

June 05, 2023

**To:**

BSE Limited  
Corporate Relationship Department  
PJ towers,  
Dhalal Street,  
Mumbai -400001  
**BSE SCRIP CODE: 543896**

**To:**

The Manager  
Listing Department  
The National Stock Exchange of India Limited  
“Exchange Plaza”, Bandra – Kurla Complex,  
Bandra (EAST),  
Mumbai – 400051  
**NSE Symbol: AVALON**

Sirs,

**Sub: Transcript of the Earnings Call for the year ended March 31, 2023.**

This is further to our letter dated May 23, 2023, whereby the company had submitted the link to the audio / video recording of the Earning Call held post announcement of the Audited Standalone Consolidated Financial Results for the Financial Year Ended March 31, 2023.

Pursuant to the Regulation 30 (6) read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements), regulations 2015, Please find enclosed the Transcript of the said Earnings Call, for your information and records.

The transcripts of the earnings call is also available on the Company’s website:

<https://www.avalontec.com/wp-content/uploads/2023/06/Avalon-Technologies-Limited-Q4FY23-Earnings-Call-Transcript.pdf>

You are requested to kindly take the above on records.

Yours sincerely,

**For AVALON TECHNOLOGIES LIMITED**

**Name of the Person:** Dr. V. Rajesh

**Designation:** Company Secretary

**Membership Number:** F9213

**Date:** 05.06.2023

**Avalon Technologies Limited**

(Formerly Avalon Technologies Private Limited)

Corporate Identification Number: U30007TN1999PLC043479

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“Avalon Technologies Limited  
Q4 FY '23 Earnings Conference Call”  
May 29, 2023



**MANAGEMENT:** **MR. KUNHAMED BICHA – CHAIRMAN AND MANAGING DIRECTOR – AVALON TECHNOLOGIES LIMITED**  
**MR. BHASKAR SRINIVASAN – PRESIDENT – AVALON TECHNOLOGIES LIMITED**  
**MR. R M SUBRAMANIAN – CHIEF FINANCIAL OFFICER – AVALON TECHNOLOGIES LIMITED**  
**MR. MIKE ROBINSON – CHIEF OPERATING OFFICER, US OPERATIONS – AVALON TECHNOLOGIES LIMITED**  
**MR. SURESH VR – HEAD OF CORPORATE PLANNING AND INVESTOR RELATIONS – AVALON TECHNOLOGIES LIMITED**

**MODERATOR:** **MS. BHOOMIKA NAIR – DAM CAPITAL**

**Moderator:** Ladies and gentlemen, good day and welcome to the Avalon Technologies Q4 FY'23 Earnings Call hosted by DAM Capital Advisors 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, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair from DAM Capital. Thank you and over to you, ma'am.

**Bhoomika Nair:** Thanks, Arvind. Good evening, everyone. On behalf of DAM Capital, I would like to welcome everyone to the Q4 and FY'23 earnings call of Avalon Technologies. Today we have the management being represented by Mr. Kunhamed Bicha, Chairman and Managing Director, Mr. Bhaskar Srinivasan, President, Mr. R M Subramanian, Chief Financial Officer, Mr. Michael Robinson, Chief Operating Officer for US Operations and Mr. Suresh VR, Head of Corporate Planning and Investor Relations. We will start off with Mr. Kunhamed Bicha giving a brief overview about the company followed by CFO Mr. R Subramanian giving remarks on the financial performance, post which we will open up the floor for Q&A.

Before I hand over the call to the management, please do bear in mind that any forward-looking statements made during this call are subject to potential risks and uncertainties, both known and unknown. Without any further delay, I turn over the call to Mr. Bicha, the CMD. Over to you, sir.

**Kunhamed Bicha:** Thank you, Bhoomika. Good evening, ladies and gentlemen. We extend a warm welcome to all of you from Avalon Technologies for our Q4 and FY'23 earnings call. We appreciate your presence and participation today as this is our inaugural earnings call. We would like to give you a brief overview about our company, then provide an update on our results. Avalon Technologies is one of India's leading players in electronic manufacturing services with a global delivery footprint. Our story started in 1997 as two aspiring entrepreneurs with a vision of bringing world-class electronics manufacturing to India. At that time, outsourcing of software was coming to India and outsourcing of manufacturing was moving to China.

Today, India is at an inflection point and the world looks at India for its manufacturing requirements. We are one of the leaders in high-mix flexible volume manufacturing and are present in multiple industry verticals with a focus on complex integrated solutions with significant engineering content. These verticals include a right mix of established and long product life cycle industries such as railways, aerospace and industrials and we have a clear focus on emerging industries like clean energy where we target customers in the solar, hydrogen and EV space. We have 12 manufacturing units located in India and United States and we are now adding two more manufacturing units in Chennai.

One of our core differentiators is that we offer vertically integrated solutions. Today, we are a one-stop shop offering true box-built solutions that involves PCB design, PCB assembly, new product development, cable assembly, sheet metal, plastics, magnetics and finally we test and do the logistics. We do end-to-end development for PCB design to manufacturing of final

products. On PCB assembly, we make complex multi-layer assemblies that are used for mission critical applications like railway signalling systems, roadway systems, vehicle tracking systems, medical equipment etc. On PCB design, we are one of the India's largest PCB design and analysis teams based out of Bengaluru.

On cables, we do complex cable assemblies and wire harnesses. On sheet metal and machining, we make precision engineering products for mission critical applications and we have NADCAP approval for sheet metal fabrication and welding. On magnetics, we make different transformers or different types that are specifically designed and manufactured for clean energy and other products. Plastics is a small and growing division where we have injection molding capabilities. Alongside this, we also manage supply chain and logistics to have a complete offering to our customers. Each of these capabilities are helping Avalon towards delivering a true complex box-build solution.

All our divisions integrate and deliver to our customers and today, box-build contributes to around 47% of our revenues in FY 2023. In summary, our key differentiators are one, vertical integration is true sense enabling us to be focused as a box-build player. Two, global presence both in terms of manufacturing presence as well as customer base. Three, focusing on winning opportunities not only in the mainstream sectors but also emerging sectors like clean energy and high margin businesses like aerospace.

Now coming to business highlights, we have signed domestic and MNC customers in the past few months. To note a few key ones, we won a new business from one of the world's largest aerospace conglomerates including a factory transfer project to India. On clean energy, we have made progress to signing letters of intent and contracts with emerging industry players supporting them in their manufacturing. Given the high complexity, it takes us 6 to 12 months in delivering products at a sizable scale to our new customers and we expect this portion of the revenue will start from the latter part of FY'24.

Our order book increased from INR858 crores in March 2022 to INR1,231 crores in March 2023. This only includes firm purchase orders and does not include long-term contracts and letters of intent. We have a capex-light model, hence we have high asset turn of around 10.4X and high ROCE number. While 59% of our customers are based out of the US, 72% of our manufacturing is done in India and we see our India customer base rapidly expanding. With our focus on clean energy segment, 25% of our revenues come from this vertical and is expected to increase in the next few years.

Now on the industry outlook, growth strategy and guidance, we see strong industry tailwinds pushing the bar of EMS manufacturing to the next level in India. EMS is a trillion-dollar market and India is at an inflection point. We have been waiting for this inflection point since we started the company. So far, China has been the beneficiary of this. Now India is eyeing a market share growth from 2.2% to 7%. India and US will be the fastest growth in the EMS market in the next five years. And we are well positioned to operate successfully in both these regions. We operate today by choice in high complex, high margin B2B space and not in the low margin, high volume segments.

Our growth strategy is predicated on building businesses that see an intersection of a 30% growth with a 13% plus operating margins over a longer period of time. Our focus in organization is about profitable growth. We are building businesses focused on long-term trajectory rather than short-term results. That's why we are focused on building a business of profitable growth in the long-term rather than growth at any cost in the short-term. We have a three-pronged growth strategy. One, optimal mix of customer base across India and US, optimal mix of today's established industries like industrial mobility and communication and tomorrow's emerging industries like clean energy.

Optimal balance between profitability and growth. With the slowdown in US and onboarding of our customers in clean energy, we expect H2 to be stronger than H1. The component shortage issue has been there for the last two to three years but is easing now. On a conservative basis, we are looking to double our revenues in the next three years. For FY'24, we are looking at a revenue growth of 25% to 30% and operating margins are estimated to increase to 12% to 13%. Before I conclude, I want to emphasize that the paramount significance lies in fortifying our organization and ensuring its readiness for the next phase of growth.

I will now hand over the call to RMS, our CFO, to take you through the financials. Thank you.

**R M Subramanian:**

Thank you, KB, and good evening to everybody and thanks for joining the call today. From the big picture which KB gave, I'll get on to the numbers in terms of giving the specifics. I would like to start this conversation with a discussion on the last quarter gone by on Q4 FY'23. In Q4 FY'23, our revenue from operations is at INR272 crores, an increase of 29.6% year-on-year and a 16.8% quarter-on-quarter. In terms of gross margin, it's at INR102 crores, up by 39% year-on-year and 26% quarter-on-quarter basis. So in terms of percentage, gross margin percentage is at 37.5%, an increase of 265 bps on a year on basis and about the similar on a sequential basis.

Look at EBITDA. EBITDA stands at INR41.1 crores, up about 74.2% year-on-year and 103% on a quarter-on-quarter basis. EBITDA margin stood at 15.1% and an increase of 388 bps on a yearly basis and a 644 bps on a quarter-on-quarter basis. PAT stood at for the quarter at INR22.7 crores, up 113.1% year-on-year and a 296.18% quarter-on-quarter basis. PAT margin stood at 8.2 percentage. I would like to say that in terms of the quarter performance control, by saying Q4 is an example of higher throughput and an operating leverage impact kicking in and efforts are made to ensure that we replicate this for the whole year.

Now moving on to the whole financial year for FY'23, our revenue from operations stood at INR44.7 crores, an increase of 12.4%. Gross margin is at INR338 crores and which increased about 17.9%. EBITDA stood at INR112.8 crores and growth of 15.6% against FY'22. EBITDA margin stood at 11.9%, an increase of 34 bps year-on-year. PAT stood at INR 52.5 crores, up 10.6% year-on-year with PAT margin at 5.5%. This increase is compared against on a like-to-like basis for the previous year, removing the external item. Coming to our revenue mix, our revenue mix in terms of customer geography, KB talked about 59% of revenues was from US geography in FY'23 and the balance came from India and other countries. Whereas manufacturing about 72% was manufactured in India and the balance in US.

Moving on in terms of IPO funds utilization, if you remember in terms of approved utilization, our debt repayment is about INR145 crores, working capital of INR90 crores and GCP of INR85 crores is approval utilization which totals up to INR320 crores. We are quite into it in terms of last two months. What we have done is using a mix of IPO and a company generated funds. Today we have repaid approximately about INR200 crores of outstanding debt in the Indian entities. As of today, at the group level, by end of this quarter, we will be left with approximately INR100 crores of debt in our US subsidiaries here now. Our Indian entities will be debt free. That's sort of at the end of the year.

Moving on , we have been using the balance of IPO funds in terms of working capital in general corporate purposes. Overall, it's been by end of this quarter, we should have completely used the IPO funds. Moving on to the balance sheet side, our working capital days was 148 days in FY'23 comprising of 123 days of inventory, 80 days of receivables and 55 days of payables. Our net working capital has increased in comparison to FY'23 and mainly due to increase in inventory which is in turn due to supply chain issues. As the supply chain issue is easing, we believe the net working capital days should improve going forward.

The IPO has significantly strengthened our working capital as we move now have the capacity to service contracts with a higher delivery cycle and requiring larger capex upfront and significantly shields us from supply chain issues which we witnessed in the past. We expect our net working capital days to reduce by 10 days to 15 days over the same time of control of inventory and receivables.

Moving on in terms of liquidity, our present cash and cash equivalent stands at approximately INR115 crores and we'll be deploying the same for the planned capex and funding our growth. Over and above that, we intend to maintain the working capital lines in India which will be to the tune of approximately about INR175 crores which should give the added cushion for us to aggressively bid for and execute large orders which are in the pipeline.

In summary, if we continue to operate with the levels as performed in Q4, the operating leverage will significantly kick in and ensure that operating and net margin profiles remain higher. Over and above that, reducing inventory and net working capital levels will release cash from the system, coupled with this and the leverage capacity available in the balance sheet will ensure that our growth is fully funded which is one of the key objectives of the IPO and we are on track for the same.

With this, I request KB for the closing remarks.

**Kunhamed Bicha:**

Thank you, RMS. We are heartened by the strong support from our investors during our IPO in a tough market. We will strive to repose the faith that investors have placed on our company. I express my sincere gratitude for your unwavering support and confidence in our company. Together we are poised for an exceptional journey of profitable growth and success. With that, I would request the moderator to open the floor for questions.

- Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Rahul Gajare from Haitong Securities. Please go ahead. Rahul Gajare, the line for you has been unmuted.
- Rahul Gajare:** Thank you. Good evening, gentlemen, and congratulations for a good performance on the P&L. Now I have something specifically on working capitals that I will come to separately. Sir, if you could spend some time and explain to us what has happened in terms of the significant uptick that we saw in the margin in this particular quarter? And also, that had aided the overall full year margin also. That's the first question. I have got a couple of more questions that I will come back to after that.
- R M Subramanian:** Yes, I will take that. In terms of gross margin for the quarter, as you know, it went up significantly. Basically, it's a mix of a couple of factors. When compared to other companies where we produce the same product year-on-year, it can be attributed to a single factor. But for us, we do a service, a mix of customers. So, it's multiple factors which comes in, starting with the product mix, the type of product mix in that particular quarter. And also, one of the other key factors is also the freight cost. As you know, during COVID time, freight costs have gone up.
- So subsequently, the freight cost has come out of the peak and that's also aided in terms of using the margins improved because of that. Over and above that, some of the product mix which we talked about, we have some of new customers joining in. So, which at the early stages, typically we have prototypes orders which are more in the service in nature. So, again, margin does go up. Overall, all of these factors did contribute about increase of both units.
- Rahul Gajare:** Okay, thanks. Sir, my second question is on the revenue front. We had a strong growth of about 30% in this particular quarter. And I understand it is aided by likes of communication and clean energy. In the overall revenue, is it possible you can break it up between the segments that you cater to?
- R M Subramanian:** I don't have for that particular quarter in terms of revenue. Maybe I can just...
- Kunhamed Bicha:** You can give it for the year.
- R M Subramanian:** For the year, I can talk about it. Clean energy is about 25%, industrial is about 29% and mobility is about 21%. This are the three major ones. Communication is about 10%, medical is about 7% and rest is others.
- Rahul Gajare:** And which is the area specifically you are seeing very strong traction in terms of inquiries or discussion with customers?
- Kunhamed Bicha:** Two specific areas. When we say mobility, there are three areas we work in mobility. One is the railway segment, the aerospace segment and the auto segment, which is the EV side. Where we are seeing a lot of traction is in the aerospace segment, though it takes time to come through. But we are happy to say that two or three projects have landed. We got the first set of POs to

start that and we believe these are much longer-term contracts and it sets us up for growth for the next five years.

**Rahul Gajare:** So, one of the concerns that one would have over here is, while certainly long term wise we see things are pretty positive in terms of more outsourcing happening over here. But is there any way we can quantify over the next five years, this is the kind of opportunity we are looking at. And if that can be broken up into the verticals, based on your discussion with clients. Is that something that we can have some color on?

**Kunhamed Bicha:** So, I can give you some of the top verticals. We see clean energy growing from 25% what it is today, it was around 20% last year. We see that growing north of 30% to 35% in the next 12 to 18 months. That's where our growth will come from. We see the air segment, the aerospace where we do metals, cables and plastics. We see that growing at around 30% to 40% year-over-year. That makes sense? And the industrial and mobility will grow at the usual rate as we can see.

**Rahul Gajare:** So, my last question before I get back to the queue. Now in terms of guidance you talked about 25% to 30% revenue growth with 12% to 13% margin for FY'24. What is the peak revenue that you can achieve based on your existing assets? And therefore, what is the capex that you have in your mind, say in FY'25 or so?

**Kunhamed Bicha:** So, I'll address the first part of it. This is KB and I'll have RMS to address the second part of it. So, we believe we are operating at around 60% to 65% capacity in our various factories. So, there is without anything required, at least a 40% to 50% growth is easily achievable. Apart from that, we are also building two new facilities, around 160,000 square feet, getting ready for the future after that. RMS, you want to take the second part of the question?

**R M Subramanian:** Yes. In terms of the capex, our estimate is for FY'24, we estimate about INR30 crores to INR35 crores is what our spend will be on the buildings and the plant and machinery which KB talked about. And FY'20 will be in the range of INR40 crores to INR45 crores. This is again coming from where our strategy has always been to work on a capitalized model. So, we are not looking at significant capex. That strategy will continue going forward.

**Rahul Gajare:** Thank you.

**Moderator:** Thank you. The next question is from the line of Prithvi Raj from Unifi Capital. Please go ahead.

**Prithvi Raj:** Sir, my first question is on the exports. So obviously among all the EMS companies, we have a higher share of exports and that would have impacted our revenue to a certain extent in the last few months. Just wanted to get a sense from you, how are we seeing exports traction picking up? Are we seeing higher order inflows or enquiries coming from clients? Could you just throw some light on that?

**Kunhamed Bicha:** Yes, Prithvi Raj. This is KB. So, what, in an ideal scenario, we are seeing two areas. One, I will talk about exports initially. We do have a significant part of our business on the export side. We started off as, at 80% export and maybe 10% to 20% local market a few years back. Today we



are around 38% in the local market and the rest as export. We see the trend continuing, but we also see that there's immense growth coming from India.

So, ideally, in a situation like where we are today, where you have recessionary trends in the export market in the Western world. We believe that we can get a lot of business in India to make sure that we meet the requirements. But saying that, a lot of our big orders and businesses as of today, especially in the aero and the clean energy space, is coming from exports.

**Prithvi Raj:** So, how are we seeing that exports, order enquiries, etc., is there any pickup in the inflows, or is it still we are seeing signs of slowdown?

**Kunhamed Bicha:** On the new projects where customers are long term, we are seeing new projects getting added. In fact, we've added four new projects in the last four or five weeks, which is significant because most of these projects run into multiple years. So new projects, we are seeing good traction, but on existing products, there is a couple of issues in the US. One is the recessionary trends, and two is after three years of consistent buying and supply chain challenges, some inventory correction is happening in the US, to be very frank and honest with you.

So, there will be little ups and downs in the next couple of quarters on existing customers, but the business is still there and they are coming back to a normal mode, where they will plan for inventory in a normal fashion and not with the supply chain challenges. So, some correction is happening, but we are well equipped to deal with the new customers and new products chipping in.

**Prithvi Raj:** Got it. And one follow-up question on your domestic business comment. Here could you please help us in understanding which are the sectors that you are focusing on the domestic business side and where you are seeing some traction?

**Kunhamed Bicha:** Yes. So, where we are seeing a lot of traction on the EV side as well as the industrials. So that's been our key drivers in the domestic market.

**Prithvi Raj:** And one final question from my side. Structurally, how do we see your EBITDA margin? I mean, I'm not saying about a couple of quarters, maybe two to three years down the line. Can we reach to 14%-15% EBITDA margin because we have a higher share of value-added products or margins might remain at these levels?

**R M Subramanian:** Yes, I'll take it, this is RMS here. So, today we've been operating about 12% EBITDA margins and guidance has been about 12%-13% in terms of moving forward. What we believe is if you see consistent growth at 25%-30% the way we expect and value addition in terms of vertical integration when the product stabilizes because when the early products comes in, it does take a bit of time for the margins to stabilize. There is always a possibility with the operating leverage impact, margins going about 13% plus. But that's more for the future in terms of going forward and the rest of the time, we will stick to the guidance of what we have given.

**Prithvi Raj:** Thank you, sir. That's all from my side.

**R M Subramanian:** Thank you, Prithvi Raj.

**Moderator:** Thank you. The next question is from the line of Pujan Shah from Congruence Advisors. Please go ahead.

**Pujan Shah:** Hi, sir. First question would be on the inventory side as you have told that the US is going for a de-inventorization. So, I mean, holding a higher inventory than a usual one. So, what will be the net working capital days we are looking into on a usual phase?

**R M Subramanian:** Okay, this is RMS here. Let me try and take it. In terms of inventory, okay, our receivables and payables are generally been under control. So, it's about inventory which we need to focus on. So, today is about 123 days and our belief is moving forward because supply chain issues are behind us. We should be able to reduce in inventory by 10 days to 15 days by end of this year. So that's what we work towards it. And if you look at our pre-COVID days, the net working capital cycle is about 80 days to 90 days.

We are operating that range. So, in the long term, we should be able to reach that once sort of the many of the products are what we're getting in stabilizes because during the growth phase, inventory, holding inventory under control is particularly for new products is difficult. But once they reach many of them reach the stability, that's something which we can aspire to in the long term. But for the current, this is the guidance what we like to stick to.

**Pujan Shah:** Okay, in terms of clean energy, are we seeing any domestic competition? I know that the majority of the revenue comes in from the US for the clean energy space. But even though if you look at the market, the Indian market is around INR600 crores. So, how is the competition evolving in the clean energy because everyone is going for traction for that specific business. So, how you are eyeing for that and how four, five years ahead of the line, what would be the thing which you have been expecting to?

**Kunhamed Bicha:** So, that's a very interesting question. So far, we have not seen too much of competition, not saying that we will, we'll for sure see that in the future. But the key elements for the clean energy is just not step and repeat of PCB assemblies. So, you need there's a lot of magnetics 30% of the bill of materials, magnetics and transformers, you have a lot of sheet metal, you have a lot of machining, you have a lot of cables. So, since our vertical integration model, which will, that is the reason why we are benefiting on that.

And then there's a second point, I'm not sure if we are aware that there's a bill in the United States called the infrastructure bill, which gives subsidies for manufacturing of the product in the US. So, our strategy has been that the labor intensive part will be done in India, the final assembly and test will be done in the US. So, a certain percentage of the manufacturing has to be done in India. We have planned this over the years. And that's why we have factories on both locations. So, I think it will play to our favor to get more business in this field because of the India US strategy.

**Pujan Shah:** So, on a larger space, the US, can you state what are the competitive, like which companies have been competitive for us in like for clean energy space?

**Kunhamed Bicha:** So, it's, I would, I won't name our competitors, but let me put it this way. The projects we have won and what we are proud of, these are global majors who are \$10 billion to \$20 billion in size. And we have competed with them and won the business. And the other piece why we are successful doing this is that we engage with the customer around 12 to 18 months before the product is launched. So, we are doing the prototypes, we are working with the customer to take products from engineering to production. So, these two help us get a foot in the door. We compete with the world's best to get it.

**Pujan Shah:** Okay, got it.

**Moderator:** Sir, one question. Sorry to interrupt, sir. We request you to please re-join the queue for follow up questions. The next question is from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

**Darshil Jhaveri:** Hello. Good evening, sir, and thank you so much for taking my question. Firstly, the congratulations on a great set of results. So, I just want to know in our industry, is there some seasonality like that would, impact our revenue and subsequently the margin because Q4 has seen a higher revenue and that has given us leverage. So, will there be a seasonality going forward or there's a steady state of revenue?

**Kunhamed Bicha:** The revenue is there, the orders are there. The key for us is some of the product launches are later part of the year. So, in this year, we will see a slower H1 than a much stronger H2. So, it's more not a seasonality, it is more of customer kick-ins. And we also had issues with component shortages in the past, which is more or less eased out now, but there's still some remnants of that.

**Darshil Jhaveri:** Okay, sir. So, sir, I just want to know, so then our change in margin that we've done, so we have done, we are giving for a conservative guidance or because we've been able to achieve this right now, so what is stopping us from achieving in our future? Because I know the things are, orders are kicking in also, so that will also help us.

**Kunhamed Bicha:** Okay. So, our mantra has always been not growth at all costs, but profitable growth. So, we, in fact, walked away from certain businesses because the margins were not there. So, we're a little picky on that sense on how we think of our future. We are looking for, again, profitable growth and not growth at all costs. That's one of the reasons you see us not playing in high volume, low margin areas. If it is just the top line, that would have been the easiest way for us to get the top line.

**R M Subramanian:** So, RMS here, so just to add to the point of your Q4 and the margins you have seen and guidance for the year, so just to add to the factor about H1 or where KB talked about H2 being stronger than H1. So, taking all of this into account, we are given a guidance which is for the whole year. So, that's something we need to factor in.

**Darshil Jhaveri:** Okay, sir. And sir if I may, so typically how much time do we take to complete our order book?

**Kunhamed Bicha:** So, there are two sets to the order book, one is the order book as we talk about or as we say is 12 to 14 months, but a lot of these orders have long-term contracts and some have LOIs where

the intention of the volume is to talk for the future. But what we normally talk or give guidance is for 100% orders on the books which are shippable in 12 to 14 months.

**Darshil Jhaveri:** Okay, sir. And if I may, sir, one more question. So, is there some part of service that are there that we might be focused on which would be margin accretive or that would be a different business that would be happening?

**R M Subramanian:** Yes, your question is on service business and whether we have any service business and is it margin accretive. Is that the question, right?

**Darshil Jhaveri:** Yes, Yes.

**R M Subramanian:** So, we have a small company which has 150 engineers which is fully focused on design and services, number one. And number two for us, that's not so much about the margin, but it's also about being a funnel for bringing the new business to us. So, they add a lot of strategic value to us. And over and above that, as KB said earlier in the call, we do get engaged with the customers 12 to 18 months before the product launch. And most of the work during that period is done on a fee basis rather than on a product because the product is evolving. So, that is what we call a new product development.

We help them to develop the new product which is done at a fee service basis. So, these two make the whole customer sticky with us where we help them to launch the product or reach the market. So that's how the whole service line of business works for us.

**Moderator:** Thank you. The next question is from the line of Pradyumna Choudhury from JM Financial. Please go ahead.

**Pradyumna Choudhury:** Hi, sir. So, first question regarding the segment by demand, I might have missed it. I did hear a couple of lines separately, but if you could just take us through the demand across various segments. And secondly, regarding the revenue growth, I do understand previously also you'd mentioned that one of the reasons we haven't really grown as well is because of component shortage over the past couple of years.

But from that perspective, like even if I compare ourselves to our peers, they seem to have grown despite these component shortages. So, what are we doing now to ensure that such a situation doesn't reoccur? Because from what I see, we have a very healthy order book and executing just that would lead to a good growth. So, just trying to understand what are we doing to ensure that we do not fall short on that side.

**R M Subramanian:** Yes. So let me take the first question, which is in terms of the segment revenues. This is for FY'23 where I said about 25% is from clean energy and 30% is from industrial and 20% is from mobility and the rest is spread across communication, medical and others. This is for FY'23. So, moving forward, KB did talk about our clean energy is growing much faster and we expect the percentage of revenue to be much higher moving towards sort of the 30% range. So that's in terms of the segment revenues. And in terms of the growth in the order book, order book remains healthy.

One specific differentiating factor vis-a-vis our peers is we are highly focused on the exports and the export and US market has some amount of headwinds in terms of what they are seeing inventory correction, inflation, etc., etc. So, that does have an impact on the immediate and existing customers. But what we are seeing is a continuing traction of new customers who are looking to switch or getting into EV, which is a growing space. So, that continues to be robust. But the point about them is it does take a longer, what do you call, role in terms of trying to ramp up.

So, all of this is the one which is lead to a slower growth when compared to the rest of them coupled with a company shortage. So, this sort of explains the revenue vis-a-vis what the peers have done.

**Kunhamed Bicha:** And one more point is we have not, we had so many options to get into the consumer space. So, if you need top line growth, that's the easiest way to solve it. We by design have stayed out of it so far.

**R M Subramanian:** Taking the account, the order book, just if you allow me to complete, taking the account the order book and the kind of traction what you're seeing in terms of the new business and enquiries, we believe the 25% to 30% growth range for the next three years is something achievable. So, leaving aside the quarter-to-quarter differences, this is something which we are confident of.

**Pradyumna Choudhury:** All right. My question actually regarding the segment wise was more on the demand side. Like if, as per the segments, you can just give a hint on the demand side. I understand clean energy will grow very well, but how are you seeing the demand or weakness and demand in other segments?

**Kunhamed Bicha:** So, clean energy, this KB here again, clean energy by far will be our fastest growing segment and followed by mobility. Okay. Again, clean energy, we've seen tremendous growth, but it has to kick in. But once it kicks in, we are very confident on where it can go. Next is mobility, like I said, and we are looking at the most profitable part of mobility, which is aerospace, to bank a lot of our growth on it. And we just are servicing multiple products now. Hopefully when it kicks in, it's going to be projects with very, very decent margins.

**Pradyumna Choudhury:** Understood, sir. Thank you.

**Kunhamed Bicha:** Thank you.

**Moderator:** Thank you.. The next question is from the line of Ankit Salgia from Vijit Global Securities Private Limited. Please go ahead.

**Ankit Salgia:** Hi, everyone. Congratulations, management, on a very good set of numbers. I have a question regarding the domestic business. So, I'm just trying to understand where the government of India is trying to push a lot of in-house in India production. Are we focusing on PLI schemes that are being coming from the government for like different sectors like white goods or IT hardware? So, I'm trying to see where we are trying to focus on what we have talked about other than those things, like on computer IT hardware variables or Internet of things.

**R M Subramanian:** Yes. So, to answer your question, we would love to participate in some of the PLI schemes, but we have not seen something coming for our industry. Let's say if it's mobility or let's say if it is for clean energy yet. But saying that, I'm pretty sure that the government will look into that in the future. What we do a lot is import substitution. We do all these railways signalling products, braking products, and there's no credit for that either. But we've always operated on a low capex asset turn model.

So, that is one of the reasons why our numbers are not based on PLI schemes. But saying that if the right scheme comes our way, we are more than happy to get into that. And I think the IT hardware has just come out 10 days back or so. We are sure looking into it and if something is a good fit for us there, we'll surely apply for that.

**Ankit Salgia:** Sounds good. Thanks a lot. And just follow-up to that, what kind of like particular sector in domestic market that we are focusing on right now for our revenues that we say we are doing like 30% or so of our revenue? Other than like, the clean energy is more on exports. I'm just trying to understand more on domestic business where we are getting traction from.

**Kunhamed Bicha:** Lot of it is mobility without aerospace. Aerospace is export. Lot of it is mobility and industrials.

**Ankit Salgia:** Thank you. Thanks a lot.

**Moderator:** Thank you. The next question is from the line of Vivek N from Shanti Financial Services, Private Limited. Please go ahead. Vivek N?

**Vivek N:** So, congratulations for a good number. But...

**Moderator:** Sir sorry to interrupt. But the line for you sounds muffled.

**Vivek N:** It's better? Okay. Yes. So as a shareholder, I wanted to understand why the valuation at the time of IPO has still not been gained by the company. And when I look at the financials, in spite of very good and promising future for the company, profits are, whatever, 5% maybe. Growth is around 15-20%. Certainly not among the leading EMS players from within India. So, this is a chance for us to reflect on what possibly other things, the company could be doing to get the major end of the value, emanating from this industry. And where probably a strategy or execution can be different. Thank you.

**R M Subramanian:** Yes, RMS here. I'll try and attend and answer this question in terms of performance and strategy and share price. So, this is a company which has started about 20 years back. So, you go back and the history is about manufacturing India and catering to the global market. And we have remained true to the strategy and we've been doing that. Today EMS industry is what they are trying to do. And some of the peer strategy is slightly different. So, what we've been doing is true to the strategy, we've been catering to the high profitable segments and continue to do that. Even in the domestic market, we started sometime back with about less than 10% market share.

Today our market share, our revenue share is about 30%-40% and continue to grow as the Indian market grows. So, we continue to explore these options in terms of higher profitable growth

segments and we continue to work on the same. So as a strategy, this has been a strategy and we want to remain and wherever required in the course correction, we continue to do the same in terms of that. And if you look at the performance, Q4 performance, that reflects in terms of how we have been able to do, sort of the right climate exists.

And FY'23, we have also explained the reasons in terms of the growth. So, as a company, we are focused on performing and the traction what you are seeing in terms of the new business growth, we are confident of achieving the guidance in terms of doubling your revenue over three years is what KB talked about. So, on a share price performance, our firm belief is as long as you continue to remain core of strategy and build a company and work on the strategy of what we have communicated to investors, share price will reflect the fundamentals in the long run. That's something which we don't want to comment on day-to-day share price movements. Thank you.

**Vivek N:** Thank you.

**Moderator:** Thank you. The next question is from the line of Pujan Shah from Congruence Advisors. Please go ahead.

**Pujan Shah:** How much or a number of questions were on the basis of this quarter specific?

**R M Subramanian:** Can you repeat the question?

**Pujan Shah:** Okay. So, how much number of customers we have onboarded this quarter? Because we have, I think 81 customers initially from FY'22, we can say that there was 81 customers. So, in FY'23, what could be the number of customers we have done total number of customers?

**R M Subramanian:** This is RMS here, let me try and answer this question. In terms of some significant customers and when KB talked about something in the aerospace and also in the mobility segment, in terms of the exact number of customers, something which I don't have, we can always get back to you in terms of the number of customers. Because there are some customers who just come on board just for prototype or few things, but they will gain traction as we move along. And I don't have the exact number of customers on board, new customers in that quarter. So, we can get back to you on that.

**Pujan Shah:** Okay. And sir, can you just give the revenue split by the product wise for FY'23 like design, PCB, box build? I know box build you have said 47% comes by revenue. How much would be the PCB? Because ultimately PCB and box build around the revenue contributions around 80%. So, can you just split for the PCB side?

**R M Subramanian:** In terms of the box build, I think we have given the number which is growing, but we really don't get into segmenting beyond that specific thing. We give industry wise, which is numbers have been given, the individual segment is something the number which we don't track or we don't want to be getting into discussing that.

**Kunhamed Bicha:** A lot of the box build will also take the PCB.

**Pujan Shah:** Okay, right. Good. And last question would be the new capex which we are doing of 30, 35, so what are the lines we are adding, it is into metal sheet fabrication, cables or like somewhat, which line we are adding to or it is SMT lines?

**Kunhamed Bicha:** No, so lot of this, there's around 160,000 square feet coming online in the next six months. Out of that, the large portion of it is for big box builds. When we say big box builds, these are generator type boxes which are large in size. I don't want to mention the industry. So, we need space to make this product. So around 40,000-50,000 square feet we'll go for that. The second part of the expansion is for cable and harness assembly. We see tremendous growth in the cable and harness space. So, they will be moving into this new factory and the existing space will be used by PCB assembly.

Apart from that, we are renovating and moving a plastic department into our second building where we have seen lot of growth coming from the aero side and we need to have an updated and a state of art facility to cater to that. And the last bit which is going to be very interesting for us into the future is special processing of metal which is required for aero industry. Today we outsource a lot of that. So, we want to bring that in house and get NADCAP approval. So that will set us in stream for larger orders from that segment and we outsource a lot of that today. Did that answer your question?

**Pujan Shah:** Yes, sir. But sir cable and harness, if you look into the capacity, it will be around 60%. So, are we seeing any, like I am talking for FY'22, in FY'23, are we seeing any higher utilization for cables? That's why we have been establishing the new lines or how we are looking into, because the order book has been built so much that we are not being able to capaxite or fulfil the order in the current production capacity.

**Kunhamed Bicha:** So, it is more in cable, it's very capex-like as you very well know. It is a space requirement for our growth. It's not adding new machines or so. We need larger space to execute a larger part of the business. And we also need space for our PCB side of the business and the PCB will grow into where cable is today. It's just moving of divisions for space.

**Pujan Shah:** Yes, so we did the capex for the space side and not for the machinery and all that, like building the new lines and all that stuff.

**R M Subramanian:** This is Subramanian here. Let me just add to that. Just one part number, approximately 50% of the capex will go into the refurbishment of the buildings and land and buildings part of it and the balance 50% will be the machinery part of it. So, that's a number you can look at.

**Pujan Shah:** Yes, okay. Thank you so much for your time. Thank you.

**R M Subramanian:** Thank you.

**Moderator:** Thank you. We have the next question from the line of Bismith Nayak from RW Advisors. Please go ahead.



- Bismith Nayak:** Yes, sir. One clarification. You said order book that is given in the investor presentation is executable over the next 12 to 14 months, correct?
- Kunhamed Bicha:** That's correct.
- Bismith Nayak:** Okay. And on working capital days, sir, when would we go back to pre-COVID level?
- R M Subramanian:** Today is about 140 days in terms of net working capital and the focus on looking at inventory 123 days and we have given the guidance about 10 to 15 days for this year. So, pre-COVID will take some time. My belief is more in the medium term rather than the short term.
- Bismith Nayak:** Understood. And on this space addition, sir, you said 1,60,000 square feet. So, this 50% I did not get that part. Can you please clarify it again?
- Kunhamed Bicha:** There are, I can, this is KB here, there are two facilities coming on board. One is around 130,000 square feet. Out of that 50% will go for cable and harness assembly and the 50% which is critical for us is for big box builds which take up a lot of space. I am talking of large boxes like a generator or a compressor or so. We are getting into doing large box builds. So that is the two areas that 130,000 square feet building will have. The other one is for plastics and special metal processing which we are introducing.
- Bismith Nayak:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen, we will take that as our last question for today. I now hand the conference over to Ms. Bhoomika Nair for closing comments. Over to you, ma'am.
- Bhoomika Nair:** Yes, I would like to thank all the participants for being on the call and asking all the questions. And thank you to the management for giving us an opportunity to host the call and wishing you all the very best, sir. Sir, any closing remarks from your side?
- Kunhamed Bicha:** The only thing I would like to add is for us it is not growth at all costs but it is profitable growth that's been our mantra and that's what you want to deliver to the shareholders over a long period.
- Moderator:** Thank you. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.
- R M Subramanian:** Thank you.