



“AXISCADES Technologies Limited  
Q2 and H1 FY '24 Earnings Conference Call”

November 09, 2023



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**Moderator:** Ladies and gentlemen, good day, and welcome to the Q2 and H1 FY '24 Earnings Conference Call of AXISCADES Technologies Limited 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 call, please signal an operator by pressing star 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, Investor Relations Head from AXISCADES Technologies Limited. Thank you, and over to you, sir.

**Shishir Gahoi:** Thank you, Caroline. Good evening, everyone, and I'm delighted to welcome you all to the earnings call for Q2 FY '24 and H1 FY '24. I hope you all had an opportunity to review 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; and our Group CFO, Mr. Shashidhar S.K. They'll take you through our results and business performance. After which, we will proceed with 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 will now hand over the call to our CEO and MD, Mr. Arun Krishnamurthi. Over to you, Arun.

**Arun Krishnamurthi:** Thank you, Shishir. Good evening. Firstly, I want to wish everybody a very happy Diwali. Welcome to our Q2 FY '24 earnings call. Like Shishir said, I'm accompanied by Shashi, who is Group CFO; and Muju who is our CEO for Mistral Solutions.

I'm happy to address the forum today as I complete 2 years of leading AXISCADES. Time has just flown by. It actually seems like 6 months. It's been so busy. The transformative growth journey of the company in the last 2 years has been accelerating and exciting. And as we explore and harness the opportunities ahead of us in our quest to position the company in the forefront of ER&D..

Our Q2 business performance was characterized by onboarding of new customers, rejigging our senior management teams, strengthening our sales team and consolidating our newly acquired automotive business, which is add solution in Germany. During the quarter, we also signed a definitive agreement to acquire 100% of EPCOGEN, which is a niche solutions provider in the energy sector. These acquisitions will enhance the capabilities of AXISCADES, provide access to new geographies and new strategic clients.

We have also strengthened our governance standards with the onboarding of a Global Controller and Chief Risk Officer and enhanced the depth of our Board leadership. As we close the second

quarter and first half of the financial year, our growth momentum continues on the back of strong order book and delivery performance in all our major verticals and business units.

Just in terms of our quarterly highlights, we are privileged to report that Mr. Abidali Neemuchwala has joined AXISCADES Board as our Chairman and Non-Exec Director. In his distinguished career spanning over 3 decades in the technology industry, Abid has earned an enviable reputation for his expertise in aligning organizations, driving business results and consistently leading transformation initiatives. He began his journey with TCS in 1992. In 2015, he joined Wipro as CEO and Managing Director. And under his leadership, Wipro transformed the business into a digital business.

I will also take a moment to thank our previous Chairman, Mr. David Bradley, for his outstanding contribution and support during his tenure in the company. In a significant milestone to expand our energy practice, the company has signed a definitive agreement to acquire 100% of EPCOGEN, which, like I said, is a niche solutions provider focused on engineering, design and solutions in the high potential energy space.

EPCOGEN serves both conventional as well as renewable energy space, supply chain management and construction. The company hopes to complete the acquisition by end of this month, which will provide a strong impetus to the company's growth as well as provide access to Middle East and North American energy markets.

During the quarter, for the third consecutive year, the company was awarded the Diamond Supplier Award by Bombardier for year 2022. This recognition is a testament to our commitment to excellence, innovation and delivering to the highest standards of customer satisfaction.

The company also signed a strategic partnership with Cantier, a Singapore-based powerhouse and manufacturing execution systems, or MES, with specialization in Industry 4.0 integration. By integrating Cantier's innovative MES 4.0 with our Engineering and Technology Solutions, we are poised to transform the core of industrial manufacturing by enhancing workflows and creating manufacturing excellence with real-time insights and seamless digital integration.

During this quarter, we completed the acquisition of add solution in Germany and have commenced consolidating the financial results of add solution from 1st of August this year. With this acquisition, the company has acquired niche automotive capabilities and vendor codes of large German OEMs and Tier 1s, which will fuel the company's expansion in the automotive sector.

AXISCADES has a significant presence in the U.K., and in the month of October, we opened an engineering design center in Saltney, U.K. The newly established facility strength is in carefully selected strategic location, which is designed to serve the long-term requirements of the aerospace industry and various promising business opportunities in the region.

In terms of financial highlights, the company in Q2 posted consolidated revenues of INR252 crores, its highest ever quarterly revenue, growing by 30% from INR194 crores in Q2 of last year. In USD terms, the company recorded revenues of \$30.6 million, growing by 26% from \$24.3 million recorded in Q2 of last year.

In the first half of the year, the company recorded revenues of INR 465 crores, growing by 23% from INR 376 crores, recorded in the same period of previous year. Similarly, in USD terms, the company recorded revenues of \$56.8 million, growing by 19% from \$47.9 million recorded in H1 of last year.

The company recorded a consolidated EBITDA of INR 36 crores in Q2 FY '24 and EBITDA margin of 14.28%. The consolidated EBITDA for H1 FY '24 stands at INR68.9 crores at an EBITDA margin of 14.81%. The company has been able to maintain its EBITDA with marginal decline in EBITDA margins despite annual increments, but we also had a few plant closures with some of our major customers, and we have also added resources who will get billed in Q3. So that's an investment that we made in Q2.

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 compromises our short-term margins. All our verticals have shown double-digit growth year-on-year. The combined share of revenue of automotive and energy in Q2 is 13.1%, which grew from 6.0% in the same period of last year. Revenue from automotive vertical almost tripled while the energy vertical grew by 27%. Going forward, automotive and energy verticals will constitute significant portions of our revenue with synergies from add solution and EPCOGEN.

Our Aerospace business has continued its growth momentum and is growing continuously for the last 11 quarters and grew by 21.6% year-on-year. The growth is a result of our long-term contract with expanded scope with our strategic customers. We are leveraging our aerospace skills to support Mistral customers in various areas.

The Products & Solutions business, representing our defense vertical, grew by 47% over the previous year, recording revenues of INR73 crores, contributing 29% of our total revenue, of which revenues from Mistral Defense grew by 82% year-on-year.

To conclude, while the current geopolitical and macroeconomic headwinds do pose a challenge for the industry as a whole, we are confident that our efforts of derisking the business will stand us in good stead for the balance of the year and thereafter. And we will continue to report to improve financial performance in the coming quarters.

I thank you for your continued support and encouragement. I will now request Muju to give an update on the Mistral business.

**Mujahid Alam:**

Thank you, Arun. Wishing you all a very happy Diwali. I'm delighted to report the FY '24 Q2 performance of Mistral solutions. Mistral is a cutting-edge technology design and system engineering companies delivering technology solutions in product engineering, aerospace, defense and homeland security to marquee global clients, Ministry of Defense and DRDO and defense PSU for over 26 years.

Mistral recorded a revenue growth of 50% year-on-year in Q2 of FY '24, up from INR63 crores to INR94 crores. We have seen growth both in our professional services, engineering business and defense business. Of the INR94 crores of revenue, INR42 crores was from PES business and INR52 crores from defense business.

For H1 of FY '24, Mistral recorded a revenue of INR 166 crores, growing by 41% from INR 118 crores recorded in the previous financial year. The defense order pipeline remains strong. Many of our earlier designed and developed prototype system for various defense programs have been tested and qualified and now enter the production phase. In Q2 of FY '24, our revenue from production was INR33 crores as compared to INR15 crores in Q1 of FY '24. Our defense production will continue to have a very healthy growth in the coming years.

We are one of the first companies to have designed a non-Chinese drone controller in partnership with Qualcomm, which is now mandated by many governments globally for drones. This model was showcased at the UAV drone expo at Las Vegas in August of 2023, and we see high interest in this products.

The Indian government is committing making India in defense, electronics and semiconductor industries through multiple initiatives and policies, which will open new opportunities for Mistral. We continue to develop state-of-the-art defense technologies in collaboration with DRDO and through our initiatives.

In coming quarters, we continue to expect healthy revenue and profitability growth in both domestic and international markets. Mistral and AXISCADES are perfectly positioned to leverage and synergize each other's capability to deliver quantum value to our customers, investors and stakeholders.

Now I invite our Group CFO, Mr. Shashidhar, for an overview of the financial results.

**Shashidhar S K:**

Thank you, Muju. Good evening to everyone. As has been detailed by Arun and Muju, our business performance, both in terms of revenue and profitability, has shown robust growth in Q2 of FY '24 and H1 of FY '24, bolstered by our foray into new verticals, such as automotive and energy, apart from our traditional verticals of aerospace, heavy engineering and defense.

As reported by Arun, the company achieved consolidated revenue of INR252 crores in Q2 of FY '24, growing by 18% quarter-on-quarter and 30% year-on-year. Our constant dollar growth was at 17% and 27% quarter-on-quarter and year-on-year, respectively.

At a revenue of INR465 crores in H1 of FY '24, AXISCADES grew by 23% year-on-year and at 19% at constant dollar. We have seen year-on-year double-digit growth in all verticals, except heavy engineering. The company is currently having robust order book to deliver on the revenue objectives for FY '24.

The company has started consolidating the revenue of add solution Germany with effect from 1st of August. In the 2 months after September, add solution contributed about USD 1.4Mn about INR 12 crores to consolidated revenue.

Revenue share from new customers is growing at a rapid pace. Revenue from the top 5 new customers was at INR26 crores in H1 of FY '24 as compared to INR 4 crores in H1 FY '23, growing by more than 6x.

Revenue from the top 5 existing customers grew at 22% from INR 233 crores to INR 284 crores during the same period. Revenue from new customers contributed to 5% of revenue H1 FY '24 as compared to 1% in the same period of previous year.

While the company's EBITDA margin was marginally impacted during the quarter and half year due to increment digital investments, resources on the bench and plant close on the customer side, the company is able to maintain the last 12 months EBITDA margin at 15.8%.

The consolidated PAT in Q2 of FY '24 stands at INR 11 crores. The employee cost in Q2 of FY '24 is INR123 crores, has gone up by INR15 crores quarter-on-quarter, mainly due to annual increment impact of INR 6 crores, new hirings, including senior leadership hiring, impacting INR 1.2 crores and employee cost of add solutions, which we started consolidating from 1st of August, which has impacted by about INR 8 crores.

The company's finance costs mostly due to debt funding of Mistral acquisition was at INR 31.5 crores as against INR10.25 crores in the same period of previous year. As communicated in Q1 of FY '24, the company estimates a finance cost of INR12 crores per quarter from Q2 FY '24. This cost considers the beneficial impact of INR2 crores per quarter with respect to refinancing of acquisition debt, which was completed in Q1 of FY '24.

The Board of Directors at the meeting held on 8 November approved raising of fresh equity to pay down the debt and for growth capital. The company will endeavor to close the capital raise during the course of the financial year FY '24.

To conclude, the company will continue to focus on growth and profitability from existing and new verticals and from existing and new customers, and we are confident of their sustainable and derisked future for the company.

I conclude by wishing you all a happy and prosperous Diwali, and thank each one of our stakeholders for being with us in this journey.

We'll open the floor for questions.

**Moderator:**

Thank you very much. We will now begin the question and answer session. The first question comes from Srinath Krishnan, an individual investor. Please go ahead.

**Srinath Krishnan:**

Congratulations to you on such a strong performance in a challenging environment. My first question is on Mistral. There are a lot of articles and reports that suggest that the semiconductor space is going through a challenging phase now but despite that Mistral has done really well during the quarter.

So I wanted to understand what is driving this growth in Mistral? How has the performance been in the project engineering space and also in the defense space? And as it has been guided in the past, the defense has considerably picked up. So I think it is close to about INR35 crores to INR40 crores in the first half. So what is again driving the production here and could it translate to higher margins in the second half since you have mentioned that production is at superior margins compared to the R&D phase?

**Mujahid Alam:** Yes, Srinath, we have a legacy of having built design wins for the last 25 years and these design ones which we have built, tested and qualified on field are getting into production phase today. So the systems which we have done about 10 years back are getting into production. So this is something which will continuously give us revenue moving forward.

At the same time, there are many issues which DRDO has taken wherein a lot of things are being outsourced. So this also will drive growth. Growth will be on the professional services of defense business which in turn will result in production revenue moving forward.

So today's growth is primarily because of the existing defense contracts which we have done in the past and also we have signed up with two global clients wherein we are doing some high-end system integration for them. So these have resulted in higher revenues.

**Srinath Krishnan:** Got it. So what is the performance of the PES space in the first half compared to last year and also is the kind of the work over that can we expect to pick-up in second half?

**Mujahid Alam:** You are talking about Professional Services business?

**Srinath Krishnan:** Yes, sir.

**Arun Krishnamurthi:** The PES business has grown when compared to the last financial year, by...

**Shashidhar S K:** The company's PS business for the Q2 of the current financial year was at INR41.59 crores and it grew by 34% from INR30.83 crores as what was recorded in the previous year.

**Mujahid Alam:** And for the next half of the year, we will see probably a marginal growth in PES business because there are certain things which are slowed down, especially in the production business. Our NRE business continues to be strong. The production business has slowed down because of overstocking of components which people have done during 2022. So we see this improvement happening probably in the second half of next financial year. But our NRE business will continue to grow.

**Srinath Krishnan:** Yes, yes. So if you could speak about the production phase there, you had guided and that is also coming through in the first half. You have seen a strong growth in production. What is driving the production? You know, is it in specific projects? Or maybe if you could just give a brief idea of how that would help in metrics of the business?

**Mujahid Alam:** When I'm talking production here, here I'm talking about pure play, non-defense production. So this is the production model which we do for the semiconductor companies and we build evaluation modules and some of the boards which are shipped out in the market as a joint development between Mistral TI, Mistral Qualcomm and like those. So these have gone through a slowdown because of overstocking in the past.

In the last financial year, because of shortage of components, there was a panic buying from everybody. So that resulted in higher revenues for us in the last financial year and now the stocks are still available with the OEMs. So this is the reason why there is a slowdown in production and we foresee this correction to happen in the next two quarters.

And in terms of defense, the production will continue to grow because most of our design wins which we had in the past are getting to production phase and you will see in the next two quarters our order book getting bigger-and-bigger.

**Srinath Krishnan:** Great. Congratulations. Good luck.

**Mujahid Alam:** Thank you so much, Srinath.

**Moderator:** The next question comes from Jyoti Singh with Arihant Capital Markets Limited. Please go ahead.

**Jyoti Singh:** Thank you, sir. And congratulations on the good set of top line numbers. And secondly, Arun sir, congratulations completing two years in AXISCADES. And my question is on the segment side that could you please provide more information about the performance of the HEG which has been underperforming for several quarters except other segments which are doing better?

**Arun Krishnamurthi:** Thanks, Jyoti. Firstly, happy Diwali to you. I will request Shashi to just chip in specifically with regards to the heavy-engineering sector.

**Shashidhar S K:** So basically, you are right there. All other verticals have grown substantially for the quarter as well as for the half year. But with respect to heavy engineering, there was a flattish growth for the quarter and a bit of marginal decline as in the first half of the year. The reason for the decline is basically the macroeconomic factors which impacted the heavy engineering industry and it is yet to recover from that. And what we are actually doing now is utilizing our digital capabilities and we are deploying our digital engineering skills. And we have already started taking projects with respect to digital analytics and manufacturing engineering which we hope will kind of outstay scale-up and will be able to kind of come to control in terms of the heavy engineering vertical in the coming year.

**Arun Krishnamurthi:** Yes, I think just to add to that, just a qualitative commentary is that what we are also looking at is how we can leverage more of the Mistral capabilities in the embedded space to take to our heavy engineering customers because we do see that there is a lot of opportunity there.

The second thing is that now with the acquisition of add solution, we have strong automotive capability in the passenger segment and the commercial segment. And heavy engineering is pretty much the off-highway transportation sector. So we will also be exploring synergies between what add solution does in Germany with some of their OEMs and Tier 1s to what we can do in heavy engineering.

So I think the overall picture is of course that we are fully committed to heavy engineering as a vertical for AXISCADES. And we are looking at multiple ways of stimulating growth either through digital or through embedded or through capabilities that we have acquired inorganically. So this is the plan that we have in place. And of course, the macroeconomic situation would possibly improve going forward and that would also help us recover the segment.



**Jyoti Singh:** Okay, thank you, sir. And so additionally, I would like to inquire about the finance cost which was there in this quarter associated with the Mistral acquisition. So are these costs expected to continue in the coming quarter?

**Shashidhar S K:** Yes, so if you look at it, know, last quarter there was some one-time, I would say prepayment charges and all of that we have to incur. As a result of which you see that in the FY '24, in the quarter 1 of FY '24, our finance cost was INR20 crores. It's already moderated to INR11 crores because those one-time charges are not there.

So going forward in the coming quarter, our finance cost will be around INR11 crores to INR12 crores, which in fact takes into consideration the cost saving as what we are having for the refinancing which we did for the NCDs which we had raised for the Mistral acquisition.

**Jyoti Singh:** Okay, thank you, sir. And after considering that all other segment and geography-wise, we are performing well. So could you guide regarding margin and top-line performance for the coming years and quarter because earlier we were not guiding about it?

**Arun Krishnamurthi:** Yes, so Jyoti, we still don't guide for future performance, but all I can say is that if you look at our other verticals, which is, so we have spoken about ~~Mistral~~ Mistral in the previous question, both on production as well as the PES part as well as defense. We spoke about heavy engineering. If you look at aerospace, that is continuing to be a very strong vertical for us.

We continue to grow very strongly with our strategic clients and if anything, we are entering into more new areas. We continue to bid for new projects. So that will definitely be a strong growth area for us.

Automotive, we expect, will also be strong both from the client roster that we have within AXISCADES, but also through add solution, we have a strong pipeline in place and we can do much more. So that will be a good growth driver for us.

Same thing with energy. Again, we are very bullish about energy because we are seeing that in the next few years, both on the fossil fuels as well as the renewable space, there is going to be a lot of investment and there will be a lot of construction both on the refinery side in oil and gas as well as on carbon capture and sulfur capture and tail gas capture. And with the acquisition that we hope to complete of EPCOGEN, they have very strong product engineering, EPC kind of skills. And for us also, we don't do much in the Middle East, so we are very excited that a lot of clients that will come in with EPCOGEN are Middle East clients and obviously that's the hotbed of the energy sector. So we see energy also to be a strong growth driver for us.

I think all-in-all, overall, we are seeing strong growth segment going through. We don't guide for top line as well as margins, but of course, like I said, we expect good growth. So please do watch us every quarter as we talk through the earnings call.

**Jyoti Singh:** Okay, thank you, sir, and happy Diwali to all.

**Moderator:** Next question comes from Inder Soni with RCG. Please go ahead.

**Inder Soni:**

Yes, hi, happy Diwali and congratulations on a very strong set of growth numbers. Question about add solution. You talked about, automotive, it's difficult to get into customers unless you have an existing relationship. But through this acquisition, it looks like you have some of the best OEMs, right? I'm looking at the chart from the company that says they have Mercedes-Benz, BMW, Volkswagen, Alstom, many big companies. So I'm not asking specifically about any of these big companies, but if you are already in one of these companies, does that give you the opportunity to grow in other areas within this company?

How does that help? I'm trying to understand, like, are you a certified vendor because of this acquisition and all these companies? Because there's a list of about 20 big companies on their chart?

**Arun Krishnamurthi:**

Yes, Inder, thanks a lot for your question. Happy Diwali to you as well. So, yes, you're absolutely right with add solution. The reason that we acquired add solution is that if you look at the German automotive ecosystem, they have a very stable vendor ecosystem. And it's really difficult to break in. And the approach that we've taken is to acquire a company who already has a supplier code. And actually, this is something some of our peers have done as well.

So now with this, we have supplier codes and obviously the brands you mentioned. So Volkswagen is a big name. That's a big customer for us. We have vendor codes with Mercedes-Benz, BMW. We have vendor codes with tier ones like Aptiv, Leona, Bosch, Sumitomo. So we feel that now we can firstly offer the offshore services that, add solution is not being able to offer to these customers. Because one of the reasons why add solution wanted to come together with us is because they see a lot of growth potential, but they didn't have the financial muscle, so to speak, to fuel the growth.

Secondly, a lot of customers were asking them about what offshore capabilities they had. And that is something that they lacked. So now both of these are aspects that we can talk about. And of course, what we will be doing is that, we also have embedded capabilities, which, comes to Mistral. So we have software testing. We have wiring harness capabilities, which come in from add solution. We have mechanical engineering capabilities, which comes in from AXISCADES. We have embedded capabilities coming in from Mistral. And we have digital capabilities, which come in from AXISCADES.

So I would say, Inder, that now we are in a position to really harness the supplier code that we have, go into new areas, do bigger projects, and really look at how we can run campaigns to leverage some of the other suppliers where we have not had a big base so far.

So we are very optimistic about this. And we feel that, for a company like ours, this is the right strategy going forward, because the other option would have been to sort of hire sales folks, organically look at hunting new logos. And like I said, with the German ecosystem, it's virtually impossible to get in.

But from a time perspective, that would be a one-year, 1.5 year kind of exercise. But here, very quickly, we have strategic clients who get added to us. So now, in addition to our two big strategic clients, we have a third big automotive German-European strategic clients. And then,

of course, we have the ability now to do much more from account mining and a new capability perspective.

**Inder Soni:** Great. And does this, your upcoming acquisition in the energy space, can you talk a little bit more about that? So what kind of work do they do? What job? Is it mainly Middle East? Can you give us some more color?

**Arun Krishnamurthi:** Yes, absolutely. So these guys are also in the engineering space. So they work on the EPC part of energy. So if you look at AXISCADES capabilities, we have clients both on the renewable space as well as on the fossil fuel oil and gas space. EPCOGEN does a lot of work on the oil and gas as well as renewables, again. So for example, we are working on liquid nitrogen batteries. We are looking at hydrogen batteries where they do some work.

They are also working with some large oil majors as well as suppliers to oil majors where they look at construction activities. And if you follow the whole energy space, there is a lot of construction happening, a lot of carbon capture and sulfur. So when you have an oil field, you build out refineries, but you also build out carbon capture, sulfur capture plants so that you can cater to the environmental considerations.

So the whole project management, the whole capability, the whole design, inventory management, product management, that's the kind of skills that these guys have. And these are typically long cycle projects. So once a project starts, it usually lasts for 12 months to 18 months because that's the time it takes to stand up something of this scale.

And we are very excited about it because we feel that at least for the next 10 years to 15 years, this will be a very vibrant space. Of course, there is a move toward electrification and all of that. But we do feel that, especially with what's happening in the Middle East, there will be energy security issues. We saw with Ukraine that there were energy security issues in Europe. So we feel that the energy agenda is going to be very, very prominent for most countries and most companies. And therefore, this will attain a lot of prominence. So that's why we want to sort of have a foothold quickly and look at how we sort of grow the space.

**Inder Soni:** Great. And your employee costs have gone up because you said you've hired some senior people in advance of demand. Can you talk a little bit about that? Because I think that was one of the biggest increases in costs?

**Arun Krishnamurthi:** Yes. So I think like we've been saying, we obviously need to augment the team. So we're looking at augmenting the team from sales, which we started doing in the past. We are augmenting the team with senior delivery people. Now we're looking also at upskilling our corporate resources.

So we have hired a chief risk officer. We hired a controller. We hired a new CHRO, new Chief Human Resources Head. So these are obviously senior positions. And, we need to spread it out over quarters because, we can't do it all at one shot. So we have a plan in place and we sort of put it into our budget in terms of how we want to go ahead with it. So that's point number one.

Point number two is that, we are also, like I said, seeing strong growth from aerospace, from automotive, etcetera. And there are some big projects where we need to do a ramp up. And our

focus now is given the pyramid mix that we want to achieve, we are looking at hiring a lot of people who are either fresh from college or who are in the zero year to five years, five years to seven year experience.

And with those kind of people, we need to sort of put them through a six month training and then they are sort of in a position to get billable. So we have had to prepare, for some ramp up activity which will happen in Q3. So we had to sort of, absorb those costs in Q2, which we feel are, the right things to do.

And I think one of the things we want to do is obviously balance the profitability with the growth aspect because we also want to make sure that as we grow, we keep investing in keeping an eye on the future in terms of, how the growth should come. And I think for us, getting that wallet share quickly is important. And, that's why we are looking at, adding manpower both from a senior as well as from a delivery and a technical perspective.

**Inder Soni:** Another area of your cost that went up was the materials at Mistral. So that means that you are now moving more into the manufacturing phase, right? Can you talk a little bit about this? You talked last quarter somewhere, you said you first do the design and then you get into manufacturing. So how big are some of these projects? How long do they last? Just give us some color. I'm not looking for anything confidential, but just, at a high level. What does manufacturing for Mistral mean?

**Mujahid Alam:** See, I can give you a couple of examples here. Some of my radar programs, we are starting a radar production program probably by the third quarter end, and we will start the production program. The billing will happen probably Q4 or Q1 of next financial year. But this is a project will go on for approximately two years. The delivery is staggered over a window of every three month, four months, we roll out one number of radar for the customer.

Similarly, if you look at the light combat aircraft program, we have design wins wherein the production cycle, it already started. We are producing work for them, but this production cycle will happen for the next 10 years plus.

**Inder Soni:** So up to 10 years, you're saying?

**Mujahid Alam:** What we'll be designing today will never be changed. The same product will go in year-on-year as long as the aircraft is produced. So as you know, there are 128 crafts, which are being produced now. And also, there's a order for 100 more to be produced in the short term. The order yet to come from the government, but the government has already promised HAL that the order is coming.

So these production cycles will go for 10 years plus with the same design and the same product which we have today, which means that, we do not have to invest on manpower. We do not have to invest in a new design. Whatever we have today, will be produced again and again. So obviously, our margins will be taken care of.

**Inder Soni:** Great. And last question from my side. In heavy engineering, we've talked about digitizing and hiring people for that. So what do we mean by that? Can you give us some color on what you mean by digitizing and heavy engineering?

**Arun Krishnamurthi:** Yes. So Inder, if you look at where heavy engineering is moving, one is that obviously, like everything else in transportation, there is a move towards electrification. So that obviously brings in new component designs and new ways of building the construction equipment. That's point number one.

Point number two is, if you look at heavy engineering, there is already concept like autonomous driving are already present. So if you look at, say, large mines in Australia, if you look at chemical plants, you would have a lot of these machines that are running autonomously, and they run for 24/7. They run around the clock.

And they're typically, there's a lot of digital solutions by which they are monitored. There are digital twins in case there's a breakdown if you need to fix the problem, etcetera. And also the fleet upkeep is something which is very important. So inventory management, remote management of these machines in these kind of mines as well as digital twins to sort of optimize them as well as win them back in case of any breakdown in case of any enhancements. That's where we feel that digital will play a big role.

And if you look at heavy engineering, unlike automotive, it is, you don't really design the machine keeping a passenger in mind. It's designed keeping in mind how long this equipment can work, how hardy it is and how much you can sweat the assets.

So the kind of digital use cases that you have in this industry are completely different from automotive, where automotive is more customer-centric and passenger-centric. But here, it is more maintenance-centric, more about optimizing inventory, more about upkeep of the fleet and more about maintenance schedules.

**Moderator:** The next question comes from Pankit Shah with Dinero Wealth. Please go ahead.

**Pankit Shah:** So actually, I wanted to understand more on the defence order pipeline. We used to -- is that there is a INR2,000 crores- 3,000 crores order pipeline. So what is the situation currently? Are you participating in any big tenders? How is the order book visibly looking there?

**Mujahid Alam:** As on date, while we are talking today, the order pipeline in Mistral is currently outstanding at over INR350 crores on integrated orders. And...

**Pankit Shah:** These are like confirmed orders of INR350 crores, right?

**Mujahid Alam:** INR350 crores order in hand with Mistral. It also includes a few orders from non-defence business also, but majorly from defence. And we have already negotiated from a couple of contracts with BEL and HAL for some of the production numbers, which are due to us, and we expect these orders to come in Q3. So those will be to the upward tune of about INR100 crores plus of new orders, which will come in, which are due to production...

- Pankit Shah:** What are the tentative time lines for these orders? Delivery time line?
- Mujahid Alam:** Delivery time line will be spread over a window of 18 months to 24 months.
- Pankit Shah:** Okay. Sir, with regards to drones, I wanted to understand that there are already players who are supplying drones to say, army and all. So what are the chances of our R&D getting converted into confirmed orders? And along with that, have we received any fresh entry of orders for our anti-drone systems?
- Mujahid Alam:** We have not received additional orders. At this point of time, I'm talking about drones and all, not anti-drones right now. And in terms of drones, yes, we are still in the R&D phase. We are doing some field trials. Last week, we had some trials in major locations up north. So we are fixing the issues which were reported on field. And I expect this product to be available and ready for us by the end of the year.
- Arun Krishnamurthi:** And I think just to add on the anti-drone, there is a follow-on order that we have been shortlisted for. It is quite a large order for about 200 systems of anti-drone. And we have, there's a party of two, there's us and there's one other party who's been shortlisted. So we're going through the process on that. And, as it goes through, we will obviously move towards billing it and executing it.
- Pankit Shah:** Okay. My broader question was that we are spending our time and effort on R&D. But what are the chances that these R&D efforts get converted into order? Because drones is already a crowded market, if I am not wrong?
- Arun Krishnamurthi:** Yes. So what we are looking at is very specific applications. So we are not looking at logistics drones or agriculture drones or, those kind of use cases. For us, it's very specific when it comes to defence uses. So from a drone's perspective, we are looking at, high altitude, heavy payload drones.
- And, that's exactly what the Indian armed forces need because of the kind of borders that we share with our neighbours, where there is a need for drones which can fly at high altitudes in thin air and which can also lift heavy payload. So those are the specific use cases that we are working on. And we actually have a prototype in place which we are in the process of testing and which we are showcasing to the armed forces. So we are very focused on that.
- And we believe that, especially with everything that's going on around the world, with heightened need for defence supplies and R&D in defence, that's absolutely the best thing to do because we don't want to spread ourselves too thin. We are very sharply focused just on defence use cases.
- And we firmly believe that, if you look at the drone industry, the defence expenditure on drones will far outweigh any other commercial kind of expenditure that will happen on drones because the commercial drones are more commodity drones, whereas the defence drones are more specialized and they're custom made and they're suited for the terrain and for every country's specific purposes. So that is our focus area. And, we believe that that will, in the future, be a very strategic move for us.

**Pankit Shah:** Okay. Got it. Sir, last question from my side. We have been reading that, Airbus has been increasing its presence in India quite a bit. They recently established a plant to establish MRO facilities also, and signed up few suppliers also. So do we see our scope of work increasing for Airbus in the near term?

**Arun Krishnamurthi:** Yes. So if you look at what we do for Airbus, we work across a spectrum of activities. So we work on aero structures, fuselage, wing kind of design, which is like a horizontal service, which is done across multiple countries in Europe. We have started work on manufacturing engineering, which is supporting plants.

And with Airbus footprint increasing in India, as you know, they have a joint venture with Tata to manufacture the C295 military transport aircraft. In addition to that, with the large order that Air India and Indigo have landed with Airbus, they will be looking at MRO partnerships.

So the manufacturing, engineering, plant support kind of work that we do will be something which is very relevant to India, but also globally. Because really, if you look at the order book that Airbus has, it's very strong, and it's all across the world.

And the third aspect, of course, again, which is very relevant is what we call as repair, which is customer service, which is when an airline operator flies an Airbus plane, and if there's an issue with, any kind of incident like a bird hit or corrosion or anything like that, there are SLAs on which Airbus has to sort of, turn it around.

And that's where we are present. So that's something we do around the clock, 24 hours, from India, Europe, and the US And as the number of aircraft in the skies increases, the more customer service initiatives will come through. So I think we have a really nice spread, and there's a new area that we're working on as well, again, on customer services, which is related to, the repair work that I mentioned.

So I think we are strongly poised, and I think even that Airbus is doing well, I think it has a good knock-on effect, and they're extremely happy with us as a supplier. So I think we are certainly bearing the fruits of the investments we have made and the good delivery that we have done for them.

**Pankit Shah:** Okay. Thank you so much. All the best.

**Arun Krishnamurthi:** Thank you.

**Moderator:** The next question comes from Saurabh Sadhwani with Sahasrar Capital. Please go ahead.

**Saurabh Sadhwani:** Hi, team. I wanted to understand the projects that add solution is doing. So specifically, what is the timing of the products that add-solution is working on? Are they the upgrades of the current versions, or are they the EVs that would come later in the decade?

**Arun Krishnamurthi:** Yes, add solution has capabilities broadly in two areas. One is the whole software testing area, and the second is wiring harness. And if you look at it, they work across the passenger and

commercial fleet for the large German OEM. So these, as you know, are projects which are long-term projects, and especially software testing is a business which is growing.

Because if you look at the software-defined vehicle, there's more and more of a move towards software in the vehicle, and of course the architecture of the vehicle is changing as well. Until now, most of the cars had many ECUs, and there used to be application stacks on top of that.

But with the software-defined vehicle, it's moving to more computing, which is based on the fact that there are a couple of computers in the car, and then most of the software and applications are loaded on that. And what we do through add solution is testing of a lot of the infotainment and the vehicle cockpit systems.

And this is where a lot of innovation is happening, because if you look at the passenger, they're looking at more connectivity, they're looking at more ADAS features, they're looking at richer options for streaming or entertainment or video. And this is the kind of service that we provide, so we are in the right spot in the growth area.

And of course, wiring harness is something which is very critical, because again, with the move towards EV, the cabling and the architecture of how you do wiring harness, the high-voltage engineering, you have needs for high-capacity chargers, and that is exactly what add-solution does. So both of those are areas which are exactly in the direction in which the client is investing.

So if you look at the client, they're moving towards electric vehicle platforms, and they're moving towards more connected and more ADAS feature-rich cars and software-dependent vehicles. So these are the two areas that we are present in. We actually don't do much of mechanical through Ad, but that's something that we will definitely not want to rule out, because AXISCADES does a lot of mechanical engineering.

So like I said in one of the previous questions, because we have supplier codes, we will definitely also look at expanding mechanical, because that's our bread and butter. But our focus will be on the embedded and the digital and the software side as we go through.

**Saurabh Sadhwani:**

So these products are going to mainly these projects and these clients are going to stay long-term, right?

**Arun Krishnamurthi:**

Yes, absolutely add solution has been in existence for 20 years, and they have very strong relationships with these clients. They have had projects running for the last 20 years. And after the acquisition, I had an opportunity to visit some of these clients along with them and the relations are super strong.

So we do expect that there will be not just stay, but we expect it to grow. The whole objective is actually to put our combined might together and grow. And like I said, one of the things that they're actually not able to service some requests because of the fact that they don't have the ability to invest in people. So we will also be looking at whatever money is left on the table to sort of expand it. So yes, absolutely, these are strong relationships, which will continue for the long term.



- Saurabh Sadhwani:** Okay. And secondly, on the material cost that has increased this quarter. So this was related to Mistral production -- mistral is going into some production contracts.
- Shashidhar S K:** The material cost is commensurate with the production orders, which was executed by Mistral. And if you look at it, out of the INR94 crores that what was recorded as defense revenues for the half year, about 50% of that is material cost. So it's commensurate with the production orders that has been executed by Mistral.
- Saurabh Sadhwani:** So these costs don't have -- yes, that's expressed.
- Moderator:** The next question comes from Nirali Gopani with Unique PMS. Please go ahead.
- Nirali Gopani:** Most of my questions have been answered. Just a clarification on the fund raised, it's a significant amount. So if you can just elaborate, what are we going to use this fund for? Is there any further inorganic acquisitions or?
- Arun Krishnamurthi:** Yes. I think the first question you asked is the best kind of question I'd like to answer that all the answers have been provided. But yes, just in terms of fund raised, as you know, our Board has approved that we can raise funds up to INR500 crores. So the objective is twofold. One is that we will look at writing of debt that we have acquired because of some of the acquisitions. And the second part, of course, is for growth capital.
- We believe that the long-term story for the company is strong. And we do need to invest, hire more people, invest in R&D, build out products. And actually, in digital, where we are making a lot of investments, we're also looking at how we can develop our own IP so that our revenues can be accelerated and not just sequential based on client revenues. So these are the two broad areas in which we will deploy the money that we will get.
- Shashidhar S K:** Just to clarify, the INR500 crores that what have been notified to the stock exchange is only an enabling kind of, I would say, a resolution which has been passed with the Board of Directors. It is not to say that we would be raising INR500 crores. And as Arun explained, our debt on the books is around INR 210 crores in terms of long term as what we raised from Mistral acquisitions, and we are looking at raising anywhere between perhaps INR 150 crores to INR 200 crores and not really INR500 crores.
- Nirali Gopani:** Okay. Perfect. And just one last clarification. So when you say that the cost of material consumed is largely related to Mistral-related production. So as the production there goes up, do we see this kind of gross margin? Or we can see further improvement there?
- Arun Krishnamurthi:** So just to answer that, broadly for us, if you look at defense win, it comprises of two parts. One is the R&D part, where we come out with our product and then get it certified. And the second part is the production part. So the R&D part is where we make investments and our margins are low because we're really innovating and doing R&D there. But when it comes to production, because the part has been certified and because it will only be procured from Mistral, the margins are much higher.

And also what happens is because, like Muju explained, some of these production orders can span over 10 years. So what we also need to do is that we need to stack or stock products or component, which could become obsolete because it's possible that when we did the design, these are cutting-edge technology. But over the next 10 years, they could become obsolete and it's possible that the OEM or the manufacturer stopped manufacturing them.

So we make an assessment of that. So when we see the production over the next five to 10 years, we also do proactively stock some components, which we believe could be obsolete so that we are in a position to sort of deliver that.

So the material cost, so as we see production revenues going up, you will also see material costs going up because that's when we procure the materials and that finally becomes a finished product.

**Shashidhar S K:** Just to give you a flavor on numbers. For the half year, the defense revenues were INR94 crores, of which there are production orders that was executed by Mistral for the first half year was INR48.65 crores and they recorded an EBITDA of 31% on that.

**Moderator:** The next question comes from Deepak Poddar with Sapphire Capital. Please go ahead.

**Deepak Poddar:** Just a clarification first. I mean there was some margin impact that you maintain. I think you mentioned in second quarter due to some digital investment or higher cost, I think, somewhere. So can you quantify the impact? What was the impact there?

**Shashidhar S K:** See, we have built a very significant digital team which we would like to call it as an investment. And today, we have a 50-member digital team working on various projects. They also will be working on billable projects. But at the moment, the 50 members digital team, cost us around INR 1 crores a month. So the quarterly impact of that is around INR 3 crores, which is right away charged into the P&L, and we're not capitalizing it as intangibles.

**Deepak Poddar:** Okay. Okay. Fair enough. So this will continue, right, I mean, as we go forward?

**Shashidhar S K:** Yes. So only that, it will not remain as a cost. It will remain, kind of accrue to us in terms of, I would say, the automation projects of what we execute, the billable products at what we take with our customers. It will not remain at a cost, but it will leave its own margin and the profit center of its own.

**Deepak Poddar:** Okay. And so I mean, can you throw some light on that? I mean, what's the margin aspirations we are looking at, I mean, going forward? Currently, we are at about EBITDA margin of maybe close to 15%. Last year, last quarter, it was close to 16%. So in the near term and in the medium term, what sort of aspiration we are looking at in terms of margins?

**Arun Krishnamurthi:** Yes. So we had said that in the next three financial years, we want to get to the industry best of about 18%. And this is a journey that we are on. And of course, for us, I think a big determination of margin is also the mix of R&D versus production that happens in a particular quarter.

But just to answer your question, two years back, I think we are in the 12% range. We are now in the 15% range. In the next two to three financial years, we want to get to 18%. But like I said, it's a journey, and we won't get there just a flick of a switch, but it will happen through some really incredible action.

**Deepak Poddar:** So that is by FY'26, right? That's what we are targeting?

**Arun Krishnamurthi:** Yes, yes.

**Deepak Poddar:** Three years from FY'23 base?

**Arun Krishnamurthi:** Yes.

**Deepak Poddar:** Fair enough. And given the, I mean, traction we are seeing in all the segments we are in, I mean, aerospace, automotive, even the defense sector, I think all the spaces are seeing a lot of traction and even heavy engineering. So I mean the growth that we have been doing, I mean, if you have to see last two, three years, we are growing in the range of maybe what, 20% plus CAGR kind of a growth. I mean, is that something that, one, we would aspire as we go forward in terms of maintaining such kind of a growth? So some subjective comments would be helpful, yes.

**Arun Krishnamurthi:** Yes, subjective comments. Yes. So I don't want to comment on the exact percentage, but what we will definitely aspire to is to better industry growth rates, and we will continue to sort of look at that kind of a growth. And we also believe that we are in a phase where and there are two ways you can look at top line growth and margin growth.

I think the more customers you have, the bigger wallet share you have. The more strategic customers you have, the ability to improve margins is much better. Whereas on the converse, if one were to sort of focus on margin versus growth, then the wallet share and the growth sort of gets a little bit muted.

So our approach has obviously been to balance both of them. But we also believe that if we can increase the number of strategic clients and therefore, grow the business, then once we acquire a new logo, then through account-mining initiatives, we will be able to drive better productivity, better digital initiatives and improve the margin.

So we're looking at top line leading the bottom line growth purely because the more accounts we have, the more we can mine them and the better the margins can be. So, but to answer your question, you're looking at bettering industry growth rates. I'll just leave it at that one. Please do follow us.

**Deepak Poddar:** What range? I mean industry growth rate, I mean, what is the industry growth rate currently?

**Arun Krishnamurthi:** Industry growth is anywhere in the 15% to 16% range.

**Deepak Poddar:** Fair. Fair enough. That's quite helpful. And my final question is in terms of mix. I mean, how do we see the mix changing going forward, I mean, in various sectors?

**Arun Krishnamurthi:** Yes. So if you look at it, we have three areas that we want to focus on. One is the mechanical engineering, which comes from AXISCADES. The second is the embedded which comes from Mistral. And the third is digital, which we are organically growing through AXISCADES, Mistral, add solution and hopefully, EPCOGEN.

So as we look at the business going forward, there are two things we want to look at. One is we want to increase the longer-term projects that we can work on. The second thing is we'd like to see the mix of embedded and digital growth purely because of the fact that there's a lot of money that's being spent on these two areas, but also a lot of the thought leadership and the innovation that's happening is really happening on embedded and digital and not so much on the mechanical side.

So our ambition is that while we grow, we want to increase the percentage contribution of embedded and digital. And that's where we're sort of investing. And these are areas which are very interesting and very exciting for our employees as well.

**Moderator:** Next question comes from Manjubhashini with JM Financial Services Limited. Please go ahead.

**Manjubhashini:** Sir, in the beginning of the call, I remember you were talking about certain client closures that have happened in Q2 '24. Can you please elaborate on that?

**Arun Krishnamurthi:** Client closures? Okay. Sorry, you mean plant closure. So what has happened is that some of our strategic clients have had to shut their factories for an extended period in summer this year for a variety of reasons. Some of them had to do it because some of their suppliers were not able to come up with components. And those subsystems are needed to complete the product that they usually build.

The second reason is that in some of our clients who are growing at a very rapid rate, they had to shut the plant so that they can upgrade these plants so that they're much more productive and they're smart factory compliant and industry 4.0. So that had a billing days impact for us. So that's what I was indicating that there are some plant closures which happened for more days than we anticipated in Q2.

**Manjubhashini:** Okay. So but this is the usual phenomenon? I mean it would have happened in the same time as last year as well. Generally, we hear about these plant shutdowns, etcetera, during the December quarter from rest of the IT company. And in your case, I think it has happened a quarter prior. Is my understanding right?

**Arun Krishnamurthi:** So typically, it's a seasonal thing. So you have plant shutdowns in Europe, which happened both in the summer as well as during Christmas. So what has happened this year has been an extended shutdown. So we do anticipate plant shutdowns in Q2 as well as Q3. So Q3 during the Christmas and New Year break and Q2 during summer.

But this year, like I said, because some of our customers around expansion spree, they had to sort of shut those plants down to upgrade them, which will result in larger volumes and more productivity for us going forward. So the good news is that a lot of the small revenue miss that

we had in Q2 because of plant shutdowns likely result in much more enhanced business as we go through the next quarters.

**Manjubhashini:** Sure. And are we quantifying this?

**Shashidhar S K :** Yes. So the revenue loss with respect to the shutdowns close to about INR4odd crores for the quarter.

**Manjubhashini:** Got it. Got it. And the other question is regarding the production.

**Arun Krishnamurthi:** Sorry, we lost you.

**Moderator:** The next question comes from Tushar Deepakbhai Bhavsar with Cognizance. Please go ahead.

**Tushar Bhavsar:** Congratulations on the grand performance, like at least on the revenue side, I understand the margins have gone down. But can you tell us like that what is the headcount as of today or this quarter, like for the company? And I wanted to know, like the dilution is -- but like as I heard like that INR150 crores to INR200 crores, which I think like would be around 25 to 30 lakh shares. So that is around 7% to 8% of dilution, right, on the equity, we can anticipate? So what will be the impact of that in the long run?

And I did hear like a quote that we will still have the INR11 crores to INR12 crores financing charges. But if you raise the money and if we extinguish the debt, should we see that like INR11 crores go to 0 or like a much lower number?

**Shashidhar S K :** Yes, you're right there. So when I quoted the number of INR11 crores, INR12 crores, it did not factor any, I would say, debt, I would say, repayment from the capital raise which we are anticipating to do. And once we pay the debt down, yes, there's going to be an impact on the EPS and proportionate, I would say, impact on the share price, too. So the INR11 crores, INR12 crores, which I said is a pre-writing of capital.

**Tushar Bhavsar:** Correct. And like our employee strength, sir, like the number of employees that we have today, just to have a comparative like you know?

**Arun Krishnamurthi:** Yes. So we are close to about 3,000. And in Q2, we added about...

**Shashidhar S K :** 51

**Arun Krishnamurthi:** Yes, close to about 51. And of course, add solution get integrated as well. So that's another 100 employees in Germany. So you can say we're in the 3,000 range.

**Tushar Bhavsar:** Okay. We are in 3,000 range.

**Moderator:** Thank you all very much. In the interest of time, that was the last question on today's call. I'd now like to hand the conference over to the management for closing remarks. Over to you, sir.

**Arun Krishnamurthi:** Yes. Thank you very much, and thank you for all the questions, the value, the support that you have given us. And like I said, we are very fascinated about the future of the company. We

believe we're in the right space. Some of the things that we talked about a few years back about growing automotive and energy, you have seen that we have made acquisitions. That business is growing. So we are seeing a strategy that we spoke about playing out nicely. And we're very optimistic about engineering going forward. And we'll obviously keep in touch with you with every earnings call that we have. So thanks a lot and wish everybody a very happy Diwali.

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

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