

BSE SENSEX 61,432 S&P CNX 18,130

CMP: INR1,289 TP: INR1,450 (+13%)

Buy

CYIENT

Stock Info

Bloomberg	CYL IN
Equity Shares (m)	113
M.Cap.(INRb)/(USDb)	142.5 / 1.7
52-Week Range (INR)	1299 / 724
1, 6, 12 Rel. Per (%)	14/63/53
12M Avg Val (INR M)	296
Free float (%)	76.7

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	60.2	75.4	85.8
EBIT Margin (%)	12.8	13.9	14.1
PAT	5.8	8.1	9.4
EPS (INR)	52.4	73.9	85.3
EPS Gr. (%)	9.6	41.1	15.4
BV/Sh. (INR)	314.6	344.1	378.2

Ratios

RoE (%)	17.5	22.4	23.6
RoCE (%)	14.7	16.6	17.5
Payout (%)	49.7	60.0	60.0

Valuations

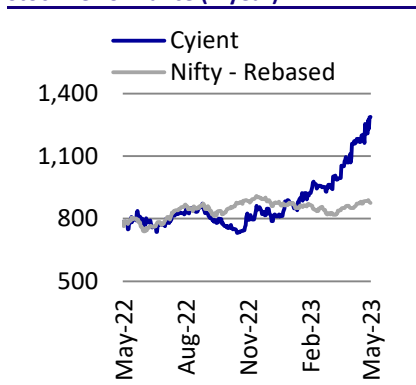
P/E (x)	24.6	17.4	15.1
P/BV (x)	4.1	3.7	3.4
EV/EBITDA (x)	14.0	9.9	8.3
Div Yield (%)	2.0	3.4	4.0

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	23.4	23.4	23.4
DII	24.9	25.0	23.3
FII	33.6	32.1	34.0
Others	18.2	19.6	19.3

FII Includes depository receipts

Stock Performance (1-year)



Strong execution to sustain the performance

We recently met the management of the company to get a sense of the demand amid emerging macros. The management was quite optimistic on sustaining the growth outlook and margin profile, while emphasizing its commitment to deliver within the guided range. Overall, **we remain constructive on the growth story of CYL** and its current positioning across verticals. We believe that a) CYL's core service business has stabilized and has joined the upward trajectory with 12.1% YoY CC growth in FY23. b) FY23 robust Book-to-Bill of 1.3x (Core service) provides strong revenue visibility for FY24. c) The company's strategic investments in strengthening capabilities should contribute meaningfully in terms of growth for FY24E/FY25E, and d) it is doubling down on its cost-rationalization efforts to improve service margin, while flexing some of the key levers to achieve 100-200 bp YoY improvement in FY24. We have not made any changes to our estimates and building in 18% YoY and 14% YoY CC growth with an operating margin of 13.9%/14.1% for FY24/FY25.

CYL stock has witnessed a significant run up (up 60%) over the last six months, albeit from depressed valuations. Considering the strong demand across its portfolio, along with anticipated margin improvements, we expect the company to maintain its operational performance. While Q1/Q2 FY24 revenue growth should moderate a little from its high base, it is in our Services base case (down 90/50 bp QoQ over 3.2% QoQ CC growth in Q4). The growth moderation in 1H should be followed by a pickup in 2HFY24 to achieve Services revenue guidance (up 15-20% YoY CC). Given that the valuation is currently at 17x/15x FY24E/FY25E (~40% discount to LTTS), it gives us more comfort to assign a higher multiple of 17x (16x earlier) to its FY25E EPS with a target price of INR 1,450.

Sustainable demand commentary despite adverse macros

- **The overall sense on the demand is positive with the majority of the verticals performing well. However, given the high base in Q4, the Q1 performance is likely to see some moderation.**
- **Aerospace:** The Aerospace demand on the MRO and engineering services is relatively strong, while design engineering service is volatile. The design service is expected to gain pace once the development cycle with a new platform gets initiated, although the timeline is uncertain. **It expects the vertical to deliver double-digit growth in FY24, in line with the consolidated level growth.**
- **Connectivity:** The functional areas on the Telecom Asset and Network Design are ramping up quite well. **Both Europe and the US are generating equal opportunities on the network fiberization/throughput on 5G rollout.**
- **Sustainability:** It has a larger scope on the regulatory and compliance front. The ancillary services on mining activities using IoT, AI, and sensors are gaining traction among its clients. With the acquisition of Citec, the company now has a significant presence in the Energy, Oil & Gas, and Electrofuel capabilities.

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Key Commentaries from the management meet

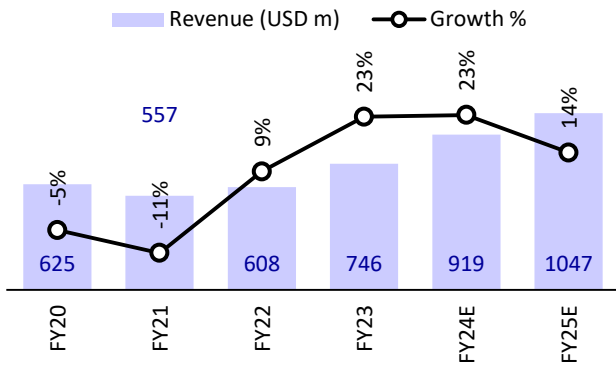
We met the management of Cyient and had a campus visit at its Citec Office. The following are the Key Takeaways from the visit:

- The Engine failure instances of P&W have no direct impact on the business, instead such instances would create further opportunity for Cyient in the areas of engine performance monitoring and optimization.
- The telecom infrastructure spending is facing challenges in the near-term due to consecutive rate hikes, hence, the spending on communication is expected to be a little volatile in the near term.
- The integration of Celfinet (part of Connectivity) is creating further opportunity on the remote architecture areas. Again, the business profile of its top telecom client remains strong.
- With the acquisition of Citec, the company now has a significant presence in the Energy, Oil & Gas, and Electrofuel capabilities. The nature of the work is more on the plant/product engineering v/s plant automation/smart engineering. The enterprises are looking for transitioning to green energy with solutions around sustainability and net-zero emission are gaining traction.
- Currently, 20% of the work has been automated within the organization (Citec), and the additional resources are being utilized for more productive and core engineering work. Going forward, it has further scope for improving automation.
- The company has reduced its dependency on consultants for lead generation and GTM activities and this is one of the key margin levers apart from utilization and SG&A absorption in FY24
- Given the disciplinary (Civil/Mechanical Eng.) nature of the business, the company has high dependency on lateral hiring. However, an ideal fresher takes on an average six months to get deployed into billable projects.

Valuation and Views

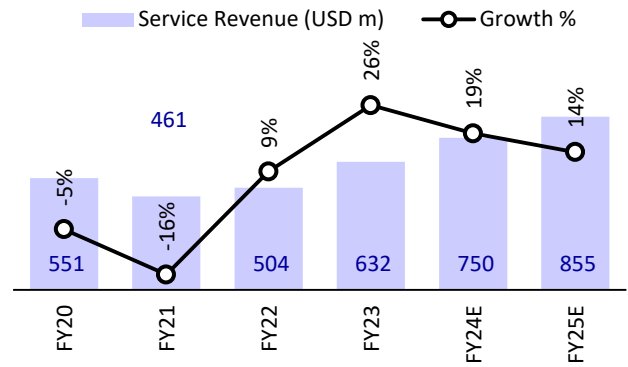
- **CYL's service segment is shaping up quite well with the majority of its verticals gaining strength. This is majorly attributed to the demand recovery in the Aerospace segment and partly attributed to the inorganic investments.**
- **We expect near-term moderation of revenues due to the high base in Q4. However, we expect significant ramp-up in volume in the second half of the year to achieve the service revenue guidance (up 15-20% YoY CC) in FY24.**
- **The valuation is currently trading at 17x and 15x FY24E and FY25E (~40% discount to LTTS), giving us more comfort to assign a higher multiple of 17x (16x earlier) to its FY25E EPS with a target price of INR 1,450.**

Exhibit 1: Revenue growth % (USD YoY)



Source: MOFSL, Company

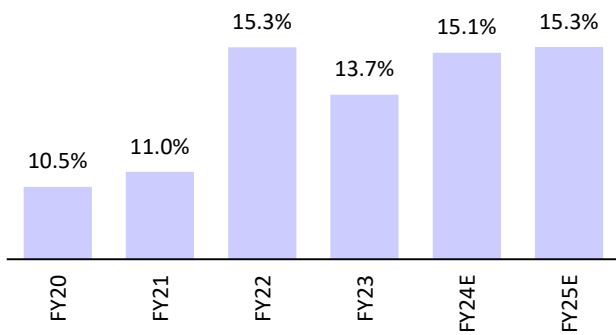
Exhibit 2: Service Revenue Growth % (USD YoY)



Source: MOFSL, Company

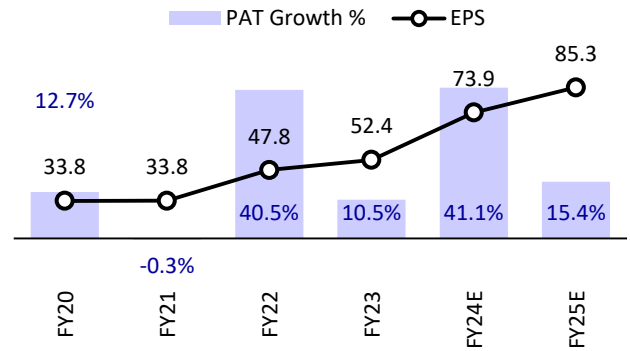
- In FY23, the company’s service business contributed 85% to its overall revenues and it reported an organic growth of 12.1% YoY in CC (Consol 30.2% CC YoY). We expect the company to maintain its service revenue growth momentum and deliver a 16.3% CAGR over FY23-25.

Exhibit 3: Service Business EBIT Margin (%)



Source: MOFSL, Company

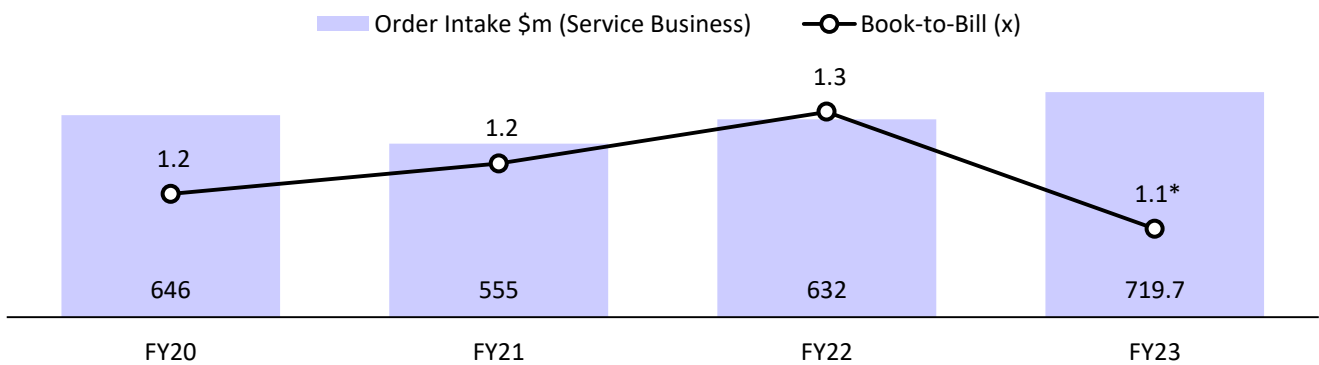
Exhibit 4: PAT growth (%) and EPS (INR)



Source: MOFSL, Company

- CYL’s operating margin (service business) has magnified quite meaningfully (by ~320bp) over FY20-23 through cost optimization and flexing multiple margin levers. The management aspires to improve ~100-200bp further in FY24 from its current 13.7% in FY23. Given that the Q4 exit rate is already at 15.1%, we expect the company to sustain its margin at the current level.

Exhibit 5: Service Business Order Intake (USD m)



*Including inorganic revenue

Source: MOFSL, Company

- FY23 revenue includes revenue from core service business and acquired entities (Citec, Grit, and Celfinet), while FY23 order intake does not include orders from those entities. Hence, adjusted Book-to-Bill is ~1.3x for FY23.

Valuation and Views

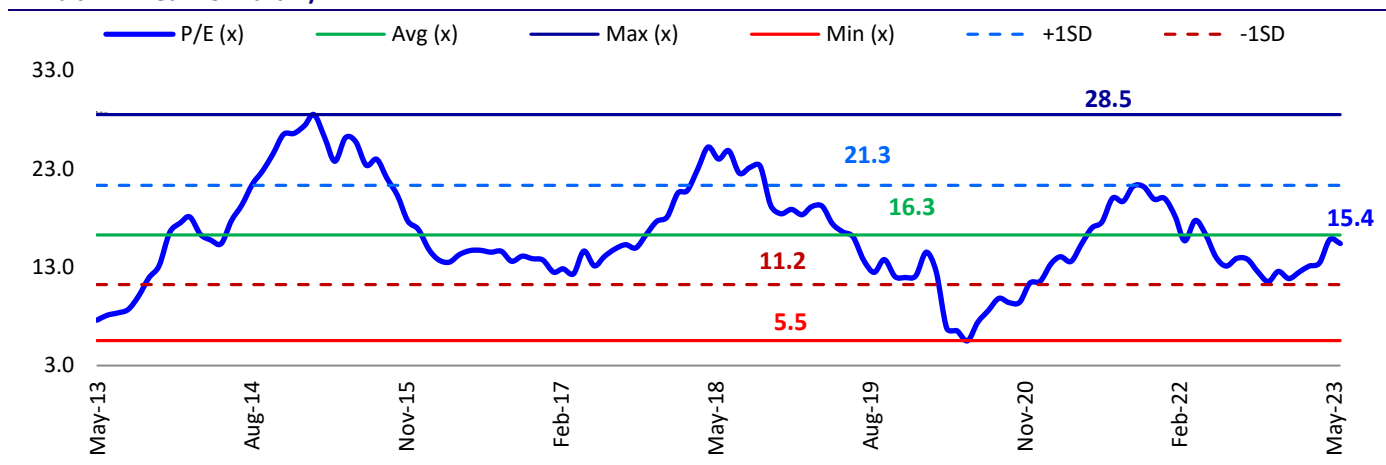
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Exhibit 6: Valuation

Company	Rating	Price (INR)	MCap (USD b)	Target Price (INR)	Upside/Downside (%)	EPS		P/E (x)		Rev growth (%) (CC)		EBIT Margin (%)		PEG FY23-25E
						FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	
Mphasis	Neutral	1,859	4	1,780	-4%	91.2	111.3	20.4	16.7	-0.4%	14.2%	15.4%	16.3%	1.3
LTTS	Buy	3,845	5	4,040	5%	132.0	155.4	29.1	24.7	20.3%	15.4%	17.3%	17.7%	1.3
Coforge	Neutral	4,205	3	4,290	2%	177.7	195.0	23.7	21.6	16.5%	13.5%	14.3%	14.7%	1.0
Persistent	Neutral	4,750	4	4,870	3%	162.0	187.4	29.3	25.3	15.4%	14.6%	16.0%	16.1%	1.1
Cyient	Buy	1,289	2	1,450	12%	73.9	85.3	17.4	15.1	18.0%	14.0%	13.9%	14.1%	0.5
Zensar	Buy	349	1	390	12%	20.7	24.2	16.9	14.4	3.4%	13.3%	11.3%	11.8%	0.5

Source: MOFSL, Company

Exhibit 7: 1-Year Forward P/E



Source: MOFSL, Company

Financials and valuations

Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Sales	39,176	46,175	44,275	41,325	45,344	60,159	75,386	85,846
Change (%)	8.6	17.9	(4.1)	(6.7)	9.7	32.7	25.3	13.9
Cost of Services	25,387	30,125	28,964	27,162	28,453	37,415	46,647	52,881
SG&A Expenses	8,296	9,606	9,352	8,056	8,675	12,501	14,941	17,169
EBITDA	5,493	6,444	5,959	6,107	8,216	10,243	13,798	15,796
As a percentage of net sales	14.0	14.0	13.5	14.8	18.1	17.0	18.3	18.4
Depreciation	1,051	1,692	1,878	1,944	1,923	2,566	3,317	3,691
Other Income	1,207	864	734	684	687	-185	302	343
PBT	5,649	5,616	4,815	4,847	6,980	7,492	10,782	12,448
Tax	1,381	2,327	1,076	1,133	1,761	1,723	2,642	3,050
Rate (%)	24.4	41.4	22.3	23.4	25.2	23.0	24.5	24.5
Net Income	4,268	3,307	3,726	3,714	5,219	5,769	8,141	9,398
Change (%)	20.8	-22.5	12.7	-0.3	40.5	10.5	41.1	15.4

Balance Sheet							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	563	552	550	550	552	553	553	553
Reserves	22,876	25,089	25,059	29,023	30,614	34,114	37,370	41,130
Net Worth	23,439	25,641	25,609	29,573	31,166	34,667	37,923	41,683
Other liabilities	1,636	2,240	4,194	3,812	4,061	5,644	7,081	8,068
Loan	2,410	3,253	3,738	2,755	3,264	9,336	9,336	9,336
Capital Employed	27,485	31,134	33,541	36,140	38,491	49,647	54,340	59,086
Applications								
Gross Block	12,217	13,289	17,388	18,558	19,223	21,776	22,776	23,776
Less: Depreciation	7,791	8,766	9,712	10,779	11,959	14,525	17,842	21,533
Net Block	3,220	3,530	6,909	7,181	6,787	7,251	4,934	2,243
CWIP	213	300	800	113	134	27	27	27
Intangibles	5,057	6,990	6,800	7,191	6,662	21,413	21,413	21,413
Other assets	2,380	2,219	2,638	1,925	5,318	4,877	5,154	5,344
Curr. Assets	23,456	25,853	24,650	28,518	28,972	31,913	43,296	52,416
Debtors	6,913	8,137	7,262	8,026	7,333	11,271	12,805	14,582
Cash and Bank Balance	9,604	9,073	8,995	14,408	12,157	6,215	11,347	14,981
Other Current Assets	5,809	8,365	8,393	6,084	8,616	12,709	15,926	18,136
Current Liab. and Prov.	6,841	7,758	8,256	8,788	9,382	15,834	20,484	22,357
Trade payables	3,813	3,712	3,729	4,532	5,259	7,142	11,360	12,936
Other liabilities	2,799	3,757	4,150	3,872	3,709	7,555	7,699	7,798
Provisions	229	289	377	384	414	1,137	1,425	1,622
Net Current Assets	16,615	18,095	16,394	19,730	19,590	16,079	22,812	30,060
Application of Funds	27,485	31,134	33,541	36,140	38,491	49,647	54,340	59,086

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	38.0	30.0	33.8	33.8	47.8	52.4	73.9	85.3
Cash EPS	47.4	45.3	50.8	51.5	65.3	75.6	104.0	118.8
Book Value	209.8	232.3	232.0	269.1	285.1	314.6	344.1	378.2
DPS	13.0	13.0	27.0	24.5	24.0	26.0	44.3	51.2
Payout (%)	34.2	43.4	80.0	72.5	50.3	49.7	60.0	60.0
Valuation (x)								
P/E ratio	33.8	43.0	38.1	38.1	27.0	24.6	17.4	15.1
Cash P/E ratio	27.2	28.4	25.4	25.0	19.7	17.0	12.4	10.9
EV/EBITDA ratio	24.7	21.1	23.0	21.2	15.9	14.0	9.9	8.3
EV/Sales ratio	3.5	2.9	3.1	3.1	2.9	2.4	1.8	1.5
Price/Book Value ratio	6.1	5.5	5.5	4.8	4.5	4.1	3.7	3.4
Dividend Yield (%)	1.0	1.0	2.1	1.9	1.9	2.0	3.4	4.0
Profitability Ratios (%)								
RoE	19.1	13.5	14.6	13.5	17.2	17.5	22.4	23.6
RoCE	13.8	10.2	10.6	9.9	13.6	14.7	16.6	17.5
Turnover Ratios								
Debtors (Days)	62	59	63	68	62	68	62	62

Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
CF from Operations	4,622	5,411	5,496	5,872	7,318	9,024	11,458	13,089
Cash for Working Capital	-1,659	-1,710	328	2,686	-973	-3,485	1,059	-1,317
Net Operating CF	2,963	3,701	5,824	8,558	6,345	5,539	12,516	11,773
Net Purchase of FA	-1,469	-1,440	-2,138	-949	-626	-625	-1,000	-1,000
Free Cash Flow	1,494	2,261	3,686	7,609	5,719	4,914	11,516	10,773
Net Purchase of Invest.	600	-767	568	-58	-3,197	-9,675	-1,500	-1,500
Net Cash from Invest.	-869	-2,207	-1,570	-1,007	-3,823	-10,300	-2,500	-2,500
Proc. from equity issues	9	22	17	37	121	79	0	0
Proceeds from LTB/STB	526	549	-916	-2,134	-1,994	1,458	0	0
Dividend Payments	-1,894	-2,892	-3,564	-10	-2,952	-2,630	-4,884	-5,639
Cash Flow from Fin.	-1,359	-2,321	-4,463	-2,107	-4,825	-1,093	-4,884	-5,639
Exchange difference	298	296	131	-31	52	-88	0	0
Net Cash Flow	1,033	-531	-78	5,413	-2,251	-5,942	5,132	3,634
Opening Cash Bal.	8,571	9,604	9,073	8,995	14,408	12,157	6,215	11,347
Add: Net Cash	1,033	-531	-78	5,413	-2,251	-5,942	5,132	3,634
Closing Cash Bal.	9,604	9,073	8,995	14,408	12,157	6,215	11,347	14,981

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