

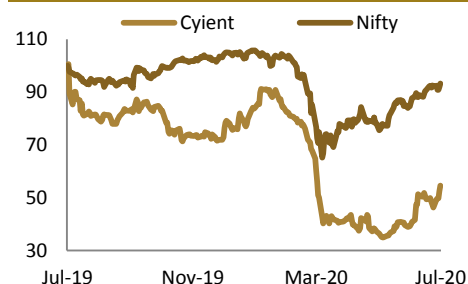
Market statistics

Current stock price (₹)	295
Shares O/S (cr.)	11.1
Mcap (₹ cr)	3,243
52W H/L (₹)	550/184
Bloomberg	CYL IN

Shareholding pattern

Promoters	22.87
Domestic Institution	20.73
Foreign Institution	43.52
Non-institution	12.88
of which more than 1%	

Cyient vs Nifty



Capital efficiency & valuations

Particulars	FY20	FY21E	FY22E
RoE (%)	14.6	11.7	12.7
EPS (₹)	33.8	28.1	32.4
CEPS (₹)	50.8	46.1	52.0
P/E (x)	6.9	10.5	9.1
P/BV (x)	1.0	1.2	1.1
EV/EBITDA (x)	3.8	5.5	4.6
Income growth (%)	(4.1)	(7.6)	7.2
EBITDA growth (%)	(7.5)	(10.9)	11.7
PAT growth (%)	(23.4)	(17.0)	15.6

ANALYST

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Cyient has reported a revenue decline of 11.6% QoQ in Q1FY21 in cc terms with Services revenue declining 14.3% QoQ. Though US\$ revenue is expected to decline by 10-15% in cc terms in FY21, growth may recover Q2FY21 onwards in all segments expect aerospace. EBIT margin is lower by 328bps QoQ mainly due to lower business volume which was offset by lower SG&A spend. Cyient's issues are more related to client spend rather than own execution and wallet share loss related exacerbated by structural weakness in aerospace space. The company is focused in de-risking its top-5 clients profile by gaining more wallet share in top 6-10 accounts. FCF conversion was also healthy in Q1FY21 with an FCF/EBITDA conversion of 138.1%. We see issues adequately discounted at 9.1x FY22E EPS. Maintain BUY.

Q1FY21 revenues stronger than expected: Overall revenues declined by 11.6% QoQ in cc terms (vs expectation of ~14%) in Q1FY21. Revenue weakness was driven by A&D, E&U and portfolio segment where revenues declined QoQ by 22.9%/19.4% and 20.5% in US\$ terms, respectively.

FY21 to see revenue decline in the range of 10-15%. Management expects US\$ revenue to decline in the range of 10-15% in FY21 with decline to be equally prominent across services. Management expects recovery from Q2FY21 in certain key segments such as communication, transportation and MTH verticals. The company expects aerospace revenue to decline in Q2 due to poor market demand for passenger travel. It expects, within communication, 5G rollouts, wireless and fiber rollout, digital technologies will continue to drive growth through next few quarters.

Margins to improve in H2FY21. Services margin at 6.8%, lower by 283 bps QoQ primarily due to one-time restructuring cost (259 bps), volume impact on SGA and depreciation (289bps), one-off adverse revenue mix (134 bps) offset by reduction in SG&A cost (185 bps), improvement in operational metrics (110bps) and forex impact (104 bps). Margins are expected to recover in H2FY21 as impact of one-off cost (e.g. cost efficiencies exercise) decreases. Overall margins declined by 324bps in Q1FY21.

Revenue visibility in ER&D space increases. The deal with Hitachi, wherein Cyient will be developing an operating delivery center in India and a regional center in U.S., provides a near-term revenue visibility in non-aerospace segment. Additionally, senior leadership hiring for the DLM segment, coupled with commissioning of new plant at Hyderabad for advanced electronics manufacturing, Industry 4.0 and supply chain management, should help Cyient garner a bigger pie in ER&D cum manufacturing budgets of clients.

Other details. Top five clients contribute 32.3% to revenue. The company is focused in de-risking its top-5 clients profile by gaining more wallet share in top 6-10 accounts. FCF conversion was also healthy at Rs2,163mn in Q1FY21 with an FCF/EBITDA conversion of 138.1%.

Valuation: The company is taking significant steps on the cost side to right size the cost structure for lower revenues and expects EBIT margin to recover to Q4FY20 levels of 8.4% by Q2FY21. Margins should further improve to around H1FY20 level of ~9.5% in H2FY21. Though we expect revenue growth to remain structurally lower than peers for Cyient, we maintain BUY given reasonable valuation of 9.1x FY22E EPS.



Exhibit 1: Quarterly details

₹ mn	1QFY20	4QFY20	1QFY21	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	156.6	149.2	130.6	(12.5)	(16.6)	Services revenue declining 14.3% QoQ, DLM was up 3.2% QoQ
Revenues	10,890	10,736	9,917	(7.6)	(8.9)	
- Operating costs	9,445	9,354	8,922	(4.6)	(5.5)	
EBITDA	1,445	1,382	995	(28.0)	(31.1)	
EBITDA margin (%)	13.3	12.9	10.0	(284)bps	(324)bps	Services margin at 6.8%, lower by 283 bps QoQ due to one-time restructuring cost (259 bps), volume impact on SGA and depr. (289bps), one-off rev. mix (134 bps) offset lower SG&A cost (185 bps), improving operations (110bps), forex impact (104 bps)
- Interest expense	134	134	109	(18.7)	(18.7)	
- Depreciation	442	478	484	1.3	9.5	
+ Other income, net (incl forex)	282	206	684	232.0	142.6	
PBT	1,151	976	1,086	11.3	(5.6)	
- Taxes	254	208	272	30.8	7.1	
Effective tax rate (%)	22.1	21.3	25.0	373bps	298bps	ETR to be ~24%
PAT	897	768	814	6.0	(9.3)	
Minority interest	(6)	15	(0)	NA	NA	
Reported profits	903	753	814	8.1	(9.8)	

Source: Company

Geography wise Revenues: In terms of geography, North America declined by 14.9% QoQ, Europe and APAC by 19%/5.8%.

Exhibit 2: Geographical wise Performance

Geographical mix (%)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
US	55.3	56.2	58.2	57.0	58.8	60.2	57.5	57.0	56.8
Europe	26.3	26.4	24.1	26.4	26.9	26.3	25.5	27.4	26.0
Asia Pacific	18.4	17.4	17.7	16.6	14.3	13.6	17.0	16.6	17.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 3: Revenue mix

Offshore/onsite split (%)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Offshore	41.9	42.8	42.4	42.7	43.5	44.7	45.2	45.9	49.8
Onshore	58.1	57.2	57.6	57.3	56.5	55.3	54.8	54.1	50.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Vertical wise Performance: Management expects recovery from Q2FY21 in certain segments such as communication, transportation and MTH verticals. The company expects aerospace revenue to decline in Q2 due to poor market demand. It expects, within communication, 5G rollouts, wireless and fiber rollout, digital technologies will continue to drive growth through next few quarters.

Exhibit 4: Industry segmentation

By Industry (%)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Aerospace and Defense	34.2	33.8	34.3	33.9	35.1	33.9	32.2	34.3	31.2
Transportation	12.1	11.8	12.0	12.3	12.8	13.0	11.1	11.4	12.0
Industrial, Energy & Natural Resources	11.4	11.5	12.6	13.1	12.3	13.2	14.5	11.6	11.8
Semiconductor	5.5	5.8	4.7	5.6	5.5	4.9	4.9	4.0	5.5
Medical and Cons. Electronics	1.8	1.9	2.0	2.0	2.3	2.4	2.4	2.5	2.7
Utilities & Geospatial	11.2	11.3	11.0	10.8	10.4	10.9	10.5	10.8	10.1
Communications	23.8	23.9	23.4	22.3	21.6	21.7	24.4	25.4	26.7
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

**Exhibit 5: Client details**

	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY20
Top 5 clients (%)	37.9	37.9	38.0	35.7	36.5	36.2	36.6	35.5	35.2
Top 10 clients (%)	51.8	51.0	50.1	48.4	49.8	47.3	49.3	49.2	46.6
Clients added (Nos)	20	14	30	5	20	19	13	20	25
Client buckets (Nos)									
20Mn+	4	4	4	4	4	4	4	5	3
10Mn+	11	13	13	13	12	12	11	10	9
5Mn+	25	27	27	26	24	22	23	22	26
1Mn+	66	68	73	70	71	77	77	75	82

Source: Company

Exhibit 6: Product business

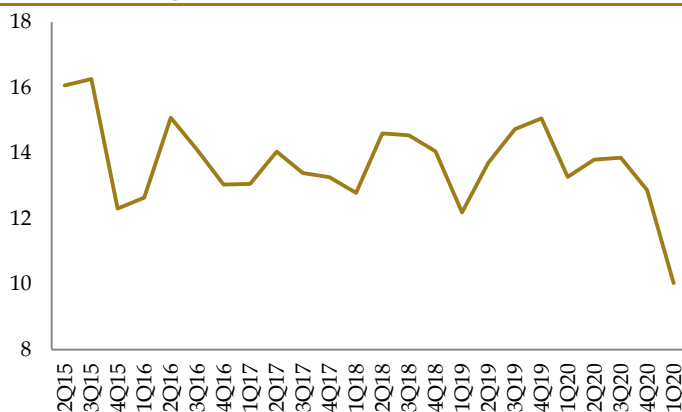
Details (In ₹ Mn)	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY20
Revenue	1,212	1,610	1,479	1,282	1,297	1,687	1,076	1,282	1,396
Direct Salary and Related costs	141	181	125	111	160	268	233	195	221
Material & Mfg. cost	921	1,249	1,174	1,025	1,029	1,249	661	941	1,089
Gross Profit	150	180	180	146	108	170	182	146	86
SG&A	95	121	122	94	83	138	147	94	99
Operating profit	55	59	58	52	25	32	35	52	(13)
PBT	14	14	9	(5)	(22)	(8)	(23)	57	32

Source: Company

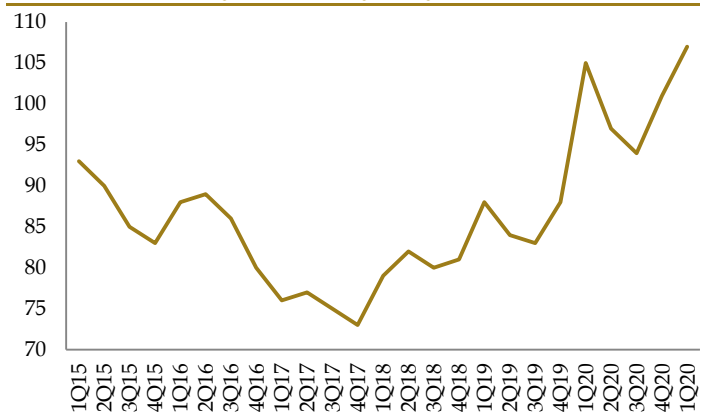
Exhibit 7: Employee strength at CYL

Employee details/ Utilization	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Total (Nos)	14,496	15,040	15,193	15,084	15,043	14,869	14,472	13,859	12,820
Voluntary attrition (%)	18.2	18.4	21.2	19.9	17.4	18.0	19.7	18.9	13.6

Source: Company, Trust Research

Exhibit 8: Margin - cost optimization in 2HFY21 would help

Source: Company, Trust

Exhibit 9: DSO days were up by 6 days QoQ to 107

Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Revenues	39,175	46,175	44,275	40,901	43,855
Op. Expenses	33,683	39,731	38,316	35,589	37,922
EBITDA	5,492	6,444	5,959	5,312	5,933
Other Income	1,438	1,340	1,250	1,179	1,379
Depreciation	1,051	1,113	1,878	1,996	2,176
EBIT	5,879	6,671	5,331	4,495	5,136
Interest	232	362	517	436	416
PBT	5,647	6,309	4,814	4,060	4,720
Tax	1,425	1,427	1,076	956	1,133
PAT	4,222	4,882	3,738	3,104	3,587
Ex. Ordinary/MI	35	(14)	(13)	0	0
Adj Pat	4.257	4.868	3.725	3.104	3.587

Key Parameters

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Per share (₹)					
EPS	38.0	44.1	33.8	28.1	32.4
CEPS	47.3	54.1	50.8	46.1	52.0
BVPS	207.9	230.6	232.0	246.9	264.2
DPS	13.0	15.0	15.0	13.0	15.0
Payout (%)	40.0	40.1	47.4	46.3	46.3
Valuation (x)					
P/E	18.1	14.7	6.9	10.5	9.1
P/BV	3.3	2.8	1.0	1.2	1.1
EV/EBITDA	12.9	10.3	3.8	5.5	4.6
Dividend Yield (%)	1.9	2.3	6.5	4.4	5.1
Return ratio (%)					
EBITDA Margin	14.0	14.0	13.5	13.0	13.5
PAT Margin	10.8	10.6	8.4	7.6	8.2
ROAE	19.2	20.0	14.6	11.7	12.7
ROACE	23.8	23.9	17.3	13.9	15.3
Leverage Ratios (x)					
Long Term D/E	0.1	0.2	0.3	0.2	0.2
Net Debt/Equity	(0.3)	(0.2)	(0.1)	(0.1)	(0.2)
Debt/EBITDA	0.5	0.6	1.1	1.0	0.9
Interest Coverage	25.3	18.4	10.3	10.3	12.4
Current ratio	2.7	2.6	2.2	2.6	2.7
Growth Ratios (%)					
Income growth	8.6	17.9	(4.1)	(7.6)	7.2
EBITDA growth	13.3	17.3	(7.5)	(10.9)	11.7
PAT growth	19.5	15.6	(23.4)	(17.0)	15.6
Turnover Ratios					
F.A Turnover x	7.9	8.3	4.8	5.5	5.3
Debtors Days	67	70	59	86	83
Payable days	36	29	31	33	33

Balance Sheet (₹ mn)

Year End-March	FY18	FY19	FY20	FY21E	FY22E
Equity Share Capital	563	552	550	553	554
Reserves & Surplus	22,879	25,070	25,027	26,773	28,710
Total Shareholders Fund	23,442	25,622	25,577	27,326	29,263
Non- current liabilities	1,942	3,081	4,689	4,636	4,713
Long term borrowings	1,009	1,813	3,556	3,556	3,556
Deferred tax liabilities	35	111	(18)	(90)	(90)
Other LT liabilities & prov	898	1,157	1,151	1,170	1,247
Current Liabilities	8,621	9,895	11,135	9,686	9,904
Short term borrowings	1,780	2,137	2,879	1,788	1,488
Trade payables	3,813	3,712	3,729	3,705	3,948
Other cur liabilities & Prov	3,028	4,046	4,527	4,193	4,468
Total liabilities	34,005	38,598	41,401	41,648	43,880
Assets					
Non- current Assets	10,549	12,745	16,751	16,931	16,876
Fixed assets	4,941	5,563	9,135	7,464	8,288
Non-current investments	3,847	5,524	5,788	7,786	6,786
Long-term loans & adv	1,761	1,658	1,828	1,681	1,802
Other non-current assets	-	-	-	-	-
Current assets	23,456	25,853	24,650	24,717	27,003
Current investments	1,130	278	-	-	-
Trade receivables	6,913	8,137	7,262	10,085	9,612
Inventories	1,312	1,833	2,267	2,129	2,283
Cash & bank balances	9,807	9,705	9,518	8,873	10,372
Short term loans & Adv	4,294	5,900	5,603	3,630	4,736
Total Assets	34,005	38,598	41,401	41,648	43,880

Cash flow Statement

Year End-March	FY18	FY19	FY20	FY21E	FY22E
PBT	5,647	6,309	4,814	4,060	4,720
Depreciation	885	1,189	1,749	1,924	2,176
Interest Exp	232	362	517	436	416
Others	35	(14)	(13)	(1,330)	(1,250)
CF before W.cap	6,799	7,846	7,067	5,089	6,062
Inc/dec in W.cap	1,736	2,072	(1,060)	904	314
Op CF after W.cap	5,063	5,774	8,127	4,185	5,748
Less Taxes	1,425	1,427	1,076	956	1,133
Net CF From Operations	3,638	4,347	7,051	3,229	4,615
Inc/(dec) in F.A + CWIP	1,495	1,735	3,950	2,325	2,000
(Pur)/sale of Investments	(258)	825	1,486	(1,216)	(1,461)
Others	(232)	(362)	(517)	(322)	(627)
CF from Invst Activities	(1,469)	(2,922)	(5,953)	(1,431)	(1,166)
Loan Raised	871	1,161	2,485	(1,091)	(300)
Equity Raised	(300)	(725)	(2,005)	83	11
Dividend	1,714	1,963	1,765	1,437	1,661
CF from Fin Activities	(1,143)	(1,527)	(1,285)	(2,446)	(1,950)
Net inc /(dec) in cash	1,026	(102)	(187)	(647)	1,499
Op. bal of cash	8,781	9,807	9,705	9,518	8,871
Cl. balance of cash	9,807	9,705	9,518	8,871	10,370

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