31 October 2023

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 FY24 earnings conference call conducted after the Meeting of board of directors held on 19 October 2023.

This is for your information and records.

Thanking you
For Cyient Limited

Ravi Kumar Nukala
Digitally signed by Ravi Kumar Nukala
Date: 2023.10.31 22:11:48 +05'30'

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Cyient Limited Q2 FY24 Earnings Conference Call

October 19, 2023

MANAGEMENT: MR. KRISHNA BODANAPU – EXECUTIVE VICE CHAIRMAN & MANAGING DIRECTOR, CYIENT LIMITED
MR. KARTHIK NATARAJAN – CHIEF EXECUTIVE OFFICER & EXECUTIVE DIRECTOR, CYIENT LIMITED
MR. PRABHAKAR ATLA – PRESIDENT & CHIEF FINANCIAL OFFICER, CYIENT LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY24 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 star and one on their touchtone phone. 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 of Cyient Limited. 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 Second Quarter of Financial Year 2024. I am Krishna Bodanapu – Executive Vice Chairman and Managing Director. Present with me on this call are Mr. Karthik Natarajan, CEO and Executive Director and Mr. Prabhakar Atla – President and Chief Financial Officer.

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

Coming to the quarter, some of the highlights:

Firstly, I'm excited that Nitin Prasad has joined our board as an Independent Director, and we look forward to benefiting from his experience. Nitin is a dynamic and accomplished business leader who has over 25 years of experience. He has developed, launched and operated new business verticals in semiconductors, chemicals, energy and clean energy across geographies. As you know, sustainability and the associated industries of energy, utilities, mining are very important focus areas for our business, and we believe that Nitin will provide a unique perspective on solving sustainability challenges in these industries having worked with some very large corporates. So, we are excited to have Nitin join our board and please join me in welcoming Nitin to our board.

I'm also proud to announce that we won two prestigious awards at the NASSCOM Design & Engineering Summit. One was in the area of enabling the blue economy via last mile hydrogen fuel delivery for marine and automotive application. And the second was for designing and engineering, the world's most fuel-efficient aircraft engine.

Again, these are the areas that we take a lot of pride in, and we put a lot of effort in because sustainability and the related industries are a big focus area for many of our customers and for all of us in general and I'm very proud that we have been recognized as leaders and for having done some cutting-edge projects in these areas.

In addition to these awards, we also received the Modern Network Management Award at the 2023 ESRI Infrastructure Management and GIS Conference. ESRI is a global leader in locational intelligence and this recognition is an acknowledgement of our capability and prowess in this space.

Before I hand over the call, I just want to highlight that in the last quarter we have seen the aerospace business grow 27.5% year-on-year. As many of you know and as many of you have followed us for a long time, aerospace is a key part of our business and it is a business that has gone through a significant challenge. Especially in 2019 because of some industry-specific issues, in 2020-2021 and parts of FY22 because of the impact that COVID has had on travel. So, I'm very proud now to report that not only has the business grown 27.5% compared to the same quarter last year, but it has also grown for six consecutive quarters. That gives me immense confidence that we're in a very strong footing in one of the most important verticals that has a huge bearing on our growth and where we are clearly the acknowledged leaders.

Having said that, as you would have followed some of our competitors, the communications industry is going through a bit of a lull. In our case also, there was about an 11% degrowth in communications for the quarter under discussion. But we're quite confident that this is a short-term blip.

So, in summary, I would say that I feel very, very confident about the de-risking that we've done on the portfolio and where things stand. That confidence will now translate to very good visibility for the rest of the year, which I will allow Prabhakar Atla and Karthik Natarajan to take you through with more details. With that, I would like to hand over the call to Prabhakar, who will take you to the financials.

Prabhakar Atla: Thank you, Krishna. Hello, everyone. I hope you're all doing well, and I hope you're all having a good day. The Management Team of Cyient is joining this call today from our offices in Hyderabad, India. I would like to first update you that we're having a pleasant day at Hyderabad; temperature is moderate 27 deg.C, humidity is about 45%, wind speed is at 10 kilometers per hour and visibility is a clear 25 kilometers. All of these I guess can be considered as healthy operating metrics of a pleasant day, especially in tropics. Under even perhaps what are typically termed as lead indicators for a pleasant evening ahead.

With a small digression for which I seek your pardon, please allow me to present the financial results of the Cyient for Q2 of FY24. Before we start, just as a small recap from our previous earnings call, i.e., the Q1 FY24 Earnings Call, Cyient business has been reclassified since Q1 FY24 into three segments which you can see on the screen. The presentation now under discussion is for the Cyient DET segment only. All numbers, unless mentioned otherwise as a group, are for Cyient DET only. Some of the prior period numbers have not been reclassified given that the impact on DET is minimal.

With a quick recap, let us move on to the next chart, which is in a dashboard format for Cyient DET performance. Before I walk you through the commentary, let me just summarize that we believe that our Q2 FY24 witnessed a balanced and healthy performance which is broadly in line with our expectations and is also tracking to the evolving industry scenarios and dynamic macroeconomic scenarios.

In terms of revenue, Q2FY24 U.S. dollar revenue for DET stood at 178.4 million, a growth of 1% quarter-on-quarter in constant currency and 17.1% year-on-year in constant currency. In rupee terms, the revenue stood at Rs.1,476 crores with the growth of 1.5% quarter-on-quarter and 22.3% year-on-year. We have two key growth drivers behind this performance. Firstly, our core segments continue to witness strong growth QoQ and YoY including the key segments of aerospace, automotive and sustainability. Our key clients, top ten and top 30 continue to witness strong QoQ and YoY growth. At the same time, like Krishna mentioned earlier, we do see softness in communications space in the short-term impacted by the macroeconomic scenario. And this softness played out in this quarter for connectivity segment. Mr. Karthik Natarajan will provide a detailed commentary on this topic later in the call today.

In terms of EBIT margin, Q2FY24 DET normalized EBIT margin stood at 16.5%, highest in the last 11-years and grew by 47 bps quarter-on-quarter and a healthy 406 bps year-on-year. I would also like to mention that this QoQ expansion of 47 bps that we had in Q2 is on the top of the 93 bps QoQ expansion we saw in the previous quarter. In rupee terms, Q2FY24 DET normalized EBIT is highest ever at Rs.244 crores, a growth of 4.5% quarter-on-quarter and 62% year-on-year. The continued margin expansion despite the impact of wage hikes is driven by improvements in our operational performance along with the cumulative benefit coming in from the optimization exercise we've undertaken before in the previous quarters, which we have addressed in the previous earnings call as well.

In terms of Q2FY24 PAT, the normalized PAT for DET stands at Rs.173 crores translating into a normalized PAT growth of 1.5% quarter-on-quarter and a healthy 70.8% year-on-year. This translates into normalized EPS of Rs.15.77 for Cyient DET.

In terms of free cash flow, Q2FY24, DET free cash flow stood at Rs.154 crores, a growth of 156% year-on-year, and this translates into a conversion of 89% on normalized PAT for Q2.

As I close this chart, I would like to also draw your attention to the balanced progression among the several metrics. With revenue growth of over 17% year-on-year in constant currency terms and EBIT expansion of 400 bps, normalized PAT grew by 70% year-on-year while retaining focus on FCF improvement which also grew by 166% and hence my opening comment on balance and healthy performance in the beginning of my presentation.

Group numbers are a combination of all three segments we spoke about earlier and I'll just call out a few comments. At $214.9 million group revenue for Q2FY24 grew by 22.3% year-on-year in constant currency. And the Q2FY24 normalized EBIT margin is at 14.6%, up by 232 bps year-on-year. Q2FY24 PAT stands at INR183 crores, up by 56% year-on-year while the FCF has degrown year-on-year by 47.7% owing to planned cash consumption cycle we have seen in DLM business which we will recover in H2 of FY24.

I'm also very pleased to inform you that we're announcing an interim dividend payout of INR12. On behalf of the Cyient board, the management team and all our Cyient colleagues across the globe, I would like to thank all the investors for the continued support for the valuable counsel and very importantly, your kind trust, for which we're indeed very grateful. With this, I would like to thank you all for your time, for your attention, and for your interest. And I will now hand over to Mr. Karthik Natarajan for an update on the DET business performance outlook.

Karthik Natarajan: Thank you, Prabhakar. Good day, everyone. Hope all of you are having your fantastic festive season, especially in India. I'm pleased to share the details of the quarterly performance as discussed by Prabhakar and Krishna and happy to say that this is the 11th successive quarter of growth out of 13 quarters that we have been reporting for the last 13 quarters from Q1 of fiscal '21. We had two quarters of flattish revenue and 11 quarters of successive growth that we have seen, which has been a steady performance for many quarters.

Having said that, I'll just pick up two of the key columns here which are essentially the constant currency numbers for four of the business segments. I think we have talked about building a balanced portfolio. I think this is really starting to play off well. And if you look at transportation, which has shown 2.7% quarter-on-quarter constant currency growth with about 22.1% constant currency growth year-on-year and as Krishna mentioned, aerospace continues to see the 6th successive quarter of growth and for this quarter it stands at 27.5% growth year-on-year.

Connectivity, which has seen softness in Q2, has degrown by 8.1% and year-on-year at 12.3%.

Sustainability, which is starting to play off well based on some of the investments that we made over the last 12-18 months has grown by 4.9% quarter-on-quarter and 71.6% in constant currency year-on-year. We were to normalize it for an apple-to-apple comparison, which is close to about 20% that we have seen the growth on the sustainability business.

New growth areas, which is comprising of semiconductor, medical devices, automotive and hi-tech, has shown a growth of 5.7% quarter-on-quarter and 5.1% year-on-year in constant currency, translating into overall DET growth of 1% in quarter-on-quarter and 17.1% year-on-year.

We also have seen robust growth in our order intake, and which has grown 40% year-on-year while seasonally Q3 and Q4 are better than what we have seen in Q1 and Q2 and which gives us confidence that there is definitely a stability that is coming back for most of our businesses except some parts of the communications business, which we'll talk about in the next few minutes.

Our offshore revenue mix stands at 44.2%. We have closed five deals in terms of large deals, that's 51.4 million total contract potential and three of them from sustainability which is coming with digital factory and the plant engineering and asset management around the sustainability vertical and one deal on patient health monitoring from healthcare and life sciences and one deal for North American OEM for a certification support that we are extending to them.

We go to the deep dive of each of the business segments and we continue to see growth across the board and led by three pivotal areas that we started working on for the last two years - digital engineering, autonomous work, and sustainable planet. I think these are the three favored areas that we are working on. I think that continues to play off well. While we continue to see some macro challenges, the geopolitical issues and conflicts arising from Israel-Hamas and what we have seen for the last two years from Ukraine, Russia, I think they're continuing to put challenges, but we are still confident about what we see the future, which is looking bright and we are confident about how we will create a sustainable growth for many years.

And to start deep diving, transportation as air travel keeps growing, aerospace industry continues to embrace more of digitalization, we need to deliver more aircrafts and engines. The global demand for air traffic likely to double in the next 15-years, and this has taken 23 years in the previous doubling cycle, and now it may happen in the next 14 to 15 years. And plus, some of the growth that is happening through the geopolitical conflict that is happening globally from the defense side and these two are essentially driving the growth as far as transportation is concerned. Rail would be moderate, and we still see growth based on software and digital areas from rail.

Connectivity and this has been challenging for many of our peer companies as well, and this is led by some of the 5G investments still not paying off and also their own investment towards fiber investments is being slowed down. While we expect the government spending around RDOF and BEAD programs to continue to drive the growth starting later this quarter or early next quarter. We are expanding on our acquisition that we made in Portugal into North America and Australia markets. I think that is paying off with an entry into Australia operators in the last quarter.

Sustainability, I think this continues to really build the momentum as we expected and led by energy transition and some of the new-age minerals like lithium, nickel, zinc, cobalt. I think that continues to drive significant demand and led by the energy transition which is happening across global segments. And we also see the utilities market which is getting transformed towards the grid normalization, digitization and that's going to be a biggest growth engine for the next three to five years. Apart from the hydrogen ammonia-based green energy and carbon capture utilization and storage, they continue to lead the growth and we'll talk about some of the key wins in many of these segments in the next few slides.

New growth areas, I think this is still led by automotive. We have seen a robust 30% growth in automotive business, and we continue to see growth around electrification, autonomous and connected vehicles, and we have seen momentum in some of these areas.

And also, in semiconductors where we have seen a softness over the last six months due to the macro issues, we do expect that the demand should start coming back by latter part of this year. And this is going to be led by high performance computing, artificial intelligence and auto segments that are likely to drive the growth from this year.

So just want to pick up a few of the examples of the deals that we won last quarter. Semi-autonomous drive, pollution and obstacle avoidance for industrial construction equipment. And this is an interesting project where we are trying to build autonomous construction equipment for our customers. First time we are really engaged working on a full-blown program for an industrial customer.

Moving on, technology announcement for the entire navigation system and using embedded services including android, auto and connectivity, and enhancing the customer and team management experience through technology and analysis from knowledge management solutions and through corporate fiber network and carbon capture solutions, balance of plant for the hydrogen-based green ammonia production.

If I move on to the next slide, a data platform that enables customers to see real-time onboard in terms of their batch data from multiple sources to provide insights and prediction. We also partnered with Microsoft that we announced last quarter and this is paying off with generative-AI based programs that we are taking into our customers and this is one such thing that we have to report from the last quarter.

Digital platforms and customer experience, we are developing an asset management solution integrated to a PLM system for a mining customer. And we also have won a project on AI power software testing using the solution we built called CyFAST and this is for a framework that is built for automated system and software testing, and this is AI powered.

So, with that, I would just conclude from my side of updates and we are confident about what we see the business to shape us for rest of the year. On the fiscal '24 guidance, we are keeping our 15% to 20% guidance that we have given earlier with the commentary that we expect it to be around the lower end of the range and EBIT margins we have guided about 150-250 basis points improvement as compared to fiscal '23 and we are holding on to the same numbers. With that, we'll throw open for question-and-answer.

Moderator: We will now begin the question-and-answer session. We'll take our first question from the line of Ruchi Burde Mukhija from Elara Capital.

Ruchi B Mukhija: I have two questions. First, what has led to the margin expansion? Second one, could you please share what you see as outlook for your Communications vertical as we move ahead?

Prabhakar Atla: Our quarter-on-quarter margin improvement has two key drivers. The first is that we have had an improvement in the operating performance. Our gross margin improved quarter-on-quarter and this is happening from improvement in utilization and also from continued rate hikes which we spoke up in the previous call. The second is we continue to have benefits from indirect cost optimization, which we have done previously. So, these two are the key drivers for the quarter-on-quarter continued margin expansion. And I hand over to Karthik to address the question on communications.

Karthik Natarajan: Ruchi, I think we have talked about last quarter, and we said we do expect softness on the communications segment driven by the broader capex cycle that has happened over the last 2-3 years. It's taking a breather with the higher interest rates and probably this may take some time before it starts recovering. Specific to the fiber business that we do have significant exposure too. We are starting to see in few pockets and there was a slowdown that we did not anticipate earlier and some of those projects have been put on hold. We do expect that they should really jump back sometime in early Q4. At this point of time H1 to H2 would be flat in terms of communications business and we will start seeing some of the growth by early next financial year.

Prabhakar Atla: Let me just also add that within this framework, our largest customer in communications continues to grow quarter and quarter and year-on-year.

Moderator: We have our next question from the line of Sulabh Govila from Morgan Stanley.

Sulabh Govila: So, the first question is more of a clarification from one of the remarks that you made. So, is there any sort of an impact from the geopolitical issues that we are facing in the Middle East on the sector or Cyient in anyway?

Krishna Bodanapu: Yes, absolutely. On the Cyient DET business, we do not have much business in Israel. Of course, DLM, we do have business in Israel and about 20% of our revenue and 20% of our supply chain comes from companies in Israel. So, there is a bit of dependency. Of course, the first concern that we had was the safety of our employees, not that we have many, but we have a few in Israel in the DLM business, of course, our suppliers and customers. So that was the first concern and I'm glad to say that everybody is safe, though of course everybody has an impacted family member or an impacted colleague. Having said that, we don't believe that there is going to be much of an impact on the DET business in any way in Israel. Similarly, on the DLM business, like I said, 20% of business comes from there. But we're also quite confident that Israel is actually a very resilient country. Of course, there is going to be significant disruption in what we do in Israel, but we focus on our employees and their families are really safe.

Sulabh Govila: My second question is with respect to the guidance that we have in which we've tended to guide towards the lower end. So, for us to do the bottom end of the guide, the ask rate if I am not wrong is upwards of 3% in the next two quarters. So, just trying to understand how confident are we in terms of delivering that sort of a growth rate in the environment we are in? Whether would you expect that to gradually pick up, which would mean that 4Q would be better than 3Q, just some understanding there?

Karthik Natarajan: Like what I shared, our order intake has grown by 40% year-on-year, and this is led from aerospace and sustainability, and we do expect that this will continue to grow. That's the confidence on which we are trying to hold our guidance to the lower end of the range.

Sulabh Govila: Would you expect the growth to gradually pick up in 3Q versus 4Q?

Karthik Natarajan: I hope so.

Sulabh Govila: My last question is on the margins bit. We are already at 250 basis points higher than last financial year. So just trying to understand given that we are expecting strong growth in 2H, are there any margin headwinds that we are facing due to which we're keeping the margin flat from here on?

Prabhakar Atla: We're still holding on to the previous margin guidance. There is still some work to do for the rest of the year. So, at this point in time we'll hold on to the previous guidance as we work through various things, we have to work through the following two quarters.

Moderator: We have our next question from the line of Kawaljeet Saluja from Kotak Securities.

Kawaljeet Saluja: I have a couple of questions for Karthik. The first question is that you have seen the recent announcement of Ericsson or other comments of Ericsson wherein they expect the network spending to remain muted in calendar year '24 as well. I think we do have exposure to that market. Now, assuming that the market remains muted, do you think that the impact will filter through your communications performance or are there offsets available?

Karthik Natarajan: I'll answer this in two parts. One is, we have made an acquisition called Celfinet about 15 months ago and they do have the wireless side of the business and some part of the business which got impacted in Q2. We expect that part to recover in Q3 and Q4 as we see today. And because of some of the key spend that is required from the customers in UK and Europe, led by the platforms that Celfinet team has been able to build over the last three years and that has been definitely successful with many of the customers which helps in reducing their cost of operations. And two, they are also supported by the energy savings platform, which is the secondary one that we've worked on for the last two years, which is more relevant today than ever before because of the energy crisis that has been in the UK and Europe. So, those two things would lead us to see a kind of growth in Q3 and Q4. On the fiber side of the business, significant capex that has been budgeted by the government about 18-months ago and this has been distributed to all the states. I'm talking about it in the US. And that is likely to start getting into contract awards later in Q3 or early Q4. And we also expect that funding will drive at least significant growth over the next six to 12-months on the fiber spending. And we are betting on that. Many customers who are spending on their own, I think that is going to be curtailed in the near term and they do expect that government-sponsored or government-supported initiative will help them to spend that money over the next six to 12 months.

Kawaljeet Saluja: The second question is that any line of visibility on the refresh of the narrow body aircraft platform and let's say if you don't have visibility, then you know without that what's the kind of run rate and longevity of growth that you can have in it?

Karthik Natarajan: I think we still don't have any clear visibility of when the narrow body refresh will happen, definitely in queue, at the same time when you have duopoly situation, one is doing very well unless there is a compelling reason why both of them need to really get into a new upgrade. So that may probably happen over the next two to three years. We are still waiting for a firm decision from one of them soon. I think that will force the other one also to follow through. Meantime, what is likely to happen is that with spending in defense likely to be a key issue, and whether it is about aftermarket, MRO, all of them are likely to see some momentum and we do expect the defense spending will continue to rise over the next two to three years given the conflict situations that we are seeing across many geographies worldwide. We do expect that this will probably take the growth for a while. Having said that, the commercial side of the business has not really fully recovered, and the supply chain challenges still remain and that needs to be resolved over the next 12-24 months. So, we hope all of them will start converging into some of these new upgrade programs in the next two to three years to continue to grow beyond that.

Moderator: We have our next question from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: First is on the pricing benefits that you spoke about. So, is it complete as of Q2 or we should expect some benefit in Q3, Q4 as well? And the related thing is, should we assume pricing benefits are largely narrow or is it broadly spread across verticals? And then I have a follow up.

Prabhakar Atla: There is still some more work that is left for us to do to see that we continue to receive the price benefits received so far. We will continue working on that. To your second question, not specific to aerospace only, these are broadly spread across the few segments.

Mohit Jain: Second was related to Q3 furloughs. I think you spoke about some slowdown in Q3 and then picked up in Q4 or do you expect growth to be more evenly spread given we are anticipating telecom recovery?

Karthik Natarajan: Mohit, I think we still don't have a clear view on how the furloughs would play out and given the demand situation on the aerospace side continues to be robust and we don't expect to be any different as compared to what we have seen in the last year and the supply chain issues for the last few years.

Moderator: I'm sorry to interrupt, sir. You're not clearly audible. Can you come closer to the microphone?

Karthik Natarajan: So, what I was saying that is we don't have a clear view on the furloughs yet and the aerospace industry has robust demand and they continue to see as all of us are experiencing on a daily basis. I think most of the flights are running full and probably the capacity is still not available to meet the demand that is rising in the aerospace domain. So, that would really require some additional work that needs to be supported. So, we still hope that some of the projects will still continue to be helped during the holiday season. And we still don't have a clear view. We will kind of keep you updated. Just to share additional information, we do expect Q4 to be better than Q3 and maybe it would probably skew towards Q4 more than Q3, and we don't expect any other impact on the furloughs from other sectors.

Mohit Jain: You're also anticipating some recovery in communications vertical also in Q3. Is that what you said earlier in one of the remarks?

Karthik Natarajan: I would say we will recover by Q4 compared to H1 we will be flat on the communications vertical.

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

Sandeep Shah: Sorry to again ask a question on the guidance. How confident are we even for the lower end of the guidance because the closest peer has downgraded growth guidance for FY24 with expectation of macro impacting the client decision-making in the last few weeks, which may impact the growth in the Q3, Q4. So, my question is, what are the assumptions in terms of rate of 3.3% compounded QoQ even grow at 15%, what are the assumptions baked in? Because in one of your statements on communications, you said that 2H for communications would be flattish versus 1H. So, are you baking in almost a flattish QoQ growth in the communications?

Karthik Natarajan: I don't have specific number to offer on the communications for QoQ, Sandeep. But like what I said earlier, we have seen our order intake growing by 40% year-on-year. This is essentially led by the transport and the sustainability segment. Within sustainability, we see that mining and energy both are looking good. Mining customers are having difficult period because of the pricing issue, but that is also making them to drive some cost out and that would help us for the next two, three quarters. And from the energy side, some of the programs that we already won, and we are likely to win during Q3 would help us to see the growth for both Q3 and Q4. So, that's where our confidence comes from. We have not assumed any disproportionate furloughs from aerospace for Q3 because of the demand situation that we see and how our customers are asking us to provide additional help during this quarter.

Sandeep Shah: Karthik, just wanted to understand, do you believe CY24 could be the year where new engine or aerospace design phase could be launched or it may be in CY25 rather than CY24, and will it further elevate the growth prospects of aerospace starting from next year?

Karthik Natarajan: I'm not sure whether there is any new program that is going to be announced unless the OEM is going to lead the way. There are multiple concepts that are being worked upon and there is no firmness in terms of specific program launch. I would also add on top of that, there will continue to be derivative programs that continue to happen as the need to reduce the emissions and increase the efficiency of. engines and some form of electric-supported engine which will reduce the capacity of the engine that is needed. I think sustainability is going to drive significant changes to the aircraft and the engine programs and that is where we will see the demand in the near term, as well as the MRO and aftermarket support. And with most of the aircraft running overtime, they need to be maintained and supported and this would be the second growth engine that we see in the near-term.

Sandeep Shah: The last question is to Prabhakar. Just wanted to understand what are the headwinds, tailwinds which would be there especially on any pending wage hikes in the second half? One of the participants has already asked, I think, in the first half we are at 16.3 versus upper end of the guidance at 16.2 at the EBIT margin. So, is it fair to assume directionally still there is an upward bias in Q3, Q4 versus first half margin?

Prabhakar: As we spoke in the previous call, the wage hikes this year are annualized and spread throughout the year. So, we can expect to see some more wage hikes to be coming in the next two quarters. There is still some more work to do on the price increases as indicated, and other operational levers we're still working on. So therefore, I'm saying a number of moving parts out there. We are very confident of the range that we have given in the previous call and at this point in time with your permission we would stay with that guidance range.

Moderator: We'll take our next question from the line of Nilesh Jethani from BOI Mutual Fund.

Nilesh Jethani: My first question was from a two or three-year perspective considering a lot of demand for MRO etc., What can be the revenue assumptions directionally not required to quantify, but directionally what can be expected beyond '24 or you believe this MRO requirement is just in the interim period and you could see some declining trends?

Karthik Natarajan: Nilesh, I would just say that we don't have any view for fiscal '25 yet. So, as we start building up, we'll share the details with you. But we do expect that the cycle may last few more quarters before it really flattens out and because of what I shared both on commercial as well as the defense program, and one of the large fighter aircrafts which has been put into service about seven to eight years ago is coming up for service and they will get the first engine being serviced in this quarter. They said in the next five years, they need to service about 1,000 plus engines. So, which essentially means there could be a short to medium term demand that will continue and we do see that we are able to grow at double digits. We don't have any specific home view of whether it would be in teens or early teens or late teens, we are not able to make that assessment yet.

Nilesh Jethani: Second question was on the transportation piece. There were earlier comments that Europe, etc., the rail department or work towards that is seeing some basically bottoming out. Wanted to understand after bottoming out, are we seeing any trends of growth or number stays there itself?

Karthik Natarajan: See, what is happening is for many of the governments, they have fixed budgets and they need to really prioritize where they need to spend on. With some of the challenges that are seen over the last two years, I think the homeland security or defense getting prioritized over other public infrastructure and that is a broad view that we saw. There are many programs that have been won by our customers. They're waiting for clearances or funding to be approved for them to jumpstart the program. So, there could be some unpredictability in the near term because of what we are seeing on a broader geopolitical issue seen globally.

Nilesh Jethani: One last question would be on the order wins and revenue conversion. A lot of peers in the IT services commented that there has been some delay in offtake of those recent deal wins. From a Cyient perspective, the recent order wins, wanted to understand how is it translating into the revenues for us?

Karthik Natarajan: Yes, I think while they do take time to make decisions which may get moved to the right and there could be delays. But once they make a decision, they want to execute them faster. So, you have seen both sides of the point where they said some of the programs are shifting to the right. But once they make a decision, they want to make sure that the timelines don't change for the end date. So, they really want to execute them faster, so which is definitely what we see and there could be uncertainty around based on higher interest rates and with inflation being high and I think everybody's trying to prioritize certain investments for the near-term as compared to the long-term and those decisions are on a regular basis. We don't see any significant change in that over the last two or three months that we have seen. But you never know how things will pan out for Q3 and Q4. We don't know whether the Fed would increase the interest rates again and would it really create a soft landing or hard landing, there are a lot of discussions that are happening around the world. So, we don't know how things will pan out for Q3 and Q4. Based on our current confidence we do see that once the project is awarded, they want to really get them on a faster execution side.

Moderator: We have our next question from the line of Shradha from AMSEC. Please go ahead.

Shradha: Hi, Karthik. On the transportation bit, in one of the large rail transportation clients, we were seeing higher offshoring which was impacting revenue for us. So, have we gotten to a stable run rate in that account or are we still seeing the impact of higher offshoring in that particular account?

Karthik Natarajan: Shradha, we don't want to respond on specific customer-related issues. I would just say broader commentary that I gave for rail is still valid and we do see some unpredictability because of the project start from their customers and that's one of the key issues that is facing the segment. And two, there are some specific customer issues and some of them getting merged and integrated, and some of them have gotten approval to get it integrated. So that's going to be part and parcel of the regular routine task. We don't expect any significant change in the near term as far as the rail business is concerned.

Shradha: How big would auto be in new growth area and how do we see the visibility of growth rate in auto going into next year?

Karthik Natarajan: I think we do have an aspiration of getting this to be at least about double-digits percentage to the revenue over the next few quarters, I think that's definitely is our aspiration, and we have seen growth as we announced a few deals last quarter and we have talked about one of the perception system we are building for an industrial equipment major this quarter. We continue to see across the embedded digital services, cyber security, cloud. I think those areas continue to see interest from automotive customers. We do hope this will continue for a few more quarters.

Moderator: Ladies and gentlemen, that was the last question for today. 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 for your support, ladies and gentlemen, and taking the time out to be here this evening. As you know, we are facing some very uncertain times in the world with some of the geopolitical issues that are going on, but I want to assure you that we've built a very robust portfolio and also we've built a very de-risked portfolio as many of you know, while we've had some challenges in aerospace previously, there were other businesses like comms that picked up and now that there are challenges in communications, aerospace is really picking up this time. So, I just want to also highlight that we feel quite confident that we've built the de-risked portfolio, and as Karthik has said, there is some very good visibility towards the guidance that we are providing. So, thank you very much for all the support that you have provided. I also understand that it's been a busy couple of days with a lot of other calls, but may I just take a moment to invite you to our Investor Day, which will now be held on 8th December 2023 in Hyderabad. It will be an all-day session for those of you who have attended our previous investor days, you will recall that it is a great platform to understand our evolution, performance, aspiration and execution plan. On behalf of the entire Cyient team, may I extend our warm invitation to all of you to join this event. It will be our pleasure to host you at the event and hear your perspective and feedback. Our team will be in touch with you to coordinate the logistics. Thank you once again. I look forward to seeing you in December.

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