




CYIENT LIMITED

Industry IT
Bloomberg CYL IN
BSE CODE 532175

Single digit revenue growth to clock in service business in FY19

RATING	Accumulate
CMP	628
Price Target	718
Potential Upside	14%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	577/887
Mkt Capital (Rs Cr)	6791
Free float (%)	78%
Avg. Vol 1M (,000)	142
No. of Shares (Cr)	11
Promoters Pledged (Cr)	0

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Key Highlights

- ❑ Company's 3QFY19 performance was mixed set of numbers where revenue remained flat (grew 0.1%QoQ) whereas negative other income washed away the overall PAT growth (declined 27.3%QoQ).
- ❑ In service business, aerospace & defense posted soft growth in 3QFY19 mainly due to seasonality (grew 0.5%QoQ) However communication segment declined 3.1%QoQ which was not anticipated in 3QFY19.
- ❑ 4QFY19 is expected to be strong after a tepid 3QFY19 (4 to 8%cc growth) led by healthy pipeline and improved service business, However for FY19 service business guidance has been lowered to 8.5% to 9.5% in cc term as compared to double digit growth expectation in the beginning of the year .
- ❑ Buyback postponed a bit as the board is working on detail issues and procedures that required some more time before it get finalized.

3Q FY19 Result Update

Cyient posted a mixed set of numbers in its 3QFY19 result where revenue stood at Rs1187 crore (flat growth of 0.1%QoQ) in line with the estimates. Revenue growth was majorly impacted by weakness in service business in areas like aerospace, communication and semiconductor .Ebitda for the quarter stood at Rs174crore, a growth of 7.9%QoQ. Margin improved 110 bps to 14.7% on account of improvement in service margins due to operational efficiency. PAT came at Rs92 crore (declined 27.3%QoQ).

View and Valuation

Going forward, we expect cyient to improve its performance in 4QFY19 and FY20 led by healthy pipeline& order book, improved growth in service business(aerospace, communication) and continued traction in newer strategic business initiative .On order book, 3QFY19 order intake grew 11% YoY to USD273m. Services order intake was at USD255m (6% YoY) and that for DLM was at USD19m (475% YoY) which is encouraging, thus giving us strong revenue growth visibility going ahead .Though Service business was soft in 3QFY19 mainly due to weakness in its major segment of aerospace (grew 0.5%QoQ) and communication (decline 3.1%QoQ), we still expect service segment to improve and post strong growth in 4QFY19 itself led by revival in communication and strong growth in aerospace segment. We expect service to clock 9%QoQ growth in cc terms for FY19 after the management has lowered its guidance for FY19(8.5% to 9.5% earlier expected double digit). NBA which is strategic plan of management, resulted in 3 new projects wins in 3QFY19 which is expected commence over FY20.On margin we have reduced our FY20 margin by 20 bps and retained FY19 margin post management commentary of flat margin.We expect cyient to post 12% pat growth CAGR over FY18 to FY20.Factoring in the flat margin and lowered service guidance in FY19, we have reduced our pat growth estimates by 8% for FY20.We value the stock at Rs718 (16x FY20 EPS) and recommend ACCUMULATE..

Key Risks to our rating and target

- ❑ Slower than expected growth in aerospace vertical.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	3096	3586	3914	4688	5329
EBITDA	421	477	535	656	747
EBIT	331	382	430	541	613
PAT	327	340	403	434	505
EPS (Rs)	29	30	36	39	45
EPS growth (%)	-7%	4%	18%	8%	16%
ROE (%)	17	17	18	18	18
ROCE (%)	17	18	19	21	21
BV	170	188	208	233	263
P/B (X)	3	2	3	3	2
P/E (x)	15	16	19	16	14

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3QFY19 Results

Mixed performance

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales /	983	1,061	1,080	1,187	1,188	20.8%	0.1%	3,586	3,914	9.1%
Other Income	30	44	17	57	(19)	-163%	-133%	93	152	63.3%
COGS	60	106	88	124	110	82.6%	-10.9%	274	307	12.0%
Employee	557	573	611	637	648	16.3%	1.8%	2,049	2,188	6.8%
Other Expenses	225	241	250	265	255	13.4%	-3.7%	785	884	12.5%
EBITDA	141	141	131	161	174	23.9%	7.9%	477	535	12.2%
Depreciation	28	26	29	29	28	1.8%	-2.8%	95	105	10.4%
EBIT	113	116	102	133	146	29.3%	10.3%	382	430	12.6%
Interest	5	6	7	9	9	66.7%	-2.3%	16	20	24.4%
PBT	138	154	112	181	119	-13.6%	-34.2%	459	562	22.5%
Tax	25	34	30	54	27	6.0%	-50.6%	105	138	32.1%
Exceptional	5	-	-	-	-			26	5	-80.8%
PAT	87	120	83	127	92	6.1%	-27.3%	340	403	18.5%

In line Revenue performance

Revenue stood at Rs1187 crore (flat growth of 0.1%QoQ) in line with the estimates. In cc term it decline 2.1% in 3QFY19. Revenue growth was majorly impacted by weakness in service business (remained flat QoQ) in areas like aerospace, communication and semiconductor. DLM revenue at USD21 (-7.6% CC QoQ) was higher than our estimate of USD19m.

Weakness seen in Communication

Segments (in mn\$)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ%	YoY%
utilities,geospatial & com	342	355	373	390	385	413	420	2%	8%
MFG & industrial	489	509	532	530	574	613	620	1%	17%
DLM	76	102	79	142	121	161	148	-8%	4%

In the Services business, decline in growth was due to weakness in communication business (-3.1% QoQ) led by one of the large contract being pushed to 4QFY19. Semiconductors declined 19.8% QoQ due to industry wise weakness. Services business saw growth in the verticals of Aerospace (which grew 0.5% QoQ), Medical Devices (which grew 4.2% QoQ) and Utilities (which grew 4.9% QoQ)

Healthy rise in order intake

Order intake(in mn\$)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	QoQ%	YoY%
Service business	130	107	241	187	153	157	255	62%	6%
DLM	30	12	4	19	17	39	19	-51%	375%

Total order intake during the quarter grew 11% YoY to USD273m. Services order intake was at USD255m (+6% YoY) and that for DLM was at USD19m (475% YoY)

Higher operational efficiency led 110bps expansion in margins

Ebitda for the quarter stood at Rs174crore, a growth of 7.9%QoQ. Margin improved 110 bops to 14.7% as compared to 13.6% last quarter. Margin beat was on account of improvement in service margins due to operational efficiency. Other income decline 18 crore during the quarter as restatement of assets and liabilities for the balance sheet resulted in negative 57 crore and there is no impact of unrealized profit or loss in 3QFY19 .Pat came at Rs92 crore (declined 27.3%QoQ) mainly impacted by negative other income.

Lowered service guidance (8.5% to 9.5% in cc term), Margin maintained

- Cyient changed its revenue guidance from double-digit expectation 8.5-9.5% in services amid weakness in 3QFY19. Legacy DLM is expected to grow 20% for FY19; overall DLM is expected to grow 35% for full year FY19.
- Operating margins are expected to be same as that of FY18 at 14% lower improvement in utilization is completely offset by benefit from INR depreciation. DLM margins are likely to improve – low single digit. Other income is expected to be higher because of gains from incentives.

Concall Highlights

- ❑ Aerospace and defense continues to do quite well. 3QFY19 is generally a tough quarter due to impact of seasonality but outlook remain positive. Expenditure in military is going up quite a bit, thus giving positive growth in 4QFY19.
- ❑ Communications business: Some challenges continue in Europe. The management is defocusing in the communications business and some areas of manufacturing which was making low value devices. Communication in services business continues to be quite healthy. It is expected to improve in 4QFY19 as all contracts are well placed.
- ❑ Utilities & GIS business: The Utilities & GIS business also continues to do well because of all the investments that are happening in the utility space. Utilities business after a long time has grown almost 15% YoY and is expect to continue to see that momentum continuing going ahead. However outlook remain flat YoY in FY19
- ❑ IE&NR which is industrial energy and natural resources also had a decent quarter. With lot of the investments going into the emerging technologies of so called digital technologies, it is expected to improve going forward
- ❑ Semiconductor industry: Overall industry of semiconductor has a little bit of challenges going ahead but the company believes that it is still quite well positioned to get opportunities for FY19.
- ❑ Buyback details: Buyback initiative that the Board had intimated the stock exchanges has now been deliberated and the management is planning how to delegate the buyback. The announcement will to done once the board will get some clear picture of buyback(may be next few weeks).
- ❑ Hedging process unchanged: In terms of hedge book, the company has covered for about \$129 million . There is no change in the policy at current spot rates and the company will likely to gain close to \$6.6 million for the next 12 months about at current spot rate. Most of it could be there in next year if the rate is similar of about 70
- ❑ Margin outlook: Management expects better margins in 4QFY19 led by better cost management and lower SGA cost . Also 4QFY19 should see better margin due to absence of furloughs.

Operational Details

By Geography (%)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Americas	58.0	57.1	55.8	54.2	55.1	53.3	52.5	52.0	54.1
EMEA	24.0	25.1	26.6	26.7	27.7	29.2	24.6	23.8	22.1
Asia Pacific	18.0	17.8	17.6	19.1	17.2	17.5	23.0	24.3	23.8

No. of Mn Dollar Clients	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
20 Mn+	3	5	5	5	5	4	4	4	4
10 Mn+	11	9	9	9	11	12	11	13	13
5 Mn+	21	20	21	22	23	24	25	27	27
1 Mn+	60	62	57	65	66	63	66	68	73
New Customers Added	20	20	29	27	12	12	12	12	12

Onshore/Offshore (%)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Offshore	40	39	40.4	41.2	42.8	44.0	42.0	42.8	42.4
Onsite	60	61	59.6	58.8	57.2	56.0	58.1	57.2	57.6

Utilization (%)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Utilization (%)	78.3	77.4	74.1	75.9	78.6	76.7	75.0	78.0	78.1

Capital Expenditure	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Capex	26.3	25.0	25.8	24.0	24.0	48.0	40.0	23.6	23.6

By Business Unit (%)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Aerospace and Defense	36%	36%	35%	35%	35%	33%	34%	34%	34%
Transportation	9%	10%	11%	11%	12%	12%	12%	12%	12%
IE&NR	9%	9%	9%	9%	9%	8%	8%	9%	9%
Semiconductor	4%	4%	5%	4%	4%	4%	6%	6%	5%
Medical & Healthcare	2%	2%	2%	2%	2%	2%	2%	2%	2%
Utilities and Geospacia	17%	18%	17%	16%	17%	16%	14%	14%	15%
Communications	23%	21%	23%	23%	23%	25%	24%	24%	23%
Others	0%	0%	0%	0%	0%	0%	0%	0%	0%

Order Intake (\$ Mn)	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Cyient (Current FY)	106	69	128	100	n/a	n/a	n/a	n/a	n/a
Cyient Services (after FY)	83	117	3	7	n/a	n/a	n/a	n/a	n/a
Cyient Services Total OI	189	186	130	107	241	187	153	157	255
DLM (Executable Current FY)	9	1	26	11	n/a	n/a	n/a	n/a	n/a
DLM (after FY)	4	70	4	1	n/a	n/a	n/a	n/a	n/a
DLM T otal OI	13	71	30	12	4	19	17	39	19

Exhibit: Revenue trend

Communication & semiconductor decline softness the service growth. Guidance lowered to 8.5%- 9.5% for FY19.

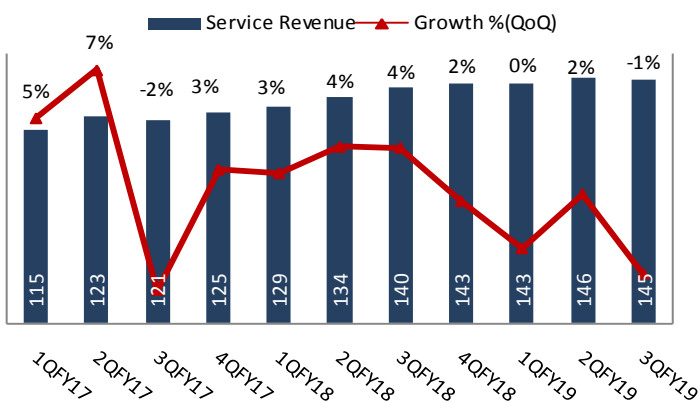


Exhibit: DLM revenue

DLM revenue at USD21 (-7.6% CC QoQ) was higher than our estimate.

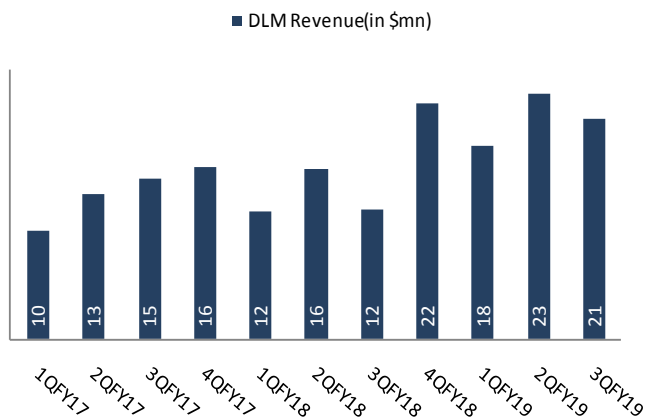


Exhibit: EBITDA and EBITDA margin

Higher operational efficiency led to margin expansion.

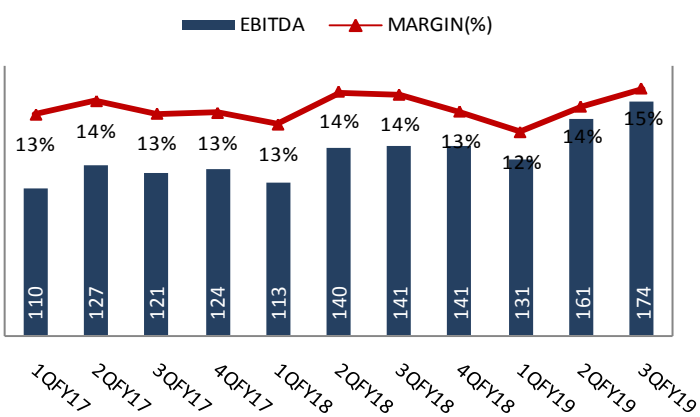


Exhibit: Utilization

Utilization is at its comfortable range.

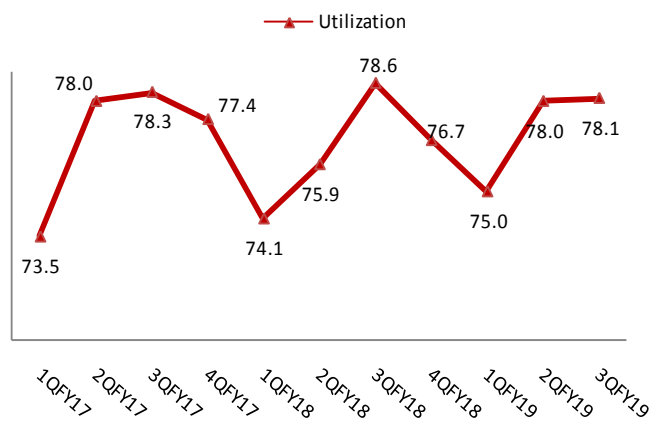


Exhibit: Other income

Restatement of assets and liabilities led to negative other income.

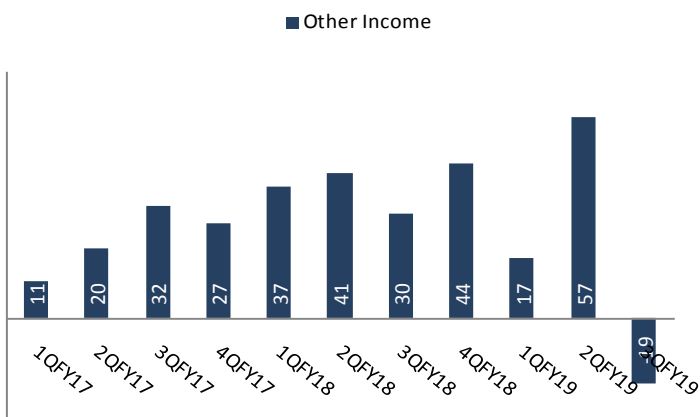
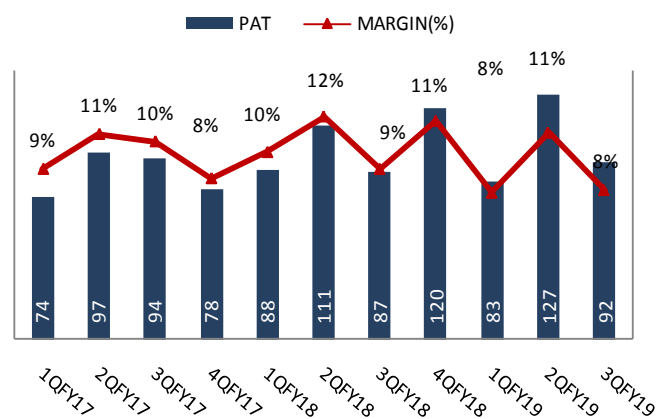


Exhibit: PAT and PAT Margin

Other income washed away the overall Pat growth.



Financial Details
Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	56	56	56	56	56	56	56	56
Reserves	1266	1532	1788	1854	2061	2288	2563	2909
Networth	1322	1588	1844	1910	2117	2344	2619	2965
minority interest	0	0	12	13	3	0	0	0
Debt	0	6	128	183	165	241	363	363
Other Non Cur Liab	43	43	83	79	138	163	163	163
Total Capital Employed	1322	1594	1972	2093	2282	2585	2982	3328
Net Fixed Assets (incl CWIP)	356	341	372	408	450	494	528	564
Non Cur Investments	37	53	68	80	103	30	30	30
Non Curr Assets	98	108	570	454	512	563	563	563
Inventory	0	0	61	98	94	131	157	179
Debtors	394	480	534	615	650	691	828	941
Cash & Bank	498	691	623	695	878	981	1258	1517
Other Curr Assets	107	155	183	199	92	91	84	80
Short-term loans and advances	59	79	136	109	0	0	0	0
other financial asset	0	0	0	0	266	338	338	338
Current investments	61	40	34	79	93	113	113	113
Curr Assets	1119	1445	1570	1795	2071	2346	2779	3168
Creditors	121	174	275	311	402	381	457	519
Provisions	48	62	96	58	24	23	23	23
Other Curr Liab	75	72	140	184	288	280	274	290
Curr Liabilities	245	309	511	553	713	684	754	833
Net Curr Assets	875	1136	1059	1242	1358	1662	2025	2336
Total Assets	1610	1947	2579	2737	3136	3433	3900	4324

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	1873	2206	2736	3096	3586	3914	4688	5329
Change (%)	21%	18%	24%	13%	16%	9%	20%	14%
EBITDA	342	410	401	421	477	535	656	747
Change (%)	27%	20%	-2%	5%	13%	12%	23%	14%
Margin (%)	18%	19%	15%	14%	13%	14%	14%	14%
Depr & Amor.	64	72	71	89	95	105	115	134
EBIT	279	338	330	331	382	430	541	613
Int. & other fin. Cost	0	1	6	18	16	20	33	34
Other Income	38	17	122	109	93	152	80	94
EBT	317	354	446	422	459	562	588	673
Exp Item	2	0	0	9	26	5	0	0
Tax	97	103	110	99	105	138	153	168
Minority Int & P/L share of Ass.	13	15	15	12	12	-16	-1	0
Reported PAT	231	266	351	327	340	403	434	505
Adjusted PAT	231	266	351	327	340	403	434	505
Change (%)	43%	15%	32%	-7%	4%	18%	8%	16%
Margin(%)	12%	12%	13%	11%	9%	10%	9%	9%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	19	18	20	17	17	18	18	18
ROCE	22	23	19	17	18	19	21	21
Asset Turnover	5	6	7	8	8	8	9	9
Debtor Days	77	114	71	72	66	64	64	64
BV	118	142	164	170	188	208	233	263
Payable Days	24	29	37	37	41	36	36	36
Earnings Per Share	21	24	31	29	30	36	39	45
P/E	8	14	16	15	16	19	16	14
Price / Book Value	1	2	3	3	2	3	3	2
EV/EBITDA	4	7	13	10	10	13	9	8
EV/Sales	1	1	2	1	1	2	1	1

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	315	354	446	413	340	403	588	673
(inc)/Dec in Working Capital	-100	-67	33	-93	37	-166	-86	-52
Non Cash Op Exp	325	395	440	456	466	607	703	807
Int Paid (+)	0	1	6	18	17	20	33	34
Tax Paid	-85	-102	-117	-102	-100	-165	-153	-168
CF from Op. Activities	140	227	362	278	420	296	497	621
(inc)/Dec in FA & CWIP	-72	-77	-82	-129	-108	-147	-149	-169
Free Cashflow	68	151	280	150	312	149	348	452
(Pur)/Sale of Inv	-39	21	6	-45	-24	314	0	0
others	38	38	-453	89	-49	-254	0	0
CF from Inv. Activities	-73	-18	-528	-85	-181	-87	-149	-169
inc/(dec) in NW	3	5	7	2	2	1	0	0
Int. Paid	0	-1	-6	-18	-17	-19	-33	-34
Div Paid (inc tax)	-42	-52	-78	-162	-75	-189	-159	-159
others	-3	6	46	67	-3	72	121	0
CF from Fin. Activities	-42	-43	-32	-111	-94	-136	-71	-193
Inc(Dec) in Cash	25	167	-198	83	146	74	277	259
Add: Opening Balance	471	522	769	600	711	857	960	1238
Closing Balance	496	689	570	683	857	960	1238	1496

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Analyst's ownership of the stocks mentioned in the Report	NIL
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Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

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