27 July 2023

BSE Limited
PJ Towers, 25th Floor,
Dalal Street,
Mumbai 400001.
Scrip Code: 543933

National Stock Exchange of India Ltd
Exchange Plaza,
Bandra-Kurla Complex, Bandra (E),
Mumbai-400 051.
Scrip Code: CYIENTDLM

Sub: **Transcripts of Investor Call**

Please find enclosed transcripts of investor call held on 21 July 2023 for your information and records.

This information will also be hosted on the Company's website, at www.cyientdlm.com

Thank You

For **Cyient DLM Limited**

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"Cyient DLM Limited

Q1 FY 2024 Earnings Conference Call"

July 21, 2023

MANAGEMENT: **MR. KRISHNA BODANAPU – NON-EXECUTIVE VICE CHAIRMAN – CYIENT DLM LIMITED**
MR. ANTHONY MONTALBANO – CHIEF EXECUTIVE OFFICER – CYIENT DLM LIMITED
MR. SHRINIVAS KULKARNI – CHIEF FINANCIAL OFFICER – CYIENT DLM LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Cyient DLM Limited Q1 FY '24 Earnings Conference Call. 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 star, then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Krishna Bodanapu, Non-Executive Chairman of Cyient DLM Limited. Thank you and over to you, sir.

Krishna Bodanapu: Thank you very much. Good evening, ladies and gentlemen, and welcome to Cyient DLM Limited's first earnings call post listing for quarter one of FY '24. My name is Krishna Bodanapu and I am the Non-Executive Chairman of Cyient DLM. Present with me on this call are Mr. Anthony Montalbano, the Chief Executive Officer of Cyient DLM and Mr. Shrinivas Kulkarni, the Chief Financial Officer of Cyient DLM.

Before we begin, I would like to mention that, some of the statements made in today's discussions 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 posted to our website. As you all know, Cyient DLM is listed on 10th of July 2023. I want to take this opportunity to thank you all for your wonderful response to our IPO.

Taking the company public is a significant step in shaping the future of design-led manufacturing and it offers an opportunity for investors to join us in this journey. Over the past years, we have demonstrated Cyient DLM's capabilities in a wide range of EMS solutions and are well positioned to make the most of the favorable tailwinds in this industry.

The combination of our design and engineering capabilities in Cyient Limited and our manufacturing capabilities in Cyient DLM Limited ensures that, we're well positioned to meet our client needs and deliver value to them. I personally greatly value your trust and confidence and I'm committed to holding the same standards of governance and transparency that we have demonstrated in Cyient Limited.

Lastly, on behalf of the Board of Directors, I want to thank the leadership team, especially the two leaders, Anthony and Shrinivas, on this call, who made a seamless process of transition from a fully-owned subsidiary of Cyient to a publicly listed Cyient DLM. Once again, thank you for your interest in Cyient DLM, and I will now hand over the call to Anthony and Shrinivas to walk you through the business updates and financial performance. Anthony?

Anthony Montalbano: Great, thank you. Thank you Krishna. Hello ladies and gentlemen. Let me take you through the highlights of the quarter and business updates. So, we posted a revenue of INR2,171 million, which is 27.6% year-on-year growth. Major growth comes from industrial, defense, and aerospace segments. Our EBITDA is INR200 million, which is a growth of 72.6% year-on-year. EBITDA margins are 9.2% up 243 basis points on year-on-year terms.

Our profit after tax is at INR54 million down 15.2% year-on-year. This is primarily due to other income being higher in Q1 FY '23 caused by unrealized forex gains. Cap margin is 2.5%, which is 126 bps lower on year over year terms. Our order backlog is strong and stable at INR24,997 million and has an increase of 89% compared to last year.

So as this is our first call, I'll take a few moments and cover, probably the business of Cyient DLM and our go-to-market focus before I move on to the key highlights of the quarter. So, when you look at DLM and how we differentiate in the EMS industry, it really comes down to the type of work we do and the sectors and types of clients we do it. So it's really mission critical, safety critical, electronics manufacturing services primarily focused on aero and defense, medical and industrial segments. And so these are segments that clients require quality and capability and really a demonstrated track record to deliver these types of applications.

We've been doing this for 30 years across three sites in India, and this has been a core of our business. The association as well with Cyient Limited and 7,000 design engineers that, we have available to us are also really a key differentiator for our business. They help us bring value to our clients through the types of services, we can provide that impact manufacturing.

And they also enable us to engage with relatively large multinational client base. We usually, most of our clients are industry leaders, global in scale, and they gain the confidence of placing their business with Cyient DLM, despite their relatively small size as an EMS player, but it's primarily due to the track record we have and then also, the wherewithal of the larger Cyient that brings that comfort.

Let's go to the next slide. So, from a go-to-market perspective, as I covered, the three main sectors, air and defense, healthcare, and industrial, it comes down to the types of work that we're doing in these sectors, the types of products. And in aerospace, we have products that are going, in aircraft, in healthcare, we'll have, electronics going into medical equipment, and then even in industrial, where it might not be a safety critical application, it's often called a mission critical application where your reliability is very high for some of these units in remote locations that provide, the service level that our clients need.

So, this has been a key area in this, of our focus as we walk through our operations. These are the types of products that run through our facilities all in a low volume, high mix environment. So, this is a very different segment of the EMS industry, which has very high quality process requirements to support these types of applications.

Go to the next slide. Some highlights for the quarter. First and foremost, we had a successful listing for Cyient DLM on the NSE and BSE with a great response from the industrial community. So this is something, we're very grateful for and this is a very notable point for Cyient, on its journey. We have a very strong pipeline of over INR700 million. This is backed by major aerospace and defense clients as well as some of the other sectors that we engage in.

We believe that, this will continue to convert and continue to drive the business growth that we have demonstrated in business today. We also recently were awarded a State Export Excellence Award from the government of Karnataka. Though, this is a great recognition of the type of work that we do and then also, we also had some key customers appreciation for some zero defects literally zero PPM across some of our AD Segments that is really a pretty high bar to try and reach and that is something that we have demonstrated this last quarter.

We've also had some key wins, some key wins that add to the pipeline. Some new wins in the aero and defense space, approaching INR27 million on one specific deal and then also some other ones. We have some other order intake of about INR33.6 million during the quarter providing stability to the significant backlog that we've already built.

Next slide. So on the finance updates, I'm going to turn it over to Shrinivas, and I think, I finish this.

Shrinivas Kulkarni: Thank you, Anthony. Good evening, everyone. I'll walk you through the P&L and some key financial metrics. Our gross margin was significantly higher year-on-year basis. This is due to better revenue mix and a few one-offs, we had in Q1 last year. Our full-year gross margins will be in the range similar to what you see in Q1. Our operating performance for the quarter was strong and we ended up with an EBITDA of INR20 crores, which is a growth of 72.6% on a Y-o-Y basis.

Compared to Q1 of FY '23, we incurred higher finance charges due to increase in borrowings and the interest rates. Also in Q1 last year, we had unrealized forex gains of nearly INR8 crores. These two factors are contributing to PAT decline Y-o-Y. But for the rest of the year, we should see significant increase in PAT. The strong operating performance will be aided by lower finance charges with the loan repayment, we plan to do with the IPO proceeds as well as higher other income, we expect to see for the rest of the year.

From a revenue segment perspective, aerospace and defense combined makes it about 56% followed by 30% from industrial, 10% is from med-tech and 4% is from others, which is primarily some work we do with rail transportation. The PCB box built and cable wire harness mix is in line with our historical trends and from an export versus domestic mix perspective, approximately 70% of our business is in exports and which includes doing the exports and 30% from domestic. We don't expect significant change in this mix over the next one year.

Our order book is very strong. It's stable for the past three quarters despite doing nearly INR750 crores of revenue in the last nine months. A few of the orders repeat every quarter, while a few repeat every year. Hence, we may see fluctuation within the year. However, we expect to see growth in our order book on a per year basis. Our DIO for the quarter is 187 days, which is high. Now, this metric has to be looked at with the customer advance rate, which is the chart right below that, right? And which is also increased? So customer advance sort of funds the higher inventory buildup.

We plan to optimize this further and we expect to see the number going down to about 140 days by the end of Q2 and 120 days by the end of the year. Our DSO also has increased to about 90 days in this quarter. However, there is no systemic issue or risk with any of our receivables. And some of the collections have come in after 30, June in the last two weeks. And therefore, end of quarter number is looking high. And also on some of these metrics, it makes sense to look at an average for the year. And we will continue to show the trend to you going forward.

On the IPO utilization, given that the IPO concluded only 10 days ago, we have still not utilized the IPO funds. However, going forward in this format, we will report the usage to you on a quarterly basis. With that, we sort of close the presentation and open the floor for any Q&A that you may have.

Moderator: Thank you very much. The first question is from the line of Venkatesh Balasubramaniam from Axis Capital. Please go ahead.

V Balasubramaniam: Yes, this is a question for Shrinivas firstly. Now, when you are calculating your inventory days and payable days and sales days and customer advances for everything the denominator is sales only, right?

Shrinivas Kulkarni: Yes, that is right Venkatesh. This is exactly the definition that we have defined in our RHP. The same definition gets used here.

V Balasubramaniam: Okay. And you are using the quarter end number to calculate this. You are not using any averages, correct?

Shrinivas Kulkarni: No. Quarter end number, only.

V Balasubramaniam: Okay. Now, when you actually look at it, when you calculate your net working capital, I am assuming that is equal to DSO plus DIO minus DPO minus customer advances. But when I am doing that calculation, those numbers are not adding up.

Shrinivas Kulkarni: So there will be some other current asset movement as well Venkatesh, right? Which is not a significant item, therefore we are not showing that here.

V Balasubramaniam: Okay, understood. The other question, which I had was, do you have a guidance for revenue EBITDA for the current year and the year after, which you would like to communicate? Revenue and EBITDA guidance.

Shrinivas Kulkarni: No, we don't want to give guidance at this stage. What I will say though is our revenue will be higher than the industry average for the year. We also indicated, what our order book is and more than half of it is convertible in the next 12 months. So that sort of gives you an indication of what the growth can be. And EBITDA will be similar to what we did last year, that will be 10% and 11%.

V Balasubramaniam: Okay, 10% and 11% EBITDA margin. Now you mentioned that, your revenue growth will be higher than EBITDA. Just to give you some information, Sirma has given a guidance of 35% to 40% for the current year. Kaynes has a guidance of 50% plus for the current year. So are you trying to say that, you will do more than what these people have done? Because when you say more than industry, it's like, it leaves it quite open-ended, because what exactly is industry for you?

Shrinivas Kulkarni: I think, Venkatesh, the industry is defined by other companies, who are in this space as well. So for now, let's keep it at industry average, or higher than industry average, which includes other companies in the US space. We will specifically not comment on any other company's numbers.

Right so, as we go through the year, when we have better confidence on the full year number, we will decide whether we want to give an outlook or not. But for now, the order book is strong and we expect to grow significantly. And so we want to leave it there.

V Balasubramaniam: Okay. One last question from my side. Post-COVID, your raw material ordering cycles had actually gone up to almost like one and a half years. Now are you seeing improvements in terms of raw material orders, in terms of how fast you are getting, what exactly you are seeing on that front, when it comes to ordering of raw materials because that is one of the biggest drivers of your working capital.

Shrinivas Kulkarni: That is correct. Definitely the supply chain is easing out, but it's not easing out at the pace that we had expected originally. Therefore, while there'll be a drop in our inventory days, it will not be a significant drop, right? So what we are saying is we'll go down to our 140 days by end of Q2 and about 120 days by end of the year.

V Balasubramaniam: Okay. Thank you all the very best for the next nine months of the year.

Shrinivas Kulkarni: Thank you very much.

Moderator: Thank you. The next question is in the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: Yes, hi. Thanks for giving the opportunity and congratulations on a good set of numbers. Sir, just wanted to understand the pipeline of USD700 million that you have mentioned in aerospace and defense. So, when you say a pipeline of USD700 million, what do you exactly mean by that? Are they from existing customers or is it from new customers? What is the near-term visibility of that pipeline? That will be really helpful.

And my second question was on the seasonality of the business. Is there a seasonality in the business? Does 3Q, 4Q form a major portion of the overall year? And why there is a seasonality, just wanted to get an understanding around that. And what is the broader revenue split, which happens across the quarters that will be really helpful here?

Anthony Montalbano: Yes, this is Anthony, I can go ahead and speak to the pipeline. And the pipeline does, make up from current clients and also new clients as well. And, the heavier weight on current. But we do have some significant programs that we look to be announcing in the coming quarters that make up a, that have a material impact on that pipeline.

So, and this is a view of where are we today and as we close those deals and convert them, that pipeline may come down and then of course, we also have our go-to-market initiatives where we'll continue to add on that. So, we think this is a great base to take us forward. Our business view is, we take a look at the business from an annual perspective. That's how, we invest in it. That's how the business is managed. That's how, we drive our growth. And this is the right way to get us there.

Shrinivas Kulkarni: Yea. And on the seasonality, what we've observed in the last three years is typically H1 is about 45% and H2 is about 55%. We expect a similar trend this year as well.

Mihir Manohar: Sure. That's it for my side.

Moderator: Thank you. The next question is on the line of Renu Baid from IIFL Securities. Please go ahead.

Renu Baid: Yes, hi. Good evening team, I have two questions. The first question is, can you share some insights in terms of the new customer addition that we have seen for our business and any numbers or order values that you would want to assign with the new customer addition? I presume this will largely be in the non-aerospace and defense portfolio?

Anthony Montalbano: Yes, so we do have -- in the past quarter, there is new customer, it does make up a new customer addition. As far as the client names, we do keep -- on a business award, we do keep that confidential, but what I can't communicate is that, it is along the same caliber when we talk about, an industry leader, similar to the type of logos that we've already communicated.

So in our business, we will definitely add new clients and we plan to show more awards with clients, new logos in that regard, but the difference is that these will be, market leaders in their sectors. So, from a business perspective that drives our revenue, it's from a relatively small number of clients. We plan to add, we're talking adding new logos in the terms of maybe four or five logos a year is really kind of the way our business is run and that would give us substantial growth. So, it's very different than a company that might be, crossing many sectors and, might have, have relatively smaller engagement in meal sizes, where that's a bit of a higher client churned business.

Renu Baid: Answer got it, sir, but most of these new customer additions that you're seeing, including the ones that you already have, are you witnessing a visible shift in incremental volumes coming out of China to India? Or this would be more about the incremental volumes with CDLM is fine based on their competitive positioning?

Anthony Montalbano: So on the clients, on the new logos for the past quarter, the specific case is really more of an expansion in as the companies look at sourcing they many of these sites in the space are diversifying into new geos and India is becoming a top destination in that regard. So it's not necessarily business that's transferring from China to India. It's basically new business award that now is really coming to India based on the capabilities and the cost and the overall service level, which is allowing us, to grow.

Renu Baid: Sure. Sir, my second question is, if you look at the broad exports, as in we've already had 65%, 70% of business coming from exports, any colors you can share in terms of the geographic mix between North American, India, I-PAC, on the backlog or the current book that we have?

Anthony Montalbano: Yes, broadly, when you look at the number of clients we have, a good portion of that is for export. So a lot of our business client-wise, as far as key clients, does go to Western countries, Europe, the US, and but some of the, we do have some larger local programs, which we're running, which will run through for the next couple of years, some defense business directly within India.

So today, that is making up the largest share of our current revenues, but it's actually a relatively very small share of the number of clients we have. And we see that mix changing a bit as we work through that. We see probably, the exports will continue to make up a greater portion of the overall business as we look out in the next couple of years.

Renu Baid: Sure. And next is broadly, if you look at the working capital cycle in the last, as we compare to the last year's trend, clearly there's now anything close to 100 days. This increase in the net cycle from a segment perspective, or the end market perspective, you think it is attributable to the industrial segment, where the growth has been highest 75% or it would be more in terms of securing the supply chain and electronic silicon in advance?

Shrinivas Kulkarni: Yes, so let me address that. some of this is definitely due to securing the parts ahead of time to secure the revenue. But we see that easing out and we have a line of sight to get to the net working capital at 60 days by the end of the year. And so we are working towards that. Definitely, DIO and DSO are two major components that will help us with that.

Renu Baid: What I was trying to understand is the increasing share of industrial in a business mix, is that also having an impact on the changing dynamics on your working capital cycle and overall ROE as well?

Management: No, not really. I think that's not had much of a bearing. Some of the increases we see are actually in the aerospace and defense business only.

Renu Baid: And then last last number to clarify. You mentioned approximately more than 50% of your order book is convertible in the next 12 months. So, does that imply this more than 50% of the INR25 billion order book?

Management: See that’s executable order book. There will, of course, be a, it will be subject to availability of parts and then customer go to the schedule push outs, etcetera. So, that's a broad indication in terms of where the growth can be, but it's not necessarily that, that will entirely be the growth for it.

Renu Baid: Got it. Thanks much and all the best sir.

Moderator: Thank you. The next question is in the line of Meet Jain from Motilal Oswal. Please go ahead.

Meet Jain: Hello. Thanks for the opportunity. So, I want to just understand the mix of ODM and contract manufacturing part of our business, how much is the ODM mix?

Anthony Montalbano: So, we do not engage in any ODM type business and just in terms of definition, when we say ODM, that means that we do not have -- we do not own the IT on the current revenue that we're shipping on. So, this is really what I call a pure contract, designing contract manufacturing. Now, we do programs for our clients where they will engage with us on design and manufacturing.

And that's really on a build-to-spec application and that's where instead the client hiring, we are working with engineering firm to get the product developed, and then using a different manufacturer to get the product build, we have several programs where we do this all in Cyient and this has enabled our Cyient DLM business and also helps us bring value to our client who can leverage the engineering.

Meet Jain: Okay, got it. And next is other than the value chain of our business like we build, box build and we do cable harnessing. So, how have we moved our value chain and what kind of backward integrated are we?

Management: So, I would kind of look at PCBA and box build, it's really kind of an offering to our clients, right? So, clients will usually source those two together. So, they'll come to us, we'll do the electronics, we'll do the circuit cards, we'll build it into a box and ship that to another. There are cases where there might, for example, we have one large client where they happen to have their own operation where they do the final assembly.

So, we just do the cards and we ship it to their operation and they do the box build. But most of it, it's tied together on the card manufacturing, the PCBAs, and the box builds. You see that source as kind of one business. And then you also have the cable and wire harnessing business, which is little bit more separate, and some of the work that we do there is specific to aerospace where we do some complex harness work in that regard and that is an area that we do see some expansion in as we look forward.

Meet Jain: Understood, understood. My last question is regarding a margin expansion side. So, are we doing any measures we are taking to expand our margin from current levels?

Management: I'm sorry, can you repeat the question?

Meet Jain: So I do understand what are we doing to expand our margin from current levels like we are already doing some backward integration, we are integrating PCBA and Box builds to some of our customers. So, apart from that to improve our margins further and for revenue growth are we targeting certain sectors or certain products in the market going forward?

Anthony Montalbano: Yes, okay got it Yes good question. So, we have various initiatives that we do have in place that we are looking to expand on margins, right? And, just due to the growth that we've had in the business we are getting some natural margin absorption, right? So, where we are today as we continue to scale and absorb the costs and along with some operational efficiencies that alone can give us one, two points of opportunity from an EBIDTA perspective and another area of margin expansion for us is really on these build-to-spec program where we do the design and manufacturing.

We have far more ownership of the overall product. We have far more input on the design, on the materials, control of the supply chain, and so these programs do allow us to make higher margins compared to a traditional, a standard, build-to-print business where the client controls all of that.

So, that can add as that part of our portfolio grows, that can give us maybe another point-to-point and a half opportunity there on the overall business. So, as we look out a couple years there is an upside on margins where we could get one, two, three points as we exercise and as we deliver on those types of initiatives.

And then we do have continual items that we look at such as increasing our operation efficiencies and some of these just the safety manufacturing best practices that we're always working on to improve upon.

Meet Jain: Okay. Got it. Thanks for answering.

Management: Yes.

Moderator: Thank you. A reminder to the participants, please press star and one to ask a question. The next question is from the line of Rakesh Wadhwani from Monarch AIF. Please go ahead.

Rakesh Wadhwani: Hello, thank you for the opportunity. Sir, sorry to repeat that point, can you just repeat the guidance on the networking part and an inventory part because I didn't get the point properly, number properly, can you please help me with that?

Management: No, you want to know what the networking capital and inventory days are.

Rakesh Wadhwani: No, I just want to know what is the guidance on the full year you gave the guidance like where you want to reduce the inventory days as well as the networking capital cycles so number that, I didn’t get the number?

Management: So, for inventory days we will go down from 187 days to about 140 days in Q2 and about 120 days by end of the year.

Rakesh Wadhwani: And regarding networking capital?

Management: Networking capital which is at 98 days right now will go down to about 60 days by end of the year.

Rakesh Wadhwani: Okay, 60 days. Thank you for clarifying that. Thank you. So, that’s just one aspect and in second question from my side, if you look at the trend of the customer advances, it is like it's very volatile. There are days we are getting. What is the reason for volatility in customer advances?

Management: No, the customer advance, I didn't follow your question. Can you say that again please?

Rakesh Wadhwani: What is the reason for the volatility in the number of customer advances because I assume all the clients will be giving us orders before they will execute the order. What is the reason for volatility in numbers because revenues have gone up, but the number of days has come down?

Management: Yes, so the customer advance are very specific negotiations that we do. Not all customers gives us advance. A number of times, a customer is himself asking us to order the part ahead of time to secure the supply so that the revenues are not disturbed or his supply is not disturbed. In those instances, we go and renegotiate from a contract which is already in place. So, it can fluctuate depending on the specific negotiations that we have with the customer or the request that comes from a customer. I think it's best to see that number in relation to DIO. So, whenever you see a DIO number, you should take that customer advances. The net number is typically where the -- that gives the right guidance.

Rakesh Wadhwani: Sir, last question from my side in order to execute, in order to grow at a higher rate than the industry of 30% growth that the industry has, it has been estimated that the industry will grow in the RHP also more than 30%. So, I just want to know what is the kind of order book that we are expecting to grow in the coming quarters, growth of order book?

Management: Yes, so the order book we will see growth. It's hard to predict how much the order book will grow by because like I said, few orders repeat on a quarterly basis, a few repeat on an annual basis. What we see is a significant pipeline on which we are working on. We also see the total contract value of the award has given to us right significantly high. It's almost 2x of the current order book that you see.

So, it's very hard to predict, but definitely we will see a growing trend in the order book, right? And that's what we should watch and look out for. The order book is also dependent on customer-specific practices. There are certain customers who gave a firm purchase order, some of them give an award letter and then give a purchase order only for a specific period of time, etcetera. So, we have to look at some of these metrics together to get a view of what the growth is likely to be.

Rakesh Wadhwani: Okay sir. That’s it from my side. Thank you. All the best.

Moderator: Thank you. The next question -- the last question from the line of Bobby Jain from Falcon Investments. Please go ahead.

Bobby Jain: Is the current weak environment, how is that impacting in your business?

Management: So, the sectors that we engage in at this time not seeing really any weakness as far as their end demand. Again, our main focus is aero defense, medical and industrial, and there's a – it’s a little bit of a little bit different of a volatility that compared to what you might find in a sector that's more consumer-based or maybe like automotive where if there's concern about weakness in the economy, buying patterns might change.

So, right now, these sectors that we're in, on the aero side has more long cycles and right now it's very much come out of a down cycle and accelerating into the beginning of an upcycle and then the medical and industrial piece again we have not seen much weakness in those sectors when we speak to our clients.

Bobby Jain: Okay, got it. And given the emphasis India is placing in a defense industry, do you see the India part of the business growing faster than the global one?

Management: I'm sorry, which part of the business? Could you repeat that?

Bobby Jain: The Indian defense part, given the emphasis the Indian government is now facing on the defense part. Do you see that part of the business growing faster than the global one or is there no difference?

Anthony Montalbano: So there's -- so I don't have a direct answer as to the growth rate of the Indian defense compared to the global business. I can’t comment though that is an area where we see a lot of opportunity.

We have a lot of business in that sector today. And it's also an area that if we choose to we can expand on it in that regard. So, as far as an opportunity perspective that business has pretty strong opportunities, right. So we -- just even in the last two weeks if there's a couple things that we've already had that on that sector.

And there's different aspects to Indian defense compared to maybe like other types of business where this might have higher ROCE because of their ability to turn inventory on that type of business, maybe get more client cash advances, but that business is more competitive and also can yield a little bit lower margins compared to our other businesses. So, it kind of comes down to having the right balance to hit the objectives of our business.

Management: At this point, our growth is not coming because of that. It's very obvious, [inaudible 0:41:06].

Bobby Jain: Sorry, I didn't get that. Your growth is not…

Management: Yes, sorry Krishna was just providing a clarification that our growth is not – our growth and even our pipeline is not based on the India defense.

Bobby Jain: Okay, right, got it. And when you expect any new business from any of your existing clients or new clients is there any certain ROE metric that you look for or a certain margin that you look for, how do you access new business?

Management: So, for us, the measure of a business is really those two metrics, right there and so it comes down to the type of work that we do. And so, as far as the profitability margin guidance as Shrinivas provided earlier in the call, that's where we're operating now, that's kind of the baseline and that's what we see going forward. The ROE or the ROCE on the business right now for us will be a bit lower, especially since we've had cash come in due to the IPO, but our target is to get ROCE up into the 20% to 25% range for our overall business. That will probably take us probably a couple of years to get to that range.

Bobby Jain: Right. So, as investors, should we be looking at margins, operating margins or ROCE?

Anthony Montalbano: That is a debating question. I think one thing I would point towards is if you look at the PE ratios across the EMS industry and you look at the companies that have been operating for decades, the companies with the highest PE ratios are usually the ones that have, it's directly correlated to the bottom line. We think there's a healthy balance, right? So, are you creating more business value by saying, hey, I'm only going to go after 13% to 15% business and limit your growth maybe have your RFPs suffer or do you move purely into high-volume consumer business, which is low single-digit profitability, but takes very little cash. It has very high inventory returns, and it's a different type of model.

So, we operate in the high end of that sector, we operate in the higher margin side of that and that gives us a high bottom line, but there is a little bit of a trade-off on the ROCE. And I think there is a case to be made on potentially down the road to look at a little bit of trade-off on ROCE versus the bottom line. But our strategy right now is pretty much continuing on the really on the order book we have, on the pipeline we have, which is based off our core sectors today, which should give the similar type of returns.

Bobby Jain: So, more of bottom line approach?

Management: Yes. I would say definitely more bottom line, especially for a company like Cyient DLM.

Bobby Jain: Alright, thank you very much.

Management: My pleasure.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference back to the management for their closing comments. Thank you and over to you.

Management: Thank you very much. Thanks for being here this evening. Obviously, this is the first investor call for Cyient DLM and we look forward to showcasing the business a lot more and having these conversations at least quarterly going forward. As we have done with Cyient in the past, we will plan to also host an investor day for Cyient DLM Investors show. So, we can actually showcase, and as you know in this case there's a lot more to showcase, our manufacturing facilities and capabilities, and we will keep you posted on that. With that, thank you very much and I'll speak to you next time.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Cyient DLM Limited, that concludes today's call. Thank you all for joining us and you may now disconnect your lines.