



Cyient Limited Q2 FY26 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Cyient Limited's Q2 FY26 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Krishna Bodanapu – 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. Welcome to Cyient Limited's earnings call for Q2 FY26. I am Krishna Bodanapu – Executive Vice Chairman and Managing Director, and present with me on this call are Sukamal Banerjee – Executive Director and CEO, and Prabhakar Atla – President and CFO.

I would like to mention that some of the statements made today in the discussions may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available on our investor website which has been emailed to you and is also posted on our corporate website. This call will be accompanied by an earnings call presentation, the details of which have already been shared with you. As of the beginning of this financial year, we are reporting group performance under four segments: DET, which now excludes our semiconductor business, DLM, Semiconductor, and Others. The focus of this call remains the DET segment, and to that extent all numbers for DET segment are like-for-like for the previous period, which means that these numbers are restated to exclude our semiconductor business, and the group numbers will include performance of all four segments.

We have a slightly longer session today and thank you for accommodating our request for this session. We wanted to do this because we want to cover a few important group updates in greater detail, particularly as regards semiconductor, to provide you with a comprehensive overview of our strategy, performance and growth outlook for the sector. Also, over the last two quarters, Sukamal has brought in a significant positive momentum and sharpened our focus on these strategic priorities. You will hear from him on some of these key initiatives that he has taken and his perspective on the growth opportunities that lie ahead for DET and how he is looking to structure and grow the business both on the revenue front, margin front, and also in terms of our capabilities.

Coming to the group's update in Q1:

We carved out our semiconductor business, Cyient semiconductor, with a mission to design and deliver intelligent, efficient, and secure semiconductor solutions that power the world's next generations of systems. Data centers, humanoids, industrial automation, and electric mobility being some of the examples that we are focused on. We offer turnkey i.e. end-to-end concept of silicon service covering architecture, design, verification, prototyping, and production enablement. We are supported by a robust supply chain which includes foundry, i.e., the production houses, OSAT partners, i.e. test and packaging partners and test houses in India and abroad.

The opportunity here is to create a DLM like story for Cyient's shareholders through Cyient semiconductors. Our growth momentum in this business looks very positive, and I am pleased to announce that we have delivered a strong rebound in Q2 with a 12% quarter-on-quarter growth in revenue reflecting a renewed focus on execution and customer momentum. This follows the challenging Q1 where revenues declined 35% quarter-on-quarter owing to our strategic choices to exit low value deals, non-strategic deals, and also market factors like trade tensions and tariffs. With these headwinds behind us, we are now building the business back on a stronger, more sustainable foundation, positioning Cyient semiconductors for steady growth in the coming quarters. We are also seeing order intake rebound to previous year's levels with ASIC, that is the turnkey end-to-end solution now contributing to 66% of the business and a \$100 million pipeline plus for the year. Although we reported negative EBIT this quarter, and this was primarily driven due to revenue absorption, but more importantly, our ongoing investments both in sales and R&D, i.e., creation of IP that can be reused and resold. We expect the business to stabilize our burn by next quarter and we will become EBIT-neutral sometime in FY27. Our confidence is driven not only by the current performance but by strong underlying momentum and qualitative gains that are not fully reflected in the numbers.

We have significantly strengthened our semiconductor ecosystem, expanding strategic alliances and partnerships with companies such as Global Foundries, Anora which enhance our design to manufacturing capabilities and ensure supply chain resilience across technologies and geography. At the same time, we have brought onboard a number of seasoned industry leaders from companies like Navitas, Allegro, Cadence, Amkor etc., who's expertise and strategic insight add depth and credibility to our vision of building a world-class semiconductor company from India.

Complementing this, we continue to attract top tier talent across design, operations and supply chain, creating a high caliber team fully aligned with our mission to establish a globally competitive, innovation-driven semiconductor business. This sustained focus and strategic execution has been recognized through our selection among the top three of the 28 bidders for the government of India's semiconductor complex modernization program, underscoring our technical depth and execution capability.

Looking ahead, the key markers to watch in the near-term are consistent growth in revenue for the next four to five quarters, a revenue run rate of \$50 million and an ASIC pipeline of \$100 million by the end of FY27 apart from becoming EBIT-neutral in FY27. I want to reiterate, given that we have invested quite significantly in Q1 and Q2 businesses that we will be EBIT-neutral in FY27 and the maximum organic investment towards building this business will be \$15 million and again that will be consumed in FY26 and in some part of FY27 because net-net for 27, we will be EBIT-neutral.

As we continue to invest in scale in the ASIC solutions business, we expect this growth trajectory to evolve substantially. Historically, turnkey ASIC companies have commanded valuation multiples nearly 3x those of semiconductor services firms, and as we gain ownership and control over IP, these multiples increase even further. This is a trend that is well established in developed markets and one

that I see shaping well here and therefore I want to reiterate that we have the opportunity to create a DLM-like situation. I am personally excited about the business prospects, especially given that semiconductors are at an evolving stage or a maturing stage in India with 20% of the world's design talent and no standalone semiconductor company from India. I look forward to your continued support in this very important endeavor for Cyient.

If I may take a moment on DLM, as you know Cyient owns 52%-plus of DLM. I am also pleased to announce that our business has demonstrated substantial increase and sustained positive momentum across key performance indicators such as order intake, revenue, margin, and cash flow. We added two new logos, both very significant, reported a 130% year-on-year growth in order intake for H1 and a much stronger revenue mix which resulted in double-digit margins. I am confident that we will sustain these margins going forward. Our design-led manufacturing proposition is resonating well with customers, and we have secured a large multi-year B2S deal with the Japanese eVTOL company for design and manufacture of parts for flight control systems. We continue to expand into new market segments such as sustainable mobility and in that regard have been awarded a multi-year manufacturing contract for electric charging systems. These strategic wins reflect our commitment and focus on tapping into the growth potential of emerging sectors. Also, this period of tariff uncertainty has given us a unique opportunity to maximize the impact of our US operations for our clients. We are excited about the opportunities on the horizon and anticipate that the second half of the year will see further acceleration in growth.

I also would like to take a moment to talk about Cyient AI Labs. Given that building a skills-ready India for ER&D and technology sectors has been a strategic priority for Cyient. In this spirit, we launched AI, STEM and Robotics labs in 50 government schools in Visakhapatnam and Andhra Pradesh, empowering over 2,500 students. The initiative brings cutting edge tools and hands-on learning experience to students fostering innovation, future-readiness, and hopefully helping us build a robust workforce for the future.

I am also pleased to report that the board has declared an interim dividend of Rs.16 which is higher than any other interim dividends we have given in the past. The board deliberated quite a bit on this, but was very confident on the growth prospects and the cash flow generation for the DET business. To signal this confidence and reiterate their support and commitment in the management, the board also wanted to declare the highest ever interim dividend to support the confidence that the business has for growth going forward. With this, I will hand over to Sukamal who will take you through some of the key initiatives underway and the business performance of the quarter.

Sukamal Banerjee:

Thank you. Thank you, Krishna. Good afternoon, everyone, and thank you again for joining our Q2 FY26 earnings call. Today, I will share my thoughts around, firstly, the views and assessment on Cyient, our focus and priorities and some initiatives that we have launched and close with the business performance for Q2.

As I conclude two quarters that passed, I thought it would be prudent for me to communicate to you my impressions of Cyient and our thoughts and how we are looking for a very exciting future ahead for all of us at Cyient. The last few months have been a revelation of our enviable strength at Cyient and the sheer excellence we bring to the table every day with a quiet resolve to help our customers do better. Despite various macroeconomic and geopolitical uncertainties that continue to prevail, we have been focused with a strong sense of resilience and perseverance.

Like I mentioned in Q4 FY25 investor call, we need to enter a phase of stabilization. I believe we are now over that phase. The results have been strong, moving from a revenue degrowth of 1.9% in Q4 of FY25 to a degrowth of 1.5% in Q1 of FY26 to a growth of 0.5% in Q2, which is the previous quarter in constant currency terms. We will speak more about this details in the call as I go into more details of the Q2 performance.

To talk about the six months' perspectives and initiatives taken, let me start by calling out some of Cyient's clear strengths. First, the engineering DNA and the sole focus on engineering. From day one of my interactions, I felt a deep pride in Cyient's engineering heritage. With over 30 years of solving complex engine challenges across the globe, our expertise across core domains is both rich and enduring. From my experience and vantage point, I can say there is a clear differentiation here. For example, the design and engineering of jet engines where Cyient contributes to more than half of the engine outcome which by the time we are done with this call will power 250 takeoffs and with nearly 50,000 passengers is a testament to the safety criticality work that we do. We have designed scores of full scope power plants across 12 categories be it fossil fuels, nuclear, hydrogen, and increasingly looking at newer areas like ammonia to cater to the ever-increasing energy demands across the globe, especially driven now by AI data center.

Over the last two decades, we have helped half of the world's population. Yes, that is half of the world's population connect and communicate through our network solutions across spectrums and technologies. That is a very enviable set of credentials to replicate, which comes from decades of engineering excellence. In short, a rich and global expertise across the value chain of products, plants and networks.

If I touch on customer relationships, in my last two quarters, I met hundreds of Cyient customers. One common standout theme is praise for our customer centricity and our strategic commitment through their up cycles and down cycles. Further, we are also recognized by many as a benchmark for excellence. In simple terms, Cyient enjoys a true partner status in our customers' mindshare. From my 30 odd years of experience in the IT and engineering industry of having built large businesses across the globe, I can vouch that this is a very powerful trust that Cyient can harness to build for the future. Delivering for the world, Cyient is truly a global engineering and technology leader that has been focused on creating value for our customers with localized proximity through global delivery centers.

Over the years, Cyient has been carefully and consciously investing in capabilities and its presence across the globe to our truly world-class engineering and technology solutions partner. More than 90% of our workforce across geography are local nationals, thus driving local agility and leadership, a cornerstone of how we are managing to minimize the execution and business risk in today's macro uncertainty.

Finally, let me talk about values first:

Our foundational principles are anchored in values first are not just statements. They are lived experiences across the organization. This is demonstrated in our ability to attract senior talent from other organizations which today suffer from a deficit in this area. Given our business is about people, leadership, and what they produce and what they do, I firmly believe that this is a strength that we can harness, and we can harness fully.

Of course, there are areas to work on. To ensure we sustain the right-to-win in the market, we have to work on two primary vectors:

- First, a performance culture to drive growth and predictability back into our business.
- And second, the technology investments and adoption of the same in our business so that we can further strengthen our value proposition in high growth areas.

I will talk broadly about how we are addressing the above improvement areas and our focus initiatives there on. We plan to host an Investor Day later in Q3 of FY26 where I will cover more details, but to give you a preview, let me focus on some of the priorities of this transformation. Our transformation agenda is anchored around three, four pillars. We have launched many initiatives across these pillars that demonstrate good progress and results.

- First and foremost, marketplace impact.
- Second, technology such as digital and AI, its adoption and acceleration.
- Third, organizational effectiveness.

From a marketplace impact perspective:

If I talk about go-to-market, we have launched a few key initiatives. Firstly, sales and focus of sales on new business. We have streamlined sales accounts and restructured responsibilities to allow sales to focus on new business whether it is from existing customers or new customers while our proven Delivery Engine manages our existing business and its renewals. These initiatives are expected to yield concrete results and measurable outcomes over the next couple of quarters, but we already see early signs and good direction indicators of sales effectiveness and its metrics.

Key account mining:

As I talked about our enviable portfolio of clients across the industry, I firmly believe there remains a significant headroom for growth for us through deeper account mining, cross-selling of our services from across BUs and from both the core and the new offerings that we are defining under technology. We have taken specific steps and we will continue to make some changes to bring the full impact for the same.

Large deals as a growth driver:

This is an area which we need to invest and ensure we can convert the trust we have earned from our customers over years and decades into large, long-structured deals. We are putting together the necessary leadership in H2 of FY26 to ensure we start seeing the results in the latter half of FY27. Having said that, it is not that we are barren of large deals today. We will continue to enhance that and make it more structured as we go forward. Sales incentive something I touched upon in our Q1 call as well. We simplified our sales incentive policy to bring clarity and focus on parameters for sales. We should be focused on deal wins, including large deals, new logo acquisitions, revenue growth, and remove several back-office performance parameters from the incentive.

Performance monitoring:

Our focused approach on measuring and monitoring key metrics is yielding results in the right direction, reflective in the momentum we have built over the last two quarters. Importantly, we are seeing an increase in pipeline by about 10% quarter-over-quarter and a steady improvement in the quality of our EM and NN deals pipeline. We expect this to improve and stabilize by early FY27 to further build our actions on. In fact, the EM and NN percentage of our overall order bookings or order intake has gone up 50% and the technology portion of our pipeline has doubled over one quarter.

The second aspect, if I may focus, technology adoption and acceleration:

Cyient's reputation in engineering is well established. We have been managing and transforming engineering and operations data and data models for our customers in various industries for decades now. Data quality, data maturity, and most importantly, the expertise to look for appropriate data sets and parameters become extremely critical for any effective technology solution, especially AI. For this reason, customers trust Cyient with solving their digital transformation challenges as we understand what needs to be solved for. Many of these customers have a very complex technology that again something we are very familiar with.

I can cite a couple of recent examples. In Q1, a healthcare client selected Cyient to establish an AI center of excellence to test new cases across their product development, quality and regulatory processes. This was possible because of intimate understanding of their processes, their products,

and data, and our innovative business model in addressing exploratory AI use cases. We are glad to say we delivered our first set of use cases and the overall scope and hence increased to cover a potential of 200-plus use cases based on this success. In Q2, a major aircraft tool name chose Cyient for digital transformation of their manufacturing plans. The customer was facing challenges due to multiple systems at the operations layer leading to siloed information and no single source of truth. As a result, the ability of the support teams to make decisions was severely hampered. Our comprehensive know-how of data and workflows across aircraft systems, engineering and manufacturing workflows across the value chain positioned us to develop a more relevant and responsive data-driven intelligence solution for the customer. This was a key reason on why they chose us over the competition which included several tier-one IT players.

We are also proactively enhancing and expanding our capabilities across data, AI, and digital platforms, deliberately strengthening our domain-led advantage. To scale this advantage further, we are investing further into our CTO organization to develop focused offerings, rationalize our portfolio, build capabilities, and forge strategic partnership. From a rationalization perspective, I had talked about the 3x3 approach in our earlier call. We have seen good success in both driving these key offerings enabled by three technologies, and we will now start continuing to build on this metrics to start creating new offerings and launch them to move to a 4x3, 5x3 as time comes. So, sharp problem statement, built on years and decades of domain knowledge infused with modern technology.

All of this is obviously not possible without strong technology leaders. We are strengthening our technology capabilities to accelerate these objectives. In Q2, we appointed a head of technology delivery to oversee all projects within our technology group ensuring execution excellence. He comes with a tenured engineering leadership experience from a global networking turned hyper scalar giant and recently had work experience, working with a global industrial player in platform development across several process industries. We are also building a team of AI architects to infuse the latest developments and expertise to par offerings and solutions. Equally important is how we adopt technology internally. To improve this, we have established an office of AI and transformation to ensure we do not miss out on this opportunity

Therefore, rather than just jumping on the latest industry bandwagon of the AI-first, we are clearly focused on investing in intelligent engineering which is underpinned by a domain plus AI strategy. Our uniqueness is not just being part of the AI bandwagon but being a domain-first and AI-infused company. Our priority is to leverage technology to effectively solve our customers' challenges through intelligent engineering solutions built on deep domain expertise and the appropriate infusion of digital and AI.

Finally, let me talk about organizational effectiveness:

We launched a variety of initiatives over the last two quarters focused on margin improvement, process simplification, and leadership development to drive agility and empowerment and sustainably improve and maintain our profitability.

Firstly, on margin improvement:

We have initiated a margin and efficiency improvement program in view of changing technology and customer requirement. It is focused on driving sustainable margin expansion in streamlining operations and prudent management of discretionary spending. The program is on track and majority of the actions have already been initiated with value realization over the coming quarters. The program is one of the key initiatives in our journey towards 15% EBIT by Q4 FY27, which is a commitment we stand by.

Process Simplification:

The objective here is to simplify or eliminate processes to improve speed and effectiveness and ensure alignment with the market and speed up decision-making, ensure decisions are being taken at the right levels.

Leadership refresh and development:

Over half of our business unit leaders have been in their roles now for less than six months. This fresh leadership, both internal and external, brings renewed energy and perspective to reboot some of our business and accelerate some of it. Our Chief People Officer, our Chief Technology Officer, and our new CMO, and I have all joined Cyient in the last six or seven months. They bring experience in high growth organizations and what it takes to adopt and drive those.

In addition, we also have a new head of corporate development and strategy to ensure we have alignment between strategy and strategy execution and how we align strategy with the inorganic investments that we would like to prioritize. And we will continue to build and enhance leadership across all levels. People are the core assets of Cyient. We do not just say that, we actually put our money where our mouth is. We have rolled out merit-based increments to nearly 90% of our associates starting in April over the last two quarters with remaining set to be covered in this particular quarter. We have consciously done this ahead of the entire peer group as we firmly believe this is an important aspect of ensuring success versus tactical margin management

In addition, we continue to invest heavily in development initiatives. These include leadership development programs across all levels, a dedicated woman leadership program, and a significant investment in technology career ladder for associates focused on technology excellence, especially focused on AI.

In summary, I am extremely proud to be part of this very rich legacy of Cyient rooted in values first and in customers and people centricity. I am very confident and excited that my leadership and I are scripting the decisive next chapters and evolution of Cyient in it, to build a Cyient that is stronger, better, and bolder than before.

I would now like to turn to Q2 FY26 performance results and share some quick views on the same:

Cyient DET grew by 3.3% quarter-over-quarter and 4.5% year-over-year in INR terms, which is 1% quarter-over-quarter and 0.1% year-over-year in US dollars. In constant currency terms, this translates to 0.5% quarter-over-quarter and a negative 0.6% year-over-year more or less flat.

The EBIT percentage margin stood at 12.2%, up 16 bps quarter-over-quarter despite wage hikes, several seasonal headwinds, which reiterates the steady progress I mentioned previously that we are working towards quarter-over-quarter.

Importantly, Q2FY26 witnessed a very strong recovery across our major business units. Transportation and mobility unit and the network and infrastructure units delivered 3.9% and 3.6% quarter-over-quarter respectively driven by focused account mining and sales approaches across the value chain of our customers. Strategic units cluster witnessed a degrowth which was anticipated and driven largely by holiday season impact in Europe and the ramp down of a large program that we have already talked about.

In terms of Key Business Highlights, I am very happy to report that we added seven new logos of strategic importance across industry. As I mentioned in the previous quarter, our unique built-to-spec proposition in conjunction with Cyient DLM to design and deliver end-to-end products continues to remain strong.

A leading aerospace OEM has chosen Cyient as their B2S partner to deliver high value electronics component that will be delivered for over several years and decades. Our key accounts continue to demonstrate strong revenue growth at 3% quarter-over-quarter and 11% year-over-year, thanks to our focused account mining as I mentioned previously.

I am also happy to announce that Cyient has been shortlisted for the “Best Mobile 5G Service Innovation Award” at the Global Connectivity Awards 2025 for the Value delivered through Cyient VISION AI, our industry-leading AI product that intelligently detects and resolves network issues for leading communication providers.

Cyient also won the prestigious recognition as a “Value Engineering Supplier for 2025” from one of our esteemed customers, Honeywell, for its stellar contribution in innovation of products and processes and optimization of total cost of engineering in oil and gas project. This award is a

testament to our strong expertise and customer centricity in driving value beyond engineering to our customers.

Overall, I think Q2 is a demonstration of resilience and recovery of performance across key verticals, building momentum to deliver strong H2 of FY26. With this, I now conclude my remarks and would like to hand over to our CFO, Prabhakar Atla to provide more color on our Financial Performance for Q2 FY26.

Prabhakar Atla:

Thank you, Sukamal. Hello, everyone. Thank you very much for your time today and for your kind participation in the call today.

Krishna and Sukamal have covered much of this in their update, but as a quick summary, here are the key financial highlights for the quarter. And as with the previous quarter, the DET numbers are excluding our semiconductor business. On revenue front, we had a healthy quarter for DET which delivered revenue of \$164.4 million, which is a QoQ growth of 50 bps in constant currency. In rupee terms, at INR1,438 crores, a QoQ growth is at 3.3%. That we delivered this growth despite a fluid macroeconomic environment and the fact that Q2 is a challenging quarter for us due to vacation period in Europe, we believe it is a good directional indicator of the quarters ahead. With this, we also believe that the H2 for DET will be stronger than H1.

On EBIT front, DET EBIT for Q2 came in at 12.2%, which is a 16 bps expansion quarter-on-quarter. The headwinds behind in this quarter include the second tranche of wage hike. And we are happy to report that we were able to fully mitigate this impact with the cost optimization program which is already delivering tangible results. We also had two one-off items in this quarter. One is the headwind of restructuring costs which had a negative impact of about 200 bps on EBIT for the quarter, most of which is one-off. And the other was a one-off tailwind of insurance reimbursement for legal expenses incurred and accounted for in the previous period. Both the above items are included in our margin numbers for the quarter. And the one-off tailwind has to some extent mitigated the one-off headwind in the quarter. With all these puts and takes, we believe that the net EBIT improvement of 16 bps quarter-on-quarter is a quite a good outcome for the quarter.

DET PAT for the quarter is at INR137 crores representing a 16% degrowth quarter-on-quarter and a 16.4% degrowth year-on-year. While EBIT expanded quarter-on-quarter, the overall unrealized FX came as a tailwind to our PAT for the quarter, but at the same time, the QoQ negative moment of PAT, QoQ and YoY is because these tailwinds were much stronger in the previous quarters compared to the current quarter. Our cash conversion for DET continues to remain very strong. And for Q2, the FCF to PAT conversion was 114% and we remain very focused on cash generation as a key business goal.

Moving on to “Group Performance,” which now includes all the four segments of DET, Semicon, DLM, and others. Group revenue degrew by 3.7% year-on-year in rupee term, while the PAT degrew

by 29% year-on-year. Much of the PAT movement year-on-year is due to the negative movement of unrealized gain between these two quarters.

FCF for Q2 was quite strong at INR173 crores, which represents a 117% FCF to PAT conversion for the quarter at group level. We are also very pleased to announce the approval of the Board for interim dividend of INR16 for the current financial year. This is a reflection of our intent to translate the benefits of our strong cash generation with our shareholders. And on that, we also like to take a moment to express our sincere appreciation to all our investors and analysts for all your support and steer as we navigate a fluid macro with some unprecedented macro challenges but laced with some very interesting opportunities which Krishna and Sukamal addressed in their comments and which we believe we are here to exploit.

With this, thank you again for your time and then hand over the call back to the moderator for Q&A.

Moderator: Thank you very much, sir. We will now begin with a question-and-answer session. The first question is from the line of Moez Chandani from Ambit Capital.

Moez Chandani: Yes, hi, good evening and thank you for taking my question. So, my first question was more in terms of the near-term in terms of Q3 and Q4 of FY26. So, we have seen a very strong rebound in the transportation segment. And do you think the segment is going to continue to drive growth for you in the near future? And then also in terms of networks and infrastructure where you have seen a good rebound. So, how do you see things even for that segment going into the second half of FY26?

Sukamal Banerjee: Sure. So, thank you for your question. Firstly, on transportation, we do believe that from the strength of our presence, the market and our positioning, we should be able to sustain growth. And, while I would like not to comment about quarter specifically, if I take a horizon of the next four to six quarters, we definitely see this as an area that we can depend on for consistent and significant growth. When it comes to networks and infrastructure, as I had called out in Q1, and our primary focus right now and our high focus on energy is to actually change the service mix which is far more critical for us, and not that growth is not critical, but while growth is good, we would like to first make sure that we are focused on changing the service mix because that is significantly important for the mid-term and the long-term. So, our focus would be more on how we drive metrics around the mix of services from wireline to wireless mix as an example, but on transportation, we remain confident.

Moez Chandani: Understood. And then on strategic units you mentioned that you know there is one part of it which is holiday-driven and the other was also due to the ramp down of a large project. In terms of the ramp down, do you see that ramp down continuing in Q3 or do you think that that is broadly done going forward?

Sukamal Banerjee: I think we are mostly done with it. There will be still some ramp down in Q3 but I think materiality to overall numbers has gone down substantially.

- Moez Chandani:** Alright, understood. And then maybe just speaking on the broader macro environment, right, so you have seen some improvement in terms of growth, Sukamal you called that out in the beginning of the call as well. So, now in terms of macro, in terms of deal flow conversions, etc., do you see some improvement in the macro versus where you were in 1Q, in, deal ramp ups, deal signings, etc.?
- Sukamal Banerjee:** So, yes, so, obviously, Q1 including the months of April and March, where obviously we had a significant freeze on decision-making and significant spike in uncertainty. I think most of our customers and industries have now understood and digested the changes that are going on in the global macroeconomic situation. So, it has definitely improved. However, I would not like to say that the market environment is strong. I think market environment is definitely much better than the early part of Q1.
- Moderator:** Next question is from the line of Shradha Agrawal from AMSEC.
- Shradha Agrawal:** Yes, hi. Congrats on a steady quarter. Two questions from my end. One is you indicated that there was a one-time restructuring expense of close to 200 bps in this quarter. So, what was it related to and any indication on that?
- Prabhakar Atla:** Firstly, thank you for the question. It is related to the cost optimization that we were doing under which we have to restructure some part of the operation, especially around people that we have and therefore much of it is one-off for the quarter.
- Shradha Agrawal:** So, is it related to employee layoff and one-time severance payment to such people?
- Prabhakar Atla:** Yes.
- Shradha Agrawal:** Okay. So, this entire impact is baked in for this quarter, or we expect some residual impact in next quarter as well?
- Prabhakar Atla:** Much of it is in the current quarter. There could still be some more continuous activities we do as a part of the business-as-usual operation that we optimize capacity capability. But what you see right now is the largest piece of what we would do in the current year.
- Shradha Agrawal:** And what was the quantum of the one-time gain on the insurance reimbursement benefit that you got?
- Prabhakar Atla:** It is actually a bit lesser than the headwind. So, the headwind was about 200 bps on restructuring and tailwind was much a bit lesser than that.
- Shradha Agrawal:** Right. And in terms of aerospace and transportation, while you have indicated that macros have gotten a little better, but in terms of growth for us, is it still led by MRO activities or have we started seeing some green shoots of recovery in design-related activities as well?

- Sukamal Banerjee:** So, I think it is a mix of service areas that we are seeing recovery. So, I would not call out design as a significant contributor yet. As you know obviously whenever a new design gets announced, it is pretty worldwide public news and no such announcement has happened. So, while we continue to do design for business jets for many other smaller aircraft carriers or airframe manufacturers there are always variations and extensions that are done to existing design, which is also design work. While that continues, our work remains varied across the product as well as the aftermarket of the products. We are seeing significant traction in cross selling across digital and AI. So, our technology infusion across aerospace and the transportation sector in general has also picked up significant momentum.
- Shradha Agrawal:** Right. And so you indicated that your second half would be better than the first half. This is despite furloughs impact. I know for us the furlough impact is relatively higher in 2Q because it is holiday season, but in terms of growth trajectory going into 3Q, do you expect 3Q would have better growth compared to 2Q on a QoQ basis despite the furloughs in other verticals?
- Sukamal Banerjee:** Yes, so, I think first thing, as we mentioned previously also, we maintain our no guidance policy. Second, our intent is to continue the trend I talked about in terms of quarter-over-quarter improvement, in our quarter-over-quarter performance. So, that trend is something that we are very committed to making it happen. Third, as we have discussed, we have a healthier pipeline on our near-term programs and projects that we can convert for Q3 and Q4. I would probably leave it there in terms of giving you an answer for the H2 versus H1.
- Shradha Agrawal:** And we have discontinued giving our order intake number, but any qualitative indication on what that number should be as in how much is the improvement in order intake number for this quarter in terms of any improvement in the closure cycles that we have seen or what has been the improvement in the pipeline buildup?
- Sukamal Banerjee:** Yes. So, order intake remains healthy. As I mentioned, our order intake not just in terms of absolute numbers, but quality of order intake, which is essentially new business as a percentage of overall order intake is going up. Our order intake as a percentage from a technology standpoint which is digital and AI which is critical for Cyient growth strategy is going up. So, I think definitely we are in the right direction. So, it is not just an indication from pipeline, order intake is also in the right direction.
- Shradha Agrawal:** I mean generally every year 3Q we do see a good amount of renewal happening and that trend would follow this year as well?
- Sukamal Banerjee:** That is correct.
- Shradha Agrawal:** Okay, thank you. That is it from my side.
- Moderator:** Thank you, sir. Next question is from the line of Sulabh Govila from Morgan Stanley.

Sulabh Govila: My first question is a bit bookkeeping question. So, I just want to check this order intake number that we were calling out, which is the non-renewable portion, which was 21%, last quarter. What is that number for this quarter?

Sukamal Banerjee: That number is 27% now.

Sulabh Govila: Okay, understood. And then, secondly, with respect to networks, when we talk about change and mix that we are trying to do from a medium to long-term perspective, I know you called out, wireline going to move towards wireless, but from a service line perspective if you could highlight what is it that we are trying to change and what can that change lead to?

Sukamal Banerjee: Sure. So, you might be aware that Cyient's business has been built significantly on our strength on fiber technology, and essentially doing fiber design, fiber rollout, and essentially creating access to the wireless side. That has been the core strength of Cyient for quite a few years and I would say even decades. Obviously, fiber roll out and fiber investments continue to be healthy. So, it is not a business that we see any kind of significant challenges in the near future, but, where we believe the real growth and the technology harnessing can happen is from the acquisition we had done with Celfinet two, three years back, where we have capabilities on manageability, observability, around wireless networks including the WISMON AI platform, which I talked about a little while back which got awarded even in Q2. We would like to create service offerings which are more focused around how do you drive network automation and more importantly network autonomy. Leading network carriers today in the world are between level 2, level 3 autonomy, and everybody aspires for level 5 autonomy in the next four to five years or even sooner in some cases, and we are working with them and the CTO organizations of the network carriers to help them adopt autonomy of their networks, which is where we are spending most of our energy in terms of building a network.

Sulabh Govila: Understood, understood. The next question is with respect to the changes that you highlighted, it is quite a bit of I would say, detailed level of changes that were mentioned and it actually covers the breadth of the organization. So, from an outside perspective it is difficult to understand those how they are progressing, etc., but just wanted to understand that whatever you have seen so far, what areas within these would you classify that are the most difficult or would take the most amount of time for you to see some sort of results?

Sukamal Banerjee: I think there was a similar question in the last call as well, so I will probably repeat the answer from that, which is changes which are more with regards to areas of focus, policies, how to do reprioritizing of focus, which are more concrete. Black and white is always easy to do. And most of them have fallen in place. There is definitely a change management aspect, which is necessary in order to adapt to the performance culture that I referred to. That is something which will take some time. We will definitely make sure that we stay patient and stay perseverant in making that change happen.

Sulabh Govila: Understood. And then lastly on the margins bit, just wanted to understand that while on growth, we called out that H2 will be stronger than H1. From a cadence perspective, how should one think about

the margins in the rest of the year? And given that you have already started with some bit of wage hike for most of the associates, so how should one think about H2 on growth better than H1, how should the margin cadence pan out?

Prabhakar Atla: Thank you for the question. In line with the revenue commentary on the second half the year, we also believe that the H2 margin will be stronger than H1.

Sulabh Govila: Okay. And that will be a function of operating leverage on growth or there are other levers which will help with that?

Prabhakar Atla: Both. It is not only revenue dependent, it is also a number of things that we are doing. We spoke a little bit about the cost optimization program in the earlier part of the conversation. So, the results are becoming more and more tangible today. So, we also see benefits coming from that and a number of others.

Sulabh Govila: Understood. Thanks for taking my question.

Prabhakar Atla: Thank you, sir.

Moderator: Thank you. Next question is from Nitish Rege from ChrysCapital.

Nitish Rege: Hi, thank you for the opportunity. Just following up, my questions will be on EBIT margin from next quarter. So, since we do not have any restructuring costs in the next quarter, can we expect a 100 basis points to 200 basis points expansion in margin because there will be a benefit on the cost side, right?

Prabhakar Atla: So, tempting as it is, we will refrain from commenting on the quarterly guidance for revenue or margin at this point in time. I will just come back and say that you have very good observation. We believe that H2 is going to be better than H1 by margin.

Nitish Rege: Okay, thanks so much.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to Mr. Krishna Bodanapu for closing comments. Thank you and over to you, sir.

Krishna Bodanapu: Thank you very much everyone for taking the time for this call this evening. I thought it was important to give you all a good overview of the semiconductor business considering it is very strategic and it is still in investment mode. I also thought it was important for Sukamal to give an overview of the state of the business and the way forward. And if I may say, the way forward looks very promising thanks to a very strong focus Sukamal has brought on operations, leadership, and technology adoption. Sukamal will of course keep you updated periodically on the progress of these

changes. The board also strongly believes in the growth prospects signaled by the increase in the interim dividend. So, all in all, I believe we find ourselves in a good place and well positioned to deliver as Sukamal and Prabhakar said a stronger H2 both in revenue growth and margins compared to H1. Thank you for your support and I look forward to speaking to you again next quarter.

Moderator:

Thank you, members of the management. Ladies and gentlemen, on behalf of Cyient Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines.

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