

- **In an ever-changing business environment, some of our investment ideas seem more convincing than others due to better earning visibility and/or attractive valuation. Every Monday, we bring you such fundamental stock ideas through our “Pick of the Week” report.**
 - **Investment Horizon:** Though the ideal investment horizon for such ideas remain 6-9 months, our picks may provide some profit-making opportunities even to short-term investors.
 - **Risk-Return Profile:** Pick of the week ideas are the best high return research ideas at this point in time.

Scrip	Mcap (Rs Cr)	CMP (Rs)	Target Price *	Potential Upside (%)	Reco
Cyient Ltd.	4,695	427	480	12%	BUY

* Note: Investment horizon Approx. 6-9 months., CMP as on 23rd October, 2020



CMP (Rs)	Target (Rs)
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427	480
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MARKET DATA

No. of Shares	11.0 cr
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Market Cap	Rs 4,695 Cr
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52-week High / Low	Rs 514/ 184
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BSE Code	532175
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NSE Code	CYIENT
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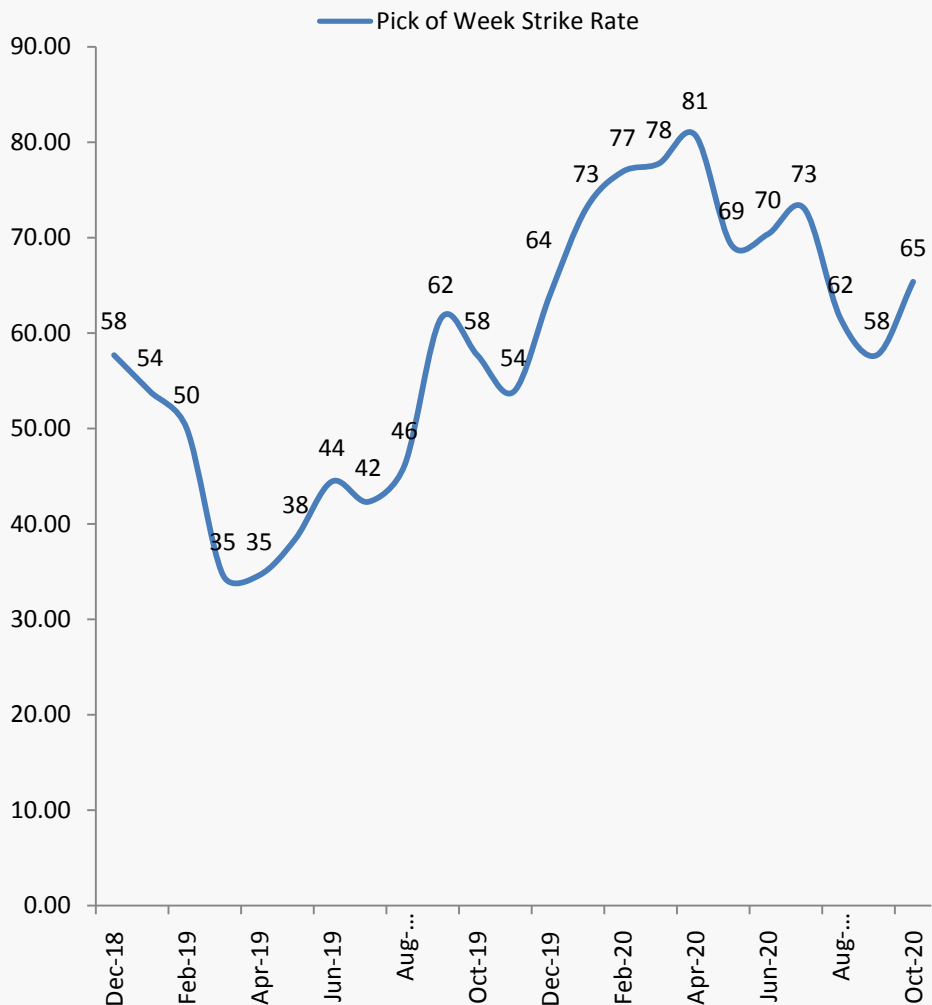
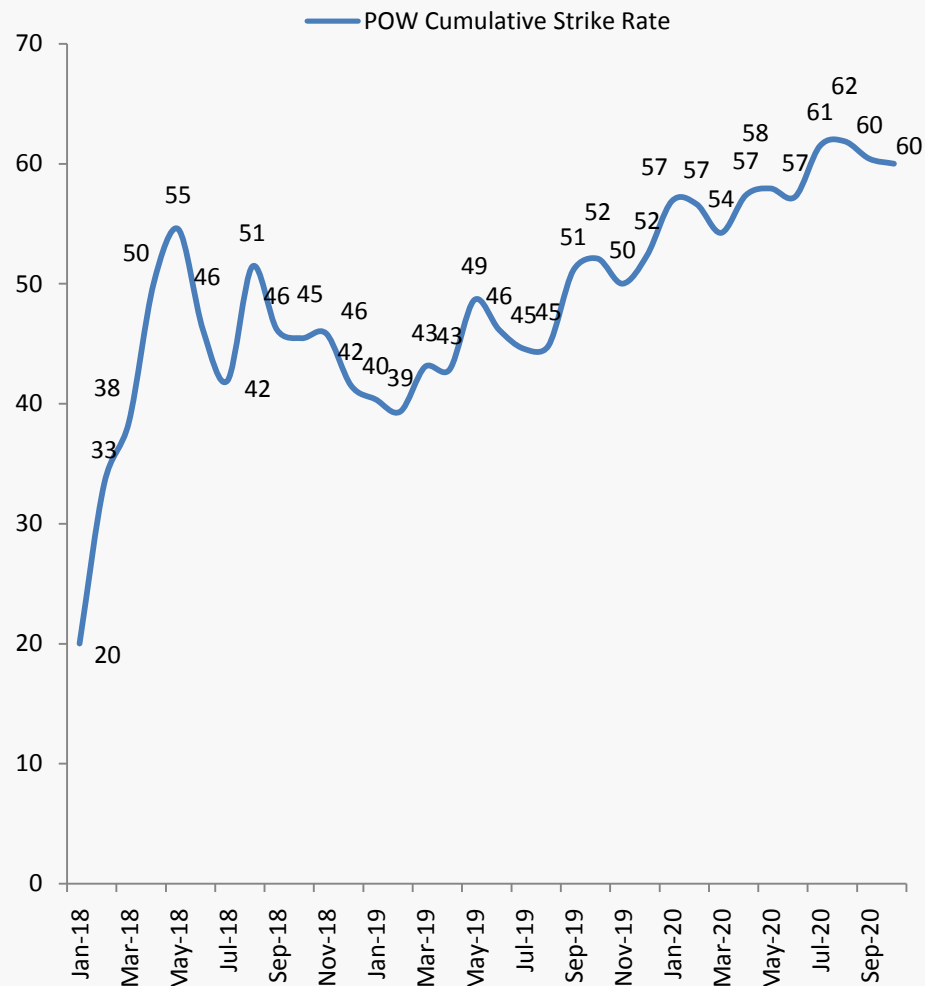
Cyient is a global engineering and technology solutions company. It engages with customers across their value chain helping them design, build, operate, and maintain the products and services. Cyient's expertise in engineering, manufacturing, and digital technology helped them to deliver and support their next-generation solutions that meet the highest standards of safety, reliability and performance.

Investment Rationale

- **Recovery on the track:** Cyient's H2FY21 revenue is expected to grow led by positive outlook/pipeline across majority sectors. Some gains made in other verticals will be eroded by decline in A&D vertical due to seasonality challenges and lower number of workdays. Cyient's top client spending is back on the track and they have started investing in newer automations. Management expects overall revenue growth for FY21 to improve in low single digit, with communications growth led by network transformation, E&U benefitting from IG partners acquisition and transportation growth led by rail.
- **Strong sustainable margin gain:** Cyient management has taken cost optimization efforts which helped them to gain long term sustainable operating margins. There are some levers like better service mix, reduction in marketing spend, lowering travel cost, employee restructuring and improving utilization. We believe gaining efficiency over business will help them reach improved profitable growth and better return ratios.
- **Robust growth in the key verticals:** Communication vertical benefitted from rollout of broadband networks globally to support virtual collaboration (WFH) and accelerated rollout of 5G networks (11% of revenue now). Company's outlook for H2FY21 remains positive led by network transformation and accelerated deployment of broadband and wireless infrastructure. Transportation vertical has seen strong traction in key accounts and ramp-up of new engagements. There are early signs of recovery with production facilities reopening. Outlook for H2FY21 remains positive supported by expectation of steady recovery in rail transportation industry.
- **Healthy deal pipeline improves the visibility:** Cyient's deal pipeline remained healthy in Q2 FY21. Cyient won 7 large transformation deals despite uncertainty and across verticals like Communication, E&U and Transportations. This healthy deal pipeline will help improve revenue visibility for FY22E and FY23E.
- **Strong recovery across verticals, healthy deal pipeline and better execution** by Cyient helped us gain the confidence about the growth prospect of the company. Hence, We are assigning 12x PE multiple to its FY23 EPS of Rs. 40.6 to revise our target upwards to Rs 480/-

Financial Summary (Consolidated)

Y/E March	Net Sales (Rs Cr)	EBIDTA (Rs Cr)	Net Profit (Rs Cr)	EPS (Rs)	Per (x)	EV/EBIDTA (x)	RoE (%)	P/BV (x)
2019	4,618	533	465	12.5	12.5	9.2	18%	2.3
2020	4,427	408	373	6.8	6.8	4.9	14%	1.0
2021E	4,057	419	271	9.6	9.6	4.9	10%	1.0
2022E	4,300	453	344	7.6	7.6	4.7	12%	0.9

Strike rate based on rolling 6 months

Strike rate since Jan 2018


Note: We have changed our methodology of calculation of strike rates for PoW product from July 2020; and shifted to calculations using 6 months rolling returns method and cumulative basis as against earlier method of calculating the strike rate for last 9 months. The performance under the revised methodology is as above.

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