Cyient Ltd

Q4FY21 Result Update | IT

Worse Seems to be Over

DALAL & BROACHA
STOCK BROKING PVT. LTD.

Equity Research Desk

April 24, 2021

Cyient's Q4FY21 performance was a beat on our estimates across the board with strong outlook for FY22

- **$ Revenue came in at $149.9 Mn,** +5.9% qoq / +0.1% yoy and +0.6% vs. estimates
- **INR revenue came in at INR 10,932 Mn,** +4.7% qoq / +1.8% yoy and 0.6% above our estimates
- **Adjusted EBIT at INR 1,382 Mn,** +23.9% qoq / +61.1% yoy and 12.5% above our estimates
- **EBIT margins stood at 12.6%,** vs 10.7% / 8% in Q3FY21 / Q4FY20 respectively and 133 bps above our estimates
- **Adjusted PAT came in at INR 1,107 Mn,** +20.5% qoq / +29.3% yoy
- **EPS at INR 10.1 in Q4FY21** vs 8.4/ 7.8 in Q3FY21 / Q4FY20 respectively

Business Unit Performance

- Growth was led by **Design Led Manufacturing** which had a robust growth of 16.4% QoQ, followed by **Services** which grew at 3.7% QoQ. **Group Growth** was healthy growth of 6% QoQ.

Services Highlights

- **Semiconductor (4.9% of Topline)** led the growth engine with 22.8% QoQ followed by **Aerospace & Defence (34% of Topline)** growing at 10.6% QoQ and **Energy & Utilities (12.2% of Topline)** having a healthy growth of 8.5% QoQ basis.
- This was followed by **Communications (23.3% of Topline)** growing at 2.5% QoQ whereas **Transportation (10.9% of Topline) & Portfolio (7.9% of Topline)** had marginal growth at 0.8% QoQ and 0.1% QoQ respectively. **Medical, Technology & Healthcare (6.5% of Topline)** continued with de-growth phase, declining by -2.5% QoQ.

Geographical Highlights

- **Growth was led by Asia Pacific (28% of Revenue)** having a robust growth of 15.6% QoQ doing well in terms of revenue, pipeline as well as order intake.
- This was followed by **Europe, Middle East, Africa (24.6% of Revenue)** growing at 3% QoQ and **Americas (47.4% of Revenue)** growing at 2.5% QoQ basis.

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	46,175	44,274	41,324	48,208	56,951
EBITDA	6,436	5,893	5,791	7,658	9,204
Adjusted net profit	4,841	3,423	3,405	4,413	5,346
Free cash flow	3,408	3,055	5,837	5,508	4,888
EPS (Rs)	43.1	30.5	30.3	39.3	47.6
growth (%)	18%	-29%	-1%	30%	21%
P/E (x)	16.0	22.6	22.7	17.5	14.5
P/B (x)	3.0	3.0	2.9	2.6	2.3
EV/EBITDA (x)	10.7	11.7	11.2	7.9	6.2
ROCE (%)	18.6	12.7	12.2	14.9	16.3
RoE (%)	19.7	13.4	12.9	15.5	17.0
Dividend yield (%)	1.7	2.2	2.5	2.3	2.8

Source: Dalal & Broacha Research

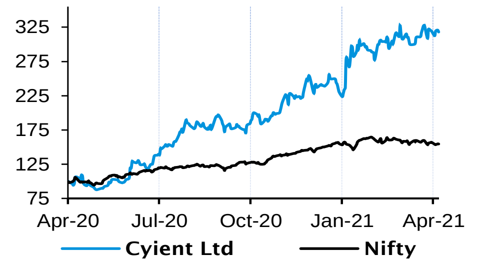
Rating	TP (Rs)	Up/Dn (%)
BUY	854	24

Market data

Current price	**Rs**	**688**
Market Cap (Rs.Bn)	(Rs Bn)	76
Market Cap (US$ Mn)	(US$ Mn)	1015
Face Value	Rs	5
52 Weeks High/Low	Rs	720/184
Average Daily Volume	('000)	238
BSE Code		532175
Bloomberg		CYL:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	23.47	23.48
Public	76.53	76.52
Others	0.00	0.00
Total	**100**	**100**

Source: BSE

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Conference Call Key Highlights

Operational Highlights

- **Group Revenue was reported at $149.9 Mn, growing at 6% QoQ** and has been slightly better than Q4FY20 indicating growth for business in upcoming quarters.
- **Normalized EBIT Margin stood at 12.6% (Reported Margin at 9.8%)** in Q4FY21 higher by 148 bps QoQ basis. Out of which, **DLM EBIT Margin was reported at 8.8%, lower by 181 bps QoQ basis primarily due to change in revenue mix** (Proportion of Indian Business higher during the quarter).
- **Services EBIT Margin was reported at 13.6% (sustainable and will improve over longer term) higher by 233 bps QoQ basis** led by 209 bps improvement from operational matrix, 96 bps positive impact of volume on SG&A and depreciation which was offset by 71 bps due to net increase in SG&A.
- **Revenue for FY21 was reported at $556.8 Mn, declining by -10.9% YoY as against the guidance of -15% to -20% YoY de-growth** indicating recovery among the business.
- **FCF:** Services level DSO down by 20 days YoY basis leading to collection efficiency and free cash generation. FCF to EBITDA conversion stood at 113.5% for FY21 and will not be sustainable. **Going ahead, the firm is targeting 65-70% of FCF to EBITDA conversion for Services and 50% of FCF to EBITDA conversion for DLM business.**

Improvement in EBIT Margins: Normalized EBIT Margin stood at 10.1% in FY21 (Reported Margin at 9.3%) which will improve in FY22 due to various levers such as Automation (reducing certain costs), cease of low margin accounts (focus on profitable growth), absorption of S&A due to growth and improved Revenue mix.

Deal Wins & Orderbook

- **Order intake in Q4FY21 stood at $238 Mn,** growing by 22.4% QoQ.
- **Cyient won 8 Large Deals with TCV of $91 Mn** out of which **6 Large Deals were in Services segment** worth $71 Mn and **2 Large Deals were in DLM segment** worth $20 Mn.

Sector-wise Commentary

- **Aerospace & Defence: Declined by -9.9% YoY despite certain headwinds** and decline in services revenue by -33.1% YoY. De-growth in this segment has already hit the rock bottom Commercial Airspace had a turnaround in Q4. **Travel has not even reached 60% of the pre-covid levels and is expected to recover with improvement in air traffic by H2FY22.**
- **Communications:** Won 6 major deals in FY21 in the areas of fibre, wireless, system integration and 5G rollout from existing as well as new clients. **5G Deployment (10% of Revenue) has continued to benefit the overall segment.** Growth has been broad-based and **outlook for FY22 remains optimistic led by favorable industry trends (broadband roll out in US & UK).**
- **Energy & Utility:** Has been facing challenges for the past 12 months. Hit the bottom in Q3 and continue to see momentum in utilities, mining & natural resources. **FY22 outlook remains on the positive side led by digital transformation and easing of geo-political situation (South China Sea).** Utilities

Group Business Unit Revenue grew by 6% QoQ & 0.4% YoY led by broad-based sequential growth across all the segments except Medical, Technology & Healthcare. Non-Aerospace & Defence business has grown by 9.4% of Services in H2FY21 and confident of growth of Services business in upcoming quarters.

has a robust deal pipeline which will enable growth for this segment in FY22.

- **Transportation:** Growth in Q4 was led by recovery in key accounts and ramp ups of new engagements initiated in FY20. **Overall industry is witnessing demand for infrastructure projects across engineering segment.** Robust growth in new accounts will lead to growth in Transportation segment in FY22.
- **Medical, Technology & Healthcare:** Being one of the only verticals that **declined sequentially led by slowdown in manufacturing production for one of the top DLM clients due to the pandemic crisis.** The outlook remains optimistic as the firm continues to ramp-up on new contracts whilst strengthening the pipeline on Digital transformation & DLM services.
- **Portfolio:** Had flattish growth QoQ basis led by softening of top 3 geospatial clients impacted by Covid-19. Off-Highway customers continue to be impacted due to the pandemic however the firm has increased their focus on Automotive globally. **Automotive industry is expected to witness positive traction in FY22 due to increased digital transformation drive (demand in software & digital content) and Portfolio sector will grow 4-5% in FY22.**
- **Design Led Manufacturing:** Growth was led by improvement in operational matrix and cost management (localization of parts & inventory management) which led to significant improvement in overall business metrics. **Strong deal pipeline along with order backlog provides good visibility for FY22.**

Semiconductor: Witnessed a robust sequential growth after a very flat quarter in Q3. Growth was led by recovery in services business and strong customer demand. While demand for engineering services will remain strong, solutions will recover gradually.

Outlook

- **Expect Revenue to grow double digit in FY22.** Services will grow double digits. **Q1FY22 consolidated revenue will see a drop due to seasonal weakness in DLM business, however, for the full year FY22, DLM will see 20% odd growth.**
- **Capex:** Services capex will be capped at 1.5% to 2% whereas DLM Capex is capped at 2-3% of the total Capex.
- **Energy, Industrial Product Engineering & Medical will lead the growth for H1FY22** and further driving the growth engines alongside Mining & Semiconductors in H2FY22.

Expect FY22 margins to improve by 200 bps. Despite wage hike in Q1, see margin improvement of 50 bps in Q1. Margins in DLM will drop in Q1 due to lower volume and mix change however full year margins will improve more than 200 bps.

Quarterly Performance Analysis

Exhibit 1

YE March (Rs. mn)	Q4 FY21	Q3 FY21	Q-o-Q change %	Q4 FY20	Y-o-Y change %	Q4 FY21 Est.	Deviation %
Total Revenue (USD Mn)	**150**	**142**	***6.0%***	**150**	***0.1%***	**149**	**0.6%**
Total Revenue (INR Mn)	**10,931**	**10,443**	***4.7%***	**10,736**	***1.8%***	**10,862**	**0.6%**
Less:							
Cost of Revenues	6,864	6,740	*1.8%*	6,787	*1.1%*	6,955	-1.3%
SG&A Expenses	2,445	2,102	*16.3%*	2,612	*(6.4%)*	2,172	12.5%
Total Expenditure	**9,309**	**8,842**	***5.3%***	**9,399**	***(1.0%)***	**9,128**	**2.0%**
EBIDTA	**1,622**	**1,601**	***1.3%***	**1,337**	***21.3%***	**1,734**	**-6.5%**
Less: Depreciation	491	486	*1.0%*	479	*2.5%*	506	-2.9%
EBIT	**1,131**	**1,115**	***1.4%***	**858**	***31.8%***	**1,229**	**-8.0%**
Adjusted EBIT	**12.6%**	**11.2%**		**8.4%**			
Interest Paid	112	120	*(6.7%)*	125	*(10.4%)*	120	
Other income (expense), net	403	219	*84.0%*	539	*(25.2%)*	326	**23.7%**
Profit Before Tax	**1,346**	**1,249**	***7.8%***	**868**	***55.1%***	**1,435**	**-6.2%**
Tax	390	339	*15.0%*	245	*59.2%*	389	0.1%
PAT before Minority Interest	**1,031**	**954**	***8.1%***	**467**	***120.8%***	**1,045**	**-1.4%**
Profit After Tax	**1,031**	**954**	***8.1%***	**452**	***128.1%***	**1,045**	**-1.4%**
Adjusted PAT	**1,107**	**919**	***20.5%***	**856**	***29.3%***	**1,045**	
Basic & Diluted EPS (Rs.)	**10.1**	**8.4**	***20.5%***	**7.8**	***29.3%***	**9.5**	**5.9%**
Basic & Diluted Outstanding (m	110	110		110		110	

Source: Dalal & Broacha Research, Company

Growth was driven by DLM business having a robust 15% QoQ growth whereas Services grew 2.4% QoQ.

DLM EBIT Margin stood at 8.8% lower by 181 bps QoQ

Services EBIT Margin stood at 13.6% higher by 233 bps QoQ

Valuation & Outlook

Cyient's Q4FY21 performance was above our expectations on all fronts. Additionally, management's commentary coupled with macro scenario indicates that the worst seems to have been discounted in the stock. **We would like to bring notice to 2 elements – namely – a) This is the 2nd consecutive quarter of robust performance in the DLM business (on revenue growth and margins) and b) Higher visibility in Aerospace & Defense (34% of consolidated revenue) from H2FY22 as Commercial Aviation resumes post global vaccination rollouts.** Whereas performance in verticals ex-A&D are reporting steady sequential revival / growth. Moreover, deal wins during the quarter – at $238 Mn (up 22.4% qoq) – continue its robust trajectory. Lastly, in-line with better visibility, management has given a healthy double digit growth outlook (which incorporates 20% revenue growth in DLM business) for FY22 coupled with minimum 200 bps margin expansion. **Notably Cyient is the cheapest valued stock in the ER&D space at 17.5x / 14.5x FY22e / FY23e EPS.**

Taking all the above factors into consideration, we upgrade our target price on Cyient to INR 854 (earlier TP INR 675 achieved), based on 18x FY23e EPS estimates.

Financial

Profit & Loss A/c					
YE March (Rs. mn)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Total Revenue	**46,175**	**44,274**	**41,324**	**48,208**	**56,951**
Less:					
Cost of Services	3,936	4,066	5,165	6,295	7,021
Employee Cost	25,374	24,776	21,611	23,419	27,992
SG&A Expenses & Other	10,288	9,683	8,659	10,422	12,244
Total Operating Expenditu	**39,739**	**38,381**	**35,533**	**40,550**	**47,747**
EBIDTA	**6,436**	**5,893**	**5,791**	**7,658**	**9,204**
Less: Depreciation	1,114	1,878	1,945	2,266	2,734
EBIT	**5,322**	**4,015**	**3,846**	**5,393**	**6,470**
Growth %	*23.7%*	*-24.6%*	*-4.2%*	*40.2%*	*20.0%*
Interest Paid	326	486	433	448	448
Non-operating Income	1,340	1,583	1,399	1,205	1,424
Profit Before tax	**6,336**	**4,708**	**4,771**	**6,150**	**7,446**
Tax	1,512	1,270	1,351	1,722	2,085
Net Profit before Minority	**4,824**	**3,438**	**3,420**	**4,428**	**5,361**
Minority Interest	-14	-13	-13	-13	-13
Profit/Loss of Associates	3	-28	-28	-28	-28
Net Profit	**4,813**	**3,397**	**3,379**	**4,387**	**5,320**
Adjusted Profit	**4,841**	**3,423**	**3,405**	**4,413**	**5,346**
Reported Diluted EPS Rs	**43.1**	**30.5**	**30.3**	**39.3**	**47.6**
Growth %	*19.4%*	*-29.3%*	*-0.5%*	*29.6%*	*21.1%*
Adjusted Diluted EPS Rs	**43.1**	**30.5**	**30.3**	**39.3**	**47.6**
Key Ratios					
EBIDTA (%)	**13.9%**	**13.3%**	**14.0%**	**15.9%**	**16.2%**
NPM (%)	10.5%	7.7%	8.2%	9.2%	9.4%
RoE (%)	**19.7%**	**13.4%**	**12.9%**	**15.5%**	**17.0%**
RoCE (%)	19.5%	13.5%	12.6%	17.0%	18.7%
Tax Rate %	**23.9%**	**27.0%**	**28.3%**	**28.0%**	**28.0%**
Book Value Per share (Rs.)	228.1	227.8	241.2	264.8	293.3
Valuation Ratios					
P/E (x)	**16.0x**	**22.6x**	**22.7x**	**17.5x**	**14.5x**
EV/EBITDA	10.7x	11.7x	11.2x	7.9x	6.2x
P/BV (x)	**3.0x**	**3.0x**	**2.9x**	**2.6x**	**2.3x**
Market Cap. / Sales (x)	1.7x	1.7x	1.9x	1.6x	1.4x

Key Ratios (Consolidated)					
YE March (Rs. mn)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Key Operating Ratios					
EBITDA Margin (%)	13.9%	13.3%	14.0%	15.9%	16.2%
Tax / PBT (%)	23.9%	27.0%	28.3%	28.0%	28.0%
Net Profit Margin (%)	10.5%	7.7%	8.2%	9.2%	9.4%
RoE (%)	19.7%	13.4%	12.9%	15.5%	17.0%
RoCE (%)	18.6%	12.7%	12.2%	14.9%	16.3%
Current Ratio (x)	2.8x	2.6x	3.1x	3.2x	3.2x
Dividend Payout (%)	26.8%	49.3%	56.2%	40.0%	40.0%
Book Value Per Share (Rs.)	228.1	227.8	241.2	264.8	293.3
Financial Leverage Ratios					
Interest Coverage (x)	19.7x	12.1x	13.4x	17.1x	20.5x
Growth Indicators %					
Sales Growth (%)	18.0%	(4.1%)	(6.7%)	16.7%	18.1%
EBITDA Growth (%)	20.2%	(8.4%)	(1.7%)	32.2%	20.2%
Net Profit Growth (%)	19.4%	(29.3%)	(0.5%)	29.6%	21.1%
Diluted EPS Growth (%)	19.4%	(29.3%)	(0.5%)	29.6%	21.1%

Balance Sheet (Consolidated)					
YE March(Rs. mn)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
Liabilities					
Equity Capital	552	550	563	563	563
Reserves & Surplus	25,089	25,059	26,550	29,198	32,405
Equity	**25,641**	**25,609**	**27,113**	**29,761**	**32,968**
Net Worth	**25,641**	**25,609**	**27,113**	**29,761**	**32,968**
Net Deferred tax liability/(Ass	2,220	4,170	2,660	3,017	3,282
Total Loans	**1,136**	**859**	**582**	**305**	**28**
Capital Employed	**28,997**	**30,638**	**30,355**	**33,082**	**36,278**
Assets					
Gross Block	8,325	9,353	10,353	11,558	12,982
Less: Depreciation	4,795	5,148	7,093	9,359	12,092
Net Block	**3,530**	**4,205**	**3,260**	**2,199**	**890**
Investments	**583**	**723**	**675**	**787**	**930**
Current Assets					
Sundry Debtors	8,137	7,262	8,152	8,585	10,142
Cash and Bank Balance	9,705	9,494	12,974	17,194	20,451
Loans and Advances	4,852	7,756	3,347	3,616	4,271
Total Current Assets	**27,489**	**29,245**	**28,640**	**33,738**	**39,992**
Less:Current Liabilities					
Sundry Creditors	3,712	3,729	4,575	5,221	6,148
Total Current Liabilities	**9,895**	**11,135**	**9,185**	**10,628**	**12,545**
Capital Applied	**28,997**	**30,638**	**30,314**	**33,041**	**36,237**

Cash Flows (Consolidated)					
YE December (Rs. Mn)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
PAT	**4,841.0**	**3,423.0**	**3,405.0**	**4,412.9**	**5,346.1**
Less: Non Operating Income	(1,340.0)	(1,583.0)	(1,399.0)	(1,205.2)	(1,423.8)
Add: Depreciation	1,114.0	1,878.0	1,945.0	2,265.8	2,733.6
Add: Interest Paid	326.0	486.0	433.0	448.0	448.0
Operating Profit before WC Change	**4,938.0**	**4,232.0**	**4,412.0**	**5,949.5**	**7,131.9**
Net Cash From Operations	**3,889.0**	**3,505.0**	**6,547.0**	**6,514.7**	**6,051.7**
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(1,424.0)	(2,553.0)	(1,000.0)	(1,205.2)	(1,423.8)
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)	(1,689.0)	(1,914.2)	(1,765.2)	(2,138.4)
Net Cash from Financing Activities	**(1,875.0)**	**(2,672.0)**	**(4,162.2)**	**(2,133.5)**	**(2,597.9)**
Net Inc/Dec in cash equivalents	**(102.0)**	**(615.0)**	**3,480.0**	**4,220.1**	**3,256.8**
Opening Balance	**9,807.0**	**9,705.0**	**9,494.0**	**12,974.0**	**17,194.1**
Closing Balance Cash and	**9,705.0**	**9,090.0**	**12,974.0**	**17,194.1**	**20,450.9**

Free Cash Flow Statement					
YE March (Rs. mn)	**FY19**	**FY20**	**FY21**	**FY22E**	**FY23E**
EBITDA	6,436	5,893	5,791	7,658	9,204
FC Investment	709	1,028	1,000	1,205	1,424
WC Changes	-1,049	-727	2,135	565	-1,080
Depreciation Tax Shield	266	507	551	634	765
Tax Expenses	1,536	1,590	1,640	2,144	2,577
FCF	3,408	3,055	5,837	5,508	4,888

Source: Dalal & Broacha Research, Company

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