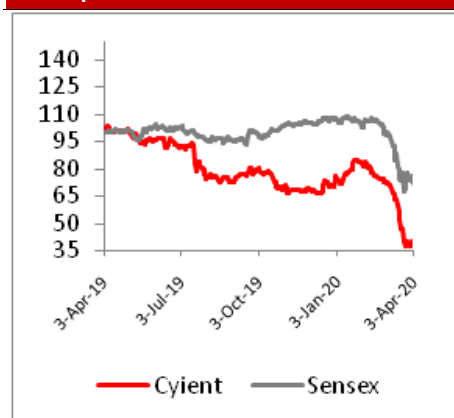



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BUY

Current Price	225
Target Price	436
Upside	94%
52 Week Range	205/635

Key Share Data

Market Cap (Rs.Mn)	24842
Market Cap (US\$ Mn)	326
No of o/s shares (Mn)	110
Face Value	5
Monthly Avg.	
Vol(BSE+NSE)'000	205.79
BSE Code	532175
NSE Code	CYIENT
Bloomberg	CYL:IN

Price performance


% Shareholding	Dec-19	Sept-19
Promoters	22.82	22.80
Public	77.18	77.20
Others	0.00	0.00
Total	100	100

Key Highlights:

- 80% of employees in India are on WFH, this will increase to 85% by next week
- 93% of clients have approved WFH
- Excl-India almost 100% of employees are on WFH
- Client Updates:
 - Supply chain and operations for clients completely disturbed, however no employee layoffs or grave situation within clients yet
 - Clients want to conserve cash however no negotiations by clients to reduce prices yet
 - Signed contract with Hitachi Rail during these tough times even when Hitachi's head was working out of Italy
- Cost Rationalisations:**
 - Hiring freeze across the board
 - No salary hikes in FY21 except lower band of employees, that too in H2FY21
 - Variable Pay also rationalized
 - Investment in New Business Accelerator (NBA) (1% of revenue earlier) currently put on hold
 - Marketing Spend is frozen and Sales team will be churned to hold on to only quality personnel
 - Re-negotiating contracts with subcontractors (currently 7% of total costs) for lower prices
- Industry-wise Business Update:**
 - Aerospace & Defence (32% of services):** bloodbath amongst airlines and therefore there will be some impact on the business in the short term. However, Cyient works more with engine makers than airlines.
 - Transportation (11% of services):** will also be impacted due to lockdowns across geographies
 - Utilities (15% of services):** impacted due to fall in crude prices and halt in manufacturing activities across geographies. However, this would be marginally offset by green shoots in mining sector
 - Semiconductor (5% of services):** double whammy as industry is in down-cycle plus COVID impact
 - Communications (24% of services):** management is confident of comms segment as some green shoots visible. Global capex on 5G rollout has increased 20% yoy.
 - Medical (2% of services):** is facing a surge in demand due to current COVID situation. However, small part of manufacturing is functional since segments like Medical Devices (12.5% of DLM) and A&D (65% of DLM) are under critical industries list. Management confident of catching up once lockdown is over
 - DLM (10% of topline):** has been challenging as WFH is not possible in manufacturing. Management confident of catching up once lockdown is over
- Will look for opportunities to invest as current situation has given rise to opportunistic M&A
- Large part of Cyient's services are "lights on" or core operations for the client and therefore impact should be restricted

Consolidated Financials (In INR Mn)

	Net Sales	% Growth	EBITDA	Margin (%)	PAT	Margin (%)	EPS	% Growth	P/E (x)	ROE (%)	ROCE (%)
FY18	39,139	9.1%	5,354	13.7%	4,104	10.4%	36.5	11%	6.3x	18.4%	17.5%
FY19	46,175	18.0%	6,436	13.9%	4,909	10.6%	43.7	20%	5.2x	20.0%	18.9%
FY20E	44,566	(3.5%)	6,184	13.9%	4,172	9.4%	37.1	-15%	6.1x	15.3%	14.9%
FY21E	45,587	2.3%	6,398	14.0%	4,319	9.5%	38.4	4%	5.9x	14.2%	13.2%
FY22E	51,365	12.7%	7,296	14.2%	4,901	9.5%	43.6	13%	5.2x	14.5%	13.6%

Source: Company, Dalal&Broacha Research

**COVID Concall Update@ Dalal&Broacha****Valuation & Outlook**

We expect a large part of Cyient's revenue to be impacted due to COVID19, in the short term atleast. Segments like A&D, Transportation, Utilities, Semicon and DLM are at high risk due to lockdowns and travel bans across the globe, which in turn should put pressure on clients IT budgets. Although the management claims that a large part of Cyient's services are 'Lights on' operations for the client, we believe that clients will go on war footing in current times either due to COVID19 or due to the crash of crude prices and therefore will either cut back spend or re-negotiate contracts. Cyient's cost rationalization initiatives and INR depreciation provide much needed relief; however, ER&D players will largely be out of flavor due to the discretionary nature of perception of this industry.

In line with COVID impact discussed by the management, we revise our estimates as follows. Revenue growth in INR terms to drop from 8.6% and 10.4% to 2.3% and 12.7% in FY21e and FY22e respectively. This is despite a depreciating INR. Our earlier (Q3FY20 review) estimates of USD/INR were 71.3 for FY21e and FY22e which are now revised to 74.3 and 72.5 for FY21e and FY22e.

We expect USD revenue to report a de-growth of 2.8% and a growth of 15.3% in FY21e and FY22e (vs. 8% and 10% growth earlier).

Our EPS estimates have been revised downwards from INR 43.4 / 48.7 to 38.4 / 43.6 in FY21e / FY22e respectively.

At current levels, Cyient is trading at 5.9x and 5.2x FY21 and FY22e respectively. Although the macro environment looks bleak coupled with certain client specific issues that Cyient has faced in the past (in A&D and Comms), we believe that a. green shoots such as relief package to airline industry by US government, b. possibility of lifting of ban on Boeing by mid 2020 and c. availability of company at 5.2x FY22e - which is essentially throw away valuations makes a compelling case. **We maintain a BUY rating on the stock with a long term view while we reduce our target price to INR 436, i.e. 10x FY22e EPS. (from earlier TP of INR 575)**



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Analyst: Mayank Babla (022) 67141412

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Profit & Loss A/c					
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
Total Revenue	39,139	46,175	44,566	45,587	51,365
Less:					
Cost of Services	3,272	3,936	4,438	4,746	5,329
Employee Cost	21,877	25,374	24,941	25,546	28,980
SG&A Expenses & Other	8,837	10,288	9,497	9,353	10,273
Total Operating Expenditure	33,785	39,739	38,882	39,190	44,069
EBIDTA	5,354	6,436	6,184	6,398	7,296
Less: Depreciation	1,052	1,114	1,867	1,892	2,106
EBIT	4,302	5,322	4,317	4,506	5,190
Growth %	12.6%	23.7%	-18.9%	4.4%	15.2%
Interest Paid	204	326	480	476	476
Non-operating Income	1,519	1,340	1,541	1,470	1,541
Profit Before tax	5,567	6,336	5,377	5,500	6,255
Tax	1,380	1,512	1,290	1,265	1,439
Net Profit before Minority	4,187	4,824	4,088	4,235	4,816
Minority Interest	(23)	(23)	(23)	(23)	(23)
Profit/Loss of Associates	(156)	62	62	62	62
Net Profit	4,008	4,863	4,126	4,273	4,855
Adjusted Profit	4,104	4,909	4,172	4,319	4,901
Reported Diluted EPS Rs	36.1	43.7	37.1	38.4	43.6
Growth %	17.9%	21.1%	-15.0%	3.5%	13.5%
Adjusted Diluted EPS Rs	36.5	43.7	37.1	38.4	43.6

Key Ratios					
EBIDTA (%)	13.7%	13.9%	13.9%	14.0%	14.2%
NPM (%)	10.4%	10.6%	9.4%	9.5%	9.5%
RoE (%)	18.4%	20.0%	15.3%	14.2%	14.5%
RoCE (%)	17.6%	19.5%	14.1%	13.2%	13.6%
Tax Rate %	24.8%	23.9%	24.0%	23.0%	23.0%
Book Value Per share (Rs.)	208.5	228.1	256.1	284.9	317.6

Cash Flows (Consolidated)					
YE December (Rs. Mn)	FY18	FY19	FY20E	FY21E	FY22E
PAT	4,054.0	4,908.5	4,172.4	4,319.3	4,901.0
Less: Non Operating Income	(1,519.0)	(1,340.0)	(1,540.6)	(1,469.9)	(1,540.9)
Add: Depreciation	1,052.0	1,114.0	1,866.7	1,891.9	2,106.0
Add: Interest Paid	204.0	326.0	480.0	476.0	476.0
Operating Profit before WC Changes	3,974.0	4,947.0	4,917.0	5,155.7	5,880.5
Net Cash From Operations	2,414.0	3,898.0	5,986.5	6,745.0	6,235.2
Cash Flow from Investing Activities					
Incl/Dec in Fixed Assets	(1,255.0)	(1,424.0)	(1,114.2)	(1,139.7)	(1,284.1)
Cash Flow from Financing Activities					
Incl/(Dec) in Total Loans	149.0	460.0	460.0	460.0	460.0
Dividend Paid	(1,296.0)	(1,296.0)	(1,043.1)	(1,079.8)	(1,225.2)
Net Cash from Financing Activities	(1,676.0)	(1,942.5)	(1,544.4)	(977.6)	(1,155.9)
Net Inc/Dec in cash equivalents	1,026.0	(102.0)	5,116.6	6,143.2	5,307.3
Opening Balance	8,781.0	9,807.0	9,705.0	14,821.6	20,964.8
Closing Balance Cash and	9,807.0	9,705.0	14,821.6	20,964.8	26,272.1

Free Cash Flow Statement					
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
EBITDA	5,354	6,436	6,184	6,398	7,296
FC Investment	644	709	1,114	1,140	1,284
WC Changes	-1,560	-1,049	1,070	1,589	355
Depreciation Tax Shield	261	266	448	435	484
Tax Expenses	1,327	1,536	1,483	1,471	1,678
FCF	2,084	3,408	5,104	5,811	5,173

Valuation Ratios					
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
P/E (x)	6.3x	5.2x	6.1x	5.9x	5.2x
P/BV (x)	1.1x	1.0x	0.9x	0.8x	0.7x
EV/EBIDTA (x)	3.0x	2.6x	2.0x	1.0x	0.2x
EV/Sales	0.4x	0.4x	0.3x	0.1x	0.0x
Market Cap./ Sales (x)	0.7x	0.6x	0.6x	0.6x	0.5x
Dividend Yield (%)	5.1%	5.1%	4.1%	4.2%	4.8%

Balance Sheet (Consolidated)					
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
Liabilities					
Equity Capital	563	552	563	563	563
Reserves & Surplus	22,876	25,089	28,218	31,458	35,133
Equity	23,439	25,641	28,781	32,021	35,696
Net Worth	23,439	25,641	28,781	32,021	35,696
Minority Interest					
Net Deferred tax liability/(Asset)	1,590	2,220	1,728	1,846	1,931
Total Loans	676	1,136	1,596	2,056	2,516
Capital Employed	25,705	28,997	32,105	35,923	40,144
Assets					
Gross Block	7,616	8,325	9,439	10,579	11,863
Less: Depreciation	4,396	4,795	6,662	8,554	10,660
Net Block	3,220	3,530	2,777	2,025	1,203
Capital WIP	213	300	134	137	154
Investments	568	583	563	576	649
Intangible Assets	5,057	6,990	6,990	6,990	6,990
Current Assets					
Sundry Debtors	6,913	8,137	7,814	7,244	7,881
Current Investments	1,130	278	902	838	764
Cash and Bank Balance	9,807	9,705	14,822	20,965	26,272
Loans and Advances	4,120	4,852	3,922	3,693	3,852
Other Current Assets	1,986	2,684	1,872	1,732	1,695
Total Current Assets	25,268	27,489	31,100	36,281	42,503
Less: Current Liabilities & Provisions					
Sundry Creditors	3,813	3,712	4,522	5,046	5,675
Provisions	229	289	258	253	288
Other Current Liabilities	4,579	5,894	4,679	4,787	5,393
Total Current Liabilities & Provisions	8,621	9,895	9,459	10,086	11,356
Capital Applied	25,705	28,997	32,105	35,923	40,144

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY18	FY19	FY20E	FY21E	FY22E
Key Operating Ratios					
EBITDA Margin (%)	13.7%	13.9%	13.9%	14.0%	14.2%
Tax / PBT (%)	24.8%	23.9%	24.0%	23.0%	23.0%
Net Profit Margin (%)	10.4%	10.6%	9.4%	9.5%	9.5%
RoE (%)	18.4%	20.0%	15.3%	14.2%	14.5%
RoCE (%)	17.5%	18.9%	14.9%	13.8%	13.8%
Current Ratio (x)	2.9x	2.8x	3.3x	3.6x	3.7x
Dividend Payout (%)	32.0%	26.4%	25.0%	25.0%	25.0%
Book Value Per Share (Rs.)	208.5	228.1	256.1	284.9	317.6
Financial Leverage Ratios					
Interest Coverage (x)	26.2x	19.7x	12.9x	13.4x	15.3x
Growth Indicators %					
Sales Growth (%)	9.1%	18.0%	(3.5%)	2.3%	12.7%
EBITDA Growth (%)	12.2%	20.2%	(3.9%)	3.5%	14.0%
Net Profit Growth (%)	17.9%	21.1%	(15.0%)	3.5%	13.5%
Diluted EPS Growth (%)	17.9%	21.1%	(15.0%)	3.5%	13.5%
Turnover Ratios					
Debtors	62	59	65	60	54
Creditors	63	52	61	68	68



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Analyst: Mayank Babla (022) 67141412

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Analyst: Mayank Babla (022) 67141412

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Contact	Email ID	Contact No.	Sector
Mr. Kunal Bhatia	kunal.bhatia@dalal-broacha.com	022 67141442	Auto, Auto Ancillary, FMCG
Ms. Charulata Gaidhani	charulata.gaidhani@dalal-broacha.com	022 67141446	Pharma /Healthcare
Ms. Abhilasha Satale	abhilasha.satale@dalal-broacha.com	022 67141135	Mid cap
Mr. Avinash Tanawde	avinash.tanawde@dalal-broacha.com	022 67141149	BFSI
Mr. Mayank Babla	mayank.babla@dalal-broacha.com	022 67141412	I.T,Media,Telecom
Ms. Nidhi Babaria	nidhi.babaria@dalal-broacha.com	022 67141450	Associate
Mr. Suraj Nandu	suraj.nandu@dalal-broacha.com	022 67141438	Associate
Mr. Tanush Mehta	tanush.mehta@dalal-broacha.com	022 67141441	Associate

Address: - 508, Maker Chambers V, 221 Nariman Point, Mumbai 400 021. Tel: 91-22- 2282 2992, 2287 6173, Fax: 91-22-2287 0092
E-mail: research@dalalbroachaindia.com, equity.research@dalal-broacha.com