



Improved Vertical Outlook; Robust Execution Capabilities

Strong growth outlook to continue: Cyient's management has highlighted its continued focus on consistent growth. It is expecting strong double-digit growth in FY25 and is expecting operating margins to improve with volume growth, cost optimization efforts, and better pricing. Furthermore, it has developed robust capabilities and domain expertise to improve client engagement and enhance its service portfolio.

Recommendation Rationale

- **Improved growth prospects:** The improved outlook on the vertical business and deepened collaboration with customers strengthen our confidence in the company's growth prospects in the coming quarters.
- **Robust 3-year outlook in DET services:** The management foresees a strong pick-up in the majority of segments under DET verticals with a shift in technological demand.
- **Multiple order wins in recent quarters:** The management is confident of achieving demand momentum and margin improvement in the medium term, as the company has received numerous orders in recent quarters.

Current Valuation: 22x FY26E P/E; **Earlier Valuation:** 20x FY25E

Current TP: 2,195/share (**Earlier TP:** Rs 1,940/share)

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

Aerospace spending continues to accelerate

New aircraft models with improved features and re-certification of existing aircraft are expected to drive the segment's growth moving forward. Cyient is expected to benefit from areas such as design and MRO-related work.

Boeing also highlighted that it is looking to partner with large engineering services players with capabilities in Aerospace and cut down the long tail of services vendors. Given the historical engagement and capabilities in the Boeing ecosystem and scale of operations, Cyient is likely to be a beneficiary of this move. The management is confident of benefitting from the Aerospace spending cycle amid high airline passenger growth and thereby a high order backlog for Aerospace OEMs.

Valuation & Recommendation

We recommend a **BUY** rating on the stock and assign a 22x P/E multiple to its FY26E earnings of Rs 99.4/share to arrive at a TP of Rs 2,195/share, implying an upside of 13% from the CMP.

Key Financials (Consolidated)

Y/E Mar (Rs Cr)	FY23A	FY24E	FY25E	FY26E
Net Sales	6,016	7,007	8,008	9,188
EBITDA	1,002	1,208	1,441	1,746
Net Profit	514	635	823	1,088
EPS (Rs)	47	58	75	99
PER (x)	21.1	27.6	21.3	16.1
P/BV (x)	3.2	4.5	3.9	3.4
EV/EBITDA (x)	10.2	13.9	11.6	9.6
ROE (%)	15%	17%	19%	22%

Source: Company, Axis Research

(CMP as of 08 December 2023)

CMP (Rs)	1,950
Upside /Downside (%)	13%
High/Low (Rs)	2,235/765
Market cap (Cr)	21,607
Avg. daily vol. (6m)Shrs.	1,91,970
No. of shares (Cr)	11.07

Shareholding (%)

	Mar-23	Jun-23	Sep-23
Promoter	23.4	23.4	23.2
FII	34.0	32.7	32.6
MFs / UTI	22.0	22.5	22.5
Banks / FI	0.0	0.0	0.0
Others	20.6	21.4	21.9

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	7,007	8,008	9,188
EBITDA	1,208	1,441	1,746
Net Profit	635	823	1,088
EPS (Rs)	58	75	99
PER (x)	27.6	21.3	16.1
P/BV (x)	4.5	3.9	3.4
EV/EBITDA (x)	13.9	11.6	9.6
ROE (%)	17%	19%	22%

Change in Estimates (%)

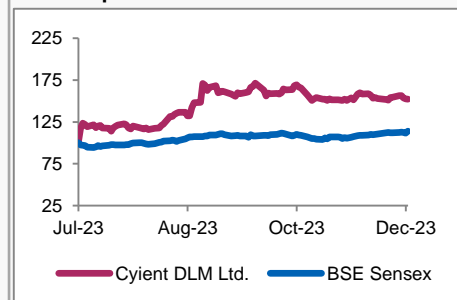
Y/E Mar	FY24E	FY25E
Sales	1%	2%
EBITDA	0.5%	0.5%
PAT	1%	2%

ESG disclosure Score**

Environmental Disclosure Score	30.9
Social Disclosure Score	28.5
Governance Disclosure Score	87.4
Total ESG Disclosure Score	49.0
Sector Average	47.8

**Note: this score measure 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 2022 disclosures. The Sector average is for NSE500 companies

Relative performance



Source: Capitaline, Axis Securities

Omkar Tanksale

Research Analyst

Omkar Tanksale

Recommendation Rationale & Key Highlights

- **Sustainability Vertical:** Cyient operates a plant engineering business under its sustainability vertical. The management expects the Energy & Utilities industry will accelerate demand in this segment. Moreover, the energy transition from fossil fuels to greener and newer energy fuels will drive strong demand in the near term. Cyient has developed robust capabilities to partner with these technological changes with large manufacturers in whole ecosystems.
- **New growth areas:** Automotive, Semiconductor, Hi-tech, Healthcare, and Medical devices are the new growth areas. The management foresees strong demand in the Automotive segment, however, given the entry of many players in the segment, the focus will be on fewer areas like driving growth through silicon and semi-conductor partnerships and developing capabilities around autonomous vehicles. Cyient's sub-segment exposure to Automotive is largely around tier 1 suppliers as well as construction and off-highway equipment companies.
- **Communication Vertical likely to remain laggard in the near term:** The communication vertical remained the laggard in the past few quarters due to high-interest rates which have pressured leveraged sectors like Telecom. It is curtailing Capex and Opex on 5G-related spending for being weak in the absence of a clear monetization path for that technology given it is a B2B technology (vs. B2C customer base of Telecom companies). The management expects weakness to continue in the near term.

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 and momentum are likely to be sustained for the next two to three years. However, rising concern over uncertainties in the large economies and supply-side constraints may pose challenges to the growth prospects of the company.

Key Risks to our Estimates and TP

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

Financials (consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23A	FY24E	FY25E	FY26E
Net sales	6,016	7,007	8,008	9,188
Stock Adjustments	13	-	-	-
Raw Material Consumed	684	916	1,121	1,240
Power & Fuel Cost	27	-	-	-
Employee Cost	3,026	3,496	3,924	4,502
Cost of Software developments	422	1,387	1,522	1,700
Total Cost	5,014	5,799	6,567	7,442
EBITDA	1,002	1,208	1,441	1,746
<i>EBITDA Margin</i>	17%	17%	18%	19%
Other income	83	126	120	184
EBIT	1,085	1,334	1,562	1,930
<i>EBIT Margins</i>	18%	19%	20%	21%
Depreciation	257	275	304	280
Interest & Fin Chg.	100	257	160	184
Pre-tax profit	681	802	1,097	1,466
Tax provision	167	167	274	378
Profit after Tax	514	635	823	1,088

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23A	FY24E	FY25E	FY26E
Total assets	4,479	5,266	6,087	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	2,279	1,451	2,105
Cash / Bank balance	1,127	1,152	1,316	1,208
Misc. Assets	-1	-1	-1	-1
Capital employed	4,479	5,266	6,087	6,517
Equity capital	55	55	55	55
Reserves	3,363	3,812	4,395	5,164
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	FY23A	FY24E	FY25E	FY26E
Sources	1,564	1,214	1,511	1,863
Cash profit	871	1,167	1,287	1,552
(-) Dividends	150	186	241	318
Retained earnings	721	981	1,047	1,233
Issue of equity	0	0	0	0
Change in Oth. Reserves	286	449	582	770
Borrowings	520	40	42	44
Others	38	-257	-160	-184
Applications	1,564	1,214	1,511	1,863
Capital expenditure	1,649	-641	6,418	6,418
Investments	-12	0	0	0
Net current assets	-467	-157	47	-195
Change in cash	394	2,012	1,277	1,853
Closing cash	803	803	803	803

Source: Company, Axis Securities

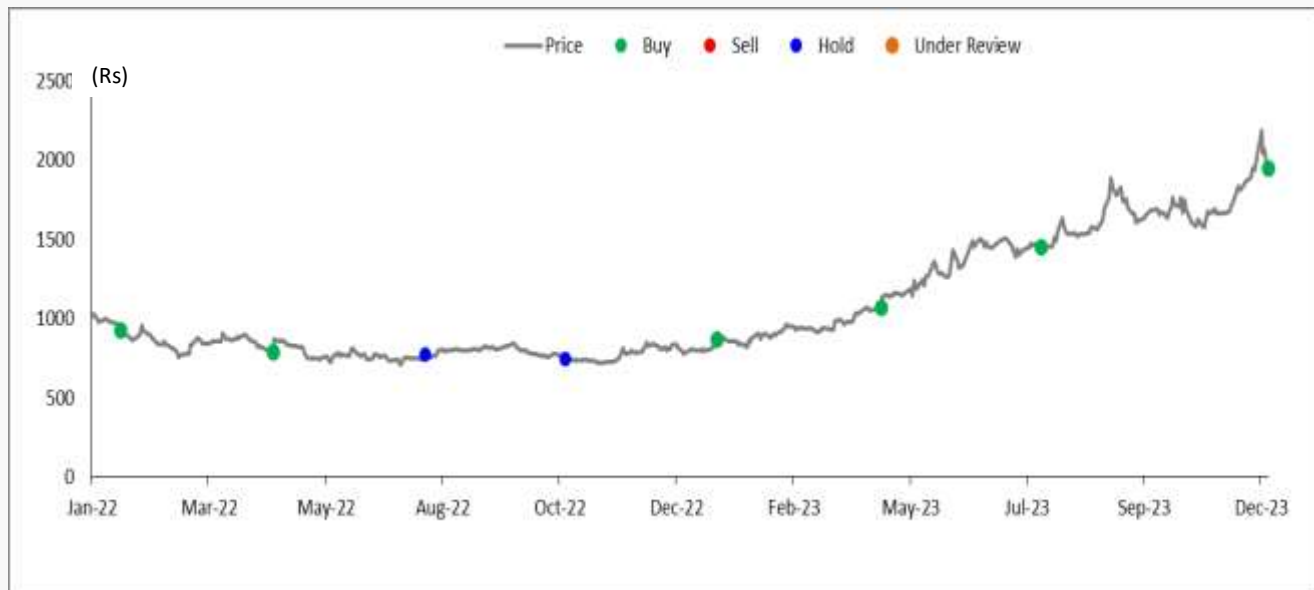
Ratio Analysis

(%)

Y/E March	FY23A	FY24E	FY25E	FY26E
Sales growth (In %)	33	16	14	15
	0	0	0	0
OPM (In %)	17	17	18	19
Oper. profit growth (In %)	22	21	19	21
COGS / Net sales	0	0	0	0
Depreciation / G. block	17	-19	21	-10
Net wkg.cap / Net sales (In %)	8%	17%	23%	19%
Net sales / Gr block (x)	1.4	1.9	2.1	2.3
RoCE (In %)	21%	22%	24%	27%
Debt / equity (x)	0.15	0.14	0.13	0.11
Effective tax rate (In %)	24	21	25	26
RoE (In %)	15%	17%	19%	22%
Payout ratio (Div/NP)	25	25	25	25
EPS (Rs.)	47	58	75	99
EPS Growth (In %)	-2	23	30	32
CEPS (Rs.)	70	83	103	125
DPS (Rs.)	12	15	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
21-Apr-23	BUY	1,260	Result Update
26-Jul-23	BUY	1,610	Result Update
11-Dec-23	BUY	2,195	Company Update

Source: Axis Securities

About the analyst



OmkarTanksale

Research Analyst

omkar.tanksale@axissecurities.in

Call: (022) 4267 1737

Disclosures:

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

1. Axis Securities Ltd. (ASL) is a SEBI Registered Research Analyst having registration no. INH000000297. ASL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. ASL is a subsidiary company of Axis Bank Ltd. Axis Bank Ltd. is a listed public company and one of India's largest private sector bank and has its various subsidiaries engaged in businesses of Asset management, NBFC, Merchant Banking, Trusteeship, Venture Capital, Stock Broking, the details in respect of which are available on www.axisbank.com.
2. ASL is registered with the Securities & Exchange Board of India (SEBI) for its stock broking & Depository participant business activities and with the Association of Mutual Funds of India (AMFI) for distribution of financial products and also registered with IRDA as a corporate agent for insurance business activity.
3. ASL has no material adverse disciplinary history as on the date of publication of this report.
4. I/We, Omkar Tanksale, MBA-Finance, author/s and the name/s subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my/our views about the subject issuer(s) or securities. I/We (Research Analyst) also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. I/we or my/our relative or ASL does not have any financial interest in the subject company. Also I/we or my/our relative or ASL or its Associates may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Since associates of ASL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. I/we or my/our relative or ASL or its associate does not have any material conflict of interest. I/we have not served as director / officer, employee etc. in the subject company in the last 12-month period. Any holding in stock – No
5. ASL has not received any compensation from the subject company in the past twelve months. ASL has not been engaged in market making activity for the subject company.
6. In the last 12-month period ending on the last day of the month immediately preceding the date of publication of this research report, ASL or any of its associates may have:

Received compensation for investment banking, merchant banking or stock broking services or for any other services from the subject company of this research report and / or;

Managed or co-managed public offering of the securities from the subject company of this research report and / or;

Received compensation for products or services other than investment banking, merchant banking or stock broking services from the subject company of this research report;

ASL or any of its associates have not received compensation or other benefits from the subject company of this research report or any other third-party in connection with this report.

Term& Conditions:

This report has been prepared by ASL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ASL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ASL will not treat recipients as customers by virtue of their receiving this report.

DEFINITION OF RATINGS	
Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward looking estimates, valuation or recommendation for the stock

Disclaimer:

Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to the recipient's specific circumstances. The securities and strategies discussed and opinions expressed, if any, in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

This report may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this report should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Certain transactions, including those involving futures, options and other derivatives as well as non-investment grade securities involve substantial risk and are not suitable for all investors. ASL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ASL and its affiliated companies, their directors and employees may; (a) from time to time, have long or short position(s) in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities or earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or investment banker, lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting this document.

ASL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that ASL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. ASL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. The Research reports are also available & published on AxisDirect website.

Neither this report nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors.

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The Company reserves the right to make modifications and alternations to this document as may be required from time to time without any prior notice. The views expressed are those of the analyst(s) and the Company may or may not subscribe to all the views expressed therein.

Copyright in this document vests with Axis Securities Limited.

Axis Securities Limited, SEBI Single Reg. No.- NSE, BSE & MSEI – INZ000161633, ARN No. 64610, CDSL-IN-DP-CDSL-693-2013, SEBI-Research Analyst Reg. No. INH 000000297, SEBI Portfolio Manager Reg. No.- INP000000654, Main/Dealing off.- Axis Securities Ltd, Unit No.1001, 10th Floor, Level-6, Q2 Building, Aurum, Q Parc, Plot No. 4/1, TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai. – 400 710., Regd. off.- Axis House,8th Floor, Wadia International Centre, PandurangBudhkar Marg, Worli, Mumbai – 400 025. Compliance Officer: Jatin Sanghani, Email: compliance.officer@axisdirect.in, Tel No: 022-49212706.