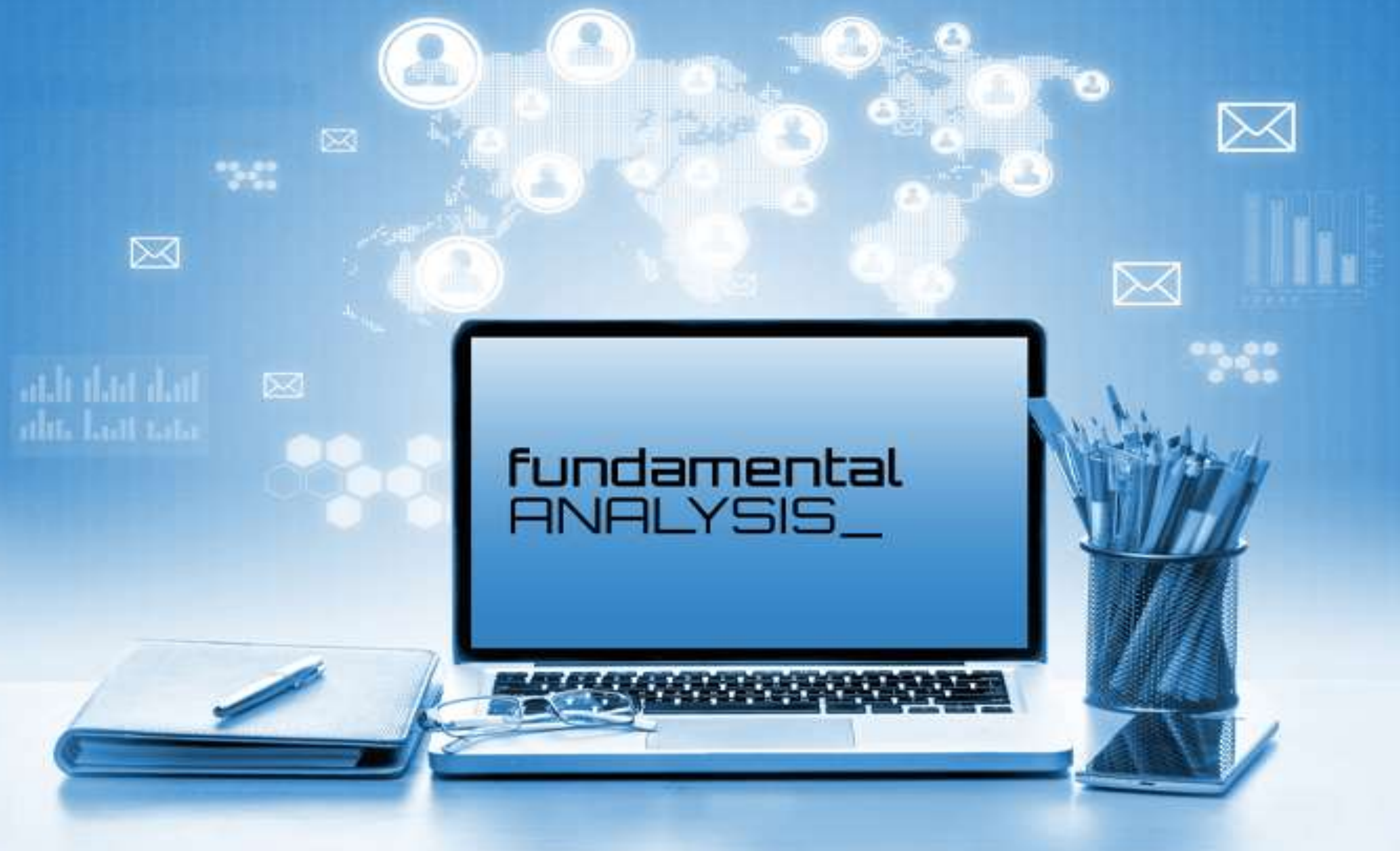
Stock Update

Cyient Ltd.

April 03, 2024



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Cyient Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
IT Consulting & Software	Rs. 2009.10	Buy in the Rs 1989-2029 band & add more on dips to Rs. 1774-1812 band	Rs. 2191	Rs. 2340	2-3 quarters

HDFC Scrip Code	CYILTD
BSE Code	532175
NSE Code	CYIENT
Bloomberg	CYL IN
CMP April 02, 2024	2009.1
Equity Capital (Rs Cr)	55.2
Face Value (Rs)	5.0
Equity Share O/S (Cr)	11.0
Market Cap (Rs Cr)	22,271
Book Value (Rs)	364.0
Avg. 52 Wk Volumes	497,043
52 Week High	2457.0
52 Week Low	987.9

Share holding Pattern % (Dec, 2023)	
Promoters	23.2
Institutions	56.8
Non Institutions	20.0
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

Cyient (formerly known as Infotech Enterprises Ltd) is a global Digital, Engineering and Technology solutions company. It operates through eight strategic business units: Aerospace; Rail Transportation; Communications; Mining; Energy and Utilities; Medical; Semiconductor; Hi-Tech & Automotive. Its subsidiary Cyient DLM (earlier Rangsons) listed separately in the July-2023 in the Indian equity market, provides design integration and production facilities to designs created in the engineering stage, thus enabling Cyient to provide design-to-production solutions to its clients. Cyient has 300+ customers across 14 countries.

Cyient signed 8 deals in Q3FY24, 4 deals in Aerospace, 2 in Communications, and 1 each in Sustainability and New-growth areas. Its total order intake was at all-time high and stood at US$ 297.3 Mn in Q3FY24, vs. US$ 184 Mn in Q2FY24, US$ 193.2 Mn in Q1FY24, book to bill ratio stood at 1.7x TTM sales as on Dec 31, 2023.

Despite a weak discretionary spend outlook across the verticals and geographies, we believe revenue growth for FY25E could surprise positively. Cyient maintained DET (Digital, Engineering, Technology) revenue growth guidance to be in the range of 13 –13.5% YoY in constant currency terms for FY24E and the company expects FY24E EBIT margins to improve by 200–250 bps YoY.

On Nov 20, 2023, we had issued a stock update on Cyient Ltd. (Link) and recommended to buy in the Rs. 1716-1750 band & add more on dips to Rs. 1526-1556 band for base case target of Rs 1891 and bull case target of Rs 2055 over the next two to three quarters. The stock achieved its both targets before expiry of the period. Given healthy growth outlook and expectation of strong set of numbers in Q4FY24, we now issue a stock update.

Valuation & Recommendation:

We like Cyient in the ER&D space as it offers niche products and process engineering services in domains such as Transportation (Aerospace & Railway), Communication, Utilities, semiconductors etc. The company's growth in large accounts and new client additions, pricing trends in existing clients and stable spending by clients in the engineering services vertical, are its growth drivers. Revenue growth is becoming broad-based with aerospace leading the show, the rail vertical bottoming, and the other verticals continuing to generate faster-than-company-average growth.

Cyient's focus on large deals, client mining, strong relationship with clients, healthy order book and timely acquisitions to support its product solutions profile could result in healthy revenue trajectory in coming years. **Investors can buy in the Rs 1989-2029 band and add on dips in the Rs 1774-1812 band (18x FY26E EPS). We believe the base case fair value of the stock is Rs 2191 (22x FY26E EPS) and the bull case fair value of the stock is Rs 2340 (23.5x FY26E EPS) over the next 2-3 quarters. At the LTP of Rs 2009.10, the stock is trading at 20.2x FY26E EPS.**

Financial Summary (Consolidated)

Particulars (Rs cr)	Q3FY24	Q3FY23	YoY-%	Q2FY24	QoQ-%	FY22	FY23	FY24E	FY25E	FY26E
Total Operating Income	1821	1618	12.6	1779	2.4	4,534	6,016	7,127	8,108	9,504
EBITDA	326	283	15.1	326	0.1	822	1,024	1,302	1,483	1,778
Depreciation	66	70	-5.4	66	0.5	192	257	273	262	269
Other Income	19	28	-31.6	14	39.3	112	81	68	65	65
Interest Cost	29	26	9.5	27	6.7	43	100	102	95	88
Tax	47	50	-6.4	57	-18.0	176	184	238	304	382
APAT	153	156	-1.8	184	-16.6	522	514	744	887	1,103
Diluted EPS (Rs)	13.8	14.1	-1.8	16.6	-16.6	47.1	46.4	67.1	80.1	99.6
RoE-%						17.2	15.6	20.2	21.5	23.3
P/E (x)						42.6	43.3	29.9	25.1	20.2
EV/EBITDA (x)						25.3	21.4	16.5	14.2	11.6

(Source: Company, HDFC sec)

Q3FY24 Result Update

- Cyient's revenue was in line with estimates, but net profit was below expectations in Q3FY24. DET revenue grew by 1% QoQ and 8.1% YoY to Rs 1491 crore. Its DET (Digital, Engineering & Technology) revenue grew by 0.1% QoQ and 5.4% YoY to USD 179.2 mn. In CC terms, revenue grew by 1.1% QoQ and 5.4% YoY. Consolidated revenue grew by 2.4% on QoQ basis, and 12.6% YoY to Rs 1821 crore; it reported revenue at $219 Mn; growth of 10.1% cc YoY.
- DET's EBIT margin was at 16%, down by 50bps QoQ and up by 210 bps YoY. DET PAT was at Rs 173 crore, unchanged QoQ, and up 11.5% YoY, excluding an exceptional item. Consolidated Net Profit fell by 16.6% QoQ and 1.8% YoY to Rs 153.2 crore, impacted by an exceptional item of Rs 50.3 crore, for settlement of antitrust lawsuit, filed in US District Court. Consolidated PAT margin was at 8.4% in Q3FY24 vs. 10.3% in Q2FY24 and 10.2% in Q3FY23.
- Segment wise performance: Transportation (-2.2% cc QoQ), connectivity (+0.2% cc QoQ), Sustainability (+8.2% cc QoQ) and New Growth Areas (+-3.4% cc QoQ).
- Cyient reduced its DET revenue growth guidance, and now expects in the range of 13-13.5% in constant currency terms for FY24E vs. earlier guidance of 15 –20% YoY and expects FY24E EBIT margins to improve by 200-250 bps vs. previous guidance of 150–250 bps YoY.

Q4FY24E Result Preview

- Cyient could report 1.4% QoQ and 4.3% YoY revenue growth to Rs 1512 crore in Q4FY24 and PAT could grow by 24.9% QoQ and 13.4% YoY to Rs 168 crore. EBIT margin is expected to dip by 30 bps QoQ to 15.7% and it could increase by 60bps YoY.

Key Updates

Strong deal momentum and recovery in vertical to drive growth

Cyient won 8 large deals in DET business with total contract potential of $136.8 Mn in Q3FY24, 5 large deals of $51.4 Mn in Q2FY24, 6 large deals in DET business with total contract potential of $48.8 Mn in Q1FY24. The company signed 4 deals in Aerospace, 2 in Communications, and 1 each in Sustainability and New-growth areas. Total order intake was at all-time high and order book stood at US$ 297.3 Mn in Q3FY24, vs. US$ 184 Mn in Q2FY24, US$ 193.2 Mn in Q1FY24, book to bill ratio stood at 1.7x TTM sales as on Dec 31, 2023.

The company is focused to strengthen its sales teams for winning large deals and it will continue to invest to strengthen its digital portfolio. The current order book or intake has not included any acquired entities but the integration process will provide a better view going forward.

The deal pipeline also remains healthy, adding to confidence in the company's guidance of delivering DET revenue growth in the range of 13-13.5% in FY24E. The company has not done M&A activity over the last two to three quarters. The company is also winning incremental deals from OEMs and operators in the telecom space. We expect overall revenue growth 18.5%/13.8%/17.2% in FY24E/FY25E/FY26E, respectively.

Robust demand across the majority of its verticals

Cyient has classified its business units into four key verticals, (1) Transportation: Aerospace + Rail Transportation, (2) Connectivity: Communication (3) Sustainability: Mining, Energy & Utilities (4) New Growth Areas: Medical, Semiconductor, Hi-Tech and Automotive. The company is focused on strengthening and building intelligent engineering and technology solutions across the verticals.

Over all business segments are clubbed as **Cyient DET (Digital, Engineering & Technology):** Consolidated Services (Transportation: Aerospace + Rail Transportation, Connectivity: Communications, Sustainability: Mining, Energy & Utilities, New Growth Areas: Medical, Semiconductor, Hi-Tech and Automotive) + Engineering Parts business (Engineering Parts business was included in Cyient DLM segment earlier)

The company sees huge opportunity across its business verticals

Transportation

- Aerospace: Investments in modular designs, variants & upgrades of existing platforms, sustainability and Industry 4.0 technologies. Defense spending, Safe, Efficient and advanced air-mobility solutions.
- Rail: Focus continues to be on high-speed rail, predictive maintenance, advanced signalling systems, decarbonization, and Autonomous operations which will provide growth opportunities.
- Defence: Increased spend on defense and upgrades, Manufacturing efficiency enhancements, Supply chain, Aftermarket and MRO activities and new players in Urban Air Mobility space could propel growth in this sector.

Connectivity:

- Investments in Fibre supported by Government spending around RDOF & BEAD programs continue to be the drivers of growth.
- Process modernization using ITSM through technology Partners, Network Management / Testing, Network densification and slicing, digitalization and pervasive use of data driven applications will drive more growth.

Sustainability:

- As governments across the globe take initiatives to boost sustainability, enterprises will continue to increase their sustainability initiatives and efforts.
- For Energy and Utilities company, transition to a lower carbon integrated energy systems and the increase in distributed generation would mean transition of Distribution Network Operators (DNOs) to become Distribution System Operators (DSOs).
- Hydrogen &Ammonia based green energy and Carbon Capture Utilization and Storage, Skid based packages for carbon capture for FPSO's are also becoming the growth agents for new business opportunities

New Growth Areas:

- Auto: Shift towards electrification, autonomous and connected vehicles will bring in more opportunities for engineering services in the areas of design and development of EV components, battery technologies, charging infrastructure, electric drivetrains, advanced driver-assistance systems (ADAS), sensor technologies, and connectivity solutions.
- Healthcare sector: Continuous investments and opportunities in Predictive, Proactive and Personalized patient care, connected devices, Digital platforms, shift to value-based care and need for accelerated testing.
- Semiconductors: Propelled by miniaturization, next-gen chips, advanced packaging systems and increased usage of AI in Chip design and making. Low energy consumption chips will also drive growth.

Transportation vertical to see growth momentum in medium term

Cyient's transportation vertical was down due to the slowdown in Railways. We have seen priority on government-led spending toward defense instead of building rail infrastructure. Cyient Ltd is optimistic to see the continued growth momentum in Transportation verticals driven by healthy demand within the Commercial Aerospace. The Aerospace demand of the Maintenance, Repair and Overhaul (MRO) and engineering services is relatively strong and gaining strength due to strong Air Traffic volume. Besides, rising urbanization, growing population, and an e-commerce boom necessitate a modern, safe, and affordable mode of transportation for people and goods. While the design engineering service is volatile, once development cycle with a new platform starts, the design service is expected to gain momentum. However, the timeline of development cycle is uncertain. Once the interest rate is starting to coming down and settling the sign of recovery, spending pattern could start in transportation verticals. The growing travel demand is likely to provide opportunities on MRO manufacturing production rate improvement of aircrafts engines.

Recently on Jan 12, 2024, Cyient entered into a memorandum of understanding with SkyDrive Inc., a leading Japanese eVTOL aircraft manufacturer. As per the MoU, both companies have agreed to work in partnership across product development, engineering, manufacturing, and digital services.

Urban Air Mobility (UAM) offers seamless, secure, and rapid transportation, helping to mitigate current and future challenges faced in urban areas. As per current estimates, the UAM aircraft market is expected to grow to around $25-30 billion by 2030.

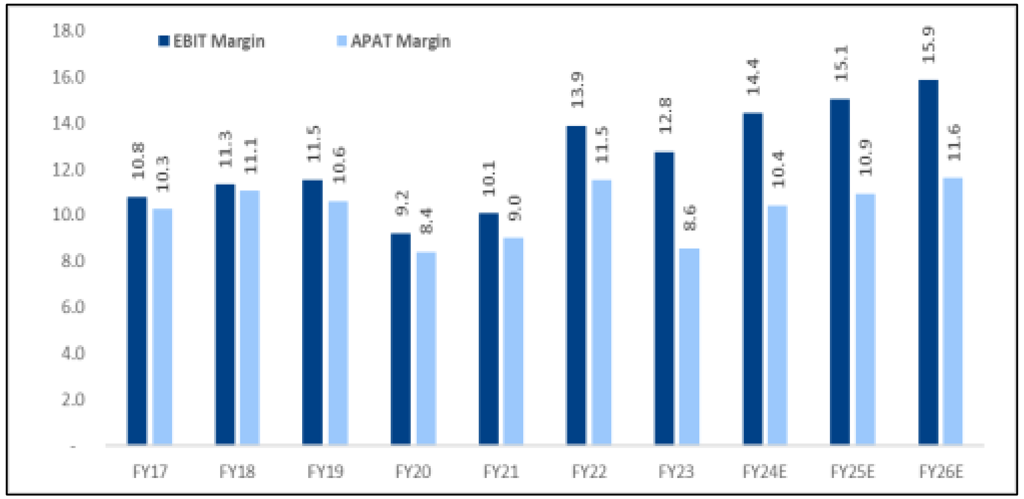
By partnering with Cyient, SkyDrive has the opportunity to leverage India's engineering ecosystem, which is rich in talent, innovation, and technology. This collaboration will enable SkyDrive to cater to the global Urban Air Mobility (UAM) market, including India. Cyient is one of India's leading engineering and technology solution companies with a wide range of business operations around the world, including aerospace/mobility industries.

On March 13, 2024, Cyient has signed a multiyear services agreement with Airbus for Cabin and Cargo Engineering. Following this agreement, Cyient has been selected by Airbus for the development of a part of its cabin 'Intelligent Core Management Platform' (iCMP). These systems focus on enabling faster software updates, easy and rapid customization, and proliferation of digital services in Cabin.

Margins stability led by operational efficiencies

Cyient margins in Q3FY24 were disappointing, DET's EBIT margin was at 16%, down by 50bps QoQ and up by 210 bps YoY and consolidated PAT margin was at 8.4% in Q3FY24 vs. 10.3% in Q2FY24 and 10.2% in Q3FY23. However, the current margin run-rate suggests a comfortable level to the top end of its guidance band of 200-250bp YoY improvement.

EBIT and PAT Margins (%)



(Source: Company, HDFC sec)

The impact of wage hike was seen in Q3FY24 and expected to flow through Q4. However, the company remains confident enough to absorb the impact through multiple margin levers. Taking into the consideration the margin levers like cost rationalisation, favourable currency movement, increasing trend of utilisation, traction in digital technology, price hikes, hyper automation and other operational efficiencies, the margin improvement could continue in Q4FY24E and beyond. The company has maintained the normalized EBIT margin improvement guidance to 200-250bp for FY24E vs. previous guidance of 150–250 bps YoY. Hence, we expect EBIT margins at a range of 14.5% to 16% for FY24E to FY26E and PAT margins at a range of 10.5% to 12% for FY24E to FY26E.

Strong fundamentals led by healthy debt protection metrics and liquidity

- The company has reported stable and strong revenue growth in the past. In FY23, the company generated total revenue of Rs 6,016 crore and net profit of Rs 514 crore, which grew at a CAGR of 12.4% and 11.4% over the last decade. We expect consolidated revenue to grow at a 16.5% CAGR and net profit to grow at a ~29% over FY23-FY26E.
- The company has reported EBITDA margin at 13.5-18% band over the past and we expect margin at 18-19% in next three years, supported by cost rationalisation efforts.
- Debt protection metrics are robust, backed by minimal debt of Rs 959 crore and sizeable networth of Rs 4331 crore, and total debt to equity ratio stood at 0.2x as on Sept 30, 2023.
- Cash and cash equivalents, including long-term treasury investments, at Rs 1123 crore at the end of Dec 2023 and DET free cash flow stood at Rs 192 crore, a growth of 51.3% year-on-year. However, normalised Free Cash Flow generation of DET for FY23 was Rs 154 crore, a conversion of 51% on Normalised EBITDA (conversion of 89% on Normalised PAT).
- The company is expected to incur capex to the tune of 2-3% of revenues. Cyient has healthy cash on its balance sheet, which it plans to utilise for M&A, investment in digital capability (that the company lags in) and captive takeover. Further, the company may consider a buyback.
- The net receivables days stood at 65 days in H1FY24 vs. 68 days in FY23 and 59 days in FY22.
- We expect the FCF to remain positive, going forward, even after factoring in annual capex. Because of cost rationalization efforts, the company could see growth in profitability as well as better return ratios in the future. Rise in net profit margin could help to increase its return ratios, we expect RoE at 20.5-23.5% and RoCE at 18-21.5% over FY23E to FY26E, respectively.
- The company has recommended an interim Dividend of Rs 12/- per equity share on par value of Rs. 5 per share for FY24E, and the company had recommended total net dividend of Rs 24.8/ share in FY23, dividend payout stood at 53.3% and dividend yield is 1.2%.

What could go wrong?

- Indian rupee appreciation against the USD, pricing pressure, retention of the skilled headcount, strict immigration norms and rise in visa costs are key concerns.

- Attrition remained high (though falling) at 18.4% in Q3FY24, 20.4% in Q2FY24, 23% in Q1FY24, 25% in Q4FY23, 26.5% in Q3FY23 and 26.2% in Q4FY22, led by intense competition and demand for talent. However, the pressure of attrition is falling across the sector and the company is looking to reduce attrition through wage hikes.
- ER&D activity in key verticals (e.g., Aerospace and Rail, Transportation, and Semiconductors) witnessed a material slowdown in the past. Adverse developments in this regard could impact its order inflow. Both domestic and international travel are important for the industry to bounce back. Cyient has started to see some early green shoots and hopes for continued traction in the coming quarters.
- Higher than expected debt funded capex or acquisition could lead to deterioration in profitability and could impact cash generation.
- Cyient generated about 30% of its revenue from Transportation including aerospace and rail industries and about 23% from Connectivity (communication) sector in Q3FY24, while its top 5 and top 10 customers contributed 29.8% and 39.8% of its revenue in Q3FY24. Continued slowdown in any of the large segments or delay in capex program by one or more of its top 5 clients could significantly impact its growth.
- Any non-renewal of contracts or higher discounts due to aggressive competition intensity can impact the sustainability and scalability from such clients.
- Promoter holding is just 23.5% as on Dec 31, 2023 any stake sale by promoter in near future could hit investor sentiment towards the company.

Key Operating Metrics

BU Performance

Revenue US$ Mn	Q3 FY24	QoQ (cc)	QoQ ($)	YoY (cc)	YoY ($)
Transportation	53.8	**-2.2%**	-2.6%	**16.9%***	17.3%
Connectivity	41.3	**0.2%**	-0.5%	**-13.9%**	-12.1%
Sustainability	53.2	**8.2%**	7.4%	**22.1%**	24.3%
New Growth Areas	30.8	**-3.4%**	-4.0%	**-5.5%**	-4.4%
DET	**179.2**	**1.1%**	**0.4%**	**5.4%**	**6.7%**

Revenue by Geography-%

DET	Q3 FY24	Q2 FY24	Q3 FY23
Americas	43.9%	43.0%	48.1%
Europe, Middle East, Africa	35.0%	33.4%	32.8%
Asia Pacific (including India)	21.1%	23.6%	19.0%

Peer Comparison

Rs in Cr	Mkt Cap, Rs in Cr	Revenue			EBIT			PAT			RoE-%			P/E (x)		
		FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Cyient	22271	7127	8108	9504	1029	1221	1508	744	887	1103	20.2	21.5	23.3	29.9	25.1	20.2
LTTS	59047	9623	10891	12640	1650	1907	2337	1301	1521	1842	24.3	24.6	25.8	45.3	38.7	32.0
Tata Elxsi	47976	3563	3986	4717	955	1054	1301	796	885	1092	34.9	32.7	34.1	60.2	54.2	43.9

(Source: Company, HDFC sec)

Financials (Consolidated)

Income Statement

(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	**4534**	**6016**	**7127**	**8108**	**9504**
Growth (%)	**9.7**	**32.7**	**18.5**	**13.8**	**17.2**
Operating Expenses	3713	4992	5825	6625	7726
EBITDA	**822**	**1024**	**1302**	**1483**	**1778**
Growth (%)	**34.6**	**24.6**	**27.1**	**13.9**	**19.8**
EBITDA Margin (%)	**18.1**	**17.0**	**18.3**	**18.3**	**18.7**
Depreciation	192	257	273	262	269
EBIT	**630**	**768**	**1029**	**1221**	**1508**
Other Income	112	81	68	65	65
Interest expenses	43	100	102	95	88
PBT	**698**	**749**	**995**	**1192**	**1485**
Tax	176	184	238	304	382
RPAT	**522**	**565**	**757**	**887**	**1103**
APAT	**522**	**514**	**744**	**887**	**1103**
Growth (%)	40.5	-1.5	44.6	19.3	24.4
EPS	**47.1**	**46.4**	**67.1**	**80.1**	**99.6**

Balance Sheet

As at March	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	55	55	55	55	55
Reserves	3061	3411	3825	4332	5019
Shareholders' Funds	**3117**	**3467**	**3880**	**4387**	**5075**
Long Term Debt	2	494	444	414	384
Net Deferred Taxes	10	35	10	10	10
Long Term Provisions & Others	375	485	509	495	520
Minority Interest	**-3**	**-3**	**-3**	**-3**	**-3**
Total Source of Funds	**3500**	**4477**	**4840**	**5303**	**5985**
APPLICATION OF FUNDS					
Net Block & Goodwill	1345	2866	2831	2829	2864
CWIP	13	3	3	3	3
Other Non-Current Assets	149	93	79	67	51
Total Non Current Assets	**1507**	**2962**	**2913**	**2899**	**2917**
Inventories	279	436	351	400	469
Trade Receivables	733	1127	1230	1400	1640
Cash & Equivalents	1711	1238	1513	1855	2368
Other Current Assets	532	737	663	597	537
Total Current Assets	**3255**	**3538**	**3758**	**4251**	**5014**
Short-Term Borrowings	324	440	390	365	340
Trade Payables	526	714	781	889	1042
Other Current Liab & Provisions	412	869	660	594	565
Total Current Liabilities	**1262**	**2023**	**1831**	**1848**	**1946**
Net Current Assets	1993	1515	1927	2404	3069
Total Application of Funds	**3500**	**4477**	**4840**	**5303**	**5985**

(Source: Company, HDFC sec)

Cash Flow Statement

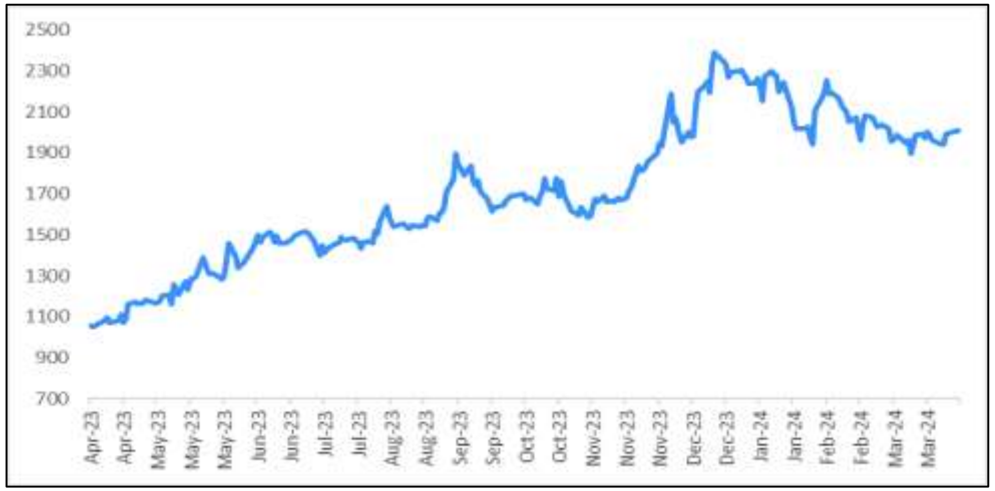
(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	698	681	995	1,192	1,485
Non-operating & EO items	-33	-7	-68	-65	-65
Interest Expenses	39	100	102	95	88
Depreciation	192	257	273	262	269
Working Capital Change	-97	-349	-87	-110	-127
Tax Paid	-165	-129	-238	-304	-382
OPERATING CASH FLOW (a)	**635**	**554**	**977**	**1,069**	**1,269**
Capex	-85	-964	-237	-262	-262
Free Cash Flow	549	-410	740	807	1,007
Investments	0	0	0	0	0
Non-operating income	28	-69	68	65	65
INVESTING CASH FLOW (b)	**-57**	**-1,033**	**-169**	**-197**	**-197**
Debt Issuance / (Repaid)	-55	212	-100	-55	-55
Interest Expenses	-17	-66	-102	-95	-88
FCFE	478	-264	538	657	864
Share Capital Issuance	12	8	0	0	0
Dividend	-295	-263	-330	-381	-416
FINANCING CASH FLOW (c)	**-354**	**-109**	**-532**	**-531**	**-559**
NET CASH FLOW (a+b+c)	**223**	**-588**	**275**	**342**	**513**

Key Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Profitability Ratio (%)					
EBITDA Margin	18.1	17.0	18.3	18.3	18.7
EBIT Margin	13.9	12.8	14.4	15.1	15.9
APAT Margin	11.5	8.6	10.4	10.9	11.6
RoE	17.2	15.6	20.2	21.5	23.3
RoCE	16.6	15.0	18.0	19.4	21.3
Solvency Ratio (x)					
Debt/EBITDA	0.4	0.9	0.6	0.5	0.4
D/E	0.1	0.3	0.2	0.2	0.1
PER SHARE DATA (Rs)					
EPS	47.1	46.4	67.1	80.1	99.6
CEPS	64.5	69.6	91.7	103.7	123.9
BV	277.7	312.8	350.2	395.9	458.0
Dividend	23.6	24.8	29.8	34.3	37.0
Turnover Ratios (days)					
Debtor days	59	68	63	63	63
Inventory days	22	26	18	18	18
Creditors days	42	43	40	40	40
VALUATION (x)					
P/E	42.6	43.3	29.9	25.1	20.2
P/BV	7.2	6.4	5.7	5.1	4.4
EV/EBITDA	25.3	21.4	16.5	14.2	11.6
EV / Revenues	4.6	3.6	3.0	2.6	2.2
Dividend Yield (%)	1.2	1.2	1.5	1.7	1.8
Dividend Payout (%)	50.1	53.5	44.4	42.9	37.2

(Source: Company, HDFC sec)

One Year Price Chart



(Source: Company, HDFC sec)

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

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