“Cyient Limited
Q3 FY23 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day, and welcome to Cyient Limited's Q3 FY23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and anyone who wishes to ask a question may enter star and one on their touchtone telephone. To remove yourself from the queue, please enter star and two. Should you need assistance during the conference call, please signal an operator by pressing star and zero 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 of Cyient Limited. Thank you, and over to you, Mr. Krishna Bodanapu.

Krishna Bodanapu: Thank you very much. Good evening, ladies and gentlemen, and welcome to Cyient Limited's Earnings Call for the Third Quarter of Fiscal Year 2023. I am Krishna Bodanapu, Managing Director and Chief Executive Officer of Cyient. Present with me on this call are Mr. Ajay Aggarwal, Executive Director and Chief Financial Officer, and Mr. Kartik Natarajan, Executive Director and Chief Operating Officer.

I would first like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available on our investor update, which has been mailed to you and is also posted on our corporate website. This call will be accompanied with an earnings presentation. The details have already been shared with you. As you are aware, Cyient Limited's subsidiary, Cyient DLM Limited has filed a draft red-hearing prospectus, DRHP, dated 9th January 2023, with the Securities and Exchange Board of India, BSE and NSE, in connection to its proposed IPO.As we are in the SEBI mandated quiet period, the management will not be responding to any queries in connection with the proposed IPO of Cyient DLM Limited or the DLM business and operations. Participants are requested to kindly refer to the draft red-hearing prospectus dated 9th January 2023 of Cyient DLM Limited available on the websites of SEBI, BSE and NSE and the merchant bankers to the IPO, Axis Capital Limited and JM Financial Limited, for any information in relation to Cyient DLM Limited and the proposed IPO.

With this, let me take you through the highlights for the quarter. In Q3 FY23, we posted revenue of $197 million, which is a year-on-year growth of 28.6% in constant currency, 24.8% in US dollars and quarter-on-quarter growth of 13.4% in constant currency or 12.7% in US dollars. In rupee terms, our quarterly revenue stands at INR 1,618 crores, which signifies a growth of 36.7% year-on-year and 15.9% quarter-on-quarter.

Services revenue stood at $167.9 million, which is a year-on-year growth of 34.4% in constant currency and quarter-on-quarter growth of 11.9% in constant currency. Services revenue growth without acquisitions is 10.6% constant currency year-on-year and 3.7% constant currency quarter-on-quarter.

Normalized group EBITDA margin, excluding the impact of the exceptional items, stood at 17.2%, which was up 78 bps quarter-on-quarter and down 79 bps year-on-year. Normalized group EBIT margin, excluding the impact of the exceptional items, stood at 12.9%, which is up 98 bps quarter-on-quarter or down 100 bps year-on-year. Normalized Services EBIT is at 13.9%, which is up 147 bps quarter-on-quarter and down 169 bps year-on-year. Normalized PAT stood at INR 1,627 million for the quarter, which is a growth of 47.5% year-on-year and 23.5% quarter-on-quarter which is the highest net profit normalized that we have delivered in our history.

Coming to other highlights for the quarter. Cyient reinforces its position as a major contender in the Everest Industry 4.0 Services Peak Matrix Assessment 2022. We are delighted to announce that we have emerged as a major in contender in Everest Group 4.0 Services Peak Metrics Assessment 2022. Cyient has reinforced its position in the industry 4.0 space through investments in creating IP, solutions and technology studios with lab environment and by strengthening capabilities in Internet of Things, cloud, automation, analytics, etc. Cyient aims to address its customer's key business challenges by leveraging the right mix of digital capabilities, technologies, solutions and platforms to accelerate time-to-market and maximize adoption and experience.

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

Ajay Aggarwal: Thank you, Krishna. I'm very delighted, as Krishna said, we have overall very well-rounded performance. And a performance that's not only sustainable, but which can further improve. When I say well rounded, I think it's not only that we are getting traction on the top line, we have excellent performance on the profitability and cash flow. As you have seen, our vision is to be industry leading earnings growth player and also to be the best in cash generation. I think this quarter is a very good reflection of that, and I want to assure you that the same will continue.

With this, I move over to the revenue slide, just to give you a little insight into revenue. Our total revenue is $197 million, as Krishna said, and it's gratifying to see we have about 28.6% growth year-on-year and 13.4% quarter-on-quarter. If you look only for services, it's 167.9 million and if you look at the organic itself, it's close to 4%. I'm talking of all numbers in constant currency. And the inorganic contribution is about 8%. So that totals to about 12% growth on services, which is very nice.

And on the organic piece, I just want to clarify that, all the acquisitions have been completely integrated and completely reported for the full period. In this particular quarter, we do have a situation where we are looking at the three months of Citec performance as against one month last quarter. But with this, the full run rate revenue of inorganic is coming in. And we are really doing well on the inorganic side, and this momentum will continue.

Next, I go to the next slide, which is on the hedge book. Nothing significant. I just want to say that we continue to be very prudent, continue to follow the same policy and that's reflected overall. I think we are accretive on the EPS side and total coverage is mentioned here, and we still have positive about $2 million, if you were to look at next 12 months at the current exchange rates versus our hedge book position.

I will move on to the income statement. I think this is where you all had a concern. In H1, we had taken extraordinary steps to take arrest of attrition and make us very competitive in terms of the people side. That is over now and the benefit of volume, the benefit of efficiency and no headwind from the wage hike. What it means is we are really looking at extremely good, normalized services EBIT margin, what you have been traditionally looking at that is excluding the acquisitions, excluding DLM of 15.1%, which is a very handsome increase of almost 2% quarter-on-quarter. Our utilization, our offshoring, I think the focus on letting go of low-quality work, you will find that some of that is the lowest ever, and there is a huge effort even on the SG&A optimization. And we are working on a lot of benchmarking and making sure that in each of these areas, whether it is operational efficiencies or over SG&A, we are -- we want to become the industry best.

Overall, consolidated margin has been 12.9%, which is both a combination of the acquisitions as well as the DLM. As Krishna mentioned, as far as acquisitions are concerned, at EBITDA level, they are slightly positive and accretive. All of you have been asking us in the past, they have been accretive. I confirm to you that if we are at about 17%, 18% EBITDA for services, for the acquisitions, all four put together, we are positive on that. It's only that in terms of the D&A, it takes time once we scale up, we will be able to see the gap, also based on the EBIT level. So as of now, for the quarter, it's not accretive at EBIT level, but it's accretive on the EBITDA level. And as I said, once we get the synergies and the focus in the medium term, we will make it accretive at the EBIT level itself.

There has been a nice movement on tax. We've been looking at the tax optimization measures. And while we are looking at 24.1%, I think we will continue to have some benefit in Q4 as well. But in steady state, our guidance will be more like 25% to 26% of tax rate. In India, we are already adopting that 20% ordinance rate. So all around, I want to assure you that there is a complete focus on profitability and we are making choices in our customer decisions and our revenue decision to see that profitability is the first priority.

I go over to the next one, which is the PAT and EBITDA walk. This will explain to you and I will let you read this. This clearly says, if you see, in terms of the normalized items, our impact has been reducing. It has been much lower, less than $1 million in this particular quarter and there is no other one-off. I'll let you read this. And if you have any questions, we will take it up separately.

On the EBIT bridge, very quickly, if you look at the bottom of the table, that tells you the journey between the two quarters. So we have got a good benefit of scale. And once we get back to 3-5% kind of a growth quarter-on-quarter, definitely it has a huge impact on our margin. And you can see on 139 bps is what we have got. And as I said, the utilization, offshoring some of the things that we are doing on making sure that we pick up the right quality of revenue, that's about 150 bps. We did have headwinds in quarter 3, the number of days, especially at on-site are much lower. So I can tell you that we will sustain this and we'll further improve this in the next quarter with continued traction on the volume side, operational efficiency side, and some of the measures that you are also trying to take to control the SG&A.

On the cash generation, I think we have got one of the best DSOs for the company, which is at about 76 days and conversion has been nice. If you see at a normalized level, we'll leave the one-offs. We have generated 1,362 million of free cash flow which is almost 50% conversion. And you will see Q4 this traction will continue, and we'll further improve the DSO from our current level, both in terms of unbilled revenue. We are winding up many projects in H2 in terms of completion, which were sort of longer gestation by way of their contracts. And also, we are trying to bring down our overdues, we are trying to improve the factoring. So you will see that both DSO and free cash flow will further improve.

With this, I'll hand over to Karthik for his commentary.

Karthikeyan Natarajan: Thank you, Ajay. I wish you all a very Happy New Year. And as Krishna and Ajay talked about, I think we had an all-round performance, both on the sales as well as delivery and operational efficiencies have been brought in. And just to put things in the perspective and to start looking at the table on the left side. If you look at Aerospace, which has grown quarter-on-quarter by 4.4% in constant currency. Since the currencies have fluctuated significantly in Q3, we are looking at the constant currency column. And if you could see rail transportation has taken dip of minus 4.9%. We talked about rail recovering in H2, and we are hoping that by Q4, we should probably be getting this in the positive territory.

Communications, which has grown by 1.3% and they have been one of our stars of growing at 20%-plus year-on-year. I think that will continue. And as far as mining, energy and utilities, and we have grown about 6.8%, solid performance across all the segments. New growth areas, the growth is led by automotive and semiconductors and they have grown by 8% quarter-on-quarter in constant currency, leading to overall services without acquisitions growing at 3.7%. We were able to counter the furloughs lesser working days in Q3 with operational efficiencies by maximizing on the utilization as well as the offshore mix.

The organic offshore mix has gone up by about 180 basis points as compared to Q2 and our initiatives on automation, cease & cure and price hikes continue to help us and we'll talk about some of things as part of the next steps. And including Services and Acquisitions, put together, we have grown about 11.9% quarter-on-quarter, at the group level, leading to 13.4% quarter-on-quarter. If you take add the Services level, including Acquisition year-on-year at 34.4% and 28.6% at the group level.

As far as order intake is concerned, we've seen a significant momentum in Q3 and led by Aerospace, Communications, Automotive and Mining and we could really see a year-on-year growth of 18% in our order intake. This is purely for Services organic, and we have not yet integrated the inorganic part of the order intake into our books fully. And as far as this is at constant currency is more than 32% plus year-on-year growth. I think this is something which is giving us confidence about the demand momentum. We talked about earlier that H2 is expected to be better than H1. We also won about five large deals and two of them are coming from Aerospace and two from Energy and Utilities and one from Automotive and Mobility, leading to about $60 million work of total contract potential.

So to give a quick color on the business performance outlook. I think the markets continue to be dynamic, considering the geopolitical high inflation, rising interest rates, I think that the challenges still persist. But we are definitely starting to see some green shoots. And if you deep dive into each of the segments and Aerospace.

We expect the commercial aerospace to come back to 2019 levels by H2 of 2023 from various analysts and some of our customers. The revenue passenger miles are expected to probably surpass sometime in 2023, as compared to what was predicted earlier to be in 2024. And also the China zero COVID policy and that being unwounded, I think that should help us to make this momentum that we talked about happened in this year. And also led by some of the initiatives around digitalization, smart factory and sustainability in Aerospace. I think this helps us to continue to make projection of growth. And we've grown about 3.5% quarter-on-quarter in Q2 and with 4.4% quarter-on-quarter in Q3, we expect probably close to double-digit growth in quarter-on-quarter for Q4.

And Rail, which is still in the recovery path and the growth is led by advanced automation and analytics and also the rail traffic management systems and the billing systems. I think those are the growth areas that we are seeing as far as Rail is concerned. We expect Rail to come back to a growth trajectory from Q4 and probably will take another few more quarters for us to hit the trajectory that we were running early.

Communications, which has been our strong robust growth engine is continuing to make inroads and some of the growth led by 5G private wireless, as well as on the fiber and especially the time to market improvement, along with some of the digital initiatives to improve cost and customer experience. Also some of the interesting solutions that we have been able to bring along with Celfinet on the low energy consumption devices and helping to automate the process of energy to be reduced on the operational cost. I think some of them will help us to grow on the communications moving forward.

Mining is driving the growth based on the decarbonization as well as the energy transition efforts, which is driving the demand for newer minerals, newer materials, including zinc, cobalt, copper and lithium. I think that growth is likely to be exponential and we are seeing growth and improving the mining operations to be intelligent, safe and sustainable. And some of the opportunities we are seeing includes the robotic solutions, safety of the operations, private entity deployment and partnering with Celfinet, I think are giving us some interesting synergy opportunities to pursued.

Energy and Utilities, I think the biggest opportunity we are seeing for the next three to five years is about the clean and sustainable energy and led by hydrogen battery storage and carbon power capture technology investments which are likely to see the growth happening as we talked about. We also won two deals, one of them was improving the supply chain management for carbon sequestration technologies. I think this is an interesting opportunity that we are able to expand with the customers that we have acquired about three years ago.

New growth areas and Automotive continues to be our growth engine and which is essentially driven by software defined vehicles and autonomous systems are essentially driving the growth and electrification, hydrogen fuel option and digital technologies are areas that we are really making investments to see how we continue this growth trajectory.

Healthcare and Life Sciences and -- which is driven by what I would call it as the interoperability and patient-centric outcomes, connected devices, digital platforms are the ones which have seen growth for us. And we have seen some muted performance in Q3. We expect this to improve with one or two customers, which will probably come back to the normalcy in the next one or two quarters.

High-tech and this is one area we are starting to see some green shoots in newer areas. We are definitely looking at how do we leverage our capabilities that been to over the last two decades to be helping us to grow in newer areas and especially on the technology as well as on the satellite and space areas.

Semiconductors and this is one area which has done well for us from Q2 to Q3 and however, due to some of the inflationary and consumer demand that is slowing down there may be some bit of a softness in the next two to three quarters.

With that, we talked about some of the technology solutions and programs that we announced almost for about 12 to 18 months ago. We are starting to make significant progress. I'm not going to read all the elements of this slide. I'll just speak on 2-3 key ones. We started working on digital twin for nuclear power plants. And this is an interesting project and we are trying to build, how do you think we can help the customers to assess the performance and maintenance requirements and be able to continue to help them improve the productivity and operational efficiency.

Similarly, I talked about the enterprise private networks. We've been able to help in making the assessment on network requirements and do the network design and be able to roll up for one of the mining customers. That's something which is an interesting area that we've been able to work on.

Autonomous industrial systems and interesting project to work on an off highway customer, and how do you think you can bring autonomous operations of passenger cars into off highway road segments. And this is about vision systems getting integrated with analytics and how the operator would be able to maneuver the vehicle when they were not able to see some of the things in front of them.

So with that, I will hand over back to Krishna for providing the outlook for us moving forward.

Krishna Bodanapu: Thank you Ajay and Karthik for the details. So if I may summarize the outlook, I'd first want to say -- we continue to see very good momentum in our organic business and our Q4 organic revenue in constant currency will be higher than Q3. Like I said, this is backed up with some very strong momentum, order book, order intake, etc. This will be driven by growth in Aerospace, Mining, Communications and Automotive. Having said that and like Karthik also provided a brief as other areas also where we see further tailwinds that are possible including rail and so on and so forth. So overall, we're confident that Q4 will see further acceleration in growth.

On top of that, we'll add 14% to 15% in FY23 revenue due to acquisitions in constant currency. We expect the FY23 normalized margins for the organic services business to be in the 13- 14% range for the group. And we're quite confident that we will be well in that range and towards the higher end of that range. We expect FY23 normalized EBITDA to be in the 16% to 17% and again, we're quite confident, we'll be at the higher end of that range.

The Q4 normalized EPS will be in the INR 15 to INR 16 range compared to the INR 14.9, which is what we did in Q3. The effective tax rate will be around 26%, also because, we have done some optimization and have some benefits. Free cash flow will be in line on a normalized basis, as you can see, Q3 cash flow, cash generation is also back to where we used to be and we will continue that.

Just to reiterate, what we said last time, again, I'll also say, this is what we believe would be the base case scenario. We have not done our budgets, etc., obviously. We will reiterate, that in FY24, we have $1 billion visibility or run rate visibility and the EPS next year will at least be INR 60. Again, I want to just reiterate this because we talked about it last time, and I just want to say we're very confident. Having said that, we haven't done enough work on it to give a more substantial number, but this is a minimum case that we believe that we will achieve for next year.

With that, once again, thank you very much for your support. And I will hand it back to the moderator for any questions that you may have.

Moderator: The first question is from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah: Congrats on a good execution. Just wanted to in terms of the guidance. Earlier you used to guide on organic basis 13% to 15 % growth in the group revenue in CC terms. This time, there is no mention for the same. So any change in that outlook?

Krishna Bodanapu: So Sandeep, we're looking at the trade-offs. We definitely have acceleration in Q4 in terms of revenue. So we're also using this as an opportunity to look at what are the areas that or what are some of the things that we can also refocus on because we also want to use this opportunity to continue to focus and build on margins. So if you look at it, for example, this quarter, in spite of the almost 4% growth that we had, our subcontracting work has come down to less than or about 2%. And if you remember at a peak that used to be 6-7%. Obviously, that's not the quality of revenue we want it, so therefore, we've disengaged. So we're also looking at Q4 as an opportunity to do that. So that's why we didn't put that. But what I'll say is, we will be close to that, I'd say, 13% number just realistically. But we're just seeing what the right trade-off is because there's also an opportunity to just strengthen some of the margin-related levers because we are seeing some very good growth, which gives us the opportunity to make choices. But we will be in that ballpark when we make these trade-offs.

Sandeep Shah: Karthik has just commented that in the fourth quarter, aerospace within services may show a double-digit growth on a Q-on-Q basis. So will it be just in services or at a consolidated level? And what will drive this growth? What has been accelerating the growth in aerospace?

Karthikeyan Natarajan: And I think as we guided, we are definitely seeing potential momentum building up. And some of the large OEMs that we have been working for many years are starting to spend money. I think that's definitely an interesting sign. And China coming out of the zero covid policy, probably they would see about two million people traveling in the next 45 days or so. I think this is probably something which has never seen in the last 2.5 years or so. So which is definitely a great positive momentum for us. And the third thing was some of our large customers and are likely to see a growth of teens for 2023, especially on the new engine due aircraft sales combined with the operating hours increasing and increase in terms of their MRO spend.

Sandeep Shah: So this outlook is only for services business, or the aerospace?

Karthikeyan Natarajan: Yes, whatever I covered, we are not talking anything about DLM in the call today.

Sandeep Shah: And with many diversification through M&A's in the Europe as a whole, are we witnessing any amount of client decision-making slowdown in some of the acquisitions which we have done because of the macro pressure, supply chain pressure, gas shortage in the Europe as a whole?

Krishna Bodanapu: I would say, I think as far as the new energy transition, we are very bullish on medium to long term. And we are seeing some of the newer areas where one customer who partnered with us in winning a carbon capture solution for very large customer of theirs. And this is kind of indicating that the momentum is definitely getting built. The energy transition is the global phenomena. It is just not about Europe, and it's happening across Asia Pacific, India, and North America. So we are continuing to be bullish on the energy transition for the medium to long term.

Sandeep Shah: And the last bookkeeping question? Whether the legal and charges for the legal suit, which is going will continue in the fourth quarter as well?

Ajay Aggarwal: Yes, they will continue in fourth quarter. And as we had mentioned, the outcomes and the process of this is really a little bit medium term and long term. So it will continue for some time but we keep on updating as we get better insights into it. So yes, it will be there in quarter 4 as well.

Sandeep Shah: But quarter 4 could be the last quarter or it can continue beyond that?

Ajay Aggarwal: No, I think it could continue beyond that. It will take some time to get settled. We don't know precisely, but it is a question of many more quarters, not one quarter.

Sandeep Shah: And cash balances are down, so is there a debt repayment in this quarter?

Ajay Aggarwal: I think for the acquisition, it is just a timing issue between quarter 2 and quarter 3. We had taken some loan to fund the acquisitions. And subsequently, it was reduced by infusing the equity into the subsidiaries. It's just a point of time thing. So we have funded the acquisitions one part by our own cash, which is equity and one part by debt. I think the debt part got done in the quarter 2 and the equity infusion happened in quarter 3. Because of that, you are seeing that swing. This cash is reduced because of the uses when the acquisitions that we did in this year.

Moderator: The next question is from the line of Mihir Manohar from Carnelian Asset Management.

Mihir Manohar: First of all, congratulations on a great set of numbers. I mean these are really good numbers in the challenging environment. Especially we wanted to ask something about the order intake. I mean, we are having a good order inflow, roughly $240 million on the Services side. But what is driving this order inflow, which are the areas, what kind of deals are we winning? And also on the commentary in your opening remarks, I mean Krishna mentioned that pipeline is of 1.5x in the presentation. So just wanted to get more color, which geography, which areas are leading to this pipeline? And how do you see pipeline transitioning into order intake? Yes, so that was my first question. And my second question was on the Captive deal that we won in first quarter, that Captive deal plus Honeywell order. So I mean, what could be the revenue contribution from both of these deals and from which period could be start contributing to the revenue? Yes, so those were the questions.

Karthikeyan Natarajan: On the first question, Mihir, I think you know, the flow of how the sales cycle happens. The pipeline gets built, it gets converted into order intake and then to revenue. And what we are seeing, the kind of deals that we are participating now, we started bringing focus on the five pillars that we've been talking about, whether it is about digital embedded software, semiconductors and geospatial and networks. I think we are seeing momentum getting built up across all the service lines. And we also talked about some of the high-growth segments, whether it is automotive, healthcare, mining, communications and aerospace joining this party. I think we are seeing growth across all the vertical segments. And that's where we are seeing the order intake growth that we have talked about to the tune of 18.2% in dollar term or 22%-plus on constant currency. I'm sorry, I didn't get your second question.

Mihir Manohar: Yes. So on the Honeywell deal on the DLM side I mean the Captive deal which is there, which is when we start quarter, so what could be the revenue contribution from both these deals?

Ajay Aggarwal: Yes, I think we have not talking about any specific clients, Mihir. But as we talked about even during our Investor Day, we're doubling our automotive business compared to last year. I think that trajectory is still intact.

Moderator: The next question is from the line of Shradha from Asian Market Securities.

Shradha: Congrats on a good quarter. Two, three questions. Can you just tell us what has been the organic Services growth in nine months 23 so far?

Krishna Bodanapu: I think it should be about 11% around 11% constant currency.

Shradha: And sir, the other question is why we are guiding to flat EPS in 4Q despite the fact that Karthik mentioned that even aero can grow double digits. And you take of 15 at the lower end would mean flat EPS on a Q-on-Q basis. So are we hinting at a margin decline, so to say, in 4Q?

Krishna Bodanapu: No, let me clarify that. I'd say we've never guided on EPS. We just did it last quarter for the first time because there were a lot of acquisitions, and various things that were going on in the business, which didn't reflect the ground reality and that's why we guided for EPS for next year. I just wanted to say that we are at least holding on to that. We will, I mean, logically, we will do better than that. But again, I don't want to get into next year because we haven't done enough work. But I'd say, logically will get better than that. And that's why I said at least 60, but at this point, I don't think it will be prudent to get into too much more in that.

On Q4 also, again, I think we will be at least at the higher end of that range, given that we have done 14.9. We also see a margin expansion in Q4. So we'll just be in the higher end of that range for sure. But various things that are going on right now. Also, the other thing I will say is we will have some one-off costs because we are going to -- we've taken a number of actions in terms of making sure that we set ourselves up for a good FY24. So, there's some actions that we need to take in terms of giving up space, in terms of breaking or renegotiating some of the contracts. There'll also be some costs that is associated with it. And we are anticipating some of that cost, which is what will depress margin a little bit. But I'd say we're quite confident at least from a gross margin perspective, that it will hold. From EBIT also, we're confident that there will be expansion. It's just that we want to be prudent given that we also want to take some aggressive decisions on cost that will pay off in FY24.

Shradha: Renegotiating some client contract is what you mean?

Krishna Bodanapu: No, not client contracts. Vendor contracts like hardware, software, space and so on and so forth.

Shradha: And sir, just any outlook on how Citec has been starting up. It's been one full quarter of consolidation now? So any outlook you would want to give on Citec?

Karthikeyan Natarajan: It's too early to call out, Shraddha. But I think so far it is on track. It is progressing well. And the opportunities we are seeing definitely make us excited about what we can offer in the next 12-18 months. And we are trying to get synergy through go-to-market and by integrating the sales teams together. I think that process would happen sometime this quarter. And you will probably have a better view by the time we complete, we conclude this quarter.

Krishna Bodanapu: And if I may just add to that, I think we're also winning some good new deals through Citec and because of the combined entity and the synergy. In fact, there's one on which the customer made a press release, the customer is the Aker the FPSO Company, but customer made a press release, citing Citec's capability as one of the key reasons why they're going to undertake this project. And the two companies that they mentioned are Citec and ABB as their partners in executing the project. And this is all something that the customer made, we did not do any of the press release.

Shradha: And just one last question, if I can. Karthik, I think last quarter, you had indicated that aero for this year should grow 9-10%. This quarter itself, we are at a run rate of 8% to 9% in constant currency on a Y-o-Y basis. And given the fact that we are talking of double-digit Q-on-Q, I think we're implying a double-digit Y-o-Y growth also in 4Q in Aero. So what has changed from Aero perspective in just one quarter? Is there some single client budget that has moved up significantly? Or is it across the clients that you're seeing better traction compared to what was anticipated at the end of last quarter?

Karthikeyan Natarajan: Yes. I think good observations Shraddha, I think we expect the growth for year-on-year to be healthy and that's definitely given based on where we stand today and what we are looking at for Q4. I think what we are also seeing is this is slightly broad-based. I think the decline has stopped that's what we have been talking about. If you look at last four or five quarters, we have been successively growing quarter-on-quarter in Aerospace. So we have not seen a dip and we also talked about a few of our large customers that are continuing to grow, which is getting broad-based. I think that's what I would really say, that gives us confidence for seeing the momentum in the Aerospace segment.

Moderator: The next question is from the line of Sameer Dosani from ICICI Prudential Asset Management.

Sameer Dosani: Congratulations on a good set of numbers. Best wishes to all at your end. Just one clarification. Slide No 17, Cyient Services you have mentioned that $240 million is the order intake and you mentioned that the five large deals have a total contract opportunity of $60 million. So what is this difference? If you can just clarify that?

Karthikeyan Natarajan: See, the order intake is the purchase orders, we received during the quarter and which goes into our SAP system. And let me also confirm, purchase orders from customers. The contract potential is something that, the customer signs up with us about, say, $10 million and depending on some of the large segments and $5 million on smaller segments. We consider anything, which is more than $5 million for smaller segments and $10 million for larger segments, as part of total contract potential and that is 60 million from five deals that, we are announcing here.

Sameer Dosani: Because there is a good Q-on-Q growth, and so just want to understand, the incremental part is slightly longer than 12 months or longer or is it like, you will see that in less than 12 months or so?

Karthikeyan Natarajan: I think we always looked at year-on-year because of the seasonality, some customers, who issue the purchase order by Q3, some will do it in Q4. But I think this is close to the second highest order intake, that we ever had on services business. So to that extent, it's definitely high, and you will always look at this more than next QoQ number, look at this as a YoY number.

Sameer Dosani: And second question is about the communications part, I think after a robust growth in Q1, Q2, I think now the growth is slightly lower. So is there some contracts that would have ended? Or if you can just comment on that, is there a pickup that you can expect on a sequential basis in Communication side?

Karthikeyan Natarajan: Yes. I think, there are about a dozen customers that, we work with where they may keep changing some priorities for this quarter to the next quarter because all of these businesses are driven by time to market and their ability to gain market share and revenue for the customers. So there could be some change that would happen in any of the quarters. If you look at from Q4 to Q1, you have grown double digit in comms and which is sustained and continue to grow on top of that. So that's essentially what is happening. We see that the momentum in communication continues, and we are definitely bullish on this segment.

Sameer Dosani: Lastly, my question is around utilization. So utilization now, we are at I think 90% as per your presentation. So is that something sustainable was my question?

Karthikeyan Natarajan: Yes. I would say. I think, we would always like to expand in terms of our bench and I think that is going to be some initiatives, that will be taken as part of what we want to do in Q4. Our intent is to maximize the utilization as far as the Q3 is concerned where there were lesser working days and the furlough effect. I think that is essentially worth it has shown. And it is good to see that most of the bench that we carry is a relevant bench, I think that's something which is definitely seen based on what we have looked at on the operational efficiency.

Sameer Dosani: And lastly, when you say QoQ double digit growth in Aerospace, is the growth rate that is you are speaking about is sustainable, because we are already much lower, what in this vertical versus what we did in pre-COVID?

Karthikeyan Natarajan: Yes. We have not done the planning for FY24 yet. Maybe by the time we conclude this quarter and the next quarterly results, we'll talk about our view for the next financial year.

Moderator: The next question is from the line of Athreya Ramkumar from Ithought PMS.

Athreya Ramkumar: Congrats on the performance. So I think most of my questions are answered, but I just had one, you know maybe a medium-term question. So I think, we've been talking about benchmarking our bottom line or the profitability with our peers. So I just wanted to know, what maybe on a three year perspective, what our medium-term aspiration is on the top line? And whether we are going to focus on reducing the volatility in the numbers. I think that has been an issue in the past as well?

Krishna Bodanapu: Two things on the top line, I think, we've sort of talked about what our aspiration is or what our goal, is in terms of getting to the $1 billion run rate in the next fiscal year. I will leave it at that because we haven't done a much longer-term plan against that. Now in terms of the bottom line, we've done a lot of work because, as you said, there is a gap to our peers and we've started to take a lot of actions, we've identified where some of our inefficiencies have been, and we're starting to take a lot of actions around those inefficiencies. So what I would say is and also if you look at it, when I talked about the quarter, some one-offs in Q4 potentially affecting margin a little bit, that's also because to achieve some of the longer-term goals, we will have to take some renegotiating contracts, etc. which would have a cost in the short term. So I would say within, by the end of next year, we will in the next financial year, that is, we will get to the at least the average of our peers. And I think that will be a good starting point for them to then, reflect back and say, what more is left in the business. But the actions that we have start that, we've identified and started to take. I think there's a line of sight to get towards at least the average of our peers by the end of the year from a margin perspective.

Athreya Ramkumar: And maybe if I could just ask 1 more question on, I think based on the acquisition, the onshore ratio has gone up, so is this going to be the new normal? Or is there a potential for improving on this number as well?

Ajay Aggarwal: It's too early to comment on it Athreya, I think by the time, we have a better visibility over the next one to two quarters, we'll keep you updated about it. And I think as you would have seen, we have improved our off shoring by 1% every quarter for at least last 10 to 11 quarters. So I think our intent is definitely there as part of what we want to do in the business.

Moderator: The next question is from the line of Saurabh Sadhwani from Sahasrar Capital.

Saurabh Sadhwani: This is the first time I'm looking at Cyient. I just wanted to understand, what are our capabilities in the Aerospace vertical. What kind of work do we, doing there?

Krishna Bodanapu: Saurabh if I may ask, I think it would be good to have, if you could reach out to Mayur who will set up a more detailed conversation because it will take a bit of time to explain, what exactly we do. So could I suggest that you reach out to Mayur and he will set up a communication with us.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Krishna Bodanapu for closing comments.

Krishna Bodanapu: Thank you very much. I'll just say that thank you for the support and thank you for your time today. Obviously, things are looking quite good. The vertical that was a bit of a lag for us - Aerospace, which at one point was the largest vertical and today is the second largest. Aerospace is back and Aerospace is back with the vengeance, I would say. Like Karthik talked about, we have a double-digit growth. And while it's a double-digit growth every quarter-on-quarter sustainable? Probably not. But it's not that the business will de-grow. That the growth, that we're seeing is sustainable for a long time. We just need to see how much will it be? Will it be 10% or 5% of what that number is quarter-on-quarter, we still need to understand. But having said that, we find ourselves in a good spot where Aerospace, which was a bit of a challenge for us has now become our strength. And therefore, with the rest of the business also doing quite well and with a great deal of complements to the team, especially led by Karthik on investing in the right areas, be it embedded or digital, what we call five pillars. I think the potential for us is significant because much of the order intake and more importantly, the pipeline that's building up is also in the areas that which are quite sustainable and what our customers want for a long time. So therefore, I just say thank you very much for the support, as we talked about last quarter. Things have come back on track this quarter and we believe that it's only going to accelerate from here. So thank you for the support and we will be in touch. Thank you.

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