"Cyient Q3 FY2017 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 Q3 FY17 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. I now hand the conference over to Mr. Sandip Agarwal from Edelweiss Securities Limited. Thank you and over to you, sir.

Sandip Agarwal: Thanks, Lizann. Good morning to everyone. On behalf of Edelweiss, let me welcome you to the Cyient Quarter Three FY17 Earnings Call. We have with us the Senior Management of Cyient headed by Mr. BVR Mohan Reddy along with other senior members of the management team. Without further ago I will hand over the call to Mr. Ajay Aggarwal to start the proceedings. Thanks, and over to you, Ajay.

Ajay Aggarwal: Thank you so much, Sandip. Good evening, Good morning and Good afternoon, Ladies and Gentlemen, whichever time zone you are in, welcome to the Cyient Limited's Earnings Call for Third Quarter of Financial Year 2017 ended December 31st, 2016. I am Ajay Aggarwal, CFO. Present with me on the call are also Executive Chairman – Mr. BVR Mohan Reddy and Managing Director and CEO – Krishna Bodanapu.

Before we begin, I would like to mention that some of the statements made in today's discussion may be forward-looking in nature and may involve risks 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 earnings call presentation, details of the same have already been shared with you.

I now invite our Chairman – Mr. BVR Mohan Reddy to provide a brief overview of the Company's performance for the quarter.

BVR Mohan Reddy: Thank you, Ajay. A very good evening to all of you, Ladies and Gentlemen. I welcome you all to this conference call. Though it is a little late, a belated Happy New Year Greetings to all of you. There is also a very important festival coming up in the next day or two which is called Sankranti back in South, so we would like to extend warm greetings to all of you.

The Q3 FY17 was in line with our expectations, both in revenue and margins. We are coming off a strong quarter in Q2 and Q3 is seasonally weak due to lower working days. Revenue stands at Rs. 917 crores which is up by 16.5% year-on-year, so we are Rs. 917 crores for the Q3 which is 16.5% higher compared to the similar quarter last year, that is in constant currency. Net profit stood at Rs. 94.2 crores, that is up by 13.8% year-on-year. We had a highest ever free cash flow which is at Rs. 127.3 crores. Our DSO stands at 76 days which is the lowest ever. So on the revenue we had the highest ever at Rs. 917 crores and on days outstanding it was lowest ever at 76 days.

I am also excited with the progress we have made with many areas of our business. Several new contracts have been signed in various business units. We have opened two new offices – one in

Pune, so now we have a facility in addition to Hyderabad, Bangalore, Noida and of course we have three more minor cities where we have facilities, we will probably open one more in a week from now which is Warangal.

Going back, we have opened two new offices, one in Pune, India, to leverage the opportunities in the off-highway equipment sector. And other in West Palm Beach, Florida, to leverage the opportunities in defense in US. We are seeing significant traction in new solutions like analytics where we have had some key wins. Design Lead Manufacturing, DLM business continues to improve performance and delivered Rs. 100 crores revenues this quarter for the first time as a part of Cyient. The momentum will continue in to the foreseeable future, we completed the expedition of Blom Aerofilms to strengthen our geospatial business. Zinnov, an independent consulting company placed us in the leading category in a number of industries that we work in. We have been awarded Pratt & Whitney's Sub-Player Innovation and Higher Productivity Award 2016 for delivering highest productivity savings of $5.2 million. We also have nine patents during the quarter and 250 standard works that we produced to Pratt & Whitney.

Suman Narayan joined us as the Head of Semiconductor Business Unit. This BU represents an exciting growth opportunity for Cyient. And Suman's leadership will prove invaluable in establishing our leadership in this market. With Suman's joining, the Operations Council, that is the apex management team that we have is now complete and I am proud that Cyient is one of the most competent, ambitious and long-term focused leadership team in the industry.

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

Ajay Aggarwal: Thank you, Mohan. I am sure all of you would have looked at the financial results what we have circulated. This quarter is a seasonally weak quarter because, A) our capacity during the quarter is lower because of number of working days that are available that has impacted us by about 2%. And all of you know about 40% of our business is non-dollar related currency, that has also impacted our revenues by about 110 basis points. If you leave these, I think it is quite business as usual. In constant currency, we have 0.6% growth, quarter on quarter in rupee terms this is the highest ever revenue that is Rs. 9170.6 million and 17.1% increase year on year. On constant currency year-on-year we have about 16% growth and I think we have seen this kind of year-on-year growth which is quite a good reflection of where the year heads towards.

Across the BUs I think the whole impact of currency and the working days is also showed in the performance of the BUs. So when you look at these numbers you have to also take that into account. But the only comment I would like to make is, in terms of our key industries, aerospace and defense, communications, rail transport, even U&G, DLM we are really having very healthy growth, all of them are in line with the expectation that we had for the year, all of them are having close to double-digit growth. And we will talk more about how the year looks like by Krishna. But I think this is just the effect of the seasonality that you see on this chart.

In terms of the income statement – as you know we have our pay days much higher than the billing days and that takes away about 140 basis points of our margin. Because of that you will see that there is a 60 bps drop in the quarter-on-quarter margin, also in terms of quarter-on-quarter operating profit we have a marginal drop. But if you see year-on-year our operating margin is up 15.6%, that shows that the top-line growth is also reflected into the bottom-line growth, this is the reflection of the operational efficiency and the work we have done to improve the profitability and margin during the year and some of the initiative which are getting ingrained into the organization over a period of time. In terms of profit after tax also you will see that this number is about 14% higher compared to where we were about a year back. And that again reflects as a combination of operating profit as well as the other income where our foreign exchange policy, and I will talk about this in the subsequent slide, is also helping us to mitigate some of the challenges that we are getting from currency. You will see effective tax rate which is higher in this quarter due to the mix issues, especially in India between STPI and SEZ, but I would say that we are on track for the year as a whole to have the ETR same as last year. And we are going to have some substantial ramp-up in SEZ in quarter four, so we are on track to bring down the tax rate in the next year as well.

Cash generation – this has been a satisfying quarter for us. The conversion looked good, we have converted 83% of EBITDA that is about totally Rs. 1273 million or Rs. 127 crores of cash which translates into the closing cash of about $127 million or Rs. 8627 million. So in terms of the cash availability and cash generation to fund the future growth, I think last year we had generated close to Rs. 337 crores, we are on the path to maintain that trajectory and generate similar cash flows, despite the growth that is taking place. DSO also is at all time low at 76 days, year-on-year that is a reduction of 10 days and one day's quarter-on-quarter. During the quarter this Rs. 862 crores of cash is after making the investments of Rs. 358 million. As you would see in the investor update, A) There is an acquisition in UK for Blom, and B) we have also got into a licensing agreement for defense related work on some IP, that is another investment that we have done. So between the two of them we have spent totally Rs. 358 million and dividend of Rs. 408 million is also paid. So Rs. 860 crores is after making these payments.

In terms of the FOREX and other income update – you would see that there is other income which is higher. On the left side, you are also looking at the chart for foreign exchange. So the benefit of foreign exchange has reflected during the quarter. And as you can see like the last year we do have good benefits on the foreign exchange which is really helping us below the operating profit. And most of this data between Rs. 18 crores and Rs. 30 crores is mostly coming from FX. And also in terms of the other incomes we have another gain of Rs. 4 crores or about Rs. 40 million.

If you look at our hedge position, there is no change in the policy, more or less 12 months forward 70% and most of the currencies you will see we are quite ahead of the spot rate. For example, British Pound and Euro we are seeing a lot of impact on our revenues and margin but at EPS level our position for the next 12 months are also at current rate quite strong and this could lead to a benefit of about $8 million at current spot rates in the next 12 months.

With this, I will hand over to Krishna for the upgrade on business, investments and growth.

Krishna Bodanapu: Thank you, Ajay. So, I will start off quickly with the M&A update. Like Ajay said we made one acquisition during the quarter which was Blom Aerofilms. And we are also in the LoI stage with one company and we are hoping that we will have a closure sometime this quarter. But other than that, I will just say that the pipeline remains strong and looks to be strong and we continue to focus on that. Also, just for clarity, we always lay out the areas of focus for M&A which are the four areas of aerospace and defense, rail transportation, communications and medical and healthcare. And these are the same as what we had presented previously, so I would not spend much time on it.

Going to the next slide, and looking at the outlook for each industry. The aerospace industry outlook continues to be quite strong, especially where we are. And like I said previously, while the new design start has come down quite a bit, a lot of our business comes from sort of the continuing engineering which is both on the manufacturing engineering and also on aftermarkets, that continues to grow quite well. There is also some good tell-tale signs on some new large defense programs coming up especially in the US and we have ramped up or we are geared up with a new company called Cyient Defense Solutions which will be able to this work in the US, so that will also be a good thing.

In terms of the industrial energy and natural resources, this market still continues to face CAPEX pressures. But having said that, I think we have found some good niches within that market, things like infrastructure, obviously nuclear engineering has been a big thing for us. Also, there is a lot of new technologies that are starting to be adopted in this market like Internet of Things and Analytics. And especially if you look at a lot of the industries here, they are your very traditional industries, so adoption of technology has been a little bit slow. But those are coming in so that also is presenting some very large opportunities for us.

The transport business continues to do reasonably well, it is driven by the fact that we do work with pretty much every large transport company in the world so that we are in a good position and we will continue to see some good growth there, both on the back of our largest customer Bombardier but also some others. The only challenge that we see there is with the exchange because this is one industry that is primarily outside of the US for us, so therefore the exchange rates have inordinate impact here and that is why we certainly see the revenue growth that should be reflected in the volume growth, but that is I guess the reality.

In medical technology and healthcare – one thing that we are seeing is there is a lot of consolidation that is starting to happen in the industry. I think it was Medtronic that bought Covidien, Abbott bought St. Jude, so I think there is a lot of consolidation and we need to make sure that we are well-positioned there. But I can say that the pipeline has increased significantly there, the 9 out of the top 20 medical customers are in the pipeline not just sort of as a lead but in some sustainable manner, so that is quite exciting for us.

The semiconductor industry also is a play for consolidation. Broadcom bought Avago, Qualcomm bought NXP which bought Freescale, Intel bought Altera, there is just a lot of consolidation there also. But having said that we also see that this industry is a driver for a lot of the newer and emerging technology like IoT, security, the data centers, there is a lot of hardware, software convergence that is happening with people like even Facebook and even Google etc starting to design chips that are very fit for their own purpose rather than a general purpose. So we see good opportunities there also.

Utilities and geospatial is primarily driven by a lot of smart city, smart meters, again a lot of the grids which have been in service for 15 to even 100 years in some cases are being upgraded and updated. And that means that there is a lot of data and related work that needs to be done and do a lot of redesign work.

Communications obviously has been our start performer, this has been driven by a lot of the initiatives that are currently being rolled out, be it the CAF-II initiative, the Connect America fund in the US or the National Broadband Company in Australia and many other things. And again, we had a really good run in this business and we continue to see that happening going forward and I will comment a little bit on the future here in a bit. We continue to see that, there is just a lot of money that has been earmarked for these programs, there are also long cycle programs and we are very well-positioned in these programs.

Lastly, on the manufacturing piece – the Design-Led-Manufacturing, it has been a little bit of a rough patch for us there as most of you know. But I think like the Chairman said earlier, we have the first Rs. 100 crores quarter this particular quarter. In the previous avatar as Rangsons there were a couple of Rs. 100 crores quarters before we acquired, but since we acquired this was the first Rs. 100 crores quarter which I think is a very good reflection of where the traction has come back into that business. We can see continued growth, again Q4 will be much better than Q3 and we see the traction that is there and to be continued. Also, there is a lot of good stuff that is happening with various programs both in India and outside of India and we are very well-positioned for these programs.

So, the way I will summarize it – again first for the rest of the year is really like we said the double-digit growth in the core business will absolutely be there. The DLM business, I have said 50%, will still be in the ballpark of 50%, they might be slightly lower but not significantly lower, we will be in the ballpark of 50%, so that continues. I will summarize growth and say that for the year NASSCOM has been talking about guidance of 8% to 10% in constant currency, we will be at least twice that. And of course, we will be in the lower range of twice that but we will be twice the guidance that the general industry has been talking about. And honestly, we feel very proud that we have been able to deliver and we will be able to deliver because the year is not out yet, but we will be able to deliver those kind of numbers. In terms of margins, I will stick to what we have said previously, services will see an improvement of about 100 basis points. Overall as a group we will remain flat to marginally positive, that outlook still holds. And net-net what it will transpire is that earnings growth will be in double-digits and we strongly believe that we will be among the outliers in the industry even in earnings growth.

With that, I would also like to make a quick comment on the year ahead. I am sure that is on a lot of your minds. It is a little bit too early to comment on specifics but what I can say is that basis the conversations that we are having internally and externally the environment does not seem to be very different than what it was 12 months ago. So, the conversations that we are having, the signals that our customers are giving, the purchase orders that have started to come in give us the feeling that what happened 12 months ago is where we are right now, so we will start building up budgets and our expectations of that. And of course, next quarter during the call we will give you a lot more granular detail.

With that, I will turn it back to the operator for questions.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Sagar Lele from Motilal Oswal Securities. Please go ahead.

Sagar Lele: So if I look at the first nine months of FY17 compared to the previous year in the services business, revenue growth year-over-year has been about 10.6%. However, if I were to exclude the incremental revenue from communications, overall growth would be a tad above 5% which to me seems a little low and not signifying a material pickup. Just wanted to get your sense on what the major drag areas would be for you and how or what would make you reach a double-digit growth rate from here?

Krishna Bodanapu: See, we cannot include and omit verticals because the company that we have is a portfolio of services that we offer. So if you look at 10.6 in dollar terms it is 10.6, but what I want to say is in constant currency that adds another 3% or so, that is about 13%. And the other thing I will also say is that nine months there is also the rest of the year that is still remaining. So you can look at the numbers, you can look at how each BU is performing and what the numbers are for each BU. But I would not read too much into it saying to dissect it by BU and saying, that is always going to be the case, some will perform better than the others, it is the right portfolio that we have and that is the right portfolio that is delivering the results that we have.

BVR Mohan Reddy: Maybe if I can just add a comment, if you look at the industries which have been impacted by the environment which is energy and natural gas industrial group for us and semiconductor group. Other than that if you look at all the industries, whether it is aerospace or it is transport, communication, U&G, they are all doing double-digit growth and communication of course is much higher double-digit growth. So I think we all know that these two industries, but they are not really substantial for us, semiconductor and INR. And they have been cyclic and that is what it is, otherwise I think all of the industries are almost double-digit.

Sagar Lele: Also, just one question on the margins. You are still maintaining the guidance of 100 basis points expansion in FY17 and the services bit. But from my calculation that seems like a tough ask for a 4Q margin expansion, would that be the right way of looking at it? Because I think even a 50 basis points expansion would lead you to about 50 bps expansion on the full year basis. I mean, I am not reading too much into 50 basis points but somehow mathematically that is not fitting into my calculations.

Krishna Bodanapu: See, for a growing company the growth is coming from the backend and the backend volume is going to be the highest one obviously and the growth is continuing. So I think we can talk mathematics offline but I think it is a very conscious and carefully computed number that we are giving to you.

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

Mohit Jain: Just wanted to check on DLM, so we had a very good year with this FY17, so what kind of outlook do we have for FY18, will it get more normalized or do you think that kind of hyper growth may continue till we touch $80 million in top-line?

BVR Mohan Reddy: I think the outlook is still quite positive. I will differ the comment till we have finished our budgets and have a better clarity, but I would not say that it will be a normalized year and it will come to double-digit growth, it will still be quite significant growth. How much? I do not know, I mean will it still be the same number, will it still be 40% to 50% as it is this year or will it be lower we have to see, but it would not also be 10% to 20%.

Mohit Jain: Second is on the margin side, this is also related to DLM. What kind of DLM margins are you looking at in a steady state, because what I understand is you made certain investments this year which brought down the margins but now revenue seems to be getting back into shape. So should we expect a double-digit kind of a margin next year from DLM?

BVR Mohan Reddy: No not yet, I do not think we are anywhere close.

Ajay Aggarwal: So I think we have to be realistic here, the mix change is the one which will make the difference as we move from build to print to design and manufacturing, the movement the mix keeps changing the margin keeps improving and for that change I think we are making a lot of investment, we are going to continue. So the way I would say is that we have said that DLM will bring down the margin for the group by about 100 basis points, so I would say I think that is still a reality till we really get over this transition.

Mohit Jain: What I understand is DLM margins may continue to be the way they are till FY18 probably and then you will look up as we make changes.

Ajay Aggarwal: I think that should not be the conclusion, what I am saying is suppose we have done between 2% and 4% for the last four quarters, they will not suddenly go to 10% or 12%. But where they will be in between I think you have to give us time till we complete our budgeting exercise.

Moderator: Thank you. We have the next question from the line of Prakash Chellam from JM Financial. Please go ahead.

Prakash Chellam: Question is, in general we have been seeing and just wanted to get a sense of whether you feel the same way that if you look at what is traditionally being defined as your engineering business and for a minute if I were just to exclude the communications and the U&G piece, would you say that you are increasingly seeing more and more growth on the communications and U&G piece compared to the other segments outside of communications and U&G, is that a trend which you are seeing happening over the last few quarters, could you just comment on that?

Krishna Bodanapu: Prakash, it has been happening over the last few quarters, but again I think it is cyclical in nature. If you dial back to two years when U&G and communications had flat business whereas the other part was really dialing up. So I would say it is a point in time thing, I would not read too much into it. I think there are some other things that are happening where some of the other businesses will also come up quite significantly. If you look at both the semiconductor and the medical business for example, because those are also two small businesses. I would say they are a couple of quarters away from having some good traction behind them because we have put in a lot of traction. So I would say this is really just a cyclical nature of the business, I would not read too much into it.

Prakash Chellam: And just one last additional question, would you give a sense of whether the growth in the comms business is that concentrated in account or a region or is it more broad based?

Krishna Bodanapu: I think it is more broad based. While there is one account which is doing very well but even beyond that I think it is quite broad based, there is growth in Asia, there is growth in Europe and there is growth in the US, all three regions are actually doing quite well. And Europe has been a little bit of a laggard but that will pick up in the coming quarters also.

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

Urmil Shah: My first question was on the revenue from the top clients, top five and top ten have been seeing a strong growth in nine months. Just wanted your commentary on the non-top ten clients, which are the verticals which are seeing good growth and which have been soft?

Krishna Bodanapu: So I think the growth is reasonably broad based, I mean comms has been doing quite well, aerospace and defense has been doing quite well, though Q3 was a tough quarter there because it is always a cyclical quarter, utilities have been doing quite well. I would say the one area where we do have softness is industrial and ENR, especially on the industrial side of the equation which is heavy equipment, off-highway equipment and so on and so forth. So I would say industrial and ENR is a little bit of lower growth rate and actually that is the only negative growth for the year, but outside it has been spread across the board.

Urmil Shah: I actually mean the question for the non-top 10 clients, would the commentary be the same for that as well?

Krishna Bodanapu: It would reflect the same, because again if you look at our top ten clients there will be at least one from each vertical, except medical because that is quite small.

Urmil Shah: Also on the DLM business, wanted to understand over a longer term what should be the industry mix we would be targeting and wanted your commentary specifically on the medical devices side.

Krishna Bodanapu: So I think the three industries that we are really focused on there where we will see the opportunities are aerospace and defense, medical and communications, these are the there industries where we see a lot of opportunities for DLM, which is also the three industries where there is always some industrial products, but that might continue to be there but these are the three. So I would say the mix will primarily be driven by these three. I think in the investor update there is a more detailed mix on the industries. But I would say these plus maybe transport could be another one, but these are the industries aerospace and defense, medical, communications are the three industries where you will see a lot of the DLM action going forward.

Urmil Shah: Specifically, on medical devices, what is the outlook?

Krishna Bodanapu: So, the medical devices business is quite nascent, it is relatively a small part of our business. But I think one thing is pipeline for example has increased fourfold during the course of the year. Like I said, nine out of the top 20 clients are in a very advanced stage of discussions. The approach there that we are taking is not as a services company but a product developing company, and I would not get into details and nuances on the call but that is a little bit of a different approach because what we are selling is really fixed price end-to-end projects, so that takes a little bit of a longer lifecycle. But I am very, very bullish on that business, I think that is a business that will, again I do not have a timeline but in the very near future you will see some significant growth from that business.

Urmil Shah: Last question, this is a bit of repeat. When or what is it that will take the DLM to reach our targeted EBITDA or 8% to 10% or double-digit?

Ajay Aggarwal: So I would say it is a two pronged thing, one is volumes, volumes have to come up quite significantly because the way we have invested in that business it is not a $50 million - $60 million business, it should be at least a $100 million business, at least to support the overheads cost that we have put in there and completely I am cognizant of that, but that is important for the sustainability. So I think one is the revenue has to come back up and the second thing is the type of projects that we are doing, we are starting to win and started to execute projects where there is a mix of design and manufacturing which are actually significantly better margin projects and pure manufacturing projects. So a combination of these two is what really will get us the margin.

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

Harit Shah: My query was regarding if you could give some sort of granularity on the licensing investment which you had mentioned earlier at the start of the call, I do not know if I missed anything out there. So some sort of detail in terms of when can this possibly impact your financials and the kind of expertise that would be required out there, any sort of detail would be quite helpful? Thank you.

Krishna Bodanapu: So I will start off by saying that say that this is a little bit of a long-term investment and do not make it into any financials. So we are not baking it into any of our financials either and I urge you not to till we are mature enough to talk through what exactly we are doing there. So in that sense it is a little bit of a long-term investment. But basically what it is that there is an opportunity where we could acquire this intellectual property, do the product engineering around it and sell product to a certain entity. And sorry to be so cagy, it is a little bit sensitive in terms of where we are with the process and therefore I cannot give you more details specifically on what it is. But we believe it is a very, very large opportunity. Again, we are in the very early stages of a very large opportunity so it is sort of, if you draw an x-y axis this will fall at the bottom left corner. So I would not get too excited about it but this is something that could really change our business in terms of how we are able to integrate intellectual property and produce end to end projects. So again, apologies I cannot be more specific than that.

Harit Shah: Sure, I understand that. Is it possible for you to maybe even give some indication of which area would this fall under? For example, would it be an IoT sort of initiative or what?

Krishna Bodanapu: It is communications but it is one of those things that you can spin it as you want, it could be IoT, it could be analytics, it could be communication, it could be aerospace.

Harit Shah: Okay. One clarification, so you maintained your 50% growth expectation for the DLM segment, so that would imply that you would require to grow this business at about 35% to 40% in the fourth quarter. So am I missing something here or is that actually a likely possibility given that you did mention that you do expect better growth in the fourth quarter for the DLM segment?

Krishna Bodanapu: So like I said we will be around there, we have done the math and we will be plus or minus, we would not be below 50 but we will be around that ballpark.

Moderator: Thank you. We have the next question from the line of Raj Kantawala from Equirus Securities. Please go ahead.

Raj Kantawala: My question is with respect to the acquisition that you have made, this Blom Aerofilms. So how is the order book there and how lumpy it could be and what growth do we expect there for the next 12 months or so?

Krishna Bodanapu: So it will be a little bit of a lumpy business, again, it is a very small business actually that is the reason why we did not even have a call when we did the acquisition, it was a very small part of our business, it is a $10 million revenue business, it is about a 10% margin business. Sorry, the numbers are there on the slide also in front of you, 40 people in the UK. It is a very specialized area in the geospatial and it is also very specialized towards certain geographies because it is also data acquisition which means we own all the intellectual property that can capture data which is cameras, algorithms and all that stuff. So again it will help that business grow, that business which is the geospatial business, it is a good part, the business will continue to grow at the same pace. But again, this year for example the utilities in geospatial business would have a strong year and we need to maintain that and this will really help them.

Raj Kantawala: Okay. So what I got from the publicly available data that the order book for this business has grown many folds from CY14 to CY15, so is there anything lumpy or very strong that we expect during the next year?

Krishna Bodanapu: No, see that was the previous years, it was a one-off project that we did, so we have discounted all that out. So don't expect…

Ajay Aggarwal: And also I think what we have seen from our experience of acquisitions in the last few years that for long-term strategy to fructify the first year of synergy you have to sustain the business, so we have really not baked anyone internally, any huge growth in the first year of integration. And that is what we will do for any other acquisition as well, we will like to spend energy more on further strengthening the investments and the capability.

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

Ravi Menon: Actually, I think for the first time in many quarters we have seen a slight decline in the aerospace revenues, so is it just due to lower number of working days?

BVR Mohan Reddy: Yes, absolutely. Because aerospace is very dependent on working days given that we also have a very large presence in the US. So the number of working days went down by 5% I think or the capacity went down by 5% in the aerospace business, so that is purely what it is, you will see the number in Q4 will be more palatable number.

Ravi Menon: And how about the employee addition, so after many quarters of strong additions this time we have seen a slight downturn in number of employee's overall headcount. So is this purely seasonal and should we start expecting you to add employees over the next couple of quarters?

BVR Mohan Reddy: We will, Ravi. I think we have done a lot of work on utilization, so we have been able to do a little bit more or a lot more with the employees that we currently have. If you look at our utilization it is at an all-time high, 78.3%. So we are just being prudent about it. Also, it is a seasonally bad quarter for additions because a lot of people would not join in towards late end of November through December. So just both of them put together it is just a little bit of a weak quarter, but I would not worry too much about it.

Ravi Menon: And would you stick to the same kind of wage hike cycle that you went through this year?

BVR Mohan Reddy: We will probably go through the same cycle as we went this year, the absolute numbers or the percentages and therefore the absolute numbers we still don't know. But the cycle will probably stick to the same cycle because it has been two years, it has worked well for us so we will stick to it.

Moderator: Thank you. Our next question is from the line of Binita Kumari from Narnolia Securities Limited. Please go ahead.

Binita Kumari: I wanted to understand for Cyient what is the average wages for employees who are on the H1B visa? That is the first point. And secondly, what is the percentage of your total employees that are on H1B visa? If you could give us both those two details.

Krishna Bodanapu: So on the salary I cannot comment on that because that is company confidential information, we cannot give that out. But in terms of percentage of employees in H1B visa, it is 22% of the total US population.

Ajay Aggarwal: And as we have analyzed both in terms of the overall presence that we have in the US, about 1600 people. Also in terms of our mix in terms of how many people are on H1B I think we are very well placed compared to many other peers and our percentages are quite nice, that is what the initial read is. Of course some of these things are still provisional and we have to see the final legislations that come. But I think there is a huge difference between other players and our position, both in terms of physical presence and proportion.

Binita Kumari: If there is a 10% increase in the minimum wages, as has been proposed in the few of the bills, could you give us a rough estimate of what is the impact on the company's margins it would be?

Krishna Bodanapu: I will just say it will be negligible, we have done the math and it will be negligible.

Moderator: Thank you. Our next question is from the line of Shree Vatsal Ramchandra from Spark Capital. Please go ahead.

Shree Vatsal Ramchandra: Krishna, wanted to get your thoughts mainly on the S3 strategy where we are, it has been quite some time Rangsons was down, we have been putting together the holistic strategy and going to clients. Wanted to get an update from you as to where are things in terms of customer acceptance, size of orders that we are winning and also the sectors in which we are seeing more traction and sectors in which we are not seeing traction.

Krishna Bodanapu: What I will say is we are seeing some good traction in the aerospace and defense and we are seeing some very good traction in medical, we are seeing good traction in transportation and industrial. These are the sectors where we are seeing good traction. The others may be less relevant in the sense that in semiconductor etc we need to mature out a little bit. So I would say from a traction perspective which is reflected in the pipeline we are seeing some really good acceptance and traction which also translates into the size of orders that we are bidding. Just to give you some details of scale, for example with a couple of new clients which is an S3 type of deal where we have a design element, a prototype element, a certification element, the value of projects that we are really bidding are in the millions of dollars whereas typically with a client like this if we had started off with hundreds of thousands of dollars best case. So the scale is going up, there is a lot of acceptance. And what I would suggest that we will do is , it is a little bit more of an involved discussion so at the investor day which we will have in May we will make sure that we demonstrate a lot more of this in action, both from a client perspective we will like always bring in clients and we will bring in people who are working with us in the S3 framework. And also we will demonstrate to you the project so you can get a sense of what we have achieved and therefore what is the way forward. But net-net I would say with these things we are always a little bit or I am always a little bit impatient, so I would say we are a little bit behind where we want to be, but net-net I will always take where we are, I think we are going to see some really good action on this going forward.

Shree Vatsal Ramchandra: And also I just wanted to touch base on this softential piece of the business, it was in a bit of a softness sometime back, wanted to get if is it a more seasonal softness that we are seeing and where we in terms of, is there any uptake from any of the traditional Cyient customers for the software or for the services of Softential?

Krishna Bodanapu: I think we are still struggling a little bit, honestly, with that business. I think in a steady state it continues to do reasonably well, it goes up and down, but there is seasonality. But I think what we are struggling with it little bit is with getting the whole integration play going and how does that fit in with the rest of the Cyient customers. What I will say is we have a really good management team now there, revenue delivery where we set new people who are running the solutions business. And I think we are finally putting in some serious thought and effort in terms of how best we can integrate that so we can sell or we can cross sell to our other clients. So I would say current business or steady state business is fine, it continues to chug along. Integration has not gone to plan but there is a plan on how we could get that done.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand the conference over to Mr. Sandip Aggarwal for his closing comments.

Ajay Aggarwal: Thank you everyone for participating in the call. I will hand over the call to Mr. Reddy for his final remarks. Over to you Mr. Reddy. Thank you.

BVR Mohan Reddy: Thank you, Sandip. We appreciate Edelweiss hosting the call for us today. As we have stated in our call earlier we had a good quarter in posting the highest amount of revenue, the lowest amount of outstanding, steady margins. And certainly the outlook for next quarter looks very positive, Krishna explained this in detail. And we are looking forward to your support. Thank you.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Edelweiss Securities that concludes today's conference. Thank you for joining us and you may now disconnect your lines.