“Avalon Technologies Limited

Q2 FY '24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Avalon Technologies Second Quarter Fiscal Year 2024 Earnings Conference Call hosted by DAM Capital Advisors Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I will now hand the conference over to Bhoomika Nair of DAM Capital. Please go ahead.

Bhoomika Nair: Yes, thanks, Alison. Good evening, everyone, and welcome to the Q2 FY24 Earnings Call of Avalon Technologies. We have the management today 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, Chief Operating Officer, U.S. and Mr. Suresh V.R., Head, Corporate Planning and Investor Relations.

At this point, I'll hand over the, before I just hand over the call to Mr. Bicha, I just want everyone to bear in mind that any forward-looking statements that are made during this call are subject to potential risk and uncertainty, both known and unknown. Without further delay, I now hand over the call to Mr. Kunhamed Bicha, CMD. Over to you, sir.

Kunhamed Bicha: Good evening to everyone on the call. Ladies and gentlemen, on behalf of Avalon Technologies, I extend a warm welcome to our Q2FY24 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 has established itself as a key player in electronic manufacturing services with a global reach. Our journey began in 1997 with a vision of introducing top-tier electronics manufacturing in India. Today, we take pride in our leadership in high-mix, flexible-volume manufacturing, serving a diverse range of industry verticals, especially in intricate integrated solutions that require significant engineering expertise. We currently operate across 12 manufacturing facilities in India and the United States, we are also adding two new manufacturing units in India.

Our three key differentiators are,

(1) Vertical integration – We are a one stop shop offering a true box build solution – that involves PCB design, New Product Development, cable assembly, sheet metal, plastics, magnetics, testing and logistics. We do end-to-end development from PCB design to manufacturing of final product.

(2) Global presence – both in terms of manufacturing presence and customer base.

(3) Optimal mix of today's established industries like Industrial, Rail, Aerospace, Auto, Medical & Communication and tomorrow's emerging industries like clean energy.

Now, moving on to our business performance. In line with our prior discussions, our H1 results were tempered by the challenging economic conditions in the US, despite our robust domestic demand and the acquisition of marquee global customers. Our India growth story is promising with a 16% increase in revenue and a 26% expansion in our order book. In fact, our Indian manufacturing operations, constituting 75% of our business, achieved a robust 8.3% PAT during H1. However, the ongoing difficulties in the US market have resulted in a decline in our US operations, leading to losses that temporarily overshadow the strong performance of our Indian operations. Avalon excels in its global outreach, with over 50% of our revenue originating from the US. This has allowed us to gain a deep understanding of operating in a globally interconnected economy. Our presence in export markets has given us a competitive edge historically, however it exposes us to regional economic headwinds, like what we are experiencing now. The Indian and US markets are currently operating in remarkably different environments, and their respective performances reflect that.

During H1, our Indian market revenue grew by 16% while our US market revenue declined by 14%. On that note, I would like to highlight the hybrid nature of our operations. Since inception, we have firmly believed in our ability to capitalize on a unique combination of Indian cost arbitrage and global margin profiles. At the same time, our US manufacturing presence plays a crucial role as it acts as a gateway to acquiring customers within the US market. Having said that, presently, approximately 75% of our revenues are derived from products manufactured in India and 25% of our revenues are derived from products manufactured in the US. This 75% India manufacturing segment continues to generate industry leading profitability, reporting around 8.7% PAT during H1 FY24. In contrast, 25% US manufacturing segment is dealing with the effects of the economic slowdown in the United States and is posting a loss. Current circumstances prompt us to seek greater efficiencies.

As highlighted in our last conference call, we have taken proactive steps in response to short-term challenges in the US market. These actions encompass two measures concerning our US operations (1) optimizing product allocation from our US plant to our India plant and (2) rationalizing costs within our US operations. We have been diligently working on these measures over the past few months and are already witnessing positive results. To illustrate, in terms of the rationalization of US costs, we have already achieved over half of our targeted improvements and the remaining changes are expected within the next 3-6 months. The outcomes of these measures will gradually become more apparent in the upcoming quarters.

While discussing our US operations, I would like to take some time to highlight the crucial function carried out by our US manufacturing presence. It functions as our "front end," streamlining customer onboarding and serves as a “Beachhead” to expand our market footprint. Additionally, it empowers us to position ourselves better from the perspective of Inflation Reduction Act in the US, a substantial $390 billion initiative advocating the adoption of clean energy utilization. These elements underpin the significance of our US operations in the overarching narrative of Avalon's growth. While we are optimizing our US operating costs, our organization is filled with enthusiasm as we recognize the significant decadal market opportunity that lies before us.

Now transitioning to an update on the new businesses we have secured, in summary, our order book stands at INR 1,244 Crores as of September 30, 2023, reflecting a 13% growth from June 2023. These orders are expected to be fulfilled over a span of 12-14 months. Additionally, we've also secured contracts and Letters of Intent (LoIs) worth an additional INR 750 Crores, with execution timelines spanning 2-4 years. We're excited to share progress with our two significant clean energy clients—one in the US solar inverter & battery system sector and the other in the hydrogen electrolyser domain. Both partnerships are on the verge of production, set to commence in Q4 FY24. Our aerospace wiper blade assembly project in India is advancing smoothly. We anticipate commencing product deliveries in the second quarter of the next fiscal year.

In terms of new customer acquisitions, we are excited to share that we have secured a large contract with one of India's innovative EV manufacturers who will entrust us with manufacturing their charger and data transmission systems. Additionally, we have also had some major wins in the US. They are diversified across verticals. These include Video surveillance systems for Industrial applications, Grid flexibility systems for clean energy, Heat Transfer Products in the automotive sector, medical equipment & instruments, Residential ventilation solutions and Processing systems in the field of Agro technology. Our role as strategic partners to our customers is evident in our ability to retain all our customers in the US even during these trying times.

We are also excited to announce that CDAC has extended Avalon Technologies an opportunity to receive the Transfer of Technology (TOT) as part of the National Supercomputing Mission for Rudra-1, India's indigenous server program. Avalon Group has been a long-standing collaborator with CDAC within the National Supercomputing Mission and is actively contributed to the PCB design engineering of the Rudra-2 liquid-cooled server platform, currently in development at CDAC.

When we want to capitalize on these decadal opportunities, it is essential that we do not lose sight of the forest from the trees and plant the seeds for tomorrow. We are preparing our organization for the years of growth ahead. As a significant step in this direction, we are pleased to introduce Mr. Shriram Vijayaraghavan as our new Group Chief Operating Officer. He brings valuable operational experience from his previous leadership roles at companies like Wheels India, Caterpillar, Hertz, as well as strategic experience from his previous position at McKinsey. We are also strengthening our business development team in the US by welcoming aboard three seasoned professionals, each boasting over two decades of experience in the EMS industry.

As previously highlighted, achieving our full-year revenue growth targets depends on the resurgence of the US market, while our performance in the Indian market remains robust. Currently, we lean towards favouring the lower end of our Q1 guidance with a negative bias. While we acknowledge short-term challenges, we maintain confidence in our strong underlying fundamentals and remain committed to achieving our stated long-term goal of 25-30% revenue

CAGR over the next 3 years. To sum up, 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. Before I handover the floor to our CFO, we appreciate your continued trust and support as we work together to realize our vision.

R M Subramanian: Thank you, KB and good evening, everybody. Thanks for joining the call today. I would like to start this talking about the critical issues influencing the company's performance. These include the headwinds in the US economy, which have led to a significant decline in sales from the US market and our unique hybrid business model, which involves export-oriented sales with manufacturing facilities in both India and the USA. While our export-driven model typically yields higher margins and better profitability, the current market conditions pose substantial challenges, much like other export-focused industries such as IT. As a company, we are actively working on adjusting our business strategy to align with the current market conditions. Our efforts include heightening our focus on the Indian market to achieve a 50:50 ratio between the USA and India, all the while maintaining our presence in the highly profitable US market and shifting more of our manufacturing operations to India and optimizing our US-based operations accordingly. It's important to note that this ongoing effort to realign our strategy and reduce business risks is a work in progress and may take a couple of quarters to yield tangible results. In the interim, it's crucial to view this quarter's performance within the context of the above-mentioned near-term challenges.

Now moving on to performance in last quarter in detail. In H1 FY24, our revenue from operations was Rs. 436 Crores, a decrease of 1% YoY. In Q2 FY24, our revenue from operations was Rs. 201 Crores, a decrease of 17.9% YoY and decrease of 14.5% QoQ. Gross Margin is Rs. 75 crores, down by 14% YoY and increase of 7% on a QoQ basis. Gross Margin stood at 37.2%, an increase of 173 bps YoY and 303 bps QoQ. EBITDA is at Rs. 12.6 crores, down 56% YoY and decrease of 22% on a QoQ basis. EBITDA margin stood at 6.3%, a decrease of 541 bps on a yearly basis and 62 bps on QoQ basis. PAT stood at Rs. 7.3 Crores, down 51% YoY and an increase of 3% QoQ basis. PAT margin is at 3.5%, a decrease of 235 bps YoY, an increase of 59 bps QoQ basis.

Coming to IPO fund utilisation, our approved IPO funds utilisation consists of (1) Debt repayment of Rs 145 Cr, (2) Working capital requirements of Rs 90 Cr and (3) GCP requirements of Rs 63.5 Crs post issue expenses. We have fully utilized all our IPO funds that has been made available. GCP was Rs. 64.40 crore which was worked out based on estimated cost of issue of Rs. 20.6 crore. The BRLMs have reworked and earmarked Rs 21.57 crore for the issue expenses and transferred an amount of Rs. 298.43 crore into the monitoring agency account. Utilizing a mix our IPO and company generated funds, we have repaid approximately Rs. 200 crores of our O/s Debt in the Indian entities, as of today at the group level, by the end of this quarter, we are left with approximately Rs 100 Cr of debt in our US subsidiary – Sienna. Our Indian entities are almost fully debt free.

Moving on to the balance sheet side, our working capital days was 151 days in Q2 FY24, comprising of 112 days of inventory, 65 days of receivables and 26 days of payables. Encouragingly, we are witnessing initial indicators of a decline in working capital demands, as the supply chain situation gradually normalizes. The once upward trajectory of inventory has reached a stabilization point. Balancing the imperative of working capital efficiency alongside our growth objectives presents a complex challenge. We will do our best to manage and maintain the balance without compromising growth. I must add while we are focused on growth, working capital cycles may fluctuate in line with customer requirements including strict delivery timelines, testing new prototypes for customers etc. We continue to focus on reducing our working capital cycle and with the current headwinds in our key markets, we expect it to fluctuate in the short term and hope to achieve a reduction of 10-15 days over next 6 to 12 months.

As on 31st October we have INR 125 (approx.) crores in cash. Out of this, INR 50 (approx.) crores is earmarked for investment in our US subsidiary, Sienna to prepay costlier source of funds and the balance Rs 75 (approx.) crores will be surplus meant as a reserve and growth capital. Additionally, we prefer to keep the existing working capital lines in India available, amounting to about INR 185 (approx.) crores. This additional cushion should allow us to aggressively bid for and execute significantly large orders which are in our pipeline and also be open for any inorganic growth opportunities.

In summary our Q2 FY24 performance was characterised by the significant growth in domestic business in spite of the US geography slowdown and the related fixed costs. We hope to achieve the lower end of the guidance with a cautious outlook, and it is based on the US market resurgence and our strong domestic market outlook. Thus, in terms of FY24, we expect that H2 will be stronger than H1. Regarding margins in the upcoming quarters, in spite of the headwinds, with measures like saving in interest costs, optimisation of our manufacturing operations and cost rationalisation in US which our CEO talked about, margins will be under pressure in the near term but we are hopeful of maintaining or achieving margins similar to that of our of FY23 levels. With this, I request the moderator to open the floor for Q&A.

Moderator: Thank you very much. Our first question today will come from Navid Virani of Bastion Research. Please go ahead.

Navid Virani: Thank you for the opportunity, sir. Firstly, it is encouraging to see a gross margin expansion. I wanted to understand around the sustainability part of this as well as what is expected to drive the same going forward adjusted element?

R M Subramanian: I will repeat the question. Subramanian here, you talked about the gross margins and you talked about sustainability of the gross margin. Is it right? That is the question?

Navid Virani: Right, right. That is what I wanted to understand.

R M Subramanian: Let me answer that. We have achieved a margin of about 37.5%, which is obviously good. This quarter has been characterized by good margins in terms of a couple of service business as well. In the long run, I think we have been consistent in saying 33% to 35% is something which we will look at the number in terms of the gross margin. This time has been much better, but we cannot take it as a long run average.

Navid Virani: That is helpful. The last question which I had was that the growth in the Indian business which we saw this time was around 16%. Now, if I see this in the context of the current industry positioning, this growth looks slightly on the lower side. Can you give us some understanding on this as well as how do you see the future outlook here? That is all. Thank you.

Kunhamed Bicha: Absolutely, Navid. This is Kunhamed. See historically, we have been an export business. If you go back three or four years, we were 70-75% export and 25-30% India. To be honest, the potential of India was realized in the last 6 to 12 months. We are actively pursuing Indian customers in the longer term.

So that's why you are starting to see the growth actually grow significantly now and it will grow significantly as India is doing extremely well compared to the global economies. Did I answer your question, Navid? So, we started a little bit late to getting into the Indian market. We were primarily an export-driven business.

Navid Virani: Thank you, sir. Thank you for the understanding. I wish you all the best and a Happy Diwali.

Kunhamed Bicha: Happy Diwali to you too, Navid.

Moderator: Our next question today will come from Renu Baid of IIFL Securities. Please go ahead.

Renu Baid: Hi. Good afternoon, team. My first question is if you can split the financial performance between India and US. You did mention about revenue, but how was it at EBITDA and PBT level? So, what was the EBITDA loss from the US business in the console numbers and PBT loss?

R M Subramanian: In terms of India and US manufacturing business, that is something which we don't publish. But just a broad-brush number in terms of allocating cost based on that - The India manufacturing business EBITDA margin is about 12% to 13% and PAT margin is about 9% to 10%. And we have achieved about a INR15 crores profit in terms of India manufacturing business in terms of the quarter.

Renu Baid: Sorry, I missed the number.

R M Subramanian: 15 crores.

Renu Baid: 15 crores of profit.

R M Subramanian: Yes. So, in terms of the US manufacturing, as KB talked about and I also indicated, there is a drop in sales and the fixed cost is higher. So that's into losses. And what we are seeing is a net impact about INR 7.28 crores in terms of consolidated profit. Okay. So overall, I think the business in terms of both EBITDA and at PAT levels continues to remain healthy and profitable. And the business model, what we want to continue and sustain on, it's the US manufacturing business model that we need to focus on. And we have started work on that. It will take a couple of quarters to yield results, but that's what we want to continue in terms of onboarding customers in the US and then moving on to India, which is where we should continue to make profit.

Renu Baid: Got it. And cumulatively for the first half of the year, what was the net loss from the US business?

R M Subramanian: Again, broadly, it's about INR 15 crores.

Renu Baid: Okay. Got it. May I go ahead?

R M Subramanian: Go ahead, please.

Renu Baid: So, this almost INR 7 crores to INR 8 crores kind of quarterly loss which this business is generating after the various cost out actions that you have undertaken in 2Q and which you plan to do in second half, what are your targeted guidelines for bringing down the losses in the next two quarters, assuming things in the US remain the way they are or may worsen in the third quarter?

R M Subramanian: Okay. So, I think we did talk about the measures which we are taking. The measures are at two levels. One is looking at the operating cost and fixed cost, personnel cost coming down, and also moving some of the production from the US to India. And as you know, moving production does take time in terms of a product. We need to work with the customer.

So, we have started the process, and the effect of that will be felt over next one to two quarters. On a consolidated basis, we hope to achieve the margins of what we have achieved last year, and that's what our target is in terms of moving forward.

Kunhamed Bicha: So, Renu, if I can add to it. What we're trying to do is optimize personnel cost, which is very high in the US. At the same time, move some of our existing customers to India, who have been there with us, and because the US costs are rising, not for us, for everybody in the US. So that transition is also happening.

So, it's twofold. One is reducing cost, and one is transfer of product. And we intend to keep only clean energy product manufacturing in the US. 50% of our customers agree. The other 50%, we are in the process of making them agree. Let's put it that way. So, it's a work in process.

Renu Baid: And what is the estimated reduction in cost for the US operations that we have in our mind? Which we are targeting?

Kunhamed Bicha: I don't want to give a number, but it's substantial.

Renu Baid: Got it. Surely. Second, while you've highlighted entry into automotive EV business, can you share a bit more details in terms of what applications are we getting within the EV portfolio? You mentioned about charging solutions for the EV major. And by when do we see revenues kicking in from this customer? And will this be part of the clean energy segment or the industrial business for us?

Kunhamed Bicha: I'll answer the last bit initially, if that's okay, Renu. It will be part under our clean energy business because we've been doing that. If it's EV, we are doing that. We are actually doing all the pieces for the vehicle. So any electronics part, it's an end-to-end solution with three or four different products going into the vehicle. And we hope to start the initial runs in Q4. And we have secured orders for the next 12 months.

Renu Baid: So, when you mentioned you're doing everything, is everything relating to the powertrain or also other electronics, including infotainment, lighting and other solutions for the four-wheeler?

Kunhamed Bicha: Okay, I don't want to say the four, three or two-wheeler, but it's three or four different boxes for the vehicle.

Renu Baid: Got it. And this is all on a box-built basis?

Kunhamed Bicha: Exactly. All of it is box-built.

Renu Baid: Thirdly, on the CDAC development which you have shared, so just trying to understand the revenue potential from this initiative of Make in India. And recently, one of the other leading EMS companies had also announced getting approvals with CDAC for one of the supercomputing machines under the same mission of localizing these computing machines in India. So just want to understand Avalon's role here, the opportunity, addressable market. And in your view, how many other vendors are working with CDAC for the same solution?

Kunhamed Bicha: From what I understand, I cannot speak for CDAC, it's only going to be three vendors, and you know the other two, is what we understand. We've been working with CDAC for the last four years. Since our entry aggressively into the Indian market has been in the last year, the target number is all over the place. I cannot pin to a number. You may have a better number on it, but it could be a three-way split in that case, or it could be three vendors trying to support what they can.

Renu Baid: But can this become like a 5 billion business portfolio for us in the next three to four years?

Kunhamed Bicha: That's a difficult question to answer.

Renu Baid: What is the utility of this IT product vertical for us?

Kunhamed Bicha: So, because it's servers and it's higher end, that's why our interest. And since we are vertically integrated, we do a lot of the pieces internally. And we have done for Rudra 1, apart from the PCB, we have done all the parts for them internally.

Rudra 2 is coming up, I think that's where the scale is going to come. So, I'm hoping that we get a better understanding on the scale and scope as the government decides what they want to do with it. Because the whole IT policy is in different stages today. Once the clarity comes is when they make in India . I don't think it's going to be a $5 billion opportunity, to be honest.

Renu Baid: Million-rupee opportunity, sir, not dollars. Sorry.

Kunhamed Bicha: It could be. When you said 5 million, I apologize for that.

Renu Baid: Yes. 5 million is a very realistic number, I thought so.

Kunhamed Bicha: Okay. That could be, I would say, yes, that's possible. I heard it was a million for some reason.

Renu Baid: No, no, I'm not talking in dollar terms. Sorry for that. And lastly, while we spoke about all the new opportunities and the restructuring underway in the US, what would you like to comment in terms of the revised guidance for fiscal 24? Net margins you have mentioned you want to target same levels as last year, but in terms of revenue growth, how should we look at the year-end EBITDA margins?

Kunhamed Bicha: See, our focus is a three-year journey, and '25 and '26 are looking really strong today. Apart from this, we have added another seven customers, one in the rail segment, two in the industrial segment, and one more division of one of our existing customers in the aero segment. So, we feel very confident of the future.

The immediate question mark for us is how soon will the US market come back? There are different views on it, and we believe that some of the inventory correction that's happening is very much underway, and we may possibly see all these customers come back in the near term, but it's a toss of a coin when they're going to come back. So I believe that that is the crux of where the range will be.

That's why I said we are on the lower end of our guidance, with a little negative bias that could change drastically if one of our customers is back in production. And saying all this, we believe we have not lost any customer through this whole process. It's just wait and watch for the business to come back. And these customers are very consistent with us for the last five or six years.

Renu Baid: Sure, and just if you can remind us of what has been the lower end of the guidance. Maybe I've missed that number.

R M Subramanian: Yes, Renu, this is Subramanian here. In terms of the revenue guidance, we have talked about 15% to 25%. And as our CEO said, we are hopeful of achieving the lower end of the guidance. Again, the key thing has to be when the U.S. market comes back, because we continue to be focused on the export-focused markets.

Renu Baid: Got it. So maybe 10 to 15 may be a more realistic number to expect for the current year.

R M Subramanian: The U.S. economic macro conditions are difficult under pressure. So this is what I hope and we are working towards it.

Moderator: Our next question today will come from Meet Jain of Motilal Oswal. Please go ahead.

Meet Jain: I just want to understand the end of the mix right now. Clean energy mix has been going down and the Q1 also has witnessed sluggishness. So earlier in a phone call, we said that our clean energy mix is going at a very fast pace and will always be around 35%. This 35% is including the new orders of EV, I guess, you're thinking about, or it is entirely the US orders?

Kunhamed Bicha: So, Meet, it's a mix. So, we have two of our larger EV customers where we predicted that it's going to go to 35%. We still believe over a period of time, it's going to go to 35%. And the EV is an additional part to that. Does that answer that question?

Meet Jain: Yes. And next is on the aerospace part. So, standing with the ballpark growth, how did the aerospace division build in this quarter and the first half? And the new orders which we talked about, the factory transfer and the plastic tooling, how are they progressing?

Kunhamed Bicha: So, the usual aerospace business is going relatively the same. The wiper blade, as we have started the processes to get that into production, we see that coming on board in Q2 of next year. And the number of wiper blades, I think it's close to 200. The first set will start to go through in the early part of next year. The other good opportunity we have is in, not opportunity, we have already, FII has approved for cables and planes. And these are in the cabin space.

And secondly, a new customer, a different division of one of our customers has also given us particles to be approved for cable. And these will be a substantial piece once the approvals come through. So, for metal, we went to plastics, and now we are in cables, mostly in the cabin and some part in the engine.

Meet Jain: Understood, understood. And the last question is on the industrial side. Industrial and the orderbook side. So, current orderbook of almost INR 200 crores. Can you provide a broad mix of how much is for US and the Indian business?

Kunhamed Bicha: See, our goal always has been going to the future to do 50% India and 50% US because of the reasons you see today, the economic changes on both sides. So, we want to capture both. So, our intention will always be to get to the 50-50 mix. In the last quarter, I think the orders from India are much larger in comparison to the US. But again, we are getting six or seven new customers coming in in the US. And though the economy is slow, we are acquiring customers.

We are also invested in three new regions for our sales folks with new hires on business development. And though, we are reducing costs, optimizing costs in other regions, we are still investing in business development. We are a firm believer when the US economy comes back, we will have much more to deliver.

Meet Jain: Okay. Thanks a lot, sir. Thank you.

Kunhamed Bicha: You're welcome.

Moderator: Our next question today will come from Karan Sanwal of Niveshaay. Please go ahead.

Karan Sanwal: Yes, thanks for the opportunity. I have a couple of questions. The first question would be, there is an increase on the working capital side, there's an increase in inventory days and there's a reduction in payable days which is causing our net working capital to go up. So, I wanted to understand, like, when do we expect them to stabilize and what will be the targeted level of net working capital days that we are internally targeting?

R M Subramanian: Yes. Subramanian here. And I'll take that. In terms of, as you rightly said, net working days is broadly flat between last quarter and this quarter. In terms of guidance, we wanted to look at a reduction of about 10 days to 15 days in terms of working capital. But considering the market condition in terms of US pressure and also the customer push out in terms of orders, it remained broadly flat.

But we continue to be hopeful of achieving what the guidance gave in terms of reduction by 10 to 15 days in the next 6 to 12 months, which will be essentially led by reduction in inventory days and also pushing up for payable days a little more. In the long run, we hope to achieve 120 days, which is what we were pre-COVID and in the medium term, not in the short term, medium term, we hope to achieve the same as well.

Karan Sanwal: Okay. And also, continuing on the question that the last participant asked, I wanted to understand the mix of order book between segments. If you could broadly highlight which segment is contributing more to the order book, the current order book?

Kunhamed Bicha: Today, I would believe it will be clean energy and followed by industrial.

Karan Sanwal: If you could give a ballpark number, how much portion would it contribute, the clean energy and the industrial part?

Kunhamed Bicha: I would say these two will be north of 60% together.

Karan Sanwal: Okay. Thanks for the clarity. And one last bit of question. I understand that many participants have already highlighted, but just wanted to understand when we're saying that we're targeting an EBITDA margin similar to the last year, we actually need to do around 15%, 16% EBITDA margin for the H2 as compared to H1. So, just wanted to like, are we confident enough to achieve that target for the next half of the financial year?

R M Subramanian: Subramanian here. And I'll take that as you said, yes. So, in terms of our focus is on achieving the bottom line in terms of the PAT and the profit margins. So, our focus and endeavor will be to achieve the same and typically our H2 is stronger than H1. So, what we believe is the market should come back, though we cannot predict the exact time, the market should come back. And we're also working on reduction in cost in terms of personal cost and moving some of the operations into India.

So, all of that should give some more savings in terms of the cost, coupled with savings and interest costs, we are hopeful of achieving the bottom line in terms of what we achieved last year. And H2 has to be stronger than H1, as rightly said.

Karan Sanwal: Just a last question. What you are saying that the Indian market is contributing to the growth. So, I just wanted to understand which are the main drivers of growth in the Indian market as of now?

Kunhamed Bicha So if I can take that. Yes, so the Indian manufacturing, when you say 75% of Indian manufacturing, it is some of the export as well as the Indian market. Okay, together. So, from the manufacturing standpoint, the growth is going to come from clean energy as well as the industrial side. As you very well know, we've been in the rail industry for quite some time. We are seeing substantial projects from our existing customers, as well as we have signed a new global major in the rail segment. So, we hope as India's growth story in rail streams ahead, we'll be a very, very strong part of it in the future.

Karan Sanwal: Okay, great. Thank you so much and all the very best for the next, yes, thank you.

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

Neel Nadkarni: Yes, thank you for the opportunity, sir. So, most of my questions are answered. So, I have a couple of questions over here. So, you just now mentioned that the rail industry, you believe that will become the substantial part of your business going ahead that should grow. So, do you expect this also to be in the 10% to 20% or how do you expect this? Can you throw some color on that?

Kunhamed Bicha: So, historically, we look at mobility, which is auto, air and rail, but EVs we count in clean energy, just for the groupings. So, we believe rail today is a substantial portion of what we do. And with the India growth story, rail will continue to be a substantial portion of what we do. We are in railway interlocking signaling, we are in braking, we are hopefully getting into KAVACH and as well as parts for our customers for the Vande Bharat.

Neel Nadkarni: Thank you, sir. And the second question is, historically, sir, what has been your trend like H1 and between H1 and H2? Can you just clarify that?

R M Subramanian: H1, again, it varies, but broadly in the range about 45% & 55%. But typically, if there is a boost in decision making, it can be much stronger, but that's the normal number.

Neel Nadkarni: Right. And the recent customer acquisition, which have been made in the US or made in India. So, majorly, when do you expect these customers to ramp-up and contribute a significant portion, like how much time generally it takes for them to ramp-up?

Kunhamed Bicha: So, ideally, it's four months to six months. In the air sector, it's a bit longer. Air and the rail sector is a bit longer. If it's an industrial/communication, and I believe in the EV side, we should be in production four months to six months. So, I would say, late part of Q4. And primarily, a lot of these projects will kick in full stream in '25.

Neel Nadkarni: Thank you so much, sir.

Kunhamed Bicha: You're welcome.

Moderator: Our next question today will come from Ashish Rawat of M S Klebstoffe. Please go ahead.

Ashish Rawat: Hi, sir. Good afternoon. Sir, my first question is regarding the equity, which went down from 71% to 50%. So, what was the reason, sir, and where we utilized that money? This is the first.

Sir, my second question is regarding hydrogen electrolyzer. You have mentioned in your opening remarks. I want to know about this particular segment about product. In terms of number, in future, how big this concept is, sir? I have two questions, sir. Please.

R M Subramanian: So, on the equity part, I'll take it. I think you are referring to usage of OFS money, okay, which got used between June and September. Basically, this remained in our bank account, and then subsequently paid off to the selling shareholders. Okay. But otherwise, in terms of equity, there's no reduction.

Ashish Rawat: Okay.

Kunhamed Bicha: So, we've been working on the hydrogen project for the last two years, doing various components. It's a fairly large system, and it's a very expensive system in our normal running into lags. So, we're building the first 100 units this year, maybe 60 to 100 units this year, and the projections are anywhere from 300 units to 600 units the following years.

Ashish Rawat: Sir, we have seen you recently participate in India Mobile Congress. Sir, what is our contribution in 5G and 6G networks?

Kunhamed Bicha: Yes, we've been working with various, like I mentioned earlier in the call, the last six months to a year is when we have truly entered the Indian market. We are very focused outside the country, when export was the key. And with the Indian economy booming and Indian market expanding, with China Plus One and things, we believe we have worked with various customers on 5G, especially getting them from PCB layout to prototype. And we've never taken a company completely into production as it's evolving today. We see a big opportunity in certain parts of 5G. That is why we were in the conference. It is multifaceted, and I hope that will bear fruit in the future.

Ashish Rawat: All right, sir. Thank you so much.

Kunhamed Bicha: You're welcome.

Moderator: Our next question today will come from Rahul Gajare of Haitong Securities. Please go ahead.

Rahul Gajare: Good evening and thanks for the opportunity. I'm not sure if you answered this question earlier on profitability. So, I want to understand, the drop in EBITDA margin in this particular quarter, is this all mainly because of the US operations or are there sectors of segment contribution which has impacted your overall profitability?

R M Subramanian: Subramanian here, Rahul. If you look at the gross margin, it has gone up. So essentially it's not a problem with the margins of the customers. It's been essentially led by the operating leverage impact, which is drop in the top line and the fixed cost being there, which automatically leads to the drop in EBITDA. So, it's not to do with specific customers. It's more to do with the operations and the higher fixed cost. And it's dominated by the US market where the top line did go down, but the fixed cost remained higher. So that's been the pressure on.

Rahul Gajare: You did talk about the growth. Is it possible you can give us a contribution of US revenue in the INR 200 crores that you've done in this quarter?

R M Subramanian: Sorry, can you repeat the question?

Kunhamed Bicha: No, US revenue. So as of now, we do 75% of our production is done in India and 25% is done in the US, if that answers your question.

Rahul Gajare: Okay, great. Thank you very much.

Moderator: As there are no further questions. I would now like to hand the conference back over to Bhoomika Nair for closing comments.

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

Kunhamed Bicha: Happy Diwali to all. And thank you very much for the opportunity to talk to all of you. And wish you a very good evening. Thank you.

R M Subramanian: Thank you.

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