

Estimate change	↔
TP change	↑
Rating change	↔

Bloomberg	CYL IN
Equity Shares (m)	113
M.Cap.(INRb)/(USD\$b)	97.6 / 1.2
52-Week Range (INR)	1079 / 724
1, 6, 12 Rel. Per (%)	10/3/-13
12M Avg Val (INR M)	233

#### Financials & Valuations (INR b)

Y/E Mar	2023E	2024E	2025E
Sales	59.7	73.6	82.4
EBIT Margin (%)	12.4	13.6	14.1
PAT	5.7	7.6	8.8
EPS (INR)	51.9	68.6	79.7
EPS Gr. (%)	8.7	32.2	16.1
BV/Sh. (INR)	290.7	318.2	350.2

#### Ratios

RoE (%)	18.1	22.6	23.9
RoCE (%)	15.5	18.7	19.6
Payout (%)	60.0	60.0	60.0

#### Valuations

P/E (x)	17.0	12.9	11.1
P/BV (x)	3.0	2.8	2.5
EV/EBITDA (x)	8.2	5.9	5.0
Div Yield (%)	3.5	4.7	5.4

#### Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	23.4	23.4	23.4
DII	23.7	23.9	22.9
FII	33.6	32.7	35.6
Others	19.3	20.0	18.1

FII Includes depository receipts

**CMP: INR883**      **TP: INR1,100 (+25%)**      **Buy**

### Good 3Q delivery, improving outlook

#### Sustained performance can drive valuation rerating

- CYL reported 3QFY23 revenue growth of 13.4% QoQ in CC, largely coming through the full-quarter consolidation of Citec. Excluding the inorganic impact, its Services business grew by 3.7% QoQ CC vs our estimates of 3.1% QoQ. DLM grew by 22.8% QoQ, beating our estimate of 18.1% QoQ growth.
- 3Q growth was led by A&D, Energy and Utility verticals, up 10.2%, 5.8% and 4.6% QoQ, respectively. Communications remained muted. Rail/Consulting stayed weak, declining 4.6%/7.8% QoQ. Management has maintained FY23 organic revenue growth guidance of 13-15% in CC terms.
- The normalized EBIT margin stood at 12.9%, up 100bp QoQ, beating our estimate of 50bp improvement. Management has maintained its FY23 EBIT margin guidance of 13-14%.
- Service order intake was strong at USD237m, up 83% QoQ/18% YoY. The deal pipeline also remains healthy, adding to confidence in management's guidance of delivering better QoQ Service revenue growth in 4QFY23.
- The challenges in the A&D and Rail segments are behind, and the verticals are expected to reverse the trend to stimulate growth going forward. Rail Transportation bottomed out in Q3 and should aid topline growth in coming quarters.
- The DLM transaction (Proposed IPO) is expected to get executed by FY24. The DLM carve-out is another trigger that will release enough resources and management bandwidth currently occupied in running the business. We believe the transaction should be positive for the service segment and it should unlock value for both the entities.
- We have slightly tweaked our estimates to account for better growth. We maintain our Buy rating on the stock on attractive valuations. Our target multiple of 16x FY24E EPS implies a TP of INR1,100, with a potential upside of 25%.

#### Revenue/margin beat estimates

- Revenue grew by 13.4% YoY in CC terms, EBIT in INR terms rose 25.5% QoQ, and PAT in INR terms increased by 33.5% in 3QFY23.
- In 9MFY23, USD revenue/INR EBIT/INR PAT grew by 18%/13%/9% YoY.
- In USD terms, revenue grew by 12.7% QoQ to USD197m, largely driven by Citec (full-quarter consolidation) and other acquisitions.
- Revenue from Services rose 11.9% QoQ in CC terms (3.7% QoQ organic). DLM increased by 22.8% QoQ.
- Management has maintained its FY23 organic revenue growth guidance at 13-15% YoY in CC terms. It said it will add 14-15% from acquisitions in CC terms.
- CYL maintained its EBIT margin guidance at 13-14% for the organic business. EBITDA will be in the 16-17% range as acquisitions are marginally accretive.
- PAT grew by ~33% QoQ to INR1.6b, above our estimate of INR1.5b on better margin.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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**Key highlights from the management commentary**

- Growth was led by the A&D, Energy and Utility verticals, up 10.2% QoQ, 5.8% QoQ and 4.6% respectively. The Communications vertical remained muted.
- The weakness continued in Rail Transport and Consulting, which reported a decline of 4.6% QoQ and 7.8% QoQ, respectively.
- The market dynamics remain challenging; however, CYL sees some green-shoots in the A&D space. The volume recovery is happening at a substantial pace, thereby creating opportunities around MRO service.
- Huge traction around the new energy transition and alternate sources of energy to achieve carbon neutrality and sustainability goals.
- With the recent acquisition of Citec, CYL is looking for a Go-to-Market strategy to deliver comprehensive solutions around SDN, network virtualization and 5G. With this acquisition, the company is also winning incremental deals from OEMs and operators in the telecom space.

**Maintain our Buy rating**

- We continue to see a strong rebound in ER&D spending, led by increased outsourcing and larger deal sizes. Management's plan to leverage these spends, led by a refreshed GTM strategy and increased focus on large deal wins, should bode well for its growth performance.
- The growth momentum in verticals such as A&D, E&U, and Mining is likely to continue for the next two-to-three years.
- We maintain our **Buy** rating on attractive valuations. **Our target multiple of 16x FY24E EPS implies a TP of INR1,100, with a potential upside of 25%.**

**Quarterly performance**

(INR m)

Y/E March	FY22				FY23				FY22	FY23E	FY23E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%/bp)
Revenue (USD m)	144	150	158	157	162	175	197	207	608	741	194	1.4
QoQ (%)	-4.3	4.6	5.2	-0.8	3.1	8.2	12.7	5.2	9.2	21.8	11.2	153bp
Revenue (INR m)	10,582	11,116	11,834	11,812	12,501	13,962	16,182	17,103	45,344	59,748	15,974	1.3
YoY (%)	6.7	10.8	13.3	8.0	18.1	25.6	36.7	44.8	9.7	31.8	35.0	176bp
GPM (%)	35.9	38.4	36.3	38.3	36.8	38.4	37.8	38.3	37.3	37.9	38.7	-89bp
SGA (%)	18.2	19.8	18.4	20.2	21.2	22.0	20.6	20.7	19.1	21.1	21.8	-118bp
EBITDA	1,878	2,074	2,128	2,136	1,946	2,290	2,783	3,010	8,216	10,029	2,700	3.1
EBITDA margin (%)	17.7	18.7	18.0	18.1	15.6	16.4	17.2	17.6	18.1	16.8	16.9	30bp
EBIT	1,388	1,557	1,641	1,707	1,435	1,660	2,084	2,258	6,293	7,437	1,997	4.4
EBIT margin (%)	13.1	14.0	13.9	14.5	11.5	11.9	12.9	13.2	13.9	12.4	12.5	38bp
Other income	147	58	105	377	160	-148	60	51	687	123	32	87.8
ETR (%)	25.1	25.0	24.6	26.1	27.2	19.4	24.1	26.0	25.2	24.4	27.0	
Adj. PAT	1,150	1,212	1,316	1,541	1,161	1,218	1,627	1,709	5,219	5,715	1,481	9.9
QoQ (%)	3.9	5.4	8.6	17.1	-24.7	4.9	33.6	5.0			21.6	1198bp
YoY (%)	41.3	44.4	37.9	39.3	0.9	0.5	23.6	10.9	40.5	9.5	12.5	1109bp
EPS (INR)	10.5	11.1	12.1	14.1	10.6	11.1	14.8	15.5	47.8	51.9	13.5	9.6

## Key performance indicators

Y/E March	FY22				FY23				FY22	FY23E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
<b>Margins (%)</b>										
Gross Margin	35.9	38.4	36.3	38.3	36.8	38.4	37.8	38.3	37.3	37.9
EBIT Margin	13.1	14.0	13.9	14.5	11.5	11.9	12.9	13.2	13.9	12.4
Net Margin	10.9	10.9	11.1	13.0	9.3	8.7	10.1	10.0	11.5	9.6
<b>Operating metrics</b>										
Headcount	12,433	12,707	12,845	13,428	14,147	15,598	15,355		13,428	
Attrition (%)	23.5	24.3	29.3	26.9	27.9	28.4	26.5		26.9	
<b>Key verticals (YoY %)</b>										
Aerospace and Defense	-3%	13%	19%	-2%	7%	-1%	-4%		3%	3%
Transportation	23%	0%	-12%	-14%	-23%	-31%	-25%		1%	1%
Communications	18%	5%	4%	7%	15%	20%	15%		8%	8%
<b>Key geographies (YoY %)</b>										
North America	1%	9%	12%	18%	21%	20%	21%	17%	10%	10%
Europe	30%	-5%	11%	5%	-10%	22%	51%	59%	9%	9%



## Key highlights from the management commentary

## Performance in 3QFY23

- CYL reported 3QFY23 revenue growth of 13.4% QoQ in CC, largely coming through the full-quarter consolidation of Citec. Excluding the inorganic impact, its Services business grew by 3.7% QoQ CC vs our estimate of 3.1% QoQ. DLM grew by 22.8% QoQ, beating our estimate of 18.1% QoQ growth.
- The normalized EBIT margin stood at 12.9%, up 100bp QoQ, beating our estimate of 50bp QoQ improvement. Management has maintained its FY23 EBIT margin guidance of 13-14%.
- The order intake remained strong for the service segment at USD237.1m, up 83.4% QoQ and 18.2% YoY. 3Q registered five large deals in the service segment, with total contract potential of USD59.2m vs USD105m in Q2. Even the deal pipeline remained healthy in Q3, which gives confidence to management to achieve its revenue guidance of 13-15% YoY CC in FY23.

## Commentary on verticals

- The volume on the MRO service is picking up well, while the momentum for the design & engineering service remains strong on both commercial and defense segments.
- Management is working on several parameters to improve growth in Transportation. The healthy pipeline gives confidence in sustainable growth for the A&D segment.
- Rail Transportation bottomed out in Q3 and should see improvement from Q4 onward, while Consulting is expected to remain soft until macro uncertainties improve.
- The addressable market for commercial network design and fiber rollout is huge, with 5G making incremental opportunities, leading to strategic partnerships with key OEMs and operators.
- With Europe facing the energy crisis, the 5G radio deployment is incrementally generating offerings around optimizing energy consumption. The integration of Celfinet offerings is further augmenting the core services and generating cross-sell opportunities on 5G solutions.

- The practices around energy transition, carbon neutralization, autonomous, digitization and asset management are gaining traction across its client base.

### Margin

- Margin stood at 12.9% in 3QFY23, beating our estimate of 12.5%. The margin improvement was led by letting off some of the low-margin revenues, improved utilization, offshoring, and SG&A optimization.
- CYL delivered a normalized EBITDA margin (excluding exceptional and M&A) of 17.2%.
- The ongoing class action lawsuit further added INR89m to its cost. It will continue to incur costs, although at a lower value.
- Management does not see any material margin headwind for the remainder of FY23.
- The company is expected to further improve its op. margin in Q4.

### Outlook

- Management has maintained its guidance for organic revenue growth of 13-15% CC in FY23. A&D is expected to report double-digit growth in Q4.
- Revenue from recent acquisitions should add 14-15% to FY23 revenue in CC terms.
- EBIT margin guidance has been maintained at 13-14% for the organic business. The overall EBITDA range will be 16-17%.
- Normalized EBITDA for the group should be 16-17% in FY23.

### Exhibit 1: Strong growth in Europe on the back of the Citec acquisition

Geographies	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
Americas	47.6	6.4	20.7
Europe	30.3	31.3	50.6
Asia Pacific	22.1	5.5	7.3

Source: Company, MOFSL

## Valuation and view

- We continue to see a strong rebound in ER&D spending, led by increased outsourcing and larger deal sizes. The management's plan to leverage these spends, led by a refreshed GTM strategy and increased focus on large deal wins, should bode well for its growth performance.
- The growth momentum in verticals such as A&D, E&U, and Mining is likely to continue for the next two-to-three years.
- We maintain our **Buy** rating led by attractive valuations. **Our target multiple of 16x FY24E EPS implies a TP of INR1,100, with a potential upside of 25%.**

### Exhibit 2: Revisions to our estimates

	Revised estimates			Earlier estimates			Change in estimates		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
USD:INR	80.4	82.5	82.5	80.5	82.8	82.8	-0.1%	-0.4%	-0.4%
Revenue (USD m)	741	892	998	734	868	956	6.0%	2.8%	4.4%
Growth (%)	21.8	20.4	11.9	20.6	18.3	10.1	120bps	220bps	180bps
EBIT margin (%)	12.4	13.6	14.1	12.5	13.7	14.2	-10bps	-10bps	-10bps
PAT (INR m)	5,715	7,558	8,776	5,615	7,434	8,492	1.8%	1.7%	3.3%
EPS	51.9	68.6	79.7	51.1	67.7	77.3	1.6%	1.5%	3.1%

Source: MOFSL

## Operating metrics

Exhibit 3: Operating metrics

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
<b>Geographic mix (%)</b>									
Americas	49.1	47.4	47.9	48.8	49.2	53.5	51.3	50.4	47.6
Europe	25.3	24.6	28.4	24.8	25.1	24.6	22.7	26.0	30.3
Asia Pacific	25.6	28.0	23.7	26.4	25.7	22.0	26.0	23.6	22.1
<b>Utilization (%)</b>									
Overall	80.9	83.7	83.1	85.0	86.2	86.1	80.9	84.6	90.9
<b>Client contribution (%)</b>									
Top five	28.8	33.5	31.9	31.7	28.1	30.6	27.7	25.2	26.0
Top 10	38.4	44.1	43.3	43.2	41.7	42.6	39.3	37.2	36.7
<b>Number of clients (USD m)</b>									
Over USD1m	94	90	89	92	93	93	94	98	97
Over USD5m	32	30	30	32	36	34	32	37	38
Over USD10m	7	8	10	10	10	11	11	12	12
Over USD20m	3	3	3	3	3	3	4	4	6
<b>Voluntary attrition (%)</b>									
	13.2	21.2	23.5	24.3	29.3	26.9	27.9	28.4	26.5

Source: Company, MOFSL

## Financials and valuations

Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Sales</b>	<b>39,176</b>	<b>46,175</b>	<b>44,275</b>	<b>41,325</b>	<b>45,344</b>	<b>59,748</b>	<b>73,588</b>	<b>82,359</b>
Change (%)	8.6	17.9	(4.1)	(6.7)	9.7	31.8	23.2	11.9
Cost of Services	25,387	30,125	28,964	27,162	28,453	37,111	45,589	50,733
SG&A Expenses	8,296	9,606	9,352	8,056	8,675	12,607	14,769	16,472
<b>EBITDA</b>	<b>5,493</b>	<b>6,444</b>	<b>5,959</b>	<b>6,107</b>	<b>8,216</b>	<b>10,029</b>	<b>13,230</b>	<b>15,154</b>
As a percentage of Net Sales	14.0	14.0	13.5	14.8	18.1	16.8	18.0	18.4
Depreciation	1,051	1,692	1,878	1,944	1,923	2,593	3,238	3,541
Other Income	1,207	864	734	684	687	123	221	247
<b>PBT</b>	<b>5,649</b>	<b>5,616</b>	<b>4,815</b>	<b>4,847</b>	<b>6,980</b>	<b>7,560</b>	<b>10,213</b>	<b>11,860</b>
Tax	1,381	2,327	1,076	1,133	1,761	1,845	2,655	3,084
Rate (%)	24.4	41.4	22.3	23.4	25.2	24.4	26.0	26.0
<b>Net Income</b>	<b>4,268</b>	<b>3,307</b>	<b>3,726</b>	<b>3,714</b>	<b>5,219</b>	<b>5,715</b>	<b>7,558</b>	<b>8,776</b>
Change (%)	20.8	-22.5	12.7	-0.3	40.5	9.5	32.2	16.1

Balance Sheet							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	563	552	550	550	552	552	552	552
Reserves	22,876	25,089	25,059	29,023	30,614	31,414	34,437	37,947
<b>Net Worth</b>	<b>23,439</b>	<b>25,641</b>	<b>25,609</b>	<b>29,573</b>	<b>31,166</b>	<b>31,966</b>	<b>34,989</b>	<b>38,499</b>
Other liabilities	1,636	2,240	4,194	3,812	4,061	5,526	6,813	7,629
Loan	2,410	3,253	3,738	2,755	3,264	3,264	3,264	3,264
<b>Capital Employed</b>	<b>27,485</b>	<b>31,134</b>	<b>33,541</b>	<b>36,140</b>	<b>38,491</b>	<b>40,756</b>	<b>45,066</b>	<b>49,392</b>
<b>Applications</b>								
Gross Block	12,217	13,289	17,388	18,088	18,838	19,588	20,338	23,338
Less: Depreciation	7,791	8,766	9,712	11,656	13,579	16,172	19,409	22,951
<b>Net Block</b>	<b>3,220</b>	<b>3,530</b>	<b>6,909</b>	<b>7,181</b>	<b>6,787</b>	<b>3,416</b>	<b>929</b>	<b>387</b>
CWIP	213	300	800	113	134	134	134	134
Intangibles	5,057	6,990	6,800	7,191	6,662	6,662	6,662	6,662
Other assets	2,380	2,219	2,638	1,925	5,318	5,581	5,842	6,007
<b>Curr. Assets</b>	<b>23,456</b>	<b>25,853</b>	<b>24,650</b>	<b>28,518</b>	<b>28,972</b>	<b>37,489</b>	<b>46,150</b>	<b>52,199</b>
Debtors	6,913	8,137	7,262	8,026	7,333	10,804	13,306	14,892
Cash and Bank Balance	9,604	9,073	8,995	14,408	12,157	15,980	19,102	21,273
Other Current Assets	5,809	8,365	8,393	6,084	8,616	8,839	10,876	12,167
<b>Current Liab. and Prov.</b>	<b>6,841</b>	<b>7,758</b>	<b>8,256</b>	<b>8,788</b>	<b>9,382</b>	<b>12,527</b>	<b>14,650</b>	<b>15,996</b>
Trade payables	3,813	3,712	3,729	4,532	5,259	8,185	10,081	11,282
Other liabilities	2,799	3,757	4,150	3,872	3,709	3,787	3,886	3,949
Provisions	229	289	377	384	414	555	684	765
<b>Net Current Assets</b>	<b>16,615</b>	<b>18,095</b>	<b>16,394</b>	<b>19,730</b>	<b>19,590</b>	<b>24,963</b>	<b>31,500</b>	<b>36,202</b>
<b>Application of Funds</b>	<b>27,485</b>	<b>31,134</b>	<b>33,541</b>	<b>36,140</b>	<b>38,491</b>	<b>40,756</b>	<b>45,066</b>	<b>49,392</b>

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>38.0</b>	<b>30.0</b>	<b>33.8</b>	<b>33.8</b>	<b>47.8</b>	<b>51.9</b>	<b>68.6</b>	<b>79.7</b>
Cash EPS	47.4	45.3	50.8	51.5	65.3	75.5	98.1	111.9
Book Value	209.8	232.3	232.0	269.1	285.1	290.7	318.2	350.2
DPS	13.0	13.0	27.0	24.5	28.7	31.1	41.2	47.8
Payout (%)	34.2	43.4	80.0	72.5	60.0	60.0	60.0	60.0
<b>Valuation (x)</b>								
P/E ratio	23.2	29.5	26.2	26.1	18.5	17.0	12.9	11.1
Cash P/E ratio	18.6	19.5	17.4	17.1	13.5	11.7	9.0	7.9
EV/EBITDA ratio	16.4	14.2	15.5	14.0	10.6	8.2	5.9	5.0
EV/Sales ratio	2.3	2.0	2.1	2.1	1.9	1.4	1.1	0.9
Price/Book Value ratio	4.2	3.8	3.8	3.3	3.1	3.0	2.8	2.5
Dividend Yield (%)	1.5	1.5	3.1	2.8	3.2	3.5	4.7	5.4
<b>Profitability Ratios (%)</b>								
RoE	19.1	13.5	14.6	13.5	17.2	18.1	22.6	23.9
RoCE	13.8	10.2	10.6	9.9	13.6	15.5	18.7	19.6
<b>Turnover Ratios</b>								
Debtors (Days)	62	59	63	68	67	66	66	66

### Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
<b>(INR m)</b>								
<b>CF from Operations</b>	<b>4,622</b>	<b>5,411</b>	<b>5,496</b>	<b>5,872</b>	<b>7,318</b>	<b>8,307</b>	<b>10,795</b>	<b>12,318</b>
Cash for Working Capital	-1,659	-1,710	328	2,686	-973	695	-1,389	-880
<b>Net Operating CF</b>	<b>2,963</b>	<b>3,701</b>	<b>5,824</b>	<b>8,558</b>	<b>6,345</b>	<b>9,002</b>	<b>9,406</b>	<b>11,437</b>
Net Purchase of FA	-1,469	-1,440	-2,138	-949	-626	-750	-750	-3,000
<b>Free Cash Flow</b>	<b>1,494</b>	<b>2,261</b>	<b>3,686</b>	<b>7,609</b>	<b>5,719</b>	<b>8,252</b>	<b>8,656</b>	<b>8,437</b>
Net Purchase of Invest.	600	-767	568	-58	-3,197	-1,000	-1,000	-1,000
<b>Net Cash from Invest.</b>	<b>-869</b>	<b>-2,207</b>	<b>-1,570</b>	<b>-1,007</b>	<b>-3,823</b>	<b>-1,750</b>	<b>-1,750</b>	<b>-4,000</b>
Proc. from equity issues	9	22	17	37	121	0	0	0
Proceeds from LTB/STB	526	549	-916	-2,134	-1,994	0	0	0
Dividend Payments	-1,894	-2,892	-3,564	-10	-2,952	-3,429	-4,535	-5,266
<b>Cash Flow from Fin.</b>	<b>-1,359</b>	<b>-2,321</b>	<b>-4,463</b>	<b>-2,107</b>	<b>-4,825</b>	<b>-3,429</b>	<b>-4,535</b>	<b>-5,266</b>
Exchange difference	298	296	131	-31	52	0	0	0
<b>Net Cash Flow</b>	<b>1,033</b>	<b>-531</b>	<b>-78</b>	<b>5,413</b>	<b>-2,251</b>	<b>3,823</b>	<b>3,121</b>	<b>2,171</b>
<b>Opening Cash Bal.</b>	<b>8,571</b>	<b>9,604</b>	<b>9,073</b>	<b>8,995</b>	<b>14,408</b>	<b>12,157</b>	<b>15,980</b>	<b>19,102</b>
Add: Net Cash	1,033	-531	-78	5,413	-2,251	3,823	3,121	2,171
<b>Closing Cash Bal.</b>	<b>9,604</b>	<b>9,073</b>	<b>8,995</b>	<b>14,408</b>	<b>12,157</b>	<b>15,980</b>	<b>19,102</b>	<b>21,273</b>



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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