

Cyient's Q2FY22 revenue was in-line with our estimates and EBIT margins slightly above our estimates, but nothing extra-ordinary.

- \$ Revenue came in at \$150.1Mn, +4.6% qoq / +11.2% yoy and +0.8% vs. estimates
- INR revenue came in at INR 11,116 Mn, +5% qoq / +10.8% yoy and 0.8% above our estimates
- EBIT at INR 1,555 Mn, +13.2% qoq / +41.6% yoy and 3.6% above our estimates
- EBIT margins stood at 14%, vs 13% / 10.9% in Q1FY22 / Q2FY21 respectively and 40 bps above our estimates
- PAT came in at INR 1,213 Mn, +5.5% qoq / +44.6% yoy and 5% below our estimates
- EPS at INR 11.09 in Q2FY22 vs 10.5/ 7.6 in Q1FY22 / Q2FY21 respectively
- Cyient declared a dividend of INR 10 per share

Business Unit Performance

- Services revenue stood at \$124.6 Mn, +4.5% qoq (+5.5% in cc terms) / +9.2% yoy. Workforce Delta contributed 0.7% to Services revenue growth. DLM revenue stood at \$25.5 Mn +5.4% qoq / +22.3% yoy

Services Highlights

- Transportation (38.4% of revenue) grew 2.6% qoq / 1.3% yoy. Within Transportation - Aerospace (25.8% of rev) grew 4% qoq / 4% yoy and Rail (12.6% of revenue) was flat qoq / -3.6% yoy
- Portfolio services (26.3% of rev) performance bounced back with +11.7% qoq / +17.7% yoy
- Comms (27.3% of revenue) had a soft quarter with -4.1% qoq / +5.2% yoy and Utilities (8% of revenue) had a robust quarter at +27.4% qoq / +47.4% yoy.

Geographical Highlights

- **North America** (48.8% of revenue) had a decent quarter with +6.6% qoq / +8.5% yoy growth. **APAC including India** (26.4% of revenue) had a strong quarter at +16.6% qoq / +39.4% yoy growth
- **EMEA** (24.8% of revenue) had a relatively soft quarter with a -8.7% qoq / -4.7% yoy growth

Financial Summary

Y/E Mar (Rs mn)	FY 19	FY 20	FY 21E	FY 22E	FY 23E
Net sales	46,175	44,274	41,324	45,884	53,644
EBITDA	6,436	5,893	5,791	8,541	10,538
Adjusted net profit	4,841	3,423	3,405	5,083	6,351
Free cash flow	3,408	2,787	5,861	7,113	7,987
EPS (Rs)	43.1	30.5	30.3	45.2	56.5
growth (%)	18.0	(29)	(1)	49	25
P/E (x)	26.9	38.0	38.2	25.6	20.5
P/B (x)	5.1	5.1	4.4	4.0	3.6
EV/EBITDA (x)	18.9	20.7	20.1	13.0	10.0
ROCE (%)	18.6	12.7	11.5	15.2	17.3
RoE (%)	19.7	13.4	12.3	16.3	18.4
Dividend yield (%)	1.0	1.3	1.5	1.6	1.9

Source: Company

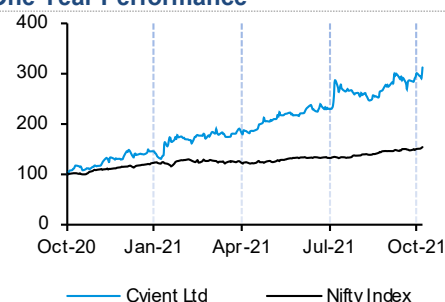
Rating	TP (Rs)	Up/Dn (%)
BUY	1,243	7

Market data

Current price	Rs	1158
Market Cap (Rs.Bn)	(Rs Bn)	127.70
Market Cap (US\$ Mn)	(US\$ Mn)	1696
Face Value	Rs	5
52 Weeks High/Low	Rs	1172 / 365
Average Daily Volume	('000)	211
BSE Code		532175

Bloomberg CYLIN
Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-22	Mar-22
Promoters	23.45	23.47
Public	76.55	76.53
Others	-	-
Total	100	100

Source: BSE

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Conference Call Key Takeaways

- Benefit of growth aided margin expansion and EBIT margin is highest in the last 7 years.
- Margin walk in Q2FY22: +155 bps due to improvements in operational metrics (higher offshoring which increased by 6% points YoY) + 110 bps from better revenue mix +110 bps from removal of less profitable accounts (example where subcon requirement is high) -220 bps due to Investment of 1.7% of revenue for growth and in technology -100 bps due to impact of Merit related hikes (which will continue in H2 as well). Going ahead, headwinds such as higher travel costs and ESOP costs will play out in H2.
- Meaningful reduction of 9 days in DSO which should sustain

Segment-wise commentary

- Aerospace: after-market revenue is recovering first followed by manufacturing and then avionics (going on cloud) and electrification going on in aero, rail and auto. This should play out over the next 12 months
- Rail Transportation was flat as certain projects were delayed. Management expects this segment to revive by year end.
- Communications: Continue to see good momentum on the back of investments in broadband and 5G network design, operations and deployment especially in North America and Europe
- Utilities: Continues to gain traction and outlook for H2 is positive
- DLM: continue to see opportunities as more and more businesses move out of China and the focus on "Make in India." DLM facing challenges due to supply chain issues but will manage to grow at 15-20%
- Portfolio Services growth was aided by Semicon, med tech and mining subsegments
- Won 6 large deals with total potential of \$63.5 Mn - 4 deals in Services and 1 in DLM

FY22e Outlook

- Services will grow at double digit during the year. Furloughs are there in Q3 but company should be able to offset this with ramp ups and volume. A lot of growth coming from Digital and Embedded Software services. Have been late to adopt certain technologies but it is playing out well.
- EBIT Margins: Services: Aspire to achieve EBIT margins of 15-16% in FY22 and 17% over the next 2 years (Q2FY22 Services EBIT margin stood at 15.5%). At Consol level, margins would be in 13.5-14.5% range for FY22 and 15.5% in FY23e.

Double digit growth guidance in FY22 retained

Growth to continue in Q3FY22, DLM growth to be in the 15-20% range

FY22 margin expansion guidance improved from 200 bps+ earlier to 250-300 bps+

Other Highlights

- Order booking should take another 2 quarters before reflecting some meaningful uptick
- Growing at 200 bps lower than what would be normal if there was no supply problem. However, management is consciously right-shifting revenue chasing business which is strategic in nature for the long term.
- Mechanical vs embedded mix: 60:40 and will shift to 50:50
- Capex has come down from 2.5% odd to 1.7% during the quarter which will play out into lower depreciation going ahead and reduce gap between EBITDA and EBIT
- Investments in new technologies and talents are classified in G&A & Investments line item. Management is investing aggressively on Digital and Technology solutions such as acquiring talent (new CTO for example), developing solutions, in Semicon, Embedded, Networks, etc

Quarterly Performance Analysis

Exhibit 1

YE March (Rs. mn)	Q2 FY22	Q1 FY22	Q-o-Q change %	Q2 FY21	Y-o-Y change %	Q2 FY22 Est.	Deviation %
Total Revenue (USD Mn)	150	144	4.7%	135	11.3%	149	0.9%
Total Revenue (INR Mn)	11,116	10,582	5.0%	10,033	10.8%	11,028	0.8%
Less:							
Cost of Revenues	6,992	6,768	3.3%	6,395	9.3%	6,976	0.2%
SG&A Expenses	2,052	1,950	5.2%	2,056	(0.2%)	2,040	0.6%
Total Expenditure	9,044	8,718	3.7%	8,451	7.0%	9,017	0.3%
EBIDTA	2,072	1,864	11.2%	1,582	31.0%	2,011	3.0%
Less: Depreciation	517	490	5.5%	484	6.8%	511	1.2%
EBIT	1,555	1,374	13.2%	1,098	41.6%	1,501	3.6%
Interest Paid	88	96	(8.3%)	101	(12.9%)	96	
Other income (expense), net	149	257	(42.0%)	93	60.2%	276	-46.0%
Profit Before Tax	1,616	1,535	5.3%	1,090	48.3%	1,680	-3.8%
Tax	440	369	19.2%	274	60.6%	404	8.9%
PAT before Minority Interest	1,213	1,150	5.5%	839	44.6%	1,276	-5.0%
Profit After Tax	1,213	1,150	5.5%	839	44.6%	1,276	-5.0%
Adjusted PAT	1,213	1,150	5.5%	839	44.6%	1,276	
Basic & Diluted EPS (Rs.)	11.0	10.5	5.5%	7.6	44.6%	11.6	-5.0%
Basic & Diluted Outstanding (m)	110	110		110		110	
Margin Analysis %							
			Change In bps		Change In bps		
EBIDTA Margin	18.6%	17.6%	102	15.8%	287	18.2%	40
EBIT Margin	14.0%	13.0%	100	10.9%	304	13.6%	38
PBT Margin	14.5%	14.5%	3	10.9%	367	15.2%	-70
NPM	10.9%	10.9%	4	8.4%	255	11.6%	-66
Effective Tax Rate (%)	24.9%	25.1%	-14	23.0%	191	24.0%	90
Cost Analysis %							
			Change In bps		Change In bps		
Cost of Revenues/ Sales	62.9%	64.0%	-106	63.7%	-84	63.3%	-36
Other income/ PBT	9.2%	16.7%	-752	8.5%	69	16.4%	-719

Source: Dalal & Broacha Research, Company

Both Services (83% of topline) and DLM (17% of topline) had relatively decent quarter compared to Q1FY22

Management indicated company should be able to maintain similar momentum for H2FY22 despite furloughs.

Growth in Aerospace will return once intercontinental travel resumes. Traveling within America is at 75% of normal, Europe at 65% of normal and Asia at 50% of normal.

Valuation & Outlook

Cyient is currently trading at 25.6x / 20.5x FY22e / FY23e EPS. Q2FY22 was decent quarter after a subdued Q1FY22 performance. Management has done a good job in improving operational margin performance and has given a strong outlook regarding the same. Management aspires to achieve 13.5-14.5% EBIT margins in FY22e and 15.5% EBIT margins by FY23e at consol level. Growth remains a concern for Cyient and will only revive once the Aerospace sector revives globally. Having sorted the profitability part through efficiency and optimizing costs, once growth recovers, Cyient will be a good candidate for a strong re-rating in terms of valuations as it is at a steep discount to peers like LTTS and Tata Elxsi (which have been delivering strong growth coupled with higher profitability).

We estimate Aerospace sector to recover in FY23e and therefore expect meaningful growth for Cyient to start coming in from the same year. We revise our EPS estimates for FY22e / FY23e from INR 42.6 / 50.4 to INR 45.2 / 56.5. We marginally upgrade our multiple from 20x forward to 22x forward and revise our rating to BUY on dips and target price to INR 1,243 (from INR 854 earlier).

Financial

Profit & Loss A/c						Balance Sheet (Consolidated)					
YE March (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E	YE March (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E
Total Revenue	46,175	44,274	41,324	45,884	53,644	Liabilities					
Less:						Equity Capital	552	550	550	563	563
Cost of Services	3,936	4,066	5,165	6,070	6,666	Reserves & Surplus	25,089	25,059	29,023	32,073	35,884
Employee Cost	25,374	24,776	21,611	23,119	26,669	Equity	25,641	25,609	29,573	32,636	36,447
SG&A Expenses & Other	10,288	9,683	8,659	8,445	10,269	Net Worth	25,641	25,609	29,573	32,636	36,447
Total Operating Expenditure	39,739	38,381	35,533	37,343	43,106	Net Deferred tax liability/(Asset)	2,220	4,170	3,646	3,345	3,720
EBIDTA	6,436	5,893	5,791	8,541	10,538	Total Loans	1,136	883	619	355	91
Less: Depreciation	1,114	1,878	1,945	2,132	2,521	Capital Employed	28,997	30,662	33,838	36,336	40,258
EBIT	5,322	4,015	3,846	6,409	8,016	Assets					
Growth %	23.7%	-24.6%	-4.2%	66.6%	25.1%	Gross Block	8,325	9,353	10,674	11,821	13,162
Interest Paid	326	486	433	360	352	Less: Depreciation	4,795	5,148	5,804	7,936	10,457
Non-operating Income	1,340	1,583	1,399	890	939	Net Block	3,530	4,205	4,870	3,885	2,705
Profit Before tax	6,336	4,708	4,771	6,939	8,603	Investments	583	723	610	677	792
Tax	1,512	1,270	1,351	1,840	2,237	Current Assets					
Net Profit before Minority	4,824	3,438	3,420	5,098	6,366	Sundry Debtors	8,137	7,262	8,026	8,171	8,818
Minority Interest	-14	-13	-13	-13	-13	Cash and Bank Balance	9,705	9,250	14,650	19,460	25,299
Profit/Loss of Associates	3	-28	-28	-28	-28	Loans and Advances	4,852	7,756	5,341	3,441	3,594
Net Profit	4,813	3,397	3,379	5,057	6,325	Total Current Assets	27,489	29,269	32,144	34,440	41,577
Adjusted Profit	4,841	3,423	3,405	5,083	6,351	Less: Current Liabilities					
Reported Diluted EPS Rs	43.1	30.5	30.3	45.2	56.5	Sundry Creditors	3,712	3,729	4,532	4,809	5,551
Growth %	19.4%	-29.3%	-0.5%	49.3%	24.9%	Total Current Liabilities	9,895	11,135	11,090	9,994	12,167
Adjusted Diluted EPS Rs	43.1	30.5	30.3	45.2	56.5	Capital Applied	28,997	30,662	33,838	36,336	40,258
Key Ratios						Cash Flows (Consolidated)					
EBIDTA (%)	13.9%	13.3%	14.0%	18.6%	19.6%	YE December (Rs. Mn)	FY19	FY20	FY21	FY22E	FY23E
NPM (%)	10.5%	7.7%	8.2%	11.1%	11.8%	PAT	4,841.0	3,423.0	3,405.0	5,083.4	6,351.3
RoE (%)	19.7%	13.4%	12.3%	16.3%	18.4%	Less: Non Operating Income	(1,340.0)	(1,583.0)	(1,399.0)	(889.7)	(938.8)
RoCE (%)	19.5%	13.5%	11.9%	18.3%	20.9%	Add: Depreciation	1,114.0	1,878.0	1,945.0	2,131.9	2,521.3
Tax Rate %	23.9%	27.0%	28.3%	26.5%	26.0%	Add: Interest Paid	326.0	486.0	433.0	360.0	352.0
Book Value Per share (Rs.)	228.1	227.8	263.1	290.4	324.3	Operating Profit before WC Changes	4,938.0	4,232.0	4,412.0	6,713.6	8,313.8
Valuation Ratios						Net Cash From Operations	3,889.0	3,237.0	6,892.0	8,132.4	9,188.8
P/E (x)	26.9x	38.0x	38.2x	25.6x	20.5x	Cash Flow from Investing Activities					
EV/EBITDA	18.9x	20.7x	20.1x	13.0x	10.0x	(Inc)/Dec in Fixed Assets	(1,424.0)	(2,553.0)	(2,610.0)	(1,147.1)	(1,341.1)
P/BV (x)	5.1x	5.1x	4.4x	4.0x	3.6x	Cash Flow from Financing Activities					
Market Cap. / Sales (x)	2.8x	2.9x	3.2x	2.8x	2.4x	Inc/(Dec) in Total Loans	460.0	(253.0)	(264.0)	(264.0)	(264.0)
Key Ratios (Consolidated)						Dividend Paid	(1,296.0)	(1,689.0)	(1,914.2)	(2,033.4)	(2,540.5)
YE March (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E	Net Cash from Financing Activities	(1,875.0)	(2,648.0)	(703.0)	(2,945.0)	(2,781.4)
Key Operating Ratios						Net Inc/Dec in cash equivalents	(102.0)	(859.0)	5,359.0	4,810.0	5,839.2
EBITDA Margin (%)	13.9%	13.3%	14.0%	18.6%	19.6%	Opening Balance	9,807.0	9,705.0	9,250.0	14,650.0	19,460.0
Tax / PBT (%)	23.9%	27.0%	28.3%	26.5%	26.0%	Closing Balance Cash and	9,705.0	8,846.0	14,609.0	19,460.0	25,299.2
Net Profit Margin (%)	10.5%	7.7%	8.2%	11.1%	11.8%						
RoE (%)	19.7%	13.4%	12.3%	16.3%	18.4%						
RoCE (%)	18.6%	12.7%	11.5%	15.2%	17.3%						
Current Ratio (x)	2.8x	2.6x	2.9x	3.4x	3.4x						
Dividend Payout (%)	26.8%	49.3%	56.2%	40.0%	40.0%						
Book Value Per Share (Rs.)	228.1	227.8	263.1	290.4	324.3						
Financial Leverage Ratios											
Interest Coverage (x)	19.7x	12.1x	13.4x	23.7x	29.9x						
Growth Indicators %											
Sales Growth (%)	18.0%	(4.1%)	(6.7%)	11.0%	16.9%						
EBITDA Growth (%)	20.2%	(8.4%)	(1.7%)	47.5%	23.4%						
Net Profit Growth (%)	19.4%	(29.3%)	(0.5%)	49.3%	24.9%						
Diluted EPS Growth (%)	19.4%	(29.3%)	(0.5%)	49.3%	24.9%						

Source: Dalal & Broacha Research, Company

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