

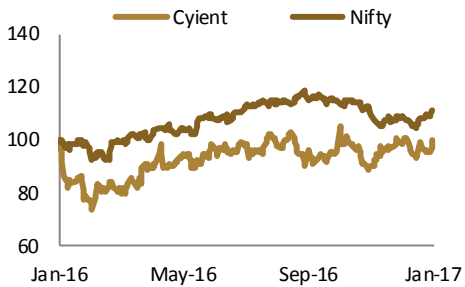
### Market statistics

Current stock price (₹)	499
Shares O/S (cr.)	11.3
Mcap (₹ cr)	5,615
52W H/L (₹)	555/371
6m avg. volume	103,22
Bloomberg	CYL IN

### Shareholding pattern

Promoters	22.18
Domestic Institution	7.12
Foreign Institution	42.30
Non-institution	28.40
of which more than 1%	
First Carlyle Ventures Mauritius	9.86
Deutsche Securities Mauritius	4.85

### Cyient vs Nifty



### Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
RoE (%)	17.7	18.5	19.2
EPS (₹)	29.7	33.3	38.6
CEPS (₹)	37.6	41.6	48.1
P/E (x)	14.5	15.0	12.9
P/BV (x)	2.5	2.6	2.3
EV/EBITDA (x)	10.2	9.8	8.1
Income growth (%)	13.1	15.0	12.9
EBITDA growth (%)	5.8	2.6	2.3
PAT growth (%)	(3.8)	9.8	8.1

**Cyient Q3FY17 performance was slightly lower-than-expectation. Cyient posted revenue of \$135.8m (down 0.5% QoQ, up 0.6% in cc terms). DLM business revenue increased 10.2% QoQ (in US\$ terms). The EBITDA margin came at 13.4%, (down 66bps QoQ) and lower than our estimates. 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. We have modelled in for 15.3% US\$ growth in FY17 revenues.**

**Dollar revenue was down 0.5% QoQ:** For Q3FY17, Cyient posted revenue of \$135.8mn (down 0.5% QoQ including Rangsons), lower than our expectation. On the acquired business side, DLM revenue increased 10.2% QoQ to US\$15mn. Growth was driven by Communication (2.4%) and Utilities & Geospatial (1.3%) in US\$ terms, QoQ basis. Region-wise, APAC posted a robust growth of 4.7% QoQ in \$ terms. Americas declined by ~3.5% QoQ, while EMEA was down 1.7%. Overall, constant currency revenue for the company is 0.6% QoQ including Rangsons.

**Operating metrics. Client addition:** Remained strong. During the quarter 20 new clients were added (23 in previous quarter). **Employee metrics:** Employee count decreased by 121 to take the total to 13,730. Capex stood at INR263mn versus INR244mn in the previous quarter. DSO came in at 75 days (77 in Q2FY17). **Hedge:** Cyient has outstanding hedges worth US\$71.5mn, EUR21mn, GBP7.7mn and AUD11.1mn. Current cash and equivalents in hand: Stood at ~INR8.63bn, i.e., INR77/share, as at Dec 2016-end.

**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. 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. We have modelled in for 16.9% US\$ growth in FY17 revenues. The order book is higher by 11% YoY (primarily on account of higher order booked for Cyient Services). CYL is well placed to achieve the annual targeted growth.

**EBITDA margins to be flattish to marginally higher 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 30bps 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.

ANALYST

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**Exhibit 1: Quarterly details**

` mn	3QFY16	2QFY17	3QFY17	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$ mn)</b>	<b>118</b>	<b>136</b>	<b>136</b>	<b>(0.5)</b>	<b>14.7</b>	Revenue grew 0.6% in cc terms QoQ terms. DLM increased 10.2% QoQ.
Revenues	7,818	9,136	9,171	0.4	17.3	
- Operating costs	6,716	7,853	7,943	1.1	18.3	
<b>EBITDA</b>	<b>1,102</b>	<b>1,283</b>	<b>1,228</b>	<b>(4.3)</b>	<b>11.4</b>	
<b>EBITDA margin (%)</b>	<b>14.1</b>	<b>14.0</b>	<b>13.4</b>	<b>(66)bps</b>	<b>(71)bps</b>	The EBITDA margin came at 13.4%, (down 66bps QoQ) and lower than our estimates on account of weak revenue trajectory
- Interest expense	36	52	46	(11.5)	27.4	
- Depreciation	221	232	243	4.7	9.8	
+ Other income, net (incl forex)	246	184	309	NA	NA	OI breakup: Forex profit of `125mn vs `34mn in the last quarter.
<b>PBT</b>	<b>1,090</b>	<b>1,183</b>	<b>1,248</b>	<b>5.5</b>	<b>14.4</b>	
- Taxes	227	267	322	20.6	41.7	
Effective tax rate (%)	20.8	22.6	25.8	324bps	496bps	Effective tax rate for FY17 to be between 22-23%
<b>PAT</b>	<b>863</b>	<b>916</b>	<b>926</b>	<b>1.0</b>	<b>7.3</b>	
Minority interest	(6)	(57)	(15)	NA	NA	
<b>Reported profits</b>	<b>868</b>	<b>973</b>	<b>940</b>	<b>(3.3)</b>	<b>8.3</b>	

Source: Company

**Exhibit 2: Change in estimates**

` mn	FY17E			FY18E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	552	544	(1.4)	631	631	-
Revenue	36,370	36,520	0.4	40,997	41,646	1.6
EBITDA margin (%)	14.0	14.0	-	14.3	14.3	-
EPS (₹)	33.1	33.3	0.6	38.9	38.6	(0.8)

Source: Trust Research

**Geography wise Revenues:** Region-wise, APAC posted a robust growth of 4.7% QoQ in \$ terms. Americas declined by ~3.5% QoQ, while EMEA was down 1.7%.

**Exhibit 3: Geographical wise Performance**

Geographical mix (%)	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
US	65.0	63.7	64.0	64.1	63.6	60.2	60.0	59.1	58.0
Europe	26.8	25.8	24.0	24.1	23.2	25.5	24.6	24.0	24.0
India	8.2	10.5	12.0	11.8	13.2	14.3	15.4	16.9	18.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company



**Vertical wise Performance:** Growth was driven by Communication (2.4%) and Utilities & Geospatial (1.3%) in US\$ terms, QoQ basis. Semiconductor was up 2% QoQ in cc terms, while Aerospace & Defense saw a drop QoQ.

#### Exhibit 4: Industry segmentation

By Industry (%)	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q1FY17	Q2FY17	Q3FY17
Aerospace and Defense	34.5	35.8	36.2	37.7	38.9	38.7	38.7	36.8	35.6
Transportation	10.4	10.4	10.6	10.2	10.0	10.3	10.3	9.4	9.4
Industrial, Energy & Natural Resources	12.0	11.8	11.4	10.8	10.3	10.0	10.0	9.3	9.3
Semiconductor	5.6	5.6	5.3	4.3	4.4	4.3	4.3	4.1	3.9
Medical and Cons. Electronics	1.5	1.4	1.5	1.5	1.7	1.9	1.9	1.9	1.9
Utilities & Geospatial	18.8	17.9	15.8	15.7	16.8	15.8	15.8	16.7	17.2
Communications	16.4	16.2	18.4	19.4	17.6	18.9	18.9	21.8	22.7
Others	0.8	0.9	0.8	0.4	0.3	0.1	0.1	-	-
<b>Total revenue</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company

**Human Resources:** Employee metrics: Employee count decreased by 121 to take the total to 13,730. Billable employees decreased 131 QoQ.

#### Exhibit 5: Employee strength at CYL

Employee details/ Utilization	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
<b>Total (Nos)</b>	<b>12,777</b>	<b>12,929</b>	<b>12,938</b>	<b>12,624</b>	<b>12,802</b>	<b>13,123</b>	<b>13,595</b>	<b>13,851</b>	<b>13,730</b>
Voluntary attrition (%)	22.7	27.4	18.8	21.6	20.6	18.4	19.9	22.7	22.6
<b>Overall utilization (%)</b>	<b>75.8</b>	<b>73.8</b>	<b>75.4</b>	<b>76.1</b>	<b>76.7</b>	<b>72.7</b>	<b>73.5</b>	<b>78.0</b>	<b>78.3</b>

Source: Company, Trust Research

#### Exhibit 6: Client details

	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Top 5 clients (%)	36.6	34.9	35.7	35.3	34.7	35.7	40.2	42.7	43.5
Top 10 clients (%)	50.1	49.5	51.2	50.1	49.4	51.1	55.7	57.0	58.0
<b>Clients added (Nos)</b>									
<b>Total</b>	<b>23</b>	<b>16</b>	<b>24</b>	<b>17</b>	<b>21</b>	<b>20</b>	<b>22</b>	<b>23</b>	<b>20</b>
<b>Client buckets (Nos)</b>									
20Mn+	4	4	4	4	2	2	3	3	3
10Mn+	9	8	8	9	10	11	10	10	11
5Mn+	20	20	22	21	19	20	19	19	21
1Mn+	56	55	59	60	60	62	60	56	60

Source: Company

#### Exhibit 7: Revenue mix

Offshore/onsite split (%)	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Offshore	44.8	43.3	43.9	43.7	43.4	40.7	40.7	40.1	40.4
Onshore	55.2	56.7	56.1	56.3	56.6	59.3	59.3	59.9	59.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Company

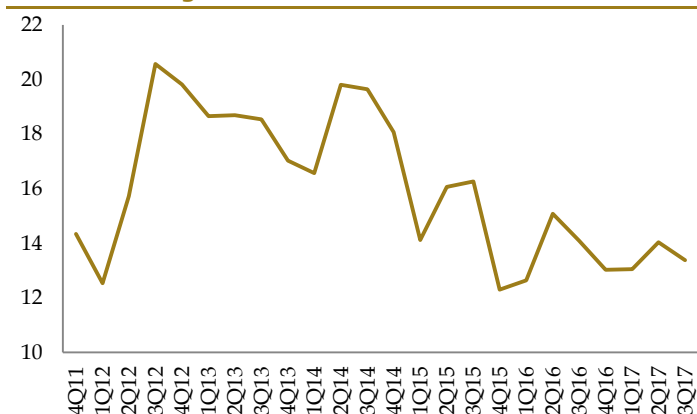


**Exhibit 8: Product business**

Details (In Rs. Mn)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
<b>Revenue</b>	<b>384</b>	<b>681</b>	<b>705</b>	<b>820</b>	<b>676</b>	<b>902</b>	<b>1,002</b>
Direct Salary and Related costs	38	43	43	47	53	34	30
Material & Mfg. cost	295	575	575	665	591	762	861
<b>Gross Profit</b>	<b>51</b>	<b>81</b>	<b>86</b>	<b>108</b>	<b>32</b>	<b>105</b>	<b>111</b>
SG&A	43	52	60	65	81	87	92
<b>Operating profit</b>	<b>8</b>	<b>30</b>	<b>26</b>	<b>43</b>	<b>(49)</b>	<b>18</b>	<b>20</b>
Others	33	41	39	58	43	45	38
<b>PBT</b>	<b>(25)</b>	<b>(11)</b>	<b>(13)</b>	<b>(15)</b>	<b>(92)</b>	<b>(27)</b>	<b>(18)</b>

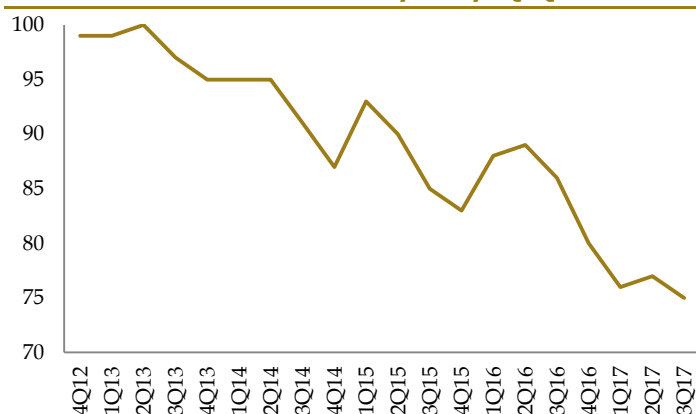
Source: Company

**Exhibit 9: Margin to remain flattish to +ve for FY17E**



Source: Company, Trust

**Exhibit 10: DSO increased by 2 days QoQ to 75**



Source: Company, Trust



## Financials

### Income Statement ( ` mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
<b>Revenues</b>	<b>27,359</b>	<b>30,956</b>	<b>36,520</b>	<b>41,646</b>	<b>46,607</b>
Op. Expenses	23,345	26,709	31,400	35,698	39,826
<b>EBITDA</b>	<b>4,015</b>	<b>4,247</b>	<b>5,120</b>	<b>5,948</b>	<b>6,781</b>
Other Income	1,236	1,065	809	900	850
Depreciation	713	893	948	1,083	1,209
<b>EBIT</b>	<b>4,538</b>	<b>4,419</b>	<b>4,981</b>	<b>5,765</b>	<b>6,422</b>
Interest	80	199	208	187	122
<b>PBT</b>	<b>4,458</b>	<b>4,220</b>	<b>4,773</b>	<b>5,578</b>	<b>6,300</b>
Tax	1,096	986	1,144	1,255	1,449
<b>PAT</b>	<b>3,362</b>	<b>3,235</b>	<b>3,629</b>	<b>4,323</b>	<b>4,851</b>
Ex. Ordinary/MI	172	28	133	58	58
<b>Adj Pat</b>	<b>3,534</b>	<b>3,262</b>	<b>3,762</b>	<b>4,381</b>	<b>4,909</b>

### Key Parameters

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
<b>Per share ( `)</b>					
EPS	31.4	29.7	33.3	38.6	43.2
CEPS	37.8	37.6	41.6	48.1	53.9
BVPS	165.2	170.6	188.7	213.7	242.9
DPS	8.0	7.0	10.5	11.0	12.0
Payout (%)	29.8	27.5	36.9	33.2	32.5
<b>Valuation (x)</b>					
P/E	16.2	14.5	15.0	12.9	11.5
P/BV	3.1	2.5	2.6	2.3	2.1
EV/EBITDA	13.0	10.2	9.8	8.1	6.8
Dividend Yield (%)	1.6	1.6	2.1	2.2	2.4
<b>Return ratio (%)</b>					
EBIDTA Margin	14.7	13.7	14.0	14.3	14.5
PAT Margin	12.3	10.4	9.9	10.4	10.4
ROAE	20.5	17.7	18.5	19.2	18.9
ROACE	25.4	21.6	22.7	24.0	24.0
<b>Leverage Ratios (x)</b>					
Long Term D/E	0.1	0.1	0.1	0.0	0.0
Net Debt/Equity	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)
Debt/EBITDA	0.3	0.5	0.3	0.2	0.1
Interest Coverage	56.7	22.2	24.0	30.8	52.7
Current ratio	2.7	2.7	2.9	3.1	3.4
<b>Growth Ratios (%)</b>					
Income growth	24.0	13.1	18.0	14.0	11.9
EBITDA growth	(2.1)	5.8	20.5	16.2	14.0
PAT growth	34.0	(3.8)	12.2	19.1	12.2
<b>Turnover Ratios</b>					
F.A Turnover x	7.4	7.6	8.1	9.0	9.7
Debtors Days	33	42	41	41	41
Payable days	63	72	71	70	70

### Balance Sheet ( ` mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Equity Share Capital	562	562	565	565	568
Reserves & Surplus	18,001	18,665	20,771	23,698	27,020
<b>Total Shareholders Fund</b>	<b>18,563</b>	<b>19,227</b>	<b>21,336</b>	<b>24,263</b>	<b>27,588</b>
<b>Non- current liabilities</b>	<b>1,038</b>	<b>1,279</b>	<b>1,742</b>	<b>1,848</b>	<b>1,949</b>
Long term borrowings	470	771	771	771	669
Deferred tax liabilities	(15)	(146)	196	196	196
Other LT liabilities & prov	582	654	774	880	982
<b>Current Liabilities</b>	<b>5,481</b>	<b>6,676</b>	<b>6,929</b>	<b>7,388</b>	<b>7,914</b>
Short term borrowings	813	1,147	649	249	51
Trade payables	2,115	3,107	3,527	4,010	4,474
Other cur liabilities & Prov	2,553	2,422	2,753	3,130	3,492
<b>Total liabilities</b>	<b>25,082</b>	<b>27,182</b>	<b>30,006</b>	<b>33,499</b>	<b>37,451</b>
<b>Assets</b>					
<b>Non- current Assets</b>	<b>10,017</b>	<b>9,235</b>	<b>9,940</b>	<b>10,310</b>	<b>10,745</b>
Fixed assets	3,718	4,084	4,493	4,610	4,801
Non-current investments	4,939	3,504	3,644	3,644	3,644
Long-term loans & adv	1,359	1,645	1,801	2,054	2,298
Other non-current assets	2	2	2	2	2
<b>Current assets</b>	<b>15,064</b>	<b>17,947</b>	<b>20,067</b>	<b>23,189</b>	<b>26,706</b>
Current investments	336	791	791	791	791
Trade receivables	4,697	6,145	7,004	7,987	8,938
Inventories	606	979	1,201	1,369	1,532
Cash & bank balances	6,229	6,951	7,721	9,508	11,224
Short term loans & Adv	1,363	1,089	1,301	1,483	1,660
Other current assets	1,834	1,993	2,050	2,051	2,561
<b>Total Assets</b>	<b>25,082</b>	<b>27,182</b>	<b>30,006</b>	<b>33,499</b>	<b>37,451</b>

### Cash flow Statement

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
PBT	4,458	4,220	4,773	5,578	6,300
Depreciation	720	762	1,290	1,083	1,209
Interest Exp	80	199	208	187	122
Others	172	28	133	58	58
<b>CF before W.cap</b>	<b>5,429</b>	<b>5,208</b>	<b>6,403</b>	<b>6,906</b>	<b>7,689</b>
Inc/dec in W.cap	(36)	1,061	633	622	1,118
<b>Op CF after W.cap</b>	<b>5,466</b>	<b>4,148</b>	<b>5,770</b>	<b>6,284</b>	<b>6,570</b>
Less Taxes	1,096	986	1,144	1,255	1,449
<b>Net CF From Operations</b>	<b>4,370</b>	<b>3,162</b>	<b>4,626</b>	<b>5,029</b>	<b>5,121</b>
Inc/(dec) in F.A + CWIP	1,017	1,259	1,357	1,200	1,400
(Pur)/sale of Investments	4,326	(981)	140	-	-
Others	(80)	(199)	(208)	(187)	(122)
<b>CF from Invst Activities</b>	<b>(5,424)</b>	<b>(477)</b>	<b>(1,705)</b>	<b>(1,387)</b>	<b>(1,522)</b>
Loan Raised	1,225	635	(498)	(400)	(300)
Equity Raised	196	(1,676)	(266)	0	12
Dividend	1,052	922	1,387	1,454	1,595
<b>CF from Fin Activities</b>	<b>369</b>	<b>(1,962)</b>	<b>(2,151)</b>	<b>(1,854)</b>	<b>(1,883)</b>
<b>Net inc /(dec) in cash</b>	<b>(684)</b>	<b>723</b>	<b>770</b>	<b>1,787</b>	<b>1,716</b>
Op. bal of cash	6,913	6,228	6,951	7,721	9,508
<b>Cl. balance of cash</b>	<b>6,229</b>	<b>6,951</b>	<b>7,721</b>	<b>9,508</b>	<b>11,224</b>



## Institutional Equity Team

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