

CYIENT

“Cyient Limited Q4 FY21 & Full Year Earnings Conference Call”

April 22, 2021

CYIENT

**MANAGEMENT: MR. BVR MOHAN REDDY – FOUNDER CHAIRMAN AND
NON-EXECUTIVE DIRECTOR, CYIENT LIMITED
MR. KRISHNA BODANAPU – MANAGING DIRECTOR &
CHIEF EXECUTIVE OFFICER, CYIENT LIMITED
MR. MM MURUGAPPAN – NON-EXECUTIVE
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MR. KARTHIK NATARAJAN – EXECUTIVE DIRECTOR &
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MR. AJAY AGGARWAL – EXECUTIVE DIRECTOR &
CHIEF FINANCIAL OFFICER, CYIENT LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Cyient Limited Q4 FY21 Earning Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Krishna Bodanapu. Thank you and over to you, sir.

Krishna Bodanapu: Thank you very much. Good evening, ladies and gentlemen. Welcome to Cyient Limited's Earnings Call for the Fourth Quarter and Full Financial Year ending March 31, 2021. I am Krishna Bodanapu – Managing Director and CEO of Cyient.

Before we begin, I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available on our "Investor Update", which has been e-mailed to you and also is posted on our corporate website. This call will be accompanied with Earnings Call Presentation. Details of the same have already been shared with you.

I now introduce the other participants on the call. In the board meeting held earlier today the board approved a number of changes. And I will make the introductions in this context. Mr. Mohan Reddy, who founded Infotech Enterprises 31 years ago and has had an executive role in the company during this time, first as CEO, Chairman and Managing Director and then as the Executive Chairman for the last seven years, has decided to step back from executive roles. He will continue serving on the board as Founder Chairman and Non-Executive Director. Mr. Reddy is on the call.

I'm pleased to say that the board has appointed Mr. MM Murugappan as the Non-Executive Chairman effective the end of today's board meeting. Many of you know Mr. Murugappan from his executive roles in the Murugappa Group. But we are also very proud to say that Mr. Murugappan has served on the Cyient board for over 25-years and will now become the Chairman. Mr. Murugappan is also on the call.

The board today also appointed Mr. Karthik Natarajan and Mr. Ajay Aggarwal as Executive Directors of the company. Karthik will continue to lead operations as the Chief Operating Officer and Ajay will lead finance as the Chief Financial Officer. I want to acknowledge the extraordinary capability and commitment they bring to Cyient and for their contribution to the company and congratulate them on their well- deserved appointment. Karthik and Ajay are also on the call with me.

May I now turn the floor over to Mr. Mohan Reddy for his comments, followed by Mr. Murugappan. I will share the business updates post their comments.

BVR Mohan Reddy: Thank you, Krishna. Good evening to all of you, ladies and gentlemen. I have a great amount of pride and joy as I speak to you this evening for the last time in the capacity of the Executive Chairman of Cyient. It's been a very long journey for me. As we close this financial year, as we

highlight the results today, I would have signed the 30th balance sheet to the company. On 1991 August 28 I incorporated this company with a small team of four engineers, and formed on my dining table with what I keep saying, but with a big dream that I had, that I would build an engineering services company. Timing was right, globalization, liberalization were the tailwinds for me to start Infotech Enterprises. We grew the company substantially in the last 30-years. There were some roadblocks from time-to-time, we took a small detour to become a GIS company. We did enormous amount of work in digitization of maps for as many as nine years. Finally, good luck smiled on us when the aerospace business came to us. But we took that opportunity and scaled our business into many other verticals in addition to aerospace. We now have communication, we have transportation, we have semiconductor, we have medical and health and a few more verticals. So the end result is that the company which was small has grown to be employing around 14,000 people and a great team of leadership is there in the organization. We put number of strategies in play. One was called S3 strategy where we know we grew ourselves from service to subsystem designing to solution. We also put in play yet another strategy, which is called (DLM) Design, Lead Manufacturing, where we now just don't do design products, but we also manufacture products for our customers worldwide.

And, as a consequence of all this, the company has grown very strongly and moved into a situation where I keep saying it was a startup, it became an enterprise and now it's become an institution. We are very delighted that over a period of time, we built an institution, which will live forever. The life has to go on. So I decided that I'll step back for now. And let the new leadership come into play. Before I get there, I think the future of the company continues to be very bright, and new strategies are in place, we now are looking at digital transformation as a major strategy, large number of opportunities in embedded systems, geospatial, medical health, many areas that we are focusing on. We think innovation has become the DNA of the company. There are a fairly large number of solutions that are being put in play by our team. And we have added a number of domain experts at this point in time to ensure that we probably have the best of domain knowledge to come up with innovative digital solutions, which will provide enormous amount of benefit to our customers.

So finally, I decided to step back. I couldn't have found anybody better than Mr. Murugappan as my successor to become the Chairman of the Board. Mr. Murugappan has been associated with company right from the time the company did the IPO in 1997, he has been on the board as the lead independent director. We may not have the title of lead independent director now because of some guidelines from SEBI but otherwise, he was the lead independent director for as many as 20-years. He was kind enough to accept our invite to take on this role as the Non-Executive Chairman of Cyient. I'm sure all of you know Mr. Murugappan or you know Mr. Murugappan better than me. He was the Executive Chairman of the Murugappa Group, which is about \$6 billion in terms of revenue and size, and he continues to be providing leadership for a number of these companies, a four generation family business he runs. A family business, which is known for his governance, for his transparency, and equally importantly for his philanthropy. So I feel delighted in welcoming Mr. Murugappan to share the board of Cyient.

Along with Mr. Murugappan, we also made two other major announcements today. We wanted to strengthen Krishna as the next-generation leader, and we appointed Karthik and Ajay as Executive Directors. Krishna has been providing leadership for the last six years now as the CEO of the company. He has done a stupendous job. And he will now further get strengthened with fresh thinking from Karthik and the stronger backbone from Ajay. So therefore, the team becomes very strong in terms of the leadership.

Finally, let me thank all of you for all the support you have been giving for us over a period of time. As I said, this company went public in 1997, that's almost 24 years now. I think we just finished 24-years since we went public. And we have definitely made sure that we had your interest as our interest. A rupee invested in the public issue in 1997, is now 385 rupees or a lakh of rupees invested in the public issue is now worth Rs.3.85 crores. It gives you compounded annual growth of 29% on your money. That's what we have delivered to our investors.

We continue to believe that investors are key constituents, very important stakeholders for our success. I like to take this opportunity again to thank you profusely for all the support you extended to us. I look forward to your continued support to the board and the leadership team.

With that, I'd like to thank you again and invite Mr. Murugappan to share a few words with us.

MM Murugappan:

Thank you, Mohan. Good day to all of you on the call. I trust all of you are safe and well. To me, it's a great honor and a unique privilege to be invited by Mohan and endorsed by the board to serve as Cyient's Non-Executive Chairman. Cyient has been seeded and built over these years by Mr. Mohan Reddy's visionary leadership, farsightedness and the focus on balancing the interests of all stakeholders and ensuring high levels of governance. It will be my endeavor to try and emulate at least a little bit of what Mr. Mohan Reddy has done. And also to build on it with a fine team of people, led by Krishna.

I believe that Cyient over the years has grown well. And it has been a great learning and a privilege for me to see through the transition and the transformation in Cyient thus far. What started out as one vertical has grown progressively into many and there are plans for the future to embrace new technologies and harness new opportunities. Cyient has grown to be a profitable company with a strong balance sheet. But more than anything else, it's the people at Cyient who make the company. The leadership that Mr. Mohan Reddy provided, leadership that Krishna continues to provide, and it's a great honor that we have Karthik and Ajay who have been now elected to the board. And this to me is a signal of Cyient's emphasis on people, leadership and development at all stages.

As for my role, I will work closely with the leadership. I'm very pleased that Mr. Mohan Reddy will continue to be on the board, and so that we have the benefit of his experience, expertise, wisdom and counsel.

Going forward, I believe Cyient has to build on its engine of growth, on efficiency, and also building new capabilities. So, if I have to distill thought, it will be build the core and transform

the organization further to embrace new technologies and address new opportunities. I'm sure Krishna, Karthik and Ajay will give you a glimpse and the flavor of what the future holds. It will be my endeavor to work along with the board to provide them the necessary support across all dimensions, in terms of building good customer partnerships, ensuring high levels of governance, ensuring that we learn from every constituent stakeholder, and most importantly, all of you, the investor community who have been very supportive to the company. I encourage you to be free in your communication to us, relative to how we can do better and how we can improve, and please feel free to talk to us from time-to-time relative to the development in progress of our company. We wish to spend quite a lot of time in developing and nurturing talent, especially in new areas as also being more and more solution oriented rather than just a services company. Our recent investments indicate that and we will need to build on this further towards the future. I'm very confident the foundation that Mr. Reddy has laid and the leadership that Krishna, Karthik, Ajay and the entire team provide, and the commitment, the dedication, the diligence and the passion, the team shows at Cyient across, it will be my honor to be part of this team, provide the leadership and support to all of them along with the board. Thank you all for your support. And I would like you to know that I'm always available to the team and to yourselves to further improve and grow this company. Thank you.

Krishna Bodanapu:

Thank you very much for those words. Obviously, it's a bittersweet moment for me. It is both personally and professionally a big change in terms of Mr. Mohan Reddy stepping back as the executive chairman. But I think we're also very fortunate that we have a situation where we are continuously witnessing the 25 year relationship that he brings to Cyient and personally a much longer relationship with me. So I think we're in a very fortunate position. And my commitment along with my two new executive directors, Ajay and Karthik is, we will continue on this performance, and equally importantly, we'll continue on the governance that's expected from all our investors.

With that, if I may move to the "Highlights of this Quarter." First, let me take you to the highlights before I hand it over for the business updates. Firstly, we posted quarterly revenue of INR10,932 million, which is INR 1,0932.2 crores. This signifies 4.7% quarter-on-quarter growth. In dollar terms, we posted a revenue of \$149.9 million which was a growth of 6% on QoQ basis and 4.7% in constant currency basis. Services revenue stood at \$119.6 million which signifies a growth of 3.7% on QoQ basis and 2.2% in constant currency. DLM revenue stood at \$30.3 million which is higher by 16.4% quarter-on-quarter. I would like to highlight one thing is that now with this revenue of \$149.9 million, our revenue in Q4 of this year is actually better, slightly, of course, than what it was last year, which means that after having gone through a tough period, now the business is back to last year's level, which gives us a great platform for growth. Normalized EBIT margin stood at 12.6% for the quarter, higher by 148 basis points on a QoQ basis. Ajay will take you through the details of the one-offs and the exceptional items during his presentation. Services EBIT stood at 13.6% for the quarter, higher by 233 basis points on a QoQ basis. DLM EBIT stood at 8.8% for the quarter, lower by 181 basis points QoQ. Normalized net profit for the quarter stood at INR110.7 crores or INR1,107 million, a growth of 16% on a quarter-on-quarter basis.

Next, let me take you through the highlights for the full year. Total revenue stood at INR41,324 million or INR4,132.4 crores, signifying a degrowth of 6.7% on a full year basis. In US dollar terms, the revenue stood at \$556.8 million, a degrowth of 10.9% year-on-year and 12% in constant currency terms. Services revenue for the year stood at \$461.3 million, signifying a degrowth of 16.2% and 17.7% in constant currency terms. DLM revenue for the year stood at US\$95.6 million and grew by 28.3% on a year-on-year basis. Normalized group EBIT stood at INR4,162 million or INR416.2 crores which was up 1.9% compared to the last year. Normalized group EBIT margin stood at 10.1% for the year, and this was up by 85 basis points compared to last year. And I also want to call out that this is notwithstanding the very difficult Q1 that we had when we had about a 5.7% EBIT, so the recovery through the rest of the year has been quite good. And I'll talk about what that means for the outlook in the later part. Services margin stood at 11% higher by 46 bps compared to last year, and DLM stood at 5.7%, which was up by 599 bps. Normalized profit for the year stood at INR 3,714 million or INR 371 crores, which was down by 0.3% which was essentially flat. We had the highest ever cash flow generation at Rs.7,609 million or Rs.760.9 crores which was a cash conversion of 113.5% on EBITDA. And we also believe that this is quite sustainable with many things that we're doing which Ajay will also highlight during his presentation and during our Q&A. We also declared the highest ever dividend at Rs.17 per share.

Now, we will come to the "Business Highlights for the Quarter." The first is "Design for Circularity" Consulting and Engineering Practice. We have partnered with a company called Eolos and launched a strategic partnership to enable long-term change of industrial processes. The engineering practice will address the needs of many industries who have stringent regulatory requirements and standards that are evolving by offering services and solutions around traceability, material engineering, obsolescence management, supply chain management, etc., This practice combines 25-plus years of industrial experience of both organizations and is a very unique and differentiated service that we're bringing to the market.

The second is Cyient announced the launch of INTELLICYIENT. It is a suite of Industry 4.0 solutions that will enable digital transformation for industries that draw significant value from their assets. These are industries such as manufacturing, industrial, aerospace, automotive, etc. With six digital solutions powered by the interplay of nine technology studios, and a strong partner ecosystem INTELLICYIENT will help enterprises achieve the full potential of digital transformation with IT-OT convergence.

I want to highlight here that while we have not talked so much about digital, we have always had a very strong focus, and we have some great examples. And INTELLICYIENT is our way of formalizing these examples, and bringing them together on a platform which is the technologies, the offerings that were coming to the market, which include things like smart automation, intelligent supply chain, etc., and technologies that we're working bring to our customers a very unique and differentiated digital offering. And we are actually seeing significant amount of traction along these lines.

The last thing is we also got the AS9145 Supplier PPAP certification to support global supply chain. Again, this is a good example of how we propose to support digital solutions for our clients. So I want to say, while we perhaps did not talk about it as much, we've always had that capability. And we've always had a very unique capability because it's not just the technology or the implementation, which ends up being a lot of software and IT type of implementation, but we've really come in from the technology and the domain angle which is really making us differentiated and we will give you some examples during this presentation, but also going forward of how we've built a very strong and differentiated digital story within the industrial, manufacturing and networks, customer base.

With this, I would like to hand over the call to Ajay who will take you through the detailed financial performance for the quarter and the year. Ajay, over to you.

Ajay Aggarwal:

Thank you, Krishna. It is also emotional day for me. I have been very closely working with Mr. Mohan Reddy. And I think I have learned a lot as a mentor from him. And I would say that, you've heard about the additional responsibility I have. We have continuously worked on enhancing the shareholder value. My belief is we can be one of the best in terms of shareholders value generation, without compromising on our fiduciary responsibility around governance, transparency and other standards. So I'm happy that we will continue to get the counsel from Mr. Mohan Reddy as a Director, but I'm also promising in this call to him that we will continue to maintain the highest standards, both on shareholder return as well as on governance, transparency and other values that we have created.

With this I begin on the revenue side. As we discussed, we had a fairly good quarter in line with our expectations. We have done \$149.9 million, \$119.6 million from services and \$30.3 million from DLM. Overall, you've seen we have done a growth of 6% and in the services we have grown at 3.7% and in DLM at 16.4%. I am sure Karthik will talk about it more, but I think we are seeing a steady increase and stabilization and we only see the way up in terms of our growth and revenue in the coming quarters.

For the full year, we have clocked \$556.8 million. And as you have seen, our de-growth is about 10.9% compared to the last year. When we started, we had guided for 15% to 20% kind of degrowth. We are happy that we are at below that, since aerospace had a large impact on this particular number. And in terms of the services, we had a degrowth of 16.2% and in case of DLM 28.3%. In terms of the performance also I think we have been doing well both in terms of the revenue as well as the pipeline and the order intake that we have. And as I said services will continue to have the traction.

If you look at in terms of our EBIT margin, we have generated 12.6% and I would say that I personally feel very excited to see this particular number. Our service EBIT is at 13.6% and we feel confident that this is the rate which we can sustain and improve over a period of time. And we have also provided a bridge in the next slide, I can also take a few seconds to explain that. DLM also has generated about 9% in this particular quarter. The India Israel portion of the business has been a little higher in this particular quarter and that has impacted the margin

quarter-on-quarter. In terms of the profit, you can see that we have generated INR1,107 million. Our ETR is 23.4%. In terms of the other income and tax, I think we are going in line with whatever we had forecasted and I will try to give more color on how we expect it to be going forward.

For the full year, the revenue stood at INR4,132 crores. We talked about the final EBIT is INR4,162. I'll explain in the next sheet the bridge between the reported and the normalized. It is provided in complete detail as part of the transparency so that all of you can refer to that and our PAT as I said is about Rs.371 crores almost flat. So, what we have to see is despite degrowth, our net profit has been quite flat and our exit EPS is around 34. And I think if you look at our margin, we are improving in terms of the gross margin, there have been extremely good efforts, you can see during the quarter itself from the operational metrics, we have got 126 bps and we also have got the volume absorption and other levers for the year as well as for the quarter. While the number for DLM is lower for the year at 5.7% I think the all efforts are to improve this in the next year.

What I would like to call out is we have two basic things we had done. As part of the governance we look at complete balance sheet and assess the risk every six months and as part of that, we have looked at our goodwill, intangibles and other assets in the company. And there have been two categories of exceptional items; one has been in terms of impairment of goodwill, this is for one of the assets in semiconductor in Europe, the numbers are given here. And also, we had one of the corporate venturing investments, that is valued at nil. In terms of the tailwinds, we also had the cancellation reversal of the earn-outs and that also has been beneficial. So, as a sigma of that, you can see the impact and if you have any questions, we will be more than happy to explain to you about each one of them.

This is where I said, if you look at the left hand chart at the bottom 12.6% is our normal EBIT. And for the services which is 13.6%. And also I would say there have been some one-offs which are not expected going forward. So, there is some cushion here. And as I said that while for the year, you're looking at 10.1%, I would more focus on the exit margin. As I said, we further are working on various levers, including doing more automation in terms of reducing the cost, we are looking at ceasing certain accounts, which are not profitable or curing them, that's also leads to our focus on profitable growth. We are also looking at some other initiatives for customers in terms of change request; pricing and other things. So we are very confident with these initiatives, we should be able to sustain this particular margin despite the wage hike and some of the investments that we go in the new forays that were talked about in terms of digital and others.

In terms of cash flow, as you can see that for the full year, we have generated Rs.761 crores; from Services Rs.753 crores and from DLM about Rs.8 crores. And this Rs.761 crores is 113% from EBITDA perspective, and 204% from the conversion to PAT. I would like to say that you will see in the various metrics in the investor update, we really drive to conserve the cash and that has really worked well. At Services level, our DSO is down year-on-year by about 20-days. And that's what is showing up in current quarter as well as journey over the last four quarters. In terms of capex, we are much lower. In terms of overall tax, we are at lower number. And we feel

that while we cannot sustain 103% of the EBITDA. In a steady state 65% to 70% is the free cash flow that we will be targeting in the coming times for Services and 50% for DLM. So that will be there, I want to assure you. And we still have certain initiatives whereby we will further reduce our working capital blockage, including the reduction of DSO.

With this, I will hand over the presentation to “Karthik to take us through the Business Update.”

Karthik Natarajan:

Sure. Thanks, Ajay. And also want to thank the board and Krishna and Mohan for reposing faith on getting me into the board and really appreciate the confidence and trust. I hope all of you are safe and healthy. And please continue to be safe and healthy as things are really getting very uncertain in India.

And with that, I would like to share some more color on what we have seen as part of the performance in Q4 FY21. So if you look at the third column from left, which is about the QoQ Services growth of 3.7%, and especially its broad-based growth that you can see across whether it is semiconductors, aerospace and communications and energy and utilities, I think this will be something that we are really pleased with. And we believe we should be able to continue the growth momentum into the next year. And also want to bring attention on the complete aerospace and defense on the last column where we have degrown only by 9.9% even though the Services was down by 33%. I think thanks to the DLM which helped to balance the degrowth of aerospace and defense.

And also want to share a lot of highlights and we talked about in Q3 that we have hit our bottom on aerospace. And that has really played out. And we have clocked about 3.9% sequential growth as compared to Q3 FY21. Also, we have hit some of the new peaks both in terms of communications and semiconductor verticals over the last seven quarters. And we also hit our highest DLM revenue which stands at 30.3 million for Q4. And also the order intake is up about 22% as compared to Q4. It is slightly down as compared to Q4 FY20 which has to do with what we have gone through in the commercial aerospace.

We won about eight large deals, we talked about this in the last quarterly call that how we are trying to bring in the focus on driving average size of the deals that we're competing in the market. I am happy to share that we have closed about eight deals of \$90 million, about six of them from Services and two of them from DLM.

For FY21, I think as Krishna and Ajay talked about, we have seen de-growth of 10.9% year-on-year at the group level, Services was down about 16%. And I also want to give a color saying that as compared to aero and non-aero if we compare between H1 of FY21 and H2 of FY21, we have seen that the non-aero has grown about 9.4% on Services, I think this is what gives us confidence that the Services growth is definitely something we would look forward to. And also the commercial aerospace turnaround in Q4 is a good sign. And we don't expect it to come back in a hurry. But we expect it to be a gradual recovery to FY22.

And we also want to share that we have done annual survey with our customers. And they continue to pose faith on us. And we have earned a lot of inputs from customers. And the score is up by about 400 points as compared to last year same time and is at an all-time high. And they've appreciated the support that we provided especially during crisis time in the initial part of FY21. And they also shared that they are seeing us as their strategic partner, value provider. I think this gives us confidence that customers continue to have trust and confidence in our ability to deliver. And this has also been recognized by some of the customers we shared outside with excellence performance to us from Thales and Boeing and two more customers that we share more details in subsequent time. And we have been recognized by "Zinnov for the Seventh Consecutive Year as Leader in the Engineering and R&D space." And this is a good recognition of our continued capabilities that we have been building for last two decades.

I also want to give a color. This is something where we will start reporting in this format. As we have shared with you in October, that we spread ourselves in the form of business units of transportation, communications and utilities and portfolio of sectors. I think this really has worked out well in the last two quarters. As you can see that most of the businesses have shown growth. These are all six segments that have been considered as portfolio of sectors. I think this is really something that what we laid out when we set out the structure, and this is something that I'm really happy to report the performance is definitely showing up and hope we continue the same trajectory moving forward. This is again the same numbers reported in the new structures. And we will continue to share more details offered in terms of what our links are and how we are really trying to build on it.

I will probably go to the next slide to provide more color on each of the verticals. So if you look at from business performance, from Aerospace and Defense, I think commercial aviation continues to face challenges. And the travel percentage has not come back to 60% level as compared to 2019 level. We are still expecting this to be back by around 2023 to 2019 levels, and with diverse challenges that are seeing across Europe and US. Probably India and China has come back to 90% of the 2019 level as on Jan and Feb, but not sure what is going to be the next few months based on the challenges that we are seeing within India. So we expect this to be a little more turbulent for the near-term. And probably by second half of FY22 we expect the commercial aviation to improve in terms of including air traffic, and that will result into significant growth in the aftermarket business. And we continue to see growth in manufacturing, we are continuing to see growth in digital and DLM as we said in the previous quarters as well.

In the communications side we continue to see strong momentum and this has been a third consecutive quarter of growth that we have shown on the communications vertical, and we are confident that this will continue even in FY22. And as I said, we have done the highest in Q4 and we are seeing growth which is again broad based across 5G rollout, fibre and rural digital opportunities that are coming and how the broadband is getting rolled out in various parts of US and UK. And we're also seeing the network technologies, which have seen growth both on the enterprise as well as on the consumer side. And that's something that we continue to hold a positive momentum on communications going forward.

Energy and Utilities has still been challenging for the last 12-months and we hope we settle down to a bottom as of Q3. And we continue to see momentum in utilities and mining and natural resources side. And as you've heard us talking about IG partners that acquisition has been fully integrated. And we see an opportunity on both consulting and digital transformation for natural resources, and energy and industrial products and utilities. All three are the sectors within energy and utilities are showing momentum. And we hope this continues even in FY22.

As far as transportation is concerned, we see a strong momentum, both on signaling as well as on digital and software. And we are working with many customers globally. And most of them have their projects intact. And they continue to seek help from us. And we expect this to continue to drive growth for us even in FY22.

Medical Technologies and Healthcare is a segment that we expect to grow more, but the COVID challenges are continuing to play havoc. And we are also concerned about the global supply chain. I think that's been a concern for many of our customers, both on medical as well in automotive and aerospace. And we hope things get better as we move through FY22. And also we are confident that this should start growing from latter part of H1 and definitely in H2 in FY22.

And portfolio business is mix of couple of segments with geospatial and industrial. And the geospatial part, we have seen a lot of momentum as we start taking the offerings that we had focused on geospatial customers into vertical applications of communications, utilities, mining, and defense, and we are seeing lot more opportunities by taking this as another vertical service line across many of the verticals. As far as Off-Highway is concerned, I think this continues to be muted and hope the new infrastructure spend will probably bring more growth to the segment, but it continues to be muted and probably we will see a slight uptick maybe in second half of FY22.

Semiconductors, we have seen a significant growth in the last quarter. And this is essentially driven by the services growth. And as you know, we have both services as well as the solutions part which is coming from our AnSem acquisition that we made three years ago. And we are seeing strong demand on the services side. And we are also trying to address both the supply as well as the demand side. The entire semiconductor industry is on fire and there is a significant growth potential on engineering. And we also have a lot of challenges on the manufacturing and the supply chains are completely disrupted. And the whole industry is in turmoil for supply, but the demand is definitely strong on the services side. The solutions side is going to take a while as customers start coming back and spending money on newer silicon design for 5G or artificial intelligence or Edge Compute. And all of them would require significant amount of spend on semiconductors and we hope it starts seeing recovery in H2 FY22.

We kind of have seen the best of DLM in the last 12-months. And we hope we continue this momentum of growth even in FY22. And it is driven essentially by Make in India and strong push towards total cost of ownership the customer wants to have and they also want to rebalance the supply chain beyond just China while looking for opportunities in the emerging markets. I

think these are the drivers that helped us to see a growth in DLM and we hope the momentum continues in the H2 FY22. I will probably request Krishna to provide a color on the outlook for H1 FY22.

Krishna Bodanapu:

Thank you, Karthik and thank you, Ajay. So to summarize and how things look like, this is the outlook that we're providing for FY22. On revenue, we expect a double digit growth. Services will definitely grow in the double digits. We are not still giving a more concrete range because we still need to see how things turn out. There are some demand side challenges. But more importantly, there are also some supply side challenges. So it is an opportunity that we're addressing. But even in various scenarios that we look at, we see that the growth will be double-digit for the year. In Q1, the group revenue will see a slight decline because of drop in DLM which I'll talk about. Services revenue will witness growth on a sequential basis in Q1 and through the rest of the year. DLM revenue drop in Q1 is seasonal, and for the full year, we expect that DLM will grow about 20%. So I think the seasonality is something that is just a reality of that business. And as I had committed in the past, we will provide as much color and as much insight into it as possible upfront, but that is something that we have to deal with. Having said that, I just want to reiterate that it's been a great business for us, and next year also we expect about a 20% growth.

In terms of EBIT margin, the efficiency improvements, which started this year will continue into FY22, and for the full year, we expect margins to improve by about 200 basis points. Also, despite the headwinds of wage hikes, and we will give wage hikes for a large percentage of our population in the first quarter of the year, we expect margins to be stable and improve in Q1, roughly we'll see a 50 bps improvement in margins in Q1. Margins for DLM of course will drop in Q1 because of the volume. But again, just as in revenue growth, I'm also confident that the margins will improve by about 200 basis points for the year.

Also, we do not expect any export incentives given that there is no clarity on the new policy from the government. And also the effective tax rate will be in the 25%, 26%. So I'll conclude with that. And I'll say thank you very much again for your support. We've had a rough set of quarters, but I'm very confident that we're back to where we want to be. It's great to see that we've delivered a quarter that's in line and slightly better on a revenue perspective, but much better on a margin perspective than Q4 of last year, which means that it positions us for good strong growth into FY22, and that also means that we have the momentum, we have the efficiency in place and that will help us deliver a much better FY22. With that, we'll open it up for questions.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah:

Just a question in terms of the services business. So if we look at the Q4 deals with Q3, you have \$70 million, but this quarter's revenue growth if we look at in constant currency it is 2.2 and if I strip out the inorganic portion, the organic growth turns out to be close to around 1% as a whole

and this is despite the aerospace has been turning around. So is it something which is making a headwind to the growth and which may impact in the near term, can you reconcile this?

Karthik Natarajan: Sure, Sandeep, thanks for the question. And I would say that we have seen about 2.5% growth even if we were to take into account the inorganic part that you talked about. And what we have really started seeing is the momentum. I think it is just not one particular business unit or sector that has grown in Q4, I think it is across the board, which is an early sign that we are really looking for and we hope we can continue the same trajectory moving into FY22.

Krishna Bodanapu: I think just to add to that, as the deals are there, they do take some time to ramp up. Net-net the growth has been about 2.5%. Aerospace has stabilized at least I would say it's still has a little bit more time before the growth comes back. But in spite of that, the fact that it's been a decent quarter. Now the reason for our confidence for FY22 is that some of these deals will start to pick up in the next financial year.

Sandeep Shah: And Krishna, just a clarity in terms of the FY22 outlook. So we are also saying the Services business will also grow double digit or it is the total...?

Krishna Bodanapu: No, we're saying Services will grow double digit, and DLM will grow about 20%.

Sandeep Shah: So I think there would be organic contribution of 2% there will be a cross-currency tailwind of 100 bps. So if I assume a 10% to 11% growth on organic basis, services business in constant currency may grow at 7% to 8%, are we looking at it?.

Krishna Bodanapu: I think that's too much reconciliation, I will say. We've said what we can say about the growth. It's also not very fair to break out organic, inorganic, because a lot of what we would classify as inorganic is also organic in the sense that the acquired companies are building business on the back of what Cyient can deliver and Cyient's capability. So I think, it's too much slicing and dicing to break it down that way. I have given as much color as I can on the growth forecast.

Ajay Aggarwal: And if I may just add, Krishna, whatever we are saying we are talking about constant currency. So there is no further headwind in the next year based on the constant currency, that's already taken into account.

Sandeep Shah: Just wanted to understand last year also Q4 we had Rs.40 crores worth of goodwill related impairment, this year also close to Rs.30 crores worth of goodwill related impairment. So what is happening and why it is recurring? Second, on a minority investment write-off, it looks like we are not entitled to receive despite that company getting sold. So, what is the reason the fair value is almost zero?

Krishna Bodanapu: In terms of the goodwill, we have been looking at this very robustly in terms of whatever is the goodwill, and then the whole process of testing it based on the future projections. And we are not leaving it to the last minute. So I would say we are being very proactive. If there is anything that is needed, we are taking it at the annual level, and I don't see that it's an annual feature, it is just that two of the assets in the last two years have this particular impairment. And also if you

see there is also compensation in terms of the earnout not being paid for one of the assets. In terms of your other question of the company being acquired so that is corporate venturing as I explained. And what happens, our share has been - that's a matter of detailing on preference capital. So basically it is not about company being acquired, it's more about the lost value and it is more of a distress sale. And the way it happens in terms of the order of priority of the creditors in such situation, preference shareholders don't get their share. That's how the whole thing has worked.

Sandeep Shah: And just last thing on the order book, Krishna, this quarter again we had a good wins of \$90 million worth of large deal TCV versus \$70 million. On QoQ order book does not show that. So is contractual order book something different than what we report in terms of the large deal win?

Krishna Bodanapu: When we win a large deal, that is the anticipated value, right, because that's the value that we expect that will come in the next say X number of years, but the order book that we report is the purchase order based. So, some of the large deals which are quite significant, the purchase orders we get in the first cut might only be much smaller and therefore we only report the purchase order related order book, but the order book is showing an increase; 28% increase in order book that we have reported. So the order book has increased, but it is also into caveat.

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

Urmil Shah: Krishna, just wanted more clarity on the outlook for FY22 and mostly talking about how the year is expected to pan out, whether we will have much stronger growth in the second half for services business as a whole. You explained about A&D, but for key verticals like comms, transportation and portfolio?

Krishna Bodanapu: Okay, so, on the growth, I think what we're anticipating is it would be fairly well spread out at least on the services part. The reason why I also say that is, with the current situation, H2 seems quite far away. But with H1, we're quite confident that we will have decent growth both in Q1 and good growth in Q2 also. H2 we'll wait till how the things pan out because like I said, the good thing is while demand has stabilized, the supply also is still a little bit of a challenge. So I think it's a good problem to have. So it will be spread over the course of the year and DLM of course in Q1 will have cyclical, Q2 will make up, for the year it will be a 20% growth on DLM. I think Karthik has already articulated what the outlook will look like for various sectors. But if there's any specific questions on one of the sectors, then I'm sure Karthik can give a little bit more detail.

Karthik Natarajan: To give a specific color and what we are seeing on the communications is we are looking at growth in two parts. One is the conventional network design. And second is on the technology-led network operations. Digitization that I talked about in US and UK, that's essentially driving the growth of the network rollout part. And as far as network operations and technology side of it, which is driven by the increase in network, as well as the enterprise of private entity. I think those are the two segments that we are seeing growth happening. Interestingly, we have put in a dedicated structure for driving the network technology growth over the last four months. And

we expect that to really start playing out probably during the second half of FY22. As far as portfolio of sectors are concerned, I've given color on various segments that we operate in. And we definitely believe energy, industrial production and plant engineering, we expect that to lead the growth along with the part of geospatial and medical, I think we expect those three to really lead the growth for H1. As far as H2 is concerned, some of the other segments like mining and semiconductors will start joining the party in the H2 of FY22.

Urmil Shah: You mentioned about the supply side issue. If you could throw more light on that?

Krishna Bodanapu: I think the key is that the kind of growth that is coming back, is while it is great, it's also in skills that are different than what it used to be previously. Therefore the ramp ups that are required to happen are happening in newer scales. Also the other thing is the market is quite hot. I think that's the other thing that we do have to acknowledge. So taking both these into account, I think we have to be a little bit cautious on how realistically we can address some of the demand. And it's not so much here because I'm quite confident that we will achieve the numbers that we're committing to as taking into account even some of the supply side challenges. But I think what I'd like to say is that there is the growth that is further possible. We are at least moderating it right now because of the supply side until we get a good handle on the supply side. So, I would say our commitments are based on a realistic case. I'm just saying that solving the supply side challenges give us the potential opportunity to do even further better.

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

Mohit Jain: Hello, sir, I just wanted a little more color on the outlook on the aero side for FY22. Now, on the IT services side, it appears that the ramp up is on the faster side. How fast can it be for us in 22? What I understood from the commentary was that we expect aerospace to start picking up from second half of the year. On the commercial side, things are picking up quite fast. So what do we see given that our client budgets I'm assuming would be more or less finalized and therefore, how realistic is the expectation of a very slow growth in FY22?

Krishna Bodanapu: We are cautious in the aerospace sector. I think our client budgets have been finalized. But they are also facing the same fluidity especially in the aerospace side, right, because there has been growth in some parts of aviation, some parts will come back a lot quicker than the other parts. So I think the customer budgets have been frozen and that gives us the confidence that there is stability and some growth. I think for us to be very sort of confident about significant growth, we still have to wait and that's why we think that while actually some elements of commercial aerospace are coming back because inter country travel is coming back, but intercontinental travel, if anything is getting more and more stalled. So we have to look at those things. And therefore, I would say that in H1, we're definitely seeing growth, likely to be a muted growth or a limited growth. So that's why I say, we will have to look at H2 because how things stabilize will have a big impact on how H2 looks because all said and done while US has stabilized and therefore, you're seeing a lot of inter US travel, Europe has not stabilized, India has not stabilized, Middle East has not stabilized and therefore, the growth in aerospace is still not what will drive large volumes yet.

- Mohit Jain:** In Q4 there is no element of one-time project or assignment because Karthik in his commentary said that Q4 has started seeing growth in the vertical on a sustained basis or...?
- Krishna Bodanapu:** There's no one offs but it is sustained, but it's going to be muted that is, the quarter-on-quarter 2%, 3%, that's his number, not 7%, 8%, that's what I think Karthik meant.
- Mohit Jain:** Second is for Ajay sir. You've given quite elaborative guidance, but on the capex side, last time also we discussed, I think the idea was that you will give it to us at the end of FY21. So, what is the plan for capex for FY22?
- Ajay Aggarwal:** Mohit, in the last few years, we have been making some investment that's why our capex was higher. Now, we are looking at for the Services somewhere between 1.5% to 2% and for DLM it will be somewhere between 2% to 3%.
- Mohit Jain:** Last one is more like housekeeping. In your commentary SIA and MTH, they will be part of portfolio services as per the new segment or will they get clubbed somewhere else?
- Ajay Aggarwal:** Yeah, they are part of the portfolio.
- Moderator:** Thank you. The next question is from the line of Abhishek Shindadkar from Elara Capital.
- Abhishek Shindadkar:** My question is on the employee cost. Now we have seen a good reduction on a YoY basis. But our attrition is now upwards of 21%. Is there a risk that the margin expansion that we are committing cannot be achieved if attrition moves beyond 25%? The second thing is the general administrative expenses still seem to be really high despite FY21 being the year of pandemic. So what is keeping that cost higher, if you can just elaborate that could be helpful?
- Krishna Bodanapu:** Just on the first part, there is expectation on how attrition will work and also what we need to do to manage the attrition. I will say, this is the first time that we've done a very bottom up exercise in terms of how we want to do salary increases, for example, we've taken into account the realities of each group, the realities of each skill, and then planned on what is the increment and what is the salary cost that we need to build in, and also still assumed a certain percentage of attrition. Now, to your point, if it goes much further beyond 21, I mean, if it starts at 25, etc., then it is definitely a risk. But I think we have put in place some good mitigation against the risk including how we manage our salary increases. On the second part on the SG&A, we are a little bit higher. And I think that is something that we have been focused on to bring in down. If you look at it over the last couple of years, we've brought down SG&A as a total percentage of revenue, and we'll continue to focus on bringing it down. Ajay, do you want to add any specific comments on SG&A and what's further being done?
- Ajay Aggarwal:** I think that is right, if you look at what Krishna said, we have been able to bring it down over a period of time in the last three, four years and we have further focus to bring it down, part of it is the measures that we are taking in G&A and part of it is also the volume. We have a lot of initiatives that are focused on growth still continue to make the investments. So I would say it's coming down and you will see further in the next two years it will further come down.

- Moderator:** Thank you. The next question is from the line of Sudheer Guntupalli from ICICI Securities.
- Sudheer Guntupalli:** Just one clarification on margin outlook. This 200 basis points improvement versus FY21 margins or is it versus exit normalized margins of Q4 FY'21?
- Krishna Bodanapu:** No, it is full year FY21 margin.
- Sudheer Guntupalli:** But in that case, actually, if we see normalized EBIT margins for this quarter around 12.6% and despite investments, wage hike impact we are confident margins will only improve. So, we can expect the margins to the north of 13%-odd on a normalized basis. So, what are the other headwinds that we are seeing which is kind of holding us back to just 200 basis points sort of an improvement outlook in FY22 over FY21?
- Krishna Bodanapu:** See, I think there is still some risks that we see and considering where the markets are and considering where we will need to also continue to make investments and so on and so forth. I think this is a prudent number to plan for. I mean, logically, yes, there is a bit of upside that is there, but I think just looking where things are, this is a good starting point.
- Ajay Aggarwal:** As Krishna said, I think we are looking at some risk and opportunities. But most importantly we have investment plan for future which we will calibrate to make sure that how we grow and how things pan out. So there could be a little bit of conservatism here. But we are also keeping some room for investments both in the tail end that we are building, full year impact of that, as well as creating of new offerings and digital and things like that.
- Sudheer Guntupalli:** So if I understand it right, if there are no unforeseen headwinds let us say, and exit margin rate of Q4 FY21 were to stand, then possibly there might be an upward risk to whatever the conservative guidance that we are giving right now?
- Ajay Aggarwal:** We can be a shade better, that's what I meant by conservative. And there could be a little bit downwards, but I think that can be mitigated.
- Moderator:** Thank you. We take the last question from the line of Romit Chatterjee from R Capital. Please go ahead.
- Romit Chatterjee:** A couple of questions on the DLM side. Krishna, if you can give a split of pure manufacturing work through DLM part for FY21. That would be very helpful?
- Krishna Bodanapu:** Manufacturing will still be fairly significant majority, it could almost be 97-98% still manufacturing, because the true DLM work we only started doing about a year ago. And what that means is, much of it is in the design phase. So for that to start to come into manufacturing phase will still take a bit of time because we have to go through design, prototyping, certification, etc., But what we're seeing is over the next three years, it will become more of 50:50 because some of the design that we're actually doing right now will bring into manufacturing, but it will take a bit of time and this is what the current view is. While we might be doing the manufacturing only in discrete manner right now, it is for a customer where we're also doing design elsewhere.

So there is a fair amount of synergy between customers because like there are a number of aerospace customers where we're doing design and manufacturing, it's just that both of them might be disjointed at the moment because design might be for different projects, or design might be different to manufacture.

Romit Chatterjee: The Asia business has seen a good amount of growth in DLM and so in services. But that business historically used to be a lower margin business. Has the margin profile changed over there?

Krishna Bodanapu: Yes, absolutely, we've been able to change the margin profile. And I think we're also quite clear on the type of business that we will take both in terms of margins and in terms of terms and conditions. And I think once we started taking a fairly systemic view on what kind of business and agencies we will agree to, we've been able to significantly increase the margin on them.

Romit Chatterjee: And just one last question is one of the new business unit side where we are planning to invest and all. Any leadership changes that has happened in the last quarter or six months or so on this newer vertical?

Krishna Bodanapu: I think we've added a few new leaders, but not at a group level, we've added leaders at sector levels. We will also put out a release in the next few days highlighting some of the people that have joined. But I'll say the BU leadership continues with a number of people that have been in Cyient for a long time and that's something that is very important also, because they understand the business well, they understand the customers better, but at the next level, either at sector levels or sales levels, we've added a number of people to help enhance that and also bring in newer capabilities, but at an executive leadership level, I'm very proud to say that the team is as it is. There have been movements, for example, Anand, Parameswaran has moved from aerospace and now heads the new Digital BU. Rajendra Velagapudi who was heading operations heads DLM but at an executive level things are where they are.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to the management for closing comments.

Krishna Bodanapu: So thank you very much. Thanks to everybody for joining. Obviously, it's been a good recovery for us and we feel very confident that we're back to where we are. Q4 ended up, like I said, on a revenue perspective slightly better than Q4 of last year. From a profit perspective, we're doing much better. And I can just assure you that the momentum will continue. And we're also being cautious on how we look at the outlook for the business and what commitments that we make. But we're very confident on what we say. Like I said towards the end, the existing leadership team has really stepped up and we have a great set of leaders. We've also enhanced them with some of the new people who have joined the organization. And taking all that into account it gives me a great deal of confidence to say we're growing very strongly into FY22. Thank you for your support as always, you've stood by us even through some very tough times, I greatly appreciate that. But I want to say things will look a lot better going forward and I look forward to our continuing interactions. Thank you.

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

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