

Cyient

Sector: IT /Mid-Cap | Earnings Update – 2QFY18

BUY

13 October 2017

Background: Cyient is a mid cap IT Company with revenues of INR 36bn (FY17) specializing in engineering solutions, including product development and life cycle support, process, network & content engineering. In 2QFY18: Ex- DLM business, revenue share by geography: Americas (54.2%), Europe, Middle East, Africa & India (26.7%), and Asia Pacific (19.1%). Revenue share by business unit: Aerospace and Defense (34.7%), Transportation (11.2%), Semiconductor (4.1%), Medical & healthcare (2.2%), Utilities & Geospatial (15.9%), Communication (23.3%). Onsite/Offshore split: Onsite (58.8%), Offshore (41.26%). Revenue contribution: Top 5 clients (41.6%), Top 10 clients (55%), Top 6-10 clients (13.4%). Total employee: 13,568. Million dollar clients: 20mn+ (5), 10mn+ (9), 5mn+ (22) and 1mn+ (65). Design Led Manufacturing Business: Revenue by segment, Aerospace and defense (23.6%), Industrial (20.7%), Medical (9.3%), Communication (45.9%) and others (0.5%).

Sensex	32,182
Nifty	10,096
Price	INR 523
Target Price	INR 620
Recommendation	BUY
52 Week High/Low	INR 564/416
Bloomberg / Reuters	CYL.IN /CYI.BO
Equity (shares in mn)	112.6
Mkt. Cap in mn	INR 58.8/\$ 0.90
Avg. Daily Vol. ('000)	160.86
Avg. Daily Vol. (mn)	INR 84.1/\$1.29

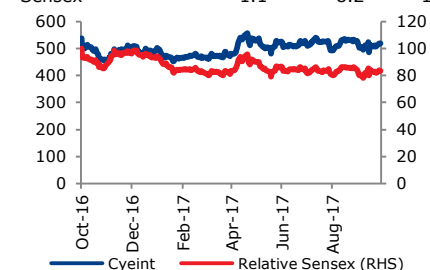
Shareholding	Jun 16	Mar 17	Jun 17
Promoters (%)	22.19	22.2	22.2
FII (%)	41.42	42.1	42.1
DII (%)	23.1	22.2	22.2
Others (%)	13.3	13.6	13.6
Pledge (%) of promoter holding)	0.0	0.0	0.0

Valuation Summary (INR bn)

Y/E March	2017	2018E	2019E
Revenue	36.1	40.5	45.6
EBITDA	4.8	5.5	6.2
Adj PAT	3.4	4.5	5.2
Adj EPS*	30.6	40.2	46.0
% growth	5.6	31.5	14.4
P/E	17.1	13.0	11.4
P/ BV	2.7	2.4	2.1
EV/EBITDA	10.7	9.5	8.4
EV/Sales	1.4	1.3	1.1
Div Yield (%)	1.1	2.2	2.6
ROE (%)	16.1	18.7	18.9

*Consolidated earnings

Performance %	1M	3M	12M
Cyient	-1.3	7.7	-3.6
Sensex	-1.1	8.2	15.2



Healthy growth continues

- In 2QFY18, Cyient reported a health revenues growth of 6.4% QoQ to INR 9,654mn. In dollar terms, revenues grew by 6.7% QoQ to USD 150.1mn (highest ever). Cyient's services business grew by 4.2% QoQ, while DLM business grew by 33.7% QoQ.
- EBITDA margin improved by 181 bps QoQ to 14.6% led higher utilization, and cross currency tailwinds (160 bps QoQ), however, margins were partly impacted by wage hike (70 bps QoQ) and higher SG&A. Effective tax rate stood at 28.1% (-302 bps QoQ). ETR was lower owing to higher income from lower tax region and tax benefit from SEZ. Management guided tax rate to be between 26% - 28% for FY18E. Net Income grew by 26.9% QoQ to INR 1,114mn led by higher other income.
- Growth was robust across geographies led by Asia Pacific (+15.9% QoQ), Europe, Middle East, Africa and India (+7.2% QoQ) and America (3.7% QoQ). Amongst business unit (Ex DLM business): Medical healthcare business grew robustly by 13.6% QoQ followed by Transportation business (+11% QoQ), Communication business (+6.5% QoQ), Industrial, Energy & Natural resources (+6.1% QoQ), Aerospace and Defense (+2.9% QoQ). U&G business growth was flat QoQ. The DLM business growth was driven by key segment such as Telecom, Industrial and Defense.
- Cyient declared interim dividend of INR 5/share (highest ever), and revised the dividend policy to dividend payout of up to 40% from current payout of up to 30%. Utilization improved by 180 bps QoQ to 75.9%. Attrition stood at 14.2%.
- Company signed a definitive agreement to acquire 100% equity share in B&F Design Inc. The acquisition will add tooling and designing capability of the company. During the quarter, Cyient also signed software licensing agreement with Elips, a startup software company from Portland, USA. Elips provides machine learning meter and voltage signature technology.
- Management has maintained its double digit growth guidance for FY18 with 50 bps EBITDA margin expansion on the back of strong pipeline and order backlog. DLM business is expected to grow ~20% in FY18. Higher off off-shoring and operational efficiency are key levers for margin expansion.

Valuation: At CMP, the stock trades at 13.0x/11.4x of FY18/19E EPS. We assign a target P/E of 13.5X FY19E EPS with a target price of INR 620. We rate the stock **BUY**. **Risks:** Unfavorable cross currency movement & further delay in deal closures.

Results Summary 2QFY18

Y/E March (INR mn)	2QFY18	2QFY17	YoY Growth	1QFY18	QoQ Growth
Revenue	9,654	9316	3.6%	9,070	6.4%
EBITDA	1,409	1283	9.8%	1,160	21.5%
Depreciation	259	232	11.6%	261	-0.8%
Other Income	406	184	120.7%	351	15.7%
PBT	1,499	1183	26.7%	1,199	25.0%
Tax	421	267	57.7%	373	12.9%
PAT	1,114	973	14.5%	878	26.9%
Adjusted PAT	1,114	973	14.5%	878	26.9%
EBITDA Margin (%)	14.6	13.8		12.8	
Tax Incidence (%)	28.1	22.6		31.1	
Adj PAT Margin (%)	11.5	10.4		9.7	

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