



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

Analyst: Mayank Babla (022) 67141412

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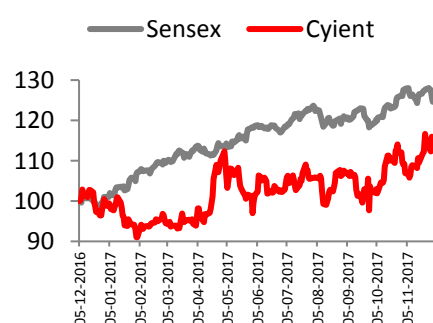
### BUY

Current Price	577
Target Price	670
Upside/Downside	16.1%
52 Week Range	435-596

### Key Share Data

Market Cap (Rs.bn)	65.18
Market Cap (US\$ mn)	1002
No of o/s shares (mn)	112.5
Face Value	5
Monthly Avg. vol(BSE+NSE) Nos'000	252
BSE Code	532175
NSE Code	CYIENT
Bloomberg	CYL:IN

### Price performance



% Shareholding	Sep-17	Jun-17
Promoters	22.18	22.18
Institutions	62.17	62.14
Others	15.65	15.68
<b>Total</b>	<b>100</b>	<b>100</b>

We recently met Cyient in Hyderabad and noted that certain changes in the internal operations and business environment should bode well for the future performance of the company. Following are the key takeaways:

- Although UTC's exit through the 12.16% stake sale in H1FY18 raised certain concerns, we believe that this event can be taken positively as it opens up several business opportunities (in the Aerospace & Defense space which is ~35% of services revenues, which is 90% of overall revenues) for the company which were not possible due to the inherent conflict of interest.
- Expect Communications business unit (23.3% of service revenues) to outperform on the back of consistent and fast-paced evolution in Telecom technology (3G to 4G to 5G and so on and so forth) and the engineering services required therein.
- Although the company has stated that pricing pressure will result in a 50 bps impact on EBITDA margins in FY18, we have noticed that pricing pressure is largely absent in the IT engineering space and thus expect the company to outperform its current guidance of overall 50 bps improvement in EBITDA margins (FY17 and Q2FY18 EBITDA margins at 13.3% and 14.5% respectively).
- We believe that additional levers such as higher off-shoring of efforts and potential to increase off-shore utilizations from current levels of ~60-65% should be margin accretive.
- Expect DLM business (~10% of revenues) to deliver upwards of 20% YoY growth beginning FY18 as the company chases higher value and margin business. Cyient has guided for DLM margins to breakeven in FY18 on the back of above mentioned strategy among other changes.
- The company has guided for a double digit revenue growth in the services space which will largely be driven by Aerospace & Defense, Communications, Transportation, Utilities & Geospatial and Semiconductor segments. Company expects IE&R segment (8.6% of revenues) to be a laggard and report flat to lower single digit growth in FY18E.
- Post acquisition of Blom Aerofilms and Certon in FY17, Cyient will continue to look out for inorganic opportunities to drive growth, specifically in the Medical & Healthcare space.

### Outlook and Valuations:

Cyient is currently trading at PE multiple of 16x and 14x FY18E and FY19E\*\* EPS. We believe that Aerospace & Defense BU, Transportation BU, Communications BU and Utilities BU which cumulatively account for ~85.1% of Engineering Services (90% of overall revenues) will deliver high teens growth over the next 2 years and DLM BU (10% of overall revenues) will deliver on the 20% growth guidance in FY18E and FY19E. We apply a P/E of 16x to its est. FY19E EPS of INR 42 and have a BUY rating on the stock with a TP of INR 670.

\*Initiating Coverage to follow

\*\*Bloomberg Mean Estimates

### Key Parameters (INR Mn)

	Net Sales	% Growth	EBITDA	% Growth	PAT	% Growth	EPS	P/E (x)	ROE (%)	ROCE (%)
FY15	27,359	24.0%	4,008	-2.3%	3,532	32.8%	31.0	18.6	19.1%	16.1%
FY16	30,941	13.1%	4,141	3.3%	3,255	-7.8%	28.8	20.1	17.7%	15.8%
FY17	35,858	15.9%	4,772	15.2%	3,438	5.6%	32.2	19.1	18.3%	17.5%



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Profit & Loss A/c			
YE March (Rs. mn)	FY15	FY16	FY17
<b>Total Revenue</b>	<b>27,359</b>	<b>30,941</b>	<b>35,858</b>
<b>Less:</b>			
Increase/Decrease in Stock	168	6	-110
Cost of Services & Raw Materials	291	1,881	2,852
Employee Cost & Related Expense:	16,756	18,125	20,490
General and Administration Expen	5,676	6,346	7,264
Selling and Marketing Expenses	191	217	228
Miscellaneous Expenses	269	225	362
<b>Total Operating Expenditure</b>	<b>23,351</b>	<b>26,800</b>	<b>31,086</b>
<b>EBIDTA</b>	<b>4,008</b>	<b>4,141</b>	<b>4,772</b>
Less: Depreciation	713	888	953
<b>EBIT</b>	<b>3,295</b>	<b>3,253</b>	<b>3,819</b>
Interest Paid	58	164	172
Non-operating Income	1,218	1,085	932
<b>Profit Before tax</b>	<b>4,456</b>	<b>4,087</b>	<b>4,318</b>
Tax	1,096	1,011	1,045
<b>Net Profit before Minority</b>	<b>3,359</b>	<b>3,076</b>	<b>3,273</b>
Minority Interest	22	54	42
Profit/Loss of Associate Company	150	125	123
<b>Net Profit</b>	<b>3,532</b>	<b>3,255</b>	<b>3,438</b>
<b>Adjusted Profit</b>	<b>3,487</b>	<b>3,234</b>	<b>3,615</b>
<b>Reported Diluted EPS Rs</b>	<b>31.4</b>	<b>29.0</b>	<b>30.6</b>
<b>Adjusted Diluted EPS Rs</b>	<b>31.0</b>	<b>28.8</b>	<b>32.2</b>

Cash Flows (Consolidated)			
YE December (Rs. Mn)	FY15	FY16	FY17
<b>PAT</b>	<b>3,532.0</b>	<b>3,255.0</b>	<b>3,438.0</b>
(Less)/Add: Extraordinary Income/Expense	0.0	87.0	261.0
Less: Non Operating Income	(1,217.7)	(1,085.0)	(932.0)
Add: Depreciation	712.8	888.0	953.0
Add: Interest Paid	57.6	164.0	172.0
<b>Operating Profit before WC Changes</b>	<b>2,889.4</b>	<b>3,130.0</b>	<b>3,727.0</b>
(Inc)/Dec in Current Assets	(8,860.0)	(1,472.0)	(919.0)
Inc/(Dec) in Current Liabilities	4,432.0	1,089.0	1,611.0
Changes in Inventory	(606.0)	(373.0)	44.0
<b>Net Cash Generated From Operations</b>	<b>(2,144.6)</b>	<b>2,374.0</b>	<b>4,463.0</b>
<b>Cash Flow from Investing Activities</b>			
(Inc)/Dec in Fixed Assets	(6,713.0)	(369.0)	110.0
(Inc)/Dec in Capital Work In Progress	(55.0)	31.0	(68.0)
(Inc)/Dec in Investment (Strategic)	(836.0)	(155.0)	(246.0)
Add: Non Operating Income	1,217.7	1,085.0	932.0
<b>Cash from/(used in) Investing Activities</b>	<b>(10,973.6)</b>	<b>1,849.0</b>	<b>(187.0)</b>
<b>Cash Flow from Financing Activities</b>			
Inc/(Dec) in Total Loans	2,316.0	19.0	(435.0)
Dividend Paid	(898.9)	(787.0)	(1,296.0)
Less: Interest Paid	(57.6)	(164.0)	(172.0)
<b>Net Cash Flow from Financing Activities</b>	<b>19,918.2</b>	<b>(3,890.0)</b>	<b>(2,498.0)</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>6,800.0</b>	<b>333.0</b>	<b>1,778.0</b>
<b>Opening Balance</b>	<b>6,912.7</b>	<b>6,228.0</b>	<b>6,949.0</b>
<b>Closing Balance Cash and Cash Equivalents</b>	<b>13,712.7</b>	<b>6,561.0</b>	<b>8,727.0</b>

Valuation Ratios			
YE March (Rs. mn)	FY15	FY16	FY17
<b>P/E (x)</b>	<b>18.6x</b>	<b>20.1x</b>	<b>19.1x</b>
P/BV (x)	3.6x	3.6x	3.1x
<b>EV/EBIDTA (x)</b>	<b>15.0x</b>	<b>14.3x</b>	<b>12.0x</b>
EV/Sales	2.2x	1.9x	1.6x
<b>Market Cap./ Sales (x)</b>	<b>2.4x</b>	<b>2.1x</b>	<b>1.8x</b>
Dividend Yield (%)	1.4%	1.2%	2.0%

Balance Sheet (Consolidated)			
YE March( Rs. mn)	FY15	FY16	FY17
<b>Liabilities</b>			
Equity Capital	562	562	563
Reserves & Surplus	17,650	17,743	20,610
<b>Equity</b>	<b>18,212</b>	<b>18,305</b>	<b>21,173</b>
<b>Net Worth</b>	<b>18,212</b>	<b>18,305</b>	<b>21,173</b>
Minority Interest			
Net Deferred tax liability/(Asset)	1,652	1,566	1,373
<b>Total Loans</b>	<b>664</b>	<b>769</b>	<b>527</b>
<b>Capital Employed</b>	<b>20,528</b>	<b>20,640</b>	<b>23,073</b>
<b>Assets</b>			
Gross Block	6,713	7,082	6,972
Less: Depreciation	3,670	4,062	3,955
<b>Net Block</b>	<b>3,043</b>	<b>3,020</b>	<b>3,017</b>
Capital WIP	55	24	92
<b>Investments</b>	<b>836</b>	<b>991</b>	<b>1,237</b>
Intangible Assets	4,760	3,628	4,666
<b>Current Assets</b>			
Sundry Debtors	5,333	6,145	6,496
Current Investments	336	790	925
Cash and Bank Balance	6,228	6,949	8,781
Loans and Advances	3,161	3,134	3,515
Other Current Assets	1,415	1,648	1,700
<b>Total Current Assets</b>	<b>17,079</b>	<b>19,645</b>	<b>22,352</b>
<b>Less:Current Liabilities &amp; Provisions</b>			
Sundry Creditors	2,750	3,098	4,021
Provisions	166	202	235
Other Current Liabilities	2,329	3,368	4,035
<b>Total Current Liabilities &amp; Provisi</b>	<b>5,245</b>	<b>6,668</b>	<b>8,291</b>
<b>Capital Applied</b>	<b>20,528</b>	<b>20,640</b>	<b>23,073</b>

Key Ratios (Consolidated)			
YE March (Rs. mn)	FY15	FY16	FY17
<b>Key Operating Ratios</b>			
EBITDA Margin (%)	14.7%	13.4%	13.3%
Tax / PBT (%)	24.1%	24.7%	24.2%
Net Profit Margin (%)	12.9%	10.5%	9.6%
RoE (%)	19.1%	17.7%	18.3%
RoCE (%)	17.2%	16.3%	17.1%
Current Ratio (x)	3.3x	2.9x	2.7x
Dividend Payout (%)	25.4%	24.2%	37.7%
Book Value Per Share (Rs.)	162.0	162.9	188.4
<b>Financial Leverage Ratios</b>			
Debt/ Equity (x)	0.0x	0.0x	0.0x
Interest Coverage (x)	69.6x	25.3x	27.7x
<b>Growth Indicators %</b>			
Sales Growth (%)	24.0%	13.1%	15.9%
EBITDA Growth (%)	(2.3%)	3.3%	15.2%
Net Profit Growth (%)	32.8%	(7.8%)	5.6%
Diluted EPS Growth (%)	32.8%	(7.8%)	5.6%
<b>Turnover Ratios</b>			
Debtors (Days of net sales)	36	68	64
Creditors (Days of Raw Material)	43	61	65



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