

Estimate change



TP change



Rating change



Bloomberg	CYL IN
Equity Shares (m)	113
M.Cap.(INRb)/(USD\$)	40.3 / 0.6
52-Week Range (INR)	514 / 184
1, 6, 12 Rel. Per (%)	-13/32/-23
12M Avg Val (INR M)	179

Financials & Valuations (INR b)

Y/E Mar	2020	2021E	2022E
Sales	44.3	41.4	45.0
EBIT Margin (%)	9.2	9.4	10.8
PAT	3.7	3.6	4.3
EPS (INR)	33.8	32.6	38.5
EPS Gr. (%)	-22.2	-3.5	18.3
BV/Sh. (INR)	249.6	266.6	286.6

Ratios

RoE (%)	13.5	12.2	13.4
RoCE (%)	13.3	11.9	13.0
Payout (%)	38.5	43.0	44.1

Valuations

P/E (x)	10.9	11.3	9.5
P/BV (x)	1.5	1.4	1.3
EV/EBITDA (x)	5.7	5.4	4.3
Div Yield (%)	3.5	3.5	4.1

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	23.3	22.9	22.7
DII	23.7	22.1	20.1
FII	33.0	42.2	45.6
Others	20.0	12.9	11.5

FII Includes depository receipts

CMP: INR366
TP: INR400 (+9%)
Neutral

Surprise with margin beat; A&D business still under pressure

Slow recovery underway

- Cyient's 2QFY21 revenue growth was in-line, although recovery was seen in pockets, with Transportation and Communications seeing sharper recovery. On the other hand, continued weakness in Aero & Defense remained a drag on overall performance.
- Sharper recovery in margins (580bp QoQ) – on the back of operational efficiency in Services and improvement in DLM (design-led manufacturing) – is encouraging.
- Deal wins (USD127m) have improved sequentially, but continue to be lower v/s last year (-23% YoY). This indicates recovery to pre-COVID levels is still a few quarters away. The growth outlook from 2HFY21 is marginally better than previously expected.
- In our view, a stock re-rating would require the A&D vertical (30% of revenues) to pass its trough. However, it currently remains under pressure due to the continued negative effect of the COVID pandemic on underlying industries.
- We upgrade our FY21/FY22E EPS estimates by 6%/8% on a better-than-expected revenue and margin outlook. We await further evidence on execution/margin management before turning constructive on the stock. Maintain Neutral.

Surprise with sharp margin recovery

- Cyient reported revenue (USD) / EBIT / PAT decline of 18%/1%/15% YoY v/s our estimated decline of 19%/22%/35% YoY. For 1H, the company reported revenue (USD) / EBIT / PAT decline of 17%/24%/13% YoY.
- Revenue growth of 1.3% QoQ CC was ahead of our estimate of 0% QoQ CC. Recovery was driven by DLM, while Services was flattish (-0.5% QoQ CC).
- In terms of verticals, Transportation (21% QoQ), Communications (7% QoQ), and Portfolio (5% QoQ) saw sharper recovery. Energy & Utilities was largely flattish. Aero & Defense (31% of revenues) continued to decline (-10% QoQ), as anticipated.
- The consolidated EBIT margin expanded 580bp QoQ (v/s est. of 350bp) to 11%. DLM margins improved sharply to 4.7% (v/s -4.6% in 1QFY21). Improvement was seen on account of higher absorption and a change in the revenue mix.
- The Services margin at 12.2% saw a 540bp QoQ expansion, driven by improvement in operational metrics – utilization and offshoring (327bp), lower restructuring and one-time costs (90bp), lower other direct cost (110bp), volume impact and lower spend on SG&A and depreciation (15bp).
- The Offshoring mix increased to 53.1% (v/s 49.8% in 1Q), along with Utilization increasing to 78.8% (v/s 74.2% in 1Q).
- FCF/EBITDA conversion remained healthy at 131%. DSO reduced by 10 days QoQ to 90 days.

- It saw a net reduction in headcount by 550 employees in the quarter, while attrition decreased to 9.2% (v/s 13.6% last quarter).
- Order intake was USD127m in 2QFY21, up 9% QoQ, indicating demand recovery.

Key highlights from management commentary

- In 2QFY21, recovery was driven by the DLM business, which saw good volumes and quality growth. Management expects the momentum to continue and sustain over 2HFY21.
- Aerospace & Defense continues to face headwinds, and management is hopeful that the vertical would see a trough in 2HFY21. On the other hand, Communications (now the largest vertical) is seeing growth on account of accelerated rollout of broadband and the 5G network.
- Transportation saw sharp recovery as government client deals were ramped-up to adhere to project timelines. It is expected to see continued traction in the near term.
- Margin expansion was largely attributable to improved operational metrics. Utilization and Offshoring gave the benefit of ~330bp, along with other cost reductions.
- Management intends to offer wage hikes, effective from 1st October 2020, to the bottom pyramid (~8k employees). This would moderately impact margins in 3Q. Furthermore, typically the difference in billings and seasonal furloughs would be headwinds in 3Q.
- The company would continue with its capital allocation policy of 40–50% PAT payout in the form of dividends/buyback.
- For FY21, management expects low double digit decline given it is positive on the recovery outlook for 2HFY21 in most parts of the business. In terms of margins, it would largely be in line with FY20.

Valuation and view – multiples appear attractive

- Given the COVID-19 situation, we earlier anticipated ER&D activity in key verticals (e.g., Aerospace & Defense, Transportation, and Energy & Utilities; ~58% of revenue) to witness a material slowdown over the next 12–18 months.
- On the other hand, the Communications, Transportation, and Medical Devices verticals have seen sharper recovery, which is encouraging.
- Also, the massive infusion of liquidity across economies could translate to earlier-than-expected demand recovery in the rest of the above-mentioned verticals.
- The surprise of sharper margin recovery and commentary to largely sustain margins at current levels are key positives.
- Supported by a better-than-expected revenue and margin outlook, we upgrade our FY21/FY22E EPS estimates by 6%/8%. Our Target Price is based on 10x FY22E EPS. We await further evidence on execution/margin management before turning constructive on the stock.

Quarterly Performance

(INR m)

Y/E March	FY20				FY21E				FY20	FY21E	Est. Var. (% /	bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QFY21	
Revenue (USD m)	157	164	155	149	131	135	139	145	625	550	133	1.3
QoQ (%)	-5.2	4.9	-5.5	-3.9	-12.5	3.4	2.7	4.8	-5.3	-12.1	2.0	135bp
Revenue (INR m)	10,890	11,589	11,060	10,736	9,917	10,033	10,469	10,972	44,275	41,391	9,940	0.9
YoY (%)	0.8	-2.4	-6.9	-7.7	-8.9	-13.4	-5.3	2.2	-4.1	-6.5	-14.2	81bp
GPM (%)	34.4	34.4	36.0	33.5	30.5	35.7	35.1	35.7	34.6	34.3	32.7	300bp
SGA (%)	21.2	20.6	22.1	20.6	20.5	19.9	21.1	20.8	21.1	20.6	19.8	6bp
EBITDA	1,445	1,599	1,533	1,382	995	1,589	1,473	1,633	5,959	5,690	1,282	24.0
EBITDA Margin (%)	13.3	13.8	13.9	12.9	10.0	15.8	14.1	14.9	13.5	13.7	12.9	294bp
EBIT	1,003	1,111	1,063	904	511	1,105	1,057	1,205	4,081	3,878	866	27.6
EBIT Margin (%)	9.2	9.6	9.6	8.4	5.2	11.0	10.1	11.0	9.2	9.4	8.7	230bp
Other income	283	264	498	206	684	93	308	164	1,251	1,249	81	14.8
ETR (%)	22.0	22.4	23.3	21.3	25.0	23.1	23.1	23.1	22.3	23.5	23.6	
PAT	904	986	1,083	753	814	839	968	972	3,726	3,594	641	30.9
QoQ (%)	-48.9	9.1	9.8	-30.5	8.1	3.1	15.4	0.4			-21.3	2433bp
YoY (%)	9.6	-22.5	17.6	-57.5	-9.9	-14.9	-10.6	29.1	-22.2	-3.5	-35.0	2009bp
EPS (INR)	8.2	8.9	9.8	4.1	7.4	7.6	8.8	8.8	33.8	32.6	5.8	30.9

Key Perfor. Indicators

Y/E March	FY20				FY21				FY20	FY21
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Margins (%)										
Gross Margin	34.4	34.4	36.0	33.5	30.5	35.7	35.1	35.7	34.6	34.3
EBIT Margin	9.2	9.6	9.6	8.4	5.2	11.0	10.1	11.0	9.2	9.4
Net Margin	8.3	8.5	9.8	4.2	8.2	8.4	9.2	8.9	8.4	8.7
Operating metrics										
Headcount	13,912	13,800	13,405	12,825	11,846	11,335			12,825	
Attrition (%)	17.4	18	19.7	18.9	13.6	9.2			18.9	
Offshore rev (%)	43.5	44.7	45.2	45.9	49.8	53.1			44.8	
Key Verticals (YoY %)										
Aero & Defence	-1%	-4%	-4%	-7%	-22%	-35%			-5%	
Transportation	2%	6%	-10%	-16%	-24%	-10%			-4%	
Communications	-13%	-13%	1%	1%	0%	6%			-8%	
Key Geographies (YoY %)										
North America	3%	3%	-4%	-7%	-21%	-26%			0%	
Europe	-1%	-4%	3%	-6%	-29%	-10%			5%	

Key highlights from management commentary

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Exhibit 1: Barring A&D and SIA, all other verticals reported growth sequentially

Verticals	Contribution to rev (%)	QoQ Growth (%)	YoY Growth (%)
A&D	32	-10	-35
Comms	24	8	6
E&U	11	0	-31
Transportation	12	21	-10
Portfolio	9	5	-22
SIA	5	-2	-12
MT&H	8	49	68

Source: Company, MOFSL

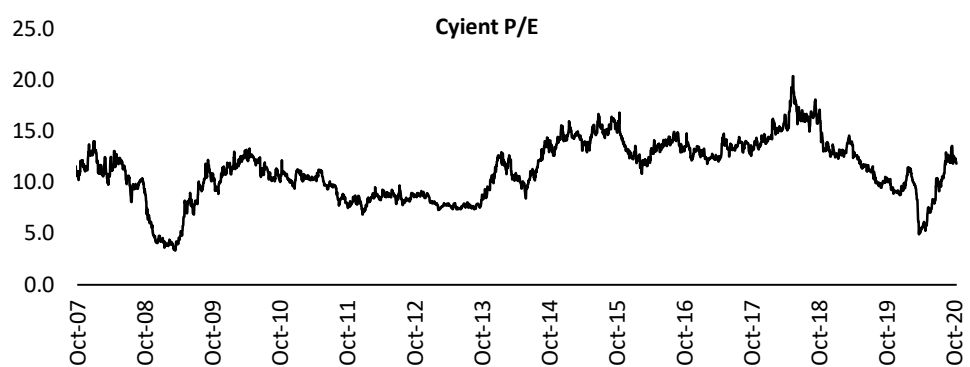
Exhibit 2: Europe saw strong recovery, while other geographies reported declines

	Contribution to rev (%)	QoQ Growth (%)	YoY Growth (%)
Americas	50	-1	-25
Europe	29	25	-11
Asia Pacific	21	-8	-6

Source: Company, MOFSL

Valuation view – multiples appear attractive

- Given the COVID-19 situation, we earlier anticipated ER&D activity in key verticals (e.g., Aerospace & Defense, Transportation, and Energy & Utilities; ~58% of revenue) to witness a material slowdown over the next 12–18 months.
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Exhibit 3: Over the long term, one-year forward P/E multiples averaged at ~11x

Source: Bloomberg

Exhibit 4: Revision in our estimates

Change in Estimates	Revised		Earlier		Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
INR/USD	75.3	76.5	75.4	76.5	-0.1	0.0
USD Revenue - m	549.6	587.9	543.9	576.0	1.0	2.1
USD revenue growth (%)	-12.1	7.0	-13.0	5.9	90bp	110bp
EBITDA Margin (%)	13.7	14.9	12.9	14.3	90bp	60bp
EBIT Margin (%)	9.4	10.8	8.5	10.1	90bp	60bp
Adjusted EPS - INR	32.6	38.5	30.8	35.8	5.7	7.6

Source: MOFSL

Operating metrics

Exhibit 5: Operating metrics

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21
Geographic Mix - %										
Americas	55.3	56.2	58.2	57.0	55.4	55.3	57.5	55.7	52.3	49.9
Europe	26.3	26.4	24.1	26.4	28.1	26.5	25.5	25.7	24.0	28.9
Asia Pacific	18.4	17.4	17.7	24.0	16.4	18.2	16.9	18.6	23.7	21.2
Vertical Mix - %										
Aerospace & Defence	34.2	33.8	34.3	33.9	38.8	39.9	32.2	37.8	36.5	31.6
Transportation	12.1	11.8	12.0	12.3	11.3	11.1	11.1	10.2	10.3	12.1
Semiconductor	5.5	5.8	4.7	5.6	4.9	4.2	4.9	3.6	4.7	4.5
Medical & electronics	1.8	1.9	2.0	2.0	3.6	4.0	2.4	4.2	5.7	8.2
Communications	23.9	23.9	23.4	22.3	19.1	18.7	24.4	22.6	23.0	24.0
Client contribution - %										
Top 5	37.9	37.9	38.0	35.7	32.3	36.2	36.6	31.4	30.2	29.5
Top 10	51.8	51.0	50.1	48.4	44.1	47.3	49.3	43.6	40.1	38.4
No. of Million Dollar Clients										
USD1m+	65	68	73	70	71	91	90	95	92	95
USD5m+	25	27	27	26	24	27	27	26	30	32
USD10m+	11	13	13	13	12	12	11	11	9	7
USD20m+	4	4	4	4	4	4	4	4	3	3
Attrition - Voluntary %	16.9	18.4	21.2	19.9	17.4	18	19.7	18.9	13.6	9.2

Source: Company, MOFSL

Financials and valuations

Income Statement								(INR m)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Sales	22,064	27,359	30,955	36,066	39,176	46,175	44,275	41,391	44,978
Change (%)	17.8	24.0	13.1	16.5	8.6	17.9	(4.1)	(6.5)	8.7
Cost of Services	12,756	17,129	20,083	23,647	25,387	30,125	28,964	27,189	28,733
SG&A Expenses	5,208	6,217	6,626	7,569	8,296	9,606	9,352	8,512	9,543
EBITDA	4,101	4,014	4,247	4,850	5,493	6,444	5,959	5,690	6,701
% of Net Sales	18.6	14.7	13.7	13.4	14.0	14.0	13.5	13.7	14.9
Depreciation	720	713	893	953	1,051	1,113	1,878	1,812	1,865
Interest	29	80	199	189	232	362	517	427	437
Other Income	187	1,236	1,065	873	1,439	1,340	1,251	1,249	1,164
PBT	3,538	4,457	4,220	4,581	5,649	6,309	4,815	4,700	5,563
Tax	1,030	1,096	986	1,047	1,381	1,427	1,076	1,107	1,310
Rate (%)	29.1	24.6	23.4	22.9	24.4	22.6	22.3	23.5	23.5
Eq. in earnings of affiliates	152	150	121	123	44	1	0	0	0
Minority Interest	0	0	-6	43	-21	17	-13	1	0
PAT	2,660	3,511	3,349	3,700	4,291	4,900	3,726	3,594	4,253
Extraordinary	0	0	97	-261	0	-112	0	0	0
Net Income	2,660	3,511	3,446	3,439	4,291	4,788	3,726	3,594	4,253
Change (%)	15.1	32.0	-1.9	-0.2	24.8	11.6	-22.2	-3.5	18.3

Balance Sheet								(INR Million)	
Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Share Capital	560	562	562	563	563	552	552	552	552
Reserves	15,325	17,879	18,536	20,610	22,876	25,070	27,008	28,876	31,088
Net Worth	15,885	18,441	19,098	21,173	23,439	25,622	27,560	29,428	31,640
Minority Interest	0	122	128	26	3	0	0	0	0
Loan	433	1,300	1,467	1,874	2,263	3,375	3,475	3,575	3,575
Capital Employed	16,318	19,863	20,693	23,073	25,705	28,997	31,035	33,003	35,215
Gross Block	7,976	9,318	10,511	11,107	12,217	11,091	12,091	13,091	14,091
Less : Depreciation	-4,634	-5,696	-6,535	-6,875	-7,791	-5,528	-7,406	-9,218	-11,084
Net Block	3,342	3,622	3,975	4,232	4,426	5,563	4,685	3,873	3,007
CWIP	71	96	108	265	515	0	450	450	450
Other LT Assets	1,605	6,372	5,339	6,154	5,929	7,476	7,576	7,419	7,419
Curr. Assets	14,448	15,696	17,947	20,713	23,456	25,853	29,144	32,086	35,755
Current Investments	400	336	790	925	1,130	278	478	678	878
Inventories	0	606	979	935	1,312	1,833	2,108	2,424	2,788
Debtors	4,800	5,336	6,145	6,496	4,139	8,137	7,399	6,917	7,517
Cash & Bank Balance	6,886	5,704	6,833	8,781	9,807	9,705	9,884	12,905	15,045
Loans & Advances	786	1,356	1,089	0	0	0	0	0	0
Other Current Assets	1,575	2,358	2,111	3,576	7,068	5,900	9,275	9,162	9,527
Current Liab. & Prov	3,147	5,923	6,676	8,291	8,621	9,895	10,820	10,824	11,416
Current Liabilities	1,802	3,566	4,253	5,180	5,593	5,849	6,474	6,178	6,470
Other liabilities	721	1,401	1,843	2,876	2,799	3,333	3,533	3,733	3,933
Provisions	625	956	579	235	229	713	813	913	1,013
Net Current Assets	11,300	9,773	11,271	12,422	14,835	15,958	18,324	21,262	24,339
Application of Funds	16,318	19,863	20,694	23,073	25,705	28,997	31,035	33,003	35,215

Financials and valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Basic (INR)									
EPS	23.7	31.3	30.7	30.6	38.2	43.4	33.8	32.6	38.5
Cash EPS	30.1	37.6	38.7	39.1	47.6	53.5	50.8	49.0	55.4
Book Value	141.5	164.3	170.2	188.7	208.9	232.1	249.6	266.6	286.6
DPS	5.0	8.0	7.0	10.5	13.0	13.0	13.0	14.0	17.0
Payout %	21.0	25.6	22.8	34.3	34.0	30.0	38.5	43.0	44.1
Valuation (x)									
P/E	15.5	11.7	12.0	12.0	9.6	8.5	10.9	11.3	9.5
Cash P/E	12.2	9.8	9.5	9.4	7.7	6.9	7.2	7.5	6.6
EV/EBITDA	8.3	9.1	8.3	6.9	6.0	5.4	5.7	5.4	4.3
EV/Sales	1.5	1.3	1.1	0.9	0.8	0.7	0.8	0.7	0.6
Price/Book Value	2.6	2.2	2.2	1.9	1.8	1.6	1.5	1.4	1.3
Dividend Yield (%)	1.4	2.2	1.9	2.9	3.5	3.5	3.5	3.8	4.6
Profitability Ratios (%)									
RoE	16.7	19.0	18.0	16.2	18.3	18.7	13.5	12.2	13.4
RoCE	15.5	17.2	16.4	15.9	17.3	17.8	13.3	11.9	13.0
ROIC	28.5	21.9	19.3	23.1	24.5	24.8	16.2	15.1	19.6
Turnover Ratios									
Debtors (Days)	99	91	92	84	64	64	88	88	88
Fixed Asset Turnover (x)	1.1	1.1	1.1	1.1	1.1	1.2	1.1	0.9	1.0

Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
CF from Operations	2,941	3,282	3,715	3,833	4,622	5,411	5,422	5,833	6,555
Cash for Working Capital	-669	335	-931	366	-1,659	-1,710	-1,987	540	-737
Net Operating CF	2,272	3,617	2,785	4,199	2,963	3,701	3,435	6,373	5,818
Net Purchase of FA	-761	-803	-1,282	-1,038	-1,469	-1,440	-1,450	-1,000	-1,000
Free Cash Flow	1,511	2,814	1,503	3,161	1,494	2,261	1,985	5,373	4,818
Net Purchase of Invest.	585	-4,479	434	-765	600	-767	499	-200	-200
Net Cash from Invest.	-176	-5,282	-848	-1,803	-869	-2,207	-951	-1,200	-1,200
Proc. from equity issues	52	66	22	15	9	-1,609	0	0	0
Proceeds from LTB/STB	41	399	490	-203	526	549	-517	-427	-437
Dividend Payments	-521	-784	-1,619	-746	-1,894	-1,261	-1,788	-1,725	-2,041
Cash Flow from Fin.	-427	-319	-1,107	-934	-1,359	-2,321	-2,305	-2,152	-2,478
Exchange difference	279	802	300	488	502	929	0	0	0
Net Cash Flow	1,947	-1,183	1,129	1,950	1,237	102	179	3,021	2,140
Opening Cash Bal.	4,939	6,886	5,704	6,831	8,570	9,603	9,705	9,884	12,905
Add: Net Cash	1,947	-1,183	1,129	1,950	1,237	102	179	3,021	2,140
Closing Cash Bal.	6,886	5,704	6,833	8,781	9,807	9,705	9,884	12,905	15,045

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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