

Industry  
Bloomberg  
BSE CODE

TECHNOLOGY  
CYL IN  
532175

## Weakness in aerospace weighing on FY20 growth

RATING	NEUTRAL
CMP	446
Price Target	481
Potential Upside	8%
Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	6393/414
Mkt Capital (Rs Cr)	4903
Free float (%)	78%
Avg. Vol 1M (,000)	11
No. of Shares (Crs)	11
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	4,618	4,625	5,135
EBITDA	633	680	781
EBIT	521	498	596
PAT	477	455	529
EPS (Rs)	43	41	48
EPS growth (%)	21%	-5%	16%
ROE (%)	19	17	18
ROCE (%)	21	18	19
BV	232	257	288
P/B (X)	3	2	2
P/E (x)	15	11	9

### RESEARCH ANALYST

**NIHARIKA OJHA**

niharika@narnolia.com  
+91-22-62701230

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### 2QFY20 Result Update

- Cyient reported mixed set of numbers in 2QFY20 result. Revenue grew 5.7%QoQ in cc terms to USD164.2 (in line with our estimates of USD164.6million) mainly led by growth in design ledManufacturing (DLM) which grew 28.0%QoQ While PAT came at Rs 97.5 crore, (miss estimates) due to lower Other income
- EBIT for the quarter came in at Rs111 crore, a growth of 12.9%QoQ. Margin expanded 50bps owing to Cost optimization and volume gain which gave 200bps benefit, other 50bps came from normal operational efficiencies however this benefits were partly offset by wage hike which impacted 107bps .Also the company incurred one time impact in restructuring cost (combination of consultation and amount spend on execution of restructuring) which impacted 85bps.Reported EBIT came at 9.6% (lower than our estimates)however excluding one offs it was be 12.3%.
- Other income during the quarter came at Rs 26.4 crore which was lower than anticipated due to timing issue. The management thinks H2 to be better than H1. For the full year the management expects other income to be same or marginally higher than last year.

### Communication recovery encouraging while Aerospace vertical hits its bottom

Growth during the quarter was led by utilities which grew 9.3% QoQ in USD terms, Followed by communication which bounced back with growth of 2.3% QoQ .Medical/ transportation vertical continued to remain strong by growing 6.2% QoQ and 3.4% QoQ while Aerospace& defense vertical hit its bottom and declined 1.7% QoQ. Geography wise, The US did better at 4.2% QoQ while Europe was down 0.5% & APAC by 3.2% were weak.

### Weakness continued in large clients

Challenges in large aerospace and semiconductor client led to Top 5 and top 6-10 services client revenue declined by 8.1%YoY and18.5%YoY during the quarter .However some grace came in Top 5 client revenue(1% QoQ growth in Top 5 client ) with the stability in communication. Going ahead, Management expects the stability in the client as theirs no further client specific issue.

### View and Valuation

Although 2QFY20 revenue has shown a solid recovery of Cyient ,a weak start to the year has drag the FY20 growth. Going ahead continued improvement in service business (through robust growth in E&U, communication &medical vertical) and making more profitable growth in DLM business will drive growth in FY20.Also increase in order backlog (grew6.5%QoQ in 2QFY20) gives us confident of revenue visibility in coming quarters .However, weakness in aerospace verticals (contributes ~34% to service business) will continue to weigh on the revenue growth. Also on margin front, there will no drastic change in FY20 as the management continues to be in investment and restructuring mode, however with new cost optimization exercise; we do see gradually recovery in margins going ahead. Post result, we have marginally reduced our margins by 40/10 bps for FY20 /FY21E seeing impact of restructuring cost .Thus we maintain our Neutral stance on the stock with the target price of Rs481.

### Key Risks to our rating and target

- Slower than expected growth in aerospace and communications vertical.
- Slow down in order booking.

## 2QFY20 Results

### Mixed quarter

Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,187	1,188	1,163	1,089	1,159	-2.4%	6.4%	3913.9	4617.5	18.0%
Other Income	57	(19)	79	28	26	-53.6%	-6.4%	152	134	-11.8%
COGS	124	110	97	102	136	10.4%	34.0%	307	419	36.3%
Employee Exp	637	648	641	631	632	-0.7%	0.3%	2,188	2,537	16.0%
Other Expenses	265	255	258	214	230	-13.3%	7.6%	884	1,029	16.4%
EBITDA	161	174	167	143	160	-0.7%	12.0%	535	633	18.2%
Depreciation	29	28	26	44	49	69.1%	9.9%	105	111	5.9%
EBIT	133	146	141	99	112	-15.8%	13.0%	430	521	21.2%
Interest	9	9	8	12	13	43.7%	6.8%	20	33	59.8%
PBT	181	119	211	115	126	-30.6%	8.8%	562	623	10.9%
Tax	54	27	32	26	28	-47.9%	10.2%	138	143	3.4%
Exceptional	-	-	4	-	-			5	4	-30.0%
PAT	127	92	176	90	98	-23.3%	8.5%	403	477	18.4%

## Concall Highlights

- **Growth:** Revenue growth came back to its old trajectory with Communication and E&U contributing the most. Service segment grew 1.8%QoQ in USD terms and 2.6%QoQ in cc terms .Good growth were seen communication ( 3.3%QoQ in cc terms). E&U business showed good traction , grew more than 10%QoQ in cc terms, transportation grew by 5% QoQ While Aerospace & defense had de-growth of 1.7%QoQ.DLM business has clock USD23.8million , grew by 27.4%QoQ. Going forward, the company expects 3QFY20 to see marginal growth on QoQ basis. Service business will see QoQ growth in 3Q despite furloughs. From 4Q, the company expects to see good growth coming in.
- **Update on Cost optimization exercise:** The Company is seeing good traction in this. This exercise will help margin to grow on sustainable basis by improving the cost of delivery and also improvement on SG&A cost.
- **Hedge book:** There is no change in the policy for hedging .The company continues to hedge 70% for twelve months. The exposure is about USD135million .With current spot rate, the company expects to see USD8.5million of forex gain in next twelve months.
- **Other income:** Other income was soft due to timing issue. The management thinks H2 to be better than H1. For the full year the management expects other income to be same or marginally higher than last year.
- **Client specific issue:** the company has bottomed out with client issue. All the Large clients have shown a significant QoQ growth. The company believes that though there will not a significant acceleration in growth, but is confident of growth in coming quarters. Client has stabilized now.
- **Capex:** For FY20, capex will be in 2.5 to 3.5%
- **Sub-contracting expense:** Management is trying to lower Sub-con cost largely in communication however hasn't seen any fundamental change in the business model
- **Margin performance:**
  - Cost optimization worked well for the company. Cost optimization and volume gain benefitted the margins by 200bps, other 50bps came from normal operational efficiencies .This benefits were offset by wage hike which impacted 107bps and also the company incurred one time impact in restructuring cost (combination of consultation and amount spend on execution of restructuring) which impacted 85bps.Reported EBIT came at 9.6% however excluding one offs will be 12.3%.
  - 3Q and 4Q will continue to see restructuring cost and NBA investment (1.5% of spend in Fy20).
  - For FY20, Adjusting onetime restructuring cost and Investment made, like to like margin from 4QFY19 to 4QFY20, the management expects improvement of 200 to 300 bps hike .
- **ETR:** For FY20, the company expects to have 22% to 23% tax.
- **DSO:** DSO for the quarter has come down by 9 days after increasing in 1Q due to delay in invoicing .The management believes H2 will see better traction in cash flow and DSO days.

• **Business update:**

- In Aerospace and defense, there still some commercial aircraft backlog which is with OEMs and also defense vertical is picking up as geopolitical risk is there. The company will continue to focus on aftermarket MRO type of engineering services. While the demand is good, there is no new program in the pipeline that this point. The management believes it has hit the bottom in 2Q and will see growth going ahead.
  - Communication: There is growth in the industry in the new technology like 5G .But the company is seeing deployment of 5G to be slow .Though the company has good offering in this area but the rollout will be little tepid.
  - E&U: The company believes that the industry is being strong .The company outlook remain very strong on this segment as it believes the momentum to continue.
  - Portfolio vertical: Remain tepid for the market as well as for the company. Geospatial business will continue to remain challenge for the company for the rest of the year.
  - Medical is doing well and growing above company average.
  - Semiconductor is going through a bottom cycle and not much work is flowing through – market is expected to see de-growth of 15%.However management expects to grow in this segment with order book and pipeline but will have tepid growth.
- **Outlook for DLM business:** The Company believes to see some growth from DLM but it might not be double digit growth that the company was anticipating earlier .The company is strategically giving up revenues which are not coming with high margins.

## Revenue Mix (Services + DLM)

### STRONG GROWTH IN DLM, SERVICE REMAINED MODERATE

REVENUE MIX (USD MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
Services revenue	143	143	146	145	147	138	140	1.8%	-3.8%
DLM Revenue	22	18	23	21	18	19	24	28.2%	4.3%
<b>Total revenue</b>	<b>165</b>	<b>161</b>	<b>169</b>	<b>165</b>	<b>165</b>	<b>157</b>	<b>164</b>	<b>4.9%</b>	<b>-2.7%</b>

## Revenues by Business Segments

### RECOVERY IN COMMUNICATION , AEROSPACE REMAINED WEAK

VERTICALS SPLIT (USD MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
Aerospace and Defense	48	49	49	50	50	48	48	-1.7%	-3.5%
Transportation	17	17	17	17	18	18	18	3.4%	5.9%
Energy & Utilities	12	12	13	12	19	17	19	9.3%	47.6%
Semiconductor	6	8	8	7	8	8	7	-9.3%	-18.8%
Medical and Consumer	3	3	3	3	3	3	3	6.2%	21.5%
Portfolio	23	20	21	22	16	14	15	6.7%	-26.7%
Communications	35	34	35	34	33	30	30	2.3%	-12.7%

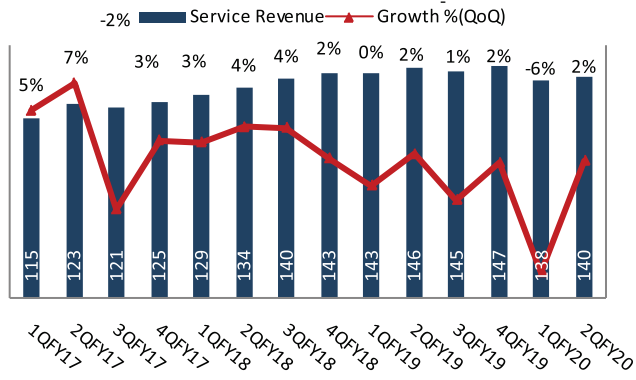
## Revenues by Geography

### STRONG GROWTH CONTINUED IN US

GEOGRAPHY SPLIT (USD MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	QoQ%	YoY%
North America	88	84	88	89	82	92	99	7.4%	12.5%
Europe, ME, Africa and India	48	40	40	36	37	42	43	2.5%	7.4%
Asia Pacific	29	37	41	39	46	22	22	-0.3%	-45.6%
<b>Total Revenue</b>	<b>165</b>	<b>161</b>	<b>169</b>	<b>165</b>	<b>165</b>	<b>157</b>	<b>164</b>	<b>5.0%</b>	<b>-2.8%</b>

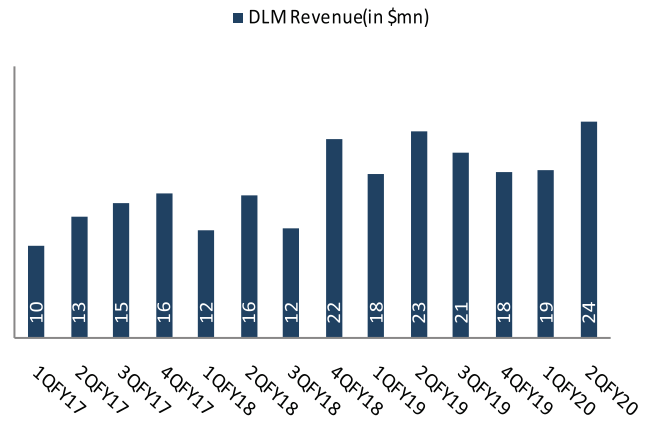
## Exhibit: Revenue trend

Communication and DLM led the strong growth



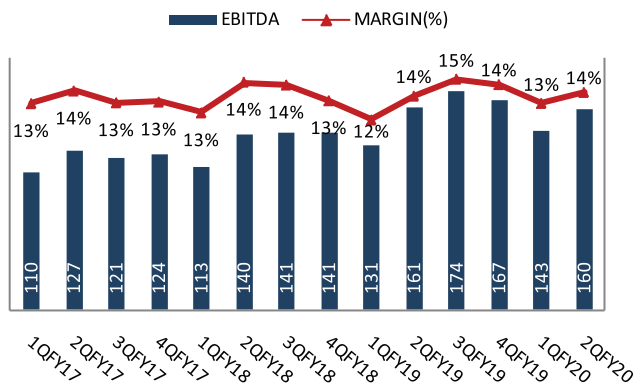
## Exhibit: DLM revenue

DLM grew 28%QoQ as per the expectations .



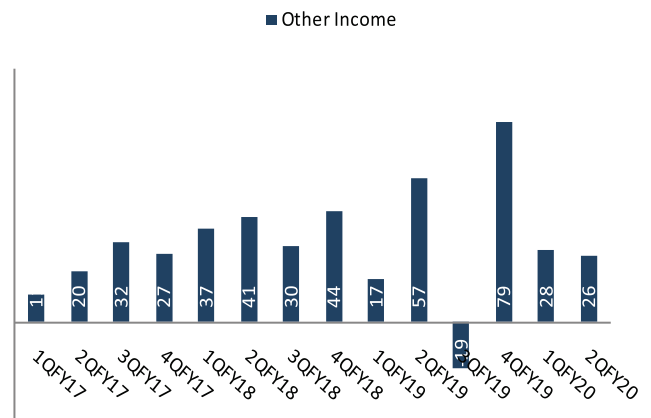
## Exhibit: Margin Trend

Better Operational efficiency led to margin expansion in FY20.



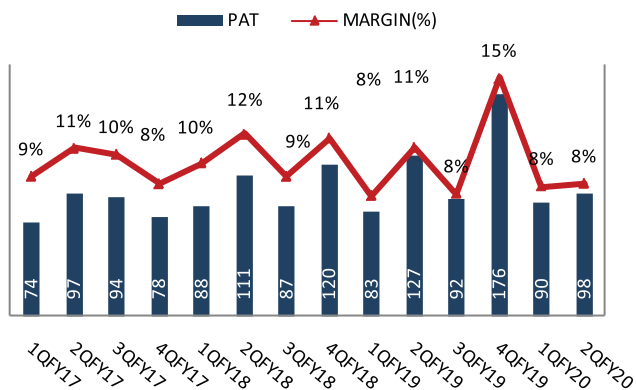
## Exhibit: Other income

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



## Exhibit: PAT and PAT Growth

Lower Other income dragged the PAT growth



## Operational Details

GEOGRAPHY %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
America	55.1	53.3	52.5	52	54.1	49.6	58.8	60.2
EMEA	27.7	29.2	24.6	23.8	22.1	22.6	26.9	26.3
Asia Pacific	17.2	17.5	23	24.3	23.8	27.8	14.3	13.6

NO. OF MN DOLLAR CLIENT	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
20 Mn+	5	4	4	4	4	4	4	4
10 Mn+	11	12	11	13	13	13	12	12
5 Mn+	23	24	25	27	31	29	28	22
1 Mn+	66	63	66	68	87	86	86	77
New Customers Added	12	12	12	12	11	5	20	19

ONSHORE/OFFSHORE (%)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Offshore	42.8	44	42	42.8	42.4	57.3	56.5	55.3
Onsite	57.2	56	58.1	57.2	57.6	42.7	43.5	44.7

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

BY BUSINESS UNIT (%)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Aerospace and Defense	35%	33%	34%	34%	34%	34%	35%	34%
Transportation	12%	12%	12%	12%	12%	12%	13%	13%
IE&NR	9%	8%	8%	9%	9%	13%	12%	13%
<b>Semiconductor</b>	<b>4%</b>	<b>4%</b>	<b>6%</b>	<b>6%</b>	<b>5%</b>	<b>6%</b>	<b>6%</b>	<b>5%</b>
Medical & Healthcare	2%	2%	2%	2%	2%	2%	2%	2%
Utilities and Geospatia	17%	16%	14%	14%	15%	11%	10%	11%
Communications	23%	25%	24%	24%	23%	22%	22%	22%

ORDER INTAKE (\$ MN)	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Cyient Services Total OI	241	187	153	157	255	185	134	143
DLM T otal OI	4	19	17	39	19	11	21	22

## Financial Details

### Balance Sheet

Fig in Rs Cr

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	2,780	3,125
<b>Networth</b>	<b>1,588</b>	<b>1,844</b>	<b>1,910</b>	<b>2,117</b>	<b>2,344</b>	<b>2,564</b>	<b>2,835</b>	<b>3,180</b>
minority interest	-	12	13	3	0	(1)	(1)	(1)
Debt	6	128	183	165	241	325	325	325
Other Non Current Liab	43	83	79	138	163	226	226	226
<b>Total Capital Employed</b>	<b>1,594</b>	<b>1,972</b>	<b>2,093</b>	<b>2,282</b>	<b>2,585</b>	<b>2,889</b>	<b>3,160</b>	<b>3,505</b>
Net Fixed Assets (incl CWIP)	341	372	408	450	494	556	481	414
Non Current Investments	53	68	80	103	30	27	27	27
<b>Non Current Assets</b>	<b>108</b>	<b>570</b>	<b>454</b>	<b>512</b>	<b>563</b>	<b>721</b>	<b>721</b>	<b>721</b>
Inventory	-	61	98	94	131	28	28	28
Debtors	480	534	615	650	691	814	815	905
Cash & Bank	691	623	695	878	981	971	1,317	1,688
Other Curr Assets	155	183	199	92	91	167	168	186
Short-term loans and advances	79	136	109	-	-	-	-	-
Other financial assets	-	-	-	266	338	423	423	423
Current investments	40	34	79	93	113	28	183	183
<b>Current Assets</b>	<b>1,445</b>	<b>1,570</b>	<b>1,795</b>	<b>2,071</b>	<b>2,346</b>	<b>2,430</b>	<b>2,933</b>	<b>3,413</b>
Creditors	174	275	311	402	381	371	372	413
Provisions	62	96	58	24	23	29	29	29
Other Curr Liab	72	140	184	288	280	376	376	403
<b>Curr Liabilities</b>	<b>309</b>	<b>511</b>	<b>553</b>	<b>713</b>	<b>684</b>	<b>775</b>	<b>777</b>	<b>845</b>
<b>Net Curr Assets</b>	<b>1,136</b>	<b>1,059</b>	<b>1,242</b>	<b>1,358</b>	<b>1,662</b>	<b>1,654</b>	<b>2,156</b>	<b>2,568</b>
<b>Total Assets</b>	<b>1,947</b>	<b>2,579</b>	<b>2,737</b>	<b>3,136</b>	<b>3,433</b>	<b>3,889</b>	<b>4,161</b>	<b>4,575</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>2206</b>	<b>2736</b>	<b>3096</b>	<b>3586</b>	<b>3914</b>	<b>4618</b>	<b>4625</b>	<b>5135</b>
Change (%)	18%	24%	13%	16%	9%	18%	0%	11%
<b>EBITDA</b>	<b>410</b>	<b>401</b>	<b>421</b>	<b>477</b>	<b>535</b>	<b>633</b>	<b>680</b>	<b>781</b>
Change (%)	20%	-2%	5%	13%	12%	18%	7%	15%
Margin (%)	0	0	0	0	0	0	0	0
Depr & Amor.	72	71	89	95	105	111	182	186
<b>EBIT</b>	<b>338</b>	<b>330</b>	<b>331</b>	<b>382</b>	<b>430</b>	<b>521</b>	<b>498</b>	<b>596</b>
Int. & other fin. Cost	1	6	18	16	20	33	49	50
Other Income	17	122	109	93	152	134	138	141
<b>EBT</b>	<b>354</b>	<b>446</b>	<b>422</b>	<b>459</b>	<b>562</b>	<b>623</b>	<b>587</b>	<b>687</b>
Exp Item	-	-	9	26	5	4	-	-
Tax	103	110	99	105	138	143	131	158
Minority Int & P/L share of Ass.	15	15	12	12	(16)	1	-	-
<b>Reported PAT</b>	<b>266</b>	<b>351</b>	<b>327</b>	<b>340</b>	<b>403</b>	<b>477</b>	<b>455</b>	<b>529</b>
<b>Adjusted PAT</b>	<b>266</b>	<b>351</b>	<b>327</b>	<b>340</b>	<b>403</b>	<b>477</b>	<b>455</b>	<b>529</b>
Change (%)	15%	32%	-7%	4%	18%	18%	-5%	16%
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	20	17	17	18	19	17	18
ROCE	23	19	17	18	19	21	18	19
Asset Turnover	6	7	8	8	8	8	10	12
Current Ratio	5	3	3	3	3	3	4	4
Debtor Days	114	71	72	66	64	64	64	0
Book Value Per Share	137	159	165	183	203	232	257	288
Payable Days	29	37	37	41	36	29	29	0
Earnings Per Share	24	31	29	30	36	43	41	48
P/E	14	16	15	16	19	15	11	9
Price / Book Value	2	3	3	3	3	3	2	2
EV/EBITDA	7	13	10	10	13	10	6	5
EV/Sales	1	2	1	1	2	1	1	1

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	354	446	413	340	403	477	587	687
(inc)/Dec in Working Capital	(67)	33	(93)	37	(166)	(171)	(0)	(40)
Non Cash Op Exp	395	440	456	466	607	650	768	872
Int Paid (+)	1	6	18	17	20	33	49	50
Tax Paid	(102)	(117)	(102)	(100)	(165)	(142)	(131)	(158)
<b>CF from Op. Activities</b>	<b>227</b>	<b>362</b>	<b>278</b>	<b>420</b>	<b>296</b>	<b>370</b>	<b>686</b>	<b>724</b>
(inc)/Dec in FA & CWIP	(77)	(82)	(129)	(108)	(147)	(151)	(106)	(119)
Free Cashflow	151	280	150	312	149	219	580	606
(Pur)/Sale of Inv	21	6	(45)	(24)	314	611	-	-
others	38	(453)	89	(49)	(254)	(681)	-	-
<b>CF from Inv. Activities</b>	<b>(18)</b>	<b>(528)</b>	<b>(85)</b>	<b>(181)</b>	<b>(87)</b>	<b>(221)</b>	<b>(106)</b>	<b>(119)</b>
inc/(dec) in Debt	5	7	2	2	1	2	-	-
Int. Paid	(1)	(6)	(18)	(17)	(19)	(30)	(49)	(50)
Div Paid (inc tax)	(52)	(78)	(162)	(75)	(189)	(126)	(184)	(184)
others	6	46	67	(3)	72	85	-	-
<b>CF from Fin. Activities</b>	<b>(43)</b>	<b>(32)</b>	<b>(111)</b>	<b>(94)</b>	<b>(136)</b>	<b>(232)</b>	<b>(233)</b>	<b>(234)</b>
<b>Inc(Dec) in Cash</b>	<b>167</b>	<b>(198)</b>	<b>83</b>	<b>146</b>	<b>74</b>	<b>(83)</b>	<b>346</b>	<b>372</b>
Add: Opening Balance	522	769	600	711	857	960	907	1,253
<b>Closing Balance</b>	<b>689</b>	<b>570</b>	<b>683</b>	<b>857</b>	<b>960</b>	<b>907</b>	<b>1,254</b>	<b>1,625</b>

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; [www.narnolia.com](http://www.narnolia.com).

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, A.J.C Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; [www.narnolia.com](http://www.narnolia.com)

Compliance Officer: Manish Kr Agarwal, Email Id: [mkagarwal@narnolia.com](mailto:mkagarwal@narnolia.com), Contact No.:033-40541700.

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