

Estimate change



TP change



Rating change



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Bloomberg	CYL IN
Equity Shares (m)	113
M.Cap.(INRb)/(USDb)	88 / 1.1
52-Week Range (INR)	1292 / 726
1, 6, 12 Rel. Per (%)	-7/-11/-25
12M Avg Val (INR M)	336

Financials & Valuations (INR b)

Y/E Mar	2022	2023E	2024E
Sales	45.3	58.7	68.1
EBIT Margin (%)	13.9	12.6	13.7
PAT	5.2	5.7	7.1
EPS (INR)	47.8	52.0	64.4
EPS Gr. (%)	41.3	8.8	23.9
BV/Sh. (INR)	285.1	291.4	317.1

Ratios

RoE (%)	17.2	18.1	21.2
RoCE (%)	13.6	14.9	17.4
Payout (%)	60.0	60.0	60.0

Valuations

P/E (x)	16.7	15.4	12.4
P/BV (x)	2.8	2.7	2.5
EV/EBITDA (x)	9.4	7.4	5.7
Div Yield (%)	3.6	3.9	4.8

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	23.4	23.4	23.5
DII	23.3	22.8	21.2
FII	34.0	34.7	38.5
Others	19.3	19.1	16.8

FII Includes depository receipts

CMP: INR798
TP: INR970 (+22%)
Buy

Risk to FY23 guidance, but valuations remain favorable

Deal momentum to drive growth, reiterate BUY

- Cyient (CYL) reported 1QFY23 revenue growth of 4.4% QoQ in USD CC, 90bp above our estimate. The beat was driven by Services (+6.5% QoQ USD CC), 100bp above our estimate, partially due to acquisitions (400bp impact). As expected, DLM remained weak in 1QFY23, declining 6.3% QoQ.
- Management guided for organic revenue growth of 13-15% CC in FY23. Additionally, it expects acquisitions (excluding the pending Citec) to add another 6-7pp growth in FY23. Despite continued supply challenges in DLM, management reiterated its high single-digit growth guidance in this segment.
- EBIT margin dipped 300bp QoQ to 11.5% in 1QFY23 (in line with estimates), due to wage hikes, higher investments and lower utilization. Despite a part of wage hikes and sales investments expected over 2Q/3QFY23, management maintained its full-year EBIT margin guidance of 13-14%.
- CYL's all-time high deal potential of USD424m and addition of a large automotive client should support its growth trajectory for FY23E. Moreover, the company should see a big inorganic growth component, as Citec is expected to close in 3QFY23. This should result in a strong reported USD growth of 22.7% YoY despite CYL likely missing its organic CC growth guidance by 100bp. We continue to see mid-single digit growth in DLM for FY23E.
- In addition, CYL should gain from improved utilization (1Q was at seven-quarter low), better pricing and pyramid rationalization, which should result in improved profitability over the next three quarters. While we expect it to miss the lower band of its EBIT margin guidance range of 13-14%, the miss should be small (MOFSL of 12.6%).
- We continue to see long-term growth in spends on ER&D industry, although there are near-term concerns emanating from macro slowdown. We view CYL's current valuation as attractive as it is factoring in all the concerns on macro and execution front, but not on the long term business opportunities.
- We increase our FY23/FY24 EPS estimate by 7%/8% to account for the acquisition impact. We maintain our BUY rating on the stock led by attractive valuations. Our target multiple of 15x FY24E EPS implies a TP of INR970 with a potential upside of 22%.

Good services growth in 1Q, FY23 guidance maintained

- Revenue grew 15.8% YoY in CC, INR EBIT rose 3.4% YoY, and INR PAT grew 0.9% YoY in 1QFY23.
- Revenue of USD161.6m was up 4.4% QoQ in CC USD (including 250bp inorganic contribution) and was 90bp ahead of our estimates.
- Revenue from Services increased 6.5% QoQ in CC (2.6% QoQ organic) and was 100bp ahead of our estimates. DLM declined 6.3% QoQ, in line with our estimates.

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- FY23 revenue growth guidance has been maintained at 13-15% YoY in CC + 6-7% inorganic impact from Citec acquisition.
- EBIT margin guidance has been maintained at 13-14% despite continued elevated sales investment and partial wage hike impact in 2QFY23.
- PAT was at INR1.16b (-25% QoQ), 15% above our estimate due to higher other income.

Key highlights from the management commentary

- The company had six large deals with a potential TCV of ~USD424m, the highest ever for CYL.
- The management guided for organic revenue growth of 13-15% in CC in FY23, while DLM will continue to face supply changes and grow in the high single-digits.
- Additionally, revenue from recent acquisitions (except for Citec) should add 6%-7% to the FY23 revenue.
- Though 1QFY23 margin was adversely impacted by wage hikes, management expects strong improvement in margins to end the year at guided range of 13-14% with robust margin performance in 2Q and 3Q.

Valuations and view – maintain BUY

- We continue to see a strong rebound in ER&D spending, led by increased outsourcing and larger deal sizes. The management's plan to leverage these spends led by a refreshed GTM strategy and increased focus on large deal wins should bode well for its growth performance. We expect CYL to deliver 19% USD revenue CAGR over FY22-24.
- The growth momentum in verticals such as Communications, Utilities, Medical Devices, Semiconductor, Automotive, and Mining is likely to continue for the next two-to-three years. Aerospace is anticipated to bounce back to pre-COVID levels in FY23.
- Strong growth and better margin will lead to 16% PAT CAGR over FY22-24.
- We maintain our **BUY** rating led by attractive valuations. **Our target multiple of 15x FY24E EPS implies a TP of INR970 with a potential upside of 22%.**

Quarterly performance

										(INR m)		
Y/E March	FY22				FY23				FY22	FY23E	FY23E	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%/bp)
Revenue (USD m)	144	150	158	157	162	172	202	210	608	746	160	0.9
QoQ (%)	-4.3	4.6	5.2	-0.8	3.1	6.7	17.1	4.2	9.2	22.7	2.2	95bp
Revenue (INR m)	10,582	11,116	11,834	11,812	12,501	13,627	15,952	16,617	45,344	58,698	12,328	1.4
YoY (%)	6.7	10.8	13.3	8.0	18.1	22.6	34.8	40.7	9.7	29.4	16.5	163bp
GPM (%)	35.9	38.4	36.3	38.3	36.8	36.2	37.0	37.6	37.3	36.9	36.5	30bp
SGA (%)	18.2	19.8	18.4	20.2	21.2	20.4	19.8	19.7	19.1	20.2	21.0	23bp
EBITDA	1,878	2,074	2,128	2,136	1,946	2,153	2,744	2,974	8,216	9,817	1,911	1.8
EBITDA margin (%)	17.7	18.7	18.0	18.1	15.6	15.8	17.2	17.9	18.1	16.7	15.5	7bp
EBIT	1,388	1,557	1,641	1,707	1,435	1,594	2,090	2,293	6,293	7,412	1,430	0.3
EBIT margin (%)	13.1	14.0	13.9	14.5	11.5	11.7	13.1	13.8	13.9	12.6	11.6	-12bp
Other income	147	58	105	377	160	68	80	83	687	391	-62	-359.6
ETR (%)	25.1	25.0	24.6	26.1	27.2	27.0	27.0	27.0	25.2	27.0	26.5	
Adj. PAT	1,150	1,212	1,316	1,541	1,161	1,214	1,584	1,735	5,219	5,693	1,006	15.4
QoQ (%)	3.9	5.4	8.6	17.1	-24.7	4.5	30.5	9.5			-34.7	1007bp
YoY (%)	41.3	44.4	37.9	39.3	0.9	0.1	20.4	12.6	40.5	9.1	-12.6	1349bp
EPS (INR)	10.5	11.1	12.1	14.1	10.6	11.1	14.5	15.8	47.8	52.0	9.2	15.2

Key performance indicators

Y/E March	FY22				FY23				FY22	FY23E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Margins (%)										
Gross Margin	35.9	38.4	36.3	38.3	36.8	36.2	37.0	37.6	37.3	36.9
EBIT Margin	13.1	14.0	13.9	14.5	11.5	11.7	13.1	13.8	13.9	12.6
Net Margin	10.9	10.9	11.1	13.0	9.3	8.9	9.9	10.4	11.5	9.7
Operating metrics										
Headcount	12,433	12,707	12,845	13,428	14,147				13,428	
Attrition (%)	23.5	24.3	29.3	26.9	27.9				26.9	
Key verticals (YoY %)										
Aerospace and Defense	-3%	13%	19%	-2%	7%	6%	-2%	12%	3%	3%
Transportation	23%	0%	-12%	-14%	-23%	-16%	-1%	5%	1%	1%
Communications	18%	5%	4%	7%	15%	35%	33%	31%	8%	8%
Key geographies (YoY %)										
North America	1%	9%	12%	18%	21%	20%	19%	14%	10%	10%
Europe	30%	-5%	11%	5%	-10%	10%	61%	73%	9%	9%



Key highlights from the management commentary

1QFY23 performance

- CYL reported a 4.4% QoQ CC growth in revenue. The Services business grew 6.5% CC, while DLM fell 6.3% QoQ due to supply challenges.
- Order intake grew 17.5% YoY in 1QFY23. The management is confident that demand will continue to remain robust.
- EBIT margin in 1QFY23 stood at 11.5%, impacted due to wage hikes, investments and lower utilization.
- The company had six large deals with a potential TCV of ~USD424m, highest ever for the company.
- It had made a strategic buyout of 500 employees as part of ramp up of a deal with large automotive player which added 1.1% growth QoQ. CYL expects this client to grow to top 5 clients in next 12-24 months.

Commentary on verticals

- Global travel is expected to pick up in later part of the year. Demand in Aerospace is not back to pre-pandemic levels and will have challenges for recovery for next few quarters. It had two new logos in urban air.
- The Rail business was soft yet again due to increased offshoring and industry consolidation. It should recover by the end of the year.
- Demand in communications was led by network modernization, fiber and 5G.
- DLM had large aerospace deal, its largest ever. It should grow in high single digit for FY23. Supply side challenges continue to persist.
- Expect recovery in Mining and Natural Resources by 2HFY23. Grit consulting will also add to the growth.
- Healthcare is seeing traction in digitalization initiatives and remote patient monitoring.
- Though demand looks good, supply continues to be challenge for semi-conductor business.
- It believes sustainability will be two decade opportunity driven by both electrification and clean energy.

Margin

- Though margin in 1QFY23 was impacted due to wage hikes, it expects strong pick-up in margins to end the year at guided range of 13-14% with strong margin performance in 2Q and 3Q.
- Wage hikes in 2Q and 3Q will be margin headwind. Margin levers include 1) Pricing (50bp in this quarter, 2) Automation, and 3) Utilization
- Expect DLM margin in range of 7-9% in FY23.
- Citec margins are at 10-11% due to integration expenses, will revert to company average going forward.
- Grit and Celfinet have good margin profiles, higher than company average.

Outlook

- The management guided at organic revenue growth of 13-15% CC in FY23, while DLM will continue to face supply changes and grow in the high single-digits.
- Additionally, revenue from recent acquisitions (except for Citec) should add 6%-7% to the revenue in FY23.
- It expects the trend of higher other income to continue for the next four quarters.
- The management guided at margin in the 13-14% range in FY23.

Exhibit 1: Communications and Portfolio verticals see strong growth

Verticals	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
Aerospace and Defense	30.5	(1.4)	7.0
Communications	25.4	9.6	15.3
Energy and Utilities	7.9	(9.5)	(22.6)
Portfolio	31.2	11.0	34.1
Semiconductor, IoT, and Analytics	5.0	(16.8)	4.3

Source: Company, MOFSL

Exhibit 2: Americas and Europe have moderated, Asia Pacific strong

Geographies	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
Americas	51.3	(1.1)	20.6
Europe	22.7	(4.8)	(10.0)
Asia Pacific	26.0	21.9	23.5

Source: Company, MOFSL

Valuations and view

- We continue to see a strong rebound in ER&D spending, led by increased outsourcing and larger deal sizes. The management's plan to leverage these spends led by a refreshed GTM strategy and increased focus on large deal wins should bode well for its growth performance. We expect CYL to deliver 19% USD revenue CAGR over FY22-24.
- The growth momentum in verticals such as Communications, Utilities, Medical Devices, Semiconductor, Automotive, and Mining is likely to continue for the next two-to-three years. Aerospace is anticipated to bounce back to pre-COVID levels in FY23.
- Strong growth and better margin will lead to 16% PAT CAGR over FY22-24.
- We maintain our **BUY** rating led by attractive valuations. **Our target multiple of 15x FY24E EPS implies a TP of INR970 with a potential upside of 22%.**

Exhibit 3: Revisions to our estimates

	Revised		Earlier		Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
USD:INR	78.6	79.0	78.5	79.0	0.1%	0.0%
Revenue (USD m)	746	862	730	834	2.3%	3.3%
Growth (%)	22.7	15.4	20.0	14.3	280bps	120bps
EBIT margin (%)	12.6	13.7	13.1	14.0	-40bps	-30bps
PAT (INR m)	5,693	7,053	5,296	6,536	7.5%	7.9%
EPS	52.0	64.4	48.5	59.8	7.3%	7.7%

Source: MOFSL

Operating metrics

Exhibit 4: Operating metrics

	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23
Geographic mix (%)									
Americas	52.3	49.9	49.1	47.4	47.9	48.8	49.2	53.5	51.3
Europe	24.0	28.9	25.3	24.6	28.4	24.8	25.1	24.6	22.7
Asia Pacific	23.7	21.2	25.6	28.0	23.7	26.4	25.7	22.0	26.0
Vertical mix (%)									
Aerospace and Defense	36.5	31.6	32.6	34.1	32.1	32.1	34.6	31.9	30.5
Transportation	10.3	12.1	11.5	11.0	11.5	10.9	9.1	9.0	7.9
Semiconductor	4.7	4.5	4.3	5.0	5.4	6.6	6.4	6.2	5.0
Medical and Electronics	5.7	8.2	7.1	6.5	0.0	0.0	0.0	0.0	0.0
Communications	23.0	24.0	24.1	23.3	24.8	22.7	22.4	23.9	25.4
Utilization (%)									
Overall	74.2	78.8	80.9	83.7	83.1	85.0	86.2	86.1	80.9
Client contribution (%)									
Top five	30.2	29.5	28.8	33.5	31.9	31.7	28.1	30.6	27.7
Top 10	40.1	38.4	38.4	44.1	43.3	43.2	41.7	42.6	39.3
Number of clients (USD m)									
Over USD1m	92	95	94	90	89	92	93	93	94
Over USD5m	30	32	32	30	30	32	36	34	32
Over USD10m	9	7	7	8	10	10	10	11	11
Over USD20m	3	3	3	3	3	3	3	3	4
Voluntary attrition (%)	13.6	9.2	13.2	21.2	23.5	24.3	29.3	26.9	27.9

Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Sales	36,066	39,176	46,175	44,275	41,325	45,344	58,698	68,071
Change (%)	16.5	8.6	17.9	(4.1)	(6.7)	9.7	29.4	16.0
Cost of Services	23,647	25,387	30,125	28,964	27,162	28,453	37,014	42,544
SG&A Expenses	7,569	8,296	9,606	9,352	8,056	8,675	11,866	13,478
EBITDA	4,850	5,493	6,444	5,959	6,107	8,216	9,817	12,049
As a percentage of Net Sales	13.4	14.0	14.0	13.5	14.8	18.1	16.7	17.7
Depreciation	953	1,051	1,692	1,878	1,944	1,923	2,405	2,723
Other Income	684	1,207	864	734	684	687	391	340
PBT	4,581	5,649	5,616	4,815	4,847	6,980	7,803	9,666
Tax	1,047	1,381	2,327	1,076	1,133	1,761	2,110	2,613
Rate (%)	22.9	24.4	41.4	22.3	23.4	25.2	27.0	27.0
Net Income	3,534	4,268	3,307	3,726	3,714	5,219	5,693	7,053
Change (%)	9.3	20.8	-22.5	12.7	-0.3	40.5	9.1	23.9

Balance Sheet							(INR m)	
Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	563	563	552	550	550	552	552	552
Reserves	20,610	22,876	25,089	25,059	29,023	30,614	31,363	34,184
Net Worth	21,173	23,439	25,641	25,609	29,573	31,166	31,915	34,736
Other liabilities	1,408	1,636	2,240	4,194	3,812	4,061	5,428	6,300
Loan	1,651	2,410	3,253	3,738	2,755	3,264	3,264	3,264
Capital Employed	24,232	27,485	31,134	33,541	36,140	38,491	40,607	44,300
Applications								
Gross Block	11,107	12,217	13,289	17,388	18,088	18,838	19,588	20,338
Less: Depreciation	6,875	7,791	8,766	9,712	11,656	13,579	15,984	18,707
Net Block	3,017	3,220	3,530	6,909	7,181	6,787	3,604	1,631
CWIP	92	213	300	800	113	134	134	134
Intangibles	4,666	5,057	6,990	6,800	7,191	6,662	6,662	6,662
Other assets	2,876	2,380	2,219	2,638	1,925	5,318	5,562	5,738
Curr. Assets	20,713	23,456	25,853	24,650	28,518	28,972	37,011	43,939
Debtors	6,496	6,913	8,137	7,262	8,026	7,333	10,614	12,309
Cash and Bank Balance	8,571	9,604	9,073	8,995	14,408	12,157	15,890	18,742
Other Current Assets	4,721	5,809	8,365	8,393	6,084	8,616	8,642	10,022
Current Liab. and Prov.	7,132	6,841	7,758	8,256	8,788	9,382	12,366	13,804
Trade payables	4,021	3,813	3,712	3,729	4,532	5,259	8,041	9,325
Other liabilities	2,876	2,799	3,757	4,150	3,872	3,709	3,779	3,847
Provisions	235	229	289	377	384	414	545	633
Net Current Assets	13,581	16,615	18,095	16,394	19,730	19,590	24,645	30,135
Application of Funds	24,232	27,485	31,134	33,541	36,140	38,491	40,607	44,300

Financials and valuations

Ratios

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)								
EPS	31.5	38.0	30.0	33.8	33.8	47.8	52.0	64.4
Cash EPS	40.0	47.4	45.3	50.8	51.5	65.3	73.9	89.2
Book Value	189.5	209.8	232.3	232.0	269.1	285.1	291.4	317.1
DPS	10.5	13.0	13.0	27.0	24.5	28.7	31.2	38.6
Payout (%)	33.3	34.2	43.4	80.0	72.5	60.0	60.0	60.0
Valuation (x)								
P/E	25.3	21.0	26.6	23.6	23.6	16.7	15.4	12.4
Cash P/E	20.0	16.8	17.6	15.7	15.5	12.2	10.8	8.9
EV/EBITDA	16.8	14.7	12.7	13.9	12.5	9.4	7.4	5.7
EV/Sales	2.3	2.1	1.8	1.9	1.8	1.7	1.2	1.0
Price/Book Value	4.2	3.8	3.4	3.4	3.0	2.8	2.7	2.5
Dividend Yield (%)	1.3	1.6	1.6	3.4	3.1	3.6	3.9	4.8
Profitability Ratios (%)								
RoE	17.9	19.1	13.5	14.6	13.5	17.2	18.1	21.2
RoCE	13.8	13.8	10.2	10.6	9.9	13.6	14.9	17.4
Turnover Ratios								
Debtors (Days)	64	62	59	63	68	67	66	66

Cash Flow Statement

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
(INR m)								
CF from Operations	3,833	4,622	5,411	5,496	5,872	7,318	8,098	9,776
Cash for Working Capital	366	-1,659	-1,710	328	2,686	-973	801	-941
Net Operating CF	4,199	2,963	3,701	5,824	8,558	6,345	8,899	8,835
Net Purchase of FA	-1,038	-1,469	-1,440	-2,138	-949	-626	-750	-750
Free Cash Flow	3,161	1,494	2,261	3,686	7,609	5,719	8,149	8,085
Net Purchase of Invest.	-765	600	-767	568	-58	-3,197	-1,000	-1,000
Net Cash from Invest.	-1,803	-869	-2,207	-1,570	-1,007	-3,823	-1,750	-1,750
Proc. from equity issues	16	9	22	17	37	121	0	0
Proceeds from LTB/STB	-203	526	549	-916	-2,134	-1,994	0	0
Dividend Payments	-746	-1,894	-2,892	-3,564	-10	-2,952	-3,416	-4,232
Cash Flow from Fin.	-933	-1,359	-2,321	-4,463	-2,107	-4,825	-3,416	-4,232
Exchange difference	277	298	296	131	-31	52	0	0
Net Cash Flow	1,740	1,033	-531	-78	5,413	-2,251	3,733	2,853
Opening Cash Bal.	6,831	8,571	9,604	9,073	8,995	14,408	12,157	15,890
Add: Net Cash	1,740	1,033	-531	-78	5,413	-2,251	3,733	2,853
Closing Cash Bal.	8,571	9,604	9,073	8,995	14,408	12,157	15,890	18,742

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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