"DCX Systems Limited

Q4 FY '23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the DCX Systems Limited Q4 and FY '23 Earnings Conference Call. 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 a guarantee of future performance and involve risks and uncertainties that are difficult to predict.

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 now hand the conference over to Dr. Raghavendra Rao, Chairman and MD, DCX Systems Limited. Thank you and over to you, sir.

Dr. Raghavendra Rao: Thank you. Dear investor, firstly, Namaskara, Namaste. I am Raghavendra Rao, as a Founder and Promoter of DCX Systems Limited. It gives me a great pleasure to all of you in the call, first-ever earnings call. I'm really glad to welcome on this call and thank you very much for your valuable time and joining this, our first earnings call. Personally, I thank you all for joining this call.

Just to take this call forward, see, I just -- a few points about the entire journey of DCX, about our future positioning, and we'd like to highlight in my opening remark. And I come out with a 30-years background of electronic industry and grow this company from INR25 crores in 2017 to -- till about 2017 to 2023, about INR1,253 crores. And we build strong business visibility, trustworthy relationship with global OEMs, mainly in our customers, as well as domestic customers, strong supply chain system in the high-skilled technological team available in the DCX, and good visibility on the business opportunity in the area of offset and non-offset and technology.

I want to highlight a few things. What is the opportunity available for Indian industry as a defense industry? It's all available. There is a MOD website called DOMW. There is a Defense Offset Management Wing, where this monitoring agency monitoring all the offset obligation which our MOD has been given to the -- order to the OEM. As per -- the data available in the internet, there are $13.5 billion, it is offset opportunity available for Indian companies, especially on the owned and controlled by Indians on this opportunity.

And it is a really good movement. They have this $13.5 billion to be executed in seven years' time to complete. There is a big business visibility on this modality in the -- where DCX is well-positioned to acquire more global POs, not only for Israel or India. And there are big markets available in the US and France and Germany, like in the going forward for the Russia. They are all -- they have obligation to complete this offset obligation, this $13.5 billion. And also, they have to get this work done through Indian companies. This is not an order value. This is an offset pending order. That means the 30% of the total order value is pending. That means $13.25 billion to be executed with Indian company.

Our business model is unique and build to print a player company for the -- compared with the rest of the other company in India. DCX is a special. Though, we built this company very -- up 2011 with a small aspiration of doing only cable and wire harness business. Now there are -- due to the opportunity has come in the 2015-'16, our revenue growth and our PAT margins, EBITDA, and also the new technology from the other country where they pass on to the manufacturers in India. We are -- DCX taken a well encashment with those technologies and DCX is one of the finest technology companies today on the build to print basis.

And the total on this all huge value and the program is very lengthy in the nature. After receipt of PO, it will take three years, four years, five years because of the nature of business. We've done a risk mitigation model and with the OEMs and the DCX style is operation, we never touch any big PO without a customer advance, number one. And also, the completely the BOM guarantee has been taken care in this modality. Because today we get a PO about $1 million and this will execute in the couple of two, three years.

But the semiconductor market is very, very fluctuated so that people should have a fixed price. We ensure or whatever we discuss with the agreed by the OEMs and our margins are BOM cost of the material cost. It has been very fixed in the day. Any variation in the material, the OEM has to compensate that contract we assigned. And also, our asset is very light, and we made a complete agreement with the customer.

Specific test equipment, it has belongs to them. This cannot be used for any other program. This is a project specific. We made; they have to give us a free of cost on returnable basis. One is BOM guarantee and the risk mitigation we have taken the BOM guarantee and the capex investment on the advances which is the model we are working with the main OEMs.

The third one, order visibility. Presently we have a very good order visibility in the area. We have order in hand and looking for the opportunity in the area of offset available market visibility is good. Also, we are as I promised during my road show or this thing to the investors and we are able to build our own backward integration system. We floated a 100% subsidiary called Raneal Advance Systems where we buy normally in the Printed Circuit Board Assembly outside in earlier days.

This is a big market and also we should have our own supply control, supply chain and high value item to be secured and also OEM recommended to have our own facility based on the background what we come out with the EMS background. We build the Raneal Advance System in the backward integration of PCB assembly system.

Now we have a strong, the backup of the PCB assembly. Of course, by the way this will go on a live plant is completely set, good to go. There are couple of certification is going on the process and the customer to visit and approve our line. This is going to happen in the month of June, mid and from July, we like to take out the fruits out what we spent on the area production, and it has come out very well. One of the finest technology we built in the system in the Raneal and that's what we have taken action. Now why this PCB assembly we had a cable and wire harness assembly, we have a PCB assembly, we have a system integration assembly. So, OEM is very comfortable to have one shop solution to come to this thing.

And thirdly I have a big vision on the DCX and thanks to our government, the government policy has been very clear in the Make in India program. What I discussed all this thing on the only offset and some of them we do non-offset. There is a really technological things is happening in the area of our Indian defense. They made, must we are all aware, India had a MOD has decided to move on their own technological platform, self-sufficient Bharat, that is Atmanirbhar Bharat. They are recently about a four positive indigenous list where the 408-line item, it has to be produced in India. It has to be, we cannot import or it cannot be do as a global tender. It has to be built in India.

Those area there are big, the class and rules and regulation. I will just highlight it, what does this Make in India, how this 408-line works. Either you should have this product, their own built, their own system, they can supply to MOD, where we don't have any R&D. We are not in that business.

So, second is where, a foreign partner can give a technology transfer, where our Indian company can build and supply to MOD, that is allowed. Also, the JV partnership, the foreign partner has to come to India, and it should not be a majority, it should be a 49% and 51% majority, where this can be supplied, all this 408-line item. There are make two, make three, there are a big number of list.

And DCX, that is my dream to become a technological company and take the technology, acquire more knowledge and supply to MOD, to our own armed forces design and development. And it is readily available with the foreign OEMs, we can make use of it and do it. Companies working towards the technology acquisition and the technology, like many areas, we can able to cover in the 408 line items. This is our vision. So, not only DCX is not only built to print by, and we want to take the complete opportunity for a Make In India program, which is completely companies, entrenched with a complete plan and the vision has been kept.

Now after our IPO, grand success of our IPO and our business visibility and the cash flow availability and the acquisition of technology and Raneal has been built strongly. I can say today, one of the uniqueness of DCX, 12 years, the good background of aerospace and defense experience and also strong on the supply chain system and the employee, what we have in the system, it is very strong and very quickly acquire technology moving forward on this thing.

So, this is what I want to convey to all my investors to go on a self-sufficient Atmanirbhar Bharat. There's a big opportunity and to the serve national security on this thing. So, I thank you so much for everything. We can take any questions on the, my CFO is there, Mr. Shankar - our Director is there, our supply chain is Mr. Shiv Kumar is there, in the call. So, we can take. Thank you Adfactor once again to arranging this call and I request, I will hand over to any questions or any this thing to open, so we can be able to answer. Thank you all. Thank you once again. Namaste.

Moderator: Thank you very much. The first question is from the line of Yogesh Bhatia from Sequent Investments. Please go ahead.

Yogesh Bhatia: Hello. Sir, congratulations on good set of numbers. Sir, I just wanted to know, our employee cost on a turnover of INR1,200 crores is only INR10 crores. Can you explain why it is so low?

Mr. R. Sankarakrishnan: employees' cost, why it is so low?

Dr. Raghavendra Rao: Let, let me answer the questions and compared to you were talking about the revenue and the employment cost, where it is my answer is, where I mentioned our model is a different model and whatever employee, we are, we are a DCX now put together about 150 people and directly and the product, what we built, it is a high value product. It is not like other company like EMS company making INR250 crores, INR300 crores is a general equipment and having 400 employees, 500 employees and that is a different category of business like, in the commercial lighting business or energy meter business, kind of a thing.

This is the value of the each module or a PCB are high value because the end application going on a defense and aerospace and you can see, lot of the manpower, it is not so much required about 400 employee, 500 employee to build a module. So, we maintained about 100-150 people, that is sufficient.

Of course, there is a jump in the manpower again, maybe this year will be a doubled after our Raneal we required a more manpower. So, we kept the manpower as not low to cut down the cost or something. The product is required. We have about, I can say today, whatever we have manpower, we loaded 80%, not even loaded 100% percent. The why you can see the value and the expenditure because my product are high value.

So, maybe you look at comparing with your, the revenue versus the employee cost because my revenue model is different, the module. Let us take, I will give you, maybe I am making little bit better to understand everyone. So, let us say, when you are manufacturing of a telecom product like a modem, to touch about, let us take about a INR100 crores revenue, you need to run a three shift and many program, many manpower to, because of the value of product is only about $2, $3, $5 product.

When I produce a module with a hundred number touches in millions, the product is high value because of the aerospace and defense, the component, what we used as a customer specified part, are a high value cost. Hence my revenue is more than other program. So hence this manpower is sufficient. And also let me tell you, we are giving very-very taken care employee very well. We are not compromise on their, the wages and people are also staying with me from last eight years to 10 years, majority of people. So, my model is like that only. I hope I answered your question.

Yogesh Bhatia: Yes. Thank you, sir, for the detailed answer. Sir, I have one more question. I believe there was some chip shortage, and a thing was disrupted. Is that behind us now, are things now back to normal? So, should we expect a better execution in FY '24?

Dr. Raghavendra Rao: Thank you. Very good, sir. Really is a good, good question. Yes, there was a heavy disturbance in the last year, even though, we are faced a lot of challenges in the last year itself, but we are able to make, of course, because of the COVID and the line was not run by our component semiconductor guys. There's a lot of disturbance in the last time. Whatever revenue we achieved in the last year, it was a, it was same thing was continued to be a disaster. And thanks to our supply chain system, they work very hard and made all the chips in worldwide. We are able to give a solution, talk to the OEMs, of course, support it. Everything has happened. It was really taken on control last year.

Now going forward, this is the previous one. Of course, there is a challenge. The going forward, this issue got already resolved. And whatever we are talking about on the PO, what order in hand today, we have a sufficient raw material and supply chain, not only for aerospace and defense, other things also has been eased out now. We are able to, OEMs able to support our component manufacturer, able to come to the normal situation. Going forward, as on today, I'm not seeing any challenges.

Yogesh Bhatia: Okay. So, sir, can we expect the INR1700 crores order book to get executed in FY '24?

Dr. Raghavendra Rao: Sir, basically, this is, I told you, this all PO runs with a multiple year and not only this PO runs with a one year or two years like that. There is a schedule for the PO. We will let you know the revenue and other things. And of course, this, whatever we have PO, it is not for one year. This will be a stretch with two years, two and a half years. This is a scheduled PO.

Yogesh Bhatia: Okay. So, any, sir, any revenue guidance that you would like to give?

Dr. Raghavendra Rao: Sir, as I have bonded with the regulatory, but definitely, you can see last five years, my growth factor from INR27 crores to INR1,235 crores. This will be a growth factor for always for the DCX. You can see previous years, but I am sorry, I am not able to give guidance number on this moment.

Yogesh Bhatia: No, no problem, sir. Sir, just one request, please continue doing the conference call on a quarterly basis.

Dr. Raghavendra Rao: Definitely, sir, definitely. We have started today. We are also understand more regulatory in the December we supposed to have. And we are made a policy and we are going after our result announcement. Definitely there is a call will be taken regularly. I will assure you that.

Yogesh Bhatia: Thank you. Thank you, sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Dipen Vakil from InCred Equities. Please go ahead.

Dipen Vakil: Good evening, sir, and congratulations on a great set of numbers. Sir, I just wanted to understand a little bit on your order book. What would be the proportion of export orders in your current order book?

Dr. Raghavendra Rao: Export order in current book, what we have about INR1,700 crore, I can say about 60% on the export, 40% in the domestic.

Dipen Vakil: Okay. And how do you see the order pipeline panning out in domestic and in export?

Dr. Raghavendra Rao: The upcoming days, whatever we are seeing the market and the opportunity, as I mentioned, this big market available. So, I am assuming export will be more.

Dipen Vakil: Okay, okay. That's helpful sir. And my other questions are already answered. So, I joined back the queue.

Dr. Raghavendra Rao: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Janmajay Gandhi from IVG Trust. Please go ahead.

Janmajay Gandhi: Sir, congratulations on the numbers. And sir, I wanted to understand the PCB and EMS business that you are going to incur starting from June. Because what I understand is that PCB, you will be using it for your internal use and how much you will be adding to the new business. And what would be the change in the margins in terms of execution by -- of this PCB and EMS?

Dr. Raghavendra Rao: Basically, this PCB, it is going on a live by not June, July, a commercial production is going to start. And June is the first article and other formalities will be done with OEMs. But plant commercially is going to operation by month of July, which we have already PO on a hand to execute.

And what you rightly said for an initial, for this year, we are doing only captive business. So, the captive business is where DCX buy something out and we have a chance to produce our own PCB for internal consumption too.

And the next we are expecting about to go in the full fledge, because the system is new and the component availability. If you get a PO also the execution, take from the next year only for the upcoming PO.

The EBITDA margin definitely and you are going to give it to somebody that will going to remain same with the DCX that will go to your own sister concern to improve your EBITDA. Definitely there is a EBITDA margin and the revenue it will go onto generate. And most likely we cannot able to give you the present numbers, what is the upcoming days we are going to do in the Raneal on the PCB side. And definitely we are thinking of captive business maybe about 70%, 80% and 20% may go out of the other direct business we are anticipating to get more business directly to Raneal on the PCB area.

So, majority 70% it will go on through DCX captive business and other 20%, 30% we want to pull out from the market direct business. And, of course, the PCB is a big market, and it is we have a very good experience. Even I come out with about 20 years' experience in the PCB area. I know how to get the order to other order to convert and supply.

We are well-positioned and this is the biggest breakthrough what we decided to move and launch PCB and Raneal. And it is a great decision, and we will satisfy everybody expected definitely.

Janmajay Gandhi: Sir, I have another follow up question on the PCB. What I understand is the market there is 25%, 20%, 25% margin business, and your present system integration cable business would be below

10%. And sir in your total sales today, how much is the PCB that is procure from outside, the percentage in the raw material?

Dr. Raghavendra Rao: I can say last time my revenue was 1,200 plus. You know what is my PCB buy is INR800 crores roughly, INR800 crores to INR900 crores. Don't catch me with the exact number, almost it's like that INR800 crores to INR900 crores we purchase. See the main consumption is coming to DCX revenue. The buy is high values PCB assembly.

Janmajay Gandhi: So, sir we can expect that 20% savings in terms of raw material cost of INR800 crores?

Dr. Raghavendra Rao: Just tell me sir, which company is making 25%, you are investor for many companies, okay, show me sir many defense company make PCB assembly 25%, which company makes? OEM profit sir, not even OEM got a profit. I think you have a wrong information, even though the 25% margin work doesn't work anywhere. I've never seen in my 25 years' experience the 25% margin EMS business.

Janmajay Gandhi: Sir, how much increase in margin would you expect because of the PCB sir?

Dr. Raghavendra Rao: I cannot give you number. I need to start the company and the overall -- how much PCB OEM will alone do it in my own places, and I need to see -- there are different board, different margins, okay? See how this will work I will give you light background. Not only for margin where we have a let us take this is going on a number of layers, number of complexity of the board assembly. There are many technicality involved to improve your margin.

With a general double-sided PCB, I will tell you people are doing at INR2 rupees. INR2 rupees for PCB, you can like using an LED light is a INR5 rupees PCB. Then where my PCB using about INR30 lakh in the -- used in the aerospace and this things. This is a different type of component, different kind of a process and there is a class-two program there is a class-three program. This all depends on which project I will get.

Yes, I also worked, seen people makes 12%, 13%, 14% on the gross margin, okay, on the EMS side and our area is high value and the nature of production is different. There many, many things, so definitely next year, next quarter maybe I need to announce my Raneal result also in the next, once the production is started. Definitely you can see, but not only for -- one is to improve our EBITDA margin, moreover we want to position to the market to grab more order, I have everything today. I have a cable. I have a system integration; the main technology comes with PCB.

This is a big advantage DCX to capture the market, make more money and also capture more business to DCX. This is our plan. But I cannot give you number, margins, but definitely not on 20%, 25%, not even teen, okay, I have not seen any EMS make 20%, 25% margin on the value-wise.

Janmajay Gandhi: Thank you very much sir. Sir, would it be in between of teens?

Dr. Raghavendra Rao: Sorry, sorry I didn't hear.

Janmajay Gandhi: Sir, would the margin increase to teens, because right now we have less than 10%?

Dr. Raghavendra Rao: Sir I cannot tell you right now, please allow me to start the company in three months. I will announce the result, but we are working definitely, sir why everybody works on the technology and other things to make a better margins. Please allow us some time, I will -- I cannot tell you the number, because I do not know what product I'm making because customer have a many option to get it done. I do not know which board I am going to do it.

Janmajay Gandhi: Thank you sir.

Dr. Raghavendra Rao: Please allow some time. I will definitely work on and come back to you.

Janmajay Gandhi: Thank you sir.

Moderator: Thank you. The next question is from the line of Dipen Vakil from InCred Equities. Please go ahead.

Dipen Vakil: Thank you for the follow-up opportunity. Sir, I was going through the press release, and I saw that you have mentioned that you are open to acquire product technology in aerospace and defense. So, can you tell us a little bit more about anything which we can expect in FY ’24? That would be my first question.

Dr. Raghavendra Rao: Yes, companies even though IPO time and we are a strong believer to acquire technology, we rise -- we kept reserve some money through the IPO to acquire a technology. And it is a many process involved in as well as the government of India and the government of foreign OEM also. The process is on. There are things are in very positive in the area in we are working with different countries, like, Israel or even though take, France or US. Things are looking at positive, but nothing is in writing, yet which pattern it will go on a product technology. But one thing I assure you that DCX become in within a 1.5 years to two years become a product company. That is for sure.

Dipen Vakil: That is very encouraging sir. So, my next question is on the line of our operational capacity. So how are we placed with respect to our operational capacity and whether any plans to increase our operational capacity or incur any capex?

Dr. Raghavendra Rao: Now coming back to DCX on the of course we are announcing our cable and wire harness system to the further announcement and we expect some big PO to come. We have to expand our existing limit, maybe it is in the area of the SEZ or DTH, we want to plan to expand our cable business. And the system integration as I mentioned there is no capex is required. We are fully lined with all the seven, eight program. No need to go for an enhancement. And capex is a very small amount where it is not a big amount. It is a very, very cable and wire are nearly INR4 crores, INR5 crores is required to enhance our capacity.

And recently we built about INR35 crores, INR40 crores, we spend on the Raneal. That is also not required for next three years, three to four years. I don't think so that will require another thing until we get a big which is a capacity wise expansion. I don't think so But DCX, know, when there is a small amount expansion but we build our facility for a system integration to cater we can easily build four, five -- five program in the parallel ways. It should not be any problem in DCX. Yes, there is a small capex is required for a cable and wire harness requirement which we are planning to enhance.

Dipen Vakil: Okay. Sir, did I hear you correctly that when you mentioned that Raneal advance system we will start manufacturing facility in the next three four months?

Dr. Raghavendra Rao: Already plant is up and all building is constructed and line has come machinery got installed, trials has been taken. There are process to start the operational. Today you can see plant is up and running but to start commercialized program there are two process. So, without having a ES-9100 certification you cannot produce any PCB. So you cannot take the ISO certificate before the plant get ready. Now plant is got ready. We are doing the minimum take about 1.5x to get the certification done.

That means as to somebody has to come and certify like a UL agency or the UL approved agency has to come and vet my facility and good to go. They will give a ES-9100 certificate is fit to be manufacturing and aerospace defense. Then only we can start the production. The manpower has been hired, train preparation has been hired, machinery is good to go, customer has been approved by all the equipment in the first round and only the process paperwork has to take about 1.5x. By July mid I will start the production.

Dipen Vakil: That is really great sir. So, wish you all the best for FY ’24. That’s all from my side.

Dr. Raghavendra Rao: Thank you so much. Thank you so much.

Moderator: Thank you. The next question is from the line of Sagar Parekh from One Up Financial Consultants. Please go ahead.

Sagar Parekh: Yes sir. Hi. Good evening. My question is on the working capital actually. If I look at the March ending balance sheet, there seems to be a significant increase in the working capital across inventory, receivables, everywhere. Could you explain that because if I look at your annual number of INR1,254 crores versus INR1,102 crores last year top line, so incremental top line is about INR150 crores, but our working capital has gone for a toss. It seems that there is like INR600 crores increase in the working capital. Could you explain what is that exactly?

Dr. Raghavendra Rao: I will request our CFO to clarify on this point. Mr. Ranga, go ahead.

Ranga Srinivas: There are two things which has caused the increase in working capital. One is the receivables and the inventory which you have rightly pointed out. The receivables, everything, if you see our sales up to December and up to March, you can see 50% of our sales has taken place almost in last quarter and that too in March. So as a result, what happens is the collection time is beyond April. That is why the receivables number of days or investment in receivables has gone up. That is one point.

The second point is major part of our raw materials reached our factory post after the first fortnight. So as a result, what happened, we could not convert the raw material into FG. This is the second point. These are the two contributing factors for increase in the working capital and this will get normalized by first quarter.

Sagar Parekh: That I agree but last year March also we had INR374 crores of top line. So that was about 40% or 38%, 39% of FY '22's top line and still our receivables and inventory was hardly anything and suddenly we are seeing such a huge jump. So just wondering on that because last quarter, I mean this phenomenon is going to go on for every Q4 of every year.

Ranga Srinivas: So, see that is what I am trying to clarify that the credit period is between 30 days to 45 days. If the sales is from January, February and March then there is one rotation of collection. Here the sale took place by February end and March. That is the reason you will see a peak in the receivables. If it were to be in January, February and March what happens is January collection,

I would have got somewhere by February end and February collection I would have got by March end. So, you will see a normalization of receivables. Here what happened is February and March sales took place. That collection is happening in April, May, June. That is the reason you will see the peak or spike in receivables.

Sagar Parekh: Okay sure and my second question is on this forex loss again. So, in Q4 also I believe there was a INR4 crore sort of forex loss, where I think I was under the impression that we were already converting everything from forex loans to INR. So honestly, I was not expecting this forex loss to come in in Q4. What is your sense on this and going forward can we expect this forex loss now to go to completely zero or this will remain?

Ranga Srinivas: No if forex loss will not be zero definitely you will see a considerable reduction in future.

Sagar Parekh: Okay. So, when we say considerable reduction, how much reduction because every quarter we are still seeing INR4 crores, INR5 crores of forex loss so this will likely continue going forward?

Ranga Srinivas: It should not be to that proportion whatever you are seeing. It will not be to that proportion definitely you will see a considerable reduction, but it is difficult to quantumize the number right.

Sagar Parekh: So, we still have forex loans sitting in the books?

Ranga Srinivas: No. It is zero as on 31, March 2023.

Sagar Parekh: Okay. So, this forex loss would only be to the proportion of the -- I mean, the raw materials which we are importing?

Ranga Srinivas: Actual transactions whatever we do buy and sell because of that it can come. See, what we have done is after converting foreign currency loans to INR there is no restatement of forex, right as per AS21, Ind AS. The second point is we have taken forward coverage for all our inward receivables. So, these two factors definitely will bring down in my opinion the forex losses to a considerable extent. There will be no restatement first, so second point is I have taken forward for all the inward receivables, so they should not in my opinion the losses whatever you see as losses should not be there to that extent.

Sagar Parekh: Okay. And on this overall, so what is the overall borrowing it is about INR500 crores at the gross level?

Ranga Srinivas: Yes, INR503 crores as on 31, March 2023.

Sagar Parekh: So, going forward we expect this number to increase as the turnover increases?

Ranga Srinivas: Yes, yes it will be proportionate to the turnover increases. Roughly you can take it will be between if as on say INR1200 crores is there. In my opinion INR1,400 crores to INR1,500 crores we can manage with INR1,400 crores we can manage with INR500 crores roughly. So, if it crosses beyond INR1,400 proportionately this one will increase borrowing will increase because it is pure packing credit what we are drawing from the banks. Pure packing credit there is no cash credit here.

Sagar Parekh: And simultaneously we will also have higher cash on the books because then we will get the advances from the customers?

Ranga Srinivas: Yes, see the advances whatever I receive I will pack it in FD because I have given PG to them.

Sagar Parekh: Correct, okay.

Ranga Srinivas: And there is an interest factor which is involved interest arbitrage is there, interest on FD is more than the interest what we pay to the borrower to the banker. So that benefit also will be there.

Sagar Parekh: And this working capital increase that we saw in Q4 assuming that we increase our turnover in FY'24 is it since you said that this was largely on the Feb and March where we saw massive turnover going forward like on let's say INR1500-INR1600 crores top line also we can manage with the current level of working capital or this inventory and debtors will also proportionately increase absolute working capital will also increase or to put it the other way what is the normalized level of working capital that we should assume?

Ranga Srinivas: INR400-INR500 crores for a turnover of INR400-INR450 crores I will put we can manage INR1,400 crores top line.

Sagar Parekh: INR1,400 crores?

Ranga Srinivas: Yes INR400-INR450 we can manage with INR1,400 see again what happens at, yes depends upon the project-to-project and sometimes what happens is material also requirement it is not an issue.

Dr. Raghavendra Rao: Can I put it in the technical side if you permit me Ranga?

Ranga Srinivas: Yes, please sir.

Dr. Raghavendra Rao: Okay and let me answer this question. This is a working capital depends on the component lead time. Okay there is a schedule PO from the customer. Okay now in the scenario of global supply chain shortage where we need to pump the inventory by three and a half months even though some of the inventory, we paid in the March we borrowed money and paid but material will going to use for the next financial year. Okay then we have to put up more money into the system to secure the material, based on the projections based on the order has been scheduled. And depends on the customer, the program, like one program goes with some schedule another program goes with a larger schedule.

Some BOM material may we need to acquire for a completely for a five-month requirement that depends on the material availability and also the revenue program like I have a seven-eight POs on the coupled with many programs the priority goes with a one PO the maybe the schedule will be regularized or suddenly the program gets changed we need to pump more money to acquire more component. This, I cannot say this is today is my INR500 crores borrow, next quarter will not be about INR400 crores that depends on the flow of the component and customer requirement that is also matters very, very critical here.

And also, this program is not only for year-end purpose or March this will going to continue as long as we have a confirmed PO and we need to deploy more money for next quarter, next schedule every day let us take I have a clear schedule for next two years for the program I need to deliver every month there is a schedule every month has been PO has been bifurcated. That means today I want the next quarter I need to deliver today I need to invest three and a half to four months inventory. So, where you can see lot of the cash has been borrowed from the bank and deployed on the material.

Similarly, you are right your advance also comes like that only is suppose suddenly one customer said boss I need 500 number he has to increase the advances where is our having a agreement with the customers.

Sagar Parekh: Yes, correct so I understand that so exactly my point was that since the inventory has to be managed you also manage the customer advances so basically this INR450-INR500 crores working capital will manage up we can do about INR1,400 crores is what I was looking out for so incremental above INR14,00-INR1500 crores of revenue you will need to deploy more working capital?

Dr. Raghavendra Rao: Yes, yes that is true. See that also yes one way is correct not only even though INR450 turnover INR500 crores what we draw we can do much more that depends on the what credit terms with your now maybe some customer give credit you can increase your revenue, some customer gives 90 days credit some customer gives 60 days some customer we need to deploy more money so not like having INR400-INR500 crores do only INR1,400 crores or INR1,000 crores not like that that depends on the back to back payments depends on the programs.

Sagar Parekh: Got it and my last question would be on the order pipeline. So, I believe that we have about INR1,700 crores of order book, so which would probably get like exhausted by the end of this financial year. Any sort of update on the few big orders that we were looking to win any color would be helpful either from BEL or Lockheed or anyone else?

Dr. Raghavendra Rao: No, we are not having a confirmed PO and we are working with many companies as well as the local and also the foreign OEMs nothing has been materialized, once we have a the PO on hand definitely will go onto announced but nothing in hand as at today I have not received any apart from this 1,600 plus what we have I have not received any PO on hand and the company is working very strongly and we have a confidence to get the good order pipeline shortly.

Sagar Parekh: Okay sure that's it from my side and thank you and all the best.

Dr. Raghavendra Rao: Thank you.

Moderator: Thank you. The next question is from the line of Jignesh Mehta an Individual Investor please go ahead.

Jignesh Mehta: Hello sir. Sir, my question is regarding to at the time of IPO listing there is one interview on Zee Business of yours. You said that four to five customers means you will add in with your company so is it a new customer is a new your customer joint or not?

Dr. Raghavendra Rao: The company is working of course; we added many customer which has been in IPO time we have mentioned, also we are working I answered the previous call we are working with a different customer base and marketing has been enhanced with many other country. And we are positive to add more customer more the area of OEMs where there is a lot of opportunity has been created by 'Make in India' or the existing offset pending orders.

And not only like go behind for the even the OEMs are looking very, very positively on the local vendors in India for, to cater their requirement. This is the one of the finest and also after we become a EMS, added EMS company and we are getting very good inquiries from the new geographical area.

And seeing our performance on the last 10-12 years on the complete setup in aerospace and defense also we added more new customer from the different geographical penetration going to take place. We are 100% confidence to add more customer in the big client list we are expecting to add shortly.

Jignesh Mehta: Sir, my second question is regarding to your revenue there is a, means a very good growth in last five years but if you compare a FY'23 and '22 it is just a 13%. So, is there any further growth in next year? Can we expect?

Dr. Raghavendra Rao: Sankar Sir? Sir, can you please take this question?

Mr. R. Sankarakrishnan: Yes, thank you. I think we met earlier and discussed also I think during the IPO time. Thank you so much for your question. See, when the company has grown from a platform of about INR25 crores in 2017 to about INR1,102 crores in FY 22. Obviously after such a long pass of very high growth rate of 55% CAGR plus and then to repeat such a level of performance in the following year also may or may not be sustainable depending upon lot of not internal resources and capability but out of the external situation that is prevailing in the global market.

As Dr. Raghavendra Rao in his opening remarks as well as in the subsequent questions while replying very clearly mentioned and one of the investors participated in the call also asked the right question that whether the global supply chain disruptions for the important and military grade components have come under control etcetera.

This is a global phenomenon which the entire industry witnessed. We were also affected by that particular problem. It is not the availability of raw material, cash flows, working capital or capability or technical superiority which is in question here. To grow the revenue at a same level or at a faster pace is very much possible under DCX management and the capability. The issue is certain times the external environment will play a role in terms of the supply chain constraints, etcetera, which is exactly what we witnessed in FY 23.

And given the current order book on hand and the robustness of the pipeline that we are trying to build and the risk mitigation that we have been able to do both on the business front, which Dr. Rao explained and in the financial areas of eliminating the interest rate risk and getting into a positive interest arbitrage on our borrowings and given the DOM-W offset non offset opportunities and the enhancement of the business verticals from cable.

Expanding cable and adding more geographical penetration into the system integration market based on the DOM-W effort, which is ongoing for the last six, nine months, and adding the PCB line and also focusing the next one to two years on what Dr. Rao explained about getting into a product game on transfer of technology, etcetera. I think DCX is very well positioned and will be emerging as a comprehensive 360 degree player area of aerospace and defense.

We are willing to satisfy all the requirements of OEM under one roof and would evolve itself from already we have evolved from an offset player to offset plus non offset player. Now we'll be getting into PCB and then the product game. I think it is evolving itself in the next few years as a technology company. In which case, given the normalization of the supply chain and the constraints that is getting eliminated in the marketplace, I think we are good to go in terms of the reasonable growth plans both at the top line and with the improvement in EBITDA proportionately and in the bottom line. That's all I can summarize.

Jignesh Mehta: Yes, sir, my last question. As per your company information, your work is mainly with IAI 90% 97% revenue at the time of IPO means you have more work with this company. Suppose recently government order from defense like America and Russia and Expo take an order from this. Is that global? Any problem related to order book?

Mr. R. Sankarakrishnan: Some simple humble correction in that statement that you made. FY 22 itself we have corrected the situation of over reliance on IAI as a single customer from about 90% 95% to about 55%. In FY 22 itself we have added more customers in domestic market also and even the reliance on the offset to non-offset business has also widened quite considerably.

So right now, today DCX in FY 23 and the years to go forward with all the initiatives and leadership, Dr. Rao that we have taken is there will not be any single reliance either on the domestic market, on one single customer or on the domestic customer front. It will be a well diversified portfolio of customers where the business again I want to repeat today DCX is a fully risk mitigated model both in terms of the business visibility and in terms of the financial visibility, thus protecting every dollar of the purchase order that we have got on hand. Converting itself into cash flows is the way in which DCX is positioned today.

Jignesh Mehta: Okay, sir, thank you and best wishes for future.

Mr. R. Sankarakrishnan: Thank you so much.

Moderator: Thank you. The next question is from the line of Yogesh Bathia from Sequent investments. Please go ahead.

Yogesh Bathia: Hello, sir, I have a question related to your receivable. Since we are saying that we have had large sales at the end of March. So, can you throw some light that in April, May what sort of collections or sales have been done?

Mr. R. Sankarakrishnan: Yogesh ji I think talking anything about April and May, may not be in line with the sense and spirit of the call. It will be like a futuristic statement, etcetera. But if you go by the track record of our receivables with the OEMs and the domestic clients, we have a track record of very few days of receivables at any given point in time in all these early areas. I think we have maintained the same line this year too. The sales may have occurred because of the supply chain constraints and things like that, the month of February or March end and things like that. But we are absolutely in track as far as protecting the cash flows and the recovery of the receivables during the current fiscal.

Yogesh Bathia: Okay, sir, thank you.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Dr. Raghavendra Rao for closing comments. Thank you. And over to you, sir.

Dr. Raghavendra Rao: Thank you so much for your valuable time. Once again, please. We recommend we are an upcoming company, technological company going forward is very well positioned and I request all our investors to give their very valid question asked and I hope we are also covered. Many of the questions has been answered and thank you so much. Thank you for your kind cooperation and having patience to listening to us. Thank you so much. Namaste. Jai hind. Thank you.

Mr. R. Sankarakrishnan: Thank you so much. Namaste.

Ranga Srinivas : Thank you.

Moderator: Thank you, sir. Ladies and gentlemen, on behalf of DCX systems limited, that concludes this conference call. Thank you for joining us and you may now disconnect your line.