

Strong Momentum and Consistent Growth



Cyient's Q2FY24 performance was robust with an improvement in margins and topline on YoY. Management has maintained its margin and revenue guidance for FY24.

- **USD Revenue came in at USD 214.9 Mn**, +4.7% QoQ / +22.9% YoY (22.3% cc growth) and +2.3% above our estimates.
- **Consolidated Services (DET) revenue stood at USD178.4 Mn**, +1% cc growth QoQ / +17.1% cc growth YoY.
- **INR revenue came in at INR 17,785 Mn**, +5.5% QoQ / +27.4% YoY and +2.4% above our estimates
- **DET INR revenue came in at INR 14,762 Mn**, +1.5% QoQ / +22.3% YoY
- **Group EBIT at INR 2,600 Mn**, +4.8 QoQ / +83.6% YoY and +5.8% above our estimates. DET EBIT margin stood at 16.5%, +47 bps QoQ/ +406 bps YoY.
- **Group EBIT margins stood at 14.6%**, vs 14.7% / 10.1% in Q1FY24 / Q4FY23 respectively and 47 bps above our est.
- **PAT came in at INR 1,845 Mn**, +3% QoQ / +83.2 % YoY and -0.5% below our estimates
- **EPS at INR 16.7** in Q2FY24 vs 16.2/ 9.2 in Q1FY24 / Q4FY23 respectively
- **Order intake for core services (DET) during the quarter stood at USD183.9 Mn**, -4.8% QoQ / +40% YoY. Additionally, management stated that it won 5 large deals with total contract potential of ~USD 51.4 million in Q2FY24. 3 Deals from sustainability as a result of focus on digital factory and plant engineering and asset management, 1 Deal in Healthcare & Lifesciences on patient health monitoring and 1 Deal from a North American OEM for certification support. The pipeline for the year looks robust.

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net sales	41,324	45,344	60,159	71,915	82,722
EBITDA	6,100	8,178	10,031	13,260	15,577
Adjusted net profit	3,973	5,208	5,611	7,825	9,395
Free cash flow	6,231	4,613	5,497	6,961	8,553
EPS (Rs)	36.0	47.1	50.8	70.8	85.0
growth (%)	4%	31%	8%	39%	20%
P/E (x)	47.8	36.1	36.5	24.0	20.0
P/B (x)	6.4	6.0	5.4	4.8	4.2
EV/EBITDA (x)	28.9	21.9	18.9	14.2	11.8
ROCE (%)	12.3	14.7	14.4	16.9	18.7
RoE (%)	14.4	17.1	17.0	21.3	22.5
Dividend yield (%)	1.0	1.4	1.4	1.9	2.0

Source: Company

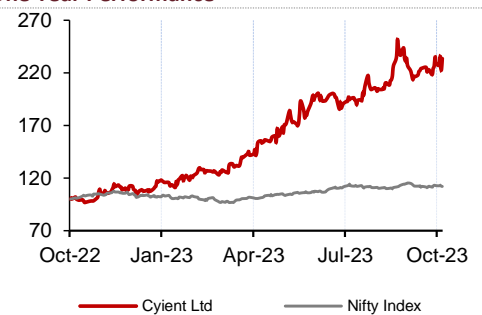
BUY 2,159 27

Market data

Current price	Rs	1,700
Market Cap (Rs.Bn)	(Rs Bn)	187
Market Cap (US\$ Mn)	(US\$ Mn)	2,246
Face Value	Rs	5
52 Weeks High/Low	Rs	1945 / 724
Average Daily Volume	('000)	472
BSE Code		532175
Bloomberg		CYL.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-23	Jun-23
Promoters	23.20	23.35
Public	75.90	75.72
Total	100	100

Source: Bloomberg

Neel Nadkarni
(022) 67141412
neel.nadkarni@dalal-broacha.com

Concall Highlights

- **Normalized Core services (DET) EBIT margins stood at 16.5% (up 47 bps QoQ/ up 406 bps YoY) the highest in the last 11 years. The continuous margin improvement despite the wage hike this quarter** was driven by improvements in Cyient's operational performance along with cumulative benefits on the optimizations of SG&A costs and other initiatives over the years. **Management has maintained their upgraded guidance of 150-250 bps improvement in Consolidated Services EBIT margins for FY24 which they have achieved due to several levers such as the ability to increase prices from certain clients, improving utilization, rationalizing tail-end clients and automation.**
- Normalized Free Cash Flow to PAT conversion stood at 20% for the group and 89% for Services, Normalized FCF from DET stood at ₹1,538 Mn, -12.7% QoQ / +166.1% YoY.
- Cyient declared an interim dividend of Rs 12.

Vertical-wise updates for DET:

- **Transportation (31% of Q2FY24 topline) witnessed strong growth of +2.7% QoQ and +22.0% YoY in cc terms.** Aerospace seeing a sixth consecutive quarter of growth growing 27.5% YoY in Q2FY24. As air travel expands, Cyient capitalizes on aerospace digitalization and advanced tech for aircraft performance. Growth drivers include defense spending, manufacturing efficiency, supply chain and Urban Air Mobility. Additionally, the Global demand for aircraft is likely to double in the next 15 years which took 23 years to double last time around. The aerospace industry is poised for a decadal Supercycle, driven by sustainability pressures and a pending platform upgrade, leading to increased ER&D spending. The growth in the rail segment would be moderate and growth should be driven by a focus primarily on software-driven growth.
- **Connectivity (23% of Q2FY24 topline) de-grew by -8.1% QoQ but and -12.3% YoY in cc terms.** As indicated by the Management connectivity is seeing a challenging year as investments in 5g are yet to pay off as well as investments towards fiber investments are seeing a slowing down for companies. The connectivity vertical is expected to get back on a positive supported by Government spending around RDOF & BEAD programs. The management has indicated that they've begun capitalizing on their recent acquisition of Celfinet in Portugal for expansion into North America and Australia.
- **Sustainability (28% of Q2FY24 topline) was up 4.9% QoQ and +71.6% YoY in cc terms.** Growth momentum in sustainability continues in line with management expectations. Governments worldwide are driving sustainability initiatives, while enterprises also increase their efforts. The strong pipeline is fueled by demand for energy minerals like Li, Ni, Zinc, Cobalt, highlighting the need for Intelligent, Safe, Autonomous, and Sustainable Mine Operations. The utilities market is undergoing transformation with grid modernization, set to be a major growth engine for the next 3 to 5 years.
- **New Growth Areas (18% of Q2FY24 topline) grew by +5.7% QoQ and +5.1% YoY in cc terms.** The outlook from Auto remains strong growing 30% YoY and Cyient is uniquely positioned to address the increased demand from Infotainment, Connected, ADAS, Autonomous, Hybrid & Electric Mobility. Semiconductor sector, there has been recent softness due to macro issues. However, management expects demand to recover in the latter part of the year, driven by high-performance computing, AI, and automotive segments. 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 H2 of FY24. Hitech was weak and is expected to remain weak in FY24.

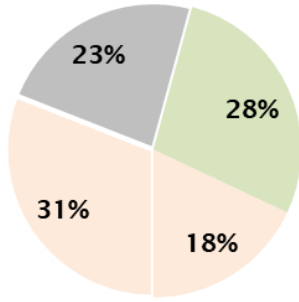
FY24e Outlook

- 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 150-250 bps

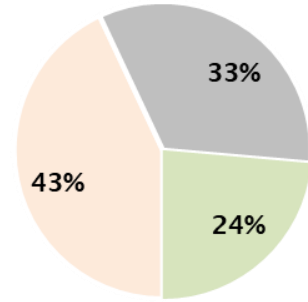
Quarterly Deviation Sheet

YE March (Rs. mn)	Q2 FY24	Q1 FY24	Q-o-Q change %	Q2 FY23	Y-o-Y change %	Q2 FY24 Est.	Deviation %
Total Revenue (USD Mn)	215	205	4.7%	175	22.9%	210	2.3%
Total Revenue (INR Mn)	17,785	16,865	5.5%	13,962	27.4%	17,369	2.4%
Less:							
Cost of Revenues	11,010	10,439	5%	8,582	28%	10,828	1.7%
SG&A Expenses	3,517	3,270	8%	3,334	5%	3,387	3.8%
Total Expenditure	14,527	13,709	6%	11,916	22%	14,215	2.2%
EBIDTA	3,258	3,156	3%	2,046	59%	3,154	3.3%
Less: Depreciation	658	676		630		696	
EBIT	2,600	2,480	4.8%	1,416	83.6%	2,458	5.8%
Interest Paid	270	278		312		278	
Other income (expense), net	135	102		197		261	
Extraordinary Income	-62	-111		-216		0	
Profit Before Tax	2,403	2,193	10%	1,085	121%	2,441	-1.5%
Tax	536	633	(15%)	536	0%	586	-8.5%
Deferred Tax	31	-131		-242		0	
PAT before Minority Interest	1,836	1,691		791		1,855	
Profit After Tax	1,783	1,681	6.1%	791	125.4%	1,855	
Adjusted PAT	1,845	1,792	3.0%	1,007	83.2%	1,855	-0.5%
Basic & Diluted EPS (Rs.)	16.7	16.2		9.2		16.8	
Basic & Diluted Outstanding (mn)	111	111		110		111	
Margin Analysis %			Change In bps		Change In bps		
EBIDTA Margin	18.3%	18.7%	-39	14.7%	366	18.2%	16
EBIT Margin	14.6%	14.7%	-9	10.1%	448	14.2%	47
PBT Margin	13.5%	13.0%	51	7.8%	574	14.1%	-54
NPM	10.0%	10.0%	6	5.7%	436	10.7%	-65
Effective Tax Rate (%)	23.6%	22.9%	70	27.1%	-350	24.0%	-40
Cost Analysis %			Change In bps		Change In bps		
Cost of Revenues/ Sales	61.9%	61.9%	1	61.5%	44	62.3%	-43
SG&A/Sales	19.8%	19.4%	39	23.9%	-410	19.5%	28
Other income/ PBT	5.6%	4.7%	97	18.2%	-1,254	10.7%	-506

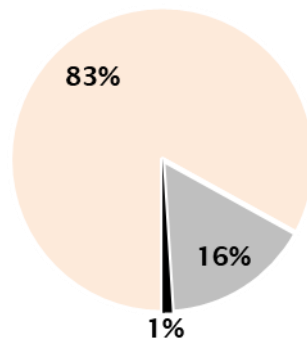
Source: Dalal & Broacha Research, Company



- Transportation
- Sustainability
- Connectivity
- New Growth Areas

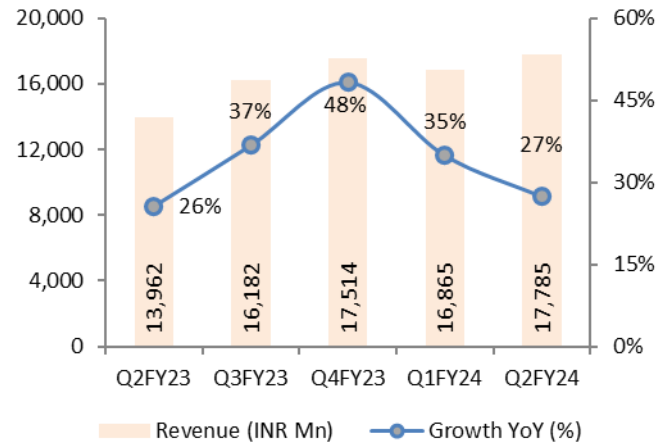
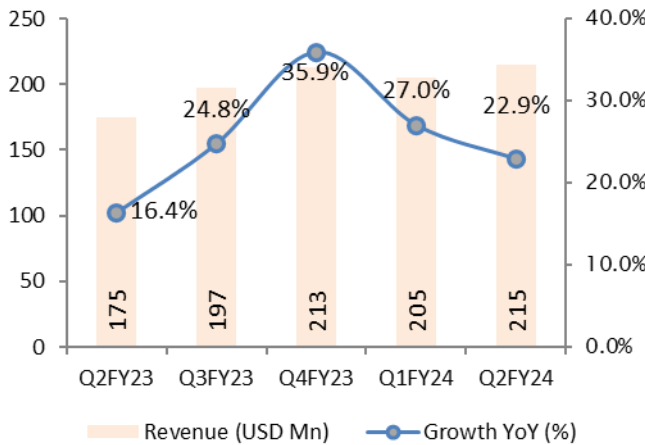


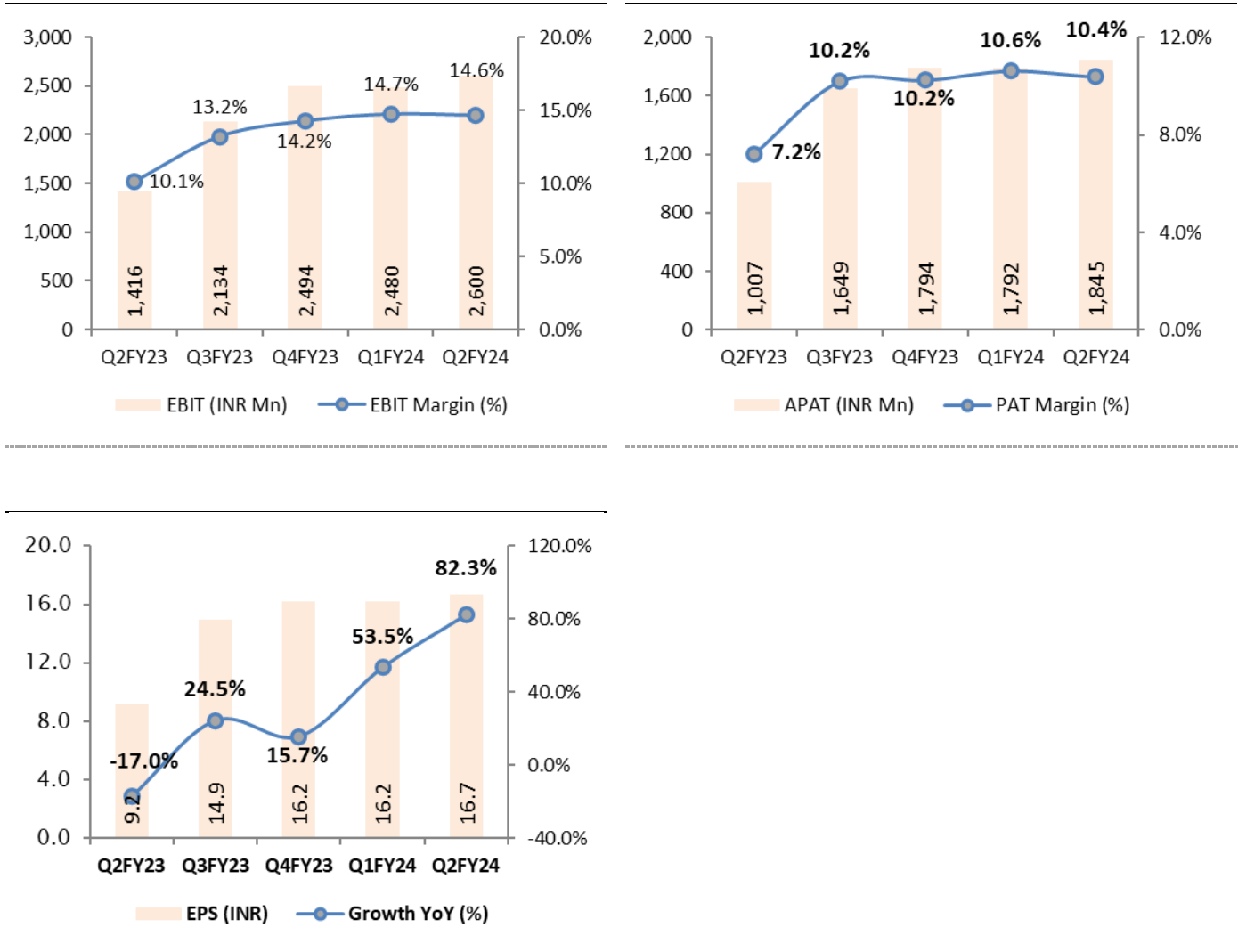
- Americas
- Europe, Middle East, Africa & India
- Asia Pacific (Including India)



- Cyient (Digital Engineering & Technology)
- Design-Led Manufacturing
- Others

Source: Dalal & Broacha Research, Company





Valuation & Outlook

Cyient is currently trading at 24x / 20x FY24e / FY25e EPS.

Cyient has sustained growth momentum and improved margins, driven by aerospace, automotive, and sustainability sectors. Margin guidance is maintained through SG&A optimization, price increases, utilization improvement, rationalizing tail-end clients, and automation. Management aims to achieve FY24 revenue guidance of 15-20% at the lower end.

Taking the current results and management commentary into consideration, **we re-iterate our BUY rating on the stock as we have moved to a SOTP valuation assigning a target multiple of 25x FY25e to the Cyient Services (DET) business and valuing its stake in Cyient DLM at market valuation with a holding company discount of 30% arrive at a target of INR 2,159.**

Financials

Profit & Loss A/c					
YE March (Rs. mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	41,324	45,344	60,159	71,915	82,722
<i>Growth %</i>	-6.7%	9.7%	32.7%	19.5%	15.0%
Total Revenue	41,324	45,344	60,159	71,915	82,722
Less:					
Increase/Decrease in Stock	98	-175	125	87	12
Cost of Services	5,165	5,881	6,839	9,258	10,465
Employee Cost	21,611	22,665	30,260	35,182	40,124
SG&A Expenses & Other	8,350	8,795	12,904	14,128	16,544
Total Operating Expenditure	35,224	37,166	50,128	58,655	67,145
EBIDTA	6,100	8,178	10,031	13,260	15,577
<i>Growth %</i>	3.5%	34.1%	22.7%	32.2%	17.5%
Less: Depreciation	1,945	1,922	2,566	2,770	3,392
EBIT	4,155	6,256	7,465	10,490	12,185
<i>Growth %</i>	3.5%	50.6%	19.3%	40.5%	16.2%
Interest Paid	433	393	1,000	1,088	1,080
Non-operating Income	1,399	1,121	814	982	1,257
Extraordinary Income	-41	0	-467	-173	0
Profit Before tax	5,080	6,984	6,812	10,211	12,362
Tax	1,133	1,761	1,668	2,386	2,967
Net Profit before Minority	3,947	5,223	5,144	7,825	9,395
Net Profit	3,932	5,208	5,144	7,825	9,395
Adjusted Profit	3,973	5,208	5,611	7,998	9,395
Reported Diluted EPS Rs	35.6	47.1	46.6	70.8	85.0
<i>Growth %</i>	14.9%	32.5%	-1.2%	52.1%	20.1%
Adjusted Diluted EPS Rs	36.0	47.1	50.8	70.8	85.0
<i>Growth %</i>	3.8%	31.1%	7.7%	39.5%	20.1%

Balance Sheet (Consolidated)

YE March(Rs. mn)	FY21	FY22	FY23	FY24E	FY25E
Liabilities					
Equity Capital	550	552	553	553	553
Reserves & Surplus	29,023	30,614	34,114	38,418	44,055
Equity	29,573	31,166	34,667	38,970	44,608
Net Deferred tax liability/(Asset)	3,627	3,800	5,644	4,644	3,644
Total Loans	3,350	3,525	9,336	8,936	8,536
Capital Employed	36,550	38,491	49,647	52,550	56,788
Assets					
Gross Block	10,674	11,128	11,664	13,102	14,757
Less: Depreciation	5,804	6,588	7,183	9,953	13,344
Net Block	4,870	4,540	4,481	3,149	1,412
Capital WIP	113	134	27	27	27
Investments	610	3,839	3,712	3,713	3,714
Intangible Assets	7,191	6,662	21,413	21,413	21,413
Current Assets					
Inventories	1,586	2,790	4,358	5,034	4,963
Sundry Debtors	8,026	7,333	11,271	12,552	14,438
Current Investments	0	866	1,718	1,718	1,718
Cash and Bank Balance	14,650	12,666	7,194	9,018	12,546
Loans and Advances	5,341	6,078	7,659	8,630	9,927
Other Current Assets	2,541	2,965	3,648	4,361	5,016
Total Current Assets	32,144	32,698	35,848	41,312	48,609
Less:Current Liabilities					
Sundry Creditors	4,532	5,259	7,142	8,357	9,567
Provisions	384	414	1,137	1,251	1,376
Other Current Liabilities	3,462	3,709	7,555	7,457	7,445
Total Current Liabilities	8,378	9,382	15,834	17,064	18,387
Capital Applied	36,550	38,491	49,647	52,550	56,788

Key Ratios (Consolidated)

YE March (Rs. mn)	FY21	FY22	FY23	FY24E	FY25E
Key Operating Ratios					
EBITDA Margin (%)	14.8%	18.0%	16.7%	18.4%	18.8%
Tax / PBT (%)	22.3%	25.2%	24.5%	23.4%	24.0%
Net Profit Margin (%)	9.5%	11.5%	8.6%	10.9%	11.4%
RoE (%)	14.4%	17.1%	17.0%	21.3%	22.5%
RoCE (%)	12.3%	14.7%	14.4%	16.9%	18.7%
Current Ratio (x)	3.8x	3.5x	2.3x	2.4x	2.6x
Dividend Payout (%)	47.8%	50.9%	51.6%	45.0%	40.0%
Book Value Per Share (Rs.)	267.6	282.0	313.7	352.7	403.7
Financial Leverage Ratios					
Interest Coverage (x)	14.1x	20.8x	10.0x	12.2x	14.4x
Growth Indicators %					
Sales Growth (%)	(6.7%)	9.7%	32.7%	19.5%	15.0%
EBITDA Growth (%)	3.5%	34.1%	22.7%	32.2%	17.5%
Net Profit Growth (%)	14.9%	32.5%	(1.2%)	52.1%	20.1%
Diluted EPS Growth (%)	14.9%	32.5%	(1.2%)	52.1%	20.1%

Cash Flows (Consolidated)

YE December (Rs. Mn)	FY21	FY22	FY23	FY24E	FY25E
PAT	3,932.0	5,208.0	5,144.0	7,825.4	9,395.4
Less: Non Operating Income	(1,399.0)	(1,121.0)	(814.0)	(982.3)	(1,257.1)
Add: Depreciation	1,945.0	1,922.0	2,566.0	2,769.9	3,391.6
Add: Interest Paid	433.0	393.0	1,000.0	1,088.0	1,080.0
Operating Profit before WC Chang	4,980.0	6,430.0	8,363.0	10,701.0	12,609.9
Net Cash From Operations	7,359.0	4,896.0	6,193.0	8,291.1	10,164.9
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(2,610.0)	(1,592.0)	(2,507.0)	(1,438.3)	(1,654.4)
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	(412.0)	175.0	5,811.0	(400.0)	(400.0)
Dividend Paid	(1,878.5)	(2,652.0)	(2,652.0)	(3,521.4)	(3,758.1)
Net Cash from Financing Activitie	(1,397.0)	(3,660.0)	4,545.0	(6,182.9)	(6,238.1)
Net Inc/Dec in cash equivalents	5,132.0	(1,984.0)	(5,472.0)	1,651.0	3,528.2
Opening Balance	9,518.0	14,650.0	12,666.0	7,194.0	9,018.0
Closing Balance Cash and	14,650.0	12,666.0	7,194.0	8,845.0	12,546.3

Key Financials

YE March (Rs. mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	41,324	45,344	60,159	71,915	82,722
Growth (Y-o-Y)	(6.7%)	9.7%	32.7%	19.5%	15.0%
EBIDTA	6,100	8,178	10,031	13,260	15,577
Growth (Y-o-Y)	3.5%	34.1%	22.7%	32.2%	17.5%
Net Profit	3,932	5,208	5,144	7,825	9,395
Growth (Y-o-Y)	14.9%	32.5%	(1.2%)	52.1%	20.1%
Adj. Net Profit	3,973	5,208	5,611	7,825	9,395
Growth (Y-o-Y)	3.8%	31.1%	7.7%	39.5%	20.1%
Adj. Diluted EPS	36.0	47.1	50.8	70.8	85.0
Growth (Y-o-Y)	3.8%	31.1%	7.7%	39.5%	20.1%
No of Diluted shares (mn)	111	111	111	111	111

Key Ratios

EBIDTA (%)	14.8%	18.0%	16.7%	18.4%	18.8%
EBIT (%)	10.1%	13.8%	12.4%	14.6%	14.7%
NPM (%)	9.5%	11.5%	8.6%	10.9%	11.4%
RoE (%)	14.4%	17.1%	17.0%	21.3%	22.5%
RoCE (%)	11.9%	16.7%	16.9%	20.5%	22.3%
Tax Rate %	22.3%	25.2%	24.5%	23.4%	24.0%
Book Value Per share (Rs.)	267.6	282.0	313.7	352.7	403.7

Valuation Ratios

P/E (x)	47.8x	36.1x	36.5x	24.0x	20.0x
EV/EBITDA	28.9x	21.9x	18.9x	14.2x	11.8x
P/BV (x)	6.4x	6.0x	5.4x	4.8x	4.2x
Market Cap. / Sales (x)	4.5x	4.1x	3.1x	2.6x	2.3x

Source: Dalal & Broacha Research, Company

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Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021.

Tel: 91-22- 2282 2992 | : equity.research@dalal-broacha.com