

**Cyient reported steady operating performance in Q3. DET revenue grew 0.4% QoQ (CC: 1.1%) to USD179.2mn, largely in line with estimates. Adjusted EBIT margin for the DET segment declined by 50bps QoQ to 16%. Deal wins for Q3 grew 61.7% QoQ to USD297.3mn (book-to-bill: 1.7x). Management highlighted that while the overall environment remains challenging, there are signs of some green shoots, which can potentially accelerate growth in H2CY24. Sustainability BU is expected to maintain growth momentum, as it is a multi-year growth opportunity. Connectivity BU is bottoming out and expected to retrace growth in Q4. Citing right-shifting of projects, Mgmt has cut FY24 DET revenue growth guidance to 13-13.5% CC (earlier 15-20%), broadly in line with expectations; this implies 0.5-3% QoQ growth in Q4. It has also narrowed down DET EBITM improvement guidance to 200-250bps from 150-250bps. We incorporate provision for the civil class action anti-trust lawsuit settlement in FY24 and largely retain FY25-26 estimates. We maintain BUY, with unchanged TP of Rs2,700 (valuing the DET business at 27x Dec-25E EPS; Rs259 for DLM).**

Cyient: Financial Snapshot (Consolidated)					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	45,344	60,159	71,740	81,970	93,619
EBITDA	8,217	10,240	13,163	15,264	17,781
Adj. PAT	5,220	5,766	7,458	9,007	10,918
Adj. EPS (Rs)	47.3	46.6	62.6	81.3	98.5
EBITDA margin (%)	18.1	17.0	18.3	18.6	19.0
EBITDA growth (%)	34.5	24.6	28.5	16.0	16.5
Adj. EPS growth (%)	43.0	(1.6)	34.5	29.8	21.2
RoE (%)	17.2	17.5	20.6	22.4	24.1
RoIC (%)	24.2	20.9	21.3	24.1	27.5
P/E (x)	42.7	38.7	30.0	24.8	20.5
EV/EBITDA (x)	26.4	22.4	17.5	14.9	12.5
P/B (x)	7.1	6.4	5.9	5.3	4.7
FCFF yield (%)	2.6	2.2	2.1	3.3	3.7

Source: Company, Emkay Research

**Results Summary**

Cyient’s DET revenue grew 0.4% QoQ (1.1% in CC) to USD179.2mn, broadly in line with consensus/our estimate. Among business units, sustainability reported strong growth of 8.2% CC QoQ, connectivity grew 0.2%, while transportation (-2.2%) and new growth areas reported a decline (-3.4%). Americas and EMEA reported growth of 2.6% and 5.3% QoQ, respectively, while APAC declined 10.2% QoQ. For DET, adj. EBITM declined by 50bps QoQ to 16%, impacted by lesser working days (seasonal impact of payroll vs billed day gap) and investments to support future growth. Reported profit was impacted by settlement of the civil class action antitrust lawsuit amounting to USD7.4mn (provision of USD6mn recorded in Q3). Deal wins remain strong at USD297.3mn in Q3 (9MFY24 deal intake grew 33% YoY; book-to-build at 1.2x). Total headcount increased 1.5% QoQ to 15,678. **What we liked:** Strong deal wins, continued momentum in sustainability. **What we did not like:** Guidance cut, weakness in transportation, and new growth areas.

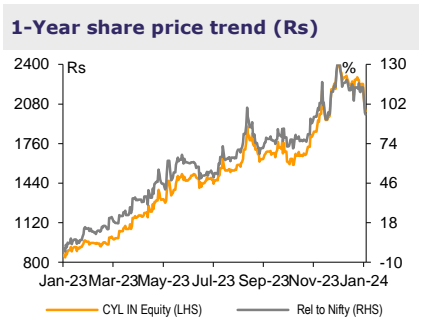
**Earnings Call KTAs**

i) Cyient won 8 large deals with potential TCv of USD136.8mn (4 in Aerospace, 2 in Communications, and 1 each in Sustainability and New-growth areas). ii) Sustainability led the growth in Q3 (up 8.2% CC QoQ), across energy, utilities, and mining. It is seeing demand in cost reduction, asset management, and alternate energy sources, and expects it to be a multi-year growth segment for the company. iii) Transportation declined 2.2% CC QoQ, but grew 16.9% YoY (like-to-like growth excluding Engineering Parts at 14.8% growth). Growing travel demand is likely to provide opportunities for MRO and manufacturing production rate improvement of aircraft engines. Mgmt expects continued momentum in Aerospace, with softness persisting in Rail. iv) Communications grew 0.2% QoQ CC after experiencing weakness in previous quarters, supporting Mgmt outlook on recovery. Investments in Fiber, supported by US government spending on RDOF and BEAD programs, can enable growth along with the need for Virtualization, Autonomous Network, SDN, cost reduction and premium customer experience, which can create more demand. v) New growth areas declined 3.4% CC QoQ. Auto is likely to be soft in Q4, but growth is likely to rebound from Q1FY25. Challenges are visible in the semi-conductor and hi-tech segments. Management expects Semiconductor to turnaround in H2, as it continues to see momentum in the form of high-performance computing and GenAI. vi) It has entered into an agreement to settle and dismiss the Civil Class Action Antitrust Lawsuit for USD7.4mn. It will utilize the insurance amount to the extent available towards settlement, for which it has also taken a provision of USD6mn in Q3. It expects this provision to be adequate and does not anticipate any further provision. vii) Management expects double-digit growth over the next 12 months.

Target Price – 12M	Dec-24
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	33.7
CMP (25-Jan-24) (Rs)	2,019.7

Stock Data	Ticker
52-week High (Rs)	2,459
52-week Low (Rs)	831
Shares outstanding (mn)	110.8
Market-cap (Rs bn)	224
Market-cap (USD mn)	2,693
Net-debt, FY24E (Rs mn)	6,005
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	997.3
ADTV-3M (USD mn)	12.0
Free float (%)	76.0
Nifty-50	21,353
INR/USD	83.1
<b>Shareholding, Sep-23</b>	
Promoters (%)	23.2
FPIs/MFs (%)	35.7/21.6

Price Performance			
(%)	1M	3M	12M
Absolute	(15.4)	26.1	137.8
Rel. to Nifty	(15.4)	12.9	99.3



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**Exhibit 1: Quarterly snapshot**

(Rs mn)	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)
Net sales (USD mn)	218.8	214.9	1.8%	197.0	11.1%
Net sales	18,214	17,785	2.4%	16,182	12.6%
Operating expenses	14,954	14,527	2.9%	13,399	11.6%
EBITDA	3,260	3,258	0.1%	2,783	17.1%
EBITDA margin	17.9%	18.3%	-40	17.2%	70
Depreciation	661	658		699	
EBIT	2,599	2,600	0.0%	2,084	24.7%
EBIT margin	14.3%	14.6%	-30	12.9%	140
Interest cost	288	270		215	
Other income	188	136		275	
Pre-tax profit	2,499	2,466	1.3%	2,144	16.6%
Tax provided	582	582		517	
Profit after tax	1,917	1,884	1.8%	1,627	17.8%
Emkay Net profit	1,471	1,783	-17.5%	1,560	-5.7%
EPS (Rs)	13.3	16.1	-17.5%	14.1	-6.0%

Source: Company, Emkay Research

**Exhibit 2: Actual vs Estimates**

(Rs mn)	Actual	Estimates		Variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenue (USD mn)	218.8	218.8	220.3	0.0%	-0.7%	Revenue growth was broadly in line with expectations.
Sales	18,214	18,225	18,353	-0.1%	-0.8%	
EBIT	2,599	2,681	2,667	-3.1%	-2.5%	EBITM was lower than expectations.
EBIT margin	14.3%	14.7%	14.5%	-40 bps	-30 bps	
PAT	1,471	1,862	1,792	-21.0%	-17.9%	Reported profit was lower due to one-off provisions.

Source: Company, Emkay Research

**Exhibit 3: Change in estimates**

(Rs mn)	FY24E			FY25E			FY26E		
	Old	New	Change	Old	New	Change	Old	New	Change
Revenue (USD mn)	867.0	866.4	-0.1%	977.2	975.8	-0.1%	1101.8	1101.4	0.0%
YoY growth	16.2%	16.1%		12.7%	12.6%		12.8%	12.9%	
Revenue	71,801	71,740	-0.1%	82,086	81,970	-0.1%	93,656	93,619	0.0%
EBIT	10,640	10,489	-1.4%	12,557	12,517	-0.3%	14,950	14,938	-0.1%
EBIT margins	14.8%	14.6%		15.3%	15.3%		16.0%	16.0%	
Net profit	7,373	6,939	-5.9%	9,027	9,007	-0.2%	10,916	10,918	0.0%
EPS (Rs)	66.6	62.6	-5.9%	81.5	81.3	-0.3%	98.5	98.5	0.0%

Source: Company, Emkay Research

**Exhibit 4: Cyient DET – Two-stage Gordon growth model**

<b>Cyient - DET</b>	
FY23-26E INR Revenue CAGR	14.2%
FY23-26E EPS CAGR	28.5%
Stage-1 (FY27E-39E) - Growth	12.0%
Stage-1 (FY27E-39E) - DPR	58.0%
Stage-1 (FY27E-39E) - Incr in RoE	28.6%
Terminal stage - Growth	7.0%
Terminal stage - DPR	75.5%
CoE	11.5%
Implied P/E (x)	26.6
Target P/E (x)	27.0
Dec-25E TP (INR)	2,423

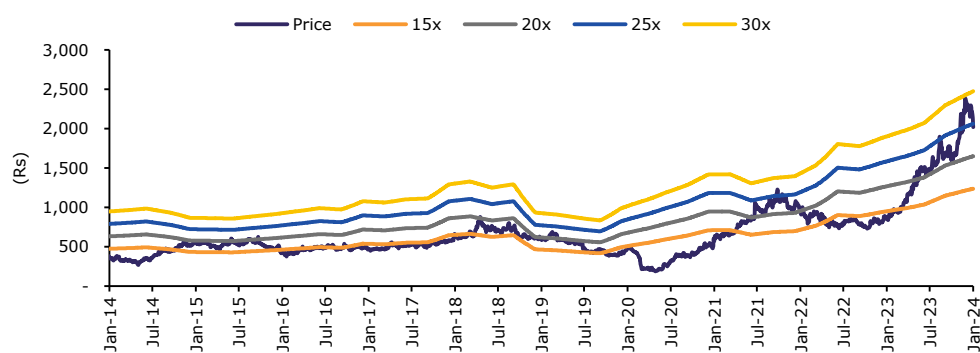
Source: Emkay Research. Note: Growth rate assumes 2% depreciation per annum in INR.

**Exhibit 5: SoTP-based valuation**

Particular (Rs bn)	Dec-25E TTM Profit	Methodology	Target multiple (x)	Valuation	Valuation (Rs/sh)
Cyient DET	10	P/E	27	268	2,423
	<b>Mkt cap (Rs bn)</b>	<b>20% discount to CMP</b>	<b>% stake</b>		
Cyient DLM	54	43	66.7%	29	259
<b>Total</b>				<b>297</b>	<b>2,682</b>
O/S no. of shares	111				
<b>Emkay Target price (Rs/share)</b>	<b>2,700</b>				
CMP (Rs/share)	2,020				
<b>Upside</b>	<b>33.7%</b>				
Implied P/E valuation (x)	28.6				

Source: Emkay Research

**Exhibit 6: Cyient – One-year forward P/E**



Source: Company, Emkay Research

## Cyient: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>45,344</b>	<b>60,159</b>	<b>71,740</b>	<b>81,970</b>	<b>93,619</b>
Revenue growth (%)	9.7	32.7	19.3	14.3	14.2
<b>EBITDA</b>	<b>8,217</b>	<b>10,240</b>	<b>13,163</b>	<b>15,264</b>	<b>17,781</b>
EBITDA growth (%)	34.5	24.6	28.5	16.0	16.5
Depreciation & Amortization	1,923	2,566	2,674	2,747	2,843
<b>EBIT</b>	<b>6,294</b>	<b>7,674</b>	<b>10,489</b>	<b>12,517</b>	<b>14,938</b>
EBIT growth (%)	51.2	21.9	36.7	19.3	19.3
Other operating income	0	0	0	0	0
Other income	1,121	814	621	679	775
Financial expense	434	999	1,108	939	791
<b>PBT</b>	<b>6,981</b>	<b>7,489</b>	<b>10,003</b>	<b>12,257</b>	<b>14,923</b>
Extraordinary items	0	(622)	(519)	0	0
Taxes	1,761	1,723	2,347	3,003	3,731
Minority interest	0	0	(198)	(248)	(274)
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>5,220</b>	<b>5,144</b>	<b>6,939</b>	<b>9,007</b>	<b>10,918</b>
PAT growth (%)	43.4	(1.5)	34.9	29.8	21.2
<b>Adjusted PAT</b>	<b>5,220</b>	<b>5,766</b>	<b>7,458</b>	<b>9,007</b>	<b>10,918</b>
<b>Diluted EPS (Rs)</b>	<b>47.3</b>	<b>46.6</b>	<b>62.6</b>	<b>81.3</b>	<b>98.5</b>
Diluted EPS growth (%)	43.0	(1.6)	34.5	29.8	21.2
<b>DPS (Rs)</b>	<b>24.0</b>	<b>26.0</b>	<b>33.5</b>	<b>40.0</b>	<b>47.5</b>
<b>Dividend payout (%)</b>	<b>50.7</b>	<b>55.8</b>	<b>53.5</b>	<b>49.2</b>	<b>48.2</b>
EBITDA margin (%)	18.1	17.0	18.3	18.6	19.0
EBIT margin (%)	13.9	12.8	14.6	15.3	16.0
Effective tax rate (%)	25.2	23.0	23.5	24.5	25.0
<b>NOPLAT (pre-IndAS)</b>	<b>4,706</b>	<b>5,908</b>	<b>8,028</b>	<b>9,450</b>	<b>11,204</b>
Shares outstanding (mn)	110.3	110.5	110.8	110.8	110.8

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	6,981	7,489	10,003	12,257	14,923
Others (non-cash items)	(1,315)	247	(2,250)	(3,247)	(4,877)
Taxes paid	1,652	1,288	2,347	3,003	3,731
Change in NWC	(973)	(3,485)	(3,062)	(2,868)	(2,948)
<b>Operating cash flow</b>	<b>6,345</b>	<b>5,539</b>	<b>7,038</b>	<b>9,145</b>	<b>10,829</b>
Capital expenditure	(626)	(652)	(2,439)	(1,739)	(2,446)
Acquisition of business	(3,250)	(660)	0	0	0
Interest & dividend income	545	444	621	679	775
<b>Investing cash flow</b>	<b>(3,823)</b>	<b>(10,327)</b>	<b>(1,818)</b>	<b>(1,060)</b>	<b>(1,671)</b>
Equity raised/(repaid)	(820)	79	1	0	0
Debt raised/(repaid)	(545)	3,511	(1,393)	(1,000)	(1,000)
Payment of lease liabilities	(962)	(1,395)	0	0	0
Interest paid	(166)	(658)	(1,108)	(939)	(791)
Dividend paid (incl tax)	(2,952)	(2,630)	(3,711)	(4,432)	(5,264)
Others	0	0	0	0	0
<b>Financing cash flow</b>	<b>(5,445)</b>	<b>(1,093)</b>	<b>(6,211)</b>	<b>(6,371)</b>	<b>(7,054)</b>
Net chg in Cash	(2,923)	(5,881)	(991)	1,715	2,104
OCF	6,345	5,539	7,038	9,145	10,829
Adj. OCF (w/o NWC chg.)	7,318	9,024	10,099	12,013	13,777
FCFF	5,719	4,887	4,599	7,406	8,382
FCFE	5,830	4,332	4,112	7,147	8,367
OCF/EBITDA (%)	77.2	54.1	53.5	59.9	60.9
FCFE/PAT (%)	111.7	84.2	59.3	79.4	76.6
<b>FCFF/NOPLAT (%)</b>	<b>121.5</b>	<b>82.7</b>	<b>57.3</b>	<b>78.4</b>	<b>74.8</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	552	553	554	554	554
Reserves & Surplus	30,614	34,114	37,341	41,915	47,570
<b>Net worth</b>	<b>31,166</b>	<b>34,667</b>	<b>37,895</b>	<b>42,469</b>	<b>48,124</b>
Minority interests	(32)	(32)	(32)	(32)	(32)
Deferred tax liability (net)	97	348	(132)	(132)	(132)
<b>Total debt</b>	<b>6,403</b>	<b>13,448</b>	<b>12,208</b>	<b>11,264</b>	<b>9,328</b>
<b>Total liabilities &amp; equity</b>	<b>37,634</b>	<b>48,431</b>	<b>49,939</b>	<b>53,570</b>	<b>57,288</b>
Net tangible fixed assets	4,540	4,481	4,500	4,534	4,479
Net intangible assets	477	5,050	4,477	3,926	3,362
Net ROU assets	2,247	2,770	2,715	2,669	2,630
Capital WIP	134	27	27	27	27
Goodwill	6,185	16,363	16,363	16,363	16,363
Investments [JV/Associates]	5,070	4,395	5,284	5,509	5,764
<b>Cash &amp; equivalents</b>	<b>12,666</b>	<b>7,194</b>	<b>6,203</b>	<b>7,918</b>	<b>10,021</b>
Current assets (ex-cash)	16,306	24,719	27,156	31,179	35,582
Current Liab. & Prov.	9,991	16,568	16,785	18,556	20,941
<b>NWC (ex-cash)</b>	<b>6,315</b>	<b>8,151</b>	<b>10,370</b>	<b>12,624</b>	<b>14,642</b>
<b>Total assets</b>	<b>37,634</b>	<b>48,431</b>	<b>49,939</b>	<b>53,570</b>	<b>57,288</b>
Net debt	(6,263)	6,254	6,005	3,347	(693)
Capital employed	37,634	48,431	49,939	53,570	57,288
<b>Invested capital</b>	<b>19,764</b>	<b>36,815</b>	<b>38,425</b>	<b>40,116</b>	<b>41,476</b>
BVPS (Rs)	282.5	313.8	342.0	383.3	434.3
Net Debt/Equity (x)	(0.2)	0.2	0.2	0.1	0.0
Net Debt/EBITDA (x)	(0.8)	0.6	0.5	0.2	0.0
Interest coverage (x)	0.1	0.1	0.1	0.1	0.1
<b>RoCE (%)</b>	<b>20.3</b>	<b>19.7</b>	<b>22.6</b>	<b>25.5</b>	<b>28.3</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	42.7	38.7	30.0	24.8	20.5
P/CE(x)	31.2	26.8	22.1	19.0	16.3
P/B (x)	7.1	6.4	5.9	5.3	4.7
EV/Sales (x)	4.8	3.8	3.2	2.8	2.4
EV/EBITDA (x)	26.4	22.4	17.5	14.9	12.5
EV/EBIT(x)	34.4	29.9	21.9	18.1	14.9
EV/IC (x)	11.0	6.2	6.0	5.7	5.4
FCFF yield (%)	2.6	2.2	2.1	3.3	3.7
FCFE yield (%)	2.6	1.9	1.8	3.2	3.7
Dividend yield (%)	1.2	1.3	1.7	2.0	2.4
<b>DuPont-RoE split</b>					
Net profit margin (%)	11.5	9.6	10.4	11.0	11.7
Total asset turnover (x)	1.2	1.4	1.5	1.6	1.7
Assets/Equity (x)	1.2	1.3	1.4	1.3	1.2
<b>RoE (%)</b>	<b>17.2</b>	<b>17.5</b>	<b>20.6</b>	<b>22.4</b>	<b>24.1</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	10.4	9.8	11.2	11.5	12.0
IC turnover (x)	2.3	2.1	1.9	2.1	2.3
<b>RoIC (%)</b>	<b>24.2</b>	<b>20.9</b>	<b>21.3</b>	<b>24.1</b>	<b>27.5</b>
<b>Operating metrics</b>					
Core NWC days	50.8	49.5	52.8	56.2	57.1
<b>Total NWC days</b>	<b>50.8</b>	<b>49.5</b>	<b>52.8</b>	<b>56.2</b>	<b>57.1</b>
Fixed asset turnover	3.9	3.2	2.8	3.3	3.8
Opex-to-revenue (%)	69.7	71.9	81.7	81.4	81.0

Source: Company, Emkay Research

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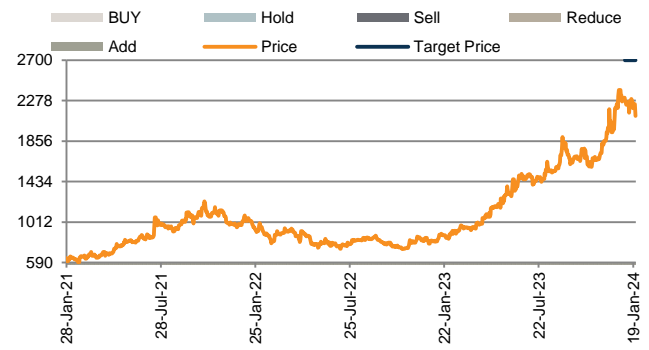
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**RECOMMENDATION HISTORY - DETAILS**

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