"DCX Systems Limited
Q2 FY '24 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day and welcome to DCX Systems Limited Q2 FY24 Earnings Conference Call. As a reminder, all the 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.

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. The statements are not the guarantee of future performance and involve risks and uncertainties that are difficult to predict.

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

Dr. Raghavendra Rao: Thank you. Namaste and good evening, everyone. My name is Raghavendra Rao. I am the CMD of DCX Systems Limited. I extend a warm welcome to all of you for a DCX Systems Limited Earnings Conference Call for the second quarter and half year ended September 30, 2023. I would like to start by thanking all of you for taking the time to join us in today's call.

We have our CFO and the Whole-Time Director, Mr. Ranga, and Mr. Shiva Kumara, VP, Operations. As this is only our third Earnings Conference Call, I would like to provide a snapshot of overview of your company's financial performance and its recent developments. As you are all aware, yesterday we announced our Q2 results.

I will just highlight a few things on that and rest – our CFO and Director will take the brief on the financials when I am going to hand over the call to Mr. Ranga. For the quarter revenue, we have done about INR309 crores, compared to earlier quarter, which was increased by 77%. And also, PAT, INR20 crores, increased by 159%. And contributing factors, Mr. Ranga and PAT growth, he is going to explain in detail when the chance is given to Mr. Ranga.

And recent development, I would like you to update investors on the latest development and milestone of your company as attended during the second quarter. And I am very happy to announce our own 100% subsidiary, called Raneal Advanced Systems. It is a pleasure to inform you that DCX's wholly owned subsidiary, Raneal Advanced Systems has started commercial production from September 2023.

And DCX's, as mentioned in the EMS segment, and we have started fully, fully compliance with all the facility, and the approval, we started in the production. So, DCX has taken a strong measure to take this innovative, creating our own backward integration facility, mainly the reason, to control on our supply chain system, and better margin on the DCX main system, and have our own internal facility as per the customer demand. As you know, very high value, what we are procuring from the other Tier 2 vendors.

Now, we are fully ready to take this opportunity. Not only for captive business, we have started this company. There are chances and bright future for EMS in India.

And as we come out EMS background of 20, 25 years, personally from my side and my team, and we are also very bullish on the, getting the other program, other than the captive business. And we are in fully focused on this business. This is the one update I like to give you.

And secondly, for the last three years, as you know, we are working with a company in Israel, ELTA Systems Limited, is 100% owned and controlled by the government of Israel. So, last 3 years, I was working for the opportunity to have a joint venture with them for the product. So, the day has come, and we just signed a joint venture agreement with ELTA.

The progress of this basically obstacle detection solution for the railway sector. So, ELTA developed the radar based and optical base solution. This has been working with our Indian Railway RDSO from last 4-5 years. And it has been proven global technology. And presently, the only global solution available with this ELTA.

Moderator: Mr. Ranga's line is having bit of disturbance. So can I request Mr Ranga to go on Mute

Dr. Raghavendra Rao: And this is what ELTA is working with the Indian Railway RDSO. In fact, they installed 4-5 years, they are working with the railway department to achieve this trials and other things. So, almost two trials have been done. And the major trial has been taken in December when the FOG has taken place. And of course, as you know, the biggest budget, the next biggest budget in India is the railway.

And a huge requirement. So, there are 14,000 locos are available in India. And they are, you know, already INR34,000 crores Indian railway kept for the upgradation of technology. Not on the track, not on the engine. Purely this INR34,000 crores has been allotted for the latest technology like many things. Not only our program, there are many solutions.

But ours is a different radar and obstacle-based systems. And as you know, recently there are in Odisha, there are big train accidents taking place. And about 300 people died. And 3 days back, there is Andhra Pradesh accident. Nine people are died, 100 people, more than 100 people are injured. And our solution can give a very good solution for this, which we are working with ELTA.

Why ELTA has come to us? Because this program is Make in India. So, we just signed and announced in the BSE NSE also for the JV. And we see, companies see lot of big opportunity for the, to support on the railway security and make things better performance in the railways, the area. This is the one big step and of course, for three years recognition, we are earlier become supplier. Now we become a partner and supplier for both, for IAI group.

And I am happy to announce, recently your company has been recognized and certified by the government of India. The foreign trade policy, ministry of commerce for the 4-star export house. This is a very, very, from 2 star to 4 star, based on our performance on the exports.

And we followed strict rules and with the customs and all the procedure has been followed. So, we got that, this certification recognition from, for the export house status from the government of India. This is the one, of course, this is a very, very big achievement for the company.

This is going to ease in out our exports, imports, everything. This is a good sign for supply chain movement and recognition in the government India customs portal especially. So, now I request Mr. Ranga to give overview of the financial performance of the company for the half yearly. Ranga, please take over.

K S Ranga: Yes, good evening to everyone. It gives me pleasure to take you through certain financial snapshots of your company during Q2 and half year ended 30th September 2023. Now, coming to the standalone financial performance, in the second quarter of FY '24, we reported a revenue of Rupees 309.12 crores, representing a growth of 77.78% as compared to Rupees173.88 crores reported during the corresponding quarter in the previous year. Growth was primarily driven by successful execution of order book.

Then, EBIT for the quarter reached INR30.64 crores as against INR15.85 crores in Q2 FY '23. This was mainly, the EBIT margin has also seen an improvement, raising to 9.91% from 9.11% in Q2 FY '23. The PAT for the quarter amounted to INR20.41 crores, representing a robust increase of 159.28% vis-a-vis Rupees 7.87 crores reported in the corresponding period of the previous fiscal year. For H1 FY '24, we reported a revenue of Rupees 479.23 crores, an increase of 23.79% year-on-year from Rupees 387.13 crores in the same period last year.

Our EBIT also increased for the half year to Rupees 49.35 crores from Rupees 27.49 crores in H1 FY '23. We observed an increase in our EBIT margin to 10.3% from 7.1% in H1 FY '23. Improved operational efficiencies and supply chain measures helped improve EBIT margin. Profit after tax for the half year reached Rupees 30.26 crores, demonstrating a healthy growth of 122% compared to Rupees 13.64 crores in the same period of the previous financial year. That is all from our side. We can now open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first line of question is from Sagar Parekh from One Up Financial. Please go ahead.

Sagar Parekh: Good evening Sir, Thank you for taking my question, I wanted to understand on this Raneal Advanced Systems, what kind of numbers are possible on an annual basis now and how much have we invested till now in this business, in this subsidiary?

K S Ranga: I will answer the second question, sir. Then the beginning question he will answer. We have so far invested INR8.6 crores as equity from DCX to Raneal Advanced Systems Limited. This is the investment from DCX.

Sagar Parekh: Are we looking to further invest in this or 8.6 is the final amount?

K S Ranga: Maybe couple of crores we may have to invest.

Sagar Parekh: Sorry, how much?

K S Ranga: Couple of crores.

Sagar Parekh: Okay, so INR10 crores is the total investment that is at the max?

K S Ranga: Yes, somewhere between that.

Sagar Parekh: Okay, and in terms of…

K S Ranga: Sorry, one minute. It's not max. Somewhere between that.

Sagar Parekh: So, about another couple of crores is what we will possibly look to invest, right?

K S Ranga: It will be INR10.6 crores means it will be around INR11 crores. That's what I meant. It's not a hard stop.

Sagar Parekh: Yes, fair enough. And in terms of numbers, how will it look like?

Dr. Raghavendra Rao: See, the business, as you know, we are in fully entrenched and just is a one-month baby of Raneal Technology. But we have a good opportunity, aspiration and the new requirement. And at this moment, I am not able to tell you the numbers. And most likely in next quarter, I can able to demonstrate my numbers to you.

Sagar Parekh: Okay, but does this -- so, couple of things in this. So, firstly, the clients would have to -- if we go for third-party kind of sales, then the clients would have to approve our facility, right? So, has that happened or it will eventually happen?

Dr. Raghavendra Rao: Then that's all -- that I will give you answer. Now, as you know, our plant has been approved, one of my biggest client. And we got the certification also for the-- and also the appreciation also has been given in one of the finest international facility. And team has visited, approved our facility. We have a certification also.

And couple of other team is keep on visiting. And at moment, we have a customer approval by three customer has been approved our plant fully without any remark or without any NC in the facility. So, appreciation has been taken and three customer is already approved on this facility.

Sagar Parekh: Which area is this? Which segment? These three customers?

Dr. Raghavendra Rao: This is only -- see, now normally in the area is aerospace and defense only with existing customer. And also, there are one new customer has been recently approved. And this is the majority of 80% of people are visited on the aerospace defense only. There are railway requirement, there are medical requirement, and that visit is going on. And majority till now we have approved of two aerospace and defense company, and one is a medical company.

Sagar Parekh: Okay. So, one medical is also approved?

Dr. Raghavendra Rao: Yes.

Sagar Parekh: Got it. And could you give us some sense on how, you know, what are the asset turns over here and what are the working capital requirements in this business? If you cannot give the actual number like in terms of what is the sales which is possible, but if you can give us some kind of like for INR10 crores or INR11 crores of investment, what would be the asset turns and working capital and margins? If you can give some color that will be really helpful.

Dr. Raghavendra Rao: See, this EMS facility, it is not a INR8.6 crores. DCX invested a margin money. And Raneal has taken a term loan from the bank and put the complete facility. Till now about, Ranga if I am correct INR30 crores INR35 crores?

Ranga KS: Yes.

Dr. Raghavendra Rao: INR30 crores, INR35 crores has been invested for all the equipment. So, DCX invested about INR8.5 crores. And in that there is a term loan taken by the Raneal Advanced System directly from the bank about INR25 crores. So, total investment about INR35 crores as on today for the building and other capex.

Sagar Parekh: Understood. And in terms of asset turns or working capital requirements?

Dr. Raghavendra Rao: See, you know working capital, we have a policy as you know. We work as a completely on the advances with the existing customer or any defense. And presently we cannot able to give you exactly the working capital requirement. And maybe please allow us the next quarter. We can tell you the roughly about working capital requirement.

And as on today, I cannot give you any numbers of, because once you know the revenue then only working capital comes in the picture, correct? Yes. So, that is what. But working capital will maintain as good as DCX. The method what we are working in DCX, taking advance from customer about 70% or 30% or 40%. Similar way this Raneal also work like that. That is 90%.

It will work like that. Maybe other customer, maybe general customer on the medical side or the railway side work with the different payment terms. But majority 80% to 90% works with the same method of DCX.

Sagar Parekh: Okay, understood. Because the other EMS guys who are listed, they are all having very high working capital. So, 90 to 120 or about 30 days also.

Dr. Raghavendra Rao: Yes. I will not give a chance. So, present moment our model is entirely, we have fixed some certain guidelines for the company. And of course, we are not like general EMS house. This is only dedicated for AS9100 Class 3 programs and aerospace and defense. Maximum we will expand railway and other things.

So, I will, looks like this is not like 200 days of collection or 120 days or something like that. We maintain as good as DCX what we are seeing the DCX model. Same thing we like to maintain, and it is possible based on my customer, the class of customer, payment terms and the requirement and the fund flow, everything. So, I am very optimistic on the area. I will maintain the same thing.

Sagar Parekh: Right. Thanks for that. And my last question would be on the main business. So, we have seen order book shrinking since last two, three quarters. Now our order book is almost like INR1,250 crores, INR1,260 crores, which would probably mean about less than 1 year of top line. Any color or anything, any thoughts on this? So, would you like to share on where do you see order inflows? Because we have order inflows are practically dried up in the last couple of quarters?

Dr. Raghavendra Rao: See, I like to take this something to tell. This is not a business what we are running in the general commodity items. Normally in my last 12 years' experience, I will get every year one or two POs maximum in the last 5-6 years but comes with a large value that will be spread over to 3 years.

Now, that's been now supply chain got improved and there are requirements started in the new area and maybe yearly three times or four times you can expect the POs. So, not like order is in drained out. In my opinion, INR1,260 crores is quite a good value as per the, I am the front end for marketing in the company.

I feel it is not a bad figure for INR1,260 crores and also, we have another 9 months to go, and the pipeline order was very bright, and we are working with many program as I mentioned. And we are expanding our business to from the India, Israel, US and also the European market. So, the situation upcoming are very bright and it should not be any problem to acquire more POs.

So, this is what we are thinking, and this is a vendor traditional of any defense company to get POs in the every month or something like that. We are fully focused. We are working with many programs, many customers and in fact, I will give you shortly when I have a couple of things to come out from the customer side.

And all this all where I am working with a very, very large corporation and restricted with many national securities and those areas. So, taking little time and we are confident we will get very, very shortly we will get the order book to be spelled out, spelled more.

Sagar Parekh: So, in the next 6 months by before the end of this year…

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

Dipen Vakil: Thank you so much for the opportunity, sir. So, my first question is in the line of order book. Is it possible to provide the split of the order book between segments?

Dr. Raghavendra Rao: You need a present order book segment wise.

Dipen Vakil: Yes.

Dr. Raghavendra Rao: See, majority comes from the system integration about I can say about 70%. And the rest is mixed like kitting or cabling kind of a thing. Majority 60%-65% comes from the system integration. And rest is cable and kitting. Yes, please go ahead.

Dipen Vakil: Yes. So, my second question is on the line of geopolitical issues. So, Israel is one of our main geography for DCX. So, do you see any supply chain issues going on, whether in terms of import or even in terms of export? And on the flip side, do you see any positives or like increasing orders coming from Israel in near future?

Dr. Raghavendra Rao: Actually, to be honest with you, war is not a good for any country as a humanitarian ground. And let me give you some light on the war situation. And Israel, of course, we are not depend on 90% or 100%. We expand our other area. That means we are not reduce the say, we are not. No, I don't want to do. No, we are increase other domain like India and other countries. We increase our business. Still about 40%, 45% still our business comes from Israel.

Coming back to your war question and first I'll just explain what Israel you must be aware. Israel is a very small country. They are -- the two revenues come for major revenue comes from the defense program where they are selling to other countries. The beauty is Israelis, they are good at design, development and the program management. Now you can see the supply chain system doesn't have any effect because we are not buying anything from the Israel at all.

Let us take for module present program what we buy. We have a 3,000, 4,000 electronic component. We buy hardly anything from Israel. Everything will be bought out from US, Singapore, Taiwan or South Korea. So, the supply chain is a general component. If other territory they are not depend on Israel, we are buying from the easily. There is no problem for the supply chain or any scheduled delivery by Israelis. Everything is comfortably going on.

And secondly, war is not creating any supply chain issue at the Israel because if I remember October 7, war started, and Israelis are taken that is Saturday. Sunday, they close, Monday they are in office. We are getting response on the phone. We are getting response on the calls. We are getting response on the emails. We are getting payments. We are getting the clarification of the program, and we are getting certain consignment and small consignment coming from the Israel and we are able to ship them out. I am not seeing any disturbance in this because of this war.

Dipen Vakil: That is good to hear sir. Any idea from your clients of any additional orders coming in during this time?

Dr. Raghavendra Rao: I don’t know how to express this. War, of course, we have a special request from all my Israeli clients that DCX they know, because you know, I am the largest in India for electronic supplier. They told us to support 24/7 for the program for any emergency requirement and we are fully geared up. As you are aware, Raneal is fully ready and fully equipped and also our cable and system integration and also, we have adequate manpower, adequate capacity and we are supporting for them. Off course, Normally when the refill starts, we should take care of the supporting customers.

We are supporting and we are gearing up for our manpower wise or facility wise. Of course, there is a request from customer side to support them and we are also working day and night to satisfy their requirements whether it is a new RFQ or a production or the technical side. We are fully ready for that.

Dipen Vakil: That is really helpful sir. Thank you so much for answering my questions.

Dr. Raghavendra Rao: Thank you.

Moderator: Thank you. The next question is from the line of Tirth Gosar from Svan Investments. Please go ahead.

Tirth Gosar: Hello sir. So, in your PPT you mentioned that DCX System plans to improve its profit margins by focusing on new verticals. So, could you please mention what are those new verticals and would they be margin accretive? What is your view on it?

Dr. Raghavendra Rao: Good question. I was waiting for this question to answer, thank you. Now DCX, I explained recent in my opening remark, there are two area we are concentrating. One is Raneal Advanced System has been fully ready and we want to take the commercial production other than our captive business for the outside customer which we are fully encouraged. That will give more visibility for our profitability improvement and also the captive business also we can have better control on the supply chain and the cash flow and the better margins.

Secondly the railway is one of the biggest opportunity what we have for this thing and upcoming days looks very promising because of the government of India is very, very serious on the railway securities because of the disaster is happening with railway accident and stuff like that. And big budget has been kept for our types of securities for the INR34,000 crores the upgradation of rail technology. We have a big cake to enjoy.

In fact, I think, we are fully focused on the revenue model and improve our EBITDA, revenue both is going to happen we are confident. Company is also working with Make in India program. This is the biggest opportunity in India. You know, recently there is a positive indigenization list approximately MOD has declared our MOD has been declared $120 billion it has to be manufacturing and consumed in India in seven years to eight years' time. So of course, it is a big number, and we are ready for this opportunity either through technology to the JV or any other opportunity company is working towards this program as well and parallelly run our business.

So that customer comes to DCX today, we have a full solution like, customer want any electronic product to be delivered. You require a PCB assembly that is a major technology, you require a cable and wire harness, you need a system integration, we have a strong testing facility and the experienced people to handle.

DCX is fully geared for all whether you take railway or the present offset, non-offset business or the Make in India program this will go on to and of course we are working with organic presentation with other customer too because as you know this is a big backlog of offset. I think DOMW website says still $13 billion and is a big numbers in the seven years foreign OEMs has to -- because they already got order they have to execute this program. In that electronics of course not $13 billion belongs to our area as the many things.

So may be electronics $4 billion, $5 billion is the requirement. We are also very, very aspiration to get more business because DCX is set for those areas for electronics, and we are hoping really companies fully focused on four things. Existing offset, non-offset business and the EMS what we are put up the plant in Raneal, also Make in India for the biggest opportunity and working with the technology with the foreign OEMs to acquire and start manufacturing, deliver to MOD. And upcoming days plans are there and also railway JV what is happed today.

So, I think company has covered wherever it is possible for the growth of the increase in PAT or revenue.

Tirth Gosar: Thank you sir. And in your PPT, you mentioned that you have established a new wholly owned subsidiary called NIART Systems Limited. What is the focus of the subsidiary?

Dr. Raghavendra Rao: Actually, I mentioned in the JV company what we had with ELTA, the first company to be established in Israel because this is 50.1% by DCX, 49.9% by ELTA. First that the company has to establish in -- NIART is the JV company which has been registered in Israeli where ELTA and DCX they have a joint company there. And that NIART is completely do the design development of this railway, obstacle detection system there. So, we need to establish there to take this railway opportunity.

Then once that is done then finally because we are not doing any manufacturing there because of Make in India that company if they get order and from railway so that will be there are many channel for Make in India and that NIART company do the complete product design development and technical software everything. That is a joint venture company does. So already have a product and move everything there.

So DCX will be a Tier 1 or prime for executing for a program in India. The manufacturing done by based on the Indian content is required, we need to do the manufacturing in DCX and supply to railway or there any prime or NIART. So, this is the modality, but this company required to start to take this JV forward. This is the reason.

Tirth Gosar: Okay sir. Thank you.

Moderator: Thank you so much. The next question is from the line of Sanjay Sood, Retail Investor. Please go ahead.

Sanjay Sood: Thank you. My question was already answered.

Dr. Raghavendra Rao: Thank you, Sanjay.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: I am not sure if you have already answered this question. But in terms of I mean what is the opportunity size we are looking at I mean the segment that we are into, I mean is seeing lot of growth, right. Most of the companies in this segment are showing abnormally high growth at 25%, 30%, 35%, 40% kind of. So, I mean what is the opportunity size that we see for ourselves? And how do we see the growth for us in next two years to three years, if you have to see a CAGR, what sort of CAGR you might be looking at?

Dr. Raghavendra Rao: Yes, of course, as I mentioned in the earlier call, we are in the fully sitting with big opportunity, big budget, big opportunity, big client base and the end customer is huge. So, I am seeing very good growth for the upcoming days. Maybe we will do better for upcoming days and there is an opportunity of course on the -- what is the business running and I am seeing, you can see good the growth of the upcoming years. Yes. PAT and revenue, both.

Deepak Poddar: Sir, any ballpark range we might be looking at? I mean what 20%, 25% or 30%?

Dr. Raghavendra Rao: It will be little bit of course maybe it is too early. Let my NIART that is railway JV goes up that looks very positive side. And definitely, it will be range of industry what you look for presently 25%, 30% range is not a problem.

Deepak Poddar: Not a problem right, of course. And my second question is on your margins. I mean is there any scope that for margin improvement as well as we scale up any leverage advantage or any higher margin business that we are getting into through this JV, or so some thought process on that?

Dr. Raghavendra Rao: Definitely, there is a margin improvement in the three way I am telling you. One is your Raneal Advanced System, your own company and that captive business you can save lot of money directly, indirectly there is a definitely margin improvement. And EMS market is very big, and we are fully entrenched with that. There are good margins are expected to come there. And the railway is a OEM business definitely a very big margin we are what we are thinking to get it.

That all depends, these are tender based and what rate we get and everything but definitely margins are going to increase definitely upcoming days, that is for sure.

Deepak Poddar: And what would be the aspirational thing? Over the next two years, three years if some aspirational margin you want to reach or some range?

Dr. Raghavendra Rao: Aspiration, see it is very, very difficult to answer because I've not given any guidance number and stuff like that. But only on this call, I can tell, we have a good aspiration. And it is achievable aspiration, not only aspiration, not opportunity, is not there. We have a good aspiration, achievable aspiration that is for sure.

Deepak Poddar: Okay, understood. And in terms of aerospace and defense, what kind of opportunity we see out there?

Dr. Raghavendra Rao: Of course, that is a major business. Modality you can see on the revenue path may be even though you have your EMS, even though you have a railway still we have a 50%, 60% defense business comes out.

Deepak Poddar: On a yearly basis?

Dr. Raghavendra Rao: The overall. Yes. Because that budget also is huge. That budget also the even the offset budget is huge, the pending offset budget is huge and make in India budget is huge and railway budget next to that it will be huge. So, in the defense and aerospace still we have a very good 40%, 50% business comes from the aerospace and defense area.

Deepak Poddar: This is what we expect in FY'24 as well I mean 40%, 50% at least revenue from these two?

Dr. Raghavendra Rao: Yes. And 24 majority comes from the aerospace and defense for the next 25, we can have mix because your Raneal started recently, okay, last month and you have a JV to form and product to come execute that revenue take from 25. So, 24 will be about only about 80% is a defense. I can say 90% is aerospace and defense. Upcoming years, you can see some both are 40% 50% or 40%, 60% growth will be there.

Deepak Poddar: I understand, fair enough. I think that's it from my side sir. I think excellent result and all the very best to you. Thank you so much.

Dr. Raghavendra Rao: Thank you, thank you very much. Thank you.

Moderator: The next question is from the line of Neha from Bajaj Finserv AMC. Please go ahead.

Neha: Hi sir, thank you for the opportunity. My question is on the cash flow management from the outstanding trade receivables. How do we see the operating cash flow especially the working capital getting affected if the war intensifies and what percentage of current receivables is from the

K S Ranga: Excuse me, I am not able to hear.

Neha: My question is on the cash flow management from the outstanding receivables. How do we see the operating cash flows, the working capital getting affected if war intensifies and what is the proportion of current receivables from the war affected areas?

Dr. Raghavendra Rao: Ranga, you will answer, or shall I?

K S Ranga: You can answer.

Dr. Raghavendra Rao: I will answer the cash flow and not on the banking system. See as I mentioned, the war started on October 7th and Israel was closed. My customer basically, they are all defense company, they closed one and half days. From there, they are working fully. In fact, we have not received a single follow up from my finance team to marketing to follow up on the payments. Payments are very impact and the way methodology they are working on the payments and the other modality, it is nothing. It is fully secured, and we are getting all the payments on time. I am not at all seeing any effect in the cash flow or something. I am 100% sure this has been taken care, company has taken care very well and we are fully covered with all the money. That is what I like to emphasize here.

Neha: Thank you. On the receivables part, if you can just give some more clarity. What would be the proportion out of the current receivables, that is expected from this area?

Dr. Raghavendra Rao: Ranga, what is the current receivables? You are asking the current receivables. It is coming in as per the schedule. I am not seeing any foresee there. No, no, no.

K S Ranga: The receivables are from war related area only. The majority of the receivables are coming from Israel. That’s what he is trying to highlight. MD is trying to highlight that all the receivables are safe, and it will be collected.

Neha: Understood. Thank you so much.

K S Ranga: Yes.

Moderator: Thank you. The next question is from the line of Ronak Jain from Investore. Please go ahead.

Ronak Jain: Hi, sir. Good evening. In terms of managing business expenses, are you taking any steps, in terms of cost cutting or optimizing your business operation efficiencies for the future quarters?

Dr. Raghavendra Rao: Definitely. You see some of the action plan company has taken already. So, we are able to reduce the cost with the banking system and improve our EBITDA. Let us take example of forex loss. We made it nil. In fact, last quarter, from earlier we used to lose the forex stock. Now, company has been taken very good measurement. Instead of losing, we make little bit cash. See, we will go back to 22.

We are losing almost INR30 crores for the overall year. You can see the loss from last March to till now, we have zero forex loss. Company has been taken care very well. There is a gap for the, save the money and other things. We have taken care. And also, the other modality of handling forex and other things, company is making good effort to make further improvement of the profitability. As you know, the company people, the employee wise very dedicated. And the team is with me from last 10 years majority and working very limited expenditure in, the material wise or the consumable wise or other things. Company is fully conscious to handle such things because this also through internal results to be announced for it, we made each cost center for the supply chain and the production or the housekeeping. There is an individual cost center has been set by company and every team has been able to deliver much more potential, much more effectiveness on the cost center they are making. But there are benefits to the saving of the company and well within the budget and is going on very well.

And I am really happy as a managing director of the company to the performance of cost center, reduction of the cost, banking cost and many things. That is the reason you can see many good progress in adding all things to the PAT. And the company will like to do continue further the same exercise.

Ronak Jain: Thank you for the insights and all the very best for your future endeavors.

Dr. Raghavendra Rao: Thank you.

Moderator: The next question is from the line of Kamlesh Bagmar from Lotus Asset Managers. Please go ahead.

Kamlesh Bagmar: Thanks for the opportunity, just to like say extend the question on that margin front. You say, last year's same quarter we had FX loss of about Rs. 7.8 crores, If we adjust for that, we have not seen significant growth on the EBITDA or EBIT Front. Around 7% odd growth in EBITDA and see add back INR7.8 crores in the base quarter. So, I believe forex loss more because of the translation not because of the actual numbers.

Dr. Raghavendra Rao: Ranga, you are able to understand the question, may be lot of noise.

K S Ranga: Yes. See, let me start from the expenses side, which is affecting the, which has improved the EBITDA as well as it has brought down the EBITDA. If you see the employee cost, employee cost for September 22 was 1.47% and September 23, it is 0.96%. And the next other expenses if you see, it was 1.39% for September 22 and for September 23, it is 1.08%. These two heads of account has contributed so the consumption ratio has gone up from 83.75% to 88.27%. So, this has in fact brought down the EBITDA. Hope I have answered your question.

Kamlesh Bagmar: Yes, like in the base quarter, there was INR7.8 odd crores of forex loss and that has not recurred in this particular quarter. In fact, we had a forex gain in other income. But if we adjust that to INR7.8 crores forex loss, let's say our EBITDA has hardly grown like 7%, 8% as compared to what a significant growth which we have seen in the revenue. So, I just had a question on that front. Because of that forex loss not getting recurred, our earnings has grown. Not because of the like say other parameters. So, that's only the query I had?

K S Ranga: You are asking about EBITDA only, right? EBITDA.

Kamlesh Bagmar: Yes, yes. EBIT or EBITDA like I am saying that just because you haven't had the forex loss in the quarter which was there in the last year, which was significant INR7.8 crores and this quarter we haven't had the forex loss. So, as we are saying that we are better managing the forex loss. So, what we are doing on that front? What has been done on that front? Because I don't think that in this environment where the currency risk is a big issue, you can't manage it and the cost to pay for hedging the currency risk is significant. So, what additional or what new are we doing to hedge the forex risk?

K S Ranga: Yes, I will answer that. What earlier in the last year, in the financial year 22-23, the borrowings were in a foreign currency. In the current year, the borrowing is in INR.

Kamlesh Bagmar: Okay.

K S Ranga: Okay. And as a result, what is happening, what happened is there is no, we need not restate the foreign currency which we were doing in the last year. That is one big difference, one of the big difference which has contributed to forex income as against forex loss in the last year.

The second one is on account of conversion from foreign currency borrowing to borrowing in INR, we have saved interest on working capital to the extent of around 100 to 125 basis points plus all the inward remittances to the extent of around 90% we have hedged. Thereby earning a premium of around 2% to 2.5%. These are the steps which were taken almost six to eight months back, which the results we are seeing now.

Dr. Raghavendra Rao: And also, you can Ranga, add your hedging when you are borrowing the INR also you hedge that forward cover.

K S Ranga: Yes sir. At the time of borrowing itself we will hedge the currency.

Dr. Raghavendra Rao: And there is no forex exposure. When you draw even though in INR today you make the payment of dollar, we hedge the currency and take care of the day currency. So, the three things, one is for borrowing in INR and no need to restate the account and also, we hedge the currency, incoming currency also borrowed currency from rupee to dollar, we have taken care.

So hence a significant achievement has been done and it has been converted to the dollar to INR again hedged and taken for the upcoming currency. So that is a major thing has been able to save last legacy of two years forex loss of INR30 crores accumulated for the last year. Now we made it zero.

Kamlesh Bagmar: Okay. Great sir. And sir, lastly on the order book, INR1260 crores order book we have. So, like we are moving into railways. So, what increment order book do we see from that particular new vertical which we are entering and like even in the existing operations like the aerospace and defense, what additional or what buy of orders we are looking at? Because at least we can, you can give a like say outlook on the order book which we are looking at, not on the win rate or success rate, at least on the market size or the area which we are targeting?

Dr. Raghavendra Rao: Okay, see as I mentioned, upcoming days and the company has been taken steps for the business side, for the offset, non-offset, railway business, EMS opportunity or the Make in India program. We expect a very good opportunity, and we are very confident. There are, presently I do not have any numbers with me and even though if I have a PO, I can disclose to you.

And we are in the pipeline is very good. And all the three areas for the Make in India and railway, but of course you can see some railway from next year only. Because just now it is three months, we have a JV and things are going very smoothly. And this is a very, very technologically, it's a global tech, not only for India, this is a global technology what we adopted and there are big opportunity within India is a big market and very, very good opportunity and also the global, we are working with some global supply also.

So, I cannot tell you the numbers presently for the railway business. Similarly, with other area other than Israel, India and existing territory, we are moving to the European market, we are going to the US market, and things are very bright. And there are appetite. People have -- people like OEMs, they want a supplier like us because we have a 12-year legacy in DCX on the defense and aerospace. Adequately the licenses, majorly on the defense industrial license.

And good infrastructure, including cable harness, and also we are started PCB assembly, system integration. And good cash flow management of the working capital management with the 1000 crores plus limit. No MSME company have this much limit, this is the one area, defense company require a lot of big limits or the cash flow limits to run this and still we are an MSME company, where the offset -- they will take place compared to other company in India and this size of company having this facility, not even some company have in MSME.

There is a rule in DPP 2020 that defense procurement policy, if the foreign OEM get the work done in MSME company, they will get 1.5x offset credit. In this movement as per my knowledge, DCX is the only MSME company in this segment. So, there are chances of getting big POs and big movement, it is happening with the Indian defense sector, we have a better opportunity here, whether from the -- there is a lot of support from the government for the MSME company.

There is an advantage for foreign OEMs to come to us to enjoy their 1.5x offset credit. So hence, keeping all this in our plate, we are very much confident to have more, more, more PO and more EBITDA, more revenue start coming to the company in upcoming days.

Kamlesh Bagmar: Thanks a lot, sir. And the best of luck.

Dr. Raghavendra Rao: Thank you very much.

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

Mouli: Sir, we did the backward integration through Raneal Advanced systems. So, in kind of percentages, so what kind of percentage, we backwardly integrated?

Dr. Raghavendra Rao: See, as you mentioned, we are in the electronic segment. And major raw material to build a module, it is a PCB. It is a high cost and high value and high technology. So, I can say in the modality-wise and the cost wise about system, any system integration electronics about 70% to 80% of the value. Suppose you build a $100 product; you require about $80 dollar is the PCB cost.

That we are building, but not like all $80 you buy from Raneal, because there are other supplier to manage the supply chain system. Not on capacity, there are the process to be continued for maintaining. Finally, the majority we expect in the Raneal to take care of the 70% of the buys, we expect it to do about 30% to 40% in-house. That's what, this is the only ballpark figure I give you right now.

Mouli: Okay, thank you, sir. And one more thing, recently we added Ametek as a client. So, in which sector are we going to serve that client? I mean, after going through website, there are a lot of sector they are serving. So, I just wanted to be clear?

Dr. Raghavendra Rao: Shiva, take the question.

Shiva Kumara: Hello, sorry, I couldn't hear you. Could you repeat please?

Mouli: Recently we added Ametek client in USA right, so after going through their website, they are serving in multiple sectors including solar as well as clean energy as well. So, what which sector we are going to serve to that client?

Shiva Kumara: Right now, we are serving in their control systems and the power division sector, as you know they are into more than 30 different verticals of business. So as of now, we have been starting with about six of their divisions, and most of them are into power and control system division.

Mouli: Okay. Thank you, sir. Thank you. That's all from side.

Shiva Kumara: And we are also exploring other business verticals of Ametek.

Mouli: Okay, sir. Thank you very much.

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

Shunit: Yes. My question has already been asked. It was on the order book. So, just congratulations for the excellent job. And we hope that you'll be able to keep up the job going forward. Thank you.

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

Moderator: Thank you. The last question is from the line of Praveen Gramle from Ananya Research. Please go ahead.

Praveen Gramle: Yes, good evening to you, sir. And congrats on the great set of numbers. I think most of the questions which have been asked, they have been answered by this day. My quick query is the margin profile, are we going to next two years, three years, do we see the same number of margin will be able to continue? Can you throw some light on that please?

Dr. Raghavendra Rao: Of course, on the upcoming days, and more than anything, we need to concentrate on our bottom line and the revenue top line. And as I explained in the earlier, once again, I will, let me reiterate. And we are started with the cable company, then system integration has been upgraded, then kitting, then PCB assembly. See, these areas all give, if you do a lot of in-house things, definitely your margin goes up.

And also, once you diversification your business area of EMS or the cable, or the system integration, definitely we have a much better margin in upcoming days and the company is fully focused on the getting new orders, new verticals and new business in EMS and also the cable what we are looking for a bigger opportunity in upcoming days. So definitely, we will not disappoint all my investors and we are hopefully getting more, more opportunity in this area.

And from, of course, once I add more vertical, definitely there are margin improvement on the company. So similarly, we are planned accordingly. And we are very, very, very carefully invested on EMS or the upgradation facility of cable division or something. And the company is fully focused on the improvement of margin and the revenue.

And we give one-stop solution and where customer likes, no need to go for a PCB with one guy, cable with another guy and system integration or kitting. So mainly because of all put together, we have a capability of trained manpower and technical team so that to take care of all these three divisions. Yes, definitely we are working on to improve our margins and revenue, yes.

Praveen Gramle: Sir, my question is, in this current contract, if the prices fluctuate, do we have a pass on in the contract on the pricing side?

Dr. Raghavendra Rao: Okay. You are talking about the BOM guarantee, right?

Praveen Gramle: Yes.

Dr. Raghavendra Rao: Literally I love to answer this question, till now nobody asked. Thank you. See, when we signed a contract with our foreign OEM, majority of the PO comes with the major condition, company puts. Because today I submit a quotation, I will get the PO in six months, the PO will get executed in three years, the schedule because of the high value delivery schedule everything.

So, today let us take quote for the BOM cost of $100 and when I buy the part after one year, it will take about 10%, 20% hike, correct, that is what is worried about the, because of the semiconductor price and fluctuation, definitely it is going to happen, definitely not going to come down.

There is a clause in each and every contract of DCX with the foreign OEM, any fluctuation in the raw material cost, they have to compensate on the money, that we have taken care very well. So, suppose I quoted $100, when I buy, it become $110, that $10 to be given to the company back, which we have to.

Of course, there are procedures to follow, we need to give the proof of purchase, the prices hike, and you cannot bill every month, everything will be finished in the last quarter, last year end. So that has been taken care very well. And nothing will lose, and we are taking carefully, complete proof of the BOM guarantee.

Praveen Gramle: Sir, will there be a lag effect like this settlement will happen every quarter or what is it lag time?

Dr. Raghavendra Rao: No, normally it is difficult to control every quarterly. What we will do suppose, there is one IC $10, when we go on a purchase become $12. So before purchase, we need to inform customer, boss, I quoted $10, now it is $12. You have any better source, you provide me, or you have, you give me a clearance to buy.

After getting all this approval, we will going to keep everything ready, then year-end only in the, we discussed because quarterly maintaining the very, very difficult, we normally bill in the month of March, all the bill together, we will put it in the overall consolidated invoice, price variable will be put, because these all big company, big POs comes with a PO going, amendment every time on the PO takes time. We start circulating this price variation from the January, so that by March they amend the PO and get our payment. This is the process.

Praveen Gramle: This is last question, sir. This happens on vice versa, like we talked about the price increase, if the price decreases, then the customer will ask for a rebate?

Dr. Raghavendra Rao: Yes, there is a clause in the contract, if the price what we quoted price for a, let us take $1, one register we quoted. When you buy the part of $0.50, that is 60%- 40% share will be given to us, that means 60% we will keep it, 40% will give a discount to customer. That clause also is there in the BOM. That means, we'll be awarded 60% of the, you understand? $1 we quoted, when we purchase at $0.50, $0.50 of the saving will get 60%, 40% to be passed on to customer. This is the contract.

Praveen Gramle: Thanks, I'm done with my questions. All the very best. I look forward to catching up in the next quarter again. Thank you so much, sir.

Dr. Raghavendra Rao: Thank you so much.

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, sir.

Dr. Raghavendra Rao: I wanted to extend my appreciation to the entire DCX team for their dedication and hard work. I would like to also thank Adfactors for arranging this, our IR agency and our customers, supplier and banker for their support. It is, thanks once again for joining the, my sincere thanks and appreciation all of you for joining and asking the valuable question. And thank you so much for your cooperation. And Namaste, thanks. Jai Hind, Jai Karnataka.

Moderator: Thank you so much. On behalf of DCX Systems Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.