

July 22, 2022

## Q1FY23 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

### Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
<b>Rating</b>	<b>HOLD</b>		<b>ACCUMULATE</b>	
<b>Target Price</b>	<b>776</b>		<b>798</b>	
Sales (Rs. m)	56,056	63,285	57,244	65,191
% Chng.	(2.1)	(2.9)		
EBITDA (Rs. m)	9,442	11,047	9,640	11,379
% Chng.	(2.1)	(2.9)		
EPS (Rs.)	51.0	59.8	52.1	61.5
% Chng.	(2.2)	(2.7)		

### Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	41,325	45,344	56,056	63,285
EBITDA (Rs. m)	6,060	8,219	9,442	11,047
Margin (%)	14.7	18.1	16.8	17.5
PAT (Rs. m)	3,743	5,250	5,724	6,709
EPS (Rs.)	33.4	46.8	51.0	59.8
Gr. (%)	1.0	40.3	9.0	17.2
DPS (Rs.)	11.9	16.6	18.1	25.5
Yield (%)	1.5	2.1	2.3	3.2
RoE (%)	13.6	17.3	17.5	18.4
RoCE (%)	12.9	17.6	18.7	20.2
EV/Sales (x)	1.8	1.8	1.4	1.1
EV/EBITDA (x)	12.2	9.8	8.6	6.1
PE (x)	24.0	17.1	15.7	13.4
P/BV (x)	3.0	2.8	2.6	1.9

### Key Data

CYIE.BO | CYL IN

52-W High / Low	Rs.1,292 / Rs.720
Sensex / Nifty	55,682 / 16,605
Market Cap	Rs.88bn/ \$ 1,103m
Shares Outstanding	110m
3M Avg. Daily Value	Rs.285.1m

### Shareholding Pattern (%)

Promoter's	23.40
Foreign	32.68
Domestic Institution	23.88
Public & Others	20.04
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(0.1)	(16.6)	(18.3)
Relative	(5.7)	(11.6)	(23.4)

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## Cyient (CYL IN)

Rating: HOLD | CMP: Rs799 | TP: Rs776

### Macro headwinds and weak margins to limit upside

#### Quick Pointers:

- Steep decline of -298bps QoQ in EBIT margin: to 11.5% vs organic margin guidance of 13-15% for FY23.
- Retained 13-15% YoY CC organic revenue guidance and 6-7% revenue from acquisitions plus revenue from Citec (acquisition to be closed in Q2FY23).

**We downgrade Cyient to Hold from Accumulate, as we believe current valuations fully price in potential earnings growth. We continue to value Cyient on 13x (FY24 EPS) to arrive at a TP of Rs.776. (earlier: Rs. 798) Our EPS estimates decrease by 2%/3% in FY23/24 due to cut in revenue estimates. Management retained its organic revenue guidance of 13-15% YoY CC for FY23, 6-7% additional growth from acquisitions and contribution from Citec (expected to close in Q2FY22). We continue to believe that guidance is aggressive as 1) Macro headwinds will likely result in lower ER&D (discretionary) spends, 2) Semiconductor supply side challenges may persist for a longer period in DLM business and 2) In Services, growth is not broad-based with Communication and Portfolio (Auto, healthcare) expected to drive growth in FY23 while Aero, Rail and Utility expected to pick in H2FY23. We model 19%/12% YoY USD revenue growth for FY23/24.**

**Steep decline of 298bps QoQ in EBIT margin was led by headwinds from wage hikes (spread across 3 quarters, 153 bps impact in Q1 and 250-300 bps impact for FY23), drop in utilization (80.9%, -530bps QoQ) and investments in SG&A. DLM EBIT margin declined by 560bps QoQ which had a one-time impact of accounting error in inventory valuation. Management expects DLM EBIT margin to be 7-9% and overall margins between 13-15% for FY23. However, higher employee costs, acquisition related integration costs, reversal of covid led cost savings will weigh down on margins. We model 12.8% margin for FY23.**

- Beat in revenue:** Cyient reported revenue at \$161.6mn 4.4% QoQ CC, 3.1% QoQ USD (Ple: 1.8%). Services grew 5% QoQ USD, 6.5% QoQ CC and DLM business declined -6.3% QoQ USD. Inorganic contribution of 2.9% QoQ and Strategic buyout contribution of 1.1% QoQ is also included in this quarter's growth.
- Healthy deal wins:** Order intake (OI) was at \$164.8mn (-21.4% QoQ, 17.5% YoY) led by Services OI of \$141.3mn (-24.8% QoQ, 17.8% YoY). DLM OI was at \$23.5mn (6.8% QoQ, 15.5% YoY). Cyient won 6 large deals with total contract potential of ~\$424.3mn (4 from services and 2 from DLM).
- Vertical wise outlook:** In Services business, growth was led by Communications (9.2% QoQ USD) – demand driven by Network Transformation and Modernization opportunities, New growth areas (3.6% QoQ USD) – demand from automotive, healthcare. Rest of the verticals reported muted growth - Aerospace (0.2% QoQ USD), Rail transportation (-10.5% QoQ USD), MEU (-7.9% QoQ USD) and are expected to pick-up from H2FY23.

### Exhibit 1: Q1FY23: Quick View on Results

Rs mn	1QFY23	4QFY22	QoQ gr.	1QFY22	YoY gr.	PL Estimates	Variance (Actual vs Pls)
Revenues (USD mn)	162	157	3.1%	144	12.6%	160	1.3%
Revenues (INR mn)	12,501	11,812	5.8%	10,582	18.1%	12,335	1.3%
EBITDA	1,947	2,136	-8.8%	1,879	3.6%	1,912	1.8%
EBITDA Margins	15.6%	18.1%	-251 bps	17.8%	-218 bps	15.5%	7 bps
EBIT	1,436	1,707	-15.9%	1,389	3.4%	1,443	-0.5%
EBIT Margins	11.5%	14.5%	-296 bps	13.1%	-164 bps	11.7%	-21 bps
Adjusted PAT	1,161	1,569	-26.0%	1,151	0.8%	1,155	0.6%
EPS	11	14	-25.9%	10.5	1.0%	11	0.7%

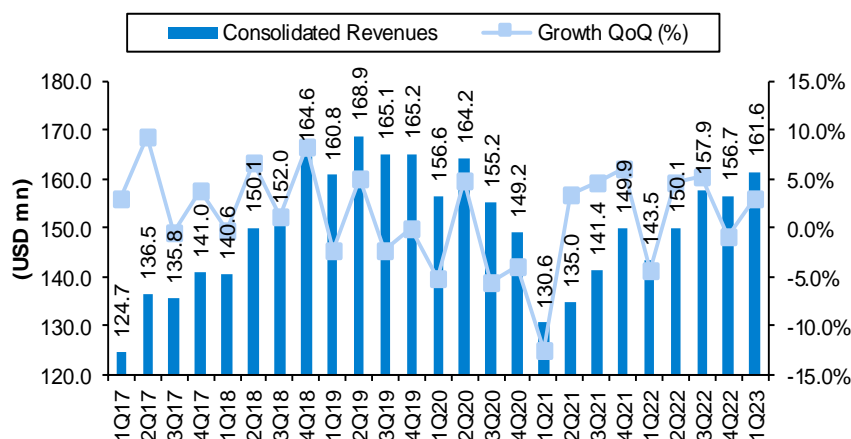
Source: Company, PL

### Exhibit 2: Change in Estimates

Change in Estimates	FY23E	FY24E
<b>USD revenues (US\$ m)</b>		
- New	725	811
- Old	741	836
Change (%)	-2.1%	-2.9%
<b>EBIT Margin</b>		
- New	12.8%	13.5%
- Old	12.9%	13.5%
Change (%)	-6 bps	0 bps
<b>Recurring EPS - Fully diluted (Rs)</b>		
- New	51.0	59.8
- Old	52.1	61.5
Change (%)	-2.2%	-2.7%

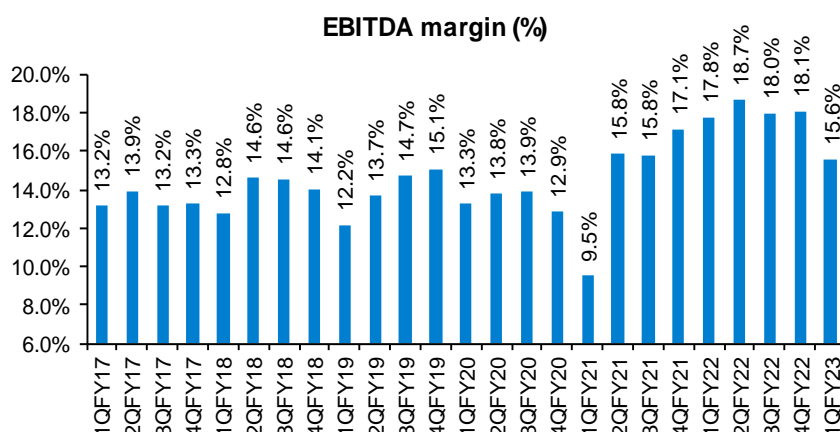
Source: PL

### Exhibit 3: Healthy revenue growth led by services business



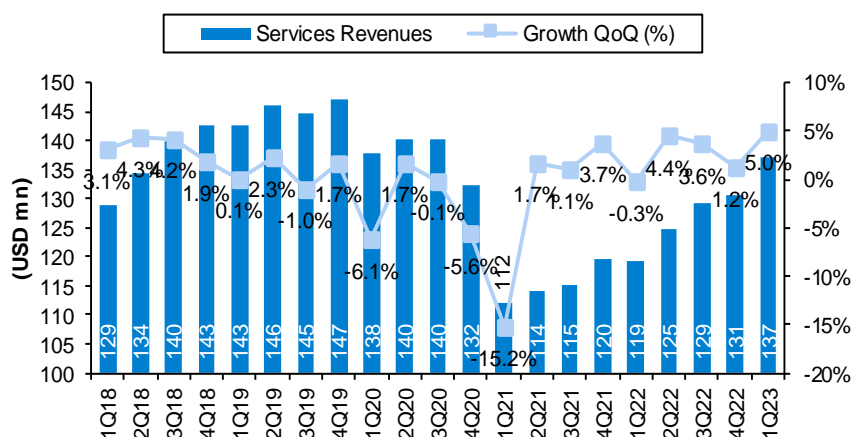
Source: Company, PL

**Exhibit 4: Sharp decline in margins**



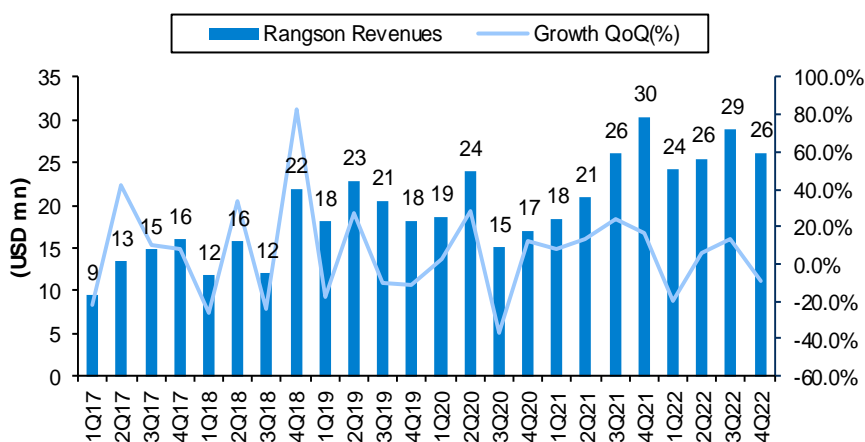
Source: Company, PL

**Exhibit 5: Healthy growth in services**



Source: Company, PL

**Exhibit 6: Continued decline in DLM due to shortage of semiconductor chips**



Source: Company, PL

## Exhibit 7: Geography-wise revenues

USD in Mn	1QFY23	4QFY22	QoQ gr.	1QFY22	YoY gr.
America	83	84	-1.1%	69	22.0%
Europe, ME, Africa & India	37	39	-4.8%	41	-5.4%
APAC	42	34	21.9%	34	1.4%
<b>Total</b>	<b>162</b>	<b>157</b>	<b>3.0%</b>	<b>144</b>	<b>9.3%</b>
<b>as a % of total</b>					
America	51.3	53.5	-220 bps	47.9	340 bps
Europe, ME, Africa & India	22.7	24.6	-190 bps	28.4	-570 bps
APAC	26.0	22.0	400 bps	23.7	230 bps

Source: Company, PL

## Exhibit 8: Vertical-wise revenues

USD in Mn	1QFY23	4QFY22	QoQ gr.	1QFY22	YoY gr.
<b>Transportation Total</b>	<b>62.2</b>	<b>64.1</b>	<b>-2.9%</b>	<b>62.6</b>	<b>2.4%</b>
Aerospace	49.3	50.0	-1.4%	46.1	8.5%
Rail transportation	12.8	14.1	-9.5%	16.5	-14.5%
<b>C&amp;U Total</b>	<b>49.1</b>	<b>47.2</b>	<b>4.2%</b>	<b>43.3</b>	<b>8.8%</b>
Communications	41.0	37.5	9.6%	35.6	5.2%
Utilities	8.1	9.7	-16.8%	7.7	25.4%
<b>Portfolio</b>	<b>45.2</b>	<b>45.4</b>	<b>-0.4%</b>	<b>37.6</b>	<b>20.9%</b>
<b>Total</b>	<b>156.6</b>	<b>156.7</b>	<b>-0.1%</b>	<b>143.5</b>	<b>9.1%</b>
<b>as a % of total</b>					
<b>Transportation Total</b>	<b>38.5</b>	<b>40.9</b>	<b>-240 bps</b>	<b>43.6</b>	<b>-510 bps</b>
Aerospace	30.5	31.9	-140 bps	32.1	-160 bps
Rail transportation	7.9	9.0	-110 bps	11.5	-360 bps
<b>C&amp;U Total</b>	<b>30.4</b>	<b>30.1</b>	<b>30 bps</b>	<b>30.2</b>	<b>20 bps</b>
Communications	25.4	23.9	150 bps	24.8	60 bps
Utilities	5.0	6.2	-120 bps	5.4	-40 bps
Portfolio	28.0	29.0	-100 bps	26.2	180 bps

Source: Company, PL

## Exhibit 9: Client Metrics

Client Buckets	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
20mn+	4	4	4	4	3	3	3	3	3	3	3	3	4
10mn+	12	12	11	11	9	7	7	8	10	10	10	11	11
5 mn+	28	27	27	26	30	32	32	30	30	32	36	34	32
1mn+	85	91	90	95	92	95	94	90	89	92	93	93	94

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Net Revenues</b>	<b>41,325</b>	<b>45,344</b>	<b>56,056</b>	<b>63,285</b>
YoY gr. (%)	(6.7)	9.7	23.6	12.9
Employee Cost	21,805	22,579	27,791	31,010
Gross Profit	19,520	22,765	28,266	32,275
Margin (%)	47.2	50.2	50.4	51.0
SG&A Expenses	13,460	14,546	18,824	21,229
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>6,060</b>	<b>8,219</b>	<b>9,442</b>	<b>11,047</b>
YoY gr. (%)	1.7	35.6	14.9	17.0
Margin (%)	14.7	18.1	16.8	17.5
Depreciation and Amortization	1,944	1,923	2,253	2,531
<b>EBIT</b>	<b>4,116</b>	<b>6,296</b>	<b>7,189</b>	<b>8,516</b>
Margin (%)	10.0	13.9	12.8	13.5
Net Interest	472	434	477	400
Other Income	1,166	1,121	937	800
<b>Profit Before Tax</b>	<b>4,810</b>	<b>6,983</b>	<b>7,649</b>	<b>8,916</b>
Margin (%)	11.6	15.4	13.6	14.1
Total Tax	1,133	1,761	2,009	2,318
Effective tax rate (%)	23.6	25.2	26.3	26.0
<b>Profit after tax</b>	<b>3,677</b>	<b>5,222</b>	<b>5,640</b>	<b>6,597</b>
Minority interest	-	-	-	-
Share Profit from Associate	66	28	84	112
<b>Adjusted PAT</b>	<b>3,743</b>	<b>5,250</b>	<b>5,724</b>	<b>6,709</b>
YoY gr. (%)	1.0	40.3	9.0	17.2
Margin (%)	9.1	11.6	10.2	10.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,743</b>	<b>5,250</b>	<b>5,724</b>	<b>6,709</b>
YoY gr. (%)	1.0	40.3	9.0	17.2
Margin (%)	9.1	11.6	10.2	10.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,743	5,250	5,724	6,709
<b>Equity Shares O/s (m)</b>	<b>110</b>	<b>110</b>	<b>110</b>	<b>92</b>
<b>EPS (Rs)</b>	<b>33.4</b>	<b>46.8</b>	<b>51.0</b>	<b>59.8</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>8,655</b>	<b>7,398</b>	<b>7,976</b>	<b>10,976</b>
Tangibles	8,655	7,398	6,307	8,407
Intangibles	-	-	1,669	2,569
<b>Acc: Dep / Amortization</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Tangibles	-	-	-	-
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>8,655</b>	<b>7,398</b>	<b>7,976</b>	<b>10,976</b>
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
<b>Current Assets</b>				
Investments	-	866	966	1,066
Inventories	1,586	2,790	2,790	2,790
Trade receivables	8,026	7,333	9,983	11,270
Cash & Bank Balance	18,906	12,666	11,993	11,172
Other Current Assets	-	-	20	40
<b>Total Assets</b>	<b>44,928</b>	<b>47,873</b>	<b>50,767</b>	<b>54,574</b>
<b>Equity</b>				
Equity Share Capital	550	552	552	552
Other Equity	28,991	30,582	33,894	37,776
<b>Total Network</b>	<b>29,541</b>	<b>31,134</b>	<b>34,446</b>	<b>38,328</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	2,827	2,424	2,424	2,424
Provisions	1,288	1,347	1,447	1,547
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
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
<b>Total Equity &amp; Liabilities</b>	<b>44,928</b>	<b>47,873</b>	<b>50,767</b>	<b>54,574</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	3,638	5,223	7,733	9,028
Add. Depreciation	1,945	1,922	2,253	2,531
Add. Interest	433	393	477	400
Less Financial Other Income	1,166	1,121	937	800
Add. Other	(248)	(508)	(937)	(800)
Op. profit before WC changes	5,768	7,030	9,526	11,159
Net Changes-WC	2,686	(973)	(3,108)	(1,403)
Direct tax	(1,292)	(1,652)	(2,009)	(2,318)
<b>Net cash from Op. activities</b>	<b>7,162</b>	<b>4,405</b>	<b>4,409</b>	<b>7,437</b>
Capital expenditures	(1,571)	(806)	(2,831)	(5,531)
Interest / Dividend Income	397	545	937	800
Others	167	(3,562)	(300)	(300)
<b>Net Cash from Invt. activities</b>	<b>(1,007)</b>	<b>(3,823)</b>	<b>(2,194)</b>	<b>(5,031)</b>
Issue of share cap. / premium	37	(829)	-	-
Debt changes	(1,466)	(545)	-	-
Dividend paid	(10)	(2,952)	(2,412)	(2,827)
Interest paid	(213)	(166)	(477)	(400)
Others	(874)	(953)	1	1
<b>Net cash from Fin. activities</b>	<b>(2,526)</b>	<b>(5,445)</b>	<b>(2,888)</b>	<b>(3,226)</b>
<b>Net change in cash</b>	<b>3,629</b>	<b>(4,863)</b>	<b>(673)</b>	<b>(820)</b>
Free Cash Flow	5,591	3,599	1,578	1,906

Source: Company Data, PL Research

### Key Financial Metrics

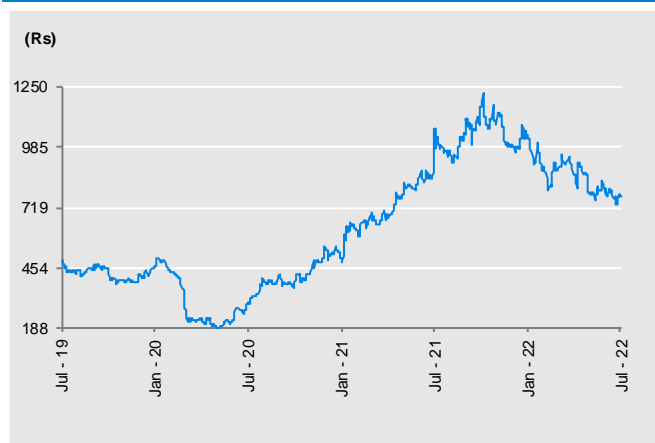
Y/e Mar	FY21	FY22	FY23E	FY24E
<b>Per Share(Rs)</b>				
EPS	33.4	46.8	51.0	59.8
CEPS	51.7	65.0	72.3	100.4
BVPS	268.6	282.0	312.0	416.6
FCF	50.8	32.6	14.3	20.7
DPS	11.9	16.6	18.1	25.5
<b>Return Ratio(%)</b>				
RoCE	12.9	17.6	18.7	20.2
ROIC	20.0	20.2	19.5	19.8
RoE	13.6	17.3	17.5	18.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.5)	(0.3)	(0.2)	(0.2)
Debtor (Days)	71	59	65	65
<b>Valuation(x)</b>				
PER	24.0	17.1	15.7	13.4
P/B	3.0	2.8	2.6	1.9
P/CEPS	15.5	12.3	11.1	8.0
EV/EBITDA	12.2	9.8	8.6	6.1
EV/Sales	1.8	1.8	1.4	1.1
Dividend Yield (%)	1.5	2.1	2.3	3.2

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
<b>Net Revenue</b>	<b>11,116</b>	<b>11,834</b>	<b>11,812</b>	<b>12,501</b>
YoY gr. (%)	10.8	13.3	8.0	18.1
Raw Material Expenses	5,511	5,956	5,934	6,441
Gross Profit	5,605	5,878	5,878	6,060
Margin (%)	50.4	49.7	49.8	48.5
<b>EBITDA</b>	<b>2,075</b>	<b>2,129</b>	<b>2,136</b>	<b>1,947</b>
YoY gr. (%)	30.6	29.0	14.0	3.6
Margin (%)	18.7	18.0	18.1	15.6
Depreciation / Depletion	517	487	429	511
<b>EBIT</b>	<b>1,558</b>	<b>1,642</b>	<b>1,707</b>	<b>1,436</b>
Margin (%)	14.0	13.9	14.5	11.5
Net Interest	91	116	117	177
Other Income	149	221	494	337
<b>Profit before Tax</b>	<b>1,616</b>	<b>1,747</b>	<b>2,084</b>	<b>1,596</b>
Margin (%)	14.5	14.8	17.6	12.8
Total Tax	403	430	543	435
Effective tax rate (%)	24.9	24.6	26.1	27.3
<b>Profit after Tax</b>	<b>1,213</b>	<b>1,317</b>	<b>1,541</b>	<b>1,161</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	28	-
<b>Adjusted PAT</b>	<b>1,213</b>	<b>1,317</b>	<b>1,569</b>	<b>1,161</b>
YoY gr. (%)	39.9	38.0	51.9	0.8
Margin (%)	10.9	11.1	13.3	9.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,213</b>	<b>1,317</b>	<b>1,569</b>	<b>1,161</b>
YoY gr. (%)	39.9	38.0	51.9	0.8
Margin (%)	10.9	11.1	13.3	9.3
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>1,213</b>	<b>1,317</b>	<b>1,569</b>	<b>1,161</b>
Avg. Shares O/s (m)	110	110	110	110
<b>EPS (Rs)</b>	<b>11.1</b>	<b>12.0</b>	<b>14.3</b>	<b>10.6</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Jul-22	Accumulate	798	761
2	26-Apr-22	BUY	1,208	899
3	22-Apr-22	BUY	1,096	831
4	05-Apr-22	BUY	1,258	944
5	21-Jan-22	BUY	1,293	976
6	04-Jan-22	BUY	1,301	1,065
7	17-Oct-21	BUY	1,315	1,160
8	05-Oct-21	BUY	1,145	1,055
9	06-Aug-21	BUY	1,088	967

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Affle (India)	BUY	1,342	1,009
2	Coforge	BUY	4,095	3,488
3	Cyient	Accumulate	798	761
4	HCL Technologies	Hold	982	928
5	Infosys	Accumulate	1,646	1,479
6	L&T Technology Services	Hold	3,184	3,093
7	Larsen & Toubro Infotech	Accumulate	4,280	3,874
8	Mindtree	Accumulate	3,131	2,901
9	Mphasis	Hold	2,421	2,241
10	Persistent Systems	Hold	3,490	3,329
11	Redington (India)	BUY	162	127
12	Sonata Software	Accumulate	694	655
13	Tata Consultancy Services	Accumulate	3,607	3,265
14	TeamLease Services	Accumulate	3,642	3,300
15	Tech Mahindra	Hold	1,065	1,011
16	Wipro	Hold	439	422
17	Zensar Technologies	Hold	279	270

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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