

CYIENT

CYIENT'S EARNINGS CALL— Q1 FY'15

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Quarter that was – Summary Q1

Financial Highlights

- Revenue Growth
 - In INR at ₹6,217 Mn; Up 4.5% QoQ and 28.5% YoY
 - In US\$ at \$104 Mn; Up 7.8% QoQ and 20.8% YoY. Excluding Softential acquisition, company grew 4.2% QoQ and 16.8% YoY
 - Constant Currency revenue up by 7.2% QoQ
- Operating Margin at 14.1% as against 18.1% in Q4; Down 397 bps mainly due to wage hike and adverse exchange impact
- Operating Profit at ₹877 Mn; Down 18.4% QoQ and Up 9.3% YoY
- Net Profit at ₹685 Mn; Down 1.9% QoQ and Up 26.1% YoY

Quarter that was – Summary Q1

Financial Metrics

- Business continues to generate strong Free Cash Flow (FCF)
 - FCF as % of EBITDA for the quarter stands at 48%
 - Absolute FCF generated ₹487 Mn
- Cash Balance, including liquid investments, is ₹7,358 Mn. ***Highest ever;***

Business Highlights

- Broad based growth across all Operating Units and Geographies
- Asia Pacific grew in double digit at 12.3% QoQ
- Employee gross addition for the quarter is 1,014 and net addition is 445
- 9 customers added during the quarter, 6 in ENGG and 3 in DNO

Revenue at a Glance

Company Revenue	30-Jun-14	31-Mar-14	31-Dec-13	30-Sep-13	30-Jun-13	Growth %	
						QoQ	YoY
Revenue (in US\$ mn)	104.0	96.4	93.3	87.6	86.0	7.8%	20.8%
Revenue (in INR mn)	6,217.0	5,948.0	5,783.7	5,492.8	4,839.3	4.5%	28.5%

Growth by Segments (in US\$)

Business Units	QoQ	YoY
ENGG	4.6%	17.3%
DNO*	3.5%	16.1%

Geographies	QoQ	YoY
Americas*	4.7%	19.1%
Europe, Middle East, Africa and India	0.6%	23.0%
Asia Pacific	12.3%	-8.1%

Company*	4.2%	16.8%
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*Excluding Softential revenue of US\$3.56 Mn

Drivers for Q1

- Growth across all OUs and Geos.
- NAM growth is due to ramp up in key clients in Semiconductor, aerospace, Energy, Communications and Utilities industries
- EMEA growth is driven by Aero, Content and Navigation industries
- Increased revenues in APAC are due to growth in existing customers in Energy and communication industries
- Company growth driven by Top 20 clients which have grown by 4.2%.

Profit and Loss Statement

<i>(in ₹ millions)</i>	30-Jun-14	31-Mar-14	30-Jun-13
Operating Revenues	6,217.0	5,948.0	4,839.4
Operating Expenditure	5,340.3	4,872.9	4,037.5
Operating Profits	876.7	1,075.1	801.9
Depreciation & Amortization	172.9	174.0	180.8
Financial Expenses	11.0	8.3	6.9
Other Income	131.5	(20.4)	182.1
Profit Before Tax	824.3	872.4	796.3
Tax	186.7	213.8	294.5
Share of Profits - IASI	47.5	39.8	41.3
PAT after Share of Profits from Associate	685.1	698.3	543.2
Basic EPS (INR)	6.1	6.2	4.9

Operating Margin	14.1%	18.1%	16.6%
Effective Tax Rate	22.6%*	24.5%*	37.0%*
Net Income Margin	11.0%	11.7%	11.2%

*Effective Tax rate excluding one- offs

- Q1, FY'15 : 24.0% (deferred taxes and other one-time benefits)
- Q4, FY'14 : 26.0% (deferred taxes and other one-time benefits)
- Q1, FY'14 : 28.4% (dividend tax of ₹68 Mn on receipt of dividend of ₹400 Mn from overseas subsidiaries)

Q1 QoQ Variance

Operating Profit Movement

- Declined QoQ due to
 - Wage hike impact
 - Adverse exchange impact

Profit After Tax Movement

- **Other Income** : Better than last qtr due to lower forward cover losses and translation gains.
- **Tax Rate** : Improvement driven by continued deployment of new business into Special Economic Zone and a one-off benefit of 1.4%, towards deferred tax & other one-time benefits

Working Capital Management

Cash Generation		₹ in Mn	
	30-Jun-14	31-Mar-14	
Cash Position (including liquid investments)	7,358	7,260	
Free Cash Flow	487	707	
<i>as % of EBITDA</i>	48%	68%	
Cash from Operations	706	897	
Capital Expenditure	219	189	
<i>as % of Sales</i>	3.5%	3.2%	

FCF and FCF as % of EBITDA continues to be robust. Highest ever cash position; Debt of US\$10 Mn taken in US for Softential acquisition; Service tax refund of ₹156 Mn received during the quarter.

Days Sales Outstanding		In Days		
	30-Jun-14	31-Mar-14	30-Jun-13	
DSO (including Unbilled)	93	87	95	
- Billed	70	70	75	
- Unbilled	23	17	20	

Billed DSO remained flat at 70 days . Unbilled DSO up by 6 days QoQ due to few milestone based projects.

Hedge Book and Other Income

Outstanding Forward Contracts

(in Millions – Respective currency)	30-Jun-14	31-Mar-14
USD / INR	87.8	85.8
EURO / INR	24.0	24.0
GBP / INR	2.4	2.4
AUD / INR	6.9	6.6

Booked Rates (in ₹)

Currency	Next 12 Mths.
INR/USD	65.9
INR/EURO	89.5
INR/GBP	107.1
INR/AUD	58.5

Company has hedged ~70% of inflows for next 12 months. Total hedge position in US\$ is \$131 Mn.

Other Income - Details

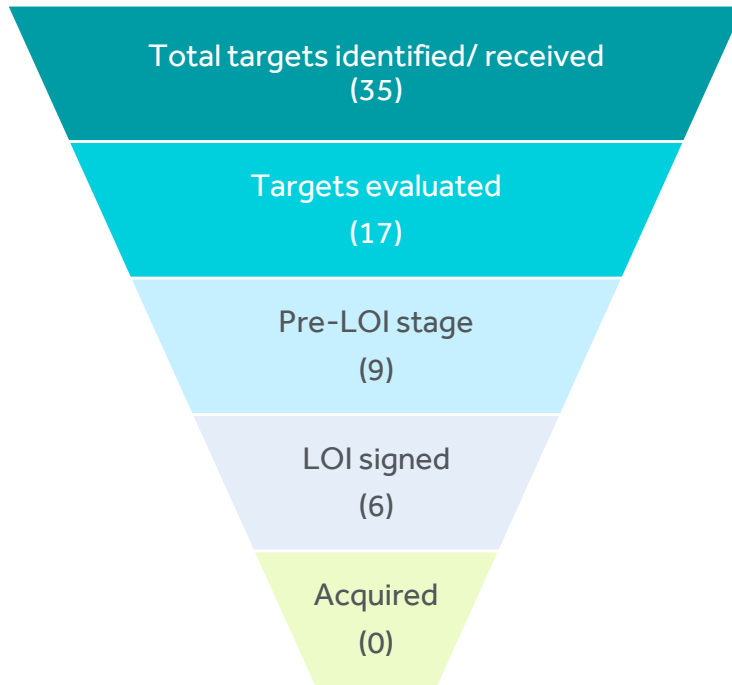
₹ in Mn.

	30-Jun-14	31-Mar-14
Income from Treasury: -		
Interest on Investments / deposits	122.7	114.6
Dividend on mutual funds	6.6	3.2
Subtotal (A)	129.3	117.8
Foreign Exchange Gain/(Loss): -		
Gain/(Loss) on Forward Contracts	(38.8)	(112.1)
Gain/(Loss) on Restatement and translation	43.5	(35.4))
Subtotal (B)	4.7	(147.5)
Others		
Subtotal (C)	(2.5)	9.3
GRAND TOTAL (A+B+C)	131.5	(20.4)

Lower forward cover losses and translation gains lead to significant improvement in QoQ Other Income.

Acquisitions Pipeline and Focus

Deal pipeline in Q1, FY15



M&A focus areas for FY15

Bridging gaps in service lines

- Embedded systems
- Operations Technology in Utilities
- Product realization services (High value, low volume)

Strengthening the verticals

- Medical devices
- Industrial automation
- Data Analytics

Expanding geographical reach

- Europe for Aerospace
- Japan for Hi-tech, Embedded Systems

A Look Ahead: Business Growth Outlook

Industry wise Outlook

- **Aerospace** – Multiple pursuits underway across the Geos. There are proposals from aftermarket and manufacturing services which is a growth area. In Europe we may have some challenge as couple of projects are coming to an end
- **Transportation** – Except for short term workload challenges, outlook is good in both Rolling Stock and Signaling. Expecting significant growth in two of our Top 5 clients
- **Off-Highway Products** – We are seeing positive traction of business in NAM and India from one of top client in Off-Highway space. We have bagged new orders during first quarter for services like value engineering, metrification, should cost, localization and smart services which would fuel growth in subsequent quarters
- **Medical and Electronics** – Medical device vendors are spending in Value Engineering services to address new and emerging markets and be cost competitive. We are working on several opportunities in new product development, localization and cost reduction

A Look Ahead: Business Growth Outlook

- **Semiconductor** – Semiconductor Industry is beginning to turn around and we are seeing opportunities opening for ASIC Design & Verification and Custom Layout services. We have won large deal with one of the semiconductor company in APAC
- **Utilities** – Positive outlook with couple of wins and ramp ups with one of the largest utility customer from North America. Also expecting to close couple of proposals in APAC
- **Communications** – With new projects that we have won in North America, focus would be on ramping up and executing these projects. We are also seeing new synergistic opportunities with the acquisition of Softential and couple of proposals submitted to existing customers.
- **Energy and Natural Resources** – Continue to have the challenges with Mining industry, but on O&G industry multiple pursuits are underway. Along with product engineering services pursuits are also coming for our data transformation services

Q&A

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