



In partnership. With trust.

Cyient

Sector: Technology

3QFY18 Result Update

CMP: ` 581

Guidance maintained, outlook healthy

Recommendation: Buy

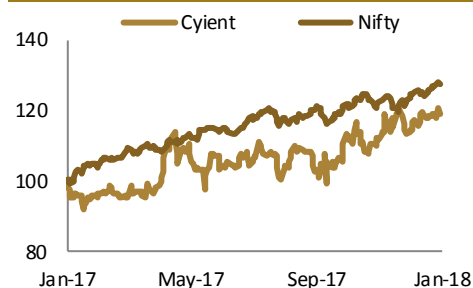
Market statistics

Current stock price (`)	581
Shares O/S (cr.)	11.3
Mcap (` cr)	6,545
52W H/L (`)	605/435
6m avg. volume	421,383
Bloomberg	CYL IN

Shareholding pattern

Promoters	22.18
Domestic Institution	18.93
Foreign Institution	42.75
Non-institution	16.14
of which more than 1%	
Amansa Holdings Pvt Ltd	6.43
Reliance Capital Trustee Co. Ltd.	5.55

Cyient vs Nifty



Capital efficiency & valuations

Particulars	FY18E	FY19E	FY20E
RoE (%)	19.0	18.9	19.0
EPS (`)	37.4	41.1	46.4
CEPS (`)	46.9	51.8	58.2
P/E (x)	15.5	14.1	12.5
P/BV (x)	2.8	2.5	2.3
EV/EBITDA (x)	10.3	8.5	7.3
Income growth (%)	9.2	12.9	11.7
EBITDA growth (%)	16.0	18.4	13.0
PAT growth (%)	16.6	12.0	13.0

Cyient Q3FY18 performance was as per our expectation. Cyient posted overall revenue of US\$152mn (up 1.3% QoQ), though revenue mix changed. DLM business revenue decreased 23.2% QoQ (in US\$ terms) and Services was up 4.2% (4.4% in cc terms). The EBITDA margin came at 14.5%, (down 6bps 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 13.3% US\$ growth in FY18 revenues.

Dollar revenue up 1.3% QoQ: For Q3FY18, Cyient posted revenue of US\$152mn (up 1.3% QoQ including Rangsons), higher than our expectation. Services revenue stood at US\$140mn, a growth of 4.2% QoQ. On the acquired business side, DLM revenue decreased 23.2% QoQ to US\$12.1mn, on account of a push-out of an order to Q4. Growth was driven by Transportation (8.4%) and Utilities (8.8%) in US\$ terms, QoQ basis. Region-wise, Europe, Middle East, Africa and India posted a robust growth of 8.1% QoQ in \$ terms. Americas increased by 5.9% QoQ, while APAC was down 6.2%. Aerospace & Defense saw a growth of 4.1% QoQ. Semiconductor saw a decline of 6.1% QoQ while Industrial, Energy and Natural Resources saw a growth of 4.3% QoQ and Communication (1.6%). The company witnessed a 4.4% cc growth.

Operating metrics. Client addition: Client addition was weak this quarter. During the quarter 12 new clients were added (20+ in previous 8 quarter). **Employee metrics:** Employee count increased 260 to 14,457. Capex stood at INR292mn versus INR244mn in the previous quarter. DSO came in at 80 days (82 in Q2FY18). **Hedge:** Cyient has outstanding hedges worth US\$63.5mn, EUR23.6mn, GBP8.4mn and AUD18.7mn. Current cash and equivalents in hand: Stood at ~INR10.77bn, i.e., INR96/share, as at Dec'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 13.3% US\$ growth in FY18 revenues. The order book is higher by 21% YoY. 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 ~80bps 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

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Exhibit 1: Quarterly details

` mn	3QFY17	2QFY18	3QFY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	136	150	152	1.3	11.9	Services was up 4.2%. DLM was down 23.2% QoQ.
Revenues	9,171	9,654	9,833	1.9	7.2	
- Operating costs	7,943	8,244	8,403	1.9	5.8	
EBITDA	1,228	1,410	1,430	1.4	16.5	
EBITDA margin (%)	13.4	14.6	14.5	(6)bps	116bps	Margin higher on account of strong revenue trajectory & lower S&M costs
- Interest expense	46	57	56	(1.8)	21.7	
- Depreciation	243	259	274	5.8	12.8	
+ Other income, net (incl forex)	309	406	273	(32.8)	(11.7)	OI breakup: Forex profit of `82mn vs `254mn in 2Q
PBT	1,248	1,500	1,373	(8.5)	10.1	
- Taxes	322	421	295	(29.9)	(8.4)	
Effective tax rate (%)	25.8	28.1	21.5	(658)bps	(432)bps	Effective tax rate for FY19 to be between 26-27%, since SEZ units have moved to 50% tax bracket
PAT	926	1,079	1,078	(0.1)	16.5	
Minority interest	(15)	(36)	(7)	NA	NA	
Reported profits	940	1,115	1,085	(2.7)	15.4	

Source: Company

Exhibit 2: Change in estimates

` mn	FY18E			FY19E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	601	609	1.3	682	684	0.3
Revenue	38,882	39,379	1.3	44,310	44,451	0.3
EBITDA margin (%)	14.3	14.3	-	14.9	15.0	5bps
EPS (`)	36.7	37.4	1.9	41.2	41.1	(0.2)

Source: Trust Research

Geography wise Revenues: Region-wise, Europe, Middle East, Africa and India posted a robust growth of 8.1% QoQ in \$ terms. Americas increased by 5.9% QoQ, while APAC was down 6.2%.

Exhibit 3: Geographical wise Performance

Geographical mix (%)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
US	63.6	60.2	60.0	59.1	58.0	57.1	55.8	54.2	55.1
Europe	23.2	25.5	24.6	24.0	24.0	25.1	26.6	26.7	27.7
India	13.2	14.3	15.4	16.9	18.0	17.8	17.6	19.1	17.2
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	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Total (Nos)	12,802	13,123	13,595	13,851	13,730	13,730	13,835	14,197	14,457
Voluntary attrition (%)	20.6	18.4	19.9	22.7	22.6	15.6	16.6	14.2	16.8
Overall utilization (%)	76.7	72.7	73.5	78.0	78.3	77.4	74.1	75.9	78.6

Source: Company, Trust Research



Exhibit 5: Revenue mix

Offshore/onsite split (%)	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Offshore	43.4	40.7	40.7	40.1	40.4	39.2	40.4	41.2	42.8
Onshore	56.6	59.3	59.3	59.9	59.6	60.8	59.6	58.8	57.2
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 (8.4%) and Utilities (8.8%) in US\$ terms, QoQ basis. Aerospace & Defense saw a growth of 4.1% QoQ. Semiconductor saw a decline of 6.1% QoQ while Industrial, Energy and Natural Resources saw a growth of 4.3% QoQ and Communication (1.6%).

Exhibit 6: Industry segmentation

By Industry (%)	Q4FY16	Q1FY17	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Aerospace and Defense	38.9	38.7	38.7	36.8	35.6	35.7	35.2	34.7	34.7
Transportation	10.0	10.3	10.3	9.4	9.4	9.7	10.5	11.2	11.7
Industrial, Energy & Natural Resources	10.3	10.0	10.0	9.3	9.3	8.7	8.5	8.6	8.6
Semiconductor	4.4	4.3	4.3	4.1	3.9	4.2	4.5	4.1	3.7
Medical and Cons. Electronics	1.7	1.9	1.9	1.9	1.9	1.9	2.0	2.2	2.0
Utilities & Geospatial	16.8	15.8	15.8	16.7	17.2	18.5	16.6	15.9	16.6
Communications	17.6	18.9	18.9	21.8	22.7	21.3	22.7	23.3	22.7
Others	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

	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Top 5 clients (%)	34.7	35.7	40.2	42.7	43.5	42.9	41.0	41.6	40.1
Top 10 clients (%)	49.4	51.1	55.7	57.0	58.0	56.9	54.8	55.0	54.0
Clients added (Nos)	21	20	22	23	20	20	29	27	12
Client buckets (Nos)									
20Mn+	2	2	3	3	3	5	5	5	5
10Mn+	10	11	10	10	11	9	9	9	11
5Mn+	19	20	19	19	21	20	21	22	23
1Mn+	60	62	60	56	60	62	57	65	66

Source: Company

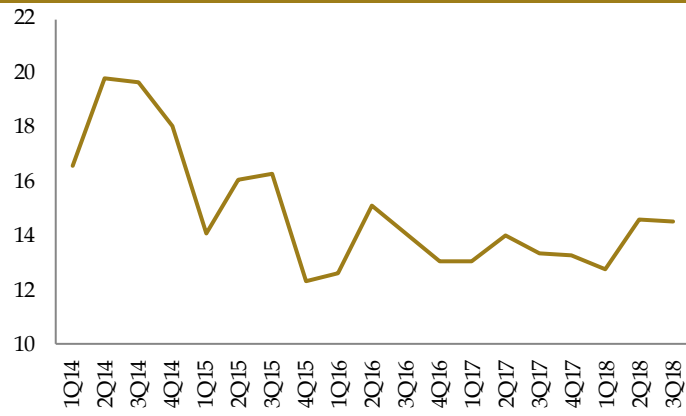
Exhibit 8: Product business

Details (In Rs. Mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Revenue	676	902	1,002	1,069	763	1,017	785
Direct Salary and Related costs	53	34	30	43	43	39	37
Material & Mfg. cost	591	762	861	921	678	881	653
Gross Profit	32	105	111	105	42	97	95
SG&A	81	87	92	108	95	89	86
Operating profit	(49)	18	20	(3)	(53)	8	9
PBT	(92)	(27)	(18)	(37)	(92)	(37)	(23)

Source: Company

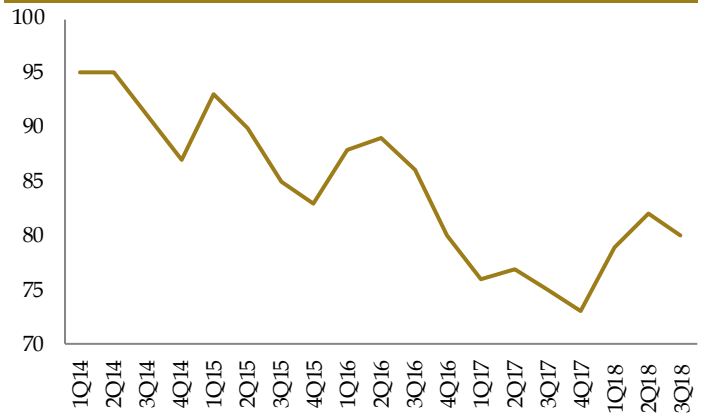


Exhibit 9: Margin to be positive by 90bps for FY18E



Source: Company, Trust

Exhibit 10: DSO decreased by 2 days QoQ to 80



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
Revenues	30,956	36,065	39,379	44,451	49,665
Op. Expenses	26,709	31,216	33,753	37,793	42,142
EBITDA	4,247	4,849	5,626	6,659	7,522
Other Income	1,065	874	1,305	1,050	1,150
Depreciation	893	953	1,071	1,202	1,328
EBIT	4,419	4,770	5,860	6,506	7,344
Interest	199	189	230	226	198
PBT	4,220	4,581	5,630	6,281	7,146
Tax	986	1,047	1,510	1,664	1,930
PAT	3,235	3,534	4,120	4,616	5,217
Ex. Ordinary/MI	28	426	102	28	28
Adj Pat	3,262	3,960	4,222	4,644	5,245

Key Parameters

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
Per share (`)					
EPS	29.7	32.7	37.4	41.1	46.4
CEPS	37.6	41.1	46.9	51.8	58.2
BVPS	170.6	187.4	206.2	230.1	257.8
DPS	7.0	10.5	13.0	14.5	16.0
Payout (%)	27.5	37.5	40.6	41.3	40.3
Valuation (x)					
P/E	14.5	14.5	15.5	14.1	12.5
P/BV	2.5	2.5	2.8	2.5	2.3
EV/EBITDA	10.2	9.6	10.3	8.5	7.3
Dividend Yield (%)	1.6	2.2	2.2	2.5	2.8
Return ratio (%)					
EBITDA Margin	13.7	13.4	14.3	15.0	15.1
PAT Margin	10.4	9.8	10.5	10.4	10.5
ROAE	17.7	18.3	19.0	18.9	19.0
ROACE	21.6	21.6	24.3	24.7	25.3
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)	(0.4)
Debt/EBITDA	0.5	0.4	0.3	0.2	0.2
Interest Coverage	22.2	25.2	25.5	28.8	37.1
Current ratio	2.7	2.5	2.7	2.9	3.1
Growth Ratios (%)					
Income growth	13.1	16.5	9.2	12.9	11.7
EBITDA growth	5.8	14.2	16.0	18.4	13.0
PAT growth	(3.8)	9.2	16.6	12.0	13.0
Turnover Ratios					
F.A Turnover x	7.6	8.0	8.6	9.3	10.2
Debtors Days	42	43	44	45	46
Payable days	72	69	68	68	67

Balance Sheet (` mn)

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	562	563	564	565	565
Reserves & Surplus	18,665	20,636	22,689	25,432	28,563
Total Shareholders Fund	19,227	21,199	23,252	25,997	29,128
Non- current liabilities	1,279	1,773	1,657	1,767	1,887
Long term borrowings	771	759	759	759	759
Deferred tax liabilities	(146)	201	(27)	(27)	(27)
Other LT liabilities & prov	654	813	925	1,035	1,155
Current Liabilities	6,676	8,291	8,447	8,777	9,394
Short term borrowings	1,147	1,159	1,142	804	504
Trade payables	3,107	4,021	4,346	4,866	5,427
Other cur liabilities & Prov	2,422	3,111	2,959	3,106	3,464
Total liabilities	27,182	31,263	33,357	36,541	40,409
Assets					
Non- current Assets	9,235	10,550	10,311	10,881	11,224
Fixed assets	4,084	4,497	4,591	4,789	4,861
Non-current investments	3,504	4,310	3,778	3,778	3,778
Long-term loans & adv	1,645	1,743	1,942	2,314	2,585
Other non-current assets	2	-	-	-	-
Current assets	17,947	20,713	22,762	25,775	29,333
Current investments	791	925	925	925	925
Trade receivables	6,145	6,496	7,121	8,281	9,253
Inventories	979	935	971	1,218	1,361
Cash & bank balances	6,951	8,781	9,656	10,369	12,228
Short term loans & Adv	1,089	3,576	4,089	4,982	5,567
Total Assets	27,182	31,263	33,357	36,541	40,409

Cash flow Statement

Year End-March	FY16	FY17	FY18E	FY19E	FY20E
PBT	4,220	4,581	5,630	6,281	7,146
Depreciation	762	1,300	843	1,202	1,328
Interest Exp	199	189	230	226	198
Others	28	(96)	102	28	28
CF before W.cap	5,208	5,974	6,805	7,737	8,700
Inc/dec in W.cap	1,061	(866)	1,334	1,534	900
Op CF after W.cap	4,148	6,839	5,471	6,203	7,801
Less Taxes	986	1,047	1,510	1,664	1,930
Net CF From Operations	3,162	5,792	3,961	4,538	5,871
Inc/(dec) in F.A + CWIP	1,259	1,366	1,165	1,400	1,400
(Pur)/sale of Investments	(981)	941	(532)	-	-
Others	(199)	(189)	(230)	(226)	(198)
CF from Invst Activities	(477)	(2,496)	(863)	(1,626)	(1,598)
Loan Raised	635	-	(55)	(300)	(300)
Equity Raised	(1,676)	(78)	(455)	19	1
Dividend	922	1,388	1,714	1,919	2,115
CF from Fin Activities	(1,962)	(1,467)	(2,223)	(2,199)	(2,414)
Net inc/(dec) in cash	723	1,830	875	713	1,859
Op. bal of cash	6,228	6,951	8,781	9,656	10,369
Cl. balance of cash	6,951	8,781	9,656	10,369	12,228



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Sell	Less than -15%

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