"Cyient Limited Q3 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Cyient Q3 FY2019 Earnings Conference Call hosted by Edelweiss Securities Limited. 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sandip Agarwal from Edelweiss Securities Limited. Thank you, and over to you, Sir!

Sandip Agarwal: Thanks, Janice. Good evening to everyone. On behalf of Edelweiss, let me welcome you to the Cyient Q3 FY2019 earnings call. We have with us the senior management of Cyient, headed by Mr. B. V. R. Mohan Reddy, along with senior members of the management team.

Without further ado, I will hand over the call to Mr. Ajay Aggarwal to start the proceedings. Thanks and over to you Ajay!

Ajay Aggarwal: Thank you Sandip. I would take the customary announcement with regard to the whatever information is available will be put on the website as a part of the normal thing and along with me is as usual the same panel, Mr. B.V.R. Mohan Reddy, the Chairman; Mr. Krishna Bodanapu, our managing director and CEO and I would request Mr. Mohan Reddy to start and then we will do the detailed presentation.

B.V.R. Mohan Reddy: Thank you, Ajay. Good evening ladies and gentlemen. Wish you all a very happy and prosperous New Year 2019. I welcome you all to this Q3 conference call assigned. Let me take you through the highlights of the Q3 quarter. This was the highest ever quarterly revenue of Rs.11,876 million or Rs. 1187.6 Crores as revenue. This signifies the strong growth of 20.8% year-on-year. In US dollar terms, the revenue is at $165.1 million, which signifies a growth of 8.6% year-on-year. In constant currency, the growth is 10.7% year-on-year. The services revenue came to $144.5 million signifying a degrowth of 1% quarter-on-quarter or growth of 3.3% year-on-year. The operating margins for the quarter stood at 14.7% and expansion of 103 basis point quarter-on-quarter. The services operating margins stood at 16.3% and expansion of 100 basis points quarter-on-quarter. The operating profit stood at Rs.1749 million or Rs. 174.9 Crores which is the highest ever signifying a growth of 7.6% quarter-on-quarter or 22.2% year-on-year.

Our continued focus on cash conversion has yielded very good results with cash conversion at 85.6% for the quarter. The cash and cash equivalent stood at Rs. 1,230 Crores for the company. The net profit for the quarter stood at Rs. 92.1 Crores signifying a degrowth of 27.5% quarter-on-quarter or growth of 4.9% year-on-year.

On the infrastructure front, Cyient successfully completed the ISO 13485:2016 certification upgrading unit by BSI. Cyient Solutions and Systems Limited, which is a 51:49 joint venture between Cyient Limited and BlueBird Aero Systems in Israel supplied the first UAV systems to a unit of the Indian Army. We opened a solution center in Peoria, Illinois, United States. We also extended our Pune facility to accommodate growth in, with one key customer. On CSR front, I am happy to report that Cyient won Best Overall Excellence in CSR award from National Award for Excellence in CSR and sustainability. As a part of our ongoing CSR initiatives, we continue to support 25 government schools supporting an education of underprivileged children. We continue to support 67 Cyient Digital Centers that provide digital education literacy to 27,000 plus children. We initiated the Urban Micro Skill Center (UMSC), for urban poor with the support of Government of Telangana and National Skill Development Corporation.

Cyient was conferred the prestigious supplier highest productivity award, Supplier Innovation Award and Consistent Supplier Productivity Award in 2018 by Pratt & Whitney. Cyient Singapore Private Limited won the Tripartite Alliance Award 2018. I am happy to report the Cyient was positioned as an established and expansive player in Zinnov ER&D Services report 2018. I am delighted to report that our CFO, Mr. Ajay Aggarwal won the CFO of the year award and the finance function won the Excellence in Financial Planning and Analysis Award at the CFO Executive Leadership Summit organized by Kamikaze B2B Media in New Delhi. With this I would like to hand over the call back to Ajay who will take you through the detailed financial performance for the quarter. Thank you.

Ajay Aggarwal: Thank you Mohan. During the quarter, we had in terms of services $ 144.5 million of revenue and if you see I would like to focus on the group numbers. Aerospace & Defense is doing well. I think the group as a whole including the DLM portion, we are tracking 20% year-on-year and full year I think we are given ideal of 20%. Communication, I would like to spend a minute here and then we look at this -0.85%, this also includes the communication business in DLM. If you exclude that the core communication business is growing at 8% as far as communication in DLMs are there, we have taken a conscious call of reducing some of the business, which is low margin. But overall DLM has done well. They have done better operating profit despite some of these calls. U&G, we have -6% year-on-year and this year as we had discussed earlier we do have U&G as a challenging period, but we expect both in Q4 as well as going forward to be better. Transportation is at 6% year-on-year and it is going to be a double digit this year. IENR overall is 3% but if you look at full year, at this point of time, I think overall we are tracking in high single digit. SIA, 30% here, of course we have the benefit of AnSem, which was tracking to the plan. Overall, we are looking at 35 to 40% kind of growth in SIA. MT&H, I think at 20% overall will end a surplus of 20%. So Krishna will talk about the overall, but I think overall if you look at year-on-year in constant currency, we are at 10.7% as a group and for the whole year, I think we should be a little better than this number for the 12 months.

In terms of the profit and loss account, if you look at, there are two highlights, in the operating margin, we have done 14.7% as a growth we had very good service margin in Q3 16.3%, what has happened is gross margin has been improving. There have been number of initiatives both on improving the gross margin through focusing on more profitable customer. Also in terms of the cost, there has been a better cost management. SG&A has been lower and some of this or most of this will continue in the next quarter but the way we see with the growth coming back in Q4, which is going to be strong growth, we will have the margin expansion continuing in the coming quarter, both strong some of the… and also this quarter typically we have number of pay days which are there, but the corresponding billing days are not there. That is about 1% impact during the quarter that will not repeat in the next quarter. So just to conclude some of these levers will play out in Q4 and will have the margin increasing or margin expansion in Q4. If you look at profit after tax, I would say the main item we will talk about other income but on the treasury side, we are doing well. The quarter-on-quarter change is mainly on account of restatement of balance sheet due to the foreign exchange. At this time, we have a restatement to the extent of Rs. -28.6 Crores or Rs. 286 million. Last quarter we had a change of about positive of 237. This is just the rupee moving on the closing date from 73 of last quarter to about 70 this quarter that creates this. Secondly, we had the export incentives that were there in last quarter to Rs. 34 million, so obviously there was no anticipation of this incentive in this quarter. So if you see on the operating level, we have grown about 7% quarter-on-quarter. We have grown 20% plus year-on-year, but I think some of those line items has to be seen and overall I think also in terms of the other incomes from forward contract, the gains that we are getting in operating profit are much higher than the losses that we will incur in this particular year. And on ETR last thing, I think we had given a guidance of improvement over the last year, we are on track. Maybe, we have just the bridge also, you can refer to it. On the other income as I highlighted if you look at the column #4 quarter-on-quarter change, two major changes, Rs. 523 million which is a change I explained purely on restatement of balance sheet, I want to reiterate we have not incurred any losses, this is just restatement of assets and liabilities for the balance sheet and this has no impact as such on realized profit or loss. And on the incentive you see -234, so that has a significant impact of 754 that is why you are seeing a significant degrowth in net profit quarter-on-quarter, but I would say this is an impact of some of the one-offs.

In terms of hedge book, right now we are covered for about $129 million. There is no change in the policy if you look at current spot rates, we will have a gain of close to $6.6 million for the next 12 months about at current spot rate, most of it could be there in next year if the rate was to be at that particular – at the 31st December rate of about 70.

Cash generation has been very positive as Chairman highlighted. We had one of the very good conversions of 85%, both for the quarter as well as YTD also we have a conversion of 64% group as a whole, DLM is also doing positive free cash flow. So overall on the cash flow generation, I think we will continue the whole focus. With this I handover to Krishna for updating on the business side.

Krishna Bodanapu: Thank you Ajay. And good evening every one. Thank you again for being on this call today. I will take you through the business highlights of what happened this quarter. Firstly, significant developments, I think one of the key things that chairman also mentioned was that CSS, which is our joint venture that has the capability to deliver UAVs, has delivered the first system to the Indian Army. The systems have been delivered. They have gone through flight test and we will recognize that revenue in Q4 of this quarter. I will just put a caution saying that that business will have a little bit of cyclicality because we do not necessarily deliver every quarter to the customer but there will be a little bit of cyclicality. So going forward wherever it is material, we will also give you some updates on how that business is panning out but in Q4 this year, we will see the first tranche of revenue from CSS. The NBA program which is our incubation program for new technologies continues to do well. There are three new projects there as you may recall we invest approximately 1% of our revenue into these projects. These three new projects to the total projects that are ongoing are 30. There is a pipeline of six further projects that are there. We are also quite pleased to see that there is customer-level traction in some of the areas that we have developed these technologies and the solution like IoTs and augmented reality. We believe that we will still be in investment mode, obviously, for the next six to 12 months. But at least from FY2021 that there will be a meaningful contribution to the earnings per share because of the project that are currently being done in NBA and we also believe that in FY2020 which is the next financial year, we will see some revenue coming out from NBA-related projects. Maybe not meaningful but some revenue and really from 21, we will see some good numbers coming there.

The other quick update is that our auditors, Deloitte Haskins and Sells, have been our auditors for 10 years now which means that they will have to rotate out at the end of this financial year, which is in April. So we have gone through a very, very extensive process and we have recommended to the audit committee who will recommend to the shareholders that S.R Batliboi, who are essentially Ernst & Young India, will be appointed as our statutory auditors. This recommendation will be made to the shareholders at the next AGM, but this is going to be one shift. And similarly, the internal auditors also will be rotated because Ernst & Young has so far been our internal auditors, and KPMG is whom we are recommending or whom we have recommended to the audit committee, who will then recommend to the shareholders for their approval as the internal auditor.

Moving forward on the investment pipeline, we have continued to have a fairly healthy pipeline on our investments. The intent does not change. The areas that we do want to focus on remain the same. In terms of mergers and acquisitions, there are four pre-LOIs, three deals have been done. In terms of corporate venturing also there is a healthy pipeline that we are focused on and we will continue to focus on these.

Coming to the industry outlook and I will try to give you a little bit of color on what is happening in each industry and also how we are positioned and specifically with our customers what has happened. But Aerospace & Defense continues to do quite well. Actually one of the things that you will recognize is that for our A&D business typically Q3 was a tough quarter because there is a fair amount of work that also happens on-site, etc., but in spite of that so we have lost approximately 5% of the capacity in Q3 because of the nature of the work. But in spite of that there is a year-on-year growth in the Aerospace business, which has not happened for many years now because Q3 has always been a tough quarter, there is growth in the Aerospace business and you will see that that growth momentum is going to continue for a while. The expenditure while the Civil Aerospace Expenditure is flattening out to a little bit, the spend on military is going up quite a bit. That continues to benefit us both because of how we are structured in – to address the military business and also because reallocation of resources from civil programs to military programs is happening, which also means that there is more civil work coming out. But net-net we believe that if cycle continues and it is going to be a long cycle and we are well positioned in this cycle.

In terms of the communication business, again we do not see any challenges in this business. The year-on-year growth for this business and services has been about 8+%. This is the second largest BU as you know. At this point, we will also defocus in the communication business on some areas of manufacturing such as making low-value devices and that is why the revenue numbers looks like a drop, but the services business continues to be quite healthy. The one thing I will say is that there has been push out in one of the contracts with a large client in communication that should have been awarded in Q3. This has been pushed out in Q4 and that is one of the reasons why on the revenue side with a little bit softer than we had initially anticipated. But I also want to say the contract is almost in place. We are very, very confident just based on where we stand in that relationship and how things have worked out there. We are very confident that the contract renewal and actually not just contract renewal, but contract expansion is going to happen, which will mean that we will have some very strong quarters going forward. The ramp up in that client will start some time in Q1, so we might not see the full effect of that in Q1, but I am quite confident that going forward we will have a good run in communications as a general. Here Q3 was a little bit of a slower quarter than what we anticipated.

The Utilities & GIS business also continues to do well because of all the investments that are happening in the Utilities Space. A number of the newer technologies such as the grid modernization, renewable energy, smart metering, etc., means that there are significant investments in the Utilities Space going forward. What you will also see again is this is two industries put together, but our Utilities business, after a long time, has grown almost 15% year-on-year and we see that momentum continuing. We believe that that gives us a very good segway in to the next few years of growth in the Utilities business. So we are quite focused on investing into making sure that we have the capability, the solutions and the capacity to address this growth.

The Geospatial business over the last few quarters has been relatively stable, i.e., flat and we believe that that will continue. But we are also prepared for it. The rail transportation industry is also doing quite well. We have some good growth both in rolling stock, which is the trains and the signaling, which is the signaling systems that support the trains. Obviously we have a good proposition there, also because we worked with all the largest OEMs in rail transportation. So we think that there is some point in time issues there just because of how the contracting happens with some of the large signaling contract, but having said that it has been stable and we believe that we will continue to have a good run there. The IENR, which is industry energy and natural resources also had a decent quarter. We will see some good opportunities because again great investments are going, a lot of the investments are going into the emerging technologies, the so-called digital technologies where we are very, very well positioned, be it around the oil and gas or mining or even the equipment that supports it. And we see that we have a good proposition because of all the investments that we have made on things like IoT and the digital assets.

The semiconductors industry, we think we are going to see a degrowth this year. It will be about 4 to 5% that is the overall semiconductor industry and specifically in our case also we continue to have a little bit of a challenge there because we have a couple of large customers but one of them is going through a restructuring and re-alignment of their business and in that re-alignment, we are seeing some slow down. Having said that, the acquisition that we made with AnSem is helping us quite a bit in terms of building some good capability and capacity and also building some good credibility in this market. We believe that the chip design wins are happening at the rate where it will help us sustain this business for a long time forward. So while the overall industry in semiconductor have a little bit of rough patch ahead of it, we believe they are still quite well positioned because of the changing nature of the industry and the focus on analog to digital, which is the capability that we have some very, very strong credibility, capability and capacity.

Lastly, the MTH, which is the Medical Technology and Healthcare, is also doing quite well. We have a good proposition there. We have a very strong integrated proposition around design and manufacturing. This is a business where 50% of our revenue is design and 50% is manufacturing. In spite of that we make in excess of 30% gross margins, which means that the combined proposition is still a very healthy proposition and a financially viable proposition. We believe that we will continue to grow quite well in this business and continue our focus. This is also an area that we are looking quite aggressively for inorganic growth, and we think that there are some investment opportunities that will come our way very soon over there.

Net-net and to summarize this, the outlook for rest of the year is here. I will also try to correlate it to what we had said previously, but on revenue we believe it will be between 8.5 and 9.5% growth in the services business. This is a little bit lower than the double digit that we had said earlier in the year but unfortunately it is just that Q3 was a little bit weaker than what we had anticipated and therefore we believe it is prudent to look really between 8.5 and 9.5% growth in the services business. It is a little bit lower again like I said than what we had earlier said but again taking into account what is happening in the market we believe this is a prudent number and again, it is only about maybe a half percent to a percent below where we thought we would end up. But more importantly, the rest of the outlook remains same. It is not solidified.

The legacy DLM business will grow at 20%, we will see that in the numbers going forward overall DLM which includes another acquisition of B&F. Also, the CSS the drones that we deliver will get accounted there. Overall will be at least 35%, actually a little bit more than that, but we are quite pleased with that. Overall revenue growth will be in excess of 10%, it will be closer to 11% or even a little bit higher than that that is what we are anticipating for the year. More importantly, there will be profit growth in the double digit, it will be in the 20 to 22% range in rupees compared to last year. So we believe all said and done, while revenues is a tad bit lower than what we had originally thought, the profit is coming in fairly nicely so it gives us a little bit of confidence and room to invest aggressively for the future which is something that we are quite keen to do.

Operating margin will be marginally higher than last year year-on-year. I think last time we explained how the numbers are panning out especially with this additional investment in the NBA, which is a 60 bps and other solutions which all of it adds up for a 100 bps, so this is just a prudent view, but the operating margins will be slightly higher. DLM margin has improved, we are in the low single digit as I constantly said that 10% is the target there, so I think it has been a long journey, but we see where the journey will get us to close to 10% in the coming year.

Other income is higher than the initial outlook because of various incentives, ETR is I think that is the range that we have to start, we have talked about from the beginning of the year that is where it will be in the 24 to 25% range. Net profit will be single digit growth, but we believe that we have a good run rate to that and we have a good a good reason just because of some of the other items that are affecting us. So therefore net-net, it will be a good year and more importantly, I would say while it is very early for us to talk about the coming year that is FY2020. I will say that the momentum looks to continue into Q2 at least. We have already done some initial numbers and some initial budgets and obviously a lot of conversations with clients, but I am quite confident that this momentum and what you will also just to preempt the mathematics a little bit, what you will also see is this will mean that we will have good Q4 both on revenue and also further on profitability. And that momentum will continue into Q1. In hindsight, that was one of the challenges of FY2019 was Q1 was a little weak after a very strong Q4 which meant that we started off with the weak wicket so to speak, but having said that all that I am quite pleased that the momentum is there from there we thought we will start the year off. We are a little bit off on revenue, but we are doing okay with some of the other parameters and the momentum continues into Q1 of FY2020.

The other thing I also want to quickly talk about is a buyback initiative that we had intimated to stock exchanges that the board was considering. The board deliberated quite a bit in the meeting today and they want a little bit more time to debate on the modalities of how the buyback can happen. So we have agreed to reconvene during this quarter. And I just said, during – I want to say as soon as possible also because as you know with the board it is a little bit difficult to get everybody signed but everybody is committed to reconvening this quarter, which will be in the very near future to close this out. So while we were hoping that we would have a resolution or an announcement to make on that, we want to say that we are just deferring it by a few weeks because we need a little bit of time on what is the best modality to execute it and as many of you are aware, this is the first time that we are attempting to do a buyback so we got a little bit caught up on some of the procedural issues that we were not necessarily very prepared for just because again it is the first time we are doing it, so we will come back to you with the modalities within the next few weeks. With that I think I will hand it over for any questions and answers.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. We take the first question from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Thanks for taking my question. Couple of them. Firstly, Krishna if you can elaborate a little bit more on the comms vertical what really happened and is this a trend where you are seeing some amount of issues, is it more structural in nature or is this a one quarter blip?

Krishna Bodanapu: We are quite confident that is a one quarter blip. Basically what is happening is there are a couple of contracts actually some very large contracts that are being reassigned right now. The good news that I will confirm is that opportunity for us actually increases within these contracts because there is a little bit of consolidation that is going on, there are a fewer number of suppliers, etc., that are being awarded these contracts. It also increases our scope and there are going to be some things that we will be doing for the first time, which means that we have to prepare ourselves a little bit better the contractual nature. So I can confirm that it is a blip, we will see growth in comms in Q4, it would not be huge growth, but we will see growth in Q4 and then Q1 onwards we will have again some very, very solid quarters. For the year I had originally set comms business will grow double digit, it will be a little bit lower than that so that is a little bit disappointing, but I can assure you that it is not a structural thing at all. We know where we are going with that business that is two, three very large clients that will scale up further and we are very confident on the business.

Gaurav Rateria: Thanks. This question is coming primarily because on the ground what we are hearing is that a lot of service providers in Australia are looking to build their own fixed wireless network and trying to shift consumers away from the NBN network, so does this have any implication at all on the kind of work which we do or it does not really matter to us?

Krishna Bodanapu: It would not really matter to us because while NBN is there and there is some amount of dependency on NBN network, a lot of a work also comes directly from CSPs on the non-NBN part, which is around things like provisioning, order to activation a lot of those things where we do not necessarily, it is not about the network, it is also about how efficiently you can operate the network, so it is a combination of both those things, so we do not see any major issues because of the NBN network. Now also the other thing about NBN is the government is looking at changing the construct of NBN potentially even privatizing it, etc, so net-net is we do not see any of that impact on us and we believe just a way we are positioned even if something dramatic happens in NBN we would not be so effective because there is just other opportunities that we are really focusing.

Gaurav Rateria: Secondly, Krishna, we see some bit of disconnect in the order intake growth for services business and the revenue growth in the last nine months order intake has been growing at 20% plus, but revenue growth has been far more muted. This is in context also while you said that overall growth for the full year it just brought down a bit, but at the start of the year we were kind of looking a double digit growth, which is may be similar to last year and now may be towards that around 8.5%, 9.5%, so there has been a bit of deceleration, so how do we read this disconnect in the order intake and how should we think about services business growth from a medium term perspective?

Krishna Bodanapu: It is a good question, I think the disconnect is also because some of the contracts are being awarded for much longer term, so what used to be say six months or a year contract is now really multiyear contracts, so we think that is actually a good thing because that builds in stability for the longer term, so therefore I think the order intake will definitely translate into revenue because we also have a fairly robust process around how we count the order intake, somebody is not able to pass off things as order intake it is really legitimate PO base based customer committed order intake, so we are quite confident that all that will get converted into revenue over a period of the next few years. Overall if you look at the growth also it has been quite good in various places its just that in the communications business in Q3 with this whole contract renegotiation, etc., we got caught up a little bit and overall in the comms business it is slowdown and again the second largest business that we have, which has a big impact, but outside of that we are quite confident that the translation to revenue will happen and that while Q3 has been a little bit slower you will see Q4 will be very strong and that momentum will continue, so from a medium term perspective I am quite confident that we have some good growth ahead of us.

Gaurav Rateria: May be just one more if I can squeeze in. Company has been specifically defocusing on the low margin DLM work, how much of that more is left, which can impact growth rate in the coming quarters and lastly for Ajay you know this year we were held a lot by the currency, if currency is no longer in our favour do you see some margin headwinds for the next year especially because the onsite cost may be rising more than it has historically?

Krishna Bodanapu: Gaurav in the first part there is still a bit more of low margin business, but the way that we are managing it is there is certain growth that we anticipate and that we need to ensure that we are able to sustain the operations and grow margin. As the newer business is coming up is when we will start to defocus on some of this older business. I cannot get into FY2020 just because it is too early, but the current growth rates in DLM will continue into FY2020 that is DLM business, of course you have to take out the acquisition impact, but 20% kind of a growth in DLM business is something that we will definitely deliver for FY2020 also. It is a fine balance and we will continue to manage the balance.

Ajay Aggarwal: On the cost side increase of onsite if your remember that when you are looking at what is happening around other companies where they are spending more cost to build up that local presence in US and other countries that we were better placed because our onsite presence was already much higher for example in US we are already at 85% unlike other players we were at 50% to 60% and they are investing into that, so that will not be our headwind in coming time and overall in terms of the margin of course we will talk about. I already gave the colour that we are very confident of good expansion, very good exit quarter for the next year, traditional headwind is always in the coming year is going to be from the salary hike, but I think we have found some good way of making sure that we take care of these headwinds, also we are undertaking some nice programme to make sure that we have good cost optimization and efficiencies that coming in the next year and we are also consciously doing more and more of letting go of nonprofitable business or lower profitability business so, as a combination of both of them I would say we should see that we should not only sustain this year margin, but should improve the margin in coming years.

Gaurav Rateria: Thank you and all the best.

Moderator: Thank you. We take the next question from the line of Pankaj Kapoor from JM Financial, please go ahead.

Pankaj Kapoor: Yes, thanks for the opportunity. Krishna the first question is on Q4 implied guidance, which obviously seems to be very strong, what is our visibility getting into the quarter of achieving that number given that in third quarter things turn out to be slightly lower than what you initially expected so that is the first question?

Krishna Bodanapu: Pankaj we are quite confident of that number otherwise obviously we should not be talking about, I would say we are quite confident of that number, we have a very robust review process for a ground up forecast based on visibility pipeline, risks, etc., and obviously after tepid Q3 we have really scrubbed those numbers and we are quite confident that we will hit those numbers, so a lot of visibility also considering this realistically only 10 or 11 weeks left in the quarter most of that visibility is based on the confirmed order pipeline, backlog, etc., and also more importantly the inputs to execute, so I am quite confident on the numbers because it is a very diligent scrubbed up bottom up process that we follow and that is what we have come up with the number and obviously Q3 was just that some of the things happened in November, December whereas we are quite confident on Q4 that we will get the numbers.

Pankaj Kapoor: Sure, and if I take a slightly longer term view your peers seems to be doing quite well on the growth track, so if you look at their performance what kind of changes do you foresee you need to probably make to, probably match that kind of a growth number, one obvious thing is the participation in the larger scale deals, any focus on that or any update on how we are progressing on that front?

Krishna Bodanapu: We have a little bit of divergent strategy between the company you are talking about in the sense that just to summarize that we have been supporting customers across the value chain of design, manufacture and maintain and we have also been using the digital enablers across that value chain to make sure that we can do it effectively that is essentially our strategy and obviously in the investor day in May we will talk about it again in more detail whereas there have been also quite focus on the pure services business rather than on the lifecycle of the product. So having said that we believe that we are seeing some very large deals that we are now currently bidding on, in the tens, it is not the 100s of millions of dollars, it is just that in this strategy and in this play the outcome will be stretched over or spread over a longer period in time because there is a lot that has to happen upfront with a design field then there is a lot that has to happen in new product introduction and manufacturing and then sort of volumes start to kick in quite a bit, so in that sense we believe we have done all the right things including the capabilities that we have built as a value chain of design, build, maintain, the initiatives that we have taken on building up the digital capabilities and also investing aggressively into the NBA, so we believe that. The investments that we are making on some of these things will now start to play out quite significantly going forward. It is actually very prudent to compare just because the industries tend to be very different, the cycles tend to be very different, all of us have had outperformance of various periods and time so I think what I therefore say is that FY2020 and FY2021 we will see some good acceleration.

Pankaj Kapoor: The question is on the margin outlook, so it looks like that with additional investment that we are making in the NBA to the course of the year we seems to have looking at a lower impact of that and the cost efficiency that we initially anticipated are coming lower than what we had thought of, so my question to Ajay is are we somehow cutting on the NBA investments so as to ensure that the margin outlook is maintained and does it mean that there is some lag impact of that which could be there in the next year. Similarly, on the cost efficiency front is the gain that we initially anticipated were very aggressive and that is the reason why we got a little less than what we thought of or you deliberately went a bit slow on that?

Ajay Aggarwal: So I would say that firstly there will be a comfort as we have said, I have also said in my opening remarks that in my comments on this update we are absolutely not compromising anything for the long term. As far as new business accelerated is concerned we have 19 projects now, three more projects came that we are not cutting a single dollar on new business accelerated, it is that we have launched new way of doing this particular work, which is taking time for the ideas and all that, so I think we are on track that may be by year 20, 30 basis points here and there we should be on track, we are not cutting anything on new business accelerated, same is true for all other investments. When I am seeing cost efficiency I think the fact is that we have not in this year cut any cost that we are not thought of getting the benefit on one side of the currency and other side we had relatively lower volume, but we have never mitigated so far by huge cost cutting, but I think we will work on it in terms of the cost efficiency as already mentioned and I think there is a need for us to get more deal and you will see that in financial year 2020 and 2021.

Moderator: Thank you. We will take the next question from the line of Sandeep Shah from CGS CIMB. Please go ahead.

Sandeep Shah: Thanks for the opportunity. Sir the question is what Pankaj has asked, on the services business if I look at the Q4 run rate it was $143 million and the Q3 run rate, Q4 of last year of 143 and Q3 of this year is 144.5, so the first three quarters we have done almost like -1% to close to 1.5% growth where the run rate has almost remained similar and the exit of the last year is helping you in terms of posting a better number in this year, so do you believe is there a change in the review process in terms of budgeting or do you just say that this is largely in terms of a client specific issue, which is leading to this and for which you have to diversify a more in terms of avoiding these kind of a scenario going forward because if we did not had a good exit last year this year's performance on the services business would have been really poor?

Krishna Bodanapu: One of the things that we have to look at is the growth in the business is not back ended, it is quite flat, it is not significant growth quarter-on-quarter, but we came off a very strong Q4, we had a tepid Q1 and we made it happen a little bit in Q2, Q3 has been obviously a little bit tougher and then like I said Q4 will be a good quarter, so one other things that we will continue to do and continue to look at is making sure that our budgeting is also based on this right, that the reality of our business is that unless we need to have a strong Q1 to have a strong year that is just how the nature of the business is and how the nature of the business works, so therefore to your point while we were at 141 now we were at 144 roughly those are the numbers, but for us to have strong year we need to have a strong Q1 and really grow off the basis of a strong Q1. Now if you look at Q2 of this year again we were at 148 or 149 million, so Q3 is a one off issue, again it is just how the business works, the nature of the projects that we work and that we unfortunately run into these issues once in a while, but the fundamental business continues to be strong and you will see that in Q4 and going into the next year.

Sandeep Shah: Just what the previous participant asked, so the ask rate for the Q4 is as big as 5% to 8.7% on a Q-on-Q basis on a reported dollar guidance because the guidance is given on a constant currency and there would be a headwind if I am not wrong where Ajay can correct where the full year constant cross currency headwind could be as big as 150, 140 BPS, so in that scenario you believe that the scenario where we had some delay of ramp up or projects being pushing back in the first nine months may not reoccur in Q4 and we are confident to at least achieve the lower end of the guidance, which gives us a good exit rate this year and on that you are saying the first Q1 of the next year would also be better, so how confident that the past issues would not be reason for any kind of unforeseen negative surprises in the Q4 can repeat?

Krishna Bodanapu: I think we are quite confident because obviously after having a little bit of a tepid Q3 whatever the rest of the year looks like we have to plan for it quite carefully, so we have spent an inordinate amount of time in looking at the numbers ground up because that is the only way that you can get confidence and again the good thing is we now have a very good handle of what it takes from order intake to conversion to new orders, etc., so it has been a ground up things and I will say that obviously there is a type of issue that happens, which are out of our control, but with a fair degree of confidence I can say that range of 8.5 to 9.5 for the year is where we will end up with.

Sandeep Shah: The second question is in terms of margin Ajay just wanted to understand you said that this quarter you had 100 bps impact because of the furloughs on the margin, which would not be there in the fourth quarter and over and above that the fourth quarter will have a very good growth on a Q-on-Q basis, so is it fair to say that the margin up move on a Q-on-Q basis if the currency does not change would be upwards of 100 basis points on a Q-on-Q on the fourth quarter, which gives you a good exit rate, which may also result in a YOY increase possibilities in FY2020, is it a right direction in which we are looking at?

Ajay Aggarwal: Yes that is the right direction to look at and some of it we are assuming that the currency will sustain at Q3 level, we are assuming more of 70 as the exchange rate for Q4 that is the only difference, so we are assuming there is going to be a little bit of headwind in Q4 from the currency, which takes away 50, 60 basis points, but if rupee comes back to the last quarter average level then to that extent I think marginally the flat will move towards the improvement in margin for the full year and whatever you said for Q4 is right I think we have enough tailwinds, which are known.

Sandeep Shah: For the next year also you are saying because of the good exit rate the YOY growth trajectory on the margin would be better?

Ajay Aggarwal: Yes, I think I would say one is the exit rate, which will help us, but I would also say there are initiatives that we are taking, there was very fair point that we did not deliver so much on the efficiency of the cost business, so I think we have deliberated extensively as Krishna talked about both in terms of revenue what he said we had a lot of deliberations, we have also look at that efficiency issues, there are already placed some new initiatives where we are confident of improving the margin in the next year, but it is a bit early to give us one quarter, we will speak in more detail in Q4.

Moderator: Thank you. We take the next question from the line of Urmil Shah from IDBI Capital. Please go ahead.

Urmil Shah: My question was as regard to the large clients slow growth in the top account and more importantly top 6 to 10 accounts where we have seen slower growth, what is the outlook as regards the same and also is our end-to-end solutions offering, which we are targeting over the next three years is penetrating the solutions taking more time, your comment on that?

Krishna Bodanapu: I think in terms of the top 10 customers, I do not see any systemic problems there is always going to be shift in the numbers just because of the size for some of these clients, so in terms of if I just quickly run through the top 10, I do not see any significant challenges in any one of them that will be of concern going forward so I think it is something that is again happened in Q3, but we are quite confident that we would not have any further issues. Now in terms of penetrating with the solutions I think we are able to generate good traction. The only difference I would say is that from the time that we sort of generate the first interest to accruing it out to volume is taking a little bit longer than what we anticipated. I think we are very confident that we are going down the right path in terms of the strategy that we have the right portfolio solutions, our customers are quite engaged in discussing these new solutions, the time that has taken to convert them, it is a little bit longer, which we did not anticipate when we first embark on this plan.

Urmil Shah: Sure so if I got it right while there will be cyclicality at times, but your long-term two to three year outlook does not change despite weaker nine months FY2019?

Krishna Bodanapu: No absolutely not I mean if nothing else I think our three-year outlook has got stronger, we are very convinced on what were the business is going, we have seen some very large opportunities with some of them, we continued to bid on some very, very large interesting deals, so we are quite confident I mean if there is anything three-year forecast in my mind at least has solidified quite a bit over the last nine months.

Urmil Shah: Thanks. I will come back in the queue.

Moderator: Thank you. We take the next question from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: Krishna I just had a question around aerospace and defence I think the growth trends over there have been pretty divergent in terms of the group level and services so while the services growth has been decelerating I think this has been the vertical, which has been carrying the weight of the of growth as far as the DLM is concerned so just wanted to understand how should we look at this move further from here in terms of the split of this growth between services and DLM given that your outlook remain pretty strong?

Krishna Bodanapu: We will continue to see growth on I say if you look at the services number for this quarter, we have also seen a little bit of growth coming back in the services business in aerospace and defence, so we believe that also looking forward we will see some significant growth there so what I would say is the service business is also catching up, we have gone through various cycles, we have gone through various issues and customers, the services growth is also picking up, if anything else we will decelerate the DLM growth a little bit there because we believe that there are some opportunities to rationalize the low margin customer like I said it is a fine balancing act because we do not want to revenue to change significantly at any point in time because of the overheads and the cost absorption therefore it is a tricky balance especially we are trying to navigate so what you will see is the services business will again pickup in aerospace and defence. We will moderate the DLM growth a little bit and overall I think it will be similar and quite balanced.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to Mr. Sandeep Agarwal for his closing comments.

Sandeep Agarwal: Thank everyone for participating in the call. I will hand over the call to Mr. Reddy for his final remarks. Thanks and over to you Mr. Reddy!

B. V. R. Mohan Reddy: Thank you very much. I appreciate all of you taking time in participating on our Q3 earnings call. We continued to have confidence in our business. We continued to believe that the business is very sturdy and will grow in coming quarters. Thank you again for your participation.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Edelweiss Securities, we conclude today's conference. Thank you all for joining us. You may disconnect your lines.