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Sub: Transcripts of Earnings Call

Please find enclosed transcripts of earnings conference call, in connection with Q2FY25 Financial Results held on 21 October 2024.

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

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Thank You

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“Cyient DLM Limited

Q2 FY '25 Earnings Conference Call”

October 21, 2024



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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 Q2 FY25 Results 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 this conference, please signal an operator by pressing star and 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 Limited. Thank you and over to you, sir.

Krishna Bodanapu: Thank you and good evening ladies and gentlemen. I am delighted to welcome you to Cyient DLM Limited's earnings call for quarter two FY '25. Present with me on this call are our CEO, Anthony Montalbano and CFO, Shrinivas Kulkarni. Before we begin, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. A detailed presentation in this regard is available in our Investor Update which would be posted on our website.

In our Q1 investor call, we had specified that some of the deliverables were getting shifted from Q1 to Q2. I am pleased to share that our Q2 revenue performance is in line with our expectations and Shrini will present more details in a few minutes. This is in line with the expectation that we had that some of the revenue was getting shifted from Q1 to Q2 and that has come to bear. The conflict in the Middle East is causing some impact to our business and to our supply chain especially and this has been the case for a few quarters now.

But I also want to reiterate that our suppliers and customers are extending their support to keep the impact on the business minimum and we continue to see very little impact, though that is something that we are having to manage very closely. Our pipeline continues to be healthy with key deals getting closer to finalization. We continue to add new logos in Q2 and I want to emphasize that we have developed the right number of resources to grow our engagements with key clients at a faster pace.

I am also excited to share an important update on inorganic growth. As we announced earlier this month, we acquired an EMS company, Altek Electronics, based out of Connecticut in the US. Through Altek, we now offer the right blend of competencies, geographic presence and capabilities that supports our growth strategy. This move is completely aligned with the voice of the customer, i.e., the customers asking us for capability and capacity in the US.

And I am confident that the synergy benefits from this acquisition will make a significant impact on our performance in due course. With focus on an exciting journey ahead, I now hand over the call to Anthony and Srini to provide more updates on the business and financial performance.

Anthony Montalbano: Great. Thank you, Krishna. So, I'll start with the acquisition of Altek Electronics. This was clearly a key high point of the quarter. As previously announced, Altek is based in Connecticut. They have a very long history since the early 70s of providing high-value electronics

manufacturing services. They focus primarily in medical industrial segments and also are well suited to continue their support in defense area as well.

We find this very complementary to our offering and also helps provide a little bit of further segment diversity into our overall portfolio. 80,000 square feet of manufacturing, over 200 employees and also room to expand and very healthy financial metrics for that business. As we looked at various and continue to look at various companies that could potentially become part of Cyient DLM.

For us, the value proposition needs to include having a similar type of DNA in the business where our clients who do business with us today in India would feel very confident having their type of business being supported in a similar type of operation in other geographies. And Altek Electronics is definitely representative of this. And we see this as an important part of our strategy going forward as we build upon that business and leverage those opportunities.

As we've highlighted, the geographic presence with clients is a unique part of this where many of our clients today have parts of their portfolio that they would need a North American solution on. And so these clients now have an opportunity to provide these services through Cyient DLM. It allows us to expand that offering and continue to grow that business in India as well as in North America.

In addition, Cyient and Altek does bring to Cyient overall some very key logos that are very much industry leading and that will play a key part into the expansion of that business. And then also, we see an opportunity where part of the work that we do in aero and defense can now also have channels within the North American market from a delivery manufacturing perspective. So all this aligns to really the capabilities that continue to get broadened now including ITAR work that can be supported out of this location.

And as we see our business expanding into build-to-spec type opportunities, this plays very well into working with our clients closer on really going from design through manufacturing of their own products regardless if that's going to be done overseas or in North American markets. Getting a little bit more specific onto the type of capabilities, Altek is very much a high value EMS provider. Really everything from PCBA through engineering support for complex assemblies, they do MPI.

They are really in the high mix, low volume, low-to-mid volume sector very similar type of profile to what you'll find in Cyient DLM's core business. So a lot of the business metrics, way of managing clients, way of managing complex programs, very high quality requirements, all these aspects that our current client base expects from us are very much similar to how Altek's business has really been running for decades now. And again, the very high level of manufacturing capabilities that come into that site will be leveraged going forward.

Moving forward, looking at some other key highlights for the business, we have added two more new logos in this quarter, a defense contract in India and also a global oil services company. This gives us access through many Fortune 500 companies through the acquisition of Altek and

adding these two new logos is key as part of this. We also did receive some business award acknowledged by IPC for the work that we've done in the industry.

Looking at our growth strategy, especially as now we've completed our first inorganic play as part of Cyient DLM, it really comes down to our growth is still going to be on our core business. And that really comes down to -- what we do in working with some of our larger contracts with key clients. We do have a focus on Indian defense that we're getting a lot of traction and increasing pipeline in as well.

Also, the build specification type of offering, this is something that is really starting to drive a bit of a shift in terms of it'll start to have an impact, especially in the coming fiscal year on the types of programs we deliver. Our inorganic expansion, again, we just announced Altek and this very much aligns to the initiatives that we've highlighted before and what we look for in terms of capability in geo and clients. And as we look at further acquisitions in these regions or other regions, it'll continue along the addition of the similar priorities.

Proximity to clients, additional capabilities that align with the growth that we're seeing in the business. I think we can go to the next slide. That really highlights the business, summarizes the business overview. And again, it was a significant quarter for us in that regard. Let me turn it over to our CFO, Srinivas, in terms of addressing some of the finance updates for the business this quarter.

Shrinivas Kulkarni:

Thank you, Anthony. I'll first talk about the acquisition impact, the financials of acquisition that we did recently. Some of these have been reported in the past, but just for the sake of refreshing, we did an upfront payment of about \$23.4 million. And there is an earn-out that's also payable, which is capped at 5.85. The total payout for this asset will be at the maximum earn-out of \$29.2 million. This is an asset, as we saw in the earlier slides, a double-digit EBITDA company. It provides us an ROC of more than 15%.

The acquisition will also be EPS-accredited from FY26. In FY25, we will have a one-time transaction cost, which is reported at the end of Q3 when we have the financials. In terms of their revenue by service type, they do a fair bit of PCBA and box build, which is highlighted in the pie chart below.

And the industry mix, this is where I think it diversifies our overall portfolio. More than 95% of their business currently is industrial and medical. And these are the two areas where we have seen lesser growth compared to our growth in aerospace and defense. So this acquisition is also critical in that aspect of diversifying the portfolio.

Coming to the organic performance of the business for the quarter, we did a revenue of INR3894 million, which is a growth of 33.4% year-on-year. Our EBITDA stood at INR316 million, which is also a growth of 34.4% year-on-year. EBITDA margin stood at 8.1%, which is margin mildly up by or flattish compared to year-on-year. What we have is the PAT at INR15.5 crores or INR155 million, which is a year-on-year growth of 5.5%.

The gap between EBITDA and PAT is largely because of the higher finance costs we have incurred. Owing to the fact that our free cash flow has been negative in the first half of the year,

we have had to borrow funds, which we plan to liquidate in the second half of the year as the cash flow turns positive.

So the finance cost is a bit higher than what we had anticipated in the first half of the year. Order backlog is at INR1,979 crores. This is lower quarter-on-quarter by INR147.7 crores. Now, we have explained this in the past, there is lumpiness in the business. One large order which we are consuming very fast and that's partly the reason why the order backlog on a sequential basis shows a decline.

But as we move along and consume that order, from that point onwards, we start seeing a recovery in this order backlog. PAT margin was 4%, which is lower year-on-year due to the finance cost which I explained. The next chart sort of gives a trend. I want to call out one thing. As you see in both revenue and EBITDA, usually we have a bit of a seasonality between H1 and H2.

So I think we have to look at it from that perspective. So our H1 typically is a bit lower than H2. So that is the same trajectory we are seeing for the current year. And EBITDA percentage is a bit lower in H1. But on a full-year basis, our EBITDA is likely to be flat year-on-year. And we already spoke about PAT. That will also show an improved trajectory in H2 as revenue and EBITDA peaks.

Looking at some of the working capital metrics and the key trends on other aspects of the business, we see the DIO has sharply declined quarter-on-quarter from 184 days to 122 days. As you all know the 184 days was also because of the lower revenue we had in Q1. And as the revenue has picked up that number has come back in control. Of course, this is still not at the ideal inventory days that we wish to operate at.

Our goal internally is to get to about 90 days to 100 days of DIO and we have an action plan and we are working through the steps to get to that level on a sustainable basis. DSO has again decreased quarter-on-quarter from 92 days to 82 days. We have further scope for improvement even in DSO which we will talk about in the coming quarters as we scale through. Customer advance is at 20 days and this is the sort of change in mix in the business.

I think the sort of orders we are getting now, the customer advances are going to be lower and that will sort of reflect from an inventory perspective as well. But for now, the newer orders that we are getting are not where the customers are willing to give an advance. So we see a decline in that number as well. So net-net, I think from a networking capital perspective, we've seen a fair bit of improvement this quarter, but it's a job half done. We are very cognizant of that. What we will do in the coming quarters is continue to improve on this metric.

A quick look at the mix. The industry mix is largely the same. We have had impressive growth in aerospace and defense. And therefore, that's a large piece of the pie right now. Of course, the point we made earlier on the Altek acquisition is that sort of balances the portfolio well. So this is only the view of the organic part of the business. In terms of product categories, there has not been any considerable shift from the earlier quarters. The export-domestic shift is very stark in

favor of domestic this time largely because of the one defense order that we are executing at a faster pace. This is not the norm.

We will come back to about 70% export and 30% domestic as we stabilize. This is an unusual quarter where the domestic mix was very, very high. This is just the same financials which I presented. I'll just highlight on the H1 performance since we saw the Q2 performance already. So if you look at a half-year to half-year basis, we've had a growth of 27.2% on revenue. Our EBITDA has grown by 18.6% and our profit after tax has grown by 31% year-on-year on a half-yearly basis. So that is sort of the top performance summary for Q2 as well as for the first half of this financial year.

Last slide is on the usage of the IPO proceeds. We have utilized a further 39 million on working capital this quarter. What you will see here is that the inorganic through acquisitions as well as the general corporate purposes are still shown as unutilized. That's because this report is as of 30th September. Next quarter you will see that fully utilized. So one of the big objectives of doing the IPO was to have inorganic growth in our business and we are very happy to note that we have successfully concluded that aspect.

This is the financial summary. I'll pause here and then we will turn it back to final questions and answers.

Moderator:

Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Dipak Saha from KR Choksey Shares & Securities Private Limited. Please go ahead.

Dipak Saha:

Thanks for the opportunity. So my first question is we are seeing that debt levels have risen in the first half and you mentioned largely for the working capital requirements since the cash flows are expected to turn better in the second half. So my question is since this acquisition is there and we have mentioned earlier that we might need to finance it partly with debt and rest with cash. So do we see any further, I mean from here the debt level do we see any further probability of debt levels going up for rest of the year? We can share some color. For full year, what kind of debt levels we should look at

Shrinivas Kulkarni:

So Dipak I think the debt level will certainly go down as we generate positive cash in the business. The debt we took for the M&A was for very specific reason and there I think we should look at it from the perspective of the performance of the inorganic business on that part of the P&L. We have taken that debt, it's a long term debt to fund the M&A and the returns from that asset will more than surpass the sort of the debt funding or the cost that is required to service that debt. The comment on the debt level going down is more from the organic business perspective. There we will see a reduction in the debt as we generate positive cash for the rest of the year.

Dipak Saha:

And so pardon me if I heard it wrong, but I believe you said somewhere EBITDA margins probably remain flat. Is that what you alluded in your opening remarks?

Shrinivas Kulkarni:

Yes, I said year on year we can expect the EBITDA to be flat. So we have had only 8.5% in the first half whereas last year we did about 9.2% on a full year basis. So what we expect is on a

year-on-year basis we will have better EBITDA in H2 which means for the full year we will be very comparable with what we did in FY24.

Dipak Saha: So one of the earlier comments in your previous con call was that probably we are looking for double digit EBITDA margin for the full year FY25. So that is certainly a delay to FY26. Is it a right understanding?

Shrinivas Kulkarni: No, I mean we are very close to that number Dipak. So we are not giving guidance here. So what will happen is we will be somewhere closer to the double-digit number. We will definitely end the year with double-digit. And it all depends on how much we are able to sort of further optimize on some of the costs etcetera. in H2. We might even hit double-digit. So we are not giving that number. What we are saying is at a minimum we will remain flat year-on-year basis.

Dipak Saha: And sir, on the Middle East side, if you can share some little bit of depth in terms of what is the extent of impact. Is it the raw material prices or just the timely time concerns which are impacting the business? If you can just share certain understanding how this is impacting and are we largely fine with it or it's still there?

Shrinivas Kulkarni: I was not clear with your question Dipak. Can you please say that again?

Dipak Saha: I am asking in your opening remarks, some of you mentioned that from Middle East, especially Israel side, there were certain concerns on the operations. But you have managed it pretty well. So just trying to understand what is the depth of that impact and are we over it or do we see that continuing for the rest of the year?

Shrinivas Kulkarni: The impact is more on supply constraints. I think there will be shipment delays both inward and outward. The parts availability etcetera. Those are the sort of challenges we have faced. So far we have managed it well. We have not had a significant impact.

But it's hard to say whether we are over it because we do not know how the situation changes tomorrow. So while we have got the cooperation from the vendors and suppliers and customers both to be managing the situation, it's sort of managed and that's an important point. So we don't know how it will pan out. But hopefully it will de-escalate and not escalate further. But one can only manage it as it comes. We can't predict.

Dipak Saha: Sir, I understand it. But what I was trying to understand is that the situation has evolved post-COVID as well and we are seeing certain things developing. So in your talks with your suppliers, do you see any risk of cost here on going up or any of that sort of risk for the raw materials that you are sourcing from there?

Shrinivas Kulkarni: No, I think cost is not a big factor, Deepak. I think the cost, they pretty much honor the PO terms, whatever is there. It is actually the delay and those kinds of things that are of impact. Certain parts where the orders have not been placed because of supply constraints, the cost could go up if you are looking at an alternate supply. But we are not seeing a lot of that. We are seeing more on the delay and scheduling rather than the cost.

- Dipak Saha:** Okay. And the last question before I call that on the queue. You mentioned in your PPT that in terms of expansion, the strategies that you are resorting to also include expansion to EV. So if you can share some colour on this, what exactly are we moving into automobile and which particular geography? Is it US or India as well? So some bit of detail would be really helpful. Thank you.
- Anthony Montalbano:** So the question in terms of the sectors in which regions we are going to be expanding into, is that how I understood the question?
- Dipak Saha:** Yes, you are right on this.
- Anthony Montalbano:** Yes. So there is a focus on different geos and different sectors that we are looking to expand into. That includes that we have provided some additional bandwidth from a go-to-market perspective in the India market directly. And there has been – the EV space definitely is an area of interest in that regard. So as we get some more details as we update the pipeline in that regard, we can share more info on that. But that is an area of focus right now that adds on to the four segments that we are already in.
- Moderator:** Thank you. The next question comes from the line of Vipraw Srivastava from PhillipCapital. Please go ahead.
- Vipraw Srivastava:** So just one question on debt. So, the management has taken debt for these acquisitions, right? But currently in the balance sheet, we are seeing an increase of short-term debt. So the management is saying that in further quarters, long-term debt will also go up, so interest costs can actually increase?
- Shrinivas Kulkarni:** Yes, so the part of the long-term debt will also be used to clear the short-term debt. The short-term debt is a temporary arrangement to fund the M&A, right? Because the M&A debt itself will take a little bit of time.
- Vipraw Srivastava:** Fair, fair. Yes, noted, noted, noted. Secondly, sir, just a question on the resignation of head of sales. I mean, is that something structural or is it just a normal resignation or something? I mean, do you have a separate team? I mean, who replaces him and everything on that?
- Shrinivas Kulkarni:** Sorry, we are not clear. Can you please say that again?
- Vipraw Srivastava:** The resignation of Joseph Crowley, Head of Sales, right? There was an exchange filing for that.
- Anthony Montalbano:** Yes, so the Head of Sales position, that is really due to a medical situation with that leader. And so due to the timeframes involved for that, this is why we've had to unfortunately vacate that position for this point in time.
- Vipraw Srivastava:** Okay, fair enough. Sir, last question. So, I mean, obviously this quarter has been good, but going ahead, sir, I mean, do you see any margin expansion happening in FY '26? I mean, because all of your employee costs would have been observed and obviously you're also looking for B2S. So, that also has a relatively higher margin. So, any thoughts on that?

- Shrinivas Kulkarni:** Yes, certainly. I think there are two aspects to that question, right? I think there's definitely an absorption aspect as the growth kicks in. And there's no, I mean, we're not going to add SG&A linearly to the growth going forward. But more importantly, I think the mix of business is going to change quite a bit next year, right? Because of the one large order which had a lower margin, that's sort of concluding. So, the rest of the business has very healthy margins. So, we should see appreciable improvement in the margins next year.
- Vipraw Srivastava:** Right. And sir, last question, the order book. So, where do you see it by the end of this year? I mean, what's the traction there? Do you see an improvement? Can we see an improvement in H2 or should we wait for FY '26? Any thoughts on that?
- Anthony Montalbano:** Yes. So, we are at the point now within H2 where we are expecting to see some traction and improvement in that regard. So, we will update as the quarters continue. But we are already starting to see some positive trends in that regard and that's kind of how we have anticipated it and guidance that we've given or comments we've given on it before.
- Vipraw Srivastava:** Right. So, we see order book improving, right? Because [INR900 0:29:48] crores is the current order book which, I mean, won't be sustainable for structural growth of the company. So, you see that improving, right?
- Anthony Montalbano:** The order book would definitely need to be improving. That is correct. That's what's necessary to drive the growth.
- Moderator:** Thank you. The next question is from the line of Rahul Deshmukh from LKP Securities.
- Rahul Deshmukh:** Yes. So, sir, my first question was in quarter 1, you told that we are facing some constraint in catching volumes. So, effect of this, we were not able to absorb the fixed cost, which was affecting our EBITDA margins. So, how is the situation right now regarding the volumes?
- Shrinivas Kulkarni:** So, as you can see, right, our volumes have improved in Q2. And therefore, there is better absorption. But what has happened in Q2 is also the mix of business is different. So, while at EBITDA level, the SG&A absorption has helped, we've also lost a little bit on gross margin, which is sort of offset. So, from quarter-on-quarter, the improvement is not as appreciable as you would have hoped to see. And that is the reason. But from an SG&A absorption perspective, definitely, whatever we said in Q1 has happened in Q2.
- Rahul Deshmukh:** So, should we expect any improvement in volumes in upcoming quarters?
- Shrinivas Kulkarni:** Compared to what? From a year-on-year perspective?
- Rahul Deshmukh:** Yes, on year-on-year basis.
- Shrinivas Kulkarni:** I don't know if you heard that. On a year-on-year perspective, yes, we will see.
- Rahul Deshmukh:** Yes. On year-on-year basis.
- Shrinivas Kulkarni:** We will see an improvement.

- Rahul Deshmukh:** And my second question was that, in Q1, you mentioned that we are facing some constraint in procuring raw materials from the Israel region. So, now things are getting worse. So, at this point of time also, are we targeting networking capital of 100 days? And what is the contribution of Israel in our supply chain?
- Shrinivas Kulkarni:** So, from the Israel contribution, it will be about 20 days in that overall networking capital number. He is definitely our person. He is a person of getting to 90 to 100 days. That is our aim from a networking capital perspective. It might take more than one quarter to get there. But we are on the job, in terms of identifying specific actions to get that at a sustainable basis.
- Rahul Deshmukh:** Okay, sir. Thanks.
- Moderator:** Thank you. The next question is from the line of Deepak Krishnan from Kotak Institutional Equities. Please go ahead.
- Deepak Krishnan:** Yes. I just wanted to check what is the goodwill created to this acquisition and what would be the amortization impact for the next couple of years?
- Shrinivas Kulkarni:** So, we are yet to do the purchase price allocation. We are in the process of doing so. I think what will happen is, in this business, there is a considerable amount of assets that also come along with the acquisition. So, you will have lesser intangibles in the business compared to, let's say, a services company.
- And therefore, the amortization also will be quite minimal. I mean, taking all of that into account, the comment that we made on us being EPS accretive is that at a PAT level, we will see better profit compared to if we had not done the acquisition, for example. So, Yes, I mean, we will come back with the commentary on goodwill and the amortization impact at the end of Q3 once we have completed the purchase price allocation.
- Deepak Krishnan:** Sir, maybe just wanted to check on the order book level. While we are at 19.8 billion at the end, the peak we were at was up to 24 billion, 25 billion. So, when we say improving trajectory, by when should we sort of reach that level? Because, if we sort of don't reach 24 billion, 25 billion, then, our implied guidance of about 30% case or if we remove the inorganic element, then the ability to achieve that over 3 years seems to be slightly difficult. But, within nine quarters, we are seeing no continuous decline in order inflow?
- Anthony Montalbano:** Yes. So, as previously addressed, that is one item that we do hope to see some traction on at H2. And that is correct. That would need to improve as well to continue the growth that we've been targeting. So, Yes, as previously covered, that is correct.
- Deepak Krishnan:** Yes. And on the India defense side, the India story, because we're saying that it will go back to 70-30 exports and 30% local, that means the chances of, repeat defense ordering from those, from that large old PSU as well as the new missile PSU that you've signed, the opportunity may not be that big as, what we originally had. Is that understanding correct?
- Shrinivas Kulkarni:** No, I'd answer that differently, Deepak. I think we, that comment of 70-30 is taking into account the inorganic mix also that will come into the business, which will all be counted as exports.

Right? And second part is that particular order or the repeat of the defense business will have a little bit of a gap. When it concludes, I don't think immediately it will come to the next order. It has some time gap. So, and again, answering your earlier question, that's the sort of lumpiness, you know, which will sort of create the sudden jump in the order book.

If you see our order book today, if you remove that particular business and then see the rest of it, I think there is growth in our order book. But it's definitely not at the level that we would want it to be. So [inaudible 36:00] the business is an impact of that order going through and not coming back immediately, but as and when the repeat order from that customer comes, I think we will be the front runners to sort of gain that.

Deepak Krishnan: Yes, sure. Maybe just one last question. Given science focus into the parent's focus into the semiconductor business, while we see sort of - we don't see any business because of science venture into semiconductors sort of coming to the AMS arm? Is that understanding correct? At this stage there is no overlap between the two?

Krishna Bodanapu: Let me answer that. I think there is a synergy because the continuum is really first you build it - first you design, then you build the chip and then you build the board and the box and everything around it. So, in that sense there is a continuum, I will say and therefore there is a synergy, but I think we won't expect anything to play out from that synergy at least for a few years because we will first have to start designing the chips and then looking at how those chips can be consumed in science DLM.

So, while there is a continuum and there is a logical flow, for it to play out, I would say, will at least be a few years from now. So, I wouldn't count that at least in the immediate future.

Deepak Krishnan: Okay. Thanks for those answers. Those are my questions.

Moderator: Thank you. The next question is from the line of Praveen Sahay from PL Capital. Please go ahead.

Praveen Sahay: Thank you for the opportunity. So, first, some clarifications because earlier you had given some 30% of growth indications. So, is that acquisitions like of Altek also considered or also you had mentioned about looking for acquisition in North America and EMEA as well. So, you are considering all those and then after you had given 30% of CAGR numbers?

Anthony Montalbano: Yes. So, the 30% outlook was really what we see as a multiyear CAGR and that still is what we are targeting and running the business towards. And that is organic by the way that does not include any inorganic piece of that. So, with the addition of Altek we look to still maintain that overall combined business level of growth from a top and bottom line. This acquisition is not diluted in any way in terms of top and bottom line.

So that is where another aspect of the business is important, especially when you look at other markets which might not be at the same level of growth and profitability as the Indian-made BMS market.

Praveen Sahay: Okay. And the next question is related to the Altek electronics. So, can you give some color on how is the geographical operation area and how is the opportunity growth for the business in the year to come? And is there any seasonality like our existing business like of H2 is more as compared to H1? How is that?

Anthony Montalbano: Yes. So as far as the geographic aspects of it, I will highlight that their location in Connecticut is an attractive area considering the types of clients that they have, work that is done in that nearby in that region and the industries they operate in including medical and others. So, they provide the high value services from that location and there is also expansion opportunity to grow on that site specifically.

And then regarding the question as far as the specifics on that business and the outlook starting next quarter we will start to integrate that into our overall updates and then that will help bring this whole picture together in that regard.

Praveen Sahay: And lastly sir if you can give us some order book mix domestic versus export of your existing order book?

Anthony Montalbano: So, right now, it's about a 60-40 mix where it's 40% domestic, 60% export. And then going forward that mix might be a little bit more export or more outside of India focus. But that will probably shift again once maybe some of the Indian business starts in some of these new areas that we're focused on what will grow. So, that kind of gives a view where it is today and the [inaudible 41:19] it's on.

Praveen Sahay: Okay. Thank you, sir.

Moderator: Thank you. We have a follow-up question from the line of Dipak Saha from KR Choksey Shares & Securities Private Limited. Please go ahead.

Dipak Saha: Sir, just one question. Lately, we have seen certain announcements of on the surface to air missile sites by BEL. So, do we have any sort of capabilities there and can we capitalize on those kinds of opportunities?

Management: Dipak, your line was not very clear. Can you please say that again?

Dipak Saha: Sir, I'm talking. There has been certain announcement from BEL on QRSAM site. So, especially on quick response surface to air missile. So, do we have any capabilities on those grounds to capitalize on?

Krishna Bodanapu: I think some of these are still quite out there. I mean, what happens is from the time some of the programs get announced to the actual execution, the timelines are quite long. So, we still don't have the details on it. We just have to wait to understand what exactly the timelines are, what the program will entertain and how much will be bought. So, the other thing we have to also look at is how much will be bought out versus indigenously developed. So, it's going to take a little bit of time to understand.

Dipak Saha: Okay, sir. Thank you.

- Moderator:** Thank you. The 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. I wanted to understand on the borrowing side, I mean, short-term borrowings have gone up from INR58 crores to INR225 crores. On the other hand, when we see there is I mean decent amount of cash which is sitting on the asset side which is close to INR500 crores. So, I mean, why this mismatch there? Why not use the cash itself? I just wanted to get an understanding around that.
- And also, you mentioned that we have raised certain capital or certain debt for this acquisition. If you could quantify that, that would be helpful as to what is the amount sitting over there. And my second question was on the industrial side. I mean, last quarter the industrial client faced a challenge and this quarter also, one of the industrial clients has faced a challenge, I mean, given the fact that industrial revenue is down.
- And in last quarter, you had mentioned that from 3Q onwards we should see growth picking up. So, how do we build the industrial segment from 3Q onwards?
- Shrinivas Kulkarni:** So let me answer the first part Mihir. So, the funds that are sitting in the cash or fixed deposits are earmarked for certain usages as per the IPO statement that we released in the prospectus. So, even though there is cash available it has to be used only for those earmarked purposes. Second, since they are in fixed deposits at certain tenure actually makes more sense to borrow money even instead of breaking those and losing the penalty and the interest on those issues. So, it is more of a timing issue.
- The borrowing we are seeking for the acquisition is about \$12 million or about roughly INR100 crores. And once that comes in, we will use a large part of it to also repay the short-term loan debt.
- Anthony Montalbano:** And then, in regards to the reference, I think of the industrial specific segment of that debt, yes, there was some inventory that had been built up within key clients within that sector. And so that is still pretty much the same as we advised last time that that inventory is getting consumed. And then we do expect recovery in that regard in terms of order book coming back in that sector.
- And if I take probably one to two more quarters before we start to see that feedback, get back through the inventory situation I just highlighted.
- Mihir Manohar:** Okay, sure. And just last question was on the - is there any one-time transaction cost which is sitting in this quarter?
- Shrinivas Kulkarni:** No, not in Q2. We are taking all the costs in Q3 and we will call that out separately.
- Mihir Manohar:** Okay. Thank you. That's it from my side.
- Moderator:** Thank you. The next question is from the line of Swanand Samant from Klay Securities. Please go ahead.

Swanand Samant:

Hey, hi. So, my question again was on the order inflows, right? So, just to understand the business model a little bit better. So, we have been lacking in order inflows for some quarters now, 8 quarters, 9 quarters now. So, just to understand that our revenue mix is also tilted towards the top 10 customers which accounts for almost 80%, 85% of our revenue. So, just to understand how do these customers kind of look at us as a vendor. Are we for the programs we run for these guys, are we the preferred vendor for them, are we in the top 3, top 5?

So, just to understand this better, why I am asking this question is that the slowness is it because the customers kind of revenues have already slowed down? That's true, but is it also because of the competition or losing out on some business? And kind of how do we derisk this because at any point of time, there would be at least one or two bad cycle or in a bad cycle, there would be at least one or two customers who would be a little weak on revenues for some of the other reasons? So, is it kind of how do we derisk this risk in the future? Any qualitative comment on that?

Anthony Montalbano:

Yes, some insight I can give in regards to how our clients view signed DLM and the offering is. We're still a very small percentage of their spend, so it's not really a matter of the small percentage. It's really more the type of work that we're doing for them. So, quite frankly the importance of the type of products we're delivering to our clients which are often for new programs or critical programs is extremely high.

So, we may be delivering a \$10 million solution, but from working with the clients it could very much be a \$100 million type of solution because of the urgency needed from their perspective to have this type of product to support their end client. So, this business is not as price sensitive in that regard, really. So, really what causes movement is often more along other aspects.

It could be geo aspects. It could be strategy. And then, of course, if there's operational execution issues, then that would definitely be a key item. But for us that's our core, and those are the main reasons that drive the value within the business. I think you had another; I didn't follow quite the second part of your question.

Swanand Samant:

So, the second part was like, this would be the case for us when there would be at least one or two clients who are being sluggish for some of the other reasons in the future as well, right, depending on the cycle. So, how do we deal with this? Because our top 10 customers, I guess, would account for 80%-85% of the revenue. And we always have that business model where we would be concentrated as such. So, how do we derisk in the future? What can we do as such?

Anthony Montalbano:

Yes, that's a good question. So one key thing is, we did announce a new logo, a new client in an industrial sector last quarter. And this sector actually moves extremely fast with the segment this client is in. So, we see that just the revenue potential from this new logo alone for our next fiscal year to be quite considerable to the fact where it would probably be a top three or four clients for us alone in the next fiscal year. And then, it could even be a top one or two client for us in the following year. So, expansion of these types of key clients in these sectors is one area.

And then, also, just the other piece is that, we just announced the acquisition of Altek. That also brings a little bit of diversity as well for us in terms of sector and helps broaden, helps kind of balance out the portfolio that we have within our clients in the sectors that we play in.

Swanand Samant:

Okay, good. So, a follow up on that. So, when we say that as a vendor, we kind of support our client or customer with a very niche offering, right? Still, if we look at our margins in the past or what we expect in the future as well, those are kind of volatile and in the single digit or double digit, right? So, being in the niche offerings which we offer, still, we don't command that kind of pricing power if you compare it to some of the other competitors. So, any comments on that? Why would our EBITDA margins be lagging at high single digits or low double digits as such?

Anthony Montalbano:

So, I think, you know, if you look across the industry within the Indian EMS providers and you look across the industry globally, I think you'll find that EBITDA margins, 9%-10% is relatively healthy in the Indian EMS sector. And then, it's definitely extremely healthy on the global sector as well where, EBITDA margins are anywhere from 3%, 4%, 5%, sometimes 6%.

And so, from that perspective, I think that does reflect the value of the business. And, again, it's not that it's just a niche business. It's really more the aspect that it's low volume, high mix, but it's mission and safety critical. So, that is why there's more focus on the quality, on the systems in place to make sure that continuity is there as opposed to a business that might be more niche. It might be more higher volume or consumer-based, which that type of business moves around from supplier to supplier much easier. And it also is probably operating at about a third of the margins that the business we're running today is in.

Swanand Samant:

Okay, got it. And on the order book inflows, in the last quarter, we said that we have some 80 billion of a pipeline. Could you quantify how much order inflow you internally target in the next two or three, four quarters so that it will give us some comforts on what kind of internal target we do have in that?

Anthony Montalbano:

I think we've laid out really what the overall growth aspirations are for the business. And that's organic as well. So, we're continuing to look at that as how we run the business. And that's counting the last fiscal year, the current one we're in, and then also going forward. So, those are the levels we're continuing to support and invest the business in. And that also includes investments in our current operations, and then also as the inorganic side as well, will be in addition to that.

Swanand Samant:

Thank you

Moderator:

The next question is from the line of Rajit Aggarwal from Atharva Investment Managers. Please go ahead.

Rajit Aggarwal:

Good evening, sir and thank you for giving me the opportunity to ask a question. So, I have two questions. One is related to the acquisition. So, on the business model of the acquired entity, vis-à-vis the business model of the Indian entity. Will it be fair to say that the acquired entity caters to lower volume and higher customization compared to the Indian one? And do you see following the same model in the next two to three years? Or are there some thoughts wherein you converge the two models and are able to collaborate on the customers?

Anthony Montalbano: Yes, I think that's well represented. It is a business that is focused on low volume, high mix business. And again, this is also in these very high-quality type requirement sectors that they support their clients in. So, it's a very, very similar business model. This is why you also see the similar bottom line and top line financial aspects of the business. And some of their top clients have been doing business with them for decades just because of the service level that they provide.

Also, for a manufacturing company, they also bring a lot of engineering type support to the products. Oftentimes, a product will come to them. It does require some more work and they will work with the client to get the additional manufacturing for engineering done to get that product up and going.

So, this is a type of flexibility that a smaller, low volume, high mix operation can provide much more efficiently than a much larger operation that's set up for more of a higher volume type setup. So, we see it as very complimentary and this is why we also see a strong synergy case for the business with our current clients where they would find comfort in extending their business that they do with us into that operation.

Rajit Aggarwal: Right. Thank you, sir. And the second question is on the large contract that is concluding in the near future. Can you help me with when exactly that is concluding and what will be the immediate impact on the next quarter sales because of that contract turning off?

Anthony Montalbano: We're really limited on what we can discuss on specific contracts and clients in that regard. So, I think the guidance that we've given or commentary we've given on that is about as much as we can really share at this point in time.

Rajit Aggarwal: Okay. Thank you, sir.

Moderator: Thank you. Ladies and gentlemen, we will take that as our 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 us this evening. As we saw, there's a lot of exciting things that are going on in the business. On the organic side, we've had a good quarter with growth coming back in an expected manner and we'll continue the growth trajectory for the foreseeable future.

Of course, as there was a question and Anthony answered it, order book and order intake is something that we're quite focused on. But looking at where we stand with a number of large deals, we're quite confident that we will also start to fill up the order book quite nicely.

On the other side, Altek is a very, very important milestone for us because it globalizes the business and it also globalizes the business in such a manner that it's not very different from our business model. So, it's something that we understand. It's something that we're comfortable with, but most importantly, it's something that our customers see value in.



Cyient DLM Limited
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So, taking these two pillars of growth, both organic and inorganic, we're very confident where we stand with the business and we'll continue to update you as things progress. But for now, thank you very much for your support and we'll again speak next quarter after we announce results.

Moderator:

Thank you. On behalf of Cyient DLM Ltd., that concludes this conference. Thank you all for joining us. You may now disconnect your lines.