

All-round miss; guidance also sees sharp cut

Information Technology ▶ Result Update ▶ July 26, 2024

TARGET PRICE (Rs): 2,300

Cyient logged a weak set of results in Q1, widely missing consensus/our estimate. DET revenue fell 5.4% QoQ (-5% cc) – much lower than our estimate of 1.6% QoQ decline. DET EBITM also, fell by 250bps QoQ to 13.5%, missing our estimate. The mgmt attributed this weakness to longer than anticipated delays, right shift in project execution in Connectivity, and persisting challenges in Rail. Also, guidance was sharply cut to flattish YoY growth in FY25 (implying 3.2% CQGR over Q2-Q4) from high single-digit growth earlier, with H2 expected to be better than H1. We cut FY25E-27E EPS by 5%-13%, factoring-in the Q1 miss, sharp guidance cut, and gradual recovery in DET margin. We cut target multiple to 25x (from 27x), given the sharp guidance cut within only a Quarter raising concerns on growth predictability. A big earnings miss will weigh on the near-term stock performance, but valuations remain fairly undemanding. We retain BUY on Cyient, pulling down our TP to Rs2,300/sh (valuing the DET business at 25x Jun-26E, and the DLM business at 20% discount to the CMP).

Cyient: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	60,159	71,471	74,038	86,233	1,00,677
EBITDA	10,240	13,027	12,519	15,200	18,024
Adj. PAT	5,766	7,348	7,013	9,122	11,143
Adj. EPS (Rs)	46.6	61.6	63.2	82.2	100.5
EBITDA margin (%)	17.0	18.2	16.9	17.6	17.9
EBITDA growth (%)	24.6	27.2	(3.9)	21.4	18.6
Adj. EPS growth (%)	(1.6)	32.3	2.7	30.1	22.2
RoE (%)	17.5	19.0	15.8	18.8	20.7
RoIC (%)	20.9	21.0	18.9	22.9	25.9
P/E (x)	36.3	28.6	30.0	23.0	18.9
EV/EBITDA (x)	21.0	16.0	16.4	13.4	11.2
P/B (x)	6.0	4.9	4.5	4.1	3.7
FCFF yield (%)	2.3	3.1	3.3	2.6	3.7

Source: Company, Emkay Research

Result summary

Cyient DET revenue declined 5.6% QoQ (5% drop in cc terms) to US\$169.6mn, well below our estimate of US\$176.4mn. All verticals posted a QoQ decline in revenue, with Transportation, Connectivity, Sustainability, and New Growth Areas falling 7%, 7.6%, 2.8%, and 1.6% QoQ CC, respectively. Among geographies, Americas saw an uptick of 1.7% QoQ, while EMEA and Asia Pacific sharply declined 14.3% and 5.4%, respectively. Revenue for Top-5 and Top-10 clients declined 3.3% and 2.5% QoQ, respectively. DET adjusted margin fell by 250bps QoQ to 13.5%, considerably lower than our estimate of 15.6%, impacted by sequential revenue dip and continued investments in sales and technology. Order intake was US\$182.7mn in Q1. Cyient also signed 5 large deals with total contract potential of US\$52.4mn in Q1. Total headcount declined 2.4% QoQ to 15,083. **What we liked:** Double-digit growth in the order book (YoY). **What we did not like:** Weak operating performance; sharp cut in FY25 DET guidance.

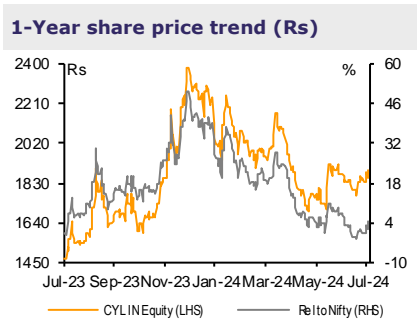
Earnings call KTAs

i) Q1 saw a significant number of operational challenges resulting in operational performance clocking weaker than the management’s expectation. However, it is confident of a robust recovery starting Q2 which is expected to continue through the year, aided by double-digit YoY growth in order backlog, top-10 clients seeing double-digit growth YoY, and strong outlook on core segments. ii) The management expects H2 to be better than H1. iii) Considering near-term growth challenges, the company will come up with revised EBITM guidance for FY25 in Q3, but it is confident of reaching ~16% by Q4. iv) Connectivity declined 7.6% CC QoQ, although Cyient expects strong recovery on the back of robust order intake. v) Sustainability declined 2.8% CC QoQ, and Cyient expects growth to return in coming quarters. vi) New Growth Areas declined 1.6% CC QoQ, with expectations of double-digit growth by FY25-end on the back of highest-ever order book. vii) It closed 5 large deals with total contract potential of US\$52mn (2 each from connectivity and sustainability, and 1 from Aero). viii) Cyient has made significant progress on GenAI and won >15 projects in Q1, covering various elements of product data management, engineering, information management, AI assisted PMO, customer experience, customer support, product support. ix) Wage hike is wef Q2. x) Cyient has set up a subsidiary to focus on the ASIC turnkey design and manufacturing, through a fabless model for analog mixed signal chips.

Target Price – 12M	Jun-25
Change in TP (%)	(11.5)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	21.4
CMP (25-Jul-24) (Rs)	1,894.2

Stock Data	Ticker
52-week High (Rs)	2,459
52-week Low (Rs)	1,423
Shares outstanding (mn)	110.9
Market-cap (Rs bn)	210
Market-cap (USD mn)	2,510
Net-debt, FY25E (Rs mn)	-5,007
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,008.9
ADTV-3M (USD mn)	12.1
Free float (%)	76.0
Nifty-50	24,406
INR/USD	83.7
Shareholding, Jun-24	
Promoters (%)	23.2
FPIs/MFs (%)	29.5/27.1

Price Performance			
(%)	1M	3M	12M
Absolute	1.5	(1.1)	29.2
Rel. to Nifty	(1.4)	(8.5)	4.2



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Exhibit 1: Quarterly snapshot

(Rs mn)	Q1FY25	Q4FY24	QoQ chg	Q1FY24	YoY chg
Net sales - DET (US\$ mn)	169.6	179.3	-5.4%	177.1	-4.2%
Net sales (US\$ mn)	200.9	224.0	-10.3%	205.3	-2.1%
Net sales	16,757	18,607	-9.9%	16,865	-0.6%
Operating expenses	14,106	15,254	-7.5%	13,709	2.9%
EBITDA	2,651	3,353	-20.9%	3,156	-16.0%
- Margins	15.8%	18.0%	-220	18.7%	-290
Depreciation	658	671		676	
EBIT	1,993	2,682	-25.7%	2,480	-19.6%
- Margins	11.9%	14.4%	-250	14.7%	-280
Interest cost	257	324		278	
Other income	211	235		102	
Pre-tax profit	1,947	2,593	-24.9%	2,304	-15.5%
Tax provided	471	623		527	
Profit after tax	1,476	1,970	-25.1%	1,777	-16.9%
Net income	1,439	1,893	-24.0%	1,767	-18.6%
Emkay Net profit	1,439	1,893	-24.0%	1,682	-14.4%
EPS (Rs)	13.0	17.1	-24.0%	15.2	-14.7%

Source: Company, Emkay Research

Exhibit 2: Actuals vs estimates

(Rs mn)	Actual	Estimates		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues (US\$ mn)	200.9	217.6	211.7	-7.7%	-5.1%	Revenue growth was below expectations.
Sales	16,757	18,148	17,657	-7.7%	-5.1%	
EBIT	1,993	2,527	2,467	-21.1%	-19.2%	EBITM was below expectations.
EBIT margin	11.9%	13.9%	14.0%	-200 bps	-210 bps	
PAT	1,439	1,824	1,795	-21.1%	-19.8%	Reported profit was lower due to operating performance miss.

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 (US\$ mn)	927.5	882.8	-4.8%	1056.1	1014.5	-3.9%	1204.6	1170.7	-2.8%
YoY growth	7.5%	2.3%		13.9%	14.9%		14.1%	15.4%	
Revenue	77,776	74,038	-4.8%	89,768	86,233	-3.9%	1,03,595	1,00,677	-2.8%
EBIT	11,232	9,733	-13.3%	13,553	12,362	-8.8%	15,822	15,016	-5.1%
EBIT margin	14.4%	13.1%		15.1%	14.3%		15.3%	14.9%	
Net profit	8,068	7,013	-13.1%	9,942	9,122	-8.2%	11,700	11,143	-4.8%
EPS (Rs)	72.8	63.2	-13.1%	89.7	82.2	-8.3%	105.5	100.5	-4.8%

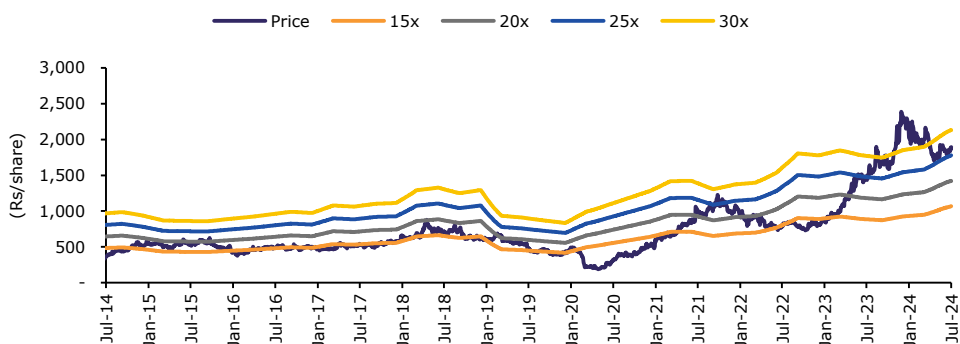
Source: Company, Emkay Research

Exhibit 4: SoTP-based valuation

Particular (Rs bn)	Jun-26E TTM Profit	Methodology	Target multiple (x)	Valuation (Rs bn)	Valuation (Rs/sh)
Cyient - DET	9	P/E	25	219	1,973
	Mkt cap (Rs bn)	20% discount to CMP	% stake		
Cyient - DLM	61	49	66.7%	33	294
Total				251	2,267
O/S no. of shares	111				
Emkay Target price (Rs/sh)	2,300				
CMP (Rs/sh)	1,894				
Upside	21.4%				
Implied P/E valuation (x)	29.3				

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	74,038	86,233	1,00,677
Revenue growth (%)	32.7	18.8	3.6	16.5	16.7
EBITDA	10,240	13,027	12,519	15,200	18,024
EBITDA growth (%)	24.6	27.2	(3.9)	21.4	18.6
Depreciation & Amortization	2,566	2,666	2,786	2,837	3,008
EBIT	7,674	10,361	9,733	12,362	15,016
EBIT growth (%)	21.9	35.0	(6.1)	27.0	21.5
Other operating income	0	0	0	0	0
Other income	814	661	897	1,026	1,104
Financial expense	999	1,160	994	733	613
PBT	7,489	9,862	9,637	12,655	15,507
Extraordinary items	(622)	(519)	0	0	0
Taxes	1,723	2,314	2,355	3,164	3,877
Minority interest	0	(200)	(270)	(369)	(487)
Income from JV/Associates	0	0	0	0	0
Reported PAT	5,144	6,829	7,013	9,122	11,143
PAT growth (%)	(1.5)	32.8	2.7	30.1	22.2
Adjusted PAT	5,766	7,348	7,013	9,122	11,143
Diluted EPS (Rs)	46.6	61.6	63.2	82.2	100.5
Diluted EPS growth (%)	(1.6)	32.3	2.7	30.1	22.2
DPS (Rs)	26.0	30.0	30.5	40.0	48.5
Dividend payout (%)	55.8	48.7	48.2	48.6	48.3
EBITDA margin (%)	17.0	18.2	16.9	17.6	17.9
EBIT margin (%)	12.8	14.5	13.1	14.3	14.9
Effective tax rate (%)	23.0	23.5	24.4	25.0	25.0
NOPLAT (pre-IndAS)	5,908	7,930	7,355	9,272	11,262
Shares outstanding (mn)	110.5	110.9	110.9	110.9	110.9

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	7,489	9,862	9,637	12,655	15,507
Others (non-cash items)	247	(2,770)	(2,098)	(4,152)	(5,722)
Taxes paid	1,288	2,775	2,355	3,164	3,877
Change in NWC	(3,485)	(2,606)	(1,735)	(3,961)	(4,719)
Operating cash flow	5,539	7,261	8,159	7,705	8,942
Capital expenditure	(652)	(782)	(1,222)	(2,162)	(1,216)
Acquisition of business	(660)	661	0	0	0
Interest & dividend income	444	352	897	1,026	1,104
Investing cash flow	(10,327)	(5,327)	(324)	(1,136)	(112)
Equity raised/(repaid)	79	7,041	0	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)	(994)	(733)	(613)
Dividend paid (incl tax)	(2,630)	(3,058)	(3,383)	(4,437)	(5,379)
Others	0	0	0	0	0
Financing cash flow	(1,093)	(2,662)	(4,720)	(6,570)	(5,993)
Net chg in Cash	(5,881)	(728)	3,115	(1)	2,837
OCF	5,539	7,261	8,159	7,705	8,942
Adj. OCF (w/o NWC chg.)	9,024	9,867	9,895	11,667	13,661
FCFF	4,887	6,479	6,938	5,543	7,726
FCFE	4,332	5,671	6,841	5,836	8,217
OCF/EBITDA (%)	54.1	55.7	65.2	50.7	49.6
FCFE/PAT (%)	84.2	83.0	97.6	64.0	73.7
FCFF/NOPLAT (%)	82.7	81.7	94.3	59.8	68.6

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	45,656	50,341	56,105
Net worth	34,667	42,581	46,210	50,896	56,659
Minority interests	(32)	2,988	2,988	2,988	2,988
Deferred tax liability (net)	348	87	(402)	(402)	(402)
Total debt	13,448	7,880	7,943	6,610	6,689
Total liabilities & equity	48,431	53,536	56,739	60,091	65,934
Net tangible fixed assets	4,481	4,462	4,415	4,403	4,370
Net intangible assets	5,050	4,397	3,669	2,991	2,309
Net ROU assets	2,770	3,271	2,966	3,173	3,384
Capital WIP	27	16	16	16	16
Goodwill	16,363	16,692	16,692	16,692	16,692
Investments [JV/Associates]	4,395	4,855	4,959	5,126	5,324
Cash & equivalents	7,194	9,835	12,950	12,949	15,786
Current assets (ex-cash)	24,719	25,756	27,651	32,825	(15,786)
Current Liab. & Prov.	16,568	15,748	16,578	18,084	21,052
NWC (ex-cash)	8,151	10,008	11,073	14,741	18,052
Total assets	48,431	53,536	56,739	60,091	65,934
Net debt	6,254	(1,955)	(5,007)	(6,340)	(9,098)
Capital employed	48,431	53,536	56,739	60,091	65,934
Invested capital	36,815	38,830	38,814	42,000	44,808
BVPS (Rs)	313.8	384.0	416.6	458.9	510.8
Net Debt/Equity (x)	0.2	0.0	(0.1)	(0.1)	(0.2)
Net Debt/EBITDA (x)	0.6	(0.2)	(0.4)	(0.4)	(0.5)
Interest coverage (x)	0.1	0.1	0.1	0.1	0.0
RoCE (%)	19.7	21.6	19.3	22.9	25.6

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	36.3	28.6	30.0	23.0	18.9
P/CE(x)	25.1	21.0	21.4	17.6	14.8
P/B (x)	6.0	4.9	4.5	4.1	3.7
EV/Sales (x)	3.6	2.9	2.8	2.4	2.0
EV/EBITDA (x)	21.0	16.0	16.4	13.4	11.2
EV/EBIT(x)	28.1	20.1	21.1	16.5	13.4
EV/IC (x)	5.9	5.4	5.3	4.9	4.5
FCFF yield (%)	2.3	3.1	3.3	2.6	3.7
FCFE yield (%)	2.1	2.7	3.3	2.8	3.9
Dividend yield (%)	1.4	1.6	1.6	2.1	2.6
DuPont-RoE split					
Net profit margin (%)	9.6	10.3	9.5	10.6	11.1
Total asset turnover (x)	1.4	1.4	1.3	1.5	1.6
Assets/Equity (x)	1.3	1.3	1.2	1.2	1.2
RoE (%)	17.5	19.0	15.8	18.8	20.7
DuPont-RoIC					
NOPLAT margin (%)	9.8	11.1	9.9	10.8	11.2
IC turnover (x)	2.1	1.9	1.9	2.1	2.3
RoIC (%)	20.9	21.0	18.9	22.9	25.9
Operating metrics					
Core NWC days	49.5	51.1	54.6	62.4	65.4
Total NWC days	49.5	51.1	54.6	62.4	65.4
Fixed asset turnover	3.2	2.8	2.9	3.5	4.2
Opex-to-revenue (%)	71.9	81.8	83.1	82.4	82.1

Source: Company, Emkay Research

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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
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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