Cyient

Growth uptick

Cyient reported muted growth in the DET segment (+0.3% QoQ CC) but margin expansion was impressive. The lower end of DET growth guidance implies acceleration in organic growth (~2% CQGR) and the margin guidance was increased by ~50bps. The DET growth was driven by the transportation and sustainability verticals but offset by softness in communications and new growth areas (healthcare softness). The double-digit organic growth in DET will be led by (1) growth in aerospace led by MRO, upgrades and defence spending, (2) strong large deal pipeline and wins, (3) order intake of USD 193mn (+36% YoY), (4) expected recovery in communication vertical, and (5) investments in EV and mobility. For FY24E, the management has maintained its DET guidance of 15-20% YoY CC and expects an EBIT margin of ~15% (expansion of ~150-250bps). We increase our FY24/25E EPS estimate by ~1/3% and maintain our BUY rating with a target price of INR 1,700, based on 20x June-25E EPS. The stock is trading at 21/18x FY24/25E, a discount of ~35% to LTTS.

- **Q1FY24 highlights:** (1) Digital, Engineering and Technology (DET) revenue stood at USD 177mn, +0.3/30.6% QoQ/YoY CC (in line with the estimate of USD 177mn); (2) DET EBIT margin improved 100bps QoQ to 16.1% (estimate of 16%) due to SG&A rationalization, offset by a wage increase; (3) six deals were won, with TCV of USD 48mn (vs 185m QoQ); (4) LTM attrition dropped by 270bps QoQ to 23%; (5) the de-merger of DLM business was complete and value of Cyi ent DLM is INR 195/share, taking 15% holding discount; (6) transportation and sustainability grew by 3.5/4.4% while connectivity/new growth areas declined 2.3/5.6% QoQ CC; (7) group revenue was down 3.6% QoQ due to weak DLM (-23.3% QoQ, seasonality).

- **Outlook:** We have factored in +15.9/10.8/11.1% DET USD revenue growth for FY24/25/26E. The consolidated EBIT margin is estimated at 14.8/15/15.5% for FY23/24/25E, resulting in an EPS CAGR of 24% over FY23-26E.

### Quarterly Financial Summary

<table>
<thead>
<tr>
<th>Ye March (INR mn)</th>
<th>Q1FY24</th>
<th>Q1FY23 YoY (%)</th>
<th>Q4FY23 QoQ (%)</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24E</th>
<th>FY25E</th>
<th>FY26E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (USD mn)</td>
<td>205</td>
<td>162</td>
<td>27.0</td>
<td>213</td>
<td>-3.6</td>
<td>608</td>
<td>746</td>
<td></td>
</tr>
<tr>
<td>Net Sales</td>
<td>16,865</td>
<td>12,501</td>
<td>34.9</td>
<td>17,511</td>
<td>-3.7</td>
<td>45,344</td>
<td>60,156</td>
<td>71,788</td>
</tr>
<tr>
<td>EBIT</td>
<td>2,480</td>
<td>1,436</td>
<td>72.7</td>
<td>2,494</td>
<td>-0.6</td>
<td>6,295</td>
<td>7,674</td>
<td></td>
</tr>
<tr>
<td>APAT</td>
<td>1,767</td>
<td>1,161</td>
<td>52.2</td>
<td>1,760</td>
<td>0.4</td>
<td>5,221</td>
<td>5,651</td>
<td></td>
</tr>
<tr>
<td>Diluted EPS (INR)</td>
<td>16.0</td>
<td>10.5</td>
<td>52.2</td>
<td>15.9</td>
<td>0.4</td>
<td>47.3</td>
<td>51.2</td>
<td></td>
</tr>
<tr>
<td>P/E (x)</td>
<td>30.9</td>
<td>28.5</td>
<td>30.9</td>
<td>28.5</td>
<td>69.2</td>
<td>80.8</td>
<td>97.7</td>
<td></td>
</tr>
<tr>
<td>EV / EBITDA (x)</td>
<td>18.6</td>
<td>15.9</td>
<td>18.6</td>
<td>15.9</td>
<td>12.0</td>
<td>10.2</td>
<td>8.4</td>
<td></td>
</tr>
<tr>
<td>RoE (%)</td>
<td>17.2</td>
<td>17.2</td>
<td>17.2</td>
<td>17.2</td>
<td>20.9</td>
<td>21.9</td>
<td>23.6</td>
<td></td>
</tr>
</tbody>
</table>

Source: Company, HSIE Research, Consolidated Financials

### Change in Estimates

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (USD mn)</td>
<td>875</td>
<td>868</td>
<td>-0.7</td>
<td>982</td>
<td>983</td>
<td>0.1</td>
<td>1,111</td>
<td>1,121</td>
<td>0.9</td>
</tr>
<tr>
<td>Revenue</td>
<td>73.25</td>
<td>71.79</td>
<td>-0.7</td>
<td>82.47</td>
<td>82.55</td>
<td>0.1</td>
<td>94.97</td>
<td>95.86</td>
<td>0.9</td>
</tr>
<tr>
<td>EBIT</td>
<td>10.35</td>
<td>10.61</td>
<td>2.5</td>
<td>11.87</td>
<td>12.41</td>
<td>4.6</td>
<td>14.43</td>
<td>14.89</td>
<td>3.2</td>
</tr>
<tr>
<td>EBIT margin (%)</td>
<td>14.3</td>
<td>14.8</td>
<td>46bps</td>
<td>14.4</td>
<td>15.0</td>
<td>64bps</td>
<td>15.2</td>
<td>15.5</td>
<td>34bps</td>
</tr>
<tr>
<td>APAT</td>
<td>7.60</td>
<td>7.64</td>
<td>0.5</td>
<td>8.71</td>
<td>8.93</td>
<td>2.5</td>
<td>10.59</td>
<td>10.79</td>
<td>1.9</td>
</tr>
<tr>
<td>EPS (INR)</td>
<td>68.9</td>
<td>69.2</td>
<td>0.5</td>
<td>78.9</td>
<td>80.8</td>
<td>2.5</td>
<td>95.9</td>
<td>97.7</td>
<td>1.9</td>
</tr>
</tbody>
</table>

Source: Company, HSIE Research

### Buy

- **CMP (as on 25 Jul 2023):** INR 1,467
- **Target Price:** INR 1,700
- **NIFTY:** 19,681

### Key Changes

- **Old:** BUY
- **New:** BUY
- **Price Target:** INR 1,660
- **EPS %:** +0.5% +2.5%

### Key Stock Data

- **Bloomberg code:** CYL IN
- **No. of Shares (mn):** 111
- **MCap (INR bn) / ($ mn):** 162/1,983
- **6m avg traded value (INR mn):** 772
- **52 Week high / low:** INR 1,555/724

### Stock Performance (%)

- **3M:** 26.7 18.6
- **6M:** 72.7 62.5
- **12M:** 87.9 69.0

### Shareholding Pattern (%)

- **Mar-23:**
  - Promoters: 23.35
  - FIs & Local MFs: 24.88
  - FPIs: 32.61
  - Public & Others: 18.18
  - Pledged Shares: 0.00

- **Jun-23:**
  - Promoters: 23.35
  - FIs & Local MFs: 21.31
  - FPIs: 36.56
  - Public & Others: 18.75
  - Pledged Shares: 0.00

**Source : BSE**

Amit Chandra
amic.chandra@hdfcsec.com
+91-22-6171-7345

Apurva Prasad
apurva.prasad@hdfcsec.com
+91-22-6171-7327

Vinesh Vala
vinesh.vala@hdfcsec.com
+91-22-6171-7332
Disclosure:
Authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.
Research Analyst or his/her relative or HDFC Securities Ltd. does not have any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate does have/does not have any material conflict of interest.

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:
This report has been prepared by HDFC Securities Ltd and is solely for information of the recipient only. The report must not be used as a singular basis of any investment decision. The views herein are of a general nature and do not consider the risk appetite or the particular circumstances of an individual investor. Readers are requested to take professional advice before investing. Nothing in this document should be construed as investment advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of any investment in securities of the companies referred to in this document (including merits and risks) and should consult their own advisors to determine merits and risks of such investment. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice.
Descriptions of any company or companies or their securities mentioned herein are not intended to be complete. HSL is not obliged to update this report for such changes. HSL has the right to make changes and modifications at any time.
This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any person in such country, especially, United States of America, the same should be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published in whole or in part, directly or indirectly, for any purposes or in any manner.
Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk. It should not be considered to be taken as an offer to sell or a solicitation to buy any security. This document is not, and should not, be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report should not be construed as an invitation or solicitation to do business with HSL. HSL may from time to time solicit from, or perform brokerage, or other services for, any company mentioned in this mail and/or its attachments.
HSL and its affiliated company(ies), their directors and employees may: (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.
HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.
HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report. As regards the associates of HSL, please refer the website.
HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.
HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from t date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.
HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.
HDFC securities
Institutional Equities
Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcscse.com