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Sub: **Transcripts of Earnings Call**

Please find enclosed transcripts of earnings conference call, in connection with Q3FY25 Financial Results held on 21 January 2025.

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

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Thank You

For **Cyient DLM Limited**

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"Cyient DLM Limited Q3 FY-25 Earnings Conference Call"

January 21, 2025

MANAGEMENT: **MR. KRISHNA BODANAPU – NON-EXECUTIVE CHAIRMAN – CYIENT DLM LIMITED**
MR. ANTHONY MONTALBANO – CHIEF EXECUTIVE OFFICER – CYIENT DLM LIMITED
MR. SHRINIVAS KULKARNI – CHIEF FINANCIAL OFFICER – CYIENT DLM LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Cyient DLM Limited Q3 FY '25 Results Conference Call.

As a reminder, all participant lines will be in listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing "*" and 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 Limited. Thank you, and over to you, sir.

Krishna Bodanapu: Thank you very much, and good evening, ladies and gentlemen. I am Krishna Bodanapu, Non-Executive Chairman of Cyient DLM.

Welcome to Cyient DLM's Earnings Call for the Quarter 3 of FY '25. Present with me on this call are our Chief Executive Officer, Anthony Montalbano and our Chief Financial Officer, Shrinivas Kulkarni.

Before I begin, I would like to mention that some of the statements made in today's call 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 posted on our website.

In the last quarter, we announced the acquisition of Altek Electronics, a leading EMS company based in Florence, in Connecticut in the U.S. The strategy behind this deal was clearly on leveraging synergy benefits.

I am excited to share an update that the process of integration is going exceptionally well and to plan. We are pleased to report our Q3 performance, including Altek Electronics this time. With the addition of the client base, the synergy conversations are increasing significantly, and I had the opportunity to have three synergy conversations last week when I was in the U.S. It is very encouraging to be a part of these discussions and expansion plans and I am confident that we will see the synergy revenue coming in in the next few quarters.

Political developments in the US are also going to be a significant opportunity since they create localization requirements and Altek will benefit from these requirements. For those of you who heard his speech last night, President Trump was very aggressive in setting his intent of increasing manufacturing in the U.S.

His industrial policies will be aimed at strengthening domestic manufacturing and it is perceived as an opportunity by many OEMs and Tier 1s in the U.S. to manufacture locally and they are already reaching out proactively to us to manage this growth to manufacture components locally.

This with the outcome will be several opportunities for Altek and I am very happy, and I am very glad that the leadership team was able to proactively identify an opportunity to create significant manufacturing capability in the U.S., and that is going to benefit us as President

Trump's industrialization policies start to take shape and all indications are that Made in U.S. will be a big part of that.

On the other hand, our revenue mix is slowly changing and this is having an impact on the medium term. We are looking at it positively to both on our profitability and cash flow. Having said that, some of the large contracts that we signed during last year are starting to see traction and we see this further increasing in the coming quarters. We are also gearing up to make sure that we are able to meet the requirements.

With the industrial and medical science showing recovery and clients of Altek looking at our manufacturing facilities in India, for India requirement, I can assure you that the road looks quite, or the future looks quite confident for us. And I am confident that we are headed in the right direction and getting ready for the next phase of growth.

Now I will hand it over to Anthony and Shrini to provide more updates on the business and finance in more detail. Anthony, over to you.

Anthony Montalbano: Great. Thank you, Krishna. As Krishna highlighted, Altek has been part of the business now for one quarter. And I thought it would be important to highlight some of the key aspects of the business as well as the integration highlights in that regard.

So, Altek has been providing services in the EMS industry based in Connecticut for about 50 years. Primary sectors for the business include industrial, medical, and defense. And this aligned with our current portfolio allows us to expand and potentially take up ITAR programs into the U.S. defense sector's market. It also provides some overall business diversity in terms of business sectors that we operate in, giving us an additional industrial and medical sector opportunity.

A lot of our clients within Cyient DLM are Western-based clients and there are many opportunities that are now available to us by having U.S. manufacturing available that were not part of the discussion earlier. This geographic footprint aspect of the business will create growth opportunities for us and also complements the additional client access that we can get as part of our defense portfolio.

The capabilities of the site are also very complementary and the DNA of the business focusing on very high value, low volume, high mix, mission critical type of electronics are very complementary to the business that we have been operating under for many years and allows our clients to have a similar experience whether they are working with us in India or in the U.S., as we now are providing legal offerings.

On the integration progress, there has been considerable focus on the go-to-market aspects of that integration of working with top key clients across both of our businesses, working with the go-to-market leaders to focus on these clients with both of our businesses. They are now integrated as we look at opportunities. We now collectively plan and execute on how to make those opportunities transform in to the business.

The operations integration and HR integration aspects are also underway and the first order that we will be providing is a consolidated view as well as a reflection of that. Supply chain synergies are also being mapped right now. This brings certain aspects in terms of what we can do with certain key aspects in the supply chain part of the business that can include key components, distribution, overall spend we bring in certain aspects to help provide greater value that we can bring to our clients in that regard. And then also the financials have been integrated and we will keep testing some of those here going forward.

Some key wins for this quarter, we secured one leading global technology company focused on the energy services and solutions space, which is clubbed under our industrial sector. It's a leading multinational OEM that we look to be a key growth and overall revenue client for us in the future. This is in addition to at least six new logos, a similar scale that is announced in earlier quarters.

From a pipeline perspective, our pipeline is considerable with over $1 billion in B2B of opportunities that we are trying to convert. And also we are currently working on specific large opportunities that are in the advanced stage and hope to provide more updates on coming quarters.

Some other aspects of the business from a recognition perspective, you know, our largest customers this year, BEL has recognized us as a valued partner. Just another testament to the services we provide and quality in these types of applications.

Also, some other aspects from on the business highlights:

Focusing on our environmental and initiative, we did announce a strategic partnership with Arcedo for basically a solar power plant that we have applied to our Mysore facility. So, it's a key aspect to help our ongoing renewable energy.

We have also received some awards, a specific award from the state of Karnataka for overall export and business growth in that sector. So, those are some of the key highlights for this quarter. Excuse me. I will turn it over to Shrinivas for some of the finance updates.

Shrinivas Kulkarni: Thank you, Anthony. Thank you, ladies and gentlemen, for joining the call today.

I will walk you through the Q3 Financials. This will be a consolidated financials for us, including assets. And I will also call out some of the key aspects of this particular quarter, which are the one-off expenses we have incurred for concluding the M&A. And then we have sort of shown an adjusted EBITDA and a PAT number so that the sustainable performance becomes clear to you. But we have also shown what the reported numbers are in the comments.

So, to start with, we did a revenue of 444.2 crores, which is a 38.4% growth year-on-year. Now this of course includes Altek's number as well and the standalone revenue for the period was 357.3 crores, which is a growth of 11.3% year-on-year.

From an EBITDA perspective, Rs. 359 million is the adjusted EBITDA, which translates to a margin of 8.1%. Now this is lower year-on-year by 109 basis points due to few reasons and we will talk about that in detail. But the reported number is about 8 crores lower than this because of the one-off expenses we have incurred in terms of the banker fees and the lawyer fees, etc., that were used up to conclude the remaining transactions.

Similarly, the Q3 reported PAT after adjusting for these expenses is about 108 million, but the correct number to look at, which is the adjusted number, is 166 million, which translates to 3.7% in percentage term and also it's a de-growth year-on-year of about 10%.

Order backlog now includes the Altek numbers, so this stands at 2,142.9 crores. And the number from Altek that is included in this is 291.5 crore. So, the standalone order backlog is the difference between them.

Looking at some of the key KPI trends, and this is again the Q3, the latest numbers in this chart are all the consolidated numbers which includes Altek numbers and it gives a trend for you in terms of how we have performed on the important metrics of revenue, EBITDA and PAT over a period of time or over last several quarters.

The non-P&L metrics, we will take a look at how we have done on the net working capital. In terms of DSO, we are at 76 days. This is a drop quarter-on-quarter as well as from a year-on-year as well. And there is improvement that we have seen in the DSO metrics.

DIO, we are at 129 days. Again, this is a little bit higher than last quarter, but we have a road map to get to between 90 and 100 days and we are still at a level which is slightly elevated more than where we would like to be.

DPO has improved to about 69 days and the customer advances as the nature of the business has dropped to about 16 days in this quarter. As we consume some of the revenue from the customers who have given advances, this number will continue to drop. We are not expecting any new advances in the near future. So, this is something that we will see as a trend.

So, all in all, the net working capital is about 120 days, which is an improvement from a previous quarter as well as almost in line with where we were last year in the same quarter. And I am also happy to report that at the consolidated company level, we have had free-cash flow which is positive for the quarter.

Now this slide gives a trend of the industry mix, the product categories and the mix between the rest of the world and India revenue. Now you will find this interesting in terms of the industry mix. This is significantly different from how we have shown in the past, right, in terms of being very heavy on aerospace and defense.

Now you see a big chunk coming from industrial and MedTech as well. And this was one of the reasons why we did the acquisition. It diversifies our industry base very nicely. And this has led to the growth of 47% Y-o-Y on industrial and about 156 on medicals.

So, this chart looks more balanced now, with the acquisition of Altek. Now the mix of the PCBA, box build and cable has not changed significantly, but we continue to see a large portion of our business coming from PCBA and the box build growth now stands at 16% year-on-year.

Similarly, on the mix from between geography, now the Altek business is all counted in the rest of the world which is at 61% and the India business is at 39%, and we will continue to watch this trend going forward as well.

The chart just gives a tabular view of the financials we just reviewed. It has more granular details in terms of the various cost elements. I think you can go through it in detail. As you know, the financial footprint of a U.S. company is different from an Indian EMS company. The ratio of material and employee costs is different there and therefore you see some changes as we go forward. The employee cost will be higher, the material cost will be a little bit lower as we consolidate.

The other thing you will see in the financials here is also the depreciation and amortization. As you know, when you make an acquisition, there is a purchase price allocation and the intangibles start getting amortized over a period of time. That is discussed with the auditor. Now this number is not really a cash expenditure. It is just allocation of the intangibles and write-off of the same. So, with all of that, I think you see a profit which is at this stage and reported here for the quarter.

And just to give further clarity on how those one-off expenses are treated between EBITDA and PAT, this slide gives you more color in terms of how we treated the M&A expenses as a one-time transaction related. This will not repeat going forward. So, that's why it's called out as an exceptional item.

Slide on the IPO proceed utilization as we have stated in the objects of the issue, we had earmarked 10% of the entire issue proceeds towards inorganic. So, we have used that and a part of the general corporate proceeds to make the current acquisition. We have repaid all the external borrowings and the trend on the working capital and CAPEX is lower than what we had expected. We have used up only 135 crores so far, but we will roughly use up about 190 crores by the end of the year. and we will have another 100 crores left for the next financial year in terms of the working capital requirements.

But on CAPEX, we have excess capacity right now. So, there is no need for a substantial expansion of CAPEX at the moment. So, we have enough capacity to even run next year. There will be incremental CAPEX additions during the year, and we will call that out as we use the funds towards that.

There are some more annexures as well in the presentation. I will not go through that right now. These give a better color on the difference between the standalone and the consolidated numbers. We also have a slide on the nine-month performance. Please go through those and if you have any questions, we can address them. But with that, I conclude the finance presentation, and we can go to Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Deepak Krishnan from Kotak Institutional Equities. Please go ahead.

Deepak Krishnan: So, just wanted to check. So, essentially, if we look at the order book number adjusted for the 2,915 million, which is the Altek impact, we have again sort of seen an order book decline comes to a number of 18,514 or somewhere close to that. So, essentially, in terms of new order wins, we have indicated we are at final instance of negotiation, but when do we start seeing large orders coming in? And that's obviously whatever comes from Altek, maybe just an outlook in terms of what is the U.S. growth that you are expecting for the next maybe two years, essentially because of all the potential impacts due to the localization of manufacturing there.

Shrinivas Kulkarni: Yes, I think on the order backlog, right, I think we have been seeing some organic businesses, we have seen a degrowth in this quarter as well. The pace at which the large order from one of the key customers is being consumed is higher than where we are seeing the growth, right?

So, look, I mean, it's a little hard to call what the outlook will be. We are definitely working on several large opportunities. As Anthony also highlighted, the pipeline is still large, right? And then there are several deals and actually three large deals where there is active conversation at an advanced stage. So, as those convert, I think we will, one, see the order book growing up from where we are today.

Altek has the shortest sales cycle compared to Cyient DLM. So, they will fill a lot of orders even during the year. So, if we start with, let's say 90% visibility, they start with 50-60% visibility, just to give some perspective of how that business runs. And definitely we see a growth in North America. I think for two reasons, one is the acquisition. I think it gives us a footprint of having manufacturing presence in North America and a lot of clients have been demanding the sort of proximity to their centers. Another is what Krishna mentioned, just the sort of political changes that have happened in the U.S. and the outlook that is there in terms of keeping America first and manufacturing in the U.S. I think we will definitely see much higher growth in North America compared to what we have seen in the past.

Deepak Krishnan: Maybe the second question, if I just look at the difference between the standalone and the consol and adjust for the 80 million sort of one-off experience, I think I will take this quarter reported at EBITDA margin of 27.6 versus you know standalone about 8.3 prior to other income, so is I will take a bit of margins more in the 7 to 8% range or do we also see that this segment can potentially help us get to 10% of the margin that we have indicated that that sort of a stated goal that we want to reach out to?

Krishna Bodanapu: So, first of all, the Altek's EBITDA margins are similar to ours in this particular quarter, but they have a roadmap for getting to about 10% at least. Even when the acquisition was made and we have seen the historical performance, I think they have operated at around 10%. We have a few expenses which are sort of just immediately after the acquisition that have taken place this quarter, but we have a clear line of sight to get to 10% on a sustainable basis in Altek.

Deepak Krishnan: Maybe just wanted to understand sort of do we still stand by the 30% CAGR guideline for a three-year time frame and any particular revenue guidance that you are going to give for this particular year, given that organic growth this quarter will slow down to about 11%. Just wanted to sort of understand these two points.

Anthony Montalbano: Yes, regarding the 30% figure that we have discussed, that's just been more of a guidance, you know, it's more of a CAGR year-on-year. I think you are gonna find some variability. I think the first year we delivered over 40%. Then we find that we delivered in the 20s. And so that that's going to vary. I think that is still a healthy number to consider on just the mid-to-long term of our business. But as we look at certain programs transferring out and as we ramp other businesses up, there definitely could be some lag on years in that number. So, it's not meant to be a firm 30% year-on-year guide.

Deepak Krishnan: So, we just wanted to understand the strong free cash flow generation that we have this quarter. Given that there was only slight decrease in net working capital days, anything else that sort of did this 478 million of free cash generation because it's only about a seven day decline Q-o-Q in NWC?

Shrinivas Kulkarni: Can you please repeat that question?

Deepak Krishnan: Just wanted to understand the 478 million of free cash that we have generated this quarter. Because working capital is not really changed that much, it's gone from 127 to 120 days. So, any other factors that led to such a strong free cash generation?

Shrinivas Kulkarni: No, I mean the release of working capital is significant. Even though it looks like seven days, I think that does translate to a big number, right? So, you will see the, I mean 47 crore also includes some of the cash generation that is coming from Altek. But yes, that seven-day release is a big number and that translates, does translate to a number we reported.

Deepak Krishnan: May be just a final question from my end. Wanted to understand, last quarter we had an FX loss. This quarter we had an FX gain, but net-net, the other income is not really jumped. So, any other factors that sort of causing the other income to be lower this particular quarter?

Shrinivas Kulkarni: No, I think that has two aspects. I think that also has an aspect of the sort of the interest yield on the deposits that we have, right? I think even that number may have come down in the current quarter. I don't have the specific number in front of me, but yes, that also has a bearing. We don't see other income going up because of the interest yield on the, as we consume the cash from the IPO, I think that that number is going to sort of flourish, right? Unless we have surplus cash and start generating interest income, that number will go down. So, an exchange fluctuation impact will be there. They are always realized and unrealized gain both coming up in the other income also and that's something we can't really predict at the moment.

Moderator: Thank you. We have the next question from the line of Vipraw Srivastava from PhillipCapital. Please go ahead.

Vipraw Srivastava: Firstly, on the standalone margin, why is other expense as a percentage of sales relatively higher? Because revenue has degrown Q-o-Q, but other expenses have gone up. So, any thoughts on that?

Shrinivas Kulkarni: So, the other expense this time includes the other expenses of Altek, right? And like I said, I think the financial footprint, while at EBITDA level the businesses are comparable, I think the mix between the two businesses are different.

Vipraw Srivastava: No, sir, on a standalone level I am talking, sir. They actually don't have Altek, right?

Shrinivas Kulkarni: On a standalone level, there are a few operational expenses that have gone up this time, namely sort of the bad debt provisions and some of the other provisions that we have taken in the business. We now take the provisions on an expected credit loss, which is basically on the aging of receivables. Some of our receivables have moved to the right, which as per policy we have to take it. This is recoverable next quarter as we collect those amounts. But for the quarter, we have taken a conservative view and provided as per the policy.

Vipraw Srivastava: Sir, what would be the quantum of the receivable number if you can give? 8 crores? That's the number.

Shrinivas Kulkarni: So, what is it, sorry? What is the number you wanted?

Vipraw Srivastava: What's the quantum of that external credit loss we have taken in receivables?

Shrinivas Kulkarni: No, I will not quantify that separately, Vipraw.

Vipraw Srivastava: So, on a gross margin level, you have maintained a gross margin. That's commendable. But going forward, how do you see your EBITDA shaping up? I mean, this quarter, we were expecting EBITDA to ramp up, but again, because of this other expense, it has again come down. So, how do you see EBITDA progressing in coming quarters?

Shrinivas Kulkarni: Yes, so the mix of business has a big bearing, Vipraw. We have discussed this in the past as well. As we get into Q4, I think the one large deal, which is slightly a drag on the margins, is going to ramp down significantly, right? And therefore, I think our margins will improve in Q4 and beyond. So, you will see substantial improvement in the margins for the Q4 quarter.

Vipraw Srivastava: And sir, on a standalone level, we have only grown at 11%. So, this order book you were mentioning, this few large deals you were in discussions with, what will be the quantum of these orders? I mean, will they be big enough to move the needle on a consol level? Anything on that, any quantum you can give, rough quantum, anything on that?

Anthony Montalbano: Yes, these programs do have impact on our next two fiscal years, and so definitely some on FY '26. And they really are dependent on, you know, a couple of these are transfer programs and a couple other different programs. So, there are some variability there as to how fast they come in, but again we do see the impact on the field starting in the next couple of years.

Vipraw Srivastava: So, you are saying by FY '26, Q3 we will be converting into full-time orders, right?

Anthony Montalbano: Yes, we will definitely start to recognize them as part of our backlog as soon as we get those closed, and then as far as impacting the revenue and all the other aspects of it, that would come in the quarters following.

Vipraw Srivastava: And question for Shrini, sir. I mean, obviously you mentioned about the ECL expense credit loss on receivables which resulted in higher other expense, but going forward do we see such a surprise because is it a one-time thing or is there further receivables which can have ECL in future? What are your thoughts on that?

Shrinivas Kulkarni: No, this is a one-off thing. I think we have had some of the receivables not getting collected during the December quarter owing to holidays and a few other factors like that. Definitely one-off thing. We will see substantial improvement going forward. And also, look, I mean, the provision that we have created is more on a sort of, this is called a conservative basis. We just don't want to deviate from it, right? But as we collect, we are kind of collecting those, right? We will see improvement and we can talk to this right at the ECL. Accounting standard is you show efficiency in your collection and the provision automatically goes down, right? So, we will obviously as we target our DSO to be between 60 and 70 days, it's currently at 85 days, I think we will start seeing that improvement.

Vipraw Srivastava: And sir, last question. This ECL is from a foreign client or domestic client?

Shrinivas Kulkarni: It's from the domestic line.

Moderator: Thank you. The next question is from the line of Arafat Saiyed from InCred Research. Please go ahead.

Arafat Saiyed: Sir, my first question is on your order book. Despite the adding or take on your order book, it speaks towards more about the defense and aerospace around 66-68%. So, in the future, you expect this should go more towards the medical industry or is it still remain as it is ongoing?

Anthony Montalbano: So, if I understood the question correctly, I think you are asking regarding which business sectors the order book is aligned towards. We do see, if I got that correct, we do continue to see strong aero and defense as part of that order book. That being said, we also have, that still is more dominant, but we still do have some new opportunities in this regard that will impact our medical and industrial as well.

Arafat Saiyed: And sir, the second question is on your recently we won order from Honeywell and that is for 15 years. So, my question is on your order book, which you recently got from Honeywell order inflow of around $550 million, that's for 15 years. So, what is the status of that, sir? Have you executed anything on that? Or will this remain, let's say, in the long term only?

Anthony Montalbano: Yes, so regardless of that deal, that's a very strategic opportunity that we have commented on and are planning to continue to support that. Regarding getting into more specifics of that would compromise client information in that regard.

Moderator: Thank you. The next question is from the line of Deval Shah from RBSA Investment Managers. Please go ahead.

Deval Shah: Sir, it's more of a clarification first. What I understood is that the margin profile of Altek is very much similar to Cyient DLM and I will take as well as we both are aspiring to go for 10% margin. Sir, is my understanding correct?

Shrinivas Kulkarni: No, Altek is already around 10%. This is a one-off quarter, right? I think we should also look at these businesses on a full-year basis, not on one quarter. Quarters have some seasonalities in the cost, etc. On an annual basis, I can assure you that Altek is more like a 10% business.

Deval Shah: So, that's what my understanding is. So, I was also asking for the full-year basis only, not on the quarter basis. So, if the margin profile of Altek is very much similar to what Cyient DLM is aspiring. So, we are also aspiring for the 10% margin, right?

Shrinivas Kulkarni: Yes, see, we will also end with the higher margin on a full-year basis this year as well. And yes, 10% is just starting with one milestone. It's not something that stops at 10%, right? I think our aspiration is bigger than that. But I think the first milestone for us is to consistently deliver 10% and then grow from that point on.

Deval Shah: And my next question is to Krishna. So, while he alluded about the U.S. opportunity for Altek, which is a good deal for us, just wanted to understand how the Altek business in the EMS is different from Cyient DLM's or doing it right now. So, how the written profile are different? So, if I want to break it down the ROE, so how is it different? So, what is the Altek's ROE looks and Cyient DLM's?

Shrinivas Kulkarni: So, I think from a ROE perspective, both businesses will end up being quite similar. If you look at the advantage that Altek brings, two things, right? One is Altek works in some very sophisticated sectors like industrial, safety critical industrial, or safety critical medical, which is a complement to what Cyient DLM does, because of course we do some work in those sectors. But a significant portion of our work is also concentrated in aerospace and defense. So, the first element of what Altek brings to the table is some very sophisticated work in these safety critical industrial and medical sectors.

The second thing is the defense angle that Altek brings to the table. Now, by law, U.S., anything manufactured for U.S. defense has to be made in the U.S., which means that so far while we have had some big customers and as you know in the wider Cyient ecosystem aerospace and defense is a critical industry and we work with pretty much all the large aerospace OEMs who also happen to be defense OEMs. We are now seeing manufacturing opportunities from these customers because they also need equipment to be made in the U.S. We already do a lot of design in the U.S. as you know in Cyient, but now we can also make in the U.S.

So, in that sense, the Altek business is a great complement to the Cyient DLM business. And it's again, I will say complement not supplement in the sense that it's very unique, it's very adjacent and therefore we believe that there is a good growth opportunity. Again from a metrics perspective, over a period of time we believe that both from a margin perspective, ROCE perspective and cash generation perspective, by the nature of the businesses both will be very similar.

Moderator: Thank you. The next question is from the line of Jinesh Shah from RSPN Ventures. Please go ahead.

Jinesh Shah: So, my first question was I think a previous participant already asked. So, I just wanted to understand that we have a couple of one-off expenses like ECS provision for debt and M&A expenses in this quarter. So, it will be helpful for me if you will be able to quantify cumulatively that amount.

Shrinivas Kulkarni: No, it will not be fair to call out specific amounts like that. What I will tell is these are one-offs and they will not repeat, right? I think on the M&A we have already quantified that this is an 8 crore expenditure because this is a very straightforward. It was a queue line item. And then some of the other operating expenses have gone up this quarter. They will not repeat in Q4. And the other operating expenses have not been called out as one-offs. So, what you will see is the operating performance itself showing a better number next quarter. But from an Altek's perspective or the M&A integration perspective, there is a one-off cost that was incurred and that has been called out.

Jinesh Shah: So, as you mentioned in the last call, that overall margin for the entire year should be flat as compared to the previous year. So, if I take consideration of the hit of this quarter, then for this quarter at least, we will be doing a little bit less margin than 9 to 9.5%, right? Then we will be able to try to achieve a milestone of 10% probably in the next year. That's what the outlook is from your end.

Shrinivas Kulkarni: Yes, I mean, as I mentioned, I think margin has several factors, right, which needs to take into account. The business mix is one of the largest factors that can impact the margin. Now when you look at our current business mix, it has a certain mix of low margin business which is going to drop in Q4 and further substantially drop in Q1. So, both these lead to better margins in Q4, getting to a full year margin, being more weak. Currently, it's closer to being flat year-on-year in margin terms. But the exit quarter for the current year, margins will be good, right, which will argue well for the next year, that is, the next financial year as we go into it.

Of course, there is another factor to consider here, that the first half of next financial year may not be high on growth, right? It will be a softest first half, given where we are in terms of our overall order book and the large order coming down. So, there might be some absorption, in fact, etc., that we will see in the first half of next year. But having said that, overall, from a full-year perspective, the margin is likely to improve from where we are today. And the first demonstration of that will be in Q4.

Jinesh Shah: And my last question would be if you can talk about the macroeconomic environment like do you anticipate any headwinds across like based on the talks with the customers or the opportunities that you see in the market, if you can talk a little bit more about that in couple of one or two years you can give?

Anthony Montalbano: Yes, it's an important question. This is something that we talked about to all our top clients about on kind of what we are seeing and what they are seeing. So, on one aspect, if you look at our top, you know, if you take the one large contract that will be seen in next quarter, if you kind of take that one out of the equation and you look at really our top three, four clients, we have seen pretty strong favorable outlook.

In that regard, those tend to be a little bit more aero and defense focused, but then as you go down from there and start getting into the following clients that follow those, it's a little bit more of a mixed feedback. We are seeing some softness in certain areas there from some clients specifically in the industrial and medical segment. And then so it does get a little bit more mixed there. Not that they are guiding down, but I think it's just client by client outside of aero and defense. So, this is something we do have our thumb on the pulse on and outside of aero and defense, it gets a little bit more mixed.

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

Mihir Manohar: I wanted to understand this difference between consol and standalone. Is that difference completely Altek or is there any other subsidiary where the numbers will also go?

Krishna Bodanapu: No, no, it's completely attributable to Altek, Mihir. So, the standalone means the traditional Cyient DLM business, which we have been reporting till last quarter. The consolidated number just includes that.

Mihir Manohar: Second question was on this order book. Now this is like almost seven quarters. We have seen order book remaining largely flat or going down. I wanted to understand what is the reason that the discussions are not fructifying into order booking because the pipeline has remained over that number, a billion dollar kind of a number, but why is it not converting into order book? Some color on that will be helpful.

Anthony Montalbano: Yes, I think, one key aspect is that we have been consuming the backlog. And so as orders come in, you have to kind of have to try and offset that. But these programs as well are, you know, they are larger, longer term programs. The award on them can shift in terms of timing, you know, they can even shift a quarter or maybe even more time. But we also have announced some large contracts as well in prior quarters.

So, I think it's more of a timing issue as those orders come in and the nature of those types of programs, especially on the A and B side. I think you will find a little bit more consistency when you start to look at medical and industrial, similar to the profile that was highlighted earlier where that business would have kind of a quicker churn on the deals and on the business compared to the other sectors.

Mihir Manohar: No, sure, I understand that this is a lumpy business, it becomes difficult to guess it from a quarter-to-quarter perspective. But I mean, is it the case that the client has decided to defer this program? Or is he evaluating an alternate vendor? Or is the rate negotiation going on? Or are there supply chain issues there, which are resulting into these problems? So, what exactly is it leading to? Because these are lumpy orders, I understand, but there should be some specific reason around it.

Anthony Montalbano: I don't think there is really a specific reason. I think it really comes down to there are several deals that we are working and we are not going to win all of them, but we have announced the ones that we have closed and that we plan to close more. There can be various considerations as to why one may or may not come our way, but I would not try and categorize any specific trend or anything in that regard. Our clients really aligned to us on these types of programs based on our capability and strong track record we have in these sectors with the clients.

Mihir Manohar: This number of 2,442 crores, does it include the aircraft tooling technology contract which is there, which you declared on 5th of November, 5th or 6th of November? Does this number include that or isn’t it included?

Anthony Montalbano: I don't think it includes this.

Mihir Manohar: And what would be the value of this deal? Because it's like a 16-year deal. At least the press release mentions that. So, is it a large contract or it is not a large contract?

Anthony Montalbano: Which program are you referring to, just to clarify?

Mihir Manohar: This is aircraft tooling technology. The press release you have given on 6th of November.

Krishna Bodanapu: It's just a large OEM.

Mihir Manohar: Sorry.

Krishna Bodanapu: It's a large OEM, Mihir.

Mihir Manohar: So, it's a large OEM firm, very true. But for you, is it a large contract or it is not a large contract?

Krishna Bodanapu: No, it's a large award, right? So, from a total contract value perspective, that value is high. We have not received specific purchase orders, which are large yet. As you know, I think the cycles are very long in this industry. You have to get to the MPI and then get to the main production. But once you are there, you will get that order. But right now, we are not counting any significance due from that program into our order book. As they come in, we will contract. But the award letter is there and that quantifies the total contract potential for that award.

Mihir Manohar: Second question was just on the depreciation side. I mean, we are paying roughly $30 million for this acquisition. So, what would be attributable to goodwill, customer purchase, and how to read the incremental depreciation? I believe the incremental depreciation is close to 4 to 5 crores, right? So, should we take this as a ballpark number for the coming quarters as well?

Krishna Bodanapu: Yes, look, I think we will report the balance sheet next quarter. That's the balance sheet reporting period, and we are still going through the purchase price allocation process, but approximately we will have a million dollars every year coming in from the additional amortization, and the remaining will be goodwill. As you know, in manufacturing companies, the sort of inventory and other assets that come along with an acquisition are high. The goodwill tends to be low, right? And we are in line with the rest of the acquisitions that happen in this industry.

So, we will have a goodwill which is substantially lower than the purchase price we have paid. So, it also means the amortization might be a little bit higher. So, if you net out the amortization, even with that amortization, it's a PAT accretive deal on a full-year basis. So, therefore, from the financial perspective, it's a good acquisition. But if you actually net out the amortization, it's an extremely good deal. And it's not a cash expenditure. It's just the reporting. And so, we are okay with whatever the purchase price allocation **(Inaudible) 49:42**.

Mihir Manohar: And just one last question on the order book side. I mean, let's assume if our order book goes up in first quarter, does it translate to higher revenue in 2nd Quarter itself or will that take time?

Krishna Bodanapu: Again, specific to the industry, Mihir, I think it's very hard to quantify and say which order converts how fast. I think certain industries and certain clients, it's a very quick turnaround. I think there are orders where the conversion is less than three months also. But most of the A&D contracts tend to be longer. I think the order comes in. And by the time you see a meaningful revenue, it's at least 9 to 12 months. So, it's hard to generalize and answer that question. So, it's very client specific and industry specific.

Moderator: The next question is from the line of Deepak Lalwani from Unifi Capital. Please go ahead.

Deepak Lalwani: Sir, in this standalone business, we have only grown by 11%. So, what's the reason for this execution being low or despite H2 being the seasonally stronger quarter? So, there is any reason for this? And how are we looking at Q4, that is the Jan to March quarter in terms of execution?

Anthony Montalbano: One key element is we did have one top key client did have an inventory that had built and that caused a reduction in demand. So, that did provide some of this. And then it comes down as well to just when you look at the overall mix of the program, again, we have a very large percentage of our growth coming from a key program that we have been executing over the last several quarters providing the new business to offset that. Those programs ramp it at different rates. But again, one big part was a reduction in that one top program.

Deepak Lalwani: So, has the issue of inventory been solved and how are we looking at Q4 execution?

Anthony Montalbano: So, that is being worked through and again we do expect demand there to return in the coming quarters and then again that's specific to end market of that client. And again, it's very much in line as well with kind of the industry sector outlook I gave earlier and where we are seeing some strength and where we are seeing some mixed results.

Deepak Lalwani: And so, so if we look at the standalone order book, it stands at about 1,850 crores. So, what is the execution timeline for this, and if you can tell us what should one work with for the next year's revenue?

Krishna Bodanapu: No, the execution timeline is between 18 and 24 months depending on the client's specific needs and scheduling. We are still undergoing the budgeting process for next year. So, we have no commentary on next year's number. So, I think we will revisit this question at the end of next quarter.

Deepak Lalwani: And sir, this delay in order book, I understand the client understand the capability and will come. But is there any specific reason for this with regards to the end user industry having some issues or any macro headwinds mentioned in the previous comments also, if you can give more granular sense on it will be helpful.

Anthony Montalbano: I think it would be difficult to start to give much bigger trends when you look at if you are looking at a large part of your business coming from 10, 12 clients, it's kind of hard to start to draw trends in that regard. I think the level of response I gave earlier is probably the best guidance that we can give. Otherwise, it starts to become really speculation on just probably not enough data points.

Deepak Lalwani: So, these three large deals that you are talking about, what are the milestones that are pending to fructify the deals into conversions? What are the milestones left? And if you can just indicate broadly, what would the quantum of these deals be? Would it be in a 500 crore range or will it be smaller deals were 200 crore? Just a ballpark number would be helpful.

Anthony Montalbano: Yes, so it's the typical sales cycle aspects associated with the deal. It could be finalizing, you know, it could be finalized pricing, it could be further negotiations, it could be various aspects of business award. So, all these types of factors kind of come in. There is no really one or two clean answers there. And then as far as just the specific value of the deal, those we really try and limit providing those types of specific numbers, again, just for client data integrity and setting appropriate expectations.

Moderator: Thank you. Ladies and gentlemen, we will now take one last question, which will be from the line of Praveen Sahay from Prabhudas Lilladher Capital. Please go ahead.

Praveen Sahay: My first question is related to the current order book. Can you clarify that you had a given one that 9 to 12 months is execution tuition timeline or 18 to 12, 24 months is execution timeline?

Krishna Bodanapu: No, 9 to 12 is the execution timeline of a new PO. When a new PO comes on board, by the time, I would say when a new prospect, I would not even say PO. From PO to revenue, it's a shorter cycle. But when a new plan comes on board and you win an award, by the time it converts to meaningful revenue, it will be 9 to 12 months. The execution time on the order backlog is different. That is more on the current order. The scheduling between the two years is what 18 to 24 months.

Praveen Sahay: The next question is related to the Altek. And as you had mentioned that, you know, the consolidated and the standalone difference is only Altek. So, Altek has a very high gross margin that's in the range of around 45-46%. Is it or is something different?

Krishna Bodanapu: No, it is not that high. You may be referring to the contribution margin. Their gross margins are definitely higher, more than the 18-19% rate when you take the other direct cost. But their SG&A also will be higher. So, it's a different kind of business. That's what I said. At an EBITDA level, the businesses are comparable. I mean some of the optics between the line items, let's say material and labor, etc., are different investment. So, I think it's best to look at it at EBITDA level, because there is also a definition issue between companies here in how they classify it.

Praveen Sahay: And second clarification on the ECL. In the previously also you had accounted such kind of incidences in the business.

Krishna Bodanapu: No, this is not in the recent past. I am sure there have been some instances in the long history of the company, but not in the recent past, not at least for the last 24 months where there has been a substantial increase in the ECL. So, like I said, a one-off event for this quarter. It will correct itself next quarter.

Praveen Sahay: So, actually I am trying to understand what is the probability of, you know, as you had also mentioned it's in the coming quarters it's also get added back. So, what is the probability of that actually?

Krishna Bodanapu: No, no, the probability is extremely high. That's the reason why I am confidently telling you that this is one-off things.

Praveen Sahay: And last clarification on the segment. That's the A&D I believe have a very high margin as compared to the other industrial or railway. Is understanding right?

Anthony Montalbano: Not necessarily. The sectors between A&D, Medical and Industrial, at least in sectors we, at least within our client base, we actually find very similar margins. The variability is really more client specific or program specific. But as far as, you know, if you are to generalize new business in any one of these three sectors, they actually deliver very similar profit margins for them.

Praveen Sahay: And the last clarification related to your three large deals which you are in talk. Those are domestic or rest of the world?

Anthony Montalbano: More of rest of the world. Yes, I think the three we have called out are more rest of the world. There are definitely quite a few domestic opportunities that we are working, but I don't know if we would necessarily highlight those as a standout large deal, but there is definitely more of those that we will be announcing later, but not necessarily the three that we chose to highlight for this quarter.

Moderator: Thank you. I would now like to hand the conference over to Mr. Krishna Bodanapu for closing comments. Over to you, sir.

Krishna Bodanapu: Thank you very much, and thank you everybody for participating in the Q3 conference call. As you see, things are going okay. Things are going well in many cases. There are areas that we need to improve in others, but overall, I would say we are executing to a plan, which we feel very confident about.

I am very excited for what the business holds, and I also want to compliment the Cyient DLM leadership team on identifying, acquiring, and now integrating the Altek opportunity. We are one of the few, if not one of the only one EMS company in the world that has this capability, especially at our scale, which is essentially to do safety critical, highly reliable, highly complex engineering centric electronics from India, from the U.S. And we will, of course, further de-risk or further expand on our manufacturing base to create a truly global EMS.

I think there are two elements to that that we are working on. One is a truly global EMS capability and secondly a truly integrated design and manufacturing capability. It is hard work, but I think I am incredibly proud of the team for the work that they are doing. And I think you will continue to see the results.

Obviously, many great things have happened this quarter, and things will continue to get much, much better. So, I am very excited for business. Thank you for the support. And if there is any further questions, I am sure Shrini will be happy to answer them. Otherwise, we will speak next week. The next quarter, sorry. Obviously, as you can tell, I am very excited to speak next week, but thank you very much.

Moderator: Thank you. On behalf of Cyient DLM Limited, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.