

Results Miss Estimates; Weak Outlook

Est. vs. Actual for Q1FY25: Revenue – **MISS**; EBITDA Margin – **MISS**; PAT – **MISS**; Deal Wins – **BEAT**

Changes in Estimates post Q1FY25

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 due to the first-quarter impact, coupled with weaker 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 Q1FY25 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: 20x FY26E P/E; **Earlier Valuation:** 25x FY26E

Current TP: 2,000/share (**Earlier TP:** Rs 2,500/share)

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

Financial Performance

In Q1FY25, Cyient reported revenue of Rs 1,676 Cr, down 10% QoQ and 1% YoY. The company's operating margins declined by 226 bps to 16%. The Services' operating margins improved by 250 bps QoQ and 280 bps YoY, driven by reduced volume during the quarter as well as currency translation. The company's net profit for Q1FY25 stood at Rs 144 Cr, registering a decline of 27% QoQ and 19% YoY. The decline is attributed to Communications growth (led by Network Transformation), E&U (benefiting from the IG partner's acquisition), and Transportation growth (led by the Rail segment). The deal pipeline continues to look 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 20x P/E multiple to its FY26E earnings of Rs 100/share to arrive at a TP of Rs 2,000/share, implying an upside of 6% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	Q1FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,676	-10%	-1%	1870	-10%
EBIT	199	-26%	-20%	269	-26%
EBIT Margin	12%	30 bps	140	14.39%	-17%
Net Profit	144	-27%	-19%	152	-5%
EPS (Rs)	13.09	-24%	-15%	13.8	-5%

Source: Company, Axis Securities Research

(CMP as of 25 July 2024)

CMP (Rs)	1,894
Upside/Downside (%)	6%
High/Low (Rs)	2,457/1,424
Market cap (Cr)	21,014
Avg. daily vol. (6m)Shrs.	1,01,970
No. of shares (Cr)	11.04

Shareholding (%)

	Dec-23	March-24	Jun-24
Promoter	23	23	23
FIIs	34.1	34.1	34.1
MFs / UTI	19.8	19.8	19.8
Banks / FIIs	0	0	0
Others	22.3	22.3	22.3

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%

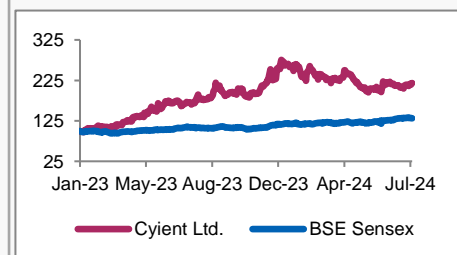
ESG disclosure Score**

Environmental Disclosure	N.A.
Social Disclosure Score	N.A.
Governance Disclosure Score	N.A.
Total ESG Disclosure Score	N.A.

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: AceEquity, Axis Securities Research

Omkar Tanksale

Research Analyst

Email: omkar.tanksale@axissecurities.in

Recommendation Rationale & Key Highlights

- **Demand strength to continue in the medium term:** The US is relatively better placed; the UK is experiencing higher cost optimization deals with faster decision-making, while the European market is impacted in the short term. As the macro environment stabilizes, the company expects a pick-up in decision-making.
- **Tepid vertical growth:** On the vertical front, new growth areas showed a de-growth of 2% while Communication de-grew by 7.6% QoQ. The Transportation vertical delivered a de-growth of 7.2% QoQ. The Sustainability vertical de-grew by 2.8% QoQ. On a positive note, the majority of the verticals are likely to witness recovery moving forward, supported by a strong deal pipeline in the forthcoming quarters.
- **Weak DET performance:** Cyient Digital, Engineering & Technology (DET) business includes the erstwhile Services business (core services and acquisitions) and a small portion of the Engineering Parts business which was earlier classified under DLM. DET revenue stood at \$169.6 Mn, down 5% QoQ and 3.6% YoY in constant currency terms. It was driven by de-growth across the Transportation, Sustainability, and Automotive BUs. The normalized Group EBIT margins stood at 13.5%, up 260bps 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	Q1FY25	Q4FY24	Q4FY23	% change (YoY)	% change (QoQ)
Total Revenue	1,676	1,861	1,687	-1%	-9.9%
Total Cost of Sales	1,077	1,206	1070		
Gross Profit	599	655	617	-3%	-9%
Margin(%)	36%	35%	37%	147	-63
Selling and marketing Expenses	73	64	53		
G&A expenses	261	255.8	249		
Total Operating Expenses	334	320	302		
EBITDA	265	335	315	-16%	-21%
Margin (%)	16%	18%	19%	(223)	(158)
Depreciation	66	67	68		
Operating Income	199	268.1	248	-20%	-26%
Margin (%)	12%	14%	15%	(254)	(283)
Total Other Income/(Expense)	21	23.5	10		
Income Before Income Taxes	195	259.2	230	-15%	-25%
Total Taxes	47	62.3	53		
ETR (%)	24%	24%	23%	-51	-298
Net Profit After Taxes	144	196.9	177	-19%	-27%
Non Controlling Interest	0	0	0		
Net Income After Extraordinary Items	144	196.9	177	-19%	-27%
Margin(%)	7%	7%	14%	-920	-
EPS	13.09	17.22	15.35	-15%	-24%

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	6,016	7,147	8,047	9,233
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
Total Cost	5,014	5,844	6,599	7,479
EBITDA	1,002	1,303	1,449	1,754
<i>EBITDA Margin</i>	<i>17%</i>	<i>18%</i>	<i>18%</i>	<i>19%</i>
Other income	83	66	121	185
EBIT	1,085	1,369	1,569	1,939
<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
Pre-tax profit	681	986	1,104	1,474
Tax provision	167	68	276	380
Profit after Tax	514	918	828	1,094

Source: Company, Axis Securities Research

Balance Sheet

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Total assets	4,479	5,658	6,126	6,517
Net Block	2,825	1,345	2,825	0
CWIP	66	69	72	76
Investments	421	422	424	426
Wkg. cap. (excl cash)	41	2,648	1,483	2,119
Cash / Bank balance	1,127	1,175	1,323	1,214
Misc. Assets	-1	-1	-1	-1
Capital employed	4,479	5,658	6,126	6,517
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
Sources	1,564	1,606	1,518	1,872
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
Applications	1,564	1,606	1,518	1,872
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

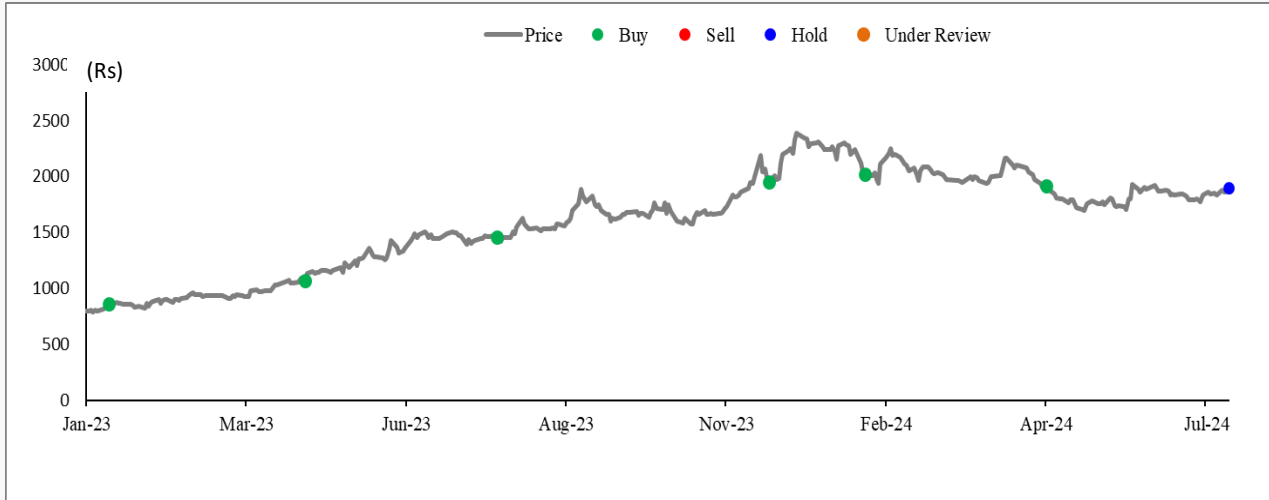
Ratio Analysis

(%)

Y/E March	FY23	FY24	FY25E	FY26E
Sales growth (In %)	33	19	13	15
	0	0	0	0
OPM (In %)	17	18	18	19
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 %)	21%	23%	23%	27%
Debt/equity (x)	0.15	0.13	0.12	0.11
Effective tax rate (In %)	24	7	25	26
RoE (In %)	15%	24%	18%	21%
Payout ratio (Div/NP)	25	25	25	25
EPS (Rs.)	47	84	76	100
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

Source: Axis Securities Research

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Compliance Officer Details: Name – Mr. Jatin Sanghani, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in; Registered Office Address – Axis House, 8th Floor, Wadia International Centre, P.B. Marg, Worli, Mumbai-400025.

Corporate Office Address – Axis Securities Limited, Unit No.002 A, Ground Floor, Agastya Corporate Park- Piramal Realty, Near Phoenix Market City Mall, Kurla (W), Mumbai – 400070.

Administrative office address: Aurum Q Parc, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

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HOLD	Between 10% and -10%
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NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
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NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

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List of Research Analyst (Fundamental):

Sr. No	Name	Designation	Sector	E-mail
1	Neeraj Chadawar	Head of Research	All Sectors	neeraj.chadawar@axissecurities.in
2	Preeyam Tolia	Research Analyst	FMCG and Retail, Real Estate	preeyam.tolia@axissecurities.in
3	Omkar Tanksale	Research Analyst	IT, Telecom, Internet	omkar.tanksale@axissecurities.in
4	Uttamkumar Srimal	Research Analyst	Cement, Infra, Railway	uttamkumar.srimal@axissecurities.in
5	Ankush Mahajan	Research Analyst	Pharmaceutical, Hospital, Hotel	ankush.mahajan@axissecurities.in
6	Dnyanada Vaidya	Research Analyst	BFSI	dnyanada.vaidya@axissecurities.in
7	Aditya Welekar	Research Analyst	Metal and Mining, Power Utilities	aditya.welekar@axissecurities.in
8	Sani Vishe	Research Analyst	Chemicals Capital Goods, Mid-cap	sani.vishe@axissecurities.in
9	Eesha Shah	Research Analyst	Real Estate, Special Situation	eesha.shah@axissecurities.in
10	Shridhar Kallani	Research Associate	Auto and Auto ancillaries	shridhar.kallani@axissecurities.in
11	Shikha Doshi	Research Associate	Cement, Infra, Railway	shikha.doshi@axissecurities.in
12	Suhanee Shome	Research Associate	FMCG and Retail	suhanee.shome@axissecurities.in
13	Shivani More	Research Associate	Chemicals Capital Goods, Mid-cap	shivani.more@axissecurities.in
14	Pranav Nawale	Research Associate	BFSI	pranav.nawale@axissecurities.in
15	Darsh Solanki	Research Associate	Metal and Mining, Power Utilities	darsh.Solanki@axissecurities.in
16	Arundhati Bagchi	Research Associate	Database Analyst, Economy	Arundhati.Bagchi@axissecurities.in