"Cyient Limited Conference Call to discuss impact of COVID-19"

April 03, 2020

MANAGEMENT: **MR. KRISHNA BODANAPU – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER, CYIENT LIMITED**
MR. KARTHIK NATARAJAN – PRESIDENT AND CHIEF OPERATING OFFICER, CYIENT LIMITED
MR. AJAY AGGARWAL – PRESIDENT AND CHIEF FINANCIAL OFFICER, CYIENT LIMITED

Moderator: Ladies and gentlemen, good day. And welcome to the Conference Call to discuss the impact of COVID-19 on the business operations of Cyient. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Krishna Bodanapu. Thank you and over to you, sir.

Krishna Bodanapu: Thank you. Good evening, everybody and thank you for joining the call. I know Friday evening is not the most convenient time to have this call, but I greatly appreciate your time in joining this call. I would also say before we start that we are in a quiet period and we are dealing with an evolving situation, so our information in some cases is limited, both to us and also because of the quiet period in terms of what we can divulge, what we can actually talk about. Having said that, and keeping in the spirit of transparency, I will be as transparent as we can in this call.

Firstly, I want to quickly introduce Karthik Natarajan, who joined Cyient as the President and COO about three weeks ago. Karthik is also on this call. I hope we had a better opportunity and a more positive context to having this call to introduce Kartik for the first time, but this is the first time Kartik is joining us on the call, so I will welcome him to Cyient and I hope he will get an opportunity quite soon to meet a lot of you, either in person or in various forums. We also have Ajay Aggarwal, who is our President and Chief Financial Officer. So, Kartik and Ajay will also be available to field any questions going forward.

Let me lay out the way that we at Cyient have been managing through this crisis and through that I will hopefully give you an insight into where things stand and what is happening. The framework that we came up with in terms of how we can manage the crisis, I would say there are seven steps to it. First was employee safety. The second is employee enablement. The third is employee engagement. Fourth - client connect. Fifth is profitability. Sixth is the opportunities that have started to emerge or the green shoots. And seventh, of course investing for the future and how we plan to look at our business going forward.

So on the first point of employee safety, this is the paramount concern for the organization and our first priority. Once WHO declared it as a pandemic we have been constantly monitoring all sources, we have been monitoring WHO alerts, what the local governments, what the national governments have been giving us advisories. And we have been abiding by all these guidelines to make sure that we have created a safe environment for our associates. I am also happy to say is we have had a couple of isolation cases, not in India but outside of India. But we are quite confident that the environment is that even in offices where we still have people working, we have mitigated against any possible transmissions within the office. And I think that is also being reflected in what our employees are telling us and the confidence that they have in terms of their own safety. So first and foremost is employee safety. That's what our focus has been.

Now once safety has been taken care of, the second piece is the enablement piece. Because I think the reality is, the mitigation against this situation that we have on hand has been large scale work from home across all geographies. So we have maximized the remote working or work from home across all geographies. And also what we have done is only the critical associates are coming into the office. In India, 80% of the employees are enabled to work from home and our objective is to get to 85% within the next few days. There are a few more things that we need to do which we are doing to get to 85% enablement. This is from the employee perspective that is 80% of our employees currently are enabled to work from home in India. 98% of the employees are either working from home or have access to a client location in outside of India. So that's almost all our employees, 98% of the employees are enabled to work from home outside of India.

In terms of client approvals, 93% of our clients have given us approval in India to work from home. And outside of India, it's close to 100%, there might be one-off individual cases, but we are almost at 100% work from home from a client approval perspective. The work from home guidelines have been shared with all the associates and we have created a number of enablement such as, obviously, documents but also videos. We have created a fairly robust framework on how managers can manage their employees who are working from home. Obviously, I mean, work from home has, one side is the productivity issues, but the second side is also the engagement and mental well-being of employees, because a lot of us are not really mentally tuned to work from home for an extended period of time. So we have created a lot of guidelines in terms of how often there are touch points between the employee and managers, some of the conversational guidelines, etc.

The Government in India has also given us some exemptions for our staff to work from the office to ensure continuity. This has already been given after, obviously, the government has made sure that we are capable off and we have created facilities that are safe and secure. About 1% of our staff is working from the office in India. These are basically people who have to manage the physical infrastructure, the IT infrastructure, the power infrastructure, etc. Or there are some one-off client cases where we will not be able to work from home like we do work in the nuclear environment, for example, where there are already tough operating guidelines. And therefore, working from home won't be practically possible. In those very small cases we do have some employees in the office.

We have actually worked quite hard and special kudos to our procurement and IT teams who worked extremely hard to procure, configure, and enable computers. We have done laptops, desktops for remote working, we have received special permissions in most cases to have these delivered to our associates' homes. And we have been quite proactive in also, you know, while we are now at 80%, that wasn't always the case with the sense that we started off from about 20%, 25% 10 days ago to get to 80%. So we have also cleverly or prudently prioritized projects, so at no point the customer deliverables were being impacted. Because even in cases where we didn't have enough capacity, we were prioritizing projects that really had a timeline or had an impact.

So after employee safety and employee enablement, I will talk about employee engagement. Like I said, we have created work from home guidelines and training, and we have actually done a lot of work over the last 10 days. This is quite important given that, especially in a place like India work from home is not very well understood or very well appreciated. And also a number of the employees who are now working from home are relatively young employees who don't necessarily have the physical space also at home to have a comfortable, productive environment to work from home. So we have worked through that quite a bit in many cases. We have proactively procured a lot of safety equipment for offices that are still running. If there is field work, especially we do some fieldwork, as you know, in the U.S. and in Australia.

We have procured a significant amount of safety equipment that's gotten out to people in the field. We are connected with families, we have connected with a number of families to assure them that their family members, children in many cases, are safe and working. Also for people who have been expatriated out of India to a geography, we have connected quite a bit with that family in India to give them an update or an independent update on what is happening with their relations overseas. And we continue to do. There is enhanced perks, including there is a bonus that we are paying for people who still meet their productivity targets and it's quite a nice bonus. Because while working from home will also mean there is some productivity will suffer, but also what we realized is the commute time of most people is one hour each way on an average, which means that they also gain about two hours a day or about 15% to 20% more time which can be used to mitigate against that productivity of not being able to be in the office.

Also, we are dealing with a lot of the on-site transferees very carefully. As you know, this actually turns out to be a little bit of an advantage that this, in our case, 80% overall of the people outside of India are local hires. But for that 20%, where there is been a retrenchment in work or cut in work, we are working on individual cases. Thankfully, there is not a very large number of them, but we are working on them individually to see what is the best way to repatriate the employee, because it's not a simple issue of just sort of firing somebody in country because these are transferees, at the same time normally we would have had them come back to India quickly, but that's also not going to happen. So again, it's not a huge number, but the amount of effort that the HR team has been putting in into that has actually gone down quite well. And what we are seeing is that's also become quite a good motivator for a number of the employees.

Then coming to the next step, which is the client connect. We have, obviously, a number of levels of communication that is going on, starting from sort of on the ground with the account managers, through to the BU heads, and Karthik and me. Also with HR and finance in some cases where there is also a connect there. So there is a lot of communication going on. But also what I would say is on our customers, and I will still say that this is a little bit of an early stage so things will change, but we still haven't heard of widespread layoffs reported across our customers. There has been significant amount of supply chain disruption, but as you know factories in China are coming back online, which means that some of the supply chains, including the engineering part of the supply chain is stabilizing. A number of our customers have clearly articulated that their objective is to conserve cash and reduce discretionary spending. So we are looking at it carefully where we are in the discretionary part of the value chain and where we are in the lights on and non-discretionary path, because a lot of the upfront engineering, for example, can be considered discretionary, especially the product life cycle is a very long one.

So what I do want to say is, before that question comes up I will say is that, each business is a little bit different. And an overwhelming part of the work that we do is really to keep the lights on and have a direct bearing on the new kind of business. Where there isn't the case we will have a little bit of a larger impact, but in general, a lot of our business is really to keep the lights on. Especially if I look at the aerospace sector, that's where our business has evolved, especially in the last couple of years, given that already there have been no new programs that have been announced. So a lot of the work that we do supports the MRO, the manufacturing, engineering, etc., which we continue to see that that is continuing for us.

A number of our customers have called out a negative impact on their revenues and profits, like Collins Aerospace, Marvel Semiconductor, ABB, etc. And some of our customers have also withdrawn their guidance for 2020, including Airbus, Verizon, AT&T, Rio Tinto, Caterpillar, etc.. So this is the environment that we are dealing with. And like I said, I would say, it's still evolving, but we believe that we are quite well engaged, and we are staying close to it to make sure that we react in the right manner as things evolve.

Having said that, perhaps some of you saw the press release also this morning that we have signed a master services agreement and a long-term contract with Hitachi Rail. Hitachi Rail was essentially the largest rail company that weren’t our customers, yet in any meaningful manner, now Hitachi Rail will also be a customer. We are still hoping to start the ramp up starting May 1st. This will involve setting up a team in the U.S. and setting up an engineering capability in India. I just want to highlight this, as a good example that while there is a lot of challenge within the world, we have been still able to engage well with the customers, we have been able to close the contract, which is a reflection of both the relationships that are our team has built and also the value that we provide. And just as a data point, the Hitachi Chief Operating Officer is based in Italy, quarantined for the last four weeks. And in spite of that he personally negotiated many of the terms of the contract and finally we shook hands I think on, it wasn't Monday. So, I mean, there are still some very good positives within the business.

The next step is profitability. And, obviously, managing profitability becomes that much more important in a situation like this. And the way I look at it is, revenue is still a little bit uncertain with where the things are going in the world, but costs are something in our control. So we need to be prudent about cost and be aggressive about what we do. At the same time, obviously, we are in this business for the long-term, so I don't want to cut anything that will have a long-term impact on the business. Or if the recovery is relatively quick, we need to be in a shape where we can also recover in line with what the market does.

So just to give you a few insights into what is going on there. We have put a hiring freeze on all resources, both especially non-billable., billable is only in certain cases. There won't be any salary hikes for FY21. We will do something for the lower band, but that will only be done either in Q2 or in H2, because these are the people where we are looking at it as our salaries at the lowest bands in some cases are not very competitive, so we will use this opportunity to see if we can become much more aggressive and competitive in those bands, because we can then to really improve the quality of fresh college graduates that we are hiring. We are going to rationalize the variable pay quite a bit, there are a number of initiatives that have already been started on how we can rationalize variable pay, and also create an upside in case the business operations change significantly.

Then the next thing I want to say is on NBA and BU investments. Obviously, NBA was an important initiative, but it is something that we really, you know, while it is something that we would like to invest in. I feel that it is something that we also have to be prudent on, both from the NBA which is the New Business Accelerator investments, but also in terms of the BU investments, because there is a number of those that happen. We will come back on the exact numbers in a few weeks, but we have already started some of the actions. There is utilization improvements, fairly aggressive targets that have been given out. All marketing spend has been frozen, we won't spend at keystone events and those kinds of things. We will also have a travel freeze, obviously, this is the easy one, and because I don't see that there will be any significant change in the situation at least in Q1. But going forward also we will look at the travel freeze and being a lot more prudent.

We have an initiative on sales optimization, we also are looking at it as this is a good opportunity for us to improve the quality of sales force and the reach of the sales force. At the same time, we are not looking at this as just keep the current sales force, though the reduction in spend with the sales force will be a lot lower than some of the other areas. But with churn, we are targeting a fairly significant churn because we think that this is a good time to upgrade a lot of the sales force. We will also reduce a lot of the non-billable overhead. These are people who are in delivery, these are the people who are in execution, but not billable, we have given a fairly aggressive target there. We are renegotiating with a lot of our subcontractors. As you know, our subcontractor spend is 6% to 7% of our revenue. So just like our customers are negotiating with some of their subcontractors, and on that I will say, we still haven't seen any requests for reduction in price, but in situations like this that has happened in the past, but we also want to proactively renegotiate with our subcontractors and we will also reduce the hardware and software spend quite a bit on this. There is a few things that we have already initiated.

So my summary is, while revenue is a little bit uncertain and we just need to stay close to the market and make sure that we are gaining in the opportunities, the cost is something that we can manage a little bit more closely. And in some ways we will benefit from our 2020 exercise, because the base work has been done and we just need to extend the execution and take some higher targets to keep our margins where they are. We are also looking at opportunities and we see quite some good opportunities that are starting to come up actually. For example, while I said Philips is seeing the reduction in their revenue, that's the consumer side of Philips. The medical side of Philips is seeing unprecedented demand for their equipment, so we are actually seeing some good opportunities there on, some of the things that we support with Philips Medical. So that's one example where an opportunity has started to emerge.

You might have seen some of the information on medical manufacturing, some of the devices that we are manufacturing actually directly support the COVID effort that is happening. We are seeing green shoots in telecom, we are seeing green shoots in mining and some opportunities.

And we also have been supporting the local government with our drone capability on their enforcement of the lockdown. This is not necessarily a great revenue opportunity, but it has given us some very, very strong goodwill in some of the local communities that we work with. So I will leave that there and say that we are looking at opportunities, we are looking at immediate opportunities that can mitigate some of the downsides that we will inevitably have and are quite focused on.

Lastly, I will say the last step of this is invest for the future. As you know, we have a fair amount of cash that's available to invest. The Board, while we will consider things like a buyback, but I think the Board and the management are more excited about the opportunities that this market presents and on how we could really leverage on the opportunities that are there. So we will invest quite a bit on the digital capabilities. Very candidly, we are a little bit behind the curve on it, but we believe that this is a great opportunity within this disruption. We will come out much stronger from this in digital capabilities. We will read this opportunity also to reorg a little bit at an organization level to become more nimble and more market focused. There are a number of other opportunities such as captive takeovers, large scale transition of work from high cost countries to low cost countries, there are M&A opportunities, CV opportunities, and there is a number of those things. And again, I think these are things that once the market stabilizes within the next four to six weeks, we will be quite bullish on those. And the idea is really to leverage the strength of our cash and balance sheet to come out much stronger.

So in summary I will say, while there has been some impact on the business this quarter as the loss of efficiency, because the lockdown was limited to the last two weeks of March, we expect the full impact will only be visible in FY21. We will mitigate this as much as we can with work from home. If there is a prolonged lockdown, then obviously there will be significant challenges. However, I want to say that the business remains strong, the clients remain engaged, employees are motivated and the management team is committed to the long-term success. So we are looking at this crisis as an opportunity for disruption and that we will do the right things at this point to come out, as things stabilize and we come out with the crisis, our objective is that Cyient will come out as a leader in a number of the segments that we operate in.

So that's where the situation is. I have tried to be as transparent as I can, considering the evolving situation and also considering that we are in a quiet period for more sensitive information. So with that, I will stop and I will hand over to the operator for any questions.

Moderator: Sure. Thank you very much. We will now begin the question and answer session.

Krishna Bodanapu: So, while we wait, can I hand over the floor to Kartik for a minute to just say a few words, as this is the first call and this is his first month in Cyient.

Karthikeyan Natarajan: Sure. Thanks, Krishna. Good evening, everyone. This is a great opportunity for me to join Cyient and be part of some of the business continuity plans. And I can tell you that we have really put in a lot of efforts in getting the business back on track. And as Krishna said, our focus has been around the employee safety, client communication and moving towards the operational efficiency, that is what we are focused on, how we think we can improve the productivity and utilization levels. And for this month, my focus would be to see how we make sure that we are able to address the customer deliverables without losing much of productivity and ensuring that we are able to maximize on the billability part.

Moderator: Thank you very much. We will begin with the question and answer session. We will take the first question from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Sir, I missed your remark on NBA, so we are putting it on pause or will you be investing in FY21?

Krishna Bodanapu: We will be investing in FY21, but at a much lower level than what we have invested in the past.

Mohit Jain: So any point if you can share, is it possible what have you planned for this year?

Krishna Bodanapu: I think it's too early for that, because we are coming to a reasonable number and a realistic number. So what I would also say is that, as you know that the Q4 results or the Q1 board meeting typically would be held towards the end of April or I think the third week of April would have been typical time, and that's what we were scheduled on. But we are quite confident that our numbers will be ready in the middle of April. But the auditors have advised us that based on various things that are going on etc., that they will not be able to sign off on the books in April, they need a little bit more time because things like physical checks, travel etc., is not going to be possible. Therefore, they have advised us that we will need some more time. So the Board meeting will be in May, hopefully, we are still quite keen to do it as quickly as practically possible. And when we do that, at that point in time we will give you a much better color because, A, as we need to work through these things; and B, we also need to communicate internally on what we are doing.

Mohit Jain: Okay. And second thing is on, historically what we have done, this is specific to last year, but we were running also at a higher capex level going by the fact that we are investing for the future and now demand outlook seems to be a little on a weaker side. Second on SG&A, if you could help me understand there what kind of churn you are expecting? And SG&A also, I think we historically used to maintain that we are investing approximately 2% extra to generate growth. So, what is your thought there?

Ajay Aggarwal: Yes. So, I would say that, Mohit, in terms of capex we definitely have the calibration. So, we would calibrate that if we expect a revised revenue scenarios. So I would say that while absolute numbers as you mean, that this year is financial year 2021, or, let me say, H1 or financial year 2021 is not as good as we would have anticipated, the capex would also be proportionally going down. So I would say we will continue to be at 2.5% to 3% of the absolute revenues. In terms of SG&A, as Krishna said, actually we had finalized the plan and now in the last two, three weeks the world has changed. And we are trying to work hard to make sure that there is a lot of focus on cost cutting, while we don't want to compromise on anything on long-term, but we have decided that we will calibrate our cost. As such also, I think we were looking at that our SG&A

in absolute terms should not be higher compared to the last year, so there are a lot of initiatives. But I would say that if you were to comment about you are investing 2% normally in the SG&A, I would say that may not be there in this particular year, the NBA number is going to be much lower. And the new investments, as Krishna said, we have put a freeze on hiring. So I think any augmentation we will only do once the normal time comes.

Mohit Jain: So sir, by doing all these initiatives, the aspiration for you would be to maintain your margin levels, is it? And if there is something extra, let's say, recovery in second half, then you would restart the investments. Is that the thought process behind this?

Ajay Aggarwal: You need to give us the time for the most probable timeline of May, I think we can talk about these specifics in May. Because the scenarios are changing every day and we can do a lot of modelling in the Excel, but right now I think there are a lot of things that are moving. So, it will not be fair for me to say that we are working on margins. Obviously, we are trying to calibrate the cost as much as possible on revenue, that really depends on how much is the final impact of revenue. And those scenarios are still not very clear.

Mohit Jain: And sir, lastly on your sectoral commentary, any sectors you would specifically like to highlight which have so far not seen any renegotiation and ramp ups or any delays from clients? Like aerospace you highlighted in your comments, any other that you would like to highlight?

Krishna Bodanapu: Sure. Kartik, do you want to take that?

Karthikeyan Natarajan: Yes, I think we are counting on two sectors. One is the telecom and second is on the mining part we spoke about. And telecom, as we have understood globally, there is about 20% increase in traffic in the last two weeks as reported by some of the major telecom operators. So we believe the telecom would also accelerate the rollout of 5G and we are trying to assess our customer stance and how do you think we can support them. And we are seeing that this could be a green shoot that we would look out for in the second half of fiscal 2021 and how the customers want to spend the first half, depending on some of the work that needs to be done on the field and travel restrictions will all play a role. But we feel that telecom would be a good sector for us to focus on growth in fiscal 2021. And similarly on the mining part, as the economy of China is trying to reboot, and we believe there is a growth that is expected from the mining industry, and we are seeing a lot of cost reduction opportunities on the mining and we are looking at how do we expand our portfolio of offerings in the mining industry.

Mohit Jain: And the worse hit would be like semicon or…?

Karthikeyan Natarajan: It's a very small part of our business.

Mohit Jain: I am just guessing which sectors are likely to fit in your business.

Krishna Bodanapu: Semicon would be the worst hit, possibly, because the semiconductor cycle was also coming up for a down cycle. And typically these trigger points actually have a big bearing. So semiconductor would definitely be one risk area. And the other one, I would say is, all said and done is, the aerospace sector, because ultimately there is a bloodbath that's going to happen in the end customer, which is the airlines. While I think there we are not in that bad of a situation because we don't do the airlines or a lot of our work is coming from the sustenance part of their business which is manufacturing, engineering, MRO etc. But there will be an impact and we have to see what is the ultimate impact on us. But I think anybody in the aerospace sector would see a fairly interesting time and we have to see how best to mitigate against it.

Moderator: Thank you. The next question is from the line of Pankaj Kapoor from JM Financials. Please go ahead.

Pankaj Kapoor: A few questions, Krishna. First, how are you managing the DLM business? I mean, what kind of work from home can be done there? And how you are managing basically the manufacturing activity in that side? That's the first question.

Karthikeyan Natarajan: So, obviously, that's a good point because DLM can't really have very much work from home. I would say the support functions in DLM, like the buyers, the supply chain guys, the procurement guys, etc., are working from home. But what has happened is that we have gotten permission for a couple of the industries that we work in. The national government has declared medical devices and medical electronics as a critical activity, so we are still able to keep those lines running. The Karnataka government has also declared aerospace and defense as a critical line, so we have also kept those lines running. So the challenge there will be, if it is a prolonged lockdown, then we have to see what happens. But as things stand, we believe that in Q4 there was some impact but it was minimal. And also in Q1, if the lockdown is only till the 15th or even till May 1st, we can make up a lot of the things because it's not like services business where a lost hour is lost forever in the manufacturing business, we can still make up a lot of it because the raw material is there, the inventory is there.

Now from a demand perspective also, in general the demand is still not changed significantly. There the one-off customers where it has come down a little bit, like we do have some oil and gas business where early indications are that it might come off. At the same time, we also have a lot of medical business where even for sort of the non-COVID related activities there is increased demand, because people are trying to build a lot more equipment at this point. So in that sense, DLM has been a little bit different because work from home is not possible. At the same time, in DLM you don't lose every hour that you don't work because once the factories turn back up again we can also make up a lot of the lost time.

Pankaj Kapoor: Understood. The second question is, on the last call you had mentioned some restructuring that you are planning to do for the defense business so that the FII limit can be removed. Any update on that? You indicated last time that you are looking at fourth quarter or maybe first quarter of FY21 to complete that exercise. Any update where are we on that exercise?

Krishna Bodanapu: We are still targeting on the first quarter. We need to do a couple of things and we I think we can get those done in the next few months. So we will still remain on target. Ajay, do you want to add anything on that?

Ajay Aggarwal: No, I think we are working on that. That is one of the focus areas. And absolutely, we are targeting quarter one.

Pankaj Kapoor: Got it. And just lastly, any thoughts on using the cash or a buyback given the kind of a correction that we have seen in the stock?

Krishna Bodanapu: Honestly, at this point we have really been focused on some of the other things to start with, which is our employees, making sure that we are doing the right things for our customers, and also looking at the opportunities. The way I look at it is, once things stabilize we will have to have those conversations internally and with the board. So give us a little bit of time on that, because, I mean, theoretically, yes, it would make a lot of sense, but we also have to look at this point is, when a crisis happens, things get disrupted quite a bit. So it also is not a bad opportunity for us to invest in the right areas, because when things settle down, sort of the order of industries typically gets shaken up in a crisis like this. And coming out of it, we want to come out much stronger than going into it. So we will have to wait in that context. But that is certainly one area that we will have to evaluate in the right earnest.

Moderator: Thank you. The next question is from the line of Sudheer from Motilal Oswal. Please go ahead.

Sudheer: Thanks for doing this call in the challenging times. A couple of questions from myself. Any initial red flags we are seeing as of now where clients may either default on receivables or request us to take a haircut?

Krishna Bodanapu: We are not seeing anything right now yet, but Ajay's team has created a framework of how we will keep a watch out for any potential red flags and how will we proactively deal with these red flags.

Sudheer: Sure. And some of the earlier comments you made, especially on the new business wins which are expected to be ramped up by the beginning of May. I am just curious as to how you plan to go about the onboarding process, given that all the core geographies are now in a lockdown mode with probably very little visibility of these lockdowns getting lifted in the near-term?

Krishna Bodanapu: Let me rephrase that, the original intent was the 1st of May that was the original intent of the ramp up. Chances are right now it will get a little bit pushed. Though, having said that, we have repurposed some of our other associates. So it won't ramp up to the scale that it was supposed to on first blip, but we will still get started with some of the associates that are coming off of other projects. And the full ramp up will get delayed and that depends on how things play out over the next couple of months. But also are creative things that we are doing, for example, we do have another win that we can't talk about, but it's a win, where the work has to be done offshore. But given that it is also a critical part of their business, to start off with, we are going to use some of our resources in the U.K. to start that work off. And these resources have a little bit of slag, given that the customer that they are currently working with has had to push out. So we are trying to balance a lot of these things with our existing resources.

Sudheer: Sure, that's helpful. One last question from my side. While I completely understand your earlier point of having some exposure to non-discretionary work as well, engineering services as a category, that itself is considered to be more discretionary compared to, let us say, some other categories like IT services. So even assuming economy is normalized in, let's say, some time, how quickly do you think engineering services as an industry will revert back to normal? Let's say, based on your reading of the prior such shocks or similar shocks? That's it from my side. Thank you.

Krishna Bodanapu: Kartik, do you want to answer that? And then I can add.

Karthikeyan Natarajan: I think what we feel is, anything which the customers have already committed to their investors, their customers about the products that they are going to launch, I think that programs will continue, and trying to prolong the investment cycle won't help the customers. Any new programs will get delayed. As we said in majority of our verticals, we are definitely doing a lot of work on sustaining side of it or helping the lights on for the customers. And I do disagree on the point that most of our engineering spend is on discretionary. I think compared to other support elements like BPO, IT services, most of the engineering is part of the core of the customers. And their business depends on how well they deliver the products and services. And that's the business cycle that we are in. So we believe there is some element of the discretionary spend, which is about the new programs and new products they want to launch in the next six to 12 months, depending on their consumer demand they may push it out. But I think rest of the businesses are definitely in the area of products sustenance and that activity would continue to be supported by us.

Krishna Bodanapu: And just to add to that, I think if you look at somebody like say a aircraft manufacturer or an aircraft OEM, whether Boeing, a UTC or a Honeywell, etc., for them engineering is the core part of their business, because their business is to launch products, IT services for them is really the discretionary part. And again, obviously, in IT also there are some elements which would be a must have, but a lot of it could be discretionary. So I think in that context, looking at the kind of customers that we have, engineering would be core and that is our competitive differentiator. And not to go sort of the context, but if you look at when we talk about why the growth rates in engineering are lower than IT, especially when at the same time in evolution, that has been the key issue, that engineering is core to organization. And therefore, their ability to outsource has been a little bit more challenged than IT, which has typically been considered as non-core to most organizations.

Moderator: Thank you. The next question is from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

Mayank Babla: Actually my questions was answered by the previous person. Thank you.

Moderator: Thank you. The next question is from the line of Mr. Manish Shah from Vajani Securities. Please go ahead.

Manish Shah: Sir, I just wanted to ask about your promoter holding. So what will be the promoter holding as of quarter ending March 31, 2020?

Krishna Bodanapu: It was about 22.5%.

Manish Shah: It's not gone up in this quarter?

Krishna Bodanapu: It's gone up a little bit, I mean, it would have gone up a little bit, I don't know the exact numbers. But not by percentage points, I mean, it would be by basis points, if that makes sense.

Moderator: Thank you. The next question is from Mr. Ujwal Shah from Quest Investments.

Ujwal Shah: Just wanted your sense on medical devices segment that you mentioned before in your opening remarks. Can you throw some light on the opportunities in that space and how do you feel that segment going ahead? Thank you.

Krishna Bodanapu: Yes, absolutely. So, in the medical devices segment, we do a lot of work, both in the design side that is the design of the medical equipment, and also the manufacturing which is the actual production. Our focus has been on the electronics for medical devices and that's where we have built some strong capabilities in the manufacturing plant, because the medical devices also have some very specifics in terms of the quality standards or specifics in terms of, obviously, safety, cleanliness standards and so on so forth. So, we have built some good capabilities. So what you are seeing is the focus in the medical world is also moving towards the devices and to be able to do a lot more diagnosis and a lot more things on the product and remotely rather than just in the hospital. So there is a number of new medical devices that have come into the market. So there's both traditional players like GE and, Philips Medical as a customer. But also a number of newer companies that are evolving, for example, Molbio which is in the forefront of this COVID testing were also a customer and a few others. So we believe that going forward there will be a lot more focus on medical devices, because with the economics and so on so forth, just having adopted all this might not be the most optimal solution. The optimal solution or the solution will be technology more and more. And therefore, we see a fairly significant opportunity in terms of both the design of medical devices and the manufacturing of medical devices. And lastly, I will say for medical devices, India is also becoming quite an important market, more so than ever. And I think therefore, the companies that are doing work from India is also significantly increasing.

Moderator: Thank you. The next question is from the line of Sandeep Shah from CGS CIMB. Please go ahead. We seem to have lost the line for Sandeep. We move to the next question. Next question is from the line of Prashant from Pictet. Please go ahead.

Prashant: Hi, Krishna. A few questions. One is on the transportation segment, what is the outlook? And we had this kind of client discount issue a couple of quarters back, are we still getting the benefit of that or will that disappear, given the changing circumstances?

Krishna Bodanapu: So on the specific client issues, we don't see any significant change yet. But we are monitoring that closely. So I would say, it's a little bit too early to comment on what will happen. Though the early signs are, at least the principles don't change. But what we are seeing in the industry is, it's been hit hard by a lot of the restrictions, some of the programs that we work in also are on pause because the public transport is under a freeze and access to our customers to a lot of the construction sites, etc., has gone down. Having said that, we believe that a lot of the stimulus money, will go to this sector, because typically the stimulus goes to large infrastructure projects. And if you look at much of Europe, a lot of the U.S. are also investing in logistics, trade becomes an important aspect. So, therefore, I think the way that we look at it is, H1 will be difficult for the transport sector, but over a period of time I think this is one of the sectors that will benefit with the increased investment in infrastructure type of projects.

Prashant: Okay. And on the energy and utility segment, just some sense how much of that is in energy which should be more impactful than the current expenses?

Krishna Bodanapu: So, the utilities part is doing quite well, because utilities again tend to be a little bit more buffered from some of these cycles, given that their capex cycles are a little bit different and much more elongated. On energy, we will see an impact because there also the oil prices have fallen quite a bit. But while there is a challenge on the oil and gas side, there is also an opportunity on the mining side what Kartik talked about. So net, net, we will have to see the impact on how that will play out. But at least in H1, we see that there will be an impact net, net, though there is also some mitigating factors there, like the mining that we talk about.

Prashant: I am sorry, how much this is energy?

Krishna Bodanapu: Roughly energy will be 40% of the business.

Prashant: Of the E&U business you are saying?

Krishna Bodanapu: Yes, yes.

Moderator: Thank you very much. That was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

Krishna Bodanapu: Okay, thank you very much. So I will first say thanks to everybody for participating and for the engagement. Obviously, these are uncertain times, but we are quite focused on making sure that we do the right thing, both from a short-term to make sure that we manage through the first few parts of what I laid out, which is the employee safety, employee enablement, engagement, and being connected to the customer and making sure that we do the right things for profitability. At the same time, we believe that we are well positioned for the medium to long-term, so within that framework we will also start to look at opportunities that we can invest for the future and also look at ways in which we can make our capital structure more efficient. So the key for us is to make sure that we use this opportunity to get to be optimal and efficient in our cost structure. So as revenue growth comes back, we grow on a much stronger base. But like I said, we have a great set of customers, we are still very, very engaged. We have employees who are quite motivated, and we will make sure that we do the right thing in the short-term to be successful in the long-term. Thank you very much for your participation, and we will stay in touch.

Moderator: Thank you very much. With that, we conclude today's conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

This is a transcription and may contain transcription errors. The transcript has been edited for clarity. The Company takes no responsibility of such errors, although an effort has been made to ensure high level of accuracy