

Retail Equity Research

Cyient Limited

IT

BSE CODE : 532175

NSE CODE: CYIENT

BLOOMBERG CODE: CYL:IND

SENSEX : 65,323

Accumulate

12 Months Investment Period

Rating as per Small Cap

CMP Rs. 1,544 TARGET Rs. 1,813 RETURN 17% 

(Closing: 11-08-2023)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Propelled by robust services segment

Cyient Ltd., formerly known as Infotech Enterprises, is one of the leading players in the IT-enabled services space, providing services to the Engineering Research and Development segment.

- In Q1FY24, consolidated revenue grew by 34.9% YoY due to strong growth in the services segment. The revenue from digital engineering & Technology (DET) grew by 37.1% YoY, driven by Transportation and Sustainability verticals.
- EBIT margin improved by 326bps to 14.7% due to cost optimisation measures, and PAT improved by 46% YoY at Rs.169.1cr.
- The company's deal wins remain strong, and it secured 6 large deals with a total value of \$48.8 million.
- Despite concerns over global uncertainties, strong growth scenarios across segments, healthy deal wins, and promising FY24 revenue guidance growth could bolster the company's future performance. The margin is expected to improve in FY24/FY25E on automation and cost-control measures.
- Following the listing of Cyient DLM, henceforth, the company is valued on SOTP. Therefore, we maintain our **Accumulate rating** with a target price of Rs. 1,813.

Strong demand pumps revenue growth

Cyient started Q1 with positive results with a revenue of Rs. Rs.1,686.5cr, up by 34.9% YoY, driven by growth in the services segment (reclassified as DET). The revenue from digital engineering & Technology (DET) was Rs. 1,455cr, which grew by 37.1% YoY. The growth in DET was propelled by Transportation, Connectivity, Sustainability and New growth areas. Transportation segment reported 17.7% YoY growth, and Connectivity witnessed 10.9% YoY growth, while Sustainability and New growth areas witnessed strong 109% and 9.9% YoY growth, respectively, in dollar terms. However, Connectivity & New growth Areas observed a milder degrowth on a QoQ basis in dollar terms. Cyient DLM successfully listed on two Indian exchanges with an overwhelming response from investors in the Electronic manufacturing industry. Moreover, the company's deal wins remain strong, having secured six large deals with a total value of \$48.8 million. The order intake stood at \$193.2 million, up 32.5% YoY.

Margin improving on cost optimisation measures

EBIT margin improved by 326bps to 14.7% due to cost optimisation measures, and thereby PAT improved by 46% YoY at Rs.169.1cr. The DET hired 130+ employees, adding to a total headcount of 15,306, and attrition declined 270bps QoQ to 23% with a steady utilisation rate of 86%. The company continued to witness legal charges of 11.1cr in Q1FY24 and closed the riskier case.

Promising revenue outlook

The company anticipates a revenue growth rate of 15% to 20% YoY in CC terms for DET in FY24, along with an improvement in EBIT margins of 150-250 bps. During FY24, the management hopes for continued growth in Transportation and Sustainability businesses. This is driven by the resumption of strong global air travel, commercial & defense spending, upgrades from older aeroplane platforms, and the shift towards hybrid fuel models. In the sustainability segment, green energy (Ammonia & Hydrogen) and investment in carbon capture are emerging demand areas. The company foresees an upturn in the connectivity segment (Wireless) in H2FY24, whereas the U.S. wireline business remains resilient.

Valuation

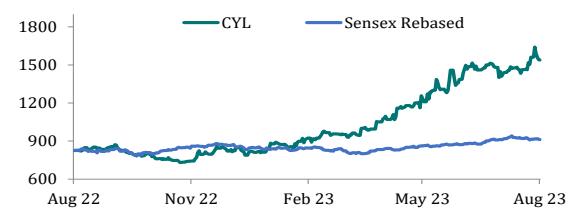
Despite concerns over global uncertainties, strong growth scenarios across segments, healthy deal wins, and promising FY24 revenue guidance growth could bolster company's future performance. The margin is expected to improve in FY24/FY25E on automation and cost-control measures. Following the listing of Cyient DLM, henceforth, the company is valued on SOTP (Cyient DLM's stakes are valued separately, - holding discount of 15%). Therefore, we maintain our **Accumulate rating** with a target price of Rs. 1,813.

Company Data

Market Cap (Rs cr)	17,023		
Enterprise Value (Rs cr)	17,346		
Outstanding Shares (Rs cr)	11.1		
Free Float	0.77		
Dividend Yield (%)	1.7%		
52 week high (Rs)	1,660		
52 week low (Rs)	724		
6m average volume (cr)	0.06		
Beta	0.8		
Face value (Rs)	5.0		
Shareholding (%)	Q3FY23 Q4FY23 Q1FY24		
Promoters	23.4	23.4	23.3
FII's	32.6	32.6	36.5
MFs/Institution	24.2	24.1	20.3
Public	19.8	20.0	19.8
Others	0.1	0.0	0.0
Total	100.0	100.0	100.0
Promoters' Pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	27.3%	66.7%	86.3%
Absolute Sensex	5.6%	7.9%	10.4%
Relative Return *	21.7%	58.8%	75.9%

* Over or under performance to benchmark



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	6,016	7,227	8,413
<i>Growth (%)</i>	32.7	20.1	16.4
EBITDA	1,003	1,315	1,565
EBITDA Margin (%)	16.7	18.2	18.6
PAT Adj.	514	734	945
<i>Growth (%)</i>	-1.5	42.7	28.8
Adj.EPS	46.5	66.4	85.5
<i>Growth (%)</i>	-1.7	42.7	28.8
P/E	33.1	23.2	18.0
P/B	4.9	4.3	3.6
EV/EBITDA	17.8	13.5	11.4
ROE (%)	15.6	19.8	21.8
D/E	0.2	0.2	0.2

Vinod T P
Research Analyst

Quarterly Financials (Consolidated)

Rs.cr	Q1FY24	Q1FY23	YoY Growth (%)	Q4FY23	QoQ Growth (%)
Revenue	1,686.5	1,250.1	34.9	1,751.4	-3.7
EBITDA	315.6	193.2	63.4	322.0	-2.0
EBITDA margins	18.7	15.5	326bps	18.4	33bps
Depreciation	67.6	51.1	32.3	72.6	-6.9
EBIT	248.0	142.1	74.5	249.4	-0.6
Interest	27.8	16.3	70.6	26.2	6.1
Other Income	10.2	33.7	-69.7	0.5	1,940.0
Exceptional Items	-11.1	0.0		-16.2	
PBT	219.3	159.5	37.5	207.5	5.7
Tax	50.2	43.4	15.7	44.3	13.3
Share of profit from Associate	0.0	0.0		0.0	
Minority Interest					
Reported PAT	169.1	116.1	45.7	163.2	3.6
Adjustments	-	-		-	
Adjusted PAT	168.1	116.1	44.8	163.2	3.0
No. of shares	11.0	11.0		11.0	
EPS (Rs)	15.4	10.6	44.8	14.9	3.0

Change in Estimates

	Old estimates		New estimates		Change (%)	
Year / Rs. cr	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	7,308	8,064	7,227	8,413	-1.11	4.33
EBITDA	1,294	1,411	1,315	1,565	1.65	10.90
Margins (%)	16.7	17.7	18.2	18.6	150bps	90bps
Adj. PAT	719	835	734	945	2.10	13.20
EPS	65.0	75.5	66.4	85.5	2.12	13.19

Sum of Parts (SOTP) Valuation

Particulars	Methodology	Multiple	% Holding	Value (Rs. cr.)	Value/Share (Rs.)
Cyient Ltd.	PE	20x	100.0%	17,166	1,546
Cyient DLM Ltd. (Discount of 15%)	PE	40x	66.6%	1,968	266
Target price				19,134	1,813

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Sales	4,132	4,534	6,016	7,227	8,413
% change	-6.7	9.7	32.7	20.1	16.4
EBITDA	575	818	1,003	1,315	1,565
% change	4.8	42.2	22.7	31.1	19.0
Depreciation	195	192	257	264	268
EBIT	381	626	747	1,051	1,296
Interest	43	39	100	129	123
Other Income	140	112	81	94	101
PBT	477	698	681	989	1,274
% change	1.3	46.4	-2.5	45.2	28.8
Tax	113	176	167	255	329
Tax Rate (%)	23.7	25.2	24.5	25.8	25.8
Reported PAT	364	522	514	734	945
Adj.	0	0	0	0	0
Adj. PAT	364	522	514	734	945
% change	6.6	43.6	-1.5	42.7	28.8
No. of shares (cr)	11	11	11	11	11
Adj EPS (Rs)	33	47	47	66	85
% change	7.1	43.1	-1.7	42.7	28.8
DPS (Rs)	10	32	24	14	14
CEPS (Rs)	51	65	70	90	110

CASH FLOW

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	558	715	771	1,253	1,542
Non-cash adj.	29	17	131	-126	-205
Changes in W.C	269	-97	-349	-639	-288
C.F.O	856	635	554	488	1,049
Capital exp.	-95	-63	-65	72	-17
Change in inv.	-2	-325	-66	-259	-236
Other invest.CF	40	55	44	-67	0
C.F - investing	-101	-382	-1,033	-253	-253
Issue of equity	4	12	8	0	0
Issue/repay debt	-234	-245	212	-111	49
Dividends paid	-1	-295	-263	-153	-153
Other finance.CF	-21	-17	-66	-129	-123
C.F - Financing	-253	-545	-109	-393	-227
Chg. in cash	503	-292	-588	-158	569
Closing cash	1,399	1,112	550	289	858

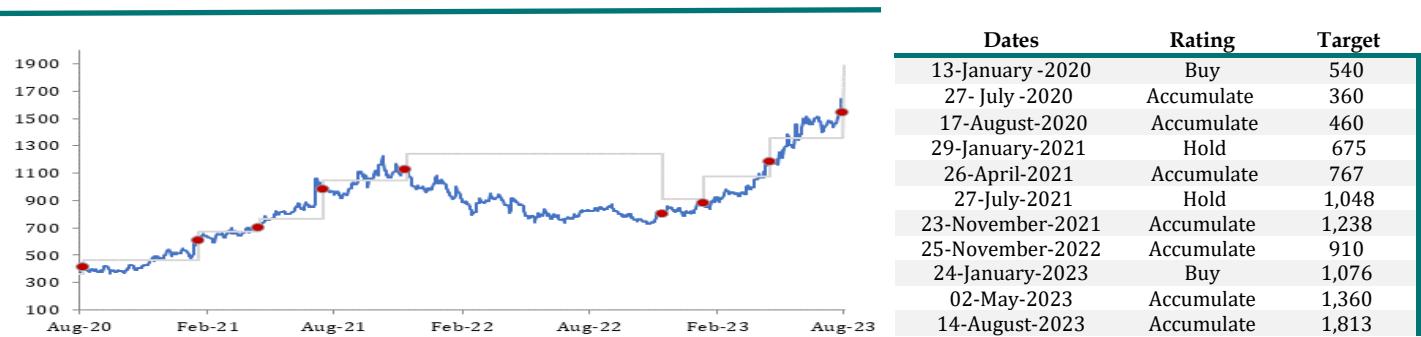
BALANCE SHEET

Y.E March (Rs cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	1,399	1,112	550	289	858
Accounts Receivable	803	733	1,127	1,346	1,567
Inventories	159	279	436	871	991
Other Cur. Assets	203	324	321	396	461
Investments	369	869	1,094	1,307	1,528
Gross Fixed Assets	1,067	1,113	1,166	1,226	1,296
Net Fixed Assets	487	454	448	244	46
CWIP	11	13	45	6	6
Intangible Assets	136	48	463	415	371
Def. Tax (Net)	14	-10	-35	-72	-121
Other Assets	634	671	1,611	1,878	2,078
Total Assets	4,445	4,718	6,337	6,912	8,008
Current Liabilities	789	855	1,452	1,618	1,844
Provisions	167	176	275	317	346
Debt Funds	276	326	862	748	795
Minority Interest	-3	-3	-3	-3	-3
Equity Capital	55	55	55	55	55
Reserves & Surplus	2,902	3,061	3,411	3,889	4,682
Shareholder's Fund	2,957	3,117	3,467	3,945	4,737
Total Liabilities	4,445	4,718	6,337	6,912	8,008
BVPS	256	278	272	319	395

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return					
EBITDA margin (%)	13.9	18.0	16.7	18.2	18.6
EBIT margin (%)	9.2	13.8	12.4	14.5	15.4
Net profit mgn. (%)	8.8	11.5	8.6	10.2	11.2
ROE (%)	13.2	17.2	15.6	19.8	21.8
ROCE (%)	9.5	12.7	11.1	13.5	14.7
W.C & Liquidity					
Receivables (days)	67.5	61.8	56.4	62.5	63.2
Inventory (days)	17.0	17.6	21.7	33.0	40.4
Payables (days)	10.4	7.0	12.4	15.9	13.9
Current ratio (x)	11.0	11.3	5.0	5.9	6.8
Quick ratio (x)	8.3	9.5	3.4	4.5	4.5
Turnover & Levg.					
Gross asset T.O (x)	4.1	4.2	5.3	6.0	6.7
Total asset T.O (x)	1.0	1.0	1.1	1.1	1.1
Int. covge. ratio (x)	8.8	15.9	7.5	8.2	10.5
Adj. debt/equity (x)	0.1	0.1	0.2	0.2	0.2
Valuation ratios					
EV/Sales (x)	4.3	3.9	3.0	2.5	2.1
EV/EBITDA (x)	30.6	21.6	17.8	13.5	11.4
P/E (x)	46.5	32.5	33.1	23.2	18.0
P/BV (x)	5.7	5.4	4.9	4.3	3.6

Recommendation summary (Last 3 Years)



Source: Bloomberg, GeoJit Research.

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral	-	-	-

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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