

## Maintain revenue guidance of US\$1 bn in FY24; DLM business files for IPO

**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%

**Q3FY23 Results:** Cyient reported strong Q3 results.

- Services grew 11.9% QoQ in CC terms with organic contribution of 3.7%
- Normalised services EBIT margin without acquisitions & exceptional items increased ~190 bps to 15.1%
- Order intake increased 83.4% QoQ & 18.2% YoY to US\$237.1 million (mn)

**What should investors do?** Cyient's share price has grown by ~1.4x over the past five years (from ~₹ 581 in January 2018 to ~₹ 876 levels in January 2023).

- We maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value Cyient at ₹ 1020 i.e. 15x P/E on FY25E EPS.

**Key triggers for future price performance:**

- Acquired entities to provide diversification, which, in turn, is expected to provide growth, looking at US\$1 bn revenues in FY24
- Improved demand from large deals, healthy order book and organisation restructuring to accelerate growth
- Strategic buyout a multi-year arrangement with an auto major

**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 ₹ 1,730

CYIENT

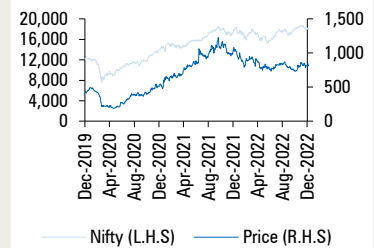
### Particulars

Particular	Amount
Market Cap (₹ Crore)	8,960.6
Total Debt (₹ Crore)	326.4
Cash and Invest (₹ Crore)	1,266.6
EV (₹ Crore)	8,020.4
52 week H/L	1063 / 720
Equity capital	55.2
Face value	₹ 5

### Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	23.4	23.4	23.4	23.4
FII	34.7	34.0	32.7	32.6
DII	21.4	23.3	23.9	23.7
Public	20.5	19.2	20.0	20.3

### Price Chart



### Recent Event & Key risks

- Order intake of US\$237.1 mn in Q3 and won five large deals
- **Key Risk:** (i) Lower than expected revenue growth (ii) Lower-than-expected margins

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### Key Financial Summary

Financials (₹ crore)	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	4,132	4,534	4.7	6,006	6,847	7,600	18.8
EBITDA	611	822	11.1	1,033	1,191	1,322	17.2
EBITDA Margins (%)	14.8	18.1		17.2	17.4	17.4	
Net Profit	364	522	8.7	604	698	753	13.0
EPS (₹)	33.1	47.3		54.8	63.3	68.3	
P/E	26.5	18.5		16.0	13.8	12.8	
RoNW (%)	12.3	16.8		18.5	19.0	18.3	
RoCE (%)	14.5	19.3		21.4	22.3	22.0	

## Key takeaways of recent quarter & conference call highlights

- The company reported services revenue of US\$167.9 mn with organic revenue of US\$137.2 mn. The overall services revenue grew 11.9% QoQ in CC terms while in dollar terms growth was 11.2%. Organic services revenue growth was 3.7% QoQ in CC terms while in dollar terms the growth was 2.9% QoQ. At the group level including DLM the company reported revenue of US\$197 mn, up 13.4% QoQ in CC terms & 12.7% in dollar terms. In rupee terms the revenues came at ₹1,618 crore, up 15.9% QoQ
- Vertical wise, at the organic level in CC terms aerospace, Mining, Energy & Utilities (MEU) & New Growth Areas grew 4.4%, 6.8% & 8% QoQ, respectively, while rail & Communications were laggards with growth of -4.9% & 1.3% QoQ
- Geography wise EMEA continued to lead the growth with 30.2% QoQ, which would be on account of increased contributions from acquired companies while America (48% of mix) reported growth of 5.4% QoQ. Asia Pacific revenue declined 0.9% QoQ
- The company reported group EBIT margin of 12.3% while services EBIT margin was 13.3% and the normalised services EBIT margin, excluding acquisitions & exceptional items, was 15.1%, up ~190 bps sequentially. The company indicated that the margin improvement was due the tailwinds of operational efficiency +150 bps, volume impact on SG&A spend +140 bps & currency benefit +75 bps mitigated by the headwinds of lower capacity -130 bps & increased SG&A spend -50 bps. The company also indicated that it is moving out of low margin business, which is helping SG&A optimisation and resulting into margin improvement
- The company mentioned that it has completed the integration of all four acquired companies and is seeing the benefits of integration. Cyient indicated that all companies are accretive at the EBITDA margin level and will be accretive at the EBIT level in the medium term. The company also indicated that it is seeing opportunities with Citec wherein it is synergising its go to market & winning deals. Cyient further indicated that Celfinet will help to grow its communications business
- The company's cash & equivalents of ₹ 1,110.8 crore in Q2FY23 has come down to ₹ 616.6 crore in Q3FY23. Cyient indicated that this was due to the deployment of cash towards funding of the acquisitions in Q3
- The company indicated that it witnessing rebound in aerospace vertical. It mentioned that one of its large OEM in aerospace vertical is scaling up the business as travel has been picking up with the lifting of Covid restrictions globally including China, which is expected to have 2mn people travelling in the near term. It sees accelerated opportunity in this space by increased MRO opportunity. The company further indicated that the aerospace vertical has rebound earlier than expected that it expects to be back to pre-Covid level by H2CY23. On the back of this and increased traction the company indicated that it expects double digit growth in Q4FY23 in aerospace vertical
- In MEU vertical, the company indicated that mining vertical is driven by decarbonising & energy transition. In the energy & utilities vertical, the company indicated that it is bullish on this vertical on the medium to long term as carbon capture solution transition is picking up not only across Europe but also across the regions of America, Asia Pacific & India. The company indicated that it has won two large deals in this vertical and sees this vertical as one of the growth drivers for the company
- The company indicated that in the New Growth Areas the growth will be driven by auto & mobility sub-segment with increased traction in Software Defined Vehicle (SDV) and autonomous systems. The company also reiterated that it expects to double its automotive revenue in this fiscal year compared to last year

- In the Rail vertical, the company indicated that it expects rebound in the vertical but it will take a couple of quarter for recovery to begin. In the semiconductor business the company indicated that though it has performed well in Q3 it expects softness in demand for one to two quarters on account of high inflation and weak consumer demand
- For FY23, the company the company has maintained its guidance of 14-15% CC of revenue contribution by acquired companies and normalised EBITDA margins in the band of 16-17%. The company has also maintained its normalized EBIT margin of the group at the organic level of 13-14%
- For FY24 the company has maintained its revenue guidance of US\$1 bn & EPS of at least ₹ 60 per share
- The company indicated that its order intake continues to remain strong. The company during the quarter won five large deals in services with total contract potential of US\$59.2 mn while its order intake during the quarter increased by 83.4% to US\$237.2 mn. The company further indicated that out of the large deals it won for the quarter, two were in aerospace, two large deals were in MEU & and in auto & mobility
- The company in the last quarter had indicated that it is evaluating options to divest its DLM business and it recently announced that it has filed DRHP with Sebi to raise up to ₹ 740 crore via IPO and further ₹ 148 crore in pre-IPO placement round
- The company during the quarter added 18 new customers and added two customers on a QoQ basis in the US\$20mn+ category
- The company's net employees during the quarter declined 311 taking its employee strength to 14,693. The company's attrition declined 190 bps QoQ to 26.5% and utilisation improved 630 bps QoQ to 90.9%
- Regarding the legal lawsuit filed, the company indicated that the legal expenses will continue for a few quarters as it does not expect the judgement in the short-term

Exhibit 1: P&L

	Q3FY23	Q3FY22	YoY (%)	Q2FY23	loQ (%)	Comments
Revenue	1,618.2	1,183.4	36.7	1,396.2	15.9	Company group revenue increased by 13.4% QoQ in CC term while Services revenue grew by 11.9 QoQ in CC terms with organic contribution of 3.7%
Cost of revenue	1,006.3	753.4	33.6	859.5	17.1	
Gross Margin	611.9	430.0	42.3	536.7	14.0	
Gross margin (%)	37.8	36.3	148 bps	38.4	-63 bps	
SG&A expenses	333.6	217.3	53.5	307.7	8.4	
EBITDA	278.3	212.7	30.8	229.0	21.5	
EBITDA Margin (%)	17.2	18.0	-78 bps	16.4	80 bps	
Depreciation & amortisation	69.9	48.7	43.5	63.0	11.0	
EBIT	208.4	164.0	27.1	166.0	25.5	
EBIT Margin (%)	12.9	13.9	-98 bps	11.9	99 bps	Normalized Services EBIT margin increased by ~190 bps QoQ to 15.1% due to the tailwinds of operational efficiency +150 bps, volume impact on SG&A spend +140 bps & currency benefit +75 bps mitigated by the headwinds of lower capacity -130 bps & increased SG&A spend -50 bps
Other income (less interest)	6.0	10.5	-42.9	-14.8	-140.5	
PBT	214.4	174.5	22.9	151.2	41.8	
Tax paid	51.7	43.0	20.2	29.4	75.9	
PAT	156.0	131.7	18.5	79.1	97.2	

Source: Company, ICICI Direct Research

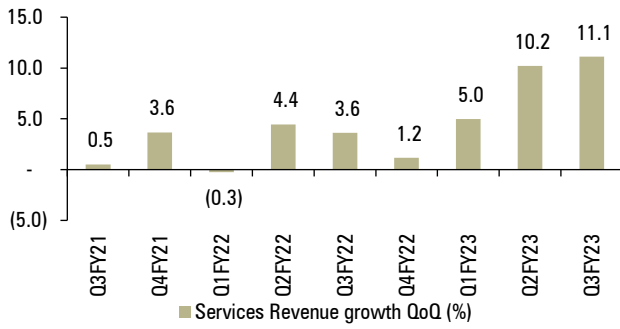
Exhibit 2: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	Old	New	% Change	
Revenue	5,778	6,006	3.9	6,587	6,847	3.9	7,245	7,600	4.9	Revenue increased on higher rupee dollar realisation
EBIT	751	781	3.9	869	904	3.9	956	1,003	4.9	
EBIT Margin (%)	13.0	13.0	0 bps	13.2	13.2	0 bps	13.2	13.2	0 bps	
PAT	582	604	3.8	672	698	3.8	719	753	4.8	
EPS (₹)	52.8	54.8	3.8	61.0	63.3	3.8	65.2	68.3	4.8	

Source: Company, ICICI Direct Research

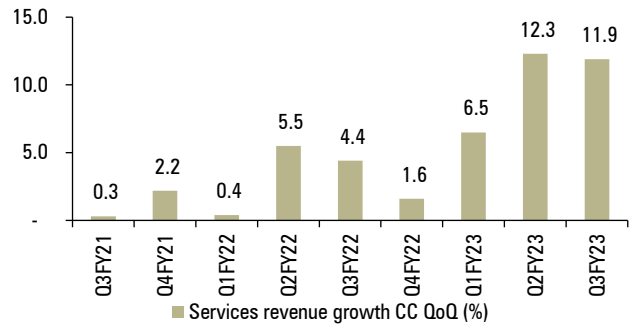
## Key Metrics

**Exhibit 3: Services continue to growth aided by acquisitions**



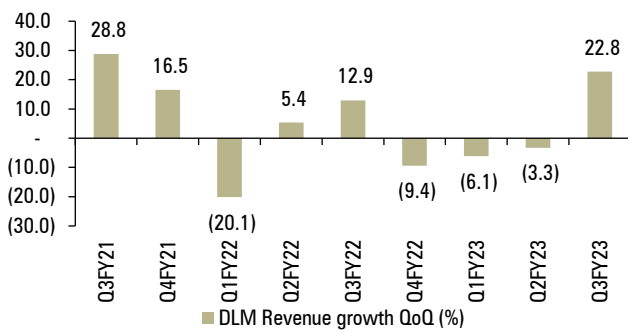
Source: Company, ICICI Direct Research

**Exhibit 4: Services revenue QoQ CC growth**



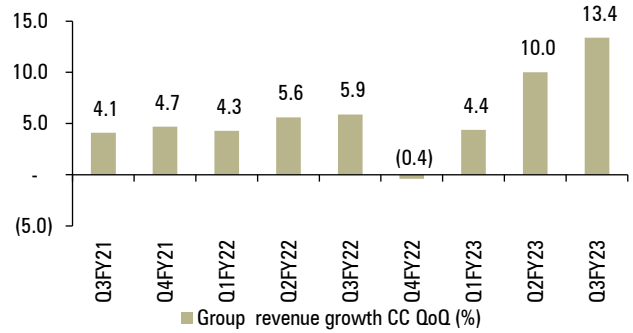
Source: Company, ICICI Direct Research

**Exhibit 5: DLM revenue QoQ growth**



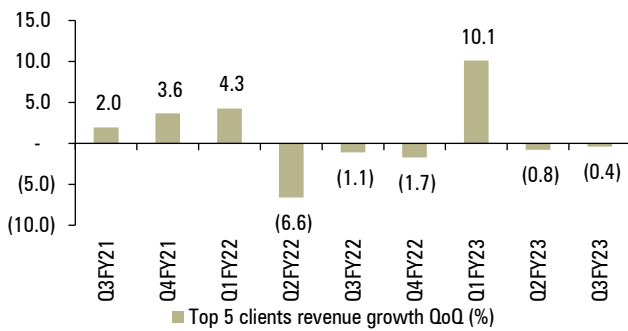
Source: Company, ICICI Direct Research

**Exhibit 6: Group revenue QoQ CC growth**



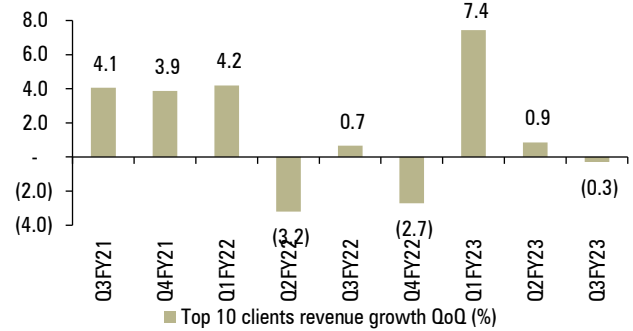
Source: Company, ICICI Direct Research

**Exhibit 7: Top five client's revenue QoQ growth**



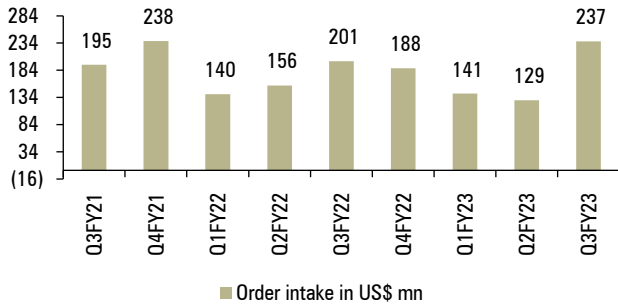
Source: Company, ICICI Direct Research

**Exhibit 8: Top 10 client's revenue QoQ growth**



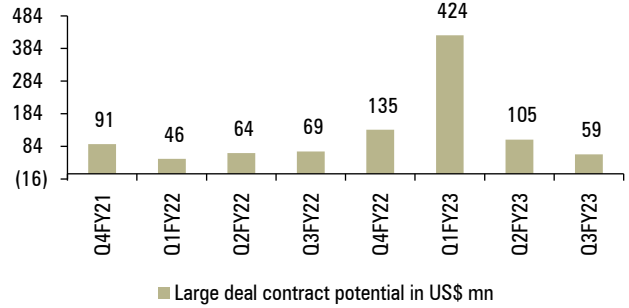
Source: Company, ICICI Direct Research

Exhibit 9: Order intake trend



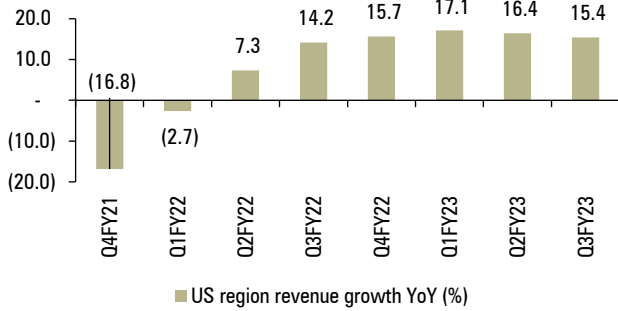
Source: Company, ICICI Direct Research

Exhibit 10: Large deal contract potential



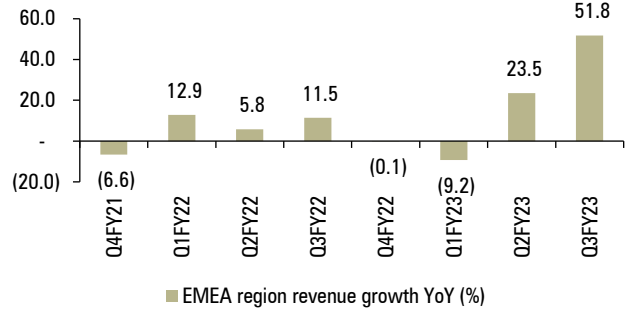
Source: Company, ICICI Direct Research

Exhibit 11: US revenue QoQ growth



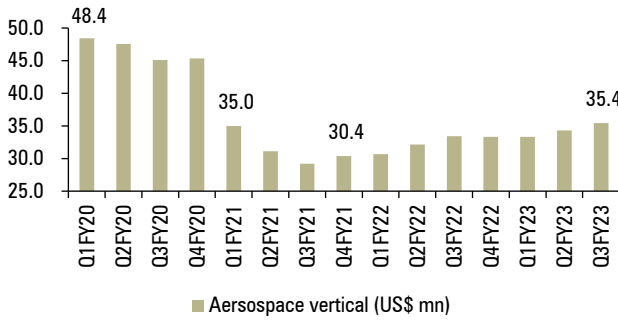
Source: Company, ICICI Direct Research

Exhibit 12: EMEA revenue QoQ growth



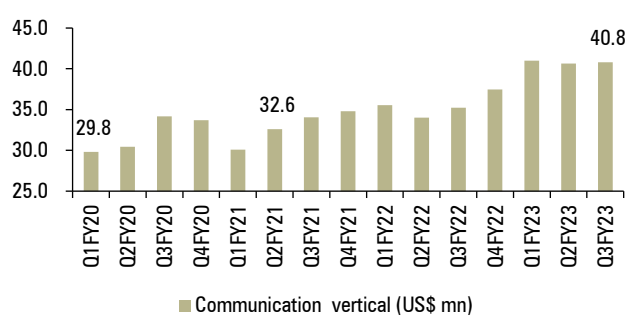
Source: Company, ICICI Direct Research

Exhibit 13: Aerospace recovery continues



Source: Company, ICICI Direct Research

Exhibit 14: Communications revenue remains steady



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 15: Profit and loss statement					₹ crore
	FY22	FY23E	FY24E	FY25E	
<b>Total Revenues</b>	<b>4,534</b>	<b>6,006</b>	<b>6,847</b>	<b>7,600</b>	
Growth (%)	9.7	32.5	14.0	11.0	
COGS	2,846	3,790	4,355	4,826	
Other expenditure	867	1,183	1,301	1,452	
<b>EBITDA</b>	<b>822</b>	<b>1,033</b>	<b>1,191</b>	<b>1,322</b>	
Growth (%)	34.6	25.7	15.3	11.0	
Depreciation	192	252	288	319	
Other Income	112	74	77	65	
Interest	43	43	43	43	
PBT before Exceptional Items	698	811	937	1,025	
Tax	176	207	239	272	
PAT before Exceptional Items	522	604	698	753	
Exceptional items	-	-	-	-	
PAT before MI	522	604	698	753	
<b>PAT</b>	<b>522</b>	<b>604</b>	<b>698</b>	<b>753</b>	
Growth (%)	43.6	15.7	15.5	7.9	
Adjusted EPS	47.3	54.8	63.3	68.3	
EPS (Growth %)	43.1	15.7	15.5	7.9	

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement					₹ crore
	FY22	FY23E	FY24E	FY25E	
PBT	698	811	937	1,025	
Depreciation	192	252	288	319	
WC changes	(97)	(218)	(143)	(92)	
Other non cash adju.	6	(30)	(33)	(22)	
Income taxes pd.	(165)	(207)	(239)	(272)	
<b>CF from operations</b>	<b>635</b>	<b>608</b>	<b>809</b>	<b>959</b>	
Other Investments	(318)	74	77	65	
Acq. Of business					
(Purchase)/Sale of Fixed Assets	(65)	(198)	(226)	(251)	
<b>CF from investing Activities</b>	<b>(382)</b>	<b>(125)</b>	<b>(149)</b>	<b>(186)</b>	
Inc / (Dec) in Equity Capital	12	-	-	-	
Change in debt funds	(70)	(43)	(43)	(43)	
Dividend & DDT	(295)	(298)	(298)	(298)	
<b>CF from Financial Activities</b>	<b>(545)</b>	<b>(386)</b>	<b>(386)</b>	<b>(386)</b>	
Exchange rate differences	5	-	-	-	
Opening cash balance	924	1,112	1,209	1,483	
Cash as margins/associates					
<b>Cash c/f to balance sheet</b>	<b>1,267</b>	<b>1,209</b>	<b>1,483</b>	<b>1,870</b>	

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet					₹ crore
	FY22	FY23E	FY24E	FY25E	
<b>Liabilities</b>					
Equity	55	55	55	55	
Reserves & Surplus	3,061	3,213	3,613	4,068	
Networth	3,117	3,268	3,668	4,124	
Minority Interest	(3)	(3)	(3)	(3)	
Borrowings	326	326	326	326	
Long term Liabilities & provisions	409	409	409	409	
<b>Source of funds</b>	<b>3,849</b>	<b>4,001</b>	<b>4,401</b>	<b>4,856</b>	
<b>Assets</b>					
Net fixed assets	679	670	653	630	
Net intangible assets	48	48	48	48	
CWIP	13	13	13	13	
Goodwill	619	619	619	619	
Other non current assets	174	178	183	189	
Non current Investments	358	358	358	358	
Inventories	279	231	263	292	
Debtors	733	1,168	1,331	1,478	
Cash & Cash equivalents	1,267	1,209	1,483	1,870	
Other current assets	618	717	795	866	
Trade payables	526	651	742	823	
Current liabilities	371	490	547	599	
Provisions	41	69	57	83	
<b>Application of funds</b>	<b>3,849</b>	<b>4,001</b>	<b>4,401</b>	<b>4,856</b>	

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios					₹ crore
	FY22	FY23E	FY24E	FY25E	
<b>Per share data (₹)</b>					
Adjusted EPS (Diluted)	47.3	54.8	63.3	68.3	
Cash per Share	114.8	109.6	134.4	169.5	
BV per share	282.5	296.2	332.5	373.8	
DPS	23.0	27.0	27.0	27.0	
<b>Operating Ratios (%)</b>					
EBITDA Margin	18.1	17.2	17.4	17.4	
PAT Margin	11.5	10.1	10.2	9.9	
Debtor days	59	71	71	71	
Creditor days	42	40	40	40	
<b>Return Ratios (%)</b>					
RoE	16.8	18.5	19.0	18.3	
RoCE	19.3	21.4	22.3	22.0	
RoIC	24.5	28.1	31.1	33.7	
<b>Valuation Ratios (x)</b>					
P/E	18.5	16.0	13.8	12.8	
EV / EBITDA	10.9	8.7	7.3	6.3	
EV / Net Sales	2.0	1.5	1.3	1.1	
Market Cap / Sales	2.2	1.6	1.4	1.3	
Price to Book Value	3.1	3.0	2.6	2.3	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.4	0.3	0.3	0.2	
Debt / Equity	0.1	0.1	0.1	0.1	
Current Ratio	1.7	1.7	1.8	1.8	
Quick Ratio	1.4	1.6	1.6	1.6	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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