



In partnership. With trust.

Cyient

Sector: Technology

Analyst Meet Update

CMP: ₹ 472

FY17 to be a turnaround year, upgrade to Buy

Recommendation: Buy

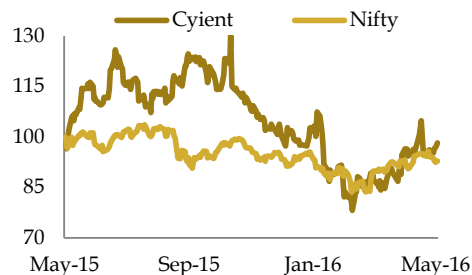
Market statistics

Current stock price (₹)	472
Shares O/S (cr.)	11.2
Mcap (₹ cr)	5,310
52W H/L (₹)	643/369
6m avg. volume	64,494
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	18.3	18.4
EPS (₹)	29.7	33.3	38.1
CEPS (₹)	37.6	42.8	48.7
P/E (x)	14.5	14.2	12.4
P/BV (x)	2.5	2.4	2.1
EV/EBITDA (x)	10.2	9.5	8.0
Income growth (%)	13.1	12.4	11.2
EBITDA growth (%)	5.8	16.0	15.6
PAT growth (%)	(3.8)	13.3	15.3

ANALYST

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Cyient management provided with a fundamental case for turnaround beginning FY17. In FY16, CYL saw multiple down-events which provided pressure - 1) Three of its top-20 customers significantly ramped-down, 2) Rangsons integration did not go down as well as CYL anticipated during its acquisition, and 3) Softential had headwinds due to lower license sales (which is CYL's highest margin business). FY17 outlook for its top-20 customers (~67% of revenue) seems healthy. CYL has re-organised and provided investments in sales and solutions business which has met with some success. We would eagerly watch out for deals in its DLM space. Looking at the above environment, we believe the worst for CYL is over, and we upgrade the recommendation on the stock to Buy (from Hold).

Multiple headwinds in FY16: CYL's revenue growth (~5.6% in US\$ terms) and margins disappointed (down 95bps) in FY16. Organic revenue growth was also weak at just 4.5% in cc terms. These problems arose on account of 1) headwinds at some of its top customers (three of its Top-20 clients), 2) poor performance of Rangsons (where CYL had to downgrade their initial growth estimates thrice in FY16), and 3) lower license sales at Softential (which is a high-margin business).

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 Rangsons, 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 improve in FY17: CYL management indicated margin expansion of at least 100bps in FY17. Improvement of margins at Softential to 15%+ from 5% in FY16 would be the main margin kicker. Headwinds from wage increases and lower profitability at Rangsons will be offset by improvement in operating levers like utilization, employee pyramid and offshoring.

Rangsons - remain a key to success. CYL has hired senior people as geography heads to build a strong pipeline for its DLM business. CYL is well positioned as a services as well as manufacturing partner.

Valuation & Outlook: CYL has given a guidance of 10%+ in its core business for FY17, while they expect Rangsons to show a 50% revenue growth. On the margin front, CYL expects a ~100bps improvement. We expect 12.3% revenue CAGR over FY16-18E on account of traction in the core business and improvement at Rangsons. Further, with margin expansion of 100bps over FY16-18E, we expect EPS CAGR of 13.3% over the same period. We upgrade our recommendation on the stock to Buy, on account of robust outlook in most of its verticals (Aerospace and Defense: ~35% of revenues), Transportation (~9%), Communications (~16%), Utilities & Geo-spatial (~15%) and Medical Tech & Healthcare (~2%). Apart from off-highway equipment (~5% of revenue) and energy & utilities (~6% of revenue), management commentary across other verticals indicate a strong outlook during FY17.



Financials

Income Statement (₹ mn)

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Revenues	22,064	27,359	30,956	34,791	38,704
Op. Expenses	17,963	23,345	26,709	29,863	33,008
EBITDA	4,101	4,015	4,247	4,928	5,696
Other Income	187	1,236	1,065	1,106	1,150
Depreciation	720	713	893	1,073	1,199
EBIT	3,568	4,538	4,419	4,961	5,647
Interest	29	80	199	170	86
PBT	3,539	4,458	4,220	4,791	5,560
Tax	1,030	1,096	986	1,126	1,335
PAT	2,509	3,362	3,235	3,665	4,226
Ex. Ordinary/MI	152	172	28	100	100
Adj Pat	2,661	3,534	3,262	3,765	4,326

Key Parameters

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Per share (₹)					
EPS	23.8	31.4	29.7	33.3	38.1
CEPS	30.2	37.8	37.6	42.8	48.7
BVPS	141.9	165.2	170.6	194.0	221.3
DPS	5.0	8.0	7.0	8.0	9.0
Payout (%)	24.6	29.8	27.5	28.0	27.6
Valuation (x)					
P/E	13.7	16.2	14.5	14.2	12.4
P/BV	2.3	3.1	2.5	2.4	2.1
EV/EBITDA	7.1	13.0	10.2	9.5	8.0
Dividend Yield (%)	1.5	1.6	1.6	1.7	1.9
Return ratio (%)					
EBITDA Margin	18.6	14.7	13.7	14.2	14.7
PAT Margin	11.4	12.3	10.4	10.5	10.9
ROAE	18.3	20.5	17.7	18.3	18.4
ROACE	24.5	25.4	21.6	22.4	23.3
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	0.2	0.1
Interest Coverage	121.8	56.7	22.2	29.2	65.5
Current ratio	4.5	2.7	2.7	3.2	3.7
Growth Ratios (%)					
Income growth	17.8	24.0	13.1	12.4	11.2
EBITDA growth	20.1	(2.1)	5.8	16.0	15.6
PAT growth	14.0	34.0	(3.8)	13.3	15.3
Turnover Ratios					
F.A Turnover x	6.5	7.4	7.6	8.3	8.8
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	563	567
Reserves & Surplus	15,325	18,001	18,665	21,375	24,546
Total Shareholders Fund	15,885	18,563	19,227	21,939	25,114
Non- current liabilities	360	1,038	1,279	1,362	1,440
Long term borrowings	-	470	771	771	771
Deferred tax liabilities	(22)	(15)	(146)	(146)	(146)
Other LT liabilities & prov	382	582	654	736	814
Current Liabilities	3,235	5,481	6,676	6,319	6,148
Short term borrowings	58	813	1,147	347	(453)
Trade payables	1,745	2,115	3,107	3,355	3,708
Other cur liabilities & Prov	1,432	2,553	2,422	2,618	2,894
Total liabilities	19,480	25,081	27,182	29,620	32,701
Assets					
Non- current Assets	5,032	10,017	9,235	9,432	9,826
Fixed assets	3,413	3,718	4,084	4,211	4,412
Non-current investments	548	4,939	3,504	3,504	3,504
Long-term loans & adv	1,068	1,359	1,645	1,716	1,909
Other non-current assets	2	2	2	2	2
Current assets	14,448	15,064	17,947	20,188	22,875
Current investments	400	336	791	791	791
Trade receivables	4,800	4,697	6,145	6,672	7,423
Inventories	-	606	979	1,144	1,272
Cash & bank balances	6,913	6,229	6,951	7,701	8,415
Short term loans & Adv	710	1,363	1,089	1,239	1,378
Other current assets	1,625	1,834	1,993	2,641	3,596
Total Assets	19,480	25,082	27,182	29,620	32,701

Cash flow Statement

Year End-March	FY14	FY15	FY16	FY17E	FY18E
PBT	3,539	4,458	4,220	4,791	5,560
Depreciation	692	720	762	1,073	1,199
Interest Exp	29	80	199	170	86
Others	152	172	28	100	100
CF before W.cap	4,412	5,429	5,208	6,134	6,946
Inc/dec in W.cap	960	(36)	1,061	1,035	1,460
Op CF after W.cap	3,452	5,466	4,148	5,099	5,486
Less Taxes	1,030	1,096	986	1,126	1,335
Net CF From Operations	2,422	4,370	3,162	3,973	4,152
Inc/(dec) in F.A + CWIP	577	1,017	1,259	1,200	1,400
(Pur)/sale of Investments	(60)	4,326	(981)	-	-
Others	(29)	(80)	(199)	(170)	(86)
CF from Invst Activities	(546)	(5,424)	(477)	(1,370)	(1,486)
Loan Raised	55	1,225	635	(800)	(800)
Equity Raised	654	196	(1,676)	1	44
Dividend	655	1,052	922	1,055	1,195
CF from Fin Activities	54	369	(1,962)	(1,854)	(1,951)
Net inc/(dec) in cash	1,929	(684)	723	750	714
Op. bal of cash	4,984	6,913	6,228	6,951	7,701
Cl. balance of cash	6,913	6,229	6,951	7,701	8,415



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