

Cyient Limited

Industry **TECHNOLOGY**
Bloomberg **CYL IN**
BSE CODE **532175**

Longer than expected time taken by Major Service verticals

RATING	NEUTRAL
CMP	545
Price Target	601
Potential Upside	10%

Rating Change	↓
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	821/469
Mkt Capital (Rs Cr)	5367
Free float (%)	78%
Avg. Vol 1M (,000)	101
No. of Shares (Cr)	11
Promoters Pledged %	0%

Research Analyst

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1QFY20 Result update

- ❑ Cyient reported soft quarter at the start of the year. Revenue came in at USD156.6million (misses our estimates of USD167 million) a decline of 5.2%QoQ. Even PAT stood at Rs 90 crore, a decline of 48.8%QoQ
- ❑ EBIT during the quarter stood at Rs 99 crore as compared to Rs 141 crore last quarter. The margin contracted 358bps to 9.2% primarily led by lower efficiencies like utilization which impacted 160 bps, higher SG&A impacted 142bps, Forex impacted 35 bps, and wage hike impact of 85 bps. While some portion of margin got offset due to cost optimization program (130 bps). EBIT margin for services business stood at 10.5%, a contraction of 580bps while DLM margin stood at negative contraction of 370 bps QoQ.
- ❑ In service, Baring Medical and Healthcare which grew 4.4%QoQ, All the other vertical posted a de growth. Energy and Utilities dragged the overall revenue by declining%Q11.8%QoQ, Followed by communication which declined 8.9%QoQ. Aerospace&defense also declined 2.8%QoQ mainly led delay recovery this segment.
- ❑ DLM business improved 2%QoQ to USD 18.7 million during the quarter.
- ❑ For 2QFY20, The management expects to bounce back in revenue growth to last year average in 2QFY20. Even the company believes to see good margin improvement in 2QFY20.

View and Valuation

Cyient 1QFY20 result reflected continued challenges in service vertical. Revenue in service business growth declined 5.7%QoQ in cc terms mainly led by weakness in Communications, Energy and Utilities and Aerospace & Defense. The quarter was expected to be revival quarter of these segments however the revival shifted to next quarter. With the miss in revenue growth, the margin also saw a steep decline of 358 bps to 9.2% during the quarter.

Going forward, we expect the revenue growth likely to revive from 2QFY20 as the management expects challenges in major vertical like Communications and Aerospace & Defense to have bottomed out however we expect the other verticals (semiconductors and Utilities and Geospatial) will continue to weigh on the revenue growth. Even order intake during the quarter decline from USD196million to USD136 which is showing some challenges still persists for the company.

On margin front, we do not see margins to drastically change as the management continues to in investment mode however with new cost optimization; we do see gradually recovery in margins going ahead.

Post result we have reduced our revenue growth for FY20/21 by 5.9%/3.9% and PAT growth by 5.6%/6.6%. Thus considering the macro challenges and soft 1Q, we have reduced our multiple from 15 to 14times and came up to target price of Rs601 and recommend Neutral.

Key Risks to our rating and target

- ❑ Slower than expected growth in aerospace and communications vertical.

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	3586	3914	4618	4708	5479
EBITDA	477	535	633	645	768
EBIT	382	430	521	524	651
PAT	340	403	477	474	546
EPS (Rs)	30	36	43	43	49
EPS growth (%)	4%	18%	21%	-1%	15%
ROE (%)	17	18	19	18	18
ROCE (%)	18	19	21	19	21
BV	183	203	232	258	291
P/B (X)	2.6	3.4	2.8	2.1	1.9
P/E (x)	15.5	19.2	15.0	12.7	11.0

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**1QFY20 Results
Mixed Performance**

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,080	1,187	1,188	1,163	1,089	0.8%	-6.4%	3,914	4,618	18.0%
Other Income	17	57	(19)	79	28	66.9%	-64.3%	152	134	-11.8%
COGS	88	124	110	97	102	15.9%	4.8%	307	419	36.3%
Employee	611	637	648	641	631	3.2%	-1.7%	2,188	2,537	16.0%
Other Exp	250	265	255	258	214	-14.7%	-17.2%	884	1029	16.4%
EBITDA	131	161	174	167	143	9.6%	-14.1%	535	633	18.2%
Depreciation	29	29	28	26	44	55.4%	69.7%	105	111	5.9%
EBIT	102	133	146	141	99	-3.2%	-29.7%	430	521	21.2%
Interest	7	9	9	8	12	64.8%	41.0%	20	33	59.8%
PBT	112	181	119	211	115	3.0%	-45.4%	562	623	10.9%
Tax	30	54	27	32	26	-16.1%	-19.8%	138	143	3.4%
Exceptional	-	-	-	4	-			5	4	-30.0%
PAT	83	127	92	176	90	9.0%	-48.8%	403	477	18.4%

1QFY20 performance: Revenue misses estimates

- ❑ Company's 1QFY20 revenue stood at USD137.7million , a decline of 6.1%QoQ mainly led by challenges in A&D(de growth of 2.8%QoQ), communication (declined 8.9%QoQ) and Energy and Utilities(declined 11.8%QoQ) in service business. DLM business improved 2%QoQ to USD 18.7 million during the quarter.
- ❑ In rupee terms, revenue came in at RS1083 crore which is decline of 6.4%QoQ and 0.8%YoY.
- ❑ In service business, Baring Medical and Healthcare which grew 4.4%QoQ,All the other vertical posted a de growth. Energy and Utilities dragged the overall revenue by declining%Q11.8%QoQ , Followed by communication which declined 8.9%QoQ.Aerospace&defense also declined 2.8%QoQ mainly led delay recovery this segment.

Weakness continued in service business while DLM posted some growth

Verticals (USD Mn)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	YoY%
ulities,geospatial & com	58	60	57	59	58	58	44	-23.9%	-23.0%
MFG &industria	82	82	85	87	86	89	94	5.4%	9.8%
DLM	12	22	18	23	21	18	19	1.7%	3.3%

Dip in fresher order intake

Order intake(in mn\$)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	QoQ%	YoY%
Service	241	187	153	157	255	185	134	-27.6%	-12.4%
DLM	4	19	17	39	19	11	21	90.9%	23.5%

Margin contraction led by continued investments

- ❑ EBIT during the quarter stood at Rs 99 crore as compared to Rs 141 crore last quarter . The margin contracted 358bps to 9.2% primarily led by lower efficiencies like utilization which impacted 160 bps, higher SG&A impacted 142bps, Forex impacted 35 bps, and wage hike impact of 85 bps. While some portion of margin got offset due to cost optimization program (130 bps). EBIT margin for services business stood at 10.5%, a contraction of 580bps while DLM margin stood at negative contraction of 370 bps QoQ.
- ❑ Other income is Lower by Rs50crore (-64%) QoQ primarily due to lower treasury income by Rs2.7crore and lower unrealized gains by Rs10.2crore which was offset by realized favorable forward contract gains by Rs11.4crore.
- ❑ PAT stood at Rs 90 crore, a decline of 48.8%QoQ

Guidance for FY20:

- ❑ The company has started seen the recovery in challenging verticals and is confidence of better performance in 2QFY20 onwards. The company expects to bounce back in revenue growth to last year average in 2QFY20.Even the company believes to see good margins improvement in 2QFY20.For FY20, with cost optimization initiative, the company expects EBIT to post double digit growth in FY20.

Concall Highlights

- **Disappointing quarter:** The Company reported disappointing performance in 1QFY20. The reason was mainly due challenges in two industry Aerospace and communication .The recovery expected in these two industry are taking longer than anticipated in beginning of the year. Going forwards, the company has started seen the recovery and is confidence of better performance in 2QFY20.
- **Strategic Investment in Cylus** (a rail cyber security company) : The investment strengthens Cyient focus on digitization and cyber security solutions for the rail industry.
- **Lease accounting change:** The company has adopted a new accounting standard Ind AS 116 Leases is effective for annual reporting beginning April 19 which has a Impact of 1.7% on operating profit margin and additions of Rs320 crore to asset base.
- **Hedge book:** Despite the volatility in major currencies, the company continues to adhere to a consistent Forex policy of hedging ~70% for next 12 months for major currencies (USD, GBP, EUR, CAD and AUD). On the current forward contracts, the company has outstanding Forward Contract as on 30th June'19 is ~ \$134Mn.)
- **Margin performance in 1QFY20:** The EBIT margin dropped 358bps to 9.2% mainly coming from lower efficiencies like utilization idle capacity which impacted 160 bps, higher SG&A impacted 142bps, Forex impacted 35 bps, and wage hike impact of 85 bps. While some portion was offset by cost optimization program (130 bps) .The Company's sees some reversal to come going forward however wage hike of rest of the employees will headwind in 2QFY20.
- **New Business Accelerator program:** The Company has invested 1% to 1.5% of revenue in NBA which will result in mid to long term growth as the company is seeing some projects going to order intake phase which means they will convert into revenue shortly.
- **Industry Outlook & Business Performance:** While the company saw some of the challenges in 1QFY20 with some of our client and some of issue specific to the company however the company does not see any of challenges in any of the industry so expects recovery quickly in 2QFY20 onwards
 - Aerospace: the vertical is continuing to grow quite well, the company to have 4% growth in overall aerospace market which will be quite impressive going ahead.
 - Communication will grow 2% to 3%.5G has started to happen and company is well positioned and expects to get some wins around 5G.
 - Energy and Utilities: continue to grow 2.5% as lot of money has put in things like grid modernization and renewable energy.
 - Semiconductor: As semiconductor is cyclical industry, The Company is expected to witness a drop of ~3% through the year driven by a downturn in memory chip sales.

Exhibit: Revenue trend

Communication and Aerospace decline led to softness in the service business de growth .

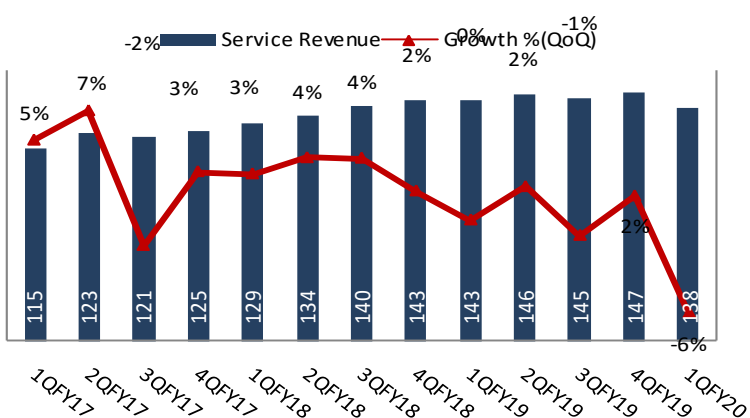


Exhibit: DLM revenue

DLM grew 2%QoQ as per the expectations .

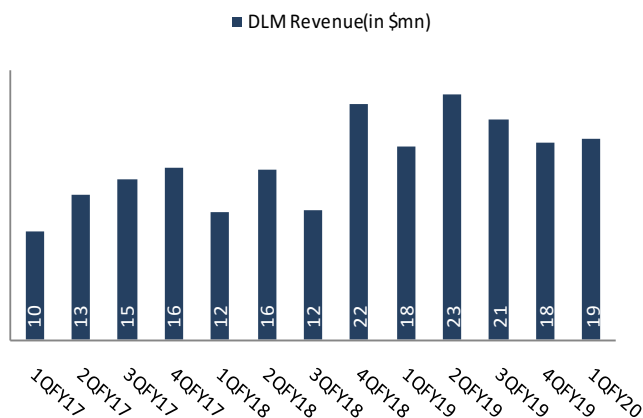


Exhibit: EBITDA and EBITDA margin

Higher investment and revenue miss led to margin decline.

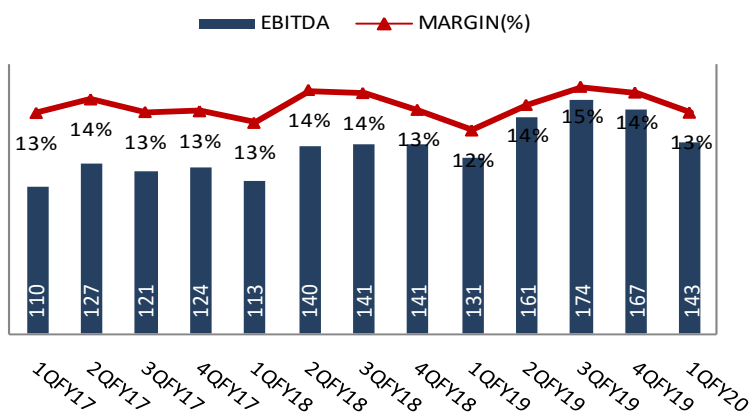


Exhibit: Utilization trend

Utilisation impacted during the quarter.

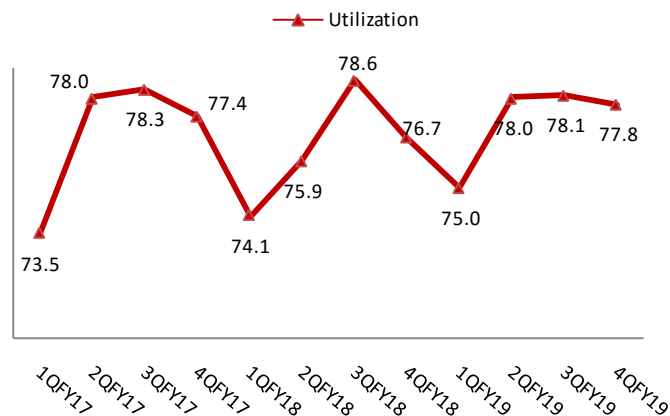


Exhibit: Other income

Forex change in items and absense of claim from export merchandise led to lower other income .

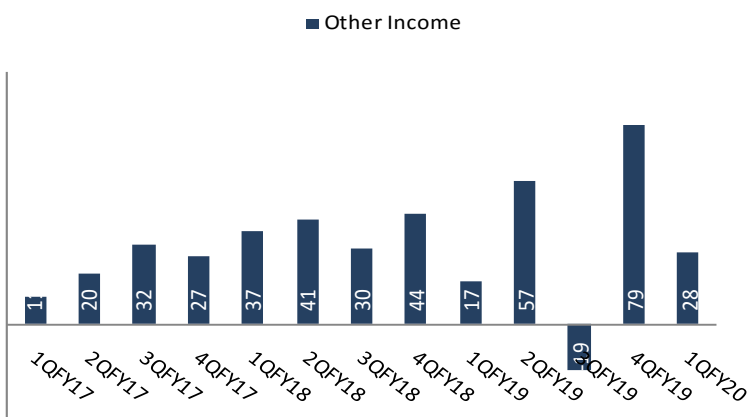
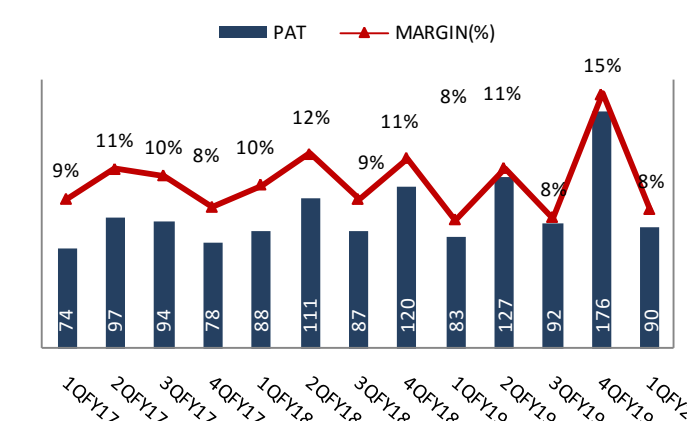


Exhibit: PAT and PAT Growth

Revenue and margin dragged the PAT growth.



Operational Details

By Geography (%)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Americas	54	55	53	53	52	54	50	59
EMEA	27	28	29	25	24	22	23	27
Asia Pacific	19	17	18	23	24	24	28	14

No. of Mn Dollar Client	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
20 Mn+	5	5	4	4	4	4	4	4
10 Mn+	9	11	12	11	13	13	13	12
5 Mn+	22	23	24	25	27	31	29	28
1 Mn+	65	66	63	66	68	87	86	86
New Customers Added	27	N/A	N/A	20	14	11	5	20

Onshore/Offshore (%)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Offshore	41	43	44	42	43	42	57	57
Onsite	59	57	56	58	57	58	43	44

Utilization (%)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Utilization (%)	76	79	77	75	78	78	78	N/A

Capital Expenditure	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Capex	24	24	48	40	24	33	41	24

By Business Unit (%)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Aerospace and Defense	35%	35%	33%	34%	34%	34%	34%	35%
Transportation	11%	12%	12%	12%	12%	12%	12%	13%
IE&NR	9%	9%	8%	8%	9%	9%	13%	12%
Semiconductor ²	4%	4%	4%	6%	6%	5%	6%	6%
Medical & Healthcare	2%	2%	2%	2%	2%	2%	2%	2%
Utilities and Geospatial	16%	17%	16%	14%	14%	15%	11%	10%
Communications	23%	23%	25%	24%	24%	23%	22%	22%

Order Intake (\$ Mn)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
Cyient (Current FY)	100	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cyient Services (after FY) ²	7	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Cyient Services Total OI²	107	241	187	153	157	255	185	134
DLM (Executable Current FY)	11	N/A	N/A	N/A	N/A	N/A	N/A	N/A
DLM (after FY)	1	N/A	N/A	N/A	N/A	N/A	N/A	N/A
DLM Total OI	12	4	19	17	39	19	11	21

Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	56	56	56	56	56	55	55	55
Reserves	1,532	1,788	1,854	2,061	2,288	2,509	2,799	3,161
Networth	1,588	1,844	1,910	2,117	2,344	2,564	2,854	3,216
Debt	-	12	13	3	0	(1)	(1)	(1)
Other Non Current Liab	6	128	183	165	241	325	325	325
Total Capital Employed	43	83	79	138	163	226	226	226
Net Fixed Assets (incl CWIP)	1,594	1,972	2,093	2,282	2,585	2,889	3,180	3,542
Non Current Investments	341	372	408	450	494	556	544	553
Other Non Current Assets	53	68	80	103	30	27	27	27
Non Current Assets	108	570	454	512	563	721	721	721
Inventory	-	61	98	94	131	28	28	28
Debtors	480	534	615	650	691	814	830	966
Cash & Bank	691	623	695	878	981	971	1,267	1,558
Other Curr Assets	155	183	199	92	91	167	171	199
Short-term loans and advances	79	136	109	-	-	-	-	-
Other financial asset	-	-	-	266	338	423	423	423
Current investments	40	34	79	93	113	28	183	183
Current Assets	1,445	1,570	1,795	2,071	2,346	2,430	2,901	3,356
Creditors	174	275	311	402	381	371	378	440
Provisions	62	96	58	24	23	29	29	29
Other Current Liabilities	72	140	184	288	280	376	381	422
Curr Liabilities	309	511	553	713	684	775	788	891
Net Current Assets	1,136	1,059	1,242	1,358	1,662	1,654	2,113	2,465
Total Assets	1,947	2,579	2,737	3,136	3,433	3,889	4,192	4,657

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	2,206	2,736	3,096	3,586	3,914	4,618	4,708	5,479
Change (%)	18%	24%	13%	16%	9%	18%	2%	16%
EBITDA	410	401	421	477	535	633	645	768
Change (%)	20%	-2%	5%	13%	12%	18%	2%	19%
Margin (%)	19%	15%	14%	13%	14%	14%	14%	14%
Depr & Amor.	72	71	89	95	105	111	121	117
EBIT	338	330	331	382	430	521	524	651
Int. & other fin. Cost	1	6	18	16	20	33	47	47
Other Income	17	122	109	93	152	134	139	110
EBT	354	446	422	459	562	623	616	714
Exp Item	-	-	9	26	5	4	-	-
Tax	103	110	99	105	138	143	142	168
Minority Int & P/L share of Ass.	15	15	12	12	(16)	1	-	-
Reported PAT	266	351	327	340	403	477	474	546
Adjusted PAT	266	351	327	340	403	477	474	546
Change (%)	15%	32%	-7%	4%	18%	18%	-1%	15%
Margin(%)	12%	13%	11%	9%	10%	10%	10%	10%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	18.3	20.5	17.4	16.9	18.1	19.4	17.5	18.0
ROCE	23.2	18.9	17.1	18.4	18.8	20.5	18.6	20.7
Asset Turnover	6	7	8	8	8	8	9	10
Current Ratio	5	3	3	3	3	3	4	4
Debtor Days	114	71	72	66	64	64	64	-
Book Value Per Share	137	159	165	183	203	232	258	291
Payable Days	29	37	37	41	36	29	29	-
Earnings Per Share	24	31	29	30	36	43	43	49
P/E	14	16	15	16	19	15	13	11
Price / Book Value	2	3	3	3	3	3	2	2
EV/EBITDA	7	13	10	10	13	10	8	6
EV/Sales	1	2	1	1	2	1	1	1
Dividend Payout%	21%	26%	24%	35%	36%	35%	35%	30%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	354	446	413	340	403	477	616	714
(inc)/Dec in Working Capital	(67)	33	(93)	37	(166)	(171)	(7)	(61)
Non Cash Op Exp	395	440	456	466	607	650	737	830
Int Paid (+)	1	6	18	17	20	33	47	47
Tax Paid	(102)	(117)	(102)	(100)	(165)	(142)	(142)	(168)
CF from Op. Activities	227	362	278	420	296	370	635	649
(inc)/Dec in FA & CWIP	(77)	(82)	(129)	(108)	(147)	(151)	(108)	(126)
Free Cashflow	151	280	150	312	149	219	527	522
(Pur)/Sale of Inv	21	6	(45)	(24)	314	611	-	-
others	38	(453)	89	(49)	(254)	(681)	-	-
CF from Inv. Activities	(18)	(528)	(85)	(181)	(87)	(221)	(108)	(126)
inc/(dec) in NW	5	7	2	2	1	2	-	-
Int. Paid	(1)	(6)	(18)	(17)	(19)	(30)	(47)	(47)
Div Paid (inc tax)	(52)	(78)	(162)	(75)	(189)	(126)	(184)	(184)
others	6	46	67	(3)	72	85	-	-
CF from Fin. Activities	(43)	(32)	(111)	(94)	(136)	(232)	(231)	(231)
Inc(Dec) in Cash	167	(198)	83	146	74	(83)	296	292
Add: Opening Balance	522	769	600	711	857	960	907	1,203
Closing Balance	689	570	683	857	960	907	1,204	1,495

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Analyst's ownership of the stocks mentioned in the Report	NIL
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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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