

## Demand outlook continues to be strong, Retain positive stance

On Friday, Cyient (CYL) hosted analyst meet in Hyderabad. The management discussed its vision ahead, key growth areas, Rangsons and Softential integration, opportunities in Defence offset clause etc. For the last one year, CYL's revenue momentum (organic) has significantly improved and we believe the same to continue in FY16E as well led by increasing spending in the Engineering Research & Development (ER&D) space, CYL's strong client portfolio & synergies from Rangsons and Softential playing out. However, with Rangsons coming in ~11%, CYL's margins would improve around 100 bps in FY16E and largely remain flat in the medium term (2-3 yrs). We continue to retain our positive stance on CYL & maintain our ADD rating with a target price of Rs.550. Notably, CYL is only pick in the mid cap IT space - given its presence in the ER&D space – while we have a blanket sell across mid cap IT services space given the huge revenue risk led by industry changes and stretched valuations. **Notable takeaways from the analyst meet are:**

- Management is keen on evolving Cyient into a partner of choice with strong capabilities to provide solutions to their clients. The overarching Services, Systems and Solutions (S3) strategy continues to be key focus area with Aerospace, Rail transportation & Medical Devices being the focus verticals. Demand outlook for FY16E continues to remain stable with increased spending in Aero, Rail, Utilities and Semi conductors while Oil & gas, Heavy engineering and Medical devices would be weak. Constant Currency (CC) organic revenue growth would be better than FY15 revenues(>16% yoy). Rangsons would add additional US\$ 56 mn in FY16E.
- Margins would improve 100 bps at the consolidated level** led by 200 bps margin improvement in the services business while Product Realization business (Rangsons) would continue on EBITDA Margin of ~11% (FY16E). Wage hikes would be subdued this year. We believe margins in the medium term would be muted for CYL led by integration and ramp up in Rangsons business. Over the long term, margin improvement would largely depend on higher proportion of revenues coming from product realisation
- Rangsons and Softential integration is on track with 1<sup>st</sup> deal win with synergized offerings of Softential flowing in Q1. Invati Analytics gives huge opportunities in the Analytics space.
- Key risks ahead** - Vendor consolidation, Industry consolidation, pricing pressures, cost convergence with near shore centers, client concentration, Euro & AUD depreciation could hold off projects

### Analyst meet Update

Date May 11, 2015

### Market Data

SENSEX	27105
Nifty	8192
Bloomberg	CYL IN
Shares o/s	112mn
Market Cap	Rs. 55bn
52-wk High-Low	Rs. 593-261
3m Avg. Daily Vol	Rs. 45mn
Index member	BSE Midcap

### Latest shareholding (%)

Promoters	22.2
Institutions	49.3
Public	28.5

### Stock performance (%)

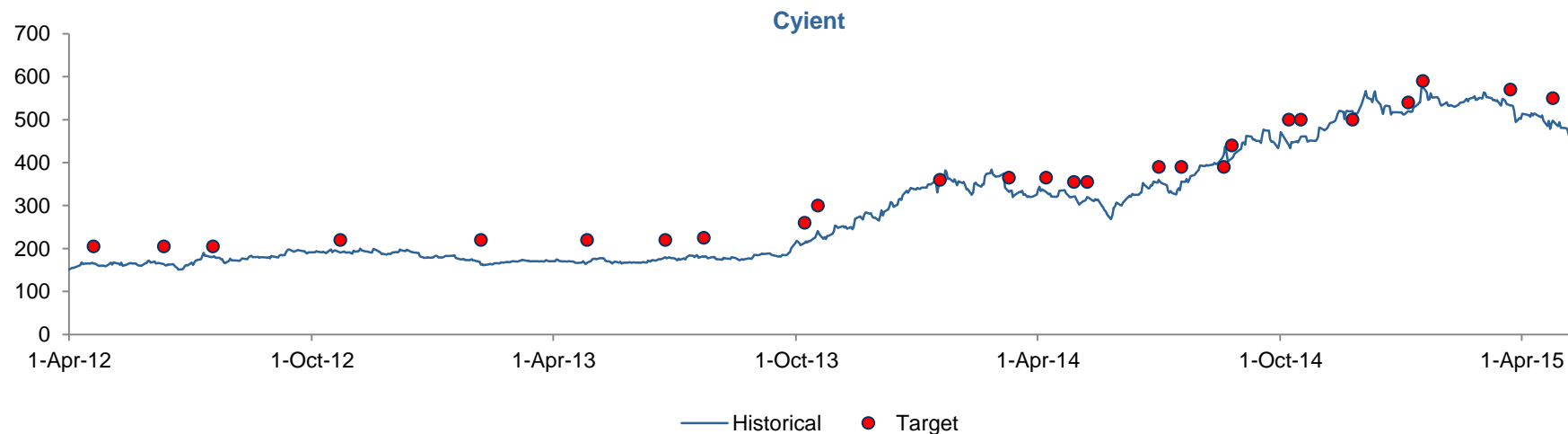
	1m	3m	12m
CYL	-5	-8	54
Sensex	-6	-5	18
CNXT	-9	-9	23

### Financial summary

Year	Revenues (US\$ mn)	Revenues (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E(x)	EV/EBITDA(x)	ROE(%)
FY15P	445	27,359	4,013	3,533	31.5	15.6	11.9	20%
FY16E	566	33,982	5,300	3,819	34.0	14.4	9.2	19%
FY17E	641	37,173	5,873	4,383	39.1	12.5	8.3	19%

Abridged Financial Statements				
Rs. mn	FY14	FY15E	FY16E	FY17E
<b>Profit &amp; Loss</b>				
Revenues	22,064	27,359	33,982	37,173
Employee cost	13,302	16,252	17,725	19,530
Travel expenses	1,043	1,205	1,371	1,405
Cost of purchases	548	1,740	1,858	1,984
Operating & admin expenses	3,070	3,661	4,165	4,505
<b>EBITDA</b>	<b>4,101</b>	<b>4,013</b>	<b>5,300</b>	<b>5,873</b>
Depreciation	720	713	888	913
EBIT	3,381	3,300	4,412	4,961
Other income	216	1,316	628	780
PBT	3,539	4,456	4,864	5,564
Tax	1,030	1,096	1,188	1,335
PAT	2,509	3,360	3,676	4,229
Income from associates	152	128	182	197
Reported PAT	2,661	3,533	3,819	4,383
Diluted EPS (Rs.)	23.7	31.5	34.0	39.1
<b>Balance sheet</b>				
Paid up capital	560	562	562	562
Reserves & surplus	15,325	18,556	21,160	24,193
Secured loans	0	470	1,470	1,470
<b>Total liabilities</b>	<b>16,318</b>	<b>20,343</b>	<b>23,967</b>	<b>27,022</b>
Net fixed assets	3,580	3,718	3,830	3,917
Investments	525	675	1,186	1,361
Current assets, loans and adv.	14,448	15,703	17,851	21,052
Current liabilities and provisions	3,147	5,443	4,589	4,998
Net current assets	11,300	10,260	13,262	16,054
<b>Total assets</b>	<b>16,318</b>	<b>20,343</b>	<b>23,967</b>	<b>27,022</b>

Key metrics				
	FY14	FY15E	FY16E	FY17E
<b>Cashflow</b>				
Operations	2,272	3,129	2,334	3,970
Investing	-176	-3,020	-808	-308
Financing	-427	-32	-214	-1,349
Free cash flow	1,511	-1,126	986	2,970
Opening cash	5,593	7,313	6,565	7,876
Closing cash	7,313	6,565	7,876	10,188
<b>Growth</b>				
Revenues	17.8%	24.0%	24.2%	9.4%
EBITDA	20.1%	-2.1%	32.1%	10.8%
PAT	15.2%	32.8%	8.1%	14.8%
EPS	14.7%	32.8%	8.1%	14.8%
<b>Margins</b>				
EBITDA	18.6%	14.7%	15.6%	15.8%
EBIT	15.3%	12.1%	13.0%	13.3%
PAT	11.4%	12.3%	10.8%	11.4%
<b>Return</b>				
ROE	18.3%	20.2%	18.7%	18.9%
ROCE	17.9%	19.6%	17.5%	17.5%
<b>Valuation</b>				
Fully diluted shares (mn)	112	112	112	112
Market cap (Rs. mn)	54,754	54,880	54,880	54,880
EV (Rs.mn)	49,165	47,567	48,785	48,474
EV/Sales (x)	2.2	1.7	1.4	1.3
EV/EBITDA (x)	12.0	11.9	9.2	8.3
P/E (x)	20.6	15.5	14.4	12.5
EPS(E) / Current market price	4.9%	6.4%	6.9%	8.0%



Report Date	CMP (Rs.)	TP (Rs.)	Recommendation
24/Apr/15	492	550	Add
23/Mar/15	536	570	Add
16/Jan/15	575	590	Add
05/Jan/15	512	540	Add
24/Nov/14	525	500	Add
16/Oct/14	448	500	Add
07/Oct/14	465	500	Add
25/Aug/14	403	440	Add
19/Aug/14	411	390	Buy
18/Jul/14	338	390	Buy
01/Jul/14	353	390	Add
08/May/14	320	355	Add
28/Apr/14	319	355	Add
07/Apr/14	338	365	Buy
10/Mar/14	342	365	Add
17/Jan/14	346	360	Add

Report Date	CMP (Rs.)	TP (Rs.)	Recommendation
07/Oct/13	213	260	Buy
23/Jul/13	182	225	Buy
24/Jun/13	180	220	Buy
26/Apr/13	164	220	Buy
05/Feb/13	168	220	Buy
22/Oct/12	191	220	Buy
18/Jul/12	167	205	Buy
11/Jun/12	165	205	Buy
19/Apr/12	167	205	Buy
16/Mar/12	152	185	Buy
02/Mar/12	140	175	Buy

Absolute Rating Interpretation	BUY	Stock expected to provide positive returns of >15% over a 1-year horizon	REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
	ADD	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon	SELL	Stock expected to fall >10% over a 1-year horizon

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