

Rating: Subscribe for Listing gains

Issue Offer

Fresh Issue of 22,339,623 equity shares upto INR 5,920 Mn taking the total issue size at INR 5,920 Mn.

Issue Summary

Price Band (INR)	250-265
Face Value (INR)	10
Implied Market Cap (INR Mn)	21,009
Market Lot	56
Issue Opens on	June 27, 2023
Issue Close on	June 30, 2023
No. of share pre-issue	5,69,41,471
No. of share post issue	7,92,81,094
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	≥ 75
NIB Portion	≤ 15
Retail Portion	≤ 10

Book Running Lead Managers

JM Financial
Axis Capital

Registrar

KFin Technologies Limited

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	92.84%	66.68%
Public & Others	7.16%	33.32%

Objects of the issue

- Funding incremental working capital requirements of the Company
- Funding capital expenditure of the Company
- Repayment/prepayment, in part or full, of certain of the borrowings.
- Achieving inorganic growth through acquisitions
- General corporate purposes

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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. The solutions primarily comprise manufacturing Printed circuit board (“PCB”) assembly (“PCBA”), Cable harnesses, and box builds which are used in safety-critical systems such as cockpits, inflight systems, landing systems, and medical diagnostic equipment, which they provide to their clients as B2P or B2S services.

Investment Rationale

Strong supply chain and extensive manufacturing infrastructure allow the business to offer customers high-quality, integrated end-to-end solutions:

With a total manufacturing area of 229,061 sq. ft., the company's facilities are located in two states and three Indian cities are Mysuru, Hyderabad, and Bengaluru. A supply chain control tower and visualization tool is used to manage, monitor, and integrate the supply chain process electronically. This solution combines the company's ERP data and provides real-time tracking, allowing for a quicker reaction to changes in demand and supply.

Strong and industry-leading order book with marquee clients who have long-standing ties with the business as their preferred partner:

The company focuses on helping customers meet their needs in all areas including cost, productivity, product reliability, and time to market. This combined with the company's high standards of delivery and outstanding performance has allowed them to attract, mentor, develop, and expand relationships with a wide range of distinguished clients, from start-ups to industry leaders. The Company's customers include ABB, Honeywell, BEL, Thales Global, and Molbio Diagnostics. The company has an industry-leading backlog of INR 24,325mn as of FY23.

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

As one of the few EMS providers in India, the business presents a considerable barrier to entry for new competitors because it provides electronics solutions for safety and mission-critical applications in highly regulated sectors. Their client interaction begins early in the product life cycle, right from the design phase, which also increases consumer stickiness. Sectoral competence, the high level of complexity of the solutions offered and the products made, the capacity to offer end-to-end solutions, and client trust are the main aspects that are challenging to replicate.

Valuation and View: Cyient DLM has a strong order book of INR 24,325mn (2.9x of FY23 revenue) and a long-standing business relationship with customers shows business visibility going forward. The current EBITDA margins are around 10%-11% and margins are expected to be the same going forward. The company intends to expand its geographical footprint, particularly in North America. The company focused on exploring opportunities in OSAT services, with such diversification and augmentation to improve the profitability by enhancing margins, and significantly increase the visibility of the brand. At the upper band of INR 265, the issue is valued at a PE of 34.2x based on FY23 EPS. We are recommending “Subscribe for Listing gains” for this issue.

Company's Business Snapshot

Particular	Details
Products	<p>PCB Assembly PCB assembly is the process of connecting electronic components onto PCBs. Components are placed onto the footprints or inserted into the via holes and soldered to complete the electronic circuitry.</p> <p>Cable Harnesses Cable harnesses solutions involve the process of assembly of electrical cables or wires. The company's cable harnesses solutions are also accredited by NADCAP (National Aerospace and Defense Contractors Accreditation Program).</p> <p>Box Builds These are 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.</p>
Product-wise Contribution	<p>FY23 revenue contribution</p> <ul style="list-style-type: none"> • PCB Assembly - 62.6% • Cable Harnesses - 1.37% • Box Builds - 32.4 % • Others - 3.6%
Industry-wise Contribution	<p>FY23 revenue contribution</p> <ul style="list-style-type: none"> • Aerospace contributed- 20% • Defence- 37.6% • Medical Technology- 16.2% • Industrial- 25% • Others- 1%
Service Delivery Model	<p>Build to Specification (B2S): In the B2S model, the client provide with its requirements and specifications for the product or project, which the Promoter's design team designs and the company proceeds to develop based on such requirements and specifications. In this model, the company offers engineering design and build services, from concept to qualification, with system-level ownership in the respective domains.</p> <p>Key products and projects</p> <ul style="list-style-type: none"> • Cargo door control units • USB drives <p>Build to Print (B2P): In B2P model, the design for the project is provided by the client, and the company manufacture's the product based on the provided design and according to the customer's specifications. Typically, the customer provides the bill of materials and drawings, and the company is responsible for producing the part to the specifications defined by the customer.</p> <p>Key products and projects :-</p> <ul style="list-style-type: none"> • Natural gas analyzers – flow monitoring systems used in oil and gas applications • Airport lighting switch system circuit card assembly • Magnetic resonance (MR) system • Cockpit electronics
Key Customers	<p>Aerospace and defence - Honeywell International Inc., Thales Global Services S.A.S and Bharat Electronics Limited</p> <p>Medical technology - Molbio Diagnostics Private Limited</p> <p>Industrial - ABB Inc</p> <p>Others - Thales Global Services S.A.S</p>

Source: Company Reports, Arihant Capital Research

Key Strategies

Key Strategies	Details
Strengthening the core capabilities across focus industries and building scale	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. The company also seeks to build scale and undertake strategic projects to augment the order book, including by leveraging opportunities across the product value chain. In addition, the company also aims to enhance the profitability by increasing share in the market for complex industries and by taking on more B2S contracts.
Expanding inorganically to increase geographic footprint	Through inorganic expansion in key geographies, particularly North America. By creating a presence in the North American region, the company aims to build greater geographical proximity with some of the key clients. This will allow the company to build on existing relationships with them and also allow the company to work on more strategic projects with their clients in the key industry sectors, which require closer geographical proximity.
Strengthening the supply chain ecosystem and building on operational efficiency	The company aims to increase the focus on digitalization and automation, by way of (i) process automation across the line to strengthen manufacturing, (ii) reduce lead time through value stream mapping and (iii) digitizing the facilities by implementing Industry 4.0 tools across all functions to generate enhanced visibility of the production processes
Enhancing capabilities in after-market services and value-added services, and exploring new adjacencies	This will help strengthen the offering to the clients and act as a further differentiator with respect to the competitors. As a part of after-market capabilities, the company will focus on strengthening the repair and maintenance and sustenance engineering capabilities for the clients, as well as enhance value added services such as reverse engineering, value engineering and design upgrades etc.

Source: Company Reports, Arianth Capital Research

Key Risks

Key Risks	Details
Business Concentrated on few customers	The business is dependent on the sale of the products to certain key customers. The top 10 customers constituted 91.08% of the total revenue from operations in FY23. The loss of any of the key customers or loss of revenue from sales to the customers or any defaults or delays in payment by a significant portion of any customers could have an adverse effect on the business, results of operations, financial condition and cash flows.
Order book concerns	The order book of INR 24,325mn may not be indicative of the future growth rate or new business orders the company will receive in the future. Further, the company may not realize all of the revenue expected from the order book.
High Dependency on Promoters	The company is dependent on the Promoter and the management team and key personnel, and the loss of any key team member may adversely affect the business performance. The company is also dependent on Promoter's design team for providing design services to the customers, which enables them to be an integrated EMS and solutions provider.
Large amount of revenue from a single product	A significant portion of the revenue from operations is derived from B2P solutions, and from the manufacture and sale of PCBAs. In FY23, 99.80% of the total revenue from operations was from B2P solutions. Further, 62.62% of the total revenue from operations was from the manufacture and sale of PCBAs in FY23. Any decrease in the sales of PCBAs or in the volume of B2P orders will adversely affect the business, results of operations, financial condition and cash flows.
Material cost affecting profitability	The cost of materials consumed constituted 79.75% of the total expenses in FY23. The profitability is dependent on the inventory costs. Failure to manage the inventory costs may have an adverse effect on the business.

Source: Company Reports, Arianth Capital Research

Key Managerial Personnel	Details
Rajendra Velagapudi	Rajendra Velagapudi is the Managing Director of the company. He holds a bachelor's degree in technology (Mechanical) from Faculty of Engineering, Nagarjuna University, a master's degree of engineering in automobile engineering from Anna University, Madras and degree of master of science in design of rotating mechanics from School of Mechanical Engineering, Cranfield University. Prior to joining the Company, he worked with Ford Truck Manufacturing Division, Simpsons Co. Ltd. for a period of two years, Bajaj Tempo Limited and Bharat Earth Movers Limited for a period of over eight years. He was appointed to the Board of Directors with effect from April 25, 2017.
Ganesh Venkat Krishna Bodanapu	Ganesh Venkat Krishna Bodanapu is a Chairman, Non-Executive & Non-Independent Director of the company. He holds a bachelor's degree of science in electrical engineering from Purdue University and a master's degree in business administration from the J.L Kellogg School of Management, Northwestern University. He has been associated with the Promoter since 2003 and currently is the managing director and chief executive officer of the Promoter. He was appointed to the Board of Directors with effect from February 4, 2015. .
Anthony Montalbano	Anthony Montalbano is the Chief Executive Officer and Business Head of the company. He holds a bachelor's degree of arts from Western Washington University and master's degree of business administration from UCLA. Prior to joining the company, he as associated with Flex, USA for a period of 10 years, HCL America Inc. and Wipro Limited. During Financial Year 2023, he received a remuneration of INR 36.14 million
Shrinivas Appaji Kulkarni	Shrinivas Appaji Kulkarni is the Chief Financial Officer of the company. He holds a bachelor's degree in science from Karnatak University, Dharwad and diploma in business finance from the Institute of Chartered Financial Analysts of India. He is an associate member of Institute of Cost Accountants of India. He was previously associated with Ind- Telesoft Private Limited, Intel Corporation, Intel India Private Limited, EMC Software and Service India Private Limited and Sasken Communication Technologies Ltd. He joined the Company on January 2, 2023. During Financial Year 2023, he received a remuneration of INR 3.98 million.
Ram Dornala	Ram Dornala is the Senior Vice President and Chief Operating Officer of the company. He holds a bachelor's of engineering, mechanical engineering from Faculty of Engineering, Osmania University, Hyderabad, India and master's degree of science in engineering (industrial) from Western Michigan University. Prior to joining the company, he as associated with Jabil Circuit, San Francisco, USA for a period of 20 years and Wistron Technology Service (America) Corporation. He joined the company on January 2, 2023. During Financial Year 2023, he received a remuneration of INR 44.65 million.
Joseph Crowley	Joseph Crowley is the Senior Vice President, Sales of the company. He holds a bachelor's degree of arts from Saint Anslem College, Manchester and a postgraduate diploma in leadership from Emeritus, Singapore. He was previously associated with Celestica Corporation for over eight years and venture Electronics Incorporation, Inc. for over seven years. He joined the company on January 2, 2023. He joined the company on January 2, 2023. During Financial Year 2023, he received a remuneration of INR 22.16 million.

Source: Company Reports, Aриhant Capital Research

Peer Comparison

Company	Market Share (%)	Services offered	Focus end-user segments
Cyient DLM Ltd	0.50%	Electronics, electrical and mechanical design Test system design Printed circuit board assembly Cable and wire harness assembly Testing Electronic repair services Precision machining	Aerospace & Defence Medical Energy & Industrial Rail Transport
SFO Technologies Pvt. Ltd.	1.10%	Hardware Design Services Hardware Testing & certification Software Services Software Testing Manufacturing Services Testing & Certification	Healthcare/Medical Diagnostics Automobile/Transportation Communications Aerospace & Defence Energy & Industrial
Centum Electronics Ltd.	0.50%	Electronics equipment design Embedded software Engineering services Manufacturing services Aftersales services	Aerospace Space Defence Communications Industry & Energy Medical/healthcare Transportation Automotive
Syrma SGS Technology Ltd.	0.70%	Product Design Prototyping Product Assembly Quality & Testing Supply & Logistics After market	Industrial Consumer Electronics Automotive Computer/IT Healthcare/Medical Railways
Avalon Technology Ltd.	0.60%	PCBA Design & Assembly Wire Harnesses, Magnetics Electro-Mechanical Integration Sheet Metal Fabrication Aerospace metal Injection Moulded Plastics Product testing Complete system integration	Industrial (Power & Automation) Communications (5G, satellite, Digital Infra.) Mobility (Air, Rail, Automotive) Clean Energy (EV, Solar, Hydrogen)
Kaynes Technology India Ltd.	0.50%	Product design & engineering OEM & ODM IoT Solutions Cable harness Automated testing Third Party repairs	Automotive Power, Energy, Industrial Automotive Aerospace, Defence Healthcare/Medical Railways IT & Telecom Consumer
VVDN Technologies Pvt. Ltd.	0.80%	Embedded Product Design and Manufacturing Hardware Design Software Design Mechanical Design QA & Testing Prototyping	Communications (5G, Networking & Wi-Fi, VISION, IoT, Cloud & apps)
DCX Systems Ltd.	0.80%	Supplying Cables assemblies/ Harness assemblies and Electro-Mechanical assemblies Subsystems, System integration & Testing PCBA manufacturing Maintenance-Repair-Overhauling (MRO) Lifetime product support	Defence (Aerospace, Land & Naval Defence systems, Satellite & Civil Aviation) Industrial Electronics Medical Electronics

Source: Company reports, Arihant Capital Research

Peer Comparison

Company	Operating Revenue (INR mn)				Material margin (%)				EBITDA margin (%)			
	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23
Cyient DLM	4,571	6,280	7,205	8,320	20.2%	21.1%	24.5%	22.0%	3.0%	7.3%	11.7%	10.6%
SFO Technologies	17,890	16,593	NA	NA	35.8%	38.2%	NA	NA	11.3%	9.5%	NA	NA
Centum Electronics	8,833	8,174	7,799	9,230	59.7%	57.7%	61.3%	55.0%	9.9%	10.8%	1.2%	8.4%
Syrma SGS Technology	3,971	4,383	10,197	20,484	43.5%	36.5%	29.7%	25.6%	15.6%	10.7%	9.3%	9.2%
Avalon Technologies	6,419	6,905	8,407	9,447	35.9%	34.0%	34.1%	35.8%	10.0%	9.6%	14.0%	11.9%
Kaynes Technology India	3,682	4,206	7,063	11,261	34.4%	32.0%	30.7%	30.7%	11.2%	9.7%	13.3%	14.9%
VVDN Technologies	3,091	6,628	11,718	NA	66.6%	49.8%	45.1%	NA	-6.4%	11.3%	11.0%	NA
DCX Systems	4,493	6,412	11,023	12,536	9.2%	3.5%	9.2%	10.7%	1.4%	1.6%	6.1%	6.7%

Source: Company reports, Arianth Capital Research

Company	Net margin (%)				ROE (%)				ROCE (%)			
	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23	FY20	FY21	FY22	FY23
Cyient DLM	-1.5%	1.9%	5.5%	3.8%	-22.1%	37.3%	69.4%	23.1%	3.3%	11.5%	17.6%	13.5%
SFO Technologies	4.2%	2.3%	NA	NA	14.1%	6.4%	NA	NA	18.1%	13.0%	NA	NA
Centum Electronics	1.9%	1.5%	-6.9%	0.7%	7.1%	5.2%	-24.5%	3.4%	11.1%	8.0%	-5.0%	7.7%
Syrma SGS Technology	11.1%	7.3%	5.6%	6.0%	51.9%	18.8%	13.7%	11.6%	31.4%	13.5%	10.9%	10.4%
Avalon Technologies	1.9%	3.3%	8.5%	5.6%	265.6%	145.8%	115.3%	16.9%	21.7%	16.3%	27.2%	12.3%
Kaynes Technology India	2.5%	2.3%	5.9%	8.5%	9.5%	8.0%	24.4%	16.4%	13.6%	12.1%	21.5%	14.5%
VVDN Technologies	-5.4%	6.5%	6.5%	NA	-20.9%	45.6%	29.5%	NA	-5.7%	16.0%	17.6%	NA
DCX Systems	2.2%	4.6%	6.0%	5.7%	78.9%	92.4%	79.9%	20.9%	13.8%	27.1%	14.0%	10.4%

Source: Company reports, Arianth Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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