"Q4 FY2022 Earnings Conference Call
Cyient Limited"

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Moderator: Ladies and gentlemen, good day and welcome to the Q4 FY22 Earnings Conference Call of Cyient Limited. 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, Managing Director and CEO. Thank you and over to you, Sir.

Krishna Bodanapu: Thank you very much. Ladies and gentlemen good evening. Welcome to Cyient Limited earnings call for the Q4 of the financial year FY2022. I am Krishna Bodanapu, Managing Director and Chief Executive Officer. 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 discussions may be forward-looking in nature and may involve risks and uncertainty. A detailed statement in this regard is available in our investor update, which has been emailed to you and is also posted on our corporate website. This call will be accompanied with an earnings call presentation and the details of this have already been shared with you. With this let me take you to the highlights of the quarter.

In USD terms, we posted a revenue of $156.7 million, which is a growth of 4.6% YoY and a slight degrowth of 0.8% QoQ or 0.4% in constant currency terms. In rupee terms, we posted a quarterly revenue of Rs. 1,181 Crores. This signifies a growth of 8.1% YoY and flat QoQ. Services revenue stood at $130.6 million with a growth of 9.2% YoY and 1.1% QoQ or 1.6% in constant currency terms. DLM revenues stood at $26.1 million, which is a de-growth of 13.8% YoY and 9.3% QoQ. We posted the highest ever group EBIT in Q4, which stood at Rs.170.8 Crores or Rs.1,708 million. Group EBIT margins stood at 14.5%, which is up 182 bps from last year and 59 bps QoQ. Profit after tax stood at Rs.154.2 Crores or Rs. 1,542 million for the quarter, which is a growth of 39.3% YoY and 17.1% QoQ.

As a summary, I am very happy to report that most of the metrics barring absolute revenue have been the highest that they have ever been and especially we are very proud of what we have achieved on the profitability and the profit side.

Next let me take you to the highlights for the full year. Total revenue stood at Rs. 45,344 million or Rs. 4,534 Crores signifying a growth of 9.7% on a full-year basis. In US dollar terms, the revenue stood at $608.2 million which is a growth of 9.2% and 8.7% in constant currency terms. Services revenue for the year stood at $503.5 million signifying a growth of 9.2% or 8.5% in constant currency terms. DLM revenue for the year stood at $104.7 million, which is a growth of 9.5% on a YoY basis. Group EBIT which is the highest ever stood at Rs. 6,297 million or Rs. 629.7 Crores, which is up 51.3% compared to last year. Group EBIT margins stood at 13.9% for the year, which is up by 381 basis points and is also the highest in the last seven years. Services margin stood at 15.3% higher by 432 bps and DLM margins stood at 7.2%, which is higher by 142 bps. Profit for the year stood at Rs.522.3 crore or 5,223 million up 40.6% compared to last year. Free cash flow generation stood at Rs. 5,719 million with cash conversion at 64.7% on EBITDA or a conversion of 109.5% of PAT to cash. We also declared the highest ever dividend for the full year at Rs.24 per share which included an interim dividend of Rs.10. In the last two years, we have generated free cash of Rs. 1,333 Crores and have paid out accumulative dividend of ~ Rs. 451 crores to our shareholders.

Coming to other highlights for the quarter, we signed a Memorandum of Understanding with the IIT Hyderabad for research collaboration to set up a private 5G centre of excellence. The enterprises across industries now recognize the benefits of private 5G network and they are looking at network solutions that cater to their unique business context and enable their digital transformation.

We have partnered with iBASEt for implementing the manufacturing systems for maintenance, repair and overhaul solutions and this is also a very exciting opportunity because it is another great foray into digital forum. We launched the Firmware over-the-Air (FOTA) solutions for connected devices. As you can imagine with the number of devices that are being connected and their whole connected equipment that is coming in, it is quite important that there is a robust way in which the firmware can be updated and this is a unique solution that we have come up with.

We are also proud that Cyient is positioned as a major contender in Everest Group PEAK matrix for digital product engineering services and we have been investing heavily, as you know, in semiconductor embedded software, hardware, etc., and also we have come up with the solutions suite of CyientifiQ and IntelliCyient. All these recognitions from Everest and a few others that we have reported in the previous quarters are a validation of the right things that we are doing especially on technology enablement in areas like digital. With this, I would like to hand over the call to Ajay who will take you through the detailed financial performance of the quarter. Thank you and I will answer questions after the presentation is done.

Ajay Aggarwal: Thank you Krishna and I am very delighted to say that we have excellent results for the quarter on all the parameters and I will start with revenue. We have delivered $156.7

million of revenue for the quarter, which was flat overall. In services in constant currency terms, we have got 1.6% growth while in dollar terms it is 1.1%. We have done $26.1 million in DLM, which is 9% degrowth in the quarter and this is line with our expectations. From services, if you see, our growth from YoY is about 9.2%. The DLM has degrown YoY. There have been supply-side issues and overall the growth for the group is 4.6% YoY.

In terms of the full year, we have clocked our revenue at $608.2 million with $503.5 million for services and 104.7 for DLM and that translates into a constant currency growth of 8.5% for services and 9.2% in terms of the dollar. In terms of DLM we have done $104.7 million and we have done a growth of 9.5%. Definitely we were gunning for a growth of 15% plus at the beginning of the year but due to some of the supply side challenges, I think, we have not been able to get. We have been talking about that quarter-on-quarter, but this is in line with what we have anticipated for this particular quarter.

In terms of the income statement for the quarter, I think, our EBIT margin has been for the group at 14.5% compared to Q3 of 13.9%, which is 60 bps improvement and again this is in line with what we have done and we will see later that for the whole year, the margin expansion is about 380 bps. I think our focus on operational improvements and other initiatives that we have been talking about have played out both in Q4 as well as for full year. We have also tried to provide you the bridge separately that you can read in terms of what has happened in terms of the change between the two quarters as well as for the full year. The focus of the company has been on operational improvement, which includes utilization, offshoring as well as doing more revenue with the higher quality, which means higher margin. All these improvements have given us a 5-6% kind of improvement. Then we have the headwinds of investments into people and long term. We also have the benefit of scale. So net net, I think these levers have been there. All these levers that I have talked about, are applicable for the quarter as well as for the full year, and I just wanted to give comfort to all shareholders that when we are looking at EBIT margin of 14.5% for the quarter or 13.9% for the year, we have made adequate investments during the year and also planned for the next year in terms of the long term and typically we are spending 1.5% to 2% in terms of the investments into the business for future and we are doing the right investment for retention of the people and motivation of the people.

In terms of the PAT, you can see we have increased it 40.6% YoY and about 17% QoQ. The ETR is 25.2%, but I will say ETR at an overall level is going to be more like 27%. Next year, we will talk more about it but we are looking at ultimately rate of about 25% for India and with a little higher tax rate for US, we will be at 27% and I would say the most important highlight in this is that 10% growth. Definitely, we are not meeting what we had planned to do at the beginning of the year, but at about 9-10% growth on the top line, we have delivered a growth of 40% on the bottom line and of about 50% at the EBIT level. There has been a lot of focus to make sure that we focus on delivering the profit and the profitable growth and that is in line with what we had planned internally. This I would let you read, we are completely providing you with details of what has helped us both for the quarter as well as for the year in terms of various levers that have worked on the margins. It really helps you especially our analyst friends to understand what has happened.

Cash generation, I think in terms of the cash, we have a healthy cash position of Rs. 15,689 million which is about $200 million plus. We have generated a cash of Rs. 1,225 million in the particular quarter. This is a conversation of about 49.1%. I would like to call out that in the last quarter we had a conversion of 70% plus and when you look at this number 49% with some exceptional collections and some other things that happened in Q3 we are not worried for H2, per se we are continuing to be at 65% plus. If I come to the year, we have done a free cash flow of Rs. 5,719 million, which is again a conversation of about 64.7% for the full year and if you see our conversion of net profit I would like you to have a look at the financial year FY22, we are able to convert 100% of net profit into the free cash flow. We are confident of these levels of 65% plus or minus 5% in terms of very high growth year what is other scenarios in terms of more investment, but I think we are confident that 65% to 70% for services and about 50% to 60% for DLM we continue to generate. You will also note that we have generated 499 million of free cash flow in DLM compared to 84 million which is a significant increase and we still want to improve it further and you will see in the coming year there will be a further significant improvement in case of DLM which has also helped for us as a group. One more thing I would like to mention you will see in the detailed investor update that there is a continuous focus on all the levers of free cash flow. One of the important ones has been that we have been able to achieve six days reduction in DSO for this particular year. That is on top of 11 days that we had done in the previous year. I think that 17 days reduction is really helping us and also the capex is further optimized and of course there is a profit increase that is also helping us. Last comment from my side that in terms of the other income also if you look at, there have been some headwinds from some of these European currencies because of the situation, but I am happy to inform that whatever is the impact on P&L the gains in our other income have far exceeded the losses and we are for the next four quarters, as well, placed at a very nice situation so that our other income will also help. This also impacts our cash generation so that is how we are confident of maintaining these levels of conversion for the company. With this, I will hand over to Karthik.

Karthik Natarajan: Thank you Ajay and good day everyone and we are pleased with the performance of Q4 and continuing on what Krishna and Ajay have talked about and we have witnessed a services growth of 1.6% in constant currency. This is our third successive quarter of growth in services. I think we want to continue to build the momentum on services. If you take a view on the table on the left-hand side and aerospace is starting to grow at 10% close to year on year. I don't think we have now reached the peak of aerospace yet but 10% is something that we are really happy with the progress that we have made. We talked about last year same time the depths of bottom that we had hit, I think that is definitely continuing. The momentum is there, but it is not to the extent that we want it to be. In communication and utilities definitely we are building the scale and with 3.8% QoQ growth and specifically communications has grown by 6.4% and this is something that we expect to continue even for the next financial year. In terms of our portfolio, it has grown by about 18% YoY, I think we expected the portfolio of sectors to lead our growth. I think that happened to be true for this year and also with offshore mix at 51.6% and this is the highest ever we have seen on the offshore mix. That was 1.8% higher as compared to the last quarter and also the utilization continues to be a high level of 86% and more.

We also won about seven large deals and we talked about focus in terms of winning more large deals. I think that is continuing and interestingly six from services out of which three are from telecom and one from auto, medical and semiconductor. One is a composite build to spec deal and that is from the transport vertical. In terms of our quarterly intake and our client services order intake is up by 13.1% YoY and the group order intake is down by 11.9% and this is only due to seasonality. We do not really have any challenges in terms of the order book and order intake.

So in terms of full year, we have seen growth across all the segments. I think that is definitely good. Transport has grown by 1.1% and communication we have grown by 12.6% YoY and portfolio has grown by 17.5%. Interestingly we talked about rail and we are seeing a volume growth of 7% in terms of billed hours, but the revenue was down by 3% due to significant amount of offshoring. I will also touch upon the trends for next financial year and some consolidation in the customer segments is going to push more cost savings and significant benefits and that will probably drive more offshoring. So we will have muted growth for H1, but H2 of fiscal FY2023 will continue to see a growth in the rail business as well. In terms of growth for the group, it stood at 8.7% in constant currency and we are also pleased to see our EBIT performance growth of 51% YoY and this is led by offshoring to the extent of 5.5%, utilization improvement by 3% and all this helped us to manage a good performance of 50% plus. Also in terms of 5 pillars, we continue to see momentum on 5 pillars which has grown by 21% which is close to 2x of the company growth and we have added about 580 heads last quarter. I think that is definitely a positive sign for what we expect to see for the next couple of quarters.

If I try to deep dive into each of the segments and starting with transportation, we expect this is going to be a still sluggish sector. As far as the aerospace is concerned, we will see growth in the FY23. As far as rail is concerned, we expect the first half to be muted and we do expect the second half to really drive significant growth. Some of the key wins that we had in the last quarter includes areas in aftermarket and some of the ITAR work, embedded, Industry 4.0 as well as the urban air mobility segment. I think these are some of the expansions that we are getting into. It is not about conventional aerospace and the way you start moving into the segments of air mobility and that is where we are really seeing the growth. As far as rail is concerned, we talked about the consolidation. Interestingly we are seeing momentum on rail signaling and embedded system and digital solutions and we expect this to lead the growth for us in the next financial year.

DLM has witnessed a de-growth which is due to the material availability and the long lead time for some of the materials. We do have a robust order book, but execution as per the plan is going to be difficult with the challenges on semiconductors faced by the entire industry.

The communication segment continues to build robust growth and we are anticipating it even for FY23. We won three major deals in Q4, which I talked about and one of them is for a customer who wants to roll out a broadband network in Canada and this is an interesting one for us. We are able to bring a digital solution for the fibre roll out and this is going to be first of its kind for us and we hope to continue to build on similar priorities with many of the customers. Private 5G networks center of excellence, collaboration with IIT will allow us to test various used cases and allow the inter-operability of network components from various industry leaders. We continue to remain positive for fiscal FY23 and we hope this segment will show a double-digit growth even for FY23. Utilities has witnessed a small de-growth in Q4 and this is more to do with the technicality of the major project execution. We continue to make progress with some of the recent wins in APAC to deploy a cloud network, next generation spatial information system and we continue to make progress on digital utilities. This is going to be a growth segment for us for FY23.

Digital is one area where we have come a long way in the last 18 to 24 months. The growth is driven by operational technologies combined with our domain expertise and we are able to really establish ourselves as a digital transformation partner for our customers. The proof of the pudding is some of the engagement we are starting to do includes the industry 4.0 implementation for an engine manufacturing customer in North America as well as setting up a consulting road map in terms of implementation of MRO solutions for an APAC customer which includes setting up smart operations as well as supply chain. Some of the recognition from analysts have also reinforced the sales in terms of our business of digital solutions that we are building up.

Going to the portfolio services, I think we are seeing a growth of more than 35% from medical and we expect that to continue. The growth is led by demand from digital engineering services for medical device platform development, embedded software and software services for next generation products and regulatory services in compliance with regulatory requirements. I think the regulatory environment is getting tough and we do see this as a potential opportunity for us to provide the QA/RA services for many of our customers. Semiconductors witnessed a small degrowth last quarter, but we are continuing to build momentum on semiconductors and we have capabilities both on turnkey as well as on services. I think that is bringing us confidence that we will continue to really show growth in FY23 and this is going to be one segment, which will definitely witness more than 20% plus growth for the next financial year. Mining and natural resources, this has seen close to 70% growth in FY22 and we have added about 12 logos in this segment. The acquisition that we made about 15 months ago of IG partners is really proving to do well for us and we continue to see momentum around ESG, sustainability and digital transformation initiatives for the mining segment.

Energy industrial plant engineering has grown about 20% YoY and we will continue to make progress on this segment as we are adding new logos and expanding some of the customer relationships in this area. We are seeing growth led by digital technology transformation around the portfolio of our customers. Geospatial has witnessed marginal decline and except for one customer I think this segment has seen the growth in FY22. We continue to build momentum of expanding our capabilities into various domains like mining, communication, and automotive utilities as well as expanding into the high-tech segments and this is the really an exciting segment for us in the next 12 to 18 months based on the plans that we laid out. Automotive and mobility has witnessed a sequential growth in Q4 and we continue to see a strong robust demand from automotive side and we expect this to grow significantly in the next financial year. We have started making investments over the last 24 months and that is starting to pay off. With that I will hand it over to Krishna for providing the outlook for FY23.

Krishna Bodanapu: In terms of the outlook for FY23 in terms of revenue, we are quite confident that the growth in revenue will be in the 13-15% range in constant currency for the group. In DLM, we continue to have supply side challenges, which means that we are anticipating that the growth for DLM will be lower. It will be in the high single digits so of course services will do a little bit better than DLM. In terms of EBIT margin we expect the full year margin to be in the range of 13-14%, which is in line with what we have done this year. Again we continue to anticipate a tough supply environment from the people perspective and therefore we believe it may be quite difficult to significantly improve margins from where they are at least in the coming year. In FY23 our effective tax rate will be around 27% given all the jurisdictions, etc., we believe that we will be in that range from an effective tax range perspective. So net-net I just want to summarize this by saying I think we have had a reasonable year in FY22, but we have a much greater degree of confidence in terms of what will happen in FY23. This is the outlook that we are giving. It is based on the backlog that we have, based on the customer mix and various other parameters, which give us a fair degree of confidence that we can deliver within that range. With that I will hand it back to the moderator to curate the question-and-answer session.

Moderator: Thank you very much Sir. We will now begin the question-and-answer session. The first question is from the line of Sanjay Awatramani from Envision Capital. Please go ahead.

Sanjay Awatramani: Good evening Sir and thank you for giving me this opportunity. My question was on the attrition rate? Can you highlight something on the full year attrition rate?

Krishna Bodanapu: I am sorry. Why don't we come back to that because the quarterly attrition rate actually came down about 250 basis points compared to Q3 and it is at 26.9% compared to 29.3% that was in Q3. For the quarter it was 26.9% and actually the full year number is also more or less there. I think it was at 27% number but the good news is it has actually trended downwards and obviously I think we have started off at 26%, went to 27%, then 29% and now we are back to about 26%. That is the trend of attrition for the year and we are now quite confident that this is on a lower trend is a good situation because that really has been the biggest challenge for us in terms of delivering some of the revenue growth we had anticipated.

Sanjay Awatramani: So is my understanding correct that you previously mentioned that 27% is the tax rate for FY2022?

Ajay Aggarwal: I think in terms of the group it will be 27%. That is right.

Sanjay Awatramani: Just to confirm that the revenue, the guidance that you have given is 13-15% range in constant currency for FY23 and EBIT margins will be 13-14%?

Krishna Bodanapu: That is right. Both assumptions are correct. That is what we meant.

Sanjay Awatramani: So Sir just a follow-up question on this attrition side, I mean do we plan to hire some additional hiring, then train them and then we board them for this work in the IT sector? I mean as we see the other competitors are hiring in bulk for these fresher hiring? Are we on the same page or we are moving ahead in another direction in this?

Karthik Natarajan: Sanjay, Karthik here let me take this question. The way we are really looking at this there are three ways that we are trying to strengthen our recruitment practices. One is the fresher-hire and train employee model and the second is we are also trying to look at acquihire. We are trying to onboard resources through our rebadging model and the third would be what we call the lateral model. We started up with laterals. We started moving into acquihire and we are in the plan of adding significant resources over the next 12 months both on the fresher as well on the lateral side. We are starting to create a skill academy which will really help us to build this skill in our pool and we will definitely have more progress to update in the next one or two quarters.

Ajay Aggarwal: Also we have got the full year number - 26.2% is the number.

Sanjay Awatramani: Okay so this is the attrition for FY2022 that is 26.2% right.

Ajay Aggarwal: That is right.

Sanjay Awatramani: I mean just to reiterate can you give us some count. I mean what is the plan to hire for FY23. I mean just an overall count of the employees.

Krishna Bodanapu: I think it is a little bit difficult to give an exact count. I mean we obviously are hiring quite aggressively and we are also hiring in line with revenue outlook that we just talked about. If anything, we anticipate offshore to increase a little bit from where it is. We anticipate the growth to be quite across the board so it is not that it is one industry. It is just an extrapolation at that point. I mean if offshore is going to increase and we are going to grow 13-15%, most likely we will add 15-17% or something like that.

Sanjay Awatramani: Okay Sir this answers all my questions. Thank you, so much and good luck, for FY23.

Moderator: Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Yeah thanks for the opportunity. The first question is in terms of guidance so when I strip out the DLM growth assuming 7-9% within the guidance for FY23, I get a number of roughly 15.5-17.5% for the services business revenue growth in FY23 and this will require roughly 4-5% compounded QoQ growth from 1Q to 4Q of FY23. So just in FY22 we started with a double-digit constant currency growth which we downgraded to US dollar revenue double digit growth and actually we have come out with a 9% US dollar revenue growth. So there has been a miss in terms of what we started originally in terms of guiding our services business versus delivery in FY22 so what makes us confident that the same thing may not repeat in FY23 because FY23 may have a higher number of macro issues as a whole.

Krishna Bodanapu: I mean we have to strip out the macro issues and let us assume that there is nothing that comes at an existential level. Fair comment, if you look at the biggest reason for our challenge this year has been some of the supply side issues that we have not been able to fulfill. The supply at a rate which some of the demand has come in because we still remain in a fairly robust demand environment. Now also the other thing in terms of the supply that has happened is we were historically strong in some areas like mechanical data etc., whereas the growth is coming in from newer areas like embedded, digital. For example, our digital pipeline, I think, grew by 50% even last quarter and our order intake was, I think, 60-70% compared to last year and so on with embedded and so on and so forth. So to say from the growth and from the capacity from the traditional areas, new areas have taken some time and the fact is we have that capacity now coming online. We have the recruitment engine online, which we have significantly strengthened. We have added 52 recruiters in the last quarter. We have significantly strengthened our pipeline of recruitment. Taking all those things into account it gives us, again there is no guarantee in life as you know but it gives us a lot more confidence of this number because it is also being vetted a little bit to say what are the risks, what are the opportunities and really rate them in the correct manner and then come up with this number so your observation is right. I mean we have had pressure in terms of revenue but in terms of this year we believe that the issue that made us have that miss especially around the supply chain for talent has been at risk. The demand environment remains quite robust and therefore our confidence is higher. Again I cannot say I am 100% confident, but our confidence is significantly higher and that is based on some of the factual data.

Sandeep Shah: What I am saying is generally first half for the industry is seasonally better and for us also it is seasonally better. So to achieve this services growth guidance of 15.5 to 17.5 we have to do a heavy lifting with a growth of mid to high single digit QoQ. Are we baking this into our budget while giving this guidance to services business?

Krishna Bodanapu: Sorry again the line is not very clear. The growth will be spread through the year. From 1Q onwards, we need to see some reasonable growth. Because obviously backended growth is not the right way to look at it. I mean we are seeing things shape up quite well even in the first quarter of the year and that will really lead to the numbers that we are talking about. I am sorry the line was not clear so we can meet up offline but if that was the question then yes we are quite confident that there is a good run rate for it.

Sandeep Shah: I just wanted to understand is there any one-off in our SG&A line. Why has it caught up so materially on QoQ basis and also depreciation for the last two quarters has been trending down, is it a new normal to factor as a whole?

Ajay Aggarwal: On your question on SG&A, I think, if you compare it to Q3, yes there has been a one off but when you compare it to quarter one because this is also SG&A and investment. So when you look at them together from Q3 to Q4 yes there has been some one off but when you look at Q4 and our planning next year, the way it is happening is that we are getting the benefit about 2% on scale. We do have another investment of about 2% which is towards the various initiatives to guide growth, solutions and things like that so I think from the perspective of Q3 to Q4 yes there are some one off. But if you see in steady state we will we continue to make those investments. To that extent I will not say that SG&A will go down and this SG&A includes investments.

Sandeep Shah: And just last question in terms of margin guidance. So we have given 13-15% guidance while the exit rate is at 14.5% kind of margin. So are we saying margin may also have downside YoY or we maybe at a base case or a worst-case scenario we may be flattish on YoY basis in FY23 versus FY22. When are we planning for wage hike and what could be the quantum of impact on QoQ basis?

Ajay Aggarwal: Not able to hear you clearly but what I understood was that you know what will be the impact of that range of growth on margin is that your question, Sandeep?

Sandeep Shah: No what I am saying in terms of the full year guidance on margin.

Ajay Aggarwal: Maybe we can come back to you Sandeep. Your line is not clear maybe we can dial in again and we can take the next question meanwhile?

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

Mohit Jain: My question is related to services business and in the commentary you guys said that aerospace is likely to come back in 2023 so that is obviously one segment we are positive on. I missed your remark on rail, so rail had a decline last year, should we expect that decline to continue next year or that is something which you guys are more hopeful given where your pipeline or order book is.

Karthik Natarajan: I will answer that Mohit and I hope I understood your question**.** So aerospace like we talked about we have seen a 10% growth in FY22 and we are not seeing that it has fully come back to where it was pre-pandemic. We expect it to fully recover by FY24 that is what analyst reports indicates. We will continue to see a growth in double digit for aerospace for FY23 and we would still not have reached our peak of FY20. Having said that in terms of rail and we talked about some of the consolidation of customers and some of the synergy benefits that are going to be drawn out. We do see that H1 FY23 could be muted on rail and we are seeing momentum in the form of rail signaling, embedded systems and digital solutions expanding in H2 FY23. We will see that as a transport segment, we will definitely see a growth in FY23 and far better than what we have seen in FY22

Mohit Jain: So that 15% guidance is essentially coming in or we can assume it to be largely coming from communications and portfolio.

Karthik Natarajan: Yeah if you look at the non-transport for FY22 that has grown by 15% YoY so we are continuing to build the momentum on the non-transport. If the transport also joins on the growth bandwagon, I think we expect it to be slightly helping us on accelerating the growth and that is the confidence that we have today.

Mohit Jain: Okay and second thing is the guidance number that you guys are giving is totally organic based on today's situation. Is that correct.

Karthik Natarajan: That's right. Yes, absolutely.

Mohit Jain: Okay and last was on the TCV. Like our TCV is growing at slower pace and I am again referring to only services not to DLM. But relatively our TCV while it has improved over the last few quarters and we are talking about large deals, the number is moving little slowly compared to the industry. So by when do you intend to sort of fix it and how should we read your TCV on the services side going forward? What is something you guys are expecting or will it still take some time before TCV catches up with the revenue growth escalation?

Krishna Bodanapu: TCV is also relative thing. I mean all said and done we have to look at it from the context of how the contracts in our industry are awarded and obviously you cannot compare our TCV to TCS's TCV for example. So I think where we are we are still quite confident because just looking at the nature of our business on how contracts are awarded, how work practices are awarded etc. we actually feel quite confident that it is much better than it has ever been. I mean the TCV is higher than it has ever been again it is relative I would compare it more to ourselves than to the general industry.

Mohit Jain: So what I mean to ask is 15 to 20% kind of TCV growth is what you guys think and sort of sustain or do you think because last eight quarters were little more volatile so going ahead should we assume this 15-20% kind of TCV number or should we assume some volatility.

Krishna Bodanapu: See there will be volatility in TCV. It is again based on the industry that we are in there will always be a volatility in TCV. That is why I say we have to look at it as a sort of running number rather than point in time number. From a running number perspective I think we have had a good last eight quarters like you said and we feel confident on the backlog just looking at where it stands.

Mohit Jain: Okay, perfect. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Vikas Ahuja from Antique Stock. Please go ahead.

Vikas Ahuja: Hi. Congrats on great execution. Krishna on our guidance have we baked in any kind of macro risk while making the guidance or you try to do be a bit conservative considering second half there could be some risk.

Krishna Bodanapu: We have not really taken any major macro issues because I think quantifying those macro issues is very difficult. Now what I will say is we have taken into account things like the supply market is still going to be quite constrained therefore we will have to be aggressive with salary increases. We will have to be a little bit more reasonable in terms of the joining side. You know all those things we have taken into account, absolutely, and we have watched on the conservative side and even salary increases etc., while we have budgeted the numbers which we have never done in the past because we are looking at a fairly robust environment or we anticipate to start six points above grade. We anticipate growth coming back to this. Some of the clients that we have been working with and some of the merger situation etc., are starting to really play out, but we are also being conservative to say that it might not happen one quarter, quarter two it might happen and so on. Those kind of things we have taken into account but if you look at the global macro issues like say Ukraine crisis and oil crash those things honestly we have not because unfortunately with those things till they know you do not know that they are happening.

Vikas Ahuja: Sure, thanks and lastly what is leading to this 200 basis points increase in tax guidance?

Ajay Aggarwal: If you look at the provisions of the special economic zones because our position of lower tax arises out of our operations in 11 units in SEZ. From 1st April many of them get into the different level, you get 100% then you get 50% and then it becomes zero so I think there is a switch over. Now we are looking at what tax rate makes sense for us. Should we continue with these benefits or should we go into the 25% rate, which the Indian government allows us. We will take that call during the period in this we have made an assumption that we are looking at Indian tax rate at 25%. I hope that clarifies your question.

Vikas Ahuja: Sure thank you.

Moderator: Thank you. The next question is from the line of Anupam Parnaik from Allianz Global Investors. Please go ahead.

Anupam Parnaik: Thank you for the presentation and congratulations on great set of numbers. I have two questions, one of them is regarding attrition. I mean it will be helpful if we could just get some guidance as to what you are expecting for FY23. Secondly, in relation to high inflation across various markets and also the higher attrition rate that the industry is seeing, it will be helpful to understand how that has impacted the staff cost for FY22 and what should we think for FY23.

Krishna Bodanapu: I think from attrition perspective our view is the market has still not cooled down in any manner. While this 29% was quite high last quarter we believe that it will be more between 20 and 25% and that number and that assumption is also quite important in terms of how we plan for our staff and therefore plan for capacity and therefore plan for budget. While I am saying 20-25% I would be very surprised to see that at the lower end of that range. I think even for next year we have to still plan our attrition to be more towards the higher end of that range just because the supply side challenges have not eased yet and the demand scenario has not eased. So again like I said we just have to plan and be ready for 25% attrition number and that is what we will plan our capacity and so on around. In terms of last year obviously there was a fairly significant challenge that we faced in the supply side. We have given up at least a couple of points of growth because of the attrition and we did not have the capacity and the staff when we needed them. I think that is a key lesson learnt and that is actually something that we also had a long conversation around the board meeting earlier today in terms of making sure that we understand the lessons learned and we are really able to mitigate and manage on the lesson learned. So we are not out of the woods yet and one quarter does not make a trend. I am not saying attrition has come down. We have had a decent quarter and especially if you look at most of our competition actually this is also a good comparison. Most of our competition is actually showing increased attrition or even significantly increased attrition whereas our attrition has come down so we take it as a good sign. We have done a lot of hard work and we have done many things, which are unique both in terms of compensation and on the softer side. We hope that is what is playing out. We are planning for 25% but we are hoping for 20% but we will see what the numbers are.

Anupam Parnaik: Got it and the second question was regarding sort of another inflation impact on the business. I mean how should we think about that in terms of the staff cost for FY23 and also if you could share some color as to what sort of inflation you had in first half cost in FY2022 that would be helpful.

Krishna Bodanapu: Obviously it is a very rough inflationary situation and we have not seen these inflation numbers in many countries for a long time. So it is going to have a fairly deep impact or fairly significant impact on the staff cost and that is why we are planning around things and we still see good room for improvement in efficiency and operational metrics. That is why we are still saying margin will be in that 13-14% range because salary increase is going to be major headwind this year and we have planned on fairly robust and attractive salary increase. What was the second half of your question? It was not very clear.

Anupam Parnaik: What was the inflation that you saw for FY2022 in terms of the salary cost, rough estimate without getting into any specifics?

Krishna Bodanapu: It will be in the 10% range in India. Typically, we have done 2% range in overseas. It will be maybe 4% this time overseas and 10-12% in India. It is a very rough number because it is going to be all over the place. There are groups which will be much higher than that but this is just a rough number.

Ajay Aggarwal: I can just also add you know as Krishna said this is extremely sensitive issue you have to make sure that we come back to 20 to 25% in the first place and then sub 20%. Like last year increases are going to be in three phases and also I think as this situation is developing we have kept that flexibility. We will be able to make sure that we are able to prioritize and do that so I think just see that some of these things what we are saying are sort of directional. Each country and each skill set is being very carefully planned to make sure that people are taken care of in line with the trend in the markets and the skills that are there in the market.

Anupam Parnaik: Understood thank you.

Moderator: Thank you. The next question is from the line of Sulabh from Morgan Stanley. Please go ahead.

Sulabh: Hi thanks for the opportunity. I had a couple of questions. One is on the revenue growth guidance. Going back to the comment made earlier where we mentioned that the service revenue growth will be spread out through the quarters, but then when we were making comments on the vertical side, we said that the rail growth will be driven into 2H while it will be muted in 1H, so just trying to understand that which vertical will be doing the heavy lifting in the first half for you to be able to spread the growth through the year.

Karthik Natarajan: Maybe I will take that question. We expect a strong growth led from communication and medical, mining, and semicon and automotive. I think these are going to be indeed our growth verticals in the first half and also aerospace will continue to build momentum like what we talked about earlier. Rail, utilities and some part of geospatial will start bringing in growth in the second half of the financial year.

Sulabh: Ok got it and then on margins for Ajay. I am just trying to understand what are the tailwinds that we are expecting in the margin guidance in this year. Based on the wage hike numbers that you are planning, what is the additional impact this year versus last year that we are taking in the overall margin guidance?

Ajay Aggarwal: I would say that you know in terms of the levers that we are going to use, I think they are going to be similar to what we have been doing in the last couple of years. The internal operational efficiencies, which we have been driving, we are also looking at lot of automation. We are also going to look at inflation that we discussed and also the attrition issue. I think we are working on the price increases with the customer because as you know this whole phenomenon is not restricted to us it also applies to our customers, that is another lever that we are planning for. Scale is definitely something, which we will further benefit. These hikes are going to be higher than the last year in terms of the overall impact. At this stage you know while definitely we have made some provisions in the budget and some of our employees are also our investors and maybe on the call I do not want this to become a town hall for the guidance. I would say we will do what it takes to retain the people and make sure we take care of them based on the best market valuations. I would say it will be higher than the last year but we were to mitigate it by internal improvements as well as the pricing. If you look at all the situations that are developing pricing is one lever that will really work and the growth will definitely get further improvements that will come with scale and we will continue to make the investments as I already said.

Sulabh: Sure thank you.

Moderator: Thank you. The next question is from the line of Shradha from Asian Markets Securities. Please go ahead.

Shradha: Hi thank you for taking my question. Just one question. There is a press release on BSE talking about some class actions that is filed against us. Can you provide more details on this?

Krishna Bodanapu: There is a lawsuit that has come up in the US which is a civil lawsuit which was brought by a set of states in the US. We are addressing the issue. We do not see that there is a major risk based on the facts of the case etc., but we are addressing the issue and we will keep you posted if anything changes either in any appreciable manner as things go ahead.

Shradha: But what is it regarding Krishna?

Krishna Bodanapu: It is alleged on employee hiring that is what the allegation is around. It is lawsuit on Cyient on employee hiring. It has been alleged in the lawsuit on our hiring practices and I want to say this is against a number of companies. This is not just against Cyient but it is against a number of companies in the ecosystem.

Shradha: And the salary hike will be set for which quarter? Will it be set for second quarter or first quarter?

Ajay Aggarwal: Similar to the last year, it will be spread out over the three quarters. Again the situation we all discussed that supply-side and retention of talent is our first priority in this year so having said that we will be a little flexible. But the initial plan is to have it over three quarters like the last year.

Shradha: The last question Sir. Why our depreciation number is coming low over the last two or three quarters?

Ajay Aggarwal: I think I would say the leasing is also clubbed there and we have been letting go off some space, which also hits this particular line. That is the reason. I think it is just some space optimization and I would say as the growth comes back definitely we will have to again go back to the previous levels. I would say do not read too much into this temporary reduction in depreciation.

Shradha: Sure that is helpful thank you.

Moderator: Thank you. The next question is from the line of Amit Chandra from HDFC Securities. Please go ahead.

Amit Chandra: Hi Sir, thanks for the opportunity. My question on the aerospace vertical. So as you mentioned in your commentary that we are seeing recovery in aerospace, if you could break it down how the recovery is in the top client versus the non-top clients and how the nature of spend in aerospace has been pre-pandemic and post-pandemic.

Karthik Natarajan: I think on the aerospace Amit what we are seeing is there is definitely an increase in production capacity. What was being reduced over the last one and half years is likely to come back. Increasing from 30 aircrafts per month to about 40 to 42 during middle of this year and they will probably come back to pre COVID levels of 60 by middle of next year. This is driving the growth in terms of productivity, digital, industry 4.0 solutions and helping them to manage their quality inspection and how do you think they can probably have better view on their maintenance. I think they have an opportunity to get it right using digital technologies far more efficiently than what they would have done otherwise. That is an opportunity they are trying to tap into and the second one is also as number of players who buy the aircraft and aircraft engines are increasing. There is an increase in the maintainability MRO related services and that is something we call them as aftermarket. It is the add-on services, spare parts and trying to assess challenges that are seen by maintainability and how do we think we can help our customers in those areas. So essentially, it is led by manufacturing productivity, expansion that they are looking for and as well as the aftermarket part of it and all of them are led by digital technologies. We think that they can really bring a lot more efficiency into their operations and that is essentially what is driving the growth in the near term.

Amit Chandra: Okay Sir. My second question is on the margin guidance that we have given. So how severe is the onsite wage inflation and what kind of wage hikes we are baking in onsite specifically in our margin guidance. Is it significantly higher than what we have given in the past because onsite inflation is a factor which can impact the margins much higher than the offshore inflation?

Krishna Bodanapu: No absolutely we are factoring in like we said 4% roughly on-site hikes. Again it is higher than what it was previously, but like you said inflation is at a situation where it is not tenable and therefore these hikes will have to happen. Like Ajay articulated in a greater detail there are number of opportunities both to make it from a tailwind perspective but also not to read too much as a blanket number because there is lot that goes in it. I mean we need to be competitive, we need to maintain margins and we need to service our clients. So there is a lot that is going on. When we talked about the outlook it has all those things taken at a thoughtful level.

Amit Chandra: Okay Sir thanks and all the best for the future.

Moderator: Thank you. Ladies and gentlemen, due to time constraints we take that as the last question. I now hand the conference over to the management for their closing comments. Over to you Sir.

Krishna Bodanapu: Thank you very much everyone. Thanks for taking the time and being here for this call. Like I said earlier, we feel a lot more confident in terms of what is going on based on some of the operational initiatives but also many of the actions that we have taken. So once again thank you for your support, thank you for your feedback and thank you for your patience. While we did go through a rough time in the last couple of years but I think the future looks quite good in terms of where we believe the business stands as we speak. We will also do an investor day during the course of quarter. We have not quite nailed down the date yet but we will communicate the date to you. We will obviously showcase a lot more in terms of capability but also clients etc., and we look forward to your participation. We will share the dates with you. With that thank you very much, have a good evening. I look forward to speaking again next quarter.

Moderator: Thank you. On behalf of Cyient Limited that concludes this conference. We thank you all for joining us and you may now disconnect your lines.
