



AXISCADES Engineering Technologies Ltd.

Q3 FY16 Earnings Conference Call Transcript

February 15, 2016

- Moderator** Good Day, Ladies and Gentlemen and Welcome to Q3 FY16 Earnings Conference Call for AXISCADES Engineering Technologies. 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. Also, please note this will be a one-hour call and will end at 4:30 PM. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Varun Divadkar from CDR India. Thank you and over to you, sir.
- Varun Divadkar** Thanks, Mallika. Good Day everyone and Thank You for joining us on AXISCADES Engineering Technologies Q3 FY16 Results Conference Call. We have with us today Mr. Sudhakar Gande – Vice Chairman, Mr. Valmeekanathan – CEO and Mr. Kaushik Sarkar – CFO.
- Before we begin, I would like to state that some statements made in today's discussions maybe forward looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the Q3 FY16 Results Presentation that has been sent to you earlier. This conference call will be archived and the transcripts will be made available on AXISCADES' corporate website www.axiscades.com.
- I now request Mr. Sudhakar Gande to begin the proceedings of this call.
- Sudhakar Gande** Good Afternoon, everyone, and Thank You for joining this conference call. I hope you have gone through the Results Presentation which was shared by my team earlier providing all the details of operating and financial performance.
- We have posted a good performance in the quarter with dollar revenue growing 1.3% quarter-on-quarter and 9% year-on-year. This was despite various headwinds we felt in terms of lower billable days on account of holiday season and impact of floods in Chennai where we have an ODC for a large customer. Our performance is a reflection of strong value proposition we bring to our clients. We are committed to driving operational excellence, EBITDA margin improvement of 50 basis points year-to-year as a testimony to our focus on quality of revenue and delivering operational efficiencies.
- We are also happy to state that we have successfully renewed engineering supplier status with the largest aerospace OEM in the world and this is for a period of three years which ensures the guarantee of the business. We are focusing our growth in select areas like embedded electronics, digital automation, medical devices, product

lifecycle management, etc to expand our solution offerings and business models. We are looking at growth in this sector both through organic and inorganic opportunities.

The proposed merger of AXISCADES Aerospace and Technologies is on track. The company has filed the draft scheme of amalgamation with stock exchanges. The requisite no objection letters are awaited from the stock exchanges.

To conclude, our transformation journey continues to be in good progress. The engineering services opportunities are enormous. We have several marquee client relationships with global leaders in their respective fields having large outsourcing budgets. We are committed to innovate and bring further value and increase our wallet share from them. We are focused on enhancing our sales as well as technical leadership and diversifying our offerings across multiple sectors and geographies.

With this, I would like to hand over to CEO, Valmeekanathan who will take you through key business developments during the quarter.

S. Valmeekanathan

Thank you, Mr. Gande. Good afternoon, everybody, this has been yet another good performance quarter. We are building robust systems and process and executing our plans to drive sustainable growth.

Our focus on enhancing our value proposition to our customers resulted in seven new client additions during this quarter. In line with Mr. Gande's statement, I want to share that ecosystem is a new enterprise and in line with that during the quarter we started our service to our customers, the new offerings, we have effectively created an ecosystem of niche competency and leveraged them to service new opportunity with our existing customer. The benefits of this engagement model are manifold. Initially, they help us enhance revenue from new spend category that we have not serviced so far and subsequently they help us acquire new competencies and enter new areas of specialization. Higher project consultancy cost this quarter represents these costs. These costs will continue to decrease as we internalize the competency and deepen our relations to the current customers. Nevertheless, we will continue to evolve this model. It is in line with our focus to create differentiation through new competency and solution offerings to the customer, catering to problems in all dimensions of engineering services in the verticals we are present.

Our deal pipeline continues to grow and improve quarter-on-quarter and we are confident of driving sustainable growth going forward.

In closing, we will continue to innovate and remain in the path of relevance to our customers. In line with our commitment to grow faster than market, we continue to push organic growth through investments in sales and marketing and domain expertise. In addition to the two key new members that came on board last quarter, we have further added one more member to our sales team in the US during this quarter.

Thank you. I will hand it over to Kaushik, our CFO will take you through the numbers. Thank you.

Kaushik Sarkar

Thank you, Val. Good afternoon, everyone. I will take you through the Q3 FY16 results which reflect our operational and financial performance for the quarter and year-to-date nine months' results ending on 31st December, 2015.

Let us first take a closer look at slide 7 of our presentation which is the P&L of the consolidated entity. The operating revenues increased 2% quarter-on-quarter and 17% year-over-year in Q3 FY16 to Rs.977 million driven by significant growth in

Aerospace vertical. EBITDA for Q3 FY16 is Rs.144 million, up 3% quarter-on-quarter and 21% year-over-year. Profit after tax for Q3 FY16 is up 3% quarter-on-quarter and 35% year-over-year to Rs.75 million.

Let me quickly summarize the year-to-date financials for nine months of FY16, as reflected on our slide 8. Revenues are up 11% year-over-year to US\$42.8 million, in rupee terms revenue is up 19% year-over-year to Rs.2,795 million. EBITDA increased 39% year-over-year to Rs.411 million while PAT increased 56% year-over-year to Rs.210 million. PAT margins improved 180 bps to 7.5% in year-to-date nine months FY16.

Moving to slide 9, our gross margins in business improved 170 basis points year-over-year, mainly on account of our strong focus on operational efficiency and emphasis on roll ratio. EBITDA margins have increased 20 basis points quarter-on-quarter despite the impact of Chennai floods and seasonality given lower number of billable days during the quarter. This bears testimony to our improving business mix, focus on operational efficiency, and increased offshore mix.

As Val touched up on earlier, we are making investments to enter into new areas of work to propel our growth which will lead to an increase in subcontracting cost during the quarter. These expenses will continue to reduce over quarters from its existing base, however we will continue to incur as and when we are servicing these new offerings.

In Q3 FY16, PAT margins improved 20 basis points quarter-on-quarter and 110 year-over-year to 7.8%. We continued to invest in sales to drive growth. Selling expenses accounted for around 6.1% of revenue in Q3 FY16 as compared to 6% in Q2 FY16. Our G&A expenses stood at 13.9% of total operating revenue. Earnings per share stood at Rs.2.76 in Q3 as compared to Rs.2.68 in Q2 and Rs.2.05 in Q3 FY15 signifying growth year-over-year and quarter-on-quarter.

Now moving to slide 10, our balance sheet continues to be robust. Our cash balance stood at Rs.333 million at the end of the quarter.

Slide 11 provides an update on various industrial segments we are present. Aerospace, our largest segment contributes to around 52% of our revenue in quarter three and recorded a strong growth of 9% quarter-on-quarter driven by our key clients. Heavy engineering accounted for 37% of our revenue in Q3.

In closing, I will say we have delivered a good performance in a seasonally weak quarter. We are seeing good demand across all segments and expect to bag new orders in the later quarters. We are confident that the measures we have undertaken will drive better predictability in the organization

On this note, I Thank you all for your participation and now request the moderator to open up for questions.

Moderator

Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Amar Maurya from India Nivesh. Please go ahead.

Amar Maurya

Kaushik, just wanted to understand when we talk about this new area investment, so can you just quantify what was the quantum during this quarter and what lead to basically the reduction in the intensity of the EBITDA margin?

Kaushik Sarkar See, we have made some investments in project consulting expenses basically for our new offerings that will help us to expand our services and get new opportunities from our existing customers as well as new customers. These costs will decrease as we internalize the competencies and at the same time once we have the competencies it will help us to grow in the future as these are the investment in people as well as in practice.

Amar Maurya And secondly sir, like when we talk about the new areas and new verticals, I believe we are already diversifying, so what are these other new verticals which we are looking for?

S. Valmeekanathan So the other new areas that we are looking for from a vertical and a horizontal point of view we stated earlier itself, medical is one of the areas that we are exploring, and, of course embedded and some digital areas would be of interest to us from the service line point of view, which is the fast moving area. It is not going to be an overnight momentum but it will take some time and investments are in place and these sectors require not just technology competence, some level of regulatory as well as domain understanding is extremely critical and that is how we are building components to this.

Amar Maurya So this is primarily related to the embedded part and digital area?

S. Valmeekanathan Yes.

Amar Maurya And the last one sir, when we say about this fixed cost reduction over a period of time, so what kind of margin levers we see going forward, how it is going to play out if you can help me understand that would be great.

Kaushik Sarkar So we have a lot of levers, one is utilization. We are at around 70% utilization blended rate, there is scope of increasing it by around 5% to 75%. The onshore-offshore mix is another key lever. We are constantly improving our offshore revenue. The other key lever is the role ratio, the headcount pyramid, we are constantly improving on that and that gives us substantial savings as we move forward which has already reflected as you see in the last few quarters our margins are improving quarter-on-quarter. I think these are the key things. The other thing is we have around 30% excess capacity which we can use to grow the business without further investments. So a lot of levers are there to improve the margins further.

Amar Maurya Sir, my last one is, just wanted to know more about these new Board Members as well as the new gentlemen in the US, so what is the strategy like, how we are going to leverage the expertise of these gentlemen?

Sudhakar Gande One of the focus areas for us is the US market, that is a market where we need some more penetration. We have hired a Global Head of Sales for the Company based out of US, he will handle entire sales process of the Company and this gentleman is called Venkat Vardhini. Venkat spent about 20 years in sales and marketing of Engineering Services, he knows the sector completely backwards and he has worked with companies like Cyient, Bajaj Kawasaki, and HCL Technologies, which was his last job. His addition this quarter is a very important addition for us, he is relooking at the sales organization including some more inductions at various levels, because this is very essential for us as last time we mentioned we have 12 marquee global customers all in the top three to five of their respective fields in the world. So out of these 12 customers we have already touch based with two to three at some level, With the addition of Venkat, he will help put in place systems and processes, which will drive the growth process.

Amar Maurya So this is the investment which we are doing in US, right?

Sudhakar Gande Yes.

Amar Maurya So other Board Members, like Venkat is one, I believe there are two more incubation, right?

Sudhakar Gande No, there is no Board Member addition this quarter.

Moderator Thank you. Our next question is from the line of Avinash Sharma from Dalal & Broacha. Please go ahead.

Avinash Sharma Sir, would like to have some commentary on our Automotive and Industrial Products vertical.

Sudhakar Gande Automotive and Industrial side, see our percentage of business from this is relatively smaller, but we are doing two important additions here. We are most likely hiring somebody this quarter, one who is based in Germany and France, totally focusing on Automobiles where these large global customers are based. So this is one initiative we have done. Second thing also on the Industrial side, we are looking at two more sectors as mentioned by Val, one is the Medical Devices and also High Technology. Medical Devices, as you are aware, is one of the very high growing areas in Engineering Services space and is fairly regulated. Aerospace is one of the most regulated industries in the world, so anyone who is operating in that space is generally acceptable to other industries. Since we are fortunate we have proved our metal in this area, Aerospace industry, Medical Electronics is a logical area for us to enter. We are looking at that area very seriously and our new sales head already worked in that area. So that is area one. Area two is the High Technology, companies like Cisco etc we all fall in that category, these are two specific verticals we are looking which will drive the growth further.

Avinash Sharma And we would not be requiring any specific capacity addition for any of these?

Sudhakar Gande No, as Kaushik told you we can increase our revenue without adding any infrastructure, on the existing infrastructure. The only variable thing we need to do is people and some costs related to software tools etc, but not the real infrastructure.

Avinash Sharma And sir just one clarification, 4% revenue which we classified under Renewable Energy, is it possible to share that is it all from the one client, from Siemens?

Sudhakar Gande Yes, it is one client which is one of the largest companies in the world and we are dealing only with one division which is less than 3% of the company's revenue. So if we can do it right the opportunity within that company itself is very huge.

Avinash Sharma And sir is it possible to quantify the order book or you would be not providing those number?

Sudhakar Gande As a policy we do not provide order book, but I can say we are improving quarter-on-quarter.

Avinash Sharma Yes, if I were to compare this year and last year?

Sudhakar Gande I can only say that our order book is increasing quarter-on-quarter better than last year and it is in the right direction.

Moderator Thank you. Our next question is from the line of Rahul Agarwal from VEC Investment. Please go ahead.

Rahul Agarwal A question on Automotive and Industrial Products again, I was just seeing the revenue numbers, there is some weakness in terms of Q-o-Q or YoY comparison, any understanding you could provide for me on this?

Kaushik Sarkar The Automotive numbers declined a little bit because of the Chennai floods, we lost a few days out there. That is an interim decrease, Q4 it will come back.

Rahul Agarwal And secondly, the merger of AXISCADES Aerospace and Defense company, I have the August presentation which gives me fiscal 2015 numbers, is it possible to share nine months consolidated numbers put together, the engineering services plus aerospace and defense?

Sudhakar Gande That will not be possible as a policy more than anything else, but only one assurance I can give you is that company is also progressing in the same direction. These are interesting times and further information on this we will share little later once we get some certain formal approvals. It is on track whatever we mentioned at that time.

Rahul Agarwal So on the merger part let us say first quarter fiscal 2017 we will start disclosing consolidated numbers?

Sudhakar Gande Yes, the effective date of merger is 1st April, 2016, irrespective of when it happens, point number one. Point number two, you are right, most likely Q1 by when we will be able to get all the approvals, we will share all the information.

Moderator Thank you. Our next question is from the line of Niraj Dave from Samvadh Financial. Please go ahead.

Niraj Dave Sir, any dividend policy company has decided and what kind of CAPEX we are intending to incur during next year FY17?

Kaushik Sarkar Well, the dividend policy, we will be possibly only taking this item in the Board meeting and whenever we have some good news we will definitely share with you and I cannot comment anything more on that at this stage. As far as CAPEX, it is very marginal in our line of business compared to the cash flows and our ability to generate cash, so that is not an issue.

Moderator Thank you. Our next question is from the line of Pallav Shah from Pi Square Investments. Please go ahead.

Pallav Shah Sir, I just had a question on when you say medical devices, like you want to enter into Medical Devices, how are we positioned into that business, how are we going to add value to the whole supply chain?

Sudhakar Gande See two things, as I said Medical Devices is one of the high growing area in Engineering Services, point number one. Point number two, it is very similar to Aerospace because it is heavily regulated with a lot of certifications, approvals you require for launching a product. So like you launch an aircraft it has to go through multiple levels of approval before the aircraft can fly off, the same in medical devices it needs several kind of certifications. Third, the investment required in medical is generally large, so once somebody gets a product approval it is a global product. So accordingly it is a very interesting area, but at the same time very complicated area and because of our experience in Aerospace we are able to look at this. And second is our Global Head of Sales Venkat has already worked with few of these customers for over the past one decade in other assignments, so we collectively looked at the opportunity and finally we decided this is one good area to enter. How they operationalize this, Val can throw some light on this.

Pallav Shah So if I am not wrong, in this Medical Devices we would be helping on the software side or the manufacturing of the devices?

Sudhakar Gande No, design.

S. Valmeekanathan It is only design, so the sector, like Mr. Gande said, is highly regulated and we are slightly well positioned because we have dealt with a regulated environment and it is the DNA of the organization. It is a fast growing one and the game is changing in the Medical Devices sector where devices are getting networked and there is a significant growth opportunity for digital and industrial IoT and that is something that we want to and we have decided to invest in, including the embedded. So these are aligned to our strategy, so embedded, industrial IoT and the medical sector are fairly well aligned, leveraging our strong expertise in the regulated industry. Then of course there is a mechanical services area which is naturally common, but regulated plus the other sectors make it lot more compelling.

Pallav Shah Sir, my next question is on the Heavy Engineering side, we have seen continuous reduction in the contribution of the revenue from last few quarters, we saw last quarter 39% and again started decreasing, so it is like some of the clients are not able to go through more contracts through us or how is it working out with us the whole Heavy Engineering field?

Sudhakar Gande See, Heavy Engineering globally the volumes are coming down, if at any time economy gets affected Heavy Engineering is one of the first sectors that will get affected because you are buying large machine you will always defer by a year or two. So the first point you have to keep in mind that the industry is undergoing some change, the volumes have come down in the last three, four years continuously. But the good part is, historically Heavy Engineering has all only worked in very developed markets like US and selectively Europe, so the entire manufacturing base, part of the manufacturing base is moving to other countries. Just to give an example, one of the large OEMs had a ratio of 80:20, that was 80% coming from US from the top guys, 20% coming from other than US and Europe; their internal strategy is they have already moved 65:35, that means in the last three years it has come down 65 US and Europe, 35 other markets. So their eventual game plan is to make it 35:65, that means 35% coming from US and 65% coming from rest of the world. So the point I am trying to say is, while the industry has gone down, the impact on us is very miniscule, for example, for a large OEM where we worked they have decided to cut down the workforce by almost close to 15,000 which is 20% of their workforce close to that, whereas our employees are less than 2-3%. That is a company completely in western market US, they would have been affected by almost 15%. There is an opportunity but at the same time there is an impact, but impact on us is very minimal. To de-risk this, what we are looking at is we are looking at this year annual operating plan for next year 2016-17 we are looking at to adding two more customers in that area so that overall growth will continue to sustain.

Pallav Shah So sir if I can get a CAPEX breakup between our Aerospace, Heavy Engineering, Auto?

Sudhakar Gande Let me make you understand, this business does not need much CAPEX, what do we do CAPEX for is to buy software tools, some machines, some servers, so this is only it, it is not a CAPEX driven business.

Pallav Shah Means on the client acquisition side you must be doing new development of a software or machine or something?

Sudhakar Gande No, there are two things here, one is, CAPEX do not bother too much because a few millions of dollars here and there is not going to make a difference, but when we are

acquiring a company sometimes we have to take money, but if you look at our balance sheet we are completely underleveraged and if I need to borrow some cash in the system, our balance sheet has Rs. 30 crore or something like that, our company has a underleveraged balance sheet and whenever I am acquiring a company our simple philosophy is, if I acquire a company let us say \$20 million you do not need to put \$20 at day one, maybe I will put some \$10 million, rest all I will acquire over years, you can see our historical strategy in terms of acquiring Axis and acquiring Cades, including others, this is the same strategy we followed. So we have enough levels of financing to ensure that, so that is not a problem. If it is a good acquisition with a strategic fit in terms of IPs or in terms of some specific areas, like Val mentioned embedded systems, those are the areas we are looking at, if any good company is there we will have to take over and we will always look at acquisitions and at any point of time we have few things on our table.

Pallav Shah The Medical Devices sector we are planning to enter, so are we seeing any sort of acquisition on that side in near future, if we are entering into that division?

Sudhakar Gande No, it is like this, strategically any of these new areas we are open to do a small acquisition which will have a good customer base, but at the same time we have to look at in-house capacity before we go to a customer. But meanwhile if I get, let us say for example one of the largest companies in the world in Medical devices is Johnson-&-Johnson, if there is a precise company working with him somewhere in US let us say a \$10 million company, I would love to acquire because that gives me access to Johnson-&-Johnson over night. So that kind of acquisition, yes we are looking at.

Kaushik Sarkar The other point we just mentioned for Heavy Engineering is that you are seeing a dip in the revenue in Q3 16 because the number of days in Q3 are less, number one. Number two, more or less most of the revenue is time and material. Secondly, we lost some of revenue for Chennai floods. If you see Q3 FY15, it was only 34%, it has improved over that. So you might see mathematically drop but in absolute numbers it is not going down because what is happening is our Aero sector is growing significantly so overall percentage is showing a lower number

Moderator Thank you. Our next question is from the line of Avinash Sharma from Dalal & Broacha. Please go ahead.

Avinash Sharma Just would like to clarify from your end, that when you say embedded design, is it related to only Aerospace vertical or it will be across the industries?

Valmeekanathan See, embedded is across, every industry is looking for connected portable devices, connected ecosystems, so embedded is an entry point into connected products, so it will service all sectors, and for us it also is an opportunity to get into the software side through the embedded.

Avinash Sharma Sir, till now we were not having any projects which were involving these inter connected software designing?

Valmeekanathan In the interconnected products only on one service and not with the embedded.

Avinash Sharma We had only in one service line till now?

Valmeekanathan Yes, that is mechanical product development but not the embedded space, so embedded space is an opportunity for us.

Avinash Sharma So have we started any pilot projects or something like that?

Valmeekanathan It is an ongoing conversation. I would say yes but it will take some time.

Sudhakar Gande We can't share specific information on this.

Avinash Sharma And sir, when we talk about onshore-offshore ratio being one of our margin levers, so wanted to know that as you said that it takes certain time before a project gets transferred more towards the offshore billing, so could you give a breakup of your current billing in terms of onshore-offshore?

Kaushik Sarkar Around 55% of the revenue comes from onsite and 45% from offshore.

Avinash Sharma And our aim is to gradually increase the offshore component, right?

Kaushik Sarkar Absolutely, and there is a huge scope out there.

Avinash Sharma And what would these numbers be last year same time, would you have that?

Kaushik Sarkar See, in last year even Q2 last year was around, onsite was around closer to 56%.

Avinash Sharma So it is almost similar from last year?

Kaushik Sarkar Yes.

S. Valmeekanathan See, what is important to understand here is, ongoing projects obviously will continue to improve efficiency by offshoring or improving the pyramid, but any new opportunities which is our current need, we continue to invest which includes the onsite placement of people so that we are able to penetrate, so whatever has matured will improve, whatever needs to have an early start we will have a higher or richer onsite. So it will be a good balance all the time.

Avinash Sharma And in terms of client engagement, I mean obviously after catering the same client for a long time then you end up maybe like developing an offshore development center in India, so currently like how many ODCs do we have?

Sudhakar Gande Currently we have four ODCs for global OEMs, large global companies.

Avinash Sharma And the aim would be to increase these to more of our existing clients?

S. Valmeekanathan Naturally, of course.

Sudhakar Gande Naturally and on this experience when new customer comes if he wants to evaluate, these four ODCs we have developed for global OEMs, they will also be comfortable to give an ODC.

S. Valmeekanathan It will also depend on maturity, so we will continue to track the maturity and improve the operational as well as the richness of relationship.

Avinash Sharma So you are seeing with some of the existing clients a greater chance for these ODCs?

S. Valmeekanathan Absolutely, that is why we are investing.

Sudhakar Gande And also today we have four ODCs, we are looking at maybe adding another two more next one or two years, at least one year and these are all absolute global customers, million dollar companies in global OEMs.

- S. Valmeekanathan** We start with one service then we expand to multiple services, the same client comes to us and says we have seen what you have done, why don't we expand our scope to multiple service lines, multiple departments. These are ongoing conversations.
- Kaushik Sarkar** The other thing, one quick update. See, FY14 the onsite revenue was around 60%, on the other hand FY15 was around 56%, currently for the last nine months average we are at around 54%. In this quarter it has improved marginally because we have entered into new services onsite to get penetration to the customers. But our constant endeavor is to reduce that and there is enough scope for that.
- Sudhakar Gande** I will share one example, one of the top OEMs when we started a project it was almost like 90:10, 90% onsite and 10% into India, so over a period of three years we are almost down to 35% onsite, 65% offshore, and eventually the game plan is everything going right to 20% onsite, 80% offshore. So that is an opportunity.
- Avinash Sharma** And sir you are not sharing the numbers on ACAT for the nine months, right?
- Sudhakar Gande** I do not want to share the numbers but only I can give you one or two important data for your information. Generally, it is in line with whatever we planned, point number one. Point number two, we are currently working on three large offset contracts which are all \$50-100 million size, very large and when the OEM wins the contract we will win the contract, so it is almost like certain when they win and these are all with the very large global companies.
- Avinash Sharma** This is under ACAT you are mentioning?
- Sudhakar Gande** Under ACAT, yes. So these are all in the large areas, areas like missiles, areas like fly catchers etc and we did a lot of work and with some of them it is a repeat kind of work for us.
- Avinash Sharma** And when you work on these contracts the revenue generally comes in phases right?
- Sudhakar Gande** Typically what happens, let us say this contract is, I am just putting a number \$100 million, \$100 million normally will be executed over five to six years, sometimes five years, sometimes four, but you take an average five. And you will get almost evenly spread, sometimes of course ups and downs but by and large. And the best part is some of these guys will have a large annual maintenance contracts (AMCs). That means after you deliver one specific product, we have an AMC for 17 years, because every year you get revenue because nobody will accept you if you do not service and if there is any problem, so is a hit on value. And second is, most of these are all milestone driven, let us say I have \$100 million they will say milestone one, two, three, four, five but generally takes five years approximately. And the best part in this is, once you are comfortable and you work with one project they will be very happy to repeat because nobody wants some new guy coming all over again.
- Moderator** Thank you. Our next question is from the line of Sarika Kukshya from Equirus. Please go ahead.
- Sarika Kukshya** We have talked about the addition of seven clients, if you can elaborate more about them, any prominent name and what would be the size?
- Sudhakar Gande** Names, we will not be able to share, but one is in a very specialized area called tooling which goes with Aerospace.
- Kaushik Sarkar** See, if you see all those customers they are in multiple geographies and diverse customers ranging from engine manufacturers to setting up of commercial vehicles,

to Tier-I suppliers to US Aero major. We cannot name them but this will give you enough indications that those are big customers that we have just penetrated and we will grow in the future.

Sudhakar Gande And this is in line with our strategy of diversifying verticals. And an important point out of this seven, three of them are working with a large global major in US Aerospace which will give some kind of long-term business, because once you start working with them they get continuous business from the OEM.

Sarika Kukshya So what will be the approx size of these orders?

Sudhakar Gande These typical orders will be \$0.5-1 million in size, but the point here important is, over a period of time it can grow really big, penetrating is a most important, it takes couple of years to get a certification to say you as a person can work with us. So we have done that. So now is the time where we will get the actual business.

Sarika Kukshya And if you can talk more about the multi-year contracts, what percentage of the revenue would it be?

Sudhakar Gande See, one of the global largest manufacturers of aircrafts in the world, they have a system where they certify companies as an engineering service supplier, that means you can deal with any of their units anywhere in the world on engineering design. And globally this year they have selected about 16 companies, we are one of the 16 and this contract is for three years, so in three years I have full access to go to all their operational units, start working on that. And remember one thing, in the global structure there is a little bit of consolidation of your suppliers, the same company had about 28 global suppliers six years back, they have now brought it down to 16. So this is a very-very important step, we are one of the few companies selected globally and this year a very tough competition was there but we maintained.

Sarika Kukshya So what kind of visibility does it give to the top-line then?

Sudhakar Gande The numbers I cannot give you.

Sarika Kukshya There could be a 10% to 15% is the safer bit?

Sudhakar Gande Sorry, do not ask me the percentages, but I can only say it is in the right direction. Just to give a clue, if you are working with a \$40 billion - \$50 billion company it is up to you what you can make out of that, because there are only 16 companies who can work with them for engineering services.

Sarika Kukshya Thirdly, if I have to talk about the niche competencies which you actually are aiming for, what it could be other than the medical devices which you already have elaborated?

S. Valmeekanathan So vertical point, we made a reference to expanding in Automotive and getting into Medical and Hi-Tech areas. Certainly this would require not just our current skill sets but into new skill sets like the embedded and there is possibility of getting into PLM, there are industrial automation, digital, to some extent software. So quite a number of them are certainly possible. So when you talk about the customer product line, there are multiple components to it, starting with a factory you will have industrial automation and to get into the product itself then we are talking of mechanical, mechatronics, electronics, embedded electronics, then Internet of Things. So all these areas are something that pursuing based on the sectoral requirements. I mentioned about working with the ecosystem, not that we are going to be incubating everything from within, but we want to leverage the ecosystem to be able to

differentiate because the market is changing, we are expecting very different outcomes. So it is not easy for traditional players to do the same offering in the same business model. So the business model is evolving and that is something that we are very conscious of.

- Moderator** Thank you. Our next question is from the line of Amar Maurya from India Nivesh. Please go ahead.
- Amar Maurya** Sir just wanted to understand what would be our time and material and fixed contract mix during the quarter?
- Kaushik Sarkar** Fixed price was around 32% in Q2 FY16 which has improved to 38%. Time and material was at 68% in Q2 which has improved to 62% in Q3. So we are focusing more on fixed price contracts.
- Amar Maurya** And what was the utilization sir?
- Kaushik Sarkar** Utilization is around 70%.
- Amar Maurya** Around 70% for offshore, right?
- Kaushik Sarkar** No, offshore and onshore mix, so onshore will be more than 90% and offshore will be around 63-64%.
- Amar Maurya** 64%, right?
- Kaushik Sarkar** Yes, that is around 70% on a blended basis.
- Amar Maurya** And what would be the total employee base sir, I mean FTE basis?
- Kaushik Sarkar** FTE basis we have around 1,700 people total and around 1,500 people are billable.
- Amar Maurya** What will be top 10 client contribution to revenue?
- Kaushik Sarkar** The top 10 will be around 93%.
- Moderator** Thank you. Our next question is from the line of Amish Kanani from JM Financial. Please go ahead.
- Amish Kanani** Sir, we have seen the European territory share going up this quarter and is despite the cross currency headwind, so if you can share us the constant currency growth in terms of YoY or QoQ?
- Kaushik Sarkar** See, 85% of our revenue are in US dollars, so the impact is very minimum.
- Amish Kanani** So despite the geography being Europe, we are billing in dollar is what you are saying?
- Kaushik Sarkar** Yes, all our major contracting is in US dollars.
- Amish Kanani** And in terms of Heavy Engineering, we have seen slight downtick in the share of revenue, so is it something where one of the very large client of ours is facing some headwind, is it the reason why there is a issue on the growth in that vertical?

Kaushik Sarkar See as I have explained a few minutes back that Q3, the number of billable days were lower because of the vacation, that is one and a lot of our billing in Heavy Engineering is time and material. The other thing that happened is because of Chennai flood, we lost around five to six days. So that is why revenues have gone down this quarter. And I told from Q3 FY15 it has improved from 34% to 37%, so it is not going down what you are seeing mathematically.

Amish Kanani So I wanted to understand whether it is more of a quarterly phenomena and not something which should bother us, in the sense that it is not a trend of decline, right?

Kaushik Sarkar Right.

Amish Kanani And in terms of merger sir, when you said the likely contract that we are discussing in terms of the merged entity ACATL, will the ramp up or likely addition in the pipeline, is it FY17 event or FY18 event sir?

Sudhakar Gande So what happens is projects will follow a process. As I said, there are three very large projects which are in very advance stage, so our estimate is at least one or two of them will, at least one should definitely happen next year, one or two may happen next year, in which case next five year revenues is covered.

Amish Kanani So sir my question was, will the revenue also start flowing from FY17 or it will be FY18?

Sudhakar Gande Some amount will definitely come in FY17, but FY18 and onwards it will be steady state for next three, four years.

Amish Kanani So FY17 second half will be a ramp up and then maybe 18?

Sudhakar Gande Yes. And the second important thing is these projects also enable us to become a part of global supply chain for these companies. So there are two lines of business with these OEMs, one, they are part of offset contract, there is a contract for five years and after five years we can bid one more contract to work with them. But while doing this, aim is to become a part of the global supply chain, the same product which will last an eternity. So I have several revenue streams, one is AMC which is for a very long time to come, second which comes from the Ministry of Defense and one is a global supply chain.

Amish Kanani So all these are Defense verticals sir, or they are all in...?

Sudhakar Gande Obviously in Defense, Aerospace verticals.

Moderator Thank you. Our next question is from the line of Avinash Sharma from Dalal & Broacha. Please go ahead.

Avinash Sharma Sir, just would like to know, can you share the number of clients we are working with in both the Aerospace and Heavy Engineering vertical, like total number of clients.

Sudhakar Gande See, as I said we have 12 marquee customers, the top three to five in the respective areas. If we take Aerospace sector, out of the top four we are already working with two, we may add one more hopefully this year out of the four. On Heavy Engineering we are already working on one of the top three, and one we are targeting this year. On Energy sector, we are working with one of the top one out of three. So our focus has been historically to get into the top three to five customers in the world in that sector and work hard to prove the one guy that we are doing things right and repeating it second is lot more easier, like it happened in Aerospace, we spent a lot

of time with one large client, the second client was far more quicker to get it and third client will be a little more easier. So you have to take one guy and work him closely, satisfy him, all systems, processes, compliances, everything to be done and then go to the next guy.

Avinash Sharma

So majorly 12 marquee clients across all the verticals?

Sudhakar Gande

Yes, and I am repeating, all these 12 guys are among the top three to five in the respective areas in the world, so you have to really work hard to satisfy them.

Avinash Sharma

Does it include an Automotive client as well?

Sudhakar Gande

Yes.

Moderator

Thank you. I now hand the conference over to the management for their closing comments.

Sudhakar Gande

I would like to thank all the analysts and all the people who joined the call. It was interesting and we were able to share some information and we look forward to more such calls in future and if also any important and interesting development happens, we will continue to engage with all of you. I also give personal invitation to all of you to visit our facilities in India and abroad whenever you have time for Bangalore, US and Europe to get a little more idea of the customers and what we are doing with our projects. Thank you.

Moderator

Thank you very much, members of the management. Ladies and Gentlemen, on behalf of AXISCADES Engineering Technologies that concludes this conference call. Thank you for joining us and you may now disconnect your lines.