

## Cyient (CYL) - REDUCE

### Company Update

Current Market Price (CMP) <b>Rs.906</b>	Fair Value (FV) <b>Rs.880</b>
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### Rationale:

- Cyient has announced the acquisition of **TAO Digital Solutions** at US\$21.8 cr (~11-12x FY28E EBITDA) to add data engineering & digital product engineering.
- The acquisition brings on board product engineering, data AI/ML & managed services capabilities, also adding certain lower-quality data digitization work.
- Cross-sell use cases exist, but TAO's capabilities naturally align with CIO/CDO buying centers, rather than the R&D/engineering heads that Cyient sells to.
- Cyient will fund acquisition primarily through debt ~5% all-in on unhedged dollar debt.
- Management claims an organic CAGR of 100%+; the company operates at 20%+ EBITDA margins (unsustainable).
- Integration will be key to realizing value from the acquisition. Maintain REDUCE.

### 👍 Positives:

- Acquisition can be EPS accretive with substantial accretion after 1.5 years once integration concludes.
- It contributes over 12% of revenue on an annualized basis and over 6% in FY27E, given the expected closing in Q2FY27.

### 👎 Negatives:

- Execution of the acquired entity and integration must be top-notch, given DET's weak track record with Citec (US\$99 mn) and Celfinet.
- Low employee productivity numbers of TAO due to TriGeo acquisition.

(AI: Artificial Intelligence, EPS: Earnings Per Share, EBITDA: Earnings Before Interest, Depreciation, Tax and Amortization, CAGR: Compound Annual Growth Rate, R&D: Research and Development, CIO: Chief Information Officer, CDO: Chief Data Officer, ML: Machine Learning)



The content of this document has been derived from KIE research report. Kotak's PCG Research has summarized the report (Research Team: shrikant.chouhan@kotak.com). Readers who wish to access the complete report are kindly requested to contact their respective Relationship Manager. Further, the recipient of this material should take their own professional advice before investing.

Holding Period: 12 months

## RATING SCALE (PRIVATE CLIENT GROUP)

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### Definitions of ratings

- BUY** – We expect the stock to deliver more than 15% returns over the next 12 months
- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
- REDUCE** – We expect the stock to deliver -5% - +5% returns over the next 12 months
- SELL** – We expect the stock to deliver < -5% returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
- SUBSCRIBE** – We advise investor to subscribe to the IPO.
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- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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