



# Cyient

Sector: Technology

## 3QFY19 Result Update

CMP: ₹627

*Services revenue decline, outlook moderated*

Recommendation: Buy

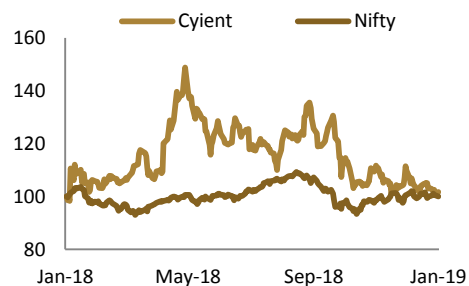
### Market statistics

Current stock price (₹)	627
Shares O/S (cr.)	11.3
Mcap (₹ cr)	7,094
52W H/L (₹)	887/576
6m avg. volume	273,613
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	FY19E	FY20E	FY21E
RoE (%)	17.1	19.4	20.2
EPS (₹)	37.5	47.4	55.6
CEPS (₹)	47.6	58.5	67.8
P/E (x)	17.9	14.1	12.1
P/BV (x)	2.9	2.6	2.3
EV/EBITDA (x)	10.5	8.7	7.1
Income growth (%)	18.9	10.2	10.4
EBITDA growth (%)	18.0	16.5	16.5
PAT growth (%)	(0.0)	26.9	17.4

**Cyient Q3FY19 performance was lower than our expectation operationally. Cyient posted overall revenue of US\$165.1mn (down 2.3% QoQ), though revenue mix changed. DLM business revenue increased 69.4% (in US\$ terms, YoY) and Services was down 1% (3.3% in YoY terms). The EBITDA margin came at 14.7%, (up 102bps QoQ). PAT declined 27% QoQ to INR921m, led by higher-than-expected forex losses. We maintain our recommendation on the stock at Buy, since we believe CYL is at inflection point. We have modelled in for 10% US\$ growth in FY20 revenues.**

**Dollar revenue down 2.3% QoQ:** For Q3FY19, Cyient posted revenue of US\$165.1mn (down 2.3% QoQ including Rangsons), lower than our expectation. Services revenue stood at US\$144.6mn, down 1% QoQ. On the acquired business side, DLM revenue increased 69.4% YoY to US\$20.6mn. Vertically, Semiconductor, Internet of Things & Analytics (down 20% QoQ including Ansem), Industrial, Energy and natural resources (IE&NR) up 5.3%, Utilities and Geospatial was up 4.4% while Communications was down 5.9%, Aerospace & Defence (-0.5%) and Transportation (+1.1%) in US\$ terms, QoQ. Region-wise, Europe, Middle East, Africa and India posted a decrease of 9.2% QoQ in US\$ terms. Americas increased by 1.8% QoQ, while APAC was down 4.2%.

**Operating metrics. Client addition:** Client addition was robust this quarter. During the quarter 30 new clients were added (20+ in previous 9 quarter with the exception of Q1/Q3/Q4FY18). **Employee metrics:** Employee count increased 153 to 15,193. Capex stood at INR326mn vs IN236mn in the previous quarter. DSO came in at 83 days (84 in Q2FY19). Total order intake during the quarter grew 11% YoY to US\$273mn. Services order intake was at US\$255mn (+6% YoY) and that for DLM was at US\$19mn (+475% YoY).

**Buyback:** Management cited that it will iron out some procedural issues and reconvene a Board meeting, thereby delaying the action for a few weeks.

**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 8.5-9.5%+ 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 ~10% revenue growth during FY19. We have modelled in for 9.8% 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 to be flattish in FY19 on account of operational levers which would be invested in business. We have assumed ~10bps 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 high single 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 flattish margin YoY. 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

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**Exhibit 1: Quarterly details**

` mn	3QFY18	2QFY19	3QFY19	QoQ (%)	YoY (%)	Comments
<b>Revenues (in US\$ mn)</b>	<b>152</b>	<b>169</b>	<b>165</b>	<b>(2.3)</b>	<b>8.6</b>	Services was down 1% QoQ cc terms. DLM was up 69.4% YoY.
Revenues	9,833	11,870	11,876	0.1	20.8	
- Operating costs	8,403	10,243	10,127	(1.1)	20.5	
<b>EBITDA</b>	<b>1,430</b>	<b>1,627</b>	<b>1,749</b>	<b>7.5</b>	<b>22.3</b>	
<b>EBITDA margin (%)</b>	<b>14.5</b>	<b>13.7</b>	<b>14.7</b>	<b>102bps</b>	<b>18bps</b>	Margin was dented by lower revenue trajectory, however cost Control helped CYL to prop it up.
- Interest expense	56	97	96	(1.0)	71.4	
- Depreciation	274	288	279	(3.1)	1.8	
+ Other income, net (incl forex)	273	568	(187)	(132.9)	(168.5)	OI had a Forex loss of INR352mn vs INR175mn profit in Q2FY19
<b>PBT</b>	<b>1,373</b>	<b>1,810</b>	<b>1,187</b>	<b>(34.4)</b>	<b>(13.5)</b>	
- Taxes	295	539	266	(50.6)	(9.8)	
Effective tax rate (%)	21.5	29.8	22.4	(737)bps	92bps	Effective tax rate for FY19 to be between 24-25%, since SEZ units have moved to 50% tax bracket
<b>PAT</b>	<b>1,078</b>	<b>1,271</b>	<b>921</b>	<b>(27.5)</b>	<b>(14.6)</b>	
Minority interest	(7)	(1)	-	NA	NA	
<b>Reported profits</b>	<b>1,085</b>	<b>1,272</b>	<b>921</b>	<b>(27.6)</b>	<b>(15.1)</b>	

Source: Company

**Exhibit 2: Change in estimates**

` mn	FY19E			FY20E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	678	667	(1.6)	757	733	(3.2)
Revenue	47,047	46,579	(1.5)	52,986	51,334	(3.1)
EBITDA margin (%)	13.6	13.9	30bps	13.8	14.7	90bps
EPS (`)	42.1	37.5	(10.9)	48.9	47.4	(3.1)

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 (%)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
US	58.0	57.1	52.7	54.2	55.1	49.0	55.3	56.2	58.2
Europe	24.0	25.1	24.0	26.7	27.7	28.3	26.3	26.4	24.1
India	18.0	17.8	23.3	19.1	17.2	22.7	18.4	17.4	17.7
<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	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
<b>Total (Nos)</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>	<b>14,385</b>	<b>14,532</b>
Voluntary attrition (%)	22.6	15.6	16.6	14.2	16.8	16.9	18.2	18.4	21.2
<b>Overall utilization (%)</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>	<b>78.0</b>	<b>78.1</b>

Source: Company, Trust Research



**Exhibit 5: Revenue mix**

Offshore/onsite split (%)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Offshore	40.4	39.2	40.4	41.2	42.8	44.0	41.9	42.8	42.4
Onshore	59.6	60.8	59.6	58.8	57.2	56.0	58.1	57.2	57.6
<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:** Vertically, Semiconductor, Internet of Things & Analytics (down 20% QoQ including Ansem), Industrial, Energy and natural resources (IE&NR) up 5.3%, Utilities and Geospatial was up 4.4% while Communications was down 5.9%, Aerospace & Defence (-0.5%) and Transportation (+1.1%) in US\$ terms, QoQ.

**Exhibit 6: Industry segmentation**

By Industry (%)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Aerospace and Defense	35.6	35.7	33.6	34.7	34.7	36.5	34.2	33.8	34.3
Transportation	9.4	9.7	9.7	11.2	11.7	10.1	12.1	11.8	12.0
Industrial, Energy & Natural Resources	9.3	8.7	10.2	8.6	8.6	9.9	8.4	8.6	8.6
Semiconductor	3.9	4.2	4.1	4.1	3.7	3.4	5.5	5.8	4.7
Medical and Cons. Electronics	1.9	1.9	2.9	2.2	2.0	3.3	1.8	1.9	2.0
Utilities & Geospatial	17.2	18.5	15.2	15.9	16.6	14.1	14.2	14.3	15.0
Communications	22.7	21.3	24.3	23.3	22.7	22.7	23.8	23.8	23.4
<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**

	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Top 5 clients (%)	43.5	42.9	37.6	41.6	40.1	33.8	37.9	37.9	38.0
Top 10 clients (%)	58.0	56.9	50.2	55.0	54.0	45.4	51.8	51.0	50.1
<b>Clients added (Nos)</b>	<b>20</b>	<b>20</b>	<b>11</b>	<b>27</b>	<b>12</b>	<b>12</b>	<b>20</b>	<b>14</b>	<b>30</b>
<b>Client buckets (Nos)</b>									
20Mn+	3	5	5	5	5	4	4	4	4
10Mn+	11	9	9	9	11	12	11	13	13
5Mn+	21	20	25	22	23	26	25	27	27
1Mn+	60	62	67	65	66	72	66	68	73

Source: Company

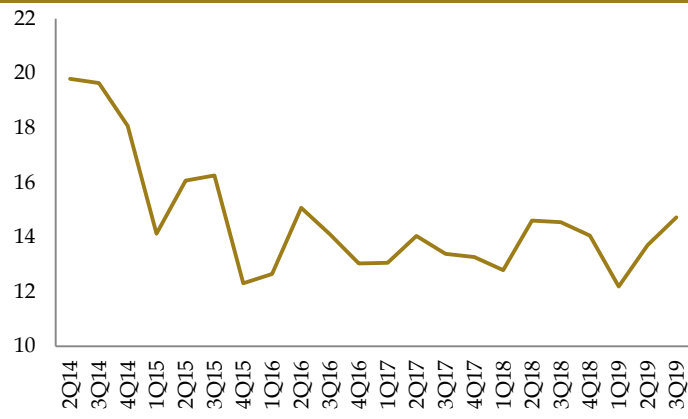
**Exhibit 8: Product business**

Details (In Rs. Mn)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19
<b>Revenue</b>	<b>763</b>	<b>1,017</b>	<b>785</b>	<b>1,418</b>	<b>1,212</b>	<b>1,610</b>	<b>1,479</b>
Direct Salary and Related costs	43	39	37	114	141	181	125
Material & Mfg. cost	678	881	653	1,116	921	1,249	1,174
<b>Gross Profit</b>	<b>42</b>	<b>97</b>	<b>95</b>	<b>188</b>	<b>150</b>	<b>180</b>	<b>180</b>
SG&A	95	89	86	90	95	121	122
<b>Operating profit</b>	<b>(53)</b>	<b>8</b>	<b>9</b>	<b>98</b>	<b>55</b>	<b>59</b>	<b>58</b>
<b>PBT</b>	<b>(92)</b>	<b>(37)</b>	<b>(23)</b>	<b>48</b>	<b>14</b>	<b>14</b>	<b>9</b>

Source: Company

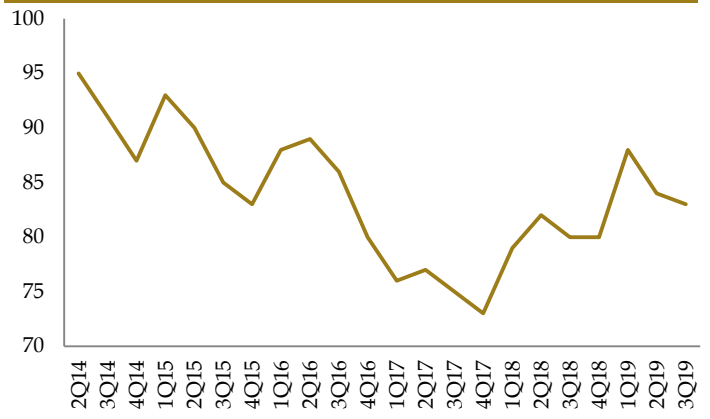


Exhibit 9: Margin to be flat for FY19E



Source: Company, Trust

Exhibit 10: DSO days were down by a day QoQ to 83



Source: Company, Trust



## Financials

### Income Statement ( ` mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
<b>Revenues</b>	<b>36,065</b>	<b>39,175</b>	<b>46,579</b>	<b>51,334</b>	<b>56,647</b>
Op. Expenses	31,216	33,683	40,099	43,782	47,851
<b>EBITDA</b>	<b>4,849</b>	<b>5,492</b>	<b>6,480</b>	<b>7,552</b>	<b>8,796</b>
Other Income	874	1,438	751	1,150	1,250
Depreciation	953	1,051	1,141	1,256	1,382
<b>EBIT</b>	<b>4,770</b>	<b>5,879</b>	<b>6,090</b>	<b>7,446</b>	<b>8,664</b>
Interest	189	232	357	307	285
<b>PBT</b>	<b>4,581</b>	<b>5,647</b>	<b>5,733</b>	<b>7,139</b>	<b>8,379</b>
Tax	1,047	1,425	1,513	1,785	2,095
<b>PAT</b>	<b>3,534</b>	<b>4,222</b>	<b>4,220</b>	<b>5,354</b>	<b>6,284</b>
Ex. Ordinary/MI	426	35	(21)	-	-
<b>Adj Pat</b>	<b>3,960</b>	<b>4,257</b>	<b>4,199</b>	<b>5,354</b>	<b>6,284</b>

### Key Parameters

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
<b>Per share ( ` )</b>					
EPS	32.7	38.0	37.5	47.4	55.6
CEPS	41.1	47.3	47.6	58.5	67.8
BVPS	187.4	207.9	229.6	258.2	291.4
DPS	10.5	13.0	13.0	16.0	19.0
Payout (%)	37.5	40.0	40.7	39.7	40.0
<b>Valuation (x)</b>					
P/E	14.5	18.1	17.9	14.1	12.1
P/BV	2.5	3.3	2.9	2.6	2.3
EV/EBITDA	9.6	12.9	10.5	8.7	7.1
Dividend Yield (%)	2.2	1.9	1.9	2.4	2.8
<b>Return ratio (%)</b>					
EBIDTA Margin	13.4	14.0	13.9	14.7	15.5
PAT Margin	9.8	10.8	9.1	10.4	11.1
ROAE	18.3	19.2	17.1	19.4	20.2
ROACE	21.6	23.8	22.3	24.9	26.2
<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)	(0.4)
Debt/EBITDA	0.4	0.5	0.4	0.3	0.2
Interest Coverage	25.2	25.3	17.1	24.3	30.4
Current ratio	2.5	2.7	2.8	3.0	3.2
<b>Growth Ratios (%)</b>					
Income growth	16.5	8.6	18.9	10.2	10.4
EBITDA growth	14.2	13.3	18.0	16.5	16.5
PAT growth	9.2	19.5	(0.0)	26.9	17.4
<b>Turnover Ratios</b>					
F.A Turnover x	8.0	7.9	9.0	9.6	10.6
Debtors Days	43	42	41	41	41
Payable days	69	67	66	65	65

### Balance Sheet ( ` mn)

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
Equity Share Capital	563	563	565	565	565
Reserves & Surplus	20,636	22,879	25,376	28,606	32,387
<b>Total Shareholders Fund</b>	<b>21,199</b>	<b>23,442</b>	<b>25,941</b>	<b>29,171</b>	<b>32,952</b>
<b>Non- current liabilities</b>	<b>1,773</b>	<b>1,942</b>	<b>2,143</b>	<b>2,243</b>	<b>2,355</b>
Long term borrowings	759	1,009	1,009	1,009	1,009
Deferred tax liabilities	201	35	35	35	35
Other LT liabilities & prov	813	898	1,099	1,199	1,311
<b>Current Liabilities</b>	<b>8,291</b>	<b>8,621</b>	<b>9,610</b>	<b>10,056</b>	<b>10,581</b>
Short term borrowings	1,159	1,780	1,480	1,180	880
Trade payables	4,021	3,813	4,504	4,918	5,375
Other cur liabilities & Prov	3,111	3,028	3,625	3,958	4,326
<b>Total liabilities</b>	<b>31,263</b>	<b>34,005</b>	<b>37,693</b>	<b>41,470</b>	<b>45,888</b>
<b>Assets</b>					
<b>Non- current Assets</b>	<b>10,550</b>	<b>10,549</b>	<b>11,089</b>	<b>11,441</b>	<b>11,692</b>
Fixed assets	4,497	4,941	5,200	5,344	5,362
Non-current investments	4,310	3,847	3,847	3,847	3,847
Long-term loans & adv	1,743	1,761	2,042	2,250	2,483
Other non-current assets	-	-	-	-	-
<b>Current assets</b>	<b>20,713</b>	<b>23,456</b>	<b>26,560</b>	<b>30,056</b>	<b>34,332</b>
Current investments	925	1,130	1,130	1,130	1,130
Trade receivables	6,496	6,913	8,167	9,001	9,933
Inventories	935	1,312	1,531	1,688	1,862
Cash & bank balances	8,781	9,807	10,248	12,213	14,760
Short term loans & Adv	3,576	4,294	5,484	6,024	6,647
<b>Total Assets</b>	<b>31,263</b>	<b>34,005</b>	<b>37,693</b>	<b>41,470</b>	<b>45,888</b>

### Cash flow Statement

Year End-March	FY17	FY18	FY19E	FY20E	FY21E
PBT	4,581	5,647	5,733	7,139	8,379
Depreciation	1,300	885	1,141	1,256	1,382
Interest Exp	189	232	357	307	285
Others	(96)	35	(21)	-	-
<b>CF before W.cap</b>	<b>5,974</b>	<b>6,799</b>	<b>7,210</b>	<b>8,702</b>	<b>10,046</b>
Inc/dec in W.cap	(866)	1,736	1,499	821	917
<b>Op CF after W.cap</b>	<b>6,839</b>	<b>5,063</b>	<b>5,711</b>	<b>7,881</b>	<b>9,129</b>
Less Taxes	1,047	1,425	1,513	1,785	2,095
<b>Net CF From Operations</b>	<b>5,792</b>	<b>3,638</b>	<b>4,198</b>	<b>6,097</b>	<b>7,035</b>
Inc/(dec) in F.A + CWIP	1,366	1,495	1,400	1,400	1,400
(Pur)/sale of Investments	941	(258)	-	-	-
Others	(189)	(232)	(357)	(307)	(285)
<b>CF from Invst Activities</b>	<b>(2,496)</b>	<b>(1,469)</b>	<b>(1,757)</b>	<b>(1,707)</b>	<b>(1,685)</b>
Loan Raised	-	871	(300)	(300)	(300)
Equity Raised	(78)	(300)	20	1	11
Dividend	1,388	1,714	1,720	2,125	2,514
<b>CF from Fin Activities</b>	<b>(1,467)</b>	<b>(1,143)</b>	<b>(2,000)</b>	<b>(2,424)</b>	<b>(2,803)</b>
<b>Net inc/(dec) in cash</b>	<b>1,830</b>	<b>1,026</b>	<b>441</b>	<b>1,965</b>	<b>2,546</b>
Op. bal of cash	6,951	8,781	9,807	10,248	12,213
<b>Cl. balance of cash</b>	<b>8,781</b>	<b>9,807</b>	<b>10,248</b>	<b>12,213</b>	<b>14,760</b>



## Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
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