16 November 2022

The BSE Limited
PJ Towers, 25th 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 Q2 FY23 earnings conference call.

This is for your information and records.

Thanking you
For Cyient Limited

Ravi Kumar Nukala
Dy. Company Secretary

"Cyient Limited
Q2 FY2023 Earnings Conference Call"

October 13, 2022

MANAGEMENT: **MR. KRISHNA BODANAPU – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER – CYIENT LIMITED**
MR. AJAY AGGARWAL – EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER – CYIENT LIMITED
MR. KARTHIK NATARAJAN – EXECUTIVE DIRECTOR & CHIEF OPERATING OFFICER – CYIENT LIMITED

Moderator: Ladies and gentlemen, good day and welcome the Q2 FY2023 Earnings Conference Call of Cyient Limited. As a reminder all participant lines will be in the listen-only mode and anyone who wishes to ask a question may enter "*" and "1" on the touchtone telephone. To remove yourself from the queue please enter "*" and "2". Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Krishna Bodanapu –MD and CEO. 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 Q2 FY2023. I am Krishna Bodanapu, Managing Director and Chief Executive Officer. Present with me on this call are Mr. Ajay Aggarwal, Executive Director and Chief Financial Officer and Mr. Karthik Natarajan, Executive Director and Chief Operating Officer.

Before I 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 mailed to you and is also posted on our corporate website. This call will be accompanied with earnings called presentation. The details of the same have also already been shared with you.

Before I start the highlights for this quarter may I take a minute to brief you on the exceptional items. A lot has gone on this quarter, very good things and therefore before we start looking at the accounts and the numbers, I just wanted to give you a bit of context of how this all stacks up and how we should be looking at these numbers. So before the numbers I just want to give you the context.

On M&A, on acquisitions, all four acquisitions have been concluded in Q2 and the integration is progressing quite well. I am quite pleased with how the integration is progressing. All M&A's are accretive at an EBITDA level, we will show you the detailed numbers in a bit and on an annualized basis, we are expecting that this will add about a $150 million to our revenue. Given that the deals have happened and the consolidation starts at various points of time as we talk about the future and the guidance, we will also give you a little bit more insight into how it will all pan out.

As you know the Board and as we have made this announcement a few weeks ago that the Board of Cyient met and has agreed that the global electronic manufacturing business that we have which is Cyient DLM must be restructured in a different manner. We believe that there are a number of excellent things that are happening in that business right now. The acceleration of technologies like IoT and AI and ML is driving the trillion dollar market for electronics in the very near future, so that is a huge opportunity for us. Then there is about China plus one strategy of companies, companies are looking at actively engaging with non-Chinese EMS players and this has significantly increased the attractiveness of India as a market. India’s share is expected to increase from 1% to 8% adding $50 billion per year in the next five years. And of course the push from the government of India for making India on AatmaNirbhar Bharat in putting a lot of opportunity in place for electronics that are made in India. With the focus on high complex low volume electronics, we believe we have an excellent niche, but also I want to say that there are significant synergies between the Cyient core services business and the DLM business, a common set of clients, a lot of engineering content to the type of manufacturing that we do and the whole build to spec strategy and therefore we still want to maintain a link with the business because there is a fair degree of commonality. Having said that and looking at the enormous potential to maximize shareholder value, the Board has approved the formation of a subcommittee to look at all the options. We understand that in the current shareholding of Cyient that is the services part of Cyient, DLM might not be the best fit based on how some of the economics of that business work, some of the revenue flows of that business work, and margins of that business work. So we believe it is best to have a structure wherein it is an independent business with of course a tight coupling with Cyient because of the reasons that I talked about. Therefore, the key options that are being considered are an IPO, a partnership with the strategic investor or potentially a spin-off. We are looking at all these options and the choice will be made by the subcommittee based on the management's recommendations, of course keeping the best interests of our shareholders in mind. We are very excited about this spin-off because it unleverages a lot of potential both in terms of value for Cyient, but also for DLM because that business has a significant opportunity to accelerate it. When Karthik gives you the business update he will also talk about the order intake and the order book, which means that for us to execute that potential we will need capital, we will need flexibility, and we do not want to skew the Cyient financials because of the DLM business.

Most if not all of the wage hikes are planned for the year is done. We would not have any material headwind for the rest of the year because of wage hikes.

During the previous quarter we said a class action lawsuit was filed in a US District Court against one of Cyient’s subsidiary. We are fighting this vigorously, I want to reiterate that we are very confident in what we have done and we have got an advice that we have a very strong case and therefore we are going after it with all vigor and with all our resources. We have also accelerated the discovery process as it is called wherein the filing of all the data and filing of all the information takes place. Therefore this quarter we had an exceptional item in terms of the cost that we incurred on this lawsuit, it will continue for a few quarters, but not at this level because this quarter we accelerated some of the discovery pace which has led to a little bit of higher cost than what we would have normally anticipated.

Therefore now coming to the highlights and I will take you for the highlights of the quarter. In Q2 FY2023 we posted revenue of $174.8 million which is a year-on-year growth of 20.4% in constant currency, which would be 16.4% in US dollars and Q-on-Q growth of 10% in constant currency or 8.2% in US dollars. In rupee terms, we posted a quarterly revenue of 1,396 Crores, this signifies a growth of 25.6% year-on-year or 11.7% quarter-on-quarter. The services revenue stood at $151.1 million which is a year-on-year growth of 25.8% in constant currency 21.3% in USD and a Q-on-Q growth of 12.3% in constant currency or 10.2% in USD. Service revenue growth without acquisition is 11.5% year-on-year in constant currency or 3% quarter-on-quarter in constant currency. The DLM revenue stood at 23.7 million, which was a degrowth of 7.3% year-on-year or a degrowth of 3.3% quarter-on-quarter.

Normalized group EBITDA, and I want to quickly highlight why we are also talking about EBITDA because of the acquisitions and the nature of how amortization works in the acquisition, EBIT will be skewed for a little bit, it will be skewed for about a quarter or so because amortization is coming in, but the full impact of the acquisitions are not coming in and therefore we also want to give you a sense of EBITDA to give you a sense of where the margins of the acquired entities and Cyient lie. As we thought EBITDA was a good reflection of that, of course we will obviously talk about EBIT also in a minute, but the normalized group EBITDA margin excluding the impact of one-off M&A costs and exceptional items stood at 16.4% up 84 bps quarter-on-quarter and down 226 bps year-on-year. Normalized group EBIT margin stood excluding the impact of M&A and exceptional items was at 11.9% up 42 bps quarter-on-quarter down about 212 bps year-on-year. Normalized PAT was at 110 Crores, which was a degrowth of 5% quarter-on-quarter or 9% year-on-year.

Ajay will take you through these numbers in a lot more details, but I want to say that as a core business, as the core services Cyient business, we are on track, we have delivered the numbers that we have been talking about, which Ajay will take you through in a little bit more detail. I just request you to bear with us on all these numbers and the presentation this time because of all the M&A that has happened and unfortunately the consolidation of each one of the targets kept happening during various points of the quarter and therefore we just have to make sure that we give it another quarter before the actual normalized and steady state numbers come through, but in the spirit of transparency of course we will take you through those numbers during the course of the rest of this call.

The Board also approved an interim dividend of Rs.10 per share, which is in line with our philosophy and in our principle of giving back a certain amount of profit to the shareholders every year and doing it twice, once as an interim dividend in Q2 and of course the final dividend.

I also want to give you two highlights for the quarter. Cyient partnered with Honeywell to manufacture Anthem which is the first cloud-connected cockpit system, it is a very large deal, we also made a press release on this a few months ago, and we are delighted that we will be able to build this product which is the future of aviation and it is a multi-year deal for Cyient. A lot of it will go to Cyient DLM because there is a big manufacturing component, but there is also a lot of engineering that is associated with it. In a nutshell it is a platform that can be virtually modified for any type of aircraft, passenger, cargo, businesses jets, etc., and it is a platform that helps pilots much more effectively to fly planes. Again it is at a very high end technology and we are very proud that we will be able to do this for many years to come.

We are also thrilled to be recognized by ISG as a rising star in IoT, integrating our digital technology capabilities under INTELLICYIENT Suite of Solutions. This is really accelerating our client's digital transformation and again Karthik will talk about some of the key initiatives and some of the key outcomes that have come because of the focus that we have put in the last two years with digital.

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

Ajay Aggarwal: Thank you so much, Krishna. Just to continue from where Krishna left, we feel very excited. We have created the new capabilities through these acquisitions, and we have talked about them as and when these acquisitions have happened and this really gives us really good growth engines for future. Second, I think in terms of the capital allocation, this is a significant improvement, which will show us our ability to grow the earnings at much higher rate. So I wanted to give confidence to all the investors and the analysts that we are very confident about these acquisitions being very accretive on the EPS side, very accretive on the EBITDA side and then for the EBIT side because of amortization once the synergy revenue start kicking in, we will also see that it is accretive at that level. So with that let me give you a flavor of the numbers.

Krishna previously talked about one of the highest growth quarter-on-quarter 25.8% as we have seen the currency fluctuations, the right numbers to look at, are constant currency numbers 25.8% is year-on-year and 12.3% is quarter-on-quarter. We have also disclosed the numbers for services and DLM. DLM has a marginal de-growth of 3.3%, I would say that it is a cyclicality issue. We are improving on the supply side and you will see that we have one of the best ever pipeline and backlog of deals. I mean, you see that growth continuing and with two I think the group growth is at 20.4%. If you see in terms of the services growth if I exclude the acquisitions and DLM we have grown at about 3% there also I think we have been prudent to make sure that we have some provisioning around as per the policy of accounting. So, if you look at that including that it will be more like 3.5%, so I want to assure you the good momentum on the core business and it is same as including DLM and acquisitions will further act. As far as this year is concerned as you know we have added in this quarter one month of Citec and two months of Celfinet and we add all of them for this year itself we will have 14% to 15% revenue growth. We will talk about the outlook, we will also tell you how it will be going forward. It is a well-rounded growth, if you see the chart below I would only like to call out when you look at the growth some of this is impacted by the margin, but the exchange rates, but if you look at 20% EMEA adjusted for currency is 34%, Asia Pacific is about 11% adjusted for the currency so I think it is a good growth across the geography. Some of the EMEA growth of course this also fused by the addition of the acquisitions which are based in Europe the two of them.

In terms of the hedge book again as we spoke in the last call we continue to be on the same policy it is working well for us. This is our total hedge book it is about $150 million a 12 month forward and little bit of about 20% of net inflows for the next 12 months thereafter and that builds up to $150 or $156 million in constant currency. You will see this is a quarter-on-quarter dip, but do not read too much into it that is just because of the currency fluctuations and except INR to Dollar in all the currencies we have a nice gain and our forward covers what it means we will see when you look at our other income we have made a positive other income because of our hedge book position. Also, for the next four quarters what we are looking at is about $3.5 million of gain at the current rates which are also mentioned on this particular chart. So as they have been saying that unless there is a huge catastrophic event we feel that our EPS is nicely protected for the next 12 months forward from the currency perspective.

In terms of income statement I think I would like to say that if I may just go to the next slide first and I will come back to this. Krishna talked about that we have two one-offs in this quarter, one is we have this exceptional item where we had the legal fee that was incurred in Q2 which is about 1.8% impact and we have disclosed the value also here and another one is when we have done these acquisitions we have one-time acquisition related expenses they are purely for acquisition, they are not integration related which are in the P&L which are separately there in the margin which is there so we are only calling out only relating to the acquisition of the target and that is about 1.7% so if you take these two, one we are calling is exceptional items and another one is one-off which is not likely to repeat then we have restated our numbers to show for each of the line items that what is our reported EBIT, what is our normalized EBIT same for the percentages and we also reported the PAT and the normalized PAT so with this background if you go back to that earlier slide and explain so I think the headline number that I would like you to see is that for the core we have improved our margin at about 112 basis points you will see we did have headwind of about 1.5% because of the wage hike that happened in this particular quarter.

As Krishna mentioned in the beginning, most of our wage hikes is over now I would say 90% plus of the wage hike is over and we have been able to offset that by improvement in offshoring, there has been pricing increase there has been focus on improved offshoring and we have also got some other benefits out of automation other initiatives. So it is very nice that within the quarter we have been able to offset whatever was the wage hike we did get some other benefits in terms of volume absorption a little bit on currency but they have been plus and minus. Overall I think from the operational efficiencies we have been able to take care of the wage hike, we will continue to work very hard to make sure that we are working on each of these levers to give a quarter-on-quarter improvement in terms of our margin. DLM also has done marginally better, they have given 8.3% margin in DLM which is up by about 410 bps and you will see that we have good traction in DLM in the coming quarters as well. Finally, I would say the normalized PAT is what you should look at if you exclude one exceptional item for the legal fee and one one-off expenses purely for M&A in terms of acquiring these entities. Our normalized PAT is stated here which is the number Rs. 1,103 million what Krishna already talked about and which is at about 7.9%. I would say this is how we have tried our best to explain to you. There is an annexure, which also gives you very clear understanding of where the margin has increased and where the tailwind and headwind has been on the margin. Only one more thing I would like to highlight what Krishna mentioned if you look at EBITDA level I think we are doing very well. Most of these acquisitions are at companies level of EBITDA however, there are two aspects one is depreciation amortization. For the standalone entities before they were acquired which hits the bit and second is the D&A that hits because of the investment that sit in the Cyient balance sheet so they have been provided for but I just want to call out that those cases built on the synergy revenues so I would request for some time let us look at the EBITDA we will disclose that EBIT level also so 70 bps is the dilution in terms of the acquisition. This is mainly on account of that dilution in terms of the amortization of the assets that we have created on the balance sheet and also this has some impact of the integration costs that we will incur. We had planned about 3% of integration cost in this period. So this is the summary in terms of how to read the profit and the margins. Thank you for your patience and we would be happy to take any question. Last thing on the cash generation I would say that in our free cash flow what we have generated during the quarter and the DSO you will find there is an improvement. We are moving to getting back to 50% plus free cash flow generation this quarter it is 35% if you take the one-off it is much higher than that. We are working on all elements of free cash flow including the days receivables. We feel there is the potential to further bring it down and get back to the levels of free cash flow that we have generated in the past. With this I will hand over to Karthik to talk about the business performance.

Karthik Natarajan: Thank you Ajay. Good day everyone, hope all of you are enjoying your festive season and following on what Krishna and Ajay talked about and I am trying to deep dive a little more on our business performance and I would say all in all it is a great execution that we have been able to bring in for the Q2 FY23 and if you just look at from ARC which is Aerospace, Rail and Communications and we have seen a growth of 0.9% in constant currency quarter-on-quarter. This growth is led by aerospace and followed by communications and rail transportation continues to see a challenge like we talked about earlier. The good news is communication has definitely grown by 25% year-on-year in constant currency and the aerospace is getting close to the double-digit growth for the year.

From the mining energy and utilities, I think this is the new configuration we talked about in the last quarter and we have seen a growth of 3.9% in constant currency and year-on-year there is a slight dip. It is likely to see a positive growth for the full year and I will talk about it in the next few slides.

The new growth areas which is essentially the medical devices, semiconductors, automotive and hi-tech I think they are definitely ramping up very well with 9% constant currency growth and 33% year-on-year growth and all in all leading to 3% growth in constant currency and at 11.5% year-on-year (services organic). Also to provide a color if you look at we have had the highest billed hours in Q2 and in terms of volume and which has grown at 6.8% quarter-on-quarter most of this growth happened in offshore and that is the reason why you are seeing the revenue growth at 3% and which is also shown in terms of our profit margin improvement and we also include our offshore mix and the utilization which improved by 370 bps and help to counter the headwinds of about 150 basis point of wage hike that Ajay talked about. So the EBIT for services improved by 112 bps and that really has been achieved through a lot of efficiency improvements that we had been able to bring in, this quarter. Services overall including acquisitions and we have grown at 12.3% quarter-on-quarter and 25.8% year-on-year in constant currency. At the group level 10% quarter-on-quarter and 20.4% on a year-on-year level. If you look at the order intake, I think this is definitely one of the highest order intakes that we had for the group over the last four years and which is about $247 million. The services has grown by 5.6% in dollar terms. If you look at in constant currency that has grown by 13% and DLM, Krishna talked about which has grown by 253%. I think we are definitely building a nice order book as far as DLM is concerned and we continue to see the traction in this business and we have talked about some of the restructuring part. We will have more details on the subsequent conversation and also to conclude on the large deals, we have closed about five large deals with a potential of $105 million I think this is again continued to build the momentum as we talked about in the past many quarters.

To give a little more outlook on the business performance, I think the market dynamics are definitely more fluid and uncertain and due to the Ukraine, Russia conflict the higher energy prices and higher inflation. I can really get into some of the specific verticals and if you look at aerospace, I think the demand is steadily increasing and the supply chain challenges continue to be an issue for many of our customers, but the opportunities are seen both on commercial as well as defence area and some of the interesting areas in urban air mobility and space are creating new opportunities for us and also hybrid, electrification of aircraft I think that is a new opportunity that we are seeing. Apart from significant opportunities we are seeing through the aftermarket above the revenue I think this would help us to grow roughly about 10% for the full year while we have seen 7.8% for Q2. Rail I think we continue to see challenges and due to the consolidation that has happened in the industry and also some of the issues related to the infrastructure spend that is happening globally due to the challenging environment and high interest rates, I think we are hoping that some part of this would recover by Q4 and we are still keeping a close tab on some of the areas we want to modernize our offerings on signaling and Devops, automated fair collection and sustainable transportation and mass mobility area. So we are cautious about how the rail business would recover over the next few quarters.

So if you go to communications I think this has been building up nicely for us for the last four to eight quarters. The network roll out momentum across fiber and 5G I think the demand continues to be high and also we are seeing serious opportunities around the high energy consumption of 5G radio. I think this is going to create a huge challenge in Europe especially and we have some of the solutions which have been built through the Celfinet acquisition that we made. We are looking at how do we monetize some of these offerings by working with some of the customers who are looking for ideas to reduce the energy consumption. Also 3G plus 4G and 5G all radios cannot be put live and this would also create new opportunities for setting up some of the old technologies as well as rolling out for the cloud ran or open ran. I think these are new opportunities that we are really putting up continue to grow this particular segment.

Mining I think safety concerns and tough mine operations are paving way for sustainable mining and at the same time all the energy transition and clean energy, carbon neutrality all this would need new materials whether it is like copper, lithium or Sulphur and how do you think some of them can be supported for our customers. Most of the offerings are around autonomous operations, digitalization, trip operations, intelligent asset management are continuing to see momentum in our business. I think this business has grown nicely for Q2 at close to 70% and we are confident that we continue to see the similar kind of growth for the rest of the year.

Energy and utility I think there is significant profit that is made by the utility companies due to the high energy prices in Europe and this will also make them to invest on carbon neutral technologies and that is something that we are really excited about with Citec acquisition that we made on energy. How we start looking at new technologies like hydrogen, battery storage, and carbon capture technology investment areas as well as integration of all the new energy sources into smart and microgrids are likely to accelerate and we feel that this will give us new opportunities for us to pursue.

To go to the new growth areas and this is the segment which is definitely doing very well for us and led by automotive and mobility and the investments in software virtualization as well as the service oriented architecture and software defined vehicles are definitely growth areas for us. Healthcare and life sciences which has already shown growth about 80% to 90% and we are seeing this momentum continue and influenced by the regulatory changes that are happening globally and we see continuous opportunities in terms of predictive, proactive, personalized health systems. I think that is a bigger opportunity that we are currently working on.

Hi-tech which was the erstwhile geospatial business and we are trying to reposition this business to drive more system integration capabilities and applications and cloud analytics opportunities for the last mile tech companies which really drives their business around the location based solutions as well as space and sustainability initiatives. We hope this business should start getting into the growth path by end of this year and should start showing the growth for the next year.

Semiconductors I think the demand from automotive and IoT and connectivity Krishna talked about continuing to be high and this business has grown about 40% to 50% so far and we continue to see this business building the momentum that started in the beginning of the year throughout the rest of the year as well. Also some of the supply chain diversification investments that are happening through the US Chips Act or Europe Chip Act is likely to create significant new opportunities for us across plant design and putting up designs to the fabs that have been set up and as well as new designs that are going to come up and we are bullish on how the semiconductor would pan out for the next many quarters.

The DLM business we continued to build on our order book and we talked about multiyear large deals and the supply chain challenges continue to be there, but we are hopeful that the H2 would be far better than what we have seen in H1.

We talked about some of the positioning that we are taking in the market especially around the innovative technology solution that we are investing on. I just want to share a few examples in terms of how we are really changing our orientation or engagement with our customers. The training staff management solution is supposed to improve the safety of mining, environment and there was a recent failure of a dam which is resulted in about six to eight lives being lost and there were more than 30 to 40 people who are still in critical stage. How do you think some of them can be better predicted and our solution is likely to help the mining customers and this is the combination of our ability to understand the ESG requirements as well as the sensor data that can be integrated with digital platforms. I think this is going to be a sign of things that we are going to build upon across many of the segments and also the network testing which is cloud-based AI driven device, performance functional brand and core of network functions I think this is another opportunity that we are building up as an offering that can be taken to many of the communication customers that we have today. Autonomous industrial systems I think this is another interesting area where perception based technologies can be integrated with off highway customers and how do you think we have built autonomous trucks or autonomous construction vehicles and we are helping the customers to bring this technology and also create artificial intelligence model for assisting the control of some of these equipments in the more complex work environment like mining and other things. Last but not least, the digital platforms and asset data management I think this is one of the win that we had in the earlier quarter and where we are building an integrated web based cloud solutions with automated smart accelerators that would really help in driving the digital transformation across mining, energy and CPC client. All in all I would say a decent execution quarter and we are really working on getting that execution better in H2 of this financial year and we will probably leave the floor for Q&A and back to you Krishna.

Krishna Bodanapu: Thank you very much Karthik and if I may summarize with this quick outlook. We want to be a little bit more granular at this time on the outlook considering what I said earlier the number of things that are going on and the various points of time that these acquisitions are coming in Cyient and therefore into the consolidation. So what you have on the top is the FY2023 outlook, we continue to stand with our outlook that we will grow in the 13% to 15% range in constant currency to the group. DLM we are actually quite happy I would say that we can up the forecast a little bit further because we have some good order intake that has come in, but more importantly we have been able to secure the material supply so high single digits up to 10% is what we are now expecting. We want to reiterate the 13% to 15% growth in constant currency. Through the course of this year we will add 14% to 15% in revenue because of acquisitions again in constant currency. In regards to the margin again we will go to what we said. We expect the full year normalized EBIT margins for the organic business to be in the 13% to 14% range obviously with the work that we have to do we understand what it is, but we still have a line of sight or we have a clear confidence on at least the lower end of that guidance and really what we want to do is get towards the middle but we still hold to that. Our normalized EBITDA and again we want to talk about EBITDA for a few quarters also just to give you a sense of where things are with all the acquisitions therefore I will say normalized EBITDA for the full year will be 16% to 17% for the group and as Ajay had mentioned the acquisitions are accretive. So after doing all this math we want to say that we are confident that the Q4 normalized EPS will be Rs.14 to Rs.15 for FY2023. I will come to the next line in a second and of course the tax rate is expected to be

27% and free cash flow conversion will be in line for the full year after we take into account what has happened in Q1. We also want to give you a quick overview into what we see for the next year because I think a lot of these things will start to settle in and therefore we have already started planning for the next year because there is going to be a lot of work for us. In FY2024 we have a visibility to $1 billion run rate which is obviously quite exciting and therefore we are working very judicially to get to that run rate hopefully in the middle of the year rather than the later of the year but we keep you updated. And for EPS taking everything into account and how the acquisitions play out we are confident that EPS will be at least be Rs.60 I want to repeat and say with confidence that the EPS will at least be Rs.60 for the next financial year that is FY2024. With that once again thank you very much for the patience in hearing what has happened during in the quarter, but more importantly the outlook which is quite exciting for us into the next couple of quarters to round up this year and next year and we will now open it up for any questions that we can answer. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Krishna Thakker from Anand Rathi. Please go ahead.

Mohit Jain: First was on the aerospace side, so you guys have shown confidence on the double digit growth kind of a number. If you could give some more details on what is happening on the aerospace from a services perspective not from manufacturing perspective. And second while our growth rate seems to be improving our order intake is still slow for the second quarter and again this is related to services because DLM I think we have done well on the order side, but how should we read these two numbers from an outlook perspective?

Krishna Bodanapu: Thank you for the question. I will ask Karthik to address this.

Karthik Natarajan: Thanks Krishna I think your observation for Q2 is a seasonal thing and typically Q3 is a strong quarter for order intake so that is what I gave both dollar as well as the constant currency number of 13% because we are still tracking it on the dollar orders today and to answer your first question on aerospace I think we are seeing a lot of opportunities around aftermarket as you would have seen in the last two years with passenger miles slowly checking along which also means many of the aircrafts which have not been taken for service or repair or overall I think they are all coming to what we call them as a more shop visits I think that is really growing by 20%. So our aftermarket business is definitely very strong and some of the customers were associated with the engine programs that we were doing in for the last eight years I think they are really shaping along well in terms of their demand which is flowing to us. So that is one change that we have seen. Second about the embedded and digital solutions that are required for the aerospace and defense I think that continued to be robust because they want to improve the productivity, they want to really try a lot more digital initiatives than what they have done in the past. We are working with one of the Japanese customers to help them to build a roadmap on industry 4.0 how do they roll out, when they want to grow from x to 4x in terms of production capacity over the next three years and we are involved in helping them to build the roadmap I think that is another example in terms of it we are seeing that kind of growth and another one is about integrating the cabin management with sensors and this will probably improve the comfort level of the passengers and how we think we can probably have a lot more services that can be delivered through the sensors that can be integrated to air cabins. So some of these opportunities are new we have not seen them before. I think that is what is driving the growth for us apart from defense which is likely to get stronger as you can imagine in terms of what is happening globally and this is one segment where there is going to be lot more investments that is going to flow in and just to make sure that the country wants to protect their borders and they want to make sure that their citizens are safe and this is going to drive significant growth in Europe as well as in North America on the defence side of the business.

Mohit Jain: The defence part of it how big could that be for aerospace vertical?

Karthik Natarajan: It is probably about less than I would say 15%, 20% of our aerospace business comes from defence and which is likely to see growth as part of what is happening globally.

Mohit Jain: Understood thank you and Ajay Sir on the exceptional item this is like a one-time payout on the legal side or is there something which can come in 3Q and 4Q as well?

Ajay Aggarwal: I think it could continue in Q3 and Q4 as well, but as Krishna said given the face of activities that happened in this quarter we feel that this should be the peak, but it will continue in Q3 and Q4 as well and we will continue to report.

Mohit Jain: In Q4 the quantum is likely to be similar or will it like fade away gradually in Q4?

Ajay Aggarwal: As I said that is what we expect that there is a peak of the activity in terms of preparation but difficult to say right now our senses should go down on Q3 and Q4.

Mohit Jain: On the banker fees this is purely one time done invested in Q2?

Ajay Aggarwal: Yes 100% it is one time done invested in Q2.

Mohit Jain: Perfect thank you.

Krishna Bodanapu: We actually accelerated some of the discovery process because obviously we are also keen to get it done and over with that is why we believe that Q2 is the peak and it will actually normalize quite a bit and we will obviously report it but we are also quite confident that we will be able to manage it.

Krishna Thakker: Just in continuation is there a liability amount which is attached to this case like how big could it be?

Krishna Bodanapu: It is very difficult to say but again I want to be very clear to say that look it is something that we are very confident so we are not taking any provisions or anything because we are confident that what has happened there on the right and we have some very good people advise us and support us multiple times.

Krishna Thakker: Alright Sir, thank you and wish you all the best.

Moderator: Thank you. The next question is from the line of Nitin Sharma from Macpro Research. Please go ahead. As there is no response from the line we will move to the next question which is from the line of Shradha from Asian Market Securities. Please go ahead.

Shradha: Congratulations on a good quarter. Couple of questions firstly what is the normalized margin expectation that we are building in for FY2024?

Krishna Bodanapu: Right now we believe that we will see a little bit of margin improvement but it is not a significant improvement we still are working on that. We are looking at, at least the base case scenario before obviously we will refine that number and provide you a better insight as things go by. Right now we are just assuming a slight increase maybe about 50 bps increase in EBIT for next year but obviously there is a lot more work to be done so that can only get better which we will update you as we have better insights but we wanted to get a sense because there is a lot going on and we did not want to leave things in a sort of a limbo so that is why we wanted to provide you at least the base case and then we will refine the base case. But the margin on this base case because there is some very, very good growth that will come in both organically and also because of these acquisitions giving us the full impact of integration so that is how we have built up so it slowly gets better.

Shradha: The reason I am asking is because Celfinet and Grit are a very high margin businesses and we have indicated that in the first year of integration margins could be lower and probably after the first year integration ideally those margins should be back to their original margin level. So from that perspective I think FY24 margins can be quite better than what the 16%, 17% normalized EBITDA margin we are talking about for FY2023?

Krishna Bodanapu: You are right so that is why I said we want to work a little bit more before committing definitively. But also on Celfinet I will say that you are absolutely right the margins are much higher but also the impact is relatively small because of $750 million Celfinet is about $25 million so the impact of that is going to be quite muted in that sense that is why which has been prudent in terms of what calculations we use at least to give you a direction of where next year is.

Shradha: One clarification when you say acquisitions do you also includes the strategic buyout deal that we have called out last quarter?

Krishna Bodanapu: Yes, absolutely again that is also very small that would be less than or it would be a percentage.

Shradha: How is the ramp up which is happening there because this was expected to be one of the top five clients?

Krishna Bodanapu: The ramp up is going quite well actually that has been one of our growth accounts as we have talked about and that will be anticipation, so the ramp up is actually going quite well. The client or the account for which we did the strategic buyout will actually end up being one of our top 10 customers most likely maybe this year but definitely next year.

Shradha: Just last one question the rail transportation business we have been seeing consistent decline so I was assuming that the offshoring shift that we were seeing in one large account in that business that might have stabilized by now but do you see this offshoring thing is impacting the overall revenue or is it some budget cutting part also that is playing in this vertical?

Karthik Natarajan: I think as I said there are two, three factors one is the consolidation of two of the major companies which is resulting in lesser R&D spend as compared to what they would have done individually and probably they are trying to rationalize where they want to keep some platform where they want to let go off some of the old platforms or legacy platforms they would have had inherited along with them. Second, there is also a significant infrastructure spend that we talked about and which is likely to be they have a huge order book and they are trying to prioritize the orders they want to execute where they can get some cash flow I think that has been one of the challenges for them from their end customers and that is impacting that and third part what you talked about was offshoring which is definitely true and probably the first two is likely to improve as we start exiting end of this year. As I talked about the other element was the highest ever billed hours that I talked about in terms of volume. I think the volume growth is something that we are really happy about and we hope the same momentum continues.

Shradha: Karthik in terms of your optimism on growth for FY2024 amongst the verticals that we are operating do you think aerospace could be driving growth for us in organic business in 2024 because communication growth seems to have tapered off this quarter so maybe on a high base 24 growth numbers for communications might not budge so will it be aerospace or will it be some other vertical doing that heavy lifting for us in 2024?

Krishna Bodanapu: For 24 numbers we will wait for another quarter before getting into the details we are starting a preliminary work because obviously we have put in a lot of resource behind the acquisitions and therefore we did a lot of preliminary work and that is why it gives us the confidence but to get into the details and considering the paucity of calls I believe today is also a very busy day for everybody so I will request that we hold off 24 questions for the next quarter's call.

Shradha: Thank you Krishna and that is it from my side.

Moderator: Thank you. The next question is from the line of Sameer Dosani from ICICI Prudential Asset Management. Please go ahead.

Sameer Dosani: Thanks for the opportunity. Few questions one is on telecom vertical we have seen on a Q-on-Q basis until last quarter very good growth momentum so this quarter is it a one-off because commentary suggests that growth momentum will continue. How do you see this growth? And second DLM obviously H2 is always better because of the seasonalities do you expect the similar things going forward?

Karthik Natarajan: I think what we have seen for Q2 was one off execution issues that we got into and that is behind us now and we hope we continue to get the momentum for H2 from the communication business and the demand would also be slightly patchy in some customer segments. So that is what I have seen has not grown as fast as what we have done in the first quarter of this year even for the past three quarters as well. On your second question on DLM I think we are definitely seeing a better supply chain visibility as compared to what we started off this year and we are confident with the current order book as well as this supply chain visibility I think both are equally critical to see how we improve on our execution for H2.

Sameer Dosani: So we will see that seasonality right improvement in DLM?

Karthik Natarajan: Yes.

Sameer Dosani: Lastly this question is not guidance but a number that you have mentioned $1 billion revenue visibility. If I look at current numbers and even if I assume that you will reach $1 billion by Q4 FY2024 it gives me around 4% to 4.5% CAGR so how confident are we of that number and does this include and I am assuming that this includes some macro issues also so if you can just explain that?

Krishna Bodanapu: Also I will just quickly say that we are also get one more if I will call it a bump because Citec which will be fully integrated in Q3 so that itself will give us another fairly significant bump because Citec numbers like Ajay said it is only for one month and that has been our biggest acquisition. But having said that we are quite confident with where things stand even taking into account the macro situation because we have looked up industry-by-industry on what we do and where we stand and how does the macro impact it if you just look at and I just give one example of the semiconductor industry where we are doing a lot of work for the transition of chip manufacturing from China to the US and Europe. Europe will also announce I think a $50 billion investment into semiconductor plants which will translate to a lot of engineering work for us. So we are also looking at these things because these industries are also a bit more the reason why a plant is going from China to Europe or the US there is a very strong strategic reason so it is not necessarily just a sort of a nice to have project it is a strategic project and therefore we are quite confident that even of course if the worst case macro situations turn out then that is a different story if Russia drops a nuclear bomb somewhere obviously all bets are off. But outside of that we are quite confident that even in an environment where we will have some challenges for recession, etc., many of the industries that we are in will do quite okay because again a lot of the work is based on operations of things like power plants which have to continue no matter what are based on things like the transition of the semiconductor industry or like Karthik explained of the aerospace industry and therefore there is a lot of work on operations in MRO therefore we are quite confident in this sort of immediate cases of the macro of course if it is the worst case scenario.

Sameer Dosani: Yes, so I have included two months of Citec $175 million plus $15 million two months impact and if I look at 190 to 250 it is again 4% to 4.5% figure so I get your answer and also just last question on the broader macro right all companies if I look at broader IT services plus all companies are speaking about growth slowdown in Q3 and Q4 and how do you see that impacting your business and in that scenario how does your guidance or outlook changes? Thanks.

Karthik Natarajan: I think we are still as of now we did not see significant cancellations barring one or two projects which got deferred towards the right. We are keeping ourselves closely aligned with customers and are definitely looking at the implications of difficult winter in Europe and probably the fed rate hikes in US and how do you think that is going to pan out and what is going to be the implication of it from our customers. I think we are still seeing a cautious view from our customers. I think they are looking at the budgets and we will have a better view by end of this quarter which is by December, Jan for us to have a better view for the next year. We are still confident that at this point of time we are seeing momentum and we want to continue to build up that momentum.

Sameer Dosani: On the deal signing also you do not see any delays or do you see that?

Karthik Natarajan: I think what we are seeing that there are some delays and there are some hiring freezes from customers organically so which means they are open to work with partners and some of those issues have definitely seen but we did not see significant program cuts or there is a major shift in terms of their approach that they are taking for the near-term.

Sameer Dosani: Understood, thanks for the answer good luck for the future.

Moderator: Thank you. The next question is from the line of Mihir Manohar from Carnelian Capital. Please go ahead.

Mihir Manohar: Thanks for giving the opportunity and congratulations on good set of numbers. I just wanted to understand your thought process behind DLM. We have decided to separate DLM from this company so what is the thought process that has gone behind it and how are we looking at this business strategically. Also if you quantify something in number terms how are we looking at this business over the next three to five years, what kind of inquiries are you getting and what is that being the thought process that has got separating it from the company so that was the only question?

Krishna Bodanapu: The idea behind it was as you know the DLM financials and the way the whole business works is very different from the services business and that has brought in a certain degree of uncertainty and it has brought in a certain degree of how our investors are viewing Cyient. So we took a long hard look at what is the right thing for Cyient and the shareholders side to look at the DLM business and said okay what is the best way to structure it such that Cyient still has a control on the business or as such still good connection to the business because for the reasons that I said we are winning a lot of deals including aerospace project that I talked about because DLM is a part of Cyient. Design led manufacturing is a very interesting thing, our customers are using us quite a bit for transitions and so it made many things. So taking everything into account we had a lot of discussions in the Board and we said we wanted to structure it in such a way that it can have its own independence because with all the order books that we talked about and also with what macro was happening there with China Plus One India pervasiveness or prevalence of electronics more and more we are going to grow very well over there. So we will require capital and we understand that Cyient's shareholders might not be very happy with us investing significantly in the DLM business and therefore we thought it would be best to separate it out because it will need to raise its own capital for growth. We are working on our plan where that business can grow about 5x within the next five years with the margins that we already have so it is a very significant growth but also if it requires capital both as you know capex because we will need to build one or two more factories and our customers are also asking us for other options like Vietnam and Mexico and so on and so forth and it will also need working capital because that is a working capital intensive business. So before that really scales it starts to make very large dents on Cyient's P&L we thought it was best to structure it separately and really let it grow, I feel really unleash the potential because we are in that spot with the order books that Karthik talked about and we believe in the process Cyient's shareholders will also benefit generously because there will still be an ownership from Cyient hopefully depending on which option we come up with and over a period of time. There should be another great source of capital for Cyient to leverage on as we grow the services business, but from a growth perspective about 5x in five years otherwise I would say I would be quite disappointed in that business.

Mihir Manohar: Sure that is really helpful. If you could throw some more light here on your capital efficiency part also when we look at current numbers on the capital efficiency for this particular segment DLM that does not look encouraging, so how would the capital efficiency pan out and given we are seeing increasing inquiries in India for this part of the business so we are talking about 5x revenue that is really good about how should we as investors see the margins and capital efficiency for this part of the business?

Karthik Natarajan: Absolutely I think as Krishna explained I think one of the constraints we have been dealing with that there is one business which is 15% to 18% potential business is services and there is another business which possibly is 6% to 8% margin business and we are trying to take it to 10% and we put a lot of constraints in terms of what margin business this can be and in fact it goes to 3x, 5x in three, five years. I think what is important as it will not be a 15% margin business. It has to be at a very different margin profile and that we turn from the assets have to be much, much higher than what they are so once we have changed those some of those moves to the game and not worry about the dilution of the margin we feel that current ROCE it is about 12-13% we can easily make it to 20% plus and that would be one thing which will be a good reflection of capital efficiency.

Mihir Manohar: Sure that is really helpful. That is it from my side. Thank you very much.

Moderator: Thank you. Ladies and gentlemen this will be the last question which is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Thanks for the opportunity. Just if I look at the performance of the services business excluding the acquisitions in the first two quarters the first quarter was close to 2.5% this quarter was close to 3% while the implied growth guidance in services on organic basis will be higher than 13%-15% which may require 3% and 4% kind of improve, so just extension to someone's question in the second half generally seasonally weak for the engineering R&D because of furloughs and the fourth quarter could be a part of IT budgets which may have an impact because of the macro issues. So how confident are we in terms of good execution in services in the second half as well considering all these factors?

Karthik Natarajan: What I answered earlier I think we continue to see momentum on various sustainability initiatives that we are part of across whether it is mining or energy and other customers that we are associated with I think some of these programs are very long-term and it will be tougher to delay them so they will continue to be there and we are hoping that the communication should start getting back to the growth trajectory like we spoke about and the aerospace would still it is not at the peak that we had in 2020 so we are still hoping that, that should check along. That is still a long cycle business, and we expect that to continue. So I think I understand the question of uncertainty and challenges we are likely to see and we would probably have a better view as we close Q3 or early Q4 and we can definitely talk about more with certainty by the time we get to the next call.

Sandeep Shah: Just I missed your one of the comments on the railways of which one of the factor being consolidated entity has been rationalizing the engineering R&D spend second being offshore. What was the second element on infrastructure which you said because railway growth outlook we were expecting a bounce back in the second half now we expect the bounce back to happen early in the fourth quarter?

Karthik Natarajan: Yes, I think that is led by increase in the interest rates globally and most of them are funded by the government and when they need to pay it at zero or 1% interest rate will be 3% or 5% I think that is going to really have some more prioritization that is likely to happen globally and while if they have four or five programs and which ones they want to prioritize for the near term so that is likely to be the scenario and also given the energy crisis that we are likely to see in Europe and what we are also hearing is they may probably reduce the number of trains that are run. How do you think they can reduce the number of trips they make in a day and given the challenges that are likely to be seen with the energy being seriously critical for the winter season so I think those are the two, three factors that I talked about.

Sandeep Shah: Just the last question Ajay I think we are building at 13%, 14% with guidance but now we use the word on adjusted basis versus earlier guidance did not use the adjusted basis EBIT margin because at that time also we were knowing there would be M&A related cost which would flow through the EBIT so why there is a change in the guidance for the EBIT margin?

Krishna Bodanapu: We did not know the impact of these numbers and that is why we are looking at the number of the sustainable and ongoing operations because these things are really one-off and that is why we are saying if you take these off because the numbers will also have an impact of the yearly number. That is why we are saying if we take these off and therefore we can come up with them for whatever the sustainable operation is what is the number and that is why we are saying without taking these one offs.

Sandeep Shah: Thanks and all the best.

Moderator: Thank you. Ladies and gentlemen due to time constraint that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Krishna Bodanapu: Thank you very much and thanks to everybody for taking the time on what I understand is a busy day with a number of calls. I want to thank everybody for your support in understanding these numbers it has been an exceptional quarter for us, but also we are very, excited that it sets us up for some very exciting growth for the future as we talked about it. We will continue to engage with you and provide you a good visibility into what that is and how things are going to evolve. So thank you very much for all your support. May I again invite you to the investor day it is on November 18, 2022 in Hyderabad. It will be an all-day session and for those of you who attended our previous investor days you will recall that it will be a good mix of internal presentations on strategy, on operations and financials, but also to show you some of the things that we do and more importantly or most importantly I would say also meet with some of our clients to talk to them about where they see the business going in and Cyient's place in the business. So I will send out an invite or has already sent out an invite. I am sure we will send you multiple reminders so please register for it, it would be a pleasure again to show you with a lot of price what we do in person. With that thank you very much, thank you for the support and I want to say to everybody that we are very excited where we stand and I think we have a very strong set of quarters coming up.

Moderator: Thank you. Ladies and gentlemen on behalf of Cyient Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.
