February 07, 2023

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

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

Dear Sir/Madam,

Sub: Intimation of transcript of earnings call for the Financial Results of 3rd Quarter and Nine Months ended December 31, 2022.

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

Please find attached the transcript of the earnings call hosted by DAM Capital Advisors Limited for the Financial Results of the 3rd quarter and nine months ended December 31, 2022. 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/investors.html

Kindly take the above information on record and acknowledge it.

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

JAIRAM PARAVASTU SAMPATH
Digitally signed by JAIRAM PARAVASTU SAMPATH
Date: 2023.02.07 10:18:14 +05'30'

Jairam P Sampath
Whole Time Director
DIN: 08064368

“Kaynes Technology India Limited

Q3 FY '23 Earnings Conference Call”

February 01, 2023

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MANAGEMENT:	**MRS. SAVITHA RAMESH – CHAIRPERSON OF THE BOARD – KAYNES TECHNOLOGY INDIA LIMITED** **MR. RAMESH KANNAN – 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**
MODERATOR:	**MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS LIMITED**

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Moderator: Ladies and gentlemen, good day, and welcome to the Kaynes Technology Q3 FY '23 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 and then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair. Thank you, and over to you, ma'am.

Bhoomika Nair: Thank you, Myron. Good morning, everyone, and welcome to Kaynes Technology Q3 Earnings Call. I here welcome the management, Ms. Savitha Ramesh, Chairperson of the Board; Mr. Ramesh Kannan, Managing Director; Mr. Jairam Sampath, Whole Time Director and CFO; and Mr. Rajesh Sharma, CEO. I now hand over the call to Mr. Ramesh Kannan, Managing Director, for the initial comments. Over to you, sir.

Ramesh Kannan: Thank you, Bhoomika. Good morning, friends. I would like, first of all, to thank you all for joining the first earnings call of Kaynes Technology. Along with me, my Chairperson; Savitha Ramesh is there, our CFO, Jairam Sampath is there; and our CEO, Rajesh is there. Before I start with the business update, I would like to take this opportunity to formally introduce the company to all the participants.

I founded this company in'88 after completing my B-Tech out of NIE Mysore. At the nascent stage of our company, we have been fortunate to be qualified as a vendor to two large Indian engineering giants, which laid down one of the key foundational philosophies of the company in establishing strong quality and process standards and providing services with complex PCB assemblies. We have come a long way since. Now we are a leading integrated ESDM player in India with capabilities across the value chain from concept to post manufacturers and end of life support.

We undertake high mix, high-value products with variable and flexible volumes. Our company has been operating profitably for the last 3 decades and with a well-diversified portfolio of around 300-plus customers in 24 countries across multiple industry verticals.

Coming to our performance for the period ended 31st December 22, our total revenue for the quarter stood at INR 2,917 million, registering a growth of 57.16% year-on-year. On a year-to-date basis, our total revenue stood at INR 7,655 million, registering a growth of 62.22%.

The growth that we witnessed was largely led by strong demand across automotive, railway and industrial verticals. Our core PCBA businesses to witnessed strong growth during the period. As on 31st December 22, our order book stood at over 25,579 million as against INR 22,662 million as on 30th June 22. The order book contains firm orders to cover our balance of the year plan

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for FY '23. There is an increased focus on import substitution by our domestic customers, and that is likely to continue.

We registered a quarterly EBITDA of INR 411.58 million. On a year-to-date basis, our EBITDA is INR 1089.66 million. Our quarterly PAT stands at INR 228.69 million. On a year-to-date basis, our PAT was INR 539.16 million.

Kaynes is focusing on delivering value to its clients is continuing to pay off as we now take on orders where we provide higher value-added services. This will help increase our average order value and ultimately lead to margin expansion too. Management is focused on areas like working capital and other areas. I'm sure and certain, we will bring it down in the days to come in.

I now hand over the call to Jairam to take you through the financials. Thank you once again for joining our first earnings call.

Jairam Sampath: Thank you, Ramesh ji. Thank you, everyone, for joining the call. I will take you through the financial performance of the company for the period ended 31st December 2022. For the quarter ended 31st December 2022, our consolidated total revenue stood at INR 2,917 million. This corresponds to a 6.52% growth quarter-on-quarter and a 57% growth year-on-year. On a year-to-date basis, the consolidated total revenue stood at INR 7,655 million. This corresponds to a 62.2% growth year-on-year.

Our consolidated EBITDA for the quarter stood at INR 411 million, up 87.24% on a year-on-year basis. On a quarter-on-quarter basis, down about 4.82%. Our EBITDA margin stood at 14.24% as against 15.8% for Q2 and 11.98% for Q3 of FY '22. The sequential drop in margins were largely on account of increased other expenses. This was mainly due to increase in several expense items, including selling, consulting, etcetera. On a YTD basis, our consolidated EBITDA stood at INR 1,089 million, up 103% year-on-year. EBITDA margins on YTD basis stood at 14.7% against 11.47% earlier on.

Our consolidated PAT for the quarter stood at INR 228 million, up 8.8% quarter-on-quarter and up 112.87% year-on-year. Our PAT margin stood at 7.9% as against 7.69% for quarter 2 and 5.86% for quarter 3 of last year. Lower finance costs and lower effective tax rate aided our PAT margins sequentially. On a YTD basis, our PAT was at INR 723 million*, up 141%. PAT margin stood at 7.08% as against 4.67% earlier.

Our year-to-date ROE and ROC is at 15.41% and 13.6%, respectively, on a nonannualized basis adjusted for unutilized IPO proceeds. Cash and cash equivalents stood at INR 4,873 million as against INR 174 million in June. The increase is largely on account of the IPO proceeds. From the IPO proceeds, we have earmarked INR 989 million as capex to expand our existing facility in Mysore and Manesar. Further, INR 1,493 million has been earmarked for investment in

** The PBT number was erroneously called out as the PAT number. Reported PAT on a YTD basis is INR539.16 mn, up 147%*

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Kaynes Electronics Manufacturing Private Limited for setting up a new facility at Chamarajanagar, Karnataka. During the period, we had our groundbreaking ceremony at Chamarajanagar facility and have commenced construction.

Our year-to-date net working capital on an annualized basis at 135 days. This was driven primarily by an increase in inventories from 101 days in FY '22 to about 115 days on YTD annualized basis. And payable days reduced from 86 days in FY '22 to 72 days on YTD annualized basis. This is necessitated due to the stocking up of components in the face of electronic component shortages to ensure order fulfillment. Receivable days marginally increased from 83 days in FY '22 to 91 days on a year-to-date basis.

Our total debt stood at INR 2,594 million, with a debt equity ratio of 0.28 as against the ratio of 0.84 as of FY '22.

We believe that the story of Indian manufacturing sector is still in a nascent stage. Given our recent fundraise, we remain well positioned to take advantage of opportunities that are created as a result of government policies as well as resetting of global supply chains.

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

Moderator: We have the first question from the line of Renu Baid from IIFL Securities.

Renu Baid: My first question would be to understand, while we have seen a pretty strong overall growth in revenues and you've shared the YTD mix vertical-wise, can you also share some inputs in terms of which end markets and verticals have been driving and contributing to this incremental growth? And what would be the outlook in terms of the key high growing segments and markets for us for the next 18 to 24 months?

Jairam Sampath: So essentially, as we described, the order book has also grown. We are happy to tell you that the order inflow has now gone up to about INR 150 crores a month. As of June, we had the order book of INR 2200 crores. Now it's about INR 2,500 crores, and we have done about INR 450-odd crores of business in the meanwhile. So approximately about INR 150 crores of order input is there. The strong segment still remain as before. It's automotive, industrial and railways.

And of course, in Q4, we will see more segments other than automotive in terms of order fulfillment as well as order book expansion. So, as I speak to you, almost a large number of our plans for the coming year order book is already in place. So we are quite bullish about all the sectors and the composition is similar to what we had earlier in FY '22...

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Renu Baid: Sure. So this INR 2,500 crores order book that we have at the end of December, what would be the vertical-wise mix of this order book? And on an average, what would be the execution time frame for these orders in hand?

Jairam Sampath: Yes. So, the order book contain orders for FY '24 and some orders for FY '25. So roughly out of this, about INR 1,800 INR - 1,900 crores order is for FY '24. And we have some orders yet to be executed this year. That will be about INR 440-odd crores for this year. And then the remaining orders are for FY ’25.

So as we go through the coming quarters, there will be more orders that will be coming in. So in terms of its composition, largely the same three verticals which earlier were there, almost similar, barring percent difference here and there. It's automotive, it's industrial and its railways. And we do expect that the other segments such as aerospace and medical also will pick up some time maybe during this quarter or early quarter next year in terms of order book.

Renu Baid: Sure. Second question is while you've mentioned a high growth, are there any new customer additions that we have seen in the last 3, 6 months who have come on board and are contributing to these incremental orders. So any insight on new customer additions? And in which segment are we seeing most of the new customer additions coming?

Jairam Sampath: Yes. So of course, I can't take specific names because of the confidentiality. But there is a very large customer. We would classify them as industrial, who is of a large amount of business transferring from China to India. So, we are in advanced stages of this discussion. And this is going to be in effect in the FY '25 only because there'll be a huge technology transfer and this is a large quantum of business. And this is a high-mix business, high tech business.

Similarly, from Europe, we have in the medical area, a very large customer for whom we are in the final stages of finalizing the prices, etcetera. We have obtained the approval for quality systems and all that. So this is, again, something expected to shore up revenues in our medical sector so that our medical sector also can kind of grow -- and of course, there are some clients, as we have discussed earlier on in various areas, such as IT, and that is for domestic business. And there also, we expect some large amount of business.

So these are the 3 developments that have happened over the last 3 or 4 months. We are seeing some good demand but especially people moving businesses from China. Earlier it was China Plus One, now it is Minus China Plus One. So I think that is something which is going to help all industry players in this sector.

Renu Baid: The next question is if I look at -- on the P&L side, gross margins, while it has increased on a Y-o-Y basis. Sequentially, there is some softness. So any particular change in the segment mix, which has led to this or pricing pressures, etcetera?

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Jairam Sampath: No. I think that these are routine changes that happen because as you know, we are a very high mix company. We have with each client also some 50 to 100 different types of products. And all the different product groups have exactly the same margin mix. So sometimes, the margins will go up and down, but it's not significant. Based on the orders on hand, for the Q4, the mix will be more favorable. You will see a different higher percentage, etcetera. This is purely driven by the kind of products that our customers require, both of the total basket of products that we do.

Renu Baid: So more of a sales mix effect rather than any pressure on margins for to them.

Jairam Sampath: Yes, you're right.

Renu Baid: Lastly, what would you like -- if you can just help us with the broad guidance for fiscal '23. And at this point in time, given that we have order book in hand, any broad indications of fiscal '24 in terms of revenue and margin guidance?

Ramesh Kannan : This is Ramesh Kannan here. We are going to do as per plan. INR 1,200 Crore is what we have projected for '23 and a PAT of around 8.6 plus. So there, we are online. And as far as ‘24 is concerned -- for guidance, INR 1,700 crores is what we will be doing on the top line. And I'm sure and certain my team is working on and very positive about improving margins grow.

Jairam Sampath: And also, this is based on the order book that we have already on hand.

Moderator: We have the next question from the line of Aniruddha Joshi from ICICI Securities.

Aniruddha Joshi: Sir, two questions. In terms of PCBA business, we have seen two trends. One, those who cater to the consumer companies, they tend to have a very low margin of 3% to 4%. But whereas those who are catering to industrial and automotive segment, they are having significantly higher margin, 12% to 14%. So is this margin sustainable? Maybe there is upturn in industrial and automotive sector -- so there might be relatively higher margins right now. But do you see these margins remaining sustainable? And first of all, why there is such a difference because the PCBA remains -- being a PCBA, why there would be such a difference in margins? That is question number one.

And question number two is there is a steep increase in working capital to almost 135 days. That is 4.5 months working capital cycle is a bit too high to sustainably generate return at above cost of capital or even to generate free cash also. So what is the plan to bring it down considerably lower? And I mean basically, why the working out will be so high. Is there any one-off inventory stocking done by the company or any other reason? Yes, that is it from my side.

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Jairam Sampath: Thank you. I think very important questions. And these are questions which keep us awake also 24/7. So firstly, about the margin sustainability. So see, we can talk about what we have on hand, which is the order book of INR 2,500 crores, and we have checked because those orders are for specific products. And we know the cost profile as on today. So based on as on today, the margin profile that we continue to enjoy will be continued to be enjoyed as far as this order book is concerned, okay?

The other important thing that we must understand between consumer companies and companies aiming -- working on consumer side and companies who are working on largely industrial side, is that our order book is very long. For instance, we already have orders coming in for FY '25. So this helps us to give the lead time that's required to procure components. So our component purchases are always at a lower cost than those companies who don't have a long cycle of forecasting and order placement. So, in this case, they do probably short-term purchase and I'm hazarding a guest here. And when you do short-term purchase, the cost of electronics components are much, much higher and that depresses the margins a little bit.

The second issue also is that in our kind of business, the components is a very high mix business. It’s not very easy to shift these businesses, and it's very difficult to develop these businesses. So these are some of the factors, high tech, high mix, a large number of variety, which pushes up the margin profile a little higher in our kind of businesses. That is -- which is in critical sectors and multiple different types of sectors, high-quality, high tech, those kinds of sectors.

Now coming to the question on -- specifically on the inventory numbers. And of course, better sustainable working capital is there is available or not. -- fundamentally, this year, we are just coming on the back of huge shortages on components. I'm sure you all have heard about that from other sectors and other companies.

And we -- since we have commitment, firm commitments, with the customers. So we did not want to fail on that front. So we have actually, in some sense, onetime overstocking we have done as and when the components were available, we have acquired. So for the coming quarter, that is Jan, Feb and March, we've got most of the items with us and just hardly some a few -- maybe INR 100 crores worth of purchases required. So when we exit this quarter, after executing all the orders that we have INR 450 odd crores, plus orders are there, we probably will be in a much better situation than what we are in the month of December. And this is not necessarily a bad thing right now. So this is as far as the December number is concerned. But on the other hand, like Rameshji mentioned, one of the major things that we have undertaken is to reduce the amount of inventory that we hold. So this is aided by two things. One is, of course, operations is generating a good amount of cash. But the only thing is it is going into inventory. So now we are going to -- we have taken steps already to make sure that we get local stocking of components so that we can get a less amount of inventory in sight. And so that is one major step we are

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taking. And second thing is also we are improving the purchase of balanced component so that we don't have component waiting for some other components arrival. So these are two specific steps we have taken in inventory. And we think that this will take us to a much-improved working capital level -- and on an overall basis, maybe whatever working capital, net working capital 98-odd days in FY '22 are there. When we exit FY '23, probably we'll do better.

Moderator: We have the next question from the line of Sameer Shah from ValueQuest.

Sameer Shah: If you can just highlight one on the capacity utilization. And two more on the funnel, so INR 2,500 crores is the orders that you have, but from a 2- to 3-year point of view in terms of the opportunity and the funnel, if you can give some colour sir.

Jairam Sampath: Yes. So thank you, Sameerji. Welcome to this call. See, fundamentally, we have started work on expanding capacity because we realized that the order book is now at a fast clip. We have -- in the last 6 months, the orders have received at about INR 150 crores a month. which is up from roughly earlier, the order received rate was about INR 100 crores a month. So there is a steep increase there. So we already have done the ground-breaking ceremony at Chamarajanagar.

And we have taken a tactical decision to make sure that we make some small capacity available in the first quarter itself. Whereas in the prospectus, we had given that second quarter onwards, we will probably start having some little work done from Chamarajanagar, we can now expect from April itself in terms of some output from Chamarajanagar. This is helpful in 2 ways. One is this is to our subsidiary, which is in 115BAB category. So obviously, this will aid further profits for the next year in terms of optimization of tax, etcetera.

And second thing is it will give us a much-needed capacity. And in Manesar and Mysore, we have already augmented the line. We have added two lines, one in each area and some more are going to come in, in the month of February and March. So ,in terms of capacities, I think we have adequately done in terms of expansion of capacity. So hopefully, we'll be able to meet all the demand that is there. In terms of coverage, now we have started getting orders for the coming year that is FY '25. So FY '24, almost INR 1,800 crores of order is there on hand. And FY '25, we'll have some more hundreds of crores there.

In addition to this, there are more discussions we had, I have talked about a company who is actually a European company, but having based in China, they are moving this in the industrial sector. It's a large quantum of business. And the second one was the medical company who is again a European company. And they are also in the last phases of the discussion. The third was the domestic business in the IT sector. So we are having good demand from other sectors also, like industrial, IT and medical which typically will help us to improve the profitability profile.

Sameer Shah: All right. And sir, any -- if you can give any details on the PLI that we have applied...

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Ramesh Kannan: Regarding the PLI, we have got two PLIs. One is on telecom and one is on air conditioning and white goods. So both of the places our design is in the final stages. During this financial year, we will not have any claim on PLI. But in the coming year, that is year '24, we are going to have a good benefit. But investments to a large extent will get completed this year itself, benefit is going to come in the next year.

Sameer Shah: And so next year, we'll have both tax as well as PLI, which will add to the PAT margins

Ramesh Kannan: Yes...

Jairam Sampath: Next year, yes, between EBITDA and PAT, we'll have some serious benefits year.

Moderator: We have the next question from the line of Akhilesh Bhandari from ICICI Prudential AMC.

Akhilesh Bhandari: My question is on working capital. So given that we have seen relatively higher growth in industrial and railway verticals, is that likely to keep our overall receivable level in terms of number of days higher because these segments typically have a longer cash conversion cycle?

Jairam Sampath: See, fundamentally, right now, the increase that you see in the December inventory numbers is primarily gearing up for JFM, but having said that, in March also, we need to have inventories for April, May, June. So I would like to answer your question the other way, saying that we may not see sharp decline in inventories, but we'll definitely be able to maintain it at the FY '22 levels. And we have taken some steps, as I mentioned earlier, to get our distributors stock in India so that the inventories can be moderated. Because once I know that it is in my distributor's stock, I don't have to keep it in my stock. And then I can draw it as and when we require. So that is one step that is giving us.

Second thing is we are making sure that the supplier payments, etcetera, are exactly on time and wherever required, we are also paying advances to make sure that we get good allocation. See the inventory burden becomes high because out of 100 components, for example, we may have 95 and five are not coming. So using this method of making sure that we pay on time and we sometimes the advances we make sure that without increasing the price, we get the components priority for us. And then we reduce the imbalance and then we can do the production.

Ramesh Kannan: Added to this, we have put a focus team studying this at all stages and how do we bring down the working capital days. We have put in a 15-month program in place. So I'm sure quarter-on-quarter, we will see a continuous improvement on this sector, and it is directly monitored at my level.

Akhilesh Bhandari: Sir, I understood about the inventory, but we have also seen an increase in the receivable level? Receivable days have gone up to 98 days. So given that industrial and railway verticals typically

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have a higher receivable cycle. So does that mean that we are not expecting in FY '24 as well to see a meaningful reduction in receivable specifically the receivable level, not the inventory level?

Yes. I don't know if you heard my question, sir, I understood your point on inventory. What I wanted to understand was specifically on the receivable level, because we have seen the receivable days inch up to 98 days versus a lower level at the end of FY '22. And given that we are seeing a higher growth in railway and industrial verticals, which have a slightly more elongated receivable cycle as compared to other verticals, are we expecting in FY '24 as well that our receivable days will remain on the higher side?

Jairam Sampath: So thank you, Akhilesh ji. This question is also -- see, there is a marginal increase in the month of December number, YTD December numbers. There is a marginal push up on receivables. Receivables will -- every time we grow, the receivables will keep going up. So that is given. But on the other hand, we are discussing with all our large clients to make sure that we are able to get the money a little earlier than the rated the number of days of credit. This is done through something called supply chain financing, which all our large customers have. So as we move, bulk of the receivables come from larger clients. So we will ensure that the receivables tend towards the theoretical number. So when we exit this year, I think on an annualized basis, we'll be still better off than last year, in terms of number of days.

And if you actually see the last quarter numbers, it is less than 90 days, specifically on receivables. But having said that, receivables get aided also by better delivery. So that is another thing that we are doing now. And as we have seen, if we execute orders faster then our customers can then do their business better. And that in turn gets the cash in faster and then there is a natural payment cycle improvement.

So these are the two factors that we are seeing. One is making sure that we are a part of supply chain finance on their side, so that it is not on our books once we deliver the material. And the second thing is to make sure that the quality of delivery to them improves, and we deliver on time so that they can do their projects faster and then they can get collection faster and then give it to us.

So sectorially, it's not going to impact too much. As we add the business in each sector, we are adding business of large clients. And so they also are very much interested into us. We also keep telling us that they also make sure that we are able to support them, because we become a larger part of their purchases.

Akhilesh Bhandari: Sir, any specific time line for when the supply chain finance that really put into play? Or is it already into already into how will the scale-up happen?

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Jairam Sampath: Yes. See for about three clients, this is already in place and all the new clients that we are adding. We have multiple options. Some people have a relationship with foreign banks, some people have relationship with some of these online vendors who will essentially factor the -- provide factoring services. And so this is an ongoing process. And as we exit March, I think we'll be better off than what we were last March.

Akhilesh Bhandari: And sir, what is the capex plan for next FY '24?

Jairam Sampath: Sir, FY '24 will be spent completely in operationalizing whatever we gave in the prospectus, essentially INR 250 crores of capex was projected. Some of it will get done now. And FY '24, the bulk of it, especially the INR 160 crores of money will be invested through a subsidiary in Chamarajanagar. So that will remain at this point in time. But of course, going forward, during this two, three months end, if there are some large customers coming in that we might take a look at it and alter the plan and increase the capex.

Moderator: We have the next question from the line of Harshit Kapadia from Elara Capital.

Harshit Kapadia: Congratulations for a good set of numbers, sir. Just a few questions from my side. Since you mentioned you are looking at INR 1,700 crores of revenue estimates next year. Do we expect any substantial change in your revenue across verticals with the mix of automotive, industrial, railways and consumer going to significantly change given what is the order book mix right now? That's the first question. And is there -- what will there be an impact on margins. What kind of EBITDA margin can we expect for FY '24?

Jairam Sampath: So I can't really give you guidance on that. But I can tell you one thing, the profile of business has not changed over the last three months. So, the order book largely remains the same, top three verticals being automotive, industrial and railways. And we are not seeing any dips because we work on a PPV basis that is purchase price variance being borne by the customer. So from that perspective, we don't see any reduction in the margins, etcetera.

And last quarter, typically, the largest of the quarter among the four in any year in our business, this is based on last four years' trend. So we expect the EBITDA margins to be higher because we'll get better operational leverage than the previous quarters. And like Ramesh ji has said, we are on track as far as that is concerned. We don't see any trouble with that.

Harshit Kapadia: Fair enough. Yes. Go ahead.

Jairam Sampath: What was your second question?

Ramesh Kannan: Will we be able to sustain the margins?

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Jairam Sampath: Yes. Margin sustain is possible because we are now seeing a lot of growth in the non-automotive sector. So there will be a balanced growth. Automotive sector will drive volumes and efficiencies, etcetera. And then non-automotive sectors will drive margins. So we don't see at least in the medium term, we don't see any major change in the margins.

Harshit Kapadia: And do you see -- just wanted to also understand from your customer side, how long does it take to onboard a customer when you're looking at additions there? And secondly, are you looking at adding product enhancement for your possible customer, so that you can extract more revenue from an existing customers? That would be helpful.

Savitha Ramesh: This is Savitha here. See, basically, it depends on the vertical and the products that we manufacture for the customer. So the gestation for a customer will be somewhere around six months to 24 months, depending on the product and the complexity of the product. And however, on your second question, there is an organic growth coming from every customer because every product quantities also will be increasing year-on-year.

And all the customers will be also coming out with new products year-on-year for which we will be taking it as a new NPI project and going ahead with it. So basically, there is a growth coming from every customer per se, year-on-year and also adding up new customers. And the new customers come for us to onboard the new customers, the gestation will be somewhere around 6 months to 24 months, depending on the complexity of the project.

Moderator: We have the next question from the line of Renjith Sivaram from Mahindra Mutual Fund.

Renjith Sivaram: Sir, first of all, congrats on good sets of numbers. Sir, if I look at FY '23 and '24 in terms of your -- what's the kind of growth that you are looking at, given that you're almost in Jan for FY '23? And what will be the kind of order intake momentum that you're witnessing?

Jairam Sampath: Yes. See, this year almost is done in terms of whatever numbers we have talked about earlier. All of those orders are in the bag and then this quarter is a quarter of execution. So depending on some availability of components, etcetera, I think we will do, I think, Mr. Ramesh ji, also talked about it, about 1,200-odd if you reach. As far as next year is concerned, based on the order delivery by the customer, close to about INR 1,800 crores have been asked for delivery next year. However, closer to March, we will probably firm up the delivery commitments to the customers.

So, we see at least on this basis, at least a good say 45% to 50% kind of growth for FY '24. And since last time we published our order book to this time, 6 months have elapsed, and we have bought in orders at the rate of INR 150 crores a month. So that shows an increase compared to previous year when it was about INR 100 crores a month. So yes, so there is a reasonable amount of, let's say, improvement in the order rate on a monthly basis at this point in time.

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Renjith Sivaram: Okay. And sir, this INR 1,200 crores means that you have to do close to INR 500 crores in Q4, right?

Jairam Sampath: Yes, sir.

Renjith Sivaram: Okay. So, we are in line in terms of our plan?

Jairam Sampath: Yes, we are in line. Ours is a continuous business. So, the order delivery is a continuous process. So obviously, the last quarter is normally the biggest quarter, anywhere between 35% to 40% of total year business happened in the last quarter. So, a lot of work to do, of course.

Renjith Sivaram: Okay. And FY '24, I missed the capex number. FY 23 50 crores is the capex and FY '24 is...

Jairam Sampath: FY '24, mainly what we have declared, the opex about INR 260-odd crores, which is for Manesar, Mysore and Chamarajanagar, Chamarajanagar is INR 150 crores.

Renjith Sivaram: Okay.

Jairam Sampath: Okay. Right

Renjith Sivaram: Sure, sir.

Jairam Sampath: Thank you.

Moderator: We have the next question from the line of Dhruv Bhatia from Bank of India Investor Manager.

Dhruv Bhatia: Good Morning sir. Thank you for the opportunity. My first question is actually just a follow-up on the capex. So, with the current capacity that you have and the capacity addition that you're doing in FY '24 and your revenue growth guidance of about INR 1,700 crores to INR 1,800 crores in FY '24. What can be the piece revenue from the gross-block that you'll have by FY '24 end? Because I'm assuming you have obviously capacity for INR 1,700 crores, INR 1,800 crores and INR 250 crores should give you 4x asset turns, so about INR 1,000 crores of revenue. So maybe if you could just give us an idea of ballpark of what type of revenue, peak revenue, you can do with the capacities that you'll have by FY '24 end?

Jairam Sampath: Yes. So, if we were to implement all of these things then barring the minor annual capex, we may have cited a little bit for debottlenecking and some maintenance, et cetera. we should probably be able to cross anywhere between INR 2750 crores to INR 3,000 crores of revenue based on the capex that we have on hand.

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Having said that, it also depends on the kind of orders that we take in. For instance, in the next set of orders come in for, say, technology transfer from China. And if that requires some specific equipment, some of it may be invested by the customer, some of it, we may have to invest.

So, the capex is subject to those kinds of conditions. But otherwise, it's the same profile of business keeps on going, then we -- anywhere between INR 2750 crores to INR 3,000 crores worth of business we can do with whatever capex we are going to implement between now and end of FY '24.

Dhruv Bhatia: Understood. Sir, the second question was you mentioned that you are currently clocking about INR 150 crores of order inflow month. If I just go by, again, your guidance of INR 1,700 crores to INR 1,800 crores and your order book at this moment, just to maintain an order book of about INR 2,500 crores by FY '24 and it will require you to have order inflows of about approximately INR 300 crores per month. So are you confident of ramping up your order inflows from INR 150 crores a month to about INR 300 crores...

Jairam Sampath: How is it INR 300 crores?

Dhruv Bhatia: Currently, you're about end the year with INR 1,200 crores of sales. For next year, you're guiding for about...

Jairam Sampath: INR 1800 crores...

Dhruv Bhatia: INR 1,800 crores. So, you require -- so by next year, so if you end this year also with INR 2,500 crores of order book. So, you have about INR 800-odd crores of order book left to execute for FY '25. -- still another INR 1700 -1800 crores, plus you require...

Jairam Sampath: In 12 months' time.

Dhruv Bhatia: Yes. Yes.

Jairam Sampath: So roughly, the guidance that we are giving is based on current order rates. If it goes up, then, of course, the numbers should go, but we wouldn't go as far as say that right now. So based on these 150 kinds of number, we are well poised to do about, whatever, INR 1,800 crores or so for which orders have come in already. -- for next 12 months also, same rate it comes, it is for order for the next year also.

So, the only thing that we must be mindful is that sir, if there is any other new decline coming in, which is not in the order book, then we may have alter our strategy and address those needs. That's why I said the capex is subject to that.

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Dhruv Bhatia: Okay. And sir, just last 2 questions. One is on -- with China reopening, are you seeing any inquiries coming down for you in terms of order inflows or something on that side? Because as China has opened up, you might see again customers go back to China for further incremental orders that -- or the visibility that they may have.

Jairam Sampath: Yes. So, see, our sense is that, very recent this feeling is just about 15, 20 days ago when we had some discussions. So, some serious decisions have been taken by certain clients to de-risk their business and moved entirely out of China. Earlier, they were moving into filters like Philippines and Vietnam and Malaysia et cetera.

Now for various reasons, some of the customers out of them are trying to come to India, too, because India is seen as a long-term bet for their manufacturing because anywhere near by China area, they go, they are not rid of the Chinese influence where China controls that entire freight corridor. So, from that perspective, some of these sellers who completely depend on China for production, they have decided to move lock, stock and barrel. There are 2 reasons why we are moving. One is, of course, this particular thing about the fear. And the second thing is we also find that now other places like India, et cetera, has also developed that they can -- and a lot of software and other technology support is possible in a place like India, which is not so in China. And they are very much scared about loss of intellectual property. As we go forward, this scare becomes more and more. So, on that front, they feel more assured to move business to India, those companies who have some specific things to protect.

Dhruv Bhatia: And sir, last thing on your RM side, what percentage of your RM is imported? And from where is the imported roughly?

Jairam Sampath: 60-odd percent is imported. And a lot of imports technically on paper, it comes from Singapore and about 10% comes from China, remaining come from Singapore, Japan, US, Europe, etcetera.

Dhruv Bhatia: And just on this, I mean, so basically, with -- as you mentioned, that inventory was on the higher side because of availability or uncertainty of raw material availability with China again opening up? Is that uncertainty gone away? And are you going to be seeing lower number of inventory days going forward?

Jairam Sampath: Yes. See, inventory days will definitely be -- the steps that we are taking of asking for local stocking will improve. And it will improve by large numbers. And also, the inventory is a function of three things. One is, of course, how much we need to keep as a safety stock. Second is how fast we can turn around the product, which contains one more element of can I get all the components in time.

And the third thing is the nature of the business, whether it's a batch business or whether it's a continuous flow business. So given all these inventory days will definitely come down, even

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though we are in railway and aerospace and all of these kinds of things. We are making sure that we tried to improve the efficiencies there, too, and we will get that done. So inventory days will reduce.

Dhruv Bhatia: Sorry, if I may just squeeze in one last question is that is there any new vertical that the company is looking to enter into?

Ramesh Kannan: Yes, we are working with the energy sector in a big way. And I'm sure we'll be able to enter into this business because this is going to be the future. The green energy is catching up, and this is going to be the future. And it contains a lot of electronics because the power generator has to be converted and inverted.

Dhruv Bhatia: So when are you expecting some -- I mean some order inflows that you might see in the sector.

Ramesh Kannan: By mid of '24, that is somewhere in second quarter of '24, I'm expecting something to break through. And I'm very, very confident that my team is capable of doing it because they are already working in depth.

Moderator: We have the next question from the line of Chirag Lodaya from Valuequest.

Chirag Lodaya: Just two bookkeeping questions. First, on debt, what kind of gross debt we are looking at end of FY '23?

Jairam Sampath: Debt, see, right now, we will probably bring it down to the theoretical number that we had earlier calculated. In between, there was increase in inventory. So, we did not want to pay off all these things. So maybe it will be somewhere sub INR 200 crores debt by FY '23.

Chirag Lodaya: And in terms of tax rate, what do expect for FY '23 and '24?

Jairam Sampath: So FY '23 may be about 23.7%. And FY '24, we will probably go further down. There will be a blended rate between 17% and 25%, so somewhere midway, maybe you can take it at about 19%, 20-odd percent.

Moderator: We have the next question from the line of Amber Singhania from Nippon Mutual Fund.

Amber Singhania: So sir, just one question from my side is, you just mentioned about entering into the energy sector. If you can just elaborate this a bit more exactly what we are planning to enter? What kind of opportunity it has -- I understand you're talking about green energy. So within that, what could be the scope of products which we are looking into and how it could be the opportunity? And who are the competition in there?

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Ramesh Kannan: I've been guided by factors that not to disclose all the names, but whatever possible, I'll definitely do it. This will be in areas like hydrogen fuel coming in a big way. US companies are working on these technologies. And this technology has already proven, packaging is going on. So India will be one area where this will be manufactured. This is not for automobile purpose. This is for replacing generators and things like that. So this is where we will be working and large capacities will be built up in the year to '25 and '26. So '24 will be the proto and the PIPA Protection. And from there, it will take it to '25 and '26. So that is how it will be there.

Jairam Sampath: And just to add to Ramesh ji, in Chamarajanagar, we already have acquired 12 acres of land. We have looked for another five acres because some of these products requires space. So we are gearing up and let's hope for the best.

Amber Singhania: And just one more thing. I just wanted to know. I missed the number, you mentioned the target for working capital for FY '23 and '24, number of days you mentioned that?

Jairam Sampath: FY '23 end we expect the working capital to be not much improved from last year's number, which was about 98 days. We'll try and keep it there because of the inflow of order book. By FY '24, we might get it tad down, maybe fie, 10 days lower. So this is what we feel at this point in time. Maybe some improvements you can see when we come closer to the year-end.

Moderator: We have the next question from the line of Piyush Kandelwal from Bank of India Mutual Fund.

Piyush Kandelwal: Sir, just one question on this payable days. If I look at our payable days are coming down constantly from FY20 to -- I mean, if I look at you on a nine months FY '23 from 122 days to 72 days. I mean, is there any specific reason?

Jairam Sampath: Yes. See, like I said in the beginning of the call and Ramesh ji also briefly touched upon it. See, our fundamental issue this year has been availability of components. And then we also came into this with a little stretched payable days, and it was hurting the supply chain a little bit. And in order to make sure that all the promises to customers we can meet, we are making sure that we take steps even including paying advance, etcetera, so that we keep the component cost reasonable and then we don't create any stress on the supplier, so we get priority for allocation. As you know, many from other companies also realize, many components are on priority basis. So because of that reason, the payable days have been kept moderate. What we are doing first is that we don't want to immediately as the credit. There's no need that at this point in time with cash on the balance sheet. What we want them to do is reduce the cost of components. So we are working on a cost reduction program.

Second thing is we want them to give local supply of component. We're keeping it here, make it comfortable in terms of payments so that we -- it's a win-win for the supplier also, it's a win

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because we get cash flows fast as they are distributor. And for us, it's a win because we get lower cost components and lower inventory.

Piyush Kandelwal: So on a sustainable basis, we should assume that payable days would be in the range of 70 to 80 days going forward?

Jairam Sampath: Yes, I think so, I mean, we will try and get whatever without -- there is no free lunch in this whole thing. So if you extend the credit days, they normally push up the prices. So we need a fine balance. So since I think next several years, we will be generating net cash. So we use that as a weapon to sustain our margins. We'll be around that number only.

Piyush Kandelwal: And sir, another question when you say, you mentioned that you are looking for local sourcing as well. So when you say local sourcing, you're buying from the manufacturers in India or you're buying from the distributors who are importing from some other geographies?

Savitha Ramesh: Yes. This is Savitha here. Actually, when we said that we will be looking at local sourcing, we meant that we will have the distributors set up local warehouses in India. So that -- it will be the same distributors so that they will set up the warehouses close to India so to our facilities so that we can get the components faster. And the lead time of the components also will be reduced.

Piyush Kandelwal: Is there any target in mind of that 50%, which was -- I mean right now importing to reduce that?

Jairam Sampath: Yes, there is some target. It depends on how fast they can get the warehouse done. During COVID time, they had stopped the programs, earlier still we were working. So maybe in FY '24, we'll have at least out of two, one of them giving us local supplies. So that will be something like some 15% of the total purchases imports. So 15%-20% max will probably next year will be locally supplied. When you say, locally supplied, he will actually import it from wherever they are importing and keep it in India. So we don't have to keep that inventory. And going FY '25, I think significant amounts of imports will be done locally.

Piyush Kandelwal: And sir, just one last question. What would be our average age of Top 10 customers? And I mean, when it's a, let's say, B2B customers on industrial customer or railway customer, what would be the average life cycle of that customers? For example, let's say, customer onboards, today or FY '24 for how long it will be with the company, let's say, four years, five years?

Jairam Sampath: So typically, the tenure of customers will be in several decades actually. And especially top customers, if you see in Top 10, somebody like L&T has been there since inception, but I'm not at liberty to take names, but most of these customers are for life, between our B2B or industrial kind of segment, industrial, aerospace, defense, automotive etcetera. So tenure of these customers is several decades.

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Savitha Ramesh: To add to what Jairam said, see, once we are qualified with the customer, any new products that they are bringing in also will come back to us only because they don't have to go through the qualification process all over again.

Piyush Kandelwal: What would be the average age of Top 10 customers then?

Jairam Sampath: Average age of our Top 10 customers will be about 10 years. Currently, who are there, will be more than 10 years. That is in the past, of course, in the future, Some more.

Moderator: We have the next question from the line of Shrinidhi from HSBC.

Shrinidhi: Sir, I just wanted to understand the drivers of the growth that the company has delivered, like it's a very impressive 60% growth, but would it be possible to share some color on how much is it really driven by an industry growth? How much is really driven by new customer addition? How much is that product expansion or could be wallet share? A rough number that would help us understand what is really driving growth?

Jairam Sampath: Yes. So typically, in our business, what we have seen in the past is that the existing clients account for almost 80% of the business, whether it's grown or stable. And 10% to 20% is all either new products of existing customers or new customers themselves. So that is one type of metric. The second type of metric will be in terms of drivers of growth, we have penetration of electronics increasing, which is the case in places like automotive. The basic industry may grow at 10% or 12%, but our business growth is higher because of localization of many electronics and more electronics per car.

And the second thing which drives this certain industry segments such as EV, etcetera, has come up, which has a large amount of electronics compared to a traditional car. So this is penetration of electronic. It is also applicable in many other sectors in industrial sectors like, for instance, smart meters, for instance, now the government is insisting on the implementation of smart meter program across all the states and so on. So there are a lot of these kinds of things that are happening which are driving growth.

The third driver for growth is import substitution, which is actually the first driver. Wherein, people were buying, it was already being bought with electronics, but unfortunately, the Chinese suppliers had a good relationship, and they were giving it at low price, etcetera. So it was like chicken and egg story since we didn’t have sale, we cannot match those prices. Our government has come down heavily on that, and then we are making sure that as much as possible, they will do local sourcing. And once they start sourcing, companies like us can scale up and then we can be as competitive as any other source in the world.

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Shrinidhi: Sir, would you elaborate more on the import substitution opportunity in terms of some bit of quantification here in some of the key segments that we have like, for example, railways, industrial, auto. How large is import dependence that India has currently?

Jairam Sampath: See, I have not conducted a study, but based on whatever products that we are doing, it is just a kind of -- I mean, I will be just hazarding a guess, but it's a huge number compared to our turnover itself, each of the sectors. If you take railways, more than 10x to 15x the number that we do is imported actually, in various areas. May not be in signaling alone, it may be another area too. Similarly, in automotive, also a large amount of electronics is imported. And even, in fact, areas where we are not present also, there's a lot of import was happening and that is now coming into India. So it's multiple times. In the sense, it's not a percentage growth. Its several x opportunities that's available for import substitution.

Moderator: We have the next question from the line of Rahul Gajare from Haitong Securities.

Rahul Gajare: I just have follow-up questions on earlier questions on the auto. I want to understand, you did indicate auto industrial and railways make up most of it. I want to know how much in terms of percentage these three sectors make. And also how much is export share in the total order book? That's the first question...

Jairam Sampath: So, automotive will be around 39%, Industrial, about 26% and railways about 13.5%. And the remaining are like aerospace and defense medical IT, IoT and consumer. Consumer is a small segment for us. It's a sub 10% segment.

Rahul Gajare: And what about exports?

Jairam Sampath: At this point in time, exports are a tad lower than what we anticipated earlier on. That's because of very strong domestic demand. Last year, we had exports at about 22%. Now it's a little lower at about 20% or so. But I wouldn't know exactly what will turn out by the end of March because we are having our strong inquiries. For the coming year, in terms of if you were to ask you for guidance, I think export will go back to its number earlier what we had earlier in terms of percentage of exports. Because there are some three, four large discussions that we are having. So that if that is the kind of indicator of the trend, exports will go back to 20%-ish in the coming year. But at this point in time, the order book has something like less than 20% of exports.

Rahul Gajare: And typically, which sector is it that you cater to in the export side?

Jairam Sampath: Export side, it is mainly railway and industrial right now. We classify it as industrial, the instrumentation, then there is HVAC and controller and then railway signaling. What we are discussing will again probably, we will classify it as industrial for the new one, industrial and

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medical. So industrial and medical are the two new large businesses that we are discussing, existing is industrial and railway.

Rahul Gajare: And typically, is it that you've seen margin differential in your domestic ordering and export ordering? Or it is on the similar side?

Jairam Sampath: Yes, sir. See, margins are dependent on the sector.

Yes, obviously, export margins will be tad higher because they will be shifting production from some other locations which are higher parts in India. So the possibility of export margins being higher is always high. The other thing about export is that the receivables will be a little tad lower, compared to domestic business. So those are the two benefits we get. On the other hand, domestic business scale up faster. So we have both the counterbalancing factor.

Rahul Gajare: And sir, my next question is on your -- you did indicate capex of INR 250 crores in the next year. Typically, what is the return that you expect when you're doing that kind of a capex? What is the RoE that you have in your mind when you all are planning capex?

Jairam Sampath: Sir, actually, this year, that the RoCE and RoE will definitely look not as good as last year. The simple reason that we'll have -- we are in the middle of implementation of the objects and a lot of cash will be on the balance sheet and so on. And also, this is kind of gearing up for growth. But by end of FY '24, we should definitely be in the mid-20s in terms of RoCE and RoE, if not higher. And that's the math that we have done based on whatever order book that is there and our own internal plans. So 25 plus or minus, yes.

Moderator: Thank you. That was the last question. I would now like to hand it over to the management for closing comments.

Ramesh Kannan: Thank you once Again, for attending our first earnings call. Thank you very much once again.

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.

Jairam Sampath: Thank you. Have a good day

Ramesh Kannan: Thank you.

(This document has been edited to improve readability)

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