

CYIENT

# QUARTERLY EARNINGS BRIEFING

Q3 FY18

# Confidentiality Statement

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# Content

- **Highlights for the Quarter**
- **Financial Update**
  - Q3 Exceptional Item : Sale of stake in IASI
  - Income statement update
  - Cash generation and other updates
- **Business Update**
  - M&A update
  - Industry outlook
  - Future outlook

# Highlights for the Quarter(1/2)

## Financial Highlights for Q3 FY18

- **QoQ** revenue growth of **1.3%** - highest ever at \$152 Mn, **YoY** growth of **11.9%**
- **Services revenue QoQ** growth of **4.2% (4.4% in CC)** - **highest ever** at \$139.9 Mn, **YoY** growth of **15.6%**
- Operating margin **sustained at 14.6% QoQ** and **116 bps** expansion **YoY**, despite the headwind of higher pay days
- Operating Profit at ₹1,431 Mn - QoQ growth of 1.6%, **YoY growth of 16.5%**
- PAT for the quarter stood at ₹878 Mn, ₹1,088 Mn without one offs, **YoY growth of 15.5%**
- **Cash & cash equivalents** at **₹10,770 Mn / \$168 Mn – highest ever**, DLM generated ₹38 Mn
- Free Cash Flow generated at ~67% of EBITDA, at ₹1,136Mn (incl. IASI sale is ₹1,749Mn)
- **Company declared a dividend of ₹4.0/Share**, second one for the year

## Business Highlights for Q3 FY18

- Well rounded growth across all Business Units and Geographies
  - Six out of Eight BUs growth is in double digits in YoY terms
  - EMEA, Americas and APAC grew ~16%, ~10% & ~10% YoY in \$ terms

# Highlights for the Quarter (2/2)



## CSR Activities

- Continue to support 25 Government Schools - supporting underprivileged children; added one more Cyient Digital Centre that provides digital educational resources; and taking the total to 56
- Cyient Foundation launched two smart class schools; first such government school in Telangana State



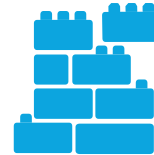
## Infrastructure

- Aerospace nearshore Engineering Centre opened in Portishead, UK
- Inaugurated Cyient Defence Services office in West Palm Beach, Florida, USA
- Expanded a CoE for a key customer with additional capacity of 75 seats
- Inaugurated Global Tower Operations Centre (TOC) at Hyderabad, India



## Awards

- Cyient obtained from ICRA, a rating of CGR2+ for the Corporate Governance practices of the company.
- Cyient won the Pratt & Whitney - America supplier Innovation (5<sup>th</sup> time) and Productivity Savings Awards (2<sup>nd</sup> time) for 2017
- Cyient won Golden Peacock Award 2017 for Risk Management
- Confederation of Indian Industries recognized Cyient as one of India's Most Innovative Organizations



## Operations

- Blacktown, NSW Telstra Delivery Centre now ISO 27001:2013 certified
- Won first Grid Analytics project in collaboration with a global partner

# Q3 Exceptional Item : Sale of stake in IASI

## Transaction

- Cyient Ltd. signed a share cancellation agreement to divest its 49% stake in its Puerto Rico based joint venture (IASI) with Pratt & Whitney on 13<sup>th</sup> September, 2017 and the closing was done on 8<sup>th</sup> December, 2017
- We had made an investment of \$250K in 2003 and till date have received dividends of ~\$18.4 Mn and \$1.8 Mn for 49% stake sale, resulting in significant return

## Cash Receipt

- On closing, Cyient Ltd received a total of \$10.9 Mn (\$1.77 Mn for 49% stake and \$9.13 Mn as dividend)
- On post tax basis, this translates to \$9.01 Mn

## Income Statement impact

- One-time loss of ₹210 Mn (\$3.24 Mn) as exceptional item
  - Two months of operating loss of ₹204 Mn (\$3.15 Mn) due to hurricanes in Puerto Rico
  - Loss on sale of IASI investment of ₹50 Mn (\$0.77 Mn)
  - Tax reversal on IASI sale of ₹44M (\$0.68 Mn)

# Revenue at a Glance

Revenue	Q3 FY17	Q4 FY17	Q1 FY18	Q2 FY18	Q3 FY18	YoY (%)	QoQ (%)
Revenue (US\$ Mn)	135.8	141.0	140.6	150.1	<b>152.0</b>	11.9%	1.3%
Revenue (₹ Million)	9,171	9,410	9,070	9,654	<b>9,834</b>	7.2%	1.9%

Business Units	Revenue		\$ Growth	
	\$ Mn	YoY	QoQ	
Aerospace & Defence	48.5	12.7%	4.1%	
Communications	31.7	15.6%	1.6%	
Industrial & ENR	12.1	6.9%	4.3%	
Medical & Healthcare	2.8	22.7%	-2.8%	
Semiconductor	5.2	10.4%	-6.1%	
Transportation	16.3	43.6%	8.4%	
U&G	23.2	11.5%	8.8%	
<b>Services</b>	<b>139.9</b>	<b>15.6%</b>	<b>4.2%</b>	
DLM	12.1	-18.1%	-23.2%	

Geography	Revenue		\$ Growth	
	\$ Mn	YoY	QoQ	
Americas	79.1	10.2%	5.2%	
EMEA	48.7	15.8%	-0.9%	
Asia Pacific	24.2	10.2%	-6.0%	

<b>Group</b>	<b>152.0</b>	<b>11.9%</b>	<b>1.3%</b>	
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- Well rounded growth across all Business Units and Geographies
  - **Six out of Eight** BUs grew in double digits in YoY terms
  - EMEA, Americas and APAC grew ~16%, ~10% & ~10% YoY in \$ terms

# Income Statement

Particulars	UoM	Q3 FY17	Q2 FY18	Q3 FY18
Revenue	₹ Mn	9,171	9,654	9,834
Cost of Revenue	₹ Mn	6,056	6,236	6,329
Gross Profit	₹ Mn	3,114	3,418	3,505
Operating Profit	₹ Mn	1,228	1,409	1,431
Tax	₹ Mn	322	421	251
Net Profit (Reported)	₹ Mn	942	1,114	878
Add: One off loss from IASI	₹ Mn	-	-	254
Add: Tax reversal on IASI	₹ Mn	-	-	-44
Net Profit (Adjusted) <sup>1</sup>	₹ Mn	942	1,114	1,088
EPS (Reported)	₹/share	8.4	9.9	7.8
EPS (Adjusted) <sup>1</sup>	₹/share	8.4	9.9	9.7
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Gross Margin	%	34.0%	35.4%	35.6%
Operating Margin	%	13.4%	14.6%	14.6%
Effective Tax Rate <sup>2</sup>	%	25.8%	28.1%	22.4%
Net Margin (Reported)	%	9.9%	11.1%	8.7%
Net Margin (Adjusted) <sup>1</sup>	%	9.9%	11.1%	10.8%

<sup>1</sup>During Q3 FY18, the Company recognized an exceptional operating loss of ₹204 Mn in IASI due to hurricanes in Puerto Rico & loss of ₹50 Mn on IASI divestment. Tax reversal of ₹44 Mn due to IASI divestment

<sup>2</sup>The "Tax Cuts and Jobs Act", also known as the "US Tax Reforms" was signed into a law on December 22, 2017. The most significant change brought by this law is the reduction of US corporate tax rates from 35% to 21%. This has resulted in a one-time positive impact of 4.8% on Q3 ETR

## Operating profit Movement

- Operating margin sustained at 14.6% for the quarter despite headwinds of higher pay days (~130 bps), offset by improvements in higher utilisation and other operations parameters

## Profit After Tax Movement

- PAT for the quarter is lower on account of unrealized Fx loss of ~₹ 50 Mn due to restatement of B/S items
- PAT growth without the one time impact of IASI sale is 15.5% YoY and de-growth of 2.4% QoQ mainly due to lower other income
- ETR without one-off impact is 27.9%
- From FY19 onwards, the reduction in ETR, due to US tax rate change, is expected to be ~ 1%

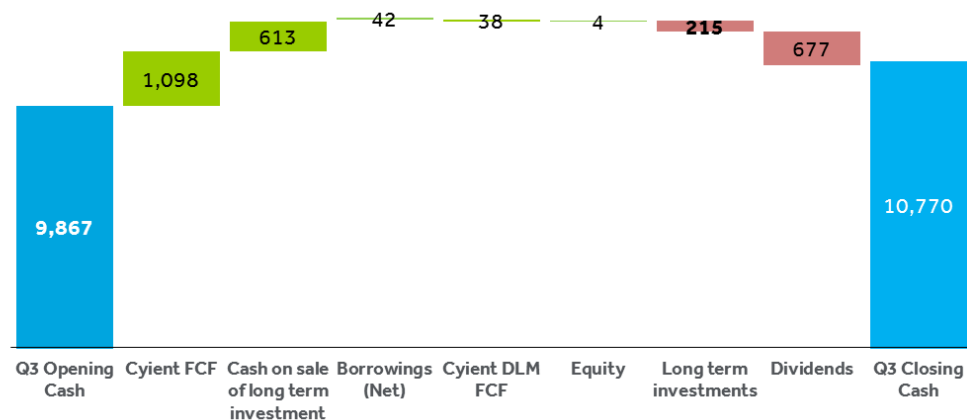


# Cash Generation

Cash Generation			
Particulars	UOM	Q2 FY18	Q3 FY18
Cash Position	₹ Mn	9,867	10,770
	\$ Mn	150.9	168.0
FCF - Cyient	₹ Mn	611	1,098
	\$ Mn	9.5	17.0
	% of EBITDA	33.8%	65.1%
FCF - DLM	₹ Mn	-191	38
FCF - Group	₹ Mn	420	1,136
	% of EBITDA	23.1%	66.7%
Capex	% of Revenue	2.5%	3.0%

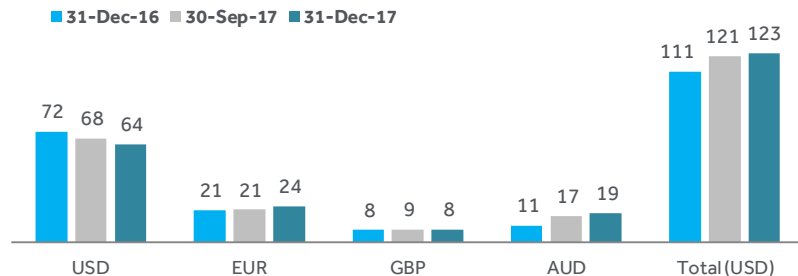
- Cash & cash equivalents at a healthy position of ₹10,770 Mn
- ₹1,098 Mn of cash generated in Services for the Quarter; ₹38 Mn of cash generated in DLM
- ~67% conversion in Q3 of ₹1,136 Mn, including IASI ₹1,749 Mn
- Long term investments towards collaborative IP development and Make in India initiatives

## Q3 FY18 Cash Generation & Utilization (₹ Mn)

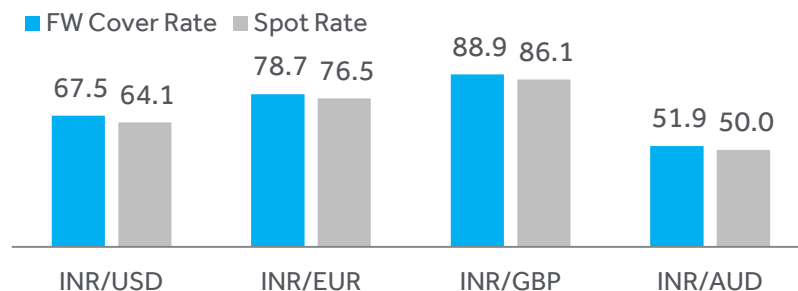


# Hedge Book and Other Income

## Outstanding Forward Contracts\* Value in respective currency Mn



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

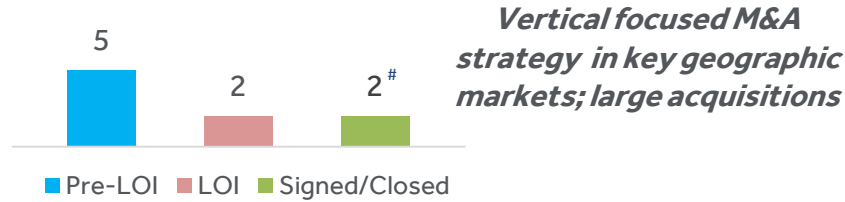


Other income			
Particulars	Q3 FY17	Q2 FY18	Q3 FY18
Income from Treasury (A)	94	108	103
Realised Gain/(Loss) on Fw contracts (B)	113	161	132
UnRealised FX Gain/(Loss) (C)	12	93	-50
Others (D)	91	45	38
<b>GRAND TOTAL (A+B+C+D)</b>	<b>309</b>	<b>406</b>	<b>223</b>
<b>Loss on sale of IASI Investment</b>	<b>0</b>	<b>0</b>	<b>50</b>
Other income w/o Exceptional item	<b>309</b>	<b>406</b>	<b>273</b>

- Other Income on a QoQ basis is lower mainly due to restatement losses on balance sheet items amounting to a notional Fx loss of ~₹50 Mn (QoQ change is ₹ 143 Mn)
- Company has a strong position on forward contracts for the next 12 months at current spot rates:
  - Outstanding Forward Contract as on 31st Dec 17 is ~\$123Mn
  - If the spot rate remains at the same level (as at 31st Dec'17), forex gains on current forward contracts would be ~\$5.24 Mn
- Despite the volatility in major currencies, Cyient continues to make realized gain on major currencies (USD, GBP, EUR, CAD and AUD) by adhering to consistent Fx policy of hedging ~70% for next 12 months

# Investment Pipeline & Focus Areas: Q3 FY'18

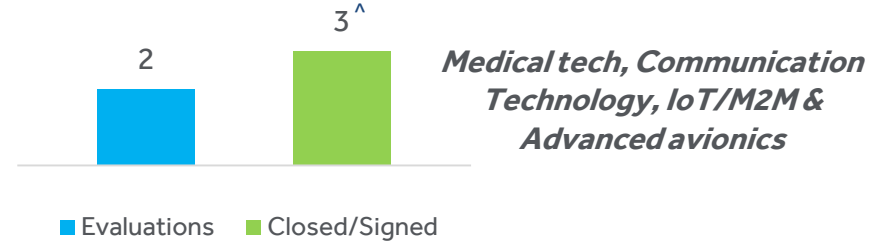
## M&A



\*Pre LOI and LOI reflect a balance position

# Includes signing of definitive agreement for acquiring B&F Design Inc. and the divestment of stake in Infotech Aerospace Inc. (IASI)

## Corporate Investments



<sup>^</sup> Includes one fresh investment, one follow-on investment and an exit from an investment

## Active Investment Pursuits



### A&D

- Manufacturing engg. and repair engg. services
- Avionics System/Sub-system and Solutions



### Communication

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



### Medical

- Design to Build companies with OEM partnerships



### Transportation

- Signalling Application Engineering & Testing



### I&ENR

- Process engineering firm for power & oil & gas industries



### Semiconductor/IOI/Analytics

- Solutions offering with skills in verification, design for test, embedded & analog for connected car and industrial markets



### DLM

- Design to build / low volume high value build manufacturing



### Corporate Investments

- Startup investments & strategic organic opportunities: JV/Collaboration, IP investment

# Industry Outlook (1/4)



## AEROSPACE & DEFENSE

The Global Aerospace and Defense market continues to experience strong growth. We expect most U.S. defense contractors to see increased revenue in 2018 as U.S. defense budgets continue to increase and international sales remain strong. We continue to see strong demand for Design-Build projects. We expect growth to be driven by Avionics, Aftermarket, Manufacturing and Defence sectors.

The communications industry continues to be a critical force for growth, innovation, and disruption across multiple segments. The industry is witnessing increased demand for high-speed infrastructure as well as fibre deployment across Australia, New Zealand, and the U.S. The growth momentum continues into FY 18, as we see growth opportunities from fibre roll-out programs, and small cell design and deployment in Australia and North America.



## COMMUNICATIONS

# Industry Outlook (2/4)



## UTILITIES AND GEOSPATIAL

The U&G industry continues to witness slowdown due to replacement of older equipment with newer, more efficient stock, implementation of efficiency standards. The trend is expected to continue for another two years. Offsetting this trend is the surge in technological adoption such as Advanced Metering Infrastructure (AMI) and Smart Meters rollouts that is generating more data, software and analytics-related opportunities. In view of the technological advancement in the industry our outlook for the BU remains positive, with growth expected to be driven by strong order backlog and new accounts.

Rail Transportation industry continues to witness strong growth, supported by growth in Rolling Stock and Signalling. With these segments being our core focus areas, the long term outlook for Transportation BU remains very positive, supported by the industry performance, our early mover advantage, strong key engagements and healthy opportunity pipeline. We expect double digit growth in the segment. Growth is expected to be broadly spread across multiple geographies, segments, key accounts and new opportunities.



## TRANSPORTATION

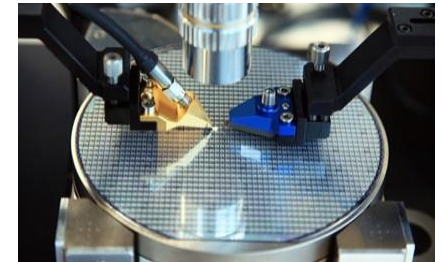
# Industry Outlook (3/4)



## INDUSTRIAL, ENERGY AND NATURAL RESOURCES

The industry is witnessing a slow recovery and the limits on capital spending and cost cuts continues. The emphasis is on improving products through new technologies, such as telematics, electronics, IoT and analytics. We expect muted growth through the year. Our focus continues to be on execution of Design Led Manufacturing (DLM), Analytics and connected equipment strategy. We are also witnessing a good traction in in Oil and Gas and Mining.

The industry is forecasted to grow by 20.6% in 2017 and 7% in 2018, a much larger growth compared to 1.5% in 2016. This year's growth is primarily driven by demand for memory chips (60% growth) and in Analog (10%), While we saw a de-growth in Q3 due to seasonality of the business, our outlook for the year continues to be good. We expect a double digit growth driven largely by growth across key accounts and operational efficiency improvements.



## SEMICONDUCTOR

# Industry Outlook (4/4)



## MEDICAL TECHNOLOGY AND HEALTHCARE

The global medical device market is expected to reach an estimated \$342.9 billion by 2021 with a CAGR of 4.6% from 2016 to 2021. The major drivers of growth is the increasing healthcare expenditure, increasing health awareness, and ageing population. The emerging trends, which have a direct impact on the dynamics of the medical device industry, include design and manufacturing of portable and smaller devices and increasing usage of software as a differentiator in medical devices. The outlook for the rest of the year looks promising as we start to scale new relationships with a number of recent wins which include both top-10 medtech companies and smaller clients in strategic segments

The manufacturing industry outlook continues to be positive, particularly in the Telecommunications, Defence and Transportation markets, which will help drive growth for Cyient. Our outlook for FY18 is strong, backed by a steady pipeline and order backlog.



## DESIGN LED MANUFACTURING

# Future Outlook for FY18

## Revenue Growth

- Double digit growth in the services business
- DLM business will be in the ballpark of 20% growth (revenue net of excise duty\*)

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

- Operational improvements: ~350 bps
  - Utilization ~50 bps; Higher Offshore mix ~50 bps
  - Onsite Margin 100 bps; Pyramid correction and SG&A absorption 150 bps
- Offset by: 300 bps
  - Wage Hike ~150 bps and Investments ~100 bps
  - Pricing pressure (Rate decrease net of increases) ~50 bps
- DLM margin continues to be low single digit due to continued investments

## Earnings Growth

- Double digit earnings growth in FY18



# Q&A