BBOX/SD/SE/2024/59

August 22, 2024

To

Corporate Relationship Department **Bombay Stock Exchange Limited** P.J. Towers, Dalal Street, Fort, Mumbai 400001	**Corporate Relationship Department** **National Stock Exchange Limited** Exchange Plaza, Bandra Kurla Complex, Bandra East, Mumbai 400051

Sub: Transcript of Earnings Call hosted on August 16, 2024 on Unaudited Financial Results (Consolidated and Standalone) for the quarter ended June 30, 2024**.**

Ref.: Scrip code: BSE: 500463/NSE: BBOX

Dear Sir/Madam,

This is further to our letter dated August 12, 2024 with reference number BBOX/SD/SE/2024/51 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the transcript of the Earnings Call hosted on August 16, 2024 on Unaudited Financial Results (Consolidated and Standalone) for the quarter ended June 30, 2024, is attached hereunder.

This is for your information, record and necessary dissemination to all the stakeholders.

For **Black Box Limited**

ADITYA GOSWAMI
Digitally signed by ADITYA GOSWAMI
Date: 2024.08.22 18:01:26 +05'30'

Aditya Goswami
Company Secretary & Compliance Officer

Encl.: A/a

"Black Box Limited

Q1 FY '25 Earnings Conference Call"

August 16, 2024

"E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 16th August 2024 will prevail."

MANAGEMENT: MR. SANJEEV VERMA – WHOLE-TIME DIRECTOR AND CHIEF EXECUTIVE OFFICER
MR. DEEPAK BANSAL – EXECUTIVE DIRECTOR AND GLOBAL CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY25 Earnings Conference Call of Black Box Limited. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

As a reminder, all participant line will be on listen-only mode and there will be an opportunity for you to ask question 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 Mr. Sanjeev Verma, Whole-Time Director and CEO of Black Box Limited. Thank you and over to you, sir.

Sanjeev Verma: Good morning, everyone. I hope you all are well and safe. On behalf of Black Box Limited, I would like to welcome you to our Q1 FY25 Earnings Call. I'm joined today by Deepak Bansal, Executive Director and Global CFO, and our Investor Relations Advisors, SGA. We have uploaded our results presentation to the exchanges and trust you have had a chance to review it. We are pleased to connect with you once again.

Let me begin with an overview of our company, followed by a review of our business and financial performance for Q1 FY25.

Black Box is a leading global digital infrastructure solutions integrator, providing cutting-edge technology solutions and world-class consulting services. We specialize in connectivity and network solutions, data center solutions, modern workplace, and cybersecurity across 35 countries.

Our broad global reach, coupled with continuous innovation and deep expertise, drives customer success by seamlessly integrating people, ideas, and technology to solve complex business challenges. With over 4,000 skilled professionals and four decades of industry experience, Black Box delivers secured, reliable connectivity, and impactful collaboration solutions.

Our presence in major markets underscores our GLOCAL strategy, thinking global while acting local, allowing us to deliver cost-effective solutions across diverse business environments, supported by our Center of Excellence in India.

In the last quarter, our strategic exit from low-value, non- accretive customers caused a temporary dip in revenue. Nevertheless, our focus on productivity and margins enabled us to meet EBITDA targets and came close to achieving PAT guidance. Our core operations demonstrated strong performance, with notable growth in key areas, affirming the resilience of our business model.

Our backlog stands steady at $475 million as of June 30, 2024, bolstered by a robust pipeline, particularly in data center solutions. We anticipate a continuous upward trend in our North

American project backlog. Notable deal wins for the quarter include data center and in-building solutions over $11 million, digital workplace, connected buildings, CX, networking solutions, on-demand solutions, and managed services over $13 million, and KVM solutions over $4 million.

We're excited to report a significant funding boost of INR410 crores to drive growth in key focus areas within the digital infrastructure sector. This capital will be invested strategically in:

Data center expansion, enhancing our capabilities to capitalize on the exponential growth in data center, demand driven by cloud and AI. We aim to become a leading provider for hyperscalers, multi-tenant data center operators, and large enterprise data customers.

Network infrastructure advancement: Expanding our solutions portfolio for enterprise customers and data center operations, including hyperscalers to support increasing data traffic and improve user experience at the edge.

We'll make investments in innovation and development in pioneering digital infrastructure solutions, including advancement in cloud computing, cyber security, AI, and IoT.

Go to market expansion: Supporting our strategic growth into key industry verticals with enhanced technology solutions, bolstering our sales and business development efforts in North America and emerging markets. We also made significant strides in our go-to-market strategy and have brought on board seasoned sales and solution architects with industry-specific expertise.

As we progress through FY25, we remain focused on leveraging our strong pipeline and order book with our business segments gaining momentum. We are confident in our ability to deliver improved performance and achieve our revenue and profitability targets.

That concludes my remarks. I now hand over the call to Deepak to review the financial highlights.

Deepak Bansal: Thank you, Sanjeev, for the detailed overview. Good morning, everybody. I will now discuss our financial performance for quarter one FY25. So, revenues for the quarter were lower by 9% year-on-year and stood at INR1,423 crores in quarter one of FY25. The top line is affected due to our strategic exit from low-value, non-accretive customers coupled with some delay in decision-making leading to delayed project execution and with muted demand for our product business from some federal partners during the quarter.

Our pipeline continues to swell and the order book increased to $475 million as at June 30, 2024. If you look at EBITDA, we have reported a growth of 28% year-on-year to INR115 crores in quarter one FY25 compared to INR89 crores in quarter one of FY24.

We have seen a consistent growth in our EBITDA margins. For quarter one FY25, EBITDA margins increased to 8.1%, which is a growth of 240 basis points year-on-year compared to EBITDA margins of 5.7% in quarter one of FY24. A strong emphasis on margin and enhanced productivity continued to generate positive outcomes reflecting in our EBITDA margins. We are further marching towards FY25 exit at 9% EBITDA margin.

Coming to profit after tax, we have reported a robust 55% growth year-on-year at INR37 crores as compared to INR24 crores for quarter 1 FY24. PAT margins stood at 2.6%, growth of 110 basis points year-on-year. We had the higher exceptional items at INR15 crores due to high severance cost during the quarter. Operating performance has resulted in better profitability despite of continued higher interest cost environment.

We have seen a good increase in our earnings per share at INR2.21 per share in quarter 1 FY25 versus INR1.43 paisa per share in quarter 1 of FY24. In summary, we are optimistic that this growth trajectory will continue enhancing both margins and overall profitability.

As Sanjeev mentioned, we have secured INR410 crores equity raise earlier in this month in the form of issuance of preferential warrants to existing promoters, marquee investors, and KMPs. We have seen wide participation and interest from various investors. We will continue to deploy the capital for growth and put the best use to enable us for better return on capital employed.

That's all from my side. I will now request Sanjeev to join me for Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Saurabh Sindhwani from Sahasrar Capital. Please go ahead.

Saurabh Sindhwani: Good morning, sir. Deepak ji, one question about the severance cost. It has been much higher compared to last year. Should we expect it to stay at the level for the rest of the year?

Deepak Bansal: We are obviously taking some actions in the current quarter and that is why the cost was a little higher. I am expecting that to be hovering at between, let's say, INR10 to INR12 crores in quarter 2 also.

Saurabh Sindhwani: Okay and in H2, are we expecting any more severance costs?

Deepak Bansal: In H2, yes. There will be some severance costs while we are improving and working on our productivity and all those things. It will be some severance costs. Depending on the geographies where we are taking some actions to improve productivity, it will be there. In H2 also, some will be there, but I think it will not be to the extent which is in H1.

Saurabh Sindhwani: Okay. Sir, could you give us a little bit more detail about the funds that you are raising where would it be deployed exactly and what kind of use cases are we expecting funds to be deployed at?

Sanjeev Verma: I think I answered that in my opening statements. I think we are going to use a large part of the fund for growth, for growth purposes. We are making significant investment in our global market expansion, both verticalizing and creating horizontal solutions, hiring high-end sales professionals with expertise in industry verticals. We are seeing a massive change in environment for technology, both in the data center and the network infrastructure including 5G.

We will be investing money to make sure that we have the requisite capabilities and solutions crafted in those areas. We will also be making some investments in our delivery and innovation expansion to be able to serve the customers in our hyperscale data center markets. So, all in all, I think the last part of the fund, of course, lies for seeing that we are able to grow. As Deepak said, we will be prudent about making sure that our return on capital is maintained at a very high level. I will give it to Deepak to add some more color to it.

Deepak Bansal: I think Sanjeev you have covered it well. So, the idea is to prudently deploy the capital and to see how we can generate more returns on the capital into the go-to market and into the network infrastructure enhancement and also the extension of the data center practice all across. Wherever we need to hire a few people in terms of solutions and all those things, we will continue to do from the organic growth perspective.

Saurabh Sindhwani: And sir specific to the data center expansion are we looking at some particular geography or will it be for the overall business?

Sanjeev Verma: So, I think we are looking at two specific geographies in that space and both are hyper India and North America. We do serve customers in the European market as well. Many of them are North American customers, but we see hyper growth in the data center, specifically in India where we are constructing our strategy and plan to be a significant player.

And, of course, North America, we are serving large customers like Meta and Amazon and Microsoft. We continue to serve them as well. So, these are the two largest markets and, of course, as I said, we are global [inaudible 13:30] to other markets. But from a focused market, India and North America is the largest market for the data center business.

Saurabh Sindhwani: Okay. Thank you so much, sir. That was all.

Moderator: Thank you. The next question is from the line of Tushar Vasuja from Yogya Capital. Please go ahead.

Tushar Vasuja: So, hello, sir. Thank you for the opportunity. I have a couple of questions. In this quarter, you had a degrowth of around 10%. Can you please quantify what part of that degrowth was business or orders that you willingly walked away because of low-value customers?

Sanjeev Verma: So, as I said in the opening statement, we have made a strategic decision to exit low-value long-tail customers. Black Box is serving over a few thousand customers over the last many, many years. We have instituted a strategic program to assess our customer base. 90% of our business comes from top 250-odd customers who are large multinationals. We see a lot of scope in going deeper than going wider with a long tail.

So, we have made specific programs to see that we are able to exit where we don't see long-term value from our customers, not from a smaller customer. So, I think it is across board. We started that sometime end of last quarter. We are continuing to make progress on that. We'll still make some progress on that with respect to assessing and exiting if we don't see value and focusing on our top customers. To that extent, I think we are investing heavily in go-to-market leaders where we can then scale with our existing customers.

The opportunity with our top 250, top 300 customers is immense and we cannot be everything to everybody. We are a global company. So, therefore, we are able to see that we are able to get value from our customers and focus on our Fortune 500 customers. That's the objective. And therefore, we are exiting from customers that we don't see long-term value or see growth in those customers we will be admitting.

Tushar Vasuja: Is it fair to assume that entire around 10% of degrowth can be attributed to this reason?

Sanjeev Verma: So, it's a mix, right? So we have added and we have exited. So, clearly, in this case, our additions has been lower than my exit. As we make progress, we expect to add more and exit less. So we expect to continue to grow our revenues from here. So the additions would exceed the depletions or exit of long tail customers going forward.

Tushar Vasuja: Okay. So how long do you expect this exercise to last for?

Sanjeev Verma: We expect that fiscal '24-'25 will continue to exit and assess our long tail customers.

Tushar Vasuja: Okay. And from 2026, you would only serve high-value customers. Is that correct?

Sanjeev Verma: We will serve customers that we believe has long-term potential over the next 3, 4 years time to become substantially attractive to us. We're still focusing on driving our organic growth and inorganic growth to be a $2 billion enterprise over the next 4 years time. So to that extent, customers who are accredited for us have long-term value. We're investing in those customers, investing in sales motion, investing in leadership and talent. And that's the way we want to go.

Tushar Vasuja: Okay, sir. Fair enough. And sir, when you talk about delays in decision-making, is that on your end or on your client's end? And also how long will this last also?

Sanjeev Verma: So I think specifically for our product business, there have been some delays with respect to our Federal customers, which is about 15% of our business. So that was our technology product business. We do long-term projects with large customers. Sometimes, it is linked to their site being ready. So it's not if, it's when. And those sometimes take a little bit more time than planned. And that's what happened in quarter 1. So we did have some delays in some of our large project execution.

In our project business, it's important for us that the site is ready for our engineers to run the projects. So if there is a delay, there could be a mismatch of revenues in a certain quarter. It's not a standard trend, but it does happen once in a while. And we saw some dip of our revenues getting backlogged because we couldn't complete certain projects largely from a customer interest point of view. Sometimes, we do have delays in some product supplies from third-party vendors if you're doing a project. So a mix of customer side, a mix of customer when the revenues that cause a little bit delay, causing a mismatch in a quarter.

Deepak Bansal: And also, just to add, the project delays are also triggered by a little bit of the economic situation right now, where there's a little bit of confusion on the hard lending, soft lending and then the Fed interest rates and all. So we are expecting that as soon as Fed starts reducing the interest rates, these environments will improve. And because the customers are also prudently going on with respect to spending, because if they go slow on the work, obviously, their spending a little bit gets slowed.

So they are timing it basically with the Fed taking some actions, which we are expecting that Fed should take the action by September to reduce the rate. And as soon as that cycle starts, the overall sentiment at the customer's level will also change in terms of faster project execution.

Tushar Vasuja: Okay, sir. Sir, I have a bit of a qualitative question for you. Approximately 75% of your revenue comes from the North American region. And you also talked about the hyper growth space for Indian data centers. So I want to know how different is India's data center ecosystem and potential for growth when you compare it to a more matured market like U.S.?

Sanjeev Verma: So from a maturity perspective, clearly America's maturity curve is higher and the demands are a little different. India is also a hyper growth market. I think over the last couple of months, I think the total number of projects in India on the ground for data centers specifically was about 1,300 megawatts. It is now forecasted to double, more than double to 3,000 megawatts.

And should AI catch momentum, it's going to go several times more than that, right? So a larger part of the environment is largely based on the cost and pricing. The per megawatt build-out of data centers in India is much lower, largely at the back of lower labor costs.

But I think most of the players coming to India are global players apart from the local players as well. And so, therefore, from a maturity perspective or a quality perspective, I think it will be consistent to what North America would have, except for the fact that the total cost outlay for data centers in India is significantly lower, nearly half. And that's largely at the back of lower labor costs in India.

Tushar Vasuja: Okay, sir. So, I guess, just one last question. Do you have any sort of seasonality in your business? Like how much do H1 and H2 usually contribute to a full year's revenue?

Sanjeev Verma: So I think from our perspective, we expect that H2 to be higher than H1. There is an element of seasonality to an extent that there is a budget and a fiscal year norm. In India largely, the fiscal year ends in March. So, therefore, if you have an India-specific business, people want to utilize their budget in the Jan, Feb, March period, specifically if they're doing capital-intensive work. And if you have capital left, you want to use it to your budget.

Similarly, in America, there is a calendar year. So the third quarter, for some federal customers or some customers that have budgets to consume, we'll do that. So we expect that H2 to be better than H1 from that perspective considering a certain element of seasonality or use of budgets to be used for projects.

Moderator: Thank you. The next question is from the line of Vivek Choraria, who is an individual investor. Please go ahead.

Vivek Choraria: Hi, Sanjeev and Deepak. Thank you for the chance. Sanjeev, what gives us the confidence of meeting our guidance? We're constantly missing on our top line and our commentary hasn't changed. I mean, even to meet the lower end of our top line guidance, I mean, our revenue for the next three quarters has to be close to INR1,700 crores and we're at INR1,450 crores. So, can you just explain the math to me? Because it seems a bit daunting to meet the revenue guidance and then consequently, the EBITDA and the PAT guidance as well?

Sanjeev Verma: Yes, Vivek, thanks for the question. As I said before, I think we have made a strategic call after assessing as to where we want to go and how we want to get there to make sure that we are getting profitable growth. We suited our assessment of a go-to-market sometime in the last quarter of the last fiscal year and made a decision to transform the business, especially in North America, with go-to-market being verticals, going deeper in industry verticals and horizontals, taking an assessment of our large data customers over a few thousand and assessing what is the value that we create for us in terms of operating margins. And we made a call saying we'll focus on our top customers to go deeper because their ability to spend is very, very high. And to that extent, we have been gradually increasing prices to our low end customers or exiting if we don't see value.

And we are going to continue doing that. But we expect as we move forward that we now have the pipeline, the team in place over the last six months, and we are completely making the investments, which will start to catch momentum where our growth additions from our focus accounts will exceed or far exceed our depletion of some small cuts that will take into our long-tail accounts. So, we expect our quarter two moving forward to be better than quarter three and quarter four.

We expect our second half of the year to be significantly better than the first half. We are still guiding within our revenue guidance range for the year. We are confident of meeting our EBITDA and PAT norms for the year that we've had before. So having said that, I think I know our quarter one has been lower as I called out because of our exit of some low-value customers. We are turning around. We expect our momentum to catch up going forward.

We expect our second half to be significantly better. We expect some of our investments in our large accounts and the team that is in place will become accretive going forward in quarter three and quarter four. We expect we should be able to meet our guidance range for revenue, especially for EBITDA and PAT as well going forward.

Vivek Choraria: Okay. Thank you for that. So slightly a longer-term question. I mean, you've now spoken at the end of a 2 billion target in the next four years. I mean, right now we are close to $700 million, $800 million. So, I mean, that's quite a huge jump, right? 2.5x to 3x. Do you have the team in place? I mean, are the building blocks being shared? Because I mean, and that will of course be amidst of organic and some acquisitions.

How confident are we as a company to be a $4 billion company say by FY '28 or FY '29? I'm guessing by FY '28 or FY '29 is the target. And then consequently, I'm guessing the margin profile will obviously will be very different. Just a slightly longer-term outlook would be great.

Sanjeev Verma: Thank you. I think one of course, it's important for us to put a goal in front. We have put ourselves into an accurate goal of getting the $2 billion business in the next four years' time. We are currently at a range of $800-odd million. We are expecting organically to take this business to $1.2 billion, $1.3 billion with a double-digit growth going forward for the next several years. And yes, we will be looking at, to be able to go to 2 billion, we will have to look at inorganic growth. That is part of our strategy. We will be looking at equity growth. We will not be emotional about economics.

So should we get into some assets that we believe are valuable, we'll do that. But first things first, we are focused on going into organic growth. Coming back to the question of investments, yes, we are making significant investments already made. We have divided our North American business, which are largest businesses, into five verticals and worldwide into five horizontals. All the vertical leaders are in place. All the horizontal leaders are in place at this time.

We're making also investments in high-value business developers who have a relationship to get into accounts that we want to serve. With the investment, the momentum catching up now, we expect to build a significant momentum in fiscal '25. We expect going forward from fiscal '26 to become highly accretive and to be able to meet our double-digit organic growth aspirations.

And as we move forward, we'll continue to explore assets that will be accretive for us, that will allow us to bring in additional revenue inorganically to guide us towards our $2 billion goal. So we will continue to guide ourselves towards that. We are currently focused on reorganizing, revitalizing, and reinvesting in our sales go-to-market motion.

I've called that out earlier in our press release, in our conversations, that that's our focus now is growth, growth and growth. Of course, we have to grow in a disciplined and profitable manner, and investment to that extent has been made and is being made, and expect as we start to get to the second half of the year start to become accretive. And we start to get into the next fiscal year, we start to get speed on that and take it from there.

Moderator: Thank you. The next follow-up question is from the line of Tushar Vasuja from Yogya Capital. Please go ahead.

Tushar Vasuja: So, thank you for the follow-up opportunity, sir. I have some questions on your order book. So, what's the execution period for current order book?

Sanjeev Verma: Okay, so I think on average the execution period is of various types. So, we have annual maintenance contracts that last for a year. Our average project size are nine months. Some of them are six months, some of them are 18 months, some of them could be longer. So the average size of our projects is about nine months. We do have annuity contracts that last for a year. We do also serve a lot of customers on demand that are practically revenue at the point of sale.

So, our product business is revenue at the point of sale. So, we have a mixed bag from our revenue streams, right? Some are projects longer term, some are annuity contracts, some are product sales where we sell products from a technology products perspective. And a significant part of our business is services, which is on P&L basis, which is at the point of sale, right? So, it's a mixed bag from an order book perspective.

Tushar Vasuja: Okay, so how much of your order book will be executed in FY '25?

Sanjeev Verma: So, I think an order book is a point in time, right? So, I think we continue to burn order books, we continue to add order books. Our focus is to see that our order books exceed our revenues for the year.

In general, we focus on order books to be 25% more than our revenue plan for the year, right? So, if you look at our current order book, possibly we'll consume 60%-70% of that in the remaining part of the year, but we'll be adding an order book over the next 5-7 months. Some of them will be consumed in the current part of the year and some of them will become a backlog adding to the backlog of the remaining 475. So it's a catch and drops. Our goal is to close the year bigger than last year from a revenue perspective and open the order book bigger than the last year's opening order book.

Tushar Vasuja: Okay, sir. So you mentioned that for an average 10-year record order, it's around 9 months. So what would be the average monetary value of an order?

Sanjeev Verma: Average monetary value of an order, I think it would be difficult to predict an average monetary value of an order considering your products, projects, large projects. So if you divide it by our customers about 90% of the revenue comes from 250 customers. So you can take 90% and divide the 250, you get an average value from the customer.

Tushar Vasuja: Okay, sir. Fair enough. I have some questions on a technology product solution division. So margin performance of the segment has been very inconsistent for some quarters. So can you please add some color on it and when will that segment be able to consistently be profitable?

Sanjeev Verma: You're talking about gross margins or operating margins?

Tushar Vasuja: Operating margins, EBITDA margins.

Sanjeev Verma: Okay. So from a gross margin perspective, we do about northward of 40%. Our business technology products breaks even at about $20 million. So every dollar outside of that is highly accretive.

As we move forward, we plan to grow the business in this current year over 20-odd percent. So if you look at the current fiscal year, it will be equal accretive or more from our 9% guidance perspective that Deepak called out that will end the current year time. So I think we expect the year for TPS to be accretive equally or more than the 9% that we're guiding for the year.

Tushar Vasuja: Okay, sir. So I have one question regarding this. Do you manufacture products or is it outsourced or privately labeled?

Sanjeev Verma: So we have both. So we have our own control room products sold under Black Box Emerald brand for which we have an R&D center in Ireland and Bangalore. We do also have contract manufacturing products sold under Black Box brand. The focus is, as we move forward over the next few years' time to focus more on our IP-led products that have higher margins. And to that extent, we are again, investing in those areas. We just expanded the R&D in Bangalore. We expect the percentage of own IP products to increase significantly quarter after quarter going forward and therefore be accretive for us as we grow that business as well.

Tushar Vasuja: Okay, so one last question. How much of your revenue comes from data center-related solutions?

Sanjeev Verma: So our revenue from data center solutions last year, Deepak I correct me if I'm wrong, was close to $150 million. No, it is around $175 million.

Tushar Vasuja: Yes. Okay, and in this quarter

Sanjeev Verma: That was the annual number.

Tushar Vasuja: Yes, I'm asking, can you provide a similar number for this quarter?

Deepak Bansal: We, this quarter it should be around $40 million or $45 million, but yes, we don't have the exact numbers but yes, it should be around $40 million , $45 million.

Tushar Vasuja: Fair enough, sir. Thank you. That answers all of my questions.

Moderator: Thank you. The next question is from the line of Harish Jain, who is an individual investor. Please go ahead.

Harish Jain: Good morning, sir. Sir, I wanted to understand our strategy on the interest part. So as we can see that our debt for FY '24 was around INR400 crores but our interest cost was around INR140 crores. That's 35% of our debt. Even if we include lease liabilities and there are some costs related to lease liabilities in this still the interest cost is pretty significant compared to the debt we have. So what's our strategy to it? And I have a second part to this question as well.

Deepak Bansal: So, the interest, you rightly told that we have the debt of close to around, let's say INR350 crores. So on a, sorry not on INR350 crores , INR400 crores. So on a INR400 crores we have the interest, which is basically in the range of SOFR plus 250 basis point. And then we have a $100 million of the AR securitization facility, which is an off-balance sheet non-recourse facility. That is an off-balance sheet facility. And that the cost of the securitization of that $100 million also get accounted for in the interest line. And that is why you are not able to correlate the total interest cost with the overall borrowing on the balance sheet of INR400 crores.

Harish Jain: So this is where my second question comes in. So our PAT is almost equivalent to our interest cost. So why, as a management, are we bearing such high interest costs when we are so sound in our balance sheet and we have the ability to raise large sums of money? Why don't we, as a management try to reduce this cost, which will significantly increase our PAT? As we can see that FY '24, PAT is equivalent to the annual interest cost.

Deepak Bansal: No. So our interest cost is SOFR plus 250 basis points. And SOFR right now is at around 6% because of the high interest rate environment in US, which is not in our control. When the 6% SOFR cost comes down to probably 3%, 4% in next one year time, our interest rate will automatically reduce. Can we reduce the margin of 250 basis points with bank charge? Probably by 25 bps. There is no scope more than that because that's a reasonable margin of the size of the company we are. So basically our interest cost is on the AR securitization facility of $100 million, which is off balance sheet and on the INR400 crores of the debt, which is on balance sheet.

Harish Jain: So how much of this INR140 crores would be the off balance sheet cost? I mean, cost related to the $100 million facility?

Deepak Bansal: Yes. So the $100 million facility will be around eight and a half, around INR70 crores.

Harish Jain: Okay. And we use this facility to convert our receivables, right?

Deepak Bansal: Correct. Because basically our business is a -- we need a working capital to run the business. And for that working capital is funded through AR securitization. So the AR securitization facility cost goes into the interest rate.

Harish Jain: Understood. But so do we have any plans to reduce the INR400 crores debt, given that we have INR200-odd crores in cash as of FY '24, and then we have raised significant equity. Do we have plan to reduce the debt? Or we are comfortable with the debt levels?

Deepak Bansal: So, we are as such comfortable at the debt level, but yes, we will not leave any opportunity where we can reduce our debt. But the idea is to deploy the capital on the growth, because the cost of the debt is only 8%. And if we deploy the 8% capital into a better growth in terms of the revenue, which we can churn on the cycle on the inventory, on the working capital cycle, we can generate a better return as compared to reduction in the debt.

So it's like a trade-off between the business opportunity versus reduction of the debt. So we'll continue to look at that. If we have the business opportunity, obviously, we will not reduce the debt. Otherwise, we will park the cash into reduction of the debt.

Harish Jain: Understood, sir. That's a fair call. I have just one more question. I was reading Facebook's result of last quarter, and they seem to have again, restarted the capital cycle. And we continue to say that there is a headwind in terms of delay in decision making. So do we see that changing on ground as of today, given what has happened in what is announced by Facebook?

Sanjeev Verma: So, I'll take that. I think, Facebook did announce increasing capital outlay for this fiscal year, about $5 billion. So Facebook happens to be a large customer. So when you say about the market dynamics, it's not a particular customer, which we continue to serve Facebook, we expect large orders from them over the next couple of months. So that will continue.

So from an overall perspective of the mix of financial sector, we have exposure to the data center, which is a credit for us. There are manufacturing companies. So in totality, including some federal businesses, we have to have product business. So we do see scope of hyper growth in certain areas.

So it's a mixed bag, right? So we're not expecting anything to fall off from specifically AI-led customers. And therefore, we're investing heavily. If you see when our data center solution network refresh, which is now becoming wired, wireless, and more software defined, we're adding capabilities, adding go-to-market to specifically industry vertical solutions is largely at the back of that, because some industries will do well, while some will not in a certain environment.

We are agnostic to industry. We are, of course, lucky from that perspective that this is a digital infrastructure decade. There are a lot of data centers getting built. And therefore, we have taken a call to make significant investments. Some investments take time. These are large customers. The selling cycle sometimes are 6 months, 9 months. But once you're in, you're in for a long haul.

So we continue to look at those opportunities, those sectors that have seen hyper growth, be it semiconductor, be it AI-led data centers, be it large infrastructure buildout. Black Box is very well suited with experience to serve those, while some of the other sectors might have some headwinds, be it the banking sector, be it the federal or other industries. We believe that we have a good potential for us to grow with the portfolio we have, with the customer set that we have.

We need to bring in high-quality talent, which we are doing at this time. We wanted to get deeper with our customers, which we are doing. And as I said before, we expect as we move forward in this fiscal year, the second half, of course, we'll catch momentum. And keep going forward in the next year, of course, we'll catch momentum because we would have, our investment would have started to mature and become more accretive.

Harish Jain: Understood, sir. That's all from my end. Thank you.

Moderator: Thank you. The next question is from the line of Payal Shah from Billion Securities. Please go ahead.

Payal Shah: Good morning, sir. Thank you so much for the opportunity. I have two questions. First, I just wanted to understand, apart from data centers, which of our business has a good headroom for growth? And what has been the trend in that particular business?

Sanjeev Verma: So I think from a solutions perspective, I think our data center business has growth. Our networking business, both on the wireless side and both on the wired side, a private LTE, large infrastructure rollouts are accretive. Our high-tech business, we serve customers like Intel.

We are expanding the fab plants, the semiconductor plants. These are high accretive areas for us. But more importantly, most of our solutions are actually supporting mission-critical operations, be it networking. If you look at the next generation applications, will require high-speed connectivity, high-speed network. We all know that we want to have very fast internet. We want our devices, applications and devices to run faster.

Black Box is in the business of creating that digital highway on which this runs. But some industries are making bigger investments, some are making late investments. But in general, we believe the next 5 years, 7 years, 10 years' time would be the era for creating next-generation infrastructure, be it in India, airports getting built which will be connected.

We have face recognition. We have video cameras on the streets. Now, these require heavy investments in infrastructure so that we are able to have those connectivity and the network to transport a massive amount of data to regress and analyze. And I think we are in the forefront of building those infrastructures across industry verticals, some putting larger capital outlays, some putting smaller.

But nevertheless, there is going to be a change sooner or later over the next 5 years, 7 years, 10 years' time to rehaul this infrastructure. And therefore, we believe we are at a very good spot to capitalize on this over the next several years.

Payal Shah: That's quite helpful, sir. So, my next question is, in our consolidated revenues, how much contribution would be from the inorganic acquisitions we have done in the past? And how much would be organic?

Sanjeev Verma: We haven't done any inorganic in the past year or so. So, barring a small $4 million or so that we did, this is largely organic. Going forward, as you said, in two parts, we expect our current focus is on organic growth, double-digit taking us from a current $800 million kind of a run rate going to $1.2 billion to $1.3 billion. Inorganic is opportunity-based, based on being effective.

Our goal of getting the $2 billion does have an inorganic element to it. But our current focus is to put our heads down, get into our organic growth, maintain our profitability benchmarks, get to our 9%, 10% goal that we have. And as and when we feel that we are ready, we got something which is a credit for us from an organic perspective, we will do that. But that's not our everyday focus at this time. Our current focus is to grow organically.

Payal Shah: That's quite helpful, sir. That's just from my side. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to Mr. Sanjeev Verma for closing comments.

Sanjeev Verma: I'd like to thank everyone for joining on the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with us or our Strategic Growth Advisors, our Investor Relations Advisors.

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