

CYIENT

Cyient Limited

Q3 FY24 Earnings Conference Call

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CYIENT

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LIMITED
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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY24 Earnings Conference Call of Cyient Limited. 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 phone. 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 then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Krishna Bodanapu, Executive Vice Chairman and Managing Director of Cyient Limited. Thank you, and over to you, sir.

Krishna Bodanapu: Thank you very much, and good evening, ladies, and gentlemen. Welcome to Cyient Limited's Earnings Call for the Third Quarter of Financial Year 2024. My name is Krishna Bodanapu, Executive Vice Chairman and Managing Director of Cyient. Present with me on this call are Mr. Karthik Natarajan - CEO and Executive Director; and Mr. Prabhakar Atla - CFO and President.

Before we begin, I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in our investor update, which has been e-mailed to you and is also posted on our corporate website. This call will be accompanied by an earnings call presentation, details of which have already been shared with you.

Coming to the highlights for the quarter. In relation to the associated civil class action antitrust lawsuit filed by plaintiffs in the U.S. District Court, we wish to inform you that Cyient Limited's U.S. subsidiary, Cyient Inc., has entered into an agreement to settle and dismiss the class action civil antitrust lawsuit for an amount of \$7.4 million. We will utilize insurance amounts to the extent available, which we are still discussing with the insurance providers towards the payment of the settlement amount. We have taken a provision of \$6 million in Q3 FY24 for the same. We anticipate that this will not require any further normalization on this project with this provision. This settlement is without any admission of liability and the plaintiffs have agreed to release and discharge all claims associated with this lawsuit against Cyient Inc. and its affiliates, including Cyient Limited. The settlement is subject to approval by the presiding judge and the timing of this is at the discretion of the Court.

This will not have any material impact on Cyient Limited's operation, financial condition, or liquidity. This is a great development for us and we are very relieved as it is a key step in the right direction for us at Cyient. It also vindicates our position on this topic from the start. The settlement allows us to continue to focus on creating value for our customers and investors while adhering to our values-first framework. This is something that we always take a lot of pride in, and I'm exceptionally proud that we have been able to settle and close this matter as such. You may recall that there was also a criminal lawsuit that was associated with this case. This lawsuit was dismissed by a U.S. judge in April of last year and that was informed to you earlier. Now we're very happy that this is fully settled and this is behind us and we won't require -- or we don't anticipate that it will require any further cost or normalization after the provision of this \$6 million.

We've also entered into a partnership with SkyDrive Inc., a leading Japanese eVTOL aircraft manufacturer, to cater to the growing urban air mobility market, including India. eVTOL stands for electric vertical take-off and landing, essentially a large drone. Rising urbanization, growing

population and an e-commerce boom necessitate a modern, safe, and affordable mode of transportation for people and goods. UAMs offer seamless, secure, and rapid transportation, helping to mitigate current and future challenges faced in urban areas. This commitment not only demonstrates our dedication to our communities and environment, but also positions us very strongly as a pioneer in driving sustainable mobility.

We also inaugurated the CyientifIQ Experience Center, the CEC, in our Hyderabad campus in December 2023. CEC is an experiential demonstration of 100-plus intelligent engineering and technology solutions built in collaboration with more than 10 partners. The state-of-the-art facility will serve as a hub for innovation, collaboration, and cutting-edge research, reinforcing our promise of designing tomorrow together. It symbolizes our collective imagination, investment, and commitment to solve problems that matter for our clients, communities, the planet, and leverages the expertise of our innovation ecosystem, including startups, partners, academia, industry associations, labs, and studios. Thanks to some of you who attended our Investor Day where you would have also had a demonstration of some of the cutting-edge solutions that have been innovated and created in the CyientifIQ Experience Center.

Thank you very much for your time. I greatly appreciate all your support, and I also just want to reiterate and thank you for all the support that you provided us during the process of the lawsuits, both the criminal and civil. And today, it gives me a great deal of pride to say that we were vindicated in this case and can really move on with our business. With this, I would like to hand over this call to Prabhakar, who will take you through the financial performance for the quarter.

Prabhakar Atla:

Thank you, Krishna. Hello, everyone. Firstly, thank you very much for your participation in the call today. Thank you for your time and thank you for your engagement, which we greatly appreciate. On behalf of entire Cyient team, I wish you all a happy, healthy, and equally importantly an interesting and exciting new year ahead.

As with the previous earnings calls this year, the focus of this call is the Cyient DET business and this first chart presents the key elements of our Q3 FY24 DET performance. Q3 FY24 U.S. dollar revenue for DET stood at \$179.2 million, a Q-o-Q growth of 1.1% in constant currency and a Y-o-Y growth of 5.4% in constant currency. In rupee terms, this revenue stood at INR1,491 crores with a Q-o-Q growth of 1% and a Y-o-Y growth of 8.1%. I'm happy to report that this revenue is the highest ever we had for DET business. We had multiple growth drivers behind the strong performance year-on-year. Our core segments continued to witness strong growth Q-o-Q and Y-o-Y, especially the key segments of aerospace and sustainability. Communications segment, which experienced softness in the previous quarter with a degrowth, has reported a flattish performance this quarter, actually with some marginal growth quarter-on-quarter in constant currency. This supports our outlook of a recovery and growth in near term for this segment, which we believe is a positive lead indicator for our overall DET performance going forward into the current calendar year. Mr. Karthik Natarajan will cover a detailed commentary on the segment performance later in the call.

The Q3 FY24 DET normalized EBIT margin stood at 16%, down by 53 bps quarter-on-quarter and up by 205 bps year-on-year. This positive expansion of EBIT year-on-year was possible due to continued benefits from the cost optimization exercise we undertook in the previous quarters.

The Q-on-Q movement in EBIT was along expected lines as we continued to adjust for wage hikes, which as you know now, are phased through the year across quarters and we also had to mitigate the payday versus build-day impact specific to Q3. This quarter, we also invested further in the supporting growth, which we anticipate in the following quarters.

The Q3 FY24 normalized PAT stands at INR173 crores, translating into a growth of 11.5% year-on-year. This also translates into a normalized EPS of INR 15.74 for Cyient DET. In terms of free cash flow, the Q3 FY24 DET free cash flow stood at INR192 crores, a growth of 51.3% year-on-year, translating into a healthy conversion of 111% on normalized PAT for Q3.

Before I close this chart, I'd also like to comment on a few items which are not covered in this chart. As Krishna spoke earlier, the first is around the disclosure we made recently regarding the settlement of the civil case, which we have in the U.S., is subject to the approval by the respective court. The settlement amount we have agreed for is \$7.4 million in the interest of moving forward and to avoid a prolonged legal engagement leading into further additional costs. Again, it's the settlement amount. We need to finalize the exact amount of insurance support that we would repay, and pending that, we have now taken an exceptional provision of \$6 million in our books for the current quarter, which we'll normalize. We anticipate that this provision will be adequate to cover all upcoming costs regarding this matter until final closure.

I'd also like to say that we are quite pleased that we can now move beyond this case and focus our energies to drive growth. The second comment is around outstanding debt of DET. We're happy to report that our debt position has come down by \$6 million quarter-on-quarter and down by \$15 million year-on-year. As I close this chart, we'd also like to draw your attention to the balanced progression among several metrics. With revenue growth of over 5.4% year-on-year in constant currency terms and EBIT expansion of 205 bps, PAT grew by 11.5% year-on-year while retaining focus on FCF, which also improved by 51% year-on-year, which we believe is a reflection of the balanced and healthy performance of Cyient DET.

Moving on to the group numbers. The group numbers are the combination of all the three segments we have, including Cyient DLM, and I will just call out a few comments. At \$218.8 million, group revenue for Q3 FY24 grew by 10.1% year-on-year in constant currency, and I'm happy to report that this revenue is the highest ever we had for the group. Q3 FY24 group normalized EBIT margin is at 14.3%, up by 138 bps year-on-year. And the Q3 FY24 PAT stands at INR186 crores, up by 14% year-on-year while the FCF has also improved year-on-year by 38%. Overall, I'd like to say that this performance was along expected lines and forms a very good foundation to build further in the coming quarters, especially with the growth momentum that we see with us. I would like to thank you all again for your support and for joining this call today. And with this, I will hand over the call to Mr. Karthik Natarajan for an update on DET business performance and outlook.

Karthik Natarajan:

Thank you, Prabhakar. Good day, everyone. Wish you all a very Happy New Year since we are talking into the year for the first time, and also happy to report the business performance for each of the business segments. This is also the 1.1% constant currency growth that we have seen.

This is 10th successive quarter of growth and also 11 out of 13 quarters of growth that we have seen for the last three years. And the growth was led by, if you were to really look at the third

from the left column and the constant currency Q-o-Q, and transportation has degrown by minus 2.2% and year-on-year by 16.9%. And aerospace led the growth with close to about 24%-plus.

Connectivity, which is like what Prabhakar talked about, has grown by 0.2% and year-on-year down by minus 13.9%. And as we guided earlier, we expected a turnaround from Q3 to Q4 and that's something we'll talk about it in the next few slides.

Sustainability, which has been a segment that has been growing for the last 11 successive quarters, has seen a growth of 8.2% in quarter-on-quarter constant currency and 22.1% in constant currency. Happy to see that. The second growth engine from sustainability joining our growth bandwagon, as we talked about even during our Investor Day, and we expect four growth engines led by aerospace for transport and sustainability as second one. Connectivity, which has seen some softness during the initial part of this year, hopefully, should recover during the second half; and the new growth areas still have some challenges. We have some work to do. And new growth areas have shown minus 3.4% in constant currency growth and minus 5.5% in terms of year-on-year.

And in terms of order intake, I'm happy to see that we have received about \$297.3 million worth of orders in Q3. This is, again, highest ever. And while it shows 21.9% in terms of year-on-year growth, adjusting for like-to-like comparison, which is about 13% growth that we have seen for Q3. We have also won eight large deals of \$136.8 million and comprising of four from aerospace, two from communications and one from sustainability and one from new growth areas.

Moving on to the business performance and outlook. We continue to see the macro issue of challenges from economic slowdown along with interest rates and the inflation, the pressures that are seen by our customers globally. But also, we do see that some of green shoots starting to emerge and maybe second half of 2024, will be much better. The ER&D spend is definitely resilient for the medium to long term while there are some priorities from customers, which are changing or they are making some decision delays and that's shifting projects to the right.

As far as transport is concerned, the air travel keeps growing and the global passenger volume is likely to cross 2019 levels in CY24. We also see the MRO and the manufacturing production rates are expected to grow significantly over the next two years. This segment continued to face some of the supply chain issues, and that's likely to ease out in the next 12-18 months as we start making progress on that. The segment for transport for us will see a growth from aerospace, as we guided earlier. Rail would see a softness as we expected given even in the earlier call.

As far as connectivity is concerned, and we talked about some of the government spending like RDOF and BEAD programs to start kicking in, and we started seeing signs of RDOF. We are yet to see some of the BEAD programs to kick in. But we are confident about the recovery in Q4 and which will also flow into the next year. The key segments of growth for comms continue to be the fiber expansion and -- along with some of the wireless-based premium customer experience programs and cost reduction have been leading the kind of deals that we start seeing in play.

As far as sustainability is concerned, I think this is a segment, which has seen all-around growth across, be it energy, utilities, and mining. We are seeing the demand in terms of cost reduction, asset management and alternate energy sources, including hydrogen, ammonia, carbon capture and nuclear essentially to see demand momentum. We do expect that this would be a multiyear growth segment for us. I'm happy to see that this is getting closer to the transport segment and the second engine that is starting to kick in for the last 11 quarters.

New growth areas, and we have seen growth momentum from auto, and we still have seen challenges from semiconductor and high-tech segments. We hopefully see semiconductor turning around during later part of this year. And we are continuing to see momentum in the form of high-performance computing and generative AI driving the growth for semiconductor.

We want to share some of the new wins and happy to make progress on newer areas, whether it is about software-defined vehicles or whether it is about accelerators on digital engineering, data and AI and we made some of these wins from autonomous systems and process. Intelligent and connected products - We have seen wins from CyMedge, which is one of the technology solutions that we build. I think Krishna talked about the CyientIQ customer Experience Centers, which is a place -- culmination of all the solutions that get built across Cyient.

And it's starting to see traction with customers and we are working with the customers on integrating hardware and software platform framework and also building the middleware software for them. This is for a medical device customer. And also one deal, which is on design and development of smart energy meter SOC and this a complete end-to-end responsibility that we have taken for the customer.

In terms of next-gen connectivity, we are seeing momentum on the network analytics and automation. These are some of the cost-out program's customers are driving. The CSP segment, the customer -- the communications service providers have seen softness in the last one-year post 5G implementation. They are really using a lot of automation and analytics to drive cost out and we are participating in some of these programs, which also helps them to achieve the zero-touch provisioning.

The managed services program using generative AI to help to roll out and integrate radio access, core, and IP transmission and this is another win that we had last quarter, which is leveraging the VISMON platform that we acquired through Celfinet, and this is something which is starting to show progress with some of the new wins.

Sustainability, I think very interesting in terms of the kind of projects that we are winning and which cuts across many areas in terms of carbon capture, low-carbon footprint, design using the FPSOs and design of dual fuel engines or what we call them as a combined-cycle power plants. I think these are helping to reduce the carbon footprint globally, and we are participating with many of these programs across the geographies.

Generative AI, and we have been working on them for the last six or nine months. And we also trained about 1,500-plus engineers on basic awareness on generative AI. We are also excited about some of the wins that we had, and across automotive, aerospace and energy customers.

And interesting to see some of the wins like the first one that you are seeing here of using open AI APIs and also CyVision, which is about video intelligence platform; and CyText, which is about OCR-based platform to extract text data from PDF documents. Many of these initiatives are going across text, audio, video, and any kind of images that need to be processed. I think that is the use case that we are seeing in terms of traction with our customers.

Last but not the least, which is about the digital platforms and customer experience. We are making progress on regulatory compliance using intelligent regulatory framework that we built and also AI-powered software testing, which is leveraging the CyFAST. All-in-all, we are happy with the progress that we made for the quarter and we are continuing to see momentum for the growth that we have guided during our investor meet for the next three years.

Specific to FY24 and we said we still wanted to be around 15% to 20% on the lower end of the guidance, as we mentioned last time, and we have seen that, which is likely to get delayed or likely to be shifted to the right. We expect the revenue growth to be tad lower than the earlier tighter range. We expect it to be in the range of 13% to 13.5% year-on-year in constant currency term. And we expect our EBIT margin for fiscal 24 normalized to be higher by 200 to 250 basis points year-on-year as compared to what we guided earlier, 150 to 250 basis points. And with that, I'll close and open it for question and answers, and wish you all a very happy Republic Day for tomorrow.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal: Thanks for taking my question, and congrats on a solid performance in a very weak environment. So Karthik, two questions from my side. One is on our performance and one is on the overall segment-specific, per se, that is aero. We have recently heard multiple media news and articles about the mid-air accident with Boeing and a lot of safety precautions and norms are now being basically strengthened for the industry per se. How do you think that impacts us and also the industry? I know maybe the client might not be that big of a client for us. But does it in any way impact the aerospace industry as a whole and in terms of could alter the direction or maybe make some impact on that direction of the spend that the industry might be looking at to maybe focus on more on safety issues and those kinds of things. And my second question was on the company per se. We've downgraded our guidance to 13% to 13.5% this quarter. But if I were to ask, let's say, from the beginning of the year till now, in the last nine months, which exactly were the pockets that led to maybe a miss in the revenue vis-à-vis our expectations when we started the year.

Karthik Natarajan: Yes. Thanks, Vibhor. And to answer your first question, I think it is unfortunate in terms of what it is that we are seeing here. I think this is going to be the nature of the beast, right, when you are dealing with a safety-critical product. I think the scrutiny will be much higher and there will be need for more rigor in terms of process, compliance and automation, ability to really track some of them digitally. Probably we will see more requirements in terms of work for service providers, and we have seen across many of our customers, not just because of the current one, over the last 12-18 months with increased rigor that has come from FAA and these and other certification agencies globally.

That rigor will continue and this will also increase more auditing, inspection, and the ability to really predict some of the failures. How do you think you can really put better control on some of the non-conformances. I think that's going to be the nature of work that we expect to see. Some of the cost of certification for any new aircraft will increase because of the rigor that is expected out of it, and any of the existing aircraft that is completed for design. If they need to go through a certification process and the certification costs are likely to increase with more requirement for documentation and supporting evidence to ensure that the aircraft are absolutely safe. So that's the answer that we have on the first question.

On the second question, I think we have probably expected the rail to be slightly flat compared to what we have seen as a degrowth. And we also see that if you look at from the broader industry standpoint, most of the governments have to prioritize if they want to continue to expand on the rail infrastructure or different spending. And if you have seen for the last 12 months, the geopolitical conflicts that have risen across Asia, Europe is something that's definitely made them to choose the priority of defence as compared to the rail infrastructure. That is making them to defer some of the program or shift them to the right, and that's something which has affected us a bit.

The second one was something on the new growth segment. We expected some of them to recover earlier and that is still getting shifted to the right. As you would have seen, our healthcare and life sciences business has done well for the last two years. Thanks to the pandemic and health concerns that were raised, I think a lot of money was spent on health and safety, and I think that is probably taking a breather. Some of the investments from hospitals for upgrades is getting shifted to the right and that's making that segment to slow down.

And third would be, I think, in a broader sense, we did not expect that communication will go down in the first half of this year. And that was definitely something that we thought will at least be flat, if not degrown. And that's probably what led us to give a guidance of 15% to 20% in the early part of the year.

Vibhor Singhal:

Got it, got it. Thank you so much for that comprehensive explanation. But if I could just have a couple of follow-ups of each of my two questions. So the first part that you mentioned that maybe that would lead to more incremental spend, but on the other hand, do you believe that there could be a case in which these manufacturers could actually start more in-sourcing that they don't want to. I know they haven't named any vendor per se because of which -- or blame any vendor for the mishap or the incident. But do you think this might trigger a kind of a wave of in-sourcing amongst these -- in these manufacturers that they now want to do all the things themselves and not rely on third-party vendors like us or global vendors as well?

And to the second question again, in terms of - you mentioned that healthcare and telecom was where we missed. How is the auto segment looking like? Was degrowth in the auto segment, which is part of the NGA, of course, in line with our expectations? And do you expect us to continue making inroads in that segment?

Karthik Natarajan:

Yes. So I think to answer your second question, automotive has seen year-to-date growth of 25% year-on-year compared to the first nine months of last year. So we have seen a growth in automotive as what we expected and we may see some softness for a quarter or so, but we expect

2025 should be a growth segment for us even from automotive. And for your other question, I think this is more broader issue that the industry has to deal with, right? I think outsourcing is definitely not new for many of our customers. They've been working on it for the last 20 years. And some of the quality issues related to the manufacturing process is something, which is not necessarily outsourced and which is done in-house. It is about bringing tools, bringing an ability to automate the process so that you kind of make them fail-safe or fool-proof. And I think some of those digitalization activities will probably increase and that is where we see an opportunity for us to partner with our customers.

Vibhor Singhal: Got it. Thank you so much for taking my questions and wish you all the best.

Moderator: Thank you. We have a next question from the line of Abhishek Pathak from HSBC.

Abhishek Pathak: I have a couple of questions. Firstly, on the connectivity vertical, heartening to see that the vertical has bottomed out. Could you break down the outlook between wireline and the wireless business? And specifically for wireline, do you see the U.S. elections meaningfully influence the outlook, if at all? That's one.

And the second question is around sustainability vertical, which is doing phenomenally well. If you could go deeper into what's leading to this growth? And can we expect this quantum of growth to sustain in FY25? Is this coming from Citec? And if yes, any color on how we are sort of taking whatever capabilities we have acquired through Citec to other clients? And is that part growing equally as well?

Karthik Natarajan: Sure. Thanks, Abhishek. To answer your second question, I think we definitely expect sustainability to be a multiyear growth prospect for us. And we are happy with the progress that we've made with Citec. And interestingly, Citec has hit their all-time high in Q3 in terms of their revenue. We have seen some kind of cyclicity in Q2, as we reported earlier.

And we will continue to see momentum from sustainability growth across the geographies. The interesting opportunities for us is to take some of these opportunities from Europe to North America, to Japan, to other geographies and Middle East. There are enough and more opportunities that are coming up. The energy transition is a multi-decade opportunity and multitrillion dollar spend that has to happen. And 60% of the energy, which is likely to get into some form of renewables in the next 10 years and the 40% of the fossil fuel that has to get converted to 25- 30% of renewable plus plus. Whether it is hydrogen, ammonia or carbon capture, battery storage, nuclear, I think all options are likely to see a significant traction. Also the Inflation Reduction Act from U.S. is a key enabler and many of the customers in North America are trying to leverage this IRA as a potential subsidy that they are trying to look at.

So this is going to be many years of opportunities that we are seeing. And we are also seeing opportunities around not only doing the plant engineering and also digitalization of the plant and the ability to help them with digital twins and help them with asset management and the ability to operate the plants efficiently. And also that once process control that is being brought in by us as a digital solution is likely to see a traction where we help them to track the productivity, quality and how do you make sure the different -- the best configurations that will give them a highest yield. And what can be done to replicate this across many days and weeks of the year.

Some of these solutions are definitely picking up momentum with our customers. And we are really excited and happy about the progress we've made on sustainability, which is going to be a growth engine for many more quarters to come. Sorry, I missed your first question. What was that Abhishek?

Abhishek Pathak: Just to break down also between wireline and wireless and whether U.S. election will have a meaningful impact on the wireline piece. I mean, can we expect a push after the elections are over in the U.S. for wireline business?

Karthik Natarajan: Yes. So we don't have any clear view of how the elections would impact the fiber business, and we are seeing traction both on fiber and wireless. And as I mentioned, the wireless is led by cost takeout as well as premium customer experience. And what do I mean by that? They are expecting the ARPU, the average revenue per user, did not go up after 5G being implemented. And if they want to retain some of the premium experience for the customer, which is likely to increase the ARPU to \$120-140 a month compared to \$40-45 a month on an average.

So they're trying to create a premium experience and they want to keep the premium customers not to change their operators just because they get a few dollars of savings, but they want to provide a premium experience. The second one as the communication service providers have gone through a significant cost reduction and layoff for the last 12-18 months, they want to automate their network life cycle. And we are playing a critical role with the platform that we've built through Celfinet and that's really creating traction with our customers. So most of the projects that we are working on are led by cost reduction. And on the fiber side, as we mentioned earlier, the average coverage today is about 55-65% depending on the geographies that we operate in. This is really requiring it to be about 80-85% in the next two years. There were some capex programs that were put on hold in the early part of this year, which is coming back. Almost fiber is becoming a backbone for any kind of cable or wireless or fixed wireless programs. And you can't really defer it for too long, and we do expect the momentum to continue for another year or so.

Moderator: We'll take our next question from the line of Sandeep Shah from Equirus Securities.

Sandeep Shah: Karthik, the first question, if I look at this year has been a challenging year for all the players, including us. And if I dissect the organic/inorganic, the organic growth looks like could be mid to high single digit. And your commentary about the demand revival is also mixed with some segments doing extremely good, with some segments still not out of the woods. So in the Analyst meeting, you shared the slide about 10% to 20% growth outlook in the DET sales over next three to five years. Do you believe even the double-digit growth can be possible in the forthcoming year? Or this may be slightly back-ended rather than front-ended?

Karthik Natarajan: Yes. So Sandeep, that's a fair question. I think we are like what I covered during my performance outlook. And we are seeing medium- to long-term engineering and R&D spend is intact. We started seeing the second engine firing on all cylinders. And the third engine is likely to get back to that it was helping us in the initial two years after pandemic. And we hope that Q4 will be a turnaround for connectivity. And we have a few things to do on the new growth areas and anything that is related to the economic issues like Semicon and Comms as we expect that they should probably improve during the later part of the year. We expect that the semiconductor

should get back to the growth trajectory in second half of fiscal 25. And we are continuing to see momentum from the Automotive & Mobility segment. And we do see that Healthcare and Life Sciences should start joining the growth trajectory, if not at a very high level, at least start getting into the single-digit growth for the first year. So we do expect in the new growth areas if we get two out of four segments start growing, we should start seeing that to be in the double digit. So we are still holding on to the view saying that the medium to long term of 10% to 20% that we guided is still intact.

Sandeep Shah: Okay. Fair enough. The second question is in terms of margins. So on an adjusted basis, we have had a strong execution in FY24. And Prabhakar has mentioned in the Analyst meet that it can be further increased to 18% to 20%. So Prabhakar, just the question is whether this journey of a YOY improvement, operational rigor will continue even in FY25? Or you believe growth is a precondition now because the kind of margins we are operating in is more or less optimal to the cost initiatives and further improvement is dependent on growth revival.

Prabhakar Atla: Sandeep, thank you for asking that. We do believe that the growth journey that we articulated in the Investor Day for the growth of our margin is still intact. That is the framework that we already put to rigor, and that is what we will execute towards.

Sandeep Shah: Okay. Okay. So growth and margin now will go hand in hand?

Prabhakar Atla: Yes. It was a part of the entire equation anyway, but yes. The three horizons of the margin expansion we spoke of on the Investor Day along with the growth that Karthik talked about will go hand in hand, and that is what we currently very strongly and firmly believe in.

Moderator: We have our next question from the line of Mohit Jain from Anand Rathi.

Mohit Jain: Sir, two questions. First is on this order backlog. So the growth that we are talking about, the 25% number, I'm assuming this is purely organic. Like given the year, you have not included quarterly intakes from other entities.

Karthik Natarajan: Yes. What we are reporting for Q3 fiscal 24 is all inclusive.

Mohit Jain: And Q3 23?

Karthik Natarajan: Q3 23, we just completed the acquisition of Citec. We did not track the order intake like we track for the organic part of it. So like-to-like comparison still 13% year-on-year what we mentioned in the footnote.

Mohit Jain: Okay. So order intake is 13% higher. And by that logic, should we assume a slight pickup in growth next year because our guidance this year is curtailed, which I'm assuming is this slip -- or maybe, as you mentioned in the opening remarks, it could be shifting to next quarter or next year? Or should we assume that demand overall has slowed down, therefore, order intake is not a correct representation of growth ahead.

Karthik Natarajan: Yes. So definitely, order intake is a leading indicator and we are also using that in the same manner, but there are few customers who may have orders secured, but they may want the projects to be shifted to the right or they want to take a pause for a couple of months. So that may still happen. We still operate anywhere between 1.2 to 1.3 in terms of bill-to-book ratio.

- Mohit Jain:** Okay. And last one, Prabhakar sir, like we have taken this provision of \$6 million. Now are we done with it? Or do you think Q4 will have the balance, \$1.4 million? Or how do you plan to book the entire amount?
- Prabhakar Atla:** No, we believe what we've taken will be adequate to cover all these future costs on this topic.
- Mohit Jain:** So from Q4, no more provision?
- Prabhakar Atla:** That's what is our intent. We strongly believe we've taken all possible variables into consideration and made provision at one go.
- Moderator:** We have a next question from the line of Shradha from Amsec.
- Shradha:** Yes, I was asking if I heard you right, you did mention -- did you mention that Auto could be soft for few next quarters?
- Karthik Natarajan:** I said for the next one quarter and based on what we see at this point of time, yes.
- Shradha:** Okay. So it could be soft, then we can expect some bounce back from a 1Q in auto?
- Karthik Natarajan:** Yes.
- Shradha:** Okay. And sir, you stopped giving the on-site/offshore mix split. So just directionally, any sense can you give around on-site/offshore mix?
- Karthik Natarajan:** Yes. So I think if you look at, our offshore has dropped to 41.5% in Q3 and we are studying the seasonality pattern between our acquired entities and organic, and we'll probably come back and share some directional view on it by Q4. And as we have said in the Investor Day, I think our intent is to deliver growth through offshoring. I think that's definitely going to be the key agenda that we'll have as part of our margin improvement as well as what we want to do in terms of increasing our offshore percentage. And we made significant progress in terms of integrating our acquired entities, and we have a common view in terms of how the operating model will evolve and we'll have a better view by Q4. Directionally, our intent is to see how we think we really take this around at least for the next few quarters.
- Moderator:** We have our next question from the line of Dipesh from Emkay Global.
- Dipesh:** A couple of questions. First of all, the new growth areas. Now new growth area, considering the smaller size, there is enough scope for higher growth, but even on YOY basis it appears to be negative growth. So can you help us in just an overall thought process on new growth area not for a quarter or two, but slightly medium term? Where are we lacking and what course correction action we are taking to make it a growth engine for the next 3-5 year perspective?
- Second question is about the Q3 growth. I think in the prepared remarks, you indicated Q3 growth was in line with management expectation. So in a way, it implies Q4 is weaker than what we expected when we guided at the end of Q2 for full year. I just want to understand some clarity or maybe you can offer some clarity what you mean when you said Q3 was in line with expectations.

And last is about clarification. When we report our total TCV intake, whether we consider potential contract price as a part of total deal intake. I'm referring to a large deal what we report and potential contract size.

Karthik Natarajan: Yes. Thanks, Dipesh. To answer your first question, the new growth areas, we coined the term as new growth areas because we expect us to provide better clarity or bring more strategic direction on these parts. And we are working through some of the actions what we want to do to set some of the areas, especially in Automotive & Mobility and semiconductor. And we would expect them to continue to see growth even into fiscal '25.

And how do we really bring in high tech, which will probably have lesser focus moving forward. And we want to take geospatial as a horizontal rather than keeping them as a vertical. And Healthcare and Life Sciences, we are still evaluating many options and set the direction what we want to do in that area. We see a significant traction in terms of what we can do with our DLM business by way of doing build to spec and we have seen interest from many customers.

And we are still working through the process and what is the right thing for us and we'll have a better view probably in the next two, three quarters. But we are confident about growth that we want to achieve in the next 12 to 18 months from Automotive and Semiconductor segment is absolutely intact. To answer your other question on the TCV and TCP, look at orders intake that we talk about, that is purchase orders, we have it in our system.

And when we talk about total contract potential, it may not have all the orders that is in our system, which has a potential to have the total contract value based on whether it is two years or three years and many -- multiyear contract that we signed, which has the potential and not that all of them will be received as purchase orders. As we start executing, the orders will start coming in.

Dipesh: Can you address the third one?

Karthik Natarajan: Can you repeat the third question, Dipesh? You said something about in line and then...

Dipesh: So in prepared remarks, you indicated Q3 growth was in line with management expectation. So in a way it implies guidance that is largely because of Q4 softness. I just want to understand that remark.

Karthik Natarajan: You want to go, Prabhakar?

Prabhakar Atla: Dipesh, yes the current quarter, given the macro in which we were operating, this is in line with our expectations. And yes, you're right, given how the macro has played out throughout the year and Karthik explained its impact on various segments, which did not grow the way we anticipated in the current year, some of them are coming back. Most of it is what is playing out in Q4. And therefore, that's the guidance we have given for the full year.

Dipesh: Okay. So sir, just to get more clarity, some of the things what you are expecting in Q4 to have implications, do you expect it to be short term or you expect it to be slightly longer duration kind of impact?

- Prabhakar Atla:** So Dipesh, the question was that if whatever recoveries we start expecting in Q4 or short term or medium or long term, our view is, for example, when we anticipate -- when we believe that Communications will start coming back, that will be a medium to long-term cycle is what we anticipate.
- Dipesh:** Okay. So you are referring to largely right shifting, no material changing in terms of overall momentum?
- Prabhakar Atla:** Yes. That's what we said that we believe -- the momentum is still with us compared to how the year began to how the year played out throughout -- there was a moment because of the macro playing in a couple of segments. That said, we also see two things coming into play. Even if macro played out in a couple of segments, because we had a balanced portfolio, we were able to tide through the year, still continuing to grow quarter-on-quarter. And with whatever momentum we are building right now and with whatever positive trends we are seeing in key segments that Karthik talked about earlier. We believe the years ahead, the medium-term view that we have, both on revenue and also on margin, are still very, very much intact.
- Moderator:** We have a next question from the line of Sanika from Sapphire Capital.
- Sanika:** So my question was like this year we missed our guidance because of Healthcare and Telecom slowness. In the coming year, which is FY25, do you expect the demand to come back? And like can we also expect a 15% to 20% growth coming back in FY25?
- Karthikeyan Natarajan:** Yes. I think, Sanika, sorry, we still have another quarter for us to complete our budget exercise for fiscal '25. We'll have a better view by same time next quarter. But directionally, we do expect that some of the spend patterns should come back as the interest rates start coming down, the inflation is already showing signs of heating up. I think all of them should play into the macro, which should also make our customers to start improving their spend. Finally, at the end of the day, ER&D spend is also a percentage of the revenue for our customers. When they start seeing the growth coming in, they also will have confidence to invest and that is something which is very critical for them to acquire in the next three to six months.
- I would also look at some of the key leading indicators of the first point of interest rate reduction that's going to happen in U.S. and continued tracking of the inflation that has to cool off compared to the current rate. I think those will be the leading indicators before we start seeing whether the growth would be higher than this year or it will be closer to the 20% area. But we do expect the growth for the next 12 months will definitely be around double digits. But as we start making progress, we'll keep the amendments whether it is on the lower end or on the higher end.
- Sanika:** And just last question, right, except this antitrust lawsuit and the provision for that, do we have any other one-offs in our income statement?
- Krishna Bodanapu:** No. That was the only one-off. The settlement amount that we have provisioned for the lawsuit.
- Moderator:** We have our next question from the line of Ranjeet Bhalerao, an Individual Investor.

Ranjeet Bhalerao: One quick question. Boeing has opened a new R&D center in Bangalore, which is reportedly largest outside the U.S. I believe Airbus also has a presence in India. How do these affect future business of Cyient in the Aerospace sector. And what business relations Cyient may develop with these OEM design centers?

Karthikeyan Natarajan: Yes, Ranjeet, I think we continue to have this global captive center presence for many years. In fact, most of them have completed 20 years, 10 years, and 25 years. So these continue to exist and they have certain priorities that they want to focus their capital centers on. They continue to work with partners like us on many other areas.

So there is a complementarity that they do bring into play. And we also work with many of the captive centers with many of the customers to date. So this is not going to change anything in the near term. And that is something we have always seen as an opportunity for us to work on some activities in the global headquarters and some through the captive centers. So we don't see any change in the near term. And as they go through some of the challenges over the next 12 to 24 months, they also leverage a lot of the partners' help in terms of helping them through the complete life cycle, the center is for engineering today. But what we are supporting our customers is across the life cycle, whether it is engineering, manufacturing, supply chain inspection and aftermarket MRO. So we kind of have a complete cycle of support that we extend to them. So that is still intact, and we do expect that some of the momentum we have talked about will continue for another 12 months, for sure.

Ranjeet Bhalerao: And a follow-up question to that is do you expect any attrition? Do you have any agreement with them on no-poaching?

Karthikeyan Natarajan: I don't think we want to comment on any of those aspects of it, Ranjeet. I think it is very contractual specific to our customers and we don't comment on any specific customer contracts.

Moderator: As there are no further questions, I now hand over the call to Mr. Krishna Bodanapu for closing comments. Over to you, sir.

Krishna Bodanapu: Thank you, and thank you very much, everybody, for attending this call. As Karthik and Prabhakar took you through the details, you will see that the business momentum looks quite good. As with any business, there are certain parts of the business that are doing well. There are certain industries where maybe they have a bit more challenges. But that's the whole idea why we're consciously building a balanced portfolio.

If you look at it, two out of the four engines are firing very well, Sustainability and Aerospace both having grown over 20% year-on-year. And we believe that the third engine, connectivity, is also starting to ramp up. There might be a quarter delay, but we're very confident that during the course of next year, the third engine will also start firing, and of course, now the objective is to get the fourth and fifth which is part of NGA right now to start firing. So we continue to be quite confident. I will again reiterate what Karthik had said in the Investor Day and then again reiterate it now that 10% to 20% medium-term growth is what we believe the business will deliver. Not just a hope, but we're quite confident based on where we stand with them. So thank you once again for all your support, for all your questions.

And again, for the last time, I'd say thank you very much for your support when we navigated through the lawsuits that were associated with the antitrust case, both criminal and civil. I'm very glad that we resolved them as they are. We have not admitted any guilt. And also, I'm proud to say that we did not do anything wrong, and therefore, did not admit to any guilt, but we wanted to put the issues behind and move on. So thank you for your support, and we will again speak at the end of next quarter. Have a good long weekend and speak soon. Thank you.

Moderator: Thank you, sir. Ladies and gentlemen, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.

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