



Cyient

Sector: Technology

1QFY18 Result Update

CMP: ` 516

Weak quarter, Double digit growth guidance

Recommendation: Buy

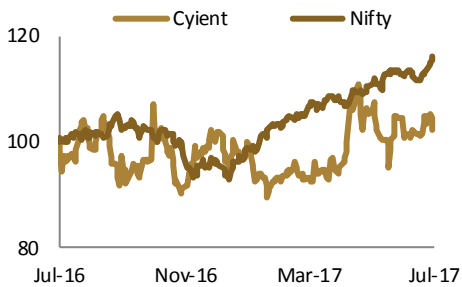
Market statistics

Current stock price (₹)	516
Shares O/S (cr.)	11.3
Mcap (₹ cr)	5,804
52W H/L (₹)	564/416
6m avg. volume	151,222
Bloomberg	CYL IN

Shareholding pattern

Promoters	22.18
Domestic Institution	7.27
Foreign Institution	56.98
Non-institution	13.57
of which more than 1%	
Carrier International Mauritius	13.59
Tele Atlas Data's Hertogenbosch B V	1.33

Cyient vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	18.3	17.9	18.5
EPS (₹)	32.7	35.4	41.0
CEPS (₹)	41.1	45.1	51.8
P/E (x)	14.5	14.6	12.6
P/BV (x)	2.5	2.5	2.2
EV/EBITDA (x)	9.6	9.5	7.9
Income growth (%)	16.5	10.0	14.9
EBITDA growth (%)	14.2	9.8	18.1
PAT growth (%)	9.2	7.3	16.7

Cyient Q1FY18 performance was lower-than-expectation on the DLM business. Cyient posted overall revenue of \$140.6m (down 0.2% QoQ). DLM business revenue decreased 26% QoQ (in US\$ terms). The EBITDA margin came at 12.8%, (down 47bps QoQ) and lower than our estimates due to wage hikes and currency headwinds. 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. We have modelled in for 13.6% US\$ growth in FY18 revenues.

Dollar revenue down 0.2% QoQ: For Q1FY18, Cyient posted revenue of \$140.6mn (down 0.2% QoQ including Rangsons), lower than our expectation. Services revenue stood at US\$128.8mn, a growth of 3.2% QoQ. On the acquired business side, DLM revenue decreased 26% QoQ to US\$12mn. Growth was driven by Transportation (11.6%) and Semiconductor (10.5%) in US\$ terms, QoQ basis. Region-wise, Europe, Middle East, Africa and India posted a robust growth of 9.3% QoQ in \$ terms. Americas increased by 0.7% QoQ, while APAC was up 1.9%. Aerospace & Defense saw a growth of 2.1% YoY and 1.7% QoQ. Communication saw a growth of 35.2% YoY and 9.9% QoQ. U&G saw a growth of 18.8% YoY and a decline of 7% QoQ

Operating metrics. Client addition: Client addition was strong this quarter. During the quarter 29 new clients were added (20+ in previous 5 quarter). **Employee metrics:** Employee count increased 105 to 13,835. Capex stood at INR258mn versus IN250mn in the previous quarter. DSO came in at 79 days (73 in Q4FY17). **Hedge:** Cyient has outstanding hedges worth US\$70mn, EUR20mn, GBP9mn and AUD15.7mn. Current cash and equivalents in hand: Stood at ~INR10.3bn, i.e., INR92/share, as at Jun'17-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 FY18: 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 FY18 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. DLM is expected to grow at least 20% YoY. Its guidance implies at least ~14.3% revenue growth during FY18. We have modelled in for 13.6% US\$ growth in FY18 revenues. The order book is higher by 9% YoY. 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 at least 50-60bps in FY18 in Cyient. We have assumed flat margins YoY. Improvement of margins at Softential in FY18 would be the main margin kicker.

Valuation & Outlook: CYL has given a guidance of lower double digit growth in its core business for FY18, while they expect Products business (incl. Rangsons) to show a 20%+ revenue growth. On the margin front, CYL expects a 50bps improvement. We maintain our recommendation on the stock at Buy, since we believe the worst for CYL is over.

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.co.in



Exhibit 1: Quarterly details

` mn	1QFY17	4QFY17	1QFY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	125	141	141	(0.2)	12.8	Services was up 3.2%. DLM was down 26% QoQ.
Revenues	8,349	9,409	9,070	(3.6)	8.6	
- Operating costs	7,259	8,161	7,910	(3.1)	9.0	
EBITDA	1,090	1,248	1,160	(7.1)	6.4	
EBITDA margin (%)	13.1	13.3	12.8	(47)bps	(27)bps	Margin lower on account of due to wage hikes and currency headwinds.
- Interest expense	53	38	52	36.8	(1.9)	
- Depreciation	223	255	261	2.4	17.0	
+ Other income, net (incl forex)	116	265	351	32.5	202.6	OI breakup: Forex profit of `202mn vs `105mn in 4Q
PBT	930	1,220	1,198	(1.8)	28.8	
- Taxes	237	221	373	68.8	57.4	
Effective tax rate (%)	25.5	18.1	31.1	1,302bps	565bps	Effective tax rate for FY18 to be between 26-27%
PAT	693	999	825	(17.4)	19.0	
Minority interest	(47)	(47)	(52)	NA	NA	
Reported profits	740	1,046	877	(16.2)	18.5	

Source: Company

Exhibit 2: Change in estimates

` mn	FY18E			FY19E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	623	611	(1.9)	704	701	(0.4)
Revenue	41,130	39,656	(3.6)	46,486	45,562	(2.0)
EBITDA margin (%)	13.7	13.4	(30)bps	13.9	13.8	(10)bps
EPS (`)	37.8	35.4	(6.3)	42.8	41.0	(2.0)

Source: Trust Research

Geography wise Revenues: Region-wise, Europe, Middle East, Africa and India posted a robust growth of 9.3% QoQ in \$ terms. Americas increased by 0.7% QoQ, while APAC was up 1.9%.

Exhibit 3: Geographical wise Performance

Geographical mix (%)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
US	64.0	64.1	63.6	60.2	60.0	59.1	58.0	57.1	55.8
Europe	24.0	24.1	23.2	25.5	24.6	24.0	24.0	25.1	26.6
India	12.0	11.8	13.2	14.3	15.4	16.9	18.0	17.8	17.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 4: Employee strength at CYL

Employee details/ Utilization	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Total (Nos)	12,938	12,624	12,802	13,123	13,595	13,851	13,730	13,730	13,835
Voluntary attrition (%)	18.8	21.6	20.6	18.4	19.9	22.7	22.6	15.6	16.6
Overall utilization (%)	75.4	76.1	76.7	72.7	73.5	78.0	78.3	77.4	74.1

Source: Company, Trust Research

Exhibit 5: Revenue mix

Offshore/onsite split (%)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Offshore	43.9	43.7	43.4	40.7	40.7	40.1	40.4	39.2	40.4
Onshore	56.1	56.3	56.6	59.3	59.3	59.9	59.6	60.8	59.6
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 Transportation (11.6%) and Semiconductor (10.5%) in US\$ terms, QoQ basis. Aerospace & Defense grew 1.7% QoQ. Communication grew 9.9% QoQ. U&G declined 7% QoQ.

Exhibit 6: Industry segmentation

By Industry (%)	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Aerospace and Defense	36.2	37.7	38.9	38.7	38.7	36.8	35.6	35.7	35.2
Transportation	10.6	10.2	10.0	10.3	10.3	9.4	9.4	9.7	10.5
Industrial, Energy & Natural Resources	11.4	10.8	10.3	10.0	10.0	9.3	9.3	8.7	8.5
Semiconductor	5.3	4.3	4.4	4.3	4.3	4.1	3.9	4.2	4.5
Medical and Cons. Electronics	1.5	1.5	1.7	1.9	1.9	1.9	1.9	1.9	2.0
Utilities & Geospatial	15.8	15.7	16.8	15.8	15.8	16.7	17.2	18.5	16.6
Communications	18.4	19.4	17.6	18.9	18.9	21.8	22.7	21.3	22.7
Others	0.8	0.4	0.3	0.1	0.1	-	-	-	-
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company

Exhibit 7: Client details

	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Top 5 clients (%)	35.7	35.3	34.7	35.7	40.2	42.7	43.5	42.9	41.0
Top 10 clients (%)	51.2	50.1	49.4	51.1	55.7	57.0	58.0	56.9	54.8
Clients added (Nos)	24	17	21	20	22	23	20	20	29
Client buckets (Nos)									
20Mn+	4	4	2	2	3	3	3	5	5
10Mn+	8	9	10	11	10	10	11	9	9
5Mn+	22	21	19	20	19	19	21	20	21
1Mn+	59	60	60	62	60	56	60	62	57

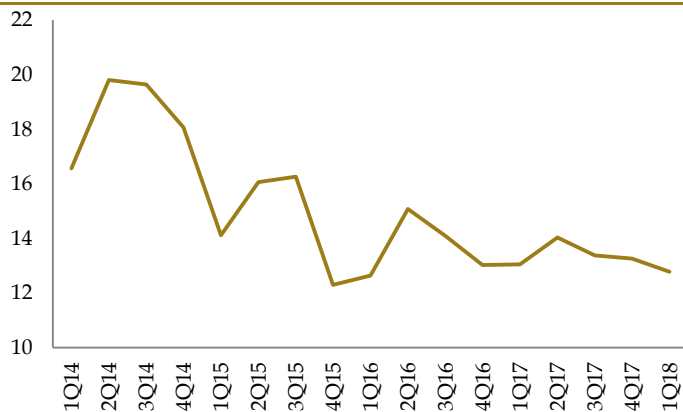
Source: Company

Exhibit 8: Product business

Details (In Rs. Mn)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Revenue	705	820	676	902	1,002	1,069	763
Direct Salary and Related costs	43	47	53	34	30	43	43
Material & Mfg. cost	575	665	591	762	861	921	678
Gross Profit	86	108	32	105	111	105	42
SG&A	60	65	81	87	92	108	95
Operating profit	26	43	(49)	18	20	(3)	(53)
PBT	(13)	(15)	(92)	(27)	(18)	(37)	(92)

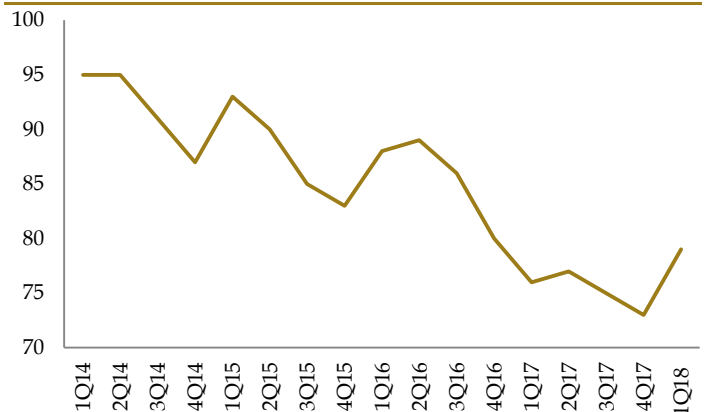
Source: Company

Exhibit 9: Margin to be positive by 50bps for FY18E



Source: Company, Trust

Exhibit 10: DSO increased by 6 days QoQ to 79



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Revenues	27,359	30,956	36,065	39,656	45,562
Op. Expenses	23,345	26,709	31,216	34,334	39,278
EBITDA	4,015	4,247	4,849	5,321	6,284
Other Income	1,236	1,065	874	1,176	1,050
Depreciation	713	893	953	1,094	1,225
EBIT	4,538	4,419	4,770	5,403	6,108
Interest	80	199	189	250	207
PBT	4,458	4,220	4,581	5,154	5,901
Tax	1,096	986	1,047	1,362	1,475
PAT	3,362	3,235	3,534	3,792	4,426
Ex. Ordinary/MI	172	28	426	208	208
Adj Pat	3,534	3,262	3,960	4,000	4,634

Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Per share (`)					
EPS	31.4	29.7	32.7	35.4	41.0
CEPS	37.8	37.6	41.1	45.1	51.8
BVPS	165.2	170.6	187.4	208.5	234.2
DPS	8.0	7.0	10.5	11.5	13.0
Payout (%)	29.8	27.5	37.5	38.0	37.2
Valuation (x)					
P/E	16.2	14.5	14.5	14.6	12.6
P/BV	3.1	2.5	2.5	2.5	2.2
EV/EBITDA	13.0	10.2	9.6	9.5	7.9
Dividend Yield (%)	1.6	1.6	2.2	2.2	2.5
Return ratio (%)					
EBIDTA Margin	14.7	13.7	13.4	13.4	13.8
PAT Margin	12.3	10.4	9.8	9.6	9.7
ROAE	20.5	17.7	18.3	17.9	18.5
ROACE	25.4	21.6	21.6	22.4	23.1
Leverage Ratios (x)					
Long Term D/E	0.1	0.1	0.1	0.1	0.0
Net Debt/Equity	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Debt/EBITDA	0.3	0.5	0.4	0.3	0.2
Interest Coverage	56.7	22.2	25.2	21.7	29.5
Current ratio	2.7	2.7	2.5	2.7	2.9
Growth Ratios (%)					
Income growth	24.0	13.1	16.5	10.0	14.9
EBITDA growth	(2.1)	5.8	14.2	9.8	18.1
PAT growth	34.0	(3.8)	9.2	7.3	16.7
Turnover Ratios					
F.A Turnover x	7.4	7.6	8.0	8.7	9.6
Debtors Days	33	42	43	45	46
Payable days	63	72	69	68	68

Balance Sheet (` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	562	562	563	565	565
Reserves & Surplus	18,001	18,665	20,636	22,995	25,914
Total Shareholders Fund	18,563	19,227	21,199	23,560	26,479
Non- current liabilities	1,038	1,279	1,773	1,822	1,957
Long term borrowings	470	771	759	759	759
Deferred tax liabilities	(15)	(146)	201	122	122
Other LT liabilities & prov	582	654	813	941	1,076
Current Liabilities	5,481	6,676	8,291	8,218	8,773
Short term borrowings	813	1,147	1,159	787	487
Trade payables	2,115	3,107	4,021	4,421	5,058
Other cur liabilities & Prov	2,553	2,422	3,111	3,010	3,228
Total liabilities	25,081	27,182	31,263	33,600	37,209
Assets					
Non- current Assets	10,017	9,235	10,550	11,031	11,621
Fixed assets	3,718	4,084	4,497	4,573	4,748
Non-current investments	4,939	3,504	4,310	4,502	4,502
Long-term loans & adv	1,359	1,645	1,743	1,956	2,372
Other non-current assets	2	2	-	-	-
Current assets	15,064	17,947	20,713	22,354	25,577
Current investments	336	791	925	925	925
Trade receivables	4,697	6,145	6,496	7,171	8,488
Inventories	606	979	935	978	1,248
Cash & bank balances	6,229	6,951	8,781	9,162	9,808
Short term loans & Adv	1,363	1,089	3,576	4,118	5,107
Total Assets	25,082	27,182	31,263	33,600	37,209

Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
PBT	4,458	4,220	4,581	5,154	5,901
Depreciation	720	762	1,300	1,015	1,225
Interest Exp	80	199	189	250	207
Others	172	28	(96)	208	208
CF before W.cap	5,429	5,208	5,974	6,626	7,542
Inc/dec in W.cap	(36)	1,061	(866)	1,261	1,799
Op CF after W.cap	5,466	4,148	6,839	5,366	5,743
Less Taxes	1,096	986	1,047	1,362	1,475
Net CF From Operations	4,370	3,162	5,792	4,004	4,268
Inc/(dec) in F.A + CWIP	1,017	1,259	1,366	1,170	1,400
(Pur)/sale of Investments	4,326	(981)	941	192	-
Others	(80)	(199)	(189)	(250)	(207)
CF from Invst Activities	(5,424)	(477)	(2,496)	(1,612)	(1,607)
Loan Raised	1,225	635	-	(372)	(300)
Equity Raised	196	(1,676)	(78)	(121)	9
Dividend	1,052	922	1,388	1,519	1,723
CF from Fin Activities	369	(1,962)	(1,467)	(2,011)	(2,014)
Net inc/(dec) in cash	(684)	723	1,830	381	646
Op. bal of cash	6,913	6,228	6,951	8,781	9,162
Cl. balance of cash	6,229	6,951	8,781	9,162	9,808



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119
Ritu Chaudhary	Associate	FMCG & Consumer Durable	ritu.chaudhary@trustgroup.in	+91-22-4224-5183



DISCLAIMER

This document has been prepared by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) to provide information about the company (ies) and/sector(s), if any, covered in the report. This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and TFCSP is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

Information and opinions presented in this report were obtained or derived from sources that TFCSP believes to be reliable, but TFCSP makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. TFCSP accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to TFCSP. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by TFCSP and are subject to change without notice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Other Disclosures by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) under SEBI (Research Analysts) Regulations, 2014 with reference to the subject companies(s) covered in this report:

TFCSP is engaged in the business of Retail & Institutional Stock Broking. TFCSP is a member of the National Stock Exchange of India Limited, BSE Limited and Metropolitan Stock Exchange of India Limited.

The associate/subsidiary companies of TFCSP are engaged in the businesses of Merchant Banking, portfolio management, lending, wealth management etc.

TFCSP's activities were neither suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years.

TFCSP has not been debarred from doing business by any Stock Exchange / SEBI or any other authority.

No disciplinary action has been taken by any regulatory authority against TFCSP impacting its equity research analysis activities.

TFCSP and its associate/subsidiary companies may have managed or co-managed public offering of securities, may have received compensation for merchant banking or brokerage services, may have received any compensation for products or services other than merchant banking or brokerage services from the subject company in the past 12 months.

TFCSP and its associate/subsidiary companies have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of TFCSP or its associate/subsidiary companies during twelve months preceding the date of distribution of the research report. TFCSP and/or its associate/subsidiary companies and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report.

TFCSP is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000001543.

Analyst Certification: The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject company securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of TFCSP research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Name of Company
Analyst Ownership of Stock	No
Served as Director or Employee	No

Stock Ratings are defined as follows :- Recommendation Interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	15% to -15%
Sell	Less than -15%

Regional Disclosures (outside India): This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject TFCSP or its associate/subsidiary companies to registration or licensing requirements within such jurisdictions.