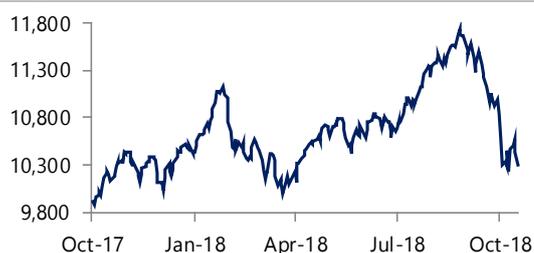


OCTOBER 22, 2018

	19-Oct	% Chg			
		1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	34,316	(1.3)	(8.0)	(5.7)	
NIFTY Index	10,304	(1.4)	(8.6)	(6.2)	
NSEBANK Index	25,086	(0.4)	(5.1)	(6.7)	
NIFTY 500 Index	8,641	(1.3)	(9.9)	(6.8)	
CNXMcap Index	16,515	(1.5)	(13.0)	(8.3)	
BSESMCAP Index	14,083	(1.3)	(14.2)	(11.0)	
World Indices					
Dow Jones	25,444	0.3	(4.9)	1.5	
Nasdaq	7,449	(0.5)	(6.7)	(4.7)	
FTSE	7,050	0.3	(5.9)	(8.2)	
NIKKEI	22,532	(0.6)	(5.9)	(1.0)	
Hangseng	22,532	(0.6)	(5.9)	(1.0)	
Shanghai	25,561	0.4	(7.1)	(8.0)	
Value traded (Rs cr)		19-Oct	% Chg Day		
Cash BSE		3,051	(3.0)		
Cash NSE		37,264	11.6		
Derivatives		817,144	(60.9)		
Net inflows (Rs cr)		17-Oct	MTD	YTD	
FII		315	(18,112)	(33,174)	
Mutual Fund		818	11,910	100,165	
Nifty Gainers & Losers		Price	Chg	Vol	
19-Oct		(Rs)	(%)	(mn)	
Gainers					
HPCL		216	4.2	12.3	
Sun Pharma		610	2.8	4.8	
Kotak Mahindra Bank		1,199	2.0	3.6	
Losers					
Indiabulls Housing		654	(17.1)	37.8	
HCL Tech		959	(6.4)	3.4	
Yes Bank		218	(6.0)	50.3	
Advances / Declines (BSE)					
19-Oct	A	B	T	Total	% total
Advances	132	255	36	423	100
Declines	296	789	71	1,156	273
Unchanged	3	15	10	28	7
Commodity		% Chg			
	19-Oct	1 Day	1 Mth	3 Mths	
Crude (US\$/BBL)	79.9	0.1	1.4	9.3	
Gold (US\$/OZ)	1,226.9	0.1	2.4	(0.3)	
Silver (US\$/OZ)	14.6	0.0	2.6	(5.6)	
Debt / forex market		19-Oct	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %		7.9	7.9	8.1	7.8
Re/US\$		73.3	73.6	72.4	69.1

Nifty



Source: Bloomberg

News Highlights

- ▶ U.S. Treasury Secretary Steven Mnuchin said that it will be harder for countries to get waivers on Iran oil sanctions than during the Obama administration and dismissed concerns that oil prices could rise, saying the market had already factored in the losses. (ET)
- ▶ The Finance Ministry imposed definitive anti-dumping duty on certain 'flax yarn' - a linen yarn used in fabric industry - from China. Based on the recommendations of the Designated Authority in the Commerce Ministry, the revenue department imposed an anti-dumping duty that ranges from \$1.30 per kg to \$4.83 per kg depending upon the producer and exporter from China. (BL)
- ▶ **NTPC Ltd** plans to start biomass co-firing across all its coal-based thermal power stations in a bid to reduce greenhouse gas emissions and cut pollution. Biomass can typically provide between 3-15 per cent of the input energy into the power plant. (ET)
- ▶ **Piramal Enterprises** strongly refutes all rumours of any sort/form that have been floating around with respect to its real estate loan portfolio companies.(Moneycontrol)
- ▶ **Lupin** said that the European Medicines Agency (EMA) has adopted a positive opinion recommending marketing authorisation of its product NaMuscla, used for the symptomatic treatment of non-dystrophic myotonic (NDM) disorders. (BS)
- ▶ **JSW Steel** has emerged as the preferred bidder for an iron ore mine in Karnataka. The cumulative revenue from the block over the period of 50 years is Rs 17 Bn with an additional contribution of Rs 14.4 Bn through auction. (Financial Express)
- ▶ **Strides Pharma Science (Strides)** has announced that its global arm Strides Pharma Global Pte Singapore has received USFDA approval for Gabapentin Capsules. (BS)
- ▶ **Tata Steel's** wholly owned indirect subsidiary TS Global Minerals Holdings Pte Ltd entered into an agreement to divest its entire stake in its wholly owned step down subsidiary Black Ginger 461 Pty Ltd which in turn holds 64 percent in Sedibeng Iron ore Pty Ltd, South Africa which is the operating company. (Moneycontrol)
- ▶ **Biocon** and Mylan announced positive CHMP opinion for Ogivri, Biosimilar Trastuzumab. The CHMP positive opinion will now be considered by the European Commission. The decision on approval is expected by the end of 2018. (Bloomberg)
- ▶ **Reliance Jio Infocomm Ltd** is set to do an encore in the broadband and cable market, through an aggressive pricing strategy and a gamut of product offerings. (Mint)
- ▶ **Puravankara** completed acquisition of Mumbai land from **Foods & Inns** worth Rs 1.5 Bn. Puravankara now would also acquire additional 843 sq mt area of land from Foods & Inns worth Rs 155 mn. (Bloomberg)

What's Inside

- ▶ **Result Update:** Cyient Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Result Update

Stock Details

Market cap (Rs mn)	:	75631
52-wk Hi/Lo (Rs)	:	887 / 520
Face Value (Rs)	:	5
3M Avg. daily vol (Nos)	:	331,620
Shares o/s (mn)	:	113

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	39,177	47,147	52,811
Growth (%)	8.8	20.3	12.0
EBITDA	5,494	6,588	7,963
EBITDA margin (%)	14.0	14.0	15.1
PAT	4,286	4,593	5,889
EPS	38.0	40.8	52.3
EPS Growth (%)	13.0	7.2	28.2
BV (Rs/share)	208	235	274
Dividend/share (Rs)	13.0	13.0	13.0
RONW (%)	19.2	18.4	20.5
ROCE (%)	24.4	24.0	26.0
P/E (x)	17.2	16.0	12.5
EV/EBITDA (x)	11.6	8.9	7.3
P/BV (x)	3.1	2.8	2.4

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	22.1	22.2	22.2
FII	43.1	41.4	57.0
DII	22.9	20.3	7.3
Others	21.8	16.1	13.6

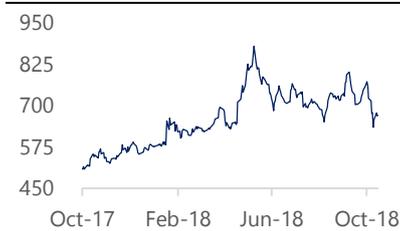
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Cyient Ltd	(8.5)	(3.7)	2.9
Nifty	(8.6)	(6.2)	(0.9)

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

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CYIENT LTD

PRICE Rs.654

TARGET Rs.785

BUY

Cyient 2QFY19 revenue grew by 5.1% QoQ in USD term to USD 169mn ahead of our estimate of USD 166.4mn. Services grew by 2.3% QoQ and DLM revenue grew by ~27% sequentially in USD terms. EBITDA margin expanded 152bps QoQ to 13.7% (65bps beat) on INR depreciation and operating efficiencies.

Key Highlights

- Cyient revenue grew by 5.1% sequentially in dollar terms v/s our estimate of 3.5%. Revenue from services grew by about 2.3% in USD terms sequentially and DLM grew by ~27% QoQ. Service revenue included revenue from AnSem acquired during the year which is expected to scale further its offerings and client base.
- Margins at 13.7% were about 65bps above our estimates. Margins were 152 bps higher QoQ but down 90 bps YoY, including the NBA (New Business Accelerator) impact. Services margins expansion was a function of currency benefits (+80bps), operating efficiency (+130bps), SGA optimization (+100bps) offsetting wage hike (-100bps). Cyient has revised its FY19 margin guidance by 50bps if the INR stays at Rs.72/USD for the rest of the year without any cross currency headwinds, but we build in flat margins for FY19 due to business investments (NBA) and seasonal weakness in 3Q.
- The total order intake during the quarter grew by ~65% YoY and stood at USD 196mn. Service order intake was at USD 157mn up 46% YoY and that for DLM was at USD 39mn up 233% YoY. Healthy order wins and growth in non Top 5 clients reaffirm strong growth momentum, in our view.

Quarterly performance table

	1QFY19	2QFY19	QoQ (%)	2QFY18	YoY (%)
Income in USD	161	169	5	150	13
Income	10,800	11,870	10	9,654	23
Expenditure	9,486	10,244		8,244	
EBDITA	1,315	1,626	24	1,410	15
Depreciation	285	288		259	
EBIT	1,030	1,338	30	1,151	
Interest	82	97		57	
Other income	170	568		406	
PBT	1,118	1,809	62	1,500	21
Tax	303	539		427	
PAT	814	1,270	56	1,073	18
Sh of profit	1	1		19	
MI & Exp items	9	0		17	
Adj PAT	824	1271	54	1109	15
EPS (Rs)	7	11		10	
Margins (%)					
EBDITA	12	14		15	
EBIT	10	11		12	
PAT	8	11		11	

Source: Company

Valuation & outlook

We believe Cyient is well placed to address opportunities in ER&D over long term and expect a CAGR of ~11% revenue growth in USD terms and ~17.5% in earnings over FY18-20. We believe Cyient's performance in FY19 will be better than that of its peers, and execution of its strategy of design plus manufacturing should be reflected in financials from FY19. We value stock at 15x FY20E earnings. We recommend BUY with a target price of Rs.785 (Rs.810 earlier).

Revenue guidance for FY19 maintained, but margin guidance raised

Cyient guided for double digit growth in its service business and 20% growth in DLM. Including the integration of acquired B&F, DLM business is expected to grow by 35%. DLM margins will improve slightly but are expected to remain in low single digit due to backlog of low margin business. Tax rate which was high at 29.8% during the quarter due to higher other income but is expected to be in range of 24.4-25.4 %. The higher other income during the quarter was due to incentives received by the company which are expected to continue in the future.

Vertical wise Performance

Amongst verticals, aerospace and defense (38% of revenue) will grow in high single digits. Demand outlook remains strong though 3Q is expected to have its share of seasonal weakness. It will come back in 4Q. Growth in FY19 will be driven by large clients and strong growth in new accounts. Communication (21.5% of revenue) has huge opportunity driven by spending around fixed lines and wireless networks. Management expects double digit growth driven by momentum across geographies and opportunities around wireless networks. Utilities & Geospatial (12.3% of revenue) is expected to be flat YoY in FY19 though the company has managed to build some good offerings and propositions for the market. Transportation (10% of revenue) is on solid trajectory with rail transportation industry expected to witness strong growth driven by healthy momentum in rolling stock and signaling. For FY19, management remains positive on back of strong growth in focus segments of rolling stock and signaling and growth being driven by key clients, leading to expectation of double digit growth. Industrial & Energy (10% of revenue) is seeing good traction from Traditional engineering and IOT, connected devices capabilities driving good traction. Medical (3% of revenue) has found good offering in the market with M2M. Lastly Semi conductor (5% of revenue) growth is driven by demand for AI, IOT, 5G,AR/VR. Cyient has been gaining traction with new automotive clients and ramp up with existing clients. Overall growth is expected to be in double digits in FY19.

Vertical wise Growth QoQ in % (ex- Rangson) in dollar terms

Particulars	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19
Aerospace	1.70	2.90	4.10	-1.80	4.70	1.10
Communication	9.90	6.50	1.60	10.80	-3.20	2.30
Utiliites	-7.00	-0.50	8.80	-2.20	12.50	0.70
Transportation	11.70	11.80	8.40	8.40	4.50	-0.20
Industrial energy and natural resourcers	0.10	6.10	4.30	-0.20	-3.00	2.40
Semi conductor	11.00	10.20	-6.10	-1.60	39.10	7.90
Medical consumer electronics	6.90	13.60	-2.80	1.00	-17.00	8.00

Source: Company

Conference Call Highlights

- Revenue performance during the quarter ended was well within the band of 3-4% as expected at the beginning of the year. Strong pipeline and order backlog give confidence that though 3Q will be a seasonally weak, 4Q should be quite strong.
- The JV with Bluebird Aero System, Israel won its first contract from the Indian army to supply SpyLite mini UAV systems for high altitude aerial surveillance. The company has identified a \$190mn opportunity in this area.
- Other income was Rs.397mn higher QoQ due to benefits from incentives of Rs.234mn on merchandise and engineering and related services in DLM. This benefits from incentives would continue through H2 FY19 and FY20. Secondly there was unrealized gains on forex re statement of Rs.207mn during the quarter.
- Cyient added seven projects to the New Business Accelerator (NBA) program, taking the total to 19, and expects accelerated EPS growth from FY21 onwards.
- Reported tax was higher at 29.8% for the quarter. The tax rate is likely to be 24.4-25.4% for FY19 and down to 22-23% for FY20.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Net Sales	36,023	39,177	47,147	52,811
% Growth	16.4	8.8	20.3	12.0
Cost of Services	31,173	33,683	40,559	44,848
% of Net Sales	86.5	86.0	86.0	84.9
EBITDA	4,850	5,494	6,588	7,963
EBITDA Margin (%)	13.5	14.0	14.0	15.1
Depreciation	953	1,051	1,143	1,161
EBIT	3,897	4,443	5,445	6,802
Interest Exps.	189	232	327	304
EBT	3,708	4,211	5,118	6,498
Exceptional Items	0	0	0	0
Other Income	874	1,438	1,038	1,180
PBT	4,583	5,649	6,156	7,678
Tax-Total	1,047	1,387	1,569	1,786
Profit after tax	3,701	4,286	4,593	5,889
PAT Margin (%)	10.3	10.9	9.7	11.2

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Net profit before tax	4,583	5,649	6,156	7,678
Depreciation	953	1,051	1,143	1,161
Interest	189	232	327	304
Other Income	(874)	(1,438)	(1,038)	(1,180)
Opt Profit bef WC Changes	4,850	5,494	6,588	7,963
WC Changes	43	(1,295)	1,327	(2,878)
Cash Gene from Op.	4,893	4,199	7,916	5,085
Direct Taxes Paid	(1,047)	(1,387)	(1,569)	(1,786)
Cash from Ope act	3,846	2,812	6,347	3,299
Purchases of F.A /CWIP	(1,366)	(1,495)	(1,270)	(1,200)
Investment	(234)	734	(200)	(200)
Others	934	1,030	858	1,027
Cash from Inv Act	(667)	269	(612)	(373)
Proc from Issue of Eq Shares	(612)	(536)	-	-
Net loans	147	335	150	(250)
Interest paid	(189)	(232)	(327)	(304)
Dividend paid & Others	(695)	(1,623)	(545)	(1,509)
Cash from Fin Act	(1,349)	(2,056)	(722)	(2,063)
Net Increase in Cash	1,830	1,025	5,013	863
Cash at Beginning	6,951	8,781	9,806	14,819
Cash at End	8,781	9,806	14,819	15,682

Source: Company, Kotak Securities – Private Client Research

Balancesheet (Rsmn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Sources of Funds				
Equity Capital	562	563	563	563
Reserves and Surplus	20,637	22,877	25,962	30,341
Shareholders' Funds	21,199	23,440	26,525	30,905
Total Loan Funds	1,572	1,907	2,057	1,807
Total Liabilities	22,771	25,347	28,582	32,712
Appl. Of Funds				
Gross Block	11,798	13,293	14,493	15,693
Accumulated Depn.	7,301	8,352	9,495	10,656
Net Fixed Assets	4,497	4,941	4,998	5,037
Capital WIP	-	-	70	70
Goodwill	3,278	3,549	3,549	3,549
Investment	1,032	298	498	698
Inventories	935	1,312	1,598	1,888
Sundry Debtors	6,496	6,913	8,105	9,210
Cash and Bank Bal	8,781	9,806	14,819	15,682
Other Current Asset	6,245	7,185	6,236	8,241
Total Current Assets	22,457	25,216	30,757	35,021
Current Liabilities	8,493	8,656	11,291	11,662
Net Current Assets	13,964	16,560	19,467	23,359
Total assets	22,771	25,347	28,581	32,713

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Per Share (Rs)				
EPS	32.9	38.0	40.8	52.3
Cash EPS	41.4	47.4	50.9	62.6
Book value	188.5	208.0	235.4	274.3
Margin (%)				
EBITDA	13.5	14.0	14.0	15.1
EBIT	10.8	11.3	11.5	12.9
PAT	10.3	10.9	9.7	11.2
Balance sheet Ratios				
Receivable (days)	65.8	64.4	62.7	63.7
Inventories (days)	9.5	12.2	12.4	13.0
Payables (days)	39.7	35.5	37.0	35.6
Debt equity ratio (x)				
Return ratios (%)				
RONW	18.3	19.2	18.4	20.5
RoCE	22.0	24.4	24.0	26.0
Valuation (x)				
P/E	19.9	17.2	16.0	12.5
Price/Book value	3.5	3.1	2.8	2.4
EV/EBITDA	13.4	11.6	8.9	7.3
EV/Sales	1.8	1.6	1.2	1.1

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

- BUY** – We expect the stock to deliver more than 12% returns over the next 12 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 12 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 12 months
- SELL** – We expect the stock to deliver negative returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
- SUBSCRIBE** - We advise investor to subscribe to the IPO.
- RS** – **Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a Sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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