



Strong Recovery; Improved Vertical Outlook

Est. Vs. Actual for Q1FY24: Revenue – **MISS**; EBITDA Margin – **MISS**; PAT – **INLINE**; Deal Wins – **INLINE**

Changes in Estimates post Q1FY24

FY24E/FY25E: Revenue: 1%/2%; EBITDA: 0.5%/0.5%; PAT: 1%/2%

Recommendation Rationale

- The improved outlook for the vertical business and deepened collaboration with customers strengthen our confidence in the company's growth prospects in the coming quarters.
- TCV of \$193.2 Mn in Q1FY24 indicates stable order intake even in challenging times.
- Management is confident of achieving demand momentum and margin improvement in the medium term, as the company has received numerous orders in recent quarters

Sector Outlook: Cautiously positive

Company Outlook & Guidance: Cyient has given revenue growth guidance of 15-20% in FY24 (in constant currency terms). This will be aided by robust client additions. Moreover, the company's EBIT margins are to improve by 150-250bps in FY24.

Current Valuation: 20x FY25E P/E; **Earlier Valuation:** 16x FY24E

Current TP: 1,610/share (**Earlier TP:** Rs 1,260/share)

Recommendation: With strong growth potential backed by robust deal wins and superior execution capabilities, we **maintain** our **BUY** recommendation on the stock.

Financial Performance

In Q1FY24, Cyient reported revenue of Rs 1,69 Cr, up -4% QoQ and 35% YoY. The company's operating margins improved by 283bps QoQ to 14.2%. The Services' operating margins grew by 60bps QoQ to 15.3%, led by efficient execution during the quarter as well as currency translation. The company's net profit for Q1FY24 stood at Rs 177 Cr, registering a growth of 52% YoY. The management expects overall revenue growth in FY24 in the range of 15%-20%, which if materializes, would be indeed strong given the prevailing challenging times. The said growth would be driven by Communications growth (led by Network Transformation), E&U (benefiting from the IG partner's acquisition), and Transportation growth (led by the Rail segment). The deal pipeline continues to look healthy at \$192 Mn.

Outlook

From the long-term perspective, we believe Cyient is a better ER&D player with an improved outlook and better deal wins. The recent recovery is long-term and sustainable over two to three years perspective. However, rising concern over uncertainties from the large economies and supply-side constraints may create uncertainties over the growth prospects of the company.

Valuation & Recommendation

We recommend a **BUY** rating on the stock and assign a 16x P/E multiple to its FY25E earnings of Rs 81.8/share to arrive at a TP of Rs 1,610/share, implying an upside of 10% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q3FY23	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,687	-4%	37%	1612	5%
EBITDA	315	22%	31%	195	62%
EBITDA Margin	19%	70 bps	(156) bps	12.10%	480 bps
Net Profit	177	0%	18%	120	47%
EPS (Rs)	15.40	0%	18%	11	40%

Source: Company, Axis Research

(CMP as of 25 July 2023)

CMP (Rs)	1,466
Upside /Downside (%)	10%
High/Low (Rs)	1,553/724
Market cap (Cr)	16,220
Avg. daily vol. (6m)Shrs.	1,01,970
No. of shares (Cr)	11.04

Shareholding (%)

	Mar-22	Jun-22	Sep-22
Promoter	23.4	23.4	23.0
FII's	34.0	32.7	32.6
MFs / UTI	22.0	22.5	22.5
Banks / FIs	0.0	0.0	0.0
Others	20.6	21.4	21.9

Financial & Valuations

Y/E Mar (Rs Cr)	FY23E	FY24E	FY25E
Net Sales	5,417	6,230	7,164
EBITDA	728	835	990
Net Profit	593	673	789
EPS (Rs)	52.7	59.8	70.1
PER (x)	22.0	19.4	16.5
P/BV (x)	14.6	13.1	11.4
EV/EBITDA (x)	3.6	3.1	2.7
ROE (%)	16%	16%	16%

Change in Estimates (%)

Y/E Mar	FY23E	FY24E	FY25E
Sales	5,417	1%	2%
EBITDA	728	1%	1%
PAT	593	1%	2%

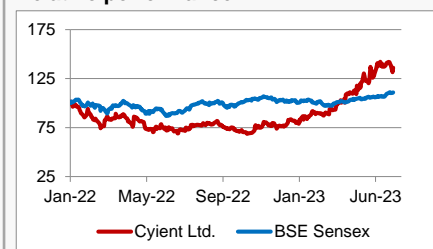
ESG disclosure Score**

Environmental Disclosure	N.A.
Social Disclosure Score	N.A.
Governance Disclosure Score	N.A.
Total ESG Disclosure Score	N.A.
Sector Average	N.A.

Source: Bloomberg, Scale: 0,1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: ACE Equity, Axis Securities

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Recommendation Rationale & Key Highlights

- **Demand strength to continue in the medium term:** The US is relatively better placed; the UK is seeing higher cost optimization deals (with faster decision-making) while the Europe market is impacted in the short term. As the macro environment stabilizes, the company expects a pick-up in decision-making.
- **Broad-based vertical growth:** On the vertical front, new growth areas showed a de-growth of 6.5% while Communication de-grew by 2.4% QoQ. The Transportation vertical, however, delivered a growth of 3.2% QoQ and the Sustainability vertical grew by 4.5% QoQ. On a positive note, the majority of the verticals are likely to witness recovery moving forward, supported by a strong deal pipeline in the forthcoming quarters.
- **Better DET performance:** Cyient Digital, Engineering & Technology (DET) business includes the erstwhile Services business (core services and acquisitions) and a small portion of the Engineering Parts business which was earlier classified under DLM. DET revenue at \$177.1 Mn, growth of 0.3% QoQ and 30.6% YoY in constant currency, driven by growth across the Transportation, Sustainability and Automotive BU's. The normalized Group EBIT margins, at 14.7%, are higher by 322 bps YoY.

Key Risks to our Estimates and TP

- The demand environment is uncertain due to the potential threat of recession from the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact operating margins negatively.

Results Review
(Rs Cr)

In Cr	Q1FY24	Q4FY23	Q1FY23	% change (YoY)	% change (QoQ)
Total Revenue	1,687	1,751	1,250	35%	-4%
Total Cost of Sales	1,070	1,086	790		
Gross Profit	617	666	460	34%	-7%
Margin(%)	37%	38%	37%	-21	-143
Selling and marketing Expenses	53	56	40		
G&A expenses	249	288	225		
Total Operating Expenses	302	344	265		
EBITDA	315	322	195	62%	-2%
Margin(%)	19%	18%	16%	29	283
Depreciation	68	73	51		
Operating Income	248	250	144	73%	-1%
Margin(%)	15%	14%	11%	320	43
Total Other Income/(Expense)	10	1	34		
Income Before Income Taxes	230	224	160		
Total Taxes	53	48	44		
ETR (%)	23%	21%	27%	-452	155
Net Profit After Taxes	177	176	116	52%	0%
Non Controlling Interest	0	0	0		
Net Income After Extraordinary Items	177	176	116	52%	0%
Margin(%)	7%	7%	16%	-920	-
EPS	15.40	14.90	10.60	45%	3%

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Net sales	4,534	6,016	7,039	8,235
Employee Expense	2,991	3,850	4,540	5,312
Contribution (%)	6%	6%	6%	6%
Changes in inventory & WIP	188	241	282	329
As % sales	0%	0%	0%	0%
Other Expenses	707	902	1,056	1,235
Operating Profit	630	768	969	1,166
Other income	112	81	85	85
PBIDT	698	1,024	1,161	1,359
Depreciation	176	193	193	193
Interest & Fin Chg.	43	23	23	23
Pre-tax profit	693	827	1,031	1,229
Tax provision	180	203	258	307
PAT	698	565	774	922
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Other Comprehensive Income	0	0	0	0
Adjusted PAT	698	565	774	922
Reported PAT	698	565	774	922

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
Equity capital	55	55	55	55
Reserves & Surplus	3,029	3,542	4,107	4,880
Net worth	3,084	3,597	4,162	4,935
Total debt	573	607	644	683
Deferred tax liability	35	35	35	35
Total Liabilities & Equity	4,829	5,540	6,281	7,254
Net block	1208	1389	1598	1837
Capital WIP	35	35	35	35
Goodwill	618	711	817	940
Total fixed assets	2171	2475	2823	3222
Other Fixed Assets	229	257	288	322
Total non current Assets	2,171	2,475	2,823	3,222
Debtors	839	1071	1253	1467
Cash & bank	1624	1752	1925	2243
Other Current Assets	0	0	0	0
Total Current Assets	2,658	3,065	3,458	4,032
Creditors	25	25	25	25
Provisions	300	300	300	300
Current Liab. & Prov.	2,658	3,065	3,458	4,032
Total Assets	4,829	5,540	6,281	7,254

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY22A	FY23E	FY24E	FY25E
PBT	693	827	1,031	1,229
Add: Depreciation	193	193	193	193
Other Adjustments	24	23	23	23
Chg in working capital	(262)	(523)	(473)	(670)
CF from operations	660	533	789	789
Change in fixed assets	(238)	(274)	(315)	(362)
Purchase of investment	(2)	(2)	(2)	(3)
Other Adjustments	59	59	59	59
CF from Investing acti.	(206)	(244)	(289)	(340)
Chg in debt	(67)	(69)	(72)	(74)
Chg in Equity capital	(24)	(23)	(23)	(23)
Dividend & dividend tax	150	150	150	150
Interest paid	(24)	(23)	(23)	(23)
Other Adjustments	150	150	150	150
CF from financing acti.	130	129	127	124
Chg in cash	585	418	626	573
Opening cash	1,545	2,129	2,547	3,174
Closing cash	2,129	2,547	3,174	3,747

Source: Company, Axis Securities

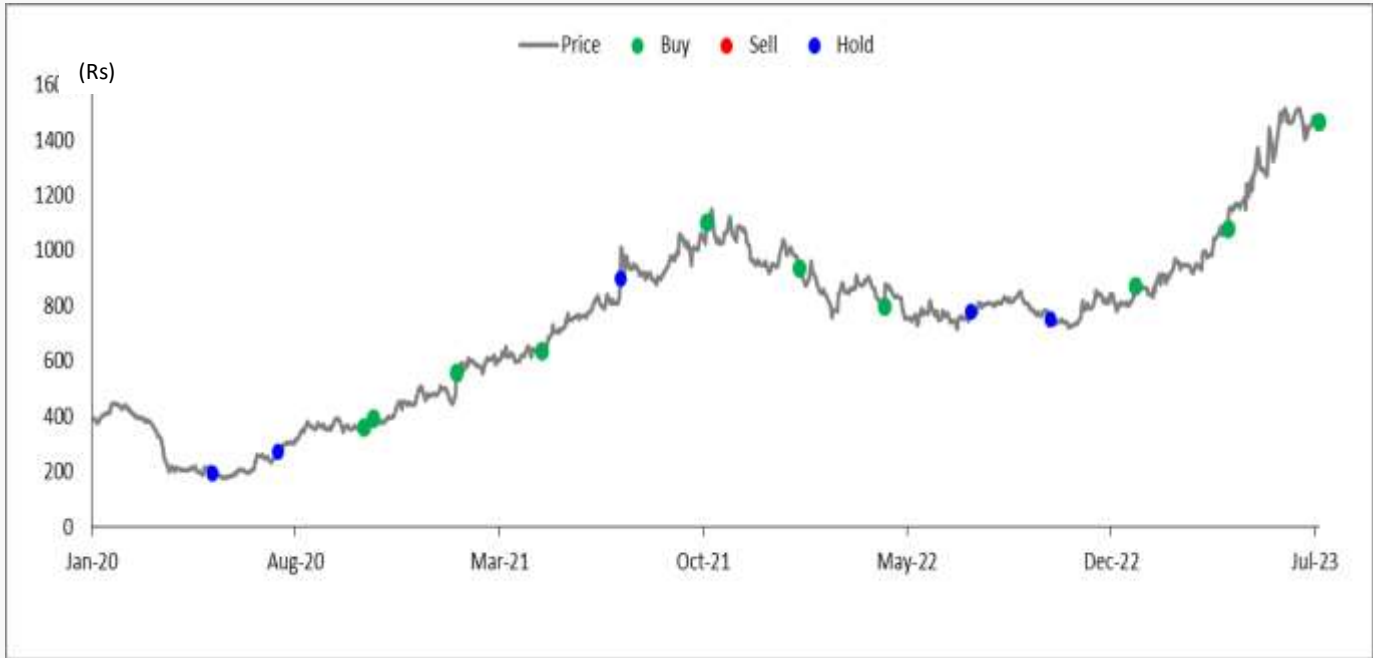
Ratio Analysis

(%)

Y/E March	FY22A	FY23E	FY24E	FY25E
Fully diluted EPS	45.6	51.1	68.7	81.8
Book Value	273.8	319.4	369.6	438.3
Cash per share	144.2	155.6	171.0	199.2
Valuation Ratio				
P/E	25.4	22.7	16.9	14.1
P/BV	4.2	3.6	3.1	2.6
EV/EBITDA	16.3	13.1	11.6	9.9
EV/Sales	2.85	2.23	1.91	1.63
Growth Ratios				
Sales Growth	14%	28%	17%	17%
EBITDA Growth	17%	24%	13%	17%
Net Profit Growth	40%	10%	37%	19%
EPS Growth	35%	12%	35%	19%
Common Size Ratios				
EBITDA Margin	18%	17%	17%	17%
EBIT margin	15%	14%	15%	15%
PAT margin	11%	9%	11%	11%
Employee cost	64%	64%	65%	65%
Return ratios				
RoNW	17%	16%	19%	19%
RoCE	20%	20%	22%	22%
Turnover ratios (days)				
Debtors (Days)	65	65	65	65
Creditors (Days)	36	36	36	36
Inventory (Days)	13.2	13.2	13.2	13.2
Solvency Ratios				
Total Debt/Equity	0.2	0.2	0.2	0.1

Source: Company, Axis Securities

Cyient Price Chart and Recommendation History



Date	Reco	TP	Research
08-May-20	Hold	240	Result Update
17-Jul-20	Hold	306	Result Update
16-Oct-20	BUY	440	Result Update
26-Oct-20	BUY	480	Pick of the week
22-Jan-21	BUY	623	Result Update
23-Apr-21	BUY	800	Result Update
16-Jul-21	Hold	1,030	Result Update
18-Oct-21	BUY	1,300	Result Update
21-Jan-22	BUY	1,100	Result Update
22-Apr-22	BUY	1,000	Result Update
22-Jul-22	HOLD	830	Result Update
14-Oct-22	HOLD	830	Result Update
13-Jan-23	BUY	1,050	Result Update
21-Apr-23	BUY	1,260	Result Update
26-Jul-23	BUY	1,610	Result Update

Source: Axis Securities

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