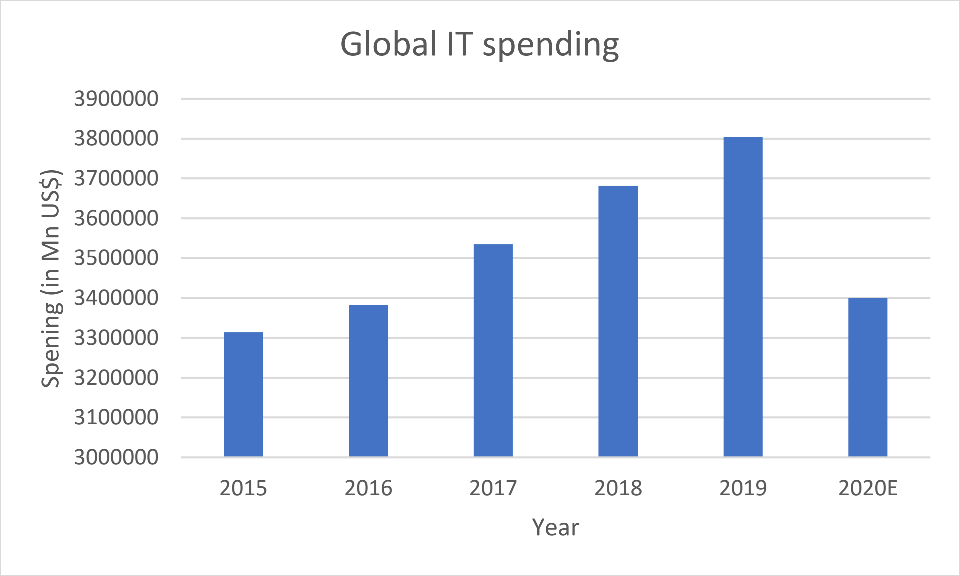
Global Spending

Worldwide IT spending is projected to total $3.4 trillion in **2020**, a decline of 8% from 2019, according to the latest forecast by Gartner, Inc.



Source: Gartner, Inc. and Bloomberg

The Indian IT sector spending is expected to decline 8.1% in 2020 to be about 83.5 Billion US$.

	2019	2019	2020	2020
	Spending	Growth (%)	Spending	Growth (%)
Data Center Systems	3,670	1.4	3,186	-13.2
Enterprise Software	6,287	11.7	6,125	-2.6
Devices	36,595	7	31,077	-15.1
IT Services	15,573	10.5	14,924	-4.2
Communications Services	28,744	-1.7	28,227	-1.8
Overall IT	90,869	4.7	83,540	-8.1

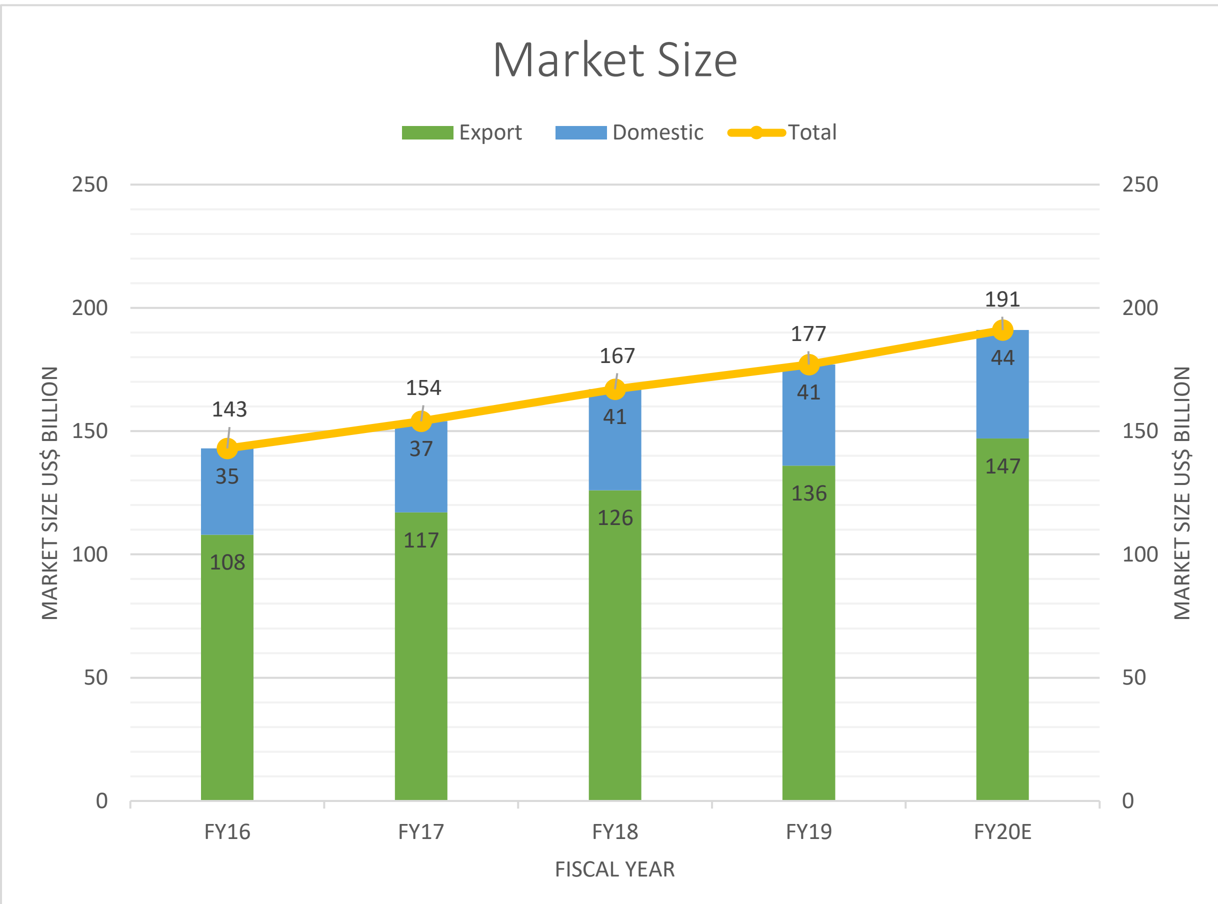
Source: Gartner, Inc.

Revenue

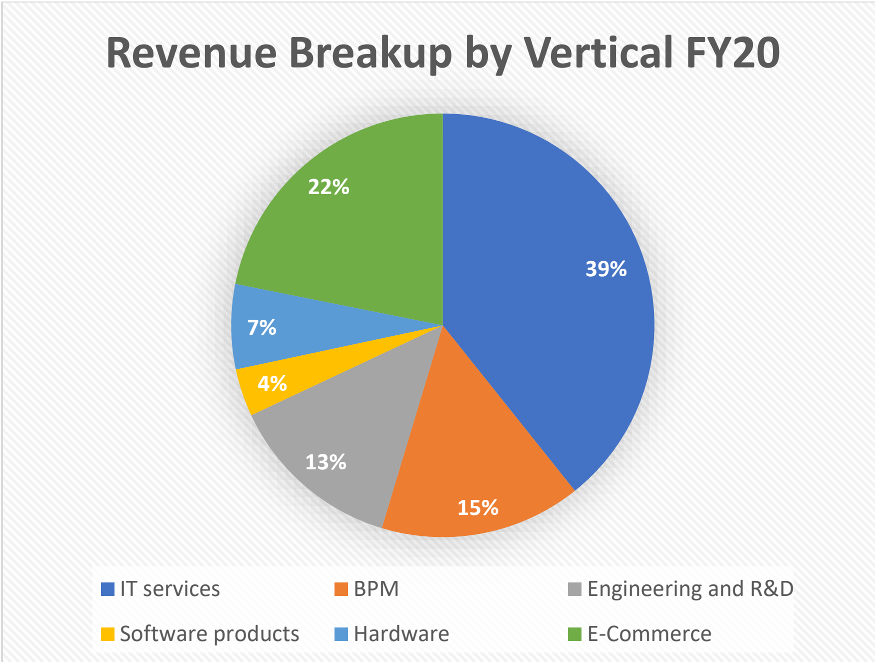
NASSCOM said IT industry generated $247 billion in revenue in fiscal year 2019-20. E-commerce grew the highest YoY at 26% in FY20. Global outsourcing revenue clocked up $213 billion in revenues. Recognizing the growing share of digital revenues, NASSCOM said revenue from digital constituted 28 per cent share of the IT industry revenues, clocking 23 per cent year-on-year growth.

The market size of India's IT-BPM sector is expected to grow to US$ 350 billion by 2025 and BPM is expected to account for US$ 50-55 billion out of the total revenue. The cloud market in India is expected to grow three-fold to US$ 7.1 billion by 2022 with the help of growing adoption of Big Data, analytics, artificial intelligence and Internet of Things (IoT) according to Cloud Next Wave of Growth in India report. India's digital economy is estimated to reach US$ 1 trillion by 2025 and global digital output is expected to be $100 trillion in 2030, that is 40% of the global GDP.

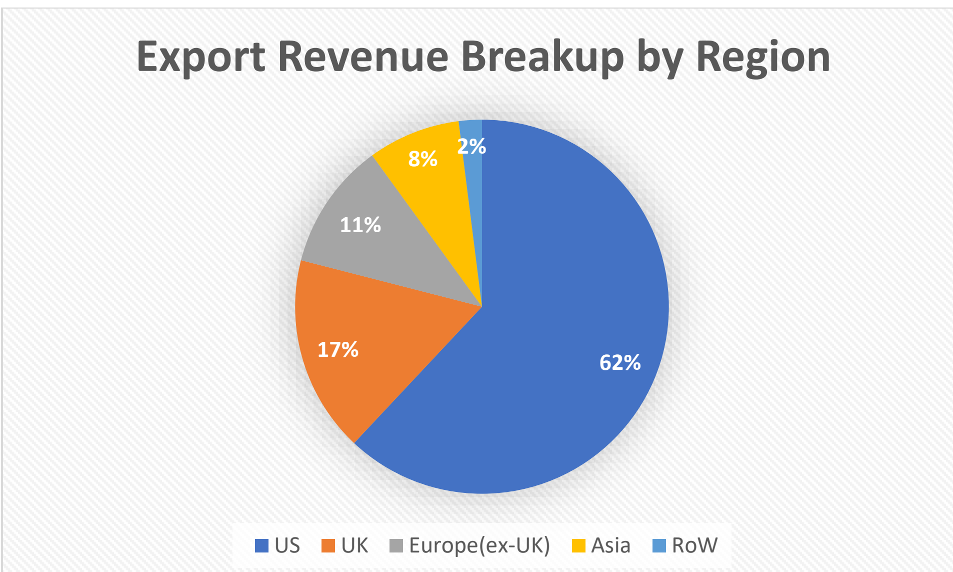
According to a new report by Grand View Research, Inc. the global commercial drone and the global IoT in healthcare market size are projected to reach USD 129.23 billion by 2025, registering a CAGR of 56.5% and USD 534.3 billion by 2025 expanding at a CAGR 19.9% over the forecast period respectively. According to November estimates by Bloomberg Global Fintech Market Size will grow at a CAGR of 23.84% during the forecast period 2019 to 2025. The transition to 5G is expected to generate a windfall for network, infrastructure, and equipment vendors. Gartner predicts that worldwide 5G network infrastructure revenues will touch $4.2 billion in 2020, recording year-over-year growth of 89 percent.



Source: NASSCOM, Gartner



India’s IT exports are concentrated in the US and UK at 62% and 17% respectively in FY19.

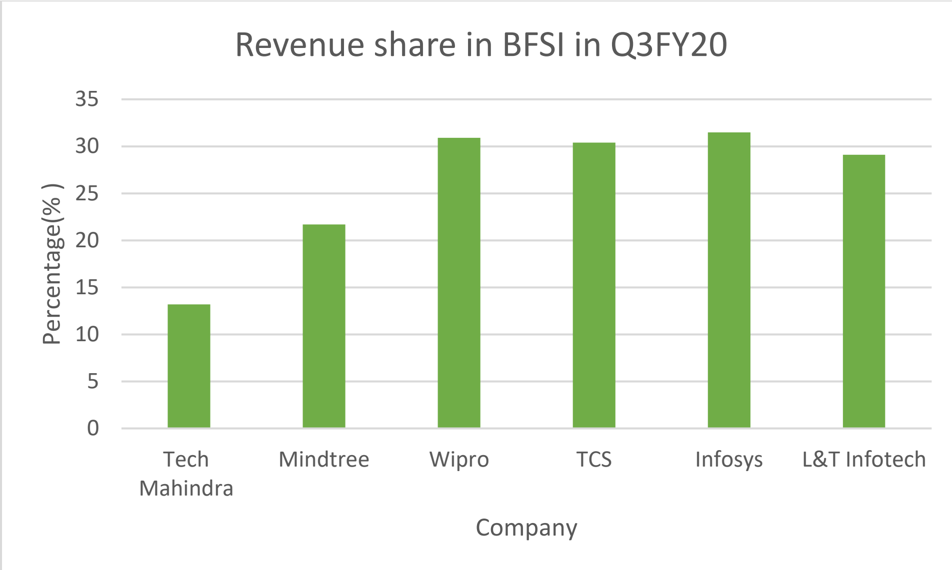


Source: NASSCOM

BFSI- A key vertical in the Indian IT industry

BFSI constitutes a major portion of revenue of IT giants in India. With adoption of new technology and greater investment in IT is expected to further accelerate the growth of BFSI vertical. Some major developments:

- In May 2019, Infosys acquired 75% stake in Stater (ABN AMRO Bank’s Subsidiary) for US$ 143.08 million.
- In June 2019, Mindtree was acquired by L&T.
- In January 2020, Nippon Telegraph and Telephone announced US$ 7 billion commitment for data centers business in India over next 4 years.
- In February 2020, TCS bagged a contract worth US$1.5 billion from Walgreens Boots Alliance.



Source: NASSCOM

Advantage India – Talent acquisition, wide labor pool

Availability of skilled English-speaking workforce has been a major reason behind India's emergence as a global outsourcing hub. According to the industry body, the decade also added 500 million new internet users and generated $50 billion e-commerce revenues. The number of engineering graduates is expected to reach 8.02 lakh by 2020 increasing at a CAGR of 0.79% from 7.71 lakh in 2015. Indian IT industry had 884,000 digitally skilled talent in 2019. These professionals not only offer wage arbitrage to companies, but also enable the industry to address growing domestic and global opportunities in digital transformation, while maintaining high productivity rates. Employee utilization has remained somewhat constant averaging out at 83.92% over the period 2015-19. The global median employee attrition rate has decreased to 14.7% in 2019 from 17.65% in 2018.

	2015	2016	2017	2018	2019
IT majors Employment Share	52.20	52.51	50.58	51.91	52.24
Median Global Attrition	16.7	16.3	16.05	17.65	14.7
Median Global Utilization	84.03	84.43	83.87	84.33	82.45

Source: Bloomberg

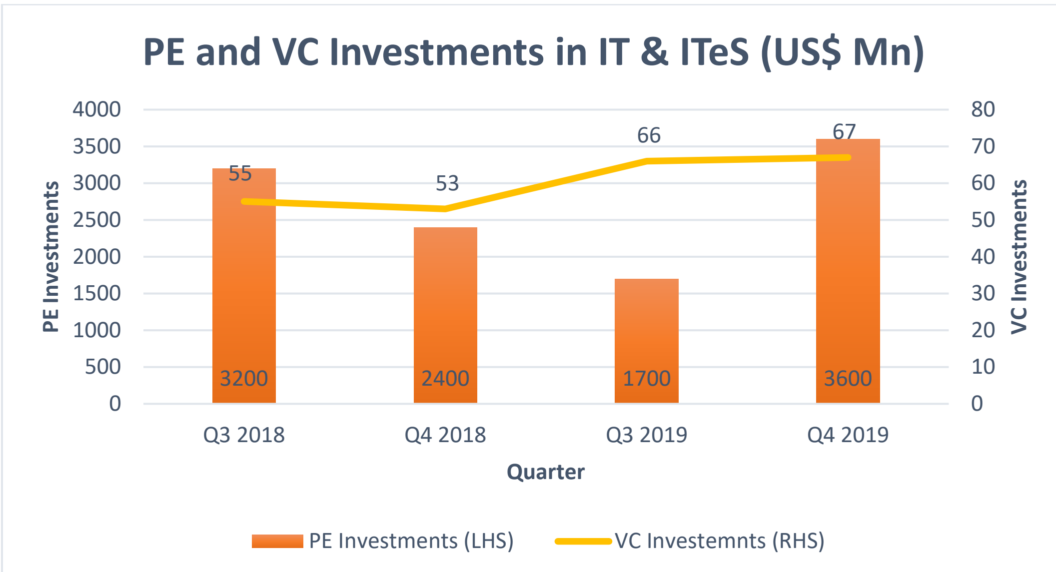
Global Deal Activity

COVID-19 has left revised estimates of the IT sector globally. Information Services Group or ISG's report suggest a 10% decline in del activity across the sector. The global Software-as-a-service (SaaS) sector is now been expected to grow at 12%, down from 23.5% earlier. Global additional support services for hardware and networking is expected to see a decline of 7% in 2020 against a 3.2% growth as estimated earlier. Pricing may also be affected following the fact that 60% of the clients are asking for a 20-30% discount over the next quarter.

Source: Bloomberg Quint

Investments

IT industry has attracted major investment over the past decade from April 2000 to December 2019. The computer software and hardware sector in India attracted cumulative Foreign Direct Investment (FDI) inflow worth US$ 43.58 billion between April 2000 and December 2019. The sector ranked second in FDI inflow as per the data released by the Department for Promotion of Industry and Internal Trade (DPIIT). PE investment in the sector stood at US$ 11.8 billion across 493 deals in 2019. NASSCOM said the IT industry cornered 46% of the services exported attracting more than $4 billion startup funding, Indian enterprises going digital with $2 billion expenditure on digital transformation in FY20.



Source: The Indian Private Equity and Venture Capital Association

Government Schemes and policies

Allocation of Digital India doubled to $523 Mn in 2020-21. Interim Budget 2019-20 announced that 1,00,000 villages to be made Digital Villages by 2023-24. It is proposed to provide $845 Mn to Bharatnet program in 2020-21. It is proposed to provide an outlay of $1.13 Bn over a period five years for the National Mission on Quantum Technologies and Applications. Further, the program for the promotion of National Knowledge Network has also got a boost of $52.9 Mn from $36.3 Mn. For Pradhan Mantri Gramin Digital Saksharta Abhiyan, the fund allocation has remained unchanged with total spending projected to stand at $52.9 Mn for FY21 as well.

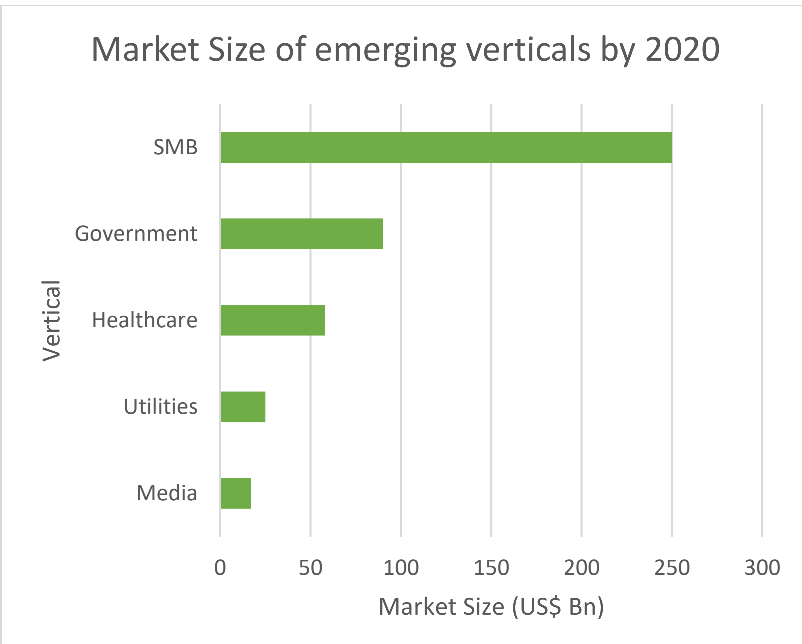
	FY20 (US$ Mn)	FY21 (US$ Mn)
Electronics and IT hardware manufacturing hubs	91.3	129.7
IT R&D Department	32.9	57.6
Cybersecurity	13.5	22.5
Promotion of IT and ITeS	11.9	22.5
Promotion of digital payments	63.5	29.1

Source: Union Budget FY21

Other fiscal benefits given to the Software Technology Parks of India (STPI) and Special Economic Zones (SEZ) include 100 per cent tax holiday on exports (for first 5 years for SEZ) and exemption from excise duties and customs. To the Export Oriented Units (EOUs) 100% FDI is allowed with exemption from excise duties and customs. Further, the government provides a reduction in the tax rate on royalty and fees from technical services from 25 percent to 10 percent. The Startup India campaign, meanwhile, supports technology startups that are seen as critical to the growth and development of the technology industry's SMAC capabilities. SMAC stands for social media, mobility, data analytics, and cloud computing, and India's over 4,000 startups are at the frontier of this innovation in the rapidly transforming IT landscape.

Future growth drivers

The rollout of fifth generation (5G) wireless technology by telecommunication companies is expected to bring at least US$ 10 billion global business to Indian IT firms by 2019-25. Technologies, such as telemedicine, health, remote monitoring solutions and clinical information systems, would continue to boost demand for IT service across the globe. IT sophistication in the utilities segment and the need for standardization of the process are expected to drive demand. Digitization of content and increased connectivity is leading to a rise in IT adoption by media. New geographies would drive the next phase of growth for IT firms in India. BRIC is expected to provide US$380-420 billion opportunity by 2020 according to IBEF. Though SMBs (Small and Medium Businesses) contribute to just 25% of India's IT revenue its expected to grow at a double digit rate due to emergence of Tier II and Tier III IT hubs across the country.



Source: NASSCOM, Gartner

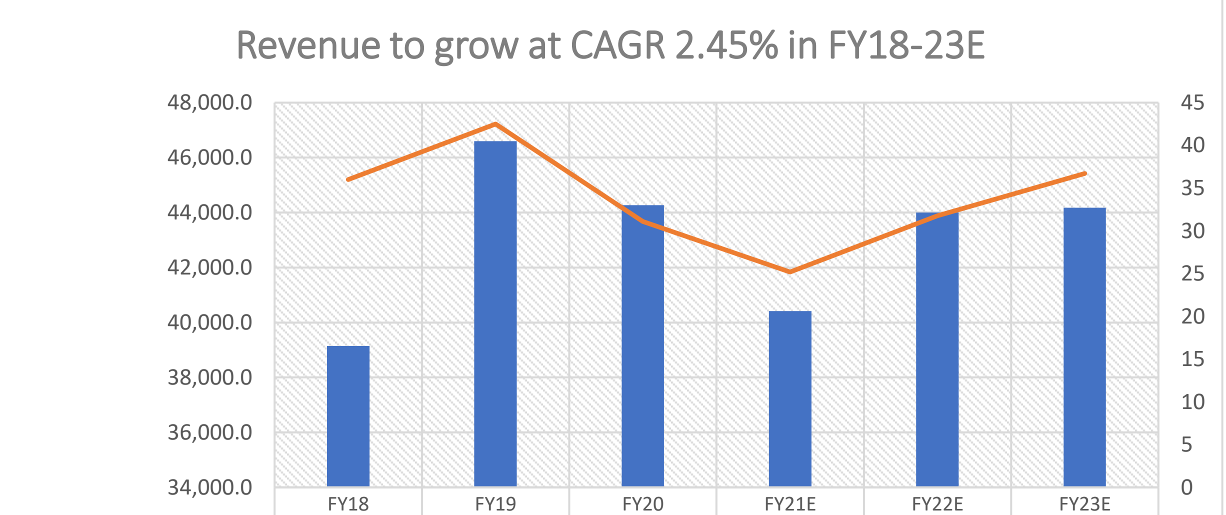
Cyient

Company Overview

Cyient Limited (formerly **Infotech Enterprises Limited**) is focused on engineering, manufacturing, data analytics, and networks & operations. Cyient has a diversified base of over 300 customers out of which 29 are Fortune 500 companies across multiple industries including but not limited to aerospace and defense, geospatial, mining, semiconductors, communications and medical and healthcare.

Large aerospace exposure to impact growth

The already slow aerospace vertical was further tumbled down with COVID-19. At 37.8% of total revenue, estimates for FY21 are significantly reduced. Estimates of EPS (Adj.) and revenue are down by a factor of 32% (down by 1 SD) and 11% for FY21. Consensus estimate from Bloomberg suggests a steep decline of 19.74% in EBITDA for FY21. The management expects this segment to recover in 12-24 months.



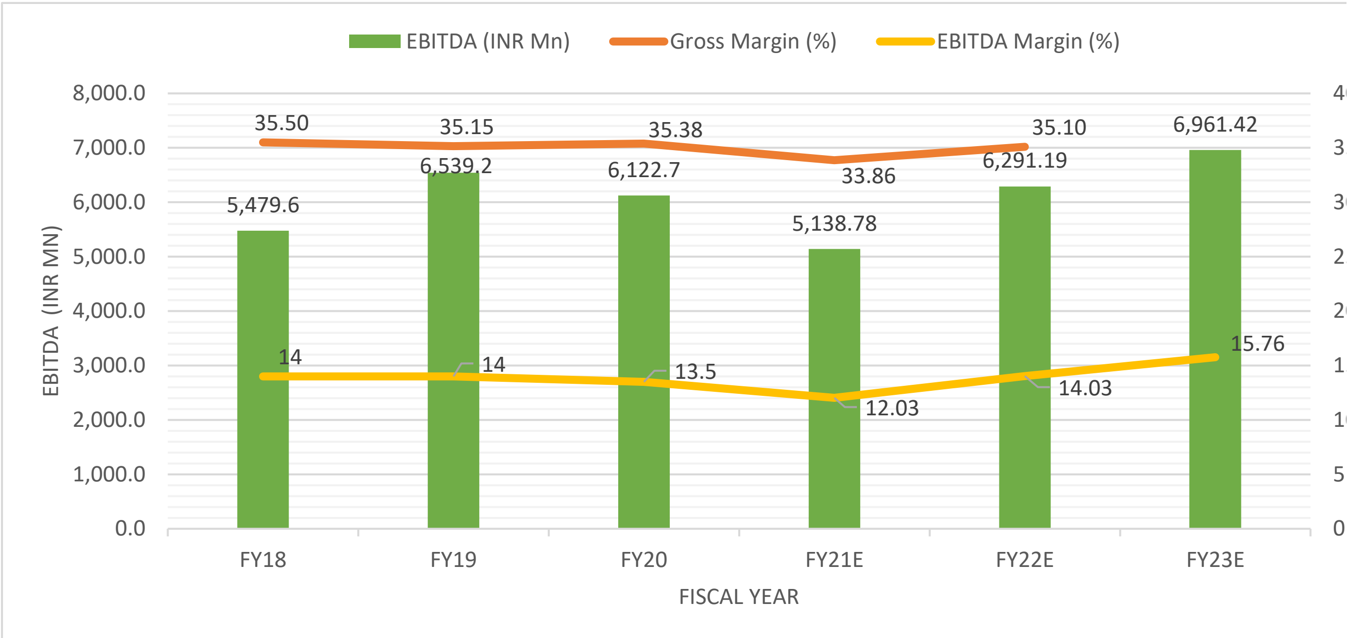
	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue (INR Mn)	39,139.7	46,602.3	44,274	40,415.42	43,997.66	44,176.82
EPS (INR)	36	42.5	31.1	25.185	31.769	36.708

Source: Bloomberg

FY21E USD revenue -16.9% YoY

Management expects 1QFY21E revenue to decline by 15-20% QoQ in the worst case. The steep decline is due to: a) slump in IT spending in the aerospace segment -management expects recovery in 12-24 months; b) impact on field work due to lockdown in communications segment; and c) transportation impacted by lockdown and weakness in its top client. CYL has secured orders worth USD256m, best in the past three years. We forecast USD revenue to decline 16.9% for FY21 and increase 8.7-8.8% for FY22-23. 4Q EBIT margin declined 120bp QoQ impacted by lower revenue. This was despite 4% decline in employee count. Expectation is that EBIT margin will decline in 1HFY21E and then start improving from 3QFY21E onwards as normalcy starts to return. Acquisition of low-margin and low-ROE companies diluting the higher ROE and cash generative existing business.

	FY18	FY19	FY20	FY21E	FY22E	FY23E
ROE %	17.07	18.17	19.5	13.32	10.7125	12.41
ROA%	11.71	12.34	13.07	8.46	6.6	8.1



Source: Bloomberg

Engineering services turning out to be weaker than IT services.

Cyient results reflect weakness in engineering services. Overall, the company expects a slow recovery in FY21 from a 15-20%fall in revenue in Q1FY21. Communications is the least impacted of all the industries. Where decline in aerospace was expected, the unanticipated hits were Energy and Utilities and semiconductors with reasons mainly due to COVID lockdown restrictions which resulted in supply chain problems. Both of these are expected to normalize in 12-18 months period. Medical devices have been impacted as all efforts are being put on Covid-19 with lower emphasis on other therapies and surgeries. However, this segment should pick up in the medium term. Design-led manufacturing has been impacted by the lockdown with number of manufacturing days reducing. The company has manufacturing facilities in India and the US. Management is looking at re-focusing away from aerospace and more on defense.

Competitive Analysis

Valuations still not attractive. With demand recovery expected to be slow ahead and weak FCF on continued capex, valuations are not attractive yet, given the risks. The company needs to expand its margins or bring capex in line with profitability for valuations to catch up. Opportunities are in medical and healthcare technology with people becoming more health cautious. Semiconductors provide another opportunity with increasing automation. Increasing defense expenditure by US and countries is expected to give a boost. In terms of threats high volatility in forex market is expected to cause loses. Company has 56.7% of USD mix as of FY20. As a precaution company has increased hedge fund by 10% for this one-time bringing total to 80%.

In INR Mn	Q4 FY20	Q3FY20	Q4 FY19	FY20	FY19
Fx Gain/(Loss) - Realised	81	151	-6	514	-180
Fx Gain/(Loss) - Unrealised	-48	184	126	61	107

Source: Company

Financials and Highlights
Key Measures (INR)

	FY 2020 Act	FY 2021 Est	FY 2022 Est	FY 2023 Est
12 Months Ending	03/31/2020	03/31/2021	03/31/2022	03/31/2023
EPS, Adj+	31.018	25.2185	31.769	36.708
EPS, GAAP	31.018	24.39888889	30.19222222	36.95
Revenue (Mn)	44,274.00	38,618.05	42,093.20	44,567.40
Gross Margin %		33.86	35.1	65.75
Operating Profit (Mn)	3,611	15,225.33	17,415.33	
EBIT (Mn)		2,999.92	3,991.78	4,503.20
EBITDA (Mn)		4,914.05	5,954.31	6,561.80
Pre-Tax Profit (Mn)		3,925.11	4,814.50	5,350.20
Net Income Adj+ (Mn)	3,412.00	2,795.68	3,462.47	4,042.60
Net Income, GAAP (Mn)	3,412.00	2,935.23	3,617.76	4,042.60
Net Debt (Mn)	-2,815.00	-7,374.50	-8,786.75	-9,771.33
Return on Equity %	13.31512195	1,0.7125	12.41	13.48
Return on Assets %	8.457162686	6.6	8.1	8.9
CAPEX (Mn)		-1,405.73	-1,687.86	-1,832.50

Source: Bloomberg

Balance Sheet (12 months ending December 31)

In Millions of INR except Per Share	FY 2019	FY 2020	FY 2021E	FY 2022E
Total Current Assets	**25,853.0**	**24,650.0**	**24,625.6**	**26,972.1**
+ Cash, Cash Equivalents & STI	7,068.0	9,518.0	13,022.3	12,184.6
+ Accounts & Notes Receivables	8,137.0	7,262.0	7,617.3	8,390.9
+ Inventories	1,833.0	2,267.0	1,931.1	2,052.2
+ Other ST Assets	8,815.0	5,603.0	-	-
Total Noncurrent Assets	**13,039.0**	**17,147.0**	**16,471.4**	**16,290.7**
Total Assets	**38,892.0**	**41,797.0**	**41,097.0**	**43,262.8**
+ Payables & Accruals	4,136.0	3,729.0	3,424.8	3,737.8
+ ST Debt	2,137.0	3,551.0	2,137.0	2,137.0
+ Other ST Liabilities	3,622.0	3,855.0	-	-
Total Current Liabilities	**9,895.0**	**11,135.0**	**-**	**-**
+ LT Debt	1,116.0	3,152.0	-	-
+ Other LT Liabilities	2,259.0	1,933.0	-	-
Total Noncurrent Liabilities	**3,375.0**	**5,085.0**	**-**	**-**
Total Liabilities	**13,270.0**	**16,220.0**	**15,006.3**	**15,829.4**
Total Equity	**25,622.0**	**25,577.0**	**26,090.7**	**27,433.4**
Total Liabilities & Equity	**38,892.0**	**41,797.0**	**41,097.0**	**43,262.8**

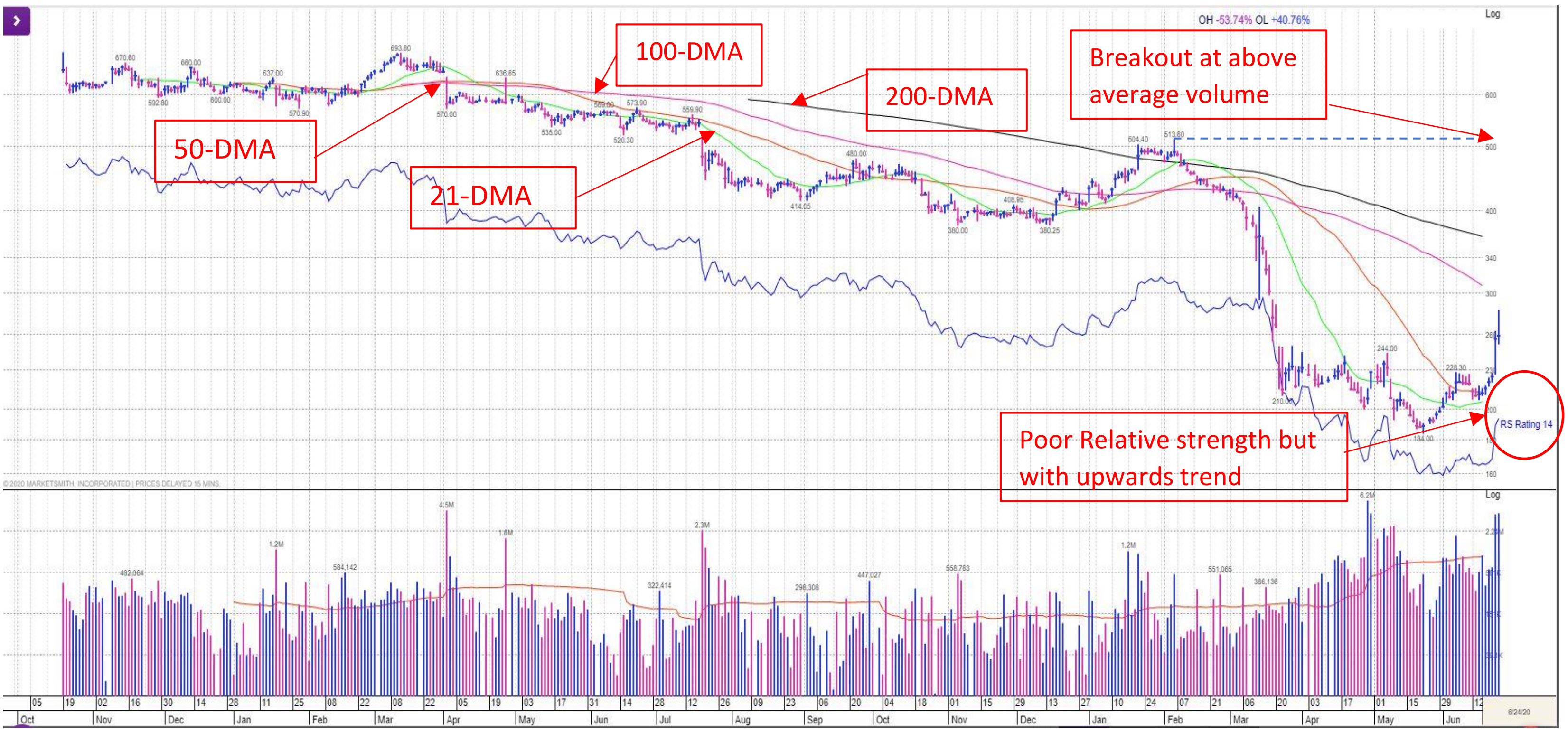
E-Estimates from Model Consensus

Source: Bloomberg

Income Statement

In Millions of INR except Per Share	FY 2019	FY 2020	FY 2021 Est	FY 2022 Est
12 Months Ending	03/31/2019	03/31/2020	03/31/2021	03/31/2022
Revenue	**46,175.0**	**44,274.0**	**38,618.1**	**42,093.2**
+ Sales & Services Revenue	46,175.0	44,274.0		
Gross Profit	**—**	**—**	**13,076.1**	**14,774.7**
+ Other Operating Income	0.0	0.0		
- Operating Expenses	40,961.0	40,663.0		
Operating Income (Loss)	**5,214.0**	**3,611.0**	**15,225.3**	**17,415.3**
- Non-Operating (Income) Loss	-1,019.0	-1,097.0		
Pretax Income (Loss), Adjusted	**6,233.0**	**4,708.0**	**3,925.1**	**4,814.5**
- Abnormal Losses (Gains)	35.0	0.0		
Pretax Income (Loss), GAAP	**6,198.0**	**4,708.0**	**3,925.1**	**4,814.5**
- Income Tax Expense (Benefit)	1,427.0	1,270.0		
- (Income) Loss from Affiliates	0.0	26.0		
Income (Loss) from Cont. Ops	**4,771.0**	**3,412.0**	**2,935.2**	**3,617.8**
- Net Extraordinary Losses (Gains)	0.0	0.0		
Income (Loss) Incl. MI	**4,771.0**	**3,412.0**		
- Minority Interest	-14.0	—		
Net Income, GAAP	**4,785.0**	**3,412.0**	**2,935.2**	**3,617.8**
Net Income Avail to Common, GAAP	**4,785.0**	**3,412.0**	**2,935.2**	**3,617.8**
Net Income Avail to Common, Adj	**4,809.5**	**3,412.0**	**2,795.7**	**3,462.5**
Net Abnormal Losses (Gains)	24.5	0.0		
Net Extraordinary Losses (Gains)	0.0	0.0		

Source: Bloomberg



William O'Neil Methodology:

The stock has passed its 21-DMA and 50-DMA in July after a correction in May. Poor relative strength represents weakness but its starting to look up with high closes accompanied by above average volume in trading. EPS strength is at 57 which is still not good enough. Price needs to across 513 mark within the next few weeks if it is to get a recommendation of Buy. Currently investors should HOLD on the stock and further observe it.