

India

ADD (no change)

Consensus ratings*: Buy 10 Hold 8 Sell 0

Current price:	Rs1,467
Target price:	Rs1,681
Previous target:	Rs1,681
Up/downside:	14.6%
InCred Research / Consensus:	8.5%
Reuters:	
Bloomberg:	CYL IN
Market cap:	US\$2,234m Rs162,212m
Average daily turnover:	US\$10.6m Rs771.9m
Current shares o/s:	110.0m
Free float:	78.0%

*Source: Bloomberg

Key changes in this note

- Retain FY23-25F revenue CAGR at 13.4%.
- Retain FY23-25F EBIT CAGR at ~24%.
- Retain FY23-25F PAT CAGR at 22.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.4	26.7	87.9
Relative (%)	(4.7)	15.1	56.5

Major shareholders	% held
Amansa Holdings Pvt Ltd	8.7
DSP Value Fund	5.6
ICICI Prudential India Opportunities Fund	2.6

Brokers Poll 2023
InCred Research

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Cyient Limited

It seems we didn't raise margin enough

- Cyient raised services' (now DET) margin guidance and expects a 150-250bp improvement yoy vs. 100-200bp earlier. Reiterates revenue growth guidance.
- 1QFY24 revenue miss was marginal but EBIT margin beat was encouraging.
- Free cash flow in DET business was down 4.7% qoq but up 150.5% yoy at Rs1,761m. FCF/EBITDA stood at 59.6% vs. 64.6% in 4QFY23.

It seems we didn't raise EBIT margin enough in Jun 2023

Back in Jun 2023, we had raised our FY24F-25F average EBIT margin assumption for Cyient (CYL IN) by 20bp to 14.1%, given improving execution ([link](#)). However, 16.1%/14.7% services/group EBIT margin in 1QFY24 suggests that we were conservative and likely provides an upside risk. But 1Q revenue was marginally below our estimate and the ask rate to achieve the guided 15-20% constant currency or CC revenue growth in DET business in FY24F is very steep in the current challenging demand environment and implies a potential downside risk to revenue estimate. Consequently, we retain our estimates and, in turn, our rating and target price.

Digital, engineering & technology (DET) order inflow up 32.5% yoy

At US\$193.2m, DET order inflow was down 12.3% qoq but up 32.5% yoy. Cyient signed six large deals in DET in 1QFY24, with a total contract potential of US\$185.1m. Select customer-specific instances within the top 40 accounts led to decision-making delay during 1QFY24. However, CYL saw early signs of improvement over the last four weeks.

1Q EBIT margin beat encouraging

1Q EBIT margin beat, up 46bp qoq and 334bp yoy at 14.7%, was led by rationalization of SG&A expenses (down 12.3% qoq), which helped offset 140bp qoq and 20bp yoy decline in gross margin due to merit increases. Segregating further, DET's EBIT margin was up 100bp qoq and 330bp yoy at 16.1%, despite an unfavourable revenue mix in the communication business. Management highlighted that 1Q beat led to a revision in its margin guidance.

Retain ADD rating on the stock

We maintain our estimates {model in a 13.4% US\$ revenue CAGR over FY23-25F and a 22.1% PAT (Rs) CAGR} and aim to revisit them mid-quarter. We also retain our ADD rating on Cyient with a target price of Rs1,681, target PE/G multiple of 1x and target P/E multiple of ~22x. Sharp recovery in the aerospace sub-segment of the transportation segment, strong momentum in the automotive sub-segment of new growth areas and order book conversion could help achieve the revenue growth guidance. Strong cash conversion and stable dividend payout ratio provide 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)	44.32	30.87	29.34	22.22	19.29
DPS (Rs)	17.0	24.0	26.0	35.0	41.8
Dividend Yield	1.16%	1.64%	1.77%	2.39%	2.85%
EV/EBITDA (x)	26.06	18.46	16.11	12.45	10.74
P/FCFE (x)	26.42	36.97	19.92	32.69	22.93
Net Gearing	(38.8%)	(33.0%)	1.2%	(1.3%)	(6.6%)
P/BV (x)	5.45	5.17	4.65	4.24	3.86
ROE	13.2%	17.2%	16.7%	20.0%	20.9%

% Change In Core EPS Estimates
 InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly results summary

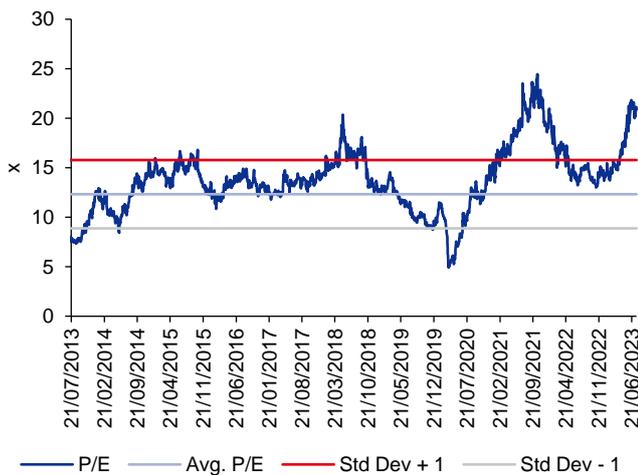
YE Mar (Rs m)	1QFY24	1QFY23	YoY (%)	4QFY23	QoQ (%)	1QFY24E	Var. (%)
Revenue (US\$ m)	205.3	162	27.0	213	(3.6)	206.5	(0.6)
Revenue (Rs m)	16,865	12,501	34.9	17,514	(3.7)	16,977	(0.7)
USD-Rs realization	82.1	77.4	6.2	82.2	(0.1)	82.2	(0.1)
EBITDA	3,156	1,932	63.4	3,220	(2.0)	3,158	(0.1)
EBITDA Margin (%)	18.7	15.5	326 bp	18.4	33 bp	18.6	11 bp
EBIT	2,480	1,421	74.5	2,494	(0.6)	2,454	1.1
EBIT Margin (%)	14.7	11.4	334 bp	14.2	46 bp	14.5	25 bp
Depreciation	676	511	32.3	726	(6.9)	704	(3.9)
Net other income	-176	173	(201.7)	-258	(31.8)	-270	(34.9)
PBT	2,304	1,594	44.5	2,236	3.0	2,184	5.5
Provision for tax	502	434	15.7	443	13.3	524	(4.2)
% tax rate	21.8	27.2	(544 bp)	19.8	198 bp	24.0	(221 bp)
Net Profit	1,681	1,160	44.9	1,631	3.1	1,559	7.8
EPS (Rs)	15.2	10.6	44.9	14.8	3.1	14.1	7.8

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key conference-call takeaways

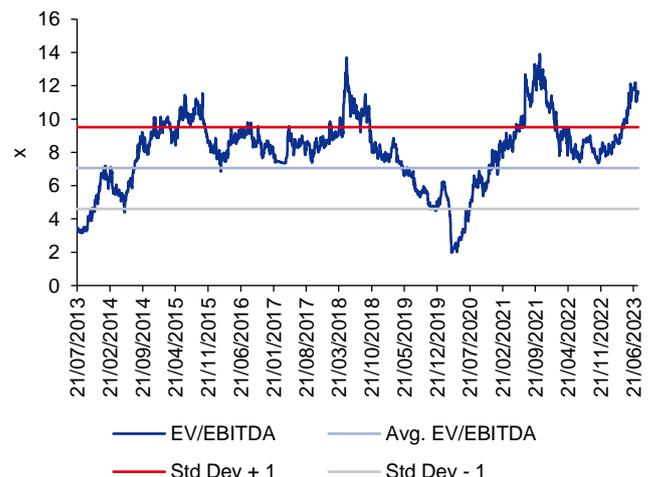
- The US Department of Justice has dismissed the case against Cyient executive in Apr 2023. The civil action lawsuit-related legal fees would be charged in 2QFY24F and 3QFY24F. However, the amount could be less as compared to what was charged earlier.
- Engineering parts business (earlier part of DLM but now part of DET business) contributed US\$0.9m to revenue in 1Q.
- Services business revenue declined by 0.2% in CC terms qoq, adjusted for the reclassification post-Cyient DLM IPO.
- Order inflow was also impacted due to weak seasonality.
- Softness in the wireless (~20% of connectivity business) business impacted overall connectivity business in 1QFY24 (down 2.4% qoq in CC terms). Wireline business witnessing growth aided by government funding.
- The automotive sub-segment continues to witness growth led by software-defined vehicles & electrification. Softness in the hi-tech segment could persist in FY24F.
- Momentum in commercial aerospace, MRO sub-segment and the defence segment to aid growth in the transportation vertical in FY24F.

Figure 2: One-year forward P/E of ~21x



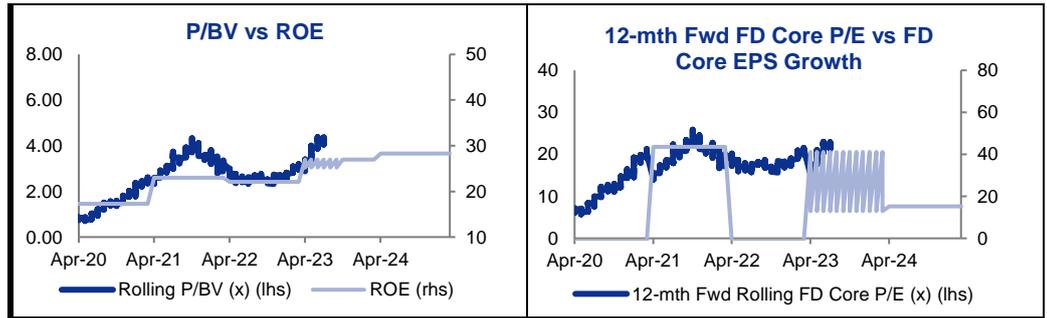
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: One-year forward EV/EBITDA of ~11.6x



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

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

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	5,750	8,178	10,031	12,920	14,764
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)
Cashflow From Operations	8,558	5,553	5,258	7,545	9,819
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
Cash Flow From Investing	(1,007)	(3,823)	(10,327)	(1,726)	(1,896)
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)
Cash Flow From Financing	(2,526)	(5,445)	(1,093)	(4,908)	(5,648)
Total Cash Generated	5,025	(3,715)	(6,162)	911	2,274
Free Cashflow To Equity	6,107	4,361	8,094	4,935	7,035
Free Cashflow To Firm	7,551	1,730	(5,069)	5,818	7,923

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
Total Current Assets	28,518	28,972	31,913	36,341	41,649
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
Total Non-current Assets	16,410	18,901	33,568	33,219	32,695
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
Total Current Liabilities	11,109	12,623	20,231	20,911	21,930
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
Total Non-current Liabilities	4,278	4,116	10,615	10,615	10,615
Total Provisions					
Total Liabilities	15,387	16,739	30,846	31,526	32,545
Shareholders Equity	29,573	31,166	34,667	38,067	41,831
Minority Interests	(32)	(32)	(32)	(32)	(32)
Total Equity	29,541	31,134	34,635	38,035	41,799

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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