

## India

## ADD (no change)

Consensus ratings\*: Buy 11 Hold 7 Sell 0

Current price:	Rs1,469
Target price: ▲	Rs1,681
Previous target:	Rs1,204
Up/downside:	14.4%
InCred Research / Consensus:	33.0%

Reuters:	
Bloomberg:	CYL IN
Market cap:	US\$2,237m
	Rs162,427m
Average daily turnover:	US\$9.1m
	Rs660.4m
Current shares o/s:	110.0m
Free float:	78.0%

\*Source: Bloomberg

## Key changes in this note

- Raise FY23-25F revenue CAGR to 13.4%.
- Raise FY23-25F EBIT CAGR to ~24%.
- Raise FY23-25F PAT CAGR to 22.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	21.5	57.8	86.6
Relative (%)	19.3	44.7	55.7

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

## Analyst(s)



## Abhishek SHINDADKAR

T (91) 22 4161 1543

E abhishek.shindadkr@incredcapital.com

## Tushar WAVHAL

T (91) 22 4161 1544

E tushar.wavhal@incredcapital.com

## Cyient Limited

## Consistent execution could drive upgrades

- The aerospace segment's recovery could aid revenue growth momentum.
- Raise our EBIT margin estimate assuming better execution will continue.
- Retain ADD rating with a higher target price of Rs1,681 vs. Rs1,204 earlier.

## Aerospace segment's recovery could aid growth momentum

The aerospace segment's (a part of the transportation vertical) outlook appears to be optimistic led by nearing of the design cycle, recovery in air travel leading to aircraft orders and aftermarket activity while the commercial aerospace market, led by military equipment, could drive an uptick in the defence market. Overall, after a soft FY23, we expect the aerospace segment's momentum to continue in FY24F.

## Raise our EBIT margin assumption

Cyient's large acquisitions in FY23 (Celfinet, Citec and Grit Consulting) to strengthen its portfolio and geographic mix could aid its overall profitability too as the PAT margin of these three firms is above the company average margin. In FY23, Celfinet, Citec Europe, and Grit consulting contributed revenue of Rs1,519m, Rs3,704m, Rs843m, and a profit of Rs282m (18.6% margin), Rs721m (19.5%), Rs207m (24.6%), respectively. This, coupled with better execution aided by a sustained utilization (86.6% in 4QFY23) and an increase in the offshore mix from 43.9% in 4QFY23, driven by cost takeout deals and shift in the acquired entities, led to an increase in the conservative EBIT margin assumption made post 4QFY23. Deterioration in a recently acquired subsidiary's performance, wage hikes in 1HFY24F (likely to be lower than in FY23) and higher replacement cost, if any, are key risks to our thesis.

## Retain ADD rating with a higher target price of Rs1,681

We retain our ADD rating on Cyient with a higher target price of Rs1,681 (Rs1,204 earlier) as we increased our target PE/G multiple to 1x (vs. 0.8x earlier) to arrive at our target P/E multiple of 22x (vs. 16.3x earlier). A recovery in key verticals (including the aerospace segment of the transportation vertical) of services business (~84% of revenue), better order book conversion and better improved EBIT margin execution warrants narrowing of the PE/G discount to L&T Technology Services' multiple to ~32% vs. ~38% earlier. We also adjusted our estimates and now model a 13.4% US\$ revenue CAGR over FY23F-25F (12.2% earlier) and a 22.1% PAT (Rs) CAGR (20.3%). Strong cash conversion and stable dividend payout ratio provide a cushion, in our view. Any higher-than anticipated decline in the organic portfolio, and miss on integration of acquired entities and margin execution are key downside risks.

Financial Summary	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	41,324	45,344	60,159	71,373	80,678
Operating EBITDA (Rsm)	5,750	8,178	10,031	12,920	14,764
Net Profit (Rsm)	3,640	5,223	5,143	7,260	8,365
Core EPS (Rs)	33.1	47.5	50.0	66.0	76.0
Core EPS Growth	(1.6%)	43.6%	5.2%	32.0%	15.2%
FD Core P/E (x)	44.38	30.91	29.38	22.25	19.31
DPS (Rs)	17.0	24.0	26.0	35.0	41.8
Dividend Yield	1.16%	1.63%	1.77%	2.39%	2.85%
EV/EBITDA (x)	26.09	18.48	16.14	12.46	10.75
P/FCFE (x)	26.45	37.02	19.95	32.74	22.96
Net Gearing	(38.8%)	(33.0%)	1.2%	(1.3%)	(6.6%)
P/BV (x)	5.46	5.18	4.66	4.24	3.86
ROE	13.2%	17.2%	16.7%	20.0%	20.9%
% Change In Core EPS Estimates				0.77%	2.96%
InCred Research/Consensus EPS (x)					

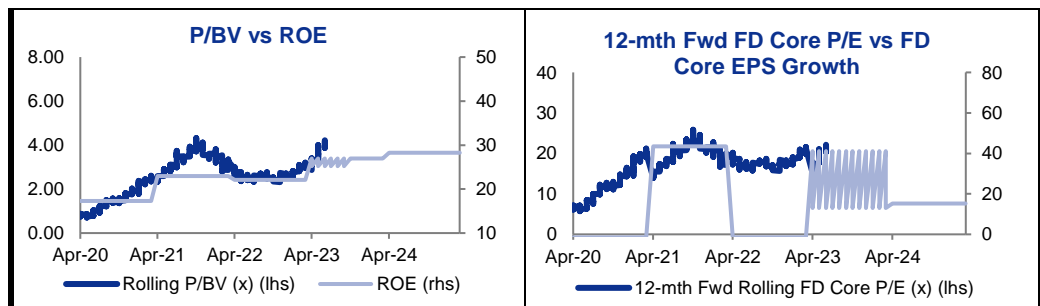
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 1: Change in our estimates**

Y/E Mar (Rs m)	FY24F			FY25F		
	New	Old	% change	New	Old	% change
US\$ revenue	860	848	1.4	960	940	2.2
Revenue	71,373	70,361	1.4	80,678	78,936	2.2
EBIT	9,961	9,873	0.9	11,456	10,893	5.2
EBIT Margin (%)	14.0	14.0	(8) bp	14.2	13.8	40 bp
Net PAT	7,260	7,205	0.8	8,365	8,124	3.0
EPS (Rs)	66.0	65.5	0.8	76.0	73.8	3.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS



### Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>41,324</b>	<b>45,344</b>	<b>60,159</b>	<b>71,373</b>	<b>80,678</b>
<b>Gross Profit</b>	<b>20,045</b>	<b>23,048</b>	<b>30,505</b>	<b>37,080</b>	<b>41,791</b>
<b>Operating EBITDA</b>	<b>5,750</b>	<b>8,178</b>	<b>10,031</b>	<b>12,920</b>	<b>14,764</b>
Depreciation And Amortisation	(1,945)	(1,922)	(2,566)	(2,959)	(3,308)
<b>Operating EBIT</b>	<b>3,805</b>	<b>6,256</b>	<b>7,465</b>	<b>9,961</b>	<b>11,456</b>
Financial Income/(Expense)	25	93	(701)	(682)	(645)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	943	635	514	518	484
<b>Profit Before Tax (pre-EI)</b>	<b>4,773</b>	<b>6,984</b>	<b>7,278</b>	<b>9,797</b>	<b>11,296</b>
Exceptional Items			(467)		
<b>Pre-tax Profit</b>	<b>4,773</b>	<b>6,984</b>	<b>6,811</b>	<b>9,797</b>	<b>11,296</b>
Taxation	(1,133)	(1,761)	(1,668)	(2,537)	(2,931)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>3,640</b>	<b>5,223</b>	<b>5,143</b>	<b>7,260</b>	<b>8,365</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>3,640</b>	<b>5,223</b>	<b>5,143</b>	<b>7,260</b>	<b>8,365</b>
Recurring Net Profit	3,640	5,223	5,496	7,260	8,365
<b>Fully Diluted Recurring Net Profit</b>	<b>3,640</b>	<b>5,223</b>	<b>5,496</b>	<b>7,260</b>	<b>8,365</b>

### Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>5,750</b>	<b>8,178</b>	<b>10,031</b>	<b>12,920</b>	<b>14,764</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	4,100	(973)	(3,485)	(2,838)	(2,014)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(1,292)	(1,652)	(1,288)	(2,537)	(2,931)
<b>Cashflow From Operations</b>	<b>8,558</b>	<b>5,553</b>	<b>5,258</b>	<b>7,545</b>	<b>9,819</b>
Capex	(985)	(647)	(675)	(2,610)	(2,784)
Disposals Of FAs/subsidiaries	36	21	23		
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(58)	(3,197)	(9,675)	884	887
<b>Cash Flow From Investing</b>	<b>(1,007)</b>	<b>(3,823)</b>	<b>(10,327)</b>	<b>(1,726)</b>	<b>(1,896)</b>
Debt Raised/(repaid)	(1,466)	(545)	3,511		
Proceeds From Issue Of Shares	37	121	79		
Shares Repurchased					
Dividends Paid	(10)	(2,952)	(2,630)	(3,860)	(4,600)
Preferred Dividends					
Other Financing Cashflow	(1,087)	(2,069)	(2,053)	(1,048)	(1,048)
<b>Cash Flow From Financing</b>	<b>(2,526)</b>	<b>(5,445)</b>	<b>(1,093)</b>	<b>(4,908)</b>	<b>(5,648)</b>
Total Cash Generated	5,025	(3,715)	(6,162)	911	2,274
<b>Free Cashflow To Equity</b>	<b>6,107</b>	<b>4,361</b>	<b>8,094</b>	<b>4,935</b>	<b>7,035</b>
<b>Free Cashflow To Firm</b>	<b>7,551</b>	<b>1,730</b>	<b>(5,069)</b>	<b>5,818</b>	<b>7,923</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## BY THE NUMBERS...cont'd

### Balance Sheet

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	14,650	13,532	8,912	9,823	12,097
Total Debtors	10,285	10,319	15,394	17,990	20,335
Inventories	1,586	2,790	4,358	5,280	5,968
Total Other Current Assets	1,997	2,331	3,249	3,249	3,249
<b>Total Current Assets</b>	<b>28,518</b>	<b>28,972</b>	<b>31,913</b>	<b>36,341</b>	<b>41,649</b>
Fixed Assets	7,294	6,921	7,278	6,929	6,405
Total Investments	344	3,582	3,463	3,463	3,463
Intangible Assets	7,191	6,662	21,413	21,413	21,413
Total Other Non-Current Assets	1,581	1,736	1,414	1,414	1,414
<b>Total Non-current Assets</b>	<b>16,410</b>	<b>18,901</b>	<b>33,568</b>	<b>33,219</b>	<b>32,695</b>
Short-term Debt	2,731	3,241	4,397	4,397	4,397
Current Portion of Long-Term Debt					
Total Creditors	4,532	5,259	7,142	7,822	8,841
Other Current Liabilities	3,846	4,123	8,692	8,692	8,692
<b>Total Current Liabilities</b>	<b>11,109</b>	<b>12,623</b>	<b>20,231</b>	<b>20,911</b>	<b>21,930</b>
Total Long-term Debt	453	23	4,939	4,939	4,939
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	3,825	4,093	5,676	5,676	5,676
<b>Total Non-current Liabilities</b>	<b>4,278</b>	<b>4,116</b>	<b>10,615</b>	<b>10,615</b>	<b>10,615</b>
Total Provisions					
<b>Total Liabilities</b>	<b>15,387</b>	<b>16,739</b>	<b>30,846</b>	<b>31,526</b>	<b>32,545</b>
Shareholders Equity	29,573	31,166	34,667	38,067	41,831
Minority Interests	(32)	(32)	(32)	(32)	(32)
<b>Total Equity</b>	<b>29,541</b>	<b>31,134</b>	<b>34,635</b>	<b>38,035</b>	<b>41,799</b>

### Key Ratios

	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	(6.7%)	9.7%	32.7%	18.6%	13.0%
Operating EBITDA Growth	(2.4%)	42.2%	22.7%	28.8%	14.3%
Operating EBITDA Margin	13.9%	18.0%	16.7%	18.1%	18.3%
Net Cash Per Share (Rs)	104.24	93.44	(3.85)	4.42	25.10
BVPS (Rs)	268.85	283.60	315.12	346.03	380.24
Gross Interest Cover	8.79	15.92	7.47	9.51	10.93
Effective Tax Rate	23.7%	25.2%	24.5%	25.9%	25.9%
Net Dividend Payout Ratio	39.2%	37.7%	39.3%	39.4%	40.7%
Accounts Receivables Days	67.52	61.82	56.44	62.82	64.08
Inventory Days	33.05	35.82	43.99	51.29	52.79
Accounts Payables Days	70.85	80.14	76.32	79.63	78.20
ROIC (%)	12.3%	21.7%	26.9%	19.8%	21.3%
ROCE (%)	9.4%	13.9%	14.7%	16.2%	17.2%
Return On Average Assets	11.0%	14.9%	13.8%	15.3%	16.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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