

India

**ADD** (no change)

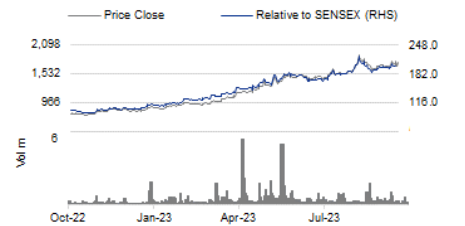
Consensus ratings\*: Buy 13 Hold 6 Sell 0

Current price:	Rs1,763
Target price:	Rs1,947 ▲
Previous target:	Rs1,681
Up/downside:	10.4%
InCred Research / Consensus:	10.9%
Reuters:	CYIE.NS
Bloomberg:	CYL IN
Market cap:	US\$2,346m Rs195,299m
Average daily turnover:	US\$11.1m Rs926.5m
Current shares o/s:	110.0m
Free float:	78.0%

\*Source: Bloomberg

**Key changes in this note**

- Expect 12% revenue CAGR over FY24F-26F.
- Expect 13.9% EBIT CAGR over FY24F-26F.
- Expect 16.1% PAT CAGR over FY24F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.2	19.9	131.3
Relative (%)	11.2	23.5	108.6

Major shareholders	% held
Amansa Holdings Pvt Ltd	8.7
DSP Value Fund	5.2
Kotak Small Cap Fund	2.6

**Analyst(s)**



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# Cyient Limited

## Continues to execute better

- Cyient expects to achieve the lower end of its FY24F CC growth guidance range of 15%-20%. Reiterates its 150-250bp margin improvement guidance.
- 2QFY24 DET revenue and margin performance largely in line.
- Retain our ADD rating on Cyient with a higher target price of Rs1,947.

### Earnings summary

Digital engineering and technology (DET) revenue and EBIT margin performance in 2QFY24 of Cyient was largely in line with estimates. The encouraging growth across aerospace, sustainability & new growth areas was offset by communications, which fell 8.5% qoq led by deferred spending and capex postponement. Soft 1HFY24 & tepid 3QFY24F due to macroeconomic challenges implies the lower end of its guidance is realistic while ~260bp yoy improvement in the avg. EBIT margin in 1HFY24 implies margin guidance is in the bag despite headwinds from growth moderation, sustained investments & staggered wage hikes. We adjust estimates, introduce FY26F & shift to FY26F valuation.

### Order intake soft qoq but healthy yoy

At US\$183.9m, DET order inflow was down 4.8% qoq but up 42.2% yoy led by aerospace and sustainability segments. Cyient signed five large deals in the DET in 2QFY24 (vs. six in 1QFY24) with a total contract potential of US\$51.4m. Management commentary suggests that seasonality could drive better order intake in 2HFY24F vs. 1HFY24.

### Margin guidance appears to be in the bag

DET EBIT margin performance (up 40bp qoq and 400bp yoy at 16.5%) was aided by increase in utilization, better price realization & indirect cost optimization initiatives partly offset by the wage hike impact. Cyient reiterating its FY24F 150-250bp margin improvement guidance appears procedural, given the material beat yoy in 1HFY24 and despite the residual impact of wage hikes. We model an average 16.4% EBIT margin over FY24F-26F.

### Retain ADD rating on Cyient with a higher target price of Rs1,947

We retain ADD rating on Cyient with a higher target price of Rs1,947 (Rs1,681 earlier) as we roll forward to FY26F estimates and shift to a SOTP-based target price. We model a 12% US\$ revenue CAGR over FY24F-26F and a ~16% PAT (Rs) CAGR. We value Cyient DET business at 1.2x (1x earlier) target PE/G multiple to arrive at a P/E multiple of 20.7 and applying holding discount to the target price of Cyient DLM. The increase in PE/G multiple is to account for a recovery in the aerospace vertical and better margin execution. Sustained recovery in the aerospace vertical, strong momentum in the automotive vertical (new growth areas) and order book conversion could help achieve our revenue/EBIT margin assumptions. Improving cash conversion and stable dividend payout provides cushion, in our view. Any higher-than anticipated decline in the organic portfolio, delay in the aerospace business recovery and inferior margin execution are key downside risks.

### Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	45,344	60,159	59,575	67,857	77,810
Operating EBITDA (Rsm)	8,178	10,031	12,273	13,775	17,795
Net Profit (Rsm)	5,223	5,143	6,907	7,956	9,318
Core EPS (Rs)	47.5	50.0	63.0	72.5	85.0
Core EPS Growth	43.6%	5.2%	26.0%	15.2%	17.1%
FD Core P/E (x)	37.12	35.28	27.74	23.75	19.18
DPS (Rs)	24.0	26.0	32.0	38.6	49.7
Dividend Yield	1.36%	1.48%	1.83%	2.19%	2.82%
EV/EBITDA (x)	22.45	19.37	15.72	13.47	11.22
P/FCFE (x)	44.45	23.95	39.51	30.39	24.57
Net Gearing	(33.0%)	1.2%	(1.0%)	(5.0%)	(9.0%)
P/BV (x)	6.22	5.60	5.09	4.61	4.15
ROE	17.2%	16.7%	19.2%	20.4%	22.8%
% Change In Core EPS Estimates			(3.67%)	(2.36%)	
InCred Research/Consensus EPS (x)					

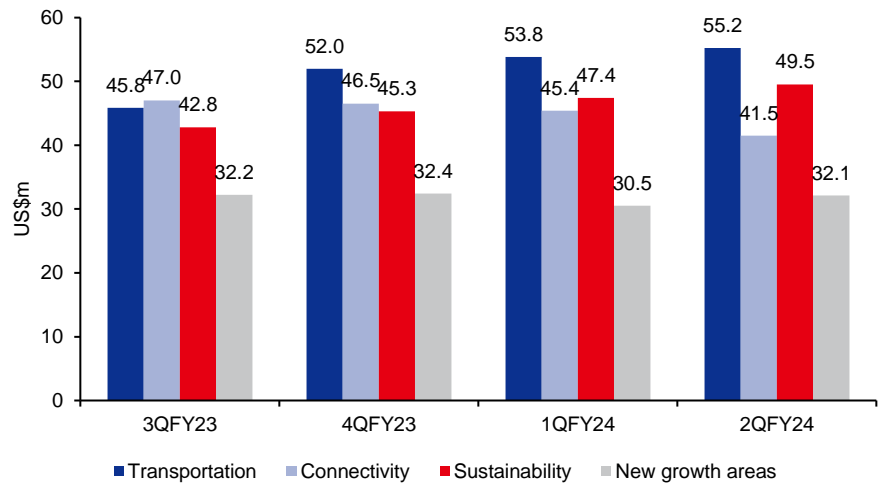
SOURCE: INCRED RESEARCH, COMPANY REPORTS. DET revenue, EBITDA, net profit over FY24F-26F

**Figure 1: Quarterly performance**

YE Mar (Rs m)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	2QFY24E	Var. (%)
Revenue (US\$ m)	178.1	151	17.9	177	0.6	177.5	0.4
Revenue (Rs m)	17,785	13,962	27.4	16,865	5.5	17,123	3.9
USD-Rs realization	99.9	92.5	8.0	95.2	4.9	96.5	3.5
EBITDA	3,258	2,046	59.2	3,156	3.2	3,236	0.7
EBITDA margin (%)	18.3	14.7	366 bp	18.7	(39 bp)	18.9	(58 bp)
EBIT	2,600	1,416	83.6	2,480	4.8	2,550	2.0
EBIT margin (%)	14.6	10.1	448 bp	14.7	(9 bp)	14.9	(27 bp)
Depreciation	658	630	4.4	676	(2.7)	686	(4.1)
Net other income	-135	-115	17.4	-176	(23.3)	-132	1.9
PBT	2,465	1,301	89.5	2,304	7.0	2,418	2.0
Provision for tax	567	294	92.9	502	12.9	568	(0.2)
% tax rate	23.0	22.6	40 bp	21.8	121 bp	23.5	(50 bp)
Net profit	1,783	791	125.4	1,681	6.1	1,764	1.1
EPS (Rs)	16.1	7.2	125.4	15.2	6.1	16.0	1.1

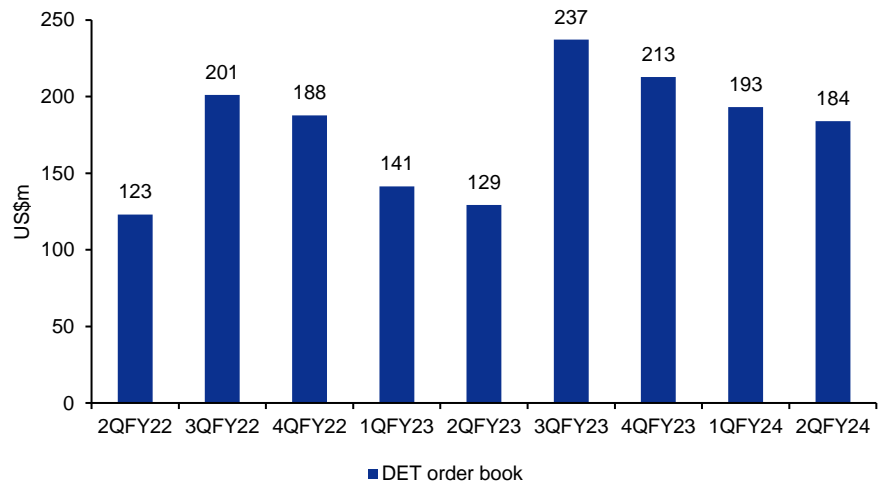
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: DET segment's revenue trend**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: DET segment's order book up 40% yoy but down qoq for the third consecutive quarter**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: Operating metric trend**

Operating trends	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Revenue (US\$ m)	150.1	157.9	156.7	161.6	174.8	197.0	213.0	205.3	214.9
Growth YoY (%)	11.2	11.7	4.5	12.6	16.5	24.8	35.9	27.0	22.9
Growth QoQ (%)	4.6	5.2	-0.8	3.1	8.2	12.7	8.1	-3.6	4.7
Revenue (Rs. m)	11,116	11,834	11,812	12,501	13,962	16,182	17,514	16,865	17,785
Growth YoY (%)	10.8	13.3	8.1	18.1	25.6	36.7	48.3	34.9	27.4
Growth QoQ (%)	5.0	6.5	-0.2	5.8	11.7	15.9	8.2	-3.7	5.5
EBIT Margin (%)	14.0	13.8	14.3	11.4	10.1	13.2	14.2	14.7	14.6
US\$-INR realized rate	74.1	74.9	75.4	77.4	79.9	82.1	82.2	82.1	82.8
DET business - Employee count	12,035	12,173	12,834	13,581	15,004	14,693	15,172	15,306	15,441
<b>DET - Client (%)</b>	<b>2QFY22</b>	<b>3QFY22</b>	<b>4QFY22</b>	<b>1QFY23</b>	<b>2QFY23</b>	<b>3QFY23</b>	<b>4QFY23</b>	<b>1QFY24</b>	<b>2QFY24</b>
Top 5	33	31.5	30.6	32.1	28.9	25.9	27.8	29.6	29.5
Top 6-10	12.6	12.8	12	11.6	11	9.9	11.4	9.6	9.7
Non-top 10	54.4	55.7	57.4	56.3	60.1	64.2	60.8	60.8	60.8
<b>DET - Client (US\$ m)</b>	<b>2QFY22</b>	<b>3QFY22</b>	<b>4QFY22</b>	<b>1QFY23</b>	<b>2QFY23</b>	<b>3QFY23</b>	<b>4QFY23</b>	<b>1QFY24</b>	<b>2QFY24</b>
Top 5	41.1	40.7	40.0	44.0	43.6	43.5	49.0	52.4	52.5
Top 6-10	15.7	16.5	15.7	15.9	16.6	16.6	20.1	17.0	17.3
Non-top 10	67.8	71.9	75.0	77.2	90.8	107.8	107.1	107.7	108.3
<b>DET - Client YoY (%)</b>	<b>2QFY22</b>	<b>3QFY22</b>	<b>4QFY22</b>	<b>1QFY23</b>	<b>2QFY23</b>	<b>3QFY23</b>	<b>4QFY23</b>	<b>1QFY24</b>	<b>2QFY24</b>
Top 5	3.6	-0.1	-5.3	0.0	6.1	6.9	22.6	19.1	20.4
Top 6-10	29.8	22.5	11.0	8.4	5.8	0.6	28.2	6.9	4.0
Non-top 10	8.8	17.7	18.5	27.4	33.9	49.9	42.9	39.5	19.3
<b>DET - Client QoQ (%)</b>	<b>2QFY22</b>	<b>3QFY22</b>	<b>4QFY22</b>	<b>1QFY23</b>	<b>2QFY23</b>	<b>3QFY23</b>	<b>4QFY23</b>	<b>1QFY24</b>	<b>2QFY24</b>
Top 5	-6.6	-1.1	-1.7	10.1	-0.8	-0.4	12.6	7.0	0.2
Top 6-10	7.0	5.3	-5.2	1.5	4.4	0.1	20.8	-15.4	1.6
Non-top 10	11.8	6.1	4.2	3.0	17.6	18.8	-0.6	0.5	0.6
<b>Incremental revenue (US\$ m)</b>	<b>2QFY22</b>	<b>3QFY22</b>	<b>4QFY22</b>	<b>1QFY23</b>	<b>2QFY23</b>	<b>3QFY23</b>	<b>4QFY23</b>	<b>1QFY24</b>	<b>2QFY24</b>
Top 5	1.8	-3.2	-2.8	3.2	-0.7	7.2	5.5	3.4	0.1
Top 6-10	0.9	4.2	-1.7	-1.0	2.2	0.1	3.5	-3.1	0.3
Non-top 10	7.2	4.1	3.1	2.2	13.6	17.0	-0.7	0.5	0.6
<b>DET - Client metrics</b>	<b>2QFY22</b>	<b>3QFY22</b>	<b>4QFY22</b>	<b>1QFY23</b>	<b>2QFY23</b>	<b>3QFY23</b>	<b>4QFY23</b>	<b>1QFY24</b>	<b>2QFY24</b>
20 m+	3	3	3	4	4	6	7	7	6
10 m+	10	10	11	11	12	12	13	13	13
5 m+	24	27	25	25	30	31	31	31	31
1 m+	76	77	78	81	85	84	84	90	103

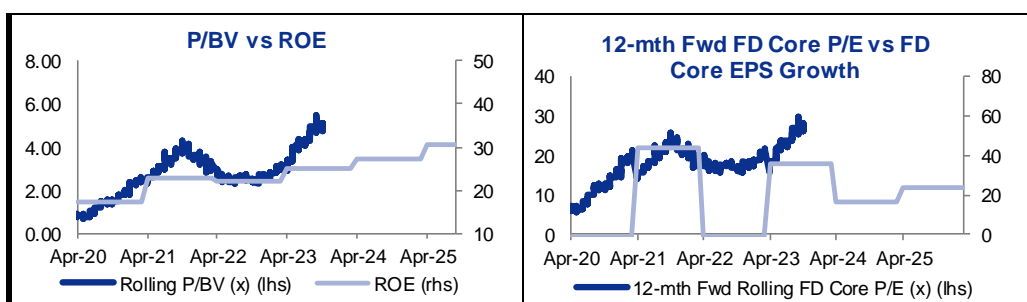
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: SOTP valuation of Cyient**

<b>DET business</b>	
Target P/E	20.7
Target Price (Rs per share)	1,756
<b>DLM business</b>	
Target Market cap (Rsm)	69,784
Cyient stake in DLM	66.7%
Holding co. Discount	55%
DLM value (Rsm)	20,946
<b>Cyient</b>	
DET business market cap (Rs m)	192,571
DLM value (Rsm)	20,946
Target market cap (Rsm)	213,517
Target price (Rs per share)	1,947

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS**



**Profit & Loss**

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	45,344	60,159	59,575	67,857	77,810
<b>Gross Profit</b>	23,048	30,505	24,013	27,143	31,124
<b>Operating EBITDA</b>	8,178	10,031	12,273	13,775	15,795
Depreciation And Amortisation	(1,922)	(2,566)	(2,435)	(2,714)	(3,035)
<b>Operating EBIT</b>	6,256	7,465	9,837	11,061	12,761
Financial Income/(Expense)	93	(701)	(647)	(661)	(581)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	635	514			
<b>Profit Before Tax (pre-EI)</b>	6,984	7,278	9,191	10,399	12,180
Exceptional Items		(467)			
<b>Pre-tax Profit</b>	6,984	6,811	9,191	10,399	12,180
Taxation	(1,761)	(1,668)	(2,151)	(2,444)	(2,862)
Exceptional Income - post-tax			-133		
<b>Profit After Tax</b>	5,223	5,143	6,907	7,956	9,318
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	5,223	5,143	6,907	7,956	9,318
Recurring Net Profit	5,223	5,496	6,907	7,956	9,318
<b>Fully Diluted Recurring Net Profit</b>	5,223	5,496	6,907	7,956	9,318

**Cash Flow**

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	8,178	10,031	12,314	14,239	16,913
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(973)	(3,485)	(2,723)	(2,278)	(2,726)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(1,652)	(1,288)	(2,081)	(2,795)	(3,462)
<b>Cashflow From Operations</b>	5,553	5,258	7,510	9,166	10,725
Capex	(647)	(675)	(2,601)	(2,784)	(2,831)
Disposals Of FAs/subsidiaries	21	23			
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(3,197)	(9,675)	539	651	752
<b>Cash Flow From Investing</b>	(3,823)	(10,327)	(2,062)	(2,133)	(2,079)
Debt Raised/(repaid)	(545)	3,511			
Proceeds From Issue Of Shares	121	79			
Shares Repurchased					
Dividends Paid	(2,952)	(2,630)	(3,542)	(4,247)	(5,462)
Preferred Dividends					
Other Financing Cashflow	(2,069)	(2,053)	(1,088)	(1,080)	(1,080)
<b>Cash Flow From Financing</b>	(5,445)	(1,093)	(4,630)	(5,327)	(6,542)
Total Cash Generated	(3,715)	(6,162)	819	1,707	2,103
<b>Free Cashflow To Equity</b>	4,361	8,094	4,909	6,383	7,894
<b>Free Cashflow To Firm</b>	1,730	(5,069)	5,448	7,034	8,646

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	13,532	8,912	9,731	11,438	13,541
Total Debtors	10,319	15,394	17,857	20,509	23,683
Inventories	2,790	4,358	5,241	6,019	6,950
Total Other Current Assets	2,331	3,249	3,249	3,249	3,249
<b>Total Current Assets</b>	<b>28,972</b>	<b>31,913</b>	<b>36,077</b>	<b>41,215</b>	<b>47,424</b>
Fixed Assets	6,921	7,278	7,187	7,123	6,947
Total Investments	3,582	3,463	3,463	3,463	3,463
Intangible Assets	6,662	21,413	21,413	21,413	21,413
Total Other Non-Current Assets	1,736	1,414	1,414	1,414	1,414
<b>Total Non-current Assets</b>	<b>18,901</b>	<b>33,568</b>	<b>33,477</b>	<b>33,413</b>	<b>33,237</b>
Short-term Debt	3,241	4,397	4,397	4,397	4,397
Current Portion of Long-Term Debt					
Total Creditors	5,259	7,142	7,764	8,917	10,297
Other Current Liabilities	4,123	8,692	8,692	8,692	8,692
<b>Total Current Liabilities</b>	<b>12,623</b>	<b>20,231</b>	<b>20,853</b>	<b>22,006</b>	<b>23,386</b>
Total Long-term Debt	23	4,939	4,939	4,939	4,939
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	4,093	5,676	5,676	5,676	5,676
<b>Total Non-current Liabilities</b>	<b>4,116</b>	<b>10,615</b>	<b>10,615</b>	<b>10,615</b>	<b>10,615</b>
Total Provisions					
<b>Total Liabilities</b>	<b>16,739</b>	<b>30,846</b>	<b>31,468</b>	<b>32,621</b>	<b>34,001</b>
Shareholders Equity	31,166	34,667	38,119	42,039	46,692
Minority Interests	(32)	(32)	(32)	(32)	(32)
<b>Total Equity</b>	<b>31,134</b>	<b>34,635</b>	<b>38,087</b>	<b>42,007</b>	<b>46,660</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	9.7%	32.7%	14.1%	13.9%	14.7%
Operating EBITDA Growth	42.2%	22.7%	22.8%	12.2%	14.7%
Operating EBITDA Margin	18.0%	16.7%	20.6%	20.3%	20.3%
Net Cash Per Share (Rs)	93.44	(3.85)	3.59	19.10	38.22
BVPS (Rs)	283.60	315.12	346.50	382.13	424.43
Gross Interest Cover	15.92	7.47	8.84	10.55	12.88
Effective Tax Rate	25.2%	24.5%	22.9%	25.5%	25.5%
Net Dividend Payout Ratio	37.7%	39.3%	39.0%	38.7%	40.2%
Accounts Receivables Days	61.82	56.44	63.03	63.60	63.44
Inventory Days	35.82	43.99	49.21	50.01	50.08
Accounts Payables Days	80.14	76.32	76.42	74.09	74.19
ROIC (%)	21.7%	26.9%	19.9%	21.3%	24.6%
ROCE (%)	13.9%	14.7%	16.2%	17.2%	19.3%
Return On Average Assets	14.9%	13.8%	14.1%	15.6%	17.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS, Consolidated Balance sheet and Cash flow

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