

Cyient: Revenue growth turned positive, outlook maintained; Buy

Rating: **Buy**

Target price (12-mth): Rs.2,230

Share price: Rs.1,785

- 2% DET revenue growth (1.3% q/q in CC); was broadbased, barring sustainability which was hit by seasonality
- Aero turned positive, driving growth in the transportation vertical overall. Growth in communications was led by the US
- TCv down 14.7% y/y; book-to-bill was 0.9x (LTM average 1.2x, Q1 FY25 1.1x)
- Reiterated FY25 guidance of flattish revenue growth; EBIT to come at 16% by Q4; H2 to be better than H1

Key data	CYL IN / CYIE.BO
52-week high / low	Rs.2,459 / 1,542
Sensex / Nifty	79,402 / 24,181
3-m average volume	\$10.6m
Market cap	Rs.200bn / \$2,372.9m
Shares outstanding	111m

Shareholding (%)	Sep'24	Jun'24	Mar'24
Promoters	23.2	23.2	23.2
<i>- of which, Pledged</i>			
Free float	76.9	76.8	76.8
- Foreign institutions	28.4	29.5	31.1
- Domestic institution	29.7	27.1	25.9
- Public	18.8	20.3	19.9

Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rsm)	60,159	71,472	73,662	81,533	90,485
Net profit (Rsm)	5,144	6,916	7,595	8,659	9,796
EPS (Rs)	47.2	62.4	68.5	78.1	88.4
PE (x)	38.5	28.6	26.0	22.8	20.2
EVEBITDA (x)	18.6	14.7	15.4	13.7	12.5
PBV (x)	5.7	4.6	4.3	3.9	3.5
RoE (%)	15.6	17.9	17.1	17.8	18.4
RoCE (%)	12.8	14.6	12.9	14.5	15.1
Dividend yield (%)	1.4	1.5	1.9	2.1	2.5
Net debt/equity (x)	0.0	-0.1	-0.1	-0.2	-0.2

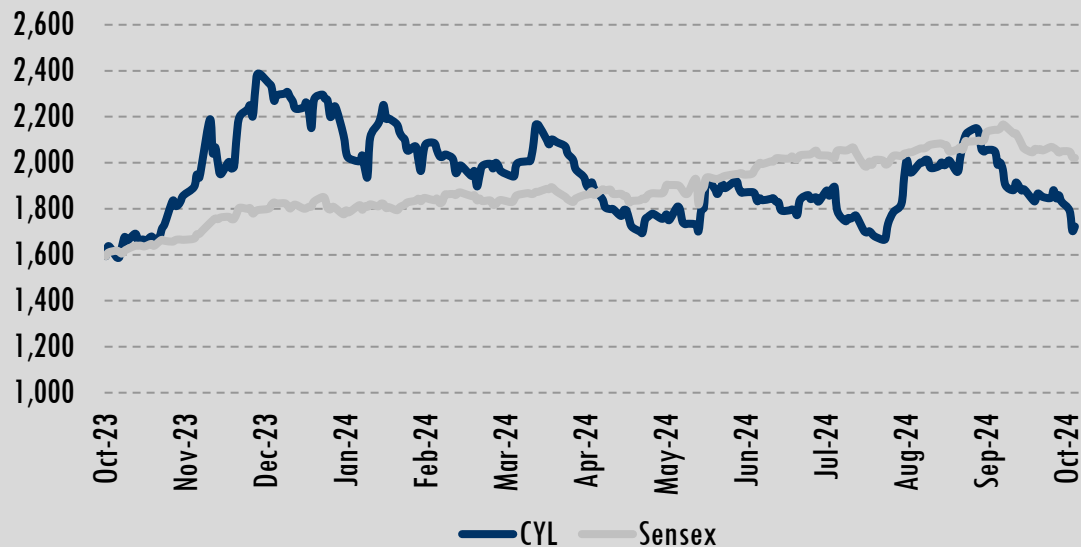
Jayalaxmi Gupta
Research Associate

Cyient: Revenue growth turned positive; outlook maintained; Buy

With 2% q/q growth (1.3% in CC), aided by broad-based growth across verticals, Cyient's Q2 was in line with estimates. Sustainability, however, declined a steep 6.4% sequentially (-2.2% y/y) in CC. The \$156.8m TCV was down 14.7% y/y, with book-to-bill of 0.9x vs the last four quarters' average 1.2x, sufficient to meet the muted FY25 guidance. The Q2 EBIT margin was 74bp higher q/q (but y/y down 233bps) to 14.2%, despite wage hikes. Management re-iterated its optimism of growth in H2 being better than in H1. Given the inline Q2, we retain our FY25e/FY26e but raise FY25 earnings by 6.6% largely due to higher forex gain. We roll forward our valuation to FY27 and raise our TP to Rs.2,230 (from Rs.1,990), valuing DET at 26x FY27e EPS. Hence, we upgrade to Buy.

- **Broadbased growth in Q2**, barring Sustainability (31% of revenue) which slid 6.4% q/q, hit by seasonality in Europe (down 2.2% y/y). However, management expects this vertical to bounce back to growth in H2, led by reversal in furloughs. Transportation (29.5% of revenue), however revived a healthy 3.4% sequentially, driven by Aerospace. Connectivity (23% of revenue) grew 3.9% q/q led by the US. New growth areas (17% of revenue) was 9.7% higher q/q led by growth in Healthcare, Automotives and Semcon. These verticals are expected to sustain the growth momentum in H2. LTM orders of \$865m were down 2% y/y. Management said order sizes are changing q/q compared to the previous year due to macroeconomic conditions, resulting in smaller deals. Execution time for these smaller deals is shorter than in previous years. The company recently concluded the sale of 14.5% of its stake in its subsidiary (11.5m shares), Cyient DLM (its stake is now 52.2%), the proceeds to be utilized for inorganic growth in Semiconductors.
- **EBIT margin expands sequentially.** The Q2 EBIT margin expanded 74bps sequentially, (-233bps y/y), to 14.2%, despite wage hikes, offset by revenue growth and operational efficiency. Ahead management expects the Q3 margin to be better than Q2. Margin expansion in H2, however, would be driven by growth and operational efficiency. Net headcount was down 4% y/y. Attrition 15%, down 540bps y/y.
- **Business outlook for FY25.** Reiterated revenue growth to be flattish. DET EBIT margin to be 16% by Q4 FY25
- **Upgrade to Buy.** We expect DET revenue to clock a 9.2% CAGR over FY25-27. The EBIT margin may reach 16.6% by FY27 (from 14.2% in Q2 FY25), leading to 14%/10.6% EBIT/PAT CAGRs. We value Cyient at 26x FY27e EPS, at a ~10% discount to LTTS. Risk: Prolonged weakness in Sustainability

Relative price performance



Price movement



Q2 results snapshot

Cyient DET	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q/Q	Y/Y%
Revenue Services (\$ m)	168	176	177	178	179	179	170	173	2.0%	-3.0%
Growth Y/Y %	8%	13%	10%	9%	7%	2%	-4%	-3%		
Industry Y/Y % (est.)	9%	10%	8%	6%	9%	6%	5%	6%		
Revenue (Rs m)	13,792	14,488	14,546	14,762	14,914	14,892	14,144	14,496	2.5%	-1.8%
Effec. exchange rate	82	82	82	83	83	83	84	84	0.3%	1.2%
TCV Services (\$ m)	237	213	193	184	297	228	183	157	-14.2%	-14.7%
TCV Services(LTM)	699.9	724.6	772.0	826.9	887.1	902.2	891.7	864.6	-3.0%	4.6%
Y/Y %	18%	13%	33%	43%	25%	7%	-5%	-15%		
TCV:Rev.	1.4	1.2	1.1	1.0	1.7	1.3	1.1	0.9		
Employees Services (EoP)	14,693	15,172	15,306	15,438	15,678	15,461	15,083	14,799	-1.9%	-4.1%
Rev. prod. (\$ '000/employee)	11.31	11.80	11.62	11.61	11.52	11.52	11.11	11.58	4.3%	-0.2%
Utilisation % (IT Services)	91%	87%	86%	86%	85%	86%	83%	86%	300 bps	0 bps
Attrition %	27%	26%	23%	20%	18%	17%	16%	15%	-100 bps	-540 bps
CoR (excl. D&A)	(8,060)	(8,380)	(8,759)	(8,825)	(8,954)	(8,965)	(8,554)	(8,744)	2.2%	-0.9%
As % of revenue	-58%	-58%	-60%	-60%	-60%	-60%	-60%	-60%	16 bps	-54 bps
SG&A	(3,172)	(3,251)	(2,831)	(2,901)	(2,979)	(2,940)	(3,103)	(3,110)	0.2%	7.2%
As % of revenue.	-23%	-22%	-19%	-20%	-20%	-20%	-22%	-21%	48 bps	-180 bps
EBITDA	2,560	2,857	2,956	3,036	2,981	2,987	2,487	2,642	6.2%	-13.0%
EBITDA margins %	19%	20%	20%	21%	20%	20%	18%	18%	64 bps	-234 bps
EBIT	1,924	2,190	2,336	2,439	2,385	2,385	1,903	2,058	8.1%	-15.6%
EBIT margins %	14%	15%	16%	17%	16%	16%	13%	14%	74 bps	-233 bps
Industry margins % (est.)	15.4%	16.0%	16.1%	16.0%	15.4%	16.0%	14.8%	14.7%	-13 bps	-130 bps
Other income (excl. forex)	333	19	93	43	94	151	145	466	221.4%	979.2%
Non-recurring / Forex	(67)	(127)	(85)	(62)	(503)	-	-	-	0.0%	-100.0%
Interest expenses	(243)	(188)	(215)	(223)	(233)	(258)	(200)	(183)	-8.5%	-17.9%
PBT	1,947	1,893	2,129	2,197	1,743	2,278	1,848	2,341	26.7%	6.5%
PBT margins %	14%	13%	15%	15%	12%	15%	13%	16%	308 bps	127 bps
Taxes	(472)	(431)	(511)	(517)	(402)	(543)	(435)	(574)	32.0%	11.0%
ETR %	-24%	-23%	-24%	-24%	-23%	-24%	-24%	-25%	-98 bps	-99 bps
Associates / Minority	-	-	-	-	-	-	(37)	(75)		
Net income	1,475	1,462	1,618	1,680	1,341	1,735	1,413	1,767	25.1%	5.2%
Net margins %	11%	10%	11%	11%	9%	12%	10%	12%	220 bps	81 bps
Industry net margins %	11.6%	12.8%	12.6%	11.9%	12.4%	12.5%	12.3%	12.4%	11 bps	49 bps
EPS (Rs)	14	13	15	15	12	16	13	16	25.1%	5.0%

Management commentary

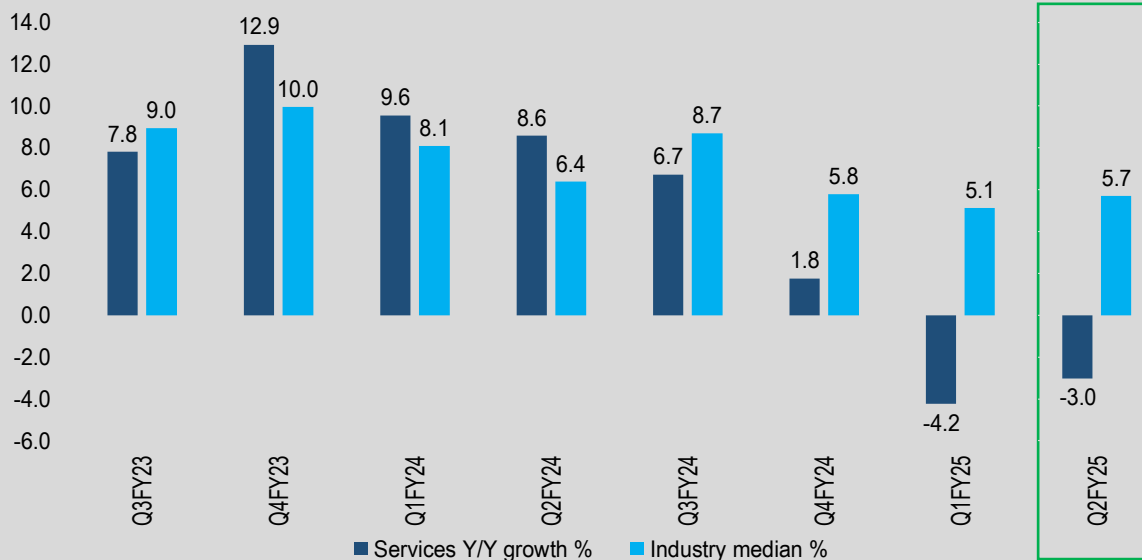
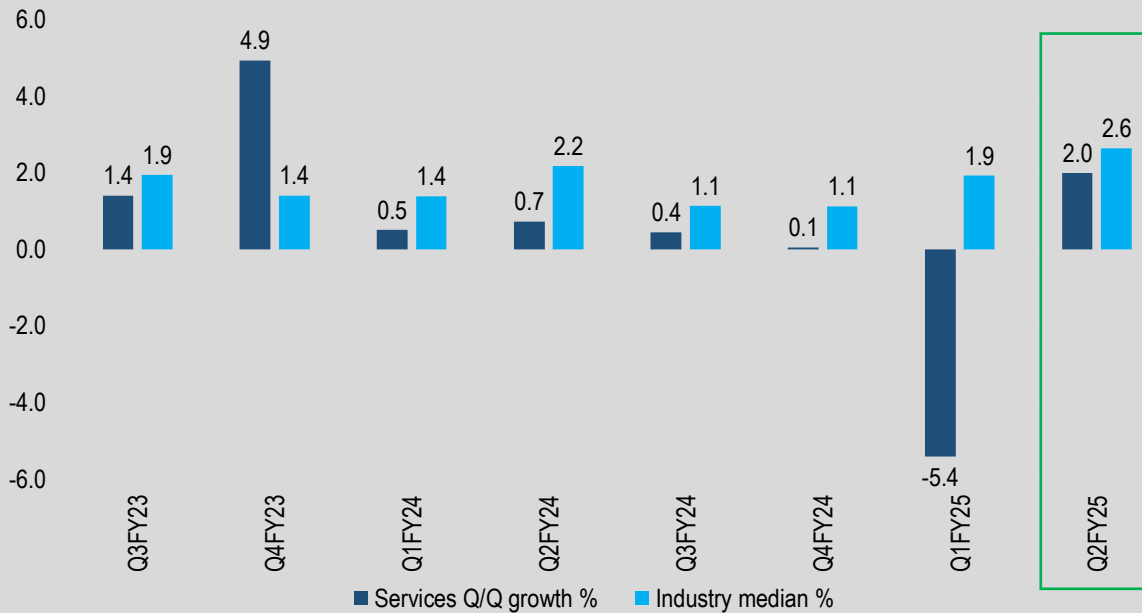
- Q3 will be better sequentially, led by ramp-ups of a few deals won in H1
- Barring Sustainability, all verticals turned positive in Q2 (impacted by seasonality in Europe), likely to revive in Q3
- The company expects orders to significantly improve in H2
- Most of the \$100m from the DLM stake sale will be deployed in Semiconductors (for organic and inorganic growth), mostly capex
- Margins to recover along with revenues

Cyient – Q2 peer comparison

	TCS	Persistent	LTTS	Cyient	Tata Elxsi
Sales (\$ m)	7,670	346	307	173	114
% chg. Q/Q	2.2	5.3	3.9	2.0	3.1
% chg. Y/Y	6.4	18.4	6.5	(3.0)	7.5
Sales (Rsm)	6,42,590	28,972	25,729	14,496	9,551
% chg. Q/Q	2.6	5.8	4.5	2.5	3.1
% chg. Y/Y	7.7	20.1	7.8	(1.8)	8.3
EBITDA (Rsm)	1,67,320	4,807	4,660	2,642	2,664
% chg. Q/Q	0.4	5.6	2.1	6.2	5.6
% chg. Y/Y	6.3	18.6	(2.0)	(13.0)	1.1
EBITDA margin (%)	26.0	16.6	18.1	18.2	27.9
chg. Q/Q	-57 bps	-4 bps	-42 bps	64 bps	66 bps
chg. Y/Y	-34 bps	-21 bps	-182 bps	-234 bps	1 bps
EBIT (Rsm)	1,54,650	4,062	3,877	2,058	2,393
% chg. Q/Q	0.1	5.8	1.1	8.1	6.2
% chg. Y/Y	6.8	22.8	(4.9)	(15.6)	0.3
EBIT margin (%)	24.1	14.0	15.1	14.2	25.1
chg. Q/Q	-60 bps	-1 bps	-51 bps	74 bps	74 bps
chg. Y/Y	-20 bps	31 bps	-201 bps	-233 bps	-200 bps
PBT (Rsm)	1,60,320	4,345	4,408	2,341	2,987
% chg. Q/Q	(1.2)	8.5	1.9	26.7	18.3
% chg. Y/Y	4.6	22.1	1.1	6.5	13.2
Tax rate (%)	(25.4)	(25.2)	(27.4)	(24.5)	(23.2)
chg. Q/Q	-1 bps	-170 bps	5 bps	-98 bps	388 bps
chg. Y/Y	34 bps	79 bps	16 bps	-99 bps	100 bps
Net income (Rsm)	1,19,090	3,250	3,196	1,767	2,294
Net Margin %	18.5%	11.2%	12.4%	12.2%	24.0%

Cyient Quarterly results							
Year-end: Mar (Rs m)	Q2FY25	% chg. Q/Q	% chg. Y/Y	FY24	FY25	FY25 % chg. Y/Y	6MFY25 % of FY25
Sales (\$ m) - Services	173	2.0	(3.0)	714	698	(2.2)	49.1
Sales	14,496	2.5	(1.8)	59,114	58,435	(1.1)	49.0
EBITDA	2,642	6.2	(13.0)	11,960	11,229	(6.1)	45.7
<i>EBITDA margin (%)</i>	18.2	64 bps	-234 bps	20.2	19.2	-102 bps	
EBIT	2,058	8.1	(15.6)	9,545	8,912	(6.6)	44.4
<i>EBIT margin (%)</i>	14.2	74 bps	-233 bps	16.1	15.3	-90 bps	
PBT	2,341	26.7	6.5	8,347	9,542	14.3	43.9
Tax	(574)	32.0	11.0	(1,973)	(2,439)	23.6	41.4
<i>Tax rate (%)</i>	(24.5)	-98 bps	-99 bps	(23.6)	(25.6)	-192 bps	
Net income	1,767	25.1	5.2	6,374	7,103	11.4	44.8

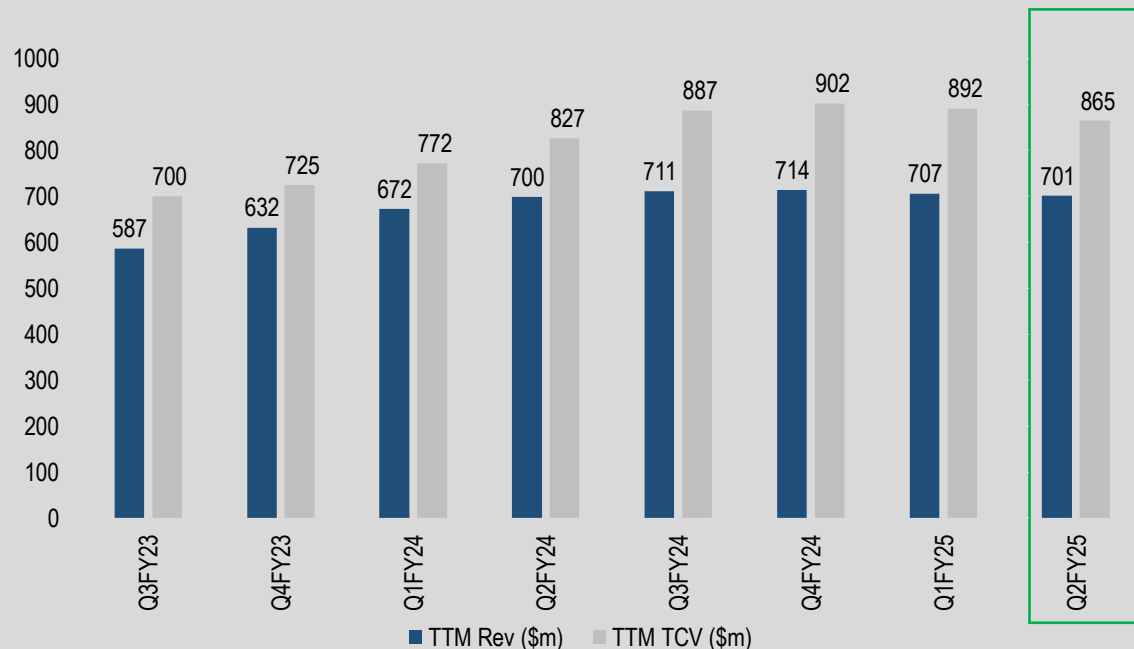
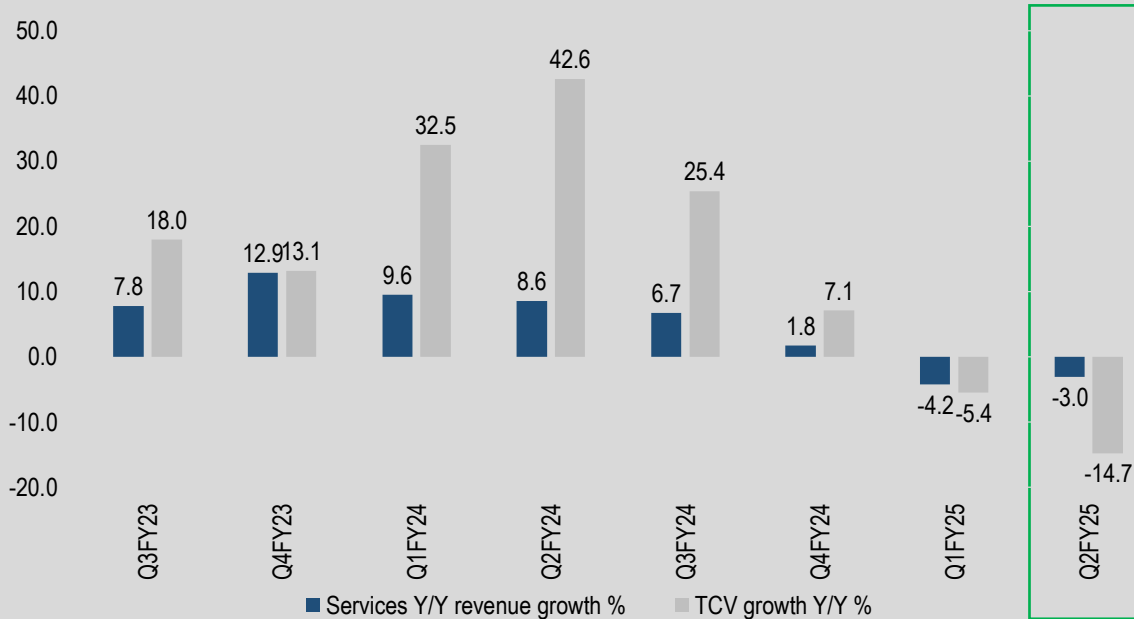
Cyient: Better than expected Q2



- Cyient's Q2 revenue growth turned positive sequentially, registering 2% growth, though below the industry median. In CC, revenue grew 1.3% q/q
- Growth was largely driven by growth in Aerospace, Connectivity and new growth areas, while Sustainability remained weak, impacted by furloughs in its European region.
- Among regions, Europe declined further 6.4% q/q while growth momentum in the US continued (4.8%). Europe now brings 301.0% to revenue while the US adds 48.3%
- DET revenue slipped 3% y/y, was contrary to the industry median
- Management talked of growth recovering from Q2, and expects H2 to be better than H1 FY25
- For FY25, it reiterated its guidance of growth being flattish. Against this, we expect a ~2% y/y decline in FY25

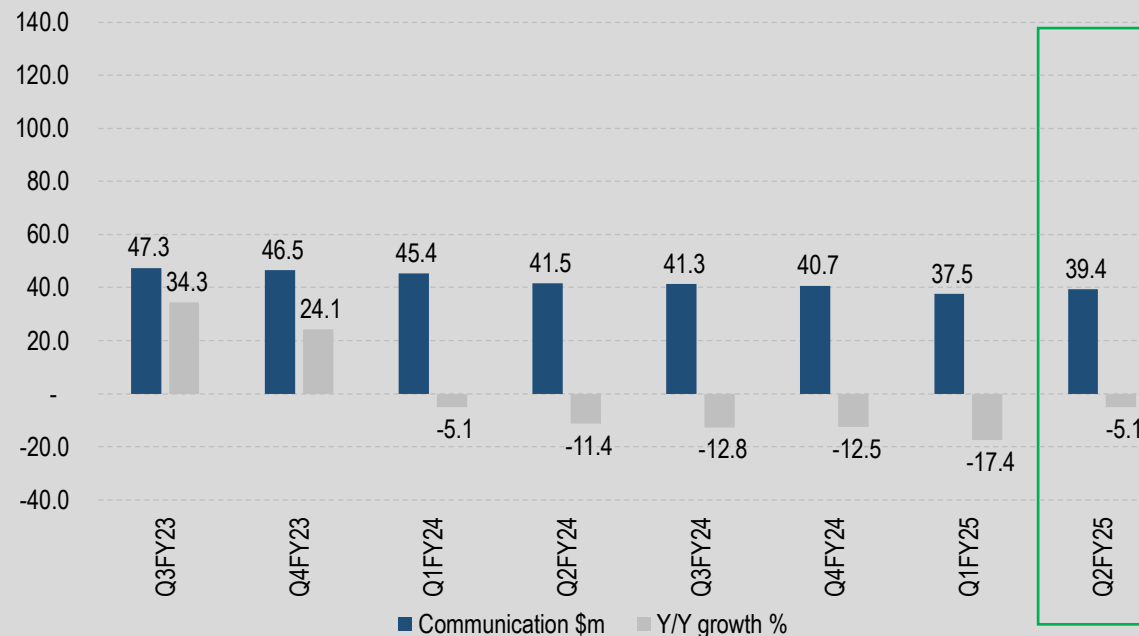
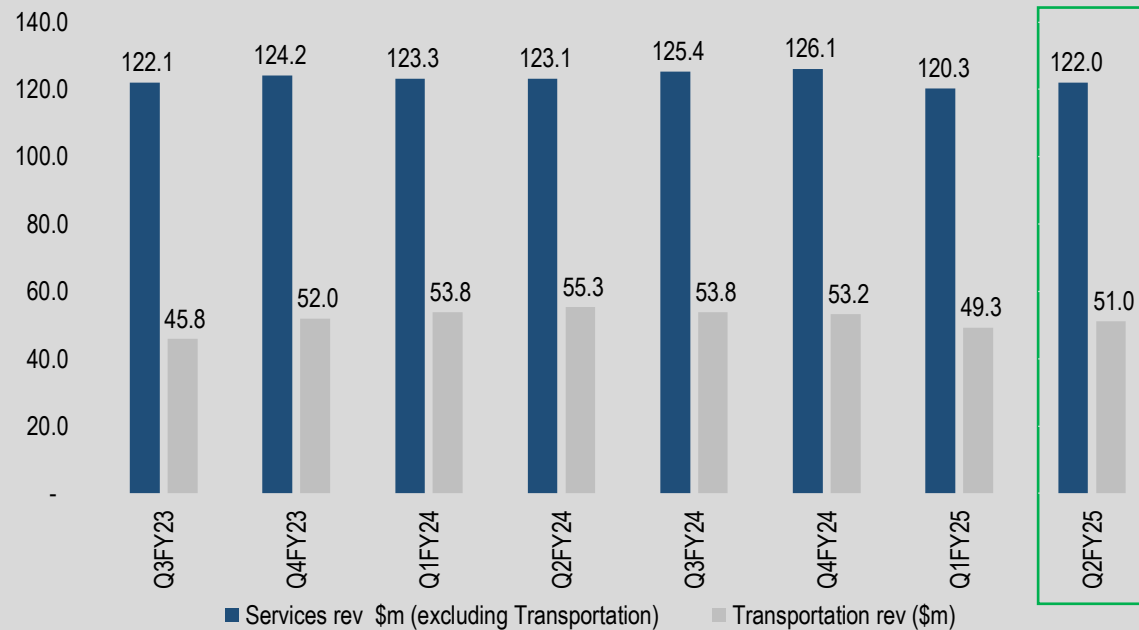
Note: FY24 DET revenue included a small part of the engineering-parts business

TCV continued to decline in Q2, but order backlog should support FY25



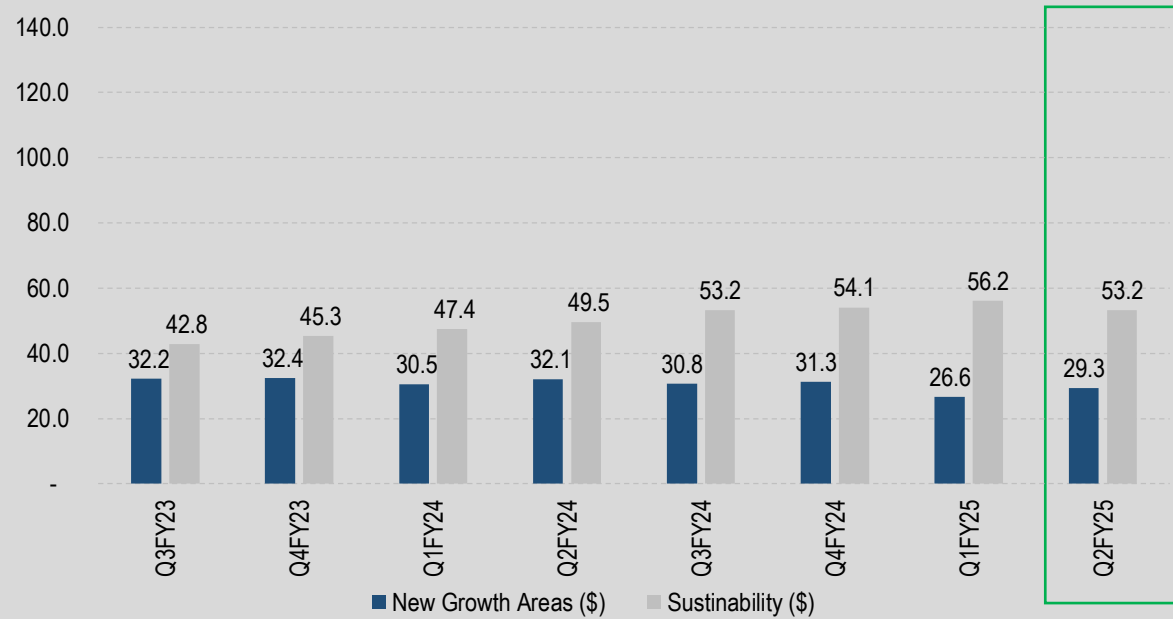
- The order book declined for the third consecutive quarter, to \$156.8m, down 14.7% y/y (LTM basis up 4.6% y/y) hurt by global economic factors
 - Consequently, book-to-bill was 0.9x, compared to 1.2x (TTM average) and 1x a year back
 - Management says deals are segmented into smaller parts, with orders differing from past years and shorter execution timelines
 - However, management expects deals to improve in H2
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- The TTM TCV continue to outperform TTM revenue; nevertheless, the gap has declined in the last quarters
 - On a TTM basis, TCV was \$865m, up 4.6% y/y.

Verticals: Transportation, Communications recover



- **Transportation turns around**, growing 3.4% q/q in CC, following a 7% decline in Q1. Transportation (incl. Aero and Rail) contributed 29.5% to DET revenue
 - Growth in the segment was aided by growth in Aerospace, which appears to be the largest contributing vertical to Transportation, which was also faced with supply issues in Q1
 - Within Auto, the company is seeing progress in software, silicon and digital, while software will be hurt in the medium term; growth in silicon and digital, though, will continue for the rest of the year
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- **Connectivity grew 3.9% q/q in CC.** In Q2, Connectivity revived sequentially, after having declined for seven successive quarters. Growth was driven by growth in the US (4.8% q/q); Europe continued to grow and is expected to recover in H2
 - Management is confident of this vertical growing in the rest of FY25

Verticals: Sustainability declines; New Growth Areas did better



- **Sustainability declined 6.4% q/q in CC.** After seven successive quarters of growth, Sustainability declined sequentially, hit by seasonality in the European region.
- Management expects H2 to be better for Sustainability than in H1.
- **New Growth Areas grew 9.7% q/q in CC.** In the last few quarters this segment has been range bound. Growth in Q2, however, was led by Healthcare, Automotive and Semcon. Management expects growth to continue in H2.

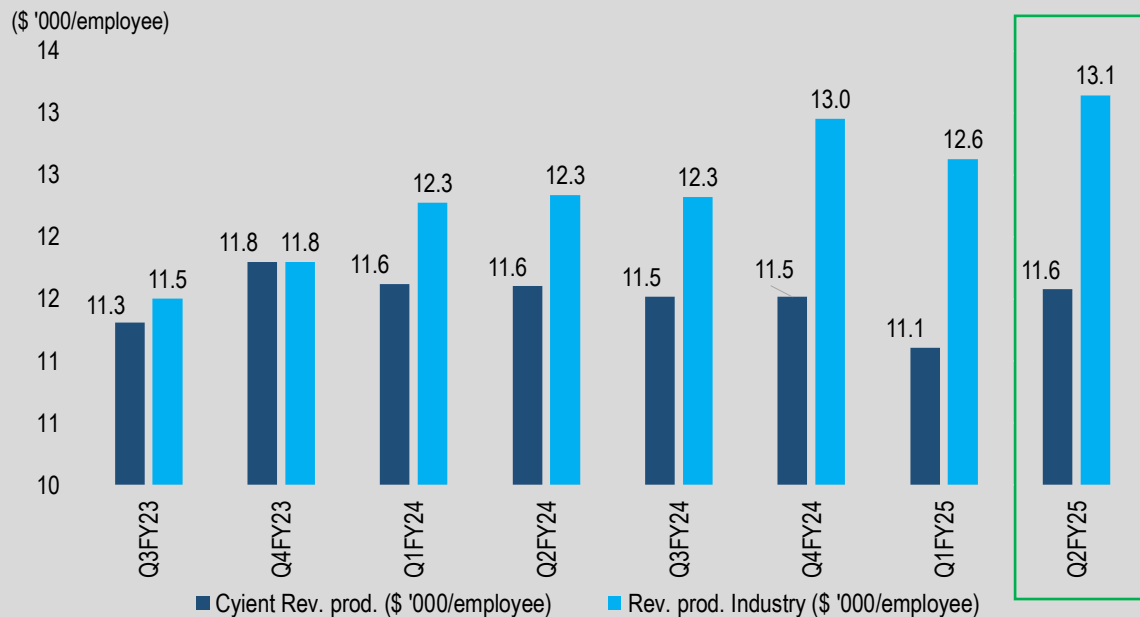
Employee count, attrition decline



- **Employee count declined for the third straight quarter.** In Q2, net headcount reduced further, by 284, taking the total headcount to 14,799, down 4.1% y/y, and taking the LTM headcount decline by 639
- This indicates headcount adjustment/right-sizing to revised revenue levels

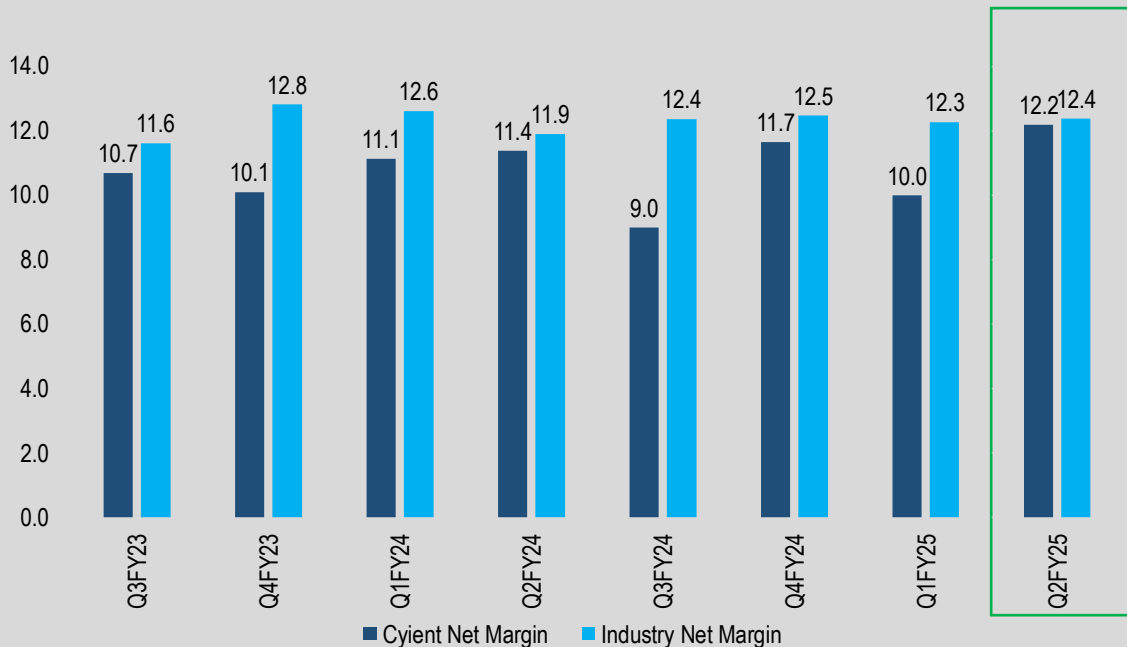
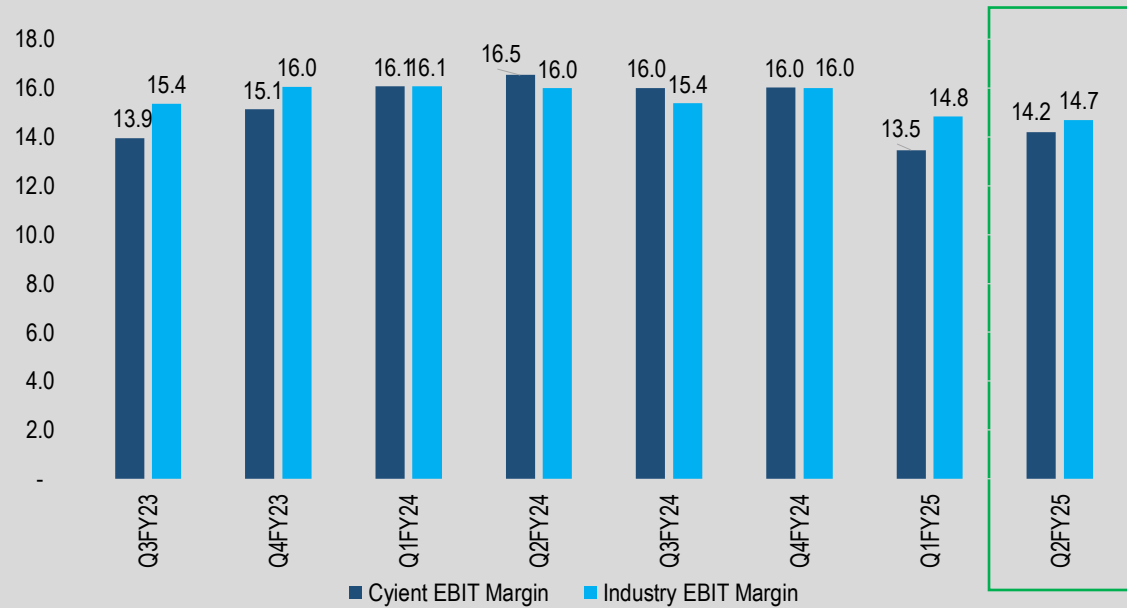
- **Attrition falls to 15%.** Attrition continues to cool off across the industry and is not a concern anymore. 15% in the present scenario is largely in line with the industry. Cyient generally operates at higher attrition as some of the divisions/areas where it operates has a higher mix of offshore/freshers, and are faced with greater employee churn

Revenue productivity increases, mirroring revenue growth



- Revenue productivity recoups earlier levels post a blip in Q1, suggesting room for better pricing
- It is likely to trend higher in H2 as higher revenues are likely to offer tailwinds
- Compared to the industry median, however, Cyient has now underperformed for six successive quarters, but the gap has increased in Q2

Profitability mirrors revenue growth



- **EBIT margin, a one-time blip.** Cyient has maintained profitability at the industry level for quite a while
- In this context, Q2 has recovered, although slightly below the industry
- Ahead, management aspires to a 16% margin by Q4 FY25, led by operational efficiency and revenue growth. with surpluses re-invested in growth

- **NI margin recovers.** For the past several quarters. DET's net income has been trending below that of the industry. But, in Q2, it is almost on par with the industry median
- Last year, there were legal expenses and, before that, debt. These factors are now behind; hence, we expect the company to operate at a similar range ahead
- It repaid debt in FY24 and is generating strong cashflows, leading to expectations of higher other income as well

Conference call highlights – Q2 FY25

- Growth to continue in H2 and into the next financial year, with a clearer view expected in a couple of quarters of FY26
- Decline in orders attributed to macroeconomic conditions, causing deals to fragment into smaller portions, leading to shorter execution cycles. Despite this, confident of securing more orders in H2, expecting Q3 to outperform Q2, driven by orders in hand and project executions in silicon, software and digital solutions
- Growth in Sustainability declined due to the seasonal impact of European holidays in the quarter, compounded by some softness in Consulting. Cyient expects this segment to do better in H2 than in H1. It acknowledges that this European seasonality is likely to recur, impacting the Q2 performance in future, particularly in Sustainability
- Strategically expanding operations in the Mid-East, specifically the UAE, to capitalise on the region's large energy market. Established a dedicated entity in the UAE and acquired the Abu Dhabi and Gulf Computer Establishment, indicating a positive outlook and anticipated growth in this region
- Seasonality pressure could be seen in Q3 for the US vertical due to holidays in the US, which would affect segments with a large US presence such as Aerospace and potentially Semiconductors.
- Margin associated with revenue growth, expected to improve in H2; further, the company expects to bring back stability at the margin level.

Business outlook

- In FY25, revenue would be flattish vs high single-digit growth earlier
- EBIT margins to be 16% by Q4
- H2 will be better than H1.

Conference call highlights — previous quarters

Q1 FY25 growth: 0.5% q/q, 29.2% y/y; EBIT margin 14.7%

- Within Transportation, Rail was weak, while Aerospace was faced with supply challenges. Connectivity had the highest order intake; and management expects strong recovery for the rest of the year. Growth in Sustainability is expected to continue. New Growth Areas had highest order backlog, which offers assurance that this will start to grow in double digits. Cyient is seeing supply issue in Aero space as demand is shifting to on-site and across regions, beyond what the company has seen in the last couple of quarters. Demand, however, remains robust across most clients
- The order book, however, continues to grow in double digits compared to FY24. **Business outlook:** In FY25, revenue would be flattish vs high single-digit growth earlier; EBIT margins to be 16% by Q4 (vs. earlier guidance for the year); Expects sequential growth over the next few quarters; H2 will be better than H1

Q4 FY24 (Growth q/q: 0.1% , y/y: 1.8%, EBIT margins 16%)

- ER&D services are resilient and likely to see increasing demand with smart and connected ecosystem software customization, digitization, and sustainability as important themes.
- Communications business was back ended during the quarter, momentum in Aerospace led by manufacturing, aftermarket and engineering part, Connectivity had a rough start for the last year and hope it will start getting back to growth in FY25. within sustainability growth momentum was seen in energy transition, carbon captures, alternate energy sources and decarbonization asset management, New growth areas which is not done well in the initial part of the year and came back to growth in Q4. Continue to see momentum from sustainability, aerospace, semiconductors and automotive.
- Started increasing presence in Japan, and entered newer markets like Middle east, and it could be another potential growth area. Airbus deal win is for 15yrs
- Have to watch aerospace (longer training requirements) and communications (as deals are scheduled to ramp up) for Q1, and therefore, taking a cautious approach while guiding revenue for FY25

Q3 FY24 growth: 0.7% q/q, 18.1% y/y; EBIT margin 16.5%

- Civil action lawsuit filed in the US- The US subsidiary entered into an agreement to settle the lawsuit by paying \$7.4m, for which the company will utilise the insurance amounts; nevertheless, provision of \$6m made in Q3 FY24. Growth in Transportation was led by >20% y/y growth in Aero; volumes in air travel are expected to grow significantly over the next two years while Rail will continue to see some softness. Communication was soft in Q2 and continued its sluggishness (marginal growth q/q) in Q3 as well. Hence, expect some recovery and growth in near term for this segment. Sustainability is seeing all-round growth, demand in terms of cost reduction, asset management and alternate energy sources. This is a multi-year growth story and is narrowing the gap with the transportation vertical. New growth areas visible in Automotive, while Semiconductor and Hi-tech continue to face challenges; hope of semicon turnaround by H2 of FY25; Healthcare business is also seeing weakness.
- Outlook: Management expects DET revenue growth of ~13%-13.5% (from 15% earlier) in CC. DET-normalised EBIT margins to improve 200bps-250bps y/y.

Q2 FY24 growth: 0.7% q/q, 18.1% y/y; EBIT margin 16.5%

- Transportation is on a strong growth trajectory and management expects the momentum to persist in the medium term. The present geo-political environment is likely to keep growth rates high for Defense as well. Air travel keeps growing. Aerospace continues to embrace more digitization. It needs to deliver more aircraft and engines. Global demand for air traffic is likely to double in the next 15 years; it previously doubled in 23 years.
- Macro issues kept Semiconductors soft in the last six months, and the company expects demand to return in H2, driven by high-performance computing, AI and auto, which are likely to drive growth. Connectivity has been challenging for many peers. 5G investments are not paying off and investment in fibre has slowed. Sustainability has started to pay off well, based on some investments made in the last 12-18 months.
- Outlook: Management expects DET revenue growth of ~15% in CC, including inorganic. DET normalised EBIT margins to improve 150-250bps y/y

Factsheet

Revenue, by region (%)

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
US	48	46	43	43	44	44	47	48
Europe	33	34	34	33	35	36	33	30
APAC	19	20	22	24	21	20	20	22

Note: Only Services for Q4

Revenue by Industry (%)

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Transportation	27.3	29.5	30.4	31.0	30.1	29.7	29.1	29.5
Connectivity	24.3	26.4	25.6	23.3	23.0	22.7	22.1	22.8
Sustainability	25.5	25.7	26.8	27.7	29.7	30.2	33.1	30.8
New Growth Areas	19	18	17	18	17	17	16	17

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Client profiling								
\$1m+	84	84	90	103	111	108	105	107
\$5m+	31	31	31	31	36	35	30	29
\$10m+	12	13	13	13	13	14	12	15
\$20m+	6	7	7	6	6	6	5	4
Client additions (LTM)								
\$1m+	-9	-9	9	18	27	24	15	4
\$5m+	-5	-3	6	1	5	4	-1	-2
\$10m+	2	2	2	1	1	1	-1	2
\$20m+	3	4	3	2	0	-1	-2	-2

Number of employees

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Services	14,693	15,172	15,306	15,438	15,678	15,461	15,083	14,799

Employee Metrics

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Attrition %	27	26	23	20	18	17	16	15
Utilisation	91	87	86	86	85	86	83	86

Key segments' growth Y/Y (%)

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Region								
US	4	(3)	5	0	(3)	(3)	4	9
Europe	39	57	104	41	14	7	(9)	(13)
APAC	(21)	0	15	31	19	4	(14)	(11)

Industry

Transportation	-4%	10%	18%	22%	17%	2%	-8%	-8%
Connectivity	34%	24%	-5%	-11%	-13%	-13%	-17%	-5%
Sustainability	124%	141%	19%	17%	24%	19%	19%	7%
New Growth Areas	-17%	-17%	16%	15%	-4%	-3%	-13%	-9%

Client concentration %

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Top 5	28	28	30	30	30	31	32	31
Top 10	39	39	39	39	40	42	43	43

DET's estimates maintained

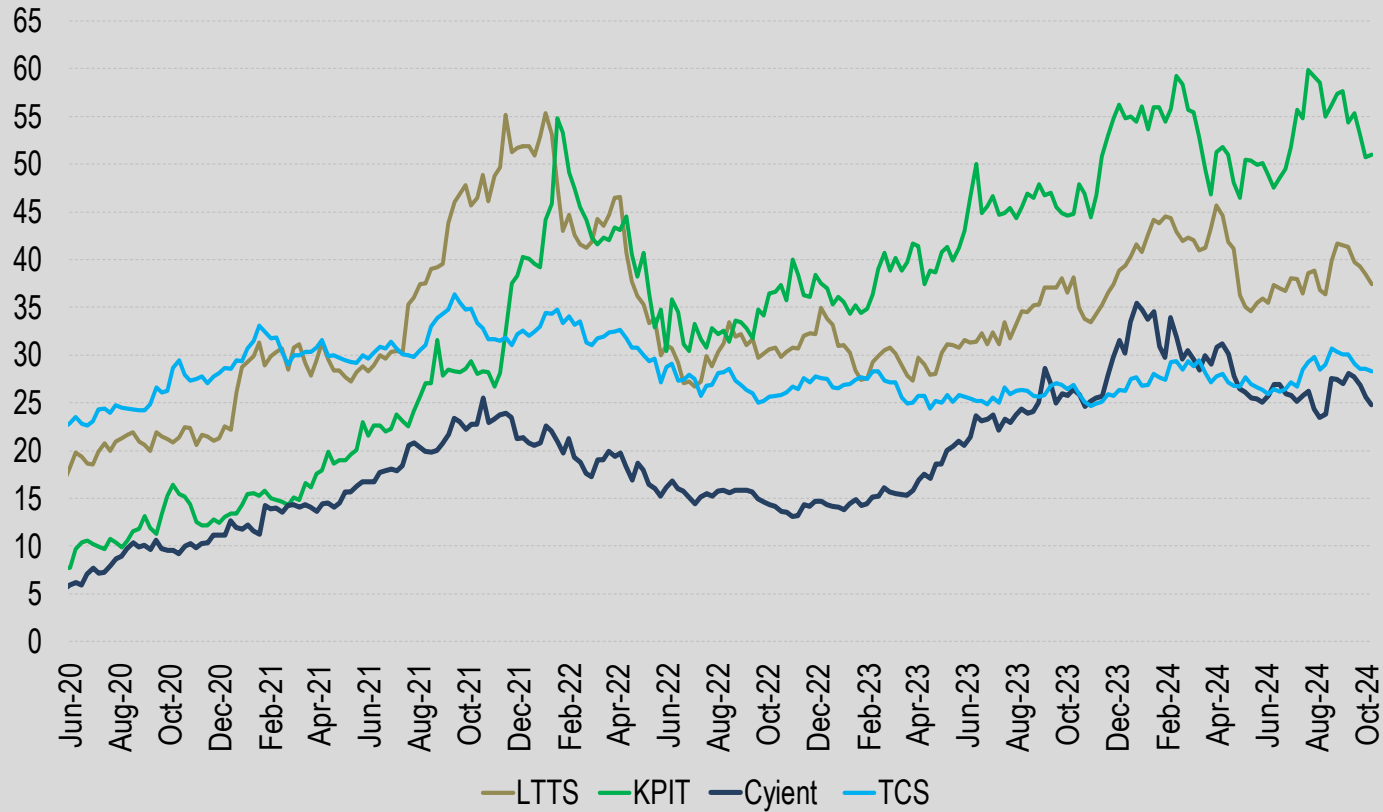
DET Financials	FY23	FY24	FY25e	FY26e	FY27e
Revenues (\$m)	632	714	698	761	833
y/y growth %	26	13	(2)	9	9
TCV	725	902	775	816	862
Book:Bill	1.1	1.3	1.1	1.1	1.0
Revenues (Rs m)	50,954	59,114	58,435	63,782	69,772
USDINR	80.6	82.8	83.7	83.8	83.8
Direct Costs	(29,717)	(35,503)	(34,774)	(38,243)	(42,514)
Gross Profit	21,237	23,611	23,662	25,540	27,258
Gross Margin %	41.7%	39.9%	40.5%	40.0%	39.1%
SG&A	(11,957)	(11,651)	(12,433)	(13,160)	(13,956)
As % of Rev	-23%	-20%	-21%	-21%	-20%
EBITDA	9,281	11,960	11,229	12,380	13,302
EBITDA Margin %	18.2%	20.2%	19.2%	19.4%	19.1%
D&A	(2,306)	(2,415)	(2,316)	(2,027)	(1,720)
EBIT	6,975	9,545	8,912	10,353	11,582
EBIT Margin %	13.7%	16.1%	15.3%	16.2%	16.6%
Margin movement		246 bps	-90 bps	98 bps	37 bps
Other Income	493	381	964	553	629
Interest Expenses	(858)	(929)	(334)	(112)	(178)
Exceptional items	(19,440)	(65,000)	-	-	-
PBT	6,416	8,347	9,542	10,795	12,033
PBT Margins %	12.6%	14.1%	16.3%	16.9%	17.2%
Tax	(1,688)	(1,973)	(2,439)	(2,880)	(3,350)
ETR %	-26%	-24%	-26%	-27%	-28%
PAT	4,728	6,374	7,103	7,914	8,683
PAT margin %	9.3%	10.8%	12.2%	12.4%	12.4%
Diluted EPS (Rs)	43.3	57.6	64.1	71.4	78.4

Cyient (Rs m)	FY25			FY26		
	New	Old	% Change	New	Old	% Change
Revenue (\$ m)	698	697	0.2	761	759	0.3
Revenues	58,435	58,168	0.5	63,782	63,313	0.7
EBITDA	11,229	11,158	0.6	12,380	12,320	0.5
EBITDA margins %	19.2%	19.2%	3 bps	19.4%	19.5%	-5 bps
EBIT	8,912	8,862	0.6	10,353	10,316	0.4
EBIT margins %	15.3%	15.2%	2 bps	16.2%	16.3%	-6 bps
Net profit	7,103	6,661	6.6	7,914	7,885	0.4

Key estimates and changes

- We maintain our FY25e/FY26e revenues, reflecting the in-line Q2 FY25. Consecutively, we maintain a 2% drop for DET in FY25
- We roll forward to FY27 and anticipate the company clocking 9% revenue and 18% EBIT CAGRs over FY25-27. This is based on expectation of margins recovering by Q4. In the past (incl. in FY24), the company surprised on margins while falling short on growth expectations
- We expect ~17.7% EBIT margins by FY27, compared to ~14.2% in Q2 FY25

Valuations



- We expect Cyient's FY25 DET revenue to decline ~2% y/y (accounting for the weak orders) compared to the guidance of flattish performance in FY25. Further, we expect the company to deliver a 15.3% EBIT margin in FY25.
- The stock still trades below peers owing to the company's past volatile performance. We see LTTS (~8% y/y growth) comparable to Cyient (-2%) given a similar diversified portfolio mix
- Cyient generates better FCF than LTTS and benefits from lower India exposure (ability to operate with less working capital, benefits from rupee depreciation)
- Factoring in the better H2, we arrive at, at target multiple of 26x FY27e for Cyient, on which we derive a TP of Rs.2,230 (from Rs.1,990 earlier). At our TP, the stock quotes at a ~10% discount to the sector leader, LTTS
- This, we reckon, is fair, given the differences in portfolios and performances of the two large pure-play engineering-services companies over longer periods
- We upgrade to buy recommendation, factoring in the recovery in H2. At the ruling price, the stock offers 25% potential

Risk

- Prolonged Sustainability weakness

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Revenues (USm)	746	863	880	973	1,080
Growth (%)	22.7	15.6	1.9	10.6	11.0
Net revenues (Rs m)	60,159	71,472	73,662	81,533	90,485
Employee & Direct Costs	37,415	45,944	47,814	53,379	60,073
Gross Profit	22,744	25,528	25,849	28,153	30,411
Gross Margin %	37.81	35.72	35.09	34.53	33.61
SG&A	12,503	12,500	13,432	14,263	15,116
EBITDA	10,241	13,028	12,416	13,890	15,296
EBITDA margins (%)	17.0	18.2	16.9	17.0	16.9
- Depreciation	2,566	2,666	2,618	2,361	2,088
Other income	191	-15	1,181	823	988
Interest Exp	999	1,160	696	557	668
PBT	6,867	9,187	10,283	11,795	13,528
Effective tax rate (%)	25	25	26	27	28
+ Associates/(Minorities)	-	-	-	-	-
Net Income	5,144	6,916	7,595	8,659	9,796
WANS	109	111	111	111	111
FDEPS (Rs/share)	47.2	62.4	68.5	78.1	88.4

Fig 3 – Cash Flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT	6,867	9,187	10,283	11,795	13,528
+ Non-cash items	3,445	3,455	2,469	2,464	2,174
Operating profit before WC	10,312	12,642	12,752	14,259	15,702
- Incr./((decr.) in WC	3,485	2,606	3,438	2,613	2,982
Others including taxes	-1,288	-2,775	-2,688	-3,135	-3,731
Operating cash-flow	5,539	7,261	6,625	8,511	8,989
- Capex (tangible + Intangible)	675	853	1,041	1,170	1,112
Free cash-flow	4,864	6,408	5,584	7,341	7,877
Acquisitions	8,989	1,550	1,565	-	-
- Dividend (including buyback & taxes)	2,630	3,058	3,683	4,236	4,871
+ Equity raised	79	7,041	-	-	-
+ Debt raised	2,116	-5,715	-4,526	-	-
- Fin Investments	606	-4,145	-758	-	-
- Misc. Items (CFI + CFF)	571	4,630	-485	-266	-320
Net cash-flow	-5,737	2,641	-2,947	3,371	3,325

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	553	555	555	555	555
Net worth	34,667	42,581	46,492	50,916	55,841
Total debt (including Pref)	9,336	4,526	-	-	-
Minority interest	-32	2,988	2,988	2,988	2,988
DTL/(Asset)	348	87	12	-71	-162
Capital employed	44,319	50,182	49,492	53,833	58,667
Net tangible assets	7,251	7,733	6,311	5,021	3,945
Net Intangible assets	4,632	3,839	3,939	4,039	4,139
Goodwill	16,363	16,692	18,257	18,257	18,257
CWIP (tangible and intangible)	445	574	318	318	318
Investments (Strategic)	3,463	3,598	3,598	3,598	3,598
Investments (Financial)	1,718	758	-	-	-
Current Assets (ex Cash) Incl LT assets	23,933	26,255	27,669	29,265	31,155
Cash	7,194	9,835	6,888	10,259	13,584
Current Liabilities (ex ST Loan/Current Portion) i	20,680	19,102	17,488	16,923	16,328
Working capital	3,253	7,153	10,181	12,342	14,827
Capital deployed	44,319	50,182	49,492	53,833	58,667
Contingent Liabilities	519	762	-	-	-

Fig 4 – Ratio analysis

Year end Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	38.5	28.6	26.0	22.8	20.2
EV/EBITDA (x)	18.6	14.7	15.4	13.7	12.5
EV/sales (x)	3.17	2.67	2.59	2.34	2.11
P/B (x)	5.7	4.6	4.3	3.9	3.5
RoE (%)	15.6	17.9	17.1	17.8	18.4
RoCE (%) - After tax	12.8	14.6	12.9	14.5	15.1
RoIC (%) - After tax	17.1	17.9	15.3	17.1	18.6
DPS (Rs per share)	24.1	27.6	33.2	38.2	44.0
Dividend yield (%)	1.4	1.5	1.9	2.1	2.5
Dividend payout (%) - Inc. DDT	51.1	44.2	48.5	48.9	49.7
Net debt/equity (x)	0.0	-0.1	-0.1	-0.2	-0.2
Receivables (days)	93	87	89	89	89
Inventory (days)	-	-	-	-	-
Payables (days)	52	43	33	28	23
FCF:PAT%	107.7	105.0	87.2	98.3	91.8
FCF:PAT% - incl M&A payout	-80.2	70.2	52.9	84.8	80.4

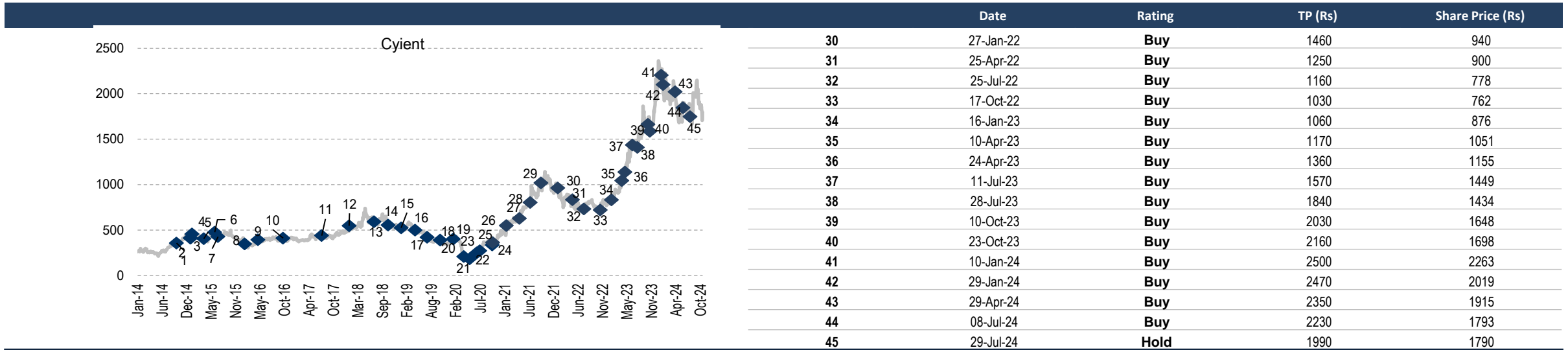
Source: Company, Anand Rathi Research

Appendix

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