

CYIENT

CYIENT'S EARNINGS CALL— Q2 FY'16

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Quarter that was – Summary Q2

Financial Highlights

- Q2 FY'16 Revenue at ₹7,717 Mn, grew 6.2% QoQ
- Operating Profit at 15.1% up 244bps QoQ
- Net Profit for Q2 FY'16 at ₹985 Mn; up 31.7% QoQ
- FCF generation continues to be robust.
- Declared interim dividend of 60% i.e. ₹3.0/Share , of face value of ₹ 5 each

Quarter that was – Summary Q2

Financial Metrics

- Cyient continues to generate robust Free Cash Flow (FCF)
 - Absolute FCF generated (Excluding Rangsons) ₹887 Mn;
 - FCF as % of EBITDA (Excluding Rangsons) for the quarter stands at 63.5%
- Cash Balance, including liquid investments, is ₹6,331 Mn; Cash balance including Rangsons ₹ 6,523 Mn;

Business Highlights

- PR business grew by 67.8% QoQ in USD driven by Aerospace and defense clients.
- Onsite delivery center in Australia was established to further strengthen communication vertical.
- Acquired Aerospace aftermarket services business of Pratt & Whitney Singapore (GSE Asia) .
- Added 20 new clients : 10 in DNO , 7 in Eng and 3 in PR..

Revenue at a Glance

						US\$ Growth	
Company Revenue	30-Sep-15	30-Jun-15	31-Mar-15	31-Dec-14	30-Sep-14	QoQ	YoY
Revenue (in US\$ mn)	118.4	114.3	117.4	114.7	110.8	3.6%*	6.9%*
Revenue (in INR mn)	7,716.6	7,262.9	7,300.3	7,118.1	6,723.9	6.2%	14.8%

Growth by Segments (in US\$)

Operating Unit	QoQ	YoY
Engineering	0.2%	1.0%
DNO	0.1%	-7.1%
PR	67.8%	0.0%

Geographies	QoQ	YoY
North Americas	0.2%	-1.9%
Europe, Middle East, Africa and India	0.4%	-14.3%
Asia Pacific	-1.2%	32.9%
PR	67.8%	0.0%

Cyient + Rangsons	3.6%	6.9%
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Drivers for Q2

- Cyient posted growth of 4.2% in constant currency QoQ
- PR grew by 67.8%, Softential grew by 28%
- Growth across Geos , Europe flat in constant currency
- Cyient acquired 100% stake in GSE Asia wef 1st Sep 2015. (Q2 Revenue \$ 0.63 Mn)
- Cyient disinvested 100% stake in IEITS wef 1st Sep 2015 ,hence only 2 months considered in Q2 FY16. (one month revenue impact of divestment \$ 0.3 Mn)

*Constant currency Growth of 4.2% QoQ ,& ~12% YoY.

Profit and Loss Statement – Q2, FY'16

<i>(in ₹ millions)</i>	30-Sep-15	30-Jun-15	30-Sep-14
Operating Revenues	7,716.6	7,262.9	6,723.9
Cost of Revenues	4,889.5	4,694.9	4,159.0
Gross Profit	2,827.0	2,568.0	2,564.9
S&GA	1,663.4	1,650.0	1,484.3
Operating Profit	1,163.6	918.0	1,080.7
Depreciation & Amortization	193.5	182.8	180.6
Financial Expenses	58.8	44.8	12.0
Other Income	299.3	297.7	340.1
Tax	284.8	283.7	363.6
Associate Profit & Minority Int.	59.4	43.7	37.2
Profit After Tax	985.3	748.1	901.8
Basic EPS (INR)	8.8	6.7	8.0
Gross Margin	36.6%	35.4%	38.1%
Operating Margin	15.1%	12.6%	16.1%
Effective Tax Rate	23.5%	28.7%	29.6%
Net Income Margin	12.3%	9.9%	12.8%

Q2 QoQ Variance

Operating Profit Movement

- Change in business mix and improvement in operational efficiencies driven by improved utilization 174 bps
- Gain on forex 70bps

Profit After Tax Movement

- Tax : Q2 tax rate is lower due to change in geo profitability mix and Q1 tax rate without one off's was 27.5% and Q2 tax rate without one off is 24.5%

Working Capital Management*

Cash Generation		₹ in Mn	
	30-Sep-15	30-Jun-15	
Cash Position (including liquid investments)	6,331	6,261	
Business Free Cash Flow	887	374	
as % of EBITDA	64%	39%	
Cash from Operations	1,026	503	
Capital Expenditure	139	129	
as % of Sales	2.0%	1.9%	

Generated ₹ 887 Mn of free cash flow (64% of EBITDA) for Q2 FY'16.

Days Sales Outstanding		In Days		
	30-Sep-15	30-Jun-15	31-Mar-15	
DSO (including Unbilled)	89	88	83	
- Billed	67	69	63	
- Unbilled	22	19	20	

Overall DSO increased by 1 day QoQ .

Hedge Book and Other Income

Outstanding Forward Contracts*

(in Millions – Respective currency)	30-Sep-15	30-Jun-15
USD / INR	77.5	80.5
EURO / INR	24.0	24.0
GBP / INR	4.0	3.1
AUD / INR	7.2	7.2

Booked Rates (in ₹)

Currency	Next 12 Mths.
INR/USD	67.7
INR/EURO	78.4
INR/GBP	105.2
INR/AUD	52.2

Company has hedged ~70% of inflows for next 12 months. Total hedge position US\$ equivalent ~\$115 Mn.

Other Income (OI) - Details

	₹ in Mn.	
	30-Sep-15	30-Jun-15
Income from Treasury :-		
Interest on Investments / deposits	72.8	82.3
Dividend on mutual funds	5.5	4.6
Subtotal (A)	78.4	87.0
Foreign Exchange Gain/(Loss): -		
Gain/(Loss) on Forward Contracts	129.4	132.7
Gain/(Loss) on Restatement and translation	45.3	39.7
Subtotal (B)	174.7	172.5
Others	46.2	38.3
Subtotal (C)	46.2	38.3
GRAND TOTAL (A+B+C)	299.3	297.7

- Lower gains from forward contracts due to currency depreciation

*Outstanding forward contracts exclude Rangsons

Product Realization Business – Key Metrics

Revenue	Product Realisation*	
	30-Sep-15	30-Jun-15
Revenue (in US\$ mn)	10.1	6.0
Revenue (in INR mn)	664.7	384.0

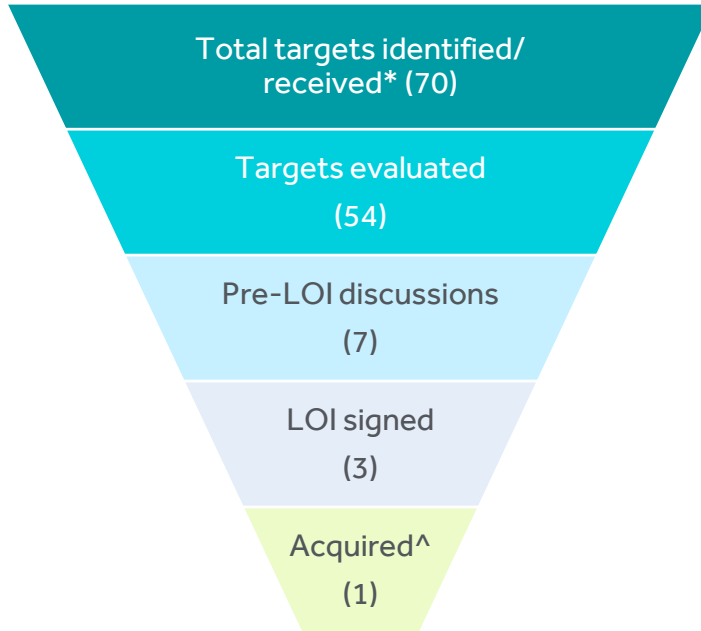
Key Financial Metrics	Product Realisation*	
	30-Sep-15	30-Jun-15
Gross Margin	12.2%	13.3%
Operating Margin	4.5%	2.2%

Geographies Mix	Product Realisation*	
	30-Sep-15	30-Jun-15
Americas	23.5%	44.6%
Europe, Middle East, Africa & India	28.7%	37.0%
Asia Pacific	47.8%	18.4%

* Product Realisation includes Rangsons legal entity as well as PR group in Cyient. Rangsons standalone Operating margin stands at 6.6% in Q2 as compared to 4.5% in Q1 FY 16

M&A Pipeline and Focus

Deal pipeline in YTD FY16



M&A focus areas

Aerospace

- ✓ Engineering Design Services companies
- ✓ Design to manufacture for aerospace electronics
- ✓ Manufacturing engineering and repair engineering services

Medical

- ✓ Design to Build companies with OEM partnerships

Telecom

- ✓ Network Design and planning companies

Rail

- ✓ Rolling stock Engineering design
- ✓ Signalling Application Engineering & Testing
- ✓ Subsystem design & realization in Electronics
- ✓ Predictive Maintenance Solutions

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

A Look Ahead: Business Growth Outlook

- **Aerospace** – Continue to see traction in aerospace business primarily driven by North America. Work is coming in value engineering, manufacturing support and analytics. Challenges continue in winning the new business in Europe.
- **Transportation** – Witnessing increased demand from both rolling stock and rail signaling clients across geographies. The demand is driven by the investments into emerging markets and technological upgrades.
- **Off-Highway Products** – R&D spend is driven by new functionalities and features (efficiencies, telematics, prognostics, automation, etc.), emission regulations and cost . Continued interest on analytics, electronics and embedded software. However there are challenges in one of our large customers
- **Energy and Natural Resources** – Low oil prices and weak consumption preventing investments in mining industry. Expected to see revival in FY16. Similarly low oil prices are hindering new investments into Oil & Gas industry. So, continue to have weak customer pipeline in both the industries across geographies and across business units.
- **Semiconductor** – Global semiconductor sales might remain flat with the decreased demand for PCs and smart phones. Seeing some good traction in Europe, while APAC is keeping the momentum. With signs of revival in NAM revenues, we would be able to maintain the revenues.

A Look Ahead: Business Growth Outlook

- **Medical and Electronics** – Have good wins in reliability engineering. Continue to pursue opportunities in new product development, localization and cost reduction. Good pipeline building in design to build opportunities
- **Utilities** – Building on the existing relationship to expand business. We continue to have strong opportunity pipeline across geographies. Smart cities, emergence of smart grids and growth in mobile workforce management are expected to continue drive the growth.
- **Communications** – APAC continues to drive communication industry revenues. Spread of 4G, roll-out of national broadband networks and FTTx services expected to drive growth. With large projects coming to closure in EMEA, growth would be muted in EMEA. Seeing good traction for service management and assurance business across geographies.
- **Rangsons** – Won few significant wins during the quarter in Telecom industry. Also, there is significant traction from our existing customers on design to build opportunities. Expected to continue the growth momentum in Q3 and Q4.

Q&A

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