CYIENT

19 August 2022

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

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

Dear Sir/ Madam,

Sub: Transcripts of the earnings conference call

Please find enclosed the transcripts of the Q1 FY23 earnings conference call conducted after the Meeting of board of directors held on 21 July 2022.

This is for your information and records.

Thanking you
For Cyient Limited

N. Ravikumar

Ravi Kumar Nukala
Dy. Company Secretary

"Cyient Limited
Q1 FY2023 Earnings Conference Call"

July 21, 2022

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

Moderator: Ladies and gentlemen, good day and welcome to the Cyient Limited Q1 FY2023 Earnings conference call. As a reminder, all participant lines will be in the listen-only mode. Anyone who wishes to ask a question may enter "*" "1" on their touchtone telephone. To remove yourself from the queue please enter "*" "2". Please note this call would be for 60 minutes. Should you need assistance during the conference call, please signal an operator by pressing "*" and "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Krishna Bodanapu, Managing Director and CEO Cyient Limited. Thank you and over to you, Sir.

Krishna Bodanapu: Thank you very much. Good evening ladies and gentlemen and welcome to Cyient Limited's earnings call for the Q1 FY23. I am Krishna Bodanapu, Managing Director and Chief Executive Officer of Cyient. Present with me on this call are Mr. Ajay Aggarwal, Executive Director and Chief Financial Officer and Mr. Karthik Natarajan, Executive Director and Chief Operating Officer.

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

In Q1 FY23, we posted revenue of US $161.6 million which is a year-on-year growth of 15.8% in constant currency or 12.6% in USD and quarter-on-quarter growth of 4.4% in constant currency or 3.1% in USD. In Rupee terms, we posted quarterly revenue of Rs.1,250 Crores, this signifies the growth of 18.1% year-on-year or 5.8% quarter-on-quarter.

Services revenue stood at US $137.1 which is a year-on-year growth of 18.7% in constant currency, 15% in US dollars and a quarter-on-quarter growth of 6.5% in constant currency or 5% in US dollars. A point to note, inorganic service revenue contributed 2.9% quarter-on-quarter and we also had a strategic buyout to onboard a few resources to accelerate ramp up for a strategic customer which contributed to about 1.1% quarter-on-quarter. DLM revenue stood at $24.5 million which is a growth of one percent year-on-year or degrowth of 6.3% quarter-on-quarter. Group EBIT margin stood at 11.5% down 164 bps year-on-year and 298 bps quarter-on-quarter. PAT stood at Rs.1,161 million for the quarter, marginal growth of 1% year-on-year and degrowth of 24.7% quarter-on-quarter.

Coming to the other highlights for the quarter, we are very proud to report that Dr B.V.R. Mohan Reddy, our Founder Chairman, was inducted into the Geospatial Hall of Fame at The Geospatial World Forum 2022, earlier in the quarter. The Hall of Fame acknowledges the geospatial industry legends whose passion, vision, knowledge, leadership and business acumen have brought the power of geospatial and mapping technologies closer to the core of human lives and made a difference.

We have also partnered with IIT Hyderabad and WiSig Networks to enable volume production of India's first architected and designed chip the Koala NB-IoT SoC (Narrowband-IoT System-on-Chip). Narrowband IoT is a 5G technology that enables low bit rate IoT applications with long range and extends battery delivery life by up to 10 years. As many of you know the semiconductor design and semiconductor manufacturing is a key imperative for the Indian government who are also spending a lot of money and providing a lot of incentives. This chip is actually the first example of a fully indigenously developed chip and now will also be manufactured and we are responsible along with WiSig Networks which is a part of IIT Hyderabad.

I am also proud to report that the Founder Chairman, Dr B.V.R. Mohan Reddy, has endowed the BVR SCIENT which stands for School of Innovation and Entrepreneurship which is a first of its kind initiative in collaboration with IIT Hyderabad aimed to nurture and develop world-class innovation and entrepreneurial talent especially in light of the country's ambition to become Aatmanirbhar Bharat. It aims to create an enabling ecosystem to help talent spur innovation and nurture business instincts.

I am also excited to have Prabhkar Shetty who joined the leadership team as we continue to strengthen our digital footprint. Prabhakar joins us as the Chief Digital Officer and will be responsible for all our digital offerings which as many of you know are growing at an accelerated pace at this point and we are really excited to have him and a number of new leaders who have joined which will further accelerate our digital offerings and our digital journey.

On the M&A and strategic buyouts, Citec, which is the acquisition that we announced in Finland of a plant engineering company. We are expecting to close the Citec acquisition this quarter. It has been delayed due to a couple of regulatory issues which would be resolved in the next couple of months, most of the issues have been resolved. I think, there are still two issues, which we are quite confident, that will be resolved during the course of this quarter. We are excited with this acquisition because it positions Cyient as a leader in plant engineering and product engineering. It helps us take our plant engineering and digital portfolio to a new set of customers who have extensive manufacturing facilities globally and includes offerings such as digital twins and so on so forth.

Grit Consulting: We are expanding our Cyient's consulting practice with the investment in Grit Consulting. As some of you probably know our positioning has been consulting led industry specific technology solution provider and this whole consulting led piece gets further strengthened due to the addition of Grit and the capabilities that Grit Consulting brings to the organization. Grit has deep rooted expertise in consulting for asset-intensive industries which include metals, mining, plant engineering and again aligns well with some of the other investments that we are making. Grit has been closed and some part of Grit's revenue is reflected in the growth of revenue of this quarter.

Celfinet, which is a Portugal based telecom engineering company, which helps communication service providers engineer networks intelligently and smartly and also connect across the smart infrastructure and enterprise networks. This significantly actually strengthens our wireless capability especially for 5G rollouts and they have some really long-term relationships and some very good customers. This acquisition has been closed. There was not any element of consolidation because it was closed on the last day of the quarter so any impact will only be seen in the coming quarter.

Lastly, we also completed a strategic buyout to accelerate ramp up for a strategic customer. Just to set this in context, we signed a very large deal with an automotive customer and this customer will become one of our top five customers in the next 12 to 24 months. We are obviously quite excited because as we have talked about in the past, automotive is a very important market and along with a few smaller customers who are also growing, this is an anchor for us which really changes the dimension and the positioning, more importantly, of our automotive business. There was a lot of work that needed to be done but the client also had the opportunity to quickly ramp up. We had the opportunity to onboard about 500 resources with very similar skillsets. We bought out the company to onboard these 500 resources, which are immediately available for our client but that is not where it stops. It is going to be one of our growth drivers even through the rest of the year. It was a good tactical opportunity for us to accelerate ramp up for a very important customer in a very important sector and I personally am very excited that automotive now becomes a very important sector for us and a unique growth sector.

With this, I will now hand over the call to Ajay, who will take you to the detail financial performance for the quarter. Thank you and over to you Ajay.

Ajay Aggarwal: Thank you so much, Krishna. I would say that, you know, as Krishna explained, this has been a quarter where our strategy of diversifying our portfolio as well as looking at revised capital allocation is really playing out. It is very evident in our growth and you will see only the part of it has come in the current quarter.

With that, let me begin with the numbers, our services growth is 18.7% in constant currency year-on-year and in terms of the quarter-on-quarter growth it is 6.5%. This includes the contribution that we have got from the investments. DLM growth is 1% and group growth in constant currency year-on-year is 15.8%.

As Krishna explained, the acquisitions have been taken only for the part of the quarter, two of them, and the other one that is Celfinet has only been consolidated into the balance sheet as on 30th June. It will have its impact only in next quarter that is Q2. So we expect the incremental growth to the base growth of 6% to 7% to come for the full year purely based on the investments and acquisitions that have already been closed during the quarter. I will talk a little bit more about it but this really helps us to build a much wider portfolio and to give higher earnings growth than what we were able to do with this money sitting in our cash.

In terms of the hedge book, I am happy to report that if you look at the right hand side of the table, while there has been significant volatility especially in the European currencies, Euro and GBP which form a significant part of our operations, our forward covers, as you know, we cover at least for one year forward for 70% of our net inflows, where we have a benefit of Rs.7 to Rs.9 even for the next 12 months. For the current quarter, we have got some good gains from the forward contract and we expect the same to continue at the current spot rate and if you look at the current spot rates to our forward cover positions, our benefits for the year will be about 4.6 million US dollars and we have looked at the various scenarios for sensitivity of the exchange rate and how it can change our EPS. In any scenario, the way our forward covers are between the operating profit and the other income, our EPS is absolutely protected. That is the comfort I want to give to all of you.

We have made a little bit additional forward cover. We have taken from 70% to 80% for twelve months and we have also taken twenty percent for the month 13 to month 24. We feel that, you know, this has been a very consistent policy that we have been having and has really played out in these volatile times.

In terms of the income statement, I think, you will see that our margin is down quarter-on-quarter and our services margin is at 12.8% so we have given the wage increases during the quarter and we have provided annexure where you will see that most of the decline is coming because of the wage impact that we have given in Q1. Also, I think, we have been building the pipeline of people looking at the anticipated growth which is looking very nice. Due to that, our utilizations, I would say, for the time being, are bit lower compared to what we were internally expecting as well as compared to the last quarter. We feel there is something like 5% which is higher compared to what we had internally set out for ourselves and that is another 2.5% which we can reverse over the next one and two quarters. Other levers, we had talked about, of margin improvement, I would say, they are really playing out well. We are, in pockets, able to get the price increases from the customers. We are focusing a lot in driving the automation in our operations. We are very focused on quality of revenue and all of them are playing very nicely. So, most of the levers are playing to the plan. We are focusing and making sure that we pay best-in-class salaries and the salary increases and that has led to a little bit gap and as i said we are very sure that all the levers that we have set ourselves for will play out in the full year and you will see later that we are confident that, you know, we will get back to the margins in the next three quarters and for the full year what we have committed to ourselves and to all of you.

DLM EBIT margin, I would caveat, actually, if you exclude one off, it will be more like 7%. We had some error in our accounting in terms of the inventory valuation in the system that we have corrected. That is why this margin is looking 4.2%. Excluding that one off, you should read it as 7% to that extent there is an impact on this. As I said, you know, I feel very good about the capital allocation that has happened with the new investments and we all have been getting 5% to 6% return on the cash and against that the returns on this new capital allocation is looking very good.

In terms of the PAT, I think, it is just a flow out of what revenue and growth we have got but other income has played out well. We have a good increase and a good amount of 14 Crores that we got from the forward contract gains, which, as I said, is sustainable at current spot rates and our ETR is in expected line. When you consolidate some of the acquisitions, they are all accretive on our tax rate since they are in Europe and Singapore, it is just that, when you look at the goodwill and some of the transactions, it becomes a little higher. So, we had talked about a tax rate of 27% for the full year and we feel confident that we will be at 27%.

We have provided a detailed bridge. I would only like to call out that, you know, in terms of utilization, I have already talked, we continue to make a significant investments and that is what is reflecting in our SG&A spends, be it driving our five pillars, driving our new organization, driving getting the technology organization, investments on technology. That is where you will find, quarter-on-quarter, our SG&A is higher but it is in line with our internal plan and we are very focused that we will not compromise on these investments to build the long term earnings growth for the company.

In terms of the cash generation, we have the cash balance position of Rs.1375 Crores, which is 174 million US dollars, which has declined from 207 million US dollars. As you know, we have generated a free cash flow, at the same time, we have given the money for the acquisitions. We have continued our same practice of doing one part of the acquisition from our internal accruals, that is, the cash available and one part we have taken from the debt, where we have very nice leveraging at least 2% to 3% leveraging between what we get on our treasury income versus what is the cost of that capital. Since they are all in overseas acquisitions in the same currency, no risk arbitrage of at least 2%.

In terms of the cash flow conversion, the cash flow conversion is 27% for the group and 35% of services. In DLM, we did have a little negative free cash flow but, I think, we got some of that collection spilled over in the first week, so we are confident of delivering that 50% cash flow in DLM. In services, we did have a benefit of the tax refund. Overall, you will find that our DSO has temporarily gone up but we are very confident as we proceed during the year, we will bring it back to the normal and we will deliver the free cash flows that we have, you know, maintained the norm that we have followed. Some of it fluctuates between the growth years and less growth years so we will have a good growth year but despite that, we are confident our conversion will be more than 50%.

With this, I hand over to Karthik, who will give us the business update.

Karthik Natarajan: Thank you Ajay. Good day everyone and to start giving a quick update on the BU performance. Before that, I want to give an update on our organization design we just modified slightly and we are focusing on the same segments like we have been doing earlier and we tried to consolidate them under some buckets based on both organic as well as the inorganic growth that we have planned for this year. I think, we hope this structure will help us to sharpen the focus and also better integration and synergy that we have planned out for this year.

Also, to strengthen this, we have also added customer success partners which will bring focus on our top 100 customers and create a long-term customer relationships, increasing the win rate and driving large deals. As Ajay said, we continue to focus on the five pillars, we call them as tech start up Cyient and we are making our investments in this area. We expect five pillars to grow more than 25% through this year and we have seen a growth of about 17% in Q1 and we expect this to accelerate during the course of this year. And also, driving the order intake growth offerings, collaborating with our CTO office. We have formalized the CTO office along with the focused investments in building solutions for the future. I will cover that in the next few slides.

If you go down to the next level, as per the new structure, we will also give you a reference for you with the old structure. What we have seen now in Q1 of fiscal 2023, the ARC vertical (aero, rail transportation and communication) has grown by 2.5% quarter-on-quarter, these are all in USD terms, and 5.6% year-on-year. The growth is predominantly led by communications and the interesting thing is, aerospace did join the party for growth but it is not growing at a pace that we really expected it to be. Probably the recovery would happen over the next 12-18 months as shared by various analysts. Rail transportation has seen a dip. This is essentially led by the mergers and acquisitions and the consolidation of their products and services and also increased offshoring and forex and that is impacted in terms of growth and we have anticipated this and we hope this to reverse by H2 of this year.

Mining, energy and utilities and this is led by the degrowth that has happened on the utilities business and some of the contracts which ended in Q4, we have not been able to replace them fast enough and we hope they should start getting to the recovery path in H2.

The new growth areas, which we talked about, as semiconductors, medical devices, automotive and mobility and Hitech and they have grown by 3.6% quarter-on-quarter with 23.6% year-on-year growth and the DLM, which, as we again anticipated this earlier, and which has shown a minus 6.3% growth in Q-o-Q and 1% year-on-year. So at a group level, 3.1% Q-o-Q and 12.6% year-on-year in the USD terms and we also, if you look at the order intake and if you take the view year-on-year, I think, the services order intake is up by 17.8% and this gives the confidence that, I think, we have the growth trajectory for the coming years and we have to execute well to make sure that we capture this. Also, this is the largest TCV that we have done in the last many years and we have closed six large deals of 424 million USD and we are very excited about the opportunities to expand with many of our existing clients and deeper penetration of our existing clients is going to be critical. The focus on top 10, 20, 30, 50 and 100 clients is where we are really trying to maximize what we can do in terms of adding value to them.

If we go to the next slide, this gives the comparison with the structure that we had earlier. I think everything remains the same, except you will see some breakup on utilities, which shows 16% degrowth as compared to last quarter, and this was due to the project closure that I talked about. If you, really, take a broader view on the industries and look at the Aerospace, the global travel is estimated to pick up, maybe during later part of this year, while pandemic is not the issue anymore, the oil prices and logistics and labor availability for crew as well as on the ground staff support, I think, all of them are still not bringing the demand to the level of the pre-pandemic and also some of the specific issues with North-American Aero-OEM. I think, that continues to struggle and any ecosystem players connected to them will have a challenge on the recovery for a few more quarters but at the same time we are seeing some new green shoots in the form of electrification, hybrid or urban air mobility and space and defense. I think, this area continues to see a growth. We have added about two new logos in the air mobility space and we are very excited about the opportunities that we are likely to see in this domain.

Rail, as I talked about, the challenges on offshoring and the consolidation of vendors that continues, and we are likely to see the benefit over a period of time. At the same time, we are also expanding into some of the newer areas on rail signaling, embedded, and digital transformation across products and factories.

Communication, which has seen the strongest growth, and we are very bullish on what is likely to be seen for the remainder of the year and this is led by the network transformation and modernization in the areas of fiber rollout or wireless and 5G. The unique capabilities that we added through Celfinet, which is on the wireless network transformation, is going to help us to capitalize on the growth from our existing customers too and we also strengthened our private wireless capabilities and this is also helping us from taking the communication practice to the enterprises like mining and manufacturing and other segments.

DLM: We won the largest ever multiyear deal in aerospace and we are very excited about what we announced a few days ago, and this is to build the digital cockpit for avionics and this is for a general aviation and business aviation aircraft system. This gives us confidence to expand and build this kind of relationship with many of our existing customers, which can really give us the scale over a period of time, while the supply side challenges persists in terms of semiconductor to electronic component availability but the outlook looks strong.

Moving on the mining, energy and utilities, I think, in mining, the growth is led by a couple of things, one is the regulatory which is driving sustainable mining or responsible mining and along with energy transmission. If you look at any of the renewable or clean energy sources, they would require minerals like copper, nickel and other new materials, and this is where the mining is likely to see a significant growth and we are continuing to build momentum on that. Grit Consulting, which we added the last quarter, is going to be another addition to strengthen our growth in this area.

Energy and Utilities: The focus, again, remains on clean energy, find the integration of multiple energy sources, how do you think they can drive the grid modernization, enterprise asset management and finally leading to the big organization of the world. Many of our customers have committed to bring this by 2040 to 2050 and that is driving significant amount of digital transformation opportunities that we are going to participate in. We expect the recovery on the utilities business by H2 of this financial year.

Automotive and mobility, and following on what Krishna talked about, I think, the sector is definitely poised for our growth this year and enabled by connectivity, improved safety, electrification and customer experience, and with our expertise we are very confident that we can really latch on to the demand that is coming on the infotainment and connected and data areas.

Healthcare and Life sciences: This is another interesting customer that we added on the life sciences side which is a new line of business for us. We believe we have a unique proposition to offer in the convergence of medical device, healthcare, and life sciences and we are also providing the quality and regulatory services at scale and our differentiation comes through the digitalization, telemedicine, remote patient monitoring and software-defined medical products. We are working with some of the customers in defining the future of how the medical products are not going to be led by hardware but are going to be led by software.

Hi-Tech: This is a business we were calling, earlier, as Geospatial and we really want to bring the focus on bringing the offering of digital and technology solutions to tech companies and to drive both location-based services as well as the digital services and we are really trying to take this offering across many of our enterprise customers like mining and communications, automotive and utilities.

Semiconductor: Though it continues to see supply-chain issues on the manufacturing side but the R&D demand looks robust and enabled by the Edge Analytics, 5G and IoT. Krishna talked about one of the recognition that we received last quarter for designing the first narrowband IoT design from India. We are proud of what we have achieved in this segment and we are really seeing that significant opportunities are up for us in terms of silicon design for automotive and industrial applications.

If we go to the next slide, this is where we are really trying to create the future for ourselves and we are calling them as intelligent connected products, autonomous systems and processes and how do we track the next gen or hyperconnectivity and sustainability, digital platforms and customer experience. Various solutions that you are seeing on the right side, and I just picked some of them, like the single board computing platform. This is for a medical device customers where we are trying to create a scalable quartz hardware platform and can we really define the software which can be configurable to meet various variants, that are required to be built up and we are trying to create these platforms to reduce time to market and help the customer to innovate faster.

Similarly, we are working on some of the improved ADAS and safety, and this is for a construction and mining customer and we are trying to, really, integrate some of the camera and radar sensors and to improve the safety of operations. This is something which is a very unique capability that we have built over the last many months and we are trying to scale some of these areas. Also, getting on to sustainability front, this is an interesting project which is on battery image storage system, modular packet system, and this is going to help in terms of decarbonization as well as the carbon sequestration and some of these technologies help us to build a greener planet. We are seeing the growth in some of these areas are really happening as we speak and we are confident that the sustainability as an initiative is at least a two decade opportunity in terms of how far this is going to pan out both on electrification as well as clean energy sources that are going to get integrated into the utility segment.

With that, I will hand over this back to Krishna.

Krishna Bodanapu: I will quickly take you through the outlook for FY2023. Largely the outlook has not changed. From a revenue perspective, we will continue to grow in the range of, or we believe, we will grow in the range of 13% to 15% in constant currency for the group. Of course, this is the organic number so it does not include any of the inorganic that has happened. We have visibility for a high single digit growth in DLM due to supply side challenges so that continues but we will at least get to the highest single digits. We will add another 6% to 7% due to the acquisitions that we have already announced, that is Grit and Celfinet, and this does not take into account Citec because it is not closed. We are still not commenting on it if or when Citec happens and depending on the timing obviously it will add a bit more to that growth but 13% to 15% in constant currency organically, another 6% to 7% based on current acquisitions plus whatever we get due to the other acquisitions.

On margins, we expect EBIT to be in the 13% to 14% range. As Ajay had explained in some detail, margins did fall in Q1 but, there is a clear line of sight of how we will recover. It was a quarter of salary increases and the recovery has also started to happen as we see some of the costs and how they are playing out. ETR or the effective tax rate will be around 27% and free cash flow will be in line with what we typically have done in the previous years.

With that, I will hand it over to the moderator to curate questions please.

Moderator: Thank you very much Sir. We will now begin the question and answer session. The first question is from the line of Sulabh from Morgan Stanley. Please go ahead.

Sulabh**:** Thanks for the opportunity. Just a clarification to begin with, on the revenue guidance this strategic buyout of Klaus, is that included in the 13% to 15% organic guidance or 6% to 7% inorganic one?

Krishna Bodanapu: No, It would be on the inorganic one. It is not on the organic guidance.

Sulabh: Sure, thank you. And then on the utilization front, what led to that drop this quarter given that it has come in as a negative surprise for us. Employee addition is something or the capacity building is something that we would have largely known at that point in time at the beginning of the quarter?

Karthik Natarajan: Thanks for the question. I think, this is a build-up that we had been planning for the last two-three quarters and it is important for us to continue to invest on some of the technology solutions area. Two, we also need to build the talent pool that is required for the next six to nine months, so we started putting a lot of combination of freshers as well as laterals on the skills that we want to really build up. There is a skill building exercise that is happening, as we speak, and that is created pool of engineers that are ready to be deployed partly in Q2 and partly in Q3. This is the situation we really wanted to get to, maybe a quarter ago, and we are able to really have this pool of engineers ready to be deployed with the next quarter.

Sulabh: Then, on the margins bit for Ajay. Ajay, given the margins that we reported this quarter versus the guidance that we have on the margins the ask rate to deliver those margins looks quite steep from here on. So just trying to understand how do you plan to get there given that the component of wage hike which is coming in Q2 again. What are the near term levers that you see that are there in the vicinity which can remove some of these headwinds that are there?

Ajay Aggarwal: Yes. I would say that, if you look at what has happened during the quarter and what levers we had talked about both internally and to you in terms of what will drive the margin improvement, absolutely, I think, there is a headwind from the wage hike it will continue in Q2 as well as in Q3. We are giving the wage hike spread over the three quarters. The largest part of it has come in Q1 and rest of it will come in Q2 and Q3. In terms of the levers, if you see that, you know, one is that the biggest one that, we are looking at, is some of this inflation. We have also been talking about passing on some of this to the customers, in terms of pricing. We have been also talking about the change request and some of those recoveries from the customers. So, that is the one area which you will see will play out with the plan for the full year. It has played with the plan for the Q1 and it will also play to the plan for the next three quarters. Second in the bucket is, again, you know, when you look at our growth what we are talking about is looking at, you know, not taking business at very low margin or which does not make sense so, cease and cure, if you see, in this quarter, has also given us about 50 bps and we have a plan for the full year and we do see a good amount of tail of business with focus on more profitable growth that we can let go of. Automation, I talked about, it is spread over the full year and you will see that we will do that as to the plan for the full year and utilization is one we have got, temporary sort of headwind. It will also play out in the rest of the year. These are some of the things, which we are doing, to make sure that we come back for the year as a whole to 13% to 14% of the margin, which we had said. Yes, it will have a steep ask in the next, especially in, Q3-Q4 but some of those margins, especially for services, we have done in the past and we can come back to those levels.

Sulabh: Sure, Ajay and the last bit from my side is on the M&A strategy. So, given that we have done three acquisitions and then one buyout in the recent time so how are we thinking about this going forward, do we have more targets that are there in the pipeline that we are evaluating or more gaps that we are looking to fill in the next six to ten months?

Krishna Bodanapu: I think, practically, if you look at it, we also have to look at the bandwidth considerations etc., will definitely pause a little bit because these three have to be integrated. I think, the strategic buyout, is fairly straight forward. There is not too much of a challenge and an integration imperative there, but with the others, they have to be integrated and we really have to start seeing the benefits of synergy. The intent is still there, the areas of focus are still there, but the pipeline is now in an early stage, given that how much we have spent, both from a time and effort, on these three. Some of the tactical deals will continue. There are some tactical gaps that we wish to fill and we were also having some conversations at a fairly advanced stage, especially on these tactical gaps, but in terms of the larger strategic M&A. I think, just looking at where things stand, will probably be only towards the very end of the year or early next year just looking at the pipeline etc. So, we are still focused, we are still going to build out a pipeline, but with practicality and executability, it means that, it will be at end of the year or later this year but most likely early next year.

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

Shradha: Just one clarification on the margin guidance of 13% to 14%, this is organic margin guidance or does it also include the impact of consolidation of acquisitions?

Krishna Bodanapu: This is organic margin guidance but, I will also say that, the acquired entities also have a very similar margin profile at a consolidated manner but, the outlook, which we talked about, is organic.

Shradha: So Sir, because the Grit Consulting has recorded a very high margin business and it is healthy at 20% EBIT margin. So, from that perspective the consolidated EBIT margin profile should ideally look better?

Ajay Aggarwal: See, I would say that, there are two parts, if you look at from the perspective of the businesses as we acquire them, they have been accretive. Then, we have to also look at we have done the purchase price allocation and some of that will have to be, you know, depending on how much has gone to the intangibles. This exercise happens subsequent to when we talk about the announcement or closure of transactions, where you have to also take D&A. Our rough estimate is that, you know, we will be at similar margins for the company. Good news is we do not expect any dilution on the margins and also, in the first year, we have also seen there are integration expenses. We find people have not taken proper software licenses, there is not enough work done in terms of some of these simple things like certifications for the customers and all. So we have seen that, you know, these are good investments, I would say that, we would see that it will not drag the margin.

Shradha: Sure. Sir and as of quarter end balance sheets we have already made the payments against Grit and Celfinet. Is that right?

Ajay Aggarwal: So, as far as Grit and Celfinet, yes.

Shradha: Was there any payments involved around this strategic buyout also?

Ajay Aggarwal: Yes, there was a payment involved so we had acquired the people and we had made a payment towards that acquisition of hiring.

Shradha: What is the potential size of this particular buyout deal? I mean, how big can this particular deal ramp up?

Krishna Bodanapu: I think the buyout is a part of a much bigger deal that we have going on, and like I said, overall, the customer has the potential to be a top five customer and not just potential, we have a high degree of confidence that it will be a top five customer within the next 24 months. It should probably even quicker, next 12 months. The buyout is only one part because it helped us ramp up in the initial phase quickly but there is still a significant amount of demand and momentum for ramp up, which continues over there.

Shradha: Sir, we took over the offshore employees of this particular client?

Ajay Aggarwal: Yes, that is right.

Shradha: Sir, can you quantify the amount paid on account of these two acquisitions in this quarter because I think there is some contingent based payment also on these acquisitions. So what was the amounts paid out this quarter?

Krishna Bodanapu: We will get back to you on that number.

Shradha: Sure and Sir, on DLM, you said that there was some accounting mistake which is the reason why we had to book one-time expense but how do we see the visibility of margins in DLM business going ahead and also if you can talk about, you know, the high single digit growth expected in DLM. How confident are we on that number given that we have started DLM on a very soft note in this quarter?

Ajay Aggarwal: As far as margin is concerned, maybe, I will take that and, maybe, Karthik or Krishna can talk about the growth. So, as I said, excluding that one off, the margin is 7%. That is what we expect for H1. For H2, we are still working out but what it shows us is it could be marginally better than that for H2.

Karthik Natarajan: Just adding to what Ajay said, I think, the supply side issues are not going away. I think, we are still trying to deal with them. Hopefully, by end of Q2 or early Q3, it gets better and we are still keeping our guidance and hoping that H2 would be a better off than H1 and on the margin side, we are still trying to look at anywhere between 7% and 9% on EBITDA for the DLM business for the full year.

Shradha: That is helpful. Thank you.

Moderator: Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Sir, two questions. First one on DLM, like, is there a change in outlook from last quarter versus this time because, I think, this time you are having growth of about 10% and earlier it was little towards mid single digit kind of a growth, so that was one. And second, when you have given the outlook and you have already mentioned that on the M&A side you have taken a pause for few months. This auto deal that you have done now, this involves moving people, and you said there is a bigger plan or bigger deal because this customer can potentially come in so, if you could give some color on what is included in this particular quarter that you just reported and is it done for the full quarter or half quarter and how should we estimate from the next quarter onwards what kind of revenue contribution can it have on your number?

Krishna Bodanapu: See, on the first one, I do not think there is a change, I mean, there might be a percentage or two here or there in the outlook on growth from DLM but, overall, I think, from the commentary perspective, I do not believe that there is a change in what we are saying with the DLM and anyway, I mean, it is high or mid, which means a couple of percentage here or there but that is the range, anyway, that we will hit. Now in terms of this wider deal, the deal that we signed is, actually, an MSA, which we signed with a large automotive player. After we signed the deal, the demand was quite immediate and, therefore, we went and found the opportunity to onboard a number of resources, about 500 resources, which we were extremely fortunate about to come across and quite smart about to act very quickly and get these resources because there was an alignment in the skills that the customer wants. Now, any growth that is coming on, further, the 500 resources is one that will remain where it is etc., but the MSA is, for a much larger set of services and capabilities and, therefore, when we talk about the growth aspirations for Cyient that is covered in one of the assumptions, obviously, there is a number of assumptions of which customers, which industries etc. One of the assumptions is that this automotive player will also grow quite significantly.

Mohit Jain: The ramp up is complete that you have taken full three month revenue for the acquisition for the buyouts that you have done?

Krishna Bodanapu: Yes, we have not taken three months revenue, we have probably taken, especially this part of the quarter. Mayur can give you more details, when required, but we have only taken part of it. See there is two elements; one is, yes, this will ramp up but this is just the core staff, the growth will come on top of that.

Mohit Jain: Understood, and now that you have only taken people how do we take into account attrition because I am not very sure what kind of attrition these guys would run but the payment of around 85 Crores, or whatever you have done, it is essentially for the people transfer or is there a commitment that these guys will stay or is there an element of committed salaries etc., just to ensure that these guys stay with Cyient. So, what is the plan on that side?

Krishna Bodanapu: There are commitments in terms of the people continuity etc., it is not just to transfer one time. So, there are commitments on people continuity and the business commitment comes because of the larger MSA, it is not that because of the contract we got. The business commitment is part of the MSA, really, that we have.

Moderator: The next question is from the line of Akshat Mehta from Sameeksha Capital. Please go ahead.

Akshat Mehta: Thank you for the opportunity. Sir my first question would be on the recent valuable partnership that we have done what would be the contract value and the term of the deal?

Krishna Bodanapu: We are not disclosing the contract value. It is a very long term contract and it goes into multiple tens, if not even hundreds of millions of dollars. So, it is a very large contract. Unfortunately, we cannot disclose the value because of some of the non-disclosures that we have with the customer.

Akshat Mehta: My second question is on the line of the recent acquisitions that you have done, Grit and Celfinet, so can you give some quantification on the integration cost that would arrive on this, maybe as a percentage of sales or you know an absolute amount something?

Ajay Aggarwal: See, what we do is, if you look at, in terms of our total investment that is there, during the quarter we have about 4063 million total investment, 406 Crores. This involves the payout for Celfinet, these particular people that we have acquired and also for Grit, of about 390

Crores and we also have another earn out that has been accounted in the investments for one of the earlier acquisitions that is how this is the 406 Crores. When we account for these investments, we do not take the integration cost. What we are taking as the integration cost is other expenses. I was saying that, I disclose the amounts that are taken as investments during the quarter. I was saying, the integration cost is taken as part of the profit and loss account and typically 3% to 5% of revenue is what we have seen comes out as one-time expenses for a typical every $10 million you will spend about $350,000 that is what is the rough estimate that we have seen on these integration costs.

Akshat Mehta: Last question from my side, can you give some color on why the Citec acquisition, kind of, has been pushed ahead by another three four five months?

Krishna Bodanapu: There is a RBI approval that is required because of their India presence. They have also a fairly sizable India operation, which is where a good part of the value realized. So, it is just a procedural issue but we have been quite assured that there is nothing of a challenge but there is a procedural issue and it will take, as you know, with some of these, it is also not a huge priority for us to overtly, or at least or it is not a huge issue where we want to escalate and push. I mean, it is a priority to get closed but not so serious that we want to escalate and that is why we were just letting it take its course of time and we have some really good advisors, bankers and everybody is very confident. So, it is the issue with their India subsidiary having some filings which are, maybe, not very up to date.

Akshat Mehta: Okay. Can you provide some numbers on what has been the performance in Q1 for Citec or you cannot disclose that?

Krishna Bodanapu: We cannot disclose that.

Ajay Aggarwal: We had referred, if you look at, when we had announced the transaction, the signing of the SPA, we had given the run rates of revenue.

Akshat Mehta: So that will continue because that was for 11 months of consolidation so that will continue linearly right is what you are saying?

Ajay Aggarwal: That is right. 20 million dollars topline. I am just giving you the order of magnitude topline is about 20 million dollars per quarter, and this is more of, after taking into account the integration cost and everything, for the first year, it is more like 10%-11% kind of EBIT business. The steady state is, again, at the company average.

Krishna Bodanapu: If you wish, you can also, Citec has a bond that is traded in the public market. So, they disclose their numbers on their website. So, you can look at that, if you wish.

Moderator: We will take the next question from the line of Abhishek Shindadkar from InCred Capital. Please go ahead.

Abhishek Shindadkar: Thanks for the opportunity. Congrats on a good quarter. Just wanted to understand, given that there are three moving parts in terms of acquisition contribution coming in. I know, you have given a percentage number but can you just give any color in terms of the growth rates for those three larger pieces because it seems like Grit is growing 21%-20% odd versus almost a 100% plus growth in the previous year as per the filings. So, similarly, if you can just give a color on growth.

And to the earlier question on the margins, Ajay Sir, we thought that all these three acquisitions are running in plus of 25% EBIT margin so when we probably would integrate them are we keeping that, are we being a little conservative while guiding the company average margins given the benefit these three acquisitions could bring in at the consolidated level?

Krishna Bodanapu: From a margin perspective I would say three of them are running at a higher than company average but we also have Citec, which is where a lot of the volume will come from which will be slightly lower than the company average, at least in year one. And the second thing is, there are also integration costs which we have to take into account because of IT systems and various other things that is why, I said, we were being a bit prudent on the commentary, we will have to see how it all plays out because in our experience when we typically and even when we have paid the consideration for these companies we have taken a bit of adjustment in margins because when they run as independent companies versus when they are a part of Cyient, because of all the overheads that go into a business like Cyient, there will be a different margin. So, but just being prudent, of course, as things evolve you will see a better highlight of that.

Ajay Aggarwal: You were talking about the growth rates in the earlier acquisitions, maybe, give us some time. I think, we have given you a color about what happens this year. Give us some time as we proceed on the earnings call, we integrate them, I think, will be better placed to talk about those growth rates, as Krishna said. Right now, the mind is on integration and taking stock, understanding them. I think, it is little early to talk about those growth rates but we promise, we will come back in the coming earnings calls and talk about the growth rate.

Abhishek Shindadkar: That is helpful. Krishna, just one clarification in the Citec acquisitions call that we did, probably, I recollect we have highlighted that the margins of Citec business have grown from mid single digits to almost you know 25% or 30% EBITDA. Is that understanding right or maybe there is a change in that number or the understanding is absolutely wrong?

Ajay Aggarwal: They have been doing about 13% to 15% kind of EBITDA at their levels and we said after taking into account the integration costs and other things we will be 10% to 11% in the first year and then going forward we will be improving. We are looking at their numbers and they are in line with these numbers.

Abhishek Shindadkar: Just the last clarification in terms of the impact of amortization, Ajay Sir would you like to just give a number in terms of what could be the total impact at the DA line?

Ajay Aggarwal: Maybe, we can come back to you but broadly what we have seen is that, if you look at our current EPS, if I include what numbers we had given you for Citec as well, when we had that call, roughly I would say, if you look at our base EPS of the last year and you look at the earnings growth at the full year operation for the next year, roughly we are looking at, you know, something like 25% kind of increase in EPS if all these get consolidated into the results and at full year level run rate, that is what we have in terms of the impact of these. In terms of D&A% to revenue, we will come back because each has a different purchase price allocation and different computation. I do not have a thumb rule because depending on the asset type there is a different allocation that happens between goodwill and intangibles.

Abhishek Shindadkar: Great. Thank you for taking my question and best wishes for the rest of the year.

Moderator: Ladies and gentlemen due to time constraint that would be the last question for today. I now hand the conference back to Mr. Krishna Bodanapu for closing comments. Thank you and over to you Sir!

Krishna Bodanapu: Thank you very much. Thank you everybody for joining. As you can see, it has been a very interesting quarter. I think, organic performance has been in line with what we expected but now the real opportunity for acceleration for us is both organic performance will continue to remain quite strong including on revenue growth and margins but also inorganic has started to kick in and we believe that it will also provide a fairly significant acceleration. We are quite excited. I think, the road ahead of us now looks quite a little bit clearer than what it was maybe 12-24 months ago and we are very excited that we have a very robust strategy that we can execute on and that we are going to be able to execute on this over the course of the next coming quarters. Thank you very much for the support. Thanks for the questions. Of course, as always, if there are any follow-on questions, then, Mayur Maniyar is always available to answer these questions. Please do reach out to him and if required one of us will also chip in as and when appropriate. With that, thank you very much. Have a good evening and we will speak again next quarter.

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