

April 22, 2022

Q4FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,096		1,258	
Sales (Rs. m)	52,235	61,233	52,244	60,741
% Chng.	-	0.8		
EBITDA (Rs. m)	9,246	10,838	9,247	10,751
% Chng.	-	0.8		
EPS (Rs.)	54.1	61.0	54.1	60.5
% Chng.	-	0.7		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	41,325	45,344	52,235	61,233
EBITDA (Rs. m)	6,060	8,219	9,246	10,838
Margin (%)	14.7	18.1	17.7	17.7
PAT (Rs. m)	3,743	5,250	6,067	6,842
EPS (Rs.)	33.4	46.8	54.1	61.0
Gr. (%)	1.0	40.3	15.6	12.8
DPS (Rs.)	11.9	16.6	19.2	26.0
Yield (%)	1.4	2.0	2.3	3.1
RoE (%)	13.6	17.3	18.4	18.7
RoCE (%)	12.9	17.6	18.6	19.8
EV/Sales (x)	1.9	1.9	1.6	1.1
EV/EBITDA (x)	12.8	10.2	9.0	6.4
PE (x)	24.9	17.8	15.4	13.6
P/BV (x)	3.1	2.9	2.6	2.0

Key Data

CYIE.BO | CYL IN

52-W High / Low	Rs.1,292 / Rs.670
Sensex / Nifty	57,912 / 17,393
Market Cap	Rs.92bn / \$ 1,204m
Shares Outstanding	110m
3M Avg. Daily Value	Rs.245.22m

Shareholding Pattern (%)

Promoter's	23.41
Foreign	34.02
Domestic Institution	23.33
Public & Others	19.25
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.7)	(29.1)	21.4
Relative	(8.7)	(25.4)	-

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Cyient (CYL IN)

Rating: BUY | CMP: Rs831 | TP: Rs1,096

Strong operating margin performance

Quick Pointers:

- FY23 revenue growth guidance of 13.5-17.5% YoY CC with high single digit growth in DLM is aggressive.
- Strong expansion in margins in FY22: 13.9%, +390bps YoY

Management provided consolidated revenue guidance of 13-15% YoY CC for FY23 with visibility for a high single digit growth in DLM, due to continued supply side challenges. This implies Services growth of 15.5%-17.5%. We believe that guidance is aggressive in terms of both 1) DLM growth – Semiconductor supply side challenges may persist for a longer period and 2) In Services, growth is not broad-based with Communication and Portfolio (Medical, mining, aerospace) expected to drive growth in FY23 while Rail transportation, Utility and Geospatial expected to pick in H2FY23. Services order intake is healthy at \$630.9 mn, +13.7% YoY for FY23. We model 13% YoY USD growth for FY23.

Our EPS estimates remain unchanged. We now value Cyient on 18x (earlier: 22x) given – 1) downside risk to revenue growth because of semiconductor supply challenges in DLM (17% of revenue), 2) Macro uncertainties likely to moderate ER&D spends, and 3) High exposure (~57% of revenue) to aerospace, rail transportation and utilities sectors where growth still remains muted. We arrive at a TP of INR 1096 (earlier INR 1258) on FY24 EPS (roll-over) of INR 60.9. Cyient is currently trading at attractive valuations of 15.4x/13.7x on FY23/24 earnings of INR 54/61 respectively at significant discount to ER&D sector trading at ~40x FY24 EPS. We anticipate 14.3% revenue CAGR & 14% EPS CAGR for FY22-24E. Maintain Buy!

- Beat in revenue:** Cyient reported revenue at \$156.7 Mn -0.8% QoQ USD (Ple: -1.6%, Cons: -2.1%), 0.4% QoQ CC. Services revenue grew 1.1% QoQ USD, 1.6% QoQ CC and DLM revenue declined by 9.3% QoQ USD. DLM declined because of order fulfillment challenges due to unavailability or long lead times for semiconductor components.
- Services growth was led by Communications vertical with strong growth +6.4% QoQ USD, whereas all other verticals declined – Utilities (-4.9% QoQ USD), Rail transportation (-2.4% QoQ USD) and Aerospace (-0.5% QoQ USD). Portfolio services were flattish (+0.6% QoQ USD). In Services, higher offshoring (51.6%, +290bps QoQ) led to decline in pricing and thus decline in revenue. Management mentioned that offshore revenue mix is expected to slightly increase from these levels as well.
- Healthy deal momentum on YoY basis:** Order intake (OI) was at \$188 Mn (-6% QoQ, 13% YoY). Services OI is at \$210 Mn (-7% QoQ, -12% YoY). DLM OI at \$22 mn declined by -12% QoQ, -69% YoY. Cyient won 7 large deals with total contract potential of ~\$134.9 million (6 from services and 1 is Composite B2S)

- **Revenue growth guidance seems aggressive:** Management provided consolidated revenue guidance for FY23 at 13-15% YoY CC with visibility for a high single digit growth in DLM due to continued supply side challenges. This implies Services growth of 15.5%-17.5%. We believe that guidance is aggressive in terms of both 1) DLM growth – Semiconductor supply side challenges may persist for a longer period and 2) In Services, growth is not broad-based with Communication and Portfolio (Medical, mining, aerospace) expected to drive growth in FY23 while Rail transportation, Utility and Geospatial expected to pick in H2FY23. Services order intake is healthy at \$630.9 mn, +13.7% YoY for FY23.
- **Beat in margins:** Consolidated EBIT margin stood at 14.5%, +59 bps QoQ, +182 bps YoY (Ple: 12.9%, Cons: 12.7%). Services EBIT margin at 15.4%, -23bps QoQ, 179 bps YoY. DLM EBIT margin stood at 9.8%. Margin headwind stood at 202bps due to increased SG&A investments that were partially offset by change in revenue mix, improvement in operational metrics and lower depreciation.
- Consolidated EBIT margin is expected to be in the range of 13-14% for FY23 (vs 13.9% reported for FY22) is in-line with our expectations.
- In FY23 salary hikes are likely to be higher by ~200bps both in India and Onsite.
- Quarterly voluntary attrition dropped to 26.9%, -240bps QoQ. LTM attrition stood at 26.2% for FY22. Net headcount addition of 584 employees +5% QoQ, 12% YoY
- Free Cash Flow generation for the quarter stood at INR ₹1,284 Mn, a conversion of 51.1% on EBITDA (conversion of 83.3%on PAT)

Exhibit 1: Q4FY22: Quick View on Results

Rs mn	4QFY22	3QFY22	QoQ gr.	4QFY21	YoY gr.	PL Estimates	Variance (Actual vs Ple)
Revenues (USD mn)	157	158	-0.8%	150	4.5%	155	0.9%
Revenues (INR mn)	11,812	11,834	-0.2%	10,932	8.0%	11,681	1.1%
EBITDA	2,136	2,129	0.3%	1,874	14.0%	2,009	6.3%
<i>EBITDA Margins</i>	<i>18.1%</i>	<i>18.0%</i>	<i>9 bps</i>	<i>17.1%</i>	<i>94 bps</i>	<i>17.2%</i>	<i>88 bps</i>
EBIT	1,707	1,642	4.0%	1,383	23.4%	1,507	13.3%
<i>EBIT Margins</i>	<i>14.5%</i>	<i>13.9%</i>	<i>58 bps</i>	<i>12.7%</i>	<i>180 bps</i>	<i>12.9%</i>	<i>155 bps</i>
Adjusted PAT	1,569	1,317	19.1%	1,033	51.9%	1,261	24.4%
EPS	14	12	19.1%	9.4	51.9%	12	24.4%

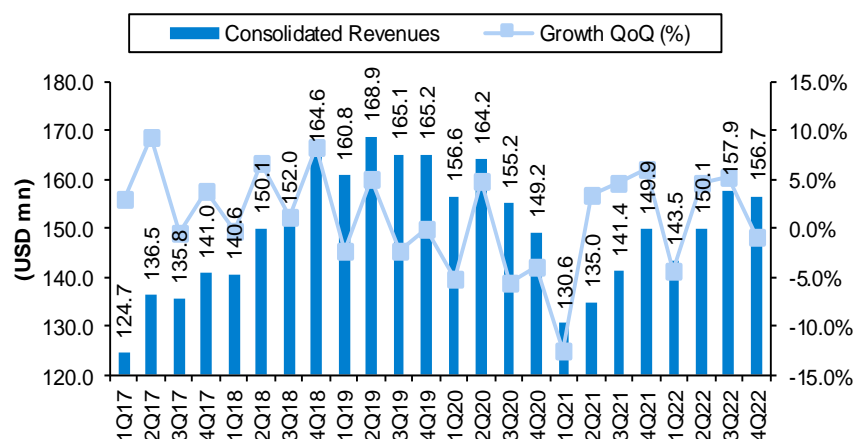
Source: Company, PL

Exhibit 2: Change in Estimates

Change in Estimates	FY23E	FY24E
USD revenues (US\$ m)		
- New	687	795
- Old	687	789
Change (%)	0.0%	0.8%
EBIT Margin		
- New	13.7%	13.7%
- Old	13.7%	13.7%
Change (%)	0 bps	0 bps
Recurring EPS - Fully diluted (Rs)		
- New	54.1	61.0
- Old	54.1	60.5
Change (%)	0.0%	0.7%

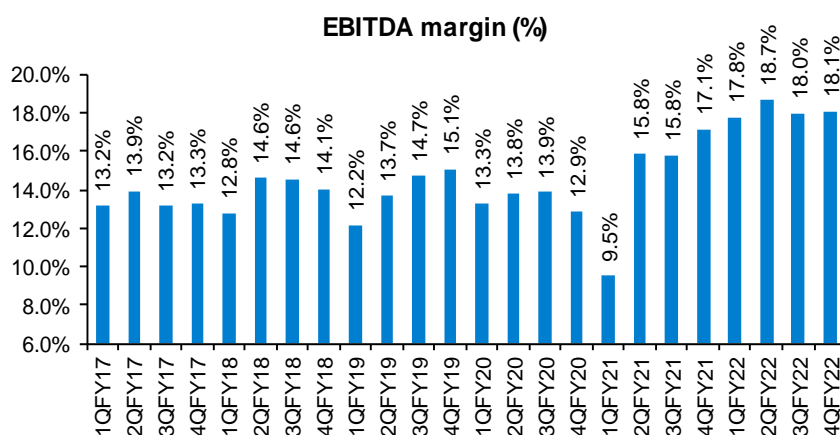
Source: PL

Exhibit 3: Weakness in growth due to decline in DLM business

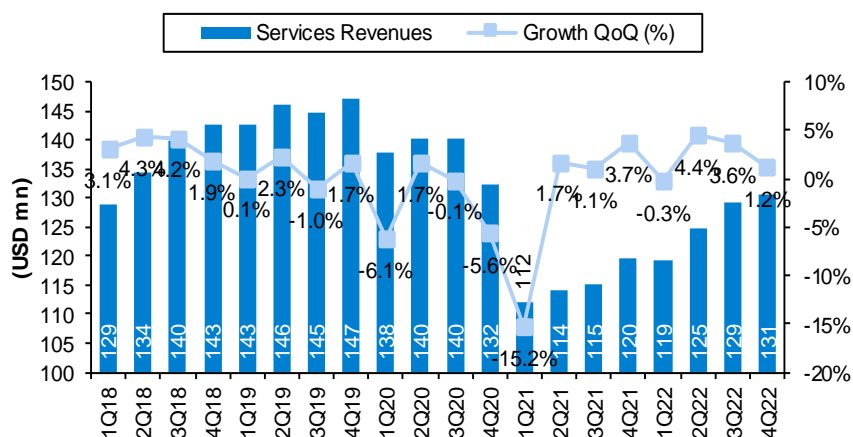


Source: Company, PL

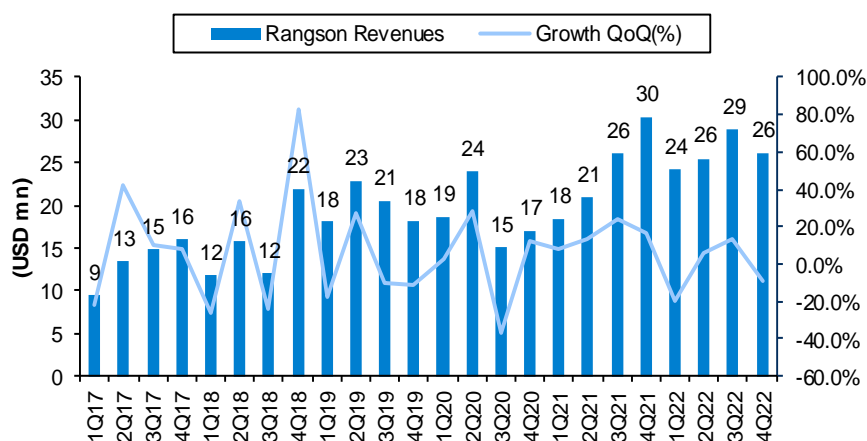
Exhibit 4: Consolidated EBITDA margin is maintained above 18%



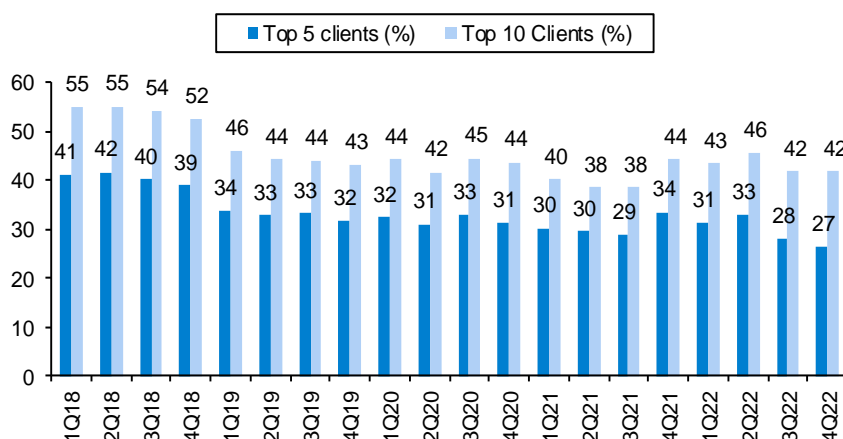
Source: Company, PL

Exhibit 5: Growth momentum sustained in services


Source: Company, PL

Exhibit 6: Decline in DLM due to unavailability of semiconductor chips


Source: Company, PL

Exhibit 7: Growth in top 5 clients muted reflected by lower revenue concentration


Source: Company, PL

Exhibit 8: Geography-wise revenues

USD in Mn	4QFY22	3QFY22	QoQ gr.	4QFY21	YoY gr.
America	84	78	7.9%	71	9.3%
Europe, ME, Africa & India	39	40	-2.7%	37	7.5%
APAC	34	41	-15.0%	42	-3.3%
Total	157	158	-0.7%	150	5.3%
as a % of total					
America	53.5	49.2	430 bps	47.4	610 bps
Europe, ME, Africa & India	24.6	25.1	-50 bps	24.6	0 bps
APAC	22.0	25.7	-370 bps	28.0	-600 bps

Source: Company, PL

Exhibit 9: Vertical-wise revenues

USD in Mn	4QFY22	3QFY22	QoQ gr.	4QFY21	YoY gr.
Transportation Total	64.1	69.2	-7.3%	67.6	2.3%
Aerospace	50.0	54.6	-8.5%	51.1	6.9%
Rail transportation	14.1	14.4	-1.9%	16.5	-12.9%
C&U Total	47.2	45.5	3.7%	42.4	7.2%
Communications	37.5	35.4	5.9%	34.9	1.3%
Utilities	9.7	10.1	-3.9%	7.5	34.8%
Portfolio	45.4	43.3	5.0%	40.0	8.1%
Total	156.7	157.9	-0.8%	150.0	4.4%
as a % of total					
Transportation Total	40.9	43.8	-290 bps	45.1	-420 bps
Aerospace	31.9	34.6	-270 bps	34.1	-220 bps
Rail transportation	9.0	9.1	-10 bps	11	-200 bps
C&U Total	30.1	28.8	130 bps	28.3	180 bps
Communications	23.9	22.4	150 bps	23.3	60 bps
Utilities	6.2	6.4	-20 bps	5	120 bps
Portfolio	29.0	27.4	160 bps	26.7	230 bps

Source: Company, PL

Exhibit 10: Client Metrics

Client Buckets	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22
20mn+	4	4	4	4	4	3	3	3	3	3	3	3	3
10mn+	13	12	12	11	11	9	7	7	8	10	10	10	11
5 mn+	29	28	27	27	26	30	32	32	30	30	32	36	34
1mn+	86	85	91	90	95	92	95	94	90	89	92	93	93

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	41,325	45,344	52,235	61,233
YoY gr. (%)	(6.7)	9.7	15.2	17.2
Employee Cost	21,805	22,579	25,595	30,004
Gross Profit	19,520	22,765	26,640	31,229
Margin (%)	47.2	50.2	51.0	51.0
SG&A Expenses	13,460	14,546	17,394	20,390
Other Expenses	-	-	-	-
EBITDA	6,060	8,219	9,246	10,838
YoY gr. (%)	1.7	35.6	12.5	17.2
Margin (%)	14.7	18.1	17.7	17.7
Depreciation and Amortization	1,944	1,923	2,089	2,449
EBIT	4,116	6,296	7,156	8,389
Margin (%)	10.0	13.9	13.7	13.7
Net Interest	472	434	216	216
Other Income	1,166	1,121	1,000	800
Profit Before Tax	4,810	6,983	7,940	8,973
Margin (%)	11.6	15.4	15.2	14.7
Total Tax	1,133	1,761	1,985	2,243
Effective tax rate (%)	23.6	25.2	25.0	25.0
Profit after tax	3,677	5,222	5,955	6,730
Minority interest	-	-	-	-
Share Profit from Associate	66	28	112	112
Adjusted PAT	3,743	5,250	6,067	6,842
YoY gr. (%)	1.0	40.3	15.6	12.8
Margin (%)	9.1	11.6	11.6	11.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,743	5,250	6,067	6,842
YoY gr. (%)	1.0	40.3	15.6	12.8
Margin (%)	9.1	11.6	11.6	11.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,743	5,250	6,067	6,842
Equity Shares O/s (m)	110	110	110	92
EPS (Rs)	33.4	46.8	54.1	61.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	8,655	7,398	7,976	10,976
Tangibles	8,655	7,398	6,307	8,407
Intangibles	-	-	1,669	2,569
Acc: Dep / Amortization	-	-	-	-
Tangibles	-	-	-	-
Intangibles	-	-	-	-
Net fixed assets	8,655	7,398	7,976	10,976
Tangibles	8,655	7,398	6,307	8,407
Intangibles	-	-	1,669	2,569
Capital Work In Progress	-	-	-	-
Goodwill	5,830	6,185	6,185	6,185
Non-Current Investments	344	3,582	3,802	4,022
Net Deferred tax assets	319	(97)	(97)	(97)
Other Non-Current Assets	1,262	1,488	1,488	1,488
Current Assets				
Investments	-	866	966	1,066
Inventories	1,586	2,790	2,790	2,790
Trade receivables	8,026	7,333	9,302	10,904
Cash & Bank Balance	18,906	12,666	12,872	11,813
Other Current Assets	-	-	20	40
Total Assets	44,928	47,873	50,966	54,849
Equity				
Equity Share Capital	550	552	552	552
Other Equity	28,991	30,582	34,092	38,051
Total Network	29,541	31,134	34,644	38,603
Non-Current Liabilities				
Long Term borrowings	2,827	2,424	2,424	2,424
Provisions	1,288	1,347	1,447	1,547
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,302	3,241	3,241	3,241
Trade payables	4,532	5,259	4,609	4,302
Other current liabilities	4,256	4,123	4,254	4,385
Total Equity & Liabilities	44,928	47,873	50,966	54,849

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	3,638	5,223	8,052	9,085
Add. Depreciation	1,945	1,922	2,089	2,449
Add. Interest	433	393	216	216
Less Financial Other Income	1,166	1,121	1,000	800
Add. Other	(248)	(508)	(1,000)	(800)
Op. profit before WC changes	5,768	7,030	9,358	10,950
Net Changes-WC	2,686	(973)	(2,428)	(1,718)
Direct tax	(1,292)	(1,652)	(1,985)	(2,243)
Net cash from Op. activities	7,162	4,405	4,945	6,989
Capital expenditures	(1,571)	(806)	(2,667)	(5,449)
Interest / Dividend Income	397	545	1,000	800
Others	167	(3,562)	(300)	(300)
Net Cash from Invt. activities	(1,007)	(3,823)	(1,967)	(4,949)
Issue of share cap. / premium	37	(829)	-	-
Debt changes	(1,466)	(545)	-	-
Dividend paid	(10)	(2,952)	(2,557)	(2,883)
Interest paid	(213)	(166)	(216)	(216)
Others	(874)	(953)	1	1
Net cash from Fin. activities	(2,526)	(5,445)	(2,772)	(3,098)
Net change in cash	3,629	(4,863)	206	(1,059)
Free Cash Flow	5,591	3,599	2,277	1,539

Source: Company Data, PL Research

Key Financial Metrics

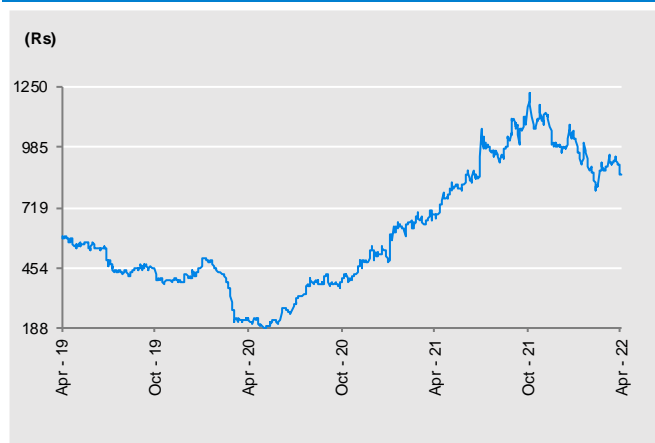
Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	33.4	46.8	54.1	61.0
CEPS	51.7	65.0	73.9	101.0
BVPS	268.6	282.0	313.8	419.6
FCF	50.8	32.6	20.6	16.7
DPS	11.9	16.6	19.2	26.0
Return Ratio(%)				
RoCE	12.9	17.6	18.6	19.8
ROIC	20.0	20.2	20.3	20.0
RoE	13.6	17.3	18.4	18.7
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.3)	(0.2)	(0.2)
Debtor (Days)	71	59	65	65
Valuation(x)				
PER	24.9	17.8	15.4	13.6
P/B	3.1	2.9	2.6	2.0
P/CEPS	16.1	12.8	11.3	8.2
EV/EBITDA	12.8	10.2	9.0	6.4
EV/Sales	1.9	1.9	1.6	1.1
Dividend Yield (%)	1.4	2.0	2.3	3.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	10,582	11,116	11,834	11,812
YoY gr. (%)	6.7	10.8	13.3	8.0
Raw Material Expenses	5,548	5,511	5,956	5,934
Gross Profit	5,034	5,605	5,878	5,878
Margin (%)	47.6	50.4	49.7	49.8
EBITDA	1,879	2,075	2,129	2,136
YoY gr. (%)	98.4	30.6	29.0	14.0
Margin (%)	17.8	18.7	18.0	18.1
Depreciation / Depletion	490	517	487	429
EBIT	1,389	1,558	1,642	1,707
Margin (%)	13.1	14.0	13.9	14.5
Net Interest	110	91	116	117
Other Income	257	149	221	494
Profit before Tax	1,536	1,616	1,747	2,084
Margin (%)	14.5	14.5	14.8	17.6
Total Tax	385	403	430	543
Effective tax rate (%)	25.1	24.9	24.6	26.1
Profit after Tax	1,151	1,213	1,317	1,541
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	28
Adjusted PAT	1,151	1,213	1,317	1,569
YoY gr. (%)	41.6	39.9	38.0	51.9
Margin (%)	10.9	10.9	11.1	13.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	1,151	1,213	1,317	1,569
YoY gr. (%)	41.6	39.9	38.0	51.9
Margin (%)	10.9	10.9	11.1	13.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,151	1,213	1,317	1,569
Avg. Shares O/s (m)	110	110	110	110
EPS (Rs)	10.5	11.1	12.0	14.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Apr-22	BUY	1,258	944
2	21-Jan-22	BUY	1,293	976
3	04-Jan-22	BUY	1,301	1,065
4	17-Oct-21	BUY	1,315	1,160
5	05-Oct-21	BUY	1,145	1,055
6	06-Aug-21	BUY	1,088	967
7	16-Jul-21	BUY	1,088	946
8	02-Jul-21	BUY	912	886
9	23-Apr-21	BUY	825	689

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Affle (India)	BUY	1,535	1,270
2	Coforge	BUY	5,559	4,512
3	Cyient	BUY	1,258	944
4	HCL Technologies	Accumulate	1,169	1,099
5	Infosys	Accumulate	1,899	1,749
6	L&T Technology Services	Accumulate	4,549	4,244
7	Larsen & Toubro Infotech	BUY	6,369	5,472
8	Mindtree	BUY	4,778	3,958
9	Mphasis	BUY	3,755	3,312
10	Persistent Systems	BUY	5,160	4,792
11	Redington (India)	BUY	200	150
12	Sonata Software	BUY	1,065	765
13	Tata Consultancy Services	BUY	4,221	3,696
14	TeamLease Services	Accumulate	4,647	4,034
15	Tech Mahindra	BUY	1,837	1,499
16	Wipro	BUY	735	606
17	Zensar Technologies	BUY	453	384

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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