

Cyient: TAO Acquisition Extends Growth Beyond Traditional ER&D

June 01, 2026 | CMP: INR 900 | Target Price: INR 1,250

BUY

Expected Share Price Return: 38.9% | Dividend Yield: 2.8% | Potential Upside: 41.7%

Sector View: Neutral

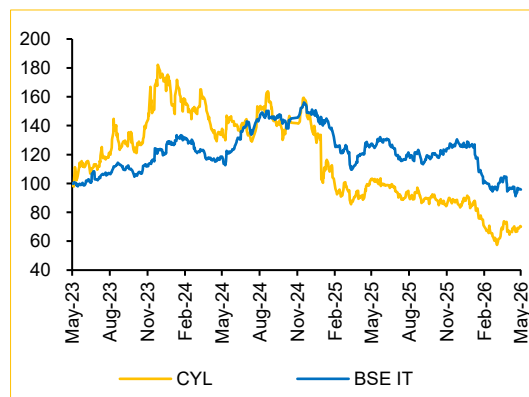
Change in Estimates	✗
Change in Target Price	✗
Change in Recommendation	✗

Company Info	
BB Code	CYL IN EQUITY
Face Value (INR)	5.0
52-w High/Low (INR)	1,369 / 751
Mkt Cap (Bn)	INR 100.9 / USD 1.1
Shares o/s (Mn)	111.0
3M Avg. Daily Volume	3,33,469

Key Financials (DET Business) (excl. TAO Digital Acq'n)					
INR Bn	FY25	FY26	FY27E	FY28E	FY29E
Revenue	55.2	58.2	63.5	69.9	78.3
YoY (%)	-6.7	5.5	9.1	10.2	11.9
EBIT	7.1	7.1	8.5	9.9	11.5
EBITM %	12.9	12.2	13.3	14.1	14.7
Adj PAT	5.5	5.9	6.9	7.8	9.4
EPS (INR)	49.8	53.3	62.3	70.4	85.3
ROE %	11.6	7.5	12.0	12.6	13.7
ROCE %	15.2	10.7	14.4	15.6	16.7
PE(x)	18.8	17.5	15.0	13.3	11.0

Shareholding Pattern (%)			
	Mar-26	Dec-25	Sep-25
Promoters	23.28	23.28	23.28
FIIIs	15.33	15.28	17.56
DIIIs	40.98	39.51	38.42
Public	20.43	21.93	20.75

Relative Performance (%)			
YTD	3Y	2Y	1Y
BSE IT	(4.2)	(19.1)	(24.3)
CYL	(30.0)	(49.2)	(31.8)



[Q4FY26 Cyient Result Update](#)

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Transformational Deal Broadens TAM and Growth Prospects

We view TAO Digital as a strategic acquisition which accelerates Cyient's transition from a pure-play ER&D vendor to an AI-enabled lifecycle engineering partner. The acquisition adds ~USD 79 Mn revenue and ~3,500 employees, while strengthening capabilities in Data Engineering, Platform Engineering and AI-led transformation areas, increasingly driving enterprise technology spends. More importantly, it expands Cyient's opportunity set beyond the USD 100 Bn ER&D outsourcing market into a significantly larger Digital/Data/AI services pool, improving its relevance in customer transformation programs.

The deal also shifts Cyient's portfolio towards higher-growth technology services, with 80%+ of TAO's revenue coming from Data and Software Product Engineering. The management expects the combined entity to pursue larger (>USD 5 Mn), multi-year annuity-led engagements versus smaller project-based contracts at present. At an EV of USD 218 Mn (USD 130 Mn upfront), the transaction appears reasonably structured, which is expected to be EPS-accretive and could improve Cyient's medium-term growth profile. Integration execution and large-deal conversion remain the key monitorables. We maintain our 'BUY' rating with a TP of INR 1,250, using SOTP valuation.

Transaction Overview

- Cyient has entered into a definitive agreement to acquire 100% stake in TAO Digital Solutions Inc., a US-headquartered AI-native data and product engineering company, subject to customary approvals and expected closure by Q2FY27.
- TAO Digital generated ~USD 79 Mn revenue in CY25 and employs ~3,500 professionals across North America, India, Europe and Asia, serving marquee clients in Automotive, Hi-Tech and HealthTech sectors.
- The transaction implies an enterprise value of USD 218 Mn, comprising USD 130 Mn upfront payment and performance-linked earnouts over the subsequent 2 years. The acquisition will be funded primarily through debt, with management expecting a significant portion of debt servicing through the acquired entity's cash generation.
- The acquisition valuation of ~9.5x CY27E EV/EBITDA appears reasonable, particularly considering Tao Digital's ~74% revenue CAGR over CY23–25, AI-centric service portfolio and global delivery capabilities. Relative to listed digital engineering peers, such as KPITTECH, TELX, LTTS and TATATECH, which trade at materially higher forward multiples, the transaction does not appear aggressive.

Acquisition Strengthens Cyient's Positioning in AI, Data Engineering and Large Annuity Programs: The acquisition addresses a critical capability gap in Data Engineering and AI-led software platforms, enabling Cyient to move beyond traditional engineering outsourcing toward end-to-end AI-native engineering solutions. Management believes the combination expands Cyient's TAM, from the ~USD 100 Bn ER&D outsourcing opportunity to a significantly larger technology and digital transformation market to an estimated USD 2 Tn. TAO's strengths in data platforms, AI/ML, product engineering and managed services complement Cyient's deep domain expertise across engineering-intensive industries, creating a differentiated "Domain + Data + AI" proposition. The combined entity will be capable of delivering larger multi-year annuity contracts, improving revenue visibility while reducing dependence on project-based engagements.

Enhances Growth Profile Through Digital Mix Expansion and AI Readiness: The management highlighted that customer demand for Digital and AI capabilities has accelerated over the past 2 years, with a majority of enterprise clients seeking AI transformation roadmaps. TAO materially strengthens Cyient's technology service mix, increases credibility in large-scale data engineering engagements and enhances its ability to support enterprise AI adoption through robust data foundations. We believe the acquisition improves Cyient's competitive positioning in higher-growth Digital, Data and AI spending categories across Automotive, Hi-Tech, HealthTech sectors and expands its presence in North America while creating opportunities for cross-selling and deeper wallet share within existing engineering customers.

Event Update

Management Call – Highlights

Strategic Rationale and Market Positioning

- **Pivot to Lifecycle Engineering:** The deal aligns with Cyient's shift from traditional product design to Intelligent Engineering, which involves servicing the entire lifecycle of a product, including the data and software platforms which harness it, over its lifespan
- **TAM Expansion:** Management expects this to expand their Total Addressable Market (TAM) from a USD 100 Bn ER&D outsourcing focus to an estimated USD 2 Tn market across its existing industries
- **Shift to Annuity Models:** A primary goal is to move away from project-based revenue towards large, multi-year annuity deals (USD 5Mn+ deal constructs) and outcome-based commercial models
- **Closing Capability Gaps:** For 2 years, customers have requested Digital and AI plans; Tao Digital fills critical gaps in Data Engineering and AI Application layers, areas where Cyient previously lacked industrial grade capability

Operational and Synergy Highlights

- **Data Readiness for AI:** Management views that being data ready (curation, engineering, and platform modernisation) as the biggest market opportunity for the next 2–3 years, as customers double their data creation every quarter
- **Domain + Data Expertise:** Management believes their unique advantage is combining Cyient's 3 decades of domain heritage (e.g., Aerospace, Energy) with Tao's modern data engineering to build specialised AI agents and knowledge graphs for industrial use
- **Vertical Strengthening:** The acquisition significantly bolsters Cyient's footprint in Automotive, Hi-Tech and MedTech, which contribute to over 90% of Tao Digital's revenues

Financial and Structural Takeaways

- **Immediate Accretion:** The transaction is expected to be immediately 'EPS accretive', even after accounting for integration and transaction cost, which are projected to conclude in approximately 1.5 years
- **Performance-Linked Structure:** 100% of the earnout tranches (totalling up to USD 218 Mn enterprise value) are linked to performance criterion, specifically EBITDA growth over 2 years
- **Funding Strategy:** The deal is primarily debt-funded, with a large portion of that debt intended to be serviced by Tao Digital's strong free cash flow (FCF)
- **Management Continuity:** The management confirmed that the key Tao leadership, is incentivised to stay through the 2-year earnout period and indicated a strong intent for them to continue beyond that timeframe

Acquisition supports Cyient's transition toward intelligent engineering across complete product lifecycles

Expands addressable market from USD 100 Bn to nearly USD 2 Tn

Enables shift from project-based engagements to multi-year annuity and outcome-driven contracts

Tao Digital adds critical data engineering and AI application capabilities

Data modernization and AI readiness represent major growth opportunities ahead

Combining domain expertise with data engineering strengthens industrial AI solutions

Acquisition significantly enhances presence across Automotive, Hi-Tech, and MedTech sectors

Deal is immediately EPS accretive, with performance-linked earnouts and leadership continuity

SOTP Valuation Table

Cyient DET	
FY28 PAT for DET segment	7,780
Multiple (x)	15
Equity value (INR Mn)	1,16,702
Cyient DLM	
Mcap (INR mn)	30,401
Discount to Mcap	15.0
% Stake	52.2
Equity Value (INR Mn)	13,489
Cyient Semiconductor (Value at acquisition price)	
% Stake	74.0
Equity Value (INR Mn)	7,863
Consolidated equity value	1,38,054
Shares o/s (mn)	110.4
Target price (INR)	1,250
Fair value (INR)	1,250

Source: CYL, Choice Institutional Equities

Income Statement (Consolidated in INR Mn)

Particulars	FY25	FY26	FY27E	FY28E	FY29E
Revenue	73,604	72,682	79,771	88,752	1,00,394
EBITDA	11,514	9,667	12,637	14,982	17,224
Depreciation	2,672	2,782	2,596	3,065	3,268
EBIT	8,842	6,885	10,041	11,917	13,956
Other Income	966	1,772	1,835	1,870	2,168
Interest Expense	928	608	687	830	1,049
Exceptional Items	-	-	-	-	-
PAT	6,158	4,278	7,365	8,471	9,993
EPS	56.1	48.1	66.3	76.2	89.9

Ratio Analysis	FY25	FY26	FY27E	FY28E	FY29E
Growth Ratios (%)					
Revenues	3.0	-1.3	9.8	11.3	13.1
EBITDA	-11.6	-16.0	30.7	18.6	15.0
EBIT	-14.7	-22.1	44.4	17.6	17.1
Margin Ratios (%)					
EBITDA Margin	15.6	13.3	15.8	16.9	17.2
EBIT Margin	12.0	9.5	12.5	13.2	13.6
Profitability (%)					
ROE	11.6	7.5	12.0	12.7	13.7
ROIC	13.7	9.7	12.9	13.6	15.5
ROCE	15.2	10.7	14.5	15.9	17.1
Valuation					
OCF / Net profit (%)	131.7	205.8	105.2	156.2	150.4
EV/ EBITDA (x)	8.1	9.4	7.2	5.7	4.7
BVPS (x)	479.9	513.5	555.6	604.5	660.9
Free Cash flow yield (%)	5.6	5.9	4.0	10.3	12.0

Source: CYL, Choice Institutional Equities

Note: The above financials presented are for Cyient Limited and exclude the impact of TAO Digital acquisition

Note: We will revise the financials once we gain greater clarity regarding TAO Digital's financial position

Balance Sheet (Consolidated in INR Mn)

Particulars	FY25	FY26	FY27E	FY28E	FY29E
Tangible Fixed Assets	7,644	7,243	7,046	6,544	5,903
Goodwill & Intangible Assets	22,995	24,147	25,545	25,782	25,955
Investments	2,798	1,981	2,179	2,397	2,637
Cash & Cash Equivalents	10,706	14,575	14,048	19,287	25,324
Other Non-current Assets	2,054	3,211	3,437	3,691	3,979
Other Current Assets	30,749	32,087	37,604	39,774	42,588
Total Assets	76,946	83,244	89,859	97,476	1,06,386
Shareholder's Funds	53,095	56,819	61,472	66,890	73,125
Minority Interest	4,509	4,814	5,785	6,967	8,205
Borrowings	5,134	4,311	4,399	4,491	4,588
Other Non-current Liabilities	2,587	3,145	3,145	3,145	3,145
Other Current Liabilities	11,621	14,155	15,058	15,983	17,324
Total Equity & Liabilities	76,946	83,244	89,859	97,476	1,06,386

Cash Flows (INR Mn)	FY25	FY26	FY27E	FY28E	FY29E
Cash Flows from Operations	8,113	8,802	7,750	13,230	15,026
Cash Flows from Investing	(1,451)	1,116	(3,995)	(3,017)	(3,041)
Cash Flows from Financing	(582)	(6,509)	(4,282)	(4,973)	(5,949)

DuPont Analysis	FY25	FY26	FY27E	FY28E	FY29E
ROE	11.6%	7.5%	12.0%	12.7%	13.7%
Net Profit Margin	8.4%	5.9%	9.2%	9.5%	10.0%
Asset Turnover	1.0	0.9	0.9	0.9	1.0
Equity Multiplier	1.4	1.5	1.5	1.5	1.5

Historical Price Chart: Cyient Ltd



Date	Rating	Target Price
October 25, 2024	BUY	1,884
March 12, 2025	BUY	1,660
April 24, 2025	BUY	1,555
July 24, 2025	SELL	1,095
October 17, 2025	REDUCE	1,190
January 23, 2026	ADD	1,300
March 02, 2026	BUY	1,250
April 24, 2026	BUY	1,250
June 01, 2026	BUY	1,250

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CHOICE RATING DISTRIBUTION & METHODOLOGY

Large Cap*	
BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months
Mid & Small Cap*	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months
Other Ratings	
NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change
Sector View	
POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be in stasis over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

*Large Cap: More Than INR 20,000 Cr Market Cap
 *Mid & Small Cap: Less Than INR 20,000 Cr Market Cap

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