

29 May 2023

The BSE Limited  
PJ Towers, 25<sup>th</sup> Floor,  
Dalal Street  
Mumbai 400001.  
Scrip Code: 532175

The National Stock Exchange of India Ltd  
Exchange Plaza,  
Bandra-Kurla Complex, Bandra (E)  
Mumbai-400 051.  
Scrip Code: CYIENT

Dear Sir/ Madam,

Sub: Transcripts of the earnings conference call

Please find enclosed the transcripts of the Q4 FY23 earnings conference call conducted after the Meeting of board of directors held on 20 April 2023.

This is for your information and records.

Thanking you  
For Cyient Limited

Ravi Kumar Nukala  
Dy. Company Secretary



“Cyient Limited  
Q4 FY2023 Earnings Conference Call”

April 20, 2023

**CYIENT**

**MANAGEMENT: MR. KRISHNA BODANAPU – EXECUTIVE VICE  
CHAIRMAN AND MANAGING DIRECTOR – CYIENT  
LIMITED  
MR. KARTHIKEYAN NATARAJAN – CHIEF EXECUTIVE  
OFFICER AND EXECUTIVE DIRECTOR – CYIENT  
LIMITED  
MR. AJAY AGGARWAL – CHIEF FINANCIAL OFFICER –  
CYIENT LIMITED [RETIRED]  
MR. PRABHAKAR ATLA – CHIEF FINANCIAL OFFICER  
– CYIENT LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Cyient Limited's Q4 FY2023 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and anyone who wishes to ask a question may enter star and one on their touchtone telephone. To remove yourself from the queue, please enter star and two. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Krishna Bodanapu, Executive Vice Chairman and Managing Director. Thank you and over to you, sir.

**Krishna Bodanapu:** Thank you very much and good evening, ladies and gentlemen. Welcome to Cyient Limited's earnings call for the fourth quarter of financial year 2023. I am Krishna Bodanapu, the Executive Vice Chairman and Managing Director of Cyient. Present with me on this call are Mr. Karthik Natarajan, the Chief Executive Officer and Executive Director, Mr. Ajay Aggarwal, the just retired Chief Financial Officer and Mr. Prabhakar Atla, the new Chief Financial Officer for the company.

Before we begin, I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in our investor update, which has been emailed to you and is also posted on our corporate website. This call will be accompanied with an earnings presentation. The details of the same have also been shared with you.

Before I begin with the highlights, let me explain some of the terminologies that are used in the presentation. Much of it will be familiar, but we have regrouped a few things, so I want to make sure that we give a clear understanding of what these are. When we say core Services, that's the organic Services business of Cyient. So this wouldn't include any of our acquisitions or the design-led manufacturing business. Consolidated Services is these core Services, plus the acquisitions that were made in financial year 2023. Group, then, is consolidated Services and DLM, the manufacturing business of Cyient. Transportation is the segment that includes aerospace and rail transportation. Connectivity is the segment that includes communication. Sustainability is the segment that includes mining, energy, and utilities, and new growth areas includes medical, semiconductor, high-tech, and automotive, which are essentially the areas that we're investing aggressively in for accelerated growth.

The markets regulator, Securities and Exchange Board of India (SEBI), has provided an observation letter to Cyient DLM Limited to go ahead with the proposed public offering. As you all know, we are in the SEBI-mandated quiet period, therefore the management cannot respond to any queries in connection with the proposed IPO of Cyient DLM Limited or the DLM business and operations.

With this, let me take you through the highlights for the quarter. In US dollar terms, we posted revenue of \$213 million for the group. This represented a growth of 39.1% year-on-year in constant currency, 35.9% in US dollars. This also represented a growth of 6.6% quarter-on-quarter in constant currency, or 8.1% in US dollars. I would like to highlight that what is

especially impressive is that there were no further acquisitions in Q3, so Q3 versus Q4 is a like-for-like comparison without any inorganic bump that we call.

In rupee terms, we posted a quarterly revenue of INR 1,751 crores, which signifies a growth of 48.3% year-on-year and 8.2% quarter-on-quarter. Consolidated services revenue stood at USD 176.2 million, which is a growth of 38.4% year-on-year in constant currency and 35% in US dollars. This also represented a 3.2% quarter-on-quarter growth in constant currency. Core services revenue is at 12% year-on-year and 2.6% quarter-on-quarter in constant currency.

Normalized group EBITDA margin was at 18.4%, which was up 118 basis points quarter-on-quarter and 30 basis points year-on-year. Normalized group EBIT was 14.2%, which was up 136 basis points quarter-on-quarter but down 21 bps Y-o-Y. I'd just like to highlight that much of this is because of the amortization that has come in in the last few quarters because of the acquisitions. Therefore, if you look at the group EBITDA margin, things look quite good and look quite healthy. Normalized consolidated services EBIT margin was 15.1%, up 117 bps Q-on-Q and down 27 bps Y-on-Y and again for the same reason I mentioned because much of these were services acquisitions.

Normalized free cash flow generation for the quarter stood at INR 261 crores or INR 2,614 million, a conversion of 81.8% on a normalized EBITDA basis and this represents one of the highest cash conversions that we've ever had. Normalized PAT stood at INR 1,760 million or INR 176 crores, which represented a growth of 14.1% year-on-year or 8.1% quarter-on-quarter. Given that this is the end of the year, I will also give you a quick overview of the highlights for the full year.

Revenue for the first time crossed INR 6,000 crores and stood at INR 6,016 crores, a growth of 32.7% year-on-year. In US dollar terms, this was \$746.3 million, a growth of 26.9% Y-o-Y in constant currency or 22.7% in US dollars. Consolidated services revenue stood at \$632.4 million, which is the highest ever and represented a growth of 30.2% year-on-year in constant currency or 25.6% in US dollars. The core services revenue growth is 12.1% year-on-year in constant currency. Normalized group EBITDA margin was at 17% down by 110 bps year-on-year and normalized group EBIT was at 12.8% or down 113 bps, again for the reasons that I mentioned.

Normalized consolidated services EBIT margin was at 13.7% down 160 bps year-on-year, but normalized free cash flow generation for the year was at INR 547 crores, a conversion of 50.8% on EBITDA and almost 100% conversion on normalized PAT. Normalized PAT for the year was at INR 565 crores, which was up 8.2% year-on-year. I'm also delighted to inform you that we declared the highest ever dividend for the year at INR 26 per share, which included an interim dividend of INR 10, which was declared in October.

I would just like to quickly highlight two things for the quarter. The partnership between Thingtrax, which is a partnership which adds to our digital ER&D focus and helps our customers improve efficiency and reduce operational costs, and the partnership with iBASEt to inaugurate a center of excellence to drive digital innovation, especially in aerospace and heavy engineering industries.

With this, I would like to hand this call over to Mr. Ajay Aggarwal, who will take you through the detailed financial performance for the quarter. Thank you and over to you, Ajay.

**Ajay Aggarwal:**

Thank you, Krishna. I will also present two segments. One is Q4 and one is the full year. If you look at the Group revenue, Krishna already talked about the number of \$213 million. How we have done compared to the last quarter and how we have done, from where we were about a year back at about \$156.7 million, this means in constant currency, 39.1% growth year-on-year. And quarter-on-quarter, we are looking at 6.6% constant currency growth.

In terms of the breakup of that, you will see that in the current quarter, we have done about 3.2% growth from services and we have got about 28% growth that has come from DLM. Overall, if you see in terms of the share of the geographies, I would say there is some impact of the acquisition and also I think the revenue has been strong. That's what is shown in the trend when you look at the bottom of the chart.

For the full year, as Krishna said, we crossed INR 6,000 crores, \$746 million for the full year. As against \$608 million, and we all were very concerned that if you look at the '19, '20, '21, '22, we were stuck at that \$550 million, \$560 million kind of a range. It's quite a nice 27% jump year-on-year and that takes us to the lead and I am sure Krishna will talk about it and Karthik will talk about it. I think whatever expectation we had set looking at the exit quarter of getting to that run rate of \$1 billion, I think we are in line with that. In terms of the consolidated services growth at constant currency, 30.2%, yes, there is an impact of acquisition and if you were to exclude that, the core services have grown by 12.1% in constant currency.

In terms of hedge book, I think quite familiar with what we have been presenting, no change in the policy and total forward contract as of now is about \$154 million and at the current spot position of 31 March, more or less we are neutral. I will talk a little bit more about it when I come to the other income. As of now, the gain is about \$1 million on the total hedge book.

If you look at the income statement, I think really we take pride in the fact that we have reached 16.1% of the margin and there has been tremendous effort in the last two quarters. We have talked about various initiatives even in the Investor Day and the earlier call and that is showing up the impact and we are really looking at good trajectory, 16.1% of the core business which is an improvement of 103 bps quarter-on-quarter and I think number of levers have played. We have got some price hikes, we have seen the environment, we are able to take for some customers price increases, volume impact of SG&A and of course we continue to spend on some investments whether it is technology or other things that are required.

Group EBIT, you have seen is 14.2% and one more thing you will see that at EBITDA level we are at 18.4% and acquisitions, again I think what we said earlier, are accretive at EBITDA level. So when you look at the number of services, you will find that EBITDA is positive for acquisitions compared to the core, but at EBIT level due to the amortization of the investment that we have made, there is a gap at EBIT level. So that is why we started presenting both EBITDA and EBIT to you, so that you can see the operating performance and as we proceed on those acquisitions, you will see that in year 2, year 3 when we start getting the benefit of synergies as well, I think the gap on the EBIT level will also go down.

Some comments in terms of the other items, I would say on tax, this is the last quarter so we had a true up in terms of the benefits of our special economic zone and other things around the global taxation and while you look at a tax of 21.3%, I would say there are one-offs and what we have to really look at is the tax rate of 24% and that is what is the right tax at current level. And next year I think there is a slight change in the taxation in UK. Apart from that, I think trends will be similar and the tax for India. The overall thing is to look at 25.1% which is the ordinance rate for the next year in UK.

In terms of the full year, I would say, the full year core margin at 14.2% is definitely lower than quarter 4 but as I said, the trend is really increasing and whatever we are looking at, the various initiatives, we feel that there is further room. Krishna will talk about guidance for the year. There are multiple levers which have acted in quarter 3 and quarter 4, be it the cost program, be it the pricing, be it the automation. I think we will continue and you will see these numbers to be very nice.

In terms of tax, as Krishna said, INR565 crores is the profit that we have delivered for the full year at a normalized level and just as a disclosure, in the statements that are there, we have given the EBIT Bridge. We have also provided the reconciliation between the reported metrics and the normalized metrics. Some of you who are regular on these calls are already familiar with what have been these items and there are no new additions during this particular quarter to that category of items.

I will take them. You can read them. And if you have any questions, one of us can take them in terms of the change quarter-on-quarter and full year in terms of profit, and in terms of the margin. In terms of cash generation, you will see that both the last quarter and this quarter have been very healthy. We have generated a cash of INR 261 crores during the quarter. And our conversion, almost we are close to the net profit 100% conversion for the full year. We have a cash position of INR1,077 crores. And in terms of the total debt that we have is about INR 900 crores. So, on that basis, we are cash positive. So, the net debt for the company is zero. Actually, we are in excess in terms of cash. And you will see our debt equity ratios are coming down. And you will see that, we are very safe on the balance sheet in terms of the debt. Also, there is enough room on the balance sheet to be able to take care of any investments that come our way. With this, I'll hand over to Karthik to provide the business update.

**Karthik Natarajan:**

Thank you, Ajay. Good evening, everyone. I want to start off by saying that it's been an all-around performance across the sales, delivery, and the operational performance. I am happy to report that our core services have shown eight successive quarters of growth. And if you really look at it based on the business units that we operate, transportation has shown the growth of 12.9% in terms of quarter-on-quarter in constant currency and 13.1% year-on-year. And we kind of guided that we will have double-digit growth. I think that's definitely panned out.

And in connectivity, there is a dip of 3.3% quarter-on-quarter in constant currency, while year-on-year it reported growth of 27.7% constant currency. Sustainability business, which comprises of mining, energy, and utility, has shown a growth of 3.1% constant currency quarter-on-quarter growth and 125.1% year-on-year, with Citec being included as part of this group. And new growth areas, which includes automotive, high-tech, medical devices, and semiconductors, has

reported a mild de-growth of 0.8% in constant currency and which has shown 34% year-on-year growth. Interestingly, even the organic core services have shown year-on-year growth across all the four business units that we operate in, resulting in consolidated services at \$176.2 million at 3.2% constant currency growth. And core services growing at 2.6%, and including acquisitions grown by 3.2%. And in terms of year-on-year, we have grown 38.4% in constant currency.

Look at order intake, we have done about \$212.7 million, and this showed about 13.3% growth from Q4 of fiscal 2022. In constant currency, this is about 19% growth. And we also announced about five large deals, and this is covering all the four business segments. I think the large deals as a concept is planning out across our business units. I'm happy to report our total contract potential of \$185 million in Q4.

So, if you look at the full year, and similar to what I just covered a few minutes ago, the transport unit, which has done about \$188.9 million, has shown year-on-year constant currency growth of 2.6%. Connectivity at \$181.4 million, 32.1% growth. Sustainability at \$139.5 million, 86.7% growth. And new growth areas at \$122.6 million, at 39.2% growth. I think this also gives us a very balanced portfolio of four different business segments. And we are really poised for accelerating our growth over the next few years. And for the full year order intake, which is at \$720.5 million, and in constant currency, this is about 18.5% higher than what we have done in fiscal 22. We have won about 18 large deals through the year, totaling about \$412 million. And this is up by 50% compared to what we have done in fiscal 2022.

To move forward to give a larger business outlook, while the challenges continue, dominated by geopolitical issues, wage inflation, interest rates, and also potential signs of economic slowdown. And we do feel that our customers' intent to invest on technology and innovation continue to be high. And we do believe with the technology disruption that is happening around us, including the generative AI part, which has picked up momentum in the last three to six months, we are really getting ourselves aligned to address the market needs through what we call the mass technology-led growth.

And which is going to be supported by intelligent products and platforms, digital enterprise, which is about digital engineering and technology and sustainable infrastructure & decarbonization. We believe these three technology groups would accelerate our growth moving forward. And we believe this particular concept of three technology groups would drive growth through this decade, and not just for a specific period of time. To get down to specific business units, transportation and recovery of aerospace continue to be there through this year. And also the increase in defense spending, and also some of the advanced air mobility solutions will continue to drive growth. And some of the growth areas we are seeing from our customers include improving their operational efficiency through predictive maintenance and autonomous operations. And how do you think we can really provide solutions on these areas. Hybrid propulsion technologies continue to be critical for both aerospace and rail, and which will bring us additional opportunities for growth.

Connectivity, and we continue to see a demand even through fiscal '24. As you remember, this has become the largest vertical for core services two years ago. They continue to run, and we still hope this will continue to be a growth agent for us even into fiscal '24. Some of the offerings

that we have been able to strengthen in this area includes network management, network operations and optimization, and digitalization are likely to drive growth in this segment.

Sustainability, probably we are the only Indian company which has really created a focus on sustainability as a core business offering. And by integrating various capabilities that we had and we also acquired over the last 24 months. And what we are really talking about, in sustainability, is the energy transition, which is requiring new materials in the form of zinc, cobalt, nickel, and increased growth of copper. And all this would require new minerals to be mined. And our offerings around intelligent, safe, and autonomous mining operations are definitely helping our customers to improve their operational efficiency. And also with energy transition, which is likely to put significant pressure on the utility companies to move away from being distribution network operators to distribution system operators. And this is being funded by various government agencies, and we are confident that some of our offerings will fit into these areas. Apart from what we call them as autonomous plant construction, and enabled plant design, some of these offerings would really be something the customers would be excited to partner with Cyient.

On some of the other growth areas, which includes automotive and led by autonomous and electrification. I think we continue to see momentum in this segment, and we have grown even in Q4. We continue to be hopeful of this being a growth engine for us in fiscal '24. And medical, which is medical and healthcare, which has taken some pause in the last six months. We expect this to come back to growth path during this year, and which is led by predictive, proactive, and personalized patient care and connected devices. And semiconductors, which has done well for us in the last 12 months and probably may take some softening. And this is led by miniaturization and also creating AI-enabled chips, and that's going to really drive growth for us moving forward.

And I also want to take some quick examples of what we have been able to work on, driving the solutions led by technology. And whether it is on intelligent products and platforms through predictive maintenance solutions for our leading aircraft operators. And working with hydrogen plant projects to build on simulation of electrolysis stack. And carbon capture systems, and power plant projects, which includes the digitalization of plant and helping them to enable 3D Encore as a service. And this has been one of the asset management platforms we built through Citec acquisition. And next in connectivity, which includes building design and development of security module (e-SIM) to manage authentication and access management. And this is going to be useful for IoT scale-up for one of our customers. Autonomous systems and process, which talks about our ability to build image analytics and integrated with perception systems, has been some of the offerings we have been able to build and demonstrate to our customers.

And also, in terms of digital platforms and customer experience, whether it is about big data management for one of the mining customers for autonomous excavators, or regulatory compliance, which is around the medical device and healthcare. We have been able to bring in a technology-led robust solution platform that really helps us to win more in the marketplace.

With that, I will pass it on to Krishna for sharing the guidance.



**Krishna Bodanapu:**

Thank you very much, Karthik. The outlook for the year is as follows. In FY24, we expect consolidated services revenue growth to be in the range of 15% to 20% year-on-year. I understand that it is a bit of a wide range, but we are being cautious given what is happening in the market. We still have a very good line of sight within this range, but we want to make sure that we give a wider range, but we will of course narrow it down through the year. But I just want to say there is a bit of uncertainty in the market, and while we are positioned in some very good industries and we have a very balanced portfolio with the four pillars that we will talk about of transportation, connectivity, sustainability, and new growth areas, I think it is just prudent to be conservative at this point. And that is why we are using a wider range, which we will continue to refine through the course of the year. We also expect the consolidated services normalized EBIT will improve by at least 100 to 200 basis points year-on-year. And again, that is a bit of a range, but we believe that with the uncertainty, we would rather be prudent and work towards making the range narrower. And hopefully changing some of the guidance ranges, hopefully on the upper side. So, I will leave it at that. This is how we look at the year.

Before I turn it over to the questions that you may have, I would like to take this time to just acknowledge a few people. Firstly, I want to acknowledge Prabhakar Atla, who will join us now in these calls as the CFO of Cyient. Prabhakar is somebody that I have worked with for 17 years in Cyient, a thorough professional and somebody who understands our business better than anybody else. So, he will really be able to give not only a financial perspective, but also a very strong business perspective given his understanding of the business. I also want to thank Shrini Kulkarni, who many of you know, managed many things in Cyient, including FP&A, M&A, but in the context of this call, Investor Relations. As many of you perhaps know already, Shrini moves on to DLM, the Cyient Manufacturing Subsidiary as the CFO of Cyient DLM. And obviously has a very exciting role with the impending IPO and then hopefully the very exciting growth trajectory that the business is on.

But having said most of it, I would like to thank Mr. Ajay Aggarwal. Ajay has been a friend, a philosopher, a guide and somebody who has worked very closely with me for the last 12 years as we went through this journey of making Cyient a best-in-class company. As many of you will agree, Ajay's dedication and professionalism are second to none. And what he brought to Cyient has really been reflected, not just in the performance and the numbers, but I hope also in the credibility that Cyient as a company holds with all of you. Thank you very much, Ajay. Ajay will continue consulting with the company on a few things, so we will see him, but perhaps less so with you. So, I will quickly hand it over to Ajay to say a few words before we open it up for Q&A.

**Ajay Aggarwal:**

Thank you very much, Krishna. I just would take two seconds for every quarter, so that makes it about 90 seconds. I have a statement to say. I am honored to have the opportunity to serve as the CFO. I would say your CFO to the people on the call. I want to take a moment to reflect the progress that we have made together. During my tenure, we have focused on building a very strong financial function, incorporating feedback from our investors. And this has been the best part, if you ask me. And thereby implementing best-in-class governance practices. We are also committed to transparency and disclosure, ensuring that you have the information you need to make informed investment decisions. In the last 12 years, we have generated excellent returns

for investors. Our market cap has gone up by 6x, our PAT and free cash flow has increased by 4x and 13x respectively. We are leading our mid-cap peers in terms of dividend payout over the last three-four years. As a company, we have always focused on optimizing our tax rate and augmenting other income through treasury allocation and export incentives.

Let me assure you that Prabhakar will focus on these initiatives with the same rigor. I am proud to say that we have made significant progress in each of these areas. We have built a financial function that is capable of supporting the strategic objectives of the company, while also adhering to the highest standards of integrity and ethics. Of course, Shrini and Mayur here are the examples of two professionals here. We have listened carefully to your feedback. Many of you on the call have been my gurus and have used it to make decision-making internally and we have established robust governance practices that are designed to protect the interests of all stakeholders.

Perhaps most importantly, we have prioritized transparency and disclosure. We believe that providing timely and accurate information to our investors is essential to building trust and confidence. We have been transparent about our performance, our risk and our opportunities and we have provided you with information you need to make informed investment decisions. As I hand over the baton to Prabhakar, my friend sitting next to me, I want to express my sincere gratitude to each and every one of you, your support and feedback have been invaluable to me and I am grateful to the trust that you have placed in me and the company. I am confident that the finance function is in excellent hands with Prabhakar and I will continue to support Cyient and everyone to make it successful. Thank you for your time, your trust and your partnership, and stay in touch. Thank you very much.

**Krishna Bodanapu:**

Thank you, Ajay and we will open it up for Q&A at this point.

**Moderator:**

Thank you very much. We have a first question from the line of Sulabh Govila from Morgan Stanley. Please go ahead.

**Sulabh Govila:**

First of all, I wanted to thank Ajay for all his help all through these years and I wish you the best for your future and your retirement. I have a couple of questions on the results. So one is that, first of all, congrats on a good set of results. The first one is with respect to the guidance range that is there of 15 to 20% on services business, I just wanted to understand very qualitatively what are the areas where you would be more cautious through the year, which are baked into the guidance and through the last quarter or maybe in the first 20 days of this particular quarter, have you seen any instances of project ramp downs or client cancellations from the clients? Anything that you would want to highlight there, that's the first one. And the second one, with respect to margin aspirations for next year, you talked about some price increases that have benefited through the second half of last year. Are these already baked into the numbers or you're expecting some more in the margin expansion that you talked about? Plus, what are your expectations for the wage hike going into next year?

**Krishna Bodanapu:**

So I can answer the first question and then request Karthik for his views on that. But I'll say, I think generally there is cautiousness in the market, especially in some of the industries like semiconductor, where we are seeing a bit of slowdown in a macro perspective. And we're just

being cautious and that's why we still kept the higher end of the range also because we are still not seeing a significant impact on our business or an appreciable impact on our business. But we believe that the macro will impact everybody at some point and that's why we're being cautious.

So I think I'll say a couple of industries possibly. One is the semiconductor, the second is medical and the third is there's also a bit of a slowdown in some of the elements of sustainability. So I think it's just prudent given that what is happening in the world that we have a little bit of a pragmatic conservatism going on in the current environment. So that's why we've given that guidance, which is a bit wide, but again that's how we're also managing the business because we don't want to let go of any of the growth. So we can't just take a very conservative view. At the same time have the flexibility that if it is 15, not 20, then we can take some actions to make sure that at least cost is under control. Karthik, if you want to add something to that and also the second part of the question on margins.

**Karthik Natarajan:** Yes, no, I think you covered the point, Krishna. I think we expect the last three verticals, which is the sustainability, connectivity and transport. We expect all of them to grow in double digits for the next year. I think that is where our optimism comes from. And we are also cautious of the fact that there could be potential issues on some specific projects and programs that we don't have visibility yet, which may get impacted or which may get pushed to the right or which may get delayed to begin. We do expect some of them to show up during the year. So we just want to be cautious. While we are optimistic on our portfolio mix and where we are wanting to play, I think that really has shaped up well. And we are just hoping for a positive optimism through the year and keeping ourselves grounded. And also on the margin question, I think whatever we have guided, we have included the price hikes, also any kind of wage hikes that we have planned for this year.

**Sulabh Govila:** Understood. Thanks a lot.

**Moderator:** We have our next question from the line of Sandeep Shah from Equirus Securities.

**Sandeep Shah:** Yes, thanks for the opportunity and congrats once again on good execution. All the best, Ajay, for your retirement life, as well as congratulations to Shrini and Prabhakar for the new role. The first question in terms of FY24 guidance, where we have said the consolidated services growth of 15 to 20%. What could be the core services growth? Can it be higher than what we have witnessed, 12% growth in FY23, or you believe it could be lower versus FY23 because of the macro issues as a whole?

**Karthik Natarajan:** Yes, I think, Sandeep, we are not breaking down by core or consolidated. This was essentially provided to just get a color from Q3 to Q4. But all these businesses are run in an integrated manner and it would be very difficult for us to separate it beyond Q4. So our view is keeping all of them in play and is how we have arrived at this 15 to 20% range. I know it's a broad range and as we learn more about how things happen during the year, we'll try to narrow this range as well.

- Sandeep Shah:** And just to follow-up, what could be the outlook for the railways? Do you believe it's on a Q-on-Q growth recovery and it can grow at a double-digit in FY24? And what would be the timing of wage hikes in FY24?
- Karthik Natarajan:** Did you ask the first question to be on NGA?
- Sandeep Shah:** On railways. Growth outlook on railways.
- Karthik Natarajan:** New growth areas. I think we expect automotive to continue to be a growth engine for us into the next financial year. And we expect semicon to be soft, at least for H1. We hope it recovers during the later part of the year. And we expect medical and healthcare and life sciences should start getting into the growth trajectory, but it will be muted. And hi-tech will probably be again soft. So essentially on the new growth areas, we expect the growth to be led predominantly by automotive. And on the wage hikes, we have not quantified the number, but it will be on similar lines like what we have done for the last year.
- Sandeep Shah:** Yes. I was asking about railways, actually?
- Karthik Natarajan:** Yes, I think we have turned the corner in Q4, and as part of what we have covered in our previous commentary and we expected this to be recovering well in Q4. I think that has definitely happened. And we do expect it to be a growth engine, but it may not be something which will really drive our growth significantly higher. But the entire transport segment, like we have talked about, we expect it to be in double digit growth for the year.
- Sandeep Shah:** Okay. Thank you. I will come in the follow-up. Thanks.
- Moderator:** Thank you. We have our next question from the line of Mohit Jain from Anand Rathi.
- Mohit Jain:** Hello, sir. One is on the pricing. So there was a steep increase, which you have shown in EBIT margin bridge. And also I saw this increase in on-site presence during the quarter. So when you say pricing, is it the blended rate, or are you referring to like-to-like price hikes?
- Karthik Natarajan:** Yes, Mohit, it is a like-to-like price hike. And when we talked about it, we have been able to see a strong intent from customers to support on the wage inflation. And this is something which is a critical part. I also talked about the talent shortages globally as a major concern. And they are supporting us with appropriate price hikes in geographies that we operate in.
- Mohit Jain:** So 4Q is the new base for us from a price perspective?
- Krishna Bodanapu:** That is right.
- Mohit Jain:** Yes. Okay. And, sir, last question is, if you could help me understand the breakup, because I think there is some reclassification. You mentioned about it in the opening remarks also, but if you could provide 4Q breakup in the old format like Aero, Rail, ARC, etc. And if you can just explain which segment goes where in the new classification?
- Karthik Natarajan:** Yes, I think it is nothing but Aero and Rail get classified under Transportation. And Communications is getting reclassified as Connectivity, along with Celfinet Acquisition that we

made last year. Sustainability is about Mining, Energy and Utilities. And the new growth areas are Automotive and Mobility, Healthcare and Lifesciences, Semicon and Hitech.

- Mohit Jain:** Okay. So to that extent, they are comparable with the past numbers?
- Karthik Natarajan:** Yes.
- Mohit Jain:** Thank you very much, sir, and all the best. That is all.
- Moderator:** Thank you. We have our next question from Shradha Agrawal from AMSEC. Please go ahead.
- Shradha Agrawal:** Congratulations on another good quarter. I have a question on Aerospace and Defense. We have seen many consecutive quarters of good performance out there. Is it more of widespread performance across client buckets or is it one or two clients that is driving growth in this vertical for us? And how do you look at Aerospace going into FY24, given a very good exit in 4Q that we have delivered?
- Karthik Natarajan:** I think the recovery of Aerospace continues and we are also seeing the interest from customers to improve their manufacturing productivity and their ability to service the customers. And the aftermarket growth is strong. And we are helping them with some of our digital and technology solutions in this segment to help them to improve their productivity and ability to address their customer segments. We do expect it to continue the growth in double digits for this year. But we do expect this segment also is due for a platform upgrade, which is expected to be announced any time in the next three years. We never know when it is going to be announced. But that is going to be the beginning of a super cycle in terms of how this will drive new product investment led by significant capital infusion, which is due any time in the next three to four years. And we hope something happens in the next two to three years.
- Shradha Agrawal:** Right. On communications, after the very strong growth that we have seen in FY22 and first half of 23, growth seems to be coming off especially in the last two quarters. So I think you had alluded to some right shifting of orders in the last quarter, if I'm not mistaken. But what drove the decline in communication in this quarter also? And how do we look at this segment in FY24?
- Karthik Natarajan:** I think it is more of the gap between some of the projects which are closing in the quarter and the new projects getting started. And that is what is really showing in the Q4 result. If you look at full year on the core services part, in communication we have grown more than 18%. I think this is a strong year that we had on the communication or connectivity vertical. And we expect it to again build the momentum through the year. And this was more of some projects that we started working on during the course of last year. And they were coming to an end. And the new projects which started will probably have a ramp up sometime in Q1 and Q2.
- Shradha Agrawal:** And just one bookkeeping question. I think you had guided to ETR being 27% for FY24 earlier. And are we now guiding to 24%? Is this understanding right?
- Ajay Aggarwal:** As I said, I think in UK region there is a proposed tax increase. And also we are planning to look at simplifying the tax and adopting the ordinance rate of 25.1%. I would say it could be more between 25% and 26%.

- Shradha Agrawal:** Okay, sure. Thank you and all the best.
- Moderator:** Thank you. We have our next question from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.
- Mihir Manohar:** Thanks for giving the opportunity and congratulations on a great set of numbers. I mean, first of all, thanks to Ajay for all the support that he has given to us. So thanks for that. And wish him good luck ahead. Largely wanted to understand, you know, the aero side of the business. I mean, we have seen good growth over the last two quarters specifically. So wanted to understand fundamentally, how long are the cycles generally. And you mentioned about some upgrade coming in the next 2 to 3 years. If you could throw some more light around that, what kind of upgrade
- Ajay Aggarwal:** I'm sorry, the voice is not coming very clearly.
- Mihir Manohar:** So largely, I wanted to understand the aero side of the business. You mentioned as to which areas are driving their growth. I wanted to understand how long that sometimes your cycles on the aero side of the piece, I mean should we see good spend there for the next 2 to 3 years at least. And you mentioned about some big upgrades coming on the new product side, which could happen in the next two to three years. So if you could throw some light around and what kind of upgrades are you talking about? That was one question on Aero. Second question was on the EBIT side of the piece. I mean, we are looking at 100 to 200 basis points expansion on the consolidated services side. So what are the tailwinds that you're looking at for this EBIT margin expansion? And my third question was on the legal cost. And we are having this, the legal lawsuit in the US, and we have incurred roughly INR45 crores, which is like \$5 million to \$6 million in this particular year. So what is the update over there and how long could we keep on incurring this cost? Because that number is looking quite big over there. Yes, so those were the questions.
- Krishna Bodanapu:** So let me address the legal question and then I'll hand it over to Karthik on the aerospace. But we are still continuing to vigorously defend ourselves in the legal case. The legal case is gone for trial right now. We are defending ourselves as a joint group. And I can say that we will know the outcome within the quarter. And at that point, based on the outcome, we can then give you a better view of any continuing costs that we might incur with the case. So I'd say bear with us for another quarter or perhaps two quarters, and we'll have a much clearer view on the legal costs going forward. Karthik, on the aerospace business.
- Karthik Natarajan:** Yes, I think what I can answer the question Manohar based on what we have seen in the last three years. If you look at in fiscal 2021, there was a significant dip in terms of revenue passenger miles. I think that is coming back to 90-95% for most of the domestic passenger miles. But if you look at the international passenger miles, they have significantly opened up after China's zero COVID policy has been withdrawn. And we do expect the growth to recover during this year and early next year. And we expect significant growth around the manufacturing part and the MRO or aftermarket side of the business and enable with some of the digital solutions to help them to accelerate. They need to produce more engines, they need to service more engines or aircrafts. Having said that, I think the super cycle, we don't know when it is due. And there is a significant pressure on the aerospace group to decarbonize the whole industry. And there is

likely to be sustainable air turbine fuel, which is going to be another trial that is going to be put out by FY24-FY25. Hybridization of engine to reduce the emission that is being done by the aircraft industry today. And then the platform upgrade. So we don't know when it is likely to happen. And this is anybody's guess at this point of time. It will be two large players. I think if one announces, it will force the other one also to announce. If you just take 737 or 320, and both are probably 30-year-old platform, and both need some kind of an upgrade. It's only a matter of time during this decade. And for your second question on EBIT expansion that we talked about for 100 to 200 basis points, I think this is coming from the confidence that we have on our execution capabilities in terms of really running at a very tight shift in the form of utilization level, and also the ability to really draw price hikes. And hyper automation, which is one of the way to really run more fixed price projects more productively and efficiently. And how do you think we can really manage the cost and the control, which is the wage inflation that's going to happen during this year. So we are confident about the range that we are providing here. And we'll kind of keep you updated as we make progress on this track.

**Mihir Manohar:**

Sure, that's it for my side. Thank you very much.

**Moderator:**

Thank you. We have our next question from the line of Nitin Sharma from M.C. Pro Research. Please go ahead.

**Nitin Sharma:**

Yes, thank you for taking my question. First of all, congratulations on a good set of numbers. Would want to understand what kind of headcount addition you're looking in FY24, and then I have a bookkeeping question

**Karthik Natarajan:**

Sure, yes, I think I'll try to answer that Nitin. I think you'd have seen that we have added about 509 heads in Q4. And we do have our current plan to fill in what is needed for the next six months. We are continuing to play both on contingency as well as permanent hiring based on what makes sense. How do you think we really see demand panning out? And we are definitely looking at a headcount addition similar to what we have done last year, and which is again, based on how the demand is shaping up. And if you'd have seen, we have dropped about 4.5% on utilization, and we also added about 500 people anticipating growth. And we do have both utilization as well as the headcount that we added as a lever for us to drive the growth in the H1 of FY24.

**Nitin Sharma:**

So the current level of utilization is what you're keeping it around, it's comfortable with?

**Krishna Bodanapu:**

Yes, I think we are comfortable with the current utilization level. And we made some changes to our structure about 15 months ago. I think that's really helping us to drive the right levels of utilization by having the resources being fungible and flexible to be rotated around. And we have run an upskilling and reskilling program over the last two years. I think all of them are helping us to have the resources which can be moved around the projects.

**Nitin Sharma:**

Okay, and a bookkeeping question, can you please share the breakup between aerospace and railway transportation for the 4Q?

**Krishna Bodanapu:**

Sure, Nitin, I'll ask Mayur to be in touch with you to provide more details.

- Nitin Sharma:** Perfect, thanks a lot.
- Moderator:** Thank you. We have a next question from the line of Abhishek Shindadkar from Incred Capital. Please go ahead.
- Abhishek Shindadkar:** Yes, thank you for the opportunity. I just have one question on the order intake. First, going ahead over the next 3 or 4 quarters, do we have all the investments in place to sustain the order book? And the second question is for the quarter reported in the order book, is the acquisition order book, I mean, how do we plan to club it or is it part of it? If that can be clarified, I missed it in the presentation, so if you can help me with that, thank you.
- Karthikeyan Natarajan:** Yes, no, Abhishek, good that you asked the second question, I'll answer that. And current order book or order intake do not take any of the acquired entities into account. They are in the process of getting integrated. We'll provide better view during H1 FY24 as we integrate the processes so that we can get an apple-to-apple comparison. Currently, these are all core services that Krishna has defined in the initial part of the presentation. And sorry, what was your other question?
- Abhishek Shindadkar:** Yes, my apologies. The question was about the investment in the current order book momentum. Do we have everything in place or would there be some investment going forward?
- Karthik Natarajan:** I hope I understand your question, Abhishek. I think your question is do we have enough capabilities required to deliver for the order book. I would say we are more or less there and wherever we see some gaps, we keep filling them as and when needed. And like we spoke about in the last two years, we have been investing heavily on our technology and digital roadmap. I think that's starting to yield fruits for us in terms of the order intake that we had. And we hope our capabilities that we have already built and the teams that we have invested on reskilling will start helping us during this year. And if there are any gaps that we find as we start executing, we'll keep filling them as needed.
- Abhishek Shindadkar:** That's helpful. Thank you for taking my question. My apologies for the weak line. Thank you.
- Moderator:** We have our next question from the line of Pratap Maliwal from Mount Intra Finance.
- Pratap Maliwal:** Yes, thank you. And thanks for taking my question. Congrats on a good set of numbers. I just wanted to confirm that last quarter we had said that aerospace we expect 10% growth quarter-on-quarter. So has that been achieved because the reporting structure has been changed? So just wanted to confirm that.
- Krishna Bodanapu:** Yes, Pratap.
- Pratap Maliwal:** Okay, we've achieved that. Now, I just wanted to look at in the past year, in FY22, we had said that digital and embedded software, that's where a lot of our growth is coming. And perhaps that's one area where maybe you were slightly late to the party. So, and I think the management had called out that we're giving up maybe 100 to 200 basis points of growth every quarter. So what is our progress here? And maybe could you call out some wins in these areas and relevant deal sizes just to understand if we've actually made up on the lost ground here? Yes, I'll just



repeat the question that in FY22, the management had said that digital and embedded software is an area where there's a lot of growth coming, but perhaps we were late to that party. And we were late to getting to that vertical. So I just wanted to ask that as we were giving up maybe about 100 and 200 basis points of growth every quarter. So what is our progress here? And could you maybe call out some wins in these areas and if we've made up on that lost ground?

**Karthik Natarajan:** Sorry Pratap, maybe we can take your question offline and if the question was not clear, and if I understand your point, are we growing on embedded digital and semicon areas that we talked about in FY23. The answer is yes. I think these are the ones which have driven the growth for us in the last 12 months. And we also realized the margin improvement based on our price hikes and our operating metrics like utilization, pyramid and our ability to expand on the automation areas. I think these are the ones that helped us to improve on the margin. And we are continually working on ability to increase our offshoring and that has played out well for us in the last 10 quarters. I think we have improved by 10% in our offshoring. So wherever we see that there are opportunities for us to improve, we keep looking at our ability to improve on the operating metrics.

**Pratap Maliwal:** Okay, sure. Thank you for your time. And thank you for taking my question.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I would now like to hand the conference over to Mr. Krishna Bodanapu for closing comments. Over to you, sir.

**Krishna Bodanapu:** Thank you very much. And I just want to thank everybody for your support. As you see, we've delivered a good set of numbers. We're also very confident of the momentum that they put for the business. Even some of the work that was a challenge in the past, like rail transportation has turned the corner and quarter-on-quarter we had good growth. As Karthik confirmed, aerospace is growing in double digits, even a shade over 10%. So we feel very confident and I want to use this opportunity to thank you for the support and for the very good questions that have come up in the call today. With that, for the one last time, I'll thank my good friend Ajay for the journey that we've been on and wish him the very best for the journey he's going to embark on in the second innings of his life. Thank you, Ajay. And thank you everybody for your participation.

**Moderator:** Thank you. Ladies and gentlemen, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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