

## Guides 13-15% CC growth for FY23; acquires Citec

**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%

**Q4FY22 Results:** Cyient reported muted Q4FY22 results.

- Services revenue grew 1.2% QoQ (0.4% in CC) while DLM revenues declined 9.4% QoQ. This led to overall revenue decline of 0.8% QoQ
- Services EBIT margin came in at 15.4% while DLM margins came in at 9.8%, resulting in EBIT margins of 14.5%, up 59 bps QoQ
- Cyient acquired Citec for EV of €94 mn, 1.2x price to 2021 sales

**What should investors do?** Cyient's share price has grown by ~2.3x over the past five years (from ~₹ 408 in April 2017 to ~₹ 905 levels in April 2022).

- We change our rating on the stock from BUY to **HOLD**

**Target Price and Valuation:** We value Cyient at ₹ 1,000 i.e. 18x P/E on FY24E EPS

**Key triggers for future price performance:**

- Improving outlook on aerospace vertical and utilities (with Citec acquisition)
- 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 ₹ 2,000

CYIENT

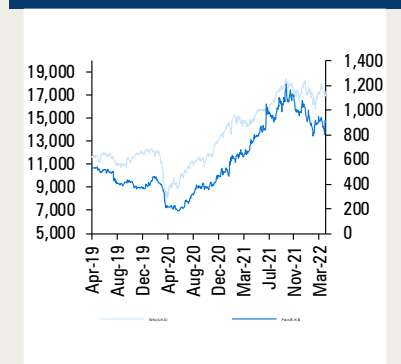
### Particulars

Particular	Amount
Market Cap (₹ Crore)	10,213.3
Total Debt (₹ Crore)	326.4
Cash and Invest (₹ Crore)	1,266.6
EV (₹ Crore)	9,273.1
52 week H/L	1292 / 670
Equity capital	55.2
Face value	₹ 5

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	23.5	23.5	23.4	23.4
FII	38.3	35.6	34.7	34.0
DII	19.9	21.5	21.4	22.0
Public	18.3	19.5	20.5	20.6

### Price Chart



### Recent Event & Key risks

- Acquires Citec for EV of €94mn
- **Key Risk:** (i) Better-than-expected services performance (ii) Lower-than-expected margins

### Research Analyst

Sameer Pardikar  
sameer.pardikar@icicisecurities.com

### Key Financial Summary

Financials (₹ crore)	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	4,427	4,132	4,534	4.7	5,269	5,954	14.6
EBITDA	596	611	822	11.1	943	1,036	12.3
EBITDA Margins (%)	13.5	14.8	18.1		17.9	17.4	
Net Profit	343	364	522	8.7	560	610	8.1
EPS (₹)	33.9	33.1	47.3		50.8	55.3	
P/E	29.1	27.4	19.1		17.8	16.4	
RoNW (%)	13.4	12.3	16.8		17.4	17.3	
RoCE (%)	15.9	14.5	19.3		20.1	20.2	

## Key takeaways of recent quarter & conference call highlights

- Services revenues came in US\$130.6 mn (up 1.2% QoQ, 1.6% QoQ in CC) while DLM business reported decline of 9.4% QoQ to US\$26.1 mn. This resulted in a decline in overall revenues at the company level of 0.8% QoQ to US\$156.7 mn (decline of 0.4% in CC). For FY22, services revenues grew 9.2% to US\$503 mn while DLM revenues grew 9.5% to US\$104.7 mn. Overall revenue at the company level grew 9.2% YoY (8.7% in CC terms) to US\$608.2 mn
- Overall EBIT margin at the company level improved 59 bps to 14.5%, services EBIT margin came in at 15.4%, down 23 bps QoQ while DLM margins came in at 9.8%, up 379 bps QoQ. For FY22, overall EBIT margin at the company level was at 13.9%, up 381 bps to 13.9%. Services EBIT margin was up 432 bps YoY to 15.3% while DLM margins came in at 7.2%, up 142 bps YoY
- The company reported margins of 13.9% at the group level, which were down 14 bps QoQ while they were up 272 bps YoY
- **Guidance:** The company guided for 13-15% CC revenue growth overall as a company while DLM is expected to grow in single digits in FY23 due to continued supply side challenges. The company expects the full year margins to be in the range of 13-14% at the company level. The company also guided for 27% ETR for FY23 due to 11 of their units coming out of some tax exemption provided in SEZ
- In Q4FY22, it won seven large deals with total contract potential of ~US\$134.9 million (six from services and one is composite B2S). for FY22, it won 23 large deals with total contract potential of US\$308.6 million (19 from services, two from DLM and two are Composite B2S deals)
- The company indicated that LTM attrition has come down for the quarter by 240 bps in Q4 to 26.9%. The company expects attrition in the range of 20-25% in the near term. While it will remain at the higher end in FY23, it expects it to taper down in the guided range in the medium term. The company also indicated that it had to let go 200 bps growth in FY22 due to high attrition as it did not have enough manpower for that project. The company also expects hiring to be at elevated level in FY23
- Depreciation for FY22 has come down vs. FY21 due to leasing coming down due to consolidation of workplaces. However, the company expects depreciation to increase in FY23 due to capacity being built up to cater to the demand
- The management indicated that revenue growth in FY23 would be broad based whereas communication, aerospace is expected to report strong growth in H1 while Rail & utilities would only pick up from H2 onwards. The management expects aerospace to be at pre-Covid level in FY23 as it has seen good recovery and growth in the segment is evenly spread now vs. a few accounts earlier. In communication, it won three major deals in Q4, one being from a key client in Canada to accelerate their broadband network. The management said de-growth in rail in H1FY23 pertains to consolidation of some of the major accounts of the company. The growth is likely to pick up only in H2FY23
- The management indicated that in FY22 they witnessed wage inflation of 10-12% in offshore while that of 4% onsite. The company also indicated that salary hikes in FY23 would be higher than that of FY22

## Key takeaways from Citec acquisitions call

- Cyient announced acquisition of CITEC, Finland based company. The company has three businesses namely: plant engineering (60% of revenue mix), product engineering (25% of revenue mix), consulting & digital (15% revenue mix). The focus clients are energy, mining, marine, oil & gas, pharma, machine & equipment companies
- **Capabilities** in A) Plant engineering includes pipeline layout & design, civil & structural design, process engineering, B) Product engineering includes product concept design, styling, analysis & testing, production support C) Digital solutions includes 3D modelling, robotic automation processing, content management, product data maintenance
- The company has 1200 employees in six locations viz. Finland, Norway, Sweden, France, Germany, India, out of which 600 employees will join Cyient as a result of the acquisition
- **Valuation:** The cost of acquisition: Enterprise value of €94 mn (at 1.2x price/sales and 6.3x of 2021 EBITDA. Indicative time of completion of said acquisition is on or before May 10, 2022
- **Rationale:** a) it would help to accelerate the growth for the company since Cyient growth has been subpar in the last few years b) Currently, Cyient does not have a presence in Nordics region. Citec's strong presence in Nordic region would help the company to have a strong delivery footprint there as well as help to build relationship with new clients in that region. c) This acquisition would also help Cyient to acquire new capabilities in plant design engineering, process engineering and technical publications
- **Financial impact:** A) The company expects incremental revenues of US\$83-87mn in FY23 (11 months' consolidation) and US\$98-102mn in FY24. This is over and above 13-15% growth guidance given for FY23. B) EBIT accretion from year 2 (acquired entity has EBIT margin of 14-16% vs Cyient consolidated EBIT margin guidance of 13-14%) since there would be EBIT margin impact of 30-50bps in FY23 due to one-time integration costs. EPS accretion of ₹2.5-3 per share (4-5%) and ₹ 5-6 per share (8-10%) in FY24
- We have not incorporated any impact of the acquisition in our financials

### Exhibit 1: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5,405	5,269	-2.5	6,201	5,954	-4.0	Revenue numbers re-aligned as per FY22 performance
EBIT	794	722	-9.1	912	786	-13.8	
EBIT Margin (%)	14.7	13.7	-100 bps	14.7	13.2	-150 bps	Margin revised downwards as services margins are expected to be under pressure
PAT	639	560	-12.3	728	610	-16.2	
EPS (₹)	58.1	50.8	-12.3	66.2	55.3	-16.2	

Source: Company, ICICI Direct Research

### Exhibit 2: Plant engineering addressable market

(EUR mn)	2021	2026	CAGR 2021-26 (%)
<b>Gas based industry</b>			
Europe	552.0	703.0	5.0
APAC	1,236.0	1,735.0	7.0
N America	454.0	553.0	4.0
<b>Marine &amp; Mining</b>			
Marine	662.0	766.0	3.0
Mining	593.0	717.0	3.9
<b>Wind &amp; Solar energy</b>			
Wind	712.0	985.0	6.7
Solar energy	475.0	767.0	10.1

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 3: Profit and loss statement					₹ crore
	FY21	FY22	FY23E	FY24E	
<b>Total Revenues</b>	<b>4,132</b>	<b>4,534</b>	<b>5,269</b>	<b>5,954</b>	
Growth (%)	(6.7)	9.7	16.2	13.0	
COGS	2,716	2,846	3,351	3,817	
Other expenditure	806	867	975	1,102	
<b>EBITDA</b>	<b>611</b>	<b>822</b>	<b>943</b>	<b>1,036</b>	
Growth (%)	2.5	34.6	14.8	9.8	
Depreciation	195	192	221	250	
Other Income	109	112	74	77	
Interest	48	43	43	43	
PBT before Exceptional Items	477	698	752	819	
Tax	113	176	192	209	
PAT before Exceptional Items	364	522	560	610	
Exceptional items	-	-	-	-	
PAT before MI	364	522	560	610	
<b>PAT</b>	<b>364</b>	<b>522</b>	<b>560</b>	<b>610</b>	
Growth (%)	6.2	43.6	7.3	8.9	
Adjusted EPS	33.1	47.3	50.8	55.3	
EPS (Growth %)	(2.4)	43.1	7.3	8.9	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement					₹ crore
	FY21	FY22	FY23E	FY24E	
PBT	477	698	752	819	
Depreciation	195	192	221	250	
WC changes	269	(97)	(122)	(109)	
Other non cash adju.	45	6	(30)	(33)	
Income taxes pd.	(129)	(165)	(192)	(209)	
<b>CF from operations</b>	<b>856</b>	<b>635</b>	<b>630</b>	<b>718</b>	
Other Investments	(2)	(318)	74	77	
Acq. Of business					
(Purchase)/Sale of Fixed Assets	(99)	(65)	(174)	(196)	
<b>CF from investing Activities</b>	<b>(101)</b>	<b>(382)</b>	<b>(100)</b>	<b>(120)</b>	
Inc / (Dec) in Equity Capital	4	12	-	-	
Change in debt funds	(163)	(70)	(43)	(43)	
Dividend & DDT	(1)	(295)	(298)	(298)	
<b>CF from Financial Activities</b>	<b>(253)</b>	<b>(545)</b>	<b>(386)</b>	<b>(386)</b>	
Exchange rate differences	(3)	5	-	-	
Opening cash balance	900	924	1,112	1,255	
Cash as margins/associates					
<b>Cash c/f to balance sheet</b>	<b>1,465</b>	<b>1,267</b>	<b>1,255</b>	<b>1,467</b>	

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet					₹ crore
	FY21	FY22	FY23E	FY24E	
<b>Liabilities</b>					
Equity	55	55	55	55	
Reserves & Surplus	2,902	3,061	3,169	3,481	
Networth	2,957	3,117	3,224	3,537	
Minority Interest	(3)	(3)	(3)	(3)	
Borrowings	276	326	326	326	
Long term Liabilities & provisions	384	409	409	409	
<b>Source of funds</b>	<b>3,614</b>	<b>3,849</b>	<b>3,957</b>	<b>4,269</b>	
<b>Assets</b>					
Net fixed assets	718	679	676	668	
Net intangible assets	136	48	48	48	
CWIP	11	13	13	13	
Goodwill	583	619	619	619	
Other non current assets	158	174	178	183	
Non current Investments	34	358	358	358	
Inventories	159	279	202	229	
Debtors	803	733	1,025	1,158	
Cash & Cash equivalents	1,465	1,267	1,255	1,467	
Other current assets	426	618	648	712	
Trade payables	453	526	571	645	
Current liabilities	387	371	439	486	
Provisions	38	41	56	54	
<b>Application of funds</b>	<b>3,614</b>	<b>3,849</b>	<b>3,957</b>	<b>4,269</b>	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios					₹ crore
	FY21	FY22	FY23E	FY24E	
<b>Per share data (₹)</b>					
Adjusted EPS (Diluted)	33.1	47.3	50.8	55.3	
Cash per Share	133.2	114.8	113.8	133.0	
BV per share	268.9	282.5	292.3	320.6	
DPS	32.0	23.0	27.0	27.0	
<b>Operating Ratios (%)</b>					
EBITDA Margin	14.8	18.1	17.9	17.4	
PAT Margin	8.8	11.5	10.6	10.2	
Debtor days	71	59	71	71	
Creditor days	40	42	40	40	
<b>Return Ratios (%)</b>					
RoE	12.3	16.8	17.4	17.3	
RoCE	14.5	19.3	20.1	20.2	
RoIC	19.5	24.5	26.9	28.2	
<b>Valuation Ratios (x)</b>					
P/E	27.4	19.1	17.8	16.4	
EV / EBITDA	14.8	11.3	9.8	8.8	
EV / Net Sales	2.2	2.0	1.8	1.5	
Market Cap / Sales	2.5	2.3	1.9	1.7	
Price to Book Value	3.4	3.2	3.1	2.8	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.5	0.4	0.3	0.3	
Debt / Equity	0.1	0.1	0.1	0.1	
Current Ratio	1.6	1.7	1.8	1.8	
Quick Ratio	1.4	1.4	1.6	1.6	

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

## ANALYST CERTIFICATION

I/We, Sameer Pardikar, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.