"Cyient Limited Q3 FY 2021 Earnings Conference Call"

January 21, 2021

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Moderator: Ladies and gentlemen, good day and welcome to the Cyient Limited Q3 FY 2021 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Participants who wish to ask questions may enter "*" and "1" on their touchtone telephone. Should you need assistance during the 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 – MD and CEO. 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 third quarter of financial year FY 2021. I am Krishna Bodanapu – Managing Director and Chief Executive Officer of Cyient. Present with me on this call are our Executive Chairman – Dr. B.V.R. Mohan Reddy; President and Chief Financial Officer – Mr. Ajay Aggarwal; and President and Chief Operating Officer – Mr. Karthik Natarajan.

Firstly, thank you very much for joining this call at this late hour and for accommodating this time. Given the Board Meeting now ends only at 6:30, this was the earliest that we could have this call. And I greatly appreciate you accommodating our request for the late hour.

Before I 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 e-mailed to you and is also posted on our corporate website. This call will be accompanied by an earnings presentation. The details of the same already have been shared with you.

With this, let me take you through the highlights for the quarter. We posted quarterly revenue of INR 10,443 million or INR 1,044.3 crores. This signifies a growth of 4.1% on a quarter-on-quarter basis. In U.S. dollar terms, we posted revenue of $141.4 million, which is a growth of 4.7% on a quarter-on-quarter basis and 4.1% in constant currency terms.

Services revenue stood at $115.3 million, which signifies a growth of 1% on a quarter-on-quarter basis and a growth of 0.3% in constant currency. EBIT margin stood at 11.2% for the quarter, higher by 14 basis points on a quarter-on-quarter basis. Services EBIT is 11.3% for the quarter, lower by 88 bps, primarily on account of wage hikes and furloughs.

DLM revenue for the quarter stood at $26 million, which is up by 24.8% on a sequential basis. DLM EBIT, which was a significant highlight, stood at 10.6% for the quarter and is a sustainable number going forward.

Net profit for the quarter stood at Rs. 954 million or Rs. 95.4 crores, a growth of 13.8% on a quarter-on-quarter basis. Free cash flow for the quarter is at INR 1,518 million. FCF to EBITDA conversion for this quarter stood at a healthy 85.8%.

Now coming to the business highlights. We are happy to share that Cyient has been placed in the top quadrant in the overall ER&D services category for the seventh consecutive year in

Zinnov Zones annual rating. Within ER&D services, Cyient maintained its leadership position in aerospace, industrial, medical devices, telecom, and software-defined network verticals.

We have also received a number of awards this quarter, which include the Thales Supplier Performance Award, which is given to their best supplier, and a number of others from customers like Pratt & Whitney, John Deere, etc.

We have also entered into a number of collaborations this quarter. These are especially important for the digital business that we have put a lot of focus on. This business is contingent upon bringing an ecosystem and really bringing an effective system integrator in this ecosystem. In this context, this quarter, we entered into a partnership with SPRINT Partners to facilitate space data and technologies. We also entered into a partnership with Decipher, and this helps us enhance and support the mining industry's digital adoption. Lastly, we also entered into a collaboration with SR University in the field of additive manufacturing, which is another interesting area within the sphere of digital.

Next, before I hand off to Ajay, I would like to introduce the new performance-linked ESOP scheme, which will come for voting starting the 23rd of January. We believe that this scheme is an excellent opportunity for employees to participate in the long-term value creation for the company and also aligns the interest of the shareholders and employees because the vesting is linked on performance rather than just on time.

The way that this scheme will work is that there is a Cyient Associate Stock Option Scheme 2021 Trust that's been created. The trust will acquire 2 million shares via a secondary acquisition. The intent of this is also not to dilute any of the existing shareholders because upfront we are buying the shares that will be used for this particular scheme. The options on these shares will be granted to employees at face value, and the allocation based on management's recommendation is going to be approved by the LNR Committee.

Now the criteria of how the vesting will happen is, the vesting will happen based on achieving results which are linked to revenue, operating profit, and a sustainable share price milestone. These will occur in three tranches. These have been benchmarked in such a way that they will reflect best-in-class and will at least make sure that we are performing in the top quartile of our peer group. The vesting will only happen when we achieve these milestones. And therefore, there is a clear linkage between the performance of the company and the grants that are being given, which we believe aligns well the interest of the shareholders and the employees.

The scheme will cover 80 to 100 senior associates, who can significantly influence the company's performance. The voting for this resolution will open tomorrow, and you will receive the resolution for your consideration. I wanted to request for your support. And if you have any further questions, either today during the call or most likely later, we will be happy to answer them. But I am counting on your support on this particular resolution.

With that, I would like to hand over the presentation to Mr. Ajay Aggarwal, who will take you through the detailed financial performance for the company. Ajay, over to you.

Ajay Aggarwal: Thank you, Krishna. Let me start with the revenue. We have performed in line with our expectations, and we are very pleased that in terms of the predictability and forecasting, we are doing better and there are no surprises. As you know, we had announced about the IGP acquisition. So when you look at the results, we have got IGP's revenue, which has contributed to 1.2% on the services revenue. And this is being categorized under mining and the portfolio sector.

DLM performance in this particular quarter has been extremely good. We have achieved 25% growth quarter-on-quarter. And I will also talk about the margin that we are really doing very well in DLM in terms of the margins as well.

Very quickly on the income statement. We have an EBIT of Rs. 1,165 million and a PAT of Rs. 954 million and EPS of 8.7. In terms of the margins, I would just like to give a commentary that during the quarter we have given some increases, which covers about two-third of the associates, more from the bottom of the pyramid, to take the measures around retention. And that has taken about 100 basis points of the margin.

You are also aware, quarter three, typically the billing days are lower than the paydays. And because of that, we also have an impact of 88 bps. Still I think we have delivered the gross margin of 34.6% because we have also got operational improvements during the quarter. And when you look at this margin in terms of DLM, quarter-on-quarter we have improved the margin by about 5-6% QoQ. And we feel that's very much sustainable. It's both in terms of the quality of the mix that we are having as well as the benefit of the volumes in terms of the absorption that we are looking at. In terms of tax and PAT reported margin, I think we are on track.

Before I move on, I would say that when you look at our margin for 11.2%, and Karthik will talk about the business outlook, we are very confident that we will deliver quarter four, which will be our best margin in terms of the exit for quarter. And this momentum will continue, and last time we had said that we will deliver year-on-year flat margin, I think we are looking at least 50 to 100 basis points improvement on the margin in FY21 compared to FY20. And also going forward, there are other initiatives in place apart from the volume acceleration that we expect. And I think we should substantially further improve the margins between quarter four of next year and quarter four of this year, that's what we are working on.

We have provided the bridge for your ready reference in terms of the margin, and all of you can refer to this in terms of which are the impacts, highlights I have already given.

In terms of the cash equivalents, you have seen that we have got Rs. 1,431 crores. It is highest ever in the company. The nine-month cash flow is exceeding the last year's cash flow. We have further improved the DSO. You would have seen that year-on-year we have got significant improvement in DSO, and our total DSO is at about 88 days. I feel we can continue this cash flow traction in future also. Still, there is an improvement in efficiency. I know some of you had concerns around capex, our capex is a shade above 3%. We are also trying to make sure that excluding those one-offs we will track on capex at a level of 2.5% to 3%. So I think the momentum on cash will continue.

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

Karthik Natarajan: Sure. Thanks, Ajay. Thanks, Krishna. And good morning, good evening, everyone. Wish you all a very happy new year. I hope all of you are safe and healthy. And I would like to cover two aspects, one is the business performance as well as reorganization that we got in the month of October, and how are we really looking at the go-to-market structure for the remainder of the year as well as moving forward in fiscal 2022.

So to highlight some of the key performance parameters for Aerospace & Defense, has shown an 8% growth. I am looking at last but one column of quarter-on-quarter at the group level. And Communication has shown a growth of 5.2% compared to the last quarter. And Energy & Utilities shown about 3% organic growth, including IG Partners that Ajay talked about, shown about 16.7% growth. Transportation portfolio and Semiconductor, analytics group have been flat. And MT&H has shown a degrowth of 9.9% quarter-on-quarter. And overall resulting in 4.7% growth as compared to the last quarter. We are still hovering about (-8.9%) as far as year-on-year is concerned.

And I also want to highlight some of the key elements that stood out for this quarter. Our services have grown about 1%, and DLM has grown about 24.8%. And the key leading indicators that we are tracking to look at the health of the business for the future. We are looking at an order intake which is around $194.5 million, and this has shown an increase of 53% as compared to the last quarter. And this also had shown an increase of 7% year-on-year. And we won five multiyear deals with the total contract potential of $106 million and three of them in telecom, one in DLM and one with a med-tech customer.

I also want to highlight some of the key performance highlights in terms of operating metrics. Utilization has improved by 2.1% and subcon cost reduction has helped us to improve the margin from subcon by about 6% to 7%. And we also have improved our off shoring by about 70 basis points. And in terms of sales, I covered the order intake, and we are also making an entry to about four of our top 100 R&D spenders in the quarter that passed by. And we are definitely looking at how we would be able to meet our Q4 FY20 performance in Q4 FY21 as far as revenues are concerned.

So in terms of the need for new structures, we want to bring accelerated and well-structured go-to-market organization and drive the sales performance and productivity. And also want to bring more agility and be able to create Delivery 4.0 organization, enabled with the digital and DLM. And also, looking at automation as a way of life and how do you also bring in a better control on inventory as far as DLM business is concerned, so we are definitely looking at an enhanced value proposition for our customers with this structure, and I will cover the structure in a minute.

So if we go to the next slide. And the way that we are structured for the remainder of H2 in fiscal 2021 and is essentially the two vertical business units focused on Transportation and Communication and Utilities. And we saw a natural synergy between Aerospace & Defense and Rail Transportation business. We combine them as part of Transportation. And we also looked at the network modernization as well as the digital initiatives led by various technology interventions required, both on Communication and Utilities, we decided to combine them.

And we also have created a portfolio of sectors, and these are like we can keep adding the sectors as we see need for expanding into newer verticals. They are smaller in size, but they have a direct go-to-market channel. And this would probably help us to access about seven or eight verticals that we want to get to today. And you'll see that Automotive and Off-Highway; Semiconductor; Energy, Mining and Natural Resources; Geospatial; and Medical Technology and Healthcare as the key sectors which will help us to accelerate the go-to-market part of it.

The horizontal business units, which are led by Digital Services & Solutions, we have been working on various digital solutions over the last five years, and we decided to consolidate them in one business unit to also build momentum on the digital side that is seeing a lot of traction from our customers. And DLM continued to stay as another horizontal business unit for us.

And now just to give a comparison in terms of our performance, we will continue to report on both the formats till Q4 of fiscal 2021 before we transition to the new format from Q1 of fiscal 2022. So essentially, as you can see, there are three broad segments: Transportation, Communication & Utilities and Portfolio of Sectors. And if you again look at the last but one column, the quarter-on-quarter at group level, Transport has shown a growth of 5.6% and Communication and Utilities had shown a growth of 1.9% and Portfolio of Sectors had shown a growth of 6.2%, including the IG Partners that Ajay talked about. And we will continue to report both the formats till end of Q4 fiscal 2021.

So to give better color based on each of the vertical units, so if I want to really get to talk about Aerospace & Defense, the services business is still lacking, de-growth about 5.7%. We are almost stabilizing in Q3 level in Q4, and we probably see a recovery after the traffic of passenger miles flown grows beyond 65% to 70%. And what we have heard so far, even end of December this number stands at 50%. I think this is a critical number for the industry to start spending significantly. The signs of recovery are visible as the vaccination is happening across all the countries, and we hope a sense of recovery happens during the second half of 2021. We continue to see the momentum across DLM, Digital and Defense, and this is what we said last quarter that we are going to focus on growth segments within Aerospace & Defense, and we are continuing to see the traction in those areas.

For Communication, I have covered the growth aspects, and we have continued to see momentum across fiber, wireless, system integration and 5G rollout. And currently, whatever business we do in communication, about 10% of them comes from 5G network rollout. And we are continuing to see investments in technology-led network modernization, private LTE, I think some of those areas would continue to see growth even in the next few quarters.

Transportation has shown a softening, and this is to do with right shifting of one project from a customer. We expect it to recover in Q4. And we do see that there will be a moderate growth on transportation even for the next few quarters.

Moving on to Energy & Utilities, which has essentially shown a 16% growth quarter-on-quarter, about 3% organic. And we are continuing to see momentum across power generation and utility companies and driven by digital and design automation and predictive maintenance and asset management. These are the key areas that we are seeing growth as far as the E&U is concerned.

Medical Technologies and Healthcare. While I talked about 9.9% degrowth quarter-on-quarter, this is to do with the supply chain issues that we witnessed sometime in November 2020. And this is behind us now. We hope we are able to get to the growth path in this quarter. And we also won a large deal in this area. I talked about one of the medical device company and top-five medical device companies and helped us to work on expanding on the supply consolidation and also working on some of the newer areas of software and digital.

And Portfolio has shown a flat quarter. And interestingly, we have added some of the top 100 R&D spenders, one of the automotive Tier 1, and which is among the top five in automotive Tier 1. And also, one of the mining clients amongst the top five. We have been able to add these two top 100 R&D spenders as our clients in the portfolio business.

And moving on to Semiconductor and Analytics, and this business has been flat QoQ, YoY we have seen a decline of 12%. We are seeing two different drivers; the services business is seeing momentum while the ASIC turnkey is slowing down. The new designs are getting delayed, and that's what is causing some softness in this business. And interestingly, we also added another top 100 R&D spenders as a customer in this area, and we are really working on some cutting-edge innovation around the genome sequencing as part of what we are doing for this customer.

And the DLM is concerned, I think it is definitely on the right track, both in terms of growth as well as profitability. And we want to really drive the right growth in this segment, which is profitable. We also added another large deal in this domain, and we are continuing to see traction across Aerospace & Defense and the Medical segment.

With this, I will conclude this session and leave it back to Krishna for final message.

Krishna Bodanapu: Thanks, Karthik. I will just summarize our outlook for Q4 and FY 2021. And I think it continues to be in line, perhaps slightly better than what we had talked about previously. We will continue to witness the progression of recovery in Q4. Services will grow sequentially, except for Aerospace, which will remain flat. We are quite confident that the bottom has been hit in Aerospace. We will be at these numbers for a few quarters in this vertical before we can talk about growth, we are quite confident that at least the bottom has been hit.

In Q4, the growth will be in line with what we did in Q3, or it will be slightly better than what we did in Q3 at an aggregate group level. And it will be also more balanced between DLM and services. Our view for FY 2021 remains what it has been before, which is a double-digit degrowth. But we are quite confident that it will be closer to 10% rather than further away from the 10% number.

In terms of the margins, we expect sequential improvements in margins in Q4, driven by increase in volume and also further improvement in operational efficiency. For the full year, we expect margins to be better than FY 2020 margins. We were thinking that they would be in line with FY 2020, but we believe they will be better than FY 2020. And I think Ajay said 50 bps to 100 bps is the number that we are looking at. Dilution in margin on account of DLM will be minimal going forward. Like I said, we did 10.5% this quarter, and we believe that's sustainable. And all the new business and the growth is also coming at good margins. We don't see any further export incentives in FY 2021. The free cash flow generation in FY 2021 will be the highest ever in the history of Cyient. I think even for the first nine months, we are more or less at the highest number, so that will continue. And the effective tax rate will be at about 24%.

With that, I will hand it back to the moderator for any Q&A.

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

Sandeep Shah: Happy New Year to the management and congratulation on good execution, especially on margins. Just the first question, Karthik, wanted to understand that it's heartening to see that this quarter there are many deals wins which are so-called large-size deals. So you believe that the organizational structure has now geared up to make this more systemized and consistent on a Q-on-Q basis? And you believe pipeline indicates the same as a whole?

Karthik Natarajan: Sure. Thanks, Sandeep. That's a great question, and we are really setting this up. This may take a while for it to run like a factory, and we hope it gets into create some momentum as we wanted into H2. And the way that we are really trying to set it up is to build a process and how do you really train and coach our sales team and make sure that they are supported in terms of business models as well as ability to build our technology propositions closer to the customer needs and spends. And we are definitely approaching it differently. We hope we are able to sustain it on a quarter-on-quarter basis moving forward. That's our intent. But I expect the process to mature over the next three, four quarters.

Sandeep Shah: Just the second question is in terms of margins, I think, Ajay, what you said on a Y-o-Y basis, if the margin improves by 50 bps to 100 bps that indicates that on a Q-on-Q in the fourth quarter the margin improvement could be 100 bps to 200 bps on a Q-on-Q basis. So is it a right calculation? And second, can you throw some color in terms of the RSU charge? I mean, how big it can be over how many years as a whole because of the new ESOP scheme as a whole?

Ajay Aggarwal: Sure. I think when I said that the 50 basis points to 100 basis points is what we are saying is compared to financial year 2020, the financial year 2021 margin we are saying can be better 50 basis points to 100 basis points. And you are right, it will not be fair for me to give the exact number. But if you look at a growth that Krishna talked about; I think definitely we are looking at a good margin in quarter four. Your estimate is fairly all right. I will not give a specific number because we stopped giving the numbers for a particular quarter. But directionally, I think your thought process is correct. In terms of the way we have structured, we have looked at that if you need those milestones that Krishna talked about in terms of revenue and profitability, and then how much is the claw back in terms of this, so we did a lot of simulations. I think in all the scenarios the impact is less than 0.5% of the EBIT for a particular year.

Sandeep Shah: Okay. Less than 50 basis points, that is what?

Ajay Aggarwal: That is right.

Sandeep Shah: Okay. And just a clarification, being the last question, I think, Karthik, you said that in Q4 FY 2021 the revenue run rate aspired to be similar to Q4 FY 2020. So that indicates higher than a mid-single-digit kind of a growth rate. So that you believe looking at the order book is achievable right?

Karthik Natarajan: Yes, that is our aspiration, Sandeep.

Moderator: Thank you. The next question is from the line of Urmil Shah from IDBI Capital Markets. Please go ahead.

Urmil Shah: Congrats on a good operational performance. I had a follow-up on the large deals. It would be helpful if you could throw some light on how has the order intake been if we compare on a Y-o-Y basis? And also on the deal pipeline front right now, Karthik, which of the verticals are you seeing the multi-year deals already building up?

Karthik Natarajan: I think if you look at, we have given two metrics; one is the order sales, order intake, and that has shown an increase of 7% year-on-year. I think that may give you one way to look at the momentum that we are seeing. The second one, we also talked about on the large deal, the total contract potential, and which essentially pans out anywhere between one, three, five years, depending on the kind of deals that we have signed up with. We are seeing traction across Communication, Medical Devices and some specific pockets in Rail Transport and Semiconductor and DLM. I think those are the areas that we are seeing potential opportunities for us to scale up. And I have talked about some of the outlook for various verticals, I think probably we expect some softness in terms of semiconductor turnkey ASIC part and commercial aerospace is likely to be soft, at least for the next 2-3 quarters. And rest of the verticals are definitely showing positive momentum good forward.

Urmil Shah: Sure. And as regards the profitability, especially of the DLM segment, there has been a significant bridging of gap being done versus services profitability. So from a more long-term point of view, how should we look at that segment? Services segment would have levers from growth coming in, how should we look at the profitability of DLM? I mean, we had talked about reaching high-single-digit margin, but that has come ahead of what we had earlier alluded to.

Karthik Natarajan: What we are also seeing that is our ability to influence the supply chain and ensuring that we are able to look at the direct material cost reduction by about 3-4%. And also improving the operational efficiency through automation. We have been able to bring in some of them in Q3. And to sustainable margins moving forward, I would request Ajay to add some of these comments as well.

Ajay Aggarwal: Thanks, Karthik. I think apart from the lot of initiatives, because in this business there is a significant cost which is material cost, I think those operational efficiencies like utilization are reflected in this business, that's a focus area. The absorption issue also has been helping us in terms of our SG&A. Also, I would like to confirm that the way we are taking the new business, we have put some thresholds on profitability of the business and that's also helping us. So if you look at our gross margin, I think that itself has moved by about 3% to 5% because of the choice of business that we are making. So internally, I think we are trying to make sure that we sustain at least (+10%) kind of a margin in DLM going forward.

Urmil Shah: As regards the payout, should we be factoring in a similar payout compared to last year given that the FCF generation has been quite strong?

Ajay Aggarwal: Yes. I think that's our thinking that we still feel that we should keep that same payout, 40% to 50% of net profit, and we still are working on how can we put this cash to use so that we can improve the overall return for the investors. That's the current thinking.

Moderator: We take the next question from the line of Rishi Jhunjhunwala from IIFL Capital.

Rishi Jhunjhunwala: Great set of results. Just a couple of questions. One on DLM. So clearly we are focused on taking more profitable business around that and still it hasn't come at the expense of growth, and for the past one or two quarters it's been growing at a pretty decent rate. Just wanted to understand, do we have enough visibility for the near-term growth momentum to continue in fiscal 2022 as well based on the order book and the pipeline? And also, at what growth or at what revenue level do we require to make incremental investments in capacity on the manufacturing, in the sense that how much are we already utilizing in terms of capacity?

Karthik Natarajan: I think as far as capacity is concerned, probably we don't need any immediate capital investment, at least, for the next 12-15 months. And we are fairly confident on the robust pipeline that we built up. And we do see that the growth continuing into the next three, four quarters as we see things today. And we are also cautious in making sure saying that we are definitely entering into the deals that we think we can execute them profitably and be able to create a sustainable model for us. I think that's going to be key as part of how we are looking at the qualification of deals that we want to participate in.

Krishna Bodanapu: Just to add to that, in terms of the capacity, I think between Mysore and Hyderabad we have at least about $250 million worth of capacity. Now I will use that as a rough benchmark because that business also has a different sort of metrics. But I think it will be just about $250 million. We don't need to add any capacity that we need to call out. And we are also quite clear at this point that it just can't be $250 million in revenue, it has to be at a margin which is high-single-digit, but I think at least about 10% margin. So I mean, doing the math, until we generate at least $25 million of EBIT from that business we won't add any significant capex, or we don't need to add any significant capex.

Rishi Jhunjhunwala: And the momentum continues, right, in terms of growth that we have shown?

Krishna Bodanapu: Yes, absolutely. I mean, there is good growth momentum. And I think that at least for the next six to eight quarters we are quite confident that there is good growth momentum.

Rishi Jhunjhunwala: Great. And second question is, you have given wage hikes in this quarter, just from next year perspective do we expect wage-hike cycle to go back to your previous cycle? How do we think about building in wage hikes for fiscal 2022? Or is it a year where you can potentially skip that given that you have given it now despite the overall fundamentals or growth looking pretty bleak for the year?

Krishna Bodanapu: So, I think we will have to rationalize it a little bit and I think we have to bring in some logic to it, in the sense that, I think, of course, we have given wage hikes this year a little bit late in the year. So next year, we could push them back. But I mean, in general, the market is doing reasonably well. And I think especially some of the skills that we have are quite niche, which means that we have to also look at it from that perspective. Net-net I would say, I think next year we will come back to a more reasonable cycle. So I mean, there might be wage hikes in Q2 onwards.

Of course, the quantum might be moderated to take into account the sort of the timing, etc. But I would imagine with the way things are looking right now and way the markets are looking right now, we will be back to our normal wage-hike cycle. And last thing I will say is, if you recall in 2000, I think it was FY 2010, which was after the challenging year of FY 2009 where there were not any wage hikes, etc., 2010 was actually a very significant amount of wage hikes were involved. So we have to look at all that carefully. I think it's a little bit too early to comment. So if you just take everything into account before we come to an actual decision.

Rishi Jhunjhunwala: Great. Just last thing, any export incentives expected over the next two to four quarters?

Krishna Bodanapu: No, nothing at this point, but I will ask Ajay.

Ajay Aggarwal: See, as far as current year is concerned, we have got the export incentive. And as Krishna mentioned, there is no further export incentive, except for few incentives which come in manufacturing which are small. As far as the future incentives are concerned, I think government has been mulling various alternatives, and there is no announcement from the government. So I think we have to wait for the clarity from the government on that.

Moderator: Thank you. Our next question is from Ritesh Rathod from Nippon India.

Ritesh Rathod: Congratulations for such strong performance. Karthik, my question was, out of multiple changes which you would have done post you coming over here, what will be one or two changes which you would like to highlight which will have a disproportionate impact on company's performance? And I mean disproportionate, positive impact on the company's performance.

Karthik Natarajan: I would say that I think it has been across many areas of continuing few things and bringing the discipline of operational execution. I think that is definitely across the utilization, DLM margins and making sure we are doing the right things in the business. I think that really helped us to channelize the energies rightly. And most of them are executed by the same set of people. So they understand what is required to be done. We are able to help them to channelize their energies in the right areas. And the second one that we are still working on is about the sales performance and productivity and also helping us to get the focus on large deals and services growth and the digital part. I think those are the three things, which I would say is work in progress. Probably we will start seeing some of these turning into results over the next two, three quarters.

Ritesh Rathod: Okay. And my second question will be, given this post-pandemic work-from-home, so when you see company and the capex intensity for next 2-3 years, would it be much lesser than the last 2-3 years which you are seeing in terms of the annual capex? And particular in FY 2021 we have seen very low capex. Also, when you exclude DLM, since you mentioned, you highlighted DLM capex which was there for last couple of years, won't be there in coming year. So on a services like-for-like basis, you see that kind of capex intensity coming down sharply?

Ajay Aggarwal: If I can take that. I think if you look at, one is the space which impacts some of the capex, which reduced over a period of time after we have started taking the lease. And of course, we are working on that space separately, and I think that's more of a cost saving issue that we are looking at on what model we go forward. I think it also has substantial amount of software and hardware for the customer delivery and some other improvements. I would say, as I mentioned earlier, 2.5-3%. If you take out that DLM impact, and we have spent about Rs. 100 crores, about 20% of that is in this year and 80% was in the last year. And if you take that out, we should prepare for 2.5% to 3%. This includes hardware and software also for the delivery to the customers.

Ritesh Rathod: 2.5-3% on services revenue, when you mean or overall revenue?

Ajay Aggarwal: On the services revenue. I would say the maintenance capex in case of DLM also is not more than 3% to 4%. So for the overall also, it should not exceed the 3%.

Ritesh Rathod: But the 2.5%, 3% is on the higher side, is there a possibility of optimizing that?

Ajay Aggarwal: I just stated that as of now. Precise details, we will do a detailed exercise for the budgets and this thing, we can give you more precise details at that time.

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

Mohit Jain: First is on the employee cost side. So did I hear it right, you guys are saying 50 basis point impact of the RSU charge, is it correct?

Krishna Bodanapu: 50 basis points.

Mohit Jain: This will be done in phases, not 2 million upfront, right?

Krishna Bodanapu: No, it will be in stages, not absolute.

Mohit Jain: Second what is your view on the offshore shift, like a lot of the industry participants have moved to much higher offshore, you guys have also signed large deals this quarter. Is there a significantly higher offshore proportion in that which may give you margin benefit in 2022?

Karthik Natarajan: No, we are operating at about 47%, 47.5% in offshoring in terms of revenue mix. So we probably expect it to continue and slightly improve over the next couple of quarters. And I think it has been probably increasing over the last 2-3 quarters as we would have seen. And I think customers are aware of the challenges that we have in terms of having people to be located in various countries, I think that has helped. And second, we also could convince the customers that some of this work could be done since most of us are working from home, and this would be something which is easy to convince the customers as well. I think the mindset of customers has definitely changed as compared to what they were stringent on, and that really helped us to increase our offshoring contribution.

Mohit Jain: In the deals that you have signed this quarter, the proportion is more or less in sync with the company average?

Karthik Natarajan: I would think so. I would wait for it to convert into revenues for this quarter and next few quarters for us to realize, and it may start-up with a little higher on the on-site, but it should stabilize at the similar levels like what we are doing today.

Mohit Jain: Okay. And lastly for Ajay, sir. DLM was still negative free cash flow, so any outlook there? And the payment for IGP is done or will it be done like in a staggered way?

Ajay Aggarwal: So in terms of the DLM cash flow, I can assure you that for the full year, we will be generating a handsome free cash flow. It is a swing between quarter three and quarter four, so we are looking at a very good conversion in DLM also for this particular year, and that you will see in quarter four. So I would say, if you look at YTD and full year, we have got good inventory reduction. We have got good improvement in the payable days and also there is a focus on receivables. So I would say that we will see a positive free cash flow, not only for this year as a whole but going forward also, at least at the rate of 50% conversion.

Mohit Jain: 50% of EBITDA?

Ajay Aggarwal: 50% of EBITDA, yes. And in terms of IGP, we have already made the upfront payment and the rest of the earn-out is over the next three years.

Mohit Jain: So rest of the earn-out is reflected in your balance sheet liability, is that correct?

Ajay Aggarwal: That is right.

Mohit Jain: So whatever liability number we see, that includes all the payments?

Ajay Aggarwal: That's right.

Moderator: Thank you. The next question is from the line of Darshan Malik from Lark Capital.

Darshan Malik: Sir, I would request you to please share some details on the ESOP scheme. Like I understood, it would be a secondary purchase by the trust, right?

Krishna Bodanapu: Yes, correct.

Darshan Manik: So then how would we be deciding the compensation, I mean the figure which would hit the P&L? Because the price at which the trust would acquire would be not ascertainable, I mean, is it ascertained that within the next three months the trust would be acquiring or next six months, so how would it go about?

Krishna Bodanapu: So the trust would acquire the shares upfront. So within the next three months the trust would acquire the shares. And then we have simulated at what cost these shares can be acquired, and there is an agreement with the Board in terms of what cost these shares can be acquired. Now after they are acquired, given that they will be distributed at face value, there is an option pricing mechanism that we have worked on. And based on that, we have come up with this conclusion because this is also not in perpetuity. This is only for a three-year period or a four-year period from what I remember. So on a three year or a four-year period, there will be a 0.5% of EBIT will be the impact. 50 basis points will be the impact.

Darshan Manik: Okay. So trust would be acquiring it in the next three months, and the cash would be provided by the company, right?

Krishna Bodanapu: Yes, correct. That is correct.

Darsshan Manik: Okay. So we will see an outflow by Q4, I mean, it should hit our balance sheet by Q4, right?

Krishna Bodanapu: Q1 probably. Not this Q4, Q1 of next year.

Moderator: Thank you. The next question is from the line of Vikas Ahuja from Antique Stockbroking.

Vikas Ahuja: Congrats on a good quarter. I have one question regarding this the overall order intake. So in terms of if you look at the order intake of some of your peers, they have reported very strong numbers. We have also signed some large deal wins. However, do we think that it's just a matter of time we will also start getting much larger deals compared to the past as now we are focusing on improving the large deal momentum and pipeline continues to remain good? And also, thanks for the additional data on total contract potential and large deal wins, this number of $106 million, how is it if we compare it with the previous few quarters?

Karthik Natarajan: I would say that I think our intent is to really create a large deal factory, so to say, over the next 1 year. And how do you think we are able to really build that, which can keep generating the deals. And whether we will see more such deals, I think we have to wait and see how the budgets for 2021 would pan out. We are still working with many of our clients. We will probably have a better view by end of this quarter. So we would be able to share that contour. And as far as digital is concerned, I think definitely there is a lot of interest from customers across the domain of various digital technologies, whether it is on Industry 4.0 and enabling the asset performance, predictive maintenance and remote monitoring and diagnostics, as well as on the digital twin and thread, and helping the customers through the journey of IT/OT integration. I think that's where we are seeing a lot of traction within our customers. We have created a dedicated business unit because we wanted to really bring out a specific focus and ability to reach out to the customers faster. And that's what we did as part of our reorganization that I talked about in Q3 of fiscal 2021.

Vikas Ahuja: And also the number of $106 million, I mean, is it possible to get some details, how is it compared to past few quarters or maybe on Q-on-Q basis? I think you have just introduced this number from this quarter.

Karthik Natarajan: That's right.

Krishna Bodanapu: I think it will be difficult because we used to track things a little bit differently in the previous quarter. But just as far as intuitively, this is obviously a fairly significant step-up. I think we would add on not giving that out just because it would be a very rough guess because we didn't track it this way. I think the idea was then to also start to align to sort of the more widely understood terminology, and that's why we started tracking it this way.

Moderator: Thank you. The next question is from the line of Abhishek Shindadkar from Elara Capital.

Abhishek Shindadkar: Congrats on good execution. My first question is regarding any analogies from what we saw in GFC. So the deceleration that we saw during GFC, in the subsequent two years we saw almost 20% of growth. Based on whatever you are seeing in the market, the question is, can we see similar acceleration this time around? And in case what we have to do from a sale and the delivery engine to kind of capture that opportunity?

And the second question is, obviously, during that time, the next two years' growth was at the expense of margins. However, our exit rate today is substantially lower than what we did that time. So can we see both growth and margin expansion over the next two years?

And the last question is to Karthik's comment about large deal factory. If you can talk about the org structure that we are trying to create, including the incentive structure or any other changes that could help us understand or what it takes to kind of win large deals in the market?

Krishna Bodanapu: So, let me answer the first part of the question and I will hand it over to Karthik for the second part. But if you look at the parallels, I think it is a good parallel between what happened in 2008, 2009 timeframe and what is happening now. But I would say the shift is a little bit different this time in the sense that I think what happened in 2008-09 is companies were starved for investment in that time frame. So when things started to recover, they just started putting more money back into the traditional products, traditional way of doing. It was just a multiplier effect at that point. But right now, what we are seeing is fundamentally how companies design manufacturer use, how we fundamentally design or how we fundamentally use and expect from products and services has changed.

Therefore, in this sort of recovery, right, there is going to be a lot more focus that happens in a different set of areas which is essentially technologies like electronics, embedded software, IoT, connected devices, experiential devices, remote telemetry, all those kind of things. So what is happening is we are and we will continue to see acceleration in spend, but it will just be of a different type of competencies and capabilities then sort of what companies used to use. Therefore, I think one is the acceleration will happen, because if you look at it even at a macro level, fundamentally, how we sort of live our lives has changed and therefore, fundamentally, how the products that enable us to live our lives, which is essentially what we are designing. I mean, ultimately, if you look at it, we are designing or we are helping companies design trains or planes or electric equipment.

So with things like more telecommuting, with things like more virtual meetings, with things like more focus on decarbonization, electrification, obviously, the fundamentals of the product are changing. So I guess, the second part of that first question, I would say, we need to now get ready to execute in this new reality with a new set of skills, and we need to make sure that we have a workforce that is ready and able to execute within these skills rather than the recovery in 2008, 2009 was we just needed to be ready to scale the existing skills. So I would say, in that sense, the recovery will be there, and it’s just the nature of how, I guess, the way the world works when company is under-investing at some point of time, when certainty recovers, they, again, bring back their investment scale. But I think this time the type of skills that are required and the capabilities will be different, and that is really what we are focused on building. So when the recovery happens, we are in a good position to execute to those capabilities.

Karthik, I will hand it over to you for the large deal factory.

Karthik Natarajan: Sure. Thanks, Krishna. Thanks, Abhishek, for the question. I think I would just say one thing which is important to understand is, Abhishek, as you would have seen the five deals that we announced, the interesting point is most of them are existing customers. So our focus is to really go back to our top 35 clients. And what do we need to do to understand their pain points and can we sharpen our proposition? Can we bring some of the technology proposition that we want to bring in, whether it is led by 5G or digital or electrification or grid modernization? If you look at some of the propositions that are critical for the customer’s roadmap and also bring in hyper automation, which is going to be way applied and how do we think we are able to stitch all this in a compelling value proposition to the customers. I am also trying to seek support from some of the advisory, which could be ex-customer CXOs and how do you think we are able to bring in all these points together in terms of building it as a factory. So we are just starting off. As I said, we have a long way to go, and we are hopeful that we will be able to set this process in motion over the next few quarters like what I talked about earlier.

Abhishek Shindadkar: That is helpful. Krishna, if you can also address the question on margins, where the growth years then had lower margins at a company average, but today, our exit rate is substantially lower? And also, just wanted to get your perspective that with the shift of manufacturing that is happening or at least the supply chains, are we kind of seeing any traction in the design-led spending in our customer base or there is an uptick in the market?

Krishna Bodanapu: Thank you. Sorry, I missed the question on margin. See, the margin pressure will always be there as a choice, I would say, we just have to make sure that we are picking the right kind of business and executing the right kind of business. I think in that sense, if you look at the market in 2008, 2009 was very different. And I think we were also, at that point, competing with a set of commoditized, in some ways, offerings. Whereas, I think now we also have a set of offerings which are very different and which are a lot more sort of higher up the value chain. And therefore, for us to stick on or hold on to our pricing will become a little bit easier.

So I think that in any growth market there is going to be the temptation, if I may say, of taking revenue at a lower margin. But I think two things are happening this time. One is our maturity; we just need to make sure that we don't do it. And the second thing is, we also have the ability to command better prices. And therefore, we can actually stick to our philosophy on how much margin dilution we want to take.

Now on the design-led manufacturing also we are seeing that we are seeing a lot more opportunity because there is a proactive initiative from global OEMs and Tier 1s to rebalance their supply chain and maybe it's not as sort of stark as what some people made it out to be in the early days that they are packing their bags and moving from China, it's not that. But having said that, I think most companies are rethinking what their supply chain should be. And I wouldn't say India is front and center of that region, but I think we definitely figure quite nicely along with Vietnam and Malaysia and maybe Thailand, in some instances, because ultimately they also want to keep it in this region for two reasons. One is the rest of the supply chain, the component manufacturers, etc., are in the region. And the second is, of course, the cost benefit by this region offers for manufacturing.

Moderator: Thank you. The next question is from the line of Sandip Agarwal from Edelweiss.

Sandip Agarwal: Wish you all New Year. Excellent execution. Congrats on that excellent deal wins and really things are turning very positive. So I have two questions, one on the numbers. So Karthik, if you see some of our peers in terms of business composition have started with similar kind of guidance, similar kind of decline overall they have been able to come to 5%, 6% decline for the year. While we still are not probably looking that strong in that sense. So what is the reason, where are the gaps which is differentiating this strategically? Number one.

Number two is more of a question to Krishna, you, and Ajay altogether, is that if you see our business in general versus IT services, which is a derivative of global manufacturing, which inherently is a more volatile business. And we have added to that although very strategic to our business, a DLM piece, which is also volatile. So both volatilities have been troubling us for the last several quarters. Although, profitability wise or business objective wise it has fulfilled some of the requirement. But from an investment perspective, the volatility probably has caught us in terms of what is a fair value of business. So what is your thoughts on that side? Whether it really makes sense to add so much volatility or what is your thought process, how will you reduce that volatility going forward? So that is the strategic part of the question.

And then third and final piece what I would like to know is, Karthik, since you have come you have made a lot of changes. But can you tell us at least three, four big changes on the leadership side where you think we have done a great job, at least, if you can throw some light on that?

Karthik Natarajan: Sure. Sandip, maybe I will try to answer the first and third part and request Krishna to chip in on the second one. On the first part, what you asked about the strategic direction and what is it we need to do to really get ourselves in line with industry-leading growth. I think it is also a function of the industry mix that we are operating, and the industries which are going through the challenges today. And as you know, about close to a third of our business was coming from Aerospace & Defense pre-pandemic. And we have done very well over the last five years in Aerospace & Defense. We definitely rode on the way of growth that has happened in Aerospace & Defense. And nobody would have expected the pandemic would create such a big havoc on the travel and tourism globally. So that is essentially what we are seeing at the impact that we have, the mix of verticals that have a role to play.

And the second impact is, there are certain parts of the businesses which has really happened on. For example, if you look at our Communication has become the largest vertical now. We are definitely seeing the traction on that vertical. We are definitely seeing momentum around Rail Transportation and Medical and Mining and Utilities areas that I talked about. So we kind of believe probably in the next few quarters, once our large deal process kicks in, our ability to mine the customers improve, we should be able to get into the position of probably the leading growth in the industry. And maybe I would request Krishna to answer the other two parts of the question.

Krishna Bodanapu: Yes. So on volatility, Sandip, that’s a good point. And obviously, as a Board and a management team, we debate about it quite a bit. But I think ultimately, we have to look at how do we make our business more strategic. And we believe that the path that we are going down, with the right mix of engineering, but that’s really underlined or underpinned with these two things, which is manufacturing and digital or digital and DLM. I think that really makes it a lot more strategic and a lot more sustainable. Yes, it has added a little bit of volatility in the short term, but I think that volatility also is because of, honestly, two reasons. One is, while we knew the strategic intent of how to manage a manufacturing business, I think the realities of manufacturing business were very different. And I think we are just getting a handle of that. So I think our ability to manage the manufacturing business has gotten much, much better. That obviously helps with how we can manage volatility also.

And the second thing is scale. I think in the previous times we were very dependent on a few rather volatile customers if I may use that word. And when sort of they had a cold, we caught pneumonia, whereas I think we have also de-risked that quite a bit. And also, the large customers today are the sustainable customers. So taking all that, I think we can manage the volatility. And if you look at it from the lens of the strategic intent, then I think it is definitely something that's worthwhile. And I think from an investor perspective also, going forward, you will see that, obviously, margins are better, and they will sustain. And also the volatility will be reduced, both because of scale and our ability to manage the business, including the fact that there is engineering that's now starting to come in. It's not just pure contract manufacturing, which it was two or three years ago.

Also, let me take the question on leadership, because I think it may be fair to ask me as I will be a little bit more disconnected than Karthik who is directly involved in those decisions. I think what Karthik and the rest of our support has done really well is, it's not just about adding more leaders. I think if you ask me, the biggest change that has come in is the discipline around the process and the rigor, because ultimately, it's not that we took out a number of people and added a number of people, that's not the case at all. And I am also very proud to say that we have some of the best leadership in this sector. So it wasn't about just the people, it was more about the rigor and the process around the people. And I think that rigor and the process is what Karthik has really brought in and the discipline. And the same people, therefore, have been much more effective and have been able to do their jobs a lot more effectively. And I think it is a support. And once the operating processes became more efficient, people can do their jobs more effectively.

And I think from all the support functions, including finance, IT, etc., and then HR, obviously, I think the rigor was there. And once the operating processes became more efficient, the system just started working very well. So in that context, I will say that it wasn't just about saying, okay, we want to replace people. I mean, there were some people and that always happens. But I think more than that, it was just a rigor and the discipline and the process focus that's been brought in by Karthik and some of the other people who came in to support him. And a lot of the other people who came to support him were also in Cyient, it's just they were repurposed into this. So it's more about the rigor and the discipline rather than saying that it is about new people and new leadership.

Karthik Natarajan: Yes. I tend to agree with you, Krishna. And would also add to that, the tremendous support path that is shown by the entire team including Ajay, Nam and yourself, and the leadership team that really brought in the change together, so I think that's been something I am really proud of what the team had done over the last nine months. I hope you continue to do well in the near term as well.

Moderator: Thank you. The next question is from the line of Shradha from AMSEC.

Shradha Agrawal: Congratulations to the entire team on a good quarter. Karthik, I think in one of your opening remarks, you had mentioned that you expect 4Q 2022 margins to be higher than 4Q 2021 margins. I am assuming this is ex of RSU impact, right?

Krishna Bodanapu: We won't see any of the RSU impact this quarter because we still need the investor approval, and then we need to start the process.

Shradha Agrawal: No, I am talking about 4Q 2022 margins, Karthik. You had mentioned that you expect 4Q 2022 margins to be higher than 4Q 2021, if I got you right.

Karthik Natarajan: No, we didn't guide anything on fiscal 2022, Shradha, sorry.

Ajay Aggarwal: Ajay here. I did say that in terms of the exit quarter of quarter four, this is going to be the best quarter for us for this particular year. I also said that we are going to see the quarter four of next year also significantly higher. And as we discussed, we need to just shape up some of the details, both on the revenue and some of the other initiatives, some people asked about how we are going to deal with the space and some of the capex costs and all those things. So once we sit together, I think we will have a good idea, but there is no doubt that we will definitely improve the margins going forward. And I think if we don't improve the margin significantly, the question of RSU, it doesn't come.

Let me assure you that whatever is the quarter four exit margin, unless there is a significant improvement. So I think it's not that we will continue the same margin and the hit of 50 bps can come. And it comes over a longer period of time. Again, I am clarifying, the way the accounting works, it's not on the purchase of the shares, it works when they are vested into the various individuals. And that only happens when people meet those milestones. So I want to assure you that those milestones are quite significantly higher compared to current margins.

Shradha Agrawal: Right. So again, just to summarize, I mean you are kind of indicating that 4Q 2022 should be higher than 4Q 2021. I mean, the final calculation still needs to be done, but directionally we are talking of improvement in 4Q 2022 exit vis-à-vis 4Q 2021?

Ajay Aggarwal: Absolutely. I think that's what we are very confident about. But what will be the exact number and how much it will be, we would not like to say that.

Moderator: Thank you. The next question is from the line of Sudheer Guntupalli from ICICI Securities.

Sudheer Guntupalli: Karthik, one question on the new GTM organization structure. It will be helpful if you can share your thoughts contrasting our new GTM structure with the earlier one. What are the gaps we are trying to plug-in here or improvements you are trying to make? And maybe what are the unit level measurable outcomes we can expect because of this restructuring going forward?

Karthik Natarajan: So, it's still too early to say this, Sudheer. But the changes that we are really expecting to work in our favor is to really churn better sales productivity and definitely helping us to drive accelerated growth. And I also talked about the importance of agility, and we want to have more customer touch points. I think that's what this structure would help us to achieve. And we also have brought in a kind of not combining multiple groups, we kind of created space for many other sectors to really charter their own growth path. And we have terrific set of leaders who have taken up this challenge, and they are really going to look at how they can build these businesses to be scalable.

And last but not the least is the focus on digital. I think this is definitely brought to the front end. I think that's something which is definitely one thing that we have been able to bring it. We are also putting some of the process related things, whether it is about large deals, whether it is about mining of existing accounts and how do you think we are able to drive a combination of services, digital and DLM deals within the existing customers. I think that is something which is expected to yield results over a period of next few quarters.

Sudheer Guntupalli: Sure, Karthik. And Krishna, one question on the new ESOP scheme. Can you elaborate on how you are going to link the vesting with share price performance? Will this be absolute performance or relative performance? And secondly, barring very few precedents, not many have taken this approach to ESOP so far. While one school of thought suggests that this aligns the interest of employees with the shareholders. There is always a flip side of the argument about this, theoretically incentivizing higher risk-taking behavior in the near term or front-loading of risk by employees. So how do you plan to structure these and balance out these risks and pros of this plan?

Krishna Bodanapu: Yes, absolutely. So the share price is only for a couple of senior execs. For the rest of the team, the linkage will be to the EBIT of the company. So EBIT is an absolute performance, right? It's not necessarily relative. So, on top of EBIT, the absolute share price is only for the execs of the company. For the others, to the leadership team, it will only be linked to EBIT. So once it's linked to EBIT, it would take away sort of some of the risk taking. Because ultimately, with all due respect, I will be there, and I am in it for the long haul. So I am quite sure I won't allow for any irrational decisions that pop up, either the EBIT number or the share price for a short-term because I am really looking at, or at least from my perspective I am here for the long haul. So it would be in my worst interest if somebody was doing it only for the short-term rather than from a sustainable basis. So one is that it is the absolute share price, of course, EBIT is absolute. But the share price is only for a small set of very senior execs. And obviously, I am the check and the balance because as long as I am here, and I am in it for the long-term, I wouldn't incentivize the short-term behavior of trying to run-up either of these numbers.

Moderator: Thank you. The next question is from the line of Neerav from Maybank. Please go ahead.

Neerav Dalal: A couple of questions. One, will we see seasonality in the DLM business, which we used to see earlier?

Karthik Natarajan: So Neerav, I think there is some part of it we can control and some we won't be able to control. And for example, any of the demand that we are seeing and how do you think the customers are going to deploy whatever we are going to supply to them. I think that is dependent on their demand. So there may be some pickup which may be seasonality based. So we will also mimic the same thing what they have. And some of the businesses are annuity type, so we do expect most of the quarters to be consistent, but we are trying to see how we can have better predictability in the business. I think that's what me and Rajendra are working on and putting together a plan to see how we get a better view on the predictability of this business over the next 12 months. We will try to keep any variations to minimal. But again, we are subjected to how the customers' demand change. So there could be some pull from some customers on specific quarters, but we won't be able to really correct that.

Neerav Dalal: Right. Because earlier, second half was stronger than the first half, so that's where I was going to.

Karthik Natarajan: I think this is a wrong year to make any comparisons given the challenges that we have seen from many verticals. And probably, we have seen a lot more demand on the medical equipment side over the last two quarters, which I am not sure would continue as the vaccination picks up momentum and the infection rates are coming down. So it may not be a right comparison for us to look at for this year.

Neerav Dalal: The other question was that, now that the new structure is in place, are we now going to look at any new industry verticals which we may be planning to enter? Or we are sticking to these eight, nine verticals that we have?

Karthik Natarajan: Yes. I think we are really looking at a couple of areas. One is automotive; I think that is one area that we are really trying to bring more focus into it. And that's definitely seen from the go-to-market structure that we shared. And the second would be, we are still exploring on how do we are able to bring in plant engineering as an offering and especially focused on semiconductor and pharmaceutical equipment areas. And can we really look at that as a service line that we would be able to scale up across many of our customer domains.

Neerav Dalal: And finally, just one clarification. The POs that we received, that would be part of the order intake in the quarter?

Karthik Natarajan: That's correct.

Moderator: Thank you. We take the last question from the line of Ritesh Rathod from Nippon India.

Ritesh Rathod: In your last slide of the presentation, you mentioned there are 11 targets for M&A and pre-LOI. So have we changed gears for doing acquisitions, Karthik? And what number of companies would be in the digital area or new technology area, if so?

Krishna Bodanapu: So, I think it's a little bit early to comment on that. I think the idea is just to give an overview of how things are progressing. Because at this point, until they get into the LOI stage, I think it's very early to comment on the specifics. I would just say that we have refined our focus, we will continue to refine our focus. Some of the areas that you see here, like digital-embedded systems which also supports digital, power electronics which support electrification are really the key areas that we are looking at. So it would be a mix of all of them. But I would say, it gets into the LOI stage, I would say it's not worth your time to really put too much into that, because that's just the nature of M&A.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Krishna Bodanapu for closing comments.

Krishna Bodanapu: Thank you very much for joining us at this late hour. Our performance is back to meeting, at least, our expectations. But of course, one or quarters do not make a trend. So obviously we understand the onus is now on us to continue setting the expectations correctly and meeting those expectations. The management team, especially with Ajay, Karthik, Nam and others, we have done a lot of work in making sure that we bring predictability and sustainability back to the business, and that is what we are seeing reflect in the numbers.

I want to assure you that we will continue to do this. The wind is in our sails. We have done a lot of the hard work. We have paid a lot of the price for not performing over the last year, both because of the pandemic and before that because of some operational performances. But I really want to say thank you very much for your support and your patience. And going forward, I assure you that things are looking much better. Also with the imminent arrival, of vaccines and some amount of stability coming back, we are very confident that we are well positioned as a business. So thank you for the support, and we will look forward to speaking to you again at the end of this quarter.

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