"Cyient Q1 FY15 Earnings Conference Call"

July 17, 2014

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MODERATOR: **MR. SANDEEP AGARWAL – ANALYST, EDELWEISS**

Moderator Ladies and gentlemen, good day and welcome to the Cyient Q1 FY15 Earnings Conference Call hosted by Edelweiss Securities. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing * then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandeep Agarwal of Edelweiss. Thank you and over to you sir.

Sandeep Agarwal Thanks Inba. Good afternoon everyone. On behalf of everyone let me welcome you to the Cyient's Q1 FY15 Earnings Call. We have with us the Senior Management of Cyient headed by Mr. B V R Mohan Reddy along with the senior members of the management team. Without further ado I will hand over the call to Mr. Ajay Aggarwal to start the proceedings. Thanks.

Ajay Aggarwal Good evening ladies & gentlemen. Welcome to the Cyient Limited's Earnings Call for the first quarter of financial year 2015 ended June 30th, 2014. This is Ajay Aggarwal – CFO. Present with me on this call are our Executive Chairman Mr. Mohan Reddy, Mr. Krishna Bodanapu – our Managing Director and CEO, Mr. Ashok Reddy – President of Corporate Infrastructure, Mr. Anand Parameswaran – Head of Human Resources & Talent Deployment.

Before we begin I would like to mention that some of these statements made in today's discussion will be forward-looking in nature and may involve risk and uncertainties. A detailed statement in this regard is available in our investor update which has been emailed to you and is also posted in our corporate website.

In continuation to our standard practice, this call will be accompanied by an earnings call presentation. Details of the same have been shared with you. I now invite Chairman Mr. Mohan Reddy to provide a brief overview of company's performance for the quarter ended June 30th, 2014.

B V R Mohan Reddy Thank you Ajay and good evening to you ladies and gentlemen. I welcome you all to our quarter 1 earnings conference call. For the first time in the history of our company we crossed $100 million in a single quarter. This is rather achieved without taking into account the additional revenue due to acquisition of Softential. With Softential we are at $104 million. Without Softential too we are close to US$100.5 million.

For the third consecutive quarter we have shown business momentum with a robust quarter-on-quarter growth in revenues for the company. This gives me confidence that we have put the challenges of the first half of last year behind us and can continue the growth momentum. This is further confirmed by the order pipeline and the backlog that is already in place. Margins declined on account of the appreciation in rupee and salary increases but our management team has been actively working on the levers of margin to improve the same over the course of year starting from quarter 2. We have completed the rollout of most of the information systems and we are in the process of ensuring that they are in sync with each other and working together. I am sure that we will see a significant amount of benefit from the same going forward.

I would like to highlight in that we completed our brand rollout in quarter 1 including the name change of the company on May 7th, 2014. I am happy to note that this has been very well received by all the stakeholders and we are seeing the benefits of the same.

Now let me take you through a few highlights because Ajay will make a detailed presentation on the same. Our revenue for the Q1 was Rs. 621.7 Crores which is 4.5% QoQ and 28.5% YoY. In dollar terms it is $104 million which is up 7.8% QoQ and 20.8% YoY. Excluding Softential acquisition the company grew 4.2% QoQ and 16.8% YoY.

On constant currency the revenue is up by 7.2% QoQ. The operating margins were down to 14.1% as against 18.1% in Q4. That is approximately -397 basis points mainly due to wage hike and the exchange rate impact. Operating profit stood at Rs. 87.7 crores and up 9.3% YoY. Net profit is at Rs. 68.5 which is up 26.1% YoY. Business continued to generate strong free cash flow. Free cash flow as a percentage of EBITDA for the quarter is at 48%. Absolute free cash flow generated is at Rs. 48.7 crores. Cash balance including the liquid investments was at Rs. 735 crores which is highest ever in the history of the company. Broad based growth across all operating units and geographies. Employee gross additions for this quarter at 1,014 and net additions are at 445. Nine customers added during the quarter – 6 in Engineering and 3 in DNO.

With this I would like to hand over the call to Ajay who will take you through a detailed financial performance for the quarter. Thanks for your patient hearing. Ajay, over to you.

Ajay Aggarwal While the chairman has given the overview of the performance, let us go into the details of each of the elements. As chairman already mentioned we are very proud of a quarter where we have crossed $100 million. This is a quarter where we have seen the consolidation of our Softential acquisition for the full period of April to June which is about $3.56 million and is included in this $104 million. Even if we exclude that we are at about $100.5 million which exceeds $100 million on the organic basis. In terms of the broad based growth which is across the OUs and across the geographies. You would have observed in our investor update also that all our reporting of the segments has been aligned to the new organizational structure. So in terms of operating units we are talking of Engineering and DNO, which is Data Network & Operations. And in terms of geographies we are talking of America, Europe, Middle East, Africa and India and Asia Pacific in line with the leadership that we have for each one of this segments. Both Engineering and DNO as you can see have grown around the company average growth, Engineering at 4.6% QoQ, DNO at 3.5% QoQ. Asia Pacific has the highest growth of 12.3% QoQ. America including Softential is more than 10% QoQ and 4.7% QoQ on organic basis. Europe and Middle East grew about a percent. Also, one thing which I would like to highlight is that the year-on-year growth has been very handsome at about 20% YoY for the company. Both in Engineering and DNO we have a growth of 17% YoY and 16% respectively.

In terms of the profitability for the quarter this is quite on expected line, we had a quarter where we have given the wage hike. We gave 8% wage hike for all the eligible employees in offshore. We gave 2% hike in all the onsite locations. The impact of that has been about 300-310 basis points on the operating margin. We also had an appreciation of rupee between the quarters of about 3%. That had an impact of another 110 basis points. Because of these, our operating margin has dropped from 18.1% to 14.1%. However, at the net profit level we had a lesser drop of about 70 bps. We had better other income and tax rate. We had lower losses on foreign exchange and marginal improvement in the treasury income. Also, the tax rate with our continued focus on special economic zones is moving in the right direction, and is also better than the previous quarter. So you can see our tax rate is 22.6% for the quarter. If we exclude the one-off which we had in one of our European subsidiaries in Germany the tax rate is 24%. So based on that we had a net profit margin of 11% for the quarter as compared to 11.7% for the previous quarter. Chairman talked about the cash position, so in terms of the cash position we added Rs. 48.7 crores. We continue to track ahead of that 40% of free cash flow to EBITDA. Free cash flow to EBITDA is 48% for the quarter. We have also been helped this particular quarter by a government refund of service tax of Rs. 156 million which has been received during the quarter. The cash position is Rs. 7,358 million as compared to 7,260 million. I just wanted to make another disclosure that in terms of the acquisition funding we have taken $10 million loan for the Softential which is taken at the Cyient Inc. in US. It is a US dollar denominated loan. The all-inclusive cost including the swap is about 2.6%. That gives us an arbitrage in terms of the treasury yield between India and US.

In terms of days sales outstanding the accounts receivable we have been able to sustain at 70 days.

We did have some milestone based projects which have impacted our unbilled revenue. We expect these projects to continue in next couple of quarters and unbilled revenue may stay at above a number of 20 days in the coming quarters. CAPEX has been tracking well as per our internal plans on both quarterly and expected full year basis. For other income, during the quarter, the losses on forward contracts are lower. They have been going down quarter-on-quarter. This quarter we had a position of about Rs. 58.5 and probably this is the last quarter where we have losses on forward contract. In terms of the coming quarters our position for the next 12 months is ~Rs. 65, about 66 for the remaining three quarters and at about Rs. 64.5 for the first three months of financial year 2016. So hopefully with the current exchange rate being where it is, we should have a good other income in the coming quarter. We continue to be 70% of net inflows for the next 12 months. Also, the treasury income is moving in the right line with the movement of cash..

With this I will hand over to Krishna to talk about the acquisition pipeline and the business outlook and some other comments that he would like to share.

Krishna Bodanapu Just to comment on the acquisition pipeline, this is something that we have been doing over the last few quarters. The pipeline continues to be quite robust. We have evaluated 35 targets this year. 6 LOI are currently in progress. I believe a couple of those are also in the due diligence process. So overall it is a very robust acquisition pipeline that we have and we believe that the need or where we are focused on has been clearly articulated. We will have few bankers that we are working with and they have been helping us evaluate and target companies to take them through this funnel. So only comment I want to make here is that it is robust, it is focused and we believe that we are doing the right things to bring a few to closure over the next 9 months or so.

Krishna Bodanapu Alright just to give a little bit of outlook on the various industries for the coming quarters:

I do this industry by industry and also comment on around any geography specific issues in that industry.

Aerospace – is the largest part of our business, and contributes roughly 36% of our revenue. We are seeing some good pursuits. Especially what we are seeing is there are some good pursuits in the aftermarket and manufacturing services kind of areas. If you remember from the Investor Day that one of the challenges that we had in aerospace was the fact that the pure design was coming down based on where the programs are and to sustain our growth and sustain our business we also need to build capacity and pipeline and after-market and manufacturing services. And I am glad to share with you that that is happening and we are seeing some good growth over there. We do have a little bit of a challenge in Europe. It is a very specific to some of the projects with a few of our customers that are coming to an end. But we also see some positives that will make up for it, but that is something that we are working on.

Transportation – On transportation the outlook is good. There are some very immediate term workflow challenges but I would not even dwell on those. Outside of that the outlook is good in both Rolling Stock and Signaling which are the main parts of our business. And actually two of our Top 5 clients are showing very significant ramp up and this is also based on the orders that they have won and which gives us the confidence that this ramp up is not just a one-off but it is something that is sustainable for the longer term.

Off-Highway Products – On Off-Highway products there are companies that make Non-Automotive products such as loaders, construction equipment etc. etc. We see a lot of positivity there also specifically in North America. One of our clients is actually growing quite significantly in that space but more importantly we are also here seeing orders and traction for newer service offerings like value engineering or should cost analysis and so on. And again we are confident that the growth will continue there.

Medical and Electronics – It is the smallest part of our business among the 8 verticals that I will talk about here. But we are seeing opportunities. It is something where we have won a significant client and we are trying to build on. We are seeing some good opportunities for two reasons. One is, there is a lot of investment that is happening in medical devices. And two is, there is a lot of things around localization, i.e., customizing or adapting products for the Indian market which have a different characteristics with cost of functionalities also happening.

Next going to Semiconductor – the Semiconductor industry continues to look good. This was an industry about which Mr. Reddy's earlier comment around the challenges of the first half of last year, a lot of this was driven by what we had seen in the Semiconductor industry. We have recovered our growth in last two quarters and our revenue from this industry has been highest ever. Therefore, we are confident that we have recovered. Also, we are signing up some new and significant clients. For example, in Asia Pacific we won a deal with a very large Semiconductor design company and we believe that it will be in the many millions of dollars going forward and we have already seen some very good traction with them even in the first quarter of starting to work with them.

Utilities – In terms of Utilities, it is positive outlook. We have a really good ramp up in North America from one customer. That is also very sustained ramp up. We are also seeing that that ramp up will continue for the next few quarters and then sustain at that level for the next few years. We are expecting to close a couple of deals in Asia Pacific which has been a little bit of a soft market for us especially from a utilities perspective but even today we had a new win from a pretty significant utility in Asia Pacific or in Australia and we believe that that momentum will continue.

Communication – In terms of Communication we used to call this telecom but we expanded it to be Communications because telecom is only telephone Communications but we are seeing new projects in North America. We are also seeing some good synergies already from the acquisition of Softential. We have submitted a couple of proposals using our services as a base to Softential's clients at the same time we have submitted a couple of proposals to our clients using Softential as a base. So we are seeing some good opportunities to cross leverage.

Energy & Natural Resources – Lastly around Energy and Natural Resources, this is mining and oil & gas. Mining we still have some challenges and I believe that those will continue into the next couple of quarters. However, on oil & gas we are seeing some multiple pursuits and oil & gas was one industry where both our service lines that is Engineering and DNO are relevant and specifically around DNO we have seen some very good pursuits in the oil & gas industry.

So overall, there are one or two small pieces of business with softness but I would not be too concerned about them and I think we are seeing some positive traction from across all the three geographies, across industries and that will help us to have a reasonable or a good rest of the year.

In terms of margins I also want to comment that while our margins went down by about 400 basis points in Q1 and like Ajay explained that it is attributed to the rupee appreciation and wage increases that have happened. But in spite of that we are still confident that we will come back to roughly the same as last year's margin in constant currency. It will happen over the year but getting this confidence based on the pipeline, based on the kind of opportunities that we are pursuing and also the way that the mix will change over the year. So over the course of the year we will come back and basically for the year we believe at constant currency our margin will still be the same as last year and we are working towards it. Having said that we added about 440 net resources in the first quarter of the year. I said last quarter that for the year our outlook was that we will add about 1500 net resources. We are a little bit ahead of that number already in Q1 but I would stick to this 1500 number because of how I am looking at the business and how we have also staffed up quite aggressively for some of the opportunities. I would say the 1500 number for the entire year is something that is still what we are looking at.

With that those were my comments. I think with that we will move into the question & answer session.

Moderator Thank you very much sir. Ladies & gentlemen, we will now begin the question and answer session. Our first question is from Pratik Gandhi of IDBI Capital. Please go ahead.

Pratik Gandhi Krishna, my first question is on revenue growth. I think this quarter we did quite well compared to the expectation. Now we believe that I think we are back on 3% to 4% kind of quarterly growth on an organic basis. One of the peers basically on the mid-cap space had some issues with the top client I think which we also had something for the last year. So what all things we are doing to make sure that I think this kind of instances does not occur in the current year.

Krishna Bodanapu I think Pratik one of the key things that we are doing is making sure that we have a better insight into the customer's end revenue because ultimately what we get depends on their spend which depends on their revenue. So we are doing a lot of work around making sure that we have a good visibility into how their business is looking because that ultimately determines what happens in our particular business. The second thing that we are doing is we are also expanding within each one of our customers. If you look at it our growth was also driven by our top-20 customers this time. So we understand that our business and at least at our scale and how things work with us what happens in our top 20 is a big determinant on how the overall company performs. So we are doing a lot of things around focusing on the top-20, understanding where there spend is going and again expanding obviously not into newer service lines but expanding into some very adjacent service lines. The Value Engineering and manufacturing services that I talked about is a very good example because even if the design piece comes down a little, the manufacturing services piece is independent of that. So we are creating new revenue streams that will help us buffer any sort of ups and downs that might happen. But overall I think the key is for us to understand where our customers' business is going and make sure that we fall in line.

Pratik Gandhi I think last quarter you did mention that I think you do not want to tell out how FY15 will look like in terms of organic growth perspective unless you deliver it. Now I think post this quarter delivery, strong delivery should one expect on an organic basis we should be able to grow ahead of NASSCOM?

Krishna Bodanapu Pratik I think we have delivered three straight reasonably strong quarters. I am confident that the same traction will continue I am pretty confident that the pipeline is looking good. The momentum is with us. Again as you know the services business is a very momentum driven business so the momentum is with us. I am fairly confident that we are on the right track.

Pratik Gandhi I think thirdly in terms of your margin, did I hear correctly that on full year basis we expect same margins as last year in constant currency terms?

Krishna Bodanapu Yes, roughly it will be in the same range.

Pratik Gandhi One thing on aerospace, I think we did mention that in terms of overall opportunity aftermarket manufacturing services there seems to be a good opportunity for you guys. My understanding is that currently of the overall services I think that contributes significantly lower in your aerospace business. So how are we planning to take that up going forward?

Krishna Bodanapu We have built some good organic capabilities over there. We have added some good people. We have also gone after those pursuits very aggressively. So I think we have built the credibility quite well in that area. We have added domain expertise. We have also added people in the US because manufacturing Engineering is something that has to be restricted or a lot of the work in manufacturing Engineering because it involves materials as IATA control works. Therefore the center that we have in East Hartford is actually doing quite well at this point because we have the manufacturing Engineering capability there. It anyway cannot be offshored or only very small part of it can be offshored but we have the capability in the US. We also started a new Engineering center in Dallas with the same intent. East Hartford focuses on UTC Group Companies. Dallas will focus on the other companies. So we are also building one more area where that capability can be hired from. So this is all done internally and I think it is all been done by finding the right confidence in the right place and proactively putting it in place.

Pratik Gandhi Couple of data points from Ajay. In the current quarter depreciation was slightly lower owing to change in the realignment with the new Companies Act. How should one expect that going forward? And secondly the tax rate, even say just that I think 24% is, so how should one assume tax rate for remaining three quarters in FY15 and FY16 tax?

Ajay Aggarwal So as far as depreciation is concerned we did not have any significant change because while we say the useful life of the assets has been adjusted as per the new Companies Act, all of the major items like hardware, buildings and all are already in line. The change has happened only in case of office equipments and vehicles. The whole impact was about Rs. 5 million on the depreciation number that has been reported. So how you should see is that the depreciation is a representative number for the quarter. Whatever additions we do during the subsequent quarters, to that extent depreciation will go up. So I do not see any significant impact of this. As far as tax is concerned as you rightly pointed out the right tax number to read is about 24% after excluding that one-off deferred tax benefit we got in Germany. So I think we are continuing to focus in adding the new resources and the new business into the special economic zone. The momentum will continue and as we said at the beginning of the year that at least 1% of the tax rate year-on-year should go down, we are in the right direction.

Pratik Gandhi What kind of CAPEX are we expecting for the year in tax?

Ajay Aggarwal You have seen the number for the quarter which is 3.5% of revenue. We are just trying to target around 3.5% to 4% of revenue.

Moderator Our next question is from Sandeep Muthangi of IIFL. Please go ahead.

Sandeep Muthangi I wanted to explore this margin expansion thing a bit. I am looking at the same for the last year and now. The margins are down but most of the operating metrics are kind of at the same levels. I am comparing utilization and offshoring and all those things. So going forward when you are clearly suggesting that margins will improve, can you please elaborate on the kind of levers you have both from a non-recurring lever that might have been there during this quarter like a branding expense and the structural levers that you have.

Krishna Bodanapu So the first is around the non-recurring lever. If you look at a significant or a good growth for us this quarter actually came from a utilities project in North America. The way the project works is that we will have to do a lot of upfront work and the upfront work is really field work in the US where we go and collect some data and so on and so forth and then that data gets churned, transferred, and transitioned and so on and so forth. So on that part what happened was we had to use a lot of subcontractors to actually do that work because again we do not want to really add a lot of resources in the US that are doing sort of repetitive field kind of work and therefore we ended up outsourcing a lot of this work further to the subcontractors. The subcontracted work is either a very low margin work or even an investment because we need to get this worked on for us to actually go back and collect the data and do something or process the data. So that is something originally we thought it was going to be a $2-2.5 million a quarter kind of an account. It is actually quite a bit larger than that and again it is great because it is in triple digit contract for us over the next five-year period kind of thing. So we are looking at some good growth from this particular utility not just for this year but also sustaining it for a 3-4 year period. So first thing is that this sub-contrasting cost will come down quite significantly and as an added benefit to that is some of the work will also start coming offshore. So you have two benefits, one is the cost not being there in the US and two is the work flowing into India. So that has been a good part of our margin will come back or will get a good amount of margin benefit once that project is done. Some of it is flowing into Q2 but it will be done over the course of the quarter and we will see a benefit over the rest of the year definitely from that. The second thing, the areas where our operating metrics were a little bit lower than what we had planned for. The proportion of work that is being done offshore, the number is about 200 basis points lower than where we wanted it to be but again we are seeing some very good opportunities and we are seeing the pipeline where we believe that a lot of the growth going forward will also come from offshore to balance out this onsite centric thing that happened. The second thing is utilization. Utilization is also 200 basis points lower than where we want it to be but we are being much more prudent around how we add resources, we put some processes in place that are forcing people to look for resources across the organization which will help us make sure that we are using existing resources for most of the projects and we are being diligent about it before we go out and look for any new resource. So both these things put together, let us say this one time hit that we got because of a project but kind of a good project that gives us good sustainable margins and revenues for the next five years and the second thing is on offshoring and utilization. We are lower than where we want it to be but we are seeing the pipeline that will help us recover. In terms of branding and some of the one-off expenses, most of them are completely done and most of those expenses would not have been there in Q1 either. It is just that we did not see the benefit of that because the other two metrics around offshore and utilization.

Sandeep Muthangi I have one more question. Softential I believe the annual run-rate is around $17 million but this quarter it is slightly lower. Is that seasonality in this business? Is that the reason?

Krishna Bodanapu There is a little bit of seasonality in the business. When we also looked at the acquisition rationale and when the business case was presented by the previous management, this was all part of that understanding. This was also backed up by what has happened in the previous few years. So there is a little bit of seasonality in the business and we have taken that into account in both our budgets and how we are planning that business.

Sandeep Muthangi Right, but it has been fully consolidated. It is not as if only a few days' revenues of Softential.

Krishna Bodanapu No, it is April 1st so it was fully consolidated.

Moderator Our next question is from Ravi Menon of Centrum Broking. Please go ahead.

Ravi Menon Couple of questions. One is this increase in purchases. Is this towards product realization services?

Ajay Aggarwal Krishna just explained that projects in US where we had lot of work onsite and we had to engage subcontractors. So this is driven by the nature of jobs where we had more engagement with subcontractors and one particular project in North America was a major portion of it.

Ravi Menon So you would say purchases includes not just hardware or software or things like that but even subcontracting costs?

Ajay Aggarwal That is right. When we say purchases it is subcontracting cost predominantly.

Ravi Menon And the second is, were there any contracts for this DNO or that ended this quarter is that by utilization dropped off a little bit?

Krishna Bodanapu No, what happened is the growth came from this primarily in North America centric opportunity at this point and therefore the utilization dropped but we also see the work coming back that is why we did not want to do any staff adjustments over there. We do see the work coming back quite strongly for the type of people that we have and that is why those people are still there.

Moderator Our next question is from Srivatsan Ramachandran of Spark Capital. Please go ahead.

Srivatsan Ramachandran Just wanted your thoughts specifically on more over the medium-term on the opportunity that could potentially open up post this whole defense rated offset. It was a lot of talk till sometime. I just wanted to know if there is anything that is changing now especially we used to have an MoU with Dassault also for the MRCA contract. So I just wanted to get your thoughts how we are looking at it. Are there any big opportunities that could open up in our way?

Krishna Bodanapu Absolutely I think at least the momentum is there and anecdotally even if you talk to a lot of the India representatives of the large aerospace and defense companies they see a lot of momentum. They think that a lot of actions will happen because obviously there was a lot of talk in the early part of 2000 or 2010 and then that died out and especially in last 2 years they were quite crest and they were questioning why they were in India and so on and so forth, that is completely changed. Now usually where there is a smoke, hopefully there is a fire. So that means that they are seeing some good momentum that the MOD or whoever their purchasing agency is telling them all about. Therefore, I think there is good momentum that they are seeing and therefore we are engaging with them. Again, as you know with some of these offset related opportunities, it is quite hard to specifically point out when they will translate into an opportunity but I think we as a company are obviously it is very important for us and we already do about $8-10 million of offset related business or business that gets counted against their offset obligation currently. So we are focused there. Will it happen or not it is hard to say but we are focused, I mean if it happens we are there. We have a good relationship with all the large companies, we have MoUs with most of them. We are an IOP or authorized Indian Offset Partner on most of these contracts. So if anything happens chances we are there.

Srivatsan Ramachandran And in terms of the growth trajectory we are seeing in aero most of it is predominantly US, just wanted to get your thoughts on the European and the Japanese piece and what do you see over a 3-4 quarter period?

Krishna Bodanapu I think US is obviously doing well. Japan is also actually doing well. It is just on a small base and therefore it does not show off but in Japan also we are seeing very good opportunities. We have two customers that are doing well and we have at least two more in the pipeline that will do well. But again Japan being Japan it, will take some time. And I will not comment too much more on it. Europe is an important area for us obviously, just given the nature of the aerospace market 50% is in the US, 50% is in Europe obviously very rafty. But given that that is the case we do need to be successful over there. We now have quite a significant team in Europe. We have a team of I think 8 sales people of sales and technical pre-sales people in Europe. We are putting a lot of effort. We are doing a lot of things around making sure that we will be invited to the big contracts, big order piece and we will continue to do that. Again if you look at your Europe aerospace that is a very important market for us and that is also one of the areas where we have laid down as an area for inorganic growth because there are some good companies that we believe we could acquire over there.

Moderator Our next question is from Mohit Jain of Anand Rathi. Please go ahead.

Mohit Jain Few questions – one is that if I look at contribution from the Engineering division that is coming off for the last two quarters. Do you see any impact of this from the margins?

Krishna Bodanapu Not really, I mean actually if you look at the margins across both the divisions or both the OUs they are roughly the same at this point. Again there are some specific things because DNO again have some very high margin customers etc. so overall if you look at the margins at an operating level, gross level again tend to be a little different but the margins across both OUs at an operating level are roughly the same. So that would not have a big impact on the overall margins of the company.

Ajay Aggarwal One more comment Mohit when you look at this chart actually if you see Engineering growth between the last two quarters have been higher than the company average. 4.2% for the company on an organic basis, 4.6% for the Engineering. And we are seeing a dip in the share because Softential has been added in data transformation and network operation. If you remove that there is no dip in share of DNO. We are on the right trajectory on Engineering. Just wanted to add that comment.

Mohit Jain I am looking at annual. Engineering used to contribute around 70% few years back and today it is closer to 62-63%.

Ajay Aggarwal We were always about $2/3^{rd}$-$1/3^{rd}$ is what we were but you are right. In the previous quarter before we have got this momentum in the last 2-3 quarters you are right there was a change in the mix by about 2-3%. I think we are back on the right trajectory. If you see quarter-on-quarter I think we have a higher growth in Engineering than in DNO and that is what we expect going forward from both the verticals.

Mohit Jain Second is on the UT&C vertical. If I try to do rough volume pricing sort of calculations so it looks like pricing in UT&C has gone up dramatically in this quarter.

Krishna Bodanapu It would have gone up because Softential would have also come in into the mix and Softential given the nature of the business it is more onsite at this point at least. So taking those into account it would have gone up. Because we will add Softential revenue into the DNO or the UT&C.

Mohit Jain So going forward if you are increasing offshoring should we adjust the pricing for that or should we assume that pricing is stable from here on?

Krishna Bodanapu We should assume that the pricing is stable based on how their contracts, etc., are structured and contracted, pricing will be stable.

Mohit Jain And can you give me headcount by division? I think there is some mismatch between the net addition that you mentioned and the number that is there in the press release?

Anand Parameswaran Net addition is about 445 people for quarter 1 and the gross addition is about 1014 people.

Mohit Jain Yeah, I got that but if you could split the total employee base in Engineering, UT&C and IT services?

Anand Parameswaran So if you look at the 445 Softential added about 140 to 150 employees so as part of the acquisition there was an increase in that count and taking that out between DNO and Engineering there is about 120 to 140 people additions in both of the fairly equally and support functions contributing about 25 to 30 people between marketing, finance, HR, business excellence etc.

Mohit Jain I think yeah, that is the difference between the press release and the net addition you mentioned. Lastly on the utilization, I think you tried a bit on this but UT&C utilization fell sharply. Is there any project specific reason to this or this is more like a normalized utilization level that you are looking that for the division?

Krishna Bodanapu No, I think basically it is just a transitional thing or it is a point in time thing. The utilization will come back up. It is just that based on this one large project and where it is and certain other things that we are trying to do on staffing up it is just that in this quarter itself. But this is a little bit lower or actually much lower than where it will be, it will come back.

Mohit Jain So on a normalized way we should expect 80% for UT&C and 72-73% for Engineering because that is what you are looking at?

Krishna Bodanapu Roughly it is 80% and 75% is what we are looking at. We are a little bit lower on both counts but we will get it back.

Moderator Our next question is from Shivam Gupta of Equirus. Please go ahead.

Shivam Gupta One question on this in your prepared remark you had mentioned that in the DNO the onsite work is finding a lot of takers. We already have kind of a skewed onsite offshore mix for Engineering because of the nature of the work and now I think DNO is going to move this side. The offshoring lever may not have that much of an impact. So is that observation correct?

Krishna Bodanapu No, that is not true. It is just that based on how this project was set up and based on how we have to execute the project for sort of collecting some field data and then actually manipulating that data. At this point and this quarter we just need to do a little bit more onsite work than normal. Therefore once that data has been collected or the field data has been collected we believe that the work will also start to come offshore. So I do not think it is a structural change. There is a little bit of a structural change because of Softential and what it adds in terms of the onsite contact but I am not saying that structurally there is a change in that. There is more DNO work that will go onsite.

Shivam Gupta And another question about we are like almost 8 verticals where we are looking at business and they may have here a different stage and maturity. So we find this happening at the expanding way adjusting the project and that time to ramp it up we end up either using subcontractors or may be hiring more people. So just want to get a sense that is this a normal trend or there could be in the future with three quarters down the line you would be in a state where this replacibility of skills would not be an issue?

Krishna Bodanapu No, I think it is something that will continue. I mean it is just the nature of our business. Replacibility is there in certain skills for certain levels. It is not there in others. So I think it is just the nature of our business. We do have to deal with it a little bit more till we get some more scale but that is there in the nature of our business.

Shivam Gupta The other question I had was that on the involuntary attrition part, so the numbers which we are arriving at the last quote in the number was a bit higher told than what is reported now. It was around I think north of 4%. Now we are having 2%, so it is something which has been reclassified to calculate this.

Anand Parameswaran Correct, earlier what we were doing was looking at voluntary abandonment and where we had initiated action on the employee because of voluntary abandonment as part of involuntary attrition. Now, we have reclassified that as voluntary and restated the previous quarters as well. So, for the previous quarter the voluntary was 15.5% and involuntary was 2.5 %and for this quarter we are at 15.3% and involuntary at 2.2%.

Shivam Gupta Last question from my side is that could you get a sense of – even if a rough card of your order book over the next 12 to 15 months?

Krishna Bodanapu We will try to give that out from the next quarter because we still have one or two issues in the system that we are trying to resolve. I can just say that prime facie it is going up but before giving out a number I just want to get confidence. We were hoping to do it this quarter onwards but we will do it in the next quarter or so once we have the confidence in the number.

Shivam Gupta Okay. In that case can you share a different metric on the same that what would be the average duration of your order book?

Krishna Bodanapu It is about 4 to 5 months is the average duration of our order book at this point.

Moderator We have our next follow-up question from Ravi Menon of Centrum Broking. Please go ahead.

Ravi Menon With this increase in support function, the industry leads introduced as part of the restructures?

Krishna Bodanapu Yeah, the increase in support function is also from Softential. We have some people added for the marketing functions there but we have also added a few people in strategy as well as some people in marketing as part of the recast that we have done and that is also contributing to the additions in the support functions.

Moderator Our next question is from Sumit Poddar of Birla Sun Life Insurance. Please go ahead.

Sumit Poddar Just wanted to gauge as far as the margin trajectory is concerned and what are we expecting for this year and how are we going to achieve it as such?

Krishna Bodanapu The margin trajectory as I said will be back to being a flat year compared to last year at constant currency. So last year we did 18.6% but because of currency right now it looks like close to 17% will be a flat year if you just take out the 110 basis points or so because of currency. That is how we believe it will look like for the year. It will be an increase through the year and we are saying this again. We are not wishing for it. We are saying it because of the kind of pipeline that we are looking it, the levers that we have with utilization and offshoring using this pipeline etc. We believe that we will come back to that number adjusted for currency again.

Moderator Ladies & gentlemen that was the last question. I now hand the floor back to Mr. Sandeep Agarwal for closing comments.

Sandeep Agarwal Thank you everyone for participating in the call. I will hand over the call to Mr. Reddy for his closing remarks.

B V R Mohan Reddy Thank you very much again for participating in our Quarterly Earnings Call. We appreciate your support and please be reassured that we are working on the margins too and the margins will come back in the coming quarter. Thank you.

Moderator Thank you. On behalf of Edelweiss Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.