

November 17, 2022

The Manager  
Dppt. Of Corporate Services  
BSE Limited  
Phirozee Jeejeebhoy Tower, Dalal Street  
Mumbai 400 001  
BSE Scrip Code: 532395

Listing Department  
The National Stock Exchange of India Limited  
Exchange Plaza, 5 Floor, Plot C/1, G Block  
Bandra – Kurla Complex, Bandra(E),  
Mumbai 400 051  
NSE Symbol: AXISCADES

Dear Sir/Madam,

**Sub: Transcript of the Earnings Call with the Investor(s)/Analyst(s)**

Further to our intimation dated 10<sup>th</sup> November 2022, please find enclosed the transcript of the Earnings Call with the Investor(s)/Analyst(s) which is hosted on the website of the Company at [https://www.axiscades.com/investors\\_data/annual\\_report/quarterly\\_report/Transcript%20of%20the%20Earnings%20Call%20with%20the%20Investor\(s\)Analyst\(s\).pdf](https://www.axiscades.com/investors_data/annual_report/quarterly_report/Transcript%20of%20the%20Earnings%20Call%20with%20the%20Investor(s)Analyst(s).pdf)

We request you to kindly take the above on record as required under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Thanking You,

Yours faithfully,

For **AXISCADES Technologies Limited**

**Sonal Dudani**  
**Company Secretary & Compliance Officer**  
Encl: A/a

**AXISCADES Technologies Limited**

(Formerly AXISCADES Engineering Technologies Limited)

CIN No.: L72200KA1990PLC084435

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“AXISCADES Technologies Limited  
Q2 & H1 FY2023 Earnings Conference Call”

November 10, 2022



**ANALYST: MR. NACHIKET KALE – ORIENT CAPITAL**

**MANAGEMENT: MR. ARUN KRISHNAMURTHI – CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR – AXISCADES TECHNOLOGIES LIMITED**  
**MR. SHASHIDHAR S. K. – GROUP CHIEF FINANCIAL OFFICER – AXISCADES TECHNOLOGIES LIMITED**  
**MR. SHISHIR GAHOI – INVESTOR RELATIONS OFFICER – AXISCADES TECHNOLOGIES LIMITED**

**Moderator:** Ladies and gentlemen good day and welcome to the AXISCADES Technologies Limited Q2 & H1 FY2023 earnings conference call organized by Orient Capital. 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, please signal an operator by pressing “\*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shishir Gahoi - Investor Relations Officer at AXISCADES Technologies Limited. Thank you and over to you.

**Shishir Gahoi:** Thanks, Mike. Good evening everyone and I am delighted to welcome you all to this earnings call pertaining to the second quarter and first half year ended September 30<sup>th</sup> 2022. I hope you all had an opportunity to review our press release and the investor presentations which are available under the investor section of our website and the same are accessible in BSE and NSE websites. To discuss our results, we have with us our CEO and Managing Director Mr. Arun Krishnamurthi and our Group CFO, Mr. Shashidhar. S. K. They will take you through our results after which we will proceed for the question-and-answer session.

Before we begin the conference call, I would like to mention that this conference call may contain some forward-looking statements about the company which are built on the belief, opinions, and expectation of the company as on date of this call. The actual results may differ materially. These statements are not guaranteed of the future performance involves uncertainty that are difficult to predict. I would now hand over the call to our CEO & MD Mr. Arun Krishnamurthi. Over to you Arun!

**Arun Krishnamurthi:** Thank you very much, Shishir. First of all I know you all must be very disappointed to see outcome of the India vs England match and you are hoping to see India have got through to finals but that is life, but I hope our results will be able to cheer you up a little bit. I take pleasure in welcoming you to this earnings call, the first time since I took over as a CEO & Managing Director about a year back.

At AXISCADES, we are consistently raising the bar with our performance with growth delivered over the last several consecutive quarters and delivering double-digit growth across key financial metrics. Historically, we have been focused on aerospace and heavy engineering verticals and derived majority of our revenue from some of the biggest global clientele in this space who have been our valued clients for over a decade. While these verticals continue to sustain and expand registering double-digit growth. We are currently on a business transformation with three strategic focus areas namely, vertical diversification, customer diversification and digital first. This is in order to diversify our revenue streams and expand our client base. We have seen very good traction with respect to new verticals and new logos such as in Energy, Automotive, Payment Solutions and Medical. We are continuously enhancing our competencies and growing our team size to cater to existing business and new businesses. One of the highlights from this shift is the exciting prospect of the automotive industry. This is our new focus area and we are positioning ourselves to be a preferred partner in this space. In this regard I am happy to

announce that we have signed a long-term deal with a tier-1 global automotive major in Q2, this is in addition to an existing global major who is also our client. We plan to strategically build domain expertise within the automotive industry and enable our clients to leverage the fast pace technological evolution which are developing in this sector. As vehicles get increasingly futuristic there is a long run rate for growth and a massive opportunity to be exploited. We are also growing our relationship with global majors in the energy space and the payment solutions space and hope to be strategic vendors to each of our customers in the coming periods. I am also happy to inform you that the board considered and approved the 100% acquisition in a phased manner of add solutions, GMBH, Germany. This is a company which specializes in automotive solutions to global OEMs. It provides services in the areas of wiring systems, testing and automation for global automotive OEMs. The proposed acquisition will provide a strategic foothold to AXISCADES in the automotive space besides a firm contract with marquee Automotive OEMs. This also will give us a presence in Germany which is as you know the biggest market for automotive. This acquisition is subject to completion of all regulatory compliances. Despite global head winds across multiple sectors our relentless efforts are paying out with robust growth across all our verticals. The acquisitions of Mistral Solutions is on the verge of completion. Mistral is a leading global player in system engineering and product design and is focused on the embedded space with a successful track record spanning over two decades, so have been marquee customers in the product solutions space, home link security and the growing area of defense. This acquisition will strengthen our embedded electronic practice significantly, it will also provide a further impetus to our growth by unlocking cross-selling effort opportunities across our global client base. We are currently in the process of integration of both our businesses and are already realizing the incremental benefits from this synergy both in terms of additional business and competencies. I am confident that we are in a pole position to capture the opportunities in the global engineering space and our aim is to continue to generate value for all our stakeholders. I thank you and seek your support in this journey. I would now like to hand over to our CFO Mr. Shashidhar for a brief overview of the quarterly results. Thank you.

**Shashidhar S K:**

Thank you, Arun, and good evening to everyone. As in the case of Arun this is my first earnings call after I joined here as a CFO in January 2022. We are delighted to share with you that we have delivered a robust growth in revenue and profitability for the second quarter and in the first half year. In Q2 FY2023 our revenue stands at Rs.1,937 million recording a 43% year-on-year growth and in H1 FY2023 our revenues were at Rs.3,769 million where we grew 53% year-on-year. Our EBITDA margins for Q2 FY2023 is at 19.3% an improvement of 690 basis points quarter-on-quarter and 1,110 basis points year-on-year. Our H1 FY2023 EBITDA margin is at 15.9% an improvement of 720 basis points year-on-year. Profit after tax for Q2 FY2023 is at Rs.211 million registering eight-fold growth year-on-year and adjusted profit after tax for H1 stands at INR 338 million registering an eight-fold growth again year-on-year and if you look at segmental performance the overall revenue growth of 43.4% in Q2 FY2023 was driven by increased traction aerospace, defense, and energy clients. Engineering Design Services grew by 28% year-on-year both from existing customers in aerospace and recently added clients in automotive and industrial products as well as energy vertical. Aerospace vertical continues to

grow and is at 44.2% year-on-year, the growth is attributable to the recovery sector and the increased business from new clients. Heavy Engineering group grew by 16.2% year-on-year driven by new service offerings to the existing clients. Automotive vertical witnessed a growth of 27.4% year-on-year, this vertical will continue to grow as we have signed up with other tier-1 automotive company for whom we will undertake projects in the area of embedded mechanical and hardware. The energy vertical registered a 58.5% growth year-on-year, we continue to invest in this vertical, bring competencies and acquire new skills to cater to the growth opportunity in this sector. The revenue from product and solutions delivered 129.5% growth with a strong order pipeline which is visible in this sector. To conclude we are confident that we will continue to maintain and yield on the momentum going forward and both with respect to revenue and profitability. We will pause at this stage and we will now open the floor for questions-and-answers.

**Moderator:** Thank you. We will now begin the question-and-answer session. We have the first question from the line of Jeevan Patva from Sahasrar Capital. Please go ahead.

**Jeevan Patva:** Good evening, sir. I want to understand the total acquisition details that we have done with Mistral. How much we have decided to pay, how much we have already paid and how much is remaining to be paid?

**Arun Krishnamurthi:** Thank you Jeevan for the question. Shashi can I request you to pick that up please.

**Shashidhar S K:** The acquisition with respect to Mistral, commenced way back in 2017 and the total purchase consideration was at Rs.292 Crores and of course the acquisition was supposed to have in various phases and today as we stand payment access for phase-2 where we are supposed to acquire about 40% of the shareholding in Mistral the rest of all the entire acquisition is over and the total consideration which we have already paid to them is an amount of Rs.210 Crores odd and the phase-2 is essentially a share swap through a merger process of an entity called Explosoft which is valued at about Rs.72.13 Crores is at total phase-2. So, to answer your question the total purchase consideration was around Rs.292 Crores of which Rs.72 Crores is required not to be paid in cash but as a share swap of AXISCADES share to the shareholders of Explosoft.

**Jeevan Patva:** Okay, basically you are saying out of Rs.292 Crores we have already paid the cash consideration and Rs.72 Crores needs to be paid which is in the share swap?

**Shashidhar S K:** Right.

**Jeevan Patva:** Okay, and that Rs.72 Crores will be paid at what valuation. AXISCADES valuation I am asking?

**Shashidhar S K:** Yes, that the cash valuation is at Rs.207 per share and we are supposed to issue them 3.5 million shares.

**Jeevan Patva:** Okay, 3.5 it is almost 9% dilution?

- Shashidhar S K:** That is right.
- Jeevan Patva:** Okay, and that will be given this quarter?
- Shashidhar S K:** Well, the process of merger of this entity called Explosoft into AXISCADES is currently in the NCLT process and it is supposed to be completed by 30<sup>th</sup> November which is unlikely to be because of the fact that the NCLT bench in Mumbai has an que in terms of considering these cases. We do expect that the entire merger process and the share swap as it stands today is going to be completed by the year end.
- Jeevan Patva:** Okay, and right now whatever numbers we see in the consolidated, that is including 100% of Mistral, right?
- Shashidhar S K:** That is right.
- Jeevan Patva:** So, we are considering all 100% Mistral?
- Shashidhar S K:** Yes, the reason being we have a management control of Mistral, in fact as we are speaking the integration process with Mistral is ongoing in fact the fact that we still have to acquire this balance 40% which is in Explosoft and we are consolidating the numbers of Mistral right from day one when we acquired them in 2017.
- Jeevan Patva:** Okay, and now looking at your balance sheet we have almost Rs.200 Crores of total debt, right short-term plus long-term I am asking.
- Shashidhar S K:** You are right.
- Jeevan Patva:** And you have certain items on the asset side. You have cash and cash flow and then you have bank balance of some Rs.70 Crores. What is that and there is something other financial assets. What are these three items, cash I can understand, second and third item. What is that bank and third is other financial assets?
- Shashidhar S K:** Basically, as I said the bank balance are nothing but a margin money in the process of acquisition of Mistral as a result of the arbitration order we were required to provide them bank guarantees of about Rs.55 Crores for the completion of phase-2 and for the long-term fees and we have placed the margin money of Rs.44 Crores with the bank that is what you see here in bank balances and other financial assets are essentially the unbilled revenue which we recognize at the end period.
- Jeevan Patva:** Okay, so that other financial asset is complete unbilled revenues?
- Shashidhar S K:** Majority of it yes.
- Jeevan Patva:** Okay, perfect. What is this purchase consideration paid Rs.132 Crores?

- Shashidhar S K:** That is exactly what we paid to Mistral in this period.
- Jeevan Patva:** So, Rs.132 Crores is paid and remaining Rs.62 Crores has come in the bank guarantee?
- Shashidhar S K:** That is right. Rs.65 Crores of bank guarantees.
- Jeevan Patva:** Yes, Rs.65 Crores bank guarantee and Rs.132 Crores paid?
- Shashidhar S K:** Yes, for this period.
- Jeevan Patva:** Perfect. Thanks a lot sir and one more thing on the business side, today there was an announcement saying you have appointed Edelweiss Financial Services to support the company's fund raising. Is this the equity fund raising we are talking or is it in the debt, what is it?
- Shashidhar S K:** It is essentially a primary money which we want to raise for the growth capital of the company and the company as you have seen is going at a very big space and we are planning to rise from primary capital to aid this float and that is the reason we have floated this mandate to Edelweiss.
- Jeevan Patva:** That is the QIB basically you are planning to go for QI's?
- Shashidhar S K:** That is the preferential offer, yes.
- Jeevan Patva:** Okay, and what was the need for this, is it for more towards the working capital?
- Shashidhar S K:** There are three things with respect to how we want to use this money. One is of course to aid the growth we are continuously adding people to our pay roles in terms of the growth that what is coming and there is usually a lag of three to four months before the people start to be productive. So, to fund this lag number one, number two in terms of the various digital and automation initiatives as what we have taken and thirdly is we are taking some senior level people in our various global locations as well as in India to support us in this growth. Essentially as what you said it is basically to aid growth and you can call that as working capital.
- Jeevan Patva:** And how much it would be?
- Shashidhar S K;** We are planning to rise about Rs.100 Crores.
- Jeevan Patva:** Okay, but at current valuation you think it is right valuation to go for the fund dilution. Because, if I compare with other company like KPIT or Tata Elxsi or other companies, we are valued at a very low multiple right now. Is it a good time to go for dilution at this price?
- Shashidhar S K:** We have floated this mandate in all as you rightly said that depends on the enterprise valuation which a prospective investor will come up with and obviously we will be able to recognize the synergies as what we have got with the acquisition of Mistral and the growth as what is happening and the business transformation as what is happening. It depends on again on how

Edelweiss has to locate an investor who are able to recognize our value and we will take a decision based on that.

**Jeevan Patva:** Okay because I feel this value is actually very low. If you compare with comparable peers what have they listed in the Indian market. Considering the capabilities that we have and considering the pipeline that we have. So, I feel this is wrong valuation, that is what I feel.

**Shashidhar S K:** As I said the actual valuation depends on how the prospective investor will recognize this value and we will wait for that.

**Jeevan Patva:** Perfect sir. Thanks a lot.

**Moderator:** Thank you. We have the next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

**Deepak Poddar:** Thank you very much for the opportunity and a big congratulations for a wonderful set of numbers. My first question is, now it is new verticals that we have been discussing about. How do you see that revenue mix changing in next three years from this new verticals as compared to our legacy in aerospace, heavy engineering, and other verticals. How do you see that mix changing and will that be margin accretive for us, this new verticals will give us better margins than what we currently are garnering here?

**Arun Krishnamurthi:** Mr. Deepak, this is Arun here. I can take your questions. The reason that we are going into new verticals is that we want to diversify the sector that we are present in. As you will understand if we are present in only couple of sectors or three sectors you tend to get exposed to seasonality's and head winds which might happen from time to time. The reason we are going for automotive, energy and medical is because, number one these are the sectors which are extremely vibrant from an engineering perspective. As you can see in automotive there is a lot of technology trends coming in, there is a move towards electrification connected cars and there is a lot of engineering and investment which is going in there. Similarly, with energy we have seen that with the Ukraine crisis, that the oil prices are going up and we have seen the oil and gas majors and the tier 1's actually opening up the capital budgets and looking expanding more and industry and of course medical devices we all know after the pandemic that has been a very vibrant market. We want to diversify the sectors that we are present in and in terms of the sector mix of course for us aerospace and heavy engineering are sectors where we have a lot of credibility and we actually work with the best names in this sector, so this is the sector that we will continue our focus on. But given that sectors like automotive and medical have a large spend of engineering, it is likely that we might see faster growth in some of these sectors and if you look at the whole engineering market, if it is about \$1.3-\$1.5 trillion depending on the report you look at. Automotive is something like \$400 to \$450 billion, so it is a large component of it, that is the reason we feel that the spend in that area can be quite rapid because there is legacy OEMs, there is tier 1, there is new age companies all of them investing that.



In terms of margins the question that you asked, we are in these new verticals very focused that we will want to grow in embedded and digital and these are two areas where the margins are very good because there is a lot of new technology which comes in, there is a shortage of skills and there is a lot of innovation. The focus for us is to leverage Mistral's capabilities in embedded and also to look at the digital capability that we are developing to connect these verticals. We want to grow in these new verticals and we want to grow at margins which are healthy.

- Deepak Poddar:** Fair enough, and in three years we can expect 25% revenue from these new verticals?
- Arun Krishnamurthi:** I don't want to give a forward-looking guidance, but the industry level growth is anywhere between 15 to 18% and last year we do at 17.6% this year we are on a very positive trajectory. So, I am very confident that we will be above the industry growth rates. So I don't want to comment on specific percentages but we are on a good trajectory.
- Deepak Poddar:** No, I am talking about this new vertical revenue mix basically, in three years this new vertical can form 25% of your revenue?
- Arun Krishnamurthi:** Yes, it could form 25%.
- Deepak Poddar:** Yes, that is what I want and my last question is regarding your sustainability of margins. In the second quarter we have seen a big jump in your margin to about 20%. Some inputs that how sustainable is that or is there any kind of one off or something or is it a sustainable margins that one expect going forward as well?
- Shashidhar S K:** I just want to tamper, the margin EBITDA as what we have registered for Q2 of this year which is at 19.3%. In this our immediate subsidiary, which is AXISCADES Aerospace and Technologies, there was a very big chunk of previous revenues which had a very large gross margin as a result of which our margins for Q2 stands at 19% and that you would see in H1 of this year our EBITDA margins are on 15%. So, I would say that the normalized margins even for Q2 if you take away the impact and normalize it, it is also around 15%.
- Deepak Poddar:** Okay, and I missed it that big chunk of revenue came from your service business?
- Shashidhar S K:** No, we have a 100% subsidiary which is called AXISCADES Aerospace and Technologies which is in the offset and defense space. There in Q2 the total revenues which were recorded in that particular subsidiary was upon a quarter was Rs.213 million and large chunk of that was service revenues where there was no material content involved as a result of which the gross margins which were recorded for this particular entity was at a very large scale as a result of which it favorably impacted the EBITDA for Q2. If you can normalize it, it will be around 15%.
- Deepak Poddar:** Okay, I understand. So, normalized EBITDA margin going forward one should look at about 15%, right?

- Shashidhar S K:** That is our target, yes.
- Deepak Poddar:** And this largely because air drone supply that we did or what. That big chunk of revenue we are talking about.
- Shashidhar S K:** Part of it is the anti-drone which comes executing for the ministry of defense and there was also a service revenue for one of our defense offset customers both together over a large chunk of service revenue
- Deepak Poddar:** Fair enough. That is quite helpful, sir. Wish you all the best. Thank you so much.
- Moderator:** Thank you. We have the next question from the line of Akshay Kothari from Envision Capital. Please go ahead.
- Akshay Kothari:** Thanks for the opportunity. Sir, what was the Mistral revenues during the current quarter?
- Shashidhar S K:** The Mistral revenue for the current quarter was Rs.626 million which was about 30% of our total consolidated revenue.
- Akshay Kothari:** Okay, and based on the order book what could we see for the FY23?
- Shashidhar S K:** We would not like to give a specific guidance in terms of numbers and as Arun was mentioning now we hope to grow at a much faster pace than how the industry is going. Last year our revenue growth was around 20%, we hope to meet the target beyond that we do not want to commit specific numbers.
- Akshay Kothari:** Okay, sir what was the order book in Mistral as on 30<sup>th</sup> September?
- Shashidhar S K:** They have a large pipeline of orders because they do a lot of proto typing for the various defense order which they execute. They have a lot pipeline much of it has actually turn into orders. In terms of confirmed orders it is not something which at this juncture we can divulge.
- Akshay Kothari:** Okay and just to understand since the product profile that is not very much niche. Do these orders have a short execution cycle time or are they spread over one, one and half years?
- Arun Krishnamurthi:** Typically, the way it works in the defense business is that, when you get a new order your initial period is spent in R&D and you put a lot of effort into developing a prototype. Once the prototype is approved and once that part is approved by the army or the DRDO or whoever the agency is, after that you get into production phase and that production phase continues for a number of year depending on the number of products that you need. For example, if we develop say a radar for a fighter aircraft you would have a R&D phase which would be the initial one year or one and half years and once you develop a prototype which is approved and then if there 100 fighter aircrafts the production would become 100. So, typically the R&D phase is where

there is a element of investment which goes in and once you get into the production phase you will see that there is lot of revenue which comes that much higher margins. Because all the R&D is done and it is mainly manufacturing and installing into the final product.

**Akshay Kothari:** Okay, I understand. Sir, compared to other defense companies we actually have a development arrangements with DRDO wherein all the development expenditure by them are also re-imbursed to them by DRDO. So, they are getting benefits on two fronts, one on the development and post that they would also get production. So, our R&D expenditure does it funded by DRDO or something like that?

**Arun Krishnamurthi:** Yes, depending on the agency that we work for, it could be DRDO, LRDE, BEL, ministry of Defense. It is a similar module that the other defense companies have.

**Akshay Kothari:** Okay, so first for one year our investment would go in but it would eventually come in as our revenues, right?

**Arun Krishnamurthi:** Yes, the investment goes in to develop a product to conceptualize it and come out with the prototype which has been approved and once that approval happens then it goes into production. So, those are the two phases that happen in defense, everything obviously funded by the customer, we obviously do start with a lot of innovation and IP etc, such that we have an edge over our competition.

**Akshay Kothari:** Okay, thanks a lot.

**Moderator:** Thank you. We have the next question from the line of Inder Soni from Ruane Cunniff & Goldfarb. Please go ahead.

**Inder Soni:** Hi! First of all congratulations on a great set of results. My question is for Arun, AXISCADES and Mistral have very large customers where currently you have relatively small revenue. In your previous experience at Wipro you had record of making large clients where there was small revenue and then growing into large revenues. How do you see this opportunity compared to the success you had at Wipro utility business where you grew small accounts at big companies to large accounts and big companies?

**Arun Krishnamurthi:** Thank you for your question Inder and actually that is a really good question. I think the opportunities exactly at the same interaction point. What we are doing with the existing customers we have, they know us in a certain way, there is a certain kind of work that we deliver for them. But with the acquisition of Mistral for example, with the strong embedded capability that we have, we will be cross selling those embedded capabilities into our existing clients. Because if you look at the engineering space getting into a supplier and getting a supplier code is really hard work. But once you get a supplier code then depending on your capabilities you can cross-sell and up-sell many services. So, with all the leading Marquee names that we have in every industry sector, we have an unique position but the door is open we will now be re-

packaging our services as well as taking Mistral in bringing in the industry context, bringing in client context that we have and we believe that we will be able to offer much, much more for this client. So, the part of our strategy that we have is exactly that which is as far as existing clients in the farming business is concerned, how do we develop more and more competencies Mistral is one of them but equally digital which we are developing inhouse. How do we take that and then grow the business that we have with customers and of course the new custom which is about positioning the knowledge that we have in that particular industry and winning the new business.

**Inder Soni:**

Great and you have great chance in two areas, defense and auto both very large segments at very exciting right now. Can you comment a little bit upon them, I think you had attended defense expo in Bengaluru and you just bought a company in Germany. So, can you just talk a little bit more about your plans for defense and auto please? That is my last question.

**Arun Krishnamurthi:**

Yes, absolutely. As far as defense is concerned it is a huge market now because obviously we have seen that the Ukraine crisis that every country is trying to become self-dependent as far as their defense needs are concerned and of course we have Aatma Nirbhar Bharat, so there is a big initiative for make in India. As well as that the Indian government has also empowered senior military officials discretionary budgets of up to Rs.300 Crores, so they don't have to go through a planning process but if there is an immediate need up to Rs.300 Crores is something they can spend and I was at the defense expo at Gandhi Nagar and we showcased the capability that we have both through Mistral as AXISCADES and there was a huge uptick. We had a lot of interest, a lot of visitors and as you know in defense drone warfare is becoming mainstream and some of the products that we have the anti-drone system etc. got a lot of interest. So, we see defense to be a very, very viable sector and the good thing with defense is that if you are in you are in if you are in it is hard to get in. Given that both through AXISCADES and Mistral we have been working in defense for more than twenty years. We have very entrenched relationships, we have built the credibility through twenty years of developing products and deploying them in various defense products. So, we are very bullish about defense and that is a big market as well. As far as automotive is concerned, like I said the market share is huge. I actually come with a lot of automotive background because prior to joining AXISCADES I was with Tata Technologies in London and I used to manage the entire Europe business for automotive. So, I know automotive extremely well, I have a lot of relationships and this is a very vibrant market and that the whole ADAS with connected cars, with electrification a lot of the work that has been pushed in automotive is towards digital and embedded. So, you are having the concept of a software defined car where it is less about mechanical engineering, it is more about the features which come in through embedded and digital. This is where we are focusing on and Mistral has very good capabilities in embedded which we can reap out as to automotive and of course digital is something that we are developing. We are again targeting this sector, we started with a very Marquee client big German customer and then we added on a big UK tier-1 automotive company and there is rationale for looking at add solutions is that in Germany the Big3 which is BMW, Daimler, and Volkswagen. If you need to penetrate them the only way to get in is through acquisition because the vendor eco-system is very secure and this company that we are looking at has a very, very strong fifteen relationship with one of those big OEMs and it is in the very active

area of software testing as well as wiring harness. So, for us we will want to unlock Germany getting growth automotive business in Germany. But equally the German automotive capabilities are the best in the world. So, we will want to take that through add solutions to the UK, to US and of course to India and again we will look at like we are doing with Mistral, taking it to our other customers. We will look at taking the add solutions capabilities globally through our sales force.

**Inder Soni:** Thank you.

**Moderator:** Thank you. We have the next question from Ketan Gandhi from Gandhi Securities. Please go ahead.

**Ketan Gandhi:** Yes, with regards to the anti-drone system, last year or so we have bagged the order. Is it the order along with the BEL. Can you throw some light on these orders and going forward how we are looking at the repeat order of this kind of the same anti-drone system?

**Arun Krishnamurthi:** Order is not with BEL, it is something that we have won and we have a partner with whom we are developing the product and the customer is Indian Army but equally there are potential customers like the Airforce, Coast Guard, Navy etc. We have already delivered a few of these and already have a repeat order which is coming in again we can't disclose the numbers and the order because obviously that is of competitive significance and we want to keep that with ourselves. But just to let you know the first part of the order is being delivered and it will get completed sometime towards the end of this financial year and the repeat order is already in our books and we will start servicing that as well.

**Ketan Gandhi:** Sir, is it possible for you to share the number of units of anti drone systems?

**Arun Krishnamurthi:** Yes, it is about 100 units and about close to 50 have been delivered rest of them are being delivered.

**Ketan Gandhi:** And after this we will be getting the repeat order of this kind of or higher numbers?

**Arun Krishnamurthi:** That is correct.

**Ketan Gandhi:** Sir, in the space of radar where are we, like we do in ex-band, S-band and do we have any role in SR radar which has been developed recently is known as with some SR radar. So, are we in TR modules or sub-system, I just wanted to know our capabilities in terms of the radar space. I think that is one of the biggest in defense segment.

**Arun Krishnamurthi:** Yes, and that is exactly the space where Mistral is in. We can set up a separate call to go into the technical details. But what Mistral delivers for the defense is that is the radars and the sonars both for air force and for army and obviously for the navy. We can get into further details but our unique differentiator and the strong capabilities are in the radar systems.

**Ketan Gandhi:** Okay, we will talk this offline because I really wanted to understand the company's capability in terms of X-band, S-band, or various other kind of stuff?

**Arun Krishnamurthi:** Sure, we can get somebody technical to set up a separate call.

**Ketan Gandhi:** Sure, sir. Thank you so much.

**Moderator:** Thank you. We have the next question from the line of Nikhil Shah from Ambika Financial. Please go ahead.

**Nikhil Shah:** Hi! Arun and Shashi, congratulations on a very, very good set of numbers. You guys are in a sweet spot both in defense as well as in the R&D space. My question is relating to Mistral, one they are working on the defense side but I thought they were also working on the semi-conductor side, could you elaborate a little bit on that?

**Arun Krishnamurthi:** You are absolutely right Nikhil, 50% of the revenues come from defense and 50% of the revenues come from the semi-conductor industry and all of that are overseas customers and they are all again big leading names in the US and in the Europe. So, you are absolutely right 50% of the business is semiconductor.

**Nikhil Shah:** Okay, we are currently at the run rate numbers that Shashi talked about are at about \$35 million of revenue a year. How do we see that scaling up as you rightly mentioned that you do some work initially on an embedded side on defense and then it scales up big So, is it that we have reached an inflexion point on Mistral orders?

**Arun Krishnamurthi:** If you look at the defense business like I said there is an R&D phase and then there is a production phase and we are actually seeing a lot of our products which gone through R&D now coming into the production phase. Equally there are some new orders that we are working on which is brand new and in R&D phase, and in general the defense sector is very vibrant and we have very, very good connection. We are seeing the benefit of those connections coming to fruits you have seen a lot of that business and of course semi-conductor is like any other services business. It is we work with our client, we take a piece of business and kind of work that we do is very high quality and margin. So, there it is more traditional services business where we take projects and deliver that our clientele.

**Nikhil Shah:** Thanks for taking my questions and all the very best. You are in exciting phase right now. Thank you.

**Moderator:** Thank you. We have the next question from the line of Naveen Bothra from Shubh Labh Research. Please go ahead.

**Naveen Bothra:** I would like to congratulate Mr. Arun and the entire team for the good set of performance within a short period of less than one year after joining the new management team. Sir, my most of the

questions regarding Mistral and fund raising have been answered. So, I would like to restrict myself to the recent Tata and Airbus have announced that project in Gujarat, our association with Airbus is on the civilian side as well as both the Gujarat plant with Airbus and Tata. Are we going to have any association with this vertical also?

**Arun Krishnamurthi:** Mr. Naveen, thank you so much for your questions. The collaboration that is been announced between Tata's and Airbus is for the production of the C295 Aircraft which is a transport aircraft. So, our association with Airbus is on the airframe and aerostructures and this is both on the civil as well as defense as well as helicopter side. There is a lot of these capabilities and skills which we will be able to take over to this set up which has been established in Vadodara in Gujarat. Obviously, we are in conversation with Airbus and we are in conversations with the Tata's as well. But I don't want to comment more than that, but what we do for Airbus is something that is exactly replicable for this joint venture as well.

**Naveen Bothra:** Okay, and if you can throw some more light on the add solutions numbers and revenue numbers have been said, the EBITDA numbers and something like performance and this year's performance up to three quarters?

**Arun Krishnamurthi:** Yes sure, but add solution their financial is from January to December and their forecasted completion this year will be about eight million Euros and they actually have very healthy EBITDA, so they are at about 12 to 13% EBITDA which for a German company is very, very good because as you know usually companies which there only German or European tend to be in single digit budgets. So, these guys are actually very profitable and the forecast that they have for the next year also is pretty good because again software testing is an area which is very important in automotive because most features that are developed are either software or embedded. So, software testing is an area which will grow more and more and these guys have very good labs, I have visited the facilities, they have very good labs, they have good test benches and they are actually working on the latest platforms of the OEM that they are working with. So, very good revenues standalone that they have. Of course we will also look at how we can do some synergies by taking them to some of our clients and to new clients as well.

**Shashidhar S K:** Yes, I think you said it all. So, as I said for German company they have reasonably good EBITDA margins. This year they are aiming at about 90 Crores in terms of revenue with the EBITDA margins they have talked about.

**Naveen Bothra:** Okay, next follow up question regarding this add solution to Mr. Arun. This is basically in the mechanical and all this. Will the add solutions will add to our EV and ADAS and all these capabilities along with the Mistral embedded, the specialization and all. If you can throw some more light and how big it can be in the coming five years, this automotive space along with the automotive add solutions. If you can say something.

**Arun Krishnamurthi:** add solutions actually is not in the mechanical space, they work in two areas one is the software testing area. If you look at the whole infotainment system in a car a lot of software development

happens there, a lot of diagnostic system. Your audio and you streaming and navigation all of it is based on software. What add solution does is, they do software testing for those modules and before the car is released or before the version upgrade is done there is a lot of software happens and you set up what are called test benches by which you can simulate a real-life environment. So, software testing is the area that in, that is number one, the second is around wiring harness this is all electrical. This is how you do the wiring in the vehicle and of course with EV coming in the wiring harness becomes that much more complicated because we don't have an internal combustion engine, it is on an electric motor and it is all batteries. So, wiring harness becomes very critical to it. This is a company which is in the software space, the intersection of software in engineering and electrical. Actually they don't do any mechanical work at all and that is the reason we feel this will be very complimentary to us because we have very, very good mechanical engineering skills to our heritage work that we do. But through this acquisition we will be able to develop the software capabilities as well as the electrical capabilities which are actually the growth areas in the automotive field. Just in terms of numbers again, like I said we don't want to give a forward-looking guidance but all I would say is that automotive is a large share of the engineering spend and in that automotive spend the software and the embedded part is again a massive chunk. We are in the right areas I think we will be able to exploit the opportunities that exist there.

**Naveen Bothra:** Fine, sir. Thank you very much. All the very best.

**Moderator:** Thank you. We have the next question from the line of Rajendra Shah from Fidelity. Please go ahead.

**Rajendra Shah:** I just want to get a feel from the operating leverage in different projects. To get a feel for the kind of profit and growth that you can have. That is example and defense you mentioned that once you put in the money for R&D then you get a production order then all that hopefully will transpire into a lot of operating leverages. Can you just give us some feel for the operating leverages in different sectors and type of work that you are doing?

**Shashidhar S K:** Basically, at an enterprise level we are now at a level where operative leverage is picking in of course we are not able to specially comment on the defense thing which you talked but as an enterprise we are at the cusp of taking the benefit of operating leverage. For us any in incremental revenues beyond the number of around Rs.550 Crores is where every incremental dollar or incremental rupee revenue will add close to about 25% plus in terms of EBITDA.

**Arun Krishnamurthi:** I just want to add Mr. Rajendra that both of us joined this year and we are in the journey of transformation. We are looking at obviously how we can get some quick wins, how we can make the company more efficient and how we can bring in leverage like Shashi mentioned. But going forward what we are focusing on is that we are banking a lot on digital initiatives. For all the work that we do for our customers, we are looking at setting up teams which will look at more automation such that we can become more productive and honestly we want to break the linearity between revenue growth and head count and that is where we will focus going forward. This year



is more about exploiting some of the quick wins looking at how we can make it more efficient and transforming the business to align it with profitable growth. But going forward the focus will be on scalable profitable growth which will mean bringing in digital initiatives, which will bring selling higher value services, which will mean more effective account mining etc.

**Rajendra Shah:** Thank you.

**Moderator:** Thank you. We have the next question from the line of Vignesh Iyer from Sequel Investments. Please go ahead.

**Vignesh Iyer:** Congratulations on a good set of numbers. On the revenue by geography that as given, if I see it is got 36% of your revenue coming from Europe. Considering the current situation in Europe can you give us an idea if your order book in hand already for execution in next one or two quarters.

**Arun Krishnamurthi:** If it is specific to Europe, it really depends on the sector that you talk about. I'll try to give you a very quick sense of each sector. If you look at aerospace the client that we work with they have a full order book which will probably extend for the next four to five years. If you wanted to order a new aero plane that is only going to come into their list five years from now and as you know in aerospace there are two large OEMs and the one that we work with is doing extremely well and they have a market position. So, their order book is actually full and we don't see any slowdown in fact if anything that is more acceleration and more productivity initiative we are trying to bring in to get it done faster. If you look at automotive, automotive there is a massive shift as you know again that is happening towards electrification. There are new age EVs which are coming and is connected which is coming in. All of these require long investment cycles, so typically there is two to three years' worth of investment. Especially with the climate control agenda there is a move towards more electrification, more EV vehicles and these are R&D projects which will not stop because once you stop it is very hard to pick it up again. So, typically with automotive once they are picked their bags they will sort of stay the course on it. Again, in automotive we don't expect the slowdown what could potentially happen with the inflation, the macro-economic situation is car sales and availability of cars because of semi-conductors might be impacted. But that is more a retail play, it is not an engineering R&D play, we don't see a big issue with that and energy of course with the Ukraine crisis we all know that energy has again come back into focus and we will see that energy security becomes important for every country. So, there is going to be big investment whether it is on clean renewable energy or in oil, gas, and fossil fuels are here to stay for some more time to come again that is a vibrant sector. I would say heavy engineering probably the only sector which could have some impact in terms of softening because of the fact that investments might not come in and there might be a slowdown. But again we don't anticipate that because typically governments would do stimulus spending, there would be infrastructure spend and we see that to some extent that sector would be protected. Defense of course because of Ukraine every country is investing in defense, we don't foresee that to go down at all. Actually, the macro-economic situation that we see in Europe will probably not impact the sectors that we are in engineering to such a large extent.

- Vignesh Iyer:** Okay, I get it and the second question from my side is on the product and solution side. I just wanted to know what is the current execution timeline of the current anti-drone system order you have in hand and the possible execution timeline for your next set of orders that you are expecting if you could guide us on that.
- Arun Krishnamurthi:** We just talked about the number of units that we have. This is competitive information again because obviously we bid against our competition to win some of these orders. So, I don't want to talk about future business and future order because that is privilege information between us and our customer. But we talked about where we are with 100 units and 50 been delivered, 50 which are in progress and there is a future order that is coming in. I don't want to really comment on which specific defense unit it is or how many units that we are producing because clearly this is competitive information.
- Vignesh Iyer:** Okay, so you cannot give timeline for even the 50 units that yet to be delivered, right?
- Arun Krishnamurthi:** That will get delivered in the next six to eight months, the remaining 50 units for this order.
- Vignesh Iyer:** Okay, fine. So, you got another six to eight months before the possible new order gets fixed in this?
- Arun Krishnamurthi:** Well it could be sequential, it could be in parallel as well. But all the options are on the table.
- Vignesh Iyer:** I understand. Thank you and all the best. That is all from my side.
- Moderator:** Thank you. We have the next question from the line of Jeevan Patva from Sahasrar Capital. Please go ahead.
- Jeevan Patva:** We have actually almost Rs.200 Crores debt on the balance sheet and the debt cost seems to be little higher looking at the interest cost. So, are we planning to re-finance that in the foreign currency where we can actually have a natural rates?
- Shashidhar S K:** We of course have to take on this quantum of debt at a very short period because of the timelines which were imposed by the arbitral tribunal. We do recognize that it has come at a higher cost and we are already in the process of re-financing it and whether you will take a foreign currency loan or to a rupee loan obviously we are looking at a significant savings in cost in terms of the agencies with whom we are discussing this risk and we are confident that before the end of the current financial year we should have the re-financing in place.
- Jeevan Patva:** Okay, and second question is for Arun actually. Just want to understand you have been at the Tata Technology as well, you are also aware of what Tata Elxsi is doing, Just want to understand capability wise if I have to put you against the Tata Elxsi or ,KPIT so KPIT is more towards automotive domain. Capability wise how do you place yourself with Tata Elxsi and KPIT.

**Arun Krishnamurthi:** I would say that the team we have is extremely good. The capability that we have are extremely good. The customers that we have which is the most important part, we have access to the best customers in each industry sector that we service. That is extremely good and the reason that I came and joined AXISCADES is precisely this. My past history I have worked at Wipro for a long time, Tata Technologies and then I came and joined AXISCADES. The reason I joined AXISCADES is because it is not as big a company as Tata Elxsi or some of the others you mentioned. But the clientele that we have and the capability that we have are equal to the best. I felt and I was very bullish that with my experience here was a good platform to grow the company and with the right investment, with the right team, with the right focus, with the right sales strategy we will be able to grow it and as you can see that is why we have moved quickly, we have looked at organic as well as inorganic growth. I feel from a capability perspective we are as good as anybody else. Of course we need to hire more people and we need to have a bigger reach and more customers and that is how a company scale up. Every company goes to an evolution and we are at a part to the story where we think we can grow as well.

**Jeevan Patva:** Perfect. Thanks a lot. This was good answer.

**Moderator:** Thank you. We have the next question from the line of Ansal Thakkar from Lalkar Securities. Please go ahead.

**Ansal Thacker:** Hi! Arun sir and the team. Congratulations on a fabulous performance. Sir taking clue from one of the previous questions. I understand that there are about at best twenty to twenty-five OEMs and given that there are a limited number of OEMs the kind of companies that cater to them almost on the automotive side be at aid as after SAR or like you said the wire and harness. Would it be IP essentially that will kind of relationships will get us in the door and it will get us business. But what will help us maintain our margins given that so many people are catering to such a limited set of people.

**Arun Krishnamurthi:** Actually, if you speak of the automotive sector, the market actually is quite big now because there is a lot of the traditional OEMs, there is the tier-1 service provider, so they are the competent manufacturers and then you have this new age OEMs, Tesla, Rivian, Bilen etc., and the market actually is expanding at a rapid rate because everybody is trying to get into automotive in either manufacturing vehicles or in the mobility space. It might not necessarily be manufacturing a product but actually getting into right sharing or mobility or associated kind of solutions. The key to the growth to your point is one is that there are certain technologies both in embedded and digital which will be in demand. One is we will look at developing competencies in that and developing a cadre of people whom we can deploy to our customers, that is point number one. Point number two, we are looking at platforms and point solutions which are our differentiates, we will want to take those to our customers and they will see the value that this is something that they don't need to invest a lot on that, that can be applied to them and it is a huge case which is very useful. We will look at investing in some IP and some huge cases that where we feel that we can be a differentiator and that is a second way in which we will want to grow the market. The good thing with having platforms and IP is that it is a replicable model, you can take

to one OEM and you can then replicate that with minimal cost for other OEMs as well. So, we are on that journey of both developing the competency in people as well as developing IP and solutions.

**Ansal Thacker:** That would essentially involve some sort of cost, right given that either we have to develop or then we will have to acquire. So, do you have any amount or a figure in mind as to what you are setting aside for these kind of acquisitions?

**Arun Krishnamurthi:** We obviously do our annual planning. We have a budgeting process, so we put in some money that we want to invest in R&D and things like acquisition of add solutions for example will go in the same direction where there will be capabilities and solutions that they have. This is something we take in during the annual process I obviously don't want to talk about what the number is. But we have a plan as to how much of it will come in and to the point of what Shashi was making about raising capital, this is the exactly we want to do it, we feel that the market is big and with some working capital, with the investment in senior resources in capabilities we will be able to exploit the opportunities.

**Ansal Thacker:** Wonderful and sir last question. Can the middleware somewhere feature in our opportunity areas?

**Arun Krishnamurthi:** Yes, what we would look at is end-to-end stack. We will look at right from the hardware level doing the embedded electronics, doing the middleware embedded software and then the application software in digital. We want to play right from the embedded hardware right up to the digital application software all the layers.

**Ansal Thacker:** Wonderful. Very encouraging sir and given your background is even more exciting. Congratulations again and look forward to meeting you and speak to you.

**Moderator:** Thank you. That was the last question. I would now like to hand it over to Mr. Nachiket Kale for closing comments.

**Nachiket Kale:** Thanks everyone for joining on this call. I would also like to thank the management taking time out to answer all the questions today. Orient Capital is the Investor Relations Advisors to AXISCADES. For any queries or follow up please feel free to reach out. Thanks everyone, have a nice time. Thank you.

**Moderator:** Thank you. On behalf of AXISCADES Technologies that concludes this conference. Thank you for joining us and you may now disconnect your lines.