

CYIENT DLM LTD

27th June - 30th June, 2023

Industry: Consumer Electronics

Price Band: ₹ 250 - 265

Recommendation: Subscribe for long term

Post Implied Market Cap: ₹ 2,016 - 2,102 Cr

Key Data

Issue Size (₹ Cr)	592
Fresh (₹)	592
OFS (₹)	0
No of shares offered	23,718,297 - 22,373,584
Face Value (₹ /share)	10
Bid Lot	56

About the Company

Promoted by Cyient Limited, CyientDLM Ltd (Cyient DLM) is one of the leading integrated Electronic Manufacturing Services ("EMS") and solutions providers with capabilities across the value chain and the entire life cycle of an integrated EMS product. Promoter, Cyient Limited, a leading engineering services provider with three decades of domain expertise providing engineering and design solutions globally with a focus on multiple industries. Its solutions primarily comprise the 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 CDL provides to clients as B2P or B2S services. CyientDLM has 22 years of experience in developing high mix, low-to-medium volume highly complex systems, they are a qualified supplier to global OEMs in the aerospace and defence, medical technology and industrial sectors. The company's manufacturing infrastructure comprises three facilities spread across two states in India, at Mysuru, Hyderabad and Bengaluru.

Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	05-07-2023
Refunds/Unblocking ASBA Fund	06-07-2023
Credit of equity shares to DP A/c	07-07-2023
Trading commences	10-07-2023

Investment Rationale

Strong parentage of the Promoter, Cyient Ltd:

Promoter like Cyient Ltd is a well-established company with a market Cap of ₹ 16k Cr gives the company a significant advantages and a strong competitive edge from the sectoral expertise. Their association with the 'Cyient' brand and the domain experience of their promoter gives them an advantage in attracting talent, corporate governance practices, and together with their promoter's design team, allows them to offer a larger value proposition on the 'design, build and maintain' value chain. Their end-to-end capabilities, backed by the design capabilities as well as the heritage of their promoter of over 3 decades provides them with an edge over their competitors, and has enhanced their B2S capabilities, differentiating them from their competition.

Ability to provide integrated engineering solutions:

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. As their Ability to provide integrated engineering solutions with strong capabilities across the product value chain to their clients in one industry to another, thereby bringing in a significant value addition to their clients.

High Entry Barriers for competitors:

Company's clients are engaged in industries such as aerospace, defence, 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 plus their ability to provide end-to-end solutions which leads to higher customer engagement. Due to Technical Expertise and capabilities in safety critical electronics in highly regulated industries gives company competitive advantage and strong edge which makes it difficult to replicate. 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 specialised sectors such as aerospace and defence, 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.

Strong book with marquee customers:

Cyient DLM has an industry leading order book amounting to ₹ 2,432.55 cr as of March 31, 2023 with 35 customers and a pipeline of prospective projects for which the contracts are currently at various stages of negotiation. Marquee clients like Honeywell International Inc., ABB Inc, Bharat Electronics, Thales global, Molbio Diagnostics are with company for long time. 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 the clients have a term ranging between 3 years and more than 15 years.

Shareholding (No. of shares)

Pre-Issue	5,69,41,471
Post Issue (Lower price band)	8,06,59,768
Post Issue (Higher price band)	7,93,15,055

Shareholding Pattern

Promoters:

Pre Issue	92.84
Post Issue	66.65

Promoters Group:

Pre Issue	0
Post Issue	0

Public - Other Selling S/h:

Pre Issue	7.16
Post Issue	5.14

Public - Others:

Pre Issue	0
Post Issue	28.21

Issue Breakup

QIB	75%
NIB	15%
Retail	10%

Risk

- High concentration by Top-10 customers in Order Book
- High competitive sector with pressure on margins
- Third party suppliers for raw materials and components

Other Details

BRLMs: Axis Capital, JM Financial

Registrar: Kfin Technologies Ltd

Listing: BSE & NSE

Research Analyst

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MView

We believe Cyient DLM is well placed as an end-to-end integrated EMS and solutions provider for both B2P and B2S services across the EMS value chain. With a stronger promoter "Cyient Ltd" gives the company a parentage backup advantage and healthy competitive edge in EMS business and build relationships with clientele for longer term between 3 years to 15 years which gives a long term visibility and stable order flow in future. We like the business model highly focused on aerospace, defence followed by stronger presence in medical technology and industrial verticals, which helps Cyient DLM with certain key factors which are difficult to replicate and remain competitive in the space. On valuation parse at upper band of ₹ 265 the issue is asking a Market Cap of ₹ 2102 Cr and based on FY23 earnings, P/E stands at 66x which means the issue is reasonably priced when compared to its listed peers which are trading in the range of 35x to 95x such as Syrma SGS Technology, Kaynes Technology, DCX Systems and Avalon Technology. Based on the EMS industry demand and growth in the recent performance, the issue draws lot of attention due to promoter's parentage backup, hence considering Industrial and Companies growth rationales, we recommend investors "Subscribe" to Cyient DLM IPO offer for long term perspective and with the improved market sentiments if we get any listing gains over and above 25%, we recommend allotted investors to book profits.

CONSOLIDATED FINANCIAL TABLES

BASIC FINANCIAL DETAILS

Particulars ₹ (in Cr)	2021	2022	2023
Equity Share Capital	1.37	1.37	52.87
Reserves as stated	36.29	75.75	145.01
Net worth as stated	37.65	77.11	197.87
Revenue from Operations	628.03	720.53	832.03
Revenue Growth (%)	-	14.73%	15.47%
EBITDA as stated	45.94	84.04	84.04
Profit Before Tax	15.6	50.73	43.16
Net Profit for the period	11.81	39.8	31.73
EPS (₹)	4.8	16.17	7.75
RONW%	31.38%	51.61%	16.03%
NAV (₹)	15.3	31.34	48.33

Source: Company RHP

COMPARISON WITH LISTED INDUSTRY PEERS RS (IN CR)

Companies	Consolidated/ Standalone	Mcap (in Cr)	FV	Revenue from operation (as at march 2023)	EPS	NAV	P/E	P/Bv	RONW
Cyient DLM Ltd	Consolidated	2102	10	832.03	7.75	48.33	-	-	16.03%
Syrma SGS Technology Ltd	Consolidated	7671	10	2092.14	7.59	87.13	139	4.96	11.60%
Kaynes Technology India Ltd	Consolidated	8500	10	1137.51	19.84	164.95	91.97	9.09	13.14
DCX Systems Ltd	Consolidated	2488	10	1283.18	8.44	58.59	35.43	4.47	15.13%

Date as on 31st March 2022, Cline Mcap,PE,P/BV calculated as on 26-06-2023



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Msearch's Recommendation (Absolute Performance) Buy: > 20% within the next 12 Months

Accumulate: 5% to 20% within the next 12 Months Sell : < -20% within the next 12 Months

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