

Revenues expected to improve QoQ...

Cyient Ltd (Cyient) reported a decent set of Q2FY21 numbers. Dollar revenues increased 3.4% QoQ (1.3% in constant currency terms) led by 1.7% QoQ growth in services revenues and 13.3% QoQ growth in DLM revenues. The growth in services revenues was led by communication (28.4% of revenues), up 7.7% QoQ and transportation (14.3% of revenues) up 21.6% QoQ, partially offset by a decline in aerospace & defence (27% of revenues), down 11.5% QoQ and semiconductor, IoT and analytics (5.3% of revenues) down 2.3% QoQ. In terms of margin, services EBIT margins increased 542 bps QoQ to 12.2% led by higher utilisation, lower subcontracting cost and lower restructuring cost.

Communication and transportation to drive revenues

The company expects services revenues to improve QoQ mainly led by increased traction in communication, energy & utility and transportation segment mainly led by growth in key clients, digital technologies, 5G rollout, traction in broadband and stable revenues from government clients. In addition, Cyient expects DLM business to improve QoQ led by improvement in medical technology and healthcare business units. Further, the company believes that its aerospace & defence vertical has bottomed out and could witness stability, going forward. However, a sharp dip in H1FY21 (~17% YoY) will lead to FY21E revenues dip of ~12% YoY. We expect Cyient to register revenue growth of at least 6.0% in FY22E, FY23E, led by a revival across segments.

Margins to improve gradually

The company reported a 586 bps QoQ increase in EBIT margin to 11.0% led by 542 bps QoQ improvement in services revenues. The healthy margin expansion in services revenues (12.2% EBIT margins) was led by higher utilisation, lower subcontracting cost and lower restructuring cost. Going forward, we expect margins to improve QoQ led by a recovery in revenue growth, absence of one-time restructuring cost and cost rationalisation. Hence, we expect margins to improve 190 bps QoQ in FY22E and another 90 bps QoQ in FY23E.

Valuation & Outlook

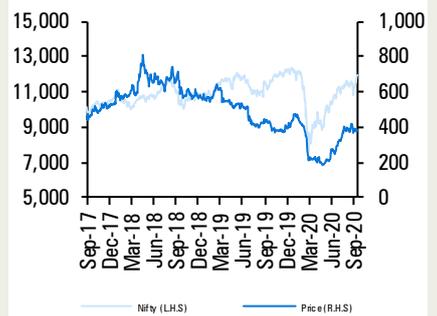
Going forward, the company expects communication, transportation and medical segment to drive revenue growth and believes aerospace revenues bottomed out in Q2FY21. Hence, we expect revenues to improve on a QoQ basis, going forward. In terms of margins, we expect the company to post a healthy improvement in FY22E and FY23E led by various cost rationalisation measures undertaken by the company. Hence, we upgrade the stock from HOLD to BUY with a revised target price of ₹ 440 (10x FY23E EPS).

CYIENT

Particulars

Particular	Amount
Market Cap (₹ Crore)	4,288.4
Total Debt (₹ Crore)	373.8
Cash and Invest (₹ Crore)	951.8
EV (₹ Crore)	3,710.4
52 week H/L	514 / 184
Equity capital	55.0
Face value	₹ 5

Price Performance



Key Highlights

- Communication and transportation segments to drive revenues
- Expect margins to gradually improve led by cost rationalisation and demand recovery
- Upgrade stock to BUY with revised target price of ₹ 440

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Key Financial Summary

Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	4,618	4,427	4,077	4,388	4,747	2.3%
EBITDA	644	596	571	698	797	10.2%
EBITDA Margins (%)	14.0	13.5	14.0	15.9	16.8	
Net Profit	479	343	345	402	471	11.2%
EPS (₹)	42.4	33.9	31.4	36.6	42.8	
P/E	9.0	12.2	12.1	10.4	8.9	
RoNW (%)	18.7	13.4	12.6	13.8	15.0	
RoCE (%)	21.4	15.9	14.4	15.8	17.2	

Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Total Revenues	4,427	4,077	4,388	4,747
Growth (%)	(4.1)	(7.9)	7.6	8.2
COGS	2,896	2,674	2,861	3,062
Other expenditure	935	832	829	888
EBITDA	596	571	698	797
Growth (%)	(7.5)	(4.2)	22.2	14.3
Depreciation	188	192	206	223
Other Income	125	122	85	92
Interest	52	45	45	45
PBT before Exceptional Items	482	456	532	621
Tax	108	109	128	149
PAT before Exceptional Items	311	344	401	469
Exceptional items	(30)	-	-	-
PAT before MI	341	344	401	469
PAT	343	345	402	471
Growth (%)	(28.4)	0.7	16.7	16.9
Adjusted EPS	33.9	31.4	36.6	42.8
EPS (Growth %)	(20.1)	(7.4)	16.7	16.9

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
PBT	468	456	532	621
Depreciation	188	192	206	223
WC changes	33	(103)	(107)	(93)
Other non cash adju.	40	(77)	(40)	(47)
Income taxes pd.	(146)	(109)	(128)	(149)
CF from operations	582	358	463	555
Other Investments	58	122	85	92
Acq. Of business				
(Purchase)/Sale of Fixed Asses	(215)	(122)	(145)	(157)
CF from investing Activities	(157)	(0)	(59)	(64)
Inc / (Dec) in Equity Capital	(38)	-	-	-
Change in debt funds	(92)	(95)	(45)	(45)
Dividend & DDT	(317)	(172)	(227)	(249)
CF from Financial Activities	(446)	(267)	(272)	(294)
Exchange rate differences	11	-	-	-
Opening cash balance	962	952	1,042	1,175
Cash as margins/associates				
Cash c/f to balance sheet	952	1,042	1,175	1,372

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity	55	55	55	55
Reserves & Surplus	2,506	2,679	2,855	3,077
Networth	2,561	2,734	2,910	3,132
Minority Interest	(3)	(2)	(0)	2
Borrowings	374	324	324	324
Long term Liabilities & provisic	423	423	423	423
Source of funds	3,354	3,479	3,656	3,880
Assets				
Net fixed assets	691	622	560	494
Net intangible assets	143	143	143	143
CWIP	80	80	80	80
Goodwill	537	537	537	537
Other non current assets	222	231	240	251
Non current Investments	41	41	41	41
Inventories	227	208	224	242
Debtors	726	668	719	778
Cash & Cash equivalents	952	1,042	1,175	1,372
Other current assets	560	660	698	742
Trade payables	373	351	378	409
Current liabilities	415	375	341	358
Provisions	38	28	43	33
Application of funds	3,354	3,479	3,656	3,880

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Adjusted EPS (Diluted)	33.9	31.4	36.6	42.8
Cash per Share	86.5	94.8	106.8	124.7
BV per share	232.8	248.6	264.6	284.8
DPS	18.0	15.6	20.6	22.6
Operating Ratios (%)				
EBITDA Margin	13.5	14.0	15.9	16.8
PAT Margin	7.7	8.5	9.2	9.9
Debtor days	60	60	60	60
Creditor days	31	31	31	31
Return Ratios (%)				
RoE	13.4	12.6	13.8	15.0
RoCE	15.9	14.4	15.8	17.2
RoIC	17.6	16.1	20.5	23.7
Valuation Ratios (x)				
P/E	12.2	12.1	10.4	8.9
EV / EBITDA	6.2	6.3	4.9	4.1
EV / Net Sales	0.8	0.9	0.8	0.7
Market Cap / Sales	1.0	1.1	1.0	0.9
Price to Book Value	1.6	1.5	1.4	1.3
Solvency Ratios				
Debt/EBITDA	0.6	0.6	0.5	0.4
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.8	2.0	2.2	2.2
Quick Ratio	1.6	1.8	1.9	1.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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