"Avalon Technologies Limited
Q3 FY'24 Earnings Conference Call"
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MODERATOR: **MS. BHOOMIKA NAIR – DAM CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Avalon Technologies Q3 FY24 Earnings Conference Call hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Bhoomika Nair: Yes, good afternoon everyone and a warm welcome to the Q3 FY24 earnings call of Avalon Technologies. I have with me the management being represented by Mr. Kunhamed Bicha, Chairman and Managing Director, Mr. Bhaskar Srinivasan, President, Mr. Shriram Vijayaraghavan, Chief Operating Officer, Group, Mr. R. M. Subramanian, CFO, Mr. Michael Robinson, COO, U.S. and Mr. Suresh V.R., Head, Corporate Planning and Investor Relations.

At this point, I would like to hand over the floor to Mr. Bicha for his initial remarks post which we'll open up the floor for Q&A. Over to you, sir.

Kunhamed Bicha: Ladies and gentlemen, on behalf of Avalon Technologies, I extend a warm welcome to our Q3 FY24 earnings call. I'd like to express our sincere gratitude for your continued trust and interest in our company during the past few months. Before we dive into the financials, let me provide a quick introduction to Avalon Technologies, particularly for those who are joining us for the first time.

Avalon Technologies was established as a key player in electronics manufacturing services with a global reach. Our journey began in 1997 with the vision of introducing top-tier electronics manufacturing to India. Today, we take pride in our leadership in high-mix, flexible volume manufacturing, serving a diverse range of industry verticals, especially in integrated solutions that require significant engineering expertise.

We currently operate across 12 manufacturing facilities in India and the United States and we are also adding two new manufacturing facilities in India. Our three key differentiators are' One, vertical integration. We are a one-stop shop offering a true box-built solution that involves PCB design, new product development, cable assembly, sheet metal, plastics, magnetics, fitting, and logistics. We do end-to-end development from PCB design to manufacture of final product.

Global presence, both in terms of manufacturing and customer base; Three, optimal mix of established industries like; industrial, rail, aerospace, auto, medical and emerging industries like clean energy.

Now, turning to our business performance, as previously discussed our operations in Indian market is on a positive trajectory. We have seen a 12% year-on-year revenue growth for the nine-month period ending December 2023. Importantly, our Indian manufacturing, which represents 77% of our business, remains highly profitable with operating margins of 12.8% and PAT margins of 8.7% during the nine-month period ending December 2023.

We are consistently attracting new customers and expanding our clientele across diverse sectors, including power, clean energy, EVs, industrials, automotive and medical. With increasing demand from our clients, we are focusing on enhancing our capabilities. We are nearing completion of two new plants in Chennai with one expected to be fully operational by Q1, FY25 and the other to kick into gear over the next fiscal year.

Coming to our U.S. business, we continue to win new opportunities from our U.S. customers that will be manufactured in India. U.S. plants have begun productions for contracts that were previously on hold due to factors like inventory rebalancing and macro uncertainties. We anticipate the recovery of the U.S. market comments in H1, FY2025 and gain significant momentum in H2 2025.

Having said this, it is crucial to acknowledge that the performance of our U.S. business has been challenging and our assumptions regarding the recovery timelines were somewhat optimistic. Despite the anticipation of improved market conditions this quarter, the U.S. remains volatile.

Persistent challenges in the U.S. operation have led to losses of INR22 crores over the nine-month period, ending in December 2023. These losses in the U.S. operations are temporarily overshadowing the strong performance of our Indian operations and impacted our overall results.

In our ongoing effort to enhance efficiency amid challenging times in our U.S. operations, we are actively addressing short-term challenges in the U.S., these initiatives involve two specific measures. One, optimizing production allocation from our U.S. plant to our India plant, rationalizing costs with our U.S. operations, we believe the results of these initiatives will be more visible in FY25 performance.

Despite these measures, it is critical to highlight the pivotal role played by our U.S. manufacturing presence that serves as our front end. It facilitates customer on-boarding and strategically acts as a beachhead to expand our market reach. Additionally, it allows us to enhance our positioning in alignment with the Inflation Reduction Act in the U.S..

As highlighted in our earlier call, our strength lies in our global outreach. With over 50% of revenues originating from the U.S., this has allowed us to gain deep understanding and complexities of operating a globally interconnected economy. Like any export-dependent business, we are currently navigating the near-term economic headwinds emanating from the U.S., while our diversified customer base across U.S. and India, coupled with our hybrid operations, has historically been advantageous, it also exposed us to prevailing global trends that purely go straight to the U.S. market. The Indian and U.S. markets are currently operating in remarkably different environments and their respective performance, reflect that.

For the full financial year 2023-2024, we expect our overall business to report a degrowth of 8% to 10% on a year-on-year basis. Although our previous expectations for higher consolidated growth have been assisted due to uncertain demand environment in the U.S., it is important to note that the execution timelines of these contracts have been extended and we have not lost any customers.

Our margins directly correlate with the throughput from our revenues and therefore we anticipate subdued operating margins of around 7% to 8% for FY24. As revenues increase, we expect a proportional rise in operating and profit margins. The gross margin of 36% for nine months ending December 2023 indicates that we remain highly value-adaptive, delivering complex box-builts and maintaining our premium standards to uphold our position as key partners to our customers.

Despite the challenges we face in FY '24, our organization is filled with enthusiasm as we recognize the significant decadal market opportunity that lies before us. Transitioning to an update on the new businesses in the order book, in summary, our order book stands at INR1,275 crores as of December 31, 2023, with an executable timeline of 12 months to 14 months. Additionally, we hold long-term contracts amounting to INR843 crores, which are set to be executed over the next 2 to 3 years.

Now let me give you a brief on a few of our select ways. For a US Clean Energy customer, the commercial production is set to start from late H1, and ramp-up production is expected to start in early H2. In the aerospace wiper blade assembly project, we are happy to share that we have successfully delivered the first wiper blade assembly samples, marking a key milestone in our aerospace segment, and we anticipate commercial production in the second half of next year.

The server vertical, we are proud to announce Avalon is now a strategic manufacturing partner for C-DAC, playing a pivotal role in advancing India's capabilities in high-performance computing through the Rudra program. We have been involved in the process of Rudra through providing advanced PCB designs and prototypes. We'll have more details on this opportunity site and timeframe in the coming quarters.

In the mobility segment, we are working on – with one of India's innovative EV manufacturers, and we expect production to commence in the first half of the next fiscal year. Additionally, we also have some major wins in the US and India. These include customer wins across verticals, such as rail, power, industrial, clean energy.

Our role as a strategic partner to our customers is evident in our ability to retain all our customers in the US even during these difficult times. In summary, our recent emphasis and execution in the Indian market has yielded positive results, and we anticipate sustaining this momentum. Furthermore, we expect our US business to recover in H1 FY '25 and gain traction in the second half of '25.

It is essential not to lose sight of the long-term vision and opportunities while dealing with short-term challenges. We are preparing our organization for years of growth ahead. Avalon stands strong, navigating adversity with resilience and focusing on building a business of profitable growth in the long term rather than growth at any cost in the short term.

I will now hand over the call to our CFO to walk you through the financial performance in detail. Thank you.

R M Subramanian: Thank you, KB, and good evening, everybody. Thanks for joining the call today. I would like to start by reiterating the critical factors influencing the company's performance that remind the same as mentioned in the previous call, and this includes the challenges faced by the US economy have resulted in a significant drop in sales within the US market.

To point number two, our distinctive hybrid business approach includes export-focused sales and manufacturing facilities situated both in India and the USA. While our export-driven model yields higher margins and better profitability, the current conditions pose substantial challenges, much like other export-focused industries such as IT.

The volatile US market conditions are still prevalent longer than we anticipated a few months ago, and we see the execution time being delayed as a result of this. While we continue to retain all our customers and actually grow our order book, we now expect FY '24 to perform below our earlier expectations.

As a company, we are actively working on adjusting our business strategy to align with the current market conditions. Our efforts include, one, heightening our focus on the Indian market to achieve a 50-50 ratio between the USA and India, and all the while maintaining our presence in the highly profitable US markets.

Two, shifting more of our manufacturing operations to India and optimizing our US-based operations accordingly. Three, adjusting our manufacturing rate gradually towards a ratio of 85-~~50~~ 15 between India and US. While we are noticing improvements in all the three fronts, please note this is an ongoing effort to realign our strategy and reduce business risk. It is a work in progress and may take a couple of quarters to yield tangible results. In the interim, it is crucial to view this quarter's performance within the context of the above-mentioned near-term challenges.

Now, moving on to the performance in the last quarter in detail, in Q3 FY '24, our revenue from operations is INR214 crores, a decrease of 7.9% year-on-year, and an increase of 6.6% quarter-on-quarter. In nine months FY '24, our revenue from operations is INR650 crores, a decrease of 3.4% year-on-year. Gross margin is INR79 crores, down by 5.3% year-on-year, and an increase of 6% quarter-on-quarter basis.

Gross margin as a percentage should have 37% and increase of 104 bps year-on-year, and a decrease of 21 bps quarter-on-quarter. EBITDA is at INR16.5 crores, down 18% year-on-year, and an increase of 31% quarter-on-quarter basis. EBITDA margins stood at 7.7%, a decrease of 96 basis points on a yearly basis, and an increase of 145 basis points quarter-on-quarter basis.

PAT stood at INR6.6 crores, up by 14.7% year-on-year, and a decrease of 9.6% quarter-on-quarter basis. PAT margins at 3%, an increase of 59 basis points year-on-year, and a decrease of 50 basis points quarter-on-quarter basis. Coming to IPO fund utilization, our approved IPO fund utilization consists of debt repayment of INR145 crores, working capital requirements of INR90 crores, and general corporate purpose requirements of INR64.57 crores, post-issue expenses.

We have fully utilized all our IPO funds that have been made available post-issue expense, and we have now applied for the release of bank guarantee with SEBI and expect to carry out soon. This will bring the IPO process to a close. Utilizing a mix of IPO and company-generated funds, we have repaid our debt in Indian Companies balance sheet completely, and are left with approximately INR100 crores of debt in our US subsidiary.

Moving on to working capital management, working capital days were 155 days in Q3 FY '24, compromising of 124 days of inventory, 68 days of receivables, and 37 days of payables. The increase in inventory days can be attributed to accumulating inventory, holding to assign new customers, and initiating the production process for the sale. Our supply chain is almost normalized, and we will derive the benefits from the subsidy going forward.

While we had earlier anticipated a sharper improvement in working capital, we now expect to take a longer time frame due to the reasons mentioned above. We continue to improve our payable days, and are aspiring to reduce our working capital cycle by 10 days to 15 days over the next 6 to 12 months.

As of the end of Q3 FY '24, we have a surplus cash of approximately INR103 crores in the form of short-term investments, out of which INR50 crores is earmarked for debt repayments in our US subsidiary. To prepay costlier source of funds and the balances for the purpose of reserve and funding the growth.

Additionally, we prefer to keep the existing working capital lines in India available, amounting to about INR185 crores. The open working capital lines have markedly improved our ability to bid for larger orders aggressively, which will reflect in the upcoming quarters.

In summary, our Q3 FY '24 performance was characterized by significant growth of domestic business in spite of the US job-related slowdown and the related fixed costs. While we had earlier anticipated the revival of US business to begin in Q4 FY '24, we now see production timelines extended by 3 to 6 months. We will see a gradual ramp-up in H1 FY '25, and expect to strongly continue in H2 FY '25.

In spite of lower than expected operating margins for FY '24 at consolidated level, the healthy profitability parameters of the Indian manufacturing part of the business, transforms the fundamentals of our manufacturing operations in one impact. Further, I would like to mention that we are beginning to see the effects from our efforts to optimize operations.

Additionally, we continue to win customers and maintain our premium brand value with industry-leading growth margins. While FY '24 might have been a difficult year for us, I have no doubt that upcoming years will be very fruitful for Avalon.

Thank you for all your support. Bhumika, over to you.

Moderator: Thank you. Shall we begin with the question-and-answer session?

Navid Virani: Yes, we can.

Moderator: We will now begin with the question-and-answer session. The first question is from the line of Sumant Kumar from Motilal Oswal. Please go ahead.

Sumant Kumar: For domestic market, our growth is 14% and when we see the overall industry growth and other companies' growth is higher double digit. So I can understand the US market is facing challenges. why are we not growing at higher double digit in domestic market ? what are the key strategic decisions, manpower recruitment and product development? What are we doing to accelerate the growth in the domestic market?

Kunhamed Bicha: Sumant, thank you for the question. Just to remind our investors that we were primarily, if you look at us, three years back, a very export oriented business. We were around 70% export and only 30% India. It is in the last 12 to 18 months where we have really worked on getting deeper into the Indian manufacturing environment. At the same time, India's manufacturing environment has grown and we are starting to see the initial growth.

And in the coming few quarters, you will see these numbers looking a lot better as we capture some of the potential of what is coming out of India. And I think for us, we are late entrants into the Indian market and we are seeing a good resurgence for us with the growth in India. If you look at us today, we are 53% export and starting around 47% India. Three years back, like I said initially, we were 70% export and 30% India.

So our growth story in India is beginning now. And we can see that happen across multiple industries, whether you take EV, whether you take rail, whether you take industrial. We are starting to see the orders come in and the contracts, which will expand to the rate which you just mentioned in the coming years. Did I answer that question, Sumant?

Sumant Kumar: Yes. Now, talking about the US business, what are the indications we are getting? Is there a possibility of the capex cycle revival on rate cut or any clean energy side we see huge opportunity? What are the challenges currently happening and when we can expect, you were saying, but what are the key challenges and what are the indications you are getting from your clients?

Kunhamed Bicha: So a primary challenge, if you look at it, I think putting it simple, there were two challenges. One was the inventory correction coming out of the supply chain challenges and before that COVID. Customers operated at a 40-week inventory time. And when things – interest rates went up and things were tightening in the US, everybody wanted to go back to the 16-week lead times, which was prevalent during pre-COVID times. So a lot of that is getting cleared.

We are seeing some of our customers come back with at least 50% of their products, which is a good thing. We have not lost any customers in this process. So I think we are in the beginning stages of seeing the revival of the inventory correction happening. And interest rate cuts is everybody's guess, which direction it's going to go. And I think it's going to go downwards.

That's a personal thought into the future. And that will make things better for us. We are seeing a lot of customer traction in the US, whether it's auto, whether it's industrial. Some of the initial prototyping and some of the initial production is starting, but it will all play out into the next few quarters.

Moderator: Thank you. The next question is from Meet Jain from Motilal Oswal. Please go ahead.

Meet Jain: Just following up on the previous participant's question, in terms of the mix you mentioned, currently we are 50% each, of which 47% of India and USA. This is just because the USA business is not performing. However, if our target is to reach 50%, our India business needs to grow at a very strong pace. Which segments are you focusing on right now in the India business, where we can get a good comfort from the growth perspective?

Kunhamed Bicha: Sorry, I didn't get the last part of the question. It didn't come out clearly.

Meet Jain: Which all segments are you focusing on, where we can get a good comfort for the growth we are anticipating from the India business?

Kunhamed Bicha: One of the key areas for us is rail. We've been in rail for the last 10 or 12 years. We are seeing big opportunities. Of course, we've been in signalling, we have been in braking. Now our main customer has got into Kavach, got approved for Kavach. We're jointly developing certain product, as well as working with them to get it ready for the Kavach program to launch.

And in the Vande Bharat, we have certain customers of ours who are part of that, who are existing customers. Sometimes they've got a good piece of the Vande Bharat business. We anticipate rail to be one of our fastest growing sectors. Saying that, the next sector in the market we are looking at is industrials, whether it's clean air, monitoring.

And these are for some international companies getting into India, as well as energy sector. We are working with a few of our customer partners. We've already started shipping, but the volumes will kick in in the next I would say the next second half or the early, late first half of next year, when the rail volumes kick in.

Then on the EV side, on the vehicle, we have multiple products on the same vehicle, on the electronics, which go into the vehicle, four or five different products. That we expect to have the launch, or the volume kicking in the first half of next year. These are just to explain that customers are coming from different places.

And then like the world is seeing India as the brightest spot where growth is happening, and we are playing right into that.

Meet Jain: And on the other part, I understand we are a very good client base on the US market, and that some part of US clients are also getting into the Indian market. So how much percent of mix do we have that are getting to both the Indian market and the US market, where we can leverage their relationship and grow in the Indian market?

Kunhamed Bicha: That's a very good question. Most US customers today want to be in the Indian market. When some of the products, we are talking to them, making it in the SEZ, which is for export, and also working with customers. Of course, the Indian market is a little bit on cost side. We are working with customers to indigenize some of the products to sell through our DTA unit.

So it's a mixed bag of good things, where if you're already making a certain product, customers are looking to sell that in India, too.

Meet Jain: Okay. Last question is on the US. We mentioned we're facing challenges in the form of inventory correction, and what about demand slowdown? Is there a demand slowdown? Because there has been a good infrastructure build on the clean energy part, and the government there also is pushing on having a rooftop solarization, what recently the Indian government also has mentioned.

So are we seeing a recovery, I don't understand the basic scenario of the market there. If there is a demand and government push, what is the main challenge in terms of our order book?

Kunhamed Bicha: We have not lost any orders. the orders have been pushed out, and we believe the growth is still there with the existing customers. But when you look at us, you have to look at -- we have three engines of growth. One is, like you mentioned, our existing customers coming back to full-scale production, our US customers.

Second engine of growth for us is the new customers who are kicking in, both in India and US. And we have got substantial headway into that. And three is the Indian market itself is, I would say, the most dynamic market we can see today. And we are excited that we're hoping two or three, or all three will kick. I mean, that's what we're looking into the future.

Meet Jain: Okay, okay. Thanks a lot, sir, for the answer. I'll join with you for the follow-up questions.

Management: Thank you, Meet.

Moderator: Thank you. Next question is from Neel Nadkarni from Dalal & Broacha. Please go ahead.

Neel Nadkarni: Yes, thank you. Thank you for the opportunity. So, my question was regarding the latest partnership with C-DAC. What could be the opportunity size over here? And what kind of margins do we expect? And also, does this allow us to compete in the supercomputing market going ahead also?

Kunhamed Bicha: So, Neel, deal we have signed the transfer technology with C-DAC. So that means we can resell the product anywhere if we choose the technology. Apart from the requirements which C-DAC have themselves, the quantum is still not there. Once we know the quantum, what the C-DAC requirements are, we're going to come out and say that. And I think the three players who have been approved, I think the size is big enough for all three. So we are excited about the program.

But the quantum in size which is coming out of the government, I believe it is tied to the budget. But we are excited that we are in with them. We have worked around two and half to 3 years with them in prototyping and the PCB design of the various products going into this. And ultimately, we will see a sizable chunk coming out of there. So, to be honest, we don't know the exact numbers, but it will be between the three TOT partners for C-DAC.

Sumant Kumar: Yes. Thank you, sir.

Moderator: Thank you. The next question is from Navid from Bastion. Please go ahead.

Navid: Hello.

Moderator: Yes, go ahead with the question, please.

Navid: Yes, hi. Thank you for the opportunity. I have two questions. Yes. The first one is on the employee cost. So our employee cost continues to be very high and also growing despite, more and more manufacturing taking place in India now. So I just wanted to understand a bit on how are we, planning and deploying manpower? So if you can give a sense as to how it used to happen, let's say, pre the slowdown, which we are looking at in the US? And how are we trying to change it right now? And how could one look at maybe in the mid to long term? If you can give a sense on this.

R M Subramanian: Yeah, I'll take that. This is Subramanian here. In terms of employee cost, as outlined in the earlier talk, we are taking multiple measures, I think, which is trying to realign the US operations. Firstly, we are trying to move production from the US to India, which is ongoing the customer end and then move to India. So that's one initiative.

Other is also trying to relook at operations in the cost, fixed cost corresponding to that. So this being a personal cost in terms of the way it plays out, it does take time in terms of taking that. Then what we need to do is to make sure that the ongoing operations are not disturbed. So we are working on both initiatives.

The long run, our target is to keep about 85% of the operations in India and keep the US operations and the front end the minimum. So as you said in outline in our speech, we want to do manufacturing in the ratio of 85 to 15, because US does have significant strategic advantage having a front end there. And this initiative, what we are taking, will play out in the future. And we'd like to maintain this scale of operations so that as the sales kick in, it will flow down to the bottom line.

Kunhamed Bicha: If I can add to this, what we are truly trying to do is that with the transfer of products from US to India for my existing customers in the US plant to India plant, there's going to be a timeframe where the products have to be approved in India plant and then the customer has given us the approval to move it. So that's taking time. But saying that, we are halfway through our cost optimization exercise in the US. So you will see, like RMS said, a lot of results showing up in the first half of next year.

Navid: Okay, that's helpful. So, again, asking from a mid to long term standpoint, can we, I know, estimate a significant rationalization in our employee cost to take place? I mean, not asking you to give a number, but just to give a sense as to what one should, how one should look at given substantial realignment in production which is taking place for us?

Kunhamed Bicha: Navid, the direction you're taking is possibly very correct.

Navid: Okay, okay, that's helpful. So, the second and the last question is on the working capital situation. So the working capital situation continues to, be difficult for us. Inventory, especially, is continuing to climb. So are we stocking more inventory in terms of better demand, which we are anticipating in the future or how is it shaping up right now?

R M Subramanian: Yeah, I'll take that. If you look at a couple of years back, just pre-COVID, we were operating at about 120 days net working capital and inventory in a similar range, okay. Today, we are above, essentially, on inventory in terms of slightly above the average of what we'd like to be. And we did anticipate a reduction of about 10 to 15 days, which has not happened.

But we are working on the same, and, as I explained in our earlier speech, due to onboarding of some of the new customers, which is happening. And when you have to balance between the working capital efficiency and growth, this is a delicate balance which we need to maintain and we are working on. But as we move along further quarter, we are confident that we should go back to what we've been operating earlier.

Navid: Okay, okay, thank you. Thank you, and all the best.

R M Subramanian: Thank you.

Moderator: Thank you. The next question is from Nikhil Kandoi from Phillip Capital. Please go ahead.

Nikhil Kandoi: Thank you for the opportunity. Can you define how basis the Kavach opportunity and how can Avalon take participating in this Kavach opportunity because other players are saying that they will go into Kavach and explore the opportunity. So how confidence is Avalon that Kavach opportunity will flow to Avalon?

Kunhamed Bicha: To say that I'm correct, there were three Indian players approved for Kavach a couple of years back. In the last two or three months, last quarter, I don't remember the exact date, there were two international companies also approved for the Kavach. We are working with one of them to get the Kavach program going. It will take some time, but we're jointly developing it for the part of the system for the Indian market.

Nikhil Kandoi: Got it. Sir, can - sorry, continue. Can I continue?

Kunhamed Bicha: Yes, please.

Nikhil Kandoi: Sir, can we expect from Q4 FY'25 orders of Kavach coming in?

Kunhamed Bicha: No, I think it will take a bit longer, a few more quarters down the road. There's a lot of work for them to get approved, right? So they've been approved by the government, the product has to get approved. So it's not something which is kicking in now. But with the budgets and things that way, we may be able to speed it up.

Nikhil Kandoi: Got it. And sir, any idea on how much will railway contribute to the overall segment going ahead? In FY'23, I think it was 29% to 30%, if I'm not wrong. Going ahead, what percentage can we expect over there?

Kunhamed Bicha: I think in today's context, till all this plays out, we would say we will still grow at 20% to 30% range.

Nikhil Kandoi: And sir, one last question from myself. Sir, in this quarter, we have seen that US operations have been not performing well. But when we look at green energy, which is mainly US operation led, that has grown 100% Q-on-Q. And industry has grown around 67% Q-on-Q. So any comments on that from your side?

Kunhamed Bicha: So I don't think that growth is there. We are seeing an overall slowdown in the US, whether it is auto, whether it is medical, whether it is clean. But the potential of green for us is fairly large. So you will see that play out in the future. But we are seeing an overall slowdown. It's not industry specific. If it is industry specific, we could have easily managed that.

Nikhil Kandoi: Okay, sir. Understood.

Moderator: Thank you. The next question is from Rutuja Thamankar from Asit C Mehta. Please go ahead.

Rutuja Thamankar: Thank you for the opportunity. But one of your competitors is trying to backward integrate into the OSAT and PCB manufacturing segment. So what are your thoughts? And are you also thinking along the same lines?

Kunhamed Bicha: So for us, we believe that there is enough opportunity in what we are doing. And with the slowdown in the US, we are not looking at it right away. But to say that in a few couple of quarters down the road, when our US side is back, we will for sure look at it. So as of now, we have looked at the metrics, but we have not taken any decision.

Rutuja Thamankar: Okay. Thank you.

Moderator: Thank you. The next question is from Hrithik from Beyond Capital. Please go ahead.

Hrithik: Thank you for the opportunity, sir. I have a question on the order book. Can you give me the breakup of the order book and also break up between domestic and export relating to the order book?

Kunhamed Bicha: So usually, we don't give the break up. But in general terms, I would say it is equally spread. So historically, we said 70-30 most of the orders will be exported. But now the fastest side of our order growth is from India.

Hrithik: Okay. What will be our capex expenditure for the next year?

Kunhamed Bicha: So for the next…

R M Subramanian: We talked about in terms of earlier our capex spend. Expected capex spend is about INR25 crores to INR30 crores per annum in terms of what we do. We have the buildings which are coming up for completion in next year. So that's part of the capital expenditure. Over and above that, we will have regular plant and machinery which will get added as we go along.

Kunhamed Bicha: And just to add to that, we always look to have asset turns over 9x. And we continue to do that. In that sense, like RMS has said, it's INR35 crores to INR40 crores every year.

Hrithik: Okay. Thank you. That's all from my side.

Moderator: Thank you. The next question is from the line of Bhoomika Nair from DAM Capital. Please go ahead.

Bhoomika Nair: Yes, sir. So just one or two questions. If I look at the industrial segment for 3Q '24, there's been a fairly steep decline. And as a percentage of sales for the last couple of years and also for quarters, we've been around the 30%-35% range. But this quarter, I think it mentions about 11-odd-percent. So what has happened for the industrial segment to kind of see a sharp decline this quarter where the inventory wind-down has been happening for the last couple of quarters? So has there been some specific issue which has happened in the particular quarter?

Kunhamed Bicha: No, on the industrial, I don't see us having a sharp drop.

Bhoomika Nair: Because the share is falling down with the funding?

Kunhamed Bicha: The share is on the medical side.

Bhoomika Nair: Okay. Sir, the other thing was in terms of the outlook, we've kind of toned down our guidance from 30% to 20%-25%. We are obviously working on a lot of domestic initiatives with a lot of things in the pipeline. Plus, we are looking at some new client additions in the US, etcetera, not to mention some scale-up of the current order backlog itself, which provides decent visibility. So is it that the improvement has kind of changed a lot? Or the kind of scale-up which was expected is moving very slow? What is really happening? Because I thought we had much more in pipeline in terms of the client aspect of it.

Kunhamed Bicha: Bhoomika, most of what is happening in India is starting to happen. And a lot of the wins have been in Q2, Q3 of this year. And we'll see a lot of the traction happen in H1 on the India side. The US side, of course, some of the big ones, which we don't want to overcommit it, is in process. We will start commercial production in H1 and ramp up in H2. So we are confident of both. And in that sense, we are hoping that both India and US kick in. We are ready to take on both as they kick in.

Bhoomika Nair: Right. So, if actually things pan out, then the growth can be on the higher end. We're just being cautious in our guidance to that number. Is that the way one should think about it?

Kunhamed Bicha: Yeah, I think you should think about it. And we are also learning as we go. I mean, the expectation of the U.S. slowing down was not there three quarters back. And we thought we'd come back earlier than what is happening today. But the silver lining is nothing is lost. And some of the customers are kicking back in.

Bhoomika Nair: Sure. Other thing was in terms of the inventory levels and, working capital, which has seemingly gone up in this current quarter. So, how do we see that moving? And can we expect a reduction as one moves ahead?

Or, because the shift is happening to India for manufacturing for some of these U.S. clients, will there be an increase in inventory and really not really a meaningful reduction in the working capital as things are planned?

R M Subramanian: Bhoomika, I'll take that. If you see on the trade tables, already we have seen an improvement. On inventory, I think this quarter has been a slight increase due to the new customer sign up.

So, as I said, it's always a delicate balance. And we need to make sure that when somebody is on board with the required inventory, and their schedules are also a little not clearly defined. So that's the stuff. But overall, I think we should get back, even if it's pushed out by a quarter or so. But our inventory will go down because it's definitely on the high side. We will go down. But it's taking a little more time than expected.

Bhoomika Nair: Okay. Sir. Thank you.

Kunhamed Bicha: Thank you, Bhoomika. Any more questions?

Moderator: The next question is from the line of Neel Nadkarni from the Dalal & Broacha. Please go ahead.

Neel Nadkarni: Sir, thanks for providing the opportunity again. Sir, I just had a couple of bookkeeping questions. Sir, our debt reduction going ahead, do we expect that to come down further from our current, I think, INR100 crores debt is remaining?

And going ahead, do we expect our finance cost to remain in this current range? Or do we expect that to come down? And another one was on the tax rate. What tax rate going ahead do we expect?

R M Subramanian: Yes. Okay. So, I'll answer this question. In terms of debt, as we told today, the debt is about INR100 crores, all in Sienna, which is our US subsidiary books. What we are looking forward to repay some of the higher costs that's there in the US. So, about 50% of that will come down.

And interest costs will come down correspondingly. But already interest cost is lower. But it will probably get lower to that extent.

Neel Nadkarni: Tax rate.

R M Subramanian: Okay. Tax rate is, I think, overall weighted average rate. I'd say it's more about like 27.5 is something which is a good number to look at. Or at a consolidated level. But at individual entity level, it will vary. But as you know, tax is done at entity level. At a consolidated level, you can look at that number.

Neel Nadkarni: And, sir, just a clarification. What was the revised guidance? And going ahead on a medium to long term, what do you expect? Can we achieve an industry growth of 25% to 30%?

Kunhamed Bicha: So, we are seeing a lot of activity from our different customers. Of course, we are coming from a position of weakness in the US and growth in India. So, we are going through a budgeting process now.

And probably the next call, we can give you a very reliable number. So, we're just keeping that for the next call as we are going through a whole budgeting process. And to make sure that the growth rate which is expected and what we look forward is there.

Neel Nadkarni: Sure, sir. Thank you.

Kunhamed Bicha: Thank you.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I would now like to hand the conference back to Ms. Bhoomika Nair for closing comments.

Bhoomika Nair: Yes, sir. Thank you very much for giving us the opportunity to host the call. Wishing you all the very best. And thanks to all the participants for being there. Thank you very much.

Kunhamed Bicha: Yes. From the company side, we are heartened by the strong support from our investors in tough market conditions. We will strive to reinforce the faith that investors have placed in our company.

I express my sincere gratitude for your unwavering support and confidence in our company. Together, we are poised for an exceptional journey of profitable growth and success. Thank you to all attending this call.

R M Subramanian: Thank you.

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