August 12, 2024

The Manager
Listing Department
National Stock Exchange of India Ltd.
Exchange Plaza, C-1, Block G
Bandra Kurla Complex, Bandra (E)
Mumbai- 400051
Scipcode : AXISCADES

The Manager
Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai- 400 001
Scripcode: 532395

Dear Sir/Madam,

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

Further to our intimation dated 6th August 2024, please find enclosed the transcript of the Earnings Conference Call with the Investor(s)/Analyst(s) which is hosted on the website of the Company at www.axiscades.com

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

Digitally signed by Sonal Dudani
Date: 2024.08.12 18:32:36 +05'30'

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

AXISCADES Technologies Limited
(Formerly AXISCADES Engineering Technologies Limited)
CIN No.: L72200KA1990PLC084435

Reg. Office: Block C, Second Floor, Kirloskar Business Park, Bengaluru - 560024, Karnataka, INDIA
Ph: +91 80 4193 9000 | Fax: +91 80 4193 9099 | Email: info@axiscades.com | www.axiscades.com

"AXISCADES Technologies Limited
Q1 FY '25 Earnings Conference Call"
August 06, 2024

MANAGEMENT: **MR. ARUN KRISHNAMURTHI – CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR – AXISCADES TECHNOLOGIES LIMITED**
MR. MUJAHID ALAM – CHIEF EXECUTIVE OFFICER – MISTRAL SOLUTIONS PRIVATE LIMITED
MR. SHASHIDHAR SK – GROUP CHIEF FINANCIAL OFFICER – AXISCADES TECHNOLOGIES LIMITED

MODERATOR: **MR. SUMEET KHAITAN – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY25 Earnings Conference Call of AXISCADES Technologies Limited. hosted by Centrum Broking. As a reminder, all the participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sumeet Khaitan from Orient Capital. Thank you and over to you, sir.

Sumeet Khaitan: Thank you very much. Good evening, everyone, and I'm delighted to welcome you all to the Earnings Conference Call to discuss Q1 FY25 Results of AXISCADES Technologies Ltd. To discuss the results, we have with us CEO and Managing Director Mr. Arun Krishnamurthi, Mr. Mujahid Alam, CEO, Mistral and our Group CFO Mr. Shashidhar SK. They will take you through our results and business performance, after which we shall proceed for question-and-answer session.

Before we begin the call, I would like to mention that this conference call may contain some forward-looking statements about the company, which are based on beliefs, opinion and expectations of the company as on date of this call. The actual results may differ materially. These statements are not guaranteeing the future performance of the company and involve risks and uncertainties that are difficult to predict. With this, I now hand over the call to Mr. Arun Krishnamurthi for his opening remarks. Over to you, Arun, sir.

Arun Krishnamurthi: Thank you very much and good evening, everyone. Welcome to the Q1 FY25 Earnings Call. I'm joined by Shashidhar SK, who is our Group CFO, and Mr. Mujahid Alam, who is our CEO of Mistral. I hope you had the opportunity to review our financial results and the investor presentation, which has been uploaded to the stock exchanges.

So, let me first dwell on the overall ER&D industry growth outlook, which directly impacts the company. The ER&D industry is currently undergoing short- to medium-term headwinds in the growth outlook.There are headwinds in several verticals, such as automotive, heavy engineering and semiconductors, both in the US and Europe. Decline in retail demand, slowdown in the EV segment, upcoming US elections, leading to slowdown in capex spending, client-specific issues, inventory build-up, deferment of R&D spend on innovation and new engineering solutions are all challenges that the industry will have to deal with. Sectors which are still positive are aerospace and defence.both of which are seeing accelerated spending because of the unique context of these industries. Despite this, ER&D continues to be a growth sector, with average growth of around 7.5%, with digital revenues growing at an accelerated pace.

The impact of industry slowdown is relatively moderate on AXISCADES because of the effective execution of a focused strategy over the last two years aimed at diversifying our customer base and verticals.

We are particularly well-placed in aerospace and defence, and have very differentiated capabilities which will allow us to take advantage of the strong sentiments in these verticals. We are positioned as a fully integrated strategic technology R&D and defence company that delivers a broad spectrum of products and services from engineering, aerospace and space to defence. Therefore, we will be rebranding ourselves as AXISCADES Mistral, and the name change will be pending regulatory and other statutory approvals.

The company's strong presence in aerospace, defence and energy, together contributing about 60% of the company's revenues, continues to reflect a bullish outlook for the year. Even though defence business, not part of the revenue of other ER&D companies by its very nature, is very lumpy and should not be compared quarter on quarter for its performance. The company is experiencing some slowness in automotive, associated with some specific clients, heavy engineering and the semiconductor business due to the earlier mentioned macro factors. However, the company is confident that the tide will turn in these verticals from H2.

Q1 is typically a soft quarter for ER&D in general, and defence in particular. The company recorded revenues of INR223 crores, growing by 4.5% year-on-year, with constant dollar growth at 3%, which is led by engineering services business, which grew by 15%, from INR152 crores to INR175 crores.

Defence was lower by 21%, at INR48 crores, as against INR62 crores in Q1 of last year. As stated earlier, the defence business should only be compared on a year-on-year, as defence deliveries generally shift and rollover between quarters, depending on delivery and acceptance constraints of defence establishments. The EBITDA for the quarter was at INR31 crores, at an EBITDA margin of 13.9%, as against INR33 crores, with an EBITDA margin of 15.4% in the same period of the previous year.

The EBITDA margin for previous year, Q1 FY24 that is, was unusually high, due to higher defence service revenues, which had an EBITDA margin of 23%. I would like to reiterate that the total enterprise EBITDA margin in each quarter depends on the proportion of defence production and prototype revenues executed during the quarter, which tends to vary between quarters. The EBITDA margin of engineering services for Q1 of this year is at 14%, as against 13% in the same period of the previous year.

PAT for Q1 FY25 is at INR17 crores, with a margin of 7.2%, as against PAT of INR6 crores, with a margin of 2.6% in Q1 of last year. The company reduced its finance costs significantly during the quarter, from INR20 crores in Q1 of last year to Rs.8 crores in Q1 of this year. And this is as a result of repayment of borrowings from the proceeds of the QIP.

In terms of operational performance, the year-on-year growth of 15% in engineering services was led by aerospace, automotive and energy, which together grew by 40% from INR82 crores to INR115 crores. Heavy engineering and semiconductor business de-grew by 15% from INR71 to INR60 crores. As stated earlier, these two verticals are impacted by macro challenges of capex de-growth and inventory build-up, and we are hopeful that growth will return to these verticals from H2 of this year.

While the overall defence revenues in the quarter was lower at INR48 crores, as against INR62 crores in the same period of the previous year, its defence production revenues at INR28 crores is higher by 73% as compared to Q1 of last year. The company's production revenues from defence will record another milestone in the FY25 with a strong order book of INR322 crores at the end of Q1 FY25 in the Mistral defence business.

We continue to deliver counter-drone solutions to Indian defence and wish to complete the delivery of this anti-drone system in Q3 of this year, which will make us a prime candidate for repeat orders in this category.

I will now dwell on the performance and outlook for various verticals.

The aerospace vertical accounted for 36% of our Q1 revenues, totalling 79 crores and reflecting a 24% increase from the previous year. This growth was driven by higher wallet share from existing customers, ramp-up in our services and the digital automation of our existing processes. Our long-standing partnerships with aerospace OEMs are growing steadily and are expected to contribute further to the revenue as OEMs increase production rates supported by the substantial order backlog which is driven by a strong demand for aircrafts.

We anticipate maintaining a healthy growth rate and momentum backed by a broadening scope of digital manufacturing services and engagement with our customers. Our outlook for aerospace continues to be bullish for the foreseeable future.

Our automotive revenues at INR25 crores is higher by 84% from the same period of the previous year. With the consolidation of revenue pertaining to add solutions, the automotive entity that we acquired in August of last year. Automotive revenue today constitutes 11% of the console revenues, which was at 6% in Q1 of last year. We were selected as a preferred supplier by a leading UK automotive OEM and are actively expanding in this space by adding new logos

Our major focus going forward will be on digital and embedded solutions as well as hardware testing and validation. We are developing capabilities in margin accretive segments like software testing, cybersecurity, ADAS, and investing in new technology trends which are in great demand apart from the traditional focus on mechanicals. However, due to macro challenges in this sectors, such as a notable slowdown in the European markets and change in strategy by an automotive OEM, we expect the next two quarters to be challenging in this vertical for us.

We entered Q1 with revenues from our energy vertical reaching INR11 crores, which accounts for 5% of our total revenue. The addition of EPCOGEN has provided a strong boost to our growth in the energy sector. We have been selected as a preferred partner for two new projects in the UK with a renewable energy solution provider and are expanding our customer base in India and the Middle East.

The company has appointed a full-time business head in Dubai and is in the process of opening a marketing office in Dubai to expand our footprint in this major energy geography. With new leads in this segment, ongoing geographic diversification, and development of new capabilities in this vertical, we anticipate the growth momentum in this segment to continue.

The heavy engineering and semiconductor business continue to face margin pressures. Revenue in the heavy engineering vertical decreased by 8% year-on-year from INR40 to INR36 crores in Q1 of this year. This decline is primarily due to macroeconomic factors, a slowdown in the US region, and customer reprioritization of capex across various programs. Despite this, we remain a key strategic partner for our customers in their global manufacturing transformation initiatives.

The objective is to move away from the traditional low-margin staffing model to margin-accretive value-added services and sell digital competencies for internal automation to global and domestic clients. To enhance the revenue quality of this vertical, we are developing several use cases for leveraging our inhouse capabilities and those from Mistral. By revamping our cost structure and optimizing operations, we aim to improve margins in the coming quarters.

We anticipate this vertical will begin to recover starting in Q2 of this year. Our semiconductor vertical revenues, also known as product engineering services, for the quarter stood at INR24 crores, which was a year-on-year de-growth from INR31 crores down by 23%. This was mainly due to the inventory build-up of semiconductor chips by global semiconductor majors, leading to production decline. Despite this decline, we are diversifying our customers within this space and increasing our efforts in designing and prototyping our future production runs.

The Indian government is supporting Make in India initiatives for semiconductor fabrication and globally we expect that growth will return to this vertical during H2 of this year, upon offloading excess inventory by the OEMs. While I will leave it to Muju to deliberate on the opportunities and status of defence vertical, we remain bullish on our defence potential, banking on evolving production orders from the significant pipeline of prototype developments of Mistral, prestigious Indian defence programmes made over the last one-plus-decade as well as potential in ACAT. Suffice to say that the defence production orders in FY25 will be significantly higher than that of FY24. While we continue to add to the pipeline of orders with certified prototypes for new programmes.

As stated in our earlier earning calls, the company is making significant investments in building its digital strength, which is being horizontally deployed across all our verticals and customers, both in terms of internal automation as well as digital offerings to our existing new customers. The digital investments, which are part of our P&L charge and continue to be margin-decretive, is now fructifying into new order acquisitions as well as internal cost optimisation and will result in new revenues and improved profitability as the year progresses. The company is also bolstering its sales organisation and has recently onboarded a head of sales in the US region to expand our presence in the region that acquires new deals.

The company's confirmed order book beginning of Q2 FY25 is at 83 million dollars with continued acquisition of new deals, both in engineering services and defence. We are also pleased to announce the appointment of Mr. Tanmoy Chakrabarty as an additional director in the capacity of non-exec independent director on our board. Mr. Chakrabarty brings with him a distinguished career spanning across four decades with extensive expertise in corporate strategy, government affairs and digital transformation.

He has held prominent positions in the Tata Group, mainly heading governmental affairs. Looking ahead into the full year FY25, we are confident of delivering as per plan, both in terms of revenue and profitability, by leveraging on the opportunities in our growth verticals as well as overcoming the challenges in some of our verticals.

Let me conclude by thanking you for your patronage and look forward to your continued support as we build a marquee institution in the engineering services and defence. I now invite Muju to provide a few words on the Mistral business.

Mujahid Alam: Thank you, Arun. As we all know, Mistral as a technology design and system engineering company is serving customers valuably in the semiconductor and defence verticals for over 27 years. The company has achieved a growth rate of 20% CAGR in the last five years. FY24 revenue was INR328 crores with an EBITDA of INR56 crores.

Besides our strong presence in the product engineering space, we have firmly established ourselves as a major defence solutions provider. We work closely with the DRDO labs, public sector units like BEL and HAL and Ministry of Defence. We are an integral part of many radar, sonar, air force and electronic warfare projects.

Currently, Mistral has planned more than 800 to 1000 crores in certified prototypes across multiple prestigious Indian defence programmes and awaiting production . orders. Additionally, new design wins with a potential of 2,500 to 3,000 crores in future production are under development. The company's order book at the beginning of Q2 FY25 stands at INR375 crores, which was 60% scheduled for execution this financial year.

In Q1 of FY25, Mistral recorded revenue of INR 62 crores compared to INR32 crores in the same period of the previous year. Of this, INR23 crores came from semiconductor business and 41 from defence business. The company achieved an EBITDA of INR7.5 crores during the quarter with an EBITDA margin of 11.5%. As Arun mentioned, the defence business experiences variability in both revenue and margins when compared quarter on quarter. Defence margins may also get diluted by the quantum of prototypes being designed. These prototype developments mostly have revenue margins during design phase and become largely profitable during production. Therefore, it is essential to maintain a long-term perspective on the defence business rather than a short-term to medium term view.

The prospects in the semiconductor business due to inventory overload with OEMs is likely to continue for another two quarters. We are actively working to increase the business of newly added clients in the automotive sector. We are also on track to add two to three new customers in the upcoming quarters.

The new drone chip based on Qualcomm is under development and will be released in the market in Q3 FY25. Mistral has secured an order for 90 crores from BEL, a defence PSU, for eight Radar Processing Systems for the Arudhra Medium Powered Radar. The delivery for the same will begin in this financial year.

We are confident that the semiconductor business will return to growth and the defence vertical will maintain its position, supported by a strong order pipeline. I now we invite Mr. Shashidhar SK, Group CFO to provide a financial overview. Thank you.

Shashidhar SK: Thank you, Muju, and thank you everyone for joining the earnings call for Q1 FY25. On the back of headwinds in certain verticals due to macro factors, as explained by Arun and Muju, lumpiness in defence and generally a soft first quarter, the company has recorded good results in operating revenue of INR 223 crores, a 4.5% quarter-on-quarter growth, 31 crores in EBITDA and 13.9% in EBITDA margin. The company recorded a PAT of INR17 crores, which was almost three times the PAT recorded in Q1-FY24.

As appraised in the earlier earnings calls, the company's finance costs have significantly reduced as a result of repayment of borrowings, amounting to 110 crores in the QIP raised in January of 2024. The company's finance cost for Q1-FY25 was at 8.07 crores, which is a significant reduction as against 20.1 crores recorded in Q1-FY24 and 12.51 crores recorded in Q4-FY24. The company is scheduled to repay another 50 crores of its borrowings by end of September 24, which will further reduce the finance costs.

Our net debt as of 30th June is 50 crores, considering 182 crores in cash, banks and liquid investments. Our steadfast focus continues to be on improving our operating disciplinewith the twin objective of improving gross margins and controlling our operating expenses. We have launched many cross-nationalisation initiatives, both on variable costs and fixed operating expenses, especially focusing on below 20% gross margin accounts to improve our blended margins.

Our digital vertical, while still with margin decretive, is focusing its efforts on internal automation of billable processes to improve revenue for employees, as well as acquiring new digital revenues from existing and new customers at higher spilling rates. We have strengthened our delivery organisation with a focus on resource management, optimisation of the pyramid and maintaining the bench. Our offshore on-site ratio stands at 71.29 and fixed cost T&M ratio is at a healthy 65.35 respectively. We added a net 70 FTEs since the beginning of the year, with reduction in attrition rates to 14% from 18% as compared to the same period of previous year. The annualised ROCE based on Q1 results is at 17% against 14% where we ended in FY24. Annualised ROE stands at 11% as against less than 7% in FY24.

The annualised EPS is at 16.27 as against Rs 8.40 in FY24. The company has a strong balance sheet with net worth standing at Rs 596 crores at a consolidated level as on 30th June with sufficient cash generation to comfortably service our debt obligations and generate free cash flows. Our net working capital cycle as on 30th June is at 118 days despite working capital heavy defence business constituting 28% of the revenues and we continue to optimise our working capital terms.

The company has enhanced its governance process by appointing a global controller to oversee internal control, risk management and has appointed a general counsel to oversee corporate governance for the entire group. In conclusion, over the past several quarters, we have made significant strides in establishing a foundation for sustainable growth and profitability whilst strengthening our balance sheet. We are confident in our ability to build on this momentum throughout FY25 and beyond. Thank you, now I request the moderator to open the floor for questions.

Moderator: The first question is from the line of Jalaj from Svan Investments. Please go ahead.

Jalaj: So, I have a few set of questions. Maybe I will begin with them. Firstly, I wanted to understand with regards to defence and from the past three quarters, we have been having a lumpy period there. We have been talking about defence revenues picking up and order books being strong. What is exactly happening and when do we expect the production revenues to pick up and what sort of at least outlook or number wise do you have for this financial year in the defence vertical?

Arun Krishnamurthi: Yes. So, thanks for that question. So, if you look at our Q4 results, we had a very strong production run and the defence business by its nature is lumpy because we work with some large PSUs and government customers. So, it is hard for us to calibrate this on a quarter-on-quarter basis. So, last year, we had a very good production run. This year, again, we are looking at about close to 171 crores of production for FY25 and Q1 was slow in terms of production and that is traditionally always the case. But we do expect that next quarter for us, Q2 will be strong when it comes to production. So, it will be lumpy but there are certain quarters that we expect strong defence production runs to happen.

Jalaj: Understood. Okay. So, I was trying to delve a little deeper into the defence vertical. So, one thing is, how are we right now positioned on the entry drone revenues started contributing to the top line? And I understand that HAL in its recent call talked about the revenues for Tejas being a little bit delayed because there were some issues with the GE engines. In this 170 crores target that we have talked about, is there an assumption with regards to Tejas, or how confident are we about this? And how does that impact us, the HAL issue?

Shashidhar SK: So, let me first, answer your question with respect to the MPCDS or the anti drone deliveries. As we have been reporting, of the 100 numbers which have to be delivered to the Ministry of Defence, 40 have already been delivered and 60 is being scheduled between Q2 and Q3. And talking about revenues, we recognize revenues on a proportionate completion method. So, of the 65 crores of revenues which belong to us, which is our share, we have recognized about 50 odd crores and close to about 14 to 15 crores is still to be recognized, which will be recognized between Q2 and Q3.

Mujahid Alam: Yes. On the LCA production delay, we have factored in the delays in our projections because the issue is with the GE engines and what we have looked into is about 14 to 15 numbers of LCA being produced annually, and that is what we have given in our projections of what is our plan for this year and next financial year. So, it should not impact in terms of our revenues.

Jalaj: Understood. And this was with regards to the margins. I do understand that there is some reversal corresponding to the ESOP provisions in the margins this quarter to the tune of almost 12 crores. If I were to adjust them, then the EBITDA margins would have an impact of almost 400 to 450 bps. Could you talk a little about it and where are we actually feeling the pressure in the margins? Is it all across or particularly ER&D, some vertical specific, are we facing issues? Thank you.

Arun Krishnamurthi: **Yes** So, maybe I can take that question and Shashi can add on. So, I think as we talked about, there are verticals that we have some seasonality. So, if you look at vertical by vertical, if you look at aerospace, obviously that vertical is doing very well for us and I think we are at very healthy margins. If you look at defense, as we talked about it, there is lumpiness. So, quarter on quarter, there are different circumstances. This quarter on defense, we had some pressures on margins because of the fact that we had to invest in a lot of prototypes. But like I said, our production revenues next quarter are going to be very strong. So, we will see a big uptick happening there.

If you look at energy, that business is very robust for us and it's a very high margin business. Now, if you look at semiconductor, there are two parts of the business. One part is the NRE or the non-recurring business, which is basically the services business. There the margins are very high. Where there is support on semiconductor is the production slow down. And this, as you know, is an industry phenomenon where there has been, high inventory and we expect that situation to improve, as we go into the year. So, there has been some stress because of that because typically production, whether it is defense or semiconductor, comes with very high margins.

In automotive, we have a specific client issue. One of our clients in one of the European countries has faced a bit of a slowdown and they have been in the middle of a restructuring exercise. So, because of that, we have had some margin pressures, which, again, I believe, they are a large client and they will come back. So, we expect that in one or two quarters' time, that customer should come back and that will contribute to it. But because it's a big part of our portfolio, that has had a specific impact on us. And heavy engineering progress, the margins have been pretty much steady.

So, it's a bit of a mixed bag. I would say the margin pressures in this quarter specifically are from defense and from automotive and from some parts of PES or semiconductor.

Shashidhar SK: So, just to add to what Arun said, just to take the example of Mistral Defense, in the current quarter, the total defense production of Mistral was 28 crores, which is almost about 75 percent more than what they recorded in the same period of last year. So, on this defense production of 27.5 crores, the EBITDA, which was recorded, was 24.72 percent, which is about 6.8 crores. But when you come to defense prototypes, the total revenue from the defense prototypes which is for future pipeline of orders was 13.87 crores, on which the company lost 3 crores, which is almost about 21 percent.

On this count, Muju will add to this, the prototype, I would say, acquisition of order for prototypes has become a lot more competitive. And if you look at last year, FY24, the whole of the year we had, the total prototype production was around 91 crores, on which we had lost about 3.9 crores. Whereas, in this quarter alone, on its 13.87 crores revenue, we recorded a negative margin of 2.9 crores, which is almost 21 percent. But we have to perforce do this, because we have to add to the production order pipeline.

And if we do not do this, obviously our margins will improve dramatically. But we are playing for the long term with respect to defense. And we have to continue to manufacture these prototypes. Muju, would you want to say something on this?

Mujahid Alam: See defense is a long-term business. So, basically, what we need to do is, today we need to get ourselves involved into multiple new programs, which have been planned by the Indian Ministry of Defense. If you're not there in the program today, we do those when the production happens. For instance, if we had not been in the LCA program many years back, because we got into LCA program almost 15 years back, those benefits are being reaped today.

So, this is the investment which we do in the long run. But unlike in the earlier years, wherein the benefit happened after 15 years, now we see mostly that things will, what we do today will roll out into production numbers in three to five years from now. So, basically, the investment is for tomorrow.

Jalaj: Got it. Understood. And one last quick question, if I may be.

Moderator: Thank you. The next question is from the line of Jyoti Singh from Arihant Capital Markets Limited. Please go ahead.

Jyoti Singh: Yes. Thank you for the opportunity. So, just one quick clarification on the automotive segment side, like you mentioned, some client issue was there. So, are we expecting this in the upcoming quarter also. And another on the defense side, we are seeing lumpiness and we are already multiple segments. So, I hope, this is not a focus issue because we are trying to manage a number of segments. So, what are the views going forward from here onward?

Arun Krishnamurthi: Yes, Jyoti. Thanks for the question. So, I think in automotive, it's a very specific, like I said, customer issue. And just to give you a bit of a context on automotive, what's happening is that a lot of OEMs are migrating their portfolio towards EVs, electric vehicles. But what's also happening is that there's a lot of competition which is coming from Chinese OEMs. And because of this, this is putting a lot of the traditional OEMs who are trying to disintermediate their business into a lot of pressure. And they are trying to adopt ADAS and connected and embedded facilities in the chart which is happening at a slower pace. So what we are seeing is a short-term impact, but given the fact that these are very marquee names, it is just a matter of time before they come back.

So since we have a large group of business from this customer as the customer recovers, we'll see the recovery happening. It is not something which is systemic. I think it is more a time-based issue. As far as defense is concerned we are very focused actually. I think this is a core area for us. We have two parts of the business which are now merging together. So we work with on one side with all the labs, like the DRDO, LRDEs, etc and the PSUs like HAL BEL etc. On the other hand we work with the Ministry of Defense.

So our portfolio actually is very focused. It is actually, if you look at it on the LAB side we do a lot of work on the electronic side which is on telemetry, which is on radar and sonar. And, again with the Ministry of Defense, we work on the anti-drone as well as simulators with some of the PSUs. So we are actually very focused on the electronic side of the defense business. So, it is actually very strategic for us. It is a growing area.

And we are not spreading to multiple areas like you're questioning for this, but actually very focused and this is actually the right place to be in because there is a lot of growth that is going to happen here as we all know. as we all know. Muju, anything you want to add on the focused part of defense?

Mujahid Alam: So as a company we are very clearly focused because it's a team which is working on the non-defense portfolio completely different and the team which is working on the defense portfolio is totally separate. So we all have our strengths and we are very clear about what we are doing, because the semiconductor business and the general PES business require a different mindset as well, together.

And the defense portfolio requires a completely different mindset and the people who are engaged with defense, the average age in Mistral or across both the entities combined together is about more than 10 to 12 years in Mistral alone. So that gives a very clear vision saying that these people are completely focused on the defense sector.

Jyoti Singh: Great, sir. Thank you so much. And, sir on the semiconductor side that production issue we are facing, what are the expectations on that front?

Mujahid Alam: The semiconductor business this is still overstocking by multiple volumes. We expect this business to take off by Q3 or Q4 of the financial year.

Jyoti Singh: Okay. Thank you so much.

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

Deepak Poddar: Yes. Hi. Am I audible?

Moderator: Yes, you are.

Deepak Poddar: Yes. Thank you very much sir for this opportunity. So just wanted to understand now we were talking about the margin pressure driven by two, three sectors like automotive, defense, semiconductor as well as automotive not doing that well. So in light of and I think we also mentioned that all these sectors will take maybe one to two quarters for them to revive. So how do we see then the growth part and the margins part for this year? I mean this quarter our adjusted margin was close to 8.5%. So how one should look as a whole, year as a whole in terms of growth and margins here?

Arun Krishnamurthi: Yes. So a large part of our margin contribution comes from defense. And that sort of accounts for when we have low margin as well as when we have high margin. So I think we are going into a quarter now or rather we are in Q2 where we expect like I said the production runs to pick up. So we expect a strong margin performance to happen in Q2. A lot of that will be contributed by our defense business.

And, of course, on the engineering side as well sectors like aerospace are very strong. So like I mentioned in my opening remarks I think if you look at the headwinds that are impacting ER&D, the two shining lights are aerospace and defense. Aerospace one is because it's always the long-term gain and air travel is picking up, people are travelling more and then some of the OEMs are very strong order books.

So we are unique that we are one of the ER&D companies who is positioned in aerospace which is differentiated from a lot of other companies. So that will be a strong performer for us. And again because defense is part of our portfolio we expect as defense ramps up that will grow. So like Shashi said, last year we did INR90 (112) crores worth of production in defense. This year we will do INR171 crores.

So a lot of that hasn't happened in two months. So you can expect a lot of that to happen over the next three quarters. But we are looking at getting into a quarter where we have good defense business. So that will provide a lot of margin benefits.

Deepak Poddar: For the year as a whole I mean for FY25 as a whole in terms of growth and both margins how do we see that?

Arun Krishnamurthi: Yes. So we are doing a combination of things. One is, of course, because the defense production is high that will be a contributor. The second thing is that we are also like I mentioned in my opening remarks, we are looking at a lot of digital as well as cost optimization initiatives which will happen, which have already played out and some of these cost initiatives take three, four months to actually show up on the balance sheet.

So we expect all of that to start appearing in the next few months, in the next few quarters. So, we believe that the next for the whole year I think we have a good plan in terms of both top line as well as EBITDA.

Deepak Poddar: Both top line as well as in terms of EBITDA. And are we still maintaining FY26 that we had guided earlier, three-year vision of INR1600 crores kind of a top line and a bottom line of maybe what INR160, INR180 crores?

Arun Krishnamurthi: Yes. That's the plan we are still working on. So we are hoping to have a strong year this year, and then that will build into what we get into next year.

Deepak Poddar: Okay. And just one last small thing finance cost we spoke that we are repaying some debt, so we expect some finance cost reduction. So what sort of finance cost we are looking at for this year?

Shashidhar SK: It will be around INR30 odd crores. Out of the INR56 crores that what was there for FY24 we should be around INR30 crores in terms of finance cost or more than that.

Deepak Poddar: I got it. I think that’s it from my side. All the very best. Thank you.

Moderator: Thank you. The next question is from the line of Kaushik Mohan from Ashika. Please go ahead.

Kaushik Mohan: Hi, sir. Sir I just wanted to understand one basic question. What are our components in the other income that we have because this time we have recorded a huge other income? What are the… Can you give the break-up?

Shashidhar SK: See essentially the other income, major part of the other income of INR11 crores is what we see in Q1. INR6.59 crores of that is capital gains. We had a property in Noida which was kind of unused so we monetized that and we made a 6.59 Crores capital gain out of it. The rest of it is, of course, the interest income and all of that in terms of the FDs that's what we have seen majorly.

Kaushik Mohan: Okay. So this one-time income of capital gain if I remove then our PAT is not having such a kind of a growth like where are we lagging? Which division is of concern because I joined very late, so if I'm repeating the question, I'm sorry?

Shashidhar SK: See as Arun explained for us aerospace and defense are the front-runners in terms of both revenue and margins. As Arun was saying with respect to aerospace our EBITDA margin is close to 19% and with respect to defense as I told you in the first quarter we may have about INR28 crores of production revenues and that gave us about 24% EBITDA margin.

Even with respect to product engineering services, our EBITDA margins are, of course, of 80%. Only that the growth has to return as what Muju stated. So the ones which are compressing the margins are the heavy engineering vertical where predominantly it is a staffing business. That's where Arun said that we are completely revamping this entire heavy engineering vertical.

So if you in fact remove the heavy engineering vertical from the scheme of things which is about 20%-odd in terms of revenue our EBITDA margins will actually go up to about 100 to 150 basis points, but that's where we are taking a major correction in terms of moving away from this staffing model as what we are talking about.

And the other vertical where because of the degrowth in terms of the OEM business, is the automotive business where we saw a compression of margins and that will come back from about Q2 end and Q3 onwards. And energy, of course, is a high-yielding margin business for us of the - I would say close to about INR11 crores of revenue which we recorded for the energy business. The EBITDA there, again, is about upwards of 20%.

Kaushik Mohan: Sir are we sticking on to our guidance of INR170 crores guidance, or are we upgrading or are we looking at it re-checking it?

Shashidhar SK: I'm not sure as to where you got this number, but the guidance with respect to the EBITDA as we are progressing from Q2, Q3, and Q4 we are as per plan.

Kaushik Mohan: Okay. Thanks, sir.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: Good evening, sir. My first question is you have talked about INR800 crores to INR1,000 crores of approved production wins. So if you can talk about how much can we expect in FY25 and FY26?

Mujahid Alam: Okay. We currently have production with visibility of INR800 crores from now for production, based on the effort which we have put in the past. So these are the efforts which Mistral and the team has put in the last 15-20 years. These are usually the production revenues. So, as on date, we have approximately about INR375 crores of order book on hand out of which defence of INR300 crores in hand and most of that will be executed in the next one or two years.

Aman Vij: No, sir. That number is known. But I was asking that the number which you mentioned, INR800 crores to INR1,000 crores of approved wins, so only INR300 crores do you think will come for FY'25 -- next year, FY'26, out of this INR1,000-odd crores, how much can be the order inflow for us?

Shashidhar SK: See, as has been reported in the investor presentation, of the INR324 (322) crores of order book as what we have in defense, about 60% will be converted this year. The rest of it will move to the next year. And again, of the total INR800 crores to INR1,000 crores as what we have stated, where they are all approved prototypes, where we have a part number and a reasonable visibility in terms of when the production orders are going to kick in, we will start with a strong order book at the beginning of FY'26 again. Essentially to say, these INR800 crores will perhaps convert over the next two to three years.

Aman Vij: Sure, sir. And if you can talk about how much of these will be like L1, tender-based versus how many of these INR800 crores to INR1,000 crores we would be the single vendor?

Mujahid Alam: No, you see, most of the cases which have been certified and approved in the past, here it is only a part number, reissue of the order, because there will be no other competition as such, because we have been engaged with the customer in building the prototype, and the results which we have done have gone through multiple testing cycles and verification cycles. So, this part will typically not be changed, so it will be on a single tender basis.

Shashidhar SK: As we have been talking about it from the past so many earnings calls, once a prototype is developed and certified, we have a part number, that becomes an IPR for us, and when a total system is developed, that part number perforce has to be there in the system. So it almost becomes a single tender.

Aman Vij: Okay. Then my assumption is correct that most of it will be single tender out of this INR 800 - 1000 crores, there won't be even a second player?

Mujahid Alam : Yes, your understanding is correct.

Aman Vij: Sure, sir. Next question is, if you can give updates on two of the programs, sir. We used to talk about it a lot more in earlier presentations, like Uttam AESA radar as well as the new Ashwini Radar. So another player is getting a lot of orders in this. So if you can talk about...?

Shashidhar SK: Your voice is very -- your voice is not audible, not clear.

Aman Vij: Yes, I was saying, sir, I just wanted an update on two of the projects. One is Uttam AESA radar and the second is on the Ashwini Radar. So a lot of orders are coming for other players in this. So if you can talk about what kind of order inflows we expect from this Ashwini Radar?

Mujahid Alam: See, the Ashwini Radar, the TOT -- in the past, it was given to only one single company, which was Bharat Electronics, and today there has been an amendment in the TOT transfer agreement, and the TOT has been given to three different companies. So there will be the portion of Mistral from Ashwini Radar, which will definitely come to us, and as on date, while we talk, we have given our quotation to all the three companies. So whoever wins, we will get our money And as far as the AESA radar is concerned, which is under FCA, these trials have been good, and on the 15th of August, the first prototype, Mk2, will fly out with the indigenous developed radar

Aman Vij: Yes, sir, I just wanted to understand what product are we...

Moderator: Mr. Aman, may we request you to return to the question queue for follow-ups? There are several participants waiting for their turn.

Aman Vij: Yes, ma'am. I'm just finishing the question, and the next question I'll ask later. Just this part, just a little bit of clarity, I wanted. Sir, I was asking that on the Uttam AESA radar, typically the radar cost a lot, but what part are we doing? Is it a very small value addition or a big value addition, if you can talk about the same?

Mujahid Alam: There is a part called Exciter Receiver in the radar that is being done by us.

Aman Vij: This costs around, like, few crores or these are like INR50 crores plus kind of...

Mujahid Alam: It will be in the range of about INR2.5 crores to INR5 crores, approximately.

Aman Vij: Okay. Thank you. I'll get back in the queue.

Moderator: The next question will be from the line of Dipesh from Emkay Global. Please go ahead.

Dipesh: Couple of questions. Just want to look -- if I look organic basis, overall revenue is down on Y-o-Y basis and sizably down. Even if I look at the vertical, which you indicated is seeing a headwind. Even if you adjust for their flattest performance, revenue is down on organic basis. Just want to understand, it seems to be relatively more broad-based, particularly defense side. Defense is fairly weak compared to where we used to run, run rate perspective.

And even from production and design, design which used to be stable showing weakness. If you can give some sense how one should look defense business, because you said it will pick up from production perspective, but then overall is not showing any material strength because of the design-related softness. So if you can address two-part question, first is organic fairly weak number on Y-o-Y basis. Second, even defense is showing weakness. So if you can address it. Thanks.

Arun Krishnamurthi: Yes. So the way we look at our business is that there are certain areas where we are legacy, where we have strong capabilities. And typically that is in aerospace, it's in defense and it's in heavy engineering. And like I outlined earlier as well, our strategy is to diversify. So that when there are seasonality's which happen, like what is happening now, we are present in sectors which are strong as well. So to that end, we make acquisitions. And for us, automotive, we grew from an acquisition and energy through an acquisition. So your question should be seen in the context that we have acquired new capabilities. So it is not that we are growing aerospace and defense through inorganic.

The growth that you're seeing in aerospace and defense is completely organic. And defense for us is lumpy. That is something that there's not much that can be done because when we have production orders, it's a very high quarter. Like Q4, for example, was very strong for us because we had a strong production run. And like I've been saying, even the next quarter is looking good for us. And Q1, which comes in between, is where we have to invest in a lot of prototypes. So the way I see it is that when one has to grow an overall business, one has to invest in certain areas, and there will be growth in other areas.

And of course, meanwhile there are also macro trends that we have to deal with. So I think given this whole context, I would say that the performance has to be looked at as organically the sectors that we're strong have done well. I think the new sector for us where we have to grow quickly, and these are sectors where we could have grown organically, but then it could take five years instead of doing it in one year.

So I think the contribution that comes in for specific sectors that are inorganic is because we wanted to grow quickly. So we feel that because of the defence seasonality, this quarter has been a little bit weak, and of course, there is a client-specific issue in one particular vertical. But other than that, I think the health of the business looks pretty robust as far as we are concerned.

Dipesh: Sir, if you can answer the different products and design, one should look at the combined number from defense growth trajectory perspective, or emphasis should be more on products and design, lumpiness may continue, because design is weak this quarter-on-quarter as well as on a Y-o-Y basis?

Mujahid Alam: In terms of production, for the year, we are well-fetched as per the plan because typically when you talk about production, you need to have your orders in hand at least about nine to 18 months in advance, otherwise you won't be able to deliver. So we are in good shape for the year, and whatever investment which we are doing today is for the future.

Dipesh: That is true, but design, let's say, when weakness was there, typically margin benefits would get reflected. If I adjust for some of the one-off, margin seems to be weak. Even design revenue was weak.

Arun Krishnamurthi: No. So I think just to clarify, design for us is prototyping. So typically, when a new defense program comes out, it is a competitive tender and we have to bid against other companies. And usually, there is a lot of pricing pressure when that happens, so you usually come in lower on price. Plus, there is an investment because you need to do R&D. So design by the very nature of its tender will always be more in investment mode.

But the reason we do design is because when the design finishes, once the certification finishes, the production which happens at the end of it is very substantial. And that's where the high margins are. So when we have a quarter where there is more design and less production, that quarter will have lower margins because design, by definition, is more investment. And production, by definition, is where we harness all the margins.

So next quarter, like I was saying, we have higher production as a component of our defense business, and therefore, we expect that the margins will be very strong. So I think it's important to understand the lifecycle we are in. And in quarters, when there is more design, the margins are lower. I hope that clarifies.

Dipesh: No, sir, this clarifies and that's why the question I raised. Your design is low at this time compared to, let's say, Q-o-Q, Y-o-Y, whichever one looks, absolute number. So it should have benefited your margins. And your production is also higher…

Shashidhar SK: No, you see, just a minute. I think I answered this question earlier. If you look at Mistral's defense, its quarter, the total defense production for Mistral of INR27.5 crores in this quarter, which recorded an EBITDA of INR6.8 crores, which is 24.75%. Now, coming to defense prototypes, the total revenues from defense prototypes was INR13.87 crores, where we lost INR2.9 crores, which is almost 21%.

So if you take the total defense margin from Mistral, it was about INR41.37 crores of revenue and INR3.9 crores of EBITDA, which is about 9.43%. So that is the reason as to why Arun said that, depending on the mix between prototypes and production revenues, the margin profile with respect to defense changes, it so happens that in Q1, we had a substantial prototyping of around INR13.87 crores of revenue.

And also, because of the competitiveness as what is there in the, prototype bidding now, the loss as what we took on the books, is much more than the whole year loss of last year, which we had incurred for prototypes.

Dipesh: Understood. Thank you.

Moderator: Thank you. The next question is from the line of Manjubhashini from JM Financial Services Limited. Please go ahead.

Manjubhashini: First question is regarding the reversal of in the employee in the notes to accounts. There is a mention about certain reversal of the share-based payments to employees to the tune of INR10.82-odd crores. So, how should we treat this, sir? Is this an exceptional one? Because if you do not include this, then the whatever margins that we are seeing at the EBITDA level would have been even more lower. And there would have been a significant drop on a Y-o-Y sequential basis from our EBITDA perspective. So, how should we read this, sir?

Arun Krishnamurthi: So, basically, this is, we have programs in compensation which we rollout for employees which are retention-based which are performance-based. So, I think, time-to-time, we need to review this. So, I think, this quarter, we had a review of some of these processes. And in discussion with our board, we felt that some of the old programs need to be rolled back and we need to launch a new program which is what we are in the process of doing. So, I anticipate that over the period of the years, this is something that will balance out.

Manjubhashini: Okay. So, this is based on the milestones that were set for the employees and they have not reached those milestones and hence this reversal of the compensation. And let us assume that things get better, etc. This cost can come back to us. Is that the right way to understand?

Arun Krishnamurthi: Yes, you can say that. It's a combination of factors. So, there have been some stocks which have rested but it's also in terms of the ambitions of our company, the aspirations that we have, that changes from year-to-year. So, when we have a different ambition that we want to enhance our performance, we would like to revisit some of our compensation programs.

And partly that's what we have done in this. So, we wanted to reset it to the future growth potential and to some of the sectors where we feel that there can be superior performance. So, it's a combination of both of those.

Manjubhashini: Sure. So, I have a lot of questions where on defense and this production revenue run rate improvement which you talked about. Just a few data clarifications here. The Mistral revenues last year, F24 fully overall, was somewhere in the range of INR328-odd crores. Am I correct in that? vis-a-vis some INR49 crores?

Shashidhar SK: You're right.

Manjubhashini: Sure. And this number for the current quarter, Q1 25 is INR49-odd crores.

Shashidhar SK: No. The total revenue from Mistral this quarter is INR65 crores.

Manjubhashini: INR55 crores is it?

Shashidhar SK: INR65 crores.

Manjubhashini: INR65-odd crores. Okay. And this INR65 crores on a comparison basis is INR72 crores in Q1 of 24. Is that right comparison or any changes?

Shashidhar SK: That is right.

Manjubhashini: Out of this INR65 crores, you said somewhere INR26-odd crores is the production revenue in this quarter of INr65 crores.

Shashidhar SK: Yes. So let me break this INR65 crores for you. The defense production revenue is INR27.5 crores. The prototype revenues are INR13.87 crores. And the semiconductor revenues are INr23.62 crores.

Manjubhashini: Semiconductor is INR23 point-something right? And the EBITDA margins on that production revenue of INR27.5 crores is 24.7% EBITDA margin. Is that right?

Shashidhar SK: That's right.

Manjubhashini: And we incurred INR3 crores loss on the prototyping and revenues of INR13.87 crores.

Shashidhar SK: Correct.

Manjubhashini: Okay. Sure. And semiconductor is also in losses or...

Shashidhar SK: Semiconductor, we have made a 15% margin on the INR23.62 crores, we recorded an EBITDA margin of INR4 crores.

Manjubhashini: Okay. INR4 crores EBITDA is what we have generated there. Okay. Understood, sir. And the visibility for this INR27.5 crores current quarter production revenue is INR170 crores the full year is what you're indicating?

Shashidhar SK: You're right.

Manjubhashini: This number, the same F '24, the corresponding comparable number was somewhere in the range of INR112-odd crores, is it INR112 crores is going up to INR170 crores, that is the latest...

Shashidhar SK: That's right.

Manjubhashini: Okay. And this INR800 crores to INR1,000 crores of the number that is there in the presentation about our confirmed or design-led production revenues that can accrue to us where you talked about the cycle of 2.5 years to 3 years when this can be achieved. So over here, so the entire INR800 crores to INR1000 crores is convertible into order book in, let's say, 3 years? And that order book to revenue could happen in maybe another year time frame or so. So in 4 years' time frame, the entire INR800 crores INR1,000-odd crores can translate into revenues? Is that the correct way to understand?

Mujahid Alam: Many of the Radar program, that Sonar program, the revenue recognition will happen in the next 3 years to 4 years. But there is also some amount of revenue in this INR800 crores to INR1000 crores, which is part of the Light Combat Aircraft which is Tejas Aircraft. Here the production cycle is a little bit longer.

Manjubhashini: Sorry to interrupt, you were echoing a bit, sir. I got the point that in next 4 years or so, this can get translated into revenues. But after that, I lost you.

Mujahid Alam: The program, which we work on today are multiple Radar programs, Sonar programs, Electronic Warfare programs, so these programs, I expect things to be recognized in the next 3 years to 4 years. But whereas the revenue which we have calculated here, which is for Tejas Aircraft , that production is going to be for a longer duration. So that revenue will be still lower till Tejas production continues So 100% will not be consumed in 4 years to 5 years. If some of the revenue will be over in the next 7 years.

Manjubhashini: Okay. So the revenue conversion will happen over the next 7 years, but order book conversion from the INR1,000 crores could happen over the next 4 years. Is that right?

Mujahid Alam: Probably the most important what happens is that whenever we get orders for instance [inaudible 58:30] Tejas aircraft we know for a fact that there were 190 aircraft to be produced. But HAL will release the order to me for the 35 numbers 40 numbers years-on-year or every 2 years result order on a batches to me. We may not have the order for the complete lot -- in volume growth, but there are some orders secured for the future also. So, that is a part which is already pre-approved.

Shashidhar SK: At the same time, I know if you look at the other ones, which are designed in under development, that also will realize into revenues in these number of years. But at the moment, we are not very clear in terms of how the program is shaping up.

Mujahid Alam: Because see in terms of INR2,500 crores to INR3000 crores of prototype under production, in some of these cases our portion of activity is completed, But my system is going into a larger system. For instance, if I am developing something and that is getting into a radar program, my piece which is being designed and developed at Mistral is already delivered to the end customer. End customer is putting the radar. The radar has to go through the field trials. That's when the production will happen. So, there are little bit long cycles. But unlike in the past, where the design cycles cycle for about 10 to 20 years, now it is stretched to 4 to 5 years.

Manjubhashini: Okay. Got it. The translation will take much longer, could be even up to 10 years is what you're saying because there are multiple parties involved, and hence, there could be a delay there, right?

Shashidhar SK: Right.

Manjubhashini: Sir, just on the -- I got the point on the auto and the client-specific issues that you're having and how you believe that it can – things can get better over the next 2 quarters or so. But aerospace on a sequential basis is largely in the current and the similar run rate only looks like there has not been any material improvement on a sequential basis in the aerospace revenues. Any -- I mean, is this on expected lines? Or you think -- anything that you can elaborate here, sir, on this point?

Arun Krishnamurthi : Yes. So just in Aerospace from Q1 of last year to this year there's been a 24% growth. For Q4 of last year to this year it's been similar. The reason being that if you look at large manufacturing facts whether it's in aerospace or automotive they typically have shut down 2 periods. One is the summer shut down, which happened.

The second was during the Christmas period. So in Q1, we had almost 2 to 2.5 weeks of summer shutdown because of which the revenues from the Aerospace segment was a little bit lower, which we expect to see that coming back. Because for us, when the factories are humming and the products are being generated that is when the business for us is robust.

Manjubhashini: Okay. So in that sense then Q2 on a sequential basis should be a good number to look at in the absence of the shutdown, which impacted us in Q1.

Arun Krishnamurthi: Yes. So Q2, we do expect revenues to be much better.

Manjubhashini: Okay. Understood. sir. Sir, and just another point on the interest cost, you said interest cost for the full year could be in the range of INR30-odd crores vis-a-vis INR53-odd crores, where we closed in F '24, right? And the current quarter interest expense is in the range of INR8 crores therein. So -- and you have also talked about further reduction in the debt, which can come through there. Can you please clarify these numbers, sir, what is the current net debt? And what is the current gross debt and net debt on books?

Shashidhar SK: See, the current gross debt is around INR230 crores and current net debt is about INR50 crores and I was saying the total interest cost for the entire year would be in the range of around INR30-odd crores because we are taking some capex -- we are putting in some capex for which we are the borrowing at a very reasonable and competitive cost. And so as a result of which, the total finance cost will not be more than INR30-odd crores in that range.

Manjubhashini: Okay. INR230 crores is the gross debt and INR50 crores is the net debt. That's the number.

Shashidhar SK: That's right. We are having about INR182 crores in terms of cash, bank and liquid investments.

Manjubhashini: Okay. And what was the operating cash flow? I think you mentioned about net working capital of somewhere in the range of 120-odd days or something. Is that the number, sir? Did I get it, right?

Shashidhar SK: That's right. If you look at most of the Engineering Services business on that net working capital cycle of around 65 -- 75 to 90 days, whereas in the case of Defense is a little bit more because we hold inventories as well as receivables.

Moderator: The next question is from the line of Dhruv Shah from Ambika Fincap.

Dhruv Shah: Arun, my question is on your EDS segment. Now our EBIT margin is around 11% this quarter, and that also includes this INR12 crores of write-back you guys have done on the stock-based payment. When do you see our EBIT margin on the EDS coming back to the industry level of 13%, 14%. There is also industry reports around 15%, 16%. But when do we get to that 13%, 14%? I understand you are investing in automotive and energy. But at the same time, you are -- our EBIT margin on aerospace will be much higher. So if you can just elaborate on this one?

Arun Krishnamurthi: Yes. So Dhruv, like I said next quarter, when we have our Defense production runs to be higher, we will see a higher margin when it comes to Q2. But I think for us every quarter, we have certain rhythm of our business. And I think this quarter because of the fact that we had lower production as well as client-specific issues the margins were a little bit lower. If you look at last year, we closed FY '24 at close to 13% margin. We are looking at taking that up in FY '25. So we have a plan in place to sort of recover that over the next 3 quarters.

Dhruv Shah: Just when you say production but that would be related to Defense, right? I'm talking only about...

Shashidhar SK : Engineering Services to answer your specific question. As I said, the current -- I would say there are 2 verticals which are undergoing correction, which is, of course Automotive as well as Heavy Engineering. To answer your question as to when we'll be able to scale up another 200 basis points, we would assume that by the end of this current financial year, which -- and we should be able to scale up at about at least about 150 to 200 bps on the Engineering Services.

Dhruv Shah: Okay. By end of this year. So every quarter, we should see this going up from 11% EBIT margin?

Shashidhar SK : Yes. So because we are doing a major correction in Heavy Engineering vertical and that is in fact turning to be margin accretive rather as against total margin decretive position where it was in FY '24.

Dhruv Shah: Right. And Shashi, on the thing which we were supposed to start on Heavy Engineering to increase the margin, which we said on the last call also, is the exercise on? And should we start seeing results from coming quarters?

Shashidhar SK: So it's already -- let me tell you, so in fact if you look at the total revenues of last year from the Heavy Engineering vertical the total revenues from heavy engineering vertical was INR152 crores last year, which -- with an EBITDA margin of negative 0.5%, whereas in this year, in Q1 FY '25, the revenues from engineering vertical is INR36 crores where the EBITDA margin is now 3% -- plus 3%. And this correction has kicked into place largely in Q1 and there is more to come.

Moderator: The next question is from the line of Jalaj from Svan Investments.

Jalaj: I have just 1 question. Most of the questions have been answered. So you were sticking to the guidance of INR1,600 crores of top line and INR160 crores to INR170 crores... The question that I have is, if I see the guidance that you are giving for FY '26, which is INR1,600 crores of top line and INR160 crores, INR170 crores of bottom line now considering the current run rate and considering the guidance that you are providing for this year I think we'll be ending somewhere around INR1,100 crores, INR1,150 crores at best case scenario INR1,200 crores this year at the top line level. Now to get the INR1,600 crores next year, you need to have INR400 crores of addition. So just wanted to get some sense, do you have this kind of visibility in terms of your existing order book or existing pipeline to get this kind of number? Or it's just an aspirational number.

Shashidhar SK: No. These are all numbers which have a backing with respect to how this has been computed. As the biggest driver here, of course, you see the Defense vertical, where we have been talking about INR39 crores production is going INR111 crores, INR111 crores going to INR170 crores. And the pipeline of orders as we confirmed say the total tax is what we have resulting in the production revenues on defense going by much more multiples going forward.

And of course, the other vertical to energy still a small base but again, it's going to pick up better going forward in terms of the pace of what we are now in the Middle East and the various other strategic plans we are kind of getting in this vertical. So we have -- and of course, Aerospace because of the production run rate that's what is going to go up and order backlog as what the OEM has but the other vertical, which will also go at a fast speed. And the entire 1600 crores is not purely organic. We have taken this amount of inorganic also in that and the something which we have to play out.

Arun Krishnamurthi: Yes. And I think what it's also doing is that obviously, in order to realize those ambitions, we are also investing in our sales force. So, we are recruiting more people so that we can improve our new logo addition and large deals addition. So definitely, it's work in progress. I mean this is the direction of travel that we want to traverse and there are investments that we will plan and we will expect that we'll have outcomes on those investments. So not everything is in the bag right now like it is for any other company but the investment that you're putting in and the growth rates that the industry is seeing we feel that this is an ambition that we can sort of work on.

Jalaj: Sure. If I may know, sir, how much is the inorganic -- you are building is this in the INR1,600 crores number?

Shashidhar SK: About 10% is the inorganic revenue to be present to be inorganic.

Jalaj: Sorry, sir, I missed that, sorry.

Arun Krishnamurthi: 10% to 15%.

Jalaj: Okay, 10% to 15%.

Moderator: Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Shashidhar SK: We thank all the investors and the participants in this call for participating in this call. And we also thank you for your support throughout, we also thank Orient Capital for arranging this call. Arun?

Arun Krishnamurthi: Yes. So just 1 closing remark I wanted to make is that I think, like I mentioned as we see the industry going forward, our strengths are in Aerospace and Defense. And like I mentioned, we will be looking at how these are 2 verticals, which we believe has a lot of juice left in them. So we will be wise. Of course, all the engineering services verticals are important to us and we will look at -- but I think as a company, we will see a rigor happening more towards Aerospace and Defense and we will expect to see superior growth coming from that.

So I just wanted to leave that and -- we are also looking at bringing a lot of the integrated technologies from Mistral into our portfolio. Therefore, the logic for our rebranding is to -- 1 is thing to focus the whole defense portfolio that we have. And the second is the digital engineering and the embedded capabilities that we have, which is something that we will play upon going into the future. So thanks a lot for all your questions and good talking to all of you.

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