Centum Electronics Limited
Q1 FY24 Earnings Conference Call
August 14, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY24 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 an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anuj Sonpal from Valorem Advisors. Thank you and over to Mr. Sonpal.

Anuj Sonpal: Thank you, Michelle. Good afternoon everyone and a very warm welcome to you all. My name is Anuj Sonpal 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 calls for the first quarter of financial year 2024.

Before we begin, let me mention a short cautionary statement. Some of the statements made in today's earnings 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 management. Audiences are cautioned not to place any undue reliance on these forward-looking statements in making any investment decisions. The purpose of today's earnings call is purely to educate and bring awareness about the company's fundamental business and financial quarter under review.

Let me now introduce you to the management participating with us on today's earnings call and hand it over to them for opening remarks. We firstly have with us Mr. Nikhil Mallavarapu, Executive Director; Mr. K S Desikan, Chief Financial Officer. Without any further delay, I request Mr. Nikhil to start with his opening remarks. Thank you and over to you, Nikhil.

Nikhil Mallavarapu: Thank you Anuj. And good afternoon everyone. I'd like to extend a warm welcome to all of you for our first earnings call. Thank you all for your interest in Centum and for making the time to join the call today. Despite being listed for close to 30 years, this is our first earnings call and I believe it is reflective of the heightened interest in our company and the ESDM sector more generally, which is at a turning point with all the global and domestic tailwinds, which have been long awaited. Given that this is our first earnings call, in the interest of some of the people who are new to the company, let me first start by giving a brief overview of the company.

Centum Electronics was founded in 1993 in Bangalore by my father Mr. Apparao Mallavarapu. Since then, we have grown to become a full play electronic system design and manufacturing company catering to the high technology segments of defense, aerospace, space, mobility, which includes railways and automotive, industrial energy and healthcare. The company operates on three verticals, electronics manufacturing services, build to specification and engineering R&D. Under electronics manufacturing services or EMS, Centum is responsible for pilot and mass production of electronics. With designs presented by the client, it is a build to print model. Here Centum offers a wide range of manufacturing solutions from printed circuit board assemblies to complex box builds, line replaceable units and full system integration. Build to spec or BTS is a turnkey end-to-end service vertical which includes taking a project from conceptualization and designing to mass production quickly and efficiently. Operations under BTS are mainly driven by domestic, defense and space. Engineering R&D or ER&D is a pure engineering service vertical involving conceptualizing, designing and certifying electronic hardware, embedded software, FPGA, analog and RNA. This is managed by our French subsidiary Centum TNS or Adetel group in the past. Our portfolio is well diversified in terms of revenues from the different industry segments as well as from a service offering. We have operations in India, Europe and North America and our marquee customer list include the leading global OEMs in domestic organizations and the domains we operate in.

Now with regard to Q1 FY24 performance. On a consolidated basis, operational income for the first quarter was around INR 244 crores, which grew by about 17% year-on-year. This growth was largely driven by the increase in revenues from the EMS business unit, as a result of new customer ramp ups. On a quarter-on-quarter basis, there was a reduction is revenue primarily due to higher revenue contribution from the build to spec vertical in the previous quarter, which tends to be lumpy in nature. It is therefore important to view us on an annualized basis and not on quarter-on-quarter basis. The order book at the end of Q1 remains steady at 1542 crores. Outlook for the order book for the year is looking strong with the opportunity pipeline we have. On the domestic, defense and space side, the push for more indigenization as well as focused on space, an area where we have good capabilities, presence of good opportunities for us. Also, investment in railways in India, and other regions is strong. In our passenger information systems business is expected to grow with new project awards. Electric mobility is another area that we've had strong traction with, and we are expecting good order intake from existing and new customers.

Now, I will request Desikan, our Chief Financial Officer to cover the main points on financial performance.

K S Desikan: Thank you, Nikhil. And good afternoon everyone. Welcome to the earnings call once again. Let me give you some of the key performance highlights for the first quarter of the financial year

2024. Though Nikhil mentioned I'll repeat this once again. On a consolidated basis our revenues for the first quarter was about 244 crores which is a growth of 17% year-on-year. And EBITDA reported was about 18 crores, which actually grew at 57% higher compared to the last year same time. The EBITDA margin stood at 7.33% first quarter. The net profit reported for the quarter is 1.4 crores. The growth in the consolidated revenue on a year-on-year basis was mainly coming from the EMS business. The decline on Q-on-Q is attributed through the high revenue contribution from the BTS segment in Q4, which all of you must have already noticed that, and that business as we keep saying in all of our communications is a bit lumpy in nature. So, I repeat once again what Nikhil said, it may be appropriate for us to be compared more on a year-to-year basis and on a yearly basis.

The EBITDA margins increased from 5% in Q1 FY23 to 7% in Q1 FY24 due to the improvement in the revenues of the EMS structure. We are taking quite an amount of efforts to improve the EBITDA at the French subsidiary in the coming quarters, so that our consolidated EBITDA moves to a much higher level from the percent level of 7%. As Nikhil mentioned the order book, though it remained flat at 1540 crores similar to March level, the outlook is looking very strong and the opportunities are looking very bright. The working capital levels remained similar to March 23 levels, which is about 80 days. That's a very quick summary of the brief financial performance but I'm also happy to inform you that Centum was a key industrial partner to ISRO for the electronic side on the prestigious Chandrayaan-3 mission and we supplied critical modules and systems. And lastly, Centum was awarded a certificate of achievement by one of the DPSUs for indigenizing critical systems for armoured vehicles. So, that provides some kind of highlight and some details on the Q1 performance. With this, we can now open the floor for question-and-answer session. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. We will take the first question from the line of Vikram from NIA Advisors. Please go ahead.

Vikram: Sir, my first question was in AGM we were guiding the subsidiaries will contribute positive side this year. And if we check in Q1 there is negative difference of five crore in PBT, if I check standalone and consolidated which means loss of four, five crores from subsidiaries. So, and if I see like there is also approx. nine to 10 crore per quarter cost of finance cost and depreciation. So, are we expecting 40 to 60 crore kind of EBITDA from subsidiaries this year. And what kind of margins we are expecting in remaining year in our subsidiaries side?

K S Desikan: Thank you Mr. Vikram. That’s an important and interesting question. Yes, like what we mentioned in the AGM, the subsidiary will contribute positively and your estimation on the subsidiary performance for Q1 is correct, it has a loss. But generally, if you had observed the past history, the subsidiaries performance in the first half is always muted, it is likely to come back only in the second half of the year. And in the first half, our EBITDA margin for the subsidiary stood only at 5%. Our goal is to move that EBITDA margin by the end of the year to quote 7% to 8%. So, overall, in the second half you will see improvement. The comment on the finance cost, yes, the finance cost as you may know, have gone up compared to last year, but we were able to manage it to a reasonable level, the resource cost have gone up both domestic and international. But we are still around 10% of debt is our finance cost. So, we should be able to manage that. So, to answer your question, certainly performance will improve in the second half and you'll see for the full year

Vikram: Okay. And sir what was the contribution of EMS business at standalone level in Q1. And are we expecting same kind of pattern and last year we will deliver more of our strategic business unit in second half?

K S Desikan: Yes, like what we have mentioned in the earnings presentation, you will find that EMS contributed to about 39% of the total and it will continue to be so and our BTS will perform better in the second half like last year you are right.

Vikram: Okay. And sir recently in our Centum day we announced the 35 million orders from electric mobility company and 10 million order of PIS, so what is the execution period for these orders and also I wanted to size of opportunity in India in PIS segment, what is order pipeline we have right now?

Nikhil Mallavarapu: The question around electric mobility. Can you just sort of repeat the question again?

Vikram: So, recently we received two orders one from one electric mobility company and second order of PIS, passenger information system first ordered in India. So, I wanted to understand execution period of orders. And also I wanted to know opportunity size of PIS in India. And what kind of order pipeline we have right now?

Nikhil Mallavarapu: So, with regard to the electric mobility business, specific order we're talking about is executable over a four to five year period. This is but obviously this is not the only order that we are executing we have multiple opportunities ongoing with multiple customers. So, this is definitely an area that we have seen strong order intake over the past couple of years and expect that to be an important growth driver for us. So, that's on the electric mobility side. With regard to PIS, yes this is a business that is also been with us through the subsidiary for some time. But we've been able to leverage the know-how developed there to be able to win the first contract in India. That is, so there are significant opportunities there just to give a rough outline in our PIS business today is in the order of about 100 crores or so. And there's a significant opportunity to grow there. I can't speak very specifically about our opportunity pipe line but we feel there's some significant growth that we can achieve based on new investments in the sector.

K S Desikan: I would just like to add Mr. Vikram, instead of looking at a specific opportunity and the executable timeline, I would suggest if you look at the total order book of 1540 crores, each one of them like for example, some of the BTS projects would be two years to two and a half years. EMS may be about 12 to 15 months and ER&D will be of 8 to 12 months. So, on an average, I would say that our order book is over 12 to 15 months, the entire 1542 crores is what I would say.

Moderator: Thank you. We'll take the next question from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: On, Canadian subsidiary performance, in this quarter also, we've seen lower margins. And we had highlighted that the fixed price contract there were leading to such losses. So, when are this contract is expected to get completed and when can we expect some positive contribution from the Canadian subsidy?

Nikhil Mallavarapu: There are several steps that we're taking towards, we do expect several of these contracts to be completed in this financial year. And we are gradually cross deploying some of the resources we have in Canada to other billable projects so we can reduce the impact coming from there. So, over the course of this year we see this gradually improving, we're also doing some things to claim additional purchase orders from the customers to be able to compensate for some of these, but that's not completed yet. So, we will await the result of that. And finally, we also started to execute some of the work for those projects from India we've build a design team also here, manufacturing is already happening here. So, with all of these, we expect that going into next year we should see a positive contribution.

Ankit Gupta: Sure. And in your commentary you have also highlighted that there are several, order book is in pipeline. And is this largely on the EMS side or the BTS side as well. That we expect that we will get some order fructification in coming three to six months?

Nikhil Mallavarapu: Yes, both. Simple answer is both we do expect good opportunities both on build to spec as well as EMS.

Ankit Gupta: Sure sir. And on passenger information system on the BTS side, we are pretty bullish about the opportunities which are rising in the Indian market. So, if you can specify what are our margins of PIS in line with the general margins that we have in BTS of around 20% to 25%. And secondly, since they won some orders from Delhi Metro, what will be the order size of the same and over how many years is that executable?

Nikhil Mallavarapu: So, in terms of speaking about margin on PIS business, it's important to break it up in two pieces. One is the actual gross margin on the product delivery side. And the second is the cost of development to people. So, when we look at the gross margin itself on the product deliveries, these are somewhere around 50% or so gross margin, which is a good number compared to what we would compare in a typical EMS kind of business. But the issue of the challenge that we've had, as I've mentioned earlier is that we have resources in Canada, which are high cost, and that has been pulling down the overall margin. So, this is where what we're doing is to move some of the work to India. And with that we are looking at improving the overall margin of business. So, that was one of the questions. Size and execution, so typically the contract values can vary depending on program itself. But, typical contract value can be anywhere from five to 10 million, or in some of the newer programs on mainline platforms can be even higher than that. And these are typically executable over a three to four year horizon.

Ankit Gupta: Sir the Delhi Metro contract that we have won recently like we spoke about in the AGM also, how big is that order and what kind of margins do we expect in those kind of orders when especially where we'll be executing the project from our standalone office?

Nikhil Mallavarapu: Once again, as Desikan mentioned we don't want to go into very specific order related points. But as I mentioned, this is typical contract that we received, and we see somewhere in the five to $10 million range and executable over a three to four year period.

Ankit Gupta: And other projects in pipeline that we've bidded on, amongst Indian Metro authorities?

Nikhil Mallavarapu: Yes, there are other projects we are bidding on. In fact, we are working very closely with one of our main customers, which is a global OEM to essentially be a platform supplier for PIS systems. So, that would essentially mean that it can be for any Metro in different parts of the world and certain share of their business volume will be awarded to us. So, that's something that we're in progress of working on. So, it’s not only Indian projects, as I mentioned earlier we are working on even global programs.

Moderator: Thank you sir. We'll take the next question from the line of Amar from Alf Accurate. Please go ahead. As the current participant is not answering we'll move on to the next question, which is from the line of Chirag Kachhadiya from Ashika Institutional Equity. Please go ahead.

Chirag Kachhadiya: I have a couple of question to Desikan and Nikhil. What would be the effective taxes for FY24 and future years. Second on the ER&D side as we are moving operations from Canada to India what is the directional call over there and when we see the complete or approximate higher transition from Canada to India, in quarter period wise?

K S Desikan: I guess your first question was on the effective tax rate. So, that will be at the standalone level we will be at 25% and on the transition from Canada to India, it is started and it is gaining progress. We expect this to happen by the end of this financial year. So, that subsequent projects can be executed from India.

Chirag Kachhadiya: Okay. And on onshore, offshore mix side what blending we are expecting?

Nikhil Mallavarapu: Onshore, offshore mix is a bit of a longer thing, we right now a lot of our engineers either on site or working on programs in France. So, this is I would say probably a two year to three-year ongoing journey that we're on. And it will be gradual shift in terms of the mix

Moderator: Thank you. We'll take the next question from the line of Aditya Chheda from InCred Asset Management. Please go ahead.

Aditya Chheda: So, my first question is on the growth in EMS, which we have witnessed in your initial remarks, you highlighted that it was a result of few new customer ramp ups, if you can add more light to what where these projects on, the nature of these customer wins is my first question.

Nikhil Mallavarapu: Sure. So, a couple of things there that we, essentially to be able to better utilize the capacity that we have put up a couple of years ago, maybe two, three years ago we were focusing on segments where it is still high technology, long cycle kind of businesses but have higher volumes. So, we chose industrial and electric mobility and clean tech, broadly speaking as some of the key focus areas for us. So, those were customers that we had added. And all of them are global OEMs that we're referring to here. So, just to highlight some of the application areas, there's obviously electric vehicles itself where we're doing electronics for the power trains. That's been one, the other one was on clean tech, where we have customer we build the electronics for the hydrogen fuel cell area, that was another customer that we've been in. And another customer which is mainly equipment for power grids. This is also a result of Make in India push and now we are actually supplying to their global demand from India. And we are a single source supplier essentially on these product lines that we're working with them. So, this is just a flavor of some of the areas. But in addition to this, our legacy defense customers also. They have come back quite strong. The result of the Ukraine war, as well as increased defense budgets. In Europe, that has helped us take higher orders from them in the past year, which are now in the execution phase for. This is typically our offset kind of customers that we're talking to.

Aditya Chheda: My next question is that, on the vision of improving our EBITDA margins for the subsidiary, three, four years hence, would that be a function of only cost or do you see scale playing out a major role in improvement of that EBITDA margins going ahead as well?

K S Desikan: So, its roadmap type of thing I would say, presently we are in the range of 5% to 7% in the subsidiary, in the EBITDA margin. Obviously, the focus is also on cost reductions which we have initiated both in France as well as in Canada, like what we mentioned earlier Canada, we are trying to get the manufacturing transferred to India, and keep the cost as low as possible. That's the immediate low hanging fruit. The second one would be we onshore, offshore, which currently is not fully leverage though, we are increasing the headcount here. If you ask me, the onshore offshore will be in the range of 10% to 15% only on the offshore. So, we need to bring more business into the Indian design center and thereby improve the profitability at the French subsidiary. That's the second one and the third one is the immediate focus is, at the French company level itself we need to move the EBITDA to at least about 10% because that's an average a French company EBITDA margin, I would say but with the strength on the Indian entity and the technical knowledge of the French entity, we are bidding upon bigger projects, which can be awarded to the French entity. And that would probably be partly done in India, and thereby it will move from 10% to a higher EBITDA margin. It may not be exactly like the Indian, but it will definitely be in that direction. So, those are the three things that I would say. One is the cost reduction, two is onshore, offshore, and three is bidding for bigger projects on the strength of Indian process.

Nikhil Mallavarapu: Just to just to add, one point being simply that, even without scale we feel we should be able to improve the margin up to a 10%, 11% range. And beyond that, there will be a contribution both from scale as well as the onshore, offshore.

Aditya Chheda: Great, thank you for the answer. My final question is on the execution rate, on the order book it has been in the range of 65% to 80% in the past, would you want to guide any number as to how you're looking at the execution rate for FY24?

K S Desikan: No, I mentioned earlier also, because the different businesses run at different speeds, the existing order book of 1540 crores, you can take it like 12 to 15 months of execution on an average.

Moderator: Thank you. We'll take the next question from the line of Amar from Alf Accurate. Please go ahead.

Amar: Couple of questions. Firstly, sir if you can give us the breakup of the order book in terms of let say engineering, R&D, EMS and bill to specification?

Nikhil Mallavarapu: So, it's roughly in line with our revenue share that you'll see there is no, you can say about 30% to 32% on the ER&D side, about 38% to 40% or so on the EMS side and 28% or so on the Bill to Spec side so it's roughly in line with our revenues.

Amar: And sir you said that electronic execution period, EMS execution period is 14 to 15 months, bill to specification is two years and ER&D would be how much, execution period of the order book?

K S Desikan: Between, eight to 10 months.

Amar: Okay. And this bulk of your basically the French contribution would be coming into ER&D space currently, the French and Canadian business?

K S Desikan: Yes.

Nikhil Mallavarapu: There will be a contribution in the build to spec part, the PIS part but, as we said majority of it is in the ER&D.

Amar: Okay sir. But some bid in the build to specification also?

Nikhil Mallavarapu: Right.

Amar: Okay. So, basically that is where the bigger change will happen, because of the offshore mix as well as the bulk of the business coming from Canada to India?

Nikhil Mallavarapu: Yes. And basically stopping the budget overrun as we mentioned.

Amar: And sir this transition which we are talking about, will that transition will be visible from let's say Q2, Q3 onwards or it will be more back ended than the front ended?

Nikhil Mallavarapu: It will be more in Q3, Q4 that is you can say a natural seasonality that we do have in the business but also as a result of some of these actions and we are taking.

Amar: Okay. And at a closing basis, let's say run rate perspective I'm asking about at a closing level. Do we expect to close the let's say overall EBITDA margin or engineering R&D margin to let's say 7%, 8% closing basis?

K S Desikan: Yes, definitely.

Moderator: Thank you. We'll take the next question from the line of Ankit Babel is from Subhkam Ventures. Please go ahead.

Ankit Babel: A couple of questions. Sir, what were your order inflows in Q1 as consolidated levels and what kind of order inflows you are expecting for the full year at consolidated level excluding any customer forecast?

K S Desikan: Our order inflow in the Q1 was roughly equivalent to the revenue that we did because you will find that order book is more or less flat. So, that’s one, but of course we do expect the inflow to increase significantly. But that will probably tell as we go along it can.

Ankit Babel: Okay. But can it be like 1500 to 2000 crores because anyways, you will be doing a revenue of more than 1000 crore?

Nikhil Mallavarapu: We basically as we mentioned our medium term objective is to be at 20% or so overall. So, we do see our order book also increasing and it got better late.

Ankit Babel: Sir, you mentioned that you expect to grow at 30% for the company as a whole?

K S Desikan: No, 20%

Ankit Babel: Okay. And sir you mentioned that the margins in the subsidiary business would be around 7% to 8% for the full year FY24 right?

K S Desikan: Yes.

Ankit Babel: So, does it include the Canada subsidiary also?

K S Desikan: Yes.

Ankit Babel: Okay, then what will be your margins in the standalone business for the year as a whole?

K S Desikan: We should be going back to our 12% to 13% in the standalone EBITDA.

Ankit Babel: Okay. So, it is fair to assume that for the full year at consolidated level around 10%, 11% EBITDA margin is possible?

K S Desikan: Yes.

Ankit Babel: And what is the way forward sir, let say in the next couple of years, let's talk about two years?

Nikhil Mallavarapu: So, our objective is basically to move towards the 13% to 15% level and a consolidated level–. So, that's our objective, really on a two to three year kind of basis. It will obviously depend on the mix that we have going forward but, based on our visibility that's what we're working towards.

Moderator: Thank you. We will take the next question from the line of Karan Sanwal from Niveshaay. Please go ahead.

Karan Sanwal: So, wanted to understand that our employee cost remains almost similar at a console level year-on-year. So, the employee cost, if the particular sales reduces, maybe the quarter end or maybe quarter four. So, will the trend be similar going forward or could we expect a reduction in employee cost as a percentage of sales?

Nikhil Mallavarapu: Your question is, employee cost as a percentage to the revenue or?

Karan Sanwal: Yes.

Nikhil Mallavarapu: It will remain the same.

Karan Sanwal: On a year-on-year basis right?

Nikhil Mallavarapu: Annual basis yes.

Karan Sanwal: Understood. And talking about, reducing our headcount in the Canadian subsidiaries, if you could provide us with a number that we have actually reduced, how much reduction that has already been done. And also if you're obligated to pay any severance pay to those employees going forward?

Nikhil Mallavarapu: The team size we have today is around 38 people or so in Canada, which has already been reduced from a higher level about a year ago that we had. So, second point in terms of any severance play, we have not had any impact on that. This is all a result of basically natural attrition that we've had.

Karan Sanwal: Okay. And last question is, if you could provide receivable and inventory levels for Q1 FY24, the numbers?

K S Desikan: It has remained more or less the same level like March 23. Inventory is at about 105 days and receivables is about 110 days or so.

Moderator: Thank you. We will take the next question from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: So, my first question is on BTEP side. So, if in our earlier interactions, the indication was that, this segment typically is around 8% to 9% EBITDA margin. But in the AGM we said that we will move towards 12%, 13% kind of number. So, can you give us some thoughts what has changed is the type of orders that we are getting is different, or it's the scale advantage, which is playing out some thoughts on that?

K S Desikan: Yes, it used to be, you are right it used to be historically around 8% to 9%. Maybe a couple of things. Number one, we went ahead with the new customers in what you mentioned the electric mobility, clean tech, and more of industrial electronics. So, we move towards more of mid-size volumes and medium mix, than high mix and low volume which was typically in the defense side. So, reason one, shift towards increasing the industrial electronics with medium volume and medium mix, that was number one. And number two, also because the high mix involved a lot of costs about in terms of manpower and processing costs. Shift to this actually already brought down a little bit of manpower cost. So, in terms of number of people for the same, higher revenue remain the same. That was number two, and number three, and the industry 4.0. We have initiated inside the factory and due to that there's a lot of process improvements including automation, digitalization all of that, which helped us to control the cost. That's one, and finally, we could get a better margin from the customers in the newer sectors. So, this combined effect of all of this is what though the EBITDA margin from 8% to 9% to more than 10%, 11% or so.

Dhwanil Desai: So, essentially, in the broader mix and the revenue mix, the proportion of offset would be how much and how do you see that going forward?

K S Desikan: Can you repeat the question, please?

Dhwanil Desai: The proportion from the offset business, which was typically a low margin business from the defense side. Is that proportion what is it currently and how do you see that going forward?

Nikhil Mallavarapu: Overall view is that it should remain relatively flat. Just to be clear when we say offset business, this is part of the EMS business. Whereas when we talk about with build to spec defense stuff that is on the build to spec side, so with regard to offset for defense, we expect that to remain relatively flat, and it represents probably around 15 to somewhere between 15% to 20% of our overall sales.

Dhwanil Desai: Alright. My second question is on the overall numbers that we're talking about 20% revenue growth. So, I assume that ER&D business is low single digit growth considering that our focus currently is to bring back the profitability. So, that means that the other two businesses have to grow at more than 25%. So, one in terms of order book on the BTS side, what gives us confidence that BTS will be able to grow at 25% and also on the BTS side if you can give some sense as to out of the total BTS order book. What is the developmental orders, the proportion of the overall order book?

Nikhil Mallavarapu: On the build to spec side, these typically are projects have been in the works for quite a long time, from the time you actually start going after an opportunity till the time you actually received the order can be two to three years sometimes. So, our confidence is based on the fact that we are working on some specific opportunities for quite some time, you're actually hoping to receive some orders in the current quarter, but the last quarter they were delayed, but we still feel fairly confident that we should be able to win those contracts. There are also some others which are L1 based, so that we have to wait and see how it comes out, but with a limited competition in the mix. Then with regard to your question on development orders, I would say, a big portion of these are development orders. So, they will require design effort followed by production. So, there are few things we are working on in the armoured vehicle side, which Desikan touched on in his earlier remarks, where that will be production-based orders there, we have invested ourselves on developing indigenous equivalent of imported products. And once they're qualified, some of them are qualified already and the first few orders, those will be production or annuity kind of. So, it's mix, but I would say this year's projection, the majority of the orders we are expecting will be development orders.

Dhwanil Desai: Okay. Just a follow up on that, so developmental order, let's say you do the developmental order and execute in your two years, and now it’s done, then typically when those products are commercialized, the revenue potential from those products is multiple times of your developmental order, is that a right understanding?

Nikhil Mallavarapu: It depends on the application. So, if you're talking about applications like radar or for aircrafts, Navy, land systems all of that, you're right absolutely those will be, the recurring orders will be higher. But we also sometimes have, especially on the space side, which has been a strong area for us, those are typically project based orders. So, you win an order to develop and supply electronics for or payload for a satellite. And there are times where the same satellite constellations may be repeated subsequently. Or they may require some sort of further modification in the subsequent orders. So, I hope that answers your question.

K S Desikan: Just to add. The question is right, in defense before even accepting a development order, we look at the potential possible at the end of this development. So, unless the potential is sizable, we may not even embark on the developmental order. Whereas in the space sector, it may be like what Nikhil said, it may repeat after three years or five years, because the same satellite doesn't go every year. So, that's the point.

Moderator: We'll take the next question from the line of Narendra, an Individual Investor. Kindly proceed.

Narendra: One question regarding the import ban that the government has imposed on certain electronics. So, does it help us in anyway or it does not pertain to any segments?

K S Desikan: If you're referring to the ban on the import of laptops and computers, it doesn't affect us because we are not in that business at this point of time.

Narendra: Okay. Are we planning to?

K S Desikan: No, as a strategy, we have been on the high end and high tech of electronics. We have not considered consumer and telephone, mobiles, et cetera. So, not at this point of time, we don't have plans.

Narendra: Okay. And also regarding your 20% growth target, so I'm assuming it's for FY24s, right?

K S Desikan: Sure, yes.

Narendra: So, what could be the medium to long term target that you are planning to do?

Nikhil Mallavarapu: Actually, what we talked about was really two to three year kind of CAGR we talked about. We don't give very specific guidance on year-on-year basis. But, we feel reasonably confident, we'll be able to achieve that level of growth on at least a two-to-three-year basis.

Narendra: Okay. On the margin term say, five years down the line, or three, four years down the line, how much are we expecting to go on that, given the scale and cost saving measures that you are taking?

Nikhil Mallavarapu: Four years down is a long time. So, like we said, based on our existing business mix and visibility that we have, we are working towards the 13% to 15% target in our overall two-to-three-year kind of horizon. Beyond that, it will largely be based on the mix. Fundamentally, each of these businesses have associated margin profile with it. So, where it can move after that will be largely dependent on how the mix will go. So, on the build to spec side, we will see some very,

very significant project wins, you may see an improvement further from there. But fundamentally, it's a bit early to say anything about four years.

Narendra: Okay. So, could you just throw some light on the margin profile of the different businesses, like what are we doing on each of the business segment, if you could share it would be helpful?

Nikhil Mallavarapu: So, as I mentioned at the beginning, if you talk about the EMS side of the business, this is fundamentally build to print kind of business. So, that's where we manufacture subsystems or systems for global OEMs. And this can be for again, for defense kind of customers and offset where we making electronics for the Rafale jet, traffic management systems and so on. And so on the industrial side, we make electronics for industrial power plants or power grid infrastructure and so on. EVs has been another area that we've been building out and also some medical devices. So, these are areas on the EMS side. On the build to spec, we have for example payloads for satellites, we make subsystems on missiles, armoured vehicles, so on. And our guidance system for example on this, these are some of the examples that we do. And also on the transportation side, we make the passenger information systems inside the train and finally on the engineering services side, we work with again multiple different sectors and customers. So, we work on avionics for aerospace, we work on different types of control electronics for defense, or signaling kind of equipment for railway. So, these are just some examples of the kind of things we do for these sectors.

Moderator: Thank you. We will take the next question from the line of Pranav Bastawala an Individual Investor. Please go ahead.

Pranav Bastawala: I've got only one question. The electronic manufacturing industry is growing at an exponential pace. And next 10 years looks very exciting. Now as Centum is also likely to grow at 20% that is what I have been hearing, but when we look at the EMS industry as a whole, it is going to grow by leaps and bounds. And that's the kind of the opportunity we have. So, what are the growth levers for this company. Mr. Desikan or Mr. Nikhil, you can spell out how we are going to grow, what are the other areas by which we can grow beyond 20%. And how exciting those opportunities are. Can you shed some light on that. Thank you.

Nikhil Mallavarapu: So, the first thing Mr. Bastawala, we as a company we are not exclusively EMS. So, while we see a very aggressive growth in the EMS division itself when we say 20%, overall it is including all the other divisions of the group as well. So, just to say that, we do expect some aggressive or more aggressive growth plans in the EMS space itself in the coming future. So, in terms of what we are working on essentially, a couple of the decisions I talked about earlier was to move more aggressively into the automotive space, which is historically not been an area that we were present in. But we made that decision already a couple of years ago. And we've seen the benefit of that in terms of new order intake over the past years. So, that we expect will be an important growth driver for us. In addition to that, industrials and clean tech has been another area that we've seen very positive traction on, and that's driven either by the fact that the

Indian government itself has put various restrictions in terms of when it's buying for government based tenders, and so on it mandates that certain, amount of certain indigenous content has to be present in the equipment or device, that's been one. On the second day, we have also seen some large US companies for example looking to move out of China. And they've identified us as a potential candidate for this shift. So, these are some of the real instances that we are seeing, which are substantial opportunities. And we hope to capitalize them.

Pranav Bastawala: Sorry, if I can squeeze one more question, is it possible?

Nikhil Mallavarapu: Sure.

Pranav Bastawala: So, in space radar we have tied up with Indra. So, apart from that, are we in a position our are we looking at some other possibilities also with Indra, because this is going to be one more division, which is going to give a very huge revenue to this organization, and it can scale up considerably. Can you just throw some light onto this?

Nikhil Mallavarapu: I wouldn't answer specific to Indra, the point being just that, we are looking to move up the value chain, to deliver full systems to the armed forces. And there's different areas we had space readers we talked about, but we've also done some partnerships on the electronic warfare side and a few other things. So, we are working on some significant opportunities beyond the space radar to be able to position ourselves as a supplier of systems directly to the armed force.

Moderator: Thank you. We will take the next question from the line of Vinay Kumar Jain an Individual Investor. Please go ahead.

Vinay Kumar Jain: I just wanted to ask, while other players in the EMS industries are giving growth projection of 40% to 50%, why is Centum is sticking to 20% growth target only?

Nikhil Mallavarapu: So, as I mentioned earlier, first of all we are not only an EMS company as we share we are 40% of our overall number is EMS. So, when we speak about overall growth rates, it's at a consolidated basis including the other segments. Having said that, we obviously have aggressive internal targets that we're working towards. But, based on visibility that we have this is medium term thing we feel confident at a minimum to be able to achieve, but we are working towards more aggressive targets.

Vinay Kumar Jain: Thank you. And second question, since we are in the space segment for such a long time and associated with ISRO and participated in very important projects like Mangalyaan, Chandrayaan, so are you are you looking at getting some business from NASA and SpaceX also?

Nikhil Mallavarapu: No, NASA is not really a major opportunity that we see currently. Space sector also tends largely to be parochial or nationalistic, so to speak. So, they would be obviously promoting American companies in terms of their own contracts. So, our focus in terms of spaces continues to be on the Indian market. But there are certain things that we are doing to be part of global programs with the global OEMs, , which are existing customers. Whereas there are some opportunities which are coming up for a company like us to be part of the program.

Moderator: Thank you. We'll take the next question from the line of Jay Jesrani from Mountain Lion Partners. Please go ahead.

Jay Jesrani: Wanted to know that the French subsidiary has been invested like five to six years old, there has been a good turnaround in terms of trying to get business from there to India and trying to improve margins. But since the time it was invested, was the growth expectation to be this low or are we looking at a faster growth from the French subsidiary than what it is currently. And do you see it growing faster than the Indian subsidiary because, the French subsidiary is more towards adapting to the world opportunity. And India opportunity is growing but do you see the France giving us better growth in next two years, I don't want to look ahead just in next two years, because it's been seven to eight years that we would have invested in the company. Thank you.

Nikhil Mallavarapu: Mr. Jesrani, thanks for the question. If you look back at the history there's obviously been multiple effects that we've had,. since we entered the company. We talked about already the divesting of a substantial part of the business which was the energy, products division that was divested a couple of years ago. So, that was one of the impacts. And then subsequently, in the post COVID period we also had an impact because of the industries that we operate in. So, that's been some of the challenges were not able to see the growth over the past few years. Having said that, this year first of all we do expect reasonable growth coming from the French subsidiary itself. And to the question of what we're looking out in terms of two years, our first objective with regard to the subsidiary is more to improve our margins by optimizing on the cost in the execution and that's really the first focus rather than pushing for the significant growth happening from there. And, in terms of demand purely from the engineering services side itself, the important point is we do have really good customers and we are in good spaces. So, once we are able to work out our fix, so to speak on the margin side, then we should be able to drive growth after that.

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

Nikhil Mallavarapu: Thank you all for participating in this earnings concall. I hope we were able to answer your questions satisfactorily and at the same time offer insights into our business. If you have any further questions, or would like to know more about the company, please reach out to our Investor Relations Manager at Valorem Advisors. Thank you, stay safe and stay healthy.

K S Desikan: And wish you all a Happy Independence Day tomorrow.

Nikhil Mallavarapu: Happy Independence Day.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Centum Electronics Limited that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.