

India

ADD (no change)

Consensus ratings*:	Buy 17	Hold 5	Sell 0
Current price:	Rs2,020		
Target price:	Rs2,228 ▲		
Previous target:	Rs1,947		
Up/downside:	10.3%		
InCred Research / Consensus:	-4.5%		
Reuters:	CYIE.NS		
Bloomberg:	CYL IN		
Market cap:	US\$2,693m	Rs223,843m	
Average daily turnover:	US\$10.5m	Rs876.5m	
Current shares o/s:	110.0m		
Free float:	78.0%		

*Source: Bloomberg

Key changes in this note

- Expect 11.5% revenue CAGR over FY24F-26F.
- Expect 14.1% EBIT CAGR over FY24F-26F.
- Expect 19.6% PAT CAGR over FY24F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(11.0)	23.3	135.9
Relative (%)	(10.2)	10.1	100.9

Major shareholders	% held
Amansa Holdings Pvt Ltd	8.1
DSP Small Cap Fund	5.3
Kotak Small Cap Fund	2.7

Research Analyst(s)



Abhishek SHINDADKAR
 T (91) 22 4161 1543
 E abhishek.shindadkr@incredresearch.com

Tushar WAVHAL
 T (91) 22 4161 1544
 E tushar.wavhal@incredresearch.com

Smit GOSRANI
 T (91) 22 4161 1554
 E smit.gosrani@incredresearch.com

Cyient Limited

Steep valuation warrants better execution

- 3QFY24 revenue was in line while the EBIT margin was modestly below our estimate.
- Management retained its medium-term EBIT margin aspiration of 18-20%.
- Retain ADD rating on the stock with a higher target price of Rs2,228.

Earnings summary

The digital engineering and technology (DET) segment's revenue performance in 3QFY24 was in line while the EBIT margin performance was 16bp below our estimate. Likely recovery in the Connectivity vertical and momentum in the Sustainability vertical could aid growth but softness in the Automotive & Rail vertical and short-term uncertainty in the Aerospace vertical is a key headwind. We lower our FY24F-26F revenue CAGR estimate by 70bp to 11.5%, vs. 12.2% earlier, to account for the same.

Strong order intake led by seasonality

At US\$297.3m, the DET segment's order inflow was up 61.7% qoq and 21.9% yoy. Cyient signed eight large deals having a total contract potential of US\$136.8m, with four from the Aerospace segment, two from Communications, and one each from Sustainability and new growth area. Order inflow is likely to remain strong in 4QFY24F due to strong seasonality in 2H, although deal wins and ramp-up in the Aerospace vertical remains a key monitorable.

Resilient margin performance likely to continue

The DET segment's normalized EBIT margin performance (down 50bp qoq at 16% but up 205bp yoy) was impacted by a partial wage hike, lower billing days and investments. Management has retained its EBIT margin aspiration of 18-20% in the medium term led by growth leverage, offshoring and operational efficiency initiatives. We model an average 16.5% EBIT margin over FY25F-26F.

Retain ADD rating with a higher target price of Rs2,228

We retain our ADD rating on Cyient with a higher target price of Rs2,228 (Rs1,947 earlier). We now model a 11.5% US\$ revenue CAGR over FY24F-26F and a ~19.6% PAT (Rs) CAGR (vs. 16.1% earlier). The higher PAT CAGR is due to a provision related to class action settlement in the base year. We retain our 1.2x target PE/G multiple for Cyient's DET business to arrive at a P/E multiple of ~24x and apply a holding discount to the target price of Cyient DLM. Sustained recovery in the Aerospace vertical, strong momentum in the Automotive vertical (new growth area) 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	59,309	67,070	76,545
Operating EBITDA (Rsm)	8,178	10,031	12,112	13,682	15,615
Net Profit (Rsm)	5,223	5,143	6,491	7,994	9,283
Core EPS (Rs)	47.5	50.0	59.1	72.8	84.6
Core EPS Growth	43.6%	5.2%	36.7%	23.2%	16.1%
FD Core P/E (x)	42.51	40.41	34.15	27.73	23.88
DPS (Rs)	24.0	26.0	32.0	38.9	47.3
Dividend Yield	1.19%	1.29%	1.59%	1.93%	2.34%
EV/EBITDA (x)	25.89	22.18	17.43	15.21	13.07
P/FCFE (x)	50.92	27.44	43.93	33.45	28.38
Net Gearing	(33.0%)	1.2%	(1.3%)	(5.9%)	(10.5%)
P/BV (x)	7.12	6.41	5.77	5.23	4.74
ROE	17.2%	16.7%	20.1%	20.3%	21.6%
% Change In Core EPS Estimates			(6.0%)	0.5%	(0.4%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS, DET revenue, Operating EBITDA, Net profit, Core EPS over FY24F-26F

Figure 1: Quarterly performance

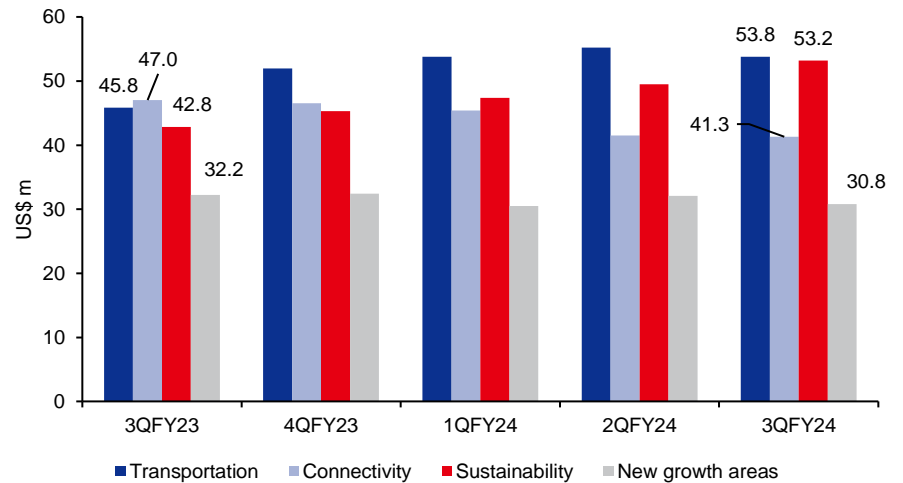
Y/E Mar (Rs m)	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	3QFY24F	Var. (%)
Revenue (US\$ m)	179.2	167.9	6.7	178.4	0.4	178.8	0.2
Revenue (Rs m)	14,914	13,796.0	8.1	14,762.0	1.0	14,890	0.2
USD-Rs realization	83.2	82.2	1.3	82.7	0.6	83.3	(0.1)
EBITDA	2,981	2,563.0	16.3	3,037.0	(1.8)	3,008	(0.9)
EBITDA margin (%)	20.0	18.6	141 bp	20.6	(59 bp)	20.2	(21 bp)
EBIT	2,385	2,062.0	15.7	2,440.0	(2.3)	2,405	(0.8)
EBIT margin (%)	16.0	14.9	105 bp	16.5	(54 bp)	16.2	(16 bp)
Depreciation	596	501.0	19.0	597.0	(0.2)	603	(1.2)
Net other income	-139	126.0	(210.3)	-180.0	(22.8)	-175	(20.7)
PBT	2,246	2,188.0	2.7	2,260.0	(0.6)	2,229	0.7
Provision for tax	519	500.0	3.8	531.0	(2.3)	524	(0.9)
% tax rate	23.1	22.9	26 bp	23.5	(39 bp)	23.5	(39 bp)
Net profit	1,727	1,688.0	2.3	1,729.0	(0.1)	1,706	1.3
EPS (Rs)	12.2	13.5	2.3	15.3	(0.1)	15.5	1.3

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Conference-call takeaways

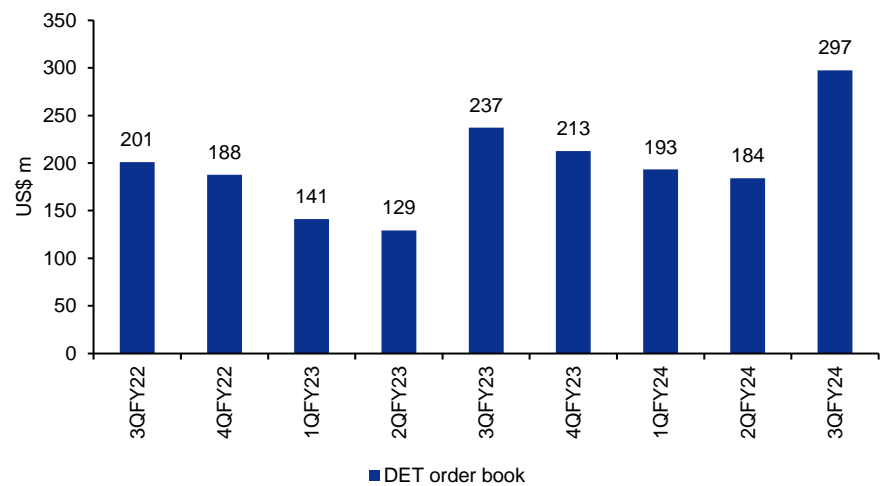
- Continuing macroeconomic challenges from the economic slowdown, higher interest rates and inflationary pressure are impacting customer decision-making. However, management expects green shoots in 2HCY24F.
- Cyient has entered into an agreement to settle a civil class action antitrust lawsuit for an amount of US\$7.4m (provisioned US\$6m in 3QFY24). The company would utilize the insurance amount available towards payment of the settlement amount. Management highlighted that settlement would not have any material adverse effect on the company's operations and financials going ahead.
- Cyient has entered into a partnership with Japan's Skydrive Inc (eVOTL manufacturer) for Urban Air Mobility (UAM) solutions. The collaboration would enable SkyDrive to cater to the global UAM market, including India.
- Connectivity vertical (23% of revenue) witnessed stability in 3QFY24 (up 0.2% qoq in constant currency or CC terms vs. a decline of 8.1%/2.4% qoq in 2QFY24/1QFY24, respectively) and is likely to gradually witness growth aided by government programs for fibre expansion, premium customer experience programs in the wireless segment and cost-reduction projects.
- Aerospace vertical's yoy CC growth was 24% in 3QFY24 vs. overall Transportation (30% of revenue) vertical's yoy CC growth of 16.9%. Supply chain issues could ease over the next 12-18 months in the Aerospace vertical. The growth would be aided by MRO activity, as production is likely to grow significantly over the next two years. The rail segment could continue to witness softness in the short term.
- Management highlighted that recent challenges at Boeing could drive process, compliance, certification, documentation, automation, and digital tracking-related work for service providers.
- Challenges in the semiconductor & hi-tech segments impacting new growth (17% of revenue) areas (down 3.4% qoq and 5.5% yoy in CC terms). Management expects a turnaround in the semi-conductor segment in 2HCY24F led by traction in high-performance computing and generative AI. Software defined vehicle-led demand is likely to fuel growth in the automotive segment in FY25F. However, the vertical may witness softness in 4QFY24F after a strong 25% growth in 9MFY24.
- Sustainability segment (30% of revenue) momentum (up 8.8% qoq and 25% yoy in CC terms) could continue, led by sustainability initiatives, cost reduction and asset management in the energy, mining and utilities vertical.
- Cyient won deals in Generative AI in verticals such as Automotive, Aerospace & Energy. The company has trained 1,500 employees on GenAI capabilities and is likely to train more employees in FY25F.

Figure 2: DET segment's revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: DET segment's adjusted order book up 14.8% yoy in CC terms in 3QFY24 vs. the reported 21.9%



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: SOTP valuation of Cyient

DET business	
Target P/E	24.1
Target price (Rs per share)	2,037
DLM business	
Target market cap (Rs m)	69,784
Cyient stake in DLM	66.7%
Holding co. discount	55%
DLM value (Rs m)	20,946
Cyient	
DET business market cap (Rs m)	2,23,624
DLM value (Rs m)	20,946
Target market cap (Rs m)	2,44,569
Target price (Rs per share)	2,228

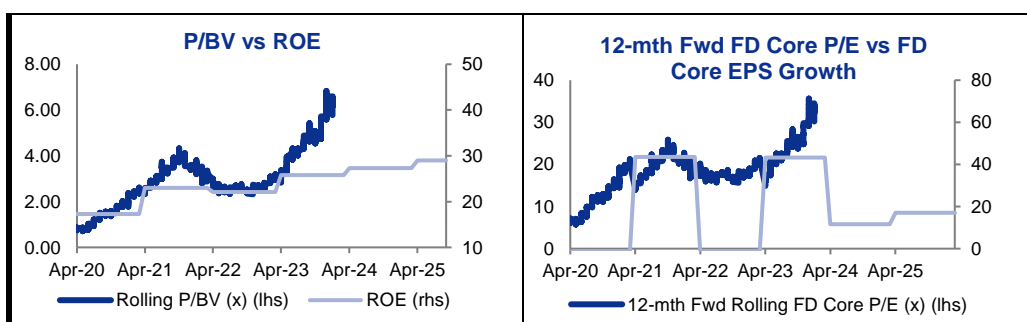
SOURCE: INCRED RESEARCH,

Figure 5: Change in earnings estimate

Y/E, March (Rs m)	FY24F			FY25F			FY26F		
	New	Old	% change	New	Old	% change	New	Old	% change
US\$ revenue	716	719	-0.4	798	808	-1.2	890	905	-1.6
Revenue	59,309	59,575	-0.4	67,070	67,857	-1.2	76,545	77,810	-1.6
EBIT	9,696	9,837	-1.4	11,000	11,061	-0.6	12,630	12,761	-1.0
EBIT Margin (%)	16.3	16.5	(16) bp	16.4	16.3	10 bp	16.5	16.4	10 bp
Net PAT	6,491	6,907	-6.0	7,994	7,956	0.5	9,283	9,318	-0.4
EPS (Rs)	59.1	63.0	-6.0	72.8	72.5	0.5	84.6	85.0	-0.4

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	45,344	60,159	59,309	67,070	76,545
Gross Profit	23,048	30,505	23,825	26,962	30,771
Operating EBITDA	8,178	10,031	12,112	13,682	15,615
Depreciation And Amortisation	(1,922)	(2,566)	(2,416)	(2,684)	(2,985)
Operating EBIT	6,256	7,465	9,696	11,000	12,630
Financial Income/(Expense)	93	(701)	(568)	(550)	(496)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	635	514			
Profit Before Tax (pre-EI)	6,984	7,278	9,127	10,450	12,134
Exceptional Items		(467)			
Pre-tax Profit	6,984	6,811	9,127	10,450	12,134
Taxation	(1,761)	(1,668)	(2,117)	(2,456)	(2,852)
Exceptional Income - post-tax					
Profit After Tax	5,223	5,143	7,010	7,994	9,283
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax			(519)		
Net Profit	5,223	5,143	6,491	7,994	9,283
Recurring Net Profit	5,223	5,496	6,491	7,994	9,283
Fully Diluted Recurring Net Profit	5,223	5,496	6,491	7,994	9,283

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	8,178	10,031	12,720	14,441	16,617
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(973)	(3,485)	(2,850)	(2,199)	(2,661)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(1,652)	(1,288)	(2,056)	(2,817)	(3,297)
Cashflow From Operations	5,553	5,258	7,814	9,426	10,659
Capex	(647)	(675)	(2,756)	(2,784)	(2,831)
Disposals Of FAs/subsidiaries	21	23			
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(3,197)	(9,675)	544	775	939
Cash Flow From Investing	(3,823)	(10,327)	(2,213)	(2,008)	(1,892)
Debt Raised/(repaid)	(545)	3,511			
Proceeds From Issue Of Shares	121	79			
Shares Repurchased					
Dividends Paid	(2,952)	(2,630)	(3,542)	(4,279)	(5,202)
Preferred Dividends					
Other Financing Cashflow	(2,069)	(2,053)	(1,124)	(1,152)	(1,152)
Cash Flow From Financing	(5,445)	(1,093)	(4,666)	(5,431)	(6,354)
Total Cash Generated	(3,715)	(6,162)	936	1,986	2,413
Free Cashflow To Equity	4,361	8,094	5,058	6,642	7,828
Free Cashflow To Firm	1,730	(5,069)	5,601	7,417	8,767

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	13,532	8,912	9,848	11,834	14,247
Total Debtors	10,319	15,394	18,004	20,565	23,664
Inventories	2,790	4,358	5,284	6,035	6,945
Total Other Current Assets	2,331	3,249	3,249	3,249	3,249
Total Current Assets	28,972	31,913	36,384	41,683	48,105
Fixed Assets	6,921	7,278	7,321	7,086	6,443
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
Total Non-current Assets	18,901	33,568	33,611	33,376	32,733
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	7,828	8,941	10,289
Other Current Liabilities	4,123	8,692	8,692	8,692	8,692
Total Current Liabilities	12,623	20,231	20,917	22,030	23,378
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
Total Non-current Liabilities	4,116	10,615	10,615	10,615	10,615
Total Provisions					
Total Liabilities	16,739	30,846	31,532	32,645	33,993
Shareholders Equity	31,166	34,667	38,496	42,446	46,877
Minority Interests	(32)	(32)	(32)	(32)	(32)
Total Equity	31,134	34,635	38,464	42,414	46,845

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	9.7%	32.7%	16.4%	13.1%	14.1%
Operating EBITDA Growth	42.2%	22.7%	30.5%	13.0%	14.1%
Operating EBITDA Margin	18.0%	16.7%	20.4%	20.4%	20.4%
Net Cash Per Share (Rs)	93.44	(3.85)	4.65	22.71	44.64
BVPS (Rs)	283.60	315.12	349.93	385.83	426.11
Gross Interest Cover	15.92	7.47	8.90	9.92	11.41
Effective Tax Rate	25.2%	24.5%	23.2%	23.5%	23.5%
Net Dividend Payout Ratio	37.7%	39.3%	37.6%	38.7%	40.2%
Accounts Receivables Days	61.82	56.44	62.80	63.77	63.55
Inventory Days	35.82	43.99	49.42	50.64	50.46
Accounts Payables Days	80.14	76.32	76.72	75.02	74.76
ROIC (%)	21.7%	26.9%	21.0%	21.2%	23.2%
ROCE (%)	13.9%	14.7%	17.1%	17.1%	18.1%
Return On Average Assets	14.9%	13.8%	14.6%	15.6%	16.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.