

# Cyient

## Q3 beat but with macro-led uncertainty

### Q3 beat led by robust large deal wins

Cyient (CYL IN) posted better-than-expected Q3, with 1.1% QoQ CC growth versus our estimates of 0.2%. This was led by solid growth in sustainability business. On consolidated basis (DET+DLM business), it reported less-than-expected performance on both revenue and margins. This was due to lower-than-expected performance in DLM business (10% QoQ growth versus our estimates of 15% QoQ growth). CYL has won eight large deals in DET, with TCV of USD 136.8mn in Q3, which continues to vouch for demand.

### Growth guidance trimmed, implying 0.7-2.9% growth for Q4

CYL has cut DET FY24 revenue guidance to 13-13.5% YoY in CC terms from earlier guidance of 15-20% YoY CC, especially due to weakness in Semiconductors/Hitech, and Communications. This guidance implies Q4 growth in the range of 0.7-2.9% QoQ.

### Margin guidance improves for FY24, implying resilient execution

CYL increased its operating margin guidance by 50bps to 200-250bps for FY24. In Q3, its consolidated margin contracted by 30bps at 14.3% versus our and street expectations of 14.9% each. Margin declined 50bps sequentially due to seasonal weakness, wage hikes adjustment and investment for future growth levers. CYL added 237 employees in Q3, in line with other ER&D peers.

### Valuations: Reiterate BUY; new TP INR 2,430

The management indicated robust growth to continue in Sustainability with steady growth in Transportation. Expect revival of demand in Communications and Semiconductors from Q2FY25, but automotive spend may ramp-up from Q1FY25. After factoring in Q3 and near-term soft demand commentary, we trim our EPS estimates by 3.8%/3.6% for FY25E/26E. However, we continue with **BUY** with a trim to TP, to INR 2,430 (earlier INR 2,450), on Dec-25E EPS of INR 99. In FY23-26E, expect USD revenue/EBIT/EPSCAGRs of ~11%/21%/20%. Key risks are limited success in realizing acquisition-based synergies and demand slowdown in FY25 for Aerospace.

## Rating: Buy

Target Price: INR 2,430

Upside: 20%

CMP: INR 2,020 (as on 25 January 2024)

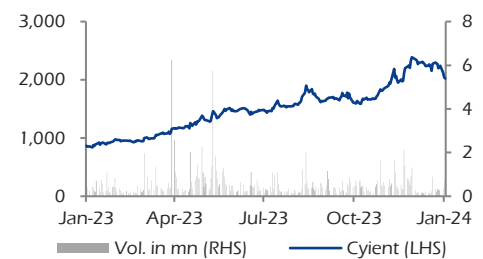
### Key data\*

Bloomberg/Reuters Code	CYL IN/CYIE.BO
Current/Dil. Shares O/S (mn)	111/110
Mkt Cap (INR bn/USD mn)	224/2,695
Daily Volume (3M NSE Avg)	473,172
Face Value (INR)	5

1 USD = INR 83.1

Note: \*as on 25 January 2024; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Promoter	23.4	23.4	23.2	23.2
Institutional Investors	57.5	57.9	57.3	56.8
Other Investors	7.6	7.3	7.4	7.7
General Public	11.6	11.5	12.1	12.3

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	11.7	8.5	19.3
Cyient	26.1	37.7	137.8

Source: Bloomberg

(INR mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenues (USD mn)	218.8	197.0	11.1	214.9	1.8
Revenue	18,215	16,182	12.6	17,785	2.4
Operating expenditure	14,954	13,397	11.6	14,527	2.9
EBITDA	3,261	2,785	17.1	3,258	0.1
Depreciation	661	699	(5.4)	658	0.5
EBIT	2,600	2,086	24.6	2,600	-
PBT	2,114	2,146	(1.5)	2,418	(12.6)
Total tax	582	518	12.4	582	-
Adjusted PAT	1,532	1,628	(5.9)	1,836	(16.6)
APAT after MI	1,472	1,561	(5.7)	1,783	(17.4)
Reported PAT	1,472	1,561	(5.7)	1,783	(17.4)
Reported EPS	13.4	14.3	(6.1)	16.3	(17.8)

### Key Financials

YE	Revenue (INR bn)	YoY (%)	EBITDA (INR bn)	EBITDA margin(%)	Adj PAT (INR bn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
March	60.2	22.7	10.2	17.0	5.8	36.1	52	17.5	15.1	38.5	22.4
FY23	71.3	15.4	14.1	19.7	8.3	8.8	76	22.7	19.3	26.7	16.4
FY24E	79.9	11.7	16.3	20.4	9.9	3.9	90	24.0	21.7	22.4	13.9
FY26E	88.8	11.2	18.1	20.4	11.4	11.2	104	24.4	22.5	19.5	12.3

Note: Pricing as on 25 January 2024; Source: Company, Elara Securities Estimate

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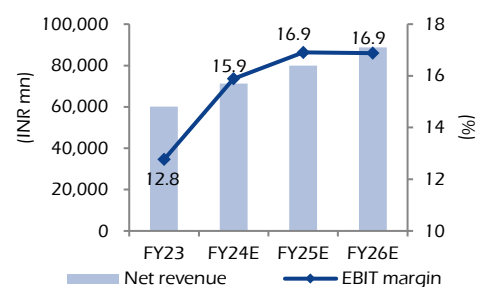
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## Financials (YE March)

Income Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Net Revenues	60,159	71,328	79,894	88,838
<b>EBITDA</b>	<b>10,243</b>	<b>14,085</b>	<b>16,305</b>	<b>18,102</b>
Less :- Depreciation & Amortization	2,566	2,752	2,796	3,109
<b>EBIT</b>	<b>7,677</b>	<b>11,333</b>	<b>13,508</b>	<b>14,993</b>
Add:- Non operating Income	(187)	(510)	(615)	(309)
<b>PBT</b>	<b>7,490</b>	<b>10,823</b>	<b>12,894</b>	<b>14,684</b>
Less :- Taxes	1,724	2,497	2,966	3,304
<b>Adjusted PAT</b>	<b>5,766</b>	<b>8,326</b>	<b>9,928</b>	<b>11,380</b>
<b>Reported PAT</b>	<b>5,766</b>	<b>8,326</b>	<b>9,928</b>	<b>11,380</b>
Balance Sheet (INR mn)	FY23	FY24E	FY25E	FY26E
Share Capital	553	553	553	553
Reserves	34,114	38,277	43,241	48,931
Borrowings	9,336	7,336	5,836	4,336
Minority Interest	(32)	(32)	(32)	(32)
Other Liabilities	5,676	6,110	6,210	6,310
<b>Total Liabilities</b>	<b>49,647</b>	<b>52,244</b>	<b>55,808</b>	<b>60,098</b>
Gross Block	33,104	34,304	35,504	36,704
Less:- Accumulated Depreciation	7,183	9,935	12,731	15,841
Net Block	25,921	24,369	22,773	20,863
Investments	5,181	5,381	5,581	5,781
Cash & cash equivalents	7,194	4,919	6,978	10,813
Net Working Capital	7,167	13,685	16,566	18,710
Other Assets	4,184	3,890	3,910	3,930
<b>Total Assets</b>	<b>49,647</b>	<b>52,244</b>	<b>55,808</b>	<b>60,098</b>
Cash Flow Statement (INR mn)	FY23	FY24E	FY25E	FY26E
Cash profit adjusted for non-cash items	10,312	14,392	16,437	18,298
Add/Less : Working Capital Changes	(1,872)	(6,229)	(2,801)	(2,064)
Operating Cash Flow	7,152	5,666	10,671	12,930
Less:- Capex	(9,664)	(1,200)	(1,200)	(1,200)
<b>Free Cash Flow to Firm</b>	<b>(2,512)</b>	<b>4,466</b>	<b>9,471</b>	<b>11,730</b>
Financing Cash Flow	56	(7,287)	(7,344)	(7,890)
Investing Cash Flow	(10,013)	(1,093)	(1,267)	(1,204)
Net change in Cash	(2,805)	(2,714)	2,059	3,835
Ratio Analysis	FY23	FY24E	FY25E	FY26E
Income Statement Ratios (%)				
Revenue Growth	22.7	15.4	11.7	11.2
EBITDA Growth	24.7	37.5	15.8	11.0
PAT Growth	36.1	8.8	3.9	11.2
EBITDA Margin	17.0	19.7	20.4	20.4
Net Margin	10.4	44.4	19.2	14.6
Return & Liquidity Ratios				
Net Debt/Equity (x)	0.0	0.0	(0.1)	(0.2)
ROE (%)	17.5	22.7	24.0	24.4
ROCE (%)	15.1	19.3	21.7	22.5
Per Share data & Valuation Ratios				
Diluted EPS (INR/Share)	52.5	75.8	90.3	103.6
EPS Growth (%)	10.4	44.4	19.2	14.6
Book Value	315.2	353.0	398.2	450.0
DPS (INR/Share)	26.2	37.9	45.2	51.8
P/E Ratio (x)	38.5	26.7	22.4	19.5
EV/EBITDA (x)	22.4	16.4	13.9	12.3
Price/Book (x)	6.4	5.7	5.1	4.5
Dividend Yield (%)	1.3	1.9	2.2	2.6

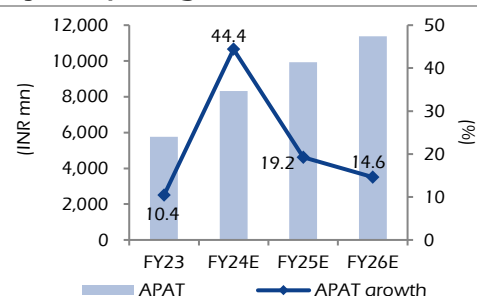
Note: Pricing as on 25 January 2024; Source: Company, Elara Securities Estimate

### Revenue & margin trend



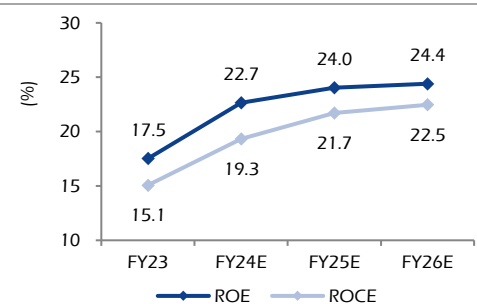
Source: Company, Elara Securities Estimate

### Adjusted profit growth trend



Source: Company, Elara Securities Estimate

### Return ratios



Source: Company, Elara Securities Estimate

## Earnings call – Highlights

### Demand outlook

- CYL expects four growth engines: aerospace, transport, sustainability, and new growth areas. The company sees some green shoots starting to emerge in H2CY24.
- The macro environment is causing challenges for CYL due to economic slowdown, interest rates, and inflationary pressures.
- CYL is seeing some "green shoots" with robust growth kicking in from Q2FY25.

### Vertical-wise commentary

- Vertical-wise, only sustainability drove growth, up 8% QoQ in CC terms, for the company.
- Under Sustainability, all the sub-segments are driving growth. Demand for cost efficiency program, asset management and alternate energy sources, including hydrogen, ammonia, carbon capture, and nuclear continue to see momentum.
- Under transportation, aerospace growth continues to be healthy and railways may see weakness.
- Demand is increasing in utilities and energy, and is expected to be a multi-year growth driver.
- Connectivity was flat at 0.2% QoQ CC growth, which was weak in the past few quarters and may recover in H2FY25.
- Communication is likely to stay under pressure in the near term. Under Communication, the key segments of growth continue to be fiber expansion, wireless-based premium customer experience programs and cost reduction. Clients are likely to continue spending for premium experience. They are unlikely to change their ER&D partners as it could hurt ARPU.
- New growth areas are seeing some challenges, with QoQ contraction of 3.4% CC due to weakness in Semiconductors and Hi-tech. Semiconductor may turn around in H2FY25.

### Orderbook commentary

- CYL won eight large deals in DET with total contract of USD 136.8mn in Q3. DET order intake stood at USD 297.3mn, up by 21.9% YoY.
- Large deals comprise four from aerospace, two from communication, one from sustainability and one from new growth area.
- CYL has entered into a partnership with SkyDriving, a leading Japanese eVTOL (electric vertical takeoff and

landing) aircraft manufacturer to cater to the growing urban air mobility market, including India.

### Margin tailwinds and capital allocation

- Margins declined 30bps as CYL saw headwinds from furloughs, lower working days, wage hike adjustments and investment towards future growth levers.
- These headwinds were partly offset by continued benefits from the cost optimization exercise in prior quarters.
- CYL has been investing in automation to reduce labor costs and improve efficiency.

### Miscellaneous

- CYL has been working to improve its gAI capabilities in the past nine months and has trained 1,500 associates.
- Boeing and airbus have opened R&D centres in India (largest outside the US). The management is confident that this may not affect business for CYL.
- SEC (Scientific Experience Centre) is an experience demonstration built by CYL in collaboration with more than 10 partners in Hyderabad.
- Debt of DET is down USD 6mn QoQ and USD 15mn YoY.

### Exhibit 1: Valuations

Valuation	
Target P/E (x)	24.5
EPS (Mar-26E ending, INR)	99.0
Target price (Sep-24E, INR)	2,430
Potential return (%)	20

Note: Pricing as on 25 January 2024; Source: Elara Securities Estimate

**Exhibit 2: Change in estimate**

INR mn	New			Old			% change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenues (USD mn)	861.4	962.6	1,070.3	870.6	997.7	1109.2	(1.1)	(3.5)	(3.5)
YoY growth (%)	15.4	11.7	11.2	16.6	14.6	11.2			
Service Revenues (USD mn)	716.9	789.6	871.8	727	825	910	(1.4)	(4.3)	(4.2)
YoY growth, %	13.4	10.1	10.4	15.0	13.4	10.4			
Revenues	71,328	79,894	88,838	72,033	82,805	92,065	(1.0)	(3.5)	(3.5)
EBITDA	14,085	16,305	18,102	14,776	16,899	18,760	(4.7)	(3.5)	(3.5)
EBITDA margin (%)	19.7	20.4	20.4	20.5	20.4	20.4			
Net profits	8,326	9,928	11,380	8,898	10,316	11,810	(6.4)	(3.8)	(3.6)
EPS (INR)	75.8	90	104	81.0	93.9	107.5	(6.4)	(3.8)	(3.6)
<b>Target price (INR)</b>	<b>2,430</b>			<b>2,450</b>			<b>(0,8)</b>		

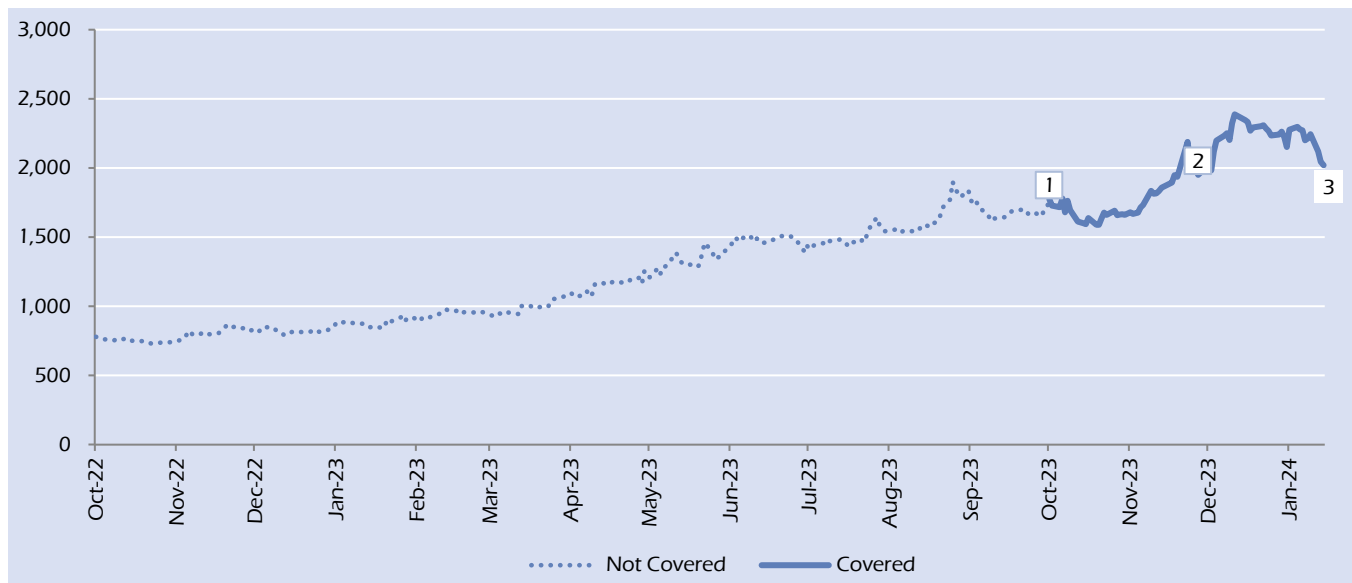
Source: Elara Securities Estimate

**Exhibit 2: Valuation summary**

	Ticker	Currency	Rating	Mcap	Price	TP	Upside	Turnover <sup>23</sup>	FY23-26E		EV/sales		P/E		Div. yield (%)		ROE (%)	
									Sales CAGR %	EPS CAGR %	FY24E (x)	FY25E (x)	FY24E (x)	FY25E (x)	FY24E	FY25E	FY24E	FY25E
				USD bn	INR	INR	(%)	USD mn										
<b>Large Indian IT services cos.</b>																		
TCS	TCS IN	INR	Buy	167.7	3,810	4,430	16.3	27,927	5.8	9.4	5.7	5.2	30.1	27.7	1.3	1.4	47.9	42.9
Infosys	INFO IN	INR	Sell	83.4	1,669	1,260	(24.5)	18,212	4.7	6.3	4.3	4.0	28.2	26.8	1.8	1.9	29.4	29.1
Wipro	WPRO IN	INR	Reduce	29.5	470	450	(4.3)	11,232	1.9	6.8	2.4	2.2	21.9	20.2	0.5	0.5	12.7	12.3
HCL Technologies	HCLT IN	INR	Sell	50.6	1,550	1,430	(7.8)	12,586	8.1	9.2	3.6	3.3	26.7	23.6	2.8	3.2	23.6	25.9
Tech Mahindra	TECHM IN	INR	Buy	15.5	1,322	1,660	25.6	6,607	5.3	13.7	2.3	2.1	42.7	19.4	0.9	1.9	9.5	18.5
<b>Tier-1 IT AVG</b>								<b>15,313</b>	<b>5.1</b>	<b>9.1</b>	<b>3.7</b>	<b>3.4</b>	<b>29.9</b>	<b>23.6</b>	<b>1.4</b>	<b>1.8</b>	<b>24.6</b>	<b>25.7</b>
<b>Tier-1 IT Median</b>								<b>12,586</b>	<b>5.3</b>	<b>9.2</b>	<b>3.6</b>	<b>3.3</b>	<b>28.2</b>	<b>23.6</b>	<b>1.3</b>	<b>1.9</b>	<b>23.6</b>	<b>25.9</b>
<b>Mid-sized Indian IT services cos.</b>																		
LTIMindtree	LTIM IN	INR	Accumulate	19.6	5,495	6,570	19.6	4,106	10.4	16.8	4.3	3.9	33.0	25.3	1.2	1.6	27.6	31.0
Mphasis	MPHL IN	INR	Accumulate	5.7	2,522	2,380	(5.6)	1,712	4.6	6.3	3.3	3.0	29.0	26.9	1.9	2.0	19.5	19.4
Persistent	PSYS IN	INR	Accumulate	7.8	8,379	8,300	(0.9)	1,036	14.4	23.2	6.3	5.5	56.5	44.3	0.7	0.9	23.4	24.2
Coforge	COFORGE IN	INR	Buy	4.6	6,205	8,100	30.5	1,002	14.6	31.2	4.0	3.4	41.2	29.1	2.4	3.4	25.9	30.8
eclerx	ECLX IN	INR	Accumulate	1.5	2,610	2,500	(4.2)	333	11.3	18.9	4.1	3.5	23.7	18.2	0.7	0.9	28.3	32.1
Sonata Software	SSOF IN Equity	INR	NR	2.5	749	NA	-	897	9.2	20.3	2.8	2.4	39.6	31.7	1.3	1.6	36.7	38.4
Happiest Minds	HAPPSTMN IN Equity	INR	NR	1.6	867	NA	-	172	16.6	11.2	7.6	6.4	54.5	43.5	0.0	0.0	23.3	23.3
Firstsource solutions	FSOL IN Equity	INR	NR	1.6	195	NA	-	721	8.0	10.6	2.4	2.1	25.6	20.9	2.2	2.5	15.7	17.9
Birlasoft	BSOFT IN Equity	INR	NR	2.7	818	NA	-	578	11.8	46.1	4.0	3.5	38.1	32.0	0.8	0.9	22.5	22.7
Zensar Tech	ZENT IN Equity	INR	NR	1.6	576	NA	-	584	5.0	38.7	2.4	2.2	20.7	20.6	1.3	1.4	19.5	16.9
Intellect design arena	INDA IN Equity	INR	NR	1.5	910	NA	-	269	14.3	27.8	4.8	4.2	36.1	28.0	0.3	0.4	16.1	17.9
Mastek	MAST IN Equity	INR	NR	1.0	2,749	NA	-	309	17.7	14.9	2.8	2.4	28.8	21.4	1.1	1.0	16.5	19.4
<b>Mid-size IT AVG</b>								<b>977</b>	<b>11.5</b>	<b>22.2</b>	<b>4.1</b>	<b>3.5</b>	<b>35.6</b>	<b>28.5</b>	<b>1.1</b>	<b>1.4</b>	<b>22.9</b>	<b>24.5</b>
<b>Mid-size IT Median</b>								<b>653</b>	<b>11.6</b>	<b>19.6</b>	<b>4.0</b>	<b>3.5</b>	<b>34.6</b>	<b>27.4</b>	<b>1.1</b>	<b>1.2</b>	<b>22.9</b>	<b>23.0</b>
<b>Indian IT ER&amp;D cos.</b>																		
L&T Tech	LTTS IN	INR	Sell	6.9	5,386	4,240	(21.3)	990	14.3	11.9	5.5	5.0	43.7	38.8	0.8	0.9	25.5	24.8
Cyient	CYL IN	INR	Buy	2.7	2,020	2,430	20.3	746	12.8	25.4	3.1	2.7	26.7	22.4	1.9	2.2	22.7	24.0
Tata Elxsi	TELX IN	INR	Accumulate	5.7	7,667	8,610	12.3	390	15.9	15.0	12.7	10.5	58.6	49.4	0.7	0.8	40.2	32.2
KPIT Tech	KPIT IN	INR	Buy	4.7	1,415	1,480	4.6	418	24.6	37.1	7.9	6.5	66.8	52.5	0.5	0.7	31.4	32.5
Tata technologies	TATATECH IN Equity	INR	NR	5.6	1,145	NA	-	532	10.7	13.7	11.0	9.8	83.2	72.6	1.0	1.1	21.0	23.0
<b>Mid-tier IT AVG</b>								<b>615.1</b>	<b>15.7</b>	<b>20.6</b>	<b>8.0</b>	<b>6.9</b>	<b>55.8</b>	<b>47.1</b>	<b>1.0</b>	<b>1.1</b>	<b>28.1</b>	<b>27.3</b>
<b>Mid-tier IT Median</b>								<b>532</b>	<b>14.3</b>	<b>15.0</b>	<b>7.9</b>	<b>6.5</b>	<b>58.6</b>	<b>49.4</b>	<b>0.8</b>	<b>0.9</b>	<b>25.5</b>	<b>24.8</b>
<b>Global peers</b>																		
IBM	IBM US	USD	NA	158.8	174	NA		60,530	5.2	129.1	3.2	3.1	17.4	16.6	3.9	3.9	35.1	35.1
Accenture	ACN US	USD	NA	246.1	369	NA		61,594	7.3	10.4	3.7	3.4	30.2	27.5	1.4	1.5	28.2	28.2
Cognizant	CTSH US	USD	NA	38.6	77	NA		19,428	0.8	7.2	1.9	1.9	17.5	16.7	1.5	1.6	17.3	16.6
Capgemini	CAP FP	EUR	NA	38.3	204	NA		23,167	4.6	14.9	1.7	1.7	16.0	15.4	1.8	1.9	18.5	18.0
Endava	DAVA US	USD	NA	4.4	76	NA		871	16.1	18.3	4.2	3.6	36.0	27.0	-	-	14.4	18.1
EPAM	EPAM US	USD	NA	16.6	288	NA		4,825	0.4	23.1	3.2	3.1	28.0	27.2	-	-	19.0	16.2
Globant	GLOB US	USD	NA	9.8	232	NA		1,780	17.7	28.5	4.7	4.0	40.6	35.1	-	-	14.1	14.8
NAGARRO SE	NA9 GY Equity	USD	NA	1.4	93	NA		902	10.4	-1.1	1.6	1.5	21.2	17.3	-	-	32.0	30.5
<b>Global IT AVG</b>								<b>24,599</b>	<b>7.4</b>	<b>33.1</b>	<b>3.2</b>	<b>3.0</b>	<b>26.5</b>	<b>23.6</b>	<b>2.1</b>	<b>2.2</b>	<b>20.9</b>	<b>21.0</b>
<b>Global IT Median</b>								<b>19,428</b>	<b>5.2</b>	<b>18.3</b>	<b>3.2</b>	<b>3.1</b>	<b>28.0</b>	<b>27.0</b>	<b>1.6</b>	<b>1.8</b>	<b>18.5</b>	<b>18.0</b>

Note: Pricing as on 25 January 2024; Bloomberg Consensus for Not Rated companies; Source: Elara Securities Estimate

## Coverage History



	Date	Rating	Target Price	Closing Price
1	12-Oct-2023	Buy	INR 2,220	INR 1,775
2	8-Dec-2023	Buy	INR 2,450	INR 1,950
3	25-Jan-2024	Buy	INR 2,430	INR 2,020

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%



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