29 January 2025

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Dalal Street
Mumbai 400001
Scrip Code: 532175

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

Dear Sir/Madam,

Sub: : Transcript of the Earnings Conference Call

Please find enclosed the transcript of the Q3 FY25 earnings conference call conducted after the meeting of Board of Directors held on 23 January 2025.

This information will also be hosted on the Company's website at www.cyient.com

This is for your information and records.

Thanking you
For Cyient Limited

Ravi Kumar Nukala
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Cyient Limited

Q3 FY25 Earnings Conference Call

January 23, 2025

MANAGEMENT: **MR. KRISHNA BODANAPU – EXECUTIVE VICE CHAIRMAN AND MANAGING DIRECTOR – CYIENT LIMITED**

MR. PRABHAKAR ATLA – PRESIDENT AND CHIEF FINANCIAL OFFICER – CYIENT LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Cyient Limited Q3 FY25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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 will now hand the conference over to Mr. Krishna Bodanapu, Executive Vice Chairman and Managing Director, 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 third quarter of Financial Year 25. I am Krishna Bodanapu, Executive Vice Chairman and Managing Director and present with me on this call is Mr. Prabhakar Atla, the President and Chief Financial Officer. 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 website, which has been e-mailed to you and also posted on our corporate website. This call will be accompanied with an earnings call presentation, the details of which have already been shared with you.

Before we begin the highlights for this quarter, I want to share an important organizational update. Mr. Karthikeyan Natarajan or Karthik has decided to step down as the Executive Director and Chief Executive Officer of Cyient effective immediately. I have taken charge of the operations of the business in the interim and we'll revert to you once we have further developments. I want to place on record my gratefulness to Karthik for his contribution and commitment to the long-term success of the business. And I wish him the best for this future endeavours.

Our commitment to accelerate Cyient's growth and maximize value for our shareholders remains firm and focused. We have built a proud legacy of leadership and I'm confident that together, we will continue to strengthen our position through the execution of our strategy and delivery of strong operational performance. I assure you that this transition will be seamless, and our future holds even greater potential. The management team is fully prepared to lead the company during this transition period. And the board, of course, will continue to provide oversight, guidance and counsel. My team and I will be available should you need any clarifications on this development. But thank you for your patience and thank you for your continued support and trust.

Continuing to the highlights of this quarter. We opened a new center of excellence along with a number of state-of-the-art labs for Allegro MicroSystems. Our relationship with Allegro has flourished over the past 2 years and we're incredibly proud of the team and the contributions that they have made to Allegro MicroSystems product portfolio. Semiconductors, as you know, are at the heart of innovation across industries and the Center of Excellence strengthens Cyient's position as a leading partner for companies seeking to develop, manufacture and sell cutting-edge semiconductor products. Further, I'm delighted to announce that we have secured approval from our Board of Directors to explore additional capital raise options for our recently acquired semiconductor subsidiary. This is in line with our strategy for the semiconductor business towards capital readiness to drive accelerated growth in the near and medium term.

Semiconductors is a very important market around the world and there's a lot of things that are happening and a lot of acceleration in the market. As you know, when we announced the setting up of a dedicated business and spinning off our business into that unit, the intent was to leverage on our unique capabilities that can address this very fast-growing market.

We also opened a new office in Sydney. This is located in one of Australia's most dynamic business districts and we will have over 100 associates who will form a critical part of our growth strategy. This investment also reaffirms our commitment to delivering cutting-edge solutions to our customers while establishing a stronger localized presence. In addition to bolstering support for Cyient's connectivity clients or the communications clients, the new office will help us explore and expand opportunities in new sectors.

Our Founder Chairman's unwavering vision, spirit and commitment to excellence have not only shaped Cyient into a global leader but also left an indelible mark on technology and innovation landscape. He was recognized with the Golden Peacock Award for Lifetime Achievement and Leadership in Technological Innovation and the ICSI Lifetime Achievement for translating excellence in corporate governance into reality. Both are well deserved recognition of his extraordinary contributions, and we are immensely proud to celebrate these. These awards are a further testament to the value that we place on corporate governance, which I hope is reflected in all our interactions with our investor community.

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

Prabhakar Atla: Thank you, Krishna. Hello, everyone. Thank you very much for your kind participation in the call today. Thank you for your time and thank you for the attention. Before we proceed with the financials, a quick comment on the nomenclature. The nomenclature and segment under which we report our group performance will remain the same as the previous quarter, i.e., DET, DLM and others. The focus of this call will remain DET segment which also includes the semicon business, and therefore, all metrics are like-to-like to the previous quarter. The Q3 FY25 dollar revenue for DET stood at 175.2 million, a Q-o-Q growth of 2.4% in constant currency and a year-on-year degrowth of 1.9% in constant currency. In rupee terms, this revenue stood at INR1,480 crores with a Q-o-Q growth of 2.1% and a year-on-year degrowth of 0.8%. This revenue performance for the quarter is broadly in line with our expectations. Our two large business units, transportation and connectivity continued their growth journey with 3.7% and 5.7% Q-o-Q growth in constant currency while sustainability unit remained flattish quarter-on-quarter in constant currency, and we see continued growth in the cluster of new growth areas.

The Q3 FY25 DET EBIT margin stood at 13.5%, down by 72 bps quarter-on-quarter and this Q-on-Q movement was driven by wage hike impact, which was the highest we had for any quarter in FY25, along with currency headwinds which was partially mitigated by revenue growth and efficiency improvements. The Q3 FY25 PAT for DET stood at INR124 crores, a degrowth of 30% Q-o-Q and 28% year-on-year, translating into an EPS of INR11.25 for DET for this quarter.

This significant negative movement in PAT during the quarter was largely due to significant negative movement in other income, especially from unrealized FX losses arising from major currency movements during the quarter. As you would recollect, we commented in the previous quarter's earnings call that there are significant tailwinds towards Q2 PAT from unrealized FX gains due to favourable currency movements in that quarter and our other income for that quarter was INR47 crores, of which unrealized FX contributed to about INR34 crores gain in that quarter. And in this quarter, this line item has turned unfavourable, even beyond the gains we made in the previous quarter, leading to unrealized FX losses to the tune of INR50 crores which is a Q-o-Q movement of minus INR84 crores, resulting in a sharp Q-o-Q and a Y-o-Y negative movement for PAT in the quarter. The Q3 FY25 DET FCF stood at INR245 crores, a positive movement of 39% Q-o-Q translating into close to 200% FCF to PAT conversion for the quarter. This INR245 crores remains our best quarter to date in terms of FCF performance. In our view, the Q3 FY25 was a quarter of resilient performance for DET. We did quite well in terms of revenue growth and extremely well in terms of cash conversion, while the PAT was impacted due to FX movements in other income.

Moving on to the group numbers. Group numbers are a combination of all three segments we have, including Cyient DLM. For Q3 FY25, group revenue stood at INR1,926 crores, which is a growth of 4.2% Q-o-Q and 5.8% Y-o-Y with an EBIT degrowth of 108 bps Q-o- Q and a degrowth of 288 bps year-on-year. PAT degrew by 28.4% Q-o-Q and 31% Y-o-Y. The group EBIT and PAT are normalized for one-off M&A expenses incurred in the recent Altek acquisition by Cyient DLM and you'll also see significant positive movement in FCF both Q-o-Q and Y-o-Y. I would also like to add that from this quarter, our group PAT and EPS will include the impact on the investment we made in Azimuth, which was announced in the previous quarter. Given that we own a 27.6% stake in Azimuth at current valuation, we will treat them as an associate company and add their profits or losses in the group earnings in line with the accounting standards.

With this, I would like to thank you once again for your time and hand over the call to Krishna for a more detailed commentary on DET performance.

Krishna Bodanapu: Thank you, Prabhakar. I'll quickly give you an update on the DET performance from the BU perspective and Prabhakar alluded to some of this already. On transportation BU, we're seeing some good growth at 3.7% quarter-on-quarter. It is because of the ramp-up in new deals in aerospace in the last 1 year, combined with some good steady demand from existing customers, including our largest customer who is the aerospace customer. The rail transportation business remains flattish. At least we believe that all the challenges we had are over from that perspective. So, net-net, we're seeing some good growth here and quarter-on-quarter, it's a 3.7% growth. And, of course, there's a little bit of degrowth compared to the year, but we will make that up in the fourth quarter.

Connectivity is another sector where we're seeing very good growth. Quarter-on-quarter, we are seeing 5.7% growth on account of strong execution and ramp-up, especially in some of the North America deals. We continue to have some very good orders in hand, and we'll continue to execute this, and this vertical will continue to witness growth in the short and in the medium term.

Where we do have a bit of a challenge is in the sustainability sector. This sector is down 1.3% quarter-on-quarter. And much of it is because of the project-based nature of work in this vertical. A couple of the large projects that we've been working on are at the end of their life cycle and some of the newer projects are yet to gain scale. I'd still say that the good news here is some of the newer projects have been won. There was a little bit of a delay in winning some of these projects and that's why the ramp-up has not happened like we thought it would, but we will see the equal impact of this towards the end of this quarter and into in Q1. The external environment for sustainability is very strong and the macro demand for energy remains healthy for us to focus on this. You may have heard President Trump on Monday after his inauguration during the speech, drilling in the U.S. is going to be a big focus area and energy sufficiency for the U.S. is going to be a big focus area. And our capability really centers around that with our ability to design and build plants. And therefore, we believe that we're very well positioned.

In terms of new growth areas, we had a 2.1% growth in constant currency. Semiconductor business which I talked about is doing well. We have some nice deals there. We'll continue to announce some good progress including, of course, on the capital side, but more importantly on the business side with some new deals that we're winning. Automotive remains flattish, but that's also because the automotive environment is a tough environment. So, we're happy that we're able to maintain our business. And healthcare was marginally down quarter-on-quarter, but year-on-year with a healthy double-digit growth.

I also want to highlight that we are also winning some very good deals in some of the emerging technologies and the emerging areas. In applications of AI, we've seen at least USD 11-12 million of deal wins, which are going to be quite important to sustain the technology momentum going forward. So, I also want to highlight that the technology-based deals are doing quite well. And lastly, if we come to order intake, the order intake is the highest ever at USD312 million. It's double of what it was in Q2. It's almost 50% higher than our typical quarterly run rate and 5% growth year-on-year despite all the macro challenges. This Q-on-Q growth in order intake was across this business. It was in transportation, sustainability and in connectivity. We have won 13 large deals, and the total contract potential of these deals is 234 million. So, I want to highlight that after some challenging times, order intake is at an all-time high, order backlog is at an all-time high. So now it's back to what we do best which is execute through this order intake and order backlog.

With that, let me move on to the guidance for the rest of the year and how the rest of the year looks. I want to say that we are taking the prudent view, obviously. We have had a challenge this year. It's not been our best year. So, we do want to take a prudent view and be transparent with you in terms of what the rest of the year looks like. There will be a degrowth. And if you look at the first three quarters revenue that does suggest that we will have a degrowth and the degrowth will be in the 2.5% or so range. We are being prudent and therefore we're saying 2.7%, but it will be about the 2.5% range. What has also happened is a lot of the deals that we originally were anticipating will ramp up in Q3 and therefore deliver in Q4 are now right shifted. I do want to assure you though having said that, that these deals are won. We will see the ramp-up in Q4 towards Q1. Therefore, we're very confident that FY26 or at least the first quarter of the FY26 looks very strong. That also has a bearing on margins. We have given an aggressive salary increase because we're at the cusp of executing to a good growth and we don't want to lose people at the moment. So, we've also made sure that all the salary increases have been effective, which was impacted in Q3. And there's further salary increases which will happen in Q4. And that's why we're saying Q4 exit margin will be 13.5% range, which will be what it will be for the year. But having said that, I want to say that's also important because with the growth that we're anticipating in Q1, margin will also improve quite significantly.

So, we want to set ourselves up for a good pace before we go into the next financial year. So obviously, we'll pause here and take some questions. But I'll once again say thank you very much for the support. It's not been the best of the quarters -- sorry, it's not been the best of the years, but I do want to say that we are seeing some very tangible opportunities in Q1. And while it is a little bit disappointing that things didn't work out in Q4, they have just shifted a little bit and that is true both from a margin perspective and from a revenue perspective. So, I just want to assure you, things look fine, and we are going to execute towards this growth and we're preparing ourselves for this growth that will start to happen in a very meaningful manner from Q1. Lastly, I also want to say that while Karthik is moving on, we have a great leadership team. We have an absolutely committed, fantastic industry-leading leadership team and we are all committed to making sure that we deliver on our promises and our commitments. With that, I'll hand it over for Q&A.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah: Sir, just looking at the guidance, in the fourth quarter also you may have a marginal dip on a Q-on-Q basis. So, fourth quarter, we may again see a decline in the revenue marginally maybe to the extent of flat to 0.2-0.3% and that's not a good exit rate for the next year in FY26. And we started the year with a high single-digit growth. Now we are guiding for -2.7%.

So, what is exactly happening apart from the right shifting of the deals and the macro. Are there any learnings which we have to tighten up going forward and even on the margin, it's not a good exit rate at 13.5% in the fourth quarter. So that seems the impact on FY27 could be big?

Krishna Bodanapu: Sandeep, thank you for your question. Firstly, I'll say, we will not decline under any circumstance in Q4. Q4 will be a growth quarter. I'll say it's not going to be a huge growth quarter, even as things stand, it is a growth quarter, we will see a bit of growth. We are now working on how we can maximize the growth. So, I want to assure you that Q4 will be a good solid growth quarter.

Now the second thing, okay, why did we then say 2.7%, you might do the math, there's also a lot of currency movements that are going on. There is a lot of currency issues that we're dealing with. So, we just wanted to be prudent to say that this is a worst-case number. We will only do better than that. The second thing is on margin also, yes, 13.5% is a bit lower than what we would have liked it to be or it is lower than where we thought it will be, but again the revenue has right shifted.

And I think the biggest challenge that we see in this year has been -- we did not start off the year with the order book that we needed to execute to that single digit, and we thought that we will be able to win deals through the year and execute and so on and so forth. So, the key take away for me when I say that we have a very strong visibility into FY26 which is the next year is because the order book has already built up. This USD312 million or so of order intake. And then we'll again have a decent or a good order intake number in Q4.

So, the order book has built up. Yes, we have had some execution challenges where some of the projects have been right shifted, especially in sustainability. But if I look at what is in the pipeline and what's already booked, I can say that, yes, it mathematically might not work out, but I can assure you that looking at the situation on the ground we will have a very good FY26.

Prabhakar Atla: Just to continue on the margin discussion and I'm assuming many people in the call will have this question on the margin exit for Q4 FY25. If you see, we already commented in the previous calls also that for FY25 the margin will follow the revenue trajectory. And as you also know in the previous year, FY24, we have shown that we have got a good control on the margin levers. We took the margin all the way up to 16 in the year, 16.2% in one particular quarter. So, we said that for the current year, margin will follow revenue as a trajectory. And we also know that we have control of the levers.

We're not slowing down our investments right now. Like Krishna spoke about investments we are making in people, we're also making investments in sales. And at the same time, we're also going to move towards -- if you remember in FY23, we did the Phase 1 of cost optimization for Cyient which also led to significant margin improvement in FY24. The Phase 2 of that will also kick in right now for us from Q4 onwards. So, all put together, it is from where we are looking at, this is a solid platform for us as we get into Q1. As we execute the orders that we got in Q3, which will flow through to Q1. As we continue to invest in people and also work on the levers and optimization of costs, we're looking at very strong Q1 in terms of margins. You're right, Q1 to Q4 exit is going to be softer than what we thought it would be, but at the same time that leads to a stronger Q1 in terms of margin performance.

Sandeep Shah: Okay. And just second question in terms of resignation of Karthikeyan as a CEO, so what are the plans? Are we looking to elevate internally or you may bring outsider. What are the plans because I think what Krishna sir has said that he may be taking care of the operations in the interim only?

Krishna Bodanapu: Yes, Sandeep, we're evaluating all the options. As you can imagine, the Board is quite involved in a decision like that. So, it's a bit premature to comment on that, but I will just assure you that I'm here fully. I mean, I've always been here fully, and I'll continue to be here fully. So -- and the leadership team is exceptionally motivated and committed at this point. So, we have some runway. We will evaluate all the right options. But for now, I believe, or we believe including the Board believes that we have a good option in place and therefore we don't have any need to accelerate any decision, we will take our time and come to the right conclusion.

Sandeep Shah: Okay. We will come in the follow up. Thanks.

Moderator: Thank you. The next question is from the line of Aniket from DSP Mutual Fund.

Aniket: Thank you for the opportunity. I have a couple of questions. First question is on the order book. So historically, sir, we have always seen that second half for Cyient has always been strong when it comes to order inflow. But historically also, we have lacked in execution in the first half of the year. So, I just wanted to understand what is giving you confidence that this time the execution of this order book would be better in the first half of next FY?

Krishna Bodanapu: No, that's a fair question. And I'd say that what gives us the confidence is how the order book has built up because we -- it's just not a number. Behind the number is when does the project start? What is the capacity that is required for the project? What are the capabilities? So, when we look at those and we map out to what is possible in the first half of next year, I feel very confident. I mean, it's not as if the Q3 orders were typically driven by one or two customers. This time the Q3 orders are across the Board. Of course, Pratt & Whitney, who are our largest customers is a big part of that, and their orders are coming to expectations, but there's a lot of others that have come in. And when we map out because you have to also take that number and map it out against a timeline. And when we map it out against the time, there is a very good opportunity to execute to that timeline. So therefore, it gives me a lot of confidence to say that the order book it is through the course of the year.

And that's why I'm confident because see, yes, historically our second half has been better than our first half. But that is something that we've actually -- for the last couple of years have worked quite diligently on to make sure that some of this evens out and we're now starting to see that. This year also, if you look at Q1 was tough, but Q2 onwards things were much better. So, we are working on that to make sure that it evens out through the course of the year.

Prabhakar Atla: And Aniket, to add to Krishna just said, you rightly pointed out it was a strong order intake for us in the current quarter or at least Q3 of the year. But at the same time, we also commented previously that in FY25, we've been seeing truncation of PO. We are getting POs in tranches which basically means that if we do a like-to-like comparison of the current OI with the previous year's OI, it will be much different. We currently are having a much shorter execution timeline for the POs that we have compared to longer duration we had in the previous year's order intake. So that's what gives us the confidence of Q1 more strongly than what we had in Q3 FY24 but also the fact that the timelines are very different. These are shorter timeline execution orders compared to the previous years which were longer in terms of duration for execution.

Aniket: Okay. Prabhakar, just to get more clarity on -- if I look at your four verticals, transportation, connectivity, sustainability, new growth areas at current order book which you are having right now and which you might -- and which will have in next quarter also which vertical like which two or three verticals would be high growing vertical for your next year according to you as of now?

Prabhakar Atla: So, for FY26, Aniket, we are very confident of all the four verticals. Transportation, you've seen that the momentum is back in business. We've been growing consistently quarter-on-quarter. Connectivity is also back into business in terms of quarter-on-quarter growth. On both fronts, we have very strong visibility for FY26. Sustainability, there is some more runway that we have to build in the next two quarters for us to continue to grow significantly next year, which we believe we can because it's also very project-centric business, unlike communications or aerospace which are fairly longer-term businesses for us, this is very project centric.

So there, we will require one or two quarters of runway to once again put the order book for continued growth in FY26. But we still see that vertical also growing next year. So, all the three large verticals, we are very comfortable with the scenario we're seeing for next year. And the comfort comes not only from the order book in hand, but also the sales pipeline that we track across various stages, which also has seen a significant decrease year-on-year as we stand today compared to the previous year. On the previous call, we've always been cautious in commenting in terms of sentiment we see globally that is leading to some softness in our commentary for the future. But as we look at today, as we look at the pipeline on the order backlog and the order book that we have in hand, that conservatism, that caution we had, it was a well-founded caution to start with, but we feel more confident today with the things that we currently have in hand across all the three areas.

Aniket: Sir, is it right to assume that the nature of deal or the change in tenure of order book actually is also bringing more confidence in you that this year execution would be better?

Prabhakar Atla: Absolutely. You summed it up right. While the extra tenure would be in topic of discussion, longer is always better is what we would always believe. Shorter also means that we can be lot more clear about what we will do in the next and the following quarters as against what we would have in other scenarios for the longer tenure period.

Aniket: Okay. Thank you so much for answering my question patiently. Best of luck for next year.

Moderator: Thank you. Next question is from the line of Kawaljeet Saluja from Kotak Securities.

Kawaljeet Saluja: My first question is that what is the reason for Karthik's sudden resignation?

Krishna Bodanapu: Karthik wanted some time personally and professionally and we thought with where things were in the organization that is the best way forward.

Kawaljeet Saluja: And I mean, would you look for a replacement or do you intend to carry on with that goal for the future?

Krishna Bodanapu: So, Kawaljeet I think right now, obviously, we have a good opportunity on hand. And I'm choosing my words carefully because I think we did have challenges last couple of quarters and we have converted some of those challenges into opportunities. So, the intent is at least for the immediate term, I'm going to run the business along with the rest of the leadership team because we don't want to derail from executing to these challenges in any manner by defocusing any of us. So, this is the current view from the Board. This is what the Board wants me to do and I'm very happy to do it. Again, I think we see a fantastic opportunity to execute out of the challenges. So, we want to put our heads down and get this done. In due course, we'll decide what we do. And very candidly, obviously, that's an important decision and that's something that the Board will get very involved in taking so. Unfortunately, I won't be able to say very much more because that's all there is to address.

Kawaljeet Saluja: Okay. The other question, Krishna, that I had is that reflecting on the last 12 months, what is that Cyient could have done better and what are the remedial measures taken to ensure to get back to the growth trajectory that we aspire to?

Krishna Bodanapu: So, I think we had a long conversation on the Board, and I request Prabhakar to add to this after. I think there are two or three elements that we need to focus on. One is sales force efficiency and we've done a lot of work in the last 3-4 months around sales force and getting the right sales force in place. The second thing is the solution portfolio. I think we've built some very good solutions and some very good capabilities around technology around digital around and so on and so forth. But I think we were a little bit broad based. We needed to get a little bit more focused on what our particular set of customers needed, not just a generic offering. And I think over the last 6 months or so, our CTO and his team have done a very good job in terms of fine tuning them. And that's why I said we've won a few million dollars' worth of deals on AI and engineering already, but then the pipeline is very impressive. And we have about a USD20 million pipeline of just AI deals and engineering, which is very big. So, I'll say -- if I were to simplify it and say it, I'd say we needed to sell better and we needed to execute better and more relevantly. For me, these are the two things, if I reflect back that we should have done better, not just in the last 12 months, maybe in the last couple of years because what plays out to date is what was done in the last 12-18 months.

Kawaljeet Saluja: That's quite clear. Just a final question, Krishna that I had for you and Prabhakar is that when you look at our telecom portfolio, are there any risks to the revenues from change in the administration in the U.S., especially when it comes to funding of some of the telecom fiber optic rollout programs?

Krishna Bodanapu: So, I take that Kawal. As we stand today, we don't see any significant risk or actually any risk for two reasons. We believe that the digital infrastructure story of U.S. will continue irrespective of administration change, that is important for a digital economy, which also is the important agenda for the current government. That is the first part. And the second part is quite some clients that we know, or we work with don't always depend on the federal funds to fund the network. That's optional for them to take if they wish to. But most of them prefer to fund those network rollouts on their own because the monetization can become unhindered with any regulations that come along with. So, we're not seeing that as any challenge.

Prabhakar Atla: And I'll also add to that the opportunity further we're seeing is that with all the satellite communications now becoming more and more mainstream. We're also seeing opportunities with some of the large satellite communications provider. So, I think what -- the reality the way it also worked is the large CSPs, the communication service providers will continue to invest on their network. And we're seeing that -- we're seeing that in the things that they're putting out because this has no bearing with the government. But the government will also now start to supplement some of these satellite communications, et cetera which is the growth area for us and we're very, very well positioned in that area also. We have seen some good capacity and capabilities.

Kawaljeet Saluja: Just a quick follow-up on your reply and Prabhakar's reply. Prabhakar, can you remind me if your entire U.S. revenues are funded directly by the telcos as opposed to any federal funding. Is that what you're hinting at? So, my understanding was that a fair bit of it was federal funded there are alternatives like sat communication, et cetera to substitute fiber optic with alternative communication channels which I think some people in the current administration are very well geared to?

Prabhakar Atla: So, you're right, Kawaljeet, the first statement that you made that most of the work we do for the clients we work with are not for programs that are funded by the government that's funded by the federal authority. It’s a self-funded program.

Kawaljeet Saluja: Okay. Got it. Thank you so much.

Moderator: Thank you. Next question is from the line of Shradha Agrawal from Asian Market Securities. Please go ahead.

Shradha Agrawal: You indicated, sir, that execution timelines on the current order book are much shorter than what we had seen in the previous years. So, would it be possible for you to define the ACV in the current order book number? So that we get a better sense of what is the executable order book over the next 12 months?

Krishna Bodanapu: The annual contract value will be a significant part of it. It will be about 70% of that is typically now in the ACV. Historically, it would have been lower. Historically, it would have been more in the 60% range, whereas what the order book has built up in the last couple of quarters is really 70%. That's because the -- as we talked about the execution, what used to be 2-year orders will be -- have been now curtailed to 1 year. A good example of deal that we signed just before the end of the year, which I was involved in. The total contract value is 75 million, but we're only counting 25 million of that. So, this is sort of the flip of it, but this is just to give you a sense of how customers are thinking about because they have a 75 million intent over 5 years, but this commitment is 25 million of 2 years, but 325 only 25 is included I just want to be clear on it.

Shradha Agrawal: And your commentary on the transportation segment seems to be pretty positive. Unlike, some peers which have indicated continued caution in aerospace due to supply side challenges. So, what gives you confidence of maintaining this trajectory in aerospace vertical and what are your hopes, and do you think this vertical can be growing at above industry -- above company average growth number in FY26 as well?

Krishna Bodanapu: No, absolutely. I think what gives me confidence is what our customers are telling us, but more importantly just the purchase orders that -- some of the ones with a longer-term view has given us. So one is from existing customers, we're seeing good deal flow. Also, I'd say that we are taking a good share from some of our competition. For example, with a particular customer total spend on outsourcing is down 20%. Our POs were up about 5% which means that we took a lot of share from others. So, one is our positioning and we're doing quite well from that perspective. And at least these customers, all the programs that we're working on are quite bullish and therefore are spending the money. The second thing is we've also signed up some new customers. One announcement that we made recently is Deutsche Aircraft Corporation that's a great new customer for us. They're one of a few OEMs that's in the design phase and most of the other OEMs even the work that we do is more on the MRO phase, whereas that is in the design phase. So both the combination of the new deals that we've won, but I'd say most importantly is what our customers have given us from a PO perspective that gives us the confidence that however the sector is, our business in this sector looks quite good.

Shradha Agrawal: Right. And just last question for Prabhakar. Prabhakar, now that you've kind of downgraded your margin guidance for 4Q, but when we talk of a strong execution on growth on revenue growth in 1Q, so do you think we can aspire to get back to that 16% exit margin that we had initially envisaged for 4Q to come through in 1Q for us? And also, with the salary hike would also be behind mostly?

Prabhakar Atla: We will get to that number in FY26 again Shradha of that we're very confident. Because like I said before, we have done this before. We've done this for four consecutive quarters every quarter, quarter-on-quarter. We focus on those levers, and we know exactly what and where it has to be done. That is something that doesn't bother us. I will take it back, something I am not overly concerned about. And like we spoke also in earlier conversations we are focusing on what can we do to accelerate revenues.

If it means we need to continue investing in sales, we will do. If it means we need to continue investing in technology, we will do. If it means we need to continue investing in people, we will do. If it means we have to put 1 percentage of points of margin towards growing revenue, we will do that. Our focus right now is to monetize the opportunity we have in hand and extrapolate the growth and drive revenue growth and ensure margin pick up as the result of what we do for revenue growth.

Shradha Agrawal: Got it, sir. Thank you and all the best.

Moderator: Thank you. Next question is from the line of Mihir Manohar from Carnelian Asset Management.

Mihir Manohar: Thanks for giving the opportunity. I wanted to understand on the right shift of revenue which was happening. I mean at the start of the year; you were looking for ramp-up to happen in 3Q then in 4Q and now eventually that expectation is there in 1Q. So just wanted to understand what kind of projects and in which area or which vertical are leading to this right shift and what exactly is leading to right shift. Is it like client budgets getting squeezed or the project not being important or is he evaluating alternate vendor, how to get understanding around that? And why you get confident now that there have been two, three quarters where we were expecting the project to ramp up. So how to get confidence that this will happen in first quarter FY26?

Krishna Bodanapu: Absolutely. So, I'd say if you look at the growth and if you look at the quarterly numbers, the two businesses that are -- or the two big businesses are doing quite well. If you look at both aerospace and connectivity, both of them have shown some decent growth quarter-on-quarter growth and that momentum continues there. I would say maybe we are a little bit behind where we have been or about where we would want to be. So, the one that has driven a little bit of the challenge is the sustainability sector because that is a project-based work that we do and a lot of work that is over has to be backfilled, and we've had a challenge in some of the back filling.

So, where I'm saying -- where my confidence comes from for the first half of next year is both of these businesses which is transportation, connectivity and of course new growth areas, three of them are in a very positive trajectory. Now what has dragged us down if you look at it this quarter and we won't fully recover in Q4, that's why Q4 growth also is a bit muted. What has dragged us down in this time frame is really the recovery in sustainability because sustainability -- we were hoping that the project wins will happen early in the year. So, we can -- as some of the large projects were ramping down that we will ramp up into some of the newer projects. That hasn't happened. But sustainability order book went up reasonably well in Q3 and we are working on further -- actually significantly increasing it in Q4. So once sustainability also kicks in. And with these numbers, then we will see quarter-on-quarter growth that is really meaningful because if we remove sustainability and, of course, I don't want to be selective, but as you say, if we remove sustainability, our growth was close to 5% quarter-on-quarter.

So that means that there is enough momentum and there is enough growth in the other three BUs. Sustainability, we're seeing the order book build up and that would translate into growth overall to the next quarter. So that's why, again, not to be selective, but if you remove sustainability growth is quite good.

Mihir Manohar: Okay. Sir in sustainability, is the challenge -- I mean, concentrated -- I mean, is it let us say challenge in two clients, three clients or is the challenge across the sustainably board and is it a case that client budget is a problem or is he evaluating alternative vendor, some color on that?

Krishna Bodanapu: Sustainability works in a unique way because sustainability clients will -- the way it works is, we win a large contract. We execute it for 12-18 months. Typically, it will be 15 million, 20 million, 30 million, even kind of a number. And then at the end, it will ramp down because the design is done. Much of the work that we do in sustainability is design related. Now once that is done, we needed to make sure, for example, there was one client which was even probably a top three or top four client from sustainability, which will ramp down to zero because that's the nature of the work. We were doing a design of a large FPSO for them, which is a floating oil platform, the design was done. And therefore, now they're going to move on into the construction phase, et cetera. It's not that we've lost a client. It's just that that's the nature of the project. Now we need to win the next project in backfill. That backfill took a little bit of time. Now we understand the business also quite well. So, we're making sure that the sales pipeline builds up in such a way that we have back-to- back projects. So, it's not that the customer has lost in any manner. It's just that the work is a project-based work. And lastly, I want to say on that is again coming back to what President Trump said on Monday. There is going to be a lot of new energy projects, especially in the U.S. and we're very well positioned for this. So, while much of our capacity and capabilities is in the U.K., we are working on war footing to make sure that, that translates to quick capacity to support the American market also.

Mihir Manohar: Sure. Just a second question was on with the change in the organizational update which is there. Are there any specific areas that we will be trying to fix?

Krishna Bodanapu: Sorry say that again.

Mihir Manohar: I mean, with the change in the organizational update, which is there, are there any specific areas, either in terms of pyramid or in terms of sales pipeline that we will be trying to fix?

Krishna Bodanapu: I think there are two things that we're working on. One is on the sales side to make sure that we have the right sales team. There have been a lot of changes, and we are working on making sure that these people are more effective than the previous people. So that's one thing. And the second thing, like I said, is just making sure that we're selling the right things to the right customers. There are customers that still use a lot of traditional services, plant engineering, mechanical design in aerospace, geospatial data and utilities, but there are also customers who need more evolved technology-based services. When I say technology, putting through digital, it includes cloud computing, what have you. So, we are getting a lot more focused on selling what the customer needs, not what we want to sell to the customer.

Moderator: Thank you very much. Next question is from the line of Rishi Jhunjhunwala from IIFL Institutional Equities.

Rishi Jhunjhunwala: Thanks for the opportunity. Most of the questions have been answered. Just one question, if I may, Krishna. So, when we started the year, we had a high single- digit growth guidance and at that time I think you had made a comment that we have done a bottom-up assessment of clients and deals and everything rather than aspirational top-down assessment to arrive at the guidance. And from there on, we have had almost a 10-percentage point drop in what potentially the revenue growth could be. So, it looks like beyond the bottoms-up analysis, there is clearly an issue with the industries that we are operating in or the kind of businesses that we are doing because of which visibility doesn't necessarily pan out the way we expect. So, with that kind of a backdrop, just trying to understand whether even having a guidance is helpful at all or not. If you look at mid-cap IT companies except a couple of ER&D players, most of them don't even provide that. So, do you think it might just be a better way to just have that pressure out of the way by not having -- being tied up to a number and deliver as things pan out?

Prabhakar Atla: So, what you said was absolutely right. If you look at our own evolution our 5 years of hard work, we built a balanced portfolio by choice because we wanted to make sure that we have a sustainable growth for a period of time. One key takeaway we had in FY25 and Kawaljeet also had the same question once again earlier was that building the balanced portfolio is one part of the growth. Balancing the portfolio performance in the second part of the growth, that is what we are currently working on. You rightly pointed out these four themes that we have built, while there are some common elements of what we do for these themes. There are different industry cycles in each theme. Our value prop can be different in each theme and the execution cycles can also vary among those themes. So, our job in hand right now needs to make sure that we synchronize in other words, having built a balanced portfolio, balancing the portfolio performance that we replicate the template of what we delivered in Q3 as what you can see.

Despite the largest vertical, we have the sustainability not having a strong quarter. We still had 2.5% growth quarter-on-quarter in revenue. That is a template that we have to replicate going forward, not necessarily on a quarterly basis, but on yearly basis. If you can get to that point which we will get to as we execute all the things that we currently have in hand. That is when we can truly see the value of what we have in the portfolio that is the work ahead of us.

Rishi Jhunjhunwala: Right. No, I was just coming from the fact that while you've pointed out the weakness in 4Q, you sound pretty positive about 1Q FY26. And if there are certain elements which are not in our hands, which are material enough to deviate from your commentary, then is it even important to give that kind of a visibility on 1Q as well?

Prabhakar Atla: And you're right. We will work through Q4 and what we are doing right now. And you'll also take a fresh look at the framework in which we are providing guidance to all of us. And that is what we will work for FY25.

Moderator: Thank you. Next question is from the line of Dipesh Mehta from Emkay Global.

Dipesh Mehta: Thanks for the opportunity. First is the clarification. I think 16 percentage EBIT margin. I missed the comment you made on FY26, whether you indicated we are confident to deliver 16% EBIT for 26 or we made some other comment? Second question is about the order book. Now we announced order book very strong and then 13 large deals with contract potential. So, I just want to understand definition of both the numbers, whether the overall order book includes this potential number as well or this potential number is not captured. And I just want to understand whether the potential what we capture in order book that is how we define it. Whether that potential, we have seen any slippage in the past?

Prabhakar Atla: So, to the first point that you made, what we said earlier was that we will hit 16% once again in FY26. And we are subordinating our margin goal for FY26 to revenue growth. Therefore, we are currently not commenting on the full year margin goal for FY26. We'll focus on driving revenue growth with the opportunities we have in hand. Just to repeat, we will reach 16% in FY26 once again wherein currently looking at the full year number at this point in time because we're going to work on revenue growth first. And the second question you had, can you just please repeat once again.

Dipesh Mehta: So, you gave two numbers. You gave total order intake number as well as 13 deals with contract potential kind of number. The question which I have is the contract potential number is part of the overall deal intake which you reported; if answer is yes whether we have seen any slippage in the contract potential number. So, if I give number 312 is the total intake, 234 is the contract potential in 13 large deals. So, whether these two numbers are included kind of thing in, let's say, total deal intake and if yes slippages we have seen in the potential number which we might have modelled, let's say, in previous three quarters?

Prabhakar Atla: Now both numbers and order intakes that we have reported, and one is the subset of the other.

Dipesh Mehta: So, if I understand correctly, 312 million include potential from these 13 large deals?

Prabhakar Atla: Yes. The order intake, not a potential. So USD312 million is the order intake we had in Q3 of FY 25. That includes the large deals that we have won that we have reported.

Dipesh Mehta: So, whether it would be 234 million is captured in 312 or actual sign is only captured in 312, out of these 13 large deals?

Krishna Bodanapu: Only actual signed is captured in this period.

Dipesh Mehta: So out of 234, subset of the 234 million is captured in 312?

Krishna Bodanapu: Yes, that is correct because only if it's a signed purchase order against which we can bill legally. So, because in the 200-plus TCV number, there will be deals where there is an intent and also there will be multiyear, but what is there in order intake is numbers that are backed by a signed purchase order.

Prabhakar Atla: So, I just further clarify this. A part of the large deals that we won also order intake that is firm and committed for execution. That is included in the total number of order intake that we have provided right now. Krishna gave an example earlier that 75 million deals that we have won. But the PO of which is only for a short or a lesser value. So, whatever is the PO value is included in the 312 million, whereas the other number that you see include total potential that we have talked about in the last year that we have won.

Dipesh Mehta: Understood. And that is my second question related to it. In the past also, we have provided total contract potential for, let's say, last three - four quarters whether we have seen any material slippage in some of those numbers compared to what we anticipated at the signing kind of thing, any slippages there happening or it is broadly the similar trend we observed compared to, let's say, previous few years?

Prabhakar Atla: So, I'd say the past is perhaps not a great measure of how we can measure our future in terms of how things that are working out in the industries around us, but I would say in the current view we're taking -- order intake is very strong. It is what we have in hand. The potential of the deals that we have won, we are taking the way it is coming to us. The sentiment has improved significantly compared to the previous year. So going forward, we expect slippage if any that we have in the past to come down.

Moderator: Thank you very much. Next question is from the line of Vihang Subramanian from Zaaba Capital. Please go ahead.

Vihang Subramanian: Thanks for taking my question. Just one question from my side. Given over the last year through multiple interactions, I think management team has always come across extremely confident on the outlook and so on. Even when you just look at 2Q, you were extremely confident about 2H. So, the disconnect I'm trying to understand is when quantitatively, you're undershooting so badly, why not just tone down the guidance and not mislead investors?

Krishna Bodanapu: See, I'll say we've been giving the view that we have and that's why if you look at what we have right now, what we have presented as the business outlook right now is what is the reality, that’s what it is based on how the Q4 will pan out. Now what we're saying is we are -- having said that, what we're saying is we are confident for Q1 because of how the order book has built. Yes, there might be a couple of quarters where we've missed what we said we will do. I will take responsibility for that. But we also have many years of experience of doing what we said we will do. So yes, we do have a challenge, or we did have a challenge on our hand which led to some of these businesses and some of these right shifts and so on and so forth, but our confidence also comes with our legacy of performance. I mean, if you look at the previous 3 years or 4 years, we delivered significant growth. We almost delivered about 50% growth over a 3-year period before that. So, our confidence comes from what we are seeing as -- what we're seeing as the order book, what we're seeing our clients tell us and what we believe that we would like to see that. We don't want to -- we are not misleading anybody. We're telling you what we see as we see it and as we reckon what it means to our business.

Prabhakar Atla: And Vihang, like I said before, going forward, we the refresh and revisit the framework within which we are going to provide a guidance.

Moderator: Thank you very much. Ladies and gentlemen, we will take that as a last question. I will now hand the conference over to Mr. Krishna Bodanapu for closing comments.

Krishna Bodanapu: Thank you very much. I'll just say that we are going through a transitionary period a little bit right now, but while there are going to be some challenges in terms of leadership and in terms of – while there are going to be some challenges in any transition. As a leadership team, we're very committed to execute this. Like I said, the Board has reiterated their confidence in the entire leadership team and I'm very confident that we have a very motivated and strong leadership team. So, while there were challenges, I think we are now looking at an opportunity situation for us to execute and we will take this as the opportunity to execute and work towards a very strong FY26. Thank you, as always for your support. We will be in touch if there's anything specific, you'd like us to answer. All of us are available and please feel welcome. Thank you.

Moderator: Thank you very much. On behalf of Cyient Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.
