

CYIENT

Strong performance; outlook positive

India Equity Research | IT

Cyient's Q4FY18 revenue, at USD164.6mn (up 8.3% QoQ), beat Street's 7.5% growth estimate. EBITDA margin, at 14.1% (down 50bps QoQ), came below the 14.4% estimate. Key highlights: 1) services revenue grew by a 2.0% QoQ; 2) DLM revenue jumped 80.6% QoQ/32.6% YoY growth; and 3) management guided for double digit revenue growth in services business and ~20% growth in DLM segment with flat operating margins; however, we expect FY18-FY20 earnings CAGR to be 11.1% due to 200-300bps lower tax rate. Considering Cyient's superior growth on account of exposure to high-growth ER&D, we maintain our positive stance on the company. We estimate revenue/PAT to post CAGR of 13.0%/13.5% over FY18-20E. Maintain 'BUY' with revised TP of INR785 (INR 765 earlier).

Robust growth to continue

Services business clocked 2.0% QoQ growth in a seasonally weak quarter, on strong traction in communications (up 10.8% QoQ) and semiconductor (8.4%) verticals. DLM business reported 32.6% YoY revenue growth. Higher contribution by DLM business led to 50bps fall in EBITDA margin to 14.1%.

Strong FY19 outlook

Management gave positive commentary on demand environment with FY19 outlook strong for services business which is set to grow in double digits, while the legacy DLM business growth is pegged at 20%. Overall DLM growth is expected to be ~35% including B&F design, which the company acquired in Q4FY18. Margins are expected to remain stable - the anticipated 100bps margin improvement due to operational efficiency will be offset by investments. Tax rate will be lower by 200-300bps as incremental growth is coming from SEZ, and US Tax Reforms has cut US corporate tax rates from 35% to 21%. We raise our FY19E and FY20E EPS by 2.0% and 2.9%, respectively, to reflect the lower tax rate.

Outlook and valuations: Superior service offerings; maintain 'BUY'

We believe Cyient's superior service offerings, led by ER&D and IoT, will help it clock revenue CAGR of 13.0% over FY18-20E. Further, strong execution and lower tax rate will drive EPS CAGR of 13.5%. At CMP, the stock trades at 13.2x FY20E EPS. We maintain 'BUY/SP' with revised TP of INR785 (16x FY20E EPS).

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	High
Sector Relative to Market	Overweight

MARKET DATA (R: CYIE.BO, B: CYL IN)

CMP	: INR 647
Target Price	: INR 785
52-week range (INR)	: 699 / 474
Share in issue (mn)	: 112.6
M cap (INR bn/USD mn)	: 73 / 1,101
Avg. Daily Vol.BSE/NSE('000)	: 379.9

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	69.8	69.8	69.8
MF's, FI's & BK's	6.0	6.0	7.3
FII's	16.7	16.7	15.6
Others	7.4	7.4	7.2
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Technology Index
1 month	(5.1)	4.7	5.4
3 months	(21.2)	(3.0)	3.9
12 months	(11.2)	16.1	32.3

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April 19, 2018

Financials

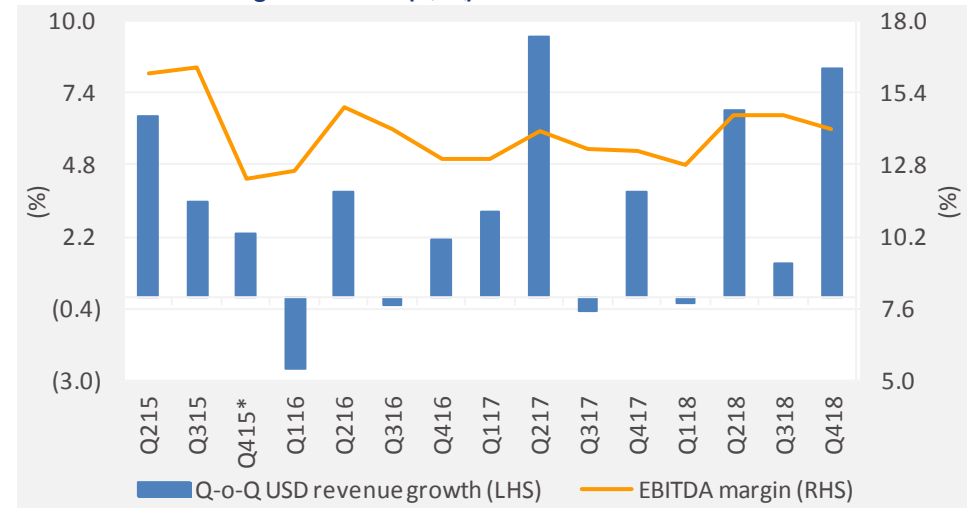
(INR mn)

Year to March	Q4FY18	Q3FY18	% Chg	Q4FY17	% Chg	FY18	FY19E	FY20E
Net revenues	10,618	9,834	8.0	9,410	12.8	39,176	44,668	50,028
EBITDA	1,492	1,431	4.3	1,247	19.6	5,492	6,304	7,233
Adjusted Profit	1,215	1,088	11.7	784	54.9	4,004	4,764	5,522
Diluted EPS (INR)	10.8	9.7	11.7	6.9	55.6	35.6	42.3	49.0
Diluted P/E (x)						17.0	15.3	13.2
EV/EBITDA (x)						11.6	9.8	8.4
EV/Revenues (x)						1.6	1.4	1.2

Key highlights

- Revenue grew 8.0% QoQ to INR10,618mn. In USD terms, revenue at USD164.6mn, rose 8.3% QoQ.
- EBITDA stood at INR1,492mn; EBITDA margin, at 14.1%, declined 50bps QoQ.

Chart 1: USD revenue growth trend (QoQ)



Source: Company, Edelweiss research

Note: Q415 includes DLM revenues

- **Adjusted net profit** came in at INR1,215mn versus INR1,088mn in Q3FY18.
- **Segmental performance:** While services revenue rose 2.0% QoQ, DLM revenue rose 80.5% QoQ and 18.1% YoY.
- **Utilisation** in service business declined 190bps QoQ to 78.6%.
- **Client addition:** During the quarter, 16 new clients were added in core business (12 in previous quarter).
- **Employee metrics:** Service business employee count rose by 296 QoQ, while DLM employee count rose by 11 QoQ.
- **DSO in service business** remained flat QoQ at 80, while DSO in DLM business declined to 92 days from 98 in Q3FY18.
- **Top-5 and -10 clients:** Top-5 and -10 clients grew by 5.0% and 5.1% QoQ, respectively, in service business.
- **Capex:** Stood at INR476mn (INR292mn in Q3FY18).
- **Hedge:** Cyient has outstanding hedges worth USD61.0mn, EUR25.9mn, GBP8.7mn and AUD20.4mn.
- **Cash and cash equivalents in hand:** Stood at INR10.9bn, i.e., ~INR97/share, as at Mar end.

Financials snapshot

(INR mn)

Year to March	Q4FY18	Q3FY18	Growth %	Q4FY17	Growth %	FY18	FY19E	FY20E
Total revenues	10,618	9,834	8.0	9,410	12.8	39,176	44,668	50,028
Employee cost	6,919	6,329	9.3	6,179	12.0	25,388	29,073	32,289
Sales and Marketing	646	599	7.8	623	3.7	2,456	2,680	3,002
General and Administration	1,561	1,475	5.8	1,361	14.7	5,840	6,611	7,504
Total expenditure	9,126	8,403	8.6	8,163	11.8	33,684	38,364	42,795
EBITDA	1,492	1,431	4.3	1,247	19.6	5,492	6,304	7,233
Depreciation & ammortization	257	274	(6.2)	255	0.8	1,052	1,169	1,224
EBIT	1,235	1,157	6.7	992	24.5	4,440	5,135	6,009
Interest expense	67	56	19.6	38	76.3	232	232	232
Other income	409	273	49.8	265	54.3	1,440	1,215	1,273
Add: Prior period								
Add: Exceptional items	32	254		0		0	0	0
PBT	1,545	1,628	(5.1)	1,219	3	5,648	6,118	7,050
Provision for taxation	336	251	33.9	221	52.0	1,381	1,377	1,551
Share of IASI profit	0	(44)	(100.0)	34	(100.0)	0	0	0
Reported profit	1,181	1,340	(11.9)	998	18.3	4,290	4,764	5,522
Adjusted profit	1,215	1,088	11.7	784	54.9	4,004	4,764	5,522
Diluted EPS (INR)	10.8	9.7	11.7	6.9	55.6	35.6	42.3	49.0
as % of net revenues								
Employee cost	65.2	64.4		65.7		64.8	65.1	64.5
Sales and Marketing	6.1	6.1		6.6		6.3	6.0	6.0
General and Administration	14.7	15.0		14.5		14.9	14.8	15.0
EBITDA	14.1	14.6		13.3		14.0	14.1	14.5
EBIT	11.6	11.8		10.5		11.3	11.5	12.0
Reported net profit	11.4	11.1		8.3		10.2	10.7	11.0
Tax rate	21.7	15.4		18.1		24.5	22.5	22.0

Company Description

Cyient is a 14,125 plus employee software services company with competencies in: (a) UT&DA services (catering to utility, transportation, and government segments); (b) engineering design services (for engineering, manufacturing, and industrial products verticals); and (c) software services (to clients in data and technology services, engineering design, and IT services). The company's past twelve month revenues stood at INR39.2bn (USD607.3mn).

Investment Theme

Outsourcing of engineering services is expected to reach USD38-50bn by FY20E compared with USD2bn now, as per a Nasscom-Booz Allen Hamilton study. As one of the leading offshore engineering services firms for the manufacturing industry, Cyient is poised to grab the increasing opportunities. The company has strong domain knowledge and complete solution capability in the GIS segment along with healthy pipeline of deals. The company's skills in the areas of mapping and designing across diverse segments and in a variety of end-user IT environments give it an edge.

Key Risks

- Significant appreciation of INR against USD, EUR and GBP.
- Inadequate availability of skilled manpower.
- Sustained slowdown in engineering services spending

Financial Statements

Key assumptions		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Macro -					
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6	
Inflation (Avg)	4.5	3.8	4.5	5.0	
Repo rate (exit rate)	6.3	6.0	6.0	6.5	
USD/INR (Avg)	67.1	64.5	66.0	66.0	
Company					
USD revenue growth					
UT&C (%)	12.8	10.3	13.4	12.0	
ENGG (%)	14.7	11.3	13.4	12.0	
Employee nos					
Total employees	13,084	14,125	15,325	16,125	
Net additions	586	1,041	1,200	800	
Cost assumptions					
Cost per employee (INR '000)	1,849.0	1,866.1	1,974.4	2,053.4	
Cost per employee YoY growth	17.0	0.9	5.8	4.0	
S&M expenses (% of rev)	6.6	6.3	6.0	6.0	
G&A expenses (% of rev)	14.4	14.9	14.8	15.0	
Financial Assumption	2.1	2.1	2.1	2.1	
Depreciation (% of gross block)	6.9	7.0	6.9	7.0	
Yield on cash & cash equival. (%)	7.0	7.5	8.7	8.6	
Tax rate as % of PBT	22.9	24.5	22.5	22.0	
Capex (INR mn)	1,038	1,200	1,300	1,200	
Receivable (days)	64	63	62	62	
Payable (days)	55	58	55	54	
Cash conversion cycle (days)	9	5	7	9	

Income statement		(INR mn)			
Income statement	FY17	FY18E	FY19E	FY20E	
Revenues	36,066	39,176	44,668	50,028	
Cost of revenues	23,650	25,388	29,073	32,289	
Gross profit	12,416	13,788	15,595	17,739	
Total SG&A expenses	7,569	8,296	9,291	10,506	
EBITDA	4,847	5,492	6,304	7,233	
Depreciation & amortization	953	1,052	1,169	1,224	
EBIT	3,894	4,440	5,135	6,009	
Less: Interest Expense	188	232	232	232	
Add: Other income	874	1,440	1,215	1,273	
Profit Before Tax	4,580	5,648	6,118	7,050	
Less: Provision for Tax	1,047	1,381	1,377	1,551	
Less: Minority Interest	(43)	(23)	(23)	(23)	
Add: Exceptional items (net of tax)	261	286	0	0	
Reported Profit	3,699	4,290	4,764	5,522	
Adjusted Profit	3,699	4,290	4,764	5,522	
No. of Shares outstanding	112	113	113	113	
Adjusted Basic EPS	32.9	38.1	42.3	49.0	
No. of Diluted shares outstanding	113	113	113	113	
Adjusted Diluted EPS	32.8	38.1	42.3	49.0	
Adjusted Cash EPS	41.4	47.4	52.7	59.9	
Dividend per share (DPS)	10.0	13.0	16.0	17.0	
Dividend Payout Ratio (%)	35.3	39.6	37.8	34.7	

Common size metrics- as % of net revenues

Year to March	FY17	FY18E	FY19E	FY20E
Cost of revenues	65.6	64.8	65.1	64.5
Gross margin	34.4	35.2	34.9	35.5
SG&A expenses	21.0	21.2	20.8	21.0
EBITDA margin	13.4	14.0	14.1	14.5
EBIT margin	10.8	11.3	11.5	12.0
Net profit margins	10.1	10.9	10.6	11.0

Growth metrics (%)

Year to March	FY17	FY18E	FY19E	FY20E
Revenues	16.5	8.6	14.0	12.0
EBITDA	14.5	13.3	14.8	14.7
PBT	8.9	23.3	8.3	15.2
Adjusted profit	10.1	16.0	11.1	15.9
EPS	10.1	16.2	11.1	15.9

Balance sheet					Cash flow metrics				
(INR mn)									
As on 31st March	FY17	FY18E	FY19E	FY20E	Year to March	FY17	FY18E	FY19E	FY20E
Share capital	563	563	563	563	Operating cash flow	4,945	2,435	3,697	3,585
Reserves & Surplus	20,610	22,991	25,954	29,562	Financing cash flow	(657)	(844)	(2,099)	(2,186)
Shareholders' funds	21,173	23,554	26,517	30,125	Investing cash flow	(1,803)	(41)	(333)	(224)
Total borrowing	1,883	1,695	1,525	1,373	Net cash flow	2,485	1,550	1,265	1,175
Deferred tax liability (net)	201	201	201	201	Capex	(1,038)	(1,200)	(1,300)	(1,200)
Sources of funds	23,283	25,476	28,269	31,725	Dividend paid	(1,492)	(424)	(1,698)	(1,801)
Gross Block	14,385	15,585	16,885	18,085					
Net Block	3,017	3,165	3,296	3,272	Profitability & liquidity ratios				
Capital work in progress	265	265	265	265	Year to March	FY17	FY18E	FY19E	FY20E
Intangible assets	4,493	4,493	4,493	4,493	Return on Average Equity (ROE) (%)	18.1	19.1	18.9	19.4
Total Fixed assets	7,775	7,923	8,054	8,030	Pre-tax Return on Capital Employed (I	21.6	24.3	23.8	24.4
Non current investments	1,032	1,238	1,486	1,783	Debtors days	64	63	62	62
Cash and cash equivalents	9,706	11,120	12,385	13,559	Payable days	55	58	55	54
Sundry debtors	6,496	7,084	8,077	9,046	Cash Conversion Cycle	9	5	7	9
Loans & advances	3,013	3,442	4,130	4,956	Current Ratio	2.8	2.8	2.8	3.1
Other assets	3,241	3,888	4,277	4,704					
Total current assets (ex cash)	12,750	14,414	16,484	18,706	Operating ratios				
Trade payable	4,021	4,031	4,753	4,753	Year to March	FY17	FY18E	FY19E	FY20E
Other Current Liab. & ST Provisions	3,959	5,189	5,386	5,601	Total asset turnover	1.6	1.6	1.7	1.7
Total current liabilities & provisions	7,980	9,219	10,139	10,354	Fixed asset turnover	5.1	5.2	5.8	6.4
Net current assets (ex cash)	4,770	5,195	6,345	8,352	Equity turnover	1.8	1.7	1.8	1.8
Uses of funds	23,283	25,476	28,269	31,725					
Book Value per share	188	209	236	268	Valuation parameters				
Check	(0.0)	(0.0)	(0.0)	(0.0)	Year to March	FY17	FY18E	FY19E	FY20E
					Adjusted Diluted EPS (INR)	32.8	38.1	42.3	49.0
Free cash flow					Y-o-Y growth (%)	10.1	16.2	11.1	15.9
Year to March	FY17	FY18E	FY19E	FY20E	Adjusted Cash EPS (INR)	41.4	47.4	52.7	59.9
Reported Profit	3,699	4,290	4,764	5,522	Dil. Price to Earnings Ratio (P/E) (x)	19.7	17.0	15.3	13.2
Add: Depreciation	953	1,052	1,169	1,224	Price to Book Ratio (P/B) (x)	3.4	3.1	2.7	2.4
Interest (Net of Tax)	145	175	180	181	Enterprise Value / Sales (x)	1.8	1.6	1.4	1.2
Others	(664)	(2,657)	(1,266)	(1,335)	Enterprise Value / EBITDA (x)	13.4	11.6	9.8	8.4
Less: Changes in WC	(813)	425	1,150	2,007	Dividend Yield (%)	1.5	2.0	2.5	2.6
Operating cash flow	4,945	2,435	3,697	3,585					
Less: Capex	1,038	1,200	1,300	1,200					
Free cash flow	3,907	1,235	2,397	2,385					

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Cyient	1,101	15.3	13.2	9.8	8.4	18.9	19.4
ECLERX SERVICES	744	16.0	13.2	9.3	7.0	21.1	21.9
HCL Technologies	21,105	15.0	13.3	10.7	9.2	24.4	23.5
Hexaware Technologies	1,878	22.0	18.6	15.6	13.4	26.4	26.9
Infosys	37,397	15.9	14.4	10.9	9.5	24.4	26.4
L&T Infotech Ltd	3,625	18.9	15.9	14.6	11.6	31.8	32.2
L&T Technology Services Ltd	1,797	20.3	16.4	15.4	12.2	30.5	31.8
Persistent Systems	823	13.6	11.7	7.6	6.2	18.0	18.2
Tata Consultancy Services	91,962	21.5	19.2	15.3	13.6	30.6	30.4
Tech Mahindra	9,786	15.5	13.5	10.4	8.7	18.6	19.1
Wipro	20,132	15.9	14.6	12.3	11.2	18.5	18.4
Median	-	15.9	14.4	10.9	9.5	24.4	23.5
AVERAGE	-	17.3	14.9	12.0	10.1	23.9	24.4

Source: Edelweiss research

Additional Data

Directors Data

B. Sucharitha	Non -Executive Director	B.V.R. Mohan Reddy	Executive Chairman
M.M. Murugappan	Independent Director	G.V. Prasad	Independent Director
K. Ramachandran	Independent Director	Vikas Sehgal	Independent Director
Alain De Taeye	Non-Executive Director	Krishna Bodanapu	Managing Director & CEO
SHANKAR NARAYANAN	Non-Executive Director	THOMAS W. PRETE	Non-Executive Director
HARSH MANGLIK	Independent Director	SOM MITTAL	Independent Director

Auditors - Deloitte Haskins and Sells, Chartered Accountants

**as per last annual report*

Holding - Top10

	Perc. Holding		Perc. Holding
Vineyard Point software	10.00	Amansa Holdings	6.43
Birla Sun Life Asset Management	5.41	Reliance Capital	5.20
Commonwealth Bank of Australia	5.02	Infocad Enterprises Ltd	5.00
Deutsche Sec Mauritius	4.85	ICICI Prudential Life Insurance	4.42
Templeton Asset Management	4.14	T Rowe Price	3.87

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
13 Oct 2017	Reliance Mutual Fund A/C Reliance Growth Fund	Buy	1167000	520.00
13 Oct 2017	Reliance Mutual Fund A/C Reliance Small Cap Fund	Buy	1167000	520.00
13 Oct 2017	Lavender Investments Ltd	Sell	2423578	520.08
07 Jun 2017	Franklin Templeton Mutual Fund A/C Franklin India Prima Fund	Buy	759820	496.00
07 Jun 2017	Carrier International Mauritius Ltd	Sell	1600000	496.08
07 Jun 2017	Franklin India Smaller Companies Fund	Buy	759820	496.00

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Cyient	BUY	SP	H	ECLERX SERVICES	HOLD	SP	M
HCL Technologies	BUY	SP	H	Hexaware Technologies	HOLD	SP	M
Info Edge	BUY	SP	M	Infosys	BUY	SO	L
Just Dial	HOLD	SU	M	L&T Infotech Ltd	BUY	SO	M
L&T Technology Services Ltd	BUY	SO	M	Persistent Systems	BUY	SP	L
Tata Consultancy Services	HOLD	SP	L	Tech Mahindra	BUY	SP	M
Wipro	HOLD	SP	L				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Aditya Narain

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Coverage group(s) of stocks by primary analyst(s): IT

Cyient, ECLERX SERVICES, HCL Technologies, Hexaware Technologies, Infosys, Info Edge, Just Dial, L&T Infotech Ltd, L&T Technology Services Ltd, Persistent Systems, Tata Consultancy Services, Tech Mahindra, Wipro

Recent Research

Date	Company	Title	Price (INR)	Recos
13-Apr-18	Infosys	Sacrificing margin for digital future; <i>Result Update</i>	1171	Buy
12-Apr-18	IT	Most bullish in a decade; <i>Sector Update</i>		
04-Apr-18	IT	Steady performance with improving outlook; <i>Q4FY18 Result Preview</i>		

Distribution of Ratings / Market Cap

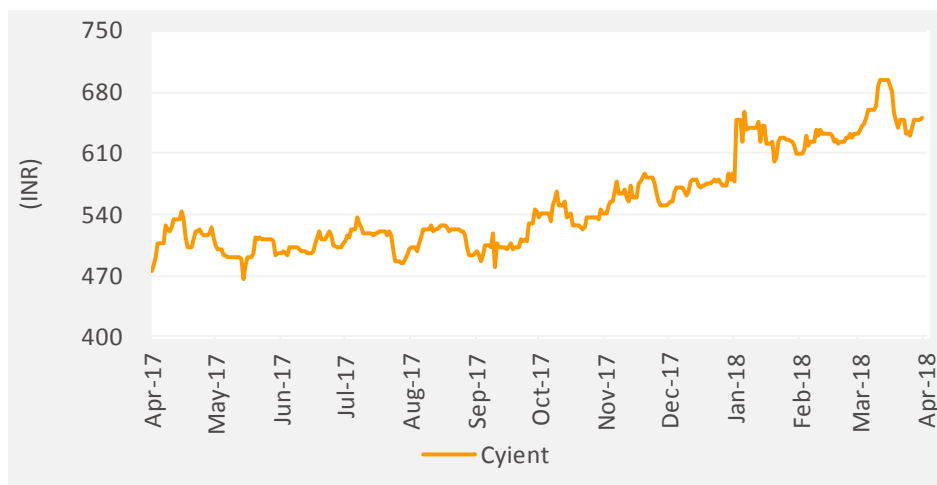
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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