

Another quarter of operating performance miss; downgrade to REDUCE

Information Technology ▶ Result Update ▶ January 24, 2025

TARGET PRICE (Rs): 1,700

Cyient posted inline revenue performance in DET in Q3, while EBITM missed estimates. DET revenue grew 1.3% QoQ (2.4% CC) to USD175.2mn. DET EBITM declined by 70bps QoQ to 13.5%, coming in below our estimate. Revenue growth was driven by Aerospace, Connectivity, and New Growth Areas, while Sustainability declined for the 3rd consecutive quarter. Order intake rebounded in Q3 on QoQ basis/up 5% YoY, albeit down 3% YoY in 9M. The mgmt cut FY25 revenue guidance to -2.7% CC (earlier flattish), implying muted growth in Q4. It also guided to ~13.5% EBITM in Q4FY25 due to right shifting of revenue trajectory during the year (earlier guided to ~16% EBITM by Q4). Cyient has announced the resignation of Karthikeyan Natarajan as ED and CEO, effective immediately. We cut FY25-27E EPS by 10%-12%, given the Q3 performance and guidance. Valuation is not demanding, but weak execution, softness in near-term outlook, and abrupt CEO exit would weigh on stock performance. We downgrade the stock to REDUCE, cutting TP by ~26% to Rs1,700, valuing the DET business at 20x Dec-26E and the DLM business at 20% discount to its CMP.

Cyient: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	60,159	71,471	74,069	82,947	95,137
EBITDA	10,240	13,027	11,614	13,636	15,834
Adj. PAT	5,766	7,348	6,185	8,096	9,656
Adj. EPS (Rs)	46.6	61.6	55.2	73.0	87.0
EBITDA margin (%)	17.0	18.2	15.7	16.4	16.6
EBITDA growth (%)	24.6	27.2	(10.8)	17.4	16.1
Adj. EPS growth (%)	(1.6)	32.3	(10.3)	32.1	19.3
RoE (%)	17.5	19.0	13.1	15.1	16.7
RoIC (%)	20.9	21.0	16.5	19.1	21.5
P/E (x)	33.6	26.5	31.5	24.1	20.2
EV/EBITDA (x)	19.5	14.8	16.0	13.5	11.5
P/B (x)	5.6	4.6	3.8	3.5	3.2
FCFF yield (%)	2.5	3.3	1.8	2.5	3.5

Source: Company, Emkay Research

Result summary

Cyient's DET revenue grew 1.3% QoQ (2.4% CC) to USD175.2mn, in line with our estimates. Except sustainability (1.3% decline), all other verticals posted sequential growth in revenue, with Transportation, Connectivity, and New Growth Areas growing 3.7%, 5.7%, and 2.1% QoQ CC, respectively. Among geographies, Americas and Asia Pacific saw an uptick of 3.8% and 1.7% QoQ in USD terms, respectively, while EMEA declined 3.1%. Revenue for the top-5 and top-10 clients declined 2.9% and 1.8% QoQ, respectively. DET EBIT margin contracted by 70bps QoQ to 13.5% (90bps below our estimate), impacted by wage hike and currency headwinds and partially offset by revenue growth and operating efficiencies. The company recorded its highest-ever order intake of USD312.3mn in Q3. It also won 13 large deals with total contract potential of USD234.5mn (only signed purchase order is considered in the order intake). Total headcount declined for the fourth consecutive quarter, by 2.8% QoQ to 14,378. **What we liked:** Healthy order intake. **What we did not like:** Margin miss, reduced guidance.

Earnings call KTAs

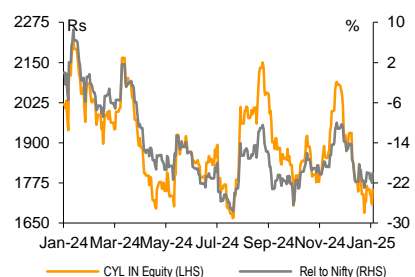
1) Q3 revenue performance was broadly in line with mgmt expectation. 2) Transportation growth was led by ramp up in new deals in Aerospace and steady demand from existing customers. Rail transportation remains sluggish and mgmt believes it has bottomed out. 3) Sustainability saw a decline due to the project-based work stream – a couple of large projects being at the end of their lifecycle, and newer projects yet to scale. The mgmt expects improvement in demand environment for sustainability and growth returning in Q1/Q2 led by new project wins. 4) Connectivity grew 5.7% QoQ on strong execution and ramp up of deals. The mgmt is optimistic about the growth outlook on the back of the order book. 5) New growth areas grew 2.1% on continued traction in semiconductor, while automotive was flattish and healthcare declined marginally. 6) Multiple deals that were anticipated to ramp up in Q4 were right shifted to Q1, leading to muted growth outlook for Q4. 7) Healthy order book and pipeline grant confidence to the management on better FY26. Cyient aspires to hit the 16% margin mark in FY26. 8) Deal tenure has reduced, leading to higher proportion of ACV in Q3. The management indicated that ACV is ~70% of the order book compared with ~60% historically. 9) Karthikeyan Natarajan has resigned as ED and CEO, effective immediately, and Krishna Bodanapu has taken charge of the business operations in the interim. 10) Board has approved the proposal to explore additional capital raise options for its Semiconductor subsidiary.

Target Price – 12M	Dec-25
Change in TP (%)	(26.1)
Current Reco.	REDUCE
Previous Reco.	BUY
Upside/(Downside) (%)	(3.1)
CMP (23-Jan-25) (Rs)	1,755.3

Stock Data	Ticker
52-week High (Rs)	2,290
52-week Low (Rs)	1,652
Shares outstanding (mn)	111.0
Market-cap (Rs bn)	195
Market-cap (USD mn)	2,254
Net-debt, FY25E (Rs mn)	-9,246
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	646.0
ADTV-3M (USD mn)	7.5
Free float (%)	76.0
Nifty-50	23,205
INR/USD	86.5
Shareholding, Dec-24	
Promoters (%)	23.1
FPIs/MFs (%)	28.2/30.3

Price Performance			
(%)	1M	3M	12M
Absolute	(7.4)	1.9	(17.2)
Rel. to Nifty	(5.2)	7.3	(24.2)

1-Year share price trend (Rs)



Dipesh Mehta

dipeshkumar.mehta@emkayglobal.com
+91 22 6612 1253

Pulkit Chawla

pulkit.chawla@emkayglobal.com
+91 22 6624 2458

Kevin Shah

kevin.shah@emkayglobal.com
+91 22 6612 1340

Shivang Bagla

shivang.bagla@emkayglobal.com
+91 22 6624 2491

Exhibit 1: Quarterly snapshot

(Rs mn)	Q3FY25	Q2FY25	QoQ (%)	Q3FY24	YoY (%)
Net sales - DET (USD mn)	175.2	173.0	1.3%	179.2	-2.2%
Net sales (USD mn)	228.0	220.7	3.3%	218.8	4.2%
Net sales	19,264	18,491	4.2%	18,214	5.8%
Operating expenses	16,396	15,526	5.6%	14,954	9.6%
EBITDA	2,868	2,965	-3.3%	3,260	-12.0%
- Margins	14.9%	16.0%	-110	17.9%	-300
Depreciation	675	660		661	
EBIT	2,193	2,305	-4.9%	2,599	-15.6%
- Margins	11.4%	12.5%	-110	14.3%	-290
Interest cost	205	275		288	
Other income	-166	512		188	
Pre-tax profit	1,822	2,542	-28.3%	2,499	-27.1%
Tax provided	481	676		582	
Profit after tax	1,341	1,866	-28.1%	1,917	-30.0%
Net income	1,223	1,791	-31.7%	1,471	-16.9%
Emkay Net profit	1,281	1,791	-28.5%	1,857	-31.0%
EPS (Rs)	11.5	16.1	-28.5%	16.8	-31.1%

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimates		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues (USD mn)	228.0	237.0	218.8	-3.8%	4.2%	DET revenue was in line with our expectations. Overall revenue growth was weaker than expectations due to miss on DLM revenue.
Sales	19,264	20,046	18,510	-3.9%	4.1%	
EBIT	2,193	2,509	2,434	-12.6%	-9.9%	EBITM was below expectations.
EBIT margin	11.4%	12.5%	13.1%	-110 bps	-180 bps	
PAT	1,281	1,765	1,741	-27.4%	-26.4%	Reported profit missed expectations due to operating performance miss and forex loss.

Source: Company, Bloomberg, Emkay Research

Exhibit 3: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (USD mn)	906.8	878.3	-3.1%	1045.8	970.1	-7.2%	1189.3	1093.5	-8.1%
YoY growth	5.1%	1.8%		15.3%	10.5%		13.7%	12.7%	
Revenue	76,518	74,069	-3.2%	89,414	82,947	-7.2%	103,473	95,137	-8.1%
EBIT	9,694	8,886	-8.3%	12,318	10,854	-11.9%	14,726	12,886	-12.5%
EBIT margin	12.7%	12.0%		13.8%	13.1%		14.2%	13.5%	
Net profit	7,011	6,185	-11.8%	9,014	8,096	-10.2%	10,831	9,656	-10.8%
EPS (Rs)	63.2	55.7	-11.8%	81.2	73.0	-10.2%	97.6	87.0	-10.8%

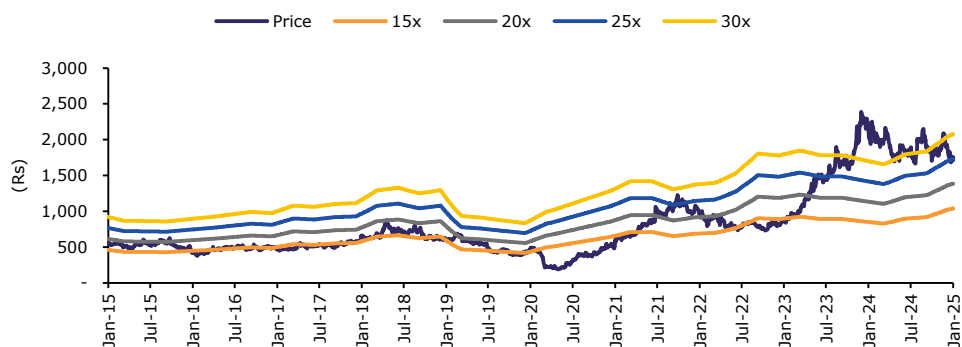
Source: Company, Emkay Research

Exhibit 4: SoTP-based valuation

(Rs bn)	Dec-26E TTM Profit	Methodology	Target multiple (x)	Valuation (Rs bn)	Valuation (Rs/sh)
Cyient - DET	9	P/E	20	173	1,561
	Mkt cap (Rs bn)	20% discount to CMP	% stake		
Cyient - DLM	40	32	52.2%	17	152
Total				190	1,713
O/S no. of shares	111				
Emkay Target price (Rs)	1,700				

Source: Company, Emkay Research

Exhibit 5: CYL – One-year forward PER



Source: Company, Emkay Research

Cyient: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	60,159	71,471	74,069	82,947	95,137
Revenue growth (%)	32.7	18.8	3.6	12.0	14.7
EBITDA	10,240	13,027	11,614	13,636	15,834
EBITDA growth (%)	24.6	27.2	(10.8)	17.4	16.1
Depreciation & Amortization	2,566	2,666	2,728	2,783	2,948
EBIT	7,674	10,361	8,886	10,854	12,886
EBIT growth (%)	21.9	35.0	(14.2)	22.1	18.7
Other operating income	0	0	0	0	0
Other income	814	661	807	1,334	1,407
Financial expense	999	1,160	1,015	803	669
PBT	7,489	9,862	8,678	11,385	13,624
Extraordinary items	(622)	(519)	(58)	0	0
Taxes	1,723	2,314	2,208	2,846	3,406
Minority interest	0	(200)	(285)	(443)	(562)
Income from JV/Associates	0	0	0	0	0
Reported PAT	5,144	6,829	6,127	8,096	9,656
PAT growth (%)	(1.5)	32.8	(10.3)	32.1	19.3
Adjusted PAT	5,766	7,348	6,185	8,096	9,656
Diluted EPS (Rs)	46.6	61.6	55.2	73.0	87.0
Diluted EPS growth (%)	(1.6)	32.3	(10.3)	32.1	19.3
DPS (Rs)	26.0	30.0	30.0	37.5	45.0
Dividend payout (%)	55.8	48.7	54.3	51.4	51.7
EBITDA margin (%)	17.0	18.2	15.7	16.4	16.6
EBIT margin (%)	12.8	14.5	12.0	13.1	13.5
Effective tax rate (%)	23.0	23.5	25.4	25.0	25.0
NOPLAT (pre-IndAS)	5,908	7,930	6,625	8,140	9,664
Shares outstanding (mn)	110.5	110.9	111.0	111.0	111.0

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	7,489	9,862	8,678	11,385	13,624
Others (non-cash items)	247	(2,770)	(1,823)	(3,884)	(5,164)
Taxes paid	1,288	2,775	2,208	2,846	3,406
Change in NWC	(3,485)	(2,606)	(2,102)	(3,274)	(3,855)
Operating cash flow	5,539	7,261	6,961	7,074	8,011
Capital expenditure	(652)	(782)	(3,427)	(2,154)	(1,201)
Acquisition of business	(660)	661	0	0	0
Interest & dividend income	444	352	807	1,334	1,407
Investing cash flow	(10,327)	(5,327)	(2,620)	(820)	206
Equity raised/(repaid)	79	7,041	7,700	0	0
Debt raised/(repaid)	3,511	(4,458)	(343)	(1,400)	0
Payment of lease liabilities	(1,395)	(1,257)	0	0	0
Interest paid	(658)	(930)	(1,015)	(803)	(669)
Dividend paid (incl tax)	(2,630)	(3,058)	(3,329)	(4,161)	(4,993)
Others	0	0	0	0	0
Financing cash flow	(1,093)	(2,662)	3,013	(6,364)	(5,662)
Net chg in Cash	(5,881)	(728)	7,354	(110)	2,555
OCF	5,539	7,261	6,961	7,074	8,011
Adj. OCF (w/o NWC chg.)	9,024	9,867	9,063	10,347	11,866
FCFF	4,887	6,479	3,534	4,919	6,810
FCFE	4,332	5,671	3,326	5,450	7,548
OCF/EBITDA (%)	54.1	55.7	59.9	51.9	50.6
FCFE/PAT (%)	84.2	83.0	54.3	67.3	78.2
FCFF/NOPLAT (%)	82.7	81.7	53.3	60.4	70.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	553	555	555	555	555
Reserves & Surplus	34,114	42,026	51,024	54,959	59,622
Net worth	34,667	42,581	51,579	55,514	60,177
Minority interests	(32)	2,988	4,488	4,488	4,488
Deferred tax liability (net)	348	87	(402)	(402)	(402)
Total debt	13,448	7,880	7,943	6,592	6,658
Total liabilities & equity	48,431	53,536	63,608	66,191	70,921
Net tangible fixed assets	4,481	4,462	4,591	4,515	4,431
Net intangible assets	5,050	4,397	4,345	3,594	2,839
Net ROU assets	2,770	3,271	3,071	3,371	3,667
Capital WIP	27	16	16	16	16
Goodwill	16,363	16,692	17,892	17,892	17,892
Investments [JV/Associates]	4,395	4,855	4,960	5,081	5,248
Cash & equivalents	7,194	9,835	17,189	17,078	19,634
Current assets (ex-cash)	24,719	25,756	28,129	32,053	(19,634)
Current Liab. & Prov.	16,568	15,748	16,585	17,409	19,914
NWC (ex-cash)	8,151	10,008	11,544	14,644	17,195
Total assets	48,431	53,536	63,608	66,191	70,921
Net debt	6,254	(1,955)	(9,246)	(10,487)	(12,975)
Capital employed	48,431	53,536	63,608	66,191	70,921
Invested capital	36,815	38,830	41,443	44,016	46,023
BVPS (Rs)	313.8	384.0	464.9	500.3	542.4
Net Debt/Equity (x)	0.2	0.0	(0.2)	(0.2)	(0.2)
Net Debt/EBITDA (x)	0.6	(0.2)	(0.8)	(0.8)	(0.8)
Interest coverage (x)	0.1	0.1	0.1	0.1	0.0
RoCE (%)	19.7	21.6	16.5	18.8	20.8

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	33.6	26.5	31.5	24.1	20.2
P/CE(x)	23.3	19.4	21.9	17.9	15.5
P/B (x)	5.6	4.6	3.8	3.5	3.2
EV/Sales (x)	3.3	2.7	2.5	2.2	1.9
EV/EBITDA (x)	19.5	14.8	16.0	13.5	11.5
EV/EBIT(x)	26.1	18.6	20.9	17.0	14.1
EV/IC (x)	5.4	5.0	4.5	4.2	3.9
FCFF yield (%)	2.5	3.3	1.8	2.5	3.5
FCFE yield (%)	2.2	2.9	1.7	2.8	3.9
Dividend yield (%)	1.5	1.7	1.7	2.1	2.6
DuPont-RoE split					
Net profit margin (%)	9.6	10.3	8.3	9.8	10.1
Total asset turnover (x)	1.4	1.4	1.3	1.3	1.4
Assets/Equity (x)	1.3	1.3	1.2	1.2	1.2
RoE (%)	17.5	19.0	13.1	15.1	16.7
DuPont-RoIC					
NOPLAT margin (%)	9.8	11.1	8.9	9.8	10.2
IC turnover (x)	2.1	1.9	1.8	1.9	2.1
RoIC (%)	20.9	21.0	16.5	19.1	21.5
Operating metrics					
Core NWC days	49.5	51.1	56.9	64.4	66.0
Total NWC days	49.5	51.1	56.9	64.4	66.0
Fixed asset turnover	3.2	2.8	2.8	3.1	3.7
Opex-to-revenue (%)	71.9	81.8	84.3	83.6	83.4

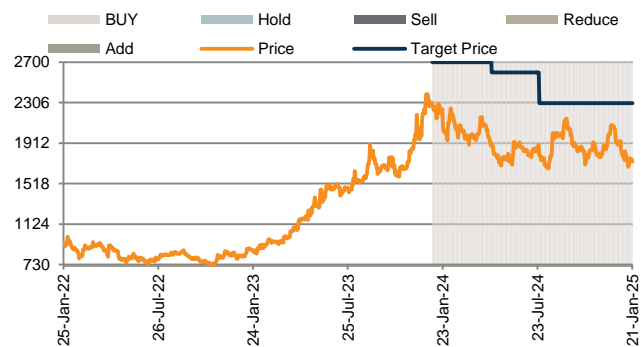
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
01-Jan-25	1,805	2,300	Buy	Dipeshkumar Mehta
25-Oct-24	1,798	2,300	Buy	Dipeshkumar Mehta
01-Oct-24	1,914	2,300	Buy	Dipeshkumar Mehta
26-Jul-24	1,790	2,300	Buy	Dipeshkumar Mehta
01-Jul-24	1,843	2,600	Buy	Dipeshkumar Mehta
09-Jun-24	1,925	2,600	Buy	Dipeshkumar Mehta
03-Jun-24	1,731	2,600	Buy	Dipeshkumar Mehta
27-May-24	1,808	2,600	Buy	Dipeshkumar Mehta
26-Apr-24	1,886	2,600	Buy	Dipeshkumar Mehta
31-Mar-24	1,996	2,700	Buy	Dipeshkumar Mehta
01-Mar-24	2,036	2,700	Buy	Dipeshkumar Mehta
26-Jan-24	2,020	2,700	Buy	Dipeshkumar Mehta
03-Jan-24	2,285	2,700	Buy	Dipeshkumar Mehta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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