“Cyient Q4FY17 Earnings Conference Call- Edelweiss Securities Limited”

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Moderator: Ladies and gentlemen, good day and welcome to the Cyient Q4 FY 2017 earning conference call hosted by Edelweiss Securities Limited. As a reminder, all participants 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 like to hand the conference over to Mr. Sandip Agarwal from Edelweiss Securities. Thank you and over to you Sir!

Sandip Agarwal: Thanks Janis. Good evening to everyone. On behalf of Edelweiss, let me welcome you to the Cyient Q4 FY 2017 earnings call. We have with us the Senior Management of Cyient, headed by Mr. BVR Mohan Reddy along with senior members of the management team. Without further ado I will hand over the call to Mr. Ajay Aggarwal to start the proceedings. Thanks and over to you Ajay!

Ajay Aggarwal: Thank you Sandip. This is Ajay Aggarwal here. Good evening ladies and gentlemen and good afternoon and good morning in case there are people from Europe and US on the call. We are here to talk about the results of Fourth Quarter as well for the Full Year. Along with me on the call are also our Executive Chairman, Mr. BVR Mohan Reddy and our Managing Director and Chief Executive Officer, Mr. Krishna Bodanapu. As we all know that we have the confidentiality statement in front of us. Can I take it as a read and we can begin the proceeding. May I request Mohan to give a brief overview and then we will follow with the formal presentation.

BVR Mohan Reddy: Thank you Ajay. Good evening to all of you ladies and gentlemen. This is BVR Mohan Reddy. I welcome you all to this conference call. We have had a strong and well-rounded growth this year. For the financial year 2017 revenue grew by 16.3% in Indian Rupee terms at 3606 Crores which translates into US Dollar growth of 13.7% at $538 million and 14.9% in constant currency terms.

The operating profit is up 15.7% at Rs.484.8 Crores. The net profit is up 10.7%, excluding the exceptional items, of which we will talk in an while, stood at Rs.369.9 Crores and the cash generation is up 30% at Rs.371.2 Crores. As a part of continuous improvement, we improved our DSO by five days and improved the utilization by 190-basis point. This year also marks the first year under the industry focused organization structure.

We gained significant benefits under the new organization structures in terms of increased momentum in the state of execution resulting in acquisitions of ODS, Blom and Certon during the year. Our customer centricity has improved resulting in better customer satisfaction for the year. This year also marks 25-years completion of the company and hence we decided to share our happiness with our two key stakeholders, who have been with us through this journey.

Special dividend to shareholders and Restricted Stock Units scheme to eligible employees or associates in Q2 were given in line with the announcements that we have made earlier. The RSUs including the cash-out-option has been granted to 9000 associates in Q4 of the financial year 2017 at the expense of Rs. 26.1 Crores has been considered as an exceptional item in the financial statement of FY2017.

A new delivery center for Cyient Defense Services has been set up in Florida. We have partnered with Liberty Global to support Gigaworld broadband role-out. We have also signed collaboration agreement with AMDOCS for implementing GIS solution.

With this, I would like to hand over this call to back to Ajay Aggarwal who is our CFO, who will take you through the detailed financial performance to the quarter. Thank you.

Ajay Aggarwal: Thank you Mohan. Before I go to the formal slides, it extremely good quarter and a year. Two things are gratifying. One is as Chairman said, our performance has been very well rounded, the growth is on the revenue, operating profit, net profit and cash so all the investor return matrix are growing and that is very gratifying. We have another very good news that happened. Many of you would have seen our Founder and Executive Chairman, Dr. BVR Mohan Reddy was honoured with the prestigious Padma Shri award for his contribution in trade and industry. He received it last week, so we are all the very honoured for that. With those two comments, I start my formal presentation.

This particular year, we have seen a number of $537.9 million of revenue or in terms of Rs.36,065 million, which is a growth of 16.3% in rupee term and in constant currency it is a 15% growth because 14% is in dollars and 1% because of the currencies, the British Pound and Euro have been adverse and that is how it takes to 15% overall growth.

I think it is also good to see that in line with our guidance that we have been discussing services growth has been in double-digit like 12%, which is 90% of our business and DLM has posted 36% growth and still there is a room to go further. Also the growth has been quite across all the geographies, you can observe that the share of any EMEA and Asia Pacific has also moved by 2%, 3%, EMEA used to be 27% of our business, it is now at 30%, Asia Pacific has moved from 12%, 13% to 16%, so I think the geography expansion is also really helping.

Another thing if you see in terms of the eight verticals that we operate in six out of the eight verticals have given double-digit growth, which is 10% plus and four BUs has given 20% plus growth. That is really very nice. The BUs which have given double-digit growth as you can see on the chart are Aerospace and Defense, Communications, Medical and Healthcare, Transport in constant currency because if you see the dollar is 5% but in constant currency the growth in Transport is 11.6%. Again I repeat, we do a lot of business in Transport in Euro and British Pound and also in U&G, so these two segments have been impacted. So transport is about 11.6% and U&G is at 15% and DLM is at 36%. Those are the six verticals, which have grown in double-digit. We know in Semi-conductor as well as in I&ENR due to market facing issues we did have a degrowth but as we are looking into the situation semiconductor already this quarter has shown growth, INR also we are also seeing seen traction, so the worst is behind us on those two verticals also.

Q4, I think it is in line with our expectations. If we see we have clocked $141 million or $9410 million of revenue. The good part is again in this chart we have a 15% growth on services, year-on-year growth it is 15%, quarter-on-quarter growth on services is 3.2%, 8.7 for DLM that gives us a growth of 3.8% in dollar terms and about 3.6% in constant currency.

Again if you see this is well diversed growth. All the geographies if you see year-on-year have double digit growth, North America is 10% plus, EMEA 18% and Asia Pacific 34%, so very wide and most of the BUs are doing well and as I said wherever we are seeing the negative number as of now. Communication is an aberration. We should not read too much into this -3%. We are very well in track to repeat another good year in Communications similar to the last year though.

In terms of income statement, I would say while you see on the chart that our operating profit has grown by about 16% year-on-year so that is a good gratifying thing that the topline has translated also into the bottomline. Again repeat we had in dollar terms 15% growth, 16% in constant currency, operating profit is up by 16% while the margin is 13.4%, the margin for services is about 15% and if you see last year we were about 14.4% on services, this time we had the headwinds of various currency which has taken away some of the margins and offshoring has also not helped, we had a movement of about 2% adverse on the offshoring. So these headwinds have taken away about 200-basis points despite that we could increase the margin by 60-basis points, which means in operational improvements we could get 260-basis points of increase that is really very nice on this thing and we see some of the initiatives that we have taken in terms of the way the organization is structured, in the way we are incentivising people and focus is on the profitability and operating margin, we will see this is continuing.

DLM has been at its breakeven level as we had said that for sometime it will take as at least up to financial year 2019 for DLM, a certain change in mix and I am sure Krishna will talk more about it, but we are getting DLM breakeven margins in that time.

On the profit after tax you will see we have done a profit after tax before the exceptional item of Rs. 3,699 million while the reported profit is Rs.3,438 million. So the adjusted profit is Rs. 3,699 million. As Chairman explained we had an impact of Rs. 261 million because of the sale valuation of the restricted stock unit that was given to the employees on the one time occasion of 25-year celebrations. Q2, we announce the scheme, Q4 they have already been granted and the necessary financial impact has been taken. If you really see the profit growth, if you take out the exceptional item is 11%. On the tax front, we have done 24% 50-basis points improvement. There is a good focus on Special Economic Zones and we are confident that in the similar reduction we can get in the next year as well.

Other income while you will see other income has gone down, we will talk about in the next chart, we just want to make a comment that both from the treasury operations as well as from our hedging policy on forward covers, I think there is a substantial increase in both of them. What is impacting the other income is the restatement, notional foreign exchange impact because the movement and how it impacts the new statement or receivable, cash balances and foreign exchange liabilities. If you leave that, actually we had 25% growth on other income as well, so just a comment and that should be an indication of how could the things be for the coming year.

In Q4 I will just say that while we have 13.3% margin for Q4 for the services we exit quarter margin is 15%, this is despite the fact that we do have a number of things that come up in the Q4 which are related to the annual performance that is why if we exit quarter at 15% there is a good chance of getting sustaining this momentum as we get into the next year.

Another thing is we should notice the year-on-year growth of operating profit is 18%. In terms of the profit after tax movement, we have 36.9% and 11% on year-on-year and quarter-on-quarter. Exit tax rate is 23% but as I said let us look at 24% for the year and further improvement of about 50 to 100-basis points for the next year, other income similar situation as I explained for the year.

In terms of cash generation, as we have seen we have generated Rs. 3,712 million of cash. This is the highest ever cash that company has generated, also the conversion at 65% of EBITDA is also the highest and the cash generation is higher by 30% with Rs. 3,712 million or $55 million, 65% of EBITDA. In this particular year, we have done three acquisitions. We have also invested in two corporate ventures. So overall if you see at the bottom of the chart right hand side Rs.1,053 million is what we have made the investments even after making these investments, our cash position is about $150 million or Rs.9,706 million.

I think the cash flow movement is continuing and we will make sure that again it is gratifying despite the growth of 15% in constant currency, we have been able to get this kind of cash flow, this is basically driven by the drive on DSO where we have reduced it five days, year-on-year, also the capex management, you will see that we are tracking below 3% for the quarter, for the year, there is a lot of initiatives from capex management that helped us a lot with the SEZ focus and other initiatives on various defense and things like that.

Last one from my side on the hedge book, our position is extremely good. In terms of the total forward cover, our position is same. We continue to be 70% of the next 12 months net inflow, which is $113 million. If you look at our hedge position, bottom table on the left hand side, we have gain of about Rs.5 at current spot rate on US dollar to INR our position is 70. We have about Rs.10 position on EUR and GBP, all these translates to about $11 million or 710 million of other income.

If you look at last two years, we had Rs.33 Crores in financial year 2016, Rs.44 Crores in financial year 2017 and if current quarter spot rate continue we have a potential of Rs.71 Crores. So this is as of now uncertain, but as thing stand today if there is a volatility on foreign exchange at least from the other income side, some of the challenges can be mitigated that is point I want to make.

With this I will hand over to Krishna, he will talk more about the investment and the business.

Krishna Bodanapu: Thank you Ajay. Before I start off with the investment pipeline I wanted to quickly reiterate what Ajay said. Overall, we are quite pleased with kind of the year that we had. From the commentary that we have been giving from a year’s forecast pretty much we said we would be in terms of services, the growth was quite good 12% year-on-year, a little bit more 13% if you take currency into account but it was a good year.

DLM was a little bit disappointing in the end. The growth is still 36%, which is obviously a good number, but when we started the year we thought it would be little bit higher in that. But as I said there was about two million dollars of revenue that did not end up coming in Q4 which would have put us in the 40% to 50% range and that is where the disappointment comes from again. It is a miss on our part, but it is a small part of our business and it is really a $2 million difference that we will anyway make up during the course of this year.

Having said that I think the more important message that gives us a lot of gratification is the operating profit. Operating profit improved 15.7% year-on-year, which obviously the very robust number considering the current environment and also considering what is going on generally in the market, so therefore I say it has been a very satisfying year from that perspective.

The one issue on DLM and again it is a $2 million gap, which we will pull up during the course of this year any way and I will talk about the forecast. Also on that I would say I want to thank all of you for your support because FY2016 was not a very good year and you have supported us and stuck with us through tough year and hopefully you are happy with what is obviously a much, much better year.

Having said that I will go into the investment pipeline and focus for the next 12 months, the M&A pipeline continues to be quite good at least in line with what we wanted to be. There are various stages of the pipeline and there is various deals and I will leave it I think we have talked about this multiple times, but the focus have been shifted and we continue to look at various opportunities.

One, I will talk a little bit about this Certon. Certon was an acquisition that we announced in January of this year, so it was after the last board meeting and we at least did not have an opportunity to impress and talk about it, but it is a company that we are very, very excited about. It is a relatively small company with about $6 million of revenue, but also double-digit EBITDA, but what Certon essentially does give us an automation platform that helps us to automate and take out roughly between 15% and 20% of manpower in aerospace verification and validation, which is essentially testing of complex aerospace related electronics. So we believe that this is a very good example of automation coming into play and especially automation in a very safety critical industry like aerospace.

It is a small impact for the quarter the whole impact will be 0.7% for this quarter in terms of the quarter-on-quarter growth. For the year, it will be even smaller it will be 0.2% or 0.3%, it is not meaningful from the financial perspective, but from the strategy perspective and sort of where the world is headed towards, it is a very interesting acquisition.

In terms of industry outlook, I will quickly take you through this, but aerospace and defense continues to do well for us. It was a double digit growth year for A&D. It is the large part of our business and in spite of that it grew well and focus shifts on manufacturing engineering and MRO type of applications, our focus is also there. That is where the growth is coming from we are really, really interesting opportunities which we hope to talk to you through the course of this year on our investment strategy into aerospace and I think we are quite excited about where the business is going.

Industrial, Energy and Natural resources, again there is still at lot of pressure in this market. The focus is shifting away from capex. There is a very little capex spend going on. Of course there is some or a fair amount going on with some of the new technologies like electronics and IoT etc., and we are trying to focus there. Again it was not a good year for I&ENR if you look at FY2017 it was a degrowth year for I&ENR but we see the traction coming back in momentum, coming back now while there is pressure in the market, I will say two things. One is the new technologies are doing well for us and second thing it is about $50 million business, so in that sense scale is also helpful.

Transportation, which is the rail equivalent, continues to do very well. This business was one of the most impacted businesses because of exchange rate but in spite of that there was a small growth I will say because currency took away almost 10% to be growth here, but again there is a lot of investments in rail. We are well positioned as you know we work for four out of the five OEMs and will continue to do well and therefore I think FY2018 promises to be a good year for rail again.

Medical Technology is a small part of our business. We have our focus both on engineering and manufacturing and the story is coming around nicely given that it is a nascent industry. The story that we can help clients design stuff, build it, prototype it, test it and then transition it to somebody for volume manufacturing, so that is playing out quite well and here as more than the revenue the pipeline is what we look at and the pipeline has almost grown 4x over the course of the last year and it continues to grow, so we are quite excited there.

In terms of Utilities and Geospatial also we see good traction. The utility market is also adopting some of these new technologies and they are well placed to access them. Also enough there is a lot of shift in the utilities market with new sources of generation with renewables etc., with new technology in transmission like the smart bridge etc. so we see some good opportunities and this will be a another good year for U&G market. The BLOM acquisition helps in Geospatial and data capture bit quite a bit. We have a unique proposition now that not many people have, so net-net, we are quite excited about it.

For Communications I just reiterate what Ajay said, this quarter was not a good quarter for Comms, but it is a point I think. It is just say it where some of the ramp ups are and we will catch up, but Comms will star performer during the course of the year in FY2017 and FY2018 looks in line with that, so from Q1 onwards we were back on track. Q4 was just a bit point in time. But there is a lot of role out. We are well positioned. Our proposition is quite unique and is resonating quite well. We are taking market shares from others and I am very, very bullish about this market at least with what we have.

Our Semiconductor business, we have renamed it and repurposed it as Semiconductor, IoT and Analytics. The intent behind it is a lot of the emerging technologies around IoT and Analytics actually fit quite well with the Semiconductor piece. So the way it works is we design the chips that capture the data, the sensors and data capture mechanisms is really the semiconductor piece. Then the data has captured has to be transmitted over a network and that is the Internet of things. Efficiently transitioning this data and transferring it into the centralized database that where our IoT comes in and third piece of this is Analytics, because once the data is available centrally we should be able to analyze data and create useful knowledge out of it.

So the continuum of capture, transmit and analyze is what we are after. It also fits in very well with the S3 strategy and Design Build Maintain that we talked about. So patching them together really gives us the ability to do unique solution around connected devices and not just connected devices but intelligent connected devices and that is really what we are focused on here.

Some people might call it digital, but we believe digital is just a very broad terminology and we wanted this to reflect a lot more in terms of how we are focused because we obviously focus is what has made us successful so far, so to bring in focus we have narrowed it down to what we do which is Semiconductor IoT and Analytics and again that is what we will focus on.

In a short term again there are two constituents that generate revenue there that is Semiconductor and Analytics are doing well. IoT is in a nascent stage but we have a lot of good skills and we are doing a lot of proof of concepts and early stage projects, but overall I think this is another market that is doing quite well.

DLM is witnessing high traction because of the offset requirements that is there in India now. Rafale, medium-range or medium fighter aircraft what it was called MMRCA is what it was called is now awarded. There is a huge order on Barak 8 missiles, which has a lot of offset. Indian Railways is doing some good stuff. So net-net again while it is hard to say 36% growth is disappointing, but it has a little bit below what we have anticipated. So while it was a little bit disappointing we continued to see very, very good traction. This business continues to show some very, very good promise, we are quite excited about it.

So net-net I will talk about what we see FY2018 to be like. We believe that there will be double-digit growth again in the four services business similar to what happened this year. Again not to play on words, but I will say double-digit is obviously anything between 10 and 99 but it is closer to the 10 rather than 99 which I wish it was but we will still see double-digit growth in the services business. DLM will grow by 20% or so and what I do want to say is two things; one is in DLM we are getting prudent around margins and we want to make sure that we are trading off revenue for margin i.e., we are more focused on margin than we are on revenue. That is why we are also committing to a lower growth because we want to make sure that growth comes in at a good margin. So there is a lot of growth that we can deliver but I think we will hit a good number in terms of scale.

Now it is really about getting profitability also under control, which is what we will do. Also Q1 DLM will just be a difficult quarter or will be lower revenue quarter just because of the cyclicality but I would not read too much into it, I am quite confident that we will do 20% at least for the year.

Margin expansion will be 50 bps, most of it will come through services and that is what we will flow through we have also given you a little bit of more details through it, but most of the margin expansion will come through services.

This year services had expanded by about 60-basis points. We had said it will be between 50 and 100, but it was 60. Net net for the company it was flat because DLM had a lower margin than we expected, but net-net next year again we will see at least a 50 bps from the company level.

So net-net we will grow earnings at least in double-digits and that is where we stand as things are. I will say I am quite confident where FY2018 is headed towards basis the pipeline, basis the outlook, basis what our customers are telling us, what our sales guys are telling us, we know there are macro-economic challenges with various elements including immigration, protectionism etc., but we believe in spite of all that we are relatively well placed because we have taken into account some of these things early and put mitigation into place.

So with that thank you very much for your support in 2017 and we are counting for the same in 2018 and we are hoping to have a very good 2018 in line with 2017. Also I wanted to quickly say we have our investor day this year on May 5. I am sure you have received the invite and if you can make, we will make it worthwhile your time. We will show you some of the very cool stuffs that we do. You will hear from some of our largest customers this year and you will hopefully gain some good insights out of it.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Nitin Jain from Credit Suisse. Please go ahead.

Nitin Jain: Thanks for taking my question. I have a couple questions. So the first question is on the communication business. Australia has recently put a ban on some of its Visa. So how does this impact your business in Australia given that communication business was growing at a very fast pace in Australia. So how does this impact the growth of this business and margins as well?

Krishna Bodanapu: Basically two things, there is also if you read the fine print it only becomes effective in March 2018 so we have a 12 month runway to actually address some of the issues. So that is one. The second thing is just like the US we also localized their Australian business quite a bit. We have quite a strong mechanism in terms of recruiting people, in terms of training, retraining, etc. Now it was not quite as low as US which is less than 15%. I think in Australia immigrant Visa still constituted to about 50% or so, but for the last six months or so we have been consciously moving away from that. So the fact is we have already put in a lot of effort to move away from that and the fact that we still have a 12-month runway both put together we do not see any impact on us.

BVR Mohan Reddy: Extending to Krishna, they are also saying that they will start issuing the new Visa this quarter time. They are working out the new Visa scheme and effective April 1, 2018 there will be two new Visas will come by. Currently there is only a blanket four years Visa whereas they will have two year Visa and a four-year Visa. So I do not anticipate any major challenge.

Krishna Bodanapu: There would not be any major challenges.

Nitin Jain: Not even on the margins?

Krishna Bodanapu: No, not even on the margins. We have looked at the expat versus local, the salaries have to be same and at least we as the company have always taken that view that expat or local the salary is the same. So in that sense it does not really make a difference in terms of margins.

Nitin Jain: Thanks. My second question is on the DLM business. So your outlook for FY2018 of 20% growth and may be breakeven margins, seem to be lower than your earlier expectations. So what has changed in this business and when do you think this business can generate 5% to 6% EBITDA margins?

Krishna Bodanapu: I think on margin I will just say just to be prudent about it we just looked at 100% commitment that we can make on the number and that is why we are saying 20%. Margins again I will say that if you look at the standalone manufacturing business it is making 6% to 7% margin. It is just that will still continue to make the investments. The way I look at it is the services business is also driving a lot of the DLM opportunity right now. So during the course of this year we will have a much better outlook on how that works out, but I would not worry too much at this point, just the DLM business because I think the strategy is playing out very, very well at this point.

Nitin Jain: But when can this for this business Sir, you said that FY2019 should be the year when we should see margin improvement. Do you think we can see maybe close to 5% margins in FY2019 or it might be longer?

Krishna Bodanapu: What we are working on is that once we get this synergy revenues kicking in on end-to-end orders between financial year 2018 and 2019 for the orders which are under execution on design and testing, etc., in financial year 2018 the roadmap is two years from hence we should be in the bracket of 5% to 10% and this year we are saying breakeven and the next year should be somewhere between these two. So I would say if we can look at breakeven this year, we can look at something like 4% in year two and we can look at something like 7% in year three.

Nitin Jain: Got it. Just lastly on your overall margin guidance, does your guidance take into account the sharp INR appreciation in the last one-month, is it the constant currency guidance or you account for the currency headwinds?

Ajay Aggarwal: I think the current level of currency is already built in, but any further appreciation of rupee is not built into this, but as I said we are confident of the earnings growth. There may be a play out between the operating profit and the gains on forward cover either way I think at least for the 12 months currency cannot impact the earnings growth.

Nitin Jain: Thanks.

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

Gaurav Rateria: Hi. Couple of questions; firstly on the top six to ten accounts that number has been mostly flat line for the last few quarters. If you can throw some light what really is going on and why growth is not visible in those accounts?

Krishna Bodanapu: Gaurav, it is just how we count it and which customers come in and out because it is six to ten, so customers 11 to 12 also keep coming in and out. So again overall there is growth in some accounts, there is good growth in some accounts, some accounts may be flat or even little bit lower. Again I would not worry too much about it because again the mix itself changes just because there is a lot of customers that are bunched in that group because if you look at say one, two, three, four are quite clear, which are the four large ones then five to 13 or 14 are all $10 to $15 million somewhere in that range. So when you have that range if companies come in and out because a good quarter and a bad quarter can make changes. What I can assure you is at least in our top 20 there is no customers that I have a red flag on. All of them are performing to plan. Things are going according to what we anticipated, so I would not be too worried about it because it is to plan. It is just a phasing issue.

Ajay Aggarwal: If I may just add one comment, Gaurav that if you look at the growth, which has come from the top customer, has really driven the growth of the current year and if you see the share of top 20 customers has moved to something like 72% which means if we had services growth of 12% the growth on the top 20 customers will be higher than that and that is likely to be there as Krishna said there are no red flags so this trend is likely to continue.

Gaurav Rateria: Sure. Secondly, I see disconnect between what you are guiding for the next year in DLM business and the order intake which you have very strong for this quarter. So is it that the order intake, some colour on the order intake in terms of the tenure of the contracts to kind of understand the revenue trajectory how it flows into the revenues?

Krishna Bodanapu: Order intake is multiyear order intake. So for example, we have a couple of very large orders in the DLM business but those orders where they are backed by PO, advance, etc., are also for multiple years. So we are only taking into cognizance what can be built this year. So that is why while the order intake is very prominent, I also say there is other opportunities beyond and I am just being conservative in the DLM business currently, but the reason for that is also some of this is multiyear but the good news is it gives us a lot of when I say 20% at least, it gives me a 100% confidence that it will be 20% because the orders are there.

Gaurav Rateria: Krishna some colour on the kind of orders, this 17 million these are typical orders, which DLM or erstwhile Rangsons have been doing in the past or there is a change in the mix of those orders towards more design to build kind of a contract, and is this 70 million one or two big contract or is this spread across like multiple several contracts?

Krishna Bodanapu: This 70 million is two contracts and it is traditional Rangsons business. There are other things that are coming in which are the Design & Built those are smaller and this 70 is primarily two contracts.

Gaurav Rateria: Sure. Last question on the services margins, I know this year has been pretty strong despite a lot of headwinds you talked about, but two or three key levers for you to be able to maintain margins for next year and some initiatives, which you will be taking specifically for FY2018?

Krishna Bodanapu: I think there are couple of things are happening one is that utilization continues to look good for managing the business quite effectively. For example, if you look that is Q4 though our revenue grew just quarter-on-quarter growth 3.8%, our services revenue grew 3.2% our net addition was only two people and that is because we just got a lot more prudent in how we are managing the capacity and will continue to do this. The second thing is if I see the backlog, the backlog has lot more offshore work and it has been higher than it has ever been. Then there are just some onsite we see some improvements coming in margin and again this is a because of rate increases or because of the way the efficiency is working out or we are able to do work in our own centers that usually ends up being higher margin all put together there is another 100 basis points because of that. The pyramid correction and the usual stuff like SG&A absorption, which is just to me as long as you are prudent you will get some absorption in SG&A, which will continue to be. So all that is giving us the 390 basis points or so. Obviously wages will take away about 180-basis points. We also have set aside 1% or 100 bps for investments with a company called New Technology Accelerator. So net-net it will come to about 50 basis point number.

Gaurav Rateria: Sir sorry last question from me so this margin guidance just to kind of reconfirm is at the current rupee rate of whatever prevailing rates are and not on the last year average rate right?

Ajay Aggarwal: you are right average rate based on the current levels of exchange rate around 65 let me say.

Gaurav Rateria: And wage hike will be as usual spread over the two quarters?

Ajay Aggarwal: That is right similar to the last year.

Gaurav Rateria: Okay Sir. Thanks a lot and congratulations on good numbers.

Moderator: Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal Securities Limited. Please go ahead.

Ashish Chopra: Thanks for the opportunity. Just a couple of quick ones from my side. Krishna, just wanted to know how would you characterize North America as a geography in terms of opportunity but the way should plan out next year considering this year the growth was a little bit on the slower side and I understand it is probably contribution of the business mix across verticals and how they shape up but just a broad comment if I look at it by region?

Krishna Bodanapu: In North America continues to look quite strong. I think we have had some good wins over the couple of quarters and good ramp ups. We will see double digit growth in North America also next year so again it is just the problem was also it is not the problem the good thing is also large business for us and actually if you look at FY 2016 North America grew quite significantly whereas both APAC and EMEA degrew that is why we had a rough year but just it is just that this year it was little bit lower but next year will again be a little bit higher. So I do not see that to be an outlier. I mean in either direction things are quite good right now in North America in spite of all the noise that is coming through there.

Ashish Chopra: Sure and just lastly you did allude to both the weaker verticals I&ENR as well as Semiconductor seeing some form of momentum and probably improving going forward so would you be categorically very, very confident about all of these industries, the eight industries that your report to be firing in the next year or would you really kind of keep under watch any of these segments for any potential risks so there maybe higher base of growth of communications could slow down or anything that you may want to call out?

Krishna Bodanapu: Not, at this point I think. I will say it is a double negative and some ways in I&ENR and semicon just because they are coming out of such sort of terrible years they can only get better, but again I think we will also done a lot of good stuff there to make sure that we are positioned well for the future. If I look at I&ENR, there is lot of order backlog, new customers whom we have signed on. That is where the growth is coming from. I do not see that to be a big issue. That is one risk in I&ENR still and which is client called Westinghouse. So they have declared bankruptcy if you sort of seen that they have been covered they are also in terms of how we are being positioned within the bankruptcy proceeding etc., so I do not see that to be a big risk because one of the key elements of coming out of bankruptcy for Westinghouse is dependence on Cyient and the Westinghouse alternately just cannot go bankrupt because the last of the major nuclear supplier, so they have to be in business. For them to be in business Cyient is the key part so we are quite confident that the business will grow. In Semiconductor again as some of you know we had a new BU head. Suman has done a fantastic job in realigning and refocusing there and we have had very good wins and we are expanding the BU to focus on Internet of Things and Analytics. All in all that sounds good to customers. We are seeing traction. So at this point again I do not see outlier in either directions, i.e., I do not see one vertical really sort of blowing out of the water but I do not outlier in the other direction also so again as the year goes we will be as transparent as we can on how things evolve, but right now things look pretty evenly spread out.

Ashish Chopra: Okay great. Thanks Krishna and all the best for FY2018.

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

Mohit Jain: I was bit curious to know on your client set it looks like there is absolutely zero impact last year versus this year. This double-digit growth guidance in the core business it looks like there is absolutely no impact in the last 12 months while the industry has seen in general slow down. So it is like based on the budgets, which are already frozen, or there is some element of expectation or anticipation in this?

Krishna Bodanapu: It is combination of everything. I mean just sort of the tacit knowledge that exists in our business and POs are there and that actually is a pretty decent number this year again. It on what we know will come etc., so when we are talking about the number, we are the quite confident that achievable number based on POs, conversations etc.

Mohit Jain: Great. Second is on DLM so I think you mentioned during your remarks that DLM business should keep some improvement in margins that is why the growth outlook is 20% against 36% this year should we build that expansion in or you would expect project to be at current levels and growth flowing to 20%?

Krishna Bodanapu: No, I would say in right now I would not build that into or I would not commit to that which sort of means you should not build in your expectation, because we are still we are not out of the woods there. We have delivered a strong year on revenue, which obviously will translate to some good numbers going forward also. So I will just start with this as an option and like you said as the year progresses will be as transparent in terms we can in terms of how things are evolving.

Mohit Jain: Is it safe to assume if growth is slower and if we execute well on this then margins should actually be better for DLM?

Krishna Bodanapu: It would be better but on side of caution, because it is a newer part of business and so on.

Mohit Jain: Third is on M&A budget like you said is there anything which has increased or changed in terms of cash utilization or you think it is more like a take in a small company based on letter of intent ?

Krishna Bodanapu: It is just sort of what comes or what is available also because our intent is still to do big or to focus on bigger deals but I guess it is just few and far in between and therefore we will continue to doing tactical M&A because that keeps our business moving. It adds a lot of sort of punch to what we deliver to our customers so we have to see that growing also so in that context the intent has always been bigger acquisitions and just that we need to find one.

Mohit Jain: So is there any predefined size like to what extent would you like to take or you are open to any size?

Krishna Bodanapu: I mean we are open to up to 50% of our size is what we broadly said but again as it keeps growing larger and larger the fit has to be better and better we would not take a risk so it has to be something that we like and we believe we can integrate into our business.

Mohit Jain: Last is on the wage hike, so have you received any big quantum of it and when we will you do it that something which will come to know later on?

Krishna Bodanapu: We have decided on it, but I would rather not speak about it because that is I said that is something that we want to keep confidential because each group is doing a different strategy around how they are going handle wage hikes, but I think we have given lot more freedom to groups to decide on what they can afford, what the market is bearing, what they need from their customers etc., so we have decided the wage hikes. The groups have decided what they can afford and that is what they going to implement. So let us not talk about the number because I think that has other implications.

Ajay Aggarwal: I can just ask to Krishna said as far as the financial impact is concerned we have already outlined in outlook of financial year 2018 that is impact and that will be spread over two quarters.

Mohit Jain: So like first quarter will be the main impact or do you think the second quarter?

Krishna Bodanapu: Just assume 50-50.

Mohit Jain: Okay anything on the hiring front; are you sharing at this moment?

Krishna Bodanapu: I will just say if you know a good candidate please send the resume.

Mohit Jain: Thank you very much and all the best.

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

Sagar Lele: Congrats for the good year. I was wondering what is leading to the spike in subcontracting expenses? Is it directly correlated to the kind of growth you are seeing or probably in association with certain service line or client or type of work because I have noticed that you also have not factored any of this in the margin guidance that you have given so wondering if you expect this to remain at current levels in the next year?

Ajay Aggarwal: Sagar, you are right this is very specific to the mix of clients and the projects that we are doing and in terms of what we track and we have said that many times subcontracting is really not a tool for optimizing the cost between what we look at the gross margin, the cost could be either direct cost or it could be subcontractor so I would say do not look too much into the spike of subcontracting cost. You should look at the gross margin and we have already mentioned that what we are doing in to improve gross margin.

Sagar Lele: Also wanted to get a quick update on Softential as the situation there gotten better or stable in terms of both revenue growth and profitability?

Krishna Bodanapu: I think it is stabilizing and the good thing is it has gotten quite integrated with the rest of what we called CSIG which is Communication Solutions Group so again there also we are not out of the woods, we have sort of plan how we sell the whole offering not just SMA in isolation. We will continue to SMA in isolation or there is still little bit of opportunity there; as well there we will continue to work on.

Sagar Lele: Great also just lastly on the industry mix for Rangsons, I was not really sure about how to read it into it for instance A&D this quarter was 9% and the last quarter was 46% does this at all imply short duration projects in this business and if that is the case how would you see movement towards the business getting a little more predictable on a short-term basis?

Krishna Bodanapu: When you look at this quarter's number of 9% we should not read too much into it. It is one-off. I think if we look at the historical average, it is more like 30% or 40% and what we are targeting for next year is also in that range of 30% or 40%.

Sagar Lele: Great. All right. Thanks.

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

Ravi Menon: Thank you for the opportunity. Sir I was asking about the DLM segment, this 20% growth or is it based on any long-term contracts or something that is just for next 12 months and have you assumed anything to come from the offset as Krishna mentioned?

Krishna Bodanapu: It is based on the growth in the backlog what you see. The backlog growth at different points of time between March 31 of last year and March 31 of this year is more than 20%. Some of these contracts that have come in how they are to be executed in the current year and also I think when we talk about the long-term contracts they include the offset contract. That is part of this 20%.

Ravi Menon: Thank you. Secondly you did mention about looking the direct costs and subcontracting together so would that be what we should look that going forward?

Ajay Aggarwal: Absolutely I think you should look at it together and that is how we internally look at it and try to work on our gross margins targets.

Ravi Menon: Third question is this material manufacturing cost for DLM business what do you think will be stable level where you get together higher margins that you were talking about should that be what we should see reduce as the percentage or how would you really improve margins for DLM segment?

Ajay Aggarwal: I think the way to look at it is when you look at the operating margin it has two levers. One is that as you proceed year-after-year the mix of the business is improving and the gross margin will improve. It is not really based too much on the material cost at a certain particular level so that really depends on a particular job. What we should track is gross margin on the job so what we are saying is as we keep progressing and the gross margin should keep improving let us say 2% year-on-year and SG&A absorption if you look at our SG&A it is almost 10%. That also will keep coming down by about 2%, so I would say this is how we talk of the journey of 0% to 4% to 7 %to 8%, material cost you should not too much read into it, just build it on gross margins.

Ravi Menon: All right. Great. Thank you. Best of luck.

Moderator: Thank you. That was the last question. I now hand the floor over to the management for their closing comments.

BVR Mohan Reddy: Thank you very much to all the participants from this call. As you see 2016-2017 has been a very good year so the company. We would build 2017-2018 on this momentum. As was pointed out by me earlier, the organization structure that we are put in place gives an important leadership that is in safe in this point of time led by Krishna as CEO, Ajay as the CFO are already there and they are in good rhythm at this point in time with rest to the team that they have and so we are very optimistic that 2017-2018 will be an equally good year as 2016-2017. Thanks again for your interest in Cyient. I once again like to remind you that on May 5th we will have an investor day in Hyderabad. Ajay has sent invite to a most of you and we will look forward to see you in Hyderabad. Thank you.

Ajay Aggarwal: If I may add Mohan, if anybody has not received we invite please contact our Investor Relation's team or anyone of us amongst Mohan, Krishna and myself. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Edelweiss Securities Limited that conclude today's conference. Thank you for joining us. You may now disconnect your lines.