CYIENT LTD.

Narnolia — Advance Strategy Simple Solutions — SEBI Registered Portfolio Manager

BUY

CYIENT Ltd.

22nd March 2016

Company Update

CMP	434
Target Price	480
Previous Target Price	441
Upside	11%
Change from Previous	9%

Market Data

BSE Code	532175
NSE Symbol	CYIENT
52wk Range H/L	643/369
Mkt Capital (Rs Cr)	3092
Av. Volume(,000)	34.0
Nifty	7704

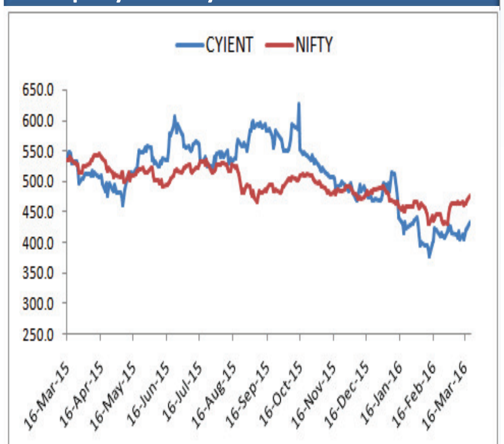
Stock Performance

	1Month	1Year	YTD
Absolute	6%	-8%	-19%
Rel.to Nifty	-1%	-7%	-8%

Share Holding Pattern-%

	4QFY15	3QFY15	2QFY15
Promoters	22.2	22.2	22.3
FII	35.6	35.8	37.1
DII	13.6	13.4	12.1
Others	28.5	28.6	28.6

Company Vs Nifty



For 3QFY16, Cyient revenue of USD 118.4 mn (0.2% QoQ) came below of street expectation. EBITDA margin declined by 100 bps QoQ to 14.1% also lower than street estimation. Primarily reason for lower revenue was muted growth in Rangsons and continued revenue decline in utilities & semiconductor segment which together contributes 14% of the revenue. Management has revised its FY16 revenue estimation to USD 40 mn from earlier guidance of USD 60 mn on account of postponement of some revenues to FY17. For FY16 the key reason for disappointed revenue guidance was due to weakness in energy vertical and problems in 3 of the top-5 clients but management expects it to resolve in FY17. But we remain have positive view on the stock in the long term given its exposure in high growing engineering segment and foray into defence space through Rangsons. We have the Buy Rating on the stock with target price of Rs. 480/share.

Q3FY16_Result Update

Cyient reported mix set of result in Q3FY16 at INR 781.8 Crore, a growth of 1.3% QoQ and 9% year-on-year. US dollar term revenue was 118.4 million upto 3% YoY and Constant currency grew by 6% YoY and 2% QoQ. EBITDA margins declined by 100bps 14.5% due to lower working day and lower capacity. The capacity of the onsite was lower by 4% and 1.5% of offsite & Net profit of Rs 86.9Crore was declined by 11.9% QoQ . Company's Day stand outstanding was at 86 days compared to 89 days in Q2FY16

Client Metrics

Cyient added 24 new clients during the quarter in which 11 client added in DNO , 10 in Engg and 3 in PR. Company top client was flat in sequential quarter and top 5 client grew by 130bps QoQ upto 36.6%.

Employee metrics

Cyient hired employee by 178. Employee count in engineering fell by 37, while 225 new employees were hired in DNO segment. Attrition rate in Q3FY16 was increased by 110bps QoQ by 22.7% and Utilization rate in Q3FY16 was declined slightly sequential basis at 75.8.

Financials	*2012*	*2013*	*2014*	*2015*	*2016E*
Sales	*1553*	*1873*	*2206*	*2736*	*3135*
EBITDA	*269*	*342*	*410*	*401*	*384*
Net Profit	*161*	*235*	*266*	*353*	*313*
EBIDTA %	*17%*	*18%*	*19%*	*15%*	*12%*
PAT %	*10%*	*13%*	*12%*	*13%*	*10%*

(Source: Company/Eastwind)

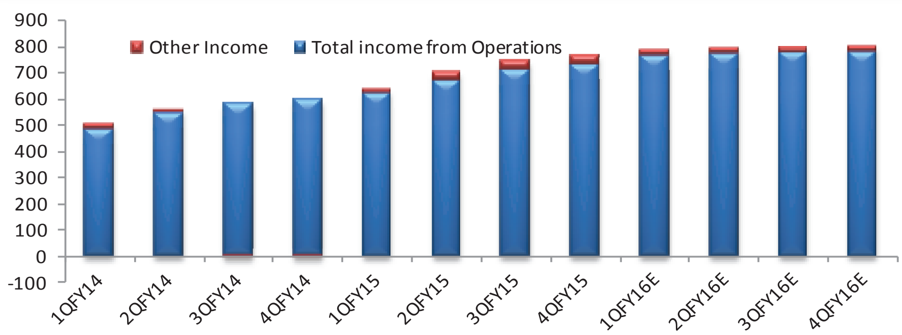
Key takeaways from Conference call :-

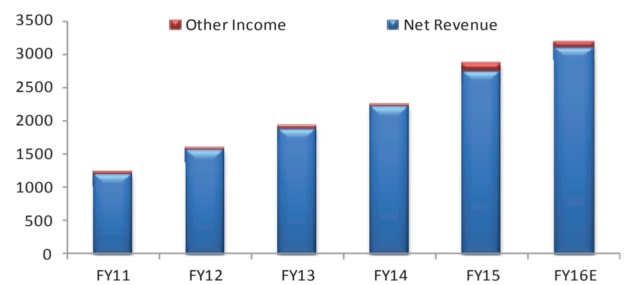
> Recognized by Pratt & Whitney as their most innovative supplier in 2015 for the third consecutive year.
> Added 24 new clients: 11 in DNO, 10 in ENGG and 3 in PR (including Rangsons).
> The management had earlier guided for 200 bps margin improvement in FY16E excluding Rangsons and 100 bps including Rangsons. But its grew by 4.9% growth in USD term. Rangsons has generated revenue of USD 28 million in first 9 months and expects it to generate USD 40 million for FY16.
> Company expects better revenue in Q4.

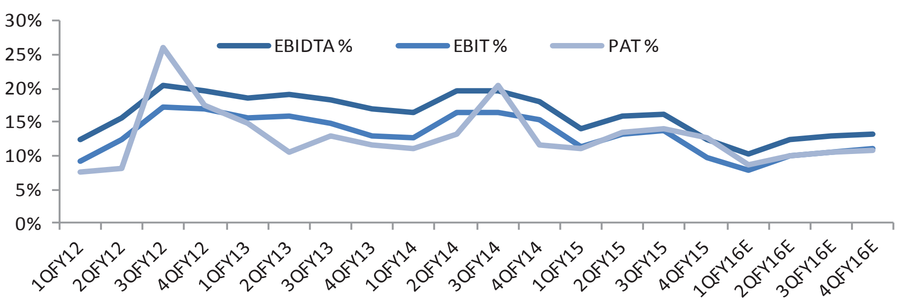
View & Valuation

For 3QFY16, Cyient revenue of USD 118.4 mn (0.2% QoQ) came below of street expectation. EBITDA margin declined by 100 bps QoQ to 14.1% also lower than street estimation. Management has revised its FY16 revenue estimation to USD 40 mn from earlier guidance of USD 60 mn on account of postponement of some revenues to FY17. For FY16 the key reason for disappointed revenue guidance was due to weakness in energy vertical and problems in 3 of the top-5 clients but management expects it to resolve in FY17. But we remain have positive view on the stock in the long term given its exposure in high growing engineering segment and foray into defence space through Rangsons. We have the Buy Rating on the stock with target price of Rs. 480/share.

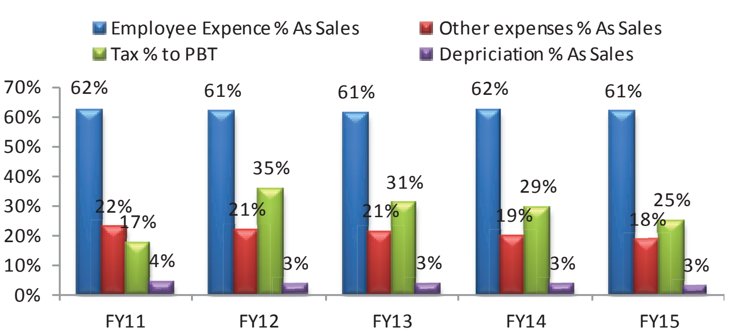
Business Performance :-

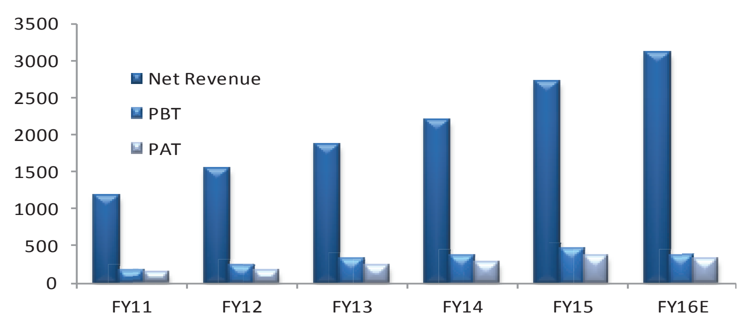






Revenue Segmentation	1QFY15	2QFY15	3QFY15	4QFY15
North America	379	430	462	475
Europe, Middle East, Africa and Indi	182	185	190	196
APAC	61	59	58	60
Total	622	673	711	730





Financials Snap Shot

INCOME STATEMENT

	FY13	FY14	FY15	FY16E
Revenue	**1873**	**2206**	**2736**	**3135**
Other Income	38	17	122	72
Total Revenue	1911	2223	2858	3208
Employe expenses	1141	1368	1676	1920
Other Expenses	390	428	493	565
EBITDA	**342**	**410**	**401**	**384**
EBITDA Margin (%)	18%	19%	15%	12%
Depreciation	64	72	71	74
Interest	0	1	6	11
PBT	317	354	446	370
PBT %	17%	16%	16%	12%
Tax	97	103	110	75
Tax Rate (%)	31%	29%	25%	20%
Reported PAT	**235**	**266**	**353**	**313**
PAT%	13%	12%	13%	10%
Dividend Paid	59	59	59	63
No. of Shares	11	11	11	11

Souce: Eastwind/Company

RATIOS

	FY13	FY14	FY15	FY16E
EPS	21.0	23.8	31.4	27.8
Book Value	118	142	164	186
DPS	4	4	4	5
Payout (incl. Div. Tax.)	25%	22%	17%	20%
Valuation(x)				
P/E	8	14	15	19
Price / Book Value	1	2	3	3
Dividend Yield (%)	3%	1%	1%	1%
Profitability Ratios				
RoE	18%	17%	19%	15%
RoCE	17%	16%	17%	17%
Turnover Ratios				
Asset Turnover (x)	1	1	1	1
Debtors (No. of Days)	77	79	71	70
Inventory (No. of Days)	0	0	8	8
Creditors (No. of Days)	24	29	37	37
Debt/Equity (x)	0.0	0.0	0.1	0.1

Souce: Eastwind/Company

BALANCE SHEET

	FY12	FY13	FY14	FY15
Share Capital	56	56	56	56
Reserves	1102	1266	1532	1788
Net Worth	1157	1322	1588	1844
Long term Debt	0	0	0	47
Short term Debt	3	0	6	81
Deferred Tax	3	5	5	5
Total Liabilities	1404	1610	1947	2579
Net Fixed Assets	326	356	341	372
Capital WIP	11	22	6	0
Debtors	367	394	480	534
Cash & Bank Balances	456	498	691	623
Trade payables	85	121	174	275
Total Provisions	118	87	101	154
Net Current Assets	953	1119	1445	1570
Total Assets	1404	1610	1947	2579

Souce: Eastwind/Company

CASH FLOW STATEMENT

	FY11	FY12	FY13	FY14
OP/(Loss) before Tax	160	235	315	354
Depreciation	49	49	64	72
Direct Taxes Paid	-41	-69	-85	-102
Operating profit before v	212	266	325	397
CF from Op. Activity	**102**	**124**	**140**	**227**
Purchase of long-term in	-42	-1	0	0
Capital expenditure on fi	-65	-80	-72	-77
CF from Inv. Activity	**23**	**-5**	**-73**	**-18**
Proceeds from issue of e	2	2	3	5
Dividend paid out	-11	-28	-36	-50
Finance costs	-1	-1	0	-1
CF from Fin. Activity	-15	-29	-42	-43
Inc/(Dec) in Cash	**110**	**90**	**25**	**167**
Add: Opening Balance	234	349	453	496
Closing Balance	**349**	**453**	**496**	**689**

Souce: Eastwind/Company