

Industry
Bloomberg
BSE CODE

TECHNOLOGY
CYL IN
532175

Challenges bottoming out, FY21 margins to improve with past investments

RATING	NEUTRAL
CMP	450
Price Target	465
Potential Upside	3%
Rating Change	↔
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	692/380
Mkt Capital (Rs Cr)	4944
Free float (%)	78%
Avg. Vol 1M (,000)	7
No. of Shares (Crs)	11
Promoters Pledged %	0

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	4,618	4,503	4,935
EBITDA	633	645	770
EBIT	521	459	571
PAT	477	433	513
EPS (Rs)	43	39	46
EPS growth (%)	21%	-9%	18%
ROE (%)	19	16	17
ROCE (%)	21	16	18
BV	232	255	284
P/B (X)	3	2	2
P/E (x)	15	6	5

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3QFY20 Result Update

- Cyient reported soft 3QFY20 with revenue missing estimates while Pat came in line. Revenue for the quarter stood at USD155.2 million (misses our estimates by 4.1%) mainly impacted by decline in DLM business which is cyclical in nature and strategic investment in one of the project.
- EBIT for the quarter stood at Rs 105 crore, a decline of 5.6%. The operating margin remained at 9.5% (a drop of 10bps). However excluding one off the normalized margin in 3Q was at 12.3%. The 400bps YOY improvement in normalized margin was offset by 1) one time implementation cost of 200 to 250 bps; 2) headwind from wage hike (150 to 200bps); 3) lower volume and higher NBA investment (150).
- PAT for the quarter came at Rs 107.6 crore, a growth of 10.4% primarily owing to higher other income.
- Other income grew 88.6% to Rs 49.8 crore vs. Rs 26.4 crore previous quarter mainly led by unrealized forex restatement gain (Rs 18.4 crore) and Reversal of Old provisions.
- On Core business, service stood at USD140.1 million, signifying a flattish QoQ (50bps decline) while DLM business declined significantly (36% decline QoQ) as per expectation due to resizing done by the company to get revenue with higher quality.

Bounce back in communication, while A&D remained weak

The company saw soft 3Q with most of the core business showing weakness. A&D remained weak and declined 5.2% QoQ, Semiconductor/Medical and Consumer remained muted 0.2%/0.2% QoQ. Transportation showed a steep decline of 14.8% QoQ mainly due to investment done upfront for future growth. However communication recovered by growing double digit of 12.2% QoQ mainly led by ramping up of the projects. Even Energy & Utilities remained strong by growing 9.6% QoQ. The management expects communication vertical to continue to see growth in coming quarter while A&D will need 1 to 2 quarters to get back to growth.

Completion of Cost optimization exercise to push margins in FY21

At the beginning of the year, the company started with a cost optimization exercise which impacted the margins in last 9 months up to USD6 million. The company has been doing well with this exercise and expects to complete this in 4QFY20. 1QFY21 will see full benefit coming from this exercise. The management expects to improve margin by 200 to 250 bps for FY21 led by with absence of implementation cost and rationalizing down the NBA investment.

View and Valuation

9MFY20 performance had been weak for Cyient due to multiple factors. Challenges in top accounts, Issues in core vertical (Aerospace and Communication) and drag from lower margin DLM business impacted the overall growth. Also margin saw a steep decline of ~160 bps in 9M owing to continued investment. Going forward, we expect 4Q to see some sequential growth owing to recovery in communication while A&D and semiconductor challenges will continue to persist. We expect better growth to come in FY21 as investment done on some segment will start to kick in and as most of the challenges are bottoming out. However A&D will continue to overhang for some more quarters. Margin will see uptick in FY21 (150bps) owing to absence of some headwinds like volume and completion of some investments (cost optimization exercise).

We see some positive trend in margins in FY21, however post result due to steep decline in revenue, we have reduced our revenue growth by 2.1%/2.8% and while PAT remained same for FY20 due to continued investment in 4Q. Thus we will continue to maintain our Neutral stance in the stock and will watch 4Q result for revised target if needed. Thus we largely maintain our target price of Rs 465 and recommend Neutral.

Key Risks to our rating and target

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

3QFY20 Results

Revenue misses estimates

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,188	1,163	1,089	1,159	1,106	-6.9%	-4.6%	3913.9	4617.5	18.0%
Other Income	(19)	79	28	26	50	-366.3%	88.6%	152	134	-11.8%
COGS	110	97	102	136	75	-31.9%	-45.0%	307	419	36.3%
Employee Exp	648	641	631	632	615	-5.1%	-2.7%	2,188	2,537	16.0%
Other Expenses	255	258	214	230	264	3.3%	14.7%	884	1,029	16.4%
EBITDA	174	167	143	160	152	-12.6%	-5.1%	535	633	18.2%
Deprication	28	26	44	49	47	67.5%	-3.7%	105	111	5.9%
EBIT	146	141	99	112	105	-28.0%	-5.6%	430	521	21.2%
Interest	9	8	12	13	12	40.0%	-4.8%	20	33	59.8%
PBT	119	211	115	126	143	20.3%	14.1%	562	623	10.9%
Tax	27	32	26	28	33	25.2%	18.5%	138	143	3.4%
Exceptional	-	4	-	-	-			5	4	-30.0%
PAT	92	176	90	98	108	16.5%	10.4%	403	477	18.4%

Concall Highlights

- Weak quarter:** The Company posted a de growth of 5.5%QoQ in cc terms primarily driven by decline in DLM business which is cyclical in nature. On Core business, service stood at USD140.1 million, signifying a flattish QoQ (50bps decline).DLM declined significant (36% decline QoQ) which was in line with expectation of the company primarily due to resizing done by the company to get revenue with higher quality.
- 3QFY20 margin:**
 - The margin for the quarter remained flat at 9.6%.However excluding one off the normalize margin in 3Q was at 12.3%.
 - The 400bps YOY improvement in normalize margin was offset 1) one time implementation cost of 200 to 250 bps; 2)headwind from wage hike (150 to 200bps); 3) lower volume and higher NBA investment (150) .
 - Going forward the management expects to see uptick in margins up to 200 to 250 bps net for FY21 with absence of some headwinds like volume, Investment done on NBA will start to fructify(investment will be lower from next year) and absence of implementation cost in cost optimization exercise .Created a cost base for the next year .
- NBA investment:** The Company expects some of NBA investment (12 crore quarterly run rate)to continue in FY21 However the scale will reduced as some of the project will end in FY20.The company will rationalize down the investment going forward.
- Cost optimization update:** At the beginning of the year, the company started with a cost optimization exercise which impacted the margins in last 9 months up to USD6 million. The company has been doing well with this exercise and expects to complete this in 4QFY20. 1QFY21 will see full benefit coming from this exercise.4QFY20 will see marginal growth from this program.
- Other income to inch up:** Management expect other income to inch up in next quarter with the combination of treasury income, gain from foreign exchange and other benefit from export incentive which is likely to come in 4Q.Similar or higher level income expected in Fy20.
- ETR:** The Company expects to maintain 22.5 % to 23%ETR for next year .After 2 to 3 years; the company will take 25% rate.
- Improvement in DSO:** The Company has shown good progress on DSO days, it now stands at 94 days. The management will work on increased unbilled DSO and expects to improve in coming quarters.
- Vertical update:**
 - Aerospace &Defense: The Company sees the business is growing, A&D is growing by 4% -4.5% every year but the challenges were there. Mostly growth is driven by new project manufacturing and MRO. Engineering spend has come down significantly, that is what is impacting the company business. The company expects 1 more quarter to get back into growth path .The management does not see Boeing and related project to pick up in near term. Thus expect A&D will start to see growth from 4Q (though muted) and Boeing to not drag the business any further

- **Communication:** The Communications industry is expected to grow by 4.4% driven by fast pace of innovations and developments taking place in the industry. The company saw rough patch in this vertical however it has bounced back in 3Q with double digit growth. Challenges are now behind and management expects to grow (but not double digit) for foreseeable future.
- **E&U:** This segment has been bright spot for the company .The business itself is growing, utility is expected to grow 4%, mining oil & gas to grow 7%, huge investment in distributed and renewal powers are growing. The management expects to see excess of double digit growth in FY20 and 4Q will continue to see growth.
- **Transportation:** 3Q saw a one of time hit in this segment and blip in 3Q performance due to extension of project where the company has to do certain investment for the future which will result to strong growth in coming quarters. This will also come as margin tailwind in 4Q due to this investment
- **Semiconductor:** The Company expects to remain flat for the current year. However order intake is coming from this segment.
- **DLM business:** 3Q saw decline of DLM business due to decline of standalone revenue (decrease of USD 8.9 million).The management expects it's the base now and will start scaling on this base.
- **Outlook:** 3Q ended up as per the expectation of the company which was slight growth; there was an investment that they choose to make with a client which resulted in blip in revenue QoQ. However the company sounded confident of strong growth coming from 4Q onwards back into the business.

Revenue Mix (Services + DLM)

STRONG GROWTH IN DLM, SERVICE REMAINED MODERATE

REVENUE MIX (USD MN)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ%	YoY%
Services revenue	143	146	145	147	138	140	140	-0.2%	-0.5%
DLM Revenue	18	23	21	18	19	24	15	-36.8%	-26.6%
Total revenue	161	169	165	165	157	164	155	-5.5%	-6.0%

Revenues by Service Ex DLM

RECOVERY IN COMMUNICATION , AEROSPACE REMAINED WEAK

VERTICALS SPLIT (USD MN)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ%	YoY%
Aerospace and Defense	49	49	50	50	48	48	45	-5.2%	-5.2%
Transportation	17	17	17	18	18	18	16	-14.8%	-14.7%
Energy & Utilities	12	13	12	19	17	19	20	9.6%	9.4%
Semiconductor	8	8	7	8	8	7	7	-0.2%	0.2%
Medical and Consumer	3	3	3	3	3	3	3	-0.2%	0.1%
Portfolio	20	21	22	16	14	15	15	-3.9%	-4.1%
Communications	34	35	34	33	30	30	34	12.2%	12.2%

Revenues by Geography

SOFTNESS ACROSS GEOGRAPHIES

GEOGRAPHY SPLIT (USD MN)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	QoQ%	YoY%
North America	84	88	89	89	87	91	88	-2.9%	-1.3%
Europe, ME, Africa and India	40	40	36	41	44	44	39	-10.5%	6.8%
Asia Pacific	37	41	39	35	26	30	28	-6.0%	-28.5%
Total Revenue	161	169	165	165	156	164	155	-5.5%	-6.0%

Exhibit: Revenue trend

Recovery in Communication , Aerospace remained weak for service business .

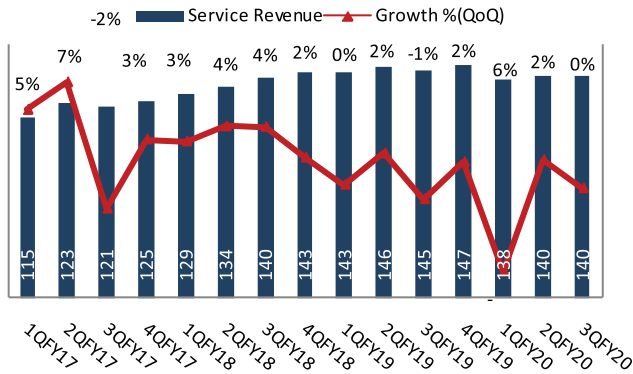


Exhibit: DLM revenue

DLM dragged the overall growth by declining 36%QoQ, from here on DLM will scale up .

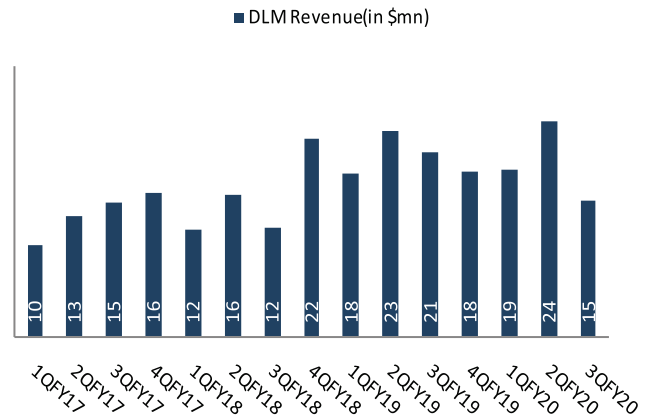


Exhibit: Margin Trend

One off and continued investment led to flat QoQ margin.

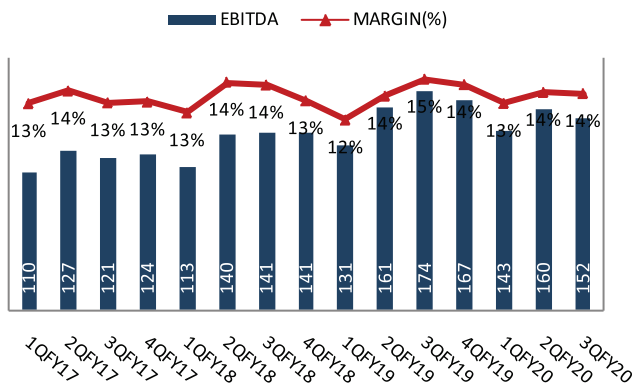


Exhibit: Other income

Unrealized forex gain led to higher other income .4Q to continue to see jump .

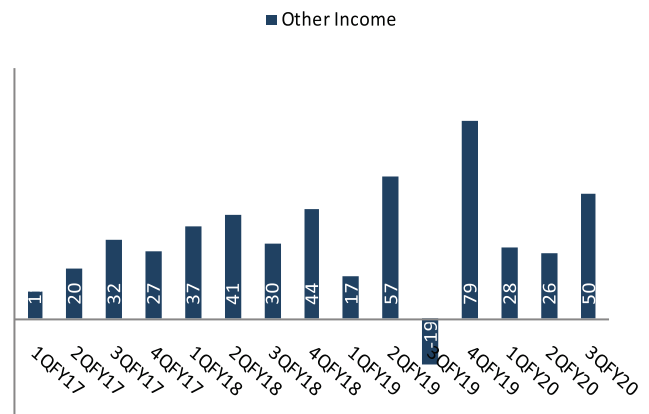
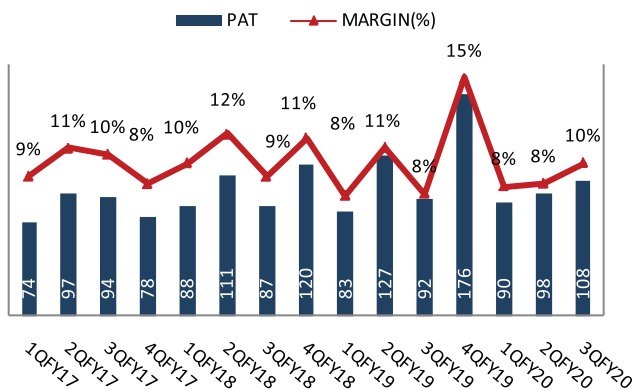


Exhibit: PAT and PAT Growth

Higher other income led to strong PAT growth



Operational Details (consolidated)

GEOGRAPHY %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
America	49.0%	52.5%	52.0%	54.1%	54.0%	55.4%	55.3%	56.8%
EMEA	28.3%	24.6%	23.8%	22.1%	24.7%	28.1%	26.5%	25.1%
Asia Pacific	22.7%	23.0%	24.3%	23.8%	21.3%	16.4%	18.2%	18.1%

NO. OF MN DOLLAR CLIENT	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
20 Mn+	4	4	4	4	4	4	4	4
10 Mn+	12	11	13	13	13	12	12	11
5 Mn+	26	25	31	31	29	28	27	27
1 Mn+	72	66	81	87	86	85	91	90
New Customers Added	12	20	15	11	5	21	20	13

CLIENT	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
top 5	33.8%	33.7%	32.7%	33.2%	31.8%	32.3%	31.0%	33.0%
top 10	45.4%	46.0%	44.1%	43.9%	43.0%	44.1%	41.6%	44.5%

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

BY BUSINESS UNIT (%)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Aerospace and Defense	37%	37%	38%	39%	37%	39%	40%	35%
Transportation	10%	11%	10%	11%	11%	11%	11%	10%
IE&NR	10%	10%	10%	13%	12%	13%	13%	15%
Semiconductor	3%	5%	5%	4%	5%	5%	4%	4%
Medical & Healthcare	3%	3%	3%	4%	3%	4%	4%	5%
Utilities and Geospatia	14%	22%	22%	21%	20%	19%	19%	22%
Communications	23%	12%	12%	10%	11%	9%	9%	9%

ORDER INTAKE (\$ MN)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Cyient Services Total OI	187	153	157	255	185	134	143	173
DLM Total OI	19	17	39	19	11	21	22	8

EMPLOYEE METRICS	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Total Manpower	14762	15056	15040	15193	15084	15043	14869	14472
Billable	13614	13851	13845	14002	13916	13912	13800	13405
Non Billable	348	419	421	413	393	373	380	378
Support	800	786	774	778	775	758	689	689
Voluntary Attrition	16.9%	16.9%	18.4%	21.2%	19.9%	17.4%	18.0%	19.7%
Involuntary Attrition	1.5%	3.4%	4.3%	2.3%	4.6%	4.3%	5.8%	5.2%

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	2,758	3,088
Networth	1,588	1,844	1,910	2,117	2,344	2,564	2,813	3,142
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
Total Capital Employed	1,594	1,972	2,093	2,282	2,585	2,889	3,138	3,468
Net Fixed Assets (incl CWIP)	341	372	408	450	494	556	474	389
Non Current Investments	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	793	870
Cash & Bank	691	623	695	878	981	971	1,311	1,691
Other Curr Assets	155	183	199	92	91	167	163	179
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
Current Assets	1,445	1,570	1,795	2,071	2,346	2,430	2,902	3,373
Creditors	174	275	311	402	381	371	362	397
Provisions	62	96	58	24	23	29	29	29
Other Curr Liab	72	140	184	288	280	376	370	393
Curr Liabilities	309	511	553	713	684	775	760	818
Net Curr Assets	1,136	1,059	1,242	1,358	1,662	1,654	2,141	2,555
Total Assets	1,947	2,579	2,737	3,136	3,433	3,889	4,123	4,510

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	2206	2736	3096	3586	3914	4618	4503	4935
Change (%)	18%	24%	13%	16%	9%	18%	-2%	10%
EBITDA	410	401	421	477	535	633	645	770
Change (%)	20%	-2%	5%	13%	12%	18%	2%	19%
Margin (%)	0	0	0	0	0	0	0	0
Depr & Amor.	72	71	89	95	105	111	186	199
EBIT	338	330	331	382	430	521	459	571
Int. & other fin. Cost	1	6	18	16	20	33	48	48
Other Income	17	122	109	93	152	134	150	142
EBT	354	446	422	459	562	623	561	665
Exp Item	-	-	9	26	5	4	-	-
Tax	103	110	99	105	138	143	128	152
Minority Int & P/L share of Ass.	15	15	12	12	(16)	1	-	-
Reported PAT	266	351	327	340	403	477	433	513
Adjusted PAT	266	351	327	340	403	477	433	513
Change (%)	15%	32%	-7%	4%	18%	18%	(0)	0
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	16	18
ROCE	23	19	17	18	19	21	16	18
Asset Turnover	6	7	8	8	8	8	9	13
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	255	286
Payable Days	29	37	37	41	36	29	29	0
Earnings Per Share	24	31	29	30	36	43	39	48
P/E	14	16	15	16	19	15	12	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	561	665
(inc)/Dec in Working Capital	(67)	33	(93)	37	(166)	(171)	9	(34)
Non Cash Op Exp	395	440	456	466	607	650	748	864
Int Paid (+)	1	6	18	17	20	33	48	48
Tax Paid	(102)	(117)	(102)	(100)	(165)	(142)	(128)	(152)
CF from Op. Activities	227	362	278	420	296	370	677	726
(inc)/Dec in FA & CWIP	(77)	(82)	(129)	(108)	(147)	(151)	(104)	(114)
Free Cashflow	151	280	150	312	149	219	573	611
(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)	(104)	(114)
inc/(dec) in Debt	5	7	2	2	1	2	-	-
Int. Paid	(1)	(6)	(18)	(17)	(19)	(30)	(48)	(48)
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)	(232)	(232)
Inc(Dec) in Cash	167	(198)	83	146	74	(83)	341	380
Add: Opening Balance	522	769	600	711	857	960	907	1,248
Closing Balance	689	570	683	857	960	907	1,248	1,628

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