



## “Cyient Limited Q1 FY25 Results Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Cyient Limited Q1 FY25 Results Conference Call. As a reminder, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing “\*” and then “0” 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. Thank you and over to you, sir.

**Krishna Bodanapu:** Thank you very much and good evening, ladies and gentlemen, and welcome to Cyient Limited’s Earnings Call for the 1st Quarter of Financial Year 2025. I am Krishna Bodanapu - Executive Vice Chairman and Managing Director of Cyient. Present with me on this call are Karthik Natarajan - CEO and Executive Director and 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 emailed to you and is also posted on our corporate website. This call will be accompanied with an earnings call presentation and the details of which have been already shared with you.

In DET to say the least, we saw a significant number of operational challenges this quarter, resulting in weaker than expected performance for this quarter. However, we are very confident, I would say, of a robust recovery starting Q2, which will continue throughout the year and this is backed by a strong order book which includes a double digit growth in order backlog and engagement health across our top customers and also a robust addition of new clients in the last couple of quarters. Karthik and Prabhakar will cover these aspects in much more detail in the next few minutes.

However, coming to the significant highlights for this quarter, our credentials in the semiconductor electronic segment both through Cyient DET and Cyient DLM, have enabled us to set up a wholly owned subsidiary to drive dedicated focus on turnkey ASIC design and chip sales through a fabless model for analog mixed-signal chips. What this means is if you look at the growth in the semiconductor business today, a lot of the chips that are being used are chips that take an analog signal, i.e., a real world signal, sensory signal, be it based on light, sound what have you and converted into a digital signal that can be processed by some computing equipment. By turnkey, what we mean is we are able to design these chips, we are able to fabricate these chips, test these chips, prototype these chips and sell these chips to our customers. We already have this ability within Cyient to provide an end to end service offering for these turnkey chip design and now we believe that there is a significant opportunity along the lines with the value unlock of Cyient DLM to actually create a separate business that can exclusively and dedicatedly focus on turnkey ASIC.

This decision marks a significant leap forward in our commitment to innovation and excellence within India's growing semiconductor landscape. You may have also seen a number of announcements that have been made in the last couple of months on various elements of

semiconductor, be it semiconductor FABs or semiconductor OSATs, but we believe that we are one of the few and unique companies that are able to provide an end to end solution by leveraging various capabilities including design FAB, OSAT, testing etc. As you know, the global semiconductor market is in a significant growth pace and it is expected to hit a trillion dollars by 2030, IESA, which is the Indian electronics and Semiconductor Association, forecasts the industries growth to be \$100 billion by 2030. We are well positioned to capitalize on these vast opportunities for growth and influence in this evolving market. Our portfolio of over 600 intellectual properties covering the range of functions and technologies, longstanding engagements with key clients and global capabilities gives us a strategic edge to achieve significant growth in this market. This unit will report to me and I believe this move has immense potential like I said, along the lines of Cyient DLM to unlock value for our shareholders.

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. Thank you very much for your kind participation on the call today. Before we proceed with the financials, allow me to make a comment on the segments and reporting. For the current quarter, the nomenclature and the segment under which we report our group performance will remain the same as the previous quarter, i.e., DLM, DET and others. With the announcement that we made on the setup of the subsidiary to focus on our turnkey asset business going forward in the year, we intend to report that business as a separate segment, but for the current call, the reporting will continue as earlier and the focus of this call will remain the DET segment.

Just so that we have enough time for Q&A, I will only call out the key numbers on each page in the presentation:

The Q1 FY25 dollar revenue for DET stood at 169.6 million, a Q-o-Q degrowth of 5% in constant currency and a Y-o-Y degrowth of 3.6% in constant currency. In rupee terms, this revenue stood at Rs. 1,414 crores with the Q-o-Q degrowth of 5% and a Y-o-Y degrowth of 2.8%. Later in the call, Karthik will provide more color on the key drivers for the Q-o-Q revenue movement along with the full year view. The Q1 FY25 DET EBIT margin stood at 13.5% down by 256 bps quarter-on-quarter. This Q-o-Q movement was largely driven by the absorption impact arising from the Q-o-Q revenue movement and also our continued investments in sales and technology to support future growth. We also focused on building capacity and capability in Q1 to service deals won in the previous quarters, which will flow into revenue in the following quarter that had some impact on the above movement. The Q1 FY25 PAT for DET stands at Rs. 141 crores translating into an EPS of Rs. 12.86 for DET. The Q1 FY25 DET FCF stood at Rs. 164 crores with a negative movement of 30% quarter-on-quarter owing to the seasonality of the accrual and release cycles in this business. Q1 FY25 DET debt position stood at USD 46.7 billion, a reduction of 14% quarter-on-quarter and a reduction of 44% year-on-year in line with the focus that we have to retire debt proactively.

Moving on to group numbers:

Group numbers are a combination of all the three segments we have, including Cyient DLM. The group revenue stood at INR 1,676 crores for Q1 FY25 which is degrowth of 0.6% year-on-year with an EBIT degrowth of 281 bps year-on-year and a PAT degrowth of 18.6% year-on-year. The PAT movement on Y-o-Y basis is not like to like since in Q1 of FY24 we only had partial dilution due to minority interest in DLM, i.e., only for one month in that quarter while in Q1 FY25 we have the full quarter duration computation of minority interest. The group FCF for the quarter stood at Rs. -15 crores INR and the Q-o-Q movement is primarily due to the cash consumption cycle in DLM business, which continues to grow at a steady and healthy pace.

With this, I would like to thank you again for your time and attention and I will hand over the call now to Karthik for a more detailed commentary on DET performance and outlook. Thank you.

**Karthik Natarajan:**

Thank you, Prabhakar. Good evening. Good day everyone. And on top of what Krishna and Prabhakar had talked about and I will kind of give a color for each of the verticals and how did they do for Q1. We had a challenging quarter for sure and I will provide more details about it in each of the slides that I plan to cover in the next few minutes.

Transportation, which has come at 49.3 million revenue in Q1 Fiscal 25 had degrowth of 7% quarter-on-quarter and I will focus on the constant currency column and year-on-year -8%. And just to recap, Aerospace had seen the growth over the last 12 quarters, 9 of them and the challenge continues to remain in rail and that is the reason why we have seen a degrowth in Q1.

Connectivity, which has come at 37.5 million has seen de-growth of 7.6% QoQ year-on-year - decline of 16.9%. The good news is we have the highest order intake for connectivity in Q1 and we expect a strong recovery for the remainder of the year and we are confident that this would really start getting into the growth trajectory soon.

Sustainability, has come at 56.2 million and which has seen QoQ degrowth of -2.8%, year-on-year growth continues to be at 8.8%. Just to recollect that this particular segment has seen 10 out of 12 quarters of growth and we do expect that the growth momentum will continue even in the future. New growth areas, which has come at 26.6 million has seen a degrowth of 1.6% in quarter-on-quarter and 3.8% in year-on-year. We do expect the highest order backlog from new growth areas. This gives us confidence that it will start growing at double digits as we close the year.

In terms of order intake, we ended up at 182.7 million and this is with -5.4% in year-on-year growth. We also closed 5 large deals with the total contract potential of 52.4 million and two from connectivity, two from sustainability and one from aerospace. The connectivity deals have already started ramping up at the end of Q1 and that is one of the reasons why we had a miss in Q1 because we expected them to start almost at the end of the first month, but we ended up starting the project by third month and which is something that we couldn't avoid.

Let us go to the next slide and also we continue to make progress in terms of our innovation and especially led by Technology Solutions team and I just want to highlight a few wins that we had for the last quarter. Starting with modernizing the enterprise usability platform for the Hospital Patient monitoring system and to improve the clinical workflow efficiency for the healthcare customer. And followed with Automation and Process optimization solution for an industry 4.0 and MES system for an energy processing plant, it is a great win for us and we expect this to scale up. And the third one which I will highlight is on the win with the global automotive OEM to achieve the regulatory compliance on cybersecurity and this is expected to grow as a practice as well as a growth area with automotive.

And the other one which I want to highlight is a very interesting project on developing an ASIC for an intelligent neural systems with advanced electronics that gets into the neuro application device and we expect this to be significant win in terms of revenue as well as capability that we will work on as part of the brain mapping program. And highlighting few things, we had made significant progress on Generative AI and we have won about (+15) projects in the last quarter and covering various elements of product, data management, engineering, information management, AI assisted PMO, customer experience, customer support, product support and we are continuing to see momentum as far as Generative AI is concerned.

Now going back to Outlook and as you would have heard in the last few minutes, Q1 was weaker than expected and we expect a strong recovery to begin in Q2. We already started seeing that and we do expect our H2 to be strong. Given the weak Q1, high single digit growth for the year will be a stretch that we mentioned in our last earning call. We are being prudent and transparent in providing you with the guidance in Q1 that it will be flattish year-on-year in constant currency terms. In terms of EBIT margin, as this is the function of revenue trajectory, we will update in Q2 and Q3, but we are confident of reaching the margin range of previous yearly level of 16% by end of Q4 Fiscal '25 as the revenue growth starts.

To provide a little more color on the business indicators, just want to reinforce what Krishna started out this discussion, to throw more light on key things that contributed to the Q1 performance than what we anticipated. The major factors are unanticipated delays or project shifting to the right in Q1 and also ramped up in later part of Q1. I think that really caused us something that we couldn't predict earlier. And also Rail as the sector continues to be under stress and we are seeing some of the challenges continuing for us in terms of the spend is shifting and the uncertainties continue.

As far as Fiscal '25 lead indicators for strong performance in H2 and also medium-term outlook is concerned, having said that there are encouraging trends and factors that give us comfort and confidence for a very good recovery through the year. We are seeing double digit growth in the order book as compared to Fiscal '24 and we are also seeing our top 10 customers have seen significant growth in year-on-year terms, in terms of double digit. And also the core segments, be it in terms of Aerospace, Energy on top of the connectivity recovery that I talked about, looks very encouraging. We already ramped up two other large deals in connectivity that we signed during the quarter 1 of FY25.

Our medium-term outlook of 3 years remain intact as we don't see any shift in the fundamental growth and the core segments of growth that we have outlined earlier. And we are also investing in technology areas that matter for our engineering business, which will also position us as an innovative partner for our customer.

With that, I will probably hand it over back to the moderator for Q&A.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Sulabh Govila from Morgan Stanley. Please go ahead.

**Sulabh Govila:** So first question, just starting with the obvious. In this quarter the performance this quarter as well as the guidance, so what has surprised us negatively in 1Q versus what we were expecting at the beginning of the 1st Quarter which led to the high single digit guidance and versus the current guidance because it doesn't look like it can be a specific client or a vertical issue. So just wanted to understand what has gone wrong in our process and what has negatively surprised?

**Karthik Natarajan:** Thanks Sulabh for getting this question. Like what I highlighted, I think we did expect it to be a soft Q1 and that is what we guided as we knew at that point of time. And some of the projects which were supposed to ramp up and the deal need to get closed, got shifted to the right by about 6 weeks, at least about 4-5 projects and that really created an unexpected delay in terms of revenue recognition and within the quarter. I think that is definitely what has contributed. We didn't anticipate some softness in terms of Rail business. I think that was definitely what we had used in our guidance as Q1 being soft.

**Sulabh Govila:** So if I understand this correctly, what we are saying is this is a one quarter blip and that is what has happened and 2Q should normalize, that is the correct understanding?

**Karthik Natarajan:** Absolutely, Sulabh, I think you summed up rightly and we do expect the recovery already begun in Q2 and we expect to see a sequential growth for the next few quarters.

**Sulabh Govila:** The second question is that we mentioned that the growth will start from 2Q onwards while the presentation is saying that the outlook is strong for 2H, so does that mean that 2Q outlook is better than 1Q, but it will be weaker than 2H and if that is the case then this guidance itself is implying a 3%-3.5% CQGR, so what is giving us confidence on delivering this guidance as well?

**Karthik Natarajan:** Yes, based on the order backlog that we spoke about and top 10 customer's growth being intact and some of the deals that we signed in Q1 and we expect a stronger recovery from connectivity. I think that is where we are saying our Q2 would be strong and we do expect H2 would be better than H1.

**Sulabh Govila:** We mentioned in the presentation that we have taken steps to align the supply to the demand. So is that relevant to Aerospace as a vertical or the company in general?

**Karthik Natarajan:** Yes, that was specific to Aerospace and where we have seen the demand shifting to on site and across the geographies beyond what we have seen in the last 2-3 years from North America to Europe to Japan. And we are building up the supply that is required for us to step up and which is the part that we have mentioned as far as Aerospace is concerned.

**Moderator:** Thank you. The next question is from the line of Kawaljeet Saluja from Kotak Securities. Please go ahead.

**Kawaljeet Saluja:** My question is also on the obvious over here. I mean, Karthik, I remember asking this question about guidance because it seemed a little bit aspirational when we basically, I asked the question last time around. I am still trying to get my head around, how could the magnitude of miss be so large? You did talk about perhaps 4-5 projects getting delayed, but even 4-5 projects in itself cannot lead to such a disastrous 1Q. When I look at the composition of revenues, the decline is broad based across verticals. So couple of things, one is that I am just trying to understand whether there have been any lapses in sales execution or processes? Or is it the fact that the entire guidance process in itself had significant slippages? Help me reconcile the math over here?

**Karthik Natarajan:** Kawaljeet, I think I do acknowledge that this is definitely a miss and in terms of our forecast accuracy, our ability to really link it back to the guidance, I think that was definitely visible in the quarter. And also, given the macro uncertainties and broad based issues that we have seen from customers and project decisions and delays that we are seeing and it really becomes difficult to ascertain for a specific quarter, how much of revenue will come and what we need to do to ensure that we are able to deliver on them, especially if we get a letter of intent from customer, we are ready to ramp up and the customer wants to defer the project by 4, 6, 8 weeks, it is difficult to anticipate some of those issues. I think that has what really played out and we are trying to refine the process and we are trying to see how do we factor in some of these issues. Especially what we have seen in the last 6 months is something that we have not seen in the last 4 years and I think we hope this is something which we are really able to improve and we apply some of the learnings in the last 6 months to really refine our ability to predict and guide the market.

**Kawaljeet Saluja:** So have these learnings been incorporated in the new guidance of flattish revenues?

**Karthik Natarajan:** Yes, Kawal.

**Kawaljeet Saluja:** And can you just help me in what areas have you incorporated these learnings?

**Karthik Natarajan:** I think it is about how do you really create a very firm view of our forecast and trying to look at the probability adjusted ones that we are trying to cover from various business unit heads that come in and where do you think we need to really apply some discounting factors. And how do you think we have a better view of confirmed one as close to the reality as possible? I think that is how we are trying to really refine them and also some of the sales leaders have been aggressive in terms of their forecasting and what do we need to do to apply some gage R&R to really make sure that we are able to rationalize them as part of what we need to factor in our guidance.

- Kawaljeet Saluja:** And second is that you just speak about macro challenges, but when I look at the performance of all your peers etc., none of them had a performance, which was remotely as weak as yours. So what kind of macro challenges are you referring to? Or once again, my question is that are there sales execution challenges or process lapses?
- Karthik Natarajan:** So I think I would say if you look at, I think this was one of the questions sometime last year from one of the analysts. When you really look at what kind of annuity businesses that we have versus project based businesses and the challenges come from project based businesses. Whenever the project gets completed, the next project that will come on time or it gets delayed that seems to causing gap and we are trying to really strengthen those segments, especially sustainability and connectivity where we have huge dependency on project based business and how do you think we bring in better predictability into that. On top of that certain seasonal issues that come in, for example, Europe has more holidays and vacations in Q2, what do we need to do to factor them in on top of what we have just talked about in the last few weeks.
- Kawaljeet Saluja:** And you mentioned that the order book has grown, but when I look at the order wins in the quarter, it has declined Y-o-Y, so where is disconnect?
- Karthik Natarajan:** So if you look at what we are talking about order backlog, which is another part that we are also seeing, when we have this order book that we have taken in the last 9 months and what is executable order book that we are carrying today and we have seen that growing by double digit and that is what that gives us confidence. Yes, I think there is a year-on-year drop, which is seen as far as Q1 is concerned. I think that we do expect should get normalized during the course of the year.
- Kawaljeet Saluja:** The final question is, I think connectivity the weakness has been ongoing for the last 2 quarters, 3 quarters, 4 quarters, I don't know what it is, but it has been for some time and every quarter the discussion has been and things may pick up in the subsequent quarters. So is basically the environment, of course I understand the environment is difficult, but are there again changes or improvements that you need to make in connectivity to get a better handle of business and growth prospects?
- Karthik Natarajan:** I think there are 2-3 things that we did make during the last 6 months, including strengthening certain leadership across the sales as well as on the delivery side. And we also brought in better predictability in terms of how these models are being constructed along with customers and starting to engage the customers, more to assess their plan for the year and what is the certainty of it. I think all of this gives us confidence that we do see a growth for the remainder of the year. And we are also factoring in certain risks in terms of how we think we need to anticipate certain project delays and what do we need to do to baked it in as part of our forecast.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.



- Sandeep Shah:** Question relates to the previous two participants. Karthik, I think last time when we gave the guidance it was 25th of April. We were already one month into the quarter. So we should be knowing about the delay in the projects, right. So why still we guided for a high single digit and there is a big miss. I have been surprised to see the reason sighted being railways. Railways as a percentage to revenue, if I am not wrong, is not a needle mover. So even if it declines by 20%, it will not impact the revenue growth very high. So it looks like there has been a miss in these segments outside connectivity and railway which we did not anticipate. What has led to this?
- Karthik Natarajan:** Yes. Sandeep, again, sorry to repeat the same messaging, but if you look at the project delays and difference and there are two business units which has heavy dependency on projects both on connectivity as well as sustainability and transportation and we talked about the softness in rail. And the good news is new growth areas started firing and we do hope that continues for the rest of the year. And to your point, I do acknowledge that it was a miss in terms of the forecasting accuracy that we had and that is what we are trying to correct as we move through the year.
- Sandeep Shah:** And the ask rate to achieve the guidance is 3.2% and generally Q3-Q4 are not seasonally great quarters for Enterprise IT as well as Engineering R&D with one of your peers already calling out unseasonal furloughs to start in the 2Q itself? So how are we confident about even achieving 3.2% kind of ask rate, which looks not an easy task?
- Karthik Natarajan:** I think with also mix of businesses that we are in and the kind of holidays and vacation season that we have factored in, we do expect that the H2 will be a stronger than H1 for us and for our portfolio of businesses. And we also have the validation from the leaders across the company along with the customers that they are working with. So that is what gives us confidence that H2 will be stronger than H1. Coming back to furloughs, if you look at some of the segments that we are in and be it on Aerospace, Energy and Connectivity and other parts and we do see that the momentum is already seeing from Q2 and we expect that to continue. And if you look at specifically in Aerospace, the supply chain issues that had significant challenge and the demand is very robust for most of our customers. They are not able to meet their demand because of the supply chain and some of the new employees that they got on board and related to the production and quality issues. So they want to fix most of these issues and we don't hear the furloughs from many of the customers that we work as far as Aerospace is concerned. We do expect H2 to be stronger than H1 as far as the other business segments are concerned.
- Krishna Bodanapu:** And if I may just add one more thing to the sort of in some ways while the project based business has hurt us this quarter because of the delays and moves. The good news with some of the project based businesses, it is also under our control in the sense that we get a PO for the project and therefore what we are seeing at least in the last couple of years is our ability therefore to manage furloughs is a little bit easier because we have a project rather than a set of tasks that we are performing. So in that sense we have reviewed this and in that sense, I think it also gives us a little bit more confidence that we can manage the furloughs that have typically hit us, because if you then go back into some of the more traditional historic aerospace businesses, which were more task based. There, the impact was much higher, whereas with the project based businesses, the impact is a bit more manageable.

- Sandeep Shah:** And just a related question when you say H2 stronger, that doesn't mean 2Q Q-on-Q growth would be lower than the Q-on-Q growth which you expect in 3Q and 4Q because you are also commenting a strong 2Q, right?
- Karthik Natarajan:** Yes.
- Sandeep Shah:** And just in terms of capacity, so is it fair to assume the capacity issue is more in onsite location versus offshore, but your employee add still shows a decline on a Q-o-Q rather than a ramp up?
- Karthik Natarajan:** Yes, I think to answer the same question like what we answered in the previous question, we are also trying to build the flexibility of contingent versus permanent hire and especially on project based businesses. I think that gives us confidence in terms of how we think we can meet and we still have some unutilized capacity as far as Q2 and Q3 is concerned, so that will start being put into use for bringing us the revenue for the next 2 quarters.
- Sandeep Shah:** And last question on margins, I think your initial remarks implies that now 16% would be achievable only by 4Q of FY25 rather than the whole year because of the weak start at 13.5%. Is it a right understanding?
- Karthik Natarajan:** Yes, that is correct, Sandeep.
- Moderator:** Thank you. The next question is from the line of Aaron Armstrong from Ashmore. Please go ahead.
- Aaron Armstrong:** Can you talk a little bit more about the challenges that you had this quarter faced in terms of how many of those related to in-house execution, so availability of manpower onsite versus not onsite mix, those kind of things within the control of the company versus how many of those kind of delays, those projects moving to the right, how much of that was driven by corporates wanting to kind of delay or postpone for their own kind of reasons?
- Karthik Natarajan:** Aaron, I would it is difficult to put a specific number, but I would just roughly say about third of each of these issues of project deferrals and delays about third of them and about third of them we didn't anticipate and about third of them is a combination of supply demand matching especially with some of the demand that we started seeing from onsite locations.
- Aaron Armstrong:** And could you give a little bit of context in terms of addressing some of these in Q2, so for example, on onsite locations, could you talk about some of the kind of new hiring that you have made or kind of project deferrals, is that now kind of slowing down kind of early indication it is very early in Q2, but what kind of visibility you have on that side of things?
- Karthik Natarajan:** We are confident about how this quarter looks at this point of time and we have already started ramping up some of the projects from June as we indicated in my earlier comments. That gives us confidence that this quarter would be a growth quarter for us and strong growth quarter.

- Aaron Armstrong:** Maybe final follow up if I may please, just in terms of kind of headcount availability, how much that impacted you in Q1 and so for Q2, how many hires have you made onsite? Are you putting more people in US, Europe, Japan, any of those more? So is it mainly on the aerospace or is this also relevant for the connectivity piece? Anything you could share there that will be a little bit more specific please?
- Karthik Natarajan:** Aaron, I would say it is more of a broad based headcount addition that we look at and we don't share specific numbers at which locations and how many are we adding every quarter, but we are prepared for the supply and capacity that is required for us to really show a bounce quarter-on-quarter growth for Q2.
- Aaron Armstrong:** Could you share employee headcount number quarter-on-quarter?
- Karthik Natarajan:** Maybe we can take this offline Aaron if you are okay with that.
- Aaron Armstrong:** Sure.
- Moderator:** Thank you. The next question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.
- Vibhor Singhal:** Sir, my question was on the margins. Now I understand that on the revenue growth part, if the growth is not in this quarter, our entire full year guidance gets shifted by let us say, couple of quarters and that is why we are cutting the guidance. But missing margins in this quarter would have been because as you mentioned, some of the projects were deferred, they were not billed, you had employees who were not being billed and that is why the drop in the margins and if you are expecting those projects to recover in Q2, why the deferment of guidance for margins. If we have already reduced the headcount in this quarter, quarter 2 and H2 should be strong and it should be growth in the quarters again. So the projects which were deferred, they should start billing again and the employee utilization and all those things should pick up and hence your margins, I understand maybe a bit here and there, but reaching the 15% margins by the end of Q4 seems a bit, I am not able to reconcile the math. Will you please help me understand this?
- Prabhakar Atla:** So Vibhor, just couple of things on this. For the current year FY25 from where we currently are, our margin will be a function of our revenue. Quite simply put from our perspective. Because the cost we have ahead of us is a given, we will have the wage hike, we will continue to make technology investment, we will continue to have sales investment. All the right things to do, we will continue to do. Therefore, the comment that we made was margin is the function of revenue trajectory and we are therefore confident of bringing it back to where we were in the previous year range towards end of the year.
- Vibhor Singhal:** So the wage hike, investment in technology would have been part of our business plan, which we drew at the beginning of the year when we gave the guidance for the fully flat year margins for the full year. That doesn't change the math, right that is basically prevents status quo as it was 3 or 4 months ago?

- Prabhakar Atla:** You are absolutely right and therefore the arithmetic also works in that way. When we start putting the sort of step ladder together ahead of 13.5% where we are in Q1, you also have to go through all those numbers to get back to you earlier now. So anyway, the summary of the things is that we want to put revenue as the primary marker for us going forward in the next couple of quarters. We are confident of getting back to the previous year's margin range towards the end of the year, but we can make it quick update as we get into Q3. This is the trajectory of revenue growth we see in Q2 and Q3 of which we are confident. So we are being cautiously pragmatic on the margin is what I would say.
- Vibhor Singhal:** Sir, on the order book side, I think we mentioned that the order book saw double digit growth, but the order intake for the quarter was weak at around -5% Y-on-Y, so any color on why the order inflow in this quarter was on the softer side, which specific verticals and how do you expect the order inflow to pan out over the next remaining quarters of the year?
- Karthik Natarajan:** I would say at a broad level, we have seen a strong order intake as far as connectivity and new growth areas are concerned and some of the orders from sustainability and transportation, I think they will probably come through during the part of the year. We do hope the order intake will start converting into order backlog that we will start executing and as I again stated in the beginning of the call, we are still at double digit order backlog as far as executable orders are concerned. And we do hope it catches up during the year from where we are seeing today from Q1.
- Vibhor Singhal:** Just one last question, sir. I think we have given revenue guidance part and just one small question on my side. As Sandeep mentioned in the earlier comment, CQGR required for the next 3 quarters is around 3.2%, how strongly have we stress tested this number? What could potentially lead us to basically miss this number as well? Are there other projects which you are expecting to maybe start in Q2 and Q3 which can potentially get the delayed and could cause us to slip again? Or do you think we have stress tested this guidance and it should be doable for us from where we are sitting today?
- Karthik Natarajan:** We have been prudent about how we want to guide Vibhor and we understand the challenges that we had in the last quarters. I think that is why we are confident about getting this being flattish for the year. I think it takes in certain elements of risk and opportunities which are balanced in terms of what we are really providing in the guidance.
- Moderator:** Thank you. The next question is from the line of Shradha from Asian Market Securities. Please go ahead.
- Shradha:** Couple of questions. Would it be possible for you to break down the decline in revenue in Aerospace and defense within transportation specifically?
- Karthik Natarajan:** Sorry, Shradha, we are not breaking up from the four business units that we are providing the color on and we are not breaking up for each of the business units with sub segments. I think

that is something too detailed for us to share and you can assume that bulk of the revenue that is there in transport is coming from Aerospace.

**Shradha:** And secondly, if I look at your top client revenue contribution, it suggests that the weakness in revenue came from clients beyond top 10. So it is understanding right that the top 10, top 5 clients held up well and weakness was more beyond top 10 or top 15 accounts for us? And are those accounts significant for us to have a 5% decline in revenue in one quarter?

**Karthik Natarajan:** Yes. So we did have one or two accounts from the top 10, had a minor decline, but if you look at all the top 10 account revenue that has grown year-on-year in double digits and we don't see the top 10 accumulated revenue of all the top 10 customers as the concern. And yes, you are right in terms of just arithmetic works out that there must have happened some kind of a decline in one or two of these customers from top 10, but it is not significant enough when you really try to accumulate the revenue for all the top 10 clients when you compare from Q1 of Fiscal '24 to Q1 of Fiscal '25.

**Shradha:** And just the last bit, I understand that you are talking of increasing your investments in sales and technology, but I also see an increase in your G&A expenses and the logical thinking is one when you are going into a back cycle, probably you would want to keep the control on the overhead expenses, so why this increase in G&A in this quarter?

**Prabhakar Atla:** You are right, some part of the technology investment, we make may go into G&A. There are a few one-off in this quarter too, not significant, but they are still there.

**Moderator:** Thank you. The next question is from the line of Dipesh from Emkay Global. Please go ahead.

**Dipesh:** I just want to understand first about the reclassification, so geospatial vertical now it is part of services. So can you help us understand implication on the reported four business units because of that?

**Karthik Natarajan:** It is marginal, Dipesh, it cuts across more than one or two business units, and it is marginal in terms of how it is distributed across segments.

**Dipesh:** No, because sustainability, let us say, for example, you reported 3.5% decline. If I look the reported number, it seems to be growth, so there is a sizeable difference. So that is why if you can provide some detail about it or maybe if you can provide comparable number for prior quarter?

**Karthik Natarajan:** I will ask Mayur and Vish to work with you offline.

**Dipesh:** Second question is about the guidance, I think earlier participant tried to get sense about downside. If you can help me understand what can bring upside, in terms of now, let us say, you are saying good recovery, double digit deal intake, order book growth, top 10 clients doing well, so if you can give me the sense about what can bring upside?

- Karthik Natarajan:** Yes. So we don't want to be too optimistic at this point of time since we are coming off from a low Q1, I think it is very important for us to execute well for the next 2 quarters and before we get too optimistic about how things would look. But I think given the nature of where we stand and understand from our customers and we are confident about the growth for the next 3 quarters and the recovery that is going to happen from Q2 and we are very confident of it. How will it manifest for the upside? I think we do see an upside for sure in many areas and it would require few things to happen well in Q2 and Q3 and most of our customers continue to start opening their purse or decision making has to accelerate sharply given that we have seen the deferrals to the extent of 3-6 months in some of the areas. If they really start reducing that gap, I think that would probably give us an upside during the later part of the year.
- Dipesh:** What will be the contribution from railway now for us?
- Karthik Natarajan:** We are not really calling out any sub segment breakup Dipesh and it is part of the transport vertical and like what I covered earlier, the bulk of our revenue comes from Aerospace and that is where we will leave it.
- Moderator:** Thank you. The next question is from the line of Nitin Sharma from MCPro Research. Please go ahead.
- Nitin Sharma:** Most of my questions have been answered. Just one question on the semiconductor business, what are the timelines and the investment requirement?
- Krishna Bodanapu:** So we are still working on those. The timeline is probably going to be towards the end of this financial year just looking at the various things that we have to do in terms of splitting the business and many other steps to it. In terms of funding requirements, also we are working on it. We are both working on what are the funding requirements and also of course the source of funding. So I would say we will have a better update for you towards the end of the calendar year with a target of the execution towards the end of the financial year.
- Moderator:** Thank you. The next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.
- Mihir Manohar:** Karthik, I wanted to understand structurally on the aero side, is there a structural change acting on the outsourcing you can clear some air around this? There are talks that OEMs have called to reduce the outsourcing, but is there a structural change on the outsourcing side that will be helpful? Second question was on the guidance part and the guidance that we have given now flattish kind of revenue, how much is there in the books? What part of the guidance is coming from the order backlog which is already there in the books and what part of the guidance are you considering from new deals which you will win in this particular financial year and that you expect to ramp up, some clarification around that will be helpful?
- Karthik Natarajan:** To first point, we don't see any structural change and if it was there is anything I can only tell you that most of our customers need a lot of help. And there are first time employees of 600,000

covering both blue color and white color in Aerospace which is more than 40% of the workforce. This is the first time that is seen after 1942 as shared by one of the customers. And I think we have to really get them trained, get them digitalized tools and processes and get them ready to deliver on the right quality and production schedules. I think that is the challenge that exists for this industry and we don't expect this should get any better, at least for the next 2-3 years and it will at least take 2-3 years. And we are seeing a lot of interest from customers around the manufacturing, engineering, aftermarket, digitalization, integration with various tools and systems. I talked about some of the AI assisted PMO. I am trying to help them through the supply chain. I think a lot of this is the request that come from customers and I don't think there is any change that we are seeing which is structural in nature. Having said that, supply chain issues and the top 2 clients in the Aerospace and do have their own challenges, but they need a lot of help as far as engineering, manufacturing and aftermarket is concerned.

**Mihir Manohar:** Just one extension to this, is there any pressure on reducing outsourcing?

**Karthik Natarajan:** I don't think so, Mihir, and there is nothing that changes structurally for them to really make those changes. And one thing that we are also seeing like what I covered in my initial comment. It is also expected to be a little more onsite centric for the next few quarters as they are going through their challenges on manufacturing and aftermarket, which are more closer to the brands helping them to improve the productivity and quality of the employees. I think that would really require more onsite intervention.

**Mihir Manohar:** My second question was on the guidance part, this latest guidance, which is there, how much is coming from the orders that you have already won in part of the backlog and how much of part of the guidance is coming from new deals that you will win and you expect that to ramp up in the balance part of the year?

**Karthik Natarajan:** Typically, our order backlog covers about 6-7 months of work ahead, and this has been the trend that we have seen over the last 3 years and rest of them still needs to be won and added to this backlog.

**Mihir Manohar:** So 60-70 is roughly the split?

**Karthik Natarajan:** Yes.

**Mihir Manohar:** And just one last question was on the semiconductor business, you mentioned you would be taking the end to end responsibilities. I just wanted to get a clarification, what is going to be our roles and responsibilities and what part of the value chain will we ourselves be doing on Cyient Limited books and what will be done under the manufacturing to other contractors?

**Krishna Bodanapu:** So it is actually quite similar to what happens in DLM in the sense that if you look at today in DLM also where we have end to end projects that is we have the design responsibility and the manufacturing responsibility, design is being done in Cyient Limited or in Cyient DET and manufacturing is being done by Cyient DLM, but the overall responsibility is with Cyient DLM.

So the responsibility, liability etc., are with Cyient DLM. So in the semiconductor, Cyient semiconductor also will follow a similar kind of a model where the whole idea is that there is a lot of chips that newer companies or non-semiconductor companies are using, examples of which are automotive companies, medical companies and so on and so forth. So Cyient semiconductor will take the overall ownership for the entire project, starting from design all the way to sourcing and supplying. Of course, sourcing in that case will be typically through a FAB like TSMC or a global company. So Cyient semiconductor would take the overall ownership. We still anticipate that much of the design will still be done in Cyient. So we don't anticipate the design capability to be built out of Cyient, that capability will be still leveraged very much like what is happening in Cyient DLM.

**Moderator:** Thank you. The next question is from the line of Chirag Kachhadiya from Ashika Institutional Equities. Please go ahead.

**Chirag Kachhadiya:** I have two questions, in one slide in our presentation you mentioned that India's ER&D contribution is 3x. So the current delay doesn't change the long term outlook and second for FY26, any color if you can share on demand front and what is the discussion ongoing with the client for FY26?

**Karthik Natarajan:** We are currently working to ensure that we are meeting our guidelines that we have set out for Fiscal '25. As we start developing our plans for 26, we would definitely share the outlook maybe by end of this financial year and like what I shared in the next 3 years, we do see that the recovery is coming back strongly and we do hope the US election would be behind us and the interest rates should start going down. The inflationary pressures should start getting eased. I think all of them should help us start spending on innovation and I think that has been something which is muted for a while. We do hope some of those investments that are on hold should start coming back. From the long term outlook, I think we do see that this is going to be much more critical than ever before with the softwarization of products and digitalization of the entire value chain and how the impact of automation and AI will have a role to play. And I do see that India has a very important and pertinent role to play in terms of serving the customers on ER&D. Given that there is a demographic change that is at play and with baby boomers retiring, as well as the increase in spend towards software and digital, I think key levers are still intact. It is only going to accelerate if not staying where the current levels are.

**Chirag Kachhadiya:** And just one more last question, in the aerospace and defense side, some of our client facing the engine part and component related issue on timely manner, so is that situation normalized or better than before or still they are facing similar issue on supply side?

**Karthik Natarajan:** We don't want to comment on any specific customer issues, but if you look at the broad challenges for the industry remain, our customers demand is very robust and they have demand in excess of 20% plus. But the challenges are led by what I talked about in terms of supply chain, fairly young workforce and was required to be trained and lack of digitalization that they have not invested in the past. I think all of them are contributing factors why they won't be able to



realize their demand. And I think that is where they are seeking our help to manoeuvre with these challenges that they have.

**Moderator:** Thank you. The next question is from the line of Karan Uppal from Phillip Capital India. Please go ahead.

**Karan Uppal:** First question is on the margins. So Karthik, you mentioned that you are anticipating pick up in Aerospace as well as in Connectivity and specifically in Aerospace you mentioned that the deal ramp ups are happening onsite. So would that be a pressure to the margins, given that wage hikes will also be there and you have also talked about investments in technology and I can see that your S&M spends have also gone up. So are there risks to margin guidance as well and what are the levers to offset these headwinds?

**Karthik Natarajan:** I think that is what Prabhakar talked about Karan and whatever that we are talking about for Q4 and we have factored in all this that you mentioned and that is the reason why we are not giving specific number for Q2 or Q3.

**Karan Uppal:** And when are you planning to give wage hikes?

**Karthik Natarajan:** Starting this quarter.

**Moderator:** Thank you. Ladies and gentlemen, we will take that as a last question for today. I would now like to hand the conference over to Mr. Krishna Bodanapu for closing comments. Over to you, sir.

**Krishna Bodanapu:** Thank you very much and thanks everybody for being on the call this evening. As we talked about, it has been a tough quarter and it has been a series of events that we did not anticipate at the beginning of this quarter, especially in terms of some of the project closures etc. But what I do want to reiterate and give confidence on is much of what we were expecting to happen in the beginning of the quarter has happened towards the end of the quarter. Therefore, that gives us a very strong confidence that we will see good growth starting from Q2 onwards, because I think to one of the comments, it just cannot be back ended, we will see growth, starting good growth, actually robust growth starting from Q2 onwards and based on the order backlog and what we are seeing from our customers we are quite confident that the rest of the year will be quite good. Unfortunately, the compounding effect of Q1 is what it is and that is why the guidance might not look so appealing. But I just want to assure everybody that the rest of the year is quite in order. And we are also quite confident that we will be out of here is quite comforting to all of us here and both from a revenue and margin perspective, we will have a good set of quarters going forward. With that thank you very much for your support. And if there is any further questions, if you reach out to Mayur, one of us will answer them for you. Thank you.

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

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