MOTILAL OSWAL FINANCIAL SERVICES

27 January 2024

3QFY24 Results Update | Sector: Technology

Cyient

Estimate change	↔
TP change	↓
Rating change	↔

Bloomberg	CYL IN
Equity Shares (m)	113
M.Cap.(INRb)/(USDb)	223.8 / 2.7
52-Week Range (INR)	2459 / 831
1, 6, 12 Rel. Per (%)	-15/29/118
12M Avg Val (INR M)	827

Consol Financials & Valuations (INR b)

Y/E Mar	2024E	2025E	2026E
Sales	71.8	81.3	95.7
EBIT Margin (%)	14.7	15.1	16.4
PAT	7.6	9.5	12.3
EPS (INR)	69.4	86.0	112.0
EPS Gr. (%)	32.5	24.0	30.2
BV/Sh. (INR)	338.5	372.9	417.7
Ratios			
RoE (%)	21.2	24.2	28.4
RoCE (%)	17.2	18.2	21.5
Payout (%)	60.0	60.0	60.0
Valuations			
P/E (x)	29.1	23.5	18.0
P/BV (x)	6.0	5.4	4.8
EV/EBITDA (x)	16.3	13.7	10.6
Div Yield (%)	2.1	2.6	3.3

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	23.2	23.2	23.4
DII	22.7	21.6	25.0
FII	35.0	36.6	32.1
Others	19.1	17.8	19.6

FII Includes depository receipts

CMP: INR2,020 TP: INR2,400 (+19%) Buy

FY24 revenue guidance cut on expected lines

Strong 3Q deal wins positive for FY25E growth

- Cyient (CYL) reported 3QFY24 DET business revenue growth of 1.1% QoQ in CC, above our estimate of flattish growth. 3Q growth was led by Sustainability, up 8.2% QoQ in CC, while Transportation and New Growth Areas were weak, down 2.2% and 3.4%, respectively. The normalized EBIT margin for the DET business came in at 16.0%, 20bp below our estimates. Management lowered its FY24 CC revenue growth guidance to 13.0-13.5% (from 15.0% earlier), which was in line with our expectations, given the steep ask rate for 4Q. CYL also narrowed its guidance for EBIT margin, which is guided to improve by 200-250bp now (vs. 150-250bp earlier). This was also in line with our expectation.
- The service order intake was strong at USD297.3m, growing 13% YoY (including acquired entities). The company signed eight large deals in 3Q, with a total contract potential of USD136.8m, which was at an all-time high.
- While the lowering of topline guidance was disappointing, it was on expected lines given the tough macro environment. This was also indicated by the management, especially the adverse impact on decision-making, and execution cycles. The company also expects its FY25 growth to be back-ended, with expectation of a macro recovery to aid growth. Considering the investments in restructuring and cost rationalization initiatives, management was confident of delivering sustainable double-digit growth even over the long term.
- On EBIT margin front, the 3Q performance missed our estimates by 20bp QoQ. Despite the miss, the current margin run-rate suggests a comfortable path to the top end of its guidance band of 200-250bp YoY improvement. Given that the company has overachieved its guidance in 3Q itself, the risk on margin guidance remains on the upside. We expect the company to deliver an FY24 EBIT margin of 16.1% (+240bp YoY). This should help DET deliver an FY23-25 INR PAT CAGR of 30%, which we see as attractive.
- On an SOTP basis, we are valuing its stake in DLM at market valuation with a holding company discount of 25%. We roll forward our P/E-based valuation to FY26E EPS, valuing the DET business at 23x. We broadly keep our FY25/ FY26 consolidated PAT estimates unchanged. **Reiterate BUY.** Our SOTP-based TP of INR2,400 implies a potential upside of 19%.

Beat on revenue; guidance trimmed

- DET revenue was at USD 179.2m, up 1.1% QoQ in CC and 0.4% QoQ in USD, well above our estimates of 0.3% QoQ CC.
- Sustainability led the overall growth up 8.2% CC, while Connectivity was flat; Transportation and New Growth Areas were weak, down 2.2% and 3.4%, respectively.
- DET margin was at 16.0% (-50bp QoQ/+210bp YoY), a tad below our estimate of 16.2%.

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- The order intake was at an all-time high of USD297.3m (+61.7% QoQ/ +21.9% YoY). CYL won eight large deals in the service business in 3Q, with a total contract potential of USD136.8m.
- Adjusted PAT, at INR1,727m, was flat QoQ and up 17.3% YoY.
- Reported PAT (DET) was at INR1,341m, down 4.6% YoY due to settlement of the civil class action antitrust lawsuit for an amount of USD7.4m. CYL would utilize the insurance amount towards this settlement.

Key highlights from the management commentary

- Management continues to see macro challenges due to the economic slowdown in key geographies led by higher interest rates and elevated inflation that are making its customers more cautious towards spending, although in selected verticals.
- CYL is also seeing some green shoots in a few verticals. The company expects that some of the spending patterns should return (by the latter half of FY25), as the interest rates start coming down, and inflation already showing signs of a recovery.
- Despite this fact, CYL was quite confident to grow in double digits (10-20%) in the coming years. It also remains confident in its ability to sustain margin at the current level.
- The company made a provision of USD6m towards the lawsuit, which is more than sufficient to meet the future costs for settlement. Additionally, it believes that the lawsuit will not have any adverse impact on the operating performance of CYL.

Valuation and Outlook

- CYL's Service segment was hit by near-term challenges, while the long-term prospects still remain constructive. Additionally, the macro recovery should contribute incrementally to its overall growth in FY25E/FY26E.
- 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 23x our FY26E earnings.
- We broadly keep our FY25/FY26 consolidated PAT estimates unchanged. **We maintain our BUY rating on the stock on attractive valuations.** Our SOTP-based TP of INR2,400 implies an upside potential of 19%.

Quarterly performance (INR m)

Y/E March (Consol)	FY23				FY24				FY23	FY24E	FY24E	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%/bp)
Revenue (USD m)	**162**	**175**	**197**	**213**	**205**	**214**	**219**	**228**	**746**	**867**	**221**	**-0.9**
QoQ (%)	3.1	8.2	12.7	8.1	-3.6	4.4	2.1	4.3	22.7	16.1	3.0	-93bp
Revenue (INR m)	**12,501**	**13,962**	**16,182**	**17,514**	**16,865**	**17,785**	**18,215**	**18,943**	**60,159**	**71,808**	**18,393**	**-1.0**
YoY (%)	18.1	25.6	36.7	48.3	34.9	27.4	12.6	8.2	32.7	19.4	13.7	-110bp
GPM (%)	**36.8**	**38.4**	**37.8**	**38.0**	**36.6**	**35.7**	**35.4**	**37.3**	**37.8**	**36.3**	**36.8**	**-136bp**
SGA (%)	21.2	22.0	20.6	19.6	17.9	17.4	17.5	18.1	20.8	17.7	18.2	-66bp
EBITDA	**1,946**	**2,290**	**2,785**	**3,222**	**3,156**	**3,258**	**3,261**	**3,637**	**10,243**	**13,312**	**3,421**	**-4.7**
EBITDA margin (%)	**15.6**	**16.4**	**17.2**	**18.4**	**18.7**	**18.3**	**17.9**	**19.2**	**17.0**	**18.5**	**18.6**	**-70bp**
EBIT	**1,435**	**1,660**	**2,086**	**2,496**	**2,480**	**2,600**	**2,600**	**2,879**	**7,677**	**10,559**	**2,685**	**-3.2**
EBIT margin (%)	**11.5**	**11.9**	**12.9**	**14.3**	**14.7**	**14.6**	**14.3**	**15.2**	**12.8**	**14.7**	**14.6**	**-33bp**
Other income	160	-148	60	-257	-176	-134	-100	38	-185	-372	37	-371.8
ETR (%)	27.2	19.4	24.1	21.3	22.9	23.6	23.3	24.0	23.0	23.5	24.0	
Adj. PAT	**1,161**	**1,218**	**1,628**	**1,762**	**1,767**	**1,831**	**1,858**	**2,167**	**5,769**	**7,623**	**2,015**	**-7.8**
QoQ (%)	-24.7	4.9	33.7	8.2	0.3	3.6	1.5	16.6			10.0	-857bp
YoY (%)	0.9	0.5	23.7	14.3	52.2	50.3	14.1	23.0	10.5	32.1	23.8	-964bp
EPS (INR)	**10.6**	**11.1**	**14.8**	**16.0**	**16.0**	**16.6**	**16.9**	**19.7**	**52.4**	**69.4**	**18.2**	-7.2

Key performance indicators

Y/E March (Consol)	FY23				FY24				FY23	FY24E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Margins (%)										
Gross Margin	36.8	38.4	37.8	38.0	36.6	35.7	35.4	37.3	37.8	36.3
EBIT Margin	11.5	11.9	12.9	14.3	14.7	11.9	12.9	14.3	12.8	14.7
Net Margin	9.3	8.7	10.1	10.1	10.5	8.7	10.1	10.1	9.6	10.6
Operating metrics										
Headcount	13,581	15,004	14,693	15,172	15,306	15,441	15,678		15,172	
Attrition (%)	27.9	28.4	26.5	25.0	23.0	20.4	18.4		25.0	
Key geographies (YoY %)										
North America	17%	16%	15%	12%	5%	0.1%	-2.6%		15%	
Europe	-9%	23%	52%	79%	104%	41%	14%		37%	

CONFERENCE CALL

Key highlights from the management commentary

Commentary on verticals

- **Transportation:** The segment was hit by a slowdown in Rail. The government-led spending is getting prioritized toward defense instead of building rail infrastructure. Otherwise, there is strong demand for Aero within MRO, designing, and Engineering areas.
- **Connectivity:** Although 3Q remained soft, it stabilized after witnessing a sequential decline over the last two quarters. The government spending has started kicking in the fiber connectivity areas, and it expects the segment to see a recovery in 4Q. The investments in fiber expansion, improving ARPU, and cost-reduction initiatives will support government spending programs going forward.
- **Sustainability:** The demand in terms of cost reduction, asset management, and alternate energy sources (including hydrogen, ammonia, carbon capture, and nuclear) continued to see a strong momentum.
- **New growth areas:** This remained muted in 3Q, but the auto segment has started recovering, while the semicon and hi-tech segments remain challenging. Within semicon, demand is expected to recover in 2HFY25, as the GenAI will be the catalyst to drive future demand for chips. **Within Healthcare** demand remained soft, while personalized patient care, connected devices, and digital platforms continued to do well. The segment should achieve a single-digit growth in FY25.
- **Auto segment –** The segment has grown by 25% YoY 9MFY24. It may see some softness for a quarter and should bounce back in 1QFY25, but it expects FY25 should be a growth for Auto.

Demand and Outlook

- Management continues to see macro challenges due to the economic slowdown in key geographies led by higher interest rates and elevated inflation that are making its customers more cautious towards spending, although in selected verticals. The decisions are getting delayed with more scrutiny and approvals being raised for deal closure activities
- CYL is also seeing some green shoots in a few verticals. The company expects that some of the spending patterns should return (by the latter half of FY25), as the interest rates start coming down, and inflation already showing signs of a recovery

- The intensity of the slowdown across connectivity/communication, and new growth areas were higher than anticipated at the beginning of 2H. Considering the weakness in multiple segments and having captured more visibility on 4Q, the management has revised its guidance downward.
- Despite this fact, CYL was quite confident to grow in double digits (10-20%) in the coming years. It also remains confident in its ability to sustain margin at the current level
- The company made a provision of USD6m towards the lawsuit, which is more than sufficient to meet the future costs for settlement. Additionally, it believes that the lawsuit will not have any adverse impact on the operating performance of CYL
- The company recorded the highest ever order intake of USD297.3m (21.9% YoY) with eight large deals in 3QFY24. The order intake includes bookings from its acquired entities. The normalized growth rate stood at 13% YoY.

Exhibit 1: Growth from key geographies was strong in 3QFY24 (DET)

Geographies	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
Americas	43.9	2.6	(2.6)
Europe	35.0	5.3	13.9
Asia Pacific	21.1	(10.2)	18.5

Source: Company, MOFSL

Exhibit 2: Growth was skewed towards Sustainability in 3QFY24 (DET)

Service Verticals	Contribution to revenue (%)	QoQ growth (%)	YoY growth (%)
Transportation	30.0	(2.5)	17.3
Connectivity	23.0	(0.8)	(12.3)
Sustainability	29.7	7.7	24.3
New Growth Areas	17.2	(4.0)	(4.4)

Source: Company, MOFSL

Valuation and view

- CYL's Service segment was hit by near-term challenges, while the long-term prospects still remain constructive. Additionally, the macro recovery should contribute incrementally to its overall growth in FY25E/FY26E.
- 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 23x our FY26E earnings.
- We broadly keep our FY25/FY26 consolidated PAT estimates unchanged. **We maintain our BUY rating on the stock on attractive valuations.** Our SOTP-based TP of INR2,400 implies an upside potential of 19%.

Exhibit 3: SOTP

	Valuation Metric	Tgt Multiple	Value (FY26E)
Cyient Service (INR m)	P/E	23	2,36,906
DLM (INR m)	Market Cap (25% holdco discount)		26,946
Total Market Cap (INR m)			**2,63,852**
O/S			109.9
Target Price (INR)			**2,400**
CMP (INR)			**2,021**
Upside %			**19%**

Source: MOFSL

Exhibit 4: Revisions to our estimates

	Revised estimate			Earlier estimate			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
INR/USD	82.8	83.0	83.0	82.8	83.0	83.0	0.0%	0.0%	0.0%
USD Revenue (DET) - m	719	811	938	722	826	944	-0.5%	-1.8%	-0.7%
Growth (%)	13.6	12.8	15.7	14.2	14.3	14.4	-60bps	-150bps	130bps
EBIT margin(DET, %)	16.1	16.8	17.1	16.3	16.7	17.1	-20bps	20bps	0bps
PAT (DET, INR M)	7,026	8,756	10,300	7,272	8,841	10,315	-3.4%	-1.0%	-0.1%
EPS - DET	63.9	79.7	93.7	65.8	79.9	93.3	-2.8%	-0.3%	0.5%

Source: MOFSL

Exhibit 5: DET's P&L statement (INR m)

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Sales	**37,544**	**50,936**	**59,483**	**67,272**	**77,829**
Cost of Services	21,808	29,535	35,710	39,748	45,919
Gross Profit	15,736	21,401	23,773	27,524	31,910
EBITDA	**7,470**	**9,309**	**11,995**	**13,935**	**16,266**
% of Net Sales	19.9%	18.3%	20.2%	20.7%	20.9%
EBIT	**5,740**	**6,970**	**9,571**	**11,312**	**13,309**
% of Net Sales	15.3%	13.7%	16.1%	16.8%	17.1%
Net Income	**4,696**	**5,243**	**7,026**	**8,756**	**10,300**
Change (%)	44.3%	11.7%	34.0%	24.6%	17.6%

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

Financials and valuations (Consol)

Income Statement								(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Sales	**46,175**	**44,275**	**41,325**	**45,344**	**60,159**	**71,808**	**81,291**	**95,668**
Change (%)	17.9	(4.1)	(6.7)	9.7	32.7	19.4	13.2	17.7
Cost of Services	30,125	28,964	27,162	28,453	37,415	45,765	50,840	58,968
SG&A Expenses	9,606	9,352	8,056	8,675	12,501	12,731	14,920	17,227
EBITDA	**6,444**	**5,959**	**6,107**	**8,216**	**10,243**	**13,312**	**15,532**	**19,474**
As a percentage of Net Sales	14.0	13.5	14.8	18.1	17.0	18.5	19.1	20.4
Depreciation	1,692	1,878	1,944	1,923	2,566	2,753	3,252	3,786
Other Income	864	734	684	687	-185	-372	163	189
PBT	**5,616**	**4,815**	**4,847**	**6,980**	**7,492**	**10,187**	**12,443**	**15,877**
Tax	2,327	1,076	1,133	1,761	1,723	2,391	2,986	3,566
Rate (%)	41.4	22.3	23.4	25.2	23.0	23.5	24.0	22.5
Net Income	**3,307**	**3,726**	**3,714**	**5,219**	**5,769**	**7,623**	**9,456**	**12,310**
Change (%)	-22.5	12.7	-0.3	40.5	10.5	32.1	24.0	30.2

Balance Sheet								(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Share Capital	552	550	550	552	553	553	553	553
Reserves	25,089	25,059	29,023	30,614	34,114	36,644	40,427	45,351
Net Worth	**25,641**	**25,609**	**29,573**	**31,166**	**34,667**	**37,197**	**40,980**	**45,904**
Other liabilities	2,240	4,194	3,812	4,061	5,644	6,743	7,638	8,994
Loan	3,253	3,738	2,755	3,264	9,336	9,336	9,336	9,336
Capital Employed	**31,134**	**33,541**	**36,140**	**38,491**	**49,647**	**53,276**	**57,954**	**64,234**
Applications								
Gross Block	13,289	17,388	18,558	19,223	21,776	22,776	23,776	24,776
Less: Depreciation	8,766	9,712	10,779	11,959	14,525	17,278	20,529	24,315
Net Block	**3,530**	**6,909**	**7,181**	**6,787**	**7,251**	**5,498**	**3,247**	**461**
CWIP	300	800	113	134	27	27	27	27
Intangibles	6,990	6,800	7,191	6,662	21,413	21,413	21,413	21,413
Other assets	2,219	2,638	1,925	5,318	4,877	5,089	5,261	5,522
Curr. Assets	**25,853**	**24,650**	**28,518**	**28,972**	**31,913**	**41,092**	**49,547**	**60,927**
Debtors	8,137	7,262	8,026	7,333	11,271	12,197	13,808	16,251
Cash and Bank Balance	9,073	8,995	14,408	12,157	6,215	10,507	13,847	18,248
Other Current Assets	8,365	8,393	6,084	8,616	12,709	15,170	17,173	20,211
Current Liab. and Prov.	**7,758**	**8,256**	**8,788**	**9,382**	**15,834**	**19,843**	**21,541**	**24,115**
Trade payables	3,712	3,729	4,532	5,259	7,142	10,820	12,249	14,416
Other liabilities	3,757	4,150	3,872	3,709	7,555	7,665	7,755	7,891
Provisions	289	377	384	414	1,137	1,357	1,536	1,808
Net Current Assets	**18,095**	**16,394**	**19,730**	**19,590**	**16,079**	**21,249**	**28,006**	**36,811**
Application of Funds	**31,134**	**33,541**	**36,140**	**38,491**	**49,647**	**53,276**	**57,953**	**64,234**

Financials and valuations

Ratios								
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Basic (INR)								
EPS	**30.0**	**33.8**	**33.8**	**47.8**	**52.4**	**69.4**	**86.0**	**112.0**
Cash EPS	45.3	50.8	51.5	65.3	75.6	94.4	115.6	146.5
Book Value	232.3	232.0	269.1	285.1	314.6	338.5	372.9	417.7
DPS	13.0	27.0	24.5	24.0	26.0	41.6	51.6	67.2
Payout (%)	43.4	80.0	72.5	50.3	49.7	60.0	60.0	60.0
Valuation (x)								
P/E ratio	67.4	59.8	59.7	42.3	38.6	29.1	23.5	18.0
Cash P/E ratio	44.6	39.8	39.2	30.9	26.7	21.4	17.5	13.8
EV/EBITDA ratio	33.6	36.5	34.4	25.7	21.9	16.3	13.7	10.6
EV/Sales ratio	4.7	4.9	5.1	4.7	3.7	3.0	2.6	2.2
Price/Book Value ratio	8.7	8.7	7.5	7.1	6.4	6.0	5.4	4.8
Dividend Yield (%)	0.6	1.3	1.2	1.2	1.3	2.1	2.6	3.3
Profitability Ratios (%)								
RoE	13.5	14.6	13.5	17.2	17.5	21.2	24.2	28.4
RoCE	10.2	10.6	9.9	13.6	14.7	17.2	18.2	21.5
Turnover Ratios								
Debtors (Days)	59	63	68	62	68	62	62	62

Cash Flow Statement								(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
CF from Operations	5,411	5,496	5,872	7,318	9,024	10,549	12,708	16,096
Cash for Working Capital	-1,710	328	2,686	-973	-3,485	1,509	-1,194	-1,810
Net Operating CF	**3,701**	**5,824**	**8,558**	**6,345**	**5,539**	**12,058**	**11,514**	**14,287**
Net Purchase of FA	-1,440	-2,138	-949	-626	-625	-1,000	-1,000	-1,000
Free Cash Flow	**2,261**	**3,686**	**7,609**	**5,719**	**4,914**	**11,058**	**10,514**	**13,287**
Net Purchase of Invest.	-767	568	-58	-3,197	-9,675	-1,500	-1,500	-1,500
Net Cash from Invest.	**-2,207**	**-1,570**	**-1,007**	**-3,823**	**-10,300**	**-2,500**	**-2,500**	**-2,500**
Proc. from equity issues	22	17	37	121	79	0	0	0
Proceeds from LTB/STB	549	-916	-2,134	-1,994	1,458	0	0	0
Dividend Payments	-2,892	-3,564	-10	-2,952	-2,630	-4,574	-5,674	-7,386
Cash Flow from Fin.	**-2,321**	**-4,463**	**-2,107**	**-4,825**	**-1,093**	**-4,574**	**-5,674**	**-7,386**
Exchange difference	296	131	-31	52	-88	-692	0	0
Net Cash Flow	**-531**	**-78**	**5,413**	**-2,251**	**-5,942**	**4,292**	**3,340**	**4,400**
Opening Cash Bal.	**9,604**	**9,073**	**8,995**	**14,408**	**12,157**	**6,215**	**10,507**	**13,847**
Add: Net Cash	-531	-78	5,413	-2,251	-5,942	4,292	3,340	4,400
Closing Cash Bal.	**9,073**	**8,995**	**14,408**	**12,157**	**6,215**	**10,507**	**13,847**	**18,248**

NOTES

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 be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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