AZAD

February 14, 2024

To,	To,
The Listing Department	The Listing Department
BSE Limited	**National Stock Exchange of India Ltd.**
Department of Corporate Affairs	Exchange Plaza, Plot No. C/1, G Block
Phiroze Jeejeebhoy Towers, Dalal Street	Bandra-Kurla Complex, Bandra (E)
Mumbai, Maharashtra - 400 001	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 February 03, 2024 we hereby inform you that the Company has hosted Earnings Conference call for analysts and investors on Wednesday, February 07, 2024, at 12:00 P.M. IST which was concluded on Wednesday, February 07, 2024, at 01:02 P.M. IST to discuss on the financials results of the Company for the third quarter and nine months ended December 31, 2023.

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

ENGINEERING LIMITED AZAD

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

“Azad Engineering Limited
Q3 FY '24 Earnings Conference Call”
February 07, 2024

Disclaimer: E&OE. This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on February 07 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 Q3-FY24 Earnings Conference Call hosted by ICICI Securities Limited. 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 risk and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

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

Amit Dixit: Thanks, Neerav. Good afternoon, everyone. On behalf of ICICI Securities, I welcome all the participants for Azad Engineering's Q3 FY24 Results Conference Call. At the outset, I would like to thank the management for giving us an opportunity to host their maiden call.

From the management side, we have with us today 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, Amit. Thank you. Thank you, everyone. Good morning. This is Rakesh Chopdar, Chairman and CEO at Azad. I would like to welcome everybody and thanks for joining today on our debut earning call after our listing.

On this call, I have with me our wholetime director, Mr. Vishnu Malpani, and our CFO, Ronak Jajoo, and the SGA team our Investor Relations Advisors. The results and presentations are uploaded to the stock exchange and the company website. I hope everybody has had a chance to look at it.

We are pleased with the positive response to our initial public offering, which we wish to offer our heartfelt gratitude to all the shareholders and everyone who was part of our IPO journey. The IPO has strengthened our balance sheet and will help us to achieve the increased profitability through lowering interest expenses, with simultaneously blustering the planned capacity expansion.

We have achieved our highest ever quarterly performance in terms of both revenue and profit during this historic quarter, both Q3 FY24 and 9-month FY24 revenues increased by 49% year-on-year. Our quarterly performance aligns with the consistent financial growth we have achieved over the years.

Before we delve further into the quarterly performance, I would like to give you some background on our company as this is our first earnings call. In the year 2008, where e started, our Azad was established and -- we were just with one machine and I was the self-operator on that, so basically it's a very scratch story. Now, 16 years, we have more than 300 machines and a thousand-plus very strong teams.

Since the inception, since the beginning, we started with very high complex components with high pressure requirements and very happy to say that in our product line, we are the only company who could break all the barriers in developing this product. It's a very, very niche product, life-critical and project-critical product, which is mainly the benchmark of our airfoil, which are 3D components and these are not 2D components.

So most of it is what we have seen in this manufacturing and engineering, where we call it as precision forged machine. Having a CNC machine, having a forging unit, we just say that we manufacture precision components. But this product or this product line, which we are in, doesn't fall in that category.

So I have a very, you know, I'm a bit not concerned, but I would like to really reiterate on the parts. It's very important for everyone to understand what Azad actually does. It is just not a precision product. It is a life-critical product. These are the rotating parts. These are the rotating parts, which we commonly see in aircraft engines, which when we get in the plane, we can see two turbines, which are known as turbine engines. And these engines have these airfoils, which is the heart and soul of an aircraft and which powers the land-based turbines or an aircraft engine, and they work in very extreme conditions.

So having said, just having a technology of a CNC machine can be produced, this part can be produced? No. In order, the customers, what we have it, they're very niche, right? And having said that, these products being very critical, so is the acceptance -- so the acceptance, the approvals, the qualifications, this is what, when it's in place, this is where we start getting orders, and orders get revenues.

All these 15, 16 years, the hard work what Azad has done, the whole team has done, is to get the qualifications, get the approvals, which is not easy. It's not just that someone has INR500 crores or INR1,000 crores money, go buy the technology, produce this part. No, it doesn't work like that.

So for me, it's very important to make people understand this is not so easy to break these barriers and compete the world -- competing the world, which is in China, Japan, Europe, America. So these are the countries where Azad is competing. I would say India is competing. So having said having this position, we feel very proud. And the recent addition of the Rolls-Royce contract, what we have received, these are the most critical components which are utilized in the engines of a fighter jet or our military jet. So just imagine having approvals for these kind of parts, such complex parts, companies like Rolls-Royce placing an order Azad, that's the trust Azad has gained, that's the trust India has gained.

So we feel very proud and I wish everyone listening to this do visit Azad facility, witness what we are trying to say. I'm sure it's not easy to understand what exactly I mean by making this statement of the product line which Azad is in today. So our products are very niche, as I mentioned, very life-critical, and all being tackled is like exotic alloys.

It's not the normal stainless steel or it's not the normal material where we see in the entire industries. So these engines are in the land based aviation, and space. For the land based, we call it as energy.

For aviation, we call that in A&D and in space. And this is widely used in many sectors and very, very regulated, very, very, you know, it's a very highly regulated industry where not everyone can break the barriers by just putting a CNC machine or just having tons of money in the pocket. Anyway, we commence our operations in the energy sector and today we have, you know, come up a long way from in the clean energy segment, serving the nuclear, hydrogen, gas turbines, and also spread ourselves in the aviation.

So aviation, we just came in, right? We took the long experience in the energy segment, which has put us in a very great sweet spot that now we can handle the aviation industry. Again, these are not some simple parts. Again, this is not an armrest of a seat that an aviation industry requires. These are rotating parts of an engine. So there is a lot of difference that everyone has to understand and what it takes.

A buyer that puts in parts manufactured in Azad, manufactured in India, which goes straight in the engine, 35,000 feet above in the air. And just imagine if something goes wrong, that's what nothing goes wrong. It can be catastrophic.

So the whole idea is to make people understand, give an education, give a widespread thing that, yes, now these are the parts never seen in India before we got in here. That's why people are struggling to understand what exactly Azad does. So gentlemen, ladies and gentlemen, for me, it's very important for everyone to make you realize that please understand what Azad is doing.

And it is just a start. These qualifications are just finished. And now is the time that we are going to see a very good positioning of Azad.

Our extensive experience in manufacturing cables enables us to obtain the qualifications of new customers significantly lower lead time. So it's not just that a price comes in first. Are you cheaper?

You have a CNC shop. Are you cheaper? No. In our product, can you manufacture? Are you capable? Are you able? Can you consistently produce this part? And then the price is asked, Okay, at what cost? So that's the level of the barriers which we have to cross, where the price comes last, not the first.

Right. So this is what I just wanted to give a very brief background of the company. And now, as compared in the segments where we have coming in, you know, we have already had a various set of qualifications still going on and a multiple marquee customers and you name our marquee customers, we are there with them.

During this quarter, as compared to the same period last year, as a result, the contribution of this segment in the quarter has gone up by 17% in comparison and 10% in, you know, the Q2 FY24 as well as the Q3 FY23. In fact, we have recently signed, as I mentioned, you know, on the seven years contract with the Rolls Royce, which is we are very proud that these parts have come to India. In the coming years, we expect aerospace business to contribute to our revenues on par with energy segments with oil and gas coming in second.

Again, we started with niche. We are maintaining our legacy. We would like to be in niche, where we draw our expertise. The numbers, what do you see? The perception. And moreover, the optics, the profits, the EBITDAs. Please understand and my colleague Vishnu will take you over that. Please, please pay attention. Why this PAT is less? Why this EBITDA is less? And it's just optical. I wish that we could clarify this, that every aspect has to be understood very well.

So, that's from my side, gentlemen. I pass on, hand over to Vishnu.

Vishnu Malpani: Thank you. Thank you, Mr. Chopdar, for giving a good sense of the business to our audience. I hope, you know, we've been able to clarify and communicate some of the questions that you might have.

While Mr. Chopdar has given us a good top-level summary of where we are headed and where we are, let me give you some texture and flavor to our end markets and what our plans ahead are because I'm guessing a lot of you must have questions on what are our end markets and plans. So, let me give you a quick sense of that. So, it's important to note that our end markets are highly regulated.

You know, this is a question that we keep getting from a lot of analysts that, you know, we have a very high concentration risk. But I would like to take this opportunity to come out here and say that, you know, this industry is highly regulated and highly concentrated, right? The industry does not have a lot of large players.

If you look at energy, GE, Mitsubishi and Siemens, between the three players, 70% of the industry is covered. If you look at aerospace, you know, Boeing and Airbus together take about 91% of this industry. So, for us to find a new customer here is a challenge.

Our diversification strategy is to do with the product line that we make. Our diversification or our uniqueness is the positioning that we've achieved because of the product line that we are manufacturing. And that's why we are unique.

Today, our esteemed clients cover about 70% of the end-user markets which we are present. So, you know, you look at whatever segment that you want, whether it is energy, aerospace, defense or oil and gas, we are working with the sector leaders there. Today, we address about $28 billion plus market between airfoils, engine components, hydraulic parts, flight control parts, you know, and air generation systems.

All of these, for these three or four sectors, clean energy, aerospace, defense, oil and gas, and FPS. Our core end markets are extremely robust and expanding. You would have seen that the aerospace and defense industry is growing at about 9% CAGR.

Similarly, the oil and gas industry is also growing at about 7%. So, we have a very, very robust and expanding end-user market. Today, when you compare our business and you look at our wallet share, you would see that we have less than 1% wallet share.

Now, I would like to see this as an opportunity of us scaling up to the highest levels because for us to get to this 1%, it has taken 15 years of hard work, 15 years of commitment in the business while we were constantly reinvesting to get to this point of inflection. Now, I look at this 1%, less than 1% wallet share as a great opportunity for us to move forward. So, from here, even if we are able to get to from 1% to 2%, 2% to 4%, we are looking at multiplying effect on our top line and I am sure you all understand that.

So, that gives us a sense that we have an enormous headroom when it comes to growing further in our respective segments with our respective customers, especially with our product line. oing back to how do you onboard a customer? I would like to bring your attention to the fact that it takes about 30-48 months to onboard a new customer and then you have to qualify part by part for you to get to a production stage where you start generating revenue.

For these 15 years, we have done this rigorously and gained qualification for 1400 plus components across engines, across sectors, across customers with global OEMs in energy, aerospace and defense industries. These are approvals which are very, very hard to attain and there are only a handful players around the world that have been able to achieve it. You see, our competition is not in India for our product line.

These barriers are only broken by global players and we are competing with those global players only. We compete with Japan, we compete with China, we compete with Europe, we compete with US-based suppliers and these are the only players around the world that have broken barriers and nobody from India has been able to do it.

With customer qualifications that we have for each and every stage, it is important and proven that globally, that as an organization, Azad has put ourselves positioned really well in the supply chain of these OEMs plus as a country, we have been able to put ourselves out there saying we can today manufacture extremely complex rotating parts for engines and for defense platforms or for commercial. And we are very proud to sort of do this.

I would like to echo Mr. Chopdar's thoughts and the fact that this is a big milestone not just for Azad but for our country and I am sure you should all be a part of it because this is a big milestone in our journey, in our building, in India building the aerospace, defense and precision engineering ecosystem for us. Azad has really forged robust customer relationships with our clientele. If you look at our top clients, we have an average relationship of over 10 years with them. We don't just work with our customer on one segment.

We were talking about concentration risk sometime back. So let's take an example of GE. We don't just work with GE on one segment or one product line. We work with their nuclear segment, we work with their gas segment, we work with their steam segment, we work with their hydrogen segment. So this is how we are looking at diversifying it and this is only possible because of our long forged robust customer relationships over 10 years. And why does it take 10 years?

Because guys, we need to remember that this is a part which is rotating at 30,000 feet and these parts are mission critical and life critical. That's why it takes relationship. So even if somebody has today wants to start this business, there is no shortcut that is possible across the globe whether you are in India or Japan or China.

You would take about 15 to 17 to 20 years to get to the point that Azad has reached. As a strategic and a growth partner to our customers across these industries, we would like to inform you that we have long term relationships which have culminated into long term contracts with our customers. Today, our business has a visibility of not just near term, we have a visibility of 3 years, 5 years, 7 years and 10 years.

This is because our customers have signed contracts with us, we have roadmaps with each one of them and that's why you see we are investing ahead of the curve. We are investing in infrastructure, we are investing in capacity, we are investing in organizational building, because we know that this business needs that kind of investment for us to cater to the growth that is coming back. We are looking at it in a very structured and a stable way.

The base is now created, we are only going to take this build on this from the strong base that we have created. Our competitive positioning is evident from a solid performance which you would see that we have not just grown our top line this quarter, you see we have also increased our EBITDA percentage which is what we kept telling and this was something that we had constantly iterated to the market that we are running a business that's a high EBITDA margin business and you would see that anytime when you are looking at our financial numbers, please keep what is optically visible versus what is happening really.

Mr. Chopdar was talking about how our PAT was optically lower. Most of the questions that we had received over our last calls or meetings etcetera was why did your PAT drop to INR8 crores in FY '23 and we constantly explained the fact that we had convertible debentures and one of the questions that was put to us was your debt is about INR300 crores for a company of your size and we had explained to them that this is not pure debt these are convertible CCD instruments and these instruments are going to be converted to equity and the investor will take an exit in IPO.

And that has my friends has actually happened. You see by the end of September our gross debt was over INR300 crores and in the December quarter last year when we did our initial public offering our investors converted the convertible instruments into equity and they have taken an exit. So today if you look at it as on day if I have to speak about it, through the IPO proceeds our debt has been completely paid off.

And today our debt is under INR30-odd crores today that's barely anything compared to the INR300 crores that was being optically shown and that is why you see our profit today has gone up I would not say that we have grown up 6x or 7x in terms of profit this is a consistent performance the PAT drop in last year was an optical matter because of the coupons that we are paying on the CCD instrument and that is why it had happened. And also a couple of one time impacts that was because of redemption of debentures.

I am sure you would have read our financials and this will be aptly clear. This is all over you will be able to see in Q4 because obviously we had while in December until December we had payments towards coupon that was being done to our investors on CCD. So you would have still seen some impact but in the Q4 this year, the quarter that we are going to deliver you will be able to see the PAT and the finance cost would have normalized completely and you would see an uptrend in terms of that.

Coming to our growing demand we are expanding our manufacturing facilities today you know we have four manufacturing plants in Hyderabad totalling to about 20,000 square meters. We have acquired 170,000 square meters more on top of it which is eight times of the current capacity. We are developing our infrastructure in phases we will start with the 95,000 square meters to start with and you will see our incremental revenue for FY26 will come out of the new plant.

We plan to create dedicated customer factories, micro factories in a large factory we will be able to talk more about it during our annual call. But for now I would like to say that the infrastructure that is being created will have incremental revenue of FY26 coming here. And we plan to add our machines in a very, very phased manner. So, with this I would like to say that there is a lot that is going to happen with us.

And I think the story for Azad is unfolding we are at the brink where we are today having a wallet share of less than 1%. We are in the right kind of sectors, with the right kind of customers and product line. So we have a unique positioning. We hope that you understand what we've communicated and we will open the house for questions in some time I would now request my colleague Ronak Jajoo who is our Chief Financial Officer to maybe give a glimpse of our financial performance. Ronak, over to you.

Ronak Jajoo: Thank you, Vishnu. Firstly we will talk about the consolidated financials, highlights for the quarter. Our revenue stood at 89.2 million (Wrongly spoken on the call; Correct number is Rs.892 million) which is a 49% growth on year-on-year basis. Our revenue is growing at a healthy pace, we are positive to maintain this trajectory in times to come. And we are hopeful that we continue this growth over the years to come.

This growth is led by strong sales in both energy and aerospace segments where our energy segment grew at 36% on year-on-year basis on a large base. And our aerospace and defense registered 157% year-on-year growth at a small base. Our consumption percentage as a sales has reduced from 13.3% to 11.6% during the quarter.

This was mainly because of change in sales and we are glad to inform the market that we have qualified few of the Indian mills where we are getting the better price and the lead time for the raw materials has decreased drastically for the company. Our employee cost has shown an increase in the line with our growth in the top line.

Our operating excellence is the focus area for us as a result we are able to achieve certain process improvement which is resulting into the 5% reduction in other expenses. During the quarter our adjusted EBITDA increased by 87% on Y-o-Y basis to INR332.8 crores (Wrongly spoken on the call; Correct number is Rs.328 million) with 36.7% margin. And this is the highest ever EBITDA generated by the company during this particular quarter.

At the same time actual EBITDA increased by 36.7% on Y-o-Y basis INR 327 million with 36.7% margin during quarter three FY23 our actual EBITDA was impacted due to the certain one-time adjustment. We have made adjustment to EBITDA with respect to certain non-recurring items such as fire related expenses and bridge of these items is available on slide number 13 of the presentation. PAT for the quarter increased by 339% on Y-o-Y basis to INR168 million with 18.8% margin.

Coming to the balance sheet the company has reduced the debt as Vishnu had mentioned to you that our gross debt on 30th September was INR324 crores. In quarter three FY24 our CCD namely Piramal who are holding our CCD as converted into the equity share worth INR173 crores (Wrongly spoken on the call; Correct number is Rs.171 crores) . We reduced our gross debt to INR163 crores largely due to conversion of CCDs into the equity shares.

Our finance cost in quarter three stood at INR19.3 million (Wrongly spoken on the call; Correct number is Rs.193 million) including INR133 million for non-recurring items namely INR120 million towards CCDs and remaining INR13 million on account of Ind AS impact of bank term loans which we have to unwind during this particular quarter. With these two non-recurring expenses not forming part of our future finance cost to reduce quarterly financial cost to the third.

And that will be reflected in quarter four onward results where our finance cost will be normalized and we see a better PAT margin coming forward. Looking at a nine month number, revenue from operations surged by 49% year-on-year basis to INR2,480 million as compared to the corresponding period last year.

Nine month '24 adjusted EBITDA grow in line with revenue and stood at INR857 million with margin of 34.5%. Net profit for nine month '24 was INR 437 million compared to loss of INR 64 million in nine month '23. And there was adjustment during the nine month '23, which is there in the slide number 31 if you go to the presentation.

I'm opening the floor for questions and answers now.

Moderator: Thank you very much. We'll now begin the question and answer session. The first question is from the line of Veenit from Investec. Please go ahead.

Aditya: Hi, good afternoon, Rakesh, Vishnu, and Ronak, this is Aditya from Investec. Once again, heartiest congratulations on a great IPO. Just a couple of questions, obviously very, very encouraging set of results. I want to understand that we had pretty decent gross margins this quarter, higher than what we usually used to report. So what are all the factors that have contributed to it? And would you be expecting gross margins to be sustaining at these levels or reverting back to slightly lower levels? That's the first question.

Vishnu Malpani: Hello Aditya, Vishnu here. Aditya thanks for your question. You see our EBITDA has gone up this year. This is because of efficiencies that we've bought in two of our expense lines. So, in terms of job work and tooling, you see there is a margin expansion. We have saved our EBITDA there.

We've been able to save about 2%-3% EBITDA between our tools, job work and power. That was a result of one backward integration that we've done in our business and the other one was lower power charges due to installing a direct line of power in our business. So we were able to save about 3% and that's why you see there is a margin expansion that has happened in our business this quarter. And this is a sustainable impact. This should continue.

Rakesh Chopdar: Aditya, this is Rakesh. As again, I would like to give a note to everyone that these products are not standard, right? There is a continuous innovation. There is a continuous process improvement, which is not only today, it is visible for tomorrow as well. So these are the improvement points. This is always will be available and which we are just exploring in every corner.

Aditya: Sure, understood. On the backward integration side that we refer to, it would be great if you could share some more details?

Vishnu Malpani: So, Aditya, I think it's a longish discussion. But I can tell you that we were sending out our product for a special process outside. Now what Azad has done is, we have decided to make an investment on this special process about a year and a half ago. We invested capex on it to develop capability, we've built capability on it, got that special process qualified with our customers. Now we are able to see an impact of this in our business because we've started producing parts on that special process. And that's why you see an upliftment in the operating margins that we have for them. This will continue.

Rakesh Chopdar: Yes, this is a sustainable number. This will continue.

Aditya: Perfect, that's great. My second question is on the Rolls-Royce contract that we've won for almost seven years. Any further details that you can share on it? What could be the revenue potential? How large could it be? And how exactly the ramp-up is likely to be taking place?

Rakesh Chopdar: Yes, Aditya, this is -- please note, Rolls-Royce has got two divisions. One is a commercial and one is a defense military. So we have license, we got approval, we have a U.S. license to produce this part. Azad got the license to produce this part. And these are very highly confidential. And we can't give you much statement as because this is a military program. This is from Rolls-Royce defense, this is not from the Rolls-Royce commercial.

Of course, it falls under one group only, but we cannot reveal much detail because of the military protocols and we have a license from the U.S. government. So we have to keep a bit of things confidential, but you're most welcome to visit the facility where we can give you idea or we can give you some kind of guidance what exactly these parts are.

Aditya: Perfect. That's great. And for something like this also, Rakesh, would we be required or do we intend to be setting up a dedicated facility given that there's going to be confidential to them and could possibly be a pretty large opportunity?

Rakesh Chopdar: Not really. For the confidentiality, it's a standard NDA and we are right from inception as I mentioned you, we work in a very niche segment so that's a culture already built in Azad, having these confidential information. And talking about the facility, as Vishnu also mentioned, this is just the start of a big ocean, right, and getting our foot in the door is the biggest thing it took us years of dedication and qualifications and approvals what we have got, and this is where the opportunity started. And this is something that beyond -- it's a beyond numbers what we can imagine what the numbers are. So definitely, we would love to set up a separate factory for Rolls-Royce within the new facility.

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

Kamlesh Jain: Thanks, Rakesh and Vishnu for explanation of your business. So it's a strong set of numbers and I believe a strong future ahead.

Moderator: Kamlesh, sorry, but can you speak a little louder please?

Kamlesh Jain: Am I audible now?

Moderator: A little better.

Kamlesh Jain: Yes. So Rakesh and Vishnu for elaborate explanation of the company. And just one question on the expansion side. Like you mentioned about 1,70,000-odd square meters, which we have recently acquired. But how the capacity would pan out over the years at those locations?

Rakesh Chopdar: Yes, see, Kamlesh, thanks for the question. As mentioned, we were aware what's coming, right? When we were finishing our gestation period of 15, 16 years. And as I mentioned earlier as well, we just put our foot in the door. And we know what is exactly coming, right? And we have to prepare well for this.

And this is not something a normal general engineering of automobile or something that we can go -- we can plan for one year or two years. But this is something that we have to plan big. As mentioned, the customer of ours, if we talk about our product line, it's so, so critical, right? It's a life critical product. It takes ages for us and it takes ages for the customers. Both involvement takes a lot of time to qualify and get the approvals.

That is what we finished recently. And now is the time to increase thewallet share of the capacity. So this capacity, what is a very big plan, which is we have to show -- we have to demonstrate to the customer, look, now we're ready to take all your requirements, whatever the planning is exactly what we're trying to show that the wallet share increment.

So this is where the wallet share increment comes in, is we have a capacity, we have the manpower, we have the capex, we have got -- we are ready to take the bits and pieces of things and we are opening up a factory for you guys. And then this is where the planning comes in, like the space management is well accordance to the coming business what we can see on the rules of the customers. So it's very well planned.

Kamlesh Jain: Okay, great. But like current capacity is around 1,58,000 hours per annum, not like say -- and we have bought these land parcels like keeping in view that it would be expanded over a staggered manner. So now like say over five, six years or four, five years, how the capacity or how the increase in revenue will pan out. I know that wallet share will also increase, new customers will also come in. But like say, over three, four or four, five years, how the revenue will pan out from this particular expansion?

Rakesh Chopdar: So, I think I'll just pass on to Vishnu because on the numbers, what the guidance, what I think we have to be -- I think you can take this, Vishnu.

Vishnu Malpani: Yes. So, hi Kamleshji. Thank you for your question. So, first of all, I'd like to say that, we'll be able to give you more clarity on this when we come for our annual results. I think we will talk about our growth. But since you've initiated this question, I would like to give you the comfort. So you mentioned number of 1,58,000 annual hours. I think there was a misprint in that, this is a quarterly capacity. So our annual capacity is way over 6,00,000 hours today as a business.

And so, if you see our historical numbers, you will get a sense of how we are planning our capacity. So, just like you'll see, FY'21, we did about INR122 crores, we took it to about INR195 crores, then we took it to INR251crores and this year, we've already done INR247 crores. So as a business, we know that the business is obviously looking at a growth at a customer level and we are constantly investing in capacity.

If you look at our energy segment revenue, we would have grown in that largely over our year-on-year number. That is because we deployed capex of about INR16, INR17 crores and that has yielded into revenue. If you look at our aerospace business, year-on-year growth, that has happened, our aerospace year-on-year quarterly growth has tripled up, that is because of the qualification.

So our growth is a factor of the capacity that we are creating and from here onwards, today, the IPO proceeds that we were looking at, we have taken out the money that is needed to deploy in plant and machinery that will take us to our FY'26, FY'27 numbers without any trouble. These numbers, these capacity numbers have been committed to our customers so we cannot obviously not create capacity. So our only job over the next two years is going to be create infrastructure, deploy machines in a staggered manner that our return on capital employed is also very effective.

Our incremental ROC in the business is targeted to be upwards or around 25% is what we are looking at.

Rakesh Chopdar: Yes, so I would like to add one more thing, Mr. Kamlesh, what you can see in the H1, what we have delivered and we are on a track which is going for this financial year. You can have a number that'll look. As mentioned on the capacity, these numbers, what the capacity, what is being increased is already in, we have a roadmap from our customers. That is how this capacity has been planned. This is how that 170,000 square meters have come out. For next five years or 10 years or, the capacity what we have seen is a roadmap discussed with the customer.

It's not just we are just setting up a capacity. It's not just we have purchased the land. There is a calculation behind the procurement of the land. There is a calculation behind for the square meters. Why do we need so much square meters? I hope that clarifies.

Kamlesh Jain: Great, great, great. Thanks, Rakesh and Vishnu, and wish you all the best.

Rakesh Chopdar: Thank you.

Moderator: Thank you. Next question is from the line of Rajesh Vora from Jainmay Venture. Please go ahead.

Rajesh Vora: Good afternoon, gentlemen. Congrats on very good set of numbers. And thank you especially, Mr. Chopdar, for giving us a very good overview of the company. Your business is quite impressive in what you have done in the last decade and a half. Now, what gave you strength to be patient, passionate for so long in such a hard business? And how did you manage the risk of failure or other risks?

Rakesh Chopdar: Thanks, Rajeshji. My first thing is when I was 16, when I turned 16, I have seen enough failures, or I've seen enough of, what do you call, struggle. So I think my quota got finished there, just on a light note. And, now it's where, it got in a way where I got in this mode. And the biggest strength is like, what I can feel now after realizing, after talking to people like you and the whole world, right I'm very passionate going, that's thank you so much for that. But also my team, what I've built over these years and the infrastructure, the culture, and, the willingness to accept challenges and, give results in a very favourable way. So that's helping me to continue this, and I hope I'll take this to great heights.

Rajesh Vora: That's very interesting. I'm sure given the way you kept going, do you have any company as a role model in your mind, like Hy-Ko Corporation of US, or Howmet Aerospace of US? Maybe you're looking to multiply your revenues and market share?

Rakesh Chopdar: Not required, Mr. Rajesh. See, I'll tell you what usually companies does a joint venture, either for money or for technology, or for the, a market, or for sales or, for a presence. When we have achieved all the three without any support or anything, why do we need to go and, take on something?

Yes, usually in our product line, again, there's a very vast, when we say aerospace energy, there's a vast, product line differentiation in the classification of the product what we actually manufacture. As I was repeating, again, I repeat, and I feel very proud of saying that, we don't make armrests of a seat, we make a rotating part of an engine. So that classifies what exactly we are doing in the aerospace segment, how you are positioning the aerospace segment.

And what it took us to get these parts manufactured here in India, and being utilized globally, I mean, we don't know which parts we are manufacturing is operation in China, or Japan, or Saudi, or we don't know where they're operational. And we feel great about it. And to follow someone, trust me, if we try to follow someone, we exactly do what others do.

And that's way, that gives a result that Azad is the only company, I'm very proud of India, that we broke these barriers. As we represent, as we go out of Japan, no one knows us in India, trust me. No one exactly has an idea of what exactly Azad does. But when you go to Japan, you ask Mitsubishi , hey, how is Azad? You go to GE, you go to America, you go and ask GEs, you go and ask Rolls Royce, you go and ask, what does Azad do? And they say, wow, they really like, we are very, very happy with the company.

So this is what the problem, what also we are facing is the positioning of Azad. That's where we are facing trouble, but I'm sure over the coming time, we all will realize what exactly we are doing. I'm waiting for that day. And let the numbers speak on it. That's what the best way is.

Moderator: Thank you. Rajesh, sorry to interrupt you, I'll request you to come back for a follow-up question.

Rajesh Vora: Look forward to meet you and visit your facility.

Rakesh Chopdar: More than welcome, Rajesh.

Moderator: Thank you. Next question is from line of Pritesh from Lucky Investments, please go ahead.

Pritesh: Sir, the assets on ground that you have in your balance sheet, which shows let's say last year ended at about INR250 crores, what is the asset turn usually your business operates at?

Vishnu Malpani: Yes, hello, so this is Vishnu here. So if you look at our business in a segmental way, you know, energy, aerospace, defense and oil and gas. Energy is a business historically has had an asset turn of around 1.5 per plant or machine. And for the product that we are now doing and building qualifications for, this asset turn will go upwards from 1.5 to 1.7 on the energy sector.

Now on the aerospace and defense, you see the products that we are currently making have an asset turn of 2 to 2.5. So at a blended level, when you see our business in FY'26 or FY'27, you see it will get to a point where our asset turn will blend it will be around 1.7.

Pritesh: And we do only machining, right? We get the forging made from out?

Vishnu Malpani: No, no, this is totally, this is blended is what I'm saying 1.75. Yes, forging is done in house. Everything is done in house. Yes, everything is done in house.

Pritesh: The entire part, whatever is forged is your final output will be a machine part only.

Vishnu Malpani: Yes, Yes, it is a mix. It depends on the customer's requirement. But yes, we do forging, we do machining, we do special processes. So it's an end to end 360 degree ecosystem that Azad is trying to create for our OEMs.

Rakesh Chopdar: Yes, gentlemen, so this is what we are trying to say. It's not just product, we also give solution with the product.

Pritesh: Okay, my second question is, sir, on the working capital, it's, you know, in the last three years number, it's all over the place. But usually, incrementally, what working capital cycle will you operate at?

Vishnu Malpani: So if you look at a business, and again, I think, see, the idea is to look at it from an energy perspective, because energy business, we've done it for 15 years. And in 15 years, you know, we've gotten it to a point where our cash to cash conversion cycle is about 130 to 140 days. And this business, working capital cycle for this segment will only progressively come down slowly, because we are indigenizing our raw material purchase.

Now, as soon as that happens, the working capital burden on the business will become lower. Our aerospace and defense, and oil and gas business are under qualification. So while you are qualifying these parts by part, what happens is you have an inventory buildup, and also there is an impact on this.

So that's why the working capital cycle seems elongated at that point. But if you see for this quarter, you will see there is a dip in our working capital cycle even on the aerospace side. And then this will progressively come down.

And in FY '26, FY '27, the entire business will be at a blended asset on, sorry, working capital cycle or a cash conversion cycle of 130 to 140 days.

Pritesh: Okay, so your blended cycle incrementally should move towards 130, 140 days.

Vishnu Malpani: Today, blended will get to 130, 140 days. Increase, see, what happens is energy, we are, our quantum of revenue versus our quantum of qualification is very different than compared to aerospace. Aerospace, last quarter has done about INR15 odd crores, but the quantum of qualification is there.

That's why you see this impact there. But at a blended level, our business will become 130 to 140 days of cash-to-cash conversion cycle in FY25, Yes, progressively it will come down with every quarter and every year passing by.

Pritesh: Just follow on, what is your, what is the realizations per kg that you work on?

Vishnu Malpani: So we don't track…

Pritesh: of the machine part?

Rakesh Chopdar: No, it doesn't go that way. It goes as product per piece. It doesn't go by per kg.

Pritesh: Okay, so Yes, I'll come back. Thank you very much.

Rakesh Chopdar: Thanks.

Moderator: Thank you. Next question is from Bala Murali Krishna from Oman Investment Advisors. Please go ahead.

Bala Murali Krishna: Yes, good afternoon. And congratulations on great set of numbers. I would like to know that, in the defense and aerospace sector, what could be the percentage of contribution or the down the line, three, four years, what are you expecting from that sector?

Rakesh Chopdar: Yes, thank you so much for the question. Again, we would like to start. Azad started from 2008, right?

And it took a footprint in the energy sector first. And as it took longer and longer time to cover all the parts, part by part qualification approvals and all, it took a lot of time. Only 1920 is where we stepped in aerospace. But the beauty of Azad is, we are not a startup in aerospace. Only the center of excellence for manufacturing airfoils. So everyone has to understand what airfoil is.

It's a three dimensional product, right? And this three dimensional product, it is very highly regulated product. So having that experience, when we went entered in the aerospace sector, though it looks, the number looks smaller, but that's going to scale up drastically in the coming time.

And that's evident, you know, you can see the Rolls Royce contract, which has come for seven years. And we're bound to supply these parts and many more in pipeline, right? So in these sectors, the growth is very massive in next coming three to five years.

Bala Murali Krishna: Okay, that's understood. And just a follow up on that. So the incremental revenue in this sector will be like, suppose it is aerospace sector.

So that depends on the additional products you develop or depends on the OEMs for the additional aircrafts the OEMs are producing.

Rakesh Chopdar: Yes. So, sir, what numbers we are talking are very large, right? They are very, very massive. What has been taken in consideration, the next three to five years, we already have it in hand.

And you know, this is all is going to be add ons. And this is what we are trying to, you know, make sure that the growth which is lined up for the coming years is already secured.

Bala Murali Krishna: Okay, good sir. And lastly on this, any other new product development which is already developed and which is under evolution by the OEMs?

Rakesh Chopdar: The example I give you, one example, what contract we have signed, like, you know, any X company, any one of the engine manufacturers. Okay, one of the engine manufacturers got say, 10 different models of the engines, right? One may go in A320, one may go in A350 aircraft, one may go in 777, one may go in 380.

You know, there are many crafts, many varieties of commercial and defense aircrafts. And every engine is designed as per the aircraft design. Right? So we started with just a few of the engines, maybe one or two. But they've got 10 more engines. To cover this one or two, you know, that itself is massive. Just imagine by one OEM, if we look at those 10 different engines, then 10 different, you know, requirements coming in. So that's what Vishnu was mentioning you, that the TAM which Azad is connected is more than 28 million, 30 million. When the team is talking about the TAM, what the market size is only related to Azad.

It's not that we have picked up the entire, the world's TAM and been presenting. No, the time what we have been showing or what we have been, what has been shown is only related to us. Only related to the product line where Azad is playing.

Bala Murali Krishna: That's good, sir. That's a great idea. Thank you. I'd like to visit your facility also.

Rakesh Chopdar: Sure, sir, more than welcome. You'll love it. I can tell you, you'll love it

Bala Murali Krishna: . Thank you. Thanks a lot and all the best.

Moderator: Thank you. The next question is from Neel Mehta from ICICI Securities. Please go ahead.

Neel Mehta: Hi. Very hearty congratulations on the numbers.

Rakesh Chopdar: Thank you.

Neel Mehta: My main question is only one because most of them are already answered. While we see most of the top line coming from exports, that is Japan number one and US number two and then Europe, do we see any major impact from the Red Sea crisis going ahead or etcetera?

Rakesh Chopdar: Sorry, can you be a little louder, please? Prices are increasing, what, sorry?

Neel Mehta: So sorry. I'm asking that the major exports from the top line are going to Japan, Europe and US. Do we see any impact from the Red Sea crisis or the logistical supply chain breakup?

Rakesh Chopdar: No, there will be not. Again, very, very good question, but I could answer in a very generic way. Azad all the products during COVID also, we fell under essentials. These parts what we manufacture are majorly used in power generation and wherever there are things like that, it doesn't affect anywhere because this business what exactly is in the aviation or it is in the energy business, they all are majorly in the essential areas. So we will not have any impact of any kind of thing which is going to affect the business.

Neel Mehta: Okay, thank you so much, sir.

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

Amit Dixit: Yes, hi, and thanks for the opportunity. I have just one question. While we are deepening our presence in a defense space, in domestic arena as well, we have a formidable defense ecosystem coming up, particularly in aerospace with the joint venture between GE and HAL being talked about later on maybe for Safran and HAL.

And incidentally, one of them is our customer already and the other one we are working with. So just wanted to understand on a very, very broad framework that what kind of opportunity do we see here? Because the numbers that are being talked about at least on the aircraft side, these are quite formidable and this opportunity extends maybe up to a FY40. So just wanted, if you could give a little bit of color on this that would be helpful.

Rakesh Chopdar: Good question, Mr. Amit. You know, you have helped me make understand better about Azad now. Now, what engine has come to India? It's F404 and 414. From GE, which is coming to HAL. This engine is utilized not only in our LCA, it is utilized in various other aircrafts being manufactured by other nations, like Sweden or let's talk about any European countries or where the same engine is utilized in the various other countries for their different indigenous manufactured fighter jets.

Now, when Azad is positioned as a global supplier, what does a global supplier mean? Since the parts which are being supplied by GE to entire world, they are global supply chain system where Azad is well-positioned. So the parts what we manufacture will go in an engine of 404 or a 414.

That may go to India or that may go to Sweden or that may go to whichever country they want to sell these engines to. We may not know. Best part is having this control of these approvals and things where Azad is, again, very well-positioned.

So we definitely have a very significant role to be played in this kind of programs. Example, I'll give you one thing which has happened to three years back or four years back. We got an order from General Electrics.

And we got an RFQ. We know we bid for a project. And when we bid for the project, and it was for 800 megawatt into three units. So 2,400 megawatt, and we won the order, competing China and Poland in Europe. So we won the order. When the purchase order got printed and when we received the purchase order, you know what to my surprise was?

Azad is in Telangana, Azad is in India. To our surprise, those projects were of NTPC Telangana, placed order on GE, which was manufactured in Poland. So our airfoils went all the way to Poland, got assembled, came back to Telangana.

So such examples, that's the beauty of our great positioning, what I was talking about. We are positioning globally. Our parts, what we manufacture and supply goes to which part of the world, we will not know.

Amit Dixit: So just to follow up on this, while we are at it, the government's endeavor is to push up Atmanirbharta in different space. Also, there is an increased level of digitalization. And we are already, as you mentioned, 404, 414 and Safran will be co-produced, co-developed in

India. So I think we have an excellent opportunity over here to kind of emphasize our position.

Rakesh Chopdar: So I would say this is an add-on to us. This will be a great bonus to us. And we'll be happy to serve this. And best part is we have immense experience already. So I think we can handle it. But one thing, Azad would like to maintain the legacy of the complex parts. And we would like to continue that. And it is a great opportunity till very long run. It's not just today, tomorrow, one year, two years. So it is a very, as you rightly said, this may go up to 2030, '40, '50.

Amit Dixit: Great. And the last one, if I can squeeze, is that after Russia-Ukraine war, and with Palestine-Israel conflict also flaring, and now there are reports of US also attacking Syria, or whatever. So in this arms race, do you see any traction in ordering for us going ahead?

Rakesh Chopdar: No, no, Mr. Amit. It doesn't come at all in our cases or some. Only, you know, when Ukraine-Russia war came in, you know where we faced the problem the most? When we were raising funds.

All the investors were, they went away here and there, but our customers were still there. On a lighter note, you know, I'm just saying to you that that was the time we were raising money on the, we were on the verge of raising money. So what we found difference is in the financial fraternity, not in our customer fraternity. It was on a lighter note, guys.

Amit Dixit: Okay, sure. That's it from my side. Thank you, and all the best.

Moderator: Thank you very much. I now hand the conference over to the management for closing comments.

Amit Dixit: So I would like to request Mr. Chopdar to go ahead and give the closing comments.

Rakesh Chopdar: Okay, thank you so much, everyone, for your time and spending time with us during this call. It was quite informative, and being the first call of ours, and we will get more trained, you know, what to speak, what not to speak.

We were a bit confused, and, you know, maybe we could give all the appropriate answers, but if not, apologies for that, and any other things are there, guys, are most welcome to visit us. With this, I conclude the call, and if you have any further queries, please contact SGA our investor relation advisors. Thank you all for joining us today. Take care. Thanks, everyone.

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