

Cyient Limited

Industry IT
Bloomberg CYL IN
BSE CODE 532175

Single digit growth to be seen in service business in FY20

RATING	ACCUMULATE
CMP	582
Price Target	657
Potential Upside	13%

Rating Change	↔
Estimate Change	↑
Target Change	↔

Stock Info

52wk Range H/L	887/571
Mkt Capital (Rs Cr)	6586
Free float (%)	78%
Avg. Vol 1M (,000)	416
No. of Shares (Cr)	11
Promoters Pledged (Cr)	0

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4QFY19 Result Update

- Cyient posted mix set of numbers in its 4QFY19 result. Revenue came in at Rs1163crore by declining 2.1%QoQ whereas PAT came above estimates of Rs 176 crore(vs or estimates of 127 crore)highest ever mainly aided by higher other income .
- EBITDA for the quarter stood at Rs 175 crore, a growth of 0.5%QoQ.Adjusted consolidated margin expanded 33bps during the quarter mainly coming from tailwinds like Incremental bill days and Lower SG&A spend(91bps) however some part was offset by forex change and revenue mix (75bps).
- In service line , semiconductor, U&G and Transportation led the growth by growing 22.6%/3.4%/3.9%QoQ.However major contributor like A&D unit showed muted growth of 0.5%QoQ due to Boeing issues .Even communication declined 3.1%QoQ due to client specific issues.
- DLM business declined 11%QoQ as expected mainly on back of delay in a large order of USD 5mn.
- For FY20, management has guided lower revenue outlook considering the challenges in some business unit. The management has guided of single digit growth in service business and 15% growth in DLM business. On margin front, management expects double digit growth in its margins

View and Valuation

Cyient exited the year with revenue clocking at 8.7% in USD terms led by growth in segment like transportation, semiconductors and A&D, However some segment like communication (contributes~ 22% in service line) remained under pressure in FY19 due to client specific issue. Despite challenges in revenue growth, the company managed to maintain its margin (remained flat to 13.7%) in FY19 due to tight cost control.

Going ahead, we expect the revenue growth to see some pressure due to headwinds in some business unit , however robust order book of USD750mn in FY19(growth of 12.6%YoY in cc terms) gives us some comfort of continued growth in top line. We expect service business to clock single digit growth led by continued growth from transportation, semiconductor and Industrial and Energy Natural resources. However major contributor like A&D (contributes 34% revenue)will see headwinds due to Boeing issue in 1HFY20.Even communication business will see some pressure in 1HFY20 due to client specific issue , management expect the growth to better from 2QFY20.On margin front, we expect cyient to improve its margins by 80bps mainly led by operational efficiency however some portion is expected to be offset due to higher sub contracting cost and continued investment .

Though we see near term headwinds in revenue growth, We still expect steady margin performance to support the PAT growth in FY20.Thus we maintain our target price of Rs657 and recommend Accumulate

Key Risks to our rating and target

- Slower than expected growth in aerospace vertical.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	3096	3586	3914	4618	4965
EBITDA	421	477	535	633	750
EBIT	331	382	430	521	605
PAT	327	340	403	477	504
EPS (Rs)	29	30	36	43	45
EPS growth (%)	-7%	4%	18%	20%	6%
ROE (%)	17	17	18	19	18
ROCE (%)	17	18	19	21	21
BV	170	188	208	231	262
P/B (X)	2.5	2.5	3.3	2.5	2.2
P/E (x)	14.6	15.5	19.2	13.6	12.8

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4QFY19 Results

Margins in line

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales /	1,061	1,080	1,187	1,188	1,163	9.6%	-2.1%	3,914	4,618	18.0%
Other Income	44	17	57	(19)	79	80%	-522%	152	134	-11.8%
COGS	106	88	124	110	97	-8.7%	-11.8%	307	419	36.3%
Employee	573	611	637	648	641	12.0%	-1.1%	2,188	2,537	16.0%
Other Expenses	241	250	265	255	258	7.1%	1.1%	884	1,029	16.4%
EBITDA	141	131	161	174	167	18.0%	-4.4%	535	633	18.2%
Depreciation	26	29	29	28	26	1.6%	-6.8%	105	111	5.9%
EBIT	116	102	133	146	141	21.6%	-3.9%	430	521	21.2%
Interest	6	7	9	9	8	45.6%	-2.4%	20	33	59.8%
PROFIT BEFORE	154	112	181	119	211	37.3%	77.4%	562	623	10.9%
Tax	34	30	54	27	32	-5.1%	19.5%	138	143	3.4%
Exceptional	-	-	-	-	4			5	4	
PAT	120	83	127	92	176	46.3%	90.0%	403	477	18.4%

4QFY19: Revenue in line

- Company's 4QFY19 revenue stood at Rs 1163, a decline of 2.1%QoQ mainly led by challenges in A&D(muted growth of 0.5%QoQ) and communication (declined 3.1%QoQ) in service business .DLM business declined 11%QoQ as per expectation due to delay in order. In USD term revenue grew 1.1 %QoQ and 1.4% in cc terms.
- In service line, semiconductor led the growth by growing 22.6%QOQ, Followed by U&G and Transportation which grew 3.4%/3.9%QoQ.However major contributor Aerospace and defense showed muted growth of 0.5%QoQ due to Boeing issues and supply challenges in US .Even communication declined 3.1%QoQ due to client specific issues. The management expects A&D to continue see the impact in near term however other segment to post moderate growth in FY20

Weakness seen in Communication and A&D

Verticals (USD Mn)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	QoQ%	YoY%
utilities,geospatial & com	55	58	60	57	59	58	58	-0.6%	-4.1%
MFG & industrial	79	82	82	85	87	86	89	3.2%	8.2%
DLM	16	12	22	18	23	21	18	-10.8%	-16.6%

decline in order book

Order intake(in mn\$)	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	FY18	FY19
Service	107	241	187	153	157	255	185	666	749
DLM	12	4	19	17	39	19	11	64	86

Higher other income led to strong PAT growth

- EBITDA for the quarter stood at Rs 175 crore, a growth of 0.5%QoQ.Adjusted consolidated margin expanded 33bps during the quarter mainly coming from tailwinds like Incremental bill days and Lower SG&A spend(91bps) however some part was offset by forex change and revenue mix (75bps).
- Other income came in at Rs 78 crore during the quarter mainly coming from 1) benefit from forex exchange related items of Rs412 mn, 2) received a claim on export of merchandise services of 280 mn and 3)company received some one off (stake acquisition benefitted by amount not paid as earn out was not achieved) which finally resulted in highest ever PAT of Rs 178 crore for the quarter .

Lower guidance for FY20

- For FY20, management has guided lower revenue outlook considering the challenges in some business unit. The management has guided of single digit growth in service business and 15% growth in DLM business. On margin front, management expects double digit growth in its margins

Concall highlights

➤ **Margin performance:** The Company had a headwind from foreign exchange however good capacity helped to offset some impact. More pay days vs. less pay day benefited 83 bps during the quarter.

➤ **Hedge book:** The Company is not changing the policy for the next year. The company's total contract of 123 mn dollar comprising of all the currencies and the company rate for next twelve month for dollar is hedged at rate of 72.8. The company seeing potential forex gains of 9.8mn dollars next year based on the hedge position however these are computed seeing the current spot rate.

➤ Business update

- ❑ Completed buyback: The Company declared a buyback upto 200 crore in February which has finally been completed. The company has bought back 2.6 million shares which was 167 crore of cash.
- ❑ The company also acquired the balance 26% stake in DLM business as per the plan. It is the manufacturing subsidiary which is where the company works in electronic manufacturing related work. The company had budgeted of higher consideration 56 crore however ended up paying them 42.5 crore for the 26% stake.
- ❑ Continued Investment: The Company continues to focus on the acquisition to accelerate growth going ahead.
- ❑ New Business Accelerator program: The company is seeing customer level traction in the products/solutions being developed under NBA, especially in the IoT. The current NBA initiatives likely to accelerate Cyient's EPS growth by 1.5%-3.0%, from FY21 onwards

➤ Vertical performance

- ❑ **Aerospace & Defense Industry** :The company is seeing strong demand and strong production pipeline for aerospace craft. The company is seeing increase in defense spending however there is short term problem which will push out revenue as Boeing issue continues but considering that the company sees longer term opportunities. 4QFY19 in A&D had two issues; 1) Capacity issue in US 2) Boeing issue of push outs, the management is seeing some upside there but it will not happen fully in 1QFY20 and real upside will hit in 2QFY20 as all the order were pushed out. The company expects A&D in services to grow in single digit going ahead.
- ❑ **Communications:** The fundamental industry for communication continues to be strong, 5G is big area where company is continuously working and it has started to bring some deal in technology rather than just on network. This business unit was seeing challenges in 4QFY19 due to client specific issue however significant impact of improvement will be seen from 2QFY20. The communication is expected to much better and grow at higher single digit growth in FY20.
- ❑ **Industrial and Energy Natural resources:** With recovery in oil and gas price, the company is seeing some capital projects coming back and is expected that there will be some good investment into new capex and the company is well positioned there.
- ❑ **Transportation:** As it is not a big industry to grow, the company sees 2% to 3% moderate growth coming from the business unit going ahead. In services, transport growth will lower than FY19.
- ❑ **Utilities & Geospatial:** The geospatial is growing as focus on geographic data is higher than it ever been, the company itself is well positioned there. They are focusing on this segment with leveraging its 27 years geospatial heritage and capabilities into some of these in the industry. Single digit growth expected due to challenges.
- ❑ **Semiconductor:** The business unit is looking weak however with pipeline and order Build Company sees growth in this segment.
- ❑ **Medical Technology and Healthcare:** The BU expects to witness strong growth through FY20 driven by growth in strong pipeline, order intake, venture investments and ecosystem partnerships however it is small part for the company.

Exhibit: Revenue trend

Communication decline led to softness in the service growth. Guidance lowered to single digit in FY20.

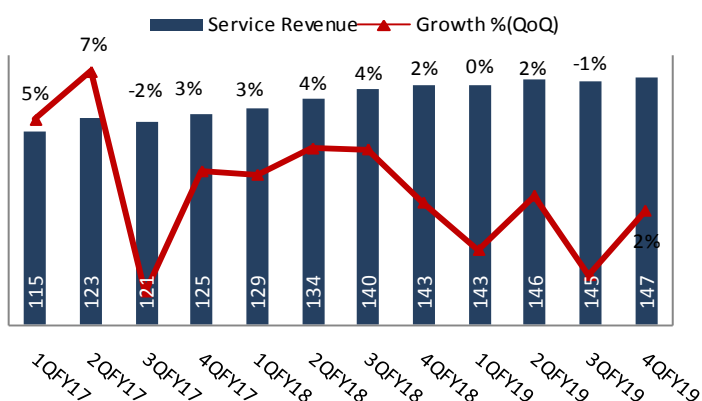


Exhibit: DLM revenue

DLM declined 11%QoQ as per the expectations

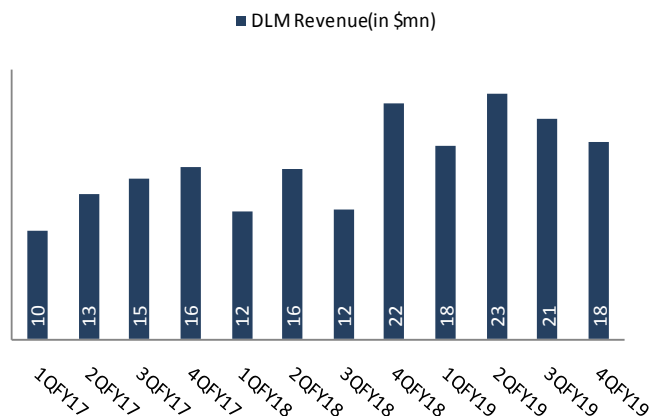


Exhibit: EBITDA and EBITDA margin

Higher operational efficiency led to margin expansion

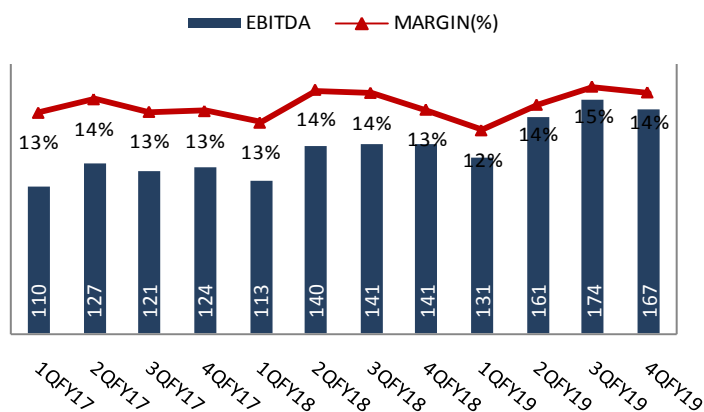


Exhibit: Utilization

Utilization is at its comfortable range.

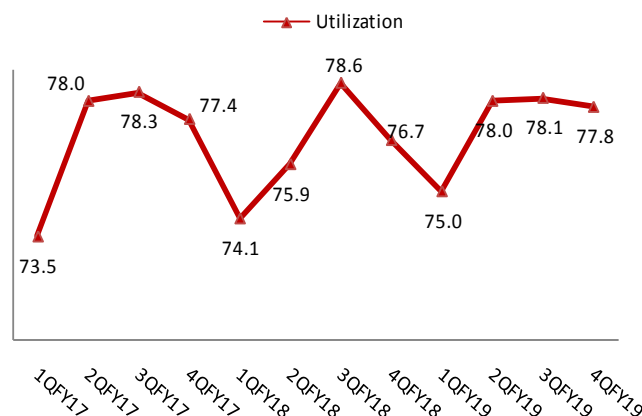


Exhibit: Other income

Forex change in items and claim from export merchandise led to higher ever other income

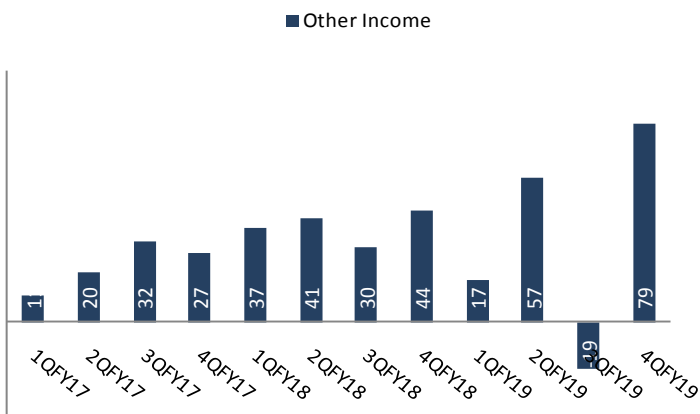
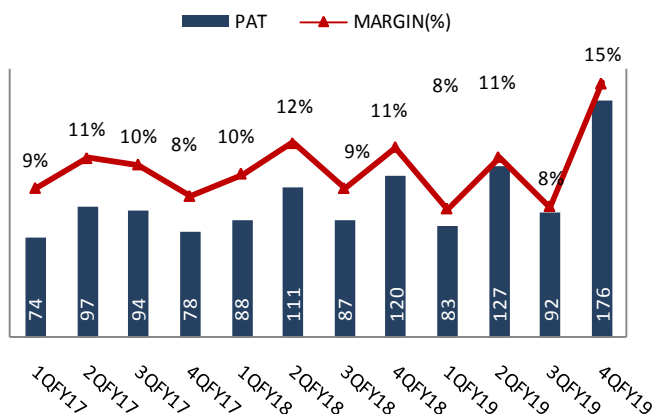


Exhibit: PAT and PAT Margin

Highest ever PAT growth aided by higher other income



Operational Details

By Geography (%)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Americas	55.8	54.2	55.1	53.3	52.5	52	54.1	49.6
EMEA	26.6	26.7	27.7	29.2	24.6	23.8	22.1	22.6
Asia Pacific	17.6	19.1	17.2	17.5	23	24.3	23.8	27.8
No. of Mn Dollar Client	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
20 Mn+	5	5	5	4	4	4	4	4
10 Mn+	9	9	11	12	11	13	13	13
5 Mn+	21	22	23	24	25	27	31	29
1 Mn+ ²	57	65	66	63	66	68	87	86
New Customers Added	29	27	12	12	12	12	12	
Onshore/Offshore (%)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Offshore	40.4	41.2	42.8	44	42	42.8	42.4	57.3
Onsite	59.6	58.8	57.2	56	58.1	57.2	57.6	42.7
Utilization (%)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Utilization (%)	74.1	75.9	78.6	76.7	75	78	78.1	77.8
Capital Expenditure	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Capex	25.8	24	24	48	40	23.6	32.6	40.7
By Business Unit (%)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Aerospace and Defense	35.2%	34.7%	34.7%	33.4%	34.2%	33.8%	34.3%	33.9%
Transportation	10.5%	11.2%	11.7%	11.6%	12.1%	11.8%	12.0%	12.3%
IE&NR	8.5%	8.6%	8.6%	8.3%	8.4%	8.6%	8.6%	8.5%
Semiconductor ²	4.5%	4.1%	3.7%	3.9%	5.5%	5.8%	4.7%	5.6%
Medical & Healthcare	2.0%	2.2%	2.0%	1.9%	1.8%	1.9%	2.0%	2.0%
Utilities and Geospatial	16.6%	15.9%	16.6%	16.2%	14.2%	14.3%	15.0%	15.3%
Communications ²	22.8%	23.3%	22.7%	24.7%	23.9%	23.9%	23.4%	22.3%
Others	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Order Intake (\$ Mn)	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Cyient (Current FY) ²	128	100	n/a	n/a	n/a	n/a	n/a	n/a
Cyient Services (after FY) ²	3	7	n/a	n/a	n/a	n/a	n/a	n/a
Cyient Services Total OI ²	130	107	241	187	153	157	255	185
DLM (Executable Current FY)	26	11	n/a	n/a	n/a	n/a	n/a	n/a
DLM (after FY)	4	1	n/a	n/a	n/a	n/a	n/a	n/a
DLM Total OI	30	12	4	19	17	39	19	11

Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	56	56	56	56	56	56	55	55
Reserves	1266	1532	1788	1854	2061	2288	2509	2855
Networth	1322	1588	1844	1910	2117	2344	2564	2910
Debt	0	0	12	13	3	0	-1	-1
Other Non Cur Liab	0	6	128	183	165	241	325	363
<i>Total Capital Employed</i>	43	43	83	79	138	163	226	226
Net Fixed Assets (incl CWIP)	1322	1594	1972	2093	2282	2585	2889	3273
Non Cur Investments	356	341	372	408	450	494	556	540
Other Non Cur Asst	37	53	68	80	103	30	27	27
Non Curr Assets	98	108	570	454	512	563	721	721
Inventory	0	0	61	98	94	131	28	28
Debtors	394	480	534	615	650	691	814	875
Cash & Bank	498	691	623	695	878	981	971	1344
Other Curr Assets	107	155	183	199	92	91	167	180
Short-term loans and advances	59	79	136	109	0	0	0	0
Other financial asset	-	-	-	-	266	338	423	423
Current investments	61	40	34	79	93	113	28	183
Curr Assets	1119	1445	1570	1795	2071	2346	2430	3032
Creditors	121	174	275	311	402	381	371	399
Provisions	48	62	96	58	24	23	29	28.9
Other Curr Liab	75	72	140	184	288	280	376	394.183
Curr Liabilities	245	309	511	553	713	684	775	822.184
Net Curr Assets	875	1136	1059	1242	1358	1662	1654	2210.15
Total Assets	1610	1947	2579	2737	3136	3433	3889	4319.9

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	1,873	2,206	2,736	3,096	3,586	3,914	4,618	4,965
Change (%)	21%	18%	24%	13%	16%	9%	18%	8%
EBITDA	342	410	401	421	477	535	633	750
Change (%)	27%	20%	-2%	5%	13%	12%	18%	19%
Margin (%)	18%	19%	15%	14%	13%	14%	14%	15%
Depr & Amor.	64	72	71	89	95	105	111	145
EBIT	279	338	330	331	382	430	521	605
<i>Int. & other fin. Cost</i>	0	1	6	18	16	20	33	40
Other Income	38	17	122	109	93	152	134	93
EBT	317	354	446	422	459	562	623	658
Exp Item	2	-	-	9	26	5	4	-
Tax	97	103	110	99	105	138	143	155
Minority Int & P/L share of Ass.	13	15	15	12	12	(16)	1	-
Reported PAT	231	266	351	327	340	403	477	504
Change (%)	43%	15%	32%	-7%	4%	18%	18%	6%
Margin(%)	12%	12%	13%	11%	9%	10%	10%	10%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	19	18	20	17	17	18	19	18
ROCE	22	23	19	17	18	19	21	21
Asset Turnover	5	6	7	8	8	8	8	9
Current Ratio	5	5	3	3	3	3	3	4
Debtor Days	77	114	71	72	66	64	64	64
Book Value Per Share	118	142	164	170	188	208	231	262
Payable Days	24	29	37	37	41	36	29	29
Earnings Per Share	21	24	31	29	30	36	43	45
P/E	8	14	16	15	16	19	14	13
Price / Book Value	1	2	3	3	2	3	3	2
EV/EBITDA	4	7	13	10	10	13	9	7
EV/Sales	1	1	2	1	1	2	1	1
Dividend Payout%	22%	21%	26%	24%	35%	36%	30%	29%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	315	354	446	413	340	403	623	658
(inc)/Dec in Working Capital	-100	-67	33	-93	37	-166	34	-27
Non Cash Op Exp	325	395	440	456	466	607	734	803
Int Paid (+)	0	1	6	18	17	20	33	40
Tax Paid	-85	-102	-117	-102	-100	-165	-143	-155
CF from Op. Activities	140	227	362	278	420	296	658	662
(inc)/Dec in FA & CWIP	-72	-77	-82	-129	-108	-147	-174	-129
Free Cashflow	68	151	280	150	312	149	485	533
(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	-174	-129
inc/(dec) in NW	3	5	7	2	2	1	0	0
Int. Paid	0	-1	-6	-18	-17	-19	-33	-40
Div Paid (inc tax)	-42	-52	-78	-162	-75	-189	-157	-157
others	-3	6	46	67	-3	72	83	38
CF from Fin. Activities	-42	-43	-32	-111	-94	-136	-538	-159
Inc(Dec) in Cash	25	167	-198	83	146	74	-54	374
Add: Opening Balance	471	522	769	600	711	857	960	907
Closing Balance	496	689	570	683	857	960	907	1281

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Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

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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