

July 13, 2018

## Q1FY19 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	BUY		BUY	
Target Price	860		880	
Sales (Rs. m)	46,010	52,016	45,684	51,727
% Chng.			0.7	0.6
EBITDA (Rs. m)	6,367	7,352	6,345	7,435
% Chng.			0.3	-1.1
EPS (Rs.)	40.7	48.0	41.9	48.6
% Chng.			-3.0	-1.3

### Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. m)	36,022	39,176	46,010	52,016
EBITDA (Rs. m)	4,825	5,493	6,367	7,352
Margin (%)	13.4	14.0	13.8	14.1
PAT (Rs. m)	3,442	4,090	4,581	5,408
EPS (Rs.)	30.6	36.3	40.7	48.0
Gr. (%)	4.7	18.8	12.0	18.1
DPS (Rs.)	10.4	13.1	14.2	16.8
Yield (%)	1.4	1.8	1.9	2.3
RoE (%)	17.4	18.3	18.5	19.6
RoCE (%)*	18.0	18.3	19.3	20.6
EV/Sales (x)	2.1	1.9	1.6	1.4
EV/EBITDA (x)	15.6	13.7	11.7	9.7
PE (x)	24.3	20.4	18.2	15.4
P/BV (x)	3.9	3.6	3.2	2.9

\* Pre-Tax

### Key Data

CYIE.BO | CYL IN

52-W High / Low	Rs.887 / Rs.474
Sensex / Nifty	36,548 / 11,023
Market Cap	Rs.84bn/ \$ 1,222m
Shares Outstanding	113m
3M Avg. Daily Value	Rs.683.02m

### Shareholding Pattern (%)

Promoter's	22.18
Foreign	40.42
Domestic Institution	27.44
Public & Others	10.96
Promoter Pledge (Rs bn)	

### Stock Performance (%)

	1M	6M	12M
Absolute	(2.4)	28.5	41.4
Relative	(4.6)	21.6	23.1

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## Steep margin disappointment weighs on PAT

Cyient delivered a weak set of performance for 1QFY19 with a tepid margin performance. Lower EBIDTA margins, lower other income (vs our estimates) and higher tax rate (vs our estimates) led to PAT miss our estimation by 25% for the quarter. Revenues came at USD160.8mn were down 2.3% QoQ and in line with our estimates (Pl: USD161mn). Services business revenues at USD143mn were up 0.1% QoQ in USD (1.1% QoQ growth in constant currency). ANSEM acquisition contributed to USD1.6mn for the quarter. Hence, organic revenues of services business declined by 1% QoQ in USD and were flat in constant currency. Softness in Utilities vertical (down 12.5% QoQ and 5.5% YoY) as well as Communication vertical (down 3.5% QoQ) weighed on Services business performance for the quarter. Design Led Manufacturing (DLM) business revenues for the quarter came at USD18mn (compared to USD22mn in 4QFY18) owing to seasonality. EBIDTA margin came at 12.2% down 190bps QoQ and 60bps YoY and below our estimates (Pl:13.5%). Services business EBIDTA margin came at 13.2% for the quarter down 220bps QoQ. DLM business EBIDTA margins stood at 4.6% for 1QFY19 down. Management indicated that tepid revenues led to lower utilization rates and weighed on margins for the quarter. We believe that project centric nature of business (especially in Communication and Utilities vertical) could lead to quarterly volatility in margins (especially in a scenario of lower onsite utilization). Management expects margins to bounce back from 2Q onwards. PAT for the quarter came at Rs825mn below our estimates (Pl: Rs1094mn). Cash flow from operation for the quarter (pre-tax) also remained weak at Rs846mn (vs Rs 1151mn in 1QFY18) owing to higher working capital cycle.

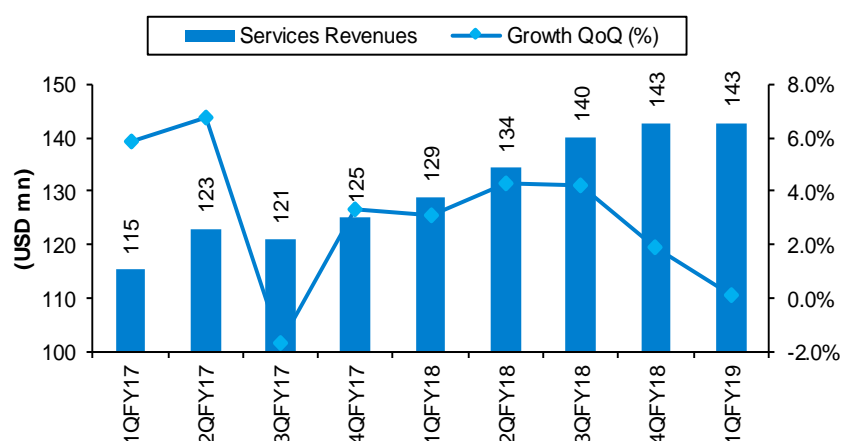
Cyient retained its revenue growth guidance for FY19 at double digit growth in Services business and 35% growth in DLM business. Cyient retained that EBIDTA margin will be flat YoY for FY19. Cyient would need to deliver 3.5% CQGR over the next three quarters to deliver 10% USD revenue growth in the Services business. Cyient would also need swing in its margins from 2Q onwards to deliver full year EBIDTA margin of 14% for FY19.

Led by softer 1Q, we modestly downgrade Cyient's USD revenues growth rate to 12.6%/13.5% for FY19E/FY20E (vs.13.6%/13.6% for FY19E/FY20E modelled earlier). We have built Services business (90% of revenues) to grow at 10% YoY. We have built Design led Manufacturing business (10% of total revenues) to grow at 33% YoY. We reset our USD/INR assumptions to 67/67 for FY19/FY20E (vs 66/66 earlier). We marginally trim EBITDA margin to 13.8%/14.1% for FY19E/FY20E (vs. 14.0%/14.3% modelled earlier). Currency reset to lower levels negates headwind from softer USD revenue assumptions. We trim FY19 EPS estimates by 3% led by 1Q PAT miss. Our EPS are revised lower by 3/1.5% to Rs40.7/48/sh for FY19E/FY20E (vs. Rs 42/48.5 for FY19E/FY20E modelled earlier). We downgrade our TP by 2% to Rs 860/share (18x FY20E EPS) led by modest EPS downgrade. Retain Buy. We have recently initiated coverage on Cyient. Attaching the link of the note [\(Click on the Link for Detailed Report\)](#).

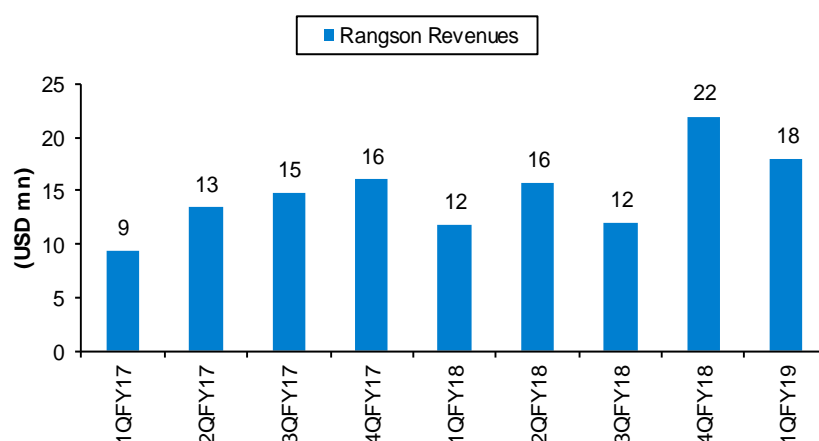
**Exhibit 1: Consolidated P&L**

Rs mn	Q1FY19	Q4FY18	QoQ	Q1FY18	YoY	PL Estimates	Variance (Actual vs Ple)
Revenues (USD mn)	161	164.6	-2.3%	141	14.4%	161	-0.1%
Revenues	10,800	10,618	1.7%	9,070	19.1%	10868	-0.6%
EBITDA	1,316	1,492	-11.8%	1,160	13.4%	1,467	-10.3%
EBITDA Margins	12.2%	14.1%	-187 bps	12.8%	-60.4	13.5%	-132 bps
Pre -Tax Income	1031	1235	-16.5%	899	14.7%	1195	-13.8%
Tax	304	336	-9.5%	373	-18.5%	303	0.5%
Tax- Rate	27.2%	21.3%	585 bps	30.4%	-326	22.0%	
PAT	825	1,212	-31.9%	887	-6.9%	1,073	-23.1%
EPS (Rs)	7.3	10.8	-31.9%	7.9	-6.9%	9.7	-24.6%

Source: Company, PL

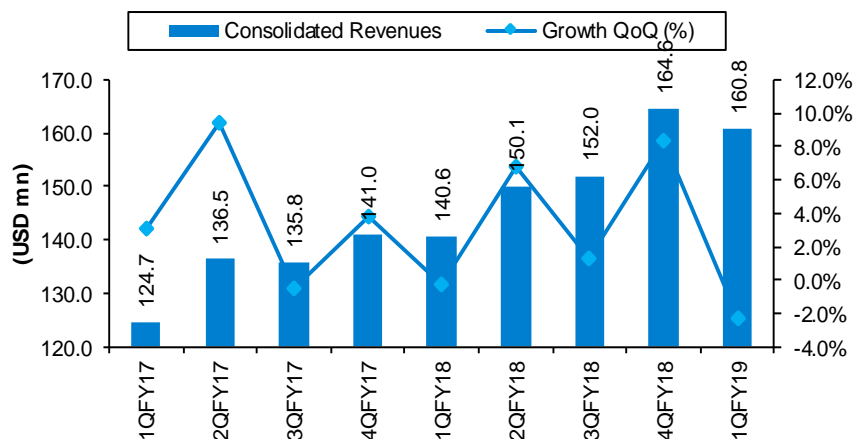
**Exhibit 2: Revenues from Services business (USD mn) and growth QoQ (%)**


Source: Company, PL

**Exhibit 3: Revenues from DLM business (USD mn)**


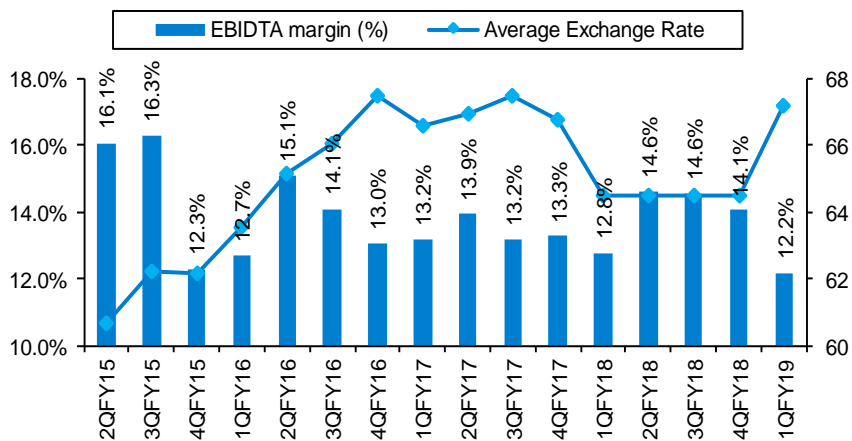
Source: Company, PL

**Exhibit 4: Consolidated Revenues (USD mn) and Growth QoQ (%)**



Source: Company, PL

**Exhibit 5: EBITDA Margin Vs Average Exchange Rate**



Source: Company, PL

## Key Metrics

### Exhibit 6: Revenue by Geography and Growth (QoQ & YoY)

USD in Mn	1QFY19	4QFY18	QoQ (%)	1QFY18	YoY(%)
America	84	81	4.7%	74	13.9%
Europe, ME, Africa & India	40	47	-15.1%	34	17.2%
APAC	37	37	-1.0%	33	12.9%
<b>Total</b>	<b>161</b>	<b>165</b>	<b>-2.2%</b>	<b>141</b>	<b>14.5%</b>

Source: Company, PL

### Exhibit 7: Revenue by Vertical and Growth (QoQ & YoY)

USD in Mn	1QFY19	4QFY18	QoQ (%)	1QFY18	YoY(%)
Aerospace and Defence	59.8	60.1	-0.4%	47.2	26.6%
Transportation	17.2	16.6	3.5%	13.6	26.1%
I&ENR	15.1	16.3	-7.2%	14.3	5.4%
Semiconductor	7.7	5.6	37.9%	5.8	33.9%
Medical & Healthcare	4.5	5.4	-17.1%	4.1	10.4%
Utilities and Geospatial	20.3	23.2	-12.7%	21.4	-5.2%
Communications	36.0	37.4	-3.6%	34.2	5.4%
<b>Total</b>	<b>160.6</b>	<b>164.6</b>	<b>-2.4%</b>	<b>140.6</b>	<b>14.2%</b>

Source: Company, PL

## Key Financials

### Exhibit 8: Key Financials

	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Services Business (USD mn)	324	347	363	434	433	484	546	602	685.4
Growth (%)	24.1%	7.1%	4.8%	19.6%	-0.4%	11.9%	12.7%	10.1%	13.9%
DLM (USD mn)				9.2	39.0	53.8	61.6	82	91.0
Growth (%)					323.9%	37.9%	14.6%	33%	11%
<b>Total Revenues (USD mn)</b>	<b>324</b>	<b>347</b>	<b>363</b>	<b>444</b>	<b>472</b>	<b>538</b>	<b>608</b>	<b>690</b>	<b>784</b>
Growth (%)	24.1%	6.7%	5.2%	23.0%	5.6%	14.0%	12.9%	12.6%	13.5%
Average Exchange Rate ( USD vs INR)	47.9	54.3	60.7	61.2	65.6	66.9	64.5	67.3	67.0
Revenues (INR mn)	15531	18730	22063	27359	30956	36022	39176	46010	52016
Growth (%)	30.7%	20.6%	17.8%	24.0%	13.1%	16.4%	8.8%	17.4%	13.1%
EBIDTA	2705	3417	4100	4012	4252	4825	5493	6367	7352
EBIT	2211	2781	3380	3299	3359	3873	4442	5249	6182
PAT	1614	2310	2660	3535	3281	3442	4090	4581	5408
EPS	14.54	20.81	23.70	31.37	29.15	30.62	36.38	40.75	47.69
EPS growth (%)	15.6%	43.1%	13.9%	32.4%	-7.1%	5.1%	18.8%	12.0%	17.0%
EBIDTA margin (%)	17.4%	18.2%	18.6%	14.7%	13.7%	13.4%	14.0%	13.8%	14.1%
EBIT margin (%)	14.2%	14.8%	15.3%	12.1%	10.9%	10.8%	11.3%	11.4%	11.9%
ROE (%)	14.8%	18.6%	18.3%	20.2%	17.2%	17.4%	18.3%	18.5%	19.6%
ROCE (%) (Post Tax )	14.8%	18.7%	18.4%	19.8%	16.6%	16.7%	17.5%	17.4%	18.5%
ROIC (%)	24.3%	27.1%	29.4%	22.6%	18.9%	24.5%	25.3%	27.0%	29.8%
Dividend Payout Ratio (%)	20.2%	25.4%	24.6%	29.7%	28.9%	40.9%	43.3%	42.1%	42.1%
P/E	51.6	36.0	31.6	23.9	25.7	24.5	20.6	18.4	15.7
EV/EBIDTA	29.1	22.8	18.7	19.7	18.4	16.1	13.8	11.6	9.7
<b>Consolidated Balance Sheet (Rs mn)</b>									
Total Network	11574	13221	15885	19117	18372	21199	23442	26092	29221
Net Cash on Balance sheet	4748	5591	7257	5282	4736	6088	7296	8527	9196
Net Cash per share	43	50	65	47	42	54	65	76	81
Net Cash per share as a % of Mcap	5.7%	6.7%	8.6%	6.3%	5.6%	7.2%	8.7%	10.1%	10.8%
<b>Consolidated cash flow (Rs mn)</b>									
Cash Flow from Operations	1257	1606	2272	3617	2785	4199	2963	3360	5522
Capex	804	924	766	818	1287	1080	1474	1200	1000
Acquisitions		0	0	4519	0	811	332	0	0
Free Cash Flow	453	682	1507	(1,720)	1497	2308	1157	2160	4522
FCF/EBIDTA (%)	16.8%	20.0%	36.7%	-42.9%	35.2%	47.8%	21.1%	33.9%	61.5%

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
<b>Net Revenues</b>	<b>36,022</b>	<b>39,176</b>	<b>46,010</b>	<b>52,016</b>
YoY gr. (%)	16.4	8.8	17.4	13.1
Employee Cost	20,388	21,432	25,945	29,318
Gross Profit	15,634	17,744	20,064	22,697
Margin (%)	43.4	45.3	43.6	43.6
SG&A Expenses	10,809	12,251	13,698	15,346
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>4,825</b>	<b>5,493</b>	<b>6,367</b>	<b>7,352</b>
YoY gr. (%)	13.5	13.8	15.9	15.5
Margin (%)	13.4	14.0	13.8	14.1
Depreciation and Amortization	953	1,051	1,118	1,170
<b>EBIT</b>	<b>3,873</b>	<b>4,442</b>	<b>5,249</b>	<b>6,182</b>
Margin (%)	10.8	11.3	11.4	11.9
Net Interest	177	224	202	200
Other Income	887	1,458	860	903
<b>Profit Before Tax</b>	<b>4,582</b>	<b>5,676</b>	<b>5,907</b>	<b>6,885</b>
Margin (%)	12.7	14.5	12.8	13.2
Total Tax	1,044	1,381	1,405	1,584
Effective tax rate (%)	22.8	24.3	23.8	23.0
<b>Profit after tax</b>	<b>3,538</b>	<b>4,295</b>	<b>4,502</b>	<b>5,302</b>
Minority interest	(42)	(38)	-	-
Share Profit from Associate	123	11	79	106
<b>Adjusted PAT</b>	<b>3,442</b>	<b>4,090</b>	<b>4,581</b>	<b>5,408</b>
YoY gr. (%)	4.9	18.8	12.0	18.1
Margin (%)	9.6	10.4	10.0	10.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,442</b>	<b>4,090</b>	<b>4,581</b>	<b>5,408</b>
YoY gr. (%)	4.9	18.8	12.0	18.1
Margin (%)	9.6	10.4	10.0	10.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,442	4,090	4,581	5,408
<b>Equity Shares O/s (m)</b>	<b>113</b>	<b>113</b>	<b>113</b>	<b>113</b>
<b>EPS (Rs)</b>	<b>30.6</b>	<b>36.3</b>	<b>40.7</b>	<b>48.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>11,107</b>	<b>12,217</b>	<b>13,417</b>	<b>14,417</b>
Tangibles	6,972	7,616	8,576	9,376
Intangibles	4,135	4,601	4,841	5,041
<b>Acc: Dep / Amortization</b>	<b>6,875</b>	<b>7,791</b>	<b>8,910</b>	<b>10,081</b>
Tangibles	3,955	4,396	4,964	5,558
Intangibles	2,920	3,395	3,946	4,523
<b>Net fixed assets</b>	<b>4,232</b>	<b>4,426</b>	<b>4,507</b>	<b>4,336</b>
Tangibles	3,017	3,220	3,612	3,818
Intangibles	1,215	1,206	895	518
Capital Work In Progress	265	515	515	515
Goodwill	3,278	3,549	3,549	3,549
Non-Current Investments	1,237	568	788	1,008
Net Deferred tax assets	(201)	(35)	(35)	(35)
Other Non-Current Assets	1,538	1,491	1,491	1,491
<b>Current Assets</b>				
Investments	925	1,130	1,230	1,330
Inventories	935	1,312	1,312	1,312
Trade receivables	6,496	6,913	8,193	9,263
Cash & Bank Balance	8,781	9,807	10,376	13,023
Other Current Assets	916	910	930	950
<b>Total Assets</b>	<b>31,364</b>	<b>34,326</b>	<b>36,596</b>	<b>40,482</b>
<b>Equity</b>				
Equity Share Capital	563	563	563	563
Other Equity	20,610	22,876	25,526	28,655
<b>Total Networkth</b>	<b>21,173</b>	<b>23,439</b>	<b>26,089</b>	<b>29,218</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	492	630	630	630
Provisions	813	878	978	1,078
Other non current liabilities	35	26	26	26
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,159	1,780	1,780	1,780
Trade payables	4,021	3,813	3,223	3,750
Other current liabilities	3,111	3,028	3,158	3,288
<b>Total Equity &amp; Liabilities</b>	<b>31,364</b>	<b>34,326</b>	<b>36,596</b>	<b>40,482</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	4,441	5,411	5,986	6,991
Add. Depreciation	953	1,052	1,118	1,170
Add. Interest	172	204	202	200
Less Financial Other Income	887	1,458	860	903
Add. Other	(737)	(392)	(860)	(903)
Op. profit before WC changes	4,829	6,275	6,446	7,458
Net Changes-WC	366	(1,659)	(1,681)	(352)
Direct tax	(996)	(1,653)	(1,405)	(1,584)
<b>Net cash from Op. activities</b>	<b>4,199</b>	<b>2,963</b>	<b>3,360</b>	<b>5,522</b>
Capex+ Acquisition	(1,849)	(1,801)	(1,200)	(1,000)
Interest / Dividend Income	375	440	860	903
Others	(329)	492	(300)	(300)
<b>Net Cash from Inv. activities</b>	<b>(1,803)</b>	<b>(869)</b>	<b>(640)</b>	<b>(397)</b>
Issue of share cap. / premium	15	9	-	-
Debt changes	(41)	97	-	-
Dividend paid	(746)	(1,894)	(1,930)	(2,279)
Interest paid	(174)	(192)	(202)	(200)
Others	12	621	(20)	-
<b>Net cash from Fin. activities</b>	<b>(934)</b>	<b>(1,359)</b>	<b>(2,152)</b>	<b>(2,479)</b>
<b>Net change in cash</b>	<b>1,462</b>	<b>735</b>	<b>568</b>	<b>2,647</b>
Free Cash Flow	2,308	1,157	2,160	4,522

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY17	FY18	FY19E	FY20E
<b>Per Share(Rs)</b>				
EPS	30.6	36.3	40.7	48.0
CEPS	39.0	45.7	50.6	58.4
BVPS	188.0	208.2	231.7	259.5
FCF	20.5	10.3	19.2	40.2
DPS	10	13	14	17
<b>Return Ratio(%)</b>				
RoCE	18.0	18.3	19.3	20.6
ROIC	22.8	22.5	23.7	27.6
RoE	17.4	18.3	18.5	19.6
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.4)	(0.4)
Debtor (Days)	66	64	65	65
<b>Valuation(x)</b>				
PER	24.3	20.4	18.2	15.4
P/B	3.9	3.6	3.2	2.9
P/CEPS	40.7	47.6	52.7	60.9
EV/EBITDA	15.6	13.7	11.7	9.7
EV/Sales	2.1	1.9	1.6	1.4
Dividend Yield (%)	1.4	1.8	1.9	2.3

Source: Company Data, PL Research\* ROCE presented is pre tax

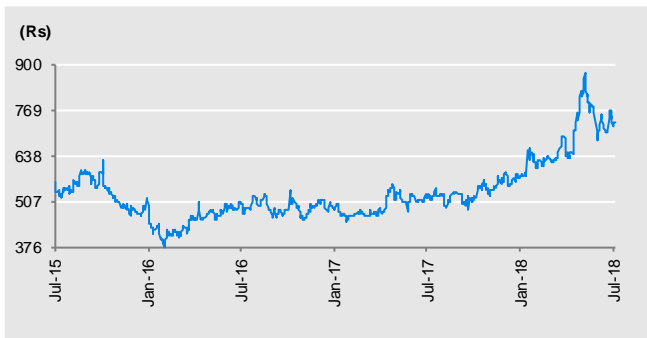
**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY18	Q3FY18	Q4FY18	Q1FY19
<b>Net Revenue</b>	<b>9,654</b>	<b>9,834</b>	<b>10,618</b>	<b>10,800</b>
YoY gr. (%)	5.7	7.2	12.8	19.1
Employees Expenses	5,408	5,731	5,868	6,242
Gross Profit	4,246	4,103	4,750	4,558
Margin (%)	44.0	41.7	44.7	42.2
SG&A Expenses	2,836	2,672	3,258	3,242
<b>EBITDA</b>	<b>1,410</b>	<b>1,431</b>	<b>1,492</b>	<b>1,316</b>
YoY gr. (%)	21.6	1.5	4.3	(11.8)
Margin (%)	14.6	14.6	14.1	12.2
Depreciation / Depletion	259	274	257	285
<b>EBIT</b>	<b>1,151</b>	<b>1,157</b>	<b>1,235</b>	<b>1,031</b>
Margin (%)	11.9	11.8	11.6	9.5
Net Interest	57	56	67	82
Other Income	406	273	408	170
<b>Profit before Tax</b>	<b>1,500</b>	<b>1,120</b>	<b>1,576</b>	<b>1,119</b>
Margin (%)	15.5	11.4	14.8	10.4
Total Tax	421	251	336	304
Effective tax rate (%)	28.1	22.4	21.3	27.2
<b>Profit after Tax</b>	<b>1,079</b>	<b>869</b>	<b>1,240</b>	<b>815</b>
Minority interest	(17)	(7)	-	-
Share Profit from Associates	19	-	(28)	10
<b>Adjusted PAT</b>	<b>1,115</b>	<b>876</b>	<b>1,212</b>	<b>825</b>
YoY gr. (%)	14.5	(7.0)	53.9	(6.9)
Margin (%)	11.5	8.9	11.4	7.6
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,115</b>	<b>876</b>	<b>1,212</b>	<b>825</b>
YoY gr. (%)	14.5	(7.0)	53.9	(6.9)
Margin (%)	11.5	8.9	11.4	7.6
Avg. Shares O/s (m)	113	113	113	113
<b>EPS (Rs)</b>	<b>9.9</b>	<b>7.8</b>	<b>10.8</b>	<b>7.3</b>

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	28-Jun-18	BUY	880	753
2	10-Jul-18	BUY	880	749

**PL's Recommendation Nomenclature (Absolute Performance)**

- Buy** : > 15%
- Accumulate** : 5% to 15%
- Hold** : +5% to -5%
- Reduce** : -5% to -15%
- Sell** : < -15%
- Not Rated (NR)** : No specific call on the stock
- Under Review (UR)** : Rating likely to change shortly



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