

Institutional Equity Research

# Cyient

IT | India

2QFY18 Result Update | October 12, 2017

CMP* (Rs)	523
Upside/ (Downside) (%)	16
Bloomberg Ticker	CYL IN
Market Cap. (Rs bn)	58.8
Free Float (%)	78
Shares O/S (mn)	113

**BUY** 

Target Price: Rs605

## Impressive 2Q All-Round

Cyient's revenue grew by 6.8% QoQ and crossed US\$150mn in 2QFY18, exceeding our estimate of 6.2% QoQ growth led by healthy 4.3% QoQ and 33.7% QoQ growth in core and DLM business, respectively. Consistency in core business growth metrics is heartening, in our view especially with 4.3% QoQ growth following 3% QoQ/3.3% QoQ growth in 1QFY18/4QFY17, respectively. While ENGG business grew by a solid 4.3% QoQ in USD terms (following 4% QoQ growth in 1QFY18), DNO business clocked a strong 4.2% QoQ growth in 2QFY18. The DLM business saw a robust 33.7% QoQ USD revenue growth, which is a healthy recovery after the steep 26% QoQ dip in 1QFY18. On a YoY basis, DLM rose by a strong 17.4%.

Cyient maintained its FY18 growth outlook, with double-digit growth likely in services business, 20% growth in DLM, 50bps EBITDA margin expansion and double-digit earnings growth.

### Key Verticals Drive Growth

Aided by higher utilisation, Cyient's revenue surged 6.8% QoQ to US\$150.1mn. Implied volume rose by a robust 5.2% QoQ, while implied pricing dipped 0.9% QoQ. In core services, Transportation (+11.2% QoQ), Industrials (+5.5%) Medical & Healthcare (+14.7%) and Communications (+7%) were the key verticals that drove growth. Led by strong revenue and operational efficiency, Cyient's EBITDA margin rose by 181bps QoQ, which drove a healthy 26.9% QoQ growth in PAT to Rs1.1bn.

However, some near-term headwinds being faced by Cyient's largest customer, UTC owing to work load rebalancing is a prime concern, which the Management expects to return to growth from 1QFY19 onwards. Another negative was decline in order book, which fell by 28.1% QoQ in terms of orders executable within FY18. However, the management believes its order backlog remains healthy, and 2HFY18 should see a rebound in order book growth.

### Outlook & Valuation

At CMP, the stock trades at a PE of 12.1x FY19E EPS, which we believe to be reasonable given healthy core business metrics, margin expansion, strong traction in most verticals, strong client relationships, decent dividend yield, quality balance sheet and healthy EPS growth (18.9% CAGR) over FY17-FY19E. **We retain our BUY recommendation on the stock with an upwardly revised Target Price of Rs605 (Rs565 earlier), as we slightly raise our FY19 EPS estimate by 5.6%.**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Net Revenue	31,021	36,065	39,124	44,478
EBITDA	4,141	4,772	5,557	6,420
APAT	3,255	3,438	4,247	4,864
Diluted EPS (Rs)	28.9	30.5	37.7	43.2
P/E (x)	18.1	17.1	13.9	12.1
EV / EBITDA (x)	12.9	10.6	8.8	7.2
RoE (%)	17.3	17.1	18.9	19.3

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(1.9)	(0.2)	8.6
Relative to Nifty	(1.9)	(3.1)	(7.5)

Shareholding Pattern (%)	Dec'16	Mar'17
Promoter	22.2	22.2
Public	77.8	77.8

### 1 Year Stock Price Performance



Note: \* CMP as on October 12, 2017

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**Key Conference Call Takeaways**

- ▶ Cyient has revised its dividend policy after consultations with stakeholders, and will now pay out up to 40% of its PAT against 30% earlier.
- ▶ Cyient has outstanding hedges of US\$68mn, and will earn around US\$3.6mn profit on forward contracts at current exchange rates.
- ▶ Cyient has maintained its target of 50bps EBITDA margin expansion in FY18E, led mainly by the core services business, which had achieved 60bps expansion in FY17.
- ▶ There was a wage hike impact of 70bps on margins in 2QFY18.
- ▶ Effective tax rate is likely at 26-28% for FY18E.
- ▶ The DLM business is likely to become cash-positive in 3QFY18E.
- ▶ Cyient witnessed a positive cross-currency impact of 160bps in 2QFY18.
- ▶ The non-UTC business is seeing strong growth for Cyient, which should drive revenue.

**Key Risks**

- ▶ Any client-specific issues emanating from Top-10 clients.
- ▶ Growth issues in its largest Aerospace vertical.
- ▶ Generic growth volatility associated with a mid-sized IT firm.
- ▶ Event-specific risks could impact IT budget, cut discretionary spend and delay new deals.
- ▶ With Donald Trump as US President, the risk of noise regards off-shoring taking away US jobs, higher visa cost and a more punishing visa regime abound.
- ▶ Currency risks.

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**Exhibit 1: Quarterly Performance (Consolidated, Rs mn)**

Particulars (Rs mn)	2QFY18	1QFY18	QoQ (%)	2QFY17	YoY (%)
<b>Net Revenues (US\$ mn)</b>	<b>150.1</b>	<b>140.6</b>	<b>6.8</b>	<b>136.5</b>	<b>10.0</b>
<b>Net Revenues</b>	<b>9,654</b>	<b>9,070</b>	<b>6.4</b>	<b>9,136</b>	<b>5.7</b>
Cost of Revenue	6,236	5,904	5.6	5,990	4.1
<b>Gross Profit</b>	<b>3,418</b>	<b>3,166</b>	<b>8.0</b>	<b>3,146</b>	<b>8.6</b>
SG&A Expenses	2,009	2,006	0.1	1,863	7.8
<b>EBITDA</b>	<b>1,409</b>	<b>1,160</b>	<b>21.5</b>	<b>1,283</b>	<b>9.8</b>
Depreciation	259	261	(0.8)	232	11.6
<b>EBIT</b>	<b>1,150</b>	<b>899</b>	<b>27.9</b>	<b>1,051</b>	<b>9.4</b>
Interest Cost	57	51	11.8	52	9.6
Other Income	406	351	15.7	184	120.4
<b>PBT</b>	<b>1,499</b>	<b>1,199</b>	<b>25.0</b>	<b>1,184</b>	<b>26.6</b>
Tax	421	373	12.9	267	57.7
Min. Int. And Ass. Profit Share	36	52	(30.8)	57	(36.3)
<b>APAT</b>	<b>1,114</b>	<b>878</b>	<b>26.9</b>	<b>973</b>	<b>14.5</b>
E/o (adj for tax)	0	0	-	0	-
RPAT	1,114	878	26.9	973	14.5

Source: Company, RSec Research

**Exhibit 2: Margin Break Up**

Particulars	2QFY18	1QFY18	QoQ (bps)	2QFY17	YoY (bps)
Cost of Revenue % Net Revenues	64.6	65.1	(50)	65.6	(97)
SG&A Expenses % Net Revenues	20.8	22.1	(131)	20.4	42
Gross Profit Margin (%)	35.4	34.9	50	34.4	97
EBITDA Margin (%)	14.6	12.8	181	14.0	55
EBIT Margin (%)	11.9	9.9	200	11.5	40
Tax Rate (%)	28.1	31.1	(302)	22.6	553
APAT Margin (%)	11.5	9.7	186	10.7	89

Source: Company, RSec Research

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**Exhibit 3: Key Assumptions**

Particulars	FY16	FY17	FY18E	FY19E
DNO USD revenue growth (%)	(6.6)	22.8	14.8	14.5
ENGG USD revenue growth (%)	2.2	5.5	9.2	11.3
DLM USD revenue growth (%)	332.2	36.9	20.9	17.9
Total USD revenue growth (%)	5.7	13.9	12.4	13.2
USD/INR rate	65.69	67.04	64.72	65.00
EBITDA margin (%)	13.3	13.2	14.2	14.4

Source: Company, RSec Research

**Exhibit 4: Segmental contribution**

(% of revenue)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
DNO	32.4	33.5	36.3	37.2	36.9	37.7	36.8
ENGG	57.2	58.4	53.8	51.9	51.7	53.9	52.7
Rangsons	10.4	8.1	9.9	10.9	11.4	8.4	10.5
<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>

Source: Company, RSec Research

**Exhibit 5: Segmental growth**

(QoQ, %)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
DNO	(1.8)	6.7	18.6	2.0	3.0	1.8	4.2
ENGG	1.9	5.4	0.9	(4.1)	3.5	4.0	4.3
Rangsons	16.0	(20.1)	33.5	10.2	8.0	(26.2)	33.7
<b>Total</b>	<b>1.9</b>	<b>3.1</b>	<b>9.5</b>	<b>(0.5)</b>	<b>3.8</b>	<b>(0.3)</b>	<b>6.8</b>

Source: Company, RSec Research

**Exhibit 6: Onsite-offshore contribution (Ex-Rangsons)**

(% of revenue)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Onsite	59.0	59.3	59.9	59.6	60.8	59.6	58.8
Offshore	41.0	40.7	40.1	40.4	39.2	40.4	41.2
<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>

Source: Company, RSec Research

**Exhibit 7: Onsite-offshore growth (Ex-Rangsons)**

(QoQ, %)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Onsite	4.7	6.3	8.4	(2.2)	5.4	1.0	2.9
Offshore	(4.9)	5.1	5.8	(0.9)	0.2	6.2	6.3
<b>Total</b>	<b>0.5</b>	<b>5.9</b>	<b>7.4</b>	<b>(1.7)</b>	<b>3.3</b>	<b>3.0</b>	<b>4.3</b>

Source: Company, RSec Research

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**Exhibit 8: Vertical contribution (Ex-Rangsons)**

(% of revenue)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Aerospace & Defense	38.9	38.7	36.8	35.6	35.7	35.2	34.7
Transportation	10.0	10.3	9.4	9.4	9.7	10.5	11.2
Industrial, Energy & Natural Resources	10.3	10.0	9.3	9.3	8.7	8.5	8.6
Semiconductor	4.4	4.3	4.1	3.9	4.2	4.5	4.1
Medical & Healthcare	1.7	1.9	1.9	1.9	1.9	2.0	2.2
Utilities and Geospatial	16.8	15.8	16.7	17.2	18.5	16.6	15.9
Communications	17.6	18.9	21.8	22.7	21.3	22.7	23.3
Others	0.3	0.1	0.0	0.0	0.0	0.0	0.0
<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>

Source: Company, RSec Research

**Exhibit 9: Vertical growth (Ex-Rangsons)**

(QoQ, %)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
Aerospace & Defense	3.7	5.3	2.1	(4.9)	3.6	1.6	2.8
Transportation	(1.5)	9.0	(2.0)	(1.7)	6.6	11.5	11.2
Industrial, Energy & Natural Resources	(4.1)	2.8	(0.2)	(1.7)	(3.4)	0.7	5.5
Semiconductor	2.9	3.4	2.4	(6.5)	11.3	10.4	(5.0)
Medical & Healthcare	13.9	18.3	7.4	(1.7)	3.3	8.5	14.7
Utilities and Geospatial	7.6	(0.4)	13.5	1.3	11.1	(7.5)	(0.1)
Communications	(8.8)	13.7	23.8	2.4	(3.1)	9.8	7.0
Others	(24.6)	(64.7)	(100.0)	N.A.	N.A.	N.A.	N.A.
<b>Total</b>	<b>0.5</b>	<b>5.9</b>	<b>7.4</b>	<b>(1.7)</b>	<b>3.3</b>	<b>3.0</b>	<b>4.3</b>

Source: Company, RSec Research

**Exhibit 10: Geographical contribution (Ex-Rangsons)**

(% of revenue)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
North America	60.2	60.0	59.1	58.0	57.1	55.8	54.2
Europe, ME, Africa and India	25.4	24.6	24.0	24.0	25.1	26.6	26.7
Asia Pacific	14.4	15.4	16.9	18.0	17.8	17.6	19.1
<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>

Source: Company, RSec Research

**Exhibit 11: Geographical growth (Ex-Rangsons)**

(QoQ, %)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
North America	(4.9)	5.5	5.7	(3.5)	1.7	0.7	1.3
Europe, ME, Africa and India	10.1	2.5	4.7	(1.7)	8.0	9.2	4.7
Asia Pacific	9.7	13.2	17.8	4.7	2.2	1.9	13.2
<b>Total</b>	<b>0.5</b>	<b>5.9</b>	<b>7.4</b>	<b>(1.7)</b>	<b>3.3</b>	<b>3.0</b>	<b>4.3</b>

Source: Company, RSec Research

**Exhibit 12: Headcount, utilisation data**

(Nos.)	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18
<b>Total headcount</b>	<b>12,498</b>	<b>12,965</b>	<b>13,216</b>	<b>13,094</b>	<b>13,084</b>	<b>13,206</b>	<b>13,568</b>
Technical employees	11,784	12,273	12,500	12,364	12,279	12,416	12,762
Support employees	714	692	716	730	805	790	806
<b>Net additions</b>	<b>312</b>	<b>467</b>	<b>251</b>	<b>(122)</b>	<b>(10)</b>	<b>122</b>	<b>362</b>
Gross utilisation (%)	73.1	77.6	82.5	82.9	82.5	78.8	80.7
Utilisation including support (%)	68.9	73.5	78.0	78.3	77.4	74.1	75.9

Source: Company, RSec Research

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**Profit & Loss Statement**

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
<b>Total Revenue (US\$ mn)</b>	<b>472.2</b>	<b>538.0</b>	<b>604.5</b>	<b>684.3</b>
Growth (%)	5.7	13.9	12.4	13.2
<b>Total Revenue</b>	<b>31,021</b>	<b>36,065</b>	<b>39,124</b>	<b>44,478</b>
Growth (%)	13.4	16.3	8.5	13.7
Total Operating Expenses	26,880	31,293	33,566	38,058
<b>EBITDA</b>	<b>4,141</b>	<b>4,772</b>	<b>5,557</b>	<b>6,420</b>
EBITDA (%)	13.3	13.2	14.2	14.4
EBITDA Growth (%)	3.3	15.2	16.5	15.5
Depreciation	888	953	1,066	1,171
<b>EBIT</b>	<b>3,253</b>	<b>3,819</b>	<b>4,491</b>	<b>5,249</b>
EBIT (%)	10.5	10.6	11.5	11.8
EBIT Growth (%)	(1.3)	17.4	17.6	16.9
Other Income	1,085	932	1,410	1,398
Interest	164	172	182	165
<b>PBT</b>	<b>4,174</b>	<b>4,579</b>	<b>5,719</b>	<b>6,481</b>
Tax (incl deferred)	1,011	1,046	1,632	1,775
Minority Interest & associate profit	179	166	160	158
Extraordinary Items	(87)	(261)	0	0
<b>PAT</b>	<b>3,255</b>	<b>3,438</b>	<b>4,247</b>	<b>4,864</b>
PAT Growth (%)	(7.8)	5.6	23.6	14.5
<b>EPS</b>	<b>28.9</b>	<b>30.5</b>	<b>37.7</b>	<b>43.2</b>
EPS Growth (%)	(7.8)	5.6	23.6	14.5

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**Balance Sheet**

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
<b>SOURCES OF FUNDS</b>				
Share Capital - Equity	562	563	563	563
Reserves	18,537	20,610	23,171	26,010
<b>Total Shareholders' Funds</b>	<b>19,099</b>	<b>21,173</b>	<b>23,734</b>	<b>26,573</b>
<b>Total Debt</b>	<b>2,142</b>	<b>1,651</b>	<b>1,651</b>	<b>1,651</b>
Long Term Provisions & Others	744	1,080	1,080	1,080
Deferred Tax Liability (Net)	42	302	302	302
Minority Interest	128	26	26	26
Creditors	3,107	4,021	4,402	5,199
Other Current Liab. & Provns	2,107	3,111	3,177	3,249
<b>Total Current Liabilities</b>	<b>5,214</b>	<b>7,132</b>	<b>7,579</b>	<b>8,449</b>
<b>Total Sources Of Funds</b>	<b>27,370</b>	<b>31,364</b>	<b>34,372</b>	<b>38,081</b>
<b>APPLICATION OF FUNDS</b>				
Net Block	3,129	3,017	3,125	3,065
Capital Work in Progress	24	92	92	92
Goodwill & Other Int. Assets	3,639	4,666	4,666	4,666
Investments	796	1,032	1,032	1,032
Deferred Tax Asset (Net)	187	101	101	101
LT Loans & Advances, Others	1,648	1,743	1,743	1,743
<b>Total Non Current Assets</b>	<b>9,423</b>	<b>10,651</b>	<b>10,759</b>	<b>10,699</b>
Inventories	979	935	1,072	1,219
Debtors and Unbilled Revenue	7,807	8,158	8,789	9,749
Cash & Bank	6,951	8,781	10,913	13,575
Liquid Investments	790	925	925	925
Other Current Assets	1,420	1,914	1,914	1,914
<b>Total Current Assets</b>	<b>17,947</b>	<b>20,713</b>	<b>23,613</b>	<b>27,382</b>
<b>Total Application Of Funds</b>	<b>27,370</b>	<b>31,364</b>	<b>34,372</b>	<b>38,081</b>

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**Cash Flow Statement**

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
PAT	3,255	3,438	4,247	4,864
Non-operating & EO items	126	123	160	158
Depreciation	888	953	1,066	1,171
Working Capital Change	(811)	982	(321)	(236)
<b>Cash Flow from Operations (a)</b>	<b>3,458</b>	<b>5,495</b>	<b>5,152</b>	<b>5,956</b>
Capex	(1,282)	(909)	(1,174)	(1,112)
Investments	(454)	(371)	0	0
<b>Cash Flow from Investing (b)</b>	<b>(1,736)</b>	<b>(1,280)</b>	<b>(1,174)</b>	<b>(1,112)</b>
Debt Issuance/(Repaid)	669	(491)	0	0
Share capital Issuance	21	1	0	0
Dividend	(1,344)	(1,417)	(1,687)	(2,024)
<b>Cash Flow from Financing (c)</b>	<b>(655)</b>	<b>(1,908)</b>	<b>(1,687)</b>	<b>(2,024)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>1,067</b>	<b>2,308</b>	<b>2,292</b>	<b>2,821</b>
EO items, others	(344)	(478)	(160)	(158)
Closing Cash Balance	6,951	8,781	10,913	13,575
<b>Free Cash Flow</b>	<b>2,176</b>	<b>4,586</b>	<b>3,978</b>	<b>4,844</b>

**Key Ratios**

Y/E March	FY16	FY17	FY18E	FY19E
<b>Profitability (%)</b>				
EBITDA Margin	13.3	13.2	14.2	14.4
APAT Margin	10.5	9.5	10.9	10.9
RoE	17.3	17.1	18.9	19.3
RoC or Core RoCE	14.9	22.3	24.4	27.3
RoCE	11.9	13.1	13.3	14.2
<b>Efficiency</b>				
Tax Rate (%)	24.7	24.2	28.5	27.4
Fixed Asset Turnover (x)	4.4	4.6	4.3	4.4
Inventory (days)	12	9	10	10
Debtors (days)	92	83	82	80
Payables (days)	42	47	48	50
Cash Conversion Cycle (days)	61	45	44	40
Net Debt/EBITDA (x)	(1.4)	(1.7)	(1.8)	(2.0)
Net Debt/Equity (x)	(0.3)	(0.4)	(0.4)	(0.5)
Interest Coverage (x)	19.8	22.2	24.7	31.8
<b>Per Share Data (Rs)</b>				
EPS	28.9	30.5	37.7	43.2
CEPS	36.8	39.0	47.3	53.7
DPS	12.0	10.5	12.5	15.0
BV	169.6	188.0	210.8	236.0
<b>Valuation</b>				
P/E (x)	18.1	17.1	13.9	12.1
P/BV (x)	3.1	2.8	2.5	2.2
EV/EBITDA (x)	12.9	10.6	8.8	7.2
OCF/EV (%)	6.5	10.8	10.6	13.0
FCF/EV (%)	4.1	9.0	8.2	10.5
FCFE/mkt cap (%)	5.9	9.3	8.8	10.1
Dividend Yield (%)	2.3	2.0	2.4	2.9



## Institutional Equity Research

**Cyient**

IT | India

CMP* (Rs)	523
Upside/ (Downside) (%)	16
Bloomberg Ticker	CYL IN

**BUY** 

Target Price: Rs605

**Rating Guides**

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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