

## DLM impacted, services to drive growth...

**About the stock:** Cyient Ltd (Cyient) offers engineering & development services to aerospace & defence, transportation, E&U, communication and others.

- Cyient has 300 customers across 14 countries
- Net debt free and healthy cash flow with OCF/EBITDA ~80%

**Q3FY22 Results:** Cyient reported strong Q3FY22 results.

- Services revenue grew 3.6% QoQ (4.4% in CC) while DLM revenues grew 12.8% QoQ. This resulted into overall revenue growth of 5.2% QoQ
- Group EBIT margins came in at 13.9%. Services margins were up 14 bps QoQ while that of DLM came in at 6%
- DLM growth guidance revised downward from 15-20% in FY22 to low single digit growth

**What should investors do?** Cyient's share price has grown by ~2.3x over the past five years (from ~₹ 408 in January 2017 to ~₹ 963 levels in January 2022).

- We continue to remain positive and retain our BUY rating on the stock

**Target Price and Valuation:** We value Cyient at ₹ 1,200 i.e. 18x P/E on FY24E EPS

### Key triggers for future price performance:

- Improving outlook on aerospace vertical
- Improved demand from large deals, healthy order book, rebound in DLM business and organisation restructuring to accelerate growth
- Margins to improve led by improved revenue growth and SG&A rationalisation

**Alternate Stock Idea:** Apart from Cyient, in our IT coverage we also like Infosys.

- Strong revenue guidance prompts us to be positive
- BUY with a target price of ₹ 2,300

### Key Financial Summary

Financials	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	4,618	4,427	4,132	5.9%	4,650	5,405	6,201	14.5%
EBITDA	644	596	611	7.5%	828	1,021	1,172	24.3%
EBITDA Margins (%)	14.0	13.5	14.8		17.8	18.9	18.9	
Net Profit	479	343	364	2.2%	506	639	728	26.0%
EPS (₹)	42.4	33.9	33.1		46.0	58.1	66.2	
P/E	22.7	30.9	29.1		20.9	16.6	14.5	
RoNW (%)	18.7	13.4	12.3		15.8	18.0	18.3	
RoCE (%)	21.4	15.9	14.5		18.8	21.5	22.1	

CYIENT

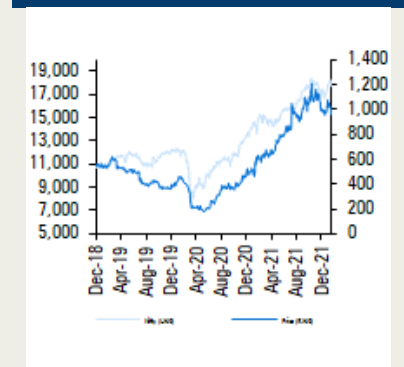
### Particulars

Particular	Amount
Market Cap (₹ Crore)	10,867.8
Total Debt (₹ Crore)	275.5
Cash and Invest (₹ Crore)	1,465.0
EV (₹ Crore)	9,678.3
52 week H/L	1292 / 501
Equity capital	55.0
Face value	₹ 5

### Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	23.5	23.5	23.5	23.4
FII	38.5	38.3	35.6	34.7
DII	21.2	19.9	21.5	21.4
Public	16.8	18.3	19.5	20.5

### Price Chart



### Recent Event & Key risks

- Services outlook remains robust
- **Key Risk:** (i) Continued high attrition (ii) Lower than guided revenue and margins

### Research Analyst

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## Key takeaways of recent quarter & conference call highlights

- Revenue for the quarter at the group level was US\$157.9 million (mn), growth of 5.2% QoQ (5.9% in CC). Services revenues grew 3.6% QoQ to US\$129.1 mn (4.4% in CC) while DLM business grew 12.8% QoQ to US\$28.8 mn
- The company reported margins of 13.9% at the group level, which were down 14 bps QoQ while it was up 272 bps YoY
- In Q3FY22, the company won seven large deals with total contract potential of US\$68.8 mn. Six are from services while remaining one is for DLM
- The company indicated that due to new virus, aerospace vertical, especially on the international side, has seen turbulences while domestic travel did not have much of an impact. As per management, domestic travel has recovered to 80-90% of pre-Covid level. However, the company maintained that the recovery in aerospace would be gradual over next 12-18 months
- The company lowered guidance in the DLM business to lower single digit growth in FY22 vs. earlier guidance of 15-20% growth in FY22. Cyient mentioned that semiconductor supply shortage has been a challenge in this business which indicates that Q4 as well FY22 would be significantly impacted. The company also mentioned that they started facing this issue six month back but certain supply related disruption made them lower growth guidance. The company also indicated that chip problem may see a gradual recovery after 12-18 months from now
- EBIT margins for quarter were 13.9%. Services EBIT margin improved 14 bps to 15.6% while DLM margins declined QoQ to 6.0%. The company guided for double digit revenue guidance and at least 350 bps margin improvement in FY22 vs. FY21
- The company is confident about 15-20% revenue growth in DLM business in FY23 and are also confident about maintaining EBIT margin. As per management, DLM business has two components (one with EBIT margin of 10-15% and another with thin margin, it is like trading business). The company indicated that is planning to exit thin margin business and looking to replace it with better margin business, which will provide some uptick in the DLM business in FY23E
- Communications Unit witnessed sequential growth in Q3FY22. As per the company, it won two major deals in Q3, one from a key client in Australia to accelerate their broadband network performance and the other from a key prospect in Australia to enable their network transformation
- The company maintained that attrition continue to pose challenges as it has increased on LTM basis by 500 bps QoQ to 29.3%. Cyient indicated that they may have increased salaries in FY23, which would put pressure on margins. However, there would be tailwinds in terms of pyramid rationalisation, aggressive fresher hiring and automation
- The company mentioned that they have been receiving price hike in some of the deals and clients have been receptive in terms of elevated cost pressure amid supply side challenges. Cyient also mentioned that they run a program called Bridge through which they are able to hire talent at a faster rate, which reduces dependency on sub-contractors

## Financial summary

Exhibit 1: Profit and loss statement					₹ crore
	FY21	FY22E	FY23E	FY24E	
<b>Total Revenues</b>	<b>4,132</b>	<b>4,650</b>	<b>5,405</b>	<b>6,201</b>	
Growth (%)	(6.7)	12.5	16.2	14.7	
COGS	2,716	2,943	3,416	3,919	
Other expenditure	806	879	967	1,110	
<b>EBITDA</b>	<b>611</b>	<b>828</b>	<b>1,021</b>	<b>1,172</b>	
Growth (%)	2.5	35.5	23.4	14.7	
Depreciation	195	195	227	260	
Other Income	109	95	111	114	
Interest	48	48	48	48	
PBT before Exceptional Items	477	680	857	978	
Tax	113	173	219	249	
PAT before Exceptional Items	364	506	639	728	
Exceptional items	-	-	-	-	
PAT before MI	364	506	639	728	
<b>PAT</b>	<b>364</b>	<b>506</b>	<b>639</b>	<b>728</b>	
Growth (%)	6.2	39.2	26.2	14.0	
Adjusted EPS	33.1	46.0	58.1	66.2	
EPS (Growth %)	(2.4)	39.2	26.2	14.0	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore
	FY21	FY22E	FY23E	FY24E	
PBT	477	680	857	978	
Depreciation	195	195	227	260	
WC changes	269	(74)	(115)	(117)	
Other non cash adju.	45	(47)	(63)	(66)	
Income taxes pd.	(129)	(173)	(219)	(249)	
<b>CF from operations</b>	<b>856</b>	<b>581</b>	<b>688</b>	<b>805</b>	
Other Investments	(2)	95	111	114	
Acq. Of business					
(Purchase)/Sale of Fixed Assets	(99)	(232)	(178)	(205)	
<b>CF from investing Activities</b>	<b>(101)</b>	<b>(137)</b>	<b>(67)</b>	<b>(91)</b>	
Inc / (Dec) in Equity Capital	4	-	-	-	
Change in debt funds	(213)	(48)	(48)	(48)	
Dividend & DDT	(1)	(253)	(297)	(297)	
<b>CF from Financial Activities</b>	<b>(211)</b>	<b>(346)</b>	<b>(390)</b>	<b>(390)</b>	
Exchange rate differences	(3)	-	-	-	
Opening cash balance	924	1,465	1,562	1,793	
Cash as margins/associates					
<b>Cash c/f to balance sheet</b>	<b>1,465</b>	<b>1,562</b>	<b>1,793</b>	<b>2,118</b>	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet					₹ crore
	FY21	FY22E	FY23E	FY24E	
<b>Liabilities</b>					
Equity	55	55	55	55	
Reserves & Surplus	2,902	3,156	3,497	3,929	
Networth	2,957	3,211	3,552	3,984	
Minority Interest	(3)	(3)	(3)	(3)	
Borrowings	276	276	276	276	
Long term Liabilities & provisions	384	384	384	384	
<b>Source of funds</b>	<b>3,614</b>	<b>3,867</b>	<b>4,209</b>	<b>4,641</b>	
<b>Assets</b>					
Net fixed assets	718	800	797	786	
Net intangible assets	136	136	136	136	
CWIP	11	11	11	11	
Goodwill	583	583	583	583	
Other non current assets	158	161	163	167	
Non current Investments	34	34	34	34	
Inventories	159	178	207	238	
Debtors	803	904	1,051	1,206	
Cash & Cash equivalents	1,465	1,562	1,793	2,118	
Other current assets	426	467	542	622	
Trade payables	453	504	585	672	
Current liabilities	387	420	472	526	
Provisions	38	47	52	62	
<b>Application of funds</b>	<b>3,614</b>	<b>3,867</b>	<b>4,209</b>	<b>4,641</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					₹ crore
	FY21	FY22E	FY23E	FY24E	
<b>Per share data (₹)</b>					
Adjusted EPS (Diluted)	33.1	46.0	58.1	66.2	
Cash per Share	133.2	142.0	163.0	192.5	
BV per share	268.9	291.9	323.0	362.2	
DPS	32.0	23.0	27.0	27.0	
<b>Operating Ratios (%)</b>					
EBITDA Margin	14.8	17.8	18.9	18.9	
PAT Margin	8.8	10.9	11.8	11.7	
Debtor days	71	71	71	71	
Creditor days	40	40	40	40	
<b>Return Ratios (%)</b>					
RoE	12.3	15.8	18.0	18.3	
RoCE	14.5	18.8	21.5	22.1	
RoIC	19.5	27.6	33.0	36.3	
<b>Valuation Ratios (x)</b>					
P/E	29.1	20.9	16.6	14.5	
EV / EBITDA	15.8	11.6	9.2	7.7	
EV / Net Sales	2.3	2.1	1.7	1.5	
Market Cap / Sales	2.6	2.3	2.0	1.8	
Price to Book Value	3.6	3.3	3.0	2.7	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.5	0.3	0.3	0.2	
Debt / Equity	0.1	0.1	0.1	0.1	
Current Ratio	1.6	1.6	1.6	1.6	
Quick Ratio	1.4	1.4	1.4	1.5	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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