

TECHNO

FUNDA

# Cyient Limited

Stock Idea

BUY

Nifty: 10,880

Sensex: 36,313

<b>CMP</b>	<b>Rs621.35</b>
<b>BUY range</b>	<b>Rs610-Rs625</b>
<b>Stop Loss</b>	<b>Rs592</b>
<b>Target Price</b>	<b>Rs690+</b>
<b>Potential Upside/Downside</b>	<b>+11%</b>
<b>Tenure</b>	<b>2 months</b>

## Key Stock Data

Sector	IT
Bloomberg/Reuters	CYLIN /CYIE.BO
Shares o/s (mn)	112
Market cap. (Rs mn)	69,580
Market cap. (US\$ mn)	980
3-m daily average vol.	619

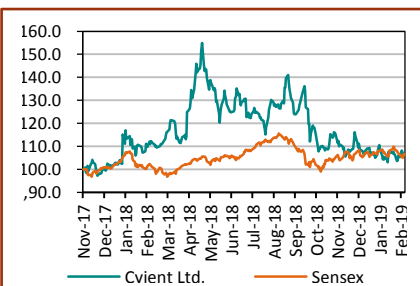
## Price Performance

52-week high/low	Rs632/380
	-1m -3m -12m
Absolute (%)	3.6 (1.6) (0.5)
Rel to Sensex (%)	3.1 (5.1) (6.6)

## Shareholding Pattern (%)

Promoters	22.1
FII's/NRI's/OCBs/GDR	43.1
MF's/Banks/FIs	22.5
Public & Others	12.3

## Relative to Sensex



Source: Capitaline

## Profile:

Cyient is one of Indian's leading ER&D service provider. Through its S3 (Services, Systems and Solutions) strategy, Cyient is targeting transformation into an end-to-end Tier-1 solutions provider for its clients. While Cyient 3.0 involves design, build, operate and maintain, Cyient 4.0 would focus on transforming the company into an end-to-end solutions provider by leveraging IPs (developed in-house and through partnership).

## Investment Rationale

- Cyient has a clear focus on becoming the Tier 1 partner for its clients across its key verticals. While solutions form just ~5% of its revenue currently, it targets to take it to 25% in the next 3 years and over the long-term to 80% of revenue.
- During Q3FY19 Services revenue (87.5% of revenue) declined by 1% QoQ in US\$ and 0.2% in constant currency. Cyient confirmed that its growth was impacted by delay in securing couple or large deals. It is confident of securing the same, intact with a higher scope of work. At the same time DLM revenue (12.5% of the revenue) grew by 69% YoY despite seasonal weakness and a strong Q2.
- For FY19, Cyient has guided for Services business to grow at 8.5%-9.5% YoY. However, we believe that it would be back to double-digit growth in FY20 itself and sustain the same.
- Cyient has done niche acquisitions to strengthen its services & solutions capabilities. We expect it to continue with its focus on M&A. Further, it has been working on its New-business-Accelerators program as a part of Cyient 4.0.
- As a part of good capital deployment strategy, Cyient has currently amid its median share buyback of Rs2,000 mn through open market route at a maximum price of Rs700. At the maximum price CYL would buyback 2.86 mn shares or ~2.5% of its outstanding shares. CYL confirmed that its promoters would not participate in the share buyback, which we believe is very positive. If 2.86 mn shares are bought back the promoter shareholding will increase to ~22.67% from current ~22.1%. We expect the share buyback to improve our FY20E EPS by ~1.8% and RoE by ~60-70bps to ~20.7%.

## Valuation:

We forecast FY18-20E revenue (US\$)/EPS CAGR of 10.7%/12.3%. The stock is currently trading PER of 15x/13x FY19/20E. Given the earnings growth, RoE of 20%+ and share buyback we believe the stock has upside from current levels.

## Technical Overview



- As per the weekly chart pattern, the stock has corrected from the high of 887.00 to the low of 570.90 and now depicting positive inclination. This corrective move took 38-weeks which is the Fibonacci number. Therefore, on reversal, we expect the stock to retrace minimum till 38.2% retracement level of this corrective move which is placed at 691.65 levels.
- On the weekly chart, the momentum oscillator RSI (14-period) is showing positive diversion and turning upward from the oversold levels.
- On the daily chart, the stock has resumed an upward trend by forming a higher-top higher-bottom swing sequence.
- The stock has already crossed the 50DMA (607.98) resistance level on a closing basis.
- Considering the factors mentioned above, we can build a long position in the stock with 2 months perspective and target can be placed at around 690, with the stop loss of 592.

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