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**Sub: Transcripts of Earnings Call**

Please find enclosed transcripts of earnings conference call, in connection with Q1FY25 Financial Results held on 22 July 2024.

This information will also be hosted on the Company's website, at [www.cyientdml.com](http://www.cyientdml.com)

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Thank You

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## “Cyient DLM Limited Q1 FY25 Conference Call”

**July 22, 2024**



**MANAGEMENT: MR. KRISHNA BODANAPU - NON-EXECUTIVE  
CHAIRMAN, CYIENT DLM  
MR. ANTHONY MONTALBANO - CEO, CYIENT DLM  
MR. SHRINIVAS KULKARNI - CFO, CYIENT DLM**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Cyient DLM Limited 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 ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Krishna Bodanapu – Non-Executive Chairman, Cyient DLM. Thank you and over to you, sir.

**Krishna Bodanapu:** Thank you. Good evening, ladies and gentlemen. I am Krishna Bodanapu – Non-Executive Chairman and welcome to the Cyient DLM Limited’s Earnings Call for Q1 FY25. Present with me on this call are our CEO – Mr. Anthony Montalbano and our CFO – Mr. Shrinivas Kulkarni.

Before we begin, I would like to mention that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available on our investor website, which has been posted on our website.

We started the year well in Q1 along what we had expected. While there were temporary supply chain challenges and some of the deliverables in Q1 got right shifted to early part of Q2, this has caused our growth in Q1 to be slightly lower than what we had expected. However, the visibility is very good for Q2 and our team is aiming to deliver strong results.

Our execution path is stronger and we are on course to meet our customer deliverables from the current order book which is also backed with inventory and raw materials. Aerospace and defense segment continues to be a strong contributor to our growth while we expect other industrial segments to pick up in the coming months. We have also seen good developments in the pipeline during Q1. I am glad to see the progress in terms of adding new logos across industry verticals in which we operate. It is a testimony to our delivery and quality performance within our global OEMs that we have been able to add some of the most prestigious names in some of these industries. The traction in the domestic market is also improving and we are strengthening the pipeline and we are looking at improving the sales cycle.

As you know, the outlook for the EMS industry continues to be very strong and we are confident of our strong execution on this opportunity. The rest of the year looks very strong along the expected lines.

I will now hand over the call to Anthony and Shrini to provide updates on the business and financial performance and the outlook for the year. Over to you, Anthony.

**Anthony Montalbano:** Great. Thank you, Krishna. I will then start with the Business Overview.



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So, for the quarter, there's some of the key highlights are really the new logo wins that we have had in Q1. We had four new logo wins. One was from a global semiconductor company and which will be providing EMS services. Another is another defense type opportunity where we have a transfer project coming in, which is another new logo which has very good near term and long-term growth potential for us. And another one is in the med tech area focused on diagnostic equipment for global market and then another large defense and aerospace company. And our pipeline remains very robust with large deals at advanced stages as well. So, probably the highlight of the quarter is really these four key logos and looking at the buildup of our client base, we usually work with industry leaders and there's really not much of an exception here as we start these relationships. And one key item as well, is with one of our longer relationships that we have. We are honored to receive an award from Honeywell at their supplier summit that they held. And this is only one of three awards that were given at the summit which had participation from only their very, very top suppliers. So, this is very much an honor and something that the team has worked over the years to continue to deliver and will also be indicative of where we look for things to go in this space.

From the strategic point of view, some updates is, we continue to invest in the technology organization. About a quarter or two back, we announced our CTO being appointed. And we have continued to build our organization with talent and leadership and getting involved in more programs that are built to spec in nature. And we have also expanded our manufacturing footprint in Mysore. And we have continued to have very strong growth in that region, and we have secured a new facility nearby to the current one, which gives us much more runway for growth of existing and new incoming programs. And we have also focused on the India market and strengthened our focus there in terms of go-to-market India sales team and India defense segment. So, these are areas that we are focusing now much more actively, which will continue to add to our western-based clients overall.

So, last quarter I gave an update on the industry, at least in the sectors that we play in. We are in air and defense, medical and industrial. These are the high value segments that we have been focused on.

And some key updates are:

Again, Air & Defense continues to be just very strong. The key new logos and wins in that area, which we just discussed, is a key update. We are building ITAR capability as well that will give us expansion into the US defense segment. And then we also look to further strengthen our presence in the Indian defense segment as well. So, there will definitely not be any lack of focus on this sector. This is our core and will continue to be a prime area for us.

Medical & Healthcare, this area will continue to grow for us and we see it becoming second to A & D, a much bigger share. And we did add a new logo this last quarter, which does have a good upside potential as these products get into the global markets. And then we have also



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expanded into other client relationships, leveraging some of our science services business as well. And then we also have very much a focus overall globally on this segment and there will be some key enablers that will help bring us more scale and momentum there. From the industrial segment, again, we have some key clients that we have one key win in the segment that we think will be a very significant client for us. We think it could be a top three, top four client for us potentially in the coming years. And then we are also just seeing more opportunities in general that come to us in this segment at crossing various relationships that we have had. Some of it is in line with what we are doing from an industry 4.0 perspective, but also just from a pipeline perspective, we are seeing that those orders are starting to materialize in the industrial as well.

A little bit about our growth strategy. The core of our business is the pillar of our strategy, right? So, strengthening our current core business, driving larger deals, building strategic engagements through these programs with these significant clients is our main strategy on driving growth has been our current top client base. We are focusing much more on India defense. And this is an area of investment that we think will create significant potential for us definitely by the midterm, if not the near term as well.

And then also, what I discussed on the capability of Build-to-Spec programs, which we have signed new ones which are becoming more frequent, especially in some of the larger programs that we are doing now where customers are coming to us to do the design and engineering end-to-end, which is truly a market differentiator for us, being able to get that done under one sign. Our inorganic expansion is very much on track. We have discussed that we do want to add to client proximity, add capabilities closer to some of our clients and we have highlighted that we were potentially looking at some acquisitions in North America and EMEA and we are in advanced discussions in this regard and hope to have some updates there, but that is progressing per plan as well.

In terms of new industries and new geographies, again, when we say new industries, new geographies, this is beyond where our core base business is today. So, some of the industries that we will also look at that complement the current high value segments are starting to come to surface. So, there are some opportunities in that we are seeing in areas like electric vehicles, some of the infrastructure related opportunities, some things that we are seeing in energy, for example. So, a lot of these can be categorized under industrial, but these are, I think they kind of need to have their own call out. And so, these new sectors are very high-value sectors which continue, which we see as an extension of the sectors we are in today. And then again, we look to tap into the growing EMS destinations such as India and other markets where the demand is growing for these services, and we are seeing opportunities there as well.

So, that's the main business update. I am going to turn it over to Shrinivas, our CFO, to go through some of the finance updates.



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**Shrinivas Kulkarni:**

Thank you, Anthony. Good evening, ladies and gentlemen. Thank you for joining the call today and thank you for your interest in Cyient DLM. Our revenues for Q1 of FY25 was Rs. 257.9 crores which is a year-on-year growth of 18.8%. EBITDA at Rs. 20 crores was flat year-on-year. Our revenue in Q1 was lower than expected due to some constraints in procuring raw materials from Israel region. This issue is now behind us and we have the parts that are required to deliver the volume. This lower than expected volume has had an adverse impact on the absorption of fixed costs in Q1 due to which our EBITDA percentage in Q1 is 7.8%. This is a temporary issue and we are confident of improvement in Q2 when the volumes come back to our expected levels. Despite this our PAT grew by 97.7% year-on-year to Rs. 10.6 crores. Of course, this was also because of the IPO funds that were available to us from Q2 of the previous year. PAT margins were at 4.1% which is higher by 164 basis points year-on-year. At the end of Q1 our order book stood at Rs. 2126.7 crores which is lower by Rs. 44 crores compared to previous quarter. We expect the order book to increase in the coming quarter as we successfully close some of the orders that we have in the pipeline.

We will now take a look at few of the trends with respect to the key operational performance indicators. Our DIO, that is the Days Inventory Outstanding and DSO, the Days Sales Outstanding and consequently the net working capital also an adverse trend. This has an effect of the low volume this quarter as we use the trailing three months of revenue to calculate these metrics. Again, this is a temporary phenomenon and all these metrics will come back to normal which is roughly 100 days of net working capital by end of Q3.

Aerospace & Defense continues to grow significantly for us year-on-year. We had some softening of demand in the industrial sector and consequently this is resulting in the share of A&D being much higher than, for us at the moment, than compared to other industries. The share of revenue between PCBA, Box Build, Cable remains more in line with some of the earlier quarters and even the mix of export and domestic business is the same.

This is a tabular view of the same P&L which I explained. As you can see the EBITDA is at 7.8%, which is a drop in percentage terms. In absolute terms it is slightly around here. And PAT has grown 97.7% and then the entire percentage is up by 164 basis points.

And the last slide from a finance perspective is the IPO proceeds utilization. We went IPO last year in the same month on the 10th of July. And in the one year we have used roughly 38% of the proceeds and we still have the money set aside towards inorganic acquisition, general corporate purposes and the working capital requirements to be used up this year.

With that, we can start the Q&A.

**Moderator:**

Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Sanidhya Agarwal from Unicorn Assets. Please go ahead.



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**Sanidhya Agarwal:** First question is on industry-wise segregation. So, as you can see that almost 26% comes from Aerospace and 37% coming from Defense. And also the other EMS players, if we talk about, they are very clear that they have high margins in these two businesses which is Aerospace and Defense. How are we not able to get higher margins in these two industries whereas the other players are getting? That's first question.

**Anthony Montalbano:** Yes, I can go ahead and answer that. So, it does come down to the type of programs that you are running. So, we have a very specific large program in the defense sector that runs at a lower margin compared to the rest of our business. And so that is a reason why that sector does show slightly lower margins. The Aerospace however is a much higher margin and that part will continue to deliver at those margins as well. We also discussed earlier about focus on India defense and also potential US defense. And so these types of opportunities would also yield much higher margins similar to what we see in aerospace as compared to the one specific deal that we have in the defense sector today which is making up a lot of our revenue.

**Sanidhya Agarwal:** Secondly, on terms of what the capacity utilization for now in, till then, are we thinking to use all of the proceeds from IPO in capacity?

**Shrinivas Kulkarni:** So, in terms of capacity utilization, we are roughly at around 55%. And from the IPO funds utilization, I think there is a runway of using the working capital for another 18 months to 24 months. And then of course, M&A and general corporate process is also set towards the M&A will happen as and when the event happens.

**Sanidhya Agarwal:** And lastly, on the Built-to-Specs with respect to margins as well. So, initially during the IPO time the management promised to get near about mid-teens margins and EBITDA margins in terms of getting business through Built to- Specs in other divisions. Now we are there almost one year after the IPO. And I think the management has a visibility for next one year. So, how are we thinking till when can we think that Built-to-Spec would be a good part of a book and we will be able to get higher margins, like not from one year perspective, but from two, three, four, five years.

**Anthony Montalbano:** Yes, that's a very good question. That is correct. The Build-to-Spec programs will deliver higher margins. I think the mid-teens, if our base business is less than say delivering 10 and Build-to-pec program maybe could be delivering 13%-14% or maybe even a little bit more depending on that specific program. So, these programs right now we have secured these programs and we have started to deliver on them. So, as they start to make up a greater percentage of our revenue then they'll start to have more impact on our business. And so for this fiscal year, the Build-to-Spec impact from a margin perspective will be negligible because this fiscal year will probably make up less than 5% of our revenue. As you start to look out over the next two, three, four years, then those programs will start to make up a larger share of the revenue and then you will start to see a more positive impact on the margin profile as those bigger programs that are Build-to-pec start to ramp up.



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**Sanidhya Agarwal:** And just follow up on the last part also, so from where are we expecting Build-to-Spec? Either they are like export clients or the internal Indian client companies.

**Anthony Montalbano:** Well, they would be both, but right now we have been signed with non-Indian companies, so I guess export. That's where the current Build-to-Spec programs are signed, but we are looking, this is really part of our core offering. But we have Build-to-Spec programs today being delivered on our lines, right? These are first runs, second runs, and so as you start to hit into the initial production phases, then you will see the volume start to go up and have that impact.

**Moderator:** Thank you. We'll take our next question from the line of Deepak Krishnan from Kotak Institutional Equities. Please go ahead.

**Deepak Krishnan:** First, I think the question to understand the order book because it's been sort of 8 quarters where we have seen slight decline in order book on a sequential basis. While we have indicated a lot of logo signings and all of it. So, when does that start translating into order book growth? Do we sort of have a guidance as to what is the year end order info number or order book number that we want to reach to?

**Anthony Montalbano:** As far as giving a specific guidance number, the key element is that there definitely will start to be an increase in order book over time, especially as we start to extend on the existing programs. And a lot of those programs do kick in H2 usually as far as the POs that are needed for that. So, a lot of that just comes into the timing of it. And Q1 usually is a relatively, I won't say cyclical, but usually is a softer quarter if you look at it historically in terms of order book. And then again, the nature of our business with a relatively few number of clients. And we kind of use the term that it can be lumpy in terms of how it's delivered and this is still similar from an order book perspective as well. So, that will eventually catch up and we still maintain the guidance that we have given on the overall growth for the business which the order book will of course need to support that.

**Deepak Krishnan:** And maybe how much of our exposure is indirectly or directly into the Boeing supply chain? And second, given the customer advances numbers in relatively being flat, that implies that we are not getting any more orders from the large Indian domestic or defense company. Is both that understanding correct?

**Anthony Montalbano:** So, we do not have much exposure as it relates in our current production to Boeing. And then your second question on the supply chain, can you repeat that again?

**Deepak Krishnan:** So, essentially your customer advances is flat at 28% and I assume that a large part of this customer advance is coming from the large BEL essentially. So, that indirectly implies that we are not growing our BEL order book at the current time frame. Is that understanding correct?





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**Anthony Montalbano:** Yes, part of that, so that's a big program that we have been continuing to deliver upon. A lot of the customer advances have been given when usually when there's more supply constraints. And so we have seen that there has been less supply constraints overall. Of course, we did have one specific part, which caused us some problems this last quarter, but overall, the overall environment from the supply chain aspects and securing and getting advances, we have seen less advances because we have more stability in the supply chain. That's where I attribute most of that towards.

**Shrinivas Kulkarni:** From a large India order perspective, there is cyclicity in that order. I think it's a two-year contract. So, the next set of customer advances come only when that gets renewed, right? So, till then, you will see the current advances as well as the order being used up. That's the actual point I wanted to add.

**Deepak Krishnan:** And maybe just wanted to sort of look at in terms of new geographical expansion, new vertical and the inorganic expansion plan. We have been highlighting this for a while. So, by when can we sort of see some concrete news flow either on new categories added or on the M&A deal sort of being closed?

**Anthony Montalbano:** So, we don't view this as a one-time event. And we do hope in the very near future to be able to announce specifics. So, basically, what we are able to announce is once a deal is signed. And so as I've been able to highlight earlier is that we are in very advanced stages right now and as soon as this one specific opportunity is signed, we will be announcing that. And it does align very much with the sectors and geos and strategy content we shared in the deck. And then we are also looking at other opportunities in other geos as well. And then that'll come a little bit further, but we are very close.

**Deepak Krishnan:** Maybe just one final question, given the large negative FCF for the quarter, by yearend do we sort of expect to be FCF positive and do we sort of have a net working capital days target?

**Shrinivas Kulkarni:** I think for Q2 definitely we will be positive. And it's a little hard to predict what will happen by the end of the year, but our goal is to at least break even in the current year, if not probably in profit.

**Moderator:** Thank you. We have a next question from the line of Vipraw Srivastava from InCred Capital. Please go ahead.

**Vipraw Srivastava:** Just a question on this EMS for semiconductor companies. So, just want to understand what kind of value add will you be doing? I mean, will it start contributing to our revenue this year or it's sort of a longer term thing, and maybe by next FY, it will start contributing to our top line, the semiconductor company EMS service?

**Anthony Montalbano:** Are you referring to the new logo that we highlighted



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- Vipraw Srivastava:** Yes.
- Anthony Montalbano:** Or are you talking about the Cyient? Okay, referring to the new logo, this is a program that we will start ramping up this fiscal year. And the client has expressed pretty aggressive expansion needs specifically in India for their products. And so, we anticipate that really over the next couple years we see this as being a very much a high growth new logo. And again, it has the potential, again, another industry leader and has very much potential to be amongst some of our top clients.
- Vipraw Srivastava:** So, just as a follow up, so this is a shorter ramp up, right? I mean last year you got **(Inaudible)** **0:30:39**. So, as you mentioned that it takes a longer time frame for that to ramp up. But the semiconductor deal, since it's not in Aerospace & Defense, it will have a shorter ramp up, right? I mean it will start contributing to the top line quickly. Or is this understanding correct?
- Anthony Montalbano:** Yes and no. So, in practice what we said is correct, but also it depends where the product is. So, if you want to deal on a new product that has not gone to market yet, then there's a little bit different timeline. So, in this case, these are products that we already have and they're now going to be manufactured with us in India. So, it is a much faster ramp in that regard. And then you also are correct that yes, that in sectors like industrial, semi-cap equipment and medical, these sectors do ramp quicker than what you might find in aerospace or defense just due to the regulatory requirements of those sectors.
- Vipraw Srivastava:** Last question, even though EBITDA has declined, gross margins have remained flat. So, how do we see that evolving? Gross margins, since a large part of this year's order, revenue will be from exports. So, do we see further improvement from here or this is a trend which is going to continue in the further quarter? So, any thoughts on that?
- Shrinivas Kulkarni:** Yes, so the gross margins will improve, so will EBITDA for the rest of the year. What we had in Q1 is lower absorption because of the volume. And as volume picks up, we will see better absorption coming and see an improvement. The other thing that will impact is also the mix of the business, right? As you know, one part of our business is at a lower margin. And that starts to change with the growth that we will see in the rest of the year. So, that will be another contributor to the market.
- Vipraw Srivastava:** Right. Last question. So, in Q4, the NWC guidance was 100 days by the management. So, obviously, this is a temporary quarter with 171 days. But do you maintain that guidance, or do you see it's slightly difficult to achieve that?
- Shrinivas Kulkarni:** We maintain that guidance. Q1 is definitely one of the issues because of lower volume as well and higher buildup of inventory. We are actively working to correct both those metrics and we will see substantial improvement in Q2.



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**Moderator:** Thank you. We have our next question from the line of Nitin Sharma from MCPPro Research. Please go ahead.

**Nitin Sharma:** Firstly, how should we see the industrial segment? This is a straight third quarter of Y-o-Y degrowth. So, how should we see it over a two years or three years' timeline?

**Anthony Montalbano:** The industrial segment is a broad segment. It covers everything from energy to semiconductor to even some infrastructure services. So, we have had one of our key clients in the sector work through some inventory that has built up based on some product that we built for them. They have had some softening, has been taking them some time to work through that. We have indication that that is expected from this one key client to demand to return as it can come through that in H2 this year. But then there's also the other clients in this sector, some of which are building and also some new logos as well. So, I think most of what you saw as it relates to industrial in our current makeup today, a lot of that is currently being driven by one client burning through, well, slowly burning through the inventory that we built for them.

**Nitin Sharma:** So, is it possible for you to mention which industrial sub segment where you are facing the issue with this particular client?

**Anthony Montalbano:** So, I would just say H2, we see forecasts, we have been given a forecast that in H2 that that should be improving again. And then again, we see other programs as well that come into this sector that will also complement that.

**Nitin Sharma:** So, this higher SG&A cost that you alluded to in the PPT. So, I want you to understand what is the total quantum for this SG&A investment for FY25 and what kind of goal behind this investment?

**Shirinivas Kulkarni:** So, the SG&A was higher in percentage terms, right, because the revenue was lower, not in absolute terms. Whatever we have as an absolute SG&A spend multiplied by 4 will roughly be the number for the year more or less. I don't think there is any significant investment that is coming up in the rest of the year. So, as the volume improves, you will see better absorption coming.

**Moderator:** Thank you. We have our next question from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

**Mihir Manohar:** Largely wanted to understand on this industrial client, I mean, what is the challenge which is going on there? Because, you know, when we see 80% drop in revenue on one side, on the other side, the inventory is going up substantially. So, if you can throw some more light, some color as to what is the challenge over there and how do you see that getting subsided? And second question, commensurate to that was on the margins. I mean, is there any one off in the other expenses because that has also gone up. So, how should we see the margins from here on? Will



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the second on a half yearly basis, will we be able to compensate the margins on a half yearly basis for the loss that has happened in first quarter?

**Anthony Montalbano:** I will take the first part of that question and then I will ask Shrini to address the margins piece. But as I covered on a prior question, the specifics that I can give because we are limited on what we can say regarding specific clients is that it's a matter of burning through using the inventory that this client has, the specific client has built up. So, in this sector, this was a sector that had a lot of supply chain challenges, especially during COVID and shortages. And then even post-COVID, a lot was done to make sure that supply was secured. And so a lot of that was enacted upon in terms of securing inventory, securing orders, etc. So, basically the current situation is that this client needing to burn through this inventory before continuing with the placement of additional orders.

**Shrinivas Kulkarni:** Mihir, and on the margin, there is no significant one-off this quarter. From a year-on-year perspective, last year we had the RSU coming only from Q2. So, from that perspective, this quarter has the RSU cost which last year did not have. So, that is the only thing. But what you see right now in terms of the SG&A spend is more or less at the stable level. There is no substantial change or one-off that we can expect from here till the end of the year. The only thing that will come in is as and when the M&A activity picks up there will be some one-off costs with respect to the due diligence, banker fees, etc. But for now we are keeping that out of the cost.

**Mihir Manohar:** And this specific industrial plant, I mean, will we see situation once again getting normalized from second quarter onwards or should we see that from Q3 onwards?

**Anthony Montalbano:** I think right now I would just keep it to H2, that's the information that we are being provided.

**Mihir Manohar:** And just lastly was on the order book. We were earlier, last year we were looking at a bump in order book in 1Q, but however, given the inquiries which were there at that point in time, but however that has not flown through. So, how should we see order book building from here on? I understand that these are lumpy businesses. But the visibility beyond a certain stage becomes important. So, how should we read all the books from here on?

**Anthony Montalbano:** As answered earlier, it really does come down to the orders coming in for the business that we currently have forecasted within our plan and along with the growth that we have highlighted and set expectations with as well. So, we expect to see that to start to improve. Again, it is lumpy. I don't have another better term for it, but it should start, we should start to see some progression there as our clients need to place orders for the next phases of their programs and then and then of course there's new programs which will have a good impact and then we'll be able to announce those shortly as well.



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- Moderator:** Thank you. Thank you. We have a next question from the line of Darshil from Crown Capital. Please go ahead.
- Darshil:** So, I just wanted to ask that I think previously we have given the guidance of 30% growth. So, we maintain that for FY25, sir?
- Shrinivas Kulkarni:** Just to clarify, that is guidance for a year. We said we are confident of a 30% CAGR over a three-year period. We will not comment for 25 specifically.
- Darshil:** So, just to get a sense, how much would our H1 revenue be in general because of seasonality or Q1? How much of revenue have we missed out due to not being able to supply? Could we just get some color on that?
- Shrinivas Kulkarni:** If you look at the last three years, I think H1 has been at 40% and H2 has been at 60%. And so therefore again, we will have a very strong Q2. We can't give out a specific number. But whatever we were expecting in Q1, that is filled over into Q2 in terms of the shortfall. And we will make it up by the end of next month.
- Darshil:** And sir with regards to our margins, we just wanted to ask that, because of lower absorption we saw some dip in margins. But overall on the year-to-year basis for the full year, we will be able to do 11%-12% margins. Is that fair enough sir to assume?
- Shrinivas Kulkarni:** Again, I will not give a specific guidance. I think our near term visibility we said was about double digit which is about 10%-11%. And I think any further levers will come after this through the mix of the revenue as well as increased share of B2S business and of course better absorption because of the growth itself.
- Darshil:** And just last question from my end. Sir, the inorganic opportunities that we are seeing, would that be margin accretive or would they maybe take some time to reach the margin that we are at? So, there might be another temporary shortfall in margin because of absorbing a new business. Any color on that would be grateful.
- Shrinivas Kulkarni:** No, I mean we can't again speak about that. The assumption is that there is only one target. So, it could also vary depending on which target we are talking about. So, right now, I will say our intent is to sort of acquire companies which will not be diluted at least at an EBITDA level for us, because of amortization and other things, it could be dilutive at EBIT level. But EBITDA level, we would aspire to get businesses which are very similar to what we have so that we don't have further headwinds coming from there.
- Moderator:** Thank you. We have our next question from the line of Yash, an individual investor. Please go ahead.



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**Yash:** Most of my questions are answered, but I have one big question. I mean, possibility that Trump comes in the new election, and we have seen his policies before where he's decided to end wars etc. So, what is the outlook for the industry as a whole, as well as the DLM, wherein if the war comes to an end, especially between Russia and Ukraine and possibly later into the other wars, then can it affect the business on an industry level as a whole?

**Krishna Bodanapu:** I think the business that we are doing is not necessarily tied to any one specific instance, right? I mean, if you look at a lot of the business that we are doing for BEL, for example, the ultimate customer is the Indian Navy. That has absolutely no bearing on what happens in the US. The second thing is, if you look at, Trump, no Trump, I think one of the key realities is most companies have decided or most countries have decided to rebalance how their defense spend happens. And you're seeing that in India where there's a lot more indigenization, we are seeing that in a lot of countries in the Middle East like Saudi Arabia or the UAE, where there's a lot of focus on indigenization. You've countries in Europe that have to spend more according to their NATO commitments on their defense requirements. And in general, President Trump also, assuming he comes back, has always been a proponent for self-defense, which means that if you look at his last presidency, the defense spend actually went up in the US quite a bit. And therefore, purely from that perspective, I wouldn't imagine that a specific instance at this point in time where the world is and where geos politics are, a specific or a change in presence in the US will trigger any specific event that will change the spend pattern. So, from what our clients are telling us, and not just in the manufacturing business but also in the engineering business, what our clients are telling us, there is a fundamental change in terms of how countries are looking at defense, defense procurement, defense spend, indigenization, de-risking and we don't see things changing in any significant time.

**Yash:** All right, that's good. And just a follow up question, this is slightly towards your semiconductor business. I think the parent Cyient has tried to give some idea that they want to venture out heavily into the semiconductor space. So, can we expect some business from that side? And if we can, what will be the likely margins on that front?

**Krishna Bodanapu:** So, I think it's a bit early to comment on that and that's probably more relevant conversation within the Cyient call. But our intent is to venture quite heavily. We have a very strong semiconductor business and we also see some significant growth there. The one good thing about all these businesses is they're also quite complementary. And therefore, as that evolves, because a lot of the outcome of the ASIC business will be the input to the DLM business because that business will produce or will design and source chips. But I think it's perhaps a bit early to comment on the specifics and we will wait till some of the actions start to materialize.

**Moderator:** Thank you. Ladies and gentlemen, we will take in as the last question for today. I would now like to hand the conference over to Mr. Krishna Bodanapu for closing comments. Over to you, sir.



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**Krishna Bodanapu:**

Excellent, thank you very much. So, thanks everybody for participating in this call. As I said at the beginning of the call, it's been a good start, slightly lower than what we'd expected, but I just want to assure everybody that it's just quite a simple sort of right shift of where things have headed. For H1, we are quite confident on meeting what we set out as the budget for H1 internally, which means that we are then in a good footing for the rest of the year. As Shrini articulated, our visibility was 30% CAGR for the next three years, and we are absolutely on track to achieve that. Of course, some of the orders that many of you pointed out are a little bit delayed, but of course, for the short term, we still have an order book that lets us execute, and for the longer term, the pipelines are looks better than it has ever had, which will translate to some very, very strong orders. I think the pipeline is already in excess of a billion dollars and even weighted, it's almost half a billion dollars. So, we are quite confident of building up that pipeline. I don't see that to be a challenge to deliver a 30% CAGR over the next three years. So, with that, I will once again thank you for your confidence and support in Cyient DLM and we will speak again this time next quarter. Thank you.

**Moderator:**

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