

CYIENT



25th ANNUAL REPORT

2015-16



25 YEARS OF DESIGNING TOMORROW TOGETHER

A portrait of B.V.R. Mohan Reddy, a middle-aged man with a mustache, wearing a dark suit, a light blue shirt, and a red patterned tie. He is smiling and has his hands clasped in front of him.

ENVISIONING THE FUTURE

Dear Shareholders,

It gives me immense pleasure to write to you on our 25th anniversary, when Cyient celebrates its silver jubilee. We are proud that we built a sustainable company over the last 25 years and realized many of our goals and aspirations. We are now even more motivated to scale Cyient to newer heights and build an organization that will last forever.

With this let me take you all through various industry and company updates through the year.

B.V.R. MOHAN REDDY
Founder & Executive Chairman

Macroeconomic Environment: We live in times when client expectations driven by digital technologies are creating challenges and opportunities alike with existing clients, new industry verticals and in many new geographies. In 2015, global economic activity remained subdued. Emerging markets and developing economies which account for 70% of global growth declined for the fifth consecutive year, while a modest recovery continued in advanced economies. The global economy grew by 3.1% in 2015 and is projected to grow by 3.4% during 2016. Last year, India was the fastest growing large economy with GDP growth of more than 7.6% and displayed strong financial discipline and emerged as the recipient of the highest FDI inflows surpassing China. However, we did face some global challenges: protectionism for free movement of talent, weakening of UK pound and other currencies because of Brexit, challenges with wage hikes and scarcity of resources in new technologies. Overall, from the macroeconomic perspective, we see growth in our business.

Indian IT-BPM Industry: Amidst a volatile global economic environment, the IT-BPM industry has still been able to grow from strength to strength and is sustaining its double-digit growth. The industry clocked \$143 billion in FY2016, doubling it over the last six years and crossing the \$100 billion milestone in export revenues. The rapid adoption of digital technologies by clients world over, will continue to see IT-BPM industry stay on its growth trajectory. In the digital world, we will see three types of businesses emerge: producers of technology, consumers of technology, and companies that are built on technology. India continues to gain market share in the global sourcing sector and has emerged as the largest diversified scalable destination.

Social, Mobility, Analytics and Cloud (SMAC), 3D Printing, Artificial Intelligence, Deep Learning, Automation, and Internet of Things (IoT) provide opportunities for new entrepreneurs and can challenge traditional market leadership. The fresh wave of startups have become the innovation hub of India. These startups are disrupting existing business models and creating new products and services with more value. We see a strong synergistic relation between the giant IT-BPM companies and these new-generation entrepreneurs.

Indian Government Initiatives: The government has been embracing the shifts in technology with new initiatives: Make in India, Smart Cities, Digital India, and Defence Procurement Policy (DPP). India has historically been a hub of creative minds and

has an edge in terms of designing. Make in India will become highly impactful if we look at it from the holistic view of Innovate>Create*Make*Support. India has the capabilities and ecosystem to become the design and innovation hub of the world, supporting complex and high-value manufacturing. Cyient and other design engineering players are examples of the design talent in India. Digital India initiative has the potential to transform our nation and create very positive social impact. Digital India will make it possible to reach the last mile to ensure that all citizens have access to essential services. Smart Cities initiative will help in making sure that India is creating the right infrastructure to house the ever-increasing population in urban areas. There is increased action from the government in defense procurement. Creation of defense export strategy and release of the new Defense Procurement Policy (DPP) are steps in the right direction. The government has also cleared new defence programs worth \$30 billion aimed at boosting domestic industry which should create a positive impact for Cyient in the coming years.

25 years of Cyient. Over the last 25 years, we have always made sure that we created value for our key stakeholders: clients, associates (employees), investors, and society. We have created industry best practices and have been persistent on further improvement to make sure we are leading the change. The continuous improvement in the results of client, associate, and investor satisfaction surveys gives us confidence that we have been equitable to all stakeholders. Repeat orders from existing clients remain high; associate engagement significantly improved last year and the overwhelming response to our Annual Investor Day confirms that our interventions are bearing results.

Strategy: To ride this tide of change, we are running initiatives to transform Cyient by focusing our business on seven industry verticals. We are redefining our business in line with our S3 strategy, restructuring our leadership to have more vertical-based roles and responsibilities, and pushing the boundaries to position ourselves as a Design Led Manufacturing Company. To track and execute this journey, we have defined our strategy and roadmap for 2020. Cyient has identified areas like Internet of Things, mechatronics, analytics, automation and robotics, and additive manufacturing as growth engines for the future.

Mergers and Acquisitions: We have very clear and ambitious goals for our company by 2020. As part of our growth initiatives, we completed several strategic acquisitions over the past two years. Rangsons Electronics is helping us design as well as manufacture for our clients.

Cyient Insights is creating synergistic opportunities in all verticals in big data and analytics. GSE (the aerospace aftermarket services business of Pratt & Whitney Singapore) is helping us provide repairs, development, and validation of aero engine components. These acquisitions were very well thought through and are in line with our Design, Build and Maintain strategy. The integration exercise is complete and the teams are very confident that starting this year these acquisitions will create a positive traction for our business.

Innovation: Innovation is in Cyient's DNA and our engineers have always delighted clients with innovative solutions. We have made significant and perceptible progress in enabling innovation across all our focus industries. We have launched organization-wide innovation challenges like Project Tango: aimed towards virtual reality and sensing technologies; Internet of Things Hackathon: developing working IoT-based prototypes in a week's time; and LEGO War: a rapid prototyping exercise to generate ideas. We established a world-class Experience Center that exemplifies 'Innovation @ Cyient' and incubates our Lego Lab, 3D Printing Lab, and IoT Lab. We are accelerating our innovation culture and emphasizing co-innovation and IP creation with clients. We filed 16 patents during FY15-16 including four patents that were independently filed by Cyient. During the year, we published 38 papers in different industry journals. In coming years, our endeavour would be to institutionalise "Innovation@Cyient".

Industry Analyst Ratings: We continue to reinforce our value proposition of Design-Build-Maintain that differentiates Cyient as a one-stop partner for global OEMs across several industry verticals. As per independent analyst firm Zinnov, Cyient continues to be the leader in Aerospace, Transportation, Energy & Utilities and Construction & Heavy Machinery industries. It also mentions Cyient as an "Established and Expansive" player in the newly-added segment, Mechanical Engineering Services, and an "Established and Niche" player in Embedded Systems. The leadership team at Cyient and our associates are confident that Cyient's brand promise of "Designing Tomorrow Together" is well poised to become a global brand that touches the lives of millions of people around the world.

Global Delivery Centers: To strengthen our footprint of over twenty global delivery centers, we recently established our presence in Eastern Europe. Cyient's new engineering center in Prague, Czech Republic will be fully functional over the coming quarters. Cyient is expanding the Sydney delivery center to support further requirements from our Telecom and Utilities clients. The UTC

Engineering Center in East Hartford is also being expanded. Cyient is building a new delivery center in Warangal, Telangana. In setting up these centers, we are judiciously balancing between client needs, resource availability, cost, and inclusiveness.

Corporate Social Responsibility (CSR): Cyient Foundation has adopted 16 schools in and around our facilities and supports over 10,500 children from primary education through high school. Cyient Foundation has implemented digital libraries in two schools and supports five National Digital Literacy Mission (NDLM) centers. Under the Swachh Bharat Initiative, Cyient Foundation introduced the Swachh Telangana-Swachh Pathashala campaign to provide water, sanitation and hygiene (WASH) facilities in 54 government schools benefiting over 20,000 students in Lingampally Mandal in Ranga Reddy District, Telangana.

To celebrate the silver jubilee year, Cyient is running an initiative to set up 54 Cyient Digital Learning Centers (CDLCs) across Serilingampally Mandal, Telangana. These CDLCs (computer center, digital library, and NDLM) are envisioned as the digital gateway for the underprivileged students and the surrounding BPL community. In this disruptive world, Cyient wants to be a supporter of digital transformation of society. This CSR initiative of Cyient will provide access to digital knowledge and open up new possibilities to more than 20,000 underprivileged children and will foster IT literacy in over 50,000 communities in the Mandal. 2500 Cyient associates have contributed 9000+ volunteering hours through various CSR activities during weekends and holidays.

Corporate Governance: The highest standards of corporate governance have been a cornerstone of Cyient and last year we further reinforced this by holding separate meetings of independent directors for systematic appraisal of the Board, Committees, Individual Directors, and the Chairman. We have implemented systems that provide more efficient information flow to the board and are leveraging technology solutions to enhance board committee interactions. Your company is committed to healthy motivation of its associates and in pursuit we have created new stock option plans. We have also increased our focus on non-financial disclosures through the publication of Business Responsibility Report.

Awards and Accolades: Cyient's ability to delight its clients through high-quality deliverables and exceptional services has been acknowledged by our top clients over many years. In 2015, Pratt & Whitney recognized Cyient as their most innovative supplier for the third consecutive year.

Cyient has been awarded Boeing's **Supplier of the Year Award 2015** in the service category for the third time and **Boeing Gold Level Performance Excellence Award 2015** for the first time. Also, our Design-Led Manufacturing (DLM) business received the **Best Supplier Award** from ABB for all round performance. The Economic Times recognized Cyient as the **Best Tech Brand** for 2015 in the IT and Engineering Services industry.

Conclusion: Over the past 25 years, Cyient has created a new industry segment—Engineering Services Outsourcing, and became the leader in pure play engineering services from India. This journey was tough. We never shied away from facing any challenge or adapting ourselves to market needs. Today Cyient has become synonymous with Design, Innovation, and Client Centricity.

Looking to the future, Cyient envisions itself as an engineering and technology leader, uniquely positioned as a design and manufacturing company. We will continue to attract the best technical minds, unleash their creativity, innovation and focus on solving tomorrow's even more complex problems.

I can envision the world being very different in the coming decade. However, I feel very confident that with 13,000+ talented associates, 300+ active clients, a strong investor base, and with a passion for creating social impact, we are embarking on a new phase of exceptional growth that will transform Cyient into an innovation-driven and globally successful technology brand.

Wish you all the best!


BVR Mohan Reddy

Contents

The Journey	07	Standalone Abridged	108
Key Milestones	10	Financial Statements	
Highlights of 2015-16	12	Consolidated Financial	129
Cyient at a Glance	14	Statements	
Board of Directors &	16	Historical Data	186
Senior Leaders		Financial Analysis	187
Managing Director &	18	Ratio Analysis	191
CEO's Message		Significant Milestones	193
Lead Independent	22	Shareholder Handbook	196
Director's Message		Share Price Movements	199
Corporate Information	24	Route Map to AGM Venue	200
Notice of Annual General	26	Global Presence	201
Meeting		ECS Mandate Slip	203
Directors' Report	33	Attendance Slip	205
Business Responsibility	42	Proxy Form	207
Report			
Management Discussion	61		
& Analysis Report			
Report on Corporate	83		
Governance			

The Journey

Completing 25 years is a significant milestone for any organization. Research shows that the average lifespan of a company listed in the S&P 500 index of leading US companies has decreased by more than 50 years in the last century, from 67 years in the 1920s to just 15 years today. I feel delighted to see that we have been able to create a sustainable business model which has delivered substantial value to all four stakeholders - clients, associates (employees), investors, and the society - for over last 25 years and beyond.

As Cyient completes 25 years, I wanted to share with you some reflections on our journey, how we transformed our organization over time and some thoughts for the future.

Built on Values: Cyient was built on strong values and that foundation has brought the company to where it is today. We always say our Values come FIRST which is an acronym for Fairness, Integrity, Respect, Sincerity and Transparency. The values of individuals and teams in an organization define their behavior and behavior in turn determines the organization's culture. We always believed that we should be equitable to every stakeholder who has made us successful. This has stood us in good stead especially in times of difficulty.

GIS Start-Up (Cyient 1.0) – Laying the Foundation:

Cyient started its journey in 1991 as Infotech Enterprises from the dining table in my modest home with four engineers who believed in my dream of building a global engineering services company. In 1991, India was taking its first steps towards becoming a global economy, encouraged by several reforms towards liberalization and globalization. The Internet revolution had arrived and I sensed the winds of change. The demand that was driving industrial growth in the western world had created a supply gap in skilled talent for engineering. We realized we had an opportunity to address this gap by leveraging the 'broadband disruption' that had connected India to the global economy.

While most of our peers in India concentrated on opportunities in the broader IT services space, we went down a road less traveled. We chose to lead rather than follow and it turned out to be the right decision. But it actually took us a while to realize our initial goal of creating an engineering services company. In 1991, Indian laws protecting intellectual property were not robust enough for the western world. The only engineering work

available was the low-end digitization of paper drawings and the volume was insignificant. It was hard to justify return on investment, which meant we could not get Cyient started as an engineering services company.

We continued to scan the market and soon found an interesting adjacency - the need to digitize maps for geographic information systems. In the early 90s, government and industry were taking the first steps towards becoming digital and began to invest in geographic information related to land, infrastructure, and assets. We found ourselves in the right market at the right time with the right business model. And we made the most of the opportunity.

Map digitization required technical skills to capture geographic data from paper maps accurately. The map databases we produced also needed to be intelligent. It was important to understand mapping standards and combine that with domain knowledge. While we instinctively sensed a tremendous opportunity, it was initially tough to achieve the right quality at scale. What eventually made us successful was executing an operational strategy that came to be known as Cyient's "PPT" strategy – the acronym stands for People, Process, Tools, Technology, and Training.

We focused on recruiting the right people whom we trained and motivated. We simultaneously invested in technology and built robust production processes. We came upon the idea of double-entry digitization and developed a robust tool that was unique and gave us over 99% accuracy. We brought an obsessive focus to quality and backed that with certifications like ISO 9001:2000.

We made significant investments in training, spending as much as 11% of our revenues to build the right capability. These efforts allowed us to scale our business without compromising on quality. After that, we concentrated on process innovation to bring even more productivity to our clients. The first breakthrough came in the form of a \$5mn+ GIS contract from Analytical Surveys Inc. It helped us invest in a platform for futuristic GIS solutions. Thereafter, we secured more large projects and started to earn brand recognition in the GIS space. We signed several long-term contracts with ETAK, Navionics, and others that gave business sustainability at scale.

We went public in 1997 to raise funds for our expansion. During this period we were also looking to gain market footprint and add more business and clients which led us to acquire Dataview Solutions UK, and Cartographic Sciences India.

The Engineering Player (Cyient 2.0) -

The Accelerator: While the business grew around map digitization services until 2000, we never lost sight of our vision to build an engineering services company. We persisted and achieved a breakthrough at the end of Cyient's first decade in business. By the year 2000, we were a 1000 associates with revenues at just over US \$10mn and were approaching a big inflection point in our journey.

Our persistence helped us achieve a major breakthrough with Pratt & Whitney (a division of UTC) and we signed a multi-year multi-million dollar Master Service Agreement. The initial 'Engineering Services' dream that the founding team had started with was now transforming into reality. We earned the client's trust by delivering quality on time at an affordable cost and Pratt soon decided to become a strategic investor in Cyient. Thereafter, we secured engineering services contracts with global OEMs like Bombardier, Hamilton Sundstrand, Boeing, Airbus, Alstom Transport and several others.

Our operational infrastructure grew rapidly from the year 2000 onwards. That year we inaugurated a state-of-the-art delivery center in Hyderabad to accommodate 4000 engineers. We soon saw our business outpacing our infrastructure and invested in ten acres of land that developed into the Manikonda campus in Hyderabad. We expanded our pan-India operations with engineering centers in Bangalore, and Vizag. Beyond India, we opened delivery centers in Puerto Rico and Frostburg, VA.

This period also brought more focus on quality and Cyient evolved a new quality system called BEST which measured quality, client satisfaction, and associate satisfaction to judge our performance. It was followed by SEI CMM level 5 certification for the software development center in Hyderabad that saw us join a select list of IT companies in India with that level of accreditation.

By this time our GIS business had systematically moved up the value chain. We put in play service offerings, which could provide comprehensive solutions for asset utilization and client satisfaction with GIS systems as the backbone. We started intensely addressing utilities and telecom markets globally. Cyient became a trusted brand and we signed landmark contracts with KPN Telecom, Swisscom, Telstra, FUGRO, and VWT.

Our growing base of clients and projects required our sales and delivery teams to get even closer to our clients. We opened offices in the US, UK, Germany, Singapore, Melbourne, Dubai, Canada, Japan, and Malaysia.

To keep pace with skills requirement, address client needs and strengthen market presence we acquired TeleAtlas India to scale our GIS business and capabilities, Daxcon Engineering and Wellsco to expand our US footprint, advanced graphics software (AGS) Germany and Map Centric UK to focus on engineering and GIS services in Europe, and Time to Market to accelerate entry into the Hi-Tech/Semiconductor space.

This was an accelerated growth phase powered by GIS and Engineering. We graduated from just being a GIS services company to a well-recognized engineering services brand from India. During this period, we multiplied revenues 20 times from \$10mn+ in 2000 to \$200mn+ in 2010 and our associate strength grew five times from 1500 to 7500+ employee during the same period.

The Cyient Brand (Cyient 3.0) – “Concept to

Solution” Partner: Towards the tail end of our second phase of growth and the start of this phase (Cyient 3.0), we had already grown into leadership position in focus industries like Aerospace, Transportation, Telecom, and Utilities. We were also recognized as an established player in Heavy Equipment, Hi-Tech, Oil & Gas and Energy. It called for a focused approach for each vertical and we decided on a Business Unit based operating model.

Recognizing Cyient's ability and intent to broaden its portfolio, many of our clients began asking for prototyping and manufacturing capability and those became a logical progression for our engineering business.

This was another inflection point for Cyient (around 2014) as we had grown to a size of 10,000+ associates and were operating from 25+ global locations. We created long lasting relationships with several customers: 20+ yrs with TomTom, 15+ yrs Pratt and Bombardier, etc. Many of our associates completed 20+ years of committed service with the company. We had huge pool of talent, strong and experienced leadership, 250+ active clients and a global brand in engineering and GIS services. It was a crucial juncture where we had to redefine ourselves and gear up for the next phase of growth. We had to make the right choices from a number of different options. We took cognizance of this and engaged business consultants and experts to help us transform into Cyient 3.0.