



Strong recovery, Attaining growth momentum next year

Cyient reported Strong broad based growth in Q2 FY21, revenue stood at Rs. 1,003 crs up 0.1% YoY and 3.1% QoQ. Operating profit margins showed a strong growth of 52.5% YoY at 11%. Services operating margin grew by 170 bps at 12.2% than previous quarter and DLM margins stood at 4.7% from negative as compared to previous quarter aided by strong execution, lower utilization and lower travel cost. Net profit for Q2 FY21 stood at Rs.83.7 cr reported a growth of 3% QoQ. Management expects overall revenue growth for FY21 to decline in low double digit, with communications growth led by network transformation, E&U benefitting from IG partners acquisition and transportation growth led by rail. Deal pipeline continues to look healthy (7 deals in the pipeline) despite uncertainty, improving revenue visibility for FY22-23. Management has guided FY21 margin to be similar to FY20 i.e. 9.2%.

We believe Cyient control client specific issues and back with new business opportunities. With depreciation in INR, lower travel cost, lower on site expenses EBITDA margins likely to expand in near term. **We recommend BUY and assign 11x P/E multiple to its FY23E earnings of Rs. 40.6 per share which gives a TP of Rs. 440 per share, an upside of 20%.**

Healthy broad based performance

On the vertical front, A&D vertical vertical de-grew by 11.7% QoQ, Transportation vertical grew by 21% QoQ, Medical & Electronics grew by 16.8%. Communication vertical grew by 8% QoQ, E&U vertical de-grew marginally by 0.9% QoQ. Majority of the verticals sees strong recovery and likely to report growth backed by strong deal pipeline in forthcoming quarters.

On the geographical front, North America (77% of revenue) improved by 1.1% QoQ, Europe (7.5% of revenue) grew by 90 bps QoQ, India business grew by 140 bps QoQ in CC terms. For Q2FY21 Free cash grew 12.1% at Rs. 5,524 cr.

Our Take:

We believe Cyient has a strong business structure from a long term perspective and multiple long term contracts with world's leading brands. With depreciation in INR, lower travel cost, lower on site expenses EBITDA margins likely to expand in near term. **We recommend BUY and assign 11x P/E multiple to its FY23E earnings of Rs. 40.6 per share which gives a TP of Rs. 440 per share, an upside of 20%.**

Key Financials (Consolidated)

(Rs. Cr)	2020	2021E	2022E	2023E
Net Sales	4,427	4,132	4,483	4,932
EBIDTA	408	513	570	621
Net Profit	373	365	423	457
EPS (Rs)	33.9	32.4	37.6	40.6
PER (x)	6.8	7.2	6.2	5.7
EV/EBIDTA (x)	4.9	4.3	4	3.7
P/BV (x)	1	1	0.8	0.7
ROE (%)	14%	13%	14%	13%

Source: Company, Axis Research

(CMP as of Oct 15, 2020)

CMP (Rs)	366
Upside /(Downside (%))	20%
High/Low (Rs)	514/182
Market cap (Cr)	Rs 4,178
Avg. daily vol. (6m) Shrs.	430,811
No. of shares (Cr)	11

Shareholding (%)

	Dec-19	Mar-20	Jun-19
Promoter	22.82	22.87	23.25
FIs	44.31	42.16	33.02
MFs / UTI	18.63	19.81	21.36
Banks / FIs	0.03	0.01	0.05
Others	14.21	15.15	22.32

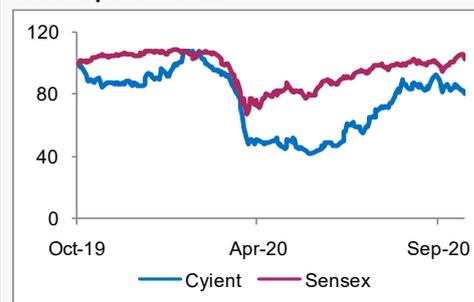
Financial & Valuations

Y/E Mar (Rs. Cr)	2021E	2022E	2023E
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RoE (%)	13%	14%	13%

Change in Estimates (%)

Y/E Mar	FY21E	FY22E	FY23E
Sales	1%	2%	5%
EBITDA	1%	2%	1%
PAT	3%	3%	2%

Relative performance



Source: Capitaline, Axis Securities

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Key Investment Arguments

- 1) In A&D vertical Q1 FY21 saw full impact of COVID-19 though DLM business witnessed growth and management expects further growth. Q3 revenue is expected to decline due to business cyclicity. The segment outlook for the next few quarters remains uncertain due to low demand for passenger travel.
- 2) Communication vertical is benefitted from rollout of broadband networks globally to support virtual collaboration (WFH) and accelerated rollout of 5G networks (11% of revenue). Management outlook for H2FY21 remains positive led by network transformation and accelerated deployment of broadband and wireless infrastructure.
- 3) Transportation vertical saw recovery in key accounts and ramp-up of new engagements. There are early signs of recovery with production facilities reopening. Outlook for H2FY21 remains positive supported by expectation of steady recovery in rail transportation industry.
- 4) E&U vertical witnessed deferrals in the utilities business and decline in demand for the manufacturing business. Recent acquisition of IG partners in Mining is expected to be positive for the segment led by combination of Cyient's digital execution capabilities and IGP's advisory expertise.

Revenue by Geography

	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
North America	53%	52%	57%	56%	52%	50%
Europe	25%	24%	25%	26%	24%	29%
APAC	23%	24%	18%	20%	24%	21%
Total	100%	100%	100%	100%	100%	100%

Source: Company, Axis Research

Revenue By industry

	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
Aerospace and defense	37%	38%	35%	38%	37%	32%
Transportation	11%	10%	10%	10%	10%	12%
I& ENR	9%	10%	15%	12%	11%	11%
Semiconductor	5%	5%	4%	4%	5%	5%
Media & Healthcare	3%	3%	5%	4%	6%	8%
Utilities & Geospatial	13%	12%	22%	23%	23%	24%
Communications	22%	22%	9%	10%	9%	9%
Total	100%	100%	100%	100%	100%	100%

Source: Company, Axis Research

Client Metrics

	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
Top 5	38%	33%	33%	3140%	30%	31%
Top 10	51%	45%	44%	4360%	40%	42%

Source: Company, Axis Research

No. of Million Dollar Clients

	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
20 Mn+	4	4	4	4	3	3
10 Mn+	13	13	11	11	9	7
5 Mn+	27	31	27	26	30	32
1 Mn+	68	87	101	95	92	95

Source: Company, Axis Research

Employee Metrics/ Manpower by Operating Units

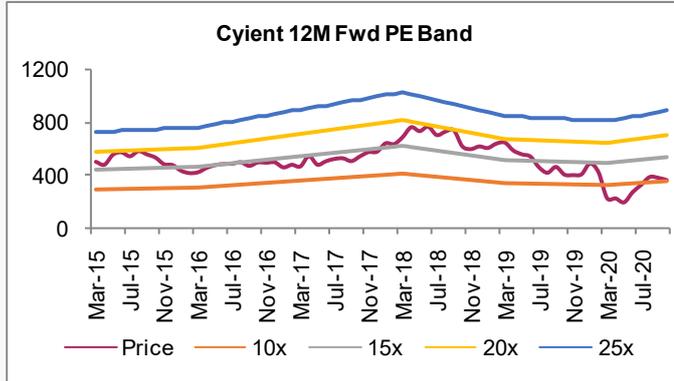
	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21
Technical & Pool	13,912	13,840	13,405	12,825	11,846	11,335
Non- Technical	373	372	378	349	320	310
Support Functions	758	687	689	685	654	622
Total	15,043	14,899	14,472	13,859	12,820	12,267

Source: Company, Axis Research

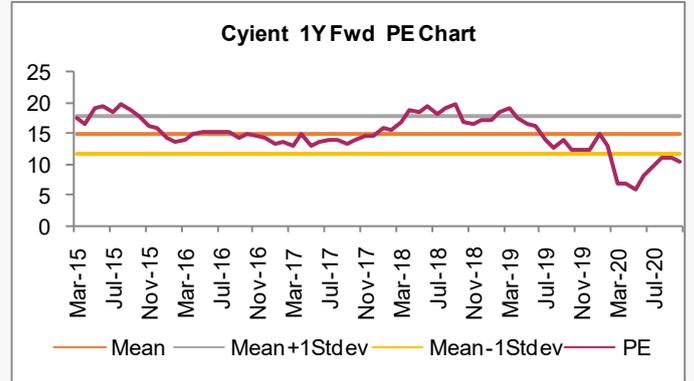
Valuation and Outlook

Although there are near term challenges to growth owing to COVID-19, we believe in Cyient track record of delivering profitable growth in tough environment thereby reaffirming our confidence in management's ability to deliver in longer term. **We maintain BUY rating and target price of Rs. 440/share.**

Cyient 12M Fwd PE Band



Cyient 1Y Fwd PE Chart



Source: Company, Axis Securities

Result Update

(Rs Cr)

Y/E March	Q2 FY21	Q1 FY21	Q2 FY20	% change (YoY)	% change (QoQ)
Total Revenue	1,003	992	1,159	-13%	1%
Total Cost of Sales	645	689	760		
Gross Profit	358	303	399	-10%	18%
Margin(%)	36%	31%	34%	131	521
Selling and marketing Expenses	37	44	53		
G&A expenses	163	158	186		
Total Operating Expenses	200	202	239		
EBITDA	100	100	160		
Margin(%)	10%	10%	14%		
Depreciation	48	48	49		
Operating Income	111	52	111	0%	112%
Margin(%)	11%	5%	10%	144	576
Total Other Income/(Expense)	9	68	26		
Income Before Income Taxes	109	109	115		
Total Taxes	25	27	28		
ETR (%)	23%	25%	24%	-119	-184
Net Profit After Taxes	84	81	99	-15%	3%
Non Controlling Interest	0	0	0		
Net Income After Extraordinary Items	84	81	99	-15%	3%
Margin(%)	7%	7%	16%	-920	-
EPS	7.60	7.40	9.00	-16%	3%

Source: Company, Axis Securities

Financials (Consolidated)
Profit & Loss

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Net sales	4,427	4,132	4,483	4,932
Employee Expense	2,896	2,624	2,847	3,132
Contribution (%)	7%	6%	6%	6%
Changes in inventory & WIP	221	165	179	222
As % sales	0%	0%	0%	0%
Other Expenses	714	640	695	764
Operating Profit	408	513	570	621
Other income	125	60	85	85
PBIDT	596	702	762	814
Depreciation	188	190	193	193
Interest & Fin Chg.	52	24	24	24
Pre-tax profit	471	549	631	683
Tax provision	108	184	208	225
PAT	373	365	423	457
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Other Comprehensive Income	0	0	0	0
Adjusted PAT	373	365	423	457
Reported PAT	373	365	423	457

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
Equity capital	55	55	55	55
Reserves & Surplus	2,503	2,657	3,022	3,445
Net worth	2,558	2,712	3,077	3,500
Total debt	509	541	573	607
Deffed tax liability	38	35	35	35
Total Liabilities & Equity	4,180	4,337	4,801	5,337
Net block	914	1051	1208	1389
Capital WIP	0	35	35	35
Goodwill	537	537	618	711
Total fixed assets	1715	1906	2171	2475
Other Fixed Assets	183	205	229	257
Total non current Assets	1,715	1,906	2,171	2,475
Debtors	726	736	798	878
Cash & bank	952	1521	1644	1781
Other Current Assets	0	0	0	0
Total Current Assets	2,465	2,431	2,630	2,862
Creditors	71	25	25	25
Provisions	382	300	300	300
Current Liab. & Prov.	2,465	2,431	2,630	2,862
Total Assets	4,180	4,337	4,801	5,337

Source: Company, Axis Securities

Cash Flow
(Rs Cr)

Y/E March	FY20	FY21E	FY22E	FY23E
PBT	408	549	631	683
Add: Depreciation	188	190	193	193
Other Adjustments	52	24	24	24
Chg in working capital	298	735	(208)	(249)
CF from operations	843	1,511	653	662
Change in fixed assets	(369)	(137)	(238)	(274)
Purchase of investment	(14)	(2)	(2)	(2)
Other Adjustments	(106)	59	59	59
CF from Investing acti.	(506)	(102)	(206)	(244)
Chg in debt	(212)	(70)	(67)	(69)
Chg in Equity capital	(52)	(24)	(24)	(24)
Dividend & dividend tax	64	150	150	150
Interest paid	(52)	(24)	(24)	(24)
Other Adjustments	64	150	150	150
CF from financing acti.	(406)	(60)	130	128
Chg in cash	(69)	1,349	577	546
Opening cash	264	195	1,545	2,122
Closing cash	195	1,545	2,122	2,668

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY20	FY21E	FY22E	FY23E
Per Share Ratios	33.9	32.4	37.6	40.6
Fully diluted E P S	227.1	240.9	273.3	310.9
Book Value	84.5	135.1	146.0	158.1
Cash per share				
Valuation Ratio	6.8	7.2	6.2	5.7
P/E	1.0	1.0	0.8	0.7
P/BV	4.9	4.3	4.0	3.7
EV/EBITDA	0.65	0.73	0.67	0.62
EV/Sales				
Growth Ratios	-4%	-7%	9%	10%
Sales Growth	-7%	18%	9%	7%
EBITDA Growth	-22%	1%	16%	8%
Net Profit Growth	-18%	-4%	16%	8%
EPS Growth				
Common size Ratios	13%	17%	17%	17%
EBITDA Margin	12%	14%	15%	14%
EBIT margin	8%	9%	9%	9%
PAT margin	65%	64%	64%	64%
Employee cost				
Return ratios	14%	13%	14%	13%
RoNW	17%	18%	18%	17%
RoCE				
Turnover ratios (days)	65	65	65	65
Debtors (Days)	36	36	36	36
Creditors (Days)	13.2	13.2	13.2	13.2
Inventory (Days)				
Solvency Ratios	0.2	0.2	0.2	0.2
Total Debt/Equity	33.9	32.4	37.6	40.6

Source: Company, Axis Securities

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