

Cyient's Q4FY23 performance was solid with revenue and profitability beating our estimates. Management's direction, strategy, tone and outlook during the Concall was positive.

- USD Revenue came in at USD 213 Mn, +8.1% QoQ (6.6% cc growth) / +35.9% YoY (39.1% cc growth) and +1.6% vs. estimates.
- Consolidated Services revenue stood at USD 176.2 Mn, +4.9% QoQ (3.2% cc growth) and +35% (38.4% cc growth). Out of 38.4% cc growth, 12% was contributed from Core Services.
- INR revenue came in at INR 17,514 Mn, +8.2% QoQ / +48.3% YoY and +1.7% above our estimates
- EBIT at INR 2,494 Mn, +16.9 QoQ / +47.1% YoY and +6.3% above our estimates. Consolidated Services EBIT margin stood at 16.1%, +103 bps QoQ.
- Group EBIT margins stood at 14.2%, vs 13.2% / 14.3% in Q3FY23 / Q4FY22 respectively and 62 bps above our est.
- PAT came in at INR 1,794 Mn, +8.8% QoQ / +16.3% YoY and +3.5% above our estimates
- EPS at INR 16.2 in Q4FY23 vs 14.9/ 14 in Q3FY23 / Q4FY22 respectively

Segment-wise Performance

- **Consolidated Services** (82.7% of revenue) reported a growth of +3.2% QoQ / +38.4% YoY in cc terms
- **DLM** (17.3% of revenue) reported a growth of 27.2% QoQ / +53.4% YoY

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net sales	41,324	45,344	60,159	71,024	81,848
EBITDA	6,100	8,178	10,031	12,553	14,462
Adjusted net profit	3,973	5,208	5,596	7,038	8,348
Free cash flow	6,231	4,613	(2,093)	7,205	7,803
EPS (Rs)	36.0	47.1	50.6	63.7	75.5
growth (%)	4%	31%	7%	26%	19%
P/E (x)	30.7	23.2	23.6	17.2	14.5
P/B (x)	4.1	3.9	3.6	3.2	2.9
EV/EBITDA (x)	18.0	13.7	12.2	9.6	8.1
ROCE (%)	12.3	14.7	14.6	15.8	17.3
RoE (%)	14.4	17.1	17.3	19.9	21.0
Dividend yield (%)	1.6	2.2	2.4	2.6	2.8

Source: Company

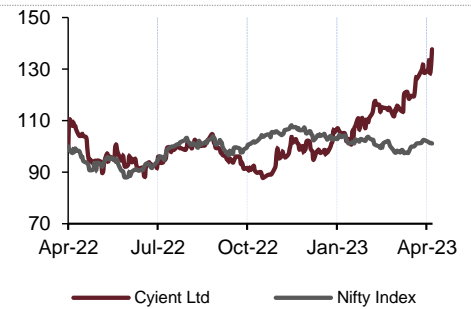
Rating	TP (Rs)	Up/Dn (%)
BUY	1,363	19

Market data

Current price	Rs	1,145
Market Cap (Rs.Bn)	(Rs Bn)	127
Market Cap (US\$ Mn)	(US\$ Mn)	1,542
Face Value	Rs	5
52 Weeks High/Low	Rs	1194.1 / 720
Average Daily Volume	('000)	430
BSE Code		532175
Bloomberg		CYL.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-22	Sep-22
Promoters	23.36	23.36
Public	75.67	75.66
Total	100	100

Source: Bloomberg

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Concall Highlights

- **Order intake for core services during the quarter stood at USD 212.7 Mn, -10.3% QoQ / +13.3% YoY.** Additionally, management stated that it won 5 large deals with total contract potential of ~USD 185.1 million. This is purely from organic services and they have not yet integrated the inorganic part of the order intake on the books fully.
- **Normalized Core services EBIT margins stood at 16.1% (up 103 bps QoQ)** due to tailwinds from Price hikes (+130 bps), Volume impact on SG&A (+92 bps), Favorable revenue mix (+39 bps) & forex impact (+31 bps), partially offset by lower capacity utilization (-92 bps impact) & Higher SG&A spends (-97 bps). **Management has guided for a 100-200 bps improvement in Consolidated Services EBIT margins for FY24 due to several levers such as ability to increase prices from certain clients, improving utilization, rationalizing tail-end clients and automation**
- Expect Effective Tax Rate to be at 25-26% for FY24.
- Normalized Free Cash Flow conversion stood at 81.8% for group and 71.8% for Services, Normalized FCF from Consolidated Services stood at ₹2,009 Mn, was higher by 47.4% QoQ due to favorable working capital movement and lower taxes.
- Appointed Prabhakar Atla- the President and Global Head of Aerospace, Rail & Communications vertical - as the CFO following the retirement of Ajay Aggarwalon. Appointed Karthikeyan (Kathik) Natarajan- the COO and Executive Director for Cyient- as the CEO following the restructuring of the top management.
- Cyient declared a final dividend of Rs 16 per share, taking their total dividend to INR 26 per share their highest ever in a fiscal year.

Vertical-wise updates:

(Company moved to a new reporting structure with Transportation now including Aerospace and Rail Transportation, Communications classified as Connectivity and Mining, Energy & Utilities classified as Sustainability)

- **Transportation** witnessed strong growth of 12.9% QoQ and +13.1% YoY in cc terms. Global travel has picked up following China's 0 covid policy and international travel is growing. The pressure on aerospace for sustainability along with the industry being due for a platform updated in the next 3 years will drive E,R&D spends. The degrowth in the rail transportation business has ceased in Q4 and with opportunities in High-speed Rail, predictive maintenance, advanced Rail Signaling, embedded systems, digital transformation, the management expects it to gradually get back on the growth trajectory. The Hybrid Propulsion Technologies for Aerospace and Rail applications will also bring in additional business opportunities.
- **Connectivity** de-grew by -3.3% QoQ but it was up +27.7% YoY in cc terms. Strong growth is foreseen for development and deployment of private, public and enterprise networks and as well as enhanced usage of 5G-enabled applications. Network Management/ Testing and Network Transformation and Modernization in the areas of fiber roll out, wireless and 5G will also drive more demand.
- **Sustainability** was up 3.1% QoQ and +125.1% YoY in cc terms. As governments across the globe take initiatives to boost sustainability, enterprises will continue to increase their sustainability initiatives and efforts. This will lead to an increased demand for iron ore, zinc, cobalt, copper etc. which will emphasize the need for Intelligent, Safe, Autonomous and Sustainable Mine Operations.

- **New Growth Areas** de-grew by -0.8% QoQ but it was up +34% YoY in cc terms. Cyient is uniquely positioned to address the increased demand from Infotainment, Connected, ADAS, Autonomous, Hybrid & Electric Mobility. The growth in the medical vertical was paused for the last couple of quarters but the opportunities in Predictive, Proactive and Personalized patient care, Connected devices, Digital platforms, Shift to value-based care and need for accelerated testing, should help it grow in FY24.

FY24e Outlook

- Management expects FY24e Consolidated Services revenue growth outlook at 15-20% YoY in cc terms
- FY24 Consolidated Services EBIT margins are expected to improve by 100-200 bps

Valuation & Outlook

We believe that Cyient can capitalize from the tailwinds in the aerospace industry along with other verticals like automotive, mining, communications also performing well. Taking the current results and management commentary on a robust outlook into consideration, **Cyient is currently trading at 17.1x / 14.5x FY24e / FY25e EPS, we re-iterate our BUY rating on the stock as we assign a target multiple of 18x FY25e EPS to arrive at a target of INR 1,363.**

Quarterly Deviation Sheet

Quarterly Analysis							
YE March (Rs. mn)	Q4 FY23	Q3 FY23	Q-o-Q change %	Q4 FY22	Y-o-Y change %	Q4 FY23 Est.	Deviation %
Total Revenue (USD Mn)	213	197	8%	157	36%	210	1.6%
Total Revenue (INR Mn)	17,514	16,182	8%	11,812	48%	17,226	1.7%
Less:							
Cost of Revenues	10,723	10,026	7%	7,156	50%	10,487	2.2%
SG&A Expenses	3,571	3,323	7%	2,532	41%	3,618	-1.3%
Total Expenditure	14,294	13,349	7%	9,688	48%	14,105	1.3%
EBIDTA	3,220	2,833	14%	2,124	52%	3,122	3.2%
Less: Depreciation	726	699		429		775	
EBIT	2,494	2,134	16.9%	1,695	47.1%	2,346	6.3%
Interest Paid	262	263		104		263	
Other income (expense), net	5	275		494		258	
Extraordinary Income	-162	-89		0		0	
Profit Before Tax	2,075	2,057	1%	2,085	(0%)	2,342	-11.4%
Tax	503	565	(11%)	465	8%	609	-17.4%
Deferred Tax	-60	-68		78		0	
PAT before Minority Interest	1,632	1,560		1,542		1,733	
Profit After Tax	1,632	1,560		1,542		1,733	
Adjusted PAT	1,794	1,649	8.8%	1,542	16.3%	1,733	3.5%
Basic & Diluted EPS (Rs.)	16.2	14.9		14.0		15.8	
Basic & Diluted Outstanding (mn)	111	111		110		111	
Margin Analysis %			Change In bps		Change In bps		
EBIDTA Margin	18.4%	17.5%	88	18.0%	40	18.1%	26
EBIT Margin	14.2%	13.2%	105	14.3%	-11	13.6%	62
PBT Margin	11.8%	12.7%	-86	17.7%	-580	13.6%	-175
NPM	9.3%	9.6%	-32	13.1%	-374	10.1%	-74
Effective Tax Rate (%)	21.3%	24.2%	-281	26.0%	-469	26.0%	-465
Cost Analysis %			Change In bps		Change In bps		
Cost of Revenues/ Sales	61.2%	62.0%	-73	60.6%	64	60.9%	35
SG&A/Sales	20.4%	20.5%	-15	21.4%	-105	21.0%	-61
Other income/ PBT	0.2%	13.4%	-1,313	23.7%	-2,345	11.0%	-1,079

Source: Company

Financials

Profit & Loss A/c					
YE March (Rs. mn)	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	41,324	45,344	60,159	71,024	81,848
<i>Growth %</i>	-6.7%	9.7%	32.7%	18.1%	15.2%
Other Operating Income	0	0	0	0	0
Total Revenue	41,324	45,344	60,159	71,024	81,848
Less:					
Increase/Decrease in Stoc	98	-175	125	-370	23
Cost of Services	5,165	5,881	6,839	8,092	9,661
Employee Cost	21,611	22,665	30,260	36,149	40,877
Cost of Software developments					
Operating Expenses					
SG&A Expenses & Other	8,350	8,795	12,904	14,600	16,825
Total Operating Expenditure	35,224	37,166	50,128	58,471	67,386
EBIDTA	6,100	8,178	10,031	12,553	14,462
<i>Growth %</i>	3.5%	34.1%	22.7%	25.1%	15.2%
Less: Depreciation	1,945	1,922	2,566	3,054	3,356
EBIT	4,155	6,256	7,465	9,499	11,107
<i>Growth %</i>	3.5%	50.6%	19.3%	27.2%	16.9%
Interest Paid	433	393	1,000	1,048	1,048
Non-operating Income	1,399	1,121	814	1,080	1,242
Extraordinary Income	-41	0	-467	0	0
Extraordinary Expense	0	0	0	0	0
Profit Before tax	5,080	6,984	6,812	9,531	11,301
Tax	1,133	1,761	1,668	2,478	2,938
Net Profit before Minority	3,947	5,223	5,144	7,053	8,363
Minority Interest	-13	-13	-13	-13	-13
Profit/Loss of Associates	-28	-28	-28	-28	-28
Net Profit	3,932	5,208	5,129	7,038	8,348
Adjusted Profit	3,973	5,208	5,596	7,038	8,348
Reported Diluted EPS Rs	35.6	47.1	46.4	63.7	75.5
<i>Growth %</i>	14.9%	32.5%	-1.5%	37.2%	18.6%
Adjusted Diluted EPS Rs	36.0	47.1	50.6	63.7	75.5
<i>Growth %</i>	3.8%	31.1%	7.5%	25.8%	18.6%

Key Ratios					
EBIDTA (%)	14.8%	18.0%	16.7%	17.7%	17.7%
EBIT (%)	10.1%	13.8%	12.4%	13.4%	13.6%
NPM (%)	9.5%	11.5%	8.5%	9.9%	10.2%
RoE (%)	14.4%	17.1%	17.3%	19.9%	21.0%
RoCE (%)	11.9%	16.7%	17.2%	19.2%	21.1%
Tax Rate %	22.3%	25.2%	24.5%	26.0%	26.0%
Book Value Per share (Rs.)	267.6	282.0	302.5	337.5	382.8
Valuation Ratios					
P/E (x)	30.7x	23.2x	23.6x	17.2x	14.5x
EV/EBITDA	18.0x	13.7x	12.2x	9.6x	8.1x
P/BV (x)	4.1x	3.9x	3.6x	3.2x	2.9x
Market Cap. / Sales (x)	2.9x	2.7x	2.0x	1.7x	1.5x

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY21	FY22	FY23E	FY24E	FY25E
Key Operating Ratios					
EBITDA Margin (%)	14.8%	18.0%	16.7%	17.7%	17.7%
Tax / PBT (%)	22.3%	25.2%	24.5%	26.0%	26.0%
Net Profit Margin (%)	9.5%	11.5%	8.5%	9.9%	10.2%
RoE (%)	14.4%	17.1%	17.3%	19.9%	21.0%
RoCE (%)	12.3%	14.7%	14.6%	15.8%	17.3%
Current Ratio (x)	3.8x	3.5x	2.6x	2.7x	2.8x
Dividend Payout (%)	47.8%	50.9%	56.0%	45.0%	40.0%
Book Value Per Share (Rs.)	267.6	282.0	302.5	337.5	382.8
Financial Leverage Ratios					
Interest Coverage (x)	14.1x	20.8x	10.0x	12.0x	13.8x
Growth Indicators %					
Sales Growth (%)	(6.7%)	9.7%	32.7%	18.1%	15.2%
EBITDA Growth (%)	3.5%	34.1%	22.7%	25.1%	15.2%
Net Profit Growth (%)	14.9%	32.5%	(1.5%)	37.2%	18.6%
Diluted EPS Growth (%)	14.9%	32.5%	(1.5%)	37.2%	18.6%

Balance Sheet (Consolidated)					
YE March(Rs. mn)	FY21	FY22	FY23E	FY24E	FY25E
Liabilities					
Equity Capital	550	552	553	553	553
Share application money	0	0	0	0	0
Reserves & Surplus	29,023	30,614	32,871	36,742	41,750
Equity	29,573	31,166	33,423	37,294	42,303
Preference Share Capital					
Net Worth	29,573	31,166	33,423	37,294	42,303
Minority Interest					
Net Deferred tax liability/	3,627	3,800	7,300	5,500	4,500
Total Loans	3,350	3,525	7,525	7,700	7,875
Capital Employed	36,550	38,491	48,248	50,494	54,678
Assets					
Gross Block	10,674	11,128	17,745	20,231	22,687
Less: Depreciation	5,804	6,588	9,154	12,208	15,564
Net Block	4,870	4,540	8,591	8,023	7,123
Capital WIP	113	134	134	134	134
Investments	610	3,839	3,168	3,168	3,168
Intangible Assets	7,191	6,662	16,000	16,000	16,000
Others Assets	0	0	0	0	0
Current Assets					
Inventories	1,586	2,790	4,813	4,972	4,911
Sundry Debtors	8,026	7,333	9,889	11,581	13,346
Current Investments	0	866	888	888	888
Cash and Bank Balance	14,650	12,666	6,026	8,447	12,215
Loans and Advances	5,341	6,078	7,663	6,392	7,366
Other Current Assets	2,541	2,965	3,898	4,602	5,303
Total Current Assets	32,144	32,698	33,176	36,881	44,029
Less:Current Liabilities					
Sundry Creditors	4,532	5,259	7,554	7,529	8,677
Provisions	384	414	455	501	551
Other Current Liabilities	3,462	3,709	4,813	5,682	6,548
Total Current Liabilities	8,378	9,382	12,822	13,712	15,776
Miscellaneous Assets	0	0	0	0	0
Capital Applied	36,550	38,491	48,248	50,494	54,678

Source: Company, Dalal & Broacha Research

Cash Flows (Consolidated)					
YE December (Rs. Mn)	FY21	FY22	FY23E	FY24E	FY25E
PAT	3,932.0	5,208.0	5,129.0	7,038.0	8,347.5
Less: Non Operating Incon	(1,399.0)	(1,121.0)	(814.0)	(1,080.2)	(1,242.2)
Add: Depreciation	1,945.0	1,922.0	2,566.0	3,054.0	3,355.8
Add: Interest Paid	433.0	393.0	1,000.0	1,048.0	1,048.0
Operating Profit before WC C	4,980.0	6,430.0	8,376.0	10,087.8	11,537.1
Net Cash From Operations	7,359.0	4,896.0	4,696.9	9,695.0	10,221.4
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(2,610.0)	(1,592.0)	(6,617.5)	(2,485.8)	(2,455.5)
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	(412.0)	175.0	4,000.0	175.0	175.0
Dividend Paid	(1,878.5)	(2,652.0)	(2,872.2)	(3,167.1)	(3,339.0)
Net Cash from Financing Act	(1,397.0)	(3,660.0)	3,161.3	(5,840.1)	(5,212.0)
Net Inc/Dec in cash equivale	5,132.0	(1,984.0)	(6,640.3)	2,421.3	3,768.1
Opening Balance	9,518.0	14,650.0	12,666.0	6,025.7	8,447.0
Closing Balance Cash and	14,650.0	12,666.0	6,025.7	8,447.0	12,215.1

Free Cash Flow Statement					
YE March (Rs. mn)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA	6,100	8,178	10,031	12,553	14,462
FC Investment	1,321	454	6,617	2,486	2,455
WC Changes	2,379	-1,534	-3,679	-393	-1,316
Depreciation Tax Shield	434	485	628	794	873
Tax Expenses	1,360	2,062	2,456	3,264	3,760
FCF	6,231	4,613	-2,093	7,205	7,803

Source: Company, Dalal & Broacha Research

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