



Cyient

2QFY19 Result Update

Robust quarter, outlook healthy

Sector: Technology

CMP: `670

Recommendation: Buy

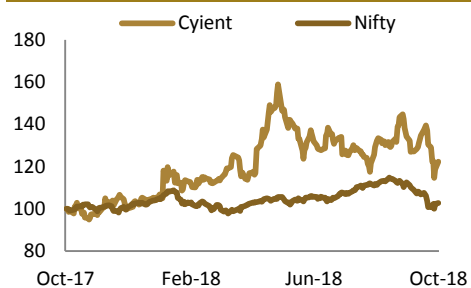
Market statistics

Current stock price (`)	670
Shares O/S (cr.)	11.3
Mcap (` cr)	7,571
52W H/L (`)	887/520
6m avg. volume	421,784
Bloomberg	CYL IN

Shareholding pattern

Promoters	22.10
Domestic Institution	22.61
Foreign Institution	44.76
Non-institution	10.53
of which more than 1%	

Cyient vs Nifty



Capital efficiency & valuations

Particulars	FY18	FY19E	FY20E
RoE (%)	19.2	19.1	19.8
EPS (`)	38.0	42.1	48.9
CEPS (`)	47.3	52.4	60.3
P/E (x)	18.1	15.9	13.7
P/BV (x)	3.3	2.9	2.6
EV/EBITDA (x)	12.9	10.6	8.9
Income growth (%)	8.6	20.1	12.6
EBITDA growth (%)	13.3	16.3	14.6
PAT growth (%)	19.5	12.3	16.3

Cyient Q2FY19 performance was higher than our expectation operationally. Cyient posted overall revenue of US\$168.9mn (up 5.1% QoQ), though revenue mix changed. DLM business revenue increased 44.9% (in US\$ terms, YoY) and Services was up 2.3% (3.5% in cc terms). The EBITDA margin came at 13.7%, (up 152bps QoQ). We maintain our recommendation on the stock at Buy, since we believe CYL is at inflection point. We have modelled in for 11.6% US\$ growth in FY19 revenues.

Dollar revenue up 5.1% QoQ: For Q2FY19, Cyient posted revenue of US\$168.9mn (up 5.1% QoQ including Rangsons), higher than our expectation. Services revenue stood at US\$146mn, up 2.3% QoQ. On the acquired business side, DLM revenue increased 44.9% YoY to US\$23mn. Vertically, Semiconductor, Internet of Things & Analytics was up 8.8% QoQ including AnSem, Industrial, Energy and natural resources (IE&NR) up 5.2%, Utilities and Geospatial as well as Communications (+4.3% each of them), Aerospace & Defence (+1.3%) and Transportation (+2.3%) in US\$ terms, QoQ cc basis. Region-wise, Europe, Middle East, Africa and India posted an increase of 1.7% QoQ in US\$ terms. Americas increased by 4% QoQ, while APAC was up 11%. The Services witnessed a 3.5% cc growth increase QoQ.

Operating metrics. Client addition: Client addition was weak this quarter. During the quarter 14 new clients were added (20+ in previous 9 quarter with the exception of Q1/Q3/Q4FY18). **Employee metrics:** Employee count increased 544 to 15,040. Capex stood at INR236mn vs IN397mn in the previous quarter. DSO came in at 84 days (88 in Q1FY19). **Acquisition** - CYL had US\$3mn revenue this quarter from AnSem (3-months of consolidation vs 2-months in Q1, addition of about US\$1.4mn within the quarter.

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 at least 20% YoY. Its guidance implies at least ~11% revenue growth during FY18. We have modelled in for 11.6% 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 ~100-150bps in FY19 on account of operational levers which would be invested in business. Hence, Cyient has guided for +50bps margin uptick in FY19 YoY. We have assumed ~40bps 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 ~50bps 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	2QFY18	1QFY19	2QFY19	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	150	161	169	5.1	12.5	Services was up 3.5% QoQ cc terms. DLM was up 44.9% YoY.
Revenues	9,654	10,800	11,870	9.9	23.0	
- Operating costs	8,244	9,484	10,243	8.0	24.2	
EBITDA	1,410	1,316	1,627	23.6	15.4	
EBITDA margin (%)	14.6	12.2	13.7	152bps	(90)bps	Tailwinds of rupee depreciation (~80 bps), improved utilization and offshoring (~130 bps), SG&A absorption (~100 bps) offset by headwinds of wage hike impact (~100 bps).
- Interest expense	57	82	97	18.3	70.2	
- Depreciation	259	285	288	1.1	11.2	
+ Other income, net (incl forex)	406	170	568	234.1	39.9	OI is higher by ₹397Mn due to benefits from Incentives (₹234Mn) and unrealized restatement gain (₹207 Mn)
PBT	1,500	1,119	1,810	61.8	20.7	
- Taxes	421	304	539	77.3	28.0	
Effective tax rate (%)	28.1	27.2	29.8	261bps	171bps	Effective tax rate for FY19 to be between 24-25%, since SEZ units have moved to 50% tax bracket
PAT	1,079	815	1,271	56.0	17.8	
Minority interest	(36)	(10)	(1)	NA	NA	
Reported profits	1,115	825	1,272	54.2	14.1	

Source: Company

Exhibit 2: Change in estimates

` mn	FY19E			FY20E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	682	678	(0.6)	757	757	-
Revenue	45,715	47,047	2.9	50,723	52,986	3.5
EBITDA margin (%)	13.7	13.6	(5)bps	13.9	13.8	(5)bps
EPS (‘)	39.0	42.1	7.9	45.2	48.9	8.2

Source: Trust Research

Geography wise Revenues: Region-wise, Europe, Middle East, Africa and India posted an increase of 1.7% QoQ in \$ terms. Americas increased by 4% QoQ, while APAC was up 11%.

Exhibit 3: Geographical wise Performance

Geographical mix (%)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
US	59.1	58.0	57.1	52.7	54.2	55.1	49.0	55.3	56.2
Europe	24.0	24.0	25.1	24.0	26.7	27.7	28.3	26.3	26.4
India	16.9	18.0	17.8	23.3	19.1	17.2	22.7	18.4	17.4
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	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Total (Nos)	13,851	13,730	13,730	13,835	14,197	14,457	14,762	13,851	14,385
Voluntary attrition (%)	22.7	22.6	15.6	16.6	14.2	16.8	16.9	18.2	18.4
Overall utilization (%)	78.0	78.3	77.4	74.1	75.9	78.6	76.7	75.0	78.0

Source: Company, Trust Research



Exhibit 5: Revenue mix

Offshore/onsite split (%)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Offshore	40.1	40.4	39.2	40.4	41.2	42.8	44.0	41.9	42.8
Onshore	59.9	59.6	60.8	59.6	58.8	57.2	56.0	58.1	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: Vertically, Semiconductor, Internet of Things & Analytics (8.8% QoQ including Ansem), Industrial, Energy and natural resources (IE&NR) up 5.2%, Utilities and Geospatial as well as Communications (+4.3% each of them), Aerospace & Defence (1.3%) and Transportation (2.3%) in US\$ terms, QoQ cc basis.

Exhibit 6: Industry segmentation

By Industry (%)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Aerospace and Defense	36.8	35.6	35.7	33.6	34.7	34.7	36.5	34.2	33.8
Transportation	9.4	9.4	9.7	9.7	11.2	11.7	10.1	12.1	11.8
Industrial, Energy & Natural Resources	9.3	9.3	8.7	10.2	8.6	8.6	9.9	8.4	8.6
Semiconductor	4.1	3.9	4.2	4.1	4.1	3.7	3.4	5.5	5.8
Medical and Cons. Electronics	1.9	1.9	1.9	2.9	2.2	2.0	3.3	1.8	1.9
Utilities & Geospatial	16.7	17.2	18.5	15.2	15.9	16.6	14.1	14.2	14.3
Communications	21.8	22.7	21.3	24.3	23.3	22.7	22.7	23.8	23.8
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

	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Top 5 clients (%)	42.7	43.5	42.9	37.6	41.6	40.1	33.8	37.9	37.9
Top 10 clients (%)	57.0	58.0	56.9	50.2	55.0	54.0	45.4	51.8	51.0
Clients added (Nos)	23	20	20	11	27	12	12	20	14
Client buckets (Nos)									
20Mn+	3	3	5	5	5	5	4	4	4
10Mn+	10	11	9	9	9	11	12	11	13
5Mn+	19	21	20	25	22	23	26	25	27
1Mn+	56	60	62	67	65	66	72	66	68

Source: Company

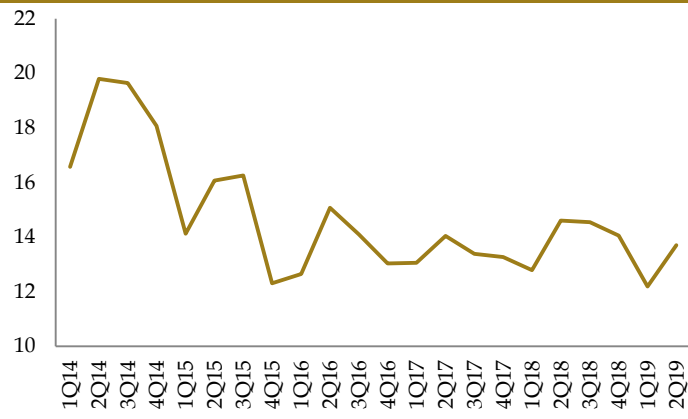
Exhibit 8: Product business

Details (In Rs. Mn)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Revenue	1,069	763	1,017	785	1,418	1,212	1,610
Direct Salary and Related costs	43	43	39	37	114	141	181
Material & Mfg. cost	921	678	881	653	1,116	921	1,249
Gross Profit	105	42	97	95	188	150	180
SG&A	108	95	89	86	90	95	121
Operating profit	(3)	(53)	8	9	98	55	59
PBT	(37)	(92)	(37)	(23)	48	14	14

Source: Company

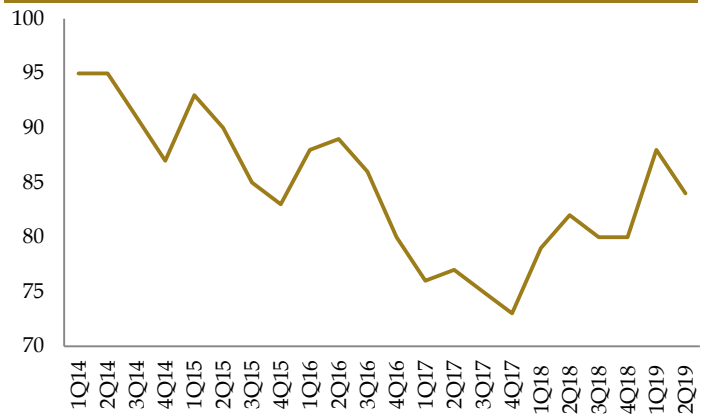


Exhibit 9: Margin to be lower by 40bps for FY19E



Source: Company, Trust

Exhibit 10: DSO days were down sharply by 4 days QoQ to 84



Source: Company, Trust



Financials

Income Statement (` mn)

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Revenues	30,956	36,065	39,175	47,047	52,986
Op. Expenses	26,709	31,216	33,683	40,661	45,667
EBITDA	4,247	4,849	5,492	6,386	7,319
Other Income	1,065	874	1,438	1,593	1,650
Depreciation	893	953	1,051	1,162	1,288
EBIT	4,419	4,770	5,879	6,817	7,681
Interest	199	189	232	348	327
PBT	4,220	4,581	5,647	6,469	7,353
Tax	986	1,047	1,425	1,728	1,838
PAT	3,235	3,534	4,222	4,741	5,515
Ex. Ordinary/MI	28	426	35	(21)	(21)
Adj Pat	3,262	3,960	4,257	4,720	5,494

Key Parameters

Year End-March	FY16	FY17	FY18	FY19E	FY20E
Per share (`)					
EPS	29.7	32.7	38.0	42.1	48.9
CEPS	37.6	41.1	47.3	52.4	60.3
BVPS	170.6	187.4	207.9	231.9	261.8
DPS	7.0	10.5	13.0	15.0	16.0
Payout (%)	27.5	37.5	40.0	41.8	38.3
Valuation (x)					
P/E	14.5	14.5	18.1	15.9	13.7
P/BV	2.5	2.5	3.3	2.9	2.6
EV/EBITDA	10.2	9.6	12.9	10.6	8.9
Dividend Yield (%)	1.6	2.2	1.9	2.2	2.4
Return ratio (%)					
EBIDTA Margin	13.7	13.4	14.0	13.6	13.8
PAT Margin	10.4	9.8	10.8	10.1	10.4
ROAE	17.7	18.3	19.2	19.1	19.8
ROACE	21.6	21.6	23.8	24.8	25.4
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)	(0.3)
Debt/EBITDA	0.5	0.4	0.5	0.4	0.3
Interest Coverage	22.2	25.2	25.3	19.6	23.5
Current ratio	2.7	2.5	2.7	2.8	2.9
Growth Ratios (%)					
Income growth	13.1	16.5	8.6	20.1	12.6
EBITDA growth	5.8	14.2	13.3	16.3	14.6
PAT growth	(3.8)	9.2	19.5	12.3	16.3
Turnover Ratios					
F.A Turnover x	7.6	8.0	7.9	9.1	10.0
Debtors Days	42	43	42	41	41
Payable days	72	69	67	66	66

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	25,633	29,012
Total Shareholders Fund	19,227	21,199	23,442	26,197	29,577
Non- current liabilities	1,279	1,773	1,942	2,158	2,295
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	1,114	1,251
Current Liabilities	6,676	8,291	8,621	9,724	10,439
Short term borrowings	1,147	1,159	1,780	1,480	1,180
Trade payables	3,107	4,021	3,813	4,567	5,130
Other cur liabilities & Prov	2,422	3,111	3,028	3,676	4,129
Total liabilities	27,182	31,263	34,005	38,079	42,311
Assets					
Non- current Assets	9,235	10,550	10,549	11,088	11,461
Fixed assets	4,084	4,497	4,941	5,179	5,291
Non-current investments	3,504	4,310	3,847	3,847	3,847
Long-term loans & adv	1,645	1,743	1,761	2,062	2,323
Other non-current assets	2	-	-	-	-
Current assets	17,947	20,713	23,456	26,910	30,768
Current investments	791	925	1,130	1,130	1,130
Trade receivables	6,145	6,496	6,913	8,249	9,291
Inventories	979	935	1,312	1,547	1,742
Cash & bank balances	6,951	8,781	9,807	10,445	12,388
Short term loans & Adv	1,089	3,576	4,294	5,539	6,218
Total Assets	27,182	31,263	34,005	38,079	42,311

Cash flow Statement

Year End-March	FY16	FY17	FY18	FY19E	FY20E
PBT	4,220	4,581	5,647	6,469	7,353
Depreciation	762	1,300	885	1,162	1,288
Interest Exp	199	189	232	348	327
Others	28	(96)	35	(21)	(21)
CF before W.cap	5,208	5,974	6,799	7,958	8,948
Inc/dec in W.cap	1,061	(866)	1,736	1,580	1,025
Op CF after W.cap	4,148	6,839	5,063	6,379	7,923
Less Taxes	986	1,047	1,425	1,728	1,838
Net CF From Operations	3,162	5,792	3,638	4,651	6,085
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)	(348)	(327)
CF from Invst Activities	(477)	(2,496)	(1,469)	(1,748)	(1,727)
Loan Raised	635	-	871	(300)	(300)
Equity Raised	(1,676)	(78)	(300)	20	1
Dividend	922	1,388	1,714	1,985	2,115
CF from Fin Activities	(1,962)	(1,467)	(1,143)	(2,265)	(2,414)
Net inc/(dec) in cash	723	1,830	1,026	638	1,943
Op. bal of cash	6,228	6,951	8,781	9,807	10,445
Cl. balance of cash	6,951	8,781	9,807	10,445	12,388



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



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