Company Name: Centum Electronics Ltd.

Management Participants:

- Mr. Nikhil Mallavarapu – Joint Managing Director
- Mr. Sundararajan Parthasarathy - CFO

11th Annual Valorem Conference Highlights:

- Centum Electronics continues to see strong growth in its standalone business (BTS + EMS), supported by a rising order book and improving execution visibility over the next 2–3 years.
- It is witnessing a structural shift in its business mix, with increasing contribution from higher-margin BTS (Build-to-Spec) offerings.
- The company is strategically moving up the value chain from subsystem-level manufacturing to full system-level solutions to enhance margins and competitive positioning.
- A key milestone has been the INR 600 crore radar system order for a marine utility helicopter, marking entry into system-level defense programs.
- The BTS segment is expected to grow at over 30% in the medium term, driven by strong order inflows and execution ramp-up.
- The EMS business is also witnessing robust traction, particularly from defense exports due to increased global military spending.
- A large semiconductor equipment client has ramped up significantly, with revenues scaling from near zero to USD 10–12 million and expected to reach USD 25–30 million run-rate.
- The company is benefiting from global supply chain shifts, with customers increasingly localizing sourcing to India from Southeast Asia and Eastern Europe.
- India has become the fastest-growing geography for the company, with revenue contribution increasing to ~35% from ~20–22% earlier.
- Margins are expected to remain stable at 13–15% at a consolidated level, supported by a balanced mix of BTS and EMS.
- Execution in BTS is inherently long-cycle and lumpy, but the recent surge in order inflows is expected to translate into revenue growth from the current year onwards.
- The French subsidiary is undergoing legal restructuring and is likely to be sold, with all major impairments already taken in the financials.
- The company does not expect any material future losses or liabilities from the subsidiary, as risks have been fully provisioned and ring-fenced.

Key Questions & Answers discussed during the conference:

- **What is the size of the BTS opportunity pipeline?** We are targeting order inflows of ~INR 2,500 crore in the BTS segment over the next three years, based only on firm orders, reflecting a conservative disclosure approach.
- **Can the BTS business scale to INR 1,000 crore revenue?** We believe the BTS business can scale towards this revenue mark, although growth will remain lumpy due to long execution cycles.
- **What are the details of the INR 600 crore radar order?** We have secured a ~INR 600 crore radar system order from HAL for a marine utility helicopter, comprising ~INR 66 crore in development and INR 500+ crore in multi-year production.
- **Is there additional upside beyond the INR 600 crore opportunity?** This order represents only ~50% of the total requirement, with additional upside from future helicopter programs and other platforms.
- **What are the key BTS programs currently underway?** We are currently executing multiple BTS programs, including radar subsystems, tank electronics, satellite payloads, and air navigation systems, strengthening our order book visibility.
- **What is the air navigation system opportunity?** In air navigation systems, we are working in partnership with Indra of Spain to enable aircraft landing and take-off from naval platforms, representing a multi-year opportunity.
- **What is driving growth in the EMS segment?** Growth in our EMS segment is driven by higher defense exports amid geopolitical tensions, ramp-up in semiconductor equipment manufacturing with a global client scaling from USD 10–12 million to USD 25–30 million, and strong demand from industrial electronics such as grid automation.
- **Are customers shifting supply chains to India?** We are seeing a clear shift in global supply chains towards India, driven by diversification and indigenization, which is benefiting our business.
- **Does the company act as a single-source supplier?** In select product categories, we act as a sole global supplier for specific components, although larger and more complex products typically involve multiple vendors.
- **Why is the company moving from subsystems to system-level offerings?** We are moving from subsystem-level to system-level offerings to drive higher ticket sizes, better differentiation, and stronger margins, while reducing competitive intensity.
- **What is the company's growth outlook?** We are targeting a 25–30% growth rate over the next 2–3 years, supported by both BTS and EMS segments.
- **What is the gross margin structure in EMS?** In the EMS business, material costs account for approximately 75–77% of revenue, resulting in a gross margin of around 23–25%.
- **Can the company export radar systems globally?** Currently, our radar exports are limited as we operate largely at the subsystem level, but this is expected to improve as we scale system-level capabilities.
- **Why has BTS execution been slower historically?** Historically, BTS execution has appeared slower due to long project cycles of 2–2.5 years, with the recent surge in order inflows now beginning to translate into revenue.
- **Is the business cyclical?** In the near term, we see the business as relatively stable, supported by strong defense demand, although over the long term it remains dependent on government spending and program wins, introducing some cyclicality.

- **What is the company's capex plan?** We plan to incur annual capex of ~INR 35–45 crore, along with an additional investment of over INR 50 crore for a new facility in Bangalore.
- **What are the key factors driving Centum's Capex requirements, and is capex primarily linked to capacity expansion or capability enhancement?** Our capex is primarily driven by capability enhancement such as handling larger electronic boards and building testing infrastructure for radar systems rather than pure capacity expansion.
- **What is the current capacity utilization?** We are currently operating at around 65% capacity utilization, with capability constraints being the key bottleneck, not capacity.
- **What is the working capital cycle?** Our working capital cycle stands at ~90–100 days in EMS and ~200 days in BTS, reflecting the longer execution nature of BTS projects.
- **How will working capital be managed going forward?** We aim to optimize working capital by better aligning procurement with delivery timelines and improving receivables, particularly in the EMS segment.
- **What is the impact of geopolitical conflicts?** We have experienced some short-term logistical disruptions due to geopolitical conflicts, such as shipment delays, but do not expect any material long-term supply chain impact.
- **To what extent do ongoing geopolitical conflicts and wars influence demand for Centum's products, particularly across its defense and EMS segments?** We are seeing increased demand for defense equipment due to rising geopolitical tensions, which has positively impacted our EMS business.
- **How does inflation impact the business?** In EMS, inflation is largely passed through to customers, while in BTS contracts there is some exposure due to fixed pricing, which we aim to offset through operating leverage.
- **How dependent is the company on semiconductor imports?** We remain dependent on imported semiconductors from regions such as the US, Taiwan, and Europe, with meaningful localization in India still some time away.
- **What were the key operational, strategic, and structural challenges faced by Centum's subsidiary that led to its underperformance over the years?** Our subsidiary underperformance was driven by challenges in offshore execution of defense projects, language barriers, weak European demand, and increased competition, leading to sustained losses.
- **What actions have been taken to cut the losses in subsidiaries?** We have taken decisive steps to reduce losses in subsidiaries, including shutting down our Canadian entity eliminating ~INR 25 crore in annual losses and initiating legal restructuring of our French entity, which is likely to be sold through a court-supervised process.
- **What are the key strategic priorities and focus areas for Centum over the next 3–5 years to drive growth and improve its competitive positioning?** Over the next 3–5 years, we will focus on scaling our BTS defense business in India, moving up to system-level offerings, expanding EMS in industrial and semiconductor segments, and pursuing strategic collaborations.
- **What is the technology strategy?** Our technology strategy is to combine internal R&D investments with global partnerships to build system-level capabilities.
- **What is the export opportunity in BTS?** Currently, export opportunities in BTS are limited due to our subsystem-level positioning, but we expect this to improve as we develop full system-level products.

- **Are there restrictions on exporting BTS products?** While export approvals are required, there are no structural restrictions, although developed markets tend to prefer domestically developed IP.
- **What happens if a satellite launch fails?** In the event of a satellite launch failure, we still receive payment for the hardware supplied, although future order flows may be impacted depending on the outcome.