



COMPANY NAME	: Cyient Ltd.
BSE Code	: 532175
Time Duration	: 1 year
CMP	: ₹657.30 (as on 15 Nov., 2018)
Target Price	: ₹870

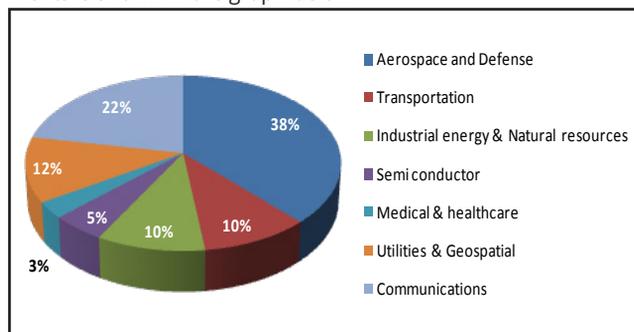
The Midbridge for the month of November is Cyient, a global provider of engineering, data analytics and network and operations solutions. Its main offerings include:

Engineering services addressing engineering solutions to manufacturing and infrastructure verticals

Geospatial services to the utilities and telecom sectors

Data transformation and analytics services to the utility and transportation segments for public and private realm & product realization

Cyient has seen improvement in its financial performance due to diversification of the customer base from aerospace & defence (A&D) to other upcoming sectors like semiconductors, utilities and geospatial. As of Q2FY19, its revenue from end-market segments is shown in the graph below



The company has been able to maintain its operating profit margin in spite of the tough operating environment. Margins are in the range of 12-14% and are expected to remain in that range and show increment by mid-FY20 with growth in new and niche business areas. Cyient was also recognized as Top IT/ITES exporter award in the Rs.1000cr export category.

Key investment levers include:

Reducing customer concentration: The company in Q1FY18 use to derive ~50% of revenue from top 10 clients, which led to high concentration risk. Due to contract wins and inorganic growth, the company has eventually diversified and the revenue from top 10 clients now contribute 44.4%, which is likely to come down further in future. Also, along with investing in its core com-

petency in aerospace & defence, it is also investing in upcoming fields of medical, utilities and geospatial.

End market seeing traction as investment cycle revives:

The A&D industry is expected to grow at 10% driven by strong commercial aircraft order backlog further buttressed by increased defense spending by the US and Europe. The company has healthy pipeline in manufacturing, aftermarket and avionics, which is expected to drive growth, while the DLM business is also showing good growth opportunities. It also tied up with Bluebird Aero systems, Israel, and under this, won its first Indian army contract for supplying SpyLite mini UAV systems for high altitude aerial surveillance.

Communications: The communications industry is witnessing strong growth driven by spike in mobile data traffic (up 50%) and increase in wireline traffic by about 20% adding to the growth of the industry. Cyient is investing on developing solutions around IOT, RPA and open source technologies to ensure the processes are automated and networks work efficiently.

New opportunities and recognitions:

The company added seven new projects in its kitty, taking the total to 19 this year. The company also has new initiatives incubation called NBA and has been seeing new projects hitting production from these, in particular under IoT.

Under transportation segment, rail industry is showing positive growth opportunities for the company along with new accolades like "Best Railway Signalling Design Company 2018" to help further order wins. It expects to continue to invest in leadership and offerings in this segment.

In Industrial, Energy and Natural resources segment - Oil and gas, mining and off-highway equipments are expected to lead the growth considering the higher commodity prices. In this segment, the company's competency lies in connected equipment, asset management, plant engineering and digital twin solutions for capital projects.

In Semiconductor IoT and Analytics vertical, the company achieved growth of 11.6% in FY18. It is investing in this vertical and expanding its capability through inorganic route. It acquired Ansem N.V., which specializes in advanced analog, radio frequency and mixed-signal integrated circuit design, helping the company to offer turnkey ICs- from concept circuit to final pro-

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duction. Also the company increased its stake from 51% to 100% in Cyient Insights to provide integrated engineering and analytics solutions for clients.

Medical and Healthcare – This witnessed a growth of 20.7%, albeit from a small base, as the company has been focusing on diagnostic imaging, orthopedics, in-vitro diagnostics, and cardiology. It signed a partnership with Xynteo, an international advisory firm, to augment its offering in the healthcare imaging sphere and strengthen cardiology and diagnostics segments.

Better onshore and offshore mix to benefit margins: The company has a balanced mix of offshore and onsite employees 42.8%/57.2% which helps in forex gains during currency devaluation. Also, the rise in employee expenses was better absorbed due to this mix.

Improving financial performance

For Q2FY19, the company's revenue grew 9.9% qoq to Rs1,187cr in rupee terms (cc basis 6.5% qoq) supported by growth in the US revenue by 5.1% qoq to US\$169mn. EBIT leapfrogged by 29.9% to Rs133cr which helped in margin expansion by 172bps to 11.2%. Reported PAT grew 54.1% qoq to Rs127cr. Also, September has seasonally been a better quarter with March being a weaker quarter.

Some sectors which have seen high growth on yoy and constant currency basis are semiconductor -54%, DLM BU 47%, transport 16% and communications 15.2%. Growth on a yoy basis was also aided by acquisition of Ansem in the semiconductor segment and B&F in DLM.

Its core and higher revenue contributor segment aerospace & defence grew by 1.3% qoq and 6.2% yoy in constant currency led by growth across geographies and key customers.

Valuation and outlook

The management looked more optimistic in meeting its full year guidance of double-digit revenue growth in services and ~20% yoy organic growth in DLM. The company also now expects its EBIT margins to be 50bps better than in FY18 vs flat expectations earlier. Also, the additional deals of USD196mn takes the total to USD816mn for the year, which again should drive inorganic growth.

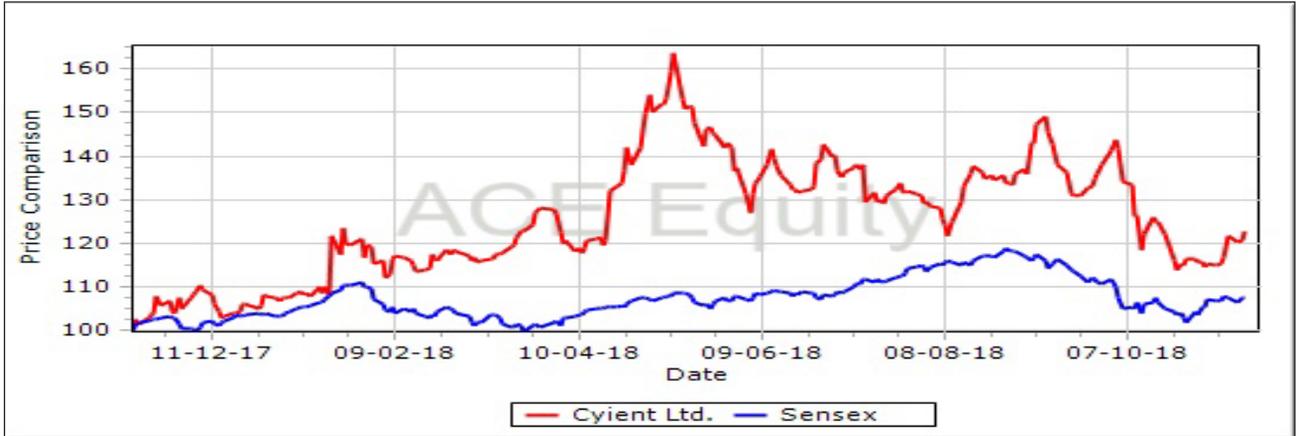
The company is currently trading at PE of 17x which is attractive, considering the stability and improving financial performance and outlook. We recommend investors to BUY the stock with expected target of Rs.870 over a period of a year. We urge investors to invest in three tranches for averaging your entry price.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	1439.70	1292.00	1245.60	1294.01	1224.49
Total Income	1632.00	1377.30	1362.60	1405.55	1276.92
Total Expenditure	1064.90	1015.60	998.90	1000.19	880.19
PBIDT	567.10	361.70	363.70	405.36	396.73
PAT	401.80	236.90	233.50	271.16	254.91
Dividend %	260.00	210.00	140.00	160.00	100.00
Adj. EPS(Rs)	35.68	21.04	20.77	24.13	22.77

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201809	201806	Q on Q Var%	201709	Y on Y Var%
Net Sales	407.80	383.70	6.28	352.80	15.59
Total Expenditure	307.20	290.90	5.60	264.80	16.01
PBIDT (Excl OI)	100.60	92.80	8.41	88.00	14.32
PAT	151.50	79.20	91.29	85.30	77.61
PBIDTM% (Excl OI)	24.67	24.19	1.98	24.94	-1.08
PBIDTM%	49.61	30.10	64.82	36.25	36.86
PATM%	37.15	20.64	79.99	24.18	53.64
Adj. EPS(Rs)	13.40	7.04	90.34	7.58	76.78



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