

## Healthy revenue, margin trajectory...

Cyient reported a healthy set of Q4FY21 numbers. Overall revenues increased 6.0% QoQ to US\$149.9 million mainly led by 3.7% QoQ (2.5% QoQ organic growth) growth in services revenues to US\$119.6 million and 16.4% QoQ growth in DLM revenues to US\$30.3 million. The growth in services revenues was due to 2.9% QoQ growth in transportation, 2.5% QoQ growth in communication and utility segment. Overall EBIT margin increased 148 bps QoQ to 12.6% mainly led by 233 bps QoQ growth in services margins (at 13.6%). The company has declared a dividend of ₹ 17 per share.

## Better order book, recovery in vertical to drive growth

The company has seen healthy traction in aerospace, energy & utility vertical and communication segment in Q4FY21. In addition, Cyient expects Q1FY22E services revenues to register improved growth on a QoQ basis. Further, for FY22E, the company expects improved demand from aerospace in H2FY22E, traction in communication (led by 5G rollout (10% of revenues), cloudification and enterprise network transformation), energy & mining and transportation. This, coupled with focus on large deals (won eight large deals in Q4FY21), healthy order book, traction DLM business (led by strong pipeline) and organisation restructuring to accelerate growth point to a healthy revenue trajectory in coming years. Hence, based on the company's guidance of double digit growth in services and 20% YoY growth in DLM business we expect 12% YoY growth in FY22E and 10% growth in FY23E.

## Margins to improve gradually

The company expects 50 bps QoQ improvement in margins in Q1FY22E despite wage hikes. This, coupled with improved revenue growth and SG&A rationalisation, prompts us to believe the company will be able to surpass its guided 200 bps YoY improvement in margins. Hence, despite supply side constraints, we expect the company to register ~300 bps improvement in EBIT margins to 13.1% in FY22E and further 30 bps improvement in FY23E.

## Valuation & Outlook

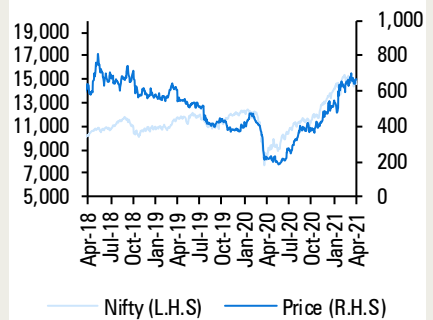
The company's focus on large deals, client mining, healthy order book (up 22% QoQ in Q4FY21E) and organisation restructuring to accelerate growth point to healthy revenue trajectory in coming years. This, coupled with recovery in aerospace division and healthy deal pipeline in DLM bodes well for revenue growth. Further, improving margin trajectory prompts us to be positive on the stock. Hence, we maintain **BUY** with a revised target price of ₹ 825 (16x P/E on FY23E EPS) (earlier target price ₹ 690/share).

CYIENT

### Particulars

Particular	Amount
Market Cap (₹ Crore)	7,628.9
Total Debt (₹ Crore)	275.5
Cash and Invest (₹ Crore)	1,465.0
EV (₹ Crore)	6,439.4
52 week H/L	720 / 184
Equity capital	55.0
Face value	₹ 5

### Price Performance



### Key Risk

- Decline in communication and transportation segments due to Covid-19 could adversely impact revenues
- Lower than expected cost rationalisation and slower than expected demand recovery could impact financials adversely

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### Key Financial Summary

Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	4,618	4,427	4,132	4,692	5,230	12.5%
EBITDA	644	596	611	835	947	24.5%
EBITDA Margins (%)	14.0	13.5	14.8	17.8	18.1	
Net Profit	479	343	364	493	569	25.1%
EPS (₹)	42.4	33.9	33.1	44.8	51.7	
P/E	15.9	21.7	20.4	15.1	13.1	
RoNW (%)	18.7	13.4	12.3	15.4	16.4	
RoCE (%)	21.4	15.9	14.5	18.4	19.7	

## Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
	FY20	FY21	FY22E	FY23E
<b>Total Revenues</b>	<b>4,427</b>	<b>4,132</b>	<b>4,692</b>	<b>5,230</b>
Growth (%)	(4.1)	(6.7)	13.5	11.5
COGS	2,896	2,716	2,970	3,305
Other expenditure	935	806	887	978
<b>EBITDA</b>	<b>596</b>	<b>611</b>	<b>835</b>	<b>947</b>
Growth (%)	(7.5)	2.5	36.8	13.3
Depreciation	188	195	221	246
Other Income	125	109	95	111
Interest	52	48	48	48
PBT before Exceptional Items	482	477	662	764
Tax	108	113	169	195
PAT before Exceptional Items	311	364	493	569
Exceptional items	(30)	-	-	-
PAT before MI	341	364	493	569
<b>PAT</b>	<b>343</b>	<b>364</b>	<b>493</b>	<b>569</b>
Growth (%)	(28.4)	6.2	35.5	15.4
Adjusted EPS	33.9	33.1	44.8	51.7
EPS (Growth %)	(20.1)	(2.4)	35.5	15.4

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
	FY20	FY21	FY22E	FY23E
PBT	468	477	662	764
Depreciation	188	195	221	246
WC changes	33	269	(80)	(86)
Other non cash adju.	40	45	(47)	(63)
Income taxes pd.	(146)	(129)	(169)	(195)
<b>CF from operations</b>	<b>582</b>	<b>856</b>	<b>587</b>	<b>666</b>
Other Investments	58	(2)	95	111
Acq. Of business				
(Purchase)/Sale of Fixed Assets	(215)	(99)	(235)	(173)
<b>CF from investing Activities</b>	<b>(157)</b>	<b>(101)</b>	<b>(139)</b>	<b>(61)</b>
Inc / (Dec) in Equity Capital	(38)	4	-	-
Change in debt funds	(92)	(213)	(48)	(48)
Dividend & DDT	(317)	(1)	(253)	(297)
<b>CF from Financial Activities</b>	<b>(446)</b>	<b>(211)</b>	<b>(346)</b>	<b>(390)</b>
Exchange rate differences	11	(3)	-	-
Opening cash balance	962	924	1,465	1,567
Cash as margins/associates				
<b>Cash c/f to balance sheet</b>	<b>952</b>	<b>1,465</b>	<b>1,567</b>	<b>1,781</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity	55	55	55	55
Reserves & Surplus	2,506	2,902	3,142	3,414
Networth	2,561	2,957	3,197	3,469
Minority Interest	(3)	(3)	(3)	(3)
Borrowings	374	276	276	276
Long term Liabilities & proviso	423	384	384	384
<b>Source of funds</b>	<b>3,354</b>	<b>3,614</b>	<b>3,854</b>	<b>4,126</b>
<b>Assets</b>				
Net fixed assets	691	718	777	749
Net intangible assets	143	136	136	136
CWIP	80	11	11	11
Goodwill	537	583	583	583
Other non current assets	222	158	161	163
Non current Investments	41	34	34	34
Inventories	227	159	180	201
Debtors	726	803	912	1,017
Cash & Cash equivalents	952	1,465	1,567	1,781
Other current assets	560	426	472	525
Trade payables	373	453	508	567
Current liabilities	415	387	423	460
Provisions	38	38	48	48
<b>Application of funds</b>	<b>3,354</b>	<b>3,614</b>	<b>3,854</b>	<b>4,126</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	₹ crore			
	FY20	FY21	FY22E	FY23E
<b>Per share data (₹)</b>				
Adjusted EPS (Diluted)	33.9	33.1	44.8	51.7
Cash per Share	86.5	133.2	142.4	161.9
BV per share	232.8	268.9	290.7	315.4
DPS	18.0	32.0	23.0	27.0
<b>Operating Ratios (%)</b>				
EBITDA Margin	13.5	14.8	17.8	18.1
PAT Margin	7.7	8.8	10.5	10.9
Debtor days	60	71	71	71
Creditor days	31	40	40	40
<b>Return Ratios (%)</b>				
RoE	13.4	12.3	15.4	16.4
RoCE	15.9	14.5	18.4	19.7
RoIC	17.6	19.5	27.0	30.0
<b>Valuation Ratios (x)</b>				
P/E	21.7	20.4	15.1	13.1
EV / EBITDA	11.8	10.5	7.6	6.5
EV / Net Sales	1.6	1.6	1.4	1.2
Market Cap / Sales	1.7	1.8	1.6	1.5
Price to Book Value	2.9	2.5	2.3	2.1
<b>Solvency Ratios</b>				
Debt/EBITDA	0.6	0.5	0.3	0.3
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.8	1.6	1.6	1.6
Quick Ratio	1.6	1.4	1.4	1.4

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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