# Centum Electronics Limited

# Q1 FY 25 Earnings Conference Call

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**MANAGEMENT: MR. NIKHIL MALLAVARAPU – EXECUTIVE DIRECTOR – CENTUM ELECTRONICS LIMITED**
**MR. K.S. DESIKAN – CHIEF FINANCIAL OFFICER – CENTUM ELECTRONICS LIMITED**

**MODERATOR: MR. BHAVANI KUMAWAT – JM FINANCIAL**

**Moderator:** Ladies and gentlemen, good day, and welcome to Centum Electronics Q1 FY '25 Earnings Conference Call, hosted by JM Financial Institutional Securities.

I would like to mention a cautionary statement. Some of the statements made in today's conference call may be forward-looking in nature. Such forward-looking statements are subject to risk and uncertainties, which could cause actual results to differ from those anticipated. Such statements are based on management beliefs as well as assumptions made by and the information currently available to the management. Audiences are cautioned not to place undue reliance on these forward-looking statements in making the investment decision.

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 over the conference to Mr. Bhavani Kumawat. Thank you, and over to you, sir.

**Bhavani Kumawat:** Thank you so much. Good evening, everyone. On behalf of JM Financial Institutional Securities, I welcome you all to Centum Electronics Q1 FY '25 Earning Conference Call.

From the management side, we have Mr. Nikhil Mallavarapu, Executive Director; and Mr. K.S. Desikan, Chief Financial Officer. First of all, thank you so much for giving us the opportunity to host this call. I would now like to hand over the floor to the management for the opening remarks, post which we'll open the floor for Q&A.

Thanks, and over to you, sir.

**Nikhil Mallavarapu:** Thank you and good afternoon, everyone. I would like to extend a warm welcome to all of you to our Q1 FY '25 Earnings Call. I would like to mention a special thanks to our host today at JM Financial, Mr. Bhavani. Let me first brief you on the key performance highlights for the quarter and the year under review, after which our CFO, Mr. Desikan, will take you through the financial highlights.

In the first quarter under review, revenue from operations was flat year-on-year at a consolidated level, primarily due to a particular contract with a certain customer that was accounted on a net basis in accordance with Ind AS 115 amounting to INR4 crores. The gross value of invoicing in respect of this contract was to the tune of INR23 crores for the quarter ended June 30th, 2024. Had it not been for this accounting treatment, the adjusted consolidated year-on-year revenue growth would have been 7% to INR264.5 crores for Q1 FY '25.

Additionally, due to the lumpy nature of the BTS business, some domestic defense contracts have been skewed towards the second half of the year, where we expect 70% of the invoicing expected to happen in H2 FY '25 for this business. In our subsidiary, we saw a slight improvement, with the EBITDA margin improving to 3% as compared to negative 0.7% in Q1 FY '24.

And on the margin front at the stand-alone level, EBITDA margin declined due to this adverse mix between the high margin BTS business, which was lower in contribution in Q1. And this is expected to recover in H2 FY '25 with higher level of BTS deliveries to defense and space customers, thereby improving the margins. Overall, at the consolidated level in the current year, we continue to work towards achieving our medium-term targets for both growth and margins.

Next, on our order book position, this has grown marginally to INR1,674 crores at the end of the first quarter. Our pipeline remains healthy, and we expect a strong order booking, especially in the domestic, defense and space BTS business in the current year.

In other updates, Centum received the Supplier Award from Baker Hughes in the Collaborate category as a result of the exceptional work done to increase capacity and manage supply chain volatility effectively. This is a great recognition of our team's work to maintain the highest levels of service and customer satisfaction.

Now, I would like to hand over the call to our CFO, Mr. Desikan, to brief you on the financials.

**K.S. Desikan:** Thank you, Nikhil. And once again, a warm welcome to all of you. At a consolidated level, the revenue from operation was INR246 crores, which was kind of flat year-on-year. The EBITDA for the quarter was INR16 crores, which is down year-on-year, with the EBITDA margins reported at 6.34%.

While we had a net loss of INR3.8 crores for the quarter, at a stand-alone level, the revenue from operations for the quarter was about INR133 crores, which grew by 4% year-on-year. The EBITDA for the quarter was about INR13 crores, which was down year-on-year, with the EBITDA margins reported at 9.6%. The net profit for the quarter was INR4.5 crores, which declined by 37% year-on-year.

Since you have all the numbers with you, I will stop here and we can open the floor for Q&A session. Thank you.

**Moderator:** We will now begin with the question-and-answer session. We take the first question from the line of Nirali Gopani from Unique PMS. Please go ahead.

**Nirali Gopani:** Thank you for the opportunity. My first question is regarding the contract where the gross value of invoicing was INR23 crores and the revenue recognized was INR4 crores. Will the rest of the revenue be recognized in the coming quarter? Can you just briefly explain it?

**Nikhil Mallavarapu:** Yes. A very quick background here. This contract that we are talking about here is with a new customer that we have added in the past year. It is for the UAE market and it is for a defense customer. We won a significant order in the past year which is to be delivered in the current year to the tune of about $9 million to $10 million. The reason for this treatment is essentially that the material needed to execute this order was secured by our customers in the past due to the supply chain situation.

So for this current order, the customer has asked us to buy the material from him and manufacture the product and sell the finished product to the customer until this inventory is depleted after which it will be a regular turnkey contract where we will be responsible for procuring all the material and supplying it. In the current quarter, as a result of that treatment, the auditors have asked us to account it on a net basis rather than a gross basis. For the quarter, as mentioned, the impact from the top line only was to the tune of about INR23 crores. And we expect on a full year basis that this contract value will be, as I mentioned, around $9 million.

**Nirali Gopani:** Okay. So coming quarters will also see a similar kind of an impact, right?

**Nikhil Mallavarapu:** Yes.

**Nirali Gopani:** Just to be clear, this contract or the revenue impacted will have no impact on the margins? This is only on the revenue side?

**Nikhil Mallavarapu:** Correct.

**Nirali Gopani:** You sound very confident about growing in double digits. Should we expect an 18% to 20% kind of growth for full year '25?

**Nikhil Mallavarapu:** In summary, basically we continue to work towards that and we feel that even in the current year, as I mentioned in my opening remarks, we expect to achieve that. Of course, if this was accounted on a gross basis, obviously this accounting treatment itself will have a certain amount of impact at a top line basis to the tune of about 5%-6% or so on a full year basis. But if you were to consider the full revenue at the gross level, then we expect to maintain that 18%-20% growth.

**Nirali Gopani:** Right. And what gives us confidence to achieve this 9%-10% level of margins? Because last few quarters, the margins have been slightly impacted. So if you can just talk briefly on that.

**Nikhil Mallavarapu:** Sure. Two things, simply put. I think one is, as I mentioned, in the current quarter, again, the high margin business was quite low. We expect 70% of the billing for this part of the business to come in the second half of the year and perhaps a little bit more even towards Q4. But this has been the pattern for most companies in this space. I mean, these are government contracts.

You see a lot of billing happening in Q3, Q4 typically. So as and when those invoices happen, the margins will definitely see the improvement as I mentioned in the second half. Secondly, on the subsidiary level, as I mentioned, we've been working on this restructuring plan.

We've taken certain costs out. We expect those to start impacting us positively starting towards the end of the first quarter and going into the second quarter subsequently. So even at the subsidiary level, we expect a margin improvement in the subsequent quarters. So with these two contributors, we feel we should be able to improve our overall margin for the year on a full year basis.

**Nirali Gopani:** Perfect. Just last one question. What was the contribution from BTS for the quarter?

**Management:** It was about 13% to 15%.

**Nirali Gopani:** Okay. Fine. Thank you so much. Thank you for answering.

**Moderator:** Thank you. The next question is from the line of Chirag from Ashika Institutional Equities. Please go ahead.

**Chirag:** Hi. A couple of questions. So what margin trajectory we expect for standalone as well as concentrated level going forward and what factors which has impacted the raw material cost as a percentage of sales during the quarter and going forward, how are we going to manage those volatility to maintain our desired level of margin? Yeah. I will ask follow up later on.

**Nikhil Mallavarapu:** Hello. Just to repeat, the first part of the question was with regard to the EBITDA margin and the second part was a high material cost?

**Chirag:** Yes.

**Nikhil Mallavarapu:** Okay. So in terms of the overall EBITDA margin, you know, we are still working, as we mentioned in the past quarter, we are continuing to work on a full year basis at a standalone level to be in the range of around 13%, 13 plus percent and at a consolidated basis in the 10 to 12% EBITDA margin on a full year basis. So that's the answer to your first question.

The second one with regard to the material cost, basically this is two things. It's clearly related to product mix and what projects or programs are delivered in any given quarter. So our view on why we feel the material cost should improve subsequently, as I mentioned earlier, the higher margin BTS business is much more heavily skewed towards the second half of the year, so that will play a part in terms of improving the product mix and consequently margin in the second half of the year.

**Management:** Just to add, in terms of raw material cost, it's influenced by the business mix and not, you know, material cost increases. The cost remains constant, but because the mix changed adversely, BTS being low, and I stand corrected one small correction. Earlier question, the contribution of BTS to the total is about 26%. I said 13%, but it is 26%. Because BTS being low, raw material cost is high, but if you look at console as a full year, last year we were about 48% to 50%, and it will be in the same order for the whole year also.

**Chirag:** And if you look at the other expenses, the percentage of sales at console and standalone both, it posted remarkable improvement. So is it one time in nature or due to lower business volume, or is it like a permanent phenomena going forward?

**Management:** Yeah, the reduction in both manpower cost as well as other expenses, mainly from the subsidiary, is a result of the actions taken over the past six months. And we can say that we expect levels to be maintained at the Q1 levels.

**Chirag:** For both console and standalone, right?

**Management:** Yes, please. That's right.

**Chirag:** Okay. And if I look at your commentary of previous three, con call and all, you mentioned that in FY25, EMS is going to be a growth driver from automotive electric mobility and all such verticals are going to contribute industry-wise. So is that outlook remain intact or are we experiencing that the industry mix is somewhat changing than what we expected two quarters back for FY25 top line?

**Nikhil Mallavarapu:** Yeah, so again, the FY25 outlook, as I mentioned earlier, if you look at it on a gross accounting basis, we are still maintaining the growth of 18% or so at a consolidated basis. Again, more heavily skewed purely towards our EMS in the current year, so that remains intact. In terms of contribution by industry, I think in this year as a whole, we are seeing a higher growth contribution coming from the defense and aerospace part of the business as compared to earlier.

But we are also seeing some healthy new customer additions and pipelines happening on the industrial side as well. But for the current financial year, I would say the biggest growth contributor in terms of segment is expected to be more in defense and aerospace.

**Chirag:** Nikhil, in defense and aerospace, some of the top players facing issues in procuring engine part from the OEMs, do you see that as a risk in execution or is that issue now get addressed or not?

**Nikhil Mallavarapu:** Sorry, Chirag, your question was a little bit muffled. Can you repeat, please?

**Chirag:** Yes, so in defense and aerospace side, some of the players who can be your client facing issue with respect to procuring the engine part and other relevant components from the global OEM. Do you think that's going to be somewhat challenging to execute order in this vertical? Any color on that?

**Nikhil Mallavarapu:** Yes, I mean, supply chain is always a critical aspect and a risk aspect as far as execution is involved in this business. And we continue to maintain a strong close monitoring of it. I would say one area of risk which we continue to monitor closely is around the delivery of their PCB boards from our supply base in France, which is specific to one of our large customers in the segment. Having said that, we are taking various mitigating actions to address that well in advance. And, we still feel that our numbers that we are projecting are achievable considering this risk.

**K.S. Desikan:** In short, you know, there are issues but they are quite manageable and we are quite confident about it.

**Moderator:** The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

**Ankit Babel:** Yes, good evening, sir. Nikhil, actually your voice was not very clear so I missed that margin guidance point. And your voice is, since your voice is still not clear, I would request Mr. Desikan if he can, reiterate what is the margin guidance both on standalone and console basis for this year?

**K.S. Desikan:** Like what Nikhil was saying, the mid-term targets, we are doing our best to achieve them, which has been, at the console level, we were talking about 18% growth or the top line. With the gross accounting, we should be able to achieve that 18%. But unfortunately, we have this problem of net accounting now.

So, it may reduce by about 5% or so. We are working with auditors but I think like what he mentioned, this gross accounting, net accounting is going to be an issue. So top line, 18% at gross accounting level is what we are saying. And at EBITDA level, console level, we are targeting about 10%-11% as we had mentioned earlier. We are still on the same target.

**Ankit Babel:** Okay, on a gross basis. If your revenue is 18% growth, then on that base, 10%-11% EBITDA margin. Is it the right question?

**K.S. Desikan:** That's right, yes.

**Ankit Babel:** And my second question is that in every quarterly presentation and in every conference call, we mentioned that the order pipeline is very strong. But somehow on the order book side, we are not getting that, attraction. So, are you facing any delays in receiving any orders or how is the case?

**Nikhil Mallavarapu:** Two things, Ankit. One is that, we have a different horizon of orders for the different parts of the business. So BTS part of the business, as you know, has a little bit higher horizon. Whereas our EMS part of the business, I mean, the BTS business can have two plus years, 2.5 years kind of execution horizon. Whereas EMS business, historically, in a normal time, the supply chain is stable. You normally will have 6 to 9 months of orders and then customer forecasts beyond that. But in the supply chain period that we had in the past couple of years, customers gave us an extended time horizon of orders. Which is now coming back to a normal basis. So that's one factor.

Basically, our numbers that we are reporting here is only based on phone purchase orders from our customers. It doesn't take into account customer forecasts that extend beyond that. And so, as customers come back to normalcy with the lower time horizon of phone purchase orders, that will obviously have an impact in terms of our overall phone order book.

That is one. The second is on the engineering services side also. As we had mentioned earlier, one of our strategies in the short term to be able to improve our margins is to reduce the number of high risk fixed price contracts.

Where we historically had overruns and so on. Where again, those kinds of contracts you have a little bit longer time horizon. Whereas in a delivery center, service center or consulting type of business model, you have a shorter horizon of phone purchase orders.

So these have obviously played a role in terms of the reflection on our phone order book. But having said that, as I mentioned earlier also, we are expecting a strong order intake in terms of BTS orders in the current year. Coming from various programs that we have invested in developing products in the past. Around space defense satellites. Second is around radars. Third is around land systems for tanks and so on.

So all of these are in advanced stages and we expect to have a healthy order intake in this part of the business in the current year.

**Chirag:** So sir, since your BTS projects have the highest margins and you are expecting good orders in this year, so is it fair to assume that the margin trajectory will be very good next year also? Once these orders get into execution?

**Nikhil Mallavarapu:** That's right. So we continue to work on improving the margins by obviously growing our higher margin BTS.

**Chirag:** Okay. And sir, in the current year, you mentioned that going forward, both revenues and margins will improve. So, this will happen only from H2 onwards or we can see some traction in Q2 of this year also? The current quarter which is going on.

**Nikhil Mallavarapu:** We expect the majority of it to happen in H2. As I mentioned, there are two factors. One is the BTS defense business where we are expecting almost 70% of our invoicing to happen in the second half of the year. And also in our subsidiary, normally Q2 is a slower quarter because of the summers in France, which is lower in terms of invoicable working days. Q3 and Q4 are a bit stronger on that side. So, with both of these effects, we expect the margins to reflect more in the second half of the year.

**Chirag:** Okay. And sir, last one clarification. When you gave this 10% to 11% EBITDA margin guidance, is it including other income or excluding other income?

**K.S. Desikan:** No, EBITDA margins, we don't include other income.

**Chirag:** You don't? Okay. And sir, sorry, one more question to squeeze in about the debt and working capital. How are they shaping up?

**K.S. Desikan:** In terms of working capital, there is a slight increase in Q1 and roughly about INR20 crores, INR25 crores over the March levels. But by the end of September, when we come to you with the balance sheet, we plan to be at the same level like March.

**Chirag:** So, in number of days-wise or in absolute? Because in number of days-wise, it was just 61 days at the end of March?

**K.S. Desikan:** Correct. So, it will be around that by the end of September.

**Chirag:** Okay. And what's the debt position currently on a net basis?

**K.S. Desikan:** At consol level, we are at INR190 crores and it should come down by about INR10 crores, INR15 crores. So, we should be about INR180 crores.

**Chirag:** By September?

**K.S. Desikan:** Yes.

**Chirag:** And by the end of the year, what are your targets for debt?

**K.S. Desikan:** By the end of the year, we should bring it down by another at least INR10 crores because we have some capex coming up so the cost will be there to that extent. So, we should be closing at about INR170 crores.

**Chirag:** So this reduction in debt level, you expect in spite of increase in the BTS revenue, which typically has a higher working capital?

**K.S. Desikan:** That's right. Exactly.

**Chirag:** So how would it be possible, sir?

**K.S. Desikan:** No, like what he said, the second half of BTS business, bulk of the BTS, 70% of the BTS business will get executed and that should be generating cash. Plus also they expect certain customer advances for these new orders that we are looking at. So the debt levels, I think we should be able to manage.

**Chirag:** So on the interest cost point of view, it will be that same INR35 crores to INR40 crores.

**K.S. Desikan:** Exactly. I think last time also you asked the same question. We will maintain that to be in the same level.

**Chirag:** Okay. Thank you so much, sir. All the best.

**Moderator:** Thank you, sir. The next question is from the line of Nirali Gopani from Unique PMS. Please go ahead.

**Nirali Gopani:** Thanks for the opportunity again. Just a couple of clarifications. You mentioned that BTS was 26% of the revenue for the quarter and for FY '24, it was 48% to 50%, right?

**K.S. Desikan:** No. It will be close to 30%.

**Nirali Gopani:** Sorry, it's not very clear. Can you repeat?

**K.S. Desikan:** FY '24, it was 30%. Whereas Q1, we are at 26%.

**Nirali Gopani:** And for this full year FY '25, also we expect it to be around 36%.

**K.S. Desikan:** Yes. It will be about 30% for the FY '25, yes.

**Nirali Gopani:** And just one last clarification. So if we recognize the revenue on gross basis, for full year it would have been around INR265 crores. But EBITDA would have been only INR15.5 crores which we have already reported, right? So optically the margin would have been still lower than what we have done. It would have been lower than 6%, right?

**K.S. Desikan:** Are you talking about the quarter 1, INR265 crores?

**Nirali Gopani:** Yes, on the gross level.

**K.S. Desikan:** At the gross level, that's right. It's about INR23 crores more than what we have actually published. But in terms of EBITDA, it won't make a big difference because this is EMS business.

**Nikhil Mallavarapu:** So yes, the impact in terms of EBITDA margin may be to the tune of half a percent or 0.6%.

**Nirali Gopani:** Okay, fine. And just if you can help us, what kind of EBITDA margin do we make in BTS ?

**Nikhil Mallavarapu:** What we have been basically saying is typically with respect to business we should be operating at close to a 20% EBITDA level. Whereas EMS should be at around 11% to 12% level.

**Nirali Gopani:** Okay, fine. That's it. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Chirag Kachhadiya from Ashika Institutional Equities. Please go ahead. Mr. Chirag, your line is in the top mode so please go ahead with your question.

**Chirag Kachhadiya:** So, Nikhil, one question. During the quarter from our EMS vertical what sort of projects we deliver to the client?

**Nikhil Mallavarapu:** What? Just to repeat your question was what sort of projects?

**Chirag Kachhadiya:** The type of project what sort of work we deliver to the client and which industries we catered to during the quarter?

**Nikhil Mallavarapu:** Yes, so as we show in our earnings presentation I would say roughly half of our business is for the defense and aerospace segment where we are delivering various types of projects whether it's for these are all built to print programs when I say EMS, right? These are exported to our customers globally speaking so it may be for a missile program it may be for communication radio it is for air traffic management so different types of applications that we deliver on the EMS side for defense.

Apart from that on the industrial side these can be for grid automation applications industrial automation and so on the transport and automotive side these are for you can say on the transport side we are delivering for again railway programs and stuff which is delivered actually through our subsidiary over there, and on the automotive side it is primarily for electric vehicles for heavy vehicles, trucks and buses and so on.

On the healthcare side for digital radiography and a few other diagnostic equipment like that so these are recurring business in nature and obviously there are some there may be in certain cases a little bit of fluctuation quarter-to-quarter but for the most part these are recurring business.

**Chirag Kachhadiya:** Okay, thank you

**Moderator:** Thank you. The next question is from the line of Drashti from Thinqwise. Please go ahead.

**Drashti:** Would it be possible to, give us the total addressable market of each of your segments, which you have just mentioned, geography wise as well just to give us a sense of what our potential target market would be?

**Nikhil Mallavarapu:** It is a bit of a difficult question to answer to be honest the potential target markets, in these kind of industries are massive, so I mean it would almost, these go to the tune of $1 billions in terms of addressable market, I think it is more relevant to talk about I would say in terms of what we are seeing and projecting as a growth rate in terms of new customer additions and so on.

But as I have also said in the past typically, whenever we have a customer engagement our target is to be at a minimum engagement level of around $10 million with a given customer. And our bigger customers are $20 million plus kind of engagements and, we are seeing, good pipeline of new customers that are either looking at us because of Make in India requirement or because of China Plus One.

Which we are in the process of qualifying and adding which we hope to get into production, in the next financial year and those again we feel, in a 1.5 years to 2 year kind of timeline can get up to a $10 million kind of engagement.

**Drashti:** And so in the 18% to 20% growth we are estimating for FY '25 could you help us with what is the repeat customer of this and what is the new customer contribution in this?

**Nikhil Mallavarapu:** I would say I don't have an exact answer for you on this but I would say to the tune of about maybe between 10% to 15% or so maybe completely new customers that we are executing and the rest of it would be repeat customers and in certain cases part of repeat customers may be new business from repeat customers and such, so what I would say roughly around 10% to 15% is new customers that we are adding.

**Drashti:** Alright, thank you so much

**Moderator:** Thank you. We take the next question from the line of Bhavanishankar Kumawat from JM Financial. Please go ahead sir.

**Bhavani Kumawat:** Sir my question was regarding the order book which you have, approx INR1600 crores can you just help me with the bifurcation this all segment you are having the same and also how much time this order will be executed?

**Nikhil Mallavarapu:** Breakup will be in the same like what we have given as the revenue which is ER&D is about 32% and EMS is about 42% and BTS will be about 30% that will be in the same order it won’t change.

**Bhavani Kumawat:** And what will be the timeline for the order execution between how much time this order will be executed?

**Nikhil Mallavarapu:** I think our order book if you see again the time horizon for each of these are may be slightly varying from each other, but overall I think this is what we have been saying is on an average basis is like a 15 month kind of execution period.

**Bhavani Kumawat:** And which all segments are you seeing?

**Nikhil Mallavarapu:** 13 to 15 months vary a little bit.

**Bhavani Kumawat:** Got it. Thank you so much for this also on the continuing side which all segments you are seeing that the demand is improving there also on the broad side because Europe is facing significant headwinds over there, can you help us how things are shaping up there and down the line one or two quarters how one should look at your employee expenses also?

**Nikhil Mallavarapu:** Just to repeat, the question is with regard to how the demand is looking from a geography standpoint or from an industry standpoint?

**Bhavani Kumawat:** First on the geography point of view and then from the industry and the third question is with regard to the employee, how one should look at your employee expenses going forward

**Nikhil Mallavarapu:** From a geography standpoint I would say the two areas where we are seeing the healthy pipeline is one is some North American customers which are like I mentioned little bit earlier we are in the phase of qualification right now which we expect to secure orders for and forecast by the end of this year those are from North America and also domestically for the Indian market we are also seeing a very healthy pipeline of opportunities both from defense and space as well as from the railway segment I would say these two are the ones that we are seeing a healthy pipeline of opportunities.

**Bhavani Kumawat:** Got it sir. Quite helpful and also on the employee expense side how one should look at?

**Nikhil Mallavarapu:** Yes employee expense is obviously we have very different models for the different types of business because as you know on the standalone part of the business which is a manufacturing business employee costs are one part of the thing maybe to the tune of about 15% or so of the standalone revenues. So that I think we should continue to be in line with that as we grow some marginal operating leverages and prospect that we may have in terms of employee costs.

The second is with regard to the subsidiary which is fundamentally a man hours billing kind of business. So as the revenues grow there you will see the proportionate increase in terms of manpower cost also. Our objective there is obviously to try to have as much of that increase happening in India rather than in France to be able to improve the overall gross margin of the engineering services business.

So I would say that in short the difference between the two types of businesses and the view in terms of projection going forward. Obviously the subsidiary we expect to grow at a much lower pace than the standalone business. Standalone we target to have a 25% plus kind of growth rate whereas the subsidiary is at a high single digit or around 10% kind of growth rate that we would like to achieve.

**Bhavani Kumawat:** Got it sir. Quite helpful. Thank you so much for this.

**Moderator:** Thank you. The next question is from the line of Jayesh Shroff from Cask Capital. Please go ahead.

**Jayesh Shroff:** Thanks for taking my question. I have a couple of questions. First is can you just elaborate on the customer concentration in our revenue. What will be the proportion of our largest customers and the total revenue?

**Nikhil Mallavarapu:** Roughly I would say our top five customers contribute to about 50% of the overall revenue and the rest is after that. So in terms of customer concentration that's what it roughly looks like.

**Jayesh Shroff:** Okay. And second is in terms of competitive intensity. Last few years the sector has been opened up private sector largely especially on the defense side. We've seen a state of new companies including startups and all coming in. So how do you see the competitive intensity in the business and is it actually impacting our margins?

**Nikhil Mallavarapu:** I'll answer your second question first. What's impacting our margins most is clearly the subsidiary part of the business. So that's where our major focus is to basically fix the margin at the subsidiary because that is operating at a very low level compared to what we feel we can achieve with that. So from our numbers reporting standpoint the biggest leverage from a margin standpoint is clearly fixing our subsidiary and those are the actions that I have mentioned earlier.

And we hope that it will play out in the coming year and going into next year as well. Second will be the contribution in terms of the mix of the business because as I mentioned build to spec part of the business carries little bit higher margin compared to the EMS part of the business and while the EMS has been a strong growth driver and contributor in the past year and also in the coming year we expect with the visibility in terms of order intake we are hoping to have this year, even the build to spec part of the business should continue to contribute in terms of growth in the subsequent years.

So these are the two factors that impact margin from our perspective and as you mentioned our medium term objective is to move towards 13% to 15% EBITDA level at a consolidated basis. Now to answer your first question sorry is there a question. So to come back to your first question with regard to competitive intensity, absolutely there is existing players being more aggressive to be able to capture as much business as possible.

That is a clear thing that will happen as opportunities grow. So this is where it's important also for us to identify growth opportunities, but also where we have advantage in terms of being able to have strong relationships with customers.

And I think on that side there's two things. One on the EMS part of the business, I think we have a strong export orientation and so we, even if it's in many cases for the Indian market or for exports because of China Plus One, we are able to build strong relationships with global OEMs that have a large spend that they're having. So I think that's one thing to push and focus on.

Second is also on the BTS part of the business. As I mentioned earlier, there's been a lot of work that's gone in over the past couple of years in terms of designing products that are either for new platforms or products that are a replacement of an imported product where there is IP involved. And this, again is something that we are one of very few companies that are able to do these kind of products.

Just as an example on the railway side of the business we are delivering passenger information systems for trains. This was a technology that came actually through our subsidiary that we have now shifted a lot of development work and also all the manufacturing to India already. There is a huge demand for metros and now also for passenger trains like Vande Bharat and so on, all of which require these passenger information systems.

And globally speaking, even for these Indian projects, a large part of this was imported previously from China or other parts of the world and we are one of the first companies to be able to deliver this product at a world-class performance level domestically and that opened up some good opportunities for us which we are focused on converting. So like that, there are other examples also on the defense side and so we continue to focus on some of these IP creation opportunities to capture the opportunity.

**Jayesh Shroff:** So in a nutshell, what you are saying is that although competitive intensity may be high but considering our pedigree and the advantage that we have maybe we have certain advantages. But how long will this last? The new companies or the existing ones will also catch up in terms of pedigree and the advantage. I mean, my question is that is it that over the medium term, we will continue to see very, very high level of competition leading to moderation of margins not only for us but across the sector?

**K. S. Desikan:** So let me put it like this. It's an interesting question. First of all, I should appreciate that. But if I look at our business and take one by one, if you look at BTS business of course there is a lot of competitive intensity but the way we are positioning is what is important. For example, the, BTS business, the domestic defense space et cetra, I think the opportunity is exploding in terms of Make in India or the positive indigenization list. The pie is only increasing and we choose to operate at a certain high end of the technology areas like the radar, electronic warfare, et cetera.

So in terms of opportunities, I think that's quite high but the competition is not much there in those hi-tech areas. And also the BTS of the railway opportunities that Nikhil mentioned because of our association with our Canadian subsidiary which has this technology, we are able to win orders locally in the railway infrastructure market which is booming, and we operate under a practice which is public announcement and passenger information system, and we enjoy a strong position there, I would say.

And if you look at the EMS model, yes, there is competition but the way we are positioned, we are at high end hi-tech markets and export markets and the factors that would be in favor of us are like the China plus one and again Make in India and the third, in ER&D Services our customers are either in France or in Europe, and they are being served from the French entity, now we are trying to change that by increasing the mix. So, actually, that market is key, which we can address in a bigger way. So, overall, I would say, yes, you see a lot of competition, but the way we are positioning each of these segments, I think we are ensuring that we should be able to go at the numbers that we are projecting.

**Jayesh Shroff:** Okay, that answers my question. Thank you so much and all the best.

**Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

**Nikhil Mallavarapu:** Thank you all for participating in the earnings conference call. I hope we were able to answer your questions satisfactorily and at the same time offer insights into our business. If you have any further questions or would like to know more about the company, please reach out to our investor relations managers at Valorem Advisors. Thank you. Stay safe and stay healthy.

**K.S. Desikan:** Thank you.

**Moderator:** Thank you, members of the management. On behalf of JM Financial that concludes this conference. Thank you for joining us and you may now disconnect your lines.