Stock Note

Cyient DLM Ltd.

Feb 12, 2024

RETAILRESEARCH

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Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Industrial Products	Rs. 775.60	Buy in the Rs 768-784 band & add more on dips to Rs. 687-701 band	Rs. 845	Rs. 905	2-3 quarters

HDFC Scrip Code	CYIDLMEQNR
BSE Code	543933
NSE Code	CYIENTDLM
Bloomberg	CYIENTDL IN
CMP Feb 09, 2024	775.60
Equity Capital (Rs cr)	79.3
Face Value (Rs)	10.0
Equity Share O/S (cr)	7.9
Market Cap (Rs cr)	6151.0
Book Value (Rs)	112.2
Avg. 52 Wk Volumes	770,309
52 Week High	799.0
52 Week Low	401.0

Share holding Pattern % (Dec, 2023)	
Promoters	66.7
Institutions	17.5
Non Institutions	15.8
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

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 a product. It has over 22 years of experience in developing high mix, low-to-medium volume highly complex systems. The company has been 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 a contract manufacturing setup which typically has a very high emphasis on quality and customization which changes according to the requirements of the customer.

Cyient DLM's order book stood at Rs 2,295 crore in Q3FY24, down 2.4% YoY and up slightly on QoQ basis. Order intake in the quarter stood at US$ 41.9 mn, the highest in the last nine months. In addition, the company won a US$10 mn deal from an existing defence sector client, which is to be spread over 3-4 years. The current order book, is on an average, executable in the next 12-18 months, and the book-to-bill ratio has come down, compared to last year. The company has witnessed a strong pipeline, and conversion of the same could augment the order book.

Overall, the aerospace industry has been witnessing strong growth due to ongoing upgrades and geopolitical challenges, necessitating higher defence spending globally, through which the Indian EMS sector stands to gain. Medium term revenue growth will be led by a strong order book supported by regular orders from existing clients and new orders from overseas clients. We expect revenue to grow by 37% and 31% in FY25E and FY26E respectively, driven by strong execution of orders with available capacities at Cyient DLM's plants which along with improved fixed cost absorption should support EBITDA margins at ~11% levels while maintaining healthy working capital levels.

Valuation & Recommendation:

Cyient DLM's parentage, long-term relations with clients and differentiated capabilities in key higher growth areas are expected to keep Cyient DLM on a higher growth path than its peers. The company could maintain its sustainable growth momentum, led by strong order book, healthy order inflows and strong parentage. We expect Q4FY24 to witness the strong topline growth and ensure a better margin. Its established track record, large manufacturing capacities, robust order book with healthy order prospect and strong financial profile led by zero debt, attractive return ratio and better profitability could make us positive view towards the stock.

We feel investors can buy the stock in the Rs 768-784 band & add more on dips to Rs. 687-701 band (34.5x FY26E EPS) for the base target of Rs. 845 (42x FY26E EPS) and bull case target of Rs. 905 (45x FY26E EPS) over the next two to three quarters. The stock is currently trading at 38.6x EPS.

Financial Summary (Consolidated)

Particulars (Rs Cr)	Q3FY24	Q3FY23	YoY-%	Q2FY24	QoQ-%	FY22	FY23	FY24E	FY25E	FY26E
Total Operating Income	321	214	49.7	292	10.0	721	832	1,181	1,616	2,112
EBITDA	29	21	42.7	24	25.0	84	88	110	164	232
Depreciation	6	5	22.6	5	5.1	19	19	21	23	24
Other Income	9	0	-4538.1	9	0.4	8	6	24	22	21
Interest Cost	8	8	-1.9	8	9.4	22	32	29	23	15
Tax	6	2	303.2	5	22.3	11	11	21	36	55
RPAT	18	6	222.9	15	26.0	40	32	62	105	159
APAT	18	6	222.9	15	26.0	40	32	62	105	159
Diluted EPS (Rs)	2.3	0.7	222.9	1.8	26.0	5.0	4.0	7.8	13.2	20.1
RoE-%						69.3	23.1	10.7	10.4	13.9
P/E (x)						154.6	193.9	99.4	58.7	38.6
EV/EBITDA (x)						75.8	72.2	51.7	34.5	24.0

(Source: Company, HDFC sec)

Q3FY24 Result Review

- Revenue from operations stood at Rs 321 crore in Q3FY24, registering a growth of 49.7% YoY and profit before tax soared to Rs 24.7 crore during the quarter ended 31 December 2023 as against Rs 7.3 crore posted in the same quarter last year.
- Total expenses in Q3FY24 stood at Rs 305.7 crore, up 47.7% on YoY basis. Cost of materials consumed stood at Rs 261.4 crore (up 60.7% YoY) while employee benefits expenses came in at Rs 30.6 crore (up 116.9% YoY) during the quarter.
- Its EBITDA grew 42.7% YoY to Rs 29.4 crore. EBITDA margin reduced to 9.2% in Q3FY24 as compared to 9.6% registered in Q3 FY23.
- The order book stood at Rs 2,294.9 crore in the quarter ended 31 December 2023 as against Rs 2,351.3 crore posted in the same period previous year.

Key Business Initiatives in Q3FY24

- Inaugurated new precision machining facility in Bangalore with 36,000 sq ft of manufacturing area. Elevated the capacity to 180K hours pa
- New facility identified in Mysore for the growth in medical and industrial sectors
- Hyderabad & Mysore produced highest revenue in Q3FY24. Several audits including NADCAP in progress for additional business in Hyderabad
- Supply Chain Optimization in progress through automation. New Leader on boarded in Q3FY24.

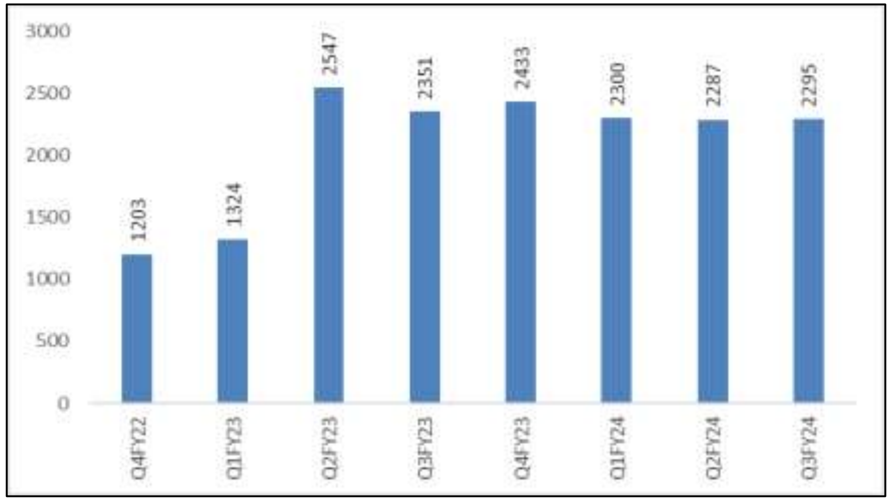
Recent Triggers

Strong order book brings better earning visibility going forward

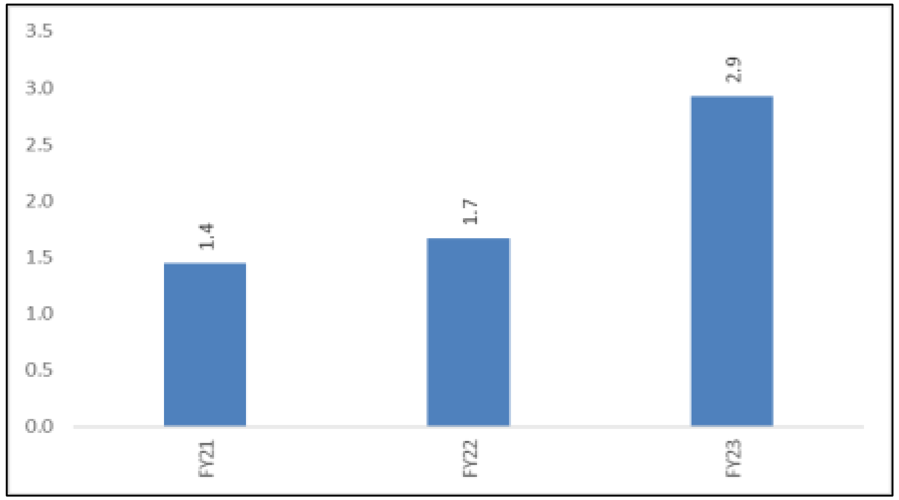
Cyient DLM's order book stood at Rs 2,295 crore in Q3FY24, down 2.4% YoY and up slightly on QoQ basis. Order intake in the quarter stood at US$ 41.9 mn, the highest in the last nine months. In addition, the company won a US$10 mn deal from an existing defence sector client, which is to be spread over 3-4 years. The current order book, is on an average, executable in the next 12-18 months, and the book-to-bill ratio has come down, compared to last year. The order book as of end of March 2023 stood strong at Rs 2433 crore. The order book, which is industry leading, is to be executed over the next 24-30 months. The company has witnessed a strong pipeline, and conversion of the same could augment the order book.

The company plans to on-board a new client in Q4FY24. Further, the bulk of this order book is made up of aerospace and defence sectors, where margins on the ongoing projects are low. The company does not expect the revenue mix to change drastically in FY25E.

Order book (Rs in Cr)

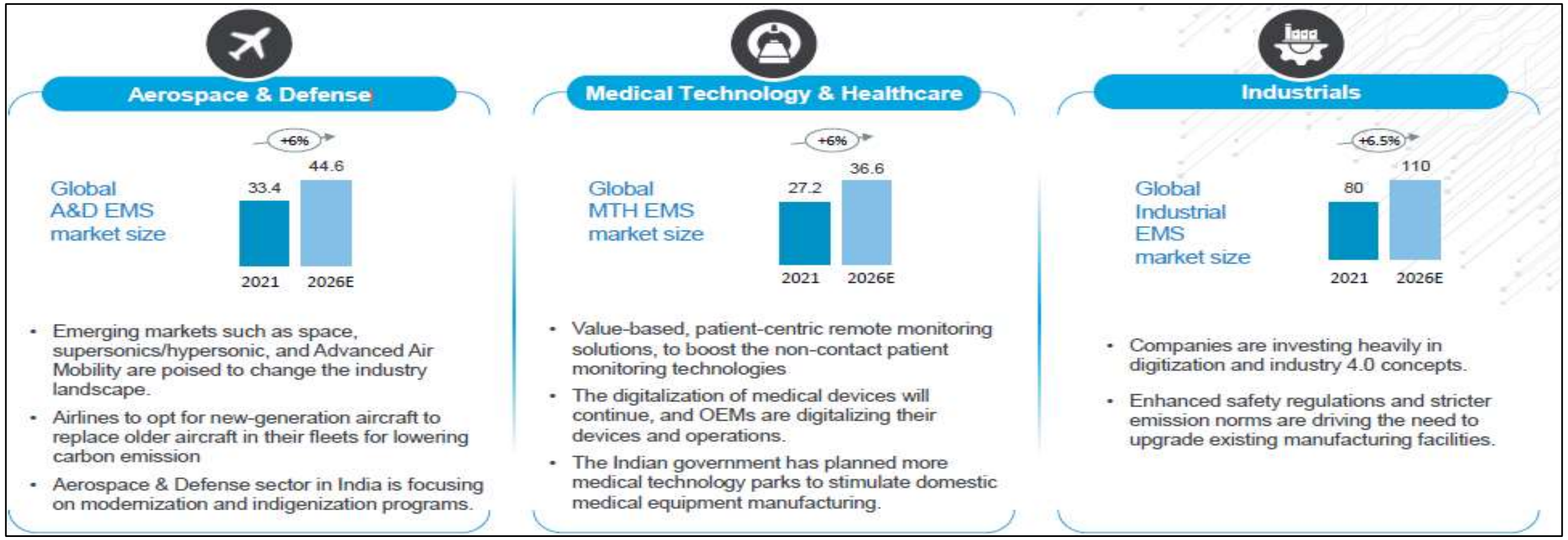


Book to Bill ratio(x)



(Source: Company, HDFC sec)

Sectoral Trends



Cyient Growth Plan

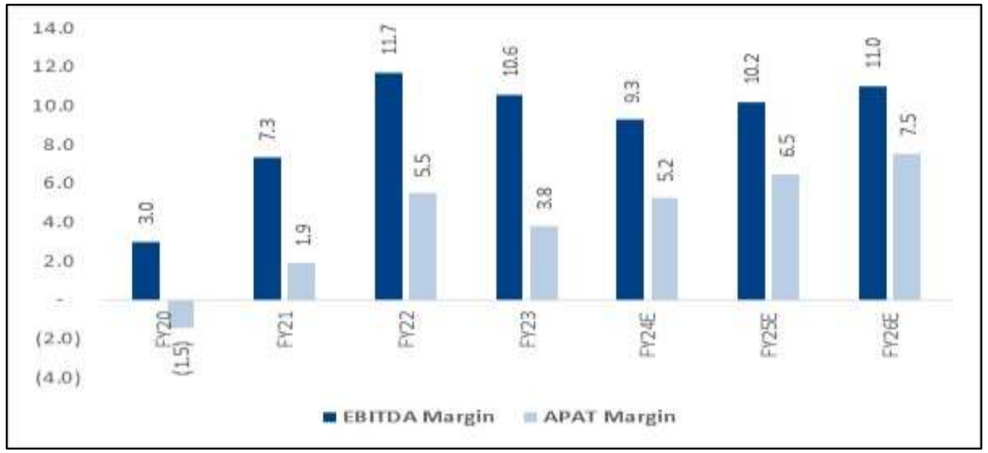
(Source: Company, HDFC sec)

Margins could be stable supported by better product mix and employee cost efficiency

Cyient DLM maintained double digit EBITDA margin at 10.6% in FY23, compared to 11.7% in FY22 impacted by higher employee cost and one-off acquisition related expenses. However, cost optimisation, favourable product mix led to healthy margins of the design-led manufacturing (DLM) segment. Raw material costs have increased over the last three quarters on YoY basis. EBITDA margin decreased by 40 bps YoY to 9.2% in Q3FY24. This decrease can be attributed to a rise in employee expenses (stood at ~9.5% of sales vs. ~6.6% in 3QFY23). This increase was led by the company's continued investments in SG&A (strengthening management team by hiring of CXOs) and additional expenses related to ESOPs.

Despite, expectation of higher raw material cost in next two to three years, lower employees cost and other expenses than previous years could help to maintain margin stability going forward. The company has completed its investments in SG&A and expects margin ramp up from the next quarter. The operating margin of Cyient DLM is expected to improve with 100-150bps in the consolidated services margins, with sustenance of cost optimisation and volume benefits. Cyient DLM, on increased synergies with Cyient's core design services, is expected to show growth trajectory over the medium term. We expect EBITDA margin at 9.3%/ 10.2%/11% and PAT margin at 5.2%/6.5%/7.5% for FY24E/FY25E/FY26E, respectively.

Margins-%



(Source: Company, HDFC sec)

Long term Triggers

Diversified and well positioned in integrated engineering solutions with capabilities across the product value chain

- Cyient DLM is a leading electronics system design and manufacturing player, which provides system design, integration, testing and manufacturing of electronic components and subsystems for original equipment manufacturers (OEMs) in the aerospace and defence sectors and other high-tech engineering segments.

- 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 customers.
- The company is well-positioned to deliver solutions to customers across the entire product lifecycle. The company also provides design through the design team and, manufacturing, testing and certification support to ensure that the customers' products meet robust standards in reliability, safety and performance.
- The company works with clients from the conceptualisation and design stage and support their manufacturing needs. Its expertise across multiple industries provides cross-pollinate best practices from a client in one industry to another, thereby bringing in a significant value addition to the clients.
- The company provides end to end manufacturing services that allows clients to reduce the need to manage multiple suppliers and stakeholder management across the journey. This allows clients to introduce products to market in a timely manner.

Long standing relationship with large clients

- Cyient DLM enjoys 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.
- The company provides services across the product life cycle for clients by acting as an integrated service provider, the company can support their manufacturing and after-market services needs, as well as their design needs by leveraging Promoter's design team.
- As a strategic partner to clients across highly regulated industries, the company enjoys long-term relationships with high customer stickiness and a high proportion of repeat business, which allows revenue visibility on future revenue and a stable client base.

Customers Contribution-%

%	FY21	FY22	FY23
ABB Inc	6.87	10.91	21.57
Bharat Electronics Limited	13.81	15.07	10.66
Honeywell International Inc.	8.6	7.47	8.98
Thales Global Services S.A.S	10.18	9.62	12.57
Molbio Diagnostics Private Limited	16.42	7.15	2.89

Manufacturing infrastructure, stringent quality, strong parental support and robust supply chain

- Cyient DLM's operations are currently undertaken through 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.

- Mysuru has 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.
- 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 non-defence industries, such as medical technology and healthcare.
- Bengaluru facility has a manufacturing area of 12,200 sq. ft. and focused on producing high-precision, low-volume mechanical manufacturing products and is equipped with milling, drilling, turning and grinding machines. Some of the items manufactured include, body valves, hinges, elbow adaptors, assemblies like bracket assembly, lanyard assembly and hinge arm locking assembly etc.
- The company has a workforce of 656 qualified and skilled manufacturing personnel as on March 31, 2023, which is further supported by a new product introduction (NPI) and engineering team of a total of 67 persons as on March 31, 2023 and provide value added services like design for assembly, design for manufacturing, design for testing, design for packaging, and process engineering.
- Cyient Ltd is promoter of Cyient DLM, holding 66.7% holding as on Dec 31, 2023, Cyient is an IT services company, offering niche product and process engineering services in diverse domains, such as transportation, connectivity, sustainability as well as new growth areas. Cyient's revenue grew by 33% YoY in FY23 to Rs 3,465 crore and 24% YoY growth in 9MFY24 in the services segment with strong support from the acquisitions done last year. The operating efficiency of Cyient is healthy and comparable to other tier-II IT service providers. Aided by acquisitions, recovery in product development spending by clients across sectors, stronger deal wins following revival of end-market demand globally and healthy customer additions, the revenue is expected to grow by 14-16% in FY24E. Cyient maintains a high benchmark for its core design services business, considering the incremental growth opportunities, specific skills, and domain expertise. However, Cyient mostly has long-term contracts under this vertical, leading to stable revenue. Over the medium term, Cyient targets to deliver complete engineering solutions to the end customer through Cyient DLM.

Expanding inorganically to reach new geographies and target new clients

- Cyient has customers in India, Europe, North America, China and Japan. The company has a diversified clientele, with the top five customers contributing 68% to revenue.
- Cyient DLM is planning to expand its geographical footprint, including by way of inorganic expansion in key geographies, particularly North America. By creating a presence in the North American region, the company plans to build greater geographical proximity with some of its key clients. This will also help to build its relationships with the existing clients and also working on more strategic projects with clients, which require closer geographical proximity.
- The company is planning to acquire new strategic clients in the industries and strengthen its capabilities in specific areas. The company is focused on strengthening its existing capabilities in high-mix low-volume solutions in safety-critical electronics for the

aerospace and defence, medical and industrial sectors, including in PCBAs, cable harnesses, box builds, sub-system/system assembly, testing services, re-engineering and aftermarket services.

- By strengthening its capabilities, the company could serve its existing customers as well as attract new customers, in addition to augmenting revenues, improving cost controls and increasing profitability. Its enhanced capabilities could meet the potential demand for India and global opportunities.

Experienced management and key appointments in Q3FY24 to strengthen the operational efficiency

- With an average of over seven years in the EMS industry, Cyient DLM's board is supplemented by professional management team, with an average of over 20 years of industry experience. Its senior management team including Managing Director, Rajendra Velagapudi, Chief Executive Officer and Business Head, Anthony Montalbano, Senior Vice President and Chief Operating Officer, Ram Dornala and Chief Financial Officer, Shrinivas Appaji Kulkarni.
- Cyient DLM approved the appointment of Kaushal Jadia as chief technology officer (CTO) and Makarand (Mak) Vyas, Head Supply Chain Management of the company. Kushal Jadia has over 30 years of experience and prior to joining Cyient DLM, Kaushal Jadia was with Cyient airbus defense and space for six years and led the captive engineering center for Airbus DS in Bangalore and was also the CTO for the joint venture between Airbus DS and Larsen & Toubro ('L&T Cassidian'). Mak has over 30 years of experience in Design, Engineering & Supply Chain Management. Prior to joining DLM, he worked at Jabil Circuit, Hutchinson Technology, General Motors & Transpek Industry.
- The company's experienced and dedicated management team also enables to capture market opportunities, formulate and execute business strategies, manage customer expectations and proactively address changes in market conditions.

Robust financial profile led by healthy profitability supported by cost control measures and return ratio

- Cyient DLM's financial profile remains strong because of healthy profitability and return indicators, zero debt, superior liquidity and strong debt coverage metrics. The company reported revenue CAGR over FY18 to FY23 at ~17%, and net profit has been volatile over the past, the company had reported net loss in FY18 to FY20 and reported net profit CAGR of ~64% over the FY21 to FY23. We expect, the company could report revenue CAGR at ~36% and ~71% PAT CAGR over the FY23 to FY26E.
- The company is continuously working on opportunities for maximizing profitability. Various optimization and technological measures are being taken for resource utilization and keeping costs under control. The company reported operating profit margin at a range of 7.3%/11.7%/10.6% in FY21/FY22/FY23, respectively.
- Cyient DLM has met its entire working capital requirement through debt as well as internal accruals over the last 5 years. The company has also sufficient liquidity with healthy cash and bank balance of about Rs 564 crore as on Sept 30, 2023.

- Cyient DLM is debt free company on net basis and liquidity profile is superior, supported by comfortable cash flow from operations, which are expected to be adequate to meet the capital expenditure outlay. Cyient DLM continues to scout for strategic acquisitions to grow its business and employ surplus liquidity efficiently.
- We do not expect dividend outflows in next three years. Besides, the company continues to invest on capex at ~Rs 50 crore in FY24E.
- The company expects to see decline in inventory and receivables days in Q4FY24 and net working capital could come down to ~100 days in the short term and ~90 days in the medium term.
- Cyient DLM had to take a term loan in the current quarter. As a result, finance costs escalated higher than anticipated. The company management expects it to come down next quarter.
- A large chunk of the top-line growth has been invested by the company in SG&A (Selling, General and Administrative Expenses) to retain the growth momentum. SG&A and employee costs are expected to remain elevated in FY25E as well.
- Cyient DLM expects to increase margins going forward and return ratio is expected to increase accordingly.

What could go wrong?

- Stiff competition across all segments of business with domestic and global players could impact its trend of order inflows.
- Cyient DLM’s working capital intensity had remained elevated in the past due to high receivables and unbilled revenues on account of long gestation periods for the orders executed. Its large variety of materials required for the final product, despite large customer advances. Besides, the company has high inventory holding period and high receivable period as the company maintains order book with wide client profile with varied requirements, it has to maintain inventory catering to all those orders.
- The company’s cost of procuring raw materials and various components accounts for bulk of the production cost, fluctuation in the prices of raw materials may drastically impact profitability.
- Decline in business performance, owing to delay in ramp-up of new capacity or absence of high margin order book, could lead to fall in operating margins to below 6%.
- The company imports raw materials for its various products and forex fluctuations also will have an impact on profitability though impact of forex fluctuations is usually covered in the contracts with customers.
- The company has customers in India, Europe, North America, China and Japan, any geo political issue and macro uncertainty across these geographies could impact its revenue visibility.
- The company has a diversified clientele, with the top five customers contributing 68% to the revenue and top 10 with 91% to the revenue, as on March 31, 2023. Cyient DLM’s business depends on the client’s financial performance and timeliness of execution.

- Due to continuous change in the business, geo political and external environment, the company is exposed to a variety of risks which are dynamic in nature besides, slowdown and reduced spending in the industries in which customers of the company operate.
- Delay, shortage, interruption, reduction in the supply of or volatility in the prices of raw materials including electronics components such as semi-conductors may affect the operations of the company.
- The capacity utilization of the Mysuru and Hyderabad facility in FY23 for PCBA was 38.43% and 7.61%, respectively, which is lower in comparison to other manufacturing companies. In FY23 about 90.75% of its total revenue from operations was contributed by its Mysuru facility.
- Change in support stance of parent, Cyient and stake sale by parent company could impact investors sentiment towards the stock.

About the company

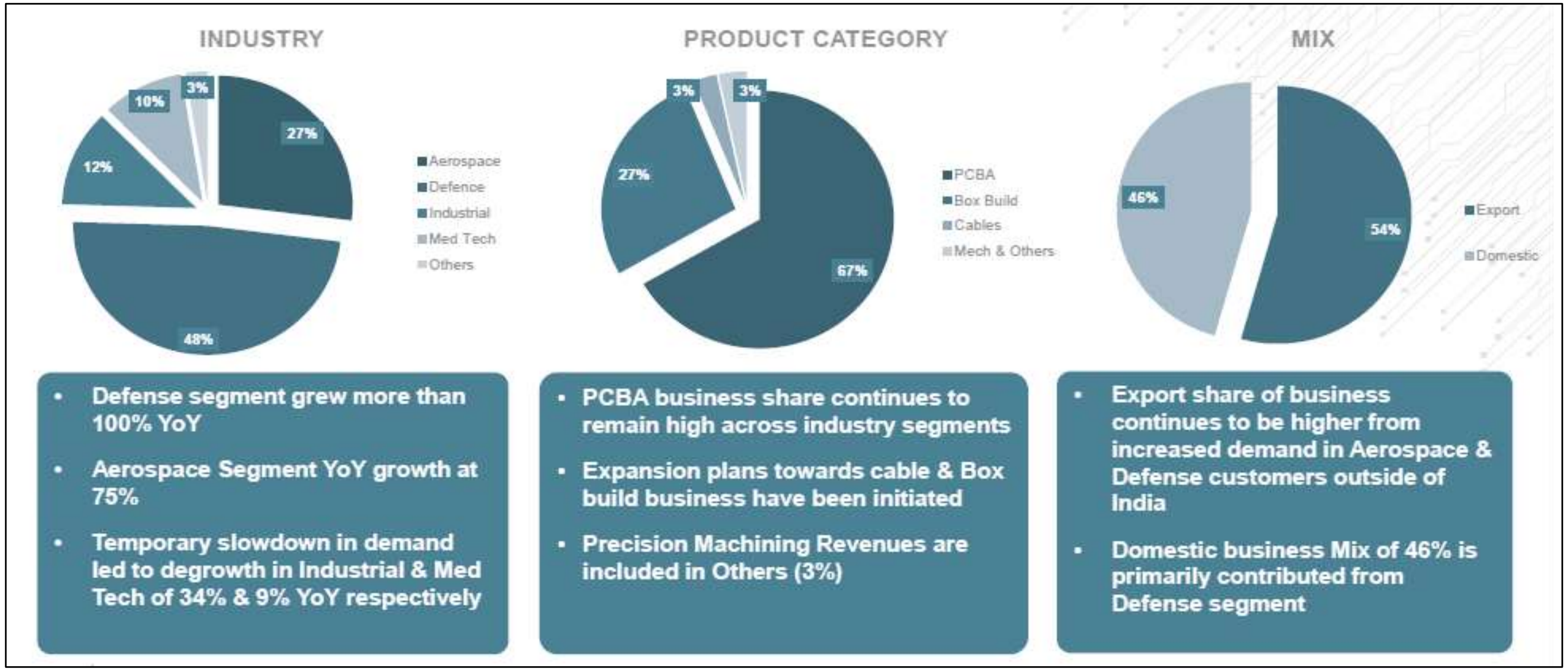
Cyient DLM is a subsidiary company of Cyient Ltd, and the company is one of the leading integrated Electronic Manufacturing Services (“EMS”) and solutions providers with capabilities across the value chain and the entire life cycle of a product with over 22 years of experience in developing high mix, low-to-medium volume highly complex systems. The company has been 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 a contract manufacturing setup which typically has a very high emphasis on quality and customization which changes according to the requirements of the customer.

Solutions offered by the company 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. In FY23 about 62.6% of revenue come from PCBA, 1.4% from cable harnesses, 32.4% from box builds and balance 3.6% from others.

The company’s Promoter, Cyient Ltd, a leading engineering services provider with over three decades of domain expertise providing engineering and design solutions globally with a focus on multiple industries. Electronic Manufacturing Services are provided as Build to Print (“B2P”) and Build to Specification (“B2S”) services to clients. B2P solutions provides the design for the product to the client for agile and flexible manufacturing services. B2S services involve utilizing the Promoter’s design capabilities to design the relevant product based on the specifications provided by the client and manufacturing the product. In FY23 about 99.8% of revenue comes from B2P. The company proposes to strengthen its B2S value proposition by investing in design capabilities to enhance its value addition and increase ownership in its engagements.

Business Overview

Revenue Mix (Q3FY24)-%



(Source: Company, HDFC sec)

Industry Overview

The global EMS market is traditionally comprised of companies that manufacture electronic products, predominantly assembling components on Printed Circuit Boards (PCBs) and box builds for OEMs. Today OEMs are seeing more value from EMS companies, leading to involvement beyond just manufacturing services to product design and development, testing, and aftersales services (repair, remanufacturing, marketing, and product lifecycle management).

EMS companies are equipped to provide a gamut of services which include design, assembly, manufacturing, and testing of electronic components for OEMs. EMS companies can be contracted at different points in the manufacturing process.

GLOBAL EMS INDUSTRY TRENDS

(Source: Company, HDFC sec)

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: 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**.**

Peers Comparison

Particulars, Rs in Cr	Mkt Cap	Sales			EBITDA			PAT			RoE-%			P/E-x		
		FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Syrma SGS#	9101	2996	4205	5656	213	331	469	127	191	283	8.1	11.0	14.3	72.7	47.7	32.3
Kaynes Tech#	18558	1754	2578	3629	257	384	561	173	251	357	12.4	13.5	15.7	102.5	70.6	49.9
Cyient DLM	6151	1181	1616	2112	110	164	232	62	105	159	10.7	10.4	13.9	99.4	58.7	38.6
Avalon Tech#	3157	914	1180	1500	73	126	181	36	79	116	6.4	12.7	15.9	81.5	37.7	25.7

Bloomberg Consensus Estimates

(Source: Company, HDFC sec)

HDFC securities Click. Invest. Grow. 20 YEARS

Financials – Consolidated

Income Statement

(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	**721**	**832**	**1181**	**1616**	**2112**
Growth (%)	14.7	15.5	42.0	36.8	30.7
Operating Expenses	636	744	1071	1452	1880
EBITDA	**84**	**88**	**110**	**164**	**232**
Growth (%)	**82.9**	**4.5**	**25.1**	**49.3**	**41.6**
EBITDA Margin (%)	**11.7**	**10.6**	**9.3**	**10.2**	**11.0**
Depreciation	19	19	21	23	24
EBIT	**65**	**68**	**89**	**141**	**208**
Other Income	8	6	24	22	21
Interest expenses	22	32	29	23	15
PBT	**51**	**43**	**83**	**141**	**214**
Tax	11	11	21	36	55
RPAT	**40**	**32**	**62**	**105**	**159**
APAT	**40**	**32**	**62**	**105**	**159**
Growth (%)	236.5	-20.3	95.0	69.4	52.2
EPS	5.0	4.0	7.8	13.2	20.1

Balance Sheet

As at March, Rs Cr	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	1	53	79	79	79
Reserves	76	145	880	984	1144
Shareholders' Funds	**77**	**198**	**959**	**1064**	**1223**
Long Term Debt	137	136	126	101	71
Net Deferred Taxes	-4	-5	-5	-6	-7
Long Term Provisions & Others	43	26	35	45	59
Minority Interest	**0**	**0**	**0**	**0**	**0**
Total Source of Funds	**254**	**354**	**1115**	**1203**	**1345**
APPLICATION OF FUNDS					
Net Block & Goodwill	172	161	194	214	238
CWIP	3	1	1	2	2
Other Non-Current Assets	6	97	88	72	58
Total Non Current Assets	**181**	**260**	**283**	**288**	**298**
Current Investments	0	0	0	0	0
Inventories	270	425	550	664	781
Trade Receivables	152	162	227	310	405
Cash & Equivalents	122	168	795	740	739
Other Current Assets	48	85	94	96	101
Total Current Assets	**592**	**840**	**1666**	**1810**	**2026**
Short-Term Borrowings	200	220	200	150	100
Trade Payables	192	285	388	487	608
Other Current Liab & Provisions	127	239	245	258	270
Total Current Liabilities	**519**	**745**	**834**	**895**	**978**
Net Current Assets	**73**	**95**	**832**	**915**	**1048**
Total Application of Funds	**254**	**354**	**1115**	**1203**	**1345**

(Source: Company, HDFC sec)

Cash Flow Statement

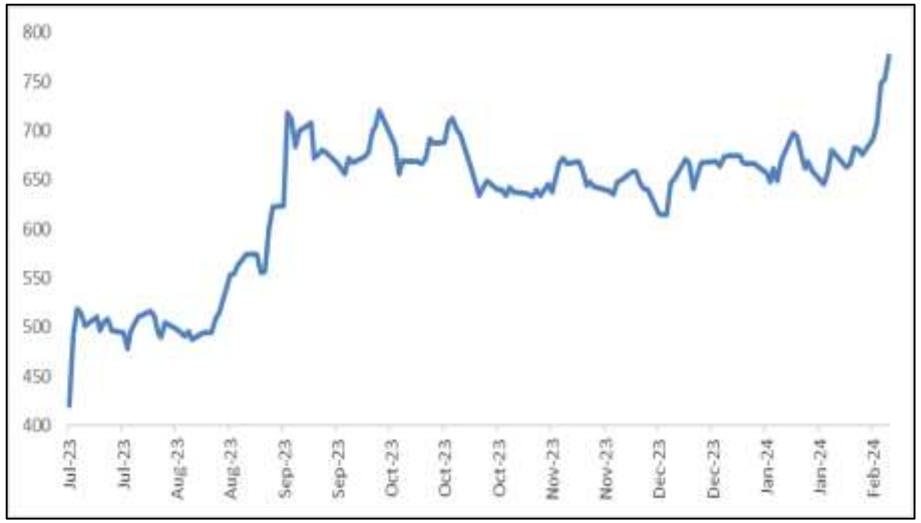
(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	40	32	83	141	214
Non-operating & EO items	11	14	-24	-22	-21
Interest Expenses	17	27	29	23	15
Depreciation	19	19	21	23	24
Working Capital Change	-33	-23	-89	-89	-84
Tax Paid	-6	-17	-21	-36	-55
OPERATING CASH FLOW (a)	**49**	**52**	**-1**	**39**	**94**
Capex	-8	-8	-40	-35	-35
Free Cash Flow	41	45	-41	4	59
Investments	0	-89	9	16	13
Non-operating income	-25	-45	24	22	22
INVESTING CASH FLOW (b)	**-32**	**-142**	**-7**	**3**	**0**
Debt Issuance / (Repaid)	59	6	-30	-75	-80
Interest Expenses	-7	-14	-29	-23	-15
FCFE	93	36	-100	-93	-36
Share Capital Issuance	0	89	695	0	0
Dividend	0	0	0	0	0
Other	-6	-6	0	0	0
FINANCING CASH FLOW (c)	**46**	**74**	**636**	**-98**	**-95**
NET CASH FLOW (a+b+c)	**62**	**-16**	**628**	**-55**	**-1**

Key Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Profitability Ratio (%)					
EBITDA Margin	11.7	10.6	9.3	10.2	11.0
EBIT Margin	9.0	8.2	7.5	8.8	9.9
APAT Margin	5.5	3.8	5.2	6.5	7.5
RoE	69.3	23.1	10.7	10.4	13.9
RoCE	14.6	9.7	17.0	21.2	26.3
Solvency Ratio (x)					
Net Debt/EBITDA	2.6	2.1	-4.3	-3.0	-2.4
Net D/E	2.8	1.0	-0.5	-0.5	-0.5
PER SHARE DATA (Rs)					
EPS	5.0	4.0	7.8	13.2	20.1
CEPS	7.4	6.4	10.5	16.1	23.1
Dividend	0.0	0.0	0.0	0.0	0.0
BV	9.7	25.0	120.9	134.1	154.2
Turnover Ratios (days)					
Debtor days	77	71	70	70	70
Inventory days	137	186	170	150	135
Creditors days	98	125	120	110	105
VALUATION (x)					
P/E	154.6	193.9	99.4	58.7	38.6
P/BV	79.8	31.1	6.4	5.8	5.0
EV/EBITDA	75.8	72.2	51.7	34.5	24.0
EV / Revenues	8.8	7.6	4.8	3.5	2.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

(Source: Company, HDFC sec)

Price Chart (Since Listing)



(Source: Company, HDFC sec)

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

ABDUL KARIM

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