

BSE SENSEX
69,826

S&P CNX
20,969

CYIENT

Stock Info

Bloomberg	CYL IN
Equity Shares (m)	113
M.Cap.(INRb)/(USDb)	216 / 2.6
52-Week Range (INR)	2240 / 765
1, 6, 12 Rel. Per (%)	9/31/120
12M Avg Val (INR M)	718
Free float (%)	76.8

Financials & Valuations (INR b)

Y/E Mar	2023	2024E	2025E
Sales	60.2	72.7	84.2
EBIT Margin (%)	12.8	14.7	15.1
PAT	5.8	7.8	9.8
EPS (INR)	52.4	70.7	88.3
EPS Gr. (%)	9.6	35.1	24.8
BV/Sh. (INR)	314.6	340.5	375.8

Ratios

RoE (%)	17.5	21.6	24.7
RoCE (%)	14.7	17.3	18.6
Payout (%)	49.7	60.0	60.0

Valuations

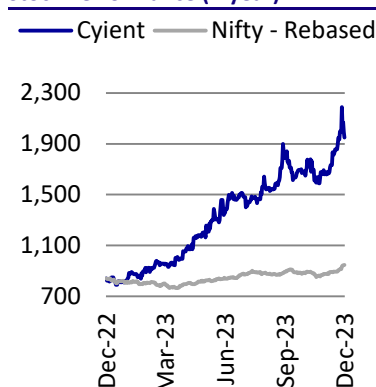
P/E (x)	37.3	27.6	22.1
P/BV (x)	6.2	5.7	5.2
EV/EBITDA (x)	21.1	15.6	12.8
Div Yield (%)	1.3	2.2	2.7

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	23.2	23.4	23.4
DII	21.6	21.3	23.7
FII	36.6	37.5	33.6
Others	18.6	17.8	19.3

FII Includes depository receipts

Stock Performance (1-year)


CMP: INR1,950 TP: INR2,250 (+15%)
Buy

Sustained outlook despite the ongoing uncertainty

On a strong footing - led by favorable demand

We attended CYL's Analyst Day, where the management reiterated its guidance of achieving revenue growth and margins within the projected range. It believes that it has achieved the right portfolio or business mix to sustain strong performance. Its investments in fueling the sales engine and building strategic capabilities, coupled with a favorable upswing in industrial demand, have bolstered growth across BUs. Majority of its growth vectors are performing well, which should help the company navigate any weakness in its communications vertical. The company aspires to achieve 18% EBIT margin (DET business) in the medium-term, while 20% EBIT margin remains a long-term aspiration.

Balanced portfolio with growth tailwind

- With continued investments in capacity building and strategic restructuring efforts, CYL is confident that it has achieved a well-balanced portfolio with a unique set of offerings centered on Designing, Engineering and Manufacturing.
- Although the Manufacturing unit (CYL DLM) is being nurtured separately, the DET business is being fortified with supplementary services focused on smart and embedded engineering.
- CYL participates in the complex work architecture in the Aerospace segment, which requires product designing with the integration of new technology. More importantly, it gets to participate on the System engineering (internal aerospace architecture) with one of its long-standing aerospace clients, which will generate additional revenue stream from the top accounts.
- The demand on the sustainability vertical remains strong with active participation from global enterprises for energy renewal and carbon neutrality. The acquisition of Citec has been instrumental and it is supporting the overall growth on the hydro carbon initiatives.
- The demand on the New Growth Areas is being supported by the Automotive industry, especially on the SDV, EV, and Connectivity service lines. While part of the automotive demand is also favoring the semicon vertical, 50% of the semicon growth was driven by the Automotive industry.

Fueling sales engines, while aspiring for profitable growth

- CYL has made rigorous investments in building customer-centric leadership team, which has helped onboard large deals (\$30-40m) and built strong connects with CXOs. Additionally, the company is building strategic partnerships with clients to drive technology transformation.
- The management expects to achieve 18% EBIT margin (DET business) in the medium term, while it aspires for 20% margin in the long term. It is flexing on several margin levers: optimizing offshoring, enhancing returns from accelerators and platforms, while acknowledging that traditional levers such as utilization, pricing adjustments, and SG&A optimization have yielded some results already.

Mukul Garg - Research analyst (Mukul.Garg@MotilalOswal.com)

Pritesh Thakkar - Research analyst (Pritesh.Thakkar@MotilalOswal.com)

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- There is significant potential for improvement in offshoring. The offshore percentage decreased from ~55% in FY20 to ~44% in 1HFY24 due to acquisitions. However, through a favorable client base and focused cost optimization initiatives, the offshore-led delivery is progressing well and supporting margins.

CYL is betting on three vectors of growth

- **Vector 1** – Preparing a balanced portfolio while looking out for the market to achieve incremental opportunity and growth. At the same time, evaluating new service lines that can be pulled to broaden the revenue stream from strategic accounts
- **Vector 2** – Delivering intelligent engineering and technology solutions while accelerating the transformation of four business verticals toward newly emerging trends
- **Vector 3** – Doubling down on strategic M&A within specific geographies and cutting-edge technologies. The company has venture fund collaboration with startups which would further help leapfrog into new-age capabilities.

Valuation and view

- CYL's service segment is shaping up quite well, with positive momentum in most of its growth engines. Conversely, other segments are on the verge of recovery and should incrementally contribute to its overall growth in FY24E.
- On an SOTP basis, we are valuing its stake in DLM at market valuation with a holding company discount of 25%. We value the DET business at 25x our FY25E EPS.
- We maintain our BUY rating on the stock on attractive valuations. Our SOTP-based target price of INR2,250 implies an upside of 15%.

Key highlights from the analyst meet

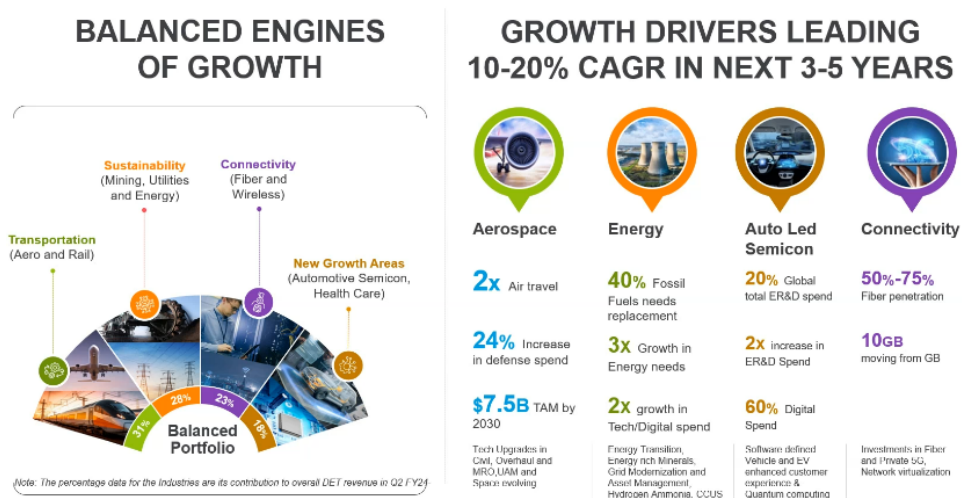
Demand drivers are favoring incremental growth

- CYL is benefitting from the convergence of classical engineering with new-age technologies that provides opportunities and creates solutions around Software Defined Vehicle (SDV), Smart Medical Devices, and Digital MRO
- The transportation industry is driven by the strong volume on MRO and engineering service line within Aerospace. The company is expecting a super cycle for aircraft manufacturing to come through CY24-CY26, which is expected to increase the R&D spend and generate incremental volume for CYL. Although the demand for the Rail segment is expected to be muted
- Within sustainability efforts, Energy stands out as the primary driver of substantial growth. Meanwhile, both mining and utility are steadily gaining momentum, with a core emphasis remaining on autonomous solutions within these areas.
- Within communication, the demand for wireline remains strong, while the growth for Celfinet remained muted. The management expects the demand for communication to be muted for a couple of quarters before it rebounds.

Robust Industry outlook across business verticals

- The air travel is expected to double in the upcoming years and thereby generate exponential growth in service lines related to aircraft designing, engineering and MROs.
- Anticipated mainstream adoption of energy renewal and carbon neutrality in the coming years is projected to result in a two-fold increase in tech/digital spend.
- The growing demand for SDV and EV are expected increase 20% of the global ER&D spends. While the 60% of the spend would be on digital engineering as the mechanical components are getting replaced with electronics and embedded chipset.

Exhibit 1: Industry outlook on its four growth vectors



A Balanced Portfolio functioning as a pivotal driver of growth with 4 accelerators

Source: Company, MOFSL

Valuation and view

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- On an SOTP basis, we are valuing its stake in DLM at market valuation with a holding company discount of 25%. We value the DET business at 25x our FY25E EPS.
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Exhibit 2: SOTP

	Valuation Metric	Tgt Multiple	Value (FY25E)
Cyient Service (INR m)	P/E	25	2,23,307
DLM (INR m)	Market Cap (25% holdco discount)		25,392
Total Market Cap (INR m)			2,48,699
O/S			110.6
Target Price (INR)			2,249.0
CMP (INR)			1,950.0
Upside %			15.3%

Source: MOFSL

Exhibit 3: Mid-Cap Companies Valuation Table

Company	Rating	Price (INR)	Target PE FY25	Target Price (INR)	Upside Downside	P/E (x)			Rev growth (%) (CC)			EBIT Margin (%)		
						FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Mphasis	Neutral	2,426	21	2,290	-6%	27.9	27.5	22.3	10.0	-3.6	15.7	15.3	15.6	16.4
LTTS	Buy	4,940	35	5,210	5%	44.7	40.1	33.2	15.6	18.0	14.1	18.5	17.0	17.7
Coforge	Neutral	5,780	26	4,840	-16%	44.3	39.5	31.0	21.2	13.9	12.7	14.3	12.9	14.2
Persistent	Neutral	6,462	29	5,430	-16%	51.9	43.5	34.5	36.3	14.2	15.7	14.9	14.9	16.1
Cyient	Buy	1,951	22	1,980	1%	37.3	27.6	22.1	30.4	14.9	15.1	12.8	14.7	15.1
Zensar	Neutral	533	20	520	-2%	37.1	20.6	20.8	10.1	0.8	11.2	7.6	14.1	12.8

Source: MOFSL

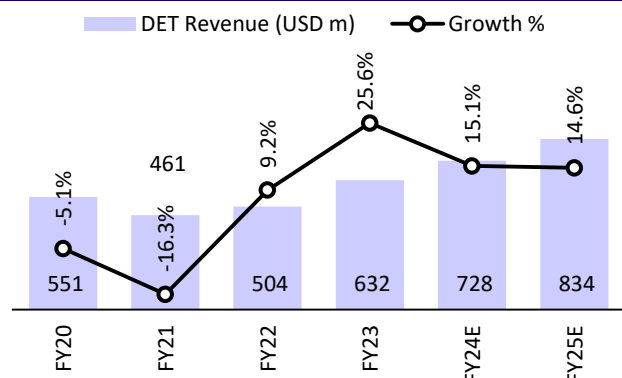
Exhibit 4: DET P&L Statement (INR m)

Y/E March	FY21	FY22	FY23	FY24E	FY25E
Sales	34,242	37,544	50,936	60,192	69,228
Cost of Services	21,071	21,808	29,535	35,928	40,740
Gross Profit	13,170	15,736	21,401	24,264	28,487
EBITDA	5,514	7,470	9,309	12,324	14,503
% of Net Sales	16.1%	19.9%	18.3%	20.5%	21.0%
EBIT	3,754	5,740	6,970	9,779	11,526
% of Net Sales	11.0%	15.3%	13.7%	16.2%	16.7%
Net Income	3,254	4,696	5,243	7,310	8,932
Change (%)		44.3%	11.7%	39.4%	22.2%

* FY23 and Previous year data are on a Pro Forma basis

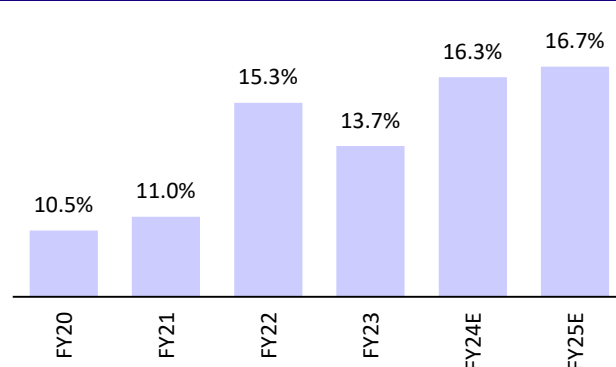
Story in charts

Exhibit 5: DET service business to report mid-teens growth



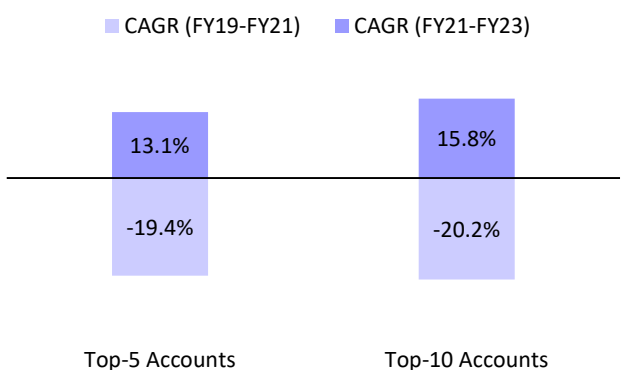
Source: Company, MOFSL

Exhibit 6: DET margin is expected to sustain at 16%+



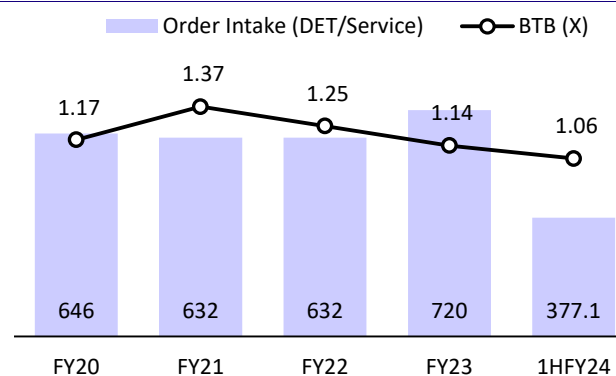
Source: Company, MOFSL

Exhibit 7: Strong recovery of top accounts



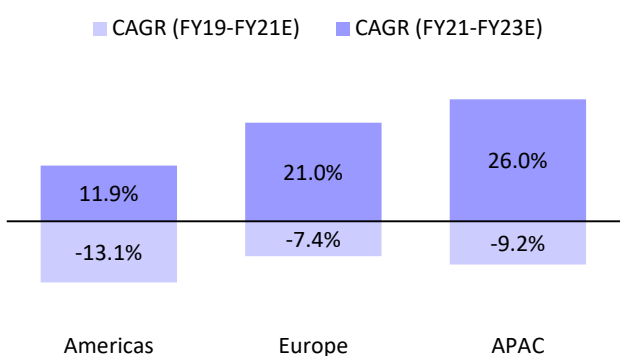
Source: Company, MOFSL

Exhibit 8: Order intake sustained above 1x



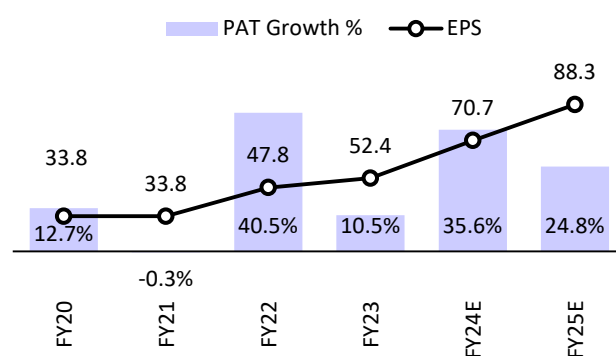
Source: Company, MOFSL

Exhibit 9: Region-wise CAGR (FY20-FY23E) %



Source: Company, MOFSL

Exhibit 10: Earnings (Consol) trajectory on a solid footing



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Sales	39,176	46,175	44,275	41,325	45,344	60,159	72,745	84,207
Change (%)	8.6	17.9	(4.1)	(6.7)	9.7	32.7	20.9	15.8
Cost of Services	25,387	30,125	28,964	27,162	28,453	37,415	46,107	52,664
SG&A Expenses	8,296	9,606	9,352	8,056	8,675	12,501	13,080	15,494
EBITDA	5,493	6,444	5,959	6,107	8,216	10,243	13,559	16,049
As a percentage of Net Sales	14.0	14.0	13.5	14.8	18.1	17.0	18.6	19.1
Depreciation	1,051	1,692	1,878	1,944	1,923	2,566	2,858	3,368
Other Income	1,207	864	734	684	687	-185	-234	168
PBT	5,649	5,616	4,815	4,847	6,980	7,492	10,467	12,849
Tax	1,381	2,327	1,076	1,133	1,761	1,723	2,477	3,086
Rate (%)	24.4	41.4	22.3	23.4	25.2	23.0	23.7	24.0
Net Income	4,268	3,307	3,726	3,714	5,219	5,769	7,820	9,762
Change (%)	20.8	-22.5	12.7	-0.3	40.5	10.5	35.6	24.8

Balance Sheet							(INR m)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	563	552	550	550	552	553	553	553
Reserves	22,876	25,089	25,059	29,023	30,614	34,114	37,109	41,014
Net Worth	23,439	25,641	25,609	29,573	31,166	34,667	37,662	41,567
Other liabilities	1,636	2,240	4,194	3,812	4,061	5,644	6,831	7,913
Loan	2,410	3,253	3,738	2,755	3,264	9,336	9,336	9,336
Capital Employed	27,485	31,134	33,541	36,140	38,491	49,647	53,830	58,816
Applications								
Gross Block	12,217	13,289	17,388	18,558	19,223	21,776	22,776	23,776
Less: Depreciation	7,791	8,766	9,712	10,779	11,959	14,525	17,383	20,751
Net Block	3,220	3,530	6,909	7,181	6,787	7,251	5,393	3,025
CWIP	213	300	800	113	134	27	27	27
Intangibles	5,057	6,990	6,800	7,191	6,662	21,413	21,413	21,413
Other assets	2,380	2,219	2,638	1,925	5,318	4,877	5,106	5,314
Curr. Assets	23,456	25,853	24,650	28,518	28,972	31,913	41,902	51,100
Debtors	6,913	8,137	7,262	8,026	7,333	11,271	12,357	14,304
Cash and Bank Balance	9,604	9,073	8,995	14,408	12,157	6,215	10,959	14,290
Other Current Assets	5,809	8,365	8,393	6,084	8,616	12,709	15,368	17,789
Current Liab. and Prov.	6,841	7,758	8,256	8,788	9,382	15,834	20,011	22,063
Trade payables	3,813	3,712	3,729	4,532	5,259	7,142	10,962	12,689
Other liabilities	2,799	3,757	4,150	3,872	3,709	7,555	7,674	7,783
Provisions	229	289	377	384	414	1,137	1,375	1,591
Net Current Assets	16,615	18,095	16,394	19,730	19,590	16,079	21,891	29,037
Application of Funds	27,485	31,134	33,541	36,140	38,491	49,647	53,830	58,816

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
EPS	38.0	30.0	33.8	33.8	47.8	52.4	70.7	88.3
Cash EPS	47.4	45.3	50.8	51.5	65.3	75.6	96.5	118.7
Book Value	209.8	232.3	232.0	269.1	285.1	314.6	340.5	375.8
DPS	13.0	13.0	27.0	24.5	24.0	26.0	42.4	53.0
Payout (%)	34.2	43.4	80.0	72.5	50.3	49.7	60.0	60.0
Valuation (x)								
P/E ratio	51.3	65.1	57.8	57.7	40.9	37.3	27.6	22.1
Cash P/E ratio	41.2	43.1	38.4	37.9	29.9	25.8	20.2	16.4
EV/EBITDA ratio	38.2	32.5	35.3	33.2	24.8	21.1	15.6	12.8
EV/Sales ratio	5.4	4.5	4.7	4.9	4.5	3.6	2.9	2.4
Price/Book Value ratio	9.3	8.4	8.4	7.2	6.8	6.2	5.7	5.2
Dividend Yield (%)	0.7	0.7	1.4	1.3	1.2	1.3	2.2	2.7
Profitability Ratios (%)								
RoE	19.1	13.5	14.6	13.5	17.2	17.5	21.6	24.7
RoCE	13.8	10.2	10.6	9.9	13.6	14.7	17.3	18.6
Turnover Ratios								
Debtors (Days)	62	59	63	68	62	68	62	62

Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
CF from Operations	4,622	5,411	5,496	5,872	7,318	9,024	10,847	13,131
Cash for Working Capital	-1,659	-1,710	328	2,686	-973	-3,485	1,391	-1,443
Net Operating CF	2,963	3,701	5,824	8,558	6,345	5,539	12,238	11,688
Net Purchase of FA	-1,469	-1,440	-2,138	-949	-626	-625	-1,000	-1,000
Free Cash Flow	1,494	2,261	3,686	7,609	5,719	4,914	11,238	10,688
Net Purchase of Invest.	600	-767	568	-58	-3,197	-9,675	-1,500	-1,500
Net Cash from Invest.	-869	-2,207	-1,570	-1,007	-3,823	-10,300	-2,500	-2,500
Proc. from equity issues	9	22	17	37	121	79	0	0
Proceeds from LTB/STB	526	549	-916	-2,134	-1,994	1,458	0	0
Dividend Payments	-1,894	-2,892	-3,564	-10	-2,952	-2,630	-4,692	-5,857
Cash Flow from Fin.	-1,359	-2,321	-4,463	-2,107	-4,825	-1,093	-4,692	-5,857
Exchange difference	298	296	131	-31	52	-88	-302	0
Net Cash Flow	1,033	-531	-78	5,413	-2,251	-5,942	4,744	3,330
Opening Cash Bal.	8,571	9,604	9,073	8,995	14,408	12,157	6,215	10,959
Add: Net Cash	1,033	-531	-78	5,413	-2,251	-5,942	4,744	3,330
Closing Cash Bal.	9,604	9,073	8,995	14,408	12,157	6,215	10,959	14,290

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
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www.motilaloswal.com. Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000.

Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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