

## Organisational restructuring to drive growth...

Cyient Ltd (Cyient) reported a decent set of Q3FY21 numbers. The key highlight of the quarter was that the company has made some structural changes to the organisation which will enable the company to accelerate growth and improve profitability. The company has simplified the organisation which will realign its go to market strategy, will focus on large deals, process discipline and incentives to align employees for better sales productivity. We believe this will help improve revenue and margin prospects in longer run and will be key to re-rating of the stock.

### Traction in large deal and digital to drive growth

The company is expecting healthy QoQ growth in Q4FY21E (Q4FY20 revenues in Q4FY21E) mainly led by traction in services and DLM business. We believe this will lead to high single digit (~5.5%) growth in Q4FY21E. The company has also won 5 multi-year deal with total contract potential of US\$106 million in the quarter and its order book has increased by 7% YoY which we believe will drive company's long term revenues. Further, the company has restructured its organisation with an aim to accelerate growth, improve sales, focus on large deals (as won in this quarter), client mining and increase digital & DLM deals. This coupled with bottoming out of Aerospace vertical and traction in communication, mining utility and medical bodes well for long term revenue trajectory for the company.

### Margins to improve gradually

The company in the quarter has shown healthy growth in DLM margins led by up 595 bps QoQ to 10.6%. The company expects to maintain a similar margin in DLM going forward led by SG&A rationalisation, cutting low end business and rationalising raw material cost. The company also expects services revenues to improve led by higher utilisation, lower subcontracting cost and improving revenue trajectory. Hence, we expect the company's EBIT margin to improve by 80 bps YoY to 10% in FY21E (led by healthy 150 bps improvement in Q4FY21E) and 310 bps YoY to 13.1% over FY21E-FY23E.

### Valuation & Outlook

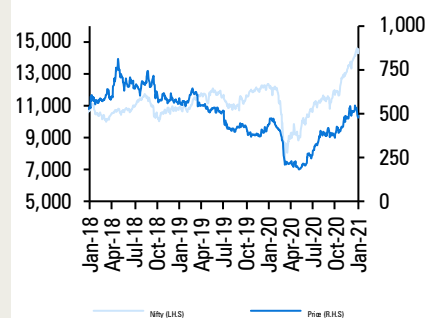
The company has seen healthy traction in large deals and order book which we believe will drive long term growth. This coupled with restructuring its organisation with an aim to accelerate growth, improve sales, focus on large deals (as won in this quarter), client mining and increase digital & DLM deals bodes well for revenue growth. Further, improving margin trajectory prompt us to be positive on the stock. Hence, we maintain **BUY** with a revised target price of ₹ 690 (14x P/E on FY23E EPS) (earlier target price was ₹440/share)

CYIENT

#### Particulars

Particular	Amount
Market Cap (₹ Crore)	6,421.4
Total Debt (₹ Crore)	373.8
Cash and Investment (₹ Crore)	951.8
EV (₹ Crore)	5,843.4
52 week H/L	584 / 184
Equity capital	55.0
Face value	₹ 5

#### Price Performance



#### Key Risk

- Decline in communication and transportation segments due to Covid 19 could adversely impact revenues
- Lower than expected cost rationalisation and slowdown than expected demand recovery could impact financials adversely

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#### Key Financial Summary

Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	4,618	4,427	4,117	4,568	5,055	4.5%
EBITDA	644	596	605	795	900	14.7%
EBITDA Margins (%)	14.0	13.5	14.7	17.4	17.8	
Net Profit	479	343	367	476	542	16.5%
EPS (₹)	42.4	33.9	33.4	43.2	49.3	
P/E	13.4	18.3	17.1	13.2	11.5	
RoNW (%)	18.7	13.4	13.3	15.8	16.4	
RoCE (%)	21.4	15.9	15.2	18.0	18.9	

## Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
<b>Total Revenues</b>	<b>4,427</b>	<b>4,117</b>	<b>4,568</b>	<b>5,055</b>
Growth (%)	(4.1)	(7.0)	10.9	10.7
COGS	2,896	2,672	2,910	3,210
Other expenditure	935	840	863	945
<b>EBITDA</b>	<b>596</b>	<b>605</b>	<b>795</b>	<b>900</b>
Growth (%)	(7.5)	1.6	31.3	13.2
Depreciation	188	194	215	238
Other Income	125	120	95	100
Interest	52	49	49	49
PBT before Exceptional Items	482	483	626	713
Tax	108	116	150	171
PAT before Exceptional Items	311	367	476	542
Exceptional items	(30)	-	-	-
PAT before MI	341	367	476	542
<b>PAT</b>	<b>343</b>	<b>367</b>	<b>476</b>	<b>542</b>
Growth (%)	(28.4)	7.2	29.6	14.0
Adjusted EPS	33.9	33.4	43.2	49.3
EPS (Growth %)	(20.1)	(1.5)	29.6	14.0

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
PBT	468	483	626	713
Depreciation	188	194	215	238
WC changes	33	(103)	(134)	(119)
Other non cash adjusment	40	(71)	(46)	(51)
Income taxes pd.	(146)	(116)	(150)	(171)
<b>CF from operations</b>	<b>582</b>	<b>358</b>	<b>511</b>	<b>610</b>
Other Investments	58	120	95	100
Acq. Of business				
(Purchase)/Sale of Fixed Assets	(215)	(124)	(151)	(167)
<b>CF from investing Activities</b>	<b>(157)</b>	<b>(3)</b>	<b>(56)</b>	<b>(67)</b>
Inc / (Dec) in Equity Capital	(38)	-	-	-
Change in debt funds	(92)	(99)	(49)	(49)
Dividend & DDT	(317)	(172)	(227)	(249)
<b>CF from Financial Activities</b>	<b>(446)</b>	<b>(313)</b>	<b>(318)</b>	<b>(340)</b>
Exchange rate differences	11	-	-	-
Opening cash balance	962	952	1,000	1,090
Cash as margins/associates				
<b>Cash c/f to balance sheet</b>	<b>952</b>	<b>1,000</b>	<b>1,090</b>	<b>1,244</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity	55	55	55	55
Reserves & Surplus	2,506	2,701	2,950	3,244
Networth	2,561	2,756	3,005	3,299
Minority Interest	(3)	(3)	(3)	(3)
Borrowings	374	324	324	324
Long term Liabilities & provisio	423	423	423	423
<b>Source of funds</b>	<b>3,354</b>	<b>3,500</b>	<b>3,749</b>	<b>4,042</b>
<b>Assets</b>				
Net fixed assets	691	663	642	614
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	210	233	258
Debtors	726	675	749	828
Cash & Cash equivalents	952	1,000	1,090	1,244
Other current assets	560	660	698	742
Trade payables	373	355	393	435
Current liabilities	415	377	349	372
Provisions	38	28	45	36
<b>Application of funds</b>	<b>3,354</b>	<b>3,479</b>	<b>3,656</b>	<b>3,880</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
Adjusted EPS (Diluted)	33.9	33.4	43.2	49.3
Cash per Share	86.5	90.9	99.1	113.1
BV per share	232.8	250.6	273.2	299.9
DPS	18.0	15.6	20.6	22.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	13.5	14.7	17.4	17.8
PAT Margin	7.7	8.9	10.4	10.7
Debtor days	60	60	60	60
Creditor days	31	31	31	31
<b>Return Ratios (%)</b>				
RoE	13.4	13.3	15.8	16.4
RoCE	15.9	15.2	18.0	18.9
RoIC	17.6	15.8	19.8	22.5
<b>Valuation Ratios (x)</b>				
P/E	18.3	17.1	13.2	11.5
EV / EBITDA	9.8	6.3	5.0	4.2
EV / Net Sales	1.3	0.9	0.8	0.7
Market Cap / Sales	1.5	1.6	1.4	1.3
Price to Book Value	2.4	2.3	2.1	1.9
<b>Solvency Ratios</b>				
Debt/EBITDA	0.6	0.5	0.4	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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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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