

CYIENT

Industry IT Consulting
Bloomberg CYL IN
BSE Code 532175
NSE Code CYIENT

Friday, April 20, 2018

RATING	ACCUMULATE
CMP	648
Price Target	731
Previous Target	700
Potential Upside	13%

Stock Info

52wk Range H/L	698/475
Mkt Capital (Rs Cr)	7,292
Free float (%)	78%
Avg. Vol 1M (,000)	29
No. of Shares (Crore)	11
Promoters Pledged %	0%

Key Highlights

- ✓ DLM highest ever quarterly revenue in 4QFY18, which delivered a growth of 36.0% YoY and 80.5% QoQ. Going forward DLM business is expected to grow in the range of 20%. Outlook for FY19 continues to be positive based on a healthy order book and opportunities in Aerospace & Defence segment.
- ✓ Outlook for FY19: Revenue Growth expected to be similar to FY18 that is double digit growth in the services business. Legacy DLM business expected to grow by ~20% and Overall DLM growth expected to be ~35% including B&F.
- ✓ NBA program has been created to drive 'Innovation' within Cyient, with focus on developing new Products and Services and to provide Cyient with competitive advantage like Solutions approach and will open up new market opportunities for Cyient and help Cyient to grow.

4QFY18 Result: Strong performance in Revenue and Margin

Cyient 4QFY18 revenues increased to Rs1061 crore (8% QoQ) compared to 3QFY18 due to strong performance across verticals like Semiconductor, transportation and communication. DLM (Rangsons) revenues witnessed a strong growth of 32.5% YoY and 81% QoQ. The growth was more broad based across top customers in every segment. Operating profit for 4QFY18 is Rs 141 crore which showed a flat growth QOQ. Operating margin was at 13.3% for the quarter, a decline of 100bp on account of investment in the New Business Accelerator program. PAT for the quarter stood at Rs 121 crore vs 87 crore in previous quarter (38% QOQ). PAT growth was seen mainly due to higher other income and strong revenue beat. Total order intake during the quarter softened to USD206m, compared to USD245m in 3QFY18 and USD256m in 4QFY17. This took the FY18 order intake to USD730m, which is a decline of 3% YoY.

View and Valuation

With strong performance showed in FY18, we expect company to post good set of numbers going forward on back of strong pipelines and order backlogs in Aerospace & Defense, Communication and Transportation unit. Even the DLM business showed the highest revenue performance in 4QFY18 which the management expects to see the same momentum in FY19 has made us confident of better performance going ahead.

Thus we value the stock at target price of Rs 731 (16X FY19 EPS) and recommend Accumulate

KEY FINANCIAL/VALUATIONS	FY15	FY16	FY17	FY18	FY19E
Net Sales	2736	3096	3586	3913	4678
EBITDA	401	421	477	535	641
EBIT	330	331	382	430	521
PAT	351	327	340	406	514
EPS (Rs)	31	29	30	36	46
EPS growth (%)	31%	-7%	4%	19%	27%
ROE (%)	20	17	17	18	20
ROCE (%)	19	17	18	19	19
BV	164	170	188	218	258
P/B (X)	3	3	2	3	3
P/E (x)	16	15	16	18	14

Research Analyst

NIHARIKA OJHA

niharika@narnolia.com

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4Q FY18 Results

Strong Performance

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	934	903	965	983	1,061	14%	8%	3,586	3,913	9.1%
Other Income	27	37	41	30	44	63%	48%	93	152	63.3%
COGS	82	59	82	60	106	30%	76%	274	307	12.0%
Employee Exp	519	518	540	557	573	10%	3%	2,049	2,188	6.8%
Other Expenses	210	213	204	225	241	15%	7%	785	883	12.5%
EBITDA	124	113	140	141	141	14%	0%	477	535	12.1%
Depreciation	26	26	26	28	26	1%	-7%	95	105	10.4%
EBIT	98	87	114	113	116	18%	2%	382	430	12.5%
Interest	3	4	5	5	6	90%	12%	16	20	24.4%
PBT	122	120	150	138	154	26%	12%	459	561	22.4%
Tax	22	37	42	25	34	53%	33%	105	138	32.1%
Exceptional Items	26	-	-	5	-			26	5	-80.8%
PROFIT AFTER TAX	78	88	111	87	120	53%	38%	340	406	19.4%

Strong revenue performance in 4QFY18, DLM highest ever quarterly revenue .

Cyient 4QFY18 revenues increased to Rs1061 crore(8%QoQ) compared to 3QFY18 due to strong performance across verticals like Semiconductor , transportation and communication.

DLM (Rangsons) revenues witnessed a strong growth of 32.5% YoY and 81% QoQ. The growth was more broad based across top customers in every segment. For FY19 continues to be positive based on a healthy order book And opportunities in Aerospace & Defence segment through Offsets and Synergy initiatives

Investments pressures created a toll on operating margin

Operating profit for 4QFY18 is Rs 141crore which showed a flat growth QOQ. Operating margin was at 13.3% for the quarter , a decline of 100bp on account of investment in the New Business Accelerator program. The management expect improvement in DLM margin but overall margin expected to be flat in FY19.

PAT for the quarter stood at Rs 121 crore vs 87 crore in previous quarter(38% QOQ). PAT growth was seen mainly due to higher other income and strong revenue beat.

Strong performance across verticals like Transportation, communication and Semiconductor

SEGMENTS	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QY18	FY17	FY18
utilities,geospatial an	279.58	332	341	347	342	355	373	390	1300	1460
manufacturing	487.74	492	476	487	489	509	532	530	1942	2060
DLM	67.58	90	100	107	76	102	79	142	365	398
inter segment	0	-	-	-	-	-	-	-	0	0
Total	834.9	914	917	941	907	965	983	1,061	3607	3917

Order intake gains expected in FY19

Total order intake during the quarter softened to USD206m, compared to USD245m in 3QFY18 and USD256m in 4QFY17. This took the FY18 order intake to USD730m, which is de growth by 3% YoY. However, order intake in DLM was high at USD19m (compares with USD4m in 3QFY18 and USD70m in 4QFY17). The management however isn't worried about this as the order backlog in the DLM business and service is strong in FY19.

Geography (QOQ growth): Growth across geographies

By Geography	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QY18	FY17	FY18
Americas	2%	8%	-1%	0%	-5%	4%	4%	4%	8%	1%
EMEA	-1%	7%	0%	7%	3%	7%	6%	14%	17%	23%
Asia Pacific	9%	20%	7%	1%	-4%	16%	-8%	10%	54%	14%

Recent development in 4QFY18

Cyient-BlueBird Aero Systems Joint Venture

- ✓ In April 2018, a Joint Venture was formed (Cyient Solutions and Systems Private Limited) between Cyient Limited and BlueBird Aero Systems Limited, Israel with 51% and 49% shareholding .
- ✓ Transfer of technology and manufacturing know-how from BlueBird to CSS to support UAV manufacturing and maintenance services for the Indian market .JV will offer SpyLite™, ThunderB™ and MicroB™ UAV systems for ISTAR1 applications to defence, paramilitary, homeland security and police forces; will also address civilian market requirements for mapping services

New Business Accelerator program

- ✓ NBA program has been created to drive 'Innovation' within Cyient, with focus on developing new Products and Services and to provide Cyient with competitive advantage like Solutions approach and will open up new market opportunities for Cyient and help Cyient to grow .
- ✓ Current investments to yield long term benefits of 10% to 15% over and above the normal earnings growth.

Concall Highlights :

- ✓ DLM highest ever quarterly revenue and operating profit: DLM business was positively impacted by the seasonality in the business and delivered a growth of 36.0% YoY and 80.5% QoQ. Going forward DLM business is expected to grow in the range of 20%. Outlook for FY19 continues to be positive based on a healthy order book and opportunities in Aerospace & Defence segment .
- ✓ Strong set of performance across Verticals: Aerospace: strong growth in fy18(6.1% YOY) was a function of growth in new accounts and commencement of work in defense. Growth in the vertical would continue to be driven by avionics, aftermarket, manufacturing and defense. Communications: The Communications BU witnessed a growth of 24.2% in FY18 driven predominantly by strong growth in key accounts and expansion across geographies. Utilities and Geospatial: Strong traction was seen in 4Q. Good opportunities in the vertical should continue translating into healthy traction. Transportation: Strength has been seen in the areas of rolling stock and signaling. During the quarter, CYL signed up one more large OEM. Ongoing strategic projects with the top 5 rail OEMs globally lend confidence of continued strength going forward. I&ENR: slow growth in energy and natural gas was seen due challenges with a large customer. Semiconductor: The vertical has had a good run after a couple of years of softness. Medical: Long-term outlook looks promising.
- ✓ Margin to be flat in FY19: 4QFY18 saw a decline of 100 bps on account of investment in the New Business Accelerator program. The management expects improvement in DLM margin but overall margin expected to be flat in FY19.
- ✓ Highest ever cash balance at Rs1094 cr (US\$ 168.0 Mn) with continued healthy cash generation post acquisition and increased dividend payout.

Outlook for FY19:

- ✓ Revenue Growth expected to be similar to FY18 that is double digit growth in the services business .Legacy DLM business expected to grow by ~20% and Overall DLM growth expected to be ~35% including B&F.
- ✓ Operating Profit : Double digit growth in operating profit in FY19 . Operating profit margin to be flat YoY (100 bps Improvements due to operational efficiency offset by investments) . DLM margin will improve low single digit
- ✓ OTHERS : Tax rate likely to be lower by 200 to 300 bps (22%-23% ETR).

Exhibit: Strong performance in Revenue growth

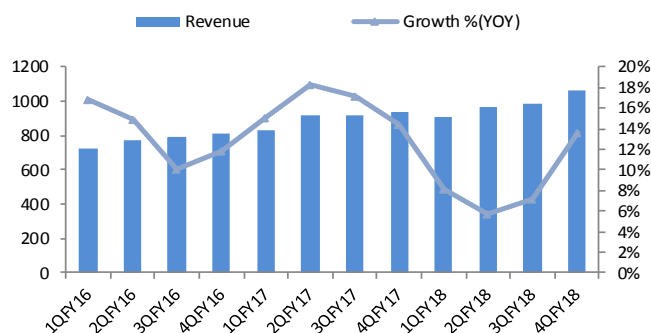


Exhibit: DLM continue to increase

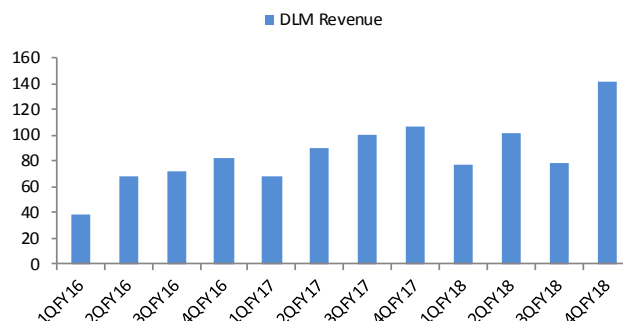


Exhibit: Investments pressures have taken a toll on margin

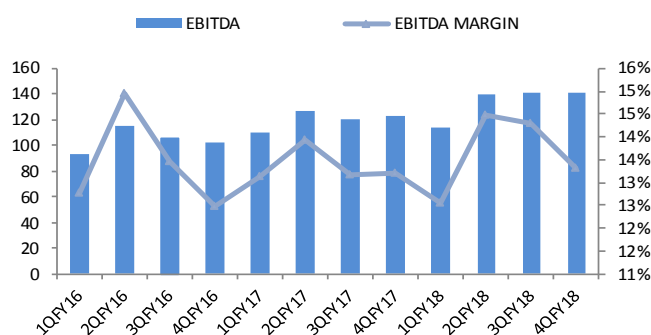


Exhibit: Strong Earning growth in 4Q

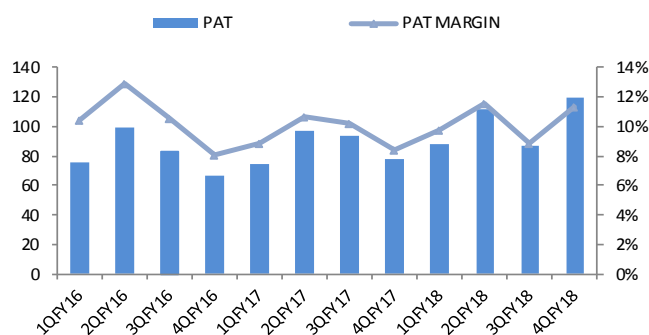


Exhibit: Utilization slowed down but still lies its comfort level

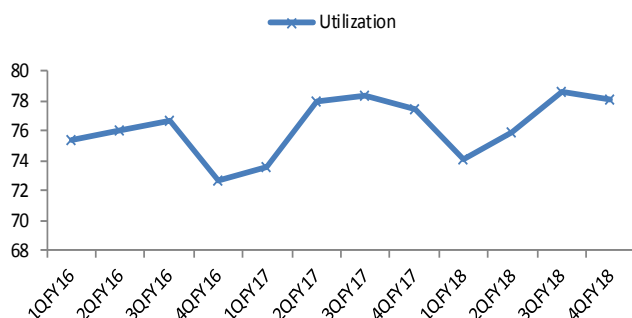
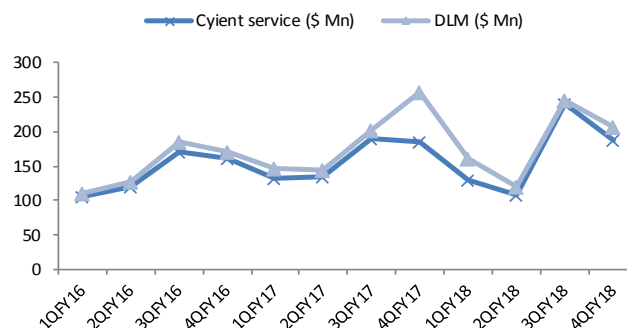


Exhibit: Softness in Order Intake



Operating Metrics

By Geography (%)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Americas	60	59	58	57	56	54	55	53
EMEA	25	24	24	25	27	27	28	29
Asia Pacific	15	17	18	18	18	19	17	18

No. of Mn Dollar Clients	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
20 Mn+	3	3	3	5	5	5	5	4
10 Mn+	10	10	11	9	9	9	11	12
5 Mn+	19	19	21	20	21	22	23	24
1 Mn+	60	56	60	62	57	65	66	63
New Customers Added	22	23	20	20	29	27	12	16

Onshore/Offshore Split (%)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Offshore	41	40	40	39	40	41	43	44
Onsite	59	60	60	61	60	59	57	56

Utilization (%)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Utilization (%)	74	78	78	77	74	76	79	78

Capital Expenditure	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
capex	20	24	26	25	26	24	24	48

By Business Unit (%)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Aerospace and Defense	39%	37%	36%	36%	35%	35%	35%	33%
Transportation	10%	9%	9%	10%	11%	11%	12%	12%
IE&NR	10%	9%	9%	9%	9%	9%	9%	8%
Semiconductor	4%	4%	4%	4%	5%	4%	4%	4%
Medical & Healthcare	2%	2%	2%	2%	2%	2%	2%	2%
Utilities and Geospatial	16%	17%	17%	18%	17%	16%	17%	16%
Communications	19%	22%	23%	21%	23%	23%	23%	25%
Others	0%	0%	0%	0%	0%	0%	0%	0%

Order Intake Details (\$ Mn)	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18
Cyient Services (Current FY)	125	112	106	69	128	100	n/a	n/a
Cyient Services (after Current FY)	8	21	83	117	3	7	n/a	n/a
Cyient Services Total OI	133	133	189	186	130	107	241	187
DLM (Executable Current FY)	12	9	9	1	26	11	n/a	n/a
DLM (Executable after the Curre	2	2	4	70	4	1	n/a	n/a
DLMTotal O	15	11	13	71	30	12	4	19

Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E
Share Capital	56	56	56	56	56	56	56
Reserves	1266	1532	1788	1854	2061	2288	2845
Networth	1322	1588	1844	1910	2117	2344	2901
minority interest	0	0	12	13	3	0	0
Debt	0	6	128	183	165	241	241
Other Non Cur Liab	43	43	83	79	138	163	163
Total Capital Employed	1322	1594	1972	2093	2282	2585	3142
Net Fixed Assets (incl CWIP)	356	341	372	408	450	494	408
Non Cur Investments	37	53	68	80	103	30	30
Non Curr Assets	98	108	570	454	512	563	563
Inventory	0	0	61	98	94	131	157
Debtors	394	480	534	615	650	691	826
Cash & Bank	498	691	623	695	878	981	1548
Other Curr Assets	107	155	183	199	92	91	109
Short-term loans	59	79	136	109	0	0	0
other financial asset	0	0	0	0	266	338	338
Current investments	61	40	34	79	93	113	113
Curr Assets	1119	1445	1570	1795	2071	2346	3091
Creditors	121	174	275	311	402	381	456
Provisions	48	62	96	58	24	23	23
Other Curr Liab	75	72	140	184	288	280	304
Curr Liabilities	245	309	511	553	713	684	783
Net Curr Assets	875	1136	1059	1242	1358	1662	2309
Total Assets	1610	1947	2579	2737	3136	3433	4092

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E
Revenue from Operation	1873	2206	2736	3096	3586	3913	4678
Change (%)	21%	18%	24%	13%	16%	9%	20%
Other Operating Income	0	17	122	109	93	152	164
EBITDA	342	410	401	421	477	535	641
Change (%)	27%	20%	-2%	5%	13%	12%	20%
Margin (%)	18%	19%	15%	14%	13%	14%	14%
Depr & Amor.	64	72	71	89	95	105	120
EBIT	279	338	330	331	382	430	521
Int. & other fin. Cost	0	1	6	18	16	20	23
Other Income	38	17	122	109	93	152	164
EBT	317	354	446	422	459	561	662
Exp Item	2	0	0	9	26	5	0
Tax	97	103	110	99	105	138	148
Minority Int & P/L share of Ass.	13	15	15	12	12	-21	0
Reported PAT	231	266	351	327	340	406	514
Adjusted PAT	231	266	351	327	340	406	514
Change (%)	43%	15%	32%	-7%	4%	19%	27%
Margin(%)	12%	12%	13%	11%	9%	10%	11%

Financial Details

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E
PBT	315	354	446	413	340	561	662
<i>(inc)/Dec in Working Capital</i>	(100)	(67)	33	(93)	37	(115)	(80)
<i>Non Cash Op Exp</i>	325	395	440	456	466	518	887
<i>Int Paid (+)</i>	0	1	6	18	17	20	23
<i>Tax Paid</i>	(85)	(102)	(117)	(102)	(100)	(138)	(148)
CF from Op. Activities	140	227	362	278	420	286	682
<i>(inc)/Dec in FA & CWIP</i>	(72)	(77)	(82)	(129)	(108)	(150)	(34)
Free Cashflow	68	151	280	150	312	136	648
<i>(Pur)/Sale of Inv</i>	(39)	21	6	(45)	(24)	-	-
<i>others</i>	38	38	(453)	89	(49)	-	-
CF from Inv. Activities	(73)	(18)	(528)	(85)	(181)	(150)	(34)
<i>inc/(dec) in NW</i>	3	5	7	2	2	-	-
<i>Int. Paid</i>	0	(1)	(6)	(18)	(17)	(20)	(23)
<i>Div Paid (inc tax)</i>	(42)	(52)	(78)	(162)	(75)	(75)	(62)
<i>others</i>	(3)	6	46	67	(3)	62	-
CF from Fin. Activities	(42)	(43)	(32)	(111)	(94)	(33)	(85)
Inc(Dec) in Cash	25	167	(198)	83	146	103	564
Add: Opening Balance	471	522	769	600	711	857	960
Closing Balance	496	689	570	683	857	960	1,524

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E
ROE	19	18	20	17	17	18	20
ROCE	22	23	19	17	18	19	19
Asset Turnover	5	6	7	8	8	8	11
Current Ratio	5	5	3	3	3	3	4
Debt/Equity		0	0	0	2	3	3
Inv Days			482	189	124	124	124
DPS	5	8	7	6	6	6	6
Payable Days	24	29	37	37	41	41	41
Debtor Days	77	114	71	72	66	66	66
Earnings Per Share	21	24	31	29	30	36	46
Book Value Per Share	118	142	164	170	188	218	258
P/E	8	14	16	15	16	18	14
Price / Book Value	1	2	3	3	2	3	3
EV/EBITDA	4	7	13	10	10	12	9
EV/Sales	1	1	2	1	1	2	1
Div Payout%	22%	21%	26%	24%	18%	15%	12%



Narnolia Securities Ltd

201 | 2nd Floor | Marble Arch Building | 236B-AJC Bose Road |
Kolkata-700 020 , Ph : 033-40501500

email: narnolia@narnolia.com, website
: www.narnolia.com

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