February 03, 2024

The Secretary
National Stock Exchange of India Ltd.
Exchange Plaza, Plot no. C/1, G Block,
Bandra-Kurla Complex,
Bandra (E),
Mumbai - 400 051
Stock Code – KAYNES

The Secretary
BSE Limited
Corporate Relationship Dept.,
14th floor, P. J. Towers,
Dalal Street, Fort
Mumbai - 400 001
Stock Code – 543664

Dear Sir/Madam,

Sub.: Intimation of transcript of earnings call for the Financial Results of 3rd quarter and nine months ended December 31, 2023.

Ref.: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Please find attached the transcript of the earnings call hosted by **JM Financial** for the Financial Results of the 3rd quarter and nine months ended December 31, 2023. The same is made available on the Company's website within the timeline prescribed under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and can be accessed at the following link:

Particulars	Website link
Transcript	https://www.kaynestechnology.co.in/doc/Regulation-46-of-sebi-lodr-regulation/Earnings%20Call%20Trasnscript%2031.01.2024.pdf

Kindly take the above information on record and acknowledge it.

Thanking You
Yours faithfully,
For **Kaynes Technology India Limited**

SALIGRAMA MOHAN KUMAR ADITHYA JAIN
Digitally signed by SALIGRAMA MOHAN KUMAR ADITHYA JAIN
Date: 2024.02.03 14:59:00 +05'30'

S M Adithya Jain
Company Secretary and Compliance Officer
Membership No. A49042

Enclosed:
• Transcript of the earnings call

KAYNES TECHNOLOGY INDIA LIMITED
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"Kaynes Technology India Limited
Q3 FY '24 Earnings Conference Call"
January 31, 2024

MANAGEMENT: **MRS. SAVITHA RAMESH – CHAIRPERSON – KAYNES TECHNOLOGY INDIA LIMITED**
MR. RAMESH KANNAN – FOUNDER AND MANAGING DIRECTOR – KAYNES TECHNOLOGY INDIA LIMITED
MR. JAIRAM SAMPATH – WHOLE-TIME DIRECTOR AND CHIEF FINANCIAL OFFICER – KAYNES TECHNOLOGY INDIA LIMITED
MR. RAJESH SHARMA – CHIEF EXECUTIVE OFFICER – KAYNES TECHNOLOGY INDIA LIMITED
MR. NEERAJ VINAYAK -- HEAD OF INVESTOR RELATIONS -- KAYNES TECHNOLOGY INDIA LIMITED

MODERATOR: **MR. DEEPAK AGARWAL – JM FINANCIAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY24 Earnings Conference Call of Kaynes Technology India Limited hosted by JM Financial. 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 has been recorded.

I now hand the conference over to Mr. Deepak Agarwal. Thank you and over to you, sir.

Deepak Agarwal: Thanks. Good afternoon, everyone. On behalf of JM Financial Security Limited, I welcome you all to Kaynes Technology India Limited Q3 FY24 earnings conference.

Today we have with us senior management represented by Mr. Ramesh Kannan, Founder & Managing Director, Mrs. Savita Ramesh, Chairperson, Mr. Jairam Sampath, Whole-Time Director and Chief Financial Officer, Mr. Rajesh Sharma, CEO, and Mr. Neeraj Vinayak, Head of Investor Relations.

Without taking much of time, I would like to hand over the floor to the management for their opening remarks, post which we'll open the floor for Q&A. Thanks and over to you, sir.

Ramesh Kannan: Good afternoon, friends. Am I audible? JPS?

Moderator: Yes, sir. Yes, sir. Yes, sir.

Ramesh Kannan: Yes, yes. Good afternoon, friends. I would like to welcome everyone present on the calls from the entire team of Kaynes Technology.

I have along with me on the call Mrs. Savita Ramesh, Chairman of the Board, Mr. Jairam Sampath, CFO, Mr. Rajesh Sharma, our CEO, and Mr. Neeraj Vinayak, our Head of Investor Relations. Firstly, I want to express my heartfelt gratitude to our esteemed investors whose confidence and support played a vital role in companies' successful QIP. We are committed and excited about the roads ahead and look forward to your continuous support.

I am very pleased to share with you all that we have surpassed our FY23-year run rate during the first nine months of FY24. I am confident of delivering on our full-year guidance. Coming to our performance for the quarter ended December 31, 2023, our total revenue was INR5,093 million, registering a growth of 76% year-on-year.

Our growth was largely led by strong demand in the industry, including EV and railway verticals. Our Q3 FY24 EBITDA was INR699 million compared to INR412 million last year. PAT for Q3 stood at INR452 million compared to INR229 million during last year.

We continue to witness strong demand across verticals, with monthly order inflow reaching INR2,788 million per month from INR2,741 million during Q2 FY24. Our order book as of December 31 is 2023 stood at INR37,890 million. Now coming to major development for the quarter.

To deepen our technology deck, we are making strong strides by getting into manufacturing collaboration of high-complex AI-driven technology products in the cybersecurity, medical, AR/XR space. Some of the recent engagement on this front includes

First to enhance our technological bandwidth. We have tied up for manufacturing a clear glass lens under a technology partnership with upcoming technology disruptor in this space. Their platform allows OEMs to create customizable, cost-effective waveguide based on their experiences for both enterprise and consumer applications.

Second, we entered into exclusive partnership with FIDO2 certified Microsoft Compactable biometric security solution provider. FIDO2 is a phishing-proof passwordless authentication protocol defined by the FIDO Alliance and the World Wide Web Consortium. The technology has already been approved by the Public Financial Management System under the Ministry of Finance.

These collaborations will help the company position itself as a single-stop solution provider, enabling us superior presence in the complex product along with ensuring industry Leading margin profile.

Other achievements are during the quarter, Kaynes became the first company to successfully deliver fourth generation CKD server board for a global OEM. In addition, we have also recently received a large award letter in the aerospace segment. We also got two major order wins on the industrial side, catering to defense, catering to educational robots and UPSs. We have also received orders from a motor controller on the EV side.

In line with our stated policy of having last mile presence in the US, we have done acquisition of Digicom Electronics. The company has a couple of SMT lines and caters to complex product profiles. With this acquisition, Kaynes will be able to target complex and technological advanced product profiles in the North American market too.

Additionally, we have also invested for a significant stake in a US-based tech startup doing revolutionary work in the space of silicon photonics. This strategic investment is also in line with our roadmap of moving up in terms of handling complex semi-con packages to strengthen our capability along with superior profitability.

We are in an interesting phase of evolution of electronic industry taking shape world over and India remains at the center of this technological advancement. We are excited about the opportunities that lie ahead and are confident in our ability to navigate any challenges that come our way.

With this, I will now hand over the call to Jairam Sampath to take you through our financial performance. Thank you very much.

Jairam Sampath: Thank you, Rameshji. Good day, everyone. Thank you for joining us on this call. I will be presenting the financial performance of our company for the period ending 31st December 2023. For the quarter ended 31st December 2023, our consolidated total revenue was INR5,093 million, representing a 76% year-on-year growth. For the nine months ended December 2023, the consolidated total revenues were 11,673 million, representing 53% year-on-year growth.

The consolidated EBITDA for the quarter was INR699 million, showing a 70% year-on-year increase, while for the first nine months it was INR1,589 million, which was up 46%. EBITDA margins for the quarter and nine-month FY '24 stood at 13.7% and 13.6% respectively. Our consolidated PAT for the quarter was INR452 million, up 98% year-on-year, and for the first nine months it was INR1,022 million, up 89% year-on-year. PAT margin for the quarter stood at 8.9% and for the first nine months it was 8.8%.

We have surpassed our FY '23 revenues during nine-month FY '24. Based on our current auto book, which stands at INR37,890 million, we are very confident of achieving the full year guidance.

Net working capital at the end of December was at 117 days on an annualized basis, lower than the 135 days at the end of the previous quarter. Our inventory was higher as we have to make advance purchases, keeping in mind the requirements of the upcoming quarters. Our net debt stood at the end of the quarter, adjusted for unutilized proceeds, was at about INR2,449 million, compared to INR1,924 million at the end of the previous quarter. Our ROE and ROCE adjusted for unutilized portions of the proceeds, were at 18.6% and 16.8% respectively, for the nine-month FY '24.

We continue to make progress on our expansion plans and continuously adding newer lines across various facilities. In Chamarajanagar we have operationalized alpha and beta blocks and gamma block is getting ready. We have started work on operationalizing our Pune facility which was acquired recently.

All these expansions will help the company ramp up its production significantly over the coming quarters. I would like to thank our esteemed investors for their tremendous support and faith in the company for the recently concluded QIP.

On OSAT, we have provided Government of India all the requisite details and hopeful of hearing positive outcomes shortly. We have also started preliminary construction work in Telangana and hopeful of meeting the desired timeline for the same. We will be sharing final details as we make further progress on the same. We look forward to your continuous support on this journey ahead.

With this, I would request all participants to come in with their questions. I now open the floor for questions.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Nitin Sharma from M.C. Pro Research. Please go ahead.

Nitin Sharma: Hello. Congrats on a good set of numbers. Two questions. First of all, your gross margin has come down compared to the last quarter. Is it because of change in the type of orders on the industrial side? And how should we see it going ahead?

Management: Thank you for the question. Fundamentally, one small change in the way we compute our gross margin was done compared to the last year. Earlier, we used to compute all the consumables which are pertaining to one particular project as part of expenses.

So the gross margin was about 1.5% higher than what it is today. So whatever gross margin we are showing now, we have to add a quantum of 1.5% approximately to make it comparable with the gross margins last year. Having said that, it is still not equal to the gross margins last year.

This is primarily because a lot of new projects have been onboarded. If you notice, we are growing at a very high rate. So all the new orders in the first few quarters, by the time we manage all the materials, supply chain and proper pricing and forecast, etcetera, it takes a bit of time. And that's why the gross margin appears to be a tad lower.

But fortunately for us, the operating leverage will be better than expected because the sales numbers are higher than what we have been expecting so far. So on an overall basis, I think we will be able to match the numbers on a PAT basis. Thank you.

Nitin Sharma: Understood. Secondly, where do you see your working capital day stabilizing? I think it continues to remain elevated. So some understanding with regards to that would be helpful?

Management: Yes, so in the end of the first two quarters, it was primarily driven by inventories. It was 135 days net working capital at the end of the second quarter, that is half year. And at the end of the third quarter, it has come down to 117. We are confident that we will certainly bring it down below what we saw last year -- last two years have been 98-99 days. We will certainly bring it below these two numbers by the end of March.

Because March quarter we'll do significant amount of sales. Almost 35% to 40% of the annual sales happens in March quarter. So we are quite confident that we can bring down the inventories. And of course, we will also have taken some steps to control receivables. So we are sure that we will bring down the net working capital days much below the numbers that we had for the last year. And going forward, we have put some -- hello?

Moderator: Yes, sir. You can speak, sir.

Nitin Sharma: Yes. So is it possible for you to break it down in terms of inventory days, receivable days, and payable days in current quarter?

Jairam Sampath: Hello. Am I audible?

Moderator: You are audible on the backup phone. And the main…

Nitin Sharma: Should I repeat the question?

Jairam Sampath: Yes, you could. The first question I had answered. I hope you got the answer.

Nitin Sharma: Yes, sir, I did. Just to add on to that, is it possible for you to break down the number of days for inventory, receivables, and payables for the quarter?

Jairam Sampath: I had answered that. I will repeat the answer here. Essentially, from the first half number, the number of net working capital days has come down from 135 to 117 now. By the end of the year, we are confident that both inventory and receivables will be much lower than what we had, because third quarter is also in terms of a larger amount of business. So we expect the net working capital days to come significantly below last year's total number, which was hovering around 98, 99 days. And going forward into FY'25 and '26, we think that we can make further less. Thank you.

Nitin Sharma: Thank you. I'll get back in the queue.

Jairam Sampath: Next question, please.

Moderator: Yes, sir. Our next question is from the line of Rahul from Haitong India. Please go ahead.

Rahul: Hello. Am I audible?

Moderator: Yes, sir.

Rahul: Yes, hi. Good afternoon, sir. Thanks for the opportunity. Sir, in the first nine months, we've seen order backlog improvement. I want to know where the margins are in the first nine months. How is the margin profile of the order book that you have right now with you?

Jairam Sampath: Yes, so there are some new orders which we have executed during the first three quarters, which has pulled down the margins a little compared to what we probably anticipated. But at the end of the year, on a year-on-year basis, I think there will be significant drop in margins. And at that level, we still think that we will hold the numbers that we talked about.

As far as the order book is concerned, it contains the order profile similar to what we have on the sales number. However, one small point that I want to make is that there are orders expected in the railway as well as in the aerospace area, which are not yet locked into the order. So we are awaiting the numbers. And those are going to be a significant part of our sales, especially in FY'25.

So what you see now as order book is at the minimum, whatever current performance is there. And we will continue to get operating leverage. And next year, we will also get cost reductions in our materials, because all these newly onboarded customers will start getting regular supplies from suppliers who can give us lower prices. Broadly, that is the reason why you see quarterly basis some little dips sometimes.

But we are confident that it's not something very alarming. And next year, certainly, we have these two bigger segments kicking up. And their order confirmations are there. It is just that they have to physically issue the order to us. And so that will happen sometime maybe March, April timeframe. And then you will see probably better performance also in the next year.

Rahul: Okay. So FY'24 margin will be similar to or slightly lower than FY'23 is what you're saying. And '25 and '26, we can see some bit of improvement on that margin. That's what you're saying on the EBITDA level.

Jairam Sampath: Yes, sir. In the long run, it will be similar to what we have been discussing.

Rahul: Okay. Sir, typically, when you are in the process of executing an order, at what percentage of execution do you start booking margins? Is it 10% or is it a simultaneous booking of margin? How do you account for…?

Jairam Sampath: Yes. There is a small clarification. These are all just like production kind of activities. It's not a project. As in, it's not based on milestone completion, but it's based on number shift. The project refers to the customer's terminology, not really what we do. We do actually a simple production. That means, for instance, we enable some such aerospace customer orders from Avionics. So maybe they call it some project X because it is going to some X aircraft.

But as far as we are concerned, they will order, let's say, 5,000 units of this item and 4,000 units of that item, etcetera. And they will give us a schedule, do so much in January, so much in February, and so on. So we actually shift. So our revenue recognition is after the item is shipped completely from our factory and based on agreed terms, so in case we have X work, both the 99% of customers, it's always X work, wherein the responsibility for picking up and transportation is with the customer. The moment we ship out of our factory, we recognize the revenue.

Rahul: Okay, fair enough. So margins are stable through the execution, whether it is a one-month execution period or whatever time be. So my last question is on the capex. What is the kind of capex that you have already done? And how do you see the capex happening over the next two or three years? And if you can actually talk about how that OSAT-related capex is also planned, that will give us a good idea of capex over the next maybe five years.

Jairam Sampath: Sure, sure. So we have two sets of businesses here. One is the existing business, which is the ESDM business. And as I said earlier also, IPO was done last year. And November 22, we completed the IPO. Whatever money we have raised there is sufficient, in our opinion, to support CAGR's about 45% growth over time in the ESDM sector of the business, because we also are expecting some improvements on the working capital and all that. So the OCF and EBITDA percentage will improve. And by FY25 end, we expect that the ESDM part of the business will start generating enough resources to help with capex investment.

So we have raised about INR250 or INR260 crores in the IPO. And that has been employed. And by the end of this year, probably we will complete all of those investments. We are also taking a little time to implement, because we also realize that while, of course, we have put in the objects in approximate cost, etcetera, but we are trying to squeeze those capex's so that we can deliver the latest machines and also a little more capacity. So our internal thing says that on an annual run rate of about INR3,000 crores, we have enough capacity. And thereafter, we will have enough of operating cash flows to fund any more capex's for this particular business.

The second part of the business is OSAT, the new project, which contains OSAT. And then there is, of course, this PC board, which is high-density interconnection. So OSAT and PC board projects, as we have all there in the documents that we have already uploaded, we could take a look at detail and we can always chat later. But suffice it to say that two years it takes to commence the operations meaningfully from the commercial perspective.

Already a factory set up, building, land development, all that has started off. And we are – the first building is just coming up. The pillaring, etcetera, has been done. So we are on schedule as far as that project is concerned. And in two years' time, we start commercial commence the production. And that means two years means this is like a FY'26 end. You will start significant revenues coming in from the OSAT business. In '27 and '28, we'll see full-fledged revenues coming in. This is a business where you get a typical asset turnover of about 1 to 1.5. So you can calculate and see what kind of revenues there are.

As far as PC board business is concerned, these are high-density interconnection boards. So the factory set up, etcetera, is expected to happen in about one and a half years' time. So in two years' time, again, we'll start getting some commercial production happening. And then again, FY'27 and '28, you can see some good ramp-up. This business also is typically 1 to 1.5 times asset turnover. These are all capital-intensive businesses. But we are happy to tell you that in case of PC board, there's a lot of consumption that we can plan from our existing business itself because we do buy almost a large amount of our purchases. And the commodity is PC boards, which we can, of course, feed from our own unit.

So that way, we get double benefits. One is consumption security, and then second is whatever margins that we actually let other companies make, we can flow it into our own company. So it will be a margin-accretive deal as far as PC board is concerned. So the current capital, whatever money we have raised, INR1,400 crores, that contains three parts. One is, of course, the OSAT. Second is the PC board. And third is general corporate purposes.

General corporate purposes broadly will go into, of course, OSAT and PCB majorly. But they will also aim towards some of those contracts that we are having with agreements with other companies, etcetera. So the total package is expected to give us significant revenues in FY'27 and '28 in these two new areas.

Rahul: Okay. So this last number on the export front, how is the export in the order book and the revenue this quarter, nine months, whichever number you can share?

Jairam Sampath: Yes, sir. So as far as the order book and this thing is concerned, the export is anywhere between 15% to 20%. But next year, we expect the export to go up, because especially aerospace and the railways business, some exports will come in, especially in the aerospace business. Strong exports will come in. So next year, we can expect more exports also in our order book.

Right now, those orders have been confirmed, but not placed with the details. So that's why they don't enter the order book at this point in time. So currently, it's 15%, 20%. Next year, it will be more than that, maybe more like 25%.

Rahul: Okay. Thank you. Thank you very much, sir, and all the very best. Thank you.

Jairam Sampath: Most welcome, sir. Thank you.

Moderator: Our next question is from the line of Renu Baid from IIFL Securities. Please go ahead.

Renu Baid: Yes, hi. Good afternoon, and congratulations on strong results, sir. My first question is to understand the mix and the impact in gross margins this quarter. If you see industrial segment has seen the sharpest jump, and simultaneously there has been a jump in share of box bill revenues.

Does this corroborate to also indicate that combination of the applications for which we have executed this quarter were carrying significantly lower gross margins? Despite being box billed, it typically tends to have higher margins than conventional PCBA applications.

Jairam Sampath: Yes. So, yes, thank you, Renuji. See, fundamentally, one thing is I explained about 1.5% was hiding in expenses previous year's gross margins. So that gross margin, you must add that to compare it with previous year. That's pertaining to consumer base…

Renu Baid: No, I'm comparing it even on a sequential basis, Q-o-Q basis. Not higher one but…

Jairam Sampath: Sequential, that's not important. The second thing is as far as box billed is concerned, even for any new product that we do, especially in the industrial EV side, which contains a fair bit of percentage of sales currently. In the third quarter, the box billed came down a TAD, I think, if I'm not mistaken, a couple of percentage points, if I'm not mistaken, compared to last time. And box billed will be more profitable in the long run.

In the long run, at least for the first two, three quarters, any new product that we onboard will entail more costs, whether it's developing the assembly processes, we may put more cost of materials, etcetera, because we have to get fulfilled short-term orders, etcetera. So you can expect this, let's say, correlation between box build increase and margin increase sometime in the fourth quarter, you can definitely see this. Hopefully, we will get there now, because we are also getting some reductions in cost, etcetera.

So that will take care of some of the smaller dips which are happening because of new product onboarding. The second thing is also vertical-wise. So obviously, the percentage of railway and aerospace vertical is still lower in the first three quarters than what we had anticipated.

But we do have confirmations, and I think going forward into fourth quarter, we certainly will improve those numbers. At least currently, it's 11% and 3%, if I'm not mistaken, of the total. So maybe it will go up to about 13% and 5% or so.

So that will also improve the margin. So broadly, margins will recover in the fourth quarter at gross level, as well as our EBITDA will also be better because we'll have further operating leverage. We're not planning to add any more major costs now.

And revenues will be something like 35%, 40% of the whole year. So from that perspective, I think we can see both gross margin level improvement in Q4 as well as improvement in the EBITDA number, operating EBITDA number in Q4.

Renu Baid: Sure. So secondly, given the recent disruptions in supply chains and trade from the Red Sea, do we anticipate any headwinds on the inventory side of working capital, though you alluded that working capital will come off? So do we see any material impact on business and margins from this in the near term?

And also aligned with this, if you can also share any business updates on the IT hardware side where we are working for large enterprise clients on localized solutions. Thank you.

Jairam Sampath: Thank you, Renuji. So as far as inventory is concerned, that's what I had actually the first question I had alluded to that. And we are confident that we will make significant reduction in the net working capital, mainly driven by reduction in inventory. So reduction in inventory in terms of number of days, it has two components. One is the quantum of inventory. Second is the quantum of sale in the quarter.

So when we analyse it, I think net working capital is 117. So part of that reduction will be driven by increasing sales. And also we have already stocked up almost all the material for the next quarter because we already have the order book.

And based on order book, the materials have orders have been purchased. So now during this quarter, we'll be purchasing small amount of material for shortage balancing. So I don't expect any headwinds in terms of inventory being going out of control or something.

So just that is one of those things which we have to watch in our business because we have two pressures which increases inventory. One is new orders that come in. And second is some supply chain disruptions that sometimes happened in the past. So those are the two things we have to watch. Otherwise, I expect the net working capital to come down to the expected levels by end of March. And on the IT hardware side, we have – excuse me.

So in addition to working with one of the large government agencies for manufacture of high-performance computing servers, we're also working with one of the governments of India entities for development of technology within high-performance computing servers. And shortly when that activity is done, we will come out and we'll announce that particular thing. So what we are doing is we are increasing our depth of offering in the entire IT high-performance computing server space.

And we are also using our abilities and investments that are coming up in the Semicon and PCB board and HDI PC board factories so that over the next one or two years, we become let's say a very high value adding company in the area of servers and things like that. And as you know, we already have PLI in this. So next year, you can see some good business being done in that area.

Renu Baid: Okay. Thanks so much and best wishes, sir. Thank you.

Jairam Sampath: Thank you, Reenuji. Thank you.

Moderator: Thank you. Our next question is from the line of Arafat Saiyed from Incred Research. Please go ahead.

Arafat Saiyed: Yes. Thanks, sir. Am I Audible?

Moderator: Yes, sir. Yes, sir.

Arafat Saiyed: Yes. So thanks for taking the question and congrats on great numbers. So my first question is on industrial EV side. So can you please elaborate which are the key clients and main products you are serving in this segment?

Jairam Sampath: Sorry, could you repeat that, Syedji? Could you repeat that question?

Arafat Saiyed: Yes, sir. Can you please elaborate more about the industrial AV segment? So which are the key clients and key products in this segment?

Jairam Sampath: To the extent that we have concerns, we have already published. So I'm not at liberty to publish names. But of course, in EV, we have all the leaders in those segments who are operating in India. We yet don't have too much of exports in EV. We do have some small component exports in EV to Europe. And we are also working on charging infrastructure EV. So they are all leading people in two-wheeler and four-wheeler category in India.

Arafat Saiyed: Yes, thanks. And so my second question is on OSAT business. Can you please elaborate more about your tie-up with Google?

And again, which sector you are more focused as far as OSAT is concerned?

Jairam Sampath: Yes. So as far as OSAT is concerned, of course, as I've been discussing during our other meetings and so on, we are focused on the branded semiconductor segment. And our approach to OSAT is to start at the regular semiconductor assembly business, which is starting with certain packages which are very popularly used in most of the industrial and critical applications, and then quickly move on to the second stage to what is known as advanced packaging and component semiconductors, etcetera.

So we are preparing in tandem for both the approaches. In the second approach, we require a lot of technology partnerships, which we have already announced a couple of them already, and we are going forward. As far as the first is concerned, the factory construction, which is the long-lead item, has already started.

And the land development has concluded. Factory construction has started off. So hopefully we will, by end of this year or early April, we will have the factory up and running. And we also kind of made arrangements for the equipment, etcetera, etcetera. So there are a lot of moving parts in this project, so we are quite having all of them under some kind of a control, and obviously a lot of effort is going into managing these. In terms of segments, they are all critical industrial segments, power products, etcetera.

Initial packages will be QFN, BGA, then of course SOT to begin with, and then of course there's stack dye, QFN, stack dye BGA, etcetera. So these represent essentially critical products, but they are not really low-load semiconductors. So that also works well with our initial intent to learn this entire assembly technology, make sure how we work with the supply chain, work well with customers before making move to advanced packaging.

Arafat Saiyed: That's it from us. Thank you.

Jairam Sampath: Thank you.

Moderator: Thank you. Our next question is from the line of Bhoomika Nair from Dam Capital. Please go ahead.

Bhoomika Nair: Yes, good afternoon, sir. I just wanted to talk a little more about this DigiLens thing that you've announced. You know, what exactly will we be doing? I mean, we'll be doing the OSAT, the PCB, etcetera, and given that the plants are yet to be operational, do we start the PCB assembly beforehand, if you can just talk about this, and such -- and how large can this client be for us over a period of two, three years?

Jairam Sampath: So DigiLens partnership represents our foray into a high-tech technology, which the technology leader, DigiLens is a technology leader in that particular technology, has chosen us to represent them in India. And they have also wanted some capacity for their business in the US. So this has got, of course, two components, one which is similar to SEMICON, not really SEMICON, but similar to SEMICON business.

The other is the typical assembly business that we do, which has to be done under clean room conditions and all that. And I'm happy to tell you that both these activities we are pursuing, and we are, I think, in the process of setting up a team jointly to get trained and so on and so forth. The initial stage of tie-up and agreements, etcetera, has been done.

And going forward, we will pursue both the opportunities, one which is in the SEMICON area, which has something to do with the innards of that particular product. It's a licensed technology, obviously, so I can't share more than this at this point in time but suffice it to say that our value footprint will be much higher than a typical manufacturing contract in the MS space.

Bhoomika Nair: Okay. Got it, sir. So the other thing was on OSAT, we were looking to commission the plant in phases between 2Q of this year and 2Q of 2025. Given that the approval is yet pending, how -- by when do we expect the revenues to start kicking in? And if you can also talk about the bare

PCB plant, whether the land has been allocated, and when does the construction of the plant is expected to begin?

Jairam Sampath: So as far as the bare – okay, let me answer the first OSAT business. See, OSAT approvals, I think, other than Micron, all other approvals are kind of just getting done now. As I speak to you, a lot of hectic activity is going on this week. I think the department – I mean, I can't speak on their behalf, but they probably are expecting to clear most of the files this week, and we are quite confident that it should get cleared this week sometime.

And because of the impending political elections, etcetera. So I think it should happen very shortly. We don't expect any major headwinds or any other delays there as far as that is concerned. As far as we are concerned, we always raise the funds one way or the other. In any case, the worst-case scenario is already there with us, the specs for policy and all that.

So there is no need to wait for the exact approval to come in before these stakes. So we are already starting construction and levelling off the ground and development of ground and all that. So as we had earlier discussed during the various meetings and so on, so sometime first week of April, we should have the factory ready, at least the first phase, what we call the POC.

And all the machinery manufacturers, etcetera, also we have kind of sounded them out. And so the first set of lines that are expected to be coming, I think we can – we are ready. And so I don't expect any delay in commencement of this particular project. So as far as on the customer side is concerned, a couple of customers have come and audited us also.

Obviously, the orders will come only after I show the lines, so that will happen sometime in first quarter of next year. But otherwise, the – all other, let's say, checkbox picking has happened. We have had the senior people visit us and so on. So at least two of the customers we already completed. That's my – something that I know.

Some more probably are being done as we speak. So, this time, whatever perceived delay by government, etcetera, we'll utilize to get our – all other activities completed and so on. So we don't expect any major headwind. As far as PC board is concerned, we have got a couple of options for land, and we are just finalizing it.

Because this needs water and so on and so forth, so there is some little examination that is being done, and we have asked some experts to look at that pieces of land available to us. And we'll very shortly take a decision, and we are already parallelly preparing our contractors for this factory construction.

Layout, etcetera, everything is ready. What machinery to be done, all that is ready. So you will not expect too much delay. We have marked about nine months for construction of this factory. Maybe we have to do it now on eight months. I think that's imminently doable. And then post that, this is being a process plant.

It takes some time for it to become regular production. So we have given ourselves somewhere between one and a half to two years' time to show commercial production from this.

Bhoomika Nair: So the bare PCB plant will start showing up in terms of revenues only in, towards the end of FY26, per se?

Jairam Sampath: Yes, FY26 second half onwards you can expect. But significant one, FY27 onwards you can expect.

Bhoomika Nair: Okay. And from the OSAT perspective, it would be largely from the end of FY25. We should start seeing some trickling in of revenues and big time or scale up from FY26 onwards.

Jairam Sampath: Yes, the proof-of-concept phase will start from second quarter, that is, H1 of FY25. Thereafter, some revenues will start. But all the other lines being established and then coming, delivering good capacity utilization, yes. Towards the end of FY26, you will see some significant commercial changes.

Bhoomika Nair: Got it, sir. I will come back to the question. Thank you.

Nitin Sharma: Thank you, ma'am. Thank you.

Moderator: Thank you. Our next question is from the line of Harshil Solanki from Equitric Capital. Please go ahead.

Harshil Solanki: Hi, team. Good afternoon. I have just one question on the Kavach technology. So, sir, where are we on the development part of Kavach? And when can we expect the approval and tender participation?

Jairam Sampath: Sir, can you repeat the question and just come closer to the mic, please? I did not understand.

Harshil Solanki: Sir, my question is on the Kavach Technology…

Jairam Sampath: Yes, Kavach, railways. I got it. I got it. So, as far as Kavach is concerned, we are working with the governmental agencies to develop this product. We also – so, maybe this development being a critical product takes anywhere between six months to a year before we can showcase a solution. And then thereafter, the agencies have to take it and then approve it. So, we think commercial production of this Kavach-related activity should happen after maybe 1- and 1.5-years' time.

So, at this point in time, suffice it to say that we are actively working to put all the resources that's required as committed to the Minister, Honorable Minister. And you can see some results by first quarter of next year in terms of at least protos being developed and made.

Harshil Solanki: Okay, sir. Already there are players who are approved and they are executing the project also. So, how do we plan to compete against them after a year?

Jairam Sampath: Yes. So, yes, yes. No, no. good question, sir. Harshil, the issue here is that we are a non-brand supplier, right? We don't have a case-branded item. So, everywhere our offering is as an ODM to another brand player, essentially. So, the other three players that you are referring to, they have all been given a trial order only.

So, they are at a stage where we will get to that stage by maybe third quarter or second quarter of next year. That's all. We're not that far away, actually. So, once the solution -- so, part of the -- we will also leapfrog in terms of timing of approval. The first three players have to probably bear the full burden of full-fledged approval. The design is similar.

So, in our case, maybe the approval gets shorter because the future concept would have been done by the railways and so on. So, it's only reliability of the hardware that they will check. The solutions are essentially not different. It is driven by the same agency in the government. So, let's say, just to illustrate the thing, if they take X amount of time, we will take X minus delta X amount of time for approval. So, we will really not miss anything.

Obviously, if you come late, we do have to get business late only. So, from that perspective, yes. But on the other hand, we have the additional advantage. We can offer this solution not only as a change player, but we can offer it to many other branded players. So, we are focusing on this being an ODM kind of solution. At this point in time.

Harshil Solanki: Okay. So, just a clarification, we will do both OEM as well as ODM for Kavach or just one part of it?

Jairam Sampath: No, we will do ODM and OEM both. Because if somebody, one of these three players, if they think that they want to use our facilities for enhancing their capability, we are always welcome to do that because we are adding capacities and so on. So, we are open to both OEM as well as ODM for Kavach.

Harshil Solanki: Understood, sir. That was it. Thank you so much.

Jairam Sampath: Thank you, Harshil.

Moderator: Thank you. Our next question is from the line of Lokesh Manik from Vallum Capital. Thank you. Please go ahead.

Lokesh Manik: Yes, Good afternoon, sir. Am I audible?

Jairam Sampath: Yes, sir.

Lokesh Manik: Sir, my question was on employee expenses for this quarter. Is that about 4.9% of sales, which is about 150 bps or 1.5% lower than the average of 6%. So, is this sustainable going forward?

Jairam Sampath: Yes. So, yes. What you are asking about is the operating leverage. So, if you take the… I would like to just explain to you, saying that out of the total INR100 of sales, there is X amount of money available after paying for materials. And out of that, there is an EBITDA if you remove that roughly about 15%-16% is available.

This is in two parts. One is the employee and those kinds of fixed costs, which I can get the operating leverage. And the other part is something called variable costs, which unless I change the scale, it does not alter significantly.

So, your question is whether I can get operating leverage further? Simple answer, yes. We will get operating leverage further, maybe over this year and even next year. [inaudible]. Yes. We will get the operating leverage. And so, part of the operating leverage comes from employee costs. Other parts come from other fixed costs. So, we will get significant reduction due to operating leverage. Thereafter, again, we will have to increase the quantum of these costs. And again, the sales goes up again.

Lokesh Manik: Okay. Sir, my second question is on the drop in gross margins for the last four quarters now. And that coincides with the contribution, lower contribution from medical and from IoT and consumer products, which used to combine the 20% to the revenue last year. And this quarter, it is at 10% combined, medical, consumer, and IoT products. So, how much of the impact on the gross margin is due to the lower contribution from these segments?

Jairam Sampath: Yes. I will take a step back and say, lower gross contribution is also a function of lower composition from railway and aerospace. You see, aerospace is some 2%-3%, and railway is about 10%-11%. In the fourth quarter, you can expect these numbers to go up at least significantly, 2%-3% in each of these segments. And that will definitely impede any erosion of margin on a blended basis by any other segments like industrial, IoT, etcetera, going up.

And as far as the medical is concerned, while medical is a good margin business, but the client onboarding takes a little longer time. So, we have been working with the client for the last one year, and we expect, if not, I think today probably the client visit is there and so on. So, we will come to know.

Hopefully, we will get some execution clearance in JFM. If not, FY '25, we will start getting medical. So, the contribution of reduction due to medical and IT not working is not very high, but aerospace and railway not picking up to their original level, that does hurt us a little.

But I am happy to tell you that that is now fixed, and last quarter and next year full, you will see some good action in that area.

Lokesh Mani: Great. Thank you so much for answering my question.

Jairam Sampath: Thank you, sir. Thank you.

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

V. Balasubramaniam: Yes. Thanks a lot for the opportunity. By the way, the name is Venkatesh Balasubramaniam. Now, coming to the question, we actually heard your TV interview where you mentioned that you are quite confident of your 18 billion kind of revenue guidance for the full year, which basically means [INR6.3 billion] of revenues in the fourth quarter. You also mentioned that 15% plus margins is possible.

I mean, it will be slightly better than last year. So, last year, actually, you did 14.9%. So, even if I assume 15%, that basically means that in the fourth quarter, you have to do 17.6%, a margin level which you have historically not achieved. So, is this a number which is feasible?

Jairam Sampath: Thanks, Venkatesh. So, yes, obviously, there are a lot of moving parts to this math, okay? So, of course, I had qualified my thing in the TV interview saying we will try and get some of the next year numbers of orders executed this year, essentially in the aerospace and railway area. So, it's possible to do 17, etcetera, in a quarter if you have a reasonably good proportion of railway electronics and aerospace electronics, okay? If the proportion of business in the other lower margin segments is increasing, then it may not work so much, but certainly it will be much higher. EBITDA is driven by two aspects. One is gross margin; the other is operating leverage.

So, like I said to previous analysts, we are likely to get some more benefit of operating leverage during Q4. So, that will give you at least 1% or 2% higher EBITDA numbers by itself, because we will do minimum 1800, and God willing, we can probably work towards more too. And then in terms of the composition of the business, we are likely to – we're trying to make sure that if there are orders for railway and aerospace that we can execute now, then we'll give preference for those orders. So, these factors put together, it looks like it is very feasible to hit the last year's EBITDA number, okay? And probably do more.

It depends on how much we are able to execute. The moment we have confirmation on – see, there is only one thing which is between us and this performance, whether we get confirmation on receipt of all components for all the different orders that we receive in short cycle. So, that's what is right now happening. So, hopefully we – it is – simple answer to your question is certainly feasible. Whether it will happen or not, I can't talk about future, but I think by all different, let's say, factors that affect it, I think it looks like we can get there.

V. Balasubramaniam: Okay, okay. The second question is not related to numbers. It is on the OSAT business. Now, we are already in – January has ended, Feb is starting, you are telling you already started work on your OSAT factories in terms of construction of the factory. We have not got the subsidy approval yet. Anytime now, the election code of conduct – rather the election date might be announced. You know, let's say they say that April is general election. So, the election code of conduct will immediately kick in.

So, will the India Semiconductor Mission be in a position to even make an announcement, even if you get approved? And so, that is the first part. What happens if the whole thing gets delayed and the decision is actually decided post-general election? So, it is possible that you might – even post-general election, you might have to wait for another two to three months. So, we might be waiting till June. So, is it worth the risk of starting construction on the factory when this kind of delay is possible? That is one thing.

The second part of the question is, is it that given that you will make an application and you will 100% get the subsidy, isn't there any likelihood that the government might say maybe, your JV partner is not okay, I am not comfortable, I need more assurance. So, isn't it too much of a risk to start work? Because without the subsidy, I am not sure whether the business is financially very feasible. So, that is one part of the question.

Similarly, on the other subsidies, around 25% subsidy was supposed to come from the state government. In PCB, you are supposed to get 20% and 25% from the central government and state government. Has any of the subsidies come? And if the subsidies have not come, doesn't it make sense to wait for the subsidy before you, the official communication before you start constructing?

Jairam Sampath: Yes, Venkatesh. These are questions that were in our minds for the last three quarters. Okay. Having said that, as far as building expense is concerned, we are not risking. In fact, if you notice, we have also published how much of money we raised in QIP and where it resides. We have already funded it through our earlier general corporate purposes. Of course, now we will shift that expenditure from the previous IPO to this IPO.

So, that's we paid about 56%, INR56 crores, sorry, INR48 crores for the land. Plus this construction starting work, the first shed, is not going to cost you excess of some INR10, INR15 crores, okay. But it gives you huge benefit in terms of lead time because the cement and all this concrete and all of these things and the entire ground levelling, these are all long lead items.

They are not very high-cost items. The high-cost items are the machines, actually. So, here, all said and done, we will not spend more than INR100 crores on land and building, actually speaking in the of course, the first POC stage. We are not talking about risking a whole lot of capital here. The second thing is you see the worst-case scenario.

You talked about, of course, there are questions on whether the government will be able to announce, etc. So, whatever little we understand from our interactions is that they would definitely do it in a very short time, even probably within this week or early. But we can't speak on behalf of somebody without knowing exactly what is on their mind.

So, I leave it to their discretion to do this. But in terms of whatever we understand, the government is interested in pushing this particular agenda, saying that they will approve all of these prior to the announcement of any election, etcetra. Because the moment they announce elections and all of these things correctly set, it gets postponed by 2-3 months.

So, we are not talking about risking a huge amount of capital here. We are talking about building a building. The worst case, the worst case, supposing we say something dramatic happens, etc.

Then also, these buildings are generic buildings. We are not actually putting a clean room right now. The clean room, etc., comes in later. All of those kinds of things come in a little later. So, we probably will, we can use it for other purposes too. It's not that this building will actually become waste or something.

But on the other hand, the possibility of such things is pretty remote, actually speaking. And we are pretty confident that this whole system, all these questions will probably shortly get answered. And the other question about whether if you apply, you will get approval.

The government is not working in a rejection or acceptance methodology. What we have seen is that supposing there are 10 parameters in the project execution, they take one by one and work with you to get that right. It's not as if you write an application with 10 items and then they say, it may say 5 is not good, so get out.

It's not like that at all. Each and every item they discuss with you. And there's a big semiconductor mission team also.

Some of them are technical experts and so on. They also help us to solve those problems. They also work with us to make sure that if there is some particular agreement, for instance, some foreign partner, how much investment should be there, etc., etc. They work with us. And we have got in every one of those areas, we have got plan B and plan C also in place. So it's not as if we get badly off if they don't accept our point of view in one particular area.

We have and see the biggest proof of the pudding is in eating. So customers' confidence, which we are able to get from some two or three large silicon companies. So that is weighing in our favor.

So all in all, put together, I think it's not a big risk to, yes, it would have been nice if they had announced everything last month itself. We could have gone to the next stage. But nothing is lost because we are covering all the long lead items with a minimal risk.

You know, the land is never a risk. Already the land appreciation there, if you really see, I can't really talk about it, but it's a huge land acquisition already in those places. Right next to our building is a villa, etc.

Those are all going at multiple times what we have paid for and all that. So in real terms, economic terms, no, nothing lost. It is just that it's a little bit irritating to keep waiting and, you know, some of these things.

But I guess what is not in our hands, we have to do whatever best. So we also don't want a situation in which the last moment government approves and says, hey, where is your factory in April, you know, because you put that in DPR. So we don't want to get caught on the wrong foot.

We want to maintain timelines. As far as the state government procedure is concerned, we are in possession of a government order, which is like almost a check being issued. We've got certain conditions that you have to commence operation by this time, etc.

That is why we are in a hurry to make sure that we don't lose time. The last moment somebody gives approval and then after that we are short of one month, then it becomes a big problem.

V. Balasubramanian: Thanks a lot for those detailed answers. I hope you get your approval this week. And also, I hope that you meet not only me, you meet your guidance also. All the very best.

Jairam Sampath: No, no, absolutely. Thanks. Appreciate it. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I now hand the conference over to the management for the closing comments.

Jairam Sampath: Yes. So thank you all for attending this and very nice and value adding questions. We had a very nice discussion and we have noted down all the concerns and all that.

Those have been answered. The remaining, you can always get in touch with myself or Neeraj. And we'll be happy to take you through details as we are permitted to.

Thank you once again. Have a great evening.

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