



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Mayank Babla (022) 67141412

## Q4 FY19 Result Update@ Dalal&Broacha

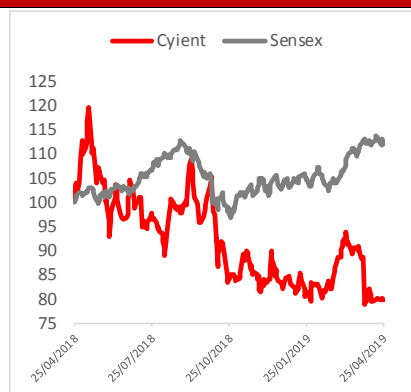
### BUY

|               |         |
|---------------|---------|
| Current Price | 580     |
| Target Price  | 775     |
| Upside        | 34%     |
| 52 Week Range | 887/570 |

### Key Share Data

|                       |        |
|-----------------------|--------|
| Market Cap (Rs.Mn)    | 66,440 |
| Market Cap (US\$ Mn)  | 949    |
| No of o/s shares (Mn) | 113    |
| Face Value            | 5      |
| Monthly Avg.          |        |
| Vol(BSE+NSE) '000     | 489.8  |
| BSE Code              | 532175 |
| NSE Code              | CYIENT |
| Bloomberg             | CYL:IN |

### Price performance



| % Shareholding | Mar-19     | Dec-18     |
|----------------|------------|------------|
| Promoters      | 22.5       | 22.1       |
| Public         | 77.5       | 77.9       |
| Others         | 0          | 0          |
| <b>Total</b>   | <b>100</b> | <b>100</b> |

Cyient reported its Q4FY19 numbers which were in-line with our revenue estimates and a big beat vs. our profitability estimates.

- Revenue in dollar terms was reported at \$165 Mn, +0.1% qoq and yoy and -1.2% below our est. of \$167 Mn
- In INR terms, revenue came in at INR 11629 Mn, -2.1% qoq / +9.5% yoy / -1.3% below our est. of INR 11,779 Mn
- EBTIDA stood at INR 1,666 Mn, -5.5% qoq / +17.3% yoy / +17.7% vs. our est. of INR 1,415 Mn
- EBITDA margin of 14.3%, -52 bps qoq / +95 bps yoy
- PAT stood at INR 1,766 Mn, +87.1% qoq / +49.2% yoy / +73% vs our est. of INR 1022 Mn
- PAT was a big beat vs ours and street estimates mainly due to higher Other Income at INR 789 Mn in Q4FY19 vs. loss of INR 187 Mn / income of INR 439 Mn in Q4FY19 / Q4FY18 respectively.
- Other income was higher than expected due to 2 components: (1) Tax incentives on export of services merchandise of INR 280 Mn and (2) Reversal of liability of INR 135 Mn due to balance acquisition of DLM business
- Dividend of INR 10/ share declared
- EPS stood at INR 15.7 in Q4FY19 vs 8.4 / 10.5 in Q3FY19 / Q4FY18

### Performance slowdown mainly due to Aerospace & Defense and Communications segments and DLM business

- A&D (36.7% of total revenue) was down -5% QoQ and -0.4% YoY. The slowdown was primarily from the DLM business. Management mentioned that due to problems faced by Boeing in its 737 aircraft, the company has pushed out orders to next year.
- Comms (20.2% of total revenues) was down -2.7% QoQ and -10.7% YoY. On similar lines, certain large programs were delayed by clients to early next year.
- DLM revenue stood at INR 1,282 Mn, -13% QoQ / -9% YoY. This was mainly due to restructuring operations by exiting low margin business. Company expects a strong FY20e on account healthy deal pipeline

### Key Concall Takeaways

(i) Boeing pushed out many orders due to problems in 737 over the last few quarters and therefore impacted A&D business (down 5% QoQ and -0.4% YoY). Company expects Q1 to be soft on similar lines and a strong recovery from Q2FY20 onwards (ii) Launched new services and solutions for 5G deployment (iii) Signed an MoU with Telangana State Aviation Academy for Drone Pilot Training (iv) Communications business (20% of rev) reported a growth of 2.7% qoq and 10.7% as deals got pushed to early next FY due to delay in decision making. However, renegotiation of old contract in Comms will see positive impact from Q1/Q2 onwards. Segment will deliver in FY20. (v) Management stated that more of fulfillment/supply challenge which restricted growth rather than demand side challenges in the current quarter and attributed the soft quarter 75% to supply side challenges and 25% demand side challenges.

### Consolidated Financials (In INR Mn)

|              | Net Sales | % Growth | EBITDA | Margin (%) | PAT   | Margin (%) | EPS  | % Growth | P/E (x) | ROE (%) | ROCE (%) |
|--------------|-----------|----------|--------|------------|-------|------------|------|----------|---------|---------|----------|
| <b>FY17</b>  | 35,858    | 15.9%    | 4,772  | 13.3%      | 3,699 | 9.6%       | 32.9 | 11%      | 19.0x   | 18.7%   | 17.5%    |
| <b>FY18</b>  | 39,139    | 9.1%     | 5,354  | 13.7%      | 4,104 | 10.4%      | 36.5 | 11%      | 16.1x   | 18.4%   | 17.5%    |
| <b>FY19</b>  | 46,175    | 18.0%    | 6,436  | 13.9%      | 4,909 | 10.6%      | 43.7 | 20%      | 13.3x   | 19.4%   | 18.8%    |
| <b>FY20E</b> | 52,464    | 13.6%    | 7,355  | 14.0%      | 5,595 | 10.7%      | 49.8 | 14%      | 11.7x   | 19.2%   | 18.8%    |
| <b>FY21E</b> | 61,476    | 17.2%    | 8,996  | 14.6%      | 6,965 | 11.3%      | 62.0 | 24%      | 9.4x    | 20.5%   | 21.3%    |

Source: Company, Dalal&Broacha Research



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**Concall KTAs (Continued...)**

(vi) Exercise for cost optimization with an external agency has begun in December 2018 and will end in Q4FY20. This should result in strong exit rate for FY20 (vii) Drop in deal wins (\$196 Mn in Q4FY19 vs \$273 Mn in Q3) as Q3 was substantially high due to year end and Q4 was lower relatively therefore not a cause of concern (viii) Company expects Q1 will be consumed in solving the supply side problem and therefore will be soft (ix) Margin walk: -46 bps Forex impact, -29 bps impact due to change in revenue mix whereas Tailwinds included incremental bill days positive impact of 83 bps (x) DLM business recorded operating margin of 4.1% (xi) Free Cash flow of 111 Mn in DLM

**Q4FY19 Performance Highlights:**

| YE March (Rs. mn)                    | Q4 FY19      | Q3 FY19       | Q-o-Q change %       | Q4 FY18      | Y-o-Y change %       | Q4 FY19 Est.  | Deviation %  |
|--------------------------------------|--------------|---------------|----------------------|--------------|----------------------|---------------|--------------|
| Total Revenue (USD Mn)               | 165          | 165           | 0.1%                 | 165          | 0.2%                 | 167           | -1.1%        |
| Total Revenue (INR Mn)               | 11,629       | 11,877        | (2.1%)               | 10,618       | 9.5%                 | 11,779        | -1.3%        |
| Less:                                |              |               |                      |              |                      |               |              |
| Cost of Revenues                     | 7,295        | 7,562         | (3.5%)               | 6,788        | 7.5%                 | 7,655         | -4.7%        |
| SG&A Expenses                        | 2,581        | 2,552         | 1.1%                 | 2,410        | 7.1%                 | 2,709         | -4.7%        |
| <b>Total Expenditure</b>             | <b>9,876</b> | <b>10,114</b> | <b>(2.4%)</b>        | <b>9,198</b> | <b>7.4%</b>          | <b>10,364</b> | <b>-4.7%</b> |
| EBIDTA                               | 1,753        | 1,763         | (0.6%)               | 1,420        | 23.5%                | 1,415         | 23.9%        |
| Less: Depreciation                   | 261          | 280           | (6.8%)               | 257          | 1.6%                 | 278           | -6.0%        |
| <b>Operating Income</b>              | <b>1,492</b> | <b>1,483</b>  | <b>0.6%</b>          | <b>1,163</b> | <b>28.3%</b>         | <b>1,137</b>  | <b>31.2%</b> |
| Interest Paid                        | 83           | 85            | (2.4%)               | 57           | 45.6%                | 85            |              |
| Other income (expense), net          | 789          | -187          | (521.9%)             | 439          | 79.7%                | 294           | 167.9%       |
| <b>Profit Before Tax</b>             | <b>2,163</b> | <b>1,211</b>  | <b>78.6%</b>         | <b>1,545</b> | <b>40.0%</b>         | <b>1,347</b>  | <b>60.6%</b> |
| Tax                                  | 373          | 292           | 27.7%                | 303          | 23.1%                | 325           | 14.9%        |
| Deferred Tax                         | -55          | -26           |                      | 32           |                      | 0             |              |
| <b>PAT before Minority Interest</b>  | <b>1,845</b> | <b>945</b>    | <b>95.2%</b>         | <b>1,210</b> | <b>52.5%</b>         | <b>1,022</b>  | <b>80.5%</b> |
| Minority Interest                    | -6           | 2             | N.A.                 | 28           | N.A.                 | 0             |              |
| Share of Profit of Associates        | 2            | 1             |                      | 2            |                      | 0             |              |
| <b>Profit After Tax</b>              | <b>1,853</b> | <b>944</b>    | <b>96.3%</b>         | <b>1,184</b> | <b>56.5%</b>         | <b>1,022</b>  | <b>81.3%</b> |
| <b>Basic &amp; Diluted EPS (Rs.)</b> | <b>16.5</b>  | <b>8.4</b>    | <b>96.3%</b>         | <b>10.5</b>  | <b>56.5%</b>         | <b>9.1</b>    | <b>81.3%</b> |
| Basic & Diluted Outstanding (mn)     | 113          | 113           |                      | 113          |                      | 113           |              |
| <b>Margin Analysis %</b>             |              |               | <b>Change In bps</b> |              | <b>Change In bps</b> |               |              |
| EBIDTA Margin                        | 15.1%        | 14.8%         | 23                   | 13.4%        | 170                  | 12.0%         | 306          |
| Operating Margin                     | 12.8%        | 12.5%         | 34                   | 11.0%        | 188                  | 9.7%          | 317          |
| PBT Margin                           | 18.6%        | 10.2%         | 840                  | 14.6%        | 405                  | 11.4%         | 717          |
| NPM                                  | 15.9%        | 7.9%          | 799                  | 11.2%        | 478                  | 8.7%          | 726          |
| Effective Tax Rate (%)               | 17.2%        | 24.1%         | -687                 | 19.6%        | -237                 | 24.1%         | -687         |
| <b>Cost Analysis %</b>               |              |               | <b>Change In bps</b> |              | <b>Change In bps</b> |               |              |
| Cost of Revenues/ Sales              | 62.7%        | 63.7%         | -94                  | 63.9%        | -120                 | 65.0%         | -226         |
| Other income/ PBT                    | 36.5%        | -15.4%        | 5,192                | 28.4%        | 806                  | 21.9%         | 1,461        |

Operating margins of services business improved by 10 bps QoQ while DLM margins was the main drag on the margins. Service business faced headwinds of -46 bps and -29 bps due to Fx Impact and Revenue Mix respectively and tailwinds of +83 bps and +8 bps due to Incremental billing days and Lower SG&A spend respectively. Group EBITDA margin stood at 15.1% for the quarter.

**Valuation & Outlook**

Q4FY19 performance was soft as per expectations, however, gap between guidance and delivery in the past and continuation of weak performance in Q1FY20 (largely due to supply side issues) raises concerns. Although, factors such as management's confidence (of stronger performance post Q2FY20) and cost optimization initiatives do provide some respite. The stock is currently trading at 11.7x and 9.5x FY20e and FY21e EPS. A gap in expectations and delivery over the past few quarters has dented the outlook on the company and therefore we reduce the target multiple to 12.5x (from earlier 13.5x) FY21e EPS 62 to arrive at a target price of INR 775. **While we continue to maintain our BUY rating on the stock, we will watch the performance closely over the next few quarters before considering any re-rating.**





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