

Aiming at US\$1 bn revenues in FY24...

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%

Q2FY23 Results: Cyient reported acquisition led strong Q2 results.

- Services revenue grew 12.3% QoQ in CC terms & group revenue grew 10% QoQ in CC terms
- Normalised services EBIT margin without acquisitions came in at 13.2%, up by ~110 bps QoQ
- Won five large deals with total contract potential of US\$ 105.2 million (mn)

What should investors do? Cyient's share price has grown by ~1.5x over the past five years (from ~₹ 517 in October 2017 to ~₹ 765 levels in October 2022).

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We value Cyient at ₹ 910 i.e. 14x P/E on FY25E EPS

Key triggers for future price performance:

- Acquired entities to provide diversification, which, in turn, is expected to provide growth, looking at US\$1 bn revenues in FY24
- Improved demand from large deals, healthy order book, rebound in DLM business and organisation restructuring to accelerate growth
- Strategic buyout a multi-year arrangement with an auto major

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

- Strong revenue guidance prompts us to be positive
- BUY with a target price of ₹ 1,670

CYIENT

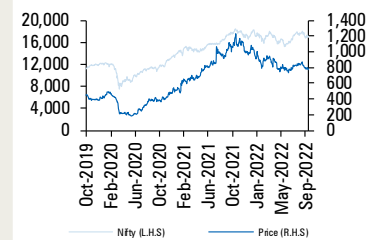
Particulars

Particular	Amount
Market Cap (₹ Crore)	8,633.3
Total Debt (₹ Crore)	326.4
Cash and Invest (₹ Crore)	1,266.6
EV (₹ Crore)	7,693.1
52 week H/L	1292 / 720
Equity capital	55.2
Face value	₹ 5

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	23.4	23.4	23.4	23.4
FII	35.6	34.7	34.0	32.7
DII	22.9	21.4	23.3	23.9
Public	18.1	20.5	19.2	20.0

Price Chart



Recent Event & Key risks

- Completed acquisitions of Citec, Grit consulting, Celfinet
- **Key Risk:** (i) Lower than expected revenue growth (ii) Lower-than-expected margins

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Key Financial Summary

Financials (₹ crore)	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	4,132	4,534	4.7	5,778	6,587	7,245	16.9
EBITDA	611	822	11.1	994	1,146	1,261	15.3
EBITDA Margins (%)	14.8	18.1		17.2	17.4	17.4	
Net Profit	364	522	8.7	582	672	719	11.2
EPS (₹)	33.1	47.3		52.8	61.0	65.2	
P/E	23.1	16.2		14.5	12.6	11.7	
RoNW (%)	12.3	16.8		17.9	18.6	17.8	
RoCE (%)	14.5	19.3		20.7	21.7	21.4	

Key takeaways of recent quarter & conference call highlights

- Services revenues came in US\$151.1 mn with organic revenue US\$133.2 mn & (up 10.2% QoQ, 12.3% QoQ in CC), organic growth was 3% in CC growth while the rest came from acquisitions. DLM business declined 3.3% QoQ to US\$23.7 mn. This resulted in overall revenue growth of 8.2% QoQ at the company level to US\$174.8 mn (up 10.0% QoQ in CC). Citec, Celfinet, Grit Consulting & Strategic buyout contributed 4.3%, 3.5%, 1.1% & 1.3% to the revenue, respectively. In rupee terms the company reported revenue ₹ 1,396.2, up 11.7% QoQ & 25.6% YoY
- Vertical wise Aerospace (23% of the mix) increased 3% QoQ while transportation was a laggard reporting a decline of 11.6% QoQ. The company indicated that it is witnessing increased traction in aftermarket of aerospace verticals as number of flying passenger count continue to ramp up creating opportunities in this space in terms of repair & annual maintenance contracts (AMCs) & expects high teen growth in aerospace aftermarket. It also indicated that 15-20% of the aerospace revenue comes from defence. Communications (27% of the mix) declined 0.8% QoQ due execution issues in Q2 but indicated that it will recover, going forward
- Geography wise EMEA led the growth with 41.6% QoQ on account of contributions from the acquisitions which are Europe based while America reported a growth of 5.4% QoQ. Asia Pacific revenue declined by 6.8% QoQ
- In Q2, the company's profitability was impacted by the following exceptional & one-time expenses. It incurred one-time expense of ₹ 21.6 crore pertaining to a lawsuit filed against one of its subsidiaries. It expects some spillover in these costs in Q3 and Q4 but large portion of it booked in Q2 itself. It also incurred one-time M&A related expenses of ₹ 21.1 crore in the quarter
- The company's margins were impacted by the above exceptional & one-time expenses leading to overall reported EBIT margin of 8.8%. However, the normalised EBIT margin excluding them were at 11.9%, up 40 bps QoQ despite the wage hike rolled out in Q2. DLM EBIT margin increased 410 bps QoQ to 8.3%
- Normalised services EBIT margin was at 13.2%, up ~110 bps. EBIT margin improved on account of the following tailwinds: a) operational efficiency +126 bps, b) volume impact on SG&A +120 bps, c) higher billings days +80 bps with the following tailwinds a) impact of wage hikes -154 bps & b) increase in SG&A -60 bps
- **Guidance:** The company has maintained its guidance of 13-15% CC revenue growth for the group at organic level in FY23 and expects DLM to grow in high single digit. The company completed all four acquisitions and based on it is guiding an incremental (i.e. over and above 13-15% organic growth) 14-15% CC revenue growth for FY23, resulting into overall revenue guidance (organic + inorganic) of 27%-30% for FY23. The company also guiding for US\$1bn revenue for FY24 and *minimum* ₹60 EPS in FY24
- Cyient is now guiding for normalised EBIT margin guidance (due to impact of exceptional & one-time expenses) in the band of 13-14% for FY23 & normalized EBITDA margin of 16-17%. The company indicated that the acquired businesses are marginally accretive & will improve the EBIT margin by 50 bps in FY24. Cyient also indicated the following levers for margin improvement i) price increase, ii) increase in offshore mix, iii) operational efficiency iv) currency tailwinds
- The company indicated that its order intake is strong. It has won five large deals with total contract potential of ~US\$105.2 million (four from services and one from DLM)
- Cyient indicated that the demand environment remains strong despite the macroeconomic uncertainties but mentioned that it has witnessed some delay in decision making from client's. The company indicated that there

has been no project cancellation and it has not seen major significant cuts in clients spend or change in client's strategy

- The company indicated that it has formed a sub-committee for evaluating the company's strategy in its DLM businesses, going ahead. The sub-committee will evaluate possibilities of part divestment/IPO or partnership with a strategic investor as this business is diluting on Cyient financials. The company also indicated that to tap the growing opportunity for DLM it is planning to incur capex for setting up factories in Vietnam & Mexico
- The company added 1,423 net employees in the quarter taking its employee strength to 15,004. The company's attrition increased 50 bps QoQ to 28.4% and utilisation improved 370 bps QoQ to 84.6%
- The company declared interim dividend of ₹ 10 per share & fixed October 27, as record date for determining the eligible shareholders for payment of dividend

Exhibit 1: P&L

	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	1,396.2	1,111.6	25.6	1,250.1	11.7	Overall revenue grew by 10% QoQ in CC terms. Services reported growth of 12.3% QoQ in CC terms (organic contribution of 3% QoQ) while DLM decline of 3.3% QoQ
Cost of revenue	859.5	684.7	25.5	790.0	8.8	
Gross Margin	536.7	426.9	25.7	460.1	16.6	
Gross margin (%)	38.4	38.4	4 bps	36.8	163 bps	
SG&A expenses	307.7	219.5	40.2	265.4	15.9	
EBITDA	229.0	207.4	10.4	194.7	17.6	
EBITDA Margin (%)	16.4	18.7	-226 bps	15.6	74 bps	
Depreciation & amortisation	63.0	51.7	21.9	51.1	23.3	
EBIT	166.0	155.7	6.6	143.6	15.6	
EBIT Margin (%)	11.9	14.0	-212 bps	11.5	40 bps	Normalized Services EBIT margin increased by ~110 bps improved on account of the following tailwinds: a) operational efficiency +126 bps, b) volume impact on SG&A +120 bps, c) higher billings days +80 bps with the following tailwinds a) impact of wage hikes -154 bps & b) increase in SG&A -60 bps
Other income (less interest)	-14.8	5.9	-350.8	16.0	-192.5	
PBT	151.2	161.6	-6.4	159.6	-5.3	PBT declined due to lower other income & higher financial expenses
Tax paid	29.4	40.3	-27.0	43.5	-32.4	
PAT	79.1	121.4	-34.8	116.0	-31.8	

Source: Company, ICICI Direct Research

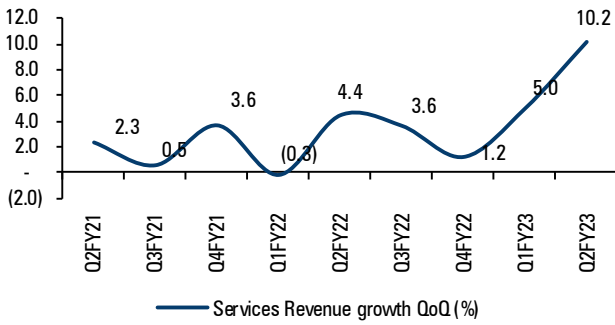
Exhibit 2: Change in estimates

	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
(₹ Crore)								
Revenue	5,501	5,778	5.0	6,161	6,587	6.9	7,245	Re-aligned numbers as per guidance
EBIT	688	751	9.2	782	869	11.1	956	
EBIT Margin (%)	12.5	13.0	50 bps	12.7	13.2	50 bps	13.2	Margins trim upwards on portfolio diversification
PAT	535	582	8.9	608	672	10.7	719	
EPS (₹)	48.5	52.8	8.9	55.1	61.0	10.7	65.2	

Source: Company, ICICI Direct Research

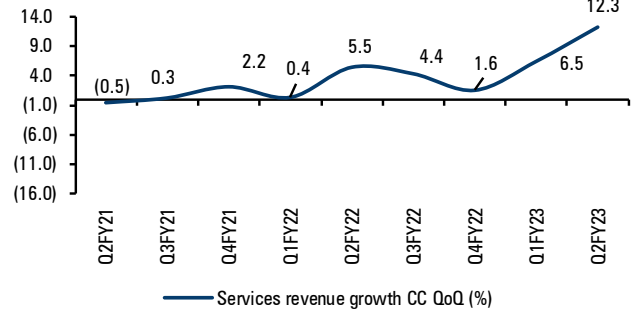
Key Metrics

Exhibit 3: Services revenue QoQ growth



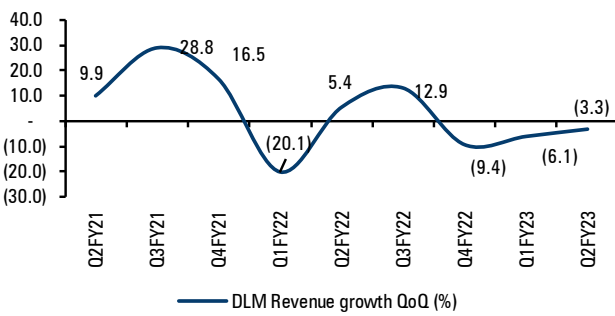
Source: Company, ICICI Direct Research

Exhibit 4: Services revenue QoQ CC growth



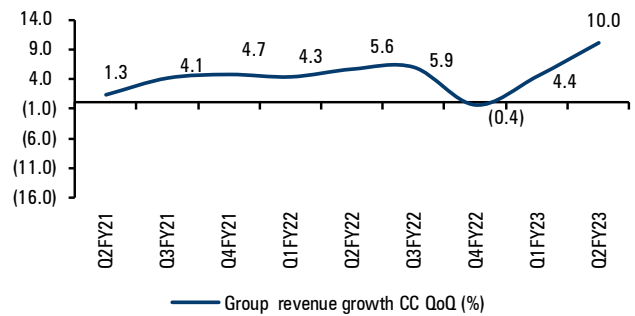
Source: Company, ICICI Direct Research

Exhibit 5: DLM revenue QoQ growth



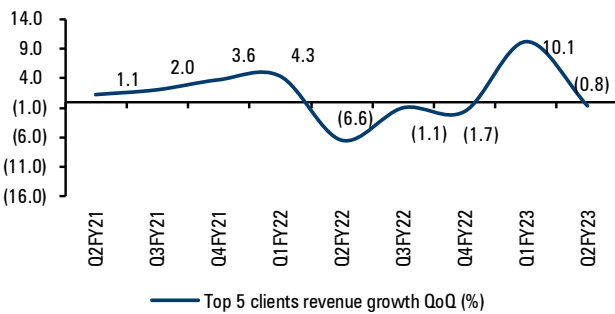
Source: Company, ICICI Direct Research

Exhibit 6: Group revenue QoQ CC growth



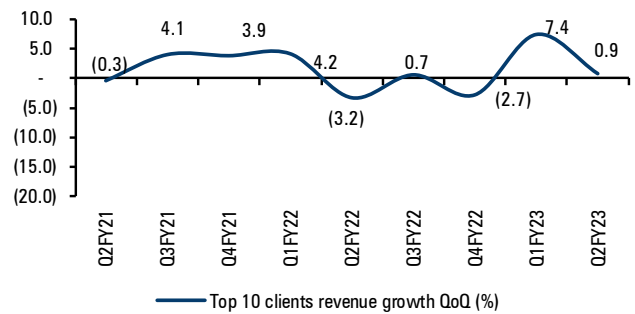
Source: Company, ICICI Direct Research

Exhibit 7: Top five clients revenue QoQ growth



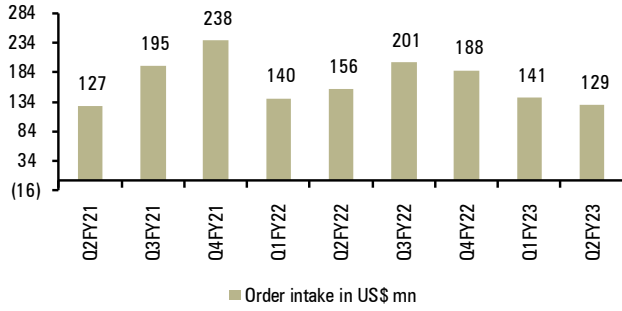
Source: Company, ICICI Direct Research

Exhibit 8: Top 10 clients revenue QoQ growth



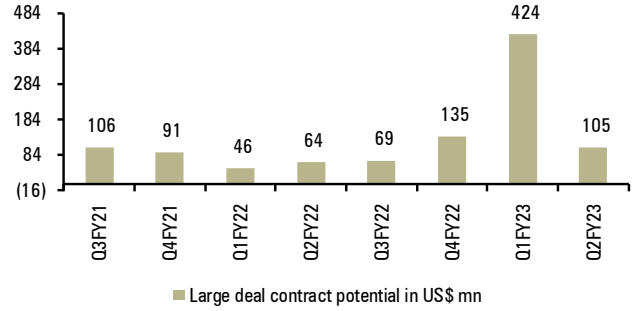
Source: Company, ICICI Direct Research

Exhibit 9: Order intake trend



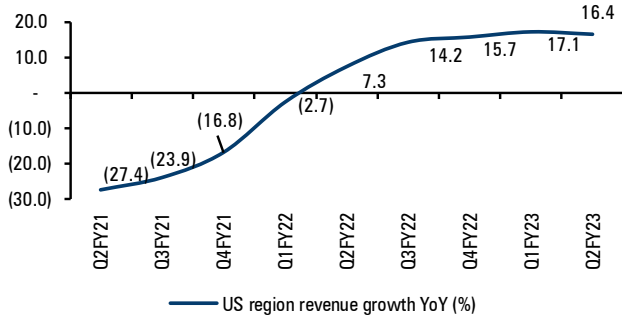
Source: Company, ICICI Direct Research

Exhibit 10: Large deal contract potential



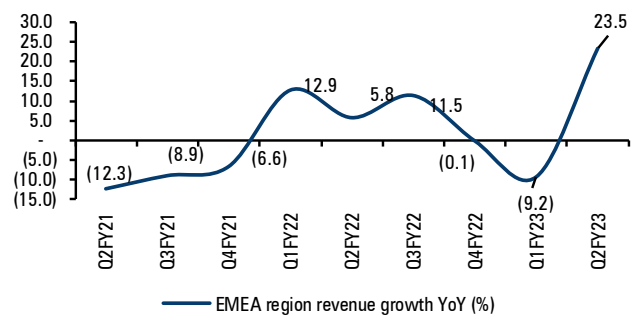
Source: Company, ICICI Direct Research

Exhibit 11: US revenue QoQ growth



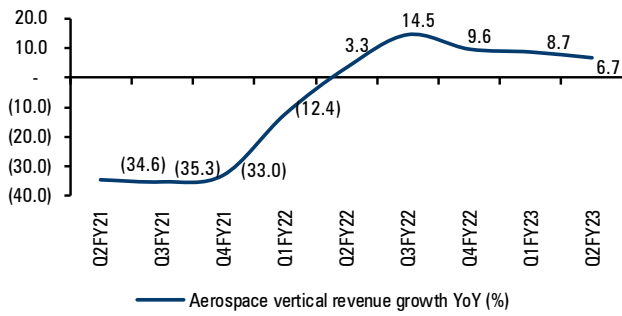
Source: Company, ICICI Direct Research

Exhibit 12: EMEA revenue QoQ growth



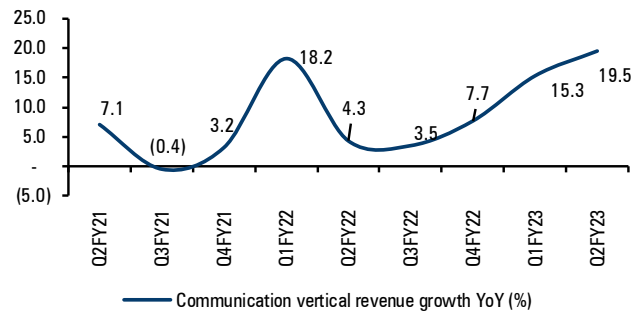
Source: Company, ICICI Direct Research

Exhibit 13: Aerospace revenue QoQ growth



Source: Company, ICICI Direct Research

Exhibit 14: Communications revenue QoQ growth



Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement					₹ crore
	FY22	FY23E	FY24E	FY25E	
Total Revenues	4,534	5,778	6,587	7,245	
Growth (%)	9.7	27.4	14.0	10.0	
COGS	2,846	3,646	4,189	4,601	
Other expenditure	867	1,138	1,251	1,384	
EBITDA	822	994	1,146	1,261	
Growth (%)	34.6	20.9	15.3	10.0	
Depreciation	192	243	277	304	
Other Income	112	74	77	65	
Interest	43	43	43	43	
PBT before Exceptional Items	698	781	903	978	
Tax	176	199	230	259	
PAT before Exceptional Items	522	582	672	719	
Exceptional items	-	-	-	-	
PAT before MI	522	582	672	719	
PAT	522	582	672	719	
Growth (%)	43.6	11.4	15.5	6.9	
Adjusted EPS	47.3	52.8	61.0	65.2	
EPS (Growth %)	43.1	11.4	15.5	6.9	

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement					₹ crore
	FY22	FY23E	FY24E	FY25E	
PBT	698	781	903	978	
Depreciation	192	243	277	304	
WC changes	(97)	(188)	(135)	(83)	
Other non cash adju.	6	(30)	(33)	(22)	
Income taxes pd.	(165)	(199)	(230)	(259)	
CF from operations	635	607	781	918	
Other Investments	(318)	74	77	65	
Acq. Of business					
(Purchase)/Sale of Fixed Assets	(65)	(191)	(217)	(239)	
CF from investing Activities	(382)	(117)	(141)	(174)	
Inc / (Dec) in Equity Capital	12	-	-	-	
Change in debt funds	(70)	(43)	(43)	(43)	
Dividend & DDT	(295)	(298)	(298)	(298)	
CF from Financial Activities	(545)	(386)	(386)	(386)	
Exchange rate differences	5	-	-	-	
Opening cash balance	924	1,112	1,215	1,469	
Cash as margins/associates					
Cash c/f to balance sheet	1,267	1,215	1,469	1,827	

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet					₹ crore
	FY22	FY23E	FY24E	FY25E	
Liabilities					
Equity	55	55	55	55	
Reserves & Surplus	3,061	3,191	3,565	3,986	
Networth	3,117	3,246	3,621	4,041	
Minority Interest	(3)	(3)	(3)	(3)	
Borrowings	326	326	326	326	
Long term Liabilities & provisions	409	409	409	409	
Source of funds	3,849	3,978	4,353	4,774	
Assets					
Net fixed assets	679	672	657	637	
Net intangible assets	48	48	48	48	
CWIP	13	13	13	13	
Goodwill	619	619	619	619	
Other non current assets	174	178	183	189	
Non current Investments	358	358	358	358	
Inventories	279	222	253	278	
Debtors	733	1,123	1,281	1,409	
Cash & Cash equivalents	1,267	1,215	1,469	1,827	
Other current assets	618	695	771	832	
Trade payables	526	626	714	785	
Current liabilities	371	474	529	575	
Provisions	41	65	56	77	
Application of funds	3,849	3,978	4,353	4,774	

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios					₹ crore
	FY22	FY23E	FY24E	FY25E	
Per share data (₹)					
Adjusted EPS (Diluted)	47.3	52.8	61.0	65.2	
Cash per Share	114.8	110.1	133.2	165.6	
BV per share	282.5	294.2	328.2	366.4	
DPS	23.0	27.0	27.0	27.0	
Operating Ratios (%)					
EBITDA Margin	18.1	17.2	17.4	17.4	
PAT Margin	11.5	10.1	10.2	9.9	
Debtor days	59	71	71	71	
Creditor days	42	40	40	40	
Return Ratios (%)					
RoE	16.8	17.9	18.6	17.8	
RoCE	19.3	20.7	21.7	21.4	
RoIC	24.5	27.3	30.3	32.6	
Valuation Ratios (x)					
P/E	16.2	14.5	12.6	11.7	
EV / EBITDA	9.4	7.8	6.5	5.7	
EV / Net Sales	1.7	1.3	1.1	1.0	
Market Cap / Sales	1.9	1.5	1.3	1.2	
Price to Book Value	2.7	2.6	2.3	2.1	
Solvency Ratios					
Debt/EBITDA	0.4	0.3	0.3	0.3	
Debt / Equity	0.1	0.1	0.1	0.1	
Current Ratio	1.7	1.8	1.8	1.8	
Quick Ratio	1.4	1.6	1.6	1.6	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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