

April 26, 2019

Q4FY19 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	621		621	
Sales (Rs. m)	50,309	55,110	50,126	56,280
% Chng.	0.4	(2.1)		
EBITDA (Rs. m)	7,057	8,008	7,204	8,374
% Chng.	(2.0)	(4.4)		
EPS (Rs.)	45.9	47.7	41.6	47.7
% Chng.	10.3	(0.1)		

Key Financials

	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	39,176	46,174	50,309	55,110
EBITDA (Rs. m)	5,493	6,442	7,057	8,008
Margin (%)	14.0	14.0	14.0	14.5
PAT (Rs. m)	4,090	4,893	5,165	5,370
EPS (Rs.)	36.3	43.5	45.9	47.7
Gr. (%)	18.8	19.6	5.6	4.0
DPS (Rs.)	13.1	15.2	16.1	16.7
Yield (%)	2.2	2.6	2.7	2.9
RoE (%)	18.3	19.7	18.6	17.4
RoCE (%)	18.3	19.5	19.7	20.1
EV/Sales (x)	1.5	1.2	1.1	0.9
EV/EBITDA (x)	10.4	8.8	7.6	6.3
PE (x)	16.1	13.5	12.8	12.3
P/BV (x)	2.8	2.5	2.3	2.0

Key Data

CYIE.BO | CYL IN

52-W High / Low	Rs.887 / Rs.570
Sensex / Nifty	38,731 / 11,642
Market Cap	Rs.65bn/ \$ 925m
Shares Outstanding	111m
3M Avg. Daily Value	Rs.400.13m

Shareholding Pattern (%)

Promoter's	22.10
Foreign	43.13
Domestic Institution	23.85
Public & Others	10.92
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(11.9)	(5.2)	(20.5)
Relative	(14.0)	(17.6)	(29.2)

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Guidance disappoints

Cyient delivered mixed bag results, with weak revenue & margin beat. Services business (accounts for 89% of total revenues) increased 1.4% QoQ in constant currency. EBITDA margin expanded 34 bps QoQ at 15.1% (PLe:14.6%, Consensus:14.8%) in Q4FY19 led by operational efficiencies, incremental bill days & lower SG&A expenses. Services margins are stable at 16.4% but DLM business still operates a low 4.1% margins. Cyient delivered 14% EBITDA margin in FY19, flat YoY. Cyient's margin trajectory has remained weak and is likely to remain at the lower end among mid-sized IT peers. Cyient expects services business to grow in high single digit (cc terms) and 15% YoY growth in DLM. We expect Cyient to deliver 8.1% USD revenue growth for FY20E (7.3% growth in Services business and 14% growth in DLM business). Cyient has missed either revenue guidance or margin guidance over past 4-5 years. We remain watchful on margin trajectory & expect margins to remain flat in FY20E-21E. We value Cyient at 13x FY21E EPS & arrive at an unchanged target price of Rs.621. Maintain Accumulate. Expect near term pressure on stock due to lower guidance.

- Weak revenue growth:** Cyient delivered weak revenue growth of 0.1% QoQ in USD terms at US\$ 165mn. Services business (accounts for 89% of total revenues) increased 1.4% QoQ in constant currency. Growth was impacted in both segment as (1) order delay in DLM segment (USD 5 mn) and (2) deferment in project by key clients in Aerospace & Defense (Boeing deferring spends owing to issues with its 737 model) and Communications (large client deferred its project) verticals. This led to flat performance in Q4.
- Remain cautious on margin trajectory:** EBITDA margin expanded 34 bps QoQ at 15.1% (PLe:14.6%, Consensus:14.8%) in Q4FY19 led by operational efficiencies, incremental bill days & lower SG&A expenses. Services margins are stable at 16.4% but DLM business still operates a low 4.1% margins. Involuntary attrition increased to 4.6% in Q4FY19 from 2.3% in Q3FY19. FY20 will have headwinds of business investments (new business accelerator) and wage increase (~200 bps impact). We remain cautious on margin trajectory & expect flat margins of ~14% in FY20E & FY21E.
- Disappointing revenue guidance:** Cyient expects services business to grow in high single digit (cc terms) and 15% YoY growth in DLM. We expect Cyient to deliver 8.1% USD revenue growth for FY20E (7.3% growth in Services business and 14% growth in DLM business). Cyient has missed either revenue guidance or margin guidance over past 4-5 years.
- Aerospace likely to grow in single digit:** Aerospace grew 0.4% QoQ owing to weakness in DLM & workload in Singapore business. Communication segment declined by 3.3% QoQ & growth came from transportation segment (11.5% QoQ). Management expects growth momentum to pick in key verticals of Communications (expected to grow faster than company growth) and Aerospace likely to grow in high single digit from Q2FY20E.

Exhibit 1: Q4FY19: Quick View on Results

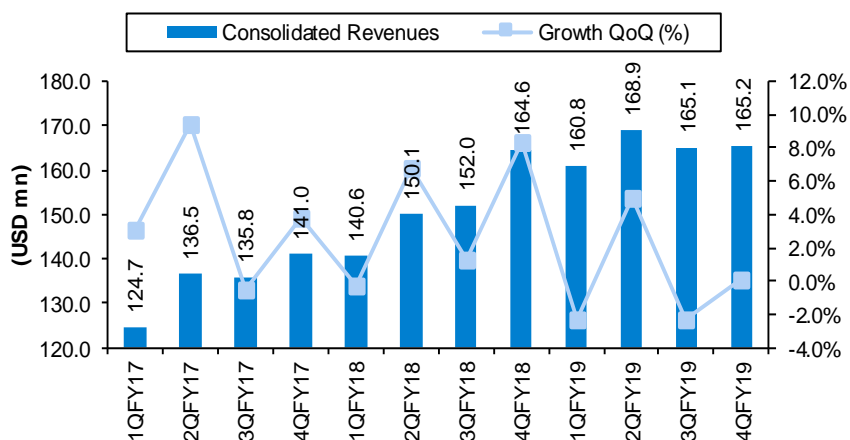
Rs mn	Q4FY19	Q3FY19	QoQ (%)	Q4FY18	YoY (%)	PL Estimates	Variance (Actual vs Pl)
Revenues (USD mn)	165	165.1	0.1%	165	0.4%	163	1.6%
Revenues (INR mn)	11,629	11,876	-2.1%	10,618	9.5%	11,386	2.1%
EBITDA	1,751	1,749	0.1%	1,492	17.4%	1,662	5.3%
<i>EBITDA Margins</i>	<i>15.1%</i>	<i>14.7%</i>	<i>33 bps</i>	<i>14.1%</i>	<i>101 bps</i>	<i>14.6%</i>	<i>46 bps</i>
Pre -Tax Income	1490	1470	1.4%	1235	20.6%	1401	6.4%
Adjusted PAT	1,881	923	103.8%	1,212	55.2%	1,091	72.4%
EPS	15.7	8.2	91.7%	10.8	46.0%	9.7	62.1%

Source: Company, PL

Services business were up 1.4% in cc terms and DLM business down 11.9% QoQ and 10% YoY in cc terms. Management guided for high single digit growth in constant currency for Services business and in DLM business expects to grow by ~ 15% in constant currency.

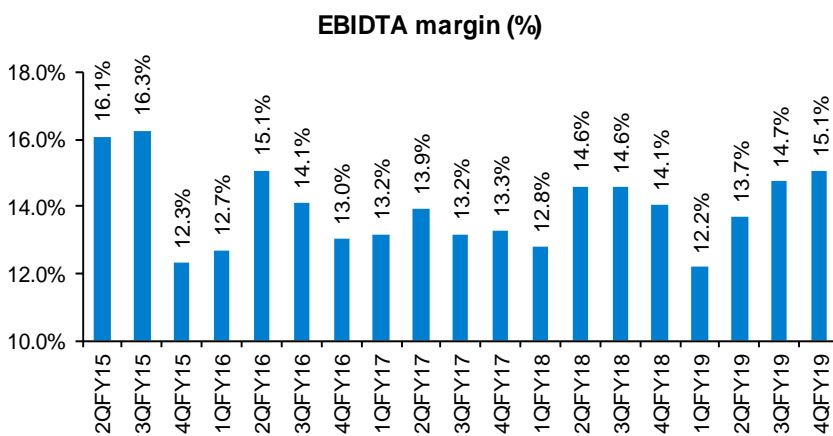
Management cited that operating margin was strongest in the last 20 quarters led by tailwind from operational efficiencies, incremental bill days and lower SG&A expenses with some headwind from foreign exchange.

Exhibit 2: High Volatility on Revenue performance continues



Source: Company, PL

Exhibit 3: Strong Margin Execution



Source: Company, PL

Key Takeaways from Concall:

- DLM Business remain tepid on account of deferment of revenues from client specific issue notified earlier of USD5mn.
- Management cited that operating margin was strongest in the last 20 quarters led by tailwind from operational efficiencies, incremental bill days and lower SG&A expenses with some headwind from foreign exchange.
- Management cited no change in Hedge Policy.
- Tax Rate for FY19 was 23% on account of benefit from effective strategy adopted in special economic zones and will continue to focus on effective tax saving strategy in FY20.
- Management also cited that excluding impact from large client specific issue in Aerospace and Communication vertical would grow by 15-20% and 20-25% respectively but believes that going forward this client will also drive growth.
- On weak performance in Aerospace and Communication vertical, management cited that demand continues to remain strong but supply could not be met because of attrition and operational inefficiencies.
- Management is focusing on New business accelerators with 16 projects under development out of total 19 projects mainly related to IoT, Smart city and augmented reality solutions
- Other income for the quarter was higher with claims on export of services and one offs and Foreign exchange benefits.

Guidance for FY20:

- Guided for High single digit growth in constant currency for Services business.
- DLM business expected to grow by ~ 15% YoY in constant currency.
- EBIT: Double digit growth in Earnings Before Interest and Tax
- ETR likely to be in the range of 22.5% - 23.5%
- Other income is expected to be marginally higher than current year based on a strong forex forward position (at current spot rate) and recurring export incentives
- Management guided that Q1 will continue to be soft quarter with deferment in revenues from client specific issue which is expected to recover from Q2FY19 onwards.
- Management guided for margins to be flat going forward with strong exit in Q4FY20.
- Management cited that with change in some accounting policies, will now focus on EBIT margin and will give EBIT guidance now onwards.

Investment Strategy:

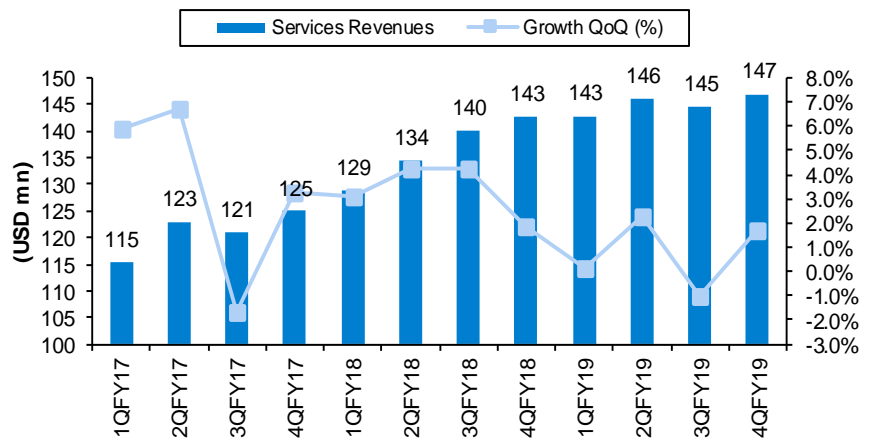
- Management cited that it will continue to focus on Broad inorganic strategy of focusing on new geography led expansion, new services and consolidation opportunities.
- Guided for higher investment in FY20 with focus on creating different solutions.

Vertical:

- Aerospace & Defense:** Management cited strong demand pipeline for commercial aircraft and defense spend going up though there was slowdown during the quarter with client specific issue but expects to recover Q2FY20 onwards.
- Communication vertical:** Huge opportunity with focus on 5G which will led to key players making significant investments.
- In service business:** Guided for High single digit growth in Aerospace vertical, Higher then single digit growth in communication vertical (was lower in FY19) and lower then single digit growth in transportation vertical as management cited that opportunities are limited in this vertical.
- In Utility & Geospatial vertical,** management expects to deliver double digit growth. Specifically, utility is doing well with new opportunity and deal pipeline however facing some challenges in Geospatial.
- Semiconductor vertical** showing signs of weakness as there is drop in growth of industry but management cited that industry is large and value proposition of company doing well.

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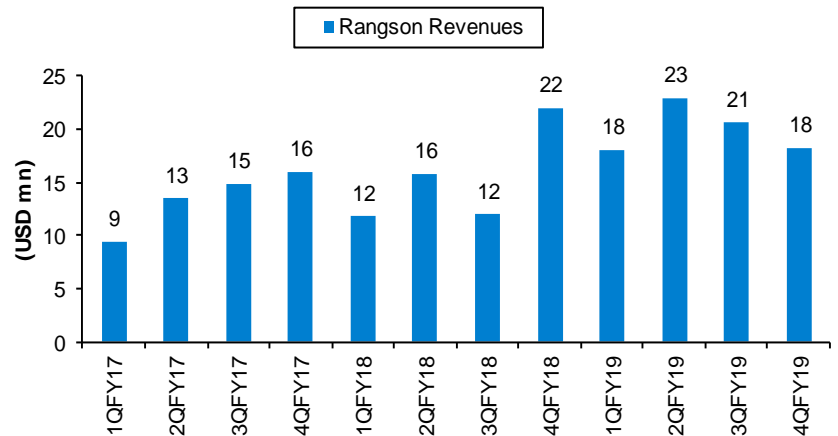
Exhibit 4: Small recovery in revenue from Service business



Source: Company, PL

DLM Business remain tepid on account of deferment of revenues from client specific issue notified earlier of USD5mn.

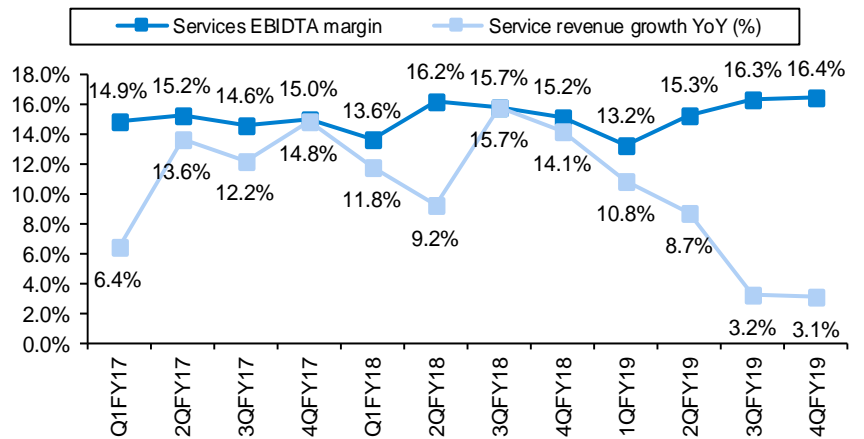
Exhibit 5: Revenue from DLM business remain under pressure



Source: Company, PL

Strong margin expansion observed in Services in last four consecutive quarters.

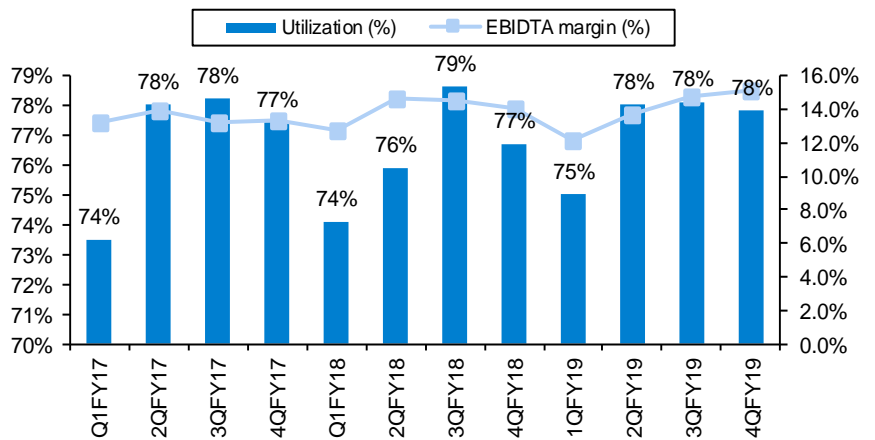
Exhibit 6: Margin trajectory of services improving with decline in growth



Source: Company, PL

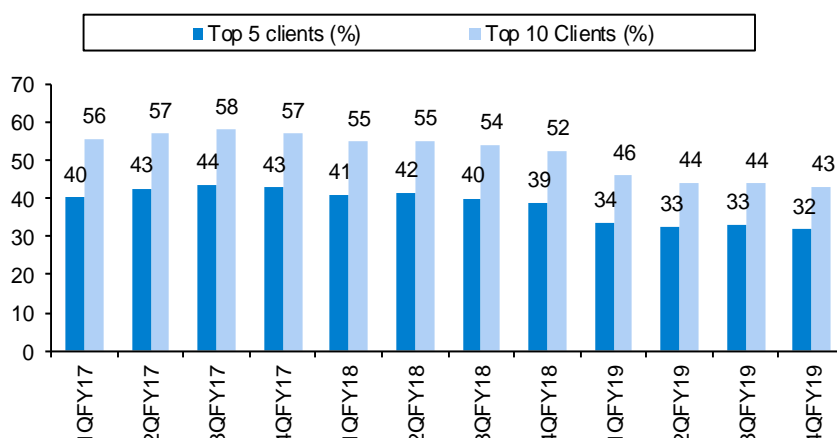
Utilization level led by improved operational efficiency

Exhibit 7: Maintained Utilization level



Source: Company, PL

Revenue from Top clients remain tepid during the quarter led to decrease in revenue concentration from top clients

Exhibit 8: Revenues concentration from Top clients declining


Source: Company, PL

Revenue from North America remain tepid (down 8.3% QoQ) which was offset by Europe and APAC during the quarter

Exhibit 9: Geography-wise revenues

USD in Mn	Q4FY19	Q3FY19	QoQ (%)	Q4FY18	YoY (%)
America	82	89	-8.3%	81	10.7%
Europe, ME, Africa & India	37	36	2.3%	47	-21.7%
APAC	46	39	16.9%	37	5.2%
Total	165	165	0.1%	165	0.3%
as a % of total					
America	49.6	54.1	-450 bps	49.0	60 bps
Europe, ME, Africa & India	22.6	22.1	50 bps	28.3	-570 bps
APAC	27.8	23.8	400 bps	22.7	510 bps

Source: Company, PL

Exhibit 10: Vertical-wise revenues

USD in Mn	Q4FY19	Q3FY19	QoQ (%)	Q4FY18	YoY (%)	QoQ (%)	YoY (%)
<i>in cc terms</i>							
Aerospace and Defense	60.1	63.7	-5.6%	60.1	6.1%	0%	5%
Transportation	19.3	17.3	11.5%	16.6	4.3%	4%	15%
I&ENR	15.1	15.5	-2.1%	16.3	-4.8%	1%	9%
Semiconductor	8.2	6.8	22.0%	5.6	21.0%	23%	48%
Medical & Healthcare	5.4	5.8	-5.7%	5.4	6.4%	4%	10%
Utilities and Geospatial	22.3	21.8	2.3%	23.2	-6.1%	3%	1%
Communications	33.0	34.2	-3.3%	37.4	-8.5%	-4%	-3%
Total	163.7	165.1	-0.8%	164.6	-0.5%	0%	3%
as a % of total							
Aerospace and Defense	36.4	38.6	-220 bps	36.5	-10 bps		
Transportation	11.7	10.5	120 bps	10.1	160 bps		
I&ENR	9.2	9.4	-20 bps	9.9	-70 bps		
Semiconductor	5.0	4.1	90 bps	3.4	160 bps		
Medical & Healthcare	3.3	3.5	-20 bps	3.3	0 bps		
Utilities and Geospatial	13.5	13.2	30 bps	14.1	-60 bps		
Communications	20.0	20.7	-70 bps	22.7	-270 bps		

Source: Company, PL

Exhibit 11: Client Metrics

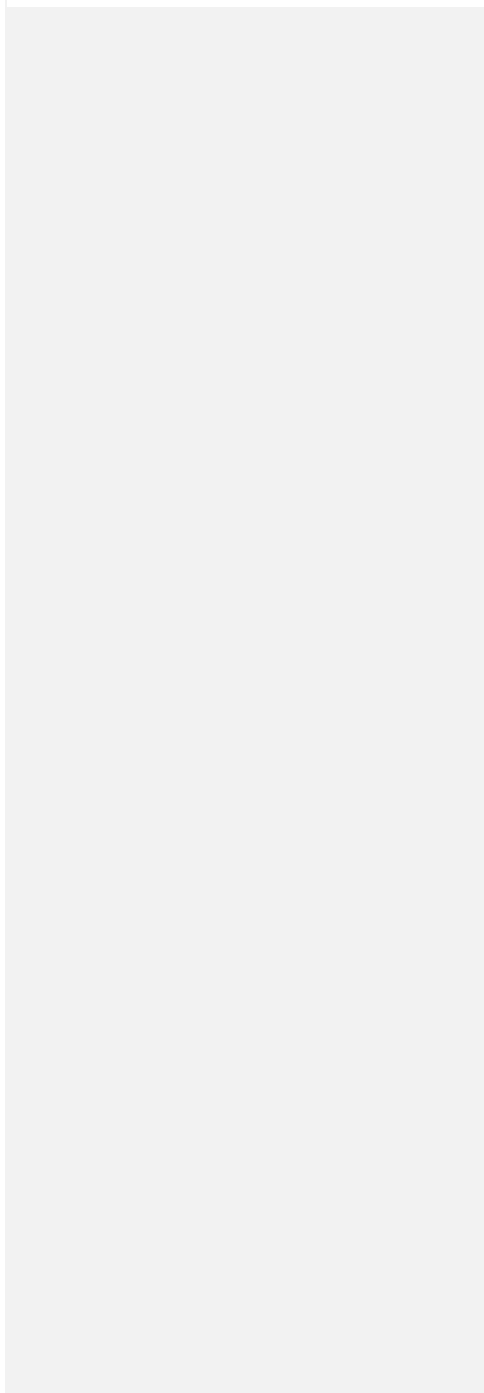
Client Buckets	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
20mn+	3	3	3	5	5	5	5	4	4	4	4	4
10mn+	10	10	11	9	9	9	11	12	11	13	13	13
5 mn+	19	19	21	20	21	22	23	24	25	31	31	29
1mn+	60	56	60	62	57	65	66	63	66	81	87	86

Source: Company, PL

Exhibit 12: Geography-wise revenue contribution (%)

Geographical Mix in %	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
North America	60.0	59.1	58.0	57.1	55.8	54.2	55.1	53.3	52.5	52.0	54.1	49.6
Europe	24.6	24.0	24.0	25.1	26.6	26.7	27.7	29.2	24.6	23.8	22.1	22.6
APAC	15.4	16.9	18.0	17.8	17.6	19.1	17.2	17.5	23.0	24.3	23.8	27.8

Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	39,176	46,174	50,309	55,110
YoY gr. (%)	8.8	17.9	9.0	9.5
Employee Cost	21,432	25,026	28,360	31,065
Gross Profit	17,744	21,148	21,950	24,045
Margin (%)	45.3	45.8	43.6	43.6
SG&A Expenses	12,251	14,706	14,892	16,037
Other Expenses	-	-	-	-
EBITDA	5,493	6,442	7,057	8,008
YoY gr. (%)	13.8	17.3	9.6	13.5
Margin (%)	14.0	14.0	14.0	14.5
Depreciation and Amortization	1,051	1,113	1,107	1,323
EBIT	4,442	5,329	5,951	6,685
Margin (%)	11.3	11.5	11.8	12.1
Net Interest	224	362	280	216
Other Income	1,458	1,340	900	450
Profit Before Tax	5,676	6,307	6,571	6,919
Margin (%)	14.5	13.7	13.1	12.6
Total Tax	1,381	1,427	1,511	1,661
Effective tax rate (%)	24.3	22.6	23.0	24.0
Profit after tax	4,295	4,880	5,059	5,258
Minority interest	(38)	(1)	-	-
Share Profit from Associate	11	12	106	112
Adjusted PAT	4,090	4,893	5,165	5,370
YoY gr. (%)	18.8	19.6	5.6	4.0
Margin (%)	10.4	10.6	10.3	9.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	4,090	4,893	5,165	5,370
YoY gr. (%)	18.8	19.6	5.6	4.0
Margin (%)	10.4	10.6	10.3	9.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,090	4,893	5,165	5,370
Equity Shares O/s (m)	113	113	113	113
EPS (Rs)	36.3	43.5	45.9	47.7

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	12,217	13,417	14,417	15,417
Tangibles	7,616	8,576	9,376	10,176
Intangibles	4,601	4,841	5,041	5,241
Acc: Dep / Amortization	7,791	8,905	10,012	11,335
Tangibles	4,396	4,962	5,570	6,298
Intangibles	3,395	3,944	4,442	5,037
Net fixed assets	4,426	4,512	4,405	4,082
Tangibles	3,220	3,614	3,806	3,878
Intangibles	1,206	897	599	204
Capital Work In Progress	515	515	515	515
Goodwill	3,549	3,549	3,549	3,549
Non-Current Investments	568	788	1,008	1,228
Net Deferred tax assets	(35)	(35)	(35)	(35)
Other Non-Current Assets	1,491	1,491	1,491	1,491
Current Assets				
Investments	1,130	1,230	1,330	1,430
Inventories	1,312	1,312	1,312	1,312
Trade receivables	6,913	8,223	8,959	9,814
Cash & Bank Balance	9,807	10,522	13,299	16,094
Other Current Assets	910	930	950	970
Total Assets	34,326	36,777	40,523	44,191
Equity				
Equity Share Capital	563	563	563	563
Other Equity	22,876	25,707	28,696	31,803
Total Networkth	23,439	26,270	29,259	32,366
Non-Current Liabilities				
Long Term borrowings	630	630	630	630
Provisions	878	978	1,078	1,178
Other non current liabilities	26	26	26	26
Current Liabilities				
ST Debt / Current of LT Debt	1,780	1,780	1,780	1,780
Trade payables	3,813	3,223	3,750	4,079
Other current liabilities	3,028	3,158	3,288	3,419
Total Equity & Liabilities	34,326	36,777	40,523	44,191

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	5,411	6,320	6,677	7,031
Add. Depreciation	1,052	1,113	1,107	1,323
Add. Interest	204	362	280	216
Less Financial Other Income	1,458	1,340	900	450
Add. Other	(392)	(1,340)	(900)	(450)
Op. profit before WC changes	6,275	6,455	7,163	8,120
Net Changes-WC	(1,659)	(1,710)	(19)	(336)
Direct tax	(1,653)	(1,427)	(1,511)	(1,661)
Net cash from Op. activities	2,963	3,318	5,633	6,124
Capital expenditures	(1,801)	(1,200)	(1,000)	(1,000)
Interest / Dividend Income	440	1,340	900	450
Others	492	(300)	(300)	(300)
Net Cash from Inv. activities	(869)	(160)	(400)	(850)
Issue of share cap. / premium	9	-	-	-
Debt changes	97	-	-	-
Dividend paid	(1,894)	(2,062)	(2,177)	(2,263)
Interest paid	(192)	(362)	(280)	(216)
Others	621	(20)	-	1
Net cash from Fin. activities	(1,359)	(2,444)	(2,457)	(2,478)
Net change in cash	735	714	2,777	2,795
Free Cash Flow	1,157	2,118	4,633	5,124

Source: Company Data, PL Research

Quarterly Financials (Rs m)

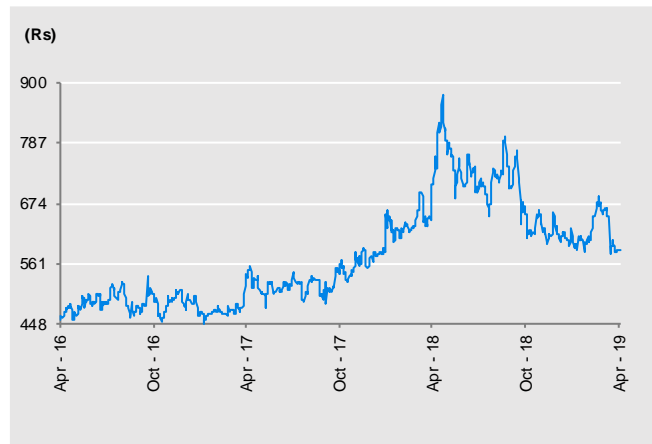
Y/e Mar	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Net Revenue	10,800	11,869	11,876	11,629
YoY gr. (%)	19.1	22.9	20.8	9.5
Raw Material Expenses	6,242	6,591	6,613	6,583
Gross Profit	4,558	5,278	5,263	5,046
Margin (%)	42.2	44.5	44.3	43.4
EBITDA	1,316	1,626	1,749	1,751
YoY gr. (%)	(11.8)	23.6	7.6	0.1
Margin (%)	12.2	13.7	14.7	15.1
Depreciation / Depletion	285	288	279	261
EBIT	1,031	1,338	1,470	1,490
Margin (%)	9.5	11.3	12.4	12.8
Net Interest	82	97	96	87
Other Income	170	568	(187)	789
Profit before Tax	1,119	1,809	1,187	2,080
Margin (%)	10.4	15.2	10.0	17.9
Total Tax	304	539	266	318
Effective tax rate (%)	27.2	29.8	22.4	15.3
Profit after Tax	815	1,270	921	1,762
Minority interest	-	-	(1)	-
Share Profit from Associates	10	1	1	-
Adjusted PAT	825	1,271	923	1,762
YoY gr. (%)	(6.9)	14.0	5.4	45.4
Margin (%)	7.6	10.7	7.8	15.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	825	1,271	923	1,762
YoY gr. (%)	(6.9)	14.0	5.4	45.4
Margin (%)	7.6	10.7	7.8	15.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	825	1,271	923	1,762
Avg. Shares O/s (m)	113	113	113	113
EPS (Rs)	7.3	11.3	8.2	15.7

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	36.3	43.5	45.9	47.7
CEPS	45.7	53.3	55.7	59.4
BVPS	208.2	233.3	259.8	287.4
FCF	10.3	18.8	41.1	45.5
DPS	13.1	15.2	16.1	16.7
Return Ratio(%)				
RoCE	18.3	19.5	19.7	20.1
ROIC	22.5	24.4	26.9	29.4
RoE	18.3	19.7	18.6	17.4
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.4)	(0.5)
Debtor (Days)	64	65	65	65
Valuation(x)				
PER	16.1	13.5	12.8	12.3
P/B	2.8	2.5	2.3	2.0
P/CEPS	12.8	11.0	10.5	9.8
EV/EBITDA	10.4	8.8	7.6	6.3
EV/Sales	1.5	1.2	1.1	0.9
Dividend Yield (%)	2.2	2.6	2.7	2.9

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
3	12-Jul-18	BUY	860	742
4	5-Oct-18	BUY	860	759
5	18-Oct-18	BUY	810	669
6	7-Jan-19	BUY	810	609
7	5-Apr-19	Accumulate	621	595

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Cyient	Accumulate	621	595
2	HCL Technologies	BUY	1,186	1,093
3	Hexaware Technologies	Reduce	325	333
4	Infosys	Accumulate	782	748
5	L&T Technology Services	Accumulate	1,807	1,609
6	Larsen & Toubro Infotech	BUY	2,032	1,652
7	Mindtree	Reduce	873	972
8	Mphasis	Accumulate	1,090	975
9	NIIT Technologies	BUY	1,539	1,348
10	Persistent Systems	Hold	653	627
11	Redington (India)	BUY	108	98
12	Sonata Software	Accumulate	400	346
13	Tata Consultancy Services	BUY	2,312	2,013
14	TeamLease Services	Hold	3,203	3,031
15	Tech Mahindra	BUY	886	777
16	Wipro	Hold	247	281
17	Zensar Technologies	Accumulate	256	231

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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