

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	976
12 month price target (INR)	1,350
Market cap (INR bn/USD bn)	108/1.4
Free float/Foreign ownership (%)	64.6/34.7
What's Changed	
Target Price	—
Rating/Risk Rating	—

QUICK TAKE

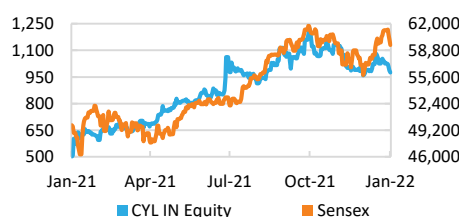
	Above	In line	Below
Profit	●		
Margins	●		
Revenue Growth	●		
Overall	●		

FINANCIALS

(INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	41,325	45,930	52,832	58,226
EBITDA	6,108	8,300	9,650	10,864
Adjusted profit	3,717	5,155	6,055	6,630
Diluted EPS (INR)	33.0	45.8	53.8	58.9
EPS growth (%)	(0.3)	38.7	17.5	9.5
RoAE (%)	13.5	16.3	16.8	16.1
P/E (x)	29.6	21.3	18.1	16.6
EV/EBITDA (x)	16.6	11.2	9.2	8.1
Dividend yield (%)	1.0	1.0	1.0	1.0

PRICE PERFORMANCE



Explore:



Financial model



Podcast



Corporate access



Video

Demand getting more robust and clear

Cyient reported Q3FY22 revenue of USD157.9mn (up 5.2% QoQ), slightly ahead of our/Street's estimate of USD156mn/USD157.6mn. Margin stood at 13.9%, beating our and Street's estimates of 12.8% and 13.1%, respectively. Normalised PAT stood at INR1,317mn, up 8.5% QoQ. The company won seven large deals with total contract potential of USD68.8mn: six from Services, one from DLM.

Management highlighted that demand is robust and there is a structural change in the form of demand for the next 3–5 years wherein industry growth could be in the range of mid-teens. Maintain 'BUY' with an unchanged TP of INR1,350.

Well-rounded performance

Strong growth in portfolio (10.2% QoQ), Aerospace (3.9% QoQ), Communications (3.5% QoQ) and Utilities (2.3% QoQ) was partially offset by contraction in rail transportation (-9.5% QoQ). By segment, services grew 3.6% driven by growth in the Semiconductor, Mining & Natural Resources, Medical Technology & Healthcare sectors and DLM grew 12.8% QoQ. Order intake grew by 16% YoY with multiple large deal-wins and 18 new logo additions. It expect 80–90% of the order book to be executed over the next 12 months. Utilisation for Q3FY22 at 86.2%, up by 128bp QoQ, is highest ever. Attrition inched up to 29.3% in Q3FY22 from 24.3% in Q2FY22 due to lower headcount addition; although it is focussing on ramping up in Q4.

Outlook remains positive

Margins stood at 13.9%, down 14bp QoQ with 80bp headwinds from semi-conductor segments and 107bp headwinds from lower billing days, but offset by tailwinds from volume impact on SG&A of 139bp and operating leverage of 87bp. Management guided FY22 EBIT margins would improve by 350bp vis-a-vis a 200bp uptick envisaged at the beginning of the year. Management maintained double-digit revenue growth in services in USD terms in FY22; however, DLM revenue growth will be impacted due to global chip shortage, which may persist for 12–15 months.

Outlook and valuation: Strong demand; maintain 'BUY'

Management is focussed on achieving industry-leading earnings growth. We believe the ER&D industry in India is witnessing a long-term structural upcycle, which will drive Cyient's long-term revenue growth. The stock is trading at 18.3x Q1FY24E. We maintain 'BUY/SO' with an unchanged TP of INR1,350.

Financials

Year to March	Q3FY22	Q3FY21	% Change	Q2FY22	% Change
Net Revenue	11,834	10,443	13.3	11,116	6.5
EBITDA	2,128	1,650	29.0	2,075	2.6
Adjusted Profit	1,316	954	37.9	1,213	8.5
Diluted EPS (INR)	12.1	8.7	39.6	11.1	9.0

Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	41,325	45,930	52,832	58,226
Cost of revenues	27,161	29,070	33,596	37,289
Gross Profit	14,164	16,860	19,236	20,937
SG&A	8,056	8,560	9,587	10,073
EBITDA	6,108	8,300	9,650	10,864
Depreciation	1,944	1,990	2,377	2,620
EBIT	4,164	6,310	7,272	8,244
Add: Other income	1,167	1,002	1,320	1,320
Profit before tax	4,850	6,879	8,128	8,900
Prov for tax	1,133	1,723	2,073	2,269
Less: Other adj	0	0	0	0
Reported profit	3,717	5,155	6,055	6,630
Less: Excp.item (net)	0	0	0	0
Adjusted profit	3,717	5,155	6,055	6,630
Diluted shares o/s	113	113	113	113
Adjusted diluted EPS	33.0	45.8	53.8	58.9
DPS (INR)	10.0	10.0	10.0	10.0
Tax rate (%)	23.4	25.1	25.5	25.5

Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
Cost/employee	2,098.1	2,161.0	2,225.9	2,314.9
Cost/employee YoY	4.8	3.0	3.0	4.0
S&M expenses (%)	4.0	3.8	3.9	3.8
EBITDA margin (%)	14.8	18.1	18.3	18.7
Net profit margin (%)	9.0	11.2	11.5	11.4
Revenue growth (% YoY)	(6.7)	11.1	15.0	10.2
EBITDA growth (% YoY)	2.5	35.9	16.3	12.6
Adj. profit growth (%)	(0.3)	38.7	17.5	9.5

Assumptions (%)

Year to March	FY21A	FY22E	FY23E	FY24E
GDP (YoY %)	(7.3)	9.5	7.0	6.5
Repo rate (%)	4.0	4.0	4.3	5.3
USD/INR (average)	75.0	74.5	76.0	75.0
G&A expenses (%)	15.5	14.9	14.2	13.5
Depreciation (%)	9.6	9.2	12.9	13.4
Yield on cash & eqv.	9.5	5.4	5.4	4.9
Tax rate as % of PBT	23.4	25.1	25.5	25.0
Capex (INR mn)	1,354.0	326.0	1,819.1	5,578.5
Receivable (days)	67.5	64.9	61.7	62.9

Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)	29.6	21.3	18.1	16.6
Price/BV (x)	3.7	3.3	2.9	2.5
EV/EBITDA (x)	16.6	11.2	9.2	8.1
Dividend yield (%)	1.0	1.0	1.0	1.0

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Share capital	550	550	550	550
Reserves	28,991	33,020	37,950	43,455
Shareholders funds	29,541	33,570	38,500	44,005
Minority interest	0	0	0	0
Borrowings	6,417	6,006	5,635	5,302
Trade payables	4,532	4,622	5,151	5,826
Other liabs & prov	4,256	7,599	7,705	7,826
Total liabilities	44,746	51,797	56,991	62,959
Net block	8,655	7,568	7,010	9,968
Intangible assets	5,830	6,250	6,250	6,250
Capital WIP	1,262	265	265	265
Total fixed assets	15,747	14,083	13,525	16,483
Non current inv	344	413	495	594
Cash/cash equivalent	14,650	22,569	26,349	27,577
Sundry debtors	8,026	8,305	9,553	10,529
Loans & advances	0	0	0	0
Other assets	5,979	6,426	7,069	7,776
Total assets	44,746	51,797	56,991	62,959

Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	3,717	5,155	6,055	6,630
Add: Depreciation	1,944	1,990	2,377	2,620
Interest (net of tax)	369	325	346	495
Others	(6,581)	(757)	(1,202)	(1,151)
Less: Changes in WC	(7,203)	(2,569)	1,256	886
Operating cash flow	6,652	9,283	6,321	7,709
Less: Capex	(1,354)	(326)	(1,819)	(5,578)
Free cash flow	5,298	8,957	4,502	2,130

Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	13.5	16.3	16.8	16.1
RoCE (%)	15.4	19.4	20.5	20.5
Inventory days	0	0	0	0
Receivable days	68	65	62	63
Payable days	56	57	53	54
Working cap (% sales)	12.3	5.5	7.1	8.0
Gross debt/equity (x)	0.2	0.2	0.1	0.1
Net debt/equity (x)	(0.3)	(0.5)	(0.5)	(0.5)
Interest coverage (x)	8.7	14.6	15.7	12.4

Valuation Drivers

Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	(0.3)	38.7	17.5	9.5
RoE (%)	13.5	16.3	16.8	16.1
EBITDA growth (%)	2.5	35.9	16.3	12.6
Payout ratio (%)	30.3	21.8	18.6	17.0

Earnings call: Key highlights

- Cyient reported INR revenue of 11,834mn, up 6.5% QoQ, up 13.3% YoY and USD revenue of 157.9mn, up 5.2% QoQ, up 11.7% YoY. In CC, revenue grew 5.9% QoQ and 12.1% YoY.
- Service revenue stood at USD129.1mn, up 3.6% QoQ and 11.9% YoY. In CC, revenue growth was 4.4% QoQ and 12.4% YoY.
- DLM revenue stood at USD28.8mn, up 12.8% QoQ and 10.6% YoY.
- Consolidated EBIT margins stood at 13.9%, down 14 bps QoQ and up 272bps YoY. These are sustainable margin and can improve further.
- Services EBIT margins were at 15.6%, up by 14 bps QoQ and 435bps YoY. Margins improved despite of higher furlough and employee retention cost. This quarter, margin had 80bps headwind from semiconductor area and 107bps headwind from lower billing days which was more than offset by tailwind from higher utilization, higher offshoring and operating leverage.
- DLM margins were at 6.0%, declined by 81 bps QoQ and 459 bps YoY.
- INR PAT was 1,317mn, up 8.5% QoQ, up 38% YoY.
- Normalized PAT Margin was at 11.1% compared to 10.9% in Q2FY22.
- Won 7 large deals with total contract potential of ~USD68.8mn (6 from services and 1 from DLM). No. large deals Cyient is participating has tripled during the LTM.
- Order intake in Q3FY22 was at USD226mn compared to USD156mn during last quarter.
- Headcount stood at 12,845, net increase of 138 QoQ.
- Attrition during the quarter increased to 29.3% from 24.3% in Q2FY22.
- Utilization for the quarter was 86.4% compared to 85% in Q2FY22.
- Top 30 clients grew by 15% YoY, which shows effect of improved account mining.
- Cash and cash equivalent stood at INR14,768mn.
- DSO for the quarter stood at 75 days compared to 93 days in Q3FY21.
- FCF to EBITDA conversion stood at 70.9% and FCF to normalized PAT conversion stood at 121.2%.
- **Guidance:** Expect consolidated revenue to grow by double digit in FY22. DLM growth will be impacted due to semiconductor shortages in Q4FY22. Expect the full year margins to improve by 350bps. Expected tax rate for FY22 is expected to be ~25%.

Exhibit 1: Key quarterly snapshot

Year to March (INR mn)	Q3FY22	Q2FY22	QoQ	Q3FY21	YoY	FY21	FY22E	FY23E	FY24E
Total revenues	11,834	11,116	6.5	10,443	13.3	41,325	45,930	52,832	58,226
Employee cost	7,533	6,844	10.1	6,826	10.4	27,161	29,070	33,596	37,289
Sales and Marketing	417	420	(0.7)	423	(1.4)	1,670	1,732	2,060	2,213
General and Administration	1,756	1,778	(1.2)	1,544	13.7	6,386	6,828	7,527	7,861
Total expenditure	9,706	9,042	7.3	8,793	10.4	35,217	37,630	43,182	47,362
EBITDA	2,128	2,075	2.6	1,650	29.0	6,108	8,300	9,650	10,864
Depreciation & amortization	487	517	(5.8)	485	0.4	1,944	1,990	2,377	2,620
EBIT	1,641	1,558	5.3	1,165	40.9	4,164	6,310	7,272	8,244
Interest expense	116	91	27.5	136	(14.7)	481	433	464	664
Other income	221	149	48.3	219	0.9	1,167	1,002	1,320	1,320
PBT	1,746	1,616	8.1	1,248	56	4,850	6,879	8,128	8,900
Provision for taxation	430	403	6.7	294	46.3	1,133	1,723	2,073	2,269
Reported profit	1,316	1,213	8.5	954	37.9	3,717	5,155	6,055	6,630
Adjusted profit	1,316	1,213	8.5	954	37.9	3,717	5,155	6,055	6,630
Diluted EPS (INR)	12.1	11.1	9.0	8.7	39.6	33.0	45.8	53.8	58.9
as % of net revenues									
Employee cost	63.7	61.6		65.4		65.7	63.3	63.6	64.0
Sales and Marketing	3.5	3.8		4.1		4.0	3.8	3.9	3.8
General and Administration	14.8	16.0		14.8		15.5	14.9	14.2	13.5
EBITDA	18.0	18.7		15.8		14.8	18.1	18.3	18.7
EBIT	13.9	14.0		11.2		10.1	13.7	13.8	14.2
Reported net profit	11.1	10.9		9.1		9.0	11.2	11.5	11.4
Tax rate	24.6	24.9		23.6		23.4	25.1	25.5	25.5

Source: Company, Edelweiss Research

Company Description

Cyient is a 15,000-plus employee software services company with competencies in: a) UT&DA services (catering to utility, transportation and government segments); b) engineering design services (in engineering, manufacturing, and industrial products verticals); and c) software services (to clients in data and technology services, engineering design, and IT services). The company's past 12-month revenue stood at INR44.3bn (USD625mn).

Investment Theme

According to a Nasscom-Booz Allen Hamilton study, outsourcing of engineering services is expected to be worth USD38–50bn by 2020 compared with USD2bn at present. As one of the leading offshore engineering services firms for the manufacturing industry, Cyient is poised to tap such opportunities in our view. The company has strong domain knowledge and comprehensive solutions capability in the GIS segment along with a healthy pipeline of deals. The company's skills in areas of mapping and designing across diversified segments and in a variety of end-user IT environments give it an edge.

Key Risks

Significant INR appreciation against USD, EUR and GBP.

Inadequate availability of skilled manpower.

Persistent slowdown in engineering services spending.

Additional Data

Management

CEO	Krishna Bodanapu
CFO	Ajay Aggarwal
COO	K Natarajan
Executive Chairman	BVR Mohan Reddy
Auditor	Deloitte Haskins and Sells

Holdings – Top 10*

	% Holding		% Holding
Vineyard Point	12.69	Aditya Birla SL	3.12
Amansa holdings	8.68	FMR LLC	2.93
Infocad Enterpr	6.35	Nippon Life AMC	2.80
ICICI Pru AMC	4.23	First State Inv	2.09
DSP Investment	3.27	Tata Asset Mana	1.78

*Latest public data

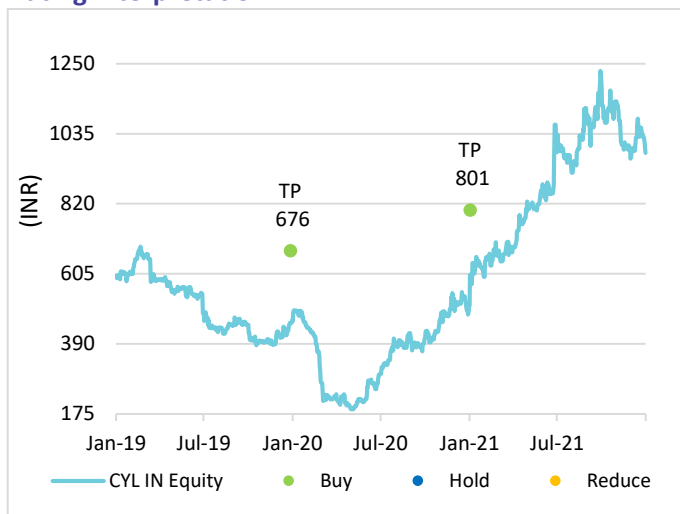
Recent Company Research

Date	Title	Price	Reco
14-Oct-21	Digital solutions to accelerate growth; <i>Result Update</i>	1079.85	Buy
16-Jul-21	Digital led strong demand ; <i>Result Update</i>	1061.7	Buy
22-Apr-21	Strong performance continues; <i>Result Update</i>	688.1	Buy

Recent Sector Research

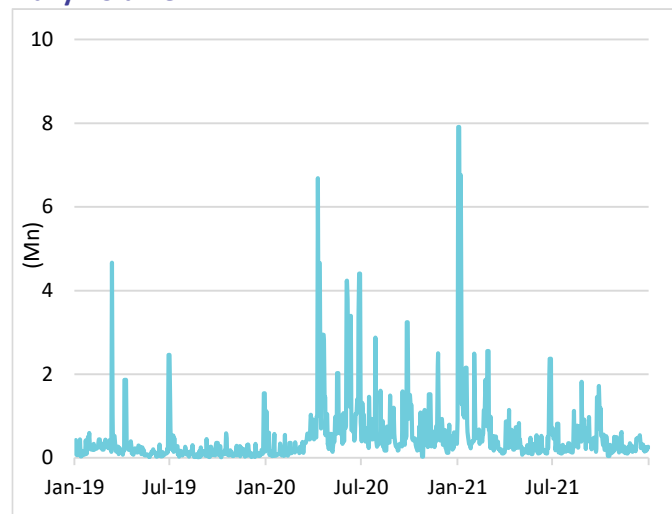
Date	Name of Co./Sector	Title
19-Jan-22	L&T Tech Services	Demand stays robust; <i>Result Update</i>
19-Jan-22	L&T Infotech	Going from strength to strength; <i>Result Update</i>
17-Jan-22	Tech Mahindra	Announces acquisition of ; <i>Edel Flash</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	189	53	18	261
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	236	38	4	278

*1 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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