Cyient Q2 FY2016 Earnings Conference Call

October 15, 2015

Moderator : **Mr. Sandip Agarwal - Edelweiss Securities Limited**

Management : **Mr. BVR Mohan Reddy – Executive Chairman**
Mr. Ajay Aggarwal – Chief Financial Officer
Mr. Krishna Bodanapu – Managing Director and Chief Executive Officer
Mr. Anand Parameswaran – Senior Vice President, Head, HR and Business Excellence

Moderator : Ladies and gentlemen, good day and welcome to the Cyient Q2 FY16 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder, all Management 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 this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Participants weaving the presentation online may double click on the slide for a full screen view. Please note that this conference is being recorded. I now hand the conference over to Mr. Sandip Agarwal of Edelweiss Securities. Thank you and over to you, Mr. Agarwal.

Sandip Agarwal : Thanks Margret. Good afternoon to everyone. On behalf of Edelweiss let me welcome you to the Cyient Quarter Two FY16 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 and over to you, Ajay.

Ajay Aggarwal : Thank you Sandip. Good afternoon and good day to all the people on the call, we come to the Cyient limited's earnings call for the second quarter of financial year 2016 ended September 30, 2015. I am Ajay Aggarwal – CFO, with me also in the room are Executive Chairman – Mr. BVR Mohan Reddy, Mr. Krishna Bodanapu – Managing Director and CEO, Anand Parameswaran who is our Senior Vice President, Head of HR & Business Excellence.

Before we proceed I would like sincerely apologize for the delay that has taken place at the start of the proceedings as the board proceedings went a little longer than anticipated, my sincere apologies for this.

Before we begin, I would like to mention that some of the statements made in today's discussion maybe forward-looking in nature and may involve risk and uncertainties. A detailed statement in this regard is available on our website 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 know we gave you a shorter notice so what we can do is we can have these, we will try to cover maximum of your queries in our presentation and then feel free to call us for any follow-up call since you did not have the sufficient time to study this.

I now invite our Executive Chairman – Mr. Mohan Reddy to provide a brief overview of the company's performance for the quarter ended 30th September 2015.

BVR Mohan Reddy : Thank you Ajay and good evening to all of you ladies and gentlemen. First let me apologize for the delayed start of the conference call today as Ajay explained to you the Board deliberations took a little longer than the originally anticipated and that had a backlog in terms of pushing out the results by an hour. So I sincerely apologize for this delay and appreciate your patient in staying back on the call to listen to our investor update.

Let me start by saying that I am happy to report good growth momentum in the overall business, budget cuts, there are a couple of large customers impacted some growth but strong business pipeline across our services business and Rangsons. We are confident that revenue momentum will continue in Q3 and beyond. Our operation efficiency improvement initiative are showing good results, operating margins improved by 244 basis points, Rangsons volume growth helped us to improve margins. We continue to focus on these initiatives and expect to continue to improve margins for the rest of the year. This quarter also saw Pratt & Whitney, Global Services Engineering Asia got officially inducted into Cyient starting 1st September 2015 as Cyient Singapore. The entity will expand our existing aftermarket capabilities to further strengthen a growing aerospace service portfolio.

Here are some very high level Financial Highlight:

The revenue, if you look at it, is at 771.7 crores which is up by 14.8% year-on-year or up 6.2% quarter-on-quarter. In US dollars the revenue was at $118.4 million, up by 6.9% year-on-year or 3.6% quarter-on-quarter. On constant currency which is the true reflection of the volume growth, the revenue was approximately up by 12% year-on-year or 4.2% quarter-on-quarter. The operating margin was at 15.1% as against 16.1% last year and 12.6% in the previous quarter. Operating profit was at 116.4 crores, up by 7.7% year-on-year or 26.7% quarter-on-quarter. The net profit was at 98.5 crores, up by 9.3% year-on-year and 31.7% quarter-on-quarter.

On the financial metric – Cyient continues to generate strong free cash flow, absolute free cash flow generated excluding Rangsons was at 88.7 crores. FCF as a percentage of EBITDA excluding Rangsons for the quarter stands at 63.5%, cash balances including liquid investments is at 633.1 crores, cash balance including Rangsons is at 652.3 crores.

In terms of business highlights – our product realization business grew by 67.8% quarter-on-quarter in US dollar terms driven by aerospace and defense client. Onsite delivery centers in Australia were established to further strengthen the communication vertical. We acquired aerospace aftermarket business from Pratt & Whitney Singapore which is now called Cyient Singapore. We had a 20 clients, 10 in DNO, 7 in engineering and 3 in product realization and a couple of these in product realization actually were there in Rangsons.

With this I would like to hand over this 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. As you have seen in terms of the revenue in constant currency we have done 4.2% growth with 118.4 million of revenue or 7717million. The good thing in this quarter which was very heartening was our PR business as anticipated is back on track, we had almost 70% growth in INR terms, 68% in dollar terms and that traction is likely to continue, we will see a much-much stronger H2 compared to H1, that traction is there. Our Softential business there we had seen some kind of a weakening in quarter one has again picked up, we saw a revenue of $4.5 million as against $3.5 million last quarter, and we have a growth of 28% there also. Again, all the Geo's have grown positively except Europe which has been flat in constant currency. Also when we look at this revenue of $118.4 Mn, two things have happened in this particular quarter, both the events we had shared with you as and when they happened. One is we had completely did the acquisition of stake in GSE Asia on 1st September, so when you look at this quarter's results they include the financials for two months, the revenue for the two months for GSE is at $0.63 Mn or so, this does not represent their steady state revenue, they are about a $1 million monthly run rate kind of revenue projection. And this time it took some time for set up and to resolve some issues as we acquired the entity, but we are on track to achieve our business scale there.

The another thing which happened was we divested our IT subsidiary ITS, has about 120 people, that transaction has been consummated and from 1st September onwards that revenue is not appearing in our financials, the impact of that could have been about $0.3 Mn in the financials that you are looking at.

So I covered about revenue at a glance, now I will make some comments about the profitability:

If you have seen in the profitability this has been a good month for us for the quarter, this quarter we did 15.1% as the operating margins as compared to 12.6%. If you have seen over the quarter, the operating margins has been improving, the first quarter we got impacted because the full year impact of the salary increases that we had given, after that I think quarter-on-quarter there has been an improvement in margin and we will continue that margin improvement as we move forward. Just to give you a shade of from where this margin improvement of 244 basis points is coming from, the exchange rate definitely has helped to the extent of 70 basis points. Apart from that from the operational improvement, the mix of business where it has come from has given us a benefit of 174 bps, utilization has been better in some of the verticals where we had some attrition we could manage without replacing those resources, so those efficiencies and productivities are showing up and we really feel that whatever initiatives we have been taking on the operating margin they have started showing up and this momentum will continue in H2.

Another thing which I would like to highlight here is on the effective tax rate:

While there are movements quarter-on-quarter, overall I think the comment I would make is this quarter this has been impacted again by the geographical mix and one-offs which is about 1%, but the way to read it is I would say we are working to make sure that we track to the tax rate for last year or improve it by 50 to 100 basis points.

In terms of the cash:

As Chairman pointed out we had a good quarter in terms of cash, we generated in Cyient 887 million of free cash flow which is 64% of EBITDA and all this is driven by our capital expenditure has been within the norms or the internal targets that we are tracking, tax position is improving, the collections impetus is continuing and is likely to continue in H2 as well.

In terms of our day sales outstanding – we are at 89 days compared to 88 days for the previous quarter. If you see accounts receivables for the bill have come down by another two days from 69 days to 67 days, but we have a spike of about 3 days in unbilled but there is no concern here, this is all under control and we feel there is further room for us to improve this DSO in H2.

In terms of the hedge book – no change in the company's policy, so I believe there is still problem technically, the slide is not moving. I believe everybody has a copy of the slide presentation, I am on Slide #eight of the earnings presentation which says hedge book and other income. So as I was mentioning, in terms of our hedge position there is no change in the company's policy. If you see our policy has really paid us good dividends, for example in this quarter itself while we have some challenges from the currency on currencies like euro, Australian dollar and other currencies. At the other income level we have got substantial gains because we are covered for 12 months and our positions were substantially higher compared to the current spot rate. And as of now our total forward contract position is $115 million, our 12 months forward rates are about Rs.68 INR to USD, our euro rate is about 78 and you can see for the other currencies which are already circulated in the presentation.

In terms of income from treasuries – we got 78 million,. Of course our cash is back to where we were in 30th June or a little better, but in between since we had made investments into acquisition we paid out the dividend, that is why the treasury income is a little lower, but again we are back with the same or higher cash position. We made a gain of 129 million on forward contract, this is what I was just referring to, we got substantial gains specially in non-dollar currencies in this quarter and we are very pleased, our position of forward contract compared to the spot position is quite strong for the coming four quarters as well. Restatement of balance sheet did have an impact of 45 million which is restatement of mainly the debtors that get impacted and some other items in the balance sheet. Overall, net-net the other income has been flat. One more disclosure, in 46 million in other income this includes on a consolidated basis we had a profit of 20 million or 2 crores on sale of our IT subsidiary ITS, that is also part of this profit of 46 million in others.

I am on Slide #9, this is the snapshot of our product realization business which is Rangsons plus our product realization arm within Cyient. We clocked a revenue of $10.1 million, as I said we had a growth of 67% in dollar terms and 70% in INR terms. Our revenue in INR is 664 million, we had a margin of 4.5%, again I would like to emphasize this includes apportionment of our own setup on product realization, without this the legal entity they have made a operating margins of 6.6% and as such I think with the volumes coming back in H2 we are quite well placed to get back to the normal margins which were anticipated which are 10%. The geographical mix has been impacted by some large shipments which have taken place for some aerospace customers which are more in Asia specific, otherwise I do not think you should read too much into the reduction in geographical mix of America and other things.

Slide #10, M&A pipeline and focus – I would request Krishna to take us through the remaining presentation.

Krishna Bodanapu : Thank you Ajay. As you know we had one more acquisition in this quarter with the aftermarket services business of Pratt & Whitney in Singapore which is called GSE Asia. So with that I think we have made a significant progress over the last 12 to 18 months on where we started off and we will continue to make the progress. And as every time we have presented the current status and also what is the look ahead in terms of where are we focusing for any further M&A.

If you go to the next slide which is Slide #11, to give you a little bit of outlook on various businesses.

In Aerospace we continue to see some good traction, there is a lot of work coming in in some of the newer areas like value Engineering, Manufacturing support, etc. Actually GSE Asia with the whole intent behind acquiring GSE Asia was to do work around these areas around support of manufacturing value engineering and so on, so that is also working out well in the integration is going quite well, though it is a relatively short period. Our challenge continues to be in Europe which obviously from a global perspective is 50% of the aerospace market and for us it is a much smaller proportion, so that is something that we are working on.

Transportation is going to continue to drive significant growth for us, we are seeing increased demand in both elements of transportation which is rolling stock and signaling across geos. There is a lot of newer investment in emerging markets, there is technology upgrades and we are very-very well-placed to do that.

On off-highway products – we are seeing some good investments from our customers due to these new features around telematics and so on so forth. Also there is a lot of regulation that is coming in around emission controls in diesel emissions and so on for which we will have to do a number of steps of redesign and that also boards well for us on electronics and embedded software because that is where a lot of the design will be done. I am sure a lot of you have read that there are challenges in Caterpillar which is also one of our large customers with the layoffs, etc., that they are having, but we really at this point we are not impacted by that and we are actually seeing some opportunities because in spite of cutting down their fixed cost, i.e., staff they are also having to do a lot of things that I just alluded to, so we are actually seeing some good opportunities. So while it is a rich we believe that we are well placed with that.

On the Energy and natural resources market – a lower oil price and weak consumption, the market has really stalled for us at this point specially for this kind of services that we provide. We were really focusing on this one or two customers that we have and not really making any more investments into this area.

Semiconductor at this point looks good from our perspective that is our clients are continuing to do reasonably well, we see traction. But overall if you look at the market semiconductor sales are forecasted to remain flat or even decrease a little bit and that will lead to some issues with the overall market, but again I think with our customers specially in North America and APAC we are seeing continued traction, so we will continue to focus on our customers and perhaps not focus too much on acquiring new customers but really continuing to serve the customers that we have because at least the two or three that are our large customers we see good traction going forward.

In terms of Medical and Electronics – this is something that we said was a focus area for us, there is some really good pipeline that has got built up. There is good wins, we are now working with the two of the three largest medical device manufacturers or medical equipment manufacturers. We are continuing to pursue new opportunities specially around localization, cost reduction and value engineering, but what I want to reiterate is the pipeline is really strong there, a bit kind of smaller pace and we hope to see some good momentum there.

On Utilities – we continue to see business expand with our current customers, we have a strong pipeline, there is a lot of things that are going on around smart cities, smart grids, mobile workforce management etc. Again, it is more on the manageable side, we are not at a system integrator level around making the city smart, but we definitely have some very-very important things and competencies around that. And while India is still an emerging player for us with smart cities, globally there are some very-very interesting projects that we are working for.

Communications also continues to do well, APAC has been the growth driver there. One of our customers in APAC is actually our third largest customer now, a communications company which has happened for the first time, that's basis some really good momentum has been built up there helping them design and rollout their network, both fixed network and wireless network. We also have a pipeline with the customers in India which will grow some of this business and overall the old Softential business that we call service management and assurance is integrating well, there is good opportunities and overall things are quite good in communications.

On Rangsons – again Q1 was an aberration, unfortunately a negative aberration but going forward we have built up the pipeline again quite significantly, we have had some good wins also in the telecom industry because a lot of telecom equipment also gets built in India right now and we see a significant traction with existing customers both from standalone, manufacturing but more importantly for us in design and manufacturing, so a continued momentum into Q3.

That is the last slide, so I will say overall I am also quite pleased that the momentum has come back. Yes there is a little bit of shift in where the revenue is coming from, but overall as a portfolio we believe that we have very-very strong momentum going into the second half of the year. The focus also is on margins, you will see that margins improve by 244 basis points this quarter, only a very small part of that is contributed by exchange rate because as much as dollar appreciated or the rupee depreciated against the dollar, the rupee also significantly appreciated against the Australian dollar where we have about 15% or so of our revenues. So that netted out and in spite of that we are at a 244 basis points improvement. So this focus on margin will continue, we will keep to our commitment, we will at least have a 14.7% here which is what we had last year, but the focus is also just to continue that revenue momentum.

With that I will open it up for any questions and answers, and like Ajay said again we are very sorry for the confusion on the technology piece and sending the update this time, but offline if there are any questions Ajay and I would be happy to answer them also after this.

Moderator : Thank you very much. We will now begin with the question-and-answer session. Our first question is from the line of Sandeep Muthangi from IIFL. Please go ahead.

Sandeep Muthangi : I have a couple of questions, on the verticals where the growth is coming off a bit, Krishna primarily on the aerospace part. See in the analyst meet this was one of the verticals that you highlighted where the near-term seemed pretty strong, despite that the growth rate came off in the quarter. So could you just give some more color on what has happened during the quarter and what one should be building in for the second half and next year?

Krishna Bodanapu : So Sandeep yes, I mean it was a little bit lower than what we had earlier done that is between Q1 and Q2 we added about $2.5 million of revenue, the next quarter we only added a marginal revenues of 400K, but it is just a point in time thing, I mean the pipeline looks quite strong within that business, we are seeing some good solid traction within that business. Yes, it is just a little bit lower growth in the previous quarter but I am not too concerned about what happened this quarter in the sense that it is just where we stand within various projects. There are three customers that had a little bit of a weak quarter, three US aerospace customers but we also see the Q3 traction building up in those backup again. So it is just a point in time thing.

Sandeep Muthangi : And you do not think this has got something to do with the transition from your earlier business to the MRO business, that taking longer or anything extra?

Krishna Bodanapu : No, absolutely no, that is a completely different stream altogether, this is basically our core business still and we still see good stuff going on in our core business, so that is completely separate.

Sandeep Muthangi : Just one more question on the Rangsons part, it is great that Rangsons revenue picked up significantly in the quarter but I am just kind of comparing it with where they have ended last year and your comments last quarter that you expect them to do \$60 million to \$65 million of overall revenues this year. Seems like a bit of a stretch, but I understand this business has extreme seasonality and stuff, so are you still on with the \$60 million to \$65 million number for this year or is there any change to that?

Krishna Bodanapu : I would say towards the lower end of that, I would say around 60 is what we are looking at this point. But there is stuff in the pipeline, it is like you said it is extremely seasonal, it is just Q1 like you said was an aberration but a negative aberration. But we still see the line of sight to about the lower end which is about \$ 60 Mn.

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

Urmil Shah : Sir basically if we exclude Softential and Rangsons from the revenue front, it looks like the other businesses even on constant currency terms the revenue has been flattish. I understand that Europe would have had an impact, it would be great if you could throw some light on and how do we see the full year outlook on that?

BVR Mohan Reddy : So if you not include Rangsons the rest of the business has been flattish, Softential we call it service management and assurance and it is quite integrated into the rest of the business joint peers, etc., coming, so I would not take that out. But yes, I mean this quarter we did have some significant headwinds on the Australian dollar and the euro because that is where a lot of our communications business for examples comes from Australia. So that being the case we did have some headwinds and we did have a flattish quarter in terms of the old services business, but again you have to look at it holistically because that is the whole intent of building this portfolio also is that yes there are cases where there is cyclicality even in our services business, there is cyclicality in aerospace program for example which is what drove the slight slowdown in the aerospace business for example. So having said that the cyclicality, the whole intent of having this portfolio between the product realization groups, the aftermarket groups and also the core design groups is to build a reasonable portfolio that is balanced and therefore you have to look at it overall as what is happening within the alternization. I would say if you look at a lot of work that we are doing in Rangsons it is also basis of the designs that have been done in many cases by us. So things are moving into a different path as a lifecycle and we are making sure that we are capturing that part of the lifecycle. So in that context for the year we continue to remain quite bullish, the current growth will continue, the current growth momentum will continue. This quarter you look at a constant currency growth of 4.2%, it will get better through the rest of the year. We do not give guidance, I do not want to see what the outlook for the year is but I definitely want to say things look quite good basis this momentum at this point.

Urmil Shah : Sir at the end of last quarter we were indicating that we could grow in early double-digits, I mean ex-Rangsons and Softential business looks like a tough task given the seasonality in the third quarter, any color on that?

Krishna Bodanapu : So I think overall we are looking at the overall business at this point and I will stick to the comment I just made that overall the business will continue this kind of growth momentum. There is a rebalancing going on, there are customers who are telco customers who were earlier buying network design services now buying service management services which you could say are Softential services. There are customers earlier buying pure engineering walls and now want product realization and manufacturing, so we need to look at it from that perspective. But again I will reiterate that overall growth looks quite solid.

Urmil Shah : My last question is, this about $10 million of revenue from Rangsons would include a bit of a spillover that happened from the previous quarter, so has that been completely absorbed or there is likely to be some more spill over in the next quarter as well?

Krishna Bodanapu : No, I think it is more or less absorbed, I think we have troughed up all the contracts where we need to. But having said that I will also just quickly reiterate that this is not a spike in revenue because of a spillover, it is a project that moved from last quarter to this quarter but we will build on this base, so we are not saying there is any spike because of what happened last quarter, just we will continue to build on this thing.

Moderator : Thank you. Our next question is from the line of Srivatsan Ramchandran from Spark Capital. Please go ahead.

Srivatsan Ramchandran: Hi Krishna, just wanted to get your comments on the transformation if you are going. If you have to see even ex the product realization piece we are coming somewhere at mid or a slightly higher single-digit in a constant currency basis, so a part of it can be some client specific issues but at a broader level do we see, given some of your clients have a large exposure to the Chinese market, any slowness in some of these decision makings or some of the products getting pushed out. Just wanted to get your thoughts on, is that a trend you are starting to see?

Krishna Bodanapu : Actually not yet, a lot of the challenges in mining, etc., have happened even much before this, so that has already been factored in and I think we have also factored those from our investment perspective in the sense that we are not sending too much time and effort on mining and natural gas and oil and gas in those markets. So I think at this point there are some places where there is an indirect asset, like if you look at Caterpillar a lot of the layoffs that they have been talking about is basis what is happening in China and the demand for them there, but I think at this point we are not seeing any direct impacts. For example, we have won large nuclear engineering customer where the Chinese project came to an end which was a natural end that was expected, but they are not necessarily going to do anything significant in China though there is other countries which are picking up for them and therefore for us. Then there is some indirect impact but nothing serious that is direct at this point.

Srivatsan Ramchandran: And on the plans of exploring and delivery center in Eastern Europe, any update, have you been able to get a kind of an anchor customer to expand into that portfolio?

BVR Mohan Reddy : Yes absolutely, so the company has been incorporated about two weeks ago, so we have a company, we have some of the key management personnel, we do have an anchor customer, it is just we need to get our setup going before we can start billing. So the intent is in Q3 we will at least do a dollar of revenue, everybody is laughing here because that is maybe a sense of optimism, but Q4 definitely we will see some revenue, I mean some meaning it won't be appreciable but we will start seeing some revenue.

Moderator : Thank you. Our next question is from the line of Deepen Shah from Kotak Securities. Please go ahead.

Deepen Shah : I just wanted to harp on the couple of last questions about growth, if we actually look at the organic growth, if you look at the first quarter of the previous year FY15 we were somewhere in the region of about $103 million to $105 million that is Softential plus the organic. Now we have not moved quite a bit from that side, maybe 5% or so, $110 million excluding Rangsons in this quarter probably. If I also look before FY15 if we exclude Softential then we were probably growing at about 5% to 6% on an organic basis, so just trying to understand like if we remove these two businesses then the base business probably has grown by 5% to 6% in dollar terms over the past three to four quarters that is CAGR. So just trying to understand like, any specific things we need to draw out of this or maybe I am making a mistake somewhere?

Krishna Bodanapu : No, no you are not making a mistake, I think that is a fair inference. Also the only caveat footprint is that about 4% to 5% of that would have been taken away especially if you compare Q1 of last year or Q1 and Q2 of last year and Q1 and Q2 of this year because of currency, because if you do not add and a big drop in currency happens between Q2 and Q3 of last year so on a constant currency basis the growth will be really more like 10% less or so will be the goal. So coming back to my original point, the key for us is to build these capabilities because customers are looking for various things from us. Why Softential, because of the service management piece which is a good extension of network engineering piece, why Rangsons because of the product realization piece which is a good extension of the product engineering piece. So that is why we have to, with the core business I will again say it is as absolutely as strong as it has even been, there is some good growth, there are ups and downs, that has always been the nature of our business and the nature of engineering. But in our top customer if you look at it continues to remain solid, we are growing quite well. Yes, the portfolio will balance out a little bit because the market is moving in different directions and it becomes quite important for us to have skills in those areas. So overall we have to look at the overall growth because to make sure that we are where our customers need us to be, but again the numbers are a little bit slower at about 10%, 11% in a constant currency basis that will accelerate in the second half of the year, we are seeing the pipeline for that, but having said that the business itself is quite solid.

Deepen Shah : In the second half we are looking at we have significant amount of revenues coming out of Rangsons, we did about maybe $15.5 million and we are talking about 60, so we are looking at about $45 million coming out of Rangsons itself and you had indicated last time that the first and the fourth quarter are the weakest quarter for Rangsons, so probably the next quarter we will see a very high amount of revenue. But looking ahead, if you can just guide us on the next year like, this year we have Rangsons which will actually lead us to growth, how does the next year look in terms of the ex-Rangsons business or even if we include Rangsons how does the next year look to you?

Krishna Bodanapu : I think it is a little oprematur4e to comment on next year, I think what I will still like to say is things look solid. I think what would be prudent is we do our mid-year review in the next couple of weeks which is a pretty extensive review on the year ahead, perhaps when we do our quarterly investor update that is a better time to give you a color on that because it will be a little bit premature without having the data. Again, I will reiterate saying overall it looks really solid, I mean the pipeline looks very-very good with Rangsons and the Cyient services business but I think to start specifics would be more prudent to those after we do our reviews.

Deepen Shah : And lastly on the employee front, we have once again seen a reduction in number of employees in this quarter, so just maybe some indication till what levels do we see the utilization levels increasing and till what levels would you be comfortable on that front?

Anand Parameswaran: So from an employee level perspective you will see that the attrition has gone up by a couple of points on the voluntary side, a big part of that or a large part of that is because of the movement of the people in bench and we have voluntarily accelerated that and the reason for that is the 2015 batch of fresh engineers have started coming into the system after their training, so that enables us to create a bench of more appropriately experienced people. So to certain extent we believe we can squeeze another couple of points of utilization without impacting the business, but the fact that we also have the newer batch of fresh graduates coming after training enables us to create a structure which is better. So one or two particular skills where after the salary increases, etc., we have seen spike in attrition, but those are things that we are fixing by appropriate measures on compensation adjustments, so we do not see that as a threat to the business. Does that answer your question?

Deepen Shah : Yes, so do we look at some compensation increases over the next couple of quarters?

Anand Parameswaran: Not really, not at any generic level. So these are typically our compensation increases for the large part are done, skills specific movements that happen up and down require some one-offs but these are never material these are primarily aimed at keeping some specific talent in the company.

Krishna Bodanapu : But if I may just add, unlike many other peer companies we do not have a system of adjusting it on quarterly basis, we have given all the increases in the first quarter itself and that exercise is lower.

Deepen Shah : So should we understand or should we take it that from the next quarter we will see some increase in the employees on an overall basis?

Anand Parameswaran: We are most likely to see that, again in fact given that we are going to have lesser number of working days to certain extent etc, there may be certain adjustments, but in general there is likely to be growth in number of people.

Moderator : Thank you. Our next question is from the line of Sagar Lele from Motilal Oswal Securities. Please go ahead.

Sagar Lele : Could you give us an update on probably the verticals of semiconductor and GIS given the fact that in the past couple of quarters you may have seen a client specific issue, or the prospects of client specific issues with IBM getting acquired. So is there any material impact you are seeing there because GIS revenue still seem to be lower in this quarter again, so how long do we expect this impact to continue?

Krishna Bodanapu : So semiconductor I think we are seeing, whatever impact we saw because of the IBM microelectronics being acquired by Global Foundries, all that is behind us, we have actually received some significant BOs from Global Foundries which make us believe that this year we will actually beat our budget for the overall business. Yes we just take a lower budget this year compared to last year because of what was going on, but overall we will hit a pretty good number with IBM / Global Foundries. So point specific issue in semiconductor I would say is behind us. Now overall the semiconductor market is seeing slowdown, we are seeing some of the newer prospects that we were anticipating, etc., are not going to happen at the same pace that we had originally anticipated. But again, I think the semiconductor business has acted around IBM so we are quite confident about what is going on there and the fact that at least we will have a stable base to grow up the business.

Now on the Geospatial and the GIS business, yes it has come down, actually as a percentage if you look at it, it has come down from 9.4 to 6.7. Again, that is not a business that we have been, clients that are there are doing pretty good, people like Tom Tom get counted in that particular group, they are doing quite well but the intent is not to really focus and grow that business if you look at where our sales guys are focused on or where the investments are going, it is not in that business and therefore it is just an anticipated decline. I do not think it will go down much further but it is that decline. I will also say one thing happened as we had a rate reset with Tom Tom where we had a decrease in the effective rates and we did some through-ups basis how our contract is written, so that also had a little bit of a impact which is what probed number. But net-net it won't change dramatically further but it will tread downwards at least a percentage of the overall Tom Tom business.

Sagar Lele : And how much room would you have in terms of cost optimization and efficiency improvement given the fact that over the last two quarters you have shown some offsetting of probably the wage hikes or even the kind of expansion you have seen in this quarter, so do we have any more room for squeezing these levers over the next couple of quarters?

Anand Parameswaran: I would say not to the same extent obviously, I think we have engaged a lot of the levers that we have had, but I think there are still certain things that we are doing for example focus on higher margin business because we cannot take up too much cost at this point, it is just not going to happen, I mean there is some levers but not any significant levers. Focus on higher margin business because there a lot of the pipeline is building up on some pretty good gross margin business. The second thing is, if you look at even the delta of the business, for example what Anand was saying on employee headcount, while it shows a negative headcount for the quarter there is also some 300 fresher's who came in on October 1st, again they might not be available this quarter itself but at least for the Q4 revenue that comes in it is going to come in with a much lower cost because these are freshers. So on the obvious levers I do not think we have much more, but I think we have hopefully built it up structurally such that there are still some good stuffs that we can engage in.

Krishna Bodanapu : So 200 are coming, another 100 will come over the next few months. So 300 freshers in total.

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

Karan Uppal : I just had a question on the Rangsons part, so last quarter there was some spillover of the revenues for which the margins were at 2.2% and this quarter it is around 4%, so how should we take that and what should be the steady state margins for Rangsons?

Krishna Bodanapu : So if you look at how the accounting happens in that part of the business constant revenues are matched, so even though some overlaps, etc., or spillovers might have happened the cost is also matched to the exact revenue that has gone out. So the margins that we see are real margins because of this there will be some absorption issues because India fast is going to be constant, etc., but it is not because of cost being in one period and margins being in another period. So when we actually acquired Rangsons it was about a 11%, 12% operating margins business, we believe we can come back to that levels if we look at the revenues that we are seeing in Q4, we will come back to that level. Having said that, there will another 100 to 200 basis points that we have to take out of that because we have added some overheads for group. So going forward we have seen pass to that 10% share in our PR business but it will just take one or two quarters together.

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

Ravi Menon : I had a question on the DNO side, if you look at year-on-year your headcount is down substantially, can I know which part within the DNO this is coming from and I think you went into some kind of tom-tom but would be still great if you could explain this.

Krishna Bodanapu : So our DNO business as you know it is a bit of a volume business and it is also a project driven business, so overall there will be certain swings in the number of people, etc., which will also be driven by movement of let's say there are certain projects which are ramping up quite heavily at onsite and over the next six months they will come back to India. So it is difficult to specifically talk about one or two projects but the health of the overall business is quite good, the utilization as you see is improving , we will see increase in the overall numbers going forward into the next six months.

Ravi Menon : And if I could ask are you seeing good traction across all geographies or is there any geography say within energy utilities or telecom are there any areas of softness or particular strength that you would like to point out?

Krishna Bodanapu : I think at this point the growth is looking quite broad based, I think EMEA is a little bit slower than what we would have liked but I think even that is coming back up again. Certainly geographies drive certain growth and it is really because of the nature of our customers etc, but I think at this point in general there is nothing that stands out, it is quite broad based at this point.

Ravi Menon : And one last question on Softential, this quarter's revenue in Softential include any license sale?

BVR Mohan Reddy : There is some license sale, yes.

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

Mohit Jain : Few questions sir, one is on your core business growth, I think this has been discussed as well but are you looking at 10% CC ?

Krishna Bodanapu : We have done ~10% cc so far ,but we will not be making forward projections at this point of time.

Mohit Jain : And is there any change in the pricing environment for engineering business, apart from tom-tom is there any other client or overall if you see any pressure on pricing or increase in competitive intensity there?

Krishna Bodanapu : Competency is always there, so you cannot go away from that but it is not prudent to expect an increase in pricing but I think there are some decreases, there are some increases overall we are seeing a flat pricing environment. If you look at what has happened net-net from last year to this year in terms of margin because of pricing it is pretty much a wash, I mean we have had some increases and some decreases net-net would have been a wash.

Mohit Jain : So no deterioration in terms of last quarter versus this one?

Krishna Bodanapu : No, not on the pricing environment, no.

Mohit Jain : And third thing is your attrition seems to be going up and absolute number is also quite high, so what are we doing there and is it part of the transformation exercise that we spoke about in the last quarter and when do you expect this number to start coming off?

Anand Parameswaran: So I had spoken about the attrition, like I said there are two primary causes, one of the large reason for the special number to go up is the natural attrition that happens of people who are in bench, we have taken a point to accelerate some of those attrition in terms of shortening the notice period and not mandating the typically notice period that we have and the reason for that is we have a batch of freshers who are coming in, so we are confident of fueling the future business with the fresher graduates who have come after training, so the cost pyramid will be right, so that is one of the one-offs that we see. The other reason as I had also explained is that there are one or two specific skills where post the salary increases, etc., we saw an increased attrition but those also we have taken steps by making appropriate adjustments to stem the tide so the business is not impacted. So it has gone up by a couple of percentage points compared to the last quarter, but as of now we do not see it going further up, we are taking steps to ensure that we bring it down in the next couple of quarters.

Mohit Jain : So there is no price correction, etc., that is required, because you have gone up from 13 last year same to 22 now.

Anand Parameswaran: Yes.

Mohit Jain : One time salary increase adjustment, any step which you anticipate in the next two quarters?

Anand Parameswaran: So there are no salary increases which are being in a broad based month, we have completed all of the salary correction so we do not expect anything which hampers or which is applicable to a broad section of the people, there are one-offs which we are doing. And the 2% increase in attrition from last quarter to this quarter we do expect that to start coming down over the next couple of quarters.

Mohit Jain : And anything in terms of margin outlook, has it changed after a strong second quarter or do you still think that you would be able to maintain last year's numbers?

Krishna Bodanapu : I think at this point we will still stick with maintaining last year's number, obviously last two quarters have gone well, but I think it is just prudent to make sure that what was done is sustainable because we obviously believe that what we have done is quite sustainable but I have just been prudent about it.

Mohit Jain : And Softential looks lower to me if I compare it on a YoY basis, because you mentioned last time it is quite a seasonal business, so are you expecting a decline in Softential revenues on a YoY basis?

Krishna Bodanapu : No, it is just cyclical so numbers wise yes we are a little bit lower but last time I think there was some one-offs with the software etc, so I mean overall I think Softential continues to be quite good.

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

Gaurav Rateria : Just couple of questions, the budget cuts at certain clients was this one-off in nature, did this come as a surprise to you and is it that the full impact has already been seen in this quarter or do you think the impact will be felt even in the next quarter? The second is, is there any seasonality element in terms of lower number of working days in 3Q and what would be that in terms of quantification?

Krishna Bodanapu : So in terms of the budget cuts I think it is really not anything significant, some of the calls are anticipated, some of it is just a push out. So overall I think the impact of what we see has already happened but it was also yes some of it was not really anticipated but was quite confident that going forward we will be able to manage the opportunities or the budgets that had been assigned to us. In terms of Q2, Q2 is actually a decent quarter in terms of the number of working days, it was in line with all other quarters. Pretty much what happens is most of the quarters have the same number except Q3, Q3 has about 5% lower working days in the US, about 3% lower in Australia, and Europe but Q2 was inline.

Gaurav Rateria : Can you sir give some quantification with respect to order book and pipeline which gives you confidence for the second half and specifically for the core business excluding the PR business?

Krishna Bodanapu : I think that we are not giving out that number yet, we have an internal count of that but what we are trying to do is we are still in the process of allocating it because this is the first, actually this is the first month that we got that number out of the single source in SAP. What we will do is when we do our investor update during the quarter we will come back with an absolute number.

Gaurav Rateria : Sure. So sir just to summarize, overall the macro environment or a demand environment has remained stable compared to where you were about three months back or do you think at the margin there has been some deterioration because of certain client specific issues?

Krishna Bodanapu : I do not think so, I think the demand environment continues to be what it was about three months ago. If anything, I would say it has got a little bit better especially because of certain clients like IBM that three months ago IBM was going through the acquisition, they were just closing that, there was a lot of uncertainty around. So that is a positive, there is also obviously going to be one-off negative, so I think definitely demand environment is not worse than what it was, I mean it is still quite good.

Gaurav Rateria : Can we quantify the impact which you had in this particular quarter from some clients in terms of budget cuts, in terms of how many million dollars got impacted specifically?

Krishna Bodanapu : I think that is a very subjective thing, so I can give you a little bit more color when we speak in person but I think putting a number to it will be quite difficult.

Moderator : Thank you. Ladies and Gentlemen, due to time constraints that was our last question. I would now like to hand the floor over to Mr. Sandeep Agarwal for closing comments.

Sandeep Aggarwal : Thanks Margret and thanks to the management team. I will hand over the call to Mr. Mohan Reddy for final remarks. Thank you and over to you, sir.

BVR Mohan Reddy : Thank you Sandeep, thank you for hosting the call today. Thanks to all of you for actively participating in our conference call. Again, apology for starting a little late, we certainly will fix the glitch, I think we had a good quarter, we certainly showed a tremendous amount of momentum in our margin. So therefore I think moving forward we will continue to have great numbers for all of you. Thank you very much for your interest in Cyient. Thank you.

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