

India

ADD (no change)

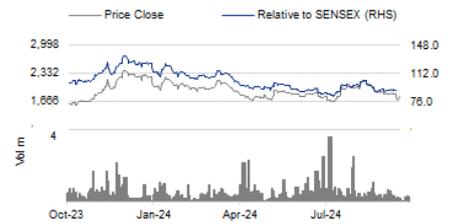
Consensus ratings*: Buy 13 Hold 7 Sell 3

Current price:	Rs1,778
Target price:	Rs2,034
Previous target:	Rs2,228
Up/downside:	14.4%
InCred Research / Consensus:	0.6%
Reuters:	CYIE.NS
Bloomberg:	CYL IN
Market cap:	US\$2,346m Rs197,237m
Average daily turnover:	US\$11.4m Rs961.0m
Current shares o/s:	110.0m
Free float:	78.0%

*Source: Bloomberg

Key changes in this note

- Expect 10.7% revenue CAGR over FY24F-27F.
- Expect 18.3% EBIT CAGR over FY24F-26F.
- Expect 17% PAT CAGR over FY24F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(10.8)	(5.7)	10.2
Relative (%)	(5.1)	(5.8)	(11.8)

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

Research Analyst(s)



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Cyient Limited

Execution pick-up critical for re-rating

- 2QFY25 revenue/margin largely in line with estimates.
- Though management retained its FY25F revenue guidance, the ask rate is steep.
- Retain our ADD rating, given valuation comfort but execution pick-up is critical for re-rating.

2QFY25 results summary

Cyient's digital engineering and technology (DET) business revenue was largely in line with estimates as the growth in transportation, connectivity and new growth areas was offset by a sharp 5.3% qoq decline in the sustainability business. The EBIT margin was in line too as growth and operating efficiency helped offset the impact of wage hike. Although management retained its FY25F guidance of flattish constant currency (CC) revenue yoy, the steep ask rate implies execution risk. Though the valuation comfort supports our ADD rating, we reiterate that a pick-up in execution is critical for re-rating.

Order intake remains soft

At US\$156.8m, the DET segment's order inflow was down 14.2% qoq and 14.7% yoy. Commentary suggests macroeconomic conditions, seasonal impact on sustainability and truncated nature of deals signed by clients weighed on deal closures but expects the order inflow to rebound in 2HFY24F led by correction of seasonal impact and a healthy order pipeline.

Resilient margin performance likely to continue

The DET segment's normalized EBIT margin (up 70bp qoq at 14.2% but down 230bp yoy) was largely in line, as headwinds from wage hike were offset by growth leverage and operating efficiency. We continue to model a 15% exit margin in 4QFY25F, in line with the guidance, driven by levers such as growth leverage, offshoring and operational efficiency.

Retain ADD rating with a lower target price of Rs2,034

We retain our ADD rating on Cyient, given the valuation comfort but lower our target price to Rs2,034 from Rs2,228 earlier. We introduce FY27F and now model a 10.7% US\$ revenue CAGR over FY25F-27F and a 17% PAT (Rs) CAGR. The target price revision is driven by trimming of estimates and increase in the PE/G discount (to 50% vs. 40% earlier) applied to the target PE/G multiple of Tata Consultancy Services (TCS), to arrive at target P/E. The discount is warranted for uneven execution. We also apply the target PE/G multiple to FY25F-27F PAT CAGR (from FY24-26F earlier). Any higher-than-anticipated decline in the organic portfolio, delay in the aerospace business recovery and inferior margin execution are key downside risks.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	60,159	71,472	74,364	84,449	96,485
Operating EBITDA (Rsm)	10,031	13,028	11,580	13,934	17,271
Net Profit (Rsm)	5,143	7,704	6,834	8,222	10,722
Core EPS (Rs)	50.0	70.0	62.1	74.7	97.5
Core EPS Growth	5.2%	40.1%	(11.3%)	20.3%	30.4%
FD Core P/E (x)	35.56	25.38	28.62	23.78	18.24
DPS (Rs)	26.0	30.0	35.0	41.1	53.6
Dividend Yield	1.46%	1.70%	1.99%	2.31%	3.02%
EV/EBITDA (x)	19.52	14.77	16.40	13.50	10.61
P/FCFE (x)	24.15	83.71	32.84	30.61	18.53
Net Gearing	1.2%	(13.3%)	(17.8%)	(19.9%)	(26.8%)
P/BV (x)	5.64	4.59	4.29	3.97	3.62
ROE	16.7%	19.9%	15.5%	17.4%	20.8%
% Change In Core EPS Estimates			(16.95%)	(14.65%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 1: Quarterly performance

Y/E Mar (Rs m)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	2QFY25E	Var. (%)
Revenue (US\$ m)	173.0	178.4	(3.0)	169.6	2.0	172.3	0.4
Revenue (Rs m)	14,496	14,762.0	(1.8)	14,144.0	2.5	14,435	0.4
USD-Rs realization	83.8	82.7	1.3	83.4	0.5	83.8	0.0
EBITDA	2,642	3,037.0	(13.0)	2,487.0	6.2	2,598	1.7
EBITDA margin (%)	18.2	20.6	(235 bp)	17.6	64 bp	18.0	23 bp
EBIT	2,058	2,440.0	(15.7)	1,903.0	8.1	2,014	2.2
EBIT margin (%)	14.2	16.5	(233bp)	13.5	74bp	14.0	25bp
Depreciation	584	597.0	(2.2)	584.0	0.0	585	(0.1)
Net other income	282	-180.0	(256.7)	-54.0	(622.2)	-21	(1,429.2)
PBT	2,340	2,260.0	3.5	1,849.0	26.6	1,992	17.4
Provision for tax	574	531.0	8.1	435.0	32.0	469	22.5
% tax rate	24.5	23.5	103bp	23.5	100bp	23.5	100bp
Net profit	1,766	1,681.0	5.1	1,414.0	24.9	1,524	15.9
EPS (Rs)	16.1	15.3	5.1	12.9	24.9	13.9	15.9

SOURCE: COMPANY REPORTS, INCRED RESEARCH

Key conference call highlights

- **Guidance:**
 - Management retained its flattish yoy CC revenue growth guidance for FY25F despite weaker-than-expected 1H and expects 15% exit margin by 4QFY25F-end.
 - Cyient expects 3QFY25F to be better than 2Q led by broad-based growth and orders in hand.
- **Vertical and service line commentary**
 - **Transportation** (3.4%/-7.3% qoq/yoy CC): Growth was led by strong recovery in the aerospace sub-segment.
 - **Connectivity** (3.9%/-6.1% qoq/yoy CC): Growth was led North America while Europe continues to recover. Communication growth trajectory to continue for the rest of the year.
 - **Sustainability** (-6.4%/-2.2% qoq/yoy CC): Recurring seasonality in Europe and softness in the consulting business impacted quarterly performance.
 - **New growth areas** (9.7%/6.7% qoq/yoy CC): Growth was led by healthcare and life sciences, automotive and semiconductor sub-segments. Expect the growth momentum to continue in 3QFY25F.
 - Automotive growth momentum to continue driven by silicon, software, and digital solutions, despite potential medium-term impact on software business.
- Headcount declined by 284, a third sequential decline, as the focus continues on improving productivity, utilization, and usage of contingent workforce for project-based engagements.
- Aims to utilize ~Rs8.75bn raised from stake sale in Cyient DLM to meet capital requirements for both organic and inorganic initiatives in the semiconductor business, with an aim to drive accelerated growth and also partially retire long-term debt.
- During the quarter, the company secured deals involving digital PLM platform migration, digital enhancements for medtech customers, mixed signal ASIC for medical analysis, IoT analytics SaaS platform development for a utilities customer, and an AI-enabled intelligent content platform for a large European aircraft manufacturer.

Figure 2: Operating metric 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 (Rsm)	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

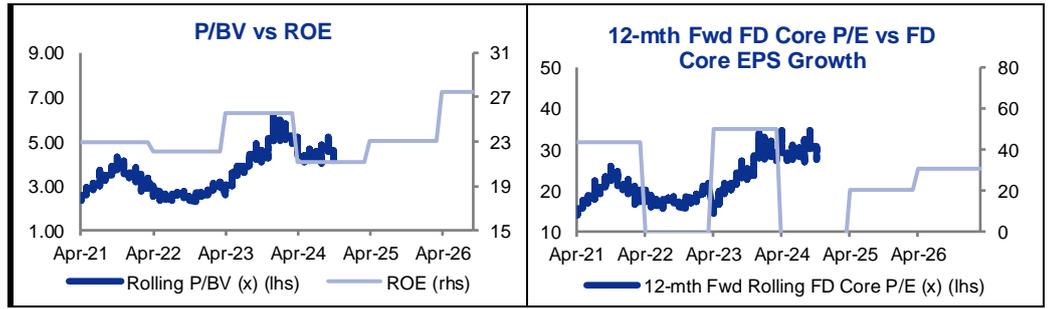
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: SOTP valuation

DET business	
Target P/E	22.2
Target price (Rs per share)	1,865
DLM business	
Target market cap (Rs m)	79,307
Cyient stake in DLM	52.16%
Holding co. discount	55%
DLM value (Rs m)	18,615
Cyient	
DET business market cap (Rs m)	2,04,954
DLM value (Rs m)	18,615
Target market cap (Rs m)	2,23,569
Target price (Rs per share)	2,034

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	74,364	84,449	96,485
Gross Profit	30,505	36,352	35,469	40,535	47,664
Operating EBITDA	10,031	13,028	11,580	13,934	17,271
Depreciation And Amortisation	(2,566)	(2,667)	(2,726)	(2,956)	(3,280)
Operating EBIT	7,465	10,361	8,854	10,978	13,990
Financial Income/(Expense)	(701)	(501)	750	185	462
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	514				
Profit Before Tax (pre-EI)	7,278	9,860	9,605	11,163	14,452
Exceptional Items	(467)				
Pre-tax Profit	6,811	9,860	9,605	11,163	14,452
Taxation	(1,668)	(2,156)	(2,509)	(2,679)	(3,469)
Exceptional Income - post-tax					
Profit After Tax	5,143	7,704	7,096	8,484	10,984
Minority Interests			(262)	(262)	(262)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	5,143	7,704	6,834	8,222	10,722
Recurring Net Profit	5,496	7,704	6,834	8,222	10,722
Fully Diluted Recurring Net Profit	5,496	7,704	6,834	8,222	10,722

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	10,031	13,028	11,580	13,934	17,271
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(3,485)	(2,606)	(340)	(2,050)	(2,447)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received					
Tax Paid	(1,288)	(2,775)	(2,509)	(2,679)	(3,469)
Cashflow From Operations	5,258	7,647	8,731	9,205	11,355
Capex	(675)	(853)	(2,776)	(2,815)	(800)
Disposals Of FAs/subsidiaries	23	71			
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(9,675)	(4,545)	1,832	1,267	1,544
Cash Flow From Investing	(10,327)	(5,327)	(944)	(1,549)	744
Debt Raised/(repaid)	3,511	(4,458)			
Proceeds From Issue Of Shares	79	146			
Shares Repurchased					
Dividends Paid	(2,630)	(3,058)	(3,884)	(4,522)	(5,897)
Preferred Dividends					
Other Financing Cashflow	(2,053)	4,708	(1,082)	(1,082)	(1,082)
Cash Flow From Financing	(1,093)	(2,662)	(4,966)	(5,604)	(6,979)
Total Cash Generated	(6,162)	(342)	2,822	2,052	5,120
Free Cashflow To Equity	8,094	2,336	5,955	6,389	10,555
Free Cashflow To Firm	(5,069)	2,320	7,787	7,656	12,099

SOURCES: 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	13,153	14,943	19,801
Total Debtors	15,394	16,979	17,460	19,828	22,654
Inventories	4,358	4,676	4,890	5,553	6,344
Total Other Current Assets	3,249	3,343	3,343	3,343	3,343
Total Current Assets	31,913	35,591	38,845	43,667	52,142
Fixed Assets	7,278	7,749	7,799	7,659	5,178
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	34,495	34,355	31,874
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	7,233	8,214	9,384
Other Current Liabilities	8,692	7,960	7,960	7,960	7,960
Total Current Liabilities	20,231	16,581	16,936	17,917	19,087
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	24,822	25,803	26,973
Shareholders Equity	34,667	42,581	45,531	49,231	54,056
Minority Interests	(32)	2,988	2,988	2,988	2,988
Total Equity	34,635	45,569	48,519	52,219	57,044

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	32.7%	18.8%	4.0%	13.6%	14.3%
Operating EBITDA Growth	22.7%	29.9%	(11.1%)	20.3%	23.9%
Operating EBITDA Margin	16.7%	18.2%	15.6%	16.5%	17.9%
Net Cash Per Share (Rs)	(3.85)	55.15	78.42	94.69	138.85
BVPS (Rs)	315.12	387.06	413.87	447.51	491.36
Gross Interest Cover	7.47	8.93	8.18	10.15	12.93
Effective Tax Rate	24.5%	21.9%	26.1%	24.0%	24.0%
Net Dividend Payout Ratio	39.3%	33.7%	41.6%	41.5%	41.6%
Accounts Receivables Days	56.44	61.00	63.21	60.65	60.48
Inventory Days	43.99	46.94	44.88	43.40	44.47
Accounts Payables Days	76.32	72.85	66.21	64.19	65.78
ROIC (%)	26.9%	21.7%	16.0%	20.2%	24.6%
ROCE (%)	14.7%	17.2%	12.7%	15.2%	18.0%
Return On Average Assets	13.8%	15.1%	12.6%	14.6%	17.4%

SOURCES: 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.