# "Citec Acquisition Conference Call"

**April 25, 2022**

| | |
|---|---|
| **MANAGEMENT:** | **MR. KRISHNA BODANAPU – CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR CYIENT LIMITED.**<br>**MR. AJAY AGGARWAL – CHIEF FINANCIAL OFFICER, CYIENT LIMITED.**<br>**MR. KARTHIKEYAN NATARAJAN – CHIEF OPERATING OFFICER, CYIENT LIMITED.**<br>**DR. PNSV NARASIMHAM – CHIEF HUMAN RESOURCES OFFICER, CYIENT LIMITED.**<br>**JOHAN WESTERMARCK – CHIEF EXECUTIVE OFFICER, CITEC GROUP.** |

**Moderator**: Ladies and gentlemen, good day and welcome to the Citec Acquisition Conference Call.

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 risk and uncertainties. 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**: Good afternoon, everyone. Thank you for joining us, especially on a short notice, on the acquisition update of Citec. Like we said in the release, it is the largest acquisition to-date for us. And therefore, we thought we should take a few minutes to explain the rationale for the acquisition, and also how we plan to integrate it and more importantly leverage it going forward.

Before I get started with that, can I also introduce a few of my colleagues who are on this call, we have Mr. Ajay Aggarwal, the Chief Financial Officer; Mr. Karthikeyan Natarajan, the Chief Operating Officer; Dr. Narasimham, the Chief HR Officer of Cyient. They are all here on the call. I also want to welcome Mr. Johan Westermarck, who is the Chief Executive Officer of Citec, who is joining us from Finland on this call today. And we will hear from Johan at the end of Ajay’s remarks on the financials, in a few minutes. So, I will let Johan give a little bit more of a brief on Citec at that point.

But with that if I may first take you through the positioning. Just to refresh everybody, over the last couple of years, we have been refining our positioning as Consulting led, Industry Centric and Technology Solutions oriented, and there are three elements of it. The first element is the consulting piece where we are helping our clients, articulate the problem, flush out the problem, and then articulate the solution. Industry Centric, our domain expertise, which has really been our differentiator for a long time that plays in where we are brought in. As many of you follow us quite a bit. We brought in significant amount of differentiation in industries like Aerospace and Communication. And ultimately, the technology solutions piece, which is really at the evolution of the business, where through technology we are able to build, deploy, articulate, and monetize the technology solutions. The idea behind our positioning is really that we are able to help our clients through a combination of consulting experience, our domain experience, and our solution capabilities, solve problems that really matter to them and use technology to solve these problems. And this might not be very new for many of you, given that you follow us quite a bit and this is how we have positioned the organization.

In that context, one of the industries that we have been meaning to strengthen is the Process and Plant Engineering industry or I guess the Plant Engineering related sectors. And in that context, we signed definitive agreements to acquire Citec. Cyient will buy 100% of Citec who as I said are an organization that provides Plant Engineering related services. But of course as an addition to that engineering consulting, product engineering and technical documentation, primarily the clients are energy companies, and some mining companies, especially on the product side.

Why did we do this deal? It helps position Cyient very strongly in Plant Engineering. Cyient already had a small Plant Engineering capability but with the addition of Citec's significant Plant Engineering capability, this will make us one of the largest independent Plant Engineering companies in a sector that is growing quite well. The next point, which is very important, that sector is also adopting a number of newer technologies around digital capabilities and we have built a lot of good solutions. So, it helps us take the solution portfolio of Cyient and the technology portfolio of Cyient, into these process industries. It gives us access to multiple global companies in the energy, process, plant and also it's a bridgehead into other process-related industries such as pharma, food processing, etc. And lastly, it also helps us diversify our portfolio of industries. As you know, there have been a few industries which have gone through a bit of cyclicality. And we thought long and hard about some of the diversification of risk. And I am moving away from the cyclicality as we believe this gives us a fantastic opportunity to diversify into these Plant Engineering related industries, which then adds some of the capabilities that we have already built in mining and in Plant Engineering. And also in mining, it creates a very solid portfolio for us, we call it a cluster MEU, which is Mining, Energy and Utilities, which is another big industry. The MEU sector will be very well positioned for Cyient to be in the market.

The key strengths of Citec are the scale in Plant Engineering. Obviously, there is a lot of energy transition that's going on, with the adoption of, imperative to move towards more green energy, including hydrogen, biomass and so on so forth, Citec brings some very strong capabilities. And we believe that this would position Cyient in a unique manner. And like I said, this will make us one of the largest independent Plant Engineering companies, and we are very excited because not just what that market will do, which I will talk about, but more importantly, how our technology portfolio plays into that market and it's going to be a game changer for us.

If I can just introduce Citec and in a few minutes, I would also then request Johan to talk about it in a little bit more detail. But it's a company that was founded in 1984, headquartered in Vaasa, in Finland, that's where a lot of the energy OEMs are. The capabilities include Plant Engineering, Product Engineering. Primarily, we will be then based in the Nordics, Finland, Norway, Sweden, but also will then get good capability in France and Germany. But I would say one of the most appealing things of Citec is that more than 50% of their staff is already based in India. So, what that does is, Citec already has built a global engineering model, and has done it very successfully given that more than 50% of their staff is in India. So, they are a company unlike us in very complementary industries. So, when we first came across this business, it was a no-brainer, if I may put it that way for us. And again, I am very excited that the deal has gone through and we will now be able to work closely and integrate with Citec. There will be about 1200 employees. And in terms of financials, last year's revenue, was roughly €80 billion with 13% EBIT margin. And in a few minutes again, I will request Ajay to talk about this, in a little bit more detail.

There are three areas that we are again very clear on where we can bring value. The first is what I talked about Plant Engineering. Plant Engineering is an industry which is where the outsourced addressable spends is almost $2.5 billion growing at 6%. So, that makes it quite an exciting market for us, because obviously, that's a good growth market. The second piece where I talked about bringing our digital capabilities around the various things that we have built like and we have talked to you about this multiple times around Asset Management, Smart Plants, and so on, so forth, Smart Factories, and so on. That's a $3 billion TAM, and that's growing 15-20%. So, that makes it quite exciting for us. And lastly it's Turbomachinery. These are the equipment that includes things like steam turbines, gas turbines, pumps, compressors, which also aligns closely with our more traditional Product Engineering business, and we have a number of customers. There is a little bit of an overlap. But thankfully, there is a very good complementary set of customers. But that's a market as you know, we are quite familiar with this is the traditional engineering that we have done. And Citec also has a very strong capability there. And that market is growing 3-5% at about 1.1 billion. And actually as a little bit of an extension, turbomachinery is similar to aero engines because both of them are rotating gas turbines. And it again complements very well and that's where we also see some synergy and the ability to move around.

But net net, we believe that this is a market that's $6 to $7 billion, and this is only the engineering or gas power plants and the other areas, not the overall spend, but just the outsourced engineering spend that we could address is about $6.6 billion growing at 10%. So, it's a great market, we have a unique and differentiated capacity. So, the future looks quite promising and quite exciting. And we are really looking forward to partnering with Citec in this journey. If I may then double click a little bit into Plant Engineering, especially around the power plants. If you look at it, the global installed capacity is growing 3% to 3.5% every year, and it's expected to grow. Of course, areas like coal, which is not really a focus area for us, has stagnated. But the two areas that are growing quite a bit are obviously the Renewables and also the Natural Gas sectors and Hydro also to some extent. And these are the areas that Citec actually does quite well in.

And as we go to the next slide, if you look at the Renewables, most Renewables and this is a very interesting thing for us to keep in mind. Most Renewables actually have a gas backup because as we all know solar and wind can have a bit of a reliability problem because you don't get 24 hour support out of them. So, both of these sectors have a gas backup, and that gas backup, which is the core of the design that Citec does, both in the equipment and on the plant, is growing at 8.5% CAGR. So, we believe that these positions us very uniquely in the market, because there are not many markets of this type, which grow at 8% to 8.5% as a market. Citec has a differentiated position in this market, which is growing at a fairly aggressive pace. So, my point is, if we just dig deeper into the whole logic of why we did it, it is a great market, we have found ourselves a very good niche position and that position is actually growing at 8.5% so it positions us very well, in that sector. And of course, there is the adoption of digital which is growing at 15% to 20%, and of course lastly, the Turbomachinery. So, we have found ourselves a very nice position at a spot, which we believe will help us grow and accelerate growth into the future.

And if I may just take you quickly to the next slide, this is a good summary. We see that in the immediate terms we will do well in the energy, and in the marine and mining. In the mid-term we will then extend it to wind and solar in a lot more sustainable manner. And then in the longer term, it will put us into other adjacencies, like nuclear, pharma and semiconductor to the story all tied in very well. I would be happy to answer questions. But before that, I will first request Ajay to take us through some of the financials of the transaction. Ajay, over to you.

**Ajay Aggarwal**: I am very delighted to report, further to what Krishna said in terms of this acquisition. You all had received this weekend about our earnings growth of 40%, and also the industry leading earnings. And some of you also had a concern around the revenue growth. So, I definitely see that as Krishna said, this is a great initiative by us to widen the portfolio, and not only have the industry leading earnings growth, but also get back to the industry leading revenue growth. In terms of how will it specifically impact the details, in terms of the financials, we are trying to complete this closing in early May, that's the most likely scenario, it’s a clean. We should be able to, we would be able to consolidate it for 11 months in this particular year. And that's how when you look at the numbers in the first column for FY23, we have given you the numbers for 11 months how they will look like for FY23.

In terms of growth first let me say that we already gave an outlook of 13% to 15% growth for organic. So, this is incremental to what we talked to you on the earnings call. So, over and above that we expect an addition of about this number $83-87 million based on the 11 months financials. In terms of the margin, we are planning to make this as 14-16% kind of a margin business. Last two years it has been above 15%. So, when you look at the 13% number in Krishna’s presentation, that was more of adjusted EBITDA. If you see for the last two years they have consistently given above 15%. And the last year number is significantly higher than 15%. But we are looking at 14-16%. We also have already embarked lot of the initiatives and expansion. Good thing is, that it already has existence in India, like there is an opportunity for further offshoring as well. Right now we are at a level of continuing to 20-22% in terms of the offshore revenue. And there are other initiatives that are possible. I am sure Karthik can address some of them as we proceed into the questions and answer.

So, we are very confident that, unlike in the past, you had a concern that we are compromising on quality of our revenue or the profile of our EBIT. I want to assure the investors that this will not be dilutive to us. Except for the first year we have to make sure that we make certain investments in upgrading the IT, the cyber security and some of the things that are required in terms of integration of the business. For that we have to spend some amount and because of that there could be a little headwind on the margin, for the first year. And we also quantified how much would be the impact of that, as we see it, right now. EPS is accretive we also quantified for you, this is over and above the EPS that we talked to you as part of our outlook. So, it's absolutely accretive. And we are looking at, you have seen consistently we have taken about 50% debt to make sure that, our belief is in line with other strategies, there will be huge potential for us to make investments. And we are not compromising in any way in terms of the cash and the opportunity to sort of make sure that we have a nice capital budget.

So, in that perspective, all of our acquisitions we have been doing 50%, because this also means that we get the financing completely tied in for interest and foreign exchange at rates which are marginally lower than 3%. So, it brings down our cost of capital, it brings the tax liability down.

And that I have been explaining to all of you time and again. Similar approach we are taking here. And when I say EPS accretion, that is after taking into account the particular cost of debt -- free cash flow is in line for the last two years, where free cash flow conversion has been 60%, on average, the DSO is 80-85 days, but we will make sure that we will run a campaign and bring it in line, that's what we can commit in terms of free cash flow.

As you know, this entity will have the benefit of European tax rates. So, it does have a little scope for improvement on our ETR based on the proportion of PBT. And we have also looked at in terms of a good win-win between the seller and the buyer, to make sure that whatever is our EV to EBIT is accretive. And all our ratios are positive on this particular transaction. And this becomes really very exciting acquisition for us to widen our base, and to deliver not only industry leading earnings growth, but also industry leading revenue growth. With this, I will invite Johan to make some comments that he would like to make about Citec. And then of course, Johan will also be available during the question-and-answer session. So, I handover to Johan and after that we can take the question.

**Johan Westermarck**: First of all, I want to say that I am really excited about this journey that we start now together with Cyient. So, that’s a huge opportunities there. But I would like to go through with you with on two things. One brief update of Citec, what kind of company we are and what we are focusing on. And then the second part is what are the opportunities we from Citec side see of this partnering with Cyient. So, first, Citec is a multidiscipline engineering company. We focus on Plant Engineering, Product Engineering. We also have Technical Documentation & Digital Solutions. And the majority of our business is in the energy sector, so really strong foothold in this area. And that is interesting because there is so big transition happening in the energy sector with Renewables and so forth.

Today, we are approximately 1200 experts and our office is, we are located in Finland, Sweden, Norway, France, Germany, India. And our head office is in Finland, a smaller town called Vaasa. And we have two locations in India, one in Mumbai and the other one in Pune. Our business model is that we have really strong knowledge competence, close to our customers and our customers include several OEM customers, technology companies. Our organization is located very close to these to help them with engineering work. And once we have done this understanding, packaging it, then we do the majority of the work with our experts in India. And what we provide our customers is competence, flexibility, and cost efficiency. And this is highly valued from our customers. And this has to be with superior quality. So, this is what we do at Citec. And when it comes to second thing, how do I see the future together now, with Cyient, I am truly happy that Citec and Cyient are partnering and start to prepare the future together. The journey starts now. And we will start to do the planning, integration step-by-step going forward. And what's really interesting, what we see the value from Citec side, is the big organization, the global organization that Cyient has, with over 14,000 experts, truly global company, that will help us serve our customers globally.

And then the other thing is the strong competence, the strong offerings, and especially the digital offerings that Cyient has. This will really give us a new, the digital offering to a new level to our customers. So, I am really excited about this journey that we are about to start now. So, thank you from my side and over to Krishna.

**Moderator**: Thank you very much sir. We will now begin the question-and-answer session. The first question is from the line of Mukul Garg from Motilal Oswal Financial Services.

**Mukul Garg**: Krishna, I just wanted to start with the revenue expectation for FY23 from the acquisition. Because if you look at the commentary which Citec shared in their December filing to European debt exchanges, they were talking about expectation of €100 million revenues, while the numbers which you guys are quoting, are giving an impression of the growth being flattish for the next fiscal year. So, if you can just help us understand, has there been any change in market view from their end? And also well, if you can help clarify the sectors which kind of kept them from growing over last seven to eight years. The company has not seen any meaningful growth over the last many years despite, a single small acquisition also. So, what really is changing in the current environment?

**Krishna Bodanapu**: Johan, may I request you to answer the question? I think there is two parts of it. One is from your filings in December to now we are looking at a different growth trajectory because the expectation was €100 million in that filing. Maybe you could you could answer that we could then move on to the second part.

**Ajay Aggarwal**: And Johan if I can help you if you look at the numbers that we have given in this presentation, which comes to around for 11 months what we are talking about the number of $83-87 Mn, this is only for 11 months. And if I take it for 12 months, it will be something like $93 million. Just wanted to clarify Johan this is for 11 months.

**Johan Westermarck**: Unfortunately, the line is a bit bad, so I did not get all the questions, didn't hear exactly. So, from that perspective, it's very difficult for me to answer. But if I just say that our midterm, what we have come out is to say that our midterm target is to reach €100 million, and this is what on the revenue side. And we are on that path. And I don't see -- there are opportunities and the transition that's happening in Europe in the energy side, is something we are really looking into at the moment. So, unfortunately, I didn't catch all the questions, yet. So, I am not able to answer more than that.

**Krishna Bodanapu**: That's so helpful Johan, I think, just to clarify, Johan's point is that guidance that they have given is for the midterm. And to just correlate it to Ajay's numbers, that would be $93 million or so for this year, give or take. And I will just say that that will actually be a good growth compared to the previous year. And also the first quarter of the year has gone quite well. So, we are quite confident in the numbers that Ajay talked about. In terms of the second part of your question, I think there has been a lot of focus that Johan and his management team over the last two to three years have brought in terms of the profitability. If you look, while the growth has been flat from a revenue perspective, from a profitability perspective they have actually done a fantastic job. And the margins have grown from mid-single digits to almost the 15% in EBITDA terms.

So, the focus has really been that. And from our perspective, the good thing has been that one is we see the strength of operations now that all the hard work has been done by the team. And the second thing is the growth has on top of it come back, if you look at the $93 million number, compared to the 80 Mn some number that they would have done last year. That's quite a significant growth. So, it's a good point in time for us to have come in.

**Mukul Garg**: So, Krishna, Ajay just to clarify, the numbers, which the company has reported are in Euros and your guidance is in Dollars. So, €80 million versus $84 to $85 million are fairly comparable. I don't think that growth is being factored into your guidance. If you can, so that was just the point I wanted to highlight. And also, if you can just give us an overview on how do you see the medium-term EBITDA margin, the company last quarter delivered an EBITDA margin in mid-20s. So, is that something which was more of a one-off?

**Ajay Aggarwal**: One is, we have done an extensive sort of, due-diligence and worked together, including that some of the initiatives take time to kickoff. So, we have built it not from the guidance that was given, we have built it from, as Krishna said from where they have left the year. And what gap you are seeing is more like between the number I am giving so 11 months, if we analyze it, and then the gap will be about $20 million. This will be $92 million versus $110 million, take everything in Dollars, which Krishna said is for mid-term. But I would say that, you know, we have done our due-diligence, and our basis is not what guidance has been given. We have used experts; we have used our business team. We have spent a lot of time and a lot of people have gone there. So, we are very confident of what we are giving as our outlook for the business. And I would not read too much into it, except saying that that is the ambition and target overtaking. We, as a company have signed, are willing to commit this number of, close to $83 to $87 million for this year, and $100 million plus minus $2 million for the next year. As far as margin is concerned, yes, I think the last year margin as such if you see was 17%, the year before that was also above 15%. Then we have also looked at when a smaller company gets integrated into us, we have also looked at the due-diligence perspective. What are the one-offs for example, you look at the COVID impact and cutting off travel, cutting off some space and all that. So, I think it is after a lot of due-diligence when we say that we can look at a margin of 14-16% with one-offs and first year for the investment that we will make, in integration, we have done it after lot of due-diligence. I would not go for that reconciliation. I would simply trust our due-diligence and look at the outlook that we are giving.

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

**Sandeep S**: Just wanted to check when I checked the annual report of Citec, they also have a debt worth €27 million on their books. So, just wanted to understand whether that debt also been transferred to Cyient books. And over and above that, we would be financing this deal with 50% of the debt. So, considering this, EPS accretion may be slightly lower.

**Ajay Aggarwal**: So, I would say that we are very clear as a policy, that we do all the transactions debt-free, cash-free. And if you look at, in some way, we are looking at the numbers that we have given for the reading, and then we have a debt on that and we have a cash. So, those will be the closing adjustments. As far as you know, the debt is concerned, we are still examining, talking to some of the bondholders, talking to their advisors, and how we deal with it. And our most likely preference will be to discharge it. We are looking at two options whether to take 50% of that on debt at 3% or to look at full, just give us some time along with the closing for being able to confirm.

**Sandeep S**: Just to clarify, the debt which is currently sitting on Citec's book worth €27 to €28 million will not be transferred to the Cyient books, right?

**Ajay Aggarwal**: That is right, it will not be transferred, it will be retired as part of the closing in simultaneous or precondition, those details we are working. So, as and when we have our Q1 call there will be no debt on that particular asset for us. And as I said on some of the details, we are working with them.

**Sandeep S**: So, this retirement of debt would be done by the previous management, right?

**Ajay Aggarwal**: So, we are working out those details. Yes, our condition is that, but it will not be right in my opinion to say that. We are working in a very collaborative spirit. I think we are all making sure so in principle, it will be retired, it will not come in our books. And we are working together to sort of discharge it. That's what I can say.

**Sandeep S**: And just a second question, Ajay just want to understand, what would we be the acquisition amortization of the purchase consideration? What proportion would be allocated towards the acquired intangibles? And how you will amortize, any color on that?

**Ajay Aggarwal**: So, I think the next step would be that, as part of the closing, we have to do that typical asset allocation and proportion of purchase consideration. I don't have that report right now. So, we have made some estimates based on our past historical numbers. Give us some time, after we announce the closing, and in the Quarter 1 call we can explain to you. Right now we have used some estimates based on our historical data.

**Sandeep S**: And just last thing few thing, the acquired company has a healthy EBITDA margin of 18.6% to 18.7% in CY 2021. So, is it fair to say at EBITDA level this margin is sustainable, or you believe this was largely driven through because of the cost saving in COVID times which may not repeat going forward starting to CY 2022?

**Ajay Aggarwal**: So, I will make two comments, yes, I think in near term, we are making in 14-16%. You are right some of the cost is related to COVID. And we also have to be careful when you are buying a business and it is up for sale. So, I would say 14% to 16% is what we are looking at near term. But yes, there could be opportunities including, they already have a footprint into India and can we enhance that and also we are looking at that whether we can go back to those levels. But I would say near and medium term for the next two years I would say the margin of 14% to 16%.

**Sandeep S**: I was talking about EBITDA margins and not the EBIT margins.

**Krishna Bodanapu**: No, but I think to Sandeep's point, what Ajay said basically this is the EBIT margin. Now EBITDA, you can extrapolate out of it I mean, obviously we focus on EBIT more than EBITDA. We are talking about the EBIT margin.

**Sandeep. S**: I wasn't able to hear the management what they said on the previous question.

**Ajay Aggarwal**: See, what we are saying is that looking at some of the next step in terms of purchase consideration which will decide some of the amortization. Right now, we would be able to say that the 18.6% or whatever you are referring to is not sustainable, 14% to 16% is what we are targeting for Year 1 and Year 2. And then further we would work on improving the margin. Between EBIT and EBITDA give us some more time we will not able to comment right now.

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

**Shradha Agarwal**: Just wanted to understand how does the volatility in the gas sector impact the financials of the acquired entity?

**Krishna Bodanapu**: So, I think the way that we have looked at it and the way that we have understood the business, is that the projects that Citec works on are quite long-term in nature and are quite supportive of not just the gas sector but also into renewable energy. Because renewable energy almost always comes with gas backup. So, it's a balance of these two things. The second element is also if you look at with all the volatility now, with a lot of rethink in terms of energy transition, in terms of rebalancing the supplies which start to come in. So, taking all that into account, we are quite confident that Citec can and of course, then as Cyient with some of the capabilities that we have will become a very differentiated player.

The second thing is a lot of Citec's capability and expertise is also in building, designing for the building of the plants. We also do some work on the digital aspects and the technology aspects, which is basically around the operations of the plant. And that's where we spent a lot of good capabilities. So, we believe keeping in line with our design will maintain a value chain, it also helps us move across the value chain, in terms of providing the operations related services and solutions. So, taking both these things into account, I think we are quite well positioned in terms of how we can offer these services to the market, notwithstanding the current volatility in some areas.

**Shradha Agarwal**: And can you also talk something about their client concentration? How many clients do they have? And what does the client concentration look like?

**Krishna Bodanapu**: See the Top Five clients I think, are about 70% of the revenues, 70% to 75% of the revenue, that's one of the things that we quite like about the business. Because there are five clients who are absolutely strategic clients, even from a Cyient perspective. One of them is a common client, but not in a very large manner for us. And therefore, we think that it's a good sort of supplement in terms of how it works.

**Shradha Agarwal**: And currently within portfolio, how big is Plant Engineering for us?

**Karthik Natarajan**: We do about some $10 million in terms of our Plant Engineering today. And we definitely believe with some additional capabilities that we are getting in, and our ability to bring synergy on the digital side of the Plant Engineering, whether it is Digital Twin, or Predictive Maintenance, and our ability to support the plant operations. I think that would help us to address the growth in double digits in the integrated capabilities over the next three to five years. And also the biggest opportunity that we are looking forward is on the energy transition, and which is likely to happen in the next 20 years to meet the emission standards that have been agreed by most of the countries. And this could mean roughly about 50% to 60% greenhouse gas emission reductions or about $15 trillion spend. So, there is a huge capex that needs to be spent. And three-fourth of them has to be on the Clean Energy. And that's going to be an opportunity that we are really going to bet on for the next 20 years or so.

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

**Vikas Ahuja**: Just one small clarification, if I heard it correctly, did you say that on EBITDA margins for FY23 it's going to be in the range of 14-16%. Sorry, I missed that part.

**Ajay Aggarwal**: So, you can refer to the slide for everybody, it's very clear. If you look at the bottom of the slide, we have said EBIT margin is likely to be 14% to 16%. So, we are all, in all the discussions that we have we have talked about EBIT margins.

**Vikas Ahuja**: And will it still be a net profit in FY23?

**Ajay Aggarwal**: It’s accretive on EPS, I will read out the numbers, it is accretive by about Rs. 3 in year one and about Rs. 5 to Rs. 6 in year two.

**Moderator**: Thank you. The next question is from the line of Saurabh Thadani from IIFL. Please go ahead.

**Saurabh Thadani**: I just had a question on the earn outs. Are there any earn outs as part of the transaction, given that’s a trend that we have seen in a lot of the recent transactions in the space. If not, then how do we plan to protect future performance as well as senior management retention for this deal?

**Krishna Bodanapu**: So, there is no earn out, we were acquiring this company or acquiring the shares from a private equity, called Sentica which is a Finnish private equity. So, obviously, given the nature of the transaction, there is no earn out per se. Of course, from the past perspective, I think one is, therefore our diligence process was a lot more detailed than what we would normally do which Sentica and the Citec management were very helpful with. So, that gives us the context but of course, there's risks and warranties, and insurances, and so on so forth, in the off case that we need to protect ourselves. Of course, the second point, which is I would say the more important thing, which is the motivation and retention of senior management, we are working with Johan and the team on making sure that we put together an attractive retention package, especially for the key people. And we will do more through some of Cyient’s retention measures, including

ESOPs and RSUs and of course staff bonuses, and so on so forth. So, that's how we plan to protect the leadership that is there. And not just the business leadership, but also technical leadership, because that's something that is very unique about Citec is the capability that the organization brings to the table.

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

**Abhishek Shindadkar**: Maybe this question is for Johan, if he can hear us clearly. If you look at the decadal performance of this company media article suggests that this was 1000-member €50 million company in 2011. And you had targets to double the revenue in 2015. So, if you can just explain, what has gone through, maybe what was right, something went wrong or anything in terms of what changed during the decade? That is first question.

And the second question is, on the Citec website, it seems that there is an update that the conditional call to redeem the outstanding bond loan is put up. So, this question is, I think to the earlier question again, that are they kind of paying the loan outstanding which is on the books of Citec?

**Johan Westermarck:** So, first of all, yes, Sentica acquired the company in 2011. And the size of the company was what it was then and there was a plan to grow the company. But the plan did not really, maybe they didn't meet the target, they set then. And then I joined the company in December 17. I would say that the company, there were a lot of positive things, good customer relationships, good competence and the organization setup, everything was there, but there was something that we had to put focus on, it was focusing on increasing control, project delivery control, business control, sales control all these places. Then we looked on the cost structure, put it on a healthy cost structure and then went for growth. And when we put this systematically in place, now the company is healthy and we are on track as we discussed earlier.

**Ajay Aggarwal**: So, again I would first of all say that none of us or people should be worried about the bond. It's just the issue that we have been discussing as part of closing the transaction and everything is agreed both technically as well as in spirit. The issue clearly is that we have to retire this debt has been agreed, we are ready with the funding to retire the debt. Only question is, I don't want to pay the debt unless I become the owner. So, we have to do it simultaneously, or put it in escrow. So, some formalities are there, just to conclude that. So, I want to give a comfort, that as far as we are concerned, we will not have this debt on our books. As far as how do we do it between now and closing the transaction, we are working out those formalities. And I don't see a slightest of the risk on those formalities. The cost of debt finally, that we will have on our asset is going to be one of the best, fully tied in for interest and foreign exchange will be less than 3%. These are the three comments I have.

**Moderator**: Thank you. The next question is from the line of Sudhir Guntupalli from Kotak Mahindra.

**Sudhir Guntupalli**: I think this question was asked in a few different ways earlier, and at least I am very much confused on this aspect, so just if you can provide further clarity, it will be great. So, your press release mentions that enterprise value of €94 million on a debt free and cash free basis. I know that whatever is the closing cash on the balance sheet that belongs to us subject to the closure. But what I am trying to understand is what exactly is the consideration that we are paying in whatsoever form and fashion, be it the cash that we are giving to the exiting private equity company, or the debt we are retiring? So, what is the cost to Cyient to make this acquisition go through? The wording of enterprise value on a debt free basis is a little confusing. So, Ajay if you can provide clarity on that, that's my first question.

**Ajay Aggarwal**: As we have said in our stock exchange release, the enterprise value is at 6.3 times EBITDA and that's €94 million. What we are going to pay them in cash is going to be €68 million all numbers, including the stock exchange in Euros, I want to be very transparent. All the bonds will be paid to the bondholders, I have already explained about the mechanism. And cash whatever is there will be retained in the books. Our rough estimates give us this calculation of €68 million. And so this is the core mechanism. So, if you are asking me €68 million is the cash outflow from us to the seller, plus taking off the bonds on the balance sheet which is there. And in terms of the cash, that's the normal adjustment, which is there, there is no equity. As far as financing of this €94 million is concerned, I already explained, we will do 50:50 or maybe a little higher. I hope this clarifies.

**Sudhir Guntupalli**: So, you mean to say that the total consideration is €94 million, right?

**Ajay Aggarwal**: Enterprise value is €94 million.

**Sudhir Guntupalli**: Okay, so let me ask this way. So, including everything, in all forms and fashion, our cost to Cyient to make this acquisition go through will not be greater than €94 million?

**Ajay Aggarwal**: Yes.

**Sudhir Guntupalli**: And my second question if I look at EV upon sales, EV upon revenue, this is roughly 1.2 times of calendar year 2021 revenue, looks like a fairly attractive number, and the seller is a private equity company. So, I am a little surprised as to who exactly is leaving value on the table here? Is it because is it the multiple is so attractive, because this entity has not seen much of a growth over the previous several years or is there something else that we are missing here.

**Krishna Bodanapu**: Honestly, I wouldn't answer that question because it's between us and the seller. And at the end of the day, we have agreed on a value that makes sense for both of us. And I think it's a value that, we feel comfortable in growing the business. And obviously it's a value that the seller feels comfortable in selling. So, honestly, I think it's unfair to try to look at who's leaving value on the table, because I don't think any deal gets done if somebody feels like they are leaving value on the table. So, it's a fair value. If you look at how you guys value us, for example, you set the growth and you set margin and you set predictability and you have given us a value. And we have used the same logic, and we have come up with a value and the seller felt that it was a fair value. So, saying that we are leaving or somebody is leaving value on the table is not right.

**Moderator**: Thank you. We take the last question from the line of Sandeep S from Equirus Securities.

**Sandeep S**: Just was eager to understand the sequence of transactions. So, I think in Feb 2021, the parent of Citec has taken a 100% control of the company. And now in this April of 2022, they are selling the stake. So, just wanted to understand how the valuations have happened in Feb and now as a whole? And why in such a short period of time, they are exiting the 100% stake?

**Krishna Bodanapu**: No, I don't see, Sentica has owned Citec since 2011. So, it's been a 10-year investment for the private equity. So, I am not sure what happened in February.

**Ajay Aggarwal**: First of all I think I would not go into those details. I want to say that it is a very clean transaction. It has some changes in their parent level structure, between financing on equity and bond. But I think if this call for us to discuss about them, it will be unfair. And I just want to assure everybody that everything is very clean, you should not be worried on any particular count. We are not worried of that count. It's just the way they have done their structuring of their balance sheets, it has been changing between those dealings. And it will not be absolutely fair for us to comment on that particular thing. But we are very comfortable in our due diligence to make sure the way we are acquiring the asset is absolutely clean, we are directly acquiring Citec and Citec is absolutely clean and it will be debt free.

**Sandeep S**: And just a second question more on macro, so if I look at the geopolitical issue, which can lead the supply chain issues, especially on gas within Europe as a whole. So, in that scenario is it fair to say there could be more macro issue for this company Citec at least in the next six to 12 months or you believe no, that could be an opportunity for the vendor like Citec to convert from gas to other source of power generation as a whole?

**Krishna Bodanapu**: So, I think that's one of the things that was quite attractive. And it's a fair point that the current geopolitics are a big risk. And therefore we have spent a lot of time. I think a couple of things I will say, one is I think it's an opportunity for Citec because as both the sources of gas are changing, and also this whole energy for the future is changing in Europe, the opportunity for Citec is quite unique and a niche. Also in the shorter-term couple of things are going to happen. One is that Russian gas will have to be replaced by other sources of gas. This will include the need for what's called LNG terminals to be built for example, LNG terminals are nothing but large process plants that are built on the shore to bring gas or new pipelines would have to be built such as the ones that they are talking in Southern Europe.

So, all of these things are actually good opportunities for Citec in the short term. They had very little dependency on Russia or Belarus. There was a little bit of business but that business obviously has been stopped, also in due diligence process we have got a comfort of what the future business would have been and also it's also been taken off the table. Therefore, if anything, the current business we are quite confident that the current business is well positioned and also in the future looks like with the changes in the sources and also how gas is going to be brought in etc., it's a good situation.

The last thing of course, there is going to be more hydrogen, biomass etc, given that EU has also declared those things as green sources. So, all of those bode quite well. So, of course I mean there is the risk that exists today is really a force majeure kind of risk for all of us, I mean it is a real risk if Russia does something more aggressive in Europe, especially in Eastern Europe or Finland it is a risk. But that's a force majeure risk, and therefore, the Board deliberated on it quite a bit. But I think we all agreed that such a risk that just exists for all of us. I mean, let's face it, right, if Russia attacks NATO then it's a much more significant issue than how the world's engineering services businesses are going to perform. So, we just have to, I mean, we have to be aware of it. But that wasn't something that bothered the Board very much.

So, thank you very much. I think that brings us to the conclusion of the call, so I will just, before handing it over to the Moderator I would say, all of you have been very supportive. And I think all of you obviously understand our business quite well. So, needless to say, the questions were also very insightful as we reflect back. So, thank you for that. I just want to assure everybody that this is a very well thought through acquisition from a strategic perspective but also equally importantly, on the diligence that we went through on a financial, legal etc. And we are really excited to welcome Johan and his team to Cyient. And I can assure you that there are some very good growth and exciting times ahead for us.

So, thank you, and back to the moderator.

**Moderator**: Thank you very much. Ladies and gentlemen, on behalf of Cyient Limited, that concludes this conference. We thank you all for joining us and you may now disconnect your lines.

---