



India

HOLD (previously ADD)

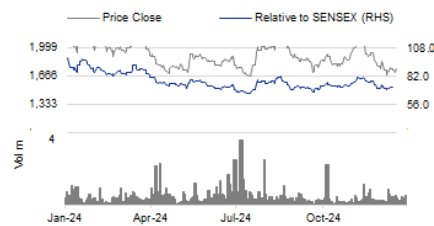
Consensus ratings*: Buy 16 Hold 6 Sell 1

Current price: Rs1,755
 Target price: ▼ Rs1,773
 Previous target: Rs2,034
 Up/downside: 1.0%
 InCred Research / Consensus: -14.0%

Reuters:
 Bloomberg: CYL IN
 Market cap: US\$2,684m
 Rs194,865m
 Average daily turnover: US\$10.8m
 Rs781.1m
 Current shares o/s: 110.0m
 Free float: 78.0%
 *Source: Bloomberg

Key changes in this note

- Expect 7.9% revenue CAGR over FY24F-27F.
- Expect 15.6% EBIT CAGR over FY24F-26F.
- Expect 17.9% PAT CAGR over FY24F-26F



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(7.4)	1.9	(17.2)
Relative (%)	(5.0)	6.6	(23.1)

Major shareholders	% held
Amansa Holdings Pvt Ltd	6.7
HDFC Flexi Cap Fund	3.2
Kotak Small Cap Fund	3.0

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Cyient Limited

Moving to the sidelines on uneven execution

- 3QFY25 performance was a miss on all counts.
- Guidance revision drives a material cut in earnings.
- Downgrade to HOLD, despite valuation comfort, on uneven execution.

3QFY25 results summary

Cyient's (CYL IN) 3QFY25 performance was a miss on all counts as the growth in transportation, connectivity, and new growth areas was offset by a 2.8% qoq decline in sustainability business while wage hike impacted the EBIT margin. Guidance revision and potential leadership churn/transition (especially in sales) suggests that execution recovery could be convoluted. We have adjusted our estimates and downgraded our rating on Cyient with a lower SOTP-based target price of Rs1,773 vs. Rs2,034 earlier. Although management remains confident on FY26F execution, we prefer to wait on the sidelines.

Good order intake but LTM growth is modest

The growth in verticals was led by transportation (3.7% qoq in constant currency or CC terms) and connectivity (7.5%) while sustainability was flattish qoq. The transportation vertical's growth was led by ramp-up of new deals in the aerospace vertical and demand from existing customers, including a large aerospace customer. Rail transportation was flattish but Cyient believes the challenges are behind. The connectivity vertical was driven by ramp-up of North American deal & it may continue to witness momentum driven by execution of the orders in hand. The sustainability vertical's challenges are driven by the near-conclusion of large projects & lack of scale in newer projects as the wins and ramp-up of some of them were delayed. That said, Cyient expects a ramp-up towards the end of 4QFY25F, with the full quarter impact in 1QFY26F. New growth areas (2.1% CC) growth was aided by the semiconductor vertical, automotive was flat, while healthcare was down qoq. At US\$312.3m, digital engineering and technology (DET) vertical's order inflow was up 99% qoq & 5% yoy but LTM wins were up 1.7% qoq & 0.8% yoy. Cyient also signed 13 large deals having a total contract potential of US\$234m.

3Q miss and guidance drives EBIT margin assumption lower

DET's normalized EBIT margin (down 72bp/252bp qoq/yoy) miss was driven by wage hike and currency headwinds, partly offset by growth leverage and operating efficiency. Cyient's revised 4QFY25F exit margin guidance (13.5% vs. 16% earlier) drives a cut in earnings.

Downgrade to HOLD (from ADD) with a lower target price of Rs1,773

We downgrade our rating on Cyient to HOLD, driven by earnings downgrade and despite the valuation comfort. We now model in ~8% (10.7% earlier) US\$ revenue CAGR over FY25F-27F and 17.9% (17%) PAT (Rs) CAGR aided by trimming of base year estimate. The TP revision is driven by trimming of estimates and lower value for Cyient DLM. Upside risk: Better-than-expected execution. Downside risks: Higher-than-anticipated decline in the organic portfolio, delay in the aerospace vertical's recovery & inferior margin execution.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	60,159	71,472	74,597	82,818	92,804
Operating EBITDA (Rsm)	10,031	13,028	11,419	13,665	16,612
Net Profit (Rsm)	5,143	7,704	5,822	8,191	10,420
Core EPS (Rs)	50.0	70.0	52.9	74.5	94.7
Core EPS Growth	5.2%	40.1%	(24.4%)	40.7%	27.2%
FD Core P/E (x)	35.12	25.06	33.17	23.58	18.53
DPS (Rs)	26.0	30.0	35.0	40.9	52.1
Dividend Yield	1.48%	1.72%	2.02%	2.33%	2.97%
EV/EBITDA (x)	19.28	14.59	16.51	13.64	10.92
P/FCFE (x)	23.84	82.66	31.48	29.61	18.53
Net Gearing	1.2%	(13.3%)	(15.9%)	(18.8%)	(26.2%)
P/BV (x)	5.57	4.53	4.34	4.01	3.65
ROE	16.7%	19.9%	13.4%	17.7%	20.6%
% Change In Core EPS Estimates			(29.25%)	(14.98%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

YE Mar (Rs m)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	3QFY25F	Var. (%)
Revenue (US\$ m)	175.2	179.2	(2.2)	173.0	1.3	176.6	(0.8)
Revenue (Rs m)	14,799	14,914.0	(0.8)	14,496.0	2.1	14,914	(0.8)
USD-Rs realization	84.5	83.2	1.5	83.8	0.8	84.5	0.0
EBITDA	2,562	2,981.0	(14.1)	2,642.0	(3.0)	2,684	(4.6)
EBITDA margin (%)	17.3	20.0	(268bp)	18.2	(91bp)	18.0	(69bp)
EBIT	1,995	2,385.0	(16.4)	2,058.0	(3.1)	2,088	(4.5)
EBIT margin (%)	13.5	16.0	(251bp)	14.2	(72bp)	14.0	(52bp)
Depreciation	567	596.0	(4.9)	584.0	(2.9)	597	(5.0)
Net other income	-338	-139.0	143.2	282.0	(219.9)	336	(200.5)
PBT	1,657	2,246.0	(26.2)	2,340.0	(29.2)	2,424	(31.6)
Provision for tax	419	519.0	(19.3)	574.0	(27.0)	595	(29.5)
% tax rate	25.3	23.1	218 bp	24.5	76 bp	24.5	76 bp
Net profit	1,238	1,341.0	(7.7)	1,766.0	(29.9)	1,830	(32.3)
EPS (Rs)	11.3	12.2	(7.7)	16.1	(29.9)	16.6	(32.3)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Key conference-call highlights

- **Guidance:**
 - Mr. Karthikeyan Natarajan has stepped down as the Executive Director and Chief Executive Officer with immediate effect. Mr. Krishna Bodanapu, Executive Vice Chairman and Managing Director, will take interim charge of operations.
 - Expects 4QFY25F exit margin at 13.5% vs. 16% earlier. Margin could improve substantially in FY26F.
- Opened a new centre of excellence along with a number of state-of-the-art labs for Allegro Microsystems. Strengthens Cyient's position as a leading partner for companies seeking to develop, manufacture and sell cutting-edge semiconductor products.
- Secured approval from the board of directors to explore additional capital-raising options for its recently acquired semiconductor subsidiary.
- Opened a new office in Sydney to explore and expand opportunities in new sectors.
- US\$20m worth of artificial intelligence or AI deal pipeline in engineering.
- Digital infrastructure segment of telecom in the US will continue to grow irrespective of the change in administration. Seeing business opportunities at some of the large satellite communications providers.

Figure 2: Operating metrics trend

Operating trends	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Revenue (US\$m)	157	162	175	197	213	205	215	219	224	201	221
Growth YoY (%)	4.5	12.6	16.5	24.8	35.9	27.0	22.9	11.1	5.2	-2.1	2.7
Growth QoQ (%)	-0.8	3.1	8.2	12.7	8.1	-3.6	4.7	1.8	2.4	-10.3	9.9
Revenue (Rs m)	11,812	12,501	13,962	16,182	17,514	16,865	17,785	18,214	18,608	16,757	18,491
Growth YoY (%)	8.1	18.1	25.6	36.7	48.3	34.9	27.4	12.6	6.2	-0.6	4.0
Growth QoQ (%)	-0.2	5.8	11.7	15.9	8.2	-3.7	5.5	2.4	2.2	-9.9	10.3
EBIT margin (%)	14.3	11.4	10.1	13.2	14.2	14.7	14.6	14.3	14.4	11.9	12.5
US\$-INR realized rate	75.4	77.4	79.9	82.1	82.2	82.1	82.8	83.2	83.1	83.4	83.8
DET business -employee count	12,834	13,581	15,004	14,693	15,172	15,306	15,438	15,678	15,461	15,083	14,799
								240	-217	-378	-284
DET - Client (%)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Top 5	30.6	32.1	28.9	27.7	27.8	29.6	29.5	29.8	31	31.7	31.4
Top 6-10	12	11.6	11	11.7	11.4	9.6	9.7	10	10.6	11.2	11.6
Non-top 10	57.4	56.3	60.1	60.6	60.8	60.8	60.8	60.2	58.4	57.1	57
DET - Client (US\$m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Top 5	40.0	44.0	43.6	46.5	49.0	52.4	52.6	53.4	55.6	53.8	54.3
Top 6-10	15.7	15.9	16.6	19.6	20.1	17.0	17.3	17.9	19.0	19.0	20.1
Non-top 10	75.0	77.2	90.8	101.7	107.1	107.7	108.5	107.9	104.7	96.8	98.6
DET - Client YoY (%)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Top 5	-5.3	0.0	6.1	14.4	22.6	19.1	20.6	14.8	13.5	2.6	3.2
Top 6-10	11.0	8.4	5.8	18.9	28.2	6.9	4.2	-8.8	-5.4	11.7	16.0
Non-top 10	18.5	27.4	33.9	41.5	42.9	39.5	19.5	6.0	-2.3	-10.1	-9.1
DET - Client QoQ (%)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Top 5	-1.7	10.1	-0.8	6.6	5.3	7.0	0.4	1.5	4.1	-3.3	1.0
Top 6-10	-5.2	1.5	4.4	18.3	2.3	-15.4	1.8	3.6	6.1	-0.1	5.6
Non-top 10	4.2	3.0	17.6	12.1	5.3	0.5	0.7	-0.5	-2.9	-7.5	1.8
Incremental revenue (US\$m)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Top 5	-2.8	3.2	-0.7	7.2	2.5	3.4	0.2	0.8	2.2	-1.8	0.6
Top 6-10	-1.7	-1.0	2.2	0.1	0.4	-3.1	0.3	0.6	1.1	0.0	1.1
Non-top 10	3.1	2.2	13.6	11.0	5.4	0.5	0.8	-0.6	-3.2	-7.9	1.8
DET - Client metrics	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
20 m+	3	4	4	6	7	7	6	6	6	5	4
10 m+	11	11	12	12	13	13	13	13	14	12	15
5 m+	25	25	30	31	31	31	31	36	35	30	29
1 m+	78	81	85	84	84	90	103	111	108	105	107
Per employee analysis	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
DET revenue (US\$ m) - TTM	504	521	548	587	632	672	700	711	714	707	701
Employees (average TTM)	12,217	12,656	13,398	14,028	14,613	15,044	15,152	15,399	15,471	15,415	15,255
Revenue per employee (TTM)	41,221	41,199	40,887	41,816	43,264	44,683	46,171	46,167	46,152	45,832	45,958

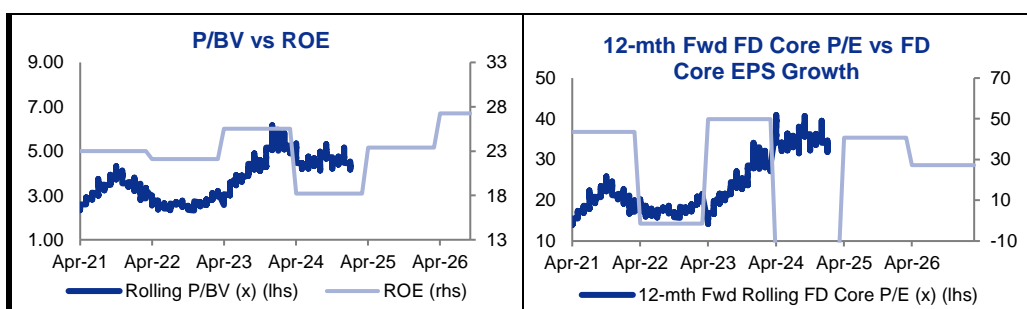
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Sum-of-the-parts or SOTP-based valuation

DET business	
Target P/E	22.0
Target price (Rs per share)	1,634
DLM business	
Target market cap (Rs m)	64,873
Cyient stake in DLM	52.16%
Holding co. discount	55%
DLM value (Rs m)	15,261
Cyient	
DET business market cap (Rs m)	1,79,689
DLM value (Rs m)	15,261
Target market cap (Rs m)	1,94,950
Target price (Rs per share)	1,773

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	60,159	71,472	74,597	82,818	92,804
Gross Profit	30,505	36,352	36,378	39,753	45,845
Operating EBITDA	10,031	13,028	11,419	13,665	16,612
Depreciation And Amortisation	(2,566)	(2,667)	(2,716)	(2,899)	(3,155)
Operating EBIT	7,465	10,361	8,703	10,766	13,457
Financial Income/(Expense)	(701)	(501)	(549)	300	543
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	514				
Profit Before Tax (pre-EI)	7,278	9,860	8,154	11,067	13,999
Exceptional Items	(467)				
Pre-tax Profit	6,811	9,860	8,154	11,067	13,999
Taxation	(1,668)	(2,156)	(2,112)	(2,656)	(3,360)
Exceptional Income - post-tax					
Profit After Tax	5,143	7,704	6,042	8,411	10,640
Minority Interests			(220)	(220)	(220)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	5,143	7,704	5,822	8,191	10,420
Recurring Net Profit	5,496	7,704	5,822	8,191	10,420
Fully Diluted Recurring Net Profit	5,496	7,704	5,822	8,191	10,420

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	10,031	13,028	11,419	13,665	16,612
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,485)	(2,606)	(388)	(1,671)	(2,030)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(1,288)	(2,775)	(2,112)	(2,656)	(3,360)
Cashflow From Operations	5,258	7,647	8,919	9,338	11,222
Capex	(675)	(853)	(2,785)	(2,815)	(800)
Disposals Of FAs/subsidiaries	23	71			
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(9,675)	(4,545)	393	1,242	1,485
Cash Flow From Investing	(10,327)	(5,327)	(2,392)	(1,573)	685
Debt Raised/(repaid)	3,511	(4,458)			
Proceeds From Issue Of Shares	79	146			
Shares Repurchased					
Dividends Paid	(2,630)	(3,058)	(3,898)	(4,505)	(5,731)
Preferred Dividends					
Other Financing Cashflow	(2,053)	4,708	(942)	(942)	(942)
Cash Flow From Financing	(1,093)	(2,662)	(4,840)	(5,447)	(6,673)
Total Cash Generated	(6,162)	(342)	1,687	2,318	5,234
Free Cashflow To Equity	8,094	2,336	6,134	6,522	10,422
Free Cashflow To Firm	(5,069)	2,320	6,527	7,765	11,907

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	8,912	10,593	12,060	14,158	19,172
Total Debtors	15,394	16,979	17,515	19,445	21,790
Inventories	4,358	4,676	4,905	5,446	6,102
Total Other Current Assets	3,249	3,343	3,343	3,343	3,343
Total Current Assets	31,913	35,591	37,823	42,392	50,407
Fixed Assets	7,278	7,749	7,818	7,734	5,379
Total Investments	3,463	3,598	3,598	3,598	3,598
Intangible Assets	21,413	21,089	21,089	21,089	21,089
Total Other Non-Current Assets	1,414	2,009	2,009	2,009	2,009
Total Non-current Assets	33,568	34,445	34,514	34,430	32,075
Short-term Debt	4,397	1,743	1,743	1,743	1,743
Current Portion of Long-Term Debt					
Total Creditors	7,142	6,878	7,255	8,055	9,026
Other Current Liabilities	8,692	7,960	7,960	7,960	7,960
Total Current Liabilities	20,231	16,581	16,958	17,758	18,729
Total Long-term Debt	4,939	2,783	2,783	2,783	2,783
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	5,676	5,103	5,103	5,103	5,103
Total Non-current Liabilities	10,615	7,886	7,886	7,886	7,886
Total Provisions					
Total Liabilities	30,846	24,467	24,844	25,644	26,615
Shareholders Equity	34,667	42,581	44,505	48,190	52,879
Minority Interests	(32)	2,988	2,988	2,988	2,988
Total Equity	34,635	45,569	47,493	51,178	55,867

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	32.7%	18.8%	4.4%	11.0%	12.1%
Operating EBITDA Growth	22.7%	29.9%	(12.4%)	19.7%	21.6%
Operating EBITDA Margin	16.7%	18.2%	15.3%	16.5%	17.9%
Net Cash Per Share (Rs)	(3.85)	55.15	68.49	87.56	133.13
BVPS (Rs)	315.12	387.06	404.54	438.05	480.67
Gross Interest Cover	7.47	8.93	9.24	11.43	14.29
Effective Tax Rate	24.5%	21.9%	25.9%	24.0%	24.0%
Net Dividend Payout Ratio	39.3%	33.7%	49.1%	41.5%	41.6%
Accounts Receivables Days	56.44	61.00	63.12	61.30	61.03
Inventory Days	43.99	46.94	45.75	43.86	44.88
Accounts Payables Days	76.32	72.85	67.49	64.88	66.38
ROIC (%)	26.9%	21.7%	15.7%	19.7%	23.8%
ROCE (%)	14.7%	17.2%	12.6%	15.2%	17.6%
Return On Average Assets	13.8%	15.1%	12.0%	14.5%	17.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.