ANANDRATHI

India I Equities

Technology

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

25 April 2022

Cyient

Rating: Buy

Target Price: Rs.1,250

Share Price: Rs.900

Targets 15% services growth in FY23 despite fluctuating FY22; Buy

Cyient's Services at $131m (up 1.2% q/q, 9% y/y) had its ups and downs in the year but grew 9.2% in FY22. The company is now aiming at 15% growth in FY23, catching up with peers like LTTS (guided to 15.5%). Services order intake was $188m, taking TTM to $632m, up 14% y/y. DLM at $26m (down 14% y/y) continues to face challenges, expected to grow <10% in FY23 (FY22: 9%). The 14.5% EBIT margin was up 59bps q/q, 180bps y/y, with attrition softening a bit to 27%. No meaningful change in estimates but we revise our target to Rs1,250 (from Rs1,460), at 21x FY24e EPS, a discount to peers reflecting patchy growth. We retain a Buy.

Services growth supported by order intake. The Services division grew 1.2% q/q, supported only by Communications (6% q/q) while the other verticals were flattish to negative. The company expects Aerospace, Communications and Portfolio to be strong, while Rail may continue to be weak in H1. Services order intake was healthy and reflects steady improvement over the last four quarters, moving from -14% to +14% on a TTM basis.

EBIT margins climb to 14.5%, attrition eases a bit to 27%. Throughout FY22, Cyient exceeded margin expectations, delivering 13.9% in FY22 (10.1% in FY21), translating to 51% EBIT growth. This was achieved by ~2.4% better utilisation and ~5.5% better offshore. The company resumed hiring with Services headcount up 13% in FY22 (-14% in FY21). It expects to more-than-average wage hikes in FY23 to further cool attrition. Overall, FY23 margins are likely at FY22 levels.

FY23 guidance at 13-15%, EBIT margins to be 13-14%: DLM is likely to remain under 10%, translating to higher services growth. The company is seeing momentum building up in Aerospace while Communications and Utilities are likely to sustain growth. Tax rates will be higher in FY23 but we expect the company to shift to a lower tax regime by FY24.

Retaining a Buy. The stock quotes at 15x FY24e EPS of Rs59, which seems attractive compared to the sector and considering its FCF yield of ~6%. **Risks:** Large M&A and integration-related.

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	44,275	41,325	45,344	51,867	59,453
Net profit (Rs m)	3,424	3,641	5,219	5,593	6,464
EPS (Rs)	31.1	33.1	47.8	51.2	59.2
P/E (x)	28.3	26.6	18.5	17.2	14.9
EV / EBITDA (x)	14.5	14.1	10.5	9.6	8.5
P/BV (x)	3.8	3.3	3.1	2.8	2.5
RoE (%)	13.4	13.2	17.2	17.1	17.8
RoCE (%)	9.3	9.1	12.5	13.0	14.3
Dividend yield (%)	1.7	1.9	2.7	2.4	2.8
Net debt / equity (x)	-0.2	-0.4	-0.3	-0.4	-0.4

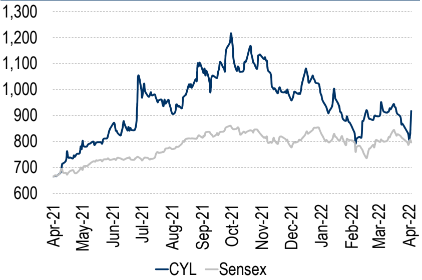
Source: Company, Anand Rathi Research

Key data	CYL IN / CYIE.BO
52-week high / low	Rs1292 / 670
Sensex / Nifty	57197 / 17172
3-m average volume	$3.2m
Market cap	Rs101bn / $1322.9m
Shares outstanding	110m

Shareholding pattern (%)	Mar'22	Dec'21	Sep'21
Promoters 23.	4	23.4	23.4
- of which, Pledged			
Free float	76.6	76.6	76.6
- Foreign institutions	34.0	34.7	35.6
- Domestic institutions	23.3	22.8	22.9
- Public	19.2	19.1	18.1

Estimates revision (%)	FY22e	FY23e
Sales ($)	(1.1)	(1.4)
EBITDA (0.5)		(0.6)
PAT (2.0)		(1.2)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Revenues (USm)	625.2	556.9	608.2	687.0	787.5
Growth (%)	-5.3	-10.9	9.2	13.0	14.6
Net revenues (Rs m)	44,275	41,325	45,344	51,867	59,453
Employee & Direct Costs	28,964	27,161	28,456	33,391	39,589
Gross Profit	15,311	14,164	16,888	18,476	19,864
Gross Margin %	34.58	34.27	37.24	35.62	33.41
SG&A	9,352	8,056	8,672	9,484	9,791
EBITDA	5,959	6,108	8,216	8,992	10,073
EBITDA margins (%)	13.5	14.8	18.1	17.3	16.9
- Depreciation	1,878	1,944	1,923	1,830	1,918
Other income	1,143	1,091	1,121	977	1,056
Interest Exp	517	481	434	477	477
PBT	4,707	4,774	6,980	7,661	8,735
Effective tax rate (%)	27	24	25	27	26
+ Associates/(Minorities)	-13	-	-	-	-
Net Income	3,424	3,641	5,219	5,593	6,464
WANS	110	110	109	109	109
FDEPS (Rs/share)	31.1	33.1	47.8	51.2	59.2

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	550	550	552	552	552
Net worth	25,577	29,541	31,134	34,385	38,142
Total debt (including Pref)	3,738	2,755	3,264	2,264	-
Minority interest	-	-	-	-	-
DTL/(Asset)	-18	-137	97	97	97
Capital employed	29,297	32,159	34,495	36,746	38,239
Net tangible assets	6,909	7,181	6,787	5,680	4,950
Net Intangible assets	767	598	477	577	677
Goodwill	5,374	5,830	6,185	6,185	6,185
CWIP (tangible and intangible)	1,459	876	134	436	436
Investments (Strategic)	414	344	3,582	3,582	3,582
Investments (Financial)	-	-	866	-	-
Current Assets (ex Cash) Incl LT a	16,960	15,130	16,928	18,031	19,287
Cash	9,518	14,650	12,666	15,531	16,590
Current Liabilities (ex ST Loan/Cu	12,104	12,450	13,130	13,275	13,469
Working capital	4,856	2,680	3,798	4,756	5,818
Capital deployed	29,297	32,159	34,495	36,746	38,239
Contingent Liabilities	434	566	-	-	-

Fig 3 – Cash Flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
PBT	4,707	4,774	6,980	7,661	8,735
+ Non-cash items	2,248	2,390	1,990	1,330	1,339
Operating profit before WC	6,955	7,164	8,970	8,992	10,073
- Incr./(decr.) in WC	-328	-2,686	973	958	1,063
Others incuding taxes	-1,459	-1,292	-1,652	-2,069	-2,271
Operating cash-flow	5,824	8,558	6,345	5,966	6,740
- Capex (tangible + Intangible)	2,149	985	647	1,125	1,288
Free cash-flow	3,675	7,573	5,698	4,841	5,452
Acquisitions	204	721	225	-	-
- Dividend (including buyback & ta	3,564	10	2,952	2,342	2,707
+ Equity raised	17	37	-829	-	-
+ Debt raised	-624	-1,921	-1,498	-1,000	-2,264
- Fin Investments	-159	-21	3,229	-866	-
- Misc. Items (CFI + CFF)	-354	-153	-1,051	-500	-579
Net cash-flow	-187	5,132	-1,984	2,864	1,060

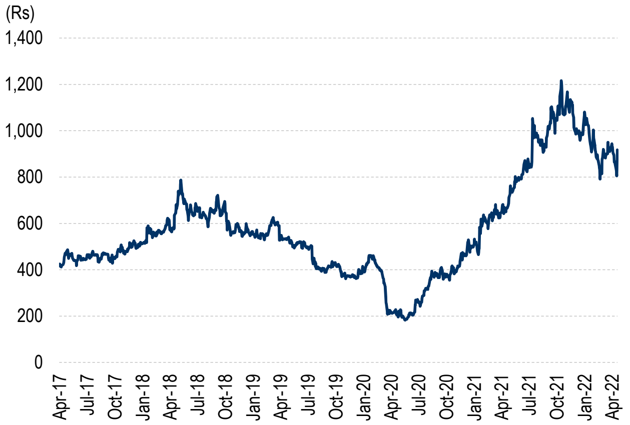
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year end Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	28.3	26.6	18.5	17.2	14.9
EV/EBITDA (x)	14.5	14.1	10.5	9.6	8.5
EV/sales (x)	1.94	2.08	1.90	1.66	1.45
P/B (x)	3.8	3.3	3.1	2.8	2.5
RoE (%)	13.4	13.2	17.2	17.1	17.8
RoCE (%) - After tax	9.3	9.1	12.5	13.0	14.3
RoIC (%) - After tax	13.3	13.8	19.9	20.2	23.1
DPS (Rs per share)	15.0	17.0	24.0	21.4	24.8
Dividend yield (%)	1.7	1.9	2.7	2.4	2.8
Dividend payout (%) - Inc. DDT	57.8	51.4	50.2	50.2	50.2
Net debt/equity (x)	-0.2	-0.4	-0.3	-0.4	-0.4
Receivables (days)	93	91	79	78	77
Inventory (days)					
Payables (days)	36	47	52	49	46
CFO:PAT%	170.1	235.0	121.6	106.7	104.3
FCF:PAT% - includ M&A payout	101.4	188.2	104.9	86.5	84.3

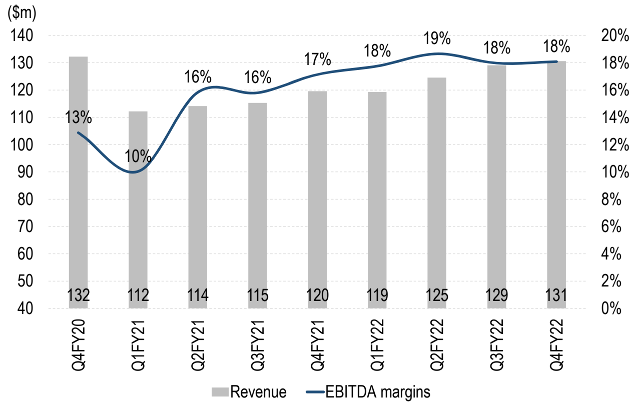
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Cyient's performance



Source: Company, Anand Rathi Research

Result Highlights

Q4 FY22 Results at a Glance

Fig 7 – Q4 FY22 results (Rs m)

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q/Q	Y/Y%
Revenue Services ($ m)	120	119	125	129	131	1.2%	9.2%
Growth Y/Y %	-10%	6%	9%	12%	9%		
Industry Y/Y % (est.)	6%	21%	21%	21%	19%		
Revenue (Rs m)	10,932	10,582	11,116	11,834	11,812	-0.2%	8.0%
Effec. exchange rate	72.9	73.7	74.1	74.9	75.4	0.6%	3.4%
TCV Services ($ m)	166.0	120.0	123.0	201.0	188.0	-6.5%	13.3%
TCV Services(LTM)	555.0	576.0	587.0	610.0	632.0	3.6%	13.9%
Y/Y %	-15%	21%	10%	13%	13%		
TCV:Rev.	1.4	1.0	1.0	1.6	1.4		
Employees Services (EoP)	11,367	11,826	12,035	12,173	12,834	5.4%	12.9%
Rev. prod. ($ '000/employee)	10.4	10.3	10.4	10.7	10.4	-2.1%	0.1%
Utilisation % (IT Services)	83.7%	83.1%	85.0%	86.2%	86.1%	-10 bps	240 bps
Attrition %	21.2%	23.5%	24.3%	29.3%	26.9%	-240 bps	570 bps
CoR (excl. D&A)	6,995	6,782	6,847	7,534	7,293	-3.2%	4.3%
As % of revenue	64%	64%	62%	64%	62%	-192 bps	-224 bps
SG&A	2,063	1,921	2,195	2,173	2,383	9.7%	15.5%
As % of revenue.	19%	18%	20%	18%	20%	181 bps	130 bps
EBITDA	1,874	1,879	2,074	2,127	2,136	0.4%	14.0%
EBITDA margins %	17%	18%	19%	18%	18%	11 bps	94 bps
EBIT	1,383	1,389	1,557	1,640	1,707	4.1%	23.4%
EBIT margins %	13%	13%	14%	14%	14%	59 bps	180 bps
Industry margins % (est.)	17.6%	16.8%	17.2%	17.4%	17.3%	-10 bps	-25 bps
Other income (excl. forex)	153	191	119	111	285	156.8%	86.3%
Non-recurring / Forex	(60)	66	30	110	209	90.0%	NM
Interest expenses	(129)	(110)	(91)	(116)	(117)	0.9%	-9.3%
PBT	1,347	1,536	1,615	1,745	2,084	19.4%	54.7%
PBT margins %	12%	15%	15%	15%	18%	290 bps	532 bps
Taxes	(315)	(385)	(403)	(430)	(543)	26.3%	72.4%
ETR %	-23%	-25%	-25%	-25%	-26%	-141 bps	-267 bps
Associates / Minority	(0)	0	-	-	(0)		
Net income	1,032	1,151	1,212	1,315	1,541	17.2%	49.4%
Net margins %	9%	11%	11%	11%	13%	193 bps	361 bps
Industry net margins %	12.6%	13.8%	13.9%	14.0%	13.9%	-3 bps	136 bps
EPS (Rs)	9.4	10.5	11.1	12.1	14.1	16.5%	50.3%

Source: Company, Anand Rathi Research

Fig 8 – Quarterly results

Year-end: Mar (Rs m)	Q4FY22	% chg. Q/Q	% chg. Y/Y	FY21	FY22e	FY22e % chg. Y/Y	FY23e % chg. Y/Y
Sales ($ m)	131	1.2	9.2	461	504	9.2	13.4
Sales	11,812	(0.2)	8.0	41,325	45,344	9.7	14.4
EBITDA	2,136	0.4	14.0	6,108	8,216	34.5	9.4
EBITDA margin (%)	18.1	11bps	94bps	14.8	18.1	334bps	-78bps
EBIT	1,707	4.1	23.4	4,164	6,293	51.1	13.8
EBIT margin (%)	14.5	59bps	180bps	10.1	13.9	380bps	-7bps
PBT	2,084	19.4	54.7	4,774	6,980	46.2	9.8
Tax	(543)	26.3	72.4	(1,133)	(1,761)	55.4	17.5
Tax rate (%)	(26.1)	-141bps	-267bps	(23.7)	(25.2)	-150bps	-177bps
Net income	1,541	17.2	49.4	3,641	5,219	43.3	7.2

Source: Company, Anand Rathi Research

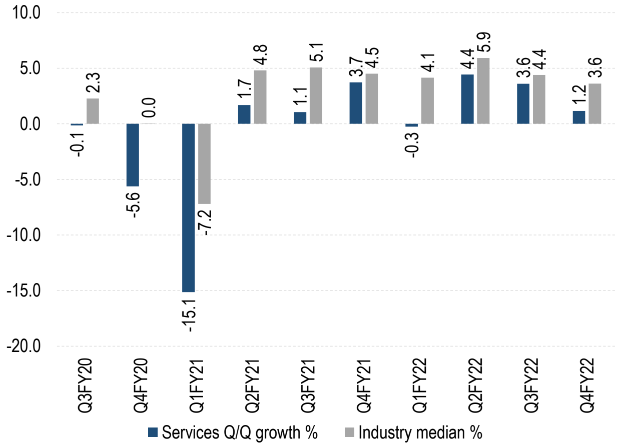
Services growth recovering

While Q4 growth was not strong, Cyient's order backlog has gradually improved, leading to expectations of acceleration. Also, from an FY22 perspective, it ended the year with 9.2% Services growth (8.5% cc, vs. the initial 10%+ guidance), missing expectations only slightly. In FY23, we start with 15% growth guidance, better and growing order intake, and a much brighter Aerospace outlook.

In the past 18 months, Cyient addressed most of the past challenges, with the new management focusing on organic growth and with Aerospace showing signs of recovery. Consequently, in the two quarters before Q4 FY22, its growth gap with the industry narrowed. In Q4, it grew less than the industry average, on a weak performance across the board (except Communications). There is still much ground to cover (LTTS Q4 FY22 up 3.1% q/q, 17.5% y/y) in matching peer performance. We expect growth rates to converge in FY23.

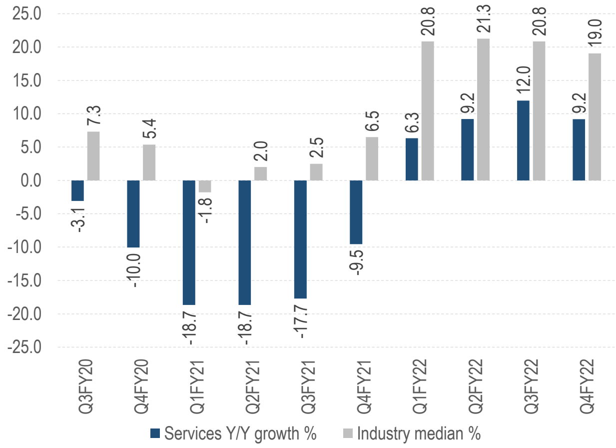
In Q4 FY22, the Services business grew for a fourth consecutive quarter y/y. Management is confident of accelerating the growth momentum, and its order intake supports its outlook of 15% growth in FY23.

Fig 9 – Lags peers in growth



Source: Company, Anand Rathi Research

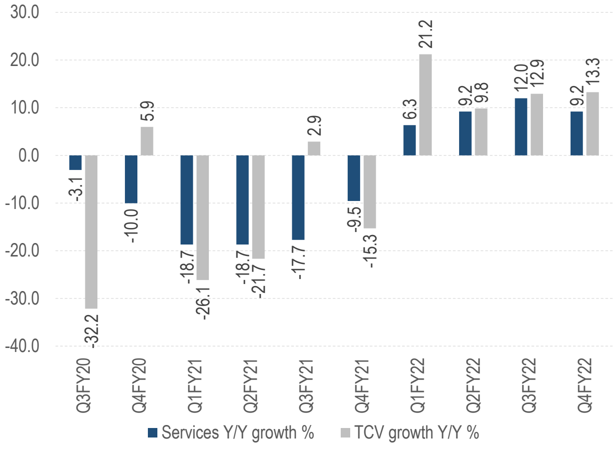
Fig 10 – Grows for the fourth straight quarter



Source: Company, Anand Rathi Research

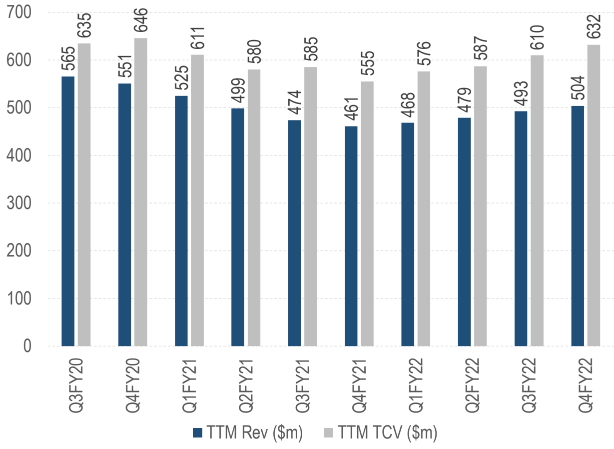
In Q4, the company had good order intake y/y, of $188m (up 13% y/y) and in FY22 of $632m (up 14% y/y), with a few large deals under its belt. Notably, over the last six quarters, order intake was ahead of revenues booked, and its core vertical, A&D (up 10% y/y), has returned to growth. Rail (down 14% y/y) continues to be a drag but the company expects it to return to growth in FY23 as some consolidation at the client level gets behind. These two segments are now Cyient's second and third largest. On a TTM basis, revenues and TCV have been rising in the last four quarters. In Q4, Cyient signed seven large deals (six in Services, one Composite B2S) with TCV potential of $134.9m. In Q3, it signed seven large deals (six in Services, one DLM) with TCV potential of $68.8m.

Fig 11 – TCV growth trending higher than Services growth



Source: Company, Anand Rathi Research

Fig 12 – TTM Rev and TTM TCV of Services

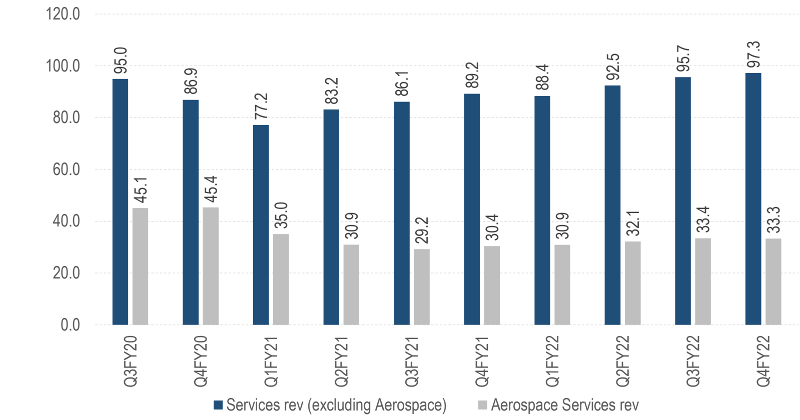


Source: Company, Anand Rathi Research

Communications and Portfolio grow q/q; Aerospace outlook brightens

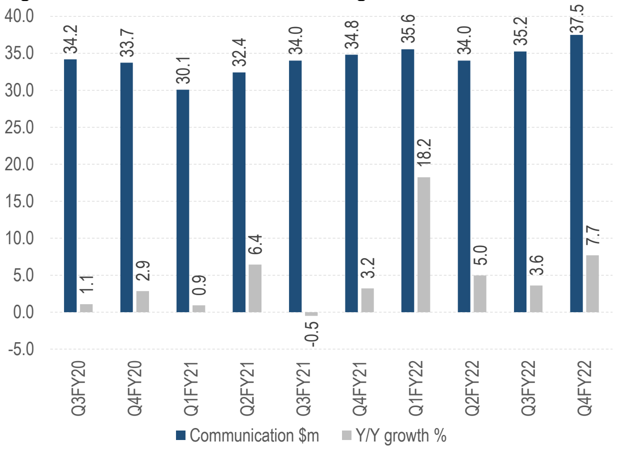
Cyient's Services depends on two major verticals, Aerospace (26% of revenue) and Communications (29%). The former grew 10% y/y, but q/q was down 0.5%. Per management, it would grow in double digits in FY23 but not reach the peak of FY20. This vertical brought the most to revenue before the pandemic, and growth ahead would be driven by a mix of recovery spreading to many accounts within the vertical as also on account of increase in Defence-related work. In Q4, Communication grew 6% q/q, 8% y/y, and is expected to be a growth driver as Cyient has won three large deals in this vertical in Q4. The company is optimistic on 5G-related projects, which are likely to accelerate ahead.

Fig 13 – Aerospace slightly declines sequentially



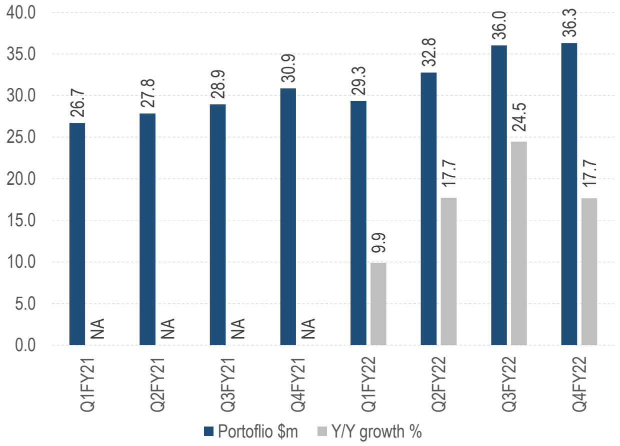
Source: Company, Anand Rathi Research

Fig 14 – Communication to be the growth driver



Source: Company, Anand Rathi Research

Fig 15 – Portfolio to be strong ahead

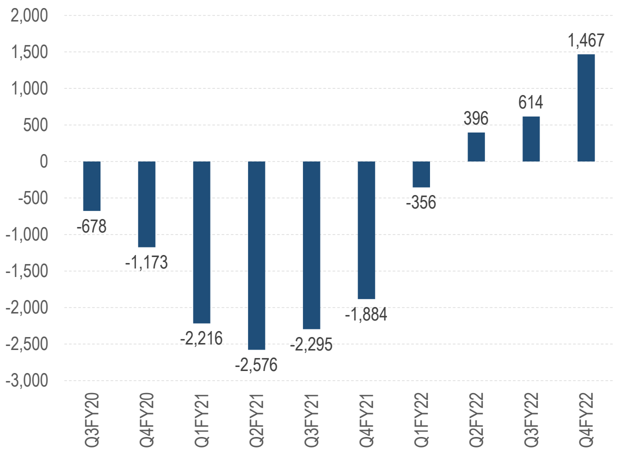


Source: Company, Anand Rathi Research

Manpower addition improves, attrition falls; productivity flattish

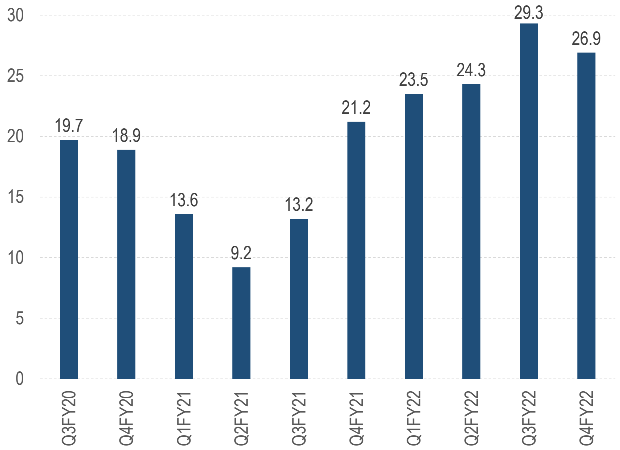
In the last 12 months Cyient added 1,467 employees in Services (of which, 661 in Q4) as Services returned to growth and the outlook brightened, thereby staging a turnaround. Utilisation, despite a strong net addition, shot up to 86.1% in Q4 FY22 (from 83.7% a year ago). Hiring was higher in Q4 than in Q3 but growth was underwhelming, possibly reflecting the outlook on the stronger H1 FY23. The company did not talk of any target hiring for FY23 but added 52 in Q4 and said it would add 15-17% to the workforce in FY23. It is looking at significant lateral and fresher hiring in the next twelve months.

Fig 16 – Net addition in Services, y/y



Source: Company, Anand Rathi Research

Fig 17 – Attrition trending down

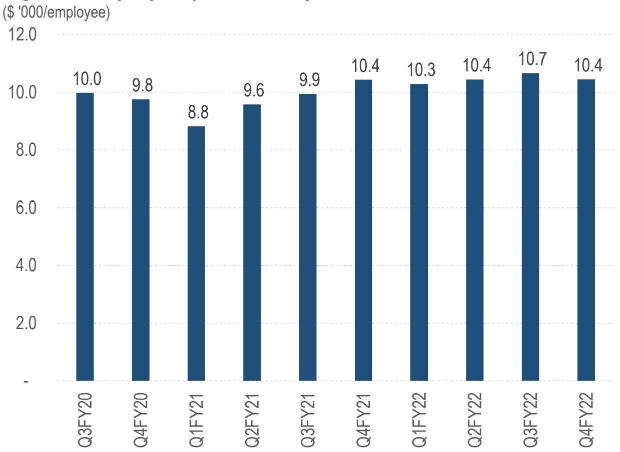


Source: Company, Anand Rathi Research

In Q3, supply-side challenges led to the company giving up some growth as it focused on profitability-. However, matters improved in the quarter. Attrition has started to trend downward. The company is looking for more than the usual wage hikes in FY23 to further curb attrition.

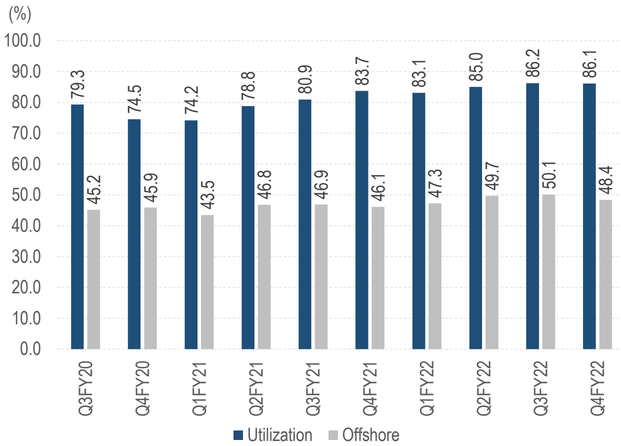
From an employee-productivity perspective, Cyient is 3% lower than in the recent past (Q3 FY22) on the back of hiring in Q4, but flattish over the last five quarters, with offshoring up ~2%. Ahead, from a utilisation point of view, it appears that it has no headroom. Offshoring, however, is still a favourable lever compared to the industry, and can offer margin tailwinds.

Fig 18 - Employee productivity of Services declines



Source: Company, Anand Rathi Research

Fig 19 – Utilisation near high, Offshoring a lever for margins



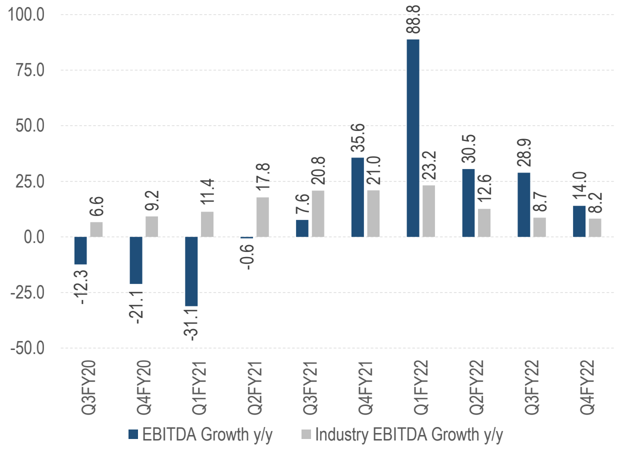
Source: Company, Anand Rathi Research

Healthy EBIDTA/PAT growth

Despite growth challenges, the company maintained its higher-than-industry EBITDA growth. This was possible by curtailing its low-margin business, driving sub-contracting costs lower by not picking up assignments which require greater use of field resources (typically sub-contractors), and by implementing stringent cost controls, including reduction in headcount to align with prevailing revenue levels.

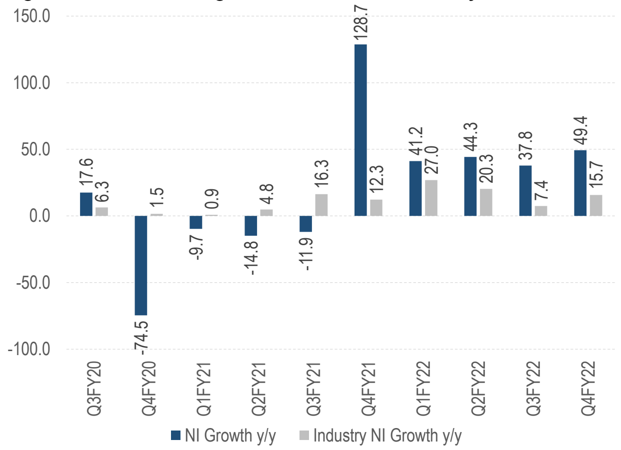
In Q4, it delivered an 18.1% EBITDA margin, (17.1% a year back, and 13.9% pre-pandemic). This translated to 14% y/y EBITDA growth, and 35% for the year, ahead of the industry. y/y, its Q4 EBITDA margin expanded 94bps to 18.1%. It delivered 14.5% EBIT margin in Q4 (consolidated) and guided to 13-14% EBIT margin for FY23 as it re-focuses on growth investments.

Fig 20 – EBITDA growth ahead of industry



Source: Company, Anand Rathi Research

Fig 21 – Net Income growth, ahead of industry



Source: Company, Anand Rathi Research

Conference-call highlights

- Demand continues to be robust; supply side is an issue which the company is trying to address now.
- Within Services, the company expects Aerospace to grow faster and C&U continues to grow as it builds scale.
- Rail volume rose 7% in FY22 but revenue was down 3% due to a significant amount of offshoring. The company expects growth to resume in H2 FY23 on account of a few deals and on completion of consolidation at its top clients.
- The company is positive on the Communications vertical and hopes for double-digit growth in FY23.
- In Utilities, Cyient won a strategic program from a new client in APAC; in this it expects significant revenue growth in FY23 and beyond.
- DLM - Materials availability and longer lead-time continue to be a challenge in executing the order backlog. The company expects this to persist in Q1 FY23.
- The Automotive vertical is seeing robust demand, and expects significant growth in FY23 given investments made by Cyient.
- Attrition came down 250bps in Q4 to 26.9%, and 26.2% for the year. The company expects this to trend down.
- Salary hikes would be a major headwind in FY23. Wage hikes in FY22: 10% in India, 2% overseas. Hikes to be higher in FY23 (12% India, 4% overseas) than in FY22. Salary hikes over three quarters, as last year.
- Cyient to add 15-17% of workforce in FY23. Anticipate offshore to increase from current levels.
- ETR to be 27% in FY23. Will revisit the transition to the new tax regime in FY23 and take a call accordingly.
- Lawsuit filed against Cyient for employee-hiring process. Negative outcome now expected.

Business outlook

- Revenue growth 13-15% in cc. DLM growth in high single-digits.
- FY23 EBIT margin: 13-14%, hard to improve margins beyond this.
- ETR to be 27% in FY23.

Q3 FY22 concall highlights

- Launched consulting practice to aid companies with efficiency, asset optimization, DT, technology adoption, etc.
- Hived off SDR division to ICS (Invocation Communication Solutions). Cyient was developing SDR for a large opportunity from the department of defense (India). Cyient decided to let specialized player, ICS takeover this product. Cyient will get 15% stake in ICS and Cyient DLM will remain their manufacturing partner after the deal. Cyient will also earn a royalty because of the product given to them. An advantage of this divestment is that the company no longer has an obligation to restrict foreign ownership to 49%. SDR arrangement had an outflow

of Rs.100m in exchange for the 15% stake. Cyient has transferred the technology and the product will be finished by ICS.

- DLM impacted due to supplychain challenges in semiconductor industry. DLM grew in Q3 challenge continues on order fulfilment due to material unavailability and longer lead times. These challenges will persist in Q4 and hence, Cyient may see steep decline in 4Q revenues (~20% y/y).
- Delivered 15.6% margin in Q3 despite headwinds from lower billing days and investment in retaining people. DLM at 6% EBIT margin.
- Aerospace vertical is seeing green shoots in top accounts. Regional 90% is back in aerospace compared to pre-covid, long haul and intercontinental at 50-60% and will take 12-18months to fully recover.
- Rail and transportation declined due to consolidation challenges in top accounts and due to work moving offshore. Expects growth to come back in FY23.Communication & Utilities won some large deals, outlook is positive for FY22. In Portfolio of services 4 out of 6 grew +20% y/y.
- Pipeline is up 25-27% y/y, Order intake 16% up y/y. Number of deals that Cyient is participating in increased by 3x over last 12 months. 85-90% of order intake executable over the next twelve months.
- New age tech this business growing twice the company's growth rate, continue to make investment here. New gen tech areas contribute 25-27% of revenue this was 18-19% a year ago
- Overall, capacity has increased more than what net addition shows as work is getting delivered through partners and Subcontractors. In Q4, company is ramping up headcount addition and expects net addition to be equal to first three quarters of the year.
- Top5 clients to get back to growth in 2-3 quarters.
- Compensation hikes in CY22 higher than CY21. Ability to move to automation, price hikes, pyramid optimization are levers for margin.
- DLM biggest challenge is chip availability. DLM there is business where they make 10-15% margin and there is some where they breakeven or make marginal EBIT margin. Now, prioritizing only 8-10% EBIT margin businesses due to chip shortage. Chip shortage to stabilize in 12-18months. Absolute EBIT guidance will be achieved. DLM to grow mid-single digit in FY22 now.

Q2 FY22 concall highlights

- Rajaneesh Kini joined Cyient as Senior Vice-President and Chief Technology Officer. He was previously at WIPRO where he headed the Global ER&D Solutions Delivery business.
- Offshoring was 52%; we expect this to further improve.
- Attrition to be kept in check with the help of merit increases in salaries in Q3 and Q4.
- One more salary correction to be done
- Aerospace is seeing some early signs of recovery. Services aerospace will see ~3%-5% growth, and Railways to record similar figures
- Management is confident of sustaining margins, which could be affected as the company is accelerating investments for the long term

and has two headwinds. One is in terms of number of days in Q2;the second is the ESOP plan that shareholders have approved, which will take about 40-50 bps in Q4.

- Management expects to grow in double digits in FY22 with growth continuing in Q3 FY22
- Margins to improve 250-300bps in FY22. EBIT to be 13.5-14% for the rest of the year and expand to 15.5% in the medium term.
- Services margin to be15-15.5%, then increase to 17% in 2 years.
- DLM growth will be 15-20% for FY22

Q1 FY22 concall highlights

- Highest EBIT margins in Q1 in the last six years. The focus on margins stays strong.
- Won four large deals (three in services, one in DLM). Signed a large deal with HMLR in the UK during Q2.
- Margin aspiration of 15% is over the medium term. Currently, likely to hold at ~13.1%, given wage hikes in Q2 (two-thirds completed in Q1, one-third to be done in Q2)
- Looking at 50% cash conversion from DLM (now negative free cash-flow)
- Aerospace to recover in 4-6 quarters and not in a hurry. In the meantime, the company expects it to keep growing 1-2% q/q but nothing meaningful yet.
- Order intake up 21% y/y to $120m; does not include regular work through MSAs. Also the order intake figure is adjusted for cancellations.
- Demand in Q1 faced supply-side challenges. In Q2, looking at hiring 500-600 fresher graduates. The company lost ~$3m revenue on account of supply-side challenges in Q1.
- Building a factory that can give 5-7 large deals each quarter; currently in the process, within 2-3 quarters, expect it to be built up.
- Wage hike in Q2 to have a 50-70bp impact.

Q4 FY21 concall highlights

- Founder Mohan Reddy steps down as executive chairman and becomes non-executive director. Karthikeyan Natarajan (COO) and Ajay Aggarwal (CFO) appointed executive directors.
- Q4 order intake: $238m, up 22.4% q/q; eight large deals (Services, six of $71m; DLM, two of $20m).
- Highest quarterly revenue in DLM. At present, Manufacturing is 95%+ in terms of contribution but is more likely to fall to ~60% in the next two years, as design starts accounting for a bigger share.
- Within Services, the A&D vertical is likely to accelerate in H2FY22 while the communications vertical is likely to maintain momentum in FY22.The E&U vertical has a robust pipeline and good growth is expected in FY22. The Portfolio vertical would grow 4-5% in FY22.
- Double-digit growth in FY22; EBIT margins to improve 200bps.
- FY22 Services capex 1.5-2%; DLM 2-3%.

Factsheet

Fig 22 – Revenue, by area (%)

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
US	48	48	49	49	54
Europe	25	28	25	25	25
APAC	28	24	26	26	22

Source: Company, Anand Rathi Research

Fig 23 – Revenue, by industry, %

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Aerospace & Defense	34	32	32	35	32
Transportation	11	12	11	9	9
Communications	23	25	23	22	24
Commercial and Geospatial	27	26	28	27	29
Energy and Utilities	5	5	7	6	6

Source: Company, Anand Rathi ResearchNote: Based on consolidated figures. New classification has five industries (A&D, Transportation, Utilities, Communications, Portfolio)

Fig 24 – Onsite-offshore revenue mix, %

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Offshore	46	47	50	50	52
On-site	54	53	50	50	48

Source: Company, Anand Rathi Research

Fig 25 – Client concentration, %

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Top 5	34	32	32	28	27
Top 10	44	43	43	42	42
Client bucket growth rates %					
Top 5	7	16	19	9	(17)
Top 6-10	(13)	27	44	58	50
Beyond Top 10	(0)	4	3	6	9

Source: Company, Anand Rathi Research

Fig 26 – Number of employees

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
IT Services	11,367	11,826	12,035	12,173	12,834
Total	12,032	12,433	12,707	12,845	13,428

Source: Company, Anand Rathi Research

Fig 27 – Employee parameters (%)

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Attrition %	21.2	23.5	24.3	29.3	26.9
Utilisation	83.7	83.1	85.0	86.2	86.1

Source: Company, Anand Rathi Research

Fig 28 – Key segments' growth Y/Y (%)

	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Region					
US	-14.3	0.6	8.7	12.1	17.7
Europe	-3.8	30.0	-4.6	10.8	4.5
APAC	50.7	9.9	38.5	11.7	-17.6
Industry					
Aerospace & Defense	-9%	-3%	13%	19%	-2%
Transportation	8%	23%	0%	-12%	-14%
Commercial and Geospatial	182%	16%	18%	15%	14%
Communications	4%	18%	5%	4%	7%

Source: Company, Anand Rathi Research

Valuations

The stock trades at 15x FY24e EPS of Rs59. Revenue grew 9% in FY22, slower than the industry due to the gradual recovery in Aero and persistent weakness in Rail. DLM suffered on chip shortages toward the year-end. However, the company seems to be returning to growth, with the deal momentum in Services picking up, more so in Communications (major deal won in Q2, two in Q3 and three in Q4), now its largest Services vertical. Overall, Cyient moved to double-digit growth in Services in Q3 FY22 after nearly three years, although it returned to single-digit growth in Q4.

Ahead, we expect revenue to clock 14% compound annual growth over FY22-24. On a positive note, A&D has started seeing some green shoots.

The EBIT margin expanded 380bps in FY22 (13.9%) and would be largely stable in FY23 and FY24. This assumes some wage pressure, given the rising and already high attrition amid utilisation which peaked in Q3 FY22. Cyient will have offshoring as a lever to offset some of these costs. Given its great execution on the margin front and considering our expectations of it returning to industry level growth in FY23, the stock has good potential.

Our FY23e and FY24e PAT have been trimmed 1-2%. Our revised target is Rs1,250 (Rs1,460 previously), reflecting patchy growth, management's willingness to explore acquisitions to accelerate growth before it can match the industry's organic growth, and positioning in the peer group. Clearly, its track record in acquisition is mixed. Bigger acquisitions may entail higher integration risks.

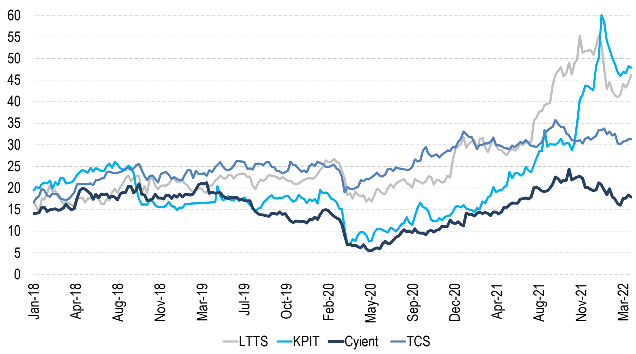
Our target price is based on 21x FY24e EPS. At this price, the stock would trade at a 31% discount to the sector leader, LTTS.

Fig 29 – Change in estimates

(Rs m)	FY23			FY24		
	New	Old	% Change	New	Old	% Change
Revenue ($ m)	687	695	(1.1)	787	798	(1.4)
Revenues	51,867	52,249	(0.7)	59,453	60,048	(1.0)
EBITDA	8,992	9,036	(0.5)	10,073	10,131	(0.6)
EBITDA margins %	17.3%	17.3%	4 bps	16.9%	16.9%	7 bps
EBIT	7,162	6,946	3.1	8,156	7,939	2.7
EBIT margins %	13.8%	13.3%	51 bps	13.7%	13.2%	50 bps
Net profit	5,593	5,704	(2.0)	6,464	6,539	(1.2)

Source: Anand Rathi Research

Fig 30 – PE band



Source: Bloomberg, Anand Rathi Research

Risk

- Large M&A and integration-related

Appendix

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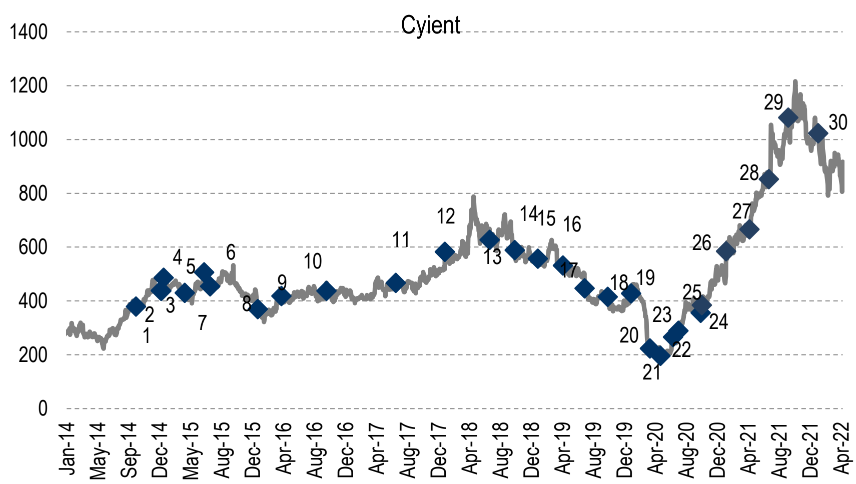

	Date	Rating	TP (Rs)	Share Price (Rs)
15	18-Jan-19	Buy	770	630
16	26-Apr-19	Buy	700	586
17	19-Jul-19	Hold	560	544
18	18-Oct-19	Hold	505	447
19	17-Jan-20	Hold	500	452
20	31-Mar-20	Buy	350	452
21	11-May-20	Hold	210	200
22	29-Jun-20	Sell	230	276
23	20-Jul-20	Sell	250	284
24	15-Oct-20	Sell	355	375
25	19-Oct-20	Hold	400	388
26	25-Jan-21	Hold	690	603
27	25-Apr-21	Buy	900	688
28	17-Jul-21	Buy	1240	1057
29	17-Oct-21	Buy	1585	1158
30	27-Jan-22	Buy	1460	940

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