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Sub: **Transcripts of Earnings Call**

Please find enclosed transcripts of earnings conference call, in connection with the Annual Financial Results held on 23 April 2024.

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

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Thank You

For **Cyient DLM Limited**

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Krithika S
Date: 2024.04.29
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S. Krithika
Company Secretary & Compliance Officer

"Cyient DLM Limited
Q4 FY'24 Earnings Conference Call"
April 23, 2024

MANAGEMENT: **MR. KRISHNA BODANAPU – NON-EXECUTIVE CHAIRMAN – CYIENT DLM LIMITED**
MR. ANTHONY MONTALBANO -- CHIEF EXECUTIVE OFFICER – CYIENT DLM LIMITED
MR. SHRINIVAS KULKARNI – CHIEF FINANCIAL OFFICER – CYIENT DLM LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Cyient DLM Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, 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 Mr. Krishna Bodanapu, Non-Executive Chairman of Cyient DLM. Thank you and over to you, sir.

Krishna Bodanapu: Thank you very much. Good evening, ladies and gentlemen. I'm Krishna Bodanapu, Non-Executive Chairman of Cyient DLM and welcome to Cyient DLM's Earnings Call for quarter four of FY24.

Present with me on this call are Anthony Montalbano, the CEO of Cyient DLM and Shrinivas Kulkarni, the CFO of Cyient DLM. Before we begin, I would like to mention that some of the statements made in today's discussions may be forward-looking in nature and may involve risks and uncertainties. A detailed statement in this regard is available in our investor update, which has been posted on our website.

Our growth momentum continues and we were able to post strong results in Q4. We broke our previous record of highest ever revenue in a quarter, which is a testament to the ability in strong execution and aligns with the broad growth that is being seen in the industry. When I look back at FY24, it is great to see several positive developments.

After a successful IPO, we continue to see a lot of interest from investors in Cyient DLM. We have received several customer appreciations, awards and recognitions during this year. Our order execution capability has instilled higher confidence in our clients, which is now reflected in our pipeline.

Our customer engagements have been far more collaborative and conversations are forward-looking with all our top clients. We have had some uncertainty due to the Israel-Hamas war, but our supply chain and execution performance kept our confidence high throughout the year. Our Israel business, or our business that’s dependent on Israel customers or supply chain, continues to do very well.

We are grateful for their resiliency in the uncertain times that they face and we are quite confident that this will continue into the next years or going forward. The outlook for FY25 looks promising and we are really excited about the prospects that we see ahead. Finally and most importantly, I want to thank my team, customers, suppliers and the entire investment community for being a part of Cyient DLM's successful journey in FY24.

As we step into FY25, our first full year as a publicly traded company, we will stay ahead of the curve and support our clients in managing the growth that they are seeing. I now hand over the call to Anthony and Shrini and request them to walk us through business updates and financial performance. Anthony, over to you.

Anthony Montalbano: Great. Thank you, Krishna. [inaudible 0:03:17] as we finish off our first fiscal year here, I thought it would be important to give a view on how the industry continues to project for us. We continue to get very strong tailwinds from what's been happening in the industry from a global supply chain and solution perspective. This has been referred to as a China plus one strategy. This is where regions, including India as well as others, are seeing new opportunities. This has been a very strong driver of business for us, including the specific aspects of what we're seeing in India on the EMS market in that regard. Even the EMS industry overall is simply massive.

You're looking at a trillion-dollar industry that has a CAGR of 5.4% at that level, with the Indian market growing at much higher rates, which we'll cover here in a minute. This really is an outcome of not just what's happening from a geo and political aspect, but also just significant technology changes happening across various sectors. This includes EVs, communications, AI, Industry 4.0. All these factors continue to combine to give us a very robust opportunity to grow in this market. [inaudible 0:05:34] go to the next slide.

The part of the market that Cyient DLM is focused on is a specific aspect of it in two parts. First of all, we focus on what we call high-mix, low-volume. This is part of the market that often involves what we call mission and safety-critical electronics manufacturing services. These are electronics that go into aircraft, medical devices, very high-reliability type industrial applications. This segment, especially in India, is having very high growth rates. We're seeing 30% growth rates over just a few years alone.

This is driving a considerable amount of new opportunities that were really not even slated for these sectors in the past. The focus areas for us are really air and defense, medical and industrial. This is our core. These are the areas that we are seeing the most growth with our core clients. At our size business, and when you look at the size of the market overall, there is just a tremendous amount of runway in front of us just focusing on these core sectors. This is really part of our DNA.

This is where we'll continue to add value for our clients for the foreseeable future. Let's go ahead and go to the next slide. So, getting now down to specifically to Cyient DLM, as we look at some key highlights of the year, we've had a very strong year in terms of growth. We've had to make some investments and really expand in order to support this. We did inaugurate a new facility in Bangalore focused on precision machining. This was a facility that we greenfielded and we have some of our large key clients in there.

This is a really unique offering for the EMF space. This is really more along a vertical integration aspect of it where we're bringing value to our clients beyond just standard EMF type services. Then we also, just recently, a couple of weeks back, inaugurated a new manufacturing facility in Mysore.

This is really just adjacent to our core operation. This is really a great opportunity to expand in a key region for us where we have a lot of our key clients. This also gives us more space and capability and capacity to not only support the current business growth, but also business that we have forecasted in other parts, not just EMS, but also areas such as cable and wire harness and other types of offerings that we can bring to our clients.

Those are some key expansions that we completed this past year. Some investments also that we've made on the capabilities perspective. Build to spec, the ability to do design and manufacturing is really a core differentiator for us.

On our last quarter call, we highlighted that we brought in a CTO for our business to help drive this specifically. This is directly aligned to some very strategic programs that we will be announcing where we are bringing these types of solutions to our clients. This is really a unique differentiator for us as it continues the relationship that we have with science, engineering and allows us to bring those integrated solutions to our clients. This is really a unique capability that we can bring forward and that we are really gaining momentum in.

We've also invested in the supply chain. This has been probably the number one pain point that we've heard across the industry. It's usually amongst the top discussion points with many of our clients. The good news is, is that it's really improved. When we look at the outlook, there's still a tremendous amount of focus on supply chain, but it's very different than when it was about a year and a half back where there was still uncertainty. Now this appears to be much more stabilized in that trend and outlook. It seems to have a pretty broad sentiment.

For us, though, we have continued to invest in this area so we can actually provide solutions to our clients from a supply chain perspective. That means designing in alternate components. That means being able to work with a supply base proactively and really bring just a higher value offering in there. We brought in leadership and also mid-level talent in that organization to really help us lead the industry in that regard.

We've also invested in go-to-market and key sales talent, really making some key hires to help with the engagement that's required for the type of clients we work with. We have a relatively small number of clients for the size of business we run. Our strategy is focused on working with industry-leading OEMs and drive our growth along with them. This past year has worked out well in that regard. A lot of our growth has come from working with these top clients. We'll also discuss some of the new logos that we've added as well.

These key investments really have led to some recognition in the industry. We've received awards from the electronic sector. We've received supplier excellence awards. Then also, just some national export awards as well, just recognition of the growing impact we're having regionally here as we continue to grow our business in India and globally.

Next slide. So to expand a bit on as we look forward what our strategy is, we've completed a successful FY'24. As we look at FY'25 and beyond, some key things that really stand out for us is that we are focused on large deals. Again, we work with large OEMs for the most part in high-value segments, which we've discussed. The transactions that we do with them are in relatively large scale, especially for a company of our size. This really gets into more of not just the size of the opportunities, but also the depth.

We've talked a little bit about the build-to-specification aspect, enabling design services along with manufacturing. This allows us to go in and even as we work with our sales team and look at our key accounts and put a robust account planning aspect in place for this, we're really just scratching the surface on many of these key accounts. We just see these fundamentals as being very strong pillars as we drive the growth of our business.

One other part is we also have an inorganic strategy that we are executing well on. We see this as having what I call material impact going forward as we continue to add capability, capacity, and also potential geo-offerings. We will be making some additional updates in that regard as soon as we're able, but that is progressing nicely and I'm excited to bring more updates in that regard soon.

We'll also continue to highlight the importance of the core industries that we are focused on, air and defense, medical and industrial. That being said, we have had opportunities in other sectors and we will continue to evaluate those. There could be an opportunity there to look at areas like EVs or automotive or communications where there's a right value profile. We will definitely take a look at those opportunities and we have been doing so.

Let's go to our next slide. So that kind of covers really from the business overview and the strategy overview of where we've been and the direction we're going. I'll turn it over to Shrinivas, our CFO, to give more details on some of the finance updates.

Shrinivas Kulkarni: Thanks, Anthony. Good evening, ladies and gentlemen. Thank you for joining the call today and thank you for your interest in Cyient DLM. This being the first year of operations for us as a listed company, we are happy to present the full year financials for FY'24 along with our quarter four performance. First, I'll walk you through Q4 and then we'll spend a few minutes on the full year results.

We closed Q4 with a revenue of INR3,618 million or INR361.8 crores, which represents a year-on-year growth of 30.5%. Our operating profit for the quarter is INR38 crores, which is a year-on-year growth of 19.2%. We had mentioned that we will reach double-digit margin in Q4 and we are pleased to report a 10.5% EBITDA margin for the quarter.

Our profit after tax is INR227 million or INR22.7 crores, which is a year-on-year growth of 80.7% and the PAT percentage is 6.3%, which is 175 basis higher than the same quarter previous year. We closed the year with an order backlog of INR21,705 million. This is declined by INR262 crores when compared to the same quarter previous year. We will get into the details of the order book and the sales pipeline in the subsequent slides.

The next slide shows a trend on the revenue, operating profit and net profit over the past five quarters and as you can see in all the metrics, we have a nice trajectory of growth and improvement, which we hope to sustain in the coming years. We will take a quick look at some of the other KPIs which are important and give an indication of the overall health of the business.

If you see our net working capital, it is at 79 days, which is the lowest it has been in the past four quarters. This metric is best looked at as an average for the year and not at any point in time. However, just to give some color on how the working capital was managed in Q4, we were able to drive collections and reduce the overall -- overdue receivables to end the DSO 57 days. We were also able to reduce our inventory holding by 20 days in Q4.

There were no new significant customer advances and this number will go down as we square off the previous advances with revenue as we book those revenues. The net result of all of these actions meant that we generated a positive free cash flow of nearly INR129 crores, which is a significant achievement for us. This number would have been higher, but for the holidays in the last week of March and some of the collections spilled over into April as well.

In terms of the mix of the business, there is not much change from what we have presented earlier. Our growth, as you can see, is driven by aerospace and defense. We have taken several steps to focus on industrial and medtech and should see a higher share of business from these verticals as we go forward. PCBA and exports continue to be about two-thirds of our businesses and that share has remained almost consistent for the last few quarters.

We now will reflect on the full year performance. Our revenue for the year is a little shy of INR1,200 crores at INR1,191.9 crores, which is a growth of 43.2% year-on-year. Our operating profit grew by 26.5% year-on-year and our net profit by 92.9% year-on-year. The fixed asset turnover ratio reveals how efficient we are at generating sales from our existing fixed assets and we are happy to report that we have improved from about 6.8x to about 8.6x in the current year. Our debt equity ratio is healthy and we still have the IPO proceeds to help us fund the growth requirements in the next two years.

While we close the year with a net working capital of 79 days, as I said earlier, we should look at the average net working capital. It is more than 100 days for us in the year. This is higher than where we want to be and our near-term goal is to bring this to about 90 days and then improve from there on.

Our FCF for the full year is negative INR104 crores and even though this is negative, it is manageable and in control given the 40% plus growth that we saw in the business. This slide provides a tabular view of the P&L for Q4 and for full year. It has comparatives to the previous quarter, previous year, which you can refer to. We have discussed most of these points in the previous slide and hence I will not spend too much time on this. Just a couple of follow-ups.

As you can see, the year-on-year increase in employee costs has resulted in lower EBITDA growth compared to the revenue growth. These were planned investments in headcount to strengthen the team for the growth we see in the business. As we add scale, this number will not increase linearly and we will start seeing the benefits of absorptions kicking in.

Our PAT growth is significantly higher than the operating growth because of the increase in other income. Other income, as you all know, is higher because of the IPO proceeds. As we use the funds to grow the business, you will start seeing the benefits getting converted into higher operating costs.

A quick look at the mix of industry and product category and how it changed from FY '23 to FY '24. Our industry mix has changed in FY '24 with a higher share of revenue coming from aerospace and defense industries. While we take advantage of the higher traction we are seeing in these two industries, we remain committed to building a more diversified portfolio as alluded to by Anthony in his earlier slides.

We also see the share of our business from PCBA has increased in FY '24. We have, as mentioned in the past, do not have any preference on the split between box build, PCBA or other parts of our businesses as these are driven by specific programs and customer preferences. Our objective will be to maintain and enhance the margins despite the product mix that we are into.

Lastly, on the IPO proceeds utilization, we have cleared the external debt and have used approximately INR80 crores for funding the working capital requirement that was used towards growth and a small amount towards capex. There are no deviations in the usage of funds from the objects stated in the RHP.

So with that we conclude the presentation and open up the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. We will take a first question from the line of Vipraw Srivastava from InCred Research. Please go ahead.

Vipraw Srivastava: First question was regarding the geopolitical thing in Europe. So, I mean, Cyient has clients like Thales and Rafael. A company like Thales is seeing huge order inflows because of the whole geopolitical thing. So, is it a possible opportunity for DLM? Where do we see ourselves in that sort of space?

Krishna Bodanapu: Yes, I can answer that question. I caught the question. So, I think there is, in general, there is a fairly significant increase in defense requirements and in defense spend by governments and therefore far from our clients. So, we are seeing a sort of outcome or direct benefit of some of that also coming through. There is also another element because there is a number of offset type requirements that are also coming from the Middle East region in general.

And we are also looking at how we can address those more effectively. But to your point, absolutely, there is just more demand with what's going on in that region. And that is translating to orders for us, both in terms of extension of existing orders, but we're also starting to see some of our pipeline is building in with some of these new orders, new equipment, new type of requirements.

Vipraw Srivastava: Second question was regarding the other current liabilities which is affecting the cash flow statement. So, that has gone up sharply. So, how do you see this shaping up for FY '25? I guess it's because of advances from customers. So, I guess it has declined. So, how do you see it shaping up for FY '25?

Shrinivas Kulkarni: So, I think we will continue to see the headwind of lower customer advances even as we get into FY '25. I think that's just the nature of the business. As we move more into non-India businesses and the growth driven by those industries, there will be that. But I think the way to manage that is to sort of control the inventory. I think a number of days we've had some success in Q4, reducing the inventory days. And we hope to sort of sustain from that going forward.

So, year-on-year, we do expect improvement in the net working capital. The composition might change a little bit in terms of what is playing out but we hope to be at an average of between 90 to 100 days in FY '25.

Vipraw Srivastava: Right. And last question regarding the Honeywell Anthem deal which is going into advanced air mobility. So, where do you stand currently on that? I mean, a lot of these advanced air mobility companies are vying for certification. So, where does Cyient DLM stand? When do you see any order materializing from that if any? I mean, any timeline that you have for that?

Anthony Montalbano: Yes. So, as far as specific client programs, we are limited on the amount of detail we can disclose. But as far as what has been communicated in the past on that, that sector and these specific engagements, I would say are very much on track and are really quite strategic for us. So, that's a core part of what we expect to see in the coming fiscal year and the years after that as far as what's been communicated in the past on it.

Vipraw Srivastava: Okay, cool. Thank you. Thank you a lot.

Anthony Montalbano: Absolutely.

Moderator: Thank you. The next question is from the line of Venkatesh Balasubramaniam from Axis Capital. Please go ahead.

Venkatesh B.: Yes. Thank you for the opportunity. The first question is, when you ended FY '23, you had a backlog of almost 24 billion, which was basically order backlog by sales of almost 2.9x. Now, when you're ending FY '24, you're at a backlog of 21.7 billion, which is an order backlog of sales of around 1.8x.

While I understand you have these long-term framework agreements with clients, especially somebody like Honeywell, does the fact that your backlog, your first of all order wins in the current year has been much weaker. It's been half the order win that you won last year.

So, that is why your backlog is weaker. Is that something that we need to be worried about when we are thinking about revenues for FY '25? Or it actually doesn't matter because as we progress into maybe the first or the second quarters, some of these orders will fructify and you will not have any problems of growth? That is the first question.

Anthony Montalbano: Yes, I can go ahead and take that. So, there definitely has been some consumption in the current fiscal year of the order backlog. And as I indicated earlier in my comments that we do have some key programs that we will be announcing, which will have quite an impact on building that backlog back in place. So, one nice aspect about our business and the sector that we play in is we actually have a pretty long window of order commitments and outlook.

It's much different than a consumer business, for example, where you might only get a three-month view. In our business, we tend to get a nine-month view or even longer. So, the pipeline is quite robust and then the key programs that are progressing towards business award, as those come in, that will then provide the positive update on the order backlog that I think will help address the point you're bringing up.

Venkatesh B.: Yes. Is it possible to tell us by when will this order backlog build up to a another – a decent level? Would it be like -- is it possible that you will have a decent backlog by the end of the second quarter or something like that? Whether some of these long-term framework agreements will convert into annual orders before that?

Anthony Montalbano: Yes, I would definitely expect to have some very solid updates within the next quarter for sure. And then again, that will also continue throughout the fiscal year.

Venkatesh B.: Okay. Now, the second question is on the customer advances which the, I think the previous analyst already picked up and actually asked you, is the key reason for the customer advances as a percentage of sales coming down because you have executed a large chunk of the Bharat Electronics orders?

Is that the reason why these customer advances have come down? Does that also mean that there are enough and more triggers because as Bharat Electronics as a percentage of sales of the backlog comes down and your other higher margin orders you start executing, you could have a very decent kind of margin expansion in FY '25. Is that a reasonable assumption to make?

Shrinivas Kulkarni: Yes, yes, that is correct Venkatesh. I think the consumption of the order of Bharat Electronics offsetting with the advance that they gave us is one of the primary reasons. And see, even in other clients, I will say though, the order, the customer advance is a concept I think is reducing.

I think two years ago when there was significant pressure on the supply chain, I think there was a tendency to sort of accumulate inventory to secure the inventory and customers were happy to give those advances to us. But as the supply chain is easing out, we will see the number reducing. What we should see as a corresponding offset is also that inventory day reduces for us.

That is one part of the question that you asked. On the other one, yes, absolutely, as the mix of the business changes, if you get the other customer orders in place of orders like the one we spoke about, yes, the margins will expand. But we are continuing to work. It is a key client for us. We will want to continue working with them. But as a mix, as a percentage will definitely not be as high as what it is today.

Venkatesh B.: Okay. One last question from my side. I do not know if you want to answer this question. Any indication of potential guidance of revenues or margins for next year that you would like to communicate or is it something you do not want to talk about?

Shrinivas Kulkarni: I think Venkatesh, we have maintained that on a three-year basis, we will have a 30% CAGR in the past and we would like to just stay with that at the moment.

Venkatesh B.: Okay. Thanks a lot. All the very best.

Moderator: Thank you. The next question is from the line of Meet Jain from Motilal Oswal. Please go ahead.

Meet Jain: Yes, thank you for the opportunity. So as the previous participant earlier mentioned that because of reducing order consumption of BEL, our margins are going to improve. Also, in previous quarter, we mentioned that all the strategic investments have completed. So can we assume that from FY '25 onwards, really have a good 11%, 11%, 12% kind of margin, which we used to achieve in FY '23?

Shrinivas Kulkarni: Yes, we do have a line of sight to improve margins from here on, but that will be on a full-year basis. We will have some sequential sort of softness in the first couple of quarters because of the way the business is. I think we have roughly, if you see our business, 45% of our revenue comes in H1 and about 55% in H2.

So on a full-year basis, yes, your assumption is correct. It might not increase as much as you are saying, but we will definitely see a line of sight of improving the margins from where we are today.

Meet Jain: Okay. So another question is on our revenue mix this quarter. We are seeing a higher growth in defense segment of almost 78%. So can you just bifurcate this between the international orders or domestic orders? And this also includes a BEL order. So I was asking this revenue mix, which we shared in our presentation, that 56% is being contributed by the defense segment, and which also saw growth of almost 78%. So can you bifurcate this between how much is the international mix and how much is the domestic mix?

Shrinivas Kulkarni: I think our export to domestic ratio is two-thirds to one-third today. One-third of our business is domestic. We see higher wins from exports. So we see that increasing. It's difficult to give a percentage prediction of where this number will land next year, but we see higher traction in the export business.

Meet Jain: So I want to ask you, what drove a strong growth in the defense segment? It increased to almost 56%. So I just want to ask, our defense segment this quarter grew significantly by almost 78%. So what was the main reason? Any big order execution happened? Was it international or domestic?

Anthony Montalbano: So the defense growth is, at least the part that we're seeing right now, is being driven by some of the opportunities that we have in the Middle East and in India that [0:36:17 inaudible] today.

Meet Jain: Okay. Okay. Thank you so much.

Moderator: Thank you. We have our next question from the line of Rakesh Wadhwani from Monarch Aif. Please go ahead.

Rakesh Wadhwani: Thank you, Team for the opportunity. Sir, can you talk – sir, a few data point questions. Can you please tell us the amount of customer advances for the year ending? Absolute amount?

Management: From a what did you want? You want to amount of customer advances?

Rakesh Wadhwani: Advances from customers. Sir, last year, in the balance sheet, it was mentioned the advances from the customer was INR202 crores. Can you please talk about that number at the end of this year? What is that number?

Shrinivas Kulkarni: Yes, I don't have that number readily available with me. We have reflected that at the end of Q4, we have 25 days of advances. So we can do a quick math from there backwards. If you want separately, you can connect and I can share that number with you.

Rakesh Wadhwani: Okay. And sir, second question on the IPO funds that we raised. So this year, we utilized INR79 crores for the working capital purpose. Just wanted to know what will be the future treasury because from next year, we will be earning good profit. This year, also we earn profit next year, we'll be earning profit.

So the major chunk of the working capital requirement that is required in the coming years will be funded from the internal sources only. So there will be always huge amount of INR150, INR200 crores cash on the books every time. Is there any thoughts on that?

Shrinivas Kulkarni: No, I'm really unable to hear. I don't know if there's audio at our end. Sorry about it. I think I got the gist of your question. You're basically asking what is the trajectory of the net working capital. Is that what you want to understand?

Rakesh Wadhwani: Yes, I just want to know what the utilization of…

Moderator: Mr. Wadhwani, sorry to interrupt. Can you use your handset mode, please?

Rakesh Wadhwani: Yes, sure. So just wanted to understand the utilization of funds in the coming years because there will be a huge amount of cash in the books as we are progressing, making good amount of profits. There will be a huge cash flow also in flow?

Shrinivas Kulkarni: Yes, Yes. So we have consumed about INR100 crores of cash this year, right? And then when we went IPO and we put on the proceeds, we had about INR300 crores roughly earmarked towards the working capital requirement. Then we have certain other objects of the issue earmarked towards M&A and some for general corporate proceeds.

Whatever was earmarked towards repaying the external loan, we have already done that. So a lot of the money that is left in the now from the IPO proceeds, I think half of it will go towards the working capital usage and the remaining towards capex, general corporate proceeds and M&A.

Rakesh Wadhwani: Okay. So any guidance on the working capital? I think you mentioned 90 to 100 days net working capital cycle will be maintained at the end of FY '25. Is that understand correct?

Moderator: Yes, that is correct.

Rakesh Wadhwani: Okay. Thank you. Best wishes.

Moderator: Thank you. We'll take the next question from the line of Deval Shah from RBSA Investment Managers. Please go ahead.

Deval Shah: Yes, so my question is with regards to the box build. So I understand that it is a reflection of the order book, but it has fallen from 35% to 25% in this year. So any comments and insight on that? And second question is with regards to during the previous call you mentioned that we are in an advanced stage of discussion with one of the potential acquisitions. So any progress or any update you want to give on that inorganic expansion?

Shrinivas Kulkarni: So you look from the box build PCBA mix, I think we really, as I said, we don't have any particular preference. I think these are driven by program specific requirements and customer preferences. A number of times, the customer prefers to do the box build themselves. So I think we're using the PCBA that we developed.

From our perspective, frankly, there is no difference in the margins we make on a box build versus a PCBA. And we are happy to sort of help the customer with whatever they need. So we don't have a preference one way or the other.

I don't think we should read too much into that mix change. I think the only variable in that is the cable harness. As that business increases, you can start seeing better margins because that business comes with higher margins just because it's more headcount intensive.

So between PCB and box build really not read too much into that one. That's one part. And on the second one, I think, yes, I think the progress is well. We are still in the process. We really can't tell you at what stage we are in, but it's progressing well. Anthony you want to add anything.

Anthony Montalbano: Yes, exactly Shrinivas highlighted. What we can disclose is that we are pleased with the progress and we hope to have an update probably on the next call on the specifics of what that looks like, but again, this is something that will add capability and geographic aspects to it where we can have an impact on what we can bring our current clients and new clients as well.

Deval Shah: Okay, thank you.

Moderator: Thank you. We have our next question from the line of Abhishek Jain from Alfaccurate Advisors Private Limited. Please go ahead.

Abhishek Jain: Thanks for the opportunity and congrats for a strong set of numbers in fourth quarter. Sir, we have seen a decline in the industrial segment revenue in FY24. How do you see recovery ahead? We have seen decline in the industrial segment revenue in FY24. So how do you see recovery ahead?

Krishna Bodanapu: Shrinivas did you catch that question?

Anthony Montalbano: No, we did not catch the question. All we heard is about something declining and how do we take it.

Krishna Bodanapu: Yes in the declining in the industrial segment in FY24, how do we see the recovery?

Anthony Montalbano: The industrial segment. So that is correct. We did have some declines in the industrial segment that was due to a key client and we actually do see a recovery in that sector overall and also we expect to see some growth in that sector with some new clients as well. So, yes, that is a sector though that we do see growth in even though we did have one client that did degrow.

Abhishek Jain: And sir, we have seen a sharp increase in the gross margin in this quarter. Is it because of the better client mix or product mix and will it be sustainable in the coming quarters?

Shrinivas Kulkarni: No, I mean, that really depends on the product mix. Like you rightly said, it's a favorable mix this quarter in terms of the revenue from the non-India customers being higher than what we have seen in the earlier quarters. So it's very hard to say what is sustainable because that mix will continue.

I think depending on what that mix is for any given quarter, that number can change up or down, but what we can say is for the full year, I think we will see some improvement in the gross margin and that's what we can talk about.

Abhishek Jain: And my last question on the export side, in this quarter we have seen a very sharp improvement in export numbers. So just wanted to understand what is the reason? And second, how was the mix in FY24 export versus domestic in revenue?

Shrinivas Kulkarni: That's roughly two-thirds, one-third. I think if you see the full year we did share that slide earlier, we have compared it with the earlier year as well. It hasn't changed much from a year-on-year basis, but in Q4 there were higher exports compared to domestic. We expect the export business to be higher in FY25 as well compared to what we have seen in FY24.

Abhishek Jain: So can we assume that it can increase to the 40%, 45% and that's why the margin will also jump up?

Shrinivas Kulkarni: No, I mean, it will not dramatically change that much. I think if we are at 66-34 it might go up to 70-30, that's pretty much what it will be.

Abhishek Jain: Okay, thank you so much. That’s all from my side.

Moderator: Thank you. We have our next question from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: Thanks for giving the opportunity and congratulations on a good set of numbers. Sir, Anthony mentioned that within next quarter you were expecting some solid updates to be there on the order inflow side. I mean, if you can throw is it from the existing customer or a new customer? Which segment would broadly this be and what kind of quantum, what kind of value can this update be.

I mean, last time, when we had the solid order inflow the order book had went up from 1,200 crores to 2,500 crores in a single quarter. So could it be similar to that or will it be larger than that? I wanted to understand that. My second question was on this side. I mean, healthcare, you had last time mentioned that some OEs are showing inquiries. So is there any development happening on the healthcare side with some important OEs are showing inquiries for this kind of development over there?

Shrinivas Kulkarni: So, Mihir, we only caught part of the question, which I'll address, and then I'll request you to say the second part of the question. And please speak slowly. There is some issue with the audio and we are not able to hear. On the first part of the question, yes, the order intake is expected to increase in the coming quarters. See, the nature of this business, you are going to get higher traction from existing clients. It's a long sales cycle with new clients.

So while we will see that we've added two good logos during the year and we are likely to add a couple more in the coming quarter. We will not see a lot of orders coming from those clients. It will slowly start small projects, NPIs, etc, and then it will get into volume production.

So what you will see from the existing customers only with higher traction coming in the coming quarters. There might be one or two logos which will come in and kick in, but those numbers will not be material to the overall order intake. Please ask your second question again.

Mihir Manohar: Yes, sure. And second question was on the healthcare side, some OEs were also showing inquiries on the healthcare side. So is there any development happening over there?

Shrinivas Kulkarni: What side, sorry?

Mihir Manohar: Healthcare.

Shrinivas Kulkarni: Healthcare.

Anthony Montalbano: So the question is regarding the outlook on the healthcare business.

Krishna Bodanapu: Yes. What is the outlook on the that?

Anthony Montalbano: Yes, got it. So we are actually working a couple of key opportunities and I can see the outlook is good. This is a smaller share of our makeup today, but we will be announcing a key client and there is definitely some what I call significant upside potential with that, but again, that segment is one that we have focused on and we expect to see some progress throughout the fiscal year and you will see more new logos come in that segment as well.

Mihir Manohar: Sure. That's helpful. I wanted to understand what is the Bharat Electronics order book value currently at the end of FY24?

Anthony Montalbano: You mean the margin across the specific segments?

Mihir Manohar: No. Just the absolute value of Bharat Electronics order.

Shrinivas Kulkarni: About 55 million that is left in the order book.

Mihir Manohar: $55 million and what was this at the start of the year?

Shrinivas Kulkarni: About 95.

Mihir Manohar: Okay. Sure. Understood. And just one last question on this. How are gross material margins which are there that is after the material cost. They are roughly 21%, 22%. So, at the company level, how are material margins different for the Bharat Electronics contract?

Shrinivas Kulkarni: You also can't disclose customers.

Krishna Bodanapu: Shrini, how are the margins different for the BEL contract compared to the rest of the contract?

Shrinivas Kulkarni: Yes, it's substantially lower. We can't get into specific numbers, unfortunately, and disclose a margin, but it's substantially lower than the rest of the business.

Mihir Manohar: Sure. Understood. Thank you. And just one last question. We have repaid the borrowing in the second quarter FY'24, which is there in the presentation, but however, the finance cost still remains at INR8.5 crores to INR9 crores per quarter. So, I just wanted to understand why is that the case?

Shrinivas Kulkarni: No, I mean, please look at other income and finance costs together. I think there have been some - Look, we have two kinds of loans. There's an internal loan and an external loan, And repo rates have changed. And that's definitely one of the reasons why - And while we are clear that the external loan, the internal loan is still in the books, and we have to keep it at the market rates, Plus, we've had some one-time forex loss that we have taken in the finance costs as well. So, those two factors have - But we'll see that going down as we move along in the next year.

Mihir Manohar: Okay. So, basically, the forex adjustment is acting in interest costs and not other income?

Shrinivas Kulkarni: No.

Mihir Manohar: Okay. Sure. Just one last thing on this on finance costs. Can you just clarify what was the external debt and promoter debt that was sitting on the books before the IPO? And after the IPO, what is the promoter debt and external debt which is sitting on the books now?

Shrinivas Kulkarni: So, we have roughly INR160 crores external debt before the IPO. We have zero as of now.

Mihir Manohar: Oh, I understood. That's it. Thank you.

Moderator: Thank you. We have our next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Thank you very much for this opportunity. So, first, I just wanted to understand, clarify, I mean, you mentioned, I think, three years, we are looking at 30% CAGI growth. So, here, we meant revenue, right?

Shrinivas Kulkarni: Yes.

Deepak Poddar: Okay. Fair enough. And you also did mention that on the margin front, do expect to improve on a YUI basis, but it will not be as high as 11%, 12%. I mean, if you have to see next two, three years aspirations. So, any better margins aspiration we have that in three years, this would be our aspirational margins that we would want to see for our company?

Shrinivas Kulkarni: Our aspiration is to continue to grow the margins. Now, like I said, there are a number of factors that play into what goes into the margin, which is basically the revenue mix, the sort of business that we do and also the other engagement terms like the working capital norms, etcetera. We could tomorrow get into a business which is, again, low margin, but has very good working capital terms. So, our decision making will be the return on capital employed rather than margins. But with the current set of other variables, we expect the margins to improve. I will not give a specific number, but we should see an year on improvement.

Deepak Poddar: And what would be our vision on ROC? I mean, return on capital employed in the three years?

Shrinivas Kulkarni: We want to get to about 15% initially within a couple of years, and then from there, then on to about 25% in the steady state.

Deepak Poddar: 25% in five years?

Shrinivas Kulkarni: Yes.

Deepak Poddar: Okay. And we have been quite vocal about our inorganic strategy, right? And I think it would be at a decent stage as we plan to have some update by the next quarter. So, what's the size we are looking at in terms of revenue, the acquisition that we are looking at? What is the range or the size that we are looking at?

Shrinivas Kulkarni: Our sweet spot is anywhere between $40 million to $100 million in terms of annual revenue for our size. We will not be able to give a specific size for the couple of targets that are in question right now. But from where we are today, I think anything that's in excess of $40 million up to $100 million is in the sweet spot for us.

Deepak Poddar: Fair enough. And just one last thing, on the R&D front, I mean, annually, what sort of R&D costs that we incur?

Shrinivas Kulkarni: We do not have any R&D costs on the books.

Deepak Poddar: And I think anything, I mean, do we have to spend anything on the R&D front, or it's not required as per our business?

Shrinivas Kulkarni: Not by design for the build-to-print work we do. In case of the build-to-spec work where there's a design involved, there might be some upfront investments. But right now, that's not material.

Deepak Poddar: Fair enough. I think that's it from my side. All the very best to you. Thank you so much.

Shrinivas Kulkarni: Thank you.

Moderator: Thank you. We have our next question from the line of Vinit Agarwal from Aditya Birla money. Please go ahead.

Vinit Agarwal: Good evening, team. Thank you for the opportunity. And congratulations on good numbers. So I have a couple of questions. First is, if I understand it correctly, on the export side or defense side per se, Middle East tension is driving growth. So as these things normalize, then can we expect some softness on the defense orders or growth?

Shrinivas Kulkarni: No, I don't think the growth was driven by the tension in the Middle East. I think, in general, the defense funding is going up throughout the world.

Anthony Montalbano: Yes, exactly. We've been executing on a good-sized defense contract. And the recent global updates have really just added to that business. As far as with other clients we've been working, we've been seeing an increase in outlook and orders in that regard.

Vinit Agarwal: Okay. And second is, apart from aerospace, defense, and medical segment, any other sector or any other segments where we are focusing on two to three years down the line?

Anthony Montalbano: Yes. So medical and industrial are the two other key sectors that we are going to continue to focus on. Today, we have a much larger portion of our business in aero and defense. And to be honest, those sectors have been very good for our business, and the outlook in those two sectors are very good as well. So yes, we do want to diversify a bit. But again, the aero and defense piece continues to be robust for us, and the outlook is solid as well. But yes, we do have a dedicated focus also on medical and industrial.

Vinit Agarwal: So would you like to give us some number or the mix which will be due post after two to three years?

Anthony Montalbano: Yes. So ideally, we would like to get it where 25% of the business is 25% medical, 25% industrial, and then maybe A and B make up 50%. I would say that's probably a guess of where we would like to be in about two to three years.

Vinit Agarwal: Okay. Thank you so much, and all the best. Thank you.

Moderator: Thank you. Ladies and gentlemen, we'll take that as the last question for today. I would now like to hand the conference over to Mr. Krishna Bodanapu for closing comments. Over to you, sir.

Krishna Bodanapu: Thank you very much, and thank you very much to everybody for joining this evening. As you saw, the performance in Q4 was quite robust, and so was it for the year. Like I said, and I think like Anthony and Shrini also reiterated, we're very confident in what lies ahead.

We're seeing a very strong pipeline. The macro supports our business. We are in the right sectors, be it A and B, medical, industrial, where all sectors will be spent in. The type of solutions and the type of products that we provide is only increasing, and I think we've built a fabulous capability in the management team with some of the best leaders in the respective segments, be it the operation side, supply chain side, go-to-market side, sales side, etc.

So we have a full complement of the team in place now after about 12 months of really finding the right leaders and making sure that they're well integrated. So we're very confident for FY'25, and I'll just end by saying thank you very much for your support over the last 9-10 months that we've been publicly traded as a company.

This is our first full financial year, and I'm very sure that you will be pleased with the results we will again deliver, not just for this year, but also create a pipeline and a backlog that will take us into the same trajectory into the coming few years. Thank you very much for your support. Have a good evening, and we'll speak again next quarter.

Moderator: Thank you, sir. Ladies and gentlemen, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.