"Cyient Limited Q3 FY16 Earnings Conference Call"

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MODERATOR: **MR. SANDIP AGARWAL - EDELWEISS SECURITIES LIMITED.**

Moderator: Ladies and gentlemen, good day and welcome to the Cyient Limited Q3 FY16 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. Participants viewing 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 evening to everyone. On behalf of Edelweiss, let me welcome you to the Cyient Q3 FY16 Earnings Call. We have with us the Senior Management of Cyient Mr. Krishna Bodanapu, Mr. Ajay Aggarwal along with other members of the team. Without further ado, I will hand over the call to Mr. Ajay Aggarwal to start the proceedings. Thanks.

Ajay Aggarwal: Thank you, Sandip. Good evening, ladies and gentlemen, we come to Cyient Limited earnings call for the third quarter of financial year 2016 ended December 31st, 2015. I am Ajay Aggarwal – CFO for the Company, also present with me here is BVR Mohan Reddy our Executive Chairman, Mr. Krishna Bodanapu – Managing Director and CEO, Anand Parameswaran – Senior Vice President and HR Head.

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 in our investor update which has been emailed to you and is also posted on our corporate website. This call will be accompanied with an Earnings Call Presentation as usual, details of the same have already been shared with you.

With this, I now invite Mr. Mohan Reddy to provide a brief overview of the company's performance for the quarter ended December 31st, 2015.

BVR Mohan Reddy: Thank you, Ajay and good evening to all of you ladies and gentlemen. I welcome you all to this conference call which is the Q3 earnings call for Cyient. For us at Cyient Q3 has been a mixed quarter. Due to reduction in working days across the geographies capacity for the quarter was lower than the previous quarters which had put significant pressure on revenue. We were able to make-up most of this through growth in the business also we had margin degrowth for the quarter in core business. This was in line with our expectation, Rangsons' performance continue to get better and we saw 6% increase in INR revenue in the quarter. While I am pleased that we continue to see positive momentum this was lower than what we had anticipated for the quarter. Margin is in line with the expectation since the numbers of the pay days in the quarter are the same while the number of working days and hence the billing days are lower. We have been adding man power which increased our cost to deliver the additional work load in Q3 and for the forecast growth Q4 and beyond. Based on backlog and pipeline I am confident that Q4 will see a material acceleration in growth in Engineering and

DNO businesses. Similarly, margins will also improve since we will have better utilization of capacity in Q4. Rangsons performance will also continue to improve.

Now, broadly giving you a heads-up on the highlights on the financial terms. First thing was that the revenue for the quarter is at Rs.781 crores which is up by 9.8% year-on-year, or 1.3% quarter-on-quarter. In U.S. dollar terms it was 118.4 million, up 3.2% year-on-year, or it is flat quarter-on-quarter. Constant currency revenue is up by approximately 6.5% year-over-year, or up by 0.2% quarter-on-quarter. Operating margins at 14.1% as against 16.3% in the last quarter and 15.1% in previous quarter. Operating profit was at 110.2 crores; down by 4.8% year-on-year and 5.3% quarter-on-quarter. Net profit at 86.8 crores, down 13.9% year-on-year and 11.9% quarter-on-quarter.

Further on the Financial Metrics Cyient continues to generate strong free cash flows. Absolute FCF generated excluding Rangsons stands at 120.8 crores for the last quarter. FCF as a percentage of EBITDA excluding Rangsons for the quarter stands at 92.1%. Cash balance, including liquid investments, is at 738.2 crores. Cash balance including Rangsons is at 765 crores. The cash balance excluding the one-off stands at 709 crores for Cyient and 736 crores including Rangsons. Days outstanding is at 86 days compared to 89 days in Q2 of financial year 2016.

On the Business highlights, the 2015 Global Service Provider Ratings, (GSPR) by industry research and advisory firm, Zinnov, continued to place leadership position in the Aero and Transport segments for the fifth consecutive year for Cyient. Furthermore, we continued to be ranked as a leader in the Energy and Utilities, Construction and Heavy Machinery industries for the third successive year. We were also recognized as an “Established and Expansive” player in mechanical engineering services, and an “Established and Niche” player in embedded systems. Cyient has signed an MOU with BVRIT, (BV Raju Institute of Technology), Hyderabad to set-up an incubation center for VLSI design. Recognized as the Best Tech Brand by Economic Times for the year 2015, in the IT and Engineering Services subcategory. Invati Insights LLC, U.S., a wholly owned subsidiary of Cyient Insights Private Limited has been renamed as Cyient Insights, LLC with effect from November 18th, 2015.

With this, I would now like to hand over this call to Ajay who will take you through the detailed financial performance of the quarter. And thereafter Ajay, Krishna and Anand will be happy to answer your questions. Ajay?

Ajay Aggarwal: Thank you, Mohan. First, I would start to give some more color around the revenue. We have seen that we have done a revenue of $118.4 million and we have a flat quarter. One of the things which has happened which is typical to quarter three, our capacity itself both at onsite and offshore was much lower. It was lower by about 4% at onsite and it was lower at offshore by about 1.5%. So when you look at the Cyient results, Engineering which is slightly degrowth of minus 0.9%, DNO we have a margin growth of 1.2%. Overall Cyient being flat, I think this is a result of this capacity constraint that we had.

In terms of the geographies we have seen a handsome growth in Asia-Pacific otherwise in constant currency North America is slightly down and Europe also is slightly degrew in constant currency.

In terms of Rangsons we have seen just now we talked about 6% growth in INR and 5% or 4.9% growth in dollar and we have another slide we will give you more color around Rangsons. As far as year-on-year is concerned, I would like to highlight in constant currency we have a 6.5% growth year-on-year but I think we had a very one-off quarter in quarter three of last year where we had a one-off huge software sale, we also had a picking of one of the North America utility customer where we have go huge revenue. So if you compare year-on-year I think we have some one-offs in that quarter. But overall on year-to-year basis I think we are doing well.

In terms of profitability, we have done operating profit of 1102 million INR which is 14.1% and last quarter we had done 15.1% so, this operating profit is in line with our expectation as we know both at onsite and offshore when we had these lower capacity but the pay days were same. So we had to pay the salaries for all the working days while the billing days were lower that itself has impacted our margin by about 150 basis points between quarter two and quarter three. So we were expecting a 100 basis points reduction and that is what we have seen. We do have a marginal gain of FOREX, we did have some pluses and minuses; some operational improvements utilization has been better in this particular quarter.

When you look at effective tax rate, the effective tax rate this quarter is 20.8% which is lower compare to 23.5%. Again not to read too much into this tax rate because we have to look at the Y-T-D tax rate which is more around 24% and that is what is a reduction of about 60 basis points over the previous year. The specific reason for the lower tax in this particular quarter is more because of the mix of the geographies from which the profit has come.

In terms of net income you would find that we do have a shortfall, our net profit has dropped, the reason for that is the other income and I will talk about it in the next slide it is all on account of the foreign exchange gains both in terms of the realized gains as well as the restatement of some of the assets. And also you would remember that in the last quarter we had extraordinarily high other income and we also had a net profit growth of 30% between quarter one and quarter two.

I think in terms of working capital management this has been a extremely good quarter. Our focus on generation of free cash flow is continuing and that is showing up in the results. We have generated a free cash flow in Cyient of 1208 million, or 120.8 crores that is 92% conversion. We have a capital expenditure of 3% and for the year also I think we are tracking within the right levels for CAPEX. PAT has been in the right direction as we have planned. All this has really helped us to be on track on the free cash flow and you would see the momentum continue on that.

DSO for the quarter also is down by about three days and mostly it is coming from unbilled revenue which is down by three days to 19 days from 22 days of previous quarter. In terms of cash position, we have a cash 7382 million in Cyient. But I would say 7092 is the right number to look at because we do have a one-off where we had some over draft to pay some expenses those who have got paid in the next week and this money was sitting in the current account. So it will unfair to show it as a steady cash balance. So technically the cash balance is 7382 on a sustainable basis the right comparable number will be 7092.

In terms of our hedge book. First, let me talk about the hedge book and then I can explain about what has happened on other income. No change in the company's foreign exchange policy in terms of forward coverage. We continued to be at 70% of the inflows for the next 12 months and our total hedge book you can see on the slide how much is our coverge in various currency 74 million, U.S. dollar, a Euro and other currencies, so it totals to about $113 million. As of now all our forward cover positions are higher than the current spot rate. For dollar we at 68.7, Euro it is 76.7, GBP 106, Australian dollar 50.7. So we do see that at current spot level there is still some good other income that is possible if the exchange rate were to stay here. Of course it is impossible to build the exchange rates.

One more comment I would make, while the average rate for the next four quarters is 68.7, our rate for the next quarter is about 66 to 66.5, so we will continue to have some challenge on other income in the next quarter. However, in the three quarters after that depend on the exchange rate we may again get the benefit because of the forward cover position.

In terms of other income marginal drop in treasury income mainly because of the timing of the cash flows we had paid dividend pay-outs yield has been lower in line with the repo rate reductions so 78 million has become 70 million. And forward covers, the gain on forward covers realized gains is lower by 3 crores and on the restatement is lower by about 1 crore. That is how you see 29 crore of other income or 299 million of other income has become 24 crores, or 245 million.

In terms of product realization business very quickly. We have done a revenue of $10.6 million as against 10.1 last quarter which is an increase of 4.9% in dollar terms, in INR we have done 704.8 million which is about 6% increase. The gross margin has been stable at 12.2%, we made a operating margin at Rangsons level of about 7.6% then when we take the product realization related SG&A that becomes 3.7%. We did have some one-offs in this particular quarter so, if you exclude that I think our operating margin is better than the last quarter, it should be more like 4.7%. The share of revenues from the geographies 22% from Americas, 51% from Europe, Middle East, Africa and India and 27% from Asia-Pacific.

With this, I will hand over to Krishna, to take us through the rest of the presentation.

Krishna Bodanapu: Thank you, Ajay, I will just spend one second on this and say, the M&A focus continues in a way we are continuing to put the same amount of diligence on various opportunities and we continue to evaluate them. There is nothing that I would like to highlight at this point on this and we can always answer any questions later.

But what I do want to say as we get into the next couple of slides which is the commentary on how we perform. How we performed and the outlook by industry. If you look at it originally we went into the quarter expecting a better growth rate then what we actually delivered which was essentially a flat number. There are a couple of reasons for this that I quickly like to highlight. The first is I was expecting; we were expecting a little bit better growth in Rangsons in Q3. I want to reiterate that the backlog is still there and that number will happen over the course of the next couple of quarters some of it will happen in Q4 and some of it will also happen heading into FY17. But the expectation was that Rangsons would have performed slightly better than what it did. And therefore the growth would have been slightly better. The other thing that has also happened is we added revenue from GSE Asia for the whole quarter this was the acquisition of our repair engineering entity in Singapore while that was an addition of revenue there was also a subtraction of revenue which was the IT service business that we divested late last quarter. So the net impact of all that is only a million dollars because we would have also lost a fair amount of revenue about a millions some dollars from the whole quarter impact of the divested share of the IT services business. So the net-net impact of GSE coming in is only about $1 million, going forward it will be more because the run rate there is really slightly less than $1 million amounts us possibly by $2.7 million - $2.8 million a quarter but it is just that the GSE impact was also as I just articulated. But what I want to say is based on the backlog and pipeline I am actually very confident that Q4 will see material acceleration in growth both in the Engineering and the DNO primarily our core services businesses. Summarily, margins will improve we are having better utilization of capacity, we are also adding people in reasonable numbers but the better utilization of capacity will lead to better margins.

Rangsons performance will continue to improve. There are some large orders that are in the process of that we are in the process of planning. But I do want to be a little bit cautious on the expectations of performance. I will say that currently we are anticipating $38 million to $40 million, the earlier expectation was a $50 million a year that is FY16. But right now, we are anticipating it will be closer to 40, I know it is a big change and I will talk about that in a minute. But I do want to reiterate is that backlog is still there it is just a timing issue that it will get executed in Q1 and Q2 rather than in Q3 and Q4 and therefore there is a little bit of shift in revenue.

Having said that, I also want to spend a few minutes commenting on the performance and outlook of Rangsons since, we are coming up on the First Anniversary. You may recall that we had made the announcement on 2nd of January last year and the actual deal was completed on 28th of February. In the past year, Rangsons witness changes in the external environment with pressure from Oil & Gas, and in the defense sector, things got pulled out a little bit. What we did not fully anticipate was the cyclical nature of the business and the various factors that go into delivering revenue. These are something’s that we have worked on and I can assure you that we have a lot more confidence on numbers going forward and hence, it is just a recalibration of what it will be in this year and going forward.

From a strategic effect and competency perspective we continue to remain very-very positive on the company who have a great new management team in place including Venky Padmanabhan who is the CEO now of Rangsons, who joined us from Asia and few other places including Chrysler before that. We are seeing significant pipeline being built-up with existing customers like I said earlier it is about $100 million pipeline it has got built up with existing customers. I can also tell you that the closures have started to happen including one that just happened as we came into this meeting. And with Rangsons, with the better visibility of the business I can assure you that FY2017 will at least be at the level of 2015, that means that 2016 will be a little bit of a muted year in that business at roughly $40 million number I talked about. But going forward we see some really good acceleration happening going into next year both with the existing Rangsons customers and also the synergy that we will deliver.

Going into just some of the verticals and into the details Aerospace continues to look good. We see some good opportunities. There is nothing that is of concern. GSE our Singapore acquisition integration is going to plan. We will see some synergy starting to happen. Transport which is the rail business is also doing quite well. There is good growth across key customers we expect the growth to continue into the next quarter. The Prague Engineering Center in The Czech Republic is coming online; we see some good opportunities there. And overall, we are quite bullish on this sector.

Energy and Natural Resources, obviously there is a significant amount of headwind there with fall in commodity prices both with oil and also with some of the mining industries. We also see some challenges of course the good news and the bad news is we are as low as we can go ahead so it would not get worst here. But again we do not see that actually driving any significant growth. Medical is an industry where we have made good investments in the last couple of quarters, we see progress, we have added a number of new clients and we see that there is ramp-up that is beginning to happen.

Going into the next slide, Off-Highway Equipment again that is driven by mining and construction. This is an area of a little bit of concern because this is a quite a significant material part of our business it is about 8% or 9% of our business and there is some headwinds because of a lot of the equipment goes into mining, construction those kind of industry. Having said that, I think we are still able to hold up reasonably because there is interest and there is capacity that we have in areas like electronics, data analytics, internet of things which are working out well.

Semiconductor from an industry perspective is going through some churn there has been a lot of lay-offs there is market consolidation that is happening, there is deals like Intel just bought Altera the deal got closed and ON bought Fairchild and there is a lot of other things. Qualcomm is going through a systemic shift in their business. But the good news for us has been that our large customers and there is really one or two large customers and thery have remained stable and also we have seen growth from them. So while the industry is going through a little bit of rough patch as we see it. Our business looks to be quite stable there.

Utilities, we see good traction across all the geographies there is a lot of new things that are happening again as you know utilities can tend to be a very-very long cycle industry but there is some good things happening that are helping with maintaining our revenue there.

Communications which is primarily driven by telecommunication is doing quite well. We also won another very large deal in the Asia-Pacific region which will drive growth for the coming quarters. Overall the numbers look quite strong, actually it is the second largest part of our business after Aerospace about 16% of our revenue and that looking solid with also roll outs like 5G looks quite good.

And lastly on Rangsons, in the like I said, things look quite good at this point, the backlog is there it will get executed Q4, Q1, Q2, pipeline is building up and we are seeing some good opportunities. So overall, I would say net-net is yes, Q3 was a little bit lower then what we had originally anticipated it is a little disappointing for us but having said that we are very very optimistic on what is happening with the business. We are very confident on what is going to happen in Q4. Obviously, to comment around next year I would hold off for a couple of months to see the budgets and the plan. But at least I can tell you that Q4 looks to be a very strong quarter for us. With that, I will hand it back to Ajay and…

Ajay Aggarwal: We can open it for the questions now.

Moderator: Thank you very much. We will now begin with a question and answer session. The first question is from the line of Ravi Menon from Elara Securities. Please go ahead.

Ravi Menon: Krishna, when we spoke of Rangsons after the acquisition we were initially target 80 million and then we took that down to 70 million and then 60 million. So do you think 80 million is a realistic target for even next year or do you just soon to talk about that?

Krishna Bodanapu: Ravi, it is little too soon but I would say as an early indicator FY17 looks reasonable. Again, I would say it is still a little bit too early to comment on that. But yes, I mean it is one thing that we realized over the last year is the backlog is there, it is also backed by advances so, it is a very solid backlog. But when the product actually ships depends on a couple of things including the customer demand and also the availability of raw material which is a little bit different from the traditional services industry. In that sense, we have to be a little bit more careful and I do recognize and I do take the responsibility that we have been a little bit fluid with numbers. But I believe we have a much better control on the numbers now and we know exactly how things work and how we can make them work better. But yes, I mean it is early to comment but we will have a significantly better year, that I can assure you.

Ravi Menon: Great, thank you. And secondly on Aerospace, on the Engineering services, Infosys earlier commented today about how the aerospace industry look to be a little challenging given the major engineering programs are more or less done. So how do you see that, do you differ from that outlook or do you think that is probably more IT specific then engineering?

Krishna Bodanapu: I differ a little bit on that outlook. The number of new programs has come down quite a bit and that is definitely a challenge for everybody. But if you look at it while 60% or so of our business has been new program business, 40% is really around maintenance of existing fleets. So it could be things like repair engineering, it could be manufacturing engineering, post production engineering, basically various engineering activities that go into manufacturing and maintaining the airlines fleets. There, are significant amount of opportunities because while the new design has gone down, there are lot of planes that are being produced. So two things, one is GSE gives us a further substantiation of our capability in that particular area because that is repair engineering area. And the second thing is if you look at the 40% that I have talked about as the sort of the after market's engineering that has been the big growing part of our Aerospace business and the way that we are building it out and planning is the upfront engineering will pretty much be stable if not come down a little bit but the growth is really going to come from this aftermarket engineering. So therefore, our outlook is a little bit different for the industry.

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

Sagar Lele: Hi, Krishna. So we have not seen much progress getting customers in Aerospace on the engine side. How do you plan to ramp-up the facility you acquired in Singapore from Pratt & Whitney?

Krishna Bodanapu: Okay, that is a good question. So what we do is there is a couple of things that we are looking at, one is it is a pretty unique capability that we have in Singapore with the repair engineering. But a lot of the repair actually gets done in Singapore at this point obviously, for Pratt but also for some of the other engine manufacturers. So now we see that we have a little bit of a better hook or a better value proposition to some of the other engine manufacturers which we did not necessarily have in the earlier days so that is one, we believe that we have better peg on it. The second thing is there is also a lot of other Aerospace that is there in Singapore that goes into the MRO repair engineering there is pretty much every large Aerospace OEM or Tier-I has a repair engineering set-up in Singapore that we can actually work with. So that is the second thing of ramping up that center it is not just aero engines because the core capabilities aero engines but it is also quite fungible across the other aerospace domains and aerospace capabilities. The third thing is Singapore is also a pretty significant location for other gas turbines, like industrial gas turbines, marine turbines and so on and so forth. So the intend was not just that we would grow the aero engine repair capability because that is a little bit more or a difficult task given our relationship with Pratt but it was also the fact that we will grow other repair capabilities in related areas where we are seeing traction already.

Sagar Lele: All right, fair enough. And also could you give us an update on the synergies between Rangsons and Cyient so far in terms of cross-selling. I know you have approached a lot of our customers and efforts have been going on since the last quarter but anything in terms of the pipeline building up so far and any early signs of progress on that?

Krishna Bodanapu: Absolutely, I think the pipeline like I said was about between $90 million and $100 million of pipeline has already built-up. These are projects that we are quoting on with existing Cyient customers for the Rangsons' capability or for a combined capability design led build because that is really what we are after. I mean we are also not very proactively selling just the traditional Rangsons' capability around manufacturing because that is not the intent of the acquisition. We are trying to sell a combined service offering of design to build. So that is about that $90 million to $100 million of pipeline got built-up. And the second thing is in this quarter we would have done about 3 crores about $0.5 million of synergy revenue but going forward we are seeing that the deals are closing like I said just before I walked-in there was another deal which was Cyient customer that we are going to do design and we are going to build the product for them. So I would say, a year ago I was probably a little bit more optimistic or aggressive with the time line but I can still say we are probably six months to 12 months behind where we should be but it is working, a bit with the delay it is working as per plan.

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

Deepen Shah: Krishna, I have couple of questions. Firstly, could you just explain how Softential done this quarter? And the next question is once again coming to Rangsons, we are talking about an $80 million revenue which we planned to do next year. Can you just also comment on what kind of profitability are we aiming at because in the last two quarters we have actually had a negative reading on that front on the EBITDA?

Krishna Bodanapu: Okay. Q3 is a good quarter for Softential because some of the software sale end-up happening in Q3 and software sale is important for us because that is what drives services sales for the rest of the year. You sell the software and then you do a lot of services around it. So we saw about 20% growth compared to the previous quarter, we did a little bit more than $5 million in revenue, it was lower than last year but last year also we had a one-off large deal. But we see that it is in line with what we have done historically in Softential in Q3. Q4 typically will be slightly lower but it would not be significantly lower. It will come back to sort of the Q2 numbers of 4.5, 4.7 something like that or maybe even little bit more but roughly that is the number that we will look at. Now in terms of Rangsons you are right, I mean the margins are under a little bit of pressure but like Ajay said as a standalone company we are doing roughly 7.5%-8% operating margin. There is about 3% of that overhead is being added by Cyient but having said that, that overhead would have happened in Cyient anyway I mean this is because it is part of the strategy and it is part of how we want to build out our business for the future, we would have added that overhead in Cyient anyway. So in that sense it would have been there. But the current outlook that I have is that we will get back to between 8% and 10% margin taking all the overheads also into account for the coming year.

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

Madhu Babu: Sir, just on the overall portfolio last year our organic growth was around 14% and this year most likely will be flat in dollar terms and maybe grow by 3% in constant currency so, I mean there has been quite some volatility on year-on-year basis. Is it because of engineering design or it is project specific or what are we trying to do in terms of addressing the same?

Krishna Bodanapu: So if you look at the challenges that we have had just to deconstruct our business a little bit but we are dependent on a set of clients. If you look at our top 20 they contribute about 65% of the business, our top five contribute about 40% of the business. We have had client specific issues in three out of the five customers this year and I will just quickly articulate what those were and why that is important. But if you look at it IBM Microelectronics which is our large semiconductor company got sold to GlobalFoundries. During the transition especially in Q1-Q2 of this year we had some significant headwinds in terms of work drying up and so on so forth. It was anticipated, but it really hit us quite hard because that is about between $4 million and $5 million client that came down quite significantly. The other one is TOMTOM, TOMTOM again has been obviously a very long relationship but they went through a change in platform the platform in which they produce the data was being transitioned from a sort of in-office or in-premise based set-up to a cloud set-up. They went through a tough patch with that, we went through a tough patch with that but it is all beyond us that hit us quite hard. But having said that you know the outlook for next year is we will grow at least double-digits over there if not even better than that. And the third account was Southern California Edison. It was a good growth account last year but we slowed down a little bit. There were some profitability challenges that we had to address, it was not just about doing as much work as possible but trying to do work more smartly and so on and so forth. The other two of the top five customers, Pratt will grow very well, we will have a double-digit kind of growth in Pratt & Whitney. Bombardier also will have a double-digit growth which is our second largest customer. But the challenge in Bombardier is all the revenue comes in Euros and that basically gets negated because it was depreciated about 10% against the dollar or the rupee. So my point, the summary of this is with three out of the five we have had some challenges this year, it is client specific. So it has been some client specific problems that hit the business quite significantly. Now is there anything that we can do, I think obviously we have continued to work hard in building out the rest of the business. We will make sure that, that buffers a little bit decrease our dependence on the top 5, top 20, top 10 whatever the right metric is but decrease dependence but it is also going to happen over the period of time. It is just this year was a little bit unfortunate, we had these specific issues in these three. But going forward I think really the key for us is just make sure we continue to remain close to our customers so, even if there are ups and downs we manage through that and the second is build out of non-top five. So those are the two things I would say. Honestly, good years it comes out very well bad years it just becomes a little bit of challenge but that is the reality of our business.

Madhu Babu: Okay. So we can expect this kind of volatility in growth. And second on the margins, I mean we are again at 14% EBITDA despite weak currency and it is not just for us across the sector I mean currency tailwinds are not translating to the margins. So next year if you see sir I mean one obviously Rangsons we can improve the margins. What would be the other margin levels for us to take back to the 16% to 17% kind of EBITDA margins?

Krishna Bodanapu: I think yes, there is some levers around utilization. There is also pyramid there are off-shore because there is a lot more focus on off-shore and if you look at some of the growth that is also coming in Q4 is actually off-shore type of revenues growing quite a bit. But what I would say is once we have the budget and once we have a clear plan that would probably be a better time. But we do see a few levers that we are already working on because we cannot just do that on April 1st and say things will get better for the year. We are doing the ground work in a lot of these issues so, come April 1st we can start seeing the benefits also not just engaging the levers.

Madhu Babu: Sir, but we can expect again being back to 16% to 17% EBITDA margins for the company level.

Krishna Bodanapu: I think it is a too early to comment on that, I would say let us look at how the year ends up and then comment on that. I think the intend is there but I do not think the execution has to be there and I would rather wait a little bit before commenting on what exactly will it be.

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

Abhishek S.: My question is regarding Rangsons, were there any deferred payments or performance link payments to Rangsons and would our payments now be lower in that case given that Rangsons has not performed well relating to our expectation?

Krishna Bodanapu: But just quickly, we own 76% of Rangsons so the other 24% is something that we have an option to acquire. We have agreed on a multiple basis the performance so, the value of the equity will come down potentially but again we have a couple of more years before we execute that option. So I think it is a little bit too early to comment on that. At this point, there is no direct link to it.

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

Gaurav Rateria: Just a couple of questions. What is our bigger focus area for the next year? Is it getting growth back to significant higher levels or is it to take back the margins to 16%-17% levels? And second question, around this year we have seen a material deceleration in the growth and barring some few client specific factors there has been no general commentary of any slowdown in the demand part. So is it largely a reflection of management going after business very selectively in terms of high quality business and would this be approach next year as well?

Krishna Bodanapu: Gaurav, I think the way I would look at it is you cannot have one without the other that is margin growth and revenue are quite interlinked in our business and obviously the services business very well that is something that you cannot break out very easily so, the focus is really on the right balance between margin and revenue and if I had to pick one over the other just because basis the way the business works the focus will be on revenue acceleration because that really drives margin more than anything else and that is the most prudent way to increase margins. Of course we have to make sure that we have the right balance of resources, we have the right utilization onsite offshore mix, etc. But really what drives margin is revenue. So I would say we really want to get back to revenue to a higher number then what it was right. In terms of have we been selective and so on and so forth, I think we have been a lot more prudent as an organization over the last three years or four years in just taking business. Even if I talk about SCE that I briefly talked about there was a lot more revenue there if we wish to execute. It is just that it was not at a prudent margin and therefore we have to make the trade off. So we have made those choices quite consciously. If you just to give you a one data point if you look at the KRAs on which variable is based and performance appraisals are based for most of the for all the senior management, revenue and margin are equally weighted and there is a multiplier that comes in which is the overall profitability of the company. Therefore, the prudence and the focus on margins is significantly higher than previous which has helped us walk away from some business which would not be at a profitability level that we like.

Gaurav Rateria: Thanks, Krishna. Maybe a last one from my side, if you could highlight early signs of budgets with some of the large clients any early discussions with respect to budget growth and pricing environment?

Krishna Bodanapu: I will answer that in two parts. In terms of budgets I think it is a little bit early to comment because we are just getting our budgets from the customers because their year has started obviously some of it has already happened in December. I would say things look quite good. I mean I do not have a quantifiable number at this point in the sense that we have not done the whole exercise. But if I look at what it look like 12 months ago to now customers are a lot more positive. We are seeing a lot more willingness to spend, etc. So I think the budgets look good. Pricing environment remains the same, it is a flat pricing environment, we are not seeing significant pressure to decrease pricing, at the same time we are not seeing significant price increases. We have got some price increases, for example, yesterday we got one from one of largest clients. In general, I would say net-net we should expect pricing to hold it, it would not get better or worst.

Gaurav Rateria: Krishna, my question was like more like getting into last year there were certain client specific headwinds which you could identify and that played out also. Now getting into next year do you see similar headwind from one or two large clients or do you think those headwinds are at least as of now not present?

Krishna Bodanapu: As of now, I cannot see anything that will have a material impact.

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

Sandip Agarwal: Krishna, I have a couple of difficult questions for you and Ajay so pardon me if I am unreasonable but I just want to understand if you see our growth 2013-2014 had been mid single-digit kind of growth and 2015 have been a very good year and then 2016 again we are facing some challenges. So if you break our revenues do you see that the three clients which have issues if those clients would have performed in line with normal yearly run rate, our growth would have been at least in mid-teens or double-digit for the company. Does that mathematics work? Secondly, was Rangsons timing a little too earlier, little too late kind of scenario you are seeing because I think we have seen a sharp deceleration at least versus expectation in this year from 80 to 40 and I know it is a volatile business and for you it will be very difficult to comment on quarterly basis. But do you think that out of that whole business the Oil & Gas part has led to this deceleration alone or there is something else to that? And if Oil & Gas has led to that deceleration what gives us the confidence that it will come back? And if it is not coming back then what gives us the confidence that the balance part will recoup all the losses? So that was question number two and I have one last question, if you see our Energy vertical is not in great shape although it is bottomed out which is the commentary across and semiconductor is also going through some tough time. 40% of our Aerospace business will have I think some challenges because design part of the work is going down. So in that scenario, do you see such a huge compensating benefit coming other verticals and segments which will compensate all these losses and still give us a mid-teen kind of growth? I am not asking for a guidance but I am just trying to understand whether we will be able to do industry growth organically?

Krishna Bodanapu: I will try to answer that and I will let Ajay answer the difficult bits of that. But very quickly, in terms of three top-lines if you look at it, the fall in revenue with the three and also assuming if the currency with Bombardier stayed as it is that would have added a good 6% to 7% to our revenue growth. Just if three plus currency stayed as it is, it would have been 6% to 7% growth. Now other clients would have added another 3% to 4% growth because of currency that is our sort of non-Bombardier European clients would have given us 3% to 4% if currency held. So it is just the three customers performed to their plan and if currency held to last year numbers that itself would have given us ~10% growth, right. So obviously there is still a little to go to 11% to 12% So yes, there is a little bit of a gaps still because to get to teens we would have had to do another 3% or 4% which other customers, other issues would have contributed to it but basically, if these three plus currency is taking away 10% from our growth in one shot or roughly $40 million of growth just in one shot. So to your question Sandip, if that held we would have obviously been in a much, much better situation and also my belief is if that would have held it would have given us the additional bandwidth, it would have given us the additional ability to invest to drive some more growth which would have really the multiplier effect because right now a lot of management effort went into making sure that while there was a decline, the customer relationships remain strong that we make sure that nothing went wrong at the relationship level, etc. So that is the first point I would like to make around for our clients which took about 10% of our growth top clients plus currency. Also considering

Australian dollar as 10% of our revenue comes denominated in the Australian dollar that was the part of this whole problem. The second thing to your question was Rangsons too early or too late? Honestly, that is a very good question that I do not have an answer to it. I would like to say it was at the perfect time but till the numbers prove themselves I cannot say that with conviction. What I will say is that I am still very-very convinced that it is something that will help us to have a solid run going forward and not to reiterate the things that I have already said but we have had some good early wins there and so on and so forth. Now there your question around Oil & Gas and around where is the gap coming from? Oil & Gas is one part there we have one large client in Oil & Gas that has come down. We are actually seeing some recovery from that client again not back to the original numbers but we are seeing some recovery. But the bigger challenge there is on Aerospace and Defense and with some of the orders that are already in backlog have gotten pushed out a little bit. So my confidence where I can say that looks things will look better going forward is the Aerospace and Defense is driving our growth over there, it is not Oil & Gas that we are counting on. Even if Oil & Gas remains a little bit subdued as it looks like right now we will still be okay because the focus is really on Aerospace and Defense, Medical Electronics and then on some of the other industries like Oil & Gas. So our confidence of growth is not because of Oil & Gas but because of the other industries. Therefore, I would say the performance that I expect to have next year is not basis just the Oil & Gas looking better. And on the third part of your question on the Oil & Gas and Semicon markets bottoming out Aerospace and Defense 40% yes, there are going to be challenges. We looked at client-by-client because again it is very specific client-by-client if you look at the Semicon industry the industry is going through some significant challenges. But again, I do not know if it is right English but the good news and the bad news is we are dependent on one client who is actually doing well with us one or two clients actually. So that helps us to give us some degree of confidence and that while the industry might be in one situation, our specific situation because the flip of client specific challenges is also client specific opportunities right. While this year we have had three clients that gave us a little bit of trouble in terms of what happened there, the opposite of that is having those good clients in a difficult industry also helps us. so in that context I would say, yes, there is a some amount of skepticism, there is some amount of pessimism in the general market but if I look at our specific customers I still feel quite confident not to give a number because we still have not done any budgets or anything but I still feel quite confident on what the business looks like at this point.

Sandip Agarwal: Okay. And on the last part, I think if you can also throw some more light means I know you have partially answered it but the Energy, Semiconductor and Aerospace will we be able to compensate that, that is my big worry?

Krishna Bodanapu: See Semiconductor absolutely will compensate that. Our customers are doing touch wood very well, I am not too worried. Energy and Oil & Gas is at a situation where it would not get worse it is just where it is, it is also not a very big market for us. It is maybe 3%4% of our especially if you take out the Equipment side it is less than 2% of our business will be fine, we will compensate. Aerospace, yes, I mean it is 40% it is sort of the gorilla in the room for us. Still I am quite confident, looking at the opportunities, and at the pipeline. If you look at the work, the opportunities are not coming because somebody is building a new plane. The opportunities are coming because somebody is doing manufacturing or needs to keep the fleet going or needs to do upgrades of certain equipment. So therefore, that gives me confidence to say globally, the new claim build is coming down that is coming down that is the reality but we are not so much so as much as we are dependent on that but we are equally dependent on the aftermarkets. See I am not worried at this point let me put in this way.

Sandip Agarwal: Okay, great. That gives a lot of comfort and I hope we will be able to do good growth next year and we are all with you we are also waiting for numbers for last couple of quarters now. But also one last question if you can squeeze, so if these things fall together will we see a very significant benefit of this flowing to our margins as well Ajay?

Ajay Aggarwal: See as Krishna said, if we are getting back to Rangsons to our anticipated levels which is definitely bringing down the margins this year definitely that brings back the margin. Getting back the volumes from these customers plugging some of those holes, getting back to growth definitely helps on the margin. Otherwise too early to comment about the margin but all of this definitely based on the margin.

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

Urmil Shah: My first question was keeping in mind the kind of growth which we are seeing and anticipating next year. Any change in the capital allocation specifically talking about the utilization of cash?

Ajay Aggarwal: We do not really see a drastic change in terms of dividend payout we have clear policy, we have a consistent CAPEX that is being used in terms of sometime 2.5% to 3.5% of revenue in terms of acquisition we just looked at the pipeline it is all driven by what fits into the strategy and what gets fructify we will determine that. So I would say there is no significant change in the capital allocation unless you have a very specific question in your mind.

Urmil Shah: No, that is what it was about. My second question is on Rangsons pardon me for repeat. Wanted to understand, two parts, what are the risk that quarterly as we go into next year we might still not be able to achieve our targets? And secondly, if I have to look at Rangsons from a three-year point of view should we look at this business as a sustainable growth business or there could be cyclicality as it is more shipment based business?

Krishna Bodanapu: Okay. I think just answer your second part of the question, there will be some cyclicality but what we also believe is that on the going forward if we can mix our design with the manufacturing because we do not want to do either or in isolation but if we can mix our design with manufacturing then it takes away some of the cyclicality. The cyclicality will always be there I think we cannot move away from that but I also want to say we have a much better peg on this cyclicality at this point on how it actually works and therefore, what are the things that we need to do to get a control on it. So one between having better insight and better management on it to having design to build so you have the design control also which is the upfront and three is just understanding the nature of the business better I think we will have a better peg on the cyclicality though it would not go away at least as we can see it because it is shipment based. Now in terms of risks, there are two elements of risks, there is the supply side of risk and the demand side of risk. I think on the demand risk, the risks are around customers buying more customers wanting to do more. Our existing customers wanting to buying Rangsons services. Again all this I can theoretically the demand exists. We have a pipeline but it really has to get converted into orders and to revenue before we emphatically say that it is working so that is always a risk. Similarly, on the demand side there is some of our business is there is also dependent on offsets. There are some changes that are coming out in the offset policy. We are still quite confident that, that will actually help us quite a bit but you never know that is a always a risk with 'Make in India' coming up or Design in India becoming a big multiplier, it is a risk. On the demand side, the risk is around just making sure we have the right inventory at place at the right time because the business is also quite sensitive to how you manage cash flows and inventories and therefore making sure with the right control on inventory we do not go overboard and overall doing competence on material we make sure we have the right orders in place. Those are some of the thing that we are working on from a risk perspective.

Urmil Shah: And on the $100 million of pipeline which you mentioned is the sales cycle similar to what Rangsons has had it earlier or it has been slightly longer than what it was earlier?

Krishna Bodanapu: I think it has just been different, I think it has been slightly longer just because we are coming from a different angle. The expectation of a customer who Cyient is and what we do is slightly different so, just taking that those things into account and in some cases that is a little bit longer. But I think it is something that is not significantly different.

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. Sandip Agarwal for closing comments.

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

BVR Mohan Reddy: Thank you very much to all of you for participating on our Q3 Earnings Call. If you have any further questions, I am sure you could take them offline with either with Ajay or with Asha. So thanks again for participating. Thank you.

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