

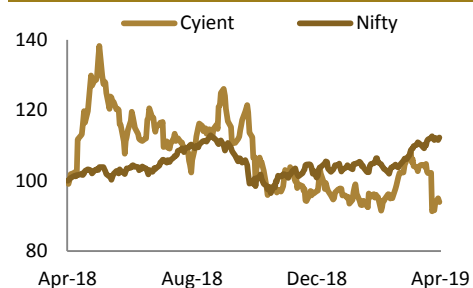
Market statistics

Current stock price (₹)	586
Shares O/S (cr.)	11.1
Mcap (₹ cr)	6,628
52W H/L (₹)	887/571
6m avg. volume	284,341
Bloomberg	CYL IN

Shareholding pattern

Promoters	22.48
Domestic Institution	20.52
Foreign Institution	45.86
Non-institution	11.14
of which more than 1%	

Cyient vs Nifty



Capital efficiency & valuations

Particulars	FY19	FY20E	FY21E
RoE (%)	20.0	19.2	19.2
EPS (₹)	44.1	47.1	52.5
CEPS (₹)	54.1	57.5	64.0
P/E (x)	14.7	12.4	11.2
P/BV (x)	2.8	2.3	2.0
EV/EBITDA (x)	10.3	8.0	6.8
Income growth (%)	17.9	8.9	10.2
EBITDA growth (%)	17.3	12.3	12.5
PAT growth (%)	15.6	6.3	11.9

Cyient Q4FY19 performance was lower than our expectation operationally. Cyient posted overall revenue of US\$165.2mn (flat QoQ), though revenue mix changed. DLM business revenue decreased 17.2% (in US\$ terms, YoY) and Services was up 1.7% (up 1.4% in cc terms QoQ). The EBITDA margin came at 15.1%, (up 34bps QoQ). PAT increased 108% QoQ to INR1.88bn, led by higher-than-expected 'Other income'. We maintain our recommendation on the stock at Buy, since we believe CYL is at inflection point. We have modelled in for 8.9% US\$ growth in FY20 revenues.

Dollar revenue flat QoQ: For Q4FY19, Cyient posted revenue of US\$165.2mn (flat QoQ including Rangsons), lower than our expectation. Services revenue stood at US\$147mn, up 1.7% QoQ (up 1.4% in cc terms). On the acquired business side, DLM revenue decreased 17.2% YoY to US\$18.2mn on account of deferment of revenue of US\$5.5mn in the quarter. Vertically, Semiconductor, Internet of Things & Analytics (up 22.6% QoQ including Ansem), Industrial, Energy and natural resources (IE&NR) up 1.1%, Utilities and Geospatial was up 3.4% while Communications was down 3.1%, Aerospace & Defence (up 0.4%) and Transportation (+3.9%) in US\$ terms, QoQ. Region-wise, Europe, Middle East, Africa and India posted an increase of 2.2% QoQ in US\$ terms. Americas decreased by 8.2% QoQ, while APAC was down 16.9%.

Operating metrics. Client addition: Client addition was weak this quarter. During the quarter 5 new clients were added (20+ in previous 10 quarter with the exception of Q1/Q3/Q4FY18). **Employee metrics:** Employee count decreased 109 to 15,084. Capex stood at INR407mn vs IN326mn in the previous quarter. DSO came in at 88 days (83 in Q3FY19). Total order intake during the quarter decreased 5% YoY to US\$196mn. Services order intake was at US\$185mn (-1.1% YoY) and that for DLM was at US\$11mn (-42.1% YoY).

Payout for FY19 at ~82%: Management declared a final dividend of ₹9/share. CYL had declared an interim dividend of ₹6/share in Q2FY19, thereby taking the total to ₹15/share for FY19. Including buy back of ₹2bn, the payout is ~82%.

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 FY20: CYL management indicated a high single-digit revenue growth (cc, YoY) in its core services (90% of revenue) business on account of absence of client specific issues going into FY20. 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 15% YoY. Its guidance implies at least ~9% revenue growth during FY20. We have modelled in for 8.9% US\$ growth in FY20 revenues. CYL is well placed to achieve the annual targeted growth.

EBIT growth guidance at double-digit YoY for FY20: CYL management indicated EBIT to have a double-digit growth YoY for FY20, which translates to flattish margins in FY20 on account of operational levers which would be invested in business. We have assumed ~40bps YoY increase in margins. Improvement of margins at Softential in FY20 would be the main margin kicker.

Valuation & Outlook: CYL has given a guidance of high single digit growth in its core business for FY20, while they expect Products business (incl. Rangsons) to show a 15%+ 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	4QFY18	3QFY19	4QFY19	QoQ (%)	YoY (%)	Comments
Revenues (in US\$ mn)	164.6	165.1	165.2	0.0	0.3	Services was up 1.7% QoQ cc terms. DLM was down 17.2% YoY.
Revenues	10,618	11,876	11,629	(2.1)	9.5	
- Operating costs	9,126	10,127	9,877	(2.5)	8.2	
EBITDA	1,492	1,749	1,752	0.2	17.4	
EBITDA margin (%)	14.1	14.7	15.1	34bps	101bps	Margin was higher by higher billing days dented by forex and Revenue mix change.
- Interest expense	67	96	87	(9.4)	29.9	
- Depreciation	257	279	261	(6.5)	1.6	
+ Other income, net (incl forex)	408	(187)	789	NA	93.4	OI had a Forex gain of INR120mn vs INR352mn loss in Q3FY19
PBT	1,576	1,187	2,193	84.8	39.1	
- Taxes	336	266	318	19.5	(5.4)	
Effective tax rate (%)	21.3	22.4	14.5	(791)bps	(682)bps	Effective tax rate for FY20 to be between 23-24%, since SEZ units have moved to 50% tax bracket
PAT	1,240	921	1,875	103.6	51.2	
Minority interest	28	-	(7)	NA	NA	
Reported profits	1,212	921	1,882	104.3	55.3	

Source: Company

Exhibit 2: Change in estimates

₹ mn	FY20E			FY21E		
	Old	New	%Chg	Old	New	%Chg
Revenue (US\$ mn)	733	718	(2.0)	809	792	(2.1)
Revenue	51,334	50,290	(2.0)	56,647	55,431	(2.1)
EBITDA margin (%)	14.7	14.4	(25)bps	15.5	14.7	(75)bps
EPS (')	47.4	47.1	(0.6)	55.6	52.5	(5.6)

Source: Trust Research

Geography wise Revenues: Region-wise, Europe, Middle East, Africa and India posted an increase of 2.2% QoQ in US\$ terms. Americas decreased by 8.2% QoQ, while APAC was down 16.9%.

Exhibit 3: Geographical wise Performance

Geographical mix (%)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
US	57.1	52.7	54.2	55.1	49.0	55.3	56.2	58.2	52.0
Europe	25.1	24.0	26.7	27.7	28.3	26.3	26.4	24.1	24.0
India	17.8	23.3	19.1	17.2	22.7	18.4	17.4	17.7	24.0
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	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Total (Nos)	13,730	13,835	14,197	14,457	14,762	13,851	14,385	14,532	13,916
Voluntary attrition (%)	15.6	16.6	14.2	16.8	16.9	18.2	18.4	21.2	19.9
Overall utilization (%)	77.4	74.1	75.9	78.6	76.7	75.0	78.0	78.1	77.8

Source: Company, Trust Research

**Exhibit 5: Revenue mix**

Offshore/onsite split (%)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Offshore	39.2	40.4	41.2	42.8	44.0	41.9	42.8	42.4	42.7
Onshore	60.8	59.6	58.8	57.2	56.0	58.1	57.2	57.6	57.3
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 (up 22.6% QoQ including Ansem), Industrial, Energy and natural resources (IE&NR) up 1.1%, Utilities and Geospatial was up 3.4% while Communications was down 3.1%, Aerospace & Defence (up 0.4%) and Transportation (+3.9%) in US\$ terms, QoQ.

Exhibit 6: Industry segmentation

By Industry (%)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Aerospace and Defense	35.7	33.6	34.7	34.7	36.5	34.2	33.8	34.3	33.9
Transportation	9.7	9.7	11.2	11.7	10.1	12.1	11.8	12.0	12.3
Industrial, Energy & Natural Resources	8.7	10.2	8.6	8.6	9.9	8.4	8.6	8.6	8.5
Semiconductor	4.2	4.1	4.1	3.7	3.4	5.5	5.8	4.7	5.6
Medical and Cons. Electronics	1.9	2.9	2.2	2.0	3.3	1.8	1.9	2.0	2.0
Utilities & Geospatial	18.5	15.2	15.9	16.6	14.1	14.2	14.3	15.0	15.3
Communications	21.3	24.3	23.3	22.7	22.7	23.8	23.8	23.4	22.4
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

	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Top 5 clients (%)	42.9	37.6	41.6	40.1	33.8	37.9	37.9	38.0	35.7
Top 10 clients (%)	56.9	50.2	55.0	54.0	45.4	51.8	51.0	50.1	48.4
Clients added (Nos)	20	11	27	12	12	20	14	30	5
Client buckets (Nos)									
20Mn+	5	5	5	5	4	4	4	4	4
10Mn+	9	9	9	11	12	11	13	13	13
5Mn+	20	25	22	23	26	25	27	27	26
1Mn+	62	67	65	66	72	66	68	73	70

Source: Company

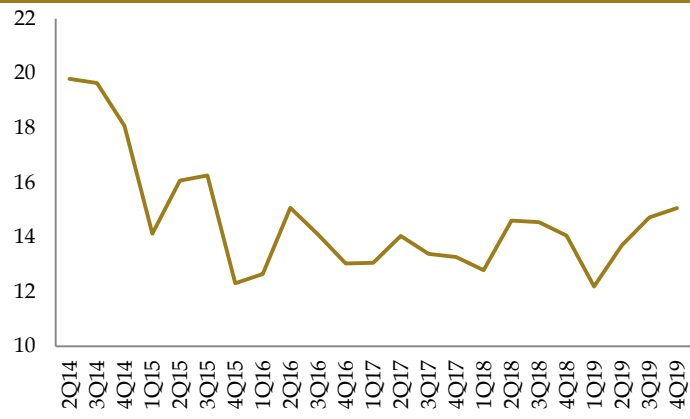
Exhibit 8: Product business

Details (In ₹ Mn)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Revenue	763	1,017	785	1,418	1,212	1,610	1,479	1,282
Direct Salary and Related costs	43	39	37	114	141	181	125	111
Material & Mfg. cost	678	881	653	1,116	921	1,249	1,174	1,025
Gross Profit	42	97	95	188	150	180	180	146
SG&A	95	89	86	90	95	121	122	94
Operating profit	(53)	8	9	98	55	59	58	52
PBT	(92)	(37)	(23)	48	14	14	9	(5)

Source: Company

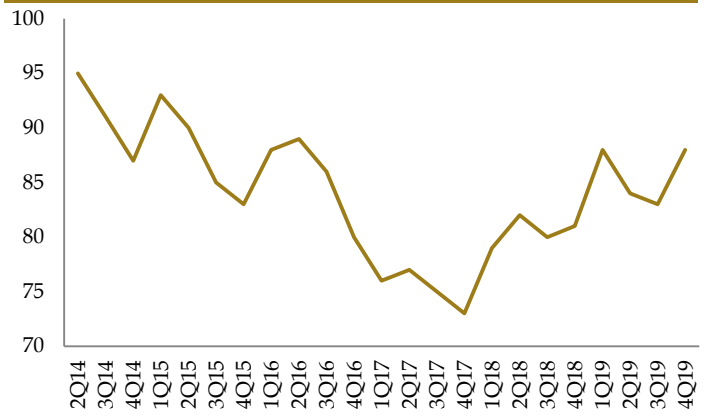


Exhibit 9: Margin - Flattish guidance for FY20E YoY



Source: Company, Trust

Exhibit 10: DSO days were up by 5 days QoQ to 88



Source: Company, Trust



Financials

Income Statement (₹ mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Revenues	36,065	39,175	46,175	50,290	55,431
Op. Expenses	31,216	33,683	39,731	43,056	47,291
EBITDA	4,849	5,492	6,444	7,234	8,140
Other Income	874	1,438	1,340	990	1,250
Depreciation	953	1,051	1,113	1,144	1,270
EBIT	4,770	5,879	6,671	7,080	8,120
Interest	189	232	362	296	476
PBT	4,581	5,647	6,309	6,784	7,644
Tax	1,047	1,425	1,427	1,594	1,835
PAT	3,534	4,222	4,882	5,190	5,809
Ex. Ordinary/MI	426	35	(14)	-	-
Adj Pat	3,960	4,257	4,868	5,190	5,809

Key Parameters

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Per share (`)					
EPS	32.7	38.0	44.1	47.1	52.5
CEPS	41.1	47.3	54.1	57.5	64.0
BVPS	187.4	207.9	230.6	258.8	288.5
DPS	10.5	13.0	15.0	17.0	19.0
Payout (%)	37.5	40.0	40.1	42.2	42.3
Valuation (x)					
P/E	14.5	18.1	14.7	12.4	11.2
P/BV	2.5	3.3	2.8	2.3	2.0
EV/EBITDA	9.6	12.9	10.3	8.0	6.8
Dividend Yield (%)	2.2	1.9	2.3	2.9	3.2
Return ratio (%)					
EBITDA Margin	13.4	14.0	14.0	14.4	14.7
PAT Margin	9.8	10.8	10.6	10.3	10.5
ROAE	18.3	19.2	20.0	19.2	19.2
ROACE	21.6	23.8	23.9	23.0	24.1
Leverage Ratios (x)					
Long Term D/E	0.1	0.1	0.2	0.1	0.1
Net Debt/Equity	(0.3)	(0.3)	(0.2)	(0.2)	(0.3)
Debt/EBITDA	0.4	0.5	0.6	0.5	0.4
Interest Coverage	25.2	25.3	18.4	23.9	17.1
Current ratio	2.5	2.7	2.6	2.9	3.1
Growth Ratios (%)					
Income growth	16.5	8.6	17.9	8.9	10.2
EBITDA growth	14.2	13.3	17.3	12.3	12.5
PAT growth	9.2	19.5	15.6	6.3	11.9
Turnover Ratios					
F.A Turnover x	8.0	7.9	8.3	8.9	9.6
Debtors Days	43	42	41	40	39
Payable days	69	67	66	66	65

Balance Sheet (₹ mn)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	563	563	552	551	553
Reserves & Surplus	20,636	22,879	25,070	27,981	31,373
Total Shareholders Fund	21,199	23,442	25,622	28,532	31,926
Non- current liabilities	1,773	1,942	3,081	3,104	3,220
Long term borrowings	759	1,009	1,813	1,813	1,813
Deferred tax liabilities	201	35	111	111	111
Other LT liabilities & prov	813	898	1,157	1,180	1,296
Current Liabilities	8,291	8,621	9,895	9,876	10,377
Short term borrowings	1,159	1,780	2,137	1,737	1,437
Trade payables	4,021	3,813	3,712	3,893	4,276
Other cur liabilities & Prov	3,111	3,028	4,046	4,247	4,664
Total liabilities	31,263	34,005	38,598	41,512	45,523
Assets					
Non- current Assets	10,550	10,549	12,745	13,072	13,399
Fixed assets	4,497	4,941	5,563	5,619	5,749
Non-current investments	4,310	3,847	5,524	5,524	5,524
Long-term loans & adv	1,743	1,761	1,658	1,929	2,126
Other non-current assets	-	-	-	-	-
Current assets	20,713	23,456	25,853	28,440	32,123
Current investments	925	1,130	278	278	278
Trade receivables	6,496	6,913	8,137	8,956	9,871
Inventories	935	1,312	1,833	1,929	2,126
Cash & bank balances	8,781	9,807	9,705	10,630	12,650
Short term loans & Adv	3,576	4,294	5,900	6,648	7,198
Total Assets	31,263	34,005	38,598	41,512	45,523

Cash flow Statement

Year End-March	FY17	FY18	FY19	FY20E	FY21E
PBT	4,581	5,647	6,309	6,784	7,644
Depreciation	1,300	885	1,189	1,144	1,270
Interest Exp	189	232	362	296	476
Others	(96)	35	(14)	-	-
CF before W.cap	5,974	6,799	7,846	8,224	9,390
Inc/dec in W.cap	(866)	1,736	2,072	1,529	944
Op CF after W.cap	6,839	5,063	5,774	6,695	8,446
Less Taxes	1,047	1,425	1,427	1,594	1,835
Net CF From Operations	5,792	3,638	4,347	5,100	6,611
Inc/(dec) in F.A + CWIP	1,366	1,495	1,735	1,200	1,400
(Pur)/sale of Investments	941	(258)	825	-	-
Others	(189)	(232)	(362)	(296)	(476)
CF from Invst Activities	(2,496)	(1,469)	(2,922)	(1,496)	(1,876)
Loan Raised	-	871	1,161	(400)	(300)
Equity Raised	(78)	(300)	(725)	(89)	44
Dividend	1,388	1,714	1,963	2,191	2,460
CF from Fin Activities	(1,467)	(1,143)	(1,527)	(2,679)	(2,716)
Net inc/(dec) in cash	1,830	1,026	(102)	925	2,020
Op. bal of cash	6,951	8,781	9,807	9,705	10,630
Cl. balance of cash	8,781	9,807	9,705	10,630	12,650



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