

INDUSTRY	IT
CMP (as on 20 Apr 2017)	Rs 503
Target Price	Rs 540
Nifty	9,136
Sensex	29,422

KEY STOCK DATA

Bloomberg	CYL IN
No. of Shares (mn)	113
MCap (Rs bn) / (\$ mn)	57/876
6m avg traded value (Rs mn)	52

STOCK PERFORMANCE (%)

52 Week high / low	Rs 555 / 405		
	3M	6M	12M
Absolute (%)	8.1	(2.5)	0.3
Relative (%)	(0.7)	(7.0)	(13.5)

SHAREHOLDING PATTERN (%)

Promoters	22.18
FIs & Local MFs	7.27
FIIIs	56.99
Public & Others	13.56

Source : BSE

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Good show, priced in

Cyient 4Q numbers were decent on the revenue front, owing to a revival in the core engineering business (52% of revenue, +3.5% QoQ). Management is optimistic about Cyient's growth targets. It has guided for double-digit growth in the core business (ex-DLM), 20% YoY growth in DLM and a 50bps margin expansion. This looks achievable, given healthy order inflows (USD 751mn in FY17, +31% YoY).

Revenue at USD 141mn (+3.8% QoQ, +3.6% in CC) was in line with our estimate of USD 141mn. We expect traction to continue in Communication (led by substantial work related to the deployment of fibre optics in the US and ANZ), and Aerospace and Defence (driven by a ramp up in avionics-related projects).

We maintain our USD revenue growth estimates, and expect a 13.2/14.1% growth in FY18/19E. We expect margins to expand ~60bps in FY18E to 14.0%, led by a gradual recovery in DLM margins (currently at EBITDA break-even level). We await a sustained revival in the core engineering business. Positives are more or less priced in, and the stock is fairly valued at ~11x FY19E

FINANCIAL SUMMARY

(Rs bn)	4QFY17	3QFY16	YoY (%)	3QFY17	QoQ (%)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	9.41	7.83	20.2	9.17	2.6	27.36	31.02	36.07	40.21	45.87
EBITDA	1.25	1.06	17.7	1.23	1.7	4.01	4.19	4.85	5.62	6.57
APAT	1.05	0.83	26.7	0.94	11.4	3.53	3.26	3.44	4.35	5.04
Diluted adj. EPS (Rs)	8.4	7.4	13.8	8.7	(3.4)	31.4	30.5	32.9	38.7	44.9
P/E (x)						16.0	17.3	16.4	13.0	11.2
EV / EBITDA (x)						12.6	12.1	9.9	8.3	6.8
RoE (%)						20.2	17.4	17.4	19.2	19.7

Source: Company, HDFC sec Inst Research # Consolidated

HDFC securities Institutional Research is also available on Bloomberg HSLB <GO> & Thomson Reuters

EPS. We maintain a NEUTRAL with a TP to Rs 540, implying 12x FY19 earnings.

Highlights of the quarter

- Revival in the core business:** The Aerospace & Defence and the Transportation verticals bounced back (+3.6/+6.6% QoQ), while Communication/Industrial were weak (-2.6/-3.3% QoQ). DLM grew strongly at +8% QoQ to USD 16mn, but was lower than our estimates.
- The EBITDA margin contracted 12bps QoQ to 13.3% (we expected a 70bps expansion), owing to rupee appreciation and lower utilisation (-90bps QoQ). Order booking was strong in DLM (USD 71mn vs USD14 in 3Q), while the services order book remained almost flat at USD185.6mn vs USD188.9mn in the last quarter. Onsite revenue grew 5.4% QoQ and Europe was up 8.1% QoQ.
- Near-term outlook:** Growth will continue in 1QFY18. Margins will decline, owing to salary hikes, offset by a recovery in DLM margins. The possibility of a meaningful upside seems limited.

Revenue growth recovered strongly in the quarter, despite structural challenges faced by the industry. The inorganic component contributed 0.7% to revenue growth.

DLM revenue growth was lower than expectations owing to a deferral of USD 2mn revenue to the next quarter.

EBITDA margin guidance for ~50 bps expansion in FY18E includes operational improvement (+390bps), wage hikes (-180bps), Investments (-100 bps) and pricing pressure (-60 bps).

Net profit at Rs 786mn was down 16.4% QoQ, owing to an exceptional item of Rs 261mn (related to retrospective change in the Bonus Act)

Quarterly Consolidated Financials Snapshot

Particulars (Rs bn)	4QFY17	3QFY16	YoY (%)	3QFY17	QoQ (%)
Net Revenues (US \$mn)	141.0	118.4	19.1	135.8	3.8
Net Revenues	9.41	7.83	20.2	9.17	2.6
Cost Of Revenue	6.18	5.14	20.1	6.06	2.0
Gross Profit	3.23	2.69	20.3	3.11	3.8
SG&A Expenses	1.98	1.63	21.9	1.89	5.1
EBITDA	1.25	1.06	17.7	1.23	1.7
Depreciation	0.26	0.22	15.2	0.24	4.9
EBIT	0.99	0.84	18.3	0.98	0.9
Interest Cost	0.04	0.04	5.6	0.05	(17.4)
Other Income	0.27	0.25	8.3	0.31	(14.0)
PBT	1.22	1.05	16.4	1.25	(2.1)
Minority Interest & Share of Ass. Profit	0.05	0.02	100.9	0.01	225.5
Tax	0.22	0.25	(10.2)	0.32	(31.4)
RPAT	0.79	0.83	(4.9)	0.94	(16.4)
E/o (adj for tax)	0.26	0.00	-	0.00	-
APAT	1.05	0.83	26.7	0.94	11.4

Source: Company, HDFC sec Inst Research

Margin Analysis

Particulars	4QFY17	3QFY16	YoY (bps)	3QFY17	QoQ (bps)
Cost of Revenue % Net Revenues	65.6	65.7	(3)	66.0	(39)
Gross Margin (%)	34.4	34.3	3	34.0	39
SG&A Expenses % Net Revenues	21.1	20.8	31	20.6	51
EBITDA Margin (%)	13.3	13.5	(28)	13.4	(12)
EBIT Margin (%)	10.6	10.7	(16)	10.7	(18)
Tax Rate (%)	18.1	23.5	(536)	25.8	(771)
APAT Margin (%)	11.1	10.6	58	10.3	88

Source: Company, HDFC sec Inst Research

The UGC segment continued to grow for the 4th consecutive quarter, led by Utilities & Geospatial

MI recovered mainly due to the recovery in Aerospace and Defence

The management expects a revival in the core services business, and will attain double-digit growth in FY17E (higher than the industry average)

Onsite growth recovered strongly in the quarter

Segmental Revenue Break-up

(% Contribution)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Manufacturing & Industrial (MI)	58.0	57.2	57.4	58.4	53.8	51.9	51.7
Utilities, Geo & Comm (UGC)	33.2	33.6	32.5	33.5	36.3	37.2	36.9
Design led Manufacturing (DLM)	8.8	9.2	10.0	8.1	9.9	10.9	11.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Segmental Revenue Growth

(QoQ, %)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Manufacturing & Industrial (MI)	(0.2)	(1.5)	2.5	4.9	0.9	(4.1)	3.5
Utilities, Geo & Comm (UGC)	(0.1)	1.1	(1.2)	6.2	18.6	2.0	3.0
Design led Manufacturing (DLM)	72.8	4.0	11.7	(16.9)	33.5	10.2	8.0
Total	3.7	(0.2)	2.1	3.1	9.5	(0.5)	3.8

Source: Company, HDFC Sec Inst Research

Core Services Business: Onsite-Offshore Break-up

(% Contribution)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Onsite	55.4	56.7	59.0	59.3	59.9	59.6	60.8
Offshore	44.6	43.3	41.0	40.7	40.1	40.4	39.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Core Services Business: Onsite-Offshore Growth

(QoQ, %)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Onsite	(0.0)	1.6	5.3	5.9	8.4	(2.2)	5.4
Offshore	(0.3)	(3.3)	(4.3)	4.7	5.8	(0.9)	0.3
Total	(0.2)	(0.6)	1.1	5.4	7.4	(1.7)	3.3

Source: Company, HDFC Sec Inst Research

Aerospace, the largest vertical, has recovered and will contribute to growth in FY18E.

Communication was weak in the quarters, but the outlook remains positive

Oil and gas to remain under stress, while Utilities and Geospatial are expected to grow with development in the NAM region

The Semiconductor vertical bounced back strongly after a weak quarter

Vertical Break-up (Ex-DLM)

(% Contribution)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Aerospace and Defense	36.2	37.7	38.9	38.7	36.8	35.6	35.7
Communications	18.4	19.4	17.6	18.9	21.8	22.7	21.4
Utilities & Geospatial	15.8	15.7	16.8	15.8	16.7	17.2	18.5
Transportation	10.6	10.2	10.0	10.3	9.4	9.4	9.7
Industrial, Energy & Natural Resources	11.4	10.8	10.3	10.0	9.3	9.3	8.7
Semiconductor	5.3	4.3	4.4	4.3	4.1	3.9	4.2
Medical and Consumer Electronics	1.5	1.5	1.7	1.9	1.9	1.9	1.9
Others	0.8	0.4	0.3	0.1	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Vertical Growth (Ex-DLM)

(QoQ, %)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Aerospace and Defense	1.0	3.5	4.4	4.8	2.1	(4.9)	3.6
Communications	13.5	4.8	(8.2)	13.2	23.8	2.4	(2.6)
Utilities & Geospatial	(11.8)	(1.2)	8.2	(0.9)	13.5	1.3	11.1
Transportation	1.8	(4.3)	(0.8)	8.5	(2.0)	(1.7)	6.6
Industrial, Energy & Natural Resources	(3.5)	(5.8)	(3.5)	2.3	(0.2)	(1.7)	(3.3)
Semiconductor	(5.4)	(19.3)	3.5	3.0	2.4	(6.5)	11.3
Medical and Consumer Electronics	7.0	(0.6)	14.6	17.8	7.3	(1.7)	3.3
Others	(11.2)	(50.3)	(24.1)	(64.9)	NM	NM	NM
Total	(0.1)	(0.6)	1.1	5.4	7.3	(1.7)	3.4

Source: Company, HDFC Sec Inst Research

From a geographic perspective, Europe outperformed, led by Transportation and Defence

Utilisation declined in the quarter, but will remain a margin lever.

Geographic Break-up (Ex-DLM)

(% Contribution)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
North America	64.1	63.6	60.2	60.0	59.1	58.0	57.1
Europe, ME, Africa and India	24.1	23.2	25.5	24.6	24.0	24.0	25.1
Asia Pacific	11.8	13.2	14.3	15.4	16.9	18.0	17.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, HDFC Sec Inst Research

Geographic Growth (Ex-DLM)

(QoQ, %)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
North America	0.1	(1.4)	(4.3)	5.0	5.7	(3.5)	1.7
Europe, ME, Africa and India	0.3	(4.3)	11.2	1.7	4.7	(1.7)	8.1
Asia Pacific	(1.8)	11.2	9.6	13.5	17.8	4.7	2.2
Total	(0.1)	(0.6)	1.1	5.4	7.3	(1.7)	3.3

Source: Company, HDFC Sec Inst Research

Headcount, Attrition and Utilisation Data

(Nos.)	2QFY16	3QFY16	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17
Total headcount (Ex DLM)	12,026	12,186	12,498	12,965	13,216	13,094	13,084
<i>Technical employees</i>	<i>11,311</i>	<i>11,481</i>	<i>11,784</i>	<i>12,273</i>	<i>12,500</i>	<i>12,364</i>	<i>12,279</i>
<i>Support employees</i>	<i>715</i>	<i>705</i>	<i>714</i>	<i>692</i>	<i>716</i>	<i>730</i>	<i>805</i>
Net additions	(310)	160	312	467	251	(122)	(10)
Overall utilisation (%)	76.1	76.7	72.7	73.5	78.0	78.3	77.4

Source: Company, HDFC Sec Inst Research

Key Assumptions

Particulars	FY15	FY16	FY17	FY18E	FY19E
Volume growth (%)	8.9	(1.2)	6.4	6.2	8.1
Pricing change (%)	13.0	7.0	7.5	7.0	6.0
USD revenue growth (%)	23.0	5.7	13.9	13.2	14.1
USD/INR rate	61.2	65.6	67.0	66.0	66.0
EBITDA margin (%)	14.7	13.5	13.4	14.0	14.3

Source: Company, HDFC Sec Inst Research

Change in Estimates

Particulars	Earlier estimates	Revised estimates	% change
FY18E			
Revenue (US\$ mn)	610	609	(0.1)
Revenue (Rs bn)	40.24	40.21	(0.1)
EBITDA (Rs bn)	5.70	5.63	(1.4)
EBITDA margin (%)	14.2	14.0	(19)bps
EPS (Rs)	37.7	38.7	2.7
FY19E			
Revenue (US\$ mn)	697	695	(0.3)
Revenue (Rs bn)	46.00	45.88	(0.3)
EBITDA (Rs bn)	6.66	6.57	(1.4)
EBITDA margin (%)	14.5	14.3	(16)bps
EPS (Rs)	42.7	44.9	5.2

Source: Company, HDFC Sec Inst Research

Peer Valuations

Company	Mcap (Rs bn)	CMP (Rs)	Reco	TP (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Mphasis	114	540	BUY	645	39.1	41.0	46.1	13.8	13.2	11.7	9.2	8.2	6.9	12.7	12.7	13.5
Mindtree	74	442	NEU	425	24.9	30.6	35.7	17.7	14.5	12.4	9.3	8.5	7.1	16.8	19.1	20.3
Hexaware *	61	207	NEU	215	13.8	15.0	16.4	15.0	13.8	12.6	11.1	10.9	10.5	26.5	24.0	23.0
Cyient	57	503	NEU	540	32.9	38.7	44.9	16.4	13.0	11.2	9.9	8.3	6.8	17.4	19.2	19.7
eClerx	52	1,316	SELL	1,275	91.9	84.5	98.0	14.3	15.6	13.4	9.7	10.0	8.4	30.1	24.2	25.7
Persistent	45	568	BUY	740	38.8	42.3	52.9	14.6	13.4	10.7	8.3	6.9	5.3	17.5	16.5	17.8
Zensar	40	901	BUY	1,209	69.6	82.3	93.0	13.2	11.2	9.9	8.4	6.9	5.8	19.6	19.9	19.3
KPIT Tech	25	127	NEU	130	11.1	12.3	14.5	11.5	10.3	8.8	6.7	5.5	4.6	15.0	15.0	15.7
Sonata	17	163	BUY	243	15.0	17.3	20.2	10.9	9.5	8.1	7.9	6.5	5.1	30.7	30.1	30.1

Source: HDFC sec Inst Research * YE Dec

Consolidated Income Statement

YE March (Rs bn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues (US \$mn)	446.9	472.3	538.0	609.2	695.0
Growth (%)	23.0	5.7	13.9	13.2	14.1
Net Revenues	27.36	31.02	36.07	40.21	45.87
Growth (%)	24.0	13.4	16.3	11.5	14.1
Cost of Revenue	17.13	20.16	23.65	26.14	29.67
SG&A Expenses	6.22	6.67	7.57	8.44	9.63
EBITDA	4.01	4.19	4.85	5.62	6.57
EBITDA (%)	14.7	13.5	13.4	14.0	14.3
EBITDA Growth (%)	(2.1)	4.4	15.7	16.1	16.7
Depreciation	0.71	0.89	0.95	1.03	1.14
EBIT	3.30	3.30	3.89	4.59	5.43
Other Income	1.23	0.98	0.61	0.97	1.07
Interest	0.08	0.19	0.19	0.23	0.24
PBT	4.46	4.09	4.32	5.33	6.26
Tax (incl deferred)	1.10	1.01	1.05	1.17	1.43
Minority Interest and associate profit	0.17	0.18	0.17	0.19	0.21
RPAT	3.53	3.26	3.44	4.35	5.04
EO (Loss) / Profit (Net Of Tax)	0.00	-0.09	-0.26	0.00	0.00
APAT	3.53	3.43	3.70	4.35	5.04
APAT Growth (%)	32.8	(2.9)	7.8	17.6	16.0
EPS	31.4	30.5	32.9	38.7	44.9

Source: Company, HDFC sec Inst Research

Consolidated Balance Sheet

YE March (Rs bn)	FY15	FY16	FY17	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital - Equity	0.56	0.56	0.56	0.56	0.56
Reserves	18.56	17.81	20.64	23.42	26.69
Total Shareholders' Funds	19.12	18.37	21.20	23.98	27.25
Minority Interest	0.12	0.00	0.00	0.00	0.00
Total Debt	1.28	2.52	1.92	1.92	1.92
Net Deferred Taxes	-0.01	0.00	0.20	0.20	0.20
Long-term Provisions & Others	0.58	0.72	0.81	0.81	0.81
TOTAL SOURCES OF FUNDS	21.09	21.61	24.13	26.91	30.19
APPLICATION OF FUNDS					
Net Block	3.66	3.90	4.44	5.09	5.88
CWIP	0.06	0.06	0.06	0.06	0.06
Goodwill & Other Intangible Assets	4.26	2.71	3.28	3.28	3.28
Investments	0.68	0.81	1.03	1.03	1.03
LT Loans & Advances, Others	1.36	1.74	1.74	1.74	1.74
Total Non Current Assets	10.02	9.22	10.55	11.21	11.99
Inventories	0.61	0.98	0.94	1.10	1.26
Debtors	5.34	6.15	6.50	7.36	8.40
Cash & Equivalents	6.56	7.74	9.71	11.10	13.05
Other Current Assets	3.20	3.05	3.58	3.58	3.58
Total Current Assets	15.70	17.91	20.71	23.13	26.28
Creditors	2.75	3.10	4.02	4.25	4.83
Other Current Liabilities & Provns	1.88	2.42	3.11	3.18	3.25
Total Current Liabilities	4.63	5.52	7.13	7.43	8.08
Net Current Assets	11.07	12.39	13.58	15.70	18.19
TOTAL APPLICATION OF FUNDS	21.09	21.61	24.13	26.91	30.19

Source: Company, HDFC sec Inst Research

Consolidated Cash Flow

YE March (Rs bn)	FY15	FY16	FY17E	FY18E	FY19E
Reported PBT	4.46	4.09	4.32	5.33	6.26
Non-operating & EO items	-1.08	-0.94	-0.75	-0.77	-0.86
Interest expenses	0.08	0.19	0.19	0.23	0.24
Depreciation	0.71	0.89	0.95	1.03	1.14
Working Capital Change	-0.18	1.07	1.30	-0.73	-0.54
Tax paid	-1.10	-1.01	-1.05	-1.17	-1.43
OPERATING CASH FLOW (a)	2.89	4.29	4.97	3.91	4.81
Capex	-1.50	-1.13	-1.49	-1.69	-1.93
Free cash flow (FCF)	1.39	3.16	3.48	2.22	2.88
Investments	-0.09	-0.59	-0.36	0.00	0.00
Non-operating income	1.23	1.06	0.88	0.97	1.07
INVESTING CASH FLOW (b)	-0.35	-0.66	-0.97	-0.72	-0.85
Debt Issuance	1.22	1.24	-0.60	0.00	0.00
Interest expenses	-0.08	-0.19	-0.19	-0.23	-0.24
FCFE	2.53	4.20	2.69	1.99	2.64
Share capital Issuance	0.00	0.00	0.00	0.00	0.00
Dividend	-1.05	-1.31	-1.18	-1.57	-1.76
FINANCING CASH FLOW (c)	0.10	-0.26	-1.97	-1.80	-2.00
NET CASH FLOW (a+b+c)	2.64	3.37	2.03	1.39	1.95
Non-operating and EO items	-3.39	-2.20	-0.06	0.00	0.00
Closing Cash & Equivalents	6.56	7.74	9.71	11.10	13.05

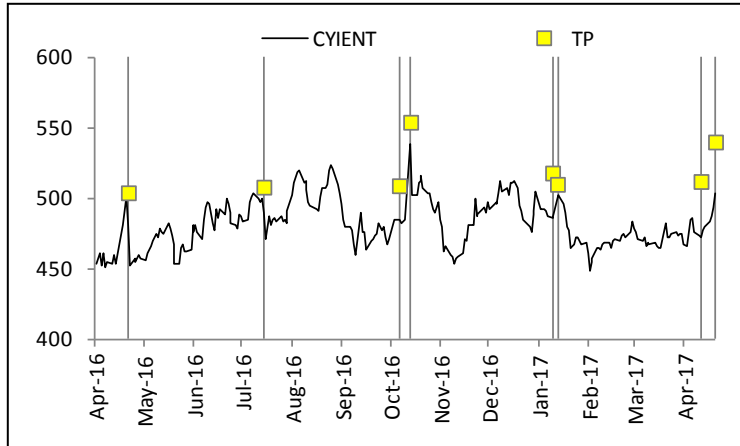
Source: Company, HDFC sec Inst Research

Key Ratios

	FY15	FY16	FY17E	FY18E	FY19E
PROFITABILITY (%)					
EBITDA Margin	14.7	13.5	13.4	14.0	14.3
APAT Margin	12.9	10.5	9.5	10.8	11.0
RoE	20.2	17.4	17.4	19.2	19.7
RoIC or Core RoCE	13.0	12.7	13.6	15.3	16.5
RoCE	13.7	12.0	13.4	14.6	15.2
EFFICIENCY					
Tax Rate (%)	24.6	24.7	24.2	22.0	22.8
Fixed Asset Turnover (x)	3.8	3.7	3.7	3.5	3.4
Inventory (days)	8	12	9	10	10
Debtors (days)	87	86	78	78	76
Payables (days)	43	42	47	45	45
Cash Conversion Cycle (days)	52	56	40	43	41
Net Debt/EBITDA (x)	(1.3)	(1.2)	(1.6)	(1.6)	(1.7)
Net Debt/Equity (x)	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)
Interest Coverage (x)	41.3	17.2	20.6	20.0	22.6
PER SHARE DATA					
EPS (Rs/sh)	31.4	30.5	32.9	38.7	44.9
CEPS (Rs/sh)	38.0	37.1	39.3	48.2	55.3
DPS (Rs/sh)	8.0	10.0	9.0	12.0	13.5
BV (Rs/sh)	170.3	163.7	188.9	213.7	242.9
VALUATION					
P/E	16.0	17.3	16.4	13.0	11.2
P/BV	3.0	3.1	2.7	2.4	2.1
EV/EBITDA	12.6	12.1	9.9	8.3	6.8
OCF/EV (%)	5.7	8.4	10.3	8.4	10.7
FCF/EV (%)	2.7	6.2	7.2	4.7	6.4
FCFE/mkt cap (%)	4.5	7.5	4.8	3.6	4.7
Dividend Yield (%)	1.6	2.0	1.8	2.4	2.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
22-Apr-16	483	NEU	504
15-Jul-16	493	NEU	508
6-Oct-16	484	NEU	509
14-Oct-16	538	NEU	554
9-Jan-17	488	NEU	518
13-Jan-17	497	NEU	510
11-Apr-17	474	NEU	512
21-Apr-17	503	NEU	540

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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