

Company Overview

Cyient DLM Limited ("Cyient DLM") was incorporated on 30 June, 1993. Promoted by Cyient Limited, Cyient DLM is one of the leading integrated Electronic Manufacturing Services ("EMS") and solutions provider with strong capabilities across the value chain and the entire life cycle of a product. Cyient DLM is 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 that typically has a very high emphasis on quality and customization which changes according to the requirements of the customer. They have over 22 years of experience in developing high-mix, low-to-medium volume highly complex systems. Their EMS is provided as Build to Print ("B2P") and Build to Specification ("B2S") services to their clients. The company's B2P solutions involve their client providing the design for the product for which they provide agile and flexible manufacturing services. Their B2S services involve utilizing their promoter's design capabilities to design the relevant product based on the specifications provided by the client and manufacturing the product. Their 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 equipments. The company has three facilities spread across Mysuru, Hyderabad and Bengaluru, with a total manufacturing area of 229,061 sq. ft.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Repayment/ prepayment, of certain of the borrowings
- ⇒ Funding incremental working capital requirements
- ⇒ Funding capital expenditure of the company
- ⇒ Achieving inorganic growth through acquisitions
- ⇒ General corporate purposes

Investment Rationale

High entry barriers for competitors due to technical expertise and long-standing relationship with customers

The company's clients are primarily engaged in industries such as aerospace and defense, medical technology, and industrials which are typically highly regulated industries. Their engagement with the client commences at the early stages of the product life cycle right from the design stage, which also leads to higher customer stickiness. The company's key capabilities are in the domain of highly complex, safety-critical electronic systems with a high criticality of failure, such as cockpit systems and flight control systems which differentiates them from other EMS companies. Since specialized sectors such as aerospace and defense, and medical are highly complex and expensive, there are obvious challenges and barriers that make it almost impossible for new players to enter this market. High capital requirements and strict regulations are the key barriers preventing companies from entering these sectors. Cyient DLM has an industry-leading order book amounting to Rs. 2,432.6 crores as of 31 March, 2023, and a pipeline of prospective projects. They have consciously focused on reducing the long tail of customers by focusing on growing their business and relationships with strategic and marquee customers. Their long-term contracts with clients have a term ranging between 3 years and more than 15 years. One such contract is their contract with Honeywell International Inc for avionics LRUs.

Diverse in-house manufacturing infrastructure, robust supply chain, and strong capabilities across the product value chain

Cyient DLM is a complete, end-to-end integrated EMS and solutions provider with robust capabilities providing both B2P and B2S services. As an integrated manufacturing partner providing 'design-led-manufacturing' solutions to their customers, they provide design through the design team of their promoter and, manufacturing, testing, and certification support. The company's Mysuru and Hyderabad facilities are focused on electronics manufacturing processes including PCBA, cable harnesses, and box builds, which closely align with their core competence in electronics systems, integration, and manufacturing services, and are equipped with advanced equipment. Their Bengaluru facility is focused on producing high-precision, low-volume mechanical manufacturing products and is equipped with milling, drilling, turning, and grinding machines. Their supply chain process is electronically managed, monitored, and interconnected by way of a supply chain control tower and visualization tool. Currently, their dedicated supply chain and materials team consists of 73 members. As of 31 March, 2023, they have over 776 active vendors of raw materials, with over 63.3% of them from outside India.

Issue Details	
Offer Period	27 th June, 2023 - 30 th June, 2023
Price Band	Rs. 250 - Rs. 265
Bid Lot	56
Listing	BSE & NSE
Issue Size (no. of shares in mn)	22.3
Issue Size (Rs. in bn)	5.9
Face Value (Rs.)	10

Issue Structure	
QIB	75%
NIB	15%
Retail	10%
	JM Financial Limited
BRLM	Axis Capital Limited
Registrar	Kfin Technologies Limited

Particulars	Pre Issue %	Post Issue %
Promoter	92.84	66.65
Public- Amansa Investment	7.16	5.14
Public- Others	-	28.21
Total	100.00	100.00

(Assuming issue subscribed at higher band)

Research Team - 022-61596138

Valuation and Outlook

The company enjoys several competitive advantages and capabilities, giving them a strong edge and also providing them with certain key factors which are difficult to replicate. Some of these factors include their sectoral expertise, the high complexity of products they manufacture and the solutions they provide, their ability to provide end-to-end solutions, and the trust of their customers they enjoy. Cyient DLM has carved itself a niche in the EMS and solution-providing sectors. With its strategies in motion, it is prepared to capitalize on the promising opportunities lined up due to sectoral tailwinds. Post-IPO, the reduction in debt will save financial cost and increase the company's earnings. We advise cash surplus investors to park funds for long-term rewards. **On the upper end of the price band, the issue will be valued at 34.2x FY23 EPS which we believe is fairly priced. We, thus, recommend a "SUBSCRIBE" rating for the issue.**

Key Risks

- ⇒ It is heavily dependent on its key customers for revenues. Its top 10 customers constituted 91.1% of its total revenue from operations for FY23.
- ⇒ The company is heavily dependent on its suppliers and yet it does not enter into definite term agreements with its suppliers.
- ⇒ It has significant exposure to currency fluctuation as the company earns more than 50% of its revenues from other countries.

**Cyient DLM Ltd.****Income Statement (Rs. in millions)**

Particulars	FY21	FY22	FY23
Revenue			
Revenue from Operations	6,280	7,205	8,320
Total Revenue	6,280	7,205	8,320
Expenses			
Cost of material consumed	4,779	5,553	6,342
Changes in inventory	174	-113	111
Employee benefit expenses	469	517	647
Other expenses	399	409	343
Total Operating Expenses	5,821	6,365	7,443
EBITDA	459	840	878
Depreciation and Amortization expenses	185	193	194
Other income	89	80	63
EBIT	364	727	747
Finance costs	208	220	315
PBT	156	507	432
Current tax	5	96	130
Deferred Tax charge/ (credit)	33	13	-15
Total tax	38	109	114
PAT	118	398	317
Diluted EPS	5	16	8
PE	55	16	34

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23
Cash Flow from operating activities	349	485	521
Cash flow from investing activities	(9)	(324)	(1,418)
Cash flow from financing activities	(428)	461	740
Net increase/(decrease) in cash and cash equivalents	(88)	622	(157)
Cash and cash equivalents at the beginning of the period	235	147	769
Cash and cash equivalents at the end of the period	147	769	612

Source: RHP, BP Equities Research



Cyient DLM Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23
Equity and Liabilities			
Equity Share Capital	14	14	529
Other Equity	363	757	1,450
Total Equity	377	771	1,979
Non-Current Liabilities			
Financial Liabilities			
(a) Borrowings	640	996	996
(b) Lease Liabilities	400	377	363
(c) Other Financial Liabilities	57	113	166
Provisions	54	60	95
Other non current assets	17	261	-
Total Non-Current Liabilities	1,168	1,806	1,620
Current Liabilities			
Financial Liabilities			
(i) Borrowings	1,698	1,936	2,149
(ii) Lease liabilities	53	60	53
(iii) Trade Payables	1,900	1,925	2,853
(iv) Other Financial Liabilities	43	41	76
Income tax liabilities (net)	27	61	22
Provisions	12	13	3
Other current liabilities	1,173	1,155	2,292
Total Current Liabilities	4,906	5,192	7,449
Total liabilities	6,074	6,998	9,068
Total Equity and Liabilities	6,450	7,769	11,047
Assets			
Non-Current Assets	21	22	23
Property, plant and equipment	1,401	1,295	1,218
Right of use of assets	420	383	345
Capital work in Progress	23	34	13
Goodwill	30	30	30
Other Intangible Assets	5	14	16
Financial Assets			
(a) Investments	3	3	895
(b) Other financial assets	46	39	35
Deferred tax assets (net)	51	39	54
Income Tax Assets	6	5	5
Other non current assets	36	8	38
Total Non current assets	2,021	1,850	2,650
Total Current Assets	4,429	5,919	8,397
Total Assets	6,450	7,769	11,047

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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