

Dismal Q4FY20 performance...

Cyient Ltd (Cyient) reported a poor set of Q4FY20 numbers. Revenues declined 3.8% QoQ mainly led by 5.6% QOQ decline in services revenues. The decline in services revenues was led by 24.7% QoQ decline in E&U vertical and 22.3% QoQ decline in semiconductor IoT and Analytics. Normalised margins fell 118 bps due to lower utilisation and pricing pressure. Reported PAT declined 58% QoQ. However, adjusting for one off expenses, adjusted PAT declined 30.3%.

Higher exposure to troubled vertical to impact near term revenues

The company has exposure to aerospace & defence (~37.8% of revenues), transportation (10.2%) and energy & utility (12.0%), which is facing maximum impact of Covid 19 pandemic. In the near term, Cyient expects Q1FY21E revenues to be down 15-20% QoQ (similar fall in sub segments DLM and services business) led by pressure in impacted verticals and lockdown related challenges. The company expects to return to Q4FY20 levels in Q2FY21E, which we believe is optimistic. We expect aerospace (that has clients like Boeing & Airbus) and energy within E&U to have long term structural issues. In addition, in the near term, we expect challenges in utilities, transportation & industrial on account of a pause in field engineering spends. However, we expect these verticals to register an improvement post lockdown. In addition, communication (23% of revenues) and medical are expected to witness a recovery in H2FY21E. Hence, considering the near term challenges across verticals and sharp drop in Q1FY21E revenues, we expect FY21E revenues to decline ~15% YoY and later register a recovery in FY22E leading to revenue growth of 6.6% in FY22E.

Margins to remain subdued

We expect the company to witness subdued margins in FY21E, FY22E mainly led by pricing pressure in troubled verticals and volume led decline led by delay in deal ramp ups, lower discretionary spend and project cancellation. Cyient is undertaking various cost rationalisation measures like lower travel cost, no salary hikes, lower sub-contracting cost and expects margins to recover from Q2FY21E. However, we expect the company to post 100 bps YoY decline in margins in FY21E and see a marginal recovery of 60 bps in FY22E EBIT margins at 8.8% (below FY20 margins of 9.2%).

Valuation & Outlook

The Q4FY20 performance was subdued. Further, considering its exposure to troubled verticals, we lower our FY21E, FY22E revenue & margin estimates further downwards. Accordingly, we revise our PE multiple downwards to 8x (from 9x) on FY22E EPS leading to a revised target price of ₹ 225. We maintain **HOLD** rating on the stock.

Key Financial Summary

Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	3,918	4,618	4,427	3,776	4,026	-4.6%
EBITDA	549	644	596	468	523	-6.3%
EBITDA Margins (%)	14.0	14.0	13.5	12.4	13.0	
Net Profit	405	479	343	258	297	-6.9%
EPS (₹)	36.0	42.4	33.9	23.4	27.0	
P/E	5.8	4.9	6.2	8.9	7.8	
RoNW (%)	17.3	18.7	13.4	9.5	10.3	
RoCE (%)	21.4	21.4	15.9	11.4	12.4	

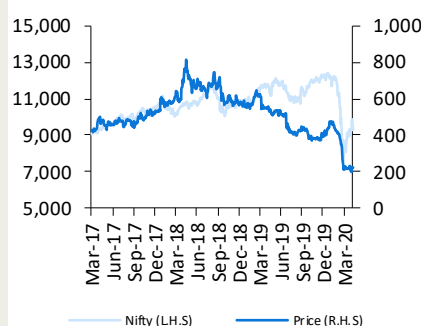
Source: Company, ICICI Direct Research

CYIENT

Particulars

Particular	Amount
Market Capitalization (₹Crore)	2,112.6
Total Debt (₹Crore)	373.8
Cash and Investments (₹Crore)	951.8
EV (₹Crore)	1,534.6
52 week H/L	635 / 200
Equity capital	55.2
Face value	₹5

Price Performance



Key Highlights

- Expect company to face multiple headwinds in revenues due to exposure to troubled verticals
- Expect margins to remain subdued in FY21E
- Maintain HOLD recommendation with revised target price of ₹ 225

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Financial summary

Exhibit 1: Profit and loss statement					₹ crore			
	FY19	FY20	FY21E	FY22E				
Total Revenues	4,618	4,427	3,776	4,026				
Growth (%)	17.9	(4.1)	(14.7)	6.6				
COGS	3,013	2,896	2,473	2,629				
Other expenditure	961	935	834	874				
EBITDA	644	596	468	523				
Growth (%)	17.3	(7.5)	(21.4)	11.8				
Depreciation	111	188	159	169				
Other Income	134	125	88	101				
Interest	36	52	57	63				
PBT before Exceptional Items	631	482	341	392				
Growth (%)	11.6	(23.6)	(29.2)	15.1				
Tax	143	108	82	94				
PAT before Exceptional Items	469	311	256	295				
Exceptional items	(11)	(30)	-	-				
PAT before MI	480	341	256	295				
Minority Int & Pft. from associa	(2)	1	1	2				
PAT	479	343	258	297				
Growth (%)	18.0	(28.4)	(24.8)	15.1				
EPS	42.4	33.9	23.4	27.0				
EPS (Growth %)	17.8	(20.1)	(30.9)	15.1				

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore			
	FY19	FY20	FY21E	FY22E				
PBT	619	468	341	392				
Depreciation	111	188	159	169				
WC changes	(171)	33	(127)	(77)				
Other non cash adju.	(48)	40	(31)	(38)				
Income taxes pd.	(142)	(146)	(82)	(94)				
CF from operations	370	582	260	352				
Other Investments	(77)	(77)	(77)	(77)				
Acq. Of business	-	-	-	-				
(Purchase)/Sale of Fixed Asse	(318)	(318)	(317)	(314)				
CF from investing Activities	(221)	(157)	(95)	(95)				
Inc / (Dec) in Equity Capital	2	2	-	-				
Change in debt funds	55	55	55	55				
Dividend & DDT	(126)	(126)	(126)	(126)				
CF from Financial Activities	(232)	(446)	(167)	(195)				
Exchange rate differences	30	11	-	-				
Opening cash balance	1,024	962	952	949				
Cash as margins/associates	-	-	-	-				
Cash c/f to balance sheet	971	952	949	1,012				

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet					₹ crore			
	FY19	FY20	FY21E	FY22E				
Liabilities								
Equity	55	55	55	55				
Reserves & Surplus	2,509	2,506	2,654	2,818				
Networth	2,564	2,561	2,709	2,873				
Minority Interest	(2)	(3)	(2)	(0)				
Borrowings	325	374	374	374				
Long term Liabilities & provision	226	423	423	423				
Source of funds	3,113	3,354	3,503	3,669				
Assets								
Net fixed assets	353	691	716	742				
Net intangible assets	173	143	143	143				
CWIP	30	80	80	80				
Goodwill	526	537	537	537				
Other non current assets	195	222	231	240				
Non current Investments	27	41	41	41				
Inventories	183	227	193	205				
Debtors	814	726	839	872				
Cash & Cash equivalents	971	952	949	1,012				
Other current assets	618	560	522	545				
Trade payables	371	373	367	336				
Current liabilities	376	415	357	372				
Provisions	29	38	23	42				
Application of funds	3,113	3,354	3,503	3,669				

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					₹ crore			
	FY19	FY20	FY21E	FY22E				
Per share data (₹)								
Adjusted EPS (Diluted)	42.4	33.9	23.4	27.0				
Cash per Share	86.0	94.2	86.3	92.0				
BV per share	227.2	253.4	246.2	261.2				
DPS	15.0	18.0	10.0	12.0				
Operating Ratios (%)								
EBITDA Margin	14.0	13.5	12.4	13.0				
PAT Margin	10.4	7.7	6.8	7.4				
Debtor days	64	60	81	79				
Creditor days	29	31	35	30				
Return Ratios (%)								
RoE	18.7	13.4	9.5	10.3				
RoCE	21.4	15.9	11.4	12.4				
RoIC	25.6	17.6	12.5	13.7				
Valuation Ratios (x)								
P/E	4.9	6.2	8.9	7.8				
EV / EBITDA	2.2	2.6	3.3	2.8				
EV / Net Sales	0.3	0.3	0.4	0.4				
Market Cap / Sales	0.5	0.5	0.6	0.5				
Price to Book Value	0.9	0.8	0.8	0.8				
Solvency Ratios								
Debt/EBITDA	0.5	0.6	0.8	0.7				
Debt / Equity	0.1	0.1	0.1	0.1				
Current Ratio	2.0	1.8	2.1	2.2				
Quick Ratio	1.8	1.6	1.8	1.9				

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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