AXIS DIRECT

17 JUL 2017 Quarterly Update

CYIENT LIMITED

IT - SERVICES

BUY

Target Price: Rs 623

DLM segment dents growth; guidance intact

Services business posted a strong revenue growth(up 3.2% QoQ), but a seasonally weak DLM(Design Led Manufacturing) business led to a flat quarter. Margin defense (down only 50 bps QoQ) was robust despite headwinds of currency and wage increase.

Guidance intact: Cyient expects double-digit revenue growth in its Services business and maintained 20% YoY growth outlook for DLM in FY18. The growth will be driven by momentum in Transportation, Communications and Utilities and Geospatial verticals in the Services business. In DLM business, momentum is likely to pick up on strong order back log and healthy outlook in Communications, Defense andTransportation segments.

CMP	: Rs 516
Potential Upside	: 21%

MARKET DATA

No. of Shares	: 113 mn
Free Float	: 78%
Market Cap	: Rs 58 bn
52-week High / Low	: Rs 564 / Rs 416
Avg. Daily vol. (6mth)	: 162,959 shares
Bloomberg Code	: CYL IB Equity
Promoters Holding	: 22%
FII / DII	: 42% / 7%

Margin to improve in FY18

Management expects EBITDA margin in FY18 to improve by 50 bps YoY (FY17:13.4%) on levers of utilization (scope for 200 bps improvement), employee pyramid rationalization, better onsite-offshore mix and SG&A efficiencies. In Q2FY18, the management expects the margin to improve on better revenue momentum and operating efficiencies despite the impact of wage increase (50% impact seen in Q1; total impact of 180-190 bps spread over H1).

Vertical outlook

- **Aerospace & Defense (32% of revenue):** Growth is likely to be driven by Avionics segments (driven by the acquisition of Certon) and the after-market and MRO (Maintenance Repair and Overhaul) segment. DLM is likely to grow faster at +10% YoY in FY18 while the Services segment will be growing at slightly lower than 10% CAGR which has been seen in the past several years

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Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	31,009	36,066	38,696	43,857
Adj PAT (Rs mn)	3,345	3,702	4,213	4,998
Con. EPS* (Rs)	-	-	37	43
EPS (Rs)	30	33	38	45
Change YOY (%)	(5.1)	10.7	13.4	18.6
P/E (x)	17.2	15.6	13.7	11.6
RoE (%)	18.2	18.8	18.7	19.7
RoCE (%)	20.6	20.7	22.5	23.6
EV/E (x)	12.1	10.0	8.6	6.8
DPS (Rs)	7	11	12	13

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

	FY17	FY18E	FY19E
Rev (USD mn)	538	596	661
% YoY	14%	11%	11%
EBITDA (%)	13.4%	14.0%	14.5%

Price performance

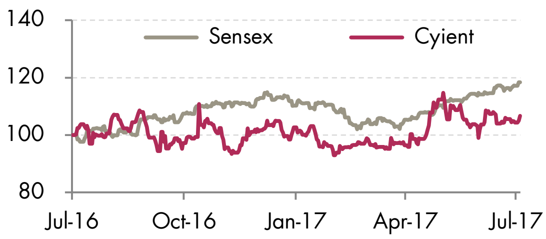

Exhibit 1: Results update

	Quarter ended					12 months ended		
(Rs mn)	Jun-17	Jun-16	% Chg	Mar-17	% Chg	FY18E	FY17	% Chg
Net Sales	9,070	8,349	8.6	9,410	(3.6)	38,696	36,066	7.3
EBIDTA	1,160	1,090	6.4	1,249	(7.1)	5,398	4,850	11.3
Other income	350	116	-	266	-	1,344	875	-
PBIDT	1,510	1,206	25.2	1,515	(0.3)	6,742	5,725	17.8
Depreciation	261	223	-	255	-	1,002	953	-
Interest	52	53	-	38	-	200	189	-
PBT	1,197	930	28.8	1,222	(2.0)	5,540	4,583	20.9
Tax	373	237	-	221	-	1,502	1,047	-
Minority Interest	52	47	-	47	-	175	166	-
Adjusted PAT	876	740	18.4	1,048	(16.4)	4,213	3,702	13.8
Extra ordinary income/ (exp.)	0	0	-	(261)	-	0	(261)	-
Reported PAT	876	740	18.4	787	11.3	4,213	3,441	22.4
No. of shares (mn)	112	112	-	112	-	112	112	-
EBIDTA margin (%)	12.8	13.1	-	13.3	-	14.0	13.4	-
PBIDT margin (%)	16.6	14.4	-	16.1	-	17.4	15.9	-
EPS - annualized (Rs.)	31.2	26.5	17.9	37.5	(16.8)	37.5	33.1	13.4

Source: Company, Axis Capital

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- **Communications (21% of revenue):** Increased demandand investments in high speed infrastructure, fiber deployment and small cell deployment across Australia, New Zealand and US will drive growth in FY18
- **Utilities and Geospatial (15% of revenue):**Investments in advance metering, smart grids, self-correcting networks is leading to growth momentum. Outlook is strong in existing business and new accounts as well
- **Transportation (10% of revenue):** The rail transportation segment is witnessing strong growth around signaling and rolling stock. And,the growth momentum is likely to continue in FY18
- **Semiconductor (4% of revenue)**: Growth during the quarter was driven by new engagements at existing clients. While Q2 is likely to see a de-growth, the management expects growth to be strong for the full year
- **DLM (8% of revenue)**: Outlook continues to be positive driven by Telecommunications, Defense and Transportation which will drive growth

Estimates and valuation

We expect USD revenue CAGR of 11% over FY17-19 and expect EBITDA margin to improve by 100 bps to 14.5% over FY17-19 leading to an EPS of Rs 38/Rs 45. Our TP of Rs 623 (14x FY19E EPS)implies an upside of 21% upside from CMP of Rs 516.Maintain BUY. The stock trades at 14x/ 12x FY18E/ FY19E EPS.

Financial summary (Consolidated)

Profit &loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	31,009	36,066	38,696	43,857
Other operating income	-	-	-	-
Total operating income	**31,009**	**36,066**	**38,696**	**43,857**
Cost of goods sold	(20,151)	(23,647)	(25,203)	(28,440)
Gross profit	10,858	12,419	13,493	15,417
Gross margin (%)	*35*	*34*	*35*	*35*
Total operating expenses	(6,668)	(7,569)	(8,095)	(9,055)
EBITDA	4,191	4,850	5,398	6,361
EBITDA margin (%)	*14*	*13*	*14*	*15*
Depreciation	(888)	(953)	(1,002)	(1,074)
EBIT	3,303	3,897	4,396	5,287
Net interest	(192)	(189)	(200)	(197)
Other income	1,065	875	1,344	1,443
Profit before tax	**4,176**	**4,583**	**5,540**	**6,533**
Total taxation	(1,011)	(1,047)	(1,502)	(1,699)
Tax rate (%)	*24*	*23*	*27*	*26*
Profit after tax	3,165	3,536	4,038	4,834
Minorities	54	43	57	40
Profit/ Loss associate co(s)	126	123	118	124
Adjusted net profit	3,345	3,702	4,213	4,998
Adj. PAT margin (%)	*11*	*10*	*11*	*11*
Net non-recurring items	(87)	(261)	-	-
Reported net profit	3,258	3,441	4,213	4,998

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	562	563	563	563
Reserves & surplus	17,743	20,610	23,241	26,427
Net worth	18,305	21,173	23,804	26,990
Borrowing	1,828	1,651	1,651	1,651
Other non-current liabilities	1,587	1,382	1,407	1,578
Total liabilities	**21,787**	**24,232**	**26,888**	**30,245**
Gross fixed assets	10,634	11,465	12,587	13,814
Less: Depreciation	(4,062)	(3,955)	(4,957)	(6,031)
Net fixed assets	6,572	7,510	7,631	7,783
Add: Capital WIP	100	265	265	265
Total fixed assets	6,672	7,775	7,896	8,048
Total Investment	991	1,237	1,337	1,437
Debtors	6,145	6,496	6,997	7,930
Cash & bank	9,126	11,441	13,306	16,209
Loans & advances	-	-	-	-
Current liabilities	5,521	7,132	7,182	8,089
Net current assets	12,394	13,581	16,016	19,121
Other non-current assets	1,730	1,639	1,639	1,639
Total assets	**21,787**	**24,232**	**26,888**	**30,245**
	-	-	-	-

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	4,176	4,583	5,540	6,533
Depreciation & Amortisation	888	953	1,002	1,074
Chg in working capital	*1,547*	*1,014*	*(545)*	*(31)*
Cash flow from operations	5,773	5,933	4,870	6,239
Capital expenditure	*2,943*	*(996)*	*(1,122)*	*(1,227)*
Cash flow from investing	2,628	(1,242)	(1,222)	(1,327)
Equity raised/ (repaid)	*-*	*1*	*-*	*-*
Debt raised/ (repaid)	*548*	*(177)*	*-*	*-*
Dividend paid	*(948)*	*(1,414)*	*(1,582)*	*(1,812)*
Cash flow from financing	(646)	(1,820)	(1,782)	(2,009)
Net chg in cash	7,754	2,870	1,865	2,903

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	30	33	38	45
CEPS (Rs)	37	39	46	54
DPS (Rs)	7	11	12	13
Dividend payout ratio (%)	24	34	31	30
GROWTH				
Net sales (%)	13	16	7	13
EBITDA (%)	4	16	11	18
Adj net profit (%)	(5)	11	14	19
FDEPS (%)	(5.1)	10.7	13.4	18.6
PERFORMANCE				
RoE (%)	18.2	18.8	18.7	19.7
RoCE (%)	20.6	20.7	22.5	23.6
EFFICIENCY				
Asset turnover (x)	2.5	3.2	3.3	3.6
Sales/ total assets (x)	1.2	1.2	1.2	1.2
Working capital/ sales (x)	0.1	0.1	0.1	0.1
Receivable days	72	66	66	66
Inventory days	13	11	11	11
Payable days	**42**	**47**	**44**	**44**
FINANCIAL STABILITY				
Total debt/ equity (x)	**0.1**	**0.1**	**0.1**	**0.1**
Net debt/ equity (x)	(0.4)	(0.5)	(0.5)	(0.6)
Current ratio (x)	3.2	2.9	3.2	3.4
Interest cover (x)	17.2	20.6	22.0	26.8
VALUATION				
PE (x)	17.2	15.6	13.7	11.6
EV/ EBITDA (x)	12.1	10.0	8.6	6.8
EV/ Net sales (x)	1.6	1.3	1.2	1.0
PB (x)	3.2	2.7	2.4	2.1
Dividend yield (%)	1.4	2.0	2.3	2.6

Source: Company, Axis Capital

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Research Team

Sr. No	Name	Designation	E-mail
1	Hiren Trivedi	Research Associate	hiren.trivedi@axissecurities.in
2	Kiran Gawle	Associate	kiran.gawle@axissecurities.in

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