

Dynamatic Technologies Limited

COMPANY SNAPSHOT					
*CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs1479	Rs2160	Rs1750	18%	BUY	9.4

*as on 11th June, 2021

About the Company:

Dynamatic Technologies Limited (DTL) is reputed as one of world's largest manufacturers and suppliers of hydraulic gear pumps and automotive turbo chargers. The company has managed to maintain its leadership position in the segment of hydraulic gear pumps for more than three and half decades. DTL also builds high-precision systems & sub-systems for aerospace, automotive, homeland security and other defence related products. The company is also involved in manufacturing complex assemblies and supplying parts for aviation majors like HAL, Airbus, Boeing and Bell helicopters. The company has its wings spread across three major stable and high growth business segments of Automotive, Hydraulics, Aerospace & Defence (A&D). The company has a strong R&D team that keeps abreast with the recent changes in technology, keeps enhancing their manufacturing capabilities and grows through selective acquisitions. The company has 8 industrial complexes and 2 engineering centers in India and 3 industrial complexes and 1 engineering center in Europe. DTL has its facilities located in India (Bangalore, Chennai, Coimbatore, Nasik); United Kingdom (Swindon, Bristol); and Germany (Schwarzenberg).

Results Declared:

- The net revenue for the quarter under review grew by 16.8% to Rs3533mn as compared to Rs3024mn in the same quarter last year
- The EBITDA margins for the quarter under review stood at 13.95% as compared to 13.63% in the same quarter last year
- The net profit came in at Rs42mn as against Rs295mn in the comparative quarter
- EPS for the quarter under review stood at Rs6.54 as compared to Rs46.43 in the corresponding period last year
- For the full year, the company has reported a degrowth in turnover by 9.1% with revenues earned at Rs11182mn for FY21 as compared to Rs12301mn in FY20; while recording a net profit of Rs20mn in FY21 as compared to Rs736mn in FY20

Other Highlights:

- The business model is diversified across sectors catering to global growth. The aerospace contributes nearly 33% of the revenue while the hydraulics segment contributes nearly 27% while the automotive & metallurgy contributes nearly 40% of the total revenue. For the quarter under review, the Aerospace segment revenue came in at Rs1,087mn, down by 14.0% from Rs1,264mn; the hydraulics segment reported a revenue of Rs974mn, up by 49.5% from Rs651mn while the Automotive & Metallurgy segment registered revenue of Rs1,471mn, up by 33.0% from Rs1,106mn
- The **aerospace segment** will grow with the gradual opening up of the economy
- The company intends to enhance its capability in large aero-structure assemblies, high precision aero-structure manufacturing, design and engineering
- The aero sector continues to be muted due to the lockdown and restrictions imposed on travel and the aircraft sales are anticipated to bounce back strongly from the current slump post the vaccination across the major geographies
- While the Atmanirbhar scheme aims to focus on achieving self-reliance and promoting defence exports, the recent approval of the second positive indigenisation list will provide a further boost to the Indian defence aerospace sector.
- As far as **the hydraulics segment** is concerned, the tractor industry and the agriculture sector has aided the growth of the tractor industry. In addition to this, higher infrastructure allocation is another factor which will also provide a boost for construction equipment sales and the heavy vehicle industry.
- DTL is also looking at opportunities to cater the increased demand (shift to power steering tractors) via new products and optimizing cost of operations to increase wallet share
- DTL is also looking at focusing on new product innovations and initiatives
- For the **automotive segment**, the company has taken concrete steps to reduce the issues related to the perennially loss-making Indian ferrous foundry (JKM Ferrotech Limited) which is anticipated to no longer be a drag on the consolidated earnings. In times to come, the company intend to focus on high margin product mix, exports, ramp-up of existing products, customer diversification and capacity utilization.
- The overall performance was increased by a strong performance by the Hydraulics segment and is anticipated to continue to grow
- Post the divestment of Indian foundry, Management intends to focus on transitioning the German foundry into aerospace applications over the next few years.

Dynamatic Technologies Limited

Financials:

Result Update (Q4&FY21)								
Q4&FY21 Result (Rs mn)	Mar-21	Mar-20	y-o-y	Dec-20	q-o-q	FY21	FY20	y-o-y
Total Revenue	3533	3024	16.8%	3100	14.0%	11182	12301	(9.1%)
EBITDA	493	412	19.6%	377	30.6%	1490	1908	(21.9%)
Other Income	25	77	(67.4%)	30	(16.9%)	61	178	(65.9%)
Interest	166	196	(15.0%)	165	1.0%	700	805	(13.0%)
Depreciation	223	204	9.1%	188	19.0%	775	799	(2.9%)
Exceptional item	0	0	-	0	-	0	0	-
Tax	87	(206)	(142.4%)	11	729.5%	56	(253)	(122.0%)
Net Profit	42	295	(85.9%)	45	(7.4%)	20	736	(97.3%)

Outlook and Recommendations:

There is no doubt, Dynamatic is one of the few companies in India and abroad who are capable of delivering critical products with excellent precision and craftsmanship. The company continues with its strategy of Make in India and exporting engineering goods abroad. DTL is one of the few suppliers of few critical components to big players in the aviation industry like Boeing and Airbus. Currently due to the issues related to the pandemic and the aviation industry taking a major back foot, the business seems to be hit badly, however as the pickup in the industry gradually begins, revenues earned by the company will see a major uptick. Currently the company is banking on the hydraulics business, which is also seeing a bright future in times to come. The company intends to launch a new product an appropriate time. Management mentions of the foundry business which was a drag to the profitability, and they are rightly making part from the business. In addition to this, the debt burden on the company which impacts the profitability and the bottom line is also an important parameter which the Management has started addressing and is actively working at and dollarization of some part of the debt is one of those initiatives that will help in reducing the existing interest cost. DTL is an asset (land) rich company; the sale of assets can also help reduce the cost burden on the company. During the year under review, the Board of Directors of JKM Ferrotech Limited (JFTL, a wholly-owned subsidiary), had approved the term sheet for sale of its foundry business assets to Danblock Brakes India Private Limited (DBIPL). At the operational levels, Dynamatic has been trying to maintain its margins and the recent concrete steps taken to reduce the debt burden will begin to show results in next 4-6 quarters. All these efforts made by the Management to streamline the businesses and reduce the debt burden will help the company report good numbers on the bottom-line. The stock has breached the recent target price of Rs1000 and while we keep a close watch over the operating margins in the upcoming quarters and steps taken to reduce the debt burden, we cautiously increase our target price to Rs1750.

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