



“AXISCADES Technologies Limited
Q2 & H1 FY '25 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day, and welcome to the Q2 and H1 FY '25 Earnings Conference Call for AXISCADES Technologies Limited, hosted by Centrum Broking. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. 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 would now like to hand the conference over to Sangeeta Tripathi, Investor Relations Head from AXISCADES Technologies. Thank you, and over to you.

Sangeeta Tripathi: Thank you, operator. Very good evening to everyone. I'm delighted to welcome you all to AXISCADES Technologies' earnings call to discuss on our Q2 FY '25 and First Half FY '25 results and business performance.

Today on the call, along with me, we have our senior leadership team with us, our CEO and Managing Director, Mr. Arun Krishnamurthi; and our Group CFO, Mr. Shashidhar S. K. The leadership team will take you through our results and business performance, post 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 the 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.

I now hand over the call to our CEO and Managing Director, Mr. Arun Krishnamurthi, for his opening comments. Over to you, Arun.

Arun Krishnamurthi: Thank you, Sangeeta. Good evening, everyone. Welcome to the Q2 earnings call. I'm joined by Shashi, who is our Group CFO; and of course, Sangeeta, who introduced us, who's our Head for Investor Relations. I hope you had the opportunity to review our financial results and investor presentation, which has been uploaded to the stock exchange.

As always, let me first dwell a bit on the ER&D industry and then work through our performance, so that, that sets the context. The ER&D industry is experiencing a challenging phase, reflecting the recent subdued growth and conservative outlook from pure-play ER&D companies in India. These challenges stem from a mix of sector-specific slowdowns, economic uncertainties and shifting market trends, which are connectively tempering short-term growth expectations.

However, the medium-term and long-term growth outlook for the ER&D sector remains positive, largely due to the following factors: number one, rising demand for digital transformation; number two, the ER&D players moving up the value chain to work on specialized services; number three, global pressure to develop sustainable and environmental

friendly solutions, and this is pushing companies to invest in ER&D for products like electric vehicles, energy-efficient systems and renewable energy technologies.

With an expected medium-term growth rate of about 7.5%, ER&D firms in India could benefit from sustained demand in digital and high-value segments, positioning them well to capitalize on recovery once economic conditions stabilize. To weather this challenging period and position us for future growth, ER&D companies will need to adopt a blend of cost optimization, sectorial diversification and digital innovation to remain resilient and competitive.

Now AXISCADES' have demonstrated resilience and steady performance, largely due to our well outbound strategic actions over the past 2 years to diversify our cross-industry segments and expand our customer base, with a focus on digital and embedded capabilities. This diversification has allowed us to mitigate some of the broader ER&D industry challenges and has positioned us well for sustained growth.

The company is focused on aerospace, defence and energy, sectors that now contribute about 65% of our total revenues, and AXISCADES' strategic diversification has enabled us to build a balanced portfolio, making it less vulnerable to the cyclical downturn in any single sector. With these segments continuing to show robust growth, we appear very placed to maintain our positive momentum and sustain a strong outlook for the year even as the broader industry faces headwinds.

Coming to the quarterly performance for Q2. AXISCADES showcased a good financial performance, with revenues reaching INR264 crores, which ranging a 5.1% year-on-year increase and a very robust 18.4% quarter-on-quarter growth. This growth trajectory reflects the company's focused efforts to expand across core sectors and strengthen our market position, especially in a challenging landscape.

Some of the key highlights for this quarter. The engineering services sector remained a primary growth driver, with revenue rising from INR175 crores last quarter to INR181 crores. This uptick showcases our ability to capitalize on core engineering services, driven by demand across diversified sectors such as aerospace, energy and industrial. The growth in engineering services were tempered by degrowth in automotive, which impacted some of our revenue and profitability.

The defence vertical, which contributes approximately 32% of total revenues, recorded an impressed growth, sequential grew 73% and a year-on-year increase of 14% to INR84 crores. This strong performance was largely driven by robust revenues from defence production orders, signalling the company's effective alignment with defence demand and production priorities. The company's order intake in defence in Q2 FY '25 was a robust INR121 crores.

Production revenues in H1 are at INR78 crores as against INR49 crores in the same period of last year. Our increased focus on defence has set the stage for sustainable growth in this high stakes sector. However, we have always mentioned that given that the irregular nature of defence contracts, influenced by A, lengthy procurement cycles; B, governmental budgets; and C, geopolitical factors; performance in this vertical can fluctuate significantly between quarters.

Thus, evaluating growth on a year-on-year basis provides a clearer picture of long-term trends in the defence sector.

With a solid performance and outlook in aerospace and defence, along with the cautiously optimistic outlook in heavy engineering and automotive and semiconductor, we appear very well prepared to balance near-term challenges with medium-term growth potential. The company's strategic focus on defence along with a diversified portfolio positions us to navigate current industry dynamics by being ready to leverage recovery trends across sectors.

For Q2 this year, the company recorded an EBITDA of INR33 crores with an EBITDA margin of 12.4%, compared to INR36 crores and a 14.2% margin in the same period of the last year. This decline in EBITDA margin is attributed to the underperformance in the automotive business. The company's business in Germany is currently facing headwinds due to a downturn in automotive, which impacted our revenue and profitability.

However, if we were to exclude this, the company's EBITDA margin improved to 13.5% for Q2, with an adjusted EBITDA of INR35 crores. This improvement suggests that the company's other business segments such as defence, aerospace and energy remain strong and continue to contribute positively to profitability, showcasing the resilience even amidst sector-specific challenges. The long-term story for automotive is however very strong, and we are confident that this vertical will return to its growth journey by early next year.

Moreover, when adjusted for a onetime ESOP related write-back accounting to INR12 crores in Q1 FY '25, the adjusted operational EBITDA grew significantly by 74% sequentially from INR19 crores in Q1 to INR33 crores in Q2. The company reported a PAT of INR12 crores, resulting in a PAT margin of 4.6%, compared to a PAT of INR11 crores and a margin of 4.4% in Q2 of last year.

This year-on-year increase in both PAT and PAT margin indicates a positive trend in profitability, despite the challenges faced by some of the sectors such as automotive. This improvement in PAT margin underscores the resilience of AXISCADES' business model. Further, as the company continues to optimize operations, focus on high growth sectors and retire its debt obligations, it is likely to further strengthen its financial performance on medium term.

I will now dwell on the performance and outlook for each of our verticals. I'll start first with aerospace. In Q2 of this year, the aerospace vertical contributed 29% of our revenues, amounting to about INR76 crores. This represents a 19% year-on-year growth driven by: number one, increased wallet share, AXISCADES has successfully expanded our service footprint between our existing client base, capturing a larger share of the aerospace R&D and engineering spend; number two, service ramp up.

Our company has created service offerings to meet rising client demands, positioning ourselves as a preferred partner for larger and more complex projects. Number three, digital automation, we have automated many of our processes, enhancing productivity and delivering added value to clients and improve efficiency. And number four, strengthening OEM partnerships, long-

standing relationship with major aerospace OEMs have proven to be a growth engine for us. These OEMs are increasing production rates in response to a large order backlog driven by high demand for aircraft, which positions us to benefit from ongoing and future projects.

Now the outlook for aerospace. We are optimistic about maintaining strong growth in this vertical. This is backed by the fact that the company has won a critical work package on aerostructures. The contract value is about \$15 million, thereby solidifying our presence on the vertical. The current 3-year work package is a renewal of existing work as well as additional renewal of work in aerostructures.

In terms of expanding digital manufacturing, as our clients increasingly adopt digital transformation strategies, our digital manufacturing services are expected to play a critical role in supporting the OEM's needs.

And lastly, deeper and more strategic client relationships are paving the way for sustained growth and long-term projects. Given these trends, the outlook for the aerospace vertical remains bullish with expectations of steady revenue growth, supported by ongoing client demand and our robust capabilities in aerospace, R&D and digital.

I'll now talk about some highlights for the Mistral business. The Mistral business posted revenues of INR98 crores in Q2, marking an increase from INR94 crores recorded in the same period of the previous year. Sequentially, Mistral recorded a growth of 51%, up about INR65 crores which was in Q1 of this year. The revenue composition is as follows: First, semiconductor. Semiconductor contributed INR32 crores, reflecting a sequential growth of 36% from INR24 crores in Q1, indicating that growth is returning to this vertical as forecasted in our previous calls.

The Indian government is making India initiatives specifically aimed at bolstering semiconductor fabrication and manufacturing, provides a strategic tailwind for AXISCADES. With these supported policies, the company is well positioned to leverage new opportunities in local manufacturing and potentially serve as a partner in India growing semiconductor ecosystem.

Now talking of the defence business in Mistral. We generated INR66 crores, reflecting a sequential growth of 60% from INR41 crores of Q1 of this year. Production revenues almost doubled sequentially, from INR28 crores to INR51 crores, constituting 84% of total defence production.

Mistral's involvement in defence is increasingly moving from prototype and development stages to full-scale production, a critical factor for sustained growth and profitability. Mistral reported an EBITDA of INR18 crores, achieving a blended EBITDA margin of 18.2%. The EBITDA margin from defence production was at 24% and semiconductor business was at 25%. However, the company continues to record negative margins in prototype developments for defence to build the future order pipeline. The production revenues from defence and semiconductor are ramping up. Mistral will continue to accelerate on EBITDA margins in the period to come.

Now talking of the order book, as of September 30 of this year, Mistral's total order book stood at INR450 crores, providing a robust pipeline of projects and indicating strong future revenue visibility. The order intake in defence just in Q2 of FY '25 was INR121 crores. Increase in Mistral's defence revenue, given primarily the production activities, suggest a maturing defence pipeline with steady recurring revenue potential.

As defence production orders continues to grow, Mistral is poised to benefit from the ongoing ramp-up of high-demand programs in the Indian defence sector. Additionally, the healthy EBITDA margin in Q2 of this year, highlights efficiency with which Mistral is managing both the semiconductor and the defence operations despite challenges in the broader ER&D industry.

Overall, Mistral's performance in Q2 underpins AXISCADES' strategic direction in defence production. The transition towards production-led revenue, especially within the defence vertical, aligns with our growth objectives and strengthen the position in both the Indian defence ecosystem and high-tech sector like semiconductors.

Also, in order to strengthen on people and expertise in defence, we have appointed Dr. Sampath Ravinarayanan as a Non-Executive Director. Dr. Ravinarayanan's extensive 4 decades association in the Indian aerospace and defence sectors equips him with a deep understanding of government policies, foreign partnerships and private sector strategies.

Dr. Ravinarayanan has served as the Chairman of the FICCI Defence Committee and was instrumental in winning several large contracts in the past for AXISCADES, including the Airbus Fuselage Development Centre and the Mirage2000 midlife extension project with Thales International and MBDA in France. His contribution has earned him an honorary Doctor of Philosophy from the National Institute of Technology, Kurukshetra, in 2020.

With knowledge and network of relationships across Indian government agencies, foreign OEMs and the private sector will be invaluable as AXISCADES aims to expand our global footprint and enhance our technological capabilities in defence. His ability to navigate the intricacies of government policies, foster international collaborations and drive private sector agility will significantly support our growth strategy.

Now moving on to heavy engineering. The heavy engineering vertical recorded revenues of INR37 crores with a 3% sequential growth over Q1. The contribution of heavy engineering is at 14% of consolidated revenue as compared to 16% in FY '24. The growth in this vertical, which serves mainly the infrastructure sector, is dependent on macroeconomic factors and capex spend.

With the conclusion of the US elections, we expect that infrastructure investments are expected to pick up pace, favourably impacting this vertical. The company is focused on revamping the cost structure and optimizing operations in this vertical, which will improve our margins in the upcoming quarters. We are working on several large use cases in AR/VR, leveraging Mistral capabilities, and our in-house digital talent targeting niche solutions with customers.

I'll talk about automotive now. In Q2 of this year, AXISCADES' automotive revenues totalled INR23 crores, representing a 14% year-on-year decline and a 6% sequential decline. The automotive sector is facing significant headwinds, especially in Europe, due to macroeconomic

challenges and shifts in electric vehicle strategies by some OEMs, creating uncertainties in the market. We had to absorb cost to the tune of INR6 crores in H1 to retain our capabilities and weather this storm. This has had an impact on our EBITDA for this period.

Given the current slowdown in European markets, which are key to the global automotive industry, AXISCADES expects the automotive segment to face continued challenges for the next 2 quarters. The automotive sector has a relatively shorter product life of 5 to 7 years, with new variants of vehicle platforms being introduced continuously. Automotive companies need to keep introducing new vehicles, whether ICE, internal combustion engines, hybrid or electric for their business.

As such, ER&D investment cycles cannot be kept in abeyance for too long, which will seriously impact new vehicle introductions which the OEMs cannot afford. The expertise we have is technology agnostic, and hence will not be impacted due to volatility in one of our platforms of ICE, hybrid and electric. The services being rendered by us such as wiring harness, software testing, AutoSAR, ADAS, infotainment, etcetera, is being consumed by all the above platforms. The slowdown experience is only because of the general macro and automotive slowdown, which is expected to revive in 2025.

Despite these macro challenges, AXISCADES have been chosen as a preferred supplier by a leading UK automotive OEM. This recognition is an important strategic win that strengthens AXISCADES position in the automotive sector, and provides a foothold to expand our client portfolio in this industry. We are prioritizing growth in digital embedded solutions along with hardware testing and validation, aligning our services with high demand, technology driven and automotive R&D.

Now I'll talk about energy. In Q2 of FY '25, our energy vertical contributed INR12 crores, accounting for 4% of the company's total revenues. Although a smaller segment compared to others, the energy vertical plays a strategic role in AXISCADES' diversification efforts. The integration of EPCOGEN has been a critical enabler for growth in the energy sector, expanding our capabilities in energy, engineering and project management. EPCOGEN's expertise enhances our foundation in this vertical, providing a broader service portfolio to meet the evolving needs of the energy industry.

We have been selected as a preferred partner for 2 new projects in the UK with a renewable energy solutions 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 deals in the segment, ongoing geographical diversification and development of new capabilities in this vertical, we anticipate the growth momentum in this segment to continue.

So to conclude, the company's strategy of diversifying across verticals and customers has served well for the company in the face of macroeconomic challenges and softness in a couple of verticals. Our sales hunting efforts continue to be robust and we have added about 4 new logos, which we hope to grow as we go through the customer journey.

The company is confident and focused on overcoming these challenges, and we'll continue to strengthen the business to achieve sustainable growth and profitability. We guide that the H2 will outperform H1 with our main growth drivers of aerospace and defence, which will be key drivers for this performance, both in terms of revenue and profitability.

I will now hand it over to Shashi to talk about the financials.

S. K. Shashidhar:

Thank you, Arun. Good evening, everyone. It gives me great pleasure to interact with you and take you through our performance and outlook for the year. So the overall performance of Q2 FY '25 and H1 FY '25 was resilient, given the backdrop of macroeconomic challenges, customer-specific and sector-specific issues, as has been delineated by Arun.

The consolidated revenue for Q2 FY '25 was at INR264 crores, increasing 18.4% sequentially and by 5.1% on the back of robust revenue from aerospace and defence verticals and growth returning to semiconductors. EBITDA improved to INR33 crores, showcasing operational efficiency even amidst macroeconomic challenges.

For a like-to-like comparison, if you adjust the INR12.3 crores of ESOP write-back which happened in Q1 FY '25, which was kind of taken off from employee benefit expenses, which is a one-time adjustment and then comparing the sequential performance, we see that the EBITDA has grown in absolute terms by 74% quarter-on-quarter from INR19 crores in Q1 FY '25 to INR33 crores in Q2 FY '25, as we have shown in the investor presentation.

The EBITDA margin for Q2 FY '25 is 12.4% as against 13.9% recorded in Q1 FY '25, mainly due to underperformance in the automotive vertical. Excluding the one-time capital gain from sale of property which happened in Q1 FY '25, which was about INR7 crores, the sequential PAT grew by 20% from INR10 crores to INR12 crores.

In Q2 of FY '25, the company has repaid a further amount of INR52 crores from the QIP proceeds to retire long-term debt. The company is in the process of refinancing an existing OCD of INR67 crores with own funds of INR16 crores and a lower cost borrowing of INR50 crores. As a result of significant repayment of debt, the finance cost of Q2 FY '25 stands reduced by 26% year-on-year to INR8.6 crores.

The finance cost for H1 FY '25 is lower by 48% at INR16.64 crores as against INR31.15 crores in the same period of the previous year. Our endeavour is to be a zero net debt company in the next 2 to 3 quarters.

Coming to H1 of FY '25, the revenue was at INR488 crores, growing by 5% from INR465 crores in H1 FY '24. H1 FY '25 EBITDA was at INR64 crores with an EBITDA margin of 13.1% as compared to EBITDA of INR69 crores with EBITDA margin of 14.8% in the same period of the previous year. The lower EBITDA in H1 is mainly on account of an EBITDA loss of INR6 crores in the automotive vertical, as what Arun just now stated.

Excluding the automotive vertical, the EBITDA margin is at 14.9%, indicating that the margin strength in other verticals is quite strong. PAT for H1 '25 was at INR29 crores as against INR17 crores in the same period of the previous year. The majority of production revenues from defence

seems to be recorded in H2 and better revenues from other verticals, we expect that the profitability in H2 to be better than H1. The annualized EPS stands at INR14 as against INR8.4 in FY '24. The annualized ROCE is at 17% as against 14% in FY '24.

The company continues to focus its efforts on improvement in gross margins, cost rationalization and productivity improvement by optimizing less than 20% gross margin accounts, outsourcing of non-core functions, and removing the linearity between revenue and headcount, which will continue to improve profitability going forward. The company is also optimizing resources and staffing with an on-site/offshore ratio of 77:23 and fixed cost/T&M ratio of 69:31.

A consolidated net worth of INR611 crores combined with robust cash generation and cash reserves further highlights the company's financial and operational stability. The company's -- another aspect is that the company's free float in stock and public shareholders have significantly improved by 68% since the beginning of the financial year, with public shareholders increasing from about 19,000 in April 2024 to more than 32,000 currently.

In summary, the company is effectively driving growth and profitability across its core verticals despite macroeconomic challenges. The promising outlook for H2 FY '25, coupled with initiatives to boost margins and optimize resources, positions the company well for sustainable growth in the future.

Thank you, and we will now open the floor for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from the line of Nirali Gopani from Unique PMS. Please go ahead. As there is no response to the line of Nirali we move on to the next question. The next question is from the line of Saurabh Sadhwani from Sahasrar Capital. Saurabh?

Saurabh Sadhwani: Hi. Good evening. Am I audible?

Moderator: Saurabh, can you hear us?

Saurabh Sadhwani: Yes, I can hear you.

Moderator: Next question is from the line of Kiran D from Table Tree

Kiran D: The first question that I had was in our investor presentation, we said 60% of revenue -- of our overall revenue from the company will come from the defence business in the next 12 to 18 months. I am a little surprised at this number in terms of positive surprise. So are we almost saying that we'll get to INR600 crores because we'll do about INR1,000 crores, INR1,200 crores, so INR600 crores of defence business in FY '26 and if so, what's the breakup between production and development?

Arun Krishnamurthi: Yes. So Kiran, let me just say that this is directionally the journey that we are sort of setting ourselves for. This is a vision, because now we are very well placed to receive some large orders and we feel that defence for us will significantly grow. So I think the goal that we have set ourselves with is that the defence business will grow from 30% where it is now to about 60% of

our revenues. I don't want to get into any specific numbers in terms on how the size will be, etc etc But this is based on some of the insights that we have and also some of the programs that we are bidding for.

Kiran D: Got it, sir. Sir, then if you can just tell me, I mean at least from a high-level perspective, are we -- I mean, is it like we were expecting a large order from counter-drone, the other competitors saying there is no problems with supplying equipment to radars and so on and so forth? So is our order book going to significantly increase in H2 FY '25 because of counter drone and everything else?

Arun Krishnamurthi: I think it will be a combination. It won't be just counter drones. But it will be -- as you know, our strengths are across radar, sonar, telemetry. So we expect some of the large programs that come in, including some of the defence programs which are ongoing. Also, by working in partnership with other companies, we expect to boost our order growth. So I think counter drones will be a part of it, but it's not going to be a significant portion of this growth journey. But certainly, we have an early mover advantage because we have deployed counter drones operationally, which has not been done by any other company. So, we do see potential in that, but we also expect the other lab-related programs for the DRDOs and NPOs and BEL and HAL back to ramp up.

Kiran D: Got it, sir. Sir, what kind of orders can we expect from LCA Tejas and Su30? I mean, is Tejas engine delay going to impact the order inflow from us? So just wanted to check around Tejas and Su30. Not being very specific, but at least at a landscape level, if you could just tell us from a FY '26 perspective.

Arun Krishnamurthi: Yes, so I think as far as Tejas is concerned, we are already part of the program. So we already deployed about 60 numbers. So we developed a radar subsystem which goes into the Tejas. So as the production of Tejas increases, our revenues from that sector will go up. As far as the Su30 upgrade is concerned, as you know, there are existing large quadrants, and this is something that's already been designed. So as this program kicks off, we expect the deployment and production of that to ramp up as well.

Of course, I must say that this depends on things starting off on a timely fashion. So when we say 12 to 18 months, there is a dependency on both, some of these programs kicking off as well as the production partners of the government also producing things on time and getting their subsystems and vendors to deliver everything so that they can system integrate. So we do see good potential going forward. But there is a dependency, like always, on some of these partners.

Kiran D: Sir, last question from my side. Sir, Homeland Security, we were expecting INR40 crores to INR50 crores worth of orders. Are we expecting Homeland -- I mean did we get the order? And in FY '26, can that move up to INR100 crores just from a visibility perspective?

Arun Krishnamurthi: Some of the trials are on, as far as homeland security is concerned. So we are working with, you know, various agencies, both at the state level and federal level. And, you know, we have also started some works in Ladakh. But I don't want to comment on the number, but this is not

growing as fast as the other defence business, which is coming from the labs and from the production partners. But this was an important part of what we are addressing.

Kiran D: Got it. Got it. Got it. Okay, sure. I'll join back in with you.

Moderator: Thank you. The next question is from the line of Nirali Gopani from Unique PMS. Please go ahead.

Nirali Gopani: Yes. Hi. Thanks for the opportunity. So my first question is on the defence production side. So if I look at the revenues...

Moderator: Nirali, we are not able to hear you.

Nirali Gopani: Can you hear me now? Hello.

Moderator: Can you speak up?

Nirali Gopani: Yes. Can you hear me?

Moderator: We'll move on to the next question. The next question is from the line of Saurabh Sadwani from Sahasrar Capital. Please go ahead. ~~We'll move on to the next question of Deepak Poddar from Sapphire Capital. Please go ahead.~~

Deepak Poddar: Yes. So I just wanted to understand on the defence side, how is margin different in the defence side as compared to your other segment

Arun Krishnamurthi: As compared to engineering?

Deepak Poddar: As compared to other segments. I mean aerospace or energy or the heavy engineering or automotive. And how better or how worse is that?

Shashidhar SK: Yes. So essentially, you know, the defence revenues consist of two parts. One is the production revenue, which results out of the order pipeline which has also been shown in the last presentation. There -- because of the fact that the engineering efforts in terms of development of prototypes are not there, and we have an exclusivity with respect to the specific part number, the margins are high. Like, for example, in the current half year, the defence production for Mistral was INR78.05 crores, on which we made an EBITDA margin of 24.3%.

But then we also had revenues from prototype development, which is future order pipeline, which is where we had revenues of around INR29 crores, where we actually lost about INR5.25 crores in EBITDA, which was a negative 17.8%. So the prototype development is a process of adding to our order pipeline, which we cannot stop.

While we can technically say that the huge order pipeline is what we have built of around INR3,000-4,000 crores, because actually, you know, I would say by having this kind of disproportionate margins, we need to build a prototype for your future order pipeline, and when the production revenue kicks in, it is at this band of 24%, 22%, 24% plus kind of EBITDA margin.

- Deepak Poddar:** So that includes the loss from the prototype development, this 22%?
- Shashidhar SK:** No, it doesn't. Once you net it off, you know, if you have to net it off in the defence production, you know, as I said, the total EBITDA from the production revenues were at 29, just a minute, INR18.97 crores, and the prototype EBITDA was minus INR5.25 crores, which essentially means that we had a blended EBITDA of around INR13 odd crores on a defence revenue of around INR106 crores.
- Deepak Poddar:** So that effectively means around 12% kind of EBITDA margin, right? After factoring, because I presume your prototype development cost will keep on continuing, right? I mean, that's the ongoing thing for you to kind of garner more orders from the customers. So ideally, a 12% kind of EBITDA margin as a whole for the defence sector would be a right range or right number to kind of look at?
- Arun Krishnamurthi:** No, so what happened is that, as we see, the production revenues are increasing year on year. So this year, we will clock somewhere close to INR170 crores. So the production revenues, the prototype revenues are fixed at about INR100 crores. So the difference is going to be that as the production revenues ramp up, that will far outstrip the prototyping revenue. So therefore, the margin should go up because the weightage of production will be higher.
- Shashidhar SK:** So just to give specificity in terms of numbers, if you look at FY23, the defence prototype was INR109 crores, and the defence production revenue was INR39 crores and we had an EBITDA of 21% on defence production. When you come to FY24, the defence production revenues were INR112 crores with a 30%EBITDA and in this half year, the defence production revenues are about INR78 crores. So as Arun said, the pace at which the production revenues are growing ~~eg~~ is at a much, much faster pace as against the prototype. As a result of it, the blended EBITDA will continue to improve.
- Deepak Poddar:** Understood. Fair enough. Understood. I got it. So, I mean, will it be fair to say when we say over next 1 to 1.5 years, we expect a defence revenue to form about 60%. So it will be margin accretive for the entire company?
- Shashidhar SK:** Yes.
- Deepak Poddar:** Okay. So I think earlier what we have said, also in light of the headwinds that we are facing in a couple of sectors, especially in the automotive sector, how do we see the guidance that we have given earlier in terms of INR1600 crores kind of a revenue and INR160 to INR180 crores kind of a pat level for FY26? I mean, do you want to revise any of those outlook?
- Arun Krishnamurthi:** Yes, I think so. That's something that we'll come back with. But definitely, you know, the automotive headwinds have surprised us this year and surprised the industry. And when I say surprised us, it's not just us as a company. So that is something which is not factored in, because when we did these numbers, you know, automotive looked like it was the fastest going vertical. I think it is now at a significant speed break.

It will be a few quarters before this comes back. So we will need to sort of relook at this and come back. We don't have specific numbers at the moment, but it will certainly delay this to some extent.

Deepak Poddar: Absolutely, absolutely fair. And what about this year? I mean, we were targeting about INR160-170 crores kind of EBITDA, right, at a company level. So given the first half performance, and you did mention second half would be superior to first half. So how do we see this outlook?

Shashidhar SK: Yes, so as you were saying, the quantum of defence production revenues in H2 is going to be significantly more than what was there in H1. And that will add to the proportionate EBITDA from that level will be much higher. At the same time, what we expect is the automotive, you know, EBITDA, which was a negative INR6 crores in the first half, will start getting to be positive from Q4 of this year, as a result of which, you know, the guidance that what we gave perhaps may be impacted in totality by about, you know, maybe about INR5-6 crores. But we are on the path of seeing how we can draw them back.

Deepak Poddar: So, I mean, what we are saying, 5-6 crores kind of EBITDA impact on maybe 160-170 crores EBITDA that we had given earlier, right?

Shashidhar SK: Correct.

Deepak Poddar: Okay. Fair enough. I think that would be it from my side. All the very best to you. Thank you.

Moderator: Thank you. Thank you. The next question is from the line of Nirali Gopani from Unique PMS. Please go ahead.

Nirali Gopani: Hi, thank you for the opportunity. So, Arun, if I look at our numbers, India geography has been doing very well. So is this largely defence driven or any other segment is also contributing to this growth?

Arun Krishnamurthi: Nirali, it's mainly defence driven.

Nirali Gopani: Okay. Okay. And in your commentary, you mentioned the prospects of each of the segments. Is it fair to assume that, you know, that this is the bottom and we should look at upward trends in almost all the segments because this quarter has been fairly good for all the segments. So, is it safe to assume that?

Arun Krishnamurthi: I would say automotive, there is still some uncertainty. It is a little bit hard to predict because we really depend on our clients giving us some clarity in terms of spend. So, I think automotive, we'll have to wait and watch.

Aerospace, like I said, I think they're looking to be good. Energy is also looking good. Semiconductor, we are starting to see, as we had mentioned in the previous calls, there was a production slowdown which had impacted the overall sector. But that is slowly starting to see that come back. So, that should be positive. Heavy engineering, like you saw, you know, we have sort of had some incremental growth from Q1 to Q2.

So, I would say heavy engineering, like I've mentioned in the past, is not a very high growth sector, but we should see marginal growth. So, I think other than automotive, we should see the other sectors being positive. I think the crucial factor for us here is how long the automotive pain will continue because that is diluting to some extent the top line and EBITDA both, and it is sort of negating some of the growth and positive momentum we are seeing from the other verticals.

Nirali Gopani: Right. So, in your assumption, automotive should stabilize here and not grow, or a decline is also possible?

Shashidhar SK: I think it should be stable.

Shashidhar SK: Essentially, if you look at it, the automotive vertical, the total revenues were INR103 crores in FY24, and if you look at the first half of the current financial year, we are at INR48 crores. And what perhaps would happen is it will be flattish for the entire year, you know, in terms of what we recorded last year, it was INR103 crores, it could be the same, only that the EBITDA will be, you know, from this particular vertical will be negative because of the, you know, I would say, the losses which we are taking from the European venture.

Nirali Gopani: Right. Perfect. And in your presentation, when you say that, the defence revenue will go up to 60% from the current 30%, and if I assume the other segments to be stagnant, still you grow at mid-team number for the full year. So next year should be pretty good, right? We can see a high teen's revenue for the company at the company level? So -- well if you do the numbers, that is what it comes to, so?

Arun Krishnamurthi: Yes. So I think just one of what I would say is that this is not a guidance that we've given. This is an ambition that we have. I think the message that we want to give our investors is that going forward, we are pivoting more and more as a Defence company because obviously, the market that's there and our capabilities and the kind of programs that we see are coming in.

So I think it's really a messaging to investors that you will see defence growing faster. So it's not a guidance in the sense that it's exactly going to be that number, but, we are aiming to be there, and this is the sort of goal that we have set ourselves within the company, and this is based on a lot of fundamentals that we see.

Nirali Gopani: Perfect. And whenever we reach this number of, say, 60% of the revenue from defence, what kind of EBITDA margin should we look at?

Shashidhar SK: You see, as you stated, the EBITDA margins from production revenues are upwards of 20%. So, when the mix changes, the pivoting more towards defence, obviously, the 13% to 14% EBITDA margin as what we are seeing will be significantly higher from the part of your, total mix between engineering services and defence.

Arun Krishnamurthi: Yes. But I would also say, Nirali that a lot of orders could be new prototypes as well. So, there could be some prototyping revenue which comes in. There will be production which will ramp up as well. So, I think it really depends, as you know, it depends on the mix of how much production versus prototype that we have. We, of course, feel that the margin will go up

significantly, if the defence is 60% of the company's revenues. But I just want to say that it depends on the weightage of production to prototype.

Moderator: The next question is from the line of Saurabh Sadhwani from Sahasrar Capital. Please go ahead.

Saurabh Sadhwani: So one thing, recently, in the European region, there have been some import tariffs announced for -- in the automotive sector. So have they in any way positively affected the decisions or the discussions going on for the demand?

Arun Krishnamurthi: I think that will be a positive because that is still not been enforced. So, what's happening in Europe is that the Chinese OEMs are coming and flooding the market with vehicles which are superior to the quality of some of the German and European OEMs. And that's half the price. So, the governments are considering tariffs on these Chinese imports.

It is still in progress. It's not been fully enforced. But when that happens, it will be positive because it will mean that, the European OEMs will obviously be able to regain some market share and the Chinese Cars won't be as cheap as they are, which should be positive for us, for our business.

So, this is something, I mean, and these are complex trade and governmental affairs. So, it's hard to comment on when it will happen. But, if that happens, it will definitely be a positive for us.

Saurabh Sadhwani: Okay. And Shashi, can you give us a historic profitability in the automotive segment, like add solutions when it was merged? What was the profitability in FY '24?

Shashidhar SK: We see automotive vertical as an EBITDA level has always been in the range of around 9% to 10% EBITDA margin. Of course, this year it has been negative because of this, the add solutions in Europe.

Saurabh Sadhwani: Okay. And on the attrition, it has spiked to 17%. So, what is the outlook on that?

Arun Krishnamurthi: Yes. So, I think there's a couple of things. I would say one is that this is voluntary plus involuntary attrition. So, like I mentioned in my opening comments, we are looking at how we can optimize, use digital and do productivity enhancing measures. So, we are looking at, trying to reduce our headcount to keep pace with the increased revenue growth. So, one is that it's voluntary plus involuntary.

I think the second is that we were hiring at a much faster rate in the previous quarters, which is sort of tempering off the attrition percentage to some extent. That, again, we are sort of trying to use more automation and more digital. So, we have really put a, I would say, tight freeze on the hiring. All this to make sure that we sort of keep our costs in check and improve it going forward.

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

Aman Vij: My first question is -- first of all, congrats on a decent performance. So the first question is, when you talk about this 60% kind of revenue coming from defence in next 1, 1.5 years. So sir,

correct me if I'm wrong, we were expecting this Sukhoi and the Tejas, these are the big programs for us to come in FY '27 and '28.

So is this the prototyping for this which is coming in FY '26? Or is this something totally new? Because I don't believe you were that bullish previously. So what has changed in the last 1 quarter for you to be that bullish in the next 1, 2 years or so?

Arun Krishnamurthi: Yes. So the prototyping is actually ongoing for both of these programs. So we expect production to -- in fact, we already started delivering some kits, so production will start ramping up, I would say, from next year onward. So the prototyping is already in progress. Now the only thing is that, of course, like I said, we are dependent on the pace at which the production happens because when you look at the Tejas, there are many suppliers who are involved. We are one of the suppliers.

So the base of the integration happens when the complete product goes out. Is also it includes impact around how fast we can produce. So we have -- we are sort of ready with our components and our kits, but it also depends on the customer being -- having the ability to pull it from us.

Aman Vij: Sure. So this bullishness is coming mostly from LCA Tejas and Sukhoi upgrade program or is it totally new program which is coming into production earlier than we thought or what is happening?

Arun Krishnamurthi: Sorry, just repeat the question?

Aman Vij: I was saying this bullishness over the next 1, 1.5 years, defence becoming 60% of the overall revenue, is it coming mostly from LCA Tejas and Sukhoi upgrade program? Or is there any new program which is becoming bigger than we thought? Or I'm still not sure about that part?

Arun Krishnamurthi: Yes. No, no, we are looking at other programs as well. I mean Sukhoi and Tejas is something which is already on our radar. We're looking at other programs also to come in and contribute towards the ambition that we have.

Aman Vij: Okay. Sir, we heard from HAL call that Dornier orders are coming up. We heard from other players call and a couple of drone programs that is coming up for us, including Ashwini and Vale for other players. So is this one of the major reasons for the growth in next years? And what kind of order book closing in FY '25 do we expect in defence? So H1, there was good addition in defence, but in terms of order inflow for H2, what kind of expectation do you have?

Arun Krishnamurthi: Yes. So as far as Dornier is concerned, this is a program we're already delivering. So that is definitely giving us some positive momentum. So 10 sets have already been delivered. So we are part of that. So yes, absolutely, that is one reason why we are optimistic. As far as Q2 is concerned, that we saw we had INR121 crores growth of order booking that's done.

I think we look to be developing orders at a similar pace going forward for this year. I think for next year, we don't really give you guidance, but we will sort of -- as we through the next earnings calls, we'll probably give you some more details.

- Aman Vij:** Okay. And just one last part before I move to other segments. So there was a lot of delays expected in Tejas engine in there because of GE and all these things. So that is not impacting us?
- Shashidhar SK:** This is typically, we -- our supply of the subsystems in terms of radar comes at least 1 year before the actual, I would say, production of LCA happens because they have to have the subsystem in place to integrate with the larger system. So that essentially means that you would not be so much impacted by the engine delays from GE or anybody else.
- Aman Vij:** Sure. And sir, any rough breakup you...
- Moderator:** Mr. Vij, we would request you to come back in the queue as other participants are waiting to ask their questions.
- Aman Vij:** Sure. I'll come back.
- Moderator:** The next question is from the line of Sameer Dosani from ICICI Prudential AMC. Please go ahead.
- Sameer Dosani:** So on heavy engineering segment, I want to expect from this segment from here on. And I think if you can give some color on what is the optimization target which has been achieved till now and where can we go in terms of margin in this segment?
- Shashidhar SK:** See, what we have been talking about in the previous earnings call, while the heavy engineering vertical contributes anywhere between 16% to 20% of our total revenue, which is quite substantial, like for example, in FY '24, our revenues from HEG was INR152 crores, whereas the margins were hardly there because, in fact, just I would say where the gross margins were positive at an EBITDA level, it was kind of negative, almost negative by , 1%-2%
- So if you actually remove heavy engineering from the scheme of things, our EBITDA margins would have been better by about 150 to 200 bps. So what we have done this year is to look at each of the work packages and the work which we are doing for Caterpillar in each of the delivery centers as what we have.
- And especially with respect to the, Chennai ODC from where we service the Caterpillar business in Chennai, where we do a work called, fixed cost drawing, which was quite negative from the point of view of margins. We have optimized the -- the work breakdown structure, and we have removed quite some people from that particular vertical, and same set of people, the same number of people are delivering the same quantum of work.
- And we also have bid with Caterpillar for a much higher price in terms of these STDs, as a result of which we are confident that by the end of this year, we will have a positive margin to report from this particular vertical.
- Sameer Dosani:** Okay. Currently, we are not making margins. Are we making losses in this vertical?
- Arun Krishnamurthi:** No. We are not making losses. It's a low-margin account, but they're not making losses.

- Sameer Dosani:** And these margins can like optimize to what level, do you think?
- Arun Krishnamurthi:** See, right now, Sameer, it's in a single-digit range. I think it will go to low double digit. I think beyond that -- and that's why I've been sort of guiding that...
- Sameer Dosani:** So, that's fair. Just wanted to get some idea. That is fair. And second is on semicon business, can you give some color, like what kind of outlook that you are seeing in like defence, whether it is heavier for semicon? That is one. And any other qualitative feedback on what progress we have made on adding logos? And how do you think production revenues can ramp up here in this vertical?
- Shashidhar SK:** Yes. So with respect to the semiconductor vertical for the past half year, we have, I would say, recorded a revenue of INR56 crores and which the Q2 numbers being much larger in terms of INR32 crores, I think INR24 crores in Q1. And as we have kind of projected in the previous earnings call, the semiconductor revenues as such is coming back.
- And in this year, we tend towards the same number as what we recorded last year, which was around INR 125 crores. But of course, that's come at a much larger EBITDA margin. For the INR55 crores, we recorded an EBITDA margin of around 22%, recording an EBITDA around INR11.82 crores or INR55 crores of revenue.
- So it is a high-margin business for us, and we are hoping towards the inventory buildup of what has happened with the OEMs have now flushed out and we definitely see that from Q3 onwards, the production revenues will come back, and also along with the service revenues.
- Arun Krishnamurthi:** Yes. And I think on the new logos part, I think the flavor I wanted to give is that in the last 4 months, we have really intensified our hunting activities. So we have hired a few new people. We have also engaged a lead generation engine, and we have some B2B tools. So just to give you an example, in the U.S. itself, we started with a list of about 140 clients.
- It only did some prospecting and as we whittled it down, we got an interest of about 40 clients who are interested in actually starting to work with us, out of which 9 clients, we got it to an advanced stage and 4 new logos we generated. So just to give you a process, that's the content that we are working on.
- So new business for us is a focused activity. And of course, you would have seen that Highview Power, we have made a press announcement as well. This is a renewables company based out of U.K. So we landed a large deal out there, a 3-year engagement. They have big plans to increase their plants across the world. They start in the U.K. and Australia that they will expand globally.
- In addition to what I talked about in our major aerospace OEM where we won a \$12 million deal. So, we are making good progress on hunting. I'm hopeful that as we go along, the new logo addition will improve. And I should mention, just one more thing that I think we mentioned to you is that we are working along with specifically on the automotive sector to see how we can create some deals, and we are working with them on strategy. So, that again will start to bear fruit.

- Sameer Dosani:** That's great to hear. In Semicon, similar to defence, should we think that the production pieces which will be stronger in H2, so higher margins for semicon vertical?
- Shashidhar SK:** It is margin with respect to semicon, both on the service part and the production part is an average of around 32%, 33%, and that will continue, at least on our production revenue.
- Sameer Dosani:** Okay. Got it. And lastly, in aerospace, with the new contract in, we should think 20% Y-o-Y growth, this trajectory should continue for us? Or we should accelerate, or how should we think about it?
- Arun Krishnamurthi:** It's a 3 year contract. And like I said, it's part renewal, part new programs, but in that contract, we also get to play in the U.S. region for that line, which we have not done to a large extent until now. So, we are quite hopeful that that will grow. And Yes, aerospace for us will continue to grow. You must be aware that in Q2, the aerospace OEMs have a planned shutdown. So, we had no work.
- And of course, this year, even some of the aerospace companies are struggling with supply chain and engine issues. So, this year has been difficult from that perspective for aerospace as well. But our business has still continued the momentum. I'm hopeful that those industry issues will go away, which will provide a further positive momentum to us.
- Sameer Dosani:** So at least the shutdowns are behind us, right, in terms of production for the, in terms of plant?
- Arun Krishnamurthi:** The shutdowns are behind us. But I think you are aware that, Airbus, for example, they had predicted they'll produce 800 aircraft. They had reduced the guidance down to 774. And, companies like us, our revenues are linked to the number of aircraft that are produced. So, we had to sort of, expand work in different areas to continue the growth momentum, which next year if they are able to produce more aircraft, that will be another positive momentum for us
- Sameer Dosani:** But what I remember is they have not -- like the run rate monthly ended...
- Moderator:** Sameer, we request to come back in the queue.
- Sameer Dosani:** Sure.
- Moderator:** We will now be taking the last question from Karthi Keyan VK from Suyash Advisors. Please go ahead.
- Karthi Keyan VK:** Just one clarification on the defence profitability that you spoke about. In the last we spoke, there was nearly 29%, 30% margins on the production side, and now you're talking about only 20%. So I'm just trying to understand if there is a change in the core work that we'll be doing going ahead as in there will be a jump of assemblies or is it that something else has changed? Can you just throw some light on that?
- Shashidhar SK:** See, the production revenues in H1 for the defence production was around INR78.05 crores, on which we made an EBITDA of 34.3% And you're right there when you -- when in FY '24, we - - our production revenues one-third INR111.5 crores on which we made an EBITDA of 30%. Then with the production, I would say, EBITDA depends on the mix of the various programs

which we execute There are auto components, there are OEM, I would say, business which we do.

So it depends on the mix of the various programs which we are executing. But it is fair to say that the EBITDA will be tend towards 20% to 25%, but can be better. But in terms of the total totality of a program which we'll be executing, this is how safe guidance you can take.

Moderator: Thank you. That was the last question for the day. I would like to hand the conference over to the management for closing comments.

Arun Krishnamurthi: Yes. Thanks a lot for all the questions and all the interest. I think just to summarize, I would just like to say that aerospace and defence continues to be the industries we may say as most positive, and we have also obviously laid out an ambition as far as defence is concerned. As far as energy is considered, it's a small part of our business right now. But again, we are optimistic that will grow.

Semiconductor is a big differentiator. I think that industry is growing rapidly. We will see that also being positive for us. Automotive, of course, we are a bit in wait and watch mode. But personally, I'm very bullish about automotive over a longer term because that's where technology adoption happens the most, and they are the biggest R&D spenders as compared to other verticals.

So we will be strategically continuing to place our bets in automotive and stay invested and see how we can get new logos. And of course, when the downturn fades away, that will be really positive for us. So thank you so much again for your interest, and wish you all a good day.

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