

CYIENT

CYIENT'S EARNINGS CALL— Q4 AND ANNUAL RESULTS FY'15

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23/04/2015

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Year that was – Summary FY'15

Key Announcements

- Board of Directors recommend a final dividend of 100% i.e. ₹5.0/Share, subject to approval from shareholders; **Total dividend for the year at 160% which is ₹8.0/share.**

Financial Highlights for FY'14

- Revenue Growth
 - In INR at ₹27,359 Mn; Up 24.0% YoY
 - In US\$ at \$446.9 Mn; Up 23.0% YoY
 - Constant Currency revenue up by 24.3% YoY
- Operating Margin at 14.7% as against 18.6% last year;
- Operating Profit at ₹4,014 Mn; Down 2.1% YoY
- Net Profit at ₹3,533 Mn; Up 32.8% YoY

Year that was – Summary FY'15

Financial Metrics

- Business continues to generate strong Free Cash Flow (FCF)
 - FCF as % of EBITDA for the year stands at ~57%. **Best ever**
 - Absolute FCF generated ₹2,968 Mn; Up 35.8% YoY. **Highest ever**
- Cash Balance, including liquid investments, is ₹6,565 Mn;

Business Highlights

- Strong growth across all industry segments and geographies
- Among geos, Americas led the growth at ~31% followed by EMEA at ~15% on constant currency basis
- 67 customers added during the year, 26 in ENGG and 41 in DNO
- Employee gross addition for the year is 3,289; Third consecutive year of 3,000+ gross additions

Quarter that was – Summary Q4

Financial Highlights

- Revenue Growth
 - In INR at ₹7,300 Mn; Up 2.6% QoQ and 22.7% YoY ;
 - In US\$ at \$117.4 Mn; Up 2.3% QoQ and 21.7% YoY
 - **Constant Currency revenue up by 4.5 % QoQ**
 - *Revenue includes 2 months contribution from Rangsons at ₹572 Mn/US\$ 9.2 Mn*
- Operating Margin at 12.3% as against 16.3% in Q3; Down 395 bps
- Operating Profit at ₹899 Mn; Down 22.4% QoQ and 16.4% YoY
- Net Profit at ₹938 Mn; Down 6.9% QoQ and Up 34.4% YoY

Quarter that was – Summary Q4

Financial Metrics

- Business continues to generate strong Free Cash Flow (FCF)
 - Absolute FCF generated ₹924 Mn; **Highest ever in any quarter**
 - FCF as % of EBITDA for the quarter stands at 73%; **Best ever**
- Total DSO for Q4 at 83 Days and Billed DSO at 63 days which improved 2 days and 7 days respectively. **Both are best ever;**

Business Highlights

- APAC posted a robust growth of ~33% QoQ on constant currency basis
- Engineering business grew by 2.3% QOQ on constant currency basis
- Employee gross addition for the quarter is 582
- 16 customers added during the quarter, 8 in ENGG and 8 in DNO

Revenue at a Glance

						US\$ Growth	
Company Revenue	31-Mar-15	31-Dec-14	30-Sep-14	30-Jun-14	31-Mar-14	QoQ	FY'15 vs FY'14
Revenue (in US\$ mn)	117.4	114.7	110.8	104.0	96.4	2.5%	23.0%
Revenue (in INR mn)	7,300.3	7,118.1	6,723.9	6,217.0	5,948.0	2.6%	24.0%

Growth by Segments (in US\$)

Operating Units (Cyient)	QoQ	FY'15
Engineering	1.2%	14.7%
Data transformation , Networks & Operation [#]	-8.8%	31.9%

Geographies (Cyient)	QoQ	FY'15
Americas [#]	-7.6%	31.0%
Europe, ME, Africa & India	-9.4%	8.5%
Asia Pacific	20.9%	-1.6%

Cyient	-5.7%	20.5%
Cyient + Rangsons	2.3%	23.0%

[#] Includes Softential revenue of US\$ 5.2 Mn for Q4 and US\$ 23.0 Mn for FY'15.

Drivers for FY'15 and Q4

- For FY'15, Cyient posted a growth of 23.0% in US\$ and 24.3% in constant currency.
- Among geos, Americas and EMEA clocked robust growth of 31.0% and 8.5% (*~15% in constant currency*) respectively for the year.
- FY'15 growth in Engg. is driven by Aerospace unit which grew 16.3% and for DNO it is led by Communications (*including Softential*) which grew by 51.0% over FY'14.
- For Q4, in constant currency, revenue for the group has grown by 4.5% QoQ. However, revenue on organic basis is down by ~3.5% mainly due to additional ~US\$ 4 mn Softential revenue which was planned for Q4 but got realized in Q3. *~Organic revenue flat in constant currency excluding billing timing issue of Softential.*

Product Realization Business – Key Metrics*

Revenue	31-Mar-15
Revenue <i>(in US\$ mn)</i>	9.2
Revenue <i>(in INR mn)</i>	571.8

Key Financial Metrics	31-Mar-15
Gross Margin	9.6%
EBITDA Margin	4.6%
Tax Rate	34.0%
PAT Margin	0.2%

Geographies Mix	31-Mar-15
Americas [#]	29.2
Europe, Middle East, Africa & India	15.5
Asia Pacific	55.3

Cyient completed the acquisition of a majority stake in Rangsons Electronic, a leading electronics system design and manufacturing (ESDM) services company on 1st February 2015. The results are reflected in the financials for the quarter ending 31st March 2015.

* Represents only Rangsons business. Rangsons consolidation from 1st Feb 2015

Profit and Loss Statement – FY'15

(in ₹ millions)	FY'15	FY'14
Operating Revenues	27,359.3	22,064.3
Cost of Revenues	17,129.2	12,755.9
Gross Profit	10,230.1	9,308.4
S&GA		
Operating Profit	4,013.5	4,100.9
Depreciation & Amortization	713.0	720.3
Financial Expenses	80.0	29.3
Other Income	1,235.9	186.8
Tax	1,095.7	1,030.1
Associate Profit & Minority Int.	172.8	152.0
Profit After Tax	3,533.4	2,660.1
Basic EPS (INR)	31.5	23.8

Gross Margin	37.4%	42.2%
Operating Margin	14.7%	18.6%
Effective Tax Rate	24.6%	29.1%*
Net Income Margin	12.9%	12.1%

* 27.2% excluding one off dividend from overseas subsidiaries

FY'15 Variance

Operating Profit Movement

- Decreased by 392 bps mainly due to
 - Wage hike impact (-310 bps), lower offshoring(-210 bps) and lower utilization (-30 bps) ; Total impact of around -550 bps
 - Improved productivity, pyramid correction and other efficiencies led to ~200 bps tailwind

Profit After Tax Movement

- **Other Income** : Significantly better than last year due to higher treasury income and continued forward cover gains
- **Tax Rate** : Special Economic Zone (SEZ) benefit continue to improve tax position which helped us to improve our tax rate by ~260 bps over last year

Profit and Loss Statement – Q4, FY'15

<i>(in ₹ millions)</i>	31-Mar-15	31-Dec-14	31-Mar-14
Operating Revenues	7,300.3	7,118.1	5,948.0
Cost of Revenues	4,726.4	4,358.0	3,441.9
Gross Profit	2,573.9	2,760.1	2,506.1
S&GA	1,675.2	1602.7	1,431.0
Operating Profit	898.7	1,157.4	1,075.1
Depreciation & Amortization	186.0	173.5	174.0
Financial Expenses	43.1	13.9	8.3
Other Income	398.6	365.7	(20.4)
Tax	172	373.4	213.8
Associate Profit & Minority Int.	42.2	45.8	39.7
Profit After Tax	938.3	1,008.2	698.3
Basic EPS (INR)	8.4	9.0	6.2

Gross Margin	35.3%	38.8%	42.1%
Operating Margin	12.3%	16.3%	18.1%
Effective Tax Rate	16.1%*	28.0%	24.5%
Net Income Margin	12.9%	14.2%	11.7%

* Q4 Tax rate without one offs would have been ~25%.

Q4 QoQ Variance

Operating Profit Movement

- Margin declined by +395 bps mainly due to
 - Unfavorable exchange impact
 - High margin Softential business which got billed in Q3

Profit After Tax Movement

- **Other Income** : Better than last quarter mainly due to higher forward cover gains
- **Tax Rate** : Q4 Tax rate without one offs would have been ~25%. The reduction is due to one off annual assessment of tax position of gains on account of forward contracts to specific business areas, intercompany pricing adjustments and one off in Q3 which was not there in Q4.

Working Capital Management*

Cash Generation		₹ in Mn
	31-Mar-15	FY'15
Cash Position <i>(including liquid investments)</i>	6,030	6,030
Business Free Cash Flow	924	2,968
as % of EBITDA	73%	57%
Cash from Operations	1,139	3,702
Capital Expenditure	214	734
as % of Sales	3.2%	2.7%

FCF and FCF as % of EBITDA continues to be robust.

Generated ₹ 2,968 Mn of free cash flow (57% of EBITDA) for FY'15; Up 35.8% over last year

Days Sales Outstanding		In Days		
	31-Mar-15	31-Dec-14	31-Mar-14	
DSO (including Unbilled)	83	85	87	
- Billed	63	70	70	
- Unbilled	20	15	17	

Overall DSO is improved by 2 days QoQ and Billed DSO improved 7 days QoQ to reach 83 Days and 63 Days respectively . Both are lowest ever for Cyient.

*Excludes Product Realization/Rangsons

Hedge Book and Other Income

Outstanding Forward Contracts*

(in Millions – Respective currency)	31-Mar-15	31-Dec-14
USD / INR	85.0	87.5
EURO / INR	24.0	24.0
GBP / INR	2.4	2.4
AUD / INR	7.2	7.2

Booked Rates (in ₹)

Currency	Next 12 Mths.
INR/USD	65.8
INR/EURO	83.6
INR/GBP	105.5
INR/AUD	56.0

Company has hedged ~70% of inflows for next 12 months. Total hedge position in US\$ is ~\$120 Mn.

At Spot rate (31st March'15) Forward contract Gains could be ~USD 12 Mn

Other Income (OI) - Details

₹ in Mn.

	31-Mar-15	31-Dec-14
Income from Treasury :-		
Interest on Investments / deposits	102.5	133.0
Dividend on mutual funds	3.4	5.2
Subtotal (A)	105.9	138.2
Foreign Exchange Gain/(Loss): -		
Gain/(Loss) on Forward Contracts	254.3	178.7
Gain/(Loss) on Restatement and translation	(50.6)	23.8
Subtotal (B)	203.7	202.5
Others Subtotal (C)	89.0	25.0
GRAND TOTAL (A+B+C)	398.6	365.7

High forward cover gains due to higher booked rate which led to higher OI gains. ~₹1 mn gains from Rangsons

*Outstanding forward contracts exclude Product Realization/Rangsons

Attrition – One Offs

Q4

	In %
Voluntary Attrition	
Attrition (reported)	27.4%
One off prior period	10.2%
Adjusted(real)	17.2%

	In number
Headcount Addition	
Net Addition (reported)	(395)
One off prior period	323
Adjusted(real)	(62)

FY'15

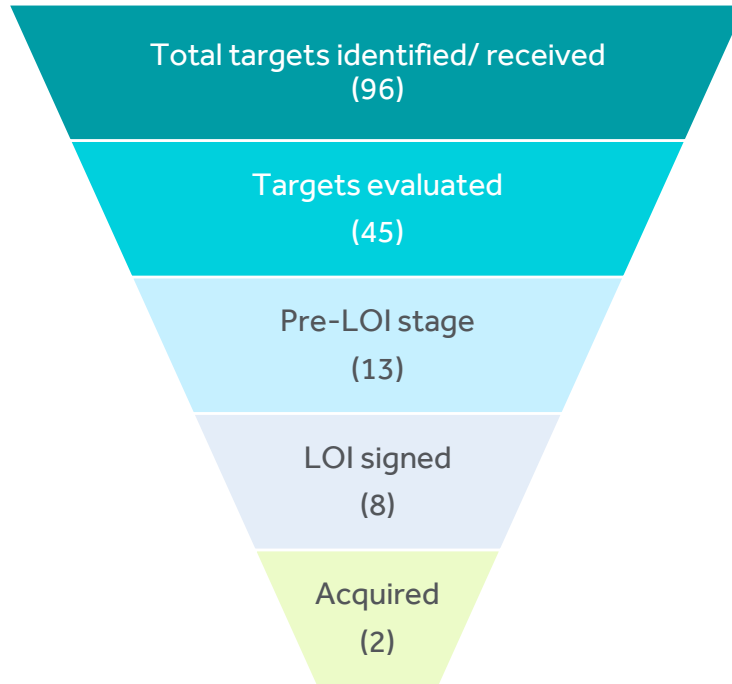
	In %
Voluntary Attrition	
Attrition (reported)	20.1%
One off prior period	3.2%
Adjusted(real)	16.9%

	In number
Headcount Addition	
Net Addition (reported)	288
One off prior period	393
Adjusted(real)	681

Voluntary Attrition for Q4 is at 27.4%. Of this 10.2% is an adjustment for clearing a backlog of associates who had voluntarily abandoned service (but had not been removed from our database). Real voluntary attrition without the backlog cleared is 17.2%. The exercise of clearing the backlog is complete and also a process is put in place to avoid buildup of backlogs in future.

Acquisitions Pipeline and Focus

Deal pipeline in FY15



M&A focus areas for FY16

Bridging gaps in service lines

- Embedded systems & Electronics

Strengthening the verticals

- Medical devices

Expanding geographical reach

- Europe for Aerospace
- Eastern European near shore center

Others

- Captives of Must-Win Prospects

A Look Ahead: Business Growth Outlook

- **Aerospace** – Continue to see good traction in NAM with multiple proposals across value engineering, manufacturing support, aftermarket and Analytics. Increasing demand for risk sharing programs across various clients. Challenges in Europe continues with little visibility on new business
- **Transportation** – Industry growth, investments across key geographic segments, cost pressures and global collaborative approaches present a significant opportunity for Cyient's core value proposition. Traction in rolling stock clients continues across NAM and Europe
- **Off-Highway Products** - ER&D spend is driven largely by new markets, environmental and cost factors (such as lower fuel consumption and emissions) and new functionality and features such as energy efficiency, diagnostics, automation and telematics. Interest and opportunity continues around Analytics and Embedded software
- **Energy and Natural Resources** – In O&G industry positive traction in APAC with new client wins in Engineering services, continue to have week customer pipe line for our data transformation services. Cost pressures continue in Mining industry. Increased focus on renewable energy offers opportunity to engage with Wind Turbines OEMs

A Look Ahead: Business Growth Outlook

- **Semiconductor** – Good traction in APAC region, with wins and ramp-ups in last quarter. Expecting to grow these relationships in the coming quarters. Building sales pipeline in Europe. In NAM there could be de-growth due to ramp down at one of the major client
- **Medical and Electronics** – Continue to pursue opportunities in new product development, localization and cost reduction. Expecting increased traction with the recent acquisition of systems integration player
- **Utilities** – In Electric utilities, huge capital investments expected in distribution sector with Asia holding maximum investment demand followed by Europe and North America. Emergence of Smart Grids, growth in mobile workforce requirements are primary drivers for this growth
- **Communications** – APAC is acting as the prime driver for telecommunication industry. Spread of 4G, roll-out of national broadband networks and FTTx services expected to drive growth. In EMEA, deployment of 4G/LTE networks is going slow due to shrinking revenues, but Investments in next generation technologies like FTTx and VDSL is expected to rise
- **Rangsons** – Strong order pipeline and efforts are on to convert into orders. Slowdown in two large customers is having impact on the Q4 and Q1 revenues but expecting to recover in Q2 and Q3

Margin Outlook

Margins expected to increase by 200 bps for services business (excluding Rangsons)

- Wage hike impact to be around ~200 bps
- Investments strategic initiatives to have an impact of ~ 50-75 bps
- Price to remain stable
- Impact of operational improvements ~ 400 bps
 - Utilization : 100 – 125 bps
 - Offshoring : 100 – 120 bps
 - Pyramid corrections: 80 – 100 bps
 - Others : ~100 - 150 bps

Including Rangsons, Margins expected to increase by 100 bps

Risks/challenges

Volatility in currencies

Economic **uncertainty**

Controlling wage **Inflations**

Pressure on pricing

Shift to **onsite**

Integration risk

Managing new business models like Risk-reward

Focus Areas – FY16

- **Margin improvement**
 - Operational efficiency improvements (Utilization, offshoring, Pyramid correction, etc.,)
 - Indirect cost absorption
- **Post Merger Integration**
 - Rangsons integration – Focused team working on the integration by leveraging the lessons learnt from previous integrations
 - Realizing the synergy revenues from Softential, Insights and Rangsons – Created structure and incentives to realize the synergy revenues
- **Pursue opportunities from strategy exercise**
 - Invest proactively into the opportunities and develop them – 5 to 7 opportunities are getting shortlisted out of 25 opportunities identified
 - Track the opportunities for implementation
- **Build systems engineering capability**
 - Focus on creating own IP in Embedded software and Electronics
- **Focus on account mining and reduce the long tail**

Q&A