RESULT UPDATE

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CYIENT LTD (CYIENT)

PRICE: RS.516 **RECOMMENDATION: REDUCE**

TARGET PRICE: RS.521 **FY19 PE: 11.9X**

Cyients 1QFY18 revenue declined 0.24% QoQ to USD140.65mn v/s our estimates of USD142.7mn. Services business reported good growth of 3.1% sequentially whereas DLM business disappointed with a sharp decline of 26% sequentially. Growth within service business was led by communication, semiconductor and transportation growing at 10%, 11% and 11.7% respectively. We expect traction to continue in communication and transportation with growth slowing down in semiconductor vertical due to increased off shore. Management remains confident of achieving 20% YoY growth for DLM Business for the full year. Margins were in line with our estimates at 12.8%, down 50bps sequentially due to wage hike, rupee appreciation and decline of margins within DLM Business. We cut our earning to Rs.36.4 and Rs.43.4 from Rs.40.09 and Rs.44.05 earlier for FY18E and FY19E respectively. due to increase in tax rate. We await a sustained revival in the core service business . Positives are more or less priced in and the stock is fairly valued at ~11.9x FY19E EPS. We maintain REDUCE with revised target price of Rs.521 (Rs.526 earlier).

Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales in USD	537.30	592.39	651.65
Growth (%)	13.80	10.30	10.00
Sales (Rs mn)	36,023	38,511	43,359
Growth (%)	16.4	6.9	12.6
EBITDA	4,850	5,244	6,301
EBITDA margin (%)	13.5	13.6	14.5
PBT	4,583	5,321	6,326
Net profit	3,701	4,098	4,880
EPS (Rs)	32.9	36.4	43.4
Growth (%)	10.5	10.7	19.1
CEPS (Rs)	41.4	45.3	52.5
Book value (Rs/share)	195.3	225.6	261.8
Dividend per share (Rs)	6.0	6.0	6.0
ROE (%)	18.0	17.3	17.8
ROCE (%)	21.6	21.9	22.5
Net cash (debt)	10,453	13,863	16,078
NW Capital (Days)	52.4	55.3	57.9
P/E (x)	15.7	14.2	11.9
P/BV (x)	2.6	2.3	2.0
EV/Sales (x)	1.3	1.2	1.0
EV/EBITDA (x)	10.0	8.6	6.9

Source: Company; Kotak Securities – Private Client Research

Q1FY18 results –marginal miss in revenue, Margins in line

	4QFY17	1QFY18	QoQ (%)	1QFY17	YoY (%)
Income in USD	140.98	140.64	-0.24	124.01	13.4
Income	**9410.1**	**9070.1**	**-3.6**	**8306.0**	**9.2**
Expenditure	8161.0	7910.0		7216.0	
EBDITA	1249.1	1160.1	-7.1	1090.0	6.4
Depreciation	255.0	261.0		223.0	
EBIT	994.1	899.1	-9.6	867.0	
Interest	38.0	52.0		53.0	
Other income	265.0	351.0		116.0	
PBT	1221.1	1198.1	-1.9	930.0	28.8
Tax	221.0	373.0		237.0	
PAT	**1000.1**	**825.1**	**-17.5**	**693.0**	**19.1**
Sh of profit	33.6	25.5		37.7	
MI & Exp items	13.6	27.5		9.6	
Adj PAT	**1047.3**	**878.1**	**-16.2**	**740.3**	**18.6**
EPS (Rs)	**9.31**	**7.81**		**6.58**	
Margins (%)					
EBDITA	13.3	12.8		13.1	
EBIT	10.6	9.9		10.4	
PAT	10.6	9.1		8.3	

Source : Company

Services growth slows down; Rangsons disappoints with degrowth

- Services Business revenue grew by 2.5% QoQ in dollar terms mainly due to strong growth across verticals with 6 out of the 8 verticals reporting double digit growth on YoY Basis. On a consolidated business dollar revenues degrew by 0.24% on QoQ Basis impacted by de-growth in DLM business.
- The DLM business reported revenues of $11.8mn for the quarter as compared to $16mn in previous quarter, $14.8mn in Q3, $13.47mn 2QFY17.
- We believe Q2FY18 would be a better quarter than Q1 for the service business. DLM business too would see growth 2Q onwards on back of strong order backlog.
- **Segmental Performance:** Transport, communication and semi conductor shine
- Communication grew by 9.9% sequentially driven by growth in key accounts. The growth momentum is expected to continue in FY18 with fiber roll out program across Australia , New Zealand and US.

- Aerospace witnessed a growth of 1.7% sequentially, this is after growing 3.5% in previous quarter.It is expected to gain traction from Q3 FY18 onwards.
- Transportation grew by 11.7% sequentially. The growth is expected to continue for the rest of the year owing to focus segment of rolling stock and signalling.
- U&G degrew by 7% sequentially predominantly due to degrowth in few accounts. Management expects double digit growth for the full year with good opportunity in areas like grid control and asset management.
- Industrial energy & Natural resources(IEN) witnessed a growth of 0.1% sequentially. The demand is expected to remain soft for the rest of the year.
- Semi Conductor witnessed a strong growth of 11% sequentially. The growth is expected to continue driven by traction within key accounts and operational efficiency improvement.
- Medical and healthcare grew by 6.9% sequentially.Company recently signed a MOU with Telangana Govt.

Vertical Growth QoQ in % (EX RANGSON) in dollar terms

Particulars	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18
Aerospace	4.80	2.10	-4.86	3.50	1.7
Communication	13.10	23.80	2.30	-2.80	9.9
Utiliites	-0.90	13.50	1.30	10.80	-7.0
Transportation	8.50	-2.00	3.00	6.10	11.7
Industrial energy and natural resourcers	2.30	0.00	-1.60	-3.50	0.10
Semi conductor	2.90	2.00	2.00	10.70	11.0
medical consumer electronics	17.70	7.00	-1.60	3.90	6.9
otherrs	-64.90	-100.00	-	0.00	

Source: Company

Takeaways from Management Commentary

- **Guidance Maintained:** The revenue guidance of double digit growth has been maintained. Company also maintained its DLM guidance of 20% growth for the full year.
- **Expect margin improvement in DLM:** Rangsons' margins were ~10% in a built to-print model. However, margins can significantly move higher as the portfolio moves towards an integration of design and manufacturing.
- During the quarter margins dipped by 50bps due to due to wage hike and rupee appreciation by 300bps. Wage hike had an impact of 90-100bps on Q1 margins, with a similar impact expected on Q2 margins too.
- Tax rate was at 31% during the quarter due to SEZ units moving to 50% tax bracket from 100% earlier. Tax rate are expected to be in range of 26-28% .
- **Levers available for Improvement in margins are:** improvement in utilisation by 200-300bps, pyramid improvement,reduction from SG&A and lastly more offshoring will help in improving margins.
- Softential not in a great shape. Operating at $3-3.5mn with 10% operating margins.
- Order intake was moderate but management indicated healthy pipeline.

Earnings estimates tweaked

- We have assumed the exchange rate at 65/ USD for FY18 and 66.5 / USD for FY19.
- USD revenues are expected to grow by 10.3% and 10% in FY18 and FY19, respectively. Revenue growth is expected to be partly helped by the likely increase in PR revenues from $54mn in FY17 to $62mn in FY18 and $73.5mn in FY19.

- We have assumed an improvement in margins over FY17 - FY19, largely based on expectations of operational improvements like utilization, offshoring and pyramid correction, along with improvement of Softential's and Rangsons' margins. These are expected to offset the negative impact of salary hikes and rupee appreciation.
- PAT is expected to rise to Rs.4.1bn in FY18 and Rs.4.88bn in FY19. EPS for FY18 works out to Rs.36.44 and Rs.43.4 for FY19.

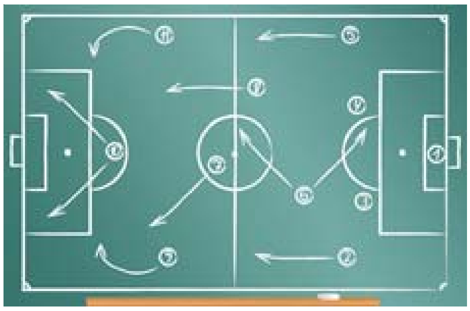
Valuations

- Revenue growth for Cyient has remained volatile and has also under-performed expectations for the past few quarters.
- While 1QFY18 revenue were almost in line with our expectation, the company needs to sustain growth within service business and better visibility for DLM business.
- At the current levels, our FY19 estimates are discounted by about 11.9x, which we believe is adequate, in the backdrop of volatility in the revenue.
- We maintain REDUCE with FY19 based price target of Rs.521 (Rs. 526, earlier).
- A consistent and higher organic revenue growth trajectory will make us more positive on the stock.

Concerns

- A sharp appreciation in the rupee from our assumed levels will impact earnings estimates negatively for the company.
- A delayed recovery in major user economies could impact revenue growth of Cyient.
- Prolonged client specific issue leading to a pause in recovery.

The Pitch



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INITIATING COVERAGE

SUTLEJ TEXTILES AND IND. LTD (STIL)

RECOMMENDATION - BUY					
CMP (Rs)	Target Price (Rs)	Investment Horizon	52 Week High/Low (Rs)	Market Cap (Rs Cr)	3 Months Avg daily Vol. (Nos)
902	1220	18 Months	965/631	1478	6175

We initiate BUY recommendation on Sutlej Textiles and Ind. Ltd (STIL)

Sutlej Textiles and Industries Ltd was incorporated on 22.06.2005 and was created out of a corporate restructuring exercise in which the textiles division of Sutlej Industries Ltd. (SIL) and Daman Ganga Processors Ltd were demerged w.e.f. July 1, 2005. A flagship unit of the multi-business conglomerate promoted by Dr. K. K. Birla, Sutlej is among India's leading textile producers with a value-chain extending from yarns and fabrics to home textiles. STIL is among India's leading producers of dyed spun yarn and value added/speciality yarn. It also manufactures home textiles. It has a presence right from spinning (man-made & cotton yarns) to dyeing to weaving (processing of home textiles) and processing/finishing. It is amongst the few exclusive spinners in India for specialty yarns such as Modal, Lyocell and Tencel in the country. Its manufacturing facilities are located in Bhawanimandi (Rajasthan), Kathua (Jammu & Kashmir) and Daheli (Gujarat). The company also has its own captive power plants to ensure steady supply of electricity for uninterrupted production.

60% of its spindle age is less than a decade old. Along with steady capacity additions in Yarn segment, STIL is also aggressively scaling up its Home Textiles business. STIL has a competitive edge, given its leadership, diversified product offerings with increasing focus on value added yarns (like Cotton Melange Yarn, which is a specialized yarn requiring special set of manufacturing skills), strong clientele (domestic & global) and brand recall, steady capacity additions in yarn, aggressive expansion plans in high margin home textiles segment (with increasing focus on fast growing categories like Curtains and Upholstery fabrics) and strong credit ratings (upgrades from CARE in 2017, thus resulting in low credit risks). STIL is placed comfortably to leverage its strength and exploit the available opportunities in the Indian textile space. **While yarn accounts for 95% of total turnover, home textiles contribute just 5%.**

Profile: Quite Impressive

Sutlej has been a consistent dividend payer since its incorporation. The dividend amount has increased from Rs.4.4 crore in FY2006 to Rs.21.3 crore in FY2017. In % terms, the average dividend payouts over FY2012-17 stood at 12.7%, which is low, but still encouraging, considering aggressive expansion plans undertaken by the company during the same period. What we like about STIL is that it has paid dividends even during periods of slowdown.

STIL has a strong global footprint with presence spanning over 60 countries across Europe, North America, South-East Asia, etc. The company exports around 27% of its revenues to major developed and emerging economies like Australia, Argentina, Bangladesh, Bahrain, Belgium, Brazil, Canada, China, Chile, Cuba, Egypt, France, Germany, Hong Kong, Italy, Morocco, New Zealand, Peru, Philippines, Poland, Portugal, Russia, Saudi Arabia, Sri Lanka, Turkey, USA, UAE and UK, among others. **The company is one of the largest exporters of value added synthetic and blended dyed spun yarn in the country.**

The revenue share of exports has remained in the range of 25-26% over the years. **While the long term target of exports share remains at 25%, the management could increase its share of exports in the near term due to slowdown in the domestic demand.** While maintaining its customers & geographies, the company has a leverage of increasing / reducing its export share by 8-10% depending upon the demand situation in the domestic market. In Home Textiles, **STIL has plans to increase its exports from current 25% to 50% over the next few years.**

The company progressively widened its presence across the yarn value chain (cotton to polyester to viscose to acrylic to modal to lycra to teflon to linen) and strengthened its ability to manufacture multi-fibre (synthetic and natural) yarn across diverse blends (grey, dyed and mixed) and counts (Ne 6's - 50's).

Aggressive capacity addition over the years

The company successfully completed the acquisition of Birla Textile Mills (BTM) from Chambal Fertilizers in September 2015 which added to its capacity 83, 376 spindles to produce 60 tonnes per day of spun yarn to the portfolio.

STIL has grown its net block by 37% in last one year and has gone up by 100% in the last 4 years.

Over the decade, the company has invested about Rs.1,060 crore in expansion, modernization and acquisition of cutting-edge technology.

STIL has increased its yarn capacity consistently by nearly 2.5x since FY2005 to 4.16 lac spindles till date (Post the ramp up of 35,280 spindles at Rajasthan facility in Q4FY2017). The expanded capacity is fully dedicated towards production of value added cotton melange yarn, which would improve the segment's overall realization and margins.

STIL has been aggressively scaling up its Home Textiles business with capacity addition of nearly 7.1 million (mn) metres since FY2014 (current capacity stands at 9.6 mn metres). Capacity expansion along with higher share from high margin Home textiles and value added products is expected to improve STIL's revenue growth and margin trajectory going forward.

STIL is expanding its yarn capacity at Baddi by 28,800 spindles (dedicated towards manufacturing of 100% polyester industrial yarn and other grey blended specialty synthetic yarn) at the cost of Rs.215 crore, which is expected to go on stream from Q4FY2019.

These investments in capacity additions will consolidate and help the company improve its earnings going forward.

Other reasons for our conviction in the stock emanates from the following developments

Recent reforms undertaken to boost the overall sector growth

In an effort to boost the textile made-ups sector, the government has recently approved interventions in a time-bound manner within the approved budget of Rs.6,006 crore for the apparel package with the objective of creating large-scale direct and indirect employment of up to 11 lac persons over the next three years in the made-ups sector. The government would work towards providing production incentive through enhanced Technology Upgradation Fund Scheme (TUFS) subsidy of additional 10% for made-ups similar to what is provided to garments based on the additional production and employment after a period of three years.

Low leverage, healthy return ratios, steady dividend payouts

STIL's gross block has increased at a steady pace of 9.4% CAGR over the last four years. Despite this, the company has managed to reduce its debt-equity from 2.65x in FY2012 to 1.3x in FY2017, which is encouraging. Debt-Equity has remained near 1.1x-1.3x since FY2015 till date despite aggressive capacity expansions. With no major CAPEX likely to be incurred over the next two years, we expect Debt-Equity to reduce further, as the company is likely to repay its borrowings in part from surplus cash generated (operating & free cash flows to improve).

Despite being in an industry, which is highly capital intensive in nature, STIL enjoys decent return ratios with ROCE at 17% and ROE at 19% in FY2017. With profits set to improve, we expect the return ratios to remain healthy going forward.

The board has also approved split of its shares into ten shares from one share which will improve the liquidity of shares ten times in the market.

It is also one of the few attractive stocks still trading at a single digit PE of 9.3x its FY2017 EPS of Rs.96.4 when other small and mid cap stocks are trading at abnormal valuations to their earnings.

Oil Price Fall will act as a boon to the company

Crude oil prices have again fallen below $50 a barrel - it is down over 58% from its 2014 peak ($115 a barrel) and are down over 17% after peaking out post-OPEC deal. We believe that on rising US production and oversupply in the market lower crude oil prices are here to stay. Hence we believe that STIL, which uses both natural fiber and synthetic fiber for manufacturing cotton and synthetic textiles, would be the major beneficiary of the crash in input prices with some time lag.

Outlook and Valuation

In the long-term, we expect the textile exports of the country to go up significantly as China is phasing out slowly. As its cotton yarn production and its currency also strengthened substantially over Indian rupee in the last 5 years. STIL with significant increases in capacities would be in a better position to capitalize the opportunities to be available on export front going forward.

Our take is that the textile industry would change its prospects significantly in the next 2 to 3 years. **Sutlej Textiles & Industries, with recent acquisitions and expansions is in a formidable position to grow its fundamentals substantially in the next 2 to 3 years.** We also expect the textile industry to expand its valuation multiple on the stock market significantly in the next 2 to 3 years along with anticipated recovery in the textile exports. We find it an appealing BUY at the current market price. Hence we initiate a BUY on the stock with a target price of Rs.1,220 (which is 10x it's FY2019E EPS of Rs.122).

Risk to our View

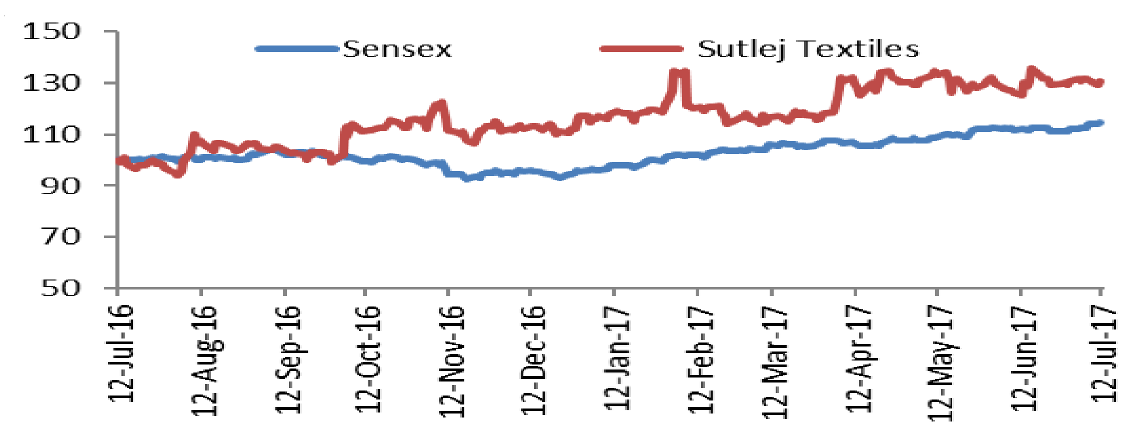
Any possibility of deficit in availability of cotton in the domestic market due to below average rainfall and a spike in crude oil prices could impact the input prices of the raw materials and act as a risk to the company.

Financial Summary

FY ended (Rs Cr)	Net Sales (Rs Cr)	Change (%)	PAT (Rs Cr)	Change (%)	EPS (Rs)	Change (%)	P/E (x)
FY2017	2.249.6	8.4	157.9	7.7	96.4	7.7	9.3
FY2018E	2,505.0	11.3	170.5	8.0	104.0	8.0	8.7
FY2019E	2993.0	19.5	201.2	18.0	122.0	18.0	7.4

Source: Company, Equinomics Research & Advisory Private Ltd

one year stock performance vis a vis index



Source: Equinomics, BSE. On base of 100

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
13-Jul	AADHAARVEN	Springtime Engineering Private Limited	S	2,000,000	0.7
13-Jul	AADHAARVEN	Orange Mist Productions Private Limited	S	2,851,085	0.7
13-Jul	AADHAARVEN	Black Horse Media And Entertainment Pri	B	2,840,000	0.7
13-Jul	AADHAARVEN	Varaprada Distributors Pvt Ltd	S	1,054,799	0.7
13-Jul	ARCHITORG	Amin Suchit Kandarp	B	160,000	50.1
13-Jul	ARCHITORG	Rakesh Rameshchandra Patel	S	160,000	50.1
13-Jul	ARCHITORG	Ambitious Plastomac Company Limited	S	50,900	52.0
13-Jul	BESTSTEEL	Esscee Trading Venture	S	100,000	96.3
13-Jul	COMCL	Smita Jaiswal	B	100,000	39.0
13-Jul	CONTROLPR	Silver Plastochem Pvt Ltd	B	124,500	345.0
13-Jul	CONTROLPR	Nyana Sabharwal	S	125,000	345.0
13-Jul	KISAN	K R Developers Llp	B	225,000	104.0
13-Jul	MEERA	Retsina Marketing Private Limited	S	69,000	55.8
13-Jul	MEERA	Utsav Pramodkumar Shrivastav	B	42,000	55.0
13-Jul	OMANSH	Ghanshyam C Joshi	S	140,000	13.3
13-Jul	PVVINFRA	Danesh Kaikhushroo Najadkay	B	27,000	19.0
13-Jul	PVVINFRA	Shiv Ratan Bhauka	S	37,220	19.0
13-Jul	RCCL	Sree Gopal Bajoria	S	19,101	55.7
13-Jul	RDBRL	Sheetal Dugar	S	90,236	61.6
13-Jul	RDBRL	Somani Estates Private Limited	B	100,000	61.6
13-Jul	REDINGTON	Local Goverment Superannuation Scheme	S	7,534,460	141.4
13-Jul	REDINGTON	Morgan Stanley Investment Funds Indian	B	7,534,460	141.4
13-Jul	RIDDHICORP	Sefali Sunil Pandya	S	29,000	134.5
13-Jul	RIDDHICORP	Vipulkumar Chandulal Thakkar	B	32,000	134.2
13-Jul	SANJIVIN	Jayantilal Mistrilal Sanghvi	S	195,742	7.5
13-Jul	SANJIVIN	Kaycee Finstock Pvt. Ltd.	B	225,000	8.1
13-Jul	SCTL	Jhaveri Trading And Investment Pvt Ltd	B	70,000	45.0
13-Jul	SCTL	Riya Alpesh Shah	S	38,000	45.0
13-Jul	SCTL	Alpesh Babulal Shah	S	32,000	45.0
13-Jul	SIMRAN	Varsha Chugh	S	21,000	82.5
13-Jul	SRIND	Amit Mahajan	S	204,436	9.3
13-Jul	SRIND	Ashlar Securities Private Limited	B	100,000	9.3
13-Jul	SUBEX	Akg Finvest Limited	S	9,750,000	10.3
13-Jul	VANICOM	Ghanshyam C Joshi	B	37,000	42.9
13-Jul	VERONICAPRO	Sally Real Estate Private Limited	S	712,000	0.9
13-Jul	VICTMILL	Tirath Pradyuman Parikh	S	625	4,741.8
13-Jul	VIRTUALG	Niraj Laherchand Modi	B	3,000,000	2.1

Source: bseindia.com

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Yes Bank Ltd	1582.0	4.4	NA	4.2
ITC Ltd	338.8	3.0	NA	17.5
Hindalco Ind	204.7	2.0	NA	11.9
Losers				
Indian Oil	381.0	(3.0)	NA	7.5
ONGC	158.9	(2.4)	NA	9.1
Bharti Infra	410.6	(2.3)	NA	3.1

Source: Bloomberg

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 9 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 9 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 9 months
SELL	–	We expect the stock to deliver negative returns over the next 9 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
RS	–	**Rating Suspended.** Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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Fundamental Research Team

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