Ref: CEL/NSEBSE/13022024 13th February, 2024

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| Listing Department,<br>National Stock Exchange of India Limited,<br>Exchange Plaza,<br>Bandra Kurla Complex,<br>Bandra (East), Mumbai – 400 051 | Department of Corporate Services – Listing,<br>BSE Limited,<br>P. J. Towers,<br>Dalal Street,<br>Mumbai – 400 001 |

**Re: Scrip Symbol: CENTUM/ Scrip Code: 517544**

Dear Sir/ Madam,

**Sub: Transcript of the conference call with Analysts/ Investors**

In continuation to our letter dated 09th February, 2024 and pursuant to Regulation 30 and 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Transcript of the conference call that was organized with the Analysts / Investors on Friday, February 09, 2024 at 11:00 A.M. IST has been uploaded on website of the Company and the same can be accessed at https://www.centumelectronics.com/financial-results/

Yours faithfully,

For **Centum Electronics Limited**

INDU H S Digitally signed by INDU H S Date: 2024.02.13 15:48:11 +05'30'

**Indu H S**
**Company Secretary & Compliance Officer**

Encl: as above

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# "Centum Electronics Limited

# Q3 FY '24 Results Conference Call"

# February 09, 2024

**MANAGEMENT:** **MR. NIKHIL MALLAVARAPU -- EXECUTIVE DIRECTOR -- CENTUM ELECTRONICS LIMITED**
**MR. K S DESIKAN -- CHIEF FINANCIAL OFFICER -- CENTUM ELECTRONICS LIMITED**

**MODERATOR:** **MR. BHAVANI KUMAWAT -- PHILLIPCAPITAL INDIA PVT LTD**

**Moderator:** Ladies and gentlemen, good day and welcome to the Centum Electronics Q3 FY24 Earning Conference Call hosted by PhillipCapital India Pvt Ltd. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I would like to mention a short cautionary statement. Some of the statements made in today's conference call may be forward-looking in nature. Such forward-looking statements are subject to risk and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management beliefs, as well as assumptions made by and information currently available to the management. Audiences are cautioned not to place undue reliance on these forward-looking statements in making any investment decisions.

The purpose of today's earning conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review. I now hand the conference over to Mr. Bhavani Kumawat from PhillipCapital India Pvt Ltd. Thank you and over to you, Sir.

**Bhavani Kumawat:** Thank you Manjula. Good morning everyone. On behalf of PhillipCapital India Pvt Ltd, I welcome you all to Centum Electronics Limited Q3 FY24 Earnings Conference Call. Today we have with us management represented by Mr. Nikhil Mallavarapu, Executive Director and Mr. K S Desikan, Chief Financial Officer. Without taking much of your time, I will now hand over the floor to the management for their opening remarks, post which we will open up our Q&A. Thank you and over to you, Nikhil Sir. Thank you.

**Nikhil Mallavarapu:** Good morning everyone and thank you to PhillipCapital and Mr. Bhavani Kumawat for hosting this Q3 FY24 con call for Centum Electronics. I would like to extend a warm welcome to all of you to this earnings call and thank you for your interest in Centum and for making the time to join the conference. As a quick reminder for those of you who may be attending for the first time, Centum as a company is focused on the ESDM, Electronic System Design and Manufacturing segment and offers three service lines.

EMS or Electronic Manufacturing Services, Build To Spec, BTS which is a turnkey end-to-end service designed to mass production; and third is, Engineering R&D Services. Coming to our results, on a stand-alone basis, actually before that, our stand-alone business itself is comprised of the EMS business and the BTS business for defense and space customers and our subsidiary which has operations in Europe and Canada is primarily focused on engineering services and some BTS work for customers in the railway segment.

**Moderator:** Nikhil Sir, your audio is not that clear. Can you move the device nearby you?

**Nikhil Mallavarapu:** Sure. Coming to our Q3 performance, we are happy to report a consolidated revenue of INR298 crores representing a growth of 51% year-on-year. This is due to increased revenue in all the divisions. Standalone revenues from operations is INR176 crores with an increase of 10%

quarter on quarter and 72% year-on-year. At the subsidiary level, revenues increased by 30% quarter on quarter and 29% year-on-year.

Our focus in the subsidiary remains on improving the margins. On the order book front, order book stood at INR1,489 crores which is slightly lower compared to the September 2023 level due to certain delays in booking orders in the BTS business for domestic defense interface customers.

So that's a quick summary. I will ask our CFO Mr. Desikan to cover the main points from a financial perspective.

**K. S. Desikan:** Thank you Nikhil and once again a warm welcome to all of you. At the outset, I am happy to inform that we had a better quarter compared to the previous quarter and also over the same period in the previous year. First, let's talk about the quarter. At a consolidated level, the revenue from operations is INR298 crores which increased on a Q-on-Q basis by 20% and 51% on year-on-year basis. The EBITDA for the quarter is about INR29 crores which increased by 67% against the previous quarter of INR6 crores.

Now going to the standalone for the quarter, the revenue from operations for the quarter was INR176 crores with an increase of 10% quarter on quarter and 72% year-on-year. The standalone EBITDA for the quarter was about INR22 crores which is an increase of 6% as against INR5.5 crores the last year at the same time. The PBT for the quarter is INR15 crores which is significantly higher compared to the year-on-year and quarter on quarter.

Now let's look at the 9-month numbers. For the 9-month ended, the consolidated revenues reported are about INR794 crores which is a growth of about 31% year-on-year basis and EBITDA was around INR68 crores which is almost 2.5x as compared to the last year's same period. EBITDA margin stood at 8.5% with an increase of 424 basis points. Net profit is at INR4 crores and the working capital remained more or less flat at 137 days. The debt reduced by about INR12 crores from the previous quarter, mainly in the subsidiary.

So I'll stop here just quickly about the numbers and the financial performance of the company. Now probably you can open the floor for question and answer. Thank you.

**Moderator:** Thank you very much. The first question is from the line of Ankit Babel from Shubkam Ventures. Please go ahead.

**Ankit Babel:** Good morning, sir, and congratulations for an excellent set of numbers, a few questions from my side. Sir, the orders in the BTP segment are getting delayed since the last couple of quarters now. So just wanted to know the status of the same, I mean, that is, by when can we receive those orders?

**Nikhil Mallavarapu:** Sure. Ankit, thank you for the question. Just to correct, the delay in the orders that we mentioned was in the BTS segment. So this basically is for customers in the domestic defence and space business. Yes, you're right. We've had a couple of quarters of delays in receiving these orders. But the information we have is that, it's at the final stage. We expect it to be cleared imminently. So we are hoping to have this closed in this quarter.

**Ankit Babel:** And, sir, what could be the typical size of such orders? I mean, is it in the INR100 crores, INR200 crores range or it's in the INR400, INR500 crores range or even more?

**Nikhil Mallavarapu:** It's in the range of about INR200 crores.

**Ankit Babel:** Okay. Now, given the fact that our order book is almost flat since last few quarters, now given the customer forecast and the visibility, do you feel that it is still, you know, 20%, 25% top line growth, which you have been guiding for next year and onwards, is possible?

**Nikhil Mallavarapu:** Yes. So a couple of things first to respond on the order book front itself. I think, first, as we mentioned, we had, of course, this delay in the order on the Build to Spec side.

**Moderator:** Sorry to interrupt, sir. Can you move the device nearby you? Yes.

**Nikhil Mallavarapu:** Is this audible now?

**Moderator:** Yes, sir. It's loud and clear.

**Nikhil Mallavarapu:** Okay. Yes. So apart from the delay on the Build to Spec side of the business, which I mentioned, a couple of other points; one is that, with the supply chain situation, reducing intensity now, components are more readily available on the market and so on. Customers themselves were, in the past, were giving firm purchase orders for a longer horizon are now coming back to a normal way of working where they will release a shorter horizon of firm purchase orders and give a forecast beyond that. So that would be one of the contributors.

Apart from that also, we do see some temporary slowdown in a couple of our customers, essentially because of an overstock situation that we had following the supply chain crisis. That to some extent has been compensated with new customer additions and new orders that we've taken in from other customers. But we expect this temporary slowdown to recover again towards the end of this year.

So with all that being said, I think we do see some risk in getting like a 25% growth kind of level for next year, but having said that, on the other side, we do see our mix improving. We're taking several actions. So from a margin standpoint, we see ability to grow by more than 20%, 25% despite this slowness in terms of the top line.

**Ankit Babel:** So my next question was on margins only. So how are the cost rationalization programs going on in your France subsidiary and Canada subsidiaries? And at a consolidated level, can we expect that 12% kind of margins, which you have been saying, say, next year? This year you had got it for a double-digit margin, but next year around 12% margin is possible?

**Nikhil Mallavarapu:** Yes. So in short, first to answer the question in terms of what we're doing, I think as you mentioned, we have a new CEO in the business that's been in place now for the last one and a half years or so. He's identified a very clear cost reduction plan to improve the cost and the margin by at least about EUR2 million at the subsidiary level for the next year.

**Moderator:** Your audio is not clear. I request you to move the device nearby you.

**Nikhil Mallavarapu:** Okay. So I was just saying that the progress on the cost reduction plans are moving. A plan has been identified for about EUR2 million plus cost reduction plan to be in the process of being implemented, which will reflect in next year's numbers at the subsidiary level, that's one. And then the second point also is, we do see an improved contribution also happening from the Build-To-Spec side of the business next year, which will give us some further operating leverage as well. And with all of this, we expect that we should be able to meet the 12% level for next year.

**Ankit Babel:** Okay. And one small question to Mr. Desikan. The current interest cost run rate is around INR7 crores, INR8 crores on a quarterly basis, including all finance costs and everything at a consolidated level. So if we annualize it, it comes to around INR30 crores, INR35 crores. What can be the interest cost in the coming years considering the growth and the working capital and the capex requirements?

**K. S. Desikan:** Yes. I don't see any significant increase in the finance costs, basically because we are taking efforts to reduce the working capital levels also, because as I have been mentioning in the previous calls also, wherever there is going to be an inventory increase, we are also seeking customer advances. So we should be able to maintain the working capital levels and thereby bring down the debt also a little bit, if not in a significant manner. But because of this reason, definitely the finance costs will be more or less at the same level.

**Ankit Babel:** Okay. Thank you, sir. Thank you.

**Moderator:** Thank you very much. The next question is from the line of Chirag Kachhadiya from Ashika Institutional Equities. Please go ahead.

**Chirag Kachhadiya:** I have a couple of questions to Nikhil and Desikan-ji. During the quarter, some of our domestic defense PSU clients like [BEL and HAL] in the month of December announced several dealings and orders from the Government of India, from various departments. So when do we expect that those will convert to our order book? And second, on certification and licenses side, have we applied for more certification, so we can bid for more higher margin orders from global OEMs and all?

**Nikhil Mallavarapu:** Yes. So, yes, to address your point, in December there was a series of approvals from the Ministry of Defense for a long list of platform related opportunities and orders which were announced. We do have a few different programs that we are a part of or engaged with as part of those announcements.

We expect this, for it to convert into orders, to take probably at least 12 months or so. Because it has to be converted into first orders on the public sector units themselves. And then go through the RFQ process for vendors. So this will be at least a 12 month process. Knowing the timelines of Government of India.

**Chirag Kachhadiya:** And second question was on certification side. Have we applied for more certificates to bid more projects with global OEMs?

**Nikhil Mallavarapu:** Certifications itself, you know, in terms of, are you talking about the EMS side of the business or are you talking about the business side?

**Chirag Kachhadiya:** On both sides, sir.

**Nikhil Mallavarapu:** Yes, certifications typically follow award of business by a new customer or new segment fundamentally. So what we are seeing essentially is that in terms of our pipeline of new customers, we have a very healthy pipeline coming from multiple sectors, both from automotive and on the defense side of the business as well. So we have the necessary requisite certifications in place to be able to address those new opportunities. So, you know, pipeline remains strong.

**Chirag Kachhadiya:** And on aerospace side, due to this emission norm changes and many private aircraft and airlines announce, you know, updating their fleet and all. So how are we looking at that opportunity for our defense and aerospace vertical?

**Nikhil Mallavarapu:** Sorry, can you repeat that question?

**Chirag Kachhadiya:** Due to emission norm change and world over many airlines upgrading their fleet of private carriers. So how are we looking at that as an opportunity for our defense and aerospace vertical?

**Nikhil Mallavarapu:** Got it. Yes, so this is clearly a very important theme, of course, in the defense and aerospace vertical, but partly in other segments as well. But to tell you specifically about the kind of opportunities we are working on, we have a ongoing program in the engineering services side of our business where they're engaged with Airbus and the OEM on their future aircraft, which is, you know, going to be zero emission aircraft, basically.

So we are working on this program with Airbus and continue to look at increasing our engagement and contribution of this program.

**Chirag Kachhadiya:** Thank you all the best.

**Nikhil Mallavarapu:** Thank you.

**Moderator:** Thank you very much. The next question is from the line of Karan from Niveshaay Investment Advisory. Please go ahead.

**Karan:** Yes. Yes, thanks for the opportunity and congratulations to the team for the excellent set of numbers. I have a question on the broader level. Like, are you facing any issues related to the delay in orders, you know, related to the raw material sourcing or exporting orders in the Red Sea or the ongoing Israel war?

**Nikhil Mallavarapu:** Sorry, the line was a little bit muffled. If I understood the question correctly, it was regarding opportunities in terms of orders or anything as a result of the war in Israel. Correct?

**Karan:** No, I'm asking that are we facing any issue related to the import of raw materials or export of our finished goods due to the Red Sea issue or the ongoing Israel war like delay in orders or increasing freight cost?

**Nikhil Mallavarapu:** Understood. Yes, we are not seeing fundamentally any direct impact as a result of the war either on logistics or supply chain related matters. So, this is not something that we are experiencing today as an impact right now.

We do see some opportunities as a result of increased spending happening there with some of our customers that we are engaged with. But this again will take some time to come into effect. But right now, in the current quarter and so on, we have not seen any impact as a result.

**Karan:** Okay, and also are we facing any issue related to the demand of trade receivables on the export side? Because we are hearing that some of the clean tech companies in the US are highlighting delay in execution of orders or something. If you could spend some light on the same?

**K. S. Desikan:** No, we don't see any delay or challenges in realizing the export receivables. It's all going smooth. We don't see any issues.

**Nikhil Mallavarapu:** Like I said, there is no issue on the receivable side. Where I did mention is some of our customers on the industrial side, we have seen a temporary slowdown in the demand as a result of overstock. But as mentioned again, we expect that to recover towards the end of the year.

**Karan:** Okay, and I also just want to confirm, would it be safe to assume that we would be growing at a revenue growth of around 20% that has been guided earlier in the EBITDA margin in the range of 11%-12% for the next year, like FY25?

**Nikhil Mallavarapu:** What we have spoken about is more on a medium term basis. As I mentioned, when we give a guidance of 20% plus, we are talking really at a medium term basis. We don't want to give every quarterly or yearly type of guidance.

So that's just one point. As I said, for next year, we do see ability to grow. There are some risks that we are seeing with some of the temporary delays or push out of some of the orders by our customers as a result of this overstock situation.

But over the medium term, we don't see the risk. The pipeline continues to remain strong, both with our existing customers as well as new customers in terms of new opportunities that we are bidding on. So the outlook is still, I think, on a medium term basis, we are quite confident that we will be able to continue to grow at a healthy rate.

**Karan:** Okay, that's great to hear. And also a follow-up question, would you be able to highlight the big pipeline in monetary terms or the long-term contract that we have with the customer? Not talking about the 1-2 years, maybe long-term, like 5-6 years with the customers?

**Nikhil Mallavarapu:** Typically, our engagement models with the customers varies, again, from business to business. So as I mentioned, on the EMS side of the business, the way it typically works is we have awarded the business by the customer at a certain volume. And we typically have a period where we have firm purchase orders from them, and beyond that, a customer forecast.

This can vary from a 12-18 month or 24 month kind of horizon. I'm talking about the forecast, basically. And on the bill-to-spec kind of business, most of the bill-to-spec business is a project or PO-based type of business, where we have a purchase order which is suitable over a 2 or 2.5 year type of time horizon. And finally, on the engineering side of the business, again, here they vary depending on the engagement model. There may be fixed-price contracts. There are service centers or delivery center models where you may have typically a slightly longer horizon of maybe 6 months or so.

And then you have time and material kind of programs where, again, the purchase orders are shorter in nature, but we are typically a recurring business, and we continue to work with them over a longer horizon. So that's 5-6 year type of long-term contracts are unique. I would say it's more in the kind of bill-to-spec kind of projects where we work with very specific customers on this type of forecast.

**Karan:** One last question, if I may. So the revenue contribution from the industrial segment has increased from, if you compare, 9-month basis this year as compared to the last year. So if you could highlight the major drivers of such growth in the industrial segment, like which pockets are contributing to the good set of numbers in this segment?

**Nikhil Mallavarapu:** Fundamentally, as I mentioned in previous calls, we've added a couple of customers in the last 2 years or 3 years in this segment. Fundamentally around, for example, grid automation for utility kind of applications, which is a global OEM that is sourcing for us, not only for India volumes but for global volumes now. Apart from that, we also added another customer in the hydrogen fuel cell space, which is basically pursuing a China plus one strategy, and have chosen us as one of their strategic partners for it.

So this is another area that we've seen a good ramp-up for growth. So I would say these are some of the top ones. We continue beyond this to see various other opportunity pipelines from these customers as well as other new customers as well.

So basically, it's around broadly the theme of electrification, clean tech.

**Karan:** Correct, correct. That was very helpful and thank you so much and all the very best for the subsequent years. Thank you.

**K. S. Desikan:** Just to add a little bit on your previous question, you know, what we focus is customer relationship and customer stickiness on a long-term basis, whether it is an EMS business or a BTS business or an ER&D business. What happens is, in business like EMS, where the customer has a longer visibility for 12 to 15 months, they'll be able to give us firm orders plus the forecast. But in case of engineering R&D services, it is the relationship that matters.

The orders may be only for next three to six months, but they get renewed at the end of three to six months. But in the case of BTS, like the package solutions, passenger information solutions, what we do is we develop the product for the customer and on the successful implementation of it, they will issue us probably a letter of intent for a longer duration and it will be sourced from us only for the mass production.

So the fundamental factor I want to insist is, it is all about the customer relationship and we have a strong relationship with all of our top customers who have been with us for the past 10 to 15 years. So that is the most important thing that I just wanted to add to what Nikhil said.

**Nikhil Mallavarapu:** Thank you. Thanks, Desikan. And I would add on to that also, I would say in the sectors that we've chosen to be, the products themselves that we are delivering to these customers have very long life cycles. Their life cycles can be 15, 20 years quite easily. So while the firm purchase order or forecast may be for a 12 to 18 month period, the business itself including the product deliveries happen for a very, very long time.

**Moderator:** Thank you very much. The next question is from the line of Mahesh Agarwal from Agarwal Family Office. Please go ahead.

**Mahesh Agarwal:** Congratulations on a good set of numbers and it's good to see the recovery come along. The first thing I wanted to understand was if you could just speak more on the EMS side. You know, obviously we are not like Dixon or a number kind of EMS player that's focused on the higher volume, lower margin consumer electronics for more along a Kaynes or an Avalon.

So if you could speak a bit more of our specific capabilities in the EMS sector and how we potentially may be compared to a Kaynes or an Avalon or a Syrma. And then also what the outlook is for the EMS sector, specifically both domestic orders and export orders and what opportunities we're focusing on over there?

**Nikhil Mallavarapu:** Yep. Thanks very much. Question was regarding the EMS pipeline and positioning. So yes, you're absolutely right. You know, the kind of segments that we are targeting are basically around aerospace defense, industrial mobility and medical. Right.

So these are fundamentally the areas that we are in. I would say we have a very strong relationship. I would say one key point in a lot of this is our EMS business today is majority export oriented. And fundamentally that essentially means that quality requirements, expectations from our customers and what we're able to deliver in terms of these products are world class.

I think that's one unique differentiator when it comes to this segment in terms of our existing deliveries, customer relationships and all of that, which you can already mention. In terms of the pipeline itself, I would say multiple different things. I think with our defense, starting with defense and aerospace, which is a significant contributor, even in the EMS segment, we do see existing customers themselves having higher spend essentially because of the ongoing wars, whether it's Russia, Ukraine or Israel, or the war in Gaza, basically, which we see potential for more export opportunities.

Apart from that, we are also seeing some new geographies in the Middle East also where there seems to be increased demand and we are working with new customers in that space as well. Apart from that, on the industrial side, as I just mentioned, we are continuing to see new customers come in as well as with existing customers themselves.

Just to give you an example, I talked about this one customer we added, which is a global OEM in the power grid industry, grid automation. We have established a strong relationship with them over the past couple of years. We are now a single source supplier for a couple of key products, the product line that they have.

What we are seeing is a new pipeline of opportunities coming from these customers as well. Our share of wallets from some of these existing large customers can continue to increase and we are seeing our efforts in terms of mining these existing customers starting to come along in the form of our pipeline itself.

Apart from that, we are also seeing some exciting opportunities on the mobility space, again, driven by both electric vehicles as well as other traditional auto electronics kind of opportunities, even for export customers as well. The themes around the China Plus One and the Make in India continue to persist and drive opportunities from global players essentially trying to set up a supply base in India.

**Mahesh Agarwal:** Understood. Thanks. That's very helpful. If I can just double click on the China Plus One opportunity that you've been talking about. How would we as a company or as a country today stack up to the quality that China is able to deliver and what would be the price differential that we have to catch up with China? How much cheaper are they still today?

**Nikhil Mallavarapu:** First of all, on the quality aspect, I was just with some customers this week where perception of quality, I think, once we start engaging is quite high. So, at least I can speak for Centum, we are compared not at the quality level of China but at the quality level of Switzerland or Europe basically or the US.

So, I think from a quality perspective, absolutely we have the right talent, the right processes to be able to deliver world class quality. Secondly, from a competitiveness standpoint, here again, I think there is a combination of two. You have the material cost itself and then your conversion or your value add essentially. So, from a value add which is primarily a labor cost driven factor, we are able to be competitive.

So, our rates and so on are competitive. We continue to improve on productivity kind of measures in terms of digitization, automation, all of that which will help drive. So, on the bill of material itself, there are again different aspects of this.

There is semiconductor driven cost and then you have your other costs which are PCB and electro mechanical kind of components. So, in this case, we do see that China still is more competitive just because of the capacity and the economies of scale that they have established.

But with all the different measures that are being driven by the government, we do hope and we do expect that the competitiveness will slowly come from an economic point of view. But for now, we are able to compete simply because we are able to still buy from China. Some of these form items which are still competitive to buy from them.

**Mahesh Agarwal:** Understood. And on the purely just research and design side, would it be fair to say that we as a country, you as a company have a slight edge over China given maybe historically India has been much better in the IT domain, on the engineering services and potentially there is the language barrier with China versus India. India being a more English speaking country, does that also help with winning some of these orders and customers versus a Chinese company?

**Nikhil Mallavarapu:** Absolutely. In fact, for us, we have seen, we are speaking with a couple of large customers that we are in advanced stages with where one of the key factors for them is obviously the availability of good engineering talent. Because again, the kind of products that we are doing require that engineering strength.

And our synergy in terms of offering all these engineering services along with our EMS kind of business, just to give you an example, there are certain products where when a product is transferred from an existing supplier to us, we are not only just manufacturing the same product, but we are also able to offer the customer value added service in terms of managing obsolescence of components by redesigning the product for them or perhaps upgrading the performance of our supply unit that goes into the broader bigger box that we are supplying to them.

So these are all specific examples where it's not just a simple build-to-print transfer from one place to the other but really an engineering driven value proposition that we are able to make to the customer. That's one.

And then I would say another point also is a lot of these customers also have their own captive centers here in India. And the proximity to their own engineering design and captive centers is also another, big advantage that plays in their mind when they choose their suppliers.

**Mahesh Agarwal:** Understood. That's very helpful. And sorry, if I may ask a last question, what would be a scenario when someone would engage with us on the engineering and design side?

**K. S. Desikan:** To add a little to that, I think Nikhil explained very well. If I were to summarize on this China Plus One, on the positive sides, like what you also indicated, the language, the engineering talent, and the quality, like what Nikhil explained, and the cost on the value side other than the material cost. These are all positive points from the perspective of a customer who wants to come to India, and we rank very high on all of those.

The real challenge is all about the bill of material, like what Nikhil explained. Challenges, you know, in terms of bill of material, Chinese costs are still probably slightly cheaper. So, that we are trying to work on with, one, localization, where whatever possible that we can do the localization. And the local ecosystem is still developing.

And the second is like what he mentioned, the redesigned engineering services by which we improve the bill of material. And the third important factor, still we are able to procure from China. So, these are all the risk mitigation on the challenges that we have on the material cost. Overall, the positive sides of coming to India weighs much more than the perceived little negative side of the thing.

I just thought I would quickly summarize this for you all.

**Mahesh Agarwal:** That's very helpful. Thank you. And then, sorry, just a last question. What would be a scenario…

**Moderator:** Sorry, to interrupt Mr. Mahesh, can you re-join the queue?

**Mahesh Agarwal:** Sure, I'll come back in the queue. Thank you.

**Moderator:** Thank you very much. The next question is from the line of Aditya Chheda from Incred Asset Management. Please go ahead.

**Aditya Chheda:** Hi, morning, Nikhil. So, my first question is on the strong ramp-up in the revenue we've seen in the standalone business. We had highlighted about onboarding an MNC customer for EV and another customer in US for hydrogen fuel cells. So, are we seeing these orders contribute to the top line or we are yet to ramp up from these opportunities in our revenues?

**Nikhil Mallavarapu:** Yes. So, simply put, I think in this year, the increase that we've seen in terms of revenue growth has come largely from the EMS segment itself, where the growth has been driven by these new customers in the industrial or fuel cell kind of business, electrification business and the e-mobility business. So, absolutely, they have been contributors to the revenue growth that we've seen this year.

And as I mentioned, we see new customers as well in these segments that we are also working in advanced stages and hope to ramp up in the coming years.

**Aditya Chheda:** Right. An extension is that the incremental growth predominantly should be from added wallet share with these customers or adding new customers in with similar work profile. And second, on the manufacturing capability side, you would have already started delivering these orders. So, do you see scope of adding some manufacturing capability in anticipation of incremental orders for these orders? Yes, these are my questions. Thanks.

**Nikhil Mallavarapu:** So, the first question with regard to wallet share and new customers, I think clearly at this stage we're seeing both as very good and strong opportunities for growth. So, having said that, we're not going after every customer that comes our way. We want in the EMS business especially to have customers that can give us a sizable volume, at least a $5 to $10 million kind of engagement is what we look for with new customers.

So, we look for that and we're adding new customers. But having said that, there is a healthy pipeline of opportunities with new customers that we see scope to achieve that kind of engagement. These are large companies, globally speaking. And of course, with our existing customers themselves, especially where there's a synergy with regard to their own strategies of "Make in India" or dual sourcing from China, we pitch ourselves there.

Or even, for example, offset as a driver on the defence side, we pitch quite strongly to grow there. So, definitely both sides of it. The second question with regard to capability enhancement on the manufacturing side, yes, with the kind of products that we build, the kind of customers that we're engaged with, many cases have to add some special processes for the products that we're making for them.

We have a strong engineering and NPI team that is well trained and has the right processes in place to be able to absorb these new technologies. So, I won't get into one specifically, but every year we have new processes that we add into our overall manufacturing capability portfolio.

So, it's something we continue to do. And from a capacity standpoint as well, wherever we are in the next stages, we are investing in adding that capability.

So, I would say in general, to answer your question, I think as a company, we are probably one of the best and most broad-based capabilities from a manufacturing standpoint in the country. Ranging, even going into microelectronics packing and so on where we – which is a very unique capability, we already possess. So, we have that and we have the capacity wherever we are able to find the customer.

**Aditya Chheda:** Great. That's it from my end. Thank you.

**Moderator:** Thank you very much. The next question is from the line of Chirag Kachhadiya from Ashika Institutional Equities. Please go ahead.

**Chirag Kachhadiya:** Yes. Thanks for the opportunity again. I have one follow-up question with respect to that Indira MOU. Which other players also bid for the same project? If you can highlight and name them.

**Nikhil Mallavarapu:** Yes. I mean, these are limited tenders and so on. I mean, you would imagine who the other typical players in this kind of business are in terms of radars and so on. So, you have Astra Microwave. You have other large OEMs like L&T and so on that have participated. So, we will continue to watch for how this evolves.

**Chirag Kachhadiya:** And any other similar opportunity in pipeline which we can expect like going forward in the year, we may announce something on big site?

**Nikhil Mallavarapu:** Yes. We are obviously following various opportunities broadly in the electronic warfare, radar and space domains. So, we continue to follow those. I don't want to comment too much about it because obviously the timelines associated with the procurement processes are unpredictable. So, we are following them closely. There are significant opportunities. Timeline is still a little bit uncertain.

**Chirag Kachhadiya:** Okay. Thank you.

**Moderator:** Thank you very much. The next question is from the line of Mehul Panjuani from 40Cents. Please go ahead.

**Mehul Panjuani:** Hello, sir. Thank you so much for the opportunity. I have a very basic question because I am new to our company. I just want to understand structurally how the organization has moved because we have been in existence for 25 years. And all these China Plus One, plus the EV opportunity, all these are, I would say that these are last five years development. So, what is it that how have we progressed over the last 25 years and how we have found our niche.

And how we have moved from how we have, how have we moved into different segments like, you know, EMS, BTS and others? And second question is on that during the other question, you mentioned that we have a very strong relationship with our customers. So, I just want to understand the geographical spread of the customer. Is it in North America or also in Europe?

So, these are my two basic questions. Thank you.

**Nikhil Mallavarapu:** It can be a very long answer to talk about our 30-year history actually. This year we turned 30. So, it has been a long and good story for us. The company started as a single product, single customer, single geography kind of story when it was founded back in 94. But over time, the strategy that has been pursued for the development of the company has been really to diversify that in different ways.

Right from the early days, geographically speaking, we started to export and that's been one of the reasons or ways that we have been able to do that. And that is one of the ways by which we have been able to develop very strong relationships with these global customers right from, that have been long-standing customers for us.

So today, if you look at our geographic spread in terms of revenue, a little more than 50% to 55% or 50% to 60% of the revenue comes from Europe, about 15% or so from North America, and then Asia is about 30%. And India itself is about 20% to 25% of that.

Going forward, just to complete on the geographic point, with all of these changes happening, we do see demand from India itself increasing significantly. That's one. And then the other thing in terms of what's been the guiding principle for us in this development journey or the growth journey over this last 30 years, I would say, is really to be a technology-driven player.

Even whether it's manufacturing or design, the idea is really to focus on creating value for the customers, creating differentiated value for the customers, and delivering world-class performance and quality in terms of our products. So this is one of the reasons that when we started with a very specific, narrow kind of product, we've added new services and products to our portfolio, which are high technology, high complexity, and differentiated products with higher entry barriers. So I hope that generally answers the principle.

**Mehul Panjuani:** Thank you, sir. One follow-up question. So you said we have started in 1994. So when was our first export order from Europe or America?

**Nikhil Mallavarapu:** 1995.

**Mehul Panjuani:** So pretty much we have been an export house from the day we started.

**K. S. Desikan:** Yes. Actually, just to add on to that, we always thought that we should be a global company and we want to be an international company. So when the company was started, it was for a telecom market, like what Nikhil said, and we exported telecom components to Europe in the very second year, I would say.

**Mehul Panjuani:** Right.

**K. S. Desikan:** That has always been our focus.

**Mehul Panjuani:** Right. And, sir, so how much of -- so, let's say, assuming that the China Plus One wouldn't have happened and the EV demand wouldn't have been there, for example, and we would be still doing what we have been doing for the last 30 years. Then, can you say that these are really very good tailwinds for our business, the China Plus One as well as the electronic -- the electric vehicle businesses?

**Nikhil Mallavarapu:** Yes, absolutely. I mean, I think the kind of -- just to answer the question very simply, I would say, 5 years ago or 10 years ago, the amount of effort that we had to put in to go and convince a customer to source electronics from India was significant.

We had to really prove and demonstrate and sell and work very hard to get a global customer to buy from us. Whereas today, the customers are coming to us because they are driving them to find companies like us to source from. So it is clearly a fundamental shift in the global supply chain.

**Mehul Panjuani:** That is really encouraging, sir. One last question, which is a follow-up one. So are we competing with any international companies like companies in Israel or companies in America itself or in Europe, or we are just competing with the local companies in India? For the export orders?

**Nikhil Mallavarapu:** Yes, we always compete with global players. If you look at any of our customers, they are large global companies. They have strategic suppliers and partners that are globally major or in other geographies, basically. So in many cases, in fact, our customers don't want to have more than one or two suppliers in India. So most of the time, we are actually competing with players elsewhere.

**Mehul Panjuani:** Right. So can you please name three of your global competitors?

**Nikhil Mallavarapu:** So if you look at the kind of segments that we are in, you will see companies like Plexus. If you are talking about EMS, again, the competition varies very significantly because there is not one company that does EMS, engineering services, and BTS. So the competition is quite varied depending on who you are referring to.

Based on the question regarding China Plus One and all of that, if you are talking about EMS, just to say a few competitors, it is companies like Plexus or in certain cases, [Sanmina also, which has a presence in India. Or Benchmark Electronics, [Asteel Flash]. These are all different venture technologies. These are all some names of companies that are based either in Europe or other parts of Asia that we compete with.

**Mehul Panjuani:** Right. So one last question…

**Moderator:** Sorry to interrupt, Mehul. Can you rejoin the queue for follow-up questions?

**Mehul Panjuani:** Thank you, ma'am. Thank you, sir. Thank you so much.

**Moderator:** Thank you very much. The next question is from the line of Namish Gupta from Namish Gupta and Company. Please go ahead, Namish Gupta.

**Namish Gupta:** Good morning, sir. And congratulations for a great set of numbers. My voice is audible?

**Mehul Panjuani:** Yes.

**Namish Gupta:** Okay. So, sir, I have two basic questions, sir. First is regarding our order book. So there is a flattening kind of order book from last couple of quarters. So I just want to understand. Earlier, we were given a guidance that there will be a 25% increase year-over-year in the order book. So, like, by year end, can we see a 25% kind of increase in order book in current year and by the next year?

**Nikhil Mallavarapu:** As I mentioned earlier, order book is one thing. There are three different segments, EMS, BTS, and engineering services have different horizons of order execution, first of all. That's something I mentioned earlier.

So, the order book itself may look like it's flattening, but it can be as a result, as I mentioned, with certain EMS customers also reducing their horizon of orders from what they were previously doing to today. And also, we do see, as I mentioned, some slowdown temporarily due to an overstock situation with some specific customers. Having said this, our guidance, whatever we talked about earlier, was really at a medium-term basis.

So, we are not giving yearly, annual kind of guidance. So, please don't ask for that. But on a medium-term basis, we are still quite confident of our ability to grow at this healthy rate of 20-plus-percent.

**Namish Gupta:** Okay. And another question is regarding EBITDA margins. So, like in earlier calls, we were targeting EBITDA margins of like around mid-teens, like 15%, in next one or two years after turnaround of our subsidiaries. So, can we see those kind of margins like by March '25?

**Nikhil Mallavarapu:** Again, we talked about this. So, the improvement in margin will happen in a stepwise manner. We said that this year we would close somewhere close to 10%. And we'd move that up to a 12% kind of range in the following year and take it up further from there. So, we see our plans are in place to work towards that. So that's what we see as visibility right now.

**Namish Gupta:** Sure, sir. Thank you, sir.

**Moderator:** Thank you very much. In the interest of time, we'll take that as the last question. I now hand the conference over to management for closing comment.

**Nikhil Mallavarapu:** Once again, thank you all for taking the time out to be here with us for this earnings call. As you mentioned, we continue to see a strong pipeline of opportunities. The broad themes of Make in India, whether it's in defense or in other sectors, as well as the China Plus One strategy continue to persist.

And based on this, we remain quite bullish about the possibilities to grow in the coming years. At the same time, our focus remains on also improving the margins at the subsidiary level. And we have a clear action plan to work towards that.

And we expect to see that contributing positively to the business in the coming quarter and in the next year. Thank you once again and look forward to meeting you in the near future.

**K. S. Desikan:** Thank you very much.

**Moderator:** On behalf of PhillipCapital India Pvt. Ltd., that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.