

CYIENT

CYIENT'S EARNINGS CALL— Q1 FY'16

CYIENT © 2014 CONFIDENTIAL

July 16, 2015

Confidentiality Statement

The information shared herein is strictly confidential, proprietary and unique to the company. It is only made and shared for the purpose and extent it is intended for and no other. Usage or sharing of the said information in any form, directly or indirectly and in any manner whatsoever, might constitute a violation of laws or regulations in vogue in geographies in which the company operates, besides breaching confidentiality. The users shall meet any liability emanating from such violation and shall indemnify company for any loss, damage, expense, penalty, fine, fee, charge incurred by company on account of any such violation.

16/07/2015

CYIENT © 2015 CONFIDENTIAL

Quarter that was – Summary Q1

Financial Highlights

- Revenue Growth
 - ₹7,263 Mn; Up 16.8% YoY and down 0.5% QoQ
 - \$114.3 Mn; Up 9.9% YoY and down 2.6% QoQ
 - Constant Currency revenue up by 14.3% YoY and down 2.5% QoQ
- Operating Margin at 12.6% as against 14.1% last year and 12.3% in Q4FY15
- Operating Profit at ₹918 Mn; up by 4.7% YoY and 2.2% QoQ in spite of wage hike
- Net Profit at ₹748 Mn; Up 9.2% YoY and down 20.3% QoQ

Quarter that was – Summary Q1

Financial Metrics

- Cyient continues to generate strong Free Cash Flow (FCF)
 - Absolute FCF generated ₹374 Mn
 - FCF as % of EBITDA for the quarter stands at 39.1%
- Cash Balance, including liquid investments, is ₹6,261 Mn; Cash balance including Rangsons ₹ 6,614 Mn

Business Highlights

- APAC continues to deliver robust performance and grew 14% QoQ and 27.8% YoY
- Engineering business grew by 1.6% QoQ and 5% YoY on USD terms driven by Aero and defense and Heavy engineering
- Employee gross addition for the quarter is 697 (excluding Rangsons)
- 26 customers added during the quarter, 13 in ENGG,11 in DNO and 2 in Rangsons

Revenue at a Glance

Company Revenue	30-Jun-15	31-Mar-15	31-Dec-14	30-Sep-14	30-Jun-14	US\$ Growth	
						QoQ	YoY
Revenue (in US\$ mn)	114.3	117.4	114.7	110.8	104.0	-2.6%	9.9%
Revenue (in INR mn)	7,262.9	7,300.3	7,118.1	6,723.9	6,217.0	-0.5%	16.8%

Growth by Segments (in US\$)

Operating Unit	QoQ	YoY
Engineering	1.6%	5.0%
DNO	1.6%	3.0%
Softential	-32.1%	-1.0%
PR + Rangsons	-34.6%	-

Geographies	QoQ	YoY
North Americas	0.8%	9.4%
Europe, Middle East, Africa and India	-7.2%	-14.8%
Asia Pacific	13.8%	27.8%
PR + Rangsons	-34.6%	-

Cyient + Rangsons	-2.6%	9.9%
--------------------------	-------	------

Drivers for Q1

- Cyient posted growth of 1.6% QoQ each in Engineering & DNO. Softential and Rangsons had a degrowth by 32.1% & 34.6% respectively in Q1 FY16.
- Q1 was a muted quarter for Rangsons but was on expected lines. Q1 was impacted due to deferment of delivery of a large customer order of ~\$3.2 Mn to Q2. Growth in Rangsons is expected to pick up from Q2.
- Softential was impacted by cyclicity of revenue. North America excluding Softential grew by 3.6%
- ON constant currency, Europe was down by 6%

Profit and Loss Statement – Q1, FY'16

<i>(in ₹ millions)</i>	30-Jun-15	31-Mar-15	30-Jun-14
Operating Revenues	7,262.9	7,300.3	6,217.0
Cost of Revenues	4,694.9	4,726.4	3,881.3
Gross Profit	2,568.0	2,573.9	2,335.8
S&GA	1,650.0	1,675.2	1,459.0
Operating Profit	918.0	898.7	876.7
Depreciation & Amortization	182.8	186.0	172.9
Financial Expenses	44.8	43.1	11.0
Other Income	297.7	398.6	131.5
Tax	283.7	172	186.7
Associate Profit & Minority Int.	43.7	42.2	47.5
Profit After Tax	748.1	938.3	685.1
Basic EPS (INR)	6.7	8.4	6.1

Gross Margin	35.4%	35.3%	37.6%
Operating Margin	12.6%	12.3%	14.1%
Effective Tax Rate	28.7%	16.1%	22.6%
Net Income Margin	10.3%	12.9%	11.0%

Q1 QoQ Variance

Operating Profit Movement

- Margin improved by +33 bps despite of wage hike mainly due to
 - Improvement in Operational metrics
 - Favorable exchange impact

Profit After Tax Movement

- **Other Income** : Lower Other Income due to lower gain on forward contracts
- **Tax Rate** : Q1 Tax rate without one off's would be 27.5% and Q4 Tax rate without one offs would have been ~25% . Increase in QoQ tax rate is driven by change in mix of Geo profitability

Working Capital Management*

Cash Generation		₹ in Mn	
	30-Jun-15	31-Mar-15	
Cash Position (including liquid investments)	6,261	6,030	
Business Free Cash Flow	374	924	
as % of EBITDA	39%	73%	
Cash from Operations	505	1,139	
Capital Expenditure	129	214	
as % of Sales	1.9%	3.2%	

Generated ₹ 374 Mn of free cash flow (39% of EBITDA) for Q1FY'16

Days Sales Outstanding		In Days		
	30-Jun-15	31-Mar-15	30-Jun-14	
DSO (including Unbilled)	88	83	93	
- Billed	69	63	70	
- Unbilled	19	20	23	

Overall DSO reduced by 5 days YoY and increased by 5 days QoQ .

Hedge Book and Other Income

Outstanding Forward Contracts*

(in Millions – Respective currency)	30-Jun-15	31-Mar-15
USD / INR	80.5	85.0
EURO / INR	24.0	24.0
GBP / INR	3.1	2.4
AUD / INR	7.2	7.2

Booked Rates (in ₹)

Currency	Next 12 Mths.
INR/USD	68.5
INR/EURO	77.0
INR/GBP	104.6
INR/AUD	52.5

Company has hedged ~70% of inflows for next 12 months. Total hedge position US\$ equivalent ~\$118 Mn.

Other Income (OI) - Details

	₹ in Mn	
	30-Jun-15	31-Mar-15
Income from Treasury :-		
Interest on Investments / deposits	82.3	102.5
Dividend on mutual funds	4.6	3.4
Subtotal (A)	87.0	105.9
Foreign Exchange Gain/(Loss): -		
Gain/(Loss) on Forward Contracts	132.7	254.3
Gain/(Loss) on Restatement and translation	39.7	(50.6)
Subtotal (B)	172.5	203.7
Others	38.3	89.0
Subtotal (C)	38.3	89.0
GRAND TOTAL (A+B+C)	297.7	398.6

- Lower gains from forward contracts due to currency depreciation

*Outstanding forward contracts exclude Rangsons

Product Realization Business – Key Metrics

Revenue	Product Realisation*	
	30-Jun-15	31-Mar-15
Revenue (in US\$ mn)	6.0	9.2
Revenue (in INR mn)	384.0	573.3

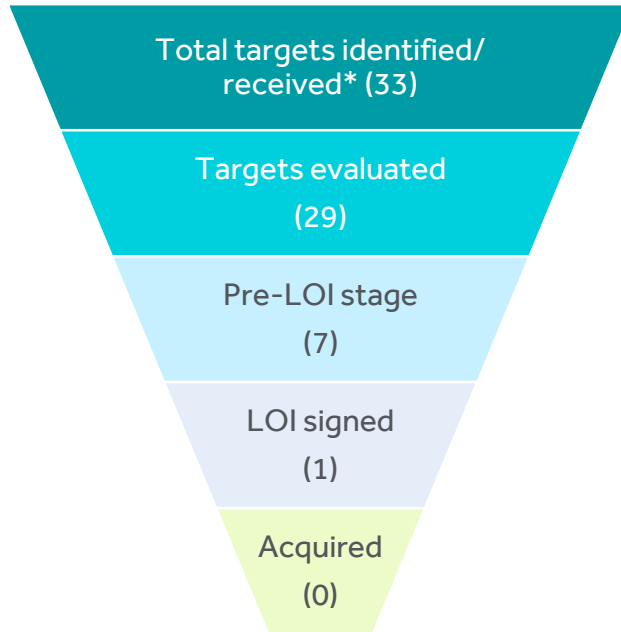
Key Financial Metrics	Product Realisation*	
	30-Jun-15	31-Mar-15
Gross Margin	13.3%	9.7%
Operating Margin	2.2%	3.3%

Geographies Mix	Product Realisation*	
	30-Jun-15	31-Mar-15
Americas	44.6%	29.1%
Europe, Middle East, Africa & India	37.0%	15.5%
Asia Pacific	18.5%	55.4%

* Product Realisation includes Rangsons legal entity as well as PR group in Cyient. Rangsons standalone Operating profit stands at 4.5% in Q1 as compared to 4.6% in Q4FY15

Acquisitions Pipeline and Focus

Deal pipeline in Q1FY16



M&A focus areas for FY16

Bridging gaps in service lines

- Embedded systems & Electronics
- MRO (Maintenance, Repair & Overhaul)

Strengthening the verticals

- Medical devices

Expanding geographical reach

- Europe for Aerospace
- Eastern European near shore center

Others

- Captives of Must-Win Prospects

* Targets identified/received during Q1FY16

A Look Ahead: Business Growth Outlook

- **Aerospace** – NAM continues to see good traction in commercial aerospace business with more requests coming for value engineering, manufacturing support, aftermarket and analytics. Increasing demand for risk sharing programs across various clients. Some challenges in Europe on visibility of new business
- **Transportation** – Emerging markets and technological upgrades are driving the investments into rail networks across various geographic segments. Traction in both rolling stock and rail signaling clients continues across NAM and Europe.
- **Off-Highway Products** – Interest and opportunity continues around analytics and embedded software, mostly from North America. R&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.
- **Energy and Natural Resources** – Reduced oil prices are dampening new investments in O&G industry and are also inhibiting investments in alternate sources of energy. Continue to have weak customer pipeline in both the business units across geographies. Cost pressures continue in Mining industry and lots of focus on increasing productivity and efficiencies.

A Look Ahead: Business Growth Outlook

- **Semiconductor** – Internet of Things (IoT) is driving the growth in semiconductor industry. Marginal degrowth at one of the major client in NAM could impact the revenues. Expected to see good momentum in APAC region. Building sales pipeline in Europe.
- **Medical and Electronics** – Continue to pursue opportunities in new product development, localization and cost reduction. Expecting increased traction with the recent acquisition of Rangsons
- **Utilities** – In Electrical 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. Building on the existing relationship to expand business
- **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** – Efforts are on to convert the strong order pipeline into orders. Push out of couple of orders from large customers impacted Q1 revenues but expecting to recover in Q2 and Q3.

Q&A

CYIENT © 2014 CONFIDENTIAL