

30 May 2024

India | Equity Research | Q4FY24 results review

Dynamatic Technologies

Defence

A soft quarter; outlook intact

Dynamatic Technologies' (DTL) Q4FY24 performance undershot our estimates mainly due to hydraulics division. Key points: 1) EBITDA of INR 429mn (down 13%) was impacted by production pause in UK (hydraulics division); 2) aerospace division saw both earnings and margin growth; 3) net debt stood at INR 3.96bn (down 19% QoQ), following utilisation of proceeds from the sale of land in Coimbatore for debt reduction; and 4) capex stood at INR 749mn in FY24. Going ahead, we believe both aerospace and hydraulics divisions are likely to drive earnings growth as production is back on track. Besides, the recently won orders in aerospace may also drive margins. We maintain **BUY** on DTL with an unchanged TP of INR 10,250 based on 45x FY26E EPS.

Performance falls short of estimates

DTL's Q4FY24 performance was impacted by hydraulics division. Key points: 1) EBITDA of INR 429mn was 14% lower compared to our estimates; 2) hydraulics division was impacted by production pause in the UK to implement a major design modification; 3) aerospace EBITDA margin was at a healthy 31.4% (Q4FY23: 26.9%; Q3FY23: 28.2%) as newly-built facility in Bengaluru is stabilising; 4) metallurgy sector continues to be impacted by lower automotive demand in UK; 5) net debt fell 19% QoQ to INR 3.96bn on utilisation of INR 1.07bn proceeds received from the sale of windfarm land for the establishment of Southern Defence Industrial Corridor; 6) capex for FY24 stood at INR 749mn and may decline henceforth; and 7) Board has declared dividend of INR 5/share, taking the final dividend to INR 10/share for FY24. Going ahead, we believe both hydraulics and aerospace divisions are likely to drive earnings and margin growth as production is back on track and execution of the recently won contracts would commence.

Growth story intact

We believe DTL's earnings growth is likely to be robust led by: 1) Execution of current orderbook in aerospace division may result in revenue growth of 3x in next 4-5 years (compared to FY24); 2) Hydraulics: Increased construction activity post elections (India) and production stabilisation in UK; and 3) Metallurgy: Focus on high margin mix and development of aerospace castings/forgings.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	13,158	14,293	16,755	18,571
EBITDA	1,813	1,594	2,416	2,814
EBITDA Margin (%)	13.8	11.2	14.4	15.2
Net Profit	428	1,218	1,206	1,551
EPS (INR)	67.3	191.7	189.8	244.1
EPS % Chg YoY	33.2	30.1	102.7	28.6
P/E (x)	116.1	89.2	44.0	34.2
EV/EBITDA (x)	29.9	33.7	21.9	18.5
RoCE (%)	8.5	7.1	12.1	14.1
RoE (%)	9.9	23.0	18.2	19.6

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Market Data

Market Cap (INR)	53bn
Market Cap (USD)	637mn
Bloomberg Code	DYTC IN
Reuters Code	DYNM BO
52-week Range (INR)	9,083 /3,210
Free Float (%)	57.0
ADTV-3M (mn) (USD)	2.0

Price Performance (%)	3m	6m	12m
Absolute	9.6	87.3	128.6
Relative to Sensex	6.9	75.9	110.0

Previous Reports

31-03-2024: [Initiating coverage](#)

Outlook: Robust aerospace margin is the key positive

Despite a relatively subdued quarter owing to hydraulics division, we expect growth from all divisions, especially aerospace where execution of the recently won contracts is likely to commence. Besides, Dassault's new work FAI is likely in FY25E, boosting the prospects further. We expect hydraulics division's performance to improve as production is back on track. We maintain **BUY** on DTL with an unchanged TP of INR 10,250 based on 45x FY26E EPS.

Key Risk

- Disruption in inter-material movement due to geo-political crisis.
- Heavy reliance on key-clients pose revenue concentration risk.
- Intense competition as OEMs prefer multiple supplier for redundancy.

Exhibit 1: Dynamatic Technologies consolidated Q4FY24 result performance

Consolidated (INR mn)	Q4FY24	Q4FY23	% Chg YoY	Q3FY24	% Chg QoQ	FY24	FY23	% Chg YoY
Net sales	3,704	3,679	0.7	3,455	7.2	14,293	13,158	8.6
Gross Margin	1,986	1,905	4.2	1,869	6.2	7,612	6,848	11.2
Gross Margin (%)	53.6	51.8		54.1		53.3	52.0	
Employee cost	756	619	22.1	772	(2.1)	3,017	2,534	19.0
Other expenditure	802	793	1.1	691	16.0	3,001	2,501	20.0
EBITDA	429	494	(13.2)	407	5.3	1,594	1,813	(12.1)
Margin (%)	11.6	13.4		11.8		11.2	13.8	
Other Income	58	72	(19.6)	89	(35.1)	428	98	338.7
Depreciation	173	165	4.5	172	0.2	664	704	(5.8)
EBIT	313	400	(21.6)	323	(3.1)	1,359	1,206	12.7
Interest	175	151	15.9	164	7.0	626	654	(4.3)
PBT	585	249		160		1,356	552	
Tax expense:	14	74	(81.4)	47	(70.8)	138	124	11.2
PAT	571	175	227.1	112	408.1	1,218	428	184.7

Source: I-Sec research, Company data

Exhibit 2: Dynamatic Technologies standalone Q4FY24 result performance

Standalone (INR mn)	Q4FY24	Q4FY23	% Chg YoY	Q3FY24	% Chg QoQ	FY24	FY23	% Chg YoY
Net sales	1,455	1,501	(3.0)	1,497	(2.8)	5,819	5,811	0.1
Gross Margin	826	809	2.2	777	6.4	3,040	3,109	(2.2)
Gross Margin (%)	56.8	53.9		51.9		52.2	53.5	
Employee cost	231	208	11.3	220	5.2	849	922	(7.9)
Other expenditure	283	290	(2.3)	257	10.3	1,081	1,045	3.4
EBITDA	312	311	0.3	300	4.0	1,110	1,142	(2.8)
Margin (%)	21.4	20.7		20.0		19.1	19.7	
Other Income	55	38	44.3	87	(36.5)	183	54	241.4
Depreciation	75	49	54.6	61	22.1	241	242	(0.4)
EBIT	293	301	(2.9)	326	(10.2)	1,052	954	10.3
Interest	143	110	30.0	133	7.2	503	516	(2.6)
PBT	663	192		193		1,063	438	
Tax expense:	25	88	(71.2)	51	(50.2)	118	147	(19.5)
PAT	638	104	515.1	142	348.6	945	292	224.2

Source: I-Sec research, Company data

Exhibit 3: Dynamatic Technologies consolidated segmental performance

Segmented Con. (INR mn)	Q4FY24	Q4FY23	% Chg YoY	Q3FY24	% Chg QoQ
Revenue					
Hydraulics	1,225	1,187	3.2	1,084	13.0
Aerospace	1,419	1,194	18.9	1,346	5.5
Metallurgy	1,060	1,298	(18.4)	1,025	3.4
Segment Result					
Hydraulics	39	205	(80.9)	90	(56.4)
Aerospace	345	320	7.9	280	23.4
Metallurgy	(20)	118	(116.9)	15	(229.2)
Margins (%)					
Hydraulics	3.2	17.3		8.3	
Aerospace	24.3	26.8		20.8	
Metallurgy	(1.9)	9.1		1.5	

Source: I-Sec research, Company data

Exhibit 4: Dynamatic Technologies standalone segmental performance

Segmented Std. (INR mn)	Q4FY24	Q4FY23	% Chg YoY	Q3FY24	% Chg QoQ
Revenue					
Hydraulics	662	797	(16.9)	694	(4.6)
Aerospace	793	703	12.7	803	(1.2)
Metallurgy	-	-		-	
Segment Result					
Hydraulics	77	155	(50.4)	78	(1.7)
Aerospace	262	192	36.6	246	6.6
Metallurgy	-	-		-	
Margins (%)					
Hydraulics	11.6	19.5		11.3	
Aerospace	33.0	27.3		30.6	
Metallurgy	-	-		-	

Source: I-Sec research, Company data

Exhibit 5: Dynamatic Technologies subsidiary segmental performance

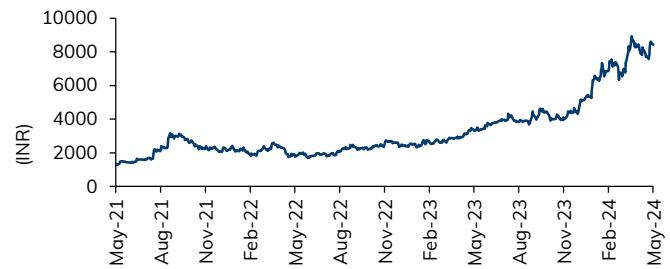
Segmented Subs. (INR mn)	Q4FY24	Q4FY23	% Chg YoY	Q3FY24	% Chg QoQ
Revenue					
Hydraulics	562	390	44.2	389	44.4
Aerospace	627	491	27.6	543	15.4
Metallurgy	1,060	1,298	(18.4)	1,025	3.4
Segment Result					
Hydraulics	(38)	50	(176.1)	12	(425.9)
Aerospace	83	128	(35.0)	34	144.6
Metallurgy	(20)	118	(116.9)	15	(229.2)
Margins (%)					
Hydraulics	(6.7)	12.7		3.0	
Aerospace	13.3	26.1		6.3	
Metallurgy	(1.9)	9.1		1.5	

Source: I-Sec research

Exhibit 6: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	41.9	41.9	41.9
Institutional investors	27.7	28.1	27.9
MFs and other	11.0	11.4	11.4
Banks/ FIs	0.0	0.0	0.0
Insurance Cos.	0.0	0.0	0.0
FIs	16.7	16.7	16.5
Others	30.4	30.0	30.2

Source: Bloomberg, I-Sec research

Exhibit 7: Price chart


Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 8: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	13,158	14,293	16,755	18,571
Operating Expenses	5,035	6,018	6,685	7,225
EBITDA	1,813	1,594	2,416	2,814
EBITDA Margin (%)	13.8	11.2	14.4	15.2
Depreciation & Amortization	704	664	550	567
EBIT	1,108	931	1,866	2,246
Interest expenditure	654	626	458	398
Other Non-operating Income	98	428	200	220
Recurring PBT	552	733	1,608	2,068
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	124	138	402	517
PAT	428	595	1,206	1,551
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	428	1,218	1,206	1,551
Net Income (Adjusted)	428	1,218	1,206	1,551

Source Company data, I-Sec research

Exhibit 9: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	8,885	7,548	9,414	10,498
of which cash & cash eqv.	1,609	614	752	1,017
Total Current Liabilities & Provisions	3,522	2,970	3,695	3,563
Net Current Assets	5,363	4,578	5,719	6,935
Investments	3	3	3	3
Net Fixed Assets	4,434	5,729	5,479	5,212
ROU Assets	1,091	1,003	1,003	1,003
Capital Work-in-Progress	785	100	100	100
Total Intangible Assets	1,292	1,183	1,183	1,183
Other assets	198	156	156	156
Deferred Tax Assets	-	-	-	-
Total Assets	13,166	12,753	13,644	14,592
Liabilities				
Borrowings	6,184	4,582	3,982	3,382
Deferred Tax Liability	103	173	173	173
provisions	319	285	637	703
other Liabilities	1,140	1,036	1,036	1,036
Equity Share Capital	68	68	68	68
Reserves & Surplus	5,352	6,610	7,748	9,231
Total Net Worth	5,420	6,677	7,816	9,299
Minority Interest	-	-	-	-
Total Liabilities	13,166	12,753	13,644	14,592

Source Company data, I-Sec research

Exhibit 10: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	3,625	3,509	3,455	3,704
% growth (YOY)	(1.5)	(3.2)	(1.5)	7.2
EBITDA	370	389	407	429
Margin %	10.2	11.1	11.8	11.6
Other Income	203	79	89	58
Extraordinaries	(176)	-	-	(447)
Adjusted Net Profit	414	121	112	571

Source Company data, I-Sec research

Exhibit 11: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	1,310	973	1,564	1,631
Working Capital Changes	(592)	(587)	(651)	(886)
Capital Commitments	(849)	(749)	(300)	(300)
Free Cashflow	461	225	1,264	1,331
Other investing cashflow	20	140	-	-
Cashflow from Investing Activities	(830)	(609)	(300)	(300)
Issue of Share Capital	1,129	-	-	-
Interest Cost	(545)	(593)	(458)	(398)
Inc (Dec) in Borrowings	624	(1,292)	(600)	(600)
Dividend paid	(19)	(81)	(68)	(68)
Others	-	-	-	-
Cash flow from Financing Activities	723	(2,311)	(1,126)	(1,066)
Chg. in Cash & Bank balance	1,203	(1,946)	138	265
Closing cash & balance	1,378	(568)	646	911

Source Company data, I-Sec research

Exhibit 12: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	67.3	87.6	177.6	228.4
Adjusted EPS (Diluted)	67.3	191.7	189.8	244.1
Cash EPS	178.1	277.1	258.6	312.0
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	852.8	983.4	1,151.1	1,369.5
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	5.0	8.6	17.2	10.8
EBITDA	7.1	(12.1)	51.6	16.4
EPS (INR)	33.2	30.1	102.7	28.6
Valuation Ratios (x)				
P/E	116.1	89.2	44.0	34.2
P/CEPS	43.9	28.2	30.2	25.1
P/BV	9.2	8.0	6.8	5.7
EV / EBITDA	29.9	33.7	21.9	18.5
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	52.0	53.3	45.7	45.9
EBITDA Margins (%)	13.8	11.2	14.4	15.2
Effective Tax Rate (%)	22.5	18.8	25.0	25.0
Net Profit Margins (%)	3.3	4.2	7.2	8.4
Net Debt / Equity (x)	0.8	0.6	0.4	0.3
Net Debt / EBITDA (x)	2.5	2.5	1.3	0.8
Fixed Asset Turnover (x)	1.8	1.8	1.9	2.0
Inventory Turnover Days	89	84	105	103
Receivables Days	77	82	88	87
Payables Days	68	51	64	54
Profitability Ratios				
RoCE (%)	8.5	7.1	12.1	14.1
RoE (%)	9.9	23.0	18.2	19.6
RoIC (%)	9.3	7.7	13.3	15.2

Source Company data, I-Sec research

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