

### Q4FY21 result review and earnings revision

## Technology

Target price: Rs900

### Earnings revision

(%)	FY22E	FY23E
Sales	↑ 0.5	↓ 0.2
EBIT	↓ 2.1	↓ 0.1
EPS	↓ 0.8	↑ 0.7

### Target price revision

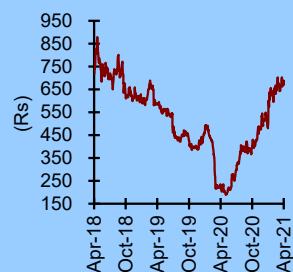
Rs900 from Rs830

### Shareholding patter

	Sep '20	Dec '20	Mar '21
Promoters	23.5	23.5	23.5
Institutional investors	58.4	58.4	59.7
MFs and others	21.8	20.4	18.9
Insurance Cos.	0.9	0.9	1.0
FPI	35.7	37.1	39.8
Others	18.2	18.1	16.8

Source: www.nseindia.com

### Price chart



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Revenue growth (+4.7% QoQ, CC) and normalised EBIT margin (12.6%) were ahead of our estimates. Sequentially, growth was driven largely by DLM while strong operational improvements in services business led ~140bps EBIT margin expansion. Within services, A&D and E&U fared well. Strong increase in order intake (US\$238mn, ~22% QoQ) came as a surprise. This strength seems to reflect structural changes Cyient had undertaken in the recent past. For FY22, the outlook of double-digit growth in services and 20% in DLM was maintained. While the management has conservatively guided for ~200bps YoY improvement in EBIT margin, we see further upside risk (+150bps) to this guidance. To summarise, besides unit level changes in the right direction, Cyient has been showing welcome consistency in performance and outlook – for a few quarters now. In addition to scope for further earnings upgrades, possibility of a structural rerating is very likely, given the massive discount to midcap peers (up to 55%). Our FY22E-FY23E earnings trajectory remains largely stable. Cyient remains our TOP BUY idea across midcap / small-cap categories.

► **Beat on both revenue growth and margins.** Revenues grew 4.7% QoQ (CC), ahead of our estimate (3.3% QoQ, CC). As anticipated, growth was driven by DLM (+16.4% QoQ, USD) while services grew modestly (+2.2% QoQ, CC). Within services, A&D (+3.9% QoQ, USD), and E&U (+5.3% QoQ, USD) fared well.

Normalised Group EBIT margin (12.6%) was 40bps ahead of our estimate. Services segment delivered 230bps QoQ expansion in EBIT margin led by operational improvements and operating leverage. Change in revenue mix led to ~180bps QoQ contraction in EBIT margin of DLM. Overall, at group level, normalised EBIT margin expanded 140bps QoQ.

► **Order intake momentum continues; stable outlook on growth and margins.** Order intake was robust at ~US\$238mn (+22% QoQ) on top of the strong order booking in Q3FY21 (~US\$195mn, +53% QoQ). This came as a surprise and reflects the structural changes undertaken by Cyient in the recent past. For FY22, the company maintained its outlook of double-digit growth in services and 20% in DLM. While the management has conservatively guided for ~200bps YoY improvement in EBIT margin, we see further upside risk (+150bps) to this guidance. In addition to scope for further earnings upgrades, possibility of a structural rerating is very likely, given the massive discount to midcap peers (up to 55%). Our FY22E-FY23E earnings trajectory remains largely stable. Cyient remains our TOP BUY idea across the midcap / small-cap categories.

Market Cap	Rs76bn/US\$1bn	Year to March	FY21	FY22E	FY23E	FY24E
Reuters/Bloomberg	CYIE.BO/CYL IN	Revenue (Rs mn)	41,325	47,352	53,273	58,603
Shares Outstanding (mn)	110.0	Net Income (Rs mn)	3,638	5,124	6,058	6,647
52-week Range(Rs)	703/188	EPS (Rs)	33.8	46.6	55.1	60.4
Free Float (%)	76.5	% Chg YoY	(0.3)	38.0	18.2	9.7
FII (%)	39.8	P/E (x)	20.4	14.8	12.5	11.4
Daily Volume (US\$'000)	6,082	CEPS (Rs)	51.5	66.0	76.9	84.4
Absolute Return 3m (%)	14.4	EV/E (x)	10.9	7.8	6.7	6.1
Absolute Return 12m (%)	220.2	Dividend Yield	2.5	2.0	2.0	2.0
Sensex Return 3m (%)	(1.5)	RoCE (%)	9.1	12.6	13.5	13.4
Sensex Return 12m (%)	54.9	RoE (%)	13.5	16.4	17.4	16.9

Please refer to important disclosures at the end of this report

## Financial summary

**Table 1: Profit and Loss statement**
*(Rs mn, year ending March 31)*

	FY21	FY22E	FY23E	FY24E
Revenues (US\$ mn)	557	631	701	771
Operating Revenues (Sales)	41,325	47,352	53,273	58,603
Operating Expenses	35,217	38,851	43,322	47,630
EBITDA	6,108	8,501	9,951	10,973
% margins	14.8	18.0	18.7	18.7
Depreciation & Amortisation	1,945	2,131	2,397	2,637
EBIT	4,163	6,370	7,554	8,336
% margins	10.1	13.5	14.2	14.2
Finance cost	481	516	516	516
Other Income	1,167	971	1,067	1,102
Recurring PBT	4,849	6,825	8,105	8,922
Add: Extraordinaries	76	0	0	0
Less: Taxes	1,134	1,701	2,047	2,275
Less: Minority Interest	1	0	0	0
Add: Share of JV	0	0	0	0
Reported Net Income	3,638	5,124	6,058	6,647
Recurring Net Income	3,714	5,124	6,058	6,647

Source: Company data, I-Sec research

**Table 2: Balance sheet**
*(Rs mn, year ending March 31)*

	FY21	FY22E	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	28,518	33,149	38,594	44,086
Total Current Liab & Prov	11,090	11,955	12,179	12,443
Net Current Assets	17,428	21,194	26,415	31,643
Investments	344	344	344	344
Fixed Assets	8,655	7,708	6,642	5,470
Goodwill	5,830	5,830	5,830	5,830
Other non-current assets	1,581	2,230	2,383	3,311
<b>Total Assets</b>	<b>33,838</b>	<b>37,306</b>	<b>41,615</b>	<b>46,599</b>
<b>Liabilities</b>				
Borrowings	869	869	869	869
Other liabilities	3,428	3,641	3,762	3,969
Equity Share Capital	550	550	550	550
Reserves & Surplus	28,991	32,246	36,434	41,211
Net Worth	29,541	32,796	36,984	41,761
<b>Total Liabilities</b>	<b>33,838</b>	<b>37,306</b>	<b>41,615</b>	<b>46,599</b>

Source: Company data, I-Sec research

**Table 3: Quarterly trend**
*(Rs mn, year ending March 31)*

	Jun-20	Sep-20	Dec-20	Mar-21
Net sales	9,917	10,033	10,443	10,932
% growth (YoY)	(8.9)	(13.4)	(5.6)	1.8
EBITDA	995	1,589	1,650	1,874
Margin (%)	10.0	15.8	15.8	17.1
Other income	684	94	219	170
Extraordinary Inc / (Loss)	-	-	-	76
Reported Net Income	814	840	954	1,031

Source: Company data, I-Sec research

**Table 4: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY21	FY22E	FY23E	FY24E
Operating Cashflow before W				
Cap changes	5,872	6,800	7,904	8,698
Working Capital Inflow / (Outflow)	2,686	(2,901)	(2,511)	(3,000)
Capex and acquisition	(985)	(1,184)	(1,332)	(1,465)
Free Cashflow	7,573	2,715	4,061	4,233
Cash Flow from other Invest Act (Ex Capex)	(22)	971	1,067	1,102
Proceeds from Issue of Share Capital	37	-	-	-
Inc/(Dec) in Borrowings	(1,047)	-	-	-
Dividend paid	(10)	(1,869)	(1,869)	(1,869)
Interest paid	(162)	(516)	(516)	(516)
Others	(925)	-	-	-
<b>Increase/(Decrease) in Cash</b>	<b>5,444</b>	<b>1,301</b>	<b>2,743</b>	<b>2,950</b>

Source: Company data, I-Sec research

**Table 5: Key ratios**
*(Year ending March 31)*

	FY21	FY22E	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
EPS(Basic Recurring)	33.8	46.6	55.1	60.4
Fully Diluted Recurring EPS	33.8	46.6	55.1	60.4
Recurring Cash EPS	51.5	66.0	76.9	84.4
Dividend per share (DPS)	17.0	14.0	14.0	14.0
Book Value per share (BV)	266.4	295.7	333.5	376.5
<b>Growth Ratios (%)</b>				
Revenues-US\$ terms	(10.9)	13.4	11.0	10.0
Operating Income (Sales)	(6.7)	14.6	12.5	10.0
EBITDA	2.5	39.2	17.1	10.3
Recurring Net Income	(0.3)	38.0	18.2	9.7
Diluted Recurring EPS	(0.3)	38.0	18.2	9.7
Diluted Recurring CEPS	1.0	28.2	16.5	9.8
<b>Valuation Ratios (x)</b>				
P/E	20.4	14.8	12.5	11.4
P/CEPS	13.4	10.4	9.0	8.2
P/BV	2.6	2.3	2.1	1.8
EV / EBITDA	10.9	7.8	6.7	6.1
EV / Sales	1.6	1.4	1.3	1.1
EV / FCF	8.8	24.5	16.4	15.7
<b>Operating Ratios</b>				
Employee Cost/Sales (%)	53.5	50.0	49.0	49.0
SG&A/Sales (%)	19.5	19.8	20.1	20.1
Other Income / PBT (%)	24.1	14.2	13.2	12.4
Effective Tax Rate (%)	23.4	24.9	25.3	25.5
NWC / Total Assets (%)	38.8	43.0	49.1	53.6
Fixed Asset Turnover (x) on avg	4.6	5.8	7.4	9.7
Receivables (days) on average	71	69	67	68
Payables (days) on average	40	35	32	27
D/E Ratio (x)	0.0	0.0	0.0	0.0
<b>Return/Profitability Ratios (%)</b>				
Recurring Net Income Margins	9.0	10.8	11.4	11.3
RoIC (Based on Avg)	10.2	13.9	14.8	14.6
RoNW (Based on Avg)	13.5	16.4	17.4	16.9
Dividend Payout Ratio	50.8	36.5	30.9	28.1
Dividend Yield	2.5	2.0	2.0	2.0
EBITDA Margins	14.8	18.0	18.7	18.7

Source: Company data, I-Sec research

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