



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

## Q2 FY20 Result Update@ Dalal&Broacha

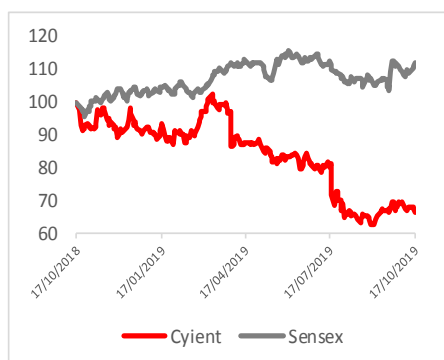
### BUY

|               |         |
|---------------|---------|
| Current Price | 448     |
| Target Price  | 520     |
| Upside        | 16%     |
| 52 Week Range | 693/414 |

### Key Share Data

|                                |        |
|--------------------------------|--------|
| Market Cap (Rs.Mn)             | 49097  |
| Market Cap (US\$ Mn)           | 686    |
| No of o/s shares (Mn)          | 110    |
| Face Value                     | 5      |
| Monthly Avg. Vol(BSE+NSE) '000 | 122.62 |
| BSE Code                       | 532175 |
| NSE Code                       | CYIENT |
| Bloomberg                      | CYL:IN |

### Price performance



| % Shareholding | Jun-19     | Mar-19     |
|----------------|------------|------------|
| Promoters      | 22.74      | 22.48      |
| Public         | 77.26      | 77.52      |
| Others         | 0.00       | 0.00       |
| <b>Total</b>   | <b>100</b> | <b>100</b> |

**Cyient reported its Q2FY20 performance which was largely in-line with our estimates. Reported numbers were in line with our estimates on the revenue front and beat our estimates on the profitability front.**

- USD revenues were reported at \$164.2 Mn, +4.9%qoq / -2.8%yoy and -0.6% vs our estimate of \$165 Mn
- In Rupee terms, revenue came in at INR 11,589 Mn, +6.4%qoq / -2.4%yoy and -0.3% vs estimate of INR 11,622 Mn
- EBITDA came in at INR 1,603 Mn, +12%qoq / -0.7%yoy and +7.4% vs our estimate of INR 1,493 Mn. EBITDA margins stood at 13.8%, 100 bps above our estimate of 12.8% and +70 bps vs Q1FY20
- PAT was reported at INR 975 Mn, +7.9%qoq / -23%yoy and +13% vs our estimate of INR 863 Mn. PAT Margin stood at 8.4% vs our estimate of 7.4%

**Service segment (85% of revenue) reported soft growth while DLM (15% of topline) outperformed**

- A&D (34% of total revenue) was down -1.8% QoQ and -3.6% YoY. Problems in Boeing and P&W continue to persist with resolution expected only by early next calendar year. This has weighed heavily on new deal wins or ramp ups in the sector.
- Comms (22% of total revenues) was up 2.2% QoQ and down 12.7% YoY. Top client undergoing major restructuring coupled with slow advances in 5G implementation has been a major drag on growth.
- Transportation (13% of topline) grew 3.3% qoq and 5.9% yoy
- DLM revenue stood at \$ 23.9 Mn, +28% QoQ / +4.3% YoY. Although DLM reported healthy growth, consistency still evades the DLM business as the company reported single digit growth in Q1.

### Key Concall Takeaways

(i) A&D: Strong backlog in Commercial Airlines exists; No new programs in Design segment and therefore company has shifted focus to MRO (ii) Triggers in Comms business will play out slower than expected. 5G deployment to happen in a phased manner and slowly. Management stated that the worst for the top client is over and performance has flattened out, however normalized growth will take time to fructify. Segment should deliver single digit growth in FY20e (iii) Utilities and Energy should continue to deliver healthy growth due to healthy trends in distributed grids and renewable energy (iv) Transport sector, particularly the rail transport is lacking next gen tech, however company is seeing new trends (cyber security) in the sector and this could provide some triggers (v) See considerable headwinds in the Geospatial ( market, specifically in the areas that Cyient is present in. Therefore growth could be challenging in FY20 (vi) Semiconductor (5% of topline) market also remains challenging as industry is now declining at 15% vis-à-vis 5% earlier (vii) Medical (2% of topline) should perform well going ahead (viii) Management believes that cost optimisation initiatives should translate in 200-300 bps positive impact for margins by Q2FY21 (ix) ETR for FY20e to remain in the range of 22-23%

### Consolidated Financials (In INR Mn)

|              | Net Sales | % Growth | EBITDA | Margin (%) | PAT   | Margin (%) | EPS  | % Growth | P/E (x) | ROE (%) | ROCE (%) |
|--------------|-----------|----------|--------|------------|-------|------------|------|----------|---------|---------|----------|
| <b>FY17</b>  | 35,858    | 15.9%    | 4,772  | 13.3%      | 3,699 | 9.6%       | 32.9 | 11%      | 14.6x   | 18.7%   | 17.5%    |
| <b>FY18</b>  | 39,139    | 9.1%     | 5,354  | 13.7%      | 4,104 | 10.4%      | 36.5 | 11%      | 12.4x   | 18.4%   | 17.5%    |
| <b>FY19</b>  | 46,175    | 18.0%    | 6,436  | 13.9%      | 4,909 | 10.6%      | 43.7 | 20%      | 10.3x   | 20.0%   | 18.9%    |
| <b>FY20E</b> | 46,814    | 1.4%     | 6,444  | 13.8%      | 4,362 | 9.3%       | 38.8 | -11%     | 11.5x   | 16.0%   | 15.8%    |
| <b>FY21E</b> | 52,247    | 11.6%    | 7,705  | 14.7%      | 4,989 | 9.5%       | 44.4 | 14%      | 10.1x   | 16.2%   | 17.1%    |

Source: Company, Dalal&Broacha Research



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| YE March (Rs. mn)                    | Q2 FY20       | Q1 FY20       | Q-o-Q change %       | Q2 FY19       | Y-o-Y change %       | Q2 FY20 Est.  | Deviation %  |
|--------------------------------------|---------------|---------------|----------------------|---------------|----------------------|---------------|--------------|
| <b>Total Revenue (USD Mn)</b>        | <b>164</b>    | <b>157</b>    | <b>4.9%</b>          | <b>169</b>    | <b>(2.8%)</b>        | <b>165</b>    | <b>-0.6%</b> |
| <b>Total Revenue (INR Mn)</b>        | <b>11,589</b> | <b>10,890</b> | <b>6.4%</b>          | <b>11,869</b> | <b>(2.4%)</b>        | <b>11,622</b> | <b>-0.3%</b> |
| <b>Less:</b>                         |               |               |                      |               |                      |               |              |
| Cost of Revenues                     | 7,687         | 7,323         | 5.0%                 | 7,604         | 1.1%                 | 7,747         | -0.8%        |
| SG&A Expenses                        | 2,299         | 2,136         | 7.6%                 | 2,651         | (13.3%)              | 2,383         | -3.5%        |
| <b>Total Expenditure</b>             | <b>9,986</b>  | <b>9,459</b>  | <b>5.6%</b>          | <b>10,255</b> | <b>(2.6%)</b>        | <b>10,129</b> | <b>-1.4%</b> |
| <b>EBIDTA</b>                        | <b>1,603</b>  | <b>1,431</b>  | <b>12.0%</b>         | <b>1,614</b>  | <b>(0.7%)</b>        | <b>1,493</b>  | <b>7.4%</b>  |
| Less: Depreciation                   | 487           | 443           | 9.9%                 | 288           | 69.1%                | 473           | 3.0%         |
| <b>Operating Income</b>              | <b>1,116</b>  | <b>988</b>    | <b>13.0%</b>         | <b>1,326</b>  | <b>(15.8%)</b>       | <b>1,020</b>  | <b>9.4%</b>  |
| Interest Paid                        | 125           | 117           | 6.8%                 | 87            | 43.7%                | 117           |              |
| Other income (expense), net          | 264           | 282           | (6.4%)               | 569           | (53.6%)              | 301           | -12.3%       |
| Extraordinary Expense                | 0             | 0             |                      | 0             |                      | 0             |              |
| <b>Profit Before Tax</b>             | <b>1,255</b>  | <b>1,153</b>  | <b>8.8%</b>          | <b>1,808</b>  | <b>(30.6%)</b>       | <b>1,204</b>  | <b>4.2%</b>  |
| Tax                                  | 330           | 327           | 0.9%                 | 510           | (35.3%)              | 342           | -3.4%        |
| Deferred Tax                         | -49           | -72           |                      | 29            |                      | 0             |              |
| <b>PAT before Minority Interest</b>  | <b>974</b>    | <b>898</b>    | <b>8.5%</b>          | <b>1,269</b>  | <b>(23.2%)</b>       | <b>863</b>    | <b>12.9%</b> |
| Minority Interest                    | -10           | -6            | N.A.                 | -1            | N.A.                 | 0             |              |
| Share of Profit of Associates        | 0             | 0             |                      | 0             |                      | 0             |              |
| <b>Profit After Tax</b>              | <b>984</b>    | <b>904</b>    | <b>8.8%</b>          | <b>1,270</b>  | <b>(22.5%)</b>       | <b>863</b>    | <b>14.1%</b> |
| <b>Adjusted PAT</b>                  | <b>984</b>    | <b>904</b>    |                      | <b>1,270</b>  |                      | <b>863</b>    |              |
| <b>Basic &amp; Diluted EPS (Rs.)</b> | <b>8.9</b>    | <b>8.0</b>    | <b>11.4%</b>         | <b>11.3</b>   | <b>(20.7%)</b>       | <b>7.7</b>    | <b>16.8%</b> |
| Basic & Diluted Outstanding (mn)     | 110           | 113           |                      | 113           |                      | 113           |              |
| <b>Margin Analysis %</b>             |               |               | <b>Change In bps</b> |               | <b>Change In bps</b> |               |              |
| <b>EBIDTA Margin</b>                 | <b>13.8%</b>  | <b>13.1%</b>  | <b>69</b>            | <b>13.6%</b>  | <b>23</b>            | <b>12.8%</b>  | <b>99</b>    |
| <b>Operating Margin</b>              | <b>9.6%</b>   | <b>9.1%</b>   | <b>56</b>            | <b>11.2%</b>  | <b>-154</b>          | <b>8.8%</b>   | <b>85</b>    |
| <b>PBT Margin</b>                    | <b>10.8%</b>  | <b>10.6%</b>  | <b>24</b>            | <b>15.2%</b>  | <b>-440</b>          | <b>10.4%</b>  | <b>47</b>    |
| <b>NPM</b>                           | <b>8.5%</b>   | <b>8.3%</b>   | <b>19</b>            | <b>10.7%</b>  | <b>-221</b>          | <b>7.4%</b>   | <b>107</b>   |
| <b>Effective Tax Rate (%)</b>        | <b>26.3%</b>  | <b>28.4%</b>  | <b>-207</b>          | <b>28.2%</b>  | <b>-191</b>          | <b>28.4%</b>  | <b>-207</b>  |

EBIT margins for services stood at 11.2% for Q2FY20 as Cost Optimisation, Volumes and higher utilisation had a positive impact of 129 bps, 73 bps and 55 bps respectively whereas wage hike and one time restructuring cost had a negative impact of -107 bps and -85 bps

Company generated an FCF of INR 798 Mn in Q2FY20 or 42.9% of EBITDA

**Valuation & Outlook**

Q2FY20 performance in-line with our expectations, however, issues in the top 2 clients (in the Aerospace and Comms segment) cap doube digit growth rates. 4 out of 7 verticals (~73.9% of the business) are expected to deliver single digit growth either due to client specific issues or slower macros. The stock is currently trading at 11.5x and 10x FY20e and FY21e EPS. **We maintain our BUY rating on the stock and arrive at a revised target price of INR 520, ie 12x FY21e EPS of INR 44.4. We believe that the worst scenario for the stock has played out and the company could see some positives play out in FY21e as client specific issues are expected to recede from early FY21e. However, we advise investors to tread with caution as we don't see any triggers for the stock in the near term and certain issues that Cyient's clients are facing could take longer than expected to get resolved, which in turn could severely hamper future growth.**



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| Profit & Loss A/c                  |               |               |               |               |
|------------------------------------|---------------|---------------|---------------|---------------|
| YE March (Rs. mn)                  | FY18          | FY19          | FY20E         | FY21E         |
| <b>Total Revenue</b>               | <b>39,139</b> | <b>46,175</b> | <b>46,814</b> | <b>52,247</b> |
| <b>Less:</b>                       |               |               |               |               |
| Increase/Decrease in Stock         | -201          | 141           | -134          | 9             |
| Cost of Services                   | 3,272         | 3,936         | 5,208         | 4,702         |
| Employee Cost                      | 21,877        | 25,374        | 26,117        | 29,903        |
| SG&A Expenses & Other              | 8,837         | 10,288        | 9,178         | 9,927         |
| <b>Total Operating Expenditure</b> | <b>33,785</b> | <b>39,739</b> | <b>40,370</b> | <b>44,541</b> |
| <b>EBIDTA</b>                      | <b>5,354</b>  | <b>6,436</b>  | <b>6,444</b>  | <b>7,705</b>  |
| Less: Depreciation                 | 1,052         | 1,114         | 1,660         | 2,142         |
| <b>EBIT</b>                        | <b>4,302</b>  | <b>5,322</b>  | <b>4,784</b>  | <b>5,563</b>  |
| <b>Growth %</b>                    | <b>12.6%</b>  | <b>23.7%</b>  | <b>-10.1%</b> | <b>16.3%</b>  |
| Interest Paid                      | 204           | 326           | 492           | 500           |
| Non-operating Income               | 1,519         | 1,340         | 1,398         | 1,306         |
| <b>Profit Before tax</b>           | <b>5,567</b>  | <b>6,336</b>  | <b>5,690</b>  | <b>6,369</b>  |
| Tax                                | 1,380         | 1,512         | 1,412         | 1,465         |
| <b>Net Profit before Minority</b>  | <b>4,187</b>  | <b>4,824</b>  | <b>4,278</b>  | <b>4,904</b>  |
| Minority Interest                  | -23           | -23           | -23           | -23           |
| Profit/Loss of Associate Compa     | -156          | 62            | 62            | 62            |
| <b>Net Profit</b>                  | <b>4,008</b>  | <b>4,863</b>  | <b>4,316</b>  | <b>4,943</b>  |
| <b>Adjusted Profit</b>             | <b>4,104</b>  | <b>4,909</b>  | <b>4,362</b>  | <b>4,989</b>  |
| <b>Reported Diluted EPS Rs</b>     | <b>36.1</b>   | <b>43.7</b>   | <b>38.8</b>   | <b>44.4</b>   |
| <b>Growth %</b>                    | <b>17.9%</b>  | <b>21.1%</b>  | <b>-11.1%</b> | <b>14.4%</b>  |
| <b>Adjusted Diluted EPS Rs</b>     | <b>36.5</b>   | <b>43.7</b>   | <b>38.8</b>   | <b>44.4</b>   |

| Cash Flows (Consolidated)                        |                  |                  |                  |                  |
|--|------------------|------------------|------------------|------------------|
| YE December (Rs. Mn)                             | FY18             | FY19             | FY20E            | FY21E            |
| <b>PAT</b>                                       | <b>4,054.0</b>   | <b>4,908.5</b>   | <b>4,362.4</b>   | <b>4,988.8</b>   |
| Less: Non Operating Income                       | (1,519.0)        | (1,340.0)        | (1,397.7)        | (1,306.2)        |
| Add: Depreciation                                | 1,052.0          | 1,114.0          | 1,660.0          | 2,142.1          |
| Add: Interest Paid                               | 204.0            | 326.0            | 492.0            | 500.0            |
| <b>Operating Profit before WC Changes</b>        | <b>3,974.0</b>   | <b>4,947.0</b>   | <b>5,055.2</b>   | <b>6,263.3</b>   |
| <b>Net Cash From Operations</b>                  | <b>2,414.0</b>   | <b>3,898.0</b>   | <b>6,765.1</b>   | <b>5,741.6</b>   |
| <b>Cash Flow from Investing Activities</b>       |                  |                  |                  |                  |
| (Inc)/Dec in Fixed Assets                        | (1,255.0)        | (1,424.0)        | (1,950.2)        | (1,306.2)        |
| Add: Non Operating Income Income                 | 1,519.0          | 1,340.0          | 1,397.7          | 1,306.2          |
| <b>Cash From Investing Activities</b>            | <b>288.0</b>     | <b>(2,057.5)</b> | <b>(1,363.4)</b> | <b>(142.2)</b>   |
| <b>Cash Flow from Financing Activities</b>       |                  |                  |                  |                  |
| Inc/(Dec) in Total Loans                         | 149.0            | 460.0            | (759.0)          | (50.0)           |
| Dividend Paid                                    | (1,013.5)        | (1,227.1)        | (1,090.6)        | (1,247.2)        |
| <b>Net Cash from Financing Activities</b>        | <b>(1,676.0)</b> | <b>(1,942.5)</b> | <b>(3,086.2)</b> | <b>(1,766.7)</b> |
| <b>Net Inc/Dec in cash equivalents</b>           | <b>1,026.0</b>   | <b>(102.0)</b>   | <b>2,315.5</b>   | <b>3,832.6</b>   |
| <b>Opening Balance</b>                           | <b>8,781.0</b>   | <b>9,807.0</b>   | <b>9,705.0</b>   | <b>12,020.5</b>  |
| <b>Closing Balance Cash and Cash Equivalents</b> | <b>9,807.0</b>   | <b>9,705.0</b>   | <b>12,020.5</b>  | <b>15,853.1</b>  |

| Free Cash Flow Statement |              |              |              |              |
|--------------------------|--------------|--------------|--------------|--------------|
| YE March (Rs. mn)        | FY18         | FY19         | FY20E        | FY21E        |
| <b>EBITDA</b>            | <b>5,354</b> | <b>6,436</b> | <b>6,444</b> | <b>7,705</b> |
| FC Investment            | 644          | 709          | 1,950        | 1,306        |
| WC Changes               | -1,560       | -1,049       | 1,710        | -522         |
| Depreciation Tax Shield  | 261          | 266          | 412          | 493          |
| Tax Expenses             | 1,327        | 1,536        | 1,599        | 1,772        |
| <b>FCF</b>               | <b>2,084</b> | <b>3,408</b> | <b>5,017</b> | <b>4,598</b> |

| Valuation Ratios              |              |              |              |              |
|-------------------------------|--------------|--------------|--------------|--------------|
| YE March (Rs. mn)             | FY18         | FY19         | FY20E        | FY21E        |
| <b>P/E (x)</b>                | <b>12.4x</b> | <b>10.3x</b> | <b>11.5x</b> | <b>10.1x</b> |
| P/BV (x)                      | 2.1x         | 2.0x         | 1.7x         | 1.5x         |
| <b>EV/EBIDTA (x)</b>          | <b>7.7x</b>  | <b>6.5x</b>  | <b>6.0x</b>  | <b>4.5x</b>  |
| EV/Sales                      | 1.1x         | 0.9x         | 0.8x         | 0.7x         |
| <b>Market Cap./ Sales (x)</b> | <b>1.3x</b>  | <b>1.1x</b>  | <b>1.1x</b>  | <b>1.0x</b>  |
| Dividend Yield (%)            | 2.0%         | 2.4%         | 2.2%         | 2.5%         |

| Balance Sheet (Consolidated)                      |               |               |               |               |
|---|---------------|---------------|---------------|---------------|
| YE March( Rs. mn)                                 | FY18          | FY19          | FY20E         | FY21E         |
| <b>Liabilities</b>                                |               |               |               |               |
| Equity Capital                                    | 563           | 552           | 563           | 563           |
| Reserves & Surplus                                | 22,876        | 25,089        | 28,361        | 32,102        |
| <b>Equity</b>                                     | <b>23,439</b> | <b>25,641</b> | <b>28,924</b> | <b>32,665</b> |
| <b>Net Worth</b>                                  | <b>23,439</b> | <b>25,641</b> | <b>28,924</b> | <b>32,665</b> |
| Minority Interest                                 |               |               |               |               |
| Net Deferred tax liability/(Asset)                | 1,590         | 2,220         | 1,464         | 1,495         |
| <b>Total Loans</b>                                | <b>676</b>    | <b>1,136</b>  | <b>377</b>    | <b>327</b>    |
| <b>Capital Employed</b>                           | <b>25,705</b> | <b>28,997</b> | <b>30,765</b> | <b>34,487</b> |
| <b>Assets</b>                                     |               |               |               |               |
| Gross Block                                       | 7,616         | 8,325         | 10,275        | 11,581        |
| Less: Depreciation                                | 4,396         | 4,795         | 6,455         | 8,597         |
| <b>Net Block</b>                                  | <b>3,220</b>  | <b>3,530</b>  | <b>3,820</b>  | <b>2,984</b>  |
| Capital WIP                                       | 213           | 300           | 140           | 157           |
| <b>Investments</b>                                | <b>568</b>    | <b>583</b>    | <b>1,615</b>  | <b>1,802</b>  |
| Intangible Assets                                 | 5,057         | 6,990         | 6,990         | 6,990         |
| <b>Current Assets</b>                             |               |               |               |               |
| Sundry Debtors                                    | 6,913         | 8,137         | 8,208         | 9,018         |
| Current Investments                               | 1,130         | 278           | 1,111         | 1,204         |
| Cash and Bank Balance                             | 9,807         | 9,705         | 12,020        | 15,853        |
| Loans and Advances                                | 4,120         | 4,852         | 4,120         | 4,545         |
| Other Current Assets                              | 1,986         | 2,684         | 1,966         | 2,142         |
| <b>Total Current Assets</b>                       | <b>25,268</b> | <b>27,489</b> | <b>28,596</b> | <b>34,068</b> |
| <b>Less:Current Liabilities &amp; Provisions</b>  |               |               |               |               |
| Sundry Creditors                                  | 3,813         | 3,712         | 5,198         | 5,735         |
| Provisions  | 229           | 289           | 282           | 293           |
| Other Current Liabilities                         | 4,579         | 5,894         | 4,915         | 5,486         |
| <b>Total Current Liabilities &amp; Provisions</b> | <b>8,621</b>  | <b>9,895</b>  | <b>10,396</b> | <b>11,514</b> |
| <b>Capital Applied</b>                            | <b>25,705</b> | <b>28,997</b> | <b>30,765</b> | <b>34,487</b> |

| Key Ratios (Consolidated)         |       |       |         |       |
|-----------------------------------|-------|-------|---------|-------|
| YE March (Rs. mn)                 | FY18  | FY19  | FY20E   | FY21E |
| <b>Key Operating Ratios</b>       |       |       |         |       |
| EBITDA Margin (%)                 | 13.7% | 13.9% | 13.8%   | 14.7% |
| Tax / PBT (%)                     | 24.8% | 23.9% | 24.8%   | 23.0% |
| Net Profit Margin (%)             | 10.4% | 10.6% | 9.3%    | 9.5%  |
| RoE (%)                           | 18.4% | 20.0% | 16.0%   | 16.2% |
| RoCE (%)                          | 17.5% | 18.9% | 15.8%   | 16.5% |
| Current Ratio (x)                 | 2.9x  | 2.8x  | 2.8x    | 3.0x  |
| Dividend Payout (%)               | 25.0% | 25.0% | 25.0%   | 25.0% |
| Book Value Per Share (Rs.)        | 208.5 | 228.1 | 257.3   | 290.6 |
| <b>Financial Leverage Ratios</b>  |       |       |         |       |
| Debt/ Equity (x)                  | 0.0x  | 0.0x  | 0.0x    | 0.0x  |
| Interest Coverage (x)             | 26.2x | 19.7x | 13.1x   | 15.4x |
| <b>Growth Indicators %</b>        |       |       |         |       |
| Sales Growth (%)                  | 9.1%  | 18.0% | 1.4%    | 11.6% |
| EBITDA Growth (%)                 | 12.2% | 20.2% | 0.1%    | 19.6% |
| Net Profit Growth (%)             | 17.9% | 21.1% | (11.1%) | 14.4% |
| Diluted EPS Growth (%)            | 17.9% | 21.1% | (11.1%) | 14.4% |
| <b>Turnover Ratios</b>            |       |       |         |       |
| Debtors (Days of net sales)       | 62    | 59    | 64      | 60    |
| Creditors (Days of Raw Materials) | 63    | 52    | 64      | 68    |



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STOCK BROKING PVT. LTD.

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