

Robust Results; Improved Vertical Outlook

Est. vs. Actual for Q4FY24: Revenue – **BEAT**; EBITDA Margin – **BEAT**; PAT – **MISS**; Deal Wins – **BEAT**

Changes in Estimates post Q4FY24

FY25E/FY26E: Revenue: 1%/2%; EBITDA: 0.5%/0.5%; PAT: 1%/2%

Recommendation Rationale

- **Improved growth prospects:** The enhanced outlook for the vertical business, coupled with strengthened collaboration with customers, bolsters our confidence in the company's growth prospects for the upcoming quarters.
- **Stable order intake amidst tough times:** TCV of \$200 Mn with 9 large deals in Q4FY24 indicates stable order intake even in challenging times.
- **Multiple order wins in recent quarters:** The management is confident of achieving demand momentum and margin improvement in the medium term, supported by numerous orders secured in recent quarters.

Sector Outlook: Cautiously positive

Company Outlook & Guidance: Cyient has given revenue growth guidance of high single digits in FY25 (in constant currency terms). The margin guidance is 16%.

Current Valuation: 25x FY26E P/E; **Earlier Valuation:** 30x FY26E

Current TP: 2,500/share (**Earlier TP:** Rs 3,000/share)

Recommendation: With strong growth potential backed by robust deal wins and superior execution capabilities, we **maintain** our **BUY** recommendation on the stock.

Financial Performance

In Q4FY24, Cyient reported revenue of Rs 1,861 Cr, up 2.2% QoQ and 6% YoY. The company's operating margins remain flattish at 14.3%. The Services' operating margins improved by 20bps/140bps QoQ/YoY, led by efficient execution during the quarter as well as currency translation. The company's net profit for Q4FY24 stood at Rs 197 Cr, registering a growth of 34% QoQ and 13% YoY. The said growth would be driven by Communications growth (led by Network Transformation), E&U (benefiting from the IG partner's acquisition), and Transportation growth (led by the Rail segment). The deal pipeline continues to look healthy at \$200 Mn.

Outlook

From the long-term perspective, we believe Cyient is a better ER&D player with an improved outlook and better deal wins. The recent recovery is long-term and sustainable over two to three years perspective. However, rising concern over uncertainties from the large economies and supply-side constraints may create uncertainties over the growth prospects of the company.

Valuation & Recommendation

We recommend a **BUY** rating on the stock and assign a 25x P/E multiple to its FY26E earnings of Rs 100/share to arrive at a TP of Rs 2,500/share, implying an upside of 31% from the CMP.

Key Financials (Consolidated)

| (Rs Cr) | Q4FY24 | QoQ (%) | YoY (%) | Axis Est. | Variance |
|-------------|--------|---------|---------|-----------|----------|
| Net Sales | 1,861 | 2% | 6% | 1870 | 0% |
| EBIT | 268.1 | 3% | 7% | 269 | 0% |
| EBIT Margin | 14% | 30 bps | 140 | 14.39% | 0% |
| Net Profit | 196.9 | 34% | 12% | 152 | 30% |
| EPS (Rs) | 17.22 | 29% | 15% | 13.8 | 25% |

Source: Company, Axis Research

(CMP as of 25 April 2024)

| | |
|---------------------------|-------------|
| CMP (Rs) | 1,915 |
| Upside /Downside (%) | 31% |
| High/Low (Rs) | 2,457/1,150 |
| Market cap (Cr) | 21,235 |
| Avg. daily vol. (6m)Shrs. | 1,01,970 |
| No. of shares (Cr) | 11.04 |

Shareholding (%)

| | Sept-23 | Dec-23 | Mar-24 |
|--------------|---------|--------|--------|
| Promoter | 23 | 23 | 23 |
| FII's | 35.7 | 34.1 | 34.1 |
| MFs / UTI | 19.8 | 19.8 | 19.8 |
| Banks / FIIs | 0 | 0 | 0 |
| Others | 21.7 | 22.3 | 22.3 |

Financial & Valuations

| Y/E Mar (Rs Cr) | FY24 | FY25E | FY26E |
|-----------------|-------|-------|-------|
| Net Sales | 7,147 | 8,047 | 9,233 |
| EBITDA | 1,303 | 1,449 | 1,754 |
| Net Profit | 918 | 828 | 1,094 |
| EPS (Rs) | 84 | 76 | 100 |
| PER (x) | 26.1 | 28.9 | 21.9 |
| P/BV (x) | 5.9 | 5.1 | 4.4 |
| EV/EBITDA (x) | 17.9 | 16.0 | 13.3 |
| ROE (%) | 24% | 18% | 21% |

Change in Estimates (%)

| Y/E Mar | FY25E | FY26E |
|---------|-------|-------|
| Sales | 1% | 2% |
| EBITDA | 0.5% | 0.5% |
| PAT | 1% | 2% |

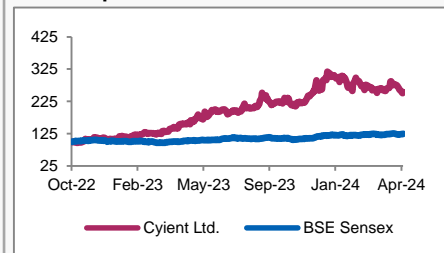
ESG disclosure Score**

| | |
|-----------------------------|------|
| Environmental Disclosure | N.A. |
| Social Disclosure Score | N.A. |
| Governance Disclosure Score | N.A. |
| Total ESG Disclosure Score | N.A. |

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: AceEquity, Axis Securities

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Recommendation Rationale & Key Highlights

- **Demand strength to continue in the medium term:** The US is relatively better placed; the UK is seeing higher cost optimization deals (with faster decision-making) while the European market is impacted in the short term. As the macro environment stabilizes, the company expects a pick-up in decision-making.
- **Broad-based vertical growth:** On the vertical front, new growth areas showed a growth of 1.2% while Communication de-grew by 2.3% QoQ. The Transportation vertical delivered a de-growth of 1.5% QoQ. The Sustainability vertical grew by 0.7% QoQ. On a positive note, the majority of the verticals are likely to witness recovery moving forward, supported by a strong deal pipeline in the forthcoming quarters.
- **Strong DET performance:** Cyient Digital, Engineering & Technology (DET) business includes the erstwhile Services business (core services and acquisitions) and a small portion of the Engineering Parts business which was earlier classified under DLM. DET revenue stood at \$297 Mn, up 61.7% QoQ and 21.9% YoY in constant currency terms. It was driven by growth across the Transportation, Sustainability, and Automotive BUs. The normalized Group EBIT margins stood at 16%, up 205bps YoY.

Key Risks to our Estimates and TP

- The demand environment is uncertain due to the potential threat of recession in the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact the company's operating margins negatively.

Results Review
(Rs Cr)

| In Cr | Q4FY24 | Q3FY24 | Q4FY23 | % change (YoY) | % change (QoQ) |
|---|--------------|--------------|--------------|----------------|----------------|
| Total Revenue | 1,861 | 1,822 | 1,751 | 6% | 2.2% |
| Total Cost of Sales | 1,206 | 1175.9 | 1085.6 | | |
| Gross Profit | 655 | 645.6 | 665.8 | -2% | 1% |
| Margin(%) | 35% | 35% | 38% | 147 | -63 |
| Selling and marketing Expenses | 64 | 63.4 | 55.5 | | |
| G&A expenses | 255.8 | 256.1 | 288.1 | | |
| Total Operating Expenses | 320 | 319.5 | 343.6 | | |
| EBITDA | 335 | 326.1 | 322.2 | 4% | 3% |
| Margin(%) | 18% | 18% | 18% | 11.727262 | -158 |
| Depreciation | 67 | 66.1 | 72.6 | | |
| Operating Income | 268.1 | 260 | 249.4 | 7% | 3% |
| Margin(%) | 14% | 14% | 14% | 13.460588 | 16.851938 |
| Total Other Income/(Expense) | 23.5 | 18.8 | 0.5 | | |
| Income Before Income Taxes | 259.2 | 249.9 | 223.7 | 16% | 4% |
| Total Taxes | 62.3 | 58.2 | 47.7 | | |
| ETR (%) | 24% | 23% | 21% | -51 | -298 |
| Net Profit After Taxes | 196.9 | 147.2 | 175.9 | 12% | 34% |
| Non Controlling Interest | 0 | 0 | 0 | | |
| Net Income After Extraordinary Items | 196.9 | 147 | 175.9 | 12% | 34% |
| Margin(%) | 7% | 7% | 14% | -920 | - |
| EPS | 17.22 | 13.4 | 14.91 | 15% | 29% |

Source: Company, Axis Securities

Financials (consolidated)

Profit & Loss

(Rs Cr)

| Y/E March | FY23 | FY24 | FY25E | FY26E |
|-------------------------------|--------------|--------------|--------------|--------------|
| Net sales | 6,016 | 7,147 | 8,047 | 9,233 |
| Stock Adjustments | 13 | (24) | - | - |
| Raw Material Consumed | 684 | - | 1,127 | 1,246 |
| Power & Fuel Cost | 27 | - | - | - |
| Employee Cost | 3,026 | 3,512 | 3,943 | 4,524 |
| Cost of Software developments | 422 | 989 | 1,529 | 1,708 |
| Total Cost | 5,014 | 5,844 | 6,599 | 7,479 |
| EBITDA | 1,002 | 1,303 | 1,449 | 1,754 |
| <i>EBITDA Margin</i> | <i>17%</i> | <i>18%</i> | <i>18%</i> | <i>19%</i> |
| Other income | 83 | 66 | 121 | 185 |
| EBIT | 1,085 | 1,369 | 1,569 | 1,939 |
| <i>EBIT Margins</i> | <i>18%</i> | <i>19%</i> | <i>20%</i> | <i>21%</i> |
| Depreciation | 257 | 267 | 304 | 280 |
| Interest & Fin Chg. | 100 | 116 | 161 | 185 |
| Pre-tax profit | 681 | 986 | 1,104 | 1,474 |
| Tax provision | 167 | 68 | 276 | 380 |
| Profit after Tax | 514 | 918 | 828 | 1,094 |

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

| Y/E March | FY23 | FY24 | FY25E | FY26E |
|----------------------------|--------------|--------------|--------------|--------------|
| Total assets | 4,479 | 5,658 | 6,126 | 6,517 |
| Net Block | 2,825 | 1,345 | 2,825 | 0 |
| CWIP | 66 | 69 | 72 | 76 |
| Investments | 421 | 422 | 424 | 426 |
| Wkg. cap. (excl cash) | 41 | 2,648 | 1,483 | 2,119 |
| Cash / Bank balance | 1,127 | 1,175 | 1,323 | 1,214 |
| Misc. Assets | -1 | -1 | -1 | -1 |
| Capital employed | 4,479 | 5,658 | 6,126 | 6,517 |
| Equity capital | 55 | 55 | 55 | 55 |
| Reserves | 3,363 | 4,013 | 4,599 | 5,373 |
| Minority Interests | 46 | 46 | 46 | 46 |
| Borrowings | 798 | 838 | 880 | 924 |
| Def Tax Liabilities | 35 | 35 | 35 | 35 |

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

| Y/E March | FY23 | FY24 | FY25E | FY26E |
|-------------------------|--------------|--------------|--------------|--------------|
| Sources | 1,564 | 1,606 | 1,518 | 1,872 |
| Cash profit | 871 | 1,301 | 1,293 | 1,559 |
| (-) Dividends | 150 | 269 | 242 | 320 |
| Retained earnings | 721 | 1,032 | 1,051 | 1,239 |
| Issue of equity | 0 | 0 | 0 | 0 |
| Change in Oth. Reserves | 286 | 650 | 586 | 774 |
| Borrowings | 520 | 40 | 42 | 44 |
| Others | 38 | -116 | -161 | -185 |
| Applications | 1,564 | 1,606 | 1,518 | 1,872 |
| Capital expenditure | 1,649 | -641 | 6,418 | 6,418 |
| Investments | -12 | 0 | 0 | 0 |
| Net current assets | -467 | -149 | 43 | -196 |
| Change in cash | 394 | 2,396 | 1,289 | 1,863 |
| Closing cash | 1,127 | 1,175 | 1,323 | 1,214 |

Source: Company, Axis Securities

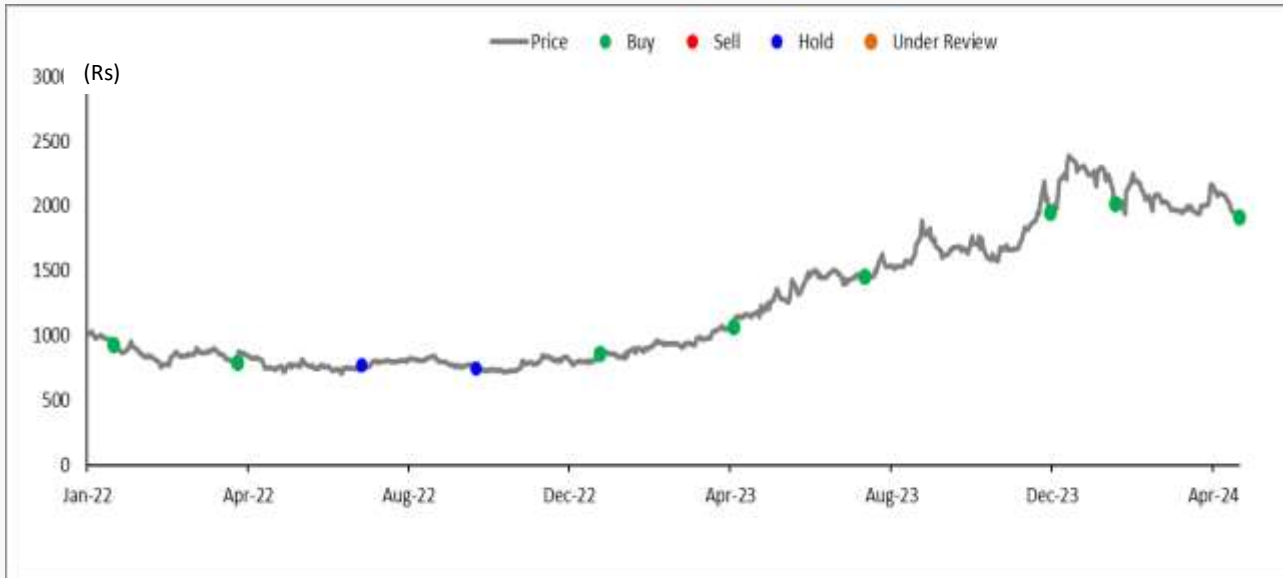
Ratio Analysis

(%)

| Y/E March | FY23 | FY24 | FY25E | FY26E |
|--------------------------------|------------|------------|------------|------------|
| Sales growth (ln %) | 33 | 19 | 13 | 15 |
| | 0 | 0 | 0 | 0 |
| OPM (ln %) | 17 | 18 | 18 | 19 |
| Oper. profit growth (ln %) | 22 | 30 | 11 | 21 |
| COGS / Net sales | 0 | 0 | 0 | 0 |
| Depreciation / G. block | 17 | -18 | 21 | -10 |
| Net wkg.cap / Net sales (ln %) | 8% | 19% | 26% | 20% |
| Net sales / Gr block (x) | 1.4 | 2.0 | 2.1 | 2.3 |
| RoCE (ln %) | 21% | 23% | 23% | 27% |
| Debt / equity (x) | 0.15 | 0.13 | 0.12 | 0.11 |
| Effective tax rate (ln %) | 24 | 7 | 25 | 26 |
| RoE (ln %) | 15% | 24% | 18% | 21% |
| Payout ratio (Div/NP) | 25 | 25 | 25 | 25 |
| EPS (Rs.) | 47 | 84 | 76 | 100 |
| EPS Growth (ln %) | -2 | 79 | -10 | 32 |
| CEPS (Rs.) | 70 | 108 | 104 | 126 |
| DPS (Rs.) | 12 | 21 | 19 | 25 |

Source: Company, Axis Securities

Cyient Price Chart and Recommendation History



| Date | Reco | TP | Research |
|------------|------|-------|----------------|
| 21-Jan-22 | BUY | 1,100 | Result Update |
| 22-Apr-22 | BUY | 1,000 | Result Update |
| 22-Jul-22 | HOLD | 830 | Result Update |
| 14-Oct-22 | HOLD | 830 | Result Update |
| 13-Jan-23 | BUY | 1,050 | Result Update |
| s21-Apr-23 | BUY | 1,260 | Result Update |
| 26-Jul-23 | BUY | 1,610 | Result Update |
| 11-Dec-23 | BUY | 2,195 | Company Update |
| 29-Jan-24 | BUY | 3,000 | Result Update |
| 26-Apr-24 | BUY | 2,500 | Result Update |
| | | | |

Source: Axis Securities

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|-----------------------|--|
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| HOLD | Between 10% and -10% |
| SELL | Less than -10% |
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