KAYNES TECHNOLOGY

November 04, 2023

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 2nd quarter and half year ended September 30, 2023.

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

Please find attached the transcript of the earnings call hosted by **PHILLIPCAPITAL INDIA PRIVATE LIMITED** for the Financial Results of the 2nd quarter and half year ended September 30, 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/Transcript%20of%20Earnings%20Call-%20November%2001,%202023.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: 2023.11.04 12:46:15 +05'30'

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

Enclosed:
• Transcript of the earnings call

“Kaynes Technology India Limited

Q2 FY '24 Earnings Conference Call”

November 01, 2023

MANAGEMENT: **MS. 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 – PHILLIPCAPITAL INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY24 earnings conference call of Kaynes Technology hosted by PhillipCapital India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on a touch-tone phone. Please note that this conference has been recorded.

I now hand the conference over to Mr. Deepak Agarwal from PhillipCapital India Private Limited. Thank you and over to you, sir.

Deepak Agarwal: Good afternoon, everyone. On behalf of PhillipCapital India Private Limited, I welcome you all to Kaynes Technology Limited Q2 FY24 earnings conference call. Today we have with us management represented by Mr. Ramesh Kannan, Founder and MD. Ms. Savitha 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 open the floor for Q&A. Thank you and over to you, sir.

Ramesh Kannan: Good afternoon, friends. My name is Ramesh Kannan, I am the Managing Director of this company. I would like to welcome everyone present on the call from the entire team of Kaynes Technology. I have along with me on the call, Ms. Savitha Ramesh, our Chairperson. Mr. Jairam Sampath, our CFO; Mr. Rajesh Sharma, our CEO and Mr. Neeraj Vinayak, our Head Investor Relations.

Coming to our performance for the quarter ended September 30th, 2023. Our total revenue was INR3,608 million, registering a growth of 32% year on year. Our growth was largely led by strong demand in industrial and railway verticals. Our Q2 FY24 EBITDA was INR488 million compared to INR432 million last year.

Our PAT for Q2 stood at INR323 million compared to INR210 million during last year. We continue to witness strong demand across verticals with monthly order inflow reaching to INR2741 million per month from INR2165 million during Q1 FY24. Our order book as on September 30th, 2023, stood at INR34,608 million.

Friends, let me share few details around major developments for the quarter.

On IT side, as you are aware that Kaynes Technology as a part of its strategy to enter into complex electronic manufacturing has entered into a Transfer of Technology License with Center for Development of Advanced Computing, CDAC, under the National Supercomputing Mission. I am very pleased to announce that Kaynes has delivered the first batch of prototype of high-performance computing servers in the three and a half months' time, which makes us eligible for a significant contract for manufacturing a large number of high-performance computing servers under Atmanirbhar Bharat.

These are India's first indigenized, developed, designed high performance computing servers and are likely to be the backbone of hyperscale datacentres, edge computing and whole set of industry applications. This delivery validates our strong execution, robust testing, and reliability setup. Our strong execution in the space have resulted in increased enquiries from global OEMs for possibly Make in India collaboration.

We have also received our first order from the global medical player for supplying components for their cardiovascular division based in US. This marks an important milestone for us and reinforce our outline strategy of continuous expansion of customer base with focus on large accounts .

One of the mega trends in the adoption of green technology for sustainability; I am very pleased to say that we have acquired a large key account in manufacturing of components for electric vehicles directly from the OEMs. In addition, we have done a transfer of technology with the European OEM in EV space, supercharger segment and have one sizable order to start with.

Let me now spend a few minutes talking about how we see the ESDM landscape shaping up in India and why it is important for players to take a larger role.

India is witnessing an impact of global mega trends in 5G, datacenters, electronic vehicles, healthcare, artificial intelligence, and Industry 4.0. All this is creating huge opportunities for companies like Kaynes Technology. However, the supply chain has still not come up in India and we are dependent on component imports. I firmly believe development of local manufacturing ecosystem is way forward as it will be.

Improve time to market/lead time, reduce component and logistics cost, save precious foreign exchange and making electronic products more affordable as overall cost of the ownership becomes more prominent. In view of the above and as a part of our overall strategy, Kaynes Technology has taken baby steps to get into semi-con packaging. This is an urgent need of the day and we would like to support government initiatives in developing and promoting the indigenous ecosystem of supply chain.

I believe we need financially stronger multiple players to act as a catalyst to lead this transformation stage. This will not only remove bottlenecks around supply chain ecosystem, but also help the industry unleash its optimum potential, playing its part in the ecosystem, development will not only strengthen the fundamentals of the industry, but it will also create few large organizations which can be benchmarked to the best in the world.

We have forwarded our proposal to Government of India for setting up an outsource semiconductor assembly and testing facility in Telangana and are awaiting for final approval. We will be sharing finer details of the project once we formally receive the approval for the same. We look forward to your continuous support as we embark on this journey ahead.

With this, I will now hand over the call to Mr. Jairam Sampath, our CFO to take you through our financial performances. Thank you. Over to you, Jairam.

Jairam Sampath: Thank you, Rameshji. Good afternoon, everyone. Thank you for joining us on the call. I am Jairam Sampath. I am the Whole-Time Director and CFO of Kaynes Technology. I will be presenting the financial performance of our company for the period ending 30th September 2023.

For the quarter ended 30th September 2023, our consolidated total revenue was INR3,608 million, representing a 32% year-on-year growth. For the first half year ended September 2023, consolidated total revenues were INR6,580 million, representing 39% year-on-year growth. The consolidated EBITDA for the quarter was INR488 million, showing 13% year-on-year increase, while for the first half it was INR891 million, which was up 31%. The EBITDA margin for the quarter and half year stood at about 13.5%.

Our consolidated profit after tax for the quarter was INR323 million, up 54% year-on-year, and for the first half it was INR570 million, up 83% year-on-year. PAT margin for the quarter stood at 9% and for the first half it was 8.7%. Based on our current order book, , we have guided for a revenue of INR1,700 crores to INR1,800 crores for the year and we are very confident of achieving this number. We expect EBITDA to recover during the second half of the year and expect it to close around 15% for FY '24 and PAT we are aiming for a double-digit percentage for FY '24. Net working capital at the end of September was at 119 days on an annualized basis, lower than 121 days, which was the number at the end of the previous quarter.

Our inventory was higher as we have to make advance purchases keeping in mind the requirements of upcoming quarters. Our net debt at the end of the quarter stood at INR1,224 million compared to INR972 million at the end of the previous quarter. Our ROE and ROCE adjusted for unutilized portion of the proceeds is at 20.4% and 22.4% respectively for the first half of FY '24.

We continue to make progress in our expansion plans and continuously adding newer lines in our existing facility in Manesar, Mysore, Bengaluru, Chennai, which are expected to contribute towards enhanced production in the coming quarters. Additionally, on Chamarajanagar, we have operationalized a few lines and Alpha and Beta buildings work is almost completed. We have commenced production and business from Chamarajanagar. We expect full functionality of the new facility by the coming quarter.

As you are all aware, Kaynes Technology has taken baby steps to get into the Semicon Assembly and packaging and has signed MOUs with state governments. Our first phase of Semicon Assembly is expected to come up in Telangana. We have submitted our formal proposal to the Government of India and are awaiting final approvals. We will be sharing finer details of the projects once we formally receive the approval for the same. We look forward to your continuous support on this journey ahead.

With this, I would request all participants to come up…

Moderator: Thank you very much. We will now begin the question-and-answer session. Ladies and gentlemen, our first question is from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: Good afternoon, gentlemen, and thank you for the opportunity. Sir, in this particular quarter, you had a margin of about 13.5%, which is similar to what you had in the first quarter also. You did guide for a 15% margin for the full year. I want to know from you, based on the order book that you have, what do you think is a sustainable margin in your business? And I remember you talking about looking at expanding the margin as exports pick-up. So in the existing order book, how much is export? So that's the first question.

Jairam Sampath: Yes, Mr. Rahul, thank you. Thank you for attending the call. So as far as our guidance on margin growth, that is still intact. We still think that for the year, we will probably do more than 15% EBITDA margin. Now, coming to the specific question on why Q1 and Q2 are somewhat lower at 13.5%?

In our business, what happens is whenever we on-board a new client, in the first few quarters, whether it is for prototyping work or whether it is for pilot lots, for the first few quarters, we probably incur the expenses and we probably don't get the kind of revenues we expect. So even when we are doing some trials, etcetera. The materials are bought at a little higher price. So this is the effect why you see margins a little bit depressed. But coming to the next quarter and the next, that is Q3 and Q4, we'll recover more than this. And we are confident to end the year with about 15 plus percent EBITDA. So that is the answer to your question, sir.

Moderator: Thank you, sir. Sorry to interrupt, Mr. Gajare. May we request you to re-join the question queue, please? Thank you. Our next question is from the line of Bhoomika Nair from DAM Capital. Please go ahead.

Bhoomika Nair: Good afternoon, sir, and thank you for the opportunity. So you spoke about new client additions and servers, medical area, EVs, etcetera. So if you could just talk about what are their order sizes, what will be our wallet share, what is the kind of time frame that we have this order execution for? And alongside that, if you could also comment about where is the railway signalling, smart metering opportunity, defence, etcetera, also scaling up? What is the kind of uptake that we are seeing in those segments? Thank you.

Jairam Sampath: Yes, thank you, Ms. Bhoomika, for attending the call. So with regards to your question on the medical and the IT front. As far as medical front is concerned, we on-boarded two clients actually from Europe. And these clients actually supply equipment which are related to the ICU and operating theatre and all that. So these clients are expected to grow in volume over time, and we expect to complete at least the initial pilot lots during this year. And for this product category, in India, we probably will be the exclusive production facility for this particular medical client.

As far as the IT, high-performance servers, which Mr. Ramesh was mentioning, we have a large client in India. Like we said, we are supporting the national effort at creating the IT backbone. So we have kind of 50%-plus market share in this particular business.

And then going forward to other areas going into the future, we are on-boarding a lot of new clients in the EV segment. And both, it's a richer client edition. It's not merely vehicle manufacturers, but also the charging infrastructure people, and also people who specialize in component manufacturers specifically focused at EV. So you can see a lot of other developments happening in this area. And these are something which is value-accretive for us. These have been projects on which we have been working in the past for almost last two years. And they have now come around to giving us some good benefits.

As far as railway signalling is concerned, I'm happy to tell you that railway signalling projects have taken off now. And the government is very serious in its investment proposal to upgrade all the -- both electronic interlocking as well as the train collision avoidance systems. And we have started seeing its effect on our order inflow, with the result that percentage of railway signalling was a tad-higher compared to the previous quarters. And we expect this to further go up in the coming quarters.

Moderator: Thank you, sir. We move to the next question. Our next question is from the line of Renu Baid from IIFL Securities. Please go ahead.

Renu Baid: Yes, good afternoon, and thank you for the opportunity, sir. I have two questions. First, you did mention of various DOTs being signed up for technology access on EV chargers, medical equipment, and other segments. So what is the kind of investment that we're targeting through this DOT fee route for the current year and next year? And also aligned with this, if you can also highlight or quantify, while entering into a high-computing server segment, as a high-margin business, in your view, what could be the scalability of revenues from this business coming over the next two years to three years? How large can this business vertical be in terms of our addressable size inmarket?

Jairam Sampath: All right. Thank you, Ms. Renu. So as far as the technology for new EV products are concerned, there is no significant technology fee, excepting that they have come to us because we have capability to translate their design into proper manufacturing. And most of these, barring one particular company where we'll be exporting components for the EV, the remaining are aimed at Indian markets. So they were looking for manufacturers, and we've been working for over one year and 1.5 years. And these are significant projects.

Until about last year, we had only a four-wheeler, major four-wheeler EV manufacturer as our client. Today, we not only have one four-wheeler, but two four-wheeler EV manufacturers, plus one two-wheeler EV manufacturer, and also one for EV charging infrastructure, which is aimed at commercial vehicles, and one EV components company. So going forward, you can look at it as a significant portion of our industrial EV revenues. And these are being at the early stage of business. These will be also with a reasonable profit margin.

As far as HPC is concerned, we started with one major, let's say, server entity in India, government entity. And this is to support the IT backbone for the country. And after we completed our pilot lot to them, we were approved for future procurements. And obviously, these future procurement numbers are large, but we think that you will get significant, 1,000 of these kinds of servers each year going forward.

Plus, on the back of it, a multinational company also, who wants to consider Indian companies to manufacture their servers in India. We are almost tying up with that company. And that will also be a large company. So to give you a sense, going forward, IT, IoT, and aerospace and medical, all will probably be equal in terms of their composition in our portfolio. And these are all segments and also in railways, we have also acquired some two large contracts.

So going forward, the good news is that the non-automotive sectors are increasing in their presence in our portfolio. Automotive sectors is growing as per the industry expectations. So all-in-all, you will see going forward, a better margin also and better sales numbers too.

Moderator: Thank you. We move to the next question. Our next question is from the line of Kaushik Mohan from Ashika. Please go ahead.

Kaushik Mohan: Hi, sir. Congratulations for the great set of numbers. Sir, my question is on margins being at a higher, superior place compared to our competitors. What makes us so differentiated? Are we low volume and high margin product? Or like only exports has been considered in this?

Jairam Sampath: Kaushik, thank you for attending the call. Welcome to the call. So this, of course, we have discussed in the past too. This is our thesis. We don't know really too many details about our competitors. But suffice it to say that first is being present in all these sectors. That helps us. For instance, the early stage of our growth last three years came in automotive sector. But today we see the traction of sales coming in all other sectors. And they are obviously marginally superior in terms of their margin profile and so on. So that is one point, which sectors you are in.

Second thing is we specialize in small volume, high-tech, high -- small to medium volume, high-tech, high variety businesses. And so including things like, we have now been qualified for what is known as [Nod 5 0:24:24] for one of the premier space agencies in the country. So these are all very highly profitable businesses for us. And also it allows us to do a huge amount of service to the nation too. They are very high profitable. So we post along, especially in IT sector also, I talked about high performance computing. So we are not into commercial products. We are into servers and those kinds of products. So that also keeps the margin intact.

And the other thing is all the products that we do are critical and complex. So with the new addition of what we call the assets, which are high-tech and new generation, we are able to take up more jobs which require higher complexity and higher technology to do. So these are the things, some things which keep our margin profile higher than some of the industry people. This is our view. Of course, you can confirm from them what their views are.

Kaushik Mohan: Thank you. With this, that means that we have guided for a total revenue of INR1,700 crores to INR1,800 crores. If I even assume INR1,700 crores and minus both the orders, both the quarters, I get around somewhere around per quarter I need to do INR521 crores, so INR522 crores. So in INR522 crores, if I need to make my overall year margins to reach around 15 percentage or greater than that, I need to get 16 percentage margins for the next two quarters?

That means that in our next two quarters, our revenue is only coming from the non-automotive segment and majorly on export side. And that is the driver of the growth for the couple of two quarters, which leads us to get more than 15 percentage margins?

Ramesh Kannan: If you go through our historical data, our historical data says that we do in the first half H1, we do 35% to 40% and H2 we do 65% to 60%. So with that, this achievable number is not a problem. Now coming to the EBITDA, it is possible because our EBITDAs have today come down because there are a lot of developmental projects which are not in full swing as well as in production.

So unless those projects are converted to production, but without doing that, we will not be able to grow to the next level. So we need to do that and that is why there is a marginal reduction in our EBITDA, which will be taken care of in the coming two quarters.

Jairam Sampath: Just adding to what Rameshji said, you are right, going forward in these two quarters, significantly higher EBITDA numbers are likely.

Moderator: Our next question is from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Sir, basically I wanted to check on this order book, so what will be the EV revenue share for you currently in the current quarter and highlight for the order book also, what will be the share?

Jairam Sampath: Yes, Mr. Siddhartha, good afternoon, welcome. Thank you for this question. See, typically on an yearly basis, we expect the EV revenues, which is part of industrial, to be about between 10% and 20%, okay. Because we are onboarding many more new clients, so that is the kind of number you can expect.

So typically what will happen is into future, if we were to look into future, 30% will be automotive, industrial EV may be about 40%. Out of future, about between 10% and 20% will be EV. And then of course the remaining will be railway signalling, about 15 plus percent. You will have aerospace, defence, etcetera, sub 10%. Even medical will be sub 10%. Maybe IT, IoT will be another 10% or so. So this is the kind of number you can expect.

Moderator: Thank you, sir. Our next question is from the line of Dhananjay from ASK Investments. Please go ahead.

Dhananjay: Yes. Sir, this quarter you all have done a fantastic job on the revenues, but just on the cash flow from operations, it's still negative. Any reason why inventory shot up and what could we do about that going ahead? Because, again, we'll have to raise money sooner than later?

Jairam Sampath: Yes. So thank you, Dhananjayji. Welcome to this call. A very relevant question. But rest assured, in this quarter, the temporary increase in inventory is due on account of some postponement of some of the business that we are doing with an existing customer. Plus, we are also stocking up for the significantly higher number of sales that we are doing in the coming quarter.

And in terms of cash flow from operations, we expect from, like we have said earlier, and now, this year, obviously, it's a year of ramping up sales and so on. So there will be a little bit of tendency to consume cash in favour of inventories. But going forward, we will have certainly OCF EBITDA number coming up significantly. Maybe in a couple of years' time, we can see the OCF EBITDA go between 30% to 50%. That's our target based on whatever internal planning that we have done.

Dhananjay Sure. But then, for OCF EBITDA to be 30% to 50%, which part will see improvement?

Jairam Sampath: Yes, very good question. Inventory will see improvements because we are also, like we have described in the past, we are talking to our suppliers and also, we are improving our production cycles to avoid -- so coming back to where this improvement in OCF will come, primarily by continuing the inventory increases.

So hopefully, by next year, we will have better supplier traction in terms of local stocking, etcetera, and also better-balanced production that we are having. And also, most of the businesses which are being onboarded now will get into regular production. So the impact of excess inventories on account of pilot lots, etcetera, will reduce.

We are already on track to do better in terms of receivables. We have shown improvement in receivable days. And payables is something that we are keeping it steady. And at an appropriate time, we might extract some little comfort from there too.

Moderator: Thank you sir. We move to the next question. Our next question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: So for railway, what kind of opportunity, what opportunity we are getting from Vande Bharat or existing traditional business?

Jairam Sampath: Yes. Sumantji, again, welcome to this call. Essentially, there are three different businesses that are in railways where we can apply. One is called electronic interlocking, which is the one which is driving our current increase in sales. This is the traditional solid state interlocking business. And then there are two other businesses like Vande Bharat. So at this point in time, that is not driving the revenues. But of course, we are preparing some production for Vande Bharat too. And the third part is, of course, the Kavach program for which we are also diligently applying ourselves and working with the railway authorities to develop our solution for Kavach. So currently, it is electronic interlocking which is driving our revenues up.

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

Venkatesh B.: Yes. Thank you for the opportunity. Just one simple question. I think it was mentioned that usually in the first half of the year, you do 30% to 35% kind of revenues. And second half, you do 60% to 65% kind of revenues. Now, if I go by that number, and I assume, let's say, 30% to 35%, your first half number is roughly INR658 crores.

And based on that, if I assume 35% has been done, it means you should do 18.1 billion for the full year. And if I assume like you've done only 30%, then it should be 21 billion. So is my assumption correct that actually you can do between 18 to 21 billion, and your guidance of 17 to 18 billion is actually conservative?

Jairam Sampath: Yes, let me put it this way. 17 to 18 billion is definitely realistic guidance, and we'd love to do anything more. This will be known more surely when we talk about it in the third quarter call. Because by that time, we would have completed bulk of the INR1,700 crores to INR1,800 crores worth of work.

But there are definitely possibilities to increase it better. It completely depends on our Q3, how much we are able to complete. Because as we go forward, the amount of production to be done on a daily basis increased tremendously. So yes, 1800 is a realistic number. Beyond that, we will confirm in the next quarter.

Moderator: Thank you sir. Our next question is from the line of Navid Virani from Bastion Research, please go ahead.

Navid Virani: So, sir, I just wanted to have a clarification on this OSAT facility. So currently we have a couple of MOUs signed, one with the Telangana government and one with the Karnataka government, right?

Jairam Sampath: Yes.

Navid Virani: And in the opening remarks, you said that the Phase 1 of this OSAT facility will come in Telangana. So are we planning to have a multi-geographic presence in terms of OSAT manufacturing? Is that the right way to look at it?

Jairam Sampath: Yes, sir. We are going to have Phase 1 in Telangana. Phase 2 will be coming up in Karnataka.

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

Karan: So my question was, we have experienced an increase in short-term borrowings. It has almost doubled in this quarter if you compared to March 23. So can we see a similar increase in borrowings as we scale up the business? And what would be the sustainable debt to equity that we will be targeting as a company at a consolidated level?

Jairam Sampath: Yes, sir. So, Karanji, it's a good question. We are also kind of working out. We want a healthy debt-equity ratio going forward. But at this point in time, whatever increases that you see is due to the temporary increases in inventories that we see on account of certain things that we talked about. So we will like to keep the debt equity at a reasonable number, not too low, not too high, so that it gives us the advantage of a proper leverage. At the same time, it does not burden the company with interest burdens beyond our capacity to further invest free cash flows. So we are working on that mix. Maybe we'll implement it in the coming year in some way.

Moderator: Thank you. Next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.

Keyur Pandya: Thank you for the opportunity. Sir, just want to understand at current what is the utilization of our existing plant and all the proposed expansions that you mentioned, timelines for the commissioning and basically what quantum of capex is being done in those facilities and the revenue potential? That is the first question.

Jairam Sampath: Thank you, Keyurji, for attending the call. So as far as the capacity utilization is concerned, obviously going forward into the third quarter and fourth quarter, our capacity utilizations are going to go up. The good news is that we are going to operationalize the Chamarajanagar facility fully based on the objects of whatever money that we had raised.

So we will roughly have more capacity than what probably we will do sales on a run rate basis. So the timeline for this is that in this quarter, that is Q3, the beta building will be completely operationalized in terms of machines and all that. And the third building also will be ready in terms of the structure. And by the end of the year, we will have the entire Chamaraj facility firing on all cylinders.

So at that point in time, if you ask me, after installing all the machines, if you take FY'24 numbers as a guideline, about 60%, 70% of capacity utilization will be there. But never mind, because going to FY'25, again, there will be further growth. So I think we are well poised for FY'25 numbers too. By the end of this year, we will have enough capacity to deal with FY'25 numbers also.

Moderator: Thank you. Our next question is from the line of Piyush Khandelwal from Bank Of India Mutual Fund. Please go ahead.

Piyush Khandelwal: Thanks for the opportunity. I just wanted to understand a little bit on this profitability side. If I see our mix, which is on the letter box build side, a box build disk half, which is the first half contributed roughly around 40%, versus 29% in the previous half. Sir, my question is primarily on the profitability side. Well, I understand on the EBITDA margin side, the reasons that you have stated on the lower EBITDA margins in the first half. But if I look at the gross margins, it is also down 55 basis points on a Y-o-Y basis, despite our box builds are increasing, which is 40% in the first half, FY'24 versus 29% in the first half, FY'23. So just trying to understand this mix change and not reflecting on the gross margin side as well?

Jairam Sampath: Yes, Piyushji, again a very insightful question. So essentially whenever we onboard a new customer, so obviously you can conclude that we have some new customer for whom we are doing box build this quarter. So when we start the business with any new customer, in the initial lots, the cost of materials are higher and our economies don't come in because we have not fixed the supply chain. But a couple of quarters later, this whole margin goes up.

So the simple explanation for that is having onboarded box build more this year, it will help us to get margins in the future. As far as the current two quarters, first and second quarter numbers are lower, especially second quarter you can see box build is higher. That's because of the initial stage of production.

Moderator: Thank you. Our next question is from the line of Rajesh Vora from Jainmay Venture. Please go ahead.

Rajesh Vora: Good afternoon. Congrats on a decent set of numbers. Rameshji, if you could give a broad idea about the company's rationale to enter into this new area of OSAT and PCB. And how will that change the complexion of the company over the next three, four, five years? And this being a new area, what are the challenges you foresee and how do you manage them?

Ramesh Kannan: See, your question consists of three points. So let me talk about OSAT first. OSAT, the challenges which I am anticipating is to build up skills in India, to build up a team in India, because so far only very low-end OSAT has been done. And what semicon we are planning, we are planning little mid-size and higher end. So we definitely will have to bring some expatriates from outside. And as well as we have also identified skillset who will come here, train our people, and build a team. This will take one year.

Second is the entire material which goes into the assembly and test consumables will have to be imported. We don't have an ecosystem today in India. I'm sure once many companies come in, this will also be there. And today there is a good ecosystem available in Malaysia, Taiwan, as well as in China. Secondly, we are entering into PCB. We want to make all items which are related to our electronics and our assembly business.

If you look at, if we can create all the three ecosystems in India, we'll become a large player in the EMS, and most of the customer supplier relationship consists of this. So that is one reason we wanted to enter into this business.

In PCB also, we are not going to make the conventional PCB. We are planning to make HDI, which a very small quantity is done by AT&S in Mysuru. So we want to enter, our factory will be around 60% to 70% HDI, and multi-layers with around 40%. So we'll become a company which is making only high-tech, high-mix, mid-size volume. We will not be a commodity company. And that is our vision, and that is why we are entering into these three fields. So all these three put together on a consolidated level, our margins, I am expecting anything between 18% to 20%.

Today, if I enter into the conventional, double-sided PCB, single-sided PCB, there are enough players in the market, and their margins are very lower. So we need to go to the high-end, 3x3 mil, 2.5x3 mil, and something like that which the very high-end market wants. And that is where pricing is also possible. I hope I have answered your question, Rajeshji.

Moderator: Thank you, sir. We move to the next question. Our next question is from the line of Aniruddh Joshi from ICICI Securities. Please go ahead.

Aniruddh Joshi: Yes, sir, thanks for the opportunity. Sir, we have added multiple clients recently, so just wanted to understand whether the working capital requirements of the new customers are also similar, that is around 113 days, or they are lower or higher than that. And secondly, in current quarter, or H1, if you can indicate the PLI amount that has been booked, if any. Yes, thank you.

Jairam Sampath: Yes, thank you. So as far as the working capital profile is concerned, the customers that we are onboarding are very similar to what we have already. The only difference is that now we have become a little more learned and intelligent about receivables and all that. So whenever we are onboarding clients, we are taking advantage of either supply chain finance or some kind of factoring facility, so that the burden on receivables comes down. To that extent, we are benefiting in terms of working capital. So that is a very important difference.

As far as PLI is concerned, we have received two PLIs and one is under consideration. The PLI that we have received earlier is Telecom and White Goods Electronics, on which we are working. And right now we have not realized huge numbers here.

They are still in the works, and we have time until the end of this year to start off the activities. And we do have some active collaborations happening, both in Telecom as well as in the White Goods Electronics. As far as IT PLI is concerned, we were talking about the three PLIs.

The first two PLIs, what we have received is for White Goods Electronics as well as for Telecom, in which we are in advanced stages of working with collaborators and so on. And by the end of this year, we'll start sporting some revenues. No major claims have been made by us under this PLI.

The third PLI, which is the IT PLI, for which we are shortly getting the approval, we will have some significant business going through this PLI in the second half of the year, especially given that we are qualified for this high-performance computing server supply. And there are also some multinational companies which are tying-up with us. So you can expect some action in the second half.

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

Meet Jain: Yes. Hi, sir. Thanks for the opportunity. I just wanted to get your export mix in order book and the revenue. And on the margin front, how we see the export margins as compared to the domestic one?

Jairam Sampath: Export margins. There are three products that we export. To Europe, it's an industrial product, which is actually in the HVAC area. To UK, we do railway signalling exports. And to US, we again do industrial instrumentation. So we expect in the second half, the business on the railway signalling to go up. So we think that the margins for exports will go up in the second half.

Moderator: Thank you. Our next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.

Keyur Pandya: Thanks for the opportunity again. I just want the clarification, whatever you can disclose regarding the OSAT. The tentative timeline for the first phase, what steps would be required, as you mentioned, that need some help from the tech partners. So what kind of timeline should we expect? And have you already committed or have done some capex or opex for this project already?

Jairam Sampath: Yes, I'll answer. So the project has been approved by our Board and we have acquired the land for the Phase I in Telangana. That's also published in the news items. We acquired 46 acres of land in Telangana near Hyderabad airport. Now, as far as the project timelines are concerned, we expect by end of this year, FY '24, we should have commissioned the first line and be ready for starting the trials for all the customers. We have signed MOUs with, to my knowledge, about three customers already, Semicon players.

And so by the first half of FY '25, we would have completed the trials. And by the end of FY '25, we would have commenced, what is known as commercial production. So from this, assuming from today, about one and a half years' time, we would have commenced regular production of this. And then within two years, we would have also installed the final quantum of lines. We are expecting to totally install 12 lines in the OSAT. The first line would have been there after six months. And thereafter, once we get approvals from our customers, we'll gradually add the capex.

Moderator: Thank you. Our next question is from the line of Rahul Gajare from Haitong Securities. Please go ahead, sir.

Rahul Gajare: Thanks for the follow-up, sir. Sir, could you tell me how much is exports in the total order book right now? And the breakup of that between ODM, OEM, and Box built. And also, given you've laid down your tentative plan for the OSAT, when is the likely fund raise for this that you all are planning? That's it.

Jairam Sampath: Okay. As far as export percentage of our order book is concerned, it's around 15%. And going forward, this is expected to remain similar. There is more traction in the domestic market. About the OSAT and fund raise, etcetera, we'll come back to you appropriately. Yesterday only, the Board has approved the project.

And we have to now discuss about the possible fund raises, which could be equity, debt, or any other means. And very shortly, maybe for the next several weeks, we'll come back with the plan. And obviously, I don't want to sound futuristic, so I will reserve my comments at this point in time.

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

Renu Baid: Yes, sir, most of my questions have been answered. Just a small query. If you look at the order backlog today that we have, almost INR3,500 crores. And entry into categories like high-computing IT hardware servers, which are high-value in nature. Does that also mean that next year, the inflows would be much stronger given the average run rate? And we can probably have almost a one, one-and-a-half-time book-to-bill with a similar INR3,000 crores kind of backlog?

Jairam Sampath: Yes, Renuji, you are right. As we go forward, some of the bigger deals that we are actually working this year should also come to fruition. And what we are witnessing now is, like so far since the last year, it was kind of expected revenues that we were talking about and so on. This is -- now we are working on a lot of these kinds of deals, and some of them are large-ish in nature. So, yes, book-to-bill will be 1.5x, certainly.

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

Raghunatan: Sir, thank you for giving me this opportunity. There are two OSAT facilities, one in Telangana and the other one in Karnataka. Why not in one place, sir?

Jairam Sampath: Why not in?

Ramesh Kannan: Why not only in one place?

Raghunatan: Yes.

Jairam Sampath: So it's also… Okay, let me put it this way. OSAT is a business driven by the semiconductor companies, okay? So we do expect that some companies may insist. We don't know. But they may insist on having it. Yes, so we are continuing with two, and we don't know in the future, they may be more required.

So at this point in time, we are talking about and PCB assembly plants also we are contemplating in two states. EMS also is going forward will be in several states. The reason is, as far as Semicon is concerned, in the beginning stage, obviously we will have a few of customers, but at some point, in time, we are likely to get some large deal.

And they may expect an exclusive facility, and they may not like to share that facility with somebody else. So that is the reason why we are giving all. Raghunatan, I think what we are saying is that two different states, because two different facilities for the simple reason that, some customers may require an exclusivity and certain customers may not go.

And we may also segment this activity. This is not just semiconductor assembly, but also compound semiconductor too. And we have actually planned for certain higher-end and high-tech activities. So that's why second phase we are saying, we'll do it in Karnataka.

And also, we want to evenly keep our manufacturing facilities across several states, because India is an upcoming market. And so going forward you will see us starting not only OSAT and PCB in two states, but also EMS in several other states.

Ramesh Kannan: And our unit 2 on OSAT is on optics. So these are two different plants altogether, though they belong to semiconductor sector.

Jairam Sampath: Is that clear, sir?

Ramesh Kannan: Raghunatan, sir?

Jairam Sampath: Yes, sir. Did you hear what we explained just now, sir?

Raghunatan: Yes, I heard it completely. Thank you for your answer, sir. But I have a request. During the last con call also we faced this audio problem frequently. It is affecting the flow of the con call itself, sir. We are losing track of what is being asked and what is being answered. Can you please fix up this problem at least in the next con call?

Ramesh Kannan: Our apologies, we will get it fixed, sir.

Raghunatan: Thank you.

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

Jairam Sampath: So thank you everybody for attending this earnings call. And we had quite insightful questions. And I hope our answers are satisfying to you in some manner. And we always stand by and give you any more clarifications. You can reach out to Neerajji or me or anyone else. And then we can have a short call to explain some more details. Thank you very much again for attending this call.

Moderator: Thank you. On behalf of PhilipsCapital India Private Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.

Jairam Sampath: Thank you.

Ramesh Kannan: Thank you, everyone.