

CYIENT

CYIENT'S EARNINGS CALL— Q3 FY'15

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Quarter that was – Summary Q3

Financial Highlights

- Quarterly Net Profit crossed ₹1 Bn+ milestone;
- Revenue Growth
 - In INR at ₹7,118 Mn; Up 5.9% QoQ and 23.1% YoY
 - In US\$ at \$114.7 Mn; Up 3.5% QoQ and 23.0% YoY
 - Constant Currency revenue up by 5.3% QoQ
- Operating Margin at 16.3% as against 16.1% in Q2; Up 19 bps
- Operating Profit at ₹1,157 Mn; Up 7.1% QoQ and 1.8% YoY
- Net Profit at ₹1,008 Mn; Up 11.8% QoQ and 45.3% YoY

Quarter that was – Summary Q3

Financial Metrics

- Business continues to generate strong Free Cash Flow (FCF)
 - Absolute FCF generated ₹905 Mn; **Highest ever in any quarter**
 - FCF as % of EBITDA for the quarter stands at 59%
 - FCF as % of EBITDA on YTD FY'15 basis is 52%; Up 38% on YTD FY'15 basis
- Total DSO for Q3 at 85 Days, improved 5 days QoQ; **Best ever;**
- Cash Balance, including liquid investments, is ₹8,003 Mn; **Highest ever;**

Business Highlights

- Strong growth across all Geographies between 4% and 6% in constant currency
- DNO business grew in double digit at 15.7% QoQ (including Softential) on constant currency basis. Strong growth of 7.1% QoQ even excluding Softential
- Employee gross addition for the quarter is 846 and net addition is 18
- 23 customers added during the quarter, 8 in ENGG and 15 in DNO

Revenue at a Glance

Company Revenue	31-Dec-14	30-Sep-14	30-Jun-14	31-Mar-14	30-Dec-13	Growth %	
						QoQ	YoY
Revenue (in US\$ mn)	114.7	110.8	104.0	96.4	93.3	3.5%	23.0%
Revenue (in INR mn)	7,118.1	6,723.9	6,217.0	5,948.0	5,783.7	5.9%	23.1%

Growth by Segments (in US\$)

Operating Units	QoQ	YoY
Engineering	-2.0%	12.1%
Data transformation , Networks & Operation*	12.5%	43.3%

Geographies	QoQ	YoY
Americas*	5.3%	38.1%
Europe, Middle East, Africa and India	1.2%	6.5%
Asia Pacific	-2.2%	-9.8%

Company*	3.5%	23.0%
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*Including Softential revenue of US\$ 9.0 Mn.

Drivers for Q3

- Overall revenue grew at 5.3% QoQ in constant currency, mainly led by growth in Softential.
- Significant growth in Softential revenue at US\$ 9.0 Mn Vs US\$ 5.3 Mn in Q2 FY 15, The QoQ upside in revenue is mainly driven by planned revenue of Q4 FY'15, realizing in Q3 FY'15.
- Engineering revenue drop is due to lower billing days in Q3 as well as adverse impact of cross currency.
- Strong broad-based growth across all geos on constant currency basis. (EMEA at ~6% QoQ, NAM at ~5% QoQ and APAC at ~4% QoQ)

Profit and Loss Statement

<i>(in ₹ millions)</i>	31-Dec-14	30-Sep-14	31-Dec-13
Operating Revenues	7,118.1	6,723.9	5,784.1
Cost of Revenues	4,358.0	4,159.0	3,320.3
Gross Profit	2,760.1	2,564.9	2,463.8
S&GA	1602.7	1,484.3	1,327.4
Operating Profit	1,157.4	1080.7	1,136.1
Depreciation & Amortization	173.5	180.6	183.3
Financial Expenses	13.9	12.0	6.9
Other Income	365.7	340.1	(58.0)
Tax	373.4	363.6	241.2
Associate Profit & Minority Int.	45.8	37.2	47.0
Profit After Tax	1,008.2	901.8	693.9
Basic EPS (INR)	9.0	8.0	6.2
Gross Margin	38.8%	38.1%	42.6%
Operating Margin	16.3%	16.1%	19.6%
Effective Tax Rate	28.0%	29.6%	27.2%
Net Income Margin	14.2%	13.4%	12.0%

Q3 QoQ Variance

Operating Profit Movement

- Improved marginally by +19 bps due to
 - Change in mix of revenues
 - Improved utilization

Profit After Tax Movement

- **Other Income** : Better than last quarter due to higher treasury income and continued forward cover gains booked at Rs. ~68 vs spot rate of ~Rs. 62.
- **Tax Rate** : Special Economic Zone (SEZ) benefit continue to improve tax position. However, we continue to have higher effective tax rate on Other Income gains (*tax rate of ~34%*).

Working Capital Management

Cash Generation		₹ in Mn	
	31-Dec-14	YTD FY'15	
Cash Position <i>(including liquid investments)</i>	8,003	8,003	
Free Cash Flow	905	2,044	
as % of EBITDA	59%	52%	
Cash from Operations	1,072	2,563	
Capital Expenditure	167	519	
as % of Sales	2.3%	2.6%	

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

Generated ₹ 2,044 Mn of free cash flow (52% of EBITDA) for YTD FY'15 as against ₹1,479 Mn in YTD'14; Up 38%

Days Sales Outstanding		In Days		
	31-Dec-14	30-Sep-14	31-Dec-13	
DSO (including Unbilled)	85	90	91	
- Billed	70	66	73	
- Unbilled	15	24	18	

Overall DSO is improved by 5 days QoQ to reach 85 days which is lowest ever for Cyient. Unbilled DSO down by 9 days QoQ as receivables for few milestone based projects moved from unbilled to billed category.

Hedge Book and Other Income

Outstanding Forward Contracts

(in Millions – Respective currency)	31-Dec-14	30-Sep-14
USD / INR	87.5	88.3
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	65.7
INR/EURO	87.6
INR/GBP	107.6
INR/AUD	57.8

Company has hedged ~70% of inflows for next 12 months. Total hedge position in US\$ is ~\$126 Mn.

Other Income - Details

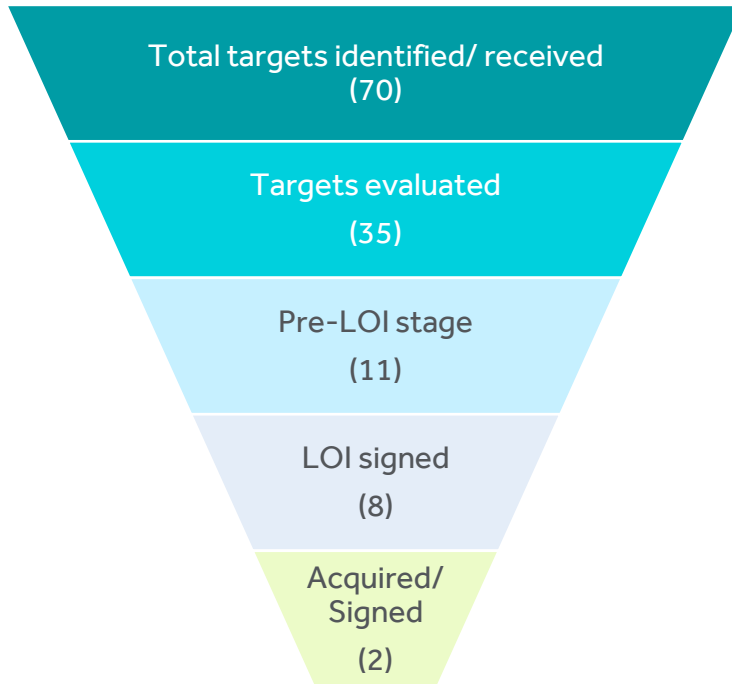
₹ in Mn.

	31-Dec-14	30-Sep-14
Income from Treasury :-		
Interest on Investments / deposits	133.0	123.8
Dividend on mutual funds	5.2	3.4
Subtotal (A)	138.2	127.2
Foreign Exchange Gain/(Loss): -		
Gain/(Loss) on Forward Contracts	178.7	192.4
Gain/(Loss) on Restatement and translation	23.8	7.2
Subtotal (B)	202.5	199.6
Others		
Subtotal (C)	25.0	13.4
GRAND TOTAL (A+B+C)	365.7	340.1

High forward cover gains due to higher booked rate which led to continued Other Income gains.

Acquisitions Pipeline and Focus

Deal pipeline in YTD Dec14



M&A focus areas for FY15

Bridging gaps in service lines

- Embedded systems
- Electronics/Avionics
- Product realization (S3 in electronics)

Strengthening the verticals

- Medical devices
- Aerospace
- Rail

Expanding geographical reach

- Europe for Aerospace
- Japan for Hi-tech & Embedded in Aero/Rail/Medical

Others

- Captives of Must-Win Prospects

A Look Ahead: Business Growth Outlook

Industry wise Outlook

- **Aerospace** – Good traction in NAM with multiple proposals in aftermarket, manufacturing and Analytics services which are growth areas. Challenge in Europe continues with little visibility on new business
- **Transportation** – Positive traction across NAM and Europe especially in rolling Stock clients. Continued delays in European signaling projects impacting revenues from rail signaling services
- **Off-Highway Products** – Good momentum in NAM Off-Highway space, even traction in India is positive. Interest and opportunity continues around analytics. Working on couple of projects along with Cyient Insights
- **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

A Look Ahead: Business Growth Outlook

- **Semiconductor** – Good traction in APAC in region, with couple of client wins in last quarter expecting growth 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
- **Utilities** – Continued strong revenue performance with the largest utility customer from North America. Also expecting to close couple of proposals in APAC. Overall, positive outlook with couple of wins and ramp ups
- **Communications** – Positive business outlook in both Europe and APAC, expected to ramp-up in couple of accounts. Continue to see synergistic opportunities with Softential
- **Energy and Natural Resources** – Positive traction in APAC with new client wins. Week customer pipe line in O&G industry specifically for our data transformation services

Q&A

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