"Cyient Ltd Q1 FY20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Cyient Q1 FY20 Earnings Conference Call. 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. Piyush Parekh. Thank you and over to you, sir.

Piyush Parekh: Thank you, Stanford. Good evening to everyone. My name is Piyush Parekh, and on behalf of Cyient I welcome you to Cyient's Quarter One FY20 Earnings Call. We have with us the Senior Management of Cyient headed by Dr. BVR Mohan Reddy, Mr. Krishna Bodanapu and Mr. Ajay Aggarwal. I now hand over the call to Mr. BVR Mohan Reddy to start the proceedings. Over to you, sir.

BVR Mohan Reddy: Thank you, Piyush. So, good evening, ladies and gentlemen. I welcome you all to this conference call. Let me first take you through the highlights of the quarter. Highlights or lowlights, I would like to rephrase it as. We posted quarterly revenue of Rs. 1,089 crores and this signifies a growth of 0.8% year-on-year returns, and a de-growth of about 6.4% on quarter-on-quarter. In US dollar terms, we posted revenue of $156.6 million, which is a de-growth of 2.6% on a year-on-year basis, and a de-growth a 5.2% quarter-on-quarter basis. The services revenue is $837.9 million, which signify a de-growth of 3.4% year-on-year, or a de-growth of 6.1% quarter-on-quarter basis; and a 5.7% in constant currency, that degrew too.

EBIT for the quarter stood at Rs. 100.5 crores, the group EBIT margin stood at 9.2% for the quarter, which translates to about 30 basis points margin contraction on a year-on-year basis. And 360 basis points margin contraction on a quarter-on-quarter basis. We have moved to EBIT in place of EBITDA to account for the IndAS116 changes, Ajay would talk more about it shortly. Services EBITDA margin stood at 14.8%, up 160 basis points year-on-year. Services EBIT margin stood at 10.5% for the quarter, which translates to 10 basis points margin expansion year on year basis, or 360 basis points margin contraction on a quarter-on-quarter basis.

The DLM EBITDA margin was at 1.9%, down to 260 basis points year-on-year. DLM EBIT margin stood at a negative 0.3% for the quarter, which translates to 10 basis points margin expansion on a year-on-year basis, and a 250-basis points margin contraction on a quarter on quarter basis. The good positive news at the end of the lines are, net profit for the quarter students Rs. 90.5 crores, which translates to a year-on-year growth of 9.7%, versus quarter-on-quarter de-growth of 51.9%.

Let me then come to the business highlights for the quarter. Cyient made a strategic investment in Cylus, which is a rail-cyber security company. The investment strengthens our focus on digitization, and cyber security solutions for the rail industry. Cyient successfully rolled out portfolio of services and solutions for 5G deployments.

We continue to support 25 government schools as a part of our CSR initiatives, providing education to 15,800 underprivileged children. We also continue to support 67 Cyient Digital

Centers, CDCs as they are called, in and around Hyderabad to more than two 20,000 children and 14,000 community members. As a part of the initiative for Cyient Urban Micro Skilling Centre for the urban poor, we provided training to a pilot batch of 300 unemployed women in various vocational courses.

With this, I would hand over the call to Ajay who will take you through the detailed financial performance. And thereafter, Krishna will take you through the business highlights. Thank you.

Ajay Aggarwal: Thank you, Mohan. Good morning, good evening, good afternoon to all of you, whichever time zone you are in. Let me start with talking about the revenue. As Chairman said, we clogged $156.6 million revenue for the quarter, which is lower from the previous quarter by about 5.2%, and year-on-year we have de-growth of miners 2.6%. Definitely, it's a disappointing performance for us on revenue. Whatever we were expecting in terms of traction coming back got shifted. We had de-growth in most of our verticals, except MT&H. So, services business has de-grown by minus 6%, constant currency impact is marginally by about 0.2%.

If you look at our design led manufacturing business, I think that we have done better. If you combine that, overall business is at minus 5.2% in dollar terms, and minus 4.8% in constant currency terms. Where we have come from compared to the last quarter, I think we had a gap in communication, energy and utility about $2.3 million, portfolio about $1.6 million and aerospace and defense about $1.4 million compared to the previous quarter.

I just wanted to give some prephase before I talk about profit and loss account. As we had taught at the time of the Investor Day, for those of you who attended our Investor Day, we have taken a program for cost optimization and profitability improvement. This is a special exercise that we are doing over four quarters. Some of the initiatives action has already been taken in quarter one. And some of the benefits of it are also realized in quarter one. We expect significant momentum, and significant momentum or the benefits of it in the coming quarter as well.

Overall, we will talk about it, it helped us about $3 million in terms of the savings. Net of cost, it's about $1.5 million or about 1%. Of course some of the costs are for longer term benefits and the annual run-rate of savings is going to be higher, especially including the actions and the initiative that we are taking in next quarter. So, this is very critical factor that we are looking at. And we expect over the financial year 2020, in the next three quarters we should get the benefit of it continuously quarter-on-quarter on the margin. And full benefit of it will start coming in from quarter one of financial year 2021.

In terms of the IndAS116, you are aware that this has come into operation from 1st April, 2019. We have complied with the standard, what it has meant is wherever we had rented leases, rents beyond 12 months, which is mandatory for this purpose, we have capitalized them in the books. The value of that is about Rs. 320 crores or Rs. 3,206 million. Since some of the cost from the rent side or the SG&A side have moved to mostly deprecation, and partly into the finance cost. To be fair, as Chairman mentioned, we are comparing everything at EBIT level, because by this by construct itself the OPM goes up and it's not a like to like comparison. So, going forward we will be reporting EBIT for a like-to-like comparison.

Coming to the hedge book, in terms of the current quarter you would have seen we have gained on the forward contrasts, that's showing up in our other income. When you look at next four quarters where we have a coverage for our multiple currencies, we are covered up to next for quarters, that is quarter one of financial year 2020. And we continue to be consistent with the policy. And if you see, our total contracts in all the currencies are at $134 million. And the spot rate on average basis for all the currencies for the next 12 months is about Rs. 5 higher compared to the spot rate today. So, what it means is, at current spot rate, we have a gain of about Rs. 691 million, or $10 million based on the hedge book as of now.

In terms of the overall of income, you would have observed that when we are looking at the reduction in profits compared to the last quarter, other income also has been a significant factor. If you look at our other income, from Rs. 789 million it has come down to Rs. 282 million, but there is nothing which is worrisome here, the total reduction is Rs. 507 million. If you remember, we had three things in last quarter, we had tax incentives on export of merchandise which is something which will come for us on the next filing during the year, we definitely will have a number which is much higher than the last year, but it will show up in coming quarters. That's one one-off.

And then we had some other one-offs in terms of the reversal of the liability on DLM when we had consolidated at 100% and some reversals of earnouts, which are not stable. So, as such if you see, overall our other income is healthy. Also for the full year, if you look at these benefits, look at the forward cover positions, we are very sure that our other income is going to be much higher than the last year, especially at the current spot rates.

If you look at our income statement, we have reported profit after tax of Rs. 905 million. Definitely the shortfall from Rs. 1,768 million of last quarter is significant, where we had other income impact, which was there as a one-off. Plus, we also have reduction in volumes and reduction in the margin that has taken place. If you look at our EBIT margin, it has gone from 12.8% to 9.2%. And let me take a minute to explain this. Broadly on this drop there are reasons which are sort of one-offs, which are recoverable. We had lower efficiency in terms of the utilization, idle capacity, that has contributed to about 160 bps. Also, on the SG&A structure, our absorption has been impacted by more than 100 bps. And we also had our new business accelerator investments, we have not compromised on any of the long-term investments, that's also up compared to the previous quarter. So, we can clearly see that we do have some reversible trends which have happened on the margin, totaling to about 360 bps. And of course, in the next quarter we will have the impact of the wage hike, because we have given for certain levels in first quarter. And the rest of it when it comes in next quarter, it will be another 85 bps. So, some of the reversals will have a headwind from the wage hike in the next quarter. Also on the cost optimization program, while we have savings, we have also got the impact of the cost of restructuring as well as the cost from the -- we are running a risk share program with our advisors, so their cost is also baked in.

In terms of the tax, I think it is business as usual. We have done 22% and we are quite tracking to where we are expected due to do for the whole year. I would just conclude just by saying that in terms of the margin we will continue to have good focus, and we will see that in the coming quarters we will get the benefit related to each of these items which are on volume. And we are going to get benefit of the cost optimization program in the next three quarters.

This is just, so we have provided for you that what has happened between the quarters, if you have any questions you can reach out to any one of us.

In cash, he has slipped in this quarter, at services we generated Rs. 414 million, which was same as what we generated one year back, but it is lower than what we generated last quarter. But I don't think we have anything worrisome here. We have got our DSO, we feel that excluding some of the one-offs in terms of the -- one is a base, when the volume is low our DSO just purely by the mathematics goes up by five to six days. We also have implementation of SAP HANA, where the whole administration of DSA got impacted, because we wanted to make sure that we generate everything from the system that did impact by four or five days. We had two holidays, 29th and 30th.

So, long story short, we are sure that we can get back to the DSO, at least to the quarter four levels, which is below 90, which will release a free cash flow of about Rs. 100 crores. So, we should be back to our conversion by H1. And in case of DLM, also we had one particular payment got shifted off about $5 million, there also we expect a good cash flow in the coming quarter. So, cash should not be a concern. And from the perspective of overall company, we are committed to generate 45% to 50% of conversion, both for H1 as well as whole year.

With this, I'll hand over to Krishna for the business update.

Krishna Bodanapu: Thank you, Ajay. And good evening, everyone. Just to give you a quick update on business. And what I will do is I won't go into too many details, because I just want to explain where things are and answer any questions on that and save some time for that. But I will give you a quick highlight on where things are, one is significant developments for Q1 FY20, the first was the reorganization of the business units, we've realigned some of the businesses to better reflect the value chains that they work in. The two businesses that we have done so, one is E&U which is energy and utility. So, it includes all the work that we do for energy generation, be it equipment or plants, and then the transmission and distribution which is the classic utilities business. So, we brought those together, because we see some good synergy there.

And the second thing is, there are some businesses such as the geospatial and the industrial, which we will manage really more -- sorry, geospatial which we will manage in a horizontal mode, because we believe that cuts across many other businesses, so many other verticals we have; and industrial, which is a little bit of a steady state business for us. So, we brought both these into a BU called portfolio, because we will need some special focus on both these businesses and how we manage for these businesses.

The next thing is on the new business accelerator, this is where we develop new projects. We are still quite confident of where that is going. As a data point, 1.5% of our revenue has been invested into the new business accelerator related programs, which I think is a very important to longer term, or not even long-term, I think mid to long-term because we are also seeing some of the projects go into an, at least an order intake phase, which means that they will convert into revenue phase shortly. So, I think even from a relatively immediate term, we will see the impact of this. And also I want to reiterate that this is above and beyond the BAU investments that we make to have better processes and so on so forth. This is really more on the technology side. And we believe that this is a big differentiator for us, and hence we invested 1.5% of our revenue this quarter.

Lastly, the SAP HANA implementation is in progress. We want to make sure that we have the best in class operating system, so we are moving from classic SAP to SAP HANA. To one of the points that Ajay made, it's taken a little bit longer and it's also created some operational challenges, for example, not being able to get all the invoices out in time this quarter which contributed to DSO. But we have a clean line of sight to Q2 where we believe that can stabilize and we will start to get more value. And obviously, more importantly, better insight so we can manage the business better.

And in terms of the investment pipeline, nothing has really changed. So, I will leave this with you. And if there is any questions I can answer that.

In terms of the industry outlook and business performance, while we have had a challenge in Q1 with some of our clients and some of the issues that are specific to us, I will say that structurally we don't see any significant challenge in any of the industries that we are in. I will explain what happened with us in a second. But structurally we don't see any challenge, which gives us the confidence that we will recover very quickly in Q2 onwards out of the situation that we currently find ourselves in.

And in that context, I would say, aerospace is continuing to grow quite well. We believe that there will be about a 4% growth in the overall aerospace market, which for a rather large market is quite, quite impressive. Communications will grow 2% to 3%. 5G is starting to happen and we are also well positioned there and we see some wins that are happening around the 5G capabilities that were built. Energy and utilities will also grow 2.5%, 3%. There's a lot of money that's being put into things like grid modernization, smart metering, renewable energy, etc. These are areas that we can support quite well. Transport is growing, semi-conductor is also -- sorry, let me take it back. Semiconductor is in a little bit of a cyclical industry. And that's one place where we will see a little bit of de-growth of about 3% is what we are expecting there. But also have to look at it in the context of the semiconductor business is a very cyclical business, last year it grew in excess of 20%, so it's just a little bit of a short term correction. But that's also being driven by areas in memory chip sales, which is not necessarily an area that we focus on. Analog to digital and large digital, which are the two areas we focus on seem to be doing quite well still. Lastly, I will say medical also is doing quite well, we see decent growth over there.

So, having said that, I will just summarize what happened this quarter. If you recall last quarter, we were anticipating that this quarter would be a slightly weak quarter. What we thought was happening or what the indications were, were that we had challenges in two industries which was aerospace & defense, and communications. That's why we had a flat quarter last quarter. We believe that while we anticipated some challenges in some of the other BUs, especially E&U and portfolio, especially around geospatial business, we were quite confident that the aerospace & defense and communications would come back up strong. And that's why though there was going to be a challenge in one part of the business, the growth in the other part of the business was going to take care of the challenge that we had in this part of the business. Unfortunately, I think we miss-read the recovery in aerospace & defence and communications, the recovery is taking, or has taken longer than what we had anticipated. But what I can assure you is that as things stand currently, we are seeing that that recovery is happening, and that recovery is happening in a fairly robust manner, which gives us confidence for Q2.

So, essentially, a lot of things that could have gone wrong in Q1 went wrong, unfortunately. Some we were anticipating, but some we thought we had turned the corner, which obviously we did not. But in Q2 we are confident that we have turned the corner and we are seeing good revenue growth and visibility. With the visibility that we have on revenue growth, we are confident that we will be back to at least the last year's average in Q2, which will actually be a nice growth over Q1.

If you recall some Ajay's slides, there is about 250 basis points or so which was really related to absorption and the lack of growth. So, we believe that there is also going to be a good margin improvement, because we are very confident that that margin improvement is really linked to the revenue growth. So, with the revenue growth coming back margins will also recover. Typically if your recall, we used to have a full year view over here, we will refrain from giving a full review because we want to see how Q2 plays out. Again, I am quite confident of what is going to happen along the lines of what I said. But its I think a matter of prudence we should just wait for Q2 to play out before we talk about the full year.

But I will say, we have a line of sight to a double-digit EBIT growth for the year, irrespective of the revenue growth, because we have some readiness 2020 as we call it, which is the cost optimization exercise is going quite well. And we believe that irrespective of how margin turns out, we still have a line of sight for double digit growth on EBIT.

With that I will stop here. And I will pass it on for any questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Shamal Dhruv from PhillipCapital. Please go ahead.

Shamal Dhruv: Sir, my question is on the revenue performance in last few quarters. Sir it's been fourth quarter out of the last five quarter wherein we have some or the other headwinds on the revenue part. And at the beginning of every quarter we had sounded positive that we now don't have any headwinds from any of the clients or any of the verticals, and we anticipated a descent or stronger revenue growth. But so now entering into Q2, what gives us confidence that we won't have any negatives from any of the clients or any of the internal negatives like supply side issues or anything, and we would be able to report a decent growth?

And second on the similar line, so in the presentation you have mentioned that your outlook would-be double-digit EBIT, supported by the revenue growth. So, after the Q1 performance, to report even a flat IT services revenue, we will need at least 3.4% QGR. So, like what is your view on that? Like whether, what would be the growth, like whether there would be any growth or are there any chances of even a decline on the revenue front on the full year basis?

Krishna Bodanapu: So, Shamal, thanks for the question. And I completely sort of appreciate the point you made that we have had some challenges in terms of where we think the numbers end up, and ultimately where they end up. And I think we have had two or three quarters of relatively tepid growth, and obviously this quarter has been a de-growth. What I will say is, we are taking into cognizance of that, it's just the nature of our business that we are having some unforeseen issues which we were able to manage earlier, given that, there always used to be growth in some areas when there was de-growth in some areas. Over the last two quarters especially, we have gotten into a situation where we just have some issues within specific clients which are all hitting us at once. And if you also see, our business is quite driven by our top 20 customers, so an issue in two of the top 10 customers, which are one in aerospace and one in communications, has had a big bearing on the negative. So, while we have some positives, while we have some growth coming in, the big negatives that have hit us, especially in the communications business is taking away a lot of the positives. So, that's the touch how it is. And I agree and appreciate that we have had some issues from where we foresee the business to start a quarter and where it ends up. But it's just the nature of where things are.

Now having said that, that's why I am taking a cautious view and I will sort of talk about the second part of your question in the same spirit that we want to first get to Q2. Again, looking at the numbers, looking at backlog, looking at staffing, looking at inputs available for projects, that is where we have a degree of confidence this time, but I would rather just do Q2 and I can assure you that Q2 will be quite decent before commenting about the rest of the year. I mean, mathematically you are right that we will have to have 3% plus even for flat. I take that into cognizance, but I will say that let's get over Q2 because we are confident, but I don't want to jump ahead of myself, given what has happened two straight quarters. That's why I am saying look at Q2, Q2 u will be good. And then we can talk about the full year numbers.

Moderator: Thank you. The next question is from the line of Sandeep Agarwal from Edelweiss. Please go ahead

Sandeep Agarwal: Krishna, I don't want to no further discuss the last three, four quarters, because as you already explained the volatile nature of our business, but I just want to understand one thing, our key strength areas if you see, there have been global commentaries of extremely strong performance of those segments, driven by the whole R&D wave. But we unfortunately are not able to see that benefit in our numbers for quite some time now. So, that is question number one.

Question number two, even the most disappointment which we are seeing in this quarter is quite substantial. So, while you have explained, and Ajay has extremely nicely explained the parts of that, but I just want to understand that are there any kind of early signs of warning or something which would allow us to at least take control of this kind of disappointments, like it is quite a sharp disappointment. And I am sure that you would not have also anticipated this kind of disappointment at the beginning of the quarter. So, any thoughts if you would like to share on that?

Krishna Bodanapu: So, I think you are right. First, let me answer the first part of the question, which is on --globally, you are right absolutely that generally the industries that we are in are doing quite well. And if you look at the commentary on the industries that I gave, that's also a reflection of that. And I will say its been these two quarters, because if you look at the three quarters, Q3, Q4 and Q1, we are still grappling with some of the issues and client specific things. Because the problem that we have is, we are quite dependent on our top 20 clients. And when we have an issue on in one or two of the top 20, it reflects quite dramatically or significantly on the overall numbers. So, that's where we are grappling with this problem. And again, I want to assure you that in Q2, we have a clean line of sight out of this, and we will see at least a decent growth in Q2, to come back to some good numbers. So, that's one part. I mean, I completely appreciate what you said, but it's also -- while we are not at a scale where we can take advantage of sort of the macroeconomics, we still get affected by certain clients. And that's what the issue that we faced in the last three quarters or so, Q3, Q4 and Q1.

To your second points, Sandeep, on margins, we do see some early telltales. Now, one of the things I will say is, we are quite confident of Q2, and if we weren't, we would have been a lot more aggressive on some of the cost side. But we are quite confident and I would rather take the hit in a quarter because I think we had a decent Q4 from the margin perspective, Q1 is a little bit disappointing but Q2 we'll be back to some good numbers. So, I want to say that one is, variablezing our cost to that extent is very difficult. So, though we saw the gap in revenue, we act necessarily act on those, because even if he acted on them in Q1, the impact would be in Q2. And that would be counterproductive, where we would have some decent growth and some decent revenue numbers. Therefore, my point is, I am quite confident of Q2, so I didn't want to take any dramatic decisions. It was a hit for a quarter, but we take it and we move on into some better numbers.

Sandeep Agarwal: One more question, if we can squeeze. I know, there would be more people who would be queue, but just wanted to understand what is happening on the manpower side? Because we are getting continuous feedback that there has been significant momentum in the attrition. So, any thoughts on that?

Krishna Bodanapu: So, attrition has actually come down by about 2.7% this quarter. But what is also happening is we are optimizing some of the people. While I will reiterate my comment that we don't want to take very short term decisions, because Q2 onwards we do see growth. But part of this readiness 2020 exercise, we are optimizing manpower, so there's a reduction of manpower by about 60, 70 people this quarter, the headcount reduction was 60. But we will also see that number go up a little bit in Q2, because we want to make sure we bring in efficiency into the business. That's one thing that we have done very well. So, that's why attrition has come down, number of manpower has come down, but that will come down further because we are focused on efficiency.

Moderator: Thank you. The next question is from the line of Abhishek S. from Equirus Securities. Please go ahead.

Abhishek S: Maybe a couple of questions, but let me start first with Krishna. So, Krishna, do you believe that strategy refresh is necessarily both in terms of account mining and sales? Because the way we have seen deceleration in our top accounts or top five, six to ten account?

Krishna Bodanapu: So, Abhishek, I think it is a constant process. I think we do strategies for the most part at an account level, from a mining new services, new offerings, new solutions, etc. So, that is constantly going on. And if I may stretch this argument a little bit, I would say a lot of what, you know, the old business is coming down quite a bit, like the traditional businesses that we used to do around say mechanical engineering or around testing or data conversion is coming down. And most of the growth that's coming is because we are doing newer things for the same customers.

So, in that sense, I would say, we constantly do that, because that's the only way to grow in a services business. But we will continue to do that more pragmatically also, because I think there are some really good opportunities around the capabilities that we have built in, digital, like IoT or virtual reality, augmented reality, virtual reality, analytics. Those things, we are still a little bit on the early stage and I will confess that we're a little bit behind the curve on that one, but we believe we are catching up. And that's also one of the big growth drivers for the rest of the year.

Abhishek S: Okay. The second which is a two part question I have is, one is, do you believe that on headcount optimization strategy with a high involuntary attrition, when most industry peers are facing supply constraint is a good strategy to have?

And the second part is, your sub-con expenses have dropped almost 20% sequentially. And if I read that along with the revenue decline, is that suggesting that some of the projects are lost versus your commentary of delay?

Ajay Aggarwal: Let me take your last question first. I think if you look at these subcontracting costs, especially in communication business, we have a lot of business which we also subcontract, including that large customer decline in revenue that we have been talking about. So, when the revenue is not there, subcontracting cost is also not there. So, I would say it's more of a mix issue, that there the revenue is coming down, and whichever areas the subcontracting ratio was higher. Beyond that I don't think we should look much into it.

Your second question was on people strategy of this things, I think there we are doing it very, very judiciously, we are not looking at cutting people where we have the work, where we have the competency, we are only looking at, as Krishna said, the efficiency part of it. And wherever there are competencies and skills needed, we will continue to hire those competencies and skills also. For example in US, we have a lot of work that needs new manpower and we are going for hiring.

Krishna Bodanapu: And I will also just add to what Ajay said there, look, if you look at the inventory is high when there is supply side pressure, but we are also using that to say that we need to bring in efficiency, because that's the only way we can take care of our best resources. Even in spite of all this we have had an aggressive salary increase for the execution layer. So, that's also baked in into the numbers that you saw. The rest of the salary increases will happen again in Q2, and we are quite pragmatic that it will also happen. And while we have a slight bump, it will happen in an aggressive manner, because we want to retain our best people. So, we are using this to really not just as a optimization exercise, but also to take some of the cost savings and put it back into retaining our best talent. So, the two areas that we are not touching in the Art 20 exercise, for example, one is innovation and technology, which is the NBA; and the second thing is training and people development. We believe those two are differentiators in the medium to long term, and we wont cut on those things.

Abhishek S: That’s helpful. And then just last bookkeeping question, Ajay, what is the reason for the significant increase in debt on a quarter-on-quarter basis?

Ajay Aggarwal: I think when you look at this leasing, there is a capitalization of about Rs. 320 crores on the balance sheet. And the way the accounting works, there is a Rs. 340 crores of liabilities on the balance sheet side. It is just the implication of the IndAS. I can assure you there is no new debt that has been taken by the company.

Moderator: Thank you. The next question is on the line of Madhu Babu from Centrum Broking. Please go ahead

Madhu Babu: Sir, last year we had issues in the top five accounts which hit the growth. So, what is the outlook on the large client in Asia-pac on the communication side? And how is the NVN rollout happening or are we seeing slowdown there?

Krishna Bodanapu: So, we are seeing slow down there, and that's a issue that we are currently grappling with. We believe that there's a significant amount of restructuring that's going on in that client, there is about 9000 or 10,000 people that they are letting go. And the all this is public news. So, we believe that that whole restructuring is what's really thrown us off a little bit and has delayed the project rollout. But we believe that there restructuring is done, the new pieces of the puzzle, if I may say, that are in place. And that's where we believe that the project start will happen within the next, or has started to happen, it will continue to happen within the next few days, literally. So, that's one of the reasons why we are here.

NBN rollout would still happen, has to happen, that's a government mandated thing. There is money for that particular program. So, that gives us the confidence, among other things, that we are going to have some strong quarters going forward even in communications.

Madhu Babu: That review for NBN has been weak and there were a lot of criticism happening. So, that was I think the project which kept on hanging over. So, is the revenue committed now that 2Q it will ramp up or is it still in submission?

Krishna Bodanapu: Some elements of that are committed, because we do both NBN and fiber related work, and also the 5G and wireless related work. So, both of them, the fiber is actually been committed. 5G is what we are working on there.

Madhu Babu: So, sir for 2Q you said the revenue will be like similar to last year or, I mean, just couldn't get the commentary clearly.

Krishna Bodanapu: It should be back to at least last year's average.

Madhu Babu: Last year's average revenue run rate quarterly kind of? Or last year because of 2Q we did 169 million in overall revenue?

Krishna Bodanapu: We are working through the details, but at least it will be at the average of last year.

Madhu Babu: Okay. Average of the last four quarters. Okay, I will take it that way. And just one more, even within a top client in aerospace we are talking of an M&A on the UTC said, a large one. So, any implications from that on that account?

Krishna Bodanapu: Yes, we believe that's actually very good for us, because both it's basically UTC and Rockwell Collins merging, and both of them are clients for Cyient. So, we think it will take -- now, it's a very, very complex deal, because there is also a spin-off of Otis and carrier that's involved. So, for now we believe it will be status quo for the next six to eight months. And once the deal closes, we will be in a much better situation. But we think it's a strong positive for us.

Madhu Babu: The rate and technology is one which is what I am talking of.

Krishna Bodanapu: UTC merging with Raytheon. But that will at least be another year, year and a half, because that's a very government centric deal. So, it's going to take a lot of time to get something like that done.

Madhu Babu: Sir, and last one from my side. On the capital allocation, I mean, would there be an incrementally higher capital allocated on the core businesses from here on? I mean, because communication, though they scaled up very well, I mean, it's turning out to be a bit volatile and on the margin also leading to volatility. Thanks.

Krishna Bodanapu: Yes, absolutely. We will focus on a couple of areas that we believe that we have significant strength, that will absolutely be the case be it aerospace & defense, or some of the emerging technologies under semiconductor, IoT, analytics. These two areas, absolutely. But there's also some horizontal like embedded software that we will focus on. And there was a deal on communications that we have slowed down or put on hold on, because for this reason, we want to first make sure that we have a solid core business before we focus too much on inorganic initiatives.

Moderator: Thank you. Next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: I just have one question on the margins front, so the margins impact that you said came because of the lower volume in terms of SG&A absorption, etc. So, if the revenue inches up in 2Q to the last year's average, do you think that this entire loss of margin will recoup or that will be more gradual through the course of the year?

Ajay Aggarwal: So, if I can take that, what we said is, definitely we can recoup whatever is the impact of the volume. But we do have a headwind that will come from the second tranche of the wage hike. And we will again have a tail wind from what more we can get out of this readiness 2020 cost optimization. But I think there will be at least to the extent of what we lost because of volume we should be able to recover.

Ashish Chopra: Fair enough. And secondly on the vertical wise revenue, so you mentioned that you were expecting a sort of comeback in aerospace and defense and communications, while the weakness in the others was anticipated. And whereas the way its panned out is that in the services we have had decline across all verticals. But now that some of it is getting pushed over into 2Q, what about the other verticals, the E&U transportation portfolio, etc., do you see them remaining challenged over the near term while the top two verticals recover or should it be more broad based?

Krishna Bodanapu: I think it will be a fairly broad based. And we have looked at the numbers in many ways, and with a lot of obviously focus over the last couple of days. In most businesses we are quite confident that they will come back in Q2. I think there is one or two businesses like portfolio or certain aspects of portfolio where we will still have a challenge into Q2. But in general we see that the numbers are coming back across the board. Again, it's probably not the most prudent way to put it, but I would say everything that could have gone wrong went wrong at once. Typically we have always had ups and downs, its just that this quarter everything went wrong. But having said that, I am also quite confident in Q2 that most businesses have a clean, and not just a plan, but the order intake and the backlog to say that they will do much better.

Moderator: Thank you. The next question is from the line of Sandeep Shah CGS CIMB. Please go ahead.

Sandeep Shah: Just a follow up in terms of what the previous participant asked. So, Ajay, if I look at the volume growth impact on the margin in this quarter, you have defined it as close to 360 bps. So, is it fair to say that could be a tailwind over and above the cost efficiency tailwind, which may flow through in 2Q FY20?

Ajay Aggarwal: So, what I said is that, yes, I think I would say about 250 basis points out of this we should be able to definitely get there. And then I think we should have a set off between the wage hike and the further gains from the cost optimization effect. But plus minus 1% it is also difficult to predict, that will also depend on the level of volume that we achieve and some of the progress on these initiatives, including how much we end up spending in NBA, how much we really get out of this cost optimization exercise. So, I would have loved to give one particular number, but the fact is that it is going to be a range.

Sandeep Shah: And any estimate how the cost efficiency on a full benefit basis will have margin uptick, if you can give us what is the range in terms of the cost efficiency benefit will lead to an improvement in the margin?

Ajay Aggarwal: So, give us one more quarter, I think we will give you a view, because initiatives have been taken in quarter one, we mentioned about the impact of that that has come in the quarter net basis at about 1% margin, most of it is sustainable. We have another initiative which should be equal to or higher than this, for quarter two, those actions have to be taken. I think that's the biggest chunk of actions which are slated for quarter two. So, my request would be, give us another quarter, we will give you a better visibility on where we are likely to end for the year from this particular initiative.

Sandeep Shah: Okay, fair enough. Just commentary in terms of Q2 being at the average of last year. So, that itself also asks for a 5% Q-on-Q growth. So, this time, Krishna, you believe that the visibility is much stronger to say this or there could be some open areas because of the client specific issue or macro issue where there could be some amount of headwind which may come into 2Q as well?

Ajay Aggarwal: See, one is if I can just -- let me explain, somebody said bookkeeping question, so let me give the bookkeeping answer first and then Krishna can say from the business side. I think what Krishna is saying is a mix of both services and design led manufacturing. So, the combination of the two is what we are looking at, we had a muted growth as far as design lead manufacturing is concerned, that will also take the, you know it will go up, there is a range that can happen on services. So, I think we have to look at it as a combination of these two. And there are always some ranges that will play out. And that is the precise reason we are saying that we are learning every week and every month better on the visibility. So, I just wanted to clarify that on how to look at the growth.

Krishna Bodanapu: But I will say, we have looked at the numbers, we have looked at backlogs, we have looked at risks and taking all this into account, that's where we believe we will be for the quarter.

Moderator: Thank you. The next question is from the line of Mohit from Anand Rathi. Please go ahead.

Mohit: Hi, sir. This is Mohit from Anand Rathi. One thing is on your top 10 clients and APAC region particularly, so it looks like that the weakness is across the clients, it is not specific to certain issues as we have highlighted in the commentary. So, what went wrong, I am just trying to figure out, and this is also visible in decline across verticals. So, is there a broader weakness that you are looking at compared to a few issues that you are highlighting that will be solved in 2Q?

Krishna Bodanapu: Mohit, so there are weaknesses across, no denying in that. But also the what happens is, in the large clients in the top 10, because of the proportion of the revenue that they constitute, those have the biggest impact. So, we always have these weaknesses, I mean, there is always going to be a down in a smaller client and all that gets covered up typically. So, where my commentary was coming from is, unless we fix those, once we fix those the rest of them usually fall in place quite well. So, the focus is really to fix the top, like two to three clients, which are large clients where we will have a meaningful impact. But having said that, though, on the rest also there are point of times. So, I will give you an example, in the utilities business there is a fair amount of business that we closed, a lot of it is also software customization and delivery, which has closed already or is in the process of closing, which will also get delivered in Q2. We had some of it in Q4, nothing in Q1, so that's cyclicality. So, the impact of top 10 is such that it really magnifies the numbers. And that's why we are focused on it. There are issues in other places, but we believe most of it is under control.

Mohit: And once you decline this, its more driven by non-top 10 or is it more inclined towards top 10?

Krishna Bodanapu: It is driven by more non-top 10. Top-10 has actually grown 270 bps quarter-on-quarter.

Mohit: Sir, actually that is what it looked like that it is not related to top 10, it is basically on the long tail that we had.

Krishna Bodanapu: Correct. So, we will have to fix the top 10 also, because that covers of the tail that we have.

Mohit: And second, Ajay if you could give the impact of gross wage hike, because you guys would have planned it for the year, so how much would it hit your margins at the growth level for 2Q, 3Q, and 4Q if there is any?

Ajay Aggarwal: So, we are giving the wage hike in two quarters, as we send the impact is about 80 bps in current quarter, a similar impact can be there in the next quarter, and it was limited to quarter one and quarter two.

Mohit: And next quarter your Visa expense will automatically get reversed to offset part of the decline, right?

Ajay Aggarwal: I think unlike other companies we do not have that cycling impact in one quarter.

Krishna Bodanapu: These would be negligible numbers, in tens of thousands of dollars.

Mohit: Okay, so the 80 basis points is the number we have to look at for next quarter margin, it is from current level so to say, if the offsetting factors do not play out?

Ajay Aggarwal: That is right.

Mohit: And anything on NBA side, how much will you invest for FY20?

Krishna Bodanapu: We will stick to that 1.5% number.

Mohit: Which you have done in the quarter?

Krishna Bodanapu: Yes. 1.4 we did in the quarter, so 1.4 or so, we will stick to that number.

Moderator: Thank you. Thank next question is on the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: Just broadly, I think the whole strategy is deemed to look at a few major clients and drive growth primarily to them. Do you think that now we need to change that approach and perhaps look at portfolio, at least two to three clients for us to be meaningful in each of the verticals that we operate in? And probably even a these are some of the verticals that are smaller with some big acquisitions. So, the whole portfolio is a little bit more out there, we don't actually have quarters like this.

Krishna Bodanapu: So, it's a good point, Ravi. I think it's a mix of sort of two things, one is obviously getting -- we are focused on scaling up clients across the board. If you look at the communications business for example, it was like a mushroom, we had a large customer on top and then not much. But this year we will at least have one other customer in the $20 million plus range and we will have two new additions to the $10 million plus range. So, we are doing that for example. Or even in some of the others like E&U it was the same thing, and so on so forth. So, that's one thing, we are focused on that, we will continue to add clients. I think the way we look at it is we just need to make sure that we are adding the right clients, so there is an ability to scale them up and grow them up rather than any client that comes our way. So, that's one aspect.

The second aspect is, you are also right that on the smaller BUs we need to shore them up or bulk them up. So, we have an initiative in place where we are looking at a growth strategy for each BU through inorganic. If we can't find ways, we're also looking at some divestment criteria, because if it's not a profitable business, or a very profitable business that's not growing, we also we need to figure out how we're not going to be in that business, because there's no point being in a small degrowing business. So, that's absolutely a part of it and you will see some initiatives and progress on that within the year at least, both on some acquisitions and some divestures.

Moderator: Thank you. The next question is from the line of Ashish Agarwal Principal Mutual Fund. Please go ahead.

Ashish Agarwal: Sir, a couple of things on the growth front or on the revenue front. Is it fair to assume that this quarter in absolute terms we will be at the bottom? And from here on quarter on quarter we will see growth, quantum can be different but we will not see any decline or $157 million is the absolute bottom we are looking at, at least over the next four to five quarters. So, on the margins front, right, we have indicated that we are looking at double digit EBIT growth in this year, now backfill transpire into almost, my sense around 14% exit EBIT margins, 14% plus type of an exit

EBIT margins. So, wanted to understand what can go wrong? Is revenue growth a paramount to achieve this 14% exit EBIT margins for us?

Krishna Bodanapu: So, the first point, what I will say is, yes absolutely, we are certain that this is the lowest that will hit at least in the RHI, want to say at least lowest ever, but that's a difficult proposition to make. So, I will say, in the foreseeable future, absolutely. I mean, I think we have bottomed out. It's unfortunate that it was this quarter, but we had hoped that it was last quarter. But I think it is what it is and we bottomed out and we will see could growth through the rest of the year. So, that's one thing.

On EBIT margin also, if you look at it, at the beginning of last year our EBIT was also at a similar level as it as this quarter. So, we last year we had a recovery, we got back to I think the exit quarter EBIT would have been 12% or 14%. This year just with growth and doing the prudent things we will get to 14%, but on top of it there are other initiatives like the readiness program which will give us that little bit of a boost, which is the reason why we believe it will be a double-digit EBIT.

Ashish Agarwal: Sorry to interrupt you. Why I was asking was that it looked like that even if a growth returns from Q2 onwards, we will be in rupee terms be towards a mid or low single digit revenue growth trajectory in this year. Now, for our EBIT to grown on double digit that would mean that we need to have almost hundred basis point margin expansion from last year. And last year we had a benefit in Q2 also coming from currency, which may not happen this year. And I'm sure when we are giving a double-digit EBIT margin, EBIT growth indication that is on a constant currency basis. So, my question was coming from that perspective.

Krishna Bodanapu: Absolutely. No, you're right, I think that's the right way of looking at it. And we think that because of all the initiatives on optimization and efficiency, we have a line of sight.

Moderator: Thank you. Next question is from the line of Rajan R from Geojit Financial Services. Please go ahead.

Rajan R: I just want to mention like the order intake has been very low compared to last quarter. So, is it on a quarterly impact or like is it going back to the next quarter also?

Krishna Bodanapu: So, I think in general the order intake is higher in H2 compared to H1, therefore the Q-on-Q drop was expected. The order intake in the DLM is higher by 26% year-on-year, I will say because of the implementation of SAP we have also not been able to verify some of the work that we have done on... We do some of the work without an order intake, so the purchase order and the order to start coincide at the same time. So, we don't necessarily have a long lead order intake. So, we are fixing this. I don't want to say the number is inaccurate, it's just that it's not been fully verified. We are fixing this. But in general I wouldn't be very worried about it, because order backlog which is an absolute number seems to be quite robust at this point. And we can verify that much easier than the intake because of just how SAP is working or the new implementation of SAP is working as of now.

Rajan R: Okay. One more question, like on the depreciation front, is it on a one time basis or like can we expect the same kind of higher depreciation in the coming quarters also?

Ajay Aggarwal: See, one depreciation change is on account of the leasing charges that are happening. Other than that, I do not expect any higher depreciation. And also when you look at percentage terms, possibly some of it is because of absorption. For example, even the leasing will go down from 1.7% to 1.5%, 1.55%, depending on the volumes coming. So, we are not doing anything drastic on CAPEX, CAPEX continues to be in line with what we have done, and in this quarter it has not been very high. So, you should not worry about depreciation. I think it's more of an absorption issue.

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

Piyush Parekh: Thank you everyone for being on the call. And I would pass it on to our chairman for his closing remarks.

BVR Mohan Reddy: Thank you, Piyush. I like to once again thank every one of you who participated in our Q1 earnings call. It was a disappointing quarter, there's no denying it all. The board spent considerable amount of time in reviewing the current order backlog and what we intend to execute in the coming quarters. And we feel very confident in what Krishna shared with you earlier, in terms of getting back to those numbers that he articulated. Thanks again for your support, and have a good evening. Thank you.

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