A Work Project, presented as part of the requirements for the Award of a Master Degree in Economics / Finance / Management from the NOVA – School of Business and Economics.

The 2023 surge in IT services industry: Cyient's exceptional growth story

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A Project carried out on the Master's in Finance Program, under the supervision of:

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13/12/2023

Abstract:

The 2023 surge in IT service industry: Cyient's exceptional growth story.

The aim of this document is to offer a comprehensive view and insight into the future prospects of Cyient Ltd, and to evaluate its potential to maintain its remarkable growth trajectory. This paper analyzes the competitive landscape, performs a comparative analysis, and examines sales and cost drivers, as well as the cost of capital of Cyient Ltd. The report describes the techniques used for revenue forecasting and presents the outcomes of ratio and sensitivity analysis.

Keywords (up to four):

Revenue Forecast, WACC, Comparable Analysis, Sensitivity Analysis.

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).

This report is part of the … report (annexed), developed by … and … and should be read has an integral part of it.

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Introduction

The primary objective of joint report is to conduct a comprehensive analysis of the financial situation and prospects of Cyient Ltd, with the aim of providing informed recommendations on purchasing, selling, or holding shares in the company.

The report commences with a historical overview of Cyient Ltd’s business, laying a foundational context for the subsequent analysis. This is followed by an examination of the stock performance and a detailed exploration of the competitive landscape in which Cyient Ltd operates.

Furthermore, the report delves into an analysis of the company's financial health, and value drivers such as sales and costs. A critical component of this analysis is the Revenue Forecast, for which data starting from 2019 has been utilized.

The ensuing section addresses the cost of capital of the company, employing methodologies like Altman’s Z" score and the Capital Asset Pricing Model (CAPM) to estimate these figures. This is succeeded by a discussion on the Discounted Cash Flow (DCF) analysis, providing insights into the company's valuation.

Subsequently, the report presents a Comparable Analysis, juxtaposing Cyient Ltd's performance with that of its peers to gauge its standing in the industry.

Finally, the joint report culminates with a Scenario and Sensitivity Analysis, offering a comprehensive view of potential future outcomes based on varying assumptions and conditions. This serves as a basis for our concluding recommendations on investment decisions regarding Cyient Ltd's shares.

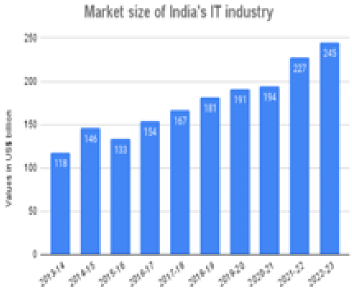
This individual report encompasses several critical sections, including an in-depth analysis of the Competitive Landscape, an assessment of Financial Health, and a detailed examination of Sales and Cost Drivers. Additionally, the report provides a comprehensive Revenue Forecast and an evaluation of the Weighted Average Cost of Capital (WACC). Further, a Comparable Analysis is conducted to contextualize Cyient Ltd's performance within the industry. Lastly, the report concludes with a Sensitivity Analysis, offering insights into potential variations under different scenarios.

The remaining segments of the joint report, which complement this individual analysis, have been meticulously covered by my colleague in his portion of the individual report.

To conclude, this report estimates the share price of Cyient Ltd at ₹2007.05. Provided the current share price of ₹1983.45, the recommendation based on our analysis is to hold the shares.

Competitive Landscape

Technology Disruption



***Graph 1**:Market size of IT industry*
Source: TPCI, 2023

The industry of Information Technology Services has experienced a significant global expansion over the years, with the transition towards a more digitized global marketplace serving as a primary objective for myriad businesses. This transformation, commonly referred to as "technology disruption," has paved the way for enhanced efficiency in organizational management, propelling the IT services sector to remarkable growth over the last decade. By 2013, the Indian market for IT services had generated revenues of $118 billion USD, and projections for 2023 suggest that the industry is poised to surpass the $245 billion USD mark (Graph 1). This remarkable trajectory is anticipated to continue, with revenues expected to exceed $500 billion by the year 2025. This comprehensive analysis includes various segments within the IT domain such as Data Centre Systems, devices, software, IT services, and communication services (TPCI, 2023). A notable decrease of 1.4% in Data Centre Systems underscores a shifting preference towards utilizing public cloud services for data management and remote connection. Conversely, the IT services sector has seen an ascent of 7.1%, largely attributable to the burgeoning field of digital healthcare (Table 1). The post-COVID-19 era has witnessed a heightened necessity for robust IT infrastructure, positioning Indian IT firms at the forefront of the industry.

Global and Indian IT spending forecast (2023)				
	Global spending	Global growth (%)	India's spending	India's growth (%)
Data Centre systems	224,123	3.7	3,477	-1.4
Devices	684,342	-4.6	47,851	-1.2
Software	891,386	12.3	14,356	13.7
IT Services	1,364,106	9.1	22,039	7.1
Communication services	1,479,671	3.9	24,703	1
Total Spending	4,643,628	5.5	112,427	2.6

Table 1:Global and Indian IT spending forecast.
Source: TPCI, 2023

The swift and sustained growth trajectory is further bolstered by the emergent nature of the Indian market. While it presents certain risks, it also offers unique opportunities for companies to enhance their renown, as evidenced by the consistent upward momentum of Cyient's stock performance.

Cyient's Stance on Emerging Trends

***Graph 2**:Market capitalization of competitors.*
Source: Analyst estimate, 2023

The Hyderabad-based enterprise has adeptly navigated the upward trajectory of recent industry trends. Although Cyient is categorized as a Mid-cap entity, it competes in a landscape dominated by larger counterparts such as TCS, Wipro, and HCL Technologies (Graph 2). Unlike its rivals, Cyient's more modest scale has strategically limited its direct exposure to new project investments. Consequently, the company frequently opts for collaborative partnerships or leverages mergers and acquisitions to enhance its competitive edge in a market where it does not hold a dominant position.

In the year 2022, Cyient made a notable strategic move by entering into a multi- year alliance with Honeywell. This collaboration is poised to culminate in the creation of the pioneering aviation cloud-connected cockpit system, dubbed Honeywell Anthem, marking a significant milestone in Cyient's growth trajectory. The aforementioned deal committed Cyient to undertake the comprehensive manufacturing and testing of various Line Replaceable Units (LRUs) that constitute the integral components of the Honeywell Anthem avionics suite (The Hindu Business, 2022). Cyient's strategic alliance with a prominent global entity in a multi-year manufacturing agreement is a testament to its forward-thinking approach to scale production capabilities in anticipation of future market demands. Commencing with a cautious low-rate production scheme, the company aims to incrementally bolster its manufacturing throughput to align with the projected increase in demand (The Hindu Business, 2022). The execution of this pivotal agreement has been entrusted to Cyient's esteemed subsidiary, Cyient DLM, which specializes in the manufacturing operations of its parent organization. The July 2023 listing of Cyient DLM on the stock exchange marked a significant milestone, providing the subsidiary with enhanced financial autonomy. This strategic financial manoeuvre has empowered Cyient DLM to diversify its customer base and proactively address the escalating market demand for the aforementioned products, ensuring that they maintain their competitive edge and continue to deliver exceptional value to their clients. Plus toward the end of February 2023 the company announce a partnership with Thingtrax, an English IT company, which aimed to develop an AI system that boost the efficience in the manufacturing procedure leading to a reduction of the overall COGS.

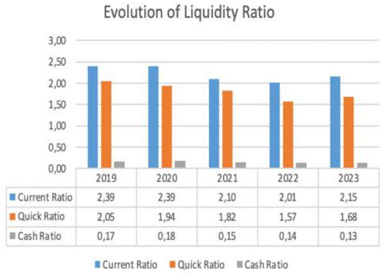
In the wake of the global health crisis, Cyient has engaged in a collaborative endeavor with the Asian Healthcare Foundation (AHF), embarking on research aimed at enhancing the efficiency of the healthcare industry. This partnership has catalyzed an upsurge in R&D investments, culminating in the creation of CyMegde—a catalyst for innovation within the realm of medical healthcare devices. Cyient's foray into this burgeoning sector, noted for its substantial growth prospects, is anticipated to augment its revenue streams, potentially contributing an additional 3% to its earnings solely from this venture (Cyient, 2023).

Cyient's strategic response to the pervasive wave of technological disruption hinges on maintaining a robust and eclectic product and service portfolio. This diverse array effectively harnesses the potential of emerging market trends. Furthermore, the company's adeptness in forming strategic alliances has resulted in a network of partnerships spanning local and international firms. These collaborations are a testament to Cyient's commitment to growth and innovation, positioning the company to capitalize on the dynamic opportunities presented by the evolving technological landscape.

Financial Health

Liquidity Analysis

To gain a comprehensive understanding of Cyient's strategic financial approach historically and its potential impact on future operations, an in-depth evaluation of the firm's capital structure and liquidity management is imperative. This assessment aims to delve into the company's historical performance and to discern actionable insights. The analytical approach entailed dissecting the financials into two pivotal operational segments, Services and DLM, to appraise their respective contributions to Cyient's consolidated financial standing.



***Graph 3**: Evolution of Liquidity Ratio*
Source: Analyst estimate,2023

	2019	2020	2021	2022	2023
Company					
Average Payable Period (APP)	**243,46**	**255,36**	**289,85**	**295,40**	**326,83**
Trade Receivables	8557	7301	8122	7408	11630
Revenues	46175	44274	41324	45344	60159
Average Collection Period (ACP)	**68,00**	**60,00**	**72,00**	**60,00**	**71,00**
Inventories	1833	2267	1586	2790	4358
COGS	5547	5330	5707	6576	7976
Average Holding Period (AHP)	**121,00**	**155,00**	**101,00**	**155,00**	**199,00**
Cash Conversion Cycle	-54,46	-40,36	-116,85	-80,40	-56,83
Average CCC	**-69,78**				

***Table 2**:Cash conversion cycle*
Source: Analyst estimate,2023

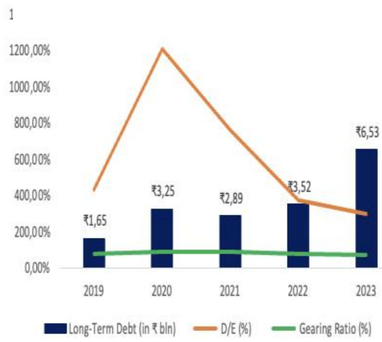
In the realm of liquidity, Cyient has consistently set itself apart by upholding substantial cash reserves, benefiting historically from a debt-free status, thus enabling the fulfillment of short-term liabilities predominantly through internal cash reserves. Between 2019 and 2022, a discernible downtrend is observed across all three primary liquidity ratios. However, it is important to note that the cash ratio exhibited relative stability (Graph 3). This downtrend in current and quick ratios should not be misconstrued as a detriment; rather, it is indicative of enhanced management of the company's accounts receivable and payable.From 2019, Cyient has adeptly compressed its average collection period from 68 to 60 days, thereby fortifying the firm's cash conversion cycle efficiency (Table 2). Amid the pandemic, Cyient's executive leadership articulated a strategy pivot towards augmenting operational working capital over long-term investments. This shift was predicated on the anticipation of burgeoning opportunities within the IT services landscape, where agility in short-

Summary of net assets acquired:

Particulars	Grit	Celfinet	Citec Europe	Citec India	Klaus IT	Total
Property, plant and equipment	-	14	23	75	-	112
Right of use assets	-	-	143	82	-	225
Intangibles assets including under development	727	1,021	2,175	12	740	4,675
Trade receivables	353	143	858	154	-	1,508
Cash and cash equivalents	48	250	1,942	152	-	2,392
Borrowings	-	(326)	(2,206)	-	-	(2,532)
Lease liabilities	-	-	143	82	-	225
Trade payables	(140)	(260)	(806)	(100)	-	(1,306)
Other assets/(liabilities)	(24)	255	(1,400)	272	-	(897)
Income taxes assets/(liabilities)	(14)	(27)	107	52	-	118
Deferred tax Liabilities	(124)	(95)	(480)	49	-	(650)
Net assets	**826**	**975**	**499**	**830**	**740**	**3,870**
Goodwill	1,697	2,368	5,168	76	110	9,419
Total purchase price	**2,523**	**3,343**	**5,667**	**906**	**850**	**13,289**

Table 3*: Summary of net assets acquired.*
Source: *Cyient annual report, 2021*

term financial management would be instrumental in seizing market opportunities (Cyient Annual Report, 2021). Despite the liquidity ratios' contraction from 2019 to 2022, the fiscal year 2023 witnessed an upsurge in both current liabilities and assets, with the latter ascending more precipitously, resulting in an uptick in both quick and current ratios. This positive shift was predominantly driven by an increase in operational cash, projected to correspond to 2% of revenues, and a surge in accounts receivable—this latter change manifesting in a notable elevation of the average collection period. Conversely, the extension in the average collection period, now standing at 71 days, was partially mitigated by a protracted average payable period that expanded from 295 to 327 days. It is pertinent to attribute over 40% of the uptick in accounts receivable and payable to strategic acquisitions made throughout the year (Table 2). The gradual diminishment of the cash ratio should not be interpreted as a diminishing liquidity requirement but rather as a measured pace of growth vis-à-vis current liabilities.

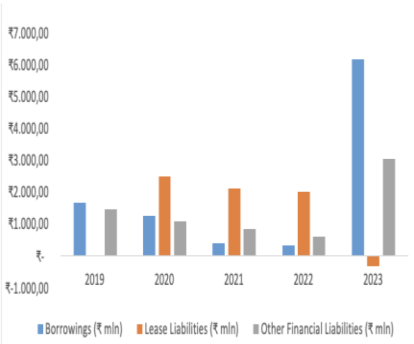


Graph 4*: Gearing and D/E ratios:*
Source: Analyst estimate,2023

In summation, from a liquidity standpoint, the consistently maintained current and quick ratios above the threshold of 1 underscore Cyient's robust capacity to meet its immediate financial obligations emanating from both the service and DLM segments, thereby achieving short-term fiscal stability. Furthermore, the company's strategic reserve of liquid assets bolsters its position by significantly diminishing operational risk. This financial prudence and foresight have positioned Cyient to capitalize on market opportunities with reduced executional peril.

Gearing Ratios

In assessing Cyient's long-term financial strategy, discerning a consistent trend in debt levels proves challenging. There has been a notable escalation in debt from 2019 to the present, with figures surging from ₹3.18 billion to ₹8.95 billion. Historically, Cyient has operated with minimal debt, typically accounting only lease obligations as part of its total debt. However, for valuation purposes, prevailing theoretical frameworks suggest categorizing debt into three segments: borrowings, lease liabilities, and other financial obligations.



Graph 5:*Financial liabilities.*
Source: Analyst estimate,2023

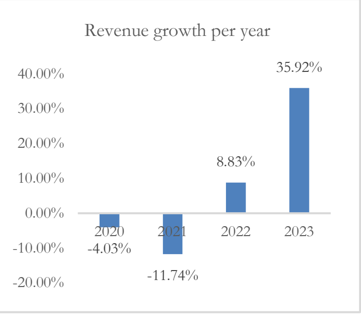
A detailed examination reveals a dramatic surge in borrowings between 2022 and 2023, increasing by over sevenfold. This significant uptick in debt aligns with the company's strategy to fund its substantial mergers and acquisitions activity in the current year (Cyient Annual Report, 2023) [Table 3 for the Service Segment]. When juxtaposing the company's debt level against its book value enterprise valuation, the gearing ratio peaked in 2023 at 11.8%. It's imperative to differentiate between the services and the DLM segment. The former predominantly relies on cash for operations, whereas the DLM segment, which oversees manufacturing for Cyient, utilizes debt more heavily for its day-to-day activities. This is evidenced by the stark contrast in gearing ratios, with the service segment at 11.8% and the DLM segment at a significantly higher 81.22% [Graph 6]. The DLM segment has exhibited a downward trajectory in its debt-to-equity (D/E) ratio, largely due to Cyient's strategic decision to bolster retained earnings. This increase in retained earnings has, in turn, expanded equity,

Graph 6*: Gearing and D/E ratio.*
Source: Analyst estimate,2023

providing a solid foundation for funding both short-term and long-term operations, while concurrently aiming to mitigate debt levels (Shareholder’s Meeting Transcript, 2023) [Graph 6 for the DLM Segment].

At the conglomerate level, the past fiscal year saw the gearing ratio stabilize at 23.79%, with the D/E ratio at 31%. Cyient's revenue surge, coupled with a robust dividend payout ratio that fluctuated between 78% and 57%, alongside a fortified liquidity stance, affirms a well-coordinated approach to managing the firm's long-term debt obligations.

Sales Driver



Graph 7:*Historical revenue growth. Source: Analyst estimate,2023*

Cyient Ltd's has been growing in the past 5 years at CAGR of 5.8% which was the result of growth of the industries that company provides services in and the regions where the clients operate in. Cyient Ltd distinguishes itself with a versatile approach, integrating expertise across various industries to offer innovative and technology-driven solutions.

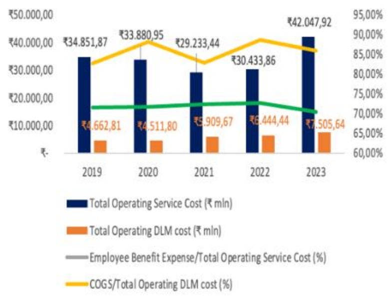
In the Aerospace & Defense (A&D) sector, Cyient supports OEMs and Tier 1 suppliers, adhering to stringent security regulations like ITAR. They have received Design Approval from CEMILAC, a part of the Indian DRDO, for developing a range of components, including aerostructures and avionics, particularly for military applications.In Rail Transportation, the company's focus is on enhancing digitalization and safety. Cyient's significant experience, backed by a team of over 1,700 engineers, has been instrumental in designing next-generation trains and upgrading signaling systems, emphasizing predictive maintenance to bolster efficiency and safety in rail operations.Their foray into the Semiconductor Industry involves comprehensive solutions spanning the semiconductor lifecycle. Cyient emphasizes customization and collaboration, offering services from design and prototyping to testing and validation, ensuring their solutions align precisely with client needs.In the Medical & Healthcare industry, Cyient leverages its expertise in life sciences and cutting-edge technology to improve healthcare delivery. They specialize in medical device design, data analytics, and digital transformation, employing IoT and AI technologies to enhance healthcare services' efficiency and accuracy.The Communications sector sees Cyient enhancing connectivity and network capabilities. They integrate AI, IoT, and data analytics to drive innovation in communications, offering end-to-end solutions that optimize network performance and improve customer experience.In the Energy sector, Cyient provides specialized solutions for utilities, oil and gas, and renewable energy. They focus on asset management, network operations, and field services, leveraging digital technologies for smarter energy management and a commitment to sustainability.Lastly, in the Mining industry, Cyient's solutions enhance operational efficiency and safety. Their technology-driven approach, using advanced data analytics and AI, focuses on optimizing mining operations while addressing environmental concerns. (Cyient official website)

Overall, Cyient Ltd combines its extensive expertise across these diverse sectors to deliver comprehensive, efficient, and innovative solutions. This integrated approach not only addresses current industry needs but also paves the way for future advancements, underlining Cyient's commitment to technological innovation and sustainable development.

The revenue decline of Cyient Ltd in FY 2020 and FY 2021 can be attributed to a combination of factors. Key among these were the challenges in the Aerospace and Defense sector, particularly in commercial aviation, which was significantly impacted by the COVID-19 pandemic. This led to reduced travel and demand. Additionally, global supply chain disruptions affected various industries, including medical, automotive, and aerospace. These factors, combined with the general economic slowdown due to the pandemic, contributed to the revenue declines in both fiscal years. (Year ended conference call transcript, 2020,2021)

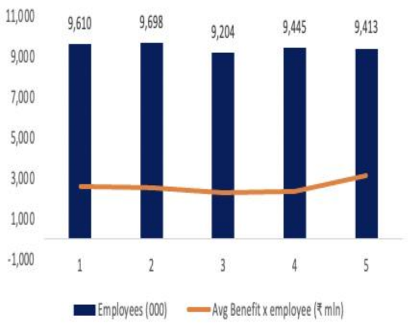
The revenue boost in FY 2022 and FY 2023 can be explained by company's strong strategy of acquisitions. In FY 2022, Cyient Ltd made three acquisitions. These included Celfinet– Consultoria em Telecomunicações S.A., Grit Consulting Pte Ltd., and Citec Group Oy Ab. Each of these acquisitions represented strategic add-ons to Cyient's portfolio, expanding its capabilities and market reach in various sectors. The acquisitions reflect Cyient's commitment to growth and diversification, aligning with its broader business strategy.

Cost Driver



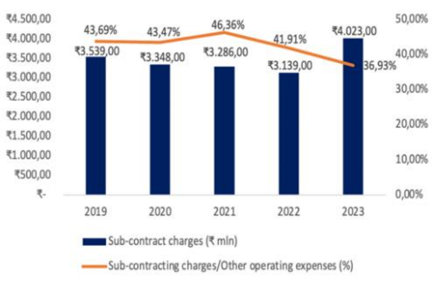
***Graph 8**: Operational expenditures.*
Source: Analyst estimate,2023

In a formalized evaluation of cost determinants, the segregation of principal operational expenses from non-core ones for the service division was meticulously executed, whereas the DLM segment's entirety was treated as operational. An examination of Cyient's cost framework reveals stark contrasts contingent upon the segment under scrutiny. Over the preceding five-year period, the service segment has consistently exhibited an operational cost composition predominantly influenced by employee benefit expenses. This expense category has demonstrated a steady proportion, ranging from 71.77% to 72.78%, when assessed relative to the aggregate operational expenditures (Graph 8). This consistency suggests a direct correlation between the employee benefits expenditure and the aggregate operational costs over time. The service sector's workforce, which is pivotal in delivering sophisticated IT solutions to Cyient's esteemed clientele, demands high calibre due to the intricate nature of their work. The trends in employee benefits are largely influenced by socio-political measures instituted by the Indian administration. Despite wages showing a near-complete correlation with revenue, a more granular analysis was necessitated to discern actual wage increases from mere employee headcount augmentation. This was accomplished by dissecting the aggregate expense into individual components of headcount and per capita employee benefits. Despite a relatively stable workforce size, there was a notable increase in average benefits per employee in 2023, peaking at ₹3.15 million. This escalation is attributed to a slight contraction in the workforce, from 9610 in 2019 to 9413 in 2023 within the service segment, aligning with a rising national attrition trend (Graph 9 Service segment). To retain its valuable human resources, Cyient aligned its compensation strategies, accordingly, resulting in increased aggregate wage outlay.



***Graph 9**: Number of employee and average benefits per employee*
Source: Analyst estimate,2023

Beyond the sphere of employee remuneration, 'other operating expenses' occupy a significant portion of the service segment's cost structure. Combined with employee benefits, they account for over 96.3% of total expenses in 2023. This category encompasses approximately twenty different line items, with subcontractor charges notably comprising approximately 40% of the segment's ancillary operating costs over the past five years. Given Cyient's diverse industrial engagements, it is implausible to maintain internal expertise across all sectors, necessitating reliance on subcontractors. These essential services incur substantial costs, which have seen an uptick from ₹3139 million to ₹4023 million, particularly influenced by an expansion in clientele within the semiconductor sector — a relatively new addition to Cyient's business portfolio (Cyient Annual Report, 2023). Despite a rise in overall operating expenses, the proportion of subcontractor charges relative to other operating costs actually diminished from 41.91% to 36.93%. This was a consequence of an unanticipated surge in 'legal and professional charges' stemming from singular legal expenses related to litigation and mergers and acquisitions activities which increased the



***Graph 10**: Proportion of subcontractor charges.*
Source: Analyst estimate,2023

level of other operating costs (Cyient Annual Report, 2023) (Graph 10 Service Segment).

Conversely, the DLM segment's reliance on personnel expertise is not as pronounced as in the services sector, given the manufacturing orientation of its operations. Here, the Cost of Goods Sold (COGS) prominently figures as the predominant expense, constituting 85.92% of the division's operational costs in 2023 (Graph 8). The COGS's elevation in the preceding year should not be misconstrued as inefficiency but rather as a growth commensurate with revenue augmentation. Reflective of this, the division's revenue saw a rise of 15.48%, while COGS climbed by 12.76%. This revenue-COGS proportionality underscores why revenue growth is deemed the principal driver of COGS. The heightened demand for the DLM products, which is evident from the revenue growth, necessitated the public listing of the subsidiary to bolster its capital reserves, ensuring its preparedness to meet the burgeoning market demand.

Revenue Forecast

Quarter results FY24	Q1	Q2	Forecasted Revenues of FY 24
Cyient Limited	17785	16865	69300
Cyient DLM	2171	2918	10178.96
Cyient Revenues without DLM			59121.04
Δ% from 2023			14.05%

Table 4: The first two quarters revenues of Cyient Ltd and Cyient DLM
Source: Cyient Ltd quarterly reports, 2023

The projection of future revenues for Cyient Ltd in FY2024 involves an analysis of the first two quarterly reports. Cyient Ltd, on a group basis, recorded ₹17,785 million in operating revenues in the first quarter and ₹16,865 million in the second quarter. In contrast, Cyient DLM's revenues were ₹2,171 million in the first quarter and ₹2,918 million in the second quarter. It is projected that the operating revenues in the second half of FY2024 will mirror those of the first half, leading to a forecast of standalone operating revenues for Cyient Ltd at ₹59,121 million, representing a year-over-year (YoY) growth of 14.05% for FY2024 (Table 4).

An analysis of Cyient Ltd’s historical revenue split by industry indicates a pattern of low volatility. Consequently, it is projected that the future revenue split by industry will align with the historical average. A similar trend of low volatility is observed in the revenue split by operating regions. Therefore, it is anticipated that the future revenue split by operating regions will also remain consistent with the historical average.

Growth in specific industries is expected to stimulate increased demand for services, potentially driving revenue growth for Cyient Ltd. So we started to analyze the expected growth of the industries where Cyient Ltd operates in. The Aerospace and Defense industry is anticipated to grow at a CAGR of 6.3% from 2023 to 2028 (Yahoo finance,2023), with specific growth projections of 3.5% in APAC (Precedence research,2022) , 2.4% in Europe (Mordor Intelligence, 2023), and 2.37% in North America (Mordor Intelligence, 2023). The Europe Freight and Logistics Market is expected to grow, from $0.99 trillion in 2023 to $1.26 trillion by 2029, at a CAGR of 4.10% (Mordor Intelligence, 2023), at a CAGR 4.19% in North America (Mordor Intelligence, 2023) and at a CAGR of 5.24% in APAC (Mordor Intelligence, 2023). The Semiconductor Materials Market in Europe is projected to grow from USD 5.45 billion in 2023 to USD 6.94 billion by 2028, at a CAGR of 4.94% (Yahoo Finance). In North America, the Semiconductors market is poised for a CAGR of 6.01% (Statista, 2023), while the APAC region's semiconductor industry is expected to experience a robust CAGR of 8.34% (Mordor Intelligence, 2023). The Medical & Healthcare industry is forecasted to grow significantly, with a CAGR of 16.4% in North America (Spherical Insights, 2023), 6.8% in APAC (Market data forecast,2023), and 19.4% in Europe (Graphical research 2023). The Communication industry is also expected to see growth, with CAGRs of 1.42% in North America (Statista, 2023), 10.1% in APAC (Communication market in APAC,2023), and 2.65% in Europe (Statista, 2023). The energy industry is projected to grow at

CAGRs of 11.13% in APAC, 10.63% in Europe, and 9.01% in North America (Statista, 2023). Lastly, the mining industry is expected to grow at a CAGR of 4.30% in APAC, 4.04% in Europe, and 12.5% in North America (Statista, 2023). Incorporating these assumptions, alongside the forecasted growth rates of industries the revenue growth forecast for FY2026 and FY2027 is calculated using the following formula:

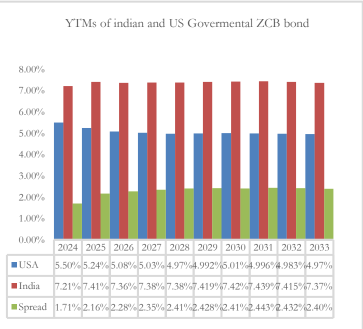
g = RPPR1 * (RPPI1 * CAGRPIPR1 + …) + RPPR2 * (RPPI2 * CAGRPIPR2 + …) + RPPR3 * (RPPI3 * CAGRPIPR3 + …)

Here, RPPR represents Revenue Percentage Per Region, RPPI denotes Revenue Percentage Per Industry, and CAGRPIPR signifies Compounded Annual Growth Rate Per Industry Per Region.

This calculation yields a growth rate of 5.38%. For FY2025, the revenue growth rate is projected to be an intermediate value between 14.05% and 5.38%, estimated at 11.5%. From the perspective of market industry, the rate of growth expansion has slightly narrowed and is expected to stabilize at a rate of 2% from FY2028 onwards.

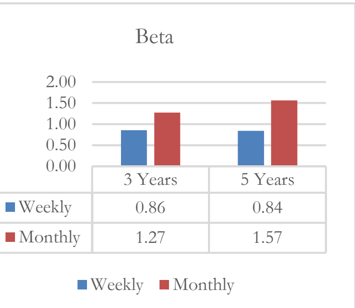
WACC

In our assessment of Cyient Ltd.'s Weighted Average Cost of Capital, we initiated the analysis by gathering data on the various types of debt within the company's capital structure. Notably, Cyient Ltd. has not issued any bonds, which shaped our initial approach. The primary step involved assessing the company's historical credit rating using Altman's Z" score model. Over the past five years, Cyient Ltd. has consistently maintained an AAA credit rating.



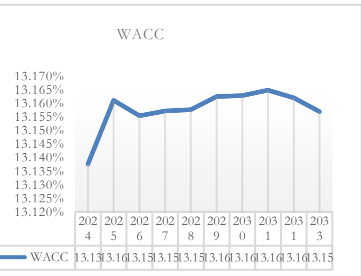
***Graph 11**: YTMs of Indian and US Governmental ZCB bond*
Source:World governmental bonds, 2023

Given that our valuation scenarios do not anticipate a significant increase in the company's debt levels, and considering its historical credit rating, we have assumed that Cyient Ltd. will maintain its AAA rating in the foreseeable future. To calculate the cost of debt, we analyzed India's credit spread by calculating the difference between the Yield to Maturity (YTM) of Indian and U.S. Zero coupon government bonds(Graph 11). This analysis informed our calculation of the company's cost of debt.



***Graph 12**: Beta of Cyient Ltd*
Source: Analyst estimate, 2023

For the estimation of the cost of equity, we employed the Capital Asset Pricing Model (CAPM). To obtain the necessary inputs for the CAPM, we began by selecting the NIFTY 50 index as a representative market index for India. We then calculated Cyient Ltd.'s beta, considering both 5-year and 3-year periods, as well as using monthly and weekly returns (Graph 12). After estimating the Beta, we made another assumption regarding the future capital structure of Cyient Ltd. We assume that the Debt-to-Enterprise Value (D/EV) ratio will remain constant in the future. Following these calculations, assumptions, and analyses, we have assessed the WACC (Graph 13).



***Graph 13**: WACC.*
Source: Analyst estimate, 2023

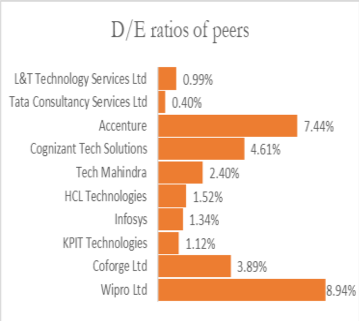
To evaluate the WACC of Cyient DLM, we applied the same technique as used for Cyient Ltd. However, considering that Cyient DLM has only recently gone public, we estimated the company's beta using its comparables to avoid biased beta estimates. For the comparable analysis of Cyient DLM, we utilized a narrowed peer group. This approach was chosen because it includes competitors that have also gone public relatively recently, thus providing a more relevant and accurate benchmark.

Comparable Analysis

Company	Ticker
Wipro Ltd	WIPRO.NS
Coforge Ltd	COFORGE.NS
KPIT Technologies	KPITTECH.NS
Infosys	INFY.NS
HCL Technologies	HCLTECH.NS
Tech Mahindra	TECHM.NS
Cognizant Tech Solutions	CTSH
Accenture	ACN
Tata Consultancy Services Ltd	TCS.NS
L&T Technology Services Ltd	LTTS.NS

***Table 5**: Broad Peer group*
Source: Analyst estimate, 2023

To gain better insights into the fair value of Cyient Ltd, multiple analysis has been utilized. This analysis began by selecting appropriate peers for comparison. Various factors were considered in this selection process, including operating industries, regions, growth, and size. Table 5 presents the names and tickers of the companies in the peer group. Subsequently, the multiples of these peers were analyzed to determine which would provide a more accurate approximation of Cyient Ltd's Enterprise Value. An EBITDA-based multiple, specifically the EV/EBITDA ratio, was initially used to capture the companies' financial performance. A close examination of the financial statements, particularly the D/E ratios of the companies in the peer group, revealed that these companies have low D/E ratios. It is notable from Table 6 that the company with the highest D/E ratio is Wipro Ltd, at 9%, indicating that, overall, the companies are low-levered. Considering this, the P/E ratio was chosen as the second multiple for analysis.



***Graph 14**: D/E ratios of peer group*
Source: Analyst estimate, 2023

	Broad List		Narrow List	
Multiple	EV/EBITDA	P/E	EV/EBITDA	P/E
Share price	₹ 1,721.33	₹ 1,721.96	₹ 2,215.64	₹ 1,846.54

***Table 6**: The results of comparable analysis*
Source: Analyst estimate, 2023

The comparative analysis was conducted in two stages: first with a broad peer group and then with a narrow peer group. The analysis using the broad peer group suggested a share price for Cyient Ltd of ₹1721.33 using the EV/EBITDA multiple and ₹1721.96 using the P/E multiple. The narrow peer group consisted of companies closely aligned with Cyient Ltd in terms of operating regions, customer industries, size, and growth. The analysis with this narrow peer group yielded a share price of ₹2215.64 using the EV/EBITDA multiple and ₹1846.54 using the P/E multiple. Table 6 provides the results of this comparable analysis.

Multiple	EV/EBITDA	P/E
Share Price	₹ 444.07	₹ 405.10

Table 7: The results of comparable analysis Cyient DLM
Source: Analyst estimate, 2023

Taking into consideration that Cyient DLM recently went public, the comparable analysis for Cyient DLM was conducted solely with a broad peer group. The methodology of the analysis paralleled that used for Cyient Ltd. The same multiples were employed to forecast the share price of Cyient DLM. The outcomes of the analysis are presented in Table 7.

Sensitivity analysis

Terminal Value

₹ 261,177.22	3.16%	3.41%	3.66%
12.91%	₹ 261,275.19	₹ 268,049.73	₹ 275,186.69
13.16%	₹ 254,743.84	₹ 261,177.22	₹ 267,945.55
13.41%	₹ 248,531.05	₹ 254,648.31	₹ 261,075.71

Enterprise Value

₹ 216,451.39	3.16%	3.41%	3.66%
12.91%	₹ 218,379.53	₹ 220,651.45	₹ 223,044.91
13.16%	₹ 214,336.41	₹ 216,451.39	₹ 218,676.49
13.41%	₹ 210,521.84	₹ 212,493.34	₹ 214,564.81

Share price

₹ 2,007.05	3.16%	3.41%	3.66%
12.91%	₹ 2,024.45	₹ 2,044.96	₹ 2,066.56
13.16%	₹ 1,987.97	₹ 2,007.05	₹ 2,027.13
13.41%	₹ 1,953.54	₹ 1,971.33	₹ 1,990.03

***Table 8:** The results of sensitivity analysis*
Source: Analyst estimate, 2023

To determine the estimated range of Cyient Ltd's Enterprise Value and share price, a sensitivity analysis was conducted using two variables: the growth rate and the WACC. The growth rate varied from 3.16% to 3.66% in increments of 0.25%, while the WACC ranged from 12.91% to 13.41%, with the same step size. Initially, the analysis focused on the Terminal Value, which revealed a range from ₹248 billion in the worst-case scenario to ₹275 billion in the best-case scenario. This led to an Enterprise Value ranging between ₹210 billion in the worst case and ₹223 billion in the best case. When this analysis was applied to the share price, it indicated a range from ₹1953.54 in the worst-case scenario to ₹2066.56 in the best case (Table 8).

Conclusion

This Equity Research Report has valued the share price of Cyient Ltd at ₹2007.05 as of December 13, 2023, utilizing the Discounted Cash Flow (DCF) valuation method, underpinned by the assumptions detailed in this report and the accompanying joint report. With the trading price on December 13, 2023, being ₹1983.45, our analysis concludes that the stock is appropriately valued. Therefore, we recommend a "HOLD" position on Cyient Ltd's shares.

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