

# CYIENT

“Cyient Limited Q1 FY22 Earnings Conference Call”

**July 15, 2021**

# CYIENT

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**MR. AJAY AGGARWAL – EXECUTIVE DIRECTOR & CHIEF FINANCIAL  
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**Moderator:** Ladies and gentlemen, good day and welcome to Cyient Limited Q1 FY22 earnings conference call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Krishna Bodanapu, MD & CEO, Cyient Limited. Thank you and over to you, sir.

**Krishna Bodanapu:** Thank you very much and good evening everybody. Welcome to Cyient Limited's earnings call for Q1 FY22. I am Krishna Bodanapu – Managing Director and CEO of Cyient. Present with me on this call are Mr. Ajay Aggarwal – Executive Director and Chief Financial Officer and Mr. Karthik Natarajan – Executive Director and Chief Operating Officer.

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

In USD terms, we posted revenue of \$143.5 million, which is a growth of 9.9% YoY and de-growth of 4.2% on QoQ basis and 4.3% in constant currency. In rupee terms we posted quarterly revenue of Rs. 1,058.2 crores. This signifies a growth of 6.7% YoY and de-growth of 3.2% on QoQ basis. Services revenue stood at \$119.3 million, which signifies a growth of 6.3% YoY and essentially flat on a QoQ basis. Group EBIT margin stood at 13.1% for the quarter, which was up by 797 basis points compared to the last year and 48 basis points QoQ. I would like to

highlight that this is the highest EBIT margin we have seen in the last six years. Free cash flow generated stood at Rs. 848 million or Rs. 84.8 crores, a conversion of 43.6% on EBITDA or 73.7% on PAT. PAT stood at Rs. 1,150 million or Rs. 115 crore for the quarter. This was a growth of 41.3% YoY and 4% QoQ.

Coming to the other highlights for the quarter and I will just hit upon them very quickly. On John Deere, we were given a partner level status in achieving supplier excellence for 2020. This is the company's highest supplier rating and John Deere is an important customer that we believe holds tremendous growth potential for us this year and beyond and therefore is a very important recognition for us.

We signed and announced a large deal with HMLR, which is Her Majesty's Land Records, which is the nodal agency for managing land information in the United Kingdom. We have been given a long-term contract to manage this data. We have partnered with Esri and Xerox on this project for software and system integration work. We are also proud that on the NASSCOM R&D showcase for 2021, we won four awards across a spectrum of opportunities. We won for social impact, Engineered in India product of the year and Service Delivery Excellence of the Year. So, it is a great reflection of the quality of delivery that we have built and the competence of the organization that we have created, which I am also happy to say is translating into good opportunities and into a good customer engagement.

To continue and to highlight some of the digital type of investments that we have made, which are quite significant this quarter. We launched the Cyientifiq platform. This is a platform that focuses on IP driven solutions between our ecosystem and the company. It is also a way forward to raise the innovation quotient index and attract top talent especially for new technologies including digital kind of technologies. We also launched CyiOPS, which is the Cyient Outage Planning and Scheduling Solution. Again, a great example of the type of work that we

are doing in the digital sphere in helping our clients manage their assets, in this case, utility companies manage their assets better, especially through outage planning and scheduling. And this is also a platform that is gaining significant amount of traction with our utility clients, which is a key growth area for this year and the in the year ahead. We launched the first sustainability report including the sustainability goals for 2025. Obviously, sustainability is a very important aspect that Cyient is quite committed to. Our clients are equally committed to it and therefore we are very proud that we are one of the first companies that have done the sustainability report, i.e., where we stand but also have laid out some audacious goals in terms of where we want to be with sustainability, including being carbon neutral by 2025.

Lastly, we also have a new gender-neutral parent leave policy. Again, a very important element of engaging better with our associates. The implication of this we believe has long term benefits and also will position Cyient very attractively to the younger workforce much of whom will go into some of the newer technologies into the areas of solutions, digital and so on and so forth. And it becomes quite appealing for people to come and join Cyient, and honestly we are one of the first companies in the world to do something like this. We believe there is a fairly significant commitment both financially and also operationally, but we have evaluated the risk reward and we are very proud that we have launched this last week. With this, I will now hand over the call to Ajay who will take you to the detailed financial performance for the quarter. Ajay, over to you.

**Ajay Agarwal:**

Thank you, Krishna. Good evening and greetings to all of you. In terms of the revenue as Krishna said our revenue has been \$143.5 million. What I would like to highlight here is that while overall the aerospace continues to have some challenges, if you look at our growth it is close to 15% for the non-aero division and DLM has grown by 31.7%. Whatever is the revenue for the quarter is in line with our internal

estimates where we were expecting that this quarter is going to be a bit seasonal. And the group growth has stood at about 9.9%.

If you look at quarter-on-quarter numbers, services are flat. We were looking at internally a little bit better, but after Covid we did get a little bit of impact on our services growth because of the availability of people, but we tied over that and in June we have clocked better than normal revenue and you will see that going forward. If you look at our year-on-year numbers and some of the trajectory from that you will see that most of them are growing in double digits. So, I think that is what we are looking at as a trajectory for the particular portfolio of businesses that we have.

In terms of the income statement, I would like to call upon in terms of the margin that we have done and let me spend a few minutes on that. This margin as Krishna said for quite some time is one of the highest, and we are getting very close to our aspiration of about 15% margin in services in the short and medium term. So, we are very close to that and overall, for the group we are at 13.1% and in DLM we have generated about 6% where you will see there is a scope for improvement in the coming quarters. Just to give a little color around it. We have given the wage hikes during this particular period. We have phased it out as we had said in the earlier earnings call between quarter one and quarter two, but almost two thirds of the wage hike has already been taken care of in quarter one, and the total impact has got mitigated by a good improvement in the operational efficiencies and also in terms of our SG&A as well as absorption there have been benefits.

On the profit after tax, I would say that we have really got nice margin of about 10.9%, net profit margin because again I think it is moving very nicely and we feel that we can sustain these kinds of levels and year-on-year if you see we also had in quarter one of previous year about Rs. 51 crores of export related incentives. So, if I take that out because that is a one off in the current way things are looking on some of the incentives

for the services, our growth on PAT is almost like 70% year-on-year. And if you look at our operating profit growth also, I think that is also almost 170% year-on-year. On the profit side, I think we are really doing well, good improvement in margin, good increase both from the EBIT perspective as well as from the profit after tax perspective. I will comment about other income and hedging later, but in terms of the tax also you will see there is a marginal increase, but we are in line with whatever outlook we had given for the full year and we had anticipated that some of the SEZs which are coming into the different tax brackets, they will bring quarter-on-quarter the tax down but overall, for the year we will be within those tax norms.

Just to give you a sense of this bridge 13.6% is for the services, which has gone to 14.6%, 176 bps is the merit increase impact and operational improvements as well as the SG&A spend has been the drivers of this particular margin improvement. And we are confident as we further grow during the year and as we move, we will continue to sustain these operational parameters and this level of the cost structure. However, going forward, we will also continue to make certain investments. As we continue to get some benefits from the currency as well as from the growth, the margin improves.

In terms of the cash generation, we have a conversion rate of about 50% for the services. And we are on track to deliver the overall 65% to 70% cash generation. And this Rs. 863 crores while it is lower quarter-on-quarter and quarter one of last year, there is a few cases of collections which have right shifted and you will see both for H1 and for the full year we will be ensuring that whatever is the cash conversion we have committed we will achieve. This quarter, we did have a little bit of flat or marginally negative free cash flow in DLM. So, you will see the collections coming back and that will also be a fairly positive number in line with the expectations. And we are looking at, at least 50% cash

conversion in DLM. With this I would like to hand over to Karthik and if any questions on this I will look forward to the Q&A session.

**Karthik Natarajan:** Sure, thanks Ajay. Good evening, everyone. I hope all of you are safe and healthy and I will just want to give a little more color on the BU performance. And if you look at the left-hand side top chart, the right most column which is YoY performance, aerospace continues to have challenges. We talked about how we had hit the bottom a couple of quarters ago, but the growth is not coming in a hurry. As we guided earlier, we are seeing a U shaped recovery and not a V shaped recovery. And the good news is we have seen a growth of 2% in Q1 as compared to Q4 of FY21 but the year-on-year still continues to be a challenge with about negative growth of 11.5%. And as far as the communication and utilities are concerned, Communications has set a new benchmark in terms of the revenue for Q1.

This is the highest ever that we have done from Communication side. This continues to grow for the last three quarters. And we will see this continuing for the rest of the year as well. The utilities business which had some challenges in the previous two quarters has come back to growth. And we expect this to continue for the rest of the year as well. The portfolio business where two out of, six sectors had some one-off issues and we hope this is behind us by the time we start getting into Q2. The good news is that in transportation which is essentially impacted by aerospace, the rail has grown by 17% YoY. Overall, it is shown de-growth of 3.6%. Communication and utilities have grown at 16.8% YoY and the portfolio at 9.6% YoY. The cumulative number stands at 6.3% for services part and at the group level we are slightly short of 10% growth YoY. And the key thing I also want to highlight is that we won about four large deals in Q1 FY22 out of which three are from services and one from DLM. I will provide more color on it as we go through the next set of slides. The order intake which is the orders that we received in the last quarter is up by 20% as compared to Q1FY21 and this gives

us confidence that the demand is robust and we hope to achieve on our commitments that we made in the last quarter.

We will do little more deep dive on each of the segments and to start off with communication and utilities and this is delivered the 2% sequential growth. What is driving the growth is essentially the broadband, wireless, 5G private LTE demand is still robust across and also led by technology transformation, whether it is intelligent network design or the network transformation. I think these are the ones which are driving growth for us in communications. We continue to see this growing at double digit for this financial year too and the green networks which is an interesting concept few of our customers are trying to venture out is essentially we are creating the network which are sustainable and environment friendly and that is going to be something that we see as a common theme across many of the operators that we work with. 5G which contributes about 10% of our revenue portfolio continues to see a robust growth across of North America as well as the Asia Pacific regions.

Utilities saw growth of 4.4% and we expect this growth momentum to continue for the rest of the year. And we do see that this will grow double digit as compared to last year and some of the projects that we executed as part of our major transformational program and essentially deploying the cloud native next generation spatial information system and the system integration project. That gives us confidence that technology led growth in utilities would drive sustained growth for a few more quarters.

Coming to transportation and this has seen 0.5% growth as compared to the last quarter, but the challenge that we talked about is still continuing. And the key thing I want to highlight is the rail part of the transportation. We will see a growth in this year and due to the increase spend in the infrastructure projects. As far as the commercial aerospace is concerned, the domestic travel has come back to about 65% to 70% of 2019. The international traffic is only at 40% of 2019. So that continues to be a



challenge. And the interesting one is about the spend coming back on the aftermarket and MRO, which is driving the growth in aerospace. We want to see how fast it can come back to the previous levels, but we are still hopeful that this will recover in the next 4 to 6 quarters. We are also looking at embedded and aftermarket digital services and as the segment is recovering. We see that this is likely to see demand for the next 4 to 6 quarters before the overall growth for the aerospace industry comes back to the previous levels. DLM, which is seen a one off dip and we still continue to hold on to what we committed earlier about 20% year-on-year growth for the full year. And this is backed by a strong order pipeline and backlog that we carry today. And this is also compounded with some of the opportunities we see with customers wanting to look at the supply chain being de-risked not just for costs but for risk and that is creating newer opportunities for us. And along with what we call it as a Make in India.

Moving on to portfolio of services and we expected this to be the growth sector for us across many of the segments that we are operating in and medical, continues to grow in double digit and we are confident that this will continue the momentum for the rest of the year. We have announced the large deal about two quarters ago and that is ramping up and we continue to see momentum across embedded digital services and our pipeline continues to be robust on digital transformation and design led manufacturing in medical.

Automotive and off-highway, we are conscious of some of the engagements and non-profitable projects, and we have taken some action on them in the last two quarters. So, this has resulted in some dip but we expect some of the growth to come back for the second half of this year, and which is driven essentially by supplier consolidation activities, as well as the digitalization part of it.

Semiconductors has seen de-growth as compared to last quarter. And this again, we believe it is one off and we also had a good Q4 as we

talked about it earlier. The solution business, which is on the ASIC side continues to see a significant recovery post-pandemic. And we expect this segment to do a double-digit growth for this year. And we also have launched a project along with IIT Hyderabad, in terms of creating a 5G system on chip design. This is probably first of its kind from any Indian company which is taken end to end responsibility for the silicon design.

The energy and industrial plant engineering continues to see robust growth and we expect it to be grown by the top accounts. We have also have announced large deals in the last two quarters. And we expect this to again grow by double digit for this year. Mining and natural resources, this witnessed de-growth in Q1, which is again we believe it is a one off due to Covid lockdowns in Australia. Australia has been going into the lock down and out of lockdown for the last 12 months on an alternating basis. And we continue to see some challenges till Q1. And we hope that is behind us, we will see a recovery in Q2. And with also a number of new logos that we won in the segment about four of them in the last six months, I think that will continue to help us to grow the segment.

Geospatial where we announced a large deal last quarter and the Q1 dip was more of a seasonality and we expect the demand to come back. We are also trying to bring in geospatial as a horizontal offering that we can take it to many of the verticals like mining, communication and utilities and mostly using them as a horizontal service line to drive growth on applications as well as on the analytics areas. With that I will hand it over to Krishna for outlook for FY22.

**Krishna Bodanapu:** Thank you Karthik. If I may just summarize, I want to say that I will reiterate the commitment that we had made for the year. We continue to expect that we will grow in double digits in FY22 in services. We continue to be confident that we will grow in double digits in FY22 in services. From Q2 onwards, we will see some good growth coming in. We have the order backlog and also the early signs of ramp ups and so on and so forth are already starting to happen, which means that the Q2

is going to be a good quarter as we look at it, but also more importantly these are sustainable projects that we are doing right now. So, it will also continue into the rest of the year. DLM will grow about 20% as we had indicated at the beginning of the year. We also maintain that for the full year we will improve margins by at least 200 basis points. And probably better than that given that even in Q1 we have done a fairly decent job of improving the operating margin and as a result also the PAT. DLM will also improve at least 200 basis points. We also do not expect any export incentives this year. We also expect that the tax rate will be about 25-26% which is not very different from the previous years.

So, in summary, I would say that it has been expected start of the year, I think from a revenue perspective like Ajay had mentioned internally these were the numbers maybe there is a small gap, but that is because we also had some fairly significant Covid challenges in April and May which are quite specific to our type of business, given some of the security issues, access to labs and so on so forth. Therefore, we had a little bit of a challenge in April-May, we completely overcome that in June and it was the best month that we could have had and even we were surprised on how well things have recovered and also recovered in a sustainable manner.

So, I can say with confidence that Q2 onwards we will come back on revenue and obviously on the operating profit, we have done what we need to do. We have made some changes structurally, and I also want to say that much of the salary increase was already factored into Q1. Over the last couple of years, we have done a phased salary increase and not all salary increases happen at the same time, but given that the majority of the population does have salary increases in Q1, much of it is also factored in. There will be some more in Q2, but that is part of the plan. So, with that I will pause here and we will turn it over for any questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sandeep Agarwal from Edelweiss.

**Sandeep Agarwal:** Even though you have very strong capability in this space and you are doing a great business in all the areas of aerospace, medical, hi-tech for quite some time and there is an immense amount of demand in that area. The lower growth in this quarter does not look to me led by demand challenge. It looks more like a supply side challenge and there is nothing wrong because the whole industry probably has done a miscalculation last year when they started running very thin ventures on the assumption that the global economy will tank and all those things and no one anticipated that there will be such a sharp recovery. And because of that, those thin ventures are now coming to hurt because suddenly there will be a huge spike in demand and there is no supply and particularly the piece of business you deal with also has a longer training period and has a specific skill set requirement, which is not exactly comparable to IT services or normal software services. So, I wanted to know when do you see if my if understanding is right that this growth is more because of supply side challenge rather than demand and if that is right, then when do you see this challenge getting over because what I am seeing today is that unfortunately everyone in the industry has got into the race of poaching people from one another, and this problem can actually be solved only when there is abundant supply of manpower. So, my question Krishna is actually you know that unfortunately this industry has got into now poaching talent from one another and the actual solution to this problem lies when the workforce would be trained in abundant number to pull down this attrition and all these challenges. So where do you see things improving going forward and how much time it will take? Because I do not see concern on growth, but I definitely see concern on growth led by supply side number one and even if you are able to execute, it may hurt your margins in near term for two, three

quarters. So, what is the solution in your view and how do you see the situation?

**Krishna Bodanapu:** Thanks, Sandip, I think that is a very relevant question and a very pertinent set of observations. You are right, I think the challenge that we face is more the supply side challenge than the demand side challenge at the moment. And also, in much of our businesses we do need to increase or we do need to train people. We need to get them ready and so on so forth so it has been a supply side challenge. The demand is there. The demand also, if you look at it, we have also been quite aggressive about how we manage bench and the utilization. And of course, we do not have the scale of some of the larger companies where even a 2% slack for them turns out to be many thousands of people, whereas for us 2% is not a very large number and then you start getting into skills etc. it becomes a challenge. So one is, the demand is there and we are also facing a fairly significant demand, so we have had to make some choices on what demand we will service and that we do not give in the capacity and the capability that we have now. So that is one part. So, that is why I say with confidence that from Q2 onwards things will look much stronger for a couple of reasons.

First is I think getting people on board and getting people into the company and getting them ready etc, we have done a lot of work in Q1 and again because of what happened in April and May we have got derailed a little bit at the beginning of the quarter given that all the resources including HR leadership were focused on the COVID related issues. Almost 10% of our staff had COVID at some point and we have dealt with it right now and thank God we are less than a few people with Covid, which I am sure we will get resolved. So, one is we have onboarded and we have been quite prudent at onboarding people, which is now helping address the demand.

The second thing is we see is the supply of freshers. I mean that is a big part of the supply base, that is a big part of what is available in India and

if you look at it now also what has happened is the supply base got delayed given that exams got postponed and all that has been happening, this supply base got a little bit delayed. So, what we are seeing is we have onboarded a number of freshers. I think we have onboarded almost 600 freshers in June. It will take a month or two to get them prepared. Again, that would not be useful for all the demand, but at least for much of the demand that we have, they can be trained over a month or two to at least start to get productive. So that is the second part of this equation is between last year and this year given that freshers are available essentially in May-June time frame that demand has come in. In our case, 600 people will onboard, another 500 or 600 in in this coming quarter in Q2, but overall, as a country you know half a million people are available which will also help address the supply side challenge.

So, it is a combination of these two things. I think from a lateral hiring we are much better prepared. We have been able to on board the resources they are getting productive and like I said, June was a very, very strong month, which will continue and the freshers will now become available in the next couple of months which will also go a long way in addressing the supply side challenge. But I will say, thank you for pointing out that the demand is there. That is not the problem. It is really the supply that we need to be aware of address.

**Sandip Agarwal:**

So, Krishna, if you allow me to ask one more question. I would like to ask another question on the same line. So, is there a way we can analyze that? Let us say if we would have continued with our nominal bench, which we generally maintain assuming that this pandemic or taking a risk that you know we would be overstaffed for some time and today the challenge which we have taken on the hit which we are going to take on the execution or not taking the order. What would have been the tradeoff between them or in an indirect way that if you would have the resources right now, ready resources, how much of market share gains you would have made? Have we done that kind of exercise? The objective of asking

this question is not that we have done something wrong because the on whole it was completely unpredictable for the all the companies and everyone has run thin benches in last 12 months, but the objective of asking this question is primarily to know that is there a real loss of revenue which has happened to the whole industry because of this panic that global economy will collapse and IT will or the software services will also collapse when the world was able to see that the only thing which was running the world was technology. So that is what I want to know?

**Krishna Bodanapu:** See, I think I will let Karthik add to it but I will say prima facie there was about \$3 million of revenue that we lost just because of supply side constraints. Some of it is in DLM, some of it in services. So, the \$3 million was even with the current capacity without having that additional bench. That is this was lost because people had Covid or we could not get parts or whatever that reason was. So, I said baseline there was \$3 million that I can think of. Karthik, do you think there would have been more if we had a bench?

**Karthik Natarajan:** No, I do not think so, Krishna. I think the reasons were two things right. One, what we had supplied last year was more on the aerospace. Where we are seeing the demand is on the non-aerospace. The second element also is more demand is coming on the digital side and where we really need to build up a lot of these skills and due to the pandemic, I think if at all there is anything that has happened, the digital transformation has really accelerated, probably at least by 20% year-on-year if not more. It is about how we are able to really match up with the demand that is happening on the digital, whether it is about intelligent automation or Internet of Things or trying to integrate with cloud automation. I think a lot of things that we are really talking about the skill set full stack engineers. A lot of them that are required in demand today were not there one year ago. So, this is something where the demand definitely picked up in the last four months and we are seeing the brunt of it and

anticipating that is the reason why we added about 400 plus net addition headcount in Q1 and we are continuing to look for both lateral as well as hire, train and deploy model. We need to see how we are able to really use both of them to help in meeting the demand.

**Moderator:** Thank you. The next question is from the line of Sandeep Shah for Equirus Securities.

**Sandeep Shah:** It is good to understand the impact here because of the supply side issue, but curious to know that some of your peers in the Engineering R&D sector have actually been growing anywhere between 3% to 6% while we have a flattish kind of our services revenue growth with a \$3 million kind of an impact, which could be split between service and DLM. So, I just wanted to understand what nature of demand which we tap which has impacted us despite work from home versus the other peers has not seen a bigger impact as a whole?

**Karthik Natarajan:** We are seeing the demand across the board. We definitely have a significant demand coming on the digital and digital is about 3-4 key areas. Whether it is about asset management, industry 4.0, mobile workforce management. How do you think we can do some system integration projects? I think these are the ones which are required as part of the digital.

The second one is about embedded software and applications. I think this is another one which definitely has the highest demand and followed by semiconductors and probably this segment would see continued growth for the next 2-3 years driven by 5G, artificial intelligence and some of the new silicon that needs to be designed for edge compute. I think all of them would require a significant amount of R&D spent, and that is what is coming to us, but again, the semiconductors also have a supply challenge because there is a limited population available in India. So, this needs to be created or you really need to have a mechanism to look at on boarding from other geographies beyond India, including



Eastern Europe or Southeast Asia. So, you need to really look at alternate options to explore to meet the growing demand on the semiconductor side and followed by the network site. We definitely see a solid demand on the network site and both on the intelligent network design as well as on the network technology transformation side. And that is something we are fairly comfortable about what we have done in the last one year so we were prepared for it. We know how to really address that, but the real issues are about the digital and the semiconductor side. How do you think we are able to address the demand that is coming on those two areas and the skillset.

**Ajay Aggarwal:**

If I will just add Sandeep, I would say that whatever we said is more specific to the one off in the quarter one. When we are saying that we are confident of a double-digit growth, we have also done extensive exercise to look at both the demand and the supply side and at the end of it and that has been the learning. So far, we would not spend so much time. And if you look at our pipeline, one is on the demand side. I think Krishna already spoke about it. Karthik also mentioned in his presentation even on the supply side, our pipeline is the best ever. I think that is what it is. So, I would say quarter one has been a one off. And going forward, you would see whatever is needed for that double digit growth will come to fulfill the demand as well as we will overcome those supply challenges. If at all I think other things could be upside to it, right? So, I just wanted to add to what Karthik said.

**Sandeep Shah:**

So, is it fair to assume that it was not because of the employee infection which impacted the growth it was actually the scarcity of the talent on the digital side which impacted your growth? And if you believe that this revenue is not a loss, it will come back, and that is why you are not changing your whole year growth guidance. What gives you the confidence that what you have faced in 1Q will not be a challenge in 2Q, 3Q and 4Q as a whole?

**Ajay Aggarwal:** Yes, sure. See firstly Sandeep, I think the quarter one is more or less in line with what we had anticipated, right? If you were looking at a very strong growth, it was in quarter 2, quarter 3, quarter 4, whatever \$3 million loss Krishna has talked about I think we definitely had higher number of employees that were infected. Good thing is I think all of them have recovered and as June we are absolutely back to normal. We had some challenges on the pipeline of the manpower and we also had some issues on the on the past. But I think all that wave 2 impact has settled completely and I would say we are back to business as usual in June itself, and that is how we are saying that some of it was already built in. Even if you add \$3 million to our quarter one growth still, it looks flat. This is the portfolio of the businesses that we have and based on that this is how we plan.

**Krishna Bodanapu:** I will just actually take the \$3 million as base case that was anticipated. That was more the reason why we lost the \$3 million was because people were not available etc. But okay, that \$3 million is still a small number, right. And we are anticipating if you look at the, if you are holding the forecast for the rest of the year, the growth will have to be much more than that. And that is because you know to Karthik's earlier point what was earlier skill sets in areas like mechanical engineering for aerospace are now becoming more the digital skills of semiconductor and making that switch has taken a little bit of time. I mean if honestly if all the growth had come back in aerospace in the same manner that we had faced last year, things would have looked very different. And also, I want to say that look if you look at the way that we are looking at the business, all the commentary is still based on aerospace remaining a U-shaped recovery and that we are still at the bottom of the U, at least through most of the rest of the year. I mean, we are seeing some slow growth like Karthik said 2-3%. But nothing significant. So, we are able to recover reasonably well in spite of aerospace, which has been the biggest business still being at the bottom. And leave the mathematics aside, the bigger challenges, the skills that we have in aerospace were

quite specialized. So, we have rebuilt the business and the reason why we are saying that okay, the \$3 million was based on what was there, but what could be is because we built the newer skills and that is where there is also a lot of demand.

**Sandeep Shah:** And just follow up questions. If I look at 10% growth in services, the compounded QoQ ask rate would be close to 4% for the next 3 quarters and generally December quarter is reasonably soft for engineering R&D. So that means we may have to do a heavy lifting in the second quarter, where growth could be close to a high single digit. So, is it a fairway directionally one can model and you believe that is possible, where 1Q postponement of growth plus 2Q growth will help you to post a better number strong number in the 2Q itself?

**Krishna Bodanapu:** Yes, absolutely. I think that is fair and but I will say the other thing is, see that hypothesis that Q3 was soft was when the onsite business was much larger and also when things like work from home were not really working. Our offshoring has again increased this quarter and actually the offshoring part because in India Q3 is not that bad. Of course, we have Dussehra, Diwali holidays and New Year's etc. but it is not so bad. The challenge used to be when a large portion of our aerospace business was also US centric for various reasons. That is when it became a big challenge but Q3 is a little bit of a less of a challenge as we see it this year because of these reasons - more offshoring and so on so forth. At the same time your hypothesis or your assumption is right that a lot of the heavy lifting has to happen in Q2 and a bit in Q4. Because Q3 we still do not know. That is at least last year we had a better, Q3 than Q2, but of course it was an extraordinary year.

**Sandeep Shah:** Okay and just the last question. Krishna, I think it is good to see that third consecutive quarter of a good large deal wins. But if you look at the last two quarters, the TCV has been \$70 million to \$90 million, while in this quarter it is close to \$50 million with lower number of deals. Is it more to do that decision making has also got postponed from the client

side on the deal closures because of the COVID or it is an aberration and may actually come back or improve going forward as well?

**Karthik Natarajan:** Sandeep, I would say that I think we kind of even guided earlier, we are just building the large deal factory. The focus is to compete and win higher or larger size deals than what we have participated in the past. I think this is going to see some up and down as we start building it up and we said this will take about four to six quarters for us to build a factory, that is the concept that we laid out in terms of how do we make large deals are to be built as a factory, which can generate probably 5 to 7 deals every quarter. I think this is going to be a journey that we are in to and probably we will start building that up over the next 2-3 quarters and we will keep you posted on how we make progress on it. I would say the last 2-3 quarters has been good for us and we are continuing to build the momentum with our customers. The top 30 customers. And also with the sales training and sales transformation, we also brought on few advisors that will help us to connect with CXOs. We also launched some of the technology solutions and that would really help us to drive it. And we also looked at five pillars as a growth theme for us, and whether it is digital, embedded software, semiconductors, and networks and geospatial. We said these are the five pillars that we are going to bet on as our growth engines. So, by putting all of them together, believe that we have a great story and differentiated story that can help us to drive this growth in the next 2-3 quarters.

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

**Mohit Jain:** One is on the order intake like even if you see the split between DLM and services, DLM clearly shows the kind of uptick we have seen in revenues and the kind of commentary you guys are guiding for in terms of 20% growth, but services over longer horizon like, even if you take 12 months period and then do it over last two years, there is no uptick which is visible on the order intake. Even excluding the large deals like

this is the total order intake. So, what is happening there and when should we expect this order intake to start reflecting the kind of trends you are seeing in the industry?

**Karthik Natarajan:** I would say it takes about one to two quarters for it to start showing up, Mohit. And to give an example, we announced a large deal on HMLR and this is starting to ramp up in this quarter and in some cases, it may happen in one quarter, in some it may take 2 to 3 quarters. The key thing that we are really highlighting here is as compared to the last year I think the way we are seeing that is the order intake plus order backlog that gives us the confidence for rest of the year. The second element is converting that into revenue where you go through a supply transition and then into a revenue. The way you are able to transit to revenue is where it takes some time and sometimes it is customer driven where customers have aligned us to be the winner to execute the project but they may have some budget constraint and they may start up one or two quarters down the line so that may have some delays, but otherwise we expect probably 70-80% of the order intake should get executed within this financial year.

**Mohit Jain:** Order backlog is something which we do not get, right? Or can you share some numbers there?

**Krishna Bodanapu:** We do not share the backlog numbers. See if you look at it compared to last year, the services order intake has increased 20% plus or actually 21%. I mean compared to Q4 it is down but that is because Q4 is always a difficult quarter for us and so on. So, I would say the backlog has been reasonably good I think because also what has happened with some of these order intake numbers is that the aerospace backlog would have also got cancelled. So this is the net order intake that we are reporting, which means that if you look at aerospace, where we have lost almost \$80 million or so of revenue this year. A lot of that order was in place because aerospace orders would have also come in in Q4 of the previous year for last year. So, this is a little bit subdued because this is the net

number. This is not the gross number and we also take into account the cancellations and therefore I want to assure you that the intake is good. I mean to support the numbers that we are talking about. There is enough order intake and order backlog as a result.

**Mohit Jain:** So, when you say net if there is an order in Q1 21, and you accounted for it, let us say \$100 million back then, and it gets cancelled. So, you actually report the today's number \$120 million is net of that cancellation.

**Krishna Bodanapu:** Yes, it is net of that calculation, yes.

**Mohit Jain:** Because we will not restate at the past numbers, right?

**Krishna Bodanapu:** Yes, exactly. So, it is like a P&L rather than a balance sheet.

**Mohit Jain:** And second was there is this headcount growth which I think of course is in anticipation of a strong second half. But attrition is also slightly uncomfortable at 23-24%. So, and you guys are saying that wage hikes are already done with for the year or are you looking at one more round, maybe in the second half or something? Is this something which is planned because it was called merit based so is it not normal wage hike or is it the wage hike which is done for the year?

**Krishna Bodanapu:** No, we call it merit based. It is the normal wage hike but we have built in enough flexibility if we have to make further corrections during the course of the year, we will. We are not going to announce that because we will only do it as and when required and also for certain skills, because I think the reality of our business is also there is some pretty high-end skills, so we have to look at the skill and the demand in the market etc. So, I would say we have enough buffer built in where if we have to do another wage hike, we will be able to absorb that.

Now the second thing is, yes, attrition is a little bit higher and I think it is something that we also struggle with because there are some elements

of our business which has high end skills. It is also quite unique work that we do where we can keep attrition under control, but there is also fairly commoditized part of our business where attrition is quite high. So, we are working on it. I mean, we have seen that it is come down a little bit at least in June and we think that it will come closer to 20% in Q2. That is the number that we can still manage with at least in the short term. So, we are working on it. You are right, it is a little bit uncomfortable to put it charitably, but we will work on it. We have to deal with it and we have a plan to continue to reduce it.

**Ajay Aggarwal:** And I think our salary increases are spread over quarter one and quarter two. As I said earlier that you know about two third of it is already done and you may say 50-70 bps impact in quarter two as well. So, in total it will be about 240 to 250 bps for the year. Just want to put the clarification on that.

**Mohit Jain:** Ajay, one last question on DLM metrics. In terms of direct salaries and gross profit, it appears that some cost is missed out in the presentation. What is the correct EBITDA or gross profit number for DLM? I am on slide number 20 of the annexure.

**Ajay Aggarwal:** So, I can just clarify the numbers and we can do the reconciliation offline. Basically, our overall is about 6% margin for this particular quarter at EBIT level. As I said in my presentation 5.6% and as far as the gross margin is concerned, that is around 14-15%.

**Mohit Jain:** EBIT is Rs.106 million, correct?

**Ajay Aggarwal:** Yes, correct.

**Moderator:** Thank you very much. The next question is from the line of Mukul Garg from Motilal Oswal.

**Mukul Garg:** You know I think, Krishna, this was something which was discussed last quarter as well. You guys have done a tremendous job on the margin

side, especially on the services the margin this quarter definitely was quite good. But if you look at your guidance it continues to remain the same of about 200 basis points YoY improvement in FY22, while you just also mentioned that you have kept some buffer in case you need to do some adjustment in terms of workforce.

But even after that, given especially the kind of impact you have seen in your overall margin profile in Q1 during a normal wage hike cycle, it still leaves a lot of gaps in what you can deliver over next 3 quarters in both services and DLM which are obviously coming off, a low base from a profitability point of view and your guidance of about 200 basis point improvement. If you can just help us understand why this continued conservatism? Last quarter obviously the Wave 2 impact was there and there was a lack of clarity but things seem to be much better right now and it seems like you are the only one who is a kind of keeping you know a potential wave 3 on the sidelines as a risk factor. If you can just help us understand and kind of reconcile this?

**Krishna Bodanapu:** So okay fair point, but I will say next quarter we also have some additional costs that are coming in. For example, the ESOP scheme that was announced, we will start accounting for it, there is about a 50 basis points impact that we will have next quarter because of the new ESOP scheme.

So I would not say conservative yet, I would say a bit prudent, because obviously there is still a lot of uncertainty. One is these known costs, the ESOP will hit us by 50 bps and salary increase will have to make up etc. Again, we were quite confident that the margin would not dip. That we will see actually a little bit of growth in Q2 also, but I think it is good to be prudent at this point. I mean third wave is one potential thing, but there are enough unknowns. Because until we really get back to the growth it is a tradeoff between growth and margin. I would be a lot more comfortable when we start to get back to the growth of Q4 and Q3 of last year when we were 3-4% quarter-on-quarter. Once we start get back



to that and maintain this margin, I think it will be more prudent to say that the margin will be more than 200 basis points better this year. Yes empirically the evidence would suggest that we should do better than that, but I would just err on the side of prudence before committing to it just because of ESOP and the uncertainty. Third wave or not is debatable, but you know it is not just the third wave, it is various elements. So, I would say taking a combination of those before I put my sort of credibility out and say it will be much more than 200 bps. I would still stick to that for one more quarter before hopefully having a better understanding.

**Mukul Garg:**

A different way to kind of look at this is also that would you be comfortable in investing or kind of letting go of some profitability in case you get a large order. Your guidance already implies a very meaningful pickup over next three quarters. Is that something which is baking in some impact in terms of a deal specific margin hit or can there be something which can really help you beat this meaningfully? If you just take a little bit more flexibility on profitability?

**Krishna Bodanapu:** So, I will say on deal specific I would not go as far as saying we would trade off margin for revenue on any deal because recovery from that is a is a very difficult situation and something that we faced over the last couple of years where we had to go through cease and cure process and stop working with some of the accounts and so on so forth. We do have a fairly aggressive investment plan in proactive investments. These are things like technology, these are things like more sales people etc. I would say I am sort of bullish on investing in those areas as investments rather than saying that we will trade off the margin for revenue because that is a one-way street. You will never be able to recover the margin and sometime in the next X number of years, we will just have the cease or cure conversation again. So yes, we do have a fairly aggressive investment plans that we will also follow and therefore I would say the

margins are not going to get that much better because we are going to do, we are going to invest ESOPS and so on and so forth.

**Ajay Aggarwal:** If I may just add, if you remember our Q4 guidance we had talked about these investments, what Krishna said and in Q1 not much of it has fructified. So definitely we are looking at somewhere between 100 to 200 basis points of these investments, depending on how the progress happens and linking to some of the benefits and other things.

**Moderator:** Thank you very much. As there are no further questions, I will now hand the conference over to Mr. Krishna Bodanapu for closing comments.

**Krishna Bodanapu:** Thank you very much. I will once again say thank you for the support and thank you for the confidence in Cyient. We anticipated what was going to happen, obviously on revenue it is a little bit slower than what we would have liked, and as I explained it, there was a good reason for it. And an anticipated reason for it. On margin, we are doing well. That gives us a lot of pride. And again, I do not want to say we are at the end state. It is a journey and I think we are making good progress in the journey and will continue to make that margin progress. And that is very important because all the growth now will come on much better cost structures. We will continue to make investments. Of course, prudent investments on technology, on sales, on client facing aspects.

So, all that will continue and I just want to say that the road ahead looks much better than the road behind. Especially if you take in to account what had happened in the same quarter last year. So, if we take all that into account, I think we are very well positioned to have good growth on a very good base with some good metrics along with that. And lastly, I like to compliment the Cyient team especially the business continuity teams and the HR teams. They did a phenomenal job when the going was tough which gives me a lot of pride to say that look we have gone through tough situations - both on the business front in the last two years, and of course the COVID situation in the last year. And then again, this

quarter and we have come out very strongly, which gives me confidence to say fundamentally, there is a lot of pride. There is a lot of confidence in the business and we are well set up to overcome anything that comes our way. So, thank you once again for the support and I will hand it back to the moderator.

**Moderator:**

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