



“Syrma SGS Technology Limited
Q3 FY2023 Earnings Conference Call”

February 09, 2023



MANAGEMENT: **MR. SANDEEP TANDON – CHAIRMAN**
MR. J S GUJRAL – MANAGING DIRECTOR
MR. JAYESH DOSHI – DIRECTOR
MR. BIJAY AGRAWAL – CHIEF FINANCIAL OFFICER
MR. NIKHIL GUPTA – INVESTOR RELATIONS

MODERATOR: **MR. ANIRUDDHA JOSHI – ICICI SECURITIES**



*Syrma SGS Technology Limited
February 09, 2023*

Moderator: Ladies and gentlemen, good day and welcome to Q3 FY2023 Earnings Conference Call of Syрма SGS Technology Limited hosted by ICICI Securities. 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you and over to you Sir.

Aniruddha Joshi: Thanks Michelle. On behalf of ICICI Securities, we welcome you all to Q3 FY2023 results conference call of Syрма SGS Technology Limited. We have with us the senior management, but before I hand over to them just in one line, our view is positive on the company. The company has done extremely well in the second results and we congratulate them for the excellent set of numbers. Now I hand over the call to Mr. Nikhil Gupta, Investor Relations to take it forward. Thanks and over to you Mr.

Nikhil Gupta: Thank you Aniruddha. A very good morning to everyone. A very warm welcome to Syрма SGS Technology Limited Q3 FY2023 earnings call. We have with us today, Mr. Sandeep Tandon our Chairman, Mr. J S Gujral, our Managing Director, Mr. Jayesh Doshi, Director and Mr. Bijay Agrawal our Chief Financial Officer to discuss the performance of the company during the Q3 FY2023 followed by detailed Q&A.

During this call, certain statements that will be made are forward looking, which involves several risks, uncertainties, assumptions, and other factors that could cause actual results to differ materially from those in such forward looking statements. All forward looking statements made therein are based on the information presently available to the management and the company does not undertake to update any forward looking statements that may be made during this call. In this regard please do review the disclaimer statements in the earnings release and all other factors that can cause the difference. With this, I now hand over the call to Mr. Sandeep Tandon our Chairman for the opening remarks.

Sandeep Tandon: Thank you all for joining this call. Like expected, we have quite strong growth this quarter over the last quarter-on-quarter as well as in the preceding quarter. We continue to see demand from all our customers. Of course, there is some slowing on export, but that is more like a misbalance of numbers not coming through as we were expecting, and should be starting to trigger very quickly, because we are so well diversified across industries, we are able to keep our growth prospects the same despite certain turbulences in certain area that might hit. We are not used to doing quarter-on-quarter reviews so everything looks good, our year looks still continues to be strong. The team has done a fabulous job in bringing up our new facility in Manesar and Chennai for the design and development. We continue to double down on our design and development capabilities where we have added new talent

this last quarter coming from marquee companies. We are building out more ODM type development with our current and new customers. We have had very strong audits done by new marquee customers throughout our facilities, so we are expecting new business to roll in over the next six to nine months with those customers. Generally a good quarter. Hats off to the team. Supply chain issues have calmed down somewhat, but not fully there. Also of course we were predicting Chinese New Year that comes, planning materials before that would have made some changes on our inventory levels, but otherwise very strong performance on the team and very proud of what we have achieved year-on-year and quarter-on-quarter over the last three months. I will hand it back to Nikhil now. Thank you.

Nikhil Gupta:

Thank you. Now I hand over the call to Mr. Gujral, our Managing Director.

J S Gujral:

Good morning ladies and gentlemen. It is a pleasure to host you on the Q3 earnings call of the Syrma SGS Technology Limited. The Q3 has been an exciting and challenging one. Exciting because we continue to see robust growth in the domestic market and strong inbound enquires from domestic and multinational customers both for domestic and exports. Challenging because we faced short term headwinds because of the recessionary conditions in Europe, which impacted our exports but the long-term story remains intact. The quarter gone by we have seen a good performance on almost all parameters and this is a testimony of the robust and resilient business model which our team has been able to craft out over the last years. We have seen growth across almost all segments barring exports and a couple of industry verticals. The domestic business has done phenomenally well. As of December 31, 2022, we have an order book of Rs.2100 Crores, which would be executed during CY2023 spilling over to CY2024.

Now I will just summarise the key financial parameters before I hand over to Bijay to run you through the detailed financial numbers. Our total consolidated revenue for the quarter ended December 2022 stood at Rs.524 Crores which is a 73% year-on-year rise and EBITDA grew by 53% to Rs.60 Crores and PBT by 51% to Rs.45 Crores. On nine-month basis of total consolidated revenues grew on expected lines by 55% to Rs.1391 Crores, EBITDA by 42% to Rs.151 Crores and PBT 34% to Rs.111 Crores. The growth is primarily led by our continuous efforts on design lead manufacturing and has broadly been across sectors, but led by auto and consumer. The growth in a few sectors like healthcare and exports has been muted and slow because of the recessionary conditions and inflation in Europe, but we are very confident on the long term story and expect this to rebound in the coming quarter or two quarters. Our margins, consolidated PAT is Rs.34 Crores which is a 70% growth year-on-year. I now hand over you to Bijay Agrawal to run through the detailed financial numbers of the quarter and the nine month ended December 2022.

Bijay Agrawal:

Thank you and good morning everyone. I will just quickly take you through the brief financials. As explained by our MD. On a consolidated basis our revenue grew by 73% year-on-year for this quarter to Rs.524 Crores. EBITDA for this quarter stood at Rs.60 Crores a growth of 53% year-on-year.

despite ongoing global issues. Also we are able to control some of our costs which is reflecting in EBITDA.

Coming to PBT, our PBT for this quarter is Rs.45 Crores with a 51% growth and PAT for this quarter is Rs.34 Crores with a growth of 70%. This quarter our gross material cost increased by 300 basis points to 73% quarter on quarter as a factor of softening into our export healthcare business and also coupled with our significant growth in the consumer segment specifically.

Coming to treasury position as on December end, we are continuing with the total treasury balance of around Rs.886 Crores as on December end, which includes some bit of short-term investments and mainly the surplus funds from IPO invested into FDs.

Moving to debt and capex update. Debt for this quarter is approximately Rs.326 Crores which includes Rs.236 Crores of working capital loan and around Rs.90 Crores of term loan. On that basis the net cash position as on December end is Rs.560 Crores.

Coming to capex, we had deployed around Rs.35 odd Crores of capex during this quarter and expecting to incur another Rs.40 Crores to Rs.60 Crores in Q4 of this financial year.

Coming to our overall working capital position. Inventory days has increased to 121 days from 108 days last quarter and mainly on account higher inventory built up, as we were expecting a Chinese New Year in the initial first two weeks of January and on a conservative basis there was a higher inventories that were carried on as on December end mainly. On receivables, side there is a saving of almost 12 days on quarter-on-quarter basis, so my receivables have stood at 62 days as on December end. The same way trade payables are at around 99 days as on December end and in totality my networking capital days are 83 days, a three days increase over the last quarter. So broadly that is the financial summary. I now hand this over to Nikhil.

Nikhil Gupta: Thank you. Operator back to you for the Q&A.

Moderator: Thank you very much Sir. We will now begin the question and answer session. The first question is from the line of Bhoomika Nair from DAM Capital. Please go ahead.

Bhoomika Nair: Good morning Sir and congratulations on a good revenue number this quarter. I see that the consumer segment has done quite well. We have seen very strong growth trajectory both on Y-o-Y basis and Q-o-Q so if you can talk about how sustainable is this number? What is the kind of clientele that you have added clients or is it a wallet share gain, etc., and also if you can talk about, you did mention in your opening remarks that exports has seen a bit of softness so what is exports as a percentage of revenues? Are we seeing an improvement in the enquiry levels, etc., and then I will then take on more questions if there is time?

- J S Gujral:** Okay now answering your last question first, the exports of the nine months ended December stood at about 34%, which are lower than the corresponding figure of last year and for the quarter they stood at about 26%. So there was a significant headwind on the export front, but we are very confident that based on the inputs received from the customers and the inbound enquires, the long term export model remains intact and robust and we expect a rebound to happen in Q1 of FY24 in the export front also. So as far as your question on the consumer growth business is concerned, this is primarily lead by our entry into the fiber to home devices and the telecom PLI scheme and the visibility which we have received makes us confident that this will lead to a sustainable growth in this segment in the coming quarters. It is not a one off growth, but a sustainable growth and we have also added more technology partners in this segment, which will further broaden the base and derisk the segment from the risk of a particular technology partner going down or a customer going down so we are broadening the base on this front.
- Bhoomika Nair:** Okay and thereby the margins have kind of reduced because of this new client?
- J S Gujral:** Yes, as an industry has lower margins but it has the fast spin-off of a higher turnaround which results in a velocity of capital and sort of the working capital days comes down so it a trade off, but as an industry, consumer is more price sensitive than industrial, exports and healthcare.
- Bhoomika Nair:** Sure Sir if I may just squeeze in one question, obviously we have a decent order book? We are seeing good trajectory going ahead, but any new areas that we are entering new clients that we have bagged in the last quarter or so if you can just talk about that, that would be really helpful?
- J S Gujral:** The new area which we discussed last year also the growth would be led by the automotive, industrial and consumer. In the automotive, the higher traction of growth will be in the EV segment. As we speak we are very strong into the EV mobility that is the electronics which go into the vehicles. The new segment that is opening up is the charging infrastructure and energy storage infrastructure. Early days, but we are having good inquiries. We are talking to technology providers who can provide solutions for that so that is one area which we expect that going down to Q3 of this year 2023, the energy charging the EV charging infrastructure should see a traction which currently is at a very sort of a slow momentum. The mobility is very high, which is the electronics which go into the scooters. We have been approved by three to four marquee customers, international customers and we have come on to their global vendor list. These are into automotive, refrigeration and industrial.
- Bhoomika Nair:** Got it Sir. I will come back in the question queue. Wishing you all the best.
- Moderator:** Thank you. The next question is from the line of Nikunj Gala from Sundaram AMC. Please go ahead.
- Nikunj Gala:** Good morning everyone. Sir my first question is with respect to your material margin which you have mentioned in the slide 11 of your presentation where consumer material margin has declined from

45% to 19% so I understand quarter-on-quarter will not be a right thing but what will this number from nine month to nine month and any color you can give us like why is there such a sharp deterioration in there?

J S Gujral: You see the numbers on nine months, I will ask Bijay and Nikhil to share with you separately. I do not have it right away with me, but the sort of the contraction in the margin is that the consumer earlier was predominantly ODM, so this ODM component always has a higher margin and with a plain play print to build consumer kicking it and that to a five value, the percentage the ODM to the total bucket of consumer has gone down and hence the contraction in the margin.

Nikunj Gala: Okay so what was the percentage of ODM earlier and now?

J S Gujral: Bijay if you can.

Bijay Agrawal: Yes for Q3 FY23 ODM percentage is 11% and it was previously 26% a year ago This is mainly on account of change in this export business which was an ODM business. So the moment that comes back again, it will be normal.

Nikunj Gala: Okay sure and what kind of a capex we have done in nine months and what is the gross book as of nine month FY2023?

J S Gujral: Bijay will answer that.

Bijay Agrawal: So we have done approximately Rs.35 Crores of capex during this last quarter and this is split into multiple different facilities our North facility and South based facilities also.

Nikunj Gala: The question was like till nine months what is total we have done and like what is the gross block as the end of December 2022?

Bijay Agrawal: Against those projects we have spent almost Rs.180 Crores as of now and in the upcoming quarter we are expecting to incur another Rs.40 Crores to Rs.60 Crores.

Nikunj Gala: Okay and what is a gross block now?

Bijay Agrawal: Gross block currently is approximately Rs.400 Crores.

Nikunj Gala: Okay Rs.400 Crores okay and any guidance for FY2024 capex if you can?

Bijay Agrawal: For FY2024 we are estimating we should incur somewhere between Rs.200 Crores to Rs.250 Crores of capex.

- Nikunj Gala:** And currently like a nine-month basis what was our utilization levels?
- Bijay Agrawal:** So we have started two facilities. One is in Gurgaon and another one is in Chennai so the first facility which was initially started that is doing at a very decent utilization of around 50% plus and the second one has just recently commissioned, the utilizations levels have to be seen on a run rate basis going forward.
- Nikunj Gala:** Okay so this Rs.600 Crores is still at gross block which you mentioned like still a large chunk is still underutilized right?
- J S Gujral:** Yes, there is lot of room for utilizing the capex cycle which we have done and it typically takes three to six months for the asset to come to its optimum utilization so you are right when you say that the capital investment done so far is yet to reach its optimum utilization stage.
- Nikunj Gala:** When we say optimum it is like 80% to 90%?
- J S Gujral:** 80% to 85% is typically we say 80% to 85% is the optimum utilization.
- Nikunj Gala:** Okay and then in that case sir like 200 to 250 we will be spending in 2024 then like it that capex any customer backed or is this the anticipation with which we are working with that capex guidance?
- J S Gujral:** Typically the capex which we do is split into two, one is the fundamental basic infrastructure which is a land building and putting up a facility and the second is stuffing that infrastructure with the production equipment. The first one is done once we find that the existing space or the existing facility cannot accommodate more lines. The second expenditure is invariably incurred once the current asset reaches 80% to 85% of utilization and then we stuff in more lines which are dedicated to expected business inquiries from the customers. It is not done without any visibility of business.
- Nikunj Gala:** Sure Sir and just last question like since we have so many verticals, import and export. the nature of contract with the customers varies very differently and hence the asset turns on the incremental capex which you put becomes very difficult to guess so as a thumb rule what is the threshold ROC with which you initially put the capex?
- J S Gujral:** See we strive to get a ROCE of 25% overall ROCE, but to say that I will do this business at start it should give me this ROCE is very difficult to predict so on a long term we plan and we budget and we endeavor to get 25% ROCE from the overall business.
- Nikunj Gala:** Sure Sir and like in that if you can help me like just breaking down that number in terms of turns and the working capital requirement that would be helpful Sir?

- Bijay Agrawal:** So that varies significantly from project to project and new business which we have recently added that is giving us a better asset turns versus my overall average asset turns. Currently for this quarter asset turn is about 5.6 times, but yes what do we expect going forward the new business which we will be adding that should give us an asset turn somewhere between six to eight times.
- Nikunj Gala:** Okay sure thank you. Thanks a lot for your comment. Thanks for your time.
- Moderator:** Thank you. The next question is from the line of Praveen Sahay from Prabhudas Lilladher. Please go ahead.
- Praveen Sahay:** Thank you for taking my question. The first question is related to your order book so can you give some detail on the industry wise or domestic and export mix in your Rs.2100 Crores of order book?
- J S Gujral:** See out of the Rs.2100 Crores order book what we have is the one which is executable within 12 months is about Rs.1800 Crores and the spillover is about Rs.300 Crores.
- Bijay Agrawal:** If we talk about export also here, export order book currently stood at around somewhere between 35% to 40% and the balance is domestic order book that way. Industry wise also maybe about 35%-40% is like a consumer sector order book and maybe about 20% plus is what the current order book is there from the auto sector and then again around 18% to 20% is like current order book is there from industrial and about 7% to 8% from Healthcare sector.
- Praveen Sahay:** Okay great. The second question is related to what you had mentioned about the design led manufacturing driven the growth so can you explain that?
- J S Gujral:** In DMS there is one built to print which is the vanilla EMS. The second one is where design component is involved and we have always been a design led manufacturing company and going forward we would be strengthening this design team to a bigger extent so that we can take benefit of the emerging technologies and the emerging business opportunities so at talent level and senior level we are strengthening the team. It will be a quarter or so when the full team is in place and the results should kick in thereafter so it is a deeper involvement and engagement with the customers and with the semiconductor industry to design products, meeting the futuristic demand of the customers across vertical.
- Praveen Sahay:** Okay that is a helpful so what is our target for the ODM contribution in the coming years?
- J S Gujral:** We would strive that the ODM contribution should be a healthy mix of 25% to 30%, 25% plus on the increased top lines. With domestic and the automotive demand and other demands going up 25% of the increased turnover the resultant turnover we are striving and endeavoring and budgeting to have it from the ODM business.

- Praveen Sahay:** Especially in the consumer segment you have largely the ODMs?
- J S Gujral:** No. We have ODM, but ODM in consumer as a percentage of the total consumer sale would be less. The bulk of it is built to print that means the design and product is of the technology provider.
- Praveen Sahay:** Okay thank you Sir. Thank you for taking my questions.
- Moderator:** Thank you. The next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.
- Dhaval Shah:** Great set of numbers and good visibility on the margins. Sir, a couple of questions. First thing the cash balance on the book of Rs.800 odd Crores? Next we will be using around Rs.200 Crores to Rs.250 Crores from cash flow that will be generating, how are we going to utilize this money if you can give some understanding of that? The second question is given we also have a plan which is under PLI scheme? How will this PLI benefits come to us, from which quarter or which year will it start coming in the P&L and last question will be what is the ROCE for the nine months and Q3?
- J S Gujral:** On the cash and ROCE I think Bijay will come back to you immediately. I will take your question till then on the PLI. On the Telecom PLI, we are already sort of achieved the threshold capex and turnover limits so we are eligible for the PLI and as per the guidelines, we have to file the application after the close of the year so the PLI application will be filed after March 31, 2023. Now when we get that PLI we get it Q1 of 2023-2024, Q2 of 2023-2024 it is dependent on the government, but going by the past sense, I think in the first half year or maybe at worst by Q3 of 2023-2024 the PLI which accrues to us for the year ended March 2023 should be with us.
- Dhaval Shah:** Okay and broadly what is the amount?
- J S Gujral:** Let us see. There are still two months remaining, but I think it should be, we are eligible for 5% or 6% on the PLI in telecom and I think we should be crossing the double digit in the PLI.
- Bijay Agrawal:** Now coming to capex thing against total raise of around Rs.800 Crores, what we estimating we should be able to use around Rs.300 Crores in next one year towards capex and some capex related funding can be used thereafter and about 100 to 150 is what we can use towards working capital and balance is what we have kept as general purpose which we can use as and when depending upon the business requirements so that is where we are. Coming to our ROCE, ROCE for this quarter if we deduct the overall surplus unutilized funds of IPO and also the goodwill on the balance sheet, my ROCE for this quarter is 22.4% and for nine month it will be approximately 21.7%.
- Dhaval Shah:** Okay thank you very much.
- Moderator:** Thank you. The next question is from the line of Chirag Lodaya from Value Quest. Please go ahead.

Chirag Lodaya: Thank you for the opportunity. Sir my first question was just wanted to understand is there any seasonality between the quarters for us?

J S Gujral: Because we are spread across the various verticals on overall top line numbers we would not be impacted, but within the industry there is a seasonality and there could be impact on the discretionary spend based on the recession or the inflationary conditions and we were facing in export but because of the broad base of the vertical which we service, the depression or decline in one vertical is offset by a growth in the other vertical for the top line, but the variation within vertical does have an impact on the earnings and the profits.

Chirag Lodaya: Right so what I am trying to understand is generally Q4 is much larger compared to other quarters in this kind of business so do we also have that kind of scheme or more or less are all quarters are equal?

J S Gujral: So, if we were to sort of split the nine months gone by, Q1 we had a run rate of about Rs.128 Crores to Rs.129 Crores per month. Q2 it went up to Rs.148 Crores and Rs.149 Crores. Q3 it is Rs.168 Crores or Rs.169 Crores so we expect that it should be around that our sort of sustain that thing but since we are not dependent on too much of government orders, the skewing towards the Q4 is invariably when you are dependent too much on the government orders and the grants are lapsing. So you tend to ship out bill out in the last quarter. Since we are not significantly present directly in the government sector sale, we do not see this skewing happening because of the quarter. The growth would happen because of long term growth. So quarter-on-quarter I am growing. It will be based on that quarter-on-quarter, I will keep growing.

Chirag Lodaya: Right and Sir coming to next year looking at the current order book we feel that overall growth rates might not be that encouraging so just wanted to get sense what kind of growth we are expecting next year?

J S Gujral: See we expect to grow in line with the industry and industry is expected to grow at a very strong level so to say that the orders do not justify the growth, I think we have Rs.2100 Crores of orders and the financial year is yet to begin. It is still almost like 50 days away so we are very confident that the growth momentum and trajectory will be maintained in the coming years.

Chirag Lodaya: Right and on profitability Sir, the current quarter our profitability was a bit muted? It is to do with mix change which we have seen in the overall numbers and so going ahead also our mix will more or less be the same like what we have seen in Q3 so is it fair to assume our margins would be in the range of 10% to 10.5% this kind of range?

J S Gujral: Let me put it this way that the Q3 gone by has seen headwinds in exports and healthcare. We expect a rebound of it to happen in the Q1 of FY2023-FY2024, so obviously when the rebound happens of which we are very confident, the margins would see an uptake. This is coupled with optimum

utilization of my investments and the operating benefits setting in. I think all these two to three factors will sort of add to the margins of the company.

Chirag Lodaya: Right Sir what would be our top 10 client concentration?

J S Gujral: Top 10 client concentration would about I think...

Bijay Agrawal: It is approximately currently 47%.

J S Gujral: 46% or 50%.

Chirag Lodaya: Right okay Sir, thank you and all the best.

Moderator: Thank you. The next question is from the line of Sandeep Abhange from Anand Rathi Shares & Stock Brokers. Please go ahead.

Sandeep Abhange: Sir I had a question related to the customer segments? In consumer segment apart from fiber to the home what other categories which are performing like we have also come about Firebolt so are the wearables category also seeing overall as we have seen quite a good shift from China to India the overall margins that we will be so that is I wanted some color on it in the consumer segment?

J S Gujral: So, the consumer business broadly is lead by the fiber to home telecom and the wearables as you rightly said and controllers for water purification. We also have ODM businesses like controllers for the energy saving devices, the brushless DC motors. We have got big traction and large order from a leading company in the country for our own design products in BLDC. Thus these three to four categories in the consumer segment would lead the growth.

Sandeep Abhange: Okay and like I wanted some color on the healthcare segment like as you said that it will come back in the next quarter so in healthcare overall what is the breakup like domestic and exports and are you facing any difficulties from China like as you are aware that China is yet to recover and they have started something medical devices products in India so what is the overall scenario in healthcare? Are you facing any difficulties? Like what are the exact difficulties? Can you give some details on that?

J S Gujral: See on the healthcare front it is a predominately export lead business, very little component in domestic and what we supply is a solution to the customer so it is not a commodity which we are supplying. At the end of the day, it results into a commodity, but backed by an engineering solution which is going to the customer. Now this is facing a bit of a sort of a slowdown because of inflation, recessionary condition, and reduction in the discretionary spend of the customers. Now this healthcare products what we supply is not lifesaving that it is mandatory for the consumer to spend. These were discretionary spends related and hence we have seen the sort of slowing down of the business in the

Western world because of recession. We really do not see too much of sort of competition, but it would always there, but we are being threatened by a competition from China or their dumping because it is not a sort of what you call sugar analyzer or that what you would say pulsometer and all those things. These are solutions which we have provided to the customer, my solution.

Sandeep Abhange: Okay thank you for the answers.

Moderator: Thank you. The next question is from the line of Varun Mohanraj from Skaniva Capital. Please go ahead.

Varun Mohanraj: Good morning. Thank you for the opportunity. So in the previous call we mentioned that we are looking at inorganic forward expansion into box build assemblies so can you throw some color on it like what is our existing business in this box built assembly section and also when we move forward with the inorganic or the organic way into box build assemblies, will our margins go higher probably like peers which are in the mid teens for the EBITDA? Thank you.

J S Gujral: See as far as the inorganic thing is concerned, it is work in progress currently and we have nothing concrete to share with the industry and the market. We are evaluating continuously and as and when something would materialize, we would come back to you. The current box build as a percentage of my total sales are hovering at about 14% to 15%. Once we go into a box build depending upon the industry segments which we go into, it does have a positive rub off on the margins, but much would depend upon the industry verticals where we go in because for example if it is appliances, it is not significant. There this is a very sort of resultant margin. We are not planning to go into them but the margin profile would depend upon the industry vertical where the box build is supplied.

Varun Mohanraj: Okay so can our existing ODM as well as the PCB business integrated into the box build or will it be a separate kind of business?

J S Gujral: See it is the same facility, fungibility line and typically what happens is we could get a box build right from day one and these we start off with the PCBA and then gradually migrate up the value chain to end up supplying a box build product and that has been what we have been doing for the last n number of years that when we enter a customer, it could be PCBA, but if that PCBA was to go into a final box build and not part form of a big machine or equipment then we sort of go up the value chain to supply the box build product.

Varun Mohanraj: Okay thank you. That is it from my side.

Jayesh Doshi: In the inorganic as you had asked, yes we are looking at inorganic things as Mr. Gujral said and it is a little early, but whatever inorganic we will do it will definitely increase the margins. That is how we are targeting in inorganic and in terms of the order book on the earlier questions, if you see earlier the

order book was about Rs.1700 Crores which is now Rs.2100 Crores so not only the actual order to conversion is happening at a faster space also the order book keeps on increasing so you cannot look at in isolation the order books that Rs.2100 Crores will not get us into the kind of growth which we are looking at. Thank you.

Moderator: Thank you Sir. The next question is from the line of Nishant Sharma from Nuvama Wealth Management. Please go ahead.

Nishant Sharma: Thank you for the opportunity and congratulations for a good set of numbers Sir. Two questions from my side. One question is related to margin on the ODM and OEM business? If you can throw some light like what would be the differential margin between ODM and OEM that would be great and the second question would be around the status of the PLI, so if I am not wrong we have two PLI one is in the telecom segment where we have scaled it up very well and other is on the white good space if you can throw some status and some guidelines on what would be the threshold in terms of capex and in terms of revenue and incentive percentage that would be helpful? Thank you.

J S Gujral: On the PLI part, I will take the second question first. As I already confirmed that we have crossed the threshold limit for capex and turnover in the telecom PLI and we are well on our budgeted figure numbers, which we had planned at the start of the year and what we have achieved as per the government. On the air conditioning that is white goods PLI, unfortunately we have not started off the capex cycle. The capex cycle is 5 years per year Rs.50 Crores over a period of five years and resultant turnover of I think five times capex is the turnover which we have to do. We are supplying air conditioning control boards to some companies, but the quantities are not large. Our own design boards have been supplied to a couple of customers and they are still under validation. The investment cycle for this PLI would kick in only when the ODM board gets approved that as of date however if we were to get a quantum jump in the air conditioning business on build to print, which means the design of a customer or a technology provider then the capex cycle would be set in but as of date it is on sort of slow trajectory. Now on the first question which you said you said the delta between ODM and EMS well it is superior in ODM and what superior number it is would again depend upon the vertical which we supply to.

Nishant Sharma: Understood Sir so basically I was looking at that because the consumer segment which is a low margin would be scaling up much faster and would have a share of like 50% the consumer segment so will there be any scope of like 100 to 150 basis point kind of a jump in the EBITDA margin going forward is that a possibility so I was just looking at from that perspective and on the PLI side just to reconfirm for air conditioning it is Rs.50 Crores over the period of 10 years?

J S Gujral: No Rs.50 Crores over a period of five years. Capex Rs.10 Crores per year and telecom it is Rs.20 Crores per year approximately. The threshold limit is 20 you could spend more. In telecom the threshold limit is Rs.10 Crores.

- Nishant Sharma:** Okay so for this year we have spent Rs.20 Crores on the telecom side and we are on that same trajectory going forward also?
- J S Gujral:** Yes. The 50% of our turnover that I think that is not correct. We do not see consumer forming a 50% of our turnover.
- Nishant Sharma:** Sir current order book 40% is consumer right the Rs.2100 Crores break up which you have mentioned?
- Bijay Agrawal:** Approximately 35% to 40% is their order book so it will be that in that range only total consumer business 35% to 40%.
- Nishant Sharma:** Okay understood. I will fall back in queue Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Dhananjai Bagrodia from ASK Asset & Wealth Management. Please go ahead.
- Dhananjai Bagrodia:** Sir Congratulations on a good set of numbers, this is a question in relation to your previous answer. When you mention this healthcare for example as a solution based so just to understand a little more about this does it mean that there is some part of this business which is revenue accretive regardless of any orders? Is it sticky or does it move in tandem with orders how does this part work when it is a solution based to a client?
- J S Gujral:** The healthcare business which we are into is essentially a solutions-based product which we have supplied to a customer and that customer is seeing a slowdown in demand because it goes only into the Western world. It is not for the developing countries or this part of the world so because of the inflation uncertainty, because of the Ukraine war, the energy crisis in the West and inflation which this generation of West whether America or Western Europe has never seen in their life inflation rate of 7% to 10% so their discretionary spend has taken a big hit and big knock and hence the slowdown in the products which we supply to our customers. They are not lifesaving as I said earlier. They are more lifestyle and healthcare products which go into the thing hence this is facing a headwind and as I shared earlier, I think by Q1 of next year we expect a rebound to start kicking in and expect to attain previous levels going forward.
- Dhananjai Bagrodia:** Sure I understand that. I meant like how does it work in terms of solution based? Does it move in tandem with the order placed or is it some part of it which is sticky and you get a revenue for that regardless of how much?
- J S Gujral:** We have developed the solution. If it has a life of 10 years or five years so it depends on the product lifecycle so once we have provided a solution the orders will keep kicking in till a new product is

developed and once we are with the customer and if we have serviced the customer well and we have done that over the last four, five and six years so it is much natural that any new development of a product which comes in from the customer we would have a head start and we would be the preferred choice for the customer because we have serviced that customer very well over the last four, five, six, seven, and 10 years so that would be adding to the portfolio of the product or a replacement of the existing product.

Dhananjai Bagrodia: Okay and Sir I know this might be a tougher, but is there any part of a business which we could like let us say consider and let us say there is a global slowdown in all your segments? Either some part of your business which you could say is like sticky which will see a minimum revenue regardless of how much slowdown let us say happens? Right now we are seeing auto industrial doing really well and consumer but some durable companies are saying that they are starting to see slowdown would there be any part of our businesses which we could see as sticky?

J S Gujral: The stickiness of the customers is evident that we have customers who have been with us for 30 years, 20 years, and 15 years and we are growing with the customers. The wallet share is growing with the customers. Now in the very unlikely situation of a global recession like 1930s, well then it is a macro level thing which will affect everyone, and it depends how much less we can be affected by it, but to say that we will not be affected by a global recession unlikely though. If it was to set in, I think would not be correct but based on our broad profile of products and regions and geographies we believe that we are well placed to face any such headwinds. The fact that despite exports in Europe and America are slowing down we have still been able to grow at 50% odd for the nine months and 73% for quarter on is a testimony of the robust business model which we have in place.

Dhananjai Bagrodia: Sure and Sir last question can I squeeze in PCBA so what could help us leap frog in terms of making PCBA a much larger portion of our revenue and how are we going about that?

J S Gujral: PCBA still account for about I think 70% odd of our revenue.

Dhananjai Bagrodia: Okay so in terms of let us say us versus a consumer business a PCBA for consumer different types of industries? In consumer obviously PCBA would be a lower margin, but for that too is there any way that we could see that in terms of margin increase if we do anything more value add or does that a fix across the board?

J S Gujral: We have all industrial. We have a business model set in and fixed. We will be concentrating on different industry vertical and will not be skewed towards a particular vertical whether it is automotive or whether it is a consumer would like to have a healthy mix of all the verticals. Now if consumer if you are referring to say mobile phones, well that is a separate thing and as on date I am not saying that it is a no go forever, we are just not evaluating going into that segment because there are good players in that line and we do not see that we will be able to give any value add. Our unique

selling unique proportion which we offer to the customers will give a value add. If I am also just one of the manufacturers of a particular thing, then well that is not our DNA.

Dhananjai Bagrodia: Okay sure thank you.

Moderator: Thank you. The next question is from the line of Smitesh Sheth from Raedan Securities. Please go ahead.

Smitesh Sheth: Sir just now in the opening remark you have mentioned audits conducted by some of the marquee customers so which segment they are into and how much time does it take from audit to an order finalization or replacement stage?

J S Gujral: Okay now the segments where we have been audited by our IT, telecom, automotive and industrial. Industrial is again a broad spectrum. It could be renewable and Power. It could be refrigeration. It could be anything. Now so it is across the industry verticals typically. Typically from the time when an audit is conducted and should the business materialize, it is a cycle of 12 to 18 months for volume production to kick in so whatever audits have been done in Q3 of FY2022-FY2023 that is up to December, the business of this would come only towards the end of 2023 or FY2024-FY2025, so whatever audits were done in 2022, the business has started kicking in now so this is an ongoing process. When the new customers come in, it takes 12 to 18 months for volume production to start.

Smitesh Sheth: Okay Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Suraj Nawandhar from Sampada Investments. Please go ahead.

Suraj Nawandhar: Good morning Sir. Sir I joined the call a bit late so the question might be repetitive but I see the exports revenue has fallen to 26% of our revenue from operations so do we expect it to stay at lower levels or do we expect to bounce back?

J S Gujral: Exports revenue has fallen to 26%. That is what I shared in the opening remarks and we are very confident that it will rebound and kickback in Q1 of 2023-2024 and then gain traction and momentum thereafter and we expect that next year we should be back to whatever percentage is which is about 30% to 32% earlier if everything goes as it is and if there are no surprises across the world then the exports should rebound and will rebound.

Suraj Nawandhar: Sir currently if we look at the rest of the world situation, it looks that they are going into a recession and a slowdown and India is all of that looks a very bright spot so why are we not focusing more on India? Do we get better margin from exports?

J S Gujral: Since India is on the growth and that is what we said in the beginning, the growth in the current quarter is dominated from the domestic demand so it is not that we are looking at the export versus India. It is exports plus India and we are geared up to cater to both the market so it is not that we are sacrificing growth in India. We are bullish and we are very aggressive on achieving greater market share for the verticals and industry products that are in India and would continue to be one of our prime focus areas. India is one of our prime what you call focus areas but it is not domestic verses exports. It is domestic plus exports.

Suraj Nawandhar: Right and Sir let us say in case the global which does not rebound as we have expected so we should be able to fulfill that void with Indian business right?

J S Gujral: Yes. Again, despite exports coming down, we have still achieved what we had set out at the beginning of the year and based on the inquiries and the imports and the dialogue with the international customer it is only a question of time. May be one quarter or two quarters before the export traction gains momentum and comes back to its original form.

Suraj Nawandhar: Sir do we get any better margins in exports or is that the same level as the domestic business?

J S Gujral: See exports have two advantages. One is, it provides us a natural currency hedge because electronics we have all 60% of the cost of materials is imported and second yes exports does have a better margin profile.

Suraj Nawandhar: Okay and how are the semiconductor issues right now? Do we have a very smooth supply?

J S Gujral: The passive components have eased out, but microcontrollers continue to be a challenge area because passive components at least has wider manufacturing base where as microcontrollers and the active components have a smaller manufacturing base. There would be a handful or two handfuls of companies making all those things and bulk of the semiconductors in being done by Taiwan Semiconductors and Samsung. They control about 85% to 87% of the market share of semiconductors so easing in the passive components but the challenges remain in the micro controller and active components.

Suraj Nawandhar: Sir till when do you expect this to normalize or is it difficult to say?

J S Gujral: It is difficult to say. It is very difficult to say but with the way the passive components have eased, we believed last year that it would be the easy by may be by middle of this year. May be in another two quarters from here it should ease out. It should ease out but, that necessitates long term planning. The growth has come despite the shortages.

Suraj Nawandhar: Right how is the freight costs behaving now?

J S Gujral: It has slightly softened. The container availability has also eased out a bit and the freight costs have also eased out a bit. They were not what they were middle of last year or Q3 of last year.

Suraj Nawandhar: All right thank you Sir. Thank you for your time and all the best.

Moderator: Thank you. The next question is from the line of Saurabh Mehta from East Lane Capital. Please go ahead.

Saurabh Mehta: Thanks for this opportunity. Sir I would like to just understand the box build business better like what is the our current revenue mix from the box build and we see reach it in the coming years and I also want to understand our manufacturing capability in terms of box build like are we vertically integrated or do we plan to be given it is not our key strength so we want to depend on outsourcing for this and does it like in terms of box build versus a plain PCB is there a big essential in terms of margins because what I see is our key competitors they have a mix of over 30% box build and they make margins of 14% to 15% and so this would like to get you off perspective on this?

J S Gujral: Now box build as a percentage of our total sales is about 14% to 15%. On the capabilities, we have full capabilities for the box build. When I say full capabilities, this may not be in-house but we have got long term contracts and dedicated vendors for sheet metal and plastics which go in for a box build. Putting up a plastic molding line with the tool room is not a big deal but the volumes have to justify the investment over there and the management bandwidth with which it will take but we have got dedicated vendors with whom we have been working for the last two decades and we have had no issues because of lack of in-house facility the business is suffering. Should that be the situation we would evaluate and go in for the backward integration but currently since we are not facing any challenges because of that we would continue to work out on this model. Now box build versus PCBA the volume value goes up and slightly the margins in absolute terms also go up.

Saurabh Mehta: Yes, so basically you are saying box build would definitely there will be better margins right?

J S Gujral: Yes it has a superior margin then vanilla PCBA. It has a superior margin than a vanilla PCBA because once we make a box build then it does not go into the factory of the customer it goes directly to the warehouse of the customer and to the ultimate consumer so obviously what the customer is doing at it and we are doing at our end and if there is a differential cost strategy, it does result into a superior margin.

Saurabh Mehta: Sir in terms of box build what we do currently like 15% to 16% what are the kind of products are we doing? Are we doing more high end products or are we doing more consumer products?

J S Gujral: We are primarily doing inductive products. It would be the power supplies which are going in for data centres or what you see at the airports and all those things, the door openers. We do point of sale

printers which is again an industrial or a consumer application. It is not the normal printer which we install in the house so they are a bit more sophisticated fiscal printers which are having a lot of software in it based on the structure of the country where they are exported so these are the two sets which we currently do. One is the power supplies and one has some controllers we do which are box built and the point of sale printers are box built.

Saurabh Mehta: Probably repeating my earlier question but is there any reason why there should be such a big differential in terms of margins between us and competition given we are almost serving similar kind of customers and similar work? Probably their box build is probably slightly higher but is there any reason for such like a big gap in terms of the margin profile?

J S Gujral: I can speak for myself honestly. We are in the business, and we are in the marketplace and we know what prices are available so we stand by the numbers which we have shared. I really cannot comment. I am not competent to comment on the numbers of anyone else.

Saurabh Mehta: Right Sir but given in the call previously you mentioned about increasing your capacity utilization and efficiencies? We can also reach double digits like at least 12% to 13% kind of margins and say in the coming year's right?

J S Gujral: What we have been maintaining all through is that we will be at double digit lower double digit margins on a sustained long term basis. Short term because of the capex cycle which has been set in because of front loading of the expenses to make the organization future ready. There could be certain sort of a depression in the margin but we continue to believe that on a long term sustained basis we should be at lower double digit margin.

Saurabh Mehta: Got it. Sir last question from my side is on the clean energy space? Like are under discussion already doing something on the hydrogen space, solar space for some US clients? Like are we already under discussion or already doing something for them doing some technical like more complicated box build products?

J S Gujral: We are already supplying controllers to renewable energy companies. They are all export oriented and as I shared in the my opening remarks that electric charging infrastructure and energy storage these are two upcoming cycles sort of verticals which will we believe will see a lot of traction going forward maybe not a year from now may be two to three years from now. Energy storage would be one of the biggest growth drivers in this sector and we are currently evaluating and are in discussion early days. We will share when we get some breakthrough. On energy part energy conservation and energy efficiency would be another thing because of the green goals which the Government of India has set in and we are well placed in that with our own design on controllers for brushless DC motors for the fans and migrating it to other applications.

- Saurabh Mehta:** Got it. Thanks a lot Sir. This is very useful.
- Moderator:** Thank you. The next question is from the line of Chirag Lodaya from Value Quest. Please go ahead.
- Chirag Lodaya:** Sir just one clarification you mentioned our order book is at around Rs.2100 Crores and 35% of the order book would be export and around 65% would be domestic is that fair understanding?
- J S Gujral:** Yes.
- Chirag Lodaya:** So Sir on this basis if we see domestic revenue which we would have achieved we are almost on that run rate so how to look at the overall numbers? Basically I am just trying to understand what kind of growth we might achieve in domestic because domestic this year has been exceptionally well and current run rate is also pretty high?
- J S Gujral:** We are very bullish on the growth of domestic business fueled by sectors across verticals led by automotive and consumer and other. Long term our objective and our target is to be in the 30% plus range for exports going forward on a long term sustained basis. Quarter-on-quarter there could be dip because you see we do not play business quarter-on-quarter. We are more focused on building an organization which is sustainable, scalable and profitable over the long run so these are the three parameters which we work on a sustained growth and scalable growth with profits. Short term hiccups would be there. It is a business environment so while we are cognizant of this fact we are not too much worried on the quarter-on-quarter basis as long as our focus on the long term building a model which can withstand the long term vagaries of business cycle that is our endeavor.
- Bijay Agrawal:** Also, just to add this order book which we are discussing that is something is to be fulfilled in the next few months, next quarter or majority part of it in a way so it is not like in the next full year estimated volumes something like that. The majority part of it has to be fulfilled in early next few months and quarters.
- Chirag Lodaya:** We mentioned that Rs.1800 Crores is the order book which will be executable over the next 12 months right so on that basis?
- Bijay Agrawal:** I think depending upon the total orders of this thing but again that is the outer deadline of few of the orders in that thing. A majority of those order books has to be fulfilled in the next two quarters also.
- J S Gujral:** Just to add on last quarter we had an order book of Rs.1700 Crores. Last quarter, we did about Rs.524 Crores so if Rs.1700 Crores minus Rs.500 Crores just for the sake of rounding off its Rs.1200 Crores and Rs.1200 Crores to Rs.2100 Crores so Rs.900 Crores is the fresh intake so that as Mr. Jayesh Doshi had stressed very correctly the finer thing that a higher run rate of execution my order book has

increased by almost like 25% Rs.1700 Crores to 21% is almost like 21% or 20% and 25% so we are very bullish on the entire thing.

Chirag Lodaya: Got it. Clear Sir and on some export are we adding any new client, etc., or this is existing client we will see rebound in growth?

J S Gujral: Both new clients and existing clients. In existing clients they could need sort of expanding the portfolio offerings for that.

Chirag Lodaya: And just lastly nine months FY2022 if you can give us export shares so this nine month is 34% versus what could be the last year?

J S Gujral: Last year it was about 46%.

Chirag Lodaya: Okay thank you Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would not like to hand the conference over to Mr. J S Gujral, Managing Director for closing comments. Over to you Sir.

J S Gujral: Thank you. Thank you ladies and gentlemen for participating in this Q3 earning call. I would just like to conclude that as management are focused on building I just said in my earlier comments short while back on building a sustainable, scalable, and profitable organization which can withstand the vagaries of business cycle. Quarter-on-quarter is critical but we are more focused on the long term and we are building our capacities and building our management teams that we have a professionally run ethical company which serves not only the business stakeholders but also the society so that all our skills are also focused on making the world a better place by energy conservation, green technologies and all those things so we are bullish on the long term sort of growth story not only of our company but also of the country. We believe we have now reached the threshold, the cusp where we can see accelerated growth in the quarters and years going forward. We would endeavor to be the preferred EMS partner for anyone who wants to look at EMS as a service in India. Thank you very much.

Moderator: Thank you Sir. On behalf of ICICI Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.