

**Results Inline with Estimates; Weak Outlook**

**Est. vs. Actual for Q2FY25:** Revenue – **INLINE** ; EBITDA Margin – **INLINE**; PAT – **BEAT**; Deal Wins – **BEAT**

**Changes in Estimates post Q2FY25**

**FY25E/FY26E:** Revenue: -1%/2%; EBITDA: -0.5%/0.5%; PAT: -1%/2%

**Recommendation Rationale**

- **Weak growth prospects:** The weak outlook for the vertical business, impacted by first-quarter challenges, along with slower ramp-ups in the DET vertical, diminishes our confidence in the company's growth prospects for the upcoming quarters.
- **Stable order intake amidst tough times:** TCV of \$182.5 Mn with 5 large deals in Q2FY25 indicates stable order intake even in challenging times.
- **Multiple order wins in recent quarters:** The management is confident of achieving demand momentum and margin improvement in the medium term, supported by orders secured in recent quarters. However, commentary on the ramp-up remains weak.

**Sector Outlook:** Cautiously positive

**Company Outlook & Guidance:** Cyient has given revenue growth guidance of high single digits in FY25 (in constant currency terms). The margin guidance is 16%.

**Current Valuation:** 19x FY26E P/E; **Earlier Valuation:** 20x FY26E

**Current TP:** 1,900/share (**Earlier TP:** Rs 2,000/share)

**Recommendation:** With limited growth potential due to first-quarter impact, we recommend a **HOLD** recommendation on the stock.

**Financial Performance**

In Q2FY25, Cyient reported revenue of Rs 1,849 Cr, reflecting a 10% QoQ increase and a 4% YoY rise. The company's operating margins improved by 226 bps to 16%. The operating margins for Services rose by 250 bps QoQ and 280 bps YoY, driven by reduced volume during the quarter and favorable currency translation effects. The company's net profit for Q2FY25 stood at Rs 179 Cr, registering a growth of 24% QoQ and remaining flat YoY. Growth was attributed to the Communications sector (driven by Network Transformation), Energy & Utilities (benefiting from the IG partner's acquisition), and Transportation (led by the Rail segment). The deal pipeline remains healthy at \$182.6 Mn.

**Outlook**

From a long-term perspective, we believe Cyient is a stronger ER&D player with an improved outlook and better deal wins. The recent recovery is expected to be sustainable over a two to three-year horizon. However, rising concerns over uncertainties from large economies and supply-side constraints may create uncertainties regarding the company's growth prospects.

**Valuation & Recommendation**

We recommend a **HOLD** rating on the stock and assign a 19x P/E multiple to its FY26E earnings of Rs 100/share to arrive at a TP of Rs 1,900/share, implying an upside of 7% from the CMP.

**Key Financials (Consolidated)**

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,849	10%	4%	1870	-1%
EBIT	230.6	16%	-11%	269	-14%
EBIT Margin	12%	30 bps	140	14.39%	-13%
Net Profit	179.1	24%	-5%	152	18%
EPS (Rs)	16.28	24%	0%	13.8	18%

Source: Company, Axis Securities Research

(CMP as of 24<sup>th</sup> October 2024)

CMP (Rs)	1,775
Upside /Downside (%)	7%
High/Low (Rs)	2,457/1,542
Market cap (Cr)	19,704
Avg. daily vol. (6m)Shrs.	1,01,970
No. of shares (Cr)	11.04

**Shareholding (%)**

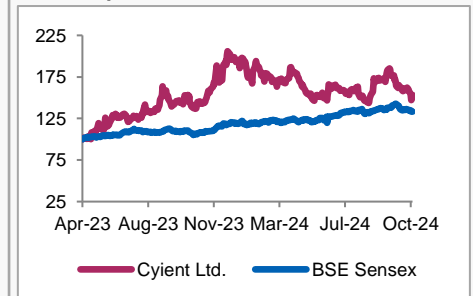
	Marc-24	Jun-24	Sep-24
Promoter	23.2	23.2	23.2
FIs	31.0	29.5	28.4
MFs / UTI	22.8	23.6	24.2
Banks / FIs	0	0	0
Others	23.0	23.8	24.2

**Financial & Valuations**

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	7,147	8,047	9,233
EBITDA	1,303	1,449	1,754
Net Profit	918	828	1,094
EPS (Rs)	84	76	100
PER (x)	26.1	28.9	21.9
P/BV (x)	5.9	5.1	4.4
EV/EBITDA (x)	17.9	16.0	13.3
ROE (%)	24%	18%	21%

**Change in Estimates (%)**

Y/E Mar	FY25E	FY26E
Sales	(1)%	2%
EBITDA	(0.5)%	0.5%
PAT	(1)%	2%

**Relative performance**

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## Recommendation Rationale & Key Highlights

- **Demand strength to continue in the medium term:** The US market is relatively better positioned, while the UK is witnessing an increase in cost optimization deals accompanied by faster decision-making. Conversely, the European market is experiencing short-term challenges. As the macro environment stabilizes, the company anticipates an improvement in decision-making processes.
- **Tepid vertical growth:** On the vertical front, new growth areas experienced a de-growth of 2%, while the Communication sector declined by 7.6% QoQ. The Transportation vertical also reported a de-growth of 7.2% QoQ, and the Sustainability vertical decreased by 2.8% QoQ. On a positive note, most verticals are expected to recover in the coming quarters, bolstered by a strong deal pipeline.
- **Weak DET performance:** Cyient's Digital, Engineering & Technology (DET) business encompasses the former Services business (core services and acquisitions) along with a small portion of the Engineering Parts business that was previously classified under DLM. DET revenue reached \$169.6 Mn, representing a decline of 5% QoQ and 3.6% YoY in constant currency terms. This decline was primarily driven by de-growth across the Transportation, Sustainability, and Automotive business units. The normalized Group EBIT margins improved to 13.5%, an increase of 260 bps YoY.

## Key Risks to Our Estimates and TP

- The demand environment is uncertain due to the potential threat of recession in the world's largest economies.
- The rising subcontracting cost and cross-currency headwinds may impact the company's operating margins negatively.

**Results Review**
**(Rs Cr)**

In Cr	Q2FY25	Q1FY25	Q2FY24	% change (YoY)	% change (QoQ)
<b>Total Revenue</b>	<b>1,849</b>	<b>1,676</b>	<b>1,779</b>	<b>4%</b>	<b>10.3%</b>
Total Cost of Sales	1,217	1,077	1143.4		
<b>Gross Profit</b>	<b>632</b>	<b>599</b>	<b>635.1</b>	<b>0%</b>	<b>6%</b>
Margin(%)	34%	36%	36%	147	-63
Selling and marketing Expenses	74	73	60.8		
G&A expenses	261.5	261	248.5		
<b>Total Operating Expenses</b>	<b>336</b>	<b>334</b>	<b>309.3</b>		
<b>EBITDA</b>	<b>297</b>	<b>265</b>	<b>325.8</b>	<b>-9%</b>	<b>12%</b>
Margin(%)	16%	16%	18%	24	(158)
Depreciation	66	66	66		
<b>Operating Income</b>	<b>230.6</b>	<b>199</b>	<b>260</b>	<b>-11%</b>	<b>16%</b>
Margin(%)	12%	12%	15%	60	(215)
Total Other Income/(Expense)	51.2	21	13.6		
<b>Income Before Income Taxes</b>	<b>254.3</b>	<b>195</b>	<b>146.6</b>	<b>73%</b>	<b>30%</b>
Total Taxes	67.6	47	58.2		
ETR (%)	27%	24%	40%	-51	-298
<b>Net Profit After Taxes</b>	<b>179.1</b>	<b>144</b>	<b>188.4</b>	<b>-5%</b>	<b>24%</b>
Non Controlling Interest	0	0	0		
<b>Net Income After Extraordinary Items</b>	<b>179.1</b>	<b>144</b>	<b>188.4</b>	<b>-5%</b>	<b>24%</b>
Margin(%)	7%	7%	14%	-920	-
<b>EPS</b>	<b>16.28</b>	<b>13.09</b>	<b>16.27</b>	<b>0%</b>	<b>24%</b>

Source: Company, Axis Securities Research

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Net sales</b>	<b>6,016</b>	<b>7,147</b>	<b>8,047</b>	<b>9,233</b>
Stock Adjustments	13	(24)	-	-
Raw Material Consumed	684	-	1,127	1,246
Power & Fuel Cost	27	-	-	-
Employee Cost	3,026	3,512	3,943	4,524
Cost of Software developments	422	989	1,529	1,708
<b>Total Cost</b>	<b>5,014</b>	<b>5,844</b>	<b>6,599</b>	<b>7,479</b>
<b>EBITDA</b>	<b>1,002</b>	<b>1,303</b>	<b>1,449</b>	<b>1,754</b>
<i>EBITDA Margin</i>	<i>17%</i>	<i>18%</i>	<i>18%</i>	<i>19%</i>
Other income	83	66	121	185
<b>EBIT</b>	<b>1,085</b>	<b>1,369</b>	<b>1,569</b>	<b>1,939</b>
<i>EBIT Margins</i>	<i>18%</i>	<i>19%</i>	<i>20%</i>	<i>21%</i>
Depreciation	257	267	304	280
Interest & Fin Chg.	100	116	161	185
<b>Pre-tax profit</b>	<b>681</b>	<b>986</b>	<b>1,104</b>	<b>1,474</b>
Tax provision	167	68	276	380
<b>Profit after Tax</b>	<b>514</b>	<b>918</b>	<b>828</b>	<b>1,094</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Total assets</b>	<b>4,479</b>	<b>5,658</b>	<b>6,126</b>	<b>6,517</b>
Net Block	2,825	1,345	2,825	0
<b>CWIP</b>	<b>66</b>	<b>69</b>	<b>72</b>	<b>76</b>
Investments	421	422	424	426
Wkg. cap. (excl cash)	41	2,648	1,483	2,119
<b>Cash / Bank balance</b>	<b>1,127</b>	<b>1,175</b>	<b>1,323</b>	<b>1,214</b>
Misc. Assets	-1	-1	-1	-1
<b>Capital employed</b>	<b>4,479</b>	<b>5,658</b>	<b>6,126</b>	<b>6,517</b>
Equity capital	55	55	55	55
Reserves	3,363	4,013	4,599	5,373
Minority Interests	46	46	46	46
Borrowings	798	838	880	924
Def Tax Liabilities	35	35	35	35

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Sources</b>	<b>1,564</b>	<b>1,606</b>	<b>1,518</b>	<b>1,872</b>
Cash profit	871	1,301	1,293	1,559
(-) Dividends	150	269	242	320
Retained earnings	721	1,032	1,051	1,239
Issue of equity	0	0	0	0
Change in Oth. Reserves	286	650	586	774
Borrowings	520	40	42	44
Others	38	-116	-161	-185
<b>Applications</b>	<b>1,564</b>	<b>1,606</b>	<b>1,518</b>	<b>1,872</b>
Capital expenditure	1,649	-641	6,418	6,418
Investments	-12	0	0	0
Net current assets	-467	-149	43	-196
Change in cash	394	2,396	1,289	1,863
Closing cash	1,127	1,175	1,323	1,214

Source: Company, Axis Securities Research

**Ratio Analysis**

(%)

Y/E March	FY23	FY24	FY25E	FY26E
<b>Sales growth (In %)</b>	<b>33</b>	<b>19</b>	<b>13</b>	<b>15</b>
	0	0	0	0
<b>OPM (In %)</b>	<b>17</b>	<b>18</b>	<b>18</b>	<b>19</b>
Oper. profit growth (In %)	22	30	11	21
COGS / Net sales	0	0	0	0
Depreciation / G. block	17	-18	21	-10
Net wkg.cap / Net sales (In %)	8%	19%	26%	20%
Net sales / Gr block (x)	1.4	2.0	2.1	2.3
RoCE (In %)	<b>21%</b>	<b>23%</b>	<b>23%</b>	<b>27%</b>
Debt/equity (x)	0.15	0.13	0.12	0.11
Effective tax rate (In %)	24	7	25	26
<b>RoE (In %)</b>	<b>15%</b>	<b>24%</b>	<b>18%</b>	<b>21%</b>
Payout ratio (Div/NP)	25	25	25	25
<b>EPS (Rs.)</b>	<b>47</b>	<b>84</b>	<b>76</b>	<b>100</b>
EPS Growth (In %)	-2	79	-10	32
CEPS (Rs.)	70	108	104	126
DPS (Rs.)	12	21	19	25

Source: Company, Axis Securities Research

## Cyient Price Chart and Recommendation History



Date	Reco	TP	Research
13-Jan-23	BUY	1,050	Result Update
21-Apr-23	BUY	1,260	Result Update
26-Jul-23	BUY	1,610	Result Update
11-Dec-23	BUY	2,195	Company Update
29-Jan-24	BUY	3,000	Result Update
26-Apr-24	BUY	2,500	Result Update
26-Jul-24	HOLD	2,000	Result Update
25-Oct-24	HOLD	1,900	Result Update

Source: Axis Securities Research

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