

## Recent stock run up largely captures growth momentum; expensive valuation limits upside...

**About the stock:** Cyient Ltd (Cyient) offers engineering & development services to aerospace & defence, transportation, E&U, communication and others.

- Cyient has 300 customers across 14 countries
- Net debt free and healthy cash flow with OCF/EBITDA ~80%

**Q4FY23 Results:** Cyient reported strong Q4 results.

- Consolidated services grew 3.2% QoQ in CC terms with organic contribution of 2.6%
- Normalised group EBIT margins at 14.2% while services margins at 15.1%, up 117 bps QoQ but down 27bps YoY.
- Order intake declined 10.3% QoQ to US\$212.7 million (mn)

**What should investors do?** Cyient's share price has grown by ~1.6x over the past five years (from ~₹ 720 in April 2018 to ~₹ 1,160 levels in April 2023).

- We change our rating on the stock from BUY to HOLD

**Target Price and Valuation:** We value Cyient at ₹ 1210 i.e., 16x P/E on FY25E EPS.

**Key triggers for future price performance:**

- Recovery in transportation vertical, continued order book & large deals will likely help in achieving growth guidance of 15-20% for FY24 in services
- Organisation restructuring and subsequent management re-alignment will likely help in value unlocking for both services & DLM
- Strategic buyout a multi-year arrangement with an auto major

**Alternate Stock Idea:** Apart from Cyient, in our IT coverage we also like Infosys.

- Key beneficiary of improved digital demand, industry leading revenue growth and healthy capital allocation prompt us to be positive
- BUY with a target price of ₹ 1,600

### Key Financial Summary

Financials (₹ crore)	FY21	FY22	FY23	5 Year CAGR (FY18-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	4,132	4,534	6,016	9.0	7,161	8,092	16.0
EBITDA	611	822	1,024	13.3	1,303	1,513	21.5
EBITDA Margins (%)	14.8	18.1	17.0		18.2	18.7	
Net Profit	364	522	514	4.9	729	837	27.5
EPS (₹)	33.1	47.3	46.7		66.2	76.0	
P/E	35.1	24.5	24.8		17.5	15.3	
RoNW (%)	12.3	16.8	14.8		18.7	18.9	
RoCE (%)	14.5	19.3	17.1		20.0	20.9	

CYIENT

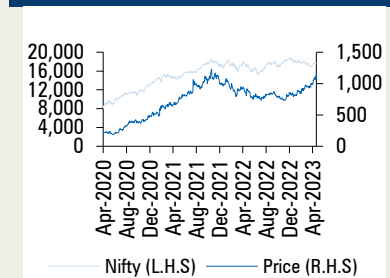
### Particulars

Particular	Amount
Market Cap (₹ Crore)	12,771.3
Total Debt (₹ Crore)	933.6
Cash and Invest (₹ Crore)	719.4
EV (₹ Crore)	12,985.5
52 week H/L	1194 / 724
Equity capital	55.3
Face value	₹ 5

### Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	23.4	23.4	23.4	23.4
FII	32.7	32.6	31.1	32.6
DII	23.9	23.7	25.0	24.9
Public	20.0	20.3	20.6	19.2

### Price Chart



### Recent Event & Key risks

- Guidance of 15-20% services growth & 100-200 bps margin improvement
- **Key Risk:** (i) Higher than expected revenue growth (ii) Lower-than-expected margins

### Research Analyst

Sameer Pardikar  
sameer.pardikar@icicisecurities.com

Sujay Chavan  
sujay.chavan@icicisecurities.com

## Key takeaways of recent quarter & conference call highlights

- At the company level, Cyient reported revenue of US\$213 mn, up 8.1% QoQ while in CC terms growth was 6.6%. Consolidated services revenue during the quarter was US\$176.2 mn, up 4.9% QoQ while in CC terms, it grew 3.2%. The company indicated that core services revenue grew 2.6% QoQ implying that inorganic growth during the quarter was muted. DLM business reported revenue of US\$36.8 mn, up 26.5% QoQ. In rupee terms, the company reported revenue of ₹ 1751.4 crore, up 8.2% QoQ while consolidated services revenue came in at ₹1448.9 crore, up 5% QoQ
- In CC terms, vertical wise growth was led by the transportation vertical (aerospace & rail), which reported growth of 12.9% QoQ while Sustainability (Mining, Energy & Utilities) grew 3.1% QoQ. Connectivity (communications) revenue declined 3.3% QoQ & New growth areas (Medical, Semicon, Hi-tech and Auto) declined 0.8%
- Geography wise EMEA (34.4% of mix) reported strong growth for a third successive quarter with growth of 10.1% QoQ while APAC region rebounded and grew 8.3% QoQ. America region (46% of mix) reported muted growth of 0.4% QoQ. The company mentioned that its revenue mix was impacted due to the acquisitions done by the company during FY23 impacting the quarterly revenue growth across geographies
- The company, at the group level, reported an EBIT margin of 13.3% while core services normalised EBIT came in at 16.1%, up ~100 bps QoQ. The company indicated that the margin improvement was due to the tailwinds of i) improved realisations of +130 bps, ii) cost efficiency due to increase in volume +90 bps, iii) favourable revenue mix +40 bps & iv) currency benefits +30 bps mitigated by the tailwind of i) increase in SG&A expenses -100 bps & ii) decline in utilisation -90 bps
- For FY23, the company at the group level reported revenue of US\$746.3 mn, up 22.7% (26.9% in CC terms). Consolidated services revenue came in at US\$632.4 mn, up 25.6% while in CC term it grew 30.2%. The company mentioned that Core services revenue grew 12.1% in CC terms during the year. The company's revenue in rupee terms grew 32.7%. The company mentioned that normalised consolidated services EBIT margin came in at 13.7% while normalised Group EBIT margin came in at 12.8%
- The company indicated that it was struck between the annual revenue of US\$550-660 mn between FY18 and FY22 but it grew strongly in FY23 posting revenue of US\$746.3 mn. Cyient indicated that despite the geopolitical issues, high inflation & interest rate and slowing economic environment the clients of the company have shown continued interest in technology investment. The company further mentioned that with the tech disruption happening with generative AI momentum picking up the company is also aligning its offerings as per the market requirements. Cyient also mentioned that it is offering its services across three segments, which it believes as key driver for growth: autonomous world (integrated products & platforms), Digital Enterprise (digital engineering & technology) and Sustainability (sustainable infrastructure & decarbonization). The company also mentioned that it believes that the above three segments will drive the growth not only for a short time but throughout the decade, which provides sustainable growth opportunity for the company
- On the transportation vertical the company mentioned that aerospace vertical grew in double digit during the quarter. Cyient mentioned that it is witnessing strong demand in defence & air mobility solutions. The company also indicated that it is seeing increased demand in aerospace vertical for improving efficiency through predictive maintenance & autonomous operations. Cyient further mentioned that it expects aerospace business to continue to grow in double digits in FY24 due to increased demand in manufacturing, MRO & after-market business. The company mentioned that return of domestic air passengers travelling to 90-95% of pre-Covid levels &

opening up of China have aided the growth of aerospace segment. Cyient further mentioned that growth in aerospace is sustainable as the aeroplane platforms (737 & 320 model) are due to upgrade in the next three to four years as they have not been changed in the last 30 years and also the pressure to decarbonise and move to hybrid fuels for lower emission will lead the manufactures to increase their spending, which provides a sustainable growth opportunity for the company. The company, however, indicated that growth in railway business is expected to be muted in FY24

- In the connectivity vertical, the company mentioned that in Q4 the revenue decline was due to ending of a project and delay in starting of the new projects. Cyient indicated that the outlook for connectivity vertical remains strong and it expects the delayed projects to get ramped up in Q1 and Q2. The company also mentioned that it expects this vertical to also grow in double digits in FY24. Some of the business areas where it is witnessing traction are network management, network operations and digitisation
- In sustainability vertical, the company indicated that the increased demand for iron ore, zinc, cobalt & copper is leading to need for intelligent, safe & autonomous mining capabilities. Cyient also indicated that the focus on energy transition by governments across the globe is putting pressure on utility companies to reduce their carbon emissions. The company indicated their offerings & capabilities will fit into these areas. On the back of it the company expects double digit growth in these verticals as well
- In new growth areas, the company indicated that it expects auto sub vertical to drive growth due to increased demand in autonomous and electrification of vehicles. In the semiconductor business, the company indicated that although macro concerns have not yet impacted its semiconductor business till now it expects demand to muted in H1FY24 as it will not be immune to the changing scenario. In the medical business, the company indicated that the business has slowed down in the last two quarters and it expects some recovery in FY24, which would be led by demand in predictive, proactive & personalised patient care and connected devices
- For FY24 guidance the company indicated that on the back of strong demand for its services, robust order book with large deal wins and expected double digit growth across its large verticals of transportation, connectivity and sustainability, it is guiding for consolidated services revenue growth of 15-20%. The company mentioned that due to uncertain macro environment it is guiding for wide band but indicated that it will narrow the range as the year progresses
- The company, in FY24, is guiding for consolidated services EBIT margin improvement of 100-200 bps i.e. 14.7-15.7%. Cyient indicated the levers for margin improvement will be improved realisation, improving productivity by automation & managing costs. The company further indicated that it will roll out wage hike similar to last year's range and the same has been factored in the guidance. The company further reiterated that the acquisitions are accretive at EBITDA level but not at EBIT level due to high amortisation. However, it also mentioned that in the next two to three years the gap between EBITDA & EBIT will reduce as the impact of amortisation subsides
- The company mentioned that its tax rate in Q4 was at 21.3% but it indicated that it expects ETR in the range of 25-26% for FY24. Cyient mentioned that the increase is due to the expected increase in tax rate in UK and also due to opting to simplify its tax rate in India
- The company reported order intake of US\$212.7 mn, down 10.3% QoQ and also mentioned that it won five large deals with total contract potential of US\$185.1 mn. Cyient further mentioned that the large deals won are across the four business units

- The company mentioned that it has received approval from Sebi to move ahead for the IPO of DLM business. The company had filed DRHP with Sebi to raise up to ₹ 740 crore via IPO
- Cyient during the quarter added 13 new customers. Also, during the quarter the company added one client to US\$20mn+ bucket and two clients to US\$10 mn+ bucket. The company mentioned that during the quarter the revenue from its top five clients increased by 8.6% QoQ and the revenue from its top 10 clients increased by 5.8% QoQ
- The company, during the quarter, in the services segment added 509 employees taking the total employee count to 15,172 and also mentioned that its attrition declined by 150 bps QoQ to 25%. Cyient, during the fiscal year added 2,338 net new employees in services segment and indicated that for FY24 it looking at similar hiring trend. The company further mentioned that its utilisation declined by 430 bps QoQ to 86.6% but indicated that it is comfortable operating at the current level as it provides fungibility to move its workforce across projects after investing in upskilling & reskilling its employees in the last 15 months
- Regarding the legal lawsuit filed, the company indicated that the case has gone for trial. It expects the outcome in the next quarter or two post which it will be able to guide on the further legal expenses, which could be incurred by the company
- The company during the quarter declared final dividend of ₹ 16 per share taking the total dividend to ₹ 26 for FY23

Exhibit 1: P&L

	Q4FY23	Q4FY22	YoY (%)	Q3FY23	loQ (%)	Comments
Revenue	1,751.4	1,181.2	48.3	1,618.2	8.2	Company group revenue increased by 6.6% QoQ in CC term while Consolidated Services revenue grew by 3.2% QoQ in CC terms while core services (organic business) grew by 2.6%
Cost of revenue	1,085.7	729.3	48.9	1,006.3	7.9	
Gross Margin	665.7	451.9	47.3	611.9	8.8	
Gross margin (%)	38.0	38.3	-25 bps	37.8	20 bps	
SG&A expenses	343.6	238.3	44.2	333.6	3.0	
EBITDA	322.1	213.6	50.8	278.3	15.7	
EBITDA Margin (%)	18.4	18.1	31 bps	17.2	119 bps	
Depreciation & amortisation	72.6	42.9	69.2	69.9	3.9	
EBIT	249.5	170.7	46.2	208.4	19.7	
EBIT Margin (%)	14.2	14.5	-21 bps	12.9	137 bps	Normalised group core EBIT margin were lower on YoY basis due to higher amortisation cost of acquisitions
Other income (less interest)	-25.7	37.7	-168.2	6.0	-528.3	
PBT	223.8	208.4	7.4	214.4	4.4	
Tax paid	47.7	54.3	-12.2	51.8	-7.9	
PAT	163.2	154.2	5.8	156.0	4.6	

Source: Company, ICICI Direct Research

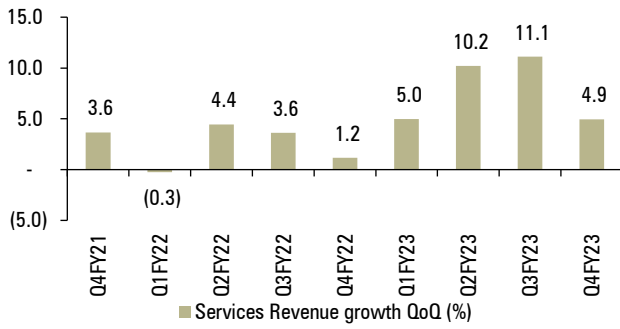
Exhibit 2: Change in estimates

(₹ Crore)	FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6,847	7,161	4.6	7,600	8,092	6.5	Numbers re-aligned on guidance given in services business as well as continued strong DLM run rate
EBIT	904	1,003	10.9	1,003	1,173	17.0	
EBIT Margin (%)	13.2	14.0	80 bps	13.2	14.5	130 bps	
PAT	698	729	4.5	753	837	11.1	
EPS (₹)	63.3	66.2	4.5	68.3	76.0	11.1	

Source: Company, ICICI Direct Research

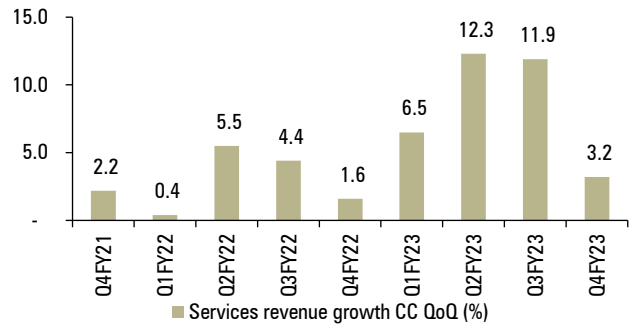
## Key Metrics

**Exhibit 3: Services continue to report steady growth**



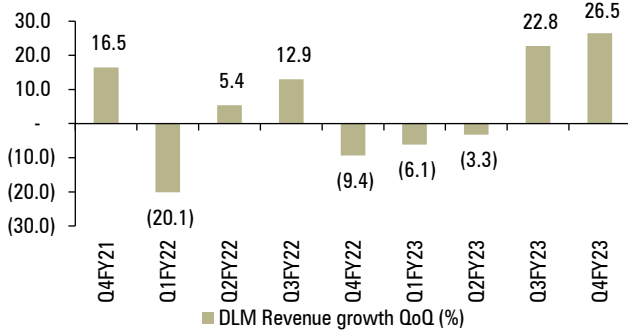
Source: Company, ICICI Direct Research

**Exhibit 4: Core services grow 3.2% QoQ in CC**



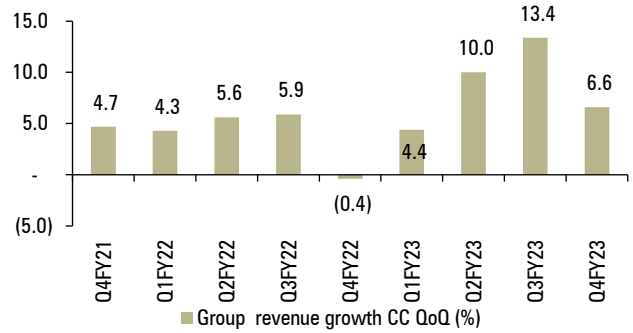
Source: Company, ICICI Direct Research

**Exhibit 5: DLM revenue QoQ growth**



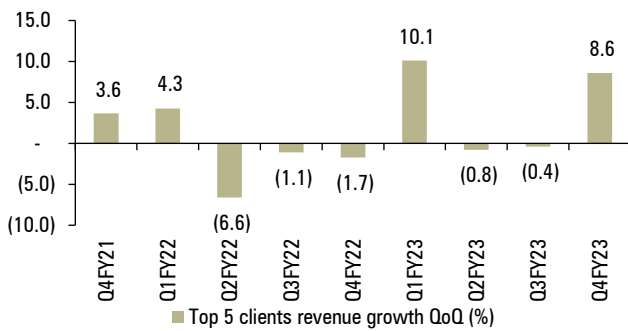
Source: Company, ICICI Direct Research

**Exhibit 6: Group revenue QoQ CC growth**



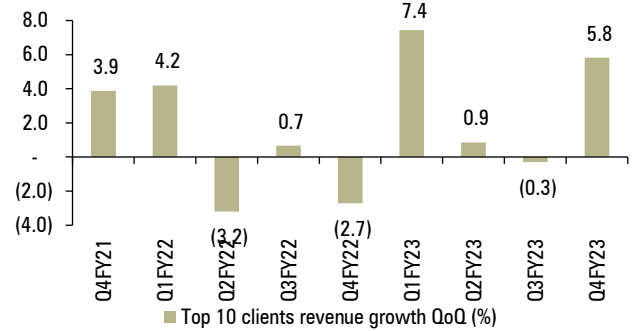
Source: Company, ICICI Direct Research

**Exhibit 7: Top five clients grow strongly in Q4**



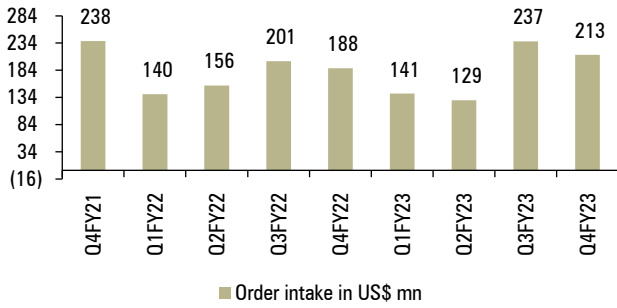
Source: Company, ICICI Direct Research

**Exhibit 8: Top 10 clients also rebound in Q4**



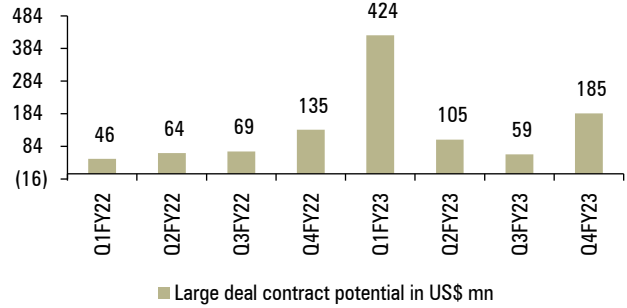
Source: Company, ICICI Direct Research

**Exhibit 9: Order intake remains strong**



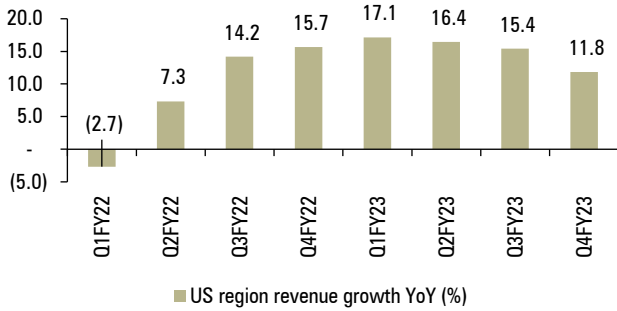
Source: Company, ICICI Direct Research

**Exhibit 10: Wins five large deals in Q4**



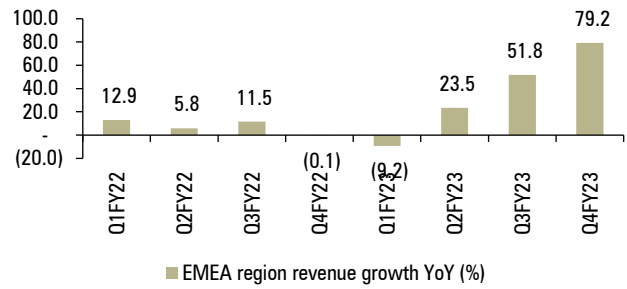
Source: Company, ICICI Direct Research

**Exhibit 11: US revenue growth declining gradually**



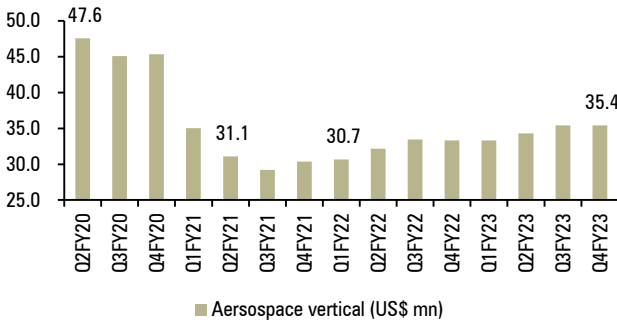
Source: Company, ICICI Direct Research

**Exhibit 12: EMEA aided by acquisitions**



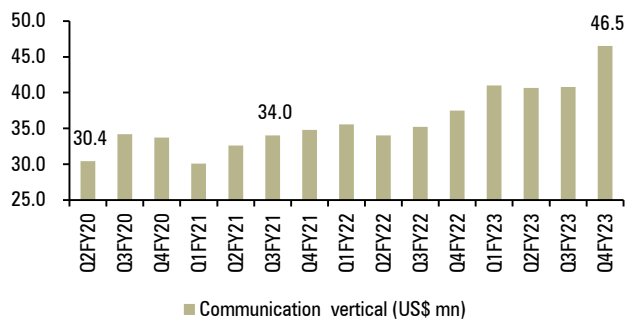
Source: Company, ICICI Direct Research

**Exhibit 13: Aerospace recovery continues**



Source: Company, ICICI Direct Research, \*4QFY23 is our estimation

**Exhibit 14: Communications revenue remains steady**



Source: Company, ICICI Direct Research, 4QFY23 is our assumption

## Financial summary

Exhibit 15: Profit and loss statement				
	₹ crore			
	FY22	FY23	FY24E	FY25E
<b>Total Revenues</b>	<b>4,534</b>	<b>6,016</b>	<b>7,161</b>	<b>8,092</b>
Growth (%)	9.7	32.7	19.0	13.0
COGS	2,846	3,742	4,390	4,920
Other expenditure	867	1,250	1,468	1,659
<b>EBITDA</b>	<b>822</b>	<b>1,024</b>	<b>1,303</b>	<b>1,513</b>
Growth (%)	34.6	24.6	27.2	16.1
Depreciation	192	257	301	340
Other Income	112	81	77	65
Interest	43	100	100	100
PBT before Exceptional Items	698	749	979	1,138
Tax	176	184	250	302
PAT before Exceptional Items	522	464	729	837
Exceptional items	-	(51)	-	-
PAT before MI	522	514	729	837
<b>PAT</b>	<b>522</b>	<b>514</b>	<b>729</b>	<b>837</b>
Growth (%)	43.6	(1.5)	41.8	14.7
Adjusted EPS	47.3	46.7	66.2	76.0
EPS (Growth %)	43.1	(1.3)	41.8	14.7

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement				
	₹ crore			
	FY22	FY23	FY24E	FY25E
PBT	698	681	979	1,138
Depreciation	192	257	301	340
WC changes	(97)	(349)	(79)	(62)
Other non cash adju.	6	93	24	35
Income taxes pd.	(165)	(129)	(250)	(302)
<b>CF from operations</b>	<b>635</b>	<b>554</b>	<b>975</b>	<b>1,150</b>
Other Investments	(318)	(918)	77	65
Acq. Of business				
(Purchase)/Sale of Fixed Assets	(65)	(68)	(236)	(267)
<b>CF from investing Activiti</b>	<b>(382)</b>	<b>(1,033)</b>	<b>(160)</b>	<b>(202)</b>
Inc / (Dec) in Equity Capital	12	8	-	-
Change in debt funds	(70)	283	(100)	(100)
Dividend & DDT	(295)	(263)	(299)	(299)
<b>CF from Financial Activitie</b>	<b>(545)</b>	<b>(109)</b>	<b>(444)</b>	<b>(444)</b>
Exchange rate differences	5	27	-	-
Opening cash balance	924	1,267	719	1,091
Cash as margins/associates				
<b>Cash c/f to balance sheet</b>	<b>1,267</b>	<b>719</b>	<b>1,091</b>	<b>1,595</b>

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet				
	₹ crore			
	FY22	FY23	FY24E	FY25E
<b>Liabilities</b>				
Equity	55	55	55	55
Reserves & Surplus	3,061	3,411	3,842	4,380
Networth	3,117	3,467	3,898	4,436
Minority Interest	(3)	(3)	(3)	(3)
Borrowings	326	934	934	934
Long term Liabilities & provisio	409	568	568	568
<b>Source of funds</b>	<b>3,849</b>	<b>4,965</b>	<b>5,396</b>	<b>5,934</b>
<b>Assets</b>				
Net fixed assets	679	725	706	678
Net intangible assets	48	463	463	463
CWIP	13	45	45	45
Goodwill	619	1,636	1,636	1,636
Other non current assets	174	141	146	151
Non current Investments	358	346	346	346
Inventories	279	436	519	586
Debtors	733	1,127	1,114	1,259
Cash & Cash equivalents	1,267	719	1,091	1,595
Other current assets	618	909	907	979
Trade payables	526	714	776	877
Current liabilities	371	756	730	791
Provisions	41	114	71	138
<b>Application of funds</b>	<b>3,849</b>	<b>4,965</b>	<b>5,396</b>	<b>5,934</b>

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
	₹ crore			
	FY22	FY23	FY24E	FY25E
<b>Per share data (₹)</b>				
Adjusted EPS (Diluted)	47.3	46.7	66.2	76.0
Cash per Share	114.8	65.3	99.0	144.8
BV per share	282.5	314.8	353.9	402.8
DPS	23.0	27.0	27.0	27.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	18.1	17.0	18.2	18.7
PAT Margin	11.5	8.6	10.2	10.3
Debtor days	59	68	57	57
Creditor days	42	43	40	40
<b>Return Ratios (%)</b>				
RoE	16.8	14.8	18.7	18.9
RoCE	19.3	17.1	20.0	20.9
RoC	24.5	18.3	23.5	27.3
<b>Valuation Ratios (x)</b>				
P/E	24.5	24.8	17.5	15.3
EV / EBITDA	14.4	12.7	9.7	8.0
EV / Net Sales	2.6	2.2	1.8	1.5
Market Cap / Sales	2.8	2.1	1.8	1.6
Price to Book Value	4.1	3.7	3.3	2.9
<b>Solvency Ratios</b>				
Debt/EBITDA	0.4	0.9	0.7	0.6
Debt / Equity	0.1	0.3	0.2	0.2
Current Ratio	1.7	1.6	1.6	1.6
Quick Ratio	1.4	1.3	1.3	1.2

Source: Company, ICICI Direct Research



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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com

## ANALYST CERTIFICATION

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