



# Cyient

## 1QFY19 Result Update

*Weak quarter, outlook healthy*

Sector: Technology

CMP: `742

Recommendation: Buy

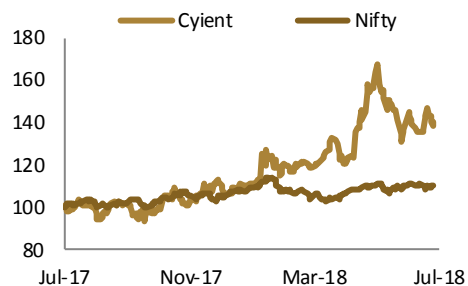
### Market statistics

Current stock price (₹)	742
Shares O/S (cr.)	11.3
Mcap (₹ cr)	8,374
52W H/L (₹)	887/475
6m avg. volume	481,762
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%	

### Cyient vs Nifty



### Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	19.2	17.8	18.6
EPS (₹)	38.0	39.0	45.2
CEPS (₹)	47.3	49.3	56.6
P/E (x)	18.1	19.0	16.4
P/BV (x)	3.3	3.2	2.9
EV/EBITDA (x)	12.9	12.1	10.4
Income growth (%)	8.6	16.7	11.0
EBITDA growth (%)	13.3	13.9	13.1
PAT growth (%)	19.5	4.2	15.9

ANALYST

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Cyient Q1FY19 performance was lower than our expectation operationally. Cyient posted overall revenue of US\$160.8mn (down 2.3% QoQ), though revenue mix changed. DLM business revenue increased 52.1% QoQ (in US\$ terms, YoY) and Services was up 0.1% (1.1% in cc terms). The EBITDA margin came at 12.2%, (down 187bps QoQ). 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 12.3% US\$ growth in FY19 revenues.

**Dollar revenue down 2.3% QoQ:** For Q1FY19, Cyient posted revenue of US\$160.8mn (down 2.3% QoQ including Rangsons), lower than our expectation. Services revenue stood at US\$143mn, flat QoQ. On the acquired business side, DLM revenue increased 52.1% QoQ to US\$18.0mn. Growth was driven by Semiconductor, Internet of Things & Analytics (39.1% QoQ including Ansem), Aerospace & Defence (4.7%) and Transportation (4.5%) in US\$ terms, QoQ basis. Region-wise, Europe, Middle East, Africa and India posted a decline of 11.4% QoQ in \$ terms. Americas increased by 9.3% QoQ, while APAC was up 2.9%. Communications saw a decline of 3.2% QoQ. Utilities & Geospatial saw a decline of 12.5% QoQ while Industrial, Energy and natural resources (IE&NR) saw a decline of 3% QoQ and Medical Technology and Healthcare (0.5%). The Services witnessed a (1.4)% cc growth decline QoQ.

**Operating metrics. Client addition:** Client addition was weak this quarter. During the quarter 20 new clients were added (20+ in previous 9 quarter with the exception of Q1/Q3/Q4FY18). **Employee metrics:** Employee count decreased 911 to 13,851. Capex stood at INR397mn vs IN476mn in the previous quarter. DSO came in at 89 days (81 in Q4FY18). **Acquisition** Cyient completed the acquisition of Belgium based AnSem, a leading fabless, custom analog and mixed-signal ASIC design company. AnSem is a ~\$10 Mn and 20%+ operating margin business

**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 12.3% 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 decrease 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.



**Exhibit 1: Quarterly details**

` mn	1QFY18	4QFY18	1QFY19	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$ mn)</b>	<b>141</b>	<b>165</b>	<b>161</b>	<b>(2.3)</b>	<b>14.3</b>	Services was down 2.3% QoQ cc terms. DLM was up 52.1% QoQ.
Revenues	9,070	10,618	10,800	1.7	19.1	
- Operating costs	7,910	9,126	9,484	3.9	19.9	
<b>EBITDA</b>	<b>1,160</b>	<b>1,492</b>	<b>1,316</b>	<b>(11.8)</b>	<b>13.4</b>	
<b>EBITDA margin (%)</b>	<b>12.8</b>	<b>14.1</b>	<b>12.2</b>	<b>(187)bps</b>	<b>(60)bps</b>	Margin was lower due to Lower offshore mix and utilization (120 bps) and wage hike (70 bps) and weak revenue trajectory.
- Interest expense	52	67	82	22.4	57.7	
- Depreciation	261	257	285	10.9	9.2	
+ Other income, net (incl forex)	351	408	170	(58.3)	(51.6)	OI breakup: Forex loss of `16mn vs profit of `119mn in 4Q
<b>PBT</b>	<b>1,198</b>	<b>1,576</b>	<b>1,119</b>	<b>(29.0)</b>	<b>(6.6)</b>	
- Taxes	373	336	304	(9.5)	(18.5)	
Effective tax rate (%)	31.1	21.3	27.2	585bps	(397)bps	Effective tax rate for FY19 to be between 23-24%, since SEZ units have moved to 50% tax bracket
<b>PAT</b>	<b>825</b>	<b>1,240</b>	<b>815</b>	<b>(34.3)</b>	<b>(1.2)</b>	
Minority interest	(52)	28	(10)	NA	NA	
<b>Reported profits</b>	<b>877</b>	<b>1,212</b>	<b>825</b>	<b>(31.9)</b>	<b>(5.9)</b>	

Source: Company

**Exhibit 2: Change in estimates**

` mn	FY19E			FY20E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	685	682	(0.4)	762	757	(0.7)
Revenue	44,548	45,715	2.6	49,516	50,723	2.4
EBITDA margin (%)	14.3	13.7	(55)bps	14.5	13.9	(55)bps
EPS (`)	41.9	39.0	(6.9)	46.9	45.2	(3.6)

Source: Trust Research

**Geography wise Revenues:** Region-wise, Europe, Middle East, Africa and India posted a decline of 11.4% QoQ in \$ terms. Americas increased by 9.3% QoQ, while APAC was up 2.9%.

**Exhibit 3: Geographical wise Performance**

Geographical mix (%)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
US	60.0	59.1	58.0	57.1	52.7	54.2	55.1	49.0	52.5
Europe	24.6	24.0	24.0	25.1	24.0	26.7	27.7	28.3	24.6
India	15.4	16.9	18.0	17.8	23.3	19.1	17.2	22.7	22.9
<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 4: Employee strength at CYL**

Employee details/ Utilization	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
<b>Total (Nos)</b>	<b>13,595</b>	<b>13,851</b>	<b>13,730</b>	<b>13,730</b>	<b>13,835</b>	<b>14,197</b>	<b>14,457</b>	<b>14,762</b>	<b>13,851</b>
Voluntary attrition (%)	19.9	22.7	22.6	15.6	16.6	14.2	16.8	16.9	16.9
<b>Overall utilization (%)</b>	<b>73.5</b>	<b>78.0</b>	<b>78.3</b>	<b>77.4</b>	<b>74.1</b>	<b>75.9</b>	<b>78.6</b>	<b>76.7</b>	<b>75.0</b>

Source: Company, Trust Research



**Exhibit 5: Revenue mix**

Offshore/onsite split (%)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Offshore	40.7	40.1	40.4	39.2	40.4	41.2	42.8	44.0	NA
Onshore	59.3	59.9	59.6	60.8	59.6	58.8	57.2	56.0	NA
<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 Semiconductor, Internet of Things & Analytics (39.1% QoQ including Ansem), Aerospace & Defence (4.7%) and Transportation (4.5%) in US\$ terms, QoQ basis. Communications saw a decline of 3.2% QoQ. Utilities & Geospatial saw a decline of 12.5% QoQ while Industrial, Energy and natural resources (IE&NR) saw a decline of 3% QoQ and Medical Technology and Healthcare (0.5%).

**Exhibit 6: Industry segmentation**

By Industry (%)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Aerospace and Defense	38.7	36.8	35.6	35.7	33.6	34.7	34.7	36.5	37.2
Transportation	10.3	9.4	9.4	9.7	9.7	11.2	11.7	10.1	10.7
Industrial, Energy & Natural Resources	10.0	9.3	9.3	8.7	10.2	8.6	8.6	9.9	9.4
Semiconductor	4.3	4.1	3.9	4.2	4.1	4.1	3.7	3.4	4.8
Medical and Cons. Electronics	1.9	1.9	1.9	1.9	2.9	2.2	2.0	3.3	2.8
Utilities & Geospatial	15.8	16.7	17.2	18.5	15.2	15.9	16.6	14.1	12.6
Communications	18.9	21.8	22.7	21.3	24.3	23.3	22.7	22.7	22.5
Others	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

**Exhibit 7: Client details**

	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Top 5 clients (%)	40.2	42.7	43.5	42.9	37.6	41.6	40.1	33.8	33.7
Top 10 clients (%)	55.7	57.0	58.0	56.9	50.2	55.0	54.0	45.4	46.0
<b>Clients added (Nos)</b>	<b>22</b>	<b>23</b>	<b>20</b>	<b>20</b>	<b>11</b>	<b>27</b>	<b>12</b>	<b>12</b>	<b>20</b>
<b>Client buckets (Nos)</b>									
20Mn+	3	3	3	5	5	5	5	4	4
10Mn+	10	10	11	9	9	9	11	12	11
5Mn+	19	19	21	20	25	22	23	26	25
1Mn+	60	56	60	62	67	65	66	72	66

Source: Company

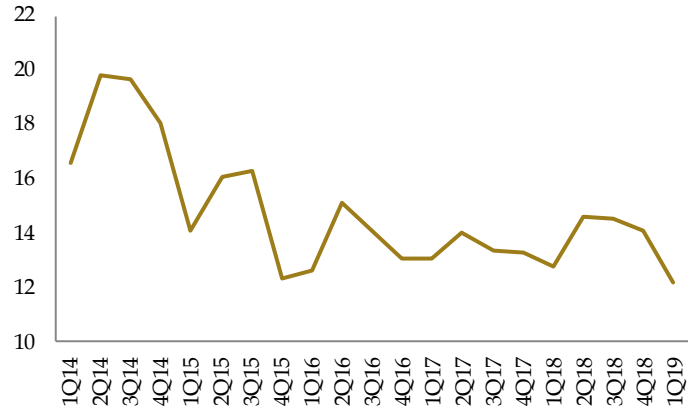
**Exhibit 8: Product business**

Details (In Rs. Mn)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19
<b>Revenue</b>	<b>1,002</b>	<b>1,069</b>	<b>763</b>	<b>1,017</b>	<b>785</b>	<b>1,418</b>	<b>1,212</b>
Direct Salary and Related costs	30	43	43	39	37	114	NA
Material & Mfg. cost	861	921	678	881	653	1,116	NA
<b>Gross Profit</b>	<b>111</b>	<b>105</b>	<b>42</b>	<b>97</b>	<b>95</b>	<b>188</b>	<b>150</b>
SG&A	92	108	95	89	86	90	NA
<b>Operating profit</b>	<b>20</b>	<b>(3)</b>	<b>(53)</b>	<b>8</b>	<b>9</b>	<b>98</b>	<b>55</b>
<b>PBT</b>	<b>(18)</b>	<b>(37)</b>	<b>(92)</b>	<b>(37)</b>	<b>(23)</b>	<b>48</b>	<b>14</b>

Source: Company

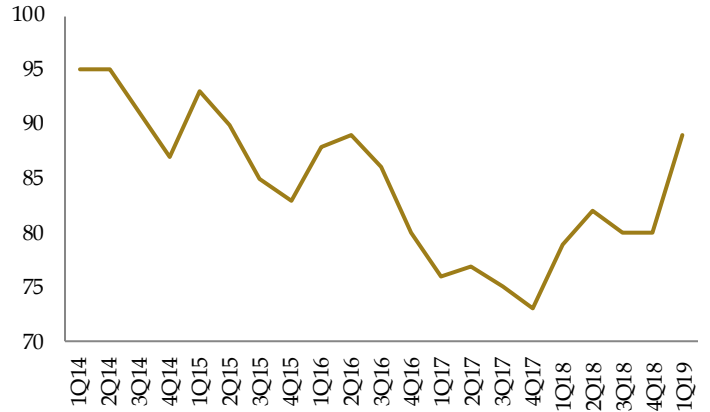


Exhibit 9: Margin to be lower by 30bps for FY19E



Source: Company, Trust

Exhibit 10: DSO days were up sharply by 9 days QoQ to 89



Source: Company, Trust



## Financials

### Income Statement ( ` mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
<b>Revenues</b>	<b>30,956</b>	<b>36,065</b>	<b>39,175</b>	<b>45,715</b>	<b>50,723</b>
Op. Expenses	26,709	31,216	33,683	39,461	43,648
<b>EBITDA</b>	<b>4,247</b>	<b>4,849</b>	<b>5,492</b>	<b>6,254</b>	<b>7,075</b>
Other Income	1,065	874	1,438	1,010	1,250
Depreciation	893	953	1,051	1,164	1,290
<b>EBIT</b>	<b>4,419</b>	<b>4,770</b>	<b>5,879</b>	<b>6,100</b>	<b>7,034</b>
Interest	199	189	232	327	327
<b>PBT</b>	<b>4,220</b>	<b>4,581</b>	<b>5,647</b>	<b>5,773</b>	<b>6,707</b>
Tax	986	1,047	1,425	1,374	1,610
<b>PAT</b>	<b>3,235</b>	<b>3,534</b>	<b>4,222</b>	<b>4,398</b>	<b>5,097</b>
Ex. Ordinary/MI	28	426	35	(22)	(22)
<b>Adj Pat</b>	<b>3,262</b>	<b>3,960</b>	<b>4,257</b>	<b>4,376</b>	<b>5,075</b>

### Key Parameters

Year End-March	FY16	FY17	FY18	FY19E	FY20E
<b>Per share ( `)</b>					
EPS	29.7	32.7	38.0	39.0	45.2
CEPS	37.6	41.1	47.3	49.3	56.6
BVPS	170.6	187.4	207.9	230.0	256.2
DPS	7.0	10.5	13.0	14.0	16.0
Payout (%)	27.5	37.5	40.0	42.0	41.4
<b>Valuation (x)</b>					
P/E	14.5	14.5	18.1	19.0	16.4
P/BV	2.5	2.5	3.3	3.2	2.9
EV/EBITDA	10.2	9.6	12.9	12.1	10.4
Dividend Yield (%)	1.6	2.2	1.9	1.9	2.2
<b>Return ratio (%)</b>					
EBIDTA Margin	13.7	13.4	14.0	13.7	13.9
PAT Margin	10.4	9.8	10.8	9.6	10.0
ROAE	17.7	18.3	19.2	17.8	18.6
ROACE	21.6	21.6	23.8	22.3	23.6
<b>Leverage Ratios (x)</b>					
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)	(0.3)
Debt/EBITDA	0.5	0.4	0.5	0.4	0.3
Interest Coverage	22.2	25.2	25.3	18.6	21.5
Current ratio	2.7	2.5	2.7	2.8	3.0
<b>Growth Ratios (%)</b>					
Income growth	13.1	16.5	8.6	16.7	11.0
EBITDA growth	5.8	14.2	13.3	13.9	13.1
PAT growth	(3.8)	9.2	19.5	4.2	15.9
<b>Turnover Ratios</b>					
F.A Turnover x	7.6	8.0	7.9	8.8	9.6
Debtors Days	42	43	42	41	41
Payable days	72	69	67	66	65

### 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	25,421	28,382
<b>Total Shareholders Fund</b>	<b>19,227</b>	<b>21,199</b>	<b>23,442</b>	<b>25,986</b>	<b>28,947</b>
<b>Non- current liabilities</b>	<b>1,279</b>	<b>1,773</b>	<b>1,942</b>	<b>2,125</b>	<b>2,240</b>
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	1,081	1,196
<b>Current Liabilities</b>	<b>6,676</b>	<b>8,291</b>	<b>8,621</b>	<b>9,480</b>	<b>10,029</b>
Short term borrowings	1,147	1,159	1,780	1,480	1,180
Trade payables	3,107	4,021	3,813	4,433	4,903
Other cur liabilities & Prov	2,422	3,111	3,028	3,568	3,946
<b>Total liabilities</b>	<b>27,182</b>	<b>31,263</b>	<b>34,005</b>	<b>37,591</b>	<b>41,216</b>
<b>Assets</b>					
<b>Non- current Assets</b>	<b>9,235</b>	<b>10,550</b>	<b>10,549</b>	<b>11,028</b>	<b>11,357</b>
Fixed assets	4,084	4,497	4,941	5,177	5,286
Non-current investments	3,504	4,310	3,847	3,847	3,847
Long-term loans & adv	1,645	1,743	1,761	2,004	2,223
Other non-current assets	2	-	-	-	-
<b>Current assets</b>	<b>17,947</b>	<b>20,713</b>	<b>23,456</b>	<b>26,496</b>	<b>29,796</b>
Current investments	791	925	1,130	1,130	1,130
Trade receivables	6,145	6,496	6,913	8,016	8,894
Inventories	979	935	1,312	1,503	1,668
Cash & bank balances	6,951	8,781	9,807	10,466	12,153
Short term loans & Adv	1,089	3,576	4,294	5,382	5,952
<b>Total Assets</b>	<b>27,182</b>	<b>31,263</b>	<b>34,005</b>	<b>37,591</b>	<b>41,216</b>

### Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	4,220	4,581	5,647	5,773	6,707
Depreciation	762	1,300	885	1,164	1,290
Interest Exp	199	189	232	327	327
Others	28	(96)	35	(22)	(22)
<b>CF before W.cap</b>	<b>5,208</b>	<b>5,974</b>	<b>6,799</b>	<b>7,242</b>	<b>8,303</b>
Inc/dec in W.cap	1,061	(866)	1,736	1,350	864
<b>Op CF after W.cap</b>	<b>4,148</b>	<b>6,839</b>	<b>5,063</b>	<b>5,893</b>	<b>7,438</b>
Less Taxes	986	1,047	1,425	1,374	1,610
<b>Net CF From Operations</b>	<b>3,162</b>	<b>5,792</b>	<b>3,638</b>	<b>4,518</b>	<b>5,829</b>
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)	(327)	(327)
<b>CF from Invst Activities</b>	<b>(477)</b>	<b>(2,496)</b>	<b>(1,469)</b>	<b>(1,727)</b>	<b>(1,727)</b>
Loan Raised	635	-	871	(300)	(300)
Equity Raised	(1,676)	(78)	(300)	20	1
Dividend	922	1,388	1,714	1,853	2,115
<b>CF from Fin Activities</b>	<b>(1,962)</b>	<b>(1,467)</b>	<b>(1,143)</b>	<b>(2,132)</b>	<b>(2,414)</b>
<b>Net inc/(dec) in cash</b>	<b>723</b>	<b>1,830</b>	<b>1,026</b>	<b>659</b>	<b>1,687</b>
Op. bal of cash	6,228	6,951	8,781	9,807	10,466
<b>Cl. balance of cash</b>	<b>6,951</b>	<b>8,781</b>	<b>9,807</b>	<b>10,466</b>	<b>12,153</b>



## Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
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