"Centum Electronics Limited
Q3 & 9 Months FY25 Earnings Conference Call"
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MR. K S DESIKAN – CHIEF FINANCIAL OFFICER - CENTUM ELECTRONICS LIMITED

MODERATOR: **MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS**

Moderator: Ladies and gentlemen, good day, and welcome to Centum Electronics Limited Q3 and 9 Months FY25 Earnings Conference Call hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors. Thank you, and over to you, Ma'am.

Bhoomika Nair: Yes. Good evening, everyone and a warm welcome to the Q3 FY'25 Earnings Call of Centum Electronics Limited. We have the management today being represented by Mr. Nikhil Mallavarapu, Executive Director; Mr. K S Desikan, Chief Financial Officer. At this point, I'll hand over the floor to the management for their initial remarks, post which we'll open up the floor for Q&A. Thank you, and over to you.

Nikhil Mallavarapu: Thank you and good afternoon, everyone. Welcome to our earnings call to discuss the performance in the third quarter and 9 months of financial year 2025. Let me first mention a special thanks to our host today at DAM Capital. Now let me start by briefing you on the key performance highlights for the quarter and the year-to-date results under review, after which our CFO, Mr. Desikan, will take you through the financial highlights.

In the third quarter under review, consolidated revenue from operations declined by 6% year-on-year, but increased by around 8% quarter-on-quarter. Similar to last quarter, it is important to note that revenue for certain contracts have been accounted on a net basis. The gross value of such contracts was INR32 crores in Q3 FY25 and INR71 crores for 9 months FY25. So adjusting for gross value, the revenue for Q3 FY'25 has grown by 13% quarter-on-quarter and for the 9 months FY25 by 6% year-on-year.

The Q3 FY25 our consolidated EBITDA margins stood at 6.9% and standalone EBITDA margin stood at 11.8%. Our margins were impacted mainly due to the losses in the Canadian subsidiary and lower utilization due to delays in new project starts in France. The company is considering various strategic measures with regard to the subsidiaries, Canadian operations, and we will announce the same in due time over the coming quarters.

Our order book position stands at INR1,675 crores as on 31st December, 2024. Our pipeline continues to remain strong for both Build to Spec and EMS customers in our standalone business. And in other updates, Centum also received an Export Award for FY'23-'24 recognizing the Best Performing Electronic Hardware Exports from STPI in Karnataka.

To conclude, we remain optimistic that the performance in the coming quarters is expected to improve in terms of revenue and margins, driven by growth in the high-margin Build To Spec business within the standalone entity. As we had mentioned earlier, a large part of the revenue for the Build To Spec business in the standalone entity is expected in Q4 of the financial year, and that should help improve the revenue and the margins. And we remain confident in that happening.

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

K. S. Desikan: Thank you, Nikhil. Once again, a warm welcome to all of you. At a consolidated level for the third quarter, the revenue from operations were INR281 crores, which has increased quarter-on-quarter by 8% and declined by 6% year-on-year. The EBITDA for the quarter was INR19 crores, which declined by 33% year-on-year. With EBITDA margins reported at 6.9%, we had a net loss of INR19 crores for the quarter, that is primarily due to an exceptional item as explained in the notes to the publications.

For 9 months ended at a consolidated level, the revenue from operations were INR787 crores, declining marginally by 1%. The EBITDA for this period was INR55 crores, which declined by 19% year-on-year. The EBITDA margins were reported at 7%, and the net loss for the period was around INR24 crores, again, mainly due to that exceptional item.

At a standalone level for the third quarter, the revenue from operation was about INR181 crores, which grew by 8% quarter-on-quarter and 2.5% year-on-year. The EBITDA for the quarter was about INR21 crores, which grew by 3.4% quarter-on-quarter and declined by 5% year-on-year. With the EBITDA margins reported at 11.79%, the net profit for the quarter was around INR9 crores, which declined by 5.2% quarter-on-quarter and 16% year-on-year.

For the 9 months ended at a standalone level, the revenue from operations for the period was about INR480 crores representing a growth of 3.5% year-on-year. The EBITDA for the period was about INR55 crores, which declined 9% year-on-year. With the EBITDA margins reported at 11.49%, the net profit for the quarter was around INR23 crores, which declined by around 16% year-on-year.

With that, we can open the floor on Q&A session. Thank you.

Moderator: Thank you very much, sir. We will now begin the question and answer session. We have our first question from the line of Harsh Mehta from Perpetual Capital Advisors. Please go ahead.

Harsh Mehta: First of all, sir, we have been trying to contact the company since a very long time. We have e-mailed the IR team and the CS team, but we haven't received any replies and we have asked follow-up -- we have sent follow-up e-mails also. So this was the first issue that we had faced. It was very difficult to get in touch with you all.

Now the question which I had. Sir, I wanted to know what is the road map to make the international business profitable? And what are the margins that you expect in the long run?

Nikhil Mallavarapu: So Harsh, first of all, to your first point, apologies that it was difficult to reach us. I will make sure that our IR team is aware about this and we reach out to you to provide the necessary information that you need. Coming to your second question with regard to the road map for making the subsidiary operations profitable.

Fundamentally, as we have explained in the past, we have 2 parts of the business in the subsidiary itself. We have the engineering services part of the business, which is more or less focused in

France. And then we have a product business for -- around passenger information systems for the railway market, which is sitting in Canada.

And when you look at the overall picture of the subsidiary as a whole, even if you take the 9 months period, our France operations, which is the engineering services business, has been more or less at a breakeven level, whereas the loss is majorly contributed from our Canadian operations, wherein basically the costs of having an engineering team sitting there is not being compensated through the margins and the billing that we are able to achieve in the -- in that part of the business.

So our first priority and action is around basically addressing the Canadian losses that we have. And towards that I think there's a couple of points. First, in the short-term itself, we are -- we've been negotiating quite strongly with some of our customers to obtain additional purchase orders for -- or additional variation orders for the -- to support the engineering team in Canada.

And in the meanwhile what we've also been doing is, in the last 12 to 18 months, have created a team in India that is able to execute the similar kind of work. So we have been shifting a lot of the work from Canada to India, especially on some of the new contracts that we've won. The majority of the execution has happened from India. It is the older projects and programs where the support is still continuing from Canada, for which we are having some hard discussions with our customers to come to a solution.

So these -- it's a bit early for me to say that, but we will have -- we will be basically making some strategic decisions with regard to the Canadian operations in the next couple of quarters to ensure that it doesn't continue to drag the overall P&L. That's the first one. Second is with regard to the France business itself where it's -- as I mentioned earlier, it's still at around a breakeven level at the moment.

Our objective there is to improve the margin by basically improving the utilization rate of the engineering team that we have there. We've worked quite closely with multiple customers. We have actually a very good feedback and engagement with multiple customers, including with Airbus, with Thales. In fact, just in the last few weeks we have been recognized as a platinum and panel supplier for their engineering services business.

So we have the opportunity to grow with them and improve the utilization rate. However, some of the projects that we had estimated to start in Q3 have been delayed. So we expect that to happen in Q4 and going into the subsequent quarters as well. So at a high level, those are the two key actions that we're taking to improve the margin profiles. And our objective is to try to move that margin up to a 7% level or so in the short-term in the coming year, and then push it up further as growth comes in to 11% to 12% range in the subsequent years.

Harsh Mehta: Sir, can you tell me what was the thought process and the expectations that you had when you actually acquired these two businesses?

Nikhil Mallavarapu: I guess it's -- the expectation is clearly not what we are at today. I mean I think just to answer the question simply, if you look at the benchmark numbers that we are able to see, even for a French company with largely onshore delivery, we see about 10%, 11% EBITDA is what is achievable. And as we are able to do more work offshore, that EBITDA margin should improve further. But I think we've not successfully been able to achieve that because of some of the issues that I already mentioned.

But as I mentioned, we have a plan on what to do, and we're taking some tough decisions to make sure that in the short-term we fix this margin issue on the subsidiary.

K. S. Desikan: Just to add a thought process. When we acquired, we had two businesses with us. One was the EMS business, the other was the BTS business. But we never had engineering services as an offering. So while we had a team of 100-plus engineers for our own BTS business, they were designing our own products.

So the idea was to acquire this engineering services business so that we are able to address the entire spectrum of the OEM needs and also to synergize that. But when we acquired, this product business of Canada came along with it, and we acquired essentially for the engineering service business.

But like what Nikhil mentioned for various reasons, we needed to clean up and then the COVID and all of that, we are not able to, till date, achieve the margins that Nikhil was mentioning about. But just to tell you, there were a couple of good cases where we were able to synergize certain designs that were made at the France subsidiary, have been moved to manufacturing in India.

And in a case or so where we were manufacturing, we were able to get the designs done by the French subsidiary. So there is some synergy, but not to a great extent, it has not been harnessed. And margins, we have a plan to improve it at the French subsidiary level.

Harsh Mehta: Sir, in your French business, can you tell me your onshore and offshore split as of today?

Nikhil Mallavarapu: Yes. So in terms of headcount, we are roughly about 60% -- you can say 2/3, so 65% or so in onshore and 35% offshore. That's a rough breakup.

Harsh Mehta: And sir, last question, what led to the slowdown in the BTS International business? Like it was more or less almost 0 in the quarter?

Nikhil Mallavarapu: Sorry, can you repeat that again, please?

Harsh Mehta: Sir, I wanted to know what led to the slowdown in the BTS International business for the quarter?

Nikhil Mallavarapu: I mean the BTS business quarter-wise may be difficult to look at because we -- it depends -- it may be a bit lumpy in nature. But we -- I mean, the overall BTS numbers at the subsidiary level, as I mentioned earlier, is largely driven by the Canadian part of the business. And so it may be a bit lumpy in nature, but the issue there is not so much the revenue as much as the cost that we have on the Canadian team.

K. S. Desikan: Just to add a couple of points that -- like what Nikhil said, today, the cost in the Canadian subsidiary is disproportionate to the revenue that we book. That is because there are older projects where we need to do certain kind of activities to get them completed, there you don't get the revenue. That's number one.

And number two, there is a general slowdown in the PAPIS business. So there were not significant fresh orders that came up. And that, again, goes to say that we need to look at the cost structure in the Canadian business and look at it in a strategic manner to see what needs to be done with the cost, apart from moving to India to get the cost advantage.

Harsh Mehta: Sir, your current order book is executable over what period of time?

K. S. Desikan: The international BTS business is what you're asking?

Harsh Mehta: Your overall order book?

K. S. Desikan: Nikhil?

Nikhil Mallavarapu: Yes. So the overall order book, again, just to break it up a little bit in terms of each of these pieces of the business, the Build To Spec part of the business is typically executable over a 2 to, let's say, 2.5 year period. The EMS part of the business is roughly in the range of 9 to 12 months. And the Engineering Services part of the business is maybe even shorter, in the range of 6 months or less.

Harsh Mehta: And --

Nikhil Mallavarapu: Go ahead.

Harsh Mehta: Sir, are there any defense programs through which the company can benefit?

Nikhil Mallavarapu: Yes. So in the domestic BTS business, the standalone BTS business is almost completely focused around the defense and space market in India. So there are multiple different areas that -- and programs that we've been working towards. So space has clearly been one area that we have been very strong in. We've, just in the last year, won over INR300 crores contract for satellite-based payloads for Electronic Warfare Applications.

In Q4, we are also expecting some substantial orders, and we will receive them from the radar domain, and these are for naval programs. Also, in -- missiles has been another area that we've been in, and we have some opportunities there that will be coming up. Broadly speaking, land systems, so these are -- even on tank electronics and so on, we've done a lot of efforts in terms of R&D of indigenizing Russian imported products, and we started to win orders for that in the past year.

So with all of this, I think these are -- electronic warfare, space, radars and land systems are broadly areas that we have been building strong capabilities in. And I think you will see that reflected in the form of our domestic or standalone BTS order book, which has increased quite well from where it was at around INR376 crores at the end of FY '23 to INR427 crores at the end of FY '24 to INR563 crores at the end of 9 months.

And we expect this to further improve by the end of this financial year with some additional orders that we're expecting in Q4 as well. So the domestic defense part of the business is doing well for us, and we expect to see some strong growth coming in from this part of the business for us.

Harsh Mehta: Thank you so much sir and looking forward to joining from an IR team.

Moderator: Thank you. We have our next question from the line of Ankit from Subhkam Ventures. Please go ahead.

Ankit: A few questions from my side. So sir, since there is so much of volatility in all your businesses, plus on a quarterly basis also, there is no linearity. So I just wanted to know based on the current order book and the visibility which you have across all your businesses, what kind of EBITDA you are targeting this year? Last time you mentioned around INR130 crores. But after the performance of Canadian subsidiary, do you feel that this number needs a revision?

Nikhil Mallavarapu: Yes. So I think we will have to revise what we had initially assumed because of the overall performance of the subsidiary. Essentially, the revenue on the subsidiary has been lower than what we had expected for a couple of reasons. One is, again, on the Canadian part of the business, we have been trying to negotiate an additional variation order with some of our key customers there as a result of some of these project overruns which have not been secured as yet, but we are continuing to push that. So that has been one of the major reasons.

And also on -- as I mentioned earlier, the utilization rate also which were in France on the engineering services, which was expected to improve with new project starts has been delayed. So as a result of this, our subsidiary performance, both on top line and bottom line is below what we had originally targeted for. So we will have a lower number.

Having said that, I think it's important again to say that in Q4, on the standalone number itself, we will have a strong jump because, as we've been saying, the Build to Spec domestic part of the business for defense and space is heavily skewed towards Q4. So we will see a good improvement from a margin and revenue standpoint on the standalone numbers in Q4. So maybe, Desikan, if you'd like to just come in, in terms of the overall...

Ankit: Yes, sir, what's the revised number?

K. S. Desikan: Sure. So like what Nikhil mentioned, essentially, this standalone is in the direction that we have been estimating and projecting. The problem is from the subsidiary. And like what he mentioned in Canada, certain things, the variation order and also some people on bench in the French business and the new orders starting from the Q4 of current year. So in the light of this, I would say that considering the good performance of standalone in Q4, we should be doing about INR100 crores of EBITDA for the full year.

Ankit: Okay. And for next year --

K. S. Desikan: Hello?

Ankit: So basically, what I'm trying to understand is that shall we be rest assured that the Canadian subsidiary won't be a dragger post June quarter?

K. S. Desikan: That's what we are working towards it. So yes, the best case, I think we should be able to fix because we -- it is taking a little more time than what we really anticipated because of the delicate situation that we have. We have customer deliveries in India to Alstom, and we have not fully transferred the knowledge to India.

So we have to maintain this for some more time, and also find a solution for the older contracts which are being maintained there. So I would say June is a good estimate. The worst case before September we should be able to ensure that Canada is no longer a dragger.

Ankit: So can we expect some big exceptional losses coming from Canada? You might be taking some cost reduction measures like a VRS or something like that. So can we expect some major exceptional items in the coming quarters from the Canadian subsidiary?

K. S. Desikan: It's too early, Mr. Ankit, to say because these are matters that we need to balance it out and then we will keep you posted. But like I said, maybe June, we try to close it out. Our worst case by September we should be able to stop the bleeding from Canada.

Ankit: Okay. So considering that --

Moderator: Sorry to interrupt, Mr. Ankit --

Ankit: Just one last question. Earlier participants asked five questions. Just allow me to ask a couple of more questions. So sir, assuming that whatever losses you might be incurring in the Canadian subsidiary, so considering that, what could be your EBITDA for the full year, sir, next year, FY26?

K. S. Desikan: No, like what Nikhil was saying, at a standalone level, we should be able to achieve around 13% to 14%. And at a subsidiary level, including Canada, we should be between 6% to 7% of EBITDA.

Moderator: Thank you. We have our next question from the line of Chirag from Ashika Institutional Equities. Please go ahead.

Chirag: A couple of questions. Am I audible?

Nikhil Mallavarapu: Yes you are audible.

Chirag: So if I look at your performance between FY '23 to FY '24 on 9 months standalone basis, we have delivered around 52% revenue. And that time this gross and net accounting related thing was not there, okay, a year back. Right now, on gross basis -- gross accounting basis between FY '24 to '25 aggregate three quarters performance, the growth is 16%.

So on a full year basis for -- at standalone level on gross accounting basis, this time, what growth we are expecting? Because last year on standalone, the growth was 26.5%. So yes, I'm not considering anything related to subsidiary underperformance on top line and bottom line as we are expecting around INR100 crores kind of EBITDA at standalone level for FY25?

K. S. Desikan: So on gross accounting basis at the standalone level, it should be similar to what you said last year, about 26%.

Chirag: So we are expecting Q4 to be blockbuster and the spill over of the revenue, which...

K. S. Desikan: Which we have been saying even in the last quarter, in the second half, especially in the Q4, the revenues must be increasing significantly.

Chirag: And, Desikan, this gross and net difference will get normalized, I mean, from FY '26 or when?

K. S. Desikan: Yes. FY '26, it should get normalized.

Chirag: Okay. And I track your company since past 5 years, and I'm just trying to understand since past 3 years, we taking steps to turn around the subsidiary. But it is taking too much amount of time, okay. And that is somewhere impacting overall consolidated performance. So when you think this severance and all things get addressed and we will see a clear picture of P&L?

Yes, you answered in previous participant's question that somewhere in September. But from directional point of view, the legacy contracts which are there in the Canadian business, when that complete get over and the impact will get it will from the P&L?

K. S. Desikan: Nikhil?

Nikhil Mallavarapu: Okay. So Chirag, we basically -- fundamentally speaking, there's two options. One is the customer pays for the costs that we are incurring or we need to cut the costs and try to do it in India or even discontinue the thing completely. This is the discussion that we are having with some of the -- basically, with the lead customers on this point. And we obviously want to arrive at a solution that ensures the continuity of the contracts and the projects and so on. So we don't impact too badly the end customers. So this is what we're basically in the process of doing right now, and that's what we feel -- we will make those decisions in the coming couple of quarters.

Chirag: And still we maintain our 15% plus kind of growth guidance for next few years?

Nikhil Mallavarapu: Yes. So for the next year, again, with regards to our standalone business, we remain confident of maintaining a healthy growth rate that we've been tracking for the past couple of years. I think that's -- it's one visible in the order book on the domestic BTS part of the business, which we've won in the past, in this current year, in fact.

And also on the EMS side of the business, we have a good set of new customers that would come on board, which we are in the ramp-up and qualification stage today, which should start hopefully coming into the revenues in the coming year and be into full swing the year after. So our growth visibility on the standalone business is quite strong in the -- for the next year.

On the subsidiary front, obviously, it depends on what we will end up doing with the Canadian subsidiary and also in terms of the improvement on utilization in France, which we are doing. But as I mentioned, the major objective of the subsidiary is not so much on huge growth, but rather fixing the margins.

Moderator: We have our next question from the line of Raman K.V. from Sequent Investments. Please go ahead.

Raman K.V: Sir, initially, you guided for 18% to 20% growth on gross accounting basis. So now that there has been degrowth in the subsidiary, so what is the guidance on the consolidated basis with respect to FY '25? And what are you guiding for FY '26 on the consolidated as well as standalone basis?

K.S. Desikan: Yes. So on the revenue growth, yes, the drag in the Canadian subsidiary is pulling it down, and we expect to close the year with gross accounting 13% of revenue growth as against the 18%, and mainly because of the drop in the subsidiary.

Raman K.V. And sir, for FY '26?

K. S. Desikan: At this point of time, I wouldn't guide anything. Let us -- because we have certain actions to take in the Canadian subsidiary, perhaps we can see it in the next concall.

Raman K.V: Okay. Can we expect...

Nikhil Mallavarapu: Just to restate what I was saying earlier, I think the point is on the standalone figures, we can continue to expect a strong growth rate that we have seen in the past year and what we will see in this year. I think we feel we have the visibility to continue a strong growth rate at the standalone level.

With regard to the subsidiary, there are a few question marks around what we are planning to do based on what -- how the discussions pan out with some of our key customers over there. So that's why I would say it's a bit premature to give any clear guidance with regard to subsidiary numbers today.

Raman K.V: Okay. Sir, and also with respect to BTS, EMS and Engineering division, can you give the margin, like what's the margin of BTS, what's the margin -- EBITDA margin of EMS project and EBITDA margin of engineering project?

Nikhil Mallavarapu: While we are not reporting this -- okay, go ahead. Go ahead.

K. S. Desikan: See, the problem or the point in giving an EBITDA margin for a BTS business, I'm sure, like other participants mentioned, there is a volatility in quarter after quarter. So any number that you look at, my suggestion is please look at it on a yearly basis, whether it is BMS and all of that. So having said that, BTS generally is about 18% to 20%, and EMS, it is between 11% to 13%. And that is what we are targeting and we are achieving on a yearly basis.

Raman K.V: Sir, what about the Engineering division?

K. S. Desikan: Engineering division right now, which is the French subsidiary, it is at about 1.5%, 2%. And that is what Nikhil has been mentioning that we are working to improve that.

Raman K.V: Okay.

Nikhil Mallavarapu: And just to clarify that point, I think on the subsidiary, the French operations has a better EBITDA margin, which is pure engineering services is maybe around 4% or so, but that's all been pulled down by the losses in the Canadian business.

Raman K. V: Okay sir.

Moderator: Thank you. We have our next question from the line of Yash, our Shareholder. Please go ahead.

Yash: Sir, all the participants have asked the other questions, which clarified a lot, and thanks for clarifying the things. And also, our company is into a great business and also -- so most of our competitors are actually -- their valuations are very high and all. So I just want to understand, like it's a win-win for everyone. So when can we realistically touch some INR10,000 crores market cap?

I mean, is it achievable in next 3 to 5 years like that? Just want to understand on that actually because our company is into great business and all, but still it's not getting the right valuations and that was the reason?

Nikhil Mallavarapu: I can't really comment on the market cap and all of that right now, but quite simply put, I think one of the fundamental points is that while our standalone business is doing well, the value for that is not -- we feel is not being captured appropriately because of the drag that we have on the subsidiary.

So because in that the consolidated number is not reflecting a very good picture. So this is the reason that we are going to be taking some key decisions with regard to the subsidiary and specifically the Canadian part of the business to address that fundamental point.

Yash: Sir, leaving aside the market cap, so is it realistic to assume that our company, can it reach at a consolidated level, the revenue of INR2,500 crores to INR3,000 crores in the next 4 to 5 years? Is it achievable because of the huge demand in the defense sector and all the initiative by government of India. Is it a realistic expectation, sir?

Nikhil Mallavarapu: I mean, once again, we won't comment specifically on the numbers, but I think we have clearly big ambitions, and we are addressing big programs, both on the defense side of the business. We are tracking some multiple different opportunities and pipeline of opportunities that are substantial.

And also, on the EMS side of the business, we continue to add strategic customers with large spends. So I think we remain confident in our ability to grow with the tailwinds that we're seeing both on the defense side as well as the EMS side of the business. And on the subsidiary, we are taking the actions that we already talked about, sir.

Yash: One last question is that, sir, the company is interested in any QIP or any strategic investor when there were some news in the media and all? I just want to your explanation on that -- clarification on that thing?

Nikhil Mallavarapu: Yes. So we sought and got approval from our Board to be able to raise some funds through either a QIP or other means. And so we are pursuing those options, but we will be able to share that information maybe a bit later on. But this is all in anticipation of some of the growth opportunities that we are seeing for us, especially on the standalone part of the business.

K. S. Desikan: Just to add on that point, combining it with your previous questions about the growth, the very fact that we have obtained an approval from the Board of Directors to evaluate a fundraising activity, that should give us confidence of our growth possibilities that we are looking at. So the fund raise, which actually we've got the approval, but the timing-wise we need to get back, is essentially a growth capital. So that's what I wanted to add.

Yash: Yes, sure sir. Thanks for your patience and answering the questions and all. So tough times -- I understand it's a tough times for our company. So we are long-term investors and probably we'll be in this journey with you for several years ahead. All the best.

Moderator: Thank you. We have our next question from the line of Pranav an Individual Investor. Please go ahead.

Pranav: My couple of very restricted questions. One is on your -- as I understand, year-on-year, the subsidiaries are becoming a challenge, whether it is France, Canada or whatever it is. And this is, perhaps somebody said 5 years, but I have been seeing right from 2014 since we have acquired. Now when I'm looking at it, further INR20 crores, you are putting money into this subsidiary.

When I segregate this business of subsidiary and this, and if I look at it that in the last 8 or 10 years, the kind of time money we have been spending on the subsidiaries, then instead of that, if we start concentrating somewhere else, this company can grow to x level, which you cannot imagine because Centum has a very good presence abroad.

Also, Centum has a very good name in India. And I personally believe Space will be one sector which will get opened up this year. And defense, the way Prime Minister is working on this line, I'm sure in the next or next 5 years, it may happen that India will be an exporter status and people will be booking orders.

That is a possibility for next 5 years if people go and read the lines or the way the strategies are being planned. I may go wrong, but if I go correct, that may be the thing. So are we wasting time on doing and improving these subsidiaries or are we have a better plan for something else, because a lot of resources, time and constraints are going into this kind of subsidiaries. So this is my first question.

And second thing, what I would like to know is, what is the kind of things we are planning in Space because this is one sector or region where things are going to explode. And I think so India will become a very significant player, and where Centum is looking at and what kind of opportunities we are going to have, which collaborations and whatever it is, since Centum has a very big presence and Centum has been performing very well in this sector? Yes, these two questions?

Nikhil Mallavarapu: Thank you, Pranav. I think I must, in a way, thank you for your constant reminder around the time that we've lost and -- the time and resources we've lost in the subsidiary. I think the message is well heard. And I can assure you that these discussions are being deliberated very, very seriously at our Board level also.

And as I mentioned, some of the decisions or discussions that we are having with regard to the Canadian operations as a first, but more generally, the subsidiary are being discussed and considered in light of the substantial growth opportunities that we and everybody believes exists for the standalone part of the business. So these discussions are being had, and we will be making some decisions on this going forward.

But having said that, I would say that it is not all lost. There are certain synergies that, as Desikan mentioned, which have come in, and we are looking at how to basically better leverage some of these things to be able to grow. So we will -- we are analyzing and assessing the feedback that you've given, and we will take some actions towards that in the coming quarters, basically.

Second, with regard to your question on Space -- or maybe Desikan, anything you'd like to add on the first one before we -- before I go to the Space?

K. S. Desikan: No, I think that's perfectly right. I think, Pranav, thank you very much for your valuable insights as you have been frequently giving. We are assessing the situation, and we'll come up with some action. That's the right answer, Nikhil. Thank you.

Pranav: Appreciate it, sir, that second question.

Nikhil Mallavarapu: So with regard to space, as I mentioned, we have a good position there. We've basically, over time, moved up the value chain from where we were -- many years ago where we were delivering very niche components to now delivering full satellite payloads. As I mentioned earlier on the call and also on the previous quarterly presentations, this year marked -- or basically 2024 marked the biggest order that we've received in the space sector so far, which was for a constellation of three satellites, payloads for that.

And it is clearly first-time realization in India and many first-time realizations for the country itself. So -- And these are for military applications. And what we understand -- because we are more and more interfacing with end users itself because of the criticality of the projects that we are executing. We do understand that once we are able to demonstrate this project that we will expect a few -- multiple other satellite constellations also, repeat constellations, so to speak, to come up in the coming couple of years. So that's with regard to the projects that we are currently doing.

In addition to that, there are some other areas within Space itself which we are working on. One of the other areas is around situational awareness, debris tracking and so on, where there are different ongoing efforts and projects on that front, where we're clearly, I would say, a frontrunner in the Space -- in the area for some of these projects as well. So we are doing some of that.

And then even on -- even at a subsystem level, we see some important opportunities coming back from ISRO. ISROehas been, I would say, relatively flat for the last few years. But with some new projects and programs coming in, we expect some new significant opportunities coming in from there also in the next couple of years.

And finally, we are also looking at some opportunities to build full satellites, right, in these areas. So these are, I would say, at a high level, some of the things that we're doing on the Space side. And it is clearly an area that we've built a good position in, and we want to make sure that we continue to be a frontrunner in the space in India.

K. S. Desikan: Just to add, you're absolutely right, Mr. Pranav, that the Space economy, going forward, will grow in a significant manner. All we can say at this point of time is we have equipped ourselves to serve all the layers of this space thing. So we have been building competencies and capabilities.

And thanks to our historical track record, all the players in this segment, right from the ISRO to the private players ranging from the start-ups to the big boys, everyone considers us as an important electronics partner. So I agree that this will be a very good growth. But only question is about the timelines on how soon it will happen, but it will definitely happen. The direction is very clear, and we are ready, and I think it should happen going forward.

Moderator: Thank you so much. We have a follow-up question from the line of Chirag from Ashika Institutional Equities. Please go ahead.

Chirag: So one forward-looking question. So whatever internally you decided on in terms of turnaround and progress apart from top line growth, should I consider that we are somewhere lagging 1 year?

Nikhil Mallavarapu: Yes. Sorry, Chirag, if I understand your question, your point is, are we lagging by 1 year considering the subsidiary performance? Is that it?

Chirag: Yes.

Nikhil Mallavarapu: Yes. I mean -- Yes. I mean -- I think I would -- rather than say that specifically like that, I mean I think on the -- coming back to it, on the standalone part of the business, we continue to be, I would say, more or less on track with what we've said. On the subsidiary, yes, I mean, we've clearly missed what we had hoped we -- to achieve this year. And in light of that, we have to take some strategic calls and decisions on the way forward basically for some of the split.

So I would not talk about it as 1 year behind or anything like that, but rather split the 2 into what we are trying to do fundamentally, because on the standalone part of the business, the growth profitability is coming from there. On the subsidiary, as I've clearly mentioned in the past, our objective is not to have some huge growth in the short-term, but really to fix our margins, so -- even if it means some degrowth in the short-term.

K. S. Desikan: Yes. Just to add on that, I don't know that 1-year lag probably is a perspective. But if you look at like what Nikhil said, the past 3 years of standalone, it has been a very strong growth, both in terms of revenue, as well as the profits. Subsidiary revenues have been stagnant or slightly lower, and it is a lot of multiple issues.

So if you keep them separate and see, I think in standalone, I don't think we have lost anything because we have been growing right from '22 if you look at the numbers. So yes -- but we need to focus a little more and do something in the subsidiary while the standalone will continue to grow.

Chirag: Thank you. All the very best.

Moderator: Thank you. We have our next question from the line of Rohit, an Individual Investor. Please go ahead.

Rohit: I just wanted to know what is the drag of the Canadian business on our company and the second thing is like earlier also we have sold the Centum maritime business, the energy business that the proceeds we had to put it into provision and this time also that is there. So is this -- what do you say, this is our last provision which we can expect or are there something which needs to be put aside also? That's my question?

Nikhil Mallavarapu: Yes. Go ahead, Desikan.

K. S. Desikan: So I think there are three questions that you have put. One is, what is the drag of the Canadian subsidiary? What you see between the consolidation and the standalone, almost all the loss comes from the Canadian subsidiary and the French one is almost like breakeven. So that's on the drag.

And I didn't understand about the Energy division that you talked about. That was a couple of years ago, not now. And the point that you referred currently, is that about the exceptional item that we showed in the current quarter?

Rohit: No, Ausar Energy

K. S. Desikan: As I said, this is -- just to explain, this is an associate company of the Centum T&S where we have about 30% shareholding. And it is -- our receivables were secured with a contract till September, but this company has now been referred to redressement judiciaire which is a process by which the French court tries to revive the company towards its sustenance and growth.

So as a matter of abundant caution and prudence, we have provided for the entire exposure. But as it evolves, perhaps in the next month or so, we should be able to get a better clarity. And how much of it we will recover depends on is there an investor who is taking forward and all of that. So that's about the current exceptional thing.

Rohit: I just wanted to know what are the chances of any recovery? Is there any -- is there something optimistic about it like we have a chance we get something back or something?

K. S. Desikan: Nikhil, do you want to add?

Nikhil Mallavarapu: Yes. So we -- the -- in terms of the possibility of recovery, this company that we've provided for this exceptional item has from what we understand currently, four interested parties who are bidding on the company to carry on the operations and so on. So there is a reasonable interest in the company. And there is in front of it a substantial contract that the company itself is expecting to receive.

They've already received a letter of intent and so on. So we are hopeful that we should be able to recover at least a partial amount of this. But as Desikan mentioned, to be prudent, we have provided for the entire amount in the current quarter.

Rohit: Okay, thanks. I know you guys are working very hard and thank you for it and all the best.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. And I now hand the conference over to Ms. Bhoomika Nair from DAM Capital. Please go ahead.

Bhoomika Nair: Yes. Thanks to all the participants for being on the call, and particularly the management for giving us an opportunity to host you and for answering all the queries. Thank you very much, sir and wish you all the very best.

K. S. Desikan: Thank you, everyone.

Nikhil Mallavarapu: Thank you, everyone and thank you, Bhoomika and the DAM team. And I just -- once again, just to summarize, I know this quarter was not a great one at a high level. But I think it's important to just re-emphasize once again that we are confident and we're seeing very good traction happening on the core part of our business, which is around the EMS and the defense and space products piece in our standalone entity.

And with regard to subsidiary, all the feedback and points that we have received with regard to the amount of time and resources that has gone into it has been well received, and we are discussing this at the Board level to make sure that we take the appropriate steps quickly so this doesn't continue for too much longer. Once again, thank you all for your interest, and we look forward to your continued support.

Bhoomika Nair: Thank you.

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