



“AXISCADES Engineering Technologies Ltd Analysts Meet Conference Call”

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Moderator:

Welcome to the AXISCADES Engineering Technologies Analysts Meet. We have with us today, Mr. Sudhakar Gande – the Vice Chairman and Executive Director; Mr. Valmeeka Nathan – the CEO and Director; Mr. Kaushik Sarkar – the CFO; and Mr. Sharadhi Chandra Babu – the COO, Offset and Strategic Technology at AXISCADES Aerospace & Technologies. We start with a brief presentation from the management followed by Q&As. Before we begin, I would like to state that some of the statements in today’s discussion maybe forward-looking in nature and may involve certain risks and uncertainties. A detail statement in this regard is available on the Presentation that we sent to you. I now invite Mr. Gande to begin the proceedings of the Meet.

Sudhakar Gande:

Good Evening, Friends. First, I am extremely happy, thrilled and delighted to be here. This was personally a long journey for me. When we were building this company, I still remember 6-7-years back, it was a small company we had Tayana Software which had revenues of about US\$ 1 million and 35 people. So as an investment banker I was trying to sell that company. We could not find any good buyers. Somebody came with an idea asking why don’t you look at Engineering Services. That is how we started looking at the sector. He gave me reports on McKinsey, Booz Allen Hamilton., etc., I used to work in American Express long back. So, one of my colleagues sent me a note, saying, Sudhakar, what happened in software is going to happen in this space. Maybe in gap of 10-15-years. So I did my own quick analysis and I was not very convinced, honestly. We were still trying to sell that company. Still I could not find any buyers. Finally, we came across a company called Axis IT&T, somebody who is known to me personally bought the company and showed it to me saying that, look, “This is the company which is a vendor to Caterpillar, and they are involved for 21-years as a vendor.” So, that was the starting point. They were providing engineering services in heavy engineering segment. As you all know, Heavy Engineering, Aerospace, and Automotive are three-four segments which covers almost 80-90% of this market. So, I went through all these NASSCOM reports to McKinsey, to Booz, etc., then I felt okay, there is a strong need and I was convinced. That is how we bought the first company. That was a \$4 million company. Globally, it was a #12 for the vendors list of Caterpillar, out of 12. Four years fast forward, we made this company globally #1 among the vendors to Caterpillar consistently, for more than 12-months and a workforce of 70 became 700, a revenue of US\$4 million became almost US\$ 25 million+. The logic at that time I understood was if you are going along with the global player, the size of business maybe small for them, but the opportunity to expand is extremely high. So that was the model we looked at when we started working with Caterpillar. Then we acquired CADES. CADES was providing Engineering Services predominantly for Aerospace and to some extent Automotive. Same formula we had a European major aerospace company and a European Automotive company. So, all these enabled us to reach a level of what we are. This is one side of our business. That is what AXISCADES Engineering Technologies. Simultaneously, we are building the other business called AXISCADES Aerospace & Technologies. This is in a way complementary to this business. The first company, ACETL is focusing on purely engineering services play. The second company is focusing on system integration, electronics, avionics which is a natural integration for this business. If you look at any global majors, any global OEMS could be Aerospace or Defense or fighter aircrafts, etc., they always did all these three components – Component #1 is Design; Component #2 is Electronics, Avionics, System Integration which go into that; third is Manufacturing. So, these three together make these companies. Some of these companies are built over a period of 50-years, 100-years,. So, the second company also we build on the same lines along with two major global OEMs as a part of their overall

plan. It was personally very painstaking for me because almost three to four years we were struggling to get the first right customer. And interestingly one thing I am very proud of this country is we have a lot of talent in India. This nobody can deny. We have institutions like HAL, NAL, in Ministry of Defence, there are some real bright guys. So, in AXISCADES Aerospace and Technology, we got a bunch of people who have lot of experience in the army, navy, airforce. These are technical brains. So, these are the guys who placed orders for the large contracts. So they know how the whole system operates. So, I was very fortunate to put a team of few people together and it is not an easy thing to deal with the retired Air Marshal or Colonel or Brigadier. So, we have to deal with them nicely. Their passion for business is very-very high. So they helped us to build this company. In fact, I want to thank all of them. We started with about 45-50 people and then we went up to 75, then we had to knock-off some people, as we continued to make losses month-on-month and since we had an objective to meet. We had to rebuild the team and now again we have come to high levels and are now today at more than 100 plus employees in that business.

So the idea was that at some point in time to bring these businesses together, but they had to independently grow to a good level. So, now is the occasion to put these companies together. I will present to you few slides made by my team and afterwards I would like to talk on three-four specific examples of how the business is build in these company, then we can answer your questions that you may have.

The transaction involves AXISCADES Engineering Technologies, the listed entity to acquire AXISCADES Aerospace & Technologies. The Board has approved this acquisition and would be effected through a Scheme of Arrangement. Upon receipt of all approvals, ACATL will become a subsidiary of ACETL, that means the Defence and Aerospace business will become a wholly-owned subsidiary of the listed entity. Legally we are required to keep this company independent because there are lot of certifications and approvals,. The manufacturing license is a premium. We are one of the three-four companies who got the manufacturing license initially. So, there is a lot of hidden and intangible value. Hence the company has to be retained as a separate legal entity. The reason to make ACATL 100% subsidiary so that all our interests are aligned in one place. ACETL will fund this acquisition by issue of shares. The capital will increase by 10.57 million shares. The shareholders of IAT which is the holding company by ACATL, will receive 10 shares of ACETL for every 45 shares in ACATL. ACETL share is valued at about Rs. 286 which was implying a premium of 12%. The most interesting to all of you investors is this transaction is EPS-accretive to ACETL shareholders. That is our idea also to make sure it is good. If you look on a standalone basis, the earnings per share for ACETL is Rs. 7.28 per share. If you put them together it will become 8.77 per share. So, on day one, it is EPS-accretive to ACETL shareholders. Promoters holding will go to 70.56% against 59.12% and public will own 29.44% shares against 40.9%. Of course, all this is subject to regulatory approvals and all, if you are familiar with the approval process, we have to start with the stock exchanges, SEBI, then high courts, and other regulatory approvals. If everything goes as planned, our estimate is that the acquisition should be completed by Q1 of next year, before June. We will try to speed up the process.

What is the rationale for this acquisition? One is expanding the capabilities of the Engineering Services company, since the acquisition provides an entry into high growth areas of Aerospace and

Defense sector. Extend presence across products and services, helping the company in moving up the value chain. From Engineering Services you go to System Integration, Electronics, etc., so you are moving up the value chain. Second is Scale. The combined technical and technological capabilities in infrastructure of these two companies together will increase business opportunities. Of course, the financial strength of these two companies will also enable to bid for larger projects and invest in IPs. And it helps us to acquire some niche small specialized companies as part of overall strategy as well as increase the client base. I am very happy to tell you that ACETL has 12 marquee customers among a portfolio of 70 and this company has 4 absolute globally reputed OEMs as customers. So, when I put them together, it is 16 customers who are going to build this company to next level. When I am providing both these services to a customer, obviously, my relation with them will deepen. Even if they want to get rid of me, they cannot do so easily. And this also gives us opportunities for cross-selling products and services. This will result in increase to shareholder value. As I told you earlier, it is EPS accretive. EBITDA margins are set to improve post acquisition. It also will definitely involve in some good cost optimization in particularly with combined go-to-market strategy and optimal utilization of talent and infrastructure.

In a snapshot, I am just covering the shareholding pattern: The existing shares are 27.189 million, promoters 59.12% and public 40.88%. Post transaction, the expanded capital is 37.759 million, it is 3.77 crore, and promoters will have 70.56% and public will have 29.44%. This is a snapshot of the shareholding pattern pre and post transaction.

As I mentioned, this is subject to approvals of Stock Exchanges, SEBI, High Court, Registrar of Companies and shareholders approvals, both including majority and minority. I request all the shareholders to support us in this endeavor and make it 100% minority support. We will also require the consent of secured lenders, we have got only one bank, they are more than happy to give approval as soon as we make a request to them.

Transaction Governance: We have appointed PricewaterhouseCoopers as our transaction advisor. They have gone through everything. This has been unanimously approved by the non-conflicting, independent Board of directors of ACETL. As you are aware, we have a very eminent Board, consisting of our Chairman, Dr. Vivek Mansingh who is an ex-Cisco veteran and Mr. Srinath Batni – an independent director on the Board of Infosys and others. They have unanimously approved. They are very happy and excited about this whole development. Exchange ratio determined by joint valuation done by SSPA & Co., Chartered Accountants and Rajendra & Co., Chartered Accountants. Fairness Opinion is given by Fortress Capital Management, the merchant banker. Financial due diligence of ACATL is done by Pricewaterhouse. Legal due diligence of ACATL is done by Poovyya & Co.

If you look at these two companies, the first company, ACETL Consolidated (Engineering Services), these are all last year numbers, actual data of March 31st 2015. The total income was Rs. 3192 million and it has a PAT of Rs.198 million, EPS of Rs. 7.28 and EBITDA margin of 13.2%. So, in a nutshell, it has revenue of Rs.319 crores, PAT of Rs.19.8 crores and EBITDA margin of 13.2%. If you look at other company, ACATL (Aerospace and Defense) has a revenue of Rs. 2,106 million and PAT of Rs.133 million, EPS of Rs.16.9 and EBITDA margin of 16.2%. If you look at this business, the

EBITDA margins are higher. So, if you put the combined entity together, we will have revenue of Rs.5,298 million, that is Rs. 530 crore approximately and EPS of Rs. 8.77, EBITDA margin of 14.3%. So the EPS for the existing Rs.7.28 will increase to Rs.8.77 on last year published data, EBITDA margins of 13.2%, increases to 14.3%. I am also personally very proud this combined entity will have a revenue in excess of Rs. 500 crore, Rs.530 crore which is a benchmark number for technology companies.

On this slide of course there are a lot more details but just to summarize, the company which we are acquiring ACATL is a premium technology company, operating in Aerospace, Defense and Homeland Security This is primarily into the system integration, automated testing, systems and simulation and it has deep domain knowledge of complex sectors. As I said we few employees who have spent 20-30-years in government companies, in Defence, Aerospace, etc., they are extremely strong in those areas. What we have done strategically, we have senior guys coming from India Defense, India PSUs, etc. The junior guys are guys from IITs, RECs, good colleges. So the whole idea is to shape these youngsters with the domain expertise of the senior members. Today if I hire somebody from Indian Army who worked on signals, it is amazing, he has spent 30-years doing that, they have really good knowledge. I am very proud and happy to say this combination is working because we have a proven track record with the India Defense programs, for a couple of programs like CREW systems where there is international bidding, we won against everybody -- Americans, Israelis, including homegrown Bharat Electronics. Same thing happened in the next program ARTS (Aircraft Recognition Training Systems). In fact I will encourage some of you to visit our facilities in Bengaluru and see it yourself what they have created. In the process, as I said, we have got top notch marquee customers, global OEMs. The critical part of the business while implementing the programs we have is to make sure we are aligned on global standards, processes, audits, customers etc. We will not compromise anything. The outcome is if you do one program right and win their confidence, the second program is much easier. These are all global with revenues more than US\$4-5 billion, most of them are US\$10 billion plus. So once they accept you they make you a part of global supply chain. In our first program we had to work very-very hard to prove ourselves. But in the process we were accepted into their global supply chain. Initially we spent lot of time to crack in one of the companies which is a US\$15 billion company, I personally must have made 10 visits to Europe to meet the Board members saying that "If I am good in India why cannot you give a piece of this? He said, "No, you are just new, you are a 3-year-old company, a 4-year old company, etc.," But finally we cracked the deal. Now we just got a global supply chain order of \$2 million, it is not a very big deal, but the important thing it is for eternity. If I crack that I will get \$10-20 million whatever is the number for eternity because the company is there for the last 8-years and next 8-years it is going to run some form or other. So one beautiful part of this business is very high entry barrier, you have to work very hard to win the confidence. But once you win the confidence, you are the automatic choice for India program because nobody has time to go through again months and years of reviews, etc., second is you can be a part of global supply chain which provides business continuity. And we are also as a company certified by CMMI, DGQA, etc., and when Ministry of Defense came for manufacturing review, etc., I am very proud to say out of some few dozens, they put us among the top-3, I do not know the exact ranking, and they were very proud to say we have among the best facilities. Lot of work has gone to build this. As I said our management is very strong, we have some really good senior members who have 100 years plus of cumulative experience. Today,

we are very happy to say we are recognized as a good company. To the extent I can tell you when Defense Secretary went to Hannover Fair in Germany, there were questions about India Defense and the private companies, etc., I was very happy when two people called me and told me, he mentioned that India is now building good capability in this area, we have companies like Tatas, Mahindras, L&T and he also mentioned AXISCADES as one of the names. I am very proud that he mentioned the name. And Pricewaterhouse has carried a report from last year show where they have mentioned a few success stories in this sector, they picked up our company as one of the companies. One of the guys I know he called me that I want a small quote from you, I did not know what it was. He was saying everything is negative. I said it is not so negative, there are lots of positives because we built company from this to this. I was told later they carried a story about us.

In a nutshell, what is the business opportunity? We can keep talking for hours together. But, as I said, there are three pieces this business has -- one is you work with global OEMs as a technology solution partner, it could be in India offset program, and it could be some other different program where you are contributing as part of their large program. For example, one of the global OEMs who worked in India now, they asked us whether we can work with them in Burma. I said why not? For us it is the same, what I can do in India, why not in Burma? Because he understood our whole system is comfortable, it may happen that we might just work along with him in Burma. Second part is, being involved in their global supply chain. If I win the confidence and if I do it right, I can be part of global supply chain, in which case it is continuous business since the product has longer lifecycle. Third is Pure India Defense Programs. That means it need not be an offset partner, it need not be any part of OEMs, for example, the program what we termed as CREW, Class Room Electronic Warfare Systems, we directly bid with Indian Air Force. We compete with some of our partners in this program. Indian MoD encourage such competition and they want some Indian companies to come up. So this can run into any numbers billions of dollars, but only thing I want to leave a piece of information with all of you, these are all large opportunities. And second thing, I extensively deal with the global OEMs. One thing I can tell you, today, India is placing the maximum number of orders in the Defense and Aerospace. All these companies need India as much as we need them. And as a part of that Government of India has done a good job by implementing make in India or offset, making sure you work with them. So at the macro level, all the global OEMs have to come to India because no other country can place orders expect China, but China manufactures 50% of their own products. Make in India and Offsets throws up opportunities for companies like us. That was the point I want to bring your notice. So we are one of the well suited companies for Make India programs.

One of the questions, how are we uniquely positioned to tap this opportunity. Over the last few years, we have built a strong brand. Today, I am very proud to say AXISCADES does not need any introduction. There was a time I struggle to meet Vice President of a company, I remembered once one Vice President told me to come at 11 o'clock to Shangri La in Delhi, I was hanging around 11 o'clock to meet the gentleman. Three years fast forward I was having a dinner with the Vice Chairman of the company and he was escorting me. Sometimes we have to work hard to win the confidence. So, today I can say with pride we have built a good name, and we have built good relationships. Another important thing I want to leave with you is, if I have one good customer, he is my benchmark for other customer. I may take very long time to build first one, but second one comes much faster.

Next is entry barriers. This is a difficult business, it takes little time, but if we can go through this process, it is lot more easy to handle, though not everybody would like to get into this because the risks are very high, rewards also very high, investments also very high and requires all kind of certifications, from OEM's and MOD.

We are also trying to build the ecosystem. I will give one example on ecosystem substantiating our position to capitalize on Make in India initiative.

Manufacturing -- Ecosystem: This is one example I want to leave with everybody here. We were working with one global OEM US\$15 billion company for a India program. Our project was to build a test bench for an aircraft missile. Test bench is a very important thing which will say everything about the missile, if its working fine. If I put a test bench I will exactly know whether the missile can align to the aircraft or not, etc., So we were asked to work on this as a part of an offshore assignment. Babu sitting here, painfully worked on this and it was a very large contract; US\$100 million contract, obviously, the returns are very good and I will tell you one thing, 72 companies we looked at, we have selected 18 companies to partner with us, out of which 6 are Tier-1, 12 are Tier-2. This whole process took 18-months. In the process what I came to know we have 72 companies in India which are relevant and available to me.

In places like Bangalore, Hyderabad, etc., there are a lot of good scientists, brainy engineers from Hindustan Aeronautics, National Aeronautics, DRDO, Bharat Electronics, a lot of professionals after working on 10 to 20 years, move on their own to set up this facility. But unfortunately, real life is different. So they get stuck after building a US\$5-10 million company for variety of reasons, not many of them can scale up, some of them do scale up. We did a research, there are more than 300 companies who are there in the country, who have all done a lot of work to reach the mile stone. So the model we cracked is I do not need to have 2,000 employees, if I can identify 10 companies which has 100 employees each, I can collaborate with those companies. That is what we have done here. In this transportable test benches, we had 18 companies work with us, out of each 6 are Tier-1 and 12 are Tier-2. Some of them are as old as 30 years, but fortunately/unfortunately, some of them need some financial support, we supported them, but at the end of the day I am very proud to say when we build the first product, it was approved by the Customer Head Office. We supply the product to Indian entity, Indian entity sends it to Europe, from Europe it delivered to Indian Air Force, normally it takes four to six working days, our product was cleared in one day. Personally, there is a lot of pride to us, but there is lot of work that has gone in. Initially, we had to go through hell, answering all the questions and getting beaten up at some of these meetings. But the best part is, winning the second and third program with the same customer was a lot easier because without too much of discussion I have signed two more agreements with them for close to US\$100 million. Because I won with this customer, other clients became easy.

Just to summarize: All these 10 companies have to align with the standards of the global OEM. They are not going to make any compromise on quality, on the process, on the audits, etc., Since we have done for our own company, we have some knowledge in that process, we have worked together. As I

say India is a great country, we have a lot of good companies, 300 companies, some of these companies can be 100% scaled up to global standards, at least they can use as a part of the system which I am very keen to work on. Because we have done this, we have spent a year, going through 72 companies, presentations, processes everything before selecting those 18. So, today we know we can work on this.

Synergies: Between these two companies – ACETL and ACATL I call them. One is the domain and competence. In Engineering Services we are predominantly into mechanical. That is our forte our area of strength. In ACETL, we are in system integration. So together Mechanical and System Integration will be the combined entities in domain and competence.

Client Portfolio: We have about 60 customers in Engineering Services. Out of which, 8 are marquee customers. ACATL have 4 very key clients. Account mining potential you can imagine because one thing is very-very important is you are much more relevant to them if you are in two lines of business rather than in one line of business. And that is where we are aiming at and you become more sticky.

Third is an offering maturity. If you look at Engineering Services, it's more of staffing and projects whereas ACETL is predominantly projects and IP-driven solutions. So you put them together, it is the right mix of agility and a flexible workforce.

This is a very important slide I want to share with you. This is based on a lot of discussions we had. Let us take an example of an aircraft; first 10% to 15% is spend on designing the aircraft, there will be some 1000s of people working on it, somebody works on nose, somebody works on wings, somebody works on cockpits, somebody works on fuselage somebody works on something else. So design normally costs about 10% to 15%, it could be a little bit here and there. Then there is System Integration. All entire avionics, electronics, your video systems, your connectivity all that comes to about 30% to 40% and manufacturing that actual manufacturing you do that, fuselage wings actual manufacturing takes place, that is about 50% to 60%. So for us the first company ACTEL already we are in Design space. The second company is in System Integration broadly. So if I put together in the value chain we are coming one more level now. So our addressable market is almost in a very simplified way is almost 3x. Since both these companies already worked on global OEMs on various programs and also part of global supply chain, so a combined entity is far more relevant to be part of global supply chain, part of winning contracts and also part of developing ecosystem manufacturing locally. Of course, combined financials in both of these companies will enable us to capitalize on emerging opportunities and the combined entities net worth is about Rs.250 crore which is very strong for a technology company and that will enable us to bid for any project and that also positions us uniquely to partner in the Make in India program initiative across clients. Just only two or three points I want to leave with you is that winning the first customer and satisfying them is the most difficult thing. In the case of one global OEM it took us 3.5 years to win the confidence. The second customer came for the same product and was an equally reputed global multi-billion dollar company. We closed in 1-year vis-à-vis 2.5-3-years earlier because we spoke to the gentleman who worked on us and he had his own assessment; the first guy did about 10 trips to assess us, the second guy did about 3 trips to assess us, but he signed in less than 1-year. So that journey has been completed we are a lot more confident of getting the subsequent customers. Second important point I want to leave with you is sometimes customers have requests like one of the huge global \$50 billion company did which was to acquire one entity in India which is relevant to them,

And he told me, "Look, Sudhakar, it is dealing with 2 partners in European company which is very difficult". So I put my guy Srinivas, a very smart guy, on the project and behind those two Europeans, so finally closed the deal, he took 6-months. I became credible because he told me we acquired. It is important for that company. So one of the uniform messages to all my global customers we always say if you want us to acquire niche players in India, tell me I will acquire. You want to acquire jointly, we will acquire. If you do not want to put the money I should put the money, I am willing to do first. But, just promise me that you'll work with me. Because only then I can be relevant to in their system, on doing something relevant to them in their perception and my perception. As a company also I am very proud to say two global CEOs of global OEM who are \$40 billion and \$15 billion visited our facility which was unheard of 3-years back. Last year both of them came, they were very-very happy to see what we have created. So it has taken a very-very long time. And in our management model also we have understood one thing -- you need to effectively use local guys in their markets; our UK entity is run by a British guy, our key guys in our France entity is a French guy, in Germany it is a German guy; of course we have some control system, but you have to trust them, you have to put them because if a guy is sitting in that market he knows that better than you, you have to only absorb from him keep the risk in your hands, the money signing agreements, contracts are done here, any risk of the company whether insurance or delay whatever risk it comes to my office for review, but the rest is fine, rest they can do. So this also helped us in terms of understanding the market. Today I can tell you Make in India is going to be important part, there could be some pessimism here and there but I can tell you it is a direction set, it may take 2-years, but I am very proud to say 12 of our customers are going to be important part of that Make in India and we will be part of that. Out of 12, 3 guys become, 4 guys become I do not know, but all of them are important, some of them have to win and we will be part of this journey and we want to be a technology solution provider with them for this entire program. So their engineering services helps me, system integration helps me and tomorrow if I can acquire more companies, that helps us. Strategically also we firmly believe in two things -- you should have a strong organic growth; we acquired Axis IT&T, 21-year-old company, \$4 million revenue after 21-years; after 4-years it is \$25 million. That means it has organic growth. Same thing CADES we acquired, it was a 11-year old company, it was doing about \$7-8 million, after 3-years it is doing about \$20 million plus. So we believe strong organic growth. Second, acquisitions to put them together; we have acquired Axis IT&T, we acquired CADES, in ACATL we acquired Raaga, we have acquired India operations of a French company called Studec. So we continue to do acquisitions, so we have a two way clear path in terms of strong organic growth and also strong M&A where I will be personally spending some time because I see there is a huge opportunity now in this phase, so we have to move very fast. Thank you very much. If any specific questions we would love to answer.

Moderator: Thank you Mr. Gande. We will now begin the Q&A Session. I request you to state your name and the organization that you represent before asking question.

Amar Mourya: This is Amar here from India Nivesh. I have a question primarily on the overall vision of the company. Given that we had extended our line from Engineering Designing to Defense, so if I see from here and if I take a 5-year timeframe, what is our overall vision for the company – where are the investments going to be? Because I see the market is of good size. We had reached the level where we had passed that transition phase and I believe now we can accelerate that growth and capitalize on our work done in both the segments.

Sudhakar Gande: . If I look at 5-years from now definitely this should be a technology solution company Defense, Aerospace and Homeland Security, which is going to be very another big area. So we should be a relevant company as a technology solutions provider, working with both global and domestic companies. That means we have to have a strong presence and we will be there. On the revenue side, okay, we are now doing about Rs.530 crore. I would not be surprised in next 5-years, my CFO may not agree, but the revenue trajectory could grow 3 to 3.5x from here. That is the way I look at it in next 5-years give and take a little bit here and there.

Amar Mourya: When we talk about Make in India, by when we can see the visible revenue coming from Make in India to AXISCADES and what weightage of revenue do we give to Make in India for AXISCADES?

Sudhakar Gande: I am also the Chairman of FICCI Committee on Aerospace India Defense. I interact a lot with the government on some of these initiatives. Make in India is going to be a reality, okay, because India as a country placing orders for more than \$100 billion whether a Fighter Aircraft or a Submarine or a Tank or a Gun, it is all reality, they have to place order because everything is outdated. When you are placing the order they will make sure part of it is done in India, whether you call it offset or 100%. In fact, the government strategy is very clear -- first choice is Make in India, that means a global supplier has to work with an Indian entity, whoever it is. If that is not possible, they will give the order to him, but a part of that should be done in India. So the way you look at it is a matter of time next 2 to 3-years it will start but then it is going to be a long-drawn process. As far the AXISCADES is concerned that is an icing on the cake for me. Our business continue to be on the basis of OEMs, on the basis of global supply chain, on the basis of India Defense. The way to look at it is may be two years from now, but I can see the trend already, For example, I cannot give a customer name, he is one of the top most submarine manufacturers in the world. We have now set up a team to work for what we call a deck, it is a ship where you can have helicopters coming in and going out, the design part of that. Babu is working on it, we are putting a team together, about 70 people to work for the next three years on that, because they are anticipating the government is definitely going to give it to some Indian company or a joint venture. It starts already I can see the fruits of that.

Ketan Gandhi: I am Ketan Gandhi from Gandhi Securities. My understanding is that EADS has stake in Indian Aero Ventures, and after this merger they will become the shareholder of this company. Can you elaborate?

Sudhakar Gande: EADS has stake of about 18% in India Aero Ventures. We did that to build ecosystem in the country at one point of time. They will not become direct shareholders of the company. IAV in the merged entity will own about 16%, out of which Airbus Group or EADS will own about 3%.

Ketan Gandhi: Any role will be played by them because since they had equity partnership in Indian Aero Ventures, can we see future roles in this company?

Sudhakar Gande: What happens here is there would not be any direct future role but we can always use that, for example, we are trying to bid for a project with a company in Augsburg, one of the subsidiaries of Airbus. They weren't seeing us until one of the guys mentioned the equity association. In those countries, equity is a big thing unlike in India. Immediately, they requested us to come in for

discussions. Then it translated into business. So I would not say anyway directly no, directly I do not know, but not in the near future.

Sanket: I am Sanket from Dolat Capital. My question is regarding the Defense licenses. Are there any product specific licenses which are required in designing segments of Defence products?

Sudhakar Gande: What happens is in the case of Defence, they will give a manufacturing license to you. That means any product required by Defence, you are permitted to manufacture at a macro level. Then specific things again they will ask you, specific variations could be there, but primarily there is nothing like giving a license to do a part. Either you are manufacturing the Defence product, yes or no. Only that. There are a lot of hidden value in this. When I said only 4-5 companies have got this, a lot of other companies are trying, but it is a very-very painful exercise. You have IB clearances, you have Ministry of Home Affairs and one fine morning you find brigadiers walking into your office to check this, that etc. So since we have similar people in our office, they talk to each other, so life is easy for us.

Sanket: Can we get some idea regarding the order book in Defense segment?

Sudhakar Gande: That information I cannot say, but it is good, I can only say pipeline is strong but I cannot say any number.

Faisal Hawa: This is Faisal Hawa from H G Hawa & Co. I have a question for Valmeeka Nathan. How is the new NASSCOM report which has come in May on the Engineering Design Services, does it actually really give a roadmap of how the sector could really pan out. Because so far we have had companies like Infotech or even Geomatrix which have hardly even reached Rs.500-600 crore revenue even after being in business for more than 20 years. Do you think there is an inflection point coming on to the Engineering Design Services now? Rest of my questions are for Mr. Gande. Since you are also on the FICCI Committee for Defense offset, etc., do you feel that with most of these programs which are happening, is there any on-ground movement or is there any urgency from the government because I think of late people losing their patience with the government. Are you seeing some on-ground traction as far as these Defense orders are concerned or is it just another program? Third question is who is the major competition that we are facing from the Ministry of Defense? And with the new licenses almost now very easy to get and the bureaucratic influence is less, do you feel that the competition will be increased with the larger base also? Fourth question is we have some space next to the Bangalore Airport which I believe is around 20-22 acres. With now Bangalore really emerging as the hub for Aerospace Manufacturing, do you feel that could be of any use to our company from here on?

Sudhakar Gande: I will answer your questions in the reverse order. The place we have is right next to the international airport. The whole idea is we want to do very high end precision products relevant to Aerospace and Defense sector. We are in the process of engaging a European consultant who has done similar parts. For example, we have a reference point in Tunisia where there is a very good park. So somebody is involved and we are trying to get him to design this for us. This will take a little time but it is doable because at the end of the day all the Tier-1 suppliers of these

large OEMs, also require a manufacturing base in India. We have to only work hard and struggle to get the first anchor customer in that Aerospace park. Once I get the first one, the second and third will be relatively easy. But to answer your question, yes we are looking at it and it is a very high possibility it will be happening in the near future. Second, as far as the Defence orders, etc., is concerned, there are 2-3 strategic decisions government has taken. Earlier what the government used to do is, even with maintenance orders, such as a modification of a tank or repair of a tank, etc., they would give the order only to Defence PSUs, i.e., HAL, Bharat Dynamics, Electronics, ECIL, etc. Now they are slowly getting away from that paradigm saying that because HAL takes the order, gives it to someone like Taneja Aerospace, for example, the government is questioning why give HAL the order when it is outsourcing. They might as well give it to an Indian company. So they are modifying that process. Some of the orders, for example, Jaguar Fighter Aircraft orders have been removed from Hindustan Aeronautics I was told and given to private parties. So that is one interesting development. Second is they may be slow but the point is as I said India continues to be a very important market, nobody can ignore this market. It is a matter of time for these orders to be in place and it is matter of time before some of us reap the benefits.

On the first question of Engineering Services, the information what you said is not right, Cyient turnover is Rs.2,200 crore.

Faisal Hawa: But that includes other businesses which are not Engineering Design which is hardly Rs.800-900 crore.

Sudhakar Gande: 30% to GSI, that is Rs.2200 crores minus 30% which is about Rs.600 crores, Rs.1500 crore is from Engineering Services.

Faisal: They have one more division also, I am forgetting the...

Sudhakar Gande: Geometric turnover is already \$180 million.

Faisal Hawa: 20 years in existence.

Sudhakar Gande: Today, it is not Rs. 500 crore. What I am trying to say is it is bigger now; it is Rs. 4000 crore plus. About the view of the industry NASSCOM Report, Valmeeka Nathan will answer the question.

Valmeeka Nathan: NASSCOM first tracks the spend and consumption of Indian service providers both at the captive as well as third-party service. There has been a significant growth in the last 2-3 years, but the growth has happened in the captive or what we call Global Innovation Centers. The OEM themselves have set up their own centers. Actually if you scratch the details it comes out that the expectation from the OEMs are increasing in the way the work needs to be done. They are looking for not just Services but going beyond, how you support the product or are you able to take ownership of our products and systems. So that is where the global innovation set up because of their own internal competence and capability, they are able to grow significantly more than the third-party service providers. So third-party service providers are expected to transform themselves from pure services which is largely "Tell me what to do, I will do it", to "What do

you need, I will be able to manage it and deliver it.” That is where this integration becomes all the more critical because from an Engineering point of view you are able to stand up and deliver sub-system or a system or even integrated manufacturing delivery. There are a lot of indications of OEMs looking to go beyond the Engineering services providers. It used to be 60% third-party service provider and 30-35% OEM captive but it has kind of reversed in last report and if things do not change this skew will continue but given the Make in India initiatives and quite a number of companies looking at acquiring beyond services some amount of manufacturing and some amount of system integration along with a prototyping capability. This paradigm actually starts shifting. We are well positioned compared to pure play Engineering Services companies. This is going to shift and Engineering will not be pure offshoring, it is about delivering value, it is about delivering systems, subsystems and innovation. I believe that as we become larger consumers going forward in the next 10 to 15 years, our ability to influence the Engineering and innovatively influence engineering is huge and we have to get ready for it.

Sudhakar Gande:

Just to add two interesting trends emerging in Engineering Services based on a lot of discussions. In the past the ticket size of Engineering orders were small. I was interviewing one guy in US who was telling me that 10 years back, 8 years back, 5 years back even if you got an order of \$1 million, it was a big thing. Now he says, “Sir I can see the orders for \$5-10 million.” So the one good trend is that the ticket size is increasing. Second, more and more companies see Engineering Services like the heart of manufacturing, nobody parts with this easily. But today they are forced to part to some extent because of the cost pressures. Still they keep the absolute core with them, but the next layer can be given. Unlike software industry, what happens in software anybody can do; tomorrow I drop \$2 in my pricing here, I can win against company X simply with a transition period of three months, but Engineering Services is not like that. Once you are inside, it is very difficult to take you out. And as you increase involvement, it becomes impossible. That is one good part of this business, the ticket size is increasing, more and more outsourcing is happening which is good for this overall sector because India continue to be a country with two huge advantages on Engineering Services -- one is the cost continues to be lower than the Western world; second, our ability to scale up is extremely good. You may have Romania, or Croatia, or Cyprus, lot of countries will emerge as competition to India. Tomorrow, you want 5,000 aerospace engineers, this country can give design engineers of a caliber that no other country can give. So scaling up is another important thing in India.

Jaideep Sampat:

This is Jaideep Sampat. As you said, the ticket size in Engineering Design size is increasing, what about the margins -- is it just the business that is coming is about lower labor cost and arbitrage or is it because of the innovation and some IPs you have? You said that the turnover you are looking in five years to be 3x. What about the margins also that you are looking for?

Sudhakar Gande:

At the end of the day, the piece of engineering we are doing is still small compared to global standards, it is a very small percentage. Just to give an example; take top five Engineering Service providers in Europe, Assystem, Altran, Althon, Akka Technologies, all of them have 10,000-20,000 engineers with billing of \$1-1.2 billion, nobody is bigger than \$1.5 billion but most of them are around that range. And what is the average rate? EUR 60-70. Back home here even if I hire a European I would have to pay that price. If I send a smartest Indian guy to go there he will

still do EUR 35. If I do this back home here I will do it in \$20. If I put a slightly lower level but a brighter guy I may be able to do it for \$15. So that will continue to be there, because those guys are not going to change their life standards for their sake or our sake. So, we will continue to have margin and my personal view is that we will continue to have a good margin somewhere between 18 to 20% for the next few years.

Jaideep Sampat: As a consolidated entity?

Sudhakar Gande: I am talking about the industry, I am not talking about the company. That company we will talk separately.

Kaushik Sarkar: I want to add to what Mr. Gande has said. There are lot of levers we can play around in the Engineering sector whether it is about role ratio, utilization, offshore mix or improvement of the facilities - I meant space efficiency or redeployment of the licenses etc We are optimistic on the same and quarter-over-quarter we have seen an improvement in margins and we will continue to do that.

Ishan Agarwal This is Ishan Agarwal from Erevna Capital. The consolidated entity is into two segments, one is systems integration and the other is designing. From your point of view and your current order book which segment do you see growing at a faster pace for the next five years?

Sudhakar Gande: Both will continue to grow well, I cannot give exact numbers but I can tell you both have a good order book and good growth plans.

Ishan Agarwal I am asking you this question because there is a margin differential in the business. Do you say that both the companies will grow at a similar rate or do you expect one company to grow at a higher rate?

Sudhakar Gande: That is going into too many specifics. I would love to answer but I cannot.

Ishan Agarwal The Make in India program which we are talking about, the expectations have been mellowed down if you see as compared to last year as to the implementation time line of the same. Do you see the program being implemented as per projections for the next two years or do you see further mellowing down of expectations on this?

Sudhakar Gande: My stand is very clear on this. As long as you have Pakistan on one side and China on the other side you have a threat. Second, a lot of European companies who are in this line of business, as well as the American companies, have come to this country for orders. Nobody is going to place 36 Rafael orders in one meeting. It took UAE 6 years and Egypt almost 8 years to place orders for 24+16 Rafael aircraft. It is one of the most advanced aircrafts in this world. The French Air Force the only client they have till now. They have a guaranteed offtake of one aircraft per month and French government is trying to get rid of that obligation. They got Egypt who have now placed 24, they got UAE with 16, and now India with 36. India is still a question mark because you have offset obligations, price, etc. which are still issues, but they can be sorted out. At the end of the day this country is going to have these Defence-related procurements for a long time

to come and we have to build that expertise and the model is right. You take the first part to learn from the vendor, and then over a period of time you will be ready to export to countries like Africa, Colombia, etc. There could be some delays here and there, but strategically it is not going to change much. Nobody is going to place the order. They have to come here.

Sharadhi Babu:

I would like to just add one point here with respect to the Make in India program. As you could see in the recent times, namely in the past six months or so, we have seen many RFPs which have been converted from global buy or buy to Make in India. So RFPs are still in the transition phase. In fact, recently, when they defined the RFP for manufacturing of RSHR Helicopters in India, the project being in the very nascent stage, there were so many questions. In general, the fact is that there are questions from the Indian partners and the global OEMs that still need to be addressed to clear up the ambiguity around the program which is frankly emblematic of the inception stage. They need to define the overall scope of Make in India, what exactly they want to obtain from the OEM and what is exactly possible in the Indian context. So it will take time and we need to be a little patient and wait for the results to come in. As Mr. Gande mentioned, it may take about two to three years' time to really stabilize and start earning out of it.

Sudhakar Gande:

One factual information I can give to you is the number of OEMs coming and meeting us to sign an MOU, sign this, sign that, no obligation, no commitment, binding, non-binding etc. The number of people visiting our facilities are far higher, and I can see the trend clearly. Number of people willing to sign with us is on a rapid uptick because today everybody would like to deal with a mid size company, nobody wants very big partners because of the power balance and partnership complexities. They don't want very small companies either because of the higher inherent risk. Mid-size companies are the ones they want and today luckily we have created a very good platform with a good size, which has attracted a lot of people who are interested in working with us. Thank you.

Moderator

That was the last question. Thank you everyone once again for your participation.