



Cyient

Sector: Technology

4QFY18 Result Update

CMP: ₹ 648

Decent quarter, outlook healthy

Recommendation: Buy

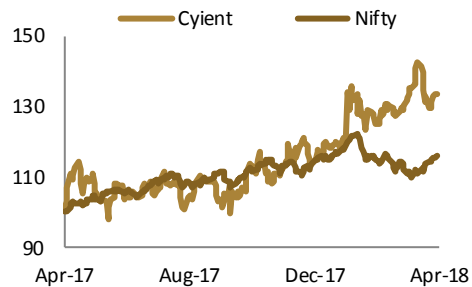
Market statistics

Current stock price (₹)	648
Shares O/S (cr.)	11.3
Mcap (₹ cr)	7,292
52W H/L (₹)	698/475
6m avg. volume	443,350
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	FY18	FY19E	FY20E
RoE (%)	19.2	19.0	19.0
EPS (₹)	38.0	41.9	46.9
CEPS (₹)	47.3	51.7	57.8
P/E (x)	18.1	15.5	13.8
P/BV (x)	3.3	2.8	2.5
EV/EBITDA (x)	12.9	10.1	8.7
Income growth (%)	8.6	13.7	11.2
EBITDA growth (%)	13.3	16.2	12.5
PAT growth (%)	19.5	12.0	12.0

Cyient Q4FY18 performance was as per our expectation operationally. Cyient posted overall revenue of US\$164.6mn (up 8.3% QoQ), though revenue mix changed. DLM business revenue increased 37.3% QoQ (in US\$ terms) and Services was up 2% (2.7% in cc terms). The EBITDA margin came at 14.1%, (down 49bps QoQ) and as per our estimates. 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 12.8% US\$ growth in FY19 revenues.

Dollar revenue up 8.3% QoQ: For Q4FY18, Cyient posted revenue of US\$164.6mn (up 8.3% QoQ including Rangsons), higher than our expectation. Services revenue stood at US\$143mn, a growth of 2% QoQ. On the acquired business side, DLM revenue increased 37.3% QoQ to US\$22.0mn. Growth was driven by Communications (11%) and Semiconductor (7.5%) in US\$ terms, QoQ basis. Region-wise, Europe, Middle East, Africa and India posted a robust growth of 7.5% QoQ in \$ terms. Americas decreased by 1.4% QoQ, while APAC was up 3.8%. Aerospace & Defense saw a decline of 1.8% QoQ. Medical & Cons. Electronics saw a decline of 3.1% QoQ while Industrial, Energy and Natural Resources saw a decline of 1.6% QoQ and Utilities & Geospatial (0.5%). The company witnessed a 11.7% cc growth YoY.

Operating metrics. Client addition: Client addition was weak this quarter. During the quarter 16 new clients were added (20+ in previous 9 quarter with the exception of Q3FY18). **Employee metrics:** Employee count increased 305 to 14,762. Capex stood at INR476mn vs INR292mn in the previous quarter. DSO came in at 80 days (80 in Q3FY18). **Acquisition** Cyient completed acquisition of B&F Design Inc. This quarter's revenue included US\$1mn from 2-months consolidation of the acquisition.

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 FY19: 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 FY19. 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 ~11% revenue growth during FY18. We have modelled in for 12.8% US\$ growth in FY19 revenues. CYL is well placed to achieve the annual targeted growth.

EBITDA margins to be flattish in FY19: CYL management indicated margin expansion of ~100bps in FY19 on account of operational levers which would be invested in business. Hence, Cyient has guided to flattish margins for FY19 YoY. We have assumed ~30bps YoY increase in margins. Improvement of margins at Softential in FY19 would be the main margin kicker.

Valuation & Outlook: CYL has given a guidance of lower double digit growth in its core business for FY19, while they expect Products business (incl. Rangsons) to show a 20%+ revenue growth. On the margin front, CYL expects a ~100bps improvement operationally without business investments. We maintain our recommendation on the stock at Buy, since we believe the worst for CYL is placed in a sweet spot in the ER&D outsourcing wave.

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.co.in



Exhibit 1: Quarterly details

` mn	4QFY17	3QFY18	4QFY18	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	141	152	165	8.3	16.8	Services was up 2%. DLM was up 37.3% QoQ.
Revenues	9,409	9,833	10,618	8.0	12.8	
- Operating costs	8,161	8,403	9,126	8.6	11.8	
EBITDA	1,248	1,430	1,492	4.3	19.6	
EBITDA margin (%)	13.3	14.5	14.1	(49)bps	79bps	Margin was lower on account of lower utilization, higher material costs and sub-contractor costs.
- Interest expense	38	56	67	19.6	76.3	
- Depreciation	255	274	257	(6.2)	0.8	
+ Other income, net (incl forex)	265	273	408	49.5	54.0	OI breakup: Forex profit of `119mn vs `82mn in 3Q
PBT	1,220	1,373	1,576	14.8	29.2	
- Taxes	221	295	336	13.9	52.0	
Effective tax rate (%)	18.1	21.5	21.3	(17)bps	321bps	Effective tax rate for FY19 to be between 24-25%, since SEZ units have moved to 50% tax bracket
PAT	999	1,078	1,240	15.0	24.1	
Minority interest	(47)	(7)	28	NA	NA	
Reported profits	1,046	1,085	1,212	11.7	15.8	

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	684	685	0.1	764	762	(0.3)
Revenue	44,451	44,548	0.2	49,665	49,516	(0.3)
EBITDA margin (%)	15.0	14.3	(65)bps	15.1	14.5	(55)bps
EPS (`)	41.1	41.9	1.9	46.4	46.9	1.1

Source: Trust Research

Geography wise Revenues: Region-wise, Europe, Middle East, Africa and India posted a robust growth of 7.5% QoQ in \$ terms. Americas decreased by 1.4% QoQ, while APAC was up 3.8%.

Exhibit 3: Geographical wise Performance

Geographical mix (%)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
US	60.2	60.0	59.1	58.0	57.1	55.8	54.2	55.1	53.3
Europe	25.5	24.6	24.0	24.0	25.1	26.6	26.7	27.7	29.2
India	14.3	15.4	16.9	18.0	17.8	17.6	19.1	17.2	17.5
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	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Total (Nos)	13,123	13,595	13,851	13,730	13,730	13,835	14,197	14,457	14,762
Voluntary attrition (%)	18.4	19.9	22.7	22.6	15.6	16.6	14.2	16.8	16.9
Overall utilization (%)	72.7	73.5	78.0	78.3	77.4	74.1	75.9	78.6	76.7

Source: Company, Trust Research



Exhibit 5: Revenue mix

Offshore/onsite split (%)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Offshore	40.7	40.7	40.1	40.4	39.2	40.4	41.2	42.8	44.0
Onshore	59.3	59.3	59.9	59.6	60.8	59.6	58.8	57.2	56.0
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 Communications (11%) and Semiconductor (7.5%) in US\$ terms, QoQ basis. Aerospace & Defense saw a decline of 1.8% QoQ. Medical & Cons. Electronics saw a decline of 3.1% QoQ while Industrial, Energy and Natural Resources saw a decline of 1.6% QoQ and Utilities & Geospatial (0.5%).

Exhibit 6: Industry segmentation

By Industry (%)	Q1FY17	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Aerospace and Defense	38.7	38.7	36.8	35.6	35.7	35.2	34.7	34.7	33.4
Transportation	10.3	10.3	9.4	9.4	9.7	10.5	11.2	11.7	11.6
Industrial, Energy & Natural Resources	10.0	10.0	9.3	9.3	8.7	8.5	8.6	8.6	8.3
Semiconductor	4.3	4.3	4.1	3.9	4.2	4.5	4.1	3.7	3.9
Medical and Cons. Electronics	1.9	1.9	1.9	1.9	1.9	2.0	2.2	2.0	1.9
Utilities & Geospatial	15.8	15.8	16.7	17.2	18.5	16.6	15.9	16.6	16.2
Communications	18.9	18.9	21.8	22.7	21.3	22.7	23.3	22.7	24.7
Others	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

	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Top 5 clients (%)	35.7	40.2	42.7	43.5	42.9	41.0	41.6	40.1	38.9
Top 10 clients (%)	51.1	55.7	57.0	58.0	56.9	54.8	55.0	54.0	52.4
Clients added (Nos)	20	22	23	20	20	29	27	12	16
Client buckets (Nos)									
20Mn+	2	3	3	3	5	5	5	5	4
10Mn+	11	10	10	11	9	9	9	11	12
5Mn+	20	19	19	21	20	21	22	23	24
1Mn+	62	60	56	60	62	57	65	66	63

Source: Company

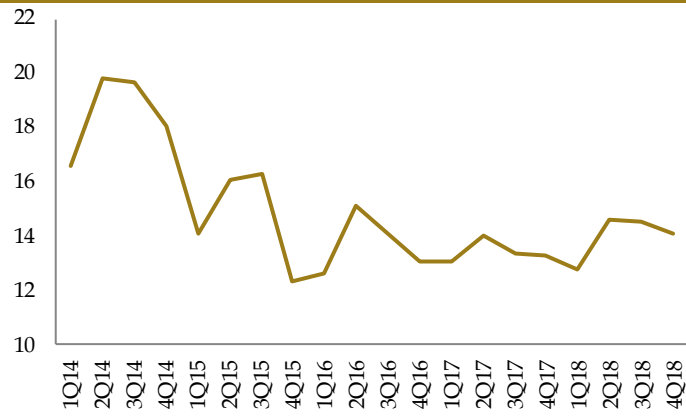
Exhibit 8: Product business

Details (In Rs. Mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Revenue	902	1,002	1,069	763	1,017	785	1,418
Direct Salary and Related costs	34	30	43	43	39	37	114
Material & Mfg. cost	762	861	921	678	881	653	1,116
Gross Profit	105	111	105	42	97	95	188
SG&A	87	92	108	95	89	86	90
Operating profit	18	20	(3)	(53)	8	9	98
PBT	(27)	(18)	(37)	(92)	(37)	(23)	48

Source: Company

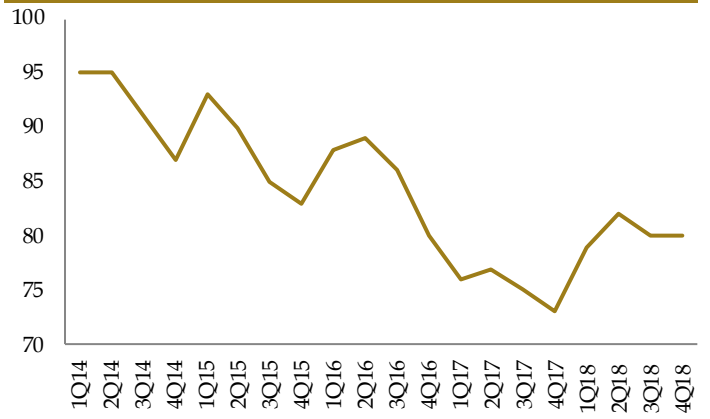


Exhibit 9: Margin to be positive by 30bps for FY19E



Source: Company, Trust

Exhibit 10: DSO days were flat QoQ at 80



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Revenues	30,956	36,065	39,175	44,548	49,516
Op. Expenses	26,709	31,216	33,683	38,168	42,341
EBITDA	4,247	4,849	5,492	6,380	7,175
Other Income	1,065	874	1,438	1,350	1,450
Depreciation	893	953	1,051	1,112	1,238
EBIT	4,419	4,770	5,879	6,618	7,387
Interest	199	189	232	355	327
PBT	4,220	4,581	5,647	6,262	7,059
Tax	986	1,047	1,425	1,534	1,765
PAT	3,235	3,534	4,222	4,728	5,294
Ex. Ordinary/MI	28	426	35	(32)	(32)
Adj Pat	3,262	3,960	4,257	4,696	5,262

Key Parameters

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Per share (`)					
EPS	29.7	32.7	38.0	41.9	46.9
CEPS	37.6	41.1	47.3	51.7	57.8
BVPS	170.6	187.4	207.9	232.9	260.7
DPS	7.0	10.5	13.0	14.0	16.0
Payout (%)	27.5	37.5	40.0	39.2	39.9
Valuation (x)					
P/E	14.5	14.5	18.1	15.5	13.8
P/BV	2.5	2.5	3.3	2.8	2.5
EV/EBITDA	10.2	9.6	12.9	10.1	8.7
Dividend Yield (%)	1.6	2.2	1.9	2.2	2.5
Return ratio (%)					
EBITDA Margin	13.7	13.4	14.0	14.3	14.5
PAT Margin	10.4	9.8	10.8	10.6	10.7
ROAE	17.7	18.3	19.2	19.0	19.0
ROACE	21.6	21.6	23.8	24.1	24.4
Leverage Ratios (x)					
Long Term D/E	0.1	0.1	0.1	0.1	0.1
Net Debt/Equity	(0.3)	(0.3)	(0.3)	(0.3)	(0.4)
Debt/EBITDA	0.5	0.4	0.5	0.4	0.3
Interest Coverage	22.2	25.2	25.3	18.6	22.6
Current ratio	2.7	2.5	2.7	2.9	3.1
Growth Ratios (%)					
Income growth	13.1	16.5	8.6	13.7	11.2
EBITDA growth	5.8	14.2	13.3	16.2	12.5
PAT growth	(3.8)	9.2	19.5	12.0	12.0
Turnover Ratios					
F.A Turnover x	7.6	8.0	7.9	8.5	9.2
Debtors Days	42	43	42	41	41
Payable days	72	69	67	65	63

Balance Sheet (` mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	562	563	563	565	565
Reserves & Surplus	18,665	20,636	22,879	25,741	28,889
Total Shareholders Fund	19,227	21,199	23,442	26,306	29,454
Non- current liabilities	1,279	1,773	1,942	2,090	2,204
Long term borrowings	771	759	1,009	1,009	1,009
Deferred tax liabilities	(146)	201	35	35	35
Other LT liabilities & prov	654	813	898	1,046	1,160
Current Liabilities	6,676	8,291	8,621	9,218	9,764
Short term borrowings	1,147	1,159	1,780	1,480	1,180
Trade payables	3,107	4,021	3,813	4,287	4,756
Other cur liabilities & Prov	2,422	3,111	3,028	3,451	3,828
Total liabilities	27,182	31,263	34,005	37,614	41,422
Assets					
Non- current Assets	9,235	10,550	10,549	11,029	11,408
Fixed assets	4,084	4,497	4,941	5,229	5,391
Non-current investments	3,504	4,310	3,847	3,847	3,847
Long-term loans & adv	1,645	1,743	1,761	1,953	2,171
Other non-current assets	2	-	-	-	-
Current assets	17,947	20,713	23,456	26,585	30,014
Current investments	791	925	1,130	1,130	1,130
Trade receivables	6,145	6,496	6,913	7,811	8,682
Inventories	979	935	1,312	1,465	1,628
Cash & bank balances	6,951	8,781	9,807	10,935	12,764
Short term loans & Adv	1,089	3,576	4,294	5,245	5,810
Total Assets	27,182	31,263	34,005	37,614	41,423

Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	4,220	4,581	5,647	6,262	7,059
Depreciation	762	1,300	885	1,112	1,238
Interest Exp	199	189	232	355	327
Others	28	(96)	35	(32)	(32)
CF before W.cap	5,208	5,974	6,799	7,698	8,593
Inc/dec in W.cap	1,061	(866)	1,736	1,148	857
Op CF after W.cap	4,148	6,839	5,063	6,550	7,736
Less Taxes	986	1,047	1,425	1,534	1,765
Net CF From Operations	3,162	5,792	3,638	5,016	5,971
Inc/(dec) in F.A + CWIP	1,259	1,366	1,495	1,400	1,400
(Pur)/sale of Investments	(981)	941	(258)	-	-
Others	(199)	(189)	(232)	(355)	(327)
CF from Invst Activities	(477)	(2,496)	(1,469)	(1,755)	(1,727)
Loan Raised	635	-	871	(300)	(300)
Equity Raised	(1,676)	(78)	(300)	20	1
Dividend	922	1,388	1,714	1,853	2,115
CF from Fin Activities	(1,962)	(1,467)	(1,143)	(2,132)	(2,414)
Net inc/(dec) in cash	723	1,830	1,026	1,128	1,829
Op. bal of cash	6,228	6,951	8,781	9,807	10,935
Cl. balance of cash	6,951	8,781	9,807	10,935	12,764



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				
Vijay Shah	Sales		vijay.shah@trustgroup.in	+91-22-4084-5090
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4084-5028
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



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.