

CMP: ₹ 963 Target: ₹ 1,140 (18%) Target Period: 12 months

July 16, 2021

BUY

Healthy revenue, margin trajectory...

About the stock: Cyient Ltd (Cyient) offers engineering & development services to aerospace & defence, transportation, E&U, communication and others.

- Cyient has 300 customers across 14 countries
- Net debt free and healthy cash flow with OCF/EBITDA ~80%

Q1FY22 Results: Cyient reported weak Q1FY22 results.

- Services revenue declined 0.3% QoQ to US\$119.3 mn
- However, margins came in at 13.1% (highest in six years) on savings in SG&A expenses
- Expect revenues to increase in double digits for services and 20% for DLM in FY22E with increase of 200 bps margins

What should investors do? Cyient's share price has grown by ~2x over the past five years (from ~₹ 473 in July 2016 to ~₹ 963 levels in Jul 2021).

- We remain further positive and retain our BUY rating on the stock

Target Price and Valuation: We value Cyient at ₹ 1,140 i.e. 22x P/E on FY23E EPS

Key triggers for future price performance:

- Increased outsourcing in ER&D a key positive
- Improved demand from verticals, large deals, healthy order book, traction DLM business, and organisation restructuring to accelerate growth
- Margins to improve led by improved revenue growth and SG&A rationalisation

Alternate Stock Idea: Apart from Cyient, in our IT coverage we also like Mindtree.

- Industry leading growth & healthy margins prompt us to be positive
- BUY with a target price of ₹ 3,065

CYIENT

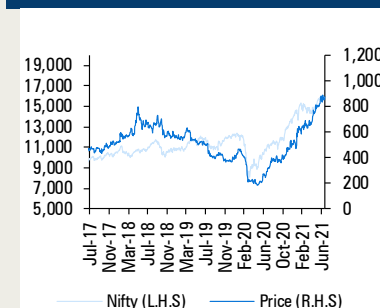
Particulars

Particular	Amount
Market Cap (₹ Crore)	10,867.8
Total Debt (₹ Crore)	275.5
Cash and Invest (₹ Crore)	1,465.0
EV (₹ Crore)	9,678.3
52 week H/L	995 / 273
Equity capital	55.0
Face value	₹ 5

Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	23.3	23.5	23.5	23.5
FII	33.0	34.4	35.7	38.5
DII	23.7	23.5	22.7	21.2
Public	20.0	18.7	18.2	16.8

Price Chart



Recent Event & Key risks

- Outlook remains robust
- **Key Risk:** (i) Continued high attrition, (ii) Lower than guided revenue and margins

Research Analyst

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Key Financial Summary

Financials	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	4,618	4,427	4,132	5.9%	4,692	5,230	12.5%
EBITDA	644	596	611	7.5%	835	947	24.5%
EBITDA Margins (%)	14.0	13.5	14.8		17.8	18.1	
Net Profit	479	343	364	2.2%	493	569	25.1%
EPS (₹)	42.4	33.9	33.1		44.8	51.7	
P/E	22.7	30.9	29.1		21.5	18.6	
RoNW (%)	18.7	13.4	12.3		15.4	16.4	
RoCE (%)	21.4	15.9	14.5		18.4	19.7	

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Weak performance on revenues

- Revenue for the quarter was US\$143.5 mn, de-growth of 4.3% QoQ, due to 20% QoQ decline in DLM business while services business reported 0.3% QoQ decline
- The company reported healthy margins of 13.1% despite wage hike in the quarter due to cost savings in SG&A expenses.
- In Q1FY22, the company won four large deals with total contract potential of US\$46 mn. Three are from services while remaining is for DLM
- The company expects to bounce back from Q2 onwards while attrition is also expected to be stable

Q1FY22 Earnings conference call highlights

- Q1FY22 was marred by supply issues due to Covid. Total 10% of the manpower was impacted by Covid during the quarter. US\$3 mn revenue was impacted due to this. Adjusted for this, services would have reported 2.3% QoQ growth
- The company has given wage hike during the quarter, which had an impact on margins (176 bps impact), which was offset by operational efficiencies (up 93 bps) and savings in SG&A expenses (up 176 bps)
- The company expects total 240 bps impact of wage hike for FY22 and further 50 bps due to Esops
- Performance in April and May was weak but it has bounced back in June 2021
- Cyient expects a U-shaped recovery in aerospace, which, as per the management is at the bottom. It will take four to six quarters for growth to return
- Mining was impacted due to Covid led lockdowns in Australia and is expected to recover from Q1FY22 onwards
- The company has guided for double digit growth in services with 20%+ growth in the DLM business. It has also guided for 200 bps margin improvement in FY22 after considering wage hike impact

Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
	FY20	FY21	FY22E	FY23E
Total Revenues	4,427	4,132	4,692	5,230
Growth (%)	(4.1)	(6.7)	13.5	11.5
COGS	2,896	2,716	2,970	3,305
Other expenditure	935	806	887	978
EBITDA	596	611	835	947
Growth (%)	(7.5)	2.5	36.8	13.3
Depreciation	188	195	221	246
Other Income	125	109	95	111
Interest	52	48	48	48
PBT before Exceptional Items	482	477	662	764
Tax	108	113	169	195
PAT before Exceptional Items	311	364	493	569
Exceptional items	(30)	-	-	-
PAT before MI	341	364	493	569
PAT	343	364	493	569
Growth (%)	(28.4)	6.2	35.5	15.4
Adjusted EPS	33.9	33.1	44.8	51.7
EPS (Growth %)	(20.1)	(2.4)	35.5	15.4

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
	FY20	FY21	FY22E	FY23E
PBT	468	477	662	764
Depreciation	188	195	221	246
WC changes	33	269	(80)	(86)
Other non cash adju.	40	45	(47)	(63)
Income taxes pd.	(146)	(129)	(169)	(195)
CF from operations	582	856	587	666
Other Investments	58	(2)	95	111
Acq. Of business				
(Purchase)/Sale of Fixed Assets	(215)	(99)	(235)	(173)
CF from investing Activities	(157)	(101)	(139)	(61)
Inc / (Dec) in Equity Capital	(38)	4	-	-
Change in debt funds	(92)	(213)	(48)	(48)
Dividend & DDT	(317)	(1)	(253)	(297)
CF from Financial Activities	(446)	(211)	(346)	(390)
Exchange rate differences	11	(3)	-	-
Opening cash balance	962	924	1,465	1,567
Cash as margins/associates				
Cash c/f to balance sheet	952	1,465	1,567	1,781

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
	FY20	FY21	FY22E	FY23E
Liabilities				
Equity	55	55	55	55
Reserves & Surplus	2,506	2,902	3,142	3,414
Networth	2,561	2,957	3,197	3,469
Minority Interest	(3)	(3)	(3)	(3)
Borrowings	374	276	276	276
Long term Liabilities & proviso	423	384	384	384
Source of funds	3,354	3,614	3,854	4,126
Assets				
Net fixed assets	691	718	777	749
Net intangible assets	143	136	136	136
CWIP	80	11	11	11
Goodwill	537	583	583	583
Other non current assets	222	158	161	163
Non current Investments	41	34	34	34
Inventories	227	159	180	201
Debtors	726	803	912	1,017
Cash & Cash equivalents	952	1,465	1,567	1,781
Other current assets	560	426	472	525
Trade payables	373	453	508	567
Current liabilities	415	387	423	460
Provisions	38	38	48	48
Application of funds	3,354	3,614	3,854	4,126

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
	FY20	FY21	FY22E	FY23E
Per share data (₹)				
Adjusted EPS (Diluted)	33.9	33.1	44.8	51.7
Cash per Share	86.5	133.2	142.4	161.9
BV per share	232.8	268.9	290.7	315.4
DPS	18.0	32.0	23.0	27.0
Operating Ratios (%)				
EBITDA Margin	13.5	14.8	17.8	18.1
PAT Margin	7.7	8.8	10.5	10.9
Debtor days	60	71	71	71
Creditor days	31	40	40	40
Return Ratios (%)				
RoE	13.4	12.3	15.4	16.4
RoCE	15.9	14.5	18.4	19.7
RoIC	17.6	19.5	27.0	30.0
Valuation Ratios (x)				
P/E	30.9	29.1	21.5	18.6
EV / EBITDA	17.3	15.8	11.5	9.9
EV / Net Sales	2.3	2.3	2.0	1.8
Market Cap / Sales	2.5	2.6	2.3	2.1
Price to Book Value	4.1	3.6	3.3	3.1
Solvency Ratios				
Debt/EBITDA	0.6	0.5	0.3	0.3
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.8	1.6	1.6	1.6
Quick Ratio	1.6	1.4	1.4	1.4

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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