

**Cyient is a market leader in Engineering Services in the Aerospace and Railways verticals, which constitute to 50% of its total revenue. Its strong relationships with clients, years of experience has helped Cyient sustain its leadership position in engineering services segment. Management guided for strong double digit growth in services and DLM segment backed by strong pipeline and order backlog. We maintain our BUY rating with TP of INR598 (15x FY19E EPS).**

#### Double digit growth in services revenue

Cyient reported consolidated revenue growth of 6.5% YoY and 7% QoQ to INR 9645 mn (US\$ 150.1 mn) in Q2FY18. Core services business continued with its strong performance and reported revenue growth of 4.2% QoQ and 9.2% YoY to highest ever revenue of \$134.3 mn. Growth in services business was driven by Communication, Transportation and Aerospace & Defence. DLM business reported operating profit vis-à-vis loss in last quarter.

#### Growth across business units & geographies

Growth was predominantly led by Transportation (31% YoY, 12% QoQ), Medical & Healthcare (26% YoY, 14% QoQ), Communications (16% YoY, 6.5% QoQ & DLM (17.4% YoY, 34% QoQ). Semiconductor, U&G businesses grew 10% and 4% YoY whereas declined on QoQ basis. Geography wise, growth was led by EMEA (24% YoY, 16% QoQ), followed by APAC (16% YoY, 7% QoQ) and US.

#### Operating margin expanded by 180bps QoQ

Company's gross margins improved by 50 bps QoQ to 35.4% due to higher offshoring, increased utilization and improved onshore margins. Despite wage hike impact, company's margins improved by ~180 bps QoQ to 14.6%. Services segment margin stood at ~16.2% but DLM business did not contribute to operating profit. Margins are expected to improve by 50 bps driven by 2-3% improvement in operational efficiency. DLM business operating margin turned positive in Q2FY18. Its synergies are expected to benefit in FY19.

#### Management commentary optimistic

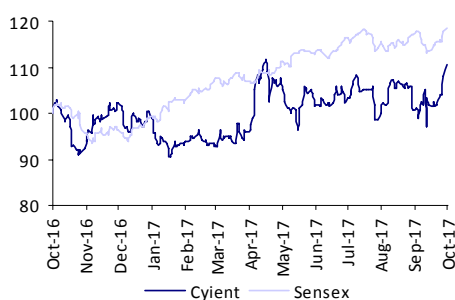
Management has guided for double digit growth in services segment backed by strong order pipeline and order backlog. DLM business is expected to grow at ~20%+. Cyient was approved as a potential supplier for two rail operators in Europe and Australia, in addition to two new client acquisitions for Transportation segment. UTC divested its equity stake in Cyient. Growth in US was lower partially due to rebalancing by UTC. DLM was approved as product supplier to UTC Aerospace systems. Company also plans to acquire B&F design Inc. for which UTC is largest customer. This initiatives would enable Cyient to provide wider service basket to UTC.

#### Outlook and Valuation

Cyient reported highest ever revenue supported by strong double digit growth in 5 of the 8 segments. PAT growth of 27% QoQ is driven robust operating margin expansion and other income. Effective tax rate for Q2 declined 300 bps QoQ to 28% on account of favourable business mix and increase in SEZ headcount. Company guided for 26-28% tax rate for FY18. CYL had guided for double-digit growth in the Services business, whereas DLM is expected to clock revenue growth of ~20%. Company plans to focus on infrastructure management services and development of new solutions with analytics, electronics and design led manufacturing to drive growth. We maintain our BUY rating with TP of INR598 (15x FY19E EPS).

Shareholding (%)	Sep.-17
Promoters	22.18
FIIIs	50.11
DIIIs	13.40
Others	14.31

#### Relative Price Performance



Key Data	
BSE Code	532175
NSE Code	CYIENT
Bloomberg Code	CYL IN
Reuters Code	CYIE.BO
Shares Outstanding (mn)	112.57
Face Value	5
Mcap (INR bn)	62.23
52 Week H/L	568.80/416.05
2W Avg. Qty.NSE	378383
Free Float (INR Bn)	48.42
Beta	0.61

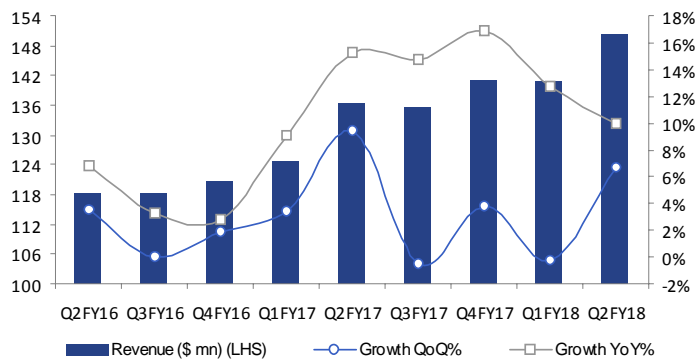
Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
Net Sales	31021	36072	38681	43525
Growth	13.4%	16.3%	7.2%	12.5%
EBIDTAM	13.8%	14.1%	14.3%	14.4%
Adj. PAT	3442	3699	3867	4714
Growth	-1.3%	7.5%	4.5%	21.9%
Adj. EPS (INR)	30.6	32.9	34.3	39.9
P/E (x)	18.5	16.7	16.0	13.8
EV/EBIDTA (x)	10.0	9.9	8.2	7.0
EV/Sales (x)	1.8	1.5	1.4	1.1
RoACE	22.5	20.7	22.1	21.9
RoAE	18.2	18.7	17.2	17.2

**Variance Analysis - Q4FY17**

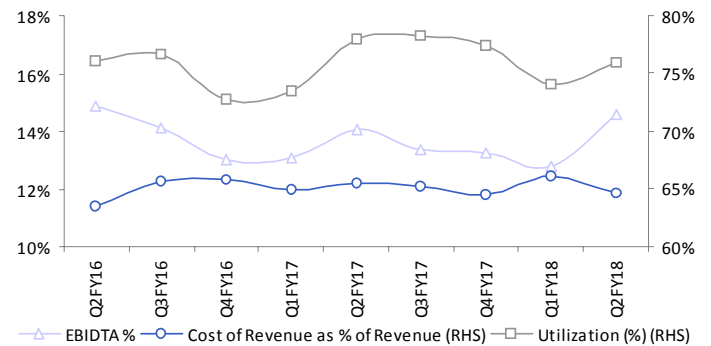
(in INR mn)	Q2FY18	Q2FY17	YoY	Q1FY18	QoQ	H1FY18	H1FY17	YoY
<b>Revenue</b>	<b>9654</b>	<b>9075</b>	<b>6.4%</b>	<b>9034</b>	<b>6.9%</b>	<b>18688</b>	<b>17381</b>	<b>7.5%</b>
Employee cost	5395	5235	3.1%	5183	4.1%	10578	10103	4.7%
RM Cost	817	644	26.9%	588	38.9%	1405	1129	24.4%
Other expenses	2044	1924	6.2%	2130	-4.0%	4174	3782	10.4%
<b>EBITDA</b>	<b>1398</b>	<b>1272</b>	<b>9.9%</b>	<b>1133</b>	<b>23.4%</b>	<b>2531</b>	<b>2367</b>	<b>6.9%</b>
EBITDA Margin	14.5%	14.0%	46 bps	12.5%	194 bps	13.5%	13.6%	86 bps
Depreciation	259	232	11.6%	261	-0.8%	520	455	14.3%
<b>EBIT</b>	<b>1139</b>	<b>1040</b>	<b>9.5%</b>	<b>872</b>	<b>30.6%</b>	<b>2011</b>	<b>1912</b>	<b>5.2%</b>
Interest	52	55	-5.5%	44	18.2%	96.00	104.00	-7.7%
Other income	412	198	108.1%	371	11.1%	783	304	157.6%
<b>PBT</b>	<b>1499</b>	<b>1183</b>	<b>26.7%</b>	<b>1199</b>	<b>25.0%</b>	<b>2698</b>	<b>2112</b>	<b>27.7%</b>
Exceptional items	0	0	NA	0	NA	0.00	0.00	NA
Tax	421	267	57.7%	373	12.9%	794	504	57.5%
Share of Profit	19	46	-58.7%	25	-24.0%	44	84	-47.6%
Minority interest	17	10	70.0%	27	-37.0%	44	20	120.0%
<b>PAT</b>	<b>1114</b>	<b>972</b>	<b>14.6%</b>	<b>878</b>	<b>26.9%</b>	<b>1992</b>	<b>1712</b>	<b>16.4%</b>
PAT Margin	11.5%	10.7%	83 bps	9.7%	182 bps	10.7%	9.8%	169 bps

Source: Company, SPA Research

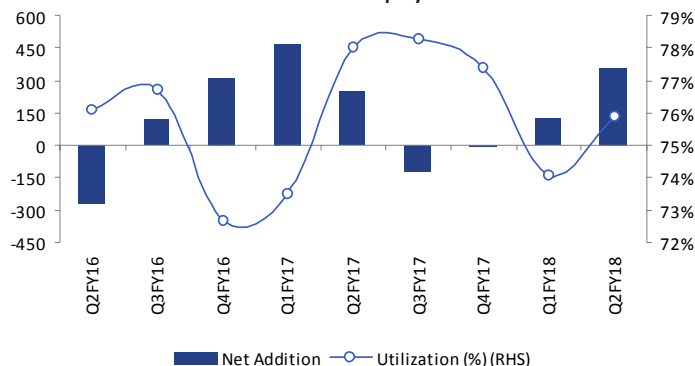
Revenue growth supported by growth across all major verticals



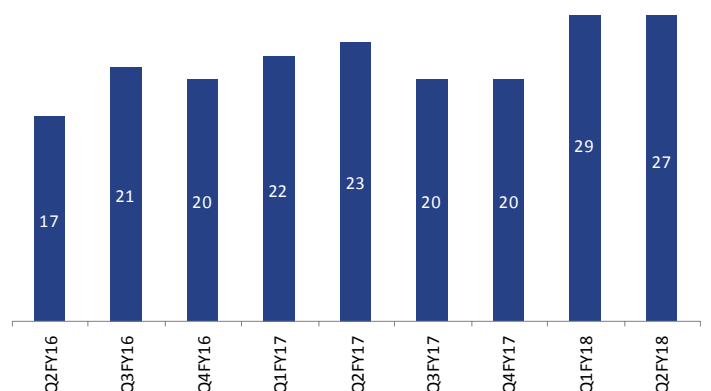
EBITDA margin declined QoQ and YoY



Utilization and net employee addition



Strong Client Addition



## Financials

### Income Statement

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
Net Sales	31021	36072	38681	43525
<i>Growth</i>	13.4%	16.3%	7.2%	12.5%
COGS	20099	23494	25287	28411
<i>Growth</i>	17.3%	16.9%	7.6%	12.4%
SG&A	6633	7500	7865	8826
<i>Growth</i>	6.7%	13.1%	4.9%	12.2%
Total Op Exp	26732	30993	33152	37237
EBIDTA (excl OI)	4289	5079	5529	6288
<i>Growth</i>	6.9%	18.4%	8.9%	13.7%
<i>EBITDA Margin</i>	13.8%	14.1%	14.3%	14.4%
Dep./Amortization	893	923	988	1024
EBIT	3396	4156	4541	5264
<i>EBIT Margin</i>	10.9%	11.5%	11.7%	12.1%
Interest Expense	199	191	191	195
Other Income	1065	905	890	1182
Exceptionals	0	0	0	0
EBT	4262	4870	5240	6251
Tax Expenses	986	1203	1537	1747
PAT	3255	3438	3703	4504
Minority Interest	54	43	39	49
Share of Profit	122	121	125	160
APAT	3431	3601	3867	4714
<i>Growth</i>	-1.7%	5.0%	7.4%	21.9%
<i>APAT Margin</i>	11.1%	10.0%	10.0%	10.8%

### Key Ratios

Y/E	FY16	FY17	FY18E	FY19E
<b>Per Share Data (INR)</b>				
Reported EPS	29.7	32.9	34.3	39.9
CEPS	37.7	41.0	43.1	48.6
DPS	7.0	8.0	9.0	10.0
BVPS	163.5	188.3	212.0	239.0
<b>Return Ratios (%)</b>				
RoACE	22.5	20.7	22.1	21.9
RoANW	18.2	18.7	17.2	17.2
RoIC	17.0	14.3	14.7	15.7
<b>Liquidity Ratios</b>				
Net Debt/Equity	0	0	0	0
Interest Coverage Ratio	23.1	23.9	28.5	34.4
Current Ratio	3.3	3.4	3.6	3.8
Quick Ratio	3.2	3.2	3.5	3.7
<b>Efficiency Ratios</b>				
Asset Turnover Ratio	0.7	0.6	0.7	0.7
Inventory Days	12	12	12	12
Debtor Days	72	72	72	72
Creditor Days	68	68	68	68
<b>Valuation Ratios</b>				
P/E (x)	18.5	16.7	16.0	13.8
P/BV (x)	3.4	2.9	2.6	2.3
P/CEPS (x)	14.6	13.4	12.8	11.3
Dividend Yield (%)	1.3	1.5	1.6	1.8
EV/Net Sales (x)	1.8	1.5	1.4	1.1
EV/EBIDTA (x)	10.0	9.9	8.2	7.0

### Balance Sheet

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
Share Capital	562	563	563	563
Reserves and Surplus	17743	20610	23310	26354
Total Networth	18305	21173	23873	26917
Minority Interest	67	26	-14	-63
Secured	1828	1651	1751	1801
Unsecured	0	0	0	0
Total Debt	1828	1651	1705	1801
Net Deferred Tax Liability	3	201	146	171
Other Liabilities	0	0	0	0
<b>Sources of Funds</b>	<b>20197</b>	<b>22649</b>	<b>25418</b>	<b>28485</b>
Net Block	6648	7608	7532	7703
CWIP	24	92	79	81
Investments	1586	1644	1751	1872
Current Assets	20470	21785	25014	29828
Current Liabilities	6183	6468	6855	7779
Net Current Assets	14287	15317	18159	22049
Deferred Tax Assets	0	0	0	0
Other Assets	0	0	0	0
<b>Application of Funds</b>	<b>20197</b>	<b>22649</b>	<b>25418</b>	<b>28485</b>

### Cash Flow

Y/E March (INR mn)	FY16	FY17	FY18E	FY19E
EBT	4394	4378	5240	5846
Add: Depreciation	893	923	988	1101
Add: Interest paid	199	191	191	195
Direct taxes paid	986	1203	1537	1686
Change in Working Capital	(1115)	(1442)	(904)	(963)
Others	(472)	163	164	209
<b>Cash Flow from operations (a)</b>	<b>2913</b>	<b>3011</b>	<b>4141</b>	<b>4701</b>
Change in Fixed Assets	(369)	(1883)	(912)	(438)
Change in CWIP	31	(68)	13	(2)
Change in Investments	(575)	(57)	(107)	(122)
<b>Cash Flow from Investing (b)</b>	<b>(912)</b>	<b>(2008)</b>	<b>(1005)</b>	<b>(562)</b>
Change in Equity	0	1	0	0
Debt Raised/(Repaid)	1239	(601)	249	203
Dividend paid	(1367)	(1060)	(1193)	(1325)
Interest paid	(199)	(191)	(191)	(195)
<b>Cash Flow from Financing (c)</b>	<b>(326)</b>	<b>(1852)</b>	<b>(1134)</b>	<b>(1317)</b>
<b>Net Change in Cash (a+b+c)</b>	<b>1675</b>	<b>(849)</b>	<b>2001</b>	<b>2822</b>
Opening Cash	6273	7948	7099	9100
Closing Cash	7948	7099	9100	11922

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