

India

ADD (no change)

Consensus ratings*: Buy 16 Hold 3 Sell 0

Current price: Rs993
 Target price: ▲ Rs1,193
 Previous target: Rs987
 Up/downside: 20.1%
 InCred Research / Consensus: 12.7%

Reuters: CYIE.NS
 Bloomberg: CYL IN
 Market cap: US\$1,336m
 Rs109,823m
 Average daily turnover: US\$3.1m
 Rs251.3m
 Current shares o/s: 110.0m
 Free float: 78.0%

*Source: Bloomberg

Key changes in this note

- Expect FY23F-25F revenue CAGR of 11.7%.
- Expect FY23F-25F EBIT CAGR of 20.8%.
- Expect FY23F-25F PAT CAGR of 20.7%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.2	21.6	8.7
Relative (%)	7.6	29.0	9.4

Major shareholders	% held
Amansa Holdings Pvt Ltd	8.7
DSP Value Fund	6.6
ICICI Prudential India Opportunities Fund	3.5

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Cyient Limited

Modeling updates

- Aerospace vertical to aid growth in 4QFY23F and FY24F, driven by large deals.
- Communication vertical likely to sustain momentum from 5G and fibre rollout.
- EBIT margin likely to sustain 4QFY23F exit rate.

Adjusting estimates and introducing FY25F

We adjust our estimates and now model a 11.7% US\$ revenue CAGR over FY23F-25F led by a 12.2% growth in services business, while for 4QFY23F we expect the services business to grow by ~2% qoq in CC terms. We also expect the traction in design-led manufacturing or DLM (~15% of revenue) business to continue aided by large deals.

Growth assumptions of key verticals in FY24F

We expect the aerospace vertical (21.1% of services revenue) momentum to continue in 4QFY23F aided by ramp-up of large deals (won two large deals in 3QFY23) while traction in digitalization, smart factory and sustainability coupled with sustained ramp-up of large deals could help drive a double-digit growth in FY24F. As a reminder, the vertical's revenue grew 4.4% qoq in CC terms in 3QFY23 on top of a 3.3% qoq CC growth in 2Q. The 5G-led momentum is likely to drive the communication vertical's growth (24.3% of services revenue mix) while the recovery in rail transportation vertical (6.1% of services revenue mix) and growth synergy from acquired companies in the mining, energy & utilities vertical (12.1% of services revenue mix) could aid the growth momentum too.

Levers exist to improve margins

Although some of the exceptional items which impacted reported EBIT margin of previous two quarters may recur in 4QFY23F, improvement in offshore mix, better pricing, and SG&A leverage could aid services EBIT margin expansion (13.9% normalized services EBIT margin in 3Q) and aid company average margin too (12.9%) but partly offset by the shift in mix towards lower profitable DLM business. We also align FY25F margins and expect an average EBIT margin of 13.8% over FY24F-25F.

Retain ADD rating with a higher target price of Rs1,193

We retain ADD rating on Cyient with a higher target price of Rs1,193 (Rs987 earlier) as we roll forward to FY25F estimates but apply a lower PE/G multiple to account for the uncertain macroeconomic environment and a longer time horizon. We model in a 11.7% US\$ revenue CAGR over FY23F-25F and a 20.7% PAT (Rs) CAGR (aided by a lower base and one-off costs) and lower our target PE/G multiple to 0.8x (vs. 1x earlier) to arrive at our target P/E multiple of 16.6x. Strong cash conversion and stable dividend payout ratio provides a cushion, in our view. Higher-than-anticipated decline in organic portfolio, miss on integration of acquired entities and margin execution are key downside risks.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	41,324	45,344	59,836	69,348	77,800
Operating EBITDA (Rsm)	5,750	8,178	9,888	12,608	13,848
Net Profit (Rsm)	3,640	5,223	5,437	7,145	7,922
Core EPS (Rs)	33.1	47.5	49.5	65.0	72.0
Core EPS Growth	(1.6%)	43.6%	4.1%	31.4%	10.9%
FD Core P/E (x)	30.01	20.91	20.08	15.29	13.79
DPS (Rs)	17.0	24.0	26.0	35.7	39.6
Dividend Yield	1.71%	2.42%	2.62%	3.60%	3.99%
EV/EBITDA (x)	17.00	12.09	10.57	8.15	7.24
P/FCFE (x)	17.89	25.04	101.87	19.73	16.42
Net Gearing	(38.8%)	(33.0%)	(13.7%)	(17.3%)	(21.9%)
P/BV (x)	3.69	3.50	3.24	2.96	2.70
ROE	13.2%	17.2%	16.8%	20.2%	20.4%
% Change In Core EPS Estimates			(7.48%)	2.37%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

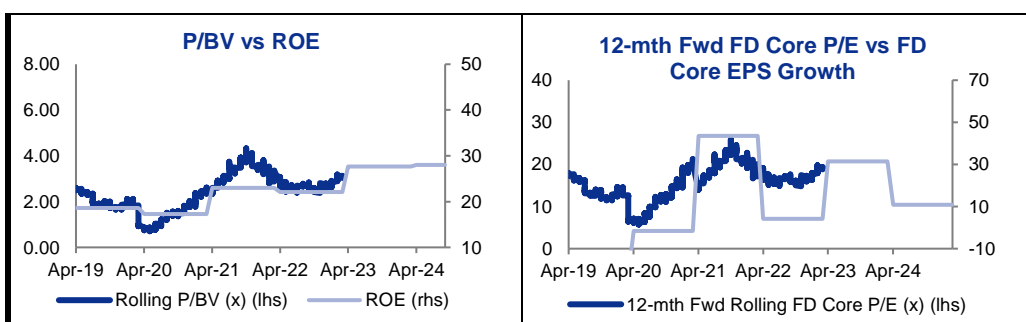
Figure 1: Change in our earnings estimates

Y/E, Mar (Rs m)	FY23F			FY24F			FY25F
	New	Old	% change	New	Old	% change	New
US\$ revenue	743	746	-0.4	836	869	-3.9	926
Revenue	59,836	58,087	3.0	69,348	68,659	1.0	77,800
EBIT	7,306	7,410	-1.4	9,612	8,788	9.4	10,659
EBIT Margin (%)	12.2	12.8	(55) bp	13.9	12.8	106 bp	13.7
Net PAT	5,437	5,875	-7.5	7,145	6,975	2.4	7,922
EPS (Rs)	49.4	53.5	-7.5	65.0	63.5	2.4	72.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

NOTE: OLD ESTIMATES WERE AS PER LAST PUBLISHED FIGURES

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	41,324	45,344	59,836	69,348	77,800
Gross Profit	20,045	23,048	29,816	34,347	38,355
Operating EBITDA	5,750	8,178	9,888	12,608	13,848
Depreciation And Amortisation	(1,945)	(1,922)	(2,583)	(2,996)	(3,190)
Operating EBIT	3,805	6,256	7,306	9,612	10,659
Financial Income/(Expense)	25	93	(702)	(254)	(196)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	943	635	571	430	389
Profit Before Tax (pre-EI)	4,773	6,984	7,174	9,788	10,851
Exceptional Items					
Pre-tax Profit	4,773	6,984	7,174	9,788	10,851
Taxation	(1,133)	(1,761)	(1,737)	(2,643)	(2,930)
Exceptional Income - post-tax					
Profit After Tax	3,640	5,223	5,437	7,145	7,922
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,640	5,223	5,437	7,145	7,922
Recurring Net Profit	3,640	5,223	5,437	7,145	7,922
Fully Diluted Recurring Net Profit	3,640	5,223	5,437	7,145	7,922

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	5,750	8,178	9,888	12,608	13,848
Cash Flow from Invt. & Assoc.					
Change In Working Capital	4,100	(973)	(2,642)	(1,668)	(1,482)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(1,292)	(1,652)	(1,737)	(2,643)	(2,930)
Cashflow From Operations	8,558	5,553	5,510	8,297	9,437
Capex	(985)	(647)	(8,177)	(2,760)	(2,784)
Disposals Of FAs/subsidiaries	36	21			
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(58)	(3,197)	869	1,228	1,245
Cash Flow From Investing	(1,007)	(3,823)	(7,308)	(1,532)	(1,539)
Debt Raised/(repaid)	(1,466)	(545)	3,739		
Proceeds From Issue Of Shares	37	121			
Shares Repurchased					
Dividends Paid	(10)	(2,952)	(2,861)	(3,930)	(4,357)
Preferred Dividends					
Other Financing Cashflow	(1,087)	(2,069)	(1,001)	(1,052)	(1,052)
Cash Flow From Financing	(2,526)	(5,445)	(123)	(4,982)	(5,409)
Total Cash Generated	5,025	(3,715)	(1,921)	1,783	2,489
Free Cashflow To Equity	6,107	4,361	1,072	5,537	6,653
Free Cashflow To Firm	7,551	1,730	(1,798)	6,765	7,898

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	14,650	13,532	11,611	13,394	15,883
Total Debtors	10,285	10,319	13,443	15,580	17,478
Inventories	1,586	2,790	3,607	4,180	4,689
Total Other Current Assets	1,997	2,331	2,331	2,331	2,331
Total Current Assets	28,518	28,972	30,991	35,484	40,381
Fixed Assets	7,294	6,921	12,516	12,280	11,874
Total Investments	344	3,582	3,582	3,582	3,582
Intangible Assets	7,191	6,662	6,662	6,662	6,662
Total Other Non-Current Assets	1,581	1,736	1,736	1,736	1,736
Total Non-current Assets	16,410	18,901	24,496	24,260	23,854
Short-term Debt	2,731	3,241	3,241	3,241	3,241
Current Portion of Long-Term Debt					
Total Creditors	4,532	5,259	6,557	7,600	8,526
Other Current Liabilities	3,846	4,123	4,123	4,123	4,123
Total Current Liabilities	11,109	12,623	13,921	14,964	15,890
Total Long-term Debt	453	23	3,762	3,762	3,762
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,825	4,093	4,093	4,093	4,093
Total Non-current Liabilities	4,278	4,116	7,855	7,855	7,855
Total Provisions					
Total Liabilities	15,387	16,739	21,777	22,819	23,745
Shareholders Equity	29,573	31,166	33,742	36,957	40,522
Minority Interests	(32)	(32)	(32)	(32)	(32)
Total Equity	29,541	31,134	33,710	36,925	40,490

Key Ratios

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	(6.7%)	9.7%	32.0%	15.9%	12.2%
Operating EBITDA Growth	(2.4%)	42.2%	20.9%	27.5%	9.8%
Operating EBITDA Margin	13.9%	18.0%	16.5%	18.2%	17.8%
Net Cash Per Share (Rs)	104.24	93.44	41.89	58.10	80.74
BVPS (Rs)	268.85	283.60	306.79	336.03	368.44
Gross Interest Cover	8.79	15.92	7.30	9.14	10.13
Effective Tax Rate	23.7%	25.2%	24.2%	27.0%	27.0%
Net Dividend Payout Ratio	39.2%	37.7%	39.9%	40.1%	40.1%
Accounts Receivables Days	67.52	61.82	52.37	55.88	56.74
Inventory Days	33.05	35.82	38.89	40.60	41.04
Accounts Payables Days	70.85	80.14	71.84	73.82	74.61
ROIC (%)	12.3%	21.7%	25.9%	23.7%	25.1%
ROCE (%)	9.4%	13.9%	14.7%	16.6%	17.0%
Return On Average Assets	11.0%	14.9%	14.9%	17.3%	17.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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