



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q2 FY19 Result Update@ Dalal&Broacha

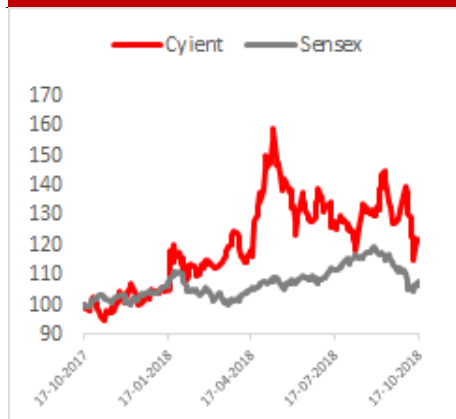
BUY

Current Price	655
Target Price	832
Upside	27%
52 Week Range	887/474

Key Share Data

Market Cap (Rs.bn)	74.03
Market Cap (US\$ mn)	1007.21
No of o/s shares (mn)	112.06
Face Value	5
Monthly Avg.	
Vol(BSE+NSE) Nos	274.22
BSE Code	532175
NSE Code	CYIENT
Bloomberg	CYL IN

Price performance



% Shareholding	Sept-18	June-18
Promoters	22.10	22.12
Public	77.90	77.88
Others	0	0
Total	100	100

Consolidated Financials (In INR Mn)

	Net Sales	% Growth	EBITDA	Margin (%)	PAT	PAT Margin (%)	EPS	% Growth	P/E (x)	ROE (%)	ROCE (%)
FY16	30,941	13.1%	4,141	13.4%	3,342	10.5%	29.7	-5%	22.6x	18.3%	16.8%
FY17	35,858	15.9%	4,772	13.3%	3,699	9.6%	32.9	11%	21.4x	18.7%	17.5%
FY18	39,139	9.1%	5,354	13.7%	4,104	10.4%	36.5	11%	18.2x	18.4%	17.5%
FY19E	47,635	21.7%	6,828	14.3%	5,127	10.8%	45.6	25%	14.4x	20.2%	19.5%
- FY20E	55,052	15.6%	8,024	14.6%	6,450	11.7%	57.4	26%	11.4x	21.7%	21.3%

Source: Company, Dalal&Broacha Research

Q2 results reveal that performance is back on track, outlook intact

- Cyient reported its Q2FY19 numbers which were in-line with our estimates on all fronts.
- USD revenues stood at 168.9 Mn, which was 1.1% above our estimate of USD 167 Mn, and up 5% qoq and 12.5% yoy. Services rev stood at USD 146 Mn, +2.3% qoq and DLM stood at USD 23 Mn, +27% qoq
- In INR terms, revenue came in at INR 11,869 Mn, 1.4% above our est. and up 9.9% qoq and 22.9% yoy.
- EBITDA came in at INR 1,614 Mn, up 23.6% qoq and 15.5% yoy and in-line with our estimate of INR 1,604 Mn
- PAT was reported at INR 1,270 Mn, +54% qoq and 14% yoy and marginally below our est. of INR 1,294 Mn. PAT was high mainly due to higher other income component which contained INR 234 Mn of Incentives for exports of services. However, these Export Incentives of ~ INR 443 Mn per annum will continue until FY20E
- Outlook for FY19E performance was largely unchanged with only one positive change from guidance given in Q1FY19: i.e. operating margins to improve by 50 bps in FY19E (early flat guidance)

Q2 performance mainly driven by A&D and IE&R verticals

- Aerospace & Defense (33.8% of revenues) grew 7.4% qoq and IE&R (8.6% of revenues) grew 7.6% qoq.
- Cyient saw healthy growth in non-UTC accounts in Aerospace and Defense segments whereas IE&R vertical witnessed high growth due to strong crude prices.
- Communications vertical witnessed soft growth (-1% qoq) in the quarter mainly due to exit from lower margin DLM business. Going ahead, expect services portion of Comms business to grow at healthy double digits on the back of high spend in wireless networking in North America and APAC regions.

Key Concall Takeaways

- (i) - Operating margin stood at 13.7%, which had headwinds of 100 bps due to wage hike and tailwinds of Forex depreciation +80 bps, Utilization and Offshoring: +130 bps and SG&A absorption of +100 bps. Q2FY19 saw -160 bps of impact due to DLM business
- (ii) Cash stood at INR 12110mn
- (iii) 17 different projects company is working on under New Business Accelerator – 7 new projects added in the current quarter. 5 – 7 % additional growth FY21 onwards due to investments in NBA
- (iv) Tax Rate reduction of 200-300 bps on track
- (v) FCF for the quarter stood at INR 1,585 Mn, which saw INR 1,168 Mn being contributed by Services business and INR 417 Mn by DLM segment.

Valuation & Outlook:

Cyient's Q2 performance was in-line with our estimates whereas outlook continues to be positive. With over 11% correction in stock prices since our previous report and fundamentals and outlook remaining intact, CMP of INR 655 serves as a good buying opportunity. The stock currently trades at 14.4x and 11.4x FY19E and FY20E EPS. **We retain our BUY rating with a TP of 832, which is 15x FY20E of INR 57.4.**



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YE March (Rs. mn)	Q2 FY19	Q1 FY19	Q-o-Q change %	Q2 FY18	Y-o-Y change %	Q1 FY19 Est.	Deviation %
Total Revenue (USD Mn)	169	161	5.0%	150	12.5%	167	1.1%
Total Revenue (INR Mn)	11,869	10,800	9.9%	9,654	22.9%	11,708	1.4%
Less:							
Cost of Revenues	7,604	6,990	8.8%	6,212	22.4%	7,411	2.6%
SG&A Expenses	2,651	2,504	5.9%	2,044	29.7%	2,693	-1.6%
Total Expenditure	10,255	9,494	8.0%	8,256	24.2%	10,104	1.5%
EBIDTA	1,614	1,306	23.6%	1,398	15.5%	1,604	0.6%
Less: Depreciation	288	285	1.1%	259	11.2%	309	-6.8%
Operating Income	1,326	1,021	29.9%	1,139	16.4%	1,295	2.4%
Interest Paid	87	71	22.5%	52	67.3%	71	
Other income (expense), net	569	169	236.7%	412	38.1%	457	24.6%
Profit Before Tax	1,808	1,119	61.6%	1,499	20.6%	1,681	7.6%
Tax	510	337	51.3%	348	46.6%	387	31.9%
Deferred Tax	29	-33		73		0	
PAT before Minority Interest	1,269	815	55.7%	1,078	17.7%	1,294	-1.9%
Minority Interest	-1	-9	N.A.	-17	N.A.	0	
Share of Profit of Associates	0	0		19		0	
Profit After Tax	1,270	824	54.1%	1,114	14.0%	1,294	-1.9%
Basic & Diluted EPS (Rs.)	11.3	7.3	54.1%	9.9	14.0%	11.5	-1.9%
Basic & Diluted Outstanding (mn)	113	113		113		113	
Margin Analysis %			Change In bps		Change In bps		
EBIDTA Margin	13.6%	12.1%	151	14.5%	-88	13.7%	-10
Operating Margin	11.2%	9.5%	172	11.8%	-63	11.1%	11
PBT Margin	15.2%	10.4%	487	15.5%	-29	14.4%	88
NPM	10.7%	7.6%	307	11.5%	-84	11.1%	-35
Effective Tax Rate (%)	28.2%	30.1%	-191	23.2%	499	23.0%	521
Cost Analysis %			Change In bps		Change In bps		
Cost of Revenues/ Sales	64.1%	64.7%	-66	64.3%	-28	63.3%	77
Other income/ PBT	31.5%	15.1%	1,637	27.5%	399	27.2%	430

Source: Company, Dalal & Broacha Research

- Company is on track with its guidance of 22-23% Effective Tax rate over the next 2 financial years. However, in the current quarter, the company witnessed higher ETR due to dividend received from a subsidiary (ETR increased by 4.4% qoq) and receipt of Export incentives (increased ETR by 0.9% qoq)
- Expect company to reap benefits of investments in New Business Accelerator program from FY20E onwards (company currently invests 1% of revenues in NBA program). These programs should bring about 5-7% additional growth going ahead.
- Management expects additional USD 190 Mn in order intake under Cyient Solutions & Systems which is its defense JV with Bluebird Aerosystems
- Going ahead, expect utilization and offshoring to bring about +100 bps of margin improvement, FX gains of +150 bps, indirect costs absorption +50 bps whereas wage hikes and investment in NBA to impact -250 bps on margins with a cumulative effect of increase in margins of +50 bps



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Profit & Loss A/c					
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Total Revenue	30,941	35,858	39,139	47,635	55,052
Less:					
Increase/Decrease in Stock	6	-110	-201	-223	-237
Cost of Services	1,881	2,852	3,272	4,401	4,679
Employee Cost	18,125	20,490	21,877	25,732	29,923
SG&A Expenses & Other	6,788	7,854	8,837	10,897	12,662
Total Operating Expenditure	26,800	31,086	33,785	40,807	47,028
EBIDTA	4,141	4,772	5,354	6,828	8,024
Less: Depreciation	888	953	1,052	1,179	1,336
EBIT	3,253	3,819	4,302	5,649	6,688
<i>Growth %</i>	<i>-1.3%</i>	<i>17.4%</i>	<i>12.6%</i>	<i>31.3%</i>	<i>18.4%</i>
Interest Paid	164	172	204	332	348
Non-operating Income	1,085	932	1,519	1,737	1,927
Profit Before tax	4,087	4,318	5,567	7,054	8,267
Tax	1,011	1,045	1,380	2,011	1,901
Net Profit before Minority	3,076	3,273	4,187	5,043	6,366
Minority Interest	-54	-42	-23	-23	-23
Profit/Loss of Associate Compar	125	123	-156	62	62
Net Profit	3,147	3,354	4,008	5,081	6,404
Adjusted Profit	3,342	3,699	4,104	5,127	6,450
Reported Diluted EPS Rs	29.0	30.6	36.1	45.6	57.4
Adjusted Diluted EPS Rs	29.7	32.9	36.5	45.6	57.4

Cash Flows (Consolidated)					
YE December (Rs. Mn)	FY16	FY17	FY18	FY19E	FY20E
PAT	3,255.0	3,438.0	4,054.0	5,127.4	6,450.1
Less: Non Operating Income	(1,085.0)	(932.0)	(1,519.0)	(1,736.7)	(1,926.8)
Add: Depreciation	888.0	953.0	1,052.0	1,178.8	1,335.8
Add: Interest Paid	164.0	172.0	204.0	332.0	348.0
Operating Profit before WC Change	3,130.0	3,727.0	3,974.0	4,840.0	6,145.6
(Inc)/Dec in Current Assets	(1,472.0)	(919.0)	(1,513.0)	(1,964.1)	(2,002.7)
Inc/(Dec) in Current Liabilities	1,423.0	1,623.0	330.0	2,176.8	1,418.6
Changes in Inventory	(373.0)	44.0	(377.0)	121.1	(185.4)
Net Cash From Operations	2,708.0	4,475.0	2,414.0	5,173.8	5,376.1
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(865.0)	(950.0)	(1,255.0)	(1,525.4)	(1,376.3)
(Inc)/Dec in Capital Work In Pro.	31.0	(68.0)	(121.0)	70.1	(22.2)
(Inc)/Dec in Investment (Strateg	(155.0)	(246.0)	669.0	(1,075.3)	(255.8)
Add: Non Operating Income Incc	1,085.0	932.0	1,519.0	1,736.7	1,926.8
Cash From Investing Activities	1,407.0	(1,205.0)	288.0	(732.4)	333.9
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	105.0	(242.0)	149.0	(249.0)	(50.0)
Dividend Paid	(787.0)	(1,296.0)	(1,013.5)	(1,281.8)	(1,612.5)
Less: Interest Paid	(164.0)	(172.0)	(204.0)	(332.0)	(348.0)
Net Cash from Financing Activities	(3,394.0)	(1,438.0)	(1,676.0)	(1,963.1)	(2,035.9)
Net Inc/Dec in cash equivalents	721.0	1,832.0	1,026.0	2,478.3	3,674.1
Opening Balance	6,228.0	6,949.0	8,781.0	9,807.0	12,285.3
Closing Balance Cash and Cash Equ	6,949.0	8,781.0	9,807.0	12,285.3	15,959.4

Free Cash Flow Statement					
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
EBITDA	4,141	4,772	5,354	6,828	8,024
FC Investment	369	-110	644	1,525	1,376
WC Changes	-422	748	-1,560	334	-770
Depreciation Tax Shield	220	231	261	336	307
Tax Expenses	1,024	1,155	1,327	1,947	1,846
FCF	2,545	4,706	2,084	4,026	4,340

Balance Sheet (Consolidated)					
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Liabilities					
Equity Capital	562	563	563	563	563
Reserves & Surplus	17,743	20,610	22,876	26,722	31,559
Equity	18,305	21,173	23,439	27,285	32,122
Net Worth	18,305	21,173	23,439	27,285	32,122
Minority Interest					
Net Deferred tax liability/(Asse	1,566	1,373	1,590	1,490	1,464
Total Loans	769	527	676	427	377
Capital Employed	20,640	23,073	25,705	29,201	33,963
Assets					
Gross Block	7,082	6,972	7,616	9,141	10,518
Less: Depreciation	4,062	3,955	4,396	5,575	6,911
Net Block	3,020	3,017	3,220	3,567	3,607
Capital WIP	24	92	213	143	165
Investments	991	1,237	568	1,643	1,899
Intangible Assets	3,628	4,666	5,057	5,057	5,057
Current Assets					
Sundry Debtors	6,145	6,496	6,913	8,483	9,653
Current Investments	790	925	1,130	1,152	1,306
Cash and Bank Balance	6,949	8,781	9,807	12,285	15,959
Loans and Advances	3,134	3,515	4,120	4,382	4,845
Other Current Assets	1,648	1,700	1,986	2,096	2,312
Total Current Assets	19,645	22,352	25,268	29,589	35,452
Less: Current Liabilities & Provisions					
Sundry Creditors	3,098	4,021	3,813	5,255	6,056
Provisions	202	235	229	422	380
Other Current Liabilities	3,368	4,035	4,579	5,121	5,780
Total Current Liabilities & Provisior	6,668	8,291	8,621	10,798	12,216
Capital Applied	20,640	23,073	25,705	29,201	33,963

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E
Key Operating Ratios					
EBITDA Margin (%)	13.4%	13.3%	13.7%	14.3%	14.6%
Tax / PBT (%)	24.7%	24.2%	24.8%	28.5%	23.0%
Net Profit Margin (%)	10.5%	9.6%	10.4%	10.8%	11.7%
RoE (%)	18.3%	18.7%	18.4%	20.2%	21.7%
RoCE (%)	16.8%	17.5%	17.5%	19.5%	21.3%
Current Ratio (x)	2.9x	2.7x	2.9x	2.7x	2.9x
Dividend Payout (%)	24.2%	37.7%	25.0%	25.0%	25.0%
Book Value Per Share (Rs.)	162.9	188.4	208.5	242.7	285.8
Financial Leverage Ratios					
Debt/ Equity (x)	0.0x	0.0x	0.0x	0.0x	0.0x
Interest Coverage (x)	25.3x	27.7x	26.2x	20.6x	23.1x
Growth Indicators %					
Sales Growth (%)	13.1%	15.9%	9.1%	21.7%	15.6%
EBITDA Growth (%)	3.3%	15.2%	12.2%	27.5%	17.5%
Net Profit Growth (%)	(7.8%)	5.6%	17.9%	26.5%	25.8%
Diluted EPS Growth (%)	(7.8%)	5.6%	17.9%	26.5%	25.8%
Turnover Ratios					
Debtors (Days of net sales)	68	64	62	59	60
Creditors (Days of Raw Material)	61	65	63	64	67



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