

Cyient

Changing altitude; guidance impressive

Cyient reported a strong quarter with better-than-expected organic growth in the services segment (+3.2% QoQ CC), continued margin expansion and impressive guidance for FY24E. The services growth was driven by the aerospace and automotive verticals, offset by weakness in communications and medical. The company is set to change gears with double-digit growth in services, led by (1) investments in new growth areas (EV and mobility), (2) strong growth in aerospace led by MRO, upgrades and defence spending, (3) five large deal wins with best TCV of USD 185mn, (4) strong order intake of USD 213mn (+13% YoY), (5) recovery in communication vertical, and (6) appointment of new CEO that drives confidence. The proposed listing of the DLM will lead to value unlocking of the manufacturing segment. For FY24E, the management expects double-digit growth in services (15-20% YoY CC growth at group level) and an EBIT margin of ~14-15% (expansion of ~100-200bps). We increase our FY24/25E EPS estimate by ~6%, led by improving growth visibility. We maintain our BUY rating with a target price of INR 1,310 based on 18x Dec-24E EPS (earlier 16x). The stock is trading at 17/15x FY24/25E, a steep discount of ~40% to LTTS.

- **Q4FY23 highlights:** (1) Revenue, at USD 213mn, improved by +8.1/35.9% QoQ/YoY (vs. estimate of USD 209.4mn), led by core services (+5.0% QoQ, 3.2% QoQ CC) and DLM (+27% QoQ); (2) EBIT margin improved 136bps QoQ to 14.2% (estimate of 13.5%) due to price hikes (130bps), revenue mix and forex (+70ps), and a volume (+92bps), but the same was offset by lower capacity (-92bps) and SG&A spend (-97bps); (3) won five large deals with TCV of USD 185mn (vs 59.2m QoQ); (4) LTM attrition dropped by 150bps QoQ to 25%; (5) OCF/EBITDA stood at 54%, net cash stands at INR 3bn; (6) the exceptional item of INR 162mn is legal fees paid related to the civil class action antitrust lawsuit filed against the US subsidiary.
- **Outlook:** We have factored in +15.6/10.7% USD revenue growth for FY24/25E, implying growth of +14/10% in services and +24/16% in DLM respectively. The EBIT margin is estimated at 13.8/14.1% for FY23/24E, resulting in an EPS CAGR of 21% over FY23-25E.

Quarterly Financial summary

YE March (INR bn)	Q4 FY23	Q4 FY22	YoY (%)	Q3 FY23	QoQ (%)	FY21	FY22	FY23	FY24E	FY25E
Revenue (USD Mn)	213	157	35.9	197	8.1	557	608	746	863	955
Net Sales	17.51	11.81	48.2	16.18	8.2	41.32	45.34	60.16	71.61	80.23
EBIT	2.49	1.71	46.1	2.08	19.7	4.16	6.30	7.67	9.86	11.30
APAT	1.76	1.54	14.2	1.63	8.2	3.72	5.22	5.65	7.24	8.29
Diluted EPS (INR)	15.9	14.0	14.2	14.7	8.2	33.7	47.3	51.2	65.5	75.1
P/E (x)						32.4	23.1	21.3	16.7	14.5
EV / EBITDA (x)						18.0	13.5	11.9	9.3	8.0
RoE (%)						13.5	17.2	17.2	19.8	20.5

Source: Company, HSIE Research, Consolidated Financials

Change in Estimates

YE Mar (INR bn)	FY24E Old	FY24E Revised	Change %	FY25E Old	FY25E Revised	Change %
Revenue (USD mn)	831	863	3.8	916	955	4.3
Revenue	68.97	71.61	3.8	76.95	80.23	4.3
EBIT	9.08	9.86	8.6	10.39	11.30	8.7
EBIT margin (%)	13.2	13.8	61bps	13.5	14.1	58bps
APAT	6.85	7.24	5.6	7.83	8.29	5.8
EPS (INR)	62.0	65.5	5.6	70.9	75.1	5.8

Source: Company, HSIE Research

BUY

CMP (as on 20 Apr 2023) INR 1,091

Target Price INR 1,310

NIFTY 17,624

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 1,100	INR 1,310
EPS %	FY24E	FY25E
	+5.6	+5.8

KEY STOCK DATA

Bloomberg code	CYL IN
No. of Shares (mn)	111
MCap (INR bn) / (\$ mn)	121/1,468
6m avg traded value (INR mn)	285
52 Week high / low	INR 1,120/720

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	24.9	43.1	35.4
Relative (%)	26.5	42.4	30.9

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	23.36	23.36
FIs & Local MFs	24.92	24.88
FPIs	31.07	32.61
Public & Others	20.65	19.15
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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