

Diversification to fuel growth...

About the stock: We attended Cyient's analyst meet in Hyderabad. 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%

Management meet Highlights

- We attended Cyient Analyst day at their Hyderabad campus on Friday
Growth: The company is targeting US\$250 million (mn) quarterly revenue run rate in FY24 from the current US\$175 mn, to be driven by organic as well as acquisition synergies
- **Revenue mix change** Aerospace vertical revenue mix has come down from 34% to 26% now due to sluggish growth. The company expects it to further fall to 20% in FY24. The company expects growth to be fuelled by communications, healthcare, automobile, energy (largely sustainable programmes through recently acquired Citec)
- **DLM:** It did not offer any incremental commentary on the DLM business due to regulatory requirement but expects a decision on this business by the end of the current fiscal

What should investors do? Cyient's share price has grown by ~1.5x over the past five years (from ~₹ 550 in November 2017 to ~₹ 794 levels in November 2022).

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

Target Price and Valuation: We value Cyient at ₹ 920 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: Besides Cyient, in our IT coverage we also like Infosys.

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

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	24.0	16.8		15.0	13.0	12.2	
RoNW (%)	12.3	16.8		17.9	18.6	17.8	
RoCE (%)	14.5	19.3		20.7	21.7	21.4	

Source: Company, ICICI Direct Research

CYIENT

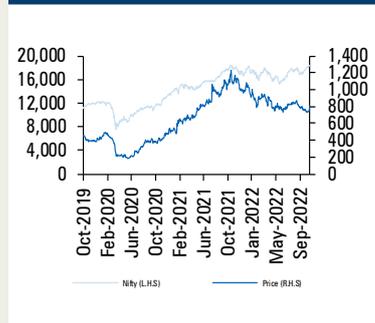
Particulars

Particular	Amount
Market Cap (₹ Crore)	8,960.6
Total Debt (₹ Crore)	326.4
Cash and Invest (₹ Crore)	1,266.6
EV (₹ Crore)	8,020.4
52 week H/L	1175 / 724
Equity capital	55.2
Face value	₹ 5

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	23.4	23.4	23.4	23.4
FII	34.7	34.0	32.7	32.6
DII	21.4	23.3	23.9	23.7
Public	20.5	19.2	20.0	20.3

Price Chart



Recent event

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

Research Analyst

Sameer Pardikar
sameer.pardikar@icicisecurities.com
Sujay Chavan
sujay.chavan@icicisecurities.com

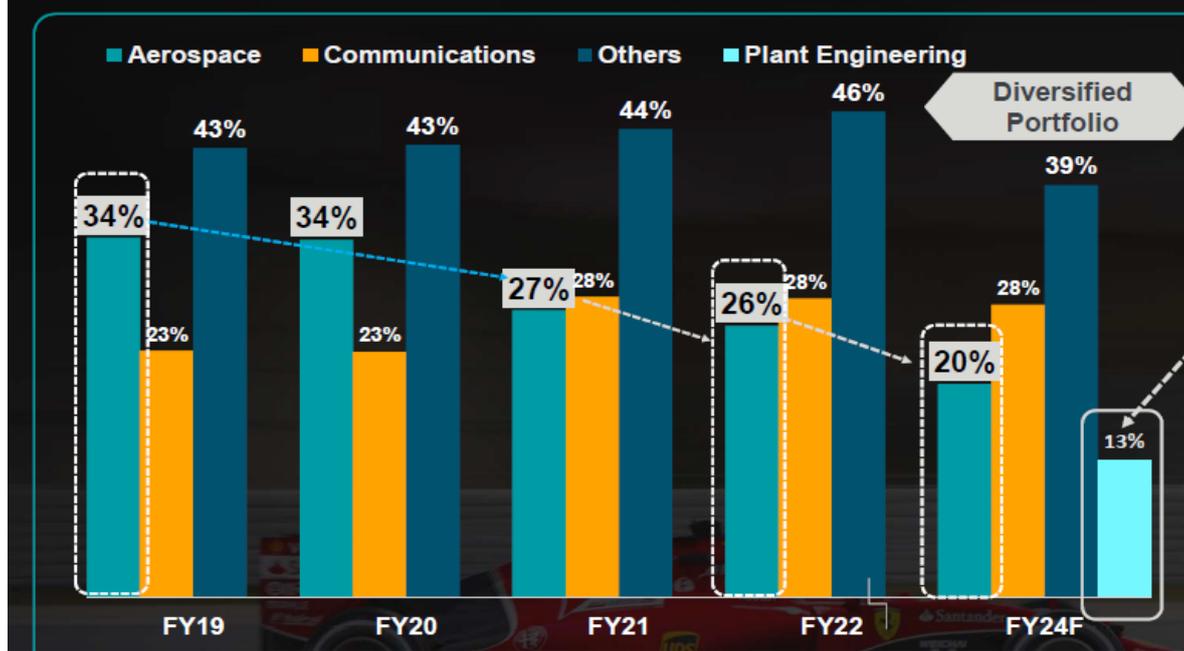
Management Meet Highlights

- The execution focus for the company, going forward, would be on i) Strengthening the core; where it is looking at a) growth in key accounts, b) accelerating large deal wins, c) optimising automation, d) talent management and e) culture.
- The company is focusing on growth in key accounts i.e. top five clients have been with the company for many years and have a relationship with a top client for more than 20 years now. Cyient said 90-95% of its business comes in the form of repeated business.
- The company added that it continues to focus on large deals i.e. US\$10-20 mn deals (US\$20 mn customer count moved from three to four YoY while that of US\$10 moved from 10 to 12 YoY). Now, smaller deals in the range of US\$1-2 mn will not move the needle much as it is looking to accelerate the growth. The company's large deal TCV in H1FY23 was at US\$530 mn while the pipeline for large deals is currently at US\$1 bn
- In Communications vertical (currently 28% of mix), the company is looking at continued strong growth and expects this vertical to form a similar mix i.e. 28% in FY24.
- Cyient is looking at an annual run rate of around US\$250 mn (organic + inorganic put together) in the next two to three years from this vertical from current annualised H1FY23 run rate of US\$160 mn. It is currently working with 25+ telecom providers for their network design, network upgradation and network performance monitoring tools.
- Communication vertical reported 11% growth in the last two years (organic). The company said that fibre demand is here to stay as the world is expected to have connectivity to billions of devices, going forward
- The company said physical network is cost heavy and non-viable in the long run, which is driving software defined hardware spend from the telcos. It added that the US region is going for a US\$20 bn capex programme while UK spend is of US\$5 bn GBP (market is growing at 20% there while fibre rollout growth will be 30%) for network upgradation. Cyient is looking to increase wallet share here.
- Talent shortage is one of the key headwinds (15% onsite effort mix for Cyient). Global market capex spending in telecom is US\$620 bn, out of which 85% is being deployed for 5G roll out, which is expected to increase network traffic around 250 EB/month. 5G connections are expected to reach 2 bn in the medium term.
- The company has key wins from CSP, TCV of US\$35 mn won from key accounts in last 12 months. Cyient has helped clients to roll out 2000+ 5G sites so far. The company has built a platform called 'Vismon to accelerate network rollout for its clients
- The company does not give separate break-up of the automobile vertical but according to it, this vertical has an annual run rate of US\$30 mn currently. Cyient has some capabilities in terms of ADAS, Infotainment, software application development for camera, LIDAR etc.
- The company welcomed a new leader in this vertical couple of years ago and is now looking to reach US\$100 mn revenue in this vertical in the next three to five years (20-25% organic growth while rest coming from acquisitions).
- Some of the growth drivers are i) regulation changes and continued investments in autonomous driving i.e. drivers need to take off hand in level 2 and level 3 and take off eyes on level 4 and level 5, ii) the company has a top client (which has US\$80 mn annual revenues). The client is looking to double their investment from Cyient in the near term, iii) the company's current business in this vertical is India focused. Now it is also looking for international revenues, going forward (Cyient is contemplating a few

multiyear deals from Europe OEMs), iv) the company is also partnering with some start-ups in the auto space and looking to acquire them in future at a suitable time, v) Cyient is also developing some solutions for off-highway clients (tractor companies) and also looking to tap this opportunity as top three customers from off highway space are already its client. It can double its revenue from these clients in the near term

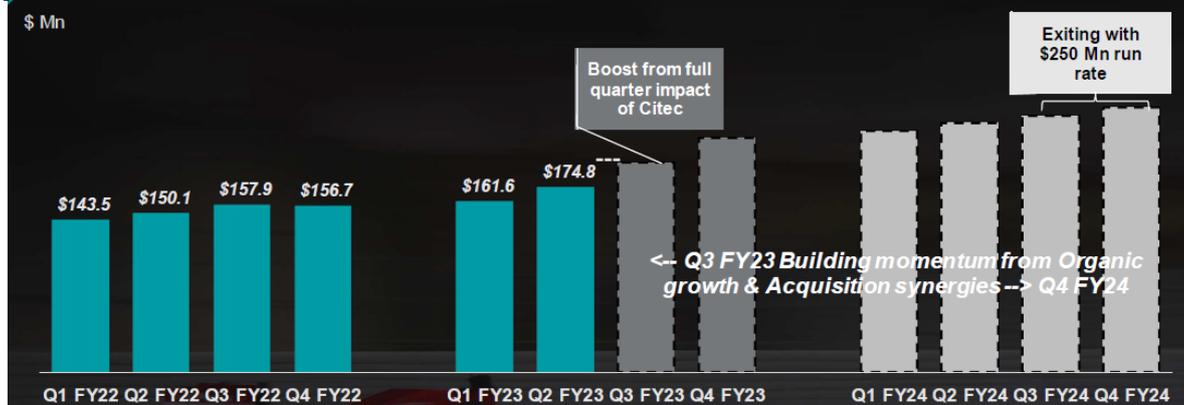
- The company is also looking to tap opportunity in digital healthcare through healthcare vertical (4-5% of revenue mix currently) and is looking to reach US\$100 mn revenue in the next three years.
- It has built up capabilities in medical devices (glucose monitoring meter, clinical analyser devices, connected X-ray) and also capabilities like lab testing at home, remote patient monitoring, surgical robotics to improve surgery accuracy, cybersecurity.
- The company also has cloud based platform called CyMedge, which has certified hardware and software where customers can develop analytics as per requirement. It also has clinical compliance and regulatory capabilities. The company does not work with providers here. Its clients include Medtech companies, pharma & biotech companies and digital health companies. Cyient added that the US market is expected to see US\$95 bn spend in the next five years on digital healthcare
- In sustainable energy, it is looking to tap opportunity with its recent Citec acquisition. The companies across the globe has been working towards achieving its de-carbonising goals since i) it is one of the requirements to procure licenses ii) it also helping the companies to get finance for their manufacturing projects at lower rate of interest. Cyient is helping customers in both i.e. plant design and consulting space.
- In plant design, it has a tie up with Microsoft wherein it is helping clients in terms of carbon footprint measurement, analytics & data insights on the same and strategies to reduce the same. The work is concentrated towards consultation towards phasing out fossil fuels and convert it into sustainable fuels. One of the growth drivers is spending of €700 mn by Nordic government towards carbon abatement
- The company is now looking to reduce its dependence on its largest vertical aerospace (26% of mix in FY22) and expects it to form 20% mix in FY24), driven by growth communications, auto, digital healthcare, utilities, etc.
- It is aiming to reach US\$1 bn annualised revenue mark in FY24 i.e. US\$250 mn exit quarterly revenue run rate in Q4FY23 from US\$174 mn in Q2FY22, through organic as well inorganic opportunities. For FY23, it expects organic CC growth of 13-15% and further 14-15% through acquisitions in CC terms
- The company did not give any incremental commentary on its DLM business apart from its last communication where it said it has been exploring part divestment or IPO for this business. As per the management, a decision on the same would be taken before the end of this financial year.

Exhibit 1: Portfolio mix changes to fuel growth



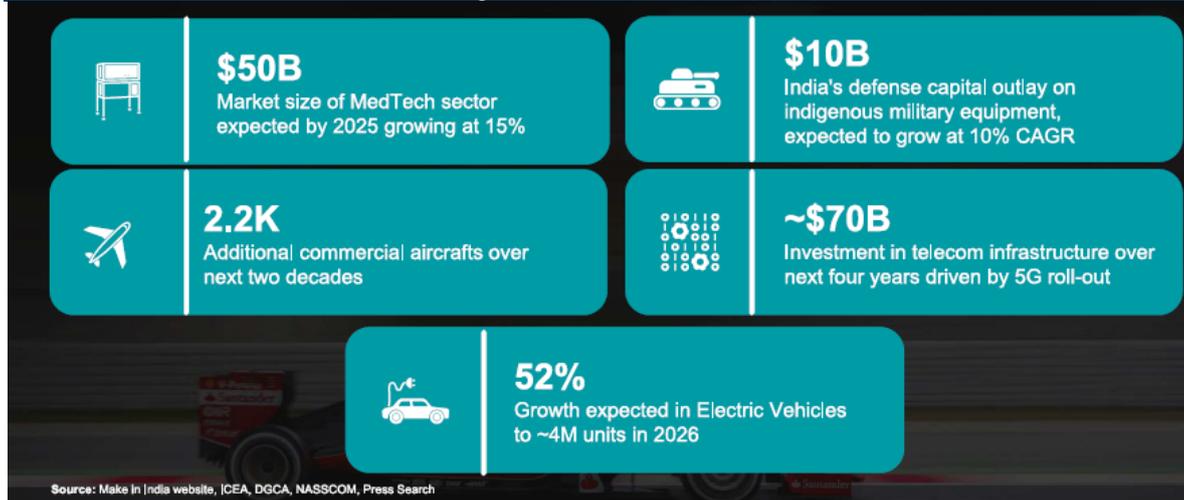
Source: Company, ICICI Direct Research

Exhibit 2: Revenue road map to FY24



Source: Company, ICICI Direct Research

Exhibit 3: Some market trends to fuel this growth



Source: Make In India website, ICEA, DGCA, NASSCOM, Press Search

Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: 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 5: 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 Activitie	(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 Activitie	(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 6: 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 & provisio	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 7: 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	
RoC	24.5	27.3	30.3	32.6	
Valuation Ratios (x)					
P/E	16.8	15.0	13.0	12.2	
EV / EBITDA	9.8	8.1	6.8	5.9	
EV / Net Sales	1.8	1.4	1.2	1.0	
Market Cap / Sales	2.0	1.6	1.4	1.2	
Price to Book Value	2.8	2.7	2.4	2.2	
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%



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

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