

Aerospace, defence key draggers in quarter...

Cyient Ltd (Cyient) reported a poor set of Q1FY21 numbers. Services revenues declined 15.2% QoQ to US\$112.2 million, mainly led by 22.9% QoQ decline in the aerospace & defence segment (36.5% of revenues), 10.8% QoQ decline in communication vertical (23.0% of revenues) and 13.7% QoQ decline in energy & utility verticals (11% of revenues). The services EBIT margin declined 290 bps to 6.7%. Overall consolidated EBIT margin was further lower at 5.2%, mainly led by negative margins in the DLM business. Consolidated PAT was up 8.0% QoQ to ₹ 81.4 crore, mainly due to one-time export incentive income of ₹ 51.9 crore.

Double digit dip in revenues expected in FY21E

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 and new wins in mobility business. In addition, Cyient expects DLM business to improve QoQ led by improvement in medical technology and healthcare business unit. However, considering poor demand in passenger travel, the aerospace & defence segment is expected to impact the company's near-term revenues. Also, we believe uncertainty in oil prices may impact energy & utility vertical. Hence, we expect revenues to decline 12.2% YoY due to decline in dollar revenues in FY21E revenues (management expects 10-15% dip in FY21E revenues). We expect the company to register revenue growth in FY22E of 7.4%, led by a revival across segments.

Margins to improve gradually

The company's current quarter margins dipped 328 bps QoQ, mainly led by volume impact (289 bps), one-time restructuring cost (259 bps), adverse revenue mix (134 bps) and DLM (160 bps) partially offset by SG&A rationalisation, other operating efficiencies (295 bps) and forex impact (104 bps). Going forward, we expect margins to improve QoQ led by a recovery in revenue growth, absence of one-time restructuring cost and cost rationalisation. This prompts us to revise our FY21E, FY22E margin estimates upwards. We now expect FY21E, FY22E EBITDA margins at 12.6%, 13.5% vs. 12.4%, 13.0% in Q4FY20, respectively.

Valuation & Outlook

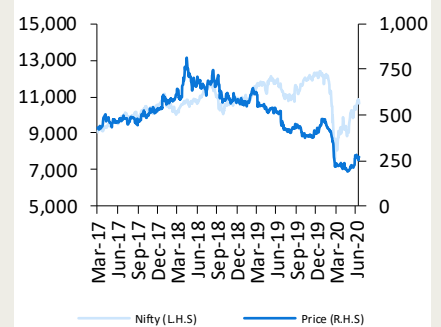
The Q1FY21 performance was subdued. However, we expect revenues & margins to improve QoQ mainly led by increased traction in communication, utility & medical, technology & healthcare. Hence, we revise our revenues and EPS estimates upwards. Accordingly, we revise our target price upwards to ₹ 300/share. However, considering the near-term weakness in aerospace & defence coupled with the recent run up in the stock price, we remain cautious on the stock and maintain our **HOLD** rating.



Particulars

Particular	Amount
Market Capitalization (₹Crore)	2,981.8
Total Debt (₹Crore)	373.8
Cash and Investments (₹Crore)	951.8
EV (₹Crore)	2,403.8
52 week H/L	550 / 184
Equity capital	55.0
Face value	₹5

Price Performance



Key Highlights

- Revenues expected to improve on QoQ basis
- Expect margins to gradually improve led by recovery in revenue growth
- Maintain HOLD recommendation with revised target price of ₹ 300

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Key Financial Summary

Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	3,918	4,618	4,427	4,061	4,363	-0.7%
EBITDA	549	644	596	512	589	-0.6%
EBITDA Margins (%)	14.0	14.0	13.5	12.6	13.5	
Net Profit	405	479	343	320	357	2.1%
EPS (₹)	36.0	42.4	33.9	29.1	32.4	
P/E	8.2	7.0	8.7	10.1	9.1	
RoNW (%)	17.3	18.7	13.4	11.7	12.3	
RoCE (%)	21.4	21.4	15.9	13.4	14.1	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 1: Profit and loss statement		₹ crore			
	FY19	FY20	FY21E	FY22E	
Total Revenues	4,618	4,427	4,061	4,363	
Growth (%)	17.9	(4.1)	(8.3)	7.4	
COGS	3,013	2,896	2,652	2,854	
Other expenditure	961	935	898	921	
EBITDA	644	596	512	589	
Growth (%)	17.3	(7.5)	(14.1)	15.1	
Depreciation	111	188	171	183	
Other Income	134	125	134	118	
Interest	36	52	52	52	
PBT before Exceptional Items	631	482	423	472	
Tax	143	108	102	113	
PAT before Exceptional Items	469	311	319	355	
Exceptional items	(11)	(30)	-	-	
PAT before MI	480	341	319	355	
PAT	479	343	320	357	
Growth (%)	18.0	(28.4)	(6.5)	11.4	
EPS	42.4	33.9	29.1	32.4	
EPS (Growth %)	17.8	(20.1)	(14.1)	11.4	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
	FY19	FY20	FY21E	FY22E	
PBT	619	468	423	472	
Depreciation	111	188	171	183	
WC changes	(171)	33	(168)	(85)	
Other non cash adju.	(48)	40	(82)	(66)	
Income taxes pd.	(142)	(146)	(102)	(113)	
CF from operations	370	582	242	391	
Other Investments	(70)	58	134	118	
Acq. Of business	-	-	-	-	
(Purchase)/Sale of Fixed Ass	(151)	(215)	(146)	(175)	
CF from investing Activities	(221)	(157)	(12)	(57)	
Inc / (Dec) in Equity Capital	(161)	(38)	-	-	
Change in debt funds	55	(92)	(52)	(52)	
Dividend & DDT	(126)	(317)	(132)	(198)	
CF from Financial Activities	(232)	(446)	(184)	(250)	
Exchange rate differences	30	11	-	-	
Opening cash balance	1,024	962	952	998	
Cash as margins/associates	-	-	-	-	
Cash c/f to balance sheet	971	952	998	1,081	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet		₹ crore			
	FY19	FY20	FY21E	FY22E	
Liabilities					
Equity	55	55	55	55	
Reserves & Surplus	2,509	2,506	2,694	2,853	
Networth	2,564	2,561	2,749	2,908	
Minority Interest	(2)	(3)	(2)	(0)	
Borrowings	325	374	374	374	
Long term Liabilities & provisor	226	423	423	423	
Source of funds	3,113	3,354	3,544	3,704	
Assets					
Net fixed assets	353	691	667	658	
Net intangible assets	173	143	143	143	
CWIP	30	80	80	80	
Goodwill	526	537	537	537	
Other non current assets	195	222	231	240	
Non current Investments	27	41	41	41	
Inventories	183	227	207	223	
Debtors	814	726	733	764	
Cash & Cash equivalents	971	952	998	1,081	
Other current assets	618	560	658	695	
Trade payables	371	373	350	376	
Current liabilities	376	415	374	339	
Provisions	29	38	27	43	
Application of funds	3,113	3,354	3,544	3,704	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios		₹ crore			
	FY19	FY20	FY21E	FY22E	
Per share data (₹)					
Adjusted EPS (Diluted)	42.4	33.9	29.1	32.4	
Cash per Share	86.0	94.2	90.7	98.3	
BV per share	227.2	253.4	249.9	264.4	
DPS	15.0	18.0	12.0	18.0	
Operating Ratios (%)					
EBITDA Margin	14.0	13.5	12.6	13.5	
PAT Margin	10.4	7.7	7.9	8.2	
Debtor days	64	60	66	64	
Creditor days	29	31	31	31	
Return Ratios (%)					
RoE	18.7	13.4	11.7	12.3	
RoCE	21.4	15.9	13.4	14.1	
RoIC	25.6	17.6	13.8	16.0	
Valuation Ratios (x)					
P/E	7.0	8.7	10.1	9.1	
EV / EBITDA	3.6	4.0	4.6	3.9	
EV / Net Sales	0.5	0.5	0.6	0.5	
Market Cap / Sales	0.6	0.7	0.7	0.7	
Price to Book Value	1.3	1.2	1.2	1.1	
Solvency Ratios					
Debt/E BITDA	0.5	0.6	0.7	0.6	
Debt / E equity	0.1	0.1	0.1	0.1	
Current Ratio	2.0	1.8	2.1	2.2	
Quick Ratio	1.8	1.6	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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