Ref: CEL/NSEBSE/15112023 15th November, 2023

To,

Listing Department, National Stock Exchange of India Limited, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051	Department of Corporate Services – Listing, BSE Limited, P. J. Towers, Dalal Street, 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 10th November, 2023 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, November 10, 2023 at 14:00 hrs IST is enclosed and the same has been uploaded on website of the Company at https://www.centumelectronics.com/financial-results/

Yours faithfully,

For **Centum Electronics Limited**

INDU H S
Digitally signed by INDU H S
Date: 2023.11.15 18:01:09 +05'30'

Indu H S
Company Secretary & Compliance Officer

Encl: as above

Centum Electronics Limited
Q2 FY '24 Earnings Conference Call
November 10, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY '24 Conference Call of Centum Electronics Limited.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone.

I will now hand the conference over to Ms. Purvangi Jain from Valorem Advisors. Thank you, and over to you, ma'am.

Purvangi Jain: Good afternoon, everyone, and a warm welcome to you all. My name is Purvangi Jain from Valorem Advisors. We represent the Investor Relations of Centum Electronics Limited. On behalf of the company, I would like to thank you all for participating in the company's Earnings Conference Call for the Second Quarter and First Half of financial year 2024.

Before we begin, I would like to mention a short cautionary statement. Some of the statements made in today's con call may be forward-looking in nature. Such forward-looking statements are subject to risks and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management's 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 earnings conference call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Now I would like to introduce you to the management participating in today's Earnings Conference Call and give it over to them for their opening remarks. We have with us Mr. Nikhil Mallavarapu, Executive Director and Mr. K. S. Desikan, Chief Financial Officer.

I will now hand it over to Mr. Nikhil for his opening remarks. Thank you.

Nikhil Mallavarapu: Thank you Purvangi, and good afternoon everyone. I would like to extend a warm welcome to all of you for our Q2 earnings call. Thank you all for your interest in Centum and for making the time to join the call today, especially before the Diwali weekend.

As a quick reminder or for those of you who may be attending for the first time, Centum as a company focused on the ESDM segment offers three service lines, EMS or electronic manufacturing services, build to specification or build to spec or BTS, which is an end-to-end turnkey service of design to mass production, and engineering R&D services.

Our standalone business is comprised of the EMS business and the BTS business for defense and space customers, and our subsidiary with operations in Europe and Canada is primarily focused on engineering services and some BTS work for customers in the railway and defense sectors.

Coming to our Q2 performance, our consolidated revenue was 248 crores representing a growth of 23% year-on-year. We had a strong performance in our EMS business, which was major contributor to standalone revenues growing by 53% year-on-year and 25% quarter-on-quarter. This is the result of the production ramp ups from new customers in the industrial and e-mobility space as well as existing customers for defense exports.

At the subsidiary level, it's a seasonally slow quarter due to the number of billable working days being lower in Europe during the summer period. Also, as previously mentioned, margins in the subsidiary have been adversely impacted due to budget overruns in certain legacy fixed price contracts, which weighed on the performance in the current quarter as well. We are in the process of closing these out and expect the revenues and margins to pick up in the coming quarters and into next year. Our focus in the subsidiary remains on improving the margins.

On the order book front, our order book remains strong at 1,548 crores, and we are expecting some good inflows for the EMS and BTS business in the second half of the year. And in terms of sectors, the domestic, defense, and space business will be a major contributor as well as some new customers in the EV space.

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. And before I begin, let me give you the best wishes for a Happy Diwali ahead of us. So, now, though Nikhil briefly touched upon, I will give you the details of the financial performance of the quarter.

At a consolidated level, the revenue from operations is about 248 crores, which was flat on Q-on-Q, but an increase of 23% on year-on-year. The EBITDA for the quarter is about 17 crores, which is 6.9% as against the previous quarter of 8.5% and 4.1% the same time last year.

The working capital remained more or less flat between 79 to 80 days, but the debt increased from 263 crores to 298 crores. This is mainly due to the increase of debt in the standalone company.

Now, going to the standalone company, the revenue from operations for the quarter was about 160 crores with an increase of 25% Q-on-Q and 53% Y-on-Y. And as Nikhil explained, this was mainly due to the growth in the EMS business.

The EBITDA for the quarter was about 21 crores, which is 13.2%, as against 3.2 of the last year same time. The EBT for the quarter is 13 crores, which is significantly higher compared to Q-on-Q as well as Y-on-Y.

Working capital reduced to 135 days compared to 140 days in Q4 of '23, and the debt increase from 106 crores in March to 143 crores in September mainly due to two things. One is we had taken a fresh term loan of 15 crores for funding our CapEx, and the increase in net working capital is about 22 crores, which is in line with the activity levels. The increased activity levels.

And coming to the subsidiary Centum T&S, as Nikhil had already explained, the performance is not okay, but we had already indicated this in the previous Earnings Call. The revenue from operations was about 98 crores, which is actually 14% decrease over the previous quarter and almost flat compared to the same time last year. EBITDA was like break even. In terms of working capital, there is no change, and debt was marginally reduced from 157 crores to 155 crores.

So, this is quickly about the numbers and the financial performance of the company, the group, and the subsidiary. Maybe I will stop here and then you can open up the discussion session.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Umang Parekh from Ashika India Alpha Fund. Please go ahead.

Umang Parekh: So, my question is with respect to the healthcare segment. So, currently, it is contributing around 9% to the total revenue. So, can you talk more about the opportunity here and the revenue contribution from this segment vis-à-vis the total revenue going ahead? The mix.

Nikhil Mallavarapu: Thanks, Umang, for the question. So, yes, the healthcare segment today is little less than 10% of our overall revenue base. This comes from both the engineering services as well as the EMS side of the business. We manufacture various electronic products for end applications like digital radiography, like x-rays or MRI machines and so on, as well as doing certain, you know, some consumer health or point of care kind of devices also on the EMS. This is an area that is strategic to us, and we want to continue to grow.

We have been working on some exciting new opportunities with some of our customers in France actually on, again, some point of care devices focused on telemedicine kind of applications and so on. That is right now in the engineering phase. And then we expect that to come into production in the next year basically. So, that's just a quick word.

Umang Parekh: And so what will be the margin profile from this segment?

Nikhil Mallavarapu: So, we don't break margin profile by industry sector. We talk more from a margin profile of the service line. And so that's where we have previously said, you know, whether it's a benchmark level for EMS kind of business. Margins are anywhere from 9% to 12% or so. On the bill to spec side of the business, it can be 20% or more. And then on the engineering services, again, depending on various operational leverages, you know, our short-term objective is to get to a 10%, 11%, and then take it up further as we improve our onshore-offshore mix.

Umang Parekh: And are you exploring any other segments?

Nikhil Mallavarapu: No. So, I think at the moment, we are quite comfortable that there are some exciting opportunities for growth in the segments that we are already operating in. So, we continue to stay focused on those. And so, yeah, I would say that's what we are focused on.

And just to add to that, specifically, as I mentioned earlier, you know, the EV space is an area that we are quite bullish on. So, we have seen a good ramp up of that in the past year, and we expect that to continue in the future.

Moderator: Thank you. Our next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: The first question is your operating profit margins in the first half were around 7.8%. Now, considering the order book which you have, and I understand that H2 is always better as compared to H1, so at consolidated level, what kind of operating margins you are looking at for this full year?

K. S. Desikan: But as we have been saying, you know, with the current profile and the order book and what we have done in 6 months, we should be able to get a 10% for the company.

Ankit Babel: So, actually, just a reconfirmation. So, for 10% full-year margins, the H2 margins has to be higher than 11%, 12%. So, that's what you are working with, right?

K. S. Desikan: Yes. Of course, yes,.

Ankit Babel: And sir, you were expecting some big ticket size orders in your BTS segment. So, what's the status of the same, sir?

Nikhil Mallavarapu: Yes. So, as I mentioned in the beginning, you know, these are still active, and it's progressing well. We were expecting actually for it to be closed in Q2, but it has slipped slightly, but we still have a good visibility and expect to close this in Q3 or at worst case Q4.

Ankit Babel: So, it is just a delay in the timing of getting those orders, but you will get those orders. That is for sure.

Nikhil Mallavarapu: Yes, we are fairly confident. I mean, we can never be sure until it gets there, but we are fairly confident.

Ankit Babel: And so assuming you get, so, your order book levels have been constant since last couple of quarters at around, 1,550 crores. So, what are your targets for order book at the end of this year after considering the execution of H2?

Nikhil Mallavarapu: Again, we won't give a specific guidance on order book level at the end of the year. And just to reemphasize again, you know, our order book can be quite different for each of the three business units. EMS business, typically, you can have anywhere from 6 to 12 months of orders, whereas on the build to spec side, it is two to two-and-a-half years of order booking, and then on the engineering services, it can be maybe six months or so.

So, the profile and the mix of the order book will also make an impact on what the overall order book is, but as we have said earlier, you know, in terms of revenue growth itself, we continue to maintain that, we continue to target 20% plus growth rate over the medium term.

Ankit Babel: And what was your order inflows in the first half, sir, across all the three segments?

K. S. Desikan: No, again, like you only mentioned that order book has been relatively flat. So, the amount of revenue that we have done is what the order book inflow was.

Nikhil Mallavarapu: Yeah, that's a important point because you note that our revenues have obviously increased on a half year basis by 21% or so. So, to that extent, even our order book, order intake has increased.

Ankit Babel: So, any guidance on the full year inflow side? I understand order book you are not giving, but any color on the inflow side, what kind of order inflows are you expecting?

Nikhil Mallavarapu: No specific guidance, Ankit, but as I mentioned, visibility is strong, and we are seeing some good order intake expected in the next two quarters.

Ankit Babel: And sir, last question is on the Canada business. It is still bleeding. I mean, still are we incurring losses in that geography?

Nikhil Mallavarapu: It is. We have been successful in terms of continuing to move some of the work to India. Having said that, yes, it's still in a challenge. As we said earlier, there are certain legacy projects which we have to close out and deploy people on the new projects which we are in the process of doing now. So, that the overall, the comment I made about the fixed price project overrun at the beginning is partly attributable to Canada, and then we expect the overall subsidiary margin to improve as we go into subsequent quarters.

Ankit Babel: So, I mean, I just need to understand till, how much more time will you take to break it even or to, you know, that the losses are not continuing? I mean, a couple of quarters more or what's the outlook there?

Nikhil Mallavarapu: So, at the subsidiary level, we expect it to be profitable in the next two quarters itself. So, yeah,

Ankit Babel: That is including the French business.

Nikhil Mallavarapu: Yes, that's including the French business.

Ankit Babel: But Canada will continue to be negative, in particular.

Nikhil Mallavarapu: It will. We are seeing a steady improvement in the margin profile for Canada also.

Moderator: Thank you. Our next question is from the line of Karan Sanwal from Niveshaay. Please go ahead.

Karan Sanwal: Just I have a couple of questions. The first question would be regarding the macro scenario. So, in the last con call, you highlighted that we aren't facing any impact on the Indo-Canada relationship that was a bit impacted in the last quarter. I just wanted to understand like what's the scenario right now for the same?

Nikhil Mallavarapu: The position remains pretty much the same. I don't think we are seeing any major impact as a result of that conflict on that issue on our business as such. You know, we have some engineers who are coming from Canada, some engineers going to Canada. And to that extent, there is no major disruption in our regular operations.

Karan Sanwal: That's good to hear, and also the current Israel-Gaza war, like, do we have any impact in a way, like in any raw material or revenue impact from that geography, Israel?

Nikhil Mallavarapu: Again in the short term, we are not seeing any major impact as a result of this conflict. We do work with Israeli companies. We are a supplier to customer there. We continue to see a healthy pipeline of opportunities coming in from there, you know, even through this. And so, yeah, no major impact.

K. S. Desikan: And specific to your question, the supply chain is not affected because we don't have much from Israel.

Karan Sanwal: And the second question would be regarding the increasing contribution of EMS in our business and, you know, it's performing really well in the domestic markets increasing in a good pace.

So, want to understand like would at an increasing contribution on a full-year basis would result in reduction of margins on a consolidated basis for Centum?

K. S. Desikan: No, actually, if you had observed, there was another question last year. Our EBITDA margin was about 7.8% or around 8%, and what it would be for the full year, and I answered that it will be in the range of 10% plus. But this is factoring the EMS growth into the revenue for the current year. So, obviously, the margins would be definitely better than what it was last year in spite of the growth in EMS, which is a lower margin, but overall margins will be better.

Nikhil Mallavarapu: And to just add to that, I think, you know, the most important leverage as we mentioned earlier, from a overall group level margin right now is improving the subsidiary margin. While the EMS is growing, we also are unlocking some operating leverage there as well. So, we do see some improvement coming in the margins in EMS itself, but at a consolidated level, the major leverage as I mentioned will come from the EBITDA margin in the subsidiary.

Karan Sanwal: That's correct. And also like in the last year, we faced the BTS revenue booking is generally in the second half of the year and the last year, we faced we did major of the booking in the quarter four, the last quarter basically. So, can we expect something like that in this year or would it be fairly split between the quarter three and quarter four, the BTS segment too in specific?

Nikhil Mallavarapu: BTS segment, yes, we will have a slightly higher contribution in terms of both revenue and margin in the second half of the year. Having said that, you know, this year, we are not seeing a huge impact to the extent of what we saw in Q4 last year, right, where it was very skewed. This year it's a little bit more balanced, but yeah, so that's a quick thing with regard to Q4. And I think we will see some further improvement and growth in the BTS business in the next year as well.

Karan Sanwal: That's good to hear. And just one last question, like, we have experienced an increase in inventory if we compare in H2 versus the last year. So, are we gearing up for the next quarter and the years to come? That's the reason for the increase in inventory.

K. S. Desikan: Partly yes. And you know, as we expect the increase in activity in second half, the increase in inventory, additionally in the EMS business specifically, sometimes the customer asks us to buy the inventories which are of a long lead time cases so that the inventory is available when it is needed for production. So, in such cases, we request the customers to pay as an advance to fund that inventory. So, when you observe the inventory increase, you can also see in the liability side, the current liabilities also increase significantly, which is mainly because of the customer advance given by them.

Karan Sanwal: And also can you highlight the fluctuating gross margins, why are we having so much frustration in the gross margins quarter-on-quarter basis or maybe on year-on-year basis as well? Like, do we have any price pass on in this industry?

K. S. Desikan: No, we don't have any price impact at all, because any price increase by the supplier, we pass it on to the customer. See, when we take an order, there is a bill of material where the prices are defined, and if at the time of procurement, there is a increase in the price, the same is communicated back to the customer, and he gives an approval to buy that at a higher price, and we pass it on. The only thing could be, there could be a time mismatch of, you know, securing the part and then incurring the cost. Maybe in the next quarter, we will get that increased price variance, but we don't have an impact because of the increase in raw material prices.

Nikhil Mallavarapu: And also I think the main thing what you may be seeing in terms of gross margin is really based on the mix because as you mentioned earlier, EMS is what is given the big growth for the consolidated level and the contribution of EMS is higher, which obviously, inherently, is at a lower gross margin than the build to spec business. That will be the other reason.

Moderator: Thank you. Our next question is from the line of Vivek Kumar from Bestpals Research and Advisory LLP. Please go ahead.

Vivek Kumar: Sir, you have been guiding 20% growth and margin improvements on the next two to three years. What are the risk in the sense how much is the risk that of the next elections or this current dispensation not going or following or we have other ways on other areas and other revenue streams which we can fill up and still grow? So, or any other result that you are seeing which you can collaborate?

Nikhil Mallavarapu: You know, just to summarize quickly in terms of our growth drivers as we talked about, first of all, important to highlight that in our overall business, about 75% of our business is coming from overseas. So, you know, some of the growth drivers that we are seeing are a result of, there is a China plus one strategy where customers are looking to derisk their supply chain and bring business to India or other policy initiatives by the government itself to drive Make in India kind of opportunities, and these are sort of structural, microeconomic shifts that are happening. So, we continue to see that trend continuing, and so we are not seeing any major disruptions from a demand perspective in the short term as a result of elections or anything else.

Moderator: Thank you. Our next question is from the line of Nirali Gopani from Unique PMS. Please go ahead.

Nirali Gopani: Sir, I am very new to the company, and I see that we have a very strong order book, and you have been guiding for roughly about 20% plus growth and improving EBITDA margin, but historically, we have not grown at this kind of rate. So, if you can just help me understand what has changed in the company or maybe at the industry level very briefly will be helpful?

Nikhil Mallavarapu: So, I think as I mentioned earlier, I think, first of all, from a macroeconomic standpoint, we are seeing these important tailwinds happening in the form of China plus one or the Make in India kind of policies, whether it's in defense or in other non-defense segments as well, like industrial and so on, which is essentially driving various global OEMs as well as Indian companies to look and Make in India like at a much faster pace than what they have in the past. That's one.

And then, specifically on the defense side, which is a major contributor to our revenue, there again, there is a significant push towards Atma Nirbhar. There are various opportunities which were previously intended to be global tenders or for import options are now being pushed to be sourced indigenously, and that opens up various opportunities for us. So, I would say, these are some of the points.

And also from our own strategy perspective, we have been looking to position ourselves in higher growth segments. As I talked about earlier, electric vehicles has been one of the areas that we have been working on for few years now and that started to give us good benefits, I would say, in terms of the performance starting last year and much more coming into this year as well. So, these are, I would say, the high-level points, you know, broadly speaking, good macroeconomic tailwinds. And secondly, our positioning in high growth segments to be able to capitalize on the growth.

K. S. Desikan: Just to add numbers, if you look at it, the six months' numbers, last year 6 months we had done 410 crores of revenue, whereas this year we have done already 496 crores. So, that indicates the 21% growth in the 6 months itself already. And when you look at the EBITDA at a consolidated level, for 6 months we are at 7.8% already, which was actually 4.8% last year 6 months. So, now with the increased revenues and improvement in the margins in the second half, that is how we are targeting to be around 10% in the EBITDA margin. So, that's already in 6 months you will see some good signs of it, though like what you said, you may not have seen in the past.

Nirali Gopani: And you have guided that FY '24, the consolidated EBITDA margin should be at about 10%, but if I look at some slightly longer-term perspective, say, 3 to 5 years, what do you feel the sustainable margins for us should be?

Nikhil Mallavarapu: I mean, at a consolidated basis, we are targeting to be in the mid-teens basically in terms of EBITDA levels, and that obviously will be a reflection of the mix of the business. And as I mentioned earlier, you know, the BTS business can be at a 20% level plus. EMS part of the business is at 11% to 12%, you know, basis. And then our engineering services is the key place where as a first step by taking some of these steps to reduce the cost overruns and all of that, we want to bring it to a 9%, 10% level, and then take it up to a 14%, 15% level over a 2 to three year time horizon by various operational leverages.

Moderator: Thank you. Our next question is from the line of Sonali Shah from Emkay Investment Managers. Please go ahead.

Sonali Shah: My first question is regarding the fixed price legacy projects that are there at our subsidiary level in Canada. By when are they expected to come to a close?

Nikhil Mallavarapu: There is multiple projects, Sonali. So, you know, we closed some in Q2, and there are a couple which will extend into Q3 and Q4. But as I mentioned, you know, we expect to see a good recovery on the margin front in the subsidiary in Q3 and Q4.

Sonali Shah: And just wanted to clarify one thing. Our employee cost at the subsidiary level was actually quite high this time around. So, I understand there were already some cost overruns. Just wanted to know if there are any other one-offs apart from just that? Because I understand that we are doing certain onshore, offshore mix that we are kind of trying to change over there.

K. S. Desikan: Largely, no, your observation is right in terms of absolute number, it has gone up. But you should also know when there is a overrun, we lose the opportunity to bill. So, if we have billed, obviously, the percentage would have been under control, but also the fact that what you mentioned, we are trying to increase the India head count, but that's not a major impact. It's the impact of only the overruns.

Sonali Shah: And just one last question. For the new orders that we are taking at subsidiary level, which are probably fixed price contracts, what mechanism would we have in place so as to prevent these kind of cost overruns? Also, if, for example, a customer changes their specifications, say, halfway through the project, how do we kind of account for it so that it doesn't affect our profitability in any way?

Nikhil Mallavarapu: Good question. So, there is multiple things that we are doing on this front. First of all, you know, just in terms of choosing which projects we quote, or we bid on itself we are being a little bit more choosy to take a more risk-based approach on the projects.

So, we are basically declining to take on projects where we perceive a higher level of risk from an execution standpoint or working with the customer to have a mixed model of doing a time and material for a certain period of time when there is a higher level of uncertainty around specifications changes and so on and then maybe migrating to a fixed price once things are more clearer. That's one of the other things that we are working on.

And finally, I would say, also from a leverage standpoint, you know, we will continue to look at how we can do more of this work in India where even if there is an overrun, the impact on the overall cost will be much lower. So, various different things. And finally, project management itself, that's another area that we are strengthening within the company.

Sonali Shah: So, just to kind of move this forward a little bit, as of right now, are there any contracts or are we in negotiation with any customer wherein we are kind of adopting this newer model where we sit and plan and work with them in advance, and then subsequently move on to a fixed price model?

Nikhil Mallavarapu: Yes, absolutely. We have a few examples of those where, you know, it was intended initially to be a fixed price contract, but we have worked with the customer to initiate this on a time and material basis, and then convert it to a fixed price subsequently, right. But those are newer projects. For the existing ones which are ongoing, we need to obviously complete them in a way, but even in some of those cases, when the project is way over, we are working with the customer to basically convert some of them to a time and material or a service center-based model where we are mitigating these overruns basically.

Moderator: Thank you. Our next question is from the line of Yash Bajaj from Lucky Investment Managers. Please go ahead.

Yash Bajaj: I had a couple of questions on the build to spec business. First is, sir, which industries do we cater to the build to spec segment? And are they domestic or export business?

Nikhil Mallavarapu: So, build to spec, big chunk of what we do is basically addressing the domestic defense and space sector. This is where we service customers like the PSUs or ordinance factories and DRDOs, all of them. So, that's one part of the business. That resides in our standalone entity.

And then we have another part of the build to spec business in the subsidiary which is basically addressing the railway segment where we deliver passenger information systems for trains. So, that's basically whenever you are on the train, the integrated system with all the displays, CCTV, public announcement and all of that is something we manufacture the hardware for integrate with software and supply the full system to the train builders like an Alstom or a Siemens or also in certain cases to the operators directly.

I would say, those are the big parts of our BTS business, and that the railway part of the business is a global business. So, we are delivering to Metros and high-speed trains mainline kind of projects globally.

Yash Bajaj: And so the build to spec business is a relatively much more margin accretive business and is much more stickier. So, what does the customer like, what kind of capabilities does a customer look at before onboarding a supplier like us?

Nikhil Mallavarapu: I would say, you know, it's the design strength and domain knowledge are obviously very critical. And of course, the ability to have the right infrastructure from a manufacturing perspective, right.

So, you know, just to take the example of build to spec on the domestic, defense, and space side of the business, you know, there is multiple different kind of projects of technologies that we have, you know, whether if you talk about it from a design standpoint having strong experts from a RF and microwave, power electronics, digital design, all of these and specialists from the space segment or electronic warfare, these kind of areas are something that are, first and foremost, critical.

And in addition to that, we also have some very niche capabilities is more on the space side of the segment where we have some micro -- we are able to do microelectronics manufacturing, and this is something that not many companies, probably only one other company in India have, and that again provides a unique differentiator especially on the space and some application and defense as well.

And then on the rail side of the business, that again comes down to people or design engineers who have a long history, understand the certification processes for the designs, the quality and the qualification criteria. From a documentation perspective, all of that is something beyond just actually doing the design itself of these products that that become critical. So, in most of these kinds of projects, we are typically competing against maybe one or two other companies max.

K. S. Desikan: Just to add a little bit there, you know, at a very high level, one, deep domain knowledge and engineering capabilities as explained by Nikhil, and two, also the high class infrastructure which is also require class 1000, class 10,000 kind of a infrastructure and the machineries, high tech high end. So, both these together are the real unique propositions that a customer looks for.

Yash Bajaj: And just one final question is that is there any difference in working capital for a build to spec versus an EMS business?

Nikhil Mallavarapu: Build to spec and?

K. S. Desikan: EMS.

Nikhil Mallavarapu: EMS.

Yash Bajaj: EMS.

Nikhil Mallavarapu: So, build to spec, generally, as you know that quantities may not be much, and also it is order to order basis. So, what we do is when we get an order from the customer, you pretty much order the materials required for executing that order, and it depletes over a period of time as we deliver.

So, in build to spec, the working capital levels should be slightly higher. It could be around 180 to 190 days, whereas in the case of EMS, these are based on the forecast given by the customer, they are converted into orders. So, there is a steady visibility available, but the question here is the customers look for a credit period of at least about 90 days. So, overall, the EMS working capital will be around 90 days, whereas the build to spec will be around 180 days to 190 days.

Yash Bajaj: And the major difference is the inventory part of it and the credit part, right?

Moderator: Thank you. Our next question is from the line of Pranav Bastawala who is an investor. Please go ahead.

Pranav Bastawala: So, I have got couple of questions. One is what I am looking at is around 650 crores tied up in stock and debtors at consolidated levels, and also a debt now which has increased to around 290 to 300 crores. So, one question was, how we are planning to reduce over the next two quarters? That is one part. And the second question was, as I see that some Rs. 14 crores has been invested for acquiring some 12.7031% stake, which is roughly valuing the company at around 170 to 120 crores. And as we understand that these subsidiaries are not paying money as such as on today, though we are trying to get things organized, but what is the logic of putting more and more money? And what is going to happen? Suppose today, we are at 90 and tomorrow we are going at 100. So, what is going to and what is the logic behind going investing more and more into the subsidiaries? That's my questions.

K. S. Desikan: I will take this in two parts. One is about the increase in debt. Compared to March levels of 263 crores, the total debt, it has increased to 298 crores. So, the differential is 35 crores, out of which, I told in the beginning, we have taken a fresh term loan for capital expenditure in the BTS in India which is about 15 crores, and the balance 20 crores is actually the increase in working capital debt in standalone entity.

In the subsidiary, if you look at it, actually, it has marginally come down from 156 crores to 155 crores. But again, if you look at the quality of that debt in terms of Euro, the real debt has come down by about a million from March to September. But as you know, I have been telling this in the earlier calls also, we had to gross up the factor debt. The factor debt had increased by 1 million so that compensated. That is why you see the subsidiary debt is at the same level. So, the increase in debt is from the standalone, partly 15 crores for term loan and the other one is working capital.

But having said that, we look at the reduction of debt in the second half of the year because we should be able to generate cash from the operations plus also, we are looking at certain contracts where we will be able to get customer advances. So, I expect by the year end our debt level should be significantly down. That's one on the debt.

The second question on the investments, as you know, when we invested in this subsidiary, we also took the put option obligations. So, the final tranche that we bought from management and the employee shareholder in the current quarter is actually meeting the put option obligation which we have undertaken in the beginning when we started this investment. With this, we have completed all the put option obligations. So, there is no more obligation to increase, and we are at 90.1%.

Having said that, what is the logic? Even today, we firmly believe that the design services are something that we should be able to leverage and then with the offshoring that Nikhil explained, going forward, we expect the margins to improve significantly in the next two to three years, and having a 90% will definitely be beneficial going forward. Looking back, it might look we have been increasing the investments in the loss proposition, but that is more due to the put option obligation that we have taken. So, we expect going forward 90% stake will really be good for the company.

Pranav Bastawala: Just one last question. What is the any progress on the JV with Indra?

Nikhil Mallavarapu: These are like we mentioned earlier, you know, we have already submitted a sizable tender in partnership with Indra, but these are Government of India tenders which may take a long time for it to fructify. So, we continue to monitor and check the progress on this opportunity as we go along. But we just basically need to wait and see when these opportunities progress basically, the next stages of the thing.

Moderator: Thank you. Our next question is from the line of Vikram from Niveshaay Investment Advisors. Please go ahead.

Vikram: Sir, how do you pursue the EMS export opportunity and addition of new customers? Current quarter numbers were very good. Are the figures at the standalone level look sustainable or will they change? How you look at EMS export opportunity?

Nikhil Mallavarapu: Like I said earlier, you know, big part of our EMS business today is export oriented itself. So, while there is a significant opportunity for the domestic market itself in terms of import substitution and so on, which we are looking at, we continue to see a sizable pipeline of opportunities coming from our export customers, both existing as well as new. And this is again driven by the whole China plus one strategy. We are clearly seeing, you know, examples of new customers, which are large global OEMs, which are taking this decision to derisk out of China. And so we are quoting those opportunities, and we expect to convert some of those as well in the coming quarters and in the time to come. So, we are quite bullish about not only the domestic but also the export opportunities.

Vikram: And which sectors were major driver in this quarter?

Nikhil Mallavarapu: This quarter, like I said, the beginning, you know, from the EMS perspective itself, we had the EVs being one area. Some of the new customers and industrials or basically clean tech, that's another area. And also some of our legacy customers that we have been working with for a long time, their demands have increased also on the defense side as a result of the war in Ukraine and so on and increased defense budgets in Europe. So, the same products that we have been manufacturing, we have increased demand coming for those as well.

Vikram: And sir, any update on our partnership with the Rafael Advanced Defense Systems? You have given update on Indra system.

Nikhil Mallavarapu: Yeah, even with Rafael, we are continuing to be closely engaged with them pursuing some specific tender-based opportunities in the EW space. So, we are continuing to develop that, and we will be participating in some new tenders which we are expecting in the coming quarters. So, it's progressing well, but as I mentioned always these are long gestation kind of opportunities and may take some time for it to come into actual orders. But they are progressing well.

Vikram: And in call earlier, we mentioned about closing of the some few big orders in BTS segment. So, these orders are in our standalone entity, not with any partnership, correct?

Nikhil Mallavarapu: Yeah, now these are standalone. They are our designs, our technology. And we have a good visibility on those for the coming quarters.

Vikram: And sir, any, what will be contribution of cleantech and EV in total EMS business, like the new business which we have added in last 18 to 24 months, I think?

Nikhil Mallavarapu: I won't give you the specific breakdown in terms of these, but as I have said earlier, we add multiple customers in these areas. And typically, when we have a customer, we want to be able to achieve at least a $10 million range on annualized basis with each of these customers, and I would say, we are not so far from watching those numbers in coming quarter.

Vikram: And how is the visibility? Like in last call you mention one of your clients is shifting all manufacturing from China to India. So, how is visibility like from here on if I look from the two, three years' time horizon? So, how is like what they are conveying to you in terms of business?

Nikhil Mallavarapu: They are not shifting all their manufacturing, first of all. So, they are derisking the supply chain, which means that they will continue to source from China, but they want to have a second source or destination to Source from. So, that's the first point. And as I mentioned, those opportunities are strong. They continue to develop, and so it's the growth that we will see is not necessarily only from those existing customers which obviously we do expect growing opportunity with some of them. But we are also seeing other new customers with the same theme, same ideas that are engaging with us with the objective to source from India basically.

Vikram: And sir, last one question. What is our CAPEX plan for next two, three years?

K. S. Desikan: Like I kept mentioning in the last call also, current year we had planned about 30 crores, of which, we have already spent about 20 crores, and that's why you see the term loan of 15 crores. But beyond that, I don't see any significant CAPEX, but for some maintenance CAPEX, it could be about 10 to 15 crores per annum.

But having said that, like Nikhil mentioned, we are working on many of the opportunities. Like somebody talked about the Indra, and you talked about the Rafael. If those opportunities click, we may need some investments, but these are very big opportunities. So, at this point of time, I have not factored at that when I answer your question. So, it will be about another 10 to 15 crores per annum. That's all.

Moderator: Thank you. Ladies and gentlemen, that was the last question of our question-and-answer session. I would now like to hand the conference over to the management from Centum Electronics Limited for closing comments.

Nikhil Mallavarapu: Thank you. So, once again, appreciate all your time to listening to the company. In summary, as I mentioned earlier, we have seen a strong growth in the first half compared to the first half of last year. We expect to continue down this path of both revenue and margin improvements in the subsequent quarters as well as in the coming years. The macroeconomic factors and the demand in general from these different opportunities remain strong for us, and as a result of which even from an order book standpoint, we see a good visibility coming up. And so, in general, I would say quite positive on the outlook for the coming quarters as well as coming years.

So, with that, also, I want to close by wishing all of you a Happy Diwali again. May this Festive Season bring all of you a lot of Prosperity, Health, and Happiness. Thank you.

K. S. Desikan: Thank you. Wish you a Happy Diwali.

Moderator: Thank you. On behalf of Centum Electronics Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.