IPO Note

June 26, 2023

Cyient DLM Limited

HDFC securities
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Issue Snapshot:
Issue Open: Jun 27 – Jun 30, 2023

Price Band: Rs. 250 – 265 (Discount of Rs 15 for Employee)

*Issue Size: 22,339,623 eq sh (including Employee reservation of Rs. 15.0 cr)

Reservation for:

QIB	atleast	75% eq sh
Non-Institutional	upto	15% eq sh
((including 1/3rd for applications between Rs.2 lakhs to Rs.10 lakhs))		
Retail	upto	10% eq sh

Face Value: Rs 10

Book value: Rs 48.33 (March 31, 2023)

Bid size: - 56 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs.	56.94 cr
*Post issue Equity:	Rs.	79.28 cr

Listing: BSE & NSE

Book Running Lead Managers: Axis Capital Limited, JM Financial Limited

Sponsor Bank: Axis Bank Ltd & HDFC Bank Ltd

Registrar to issue: KFin Technologies Limited

Shareholding Pattern

Shareholding Pattern	**Pre issue %**	**Post issue %**
Promoter and Promoter Group	92.84	66.68
Public & Employee	7.16	33.32
Total	100.0	100.0

*=assuming issue subscribed at higher band

Background & Operations:

Cyeint DLM Limited (CDL) 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. It 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 a contract manufacturing setup which typically has a very high emphasis on quality and customization which changes according to the requirements of the customer.

CDL leverage the design capabilities of its Promoter, Cyient Limited, a leading engineering services provider with over three decades of domain expertise providing engineering and design solutions globally with a focus on multiple industries. Its Electronic Manufacturing Services are provided as Build to Print ("**B2P**") and Build to Specification ("**B2S**") services to its clients. Its B2P solutions involve its client providing the design for the product for which it provides agile and flexible manufacturing services. Its B2S services involve utilising its Promoter's design capabilities to design the relevant product based on the specifications provided by the client and manufacturing the product. Its 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 equipment.

Manufacturing infrastructure of CDL comprises three facilities spread across two states in India, at Mysuru, Hyderabad and Bengaluru, with a total manufacturing area of 229,061 sq. ft. Its Mysuru facility has a 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. Its 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. Its Bengaluru facility has a manufacturing area of 12,200 sq. ft. and is focused on high-precision manufacturing. Further, it 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, which helps it support its clients on technical aspects and provide value added services like design for assembly, design for manufacturing, design for testing, design for packaging, and process engineering to its clients. The Company's NPI capabilities are dedicated towards supporting seamless product introduction for its customers, through to market launch, and assisting them optimize the time to market for a new product. CDL has a diversified Board with an average of over seven years in the EMS industry, which is supplemented by its professional management team, with an average of over 20 years of industry experience.

Objects of Issue:

The Company proposes to utilise the Net Proceeds towards funding the following objects:

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

Further, CDL proposes to utilise the proceeds of the Pre-IPO Placement towards general corporate purposes. In addition, CDL expects to receive the benefits of listing of the Equity Shares on the Stock Exchanges, including enhancement of its brand name and creation of a public market for its Equity Shares in India.

Utilisation of Net Proceeds
The Net Proceeds are proposed to be utilised in the following manner:

Particulars (In Rs million)	Amount
Funding incremental working capital requirements of the Company	2910.90
Funding capital expenditure of the Company	435.72
Repayment/prepayment, in part or full, of certain of its borrowings;	1609.11
Achieving inorganic growth through acquisitions; and	700.0
General corporate purposes	*
Total	*

Competitive Strengths

Ability to provide integrated engineering solutions with capabilities across the product value chain: CDL 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 its customers, it provides design through the design team of its Promoter and, manufacturing, testing and certification support to ensure that its customers' products meet robust standards in reliability, safety and performance. It is well-positioned to deliver solutions to its customers across the entire product lifecycle. Its engineers have significant expertise which helps it build and supply complex products to its customers in a timely manner. Its capabilities allow it to act as a strategic partner to clients helping them through their journey on product introduction. CDL's expertise across multiple industries allows it to cross-pollinate best practices from a client in one industry to another, thereby bringing in a significant value addition to its clients. The Company's ability to provide end to end manufacturing services 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.

High entry barriers for competitors due to technical expertise, capabilities in safety-critical electronics in highly regulated industries and customer engagement: CDL's position as one of the few EMS companies in India offering electronics solutions for safety and mission-critical applications in highly regulated industries acts as a significant entry barrier to new entrants. Its clients are primarily engaged in industries such as aerospace and defence, medical technology and industrials which are typically highly regulated industries. Its 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 commenced its operations by manufacturing simple PCBAs for its customers for use in simple systems such as temperature transmitters, switching devices, airport lighting systems and other low complexity aerospace and industrial products, and subsequently evolved its capabilities to manufacturing complex PCBs for safety-critical applications, cable harnesses and box builds to large assemblies. CDL 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 its relationships with its customers over the years. It enjoys several competitive advantages and capabilities, which, together with its 22 years of experience in the EMS industry, it had undertaken gives it an edge and also provides with certain key factors which are difficult to replicate.

CDL'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 it 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. High capital requirement and strict regulations are the key barriers preventing companies from entering these sectors. Further, low-volume, high-mix products involve high complexity and are safety critical with high entry barriers.

Robust and industry leading order book with marquee customers, with whom CDL enjoy sustained and long-standing relationships as their preferred partner: CDL has built a diverse customer base with marquee clients over 22 years of its presence in the EMS industry. Its strategic partnership model with its customers has accelerated its growth and allowed to enjoy a position of an industry leader in the EMS sector. It also focuses on assisting customers meet their requirements across the spectrum of their engagement with it, including in terms of cost, productivity, product reliability and low time to market. This, together with its high delivery standards and performance excellence, has enabled it to acquire, service and deepen and lengthen its relationship with diverse range of high-level clients ranging from startups to industry leaders. The Company has an industry leading order book amounting to Rs. 24,325.47 million as of March 31, 2023 and a pipeline of prospective projects for which the contracts are currently at various stages of negotiation. It has consciously focused on reducing the long tail of customers by focusing on growing its business and relationships with strategic and marquee customers. CDL's long-term contracts with its clients have a term ranging between three years and more than 15 years.

Manufacturing infrastructure, stringent quality, diverse in-house capabilities and robust supply chain, enabling to provide high quality end-to end integrated solutions to the customers: CDL's operations are currently undertaken through its 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. Its Mysuru and Hyderabad facilities are focused on electronics manufacturing processes including PCBA, cable harnesses and box builds, which closely align with its core competence in electronics systems, integration and manufacturing services, and are equipped with surface mount assembly (SMT) lines, printed through hole (PTH) assembly lines, X-ray inspection systems, in-circuit testers, flying probe testers, boundary scan testers, functional testers, environmental stress screening (ESS) chambers, HASS and HALT machines, vibration testers and other advanced equipment. Its Bengaluru facility is focused on producing high-precision, low-volume mechanical manufacturing products and is equipped with milling, drilling, turning and grinding machines.

CDL has stringent quality systems and processes which enable it to meet the rigorous and complex requirements of its customers within the stipulated timelines and provide it with its track record of reliability. Further, it is also entitled to certain tax benefits since its Hyderabad facility is located in a special economic zone. Its manufacturing processes are also subject to regular inspections conducted by its customers. Its supply chain process is electronically managed, monitored and interconnected by way of a supply chain control tower and visualisation tool. This tool integrates the ERP data of the Company and allows real-time tracking that enables faster response to demand changes and supply disruptions.

CDL also has systems in place for counterfeit parts management, obsolescence management, material requirement planning, procurement, engineering, quality management and execution. As at March 30, 2023, it had over 776 active vendors of raw materials, with over 63.27% of them from outside India. It has long term relationships with authorised distributors or vendors, and has multiple vendors for particular components rather than relying on single sources for each part in order to de-risk itself from supply chain problems. This also allows it to ensure availability for its raw materials as well as enables it to secure the best possible prices. It also does warehousing for some of its customers in a warehouse at Tulsa, Oklahoma, USA, which is strategically located to reduce its time to market for its customers in the USA.

Parentage of Promoter, Cyient Limited, and a long history of industry expertise, an experienced Board and senior management team: CDL has derived significant advantages and a competitive edge from the sectoral expertise of its Promoter, which was named as a Rising Star in Managed Services by the Information Services Group and was named in the 'Leadership zone' across aerospace, telecommunication, semiconductors, industrial, and medical devices verticals. Cyient has also been rated as an Expansive-Established player in Digital Engineering and ER&D Services – USA region by Zinnov Zones. 'Cyient' is a brand associated with global engineering capabilities, quality of service and reliability. Its end-to-end capabilities, backed by the design capabilities as well as the heritage of its Promoter of over three decades provides it with an edge over its competitors, and has enhanced CDL's B2S capabilities, differentiating it from its competition. In addition, it is led by its diversified Board with an average of over seven years in the EMS industry, which is supplemented by its professional management team with an average of over 20 years of industry experience. CDL's leadership team is supported by a workforce of 656 full time employees and 361 contract workers and a NPI and engineering team of 67 persons as on the March 31, 2023, and an enhanced in-house quality control system team, in addition to Cyient Limited's design team. Further, its sales team has over 15 years of experience across the EMS and engineering services industries.

Business Strategy:

Strengthening core capabilities across focus industries and building scale: CDL intends to continue to strengthen its capabilities across the focus industries by continuing to strengthen and expand its existing relationships with current clients and by acquiring more strategic clients across focus industries. 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 seeks to continue to strengthen its presence across the aerospace and defence, medical technology and industrials verticals, including by strengthening existing relationships with key clients and targeting major OEMs globally to build scale across its businesses. With an increasing adoption of technologies like artificial intelligence and machine learning, and the high degree of electronification which is likely to result therefrom, it aims to leverage the arising opportunities and further deepen and strengthen its relationships with existing customers, and also offer its existing solutions to new customers. CDL also seeks to build scale and undertake strategic projects to augment its order book, including by leveraging opportunities across the product value chain. In addition, it also aims to enhance its profitability by increasing its share in the market for complex industries and by taking on more B2S contracts.

The Indian manufacturing sector's contribution has increased from 16% to over 18% in the last 10 years, which has been driven by initiatives like 'Make in India' and other sector-specific initiatives. CDL aims to benefit from such incentives through its expansion for electronics manufacturing.

Strengthen B2S value proposititon by investing in design capabilities to enhance value addition and increase ownership in engagements: CDL intends to invest in design and enhance its engineering capabilities by strengthening its engineering team, establishing independent design capabilities and building up competence to further bolster its B2S capabilities and bringing in more domain knowledge and expertise in relation to the industries it cater to. Only very few players are involved in B2S process contributing to around 25% of the total EMS market in India. It also seeks to further leverage the design team of Cyient Limited to provide a more diverse range of solutions to its customers, as well as target additional customers through a broader array of solutions. Its plans to set up its own design competency and continue to build upon engineering competency will enable CDL to increase its current mix of B2S services, and retain its position as one of the leading Indian EMS companies with the breadth of capabilities operating in the contract manufacturing space for high mix safety-critical electronics.

Expanding inorganically to increase geographic footprint and proximity with clients, further strengthen capabilities and gain access to target customers: CDL intends 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, it aims to build greater geographical proximity with some of its key clients. This will allow it to build on its existing relationships with them and also allows it to work on more strategic projects with its clients in the key industry sectors it cater to, which require closer geographical proximity. It also seeks to benefit from the local ecosystem in the North American region. CDL will also aim to acquire new strategic clients in the industries it focuses on and strengthen its capabilities in specific areas. It also aims to focus 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.

Strengthening supply chain ecosystem and building on operational efficiency: CDL intends to further enhance the efficiency of its manufacturing operations. To this end, it seeks to leverage the increasing automation in the industry, strengthen its operations and program management teams to focus on better client management and creating stronger client touch points, better understand client requirements and build relationships. It also aims to increase its 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 its facilities by implementing Industry 4.0 tools across all functions to generate enhanced visibility of its production processes, which will result in increased operational efficiency and allow it to provide more agility and flexibility to its customers. The Company also aims to further strengthen its supply chain ecosystem, including by price management and order management in respect of the raw materials it obtain.

Further enhancing capabilities in after-market services and value-added services, and exploring new adjacencies: To further enhance CDL's capabilities and its customer stickiness, it intends to expand its capabilities across key adjacencies like after-market services and select value-added services. This will help strengthen its offering to its clients and act as a further differentiator with respect to its competitors. As a part of after-market capabilities, CDL will focus on strengthening its repair and maintenance and sustenance engineering capabilities for its clients, as well as enhance value added services such as reverse engineering, value engineering and design upgrades etc. The global chip supply shortage intensified in 2021 after the COVID-19 pandemic, as major companies across industries have failed to meet the rising demand for electronic goods and components. It intends on leveraging this to further explore opportunities in OSAT services.

Industry:

Global Electronics Manufacturing Services (EMS) Industry and Outlook

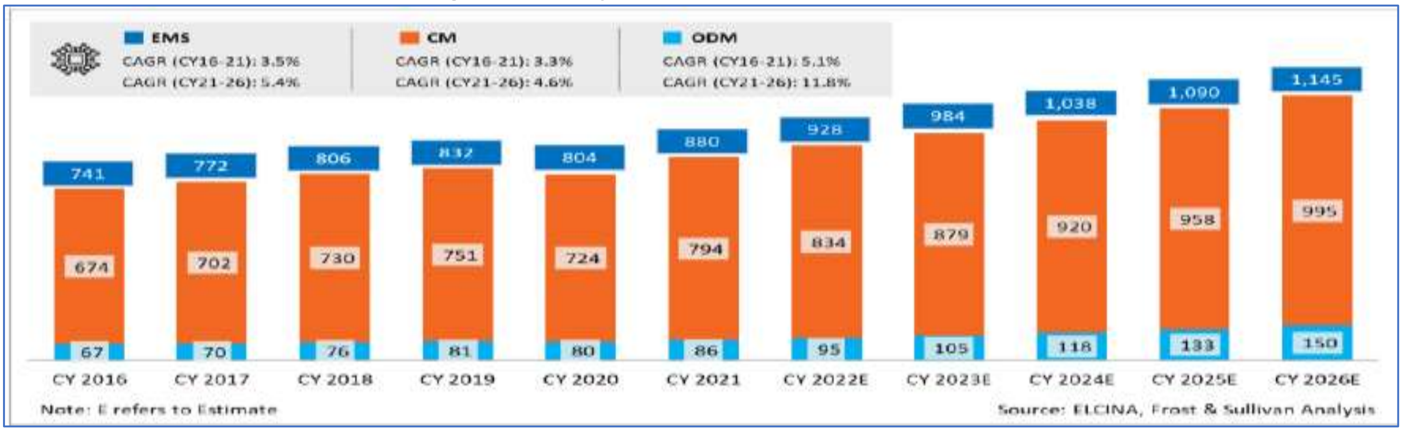
The global EMS market witnessed a period of steady growth till 2018, riding on the wave of increased outsourcing activities from brand manufacturers and increasing electronics content. There are obvious inherent economic benefits to outsourcing. There is no denying the fact that manufacturing outsourcing has seen a steady uptrend over the past couple of decades. With clear benefits in terms of production efficiency, reduced overhead, labour costs, and faster new product introductions, OEMs today continue to collaborate with

EMSs to develop their products. In addition, OEMs are also increasingly moving product design and development processes, to EMS partners.

Global EMS industry market size, value in USD billion, CY2016-CY2026E

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).

Global EMS market – Segmentation by ODM vs CM, value in USD billion, CY2021 and CY2026E



Constantly increasing logistics and raw material costs are resulting in a rise in total manufacturing costs, which serves as a catalyst for the OEMs to choose the ODM model and provide an end-to-end solution, including product design and after-sales support, owing to higher margins and increased visibility. Established supply chains aid in reducing lead times, which has a substantial positive effect on the profitability of ODMs. Additionally, ODM offers to collaborate with the OEMs on product localization and design. The ODM companies have versatile capabilities in system designs, plastic moulding, PCBA, software engineering, and more. Instead of investing in R&D, new entrants or Tier-II players collaborate with ODMs to select and develop specific models from existing models to enter the market. The secondary benefit for ODMs from such collaborations is the improvement of capabilities to handle fresh clients.

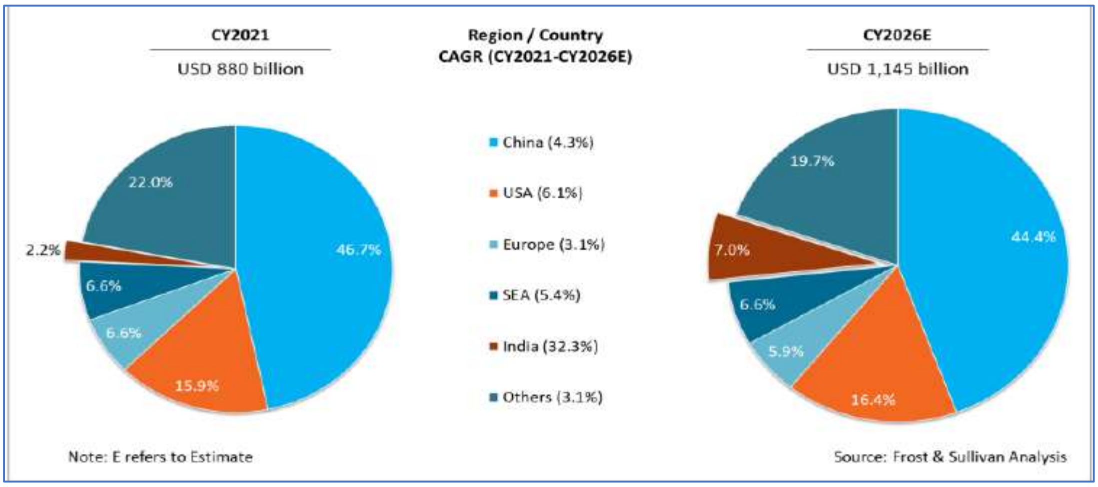
Global EMS market - Segmentation by HVLM vs LVHM, value in USD billion, CY2021 and CY2026E

High volume, low mix (HVLM): This is typically a contract manufacturing setup where only a few types of assemblies are produced in large quantities. This technique generally allows changes to be kept at a minimum and the equipment utilization rate significantly high. Contract manufacturers are proven to be more efficient when running at high volumes and require minimal engineering intervention. Most global MNC firms work in the HVLM space catering to the needs of mobiles, computer peripherals, consumer devices and storage devices. This also means that this business requires large-scale deployment of resources and supply chain arrangements.

Low Volume, High Mix (LVHM): This type of contract manufacturing typically has a very high emphasis on quality and customization which changes according to the requirements of the customer. Considering that their products have high margins, even major changes in market dynamics do not heavily impact the production process. OEMs that prefer such solutions prefer to pay higher prices without compromising on quality.

Most companies in the LVHM space cater to the needs of industrial, medical, aerospace, and defence applications. Due to the nature of the operations, their scale is limited, and they face high component costs and limited bargaining power. LVHM products involve high complexity and are safety critical with high entry barriers. Continuously rising capex investment in the industrial, medical, and A&D sectors, which are the key contributors to LVHM, will drive this segment to grow at a faster pace than HVLM. Due to the high level of complexity in the LVHM category, the customers of an EMS partner would be reluctant to source similar solutions from other competitors.

Global EMS market - Segmentation by the manufacturing locations, value in USD billion, split in %, CY2021 and CY2026E



China leads the global EMS business with a 46.7% share in 2021. It is a global leader due to operational cost benefits, availability of a large number of highly skilled personnel, infrastructure, logistical advantages, and proximity to the largest end-user base across all end-user verticals. However, many global electronics manufacturers are now contemplating on China + 1 strategy and looking for alternate manufacturing locations for exports, creating tremendous investment potential for countries like Vietnam, India, and the Philippines etc.

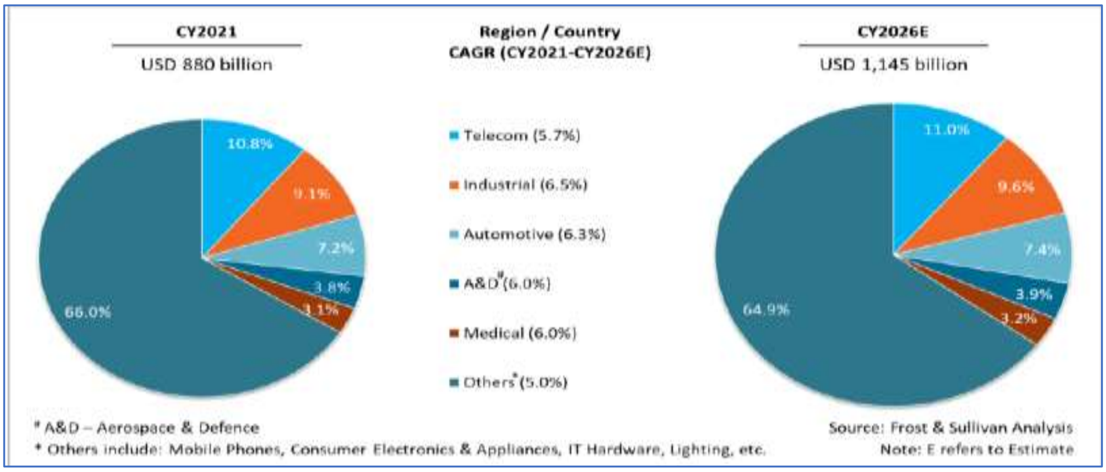
North America is a leader in adopting next-generation technologies and devices. In the next five years, demand for EMS will be driven by a rise in electronic device demand, a well-established EMS infrastructure, and evolving government policies that encourage local production. The EMS industry is poised for a robust growth over the next five years. The EMS market in the United States was around USD 140 billion in CY2021, and it is expected to grow at a CAGR of 6.1% to USD 188 billion by CY2026. The electronics manufacturing industry in North America has benefited from skilled labour force, advanced technology, and pro-business policies. Within North America, the United States (US) leads this industry in terms of total market share, followed by Mexico and Canada. The US remains very attractive for the low- to medium-volume and complex electronics product manufacturing, predominantly in the medical, telecom, IT, automotive, industrial, and military/aerospace divisions. In particular, the U.S. electronics manufacturing sector is an important intermediary supplier for other key industries. Mexico is an important location for low-cost manufacturing, which results in a high proportion of assembly revenue being exported.

The India EMS is a sizeable industry, contributing to 2.2% (USD 20 billion) of the global EMS market in CY2022. India’s EMS industry is the fastest growing among all countries at a CAGR of 32.3% and is expected to contribute 7.0% (USD 80 billion) of the global EMS market in CY2026. There continues to be a strong push from the government to make India an ideal location for Electronics manufacturing in the region.

EMS market segmentation by end-user industries

Aerospace and Defence (A&D) is a relatively small but key revenue-contributing segment. OEMs perceive EMS providers as strategic solution partners, as it gives them an average savings of 10% to 15%. The outlook for the aerospace and defence industry is optimistic. In the next few years, apart from cost, A&D OEMs will consider EMS providers' expertise in advanced technologies as a key partnership factor in boosting EMS revenue. Key trends that will drive new opportunity in this sector include digital thread and smart factory driving efficiencies, defence contracts building advanced military capabilities (like the ongoing US government support for the National Defence Strategy will likely keep defence spending stable), growth in the space in key areas like the launch industry, satellite trends, etc.

Global EMS market - Segmentation by end-user industries, value in USD billion, split in %, CY2021 and CY2026E



Medical is a key revenue opportunity segment in the EMS market. Business is expected to boom in the medical device industry's electronic manufacturing services (EMS) segment. This is largely thanks to advanced technologies such as the Internet of Things (IoT), wireless, and artificial intelligence (AI). The other factor is that medical device manufacturers have been asked to speed up innovations and adopt newer more unfamiliar technologies without putting the quality into any kind of risk and without cutting corners.

Industrial electronics is another important market, which is primarily divided into power and automation. Leading manufacturers are adding new applications to their portfolio by partnering with niche application providers. With the emergence of new applications, there are several opportunities for power electronic devices such as transformers, chokes, and inductors. Many electronics applications are concerned with the control and operation of heavy machinery. The worldwide actuators market is expected to grow due to their efficient operation, low maintenance, and other factors, and a sudden surge in demand coming from the automation sector.

Telecom segment includes telecom infrastructure and networking equipments. Wireless technology in the last few years is growing tremendously. There are rapid expansions in mobile network coverage which has managed to reach even the remotest of areas. There is also an increase in demand which eventually leads to decreasing in charges that are incurred for using data. The increasing use of satellites used for connectivity is also a key factor driving this market forward. Furthermore, there is a growing need for spectrum trends, intelligence, and virtualization that is propelling the market for data centres. The development of multi-tiered data centres is adding to an increasing demand required by OEMs in augmented and virtual reality. Researchers, telecom equipment vendors, and service providers are already working intensively towards 5G (fifth generation) of mobile communication which is very likely going to overcome the existing limitations of technology.

Automobile is one of the key growth opportunity verticals for EMS providers in the next 5 years, due to the technological transformation currently underway with autonomous cars development and electric car commercialization activities. EV is one of the key growth opportunity verticals, due to the technology transformation currently underway with autonomous cars development and EV commercialization activities. Moreover, the growing electronics content will accelerate the growth of EMS revenue from this vertical.

Mobile phones and IT hardware: Mobile phones have emerged as an important commodity in today's world and the segment commands a significant share of the global EMS market. On the other hand, IT hardware, though a saturated market, the onset of the pandemic has turned out to be positive, specifically because of the surge in demand for computers and tablets, driven by work-from-home and study-from-home needs.

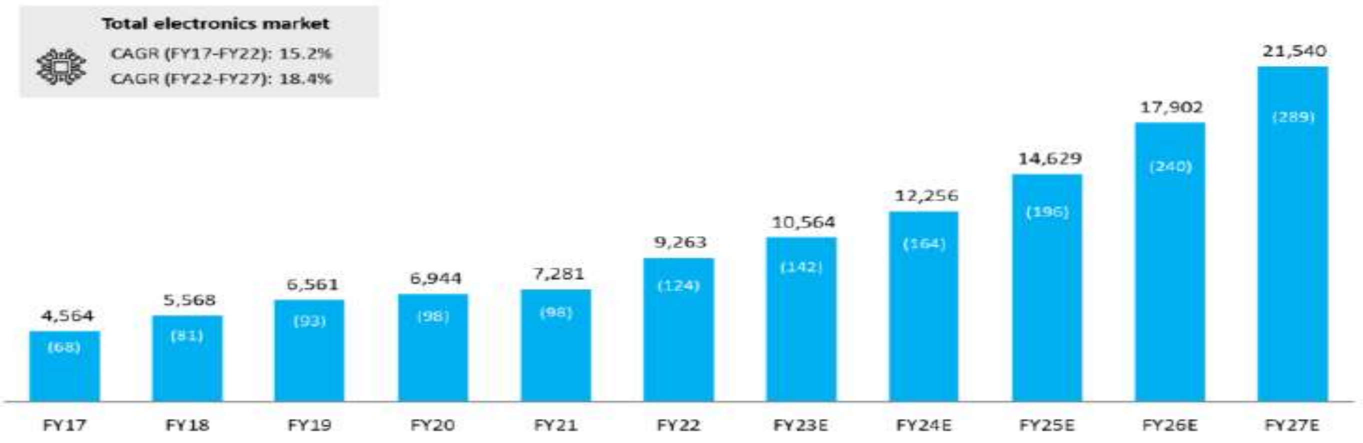
Consumer electronics and appliances (CEA): The segment had a consistent performance in the last few years, which is aided by growth in advanced economies and developing countries. EMS companies have also profited from rising consumer spending and technological improvements. Rising demand for smart solutions will fuel future growth. Furthermore, OEMs and EMS manufacturers are progressively supplying both premium and mid-range appliances to meet the growing demand for both product categories and increase revenue.

Indian Electronics Industry

Overview of the Indian electronics industry - Total market and domestic consumption

Electronics is one of the fastest-growing industries in the country. The total electronics market (domestic electronics production and imports of finished goods) in India was valued at INR 9,263 billion (USD 124 billion) in FY22, expected to grow at a CAGR of 18.4% to reach INR 21,540 billion (USD 289 billion) in FY27. The landscape of the industry is changing significantly, and revised cost structures have shifted the focus of multinational companies in India.

Total electronics market, India, value in INR billion and USD billion, growth in %, FY17-FY27E



* Total electronics market = Total domestic electronics production + Import of finished goods   *Values in brackets are in USD billion

Note: E refers to Estimate   Source: MeitY, ELCINA, Frost & Sullivan Analysis

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.

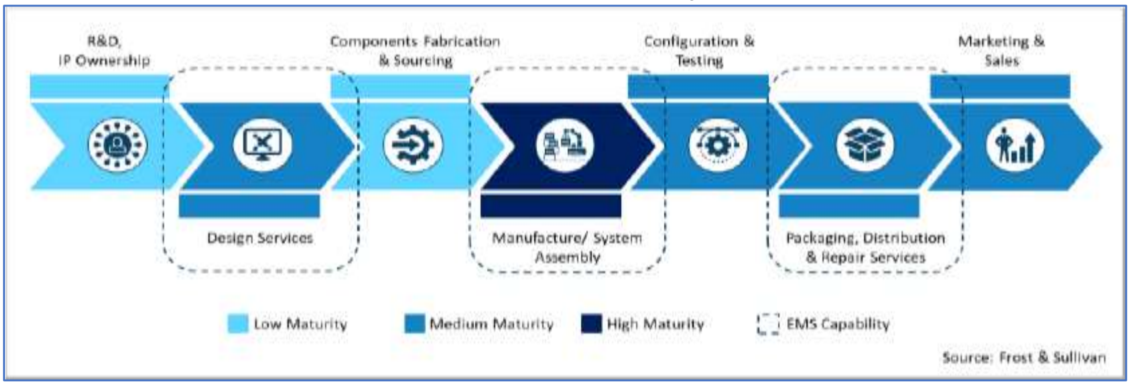
Emerging technologies: Electronic product life cycles are becoming shorter due to rapid technological advancement and newer products with upgraded technology. Emerging technologies such as IoT, AI, and the incorporation of robotics and analytics in the industrial and strategic electronics segments have 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.

Indian Electronics Manufacturing Services (Ems) Industry Overview

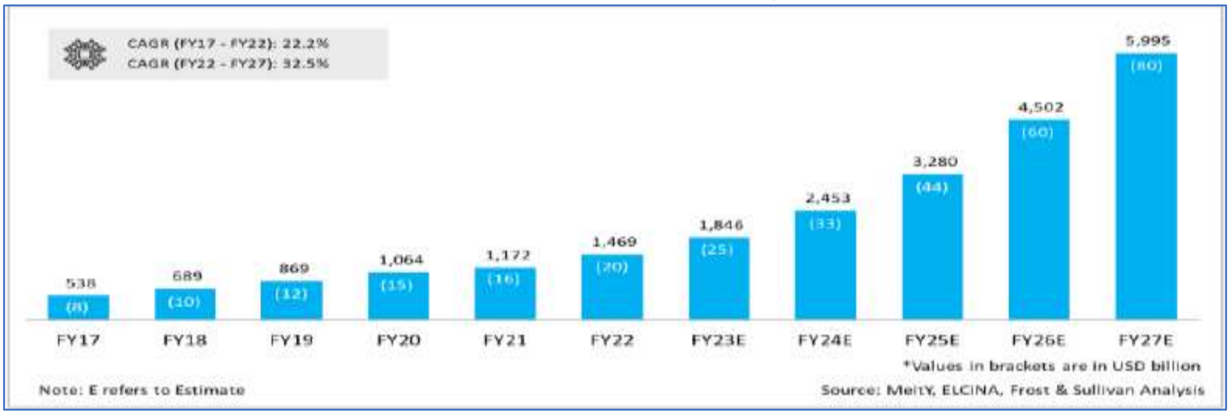
There are more than 30 players in the organized market ranging from large, medium to small. Major players are Cyient DLM, Flex, Jabil, SFO, Elin Electronics, NTL, Syrma, and Foxconn. Many EMS providers are slowly evolving to offer complete design services apart from contract manufacturing/original equipment manufacturing. This acts as a win-win situation for both EMS players as well as OEMs; EMS players obtain higher margins through this model, and OEMs benefit by outsourcing manufacturing and design activities, enabling them to focus on other expansion activities. Embracing the ODM model of partnership with EMS partners, coupled with venturing into new product segments, is propelling the brands to pursue EMS engagement. High volumes will influence EMS to bring in the component ecosystem locally and enhance domestic capabilities for component sourcing, thus making the electronics ecosystem stronger. Ambitious expansion plans and capacity augmentation of indigenous EMS players to capitalize on favourable policy initiatives ensure that the EMS sector in India shall witness heightened growth in the coming days. Also, India has done well in Electronics design and is slowly establishing itself as a design hub of the world.

Value Chain of the EMS Industry in India

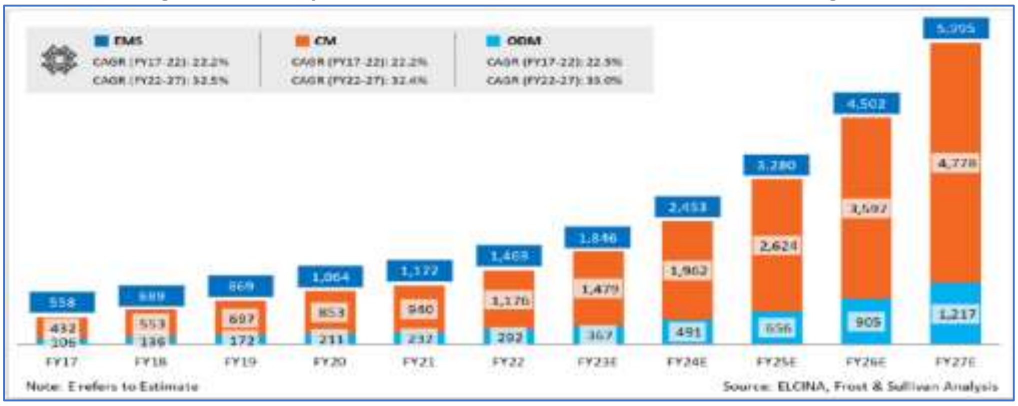


India has a competitive edge in design services, most such work is outsourced to cost-effective destinations (China, South Korea, Thailand). However, in terms of manufacturing/ system assembly, India has an established setup. Many EMS providers are slowly evolving to offer complete design services apart from contract manufacturing. EMS players obtain higher margins through this model.
The country also has high maturity levels in packaging, distribution, repair, sales, and marketing functions to meet geographical standards and cater to local requirements. After-sales services which include repair and maintenance are important for the Indian buyer as the use-and-throw perception is still not acceptable in the Indian electronics ecosystem. Many players like Dixon, Flex, etc. are offering after-market services like repair, refurbishment, logistics, vendor management, etc. Cyient DLM leverages the design capabilities of its 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.

Indian EMS market, value in INR billion, USD billion, growth in %, FY17-FY27E

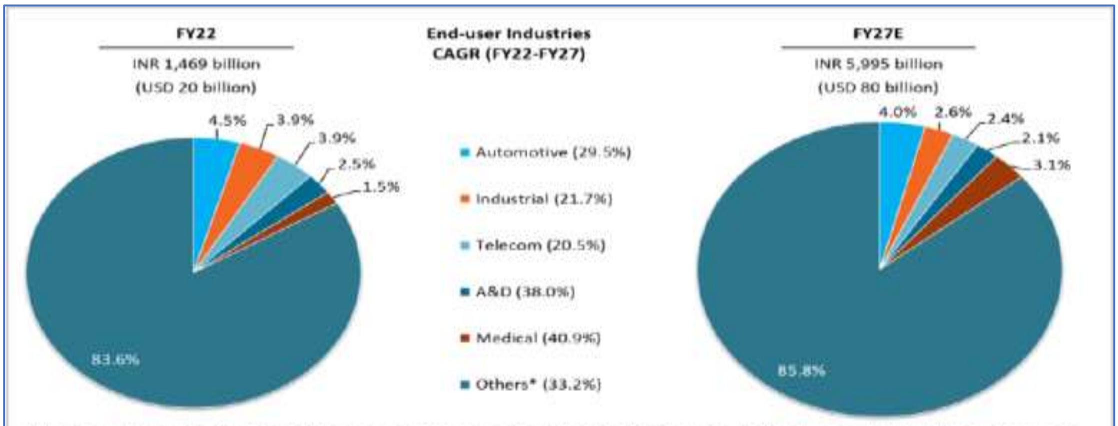


Indian EMS market segmentation by ODM vs CM, value in INR billion, USD billion, growth in %, FY17-FY27E



In the total EMS market, contract manufacturing (CM) accounts for approximately 80%, while original design manufacturing (ODM) accounts for the remaining 20%. EMS companies are steadily shifting towards ODM models, giving full turnkey solutions for items from design, product development to reverse logistics. Also, due to increased competition, EMS companies are striving to diversify their product offerings. In the ODM industry, innovation is critical to success. While cost reduction remains the major driver of EMS outsourcing, other factors such as improved design skills have contributed to ODM capabilities. Cyient DLM is one of the leading integrated Electronic Manufacturing Services and solutions providers with capabilities across the value chain and the entire life cycle of a product.

Indian EMS market - Segmentation by end-user industries (segment of interest), value in INR billion, USD billion, growth in %, FY22 and FY27E



*Others include: Mobile Phones, CEA (Consumer electronics and appliances), IT (Information Technology products), Lighting, Energy, etc.
Values in brackets are in USD billion
Note: E refers to Estimate
Source: MeitY, ELCINA, Frost & Sullivan Analysis

The expansion of India's EMS industry is being fuelled by a variety of factors. Significant reasons driving the growth are raising labour costs in other parts of the world and a trend among large OEMs to outsource manufacturing rather than invest in their own infrastructure. Due to the size, complexity, and high level of competition in the Indian market, OEMs are focusing more on marketing and aftermarket activities, leaving the production to contract manufacturers. EMS companies are better positioned to adapt to frequent technology changes, and economies of scale allow for stringer pricing negotiations with raw material suppliers. Cyient DLM's customers belong to a diverse range of high-entry-barrier industries that have stringent qualification requirements. Frost & Sullivan believes that with changing global trends, there are opportunities to diversify product range within the industry in which Cyient DLM operates. The company is well-positioned to service such changes and increases in customer requirements on account of its advanced design and manufacturing capabilities.

Aerospace and Defence: The Aerospace and Defence sector in India is at a point where modernization and indigenization programs are being undertaken. The Government of India had also identified the Aerospace and Defence sector as one of the major focus areas for the 'Make in India' (i.e., 'Atmanirbhar Bharat') program and has taken considerable steps to push forth the establishment of indigenous manufacturing infrastructure supported by requisite research and development ecosystem.

Automotive: . Passenger vehicles are expected to capture nearly two-thirds of the Indian automotive electronics market driven by the rising use of telematics control units, infotainment units, and other electronic components such as on-board diagnostics, electronic control units, anti-lock braking systems, and ADAS functions. Rising awareness among people about advanced safety and communication services, coupled with more embedded connectivity service offerings by automakers, is also one of the drivers for this market. Various government initiates, stringent emission norms and increasing awareness and adoption of EV vehicles, is driving the EV market in India.

Medical: The Indian government has planned more medical technology parks to stimulate domestic medical equipment manufacturing. These initiatives are likely to help increase the inflow of foreign direct investments, promote research & development and production advances, boosting the market for medical electronic devices.

Industrial: Industrial electronics play a vital role in improving the efficiency and productivity of industries and are anticipated to grow in industries like energy, transportation, petroleum, chemical, semiconductor, mining, agriculture, and others.

Telecom: This segment includes telecom infrastructure and networking equipment. To further expedite digital connectivity, the Government has approved the auction of IMT/5G spectrum for the deployment of 5G services within the country. There are rapid expansions in mobile network coverage which has managed to reach even the remotest of areas.

Key Concerns

- Business is dependent on the sale of its products to certain key customers. CDL's top 10 customers constituted 91.08% of its total revenue from operations for the year ended March 31, 2023.

- As of March 31, 2023, CDL had an order book of Rs. 24,325.47 million. Its order book may not be indicative of its future growth rate or new business orders it will receive in the future. Further, CDL may not realize all of the revenue expected from its order book.

- Dependent on Promoter and management team and key personnel and the loss of any key team member may adversely affect the business performance.

- As at March 31, 2022, CDL's market share in the Indian EMS market was 0.5%. Any failure to compete effectively in the highly competitive EMS industry could have a material adverse effect on its business, results of operations, financial condition and cash flows.

- A significant portion of revenue from operations is derived from B2P solutions, and from the manufacture and sale of PCBAs. In Fiscal 2023, 99.80% of its total revenue from operations was from its B2P solutions. Further, in Fiscal 2023, 62.62% of its total revenue from operations was from the manufacture and sale of PCBAs. Any decrease in the sales of PCBAs or in the volume of its B2P orders will adversely affect its business, results of operations, financial condition and cash flows.

- All manufacturing facilities are located in southern India. Further, CDL is highly dependent on its Mysuru facility for a significant portion of its revenue from operations and its manufacturing facilities are geographically concentrated. Any disruption in any of its manufacturing facilities may adversely affect the business, results of operations, financial condition and cash flows.

- The capacity utilisation of facilities for Fiscals 2023, 2022 and 2021 is lower in comparison to other manufacturing companies.

- Cost of materials consumed constituted 79.75% of its total expenses for the year ended March 31, 2023. CDL's profitability is dependent on its inventory costs. Failure to manage its inventory costs may have an adverse effect on its business, results of operations, financial condition and cash flows.

- CDL depends on third party suppliers for raw materials and components, which are on a purchase order basis. For the year ended March 31, 2023, its cost of raw materials consumed attributed to its top five and top 10 suppliers constituted 30.78% and 43.02% respectively, of its total cost of raw materials consumed.

- The markets in which customers compete are characterized by sectors specific to the industries which CDL caters to, and their rapidly changing preferences and other related factors including lower manufacturing costs and therefore as a result it may be affected by any disruptions in the industry.

- In Fiscal 2023, 59.71% of CDL's total revenue from contracts with customers was from customers with geographical location outside India. The global nature of its operations exposes it to numerous risks that could materially adversely affect the business, results of operations, financial condition and cash flows. Further, foreign exchange fluctuations may adversely affect its earnings and profitability.

- CDL has investments of an amount aggregating to Rs. 895.22 million as on March 31, 2023. Any decline in the value of investments of the Company, present and future, could have a material adverse effect on the business, results of operations, financial condition and cash flows.

- There may be problems with the products CDL designs through the design team of its Promoter, manufacture or service that could result in liability claims against it, reduced demand for its services and damage to its reputation.

- CDL has in the past entered into related party transactions and may continue to do so in the future, which may potentially involve conflicts of interest.

- A downgrade in credit rating could adversely affect the ability to raise capital in the future.
- Directors or Promoters may enter into ventures that may lead to real or potential conflicts of interest with its business.
- COVID-19 has had, and could continue to have, an adverse effect on its business, results of operations, financial condition and cash flows.
- Unplanned slowdowns or shutdowns of manufacturing operations could have an adverse effect on the business, results of operations, financial condition and cash flows.
- The strict quality requirements required to be complied with by CDL could result in it incurring significant expenses to maintain its product quality. Any failure in maintaining its quality accreditations and certifications may negatively impact its brand and reputation may adversely affect its business, results of operations, financial condition, cash flows and reputation.
- As of March 31, 2023 the insurance cover on assets of the Company amounted to Rs. 18,676.00 million. Its insurance coverage may not be adequate to protect it against all potential losses or to satisfy potential claims, which may have an adverse effect on the business, results of operations, financial condition and cash flows.
- CDL's failure to keep its technical knowledge confidential could erode its competitive advantage.
- CDL proposes to utilise Rs.700.00 million from the Net Proceeds towards strategic acquisitions and/or investments. In the event that its Net Proceeds to be utilised towards inorganic growth initiatives are insufficient for the cost of its proposed inorganic acquisitions, it may have to seek alternative forms of funding.
- Non-compliance with and changes in, safety, health, environmental and labour laws and other applicable regulations, may adversely affect its business, results of operations, financial condition and cash flows.
- Cyber risk and the failure to maintain the integrity of CDL's operational or security systems or infrastructure, or those of its customers or other third parties with which it conducts business, could have a material adverse effect on its business, results of operations, financial condition and cash flows.
- CDL is dependent on third parties for the transportation and timely delivery of its products to customers.
- CDL's total income has grown from Rs.6,369.11 million for Fiscal 2021 to Rs. 8,383.44 million for Fiscal 2023. If it is unable to sustain or manage its growth, its business, results of operations, financial condition and cash flows may be materially adversely affected.
- The Company did not obtain an independent valuation report in respect of the merger of Techno Tools Precision Engineering Private Limited ("Techno Tools") into CDL.
- The activities carried out at CDL's manufacturing facilities can cause injury to people or property in certain circumstances.
- CDL engages contract workers for carrying out certain functions of its business operations. In the event of non-availability of such contract workers at reasonable cost, any adverse regulatory orders or any default on payments to them by the agencies could lead to disruption of the manufacturing facilities and its business operations.
- CDL may undertake or may be forced to undertake certain onerous contractual obligations with some of its customers.
- Any downturn in the macroeconomic environment in India could adversely affect the business, results of operations, financial condition and cash flows.
- Changing laws, rules and regulations and legal uncertainties in India, including adverse application of tax laws and regulations, may adversely affect the business, results of operations, financial condition and cash flows.
- Political, economic or any other factors beyond control may have an adverse effect on the business, results of operations, financial condition and cash flows.

- Financial instability in other countries may cause increased volatility in Indian financial markets and, directly or indirectly, adversely affect the Indian economy and its business, results of operations, financial condition and cash flows.
- Any downgrading of India's sovereign rating by an international rating agency may adversely affect CDL's ratings and thereby the terms on which it is able to borrow on.
- If inflation rises in India, increased costs may result in a decrease in CDL's profits.
- Investors may be subject to Indian taxes arising out of capital gains on the sale of the Equity Shares
- Fluctuations in the exchange rate between the Rupee and other currencies may have an adverse effect on the value of the Equity Shares in those currencies, independent of its results of operations.

Profit & Loss

Particulars (Rs in million)	FY23	FY22	FY21
Revenue from operations	8320.3	7205.3	6280.3
Other Income	63.1	79.5	88.8
Total Income	**8383.4**	**7284.8**	**6369.1**
Total Expenditure	**7442.5**	**6364.9**	**5820.8**
Cost of Materials Consumed	6341.5	5552.9	4778.5
Change In Inventories of Finished Goods & Work-In-Progress	110.6	-113.3	174.4
Employee Benefits Expenses	646.9	516.5	468.6
Other Expenses	343.5	408.8	399.3
PBIDT	**940.9**	**919.9**	**548.3**
Interest	315.2	219.8	207.7
PBDT	**625.8**	**700.2**	**340.6**
Depreciation and amortization	194.2	192.9	184.6
PBT	**431.6**	**507.3**	**156.0**
Tax (incl. DT & FBT)	**114.3**	**109.4**	**37.8**
Current tax	129.7	96.4	5.0
Deferred tax (credit)/charge	-15.4	13.0	32.8
PAT	**317.3**	**398.0**	**118.1**
EPS (Rs.)	7.8	16.2	4.8
Face Value	10	10	10
OPM (%)	10.6	11.7	7.3
PATM (%)	3.8	5.5	1.9

Balance Sheet

Particulars (Rs in million) As at	FY23	FY22	FY21
Non-current assets			
Property, plant and equipment	1,217.5	1,294.8	1,400.9
Capital work-in-progress	13.3	33.9	23.2
Right of use assets	345.3	382.9	420.1
Goodwill	30.3	30.3	30.3
Other Intangible assets	16.5	14.1	4.9
Financial assets			
Investments	895.2	3.2	3.2
Other financial assets	34.97	38.80	46.20
Deferred tax assets (net)	53.8	39.0	50.9
Income tax assets	5.0	5.0	5.8
Other non-current assets	38.4	8.1	35.6
Total non-current assets	**2,650.3**	**1,850.2**	**2,021.1**
Current assets			
Inventories	4,250.8	2,695.6	1,554.5
Financial assets			
Trade receivables	1,617.5	1,523.3	2,263.8
Cash and cash equivalents	773.4	768.6	146.7
Other bank balances	902.6	449.5	195.1
Other financial assets	54.7	22.3	30.9

Other current assets	797.9	459.7	238.2
Total current assets	**8,396.9**	**5,919.0**	**4,429.2**
Total assets	**11,047.2**	**7,769.1**	**6,450.3**
EQUITY & LIABILITIES			
Equity			
Equity share capital	528.7	13.7	13.7
Other equity	1,450.1	757.5	362.9
Total equity	**1,978.7**	**771.1**	**376.5**
Liabilities			
Non-current Liabilities			
Financial Liabilities			
Borrowings	995.6	995.6	640.0
Lease liabilities	362.6	377.2	400.0
Other financial liabilities	166.3	113.1	56.6
Provisions	95.3	59.6	53.8
Other non-current liabilities	0.0	260.8	17.4
Total non-current liabilities	**1,619.8**	**1,806.4**	**1,167.9**
Current liabilities			
Financial liabilities			
Borrowings	2,149.1	1,936.3	1,697.7
Lease liabilities	53.2	59.7	52.5
Trade payables			
Total outstanding dues of micro and small enterprises	69.2	32.1	60.6
Total outstanding dues of creditors other than micro and small enterprises	2,783.5	1,892.8	1,839.7
Other financial liabilities	76.5	41.3	42.8
Income tax liabilities (net)	21.9	60.6	27.1
Provisions	3.0	13.4	12.4
Other current liabilities	2,292.4	1,155.5	1,173.2
Total current liabilities	**7,448.7**	**5,191.7**	**4,905.9**
Total liabilities	**9,068.5**	**6,998.0**	**6,073.8**
Total equity and liabilities	**11,047.2**	**7,769.1**	**6,450.3**

Source: RHP

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