



“AXISCADES Technologies Limited  
Q3 and 9M FY '23 Results Conference Call”

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**Moderator:** Ladies and gentlemen, good day, and welcome to AXISCADES Technologies Q3 and 9M FY '23 Results Conference Call organized 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 touchtone phone. Please note that this conference is being recorded.

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

**Shishir Gahoi:** Thank you very much. Good evening, everyone and I am delighted to welcome you all to this earnings call for the third quarter and 9 months ended December 2022. I hope you all had an opportunity to review our press release and the investor presentation which are available under the investor 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, and our Group CFO, Mr. Shashidhar SK. They will take you through our results and business performance. After which, we will proceed for the question-and-answer session.

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

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

**Arun Krishnamurthi:** Thank you, Shishir. Good evening, everyone. A very warm welcome to all of you, and I trust that you are keeping well. I am happy to address this quorum having recently completed 1 year leading AXISCADES. The last 1 year has been transformational and fulfilling for me and for the company, and we have been able to reposition the company in terms of its business performance and preparedness for the next level of growth.

For those of you that I'm meeting for the first time, I joined AXISCADES in November 2021. I relocated from London to Bangalore for this job and whilst in London was in Tata Technologies as the President for Europe and managed \$200 million engineering services portfolio for automotive, aerospace and industrial. Prior to that, I had a long stint in Wipro where I managed a half a billion dollar portfolio for the utilities Industry. I have about 20 years of experience on sales and managing P&Ls, and I have lived in the US and UK, working with customers intimately to win, grow and scale up our business.

Our strategic focus in the short to medium term is to derisk the business with a 3-pronged approach of vertical diversification, customer diversification and digital first, and the company has made considerable progress on all 3 fronts by diversifying our revenue streams from new verticals, expanding our client base and bringing digital and automation to the forefront. We continue to invest in technologies of the future, such as embedded software, AIML, PLM on the Cloud and Industry 4.0. We have strengthened the marketing team, both in India and overseas,

who are working towards creating more strategic logos, expanding our customer base as well as leveraging the competencies of Mistral. You will see the results of these initiatives in the forthcoming quarters.

I would like to share a key update for the quarter. In line with our guidance at our previous earning calls, I am pleased to report that we have concluded the acquisition of Mistral Solutions. This is a value-accretive asset for the company, which will help us expand our capabilities and offerings to our global customers in semiconductor, defense and homeland security. The integration process between these 2 entities is well underway with seamless collaboration between both the companies. Going forward, we will put our best effort to drive the synergies from this acquisition in terms of competencies, incremental revenue and profitability.

We are delighted to report that Airbus has renewed our contract for the fourth time in succession after a rigorous joint sourcing optimization campaign which significantly enhanced scope, thereby strengthening our close to 2 decades of relationship with Airbus. This contract renewal will entail niche engineering services in product development and plant engineering across fuselage and wings, covering different locations and divisions of Airbus. This is a testimony to the dedicated work and execution capabilities of our team.

We continue to see good traction in other verticals such as automotive and energy. We are positioning ourselves to become a preferred and strategic partner in both these sectors. Our engagement with our automotive and energy customers is ramping up as per our expectation. The revenues from this segment, which are currently in single digit will form a significant portion of our revenue in the next 2 to 3 years.

With the addition of the expertise in semiconductor and embedded electronics domain of Mistral, our product engineering services segment is picking pace, registering strong growth in the current quarter. We would like to cross-sell these competencies to our global client and reap the benefits of synergy.

Moving forward, this segment will be a key focus area and a key contributor to our financial and profitability metrics. The Product & Solutions vertical has resumed its growth trajectory, with revenues in 9 months FY '23 growing to more than double of the same period of previous year. This growth is driven by the contract for supply of anti-drone systems by AXISCADES Aerospace and radar and other defense electronics by Mistral to the Indian defense.

As the focus on home-grown technologies increases, the defense sector offers an exciting and significant opportunity for the company in the future. The participation of AXISCADES Mistral and AXISCADES Aerospace as one entity in the ongoing Aero India '23 has drawn much interest from business visitors to the aero show, including all the 3 wins of defense forces.

I'm happy to report that the company continues to record healthy numbers, both in terms of revenue and profitability. The consolidated revenues grew by 10% quarter-on-quarter and 26% year-on-year at INR 213.4 crores, which is the highest-ever revenue recorded in any quarter in any financial year. So for us, as a company, this is a historic quarter.

For the 9 months of the current financial year, the company's revenues was at INR 590.4 crores, a growth of 42% over the previous year. With EBITDA at INR 93.6 crores, which excludes other income, the company 9 months has exceeded the full EBITDA of INR 68.7 crores recorded in FY '22. The EBITDA margin at 15.8% of revenue is a significant improvement over EBITDA margin of 9.8% recorded in the same period of previous year.

All our subsidiary entities and verticals have shown healthy growth year-on-year. However, we have to reckon the variability between quarters both in terms of revenue and profitability in our defense business from Mistral and AXISCADES Aerospace due to its lumpiness. And it is more appropriate to do the comparison on the basis of completed year rather than quarter-to-quarter.

To conclude, the company is in a prime position to capture the scale and scope of opportunities in the engineering services sector. And our objective is to continue to generate long-term value for all our stakeholders. We seek your continued support and blessings in this journey.

I would now like to invite our Group CFO, Mr. Shashidhar, for a brief overview of the quarterly and year-to-date financial results.

**Shashidhar SK:**

Thank you, Arun, and good evening to everyone. I, as Arun, completed 1 year with AXISCADES in January of this year, and it has indeed been an engaging and satisfying year for me too, working with Arun on this business transformation journey.

Being a CFO as well as the Company Secretary most of my career, I had an onerous task of performance as well as conformance. All along, in my entire career of 30-plus years, of which 26-plus years has been as a CFO, I have been part of business turnarounds in each and every stint of mine. As such, I have always been an operational CFO, facilitating and driving business turnarounds and growth apart from being a compliance CFO. Like Arun, I also come from the Tata stable.

I was heading the aerospace and defense vertical of the Tata for close to a decade as the CFO and Company Secretary. My immediate past profile was as a CFO and Company Secretary with Stovekraft, a Sequoia-funded company, which I took public in 2021, one of the most successful public issues at that point in time.

My focus in this company in the short to medium term is to build momentum in revenue growth, cash generation, profit margin and velocity, meaning optimization of working capital. Coming to the financial results, we are pleased to share with you that we have delivered robust growth in revenue and profitability for the third quarter and 9 months of the current financial year.

The quarterly and year-to-date financial results are already with you, which are in accordance with our expectations. Our endeavour is to continue to record healthy growth and profitability by focusing on our 3-point strategy of vertical diversification, customer diversification and digital first as was elaborated by Arun. For Q3 of FY '23, our consolidated revenue stands at INR 230.4 crores, the highest ever revenue recorded in any quarter of the financial year in the history of the company.

The company's revenue grew by 10% sequentially and 26% year-on-year. In fact, in the last 5 quarters the company has recorded upwards of 26% growth year-on-year in the every single quarter. For the 9 months of the current financial year, the consolidated revenue stands at INR 590.4 crores, growing by 42% year-on-year. With this, we have achieved almost the entire revenue. To be more precise, 97% of INR 608 crores which we recorded for the full year FY '22 in just 9 months of the current financial year.

Of the INR 590.4 crores, AXISCADES, the parent entity, recorded a revenue of INR INR 327.5 crores and grew by 25%. AXISCADES Aerospace at INR 64.7 crores grew by 82% and Mistral Solutions at INR 198.3 crores grew by 68% year-on-year. As such, the parent company, AXISCADES, contributed 56% of the total revenue, Mistral contributed 34% and AXISCADES Aerospace contributed about 10% of the consolidated revenue.

All business verticals registered healthy revenue growth during the quarter, except for heavy engineering, which degrew by 7% quarter-on-quarter and 3% year-on-year due to supply side challenges. Aerospace revenue grew by 13.5% quarter-on-quarter and 42% year-on-year. Automotive and energy which together constitute about 7% of revenue, grew upwards of 60% year-on-year. Product engineering services, which constitutes the semiconductor and emitted business of Mistral, grew by 29% year-on-year.

And Products & Solutions business, which constitutes our defense and homeland security revenue of AXISCADES Aerospace and Mistral grew by 29% year-on-year. Our EBITDA for the third quarter is INR 29.6 crores on revenue at 13.9%. As was apprised during the previous earnings call, the previous quarter Q2 FY '23, the EBITDA margin was unusually high at 19.3% due to the service revenue of AXISCADES where the expenses were very less.

So in fact, the EBITDA margin which was for AXISCADES Aerospace in Q2 of FY '23 was at 41%, which took the overall enterprise EBITDA to a high level of 19.3%. The normalized EBITDA margin for this business is around 14% to 15%. That is for AXISCADES Aerospace. So if you look at individual entities in Q3 FY '23, AXISCADES' EBITDA margin is at 14%, AXISCADES Aerospace margin is at 14.1%, and Mistral's margin is at 15.4%. Our 9 months FY '23 EBITDA is at INR 93.6 crores.

The comparative EBITDA for the same period of previous year was at INR 40.7 crores. As such, we have more than doubled our EBITDA as compared to the previous year. In fact, in 9 months we have already achieved 137% of the full year EBITDA of INR 68.7 crores recorded in the previous year FY '22. This excludes other income. If you include other income, the EBITDA is well past INR 103.7 crores at 17.26% as against the full year -- previous year EBITDA of INR 79.7 crores at 12.86%.

Our 9 months FY '23 EBITDA margin is at 15.8%, an improvement of 600 basis points over 9.8% recorded in the same period of previous year. Of this, AXISCADES, the parent entity's EBITDA margin is at 13.9%, an improvement over 7.3% recorded in the same period of last year. That AXISCADES Aerospace margin is at 23%. Previous year 9 months, it was at 3.7%. and Mistral's EBITDA margin was 15.9%, and the previous year's EBITDA margin was 14.6%. Our endeavor is to continue to enhance our EBITDA margins by enhanced revenue as well as

quality of revenue on the one side and improvement in operating efficiencies and digitization automation on the other.

As Arun stated, please note that the company needs to recon with variability in margins quarter-to-quarter in its defense business and it's more appropriate to compare the same on a year-on-year basis due to the variability in the composition of revenue between the quarters. The margins tend to be compressed in the quarter where the company is developing prototypes and bidding for tenders and tend to expand during production runs.

The company has taken an exceptional charge of INR 23.6 crores in the current quarter and INR 68.03 crores for the 9 months in the consolidated financial results. This is solely related to Mistral acquisition and pertains to the additional consideration and the interest paid to Mistral and the interest accrued on optionally convertible debentures, which is not part of the original purchase consideration of Mistral. We state that there will be no more exceptional charges in the company's books on this account going forward.

As stated by Arun, the company completed the acquisition of Mistral in December 2022 without having to dilute its share capital by opting to pay cash instead of share -- our AXISCADES share for Phase 2 of the transaction. And in the process, the company took incremental debt of INR 215 crores at noticeably higher rates of interest due to the tight timelines imposed with arbitration tribunal to close the transaction. The company is currently in the process of refinancing these loans at competitive rates of interest and hopes to complete the same as soon as possible.

While it is clear the company's free cash flow generation from EBITDA is impacted by investment of own funds for Mistral acquisition, some part of its investments in incremental working capital, especially in Mistral, and additional finance costs resulting from Mistral acquisitions, our endeavour in FY '24 will be to optimize working capital, refinance, pay down the debt and reduce the gap between EBITDA and free cash flows. As was informed during the previous earnings call, the company is wanting to write primary capital of around INR 100 crores plus to pay down the debt as well as price growth capital, the mandate has been issued to Edelweiss.

Hopefully, we will have something positive to report with the next earnings call. And also, as has been informed to the stock exchanges, the company has called off its proposed acquisition of Add-Solutions Germany post its due diligence process. However, the company is always on the lookout for value-accretive acquisitions.

To conclude, the company is bullish on the prospects and potential of engineering services industry and the path we have set out for ourselves for our continued growth and profitability. We thank each one of our stakeholders for being with us in this journey.

We'll pass at this stage, and we'll now open the floor to questions and answers.

**Moderator:** We have the first question from the line of Hemant Shah from Seven Islands PMS.

**Hemant Shah:** I have two questions. You said the realistic margins in this space is 14% to 15%. Is that correct?

**Shashidhar SK:** I basically talked about AXISCADES Aerospace, and the margin as what we are recording is about 14% to 15% on a normalized basis. You see, the margins, essentially what would happen is, during the development of prototypes, the kind of margins as what we get is around 14% to 15%. But the moment it gets converted to production runs, the margins are far, far higher. At the moment, we are completed quite a lot of, I would say, design programs where the prototypes have been completed, both with respect to Mistral as well as AXISCADES Aerospace. We are waiting for the production runs to happen for many of the programs as what we have bid for.

**Hemant Shah:** So going forward, can we expect some margin improvement, sir? That is my question. Is that the understanding right?

**Shashidhar SK:** Your understanding is right, yes.

**Hemant Shah:** And what kind of synergies we can expect with Mistral, sir, going forward, in terms of, say, reduction of cost as well as improvement in efficiency and the quality of the contribution of Mistral overall with AXISCADES.

**Arun Krishnamurthi:** Yes, Hemant, hi, this is Arun Krishnamurthi here. I'll answer your question. So firstly, the reason we acquired Mistral is because they have very strong embedded electronics capabilities and if you look at the engineering services world, most clients are pivoting towards embedded and digital, that's why the profitability is higher and the stickiness is also higher. And you have the ability to also gain greater mind share with the customer. So the objective that we have is that one is the defense business that we have through Mistral and the defense business that we have through our subsidiary.

We will look at how we can synergize and actually both are complementary skills because Mistral works with a lot of the defense labs like DRDO, LRD, companies like HAL, BEL, etcetera. And the AXISCADES subsidiary works with, one is the offset partners and directly with the armed forces, like the anti-drone system for the Indian Army, etc.. So both put together will actually cover the whole spectrum and address the complete defense spend that's available in India. That's point number one.

Point number two, all the verticals that we service, automotive, energy, aerospace, heavy engineering and semiconductor, there is a huge play for us to take the embedded electronics capabilities. If you look at AXISCADES traditionally, we have been a mechanical engineering-oriented company. So most of the work we did with aerospace, with heavy engineering was on the mechanical side. Now we are looking at cross-selling the embedded into these clients. So one is it expands the portfolio and the wallet share that we can have with our clients.

And number two, because these skills are quite rare and niche, the rates are better and the profitability will be higher. So we are banking big on these synergies. And these skills are not easily available. And Mistral has made quite a name for themselves. So we see the impact will come on, of course, on the top line because we can address more of the clients' business, but also from a profitability business perspective because we will be addressing higher areas of spend, which are more profitable.

**Hemant Shah:** And the synergies between the 2 companies in terms of the integration of the 2 companies, I mean have you faced any issues with respect to the work culture or the team, overlapping of the teams, please?

**Arun Krishnamurthi:** Actually, the integration is going very seamlessly. Part of the reason is that Mistral, there are 3 founders, cofounders, all of them are staying back with us and we are working shoulder-to-shoulder with them to make sure that the company is integrated. So we are well on that journey now. The culture integration is happening well.

We are harmonizing a lot of the employee benefits and the levels at which employees are and other benefits, etcetera. And we're also encouraging employees to come and work in each of those offices. So it's actually going well. Of course, as you know, integration takes 3 to 6 months. So we just started in right earnest from December 26 when we completed the acquisition. But I would say it is beyond our expectations in terms of how well it's progressing.

**Moderator:** The next question is from the line of Srinath Krishnan, an Individual Investor.

**Srinath Krishnan:** Congrats on the wonderful performance. Arun and Shashi, it would be helpful if you could share maybe your 2-, 3-year view on qualitatively, both qualitatively and quantitatively the strategy for AXISCADES and Mistral. That's my first question. And secondly, I guess, both Shashi and you own ESOPs in the company. What would give you happiness in terms of growth margins over a 2-, 3-year period? I understand that you are restructuring the company. So maybe a 2-, 3-year view would be helpful.

**Arun Krishnamurthi:** Thanks a lot, Srinath. I'll start by answering your questions. So firstly, good to talk to you again. Just in terms of what the outlook is going forward, I'll just spend a minute in talking in terms of what we have done over the past 1 year since we joined the company. So one is that, like we talked during the introduction, we have the 3-pronged strategy, which is predominantly around vertical diversification, the reducing the client concentration mix through client diversification and the focus on digital and embedded.

So this is something that we are banking big on because now we have 5 verticals. So we actually have a very good spread, I feel. In the past because we were exposed to just 3 verticals when any macroeconomic situation happened, we were detrimentally impacted. But now because we have a good spread and energy vertical, for example, is quite a recession-proof industry, we feel that we have a good spread to sort of stabilize the revenues and put it on a good growth path. Second is that the first thing we did is we wanted to transform the sales team. Earlier the company predominantly had account managers.

So we were, I would say, quite reliant on 2 major accounts. And the sales team was also more a farmer, so to speak, capabilities. What we have done over the past year, we hired about 4 or 5 people. These are people who are hunters, who can go and get new logos in new industries, and they can aggressively generate the pipeline. And this has sort of resulted in the great momentum, as we see now in automotive and energy, which are new verticals for us, which we started this year.



The third thing I would say is that we have invested big time in digital. So we have a head of digital, we have about 7 people. The focus for us is twofold. One is that we're looking at all the industry verticals. We're building out use cases. We have done a lot of brainstorming. We have 2 use cases per industry and we will build platforms and products which are differentiators. The second aspect is we are looking at internal automation very aggressively. So I have given targets to our teams, our delivery teams.

So we are looking at how we can do the same piece of work with reduced headcount and increase the levels of automation and the objective of reducing the headcount is to redeploy them on new projects. Because we are in a growth trajectory, instead of hiring 100 people, we can probably hire 50 people, if we can automate and digitize more. In terms of Mistral, I already -- when Hemant asked this question, I did mention that we are doing a lot in terms of cross leveraging. Couple of examples. For example, Mistral has a lot of capabilities on avionics. We are taking it to our aerospace customers because, like I said, we did a lot of mechanical, but avionics is something that again has a huge growth potential.

So they're doing that. Similarly, they have a lot of capabilities on radar technology, if you look at automotive with autonomous driving coming in, there's a big application for radar. So we are taking that. So those are just 2 examples in terms of how we are sort of cross-leveraging Mistral. And then we are increasing the focus on strategic accounts. So if we have 2 strategic accounts now, we will have -- we will add 2 more strategic accounts next year. So the model for growth that we want to have is not to acquire many clients, it's to focus on a few strategic accounts, so add 2 to 3 strategic accounts every year so that the quality of revenues is good.

We do more of project-based business. We are not interested in the staffing business because that is commodity. So we want to grow strategic accounts. That way, we get closer to the customer, we do higher value work and we also -- it becomes much more sticky for us. And that's the way we want to grow our business. Lastly, I would say we have done a lot in terms of visibility, and we've done visibility so that our customer recognizes more, we pop up more often when they think of vendors and suppliers whom they want to work with.

And we've also done a lot in terms of stakeholders, so that our stakeholders also recognize and, for example, participating in the aero show is an example of that. So in terms of going forward, if you look at last, FY '22 to FY -- sorry, the previous financial, we grew at about 17%. This year you've seen the 9-month numbers, the 3rd quarter numbers. So you can see that we have a very good growth trajectory. If you look at the industry, the ER&D industry grows anywhere between 15% to 18%. So for the last 2 years, the previous financial year as well as 9 months of this year, we have surpassed that number.

So our objective is to grow beyond industry growth rates. So like I said, the industry is in the range of 15% to 18%. Our objective is to grow beyond the industry growth rates. At the same time, focusing on EBITDA, focusing on cash flow, making sure that the fundamentals of the company are good. So that is what I would say in terms of forward-looking statements, Srinath. And I would say that in my 30 years of sales, I would say this is 1 year where we are seeing more opportunities than the people we have.

So it's a very robust pipeline that we have. And going into next year as well, we have very good order pipeline. So we are very confident that we will be on a good growth trajectory. In terms of ESOPs, I have 4% ESOP, Shashi has 3% ESOPs. What would we like to do? Obviously we'd like to create shareholder delight. We want to make sure that all our stakeholders are happy. And obviously, all of you are better experts on the stock market than me. So I don't want to get into predicting what the stock price is.

But you have seen that when we joined the company, when I joined in November 2021, the share price of INR 82, market cap 300 crores. Now it is somewhere in the INR 1,200 crores, INR 1,250 crores market cap. So we had a -- I think we have quadrupled it in 1 year. Not to say that that's going to again happen next year. But we are very positive that with the right outcomes and the right fundamentals for the company, everything else will follow.

**Shashidhar SK:**

Yes. So just to add to what Arun said, my single-minded focus for the short to medium term is cash generation, profit margin and velocity, as what I explained earlier. We need to optimize a lot of working capital as what has been deployed. And between last year and this year, the incremental deployment of working capital, especially in Mistral has gone up. So my focus is to kind of do everything possible in terms of reducing the incremental working capital deployment and remove that linearity and ensure that there is as less a gap as possible between EBITDA and cash flows.

Of course, we are very conscious of the fact that there's a lot of debt on the books. And we are progressing well in terms of refinancing it. And we hope to kind of, I would say, take out at least some portion of debt with a possible equity rise, which I'm talking about and at the same time, the journey with respect to margins, as you saw between last year, 11.3% in terms of EBITDA, we are now currently at 16%. We still have to reach at least about the 500 basis points between now and the next 3 to 4 years.

And that includes just about everything as what Arun stated in terms of the derisking initiatives of what is there. And also to ensure, to reduce the linearity or remove the linearity between revenue and cost, especially in terms of people and with all these automation initiatives. So we want to take maximum advantage of the operating leverage as what has kicked in, and that's where our focus is going to be going forward.

**Arun Krishnamurthi:**

Yes. Sorry, I just wanted to add one point, which I forgot, is that on the ESOPs both me and Shashi and I want to give everybody the assurance that none of it is time-based vesting, everything is performance-based vesting. So we are evaluated on top line, we are evaluated on profitability, on PBT, and on the qualitative basis in terms of how much embedded revenues, digital revenues and all of that. So everything that we have, 100% of these ESOPs that both I and Shashi have, and this is the same model we are also cascading down to the company, it will all be performance-based vesting.

**Srinath Krishnan:**

Great. And last question, for the Mistral employees -- I guess you have an ESOP structure here. For Mistral employees, do you plan a similar structure, incentive structure?

**Shashidhar SK:** Yes. That is the plan, Srinath because we have to retain the employees in Mistral. That is where our competencies can be -- the competency of Mistral can be leveraged. We have a plan and we're working towards that.

**Moderator:** The next question is from the line of Jeevan Patwa from Sahasrar Capital.

**Jeevan Patwa:** So Shashi, can you just give you a breakup of 9 months number between AXISCADES and Mistral? So how much is Mistal and how much is AXISCADES?

**Shashidhar SK:** So as I told earlier, the number with respect to AXISCADES in terms of revenue is INR 328 crores for AXISCADES, the parent entity. And all, of course, the standalone business plus all the other subsidiary entities and the global entities as what we have. And AXISCADES Aerospace is at INR 65 crores and Mistral is at INR 198 crores. Just to give you a comparison, the AXISCADES at INR 327 crores compared to numbers for last year was INR 262 crores.

So we have grown by 25%. And AXISCADES aerospace, INR 65 crores this year, 9 months, last year INR 36 crores. That means an 82% growth. And Mistral, whole of last year, they did INR 196 crores. In 9 months they have done INR 198 crores. Last year, same comparative 9 months was INR 118 crores, so a growth of 68%.

**Jeevan Patwa:** This year you're saying Mistral 9 months is INR 188 crores or INR 196 crores?

**Shashidhar SK:** INR 198 crores, INR 198 crores.

**Jeevan Patwa:** INR 198 crores. Okay. Okay. And in terms of the order book, what is the order book of Axis and Mistral?

**Shashidhar SK:** All the 3 entities put together as of 31st December, we have confirmed order book of around \$75 million and so we should be carrying close to about \$40 million to \$45 million to the next financial year.

**Jeevan Patwa:** Okay. And what is the deal pipeline, which is not confirmed, but reasonably we are sure that we can get some 70%, 75% of that.

**Shashidhar SK:** Actually, just the order pipeline in 4 different phases, right from the time an opportunity comes along. So the order pipeline with respect to all the entities other than Mistral is about \$280-odd million. And Mistral alone has got an order pipeline of INR 3,000 crores in the sense that all of these INR 3,000 crores, they are all prototypes which are manufactured and qualified and they are awaiting orders.

And the way the business goes in this particular business, this INR 3,000 crores is very, very much in the pocket in the sense that the production orders may get phased out the way the defense and the industry works. It may get phased over next, say, 5 to 8 years or even 10 years. But all of this is already in the pocket in the sense that they're all qualified prototypes. And it is not possible for the government to go elsewhere once these orders are placed by the government.

**Jeevan Patwa:** And basically, but these are long-term projects. So they are like 6, 7 years kind of.

- Shashidhar SK:** Yes. These are all design wins. They are all prototypes which have been submitted to the government against tenders. And those, I would say, prototypes have been qualified in the sense that they are all accepted by the various entities to which they have been supplied. And now they are awaiting orders.
- Jeevan Patwa:** Okay. And what is the headcount as of March 22. And what is the headcount as on December '22. So how much we have added in last 9 months, head count?
- Shashidhar SK:** We have added net about 800 people. So we have started off at around 2,000 people at the beginning of the year, and we are currently at about 2,800, including all the entities.
- Jeevan Patwa:** Including all the?
- Shashidhar SK:** Entities. That means Mistral, AXISCADES Aerospace and the parent entity. Yes.
- Jeevan Patwa:** Okay, okay. And how much would be the utilization? Is it all utilized or will there be any unbilled revenue, unbilled employee?
- Arun Krishnamurthi:** Yes, so, hi, Jeevan, this is Arun here. I'll take that question. So basically, our utilization is anywhere between 85% to 88%. This year we hired a lot of freshers, fresh from college. So we hired about close to 150 freshers. These people go through a 6-month training period. So they go through 6 month, which comprises of classroom plus shadowing some senior members and then they get billed.
- So the reason the utilization is in that region is because the freshers will get billed, and they all joined in the last 4 months. So we expect that when the next financial year starts, all of them will get billed. So we are at a very healthy rate. And if anything, we could take more people and get them billed. So in fact, we have a sign in our office which says trespassers will be recruited.
- Jeevan Patwa:** Okay. Great, great. And one question here, Arun, actually. So you have worked in Wipro, you have worked in Tata Technologies. So how do you see the difference between the billing rate for typical IT services company and the engineering research and service company? How much is the difference typically in the billing rate?
- Arun Krishnamurthi:** So I would, Jeevan, the difference predominantly is that in IT services the deal sizes are very large. So in Wipro or Tata, 100 million, 150 million is not uncommon. The biggest deal that I did in Wipro was actually 1.3 billion, which was a combination of asset takeover, but it was a 10-year deal at 1.3 billion. In engineering services, you don't get those kind of deals. The Airbus deal that we have, \$75 million over 3 years is actually a massive deal. So the big difference is there between engineering services and IT services, but the deal sizes are smaller.
- In terms of billing rates, it really depends on the work. For us, embedded digital commands better billing, more premium, whereas when it comes to certain types of mechanical engineering, that's more commodity. And that's why we are -- obviously, we want to continue with our bread and butter of mechanical, but we want to increase the share of digital and embedded. And that way, we think that we can take up the EBITDA. And of course, digital play a big role in terms of automation.

- Jeevan Patwa:** We have paid INR 295 crores for the Mistral acquisition. So does that include interest cost on everything or that's separate?
- Shashidhar SK:** No, no, that's includes everything. It includes the entire interest and additional consideration everything awarded by the tribunal. So this is the all-in cost, INR 296 crores is all-in cost.
- Jeevan Patwa:** And all these costs will now be -- so how we are going to be treat it in the P&L, is it going to be amortized or how is it?
- Shashidhar SK:** No, it's a part of investment. It's already appearing in the balance sheet as investments. Apart from the exceptional charge we took, which I explained earlier, because of the fact that the original purchase consideration did not involve these amounts, which is basically the INR 44 crores in terms of interest on additional concentration which we paid, plus the INR 23-odd crores which came into the books this quarter as a result of the interest accrued on the optionally convertible debentures, which was there in Explosoft books. There is no other P&L charge. And it's all, the revenues are being consolidated into the books right from day 1, which is from 2017 because we also had a management control.
- Moderator:** The next question is from the line of Deepak Poddar from Sapphire Capital.
- Deepak Poddar:** Sir, I just wanted to understand, I mean, in one of the earlier comments you mentioned that going forward we do expect some margin improvement, right? So what is the steady state margin our kind of business you are looking at? I mean, from currently on a consol basis will be about 14.8%. So what 17%, 18% is the fair over the next 2, 3 years is what the kind of margin level you might be looking at?
- Shashidhar SK:** So as I told you, we are currently -- like 9 months of the current financial year, we are at 15.8%, only on revenue, of course it excludes other income. That journey is to kind of reach either 400 to 500 basis points between now and the next couple of years is what we are looking at. If you look at the industry margins, it is usually around 18%, , 18% to 19% is what I would say. And we need to traverse this journey. We need to traverse this journey between now and the next couple of years.
- Deepak Poddar:** 2 years, so 2 years, we are looking at 400 to 500 basis point improvement, right?
- Shashidhar SK:** See, in 2 years -- see, every single year, we are looking at about at least because now we have taken the low-hanging fruits, the operating leverage has kicked in. So I would say that our objective, without giving specific guidance, our objective is to kind of bridge this gap of anywhere between 400 to 500 basis points in the next 3 years.
- Deepak Poddar:** In the next 3 years, 400 to 500. So basically, our target would be to reach in the range of maybe about 20%, right?
- Shashidhar SK:** That is the ambition, yes.
- Deepak Poddar:** And now in terms of our growth trajectory, I mean, in the presentation as well you mentioned that in heavy engineering growth can be muted, right? And I mean, in the past we have said that

what the growth industry is seeing and what growth we can see might be in the range of 18% to 20% in terms of top line on an overall consol basis. So now because of this heavy engineering sector not doing as well, do you see any change in that growth trajectory that you might see over the next 2, 3 years?

**Arun Krishnamurthi:** Hi, Deepak, this is Arun here. So the whole point of doing the vertical diversification is for us to absorb the seasonalities and the headwinds which might impact our specific sector. So previously we had only 3 sectors. So then one went down, it had an impact on the company. Now we have defense plus 5 sectors. So we feel with that spread, and at any point in time there is always going to be some sector which has a headwind, right?

I mean not everything is going to be firing on all cylinders. So heavy engineering at this point compared to automotive, energy, aerospace is a little bit muted. But the whole point of having the spread across verticals is to sort of -- if something goes down, something else makes up, and they are on the growth part. So we feel that this, the industry-leading growth that I talked about is possible because of the spread of the sectors that we are in now.

**Deepak Poddar:** And this industry-leading growth is, what, 20%?

**Arun Krishnamurthi:** No. So like I said, engineering services is 15% to 18%. So we will look at being beyond the region.

**Deepak Poddar:** Beyond that 15% to 18% range, right?

**Arun Krishnamurthi:** Yes, yes.

**Deepak Poddar:** On the overall company.

**Arun Krishnamurthi:** That's correct.

**Deepak Poddar:** And now in terms of interest cost, we have seen a quarter-on-quarter increase, right? So how do we see that? I mean what led to that increase? And how do we see that going forward?

**Shashidhar SK:** Yes. So basically, this entire interest cost, if you see both in the standalone financials and the consolidated financials, have somewhat doubled. The reason being the entire quantum, which was kind of a leveraged buyout, so to say, the entire Mistral acquisition which happened, we borrowed funds to the extent of around INR 215 crores. And that had to be borrowed because at high cost, the reason being the matter was before the arbitration tribunal, and the arbitration tribunal gave us very less time. That's about 90 days for us to arrange the funding.

Otherwise, the Mistral acquisition would have slipped from our hands. So we did the funding and we were able to acquire the company. Now the path is towards refinancing it. And we are already working very, very aggressively towards that. And hopefully, by the end of the current financial year, we should have some good news on that.

**Deepak Poddar:** Okay, which you mentioned earlier as well, right? Part is to refinance it.

**Arun Krishnamurthi:** Yes.

- Deepak Poddar:** So this would be the peak interest cost? Will that be fair to assume?
- Arun Krishnamurthi:** Yes, yes. This is the peak interest cost in terms of the -- of course, the actual borrowing happened only in the Q2 of the current financial year. So the total quantum of interest as what would be servicing on a yearly basis as to the current level of debt is around INR 35 crores per annum. Obviously that is too heavy in terms of the debt which is sitting on the balance sheet as well as the interest cost, and we are going along in terms of raising some primary capital to pay down the debt as well as refinancing the balance of it at very -- at much more competitive rates of interest.
- Deepak Poddar:** I understand. Any other like more inorganic acquisition, I mean, in plans?
- Arun Krishnamurthi:** Yes. So I'll answer that, Deepak. So yes, we have couple of other targets that we're looking at. I won't get into specifics, but there's a couple of them because we firmly believe that, one is, of course, we will look at organic growth, but there are capabilities that we want to acquire, which we want to do quickly rather than building it organically, which could take time. So there are 2 targets at the moment we are valuating, one is in the energy space the other one is in the Industry 4.0 space, which is basically in the PLM, product life cycle management, as it's called. So we will be doing the due diligence. And if we feel that it's a good fit, then we will go ahead with it.
- Deepak Poddar:** And what would be that ticker, I mean in terms of the valuation? Or maybe what is the range we are looking at, maybe what in terms of million dollar that acquisition?
- Arun Krishnamurthi:** Yes. So I'll tell you, the range that we're looking at. We are not looking at very big companies. We are looking at companies which have a revenue anywhere between \$1 million to \$10 million. Which means, if it's a \$10 million revenue company, then it will be approximately 100-odd employees. So that is the size that we are looking at because we feel that we can then quickly integrate and we can harvest the synergies that would be available.
- Deepak Poddar:** Fair. I understood. And my final question is on your -- I think in your -- one of the comments you mentioned that we currently have order book \$75 million, and we want to carry forward \$45 million as we go into FY '24. So \$30 million as we look to execute in fourth quarter?
- Shashidhar SK:** Well, so that is what our objective is. As I said, I do not want to give specific guidance, but you should take your guidance from what we have achieved in the last quarter and before that.
- Moderator:** The next question is from the line of Pradyumna Choudhary from JM Financial.
- Pradyumna Choudhary:** So actually I had 3 questions. First being on the client concentration side. If you could just, in terms of certain numbers, like number of clients we have compared to same quarter of last year and revenue contribution of top 1 and top 5 customer, if you could just give some numbers so that we have a better idea how we are moving on this side. And another one on client concentration side is previously, as you mentioned, we had 2 accounts where we had a lot of dependence.
- And I think there was some pricing pressure like long back from these accounts. Today, what, like apart from client diversification, which would happen over a longer period, what is the idea?

Like, are we in a better position to avoid such kind of pricing pressures from our top customers?  
This is the first question. Do you want me to say all the questions together?

**Arun Krishnamurthi:** Yes, I think so. Then you can -- if there is a common answer, then we can probably answer it together.

**Pradyumna Choudhary:** All right. Sure, sure. So the second one is related to the defense business of ours. Here I wanted to understand how do we create an USP in terms of -- especially if you look at the drones side of things, there are a lot of players in the industry. So how do we create a USP on the defense side? This is the second question. And the third one is I think related to the Add-Solutions acquisition. So through this acquisition, we were actually planning to enter the European auto market and acquire capabilities in electrical wiring and software.

And now that this acquisition is not happening, how do we plan to address the gap in terms of our target clientele and the capabilities that is left because of this acquisition not going through? So these are the 3 questions.

**Arun Krishnamurthi:** Shashi, you want to take the first one?

**Shashidhar SK:** Yes, yes. So I'll take the first one. Just to give you an idea in terms of where the customer concentration is, if you look at the top 5 customers, in this 9 months of the current financial year the top 5 customers contributed 57% of the total revenue, and that can be compared against 63%, which was for the same period of last year. So in line with the new set of customers which we have added, of course it's still very initial days, so it will actually play out only in FY '24. But it's heartening to see that the concentration with referred to the top 5 customers have come down in 9 months from 63% in terms of last year to 57%.

And the other, which means the other than the top 5, the number with respect to this financial year is they contributed about \$17.5 million of the total \$74 million, adding a \$13.6 million which they contributed last year. So in fact they are growing by about 30%, which is also a good thing to absorb.

**Arun Krishnamurthi:** Yes. And the second part of your first question, Pradyumna, was are we in a better position going forward. We have 2 strategic customers. So in this year we have acquired a few logos, which are, I would say, very big companies. So in the automotive sector, there are 2 companies in Europe. One is a \$30 billion company. The other is a \$17 billion Tier 1 company. And then we have 2 other automotive customers in India who are among the most prominent names. And in energy, we have again -- we work with a very big Tier 1 services company, again, \$8 billion. We are on the verge of starting an engagement with an oil super-major.

So we are looking at adding two strategic accounts next year in FY '24. And out of these 4 accounts, we are very comfortable that at least 2 of them would become strategic accounts, and we are putting all our might and our focus so that when we end next financial year, 2 plus 2 becomes 4, and then we can take it going forward in that way. In terms of second question on defense and USPs. So the capabilities that we are known for in Mistral, we do a lot of work on radar and sonar. And these are technologies which go into fighter aircraft, which go into submarines. So they're going to very high-end products.



And like Shashi mentioned, we have patents and we have products which are certified, which as these aircraft and submarines go into production they'll automatically get slotted in and that's where the pipeline will come from. So if you really look at the defense business, there's just 3 or 4 companies which are prevalent. So there's Data Patterns, there is Paras, there is Astra and then there's Mistral. And each of the companies has a niche of its own. So for us, the niche is in the radar space, in the sonar space and when it comes to drones, we have, like I mentioned, we have an anti-drone system, 100 units of that has been sold to the Indian Army.

So these are basically machines which can identify hostile signatures and jam the communication protocol and bring a drone down. We are also working on a laser-guided drone detection system, which through lasers can do a hard kill and bring down the lasers. So today, in fact, in the aero show we had some very high-profile visitors. We had the vice chief of the Army.

We had Lieutenant General Raju, who came, we showcased some of these to him. We had the Air Chief Marshal, Chaudhari, who is the head of the Air Force. He was in our stall. So we are sort of looking at showcasing some of these capabilities. And there is a huge pipeline that's coming out in terms of drones. So we have tethered drones, we have other kinds of drones which are applicable both in defense, commercial as well as homeland security. So this is a space that we will aggressively look at growing.

In terms of the third thing Add-Solutions that you asked about, the reason we didn't go ahead -- so the reason we wanted to acquire Add-Solutions is that they were empanelled as a supplier with Volkswagen and if you look at the German market, the big 3, BMW, Daimler, Volkswagen, they have an ecosystem which goes back 5 to 8 years. And it's virtually impossible to get a vendor code with one of them.

The reason we want to acquire Add-Solutions is that, that would have got us access into Volkswagen and this is a bit like Airbus, right? We are into Airbus. For somebody who's not on to Airbus, if they wanted to get into Airbus it would take them another 10 years. It would just not be possible. So the only way to get into Airbus would be to acquire a company which is present with Airbus.

So the reason we didn't go ahead is that, like you said, there was battery wiring harness and there was software testing, 2 major contracts that they had. And we've been talking to them since April of last year. One of the contracts was still not renewed. So we did not feel that we wanted to take a risk of acquiring a business where the contracts are not secured. And I'll tell you, I lived in Europe for 10 years. You need to be very careful acquiring a company in France and Germany because labor laws are tilted towards employees.

And these are 100 people in Germany. If we didn't have the contracts, we didn't have the business, it would have been a situation where I would have to move to Wolfsburg, take an apartment and manage the company because the risk would be too high. So that's the reason we were not comfortable. And we believe that at this stage, given all the growth potential, we don't want to derail things by making a risky acquisition. Now that company is still a good asset, but the contract is not renewed for us, we were not comfortable going ahead of it.

**Pradyumna Choudhary:** So just a follow-up on the second and third answer. First the third one, what are we planning to do now to address the gaps which are left by the acquisition not going through? And regarding to second question which was related to defense. So one part of my question was, like how -- I understand the anti-drone system is not very competitive is my understanding. But on the drone side, which is under AXISCADES Defense. That's a really competitive space. So how are we creating a differentiation there?

**Arun Krishnamurthi:** Yes. So, if I just answer your first question, which is what next in terms of acquisitions, like I said, there we have a pipeline of companies that we are evaluating. So I mentioned 2 companies, one in energy, one in Industry 4.0, so we are evaluating those. We are working with -- and I have a lot of contracts in Europe. So we are looking at other companies in automotive. For us, automotive is a very important sector. So I'm sure we will land on something sometime in the near future. There are a few candidates that we are looking at, but nothing is firmed up. But the plan is to definitely acquire something in automotive in Europe or North America. So that will happen.

As far as defense is concerned, now if you look at drones, if you look at most of the drones that are manufactured in India, they are all components imported from China assembled together and sold as drones. The differentiator comes in, in the use case, in terms of how you are able to customize it for a certain application and what is the software that you are able to package along with it. So really just a manufacturing of a drone. And if you look at all the motors, the cameras, everything comes from China. It is not made if you do a deep dive, it's the manufacturing of it which happens in India and it is sold. So where we are focusing on is the drone applications. I believe the mass market drone manufacture will become a commodity.

It will become something which will be easy to get into because it will be a question of assembling things together. What will be difficult is to understand a certain use case. So like I mentioned, whether it is a laser-guided drone protection system or whatever it is, it is to look at specific applications and customize a drone and for that, you need deep domain understanding. You need to understand the defense applications, you need to understand the needs of the Army or the Navy or the Coast Guard.

You need to understand specific criteria when it comes to high-altitude, when it comes to launching drones from a ship, stuff like that and that is where we have a lot of experience, given all the 25 years of work that we have done with defense. So we feel that we will be able to take a drone, customize it to a specific use case and then fit it exactly to our customers' needs, and that's what we are focusing on.

**Moderator:** The question is from the line of Jitin Jadhav, an Individual Investor.

**Jitin Jadhav:** So my question is regarding the capabilities for the radar business. First is that on your website, I could see you provide components for radar recorders, transmitters, exciters and so on so forth, so do your competitors. I just want to understand over here what is the product differentiation between you and your competitors? And you had mentioned that you specialize in sonar. Is that correct to assume?

**Arun Krishnamurthi:** Yes. So we specialize both in radar as well as sonar. And like you said, there is transmitters, there is receivers, there is exciters, which is what comprises the entire radar. So what we specialize in is that the radars that we develop go into aircraft and submarines. So there are different competitors, for example, who would develop radars which go into missile system, for example. So that's where the differentiation comes in. It's in the product that it's finally installed in. But our capability is high altitude.

We do all the tests which comes with shock, with altitude, with temperature, and we're able to install these radars. And sonars, of course, again, when it comes to submarines and ships, we do surround sonars. And we do a lot of high-tech stuff by which you can detect enemy activity all round. So that is where we sort of focus on.

**Jitin Jadhav:** And the second question is in your presentation, the defense and homeland security, on Page 4 you have mentioned simulators and UAV. I just want to understand how big is the simulator market and where do you stand?

**Arun Krishnamurthi:** Yes. So the simulator market is used for a couple of things. One is that you could use it for pilot training. So, for example, the new LCA, which is coming out, the light combat aircraft, which is Tejas, we have developed the entire training manual and the simulator for this. So any time a new pilot is inducted, the simulator is used. The other activity that we're doing for the Air Force is that they actually want to standardize on cockpit displays across all the fighter aircraft and helicopters. So this is across the Mirage range, the Sukhoi range, the Rafale, LCA, helicopters and this is where we develop a standardized interface because it reduces pilot training. And there is a lot of simulation which goes in there.

The other one is what we call test benches, which is also kind of simulation where we worked with Thales and we work with MBDA. So with Thales, all the avionics upgrade that's done for the Mirage fleet has been done by us and for MBDA, both of these are French companies, the whole depot-level maintenance of the missiles which are launched from the underbody of a fighter aircraft, that's done by us. So we have what are called test benches, which simulate real-life conditions.

So obviously you can't sort of use real-life applications because these are very expensive equipment and you will also not have the opportunity. They go up on their sorties, and to get an aircraft back or a submarine back is a, you will have to wait sometime a year or 2 years. So simulators are used to a large extent. And this is where we supply a lot with this equipment.

**Jitin Jadhav:** And how big is the market registering or the number there?

**Arun Krishnamurthi:** So every time a new product comes out, there will be a simulator which is required for it, I'll just put it that way.

**Jitin Jadhav:** So let's say you put -- give a simulator for one particular aircraft, then the maintenance will be your -- like the recurring revenue will be from maintenance, right? Correct? Correct?

**Arun Krishnamurthi:** Yes, that's correct, yes. That's right.

- Jitin Jadhav:** That means however the entire cost of the simulator, let's say, was INR 1 crores, you can get the recurring revenue of INR 1 crores again during the entire course of year or how long will it take?
- Arun Krishnamurthi:** No. So it depends. So when we -- so simulators, see, in Mistral we develop a lot of products, okay? So in those products, like Shashi said, we do the R&D, we invest, we build a prototype. In the case of simulators, it is not a product that we develop. So it is paid for by the customer, whether it's the defense lab or Air Force or whatever. So it's not that we invest and build a simulator and then we have to recover it back. The simulator is actually paid for by the customer because it's a specific requirement that they have. Whereas in the other cases, we need to take a specification and then build out a prototype. So this business actually is more like a services business, I would say.
- Jitin Jadhav:** And the Mistral revenue which you mentioned, out of which, I believe 50% comes from the defense?
- Shashidhar SK:** That's right. Roughly 50% comes from the defense, yes.
- Jitin Jadhav:** And can we segregate it between how much comes from the radar and how much from sonar solution, is that bifurcation available?
- Shashidhar SK:** Not readily, so we can probably offline reach out to you and give you that information.
- Moderator:** Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Nachiket Kale from Orient Capital. Over to you, Nachiket.
- Nachiket Kale:** Thanks for all participants to join this call today. In the interest of time, we would now like to close the call. So I would also like to thank the management for taking the time out of their schedule to answer all the questions today. Orient Capital is the Investor Relations adviser to AXISCADES. For any queries or follow-up questions, please feel free to reach out to us. Our contact details are also mentioned in the press release. Have a nice day everyone. Thank you.
- Arun Krishnamurthi:** Thank you.
- Shashidhar SK:** Thanks.
- Moderator:** Thank you, sir. On behalf of AXISCADES Technologies Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.