February 21, 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 Call with the Investor(s)/Analyst(s)

Further to our intimation dated 15th February 2024, please find enclosed the transcript of the Earnings Call with the Investor(s)/Analyst(s) which is hosted on the website of the Company at 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: 2024.02.21 17:09:04 +05'30'

Sonal Dudani
Company Secretary & Compliance Officer

Encl: A/a

"AXISCADES Technologies Limited
Q3 and 9M FY '24 Earnings Conference Call"
February 15, 2024

MANAGEMENT: **MR. ARUN KRISHNAMURTHI – CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR – AXISCADES TECHNOLOGIES LIMITED**
MR. SHASHIDHAR SK – GROUP CHIEF FINANCIAL OFFICER – AXISCADES TECHNOLOGIES LIMITED
MR. MUJAHID ALAM – CHIEF EXECUTIVE OFFICER – MISTRAL SOLUTIONS PRIVATE LIMITED
MR. KRISHNA - MANAGING DIRECTOR – EPCOGEN
MR. SHISHIR GAHOI – HEAD, INVESTOR RELATIONS – AXISCADES TECHNOLOGIES LIMITED

MODERATOR: **MS. AKASHI MODI – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to the AXISCADES Technology Limited Q3 and 9-month FY '24 Earnings Conference Call hosted by Orient Capital. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star and then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shishir Gahoi from AXISCADES Technologies Limited. Thank you, and over to you, sir.

Shishir Gahoi: Thank you very much. Good evening, everyone, and I'm delighted to welcome you all to this Earnings Call for Q3 FY '24 and 9 months FY '24. I hope you all had an opportunity to view our press release and the investor presentation, which are available under the Investors section of our website, and the same are accessible in the BSE and NSE websites.

To discuss our results, we have with us our CEO and Managing Director, Mr. Arun Krishnamurthi, Mr. Mujahid Alam, CEO of Mistral; Mr. Krishna, Managing Director of our newly acquired company EPCOGEN, and our Group CFO, Mr. Shashidhar S.K. They will take you through our results and business performance. After which, we will proceed for the question-and-answer session.

Before we begin the conference call, I would like to mention that this conference call may contain some forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. The actual results may differ materially. These statements are not guaranteeing of future performance of the company and involve risks and uncertainties that are difficult to predict.

I will now hand over the call to our CEO and Managing Director, Mr. Arun Krishnamurthi. Over to you, Arun.

Arun Krishnamurthi: Thank you, Shishir. Good evening, everyone. Welcome to our Q3 FY '24 and the 9 months FY '24 earnings call.

Let me begin by giving you an update on our recent capital raise event by way of qualified institutional placement, which for us was a very good success. The company raised an amount of INR220 crores from marquee institutional investors, and the issue was over subscribed 8x. We are delighted and enthused by the confidence shown by the investors in AXISCADES and its potential for future growth.

The funding will go towards repaying the borrowings of the company and various other corporate initiatives, which will enhance the company's growth and profitability. This is a quarter of our overseas customers, and in this context, the company continues to record consistent quarter-on-quarter and year-on-year growth in Engineering Services business.

For this quarter, the Engineering Services business grew by 3% quarter-on-quarter and 21% year-on-year to INR182 crores. For the 9 months FY '24, the Engineering Services business grew by 20% from the previous year from INR426 crores to INR512 crores. The expansion in engineering also is fueled by healthy growth in Aerospace and our nascent verticals of automotive and energy. Our relationship with 2 aerospace OEMs continues to expand and this vertical grew by 29% in the 9 months' period.

We further solidified our position with a strategic aero customer by giving a large multimillion dollar deal, which will continue to give us business for the next 5 years. The areas of focus within this will include major repairs, structural repairs and various customer service angles. The company has also initiated several digitization projects in the aerospace vertical, which will enhance productivity and margins. Our outlook for this vertical continues to be bullish for the foreseeable future.

Despite Q3 having holidays, our aerospace customer prioritized workloads to meet their year-end targets. And this helped us have a very good quarter from there. Aided by expansion of add Solutions in quarter 2, the automotive business constitutes about 11% of our total revenue as against 4% in the same period of last year.

With revenues from automotive vertical growing by more than 3x, from INR22 crores to INR75 crores in the 9-month period. We continue to add new logos in this space and are well positioned to leverage on the opportunities with the capabilities we have developed and acquired with a large addressable market. In areas such as wiring harness, software testing, ADAS and software-defined vehicles.

As was announced in the previous earnings call, we completed the acquisition of EPCOGEN in December '23 and started consolidating revenues from first December with a revenue of just INR2 crores for the month of December. And I'm glad to welcome, Krishna, who is the Managing Director of EPCOGEN. He joins this call for the first time, and he joins AXISCADES family. We have onboarded quite a few marquee logos in the energy space with this acquisition. The current revenue share of 3% for energy vertical we expect to significantly grow in the coming periods.

The company is also finalizing a go-to-market strategy with the intent to open an office in the Middle East. The company forecasts aggressive growth on this front across oil and gas, renewables and infrastructure design and development. As stated earlier, the growth of 20% in Engineering Services business has come about, despite tepidity in heavy engineering and semiconductor verticals, mainly in the U.S. region.

Revenue from heavy engineering was INR115 crores for the 9-month period and constituted 17% of revenues as against 22% in the same period of the previous year. The industry is impacted by low capex spend and is highly sensitive to macroeconomic factors and is pivoted towards more digitization, automation and electrification. AXISCADES is graduating to offering these value-added services with its internal and Mistral capabilities. The company's objective in the coming year is to focus on improving margins in this vertical, moving away from its predominantly low-margin staffing model.

With respect to the product engineering business of Mistral and the services part of the semiconductor business is doing well. The production business is adversely impacted in the short term, and this is due to overproduction and overstocking of semiconductor chips by global semiconductor majors during the pandemic. The revenues from this vertical is INR102 crores for the 9 months, constituting 15% of revenues. We expect that growth will return to this vertical by the second quarter of FY '25 with flushing out of built-up inventories.

As you would have observed in the investor presentation, the Defense business, which constitutes 26% of our revenues, always reflects quarter-on-quarter variability, which is typical to the industry. This impacts both enterprise consolidated revenue and profitability. The performance of this vertical, as we have mentioned before needs to be measured on a full year basis rather than quarter-on-quarter. As such, while defense revenues grew by 12% year-on-year from INR164 crores to INR185 crores. The revenues were lower in quarter 3 at INR49 crores as against INR74 crores in quarter 2, and this is due to shifting of certain production orders in defense to quarter 4.

Also defense production revenues, which carry significantly higher margins was lower in quarter 3 at INR22 crores as against INR33 crores in quarter 2. However, when we compare the 9-month period, the production revenues in defense significantly increased by 3x from INR23 crores in 9 months of FY '23 to INR71 crores in the current period. We are very confident that this vertical will continue to grow on the back of strong order pipeline, which has been built on design wins and prototype certifications for the last 10-plus years.

I'm also pleased to report that in the last 2 years, we have made noticeable in progress in implementing our 3-pronged strategy of vertical diversification, customer diversification and digital first. And the business stands derisked with 6 business verticals, addition of several new strategic logos, new acquisitions and our investments for a digital future. We continue to build our team for growth and have added more than 500 billable resources in the last 9 months.

And our people resource now stands at 3,000-plus people across all our businesses. The outcome of this can be seen from revenue from new customers increasing from INR8 crores to INR48 crores in the 9-month period and contributing to 7% of our company's revenues from 1% in the previous year.

On the financial and business performance, the company recorded revenues of INR670 crores, growing by 18% from INR590 crores recorded in the same period of the previous year. In USD terms, the company recorded revenues of $85 million, growing by 15% from $74.1 million recorded in 9 months of last year. The consolidated EBITDA for 9 months FY '24 stands at INR98 crores at an EBITDA margin of 14.1%, compared to EBITDA margin of 15.8% in 9 months FY '23.

The company's PAT has seen a significant improvement. For 9 months, it stands at INR24 crores against a loss of INR21 crores in the previous year. The acquisition costs, entity cost of the 2 acquisitions, lower production revenues from defense in Q3 and continued investments in embedded and digital capabilities has resulted in short-term compression in margins.

We are in the process of integrating our recent acquisitions and rationalizing common costs to make these acquisitions margin accretive. As stated in our earlier calls, we continue to make significant investments to build our digital capabilities, which is critical to derisk our business and improve our margin profile, although it does compromise on our short-term margins. Our order book continues to be healthy at INR706 crores or $85 million, accounting for more than 7 months of revenue run rate. To conclude, we are confident and stand energized to deliver on the vast opportunity before us and thank all our stakeholders and especially our new investors for their support and trust.

I now invite Mujahid to give a brief overview of Mistral.

Mujahid Alam: Yes. Thank you so much, Arun. I am pleased to report the Q3 performance of Mistral Solutions. As you're all aware, Mistral is a cutting-edge technology design and system engineering company, delivering technology solutions in product engineering, aerospace, defense, homeland security to marquee global clients, Ministry of Defense, DRDO and Defense PSU for the last 27 years plus.

Mistral is on the cusp of realizing the fruits of its order pipeline, which we have built in the defense vertical based on the design wins and certified prototype, which it has built over the last 15 to 20 years. The radar, solar and telemated systems which Mistral has built indigenously finds expressions in the country's prestigious defense program like the LCA Tejas Aircraft Program, 230 Program, Rustom UAV Program and radars like Ashwani and Arudhra.

As Arun explained, defense revenue by its very nature will have variability across quarters and hence, should be compared on a full year basis. As such, for the third quarter defense revenue for Mistral stands at INR41 crores, was lower by 22% from INR53 crores recorded in the Q2 of the same financial year. The defense revenues for the nine-month period of FY24 stands at INR135 crores, which is 35% higher as compared to INR100 crores recorded in the same period of the previous year.

The defense production revenues stands at INR71 crores in nine months of this year, which was more than 3 times the defense production revenues of INR22 crores recorded in the same period of the last financial year. The semiconductor and product engineering business of Mistral is undergoing a short-term challenge due to overstocking by semiconductor majors, and is expected to regain growth by Q2 of next financial year.

The semiconductor business of Mistral recorded a revenue of INR102 crores in the nine-month period as against INR99 crores in the same period of the previous year. The consolidated revenue for Mistral for the nine-month period is at INR237 crores, growing by 20% from INR198 crores recorded in the previous year. Mistral recorded EBITDA of INR42 crores, an 18% margin in the current year as against the EBITDA of INR32 crores, at 16% margin recorded in the previous year.

The Indian government is promoting Make in India in defense, electronics and semiconductor industry through multiple initiatives and policies. It will open new opportunities for Mistral, we continue to develop state-of-the-art defense technologies in collaboration with DRDO and our internal R&D.

Let me conclude by saying that Mistral overall strategic direction remains sound. Our defense segment continues to demonstrate promise buoyant by ongoing contract and a robust pipeline of the opportunities.

Now I invite Mr. Krishna, Managing Director of EPCOGEN, the newest member of AXISCADES Group to give an overview of the EPCOGEN Energy business. Thank you.

Krishna KRSR: Thank you, Mujahid. Thank you, Arun. Hope, I'm audible.

Arun Krishnamurthi: Yes.

Mujahid Alam: Yes.

Krishna KRSR: Yes, okay. Good evening, everyone. I'm from EPCOGEN. Of course, it's outset, we at EPCOGEN are very much delighted to be a part of AXISCADES family, and we bring our competencies to grow the energy business of the group. EPCOGEN is an ISO certified engineering services company established in the year 2020. It boasts a team of industry experts from various multinational corporations focused on energy space. EPCOGEN primarily operates out of Chennai with additional footprint in Bangalore and Hyderabad as well.

The company serves both domestic and overseas clients in the oil and gas, refineries, power and green energy sectors. It's expertise spans from the front-end engineering onwards, then pre-award engineering, proposal engineering, retail engineering, construction and commissioning support with multidisciplinary capabilities covering the whole spectrum of the energy sector. The energy sector is currently experiencing phenomenal growth with vast opportunities in the oil and gas sector expected to continue for at least next five to seven years, post which likely focus shifting towards green energy.

The team at EPCOGEN possesses these technical capabilities to meet the growing market demands in the energy sector. The company has been in a growth phase with commendable revenue growth year-on-year. Currently, EPCOGEN has over 100 resources on board with additional support being taken from the partnering companies as and when needed. The company has clear visibility of future growth of the business.

I now invite our group CFO, Mr. Shashidhar for a brief overview on the financial's part.

Arun Krishnamurthi: So Mr. Krishna before Shashi comes, can I just request you to do a brief introduction of yourself because it's the first time you're on the call.

Krishna KRSR: Okay. Thank you, Arun. I think I will continue a brief explanation about myself. I have been in the oil and gas industry for the last 40 years. The majority of the time I spent with Petrofac International Sharjah actually. And then -- of course, I was graduated from MIT Chennai. And most of the time I spent in the overseas areas, like Petrofac Sharjah. Then through that, I was actually deputed to different locations in the world, like Russia, I was there for quite some time, Oman we were there, Qatar. We have a very good connectivity in the Middle East region.

And then, of course, I was asked to start India operations for Petrofac during the year 2006. And from there we start from zero, we grew to accountable number of 2,700 resources and all the resources highly billable, 100% revenue. I think that was the most successful part of the career. And also, as an engineering center most successful operations from India from Chennai especially, that's for the Petrofac business actually here. And we are more focused on retail engineering services for EPC projects. Most of them are upstream oil and gas facilities. Also, we are in the petrochemicals and different sectors.

Now recently, we are getting into the hydrogen projects plus the green energy projects. Recently, we have been partnering with another company who are dealing with the cryogenic services, cryogenic storage systems where that will end up in the regeneration of power via the cryogenic services. These are the different sectors. Our experience practical temperature ranges ranging as low as minus 67 degrees centigrade to a larger temperate -- higher temperature of about 600 degrees centigrade.

That means the cryo services, regular oil and gas operations and then getting into the high temperature services also. That's the spectrum of experience and expertise what we have with our team members. Yes, I think that's a brief.

Arun Krishnamurthi: Thank you. Thanks, Krishna.

S. K. Shashidhar: Thank you, Krishna. Good evening, everyone. As explained by Arun and Muju as well as Krishna, you now all have a fair idea of how the business has performed in the last quarter and nine months of the current financial year. I wish to place on record our sincere appreciation to all the new institutional investors who are on our cap table now for their trust and confidence in the company. The overwhelming success of the QIP motivates us to work with renewed vigour for continued success of the organization.

Net proceeds of capital raise of INR204 crores out of INR220 crores which we raised, INR158 crores is meant for repayment of borrowings, which will significantly reduce the finance cost from about INR49 crores in FY24 to less than INR20 crores in FY25. The balance of money is meant for other corporate initiatives for growth and expansion of the company. With the said capital raise, the cap table is now well represented by marquee institutional investors holding about 8.3% of the company.

After having successfully concluded activation of add Solutions in Q2 and EPCOGEN in Q3, our focus now is to make our acquisitions margin accretive by synergizing the offerings, cross-selling capabilities and rationalizing costs and resources. In the last few quarters, the company has also strengthened the corporate governance and sustainability initiatives in the area of internal control, contract management and its enterprise risk management.

As we closed the third quarter nine months of FY24 for the financial year, our growth momentum continues on the back of strong order book and delivery performance with quest for continuous improvement in margins in all our major verticals and business units. As stated by Arun, our business is significantly de-risked over the last two years in terms of vertical and customer diversification and our digital investments and our focus going forward is to accelerate on our twin objectives of growth and profitability.

Thank you. And we'll now open the floor to questions.

Moderator: Thank you very much. We will now begin the question and answer session. And the first question is from the line of Jyoti Singh from Arihant Capital.

Jyoti Singh: Yes thank you for the opportunity. That was a very good presentation from the management side. Sir, my question is on the defense side that we de- grew in this quarter, so if you can update on the order book execution side in the business, along with the order pipeline for the upcoming quarter?

Mujahid Alam: Yes. See typically, in the defense business, the business is cyclic because the value of the orders are typically large and execution is over a period of 12 to 18 months for every order which we receive, that's why you see a spike quarter-on-quarter. The defense business, as Arun has explained in the call earlier, actually looked at on an annual basis. So the revenues were lower when compared to Q2.

But in terms of the engagement, which we are doing, the orders which are in the pipeline, the execution which is happening is extremely large. So to just give you a clarification on this. In the last quarter, which is the Q3 quarter, we have recorded a new business of INR153 crores, and the pipeline moving forward looks very positive.

Jyoti Singh: Okay. And sir, another question on the geographic side, like except the USA, we are underperforming most of them. So if you can highlight on that.

Mujahid Alam: Arun, you're taking this call?

Arun Krishnamurthi: Yes. I can take that call. So I think in Europe, clearly, we have grown because of aerospace vertical, which has come in very strongly. For us, the USA vertical is predominantly in heavy engineering and PES, the semiconductor business. And that as I mentioned in my commentary is where we are experiencing some macroeconomic headwinds. And that's the reason that, that region has de-grown.

In fact for us, it's all defense and Muju just talked about defense. I think that's the reason that's the coverage. Canada for us, it's a very small part of our business, it's just 4%. Over the nine months, we've had good growth, and this business actually continues to be good. But given that it's a very small portion of our overall revenues, even a small swing here and there sort of shows the de-growth.

But the commentary from me is that the business from our Canadian customers are stable, and it's not really cause for concern.

Jyoti Singh: So sir, what are recovery that we are seeing, and we are expecting, and how is the discussion with the clients on the Europe side?

Arun Krishnamurthi: Yes, I think for us, the three verticals which have done well, aerospace, automotive and energy. I think both aerospace and automotive, for us, the exposure is predominantly in Europe. So there, we have good conversations going in. I think the traction with customers is good. And of course, the acquisition of add Solutions also is in Germany, which is in the European region.

So clearly, with aerospace, I think we're in a very good position. Like I said, we also won a large multimillion dollar deal in Q3, which will get us into a new area and then gives us a new revenue stream for the next five years. And of course, this is also backed by the fact that the aerospace business is coming back in a big way. And given that we do both product design and some work is linked to production volumes. The recovery of the sector itself will give us a lot of tailwinds, and we see that going well.

As far as automotive is concerned, we are focusing on, like I said, software testing the ADAS and the software-defined vehicle. So this is an area, which is in great demand. We are, of course, new to this vertical. I mean, we are two years old. But I think, like I said, we have grown our exposure from 4% to about 11% in this vertical. So we're betting on these technology trends, and this is where we'll be sort of hiring more people and investing, and we hope to grow in this area. So our focus will be so much mechanical, but it will be in the newer areas.

And energy for us will open up the Middle East, like Krishna said, a lot of the business that we do is with oil and gas companies, but also with renewables companies and with cryogenic battery storage companies, which is actually in Europe. So we expect that the energy business for us will be predominantly a Middle East play because we are seeing some large contract typically -- which is in the build-out of large plants for carbon capture, sulfur capture, large gas storage plants.

And we see that Middle East for us will start becoming significant. And towards that end, we are looking at opening an office in Dubai, which we will do this quarter. We'll start with a small sales office and then will grow it depending on the way the business grows. For this product, the US is twofold recovery. So on the semiconductor side, of course, service is going well. So that is good. We are impacted by the production scenario in semiconductor, which is an industry trend.

And most companies were into production in semiconductor are impacted by this. So this we expect will take another 3 to 6 months. But as the inventory gets flushed out, we will see that this business, we will see some more demand coming back in. For us, heavy engineering is still work in progress. This is something where -- for us it's predominantly a staffing business and the contribution of heavy engineering as it was last year to this year has gone down, but we are now refocusing ourselves, and we want to focus on the quality of the business.

So rather than looking at top line growth, we would rather look at doing business in the embedded electrical and digital side for heavy engineering which might shrink the top line a bit, which will be more profitable business, and it will also bring us closer to customers because this is where their mindset is. So these are the actions that we're working across defense Muju talked about. So defense is not a recovery. It is just a quarter-on-quarter fluctuation. We expect that going forward we will see again very, very good numbers from defense.

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

Jalaj: So my first question was with regards to the Product Engineering Services, engineering semiconductor business. Could you delve a little deeper into...

Arun Krishnamurthi: Actually Jalaj sorry, your voice is deteriorated a bit, there's a bit of an echo.

Jalaj: Sir, just a bit. Just a bit. Yes, is it better now?

Arun Krishnamurthi: Yes, much better.

Jalaj: With regards to the product engineering services, I wanted to understand one thing. Could you dive deeper -- a little deeper, into the genesis of the -- some volatile revenue here, first of all. And secondly, what sort of is the contract with the end customer. Are they short term, long term, is the volumes fixed? Or how does it work in this? Could you talk a little about it?

Mujahid Alam: Yes. I'll take this question. See in product engineering business, we primarily work with semiconductor companies wherein we involve ourselves much earlier in the program before Silicon State come in the market. So during COVID period, there was a lot of overstocking which happened. And these stocks are still available with my semiconductor companies who is my primary customer. And we expect these volumes to kick in again from Q2 of next year.

So basically, what we do here is while our NRE business is on upward trend, the products which we build are the products which we build for a particular target segment of clientele by -- given to us by the OEMs, like I said Texas Instruments to us. So as long as they have stopped with them, our business will not increase. So product when you talk about there are two factors over there.

One is products which we build as EVMs which are given to multiple clients and NRE. Our NRE business is continuously growing. The product EV is the offshoot of the NRE business, which we do, which is typically on stagnant growth kind of thing that is not our regular mainstream business. NRE is our mainstream, which is growing.

Jalaj: Okay. So what would be the spread across -- or what would be the proportion between NRE and production?

Mujahid Alam: Sorry, I still -- there's some echo in the voice over there?

Jalaj: Yes. What is the split between NRE and the production business?

Mujahid Alam: So in the professional services business, the NRE business will be typically in the range of about 70% and production will be 30%.

Jalaj: Okay. Okay. Understood. And then could you talk a little about the sort of the agreements or revenue? What is the revenue model here?

Mujahid Alam: See, basically, the revenue model is we get a standing PO, which is typically given out at the end of the financial year, we can say end of the year financial, which will be sometime in the

December-January time frame. And is a blanket open PO. And the PO typically will be for a larger contract wallet. And then the engagement can happen for multiple divisions of this particular company, which in this case, I'm talking about Texas Instruments.

Jalaj: Okay. Okay. So there is no value ascribed per se to the PO, is that so?

Mujahid Alam: Well, I can tell you a value of last year, but I will not be able to tell you what we are discussing right now at the engagement. The last year open PO was close to $32 million as open PO.

S. K. Shashidhar: So Jalaj one other point to add here is that the purchase order are backed by master service agreement of particular duration so -- which will be followed by purchase orders.

Jalaj: Okay. Okay. And could you talk a little about the sudden pickup in the other expenses and the people cost? They have gone disproportionately with regards to the revenue. So are we investing somewhere, or what is logic behind it?

S. K. Shashidhar: See -- essentially, if you see the payroll costs have gone up, one of the primary reasons is of course the add Solutions, the entire quarter cost has come into the financials in this quarter. As you would remember, last quarter in Q2, the payroll numbers or the expense number for add Solutions was only for a period of 2 months. And whereas in this case -- in this quarter it is for the entire quarter. On top of it, we have had, I would say, head count additions as well as the, I would say, the acquisition cost as what we have kind of, I would say, charged into the P&L. So that is the reason why these two particular expenses have gone up.

Jalaj: Okay. So both of them will be a sticky cost is what you are trying to tell me. This will...

S. K. Shashidhar: It is all actually related to most of it.

Jalaj: And one last question for me. If I remember, there was this -- one of your subsidiaries which has the defense -- under defense which has the maintenance work. So what would be the revenue, or where is it sitting right now? And I will tell you the subsidiary name, which was the AXISCADES Aerospace & Technologies Private Limited.

S. K. Shashidhar: That's right. So AXISCADES Aerospace & Technologies is also in the defense business, as you rightly mentioned. It's 100% owned by AXISCADES. And the revenue as typical as what experienced in Mistral, the revenues for AXISCADES Aerospace for this 9 months is around INR50 crores as where we stand today.

Moderator: The next question is from the line of Amish Kanani from JM Financial Services.

Amish Kanani: Sir, I would like to understand the lower EBIT margin that is being posted in the technology services and solution where the growth is decent, but the margins are lower. I think the previous participant, you addressed partly, but if you can explain us because we had aspiration to take that division's margins to a much higher level. If you can give us the sense whether this quarter is an aberration, and how should we look at it?

S. K. Shashidhar: Yes. So the engineering services, EBITDA margin is sitting at about 14% now. And essentially, what we would want to put on the table is that the kind of investments as what we are making in the digital space, which is kind of taking away about 2% of the EBITDA. So close to about 50 people are engaged in the digital investments, which is not margin accretive at the moment.

And our objective here is to take it and also the fact that, as Arun was mentioning earlier, the business which we do with Caterpillar is something, which is not margin accretive for us at the moment because it's all staffing business. And these are the two areas where digital investments what we're making will start giving us revenues and some cost savings, but also the fact that where we are moving away from the staffing solutions business of Caterpillar, will enhance the margins of the engineering services in our business going forward.

Arun Krishnamurthi: And the acquisition that you spoke in the previous question.

S. K. Shashidhar: Correct.

Amish Kanani: Okay. Sir, is it possible to call out the one-time expense of the acquisition-related cost or maybe some legal and/or bankers cost, which might sit in which may not be repetitive because my EBIT margin, if I take off that technology services solution, it's coming nearer 12% versus last year...

S. K. Shashidhar: The total acquisition cost in terms of due diligence cost, the legal costs and all the costs which are related to acquisition is about INR3 crores.

Amish Kanani: Which may not repeat, right, that's the...

S. K. Shashidhar: Correct.

Amish Kanani: The employee cost will obviously repeat, and that will increase the margin as and when we get the sales and operating leverage kicks in, but this portion at least will not repeat?

S. K. Shashidhar: Correct.

Amish Kanani: Correct, correct. So in the context was last year this time around in quite a few quarters, we had actually posted EBIT margins more in the range of 16, 18 as high as 20. So I was wondering whether...

S. K. Shashidhar: Yes. It was a big shift which has happened. We took a conscious decision to start investing in the digital space, which we are very, I would say, conscious that in the short term at least is not going to be accretive to the margin, but we have started getting, I would say, production orders and the kind of business is what we grew with our overseas heavy engineering customers, we are selling our digital competencies and also the digital competencies are being used for internal automation. All of this is going to result in marquee's margin accretive, I would say, position going forward.

Arun Krishnamurthi: Amish, I can just add a couple of points. I think one is that if you look at it traditionally, the company has been for the longest time in aerospace, heavy engineering and defense. Now as part of diversification, we wanted to grow automotive and energy for the reasons that, as you all know, automotive offers a world of opportunity. The number of customers in automotive is far, far more than aerospace. So, for example, if I have to add strategic new logos, it is very difficult in aerospace, but it's possible in automotive and so also in energy.

So I think what we have been doing very consciously is that we wanted to increase our footprint in these two verticals rapidly. So what we did last year was we grew automotive organically. We were able to do that in a year to grow to about 4% of our company's revenues. But we decided and we saw that with our customers that often to play in this space you need to have some scale.

And to build that up quickly, I think acquisition is the only way. So now with the acquisition of add Solutions, that gives us to about, I think, 11% to 14% of revenues are now automotive. Now that comes with some short-term margin pain. But I think strategically, I think, these kind of investments in both automotive and energy will pay off in the long run.

And I think as we go into next year -- next financial year, we are very consciously going to be looking at how we look at margins. And if you look at it, our balance sheet is now much better, especially with the QIP and almost out of INR220 crores some INR155 crores goes towards writing off our debt. So if you look at our PAT, if you look at the cash position that we have, it will be much, much better. So I think we're looking at how -- so this is the first goal, which is to improve the balance sheet, improve our plan. But we will work on margins.

Margins typically take a little bit longer because when we go into a new vertical, new customers, it is competitive, and you do bid at lower rates. It's only when the account becomes mature like we have at aerospace that you are able to offer more services and be more, I would say, margin accretive. So I think this is a journey that we are on and sort of we are conscious, but it does appear that it is going up and down. But we believe that going into the next 2 to 3 years, this is the right thing to do.

Amish Kanani: Yes, sure, sir. And sir, coming to Mistral, I understand it's a volatile business on a quarterly basis. But if you can give us some sense of, one, whether if we can call out the fourth quarter, what is the bump up that might happen. And if it's not possible, given the volatility, again, if you can give us some sense of how the trajectory looks like, say, on a 12-month basis for say next 1 year. And that will be really helpful because we understand that it will be volatile on a quarterly basis, but some sense of growth will really be helpful or else giving us some order pipeline that we can share that will be helpful. Thanks.

Arun Krishnamurthi: Muju, do you want to take that or I can give you just a high-level commentary, Muju can fill in. So Amish, we don't give a guidance, but for us the defense business for Q4 is going to be much better. I don't want to speak in terms of percentage terms, but it, I will say that the production volumes that will happen in Q4 are going to be much, much more than Q3. It will be more like a Q2 situation that we had. So it will be a much better position for us, which will, obviously, help both top line and bottom line. Muju, do you want to add anything that you can share. You are on mute, Muju.

Moderator: Thank you. And the next question is from the line of Saurabh Sadhwani from Sahasrar Capital.

Saurabh Sadhwani: I just want one clarification that the new…

Moderator: Sorry. Sorry, Saurabh we're unable to hear you.

Arun Krishnamurthi: Yes. Your voice is breaking.

Moderator: I just request you to reconnect again, please.

Saurabh Sadhwani: I'm using the handset, is it better?

Moderator: Your voice is breaking, sir.

Saurabh Sadhwani: Okay. I'll join back in the queue.

Moderator: Thank you. The next question is from the line of Jalaj from Svan Investment. Please go ahead.

Jalaj: Thanks for the opportunity again. This is with regards to Mistral. So you mentioned it in the previous answer, but something as to -- could you give some color to maybe not quantitatively but qualitatively that what was the exact reason for the fall and how do you see it in the top line? How do you see it going forward? Has there been some supply chain issues or something else per se for this particular quarter?

Mujahid Alam: I would not say it is a fall in revenue. The defense revenues are typically cyclic. So you should never look defense revenues on a quarter-on-quarter basis because, one, as I said, the quantum of order value is extremely large typically. And then the delivery period is anything from about 16 months to two years to three years will be the window for delivering any product. So, one, order value is larger and the deliveries are also longer.

So there will always be a curve in terms of when the revenue gets recognized, that's where you'll see a drop in revenues on a quarter-on-quarter basis, or you'll see a spike in one quarter and then low in one more quarter. On a yearly basis, we are in the growth trajectory, and you'll see excellent growth in defense business for Mistral this financial year.

Jalaj: Got it. And otherwise, from a, let's say, medium to longer term, the outlook wise or -- there is no change per se or it is medium to long-term perspectives are still the same, or could you talk a little about that? Could you give us a little color there?

Mujahid Alam: See, our order book is extremely healthy and the pipeline also looks extremely healthy. So we will definitely see a growth year-on-year moving forward. So there is no ambiguity on that front.

Jalaj: Got it. And last question, with regards to the AXISCADES Aerospace, what we talked about when you told me the 9-month revenue was INR50 crores. So does this -- this vertical also have a little seasonality because if I remember it correctly, FY'23, revenue was INR90 crores.

Mujahid Alam: Arun, Shashi this is on Airbus.

S. K. Shashidhar: No. If you are talking about AXISCADES Aerospace & Technologies, yes, last year, we -- their total revenues were INR90 crores. This year -- half year is INR50 crores, but there is one major order as what is being executed for the Ministry of Defense, and we would see the revenue accretion happening in Q4.

Jalaj: Okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Tushar from Cognizant. Please go ahead.

Tushar: Good evening, sir. We were talking a lot about the testing that was taking place on the drone side and some several, like, important testing results were supposed to be out by December. So do we have any updates, like on the drones? Are we actually like -- so there was one Ghatak that came out in the Indian defense. Are we involved with that?

Mujahid Alam: We are not involved on that program. We are building a drone indigenously at Mistral, which is our own initiative in terms of R&D. We have finished some test trials as we talk today. The trials have been conducted at Bangalore at the environmental conditions, which Bangalore has today.

But the ultimate goal is to fly this drone in challenging environmental conditions based on the terrain which we have against our borders. So that testing is yet to start. Whatever the learnings which we had from the testing, which we did locally here, we're incorporating that and then we will start testing again shortly. So we are on the right path at this point of time.

Tushar: Okay. So are we -- like I thought like we were also into anti-drones industry too. So are we seeing any revenues coming from that section or like drones or anti-drone sections?

Arun Krishnamurthi: Yes. So we do have a large order in the anti-drone part. So that project is currently undergoing inspection as we speak. And that will happen over the next 10 days. So that is an ongoing project and we expect as we go closer to March that one portion of it should get completed. And the next portion of it will get picked up next financial year.

Tushar: Thank you very much.

Moderator: Thank you. The next question is from the line of Agam Shah, an individual investor. Please go ahead. The next question is from the line of Sameer Dosani from ICICI Prudential. Please go ahead.

Sameer Dosani: Thanks for the opportunity. I just wanted to confirm this Mistral pipeline. So what is the kind of booking pipeline we'll have right now? I think, if I'm not wrong, last quarter we were speaking about INR350 crores. Can you confirm what is the kind of pipeline?

And second, this quarterly variability will continue -- can happen. But do we hope to recover all the revenues back in Q4, so our yearly target of around 30% growth from that is the target. So that we can meet if you can help on that.

Mujahid Alam: On the yearly target, yes, we are on track. And in terms of order book, we had a healthy order book in Q3, which stands at more than INR150 crores split. And moving forward, we are seeing a healthy order book for the next 12-month window also.

Sameer Dosani: Okay. I think last quarter was around INR350 crores. We had some order pipeline of INR350 crores. That pipeline number how much would have -- how much it could have grown?

Mujahid Alam: We have added additionally about INR150 crores last quarter.

Sameer Dosani: Okay, that was new orders.

Mujahid Alam: New orders, yes.

Sameer Dosani: And second, to get some idea around aerospace, right? So we have been doing phenomenally well in the aerospace vertical. If you can share that target with the new order in Q1, how should we think about this aerospace vertical for the next two, three years perspective? And this is given that I think both the aerospace majors have committed to increase their sourcing from India in five years, I think. So if you can just give some idea around how do we see this vertical performing in a three to four-year period, that will be helpful?

Arun Krishnamurthi: Yes, Sameer, so I think we have spoken in the past. I think the growth that we have experienced in aerospace we expect that to continue. And like we mentioned, typically, the orders that we get from our customer are either a three-year order or a five-year order. So we have a very good amount of predictability in terms of what the workload will be over a longer term.

And the trend has been in the last two years, we have grown into new areas as well. I think, case in point is, of course, the deal that we won in Q3 but given six months back, you would recollect we won a deal in manufacturing engineering, which is a new area for us.

So for us, the way it works is typically that, like I said, it's a three to five-year deal. When we start off the first six months is usually a little bit slow because the customer uses that as a transition between the old vendors and the new vendor. Because everything that we win is at the cost of somebody else, right?

Of course, there is some scope which happened because of good business and expansion in volumes on their side. But in the case of this deal that we have won as well, this will now start from 1st of Jan -- started rather from 1st of Jan, but there will be a six-month overlap between the existing vendor and us.

So typically, what we forecast over five years, that's picking up from two years onward for the second year onwards. So the thing with aerospace is that it is predictable business. Over a longer term, we see good growth momentum, but the ramp up happens in a very planned way because -- just because of the fact that the airplane research is a 30-year life cycle, so the way that they plan their activities and the way they plan their outsourcing is also done in a very sort of methodical way. So to answer your question, the growth that we have seen, we will be sustaining the similar growth over the next two to three years.

Sameer Dosani: Understood. And the six months -- the contract we won six months back, is that fully ramped up, or it is yet to kick in, in our numbers that way, in that sense?

Arun Krishnamurthi: It is not fully ramped up. So again, a lot of this work was typically done by overseas players in the local geography. Now manufacturing engineering is a very, I would say, an area which is very close to the plant and the factory. So the customer is having a big mindset shift to move more and more workloads to offshore.

In fact, we're on a call with -- we had a strategic call with their supplier. And one of the things for them at the start of the year -- their financial year was to do more offshore. So we have started the ramp up, but I would say this will start picking up over this year. So over the next financial year, we will see more of these volumes coming in.

Sameer Dosani: Okay. And for product engineering services, you explained what has happened exactly, but should we think that Q3 is the bottom and maybe gradually start to pick up investments sequentially from here. So how should we think about this product engineering services?

Arun Krishnamurthi: Muju, do you want to pick it up?

Mujahid Alam: Sorry, Arun, I missed that question.

Arun Krishnamurthi: Yes, it is on PES.

Sameer Dosani: There is weakness in PES, but has it bottomed out, like has it -- so the bigger part of the weakness or the decline is already captured in the numbers in Q3. And should we think that the base is protected and we may grow from here?

Mujahid Alam: I still couldn't hear you properly, Sameer.

Arun Krishnamurthi: Muju, you can hear me?

Mujahid Alam: I can hear you, but the question had some echo.

Arun Krishnamurthi: So the question that Sameer is asking is that on PES has the revenues bottomed out in Q3, or do you still see some weaknesses going forward? So he just wanted some color on how the business is shaping up broadly?

Mujahid Alam: I think you are right on saying that the revenues have bottomed up in Q3. Going forward, we see a growth happening on the NRE side. But then the production portion of the business, the growth will only happen probably by Q2 of next financial year.

Sameer Dosani: Okay. So production is a smaller part of the business, right? That's only 30%. Bigger part is NRE...

Mujahid Alam: NRE is the bigger portion because that is where the manpower is involved. And manpower to revenue is where our business is continuously growing, whereas production is offshoot for NRE business, which is currently declined because of overstocking by our partners.

Sameer Dosani: Got it. That's helpful. But should you think that this vertical can also grow in line with other segments like aerospace or any other verticals for us? Should we think that that should be the -- where it can grow, at least the NRE part?

Mujahid Alam: The NRE part, yes, definitely, it will continue to have a growth. I expect a growth of about 20% on a year-on-year basis, or it could be little more also. At this point, this is the guideline.

Sameer Dosani: And Arun, if you can just take us through what -- like we have been gaining market share in aerospace? What are those few competencies or those deciding factors by the clients that's keeping you above the competition, if you can speak about that, that will be helpful? Thanks.

Arun Krishnamurthi: Yes, sure. So I think we are present in two or three different areas. So one is in the product design part, where we are involved in design of certain parts of new products, new aircraft. The second part is what we call concession management, which is related to production. So wherever there are defects, we do an engineering assessment. The third one is the repair work and the fourth one -- sorry, there are actually four areas. The fourth one is manufacturing and engineering.

So if you look at product design, that is a stable business in the sense that at any given point, there's one product that is being developed. So when one finishes, something else comes up. So we did A380, then A320. Now we're working on A350 for example. When it comes to the concessions management, that is linked to the volume of aircraft, which roll out the production line. And that, as we know, is increasing significantly. So there, we are seeing volumes go up.

The third is repair work, which is basically when an aircraft is sold to a customer and there's warranty. Again, the number of aircraft that are flying in the sky is much higher. And if you look at some of the orders that have been placed, it is likely to go up significantly over the next five years. So again, this is, in our view, going to go up in terms of volumes.

Last one is manufacturing engineering, again, with the growth in the volumes with customers coming from different parts of the world, they will look at, of course, enhancing the current plans if they have to improve throughput, make it smarter factories, but they will also consider setting up new plants in other parts of the world. And this is where we see a lot of the growth coming in.

So I think the reason we're winning on this business is that in engineering and in aerospace, we have a good track record. And the customer trusts suppliers who can deliver on time to the expectation that they have. And we also invest ahead of time.

So when a new tender is going to come up, we start working on it a couple of years before we sort of develop some POCs, prove our capabilities. So that's what we do. And that is what has been the core of our success. I will also say, one, macro environment definitely also is that more and more work is coming to India. And at least with our largest customer, we are the largest Indian supplier. So as the volume -- as the pie of outsourcing in India increases, we will also be a beneficiary of that.

Sameer Dosani: That's encouraging to hear. Lastly, on this margin piece, right, if you can -- so there is INR3 crores one-off that clearly can translate for us compared to the margins next quarter. But on a medium-term journey basis, can you share trajectory around what should we think about the margins from here on. That will be helpful.

Arun Krishnamurthi: I think we have definitely -- and Shashi, may be you can add in here, we are definitely looking at how we can kind of improve our margins. I think this quarter, of course, the acquisition we talked about and the digital investment. So I see digital investment definitely to continue and the hiring also to continue.

So as we hire new people, there's a lag of hire people typically 3 months to 6 months depending on the qualification. So some of the part -- so once we reach operating scale, I think we will be over this problem, so hopefully we'll get there soon.

But I think we will look at -- next year we will look at getting somewhere to the 15.5% to 16% region, that is the aspiration that we have. We, of course, have to put a plan in place and do that, but that's what we're trying to do.

S. K. Shashidhar: Just to go from here to least about 8% in the next 3 years, and that's what we are on the journey as what our next phase.

Sameer Dosani: Sorry, sorry, how much?

S. K. Shashidhar: From where we are today, around 14.5% to 15% as where we are to about 18% in the next 2 to 3 years.

Sameer Dosani: Okay. Got it. Thanks for this and all the best to the team.

Moderator: Thank you. The next question is from the line of Harsh Jhawar from Avendus PMS.

Harsh Jhawar: Thanks for the opportunity. I just had one question. Given that there are a lot of macroeconomic issues, we are going through certain transformation. At the same time, we have a very good order book on defense side and aerospace side. In one of our presentations, we mentioned our target of achieving INR180 crores PAT in FY '26. Just want to understand whether you think it's achievable, or will we see some deferment of the same?

Arun Krishnamurthi: Shashi?

S. K. Shashidhar: So that is what our -- I would say, objective is in terms of where we would want to go and -- so at the moment that particular objective remains.

Harsh Jhawar: Okay. Thank you sir.

Moderator: Thank you. The next question is from the line of Manju Bhashini from JM Financial Services.

Manju Bhashini: This is Manju Bhashini. Sir, in the call, there was a mention about Mistral EBITDA at INR42-odd crores and operating at 18% margins vis-a-vis INR32 crores at 16% odd margin. Was this for the YTD time frame, sir. Can you please clarify on this?

Mujahid Alam: YTD, yes.

Manju Bhashini: Okay. And this 18% odd margin is despite the production revenues not as per our expectations. So is it fair to assume that the margins can get better as we see that revenues coming through in Q4 and the production mix as a percentage of Mistral revenue is getting better?

Mujahid Alam: If production revenues will not see upward even in Q4, but you're right in stating that as production revenues increases our margins will get better.

S. K. Shashidhar: You see, there are 2 parts to it, Manju. One is the, production revenues with respect to defense. As you would have seen the production revenues with respect to defense have kind of tripled from the same period last year. And the production revenues of defense yield us disproportionate margins, upwards of 25% percent.

Then what Muju was referring to was the production revenues from the PES business. So the blended EBITDA at this juncture for Mistral for the 9 months is 18%. And as the defense production -- if the production revenue goes up, it will -- even the blended EBITDA margins will also go up.

Manju Bhashini: Understood. Because earlier, I remember, partly the PES business also had some defense revenues embedded in it. But this quarter, in the presentation, I saw defense revenues -- defense was replacing the Products & Solutions segment-wise. So how are we supposed to read into this, sir?

S. K. Shashidhar: No, no, Products & Solutions are nothing but the defense business. So to bring more clarity, we are now calling it as a defense business. And as you know, about 40% to 50% of the Mistral revenues are of defense and other -- balance of 40% to 60% is PES.

Manju Bhashini: Okay. So for Mistral, it will be a combination of revenues from PES as well as defense. For defense per se, is what you have classified, which is 21% contribution. That is helpful.

And just one more clarification on this Aero segment. I know we have dwelled a lot into this. There was one strategic arrangement, which we had entered into, and this was mentioned that was an $75-odd million over a couple of years. So what we have won in this quarter is in addition to what we had already announced earlier, correct? Is that the correct understanding?

Arun Krishnamurthi: Yes, that's correct. It's a new area for us.

Manju Bhashini: Sure, sir. So this quarter has just started the initial ramp-up getting reflected in the P&L for Aero segment, and this can only get better as we see the ramp-ups from the orders won in Q3. Is that right, sir?

Arun Krishnamurthi: Correct. That's right.

Manju Bhashini: And congratulations on an excellent fundraise. Thank you.

S. K. Shashidhar: Thank you.

Moderator: Thank you. As that was the last question, I would now like to hand the conference over to Ms. Akashi Modi from Orient Capital for closing comments. Thank you.

Akashi Modi: Thank you, everyone, for connecting over call today. I would also like to thank the management for sparing time in answering all the questions. Orient Capital is Investor Relations Advisory for AXISCADES. For any queries, please feel free to reach out to us. Thank you, everyone. Have a nice day.

Mujahid Alam: Thank you so much. Good day.

Arun Krishnamurthi: Thank you, everybody. Thank you. Bye.

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

Arun Krishnamurthi: Thank you.

Note: This transcript has been lightly edited for clarity and accuracy.