

**BSE SENSEX** 59,464  
**S&P CNX** 17,466

**CMP: INR966 TP: INR1,170 (+21%)**

**Buy**

## CYIENT

### Stock Info

|                       |             |
|-----------------------|-------------|
| Bloomberg             | CYL IN      |
| Equity Shares (m)     | 113         |
| M.Cap.(INRb)/(USD\$b) | 106.8 / 1.3 |
| 52-Week Range (INR)   | 995 / 724   |
| 1, 6, 12 Rel. Per (%) | 15/16/15    |
| 12M Avg Val (INR M)   | 232         |
| Free float (%)        | 76.6        |

### 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)    | 299.8 | 327.2 | 359.2 |

### Ratios

|            |      |      |      |
|------------|------|------|------|
| RoE (%)    | 17.8 | 21.9 | 23.3 |
| RoCE (%)   | 14.8 | 17.1 | 18.0 |
| Payout (%) | 60.0 | 60.0 | 60.0 |

### Valuations

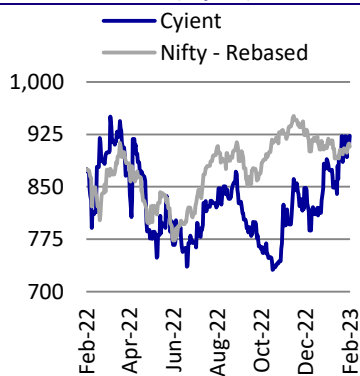
|               |      |      |      |
|---------------|------|------|------|
| P/E (x)       | 18.6 | 14.1 | 12.1 |
| P/BV (x)      | 3.2  | 3.0  | 2.7  |
| EV/EBITDA (x) | 10.5 | 7.7  | 6.3  |
| Div Yield (%) | 3.2  | 4.3  | 5.0  |

### Shareholding pattern (%)

| As On    | Dec-22 | Sep-22 | Dec-21 |
|----------|--------|--------|--------|
| Promoter | 23.4   | 23.4   | 23.4   |
| DII      | 25.0   | 23.7   | 22.8   |
| FII      | 32.1   | 33.6   | 34.7   |
| Others   | 19.6   | 19.3   | 19.1   |

FII Includes depository receipts

### Stock Performance (1-year)



## Challenges ebbing steadily – re-rating on the cards

- Cyient (CYL)'s operating performance has inherently been subdued over the past several years as a few of its growth engines remained weak and underperformed that of its peers. In addition, execution challenges have marred the company's overall topline growth.
- According to the management, the challenges under Aerospace and Communications segments (~50% of service revenue) have bottomed out and these segments are likely to improve and stimulate overall organic growth (guided at 13-15% in constant currency (CC) terms) in FY23E. Additionally, its revenue growth should also amplify led by the inorganic components (~14-15% of FY23E revenue) and gradual recovery in its Design Led Manufacturing (DLM) business (guided high single-digit CC growth).
- **Management aspires to reach USD1b revenue run-rate for the consolidated entity with 15.0-15.5% margins by 4QFY24 exit. With the given aspiration, it requires the company to deliver ~5% CQGR over the next five quarters along with ~200bp margin improvement at 4QFY24 exit v/s 12.9% in 3QFY23. We consider this as a bull case scenario that has an upside risk over our base case.**
- Based on the above thesis, the bull case scenario is seeing an EPS upgrade of ~3% and ~15% over the base case in FY23E and FY24E, respectively. The revised EPS translates into P/E multiples of 18x and 12x EPS of INR53.7 and INR78.7, respectively. **If the bull case scenario turns out to be positive, CYL would have a significant re-rating potential. If CYL trades at 17x FY24E EPS of INR78.7 that would translate into a substantial 38% upside from current level.**
- **However, our base case still remains the same given the ongoing macro headwinds and the company-level execution challenges. The current valuations at 18x/14x FY23E/FY24E EPS of INR51.9/INR68.6 appear highly attractive giving us more comfort to maintain our BUY rating. Our target multiple of 17x FY24E EPS implies a TP of INR1,170, with 21% potential upside.**

## Key service verticals to support incremental growth

- CYL has reported organic service revenue CQGR of 2.4% between 1QFY22 and 3QFY23 despite the Aerospace, Rail and Communication (ARC) segment remaining soft, which reported a 0.9% CQGR during the same period.
- The softness in ARC was attributed to the Rail Transport. The revenue contribution from Rail has significantly tapered-off to 6.2% in 3QFY23 from 13.5% in 1QFY22, clocking a negative CQGR of ~7%.
- With the company indicating a bottoming out in Rail business in 4QFY23, CYL should see a positive impact on overall FY24E revenue. We expect this to result in an overall revenue growth delta of ~2.5-3.5% in FY24.
- The MRO and Maintenance services that contribute ~40% each to the Aero vertical is picking up well with the increase in Air traffic volume, while the positive momentum continues for design-led services (20% of Aero) on both commercial and defense domains.

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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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- With the acquisition of Citech, the company has made its way by adding the new vertical line (Plant & Product Engg.) to its diversified business mix, while expanding its footprint in the Nordic countries. The acquisition is likely to add ~USD100m+ to its topline in FY24.
- While DLM has underperformed the company's expectations in the past, we expect the business outlook to remain supportive on account of the imminent improved electronics manufacturing ecosystem in India. Moreover, dedicated leadership and a potential listing should result in more focused go to market and client mining. This can also act as a potential upside to CYL's valuation (not in our base case though).

#### Valuation and Views:

- CYL's service segment is shaping up quite well with a majority of its growth engines (excluding Rail, Consulting and Utility) sustaining the positive momentum and delivering robust growth of 15% YoY in 9MFY23. Conversely, other segments are on the verge of recovery and should incrementally contribute to its overall growth in FY24E.
- With DLM, the value unlocking may come through after the carve-out of the business. The change in the leadership structure and decoupling of the business would incrementally add value to CYL's earning profile.
- Given the ongoing macro headwinds and the company-level execution challenges, we remain watchful of the company's earnings growth trajectory.
- **However, the current valuations at 18x/14x FY23E/FY24E EPS of INR51.9/ INR68.6 appear highly attractive giving us more comfort to maintain our BUY rating. Our target multiple of 17x FY24E EPS implies a TP of INR1,170, with 21% potential upside.**

Exhibit 1: Valuation comparison

| Company       | CMP<br>(INR) | M-cap<br>(INR b) | Target<br>Price | EPS (INR)   |             |             | P/E (x)     |             |             | USD growth (%) |              |              | EBIT margin % |              |              |
|---------------|--------------|------------------|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|--------------|--------------|---------------|--------------|--------------|
|               |              |                  |                 | FY23E       | FY24E       | FY25E       | FY23E       | FY24E       | FY25E       | FY23E          | FY24E        | FY25E        | FY23E         | FY24E        | FY25E        |
| Mphasis       | 2,202        | 5.1              | 2,120           | 88.2        | 101.1       | 118.9       | 25.0        | 21.8        | 18.5        | 9.5%           | 8.0%         | 12.5%        | 15.3%         | 15.6%        | 16.2%        |
| LTTS          | 3,706        | 4.7              | 3,940           | 111.7       | 131.2       | 153.2       | 33.2        | 28.2        | 24.2        | 12.6%          | 11.4%        | 15.6%        | 18.5%         | 18.7%        | 18.9%        |
| Coforge       | 4,392        | 3.3              | 4,040           | 138.1       | 175.8       | 194.8       | 31.8        | 25.0        | 22.5        | 15.6%          | 12.3%        | 12.6%        | 14.6%         | 15.2%        | 15.3%        |
| Persistent    | 4,881        | 4.5              | 4,360           | 127.7       | 155.6       | 180.7       | 38.2        | 31.4        | 27.0        | 35.4%          | 14.6%        | 14.7%        | 14.9%         | 15.3%        | 15.5%        |
| <b>Cyient</b> | <b>966</b>   | <b>1.3</b>       | <b>1,170</b>    | <b>51.9</b> | <b>68.6</b> | <b>79.7</b> | <b>18.6</b> | <b>14.1</b> | <b>12.1</b> | <b>21.8%</b>   | <b>20.4%</b> | <b>11.9%</b> | <b>12.4%</b>  | <b>13.6%</b> | <b>14.1%</b> |
| Zensar        | 292          | 0.8              | 280             | 12.7        | 17.8        | 20.9        | 23.0        | 16.4        | 14.0        | 6.4%           | 4.7%         | 11.8%        | 6.7%          | 9.4%         | 10.0%        |

Source: MOFSL, Company

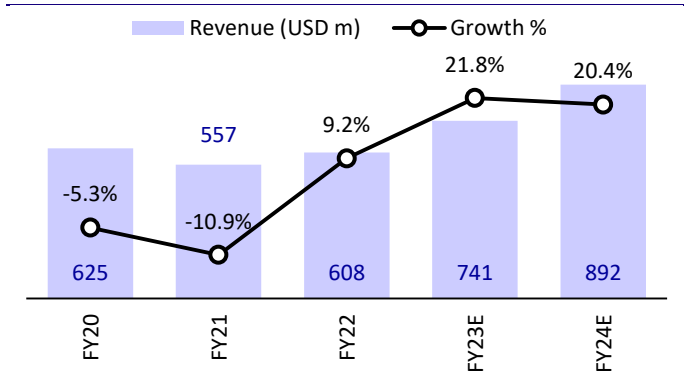
## Base-case scenario – Turnaround on the rise

CYL’s performance has structurally been weak, especially, over the past couple of years and it has underperformed its peers. CYL delivered 8.5% revenue growth in CC (service business) in FY22, while on the immediate term the service revenue growth stood at ~8% YoY in 9MFY23.

### Rail Transport

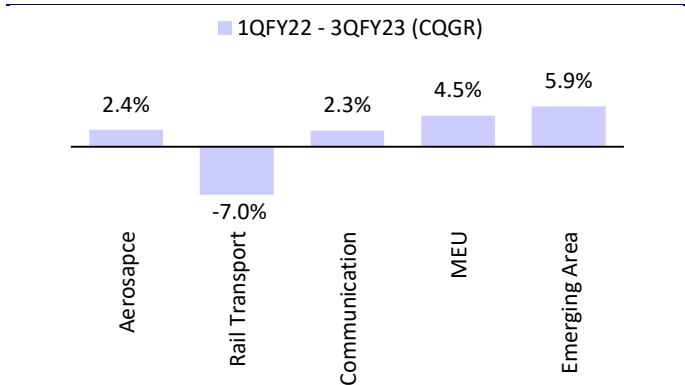
- The softness has majorly been attributed to **Rail Transport (~6% of revenue)**, which has been diluting the overall topline growth over the last couple of quarters. The revenue contribution from Rail Transport has significantly tapered-off to 6.2% in 3QFY23 from 13.5% in 1QFY22, clocking a negative CQGR of ~7%.
- Under Rail, apart from M&A (Bombardier & Alstom) being a major factor of limiting outsourcing through its top account, the rising interest rates and fall in rail-infra spends have equally contributed to its weaker topline growth.
- The company has navigated its way by diversifying its value offerings on mass mobility, signaling and remote asset monitoring. We believe, the incremental efforts should help it arrest some of the drags coming from its top accounts, but still far from becoming accretive to support its overall topline growth in FY24E.

Exhibit 2: Service revenue growth (USD) YoY (%)



Source: MOFSL, Company

Exhibit 3: Vertical wise growth % (Service business)



Source: MOFSL, Company

### Aerospace

- The **Aerospace vertical (~21% of revenue)** remains moderate and delivered ~2.4% CQGR between 1QFY22 and 3QFY23. The demand for the MRO and Maintenance services (80% of Aero) is picking up quite well with the increase in Air traffic volume; however, design and engineering service (20% of Aero) is still recovering, given that the discretionary part of the spends are yet to become mainstream.
- We expect growth from the Aerospace vertical to be tad below the company average (organic) growth, given the overhang on the design piece, although the MRO service has picked up quite well.

### Communication

- The **Communication vertical (24% of revenue)** continues with its healthy growth momentum (up ~17% YoY in 9MFY23). With the integration of Celfinet, it has further strengthened its value offerings around wireless communication to support CSPs and Enterprises in scaling up digital transformation via 5G deployment.
- The addressable market for commercial network design and fiber rollout in itself is huge with 5G is making incremental opportunities, leading to build strategic partnership with key OEMs and operators. We expect the Communication vertical to continue its growth momentum and contribute meaningfully to the overall topline growth in FY24E.

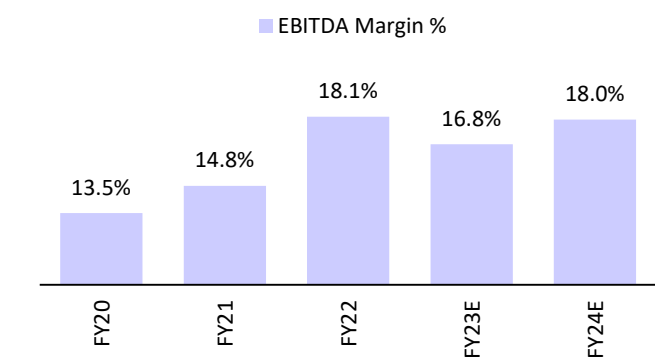
### MEU

- The momentum of the **Mining, Energy, & Utility (11% of revenue)** segment remained strong with continued safety measures and industry protocols that have kept the volume at an elevated level. The practices around energy transition, carbon neutralization, autonomous, digitization and asset management are gaining traction across its client base.

### New Growth Areas

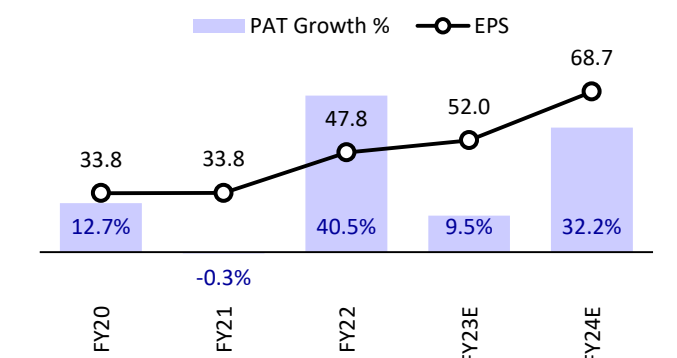
- **Within New Growth Areas (~18% of revenue), Auto, Semicon, Geospatial, and Medical are contributing majorly to the segment.** Auto continues with its healthy growth momentum and expected to deliver double-digit growth in FY24E as well led by structural uptick in demand and transitioning to connected and electric vehicles. **Semicon and Geospatial** are witnessing a recovery and aiding the segmental growth, which rose 22.5% YoY in 9MFY23.

Exhibit 4: Margin % (Consolidated business)



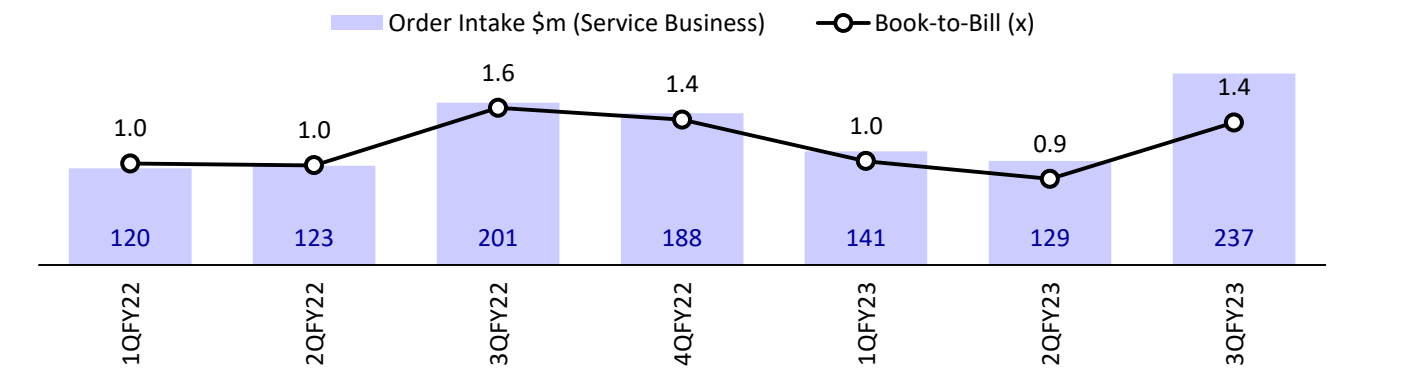
Source: MOFSL, Company

Exhibit 5: PAT growth and EPS (%)



Source: MOFSL, Company

- CYL has improved its operating margin quite meaningfully (by ~500bp YoY) between FY20 and FY22 through optimizing employee expenses and subcon costs. The management aspires to improve ~200-250bp further by 4QFY24 from the current 12.9% in 3QFY23.
- Given the challenging labor supply environment as well as high attrition, the backfilling and retention cost would adversely impact overall margins going forward. However, considering the robust growth visibility in FY24E, we expect operating leverage should play out in favor of CYL and help it improve margins by 120bp YoY in FY24.

**Exhibit 6: Order intake improved (USD m)**

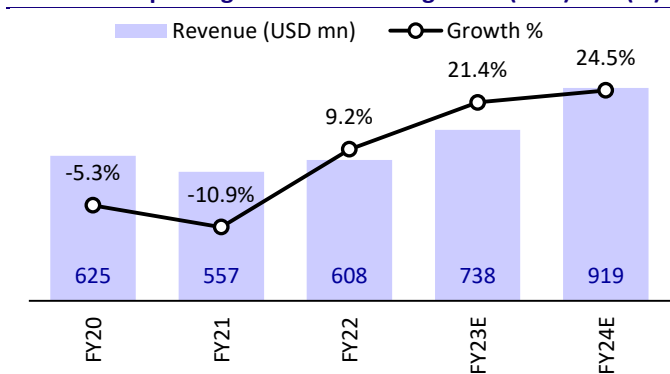
Source: MOFSL, Company

- Despite the slowdown in the economy and extended furloughs, CYL has reported robust order booking in 3QFY23.
- The order intake for the service segment has improved 18% YoY in 3QFY23 and 14% YoY over 9MFY23, which provides good revenue visibility in FY24E.

## Bull Case Scenario – Appealing management aspiration

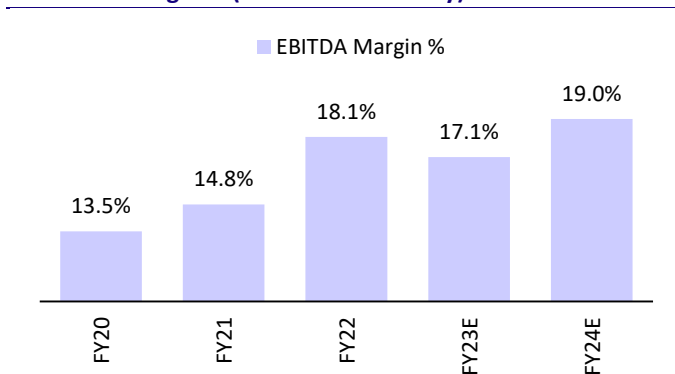
- According to the management, the challenges under Aerospace are behind, and it is expecting a strong recovery on the back of increase in air traffic volume. Further, the revenue passenger miles are likely to surpass the levels predicted earlier for 2024, in 2023 itself.
- As per the guidance, within Aerospace, management expects the MRO service to clock double-digit growth and support the overall organic growth (guided at 13-15% in CC terms) in FY23E. Additionally, its revenue growth should also amplify led by the inorganic components (~14-15% of FY23E).
- Management expects the Rail segment to bottom out in 4Q and deliver high single-digit growth in FY24 (on a low base of FY23). The overhang from the merger of the two entities is behind and the incremental growth areas – rail traffic management and billing system – are expected to contribute materially in FY24.
- On Communications segment, management expects the growth momentum to continue in FY24. The growth led by 5G, FTTX and digital initiatives should make inroads into FY24E; besides, the integration of Celfinet with the core business and additional solutions on energy consumption should help the segment grow.

Exhibit 7: Improving Service revenue growth (USD) YoY (%)



Source: MOFSL, Company

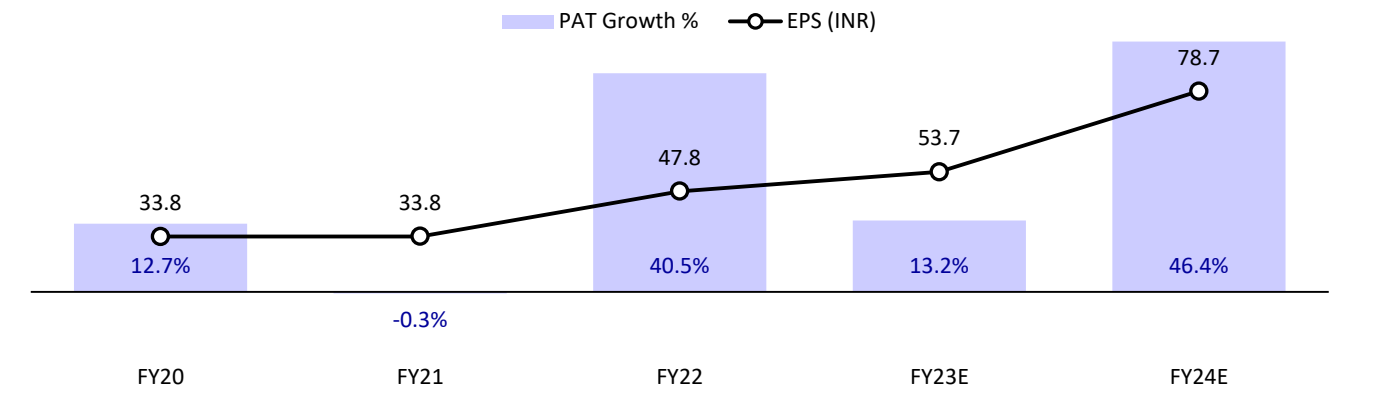
Exhibit 8: Margin % (Consolidated entity)



Source: MOFSL, Company

- The management aspires to reach USD1b revenue run-rate for the consolidated entity with 15.0-15.5% margins by 4QFY24.
- With the given aspiration, it requires the company to deliver ~5% CQGR over the next five quarters along with ~200bp margin improvement at 4QFY24 exit v/s 12.9% in 3QFY23, which we consider as a bull case scenario that has an upside risk over our base case.
- Based on the above thesis, the bull case scenario is seeing EPS upgrades of ~3% and ~15% over the base case in FY23E and FY24E, respectively. The revised EPS translates into P/E multiples of 18x and 12x EPS of INR53.7 and INR78.7, respectively.
- If the bull case scenario turns out to be positive, CYL would have a significant re-rating potential. If CYL trades at 17x FY24E EPS of INR78.7 that would translate into a substantial 38% upside from current level.

Exhibit 9: Earnings growth



Source: MOFSL, Company

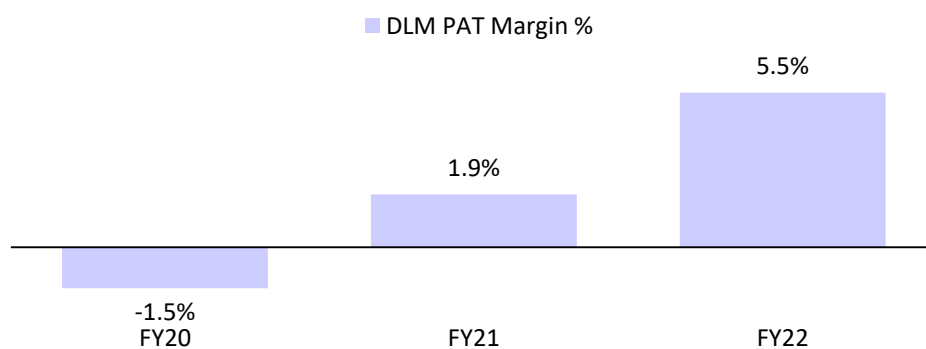
## Value unlocking on DLM carve-out

- CYL's service business and DLM's product business work in different dynamics in terms of business economics, revenue flows, cash usage and margin profile. Hence, the Board has decided to spin-off the DLM unit from its service unit to unleash the potential from each of the two entities.
- CYL's management has filed for a proposed listing of the DLM unit for which the company would be raising INR7,400m through IPO proceeds.
- **The net proceeds from the IPO are proposed to be utilized for:**
  - Funding working capital requirement
  - Capex
  - Repayment of borrowings
  - Acquisition
  - General corporate purpose
- **Business overview:** The DLM business model hinges upon Electronics Manufacturing Service (EMS) that involves electronics product design, development and manufacturing. The global EMS market size was USD880b in CY21 that reported a 3.5% CAGR during CY16-21. Further, it is expected to post a CAGR of 5.4% over CY21-CY26, according to the company filing.
- **Financials:** DLM generated revenue of INR7,205m with an EBITDA margin of ~9% in FY22. DLM has presence in Aerospace & Defence (~57% of revenue), Medical Technology (~18% of revenue), and Industrial (~24% of revenue) as of 1HFY23.

## Potential turnaround for DLM

- DLM has remained cyclical due to the product-oriented nature of the business; although it has structurally been rationalized to optimize costs, improve large deal wins and build annuity component to it. The DLM carve-out is another trigger that will value the two different entities at an individual level with new CEO aboard reallocating the management bandwidth and resources of service segment, which otherwise had been occupied in fixing the DLM unit.

Exhibit 10: Improving PAT margin



Source: MOFSL, Company



**Exhibit 11: Cash conversion**

|                                    | FY20           | FY21          | FY22          |
|------------------------------------|----------------|---------------|---------------|
| <b>Operating Cash Flow (INR m)</b> | <b>162.28</b>  | <b>349.28</b> | <b>485.37</b> |
| <b>OCF/EBITDA %</b>                | <b>-363.7%</b> | <b>138.7%</b> | <b>78.2%</b>  |
| Capex (INR m)                      | 829.68         | 273.87        | 84.14         |
| <b>FCF (INR m)</b>                 | <b>-667.4</b>  | <b>75.41</b>  | <b>401.23</b> |
| <b>FCF/PAT %</b>                   |                | <b>63.8%</b>  | <b>100.8%</b> |

Source: MOFSL, Company

- DLM has presence in the EMS segment, which is capital intensive and asset-heavy, despite the fact that the company remained profitable. DLM's PAT margin has improved to +5.5% in FY22 from -1.5% in FY20, which indicates the cost optimization plans and strong operational executions of the company. We expect, post the carve-out, the internal accrual would be self-sufficient to run the operations as an isolated entity, and it does not require any meaningful funding through external sources.

**Exhibit 12: DLM's financials (USD m)**

| Income Statement   | 2020          | 2021          | 2022           | 2023           | 2024           |
|--------------------|---------------|---------------|----------------|----------------|----------------|
| <b>Revenues</b>    | <b>\$74.6</b> | <b>\$95.6</b> | <b>\$104.6</b> | <b>\$107.9</b> | <b>\$138.5</b> |
| % of Sales         | 11.9%         | 17.2%         | 17.2%          | 14.6%          | 15.5%          |
| YoY                | -6.6%         | 28.2%         | 9.4%           | 3.2%           | 28.4%          |
| <b>EBIT margin</b> | <b>-0.2%</b>  | <b>5.8%</b>   | <b>7.1%</b>    | <b>7.0%</b>    | <b>8.0%</b>    |

Source: MOFSL, Company

**Exhibit 13: Financial benchmarking of the key Indian companies**

|                         | Operating Revenue (INR m) |              |              | EBITDA Margin (%) |            |             | Basic EPS FY22 (INR) | EV/EBITDA (X) | P/E (X)   | RONW FY22 (%) |
|-------------------------|---------------------------|--------------|--------------|-------------------|------------|-------------|----------------------|---------------|-----------|---------------|
|                         | FY20                      | FY21         | FY22         | FY20              | FY21       | FY22        |                      |               |           |               |
| <b>Cyient DLM</b>       | <b>4,571</b>              | <b>6,280</b> | <b>7,205</b> | <b>3.0</b>        | <b>7.3</b> | <b>11.7</b> | <b>16.2</b>          | <b>NA</b>     | <b>NA</b> | <b>51.6</b>   |
| Syrma CGS Technology    | 3,971                     | 4,383        | 10,197       | 15.6              | 10.7       | 9.3         | 5.3                  | 34.4          | 50.0      | 12.6          |
| Keynes Technology India | 3,682                     | 4,206        | 7,063        | 11.20             | 9.8        | 13.3        | 9.7                  | 48.6          | 98.0      | 20.5          |
| DCX Systems Ltd         | 4,493                     | 6,412        | 11,023       | 1.40              | 1.60       | 6.10        | 9.2                  | 28.3          | 17.8      | 55.8          |

Source: MOFSL, Company

**Valuation and Views**

- CYL's service segment is shaping up quite well with a majority of its growth engines (excluding Rail, Consulting and Utility) sustaining the positive momentum and delivering robust growth of 15% YoY in 9MFY23. Conversely, other segments are on the verge of recovery and should incrementally contribute to its overall growth in FY24E.
- With DLM, the value unlocking may come through after the carve-out of the business. The change in the leadership structure and decoupling of the business would incrementally add value to CYL's earning profile.
- Given the ongoing macro headwinds and the company-level execution challenges, we remain watchful of the company's earnings growth trajectory.
- **However, the current valuations at 18x/14x FY23E/FY24E EPS of INR51.9/INR68.6 appear highly attractive giving us more comfort to maintain our BUY rating. Our target multiple of 17x FY24E EPS implies a TP of INR1,170, with 21% potential upside.**

### Risks

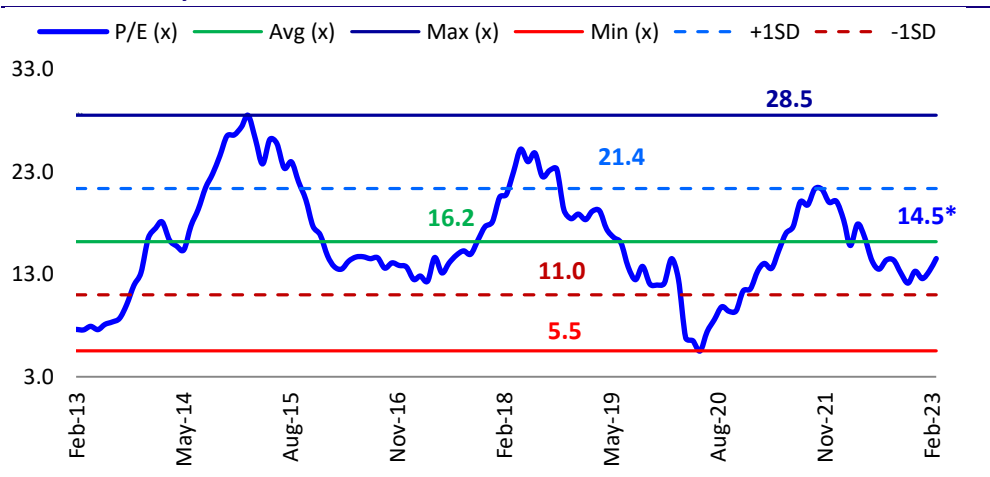
- If the ramp up in volumes from Aerospace and Rail segments gets delayed, the company’s topline growth will be affected severely going forward.
- The execution challenges might get intense with the growing macro uncertainties.
- CYL has filed for an IPO on DLM, but getting a regulatory approval and successfully launching the same is still under risk.

**Exhibit 14: Valuation comparison**

| Company       | CMP (INR)  | M-cap (INR b) | Target Price | EPS (INR)   |             |             | P/E (x)     |             |             | USD growth (%) |              |              | EBIT margin % |              |              |
|---------------|------------|---------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|----------------|--------------|--------------|---------------|--------------|--------------|
|               |            |               |              | FY23E       | FY24E       | FY25E       | FY23E       | FY24E       | FY25E       | FY23E          | FY24E        | FY25E        | FY23E         | FY24E        | FY25E        |
| Mphasis       | 2,202      | 5.1           | 2,120        | 88.2        | 101.1       | 118.9       | 25.0        | 21.8        | 18.5        | 9.5%           | 8.0%         | 12.5%        | 15.3%         | 15.6%        | 16.2%        |
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| Persistent    | 4,881      | 4.5           | 4,360        | 127.7       | 155.6       | 180.7       | 38.2        | 31.4        | 27.0        | 35.4%          | 14.6%        | 14.7%        | 14.9%         | 15.3%        | 15.5%        |
| <b>Cyient</b> | <b>966</b> | <b>1.3</b>    | <b>1,170</b> | <b>51.9</b> | <b>68.6</b> | <b>79.7</b> | <b>18.6</b> | <b>14.1</b> | <b>12.1</b> | <b>21.8%</b>   | <b>20.4%</b> | <b>11.9%</b> | <b>12.4%</b>  | <b>13.6%</b> | <b>14.1%</b> |
| Zensar        | 292        | 0.8           | 280          | 12.7        | 17.8        | 20.9        | 23.0        | 16.4        | 14.0        | 6.4%           | 4.7%         | 11.8%        | 6.7%          | 9.4%         | 10.0%        |

Source: MOFSL, Company

**Exhibit 15: One-year forward P/E chart**



\* Bull Case one-year forward P/E is 11.6x

Source: MOFSL, Bloomberg

## 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        | 32,406        | 35,429        | 38,939        |
| <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>32,958</b> | <b>35,981</b> | <b>39,491</b> |
| Other liabilities              | 1,636         | 2,240         | 4,194         | 3,812         | 4,061         | 7,735         | 9,534         | 10,675        |
| Loan                           | 2,410         | 3,253         | 3,738         | 2,755         | 3,264         | 7,264         | 7,264         | 7,264         |
| <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>47,957</b> | <b>52,779</b> | <b>57,430</b> |
| <b>Applications</b>            |               |               |               |               |               |               |               |               |
| Gross Block                    | 12,217        | 13,289        | 17,388        | 18,558        | 19,223        | 26,223        | 27,223        | 28,223        |
| Less: Depreciation             | 7,791         | 8,766         | 9,712         | 10,779        | 11,959        | 14,552        | 17,789        | 21,331        |
| <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>11,671</b> | <b>9,434</b>  | <b>6,892</b>  |
| CWIP                           | 213           | 300           | 800           | 113           | 134           | 134           | 134           | 134           |
| Intangibles                    | 5,057         | 6,990         | 6,800         | 7,191         | 6,662         | 16,662        | 16,662        | 16,662        |
| Other assets                   | 2,380         | 2,219         | 2,638         | 1,925         | 5,318         | 5,591         | 5,854         | 6,020         |
| <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>28,799</b> | <b>37,807</b> | <b>46,234</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        | 6,472         | 9,125         | 12,974        |
| Other Current Assets           | 5,809         | 8,365         | 8,393         | 6,084         | 8,616         | 10,157        | 12,510        | 14,001        |
| <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>14,901</b> | <b>17,111</b> | <b>18,512</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         | 5,820         | 5,927         | 5,995         |
| Provisions                     | 229           | 289           | 377           | 384           | 414           | 896           | 1,104         | 1,235         |
| <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>13,898</b> | <b>20,696</b> | <b>27,722</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>47,957</b> | <b>52,779</b> | <b>57,430</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       | 299.8       | 327.2       | 359.2       |
| DPS                             | 13.0        | 13.0        | 27.0        | 24.5        | 24.0        | 31.1        | 41.2        | 47.8        |
| Payout (%)                      | 34.2        | 43.4        | 80.0        | 72.5        | 50.3        | 60.0        | 60.0        | 60.0        |
| <b>Valuation (x)</b>            |             |             |             |             |             |             |             |             |
| P/E ratio                       | 24.3        | 30.8        | 27.3        | 27.3        | 19.3        | 18.6        | 14.1        | 12.1        |
| Cash P/E ratio                  | 19.5        | 20.4        | 18.2        | 17.9        | 14.1        | 12.8        | 9.9         | 8.6         |
| EV/EBITDA ratio                 | 17.3        | 14.9        | 16.2        | 14.7        | 11.1        | 10.5        | 7.7         | 6.3         |
| EV/Sales ratio                  | 2.4         | 2.1         | 2.2         | 2.2         | 2.0         | 1.8         | 1.4         | 1.2         |
| Price/Book Value ratio          | 4.4         | 4.0         | 4.0         | 3.4         | 3.2         | 3.2         | 3.0         | 2.7         |
| Dividend Yield (%)              | 1.4         | 1.4         | 2.9         | 2.7         | 2.6         | 3.2         | 4.3         | 5.0         |
| <b>Profitability Ratios (%)</b> |             |             |             |             |             |             |             |             |
| RoE                             | 19.1        | 13.5        | 14.6        | 13.5        | 17.2        | 17.8        | 21.9        | 23.3        |
| RoCE                            | 13.8        | 10.2        | 10.6        | 9.9         | 13.6        | 14.8        | 17.1        | 18.0        |
| <b>Turnover Ratios</b>          |             |             |             |             |             |             |             |             |
| Debtors (Days)                  | 62          | 59          | 63          | 68          | 62          | 66          | 66          | 66          |

### Cash Flow Statement

(INR m)

| Y/E March                    | FY18          | FY19          | FY20          | FY21          | FY22          | FY23E          | FY24E         | FY25E         |
|------------------------------|---------------|---------------|---------------|---------------|---------------|----------------|---------------|---------------|
| CF from Operations           | 4,622         | 5,411         | 5,496         | 5,872         | 7,318         | 8,307          | 10,795        | 12,318        |
| Cash for Working Capital     | -1,659        | -1,710        | 328           | 2,686         | -973          | 7,908          | -1,108        | -702          |
| <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>16,215</b>  | <b>9,687</b>  | <b>11,615</b> |
| Net Purchase of FA           | -1,469        | -1,440        | -2,138        | -949          | -626          | -7,000         | -1,000        | -1,000        |
| <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>9,215</b>   | <b>8,687</b>  | <b>10,615</b> |
| Net Purchase of Invest.      | 600           | -767          | 568           | -58           | -3,197        | -11,471        | -1,500        | -1,500        |
| <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>-18,471</b> | <b>-2,500</b> | <b>-2,500</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>-5,685</b>  | <b>2,653</b>  | <b>3,850</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>6,472</b>  | <b>9,125</b>  |
| Add: Net Cash                | 1,033         | -531          | -78           | 5,413         | -2,251        | -5,685         | 2,653         | 3,850         |
| <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>6,472</b>   | <b>9,125</b>  | <b>12,974</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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