CYIENT

CELEBRATING 25 YEARS

# QUARTERLY EARNINGS BRIEFING

Q4 FY17

# Confidentiality Statement

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# Content

- **Highlights for the Year & Quarter**
- **Financial Update**
  - Income statement update
  - Cash generation and other updates
- **Business Update**
  - M&A update
  - Industry outlook
  - Future outlook

# Highlights for the Full Year (1/2)

## Financial Highlights for FY17

- Strong and well rounded Performance
  - **Revenue growth of 16.3%** in INR terms at ₹ 36,065 Mn; US$ growth of 13.7% at US$ 538 Mn; 14.9% in constant currency
  - **Operating Profit up 15.7%** at ₹ 4,848 Mn
  - **Net profit up 10.7%** excluding exceptional item at ₹ 3,699 Mn
  - **Cash generation up ~30%** at ₹ 3,712 Mn
- Highest ever free cash flow conversion at 65% of EBITDA
- **DSO lowest ever 74 days** down 5 days, Tax rate of 24.2% down 50 bps
- **Highest ever cash balance at ₹ 9,706 Mn** (US$ 149.8 Mn) inspite of three acquisitions and increased dividend payout
- Consistent dividend payout @ 30% (₹ 8 per share), over and above special dividend of ₹ 2.5 per share declared on the 25th anniversary
- Improved Utilization by 160 bps at 76.8%

# Highlights for the Full Year (2/2)

## Business Highlights for FY17

- Enhanced focus on long term initiatives - investments in three acquisitions: ODS (Australia) in Q1, Blom (UK) in Q3 and Certon (US) in Q4. Invested for a minority stake in two start-up ventures and made an IP investment through partnership
- Robust growth in EMEA (28%) and APAC (30%)
- Rewarding two key stakeholders who have been with us through our journey of 25 years, Company had announced special dividend for shareholders and Restricted Stock Units (RSU) scheme to eligible associates in Q2. In line with the announcement, RSUs including cash-out option has been granted to ~9000 associates in Q4 FY17 and an expense of ₹ 261 Mn has been considered as an exceptional item in the financial statements of Q4 FY17, to be fair valued again in Q4 FY18.
- Our Founder and executive Chairman Dr. B.V.R. Mohan Reddy was honored with the prestigious Padma Shri award for his contribution in trade and industry

# Highlights for the Quarter (1/2)

## Financial Highlights for Q4 FY17

- Strong YoY revenue growth of 16.1% in US$ terms at US$ 141 Mn and 3.8% QoQ growth (3.6% in constant currency)
- Revenue grew by14.9% at ₹ 9,410 Mn in ₹ terms, highest revenue ever
- Operating Profit is ₹ 1,247 Mn (YoY growth of 23.1%), Operating margin at 13.3%
- Net profit (excluding exceptional item) is ₹ 1,046 Mn, Up 36.9% YoY and 11.1% QoQ;
- Robust Free Cash Flow (FCF) generated stands at ₹1,385 Mn, ~92% of EBITDA, helped by DLM's cash generation of ₹ 156 Mn
- Attrition at 19.5%; Lowest ever in the recent past

## Business Highlights for Q4 FY17

- Completed acquisition of US based verification and validation company, Certon Inc. for the avionics division of Aerospace and Defense BU
- Robust growth witnessed across geographies - EMEA (6.6%), APAC (2% ) and NAM (2.7%)
- Restricted Stock units has been granted this quarter and an expense of ₹ 261 Mn has been considered as an exceptional item in the financial statement

# Highlights for the Quarter (2/2)

## Operations

- **Collaboration** agreement with **AMDOCS** to implement GIS solutions
- Partnered with **Liberty Global** to support **Gigaworld broadband roll-out**
- Successfully completed **IRIS First Surveillance audit**
- **Transfer of Technology Agreement** signed between Cyient DLM & C-DOT
- **DLM's 1st LRU** and **2nd LRU** shipped

## Awards

- **Best Rail Signaling and Electrification** Provider 2017
- **Best Geospatial Solutions Company** of the year 2017
- **Geospatial Application Excellence** Award

## Infrastructure

- **New Delivery Center** for Cyient Defense Services in **Florida**
- **Design COE** for **an Aerospace and Defense** customer
- **Electronics lab** for a key **Medical Technology and Health care**
- **Experience center and lab** for **Ortho Clinical Diagnostics**

# Revenue at a Glance – FY17

| | FY17 | FY16 | FY15 | FY14 | FY13 | FY17 YoY Growth % |
|---|---|---|---|---|---|---|
| Revenue *(in US$ Mn)* | **537.9** | 473.0 | 446.9 | 363.3 | 344.9 | **13.7%** |
| Revenue *(in INR Mn)* | **36,065** | 31,021 | 27,359 | 22,064 | 18,731 | **16.3%** |

| Business Unit | *Revenue* | | *$ Growth* |
|---|---|---|---|
| | $ Mn | % Share | YoY |
| A&D | $177.3 | 33% | 10.2% |
| Communications | $102.7 | 19% | 32.6% |
| Industrial & ENR | $45.1 | 8% | -6.0% |
| Medical & Healthcare | $9.1 | 2% | 39.5% |
| Semiconductor | $19.8 | 4% | -7.3% |
| Transportation | $46.8 | 9% | 5.2% |
| U&G | $82.5 | 15% | 15.2% |
| **Services** | **$483.4** | **90%** | **11.7%** |
| DLM | $54.5 | 10% | 35.7% |
| **Geographies** | | | |
| North America | $290.1 | 53.9% | 3.6% |
| EMEA | $162.6 | 30.2% | 28.0% |
| Asia Pacific | $85.2 | 15.8% | 29.8% |
| **Group** | $537.8 | 100% | 13.7% |

- Overall 15% growth in constant currency:
  - Services growth ~12%
  - DLM posted 36%
- Growth across geos
- Growth led by key customers – Highest ever contribution by Top 20
- Growth across business units except Semicon and I&ENR already showing traction

** Transportation and U&G growth impacted by Cross currency (CC growth at 11.6% and 19.8% respectively)*

# Revenue at a Glance – Q4

| | Q4 FY17 | Q3 FY17 | Q2 FY17 | Q1 FY17 | Q4 FY16 | Growth (%) | |
|---|---|---|---|---|---|---|---|
| | | | | | | YoY | QoQ |
| Revenue *(in US$ Mn)* | **141.0** | 135.8 | 136.5 | 124.7 | 121.4 | **16.1%** | 3.8% |
| Revenue *(in INR Mn)* | **9,410** | 9,171 | 9,136 | 8,349 | 8,195 | **14.8%** | 2.6% |

| Business Unit | *Revenue* | *Growth (%)* | |
|---|---|---|---|
| | $ Mn | YoY | QoQ |
| A&D | $44.6 | 5% | 3.5% |
| Communications | $26.7 | 40% | -2.8% |
| Industrial & ENR | $10.9 | -3% | -3.5% |
| Medical & Healthcare | $2.4 | 29% | 3.9% |
| Semiconductor | $5.2 | 9% | 10.7% |
| Transportation | $12.1 | 11% | 6.1% |
| U&G | $23.1 | 26% | 10.8% |
| **Services** | **$124.9** | **15%** | **3.2%** |
| DLM | $16.1 | 27% | 8.7% |
| **Geographies** | | | |
| North America | $73.7 | 10.5% | 2.7% |
| EMEA | $44.9 | 18.1% | 6.6% |
| Asia Pacific | $22.4 | 34.1% | 2.0% |
| **Group** | $141.0 | 16.1% | 3.8% |

- Services YoY ~15% growth led by double digit growth in Comms, MT&H, U&G and Transportation
- QoQ growth 3.8%- driven by services 3.2%, DLM 8.7%
- Growth across all Geos

**YoY CC growth for U&G (33.0%), Transportation(19.1%)*

*Growth in Q4 aided by acquisitions - $2.2 Mn incremental revenue in Q3 & Q4*

# Income Statement- FY17

| Particulars | UoM | FY17 | FY16 |
|---|---|---|---|
| **Revenue** | **₹ Mn** | **36,065** | **31,017** |
| Cost of Revenue | ₹ Mn | 23,650 | 20,161 |
| Gross Profit | ₹ Mn | 12,416 | 10,856 |
| **Operating Profit** | **₹ Mn** | **4,848** | **4,186** |
| Tax | ₹ Mn | 1,046 | 1,011 |
| Exceptional Items* | ₹ Mn | 261 | 87 |
| Net Profit (Reported) | ₹ Mn | 3,438 | 3,255 |
| **Net Profit (Adjusted)** | **₹ Mn** | **3,699** | **3,342** |
| EPS (Reported) | ₹/share | 30.5 | 29.0 |
| **EPS (Adjusted)** | **₹/share** | **32.9** | **29.9** |
| Gross Margin | % | 34.4% | 35.0% |
| **Operating Margin** | **%** | **13.4%** | **13.5%** |
| Effective Tax Rate | % | 24.2% | 24.7% |
| **Net Margin (Adjusted)** | **%** | **10.3%** | **10.8%** |

**Operating Profit Movement**

- Services margin for year at 15%, improvement of 60 Bps in FY17 despite headwinds from wages, currency; offset by operational efficiency
- Operating profit growth of ~16%
- DLM breakeven

**Profit After Tax Movement:**

- PAT up 11% excluding exceptional item.
- Tax rate reduced by 50 bps, at 24.2%; SEZ focus
- Other income up on treasury and forward cover gains
- Notional FX impact (66-65 Inr/$) headwind, 25% other income growth excluding the same

** Exceptional item relates to RSU impact of ₹261 Mn in FY17 and impact of change in bonus act of ₹87 Mn in FY16*

# Income Statement - Q4

| Particulars | UoM | Q4 FY17 | Q3 FY17 | Q4 FY16 |
|---|---|---|---|---|
| **Revenue** | **₹ Mn** | **9,410** | **9,171** | **8,191** |
| Cost of Revenue | ₹ Mn | 6,179 | 6,056 | 5,404 |
| Gross Profit | ₹ Mn | 3,231 | 3,114 | 2,787 |
| **Operating Profit** | **₹ Mn** | **1,247** | **1,228** | **1,053** |
| Tax | ₹ Mn | 221 | 322 | 196 |
| Exceptional item* | ₹ Mn | 261 | 0 | 87 |
| Net Profit (Reported) | ₹ Mn | 784 | 942 | 677 |
| **Net Profit (Adjusted)** | **₹ Mn** | **1,046** | **942** | **764** |
| EPS (Reported) | ₹/share | 7.0 | 8.4 | 6.1 |
| **EPS (Adjusted)** | **₹/share** | **9.3** | **8.4** | **6.8** |
| Gross Margin | % | 34.3% | 34.0% | 34.0% |
| **Operating Margin** | **%** | **13.3%** | **13.4%** | **12.9%** |
| Effective Tax Rate | % | 23.0% | 25.8% | 23.2% |
| **Net Margin (Adjusted)** | **%** | **11.1%** | **10.3%** | **9.3%** |

**Operating Profit Movement**

- Services margin for exit quarter at 15%.
- YoY Operating profit growth of 18%

**Profit After Tax Movement:**

- PAT up 36.9% YoY and 11% QoQ excluding exceptional item.
- Exit Tax rate @ 23%
- Other income up both on treasury and forward cover gains
- Notional FX impact *(68-65 Inr/$)* headwind -14% other income growth excluding the same

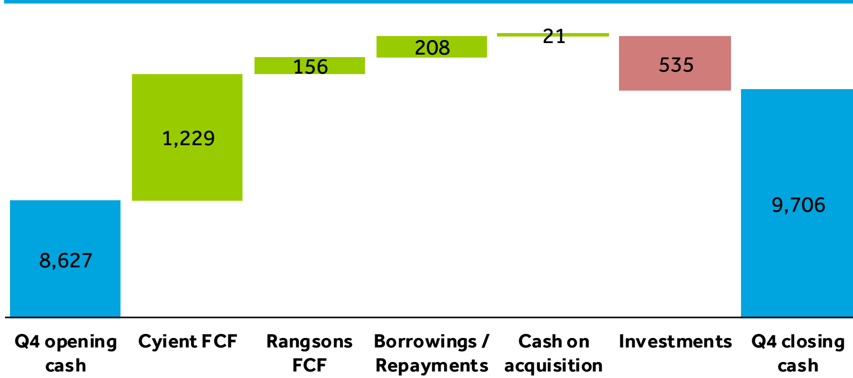
** Exceptional item relates to RSU impact of ₹261 Mn in Q4'FY17 and impact of change in bonus act of ₹87 Mn in Q4'FY16*

# Cash Generation Update-Quarterly & Yearly

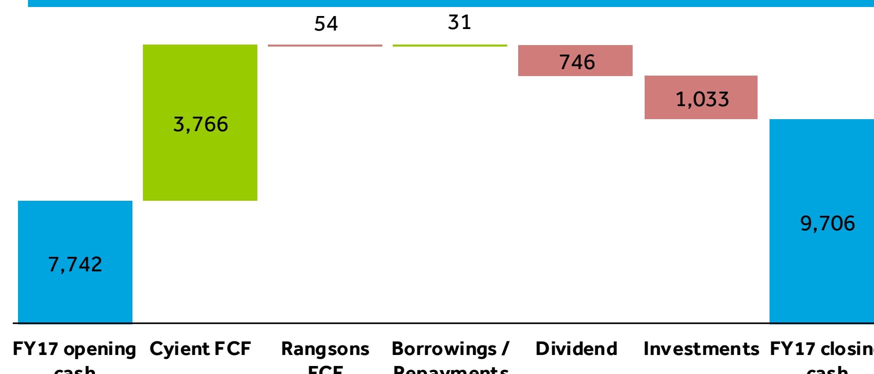
| Cash Generation | | | | | | |
|---|---|---|---|---|---|---|
| **Particulars** | **UOM** | **Q4 FY 17** | **Q3 FY 17** | **FY17** | **FY16** |
| Cash Position | ₹ Mn | 9,706 | 8,627 | 9,706 | 7,742 |
| | $ Mn | 149.8 | 127.8 | 149.8 | 118.1 |
| FCF - Cyient | ₹ Mn | 1,229 | 1,448 | 3,766 | 3,378 |
| | $ Mn | 18.4 | 21.4 | 56.2 | 51.5 |
| | % of EBITDA | 81.3% | 95.6% | 65.8% | 65.9% |
| FCF - Rangsons | ₹ Mn | 156 | -175 | -54 | -516 |
| FCF - Group | ₹ Mn | 1,385 | 1,273 | 3,712 | 2,862 |
| | % of EBITDA | 91.6% | 82.8% | 64.9% | 54.5% |
| Capex | % of | 2.6% | 2.7% | 2.6% | 2.4% |

- **Cash generation is higher by ~30%** at ₹ 3,712 Mn
- **Highest ever** free cash flow & conversion at 65% of EBITDA
- **Highest ever cash balance at ₹ 9,706 Mn** (US$ 149.8 Mn)
- **DSO** stands at 74 days; **lowest ever** reduced by **5 days YoY**, **2 days QoQ**

## Q4 FY17 Cash Generation & Utilization (₹ Mn)




## FY17 Cash Generation & Utilization (₹ Mn)

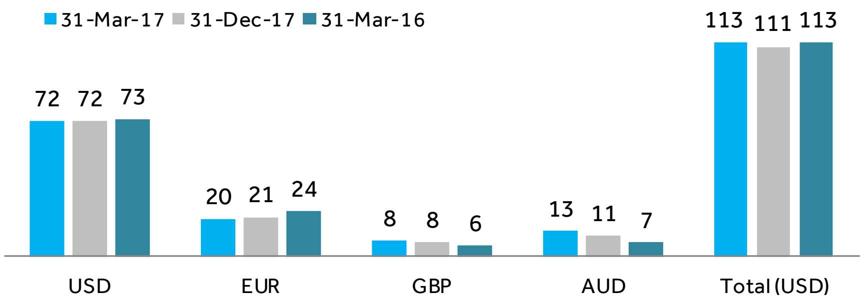


# Hedge Book and Other Income

## Outstanding Forward Contracts*

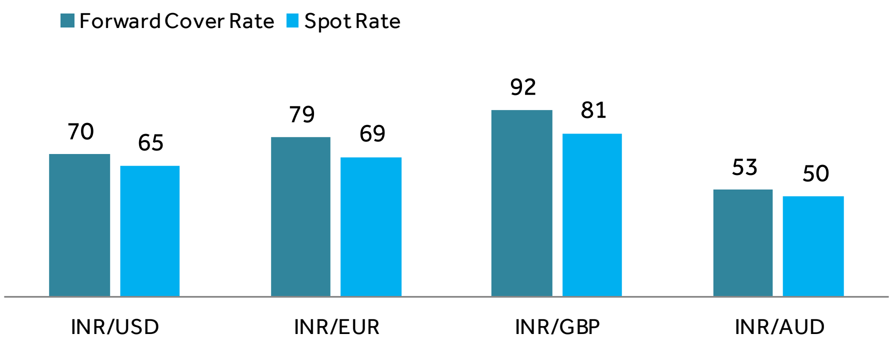
Value in respective currency Mn




## Other income

| Particulars | Q4 FY17 | Q3 FY17 | Q4 FY16 | FY17 | FY16 |
|---|---|---|---|---|---|
| Income from Treasury (A) | 115 | 94 | 84 | 393 | 319 |
| Realised Gain/(Loss) on Fw contracts (B) | 180 | 113 | -16 | 441 | 347 |
| Others (C) | 45 | 91 | 45 | 213 | 171 |
| **Subtotal (A+B+C)** | **340** | **298** | **112** | **1,047** | **836** |
| UnRealised FX Gain/(Loss) (C) | -75 | 12 | 110 | -173 | 228 |
| **GRAND TOTAL (A+B+C+D)** | **264** | **309** | **221** | **874** | **1,064** |

## Booked Rate (in ₹) for next 12 Months



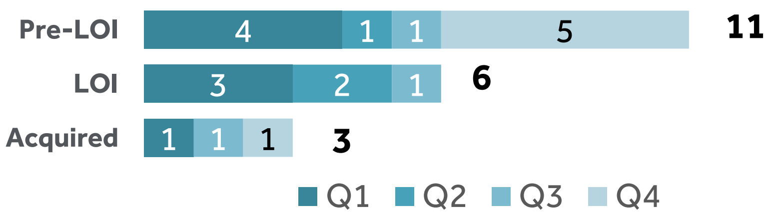

- Other income up on treasury and forward cover and likely to grow further
- Notional adverse FX impact *(68-65 Inr/$)* other income growth by 14% QoQ
- On realized gain/losses on forward contracts company has strong position for the next 12 months at current spot rates
- At Spot rate (31st Mar'17) Forward contract gains could be ~$ 11 Mn (~₹710 Mn)

**Outstanding forward contracts excludes Rangsons*

# Investment Pipeline & Focus: Next 12 months

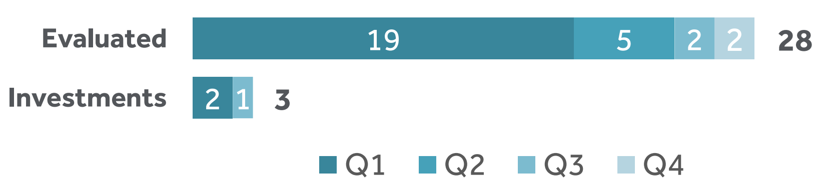
**Mergers and Acquisition**

**Vertical focused M&A strategy in key markets of NAM, Europe and APAC**




**Corporate Venturing**

**Focus is on Medical technology, Communication technologies, IoT/M2M platforms and Advanced avionics**




## Aerospace & Defense

- Manufacturing engineering and repair engineering services
- Avionics System/Sub-system and Solutions

## Medical & Healthcare

- Design to Build companies with OEM partnerships

## Transportation

- Signalling Application Engineering & Testing

## Communications

- Wireless design and planning companies
- Next generation communication solution capabilities

## Industrial, Energy and Natural Resources

- Process engineering firm for power & oil & gas industries

## Design led Manufacturing

- Design to build / low volume high value manufacturing

# Certon Acquisition

- Cyient Limited through its North American Subsidiary acquired 100% of US based verification and validation company Cyient Inc. for the Avionics business of Aerospace and Defense business unit in Q4 FY17

- Incorporated in 2006, Certon employs a core team of around 45 people, with revenue at the current run-rate of ~$6M and low double digit EBITDA margins

- Certon is an IP led innovative provider of full product life-cycle engineering services to companies seeking certification approval for safety-critical systems, embedded software, and electronic hardware. Through its differentiated automation platforms, Certon is able to provide significant cost and time to market benefits to OEMs

- This acquisition will enable Cyient to create a differentiated value proposition through automation capabilities in the Avionics domain.

# Industry outlook (1/3)

## AEROSPACE & DEFENSE

The A&D market is in a fulfilment mode with focus on production ramp up and manufacturing. APAC and the Middle East continue to witness demand on the Defense side. We will focus on ramping up our capabilities in avionics and manufacturing services and developing a robust MRO strategy in the long-term. We are investing in new technologies like Additive Manufacturing, Augmented Reality, IOT and Analytics to partner with our customers in their digital transformation initiatives

## INDUSTRIAL, ENERGY AND NATURAL RESOURCES

The industry continues to witness pressure on Capex spending. The OEM's are shifting focus away from product development to cost takeout. The emphasis is on improving products through new technologies (Telematics, Electronics, IoT, analytics, etc.). We will focus on infrastructure management services and new adjacent solutions with analytics, electronics and Design Led Manufacturing

## TRANSPORTATION

Rail Transportation industry has outperformed the industry growth forecasts, supported by strong growth in Rolling Stock and Signaling. Digital solutions such as cyber security for signaling systems are gaining momentum. We will continue to drive focus across Rolling Stock and Signaling to drive growth in the segment

# Industry outlook 2/3

## MEDICAL TECHNOLOGY AND HEALTHCARE

Increasing price pressure is putting focus on cost cutting and leading to delays in new product development. There aren't many competitors offering focused end to end services. Our focus in this segment will be to ramp up our end to end product development capabilities. We are also witnessing an increased interest in standalone manufacturing services and will continue to focus on it as part of a more robust solution offering.

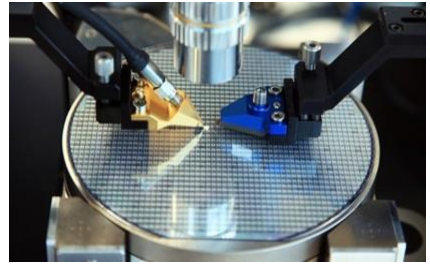
## UTILITIES AND GEOSPATIAL

Grid edge technology adaption is driving growth across the industry. AMI and Smart Meters national roll outs continue, generating more data, software and analytics related opportunities. Price and cost pressures leading to emphasis on optimization and efficient asset and work management services.

# Industry outlook (3/3)

## COMMUNICATIONS

Demand for high-speed infrastructure is driving growth in the industry. Trend towards fibre deployment in ANZ & USA, especially NBN, CAF II & UFB continue. The focus is on network intelligence and analytics across industry. We will focus on building our capabilities in wireless communication, small cell design and deployment, solutions around service assurance and analytics and executing fibre rollout programs to gain momentum in the coming years.



## SEMICONDUCTOR/IOT/ ANALYTICS

The trend towards consolidation continues with revenue growth and intellectual property acquisition being the major drivers. The industry is witnessing a growth driven by NAM and China market. The focus is on niche areas such as connected cars , IoT, Security and Datacenter/Cloud continue to drive the market. Our focus in this segment will be to build a compelling value proposition for digital services and solution. In this direction we will be bringing together our capabilities in IoT, Analytics and Semiconductor. As we move ahead we will build our capabilities across connected cars, network security and data centers.

## DESIGN LED MANUFACTURING (DLM)

DLM is witnessing high traction in Defence (Rafale and Barak 8 Programs) and Transportation (Indian Railways) for Go to India programs. A&D segment in NAM is witnessing significant consolidation of supply base and pressure on profits. Our growth in this segment will be largely driven by India and Israel projects.

# Future outlook for FY 18

**Revenue Growth**

- Double digit growth in the core business, similar to current year
- DLM business will grow by ~ 20%

**Margin Expansion of ~50bps through Operational Efficiency Improvements**

- Operational improvements: ~390 bps
  - Utilization ~70 bps; Higher Offshore mix ~50 bps
  - Onsite Margin 100 bps; Pyramid correction & SG&A absorption 170 bps
- Offset by Wage Hike ~180 bps and Investments ~100 bps
- Pricing pressure (Rate decrease net of increases) ~60 bps
- DLM Margins to be at current levels

**Earnings Growth**

- Double digit earnings growth in FY18

# Q&A