



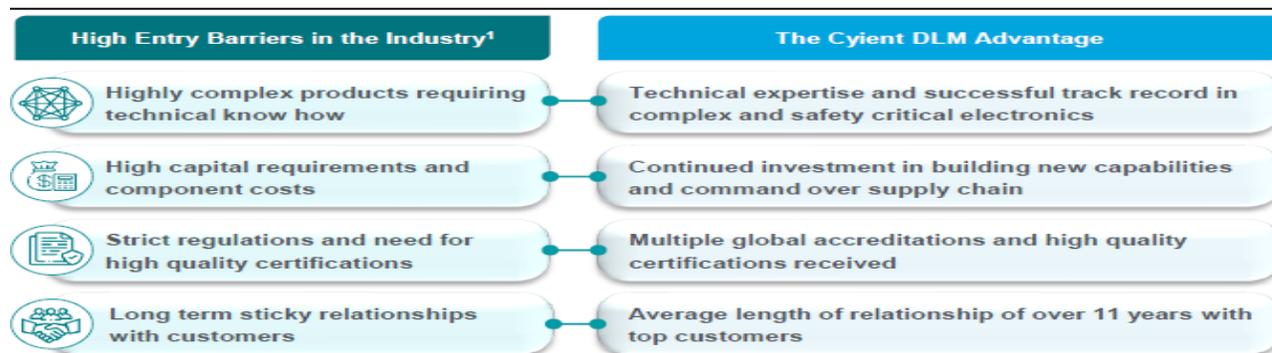
Source: Company

High entry barriers to business and customer engagement capabilities

With 22 years of experience in EMS industry, the experience and capabilities gives company an edge over others and provide certain key factors which are difficult to replicate. The company has evolved significantly from providing simple PCB services, to having become a provider of high complexity, low to medium volume mission-critical solutions. This has enabled it to deepen relationships with the customers over the years. Particularly in the case of engagements with long lifecycle industries such as power, railways, aerospace and medical.

For instance, engagement with Honeywell International Inc., one of the key customers, commenced with manufacturing PCBAs for special temperature transmitters in 2009. However, thereon manufactured box builds for airport lighting systems, and have since manufactured more advanced systems for Honeywell such as an entire module of cockpit avionics.

Cyient DLM is one of the few EMS companies in India offering electronic solutions for safety and mission- critical applications in highly regulated industries which acts as a significant entry barrier for a new entrant.



Source: Company

Expanding inorganically to increase geographic footprint

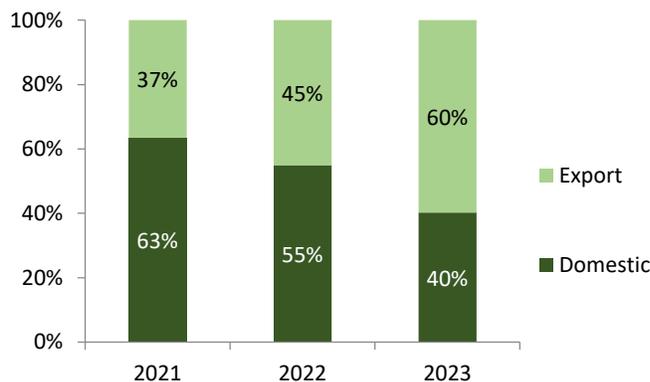
The company has raised primary fund of Rs 700 Cr (includes fresh issue of Rs 592 Cr and pre IPO placement with Amansa Investments Ltd of Rs 108 Cr) towards achieving inorganic growth through acquisitions. International sales has grown at 47% CAGR FY21-23, it intends to further expand geographical footprint, including by way of inorganic expansion in key geographies, particularly North America and Europe.

Exploring inorganic opportunities to expand geographical footprint



Source: Company

Geography mix



Source: Company, NBRR

Concerns

High client concentration: Company's top 4 clients (ABB, BEL, Honeywell, Thales) together constituted 54% of revenue in FY23. The top client ABB formed 21.6% of revenue. Any unforeseen events impacting these 4 customers or change in outsourcing policies of these 4 clients could have a negative impact on Cyient DLM.

Decline in profits in FY23: Company witnessed a decline in its profits from Rs. 39.8 Cr in FY22 to Rs. 31.7 Cr in FY23. The decrease was primarily on account of an increase in (i) finance costs; (ii) higher employee onboarding and (iii) decrease in other income.

Valuation and Recommendation

Cyient DLM's edge is its capability to develop and provide integrated solutions across the product value chain with strong B2S capabilities backed by design services of Cyient Limited with technical expertise and capabilities in safety critical electronics in high barriers and regulated industries. It intends to leverage its presence in the fast growing EMS segment. Company has a robust and industry leading order book – to – sales ratio of 2.9x. This provides for visibility of accelerated growth in coming years. Cyient DLM is being offered at reasonable valuations at 66.2x FY23 earnings, considering the future growth opportunities. We recommend subscribing to the issue from long term perspective.

Listed Comparable Peers

<i>FY23 Figures</i>	Avalon	Syrma SGS	Kaynes	Avg	Cyient DLM
Revenue	945	2,048	1,126	1,373	832
CAGR (FY21-23)	17%	52%	64%	44%	15%
Gross Margin	36%	25%	31%	31%	33%
EBITDA Margin	12.0%	9.0%	15.0%	12.0%	10.6%
Asset Turns (x)	1.1x	1.1x	1.0x	1.1x	1.5x
ROCE	12%	12%	14%	13%	13%
W.C.Cycle	117	102	147	122	132
EV/EBITDA	25.7x	35.5x	46.7x	36.0x	26.1x
P/E	63.7x	61.9x	91.6x	72.4x	66.2x

Source: NBRR

Financials

P&L (Rs. Cr)	FY21	FY22	FY23
Net Revenue	628	721	832
% Growth	-	15%	15%
Raw Materials	495	544	645
% of Revenues	78.9%	75.5%	77.5%
Employee Cost	47	52	65
% of Revenues	7.5%	7.2%	7.8%
Other expenses	40	41	34
% of Revenues	6.4%	5.7%	4.1%
EBITDA	46	84	88
EBITDA Margin	7.3%	11.7%	10.6%
Depreciation	18	19	19
Other Income	9	8	6
Interest	21	22	32
Exceptional item	0	0	0
PBT	16	51	43
Tax	4	11	11
Tax rate	24.2%	21.5%	26.5%
Non controlling interest	0	0	0
Adj PAT	12	40	32
% Growth	-	237%	-20%
EPS (Post Issue)	1.5	5.0	4.0

Ratios & Others	FY21	FY22	FY23
EBITDA Margin (%)	7.3%	11.7%	10.6%
PAT Margin (%)	1.9%	5.5%	3.8%
ROE (%)	31%	52%	16%
ROCE (%)	11%	18%	13%

Turnover Ratios	FY21	FY22	FY23
Debtors Days	132	77	71
Inventory Days	90	137	186
Creditor Days	110	98	125
Asset Turnover (x)	2.0	1.7	1.5

Valuation Ratios	FY21	FY22	FY23
Price/Earnings (x)	177.7	52.7	66.2
EV/EBITDA (x)	51.0	27.5	26.1
EV/Sales (x)	3.7	3.2	2.8
Price/BV (x)	70.4	34.4	13.4

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY21	FY22	FY23
Share Capital	1.4	1.4	52.9
Reserve & Surplus	36	76	145
Networth	38	77	198
Total Loans & Lease Liab.	279	337	356
Other non-curr liab.	13	43	26
Trade payable	190	192	285
Other Current Liab	126	127	239
Total Current Liab.	316	320	525
Total Equity & Liab.	645	777	1,105
Fixed Assets & CWIP	184	171	158
Intangible Assets	4	4	5
Financial Assets	5	4	3
Investments	0	0	90
Other non Curr. assets	9	5	10
Inventories	155	270	425
Cash & cash equivalent	15	77	61
Bank	20	45	107
Debtors	226	152	162
Other Current assets	27	48	85
Total Assets	645	777	1,105

Cash Flow (Rs. Cr)	FY21	FY22	FY23
EBITDA	46	84	88
Provisions & Others	9	4	4
Op. profit before WC	55	88	92
Change in WC	(20)	(33)	(23)
Less: Tax	0	6	17
CF from operations	35	49	52
Addition to assets	(27)	(8)	(8)
(Purchase)/Sale of invst.		1	(89)
(Invnt)/ withdrawal of deposits	23	(25)	(45)
Int & Div Received	3	1	0
CF from Investing	(1)	(32)	(142)
Proceeds from borrowings/st	188	255	484
Repayment of borrowings	(215)	(196)	(389)
Repayment of lease liab.	(6)	(6)	(6)
Dividend & Intt paid	(9)	(7)	(14)
CF from Financing	(43)	46	74
Net Change in cash	(9)	62	(16)
Cash at beginning	23	15	77
Cash at end	15	77	61

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