Management Discussion

Unidentified Speaker
Ladies and gentlemen, very good afternoon to you all. Welcome to Axis Cadiz Technologies Limited's earning webinar produced for- by Elevate. I'm Shankhini Saha, Director of IR from Dickinson, and I'll be moderating our call today. So warm welcome to all our participants. We look forward to discussing the Q2 and H1 FY27 earnings results. With you all today. Joining from the Axis Cadiz management team today are Dr. Sampath Ravinarayan, Founder, Chairman, and Managing Director; Mr. Shashidhar SK, Group Chief Financial Officer; Mr.

Uttam Kumar Bhageria, Chief Financial Officer Designate; Mr. KP Mohan Krishnan, Deputy Chief Executive Officer and President, Aerospace; Mr. D. Mulyakrishnan, Chief Operating Officer and Chief Human Resources Officer, and Mr. Manikandan C., President, ESAI. To all our participants, please do note that this conference is being recorded and that some statements in this call may be forward-looking, based on current expectations and subject to risks that could cause results to differ materially. You can all download the company's investor deck from the links in the community chat or the company website or the NSE.

We'll get started. I'll now hand the conference over to Dr. SRN to start with opening remarks. Over to you, Dr. SRN. Thank you, Shanthini. Good evening, ladies and gentlemen. Thank you for joining us and thank you for your continued trust in Axis Spiders. I want to use my time this evening to tell you where this company is going, why we had made decisions we have made, why I believe the best of Axis Cadence is ahead of us. Let me start with a simple truth. When I returned 2 years ago, this company was a collection of businesses.

Some were relevant, some were subscale, and some were simply not ours to run. Today, Axis Cadence is becoming a focused technology-led company built around defense, Reaching this point meant making difficult choices. In H1, we closed Phase 1 of our strategic divestment, a major transaction now complete. It gives us the capital to invest where it counts. We also chose to confront the past rather than carry it. 2 legacy non-core acquisitions, Ad Solutions and Epogen, were sold. Made before the current leadership took charge, were weighing on our results and on management attention.

We have addressed both decisively and in one go. The charges involved are one-time and non-cash. They do not touch our customers, our orders, or our cash, and they will not recur. I would rather show you a clean picture today than a comfortable one. Now let me turn to what excites me. Our core is growing and growing fast. Group revenue this quarter was Rs 359 crores, up 20%. The retained business grew 30% this quarter and 55% in H1. The businesses we are keeping are now the majority of the group's revenue.

The domains we are building are already larger than the domains are leaving behind. As Chairman, my single priority is scalable, sustainable growth, and every moment of this management team is focused on it. In Defence, our assured forecast visibility has improved. Our growth with DRDO and PSU is robust. Moreover, our programs with global OEMs remain intact. We are working on a large MOD program as Make 2 partner. Our aim is to build a balanced, high-value defense business that records high growth year on year regardless of the pace of any single customer group, be it MOD or OEM or DRDO.

ZEDA is mostly under our control except the supply chain. ZEDA is progressing well. We are diligently strengthening its supply chain to meet the growing demand. Aerospace is firmly on a

growth trajectory. In Q2, Cloudwave has contributed to our earnings from its very first quarter with us. Q3 and Q4 will see full revenue from Cloudwave. In Space, our partnerships are in place. We expect Space to be revenue generating in FY28 and EBITDA positive thereafter. Every one of our businesses is healthy and doing well on its own.

So if we leave aside the one-time gain from the divestment, why did we incur loss? Let me clarify. The loss stems from one-time charges, the cost of transformation itself, and the corporate structure we continued after the divestment with the growth in mind. One-time charges and transformation costs will decrease from the 3rd quarter onwards. However, the corporate structure remains In place as it serves as the foundation for our growth. Additionally, there is an ESOP charge, which is part of our employee cost and is a non-cash charge.

Before the ESOP charge, our EBITDA this quarter was Rs 23 crores. Our DRDO, PSU, defence business, and ZEDA together earned Rs 29 crores of EBITDA at 23% margin. This quarter, the ESOP charge took about half of our EBITDA. That is the highest it will be. ESOPs will continue because as we grow, we need them to attract and keep talent. But management will ensure that ESOP charge would be reduced to a single-digit percentage of EBITDA by Q4, and it is a non-cash charge. As revenue grows, the base we built will transform into profit.

We anticipate the 3rd quarter to be our first normal and profitable quarter. The 4th quarter will serve as the benchmark quarter for our status. We said what we would do and we are doing it. Among all our commitments, the one that moved- got delayed is the second phase of our divestment, delayed by 3 months because of regulatory approvals for the formation of the new company. Now it is fast-tracked and we plan to close it by Q4. So my message to you is simple. We have done the difficult part. We have cleaned up the portfolio.

And we have sharpened our focus. Now we have the people to deliver, the programs to grow, and the platforms to scale. I ask you to stay invested. Stay with us in this journey. Trust the direction. Hold us to our commitments. Together, we will build an Axis Cadence that India and the world will recognize as a leader in defense, aerospace, and deep tech. Before I hand over, a word of thanks to our employees who have carried this transformation with extraordinary commitment. To our customers for their confidence, to my colleagues on board for their counsel, and to you, my dear shareholders, for your patience and belief.

With that, I'll hand over to Sachi, our Chief Financial Officer, to take you through the financials in detail. And thank you very much. Thank you, Dr. Saran. Good evening, and thank you for joining Axis Catalyst Q2H1 FY27 earnings call. Dr. Yasar and I set out the strategic direction and the transformation underway in the company. I will take you through the numbers, what we reported, what sits inside it, and what it tells you about the company we are building. Before I take you through the numbers, I want to set the context in which they should be read.

As in Q1 FY27, this quarter's results were recorded in the middle of tectonic transformations being executed in the company. All at once. We are midway through transferring our engineering services business to Accordis. We are transforming our portfolio from a services model to a manufacturing-led one. We are restructuring our ESI business with Zeta in USA as the fulcrum. We are consciously building large-scale manufacturing infrastructure and hiring skilled manpower and leadership to drive our manufacturing pivot.

We are acquiring businesses and integrating them. Amidst all of this, we are also cleaning up our portfolio by opting for solvent liquidation of ADD Solutions, which was incurring losses. In the meantime, we also moved and consolidated our semiconductor business and corporate

infrastructure in Devanahalli Aeroland. Our objective is to ensure that this strategic transformation is completed as soon as possible so that we can focus on scaling the business. All of this involved legal, transaction and restructuring costs, which are in a way good costs to incur, which are laying the foundation for our future growth strategy.

Despite the above, we are happy to report that each of our growth businesses of Aerospace, Defense, and Zeta continue to record significant growth and profitability, while at an enterprise level, the margins are being currently diluted by the corporate costs in the retained business, which will be absorbed as the revenue scales. This is a conscious choice for a strategic pivot, as has been consistently articulated by our chairman. Q2 was a quarter of execution on 3 fronts. We closed the first phase of Accordis divestment.

We acquired and commenced consolidation of Cloudwave. We announced another acquisition, ITSG, under ZEEDA, while delivering our second consecutive record quarter of revenue. Consolidated revenue for Q2 FY27 was Rs 359.1 crores. Up 20% on a year-on-year and 3.6% sequentially, the highest quarterly revenue in the company's history. Under India's 105, Rs 163.5 crores is reported as discontinued operations and Rs 195.6 crores as the retained business. The retained business, the one you are invested in going for- invested in going forward, grew 30% year-on-year and 7% sequentially, including Rs 16.5 crores from Cloudwave consolidated from 10th September.

For the half year, consolidated revenue was Rs 705.7 crores, up 30%, and retained revenue was Rs 378.9 crores, up 55%. Retained revenue is now 54% of the group against 45% a year ago. Our growth drivers are delivering. Defence grew H1 revenue 46% to Rs 252.7 crores, with Q2 EBITDA of Rs 22.5 crores at a 17.6% margin, ZeeDAG grew H1 revenue 55% to Rs 97.9 crores at a 27.6% EBITDA margin, with Q2 revenue of 47% on new customer wins. Aerospace delivered Rs 23.1 crores of revenue in the first half of, of, and Cloudwave, our aerospace acquisition, was earnings accretive from its first quarter.

Now talking about profitability, reported profit after tax was Rs 47.3 crores against a loss of Rs 14.8 crores in Q1. And a profit of Rs 23.1 crores in Q2 of FY26. Discontinued operations contributed Rs 95.4 crores post-tax, which includes a pre-tax exceptional gain from discontinued operations of Rs 129.3 crores after netting of goodwill pertaining to divested businesses. Continuing operations reported a loss of Rs 48.1 crores after a one-time non-cash impairment of Rs 38.4 crores of goodwill and intangibles, mainly pertaining to ADT Solutions which has been offered for solvent liquidation.

Taking this one-time charge now cleans up the legacy carrying values. With Rs 19.9 crores of EPOGEN goodwill written off in discontinued operations, exceptional write-offs total Rs 58.3 crores. They are non-cash, sit below EBITDA, do not touch our customers' orders or cash, and will not recur, as our chairman articulated. For the half year, profit before tax rose 10.1% to Rs 70.8 crores, and PAT was at Rs 32.5 crores. Reported EBITDA was Rs 11.4 crores. It carries a full year- a full half-year ESOP charge of Rs 12 crores and Rs 3.9 crores of residual provisions under ECL.

Before the ESOP charge, EBITDA was Rs 23.4 crores. The retained business in ACTL, the listed parent company, carries operating cost of around Rs 15 crores with yet to scale up revenue. In the aggregate, the ESOP charge, the corporate cost, and the EBITDA loss in ADD Solutions for the quarter adds up to Rs 31 crores, all in continuing business, accounting for 16% of retained revenue. As such, it's important to view the business performance for this quarter half-year from the lens of growth and profitability in our core verticals of aerospace, defense, and ZEDA, rather than at an enterprise level.

Bringing the group's cost base in line with the new portfolio is the management's priority for the coming quarters. The recovery path starts in Q3 and does not depend on anything new. A cost reset underway ahead of Phase 2 closing takes corporate overheads to around Rs 12 crores a quarter. The ESOP charge runs at around Rs 6 crores a quarter, half the Q2 level, and legal and professional charges, which was at Rs 14.5 crores, largely one-time, normalize to about Rs 4 to Rs 5 crores a quarter. Zeta, Defense, and Aerospace are each planned to run at around 20% EBITDA margin at a vertical level from Q3 of FY27.

Now coming to the divestment. The US$237 million Accordis transaction is now half complete. Phase 1 closed on 30th September 2026. Phase 2 is classified as held for sale and is scheduled for closure in February or earlier. To recollect, of the total gross divestment consideration of Rs 2,275 crores, Rs 1,686 crores or 74% is a fixed guaranteed payout. And the balance of Rs 589 crores, which is 26%, is based proportionally on earnout based on EBITDA targets. Of the post-tax guaranteed consideration of Rs 1,395 crores, the company received Rs 121 crores in October, will receive another Rs 32 crores in November, about Rs 504 crores in February, Rs 56 crores in July, and Rs 682 crores in December 2028, which excludes the earnouts.

This is all guaranteed. The company will record another Rs 1,100 crores in one-time gain on the closure of Phase 2 divestment in Q4 FY27. The gross borrowings stood at Rs 624 crores as at 30th September and a net debt of Rs 556 crores. Of this, Rs 200 crores belongs to Cloudwave acquisition which happened only in September 2026. Of this, since then we have repaid Rs 85 crores in October from the divestment proceeds. The balance guaranteed consideration to be received, as I explained earlier, of Rs 1,274 crores will give us the means to reduce this debt further and to fund the next phase of growth without diluting shareholders.

The company has now been onboarded on MSCI India Domestic Small Cap Index effective 30th November, apart from being part of Nifty India Defense Index. When I joined Axis Cadets in January of 2022, the market cap was around Rs 390 crores. Today it's around Rs 7,500 crores, nearly 20 times. That value has been created by our customers, our employees, our board, and you as our investors and analysts who are backing this long-term and strategic transformation in Axis Catalyst. To conclude, the hardest part is behind us.

The next phase is about converting a reshaped portfolio into earnings. The path is clear: close the divestment, reduce debt, align cost with the new portfolio, and let manufacturing, defense, and Zeta scale up on the capacity we are building. Before I close, a personal note. This is my last earnings call with Axis Cadets as I will be superannuating and debiting office in December. It has been a privilege to serve as a group CFO during a period in which the company has scaled up and transformed itself from an engineering services provider into a product solutions and manufacturing-led group, and it gives me great pleasure to have seen that happen.

I thank Dr. S. R. N., our Chairman, the Board, my colleagues in Finance, our auditors and bankers, and the analyst and investor community for your engagement and your trust. I hand over charge to my very able successor, Uttam Bhageria, with full confidence. We now open the floor for questions. Thank you, Shashi. A reminder to our participants, if you hadn't had a chance to go through the investor deck, Q2 and H1. The link is in the community chat. You should be able to click on it and view the investor deck.

We'll get started with the Q&A session now. A reminder to all participants, please do maintain your questions to one main question and one follow-up, taking into account paucity of time. A reminder on how to raise your hand on this platform. If you're on desktop or laptop, Look for the reactions

button at the bottom of your Zoom window. Click on it, then select raise hand from the options. Your name will appear in the queue and I can call on you. If you're on mobile or tablet, tap on the more dot dot dot button at the bottom right of your screen, then select raise hand from the menu.

We'll get started with the Q&A session now. Our first question is from the line of Deepak Podar. Hi, Deepak. You can go ahead and unmute your line and ask your questions. Yeah, am I audible? Yes, Deepak, go ahead. Yeah, thank you very much for this opportunity. So just wanted to understand more on the comment that you made saying that 3rd quarter will be a normalized quarter and 4th quarter you expect to be a benchmark quarter. So some sort of- I mean, you expect 3rd quarter will be normalized EBITDA margins.

So can you just explain the context on which Um, you mentioned that, and what sort of margins we can expect? Uh, thanks, Deepak. Uh, basically, 3rd quarter, we are looking at, uh, uh, good growth in terms of revenue on the core. I'm talking only on the core side because, again, please, listeners and shareholders, please don't confuse. When I mean core, we are only talking about defense, ZEDA, aerospace, and space. Anyway, it's not this year or next year. These 3 domains only. These 3 domains, we feel there will be a very good growth compared to Q2.

We are targeting at least a minimum of 30% growth to somewhere around, uh, could be 45-50% growth. That is a band we are looking at. With the cost remaining same and the transaction cost coming down, should result in a, uh, EBITDA, good, fairly decent EBITDA. But there is an ESOP charge, will continue to be there, but ESOP charge will be reduced compared to what it was this quarter. We are trying to sort of slightly reduce it so that in terms of percentage, the ESOP charge should be roughly around 20% rather than it is 50% this quarter.

So overall, we are looking at roughly- I don't know, I don't want to give a guidance number- we're looking about a 15-16% EBITDA margin in Q3. It is like the first time we are limping backwards after all these transformations and technology shift and all these things. And we would probably getting back to around decent profitability. I'm aiming at around 15% at this stage. And in Q4, we're looking at about 30% growth on QO 3. So we are looking at 30-30 each, somewhere around that. Okay. And Q3 base, Q4 will be about 30%.

Here the ESOP charges will be further brought down to a single digit, and in terms of percentage, it should be less than some 8% or something like that. And the revenue will be 30%, aimed at a fair That should give us a good EBITDA. We are looking, aiming at a 20% plus post ESOP. That's what we are looking at, at least 20%, plus minus you take 1% here, there. That's our aim at this stage. So that will be setting the tone for FY28. So that is my, our plan projections. Thanks, Deepak. Just to have a follow-up on this, Just to reiterate, I mean, 3rd quarter you're expecting around 30% growth in your core business over your 2nd quarter, and 4th quarter you're expecting 30% growth over your 3rd quarter.

Can I be right in saying? Yes, correct. And with a 15% EBITDA margin in Q3 and 20% kind of EBITDA margin in Q4. Yeah, approximately, give or take 1% here. Okay, on and off. Fair point. Yeah, okay. Yeah, that would be very helpful, sir. I would like to wish you all the best. Thank you so much. Thank you. Thank you, Deepak. Thank you. Thanks, Deepak. We'll take the next question from the line of Balasubramanian A. Hi, Bala. You can go ahead and unmute your line and ask your questions. Good evening, sir.

I'm audible? Yes, Pala, go ahead. Yes, sir. My first question, in that Phase 1 we have completed, but if you look at the extraordinary gain is Rs 149 crore. Earlier, the total transaction, it's valued around Rs 237 million, so almost Rs 2,256 crore. That will generate extraordinary gain of Rs 1,250 crore, but

currently we have realized Rs 149 crore. Is the right way to understand another Rs 1,000 to Rs 1,100 crore extraordinary gain will be in Q4? That's exactly what I said, Bala, in the sense that what has now completed is the smaller part of the transaction.

The bigger part, which is the aerospace engineering services business, is valued at $206 million, which is, you know, going for conclusion very, very aggressively. So we hope to kind of close it on or before February, which will bring in another Rs 1,100 crores of extraordinary gain into the P&L in Q4. Okay, and how much is any like one-time charges expected for those Rs 1,000-1,100 crores? So we know the one-time charges is essentially what the transaction costs are. Just to give you a picture in terms of what, uh, the transaction costs have been incurred.

We have already incurred up to about 35-odd crores for the closure. Of course, it also includes the bigger part of the transaction. So we expect that, you know, it probably could take another 20-odd crores in terms of transaction costs. Okay, sir. And sir, uh, we have guided ESOP and legal cost will be half done maybe in Q3 and Q4. Uh, that will be, uh, end by Q4, or it will continue by next year also? You see, ESOP will continue, ESOP will continue, but the percentage will be reduced. ESOP will continue, it's a recurring cost from now onwards because we have to attract talent, we have to retain the talent.

But it will be in terms of percentage, it won't be that much high, it will be a single-digit percentage. Regarding the legal cost, See, mostly it is during the- not only transaction, for example, closure of Ad Solutions, closure of Ecogen, and acquiring new companies, everything adds to the legal cost. Okay, so these are all transactional cost, not only for selling, there is also buying, there is a transaction cost. Unfortunately, that is coming above the line and hurts the EBITDA. So transaction cost will be minimized.

I won't say it will be totally going whatever relating to the sale will go off. And Q4, there will be- when we realize the big money, it will show, but it will not be- it will be an exceptional item, but it won't hurt the EBITDA. But as we keep buying companies, there will be transaction cost on purchase, and ESOPs will continue, and that will not affect- we have factored it as employee cost already. That should not be- definitely we are very, very conscious about that. Not to hurt our EBITDA. We are trying to sort of get it well within a single-digit percentage, okay, going forward.

Thanks, Dr. SRN. And, uh, Bala, please raise your hand again for any more follow-ups. We'll surely take your questions if we have time, and we can also have more interactions to make sure you're satisfied and your questions are answered at a later time. We'll take the next question from the line of Shubhi Gupta. Hi, Shubhi, you can go ahead and unmute your line and ask your questions. Hi, am I audible? Yes, Shubhi, go ahead. Hi, sir. So if you could just give a bit more clarity on Zida business and its future prospects and what role ITSG will play in future.

Thanks, Shubhi. Currently, Zeta business is of 4 pillars, basically. Number 1 is our legacy, what we have so far brought more on the embedded, and now we are making it as like more like a GenAI, some kind of physical boards we are making for various customers, embedded boards. We are adding that layers of LLM, SLM, and so on. Making it a more AI-ready bots, and that is what we are trying to do. So that is one pillar. And physical AI, like humanoids and the robots, cobots, that we just received an order in the last month from a US-based company.

It's called Humanoid Inc. And so we are starting with that. And so it should- various activities should come. There is also one acquisition we are trying to acquisition we're trying to look at. The third piece is the data center piece. So the data center piece, we are doing the chillers for data centers. ITSJ comes very handy to this. This is thermal management and chillers, the special activities. So

this also is very handy, and we have already through ITSJ got Google as our customer, and we are starting off.

And the fourth activity is the semiconductor equipment itself. Towards the new AI-related silicon equipment. We have AMAT through Applied Materials, largest silicon manufacturer, as our silicon equipment manufacturer, as our customer through ITHJ. So ITHJ's main contribution is bringing 2 of the world leaders to us, hyperscaler and silicon equipment manufacturer, to fill these 2 important pillars and then get an entry through the important pillars. And then we are looking at eyeing at few other acquisitions.

As of now, we are feeling last time we did the ESI, we did about Rs 125 crores, if I remember right, in FY26. We would, as of today, with no acquisitions planned also, we would more than double that. That's for sure. And any acquisitions coming, pro-rated part, that should add to Zeta. Zeta will do exceedingly well. This, this quarter and definitely register a triple-digit growth. Okay, thank you. Then, sir, we'll be needing further fundraise? Uh, yeah, that right now it's very confidential. We are going through that on Zeta separately.

Zeta is a standalone entity, so we'll do that. So that's kind of- we are under NDA for both buying and selling, so we don't want to get into more details at this stage. Okay, sir. Thank you so much. All the best. Thank you. Thank you. Thank you. Thanks, Shubhi. Our next question will be from the participant Abhijit Singh. Hi, Abhijit. You can go ahead and unmute your line and ask your questions. Yeah, thank you for the opportunity. Am I audible? Yes, please. Yes, go ahead. Yes, sir. First question is, uh, so what is the order info that we have received in, uh, uh, in FY27 YTD in terms of our fixed purchase orders that we've got?

And what is the order book? Overall, as a company, we are looking at, uh, See, our total executable orders as of today, including what is executed, stands around roughly around Rs 1,000 crores, and we are expecting some more for execution. It's again, it's approximate. So perhaps, so we are probably trying to close in that range. In terms of delivery and so on. So we need to get into the details, but, uh, I think, uh, we are well on track with that if you are able to execute. But again, as I said, there are issues.

And Zeta, there is a huge supply chain issue. Uh, deliveries are components, PCBs, and rare earths, everything. And components especially are getting delayed beyond like 18 months, 12 months lead time. That definitely may withhold some of the delivery issues to order book could be there. Same thing because of some supply chain issues, even defense deliveries could get delayed. But overall, we are looking at the order book execution in the range of anywhere between- so, so far we executed around, I think, Rs 317 crores.

And we are looking at comfortably executing anywhere between Rs 600 to Rs 720 crores in the next 2 quarters. Looking at, again, subjected to the supply chain issues not affecting us. Rs 600 to Rs 720 in Q2? Yeah, that's the range. Yeah. Yeah, because I mean, for the full year we have targeted about Rs 1,150 crores revenue. Yeah, yeah, that, that includes, uh, that includes prorating of some acquisitions, etc. So we're looking at about, uh, 3 acquisitions to be completed. Okay, okay. That includes, uh, 3 companies which we will acquire going forward?

Yeah, going forward we have lined up about 4. We are trying to close at least 2 or 3 in, uh, at least in Q4. Okay, Q3, nothing will be possible. We are- so Q4, we are at least aiming at closing 2, if not 3. 3 is also- 2 is definitely possible. I think so, because again, I should not use the word definitely because it depends on the other party also. But we are aiming to close it by Q4. Thanks, Dr. Asain. You can rejoin the question queue for follow-ups by raising your hand. We'll take the next question

from participant Avik Mitra.

Hi, Avik. You can go ahead and unmute your line and ask your questions, please. Hi, Avik. You can go ahead and unmute your line and ask your question. Yeah, can you hear me? Yes, Avik, go ahead. Yeah, so thanks for your actually improving the base business. I wanted to know that last- for last few quarters, actually, you have used the term assured forecast visibility. And now it seems from your language that you are actually silently dropping the term because maybe the business is not as much visible as you have envisaged earlier.

Is this assumption correct? No, no, no, no, not at all. Okay, you're not dropping anything. Money, Money can explain because AFV we use for only for defense context. Okay, mainly. So Money is the president of our defense activities and he will He will brief you about what is our current listing. If at all anything, it is looking very, very good. Yes, sir. Thank you, sir. Uh, Avik, uh, to explain to you, in the defense, the assured projected values, the forecast value, still we continue to hold it.

And if you have seen our investor presentations, the Q2 also we have, we have won design wins about 80 crores, more than 80 crores. That also adds into 730 crores of our assured forecast. The last time we have project about Rs 4,500 crore or something, but now we are close to Rs 5,000 crore. Yeah, assured forecast visibility we have in the country. Okay, and can you, can you tell me actually what is, uh, you have actually continuously reduced your forecast. Now you are actually targeting about Rs 1,000 crore turnover, right, by the year end?

There is nothing wrong, it can happen, so I'm just asking. No, no, I think it's a forecast is spread over 3-4 years, not for Uh, this financial year? No, no, no, I'm asking about this, this year's revenue target. This year's revenue target, uh, yeah, this year's revenue target, we are not changing anything majorly. As I'm saying, we are looking at, uh, see, in the legacy, there are only 2 acquisitions we have done. Only one, one and a half, put it across. So which is, uh, Cloudwave, which is only aerospace.

Aerospace is fully inorganic. So that is already being integrated. It came only in the end of Q2. That means that we'll be able to prorate only on Q3 and Q4. A little bit we have taken in Q2. And ITSJ, it's more of an asset purchase, not an acquisition by itself. So that will add to certain things. So probably these 2 are the acquisitions. So overall, with our legacy plus this acquisition, we are looking at, as I mentioned, about Rs 600 to Rs 720 crores. Further execution over and above what we have done, about 379 at this point of time.

So there is no change in that. If we are able to, we are also lined up about 4 acquisitions. See, the acquisitions, uh, though we would like to do it as soon as possible, but there is also like due diligence and issues, especially if it is US-based. We have to go through ITAR and CFIUS, and so many regulations are there. So it is taking little more time than what we expect. And if this can slip by one quarter or two quarters, but this acquisition is- will contribute, I hope, about at least anywhere between, I don't know, about 600 to 750 crores at the time, if it is timed right, January, February, or whatever it is.

That's at this best. So that will add to the Part A. This is Part B. Part C, we are looking at pro forma revenue. Basically, what I mentioned, because see, in- we didn't change anything. See, because of the transformation, the reading and everything may be changed. We are very clear, we don't want to do any misleading. In May 25th, we made one- this thing we talked about, $1,350 is our aspiration or our goal guidance for FY27, that is before the divestment. So if today after the divestment, that doesn't hold good because that time we were not very sure the divestment will take place or not.

So that is what- so after divested, we lost about 60% of the revenue. We started with a base of Rs 514 crores approximately. That is my retained revenue. So Rs 514 crores, we are rebuilding to something like Rs 1,000+ crores in the past year. And Part B about Rs 60 to Rs 150 crores. And Part C is the pro forma revenue. Pro forma revenue is the total revenue, the revenue at which we are going to face FY28. That means the base revenue, that's the full year revenue of all the acquired companies and full year EBITDA of all the acquired companies.

If you take that, we will probably- Part C, we still don't know what it is, but it won't be a that much different, I guess. So I think, uh, we are on track and we mean what we say, and we are, we are not withdrawing or silently dropping anything, and we don't do that. Okay, so we are, we know what we are doing. We are exactly on our targets, and the delays are possible because we are looking at- see, they are ambitious, but when it is geopolitical issues are involved and, uh, CFIUS, ITAR, G2G issues are involved, there would be delays.

Good slippage could be a few, one quarter or 2 quarters possible, especially when these kind of things. Okay, otherwise we are on track. We are doing what we can do and we are doing our best to get the timing done. So, okay, thanks. Thanks, Dr. Ehsan, and thanks, Avik, for your questions. We'll take the next question from participant Tushar Bhavsar. Hi, Tushar, you can go ahead and unmute your line and ask your questions. Hey, good evening, sir. Am I audible? Yes, yes, Tushar. Yeah, so like, you know, a couple- like, one question is like, you know, with regards to What you had mentioned before, like, you know, that if the management, the current management reduces their stake below 50%, there are chances of like, you know, we selling or bringing in a foreign partner.

So now that we see like, you know, that the management has reduced their holding below 50%, do we have any potential like, you know, partners? If you remember, like, you know, you mentioned this like- Yeah, yeah, yeah. So every day remember it, not this thing. See, currently we are, as I said, some of this we cannot- we are discussing very actively with few OEMs. They won't come at the listed entity, but we are looking at setting up joint ventures with them at this stage. That's what I can say at this point of time.

Again, this is subjected to a lot of government approvals, etc., because these are all insensitive spaces. So as I said, that we'll announce it when it appropriately, when it happens, but we are on it. So the very purpose for which we are doing all these things is happening in some form or the other. Okay. So we'll be able to- we are waiting. We did our part. Now we are waiting for the governments to do their part and keeping our fingers crossed. Okay. And is there any, any news about the MACC, like, you know, that we purchased?

Like, I know, like, you know, in June we had the announcement, like, you know, that the land has been acquired and things are moving. Yes, yes, yes. Murali, Murali, you want to go through that, Murali? Yes. So yes, we acquired the land for the MACC from the Telangana government, and there is a project that is ongoing. We are discussing with our potential customers and partners On the manufacturing, exact manufacturing facilities, the space required, the equipment required. Those things are progressing steadily, and at appropriate stages, we will commence the construction for the MAC.

MAC, as as we envisaged, this is going to be a specialized complex for missiles and missile subsystems. Yeah, just to add to what Murali said, uh, no, we have acquired about 8+ acres of land there which is registered in our name, and the activities have started post that. It may take a year's time to start. Basically, uh, this is exactly connected with your first question. If everything goes well in the first question, MAC is eventually the place. Where this whole thing will land. OK, and it may

take a year or year and a half for MAC to be totally functional and maybe even 6 more months for it to get certified.

In the interim, we'll operate it out of our Bangalore facility. And so just wanted to tell you that we are posting 1 and 2 are kind of interlinked. And yeah, 1- the 2 will be based on the 1 and 1 will be based on the government. Okay. Yes, I can add as we speak. So we entered into missile subsystems and missile-related projects 2 years ago, and currently we are executing several development orders for missile electronics, missile electrical, as well as missile mechanical and system integration. Those development orders are being progressed at our Bangalore facility, and at appropriate times we will get into the production of the same.

Thank you. We'll move on to the next participant asking a question. The next participant asking a question will be from the line of Prateek Srivastava. Hi, Prateek. You can go ahead and unmute your line and ask your questions, please. Okay, great. Thanks, Dr. Sampath, for giving an opportunity. First of all, sir, I just want to sort of again go back on the EBITDA guidance what you're giving. Sir, Q2, your, uh, EBITDA before ESOP was 9.3%. Now when you say this 15 to 16% mark, are you saying is this again pre-ESOP or post-ESOP guidance?

Post-ESOP. I'm not- don't want to use the word guidance, but it's post-ESOP what I'm giving you. I'm telling you, is post-ESOP is our aim basically. So that is after the- after deducting the ESOP. Got it, got it. Okay, so that's a good substantial jump from this thing to- even because I think your post-ESOP, this was, uh, this year was much lower. Uh, now, now second question again is, sir, and then what was the end of the year guidance in terms of margin you gave? Again, I don't want to use the word guidance, but we are looking at- again, at, uh, our aim is for 20%, so it could go here.

This is again post-ESOP, after detecting these Okay, got it. And sir, on this Phase 2 divestment, right now earlier I think we were targeting by around November end and now it's moved to Feb. So sir, how confident are you for this Phase 2 divestment that it will be complete by Feb? Yeah, yeah. So essentially, you know, the reason as to why it moved from November to February, as what Dr. SRN explained earlier, was mainly because of regulatory issues in terms of new company formation. As perhaps, as what I know, you would know the way we have declared it in the stock exchange, the engineering services business of Aerospace is under a new co-structure where the company will be forming new company where the businesses, the employees, the contracts, everything will be transferred.

And those entities have to be transferred, rather I would say set up globally, uh, with, you know, and with ODA clearance in certain cases. All of that, you know, was something which, which, you know, kind of delayed it. And as a result of which, now the target is to achieve this on or before February. And for your question as to whether we are confident about it, we are 100% confident about it because the buyer is far, far more eager in terms of making this happen. Because, you know, I would say there's a lot of contracts which are at stake in terms of we going together and synergizing it.

And it's going to happen on or before February. Thanks, Shashi. You can keep your hand raised to rejoin the question queue, and we'll definitely, you know, give you another chance if we have more time. We'll move on to the next participant asking a question. The next participant asking a question will be from the line of Jatin Jadhav. Hi, Jatin, you can go ahead and unmute your line and ask your questions, please. Good evening to all. Most of my questions have been answered already. I just wanted to understand when we get a TOT, let's say from DRDO, sir, how long do we- how much timeframe do we have to set up a manufacturing facility and then get into production and acquiring

all the licenses?

Or we've already done for all the projects we've gotten developmental orders or TOT for? That's my first question, sir. Mani, can you go through after the every, uh, the TOT we have? Yes, sir. Uh, this is Mani. Uh, for the TOT, there are 2 types. The, the prototype which we have done, for that we are getting TOT. We have all the, all the infrastructure, all the facilities, uh, the required tools we have, and that immediately we can start the production. That also will help us to get even the export order.

And the second part is there are some neat TOT related to, for example, laser. For that we have set up the facilities, all the equipments are- we are getting in place. For that it needs certification that we will follow that. Currently we are doing the POC for that. There are these 2 types of TOT. Yes. So as you are aware, Axis Everest has been working with the DRDO labs for several years. And we have developed certain technologies out of which we have got the TOTs. So that is where now we have the process, people, capabilities, integration facilities, testing facilities, and all those things.

So projects are products like through-wall radar, ground penetration radar, direction finder. All those products are our products we have developed, and we are in a very good shape to convert that into production, whereas we are aspiring to get into more strategic areas and we are applying for those TOTs. And what Mani said is we are establishing the production facilities, testing facilities, integration facilities for those new technologies. Got it, sir. Thank you so much, sir. That was reassuring.

Just out of curiosity, I just wanted to understand, since we now- ZiiDAI will be a big part of our growth, and as Dr. Efrain mentioned, there are 4 pillars, and amongst them is one of them is the chillers for data centers. So just out of curiosity, sir, as we are getting deeply entrenched branched into the missile ecosystem, the avionics, electronics, and so on and so forth. Probably we can use that expertise of chillers for, let's say, for cryogenic chillers for, let's say, seekers or something on those lines.

Can that also technology be used for our- Yes, yes, yes, Jatin. All the 4, all the 4, you are right. All the 4, it's a quad use. All the 4 feed into each other. The technology base is common. Everything have strategic electronics that stretches the electronics to the limits. Everything has advanced software onboard, uh, real-time software. Everything has materials and high-quality materials, whether it's space or aerospace or defense or ZEDA, which is semiconductor equipment. All the commonalities are mechanically, electrically, electronically, software-wise.

They stretch the technology to the limit and they are really deep tech. And some of the processes, technologies are the same. So one will feed into another. We do cross-selling, we do cross, uh, kind of pollinate. And, uh, as it's, it's very possible because when people visit us, even defense customers visit us, we show them to Zeta and see what we are doing. So they get inspired. So they have some thought process. You are right, and we are doing that and it helps us. Okay, thanks. Thanks, Dr. S.

Arun, and thanks, Jatin, for your questions. You can keep your hand raised to join the follow-up queue. I will take the next question from participant Jatin Raghuwanshi. Hi, Jatin. You can go ahead and unmute your line and ask your question. Hello, am I audible? Yes, Jatin, go ahead. So, sir, my question is like our Phase 1 has been moved from end November to February, and at the same time, we are seeing like the, the part which we are selling to the Equities, EBITDA margin dropped from 18% to the lower digit.

What exactly went wrong? And because of this, like, is Equities have any right like in contract which

allow them to the cut price? And like, for example, if this phase again slip, so how we are planning to fund that gap? Like you have told in past, like there is no plan of equity raise and our debt has already been gone up from Rs 231 crore to 550 crore approx. So that's my question. Yeah, you see, basically, as I explained earlier, 72% of the entire, you know, consideration is guaranteed. And, you know, irrespective of whatever the, the consideration with respect to 1,000 post-tax, as I explained earlier, the total post-tax consideration Guaranteed consideration is Rs 1,395 crores, and that will come- I also explained to you the phases at which it comes.

We have already received Rs 121 crores in October. We will receive another Rs 32 crores in November. We'll receive Rs 504 crores in February. We will receive Rs 56 crores in July, and we'll receive Rs 682 crores in December. So, and also we'll record Rs 1,100 crores extraordinary gain. So with respect to the debt, as I explained earlier, You know, the net debt is around Rs 525 crores, mostly coming from the, you know, the Cloudwave acquisition which happened in September where we borrowed Rs 200 crores. And since then we have already repaid Rs 85 crores.

The rest of the, you know, I would say, uh, the debt will also be mostly paid from the, you know, the divestment consideration as what I'm talking about. To answer your question, irrespective- the reason as to why the, the Q2 numbers, uh, as to the, uh, the divested business went down is because It was a combination of, you know, the, the uprisings and the increments which happened in the month of July, and also the fact that in, in Q2 there will be a large-scale plant shutdown by Airbus. And there were people who, with the, you know, permission of Accordix, we took on board who are billable resources.

And also, uh, the ECL charge of around Rs 3.7 crores which we took. So all of this is, is something which is with the knowledge and consent of accord is, it's got absolutely no bearing, uh, with respect to the guaranteed earnout, as what we will- guaranteed sum, as what I just now explained to you. And at the same time, even with respect to the earnout, they are based on EBITDA charges. And it is not that it's all or nothing. Every single- you know, I would say in terms of the EBITDA charges, as what we have taken, it is proportional.

Around 550-odd crores is going to come from earnout, essentially. And, and all of this is based on not on FY27 numbers but on FY28 numbers. Whatever number we kind of record in FY27 has no bearing on the earnout. The only thing is when the actual closure of this particular transaction takes place in February, when we become part of the new company with, you know, 51% being held by Accordis and 49% by us, there is a particular EBITDA target which both of us are gunning in terms of the synergy of, you know, I would say business as what we get.

And if at all, and there is a particular EBITDA target which we are targeting for FY28 And if it is proportional, assuming the situation is about $80 million in terms of EBITDA, if it is only $15 million, we'll get the proportionate amount. It is not all or nothing. Thanks for your questions, Jatin. We'll move on to the next participant asking a question. Our next participant asking a question will be from the line of Naman Saraf. Hi, Naman. You can go ahead and unmute your line and ask your question.

Hello, good afternoon. Now, you've made it clear that FY27 guidance will be more or less, you know, met at a reasonable level. And I also acknowledge that you're running a marathon, not a sprint. That being said, the margins which you outlined as FY27 guidance, Will those be kept, uh, you know, reasonably, if not exact? And the second part of this is, what will be the major choke points to achieve or not achieve those targets? Thank you. Can I get the first question right? I was not able to hear it properly.

I said the guidance of year ending '27, you mentioned earlier that The revenue will be more or less

met, but what about the other EBITDA and PAT margins which were outlined for the year end? Okay, EBITDA, uh, see, the revenue, uh, the EBITDA, we are trying to have the 3 components under control. COGS will be under our control, which will do. Cost of goods, more or less we are trying to improvise, so things should improve from Q1 and Q2. Employee cost is going to be either same or less. We are maintaining about 48 crores the next 2 quarters for employee cost, around 48, approximately 48 and 54 in that band.

It won't be increased, it is either going to be less or equal as before, so we are not adding to the employee cost. Other cost is reducing because we had a hike in the other costs, especially because we moved to the new facility from Devanahalli. Majority of our people moved, about 500 people, so their conveyance, canteen, and other things added to the other costs. That is also stabilized or going to be reduced. Just give an example, for transportation per employee, we had Rs 27,000 for Devanahalli in the last quarter.

Now it has been brought down to Rs 22,000. Saving about the few crores. So basically we are trying to work on the other cost. So other cost, employee cost, and COGS will be under control. What we don't have control is the transactional costs and legal costs and occurring costs and those kind of things. So we need to factor those things in. And regarding the- so that we don't see any major surprises in that, but also the ESOP cost ESOP cost. So that's an issue which we are trying to see how we can control the ESOP cost, because the number of shares issued, all these things are almost agreed upon with the people.

So how do we package it, and when is the vesting conditions, and this kind of things that will determine. So with this another variable which is not under our control, we are working hard to keep that. That will affect the EBITDA, and Regarding the fat, it's below the line EBITDA items, treasury cost and transactional cost, treasury cost and financial cost. We are very conscious now. Our new CFO Uttam is entrusted with keeping it under check and control. I think he should be with this experience, he should be able to do that.

We are fairly confident there is no unforeseen, but with What could go wrong? Supply chain delays are happening worldwide, and especially with the components, and it is happening in Zeta and defense. But we are trying to stock as much as possible, do it in advance. Sometimes we may have to pay a premium that if that will affect the COGS cost and the margin, but not to a great extent. So we have to give plus minus 2% because of that. That is one issue we are facing. And, uh, yeah, so that is the only thing that may affect, as I say, do you set any bottleneck?

That would be probably the supply chain is a bottleneck in electronics, especially strategic electronics in ZWC. Okay, so does it answer my- your question? From SME, according to your guidance The next 2 quarters need approximately Rs 500 crores of revenue with about 12% PAT. At the end of the day, is that achievable? Ah, I have not calculated the PAT. EBITDA I told you, so EBITDA point of view I'm very confident. Okay, PAT I've not taken because we don't know the cost, other cost we have not, because we moved into the new facility depreciation, all these things have to be calculated.

So interest cost, so I honestly have not done any major homework on that. But EBITDA, yes, we are working. Thanks, Dr. Srinath, and thanks for your questions. We'll take the last question from our next participant from the line of Karan Kubadia. Hi, Karan, you can go ahead and unmute your line and ask your question. Hi, Karan, would you like to unmute your line and ask your question? We'll move on to the next participant. We'll take the next follow-up question from the line of Abhijit Singh. Hi, Abhijit, you can go ahead and ask your follow-up question.

Thank you for the opportunity again. Sir, one question is on your guidance of revenue in H2. Can you- could you break that up into defense, aerospace, and CEDA? So you said about Rs 6 to Rs 7.2 billion revenue in H2. One, I want to know the breakup, sir, and the other thing is that this revenue that you are guiding for H2 is coming from the existing businesses and not from anything that you will acquire in the future. Is that correct assumption? Yeah, yeah, yeah, yeah, yeah, you are correct on this.

See, we are current order book based on the order book. I'm saying it's not a delivery, it is not even a guidance. Based on the current order book, we are aiming to do about Rs 270 crores in DRDO, Rs 120 in Q3 and Rs 150 in Q4. In MOD direct businesses, we are aiming to do about Rs 45 crores this quarter and about Rs 60 crores next quarter based on MOD business. And in the- this quarter is, uh, almost, uh, that's Q3, it's achievable 45. Next quarter, that is 30 plus 30, depends on the supply chain issues.

Okay, so give or take, there could be something. Zeta, we are aiming to close around 75 to 80 crores this quarter, 81 crores this quarter, could be anywhere, and probably 90 to 105 in the next quarter. And Aerospace, 51 crores this quarter and 75 next quarter. Aerospace will be more or less intact, there won't be a margin of error, not much. And Zeta, as I said, I give a band. This is our approximate thinking. So this Q3, if you look at it, our aim is about 300 plus minus 15- plus, not plus minus 15.

So 285 to 300 will be my band. And in Q4, it'll be around roughly around same, 3, maybe 375 to around 405 or something is the band. Does it explain to you, Abhijit? Dr. SRM, we can do a follow-up with Abhijit in a later setting. Just looking at the time, We'll be wrapping up this earnings call this evening now. A big thank you to all our participants for sharing their time with us and being part of the Axis Cadiz journey. Thank you to Dr. SRN and the management team. To all our participants, once again, please do share your follow-up questions with us in writing on the email ID on the last page of the investor deck, axiscadiz@dickinsonworld.com, and we'll ensure your questions are answered to your satisfaction.

So once again, thank you all for joining us today. And we can now disconnect our lines. Thank you very much. Thank you. Thank you. To all, to all the participants and all the investors and analysts and friends, thank you very much. Thank you. Cheers. Bye-bye.