

Result Update

CYIENT LTD

PRICE RS.586
TARGET RS.684
BUY

Stock Details

Market cap (Rs mn)	:	66052
52-wk Hi/Lo (Rs)	:	887 / 570
Face Value (Rs)	:	5
3M Avg. daily vol (Nos)	:	331,651
Shares o/s (mn)	:	113

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Revenue	46,175	51,216	56,370
Growth (%)	17.9	10.9	10.1
EBITDA	6,443	7,196	7,927
EBITDA margin (%)	14.0	14.0	14.1
PAT	4,785	5,154	5,553
EPS	43.5	46.9	50.5
EPS Growth (%)	18.5	7.7	7.7
BV (Rs/share)	232	256	280
Dividend/share (Rs)	15.0	20.0	21.4
ROE (%)	19.5	19.2	18.9
ROCE (%)	18.4	19.1	20.0
P/E (x)	13.5	12.5	11.6
EV/EBITDA (x)	9.1	7.7	6.8
P/BV (x)	2.5	2.3	2.1

Source: Company, Capitaline

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	22.1	22.1	22.1
FII	43.1	43.2	43.2
DII	23.9	24.0	24.2
Others	10.9	10.7	10.5

Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Cyient Ltd	(12.0)	(2.5)	(5.3)
Nifty	2.5	8.0	15.0

Source: Bloomberg

Price chart (Rs)


Source: Bloomberg

Cyient Q4FY19 revenue de-grew by 0.3% QoQ in CC terms to USD 165.2 mn below our estimate. However, in FY19 revenue grew 10.1% YoY to US\$660 mn in CC terms. In Q4FY19, Services revenue stood at \$ 146.9 mn; growth of 1.7% QoQ (1.4% in CC), 2.9% YoY. On a consolidated basis, operating margin improved by 33 bps QoQ to 15.1% in Q4FY19.

Key Highlights

- ❑ Cyient's service revenue grew by 2.9% YoY led by A&D (+4.6% YoY), Transportation (9.2% YoY), I&ENR (5.7% YoY) and SIA (47.4% YoY).
- ❑ On a consolidated basis, operating margin improved by 33 bps QoQ to 15.1% in Q4FY19 (highest in the last 20 quarters). Further, service segment margin improved to 16.4% an expansion of 16 bps QoQ aided by incremental bill days (83 bps), better SGA absorption (8bps), offset by forex impact (46 bps) and change in revenue mix (29 bps). However, DLM margins was flat at 4.1% (QoQ).
- ❑ In Q4FY19, adjusted PAT increased by ~104% QoQ to Rs. 1.88 bn primarily on account of higher other income and lower effective tax rate (ETR). ETR without one off is 21.5%. Reported ETR @ 15.3% is mainly due to one off annual assessment of tax positions of specific business areas (impact ~ 5.5%).
- ❑ **Other income:** In Q4FY19, the company reported increase in realized gains by Rs. 60 mn and unrealized gains of Rs. 412 mn. Sequentially, other income swing of Rs.976 mn mainly on account of tax incentives on export of services merchandise (Rs.280 Mn).
- ❑ The board has recommended a final dividend of Rs 10/share for FY19 along with an interim dividend of Rs.5/- declared earlier (i.e. total Rs.15/-, Source: BSE). Its cash and cash equivalents stood at Rs 9.983 bn at March 2019 end.
- ❑ The Company has acquired the remaining 26% shareholding in its subsidiary, Cyient DLM Private Limited on January 22, 2019 for a consideration of Rs.425 mn.

Valuation & outlook

We believe Cyient is well placed to address opportunities in ER&D over long term. The company expects high single digit growth for services segment in CC backed by a strong pipeline and order backlog and DLM business is expected to grow by ~15% in CC in FY20.

We have introduced FY21E earnings and expect Cyient to report an EPS of Rs.46.9/share in FY20E and an EPS of Rs. 50.5/share in FY21E. We value stock at 14x FY21E earnings. We maintain BUY on Cyient with a revised target price of Rs. 684 (earlier Rs.719).

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Quarterly Consolidated Financials

Key financials	Q4FY19	Q3FY19	Q4FY18	YoY (%)	QoQ (%)
Consolidated Revenue (US\$ Mn)	165.2	165	164.6	0.36	0.06
Average (INR/US\$)	70	72	65	9	(2)
Income from operation	11,629	11,876	10,618	10	(2)
Less: Cost of Revenue	7,524	7,723	6,919	9	(3)
Direct Salary and related costs	4,989	5,179	4,527	10	(4)
Direct Travel	243	249	223	9	(2)
Sub contract and others	1,106	934	905	22	18
Delivery Management	244	251	213	15	(3)
Material cost	941	1,109	1,051	(10)	(15)
Gross profit	4,105	4,153	3,699	11	(1)
Less: Sales and Marketing	643	631	646	(0)	2
Less: General and Administration	1,711	1,774	1,561	10	(4)
Operating Profit	1,751	1,749	1,492	17	0
Less: Depreciation and Amortization	261	279	257	2	(7)
Less: Financial expenses	87	96	67	30	(9)
Add: Other income	789	(187)	408	93	
Profit before tax (PBT)	2,192	1,187	1,576	39	85
(Less)/Add: Exceptional item	-112		-32		
Tax	318	266	336	(5)	20
Add: Share of Profit IASI & IHAL	-6.5	1	-4	-	-
Less: Minority Interest- Insights and DLM		-1	28	-	-
Profit After Tax (Reported)	1,768	921	1,184	49	92
Basic EPS (Rs)	16.0	8.1	10.5	53	97

In Q4FY19, the company reported increase in realized gains by Rs. 60 mn and unrealized gains of Rs. 412 mn. Sequentially, other income swing of Rs.976 mn mainly on account of tax incentives on export of services merchandise (Rs.280 Mn)

Source: Company

Margin details (%)

	Mar-19	Dec-18	Mar-18	bps	bps
Gross Margin	35.3	35.0	34.8	46	3
Operating Margin	15.1	14.7	14.1	101	3
Effective Tax Rate	15.3	22.4	21.8	-647	-71
PAT Margin	15.2	7.8	11.2	405	745

Reported ETR @ 15.3% is mainly due to one off annual assessment of tax positions of specific business areas (impact ~ 5.5%).

Source: Company

Consolidated Revenue Segmentation

	Q4FY19	Q3FY19	Q4FY18	YoY (%)	QoQ (%)
By Geography (\$ Mn)	165.2	165	164.6	0	0
Americas	82.0	89.3	87.7	(7)	(8)
Europe, Middle East, Africa	37.3	36.5	48.1	(22)	2.2
Asia Pacific (includes India)	45.9	39.3	28.8	59	16.8
By Geography (%)	100	100	100	YoY (%)	QoQ (%)
Americas	49.6	54	53	(4)	(4)
Europe, Middle East, Africa	22.6	22	29	(7)	0
Asia Pacific (includes India)	27.8	24	18	10	4
Onsite/offshore Split (US\$ Mn)	165	165	165	0	0.1
Onsite	95	94	92	3	0.2
Offshore	71	71	72	(3)	(0.2)
Onsite/offshore Split (%) –					
Onsite/Offshore is computed only for					
Services business	100	100	100		
Onsite	57	57	56	1	0
Offshore	43	43	44	(1)	0
Utilization (%) - services business	77.8	78.1	76.7	1	-0.3

Source: Company

Account Receivables (in Days)

	Mar-19	Dec-18	Mar-18	YoY (%)	QoQ (%)
DSO Total	88	83	80		
- Billed	61	56	58		
- Unbilled	27	27	23		
Order Intake (\$ Mn)	Mar-19	Dec-18	Mar-18	YoY (%)	QoQ (%)
Cyient - Services	185	255	187	(1)	(27)
DLM	11	19	19	(42)	(42)
Group of total	196	274	206	(5)	(28)
Top Clients: Rev Contribution (%)	Mar-19	Dec-18	Mar-18	bps (yoy)	bps (qoq)
Top 5	31.8	33.2	38.9	(710)	(140)
Top 5-10	11.2	10.7	13.5	(230)	50
Top 10	43	43.9	52.4	(940)	(90)
No. of Million \$ Clients	Mar-19	Dec-18	Mar-18		
20 Mn+	4	4	4	0	0
10 Mn+	13	13	12	1	0
5 Mn+	29	31	26	3	(2)
1 Mn+	86	87	72	14	(1)
New Customers Added	5	30	12	(7)	(25)
Capital Expenditure (Rs. Mn)	407	326	476		
Employee - consolidated					
Total Manpower	15,084	15,193	14762	2	(1)
Technical & Pool	13,916	14,002	13614	2	(1)
Non-Technical	393	413	348	13	(5)
Support	775	778	800	(3)	(0)
Voluntary Attrition (%)	19.9	21.2	16.9		
Involuntary Attrition (%)	4.6	2.3	1.5		

Source: Company

Key highlights

- The company has rolled out a portfolio of services and solutions for 5G deployment and is optimistic about growth opportunities in this space.
- Cyient has been selected by UK power portal networks to develop an outage planning portal.
- The company has signed tripartite MoU with the government of Telangana and Telangana State Aviation Academy (TSAA) for Drone Pilot Training and Certification Programs. (Source: BSE)
- It has also launched Cyber security Security Operations Centre (SOC).
- Outstanding forward contract as on 31st March 19 stands at USD 132 mn. The company highlighted that if the spot rate remains at same level (as of 31st Mar'19), forex gain on current forward contracts could be ~\$ 9.8 mn for next 12 months.
- **Share Buyback:** Cyient has completed its equity shares buy-back scheme which was started on 12th Feb'19 and ended on 11th April'19. The company bought back 3.12 mn shares (2.76% of pre-buyback total equity shares) at an average price of Rs. 640/share (as against a maximum price Rs. 700/shares).

New Business Accelerator program (NBA)

The company's management has indicated that the NBA program is garnering good traction and expect it to accelerate Cyient's EPS growth by 1.5-3%, from FY21 and onwards. In NBA, 16 projects are under development out of 19 approved projects. Seeing customer level traction in the products/solutions being developed under NBA, especially in the IoT, space-bots, augmented reality and smart city space.

Maintain BUY

We believe Cyient is well placed to address opportunities in ER&D over long term. The company expects high single digit growth for services segment in CC backed by a strong pipeline and order backlog and DLM business is expected to grow by ~15% in CC in FY20.

We have introduced FY21E earnings and expect Cyient to report an EPS of Rs.46.9/share in FY20E and an EPS of Rs. 50.5/share in FY21E. We value the stock at 14x (at 30% discount to its peer) FY21E earnings. We maintain BUY rating with a revised target price of Rs. 684 (earlier Rs.719).

Company Background

Founded in 1991, Cyient provides engineering, manufacturing, geospatial, network, and operations management services to global industry leaders. We deliver innovative solutions that add value to businesses through the deployment of robust processes and state-of-the-art technology. Our high quality products and services help clients leverage market opportunities and gain the competitive advantage.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	39,175	46,175	51,216	56,370
% change YoY	8.6	17.9	10.9	10.1
EBITDA	5,492	6,443	7,196	7,927
% change YoY	13.3	17.3	11.7	10.2
Other Income	1,153	1,227	1,227	1,268
Depreciation	1,051	1,114	1,346	1,502
EBIT	5,594	6,557	7,076	7,693
% change YoY	24.1	17.2	7.9	8.7
Net interest	231	364	364	364
Profit before tax	5,364	6,193	6,713	7,329
% change YoY	24.2	15.5	8.4	9.2
Tax	1,381	1,427	1,578	1,796
as % of PBT	25.7	23.0	23.5	24.5
Profit after tax	3,983	4,766	5,135	5,534
Minority interest	(71)	(19)	(19)	(19)
Share of profit of associates	0	0	0	0
Net income	4,054	4,785	5,154	5,553
% change YoY	17.9	18.0	7.7	7.7
Shares outstanding (m)	282	276	275	275
EPS (reported) (Rs)	36.7	43.5	46.9	50.5
CEPS (Rs)	45.3	53.4	59.1	64.2
DPS (Rs)	13.3	15.0	20.0	21.4

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBIT	5,594	6,557	7,076	7,693
Add: Depreciation	1,051	1,114	1,346	1,502
Change in working capital	1,752	3,043	514	525
Chgs in other net current assets				
Operating cash flow	4,893	4,627	7,909	8,670
Less: Interest	(231)	(364)	(364)	(364)
Less: Tax	(1,381)	(1,427)	(1,578)	(1,796)
Cash flow from operations	3,282	2,837	5,968	6,511
Less: Capex	(1,766)	(3,444)	(1,846)	(2,002)
(Inc)/dec in investments	529	883	-	-
Cash flow from investments	(1,237)	(2,561)	(1,846)	(2,002)
Others	30	(582)	(2)	0
Increase/(decrease) in debt	718	1,118	(3,950)	-
Proceeds from share premium	-	-	-	-
Dividends	(1,767)	(914)	(1,104)	(2,659)
Cash flow from financing	(1,019)	(378)	(5,056)	(2,659)
Opening cash	8,781	9,807	9,705	8,770
Closing cash	9,807	9,705	8,770	10,620

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	9,807	9,705	8,770	10,620
Accounts receivable	9,687	8,137	9,025	9,934
Inventories	1,312	1,833	2,033	2,238
Loans and Adv & Others	3,281	7,558	7,739	7,924
Current assets	24,087	27,233	27,568	30,715
Misc exp.	0	0	0	0
LT investments	1,428	545	545	545
Net fixed assets+GW	8,490	10,820	11,320	11,820
Total assets	34,005	38,598	39,433	43,080
Payables	3,855	3,712	4,117	4,532
Others	1,131	2,229	2,472	2,721
Current liabilities	4,986	5,941	6,590	7,253
Provisions	1,457	2,974	4,656	4,971
LT debt	2,832	3,950	0	0
Others	1,291	111	92	73
Equity	563	552	550	550
Reserves	22,876	25,070	27,546	30,235
Total liabilities	34,005	38,598	39,433	43,080
BVPS (Rs)	208	232	256	280

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	14.0	14.0	14.0	14.1
EBIT margin (%)	14.3	14.2	13.8	13.6
Net profit margin (%)	10.3	10.4	10.1	9.9
Receivables (days)	90.3	64.3	64.3	64.3
Inventory (days)	12.2	14.5	14.5	14.5
Sales/gross assets(x)	1.5	1.6	1.7	1.8
Interest coverage (x)	19.3	14.7	16.1	17.7
Debt/equity ratio(x)	0.1	0.2	-	-
ROE (%)	18.2	19.5	19.2	18.9
ROCE (%)	17.0	18.4	19.1	20.0
EV/ Sales	1.5	1.3	1.1	1.0
EV/EBITDA	10.5	9.1	7.7	6.8
Price to earnings (P/E)	16.0	13.5	12.5	11.6
Price to book value (P/B)	2.8	2.5	2.3	2.1

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
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