

May 29, 2024

To,
The Listing Department
BSE Limited
Department of Corporate Affairs
Phiroze Jeejeebhoy Towers, Dalal Street
Mumbai, Maharashtra - 400 001

To,
The Listing Department
National Stock Exchange of India Ltd.
Exchange Plaza, Plot No. C/1, G Block
Bandra-Kurla Complex, Bandra (E)
Mumbai, Maharashtra - 400 051

Dear Sir/Ma'am,

Subject : Transcript of Analyst /Investor Earnings Conference call.

Reference : ISIN - INE02IJ01035; Scrip Id-544061; Scrip Code-AZAD

Pursuant to Regulation 30(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, and in continuation to our intimation dated May 18, 2024 we hereby inform you that the Company has hosted Earnings Conference call for analysts and investors on Wednesday, May 22, 2024, at 11:00 A.M. IST which was concluded on Wednesday, May 22, 2024, at 12:10 P.M. IST to discuss on the financials results of the Company for the 4th quarter and year ended March 31, 2024.

We are enclosing herewith the Transcript of Analyst/Investor Earnings Conference call.

Please take the information on record.

Thanking you,

Yours truly,

For Azad Engineering Limited



Ful Kumar Gautam
(Company Secretary & Compliance Officer)
Membership No.: A49550



“Azad Engineering Limited
Q4 FY '24 Earnings Conference Call”
May 22, 2024

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 22 May 2024 will prevail



MANAGEMENT: **MR. RAKESH CHOPDAR – CHAIRMAN AND CHIEF EXECUTIVE OFFICER – AZAD ENGINEERING LIMITED**
MR. VISHNU MALPANI – WHOLE-TIME DIRECTOR - AZAD ENGINEERING LIMITED
MR. RONAK JAJOO - CHIEF FINANCIAL OFFICER - AZAD ENGINEERING LIMITED

MODERATOR: **MR. AMIT DIXIT – ICICI SECURITIES**



Moderator: Ladies and gentlemen, good day and welcome to Azad Engineering Limited Q4 FY '24 Earnings Conference Call, hosted by ICICI Securities. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants' 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 has been recorded.

I now hand the conference over to Mr. Amit Dixit from ICICI Securities. Thank you and over to you, sir.

Amit Dixit: Thanks, Manuja. Good morning, everyone. On behalf of ICICI Securities, I welcome all the participants for Azad Engineering's Q4 FY '24 conference call. At the outset, I would like to thank the management for giving us an opportunity to host this call. From the management today, we have with us Mr. Rakesh Chopdar, Chairman and CEO, Mr. Vishnu Malpani, Whole-Time Director, and Mr. Ronak Jajoo, Chief Financial Officer. We will have brief opening remarks from the management, post which we will open the floor for an interactive Q&A.

Without much ado, I would hand over the call to Mr. Chopdar to take this forward. Thanks and over to you, sir.

Rakesh Chopdar: Thank you, Mr. Amit. Good morning, everyone. This is Rakesh Chopdar, Chairman and CEO at Azad. I welcome and thanks for joining today on the Annual Earning Call. On this call, we are joined by Mr. Vishnu Malpani, Whole-Time Director, Mr. Ronak Jajoo, our CFO, and the team SGA, our Investor Relations Advisors. The results and presentations are uploaded on the Stock Exchange and the company website. I hope everybody has had a chance to look at it.

I wish to update on a few points on the IPO success and our financial performance. So this year, we embarked on a monumental journey with a successful completion of our IPO. This milestone was meticulously planned and executed at the perfect moment after years of preparation. I would also like to take this opportunity to give you a quick overview of our financial performance, which will be covered in detail by my colleagues later in the call.

Our dedication and hard work are now bearing fruits, and I'm thrilled to share that we have achieved our best-ever performance, both quarterly and annually with a top-line of INR340.7 crores in FY '24 and INR92.8 crores in Q4 FY '24.

The initial plan for FY '24 and FY '25, the growth trajectory plan was around 25% to 30%. And I'm happy to share the FY '24 plan has been achieved, and we are on track to achieve the FY '25 numbers with a growth of 25% to 30% in the top-line within our existing facility. The last leg of growth, the next leg of the growth, will come through our upcoming facility in -- from FY '26.



Talking on the business vertical, on the energy sector achievements, as you all are aware, our new manufacturing facility in Hyderabad, which will be 10 times the capacity of our existing facility, is under construction and development. We are building dedicated factories for our key clients within our boundary. The first factories foundation stone was laid by Mitsubishi Heavy Industries team, and now we have more customers wanting to block capacity with us by requesting for an exclusive dedicated unit individually.

In the meantime, we are running with full or almost no capacity, and we will do as usual business, and are eagerly waiting for capacity expansion in our new facility for the next level of growth from FY '26. A significant highlight in the energy vertical was the foundation stone laying of our new lean manufacturing facility. It was an honor to have The Global President & CEO of GE VERNOVA Steam Power to facilitate this event.

This facility represents a major step forward in our growth within the energy sector and demonstrates Azad strategic importance in the global supply chain, and the demand can be seen through the executed long-term contracts. Along with the overall development, we secured a notable contract from GE VERNOVA Steam Power Business. The Phase 1 of the program valued was around 35 million for over seven years for the supply of high complex rotating airfoils for the nuclear industrial thermal power industries.

We have signed another MoU for Phase 2. This large order underscores the scalability of Azad's business and our strong relationship with GE VERNOVA. Aerospace defense milestones, I would just like to mention on the aerospace defense sector, we achieved a significant milestone by securing a seven-year contract from Rolls-Royce for the defense and the military aircraft engines, as mentioned in our previous call.

It's important to understand that a contract with Rolls-Royce extends beyond the contract value. This partnership opens a big door of opportunities and potential for us, marking the beginning of a long-term relationship with vast potential. In the coming years, by capturing more engine programs, very soon we can anticipate such programs from the commercial civil aircraft engine as well.

Additionally, we have signed key strategic nation-wide contracts, demonstrating our commitments to contribute to national projects of importance and reinforcing our position as key industry player in aerospace and defense.

For the oil and gas sectors, in the oil and gas sector, we have achieved substantial success with two major contracts from Baker Hughes. These contracts are expected to generate significant business value over the next five years. These are to not only enhance our current revenue stream, but also positions as well for future opportunities in this vertical. Venturing into this sector was part of our diversification strategy, and I'm happy to share that we are on track to achieve this goal.

Most important, the infrastructure and capacity expansion. This point is very, very important for everyone to understand. Now, let me take a moment to update you all on the infrastructure and capacity expansion efforts, which were key points during our IPO.



We made ambitious promises, and I'm proud to report that we have not only met, but exceeded those commitments. The foundation stone of the new lean manufacturing facility at the Tuniki Bollaram in Hyderabad is just the beginning. The state-of-the-art facility will include dedicated factories within the larger factory, tailored especially for our customers. Phase 1 is progressing well, aligning with our strategic vision for long-term growth. Our investment in infrastructure and capacity enhance our production capabilities and strengthen our ability to meet the increasing demand across our diverse business verticals.

This expansion is crucial as we build a robust order book, providing clear visibility into our future revenue streams. The order book has increased significantly from approx. INR1,800 crores to INR2,000 crores, which was in March '23, and today it's INR3,000 plus crores as on March '24. Hence, the upcoming facilities, is of critical importance for the next level of growth.

On the capability expansion, I'm excited to announce that we have expanded our capabilities through a strategic acquisition. We have integrated a Special Processes and Coating Company in our portfolio by acquiring the assets of VTC Surface Technologies.

This has led to a formation of new subsidiary Azad VTC, which will now cater to our captive Special Process and Coating requirements, as well as the global demand from other OEMs and suppliers. This is the first of its kind for Azad. And we are thrilled about the potential this development holds, as this capability strengthens our supply chain and reduces dependability. This move, Azad, has given a lot of comfort and confidence to our customers on their timely delivery.

Over on the business performance and future order book, since inception of 16 years ago, Azad Engineering has made tremendous strides across all sectors. Our relentless pursuit of excellence has positioned us as leaders in the industry, with a solid portfolio of high complex components, meeting stringent precision requirements. We have grown sustainably from INR122 crores in FY '21 to INR340 crores in FY '24, representing 2.8x in three years, at a CAGR of 41% in top line.

Similarly, from PAT of INR11.5 crores in FY '21 to INR58.6 crores in FY '24, representing, a 5x in three years at a CAGR of 72.1%. Our ongoing business is supported by solid order books of over INR3,000 crores plus, providing clear visibility into future revenue streams. The strength of our balance sheet, fostered by the IPO, has enabled us to significantly improve profitability.

During the years, we delivered revenue growth of 35%, with a six-fold jump in the PAT. This quarter's results reflect our strong financial performance, with ample room for further margin improvement. On a long-term basis, our EBITDA is expected to be in the range of 33% to 35%, depending on the product revenue mix. In conclusion, the journey of Azad is one of presence, innovation, and growth. We remain committed to delivering exceptional value to all the stakeholders, and I am confident, that the best is yet to come.

Thank you, and now I hand over to Mr. Vishnu Malpani, our Whole-Time Director, to take this conversation further.



Vishnu Malpani:

Thank you, Mr. Chopdar, and we welcome everyone for this earnings call for annual earnings call. I want to begin by giving you a quick recap of our product portfolio. It is a basket of very niche, project-and life-critical products. Broadly speaking, the market for our key products is highly regulated and has a TAM of over \$28 billion.

With a wallet share of below 1% of this TAM, there is a lot of scope for us to grow further. Our recent order wins that Mr. Chopdar spoke about are a reflection of Azad's readiness to grab a larger piece of this TAM, in every sector that we are operating in, whether it's power generation, aerospace & defense, or oil and gas.

As a result of our continuous business growth, our product mix is evolving as well. And you can see that with the diversification amongst our business verticals. Energy segment where we had a head start, contributed to 72% of our revenues in Q4 FY24, whereas Aerospace and Defense segment, which has delivered significant growth this year, contributed to about 16% of our top line in total.

Starting Q4 FY24, we are seeing some revenues coming in the oil and gas sector as well. During the fourth quarter, this contributed to about 5% of our top line. This is just the beginning of Azad in both aerospace, defense, and oil and gas sectors. We are confident that we have built in our business the momentum and we will continue to deliver 25% to 30% revenue growth annually over the next few years sustaining.

We have a robust pipeline of products under discussion for which qualifications and approvals are updated. The pipeline continues to add our order book and revenues on a regular basis. With the shift in our business mix, we anticipate an improvement both in our working capital and as well as ROCs. Further, following the IPO, our balance sheet has strengthened significantly. And this has helped us to reduce our finance costs largely.

Our finance cost, which was INR47.3 crores in FY'24, is expected to come down drastically in FY'25. Going forward, the total interest costs would be to the tune of approximately INR3 crores a quarter, which is in line with our Q4 recurring finance costs. This would be a fair representation of our financial performance going forward, both in terms of profitability and returns profile.

Now, I hand over the call to Mr. Ronak Jajoo to talk further about our financial performance. Ronak, over to you.

Ronak Jajoo:

Thank you, Vishnu. Firstly, let me talk about consolidated financial highlights for the full year. Revenue from operations grew by 35% to INR340 crores, which is ever our highest performance annually in our company. As explained by Vishnu, this was led by substantial growth in the energy and oil and gas segments which increased to INR285 crores in FY'24 to INR219 crores in FY'23, thereby increasing 30% year-on-year basis.

The Aerospace and Defense segments recorded a robust growth of 95% in FY'24. The revenue increased from INR23 crores in FY'23 to INR44 crores in FY'24. During the year, our EBITDA margin has expanded on account of operating leverage and process efficiency, resulting in adjusted EBITDA margins improved from 31.6% in FY23 to 34.3% in FY'24, and this is the highest level of EBITDA margins we have achieved during our history.



Going forward, we continue to maintain healthy EBITDA margins in the range of 33% to 35%. We are working on various initiatives such as local sourcing, as I told you last time, process improvement, further qualifications of new products, especially in aerospace and the oil and gas segment where we have recently signed a long-term contract with the global OEMs.

With our investment towards the special process into the Azad VTC Private Limited which we have announced recently, which will help to reduce the job work charges from H2 FY'25 and onwards, and also it will help us to smooth line our logistics because whenever we send the parts outside for job work, it saves the logistics hassles.

The company has reduced its debt significantly during the year and I am glad to share that in Q3FY'24, our past CCD investor namely Piramal has converted their CCDs into equity worth INR160 crores. Further, utilizing the IPO profit and internal accruals, we have redeemed our term loans to the tune of INR72 crores till date in FY'24.

As a result of our total finance cost for the year including, includes INR29 crores of non-recurring cost towards interest and on CCDs and the one-time impact of IND AS on term loan closures that we have closed, we have short closed the loans. The non-recurring interest cost is largely extended were neutralized by one-time income of INR27 crores pertaining to sales of subsidiaries, sales of land.

IND AS impact of loans and loan closures. A large portion of these non-recurring items is coming in Q3 FY'24 numbers. I am glad to share that adjusted CCD excluding the impact of these non-recurring items grew by 68.7% (Wrongly spoken on the call; the correct number is 69.4%) to INR83 crores during the year. Our PAT for the year stood at INR59 crores with 17.2% margin. We expect PAT margin to improve from H2 of FY'2025 onward on account of lower finance cost and improving our efficiencies.

Looking at the quarterly number, revenue stood at INR93 crores, which is a 9% growth on year-on-year basis. This growth is led by strong sales in both energy and aerospace segments. The consumption has slightly increased from 12.5% to 17% due to change in product mix and revenue mix. Employee cost has decreased during the quarter as I mentioned last quarter also that we are working on various initiatives.

And this has decreased by 2.17% compared to Q3 FY'24. Operating expenses was in line with the business. During the quarter EBITDA stood at – sorry during the quarter EBITDA stood INR31 crores with 33.8% margin. The appreciation had slightly increased as we have done capex during the year which resulting into increase in sales and capacity. PAT for the quarter stood at INR15 crores with 16% margin which is our long-term ambitions and we try to improve it further during the quarter.

With this I conclude our presentation and open the floor for question and answers. Happy to take.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Bala Murali Krishna from Oman Investment Advisors. Please go ahead.



Bala Murali Krishna: Yes. First of all, I have two book-keeping questions. For this non-recurring finance cost, when can we expect it to be zero? And one more thing is the receivable side, I think trade receivables are almost at 50% of the FY'24 revenue. So is it a normal scenario or do we have any one-off for this kind of trade receivables in this quarter?

Ronak Jajoo: Yes. So, one-time income (Wrongly spoken on the call; it should be read as one-time interest) has already been finished because we have repaid all the CCDs and there is no Piral effect going forward. So, going forward, you see the normalized finance cost from Q1 onwards and the same is also reflected in this quarter. Coming to the receivable part, we have a normal cycle of around 120 days to 150 days credit to our customers. And if you see, we have done almost around 180 crores of sales in H2. That is what is reflected in our receivables.

Bala Murali Krishna: Okay. Understood. Yes, Yes. And second on this deals, which you have won with Rolls-Royce and two more deals. And one deal, we have disclosed the contract value and remaining three deals, on a broad basis, what could be the potential of these three deals? Like we have in this last deal, we have around INR300 crores potential. So what could be any combined revenue potential of the three deals which we have won since January?

Vishnu Malpani: So I'd like to say that during the call, Mr. Chopdar briefed that our total order book is upwards of close to about INR3,000-plus crores. So if that is what you're asking. So all of these contracts put together that we're signing with our customers have a total cumulative value of over INR3,000 crores. Now these contracts have to be executed over three years, five years, seven years or 10 years, depending on the duration of the contract. These are long-term contracts.

Bala Murali Krishna: Okay. Understood. So whether we are developing any new products to grab more valid shares of the existing customers? Can you throw some light on that? And lastly, on this new facility, when we can expect it to be on the commission stage?

Rakesh Chopdar: Yes. So as we mentioned, let's take an example of Rolls-Royce. Now Rolls-Royce is one of the key customers to us. And we are very proud to say that we got this very critical components of engine to India. And if you see, there are two aspects in this. One, getting the foot in the door, right? So there are so many engines being manufactured by Rolls-Royce in the military application, defense applications.

So we got a chance for the first to enter in the engine programs. Now the example, just giving an example of say for example, they've got 10 engines and they've given us two engines to participate and start the production cycle of that, development and production. So as we develop, as we produce, the doors were open for 10, not for two. So if you see it and look at a longer picture, it is very, very good to see the longer picture, not just for this one contract. There are many more, which are in the pipeline.

Then comes the civil, the commercial aircraft engines. So this is a step, first step, which got our foot in the door. That was the most important. And now it is all that we start producing parts and the qualification goes on. And you can see the revenues coming from FY'25 from this and the new facility, which is coming up, which we are anticipating to get the FY'26 revenues out of it.



Bala Murali Krishna: All right. Understood. Lastly on this, Baker Hughes, they are our existing customer or they are new customer to us?

Rakesh Chopdar : So, see, in oil and gas, as we penetrated 2020, we were trying to build this as a diversification. And again, there are very critical parts in the oil and gas divisions. The facility what we have, the equipment what we have is very fungible and we just picked up the parts which are required as very high specialized components.

So in oil and gas also, we found that there are certain components, which are very high critical in application. And this facility can be utilized the best way to produce those parts. So it was a strategic call of picking up Baker Hughes for coming up. And as we entered with them, the audit cleared and all the leadership meeting happened, and then we entered in a very long-term agreement. So it was a strategic call. It was very well planned.

Bala Murali Krishna: Okay. That's all. Thank you.

Moderator: Thank you. The next question is from the line of Kamlesh Jain from Lotus Asset Managers. Please go ahead.

Kamlesh Jain: Yes. Congrats for the excellent performance on financial year. So just one question on the part of the order book. So how long or for what period this order book is executable? Like say over next three years, four years?

Rakesh Chopdar: Yes. So major, if you see, it can be from three, five to seven maximum. These are the years which we sign up these order books. And this, as I mentioned in the previous question also, as we are just adding up that, now as I told you in Rolls-Royce, we got two engine programs. We can expect another six or eight or 10 engine programs. So these are certain things we are blocking the capacity with these contracts.

Kamlesh Jain: And sir, like how much would be the capex we would be spending like over the next four, five years? Because spending on capex would result in your revenue getting or order book getting executed. And as you have mentioned earlier as well that you have 2x asset turn. So how much capex would be paying for the next five years?

Rakesh Chopdar: For this year, we have planned to deploy INR120 crores. And as these equipment are very specialized, right, as we all know that we are into very specialized things. We have deployed the proceeds of IPOs from the first quarter of this year. So as I mentioned earlier also, the FY'24-'25 was very well planned that we will have a 25%-30% growth these two years, which we have successfully picked up FY'24 and on track for FY '25. Now, whatever the capex we have planned is for -- it will be incremental from FY'26. So this capex, if you see the effect, it will come from FY'26 from the new facility.

Kamlesh Jain: But, like say, as we want to reach like INR4,000-odd crores top line in like the next five years, then we need to spend roughly around -- incremental, like say, roughly around INR1,800-odd crores capex. So are we on that path if we want to achieve incremental turnover of INR3,600 crores over the next five years, then we need to spend roughly around INR1,800 crores capex.



Rakesh Chopdar: Not necessarily, Mr. Kamlesh. That depends on the product mix. So what we have done is, whatever the orders and contracts we have committed and we have taken and we have already committed to our customers, these capex is planned only specific to the contracts what we already have it. This is nothing called future. Whatever we have signed up, whatever orders we have, the capex is very well planned for that particular thing. As and when the product mix changes, as and when we go and see like, we are into military and defense now. In commercial aspect, we will have a different kind of investments.

Then if you go in oil and gas, there is a different kind of investment. So we are well diversified and we try to take the most advantage of the facility what we have, which can cater to all the three, four segments which we are in. We are not depending on one particular, the whole facility doesn't depend only on one particular vertical. All the four can be, this facility can utilize all the four verticals. So that was the original plan.

Kamlesh Jain: Great, sir. And best of luck for the future. Thank you.

Moderator: Thank you. The next question is from the line of Mahesh Bendre from LIC Mutual Fund. Please go ahead.

Mahesh Bendre: Hi, sir. Thank you so much for the opportunity. Sir, you mentioned that the new facility, expanded facility, which is like 10x in terms of manufacturing capacity compared to what currently will operationally FY'26. So FY'26 could be the year when it will start contributing or is it FY'27 when the contribution will come?

Rakesh Chopdar: Thank you for your question. Sir, from day one we have been -- past when we, I remember, I recollect the days when we started. That FY'24 and FY'25, what existing capacity we have, the growth of 25% to 30% per annum, that is what we have projected. And all this planning and the proceeds what we are utilizing is incremental from FY'26. And if we have got into 10x, if you look at the order book, this is we have it as on date, right?

And there are many more which are lined up. There are many more, as I mentioned from defense, we are going into civil, we are going to commercial, we are going in many directions. So the growth is very big, massive. So to cater that, then we have a plan, because factories cannot be built now and then. When we have already visualized 10x size, so there is a basis behind it why we have chosen to go 10x. So the incremental will come from FY'26.

Mahesh Bendre: And sir, what is the current capacity utilization of existing facility?

Rakesh Chopdar: It's around 80% to 85%.

Mahesh Bendre: Okay. So still we are expecting 25% growth in FY'25.

Rakesh Chopdar: Yes. This was the plan. This was the plan from day one. This was the plan from FY'24. We had a thing that we will grow 25-30%, but, you know, luckily we grew 35%. The same thing with FY '25, we are on track.

Mahesh Bendre: So FY '26 and FY '27 could be quantum year for us in terms of...



- Rakesh Chopdar:** Yes, you can see a big, I think you can notice a shift and a movement, I could say that, from FY '26.
- Mahesh Bendre:** Sure. Thank you so much, sir.
- Rakesh Chopdar:** Yes.
- Moderator:** Thank you. The next question is from the line of Jeevan Patwa from Sahasrar Capital. Please go ahead.
- Jeevan Patwa:** Yes. Congratulations, keep up for the good state of numbers. So, I just want to understand what is composition of the order book. How much is it from the aerospace and defense and how much is from power and how much is from oil and gas?
- Rakesh Chopdar:** Yes. So I can give you some tentative numbers, right? And I can just, just a minute, I'll just open the page. If you notice, we have oil and gas and energy. If I club this both, that's amounting to around INR1,500 crores and around INR1,700 crores from the aerospace and defense. These are all signed. Hello, am I audible?
- Moderator:** The participant got disconnected. Next question is from the line of Prasheel Gandhi from Anand Rathi. Please go ahead. Prasheel, please go ahead.
- Prasheel Gandhi:** Yes. So just one question from my end. So on a segment-wise basis, could you give a bit more color to your revenue guidance? We have guided for a 25%-30% growth, but could you give a segment-wise guidance on how you are seeing growth in each segment?
- Vishnu Malpani:** Yes. So, okay. I'm happy to do that. So overall, as a business, like Mr. Chopdar was saying, when we, -- so you would have seen that, you know, we've grown from about INR122 crores in FY '21 to about INR340 crores in FY '24, right? So this has been the growth. Now we anticipate the blended growth for the business is going to be 25% to 30% even this year, right? But if you look at each of our segments, so Energy business will continue to grow at 25% to 30%. Aerospace, also has a larger growth, but you can assume that it will grow at least about 35% to 40%. Oil and gas, because the base is smaller, it could potentially go 2x or 3x also.
- Prasheel Gandhi:** Okay. Thank you, sir.
- Vishnu Malpani:** Yes.
- Prasheel Gandhi:** Thank you very much.
- Rakesh Chopdar:** You're welcome.
- Moderator:** Thank you. The next question is from the line of Dipak Saha from DRChoksey Finserv Private Limited. Please go ahead.
- Dipak Saha:** Yes. So first of all, congrats on a good set of numbers for FY '24. My first question on the inventory side, so if you can share the break-up, you have INR132 crores worth of frozen inventory. So how much will be your raw material, work in progress and finished goods?



Ronak Jajoo:

Yes, sure. I will do. So you have to understand this inventory into two parts. One is the Aero inventory, as you mentioned that this is for the long-term, where we are using the particular inventory for the that's why part, where we have to order the minimum order quantity and it has to be checked for longer period of time. And to be very precise on your question, we have raw material to the tune of around INR52 to INR53 crores, work in progress to the tune of INR61 crores and balance our other consumables and scrap inventory to the tune of around INR15 crores, INR16 crores.

And also we have signed long-term contracts with the GE this year, as we have mentioned in our press release. So we are keeping some stuff for those particular contracts. That's why the inventory is looking slightly higher at the end of March end.

Dipak Saha:

Okay. So sir what I was trying to understand out of it so for the qualification stage, as you said, you need to get a lot of inventory, so how much out of this would be for the qualification?

Ronak Jajoo:

Total, it will be around INR35 crores, roughly INR30 to INR35 crores number you can take for the qualification part.

Dipak Saha:

INR30 to INR35 crores?

Ronak Jajoo:

Yes.

Dipak Saha:

Got it. Okay. And the sir second question is, earlier call you alluded to the fact that we are targeting for indigenization of raw materials to normalize the working capital to much more better numbers. So what is the progress on that?

Ronak Jajoo:

We have done quite a good progress in Q4 of this year, where we have got two of our key raw material qualified with the Indian partner. And we are on the track and probably in FY '25 and FY '26 you will see the impact on the inventory side. Because whatever we have to purchase, we have already placed the order based on the previous PO's and previous order books.

And the further increase on the incremental purchase, what we do, we start from FY '25 onwards, because they have just got qualified and we can't place the order right now, because we have already placed on the existing supplier as the lead-time for these inventories are a bit higher.

Dipak Saha:

Okay. And one last thing from my end Sir. So you have delivered in a recent year 35% of growth in FY '24. We are talking 25%-30% sustainably for the next two years, right? And we have INR3,000 crores order book. And when we look at your balance sheet, specifically on the trade payables side, we have seen those numbers going down. So filter days are kind of going down. So, when we are targeting this kind of growth, on the other side are filter days going down and debtor days are also kind of indicating. So will we be able to sustain at this level of debt levels that we hold right now? Or we might resort to higher level of debt going ahead to manage the working capital?

Vishnu Malpani:

So, Vishnu here, I am just trying to understand. I think the number of trade payables or the number that you are sharing, can you just expand on that because we didn't quite catch that?



Dipak Saha:

So if you see your base payable on FY '22 was 576 and for FY '24, it's around 396, right? So, as an effect, if you compare with COGS, then your cash conversion cycle is going up for FY '24. So, how we are going to manage this? Is there any change with the creditor days or creditor terms that we are getting less number of days as far as this thing is concerned from the suppliers? So that's why I was trying to understand how it will impact us to manage the working capital for FY '25 and FY '26. How does it work? If you can share some color.

Ronak Jajoo:

Yes. So if you see my strategy today, it's around INR70 crores plus in my balance sheet and we have enough cushion available to manage the FY '25 number. And for FY '26, as we mentioned that we have already have a proceeds from IPO plus, we can take the additional working capital lines from the bank as my current debt is close to what working capital debt is zero. And there is a term that hardly of around INR25 to INR30 crores in my book at point some time. So, we have a sufficient cushion available for the growth and that should not be a problem for us going forward.

Moderator:

Thank you, sir. The next question is from the line of Vishal Singh from Makrana Capital. Please go ahead.

Mickey :

Hey, guys. This is Mickey here, not Vishal. Congratulations on a good set of numbers. I specifically had two questions, guys. So, number one, assuming in fiscal '25 you grow at 30% and I clearly remember you had said that for you fiscal '24-'25 was the year where capacity is going to be constrained. So given that you were at INR340-odd crores for fiscal '24, I slap in one booked by 30% that gets you for fiscal year '25 at approximately INR445 crores. Given that we are long term investors and you mentioned that starting fiscal year '26 will be the inflection point. I mean, what kind of revenues are you guys projecting for fiscal year '26 to demonstrate that it is really an inflection point from a revenue perspective? That's my first question.

Rakesh Chopdar:

Yes, Mickey, I think you're right and thanks for the question. Right from day one, we have been saying fiscal '24-'25 has been very well planned and we have achieved fiscal '24 as per the plan and on track for fiscal '25. So we are quite happy with what we have planned, we achieved in fiscal '24 and will be achieving in fiscal '25. There are no constraints in that.

Now, if you see that we are deploying around INR120 crores this year and this is incremental to whatever we are doing for FY '26, FY '25, this will be seen from FY '26. So this is a continuous process. As you notice that these machines, equipment, they are not on the shelf. They have certain delivery times and it will come in phased manner. And you can see the deployment of these revenues. We can, if you show and take you more in detail. If you try to see the asset turn, what we have been talking and based on the asset turn, more and more equipment, as quickly as possible, we try to get in the facility.

Today, we have massive order books, we have massive customer base and we are really coming up in a very great show. You could see April 24th, the president and CEO of GE Vernova are coming in, blocking the capacity. That gives a big, big gesture to our business and to India that she came in all the way, did the ceremony, flew back in six hours.

That means they want us to raise this facility as soon as possible. Now, it depends on various factors on the equipment. Now, these equipment are majorly imported. And we have a long-term delivery. So we are now very, very desperate to get this capacity up and running as we have to deliver these contracts. So it is that more quickly the equipment comes in, more performance you can see in this case.

Mickey:

And then my second question is, just from a quarterly perspective, how does one, like I know you guys think a lot from a yearly perspective, but listen, you are a public company now. So from a quarterly perspective, in terms of your revenue and numbers, how should one project this? Is there seasonality? There's no seasonality. Obviously, there has been a little bit slowdown in your Q3 to Q4. So I'm just trying to figure out, like from a public company, now that you have to give out quarterly results, how should one factor the growth in?

Vishnu Malpani:

Thanks, Mickey, for the question, Vishnu here. I'd like to say that, first of all, in our business, there's no seasonality. I think there, this might be arising, this question probably I'm guessing might be arising out of a smaller growth that you would have seen from FY '23 Q4 to FY '24 Q4.

But I would like to clarify that, when we are looking at, say, a 9% growth from FY '23-Q4 to this year, there was, the base that was taken, the base quarter, if you look at our four quarters for last financial year, we were doing on an average of about INR55 crores in quarter one, quarter two, quarter three. While we were able to add some capacity last year, the quarter's actual capacity was closer to INR75 crores, but because some deliveries had pushed to Q4, the quarter had become elevated to about INR84 crores. If you normalize it, it should have been about INR70 crores for FY '23 Q4.

Now, when you compare ourselves from a INR70 crores normalized quarter from last year to, say, a INR92 crores of quarter, you will be able to see a growth that we have been talking about, which is about 30%. So, that is one. So, the elevated base, which wasn't normalized for last year, is actually leading to this, wrong growth number that is coming out.

But ideally, it is about INR70 crores for last year's quarter and about INR92 crores, which is about 30% growth. However, the other thing that I want to say is quarter-on-quarter in our business, there are sometimes shipments based on the customer's requirements are either pulled or pushed out. So, that's why when you're evaluating our business, I would say that you look at a longer period, maybe club two quarters or look at a longer horizon because we are constantly growing at this rate.

And that's why it's important. So, we have zero seasonality and the elevated base of last year would have led to, say, optical smaller growth. But if you have to evaluate for us for FY '24, I would recommend that look at FY '24 over, say, the next two quarters. Maybe you can look at the June quarter and the next quarter put together to see how we are able to grow at this rate. I hope, I'm able to answer.



Mickey: Absolutely. And just one last question from a margin perspective. Obviously, there has been some variability. So, both at a gross margin level and an EBITDA margin level, like what is the band that we should be factoring in for fiscal year '25 and '26?

Vishnu Malpani: So, I mean, I wouldn't say that there has been a lot of variability in our business. I think for us the change in the variability is because of the product of the revenue mix whenever there is, but even if the product and the revenue mix changes the range would be anywhere between 33% to 36% to 37% that's it. So, this is the only range that our EBITDA margin is going to be at and our gross margin despite the change in revenue mix etc will always be between 82% to 86%.

Rakesh Chopdar: Another one point I would like to add here mickey is these numbers what we are telling you is like we already signed the contract. So, these numbers are already secured all the value order book that we have taken is all secured. So, that's one big advantage.

Mickey: These numbers also include a fiscal year 26 and beyond which is the inflection point, correct?

Rakesh Chopdar: All the order book that we have in hand. We have a strategy. We follow the same for everyone. So, all the order book signed has this number.

Vishnu Malpani: I mean, I would just like to expand this a little further. So, if you look at it from FY21 our EBITDA margin was closer to 30%. If you look at this year, we have delivered one of the highest ever EBITDA margins for us in the year. We were internally projecting we were targeting about 110 crores, but we have been able to deliver about INR117 crores which is over delivery because of certain margin expansion that has happened on operating leverage that we were able to get.

If you look at our revenue numbers also our internal target was to hit 340 and we were successfully able to do it. Now, we are on to along with the revenue numbers. I think one of the important things that we should all be focusing on is okay while we have hit our numbers and we have met our targets, there are a lot of qualitative developments that have happened in the business.

We placed our foot in Rolls Royce. We signed two additional contracts with Baker Hughes. We are doing strategic defense contracts There is a lot of improvement. We have done an acquisition for Azad VTC which will improve our margins further. So, there is a lot of developments that are probably not visible in the numbers that have been showcased, but there is a lot of work that has happened in this year which should probably help us in FY25-26, and on and on going on.

Mickey: I agree with everything you are saying. All I am just saying is that starting fiscal 26 is going to be a big inflection point in terms of the capacity and the revenue. Given all the internal developments you have done.

Moderator: Sorry to interrupt, Mr. Vishal. I request you to rejoin the queue.

Mickey: Margins should be able to be sustained, right?

Rakesh Chopdar: Absolutely. Yes, absolutely.

Mickey: Okay, great. Thank you, guys.



- Rakesh Chopdar:** Thank you.
- Moderator:** Thank you. The next question is from the line of Abhijit Mitra from Aionios Alpha Investment Management. Please go ahead.
- Abhijit Mitra:** Yes, thanks for taking my question. I hope I am audible.
- Rakesh Chopdar:** Yes.
- Abhijit Mitra:** Yes, so just to understand I think one of the previous participants tried to probe on this. Your current working capital days is 206 or 210 in that range. And when you are talking of a 10x revenue over, say a 4-year period or 5-year period that is an incremental revenue of almost 3500 crores, an incremental working capital requirement of...
- Vishnu Malpani:** Sir, we are talking about 10x capacity addition. We are not talking about 10x growth in the next 2 year.
- Abhijit Mitra:** Yes, so essentially the INR4000 crores revenue target is by which year? Sorry, if you can...
- Vishnu Malpani:** Okay. So I would just like to clarify that we are talking about — so currently our business is constrained for capacity. We have limited capacities and with the contracts and the demand that we are seeing for our customers, we are coming up with a facility which will add 10 times more capacity.
- Now this 10 times more capacity is obviously going to be made over a standard period and will be filled over time. We don't mean that it will be filled over the next 4 years or 5 years. Our business will continue to grow at 25%, 30% this year. And then once we are at an inflection point in FY26 you will see that the growth rate improves from 30% to a higher number and it will continue at that rate for a few years.
- Abhijit Mitra:** Got it. That's very clear. And secondly, just to understand the nature of this working capital as you scale up you will have to maintain this nature of working capital intensity or you can improve on it?
- Vishnu Malpani:** No, so the working capital intensity of the business is a function of what is your qualifications that you are doing. Qualification in our business is where the working capital gets stretched because you are supposed to stock material, you are supposed to buy minimum order quantity, whereas, it takes a couple of years to get your product qualified.
- So basis this, once the product qualification is there and your production ramps up, you will see that progressively the working capital comes down. Ideally, we expect our business's working capital on a blended level to be anywhere between 140 days to 150 days of cash to cash.
- And our energy business vertical was already at that point. Now with some of the stocking programs that we are doing to improve our relationship and business with our customers, it could look like it has stretched a little, but the ideal business working capital cash to cash

conversion cycle should be anywhere between 140 days to 150 days overall, which you will eventually see.

Abhijit Mitra: Got it. And the last question is the margin guidance, which you are giving 33% to 36%, I mean, what are the risks to that margin guidance? Are there any open-ended clause on the commodity or on the currency or anything else that you feel can impede this guidance?

Vishnu Malpani: So, if you look at our historical numbers, we have always sustained these margins. These margins have been able to sustain, because when we sign up with our customers over a longer period contract or a long-term contract, these prices have been fixed agreed upon. And over time, we are only bringing more operating leverage, which helps us improve our margin further.

During the process when we are taking an order for our customer, our margins are fixed. So we do not take an order where we do not meet our margin criteria. And over time, we only help improve the margin further through our operational excellence and operating leverage in our business. So 33% to 36%, 37%, the range, which are shared will be sustained for a longer period of time.

Moderator: Thank you. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Sure. Sir, the capex that we are doing in Hyderabad for 10x capacity, is the total capex only INR120 crores?

Vishnu Malpani : No. Let me clarify this. So we are coming up with a 10x capacity. INR120 crores is the deployment that we are going to be doing in FY '25, which will result, which will improve our revenues for FY '26. The longer, these machines that we deploy in our business, these are high-end specially all the CNC machines. They have a longer -- they have a longer duration for deployment and production.

So when we order these machines, so we are going to be investing INR120 crores in plant and machinery only. I want to be specific. For the infrastructure development we are going to be deploying about INR80 crores to INR100 crores. So INR80 to 100 crores will develop the infrastructure, whereas this financial year, INR120 crores will be deployed in plant and machinery.

And over time, whenever we have to build capacity, it does not make sense for us to deploy INR500 crores and create a capacity because obviously there has to be a progressive way that this plant and the ecosystem is developed. So right now, the initial start will be INR120 crores in the current year, and then next year will be further, and we will continue to do that.

Alisha Mahawla: Understood. So in a phase-wise manner, every year about INR100 crores – INR120 crores will go in plant and machinery, but the investment of INR80 crores to INR100 crores will probably also be incurred in this year only for the plant to be ready in 2026.



- Vishnu Malpani:** Yes, we have already started deploying that from last year because the infrastructure was started. So there will also be deployment in infrastructure this year, but plant and machinery, we will have to deploy about INR120 crores.
- Rakesh Chopdar:** And one more point we would like to be clear is this is not just for FY '26. It's from FY '26. The infrastructure which is getting built is just not for FY '26. It's a massive plant which is coming up. And we can't build factories one by one. So there are a lot of plans which I'm happy to, if you could, if you travel to Hyderabad, we can show you all the plans in detail.
- Alisha Mahawla:** And tentatively, in FY '26, when do we expect this first phase to be ready?
- Rakesh Chopdar:** From FY '26, ma'am.
- Alisha Mahawla:** In H2?
- Vishnu Malpani:** No. So you will be able to see incremental revenue of FY '26 coming out of the new facility. So whatever growth, say when we do 25% to 30% growth in FY '25, and say let's say that number is X, on X, any incremental revenue that we are targeting for FY '26 will come out of the newer facility, which will be our inflection point.
- And then you will be able to see that the rate of growth for us in our business will be faster. See, our business has a sustained growth of 25%, 30%, because the market is very large. And we can continue to grow at this rate for a very long period of time with sustained margins and the top of the line clientele and product line. So I think the way to look at business would be, on these lines.
- Alisha Mahawla:** Understood. And just last question, the contract that was signed with Rolls-Royce, GE Vernova, Baker Hughes, et cetera, will these also start from FY '26 from the new capacity?
- Rakesh Chopdar:** Yes, ma'am. As you can notice, there are five and seven years. So that covers in that period of time.
- Alisha Mahawla:** Yes, but are they starting in FY '25 or are they....
- Rakesh Chopdar:** No. A few of them can start from next year also, FY '25 also. So there are certain parts which have growth from FY '25, some are required from FY '26. So it's a very staggered and planned. And these contracts are not signed just today. There is a hard work of last one year we've been negotiating with them.
- And as we show them capacity, right. This is not just they'll just give you a contract, just like that. So we showed them plan. We are raising money. We have this is our factory coming up. This is the plant which is coming up. And when audit happens, they come, they watch, they see. And then only the contracts are signed.
- We would have taken this contract last year, but we told them, yes. we are raising money. So we need all the strong capital to execute all this. So all this has been it just doesn't come like that, ma'am. These companies are large companies. They see each and every corner and then only sign up with you.



Vishnu Malpani: And there are, I mean, we have delivery commitments. So whenever a customer signs a contract, they are busy on what needs to be delivered at what time. So there is a very, very detailed schedule which has been agreed between our customers and us. And we work towards it on a similar basis for every contract.

Alisha Mahawla: Understood. And this capex of INR120 crores, INR60 crores we raised in IPO. And for the balance, are we going to now again need some debt, because there's going to be at least INR120 crores every year plus infra

Ronak Jajoo: Yes. We have to take the incremental debt. Right now, there is no debt, hardly around INR 37 crores (Wrongly spoken on the call; Correct number is 37 crores) in the balance sheet. So we have sufficient room available for the new debt.

Moderator: Thank you. The next question is from the line of Chirag from Neo Multi Family Office. Please go ahead.

Chirag: Yes. Hi. So if you can give me a breakup of margins in terms of segment wise? So let's say currently you are getting a revenue contribution on from Aerospace & Defense of around 20%-30%. So how much could that go to in the next three to four years or so? And what impact would it have on your margins?

Vishnu Malpani: Look. So we don't look at margins on a vertical level. So if you look at our business, right, this year we delivered some level of diversification or if you have to say 82% of our revenue this year was from Energy and 12.9%, was from Aerospace. And until last year, it was about 87%-88% from Energy.

So we were never looking at margins at a segment level. We always looked at it blended, because the way we go for our parts is also similar in both the verticals. However, going forward, our plan is that once we are able to scale, you know, aerospace and defense to the level of upwards of INR75 crores-INR80 crores, we would start tracking the margins separately for the business as well.

Because until then, large part of our focus is towards qualification, you know, which optically might not give you the right indication for margins at a segment level because qualification is a zero revenue business. You have to invest a lot in terms of manpower, your resources, etc. So until we are able to reach a scale where the business reaches upwards of INR70 crores-INR75 crores, it does not make sense for us to look at margins at a segment level.

However, we don't see that number far off, you know. So maybe in a year's time or so, we should be able to track segment level revenues. But again, we will not be able to track this for oil and gas because oil and gas is now very, very small, it is blended with energy.

When oil and gas also reaches, you know, a point where we start delivering and the quantum of qualification versus revenue is comparable, then we will start doing it separately. But to give you some comfort, our blended margins are always going to be in the range of 33%-36% despite any change in revenue mix or segment mix whatsoever.



Chirag: And you currently have a wallet share of roughly 1% in your existing TAM. So what are the opportunities and challenges that you see in terms of growing your wallet share and how much could it go to over the next few years?

Rakesh Chopdar: Yes, so I'll take this. If you notice when we say the TAM and the wallet share, signing contracts and getting these orders, that is evident to show that we are now ready to take up. And now the customer believes us. And now this is where they give us the complete program of allotting these orders to us for the long term. So this comes step by step. As I mentioned, in 2022, we were sitting at around 23, we were sitting at INR2,000 crores. This year we did INR3,000 crores. This INR1,000 crores comes from certain developments which we did this year. And so on, this will keep on continuing. So when we say 10X capacity, then you can imagine. You can imagine what order we will be sitting after next year and following year.

Vishnu Malpani: And just to add to what Mr. Chopdar was saying, I think for us, what are the ingredients that you need for an organization to scale up? You look at capital, you look at contracts, you look at customers, you look at capability, and then you look at capacity. Today as an organization, we have all the four boxes that we have checked, and capacity is coming up. So that is going to lead us to a higher expansion in our wallet share. It is not a function of reduced demand.

We have more demand than what we can supply. Even if we were to set up capacity immediately, it is going to get consumed. You can see how our customers have been growing, and how each of these segments or industries are growing. So we work with the top customers in every sector. Every sector is having tremendous growth. Our customers are growing.

So for us to grow, we only need to add capacity. And that is why one of our questions that had come up is, once the new capacity comes up, that is going to be an inflection point. Having said that, growing 25%, 30%. Since 2021 till today, we have grown at 40%. Hopefully, this growth will continue when you see the inflection point as well. That is something that I would say. It is only capacity that needs to be added.

Chirag: So do you foresee any risk in terms of competition or any other risk in achieving your goals of increasing wallet share?

Rakesh Chopdar: Competition. We have competition in China, Europe, Japan, and America. That is our competition. So if we compete, we compete these four regions, four countries, I would say.

Vishnu Malpani - And we do not see any risk from that perspective because our revenues for the next few years have been signed up already.

So we do not have to look for, for example, the numbers that we are targeting in FY25. We already have the purchasing orders and the contracts with us. So that is committed. So we do not see a risk from that perspective. See, that is what I was saying. Coming back to this, like in my previous answer, I was saying for us to grow, we need customers, contracts, orders, which is there with us.



These products have been qualified. The only thing that is needed to be added is capacity. And for us to add capacity, we needed capital, which we have raised, and now we are deploying that. So we do not see any risk in execution from that perspective.

Chirag: Okay, thank you.

Moderator: Thank you. Due to time constraints, that will be the last question for the day. I would now like to hand the conference over to Mr. Amit Dixit from ICICI Securities. Thank you, and over to you, sir.

Amit Dixit: Yes, thanks, Manuja. I would like to thank everyone for attending the call and fruitful discussion we had today. I can see that there is a long queue still over there, so you can get in touch with the management or SGA for your queries. I would now like to hand over the call to Mr. Chopdar for any closing comments. Over to you, sir.

Rakesh Chopdar: Thank you, Mr. Amit. Thanks, everyone, for joining this call. What I believe is like, as I mentioned before, the plan, what we are planning, 24, 25, 26, 27, we are perfectly on track, and we expect, and as we go through FY24, we will achieve as per the plan and on track on FY25 and on track on FY26. So we have all the ingredients.

It's just the capacity. We are very eagerly waiting to add the capacity. We have enough orders. We have big, big, you know, demand in the global supply chain. Even now, there are so many customers sitting next door and asking us, when are you going to add the capacity, contracts up, orders in place, capital in place. So I think it's a very beautiful journey going ahead, and there is a lot of excitement coming weeks and things, and you will listen what's going, what steps is yet to come yet.

So that is what I wanted to give a last message. It's really, really a wonderful journey we covered, and there's a long way ahead to cover up.

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