29 January 2024

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 Earnings Call**

Please find enclosed transcripts of earnings conference Call, in connection with the third quarter Financial Results held on 23 January 2024.

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

This is for your information and records.

Thank You

For **Cyient DLM Limited**

Krithika S Digitally signed by Krithika S
Date: 2024.01.29
10:59:10 +05'30'

S. Krithika
Company Secretary & Compliance Officer

"Cyient DLM Limited

Q3 FY'24 Earnings Conference Call"

January 23, 2024

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

Moderator: Ladies and gentlemen, good day and welcome to the Cyient DLM Conference Call. As a reminder, all participant lines will be in the listen-only mode and anyone who wishes to ask a question may enter star and one on their touchtone phone. To remove yourself from the queue, please enter star and two. 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, Cyient DLM. Thank you and over to you, Mr. Krishna.

Krishna Bodanapu: Thank you. Good evening, ladies and gentlemen, and welcome to the Cyient DLM Limited earnings call for Quarter 3 of FY24.

Present with me on this call are: Anthony Montalbano; the Chief Executive Officer of Cyient DLM and Shrinivas Kulkarni, the Chief Financial Officer of Cyient DLM.

Before we begin today, 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 posted on our website. Our business in Q3 is stronger than ever before and has registered the highest ever revenue in a quarter for this business. Growth has been primarily led by aerospace and defence with our customers placing more and more confidence in us.

In view of higher growth expected, our readiness in terms of leadership and expansion plans are being given top priority, and the leadership team is working on both strengthening the capabilities from a people perspective, but also from a factory manufacturing and capacity perspective. You will hear a lot more updates from Anthony in the next few minutes in this regard.

We see good traction in our pipeline which is trending strongly in the right direction. We are positive about DLM's outlook and the exciting opportunities in front of us, which we will use the next few minutes to articulate to you. Thank you for being a part of this journey.

I now hand over the call to Anthony and Shrini to walk you through the business update and the financial performance. Over to you, Shrini or Anthony.

Anthony Montalbano: Great. Thank you, Krishna. So, I'd like to start with a couple of key appointments that we have made to the organization. Kaushal Jadia joins us as our Chief Technology Officer for Cyient DLM. And, you know, Kaushal brings 30 years of experience to us and many years that he's also spent with Cyient, IET on the Engineering side of the business. This is a key addition to our leadership team and he is really a differentiator in the markets as far as having the ability to truly bring design-led solutions from a manufacturing perspective. And, Kaushal has actually been working with us in this capacity for some time on key programs where we bring integrated design and manufacturing solutions to our key clients.

In addition to Kaushal's appointment, we've also brought on board, gentleman by the name of Mac Vyas who heads our Supply Chain Management. Mac is also this very Senior Executive, 30 years of experience with industry leaders in the EMS space.

Supply chain has been and continues to be a key element in our business, what our clients look for from a leadership perspective, and as a leading EMS provider, we need to be able to provide solutions for our clients in this space. So, under Mac's leadership, we are very confident that we will continue to be able to add value to our clients in this very important space and are very much looking forward for the impact that will have in our business in the coming quarters.

So, to cover some of the financials and the performance for Q3 FY24, from a revenue perspective, this was, again, the most revenue that we have ever delivered as a business at INR321 crores, that's a year-on-year increase of almost 50%. From an EBITDA perspective, we are at 9.2%, off a touch of 45 basis points year-on-year. From an order backlog perspective, we are operating at INR2,294 crores and that backlog is stable and our ROI is marginally higher than it was in Q3. So again, a very strong quarter for us in terms of growth and continuing to execute to our plan.

So, some key highlights on the business where we received recognition this quarter. We received awards that cover our business in different dimensions. Specifically, we received a National Export of Excellence Award, recognizing the export that we provide in the manufacturing sector. We've also been recognized in the industry as a best performer in electronics hardware in the region, in [BTS] 2023, another export award. Then also, we've also aligned on our ESG initiatives with one of our key clients, Talus, in executing sustainable initiatives across facilities in India.

So, these are kind of some key items that come up that really align with the mission of our business and the recognition that we continue to receive in the marketplace. From a Q3 order intake, we came in at $41.8 million. We've had some new awards of $10 million from an OI perspective that will be spread over three to four years. Our pipeline is quite healthy with several large deals in advanced stages and we see some updates that we will be providing there in the near future.

Some additional key initiatives that we covered this quarter, we did inaugurate a new precision machining facility in Bangalore, which gives us 36,000 square feet of manufacturing capability and this is precision machining. It's really a high-value type of service, a vertically integrated type of service that we provide some of our key clients, which include aero and defence. Some of this can also be applied to other industries. This is an area of growth for us that allows us to provide more integrated solutions to our clients and also gives us an opportunity to provide more of a vertical integration play.

In addition to supporting the growth of our business, we've identified a new facility in Mysore. This will support growth in medical and industrial sectors and these facilities have also, in Mysore and Hyderabad, produced the highest revenue in Q3 and we're also getting our [NADCAP] is in progress for additional business in Hyderabad in that regard.

So, our footprint will continue to expand and providing these capabilities and certifications are a key part of being able to deliver on our clients' needs. Supply chain optimization is in progress through automation. We discussed a new leader on board. Focus on supply chain continues to be a key strategic element on executing to our business.

I'll turn it over to Shrinivas, our CFO to help cover some of the specifics on the financials.

Shrinivas Kulkarni: Thank you, Anthony, greetings, ladies and gentlemen and thank you for joining the call today. I'll walk you through the detailed financials and key metrics. The revenue for the quarter is INR321 crores, which is a year-on-year growth of 49.7%. For the nine-month period in FY24, our revenue has been at INR830 crores. If you recall, this is quite close to the revenue we had for the full year in FY23. And for the nine-month period, this is actually a growth of 49.6% compared to the nine months in FY23.

Our EBITDA is at 9.2% for Q3, which is INR29.4 crores. The year-on-year growth in EBITDA is 42.7%. For the nine-month period, the EBITDA percentage is 8.8%, and a growth of 30.1% for the same period last year. The EBITDA percentage is lower by 132 basis points compared to the previous year due to the planned investments in SG&A.

Profit after tax in Q3 is INR18.4 crores, which is a growth of 222.6% year-on-year. This is driven by other income apart from the volume growth. And for the nine-month period in FY24, our profits have grown by a little over 100%.

This slide gives a view of the industry category and product mix. Our aerospace and defence segments continue to drive our growth. We are focusing on the other two industries to get back growth in the coming quarters.

There is no significant change in the product category and mix compared to the previous quarters. I will provide some comments on some of the other important metrics in this slide. Despite the record revenue of INR321 crores, our order book is marginally higher than previous quarters in Q3.

The order wins in this business tend to be lumpy and we see a drop compared to the order book previous year, same period, and also owing to some delayed conversion. However, we have a very healthy pipeline and we should see growth in the order book in the coming quarters. We have marginally reduced our inventory days this quarter to 137 days.

Our goal is to get to about 120 days in the short term and about 90 days in the medium term. Our DSO and DPO are flat sequentially. However, the customer advance base has dropped by about 15 days, resulting in a marginally increase in the net working capital.

What this means is, from a free cash flow perspective, we have consumed INR34 crores in this quarter. We expect substantial improvement in net working capital metrics and are forecasting to generate positive free cash flow in Q4. The last slide is on the IPO proceeds utilization.

As you can see, we have repaid the external loans and have consumed about INR80 crores towards the working capital. The usage of the IPO proceeds are as stated in the RHP and there are no deviations. So, this is the last slide of the presentation.

We can now conclude the presentation and open the floor for any Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have a first question from the line of Venkatesh Balasubramaniam from Axis Capital. Please go ahead. Mr. Balasubramaniam, please go ahead.

V. Balasubramaniam: Thanks for the opportunity. I guess in the previous quarter, I think you had mentioned you had signed up two new logos, basically Safran and BAE. Is it possible to highlight what kind of work you are planning to do for BAE and Safran?

That is the first question. The second question would be, is it possible to share what was the export number in the same quarter of last year? That is Q3, FY23. I guess based on the data you have given, we get that for the current year, third quarter, it is around INR173 crores or 1.7 billion. Can you give the comparative number for the same quarter last year?

Anthony Montalbano: I can take the first part of that question. That is correct on the two logos that we did announce last quarter. Providing some specifics as to the type of work, at this stage, what we can say, it does fall under our air and defence working category in line with our standard EMS offering that we are providing these key clients.

I think for us, for these types of clients, it is more about the long-term view that we can bring with this type of a client. Again, our business has really been focused on a relatively smaller number of clients, primarily large blue-chip industry leaders, similar to these two logos that we did announce last quarter. We are looking as well to add to that in coming quarters as well.

We are pleased with the traction there. I would say it would fall in line with the standard services that we have been providing today. Srini, did you want to take the next part of the question?

Shrinivas Kulkarni: Venkatesh, was your question on the export INR number same quarter previous year?

V. Balasubramaniam: Yes, previous year, third quarter.

Shrinivas Kulkarni: I do not have the exact number, but it is roughly INR182 crores, but I can double-check and confirm that separately.

V. Balasubramaniam: Okay. Thanks a lot. That is all from me.

Moderator: Thank you. We have a next question from the line of Deepak Krishnan from Kotak Institutional Equities. Please go ahead.

Deepak Krishnan: Hi, sir. I hope you can hear me fine.

Management: Yes.

Deepak Krishnan: Maybe just one question on the inventory days and you are indicating positive free cash flow. Obviously, inventory days are sequentially jumped upon during 18 days. We are only seeing DIO go down to about 120 days.

So, what gives us confidence that we will be able to generate positive free cash flow? Are there large customer advances that we are expecting in Q4? And if not, then what kind of networking capital is down?

Shrinivas Kulkarni: Yes. Two points there, Deepak. I think DIO is expected to go down substantially to about 120 days in Q4. That is one lever. The other one is on DSO as well. Frankly, the DSO in Q3 includes some of the overdues which we are supposed to collect in December, but due to challenges in December last week, we could not.

That is also expected to come in Q4. DSO also will go down in Q4. Some of the revenue phasing within the quarter is also earlier ahead in the quarter. So, we have an opportunity to collect that cash within the same quarter. These are the three levers which give us confidence that we can generate positive free cash flow in Q4.

Deepak Krishnan: And maybe just a follow-up question. If I look at the order book for the last say 6-7 quarters, it has been sort of a declining or a flat trend. From a peak of 25.5 billion, we are down to about 23 billion right now. Maybe this year and next year, the visibility will be about 40%. That is based on the historical backlog. What gives us confidence that the order book will grow? Because until the order book grows, visibility beyond FY25 seems limited right now?

Anthony Montalbano: The element of our order booking, it does come down to the nature of the types of programs that we are looking to close with our clients. These are pretty significant programs in terms of size. Similar to what we have announced in the past 18 months or so.

So, in that regard, what we are seeing here is what I would call a little bit of a lumpy order book process. A lot of our programs are with larger clients on these bigger, more strategic programs. And the award of those is not a continual monthly or even quarterly type of business award.

So, we have been working with these clients for quite some time on these programs. We plan to see that order book come in through these larger program awards.

Deepak Krishnan: Maybe just one final question from my end. You indicated new facilities in Mysore for medical and industrial sectors. But when we look at our overall utilization, it is about 40% with Mysore dominating and Hyderabad having a very low utilization level. So, can you vision they are you looking for expansion when you already have existing assets that are not fully utilized?

Anthony Montalbano: There are certain elements of clients that would be in one location that their business is growing that we might want to continue to grow in that location. We also are moving some other business that is with certain clients. We might start supporting them out of Hyderabad as well.

Also, Hyderabad is well suited for, just from a zoning perspective, where it is for some of these larger programs that might be geared towards export. It is kind of a balance of the programs that we see coming in and then also the current clients and the type of work we have where we continue to grow in those certain locations. This gives us just more opportunity to support the growth in both locations. This does create more opportunity for Mysore as well.

[Speaker 3] Sure. Those are my questions and best of luck for your future. Thank you.

Anthony Montalbano: Yes.

Moderator: Thank you. We have a next question from the line of Meet Jain from Motilal Oswal. Please go ahead.

Meet Jain: Hello. Thank you for the opportunity, sir. One question regarding the margins in Q2 and current quarter as well. We have a higher SG&A expenses as we are onboarding certain CXOs. Can we expect this under to maintain going ahead? Are we planning any more further increase in the SG&A expenses or we are done for it now?

Shrinivas Kulkarni: From SG&A investment, I think we have sort of peaked already. With the higher revenue that is expected in Q4, we do expect to get to double digit and sort of stay there from that point onwards. There is no at least significant SG&A investment that is expected right now.

Meet Jain: We can go ahead back to our previous margin levels of low teens like 11-12% at a margin level.

Shrinivas Kulkarni: I think we will get to 11%-12% very quickly. It will probably stay around the 10% for some time. As we find other opportunities where the mix of the business changes and then we get the benefits of the scale, we will start inching towards 11%-12%.

Meet Jain: Understood. And just following up on the order book side, we have seen a very flattish kind of order book since past few quarters. What kind of revenue visibility do we have for FY '25? Can we see a similar kind of growth or the growth will be more kind of flattish on current base?

Shrinivas Kulkarni: No, I think we are undergoing the whole budgeting process right now. We will be able to guide you on FY '25, maybe towards in the Q4 results. Right now, frankly, the order book is sufficient to grow healthily even in FY '25. But we don't have a number or guidance to provide at this stage.

Meet Jain: Understood. And this order book breakup, can you provide an order book breakup for us in terms of industry?

Shrinivas Kulkarni: Sorry, what was the question?

Meet Jain: The order book breakup in terms of industry. [inaudible 23:24.2]

Shrinivas Kulkarni: We don't have that at the moment. Maybe from the next call, we can start providing that where we give a breakup by industry.

Meet Jain: Okay. Just to understand, this lumpy order book you are saying is mostly related to aerospace and defence division, right?

Shrinivas Kulkarni: That is true. Even the current composition of the order book has a huge aerospace and defence orders.

Meet Jain: Okay. Thanks for the answer. Thank you.

Moderator: Thank you. We have our next question from the line of Nitin Sharma from M.C. Pro Research. Please go ahead.

Nitin Sharma: Hi. Congrats on those set of numbers. Two questions. First of all, on this new $10 million order, can you please help us understand more in detail about this order win and which industries it belongs to? And then I have a follow-up.

Shrinivas Kulkarni: No, I think it is on the current, the deal wins. For the quarter, which industries they are in, want some colour on that.

Anthony Montalbano: So, the deal wins were actually primarily defence, which made up a good number of those. So that has been an area where we are seeing some momentum, even an uptick that we did not necessarily have planned a couple quarters back.

Nitin Sharma: And is it with the new client or an existing client?

Anthony Montalbano: This is an existing client, but new orders and some increased demand were seen in that capacity.

Nitin Sharma: Understood. Secondly, your share of box build as a percentage of revenue has come down this year compared to last. So, is it a deliberate strategy? Can you please help provide some colour on it?

Anthony Montalbano: And here is the question.

Shrinivas Kulkarni: No, I will respond to that. No, I think it is not a deliberate strategy. I think the choice, whether it is a PCB or a box build, usually it depends on the customer who makes that call. We do not specifically pitch for a box build, right. And the reason why you see a drop is I think last year we had some of the medical customers like Molbio, where there was quite a bit of box build. And that revenue has come down. And so therefore you see that number changing. And quite frankly, we do not have a preference of one versus the other towards the margin profile remains the same between the segments of business that we operate in.

Nitin Sharma: Understood. Thank you.

Moderator: Thank you. We have a next question from the line of Vipraw Srivastava from Incred Research. Please go ahead.

Vipraw Srivastava: Okay, cool. So just wanted to understand that since the company has repaid the debt, so why is the interest cost not coming down? I mean, it increased marginally Q-o-Q. So, any thoughts on that?

Shrinivas Kulkarni: No, the interest cost has come down sequentially, Vipraw. I do not know what you are referring to.

Vipraw Srivastava: Okay, maybe I will reach it again and find out. No issues. Secondly, this order book you are talking about, so what is the average execution period for this order book?

Anthony Montalbano: So, you have just been running about 24 to 30 months.

Shrinivas Kulkarni: The current order book is 12 to 18 months.

Anthony Montalbano: Oh, the current is 12, okay.

Vipraw Srivastava: Okay, so 12 to 18 months, right? So, I mean, generally in this EMH space, that is the order execution period, right? 12 to 18 months?

Shrinivas Kulkarni: Yes, it really depends on the industry. We have some orders which are executable even over a three-year period. But the weighted average is roughly what we speak about here. At some of the industries like medical and industrial tend to be very short. I think they are executable even in six months sometimes. So, it ranges. It depends on the mix of the industry and the execution period accordingly sort of changes.

Vipraw Srivastava: Okay, cool. And finally, fully as CFO, I mean, any cash flow from operations, I mean, what are the predictions for that? I mean, will there be cash positive on the CFO level or will we be consuming cash?

Shrinivas Kulkarni: No, on a full-year basis, we aspire to break-even, but we might be a little bit shy of that because we have consumed almost INR230 crores in the first nine months. So, to generate that level of cash in one quarter will be difficult. But we have a very healthy line of sight to get very close to break-even. So, we will see and update how that comes along. But even if we don't breakeven or turn positive, it will be sort of close to that number. It won't be a big delta.

Vipraw Srivastava: Okay, okay. Thank you. And last question based on this SG&A investment. So, I mean, these are planned by the companies. So, I mean, where will they contribute? I mean, just an overview. What sort of contribution do we expect from them? Where will they give us the right to invest? So, yes, any thoughts on that?

Anthony Montalbano: Yes, as far as from a leadership perspective, it comes down to two areas which are pretty directly traceable to how we see the financial impacts, right? So, from a supply chain perspective, I think that part is pretty self-explanatory and being able to execute and create value within the supply chain, building strength in that regard. So, again, this is a position that we've really had targeted for a couple quarters now. And so, we're very pleased to have a strong leader in that capacity.

And then, on the CTO appointment, there's two elements to that, to this individual in that role. The first part and the primary part is really the ability to, do more, build to spec business. We talk about Cyient DLM, which stands for design-led manufacturing. So, this really is the focus on the design piece, being able to really do design and manufacturing as really a turnkey offering for our key clients. So being able to bring those types of solutions forward is a key part of that.

And then also this individual has a pretty deep history and track record in the defence business. And so, this is an area that we will focus on as well and look to some of his leadership to help expand on that business.

Vipraw Srivastava: Okay. Okay. Thank you. Thank you.

Anthony Montalbano: Certainly.

Moderator: Thank you. We have our next question from the line of Deval Shah from RBSA Investment Managers. Please go ahead.

Deval Shah: Yes. Hello. Good evening. My question is fairly on the two front. One is on the, can you just give us the understanding on the capacity utilization across plans? And what are our thoughts on, inorganic acquisition, which we had already mentioned in our RHP? Are we in the advanced stages or have we shortlisted any of the, but are focused on particular solutions that we want to build? Just an update on that.

Shrinivas Kulkarni: Yes. So, on the capacity, I think we've definitely, I think it's, it's at the stage where, the Mysore is sort of at the peak capacity right now. And hence, we also look at expanding there, right. But Hyderabad is still low on utilization. It is also an SEZ, so it has its own sort of, challenges of suddenly changing the capacity. It will gradually happen over time. Right. So, our overall capacity utilization should be close to around 50% right now. And, so that's on capacity, right?

So, the precision mechanics in Bangalore plus the Mysore will augment this a little bit, but it's not substantially increased that because we already have quite a bit of capacity. On the M&A, I think there are several conversations which are in advanced stages. We are at a stage of hopefully closing an LOI this quarter, but we are not there yet. There are still some conversations going on, but of course we will intimate you as soon as we have Cyient an LOI.

Deval Shah: Okay. Thank you.

Moderator: Thank you. Our next question is from the line of Rakesh Wadhwani from Monarch AIF. Please go ahead.

Rakesh Wadhwani: Hi. Thank you for the opportunity. I have a couple of questions. First is regarding the gross margin. So, this quarter, we saw a dip in the gross margin compared to Q1. In Q2, we had a dip in the gross margin. The reason was because we executed one big order in defence, which has a lesser margin. That is understood. In Q3, what is the reason for a lower gross margin compared to Q1 or even the previous quarters also?

Shrinivas Kulkarni: So, first of all, we don't report gross margins, so I don't know why you're getting that number. We'll talk about EBITDA. If you're referring to EBITDA, yes, there was a large order of defence in Q2 which had a adverse mix on the revenue profile and hence the margin was low. But it is the same in Q3 as well. That same customer continues to drive a bulk of our sales. Of course, the margin is sequentially a bit better for us. Because of -- so that makes changing in our favour. Plus, there are some initiatives that we are taking to improve. But the – that mix continue has actually I think it doesn't change significantly in the first three quarters of this year. We will some change in Q4, with that mix dropping but it will remain roughly at that 30%, 35% of the overall revenue, through the year as well.

Rakesh Wadhwani: So, in the last quarter, we gave a guidance of 10% to 10.5% EBITDA margin for the full year. That will be maintained?

Shrinivas Kulkarni: No, no. So, first of all, we did not give a guidance. So, I want to clarify that point. We said we expect to be at around 10% to 10.5%. We will reach there in Q4. It will obviously not be for the full year because our first three quarters, the EBITDA has been lower. Right? So, yes. But it's not a guidance. Let's be very clear.

Rakesh Wadhwani: Okay. And regarding the interest cost, this quarter, we had an INR8.29 crores interest and we paid the debt also in this quarter. And versus last quarter, it was slightly higher also. Any reason for that?

Shrinivas Kulkarni: No, I think the repayment happened towards the end of the quarter. So therefore, maybe you are seeing a marginal change but this is substantially reduced in Q4 because we are paying off the remaining whatever working capital loans we had in Q4. So, we will see drop in the interest expense in Q4.

Rakesh Wadhwani: And sir, what is the gross debt in the book as on December '23? Gross debt in number?

Shrinivas Kulkarni: Sorry, what?

Rakesh Wadhwani: What is the gross debt as on December '23, if you can give the number?

Shrinivas Kulkarni: I don't have the exact numbers, but it will be close to INR250 crores, if I am not wrong. But partly it's also because of the internal debt. Right? So, we have a debt from the parent company as well.

Rakesh Wadhwani: Yes. Okay. Sir, two last questions from my side. During the IPO, management has cited one of the reasons for IPOs. They are looking for acquisition in the American or other markets. So just wanted to know your status on that. Have you identified any opportunities or have you looked through any opportunities on that?

Anthony Montalbano: Yes, so the targets that we've been looking at cross a couple of different industries. And the ones that have progressed will provide us, I would say, a little bit more diversity as well in our makeup. And so that does include some expansion in the medical and industrial sectors and still continued opportunity in aero and defence, which we're strong in. So that's about as much guidance as I can give. As we have progressed the discussions with a couple of different targets. So, we are pleased with the progress.

Rakesh Wadhwani: And are you also doing the discussion on currently happening not with the same company or other companies? We are open for acquisitions. Just wanted to know on that part.

Anthony Montalbano: I'm not sure I understand the question.

Shrinivas Kulkarni: That question was not clear. Can you please say that again?

Rakesh Wadhwani: So, sir, during the IPO, one of the reasons for the fundraising that was mentioned in the RFP that companies may look for acquisitions in the coming years. So just wanted to know, are we looking at companies, still presently or we have dropped the plan?

Shrinivas Kulkarni: No, no, we are continuing to look. We have not closed anything, but we are continuing to look for the acquisitions.

Rakesh Wadhwani: And the new plant, the company has announced for a new facility in Mysore for the medical equipment. It will be a greenfield facility or a brownfield facility?

Shrinivas Kulkarni: No, no, see, first of all, we have just identified a facility. It's not ready yet. We expect it to be ready only in the next financial year. It is a leased premise. It's actually one of the software parks which we are converting in to facility for us.

Rakesh Wadhwani: And sir what will be the capex on that plant?

Shrinivas Kulkarni: That will be very minimal, I think we'll probably spend about a couple of million dollars of capex.

Rakesh Wadhwani: Okay, that's it from my side. Thank you very much and best wishes.

Shrinivas Kulkarni: Thank you.

Moderator: Thank you. Next question is from 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. I largely wanted to understand on the material margins. I mean, going ahead, is the mix going to be less towards the, I mean, defence part of the piece? Because that part of the piece is having inherently lower margins, lower material margins. So just wanted to understand what could the defence mix going ahead for next year? And how do you see gross margins over there?

My second question was on the operating leverage. I mean, the revenue for the nine months has gone up by 50%. But however, the employee cost has more than doubled. So how to understand operating leverage in this business? Specifically, what kind of margins can be there for us from the operating leverage part of the piece? And the third question was on the finance cost.

I mean, we paid actually INR150 crores in second quarter. It's there in the second quarter presentation. So just wanted to understand why the finance cost is still going up on a Q-O-Q basis. I just wanted to understand that.

Shrinivas Kulkarni: So, I'll answer them one by one. Right, so your first question was on the mix, see the mix will not drastically change even in the coming quarters. The whole business there on the low margin business that we are doing with the key customer, is going to continue in to the next year. Just that the other parts of the business are growing and therefore you'll see gradual change in that mix.

So, you will see improvement because of that, but it will be gradually, it'll not be a drastic, sudden change because that project will continue next year as well. That's the first part second, you had a question on the finance cost being higher. We did have some additional term loans that we had taken. Those are being repaid. So, the timing of when the loan was taken and when it was repaid within the quarter means we had almost the expense for the full quarter.

Therefore, you may not -- while you see that the loan has dropped, you may not see that the interest rate is marginally higher or at the same level, right? What was the other question? I forgot.

Mihir Manohar: On the operating leverage side, the revenue has gone up by 50%. But the employee cost has more than doubled. So how to understand operating leverage in the business?

Shrinivas Kulkarni: Yes, see look some of the investments that we have made is a conscious call. The 50% growth in the revenue is translating to a 30% growth in the EBITDA. That's largely because of investing in SG&A. I think that is where the bulk of the investments have been made. And this is a very conscious call to build an organization which will cater to 300 million to, in the short term to about 500 million in the long term.

So, the SG&A is actually geared towards that sort of growth. We will see improvement in the leverage. We also had the RSU costs coming over starting from Q3 this time. So, all of these factors contribute to higher SG&A compared to the previous period. These are conscious calls. But it's again investment in anticipation of growth and for future.

Mihir Manohar: Sure, sir, just one clarification on the finance cost. Do you see finance cost coming down sequentially sharply in 4Q?

Shrinivas Kulkarni: We will see it coming down. Yes.

Mihir Manohar: Sure, sir. And just one last question to squeeze in. Anthony made a comment that there are several large deals which are there in advanced stages. I just wanted to get an understanding around this. Our order book has been largely flat across the last four quarters. I understand the business is lumpy. But to sustain for us to have 30%-40% growth even beyond FY25, the showing up of order book will become very important. So, I just wanted to get a sense around that.

Anthony Montalbano: Yes. I think it's well summarized. That is important. And again, I will reiterate that our pipeline is quite considerable. And I think you will start to see the impact on some of these key deals that we are in final stages on. So that will come in. That will provide impact in the coming fiscal year. And we're also developing several other more medium-sized deals and key opportunities. Two new logos we brought on.

We expect to be announcing more here in the coming quarter. So, we will see that momentum continue which will contribute to that.

Mihir Manohar: Sure, yes. That's it from my side. Thank you very much.

Moderator: Thank you. We have a next question from the line of Jayesh Shah from Ohm Portfolio Equi Research. Please go ahead.

Jayesh Shah: Hi. Thanks for the opportunity.

Moderator: Mr. Shah, we cannot hear you clearly. Can you use your handset mode, please?

Jayesh Shah: Thanks for the opportunity. My first question is a basic question and maybe it's a repeat. But since I'm new to the company, I thought maybe I'll ask this question. How is the overlap on the Airbus or the airline and the defence business with regard to the parent? Especially when we see that the parent employees are now coming on board of Cyient DLM and there is a parent debt as well. So how is this being structured?

Would the entire airline and defence business come in Cyient DLM over time or will there still be overlap and how do you decide on overlap?

Krishna Bodanapu: So, let me answer that. This is Krishna. Essentially, these are two separate businesses. Both businesses are in similar industries. There is an overlap in that sense. But we are very clear that Cyient DLM is a company that focuses on manufacturing. It can be of two types. One is manufacturing where Cyient DLM, somebody does the design, typically our customer, hands over the design, we do the manufacturing.

Or the second type is where the customer wants us to do the design and the manufacturing. So essentially, the overarching principle would follow is wherever there is manufacturing, the whole deal is owned by Cyient DLM. And if Cyient needs to support on the engineering and the design elements, Cyient will support. We have an arm's length process, we have an arm's length financial structure, transfer pricing, that's agreed.

But both businesses will definitely focus on aerospace and defence as markets. But what they do, that is Cyient focuses on technology, design, engineering and Cyient DLM focuses on product manufacturing, which may include technology but also may not include technology or engineering. So that's how we will divide up the work. But I want to say it's two very clear differentiations. One is design and engineering; the other is manufacturing.

Jayesh Shah: That's fairly clear. So, this means that is there joint marketing pitches and bidding to the clients by Cyient and Cyient DLM?

Krishna Bodanapu: There are cases where there is a joint pitch. So, if a client wants design to be done and then manufacturing to be done, then it's a joint pitch. But again, we're also quite clear that in that, because a joint pitch also should have a lead. If there is manufacturing involved at any point, then Cyient DLM will take the lead and Cyient will be a supplier, so to speak, to Cyient DLM.

Jayesh Shah: I see. So, the SG&A investments we have seen last year, is there an attempt to address to clients beyond the ones that are being serviced with Cyient?

Krishna Bodanapu: Yes, absolutely. I mean, with the current clients, we're well positioned. Of course, we do need to have the right account management, but the idea is really to grow the business, not just to be in the steady state.

Jayesh Shah: Okay. And with the employee cost of close to INR31 crores, approximately for 3Q, can we say that this is the steady state-run rate per quarter, or this can also still go up? Which is an annualized base of INR120 crores.

Anthony Montalbano: There will be, it's not linear, but as you grow the business, there will have to be some resources that you will have to bring on. That comes down to direct manufacturing, and even comes down to some, even like management, like even supply chain or program management. But it's not linear, and I think what you will start to see as we add more revenue, is that there will be more absorption of that SG&A.

Jayesh Shah: Okay. The other way to ask this question is, hypothetically, if your revenues grow by 50%, will the growth in employee cost be less than 50%? I'm not asking you to commit to a number, but broadly in terms of the fellow.

Shrinivas Kulkarni: I think that's what we mean by nonlinear. So, yes.

Jayesh Shah: Okay. Okay. That's very helpful. And my last question is, do we have the confidence to maintain the order book at, say, INR2,000 crores for the next few quarters, which means getting the pipeline converted into orders?

Anthony Montalbano: At this stage, we do, right? It all comes down to converting, it comes down to converting that pipeline. So, this is something that we've had a solid track record in, and we still see the consistent end market demand as maintaining. So, at this point, we're not taking a different view on it.

Jayesh Shah: Thank you. And one last short-term question. Is there an impact due to Red Sea in terms of your dispatches for exports?

Anthony Montalbano: No. No. We don't see that.

Jayesh Shah: Okay. Thank you, and best wishes. That's all.

Moderator: Thank you. We have a next question from the line of Suraj Malu from Catamaran. Please go ahead.

Suraj Malu: Hello, sir. I had one question. So, I just wanted to understand like how should one reconcile the IPO expenses? Because it was a one-time expenses which have been incurred, but I don't see as like one-off expenses in previous two quarters reasons. So, I just wanted to understand that.

Shrinivas Kulkarni: So, the IPO expenses are one-time expenses, right? I think that is just towards raising the funds. So, as you remember, we raised INR700 crores and roughly INR41 crores was set aside towards the issue expenses which is basically the banker, legal and other fees, right?

Suraj Malu: Right. That is not going to repeat. Obviously, that's a one-time thing.

Shrinivas Kulkarni: So, therefore, we are now talking of the utilization of the net proceeds which is the 659 crores.

Suraj Malu: Got it. So, it won't reflect that expense anywhere in the P&L unit because the net proceeds have been realized.

Shrinivas Kulkarni: No. Yes, the accounting standards set that off directly. They don't flow from the P&L. That was your question.

Suraj Malu: Got it. Thank you, sir. I just wanted to have a follow-up on the previous question. Do we see any increase in the shipping freight rates at international export level?

Shrinivas Kulkarni: There is marginal increase. It's not substantial at this stage.

Suraj Malu: Got it. So, it's like 5% to 10% and not 30%-40%.

Shrinivas Kulkarni: No, not at all.

Suraj Malu: Got it. Thank you so much.

Moderator: Thank you. We have our next question from the line of Amber Singhania from Nippon India AMC. Please go ahead.

Amber Singhania: Hi, sir. Thanks for taking my question. I have just one question related to the book. You have mentioned about the healthy pipeline. I just wanted to understand if you can quantify a bit about what kind of pipeline we have currently in terms of order in flow, future order in flow. Also, if you can give some colour about segments on that.

Within that, one more thing is that are you looking at the incremental large order books coming from new client addition or increasing the wallet share from the current time? So, these are three parts of my one question.

Anthony Montalbano: I think the guidance I would give is that it is probably a relatively similar blend of the type of business we are delivering towards today. And A&D will continue to play a significant part of that. But we do see expansion in medical and industrial as well.

And as we execute through our next fiscal year, we will see the D, the defence piece, maybe start to come down a little bit as the overall mix of the business. Aero will remain very significant and then we also see medical and industrial making up a greater share.

Amber Singhania: And if you can quantify number, order pipeline sir, ballpark number?

Management: No, it's a look that's not a very, that's not a number we declared out. So, I'd say it's sufficiently large, it will be hard to put it on.

Amber Singhania: Okay, sure. That's it for my question. Thank you.

Moderator: Thank you. We have a next question from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: Yes, hi. Can you talk about...

Moderator: We can't hear you. Please use your handset mode, Mr. Kumar.

Sumant Kumar: So, can you talk about the medical segment inflow opportunity and any client addition in this quarter or going forward any advances, discussion with the clients? Indication?

Anthony Montalbano: Yes, as far as, this is one area that we see some potential as far as from an order book perspective, we do have our pipeline in that regard. You know, we've talked about the makeup of our pipeline. You know, we have brought in some go-to-market leadership a couple quarters back in this segment, and that is translating into our current pipeline, which we see becoming part of some of the orders that we will be closing here in the coming quarters.

Sumant Kumar: Thank you.

Moderator: Thank you. We have a next question from the line of Astha Sundarka from Niveshaay. Please go ahead.

Astha Sundarka: Hello, am I audible?

Moderator: Yes.

Astha Sundarka: Good evening, sir, and thanks for the opportunity. I have just one question to ask. There has been an increase in employee cost this quarter. Any specific reason for that?

Management: Yes, from this quarter, we have started taking the RSU costs, right? While there is a performance condition and a tenure condition, the way this works is when the grant happens, I think you start amortizing the cost. So that's coming this quarter. Also, some of the leadership addition, the full quarter impact will be seen in this quarter. So those are the two reasons why you would see an increase.

Astha Sundarka: Okay. Thank you, sir.

Moderator: Thank you. Ladies and gentlemen, we'll take that as the last question for today. I would now like to hand the conference over to Mr. Krishna Bodanapu for closing comments. Over to you, sir.

Krishna Bodanapu: Thank you very much and thank you everybody for joining this call this evening. As Anthony and Srini articulated, we do see a lot of positive momentum in the business. We obviously have had a strong quarter, but we're quite confident that the momentum will continue. Obviously, there is still a lot of work that we need to do in terms of building the right order pipeline, closing orders, and so on and so forth.

But with the team that we've added, and with also some of the technology, the capabilities, the capacity that we've added, we're quite confident of having a very strong future ahead of us. So, thank you very much for all the questions. Thank you very much for your support and we will again speak next quarter. Thank you.

Moderator: Thank you, sir. Ladies and gentlemen, that concludes this conference. Thank you for joining us and you may now disconnect your lines.