November 05, 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,

Subject: Intimation of Earnings call transcript for Q2 FY2025.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find the link for the transcript of the Q2 FY2025 Earnings Call, conducted on October 30, 2024 and uploaded on the Company's website.

Particulars	**Website link**
Transcript	https://www.kaynestechnology.co.in/doc/Regulation-46-of-sebi-lodr-regulation/Earnings%20Call%20Transcript%2030.10.2024.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: 2024.11.05 12:31:54 +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 25 Earnings Conference Call"

October 30, 2024

MANAGEMENT:	**MRS. SAVITHA RAMESH – CHAIRPERSON OF THE BOARD – KAYNES TECHNOLOGY INDIA LIMITED** **MR. RAMESH KANNAN – MANAGING DIRECTOR – KAYNES TECHNOLOGY INDIA LIMITED** **MR. RAJESH SHARMA – CHIEF EXECUTIVE OFFICER – KAYNES TECHNOLOGY INDIA LIMITED** **MR. JAIRAM SAMPATH – WHOLE-TIME DIRECTOR AND CHIEF FINANCIAL OFFICER – KAYNES TECHNOLOGY INDIA LIMITED** **MR. SUMIT VERMA, INVESTOR RELATIONS – KAYNES TECHNOLOGY INDIA LIMITED** **ORIENT CAPITAL TEAM -- INVESTOR RELATIONS PARTNERS – KAYNES TECHNOLOGY INDIA LIMITED**
MODERATOR:	**MS. BHOOMIKA NAIR -- DAM CAPITAL ADVISORS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Kaynes Technology Q2 FY25 Earnings Conference Call hosted by Dam Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone.

Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from Dam Capital Advisors. Thank you and over to you, ma'am.

Bhoomika Nair: Yes, thanks. Good morning, everyone, and a warm welcome on the Q2 FY25 Earnings Call of Kaynes Technology. We have the management today being represented by Mrs. Savitha Ramesh, Chairperson of the Board; Mr. Ramesh Kannan, Managing Director, Mr. Jaiaram P. Sampath, Whole Time Director and Chief Financial Officer, and Mr. Rajesh Sharma, Chief Executive Officer.

At this point, I'll hand over the floor to Mr. Kannan for his initial remarks, post which we'll open up the floor for Q&A. Thank you and over to you, sir.

Ramesh Kannan: Good morning, everyone. On behalf of Kaynes Technology team, I would like to welcome everyone to the earnings call for Quarter 2, FY 2025. I have along with me Mrs. Savitha Ramesh, our Chairman of our Board; Mr. Jairam Sampath, Whole Time Director and Chief Financial Officer; Mr. Rajesh Sharma, Chief Executive Officer, Mr. Sumit Verma, Investor Relations, and Orient Capital Team, our Investor Relations Partners.

I am pleased to inform you that we have been able to achieve a revenue of INR10,661 million* during the half-year FY25, which represents a strong growth of 64% year-on-year. The operational EBITDA margin, excluding other income for the half-year 2025, was at 13.8%, and PAT margin was at 10.3%.

*Note: Management Erroneously mentioned revenue as INR 10,661 million the same stands at INR 10,761 million

Coming to our performance for the quarter-ended Q2 financial year 2025, our total revenue was INR5,721 million, registering a growth of 59% year-on-year. Our Q2 FY25 operational EBITDA was INR821 million, registering a growth of 68% year-on-year, with an operational EBITDA margin of 14.4% for the quarter-to-FY 2025. Our order book surged from INR 50,386 million in Q1 FY25 to INR54,228 million in Q2 FY25.

As we move forward, we expect an all-round growth in all the business verticals. Our company is delivering design capabilities, including ODM, in several high-yield areas such as Kavach in rail signalling and Smart Meter. We believe that the second half would be showing solid growth so that our company will cross the milestone of INR3,000 crores in FY25. With the trend in EBITDA margin improvement, we believe we will cross the operational EBITDA of 15% this year.

Looking back from where we started two years back and where we reached today, makes me immensely happy on what we have been able to capture as a company. We are hopeful that we will continue on the same trajectory of growth as a company.

Today we are on the path of achieving something unique. We will be truly an integrated electronic company, which will be in EMS space, OSAT space, as well as high-density interconnect printed circuit board manufacturing space.

All new initiatives are on track and speed of implementation is gearing up, with revenues charted as Q4 FY26 for both OSAT and HDI PC board. Our first phase of Smart Meter factory is now operational in Telangana. We have also begun construction of our OSAT factory in Sanand, Gujarat. Additionally, we have received and decided to start our HDI PC board factory also.

Kaynes Technology acquisition of Iskraemeco has opened up a significant opportunity worth approximately 40 million to 50 million Smart Meters to be executed over several years. These developments are significant steps forward for Kaynes, aligning with our company's strategic goals. We are confident in our ability to continue exceeding our stakeholders' expectations.

We believe in fostering a diverse and inclusive workspace. We are proud to have a significant number of women on our team and are working to increase women representation as we expand. We are excited about the growth potential in sectors like industrial, IoT and IT, aerospace and railways.

By expanding into these areas, we will increase our revenue and profitability. Our success is a direct result of our team's hard work and our customers' loyalty. The enduring relationships we have built demonstrate our commitment to delivering exceptional value.

With this, I would like to sincerely thank each and every one of our excellent investors for their encouragement so far in our journey and expect continuing support in the future too. Thank you all once again and we look forward to exciting times ahead.

I will now hand over the call to Mr. Jairam Sampath, our Chief Financial Officer, to take you through our financial performances. Thank you.

Jairam Sampath: Thank you, Rameshji. Good morning, everyone. First of all, a big thank you to all of you for joining today's call. I know these are festival times and all of you must be having some activities lined up. So, let me not waste any time and wish you all a good festive season this Deepavali and a beautiful New Year following that.

As we start a new quarter, I'm happy to share with you the Kaynes Technology financial results for the period ending Q2, FY25 and we'll be talking about some highlights here and of course the rest of the details are already published. So, for H125, we have been able to achieve a revenue of 10,761 million, which represents a strong growth of about 64% year-on-year on revenue.

The operational EBITDA stood at 1,490 million with a year-on-year growth of about 67%. And for Q2, FY25, consolidated total revenues were 5,721 million, representing about 59% year-on-year growth. The consolidated EBITDA for the quarter was about 821 million, showing a 68% year-on-year increase. EBITDA margin for the quarter stood at 14.4%.

Our consolidated PAT for the quarter was 602 million rupees, up by 86%, and the PAT margin for the quarter stood at 10.5%. Consequently, our ROCE and ROE numbers adjusted for unutilized portions of the feeds is at 17.6% and 18.6% respectively for H125.

Our current order book stands at about 54,228 million, compared to 50,386 million in Q1 of FY25. The networking capital base at the end of September quarter was at about 108 days, which is similar to the previous year's same quarter. Our inventory days was at about 107, as we made advanced purchases keeping in mind the requirements of the upcoming quarter, which are expected to be busy and we plan to execute revenues in excess of about INR3,000 crores in FY25.

The temporary pressure from receivables, too, with a few customers in previous quarter was better this quarter. We expect to improve even more in the coming quarters. We have planned that the networking capital to come back to the expected lines as we progress. Last year, we had delivered about 85 days. This year, probably we'll go closer to about 75, 72 days net working capital at the end of the year.

And we'll reduce significantly on average by the end of the year, as just now described. Our OSAT project is underway in Sanand, Gujarat, following government approval for our capital subsidy, both state government as well as central government approval. We will provide regular updates on the construction progress.

We also secured government approval for our HDI PC project, PC board project in Chennai, and we'll be sharing updates on that as well. Both projects will start yielding significant revenues from the fourth quarter of FY '26. Our Telangana factory phase one for smart meters is up and running, and construction for phase two has also started.

Our acquisition of Iskraemeco, which has opened up a potential revenue opportunity of almost close to about INR6,500 crores over the next several years. This will help secure about 15%, 20% of the smart meter orders awarded by various AMISPs. With this acquisition, it will be also helpful for Kaynes to become one of the largest suppliers of smart meters to the AMISPs in India.

I take this opportunity to thank DAM Capital team for hosting this call. With this, I would request all participants to come in with their questions. I now open the floor for questions. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from Ravi Swaminathan from Avendus Spark. Please go ahead.

Ravi Swaminathan: Hi, sir. Thanks for taking my question. Congrats on a very good set of numbers and wishing you a happy Diwali. My first question is with respect to the industrial and EV segment. Could you give a broad sense on the breakup between how much of that would be from the smart meter side, how much of it would be from the EV side, and how much of it would be from the other industrial business?

Jairam Sampath: Yes. So, the basic construct of business has not changed much compared to last year. Smart meter, while we have acquired the new company and orders have been locked in and we are in the process of doing, but not too much of billing has happened in the first half. And so, we don't see a huge change in our competition of business between verticals. The only thing that will happen is that we start seeing some increase in our railway signaling. Of course, industrial and EV will remain large.

Automotive will grow at the rate at which the company's business is growing. And so, IT, IoT, Yes, that percentage will go up. You will have percentage of industrial going up because of second half smart meters will be coming in, in a larger number. And of course, we expect the railway sector also to kind of start picking up a little bit because all the, I think the first quarter during the election, and then later on, I think the government was firming up its plans on the infrastructure front. So, now that is clear. So, hopefully, in the second half, we will have more traction on railways and other things.

And also, as a preparation for next year, I think we, second and third, third and fourth quarter, we also expect the aerospace business also, which we have been awaiting for some time now, to also gear up. Understood. And happy Diwali to you, Ravi.

Ravi Swaminathan: Yes, thanks a lot, sir. And the smart meter, 4 to 5 crore pieces over a period of time you are talking about. So, does this opportunity open up just because, I mean, we have acquired Iskraemeco or it was already there and, I mean, so essentially, this just strengthens the, the acquisition just strengthens the ability for you to acquire more business.

And who would be your typical clients in this? Will it be the state governments or will there be some central agency which produces smart meters? And what would be the kind of profitability in this? Will it be similar to the overall company level profitability?

Jairam Sampath: Yes. So, acquisition of Iskraemeco is synergistic towards our efforts in the smart meter. It definitely aids because the team of Iskraemeco, they are experts in smart meter and all its implementation and so on. So, they can provide a lot of support to the AMISPs. They also have a lot of proprietary technology for not only the smart meter, but associated softwares, etcetera., which can also provide us with a future stream of business, which other smart meter manufacturers can also utilize.

And so, so we think that this entire, so why we say several years is because I think there is a physical limitation to implementation while the government would like to do it, but I think they do it in a phased manner. So, like we had said earlier on, I think, early October, we had mentioned that, half the 11 crore meters have been kind of awarded. And we, we probably have about 15%, 20% share of that in various stages of finalization and then the remaining also will get awarded.

And we think that 15%, 20% of the total number of smart meters will be ours. Our customers will be people like PGCIL or people like IntelliSmart etc, all the various AMISPs who are there. Of course, we are not these are information that we don't have consent to take exact names, but these are the kind of people who will be our clients.

Of course, prior to [inaudible 16:29] they had also directly bid in some places, etc. So, we will find out some methods of fulfilling those obligations. But bulk of the metering production will be basically like what we call the production and supply of smart meters. There is an auxiliary line available because the Iskraemeco also has software in MDM and HES, etc. So, we'll be offering that to all the other players as and when required and we should not forget that there is an export component also in smart meters.

So, we do have a very big, very large European company which has business interests in North America, South America as well as Europe and India. And they have approved us and that is also likely to kind of pick up sometime in FY26. And so we think that this is not just the domestic play. There's also exports expected here. Thank you.

Ravi Swaminathan: Understood, sir. Sir, can I take one more question I mean, this is on the Kavach side.

Jairam Sampath: Go ahead. I'll answer it. Others may also have the same question.

Ravi Swaminathan: Yes. So, with respect to the Kavach side, the Indian government I think they had allocated close to INR1000 crores, INR1200 crores on matrix for this year. From our perspective, what percentage of that would be an addressable market for us? Where will our components go into the entire Kavach system? So, if you can give a broad kind of thought process on that will be great?

Ramesh Kannan: Coming to the Kavach our plan is to be an ODM player. We will be allowing this product, once it is approved to be used by all rail contractors and large OEMs so that we'll get a large portion of business. So, this is similar to our contract manufacturing we're doing it and in some places where railway also directly will be quoting. So, that is our plan of taking this ODM as a product.

Jairam Sampath: And of course, we just add to what Mr. RK said we have a German collaborator with whom this is being developed and it will be available to all the key OEMs, because we are a services company. So, ODM and manufacturing will do for everybody. So, Kavach total 68,000 route kilometers are there, maybe the first half. Half of it is the first broadly the first priority and so that half of it is about 30,000 kilometers or so. So that will lead to about INR15,000 crores, INR20,000 crores of business out of which you have rightly said about 1,500 is budgeted this year. So, we'll see. We are working very hard to get our approvals done.

Right now, it is in the proof of concept stage. And we hope that at least by when we exit this year, we will have a working product which is approved and then, of course, we can bid for other. We already started bidding for tenders, but we cannot realize billing unless we complete the approval process. So, there are totally 10 people in the fray out of which three have been approved already. So, we are among the remaining and we expect about same, about 15%, 20% of market share in this particular business.

Ravi Swaminathan: Understood, sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Hi, good morning, sir. So, in the last few quarters we have seen a fairly strong growth in the industrial vertical which I guess was driven by EV customers that we had added. How are we looking at this particular vertical in the second half given that we are already having a decent base of EV customers? Is it that smart metering will continue to drive growth for this vertical in the second half as well?

Jairam Sampath: Yes, thanks, Aditya. I think smart metering, of course, will drive the growth of the industrial vertical, but in the industrial vertical we have a couple of other people such as there is a company in the US for whom we manufacture Industry 4.0 equipment. With our acquisition in the US there are also multiple divisions of them have contacted us and we are likely to get enough growth.

So, not only smart meter, but there are many other customers like power electronics, there is a customer then this instrumentation customer is there and so on. So, they will all go at more than 60%. So, we will see a cumulative effect of at least this year there will be a strong growth in the industrial sector and electric vehicles is kind of a steady growth rate right now because in our case electric vehicle is not just one customer, but all different types of two-wheeler, three-wheeler, there are charging customers, there are component customers and so on. So, we expect the other industrial things like instrumentation, smart meter, power electronics, all this to drive the growth of the industrial sector.

Aditya Bhartia: Understood sir. And sir if we were to be speaking about...

Ramesh Kannan: Added to this, our aerospace and rail business is also taking good shape. The years to come in we will have good business in these areas.

Aditya Bhartia: Perfect sir. And sir if you were to be speaking about margins in different verticals, could you guide us on how margins in automotive and EVs may stack up against some of the other verticals?

Jairam Sampath: See, we don't provide margin by verticals because these are customer confidential information. But see broadly it follows the same thesis that I have described earlier. So, this depends on six factors. One is the volume of per batch, the other is criticality, third is complexity, fourth is how much of business horizon we have, etc.

So, obviously, if you were to rank the low-volume, high-tech, high-mix and let's say critical production like the railways or some of the industrial and aerospace etc., and outer space, etc., would tend to have higher margins because there's more work content there. And obviously, on the flip side, the automotive and all these other sectors wherein volume is higher will probably have a little lower margin.

So, we always look forward towards balance between these two because the lower margin verticals will always give us a scale advantage so that we can buy components cheaper in other sectors too. And then, of course, high margin will give us a proper good blend of EBITDA margins. So, that's how we have cultivated our customer list.

So, it's not just a matter of, you know, doing for the year because these things take between two to three years' time to stabilize one single customer. So, we work towards a program, let's say, for instance, right now we're working towards customers who are likely to come in sometime in FY27, FY28 too, as a regular sales, etc.

Aditya Bhatia: Understood, sir. And, sir, one last question for my side.

Moderator: Sorry to interrupt, sir. Please fall back in the queue for further questions.

Aditya Bhatia: Sure. Thanks.

Moderator: Thank you. The next question is on the line of Ankur Sharma from HDFC Life. Please go ahead.

Ankur Sharma: Hi, sir. Good morning. First question on smart meters. You know, we obviously, we're getting read a lot of articles around, you know, some protests, resistance to installation of smart meters. And that's across a lot of states, including Maharashtra, Chennai, you know, talks of inflated bills, etc. So, we just wanted some sense from you.

I mean, do you think this is only transitory, this initial heating issues and, you know, you don't really expect any slowdown there? You know, what are you hearing from your end customers? You know, like, I know PowerGrid is one of them. So, are things broadly on track? You know, if you could please comment on that.

Jairam Sampath: Sure. Sure. Thanks, Ankurji. See, fundamentally, this program is a long-term program and government has committed and post the elections, there has been acceleration in the program. Certain states have been ahead of the curve, certain states have been lagging behind. And of course, the certain some of the states like Maharashtra, etc., they are also undergoing election and so on. So, obviously, there are maybe mixed signals given by different political parties, etc. So, we wait and see. However, the biggest exposure right now is Gujarat and places like that.

So, we do have a couple of other states where finalization has happened. And if you see the total amount of installation that have happened is almost a crore of installation has happened, about 10 million meters have been either installed or in the way of getting installation and so on. So, obviously, when such a large scale installation happens, a few thousand problems could be there.

Some of them are, I think, technical in nature. And some of them, of course, are from maybe customers who probably do not prefer this. But all in all, I think, as a precursor to improving our entire power distribution system, I think this is done well. And I think almost half the awards have been done by the government already. For 11 crores meters are done and dusted. The remaining another 14 odd crores meters are expected to be done anytime soon.

So, we do not think – because since our people are in touch with all the AMISPs and all the state entities, so it looks like – and we also come in contact with people who go for installation, etcetera. But there is no big issue. It is just that the entire machinery takes some time. And in between, during elections, there is probably a delay of three, four months. Now, it has again picked up back.

Ankur Sharma: And similarly, on the EV side also, what we are seeing is a clear slowdown on EV sales, especially on the four-wheeler side. And that is across OEMs is what is being seen. So, any color there? Or is it that because we have got a diversified range of customers and we are adding wallet share within those customers is the reason why we think we are relatively insulated?

Jairam Sampath: Yes, I think you have touched upon both the points. So, electric vehicle, if you were to segment that entire electric vehicle business as far as electronics is concerned, we are into four areas. The first area, of course, two-wheeler electric vehicles electronics.

A two-wheeler, if you were to see what is happening inside China, etcetera, that is something which has been for the long haul. And we expect most of the two-wheelers, at least a bulk of the two-wheelers to convert into, at least in the urban areas, into electric vehicle. And we do have a fair amount of business there.

The second is four-wheeler. So, four-wheeler again has got, like you correctly pointed out, there are issues like range anxiety and there are other issues about whether to go for hybrid or this thing, etcetera. But suffice it to say that some portion people do prefer that. And so, we have a limited portfolio right now. We have only two very large customers for whom we are making. So, we continue to do for them and we will watch whether we need to increase our efforts there further.

The third one is components for EV and these are components for a foreign OEM, overseas OEM, which are not only used in EV but also in regular cars. So, we expect that business to anyway take off, but we classify it as EV. And the fourth one is, of course, the charging infrastructure related things.

So, whether it is two-wheeler or whether it's four-wheeler, the charging infrastructure will go its course. So, we expect that EV as a segment is here to grow. And specifically four-wheeler, yes, we'll have to wait and watch what kind of four-wheelers take off.

Ankur Sharma: And lastly your cash flow OCA, how do we see that shaping up? I understand your comments on the first half negative OCA being because of higher inventory for the second half typically and also slightly higher debtors. But how do you see that shaping up? Can we expect positive cash flows going into end of the year?

Jairam Sampath: We are also very acutely aware of the fact that by end of the year, we have to get into a shorter working capital cycle. And also, we want to also generate some OCF because for the next year, there'll be significant revenues coming up. And then obviously, we need to continue the expansion.

And we've been kind of contemplating that we should be able to self-fund this entire thing as far as EMS is concerned. Of course, the other things we needed to raise funds for OSAT and other things. Now, I think we are still on that track right now.

Second half, almost INR2,000 crores of business will happen. And so, if you see from gross margin perspective, we think that if you were to put a similar number, so about INR600 crores of gross margins will be there. And so, we think that we can probably from EBITDA perspective, second half EBITDA will be a tad higher than whatever we did in the first half because of the other sectors firing up.

So, if you were to say about INR200 odd crores. [inaudible 0:30:31] Yes, yes. Hi. So, Ankush, I was talking about, I think when we lost connection here, talking about the second half. So, we expect about INR200 odd crores of EBITDA to come in. And I think I have understanding from my teams internally that on absolute basis, we'll maintain these numbers of inventories and maybe reduce it further and also the receivables, etc.

We'll try to make some improvements. So, while we exit the year, I think the operating cash flow should be back on track and should be certainly positive and should also yield enough to invest further into capex for the coming years. So, Yes, it's not unexpected, though it could have been better.

Ankur Sharma: Yes. Okay. Got that. Great. All the best and wish you a very happy Diwali.

Jairam Sampath: Thank you, sir.

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

Keyur Pandya: Thank you. Congratulations on good results to the team. So, first question is on the industrial and EV segment. So, if I look at that segment, it has grown at a much faster pace than say company growth. If you can just break it up for say 1H and the same number for last full financial year, if you categorize broadly in say EV and related businesses, smart meters and other industries, what would be the mix broadly?

Jairam Sampath: So, thank you for the question. See, fundamentally, every year, there is one particular business, which I just want to give a broad color on it so that you understand the numbers in the perspective if we see it. So, fundamentally, every year, one particular business takes off. So, initially, when we listed during that time, the automotive lighting systems and the control systems used to be the ones where we were acquiring and that is going but that has come to the company's level of 60% growth. And so, that is not making any waves right now. It does not bulge.

Then, of course, came EV. EV was a new sector. We were doing nothing in the EV prior to that. And then, suddenly, EV with four-wheeler, two-wheeler all came and then it started getting up. Now, this year, there will be a little color of smart meters too along with the EV. So, industrial and smart meters in the industrial and EV segment, let us say, the total, if I am not mistaken, is about 40 odd percent.

So, three-fourths of that will be, say, one-fourth of that probably will be EV and three-fourths of that will be roughly smart meter and other industrial like instrumentation, power electronics. I am giving you a number, which is like a steady state number. So, in the intermittent stage, what happens is suddenly one order, like now, Iskraemeco order has come in, big order.

So, obviously, we will start executing that and then next year, some Honeywell orders, I mean, some other aerospace orders will come in and so on. So, this entire percentage will keep shifting depending on which customers are onboarded, actually. So, just for your information, either you can say two-third, one-third or three-fourth, as the relative importance of, let us say, smart meter versus EV electronics. But of course, there are other things also. So, it is not all of it is this.

Keyur Pandya: Second question is on the working capital and our equation of Iskraemeco. So, basically, in general, how do you think working capital will be, say, end of the year? I think you answered partially and just to on top of it, with equation of Iskraemeco and with some legacy business of installation as well, will it hurt or will it basically incrementally add to the working capital requirement in the short term?

Jairam Sampath: No, I do not think there is anything significant there. So, obviously, what has -- we believe that the metering business, etc., per se, just the device business is better than our existing business in terms of working capital, because the collections are assured within 90 days of time. And then, of course, this supply chain is also because the large volume of production. So, inventory is also much, much lower. And so, from that perspective, our working capital is not going to get stretched because of this reason.

Yes, as far as the previous commitments are concerned, we are talking to them and we are trying to make sure that we do not get into this area of stretching working capital because we are into some other type of business model. But suffice it to say that there is also a good revenue potential here on other software services, etc., which does not have any physical, let us say, either material cost or it does not even have any visits to the field. It is more like supporting offline support, etc.

So, we think that that also will generate -- so, in a typical order, we do get, of course, two-thirds of the order is for meters, etc. One-third of the order is for these kinds of things which have no cost, actually. I am talking purely about the businesses that we have cited. Of course, the other companies will have different business models and they may have a different outlook on this. So, this one-third of the business that we are talking about is actually just accrual of cash on an annual basis.

So, it does not stretch the working capital in any way. Its costs are already covered by the metering overheads. And then meter is, like I said, controlled in terms of its outlook. So, by the end of the year, we still maintain that we will be 72 days net working capital company-wide on an average.

Analyst: Noted. Sir, thanks a lot. All the best. Happy Diwali.

Jairam Sampath: Thank you.

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

Siddhartha Bera: Yes. Hi, sir. Thanks for the opportunity and congratulations on a good set of results. Sir, my first question is on the margin side. So, on the gross margin side, we have seen continuous improvement every quarter. In the current quarter, can you highlight what particular order led to further improvement sequentially? And how should we think of this going ahead, given the smart meter orders which are going to ramp up in the second half?

Jairam Sampath: You caught me there. See, we can't disclose exactly where the margins are going up. But suffice it to say, sir, that all the various high-yielding sectors are now firing up. We promised last time, once the infrastructure pushed by government starts off and all the different projects take off, which has happened, at least in a small way, in the second quarter.

So, that is yielding to, so, namely in industrial and then a little bit of railway, some little bit of aerospace and so on. So, these are the areas where, and also IT, for instance. So, these are the areas where the gross margin improvements have been seen. And we think that this will further accentuate in the second half.

And, Yes, the sectors where there is volume and the gross margins are a little muted, they, fortunately for us, they are not outstripping the growth of the other sectors, which are high-yielding sectors. And we think that in the second half, we will get a significant increase in our gross margins and also EBITDA. Gross margins because of the mix and EBITDA because of the leverage, because we'll be doing almost twice as much as what we did in the first half. So, we'll get a very good leverage also. So, Yes, we think that this year, at least we'll, second half will be far superior in terms of EBITDA margins too.

Siddhartha Bera: And so, how should we think about exports? What is the exports set in the current quarter? And you have your target of about 20% again from exports next year. So, how should we think about the journey? What will be the driver for this?

Jairam Sampath: Yes. So, exports is something which right now, our numbers are driven more by domestic business. And rightly so, because currently the entire plank of growth is based on localization of imports. And so, obviously, the kind of products that are getting imported are the ones which are high-yielding areas, wherein there is good margin available, etc. So, those are the ones which are getting indigenized right now.

From FY '26 onwards, you can see some significant increase in exports, aided by, of course, some revenues in the fourth quarter from both OSAT revenues as well as HDI, high-density interconnection. And also, there are areas like instrumentation and there are areas, other areas in the U.S. that we are working with. So, those also will fire up probably in the second, maybe the first half of FY '26. So, you can see that export again coming back about 20% next year.

And maybe if you're lucky, then it will probably move its journey to -- so, eventually, what we can see is that eventually, at least close to a third of our business could be exports eventually. That is after 4 years kind of time frame. And two-thirds of business will be domestic. And obviously, the growth rate in both sectors should be pretty strong.

Siddhartha Bera: Got it. So, second quarter for export means…

Moderator: Sorry to interrupt, sir. Please call back in the queue for further questions. Thank you. The next question is on the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Hi, sir. Good morning. Thanks for taking my question. So, just sorry for dwelling more on the cash flow side what Ankur and Keyur asked. Given, last year we generated some amount of, I think, INR60 crores, INR70 crores kind of an operating cash flow. But given, I think we had this discussion earlier also, that given you're growing way faster and your mix is changing a lot and the way you're guiding even arrow comes into play and then the smart meter and the OSAT.

So, if we look at just directionally rather than looking at the first half cash flow is not there or second half it would come. But generally, do you think that operating cash would be -- generating operating cash with a higher quantum would be difficult here, because the inherent nature of the business is becoming one is on the growth is very high.

And second, the mix is changing a lot because I'm assuming OSAT will also not give you operating cash for the next 1, 1.5 years, given the absolute nature of net worth and equity capital you would put in and the growth. So, can you throw some light that is it advisable not to expect too much high kind of an operating cash flow because of the inherent nature of the business given mix changing and as well as growth is very high.

Just want a little clarity on that because 1.5 years back, we were very confident that, despite growing at 40%, 50%, I might start not putting a number but we would be generating decent cash flow. But obviously, you're growing fast and the inherent nature you're changing of the business every quarter the mix keeps changing. Just need your clarity on that part directionally.

Jairam Sampath: Thank you. This is a question obviously on everybody's mind and more on our mind than anybody else's because the whole fundamental question is that is it self-sustaining business and the answer that we have now come after thinking through a lot is 50%, 60% of growth we should be able to sustain it ourselves through both measures. One, some OCF generation which will be to the tune of about 7% of the total let's say sales number.

So, we were contemplating about INR200-odd crores of OCF by end of the year. Maybe we'll get there. We still have INR2000 crores of business to be done. So, by end of the year, probably should be able to generate. If everything is fine, then we should be able to generate about similar to that number maybe INR10 crores, INR20 crores lower. Also, we see some good movements in the receivables area.

We see some good improvements in the inventory area also. Of course, our past still kind of drags us down a little bit because earlier we had large number of customers, etc. But now we have kind of a little sharper in our focus towards minimizing inventory and in the newer businesses, etc.

And the newer businesses that are coming in also, the growth businesses are all at a slightly better gross margins and also the EBITDA margins. So, broadly, I still maintain 50% plus kind of growth is feasible without having to look outside. So, first source is, of course, our OCF.

The second source also, if you notice, we are still at about five to six in terms of asset turnaround. So, actually speaking, in our business, we have done in some limited timeframe, seven, etc. So, we probably should get back into that kind of thing because what happens is, at least right now, there is a huge amount of construction and a huge amount of new factories coming up, etc.

So, there is a kind of bunching up of assets. And so, the asset utilization efficiencies probably will now start kicking in from FY '26 onwards. So, you will see some benefit of extra capacity by utilization of assets and, of course, some OCF. So, a short answer to your question, both yours and also Keyur Ji had asked. So, Nitinji, I think we are okay as far as the generation of cash is concerned. And we think that we will be able to fulfill this requirement.

So, actually, some of the things which we had been talking about, we haven't done yet, like asking vendors to keep stocks here on the VMI basis. So, why we had not pushed that in the past is that we didn't want any effect on our gross margins. People normally would jack up the prices if they do that. But now, some people are coming around offering this facility to on their own. So, we wanted that situation to happen.

Now that scaling up has happened and they will, for all the new businesses that we are doing, incremental businesses, they are willing to keep stocks right here in either Bangalore or Mysore. So, that will give us some respite. So, that way, I think we believe that. So, that is a big source.

If you see all the peer group, their payables are stretched and the inventories are lower. So, in our case, it's the other way around. Inventories are high and our payables are low, which is a good thing to do. And once they start keeping stocks, I think we will have net. So, we don't want to overstretch any particular methodology here. We want to also do our improvements of efficiency.

At the same time, I think from next year onwards, will start, depending on suppliers, to keep stocks. So, with these two put together, I think we are okay in terms of cash flows and making sure that we are able to fulfil our asset creation needs for EMS. Of course, the OSAT and PC board get to be proven by the FY28 or 29 when we start doing large volumes.

What is the kind of margins we actually deliver? There also, our plan is that we should be able to at least 15% of growth, we should be able to self-fund. So, that's the kind of thinking that we have. And so far, whatever we've encountered, looks like it is going through.

Nitin Arora: And thank you, sir.

Moderator: Sorry to interrupt, sir. Please fall back in the queue for further questions.

Nitin Arora: Thank you.

Moderator: The next question is from the line of Sonali Salgaonkar from Jefferies, Please go ahead.

Sonali Salgaonkar: Sir, thank you for the opportunity. Congratulations on a good set of numbers and happy Diwali to you Sir, my first two questions are slightly bookkeeping. What is the trend in monthly order flow and the trend in average order value for Q2?

Jairam Sampath: Yes. So, that we need to do the math. So, we started with about INR5,000 crores and we ended up with INR5,400 odd crores. So, then, of course, we've done about INR600 odd crores of sales. So, average order inflow in Q2 would be around INR340 odd crores per month. Now, the order book has to be seen in the perspective.

So, whenever we get a large order, we book it in, right? So, those large orders may be slated to be executed over time. And some orders come for period of six months, some order comes for a period of nine months, some for a year. And in some exceptional cases, like the aerospace orders, etc., they come for even 5-year and 10-year timeframe.

So, from that perspective, right now, the order book is a tad ahead of our execution. Because this year, we'll execute about INR3,000 crores, but that 12-month forward order cover will be especially in a lean time like Q2. So, obviously, Q3, Q4, we expect some more push-up to happen.

So, we will be probably looking at a 12-month order book of about anywhere between INR3,600 to INR4,500 crores as of September, as the order booking. And of course, the execution we'll have to see. This year, we will probably end up doing in the second half about INR2,000 crores in the first half of next year. Let's see.

We have not yet computed that number, but we will probably get somewhere there. So, again, the order book will be a tad ahead of our execution. That's what I can say right now, based on the trend.

Ramesh Kannan: And by design, we are getting orders well in time. At least we are covered up for next two, three years.

Jairam Sampath: And there are some orders which are also called the upside book, wherein the I's have not been dotted and P's have not been crossed, but they are all orders which we are working on already. So, Yes, from that perspective, so these are the few numbers. We can say that as of now, the Q2 number was about INR340 crores per month, whereas we executed about INR600 crores. So, obviously, it was ahead. Going forward, it's going to go up to a larger number.

Sonali Salgaonkar: So, the average order value?

Jairam Sampath: Average order value actually is not a good indicator, because supposing you take somebody like PGCIL, it's one, one, let's say, one. That's why we started not, it is not leading to any proper conclusion. Something like a PGCIL, smart meter order, there will be a single letter of allotment, which will be like hundreds of crores, thousands of crores, actually.

Ramesh Kannan: But we don't consider the entire order. We only consider for our order book for 18 months.

Jairam Sampath: So, what we are saying here is that the value of order per order is now no more relevant, because of the nature of businesses. But see, last year, when we last computed, it was about 11 lakhs. So, maybe this year, it will be a little tad higher. But it will look unreasonably high, because one particular order is 1000 plus crores. So, we thought it is not meaningful to kind of compute that number. That's why we stopped, because there's not much of retail and those kinds of things. So, Yes.

Moderator: Sorry to interrupt. Please fall back in the queue for further questions. Thank you. The next question is from the line of Indrajit Agarwal from CLSA. Please go ahead.

Indrajit Agarwal: Thank you for the opportunity. Most of my questions are answered. Just want to understand on the coverage scheme, of the budget amount that you see or what the government comes out with, what proportion will be your addressable market of the total amount that comes out?

Jairam Sampath: Sir, actually, making some assumptions. Yes, we should be about 10-15% of the total market.

Ramesh Kannan: Now, this is on our assumption.

Jairam Sampath: The government is going to let's say total addressable market is 68,000 kilometers. So, we are thinking that all the trunk lines, all the major routes will be about half of it, about 25,000-30,000 kilometers. And going by, generally going rate about 50 lakhs or something like that. So, about INR15,000 crores anywhere between INR12,500-15,000 crores is the kind of addressable market at this point in time.

And so, we think that about 15% market share. So, Yes. So, we will get about INR2000 crores. Implementation timeframe for these projects will be a little longer than the signaling projects, because these are all, they require implementation not only on the track side, on the wagon side also. So, put together, I think we can look at about say INR2000 crores of business in four, five years kind of timeframe as something that we can target, you know. Remaining, of course, there are other players too.

Indrajit Agarwal: So, INR50 lakhs per kilometer of that EMS addressable opportunity is about 15%. Is that understanding, correct?

Jairam Sampath: No. our INR50 lakhs is EMS, sir. Full. It is a box-built. It has got all, the fully, it is an electronic fully built product, sir.

Indrajit Agarwal: Okay. Okay. Understood. Thank you, so much and happy Diwali.

Jairam Sampath: Happy Diwali to you, Indrajit. Thank you.

Moderator: Thank you. The next question is on the line of Hardik Rawat from IIFL Securities. Please go ahead.

Hardik Rawat: Thanks for the opportunity. Congratulations to you on another set of good results. My question was more with regards to the aerospace and defense segment. We are expecting a ramp up in execution for a large plan that we had onboarded sometime in the fourth quarter of last year, first quarter of this year. Will that execution, has that execution begun firstly and secondly, if not, then that should begin in 3Q?

Jairam Sampath: Yes. So, this large business with that OEM from US, I cannot name it right now, but we have received the orders and also there was a special manufacturing setup to be made. If you ever visit Chyamaraj Nagar, we can show you that one entire building has been constructed now. So, Yes. So, firstly, they identified us and then second, we discussed the commercials, etc. Third, they approved our production.

Now, fourth stage is to gear up for serial production, which we expect by end of this year to start off, say, maybe Q4. And maybe it will accelerate in FY26. That's why we are saying that this might be a very large or probably single largest customer in FY26. It required a new production facility to be built, which we have done now.

Hardik Rawat: And the A&D, a large part of the A&D revenue, I am assuming, is going to come from this client?

Jairam Sampath: So, at this point in time, yes. But then in the other areas, you know, strategic electronics also, a lot of government is contemplating on showing up its defense systems and so on. So, there is a good amount of electronics there and we have been approved by most of the people. So, while we don't focus too much on weapons systems, but all defensive systems, we are there, military aircrafts, we are there.

So, hopefully, Yes, FY26, you are right. But then going forward, even the strategic electronics, also, if you take ISRO's program also, I think ISRO is also gearing up to kind of become a commercially, you know, big in the third-party satellite launch space. So, we expect the outer space also to perform. Yes. So, FY26, you are right. Aerospace will be the largest. But FY27 onward, there will be other things also coming.

Hardik Rawat: Second question is on the high-tech grid.

Moderator: Sorry to interrupt, sir. Please fall back in the queue for more questions. All right. Thank you. The next question is from the line of Bharat Shah from Ask Investment Managers. Please go ahead.

Bharat Shah: You, Rameshji, had mentioned that general flow of the orders and perception seems to give a view that the business for next two, three years is kind of covered up and is something that you reasonably feel confident about. What I want to know is, therefore, from about INR3,000 crore of business that we will do in 2024-2025? In how many years you believe the business can triple based on the various segments that we are in and the perception of the kind of inquiries and orders which may potentially come by?

Ramesh Kannan: Firstly, good morning, sir, and Happy Diwali to you.

Bharat Shah: Happy Diwali. Shubh Diwali.

Ramesh Kannan: Sir, now, while the confidence comes from the lifetime order which I've got, let us say if Airbus is coming out with a model, they will normally give me a lifetime order of around six, seven years, plus there will be thereafter another six, seven years for spares and service. So, when it comes to automobile model, again the same story.

So, using that is what I am computing and telling two to three years. When I say two to three years, I had committed, if you remember, I had committed on the day we got listed that we will be doing a billion dollar by FY'28. And so far, as per plan, we are fully ready for that.

And I feel whatever you ask me as three times of my current plus minus, FY'29, we should be there. And it is very clear in the drawing board, all the orders are getting booked, whatever we wanted. So, I've only considered my lifetime orders of products. I hope it is clear.

Bharat Shah: That's very helpful. My second point that I wanted to understand, at the end of the day, our business is B2B. And these are for specific orders, specific projects that the customers may have. Some part of it may have a little longer-term visibility, like you described, some of the segments like auto and aero and others, where there may be a little longer term six, seven-year visibility. But how much, not all the orders and not all segments are of those type. So, how do we get organic view or granular view of the business that how much of the business we can reasonably feel will kind of sustain and will have replication?

And by replication, I don't mean just this amount of the business that you do, but with the growth over the period of time, and how much of it is kind of one time or short-term fulfilment, which may or may not occur. In other words, how do we see replicability on a long-term basis of our business, or at some point, we suddenly hit a peak and fall off the cliff? Is that something that you would worry about, given the kind of businesses that you are in?

Jairam Sampath: Bharatji, good morning. This is Jaiaram Sampath here, very nice to talk to you. I would like to take up this question. It's also my favourite topic. Now, see, fundamentally what, right now, the driving plank is the import substitution that is happening. And there are billions of dollars, close to about INR25 billion, which country imports.

And we do believe that at least half of it is worthy of doing here. The other half, let's say INR12-INR13 billion dollars, will still probably eventually get imported in various equipment for various reasons, could be logistical, could be technology, could be some political reason, and so on.

So this INR12, INR13 billion dollars is enough to scale up companies like us and a few other companies, at least in the short run, the medium term, five to 10 years' time frame, all of us, companies who apply themselves to the task will go up. Now, what happens thereafter? So typically, the Indian electronics, if you see, the total electronic grows at about 8%-9%. And as the incomes grow up, maybe there'll be an increase in that, but that increase will be more towards maybe the consumer side, maybe there'll be more devices purchased, maybe more appliances purchased, and so on.

So we think that a 10% growth will certainly happen on the basic business. And as we catch up to the import substitution bandwagon, so what will happen is there'll always be additional requirement that keeps coming in. And so there could be two, three effects on this, we have to consider. One is a technology effect.

Over time, what will happen is that they will - the nature of the electronics, even though it is B2B, it is for certain projects, etc., but electronics are getting redesigned and redefined also in their purpose and so on. It is happening faster in the consumer area, but even in the industrial area, we do see a lot of changes that are happening.

People are repurposing electronics, they are also combining circuits together, converting that into a chipsets and so on. So we think that there's a technological impact on the business. And the second impact will also be in terms of people who have these facilities together, like us. So we are also gearing up for the OSAT, as well as the High Density Interconnection Board, because we believe that those two are required for us to get into further higher-tech area. So we are in one kind of high-tech area, which is, I would say, mid-range high-tech area.

The most complex boards that we do, while we are confident of doing any product, there are certain electronics which are still not a big portion of our portfolio, which we will probably come across once we have the other capabilities too, namely, which is making assembly of chips and also high-density boards.

So we think that we will balance out this technological impact of shrinking of electronics, etc., with our additional value creation through presence in those two sectors, which we are now investing now, three, four years' time frame. Plus, the import substitution itself will grow us a little bit harder.

And then, obviously, the 10% growth, if a company minds, especially in the B2B, high-tech areas, we'll probably be a premier vendor. So we think that we can probably get a larger than normal share of that particular growth. So it is not probably wrong to say that these growth rates will be sustained over a longer period, maybe even beyond the coming decade.

So that will become organic maybe once the $12 odd billion worth of production gets done. So people like us probably will start doing about a billion or so, and there'll be other people, etc. So we are looking at a time frame of 5 to 10 years' time frame, sir, when we start seeing organic growth in this business.

And like I described to you, companies which are ready will continue to grow at the same pace as they have grown before, which is like 50%, 40%, those kinds of good numbers. So up to 10 years, everybody will grow. After 10 years, those who are ready will probably grow better. I hope I've thrown some data on this.

Bharat Shah: In other words, you're saying the core business may grow at about 10% as it settles, and there'll be an additional layer of import substitution opportunity, which can take it further ahead. And third on that will be the export opportunity and specific projects, which maybe one-off would come by. And all these put together can keep us on an elevated, high growth path for a decade?

Jairam Sampath: Very, very well summarized. In addition to that, there are opportunities in the inorganic area that we don't consider inorganic as a strategy for growth, inorganic more as a synergy, in case we can acquire some customers, in case we acquire some technology, we get some geography footprint. So smaller inorganic growth also will grow the company. But you're right, sir, whatever you summarize is correct

Ramesh Kannan: Yes, your understanding is perfectly right.

Bharat Shah: Sure. Now, thank you. Shubh Deepavali to Rameshji, Jairamji, Savitaji, and Rajeshji as well, Sumit on the line

Jairam Sampath: Thank you, Bharat ji. Thank you so much. Thank you for attending the call.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. We have reached the end of our Q&A session.

I would now like to hand the conference over to Ms. Bhoomika Nair for the closing comments.

Bhoomika Nair: Giving us an opportunity to host the call and wishing you all the very best and a Happy Diwali as also to all the participants. Thank you very much, sir.

Moderator: Thank you. On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.