



28th April, 2021

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Sub: Transcription of video call with the investor / fund / analyst viz., Abakkus Asset Manager LLP

Ref: Scrip Code: 505242 / DYNAMATECH

Dear Sir / Madam,

In furtherance of our letter dated 20th April 2021, we are herewith forwarding the Transcription of video call with the investor / fund / analyst viz., Abakkus Asset Manager LLP for your kind attention and records. The same is also uploaded on our website www.dynamatics.com

We kindly request you to take this intimation on record.

Thanking you,

Yours sincerely,
For **Dynamatic Technologies Limited**


Shivaram V
Head- Legal, Compliance and Company Secretary

U.TOBY MALHOUTRA: Hi Sunil. How are you doing?

SUNIL: Good good. One of my members will join in a minute or so. Then we will start.

U.TOBY MALHOUTRA: Long time since we met.

SUNIL: Yes, long time. Nice to see you smiling and fit as ever.

U.TOBY MALHOUTRA: Firstly also let me congratulate you. I will introduce my team to you, I was telling them about how you used to come and you were a young analyst and I was a young industrialist in the garage of Aerospace.

SUNIL: First time I bought Dynamatic I think the market cap was Rs 15 Cr. We were Rs 5 Cr in equity and I think Rs 30 was the price or something.

U.TOBY MALHOUTRA: Yes, you are amazing. I met you when you were a young analyst and you bought it right in the beginning. That was the time when nobody used to even visit as such just the few analysts in Bombay to five companies in Bangalore. Wonderful.

So I have Chalapati with me who is our Chief Finance officer, I have Shivaram with us who is our compliance head, I have Srinivas who is the part of legal and secretarial team and he is ensuring that we are all participating.

SUNIL: My colleague Mudita has just joined.

CHALAPATI: Hi Sunil. Good morning.

SUNIL: Good morning everyone.

U.TOBY MALHOUTRA: Hi Mudita.

MUDITA: Hi.

U.TOBY MALHOUTRA: Okay so what we thought when Sunil reached to me a couple of days ago, given the new SEBI guidelines it is actually quite interesting that this is our first call that we will fully record and upload onto the website and have a full transcription out. So, it's new for all of us. With that I also thought that we would provide with what Sunil wants is a real re-acquaintance of himself and Mudita with the company. He said that I don't want to anything, the numbers etc, I'll wait for the quarter end but really I want to use this time to understand the business. As he mentioned earlier, he has visited us when market cap was Rs 15 Cr and we were a tiny company. I think this is a really nice moment.

SUNIL: Thanks a lot for taking time out to appraise us about the new dynamic.

U.TOBY MALHOUTRA: Right and the nice thing is what I'll do is I will use the slides I used in the last AGM to just give you a flavor of the company and whatever question you all have after I present it, you can please ask me and I will or my team will answer. Thank you.

Are you able to see these slides?

SUNIL: Yes, I can clearly.



U.TOBY MALHOUTRA: Okay, lovely. If you just look at our business. You know Sunil, right in the beginning when you visited us, we were a company that made Hydraulic pumps that had recently started making parts for Hyundai motor company and you saw my little garage at the back of the hydraulic plant where I was making some small stuff for the DRDO and the Ministry Of Defense which was really my passion which was the Aerospace business and since then we have come the along way, the business has evolved and we have these three verticals and they have their own three dynamics which I will talk about.

All right. Srinivas I don't know why these slides aren't moving forward.

At the core of the business Sunil what we were able to do was over the years and I think this is really the main part of the business is the ability of our company to design an engineered product. So one of the things that happened was we were manufacturing hydraulic pumps which are very highly engineered. They pump oil at 4000 pounds per square inch and they are used in tractors, bulldozers, drill rigs, excavators, and very heavy duty applications and therefore they are high precision and highly engineered, what we did was build a whole engineering competence around it that allowed us to move into mass production which was automotive and right into aerospace which is low volume high value and so you created a whole business which was in highly engineered products but with different volumes and different cycles. The aerospace business which was far more profitable than the automotive business was very lumpy. The automotive business which was like skimmed milk gave you daily cash flow, so, in a way they complemented each other very well during that period and at the heart of it was the engineering talent. Now all along, over the last seven eight years when you know in the beginning a lot of people who came and visited us they used to look at the aerospace business and think it was just a distraction and you should focus on automotive. 20 years ago there was a boom and as people started seeing the rising margins that were coming from aerospace, our shareholders started guiding us and expecting more and more of this business and a better mix and started wanting less and less of automotive and more and more of aerospace business. Now aerospace in India is a limited volume game because you're really supplying to HAL and they are supplying to the Ministry of Defense but there is a large global market out there and over the last decade and a half we were able to become a sole supplier worldwide and a tier one and a super tier one to Airbus for civilian aircraft products to Boeing for military aircrafts and to Bell Helicopters for the whole fuselage of their largest selling helicopter. So with that three things we were able to achieve one was the technical competence of course to scale within that vertical the second was really a great competence and a market share with global players rather than being an Indian player. Most of our sales over 90% of our sales are to these global companies and then the third from a company perspective, under the hood, while we kept the top line same we were just reconfiguring using the same space, the same factories, the same engineers and reducing automotive and increasing aerospace and I think this slide shows it very well. Something that is quite imperceptible if you try and look at this over a long time you don't perceive it but when you see a slide like this that shows you what was our sale by division in 2018 and what was it in 2020, you see that low and behold what we sought to do is actually now happened.

Next one please.

So also what happened was we created a hybrid business model where we globalized our business. We realized that to be a global Tier-1 you know there are multiple factors of production, there is man, machine, material, money, mind which is designed, there are marketplaces and they have different cost structures so while everybody looks at India as a low cost economy, it is actually not a low cost economy,



cost of capital is very high, we don't have qualified raw material suppliers and when you talk about Aerospace you take out a huge amount of the raw material which is taken out of from the part which is machined out in India to be soft scrap, in UK we are able to break it and give it back to the mill. So what we did was we set up our Tier-2 manufacturing in Europe where we get certified raw material from the qualified suppliers and then we would machine it and take the net shape which is very light and highly engineered and send it to India. Now the assembly process is very laborious, it is very human intensive, very artisanal, that is what we created in India. So what we did was we turned the entire supply chain around on its head and this is now being studied. This is a case study at IIM in India and it is going to be a case study in one of the world's top 5 business schools. They are working on this right now. It is a very interesting thing. It is the first time so called low cost country supplier instead of taking Tier-2 and Tier-3 part away, it took Tier-1 part away and at a very low cost, high automation level with robots and with low cost of capital we set up the manufacturing of the machine parts in Europe. So it has also become very interesting thing that caught the eye of the governments. So, if you see, this is really in one slide the secret of our success. The nice thing here is that this is not rocket science and this is not a Ph.D. level economics. This is what we all learnt in 10th grade and 11th grade. It is basic common sense. You flow your value creation to the area where it is best costed out and best executed out and that is what we did here and hidden benefit was once we started machining all the parts in UK, the net shape of the part was only 8 to 10 percent of the weight of raw material. So instead of sending it by ship and wasting three months of whip, working capital cycles, we just sent it by air. Now all our transfers are by air. These are aerospace parts, they are very high density in terms of value and low weight. So they are perfect for flying and they are able to reduce. By doing this we are able to reduce our working capital cycle.

Now coming back to what we do. So in Airbus, as I said, it's really commercial jets. In Boeing, its military aircraft and Bell is helicopters. So this is another thing that we sought to do. We want it to be 25% rotary wing, which is helicopters, 75%, fixed wing, and we want it to be roughly half and half defense and civilian. A lot of people again, criticize us saying that look, if you look at the effort in defense, you will have much lower volume, so the same amount of engineering work, whereas in commercial jetliners, you get a far larger volume. And we always looked at this as really a mitigation of risk that, you know, after 2008, when we saw the whole global market go down of aircraft, after nine level you saw aircraft production down, you know, this almost is counter cyclical, and in COVID time, this has really paid us good dividends. So I'll just show you how that worked.

So the other interesting thing is along the way, when we were expanding our automotive business, we also grew into BMW, Audi, Mercedes, and Porsche, and we acquired a foundry in Germany. Now, across the world, there's our intention. In fact, we've just announced about the definitive agreements, so they're already out in the public sphere, announced to the stock exchanges that we are in the process of divesting the last part of our automotive business in India. So this leaves one foundry that we own in Germany. Now, what's very interesting is Germany, again, is a unique place. It's a place with a lot of engineering and manufacturing knowledge. And it's an advanced economy, which consumes. So there are global sales campaigns by companies like Boeing into Germany, and like in India there are Make in India there are national requirements by all these countries. So we are actually looking at all our global customers as they have plans to sell into the European community to favor this facility away from automotive production, which we hope to do over the next few years. So as we shrink the business in automotive, and we've actually shrunk the business quite dramatically, and we've just kept it in a holding pattern where you just kind of, you know, have a bare bones business to keep it going. While we start building the aerospace



facility on top, it's a very good asset. There are workers there who are metal workers, German metal workers who've been metal workers for generations. This site is actually a 650 year old site of continuous foundry making as Erla, the company we own and therefore there is a huge reputation for castings and forgings and metallurgical parts. And going forward, there's a shortage of metallurgical products in the aerospace global supply chain. So there are a great opportunity for us, which we hope to build in the next couple of years, but I'll just move on with this slide and I'll talk about the current business.

So with all this happening, what is important is we were all hit. It's not us. But as a global business, of course, you're in automotive, you're in hydraulics, you are in aerospace and your global customers. So you've got to have an impact. And like everybody, we got an impact. And let me show you how we reacted. So even before the lockdown, we were seeing these trends in January, in February, on the fifth of February, we started holding town hall meetings, and we had public skits, and we started displaying stuff out and started our COVID, anti COVID activities. In March, we started mass screening with the Indian Institute of Science, some scientists there, we were able to bring out the latest technology on testing and we created a screening and testing capability from March itself. So we tested everybody in our company, before even the lockdown. And we work closely with the Government with the Government of Karnataka and with the Government of Tamil Nadu where we are operating. And both the states when the lockdown took place they separately exempted the defense and aerospace industry, like medical because they realized that this is part of the make in India story. You know, companies like us, or especially ourselves where we are global source supplier, the whole make in India story rested on business continuity. And we assured the governments what we were doing. And in fact, a lot of what went into public policy was also informed by some of the experiments we did along with the Indian Institute of Science and scaling up test capability. As you know, we have India's finest private Biosecurity facility. It's located 400 yards behind where I'm sitting, it's within the company. All our employees are tested every two weeks. And we've got negligible, very low infection rates in between very detailed testing and contact tracing. And so we continued our business and we were able to grow it and most importantly, the markets while we were running the markets around us were changing. So how did we act with that we had clean facilities, we had good manufacturing practices, and we were ready to run at full pace. But the market was not ready. We were invested for growth in Airbus. Airbus actually has a remarkable growth trajectory ahead of us in the years ahead, because of two or three things. One is that there's a global duopoly, Airbus and Boeing. Within that global duopoly.

Boeing has had some setbacks in the 737 jetliner max.

It's almost just A320 versus 737. Now we are sole suppliers in the A320 family for the flat track and the volumes that we see going forward are tremendous. I mean, I'm not talking about this COVID period, but I'm talking about over a period of time, the global market for aircraft is growing, the economies have grown and typically, civil aviation grows at exactly twice the rate of growth of GDP. So if GDP is growing, civil aviation grows. Now within Dynamatic as I mentioned, we had always tried to keep this 50-50 benchmark we never achieve 50-50 it was 44% defense 56% civilian, and we try to reach a quarter of helicopters, which was like 21% firm mitigation. This is a very old slide, which we brought out and showed to our shareholders last year, really, it was our vision of risk mitigation. But this has really stood us in good state because when the civilian market for aircraft last year, had an impact, we were able to pivot 44% and grow that and take up a lot of slack. So, let me show you. You know, we also had some challenges in the north border of India. So we pivoted with some manufacturing that was very critical.



So some of the Airbus lines were used for this production. And then, for the TEJAS LCA, which is the Indian homegrown fighter jet, we make the main fuselage assembly. And we used this period to produce the first one we delivered it. And again, this was seen as a big success story with the Ministry of Defense. We also utilized our capacity and manpower and technical capabilities to develop toolings, a very large number of tooling for RAFAEL manufacturing for the show. And let me show you some of these things. These are really highly engineered, these are manufacturing tools very, very accurate. I don't think there are very many people forget about India, across the world that can produce these kind of things, and also produce the parts and also produce major assemblies. And I think that's what's important. We're able to switch on and be customer centric. When Boeing and Saab developed the Boeing T-seven. It's the world's latest aircraft. It's a kind of a trainer, military trainer, but it also has hard points that can be used in some battles. It's the world's first aircraft completely designed in a digital environment. And so the testing, you know, for structure, load and fatigue, the equipment was actually developed by us and delivered to them in 90 days. And so that, again used that period of the lockdown and of the COVID induced economic environment to really fill it up with other businesses in the north. Again, this is something we've developed along with IIT Kanpur, we have a close relationship with them, working on products that will give some line of sight and visibility and wrecking capabilities to our military forces. And, and then the big surprise and big pleasant surprise was the V shaped recovery, which has just been extraordinary in our tractor production. And here, you know, we have 75% market share at Hydraulic pump. So, in fact, this has actually grown because of safety for COVID. It's a duopoly again, us and Bosch, and we've been able to take some market share of them over the last few months. But this has been on fire. We are producing at record numbers now. And the other interesting thing is that we are also the world's largest producer of hydraulic gear, pumps or tractors, 34% of the tractors produced in the world last year, have dynamatic pumps in them. So I think this is now a very nice balance that we've got, we've got the defense and civilian aerospace within that profitable business, we've got this, which is a nicer volume business, but a nicer margin than automotive. And again, it's growing. And we are actually using the automotive assets, either to bring it into these businesses, or to monetize them and to improve the balance sheet. So just before the lockdown we had the national Fluid Power exhibition where we launched five new products. And those products also are growing. As I said, we have a very strong engineering team. During this period, we also developed the world's lowest cost ventilator, it's, you know, for 3000 rupees, you have a mechanical ventilator that works perfectly, and it gives you data on a mobile phone 3000 rupees, you just plug it into a oxygen cylinder and turn the dials. And of course, you need somebody who knows how to use a ventilator. But at a low cost. This is what we can deploy. And actually we've been doing some CSR work and helping out and potentially while we did this as a response.

We also got certified for ISO 13 485, which is the medical devices which again is like aerospace certification, these particular products also certified by Underwriters Laboratories, so they can be technically sold anywhere on the planet. So I think what's interesting is that we are really a design house that's able to react very quickly to needs around us. And what is important is now we're taking assets and monetizing them and using them and shifting them into parts where you generate a return not just return it to the bank and reduce your cost of capital etc. So if you look at the other part of reduction of capital cost, you know, over the last many years, we've always had 150-160 crores of EBITDA. But the large part of that is going to finance the banks rather than to the shareholders pockets. So what we're doing this time is two things, that over the last four or five years, we increased our exports, we were really an Indian company, as I shared earlier, but the aerospace is almost entirely exports. And so we were exporting. We took a very prudent amount of our debt, and we swapped it. So that saves you costs and drops your cost



of capital, and then we also are monetizing assets, which I'll come to. I have talked about what we've already announced. But let me just show you as we go along. So I think also, what's interesting is, as we sell all the automotive assets that we've got in Tamil Nadu, we also owned a wind farm that is to produce and generate power, and give it to our aluminum foundry, which we sold earlier now to iron foundry, which is almost gone, as we announced in the stock market, it's like the final CP's are being done. So what happens is interesting, because this asset is near the Sullur Air Force Base, and it is 450 acres of freehold land. Now, the beauty is that the governments themselves have approached us for utilization of this land for the defense corridor, which was announced. There are two defense corridors, one is in the north, and one is in the south. And so the defense corridor should essentially start on this land. Because it's actually become almost impossible to buy land. Now, it's very difficult with farm protests. And so 450 acres gives them a very good start. It's very well located between the Sullur air force base and the Coimbatore airport. And so this will be the next asset and I think, as we go forward, you'll see all the benefits flowing through to the balance sheet, in addition to what we're doing in terms of the business. This is the facility that you know all along last year, people were talking about, and you know, a pivot of global companies away from China, to look at alternative manufacturing. So this is an interesting study, We have very fine and large foundry company based in the United States that we've had some interactions with five or six years ago in Germany. And they were looking to expand capacity in Asia, they already run business in China and Vietnam, they have an entity in India, but not a foundry. They have a very large foundry business, two and a half billion dollars. So what is interesting is they know this foundry well, they know the quality of the foundry. The beauty of this foundry is that it's actually a great success story for our customers. And from a technical perspective, we won every award possible. But for us as shareholders, it's absolutely a disaster. So you know, it's a great place to win awards and a great place to burn money. And so the beauty of it is when we transfer this onto this company, they're buying it at full asset value, so we have no loss in it, they're not looking at it, because they're seeing the quality and they are very clear that this is the kind of business that will give them the kind of world class castings that they need for the global markets. So they've come in, and it's a very seamless transition that will take place in a very, extremely short time in days or weeks. And therefore and as we've already announced. So I think this will also reduce our management focus into what we want to do. It'll take off the one business that was burning cash on a P&L and will reduce the capital employed. So everything that you see is a tick, and it's a green tick. So I think that's a very interesting thing. And with that, I just kind of gave you a snapshot of where we are today. That's where we are.

Okay, let's just get back onto the video. I'll just switch this off.

SUNIL: Sure.

U.TOBY MALHOUTRA: All right. So that's business and I think you know it in the way you saw it 20 years ago. Yeah. I think, you know, what we were saying and seeing, and I think 20 years later, we've kind of done it. And now what we're trying to do is, you know, follow it and make it more profitable

SUNIL: Is it now fair to presume that auto would not be a business for us? Because we have one company and that also will move to aerospace.

U.TOBY MALHOUTRA: So we will start defining it as a metallurgy business. No, I think, see if we didn't have this COVID by now, we'd have already announced some automotive, some aerospace business, because we were planning to do something last year at the air show. And unfortunately, this COVID has changed timelines but the intent hasn't changed. The intent is that's a very high quality German foundry



and for global customers in aerospace to qualify a supplier that does production for Porsche, BMW, Audi and Daimler, you know, to get to, you know, defense and civilian aircraft, it's almost the same in terms of quality requirement. It is different from saying I'll put up something in China and nobody wants to go there.

SUNIL: But in India, we will not have any auto business now.

U.TOBY MALHOUTRA: We will have only hydraulics and aerospace.

SUNIL: Right. And in terms of hydraulics what is the per vehicle opportunity for us?

U.TOBY MALHOUTRA: Okay, that's a very beautiful question. So we produce, we are king of mass production of market share. But we have a very small wallet share, it's a brilliant question, because that's exactly what we're doing. So we have pumps, which are between 1500 and 2000 rupees per tractor. When you look at the hydraulics on a tractor, it's about 25000-30,000 rupees. So we have developed, we have developed a hitch lift, we have developed the depth rather than that, we've developed the control valves for the power steering. We've developed all that products, and we've actually started selling them to some, introduce them, and they're already in use and procured by various OEMs. So potentially, over the next five, eight years, the growth story for us will no longer be market share, it will be about wallet share. Exactly the question you asked. I mean, it's perfect. That's what we're working on. And I think what I talked about those new products they launched 18 months ago, those are all different products, so they are attractive.

SUNIL: And technology in making those products is not an issue.

U.TOBY MALHOUTRA: By technology. We are masters, we have labs in UK and India because, you know, we bought the old Plessey Company, which is one of the two original roots of gear pump design in UK. In fact we actually have two factories in UK, we have the old hydraulics plant, which is a very large plant and we had bought a small family business in Bristol, we're in the process of moving all the aerospace and hydraulics into one location, which is a very large location. So our idea is eventually we'll have three big footprints one in Bangalore, one in Germany, and one in UK. The Bangalore footprint and the UK footprint will be mirrored will be aerospace and hydraulics and the German footprint will be a feeder into it which will be the metallurgical supplying.

SUNIL: And in terms of coming again to the tractor side when we launched new hydraulic parts, what is the response? Like there must be already companies who are doing that for the tractor.

U.TOBY MALHOUTRA: It is terrific, because let me tell you, it's a very big surprise. Most of the tractor OEMs they build their own hitch lifts. Just historically, they build their own hitch lifts, they build their own valves and these are all dated technologies like 40 years of what they're doing. So we're coming up with innovations, why wouldn't you want to just make more tractors? I mean you look at one plant making hitch lifts.

SUNIL: Just out of curiosity and playing the devil's advocate what took us so long to get into other hydraulic products? We have the customer.

U.TOBY MALHOUTRA: We were fighting for market share, which now we've tapped out 75% India 34% world so that firstly when you got a blue sky ahead of you, you fight for that. The second thing is it's not only new, we've been making hitch lifts for Sammy so far, which is the smallest tractor OEM in India, but



it's a global and is the third largest tractor player in the world, we make, I think 15-1800, tractor hitch lifts, that's at 20,000 each, every month, and those are exported across the world. So we already have a business for 10 years in hitch lift and all that, but it was for one specific customer. Now what we're doing is we have developed customer by customer hitch lift options, depth and drop valve options. So products, these are very interesting products that will come in. And these are, like I said, which will unveil themselves over the next few years. And one more thing that I'd like to say is during this COVID, one of the things that our customers started valuing us for, which they always valued us for is value creation, quality, delivery, cost and design. This time, they really valued us for the pivots we made, and how we sustain the business because they had a lot of disruption from other suppliers. They had no disruption from us. So we used to have calls with everybody. And they were like, what you are doing is amazing. And can we just share some of this data with some other suppliers? And we said, sure. So I think across the line, customers appreciated it. And I think going forward, especially the global aerospace, for the supply chain, and with both Airbus and Boeing, we are at a gold ratings, which is the highest ratings. So I think we're in a very good position to, to grow and to expand over the next five, eight years. The hydraulics business what is interesting is because of this demand growth, suddenly, people like us who have a real technology proposition to offer them have also got pricing power, these customers are willing to pay us for it. Because these are proprietary products. Tractor OEMs, buy things buy wit, they buy castings, they buy forgings, they buy literally, they are the toughest negotiators, but they also want performance parts and they're willing to pay for it. And I think that's the thing that we look for.

SUNIL: On the hydraulic front apart from tractors, any other opportunities, like building material and infrastructure?

U.TOBY MALHOUTRA: Yeah, forklift trucks, bulldozers, cranes, drill rigs. And to begin with even that tractor is becoming now partly a construction equipment. So if you look at what has happened during COVID, a lot of the taxi drivers from Bombay who have ran away and went back to their villages, they become tractor drivers. Now, they've gone and bought tractors, this is a part of the tractor boom, they've got financing, and they got tractors. They'll go to a farm and will plough it to the farmer who doesn't buy the tractor, this guy owns his tractor, the farmer calls him, then what happens is when the season is off, he will go and do work hauling material for construction, or for road building. So I think we are finding a very hybridized development of the infrastructure in rural areas in India, and that's going to be a big boom, I think construction equipment, tractors, bulldozers, and the elements that go into these things.

SUNIL: On the aerospace front, again, you know, like you mentioned, we are the sole suppliers of flaps for E320. Yeah, but what is the value proposition per aircraft? And how do we improve that?

U.TOBY MALHOUTRA: Okay, so one of the things that we've successfully done is we participated with Airbus in re-engineering and redesigning the flap fragment. So that's quite a significant thing, that you're not just a supplier, you actually redesigned along with the customer. And from the end of this year, we will be delivering a product that is different from what we're producing and delivering for the last 13-14 years. And it's a complete itself. It's within the same design envelope, but it's a complete, it's a monolithic design, and it brings in a lot of workshare into our UK facility, new workshare. That is, you see, we manufactured a ton of parts there. But here you go into a monolithic design where instead of having 200 parts per beam, you're actually reducing the number of parts to about 20 bigger parts. So the fit, and assembly becomes more exacting. And therefore it's a better product. But it's also something that creates greater value for us as part of the supply chain that is within that product. But what I'm saying is, of course,



we're in a hiatus, we're not able to meet customers go face to face, but I'm saying you're in a very good position with all the customers were going forward, we'll have all the kinds of opportunities to bid for the staff that are there. We are, we are actually a multiple campaigns but everything is on hold. One company shuts down the other country opens. That is what is happening since last six months.

SUNIL: So Toby, we have the best names you know, we have Airbus, we have Boeing, we have Bell, we have those all I don't think we can have a better customer, sort of roasters, you know, for us to grow multi fold. Obviously, the products, which we are doing now will go up, we will add new products. And hopefully as we move forward, we'll also add new customers. So in terms of capability, are there any gaps, second in terms of infrastructure, is it like a very capital intensive kind of a thing, or it's more a technology and manpower intensive thing for us to grow?

U.TOBY MALHOUTRA: Okay, so this is a very interesting because of our manufacturing design, the capital intensive part is very fine machines with robots, which we place in Europe, where the cost of capital is low, where you have suppliers, world class machine tools, suppliers, who are willing to place the equipment and lease it to you on an operation lease. Right. So it's very simple, you own the building, you own the land, they come they put the machine there, they charge you by the hour. So it's a very simple and good business. Now, where is the labor, the labor, which is to fit it together, the artists, workmanship, you know, the Craftsman that's over here. And that is where you have the ability, we also run ITI at the Bangalore Airport, its run by the Dynamatic , it belongs to the government. We run that as CSR. But we're generating world class aerospace workers, from, you know, artisan communities in the local villages. So we have that ability. We have the access to best machine tools in Germany and UK, and of course, their capital. So I think by design were in a good position, we have a 29 acre campus at the Bangalore airport. So that gives us a huge headroom over the next decade or even beyond that, to grow unlimited within that time

SUNIL: And we don't have to spend more on capex per se.

U.TOBY MALHOUTRA: Capital capex is very simple. Now just give you an idea to build hangers for aircraft are not as expensive because the real value is in the land and infrastructure that we've already put in place. So the incremental capex is very effective for us as a company.

SUNIL: And in terms of, obviously, the vision is always been great. But you yourself said, you know, that in the last five, seven years, obviously, there have been challenges on the auto side and so on and so forth. And a lot of our EBITDA has been eaten away by interest cost, living very little for the equity holders per se. How does it feel like what is needed for that to change? This, this small divestment of a foundry will help but it's still small. But how will that change?

U.TOBY MALHOUTRA: On the balance sheet side, two things will change. One is the cost of capital and the second is the quantum of capital. So it's not just the foundry that is being divested. So, the foundry is being divested I mentioned that wind farm will become part of our defense industrial corridor that will generate a large chunk of divestment money and you know, all that will flow into debt reduction. And the advantage we have as a global business is now access to no longer 10% cap cost to capital, what we are borrowing now in India with the swap is that half that and looking at you know, I mean, you know the numbers across India, as companies become dollarized in sales, as long as they have the natural hedges, so They're not at risk. And you saw the slide I presented to the shareholders against a \$50 million export on aerospace, which is very stable. And we're talking about worst year case, you know, the really horrible



time, we we've only swapped 26 million. So we're being very, very prudent in in terms of our risk profile, but it will, it will dramatically change the way. So one is you reduce the quantum of debt, the second is the cost of that debt, suddenly, you'll see the flow of existing profits into pockets of shareholders rather than pockets of the bankers. So that's point number one. The second part of it is that we are in a COVID situation. But as this COVID thing lifts, and let me tell you, you saw what happened yesterday with Israel, they have opened up to every move. So you're seeing a laboratory, the world's largest laboratories in entire small country, where they're actually testing out how the vaccine is playing out. And across the world, we're seeing as countries are more vaccinated, their infection rates are falling quite dramatically. They will open up the economies and with the whole global quantum of cash at the levels that they are now you're going to see activity. Right now all the money's in investment, funds and in stock markets. But once it's spent the GDP, you're going to see big growth, and travel and all that is going to be a big part of it including food, you know, it comes to tractors and roads and everything.

SUNIL: Toby you know, one last question, you know, we are constrained because obviously, you have your results coming in. And we can have a call again after the results. But just one, top down question. We have quite a few Indian companies doing work for, you know, Boeing and Airbus, and some other companies, some on the offset side, some otherwise, but none of them have gone on to become like a \$200-\$500 million business opportunities. You know, we have companies who do \$20-\$100 million dollars of work, but that's about it, you know? So what is the constraint there? Like? Why don't we go beyond that scale, even for us, you know, we reach that scale, but we have we have been stuck in that range for a variety of time it is COVID, sometime it is something else is that what they're comfortable with? Or, you know, there is scope, obviously, to go much, much beyond that.

U.TOBY MALHOUTRA: Okay, two things. One is customers want us to be much bigger than we are. They are already talking to us and saying, look in all our evaluations, you all are outperforming far bigger peers, and we don't look at your peers, but they don't look at us with Indian peers, it's all global peers, firstly, the benchmark. The second element. So we have that real customer side aspiration, that while we would want more to come out of this company, so that's a really good thing. And we want to grow with the customer. So it's very mutual. The second element is what you said earlier about the offsets. Most Indian companies are limited by offset, they see an opportunity that I'm going to get an offset. So the Government of India buys 10 aircraft and these guys get orders for 10 aircraft into some widgets. We have never looked at an offset based business, we see offset as almost a byproduct. And we have a little passbook that the customer can take off and show the government that look I'm buying from India, but all our programs are global sole supply global programs, we bid against all the big players across the world and we fight commercially to win those contracts. And it's not offset based. So they are much bigger and they're more sustainable. So what happens is when the government has bought, let's say 15 aircraft and a company in India gets an offset to build, they make 15 and then they have a plant and they have no business after that. Our business is not limited by what the government of India bought. That notwithstanding, it is great that the Government of India has emerged as a big or rather India has emerged as a big market for aircraft. And just so you know, in India, Boeing is the big success story in aerospace from a defense perspective. But in civilian aircraft, Airbus is 73% market share. So, in a strange way we have followed the market rather than following offset because Airbus doesn't have offsets. They sell everything to private airlines so they have no offset obligations, but in a balancing sense they are here to stay both these companies in India, very, very big markets here.



SUNIL: And for us, Airbus and Boeing selling more aircrafts would mean more business for us, right, there's a one on one correlation.

U.TOBY MALHOUTRA: At the top of the head, India is now one of the top three markets in the world, top three most important market. So they are already getting engineering out of Bangalore. And they're getting market out of India. And they're getting manufacturing from us out of Bangalore. So what is interesting is Boeing's largest Engineering Center outside the United States and Dynamics facility, the new facility they import are right next to each other. And one of those products that I showed you the digital testing stuff we did in 90 days in conjunction with their engineering team. We did the manufacturing, they did the engineering. So it's, it's an immense opportunity going forward with all these companies.

SUNIL: Got it. I think this is all I have. It was really, really great to touch base and you know, refresh all the pleasant memories. Hopefully, next air show I will definitely be there. Taking advantage of all the nice hospitality you always present. And once the results are out, I would request another half an hour call. So that, you know we can discuss numbers also.

U.TOBY MALHOUTRA: Sure, absolutely Sunil.

SUNIL: I appreciate that. We are in a silent period right now. And we will not like to do anything which is against the regulations. So thanks a lot. Absolutely. Thank you. Thanks Mr. Chalapati and thanks Mr. Shivaram and Mr. Srinivas. Thank you. Hopefully we will touch base personally.

U.TOBY MALHOUTRA: Stay safe. I hope it was useful for Mudita.

MUDITA: Yeah, sir thank you.

SUNIL: Well, yeah, she just wanted to be in the meeting. I think she was getting bored since morning. So she was pestering me to give some work. So I said join the call.

U.TOBY MALHOUTRA: Thank you, bye bye.

SUNIL: Thank you.

