



Cyient

Sector: Technology

1QFY17 Result Update

CMP: ₹ 495

Maintains double-digit growth guidance, re-iterate Buy

Recommendation: Buy

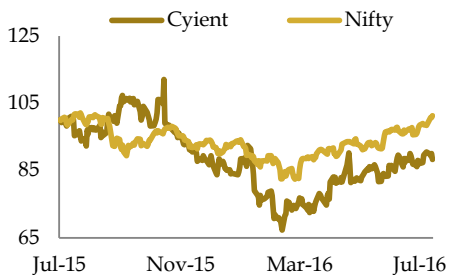
Market statistics

Current stock price (₹)	495
Shares O/S (cr.)	11.3
Mcap (₹ cr)	5,543
52W H/L (₹)	643/369
6m avg. volume	75,417
Bloomberg	CYL IN

Shareholding pattern

Promoters	22.20
Domestic Institution	25.01
Foreign Institution	39.62
Non-institution	13.17
of which more than 1%	
First Carlle Ventures Mauritius	9.87
Deutsche Securities Maurities Limited	4.85

Cyient vs Nifty



Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
RoE (%)	17.7	17.9	18.1
EPS (₹)	29.7	32.5	37.2
CEPS (₹)	37.6	39.3	45.1
P/E (x)	14.5	15.2	13.3
P/BV (x)	2.5	2.6	2.3
EV/EBITDA (x)	10.2	10.3	8.8
Income growth (%)	13.1	12.0	11.0
EBITDA growth (%)	5.8	13.8	14.0
PAT growth (%)	(3.8)	7.7	15.6

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Cyient Q1FY17 performance was lower-than-expectation on account of revenue performance. Cyient posted revenue of \$124m (up 2.6% QoQ, up 2% in cc terms). Growth in services business stood at 5.4% QoQ, highest in 6 quarters. DLM business revenue declined 22% QoQ (in US\$ terms). The EBITDA margin came at 13.1%, (up 9bps QoQ) and higher than our estimates on account of lower SG&A costs. We maintain our recommendation on the stock at Buy, since we believe the worst for CYL is over. Cyient management provided with a fundamental case for turnaround beginning FY17 in the recent analyst meet.

Dollar revenue was up 2.6% QoQ: For Q1FY17, Cyient posted revenue of \$124mn (up 2.6% QoQ including Rangsons), lower than our expectation. On the acquired business side, Rangsons revenue declined 22% QoQ to US\$9mn. Growth was driven by Aerospace (5%), Transportation (9%), Medical & Healthcare (16%) & Communication (13%) in US\$ terms. Semiconductor was up 2.5% QoQ in cc terms, while Industrial Energy & Natural Resources was up 2%. Region-wise, APAC posted a robust growth of ~21% QoQ in US\$ terms. Americas grew by ~7% QoQ in US\$ terms. Overall, constant currency revenue for the company is 2% QoQ including Rangsons.

Operating metrics. Client addition: Remained strong. During the quarter 22 new clients were added (20 in previous quarter). **Employee metrics:** Employee count increased by 472 to take the total to 13,595. Volume growth of 3.9% QoQ in Cyient Services. Capex stood at INR196mn versus INR204mn in the previous quarter. DSO came in at 76 days (80 in Q4FY16). **Hedge:** Cyient has outstanding hedges worth US\$72.5mn, EUR24.0mn, GBP6mn and AUD7.2mn. Current cash and equivalents in hand: Stood at ~INR8.03bn, i.e., INR71/share, as at Jun 2016-end. FCF stood at ₹815mn.

CYL innovating in order to better its revenue growth: CYL offered only design-related services in aerospace/defense vertical. Design-based R&D business is decreasing on completion of some of the large programmes. To offset this decline, CYL diversified into manufacturing repair and maintenance related services. These services constitute 50%+ of its aerospace revenue. The company made significant investments to develop capabilities to offer and transform - design to manufacturing services.

Robust outlook for FY17: CYL management indicated a 10%+ revenue growth (cc, YoY) in its core services (90% of revenue) business on account of absence of client specific issues going into FY17 and robust order backlog at some of its top accounts. Growth is expected to be more broad-based. For DLM, it has guided to revenue growth of at least 50% YoY. Strong order backlog and commitment from customers is the key reason for its robust outlook. Its guidance implies at least ~13.5% revenue growth during FY17.

EBITDA margins to be flattish in FY17: CYL management indicated margin expansion of atleast 100bps in FY17 in Cyient Services, while they are expected to be flattish to slightly positive on a consolidated basis. We have assumed 20bps improvement YoY. Improvement of margins at Softential to 15%+ from 5% in FY16 would be the main margin kicker.

Valuation & Outlook: CYL has given a guidance of lower double digit growth in its core business for FY17, while they expect Products business (incl. Rangsons) to show a 50% revenue growth. On the margin front, CYL expects a 100bps improvement. We maintain our recommendation on the stock at Buy, since we believe the worst for CYL is over. Cyient management provided with a fundamental case for turnaround beginning FY17 in the recent analyst meet.



Exhibit 1: Quarterly details

₹ mn	1QFY16	4QFY16	1QFY17	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	114	121	124	2.6	8.5	Volume growth of 3.9% in Cyient Services. Revenue grew 2% in cc terms QoQ terms. Rangsons declined 22% QoQ.
Revenues	7,263	8,158	8,306	1.8	14.4	
- Operating costs	6,345	7,095	7,216	1.7	13.7	
EBITDA	918	1,063	1,090	2.5	18.7	
EBITDA margin (%)	12.6	13.0	13.1	9bps	48bps	The EBITDA margin came at 13.1%, (up 9bps QoQ) and higher than our estimates on account of lower SG&A costs
- Interest expense	45	59	53	(10.2)	18.3	
- Depreciation	183	295	223	(24.4)	22.0	
+ Other income, net (incl forex)	298	222	116	NA	NA	OI breakup: Forex profit of ₹4.3mn vs ₹93.1mn in the last quarter.
PBT	988	931	930	(0.2)	(5.9)	
- Taxes	284	190	237	24.7	(16.5)	
Effective tax rate (%)	28.7	20.4	25.5	508bps	(322)bps	Effective tax rate for FY16 to be between 23-24%
PAT	705	741	693	(6.5)	(1.6)	
Minority interest	(44)	(6)	(47)	NA	NA	
Reported profits	748	747	740	(0.9)	(1.1)	

Source: Company

Exhibit 2: Change in estimates

₹ mn	FY17E			FY18E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	535	530	(0.9)	595	592	(0.5)
Revenue	34,791	34,661	(0.4)	38,704	38,466	(0.6)
EBITDA margin (%)	14.2	13.9	(25)bps	14.7	14.3	(35)bps
EPS (₹)	33.3	32.5	(2.4)	38.1	37.2	(2.4)

Source: Trust Research

Geography wise Revenues: %. Region-wise, APAC posted a robust growth of ~21% QoQ in US\$ terms. Americas grew by ~7% QoQ in US\$ terms.

Exhibit 3: Geographical wise Performance

Geographical mix (%)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
US	60.9	63.9	65.0	63.7	64.0	64.1	63.6	60.2	60.0
Europe	29.3	27.4	26.8	25.8	24.0	24.1	23.2	25.5	24.6
India	9.8	8.7	8.2	10.5	12.0	11.8	13.2	14.3	15.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company



Vertical wise Performance: Growth was driven by Aerospace (5%), Transportation (9%), Medical & Healthcare (16%) and Communication (13%) in US\$ terms. Semiconductor was up 2.5% QoQ in cc terms, while Industrial Energy & Natural Resources was up 2%.

Exhibit 4: Industry segmentation

By Industry (%)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Aerospace and Defense	34.0	33.3	31.2	34.5	35.8	36.2	37.7	38.9	38.7
Transportation	11.2	10.4	10.1	10.4	10.4	10.6	10.2	10.0	10.3
Industrial, Energy & Natural Resources	12.0	12.2	11.4	12.0	11.8	11.4	10.8	10.3	10.0
Semiconductor	5.8	6.1	5.9	5.6	5.6	5.3	4.3	4.4	4.3
Medical and Cons. Electronics	1.7	1.3	1.2	1.5	1.4	1.5	1.5	1.7	1.9
Utilities & Geospatial	20.2	20.3	20.9	18.8	17.9	15.8	15.7	16.8	15.8
Communications	14.2	15.4	18.3	16.4	16.2	18.4	19.4	17.6	18.9
Others	0.9	1.0	1.0	0.8	0.9	0.8	0.4	0.3	0.1
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Human Resources: Employee metrics: There was a volume growth of 3.9% QoQ. : Employee count increased by 472 to take the total to 13,595. Billable employees increased 456 QoQ.

Exhibit 5: Employee strength at CYL

Employee details/ Utilization	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Total (Nos)	12,539	12,759	12,777	12,929	12,938	12,624	12,802	13,123	13,595
Voluntary attrition (%)	15.3	12.7	22.7	27.4	18.8	21.6	20.6	18.4	19.9
Overall utilization (%)	74.3	74.8	75.8	73.8	75.4	76.1	76.7	72.7	73.5

Source: Company, Trust Research

Exhibit 6: Client details

	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Top 5 clients (%)	36.2	34.4	36.6	34.9	35.7	35.3	34.7	35.7	40.2
Top 10 clients (%)	51.3	48.7	50.1	49.5	51.2	50.1	49.4	51.1	55.7
Clients added (Nos)									
Total	9	19	23	16	24	17	21	20	22
Client buckets (Nos)									
20Mn+	3	3	4	4	4	4	2	2	3
10Mn+	8	9	9	8	8	9	10	11	10
5Mn+	19	20	20	20	22	21	19	20	19
1Mn+	55	54	56	55	59	60	60	62	60

Source: Company

Exhibit 7: Revenue mix

Offshore/onsite split (%)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Offshore	47.8	46.5	44.8	43.3	43.9	43.7	43.4	40.7	40.7
Onshore	52.2	53.5	55.2	56.7	56.1	56.3	56.6	59.3	59.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

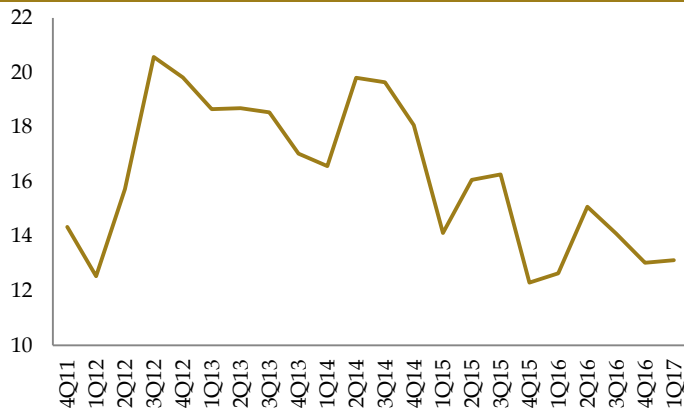


Exhibit 8: Product business

Details (In ₹. Mn)	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Revenue	573	384	665	705	820	633
Direct Salary and Related costs	30	38	43	43	47	53
Material & Mfg. cost	488	295	541	575	665	548
Gross Profit	55	51	81	86	108	32
SG&A	37	43	52	60	65	81
Operating profit	19	8	30	26	43	(49)
Others	12	33	41	39	58	43
PBT	7	(25)	(11)	(13)	(15)	(92)

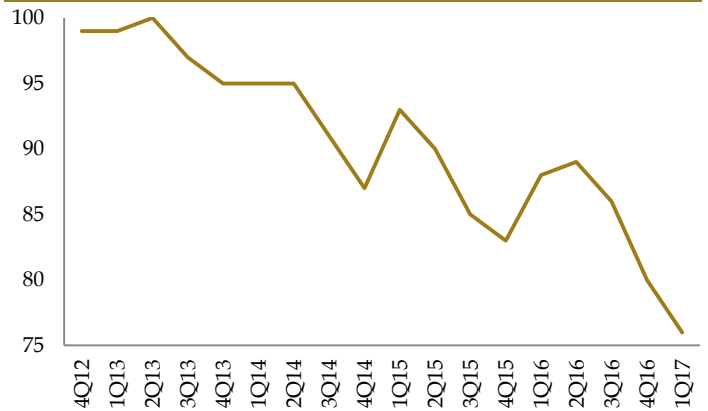
Source: Company

Exhibit 9: Margin to remain under pressure for Q2FY17E



Source: Company, Trust

Exhibit 10: DSO decreased by 4 days QoQ to 76



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Revenues	22,064	27,359	30,956	34,661	38,466
Op. Expenses	17,963	23,345	26,709	29,827	32,956
EBITDA	4,101	4,015	4,247	4,835	5,510
Other Income	187	1,236	1,065	665	850
Depreciation	720	713	893	769	895
EBIT	3,568	4,538	4,419	4,731	5,465
Interest	29	80	199	198	164
PBT	3,539	4,458	4,220	4,532	5,301
Tax	1,030	1,096	986	1,048	1,272
PAT	2,509	3,362	3,235	3,485	4,029
Ex. Ordinary/MI	152	172	28	189	189
Adj Pat	2,661	3,534	3,262	3,674	4,218

Key Parameters

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Per share (₹)					
EPS	23.8	31.4	29.7	32.5	37.2
CEPS	30.2	37.8	37.6	39.3	45.1
BVPS	141.9	165.2	170.6	192.7	219.0
DPS	5.0	8.0	7.0	8.0	9.0
Payout (%)	24.6	29.8	27.5	28.7	28.3
Valuation (x)					
P/E	13.7	16.2	14.5	15.2	13.3
P/BV	2.3	3.1	2.5	2.6	2.3
EV/EBITDA	7.1	13.0	10.2	10.3	8.8
Dividend Yield (%)	1.5	1.6	1.6	1.6	1.8
Return ratio (%)					
EBITDA Margin	18.6	14.7	13.7	13.9	14.3
PAT Margin	11.4	12.3	10.4	10.1	10.5
ROAE	18.3	20.5	17.7	17.9	18.1
ROACE	24.5	25.4	21.6	21.3	22.1
Leverage Ratios (x)					
Long Term D/E	0.0	0.1	0.1	0.1	0.0
Net Debt/Equity	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
Debt/EBITDA	0.0	0.3	0.5	0.3	0.2
Interest Coverage	121.8	56.7	22.2	23.9	33.4
Current ratio	4.5	2.7	2.7	3.0	3.2
Growth Ratios (%)					
Income growth	17.8	24.0	13.1	12.0	11.0
EBITDA growth	20.1	(2.1)	5.8	13.8	14.0
PAT growth	14.0	34.0	(3.8)	7.7	15.6
Turnover Ratios					
F.A Turnover x	6.5	7.4	7.6	7.6	7.6
Debtors Days	35	33	42	41	41
Payable days	79	63	72	70	70

Balance Sheet (₹ mn)

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Equity Share Capital	560	562	562	564	567
Reserves & Surplus	15,325	18,001	18,665	21,224	24,287
Total Shareholders Fund	15,885	18,563	19,227	21,788	24,855
Non-current liabilities	360	1,038	1,279	1,379	1,456
Long term borrowings	-	470	771	771	771
Deferred tax liabilities	(22)	(15)	(146)	(128)	(128)
Other LT liabilities & prov	382	582	654	735	813
Current Liabilities	3,235	5,481	6,676	6,708	7,034
Short term borrowings	58	813	1,147	743	443
Trade payables	1,745	2,115	3,107	3,350	3,702
Other cur liabilities & Prov	1,432	2,553	2,422	2,615	2,889
Total liabilities	19,480	25,081	27,182	29,875	33,344
Assets					
Non-current Assets	5,032	10,017	9,235	9,986	10,679
Fixed assets	3,413	3,718	4,084	4,538	5,043
Non-current investments	548	4,939	3,504	3,737	3,737
Long-term loans & adv	1,068	1,359	1,645	1,709	1,897
Other non-current assets	2	2	2	2	2
Current assets	14,448	15,064	17,947	19,889	22,666
Current investments	400	336	791	791	791
Trade receivables	4,800	4,697	6,145	6,647	7,377
Inventories	-	606	979	1,140	1,265
Cash & bank balances	6,913	6,229	6,951	7,552	8,888
Short term loans & Adv	710	1,363	1,089	1,235	1,370
Other current assets	1,625	1,834	1,993	2,525	2,975
Total Assets	19,480	25,082	27,182	29,875	33,344

Cash flow Statement

Year End-March	FY14	FY15	FY16	FY17E	FY18E
PBT	3,539	4,458	4,220	4,532	5,301
Depreciation	692	720	762	787	895
Interest Exp	29	80	199	198	164
Others	152	172	28	189	189
CF before W.cap	4,412	5,429	5,208	5,706	6,549
Inc/dec in W.cap	960	(36)	1,061	886	926
Op CF after W.cap	3,452	5,466	4,148	4,820	5,624
Less Taxes	1,030	1,096	986	1,048	1,272
Net CF From Operations	2,422	4,370	3,162	3,773	4,351
Inc/(dec) in F.A + CWIP	577	1,017	1,259	1,223	1,400
(Pur)/sale of Investments	(60)	4,326	(981)	233	-
Others	(29)	(80)	(199)	(198)	(164)
CF from Invst Activities	(546)	(5,424)	(477)	(1,654)	(1,564)
Loan Raised	55	1,225	635	(404)	(300)
Equity Raised	654	196	(1,676)	(58)	44
Dividend	655	1,052	922	1,056	1,195
CF from Fin Activities	54	369	(1,962)	(1,517)	(1,452)
Net inc/(dec) in cash	1,929	(684)	723	601	1,336
Op. bal of cash	4,984	6,913	6,228	6,951	7,552
Cl. balance of cash	6,913	6,229	6,951	7,552	8,888



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