CYIENT

CELEBRATING 25 YEARS

QUARTERLY EARNINGS BRIEFING

Q2' FY17

10/13/2016

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Contents

Highlights for the Quarter (1/2)

Financial Highlights for Q2 FY 17

- Strong **Revenue** growth of 10.3% in constant currency; Highest ever incremental revenue addition in any quarter; At US$ 136.5 Mn up by 9.5% QoQ in $ terms; **highest in 22 quarters**
- Operating profit at ₹ 1,283 Mn; **highest ever in any quarter**
- Operating margin stands at 14.0%, improvement by ~100bps QoQ despite the headwinds on salary hike, FX and one off 25 years celebration expenses
- Net profit ₹ 973 Mn up by 31.5% QoQ, despite the headwinds on salary hike, FX and one off 25 years celebration expenses
- DSO stands at 77 days; reduction of 12 days YoY
- Robust utilization stands at 78% for the quarter up 4.5% QoQ
- APAC & EMEA posted a robust growth of ~17% & 11% QoQ in $ terms respectively, (15% and 14% in constant currency respectively)
- 23 customers added during the quarter
- Strong business outlook backed by pipeline and Order intake growth YoY
- Declared an interim dividend of ₹ 3.0/Share, on face value of ₹ 5 each. This is over an above the special dividend of 50% i.e. ₹2.5/Share which was declared and paid in August 2016 for 25 years completion by Cyient

Highlights for the Quarter (2/2)

Operations

Celebrated silver jubilee anniversary at various locations in Q2 that culminated in celebrations with a grand event in Hyderabad

On the occasion of silver jubilee Cyient has introduced RSU scheme for eligible associates to be granted in Jan 2017

Celebrated **ten years anniversary** for our relationship with **Philips**

Signed **global partnership agreement with Pink Elephant** to expand IT Services Management (ITSM) delivery and consulting capabilities

Awards

Awarded the CEMILAC certification for Design and Manufacturing of Aerospace products for Indian Military

Won the "Best Analytics Service in Predictive Modelling" award at the Big Data Analytics and Insights Summit, Bangalore

Awarded a joint patent with Toro on the design of a new sprayer

Infrastructure

Opened a state-of-the-art Pratt & Whitney (P&W) Center of Excellence (CoE) at our Visakhapatnam SEZ Center

Inaugurated a new **Center of Excellences (CoE) for our engagement with various key aerospace clients**

Opened a TCMS lab for one of our key transportation customers

Revenue Update

Revenue	Q2 FY17	Q1 FY17	Q4 FY16	Q3 FY16	Q2 FY16	QoQ	YoY
US$ Mn*	**136.5**	124.7	121.4	118.6	118.7	9.5%	15.0%
In ₹ Million*	**9,136.4**	**8,349.0**	**8,195.4**	**7,832.1**	**7,724.9**	9.4%	18.3%

Business Unit	*$ Growth*	
	QoQ	YoY
A&D	2.0%	15.5%
Communications	23.8%	35.0%
Industrial & ENR	0.0%	-7.4%
Medical & Healthcare	6.9%	42.3%
Semiconductor	2.0%	-13.6%
Transportation	-2.7%	0.9%
U&G	14.0%	20.0%
DLM	33.6%	29.8%

Geographies	*$ Growth*	
	QoQ	YoY
North America	6.6%	5.6%
EMEA	11.2%	31.5%
Asia Pacific	16.8%	23.8%

Group	9.5%	15.0%

Key Takeaways

- Overall QoQ growth in $ term for the Quarter stands at 9.5% and 15.0% for YoY
- QoQ growth in Constant Currency is 10.3%
- Growth seen in all Business Units & Geos
- Growth in Constant currency for Transportation is 0.6% QoQ and 6.0% YoY; Growth in Constant currency for U&G is 16% QoQ and 24.4% YoY;
- Growth in Constant currency for EMEA is 13.9% QoQ and 35.7% YoY, APAC is 15.3% QoQ and 19.1% YoY

** Revenue is including the excise duty as per new reporting guidelines from SEBI. All the numbers are restated for like to like comparison. Excluding excise duty revenue for Q1 FY17 stands at ₹8,306 Mn ($124.0 Mn) and for Q2 FY16 at ₹7,716 Mn ($118.3 Mn)*

Revenue at a Glance – Impact of Excise

(A) Revenue including Excise

	Q2 FY17	Q1 FY17	Q4 FY16	Q3 FY16	Q2 FY16	*Growth (%)*	
						QoQ	YoY
Revenue *(in US$ Mn)*	136.5	124.7	121.4	118.6	118.6	9.5%	15.1%
Revenue *(in ₹ Mn)*	9,136.4	8,349.0	8,195.4	7,832.1	7,724.9	9.4%	18.3%
Excise impact *(₹ Mn)*	60.80	43.34	36.99	14.33	8.32	0.2%	0.7%

(B) Revenue excluding Excise

	Q2 FY17	Q1 FY17	Q4 FY16	Q3 FY16	Q2 FY16	*Growth (%)*	
						QoQ	YoY
Revenue *(in US$ Mn)*	135.6	124.0	120.9	118.4	118.4	9.3%	14.5%
Revenue *(in ₹ Mn)*	9,075.6	8,305.7	8,158.4	7,817.7	7,716.6	9.3%	17.6%

Income Statement Update

Particulars	UOM	Q2 FY17	Q1 FY17	Q2 FY16
Revenue*	₹ Mn	9,136	8,349	7,725
Cost of Revenue	₹ Mn	5,990	5,425	4,906
Gross Profit	₹ Mn	3,146	2,924	2,819
Operating Profit	₹ Mn	1,283	1,090	1,148
Tax	₹ Mn	267	237	285
Net Profit	₹ Mn	973	740	994
Earning Per Share (EPS)	₹/Share	8.6	6.6	8.8
Gross Margin	%	34.4%	35.0%	36.5%
Operating Margin	%	14.0%	13.1%	14.9%
Effective Tax Rate	%	22.6%^	25.5%	23.8%
Net Income Margin	%	10.4%	8.7%	12.4%

Key Takeaways

Operating Profit Movement:

- Despite salary hikes and one off expenses due to 25th year celebration, operating margin improved by ~100 bps QoQ. Salary hikes impact of ~70 bps and one off 25th year expenses impact of ~70bps, offset mainly by improvement in operational efficiency like utilization improvement (~200bps) and better indirect cost absorption and others.
- Utilization in the Quarter improved by 4.5% and Offshore mix remained the same

Profit After Tax Movement:

- Net profit grew by 31.5% QoQ on account of higher operating profit and other income mainly on account of higher realized gains on Forward contracts
- FY17 Effective Tax Rate (ETR) is likely to improve by 50bps -100bps YoY

** Revenue is including the excise duty as per new reporting guidelines and the numbers are restated for like to like comparison. Excluding excise duty revenue for Q1 FY17 stands at ₹8,306 Mn and for Q2 FY16 at ₹7,717 Mn*

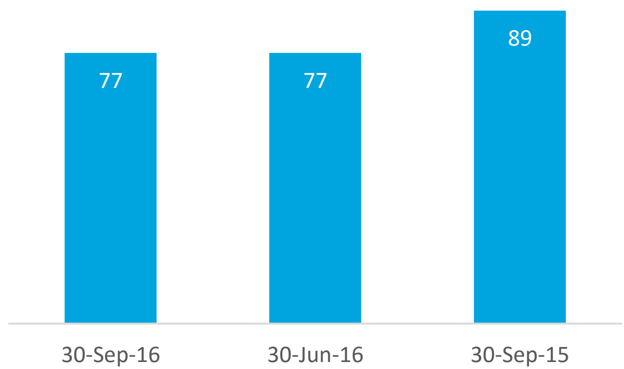
^ETR w/o one off would have been 23.7%.

Cash Generation Update

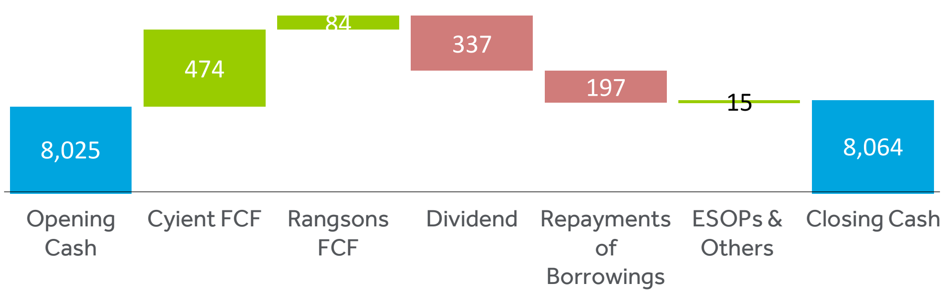
Cash Generation

Particulars	UOM	Q2'17	Q1'17	H1'17
Cash Position	₹ Mn	8,064	8,025	8,064
	$ Mn	120.5	119.8	120.5
Free Cash Flow	₹ Mn	558	497*	1,055
	$ Mn	8.3	7.4	15.7
	% of EBITDA	38%	41%	40%
Capital Expenditure	% of sales	2.7%	2.3%	2.5%

Days Sales Outstanding in Days



Cash Generation & Utilization (₹ Mn)



Key Takeaways

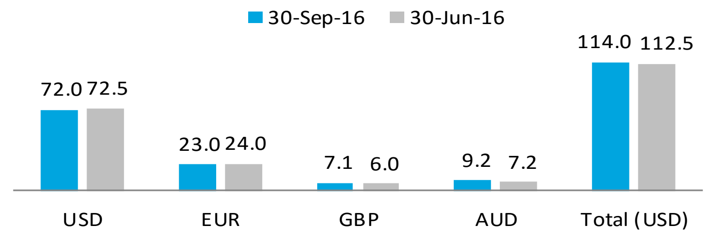
- Free cash flow ₹ 558 Mn for Q2 and ₹ 497 Mn for Q1, ₹ 1,055 for H1 i.e 40%. FCF to EBITDA is marginally lower in H1 due to growth, however likely to be ~45% for FY '17.
- DSO stands at 77 days; reduced by 12 days YoY, flat QoQ.
- During the quarter dividend paid ₹ 337 Mn

** Q1 FY 17 FCF numbers have been restated to correct Q1. While the cash position and net additions to cash remains the same, there is a reclassification between FCF from operations and servicing of borrowing. The FCF from operations restated is ₹ 497 Mn as against ₹ 697 Mn reported earlier. Total FCF for H1 stands at ₹ 1,055 Mn.*

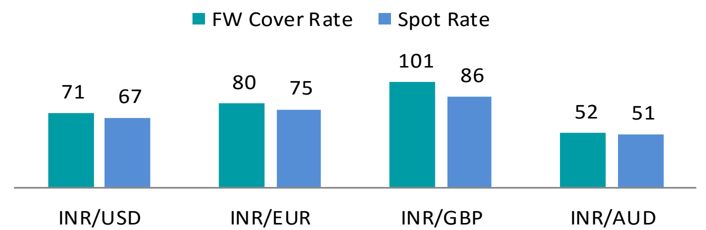
Forex and Other Income Update

Outstanding Forward Contracts*

Value in Respective Currency Mn.



Booked Rate (in ₹) for next 12 Months



Other income (₹ Mn)

Particulars	Q2 FY 17	Q1 FY 17
Income from Treasury		
Interest on Investments / deposits	86.3	79.9
Dividend on mutual funds	9.0	10.0
Subtotal (A)	**95.3**	**89.9**
Realised Gain/(Loss) on Fwd Contracts (B)	94.8	53.4
Unrealised FX Gain/(Loss) (C)	(60.5)	(49.0)
Others (D)	54.7	21.6
GRAND TOTAL (A+B+C+D)	**184.3**	**115.7**

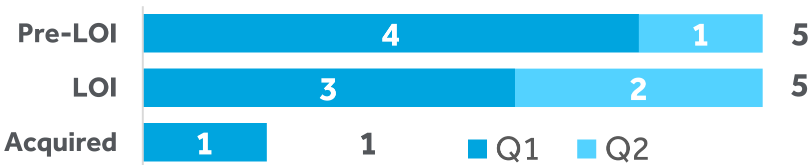
Key Takeaways

- Increase in **other income** QoQ is mainly driven by Realized Fx gain on foreign currency forward contracts
- The company is having strong position on **FX forward contracts** for next 12 months at current spot rate
  - Company has hedged ~70% of inflows for next 12 months – in line with policy
  - Forward contract gain could be ~ $ 8 Mn in next 12 months at current spot rate (30-Sep-16)
  - Total hedge position $ equivalent - ~$114 Mn
  - Consistent FX policy has helped negate the adverse Fx impact on account of BrExit

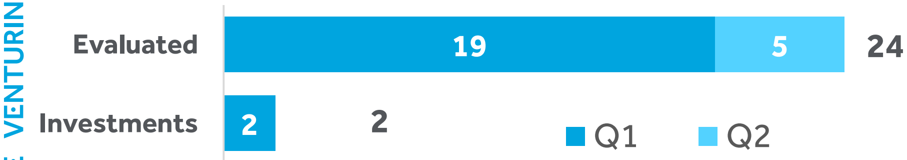
*Outstanding forward contracts exclude Rangsons

M&A and CV Pipeline and Focus Areas

M& A DEAL PIPELINE



CORPORATE VENTURING



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

Focus is on Medical tech., Communication tech., IoT/M2M platforms and Advanced avionics

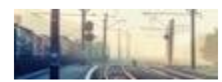
FOCUS AREAS

AEROSPACE AND DEFENSE

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

MEDICAL AND HEALTHCARE

- Design to Build companies with OEM partnerships



TRANSPORTATION - RAIL

- Rolling stock engineering design
- Signalling application engineering & testing
- Subsystem design & realization in electronics
- Predictive maintenance solutions

COMMUNICATION - TELECOM

- Network design and planning companies

Industry outlook 1/3

AEROSPACE & DEFENSE

We are witnessing strong traction in Avionics with investments in the segment driven by technological changes and obsolescence. The focus continues to move away from design towards production ramp up and cost take out. The industry also witnesses a skew towards onsite work with focus on supply chain and manufacturing.

INDUSTRIAL, ENERGY AND NATURAL RESOURCES

The Oil and Gas segment continues to remain muted with growth expected to return only in late 2017. Industrial outlook is also muted with large OEM's shifting focus away from product development to cost takeout. The growth is expected to be driven by growing investments in infrastructure, renewables such as wind and solar and energy storage segment.

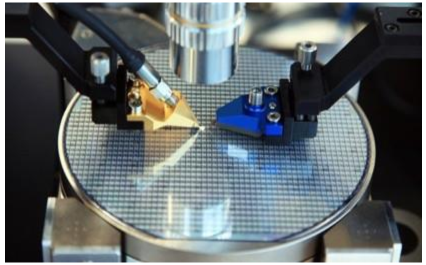
TRANSPORTATION

Transportation growth will be predominantly driven by increased rail infrastructure projects and refurbishment of signalling and other assets. Asia continues to offer the most opportunities for investment. The industry witnesses a transition towards internationalization and collaboration. Increased focus on standardization and operational efficiency is expected to drive the market.

Industry outlook 2/3

MEDICAL TECHNOLOGY AND HEALTHCARE

Medical Technology and Healthcare industry witnesses slowing growth rate and margin pressures. The demand for value engineering, product localization and low cost manufacturing is expected to drive the market. New technology such as connected devices and IoT offers tremendous promise and is expected to drive innovation and growth in the market.



SEMICONDUCTOR

Semiconductor industry continues to witness pressure on capital investments. The trend towards consolidation continues with key players consolidating to expand product portfolio and bring in cost synergies. Increased demand for IOT and smart devices is expected to drive new needs.

UTILITIES AND GEOSPATIAL

Market de-regulation and competition is driving the need for change and cost efficiency among utilities. Smart City initiatives are witnessing large spends especially in India and parts of Europe. Industry is also witnessing large spend on technology trials and data on autonomous driving/driver assist.

Industry outlook 3/3

COMMUNICATIONS

Growth in the industry is expected to be driven by fiber deployment through CAF II initiatives in the US, shift from FTTP to FTTN and opportunities for HFC and wideband design expertise in ANZ. We expect to see continued momentum in the industry through the next few quarters.

DESIGN LED MANUFACTURING (DLM)

DLM is witnessing high traction in Aerospace and Transportation segment with Go to India initiatives. Cable Wi-Fi rollout and cable digitization is driving growth in the Communications segment while value engineering, cloud connectivity and analytics will drive growth in Medtech segment. We expect to see good growth over the second half of the year.

Future outlook

- **Revenue Growth**
  - Outlook for the year remains unchanged. We expect
    - Double digit growth in the core business
    - ~ 50% growth in DLM business
- **Margin Expansion through Operational Efficiency Improvements**
    - Cyient Services to see a 100 bps improvement in operating margin and for the Group the OPM is expected to remain flat to marginally positive.
    - Improved margins in SMA business and onsite job margins : 100 bps
    - Operational Improvements: Utilization & Pyramid (50 bps each): 100 bps
    - Better SG&A management and absorption net of investments: 100 bps
    - Offset by Wage Hike ~ (200 bps) & DLM mix ~ (100 bps)
- **Earnings Growth**
    - We expect double digit earnings growth in FY17

Q&A