Ref: CEL/NSEBSE/19112024 19th November, 2024

To,

Listing Department, National Stock Exchange of India Limited, Exchange Plaza, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051	Department of Corporate Services – Listing, BSE Limited, P. J. Towers, Dalal Street, Mumbai – 400 001

Re: Scrip Symbol: CENTUM/ Scrip Code: 517544

Dear Sir/ Madam,

Sub: Transcript of the conference call with Analysts/ Investors

In continuation to our letter dated 14th November, 2024 and pursuant to Regulation 30 and 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Transcript of the conference call that was organized with the Analysts / Investors on Thursday, November 14th, 2024 at 04:00 P.M. IST has been uploaded on website of the Company at https://www.centumelectronics.com/financial-results/

Yours faithfully,

For **Centum Electronics Limited**

INDU H S Digitally signed by INDU H S Date: 2024.11.19 18:20:18 +05'30'

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Company Secretary & Compliance Officer
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"Centum Electronics Limited

Q2 FY '25 Earnings Conference Call"

November 14, 2024

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

MODERATOR: **MR. NIKHIL KANDOI – JM FINANCIAL INSTITUTIONAL SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Centum Electronics Q2 FY '25 Conference Call, hosted by JM Financial. I would like to mention a cautionary statement. Some of the statements made in today's conference call may be forward-looking in nature. Such forward-looking statements are subject to risk and uncertainties which could cause actual results to differ from those anticipated.

Such statements are based on management beliefs as well as assumptions made by and information currently available to the management. Audiences are cautioned not to place undue reliance on these forward-looking statements in making the investment decisions.

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 telephone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Nikhil Kandoi. Thank you, and over to you, sir.

Nikhil Kandoi: Thank you, Riddhi. Good afternoon, everyone. On behalf of JM Financial Institutional Securities, I welcome you all to Centum Electronics Limited Q2 FY '25 earnings conference call.

Today, we have with us senior management represented by Mr. Nikhil Mallavarapu, Executive Director; Mr. K S Desikan, Chief Financial Officer. Without taking much of the time, I will hand over the floor to the management for their opening remarks, post which you can open the floor for Q&A. Thank you, and over to you, Nikhil, sir. Thank you.

Management: Thank you and good afternoon everyone and welcome to our earnings con-call to discuss the performance of the second quarter and first half of the financial year 2025. Let me first mention a special thanks to our host today at JM Financial.

Now, let me start by briefing you on the key performance highlights for the quarter and the year under review, after which our CFO, Mr. Desikan, will take you through the financial highlights. In the second quarter, consolidated revenue for operations has increased by around 5% year-on-year. In Q2, like Q1, the revenue of a certain contract is being accounted for on a net basis. The gross value of such contract was amounting to INR15 crores in Q2 FY '25 and INR39 crores for the first half of FY '25.

Adjusting to the gross value, the revenue for Q2 FY '25 grew by 11% year-on-year and 10% for H1 FY '25. Performance in the second half for FY '25 is expected to improve significantly, driven by an increase in our built to spec deliveries to defense and space customers and an enhanced performance in the EMS and subsidiary as well. And this will boost our overall margins. However, this is projected to recover in the second half as BTS deliveries increase, supporting a stronger margin profile.

Next, on the order book front, it has increased to INR1,772 crores as of 30th September 2024, with new contract wins from domestic BTS customers for defense and space. The pipeline continues to remain strong for both BTS and EMS customers. And in other updates, Centum also received a Platinum Award from the Society of Energy Engineers and Managers, recognizing our outstanding efforts in the sustainability and energy conservation front.

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

Management: Thank you, Nikhil. And once again, a warm welcome to all of you. At a consolidated level for the second quarter, the revenue from operations were about INR260 crores, which increased year-on-year by 4.7%. The EBITDA for the quarter was INR20 crores, which increased by 18% year-on-year. And with EBITDA margins reported at 7.81, while we had a minor net loss of INR30 lakhs for the quarter. This has come down substantially from around INR5 crores loss in the corresponding period in the previous year and around INR4 crores loss in the previous quarter. For the first half, at a consolidated level, the revenue from operations were INR505 crores, representing a growth of 2% year-on-year.

The EBITDA for this period was INR36 crores, which declined actually 8% year-on-year, with EBITDA margins reported at 7.08%. And the net loss for the period was around INR4 crores. At a stand-alone level for the second quarter, the revenue from operations for the quarter was about INR167 crores, which grew by 4.2% year-on-year. The EBITDA for the quarter was about INR31 crores, which was down by 2.8% year-on-year, with EBITDA margins reported at 12.3%.

The net profit for the quarter was INR10 crores, which was flat year-on-year. For the first half, at a stand-alone level, the revenue from operations for the period was about INR300 crores, which grew by 4% year-on-year. The EBITDA for the period was about INR33 crores, which was down by 14% year-on-year, with EBITDA margins reported 11.11%. The net profit for the quarter was INR14 crores, which was down by around 16% year-on-year.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Congrats for good performance in your subsidiary. We have seen some margin improvement over there. Sir, my first question is you mentioned in your opening remark as well as in the presentation that your performance would improve significantly in the second half. Can you just quantify what kind of revenue growth you are looking at in the second half and what kind of margins you are looking at, at the operating level?

Management: Yes, sure. Thanks, Ankit, for the question. We have been saying that on a full year basis, we are targeting to have something in the range of 18% to 20% growth on a consolidated revenue basis. And this is accounting for the specific contract I talked about. We continue to maintain that target that we are driving towards.

Similarly, on an EBITDA level, we are targeting to have between 10% to 11% EBITDA for the full year. With that, you should have a rough idea for what the performance for the second half should look like, which is clearly driven by the higher quantum of deliveries going for the BTS customers and also the higher level of revenue coming from the EMS.

Ankit Babel: Sir, since there is a confusion regarding this order on a gross basis and net basis, just for my understanding, is it fair to assume that in the second half, your EBITDA would be somewhere around INR100 crores plus at a consolidated level?

Management: Yes. For the full year basis, we are targeting something in the range of about INR130 crores.

Ankit Babel: INR130 crores?

Management: Yes.

Ankit Babel: And this is excluding other income, right?

Management: Yes. Okay.

Ankit Babel: So full year would be around INR160 crores-INR165 crores is what you are targeting?

Management: No. Full year would be INR130 crores of EBITDA is what Nikhil said. So it will be in the range of between 10% to 11% EBITDA is what he said. And also, just to caution you that when we said 18% on the revenue growth, that is taking into account -- for that customer, it is a gross accounting basis. But if it is continuing for net accounting basis, maybe another 5% or so you may have to reduce. It will be about 14% to 15%.

Ankit Babel: Okay. And your employee cost has reduced Y-o-Y. I understand in the last quarter, we had taken some VRS schemes and all those things. So going forward, what kind of quarterly run rate we should assume here? I mean, this INR85 crores will continue or it will go up or down in sync with the revenue?

Management: It may not go up significantly. It may be in the range of INR88 to INR90 crores per quarter. Because in the subsidiary also, the utilization levels and the revenue will grow. So in absolute terms, it will be about INR90 crores, I would say, for the two quarters.

Ankit Babel: Okay. And how much of this employee cost that is fixed in nature and how much is variable?

Management: Nothing much is variable. Because these are all employees on roles.

Ankit Babel: Employees on?

Management: Employees on our roles. We do not have contract employees.

Ankit Babel: So going forward also, we should assume just a normal single digit growth in your employee cost in the next two years?

Management: Yeah, there will be the inflationary elements, definitely. But at the same time, for the revenue growth, we may have to add some people, but it's not very significant.

Ankit Babel: Okay. And so my last question is on the market. I mean, how is the industry performing? You did mention that your order pipeline is very strong and you see good visibility. But if you can throw some more light on the industry side, how are the orders panning out? Which segment of the industry is doing good aerospace defense or any other? Just a broad economic outlook from your side.

Management: Sure. So first of all, I think we mentioned earlier that the order booking for the domestic defense and space business would be good this year. I'm happy to say that I think we are progressing in those lines in the last quarter, we announced a substantial order for a space program again. And we continue to see a few more significant opportunities coming in for the rest of the year. These are broadly in the domain of line systems and military radars, basically. So this is on the defense side for the domestic part of the business.

In addition to this, even on the EMS side, our pipeline remains strong. One from the existing customers, again, for defense is quite strong. We've seen the order intake increase from our export customers as a result of the global geopolitical situation today. And apart from that, we've also seen some new customers that we've just added into our portfolio in the last quarter, which will grow substantially in the next one to two years.

These are broadly in the industrial equipment side, different types of applications in that. But again, very clearly illustrating China plus one, one customer following clearly China plus one, and another one which we are hopeful of closing in this quarter or in this year, which will be Make in India story, basically. So both of these opportunities are strong in driving the pipeline for us.

Ankit Babel: Sorry for just one small question on this fundraising, sir. What's the motive behind raising funds? Is it for any inorganic opportunities or this is for the organic growth for working capital or any other big capacity of planning?

Management: So, yeah, actually, as Nikhil was saying, we have seen stronger growth over the next couple of years. And, you know, we already have on our balance sheet a debt of about INR130 crores or so on standalone and another INR 60 crores or so in the subsidiary. So the question is to fund the growth, there is going to be an increase in the working capital. And also, we need to incur the capital expenditure, augmenting the line, the capacities and all of that stuff.

So predominantly, it will be for the increase in working capital, and also the capital expenditure that we need to incur to ensure that growth happens. Since we already have a debt on our balance sheet, we thought it would be better to look at the opportunity of raising it to equity and that is what we are looking at.

Ankit Babel: So you're expecting more than 20% growth in the coming years?

Management: So, yeah, I think the point on it is, even if you look today, for the current year and the past years, if you look at a standalone basis, our growth rate has been much more than 20%. We've growing at 25%-plus. And so that's what we are targeting for going forward as well. And some of these capex investments and so on, which Desikan was mentioning, is also for the future for us to be able to invest in creating first technologies and products for.

Again, for in segments like defense, as well as some facilities to be able to absorb these kinds of large opportunities and projects. So that's the objective behind us being prepared to be able to take on some of these growth opportunities.

Management: The question of 25% of 20%, when we said 20% for the next couple of years, that includes the subsidiary, where our focus is more on fixing the issue and making it profitable so that the top line may not grow like 20%. So that has to be compensated by a higher growth in the standalone company. That's what Nikhil was mentioning, even in the last couple of years, standalone is at a higher growth rate. So…

Moderator: The next question is from the line of Rohit Dagar, who is an Individual Investor.

Rohit Dagar: Hi, Nikhil. I just wanted to ask you regarding all these new platforms which are coming up in India. So how would that help the whole ecosystem and the raw material and all that help us or does not help us? I just want to know your view on that. Thanks.

Management: I'm sorry. I just heard a bit of noise on that. Could you just say that again?

Rohit Dagar: With the new platforms which are expected to come in India from different companies like Vedanta -- so many companies are now coming and putting up the top line. So basically, how would that impact us as in the cost of the raw material? I think we are invoking that. Would it help us over there or something? Or that's what I want to know about.

Management: I think in the short term, that will have -- we don't expect to see much impact from these actions in the short term because establishing these capacities and acquiring customers, all of that takes, is a long gestation kind of project. So with that, we're not really seeing any short-term impact. The obvious hope for the longer term is that we have a much more well-established part of an ecosystem here in India itself that will enable us to attract more customers, globally speaking.

And perhaps also have maybe some enterprise. But we're not counting on any better pricing as a result of some of these announcements.

Management: Maybe too early right now.

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

Chirag Kachhadiya: Hi. I have one question with respect to this fundraise. These INR250 crores fundraise what incremental revenue in absolute terms it can give us?

Management: If your question is incremental?

Chirag Kachhadiya: Yes. I mean at what turnover we are targeting on the base of INR250 crores this fundraise?

Management: Okay. No, the 250 is not. It is again upto 250 is what we said. We are evaluating the number. It may be even slightly lower, number one. Number two, this is not immediate. It is for the next 2 years at least. So already we have a debt. So we don't, I mean, the options are yes we can go ahead and take a debt, but considering the debt equity and the leverage and the growth options, we thought it's appropriate to go for the equity. So to answer your question, it is for the next 2 years.

Chirag Kachhadiya: To maintain this growth, which we are aiming of 18% to 20%, we are raising to support that trajectory. Is that understanding correct?

Management: That's right.

Chirag Kachhadiya: And one more question. Why are we paying dividend? I mean, rather we are a growing company. We can use it for our internal financing and all?

Management: That's one because you see on the dividend question, there are many opinions to tell you frankly. We want to be a consistent dividend paying company as well considering the investor expectations. And one of our stated dividend policies about 20% to 25% of the profits we distribute. That's the current dividend policy. I see your point, but we also see a strong growth opportunity coming. So that is the reason why we have been paying the dividend.

Chirag Kachhadiya: And any status on the MOU, which we have signed with the Indra system, I think 1.5 year back or so?

Management: Yes. So that the status remains the same Chirag basically. We are still waiting on budget allocations from the government, I think the RFP has already been submitted. It's the decision from the government to go ahead with the commercial bid opening, which is being delayed for various reasons on their side. So we're still awaiting the final decision from the customer on the prices.

Chirag Kachhadiya: Okay. Thank you.

Moderator: Thank you very much. The next question is from the line of f Nirali Gopani from Unique PMS. Please go ahead.

Nirali Gopani: Yeah. Hi. Thanks for the opportunity. So, Nikhil, if I work out this INR130 crores EBITDA guidance that you're giving for this year, so the second half you'll do an EBITDA margin of upwards of 13%, if I'm not wrong. And you had guided that you will reach this 13%, 15% in the next 3 years to 5 years. So you'll be achieving this number way too early. So you feel this number will be sustainable over the next few years and you can grow it from there?

Management: A quick point on that is as Nikhil earlier mentioned, the increase happens in the second half, mainly because of the BTS business, which is actually seasonal and lumpy in nature. So if you look at the first half of the BTS business, it was very poor. So now that will be compensated for in the second half. So it's always better to look at for full year as a perspective. And that's the reason why we are saying in the next 2 years, 3 years we should be able to go to 14 or 15. If it happens too soon, we are happy, but considering the lumpy nature, we cannot say that.

Management: Correct. Yes, exactly. So I think what basically mentioned clearly was with regard to this year itself where we clearly have seasonality and lumpiness in the high margin BTS business, which should be looked at more from a full year basis than just the second half. And I think the second part in terms of us getting to that 13% to 15% level, a key factor in that will be improving the subsidiaries EBITDA margins up to that level, which will take that 2-year timeframe that we've been mentioning. So we remain consistent with what we've been saying, which is that this will be a stepwise improvement in margin over the next couple of years.

Nirali Gopani: Right. So for FY25 I assume a INR1,200 crores of revenue on a consolidated basis on the net basis for a full year. What will be the percentage of BTS, roughly 29%, 30% which we have been doing?

Management: It will be again, not too far from where we've been at. So roughly about 25% or so would be BTS. And then maybe around 30% or so will be on engineering services and then the rest of it, which is probably about 45% odd will be EMS.

Nirali Gopani: Perfect. That's it. Thank you.

Moderator: Thank you very much. The next question is from the line of Manoj Bengani from Bengani Capital. Please go ahead.

Manoj Bengani: You have shown in your presentation that you are a single source supplier, in 80% cases you are a single source supplier. So aren't our margins very low considering we are single source supplier in 80% of the supplies you make?

Management: Margins are determined more by the model of engagement than the fact that we're single source. Obviously, it's always better in these situations than when you have a very tough competition, but when you look at our business, as I've mentioned earlier on average, on a typical basis, you can get 18% to 20% type of EBITDA levels. Whereas on the EMS side of the business which is always a cost-plus model, the costs are transparent to the customer.

And as a result, your margins cannot be excessively high in that type of a business. It's a contract manufacturing business. So there your typical 10% to 12% kind of EBITDA levels are what would be considered as a good margin or healthy margin in a contract manufacturing business.

Management: Actually, single source is more a matter of choice by the customer. Because like what Nikhil said, EMS this is basically is a cost-plus model, so the customer has a choice to go to any of our competition as well. But the fact that they are staying with us in EMS shows that we deliver quality products consistently on time. So that's how we are able to retain them.

Manoj Bengani: Thank you, sir.

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

Chirag Kachhadiya: From related area diversification, are we looking to enter into anything similar to OSAT or something in the future?

Management: As of now, we have no plans to get into OSAT. I think we want to continue to develop already. We believe we already have a reasonably well diversified portfolio, both in terms of engagement models and in terms of segments that we address. So we're not looking at OSAT again as a new thing now. In fact, I would say our point there is more in terms of moving up the value chain rather than down the value chain. So designing, developing full systems products is one part that we would like to pursue going forward.

Moderator: Thank you very much. The next question is from the line of Ankit Babel from Subhkam Ventures. Please go ahead.

Ankit Babel: Yes, just a couple of follow-ups. What would be your capex guidance for FY '25 and '26 and also tax rate, and both at the consolidated level?

Management: Capex, as I said, there will be an additional requirement than the normal operating capex that we used to have because of the growth. So for the next couple of years, it will be in the range of about INR100 crores. And on the tax rate, the standalone will stay at that 25%, and in the subsidiary, we may not have tax at all because we are having a simulated loss which should be offset against the future profits.

Ankit Babel: So sorry, sir, so this first clarification, this INR100 crores capex is for two years combined or per year INR100 crores?

Management: 2 years.

Ankit Babel: 2 years, so around INR50 crores, INR50 crores per annum.

Management: Correct.

Ankit Babel: Okay. And so this, as you mentioned that on standalone basis, your tax rate would be just 25% and at subsidiary, you won't be paying. So on a combined basis, since your subsidiary would also be profitable, so on a combined basis, are you saying that your tax rate will be less than 25%?

Management: Yes, that's right. Yes.

Ankit Babel: Any number you can say, sir, like 20%, 15%, any calculations you have done?

Management: It will be too early to say for next year. It will be definitely less than 25%.

Ankit Babel: Okay. And sir, another question is, is it fair to assume that post raising of money via equity, should we consider that your current debt would be your peak debt and it will only come down because all your future financial requirements would be met by equity money only?

Management: That is right. Yes.

Ankit Babel: So is there a scope for reduction in debt in the coming years?

Management: Yes, definitely, we should be able to reduce it. But I would go with your first statement saying that the current level would be the peak and it will not go up. We should be able to bring it down.

Ankit Babel: Okay. So just a confirmation, so interest cost also will remain the same, what it is?

Management: Yes, that is right.

Ankit Babel: So even at a 20% growth, your interest rates will remain at INR35 crores to INR40 crores levels on an annualized basis?

Management: No, one small caution there, that what you see as finance cost is a combination of interest cost plus there is a bank commission on the bank guarantees that we issue. So if for the future contract, if there is an increase in the requirement for bank guarantee, we may have to give the bank guarantee. But nevertheless, it will be in the same range like what will be indicated because interest rates will come down and we should be able to maintain the same levels of cost.

Ankit Babel: Okay. So maximum INR40 crores?

Management: Yes.

Ankit Babel: Okay. That's it. Thank you so much.

Moderator: Thank you very much. The next question is from the line of Harsh Mehta from Perpetual Capital Advisors. Please go ahead.

Harsh Mehta: Hi, sir. Congratulations on a very good set of numbers. I just had one question. When will the subsidiary get profitability? Will it be by the next quarter or in FY '26?

Management: Yes. So we expect to have a positive contribution for the subsidiary in the next two quarters, Q3 and Q4. It's important to remember that even in the subsidiary that it's a bit seasonal in nature. Q2 is always the slowest quarter over there because the number of working days are the least. And Q4 also is the highest in the year also because of the number of working days being high.

Harsh Mehta: So is it okay to gauge that in the next two quarters, the profitability will be there but at a very lower rate? And in FY '26, the actual profitability will start to kick in like in the numbers also?

Management: Right. Exactly.

Harsh Mehta: Okay. Thank you so much. That's it for my side.

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

Management: Thank you all again for your interest and for attending our conference call this quarter. As you mentioned, just to summarize, we continue to be positive in terms of what we're seeing from a growth and profitability improvement standpoint. We'll be consistent with what we've been mentioning for the last couple of quarters.

The second half of the year will bring a strong growth both on the top line and the bottom line front. And from the order book perspective also, we continue to see a healthy pipeline of opportunities for us to work on. So with that, let me conclude the call and look forward to seeing you all in the near future again.

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