"Cyient Q3 FY2015 Earnings Conference Call"

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Moderator Ladies and gentlemen, good day and welcome to the Cyient Q3 FY2015 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder, all Management 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 this 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. Sandip Agarwal from Edelweiss Securities. Thank you and over to you sir.

Sandip Agarwal Thanks Malika, good afternoon to everyone. On behalf of everyone let me welcome you to the Cyient Q3 FY15 Earnings Call. We have with us the senior management of Cyient headed by Mr. B. V. R. Mohan Reddy along with senior members of the management team. Without further ado I will hand over the call to Mr. Ajay Aggarwal to start the proceedings. Thanks.

Ajay Aggarwal Thank you Sandip. Good afternoon ladies and gentlemen, I welcome you to the Cyient Limited's Earnings Call for the 3rd Quarter of Financial Year' 2015 ended December 2014. I am Ajay Aggarwal – CFO. Present with me on this call is Executive Chairman B. V. R. Mohan Reddy, Krishna Bodanapu – Managing Director and CEO, Ashok Reddy – President of Corporate Affairs, Infrastructure and Anand Parameswaran – Head of HR & Talent Development.

Before we begin, I would like to make customary statement that statements made in this discussions today maybe forward-looking in nature and may involve risk and uncertainties. A detailed statement in this regard is available on our investor update which has been emailed to you and is also posted on our corporate website. This call will be accompanied with an Earnings Call Presentation as usual, details of the same have already been shared with you.

I now invite Mohan to please give a brief overview of the company's performance for this quarter.

B. V. R. Mohan Reddy Thank you Ajay and good evening ladies and gentlemen, I welcome you all to this conference call. Quarter 3 was another strong quarter for Cyient on all operating parameters including revenue, margin, and free cash flow. While we faced a significant headwind with lower working days across all geographies, we witnessed good growth in demand which translated to revenue growth, better utilization, ultimately better profitability. Q3 also saw us finalize our five year strategic plan for growth for the verticals we operate in and number of actions from the strategic plan area being currently implemented and one key aspect of this is signing of an agreement to acquire the majority equity of Rangsons Electronics Private Limited. We expect to see a number of other actions and initiatives in coming quarters based on the strategic plan. I am proud to share that we were awarded the national award of excellence in corporate governance for 2014 by the Institute of Company Secretaries of India – ICSI. This reward is a further validation of our corporate governance practices and the value we place on transparency and good governance.

Now let me take you through numbers for Q3 FY15 performance:

Our quarterly net profit crossed Rs. 1.0 billion mark, a big milestone in the history of the company. Revenue growth, the revenue was Rs. 711.8 crores which is up 5.9% quarter-on-quarter, or 23.1% year-on-year. In US$ terms it was $114.7 million, up 3.5% quarter-on-quarter or 23.0% year-on-year. On constant currency, because there were fairly wide fluctuations in the foreign exchange numbers for both Pound as well as for Euro, our revenues grew by 5.3% quarter-on-quarter. Operating margin is at 16.3% against 16.1% in the previous quarter which is up by 19 basis points. Operating profit at Rs.1,157 million, up 7.1% quarter-on-quarter, 1.8% year-on-year. The net profit is at Rs.1.008 billion which translates up to up by 11.8% quarter-on-quarter or 45.3% year-on-year.

Business continues to generate strong free cash flow, absolute free cash flow generated is Rs. 90.5 crores, highest ever in any quarter. The FCF as a percentage of EBITDA for the quarter stands at 59%. Free cash flow as a percentage of EBITDA on year-to-date FY2015 basis is at 52% and is up 38% on absolute basis as compared to the previous year. Total DSO for quarter 3 was 85 days which an improvement of five days QoQ, and is our best ever DSO for any quarter. Cash balance including liquid investments is at 800.3 crores, highest ever in the history of the company. We had strong growth across all geographies between 4% and 6% in constant currency terms. DNO business grew in double-digit at 15.7% quarter-on-quarter in constant currency. Employees' gross addition for the quarter was 846. 23 new customers were added during the quarter, 8 in Engineering, 15 in DNO.

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

Ajay Aggarwal Thank you Mohan. So I will just give more color to the revenue of $114.7 million that we achieved during the quarter. First, when you look at the stable first thing I would like to highlight is both in INR terms as well in dollar terms we have a growth of 23% on year-on-year basis.

In terms of our operating units, the Engineering we had the challenges in terms of less number of working days and that has resulted in a degrowth of 2% in dollar terms. As Mohan already explained we had a lot of headwind from all the currencies that we operate. All currencies, Euro, GPB and AUD, depreciated against USD by about 5% to 6%. If you exclude that impact than in constant currency Engineering would be flat. In terms of data transformation and network and operations, we had a very good quarter with 12.5% growth even if we exclude Softential still they will be tracking about 4% growth in dollar terms.

All the geographies have shown a good growth. While the dollar numbers for EMEA and Asia Pacific looks to be lower but each one of them is much higher in constant currency because of 5% to 6% depreciation impact of Non US$ currencies involved in those geographies. So in general I think all the geographies this time have been growing between 4% to 6%.

In terms of one of the things which happened in this quarter, we had a revenue of Softential of about $9 million which was a significant jump of about +$3.7 million compared with the previous quarter. This upside, actually we were expecting this revenue to realize in quarter 4. This upside has come because customer had his budget closing in December and we were able to deliver this product by 31st December. Both the revenue and cost have hit us around last week of December and that is the main swing which is determining the swing of $5 million to $9 million in Softential, this was a little unplanned as I said. In terms of overall company, we saw 23% year-on-year growth in revenues. I will move over to the next slide.

In terms of profit and loss account we have seen that first time we have crossed net profit of 1,000 million or 100 crores in a quarter, and posted Rs. 1,008 million of net profit. In terms of operating profit improved from 16.1% to 16.3% in this quarter. This quarter we did get the benefit of the mix of revenue which has helped us to the extent of about 100 basis points. Also, improved utilization has helped us, our utilization is better by about 100 basis points. These have been the two significant items. Of course in this quarter we also had a headwind in terms of while there were lesser days for billing for all geographies but salaries had to be paid for whole period. That was a headwind but got offset by favorable mix of revenue and higher utilization. Therefore, on net basis we had 19 basis points improvement in the margin.

In terms of other income, we do have a detailed slide later but in general the benefits on forwards contracts continue to be there and the treasury income is also higher.

In terms of tax rate you are seeing a tax rate of 28%, this is better compared to 29.6% last quarter. Again, two things are happening, the benefit of full year impact of SEZ is helping us in this number of 28%, at the same time the headwind which was caused because the tax rate on the other income is applied at 34% that is there. So if you look at this tax rate, if we had no income on forward contracts like the last year this rate would have looked like something like 24%-25%.

In terms of net income margin we have done 14.2% compared to 13.4%.

From the free cash flow and working capital management perspective, I think it has been a good quarter for us. As Mohan already mentioned we have generated Rs. 905 million in this quarter and Rs. 2,044 million for the year as a whole and our capital expenditure continues to be less than 3%. Our DSO have come down from 90 to 85 days while you see that the billed DSO have gone from 66 to 70, actually that's a good news because net-net whatever is the unbilled DSO when they get billed at the quarter end they are moving into the billed DSO. Overall DSO is lower so we get the benefit of this going into the free cash flow improvement.

In terms of hedge book, we continue to be consistent with our policy of having forward contracts on 70% of net inflows. As we speak we have covered for the next 12 months and you can see on the slide that what is our position in terms of the outstanding forward contracts. We have $88 million in US dollar and remaining in other respective currencies. If you total all the currencies than we have total forward contracts of about $126 million. Our rate for the next 12 months is Rs. 65.7.

In terms of other income, our treasury income is higher marginally from Rs. 127 million to Rs. 138 million in proportion to the cash that we have. We did have the gain on the forward contracts of Rs. 178 million, as I said our forward contract position continue to be healthy and this quarter we had forward contract at Rs. 68, they got realized at Rs. 62, that Rs.6 gain is what is flowing into the forward contract. So this is how the other income of Rs. 365 million is there.

Now with this I will hand over to Krishna to talk about the M&A and also about the business outlook.

Krishna Bodanapu Thank you Ajay. Before I talk about the M&A a little bit I just want to talk about one thing in terms of the Financial Results with for this quarter.

While Ajay presented the numbers and went into a little bit of detail, as you know that last quarter we were expecting that Q3 is going to be a little bit soft and that by Q4 we should be back on track to our average growth rates and therefore there was an expectation for overall H2 performance. I want to reiterate that the expectation for H2 still remains as it is. We did have a much stronger Q3 than what we had originally anticipated and as Ajay said there was a project which had also some component of software, etc., which we were expecting to deliver in Q4 but we were able to deliver in Q3 or we were asked by the client to deliver it in Q3 and we were able to do that by doing some additional work, etc., and accelerating some processes there which really helped us with the Q3 numbers. Having said that, the outlook for H2 remains as it is so we will have a soft Q4 and we will talk about this in a little bit more detail in Q&A, but I want to reiterate that things are looking quite positive at this point overall and it is just the timing issue that has helped us deliver a significantly better Q3 than what we had originally commented upon.

Having said that let me just come to the presentation. On the acquisition pipeline there are two deals that happened this quarter, one has been acquired i.e. the deal has been closed for the company called Invati Insights which does analytics work, now renamed as Cyient Insights. As I am sure many of you are aware on January 2nd we signed the other deal which was Rangsons Electronics Private Limited, we expect that to close around the end of this month so we will have some upside from that or we will report some of that revenue. But equally importantly the pipeline continues to be quite healthy and there are 6 letters of intent that are currently in progress.

The intent of the M&A or the focus for the M&A group is the same as what we had articulated and that's really what we are going to stick to, though there are some elements of this such as product realization or telecom network management which have already been done which we will not try to strengthen further but we have a good pipeline of deals that we are looking at.

Now we are moving into the next slide around the commentary for each of the industries. Overall I want to reiterate what Ajay said that the business looks quite strong at this point. Aerospace continues to look good, like one of the things that we had talked about was our focus of moving away just from being in the upfront design cycle of aerospace to do work in the sustenance part which is aftermarket manufacturing and analytics around the lifecycle of a product, we are really seeing some very-very good opportunities there. I am also happy to report that Cyient Insights is seeing some deals from the aerospace industry based on Cyient's parent company's relation and overall the market looks good. We do have a little bit of a challenge in Europe, the good news there is that it is a smaller part of our market but we do have a little bit of visibility challenge with specially new business. Our existing clients continue to do well but it is just a little bit of a challenge across new business.

Transportation which is essentially the rail business, we see positive traction across North America and Europe, rolling stock which is the actually train is doing very well. We have had some delays or some impacts because of delay in the European signaling business; this is a part that does support for signaling. Again, we have the people in place, we have the preparation done, it is just the projects have been pushed out a little bit but even this we see Q4 will see a pick up on the European rail signaling projects and of course going into Q1 we are going to see some good traction.

Off highway products is also something where we are seeing good momentum, there is interest across the board, especially in analytics which is important for this group because of the fact that the equipment goes through a lot of rigor, I mean this is the equipment that’s really out in the field that goes through a lot of rigor and we are seeing a lot of opportunities around operations and the equipment, analyzing how effective it is.

Medical and Electronics, we see good traction, though it is a small part of our business and is about 2% of our overall revenue. So it is a relatively small part but I think this is an area that we are very bullish about specially with adding the capabilities of Rangsons in the system integration field, we are seeing some very-very good opportunities around design all the way to manage through the lifecycle of the product including the Testing, Prototyping, Certification, Sourcing, putting it together, integrating and so on so forth. So this is an area that we will hopefully see a lot more traction going forward given the extension also in our capability.

In Semiconductor, the last part of the Product Engineering side of our business, we do see some challenges on one of our large clients in North America just because of their order pipeline. But the good news is we are seeing some very-very good traction in Asia Pacific and being semiconductor it is no secret that Asia Pacific is really Taiwan, so we are seeing some really good traction there and that traction is making up for any softness that we are seeing in North America. Obviously those resources are also quite difficult to find, quite expensive to hold on so the fact that we are able to load balance is working out quite well in that particular market.

In Utilities, the largest Utility that we have had continues to performance well, this is a client in California for whom we do network design of their Utilities, we see some reasonable ramp ups, we see some good wins, and overall we are quite positive of what is going on there.

Communication is also doing well; we have a couple of new clients that are ramping up at this point. Equally importantly we are finally seeing again, it is not a big number but we are seeing elements of synergy that are starting to happen with the Softential acquisition, the ability to cross sell Cyient's capabilities into Softential and vice-versa has started happening.

Energy and Natural Resources – there are some positives for example in APAC but overall this market continues to remain weak for us. The customer pipeline in oil and gas is actually quite weak and that's also expected considering where the price of oil is. Similarly the mining industry is looking quite week and just the sort of the discretionary spend in energy and natural resources has come down and will continue to come down so we will see some headwind there, but again, that's not a very large part of our business to be concerned about.

So overall I want to say most of the industries are looking quite positive at least for the work that we do and where we are and our relationship. There are some challenges, for example on energy and natural resources for one, but overall I believe the business momentum looks quite strong, I am quite pleased with where we are ending this year and going into the next year and overall we will see momentum continuing. While Q4 will be a soft quarter just for the reason I explained. The core fundamental momentum in the business is quite strong and that's quite pleasing to see at this point.

Before I wrap up – I just want to do two sort of housekeeping things, one is that we are going to launch the investor satisfaction survey, the ISAT survey next week, you will receive an email and some details on how to go about this. We really appreciate your feedback from last year when we did the survey and as you see we have taken it seriously, we have worked on a lot of aspects of the feedback that we got from our investors. So obviously we would be greatly appreciative if we can also get the same level of feedback this year. And the second thing is that we will have our Investor Day on the 8th of May 2015 in Hyderabad and you will receive a formal invite but I just want to take this opportunity to flag that 8th May is going to be our Investor Day and we would really love to host you hear in Hyderabad.

With that I will hand it back to Ajay or will open it up for question-and-answers.

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 Shrivatsan Ramachandran from Spark Capital. Please go ahead.

Shrivatsan Ramachandran Just wanted to get your thoughts on couple of specific areas. One is, in terms of the clients especially on the Engineering services side have you seen any change in the way they engage with us because we have seen some of the larger peers talking of clients now starting to look at multi-year engagements beyond a project and following a structured outsourcing process. So just wanted to know some of the clients whom we have been engaging for quite some time are there some changes that you are seeing the way they engage or the time horizon at which they are engaging?

Krishna Bodanapu No Shrivatsan, I think it continues, it has always been like that for us, I mean while the work might be project-by-project it is just that relationship has been quite strong over many years. For example if you look at Bombardier transportation that we celebrated our 11th year anniversary, we have consistently grown year-on-year over the last 11 years or we have grown some years better than others but we have grown with them over the last 11 years, it is about $20 sub million account for us, but at any point we are doing multiple different projects. So the work was project-by-project but the relationship is something that's very long-term sustainable at this point. So I think it is in our case I think that's always been the case, while the work comes via project, the relationship has always been a very long-term relationship. So I think it has always been the case, I would not say people have changed in the way that they are engaged with us.

Shrivatsan Ramachandran Sure. And second question was on the offset clause, there has been a quite a bit of noise from the government also on Make in India or other initiatives, so just wanted to understand some lack of clarity on whether Engineering services would be part of the offset clause. Any update that could be given would be very helpful.

B. V. R. Mohan Reddy Shrivatsan this is Mohan Reddy here, still the Engineering services are under abeyance at this point, not even Engineering Services, broadly speaking the services which have been kept under abeyance. But there has been a lot of work that has been done in the last 18 months, there is a positive movement in the thinking. We are hoping that in the course of next four weeks or so we should get Engineering services back on track.

Shrivatsan Ramachandran Great. Just one last question, Anand just wanted to get your thoughts in terms of given the growth we are seeing and the expected growth, how do you see from a talent point of view, in terms of availability or in terms of the new skills that you need to train. I just wanted to get your thoughts on that.

Anand Parameswaran Yes, so in terms of talent availability in the market, the broad based skills are reasonably available, we are not facing any significant crunch. If the typical sort of crunch that we run against is for the niche skills, fairly high end as well as hiring in specific overseas markets where obviously ramping up talent is slightly more a difficult than it is in India. So these are the two areas that we run into, but from a talent availability and training and up skilling perspective I would say that we are reasonably confident of supporting the business growth that is coming our way.

Moderator Thank you. The next question is from the line of Harit Shah from Karvy Stock Broking. Please go ahead.

Harit Shah Ajay, I had one small query. As the point was taken regarding the fourth quarter which was likely to be a soft quarter, would it reasonably therefore then to assume from FY16 onwards that you would probably go back to a 3% to 4% kind of growth trajectory, I mean not asking for the guidance as such but is that something that can be reasonably expected?

Ajay Aggarwal Yes, absolutely, I think that's the momentum and that's the potential that's there in the business, so it's just got a little bit readjusted between these two quarters, but 3% to 4% is where I have a fair degree of confidence that we will be in a steady state. Also if you look at it in spite of whatever happens in Q4 we would have been there to 3% to 4% number consistently for the last five to six quarters and that will continue. It is just that sometimes things just move around which is what happened this time.

Harit Shah Sure. My next question, I was curious and wanted to know about this, there seems to be almost 200 employee reduction in your DNO segment and you were mentioning something about some employees voluntary had abandoned services**.** Can you just throw some more color on this issue right now?

Anand Parameswaran So essentially what we have if you look at it is we are showing a net addition of 18 overall at the company level but there is close to about 300 people that we have taken out of our roles who had voluntarily abandoned services but they were still part of the database. They were not getting paid so they were not part of utilization calculation but they were in the database. So now based on certain internal measures and decisions, we have decided to take all of the backlog of abandoned cases out of our data base, that's close to about 435-450 people or so of which we have done close to 300 this quarter and we will do the remaining next quarter. So effectively if you look at in terms of man power in the DNO business the net additions will be close to about 150-160, but because there is a portion of people who have been taken out you are seeing sort of a negative there.

Harit Shah Yes. But just to clarify, so basically these people are not really working on any projects, would that be right?

Anand Parameswaran That's correct, these people actually they are not coming into the office any more, they have abandoned service already but they were still in our employee database and we have decided to remove all of such people in a phased manner over two quarters. So we have done the majority this quarter and we will do the remainder next quarter and that you will see essentially a one-time spike in our attrition numbers but the real attrition behind is actually only about 16% and not 25%, the remaining 9% is the backlog that we are clearing.

Harit Shah So just correct me if I am wrong, so basically what you are saying is that essentially these people have already left the company but you are not necessarily recorded properly back in your databases. Would that be the right way to look at it?

Ajay Aggarwal No, I will just put it a little bit differently, we have recorded it properly. It is just that legally we can't terminate them from the rolls of the company. Though we are not paying them, we couldn't terminate them. It is just that we took a call that the moment that they go onto this category which is voluntary abandonment we report them as attrition rather than reporting them as attrition when they actually left the company which is what we were previously doing.

Harit Shah And just one last question, there seems to be some sort of a typo error in the investor sheet regarding the offshore-onsite breakup, in both segments actually I think there has been an increase in the offshore component but somehow for the overall company there seems to be a quite a bit of a decline in the overall offshore percentage or contribution. So is that an error?

Ajay Aggarwal No, in terms of the change from 46.5 to 44.8, that is the correct change. Let me just check whether breakup between Engineering and DNO whether there is a typo. I will just come back to you, we will reply before we end the call. Off-shoring has decreased from 46.5 to 44.8 for the company.

Moderator Thank you. The next question is from the line of Abhishek Shindadkar from ICICI Direct. Please go ahead.

Abhishek Shindadkar My first question is regarding the revenue growth excluding Softential, could you highlight as to what is creating the softness in the business ex-Softential, that would be helpful.

Krishna Bodanapu Okay. If you look at it in Q3 what has happened is the softness came from the Engineering business, DNO still grew at a pretty good number of 4.1% quarter-on-quarter. The softness came from the Engineering business where what happens is a number of projects that we do have an onshore component, if you look at the split in Engineering 55% of the work for example is onsite and that's because we do that for domain expertise or we do it because there is sensitive data that cannot come out of a country and so on. So what happens in Q3 is because of the various holidays that are involved across various countries, Diwali and Dussehra in October takes away three to four working days in October or Thanks Giving and Christmas takes away a number of working days in November and December. Overall, our capacity comes down between 3% and 4% in that particular quarter. So that is where the softness comes from. Our capacity itself has come down quite significantly in Q3. On top of that if you add the fact that there has been headwinds because of currency that's where the growth shows up as (-2%) or so. If you take out the currency impact basically we have had a flat quarter. So in spite of having 4% lower capacity overall by taking everything into account we'd still had a flat quarter. So fundamentally we still are quite happy with what is happening because with capacity coming down if it's still a flat quarter that means the core demand has gone up but it shows up a little bit differently because of these reasons.

Abhishek Shindadkar That's helpful. And the second part of the question is with regards to Softential, what is a sustainable growth rate that we should look at on a quarter-on-quarter basis for Softential?

Krishna Bodanapu We believe that the Softential growth rate will also be at the company average at this point. We are working on a number of initiatives around synergies, etc., but I don't want to commit to them till we actually start seeing it. But overall we believe that's it is a 3%-4% kind of a growth rate business probably….

Moderator Thank you. The next question is from the line of Madhu Babu from HDFC Securities. Please go ahead.

Madhu Babu Sir, subcontracting expenses have been rising steadily, I think now it is around 9% of revenues, so what is the outlook there, and next year will that be a margin lever for the company?

Ajay Aggarwal So I think we have been discussing it in a number of earnings call, it is totally linked to the mix of the business. We have a specific project in Utilities in North America which had peaked in this particular quarter, it is much higher, it is about 20% higher than the average run rate, because of that this number has moved to around 9% whereas it was tracking to 7%-8%. We expect with the near few quarters it should track at 7% to 8% again.

Madhu Babu Okay. And sir Softential revenues next quarter now we had a US$ 3 million incremental, so next quarter would it be lesser, in that sense would it be like 2 million or 3 million from Softential?

Krishna Bodanapu No, it won't be that low but we will be back to more of the Q2 numbers with a little bit of growth on top of the Q1.

Madhu Babu Okay. Sir and lastly within the Top 5 there has been a substantially strong growth, I mean what is driving that and whereas in Top 10 that has not been replicated. So which are the accounts and which are the verticals where you have seen that bump up in growth?

Krishna Bodanapu I think Utility is the strong driver for that, there is a client in Utility. Again, we finished a lot of the work for them towards the end of the year and that's what put them there. But we'll see that it will come back to a more manageable number going forward, more sort of a steady state number going forward.

Moderator Thank you. The next question is from the line of Karan Uppal from Equirus Securities. Please go ahead.

Karan Uppal So, firstly a little bit I wanted to understand that you have commented in your prepared remarks that you are launching some services adjacent to your current business and one of them is a CAD. So I just wanted to understand what is the kind of work which is enticing you to launch this kind of service, and is it some kind of an offshoot from your current work for the Utility client? And I will follow-up with a second question.

Krishna Bodanapu Yes, so I think what makes us launch these services is just where the opportunity is and where we are able to address these opportunities. So for example client acquisition and environmental design is an adjacency because we do the technology part of the design, now we are also doing the environmental impact studies and what that means for a particular design. So it is sort of a natural extension of the capability and of the services that we provide. So what really drives it is where is the opportunity and what does the customer want? We have a check list filter on how we launch the new service such as before we launch a service we will actually end up putting up a fair amount of money into building simple concepts. So it is really where the opportunity is and where we believe we can make a difference in the opportunity because obviously we come across a number of opportunities on a day to day basis but we also want to make sure that we can make a difference, we can deliver a differentiated value proposition and ultimately obviously make a good margin out of it for ourselves. So that's really what is driving it.

Karan Uppal Okay. But if I look at the remark it says it involves client acquisition, planning, structure, integration and certification. So is it like that on the behalf of the client you would do all these work and ultimately give a turnkey solution to the client?

Krishna Bodanapu I would still say not entirely the whole turnkey but this is another element of their network plan, I mean turnkey we are still a little bit away from being able to do the turnkey solution but this is another important aspect because there are 5-7 things that need to be done before you can actually start implementing the project and this is one more element of that solution.

Karan Uppal On the growth that you have in the Utilities client, so if I recall in the last call it was mentioned that this project is a long-cycle project and it has got I think two phases or something, so during the first phase the margins would remain depressed. So is that reading still correct or am I missing something there?

Krishna Bodanapu No, that is correct but I think we are coming towards the end of Phase-I, we might have some more spillovers this quarter but then we will go into the next phase of the project where margins will get a little bit more.

Karan Uppal And lastly obviously you had explained in some detail about this involuntary attrition number, so I just want to understand that how long do you carry these employees in your system before you are legally allowed to terminate them?

Anand Parameswaran That really depends on how the legal proceedings go forward, so that is depending on the type of abandonment which is there, etc. Majority of these I would say are in the last four to five quarters but there are a few which even date beyond that. But now going forward once we finish the clearing of the backlog we will remove them from the database on the day when they are declared as abandoned and any legal proceedings will go on in parallel.

Moderator Thank you. Shrivatsan Ramachandran from Spark Capital. Please go ahead.

Shrivatsan Ramachandran Just wanted to get your commentary on margins front, we have been slightly softer than what the initial plan was for FY15. So just wanted to understand what is the plan from near-term and also from FY16 perspective?

Krishna Bodanapu I think Shrivatsan on basically looking at what the business looks like at this point will again have a little bit of a flat quarter in terms of margins of Q4 which means that we will exit the year at roughly between 15% to 16%. In terms of commentary for next year I would request and we will hold that and we will come back with a better commentary later during the quarter because we are in the process of doing our planning and we also want to come back with some specifics on what we will do to get to a better margin because we had planned on a bunch of things that would have happened this year which would have helped us significantly improve our margins. But honestly those did not happen, I mean we will end up at a constant currency basically our margin is down about 250 basis points for the year which is essentially what went into this salary increases. So again salary increases are only sort of three months away but the impact of salary increase is only three months away. So we are doing certain things that we believe will help us mitigate that this time around, but once we have a better peg on the budgets towards the middle of this quarter we will come back with a better commentary on margins for the next year.

Moderator Thank you. The next question is from the line of Abhishek Shindadkar from ICICI Direct. Please go ahead.

Abhishek Shindadkar Regarding the contribution of Rangsons for the Q4 you said there will be a two month contribution in the Q4, is that correct sir?

Krishna Bodanapu Roughly, yes.

Abhishek Shindadkar Okay. And in terms of the growth rates for 2015, I know you mentioned it on the call separately but any change in the assumptions because I believe the growth rates have moderated substantially from historical average, right from probably (+25%) you talked about 10% to 15% kind of growth rate. So is that a correct assumption?

Krishna Bodanapu For 2016 I think it is a little bit early to comment but for 2015 if you look at YTD we are about 23% growth rate, obviously there is about 6% of Softential there but with 17+6 for YTD FY15. Obviously with Q4 that will moderate a little bit but of course nothing dramatic. And also because Q4 of last year was also pretty strong quarter for us so that will moderate mathematically. But I think for FY16 like I said across Rangsons plus Softential and everything else, the 3% to 4% is what we will still work on.

Abhishek Shindadkar Okay. And just to clarify data point, you mentioned that Rangsons has grown year-to-date 23%, is that correct?

Krishna Bodanapu No, Cyient has grown 23%.

Abhishek Shindadkar Okay, fair enough. And regarding seasonality to Rangsons, is the seasonality different than arts because being in the Manufacturing business will the seasonality be different or it is more or less similar to what we have?

Krishna Bodanapu No, it would be a little bit different and what we will do is next quarter when we have the first round of consolidation we will give you a little bit more color on seasonality also and various dynamics of our business there.

Moderator Thank you. The next question is from the line of Sandeep Muthangi from IIFL. Please go ahead.

Sandeep Muthangi I had a quick question about the operating metrics, I am just noticing that when you are reporting the onsite number for the individual segments for both DNO and the Engineering Services so onsite mixes decrease to this quarter compared to last quarter whereas for the overall company it has increased. Can you help me reconcile this anomaly?

Ajay Aggarwal So Engineering is at 59% and DNO is at 46%, and that's how we go to 55% for the overall comapny.

Sandeep Muthangi Right. And similar kind of question with respect to the top 10 clients also, so if I just look at the top 10 and then calculate what is the growth with the top 6 to 10 clients it is a sharp decline of some 30% this quarter. Is there any one-off that happened with the top 6 to 10 client bracket or is it another typo in the metrics?

Krishna Bodanapu We will check that and come back Sandeep.

Sandeep Muthangi Right. But I just wanted to see if you have seen any business decline or anything because this sounds rather sharp to me?

Krishna Bodanapu No, there is nothing. We don't have a significant decline because of seasonality we had some clients where there was a little bit of softness but nothing beyond that.

Ajay Aggarwal Growth from all the top 20 customers is tracking at the company growth rate, I just want to make a broad this thing, that's what we internally review and we will see that number and cross check if there is an incorrect trend there.

Moderator Thank you. The next question is from the line of Karan Uppal from Equirus Securities. Please go ahead.

Karan Uppal Just two data points, one, I just wanted to know what was the quantum of work that got pulled in this quarter for Softential, can you quantify and share your number?

Krishna Bodanapu Yes, it is about $2.5 million to $3 million approximately.

Karan Uppal And if I am not wrong you used to share, can you also give the EBITDA numbers of the segment like Engineering and DNO this quarter?

Krishna Bodanapu We don't disclose that information but we can help you understand that offline.

Karan Uppal Okay. So last from my side, Krishna you had just said that you have finished your five-year outlook, so two questions from that. One is, if you could share some color that in five-year in terms of size or in terms of profitability or profile how are you envisioning the company on a broad scale? And the other is that in that feature how important is the current day of the "Make in India" and where do you see you may have a positioning in that whole scheme of things?

Krishna Bodanapu Not yet, in terms of how it looks, I am going to hold that. What we would do is that during the Investor Day we'll share the details because I think that it is a much longer conversation and we also have to give you a little bit of a background of how things have rolled up, so it will be inappropriate to have a brief discussion right now. So at the Investor Day we will spend a lot more time on our strategy and give you a color of how things will look like.

In terms of "Made in India", again we believe that's a good potential exponential or an accelerator. Our five year plan has really made on certain assumptions of current business, how will it grow, how will the acceleration happen because of synergies including the S3 initiative product realization. "Made in India" is an important aspect which will enable us but we are not saying that all this is happening because of "Make in India", it is just a good enabler and if offsets in "Made in India" kick off in the right earnest, then it is a major accelerator though that's not the crux of our strategy.

Moderator Thank you. Next question is from the line of Nawaz Sarfaraj from IDBI Mutual Fund. Please go ahead.

Nawaz Sarfaraz Can you please give us some idea about the kind of project that you are currently working on in the Aerospace domain?

Krishna Bodanapu So we do a number of things, we do work for them on aero structures which is the fuselage and the wings and all that, we do work on avionics which is all the electronics and control systems, we do work on interiors which is the seating systems interiors, etc., and we do work on systems which is things that you don't see like air conditioning, landing gear, emergency brakes and many other systems, and then the engines which are the propulsion for the aircraft. So these are the five areas that we work on. The kind of work that we do is Mechanical Engineering design, we do electronics, we do embedded software, we do technical publication, and various other things. The way that work is we typically take on some very large projects which have a combination of these various services so we design something, we analyze it, we sometimes prototype it, and we give them a proof of concept. So it is a pretty complex way of working or it is a pretty comprehensive skill set, we have about 3,500 people now who are focused on the aerospace industry of which about 2,000 domain experts having at some point or the other worked in an aerospace OEM. So we have a very comprehensive capability in this business.

Nawaz Sarfaraz Okay. You mentioned in opening comment that you are also trying to do work in the aerospace domain wherein you will be considering on the lifecycle of the aircraft basically on the Analytic side. Can you be a little bit more specific on what kind of projects will those be like?

Krishna Bodanapu So basically these are projects where a lot of data comes in as the aircraft is flying or the aircraft is operating and you analyze that data and take some metrics away. There are two uses for that metrics, one use of that metrics is that you can get a lot of maintenance information, you can get it for example if a pressure in a certain sensor is dropping you can predict that there is a problem that is coming up with a certain component and you can proactively replace the component which obviously is very helpful with downtime planning, etc. So the Analytics is used for predictive maintenance and the second element is Analytics is also used for better design. So based on a design we know the performance of a component therefore next time you design it you can design it differently to enhance the performance. So we basically take a lot of information that comes out of an operating aircraft or an operating fleet of aircrafts and then we analyze it to make better decisions both on predictive maintenance and also on better design next time.

Nawaz Sarfaraz Okay. There are some reports which speaks of the big two namely Boeing and Air Bus cutting down on R&D expenses, so will that in anyway affect our revenue?

Krishna Bodanapu We do see that the upfront design is coming down and that's why our lot of focus in the last couple of years have been on the back end which is basically Aftermarket Engineering, Analytics, Manufacturing Engineering, basically things that don't go into design but are very important and again are very similar to design but are important in keeping the aircrafts running. So if you look at it right now, about 60% of our business is in the upfront design but 40% of the business is in the Recurring Engineering which is basically keeps things going and we have put a lot of focus on that and that's the area that's really growing. So yes, upfront will come down, it no secret but I think what we have done quite well is just made sure we are building out the Recurring Engineering capabilities.

Nawaz Sarfaraz Do you believe that the aerospace vertical or revenue can grow inline or more than the industry growth rate if we talk of IT sector as a whole?

B. V. R. Mohan Reddy I think aerospace is an important market, I think we have done some very interesting things there, we have built some significantly differentiated capabilities. Aerospace will at least grow at the company average.

Moderator Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Sandip Agarwal from Edelweiss Securities for his closing comments.

Sandip Agarwal Thank you everyone for participating in the call. I will hand over the call to Mr. Reddy for final remark.

B. V. R. Mohan Reddy Thank you very much for being present in the call today. I am aware that for some of us who are in Southern part of India it is a holiday for Sankranti, so I really appreciate you people participating in the call on our Q3 Earnings. Before I conclude, I again want to remind you that we will be starting our Investor Surveys pretty soon. It is very important to us, based on the feedback you give we have planned many actions which will improve our engagement with you. So we would earnestly request every one of you to kindly participate in the Investor Survey. And the second one was kindly, while we will send a formal invite, we also want to alert you that we are planning the Investor Day on May 8th at Hyderabad and we look forward to receiving all of you. Thank you again and have a good day.

Moderator Thank you very much members of the management. Ladies and Gentlemen, on behalf of Edelweiss Securities that concludes this conference call. Thank you for joining us and you may now disconnect you line.