CYIENT Q1 FY'16 EARNINGS CONFERENCE CALL

July 16, 2015

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Moderator: Ladies and gentlemen good day and welcome to the Cyient Q1 FY'16 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0" on your touchtone phone. Please note that this conference call is being recorded. I would now like to hand the conference over to Mr. Sandip Agarwal of Edelweiss Securities. Thank you and over to you Mr. Agarwal!

Sandip Agarwal: Thanks Karuna. Good evening to everyone. On behalf of Edelweiss let me welcome you to the Cyient Q1 FY'16 earnings call. We have with us the Senior Management of Cyient headed by Mr.BVR 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. Over to you Ajay!

Ajay Aggarwal: Thank you very much Sandip. Good evening ladies and gentlemen. Welcome to Cyient Limited earnings call for first quarter of financial year 2016 ended June 30, 2015. This is Ajay Aggarwal – CFO. Present with me on this call is our Executive Chairman Mr. BVR Mohan Reddy, Krishna Bodanapu Managing Director and CEO, Mr. Ashok Reddy – President of Corporate Affairs and Mr. Anand who is head of our HR and Business Excellence. Also before I make the next statement as I had sent a note to most to you in order to strengthen our investor relations we have made some changes. Again I am happy to announce that Asha Srinivasan has taken over from Animesh on the IR role and we also have Samir who is responsible for M&A & IR, so I look forward to your continued support to Asha and Samir as you have provided to all of us and of course I will continue to be available along with other senior management to all of you.

One more statement before we begin I would like to mention that some of the statements made in today's discussion may be forward looking in nature and may involve risk and uncertainty. A detailed statement in this regard is available in our investor update which has been emailed to you and is also hosted on our corporate website. This call may be accompanied with an earnings call presentation, details of the same has been shared with you.

I now invite Mohan to provide a brief overview of the company's performance for the quarter ended June 30, 2015.

BVR Mohan Reddy: Thank you Ajay. Good evening to all of you on the call ladies and gentlemen. I welcome you all to this conference call once again. The financial performance of Q1 FY'16 was in line with our expectations. Growth was muted in the services business and revenues were lower than expected in Rangsons. This was expected especially considering the seasonality in Softential and Rangsons business. Business pipeline, of course, continues to remain strong and we are confident that revenue momentum will accelerate from Q2 onwards.

In Q1 we executed the salary increases across the organization. Our salary increases were in line with the industry and peer companies. Anticipating this headwind we took a number of initiatives around utilization and pyramid correction resulting in a 33 basis point improvement in margins compared to Q4 of last year despite these headwinds. This puts us in to a good position to improve margins over the next few quarters. This also gives us confidence to deliver margins better than last year.

Rangsons integration is going on as per plan and we continue to see significant traction for the combined offering. Three leading OEMs qualified us for electronic manufacturing and system integration work. While there is a push out on revenues in Q1 for Rangsons, the order pipeline is strong and we continue to build on this.

The key financials highlights are revenue was 726.3 Crores, it is up by 16.8% year on year and lower by half a percent quarter on quarter. In US dollar terms we were 114.3 million, up 9.9% year on year or down 2.5% quarter on quarter. On constant currency terms, revenue was up 14.3% year on year and down 2.5% quarter on quarter. The operating margin was at 12.6% as against 14.1% last year or 12.3% in the previous quarter. The operating profits at Rs.91.8 Crores are up 4.7% year on year 2.2% quarter on quarter in spite of the wage hike.

Net profit was at 74.8 Crores, up by 9.2% year on year or down by 20.3% quarter on quarter. If you look at the financial metrics, Cyient continues to generate strong free cash flow, the FCF, the absolute FCF generated 37.4

Crores for the last quarter. The FCF percentage as the EBITDA for the quarter stands at 39.1%. Cash balance including the liquid investments is at 626.1 Crores; cash balance including Rangsons is 661.4 Crores.

On the business highlights quickly a few remarks I have, is the APAC continues to deliver robust performance and grew 14% quarter on quarter and 27.8% year on year. Engineering business grew 1.6% quarter on quarter and 5% year on year in US dollars driven by aerospace and defence and heavy engineering.

Employee gross additions for the quarter are at 697 excluding Rangsons. 26 customers added during the quarter, 13 in Engineering 11 in DNO and 2 in Rangsons. With this I would like to hand over the call to Ajay who will take you through the detailed financial performance of the quarter. Thanks for your patient hearing.

Ajay Agarwal: In terms of the quarter for the revenue we were lower by 2.6% quarter on quarter which I will explain in more detail what actually has happened and in rupee terms how we have a 0.5% degrowth compared to the last quarter. If you look at year on year our growth in INR is about 16.8% compared to Q1 of the last year and in dollar terms its about 10% and if you look at the headwinds of currencies that was there a year ago especially on Euro and British Pound and Australia all those currencies are almost 33% of our revenues and this number of Dollar will be more like 15% in constant currency.

In terms of the highlights for the quarter we had engineering, as Mohan already explained and DNO both of them have seen about 1.6% growth in each one of them. We had some good growth coming in aerospace and defence and engineering, we had some good traction in heavy equipment DNO the communication piece has done really well. Both of them the core businesses have grown by 1.6% quarter on quarter. Softential is where it was a year back, about $3.5 million and I think there has been some cyclicity in this business while we feel this business is robust and we should be able to track what we did last year and what we have planned for this year but in terms of cyclicity yes there is an impact on Softential. In terms of Rangsons (a) we did anticipate that Q1 is going to be lower than Q2 and Q3 looking at the order intake and the pipeline and when the orders have to be delivered to the customer. Also we had one more event during the quarter where revenue of about $3.2 million which we are expecting to be shipped in Q1 got shifted to Q2 that has further impacted the quarter for Rangsons. As such we have a de-growth quarter on quarter of about 34% but looking forward I am sure Krishna will cover the outlook going forward but as Mohan also mentioned I think order and pipeline everything shows that we are tracking to the original plan that we had on Rangsons.

In terms of the geographies, we really did very well on Asia Pacific 13.8% growth, America about 0.8% if you take out the Softential cyclicity it almost grew by about 4%. Europe, we did have a challenge of about -7% where the rate will be a shade lower in constant currency but otherwise I think other than Europe each of the geographies has been growing.

The profitability I think is in line with what we expected in plan, this quarter we had the wage hike which took off about 150 basis points in terms of the margin, but despite that we got a benefit of 33 basis points. We did get some exchange benefit of about 70 basis points in this quarter but most of the benefit which came to us was from the operational improvement, as you would see utilization is up by about 1.6% and the off-shoring has also been marginally up by about 0.6% so all this has really helped us to make sure that the margins quarter on quarter is 33 basis points up and you will see the gross margin also is flat despite the wage hike. It is a good sign for us and it gives us a good foundation to move forward into the coming quarters.

Other income I will talk more about it in the subsequent slide, again on the expected lines is moving in line with the lower gain from the forward contract with the rupee depreciation taking place.

In terms of tax rate I would like to explain, first the tax rate for the last quarter as we had explained excluding the one off which was there in terms of some reset of transfer pricing and those things the representative tax rate for the last quarter was 25%, this quarter excluding the one off our rate is 27.5% we do have a one off of about 1% in North America where we got some $200,000 of tax liability pertaining to the previous year, if I exclude that the tax rate looks like 27.5% and it is higher than our expected rate of 25% mainly because of higher proportion of profit and higher margins coming in North America.

In terms of the working capital management for Cyient, our cash position 6261 million INR we generated a free cash flow of 39% or 374 million INR quite in line with what we planned, we all know the last quarter of 73% was a little one off, we are all trying to work towards 40% plus free cash flow, so we are almost there and you will see this sustaining in the coming quarter.

In terms of the capital expenditure we spent about 1.9% or 2%, so capital expenditure is tracking alright. In terms of days sales outstanding we had some spillover of collections and some challenges, none of the challenges were pertaining to that we should be worried about, they were only about the timing of the collections and because of that we had an increase of five days in base days outstanding but we are very confident by September 30, we will go back to the DSO levels of March 31, if not better. There is nothing to worry on DSO and free cash flow; we will be tracking this metric as planned.

In terms of the hedge book I know there is lot of volatility in the exchange markets but again want to reconfirm to all of you there is no change in the foreign exchange policy by us. We continue to hedge for 70% of the net inflows 12 month forward what it means is we are covered up to the Q1 of next year in terms of the four quarters and you can see on the chart our total forward contracts in various currencies, they all total up to about $118 million. If you look at our next 12 months rate they are quite nice compared to the spot rates today and some of the gains at current rate should continue. When we estimate our position at current spot rate we find there can be a foreign exchange gain of about $8 million at current position levels. In terms of the other income you are all aware we had deployed substantial cash in Q4 for Rangsons acquisition, to that extent the invested cash has come down and accordingly the treasury income from 106 million has moved to 87 million which is on expected lines.

Foreign exchange gains, we did have very nice gains on Euro, they were as high as Rs.13 or Rs.14 per unit but the spread on dollar was not so high in this particular quarter. Overall we made 133 million on forward contract but I think even the dollar position in the next three quarters is much stronger than Q1, so that is how looking at this chart, if the, as I said, if the spot rate remains where they are today we are quite well placed in terms of the other income for the current year and in terms of the earnings.

Let me just explain to you, we all had said we have another business segment called product realization. It comprises of two segments, one is Rangsons as a legal entity and also we have a product realization group, a set of people who are working on pre-sales as well as program management, they sit in the legal entity, when we carve out those costs and overheads and also any revenue upside which comes from that group we get to this particular combined view of things and I will try to explain to you what it means.

Revenue, there was no significant change, the legal entity Rangsons and product realization is almost similar, I think the change is about $100,000 $200,000 which has come from product realization. In terms of the operating margin while for the Rangsons legal entity we did about 4.5% if I include these investment, the investments also include the investment on upgrading the management team of Rangsons which is also sitting as of now in product realization and if you remember we had said that Rangsons per se is a 12% margin business, historically we will be making an investment of 1% to 1.5%, so we expect the margins to be 10% to 11% so the normal rate just to explain to you the Rangsons margin versus product realization margin in a steady state of volume should be 1% down but in this quarter it is 2% down because the lower absorption of those common costs. In terms of the geographies 44% from America, 37% from AMEA and 18% from Asia Pacific.

With this may I request Krishna to take us through the acquisition and the business outlook going forward.

Krishna Bodanapu: Thank you Ajay and good evening everybody. Very quickly I will take you through the acquisition pipeline because that is something that is consistently talked about and then I will give you a quick commentary on business outlook before opening it up for any questions. The acquisition pipeline continues to look strong. We have an LOI in place that is now going through the diligence phase. If something happens there which obviously we are very hopeful will happen during the course of the quarter, but also there is a healthy pipeline, again our objectives do not change and our objectives are in line with our articulated strategy on how we can accelerate some of the strategic imperatives, strategic gaps that we have, so that continues to remain as it is and we continue to focus on making sure that we make prudent acquisition decision.

In terms of how the business looks like, as previous quarters, I will take you through industry segment by industry segment but aerospace continues to look good especially in North America we see some very good traction in the aerospace business, it is not necessarily plain vanilla engineering but its applications of engineering like value engineering which is cost takeout, manufacturing engineering which is supporting manufacturing etc. There is increased demand from our customers for risk sharing programs which is something that we are very comfortable doing and which is something that we have done well and we will continue to be quite bullish about North America at this point.

Europe we do have some challenges, the challenges are not so much so on existing customers, there are ups and downs on existing customers but we were counting on some new business coming in which has not come in at this point so that is a challenge that we are trying to work around but existing customers continue to do to plan at this point.

In terms of transportation, things look quite good. Actually in the next couple of days we will start quite a significant rail project that is something that got pushed out from Q1 also, it is something that we will have a good impact on us and we are quite confident to start that soon. Other than that the rail business composes of a few large customers and all of them continue to do reasonably well.

In terms of off highway products we are seeing good traction in off highway in North America again for new service offerings, not necessarily the plain engineering but some of the newer offerings around analytics and embedded software etc. There is also a lot going on in this industry around fuel regulations, emissions regulations etc., which means that they have to put in a lot more engineering into it which is translating to work.

In terms of energy and natural resources which is oil and gas mining there we see significant pressures actually, mining industry is quite low at this point, Oil and gas is quite low and that business is having an impact which is quite material including on Rangsons because one of our large customer is an oil and gas control equipment manufacturer who has pulled out a lot of their work to latter in the year and canceled some of it. Energy and natural resources is a pretty big concern at this point. The good news for us of course is that is a relatively small portion of our business but still something that we need to be aware of.

In terms of semi-conductors, yes there is a lot around newer devices in gadgets with internet of things connected the world etc., but we see good opportunities there. One concern or one risk that we have is IBM's microelectronics division which was our largest customer in semiconductor is now acquired by Global Foundries which is a standalone semiconductor manufacturer. This transition is creating some challenges in the immediate term. As they go through their transitions they are slowing down on some design events and so on and so forth, so that is a risk. I would still say it is not a concern but a risk. At the same time we are seeing good momentum in APAC and APAC is important because Taiwan and South Korea end up being very, very important semiconductor businesses but we are seeing good traction especially in Taiwan. Medical electronics is something that is new that we are pursuing where we have some deals there. We have won one or two small deals but it is a focus area and we will continue to build on it.

In Utilities we are seeing opportunity especially in North America and Asia, we saw emergence of smart grid and mobile workforce are what is driving this growth. The good thing for us is we have a couple of very large clients where we are working on long term projects and that is something that we continue to see a momentum on. In communications there is a lot going on 4G, LTE fiber to home etc, and we see good opportunity. Again I will say communications market is also quite cyclical for us but I think there is no concern over there and not to say that there is not a great growth but at the same time we do not see any downside concern just because while there is cyclicality we are also in a reasonable part of the cycle with all these new things coming up.

In terms of the manufacturing business that Rangsons what happened, just to elaborate on what Ajay articulated what happened is, we had a fairly sizable order for Q1 and there was an export license that was involved with that order, unfortunately that export license did not come through before June 30, it has actually come through in the first week of July so we are actually starting to ship that order as we speak but what it did is, it just pushed out that revenues from Q1 to Q2. Just from a numbers perspective it does look like a big hit but it is not a big hit because it is just a push out of revenue and we are actually seeing that the first parts of that order are getting shipped out and while it is unfortunate that it is a shift in quarters I am fairly confident that that revenue will happen in the next quarter and it has also started to happen.

So net-net the summary of all this in terms of revenue is things look quite good, especially if you look at it the core business grew about 1.6% quarter on quarter. The seasonality is Softential hit us, the revenue was the same as it was last year, actually it is pretty much same to the last digit as last year, so that was something and Rangsons also there was a pullout, so that is something that we are working towards, we have addressed this issue with a lot of you, we are taking you to how exactly the cycle works in Rangsons and we also do not WIP as a process, it is only recognized when the product is shipped so that is a little bit different than what we do in the services business.

We grew 10% which we believe is a good sign because that means that for the year in constant currency we continue to keep track of about 10 plus percent growth at least .Also because year on year number will determine what happens at the end of the year so that we are fairly confident.

Also I will quickly comment on margins. We have been talking about margins, because like I said last quarter the number that we hit was not our steady state numbers, 12.6%, we had identified some of these issues upfront and we took a lot of actions around them, that is why in spite of a wage increase and I am sure there will be questions on it, I will say offshore we were roughly at about 8% numbers for wage increase, onsite we were between 1 and 2%, in spite of that and all of that has been executed in Q1. As of April 1 everything has been executed, in spite of that margins increase by 30 basis points, so we won't have anymore headwinds on account of wagehike is what I do want to confirm, so for the year we were fairly confident that we will have a better year than last year in terms of margins and that is what we were working towards.

The last thing is on DSO, just to add what Ajay said, we have just had some push outs in new project starts which just adds up to outstanding but overall we will have a good year again in collections, it is just a one quarter blip that we are seeing hit collections. So with that we will open it to 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 Aishwarya from Spark Capital. Please go ahead.

Srivathsan R.: Just wanted to understand how would Y-o-Y growth look for the year gone by if we had to adjust on a constant currency basis for Rangsons acquisition and also it will be helpful if you can give more thoughts on a Y-o-Y point of view given the seasonality that we could see both on Softential and Rangsons, just a suggestion from my end.

Krishna Bodanapu: So volume growth was 10%. In constant currency we grew at 14.5%. Of that 14.5% Rangsons contributed to about 4.5% or so 5%, so if you take that out in constant currency year on year we grew 10% on organic basis. Softential was there last year this year everything else was there last year this year and year on year we grew 10% in constant currency.

Srivathsan R.: The second one is more on the margin front, this quarter it has been a strong performance on the margin front, would you kind of relook at the targets you had set yourself for FY 2016 which is about 100 basis points or margin expansion including Rangsons about 200 basis points excluding Rangsons, is the goal an easy goal as things stand now?

Krishna Bodanapu: I think we will try to set the easy goal first before we set up more aggressive goal, I think we want to be realistic about it, it is still quite an ask because if you look at it last year we did roughly 15% a shade below 15%, so, for us to go back to 15% for the year is still a reasonable ask because Rangsons also will come at, Rangsons revenue will accelerate quite significantly that also comes at lower margin, a 10-11% margin. So if you actually look at all this put together it is already quite an aggressive ask, it is not a given, I mean, we have definitely started off a little bit better than what we thought we would be because after all the salary increases we thought we will see a dip but I think you know lot of kudos to the operating team, they have managed it well so I think with the headwind that we get in Rangsons there are large numbers that we expecting there, I think it is still quite an aggressive target. I would not consider it easy Srivathsan.

Srivathsan R.: My last question we have been expecting any updates from the government or the NASSCOM when it comes to the offset piece for services, any update on that front?

BVR Mohan Reddy: We are still working on it Srivathsan. We have Government of India Department of Defence constituted an expert committee, expert committee has finished the deliberations with various different associations including NASSCOM, we have made a representation. I think we had a peek at the draft recommendations and they look very positive towards the offsets and covering ICT into offsets too. But we still haven't got any official confirmation about which way they are going, but I think there is fairly good amount of progress that is happening on that count.

Moderator: Next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Sir, congrats on good margin performance, I have a question on Rangsons, what should be our full year revenue target, are you expecting a decline compared to the last year number in Rangsons or are you still optimistic about the growth?

Krishna Bodanapu: Last year if you look at it we only took about $9 million of revenue compared to last year but obviously if you look at Rangsons standalone at this point we don't expect a decline we at least expect about a flat year is what we expect at the base case scenario, but we are obviously doing a lot of work around making sure that it is better than that. We have a good order pipeline, it is just what happens is we will be on target for Q2,Q3 and Q4 and just the Q1 number we have to make up over the next few quarters.

So looking at Rangsons standalone business, not what we consolidated obviously because that's a small number we believe it will at least be flat.

Mohit Jain: If I am not wrong it was 70 odd million last year?

Krishna Bodanapu: 70 I think.

Mohit Jain: On the margin front, the last two years we have observed from Q1 you have significantly ramped up your margins, I am only talking about Cyient's standalone not including Rangsons, so should that trend continue this year as well given that wage hikes and visa costs are behind us.

Krishna Bodanapu: Yes it will increase quarter on quarter, very honestly the key for us is growth, as long as we deliver growth because I think we have done a fair amount of work around utilization, pyramid optimization and so on and so forth, and I will just comment about utilization here in a second, so because that is in place as long as we can deliver growth margins will grow that's basically what it comes down to because it is not a whole lot we can do on a cost optimization further without growth. With growth, it is a double-edged sword because growth gives you the opportunity to also do some more cost optimization. And the other thing I will say is our utilization has gotten a little bit better, there is still room to improve and therefore firing will be muted, we would not fire, for example, this quarter we only hired about ten extra people; our net new additions were about 10 or 15, something like that and I expect that to continue at least for one or two more quarters because we have put a lot of diligence in to sorting out the utilization and the inefficiency in the system, so I just would request not to read too much into the hiring numbers because there is a lot of capacity that we can use internally that we are doing at this moment.

Mohit Jain: Lastly, why was Softential flat year over year, we were earlier hoping for some growth on a y-o-y basis due to cross selling etc., so is that not fructifying or is this only a delay in terms of quarterly numbers?

Krishna Bodanapu: Softential that's how it is there, because what happens is, there is also some maintenance contract etc., that they end up selling, Q1 for them or Q2 for them is usually a very weak quarter because Q1 is a very strong quarter that's when a lot of the maintenance contracts etc., that they do came up. So it is cyclical, it is just year on year this is how their business has performed. We are fairly confident on the synergies, we have actually signed up first synergy deal that is I think in that case it was a signed customer by Softential offerings so that is something that has happened already, so we will see, I am not worried about it, it is just a cyclicality. We are hoping that especially with Softential, I mean Rangsons is a different story considering the nature of the business but with Softential this cyclicality can be managed going forward.

Mohit Jain: Lastly you talked about Global Foundries impacting the growth on engineering services, how much impact do you anticipate on the engineering services side?

Krishna Bodanapu: On engineering services no, it is really the semi-conductor business, semiconductor is part of engineering services so in that sense, yes there will be an impact, it is not a material impact, it is not a huge customer, it is a pretty significant customer, it is a top 10 customer but I just wanted to put that comment out because with the whole integration that is happening with Global Foundries and Idea it presents a risk to us more than anything else and also an opportunity because Global Foundries have historically been just foundries, manufacture of semiconductors whereas they also need the engineering capability that we potentially can build.

Mohit Jain: So as of now they are not slowing down in terms of strength, you just anticipate it as a risk?

Krishna Bodanapu: No they are slowing down a little bit, again not to an extent where at the part of the integration so certain things have slowed down but if you look at their business they have won a lot of new wins, they have won a lot of new chips, they are talking about a number of design starts for us, it is just a risk in this quarter as part of the

Moderator: Next question is from the line of Madhu Babu from Centrum. Please go ahead.

Madhu Babu: Sir, within our top 10 accounts how many have we approached for cross selling Rangsons?

Krishna Bodanapu: We approached all the engineering customers pretty much and three of them, I don't know if all three are in top 10 but at least two out of them are in top 10 and all three are in the top 20 have qualified as an approved vendor for the manufacturing part also.

Madhu Babu: Sir, what is the initial ticket size of deals we expect from this and would there be a J curve in the ramp up in revenues, maybe you start doing small pilots and it will accelerate after another one-and-half years?

Krishna Bodanapu: It would accelerate because manufacturing also that is how it works; you have to prove out the capability, you have to prove out the quality standards and so on. J curve is the right word and hockey stick is the right word, it will happen that way that is something that we are seeing but the good news is having said that there is also the legacy Rangsons business, the business that they have been doing and they have built up a pipeline, so I am not saying that for year and a half nothing will happen and then suddenly things will change. It is just that their pipeline will also start kicking in at this point.

Madhu Babu: And secondly on sub-contracting expenses and off-shore leverage so how big is the opportunity there in terms of over next two three quarters on reduction in subcontracting cost?

Ajay Aggarwal: As such subcontracting is part of the kind of contracts we are doing and the kind of projects we are executing, we don't see it as an opportunity for cost reduction because it is all linked to the kind of work you are doing and where you decide to subcontract it, so I would not say it is more of a mix of job issue, I would not like to read as a cost opportunity. As far as offshoring is concerned, yes as per our internal plans we feel we have covered small mile in this particular quarter, we should go off substantial further in the next three quarters on offshoring that's definitely an opportunity.

Moderator: Next question is from the line of Ravi Menon from Elara Capital. Please go ahead.

Ravi Menon: Would it be possible to share the order book for Rangsons I think that will be helpful for us to track the assessment?

Krishna Bodanapu: We will do that. We actually were hoping to do it this quarter onwards. We are still trying to just get the right metrics in place because we want to make sure before we share it. We are 100% confident with the numbers. It is just with the integration it is taking a little bit longer because the things like definitions and what will count as orders and so on, we will definitely share that actually at some point this year and hopefully at the next quarterly call we will start sharing Cyient's order book also. We have gone through a lot of work around putting in place systems and processes and once we have a little bit of confidence around those numbers we will start sharing that with you.

Ravi Menon: Secondly if you could explain a little bit of how quickly the order conversion happens and runs it, how long does it take to sign up with a customer and then convert that in to a team and how long does it take that team to translate in to revenue that will be helpful?

Krishna Bodanapu: Honestly the answer is it depends, and it depends on many things, but I will say in an ideal case situation where the facility is already certified for not necessarily for the customer but for the customer's industry like Nadcap or Iris certification from the time an opportunity is identified with the first part being shipped it is anywhere between three and six months, because the big bottleneck there is getting the components especially the specialized components the micro controller, registered capacity, PCB all that you can get fairly easily but the microcontrollers and analog to digital controllers usually have a lead time, so three to six months if it is certified customer and certified facility if it is not then it can take anywhere from basically add 12 months certification takes about 12 months for suppose you want to certify to some specialized medical standard for example above Nadcap it will take about 12 months.

Ravi Menon: With the existing certifications on aerospace and transportation you should be able to do most within six months, it is not customer specific; it is industry specific is that understanding correct?

Krishna Bodanapu: It is usually industry specific, the customer might have something on top but that is the relatively easy part but it is usually industry specific so Nadcap for medical Iris for rail or ISO, an AM certification for aerospace all of which is in place already.

Moderator: Thank you. Next question is from the line of Pratik Gandhi from Geecee Investments. Please go ahead.

Pratik Gandhi: My question is more towards margins, when we are saying that margins will be whatever the targets we have given I think we will be able to achieve that what are the levers which we have right now which will help us to achieve the same number?

Krishna Bodanapu: I think there are couple of things over there, one is there is continued focus on the offshore business, as you know Pratik over the last couple of years our onshore ratio has gone down by about 42%, 43%, the budget is to get it back not to the 50 number I do not have the exact number but it was 48%, so that is one thing that we are working on. Second thing that we put a lot of work on is the pyramid correction. We make sure that a lot of the higher value resources who are not billing at the rate which justifies that just because they have been in the same role etc., is underway. We have done a lot of pyramid correction there is still a little bit more opportunity. The third thing that is also happening is on utilization like I said there is some more capacity in the system that we can utilize, fourth one is we are getting some good projects which are, billing rate is not better but these are risk-reward type of projects where we have a little bit more flexibility because the customer does not have control on exactly which resources used, he has more control over the output and the last thing I will say is especially in rail signaling we held on to some very expensive resources over the last six to twelve months because projects got pushed out, so (a) if they become billable and more importantly these are some good bill rates that they have so all of a sudden a fair number of people are starting to get billable both in semiconductor and rail signaling at a higher bill rate, so these are some of the things that are still there that will help us with those numbers.

Pratik Gandhi: Krishna in terms of growth firstly on the Rangsons number I think we said this will be around, this year it will be around close to $80 million right?

Krishna Bodanapu: That was the original intent but between 70 and 80 is what I will say at this point.

Pratik Gandhi: Okay what about Softential?

Krishna Bodanapu: Softential is between $20 and $25 million business at this point.

Pratik Gandhi: For the current year we are expecting around $20, $25 million is that correct?

Krishna Bodanapu: That is what we expect.

Pratik Gandhi: So that means we are seeing that there is some slowdown over there in both this compared to last year, last year was around $23 million we are seeing around $20, $25 million hardly any growth and same is the case with Rangsons.

Krishna Bodanapu: At this point I would say that is what we are expecting.

Ajay Aggarwal: If you look at Softential for example when we acquired this company they were at a run rate of about $17.5 million for almost three or four years and then we had last year which was at $23 million, anything up of $20 million and between 20 and 25 is really not a rundown or a range down so I think that is what we are targeting for and when you say Rangsons also between 70 and 80 which is upward of 70 it is definitely not lower than where we were last year.

Pratik Gandhi: With respect to organic business I assume that current quarter was a decline around 1.5% kind of organic business ex of Softential and Rangsons on a QoQ basis?

Krishna Bodanapu: Pratik current organic business grew 1.6% quarter quarter-on-quarter.

Pratik Gandhi: I guess that would be on the YoY basis Krishna I guess in…

Krishna Bodanapu: No quarter-on-quarter YoY basis it grew 9.9% in dollar terms.

Pratik Gandhi: So I will take that off line but I guess in terms of organic revenue growth how do we expect FY 2016 to be vis-à-vis FY 2015, it should be better than that?

Krishna Bodanapu: Organic at constant currency will like I said 10% growth organic year on year so we will see growth in that range at least obviously this was not the best quarter so I can only say we are looking to do a little bit better than that but that is where we stand at this point.

Pratik Gandhi: We did mention about some slippages in terms of revenue for Rangsons and also one of the rail account in the current quarter which were expected to come back in Q2 so assuming Q2 is a normal quarter in terms of seasonality where Q1 and Q2 replicate and it will be better along with some pushback of revenue from Q1 to Q2 so logically Q2 should be a quarter of around 8%, 9% kind of dollar revenue growth.

Krishna Bodanapu: I think it is mathematics as you know Pratik; we will have a good quarter I will say that.

Pratik Gandhi: Fair enough thank you and all the best.

Moderator: Thank you. Next question is from the line of Shraddha Agarwal from AMSEC. Please go ahead.

Shraddha Agarwal: Most of my questions have been answered just one quick question I see an increase in debt on book so any reason for that?

Ajay Aggarwal: If I can just explain there have been two reasons for it. If you look at the Cyient books, I do not know what you are referring to, as far as Cyient books is concerned primarily the debt is coming out of the US books where for the acquisition of Softential we had used their structure of 1:1 debt equity and we got very good cost arbitrage, we got some tax benefit and also we have been saying that for the group we should create some leveraging on the balance sheet so overall the reason for the debt is to really improve the earnings quality as well as to create the leverage in the balance sheet.

Shraddha Agarwal: And another thing your blended offshore onsite shows improvement whereas for segmental engineering and utilities that ratio remains the same so how is that coming through?

Krishna Bodanapu: Sorry in which..?

Shraddha Agarwal: Sir your offshore has moved up from 43.3 to 43.9 and for engineering it remains constant at 41% and for UT and DA it remains constant at 51.

Ajay Aggarwal: The change is about 0.6%, it is probably in the decimals, we will try and put the decimals and give this again with the exact number.

Shraddha Agarwal: Thank you.

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

Sandeep Muthangi: I have a quick question on Rangsons, I want to hear it from you one more time this second quarter the revenue numbers that you are talking about for Rangsons will include the pushovers from this quarter and usual $16 to $17 million that it could be doing on a quarterly basis, arithmetic says it should be somewhere around 25–26 is it right or am I missing something here.

Krishna Bodanapu: No Sandeep the 16 to 17 is not the right number it will be a little bit lower is what the quarterly numbers are for Rangsons for Q2. 16 to 17 will happen towards the later-half of the year based on our backlog. 16 to $17 is later half of the year, so with the push out it would not be 16 to 17 plus something that is what I will say.

Sandeep Muthangi: Krishna I am interested in the commentary around two of the businesses one is utilities it has been having a few bad quarters so I think it is primarily related to a couple of clients, is there anything changing on the horizon with respect to those clients or you winning new businesses and deals ramping up?

Krishna Bodanapu: Yes, I think in general utilities is showing some good traction if you look at the couple of bad quarters in utilities, we consciously brought down some of the work that we were doing for one of our very large customers because of the margin issues and we wanted to manage the margin also from the risk perspective. We are just bringing it back into a steady state and also we are seeing some new wins especially in Asia Pacific and in Europe with utilities. We just started a project, kickoff was on Monday with a large utility in Europe and so on and so forth so it is looking good, it is both existing customers and couple of new things and actually for example very honestly we could have done a lot more revenue say even the last couple of quarters with couple of these customers but margin would have got really hit because of the way the contracts are structured. So we had to balance that out a little bit, now we are in more of a steady state.

Sandeep Muthangi: Just a quick comment on the off highway equipment unit also, the commentary also mentions that you won a new account and it has also been showing some decent growth for two quarters now, anything changing on the horizon?

Krishna Bodanapu: No I think it is just that we have some good customers; we continue to do reasonably well over there, nothing specific to mention on off highway.

Sandeep Muthangi: Thanks guys all the best for the year end.

Moderator: Thank you. Next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Hi Krishna, Hi Ajay just two questions firstly Krishna your commentary around core business you mentioned some couple of comments like Europe some deals did not come through in the aerospace then you mentioned some risk to the semiconductor business, then you mentioned also about push out of a rail project and some challenges on the energy vertical, so does it mean that overall outlook has become slightly weaker than it was a few months of our core business?

Krishna Bodanapu: No Gaurav I think you only picked up on the negatives, I think there is also a lot of positives within that, I said Europe some new deals did come through, in North America aerospace is also doing very well to compensate for that and also the existing customers in Europe aerospace are doing quite well to compensate for that, semiconductor I highlighted it as a risk because of the transitions that Global Foundries et cetera is going through but also I said APAC is an important market there because we are winning some deals in APAC and APAC as you know for semiconductor is very important, Taiwan for example. So I would say the business outlook is no better or no worse than what it was a few months ago so if you add up the positives and the negatives the unfortunate part is that it is still not a rock solid thing in our business where we can say for the next extra quarters this will happen but the good news is there is enough customers and enough relationship, usually the positives and negatives balances out or there is a massive macroeconomic challenge.

Gaurav Rateria: Do you think in the base case there is a possibility that on a constant currency terms revenue growth could be similar to last year which was 15% versus 10% what you have reported in the first quarter.

Krishna Bodanapu: I think that will be a big ask and I think at this point I would defer commenting on that maybe towards the middle of the quarter when we do our update because I would like to see a little bit more how the business is evolving but it is somewhere in the middle, I know that is a wrong answer but it is somewhere in the middle.

Gaurav Rateria: Maybe second question on margins when you gave an outlook on margin last quarter and probably it was based on a rupee rate which was compared to last year of around let us say 61 now where rupee has moved do you think there could be an uptake in your target given if rupee continues to remain at the current rate?

Krishna Bodanapu: I think while rupee has done a little bit better the Euro has also worsened a little bit so they are balancing out at this point so I would say at this point I will still hold to it, if this holds on then it should be a little bit better but at this point I would say let us keep with the base case.

Gaurav Rateria: Sure thanks a lot.

Moderator: Thank you. Next question is from the line of Urmil Shah from IDBI Capital. Please go ahead.

Urmil Shah: Thanks for the opportunity and I am sorry if I am bit repetitive, just on the organic growth front at the start of the year based on the outlook we had guided that the growth would be in line with constant currency growth in the previous year and now it appears to be towards 10% which is significantly lower than what we delivered last year so is it that based on the issues you mentioned in this quarter we are trying to be more cautious and there could be upside triggers to that or has there actually been some difference in outlook?

Krishna Bodanapu: I think this is what the number is, at this point this is what we delivered in Q1 and also say for us to deliver 15% for example, just the mathematics will mean that we will have to deliver some very steep growth rate sort of a

10%, 12% kind of a growth especially in the latter quarters on the organic business which is going to be honestly quite difficult basically net-net is the outlook remains as it is there is positives there is negatives but net-net outlook remains as it is, the 10% number is what are delivering in the first quarter and I would say let's build on that I think there is obviously some risks but there is obviously some opportunities and I would say we will build on that numbers.

Urmil Shah: Thanks, that was helpful.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand over the floor to Sandip Agarwal for his closing comments. Over to you sir.

Sandip Agarwal: Thank you everyone for participating in the call. I will hand over the call to Mr. Reddy for his final remarks, over to you Mr. Reddy.

Krishna Bodanapu: Once again thank you very much for participating on today's Q1 investor call. We appreciate your time and if there any further questions I am sure as usual you could always get back to Ajay and his team to answer your questions. Thanks again have a good day.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of Edelweiss Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.