



DALAL & BROACHA
STOCK BROKING PVT. LTD.

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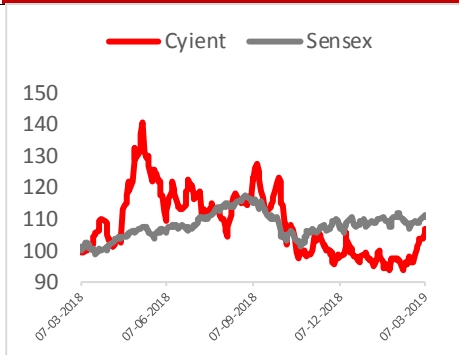
BUY

| | |
|---------------|-----------|
| Current Price | 668 |
| 52 Week Range | 887 / 550 |
| Target Price | 821 |
| Upside | 22.9% |

Key Share Data

| | |
|-----------------------------------|--------|
| Market Cap (Rs.bn) | 76.5 |
| Market Cap (US\$ mn) | 1092.4 |
| No of o/s shares (mn) | 112.6 |
| Face Value | 5.00 |
| Monthly Avg. vol(BSE+NSE) Nos'000 | 269.4 |
| BSE Code | 532175 |
| NSE Code | CYIENT |
| Bloomberg | CYL:IN |

Price performance



| % Shareholding | Dec-18 | Sept-18 |
|----------------|------------|------------|
| Promoters | 22.1 | 22.1 |
| Public | 77.9 | 77.9 |
| Others | | |
| Total | 100 | 100 |

Design Led Manufacturing (DLM) - Background

- DLM business contributes 12% to consol revenues and offers Electronic Manufacturing Services (95% of DLM revenues) and Mechanical Manufacturing Services (5% of DLM revenues).
- DLM business Revenue for 9MFY19 / FY18 stood at INR 4301 Mn / 3983 Mn | INR respectively. EBIT for 9MFY19 / FY18 stood at 172 Mn / 62 Mn.
- DLM segment's 4 quarter / 8 quarter CQGR stands at 17% / 8% respectively.
- **Q3FY19**, DLM Revenue / EBIT / PBT stood at INR 1479 Mn / INR 58 Mn / INR 14 Mn vs **Q2FY19 (QoQ)**: INR 1610 Mn / INR 59 Mn / INR 14 Mn and **Q3FY18 (YoY)**: INR 785 Mn / INR 9 Mn / INR (23) Mn

DLM Business Update

We interacted with the MD & CEO of Design Led Manufacturing segment at Cyient in order to gain an insight into the business and for an update on progress and performance of the segment. Following are the key takeaways of our interaction with the management:

- DLM business is on track (As per management guidance in Q4FY18 and Investor Day 2018) to complete turnaround and revival. Management had mentioned during the Investor Day 2018 that the plan is massively ramp down Contract Manufacturing services (60% of DLM business) over the next 2-3 years as it was a low Gross Margin (sub 10%) business. In line with the guidance, Cyient DLM is dropped 3 clients in FY19 and plans to rationalize its clientele even further (through FY20) by dropping low margin contracts/clients
- DLM management plans to deliver profitability by consciously **transitioning from a Build-to-specification (design given by client) model to a Design and Build model**.
- Aim is to **deliver low double digit Operating Margins** (3.9% as of Q3FY19). We estimate EBIT margins for DLM segment at 7% / 10% for FY20E/21E respectively.
- Client farming and therefore new customer additions have been in a higher margin range due to focus on this "Design and Build" in which **gross margins are >10%**
- **Deal pipeline remains strong** and well on its way to meet guidance of 35% YoY growth given during Q3FY19
- **Expect Aerospace & Defense segment** (68.7% of DLM business) **to outperform** in FY20E / FY21E as many projects that the company has been chasing are in the final stages of testing and certification (which should take another 2 quarters to materialize).
- The Mysore facility is running on optimal capacity utilization
- B&F Design's performance is above initial expectations and one can expect strong double digit growth through FY20

Valuation & Outlook

Post our interaction with the DLM management, our outlook on the DLM business (which was traditionally an overhang on the consol business) is extremely positive. Given the healthy deal pipeline coupled with focus on profitability can be a game changer for Cyient. In light of our recent interaction, we upgrade our FY20E/21E EPS estimate by INR 1.4 / INR 4.1. We reiterate a **BUY** rating on Cyient with a **TP of INR 821** based on FY21E EPS of INR 60.7.

Consolidated Financials (Rs. Mn)

| | Net Sales | % Growth | EBITDA | Margin (%) | PAT | Margin (%) | EPS | % Growth | P/E (x) | ROE (%) | ROCE (%) |
|--------------|-----------|----------|--------|------------|-------|------------|------|----------|---------|---------|----------|
| FY17 | 35,858 | 15.9% | 4,772 | 13.3% | 3,699 | 9.6% | 32.9 | 11% | 21.8x | 18.7% | 17.5% |
| FY18 | 39,139 | 9.1% | 5,354 | 13.7% | 4,104 | 10.4% | 36.5 | 11% | 18.5x | 18.4% | 17.5% |
| FY19E | 46,772 | 19.5% | 6,281 | 13.4% | 4,245 | 9.1% | 37.8 | 3% | 17.7x | 17.0% | 16.5% |
| FY20E | 53,740 | 14.9% | 7,467 | 13.9% | 5,632 | 10.5% | 50.1 | 33% | 13.3x | 19.6% | 19.3% |
| FY21E | 62,636 | 16.6% | 9,066 | 14.5% | 6,824 | 10.9% | 60.7 | 21% | 11.0x | 20.4% | 21.5% |



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| Profit & Loss A/c | | | | | |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|
| YE March (Rs. mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
| Total Revenue | 35,858 | 39,139 | 46,772 | 53,740 | 62,636 |
| Less: | | | | | |
| Increase/Decrease in Stock | -110 | -201 | -132 | -36 | -42 |
| Cost of Services | 2,852 | 3,272 | 4,381 | 4,299 | 5,011 |
| Employee Cost | 20,490 | 21,877 | 25,724 | 29,649 | 34,195 |
| SG&A Expenses & Other | 7,854 | 8,837 | 10,519 | 12,360 | 14,406 |
| Total Operating Expenditure | 31,086 | 33,785 | 40,491 | 46,272 | 53,570 |
| EBIDTA | 4,772 | 5,354 | 6,281 | 7,467 | 9,066 |
| Less: Depreciation | 953 | 1,052 | 1,141 | 1,267 | 1,477 |
| EBIT | 3,819 | 4,302 | 5,140 | 6,200 | 7,589 |
| <i>Growth %</i> | <i>17.4%</i> | <i>12.6%</i> | <i>19.5%</i> | <i>20.6%</i> | <i>22.4%</i> |
| Interest Paid | 172 | 204 | 328 | 340 | 340 |
| Non-operating Income | 932 | 1,519 | 857 | 1,343 | 1,503 |
| Profit Before tax | 4,318 | 5,567 | 5,669 | 7,204 | 8,753 |
| Tax | 1,045 | 1,380 | 1,508 | 1,657 | 2,013 |
| Net Profit before Minority | 3,273 | 4,187 | 4,161 | 5,547 | 6,739 |
| Minority Interest | -42 | -23 | -23 | -23 | -23 |
| Profit/Loss of Associate Compa | 123 | -156 | 62 | 62 | 62 |
| Net Profit | 3,354 | 4,008 | 4,199 | 5,586 | 6,778 |
| Adjusted Profit | 3,699 | 4,104 | 4,245 | 5,632 | 6,824 |
| Reported Diluted EPS Rs | 30.6 | 36.1 | 37.8 | 50.1 | 60.7 |
| <i>Growth %</i> | <i>5.6%</i> | <i>17.9%</i> | <i>4.7%</i> | <i>32.7%</i> | <i>21.2%</i> |
| Adjusted Diluted EPS Rs | 32.9 | 36.5 | 37.8 | 50.1 | 60.7 |

| Balance Sheet (Consolidated) | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|
| YE March(Rs. mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
| Liabilities | | | | | |
| Equity Capital | 563 | 563 | 563 | 563 | 563 |
| Reserves & Surplus | 20,610 | 22,876 | 26,127 | 30,351 | 35,469 |
| Equity | 21,173 | 23,439 | 26,690 | 30,914 | 36,032 |
| Net Worth | 21,173 | 23,439 | 26,690 | 30,914 | 36,032 |
| Minority Interest | | | | | |
| Net Deferred tax liability/(Asset) | 1,373 | 1,590 | 1,490 | 1,464 | 1,495 |
| Total Loans | 527 | 676 | 427 | 377 | 327 |
| Capital Employed | 23,073 | 25,705 | 28,607 | 32,755 | 37,853 |
| Assets | | | | | |
| Gross Block | 6,972 | 7,616 | 9,124 | 10,468 | 12,033 |
| Less: Depreciation | 3,955 | 4,396 | 5,541 | 6,808 | 8,285 |
| Net Block | 3,017 | 3,220 | 3,583 | 3,659 | 3,749 |
| Capital WIP | 92 | 213 | 141 | 161 | 188 |
| Investments | 1,237 | 568 | 1,619 | 1,854 | 2,161 |
| Intangible Assets | 4,666 | 5,057 | 5,057 | 5,057 | 5,057 |
| Current Assets | | | | | |
| Sundry Debtors | 6,496 | 6,913 | 8,360 | 9,423 | 10,811 |
| Current Investments | 925 | 1,130 | 1,135 | 1,275 | 1,443 |
| Cash and Bank Balance | 8,781 | 9,807 | 11,744 | 14,928 | 18,739 |
| Loans and Advances | 3,515 | 4,120 | 4,319 | 4,729 | 5,449 |
| Other Current Assets | 1,700 | 1,986 | 2,066 | 2,257 | 2,568 |
| Total Current Assets | 22,352 | 25,268 | 28,797 | 33,956 | 40,577 |
| Less:Current Liabilities & Provisions | | | | | |
| Sundry Creditors | 4,021 | 3,813 | 5,221 | 5,958 | 6,898 |
| Provisions | 235 | 229 | 323 | 331 | 403 |
| Other Current Liabilities | 4,035 | 4,579 | 5,047 | 5,643 | 6,577 |
| Total Current Liabilities & Provisions | 8,291 | 8,621 | 10,590 | 11,932 | 13,877 |
| Capital Applied | 23,073 | 25,705 | 28,607 | 32,755 | 37,853 |

| Cash Flows (Consolidated) | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|
| YE December (Rs. Mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
| PAT | 3,438.0 | 4,054.0 | 4,245.0 | 5,631.5 | 6,824.0 |
| Less: Non Operating Income | (932.0) | (1,519.0) | (856.7) | (1,343.5) | (1,503.3) |
| Add: Depreciation | 953.0 | 1,052.0 | 1,141.2 | 1,266.9 | 1,476.6 |
| Add: Interest Paid | 172.0 | 204.0 | 328.0 | 340.0 | 340.0 |
| Operating Profit before WC Changes | 3,727.0 | 3,974.0 | 4,796.1 | 5,833.5 | 7,075.9 |
| Net Cash From Operations | 4,475.0 | 2,414.0 | 5,204.3 | 5,170.2 | 6,211.1 |
| Cash Flow from Investing Activities | | | | | |
| (Inc)/Dec in Fixed Assets | (950.0) | (1,255.0) | (1,503.8) | (1,343.5) | (1,565.9) |
| Add: Non Operating Income | 932.0 | 1,519.0 | 856.7 | 1,343.5 | 1,503.3 |
| Cash Flow from Investing Activities | (1,205.0) | 288.0 | (1,558.5) | (199.8) | (334.7) |
| Cash Flow from Financing Activities | | | | | |
| Inc/(Dec) in Total Loans | (242.0) | 149.0 | (249.0) | (50.0) | (50.0) |
| Dividend Paid | (1,296.0) | (1,013.5) | (1,061.3) | (1,407.9) | (1,706.0) |
| Net Cash from Financing Activities | (1,438.0) | (1,676.0) | (1,738.5) | (1,823.3) | (2,065.5) |
| Net Inc/Dec in cash equivalents | 1,832.0 | 1,026.0 | 1,907.3 | 3,147.2 | 3,810.9 |
| Opening Balance | 6,949.0 | 8,781.0 | 9,807.0 | 11,714.3 | 14,861.5 |
| Closing Balance Cash and Cash Equivalents | 8,781.0 | 9,807.0 | 11,714.3 | 14,861.5 | 18,672.4 |

| Valuation Ratios | | | | | |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|
| YE March (Rs. mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
| P/E (x) | 21.8x | 18.5x | 17.7x | 13.3x | 11.0x |
| P/BV (x) | 3.5x | 3.2x | 2.8x | 2.4x | 2.1x |
| EV/EBIDTA (x) | 14.0x | 12.3x | 10.2x | 8.1x | 6.3x |
| EV/Sales | 1.9x | 1.7x | 1.4x | 1.1x | 0.9x |
| Market Cap./ Sales (x) | 2.1x | 1.9x | 1.6x | 1.4x | 1.2x |
| Dividend Yield (%) | 1.7% | 1.3% | 1.4% | 1.9% | 2.3% |

| Free Cash Flow Statement | | | | | |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| YE March (Rs. mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
| EBITDA | 4,772 | 5,354 | 6,281 | 7,467 | 9,066 |
| FC Investment | -110 | 644 | 1,504 | 1,343 | 1,566 |
| WC Changes | 748 | -1,560 | 408 | -663 | -865 |
| Depreciation Tax Shield | 231 | 261 | 304 | 291 | 340 |
| Tax Expenses | 1,155 | 1,327 | 1,671 | 1,717 | 2,085 |
| FCF | 4,706 | 2,084 | 3,818 | 4,035 | 4,890 |

| Key Ratios (Consolidated) | | | | | |
|----------------------------------|-------|-------|-------|-------|-------|
| YE March (Rs. mn) | FY17 | FY18 | FY19E | FY20E | FY21E |
| Key Operating Ratios | | | | | |
| EBITDA Margin (%) | 13.3% | 13.7% | 13.4% | 13.9% | 14.5% |
| Tax / PBT (%) | 24.2% | 24.8% | 26.6% | 23.0% | 23.0% |
| Net Profit Margin (%) | 9.6% | 10.4% | 9.1% | 10.5% | 10.9% |
| RoE (%) | 18.7% | 18.4% | 17.0% | 19.6% | 20.4% |
| RoCE (%) | 17.5% | 17.5% | 16.5% | 19.3% | 20.1% |
| Current Ratio (x) | 2.7x | 2.9x | 2.7x | 2.8x | 2.9x |
| Dividend Payout (%) | 37.7% | 25.0% | 25.0% | 25.0% | 25.0% |
| Book Value Per Share (Rs.) | 188.4 | 208.5 | 236.9 | 274.4 | 320.0 |
| Financial Leverage Ratios | | | | | |
| Debt/ Equity (x) | 0.0x | 0.0x | 0.0x | 0.0x | 0.0x |
| Interest Coverage (x) | 27.7x | 26.2x | 19.1x | 22.0x | 26.7x |
| Growth Indicators % | | | | | |
| Sales Growth (%) | 15.9% | 9.1% | 19.5% | 14.9% | 16.6% |
| EBITDA Growth (%) | 15.2% | 12.2% | 17.3% | 18.9% | 21.4% |
| Net Profit Growth (%) | 5.6% | 17.9% | 4.7% | 32.7% | 21.2% |
| Diluted EPS Growth (%) | 5.6% | 17.9% | 4.7% | 32.7% | 21.2% |
| Turnover Ratios | | | | | |
| Debtors (Days of net sales) | 64 | 62 | 59 | 60 | 59 |
| Creditors (Days of Raw Material) | 65 | 63 | 64 | 68 | 67 |



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