AZAD

November 19, 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 November 06, 2024 we hereby inform you that the Company has hosted Earnings Conference call for analysts and investors on Tuesday, November 12, 2024, at 12:00 P.M. IST which was concluded on Tuesday, November 12, 2024, at 01:00 P.M. IST to discuss on the financials results of the Company for the 2nd quarter ended September 30, 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

AZAD ENGINEERING LIMITED

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

"Azad Engineering Limited Q2 FY25 Earnings Conference Call"

November 12, 2024

E&OE: This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on November 12, 2024, will prevail.

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

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

Moderator: Ladies and gentlemen, good day and welcome to Azad Engineering Q2 FY25 Conference Call hosted by ICICI Securities.

This conference call may contain forward-looking statements about the Company which are based on the belief, opinion and expectation of the Company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant line will be in 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Amit Dixit: Thank you. Good afternoon, everyone. On behalf of ICICI Securities, I welcome all the participants for today's 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. Over to you, sir.

Rakesh Chopdar: Thank you so much. Thanks a lot. Good afternoon and Season Greetings to everyone.

Welcome and thanks for joining today on Q2 Earnings Call. On this call, we are joined by our Mr. Vishnu Malpani – Whole-Time Director and our CFO, Mr. Ronak Jajoo and SGA team, our Investor Relations Advisors.

The "Results and Presentations" are uploaded on the Stock Exchange and the Company website. I hope everybody had a chance to look at it.

We have delivered a strong performance in this quarter with our revenues growing significantly to Rs. 111 crores demonstrated robust growth on a year-on-year basis, showcasing a growth of 35%. Adjusted EBITDA for this quarter stands at Rs. 41 crores.

Further, the PAT has grown from Rs. 19.5 crores in Q2 FY24 to Rs. 21 crores in Q2 FY25, showcasing a growth of 8%. We have come a long way in our journey from doing business of Rs. 100 crores per annum to Rs. 100 crores per quarter, demonstrating an exponential growth in the last few years. This progression is a result of our commitment to excellence and our persistence and dedication. We spent the initial few years concentrating on getting our products qualified and approved and today we are in this unprecedented growth phase. The growth momentum has just started and we are confident that we will be able to capture a larger pie of our customers wallet share by leveraging our capabilities to better serve our customers' needs with our new and existing facilities in place.

Allow me to spend some minutes on the new orders that we have won during this quarter:

We are honored to share that we have signed a MoU with Baker Hughes, Kingdom of Saudi Arabia in the presence of His Royal Highness Prince Abdulaziz bin Salman, Al Saud, Minister of Energy and distinguished officials and committee members of local content forum at Riyadh, Saudi Arabia. This arrangement, amongst other things, enables us to set up a facility to manufacturing supply of precision components, sub-assemblies, assemblies to cater requirements within the Kingdom of Saudi Arabia.

Another remarkable achievement, we bagged an order win from Mitsubishi Heavy Industries Japan. This is approximately Rs. 700 crores order which will be executed over 5 years. This win is a testament of Azad's grit and vision as we are the only critical suppliers in India for airfoils. This demonstrates Mitsubishi's continuous confidence in us as an efficient strategic supplier and carrying forward the long outstanding partnership within them, which was started in the way back 2012. This order is a way for them to block our capacities in the dedicated upcoming manufacturing plant that we are building for them in our new upcoming facility to foundation stone laid in the year 2022.

Additionally, we secured $16 million order from Honeywell to manufacturing supply complex components for the aerospace and defense requirements. Another critical contract with Siemens Energy to manufacture supply complex, rotating components for the energy sector for the tenure of 5 years. These things not only demonstrate our strategic partnership we have built with the OEMs, but also reflect our growth journey. Way back, I recollect, I started Azad with just one machine and today, we have become a global leader in providing high precision engineered components and solutions for the largest OEMs across energy, defense, oil, and gas sectors.

I am very happy to share that just now, Azad Engineering has received a signed supply agreement with Arabelle Solution France, a French Company for the supply of critical and highly complex rotating stationary components to meet the global demand in the nuclear power generation industry. The value of the supply agreement for its term is valued approximately 40 million, that is INR 340 crores. This supply agreement had initiated a strategic collaboration with Arabelle Solutions France. With the above wins, our order book stands at Rs. 4,200 crores as on today, adding this Rs. 340 somewhere around Rs. 4,500 crores. We are confident that it will continue to increase significantly as we have a strong pipeline of contracts with our key customers.

To update you on our CAPEX plan for the new upcoming plant:

The civil work is progressing as per the plan in line with the order book and the deliveries. We have placed orders for the machines and other equipment. Everything is on track to start commissioning at our factory beginning Q1 of FY26. On the expansion front, as you all are aware, we are increasing our capacity to 10x and as an update, we are well on track. And we will start generating revenues from our new plant from FY26. Further, we continue to provide a guidance of 25%-30% for FY25 with improvement in our margins due to operating leverage, process efficiency along with backward integration.

Now, I hand over the call to Mr. Vishnu Malpani - our Whole Time Director to take this conversation further.

Vishnu Malpani: Thank you, Mr. Chopdar and Season Greetings to everyone.

Good afternoon and welcome to our Earnings Call for Azad Engineering. Azad story has always been about breaking new grounds and that journey continues. From being one of the first Indian companies to be able to manufacture complex and critical components such as 3D airfoils to now building a plant with 10x more capacity for these life and mission critical components, our progress has nothing short of being extraordinary. Today, we are a trusted partner to some of the world's biggest OEM, whether it is the energy sector, aerospace and defense sector, or the oil and gas sector and our commitment to innovation remains stronger than ever. We have worked very hard in our business to diversify, and it started to pay off.

Our energy business, which contributed to about 78%-79% of our revenue in the first half of FY25, continues to grow at a very healthy rate with major orders from companies such as Mitsubishi, GE and Siemens, we are on a path for increasing our wallet share in this segment from the current 1%-1.5% to about 2%-5%. Similarly, with Baker Hughes, we are strengthening our position in the oil and gas sector with tremendous potential and opportunities of setting up a manufacturing plant outside of India as well.

Our aerospace and defense business has more than doubled in the last year, now accounting for 16%-17% of our revenue. Key orders from clients such as Rolls Royce, GTRE, DRDO, Honeywell among others will drive further growth in this sector. And I think it is important to note that we are not just making life critical and mission critical components, we are also moving to full assembly. We are on our verge to be manufacturing an engine end to end for GTRE moving up the value chain in manufacturing as well. But this is just the beginning. Our new facility will unlock even more growth, allowing us to serve our current customers better while opening doors to near opportunities and markets. Two smart acquisitions that Mr. Chopdar mentioned of Leo Primecomp and VTC Surface Technologies, we are building deeper capabilities and creating new avenues for growth.

We are not here to settle for the status quo. Our goal is very clear to grow our addressable market from $28 billion to approach much higher number and to increase our wallet share from 1%-2% to 5%. We are on our part to become something far greater than we are today. Together, we are building, not just a Company, we are building the future.

I would like to now hand over to Mr. Ronak Jajoo - our Chief Financial Officer, to discuss the key highlights on our financials. Thank you.

Ronak Jajoo: Thank you, Vishnu.

Let me talk about our "Financial Highlight" for Quarter 2 FY25:

Revenue from operations came at around Rs. 111 crores in Quarter 2 FY25. The blended average growth rate in H1 FY25 is 32.17% and we compared it to H1 FY24. The blended average growth rate for Quarter 2 FY25 is 34.5% compared to Quarter 2 FY24. The blended average growth rate for Quarter 2 FY25 is 13.21 compared to quarter 1 FY25. The other income mainly consists of interest income and foreign currency fluctuation during the H1 FY25. In H1 FY24, it was higher on account of sell of our two subsidiaries and land, which has resulted into Rs. 9.8 crores of other income during that period. EBITDA improved due to operating leverage and the process improvement and stand at Rs. 41 crores in Quarter 2 FY25.

The EBITDA margin has increased by 200 bps during the last quarter to this quarter. This improvement is largely driven by operating leverage in employee cost, tools expenses and job work expenses. The finance costs mainly represent the interest toward the working capital and term loan in our books, as there are no Piramal CCD which was converted into the equity during the IPO process.

The adjusted PBT for Quarter 2 FY25 stood at Rs. 31.4 crores and there is an improvement of 273 bps which is in line with our EBITDA margin improvement as explained earlier. Profit after tax stood at Rs. 21 crore with 19% of healthy PAT margins. Our net debt position as on 30th

September is Rs. 112 crores. Working capital is at peak in this particular quarter and they will be tapered down as major qualifications has been completed and we are able to indigenize the raw material with one of the millers as I explained in the earlier calls. Now, I would like to open the floor for questions and answers. Thank you.

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

Balamurali Krishna: My question is regarding the new facilities which are coming on stream, so this Bollaram facility you told in FY26, in which quarter we can expect that to be on stream and by when, we can expect to reach the optimum level? Second is on Sangareddy new facility also, what is the plan for that one?

Rakesh Chopdar : The first facility, what we are building at Tuniki Bollaram that is going in a phase wise manner because it is a very large facility, right and we are setting out dedicated facilities for every customer. So, what we have intent to do is the facility for GE Steam power system is SPS, GE Vernova that is the first facility which is going to come up. It will be ready in the calendar year of 25, in the first quarter of, I think by January, February, the facility should be done and from March that will be operational and then similarly every 2-3 months, we will be having one facility for Mitsubishi machine and this is the progressive it cannot be done all at a time right. So, do you understand what I am trying to say Mr. Balakrishna.

Balamurali Krishna: Regarding the Sangareddy facility?

Rakesh Chopdar : We are going to finish this first and then take up that facility. So, we are going phase wise. So, this will be a continued process. So, first it will come GE Steam Power system then it will come for Mitsubishi and all the customers are lined up. I can't name them because we have not disclosed them yet, but every customer has their own facility in our own factory. So, it is a factory within the factories. End of that you can expect from FY26, the incremental value, the incremental sales will be added up from the new facility in a nutshell, if I want to answer you.

Balamurali Krishna: And regarding this order wins that you are listed, so we have been a lot of orders, your amount, we know that value so almost over 5 years to 7-8 origin. So, from FY26 onwards we can expect the execution of all these orders?

Rakesh Chopdar: Yes, that is the plan, Mr. Balakrishna. So, FY26 onwards, you will see an incremental revenue coming up from the new facility, which we are adding as the capacity what we are building is 10x size with what existing it is.

Balamurali Krishna: So, then we can expect a good means jump in the numbers from FY26 as compared to the existing guidance?

Rakesh Chopdar: Yes, it is interesting. Hopefully, everything goes well as we have planned and till now, whatever planned everything is on track.

Balamurali Krishna: And lastly, on this Baker Hughes agreement, so you are going to set up a plant in Saudi Arabia, right?

Rakesh Chopdar: Yes, we already signed the MoU. We are now planning to set up a shop in Saudi Arabia.

Balamurali Krishna: But my concern is that like in Gulf or Saudi Arabia, so the cost of production would be much higher as compared to India, so it can impact the margins slightly?

Rakesh Chopdar: No, nothing is going to happen, and this requirement is basically for Saudi Arabia in Saudi Arabia, right. And the pricing structure is not as India structure, correct. So, what we see is the technology, everything is ours, right? So, we have our own way of manufacturing. It doesn't matter if it is in Saudi Arabia, it is in India, or it is in US or Europe. For us, it doesn't matter.

Balamurali Krishna: Lastly, one small suggestion, sir. So, in order wins, in few orders, we are not getting the value of order. So, it would be helpful?

Rakesh Chopdar: We can't disclose with Mr. Balakrishna. We can't disclose. What we can disclose, we are disclosing. We just now uploaded it on our website. We got a contract from Arabelle French Company. We got a large contract of Rs. 340 crores.

Moderator: Thank you. The next question is from the line of Jeevan Patwa from Sahasrar Capital. Please go ahead.

Jeevan Patwa: Just one question on this. So, we are now saying we have won the contract with Arabelle Solution, which is for nuclear power. So, are we exploring any domestic opportunities in the same sector and the area?

Rakesh Chopdar: This contract, Arabelle Solution, is a complete EDF. I hope you have heard about EDF; it is a part of EDF. It is a French government Company and EDF and Arabelle controls the major nuclear power across the world. So, it is a pride moment for us to have this contract for nuclear power. It is very stringent and to getting approvals from EDF is very stringent, right. So, this is where we stand for and this is just the beginning of this last contract, and I can tell you the boom which is coming up in the power generation is quite crazy. Coming to the second question of yours on the domestic, look, we have only have BHEL what you will come to know very soon because we are in talks with the very senior management of BHEL. There are many parts which BHEL still imports, right. So, we got into collaboration with them and what Azad is manufacturing, exporting and what there are some components which BHEL is importing. So, we had a discussion with them and hopefully we could track something which is coming up big from BHEL as well.

Jeevan Patwa: And secondly on the Saudi, so we are going to set up manufacturing facility in Saudi. So, any color on that, how big it would be, what will be the investment and what would be the potential?

Rakesh Chopdar: I can't give you much details Jeevan, but I can tell you one thing, I can give you an idea of labor that this requirement is nothing to do with what with the existing business what we are doing with Baker Hughes. So, this is for the Kingdom within the Kingdom. And they do not have many manufacturing facilities. It is not just see what Azad plays a role. Azad plays a role where it is not just technology where you can buy, you have money, you buy technology, and you start playing in parts. It is not that, we value add, we value add in the process engineering and all. That is the skill set what Azad has got. Its very rare. So, this is where Baker Hughes selected us to set up a facility where we can give provide solutions to them. So, whatever business will come in, it is for Saudi, within the Saudi. So, this is quite large, long as I can't disclose any numbers right now, but it is quite significant.

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

Kamlesh Jain: Sir, just one question on the part that we have a very ambitious target of around 10x capacity growth. So, what would be our CAPEX spread over the next like say, 3-4 or 4-5 years?

Rakesh Chopdar: CAPEX again depends on the business cases, right. As Vishnu mentioned like we are going in component manufacturing. That is of course that is on track when we are going in assemblies, we are going in sub-assemblies. So, every business case has its own business case of investments. So, it is a very detailed discussion, and you are most welcome to visit Azad, so that we can showcase you all these things, what exactly we are talking about, it is very difficult to justify one particular investment and one particular customer. So, it is very diversified, right. Azad is playing multiple roles in multiple verticals. So, every vertical has its own set of investments, so it is very well planned, very detail planned.

Kamlesh Jain: You have a balance of roughly around Rs. 200 crores CAPEX in this particular year. So, going forward like over next 3-4 years like how the CAPEX would be there because you have stated your?

Rakesh Chopdar: That is what I was trying to say, Mr. Kamlesh that we are doing phase wise, right, as Mr. Balakrishna also asked the same question, all the CAPEX is not going to get consumed ones, it is phase wise like it is not small to pretty workable, it is 10x. And every customer has his large controller which should give Rs. 800 crores. So, we are investing ahead of the curve to balance their requirements, same thing we signed big contracts with Arabelle. This is for again large contracts. So, these contracts are coming because we are building a capacity. So, hard part was done already back, long back and that is how what Vishnu was mentioning, we are increasing the wallet share within the customers from 1% to 3% to 5% to 10%. That is the reason this is a very well laid out 10x capacity. There is a plan behind this 10x capacity. So, I request your presence in Azad, then we can discuss more in detail. I can share you all the things because it is not just one customer, I would have given you one number.

Kamlesh Jain: And the last, on the debt side, like say our debt lend in this quarter has risen to roughly around Rs. 127 odd crores and I do appreciate that you had a CAPEX of roughly around Rs. 127 crore in this quarter and like sir, going forward as we expand and increase our CAPEX, so what is the debt level for net debt to EBITDA we would be comfortable with?

Ronak Jajoo: Mr. Kamlesh, Ronak here. So, our net debt to EBITDA guidelines will be around 1.2 to 1.3. We always maintain that particular ratio and we are on that track.

Kamlesh Jain: So, that would remain in that particular range?

Ronak Jajoo: Yes.

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Sir, my first question is also on the new large contracts that you have got from companies like Mitsubishi and Honeywell, now these have been our existing large customers' and we have already been executing orders for them. So, just want to understand these new orders should be seen as something which is completely incremental to what we were already doing, or part of the existing business gets consummated in the new order wins that we are speaking about, especially for Mitsubishi, given that is a fairly large order?

Rakesh Chopdar: Yes, it is purely incremental of the wallet share increment, Aditya with existing business, what we are doing with every customer is we have limited capacity, right, the revenues what we are doing at the moment. We are going into 10x, so there is a plan behind 10x, why we are going 10x is because we know that these orders are on its way and as we are showing capacity, we are showing progress. They are releasing these orders, so this is an incremental which will be continuing. Like Vishnu mentioned, 1% to 3% to 5% to 10% wallet share, increment of wallet share from every customer. This is a classic example how wallet share is increasing.

Aditya Bhartia: And one should assume?

Rakesh Chopdar: We just now uploaded one more for Arabelle Solutions for nuclear power.

Aditya Bhartia: Right, the EDF one, correct.

Rakesh Chopdar: Yes.

Aditya Bhartia: And we should be assuming slower and gradual kind of a ramp up as capacity keeps becoming operational and fair to assume that revenues that we will be getting from some of these new contracts two years down the line will be higher than the first year, third year will be higher than second year. Is that how we should be building that?

Vishnu Malpani: Aditya, Vishnu here. So, just adding to the first question that you had asked, if you look at the way the Japanese tangentially works is they work on purchase orders and then that needs to be executed. But since the new capacity is coming up, every OEM is making efforts to sort of book our capacity for the next 4-5 years, so that there is a clear clarity on how the ramp up is going to happen in terms of wallet share, so all the contracts that you see with our customers, with our existing customers and existing product lines are towards increasing our wallet share. So, that is how we are looking at it. And secondly, see today we are constrained by capacity, right, so when you see a ramp up, you will see, you should look at customers that we have been talking to that we are in production mode. So, those customers will constantly keep ramping up at a faster rate. The customers that are currently in developmental phase or qualification phase will slowly ramp up as is the nature of the industry because these are mission and life critical components.

Aditya Bhartia: But Vishnu, given that the Mitsubishi order that we spoke about is Rs. 700 crores for I think over a 5-year period, on an average it kind of works out to be Rs. 140 crores per year, let us say we build in a ramp up over there. By third year, we will be having Rs. 150-Rs. 170 crores of possibly revenues coming from this order. That is a fairly substantial part of incremental growth that then we are speaking about, right and we are speaking about not one such order, but multiple such orders. Then should we think about growth possibly being faster than what we have been speaking until now? Is it a possibility that with so much capacity coming on stream and with the kind of order wins that we have had instead of 25%-30% growth, we can be at a faster growth trajectory?

Vishnu Malpani: Definitely, Aditya, I think that is the most logical response to this question, but then for the market, we are still guiding 25%-30%. But internally we are obviously changing higher numbers as you would know because these contracts, like you rightly said, come in with specific delivery schedules and specific timelines. So, we are ramping up quickly, right, so if you look at our addition in our capacity, it is not 25%-30%, it is higher than 25%-30% per annum. So, we are obviously internally targeting higher number by guiding the market at 25%-30%. That is how I would like to answer it.

Aditya Bhartia: And even for FY25, this 25%-30% guidance looks to be on the conservative side unless it is a scenario that we are facing big capacity constraints until the time new capacity comes on stream, it is difficult to further expand because we are now already doing Rs. 100 odd crores per quarter even if we assume, let us say, 3%-4% sequential growth every quarter for the next two quarters, we are speaking about hitting the upper end of the guidance. And historically, we have done a sharper sequential growth than that. So, is it that just we are just being conservative or are we facing capacity constraints at this stage?

Vishnu Malpani: So, first point is there is definitely capacity constraint, right. So, in the current facilities that we have, we are going to be busting our capacity very soon and that is why you see our endeavor, or our attempt is to start productionizing the new facility as soon as possible. So, today, while the 25%-30% guidance like we said, we have hit Rs. 100 crore revenue per quarter, so we are looking at delivering at the upper end of the guidance for sure. Trying to manage our capacity internally, since the new plan comes up, I think the growth can be much higher. So, there is definitely capacity constraint for the current year, but we are still managing with 25%-30% and we should be at the upper end of the guidance.

Aditya Bhartia: And just last question from my side, obviously this capacity expansion that we are undertaking, there is the capacity that we have to set up in Saudi Arabia, any breakup of CAPEX that you can provide at this stage, about how we should be thinking about the CAPEX numbers for next 2 or 3 years and how much CAPEX we would have already incurred in the FY25 in respect of the new capacity that will be coming on stream?

Vishnu Malpani: Aditya, for this conversation, I would like to take you back to a couple years behind where we were like say, Rs. 100 crores per annum. So, we build capacity of 4x and today we reached a point where we reached Rs. 100 crores per quarter, right? So, we do have a plan of ramping up in a pragmatic way until FY27-28 and we internally have also started planning our business beyond FY27-28 onwards to much higher number as well. So, the capacity planning, the CAPEX planning is underway, and I think today, we do more the capacity addition that we need to do till FY27-28. We are working towards going from FY27-28 to say FY32. So, we are in the process of doing the last around the CAPEX deployment, but in all likelihood, you understand the asset turns that we have in our business. You understand the kind of potential that we are looking at. It will be a fair assumption to look at that and make a good guess, but from our perspective, I think it is going to take us maybe a couple more months to come out with more concrete exact numbers for capital deployment.

Moderator: Thank you. The next question is from the line of Sanjay Shah from Pranishta. Please go ahead.

Sanjay Shah: Actually, most of the questions have been answered. So, I don't have any questions left. I do want to take this opportunity since I am on the line to congratulate you, I don't think we have a better exponent of manufacturing excellence in the country than you. So, all the best, but all my questions have been answered.

Rakesh Chopdar: So, nice of you. Thankyou Mr Sanjay

Moderator: Thank you. The next question is from the line of Rajesh Vora from Jainmay Ventures. Please go ahead.

Rajesh Vora: You mentioned in your opening remarks that first quarter of next financial year, you are going to start the Phase 1 of the expansion. So, what percentage of 95,000 square meters of facility one will be ready in first quarter?

Rakesh Chopdar: It doesn't come back like that, Mr. Rajesh, it doesn't go like that. It is every OEM has their own requirements, right? So, we can't compare that with space occupancy. We have to compare it with the capacity what we are trying to add in that space. That could be ideal thing to explain to you. And it is too technical to give you the number of machines and all that. So, you are also most welcome to visit Azad. So, I can give you more detailed presentation on this.

Rajesh Vora: No, I understand. I have already met you and visited your plant. Thank you so much for that. What all of us are trying to understand, Mr. Rakeshji, is that there is a 10x capacity expansion being planned which is, there is a soaring order book which is also very commend able. What we are trying to get our arms around is what percentage of that is going to be ready out of that 10x is 1x going to be ready in first Quarter 26 when you say you are going to start, how do we spoke that?

Rakesh Chopdar: What guidance we are giving, Mr. Rajesh is the 25%-30% guidance is to the market, and we have our internal targets are different, correct. So, this is where we are trying to explain you that the growth rate, what we are saying for FY25 and FY26 onwards, the incremental as you come nearer to FY25 and as we also see how progressive we can build these facilities asap that could be an ideal situation to give you exact quarter wise, how it is going to come and incremental things.

Rajesh Vora: And wallet share target that you have set out for your Company, 5% from each customer on an average basis, will that be achieved once you have the entire 10x capacity under your belt?

Rakesh Chopdar: Every OEM has a different number, so when we say 1% to 3% to 5% to 10% is an average number.

Rajesh Vora: So, that target will be achieved once we have the 10x capacity?

Rakesh Chopdar: Yes, 10x is now. And then there is, as earlier also another gentleman asked on the first question, Mr. Balakrishna also asked that Phase 1 is 95,000 square meters, then we have another 70,000 square meters facility ready, so if we finish this first, we will move to that. So, this 10x may become 12x, 14x, 15x hopefully. The base is the requirements, where the wallet share as it increases, we are ready.

Moderator: Thank you. The next question is from the line of Partha from Eastern Financier Limited. Please go ahead.

Partha: I have a couple of questions. The first one is do you have further scope of margin improvement from here onwards?

Rakesh Chopdar: Of course, we all die for that, right. So, we will not leave anything which is not, we will not let it go either way. Either it will go to the customer or it will come to us, either of it.

Partha: Next is, on working capital, I missed whether our working capital days have been straight have been there conserved challenges on procurement and raw materials?

Rakesh Chopdar: Yes, so this is the biggest problem of procurement of them because everything is we have to import. And now what we are doing is while we try to place an order for the raw material, all these are always we have to import major of it. We have to pay in advance and then the manufacture, then the shipping time, then it comes in as inventory, then we start manufacturing, it takes quite a time to turn out that. So, we are now, we are successful in developing few Indian mills here and these Indian mills has just started right now. And if you can see very much taper of any major of the qualifications are done now. So, very soon, we will get out of this. So, this is a temporary issue. This working capital issue is a temporary issue and very soon you will see a taper off that number of the days which are coming up. So, that way you will very soon see that we will remove this problem very soon.

Moderator: Thank you, sir. The next question is from the line of Mayur from Wealth Manager India Private Limited. Please go ahead.

Mayur: Just two questions. I could actually join the call a little late because of network issues, but then I hope if you can answer me again if this has already been asked. The point I was trying to understand was, we have the customer confirmations and orders in place. We are putting up the capacities in order to execute that. We have the product approvals and validations all done. So, sir, what is the risk, I am trying to know what is the risk in theoretically trying to ramp up 3x in 2 years. Why can't it be done?

Rakesh Chopdar: I will answer you, right. Building, constructions, people, money, everything they will do. Whatever the equipment, every equipment is all imported. The deliveries of these equipment's are not handy as construction wise some building takes 3 months. In the same building, if we add more resources, we can do it in say 2 months. We can add more people. We can train more people. We can do all sorts of things which we are in our control. But when we talk about these kind of equipment what we need to manufacture these components also majorly are imported, right. This is where we sometimes have a long lead delivery items which is not in our hands. And we cannot anticipate an order which will come after 6 months and place an order today on the equipment. We will only place an order once we have a contract in hand, you get my point, sir.

Mayur: But sir, we already have Rs. 4,000 crore worth of orders, where is the…?

Rakesh Chopdar: Yes. So, we place equipment orders, they are just all coming in and that is the reason we are telling you, we will see an increment revenue from FY26. So, you see a shift from FY26 for sure because the capacity will be done, equipment will be in place.

Mayur: And other question was, normally when we see, what we have understood about airfoils and other parts which are there or the other which goes into, it is critical in nature, it is important in nature, why is it? And we say we are among the lowest cost for most of our parts which are there, why is this advantage which is for the customer which is it is low cost, it is critical in nature. We have the orders in hand, why is that advantage not getting reflected in terms of our working capital cycle, which can be much lower than what normally a critical manufacturer of supplier who would normally get the benefit of, sir?

Rakesh Chopdar: Yes, of course, you are right. So, when you say qualification, this is a very continuous process. You keep qualifying, you keep your wallet share increasing, you keep your order book in the incremental phase, right. Today, if we capitalize our development costs for the qualification part, our EBITDA is 3%-4% higher, but we expense it out. We don't show that taking that consideration in our, we don't capitalize that amount. If we stop doing that, we cannot do that. We cannot stop it, right. We don’t want to stop at Rs. 4,000 crores. We are addressing TAM which is what products Azad is related to is around 30 billion plus. This is just a start. Now, when you are trying to reflect things, we need to have this facility, first and foremost with this facility coming up. Second, the qualifications which we finish, if you can see in our working capital which is having higher number of days because of the reasons which I am sure you must have heard before in the previous question that the raw material, the qualification, as the minimum order quantity you have to qualify, you have to qualify 5 pieces. For that you need to buy 500 castings. You have to import all that 500 casting which stays inventory. Once you finish the qualifications, then the inventory slowly starts getting reducing. That means the taper off is coming. So, that is just coming out of this phase, we are just coming out of the phase and from FY26 you see a beautiful story coming up.

Mayur: So, sir, you think that so just to understand it better, at Rs. 1,000 crore turnover, you believe that the working capital, will it be meaningfully lower than the current working capital days?

Rakesh Chopdar: Of course. We can't survive. We are having such long working capital, right? It is not a thing, but this is a temporary phase. I am telling you, not me, anyone has to go through this. As you mentioned, we have best cost, we have good margins, we have good customer profile, that is why we are the only one in the country for certain product line. There is no one else.

Mayur: So, this will start seeing from FY26 is what you said?

Rakesh Chopdar: Yes. Hard work is just done sir. Now, you will see, you will definitely witness. We all wish to do this right. All these years we did this struggling. Now, we have coming capacity addition.

Moderator: Thank you. The next question is from the line of Akshay from CD Integrated Service Limited. Please go ahead.

Akshay: I just want to understand the thing, I was looking for the presentation and our total addressable market for FY27, even if we consider 1% of that, then it would be around Rs. 2,500-Rs. 2,600 Cr. in all the three segments we are working. So, is it understanding right that if we can just grab the 1% share of total addressable market, we can do that turnover around FY27-FY28?

Rakesh Chopdar: Of course, Akshay. That is the reason we are putting up 10x capacity, right? We know that as well market, we are at best for, we have qualifications and approvals are majorly done, right. So, it is only the capacity issue right now. So, that is what we are trying to say. If the capacity issue, we get this factory asap up that is the whole intention to take the wallet share which is available and this has already started turning out. You can see these large contracts coming is nothing, but our capacity increasing, correct.

Akshay: And sir, my second question is that whatever the contracts or the agreements we are signing, or we are getting, the value of all the things, let us say if contract is for 5 years, then in 5 years it will get completed and all the revenue will be realized is my understanding right?

Rakesh Chopdar: Of course, and this is not an end, right. This is just a start.

Moderator: Thank you. The next question is from the line of Partha from Eastern Financier Limited. Please go ahead, sir.

Partha: Sir, I have just one question with regards to this Mitsubishi order. I think it is a repeat order?

Rakesh Chopdar: Yes, it is incremental, correct. It is just the capacity, the higher what we are doing.

Partha: And sir, there are no competitors in India?

Rakesh Chopdar: No. Just to give you one more good thing which we all should feel proud is, it is not just India, few of their components, we are the only outside Japan in the whole world. There is no one else, either it is manufactured in Japan or made in India.

Partha: Sir, before other step in so, where there any other companies which are actually doing it another actually took over from?

Rakesh Chopdar: Yes, of course. See, this is where Azad compete, Azad compete China, Europe, Korea, Japan, and USA. And the wallet shares which is coming in from, of course in the competition.

Moderator: Thank you. The next question is from the line of Mr. Amit Dixit from ICICI Securities. Please go ahead, sir.

Amit Dixit: I have a few questions. The first one is on commercial aerospace. So, we are seeing that things are now improving all the Company, particularly after going quieter quarter, there is optimistic commentary from all the global majors. I just wanted to understand that whether we have anything on annual or leap engines, are we now engaging some of the parts or are we buying for that particular engine, which is basically as it would be fastest growing engine in the history of aviation?

Rakesh Chopdar: Yes, Mr. Amit, that is definitely when you are in this industry of engines for us, it doesn't matter. It is defense or it is a military engine or a commercial airline engine, right. For us, it will not matter. The customer base is the same. The only thing is we are not taking much of this because you want to get ready. We want to get ready because these are some master requirements and so that engine components are especially in the rotating components, it is not easy to stop getting to that, but Azad has already put its foot in the door, right, so very soon you will listen to a lot of about these things.

Amit Dixit: Yes, because the question was more in light of the fact that both GE Aerospace and Safran, who have got the collaboration, they are our clients. So, we are just wondering that we should also have a foot in the door, at least?

Rakesh Chopdar: Yes, we are GE Aviation, already approved suppliers, Safran, we are already approved suppliers, Rolls Royce we are already approved suppliers so that is not a problem. With this, we are getting ready to take that big chunk. As I told, the capacity is the major issues, right. So, that that is all, talks are going on and we can share more details once it comes to close up when we are about to close deals with them.

Amit Dixit: The second one is on the order that we won earlier that is for Rolls Royce, when we can see the execution of this order to begin?

Rakesh Chopdar: Yes, the qualification is on, Mr. Amit. So, as per the contract by the calendar year 25, we should be in the middle of the qualification. And as the qualification is done, then that is done with that and the ramp up comes up from there.

Amit Dixit: So, some of the earnings that we get split incremental earnings from FY26 maybe?

Rakesh Chopdar: Yes, we also have a lot of hopes on FY26 which will open, of course, it will at least give a kick start, at least if you give some small steps for the future years, if you start taking baby steps from FY26 with what we are doing currently, it will add baby steps from FY26 and then we can leap and bound and go all walk and run.

Amit Dixit: The second one is on Saudi Arabia, interesting collaboration. Now, does it give us any preference that whatever Baker Hughes, of course for our market, whatever it does, we will be getting the first opportunity in Saudi Arabia for Baker Hughes. Is it this way or how does it work? And if it is possible, can you give the broad contours of the facility size that we are looking at?

Rakesh Chopdar: It is an interesting question, Mr. Amit. I will tell you this is very massive. It is not something in, it is all in millions and it can convert into a lot. So, when we met the Ministry of Energy, we met their clients, they took us to their clients, which is Saudi Aramco and many more companies and they presented Azad, they are okay, this is a Company which will come and set up a shop. So, it is their approval who has accepted that Baker Hughes got suppliers to put in a shop there because of the capabilities, right and it is not just Baker Hughes, it is in connection with the Ministry of Energy as well as their customers, where these products who is going to use these products, right. So, they also need to give the consent. So, they also approved us, okay, Azad is the best fit, you can ahead with that, so Baker Hughes have taken in principle approval from the Ministry, in principle with their customers and then put Azad there in the front. So, it was not just one day story, we had gone there, we have presented there, they had to really come to the, we had to match, and we will definitely match all the requirements and we were welcomed and we felt happy that they selected us.

Amit Dixit: Sir, when can we expect the production or the setting up of this facility?

Rakesh Chopdar: This is at a very early stage we just agreed. Now, we are having discussions that center some package, we are evaluating, we are giving you the code basis that we need to select the equipment and we need to, we are also thinking to have our local partner there because the administration work and all that thing. We would like to make a local, set up a JV local partner there, like we are talking to few of the major companies where we can have a JV with them and we can start these activities, so that we focus on our business here and also give support to our JV. So, we are making it a smart workout. We are trying to make sure that we don't put much investments, we don't put much things and we keep measure of the things in our control and things will go very smooth.

Amit Dixit: The question is that last time in the concall you mentioned that Q2 FY25 would be better in terms of margin and margins have come out better to be honest in Q-o-Q and this is despite if I look at Q-o-Q split in the revenue that energy contribution is higher compared to aerospace if I look on Q-o-Q basis. Now, if the improvement in margin is basically because of the orders we are executing, the nature of orders that might carry higher margins or is it that we have acquired the two acquisitions that we have made, is it the impact of these?

Ronak Jajoo: Amit, this is a function of process improvement and the lower employee cost because we are not adding employees and our sales are doing at 13% quarter-on-quarter basis, so this is a function of operating leverage and the process improvement what we have done. It is not because of the subsidiaries what we have acquired.

Amit Dixit: So, that is to follow that advantage?

Rakesh Chopdar: Yes.

Moderator: Thank you. The next question is from the line of Chirag from Neo Asset Management. Please go ahead, sir.

Chirag: So, just want to understand that from your commentary, if I can understand that it is a new entrant wants to enter into business, it will not be very easy for that player to build up the kind of capacity this year build up and there will lots of entry barriers, but at the same time if when you are looking to increase your wallet share among the OEM, then effectively you will be grabbing the market share from other suppliers based in China, Japan, US and all. So, what difference will you be providing to these OEM's that they will be encouraged to come to you and not to go to the other supplier who are also there in the business?

Rakesh Chopdar: Chirag, actually, see first thing in our business is first is to break entry barriers. First you need to through that you can manufacture these rotating components. We have now won a nuclear order, we are now making rotating components for the aircraft and you can imagine the life critical components. We are not talking about some armrest, or you are not talking about some component. It is not really directly affecting life critical component, correct. If you see it, it is an armrest manufacturing, you go and get approval having the CNC machines, you can manufacture armrest. Manufacturing the rotating component of the engine, you can imagine how much barriers are there to break to come to that level of the OEM accepting rotating component manufactured in wherever the facility is and setting up and utilizing it correct. So, definitely it is not easy. First, the barriers are there to break, qualifications are there and then comes the price level, right. Whoever has broken the barriers, there must be a great Company, China or Japan or US or Korea. They must have done it in the past whenever they have started 30, 40, 50 years ago and Azad being a new entrance, it is very evident that it is not easy just to put technology and we can get these orders, right. We have to break the barriers also. So, in this regard, in this context, what we can tell you is the orders what we have is definitely, we are completing the world. We have the best cost. I don't use the word low cost. I say it is the best cost and give a solution to the customers, right. And anything which a qualification takes for any OEM to approve any supplier is a cost to the customer also. So, definitely, the cost is not beneficial to them, they will not switch. It is very tedious work and it is a long journey to do the qualification. They have to spend so much money, other than reinvest money, they also invest a lot of money in qualification, right for years. So, that benefit if you don't pass on, why will order come to us. Just stay in China or Japan, wherever they have done it already. So, definitely, there is a cost advantage as well. First, it is technical capability throughout and then comes the cost.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to management for closing comment. Please go ahead, sir.

Rakesh Chopdar: Thank you so much. Thank you everyone for your time and patience for coming in this call and asking good questions. I hope we could answer all the questions. If anything is there, free to write an e-mail to us, we can answer all the questions. basis the time constraints and that is it from my side. Thank you so much everyone.

Vishnu Malpani: Thank you. Thank you from Azad side. We are very happy to get on a call and address the questions that anybody had and it is always a pleasure to talk about our business and to get more clarity into the questions. And we have some very interesting set of questions, and I hope we have been able to bring some more clarity into how we are planning to ramp up our business soon. Thank you so much for joining us today.

Ronak Jajoo: Thanks a lot for taking the time for the call and it was a great session that you have asked lot of insightful questions and hope we are able to give you the color on that. Thank you.

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