

Cyient's Q3FY21 performance was a beat on our estimates across the board.

- \$ Revenue came in at \$141.4 Mn, +4.7% qoq / -8.9% yoy and +2.8% vs. estimates
- INR revenue came in at INR 10,443 Mn, +4.1% qoq / -5.6% yoy and 4.4% above our estimates
- EBIT was reported at INR 1,165 Mn, +6.1% qoq / +10.6% yoy
- EBIT margins stood at 11.2%, vs 10.9% / 12.9% in Q2FY21 / Q3FY20 respectively
- PAT came in at INR 954 Mn, +13.7% qoq / -11.9% yoy
- EPS at INR 8.7.6 in Q3FY21 vs 7.6 / 9.8 in Q2FY21 / Q3FY20 respectively

Business Unit Performance

- Growth was led by **Design Led Manufacturing** which had a robust growth of 24.8% QoQ, followed by **Services** which grew marginally at 1% QoQ. **Group Growth** was healthy growth of 4.7% QoQ.

Services Highlights

- Growth was led by **Energy & Utilities (11.9% of Topline)** had a robust sequential growth of 16.7% QoQ, followed by **Aerospace & Defence (32.6% of Topline)** which grew by 8% QoQ and **Communications (24.1% of Topline)** grew 5.2% QoQ.
- **Semiconductor (4.3% of Topline)** was flat at 0.2% QoQ.
- Some of the verticals declined during the quarter led by **Portfolio (8.4% of Topline)** and **Transportation (11.5% of Topline)** which declined by -0.4% QoQ & -0.5% QoQ respectively. **Medical, Technology & Healthcare (7.1% of Topline)** had a major de-growth of -9.9% QoQ.

Geographical Highlights

- **APAC (including India)** led the growth trajectory posting a robust sequential growth of 26.8% QoQ / 37% YoY whereas **North America** had a minor growth of 3% QoQ.
- **Europe & Middle Eastern** region witnessed major decline of -8.3% QoQ.

Financial Summary

Y/E Mar (Rs mn)	FY 19	FY 20	FY 21E	FY 22E	FY 23E
Net sales	46,175	44,274	41,774	49,877	59,221
EBITDA	6,436	5,893	5,984	7,768	8,891
Adjusted net profit	4,841	3,423	3,547	4,442	5,060
Free cash flow	3,408	3,055	5,921	5,460	4,601
EPS (Rs)	43.1	30.5	31.6	39.5	45.0
growth (%)	18%	-29%	4%	25%	14%
P/E (x)	13.3	18.8	18.1	14.5	12.7
P/B (x)	2.5	2.5	2.3	2.0	1.8
EV/EBITDA (x)	8.7	9.5	8.5	5.9	4.7
ROCE (%)	18.6	12.7	12.4	14.4	14.7
RoE (%)	19.7	13.4	13.2	14.8	15.1
Dividend yield (%)	2.0	1.3	1.4	1.7	2.0

Source: Company

Rating	TP (Rs)	Up/Dn (%)
BUY	675	18

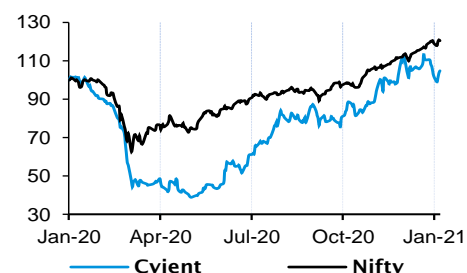
Market data

Current price	Rs	572
Market Cap (Rs.Bn)	(Rs Bn)	56
Market Cap (US\$ Mn)	(US\$ Mn)	767
Face Value	Rs	5
52 Weeks High/Low	Rs	584/184
Average Daily Volume	('000)	336
BSE Code		532175

Bloomberg CYL:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
Promoters	23.48	23.48
Public	76.52	76.52
Others	0.00	0.00
Total	100	100

Source: BSE

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Conference Call Key Takeaways

Operational Highlights

- **DLM EBIT margins (of 10.6%) are sustainable going ahead.** Margin expansion led by quality of mix, operational efficiency through automation and reduction in direct material costs. See growth visibility for next 6-8 quarters specially in Aerospace, Medical and Defence.
- **IG acquisition contributed 1.2% to services revenue** and is categorized under mining and portfolio segment.
- **Wage hike for 2/3rd of the associates which has caused 100 bps impact on the margins + lower working days impacted 88 bps on margins.**
- **Strong order intake - \$194.5 Mn on the back of good number of large deal wins.**
- **Improved offshoring and utilization aided services margins.**

New organizational structure

- Go to Market organization to drive sales performance, agility, productivity, automation, digital and better control on inventory for DLM.
- **Verticals now divided into 2 parts: Transportation** (which includes Aerospace, Defence and Rail Transportation) and **Communications & Utilities** (combination of these 2 industries due to synergy from network modernisation and digital transformation initiatives).
- These would be coupled with other portfolio of sectors which would be relatively smaller in size but will enable company to go to market in sub-verticals which offer promising growth.
- Services will now be divided into Digital services and Solutions and DLM.
- **Improved organizational structure should enable company to mine customers better and provide industry leading growth and one can expect benefits to start flowing in after 2-4 quarters.**

Sector-wise Commentary

- **Growth in aerospace still sluggish and will improve as passenger traffic improves beyond 65-70%.** However, DLM, Digital and Defence continue to grow.
- **Communication:** Momentum to continue. See traction in network transformation, deployment of broadband and wireless infrastructure. Cyient derives 10% of revenue comes from 5G network and should stand to benefit from its global adoption.
- **Transportation will improve from Q4FY21.** However, growth will be moderate over next few quarters.
- **Energy & Utility:** 3% organic contribution in the quarter's growth. Growth primarily driven by digital, automation and asset maintenance. Growth momentum will continue.
- **Medical:** SCM issues witnessed in November impacted segment (mainly in DLM). Worst is behind us and see revival from Q4. Won large deal from top 5 Medical device company.
- **Portfolio:** flat quarter. Added automotive Tier I who is a top 100 global R&D spender and one of the top 5 mining companies.
- **Semiconductor:** Services doing well while DLM business slowing. DLM slow due to slow running of fabrications and new designs. Added top 100 spender in this category also.
- **Outlook:** Expect high single digit sequential growth in Q4FY21 and largely broad-based except for aerospace (more balanced between services and DLM).
- **Margins:** sequential improvement due to volumes and operational efficiency. Impact due to DLM going ahead will be minimal.
- ETR at 24%
- 5 large deals announced during the quarter – all from existing clients

Outlook

- Q4 will have the best exit rate in terms of margins + 50 to 100 bps improvement in FY21 EBIT Margins over FY20.
- Management also gave strong outlook on exit margin rate in Q4FY22 over Q4FY21 led by strong volumes and stable pricing.
- Impact of new RSU structure <50 bps on margins over the next 3-4 years. Trust will acquire shares over the next 3 months (and cash will be spent by the company) and will be distributed at face value.
- Wage hikes will be rationalized (moderated) in the next year and might be pushed back in the next FY.
- Expect lower volatility in performance as dependence on pain sectors and clients has reduced and large customers now are relatively dependable and consistent.

Quarterly Performance Analysis

Exhibit 1

YE March (Rs. mn)	Q3 FY21	Q2 FY21	Q-o-Q change %	Q3 FY20	Y-o-Y change %	Q3 FY21 Est.	Deviation %
Total Revenue (USD Mn)	142	135	4.8%	155	(8.8%)	138	2.8%
Total Revenue (INR Mn)	10,443	10,033	4.1%	11,059	(5.6%)	9,999	4.4%
Less:							
Cost of Revenues	6,740	6,395	5.4%	6,901	(2.3%)	6,754	-0.2%
SG&A Expenses	2,102	2,056	2.2%	2,636	(20.3%)	2,000	5.1%
Total Expenditure	8,842	8,451	4.6%	9,537	(7.3%)	8,754	1.0%
EBIDTA	1,601	1,582	1.2%	1,522	5.2%	1,245	28.6%
Less: Depreciation	486	484	0.4%	469	3.6%	482	0.8%
EBIT	1,115	1,098	1.5%	1,053	5.9%	763	46.2%
Interest Paid	120	101	18.8%	119	0.8%	101	
Other income (expense), net	219	93	135.5%	498	(56.0%)	300	-27.0%
Profit Before Tax	1,249	1,090	14.6%	1,432	(12.8%)	962	29.9%
Tax	339	274	23.7%	279	21.5%	242	40.2%
PAT before Minority Interest	954	839	13.7%	1,099	(13.2%)	720	32.5%
Profit After Tax	954	839	13.7%	1,083	(11.9%)	720	32.5%
Adjusted PAT	919	839	9.5%	1,083	(15.1%)	720	
Basic & Diluted EPS (Rs.)	8.4	7.6	9.5%	9.8	(15.1%)	6.5	27.6%
Basic & Diluted Outstanding (m)	110	110		110		110	
Margin Analysis %			Change In bps		Change In bps		
EBIDTA Margin	15.3%	15.8%	-44	13.8%	157	12.5%	288
EBIT Margin	10.7%	10.9%	-27	9.5%	116	7.6%	305
PBT Margin	12.0%	10.9%	110	12.9%	-99	9.6%	234
NPM	9.1%	8.4%	77	9.8%	-66	7.2%	193
Effective Tax Rate (%)	23.6%	23.0%	59	23.3%	36	25.1%	-152
Cost Analysis %			Change In bps		Change In bps		
Cost of Revenues/ Sales	64.5%	63.7%	80	62.4%	214	67.5%	-301
Other income/ PBT	17.5%	8.5%	900	34.8%	-1,724	31.2%	-1,365

Source: Dalal & Broacha Research, Company

Growth was largely driven by DLM business at ~25% qoq and 72% yoy. Services business grew at 1% qoq and -17.7% yoy in \$ terms.

DLM EBIT margins stood at 10.2% whereas Services EBIT margin stood at 11.3%

Management has indicated that visibility for growth has improved over the next 6-8 quarters and that DLM business margins are sustainable going ahead.

Exhibit 2

By Industry (% Terms)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Aerospace & Defense	35%	34%	32%	34%	31%	27%	25%
Transportation	13%	13%	11%	11%	12%	14%	14%
Semiconductor	6%	5%	5%	4%	6%	5%	5%
Medical and Tech	2%	2%	2%	3%	3%	3%	3%
Utilities	12%	13%	15%	12%	12%	12%	13%
Communications	22%	22%	24%	26%	27%	28%	30%
Portfolio	10%	11%	11%	11%	10%	10%	10%
By Industry (\$ Terms)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Aerospace & Defense	48.4	47.6	45.1	45.4	35.0	31.0	29.2
Q-o-Q	-2.8%	-1.8%	-5.1%	0.6%	-22.9%	-11.5%	-5.7%
Y-o-Y	-8.8%	-3.6%	-9.0%	-8.9%	-27.7%	-34.9%	-35.3%
Transportation	17.7	18.2	15.6	15.1	13.5	16.3	15.9
Q-o-Q	-2.3%	3.3%	-14.7%	-3.0%	-10.7%	21.4%	-2.6%
Y-o-Y	2.2%	5.9%	-10.3%	-16.6%	-23.8%	-10.4%	2.4%
Semiconductor	7.6	6.9	6.9	5.3	6.2	6.1	6.1
Q-o-Q	-7.8%	-9.4%	-0.1%	-22.9%	16.6%	-1.8%	1.0%
Y-o-Y	10.7%	-18.8%	1.1%	-35.7%	-18.7%	-11.9%	-10.9%
Medical and Cons. Electronics	3.2	3.4	3.4	3.3	3.0	3.5	3.3
Q-o-Q	7.9%	6.1%	-0.1%	-1.7%	-8.4%	17.0%	-5.5%
Y-o-Y	-20.6%	21.4%	16.3%	12.5%	-4.6%	5.2%	-0.5%
Energy & Utilities	17.0	18.5	20.3	15.3	13.2	13.1	14.9
Q-o-Q	-11.9%	9.1%	9.7%	-24.5%	-13.7%	-0.7%	13.3%
Y-o-Y	4.3%	-11.3%	-6.3%	-20.3%	-22.0%	-29.0%	-26.7%
Communications	29.8	30.4	34.2	33.7	30.1	32.5	34.0
Q-o-Q	-9.1%	2.2%	12.3%	-1.3%	-10.9%	8.0%	4.9%
Y-o-Y	-6.8%	-12.7%	1.1%	2.9%	0.9%	6.6%	-0.4%
Portfolio	14.3	15.3	14.7	14.3	11.3	11.9	11.9
Q-o-Q	-9.6%	6.6%	-3.8%	-2.9%	-20.7%	4.9%	0.0%
Y-o-Y	-10.3%	21.8%	18.4%	-10.0%	-21.0%	-22.3%	-19.2%

Source: Dalal & Broacha Research, Company

Growth was led by Energy & Utilities and Communications segments during Q3FY21

Going ahead, management expects all industries to grow qoq barring Aerospace - which may show sluggish on the back of low passenger traffic.

Exhibit 3

Revenues (% Terms)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
By Geography							
North America	59%	60%	58%	57%	57%	53%	53%
EMEA & India	27%	26%	26%	27%	26%	29%	28%
APAC	14%	14%	17%	16%	17%	18%	19%
Total	100%	100%	100%	100%	100%	100%	100%

US\$ Revenues (\$ Terms)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
North America	92	99	89	85	74	72	75
QoQ	-2.2%	7.3%	-9.7%	-4.7%	-12.8%	-2.8%	4.3%
YoY	3.6%	4.1%	-7.1%	-9.7%	-19.4%	-27.1%	-15.7%
Europe	42	43	40	41	34	39	40
QoQ	-3.4%	2.5%	-8.4%	3.3%	-16.9%	13.7%	3.3%
YoY	-0.4%	-3.2%	-0.5%	-6.3%	-19.4%	-10.6%	0.8%
APAC	22	22	26	23	22	24	26
QoQ	-18.8%	-0.3%	17.5%	-11.3%	-4.0%	8.8%	8.2%
YoY	-24.3%	-24.0%	-10.2%	-15.6%	-0.3%	8.8%	0.3%

Source: Dalal & Broacha Research, Company

Valuation & Outlook

Cyient is currently trading at 14.5x / 12.7x FY22e / FY23e EPS. As per management commentary and Q3 performance, DLM business (Cyient's age old ailing segment) seems to have finally turned a corner in terms of profitability and revenue stability. Services business should revive qoq as passenger traffic in aviation revives, 5G and network related spend increases and certain SCM related issues resolve in semiconductor space. Moreover, deal wins during the quarter also seem extremely encouraging. Management's outlook, post rejigging the organizational structure and improving the go-to-market strategy, indicate that the worst is behind us and the company should be back on the right track going ahead. Notably, Cyient is the cheapest stock, as far as valuations are concerned, in the ER&D space.

Taking all the above factors into consideration, we upgrade our target price on Cyient to INR 675 (earlier TP INR 467), based on 15x FY23e EPS estimates.

Financial

Profit & Loss A/c					
YE March (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
Total Revenue	46,175	44,274	41,774	49,877	59,221
Less:					
Cost of Services	3,936	4,066	5,330	6,433	6,948
Employee Cost	25,374	24,776	21,824	24,579	30,207
SG&A Expenses & Other	10,288	9,683	8,604	10,973	13,029
Total Operating Expenditure	39,739	38,381	35,790	42,109	50,330
EBITDA	6,436	5,893	5,984	7,768	8,891
Less: Depreciation	1,114	1,878	1,984	2,344	2,843
EBIT	5,322	4,015	4,000	5,424	6,048
<i>Growth %</i>	<i>23.7%</i>	<i>-24.6%</i>	<i>-0.4%</i>	<i>35.6%</i>	<i>11.5%</i>
Interest Paid	326	486	441	480	480
Non-operating Income	1,340	1,583	1,337	1,247	1,481
Profit Before tax	6,336	4,708	4,932	6,191	7,049
Tax	1,512	1,270	1,370	1,733	1,974
Net Profit before Minority	4,824	3,438	3,562	4,457	5,075
Minority Interest	-14	-13	-13	-13	-13
Profit/Loss of Associates	3	-28	-28	-28	-28
Net Profit	4,813	3,397	3,521	4,416	5,034
Adjusted Profit	4,841	3,423	3,547	4,442	5,060
Reported Diluted EPS Rs	43.1	30.5	31.6	39.5	45.0
<i>Growth %</i>	<i>19.4%</i>	<i>-29.3%</i>	<i>3.6%</i>	<i>25.2%</i>	<i>13.9%</i>
Adjusted Diluted EPS Rs	43.1	30.5	31.6	39.5	45.0

Key Ratios					
EBITDA (%)	13.9%	13.3%	14.3%	15.6%	15.0%
NPM (%)	10.5%	7.7%	8.5%	8.9%	8.5%
RoE (%)	19.7%	13.4%	13.2%	14.8%	15.1%
RoCE (%)	19.5%	13.5%	12.9%	16.3%	16.4%
Tax Rate %	23.9%	27.0%	27.8%	28.0%	28.0%
Book Value Per share (Rs.)	228.1	227.8	251.6	281.3	315.0
Valuation Ratios					
P/E (x)	13.3x	18.8x	18.1x	14.5x	12.7x
EV/EBITDA	8.7x	9.5x	8.5x	5.9x	4.7x
P/BV (x)	2.5x	2.5x	2.3x	2.0x	1.8x
Market Cap. / Sales (x)	1.4x	1.5x	1.5x	1.3x	1.1x

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
Key Operating Ratios					
EBITDA Margin (%)	13.9%	13.3%	14.3%	15.6%	15.0%
Tax / PBT (%)	23.9%	27.0%	27.8%	28.0%	28.0%
Net Profit Margin (%)	10.5%	7.7%	8.5%	8.9%	8.5%
RoE (%)	19.7%	13.4%	13.2%	14.8%	15.1%
RoCE (%)	18.6%	12.7%	12.4%	14.4%	14.7%
Current Ratio (x)	2.8x	2.6x	3.2x	3.3x	3.3x
Dividend Payout (%)	26.8%	25.0%	25.0%	25.0%	25.0%
Book Value Per Share (Rs.)	228.1	227.8	251.6	281.3	315.0
Financial Leverage Ratios					
Interest Coverage (x)	19.7x	12.1x	13.6x	16.2x	18.5x
Growth Indicators %					
Sales Growth (%)	18.0%	(4.1%)	(5.6%)	19.4%	18.7%
EBITDA Growth (%)	20.2%	(8.4%)	1.5%	29.8%	14.5%
Net Profit Growth (%)	19.4%	(29.3%)	3.6%	25.2%	13.9%
Diluted EPS Growth (%)	19.4%	(29.3%)	3.6%	25.2%	13.9%

Source: Dalal & Broacha Research, Company

Balance Sheet (Consolidated)					
YE March (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
Liabilities					
Equity Capital	552	550	563	563	563
Reserves & Surplus	25,089	25,059	27,719	31,051	34,846
Equity	25,641	25,609	28,282	31,614	35,409
Net Worth	25,641	25,609	28,282	31,614	35,409
Net Deferred tax liability/(Asset)	2,220	4,170	2,660	3,017	3,282
Total Loans	1,136	859	582	305	28
Capital Employed	28,997	30,638	31,524	34,936	38,719
Assets					
Gross Block	8,325	9,353	10,353	11,600	13,080
Less: Depreciation	4,795	5,148	7,132	9,476	12,319
Net Block	3,530	4,205	3,221	2,124	762
Investments	583	723	682	814	967
Current Assets					
Sundry Debtors	8,137	7,262	8,240	8,882	10,546
Cash and Bank Balance	9,705	9,494	14,163	18,972	22,821
Loans and Advances	4,852	7,756	3,384	3,741	4,442
Total Current Assets	27,489	29,245	29,999	36,088	43,141
Less: Current Liabilities					
Sundry Creditors	3,712	3,729	4,609	5,422	6,481
Total Current Liabilities	9,895	11,135	9,269	11,006	13,094
Capital Applied	28,997	30,638	31,559	34,971	38,754

Cash Flows (Consolidated)					
YE December (Rs. Mn)	FY19	FY20	FY21E	FY22E	FY23E
PAT	4,841.0	3,423.0	3,546.9	4,442.3	5,060.0
Less: Non Operating Income	(1,340.0)	(1,583.0)	(1,337.4)	(1,246.9)	(1,480.5)
Add: Depreciation	1,114.0	1,878.0	1,983.7	2,344.2	2,842.6
Add: Interest Paid	326.0	486.0	441.0	480.0	480.0
Operating Profit before WC Changes	4,938.0	4,232.0	4,662.1	6,047.6	6,930.1
Net Cash From Operations	3,889.0	3,505.0	6,710.6	6,504.9	5,814.0
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(1,424.0)	(2,553.0)	(1,000.0)	(1,246.9)	(1,480.5)
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	460.0	(277.0)	(277.0)	(277.0)	(277.0)
Dividend Paid	(1,296.0)	(855.8)	(886.7)	(1,110.6)	(1,265.0)
Net Cash from Financing Activities	(1,875.0)	(2,672.0)	(3,066.7)	(1,510.9)	(1,756.4)
Net Inc/Dec in cash equivalents	(102.0)	(615.0)	4,668.8	4,809.4	3,848.9
Opening Balance	9,807.0	9,705.0	9,494.0	14,162.8	18,972.1
Closing Balance Cash and	9,705.0	9,090.0	14,162.8	18,972.1	22,821.1

Free Cash Flow Statement					
YE March (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA	6,436	5,893	5,984	7,768	8,891
FC Investment	709	1,028	1,000	1,247	1,481
WC Changes	-1,049	-727	2,048	457	-1,116
Depreciation Tax Shield	266	507	551	656	796
Tax Expenses	1,536	1,590	1,662	2,175	2,489
FCF	3,408	3,055	5,921	5,460	4,601

Disclaimer

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