



“AXISCADES Technologies Limited Q4 & FY23
Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the AXISCADES Technologies Limited Q4 FY23 results conference call.

As a reminder, all participants' lines will be in the listen-only mode. 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 "*" then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Shishir Gahoi – Investor Relations Head from AXISCADES Technologies. Thank you and over to you, sir.

Shishir Gahoi: Good evening, everyone. I am delighted to welcome you all to this earnings call for the 4th quarter and year ended March 2023. I hope you all had an opportunity to review our press release and the investor presentation which are available under the Investors section of our website and the same are accessible in the BSE and NSE websites.

To discuss our results, we have with us our CEO & Managing Director – Mr. Arun Krishnamurthi and our Group CFO – Mr. Shashidhar S K. They will take you through our results and business performance after which we will proceed for the question & answer session.

Before we begin the conference call, I would like to mention that this conference call may contain some forward-looking statements about the Company which are based on the beliefs, opinions, and expectations of the Company as on date of this call. The actual results may differ materially. These statements are not guarantees 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 & MD, Mr. Arun Krishnamurthi. Over to you, Arun.

Arun Krishnamurthi: Good evening everybody and good morning to those of you who are calling in from North America. Welcome to our Q4 and FY23 Earnings Call.

I also have Shashi who is our CFO and I will hand it over to him after I finish my introductory comments.

To begin with, I am happy to report that our performance in FY23 closed on a high note with the highest ever revenue and profitability recorded in the history of the Company. This is my first full financial year in AXISCADES, and it has been around strengthening the core of the organization. Since the new team took over the Company, we have been able to strengthen this by creating a new organizational structure with emphasis on positive culture, profitable growth, cash flow generation, and diversification of our customer base.

The incentive structure of the top management revolves around these principles. The Company in FY23 posted consolidated revenue of Rs. 813.6 crores, growing by 33.7% from Rs. 608.4 crores in FY22. In USD terms, the Company recorded revenues of \$101.8 million, growing by

24.3% from \$81.9 million recorded last year. The Company has grown sequentially in every single quarter from Q1 FY23.

AXISCADES scaled new heights on the back of several operational and financial performance milestones achieved this year. I draw your attention to a few strategic updates:

As has been elaborated in our previous earnings calls, the Company has made considerable progress this year in derisking the business with a three-pronged approach of vertical diversification, customer diversification, and embedded and digital first.

During the quarter under review, we signed a strategic partnership with Mangal Industries Limited, a part of the Amara Raja Group who are most famously known for the Amaron batteries. This strategic collaboration with Mangal Industries will leverage AXISCADES' proven capabilities in engineering services and take it to the next level with cutting-edge product design, manufacturing engineering, and industry 4.0 solutions for our clientele.

One of our major clients in the automotive sector, which is Bosch, recently held their maiden Enrico Partner Day, an exclusive event held for Bosch's strategic partners. AXISCADES was conferred as the Rising Star Award in the embedded electronics category, a testament to our quick scale up and credible progress made in this segment.

Our integration with Mistral is progressing as per plan and we continue to synergize our offerings to our current and potential customer base across the group. I'm happy to report that Mistral continues to expand its business and has recorded excellent performance this year. With revenues growing by 40.2% from Rs. 196.4 crores to Rs. 275.3 crores with improved profitability. It's heartening to report that our recent foray in the automotive and energy segment is scaling up well. Both segments have delivered robust growth north of 50% in this fiscal year. Going forward, both these segments will grow substantially and will form a significant portion of our revenues. Our growth in the aerospace business, which is an area that we are very strong in, gathered pace in FY23 and has grown by 44.3% over the previous year. We are working towards gaining more wallets share from our existing clients in aerospace by leveraging our competencies from Mistral.

As mentioned in our previous call, we have now begun to execute on our enhanced long-term contract with Airbus and have recently established a new delivery center in Broughton in the United Kingdom.

While our heavy engineering business remained flat during the year due to macroeconomic factors, we are hopeful that FY24 will be a growth year for the Company in this vertical considering the many new initiatives that are planned in this segment. Our product and engineering services business under Mistral grew by 33.5%, and we are focused on maintaining this growth trajectory with the opportunities available in this sector. We have cross leveraging competencies available across the Group and are deploying them with our combined customer base of group companies.

Our products and solutions business which is the defense business representing our defense vertical grew by more than 50% over the previous year and we are bullish on the opportunities and order pipeline that we have built.

In our previous earnings call, I was happy to report that Q3 was a historic quarter for us, recording our highest ever quarterly revenue in the history of the Company. It gives me even more satisfaction to inform you that in Q4, we have surpassed the Q3 numbers and have recorded consolidated revenues of Rs. 223.2 crores, clocking a growth of 4.6% quarter on quarter and 16.3% year on year.

While pursuing revenue growth, we have also maintained our profitability with our reported operating profits for Q4 FY23 and for the full year FY23 significantly higher than the previous periods with our margin profile continuing its upward trajectory.

To conclude, in FY23, we embarked on a journey of business transformation and we have made considerable progress in derisking the business. In FY24, our focus will be to further consolidate our business to make it more sustainable and profitable. We are constantly raising the bar with our diversification and digital-first strategy and continue to engage deeply with our customers. We continue to build on our order book and long-term contracts with the aim and objective of delivering better than industry growth rates. Let me take this opportunity to congratulate each and every member in the AXISCADES Group for their contribution in achieving this path-breaking year for the Company. We also thank our promoters, investors, bankers, partners and all stakeholders for their support in the year gone by and continue to seek your blessings in this journey.

I would now like to invite Shashi to take over and give a brief overview of the financials.

Shashidhar S K:

Good evening to everyone. And I once again welcome you all to this Earnings Call. I'm indeed delighted to report that in Q4 and FY23, we have registered the best ever quarter and fiscal year in the history of the Company.

As reported by Arun, the Company has grown sequentially in every single quarter from Q1 of FY23. And in Q4 of FY23, the Company recorded consolidated revenue of Rs. 223.2 crores and grew sequentially by 4.6% and year on year by 16.3%. The full year FY23 consolidated revenue is Rs. 813.6 crores, growing by 33.7% in INR terms and 24.3% in dollar terms. As elaborated by Arun, all verticals saved except for heavy engineering, which was kind of flattish, recorded robust growth with positive visibility in FY24. So, the reported EBITDA and revenue, mind you, excludes other income for Q4 of FY23 is at Rs. 44 crores at an EBITDA margin of 19.7% as compared to Rs. 29.6 crores at an EBITDA margin of 13.9% recorded in Q3 of FY23. The EBITDA for Q4 same period last year was at Rs. 28.1 crores at 14.6%. The reported EBITDA and revenue, which again excludes other income for the full year FY23, doubled at Rs. 137.5 crores at an EBITDA margin of 16.9% as compared to Rs. 68.7 crores at an EBITDA margin of 11.3% recorded in FY22.

During Q4 FY23, I want to draw the attention of the forum that the Company received Rs. 21.1 crores, almost about \$2.5 million, in our US entity from the US government as a payroll subsidy for COVID, which was a long time in waiting. And the Company also took an additional charge into P&L of Rs 5.6 crores on share warrants to be issued by Mistral Solutions and an amount of Rs. 2.1 crores as an additional ESOP charge resulting in a net one-time benefit of Rs. 13.3 crores, which forms part of the reported EBITDA. Adjusting for the net benefit of Rs. 13.3 crores in the P&L, the normalized EBITDA for Q4 FY23 stands at Rs. 30.7 crores at an EBITDA margin of 13.7%, similar to that of Q3 of FY23 where it was at Rs. 29.6 crores at 13.9%. Same period last year Q4 of FY22, the EBITDA was at Rs. 28.1 crores at 14.6%. The normalized EBITDA for the full year FY23 stands at Rs. 124.2 crores at an EBITDA margin of 15.3% as against FY22 of Rs. 68.7 crores at 11.3%. As such, the normalized EBITDA for the year FY23 has improved, in absolute terms, by about 80% and by 397 basis points by way of EBITDA margin. Please note that the EBITDA margin does not include other income of Rs. 3.8 crores in Q4 of FY23 and Rs. 14 crores in the full year of FY23.

The PBT in FY23 before exceptional item stands at Rs. 89.1 crores as compared to Rs. 38.5 crores in FY22. As we have reported in the previous earnings call, the Company has taken an exceptional charge of Rs. 68 crores in the consolidated financial results which is solely related to Mistral acquisition and pertains to the additional consideration and interest due to Mistral under interest accrued on optionally convertible debentures which is not part of the original consideration of Mistral. With the closure of Mistral acquisition in FY23, all of this is behind us and no other exceptional charges are expected in FY24.

The Company's provision for tax for FY23 is Rs. 25.8 crores while the reported PAT loss for FY23 is at a negative Rs. 4.7 crores and adjusted for this exceptional charge, the PAT for FY23 stands at Rs. 63.2 crores as against Rs. 24.4 crores recorded in FY22.

I would like to draw your attention to our previous earnings call where the Company apprised the investors that it took an incremental debt of around Rs. 215 crores at very high rates of interest due to the tight timelines imposed by the arbitration tribunal for the acquisition of Mistral Solutions. We are happy to inform you that the Company has now refinanced this entire debt which will result in reducing the interest cost significantly. You will see this impact of the lesser interest cost kicking in from FY24. The drawdown with respect to the said refinancing is expected in the next couple of weeks. The said facility comes with a balloon repayment schedule extending to 4 years and the Company also in March 2023 fully repaid the foreign currency term loan which it had taken from HDFC Bank. All of these actions will free up additional cash flow for the Company and also the incremental EBITDA as what would come in from the growth as what is expected in FY24, which will go about to fund the Company's growth and expansion. Taking this into consideration, the Company has consciously delayed its plan for primary capital raise.

To conclude, in FY23, the Company has been largely successful in setting upon the path of sustainable growth and profitability and strengthening the balance sheet and we are confident of building on this momentum in FY24 and beyond.

We'll now open the floor for questions.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Jyoti Singh from Arihant Capital Markets. Please go ahead.

Jyoti Singh: Sir, my question is on the segments side. As the HEG (Heavy Engineering) this time was flat, what kind of new strategy that we are following to make it grow? And second, if you can guide us on the margin front for going forward FY '24-25. And apart from that, if you can throw some light on the growth guidance on the top line.

Arun Krishnamurthi: As far as heavy engineering is concerned; the slowdown was primarily because some of our customers felt the impact of the macroeconomic crisis. We are now seeing some of that ease off. So, we are hopeful that FY24 will be better. In addition to that, as you know, as a Company, we have been primarily in the mechanical engineering space. But some of our customers in this space are increasing their investment in both embedded and digital. And I'm glad to say that we have made some small inroads in digital where we are starting some projects in data analytics and other areas of digital. And we are also putting together a campaign where we are taking the embedded capabilities of Mistral into some of these customers. Our two-pronged approach, one is of course, the economic climate will hopefully improve and that will give us a fillip. But more importantly, we will be increasing the exposure of our revenues in the embedded and the digital space and we have already made inroads. We have also hired a salesperson in the US who comes from one of our competitor companies who's got many years of experience selling into embedded. And of course, now that Mistral has been completed as an acquisition and is a 100% owned subsidiary, we will be looking at leveraging them to take our capabilities there. With this, we are looking at changing the profile of our revenues and therefore looking at some growth coming into FY24. The second and third part, Shashi, maybe you can talk about the margin profile as well as the growth for FY 24.

Shashidhar S K: Basically talking about the growth, as Arun was explaining, all of the new verticals that we have gotten into, whether it is energy or automotive or the payment solutions, we are expecting that it will gather pace. While we do not want to give specific guidance, we are wanting to improve upon what we have achieved in FY23. Not of course the 33% what I was talking about, I'm talking about the industry growth rate which is in the region of around 11% to 15%. We are hopeful that we will be growing in terms of revenue anywhere between say 18% to 20% in FY24.

Arun Krishnamurthi: Just to add is that of course, like Shashi said, we don't want to give specific guidance. But what I can tell you is that the plan that we have taken for FY24 is quite aggressive and like Shashi

said, we will be looking at growing beyond industry growth rates. If we are able to achieve that, it will be a good outcome.

Shashidhar S K: Talking about the margin profile, as you would have seen, we are at a normalized EBITDA of 15.3%. Of course, in FY23, the COVID revenues came back and quite a lot of, I would say, positive developments were there in terms of each of the verticals which we service, especially the aerospace business came back.

Our objective is to kind of reach the metrics as what the industry best metrics which is in the range of 18% to 19% in the next couple of years. We will continue to look at the margin profile at each vertical level and at each customer level, and our objective is to, as I said, bridge this gap between the industry best EBITDA margin around 18% to 19% from where we are at 15.3% in the next couple of years.

Moderator: The next question is from the line of Pradyumna Choudhary from JM Financial. Please go ahead.

Pradyumna Choudhary: I have the following question. First one, we are seeing very good traction in the auto space. Could you provide some more details on which country particularly, which geography we are serving in, and what kind of services? Where I'm coming from is because earlier we were hoping to grow very well in Europe through our acquisition, which failed through, and you explained the reasons last time. I'm just trying to understand the kind of traction we are seeing, where it is coming from. Second is regarding the degrowth. A sharp Q-on-Q degrowth we've seen in Europe and the US. If you could explain that further and also the fact that we've grown very sharply in APAC. Which geographies within APAC would be contributing to that kind of growth? And thirdly, the product engineering and product solution space, I think these are mainly defense related verticals. Are these the kind of verticals where there might be some bulkiness in revenues and so it's better to look at year on year rather than Q-on-Q? And just my last question would be on the digital capability side. I think you've been trying to develop digital capabilities on your own organically. Could you provide further details regarding how that's coming up and what exactly you are doing working towards there? These are my questions.

Arun Krishnamurthi: Pradyumna, thanks for your questions. Firstly, the automotive space is a big focus area for us, and we have been consciously investing in this, and this year has been a good success, I would say, from a hunting perspective where we have added 3-4 very prominent logos. The areas that we are looking at predominantly, of course, we have a lot of mechanical heritage, so we will do some amount of mechanical work. But we are predominantly looking at areas like software development, software testing, ADAS, AUTOSAR, bootloader software, and infotainment. These are the areas that we are looking at. And some of the big clients or rather the big logos that we have signed up, this is the area in which our services are coming in. I would say that we have good traction in Europe. As far as our current automotive base is concerned, we have a couple of big brand names from Europe. That is definitely working well. But having said that, this year we are looking at expanding the automotive landscape in the US as well because clearly there are a lot of opportunities there and there are some big names out there. So, this year we will hope to make some good sales and hunting traction into the US. I would say current status

so far it's been predominantly Europe based and some in India. But a lot of the work has been in the software testing, software development, AUTOSAR, etc.

And as far as inorganic growth is concerned, we are still looking for a partner and that is something we are serious about. We are looking for somebody in Europe or in North America who can give us some good capabilities in the automotive space. As and when we are able to find a good target and do the due diligence, we will look at completing that.

In terms of APAC, your third question, and the degrowth part, I'll first answer the rest of it and hand it to Shashi on the second part which is degrowth in Europe and the US. It's really more growth which is happening in other areas. That's really the way I represent it. But as far as APAC is concerned, it's predominantly India for us. Most of the business that we are seeing.... and what's happening in engineering services is that a lot of global clients are ramping up their captive centers. Whilst on one hand we have established relationships in Europe and North America, the captive centers in India are also becoming quite prominent and quite sizable. It is not a market that we want to ignore, and we have made some very good progress with some captives of global companies in India. I would say most of the APAC growth has come from that category of customers. There are a few Indian customers with whom we have started a relationship as well. But I would predominantly say large engineering centers and captives of global companies are the focus. There are some small opportunities in the Middle East that we are looking at, and of course, with the focus that we have on the energy business, you will see that there will be more business coming in from the Middle East because clearly if you want to be prominent in energy, it has to be Middle East, it has to be Houston, and to some extent it has to be Aberdeen in Scotland. So, we will look at some growth happening from the Middle East with energy as well.

The third question was on the product solutions. Clearly, for us, the defense business is critical and it's on a growth path as well. One is because the opportunities are expanding, there's more Make in India. The Defense Minister has said that they will look at more indigenization. That's clearly an opportunity for us. But we, as you know and we have spoken in the past, have very strong differentiation when it comes to the electronics part of the defense. So if you look at radars, if you look at sonars, if you look at telemetry devices, if you look at drones as well as anti-drones, these are the areas in which we are very strong. We will continue to push into these electronic components in defense and that's why we are seeing significant growth, and I would say that we already have a big design-win pipeline over the next 10 years. And in the last financial year, we have been able to add on another 4 or 5 projects to the design-win pipeline, which means that the production will happen over the next 10 years. So, we will see very good growth and very good quality of revenues coming in from the defense business. We are very well differentiated here. We have extremely strong relationships with the labs, the likes of DRDO, LRDE, NPOL, etc., and also with production partners like BEL and HAL. This is something that will grow for us.

Digital has been a super focus area for us for 2 reasons. One is, of course, the market facing the use cases that the industry provides, whether it is automotive, aerospace, or heavy engineering. Like I said, we have started some relationships with clients, some small projects have started, so we will look at expanding this. But the second aspect of this is what we are doing to ourselves in terms of bringing in automation initiatives in terms of being smarter and some of the profitability growth that you have seen. The EBITDA improvement that we have seen is because of the fact that we have put in a lot of intelligence automation. We implemented some AI and ML and we will be doing more of this going into FY24 because a lot of the engineering work that we do is actually amenable to some of the new AI and technologies that are available. We feel that there is a significant opportunity for us to change the business model by which we deliver. Of course, there will still be a lot of people element, but we hope to increase the use of tools, the use of platforms, and the use of digital in order to deliver services to our clients.

Shashidhar S K: Basically, I think Arun has answered all of the questions. In terms of the growth in APAC as what we have reported, we have grown by 56%, and most of it is defined by our products and solutions business which defines our defense vertical, which has grown from Rs. 157 crores in FY22 to Rs. 238 crores. That's what defines our growth in the APAC region.

Pradyumna Choudhary: Regarding the Q-o-Q degrowth in the US and Europe?

Shashidhar S K: That is mainly coming from our heavy engineering business as what we explained where in Canada our business de-grew. That's mainly because of the Bombardier business which went into a bit of a lull and on the US business, it's mainly because of the Caterpillar business which represents our heavy engineering business. All of this, we hope, is going to come into shape from FY24 onwards.

Pradyumna Choudhary: Just a follow-up, the heavy engineering degrowth was 3.7% Q-on-Q. Europe declined by 13% Q-on-Q and the US declined by 10% Q-on-Q. That's where I'm coming from. Why are we seeing such sharp numbers in Europe and the US.

Shashidhar S K: Europe actually year on year has grown by 43% and the US has grown by 17.1%. Canada, of course, as I told you, has de-grown by 1% as a result of the Bombardier business. And APAC has grown by 56%. Where are you seeing this degrowth in Q4? Let me just go back to the numbers. Even in Q4, APAC grew by 38.5%.

Pradyumna Choudhary: APAC and Canada grew Q-on-Q whereas Europe and the US declined; on the slide #10 of your presentation.

Shashidhar S K: Europe is essentially from our products and solutions business. It de-grew by 30.4% as a result of the revenues which came from our defense business in our defense subsidiary. It was more in Q1 and Q2 as a result of which the Europe business came down. And the US 10.3% de-growth mainly because of the Caterpillar business.

Arun Krishnamurthi: For our defense business, I think in the past also we have said that it's difficult to measure defense business on a quarter-on-quarter basis. It is probably a better yardstick to look at it as year on year because there is some lumpiness which happens. So, we look at defense more as a long-term business. And the quarter-on-quarter fluctuation that you see is something that is a part of the course as far as defense is concerned. But I can tell you that and of course, in Q4 also, you have a slow start because of the New Year. A lot of the western world, especially Europe and North America, the first 2 weeks is practically closed for most manufacturing companies. Because of that also, there is a bit of that and most of our billing happens on the number of days that we work. But from the core of the business and from the health of the business, there is nothing to be concerned about. We are actually seeing quarter-on-quarter demand growing.

Moderator: The next question is from the line of Inder Soni from Ruane Cunniff. Please go ahead.

Inder Soni: Now that Mistral is 100% part of your Company, what are your long-term plans for Mistral? And then separately, you talked about anti-drones. What are you doing in that area in the drones & anti-drones? Can you talk about that as well?

Arun Krishnamurthi: Yes, Mistral is now completely a 100% subsidiary of AXISCADES. The plans that we have are as you know that we have defense both as a subsidiary within AXISCADES and obviously it's a significant part of Mistral. So, the short-term initiative that we have is that we are looking at synergizing the defense business between the 2 subsidiaries because we actually have complementary strengths. If you look at Mistral, they do a lot of work with the labs and they do a lot of product development in the sonar, in the radar as well as the telemetry space whereas with the AXISCADES subsidiary, we work with the offset partners. We work with companies like Thales and MBDA and we also work with the Ministry of Defense. The good part is that both of these could come together and they could be complementary and we will be looking at how we can cross leverage this and given that defense is on such a role, we are confident that with the combined capabilities, we can do much more.

The second part is that Mistral is very strong in the PES (product engineering space) which is the semiconductor industry and this we are seeing as a very strategic differentiator because if you look at it, every single industry vertical that we are present in, there is growth of embedded, there is growth of digital. And the capability in silicon is something that most of our customers, both existing and new customers are looking for from these verticals. So, we will be looking at taking the PES capabilities to all our customers. And in an earlier question I had said that we are looking at how we can synergize Mistral embedded capabilities. This is exactly what I meant. The semiconductor capabilities that we have with the silicon companies, we can take it to Airbus, we can take it to Caterpillar, we can take it to Bosch, because all of these guys need a lot of embedded skills. That's the second part that we will be looking at with Mistral. And we are, I would say, in a very unique position. If you look at it, most companies in the defense space are purely defense. We are in the unique position where we have a good mix of defense as well as commercial, which I think is a great spread for us because we can also cross leverage defense capabilities into commercial.

As far as drones and anti-drones are concerned, we have developed an anti-drone system for the Indian Army, which is a portable carry able anti-drone system. We had an order for 100 units out of which forty have been delivered. Sixty more are being delivered in the next couple of months or so. And there are some repeat orders which will come in for anti-drone. That is very good capability that we have. These are basically electronic systems which can jam communications of hostile drones. That's where we are focusing on from anti-drone perspective. From a drone's perspective, there are a couple of areas that is a focus area for us and this again comes from, the anti-drone comes from AXISCADES and the drone comes from Mistral. We are looking at something called a tethered drone and we are also looking at something called a heavy payload drones. These are basically drones wherein the tethered drone is connected through a cable. It can be quickly used in a disaster. For example, if there is an earthquake or there is a situation which escalates from the border area, you could have a tethered drone which could go up and which could provide surveillance, it could provide video footage, it could provide information about either hostile territories or about any situations which are developing. This is because of the fact that it's connected, it has unlimited power storage, it can work for hours on end and it can be valuable. It's like a lighthouse in the sky, I would call it. This is one area where we are focusing on developing our capability.

The second thing is what are called heavy payload drones, where we have drones which can take up to 30 to 40 kgs of load. Because if you look at India, the unique thing is most of our borders are along the mountains and even now a lot of goods and lot of ammunition, etc., is carried through on the road or on animals. There is a huge use case for actually carrying 30 to 40 kgs and there are not many of these drones available which can ferry equipment and all of that. That's the other area that we are looking at. And there are very good discussions we are having with the armed forces for some of those. This is the combined focus area that we have on drones as well as anti-drones.

Moderator: The next question is from the line of Sumere Choksy from Indus Equity. Please go ahead.

Sumere Choksy: Just to understand a few things; with regards to the planned equity raise, I think last time in the analyst meet, you had given guidance that you are looking to raise Rs. 130 crores as I understand. Is this deferred as of today or what are our plans for it?

Arun Krishnamurthi: Sumere, the primary reason for equity raise was that we had a body of debt on our books. We have had very good discussions and we are in the final stages, like Shashi said, of refinancing this and we are able to do this at much better interest rates. So, that burning platform for raising equity is not there. Secondly, now that we have a business where the EBITDA is increasing, we are generating more cash, and the profitability is going up, we feel that we are self-sustainable and we are on the path of that. We would want to wait for better valuations before we go and issue fresh shares and raise primary. The reason that we were in the market was that obviously at that point there was a need for it. But now that we have made some progress in terms of refinancing and in terms of improving the health of our business, which actually is the best thing to do. We are becoming more self-sustaining, more cash generative, and more profitable. The

urgent need is not there anymore. We will wait for a better valuation and then we will do it at that point in time.

Sumere Choksy: As a follow-up to this, in the last interaction, you had mentioned that our foray into Europe, particularly on the automotive side, given we needed to potentially tap into, say, the German market where you have got the big boys like Dimer and BMW as well as you were mentioning a few more planned acquisitions, say, in the energy space like the deal with the ex-Aramco, all of these, do we have sufficient ammunition? Are we still planning to go ahead with these planned acquisitions or how we are looking at this strategically? Because I think at least on the auto side, consolidating and further expanding in the European market seemed like a focus. Is that still the priority?

Arun Krishnamurthi: Absolutely it is. Like I answered in one of the previous questions, we are still in the market for an acquisition in automotive in Europe. That is a focus area for us. Of course, having said that, we want to make sure we do the due diligence because as you are aware, when you acquire an entity in Europe, depending on which country it is, the labor laws are very strict. So, you got to be 100% sure that it is not going to be margin diluted, it is not going to be a drag on the business, and that truly there is synergy and there is a fillip to the business. But having said that, there are many good companies out there, and this is something which is a strategic priority for us. And for sure, this year we will look at whatever we talked about so far was about organic growth, but inorganic growth, especially in sectors like automotive, is a huge focus for us. We are definitely on that road. Hopefully, if things go well, we will come back to you and announce that we have been able to go ahead with somebody.

Moderator: The next question is from the line of Pankit Shah from Dinero Wealth. Please go ahead.

Pankit Shah: Actually, if I go back to last quarter where we guided some \$30 million to \$35 million of execution this quarter and we probably are some short of it, and if I exclude one-time income, there was a degrowth quarter on quarter. Is it the right way to look at it and what went wrong probably where we were thinking to execute \$30 million to \$35 million?

Arun Krishnamurthi: I probably do not understand how you are computing these numbers. Maybe Shashi, if you can, because as far as we are concerned, there is clearly growth in the business. You might want to explain to us how you are seeing the degrowth.

Pankit Shah: This one-time income which came in from the US government, is it included in the revenue?

Shashidhar S K: No, that is not a part of revenue. That has been netted off from the payroll cost of our US entity. That's not part of revenue. The revenue is pure growth. As we have reported, we have grown 5% quarter on quarter and we have grown 16% year on year as to Q4 revenues are concerned.

Arun Krishnamurthi: Our growth from Q3 to Q4 has been Rs. 213.4 crores to Rs. 223.2 crores, which is 4.6% growth. Clearly, there's been very good growth quarter on quarter.

Pankit Shah: The other thing was on the order book side, if you can give some idea what's happening and how much order book is pending, what was feed in the quarter, anything there? And of course, order book, considering Mistral also, are we seeing any confirmed order or how big is the pipeline? If you can give some visibility for coming years?

Arun Krishnamurthi: Obviously, this is confidential information for the Company. I can give you some guidance which will sort of probably give you the comfort. Firstly, on the defense side of the business, when we look at the projected plan for the following year, we almost have 90% to 95% confirmed orders. Like I said in one of my remarks that defense is a long-cycle business. Things don't move that much on a quarter-to-quarter basis. We pretty much know what will happen the next year and I would say even for the following year. Whatever growth plans we have taken for FY24 for the defense business, I would say almost 90% to 95% of the order book is already there, which is a great position to be in.

As far as the non-defense part of the business is concerned, I would say that we have upwards of 55% to 60% of the plan which is already confirmed order for us. And also, with some of our big clients, the way it works is that we get quarterly POs. Whatever I'm saying 50% to 55% is the visibility as of 31st of March. But then as we enter into the quarter, we will get POs from clients. And engineering services as such is a very stable business. The good thing with engineering services is that it is very sticky. Once you work with the client, you get good business. But the flip side of that is that getting into a new client is also hard. That's why we are focusing so much on sales. But what I'm trying to say is that even on the non-defense side of the business, already confirmed order book of 55% to 60% and the rest of it is also not something we need to worry about. I would say there is only a very small percentage, something like 5% to 8% of our plan which will be new revenues that we will need to work on through the financial year.

Pankit Shah: One more point on the fixed price. If I divide the revenue by project, the fixed price has increased by 6%. How should I read this? Is it because the complexity of business is increasing and we are getting better quality projects? Or how should we see this?

Arun Krishnamurthi: Firstly, this is a very positive trend. You typically get fixed price projects if the client has confidence in our capabilities because what it really means is they are giving us end-to-end projects. Firstly, the 54% to 61.6% movement indicates that we have increasing confidence from our customers. The second thing about fixed price is that we can manage the pyramid, we can manage the resources that we put in, and some of the productivity initiatives that we put in, whether it is on a digital front or other productivity initiatives, the benefits that we can harvest are things that we can keep for ourselves. Because with T&M projects, what happens is that you have a contract, you bill man to man, and if there's any productivity, the benefit really goes to the client. So, for us, it is not really, at least in the short term, not productive. In the long term, it could be. But with fixed price, I would say that gives much more leverage for us to be more profitable. And of course, from a business perspective, it means more confidence in AXISCADES from the client's perspective.

- Pankit Shah:** On the revenue side which I was asking earlier, if I go back to our last quarter details, we were about to execute \$30 million to \$35 million worth of business and probably we ended at \$27.7 million. I was just thinking that there was some delay in execution or it has shifted to next quarter. Just your thoughts on it. Or probably we delivered as per expectation?
- Arun Krishnamurthi:** Yes, we have actually delivered beyond expectation. I don't know where you got this figure of... \$27.7 million is what we have done for Q4, which is correct. But I don't know where you got this figure of 30. I don't think we communicated that.
- Pankit Shah:** There might be some error from my side. No problem.
- Moderator:** The next question is from the line of Naveen Bothra, an individual investor. Please go ahead.
- Naveen Bothra:** Congratulations to entire team of AXISCADES for outstanding financial results in the very first year under the new leadership team of Mr. Arun Krishnamurthi, Mr Shashidhar as well as IR and all the senior officials. My question is to Mr. Shashidhar. Regarding our debt levels we consider non-current and current books, it's around Rs. 310 crores at the standalone level. Cash we are having Rs. 19-20 crores in the standalone books and in consolidated we are having around Rs. 100 crores. My question will be a trade-off as Mr. Arun already explained that we will wait for better valuations as we are not in a hurry because of the refinance, it's already done. But seeing the current volatility around all the geopolitical as well as the semiconductor and all these issues, would it not be better to raise some primary capital at AXISCADES level or either we will go for value unlocking in Mistral through IPO valuations? Your views please? It will be quite helpful, sir, because we have taken a charge of around Rs. 5.6 crores in this quarter for CCPs/warrants issued to earlier financial debt providers. Your views, sir?
- Shashidhar S K:** As far as Mistral is concerned, at the moment, we do not have any plans to monetize Mistral by way of an IPO or anything. But as you rightly observed, at a consolidated level, our net debt is around Rs. 190 odd crores which is a very healthy number as compared to the total net worth of the balance sheet, which is just about 0.55x. As Arun said earlier, it is not that we have completely given up the plan for the capital raise. We are waiting for the right moment. At the moment in terms of our estimations in terms of the projections as what we have, we should comfortably be able to service both the debt as well as our growth plans for FY24 with respect to what we have projected. Even the new refinancing as what we have done, that itself will release quite a substantial amount of cash in terms of reduced interest costs as also the fact that now we have repaid a foreign currency term loan which we had with HDFC Bank and also the current refinancing as what we are planning, it comes with an extended repayment schedule. All of this makes us comfortable that we should be able to service our obligations comfortably and also the growth plan. As I said, we have not really given up but we have kind of delayed or deferred and we will definitely wait for the opportune moment to raise the capital.
- Naveen Bothra:** Just a follow-up to this one. The refinancing of Rs. 210 crores is coming at 4% less, but we see that around Rs. 60 crores from the promoter Jupiter is around 20% rate of interest. What is the timeline for repayment of this Jupiter?

- Shashidhar S K:** All of this, the entire amount of Rs. 210 crores which we are raising will go about paying the entire financing which we did from the earlier alternate investment fund, Rs. 145 crores which came at about 16% interest. And we will pay about Rs. 20 crores to Tata Capital, which is again at about 14% interest. And the entire amount which was vowed to the promoters is also being repaid with this refinancing. The entire balance sheet which stood as of 31st March 2023 with respect to the high-cost loan is going to be completely off and it's going to be replaced by this competitive rate of interest loan as what we are refinancing now.
- Naveen Bothra:** Just a follow-up Mistral valuations which we said that CCPs/warrants we have issued to earlier investors of that. Is there any terms with them that in the next 18 months from the raise of that finance, it will be converted into equity? How would you like to define it, sir?
- Shashidhar S K:** They have an option to convert that into equity over a period of next 36 months. And it comes also at a valuation as what we determined at the point in time when we raised this finance. So, they have one of the options to convert it into equity over the next 36 months.
- Moderator:** The next question is from the line of Mohammad Afroz, an individual investor. Please go ahead.
- Mohammad Afroz:** Sir, I would like to ask regarding as earlier said in the last quarter. What we have the plan to issue the equity and when it is going to be executed? And second is what we have the plans to regarding the debt reduction?
- Shashidhar S K:** I think we just answered that question. With respect to equity raise, as we explained in detail, we have delayed the equity raise as a result of the refinancing as what is being done and our confidence in the free cash flows as what we are projecting for FY24.
- Moderator:** The next question is from the line of Rupesh Tatiya from IntelSense Capital. Please go ahead.
- Rupesh Tatiya:** My first question is when I look at the segmental, the strategy and technology group has revenue of Rs. 230 crores and PBIT of Rs. 25 crores roughly. Roughly 10% margins I see. When I look at other defense companies working in radar, sonar, and these kind of segments, I see that their margins are much higher. Can you please explain why our margins are so low in this segment?
- Arun Krishnamurthi:** Certainly, Rupesh. Firstly, in the defense business, the way it works is, when we do product development, there are 2 phases to a project. When we tender for a project, we basically have a phase of R&D. Depending on what program it is, the first 5 to 6 years goes into design and goes into R&D for the project. Once that 5 to 6 years is done, once the product is ready, then we go through a certification process with the customer. Once that product is certified, then it moves into the production phase which could be for the next 5 years or 10 years, etc. So, the way it works from an EBITDA perspective is that the R&D part is when we need to invest. And when I say we need to invest, we get some advances from the customer, etc. But having said that, there is still a lot of R&D phase because we need to look at components, we need to look at design, we need to validate all of that. And the EBITDA during the R&D and the design phase is less compared to the production phase. So, typically our EBITDA during the design phase is in the

region of about 10%. But once the product is certified and once it gets into production, then the EBITDA jumps to anywhere between 45% to 50%. So, the way the defense business works is, in a particular year, it depends on how many R&D projects you have and how many production orders you have. The good news is that we have a significant amount of design wins, and over the next 3 to 5 years, you will see a lot of those production orders starting to kick in. In FY23, we did a lot of projects which are in the R&D space. But it's important to do that because once you do that and the product is certified, then the next 5 to 10 years is when production kicks in. The reason that the margins are at 10% is because of the fact that we had more R&D projects as compared to production projects. If you look at some of our competitors, and I don't want to name them, but if you go back 2-3 years, you will see that they were in the R&D phase and they were in the lower EBITDA region. But now that production has kicked out for them, they are seeing better EBITDA. You will see that playing out for us in the next few years as well, where we will have more production orders coming in and where the EBITDA will come in. That's really the way the defense business works.

Rupesh Tatiya: In this Rs. 238 crores, is there any production revenue or everything is R&D revenue?

Arun Krishnamurthi: No, there is some production revenue.

Shashidhar S K: The total quantum of revenues recorded by Mistral of Rs. 275 crores, about Rs. 39 crores came in from production orders where the EBITDA was about 22%. And the majority of it, which was around Rs. 110 crores came in from the prototype development as what Arun just now described, which was a very marginal kind of EBITDA.

Rupesh Tatiya: Mistral also has a 50% non-defense business which also is a very specialized sort of business. What was the revenue there and what kind of margins we make in that part of the Mistral piece?

Shashidhar S K: In FY23, the margins rather the revenue from the PES business as what we call it, was Rs. 127 crores out of the Rs. 275 crores. And the EBITDA margin what we got from that was around 31%.

Rupesh Tatiya: Sorry sir, I missed the EBITDA margin number.

Shashidhar S K: 31%.

Arun Krishnamurthi: The PES business, the semiconductor business is extremely profitable for us because this is very high-end work. It's the kind of work that we do – work on silicon validation boards, we work on starter kits, EVM kits, for some of these chip companies. And the margins in that area are significantly high. If you really look at the whole business that we have, there are 2 rhythms to it. One is the services business which is all the aerospace, heavy engineering, automotive, and semiconductor where the margins are high. The defense business is more like a product development. It's like any product development where when you design a product, you need to invest, but when the production happens, you get the margins.

Rupesh Tatiya: Just one clarification. Where are AXISCADES aerospace revenue recorded in your revenue by industry? Is it recorded in products and solutions?

Arun Krishnamurthi: It's recorded in Products and Solutions.

Moderator: In the interest of time, that was the last question for today. I would now like to hand the conference over to Nachiket Kale from Orient Capital for closing comments.

Nachiket Kale: I would like to thank everyone for participating on the call today and I would also like to thank the management for taking the time out from their schedule. Thanks for participating on this call. Orient Capital is the investor relations advisor to AXISCADES. For any queries, please feel free to reach out to us. Our details are available in the presentation. Thank you, everyone.

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