



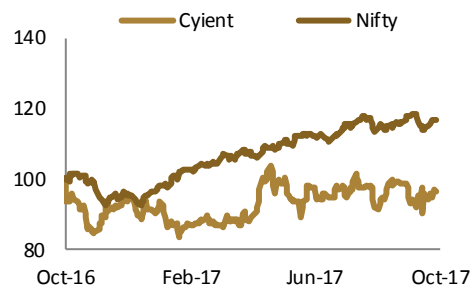
Market statistics

Current stock price (₹)	523
Shares O/S (cr.)	11.3
Mcap (₹ cr)	5,878
52W H/L (₹)	564/416
6m avg. volume	273,950
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	18.4	18.4
EPS (₹)	32.7	36.7	41.2
CEPS (₹)	41.1	46.0	51.6
P/E (x)	14.5	14.2	12.7
P/BV (x)	2.5	2.5	2.2
EV/EBITDA (x)	9.6	9.1	7.6
Income growth (%)	16.5	7.8	14.0
EBITDA growth (%)	14.2	14.5	18.6
PAT growth (%)	9.2	12.6	13.4

Cyient Q2FY18 performance was higher-than-expectation on the DLM business. Cyient posted overall revenue of \$150.1m (up 6.7% QoQ). DLM business revenue increased 33.6% QoQ (in US\$ terms). The EBITDA margin came at 14.6%, (up 182bps QoQ) and higher than our estimates due to lower S&M costs. We maintain our recommendation on the stock at Buy, since we believe CYL is at inflection point. Cyient management provided with a fundamental case for turnaround beginning FY17. We have modelled in for 13.5% US\$ growth in FY18 revenues.

Dollar revenue down 6.7% QoQ: For Q2FY18, Cyient posted revenue of \$150.1mn (up 6.7% QoQ including Rangsons), higher than our expectation. Services revenue stood at US\$134.3mn, a growth of 4.2% QoQ. On the acquired business side, DLM revenue increased 33.6% QoQ to US\$15.8mn. Growth was driven by Transportation (11.2%) and Communication (7%) in US\$ terms, QoQ basis. Region-wise, Europe, Middle East, Africa and India posted a robust growth of 4.6% QoQ in \$ terms. Americas increased by 1.3% QoQ, while APAC was up 13.1%. Aerospace & Defense saw a growth of 2.8% QoQ. Semiconductor saw a decline of 5% QoQ. U&G was flattish QoQ while Industrial, Energy and Natural Resources saw a growth of 5.5% QoQ. The company witnessed a 5% cc growth.

Operating metrics. Client addition: Client addition was strong this quarter. During the quarter 27 new clients were added (20+ in previous 5 quarter). **Employee metrics:** Employee count increased 362 to 14,197. Capex stood at INR244mn versus IN258mn in the previous quarter. DSO came in at 82 days (79 in Q1FY18). **Hedge:** Cyient has outstanding hedges worth US\$67.5mn, EUR21.2mn, GBP8.5mn and AUD16.9mn. Current cash and equivalents in hand: Stood at ~INR9.9bn, i.e., INR88/share, as at Sep'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. 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 atleast 20% YoY. Its guidance implies at least ~14.3% revenue growth during FY18. We have modelled in for 13.5% US\$ growth in FY18 revenues. The order book is lower by 18% YoY, but is expected to swell in 2HFY18. CYL is well placed to achieve the annual targeted growth.

EBITDA margins to be higher by atleast 50bps in FY18: CYL management indicated margin expansion of atleast 50-60bps in FY18 in Cyient. We have assumed 90bps YoY increase in margins. 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	2QFY17	1QFY18	2QFY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	136	141	150	6.7	10.0	Services was up 4.2%. DLM was up 33.6% QoQ.
Revenues	9,136	9,070	9,654	6.4	5.7	
- Operating costs	7,853	7,910	8,244	4.2	5.0	
EBITDA	1,283	1,160	1,410	21.6	9.9	
EBITDA margin (%)	14.0	12.8	14.6	182bps	56bps	Margin higher on account of strong revenue trajectory & lower S&M costs
- Interest expense	52	52	57	9.6	9.6	
- Depreciation	232	261	259	(0.8)	11.6	
+ Other income, net (incl forex)	184	351	406	15.7	120.7	OI breakup: Forex profit of `254mn vs `202mn in 1Q
PBT	1,183	1,198	1,500	25.2	26.8	
- Taxes	267	373	421	12.9	57.7	
Effective tax rate (%)	22.6	31.1	28.1	(307)bps	550bps	Effective tax rate for FY18 to be between 27-28%, since SEZ units have moved to 50% tax bracket
PAT	916	825	1,079	30.8	17.8	
Minority interest	(57)	(52)	(36)	NA	NA	
Reported profits	973	877	1,115	27.1	14.7	

Source: Company

Exhibit 2: Change in estimates

` mn	FY18E			FY19E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	611	601	(1.6)	701	682	(2.7)
Revenue	39,656	38,882	(2.0)	45,562	44,310	(2.7)
EBITDA margin (%)	13.4	14.3	85bps	13.8	14.9	105bps
EPS (`)	35.4	36.7	3.7	41.0	41.2	0.5

Source: Trust Research

Geography wise Revenues: Region-wise, Europe, Middle East, Africa and India posted a robust growth of 4.6% QoQ in \$ terms. Americas increased by 1.3% QoQ, while APAC was up 13.1%.

Exhibit 3: Geographical wise Performance

Geographical mix (%)	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
US	64.1	63.6	60.2	60.0	59.1	58.0	57.1	55.8	54.2
Europe	24.1	23.2	25.5	24.6	24.0	24.0	25.1	26.6	26.7
India	11.8	13.2	14.3	15.4	16.9	18.0	17.8	17.6	19.1
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	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Total (Nos)	12,624	12,802	13,123	13,595	13,851	13,730	13,730	13,835	14,197
Voluntary attrition (%)	21.6	20.6	18.4	19.9	22.7	22.6	15.6	16.6	14.2
Overall utilization (%)	76.1	76.7	72.7	73.5	78.0	78.3	77.4	74.1	75.9

Source: Company, Trust Research



Exhibit 5: Revenue mix

Offshore/onsite split (%)	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Offshore	43.7	43.4	40.7	40.7	40.1	40.4	39.2	40.4	41.2
Onshore	56.3	56.6	59.3	59.3	59.9	59.6	60.8	59.6	58.8
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 (11.2%) and Communication (7%) in US\$ terms, QoQ basis. Aerospace & Defense saw a growth of 2.8% QoQ Semiconductor saw a decline of 5% QoQ. U&G was flattish QoQ while Industrial, Energy and Natural Resources saw a growth of 5.5% QoQ.

Exhibit 6: Industry segmentation

By Industry (%)	Q3FY16	Q4FY16	Q1FY17	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Aerospace and Defense	37.7	38.9	38.7	38.7	36.8	35.6	35.7	35.2	34.7
Transportation	10.2	10.0	10.3	10.3	9.4	9.4	9.7	10.5	11.2
Industrial, Energy & Natural Resources	10.8	10.3	10.0	10.0	9.3	9.3	8.7	8.5	8.6
Semiconductor	4.3	4.4	4.3	4.3	4.1	3.9	4.2	4.5	4.1
Medical and Cons. Electronics	1.5	1.7	1.9	1.9	1.9	1.9	1.9	2.0	2.2
Utilities & Geospatial	15.7	16.8	15.8	15.8	16.7	17.2	18.5	16.6	15.9
Communications	19.4	17.6	18.9	18.9	21.8	22.7	21.3	22.7	23.3
Others	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

	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Top 5 clients (%)	35.3	34.7	35.7	40.2	42.7	43.5	42.9	41.0	41.6
Top 10 clients (%)	50.1	49.4	51.1	55.7	57.0	58.0	56.9	54.8	55.0
Clients added (Nos)	17	21	20	22	23	20	20	29	27
Client buckets (Nos)									
20Mn+	4	2	2	3	3	3	5	5	5
10Mn+	9	10	11	10	10	11	9	9	9
5Mn+	21	19	20	19	19	21	20	21	22
1Mn+	60	60	62	60	56	60	62	57	65

Source: Company

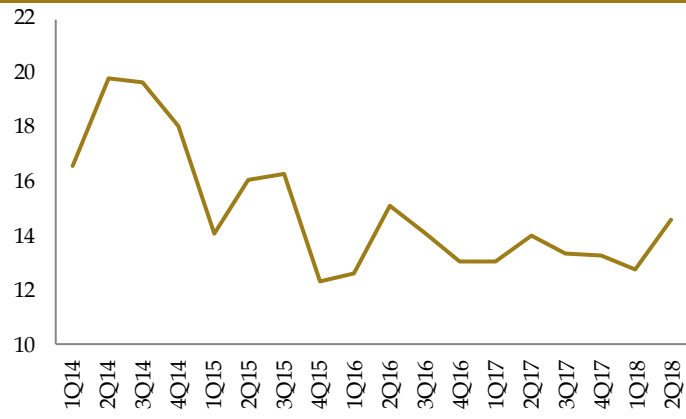
Exhibit 8: Product business

Details (In Rs. Mn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Revenue	820	676	902	1,002	1,069	763	1,017
Direct Salary and Related costs	47	53	34	30	43	43	39
Material & Mfg. cost	665	591	762	861	921	678	881
Gross Profit	108	32	105	111	105	42	97
SG&A	65	81	87	92	108	95	89
Operating profit	43	(49)	18	20	(3)	(53)	8
PBT	(15)	(92)	(27)	(18)	(37)	(92)	45

Source: Company

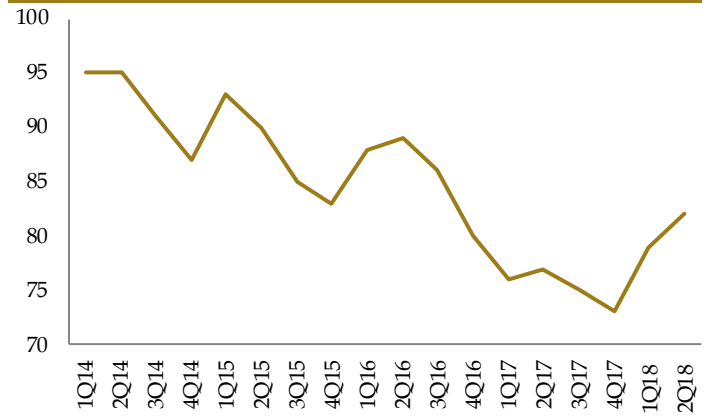


Exhibit 9: Margin to be positive by 90bps for FY18E



Source: Company, Trust

Exhibit 10: DSO increased by 3 days QoQ to 82



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Revenues	27,359	30,956	36,065	38,882	44,310
Op. Expenses	23,345	26,709	31,216	33,332	37,726
EBITDA	4,015	4,247	4,849	5,550	6,584
Other Income	1,236	1,065	874	1,307	1,050
Depreciation	713	893	953	1,052	1,176
EBIT	4,538	4,419	4,770	5,806	6,458
Interest	80	199	189	225	189
PBT	4,458	4,220	4,581	5,581	6,269
Tax	1,096	986	1,047	1,601	1,755
PAT	3,362	3,235	3,534	3,980	4,514
Ex. Ordinary/MI	172	28	426	160	144
Adj Pat	3,534	3,262	3,960	4,140	4,658

Key Parameters

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Per share (`)					
EPS	31.4	29.7	32.7	36.7	41.2
CEPS	37.8	37.6	41.1	46.0	51.6
BVPS	165.2	170.6	187.4	210.8	236.6
DPS	8.0	7.0	10.5	10.0	13.0
Payout (%)	29.8	27.5	37.5	31.8	36.9
Valuation (x)					
P/E	16.2	14.5	14.5	14.2	12.7
P/BV	3.1	2.5	2.5	2.5	2.2
EV/EBITDA	13.0	10.2	9.6	9.1	7.6
Dividend Yield (%)	1.6	1.6	2.2	1.9	2.5
Return ratio (%)					
EBIDTA Margin	14.7	13.7	13.4	14.3	14.9
PAT Margin	12.3	10.4	9.8	10.2	10.2
ROAE	20.5	17.7	18.3	18.4	18.4
ROACE	25.4	21.6	21.6	23.9	24.2
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)	(0.4)	(0.3)
Debt/EBITDA	0.3	0.5	0.4	0.3	0.2
Interest Coverage	56.7	22.2	25.2	25.9	34.1
Current ratio	2.7	2.7	2.5	2.8	3.1
Growth Ratios (%)					
Income growth	24.0	13.1	16.5	7.8	14.0
EBITDA growth	(2.1)	5.8	14.2	14.5	18.6
PAT growth	34.0	(3.8)	9.2	12.6	13.4
Turnover Ratios					
F.A Turnover x	7.4	7.6	8.0	8.4	9.1
Debtors Days	33	42	43	45	46
Payable days	63	72	69	68	66

Balance Sheet (` mn)

Year End-March	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	562	562	563	564	565
Reserves & Surplus	18,001	18,665	20,636	23,211	26,167
Total Shareholders Fund	18,563	19,227	21,199	23,775	26,732
Non- current liabilities	1,038	1,279	1,773	1,784	1,905
Long term borrowings	470	771	759	759	759
Deferred tax liabilities	(15)	(146)	201	112	112
Other LT liabilities & prov	582	654	813	913	1,034
Current Liabilities	5,481	6,676	8,291	8,094	8,603
Short term borrowings	813	1,147	1,159	880	644
Trade payables	2,115	3,107	4,021	4,292	4,858
Other cur liabilities & Prov	2,553	2,422	3,111	2,922	3,101
Total liabilities	25,081	27,182	31,263	33,653	37,239
Assets					
Non- current Assets	10,017	9,235	10,550	10,664	11,277
Fixed assets	3,718	4,084	4,497	4,624	4,849
Non-current investments	4,939	3,504	4,310	4,122	4,122
Long-term loans & adv	1,359	1,645	1,743	1,917	2,307
Other non-current assets	2	2	-	-	-
Current assets	15,064	17,947	20,713	22,989	25,961
Current investments	336	791	925	925	925
Trade receivables	4,697	6,145	6,496	7,031	8,255
Inventories	606	979	935	959	1,214
Cash & bank balances	6,229	6,951	8,781	10,037	10,601
Short term loans & Adv	1,363	1,089	3,576	4,038	4,966
Total Assets	25,082	27,182	31,263	33,653	37,239

Cash flow Statement

Year End-March	FY15	FY16	FY17	FY18E	FY19E
PBT	4,458	4,220	4,581	5,581	6,269
Depreciation	720	762	1,300	963	1,176
Interest Exp	80	199	189	225	189
Others	172	28	(96)	160	144
CF before W.cap	5,429	5,208	5,974	6,928	7,778
Inc/dec in W.cap	(36)	1,061	(866)	975	1,868
Op CF after W.cap	5,466	4,148	6,839	5,954	5,909
Less Taxes	1,096	986	1,047	1,601	1,755
Net CF From Operations	4,370	3,162	5,792	4,352	4,154
Inc/(dec) in F.A + CWIP	1,017	1,259	1,366	1,179	1,400
(Pur)/sale of Investments	4,326	(981)	941	(188)	-
Others	(80)	(199)	(189)	(225)	(189)
CF from Invst Activities	(5,424)	(477)	(2,496)	(1,216)	(1,589)
Loan Raised	1,225	635	-	(317)	(300)
Equity Raised	196	(1,676)	(78)	(246)	19
Dividend	1,052	922	1,388	1,318	1,720
CF from Fin Activities	369	(1,962)	(1,467)	(1,881)	(2,001)
Net inc/(dec) in cash	(684)	723	1,830	1,256	564
Op. bal of cash	6,913	6,228	6,951	8,781	10,037
Cl. balance of cash	6,229	6,951	8,781	10,037	10,601



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
Sales				
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4424-5028
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



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