



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141442

Q3 FY18 Result Update@ Dalal&Broacha

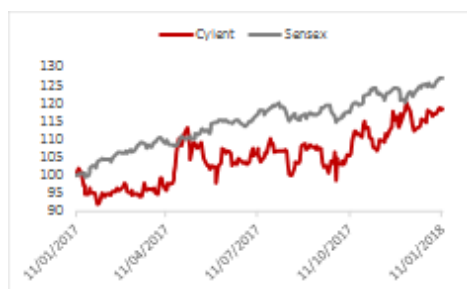
BUY

Current Price	581
Target Price	699
52 Week Range	605/440

Key Share Data

Market Cap (Rs.bn)	65.5
Market Cap (US\$ mn)	1,023
No of o/s shares (mn)	112
Face Value	5
Monthly Avg.	
Vol(BSE+NSE) Nos	146.4
BSE Code	532175
NSE Code	CYIENT
Bloomberg	CYL IN

Price performance



% Shareholding	Sept-17	Jun-17
Promoters	22.18	22.18
Institutions	61.68	61.68
Others	16.14	16.14
Total	100	100

One off events impact an otherwise robust Q3 performance

- Cyient delivered a stellar performance Q3 despite the impact of various one offs in the quarter. Dollar revenue was reported at \$152 Mn, up 1.3% qoq, versus our estimate of \$158 Mn. In Rupee terms, revenue came in at INR 9,833 Mn, up 1.9% qoq and 4.1% below our estimate of INR 10,251 Mn. Revenue was below our estimate mainly due to pushover of a DLM business in Q4.

- EBITDA was recorded at INR 1,403 Mn, flat qoq and up 16% yoy and largely in line with our estimate of INR 1,467 Mn. EBITDA margins were reported at 14.3% which was exactly in line with our estimates. EBITDA margins were maintained despite a lower revenue mainly due to record utilization levels of 78.6% in Q3.

- Reported PAT stood at INR 878 Mn, 18% below our estimate of INR 1,071 Mn. However, adjusting for one-off expenses such as INR 50 Mn loss on divestment of IASI and INR 204 Mn loss in IASI due to the hurricane in Puerto Rico, the company reported an Adjusted PAT of INR 1,088 Mn, which was 1.8% above our estimate.

Broad-based performance and FY18E guidance intact are highlights of the quarter

- All Business Units reported robust growth barring Semi-conductor and Medical, which we believe will bounce back in the next quarter itself. Utilities & Geospatial and Transportation BUs led the growth pack with a 8.8% and 8.4% qoq growth, followed by IE&R at 4.3% qoq and A&D at 4.1% qoq.

- Geography-wise N. America outperformed with a 5.2% qoq whereas Europe was flat and Asia Pacific de-grew by 6% qoq.

- As per management guidance, DLM delivered strong performance in Q3 with a positive FCF of INR 38 Mn and positive operating profit of INR 8 Mn.

- In Q3, the company reported FCF of INR 1,098 Mn, which was the highest ever FCF to EBITDA at 67%.

- Company has maintained its FY18E guidance of 50 bps improvement in margins, double digit earnings growth 20% growth in DLM business and double digit growth in services business.

Key Concall Takeaways

(i) DLM revenue came in 23.2% lower qoq at INR 785 Mn as certain projects were pushed over to Q4. Given the de-growth in Q3, management is confident of delivering 80-90% growth in Q4 in order to fulfill the growth target given earlier in the year (ii) Expect ETR to come down by 100 bps in FY19E due to reduction in US Central taxes (iii) In the transportation segment, the company is now associated with the world's 5 largest OEMs. (v) Company continues its inorganic approach and its pursuit of investment in companies across the verticals.

Valuation & Outlook:

We believe that Cyient is uniquely placed in the Engineering space as far as its vertical presence and believe that it has several levers such as Utilization and Pyramid restructuring to improve operational performance and achieve its guidance. Stock is currently trading at 13.4x and 11.6x FY19E and FY20E EPS. We re-iterate a BUY rating on the stock with a target price of INR 699.

Consolidated Financials (In INR Mn)

	Net Sales	% Growth	EBITDA	Margin (%)	PAT	PAT (%)	EPS	P/E (x)	ROE (%)	ROCE (%)
FY16	30,941	13.1%	4,141	13.4%	3,342	10.5%	29.7	20.4x	18.3%	16.8%
FY17	35,858	15.9%	4,772	13.3%	3,699	9.6%	32.9	19.3x	18.7%	17.5%
FY18E	39,820	11.0%	5,729	14.4%	4,331	10.9%	38.5	15.3x	19.0%	18.1%
FY19E	45,092	13.2%	6,652	14.8%	4,867	11.0%	43.3	13.4x	18.5%	17.8%
FY20E	50,686	12.4%	7,649	15.1%	5,614	11.2%	49.9	11.6x	18.5%	17.9%

Source: Company, Dalal&Broacha Research



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YE March (Rs. mn)	Q3 FY18	Q2 FY18	Q-o-Q change %	Q3 FY17	Y-o-Y change %
Total Revenue (USD Mn)	152	150	1.3%	136	11.8%
Total Revenue (INR Mn)	9,833	9,654	1.9%	9,138	7.6%
Less:					
Cost of Revenues	6,177	6,212	(0.6%)	5,984	3.2%
SG&A Expenses	2,253	2,044	10.2%	1,945	15.8%
Total Expenditure	8,430	8,256	2.1%	7,929	6.3%
EBIDTA	1,403	1,398	0.4%	1,209	16.0%
Less: Depreciation	275	259	6.2%	243	13.2%
Operating Income	1,128	1,139	(1.0%)	966	16.8%
Interest Paid	51	52	(1.9%)	35	45.7%
Other income (expense), net	297	412	(27.9%)	318	(6.6%)
Profit Before Tax	1,324	1,499	(11.7%)	1,249	6.0%
Tax	466	348	33.9%	282	65.2%
Deferred Tax	(215)	73		40	
PAT before Minority Interest	1,073	1,078	(0.5%)	927	15.7%
Minority Interest	(7)	(17)	N.A.	(9)	N.A.
Share of Profit of Associates	(202)	19		6	
Profit After Tax	878	1,114	(21.2%)	942	(6.8%)
Basic & Diluted EPS (Rs.)	7.8	9.9	(21.2%)	8.4	(6.8%)
Basic & Diluted Outstanding (mn)	113	113		113	
Margin Analysis %			Change In bps		Change In bps
EBIDTA Margin	14.3%	14.5%	-21	13.2%	104
Operating Margin	11.5%	11.8%	-33	10.6%	90
PBT Margin	13.5%	15.5%	-206	13.7%	-20
NPM	8.9%	11.5%	-261	10.3%	-138
Effective Tax Rate (%)	35.2%	23.2%	1,198	22.6%	1,262
Cost Analysis %			Change In bps		Change In bps
Cost of Revenues/ Sales	62.8%	64.3%	-153	65.5%	-267
Other income/ PBT	22.4%	27.5%	-505	25.5%	-303

Source: Company, Dalal & Broacha Research

- Margins remained steady at 14.3% due to strong utilization levels of 78.6% in the quarter.
- Notably, Order intake in Q3FY18 more than doubled from \$107 Mn in Q2FY18 to \$241 Mn.
- Cash & Cash equivalents stood at the highest level of INR 10,770 Mn
- Company declared a dividend of INR 4 per share
- Cyient received a net cash amount of \$9.01 Mn on sale of investment in Puerto Rico based JV with UTC group. The company had invested \$250K in 2003 and had received dividends \$18.4 Mn and \$8.1 Mn



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Profit & Loss A/c					
YE March (Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
Total Revenue	30,941	35,858	39,820	45,092	50,686
Less:					
Increase/Decrease in Stock	6	-110	13	126	142
Cost of Services	1,881	2,852	3,180	3,652	4,106
Employee Cost	18,125	20,490	21,863	24,742	27,768
SG&A Expenses & Other	6,788	7,854	9,034	9,920	11,022
Total Operating Expenditure	26,800	31,086	34,091	38,441	43,037
EBIDTA	4,141	4,772	5,729	6,652	7,649
Less: Depreciation	888	953	1,087	1,210	1,360
EBIT	3,253	3,819	4,642	5,442	6,289
Interest Paid	164	172	200	208	208
Non-operating Income	1,085	932	1,417	1,353	1,521
Profit Before tax	4,087	4,318	5,859	6,587	7,602
Tax	1,011	1,045	1,616	1,738	2,006
Net Profit before Minority	3,076	3,273	4,243	4,849	5,596
Minority Interest	-54	-42	-44	-44	-44
Profit/Loss of Associate Compa	125	123	44	62	62
Net Profit	3,147	3,354	4,243	4,867	5,614
Adjusted Profit	3,342	3,699	4,331	4,867	5,614
Reported Diluted EPS Rs	29.0	30.6	38.5	44.1	50.7
Adjusted Diluted EPS Rs	29.7	32.9	38.5	43.3	49.9

Balance Sheet (Consolidated)					
YE March (Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
Liabilities					
Equity Capital	562	563	563	563	563
Reserves & Surplus	17,743	20,610	23,858	27,574	31,850
Equity	18,305	21,173	24,421	28,137	32,413
Net Worth	18,305	21,173	24,421	28,137	32,413
Minority Interest					
Net Deferred tax liability/(Asset)	1,566	1,373	1,530	1,490	1,464
Total Loans	769	527	477	427	377
Capital Employed	20,640	23,073	26,428	30,054	34,255
Assets					
Gross Block	7,082	6,972	7,967	9,095	10,362
Less: Depreciation	4,062	3,955	5,042	6,252	7,612
Net Block	3,020	3,017	2,926	2,843	2,750
Capital WIP	24	92	102	135	152
Investments	991	1,237	1,374	1,556	1,749
Intangible Assets	3,628	4,666	4,666	4,666	4,666
Current Assets					
Sundry Debtors	6,145	6,496	7,200	8,030	8,887
Current Investments	790	925	844	1,090	1,203
Cash and Bank Balance	6,949	8,781	11,690	14,636	18,256
Loans and Advances	3,134	3,515	3,910	4,149	4,460
Other Current Assets	1,648	1,700	1,832	1,984	2,129
Total Current Assets	19,645	22,352	26,471	31,016	36,203
Less: Current Liabilities & Provisions					
Sundry Creditors	3,098	4,021	4,390	4,950	5,542
Provisions	202	235	340	365	401
Other Current Liabilities	3,368	4,035	4,380	4,847	5,322
Total Current Liabilities & Provisions	6,668	8,291	9,110	10,162	11,265
Capital Applied	20,640	23,073	26,428	30,054	34,255

Cash Flows (Consolidated)					
YE December (Rs. Mn)	FY16	FY17	FY18E	FY19E	FY20E
PAT	3,255.0	3,438.0	4,330.9	4,954.5	5,701.7
Less: Non Operating Income	(1,085.0)	(932.0)	(1,416.9)	(1,352.8)	(1,520.6)
Add: Depreciation	888.0	953.0	1,086.9	1,209.8	1,359.8
Add: Interest Paid	164.0	172.0	200.0	208.0	208.0
Operating Profit before WC Changes	3,130.0	3,727.0	4,156.8	4,958.0	5,687.5
(Inc)/Dec in Current Assets	(1,472.0)	(919.0)	(1,149.8)	(1,467.1)	(1,426.3)
Inc/(Dec) in Current Liabilities	1,423.0	1,623.0	819.0	1,052.3	1,102.7
Changes in Inventory	(373.0)	44.0	(60.5)	(131.8)	(139.8)
Net Cash From Operations	2,708.0	4,475.0	3,765.6	4,411.3	5,224.0
Cash Flow from Investing Activities					
(Inc)/Dec in Fixed Assets	(865.0)	(950.0)	(995.5)	(1,127.3)	(1,267.2)
(Inc)/Dec in Capital Work In Progress	31.0	(68.0)	(10.2)	(33.1)	(16.8)
(Inc)/Dec in Investment (Strategic)	(155.0)	(246.0)	(136.7)	(181.9)	(193.0)
Add: Non Operating Income Income	1,085.0	932.0	1,416.9	1,352.8	1,520.6
Cash Flow from Investing Activities	1,407.0	(1,205.0)	318.6	72.0	105.2
Cash Flow from Financing Activities					
Inc/(Dec) in Total Loans	105.0	(242.0)	(50.0)	(50.0)	(50.0)
Dividend Paid	(787.0)	(1,296.0)	(1,082.7)	(1,238.6)	(1,425.4)
Less: Interest Paid	(164.0)	(172.0)	(200.0)	(208.0)	(208.0)
Net Cash from Financing Activities	(3,394.0)	(1,438.0)	(1,175.4)	(1,537.2)	(1,708.8)
Net Inc/Dec in cash equivalents	721.0	1,832.0	2,908.8	2,946.0	3,620.3
Opening Balance	6,228.0	6,949.0	8,781.0	11,689.8	14,635.9
Closing Balance Cash and Cash Equivalents	6,949.0	8,781.0	11,689.8	14,635.9	18,256.2

Free Cash Flow Statement					
YE March (Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
EBITDA	4,141	4,772	5,729	6,652	7,649
FC Investment	369	-110	995	1,127	1,267
WC Changes	-422	748	-391	-547	-463
Depreciation Tax Shield	220	231	300	319	359
Tax Expenses	1,024	1,155	1,580	1,755	2,018
FCF	2,545	4,706	3,062	3,542	4,259

Key Ratios (Consolidated)					
YE March (Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
Key Operating Ratios					
EBITDA Margin (%)	13.4%	13.3%	14.4%	14.8%	15.1%
Tax / PBT (%)	24.7%	24.2%	27.6%	26.4%	26.4%
Net Profit Margin (%)	10.5%	9.6%	10.9%	11.0%	11.2%
RoE (%)	18.3%	18.7%	19.0%	18.5%	18.5%
RoCE (%)	16.8%	17.5%	18.1%	17.8%	17.9%
Current Ratio (x)	2.9x	2.7x	2.9x	3.1x	3.2x
Dividend Payout (%)	24.2%	37.7%	25.0%	25.0%	25.0%
Book Value Per Share (Rs.)	162.9	188.4	217.3	250.3	288.4
Financial Leverage Ratios					
Debt/ Equity (x)	0.0x	0.0x	0.0x	0.0x	0.0x
Interest Coverage (x)	25.3x	27.7x	28.6x	32.0x	36.8x
Growth Indicators %					
Sales Growth (%)	13.1%	15.9%	11.0%	13.2%	12.4%
EBITDA Growth (%)	3.3%	15.2%	20.0%	16.1%	15.0%
Net Profit Growth (%)	(7.8%)	5.6%	26.0%	14.4%	15.1%
Diluted EPS Growth (%)	(7.8%)	5.6%	26.0%	14.4%	15.1%
Turnover Ratios					
Debtors (Days of net sales)	68	64	63	62	61
Creditors (Days of Raw Materia)	61	65	69	68	68

Valuation Ratios					
YE March (Rs. mn)	FY16	FY17	FY18E	FY19E	FY20E
P/E (x)	20.4x	19.3x	15.3x	13.4x	11.6x
P/BV (x)	3.6x	3.1x	2.7x	2.4x	2.0x
EV/EBITDA (x)	14.5x	12.2x	9.6x	7.9x	6.4x
EV/Sales	1.9x	1.6x	1.4x	1.2x	1.0x
Market Cap./ Sales (x)	2.1x	1.9x	1.7x	1.5x	1.3x
Dividend Yield (%)	1.2%	2.0%	1.6%	1.9%	2.1%



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