

AXIS SECURITIES

Initiating Coverage

Cyient Ltd

Infinite possibilities!!

AXIS DIRECT

28 MAR 2019

AXIS DIRECT

28 MAR 2019 Company Report

BUY

Target Price: Rs 803

CMP	:Rs. 655
Potential Upside	: 23%

MARKET DATA

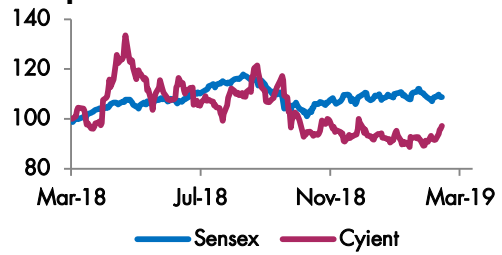
No. of Shares	: 11.3 Cr.
Market Cap	: Rs. 7,403 Cr.
Avg. daily vol. (6mth)	: 14,797
52-w High / Low	: Rs. 887/571
Bloomberg	: CYL IN
Promoter holding	: 22%
FII	: 43.3%

Cyient Ltd

Information Technology

Infinite possibilities!!

Price performance



Financial Summary

Y/E March	Net Sales (Rs Cr)	PAT (Rs Cr)	EPS (Rs)	Change (%)	P/E (x)	RoE (%)	RoCE (%)	DPS (Rs)
FY17	3,607	337	30.5	-	-	16%	21%	7.0
FY18	3,918	411	35.9	17%	-	17%	23%	20.0
FY19E	4,823	466	41.3	15%	16.1	18%	23%	13.2
FY20E	5,329	553	48.8	18%	13.6	19%	24%	18.3
FY21E	5,646	583	51.5	6%	12.6	18%	23%	19.5

Source: Company, Axis Securities. CMP as on Mar 28, 2019

Shareholding pattern

	Dec.-18	Q-o-Q Chg (%)
Promoters	22%	-
FPIs	43%	(0.04%)
MFs / UTI	14%	(0.40%)
Banks / FIs	10%	(0.01%)

AXIS SECURITIES

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Investment Rationale

Cyient Ltd, is an IT Engineering Services provider headquartered in Hyderabad, India. The company was founded in 1991 and offered Geographic Information(mapping services) which are largely design services. Since 1991, the company has evolved from a pure designing firm to a manufacturing and MRO (Maintenance, Repair & Overhaul) company. Cyient's clients operate across verticals such as Aerospace & Defence, Rail transportation, Oil & Gas, Communications, Utilities & Power generation, Industrial & Infrastructure, Semiconductors, Medical technology and Healthcare. It currently employs more than15,000 people across 48 development facilities in India as well North America, Europe and the Asia-Pacific.

A Leading player in ER&D is Ready to take off 'For The Growth'

- Engineering Research and Development (ER&D) is the next -gen IT services having huge opportunity
- Pole position in ER&D with Domain Expertise
- Robust demand for Aerospace and Defense Outsourcing
- Higher spending in Railway Engineering services will be boon for Cyient
- S3 Strategy drives value Transformation from services to Solutions
- Technological shift in Industry to create better opportunity for Cyient

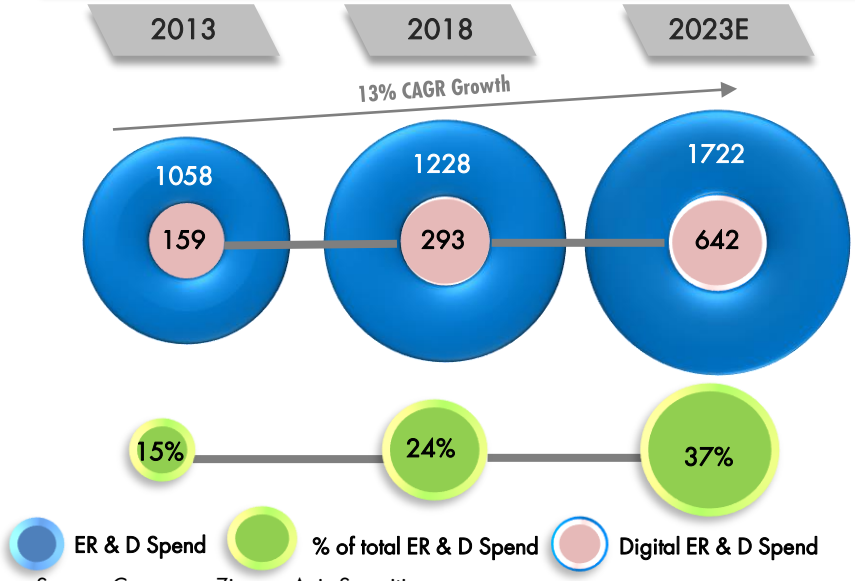
We initiate coverage with BUY rating and a target price of Rs. 803 i.e. 23% upside.

Investment Rationale

ER&D services a Huge Opportunity

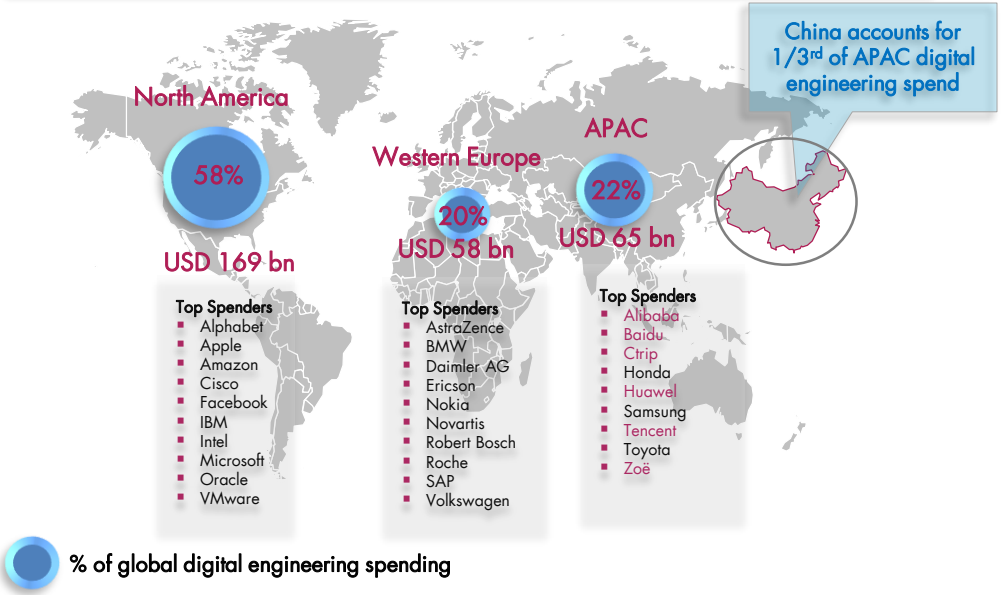
- Cyient is one of the leading ER&D services provider in India, providing ER&D services to some marquee clients around the world in different verticals across geographies.
- ER&D and ESO have emerged as latest next generation services within Indian IT companies over past few years. Globally, new age technologies like Machine Learning, Artificial Intelligence, Block chain, 3D printing, AR/VR, IoT et al, and their myriad applications and use-cases are driving innovations.
- This is creating newer avenues to generate alternative revenue streams as well as modernize the product development lifecycle, enabling greater efficiencies.
- Engineering and R&D (ER&D) spend is pegged to be in excess of $1 trillion, and further growth is expected to be driven by investments in digital engineering. This change is largely being driven by the automotive, industrial, telecom, Aerospace, software, and medical verticals. ERD services have shown robust growth of more than 15% over past 5 years. We believe that the increasing demand for ER&D space will create better business opportunity for Cyient.

Increasing ER&D spending by 2023



Source: Company, Zinnov, Axis Securities

Digital Engg. spend across geographies

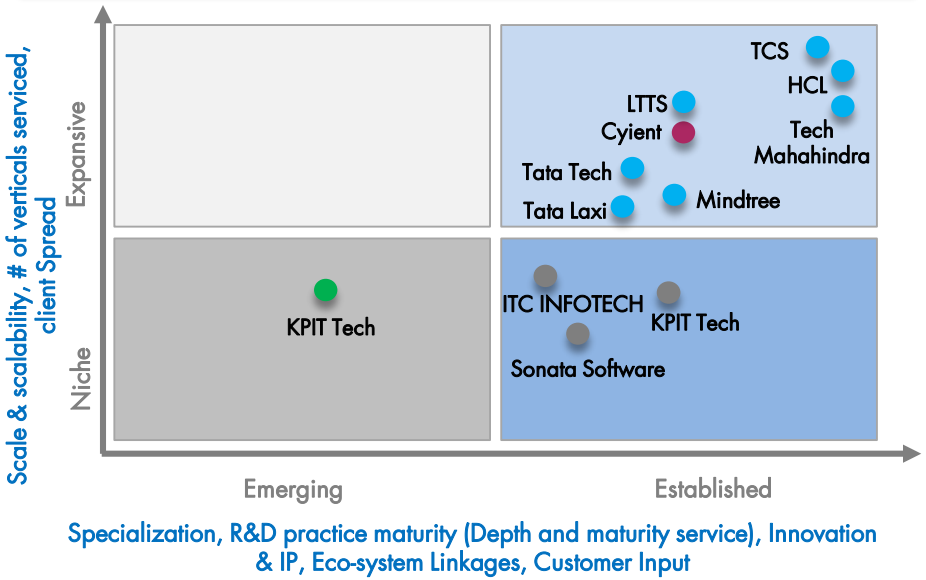


Investment Rationale

Pole position in ER&D with Domain Expertise.

- Cyient is one of the leading ER&D service provider in India providing ER&D services in 5 main verticals viz Aerospace & Defence, Communication, Transportation, Energy & Utilities, Healthcare and Geospacial.
- Cyient expanded its DLM (Design led manufacturing) services and MRO services to offer fully integrated services, Solution and Systems to its clients.
- Cyient is a market leader in Aerospace and Defence (39% of Q3FY19 revenues) and rail transportation (10.5%) verticals. It had c.300 clients as of Q3 FY19, including Pratt & Whitney (part of UTC Technologies), Bombardier, Boeing and Siemens.
- It has a relatively concentrated portfolio but has recognized leadership in its focused verticals. For instance, it was rated among the top 7 players globally in both aerospace and transportation by Zinnov in their global ER&D services provider rankings in 2018.

Leading Player in ER&D space



Leading Position in key segment verticals

Verticals	Transportation	Aerospace & Defense	Energy & Utilities	Semi-conductors	Medical Devices
Market Size	$ 130 Bn	$27 Bn	$ 19 Bn	$ 61 Bn	$28 Bn
Topline Contribution	11%	39%	9%	4%	4%
Key Players	Altran Cyient Tech M TCS Alten	Altran Cyient Tech M TCS Cap Gemini	LTTS TCS Quest Global Cyient Altran	Wipro TCS HCL Tech Cyient	HCL Tech TCS LTTS Cyient

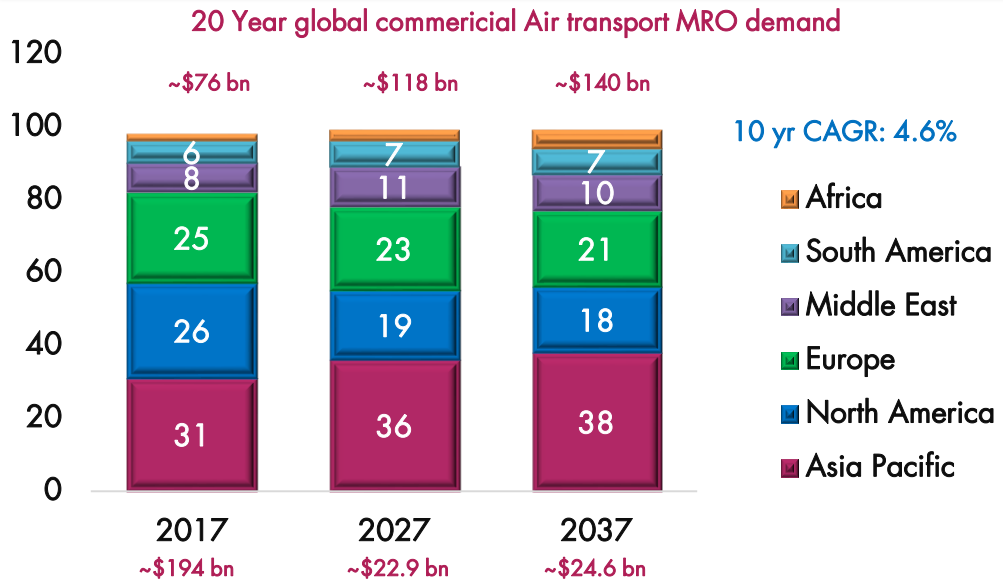
Source: Company, Zinnov & Axis Securities

Investment Rationale

Robust demand for Aerospace and Defense Outsourcing

- The Global Air Transport MRO market outlook remains robust at $76 bn growing to $118 bn over the next decade (an expected growth of 4.6% per annum).
- Global MRO spending will increase across geographies. MRO demand will likely grow to $118 bn by 2027. Evolution of new technologies like digitalization could enable airlines to save in excess of $5 bn/ year through lower fuel, maintenance and delay costs.
- These factors help to gain higher spending from aerospace industries creating higher opportunities for MRO service providers. These spending will creating huge opportunities for Cyient to generate higher MRO contracts not just from existing clients but also mine new clients.
- The commencement of an aircraft development program implies a much larger opportunity for Cyient, given the parallel design and development of its parts, components, engines, etc.

The global MRO market & Aircraft maintenance contracts create better opportunity for Cyient



Source: ICF, Axis Securities

Program	Stage of Development	Entry Into Service
BOIENG		
787-9	Delivery	2014
737 MAX	Final Assembly	2017
787-10	Firm Configuration	2018
777X	Firm Configuration	2020
AIRBUS		
A33neo	Delivery	2015
A350	Delivery	2014
BOMBARDIER		
CS100	Product Certification Phase	2015
CS300	Product definition release Phase	2016
Learjet 85	Product definition release Phase	N.M.
Global 7000	Detail Design Phase	2016
Global 8000	Detail Design Phase	2017
Challenger 350	Product Certification Phase	2014
EMBRACER		
Legacy500	Test Flights	2014
Legacy 450	Maiden flight in 2013	2015

Investment Rationale

High growth in Railway Engineering services will be boon for Cyient

- Cyient is the largest player in the Indian Railway Engineering Outsourcing space, with a market share of 60-70% as of Dec 2018 in Indian Railways outsourcing space.
- Geographies like Latin America (4.2%), CIS (3.2%), Africa (4.1%), and Asia- Pacific (2.5%), where it has been seeing strong traction.
- Cyient has experience in designing next-generation trains, enabling complex signaling upgrades, or improving efficiency through predictive maintenance.
- Cyient has executed major projects in more than 20 countries, collaborating with rail OEMs and operators to integrate more value and innovation into their products and services.
- The outlook for the Railway industry globally is robust, with expected CAGR of 4.3% over 2018-2025. Growth is likely to be driven by emerging economies and strong demand for changing technologies.

- For Railways, Globally over €581.60 billion cumulative spending by 2022 is expected.
- Spending across geographies will likely be maintained as major expansion plans in emerging economies, North America and Middle East are underway.
- Strong demand seen for digitization ,infrastructure, signaling systems and rolling stock in forthcoming years.
- Cyient management sees strong growth traction from existing clients going ahead like Bombardier, Indian Metro, Indian railways etc.

Geography	Major projects/growth outlook
UK & Europe	✓ CP5 in UK ✓ Network Rail's business plan 28bn ✓ 10 bn for enhancement and repair
Middle East	✓ Investing GBP 70 bn in rail projects through 2020, with Saudi Arabia, Qatar and Dubai. ✓ UAE representing the biggest markets (Frost & Sullivan) ✓ Many metro projects will boost the investments like Doha, Abudhabi, Makka
Asia Pacific	✓ By 2020, the urban rail market across Asia Pacific is expected to grow to GBP 60 bn.
North America	✓ By 2020, the rail transit market is expected to grow towards USD 44b per year. ✓ capital expenditure, including over USD 6.5 bn in Engineering Services.

Robust demand for Rail transportation (signalling systems) can create better business opportunities.

Investment Rationale

S3 Strategy drives value Transformation

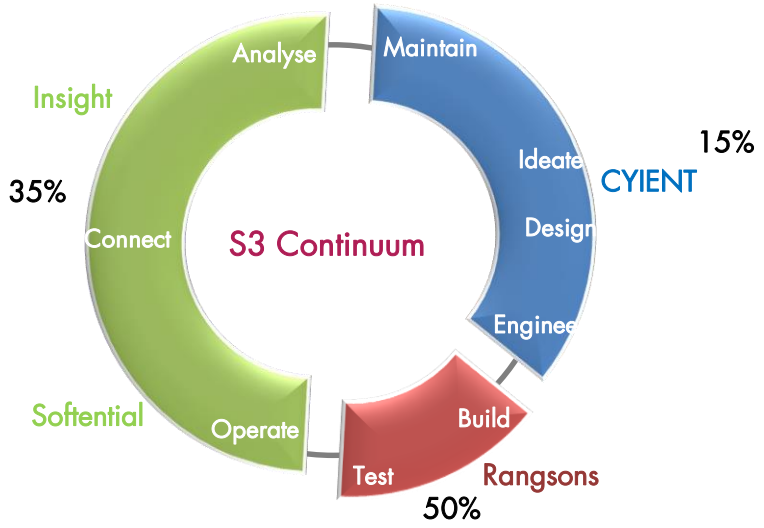
- Cyinet has a vision to transform itself into a complete service provider to its clients in the specialized verticals. It has the vision to transform its portfolio of offering in to Systems (50%), Solution (30%) and Services (20%) by 2020. This will enable Cyient to partner its client during its complete product lifecycle.
- With the acquisition of Rangsons, Cyient forayed into manufacturing and testing, thus expanding its capabilities in product lifecycle. Going ahead this will help to improve operating margins.
- S3 strategy will help Cyient grow mainly on broad based, makes business structure more robust and sustainable. Growing demand for digital and automation transformation will create better business opportunities in the forthcoming years Cyient being complete service provider can capitalize on these opportunities.

Value Transformation from Services to Solutions

CYIENT 2.0	CYIENT 3.0	CYIENT 4.0
Engineering Services	Build, Operate & Maintain	Solutions
Design	Design-led Manufacturing, Aftermarket, Digital	Cyient IP
✓ Product Engineering ✓ Networks & Operations ✓ Geospatial Data Management	✓ Electronic and Mechanical ✓ Manufacturing, Tooling ✓ IoT, Analytics, Additive ✓ Manufacturing, A/V Reality	✓ New Business Accelerator ✓ (internal innovation) ✓ Technology Partnerships ✓ (co-design and development, ✓ manufacturing)

Source: Company, Axis Securities

S3 Strategy to become a complete service provider



% reflects average customer spend across value chain

Investment Rationale

Technological shift in Industry can create better opportunity Cyient

- Industries across verticals are witnessing a technological shift. The strong demand for automation is seen, creating new opportunities for IT services companies in forthcoming years. Strong demand has been seen for new technological services like 3D printing, smart manufacturing, digital shop floors, Asset health monitoring, Artificial Intelligence and Digital oil fields etc.
- The industry has also witnessed shift in the engagement model like solution driven domain competence, Innovation / IP and Domain competence creating huge opportunity for IT services companies.
- Cyient being the leader in providing new technologies to various sectors, can create better business opportunities. The diversification from specialized vertical service provider to a complete solution provider will help the company to grow at higher growth rate.

Year	Service & technological Demand	Sector Wise Demand
2000-2012	*Embedded Software across Technology & Products*	✓ Automotive – Telematics and Display Systems Infotainment ✓ Aerospace – Navigation Systems and Infotainment ✓ Medical – Vision Solutions, Implants
2012 onwards	*Digital Transformation- IoT, Data Analytics, and AI*	✓ Automotive – Connected Cars, Driver Assistance ✓ Healthcare – Patient Monitoring Systems ✓ Industrial and Mining – Asset Heath Monitoring ✓ Utilities & Geospatial – Smart Cities , Smart Grid, Connected appliances
2015 onwards	*3D Printing, Additive Manufacturing, Smart Manufacturing*	✓ Automotive – Smart manufacturing, digital shop floors ✓ Cross BU – 3D printing applications ✓ O&G – Digital oil fields

Source: Company, Axis Securities

Porter's 5 Forces Analysis

Threat of New Entrants (Medium)

- MNC's are entering the off shoring.
- In house automation may grab outsourcing opportunities.

✓ Cyient has an efficient team of engineers to ensure timely delivery of the projects and services undertaken.

✓ Long term relationship with marquee clients helps Cyient to generate business.
✓ Adapting new technologies as per the demand across verticals put Cyient in leadership position.

Bargaining power of Suppliers (High)

- Intense competition in the recruitment may put pressure on employee expenses.

Competitive rivalry (Medium)

- Lower Entry barriers in the ER&D industry have led to high concentration in the industry.

✓ Cyient has focused verticals which differentiates it from its peers.
✓ The company keeps acquiring new technologies to stay ahead of its peers.

Bargaining power of Buyers (Increasing)

- With the availability of the multiple vendors , buyers have lot of choice and have led to pressure on billing rates.

✓ Cyient invests periodically in new technologies to grow inorganically.

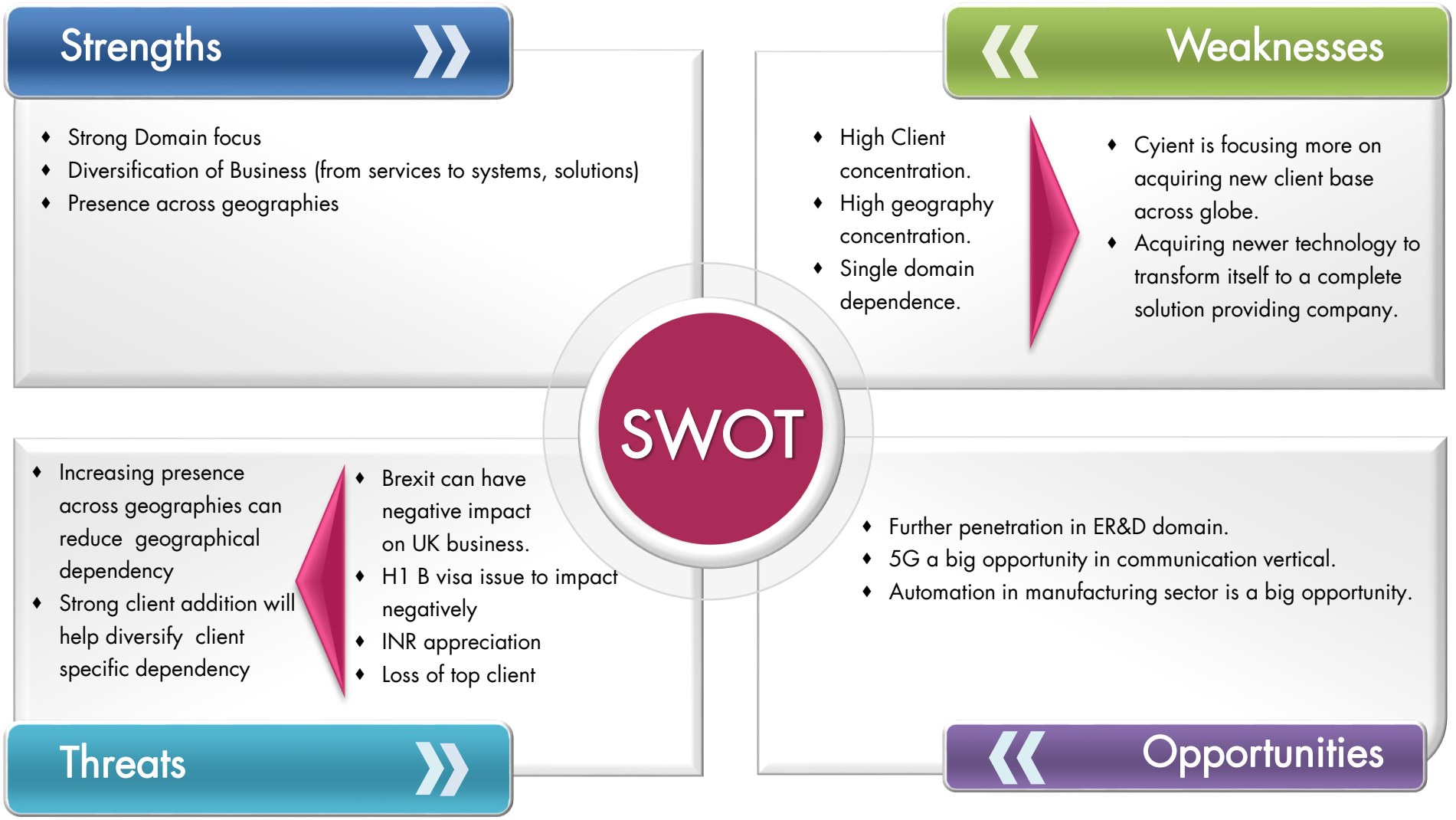
Threat of Substitutes (Increasing)

- Emerging economies like China, Brazil can be places for off shoring taking away India advantage to a certain extent.

✓ Cyient has adopted new technologies keeping he service portfolio different from other players.
✓ New technology transitions will keep bargaining power intact for the company.

Source: Company, Axis Securities

SWOT Analysis



Source: Company, Axis Securities

Broad inorganic strategy of focusing on new geography led expansion

Sr. No	Year	Acquired company	Country	Profile
1	2015	Invati Insights	India	Strengthen its data analytics capabilities
2	2015	Softential	USA	Business service management and service assurance (Designs, implements and manages systems and applications that monitor and control communication network)
3	2015	Rangsons Electronics	India	Design led Manufacturing (DLM) & Sysytem Design
4	2016	Global Services Engineering Asia	Singapore	Engineering and repair unit of the US-based aircraft engine manufacturer Pratt and Whitney.
5	2016	Blom Aerofilm	UK	Geospatial solutions
6	2017	Certon Software	USA	Avionics
7	2017	B&F Design	USA	Adding Design, Build and Maintain capabilities centered around Tooling and Precision Engineering.
8	2018	Cyient BlueBird JV	Israel	Tactical Unmanned Aerial Systems (UAS) industry.
9	2018	AnSem NV	Israil	Advanced analog, radio frequency, and mixed-signal integrated circuit design and provides custom ASICs

Source: Company, Axis Securities

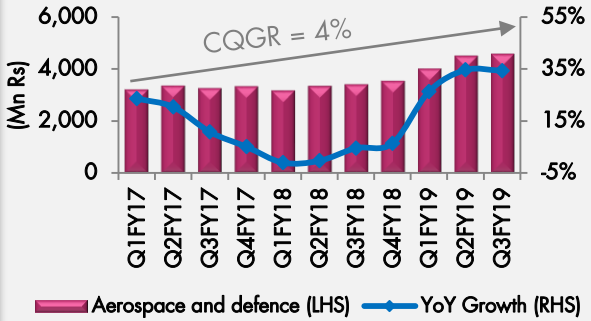
- Cyient has done very focused strategic acquisition in the past to build strong capabilities.
- The company sees strong synergies with the acquisitions. Cyient has the vision to transform itself into fully integrated service provider to its client right from systems, solutions and services (S3 strategy).
- Cyient has acquired companies strategically in the recent years viz., Invati Insights, Softential, Rangsons and GSEA.
- These acquisitions have been fully integrated with Cyient and their performance is in line with the management's expectations.
- The company is seeing good synergies with these acquisitions and has already seen new client additions. The recent Blom and Certon acquisitions (2017) have been integrated with Cyient. In 2018, the Company acquired Israel based AnSem NV engaged in Advanced analog, radio frequency, and mixed-signal integrated circuit design and provides custom ASICs.

Strong Outlook across verticals

Aerospace & Defence (A&D)

Aerospace and Defense segment is one the major vertical for Cyient. This segment contributed more than 39% to the topline in Q3 FY19. Management is confident of future growth as spending from the clients will likely remain high. The global Aerospace & Defense (A&D) industry is expected to continue its growth trajectory. The defense spending remained high during the year and is likely continue in the forthcoming years. Cyient will focus on innovation and also continue to focus on intelligence and cyber security.

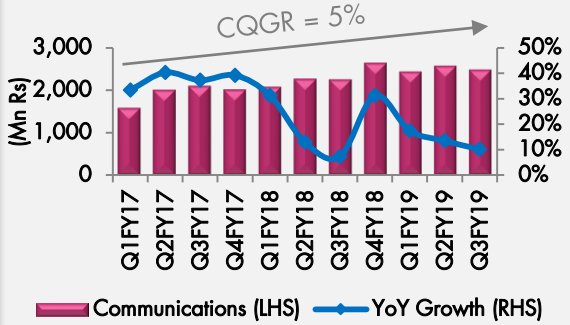
A&D Revenue Growth (%)



Communication

The communication vertical contributes around 21% to the total revenue. The communication vertical is another critical force for growth, innovation and disruption across multiple industries. The key players in telecom sector are making significant investments in 5G technologies that can fetch higher growth momentum in forth coming years. High spending would be seen from telecom companies and implementation on new technologies would create better business opportunities for Cyient.

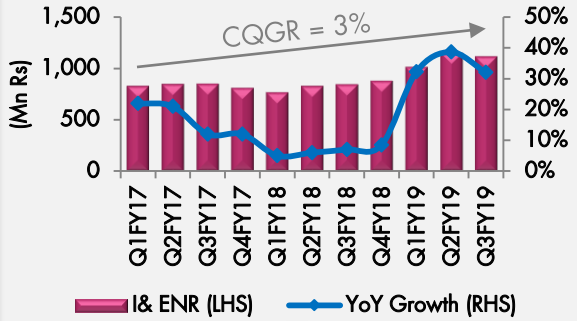
Communication Revenue Growth (%)



Industrial Energy and Resources (IE&R)

Industrial Energy and Resources (IE&R) is another important sector from Cyient's perspective. The vertical has shown strong growth in the past few years. Revenue contribution from its vertical has increased from 5%(Q1 FY17) to 10% (Q3 FY19). The energy sector continues to recover from last few years of weak prices, enforced capital discipline, portfolio realignment and productivity efficiencies. The outlook for the sector remaines positive for the upcoming years.

IE&R Revenue Growth (%)



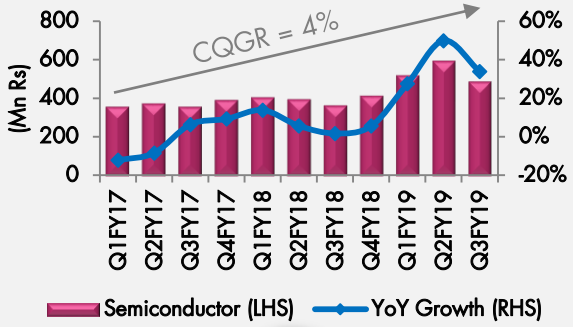
Source: Company, Axis Securities

Strong Outlook across verticals

Semiconductor

The semi conductor sector is one of the major sector which does ER&D outsourcing. There is huge spending for circuit design, digital simulations in past few years. Growth in the automation and demand for electronic equipment will help to boost demand going forward. The semiconductor industry is expected to witness drop of ~4% to ~5% through the year FY19, due to a down turn in memory chip sales.

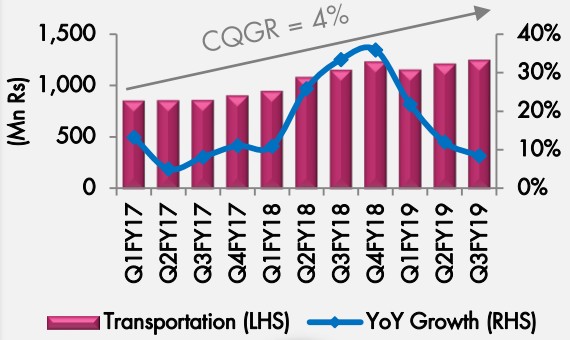
Semiconductor Revenue Growth (%)



Medical & Transportation

The medical device industry is poised for steady growth, with industry expected to grow at a rate of ~5% during the year .The growth is driven by increased demand for digital health solutions such as Artificial Intelligence (AI), Internet of Medical Things (IoMT), Big Data & Analytics, and Robotics. Further economic developments across emerging markets is helping drive growth in industry.

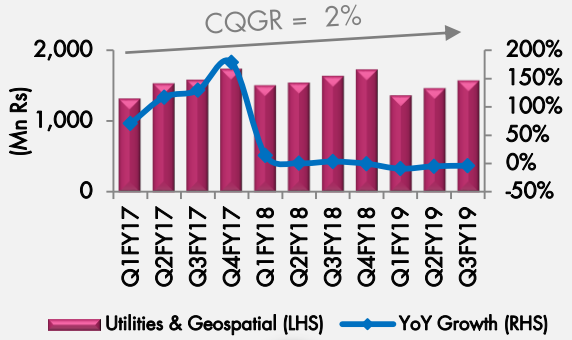
Transportation Revenue Growth (%)



Utilities and Geospatial

The utilities industry is witnessing significant growth due to investment in distributed and renewable power generation projects and increasing regulatory driven requirements. Large investments in grid modernization, mobility and smart metering continue to dominate capital investments, supported by operational processes to manage increasing volumes of data. The global Geospatial market also continues to grow spatial dimension and locational context becomes critical for many diverse businesses and applications

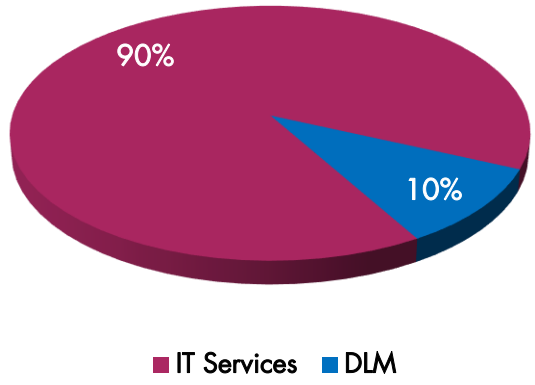
Utilities & Geospatial Revenue Growth (%)



Source: Company, Axis Securities

DLM business growth to be in high double digits

DLM Contribution to Revenue



Strong traction in wealth space

- With the acquisition of Rangsons in 2015, Cyient achieved its aim of offering an integrated set of services from product ideation and design engineering, through product realization to aftermarket services.
- DLM business is likely to scale the growth ladder with consistent improvement in top line & EBITDA margin since Q3 FY18 to Q3 FY19.
- However, the management has guided for a healthy turnaround into its conscious efforts to change the quality of order intake to higher value products. Company expects to report steady DLM margins of 6% for FY20.
- We estimate DLM business to grow at 20% in FY20E and FY21E with relatively higher margins compared to historical performance.

DLM turn around

DLM Business Model In Rs.(Mn)	1QFY17	2QFY17	3QFY17	4QFY17	FY17	1QFY18	2QFY18	3QFY18	4QFY18	FY18	1QFY19	2QFY19	3QFY19
	Jun-16	Sep-16	Dec-16	Mar-17	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Mar-18	Jun-18	Sep-18	Dec-18
Net revenue	633	902	1,002	1,069	3,442	726	1,017	785	1,418	3,946	1,212	1,610	1,479
YoY	*65%*	*36%*	*39%*	*30%*	*33%*	*15%*	*13%*	*-22%*	33%	15%	67%	58%	13%
EBITDA	-49	18	20	-3	-219	-91	8	9	98	24	55	59	58
Margin	-8%	2%	2%	0%	-6%	-13%	1%	1%	7%	1%	5%	4%	4%
Profit before Tax	-92	-27	-18	-37	-379	-129	-37	-23	48	-141	14	14	9
Margin	-15%	-3%	-2%	-3%	-11%	-18%	-4%	-3%	3%	-4%	1%	1%	1%

DLM will create new business opportunities and help Cyient deliver sustainable business model

Source: Company, Axis Securities

Visionary Management Putting Cyient on High growth Trajectory

BVR Mohan Reddy
Executive Chairman

Mohan Reddy founded Cyient in 1991, with the vision of providing engineering services to global markets. Since then, he has established the 'Engineered in India' brand, providing design engineering services to global industry leaders.

Krishna Bodanapu
Managing Director and CEO

Appointed as MD & CEO in 2014; worked earlier as COO, marketing manager for the company's aerospace vertical and key account manager for major customers in the engineering services. Holds a bachelor's degree in electrical engineering from Purdue University and an MBA from Kellogg School of Management.

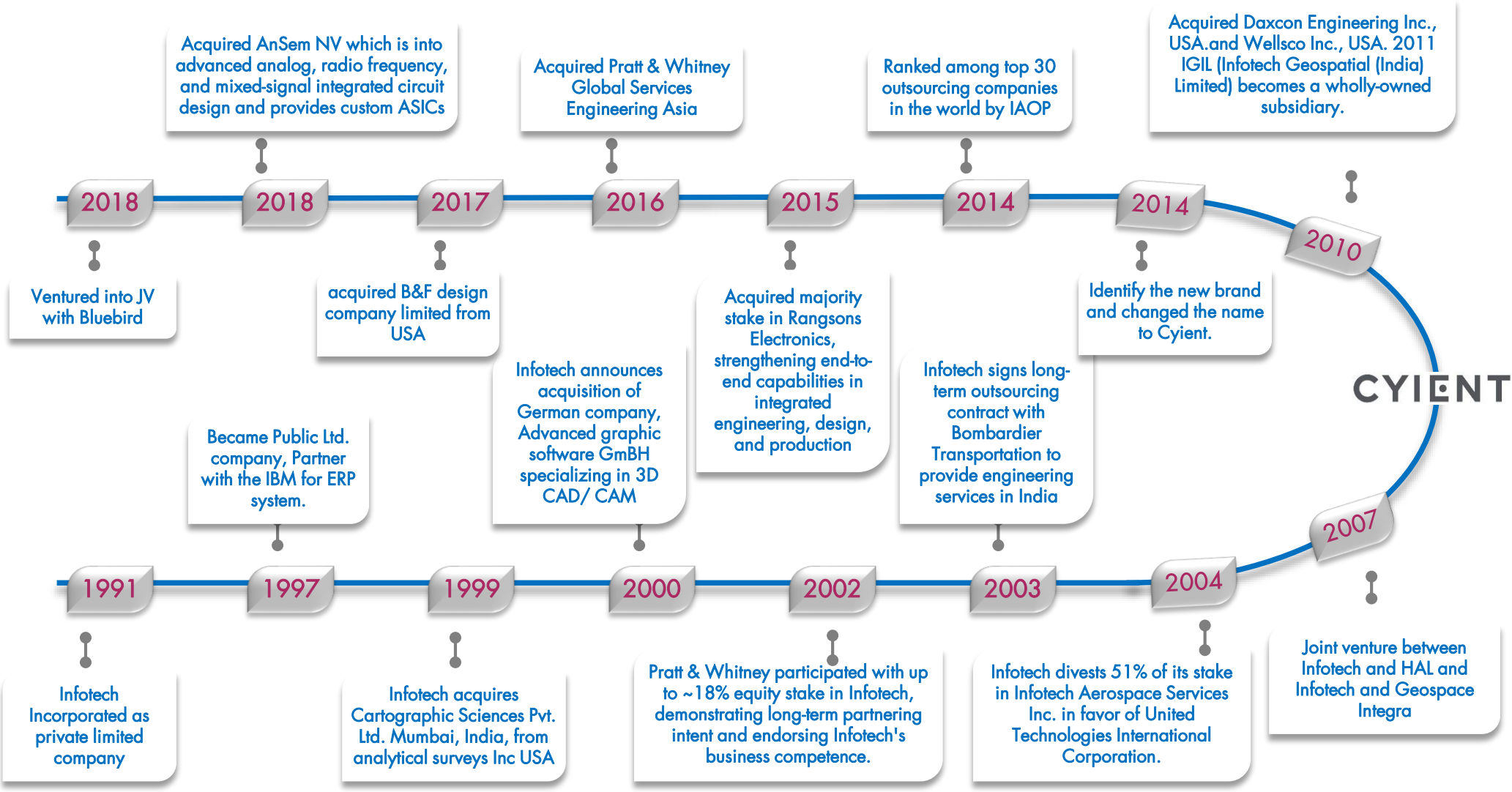
Ajay Aggarwal
President and CFO

He has Joined as CFO in 2011; has international experience of 27+ years; Before joining Cyient, he was Chief Corporate Controller with Tata Chemicals and prior to that, he worked in various roles at Reliance Industries, Kirby Building Systems, P T Polysindo, and J K Synthetics

B. Ashok Reddy
President – Corporate Affairs & Infrastructure

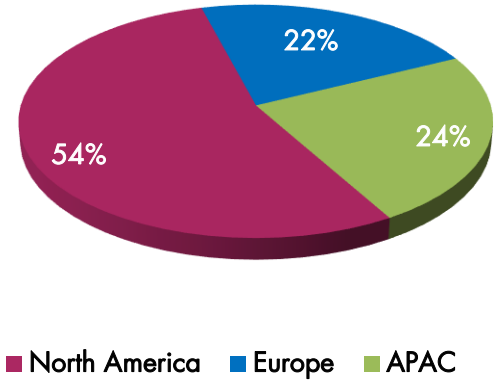
Manages all the Cyient subsidiaries, government and industry body relationships and infrastructure planning and development. Joined Cyient from Voltas Ltd., where he was the chief HR manager for their home appliances business division.

Milestones - Cyient Ltd

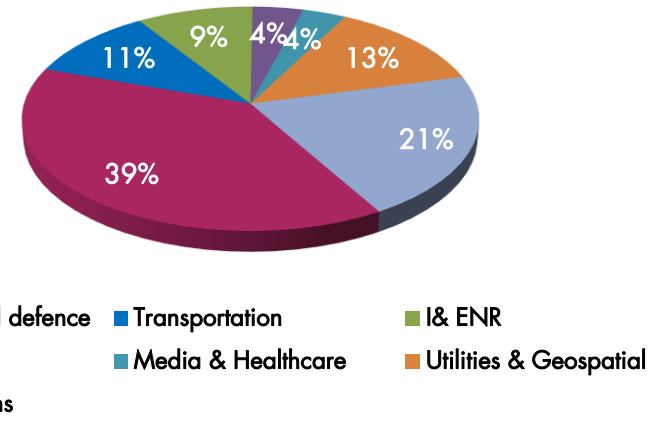


Niche Business segment makes business model sustainable

Presence Across Geographies



Blend of specialize verticals

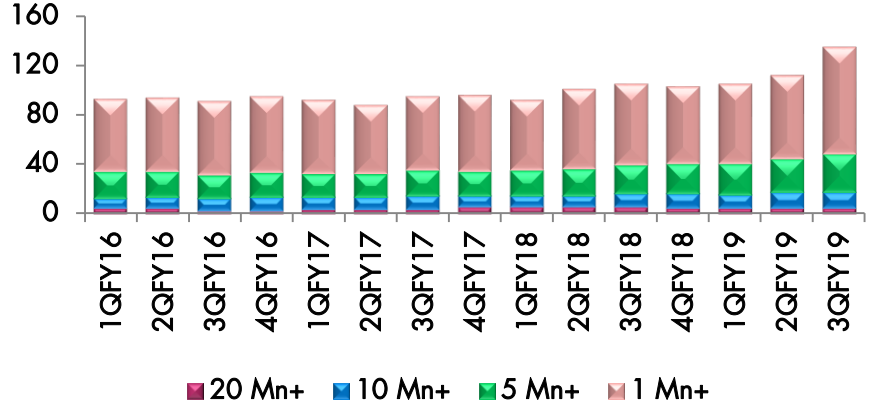


Source: Company, Axis Securities

- Cyient derives 38.6% of its total revenues from Aerospace & Defense (A&D) vertical, 50% of which is contributed by its largest client (UTC Group). Communications business contributes 20.7% to total revenues, followed by Utilities & Energy at 13.2% and Transportation at 10.5%, I&ENR at 9.4% and semiconductor at 4.1%. The outlook for automation spending likely to remain robust as technology transformation across verticals remained high.
- Performance of the Communication segment remained tepid during last few quarters but is likely to regain momentum as spending in 5G likely to get a boost. 5G spending from North America, China and in Europe likely to remain higher as compared to the previous years.
- Cyient derives 54.1% of its revenues from Americas, followed by 22.1% from Europe, Middle East and Africa contributes 22.1% and Asia Pacific contributes around 23.8% to the revenue.The management is confident on strong demand across geographies. Higher demand from European region is likely to continue in the forthcoming period.
- In terms of business Segments, Cyient derives 90% of its revenues from IT Engineering Services, and 10% from Design-Led Manufacturing. Under IT Engineering Services, Cyient offers Engineering Services to A&D, Transportation, Medical, Semiconductor and Industrial & Energy Verticals as well as Data & Networking Operation services to Communications and Utilities & Geospatial verticals.

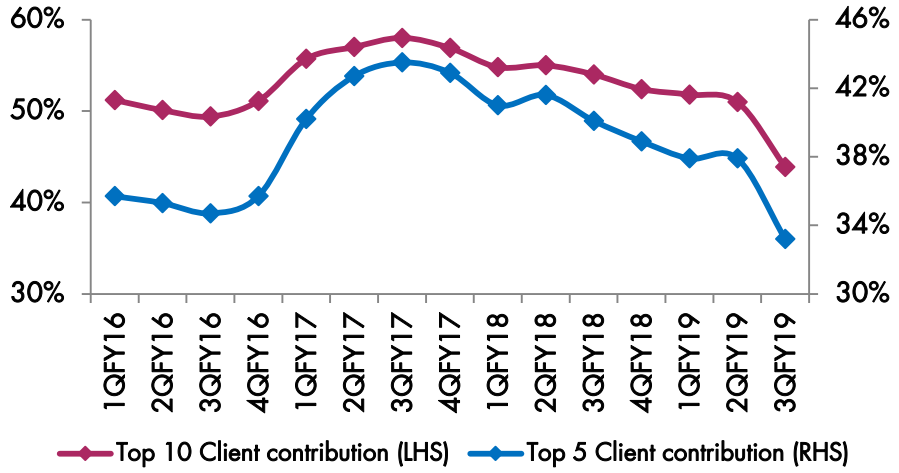
Growing Client Matrix & Employee Addition promises future growth

Strong Client Addition

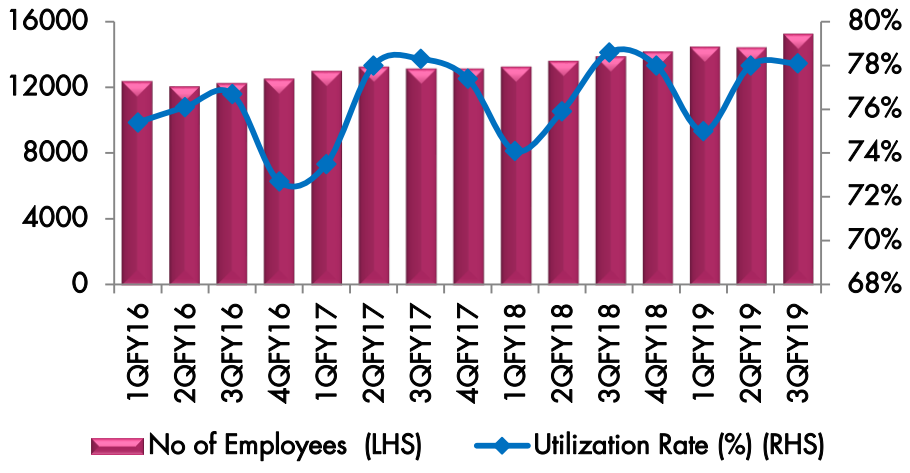


- Cyient is getting successful in strong client addition across the verticals consistently over the period of time.
- It has successfully added 19 clients in the 1mn+ bucket in the recent quarter i.e Q3 FY19. The company has also added 4 new clients in 5 mn+ bucket list aided by strong demand from North America and Europe region.
- Strong client addition across verticals and geographies also help reduce client concentration. The revenue contribution from top 10 client has reduced from 51% to 44%. This reduction in concentration will make the business model more sustainable for the company.
- Cyinet has reported strong employee addition thereby promising timely delivery of projects undertaken. The company has added 808 employees during Q3FY19 taking the total headcount at 15,193.

De-risking Client concentration



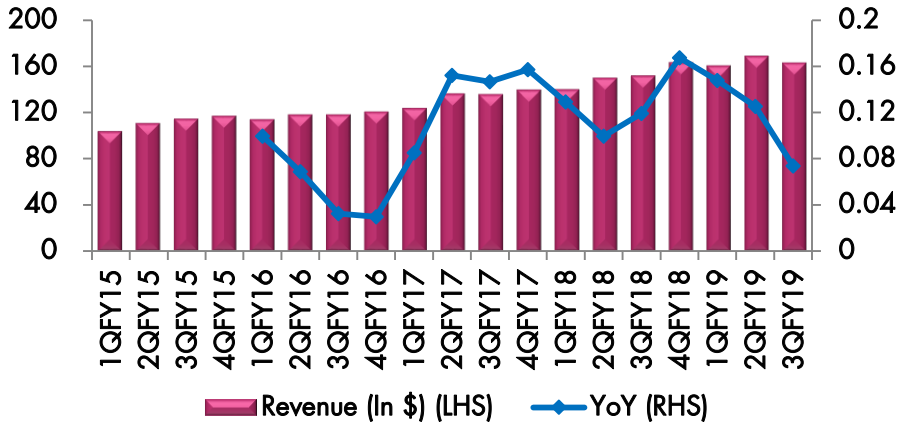
No of Employees & Utilization Rate



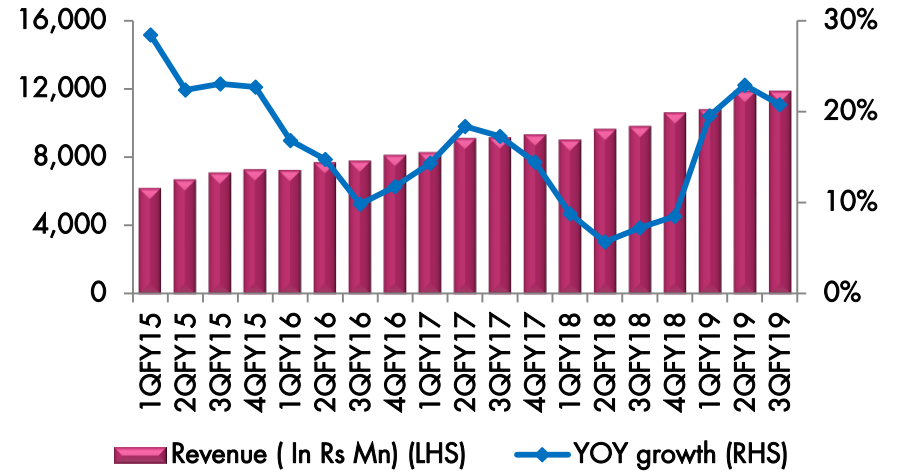
Source: Company, Axis Securities

Broad based revenue growth

Revenue growth (mn USD)



Revenue growth (Rs)



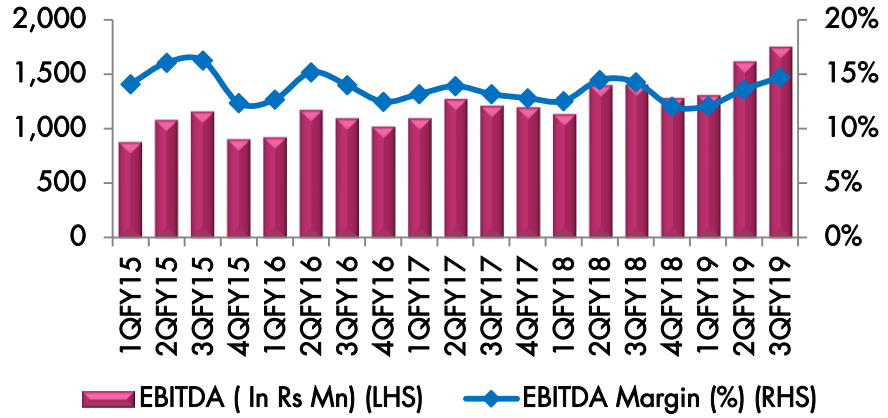
Source: Company, Axis Securities

Consistently delivering double digit YoY growth

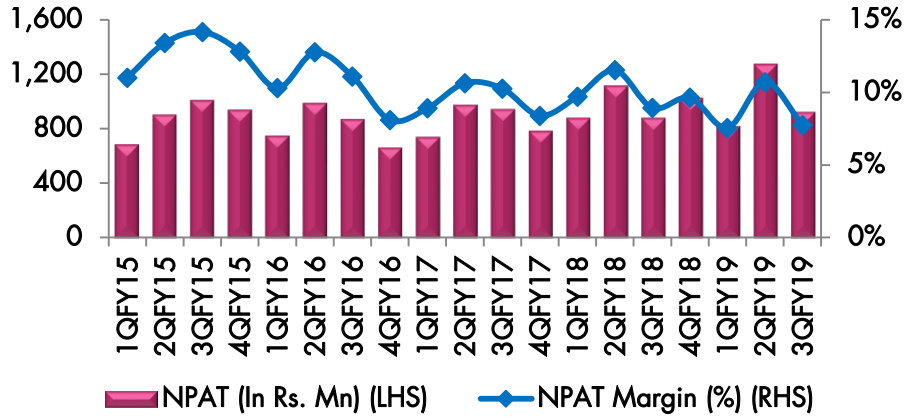
- Cyient reported robust revenue growth in last few years, owing to a differentiated business model. The growth has been broad based across all the verticals, geographies, and set of clients.
- Revenue has grown sequentially at CQGR of 4.5% in terms of USD and CQGR of 5% in rupee terms over last 8 quarters
- It grew over 15% in Aeronautics & Defense, Communication, Transportation, Utilities & Geospatial segments. The momentum continued during 9MFY19 and the same is likely to continue for Q4FY19 and FY20. Among these vertical Aerospace is likely to report strong traction. while Transportation, Media & Healthcare, Communication would continue to drive growth supported by ramp up of large deals.
- This industry leading growth was due to its focus on select sub-verticals where it specializes in terms of domain knowledge and capabilities.
- Management is confident of being in the top quartile of revenue growth for FY20 on the back of strong deal pipeline, robust demand momentum and strategic acquisition of new technologies.

Stable operating margins in mid–cap IT

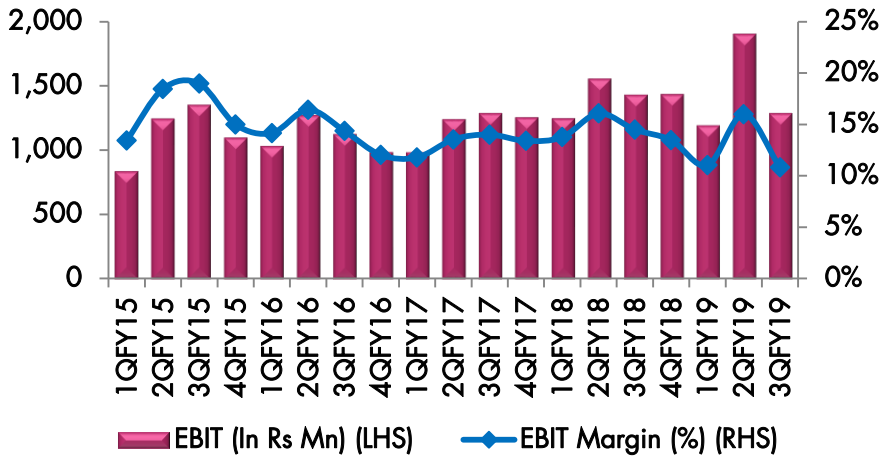
Stable operating margins



Consistent bottom line margins



The Company focused on operating margins to be maintained



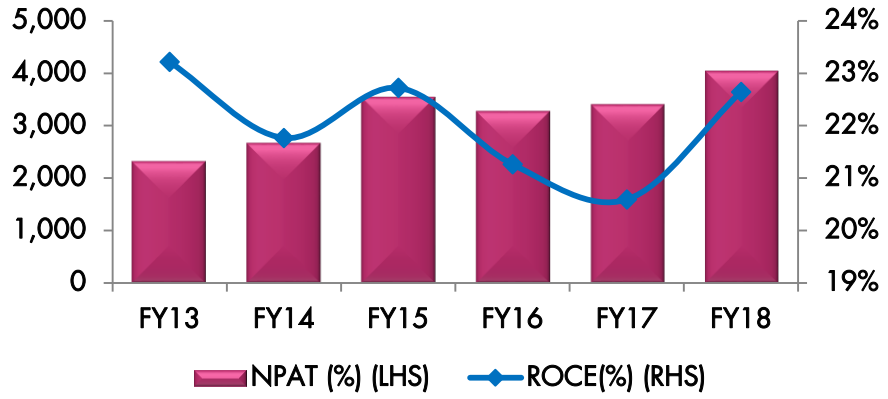
Better margin Stability and Sustainability

- Cyient has delivered strong and consistent EBITDA Margins and operating margins over the period of time despite having higher onsite expenses. The management has also guided to improve the bottom line in the forthcoming years because of new initiatives undertaken(NBA program).
- The company has been successful in delivering consistent and high growth in the net profit and the margins are also showing consistent growth. This business of the company has become more robust over the period of time. Large multiyear contracts, strong client addition makes company more lucrative. We believe that Cyient would likely to report higher bottom line growth in the upcoming future.
- **Buyback Offer open (12th Feb 2019 upto 9th Aug 2019):**
  - ✓ Total Buy-back Offer Rs. 200 crore totalling to 2.8cr shares, 2.54% of its paid-up equity
  - ✓ Maximum price for Buy-back set at Rs. 700/share
  - ✓ Promoters & controlling shareholders not to participate in the Buy-Back offer
  - ✓ Shares to be bought back from Open Market through Stock Exchange mechanism

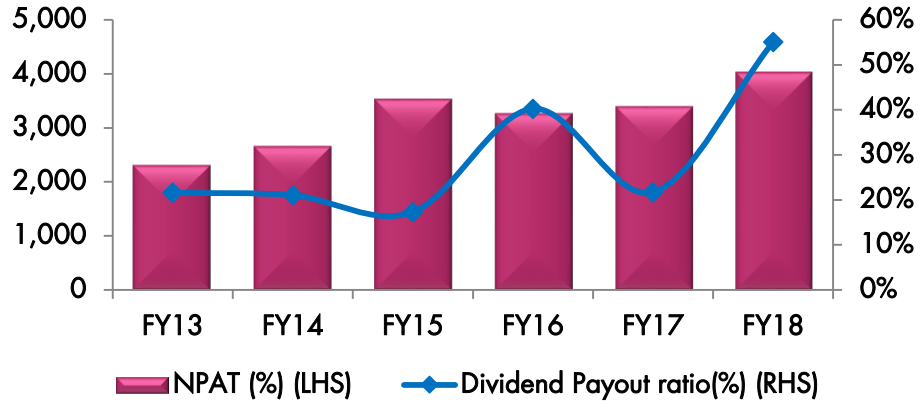
Source: Company, Axis Securities

High Return Ratios & Dividend payout makes a Lucrative bet

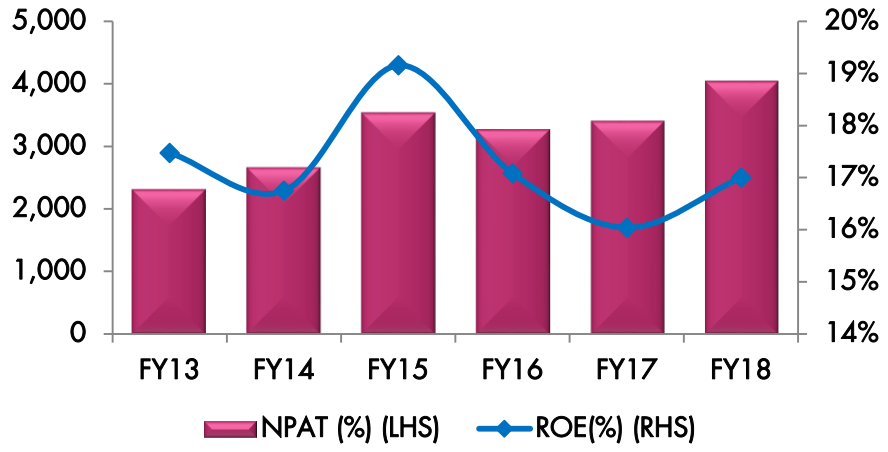
NPAT to ROCE



Net Profit to Dividend payout



NPAT to ROE



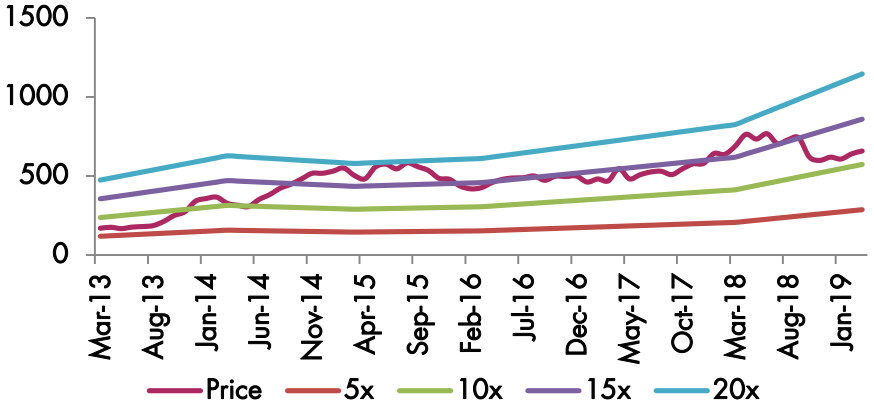
Growing Return Ratios makes Cyient a Lucrative Bet

- Higher ROE indicates higher returns in the invested business. Cyient has produced better results on the invested equity consistently over the period of time. This shows that, Cyient is a better investment opportunity and can produce better returns in the future.
- Cyient has zero or marginal debt on its balances sheet. Hence company has produced the strong growth in terms of ROCE as net profit is growing. We believe that Cyient would report a strong growth for the upcoming period.
- Cyient is one of the high dividend paying company. As shown in the graph Cyient has strong dividend payout ratio. We believe that in the upcoming period Cyient would maintain the payout ratio of 25%.

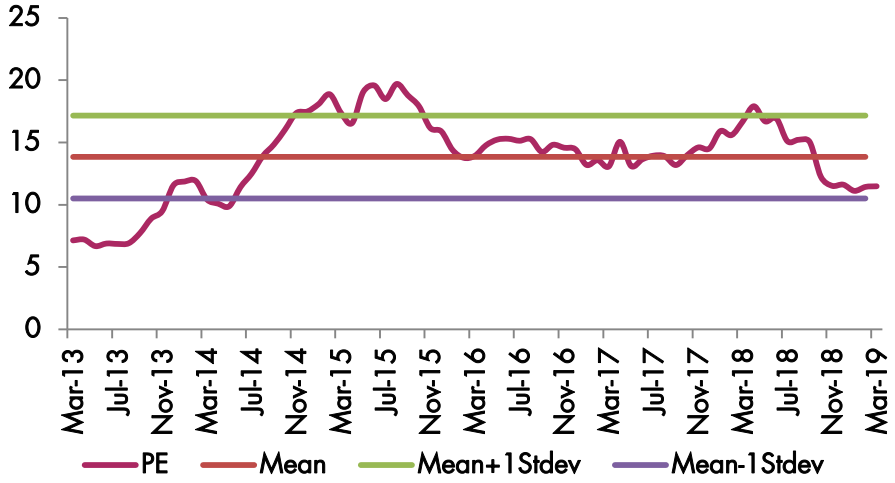
Source: Company, Axis Securities

Valuation Charts

One year forward P/E fan chart



12mth forward P/E band



Source: Company, Axis Securities

Valuation

- Cyient Ltd is well positioned in the ER&D industry owing to its well established infrastructure and highly skilled human resources, substantial market share and growth in demand for the automation across geographies.
- We estimate the company Revenues to grow at a CAGR of 12% and Earnings at CAGR of 12% over FY18-FY21E.
- Successful buyback of 2.54% of total paid up equity will enhance FY20E EPS. (We have not included this in our assumptions and remains a key upside risk to our estimates)
- We value Cyient Ltd at 15.6x FY21E to arrive at price target of Rs 803 giving an upside of 23%

Key Risks

- Currency volatilities especially US$-INR and GBP-INR and GBP-US$, could impact revenues.
- Slowdown in the largest economies like USA, Europe, China may impact to slowdown in the business as it is largely depending on these economies.
- Rise in the H1B visa fees would increase the cost and will impact margins negatively.
- Higher employee cost lead to the higher operating expenses. These wage hikes can affect the operating margins negatively.

Financials

Profit & Loss (Rs Cr)

YE March	FY17	FY18	FY19E	FY20E	FY21E
Net sales	3,607	3,918	4,823	5,329	5,646
Employee Expense	2,049	2,188	2,547	2,858	2,994
Contribution (%)	6%	6%	5%	5%	5%
Changes in inventory & WIP	285	327	449	480	508
As % sales	1%	1%	1%	1%	1%
Other Expenses	785	884	1,064	1,098	1,163
Operating Profit	**382**	**430**	**559**	**690**	**735**
Other income	93	152	91	63	60
PBIDT	**477**	**535**	**677**	**787**	**834**
Depreciation	95	105	118	97	99
Interest & Fin Chg.	17	20	22	25	24
Pre-tax profit	**444**	**541**	**628**	**728**	**767**
Tax provision	105	138	163	175	184
Reported PAT	**337**	**411**	**465**	**553**	**583**

Balance Sheet (Rs Cr)

YE March	FY17	FY18	FY19E	FY20E	FY21E
Equity capital	56	56	56	56	56
Reserves & Surplus	2,061	2,288	2,524	2,782	3,117
Net worth	**2,117**	**2,344**	**2,581**	**2,838**	**3,173**
Total debt	187	226	248	272	289
Deffed tax liability	30	36	35	35	35
Total Liabilities & Equity	**3,136**	**3,433**	**3,810**	**4,186**	**4,616**
Net block	302	322	371	437	502
Capital WIP	9	21	66	35	35
Goodwill	328	355	387	426	490
Total fixed assets	1067	1087	1150	1247	1414
Other Fixed Assets	88	74	82	92	103
Total non curreent Assets	**1,067**	**1,087**	**1,150**	**1,247**	**1,414**
Debtors	650	691	859	949	1005
Cash & bank	857	960	1029	1167	1328
Other Current Assets	266	338	355	373	392
Total Current Assets	**2,069**	**2,346**	**2,660**	**2,939**	**3,202**
Creditors	24	23	25	25	25
Provisions	245	248	250	275	300
Current Liab. & Prov.	**2,069**	**2,346**	**2,660**	**2,939**	**3,202**
Total Assets	**3,136**	**3,433**	**3,810**	**4,186**	**4,616**

Source: Company, Axis Securities

Financials

Cash Flow (Rs Cr)

YE March	FY17	FY18	FY19E	FY20E	FY21E
PBT	432	557	628	728	771
Add: Depreciation	95	105	118	97	99
Other Adjustments	17	20	22	25	24
Chg in working capital	-95	-347	-428	-332	-293
CF from operations	**420**	**296**	**296**	**468**	**613**
Change in fixed assets	-83	-47	-80	-113	-149
	120	67	-3	-3	-3
Other Adjustments	-44	-171	90	-106	59
CF from Investing acti.	**-93**	**-136**	**-1**	**-231**	**-103**
	-45	-69	-58	-58	-52
Chg in Equity capital	-17	-20	-22	-25	-24
Dividend & dividend tax	-17	253	28	64	150
Interest paid	-17	-20	-22	-25	-24
Other Adjustments	-17	253	28	64	150
CF from financing acti.	**-165**	**-57**	**-227**	**-226**	**-42**
Chg in cash	162	103	68	10	468
Opening cash	**695**	**857**	**960**	**1,028**	**1,038**
Closing cash	**857**	**960**	**1,028**	**1,038**	**1,507**

Du-Pont Analysis	FY17	FY18	FY19E	FY20E	FY21E
PAT/ PBT	76%	74%	74%	76%	76%
PBT/ PBIT	93%	93%	97%	97%	97%
PBIT / Sales	13%	15%	13%	14%	14%
Sales / Assets	156%	152%	170%	171%	163%
Assets/ Equity	109%	110%	110%	110%	109%
ROE	**16%**	**17%**	**18%**	**19%**	**18%**

Source: Company, Axis Securities

Ratio Analysis (%)

YE March	FY17	FY18	FY19E	FY20E	FY21E
Fully diluted E P S	30.5	35.9	41.2	48.8	51.5
Book Value	188	208.2	229.2	252.1	281.8
Cash per share	76.1	85.3	91.4	103.7	117.9
Valuation Ratio					
P/E	16.8	22.7	16.1	13.6	12.9
P/BV	2.7	3.9	2.9	2.6	2.3
EV/EBITDA	12.3	17.3	11.1	9.6	9
EV/Sales	1.63	2.37	1.56	1.41	1.34
Growth Ratios					
Sales Growth	16%	9%	23%	10%	6%
EBITDA Growth	13%	12%	26%	16%	6%
Net Profit Growth	4%	19%	15%	19%	5%
EPS Growth	5%	17%	15%	19%	5%
Common size Ratios					
EBITDA Margin	13%	14%	14%	15%	15%
EBIT margin	13%	15%	13%	14%	14%
PAT margin	9%	10%	10%	10%	10%
Employee cost	57%	56%	53%	54%	53%
Return ratios					
RoNW	16%	17%	18%	19%	18%
RoCE	21%	23%	23%	24%	23%
Turnover ratios (days)					
Debtors (Days)	66	64	65	65	65
Creditors (Days)	41	36	36	36	36
Inventory (Days)	9.5	12.2	13.2	13.2	13.2
Solvency Ratios					
Total Debt/Equity	0.1	0.1	0.1	0.1	0.1

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Instead of a company visit, we have done a conference call with the company's management.

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