



AXISCADES Engineering Technologies

Conference Call Transcript

August 12, 2016

Moderator Good Day, Ladies and Gentlemen and Welcome to AXISCADES Engineering Technologies Q1FY17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Varun Divadkar from CDR India. Thank you and over to you, sir.

Varun Divadkar Thanks, Malika. Good afternoon, everyone, and thank you for joining us on AXISCADES Engineering Technologies Q1 FY17 Earnings Conference Call. We have with us today Mr. Sudhakar Gande – Vice Chairman and Mr. Kaushik Sarkar – CFO.

Before we begin, I would like to state that some statements made in today's discussions maybe forward looking in nature and may involve certain risks and uncertainties. A detailed statement in this regard is available on the Q1 FY17 Results Presentation that has been sent to you earlier. This conference call will be archived and the transcript will be made available on AXISCADES' corporate website www.axiscades.com.

I now request Mr. Sudhakar Gande to begin the proceedings of this call.

Sudhakar Gande Good Afternoon, everyone. Thank you for joining this conference call. I hope you have gone through the results presentation shared earlier, which provides details of our operation and financial performance.

Before going in to details, I just want to mention, our CEO – Valmeeka Nathan is currently in US pursuing certain business opportunities, and hence he could not join the call.

We have started the year on a steady note with our revenue growing 15% year-on-year to Rs. 992 million in Q1 FY17. In dollar terms, the net revenue grew 8.7% year-on-year to US\$ 14.7 million. Our deal pipeline continues to improve. We added two new clients during the quarter, one in Aerospace vertical and the other in Automotive vertical.

The key highlight during the quarter was a renewal of a dedicated offshore development center with a major European aerospace OEM. The most encouraging part of this was that the contract was renewed against stiff competition from Indian



and European suppliers. And secondly, we have succeeded in expanding the scope of the contract across the platforms and aircraft structures. We are focused on expanding to higher value-added offerings from design to product succession and offering aftermarket support areas. This emphasizes our commitment to innovation and staying in the path of relevance of our customers and driving greater value for them.

As we have communicated earlier, we are focused on creating differentiation through new competencies and solution offerings to the customers, catering to problem in all dimensions of engineering services, in the verticals we are present. We are making significant investments to enter into new areas of work, to propel our growth, which led to increase in sub-contracting costs during the quarter. We will continue to evolve this partnership model to drive future growth, by providing better quality delivery experience due to mature process implementation.

We continue to strengthen our sales as well as technical leadership. The quarter saw an addition of senior industry technical head that will help us strengthen our embedded and electronic solution offering and drive growth across verticals. We have also made significant investment in sales and delivery leadership for new business and expanded our operations in Germany with the opening of a new delivery center to tap the large opportunities there.

To conclude, we are committed towards building a strong franchise with sustainable and profitable growth. We recognize the need to make sustained investments in the business for domain expansion and build competencies. We continue to scout for organic and inorganic growth opportunities in areas like medical devices, embedded electronics, high technology, product lifecycle management to expand our solution offerings. We are looking forward to closing the transaction with AXISCADES Aerospace and Technology shortly that will open a new opportunity for us and we feel very excited about it. According to one of the latest industry reports, the total market for aerospace and defense electronics in India ranges from US\$ 70-72 billion over the next 10-12 years. There is a huge opportunity and we are well-positioned to capitalize on it.

With this, I would like to hand over to our CFO Mr. Kaushik Sarkar who will take you through the financial performance of the quarter.

Kaushik Sarkar

Thank you, Mr. Gande. Good afternoon, everybody. I will like to take you through the financial performance for the quarter ended 30th June, 2016.

Starting with Slide #6, net revenue increased over 15% year-over-year and 0.3% sequentially to Rs. 992 million. EBITDA for Q1 FY17 stood at Rs. 100 million as compared to Rs. 143 million in Q4 FY16, and Rs. 129 million in Q1 FY16. As Mr. Gande explained, this was led by our investment in acquiring competencies that will enable us to widen our solution offerings. Project consultancy cost were up 43% quarter-on-quarter, a significant portion of this cost are towards acquiring competencies which we expect to yield results or benefit over a period of time. These costs incurred are imperatives to our business because of, A) enables us to prepare for scope expansion and increase our addressable spend area in customer allocation; B) create differentiation to satisfy high quality customer; and C) enable us to transition to offshore model over a period of time. We further continued to make significant investment in sales and delivery leadership during the quarter.

Let me quickly take you through slide seven of the presentation. We are targeting new areas to help sustain the revenue momentum, and hence continuing to invest in sales, delivery and in practice. Gross margin for the business was 31.4% for Q1

FY17 as against 35.3% in Q4 FY16, and 35% in Q1 FY16. EBITDA margin stood at 10.1% as against 14.5% reported in Q4 2016 and 15% in Q1 2016. Our sales expenses for the quarter were maintained at around 6.8% of revenue quarter-on-quarter as compared to 6% of revenue in Q1 FY16. G&A expenses for the quarter stood at 14.5% vis-à-vis 14% in Q4 FY16 and Q1 FY17. EPS for Q1 FY17 stood at Rs. 1.69.

Let me now move to slide eight, which provides details of our balance sheet. The balance sheet continues to remain robust with cash balance of Rs. 307 million at the end of the quarter.

Slide #9 provides an update of various industry segments that we are present. Over the last one year we have seen good growth across most of the verticals. Aerospace, our largest segment contributed around 51.4% of our revenue in Q1 2017 while Heavy Engineering accounted for 37.4% of our revenues in the same quarter.

To conclude, we have started the year on a steady note. We are putting in place a best-in-class processes and systems to build predictability in the organization, increase the quality of revenue and build new competencies to drive growth above industry.

On this note, I once again thank you for your participation. And now request the moderator to open up for questions.

Moderator

Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Sameer Desai from Finco Capital. Please go ahead.

Sameer Desai

Sir, I have two questions, within project consulting charges what you have incurred during the quarter and you have mentioned that this is for future growth of the Company, so why all these expenses been write-off in current year quarter only, it should be amortizing coming years, right?

And second question regarding employees, the employee cost has been increased by almost over 16% year-on-year, so I just want to get the guidance that these are the new employees for any new project or can you through some light on that.

Kaushik Sarkar

Two things, one is, let's start with employee cost. So, one of the first reason for the increase of employee cost is because we have hired some senior people. The second reason is, in Q4 we had a Rs. 2 crore employee cost reversals which was not in Q1 FY17.. We have also added around 82 employees between Q4 FY16 and Q1 FY17, the revenue of which comes later.

And we have explained about the project consultancy cost, these expenses are incurred to gain expertise experience in the initial period. We have not capitalize this cost, we have done some conservative accounting and we have booked these costs.

Sameer Desai

And last one, what will be the total order book for the Company in next two years, can you give any guidance?

Sudhakar Gande

See, we cannot give the guidance part of it, but I will only tell you that we will continue to grow over and above the industry, I am not saying quarter-wise, but on a yearly basis. That is our plan and we have detailed analysis for that, and our growth will be higher than the industry.

Sameer Desai

Growth, means percentage-wise can you give anything?

Sudhakar Gande See, the industry is consecutively clocking around 10-12%, if you look at our various reports almost about 8-10% to about 10-12%, approximately you take that is the number. Our growth will be higher than that growth that is our entire plan.

Sameer Desai Revenue growth?

Sudhakar Gande Yes.

Sameer Desai Sir, when is the AGM conducted this year, tentative date can you share with us?

Sudhakar Gande 26th of September in Bangalore, you are most welcome to come for the AGM. Notices will go in a day or two.

Moderator Thank you. We have the next question from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani Sir, if you can explain our dollar growth was almost flat on a QoQ basis, so what is the growth in constant currency terms? And how do you explain the lower rate of growth in this quarter vis-à-vis your typical growth? And you would expect for a company to grow at, say, (+12%), you would expect 3-4% growth in dollar terms.

Sudhakar Gande See, on a revenue side this was a flat quarter, but you have to take into account one of our major Heavy Engineering customer, a global customer of ours, has revised its revenue forecast downwards twice in last few months.. So that has impacted growth which would have come to us that did not come through, but we are one of the few companies which were affected least. So you have to take that into account that there was a loss of opportunity income there.

Amish Kanani But sir if I see the slide number nine where there is a breakup, the Heavy Engineering portion is not kind of gone lower vis-à-vis our revenue from 37% it has gone up to 37.4%, whereas actually our Automotive and Industrial Products division has, kind of, shown a dip from 7.5% to 6.4%, and also APAC region which is down. So, I could guess that it must be some Automotive and Industrial Product company?

Sudhakar Gande No, Automotive and Industrial growth will be less but the base is much smaller. The issue is, when we did our planning we were expecting a far higher growth from Heavy Engineering and Aerospace. Aerospace is on track. Heavy Engineering, because of this customer issues there was a bit of a dip from our expectation.

Amish Kanani And sir, how much of the project consultancy charge is recurring and how much is probably one-time which may not recur in the next few quarters?

Sudhakar Gande See, if you look at our results, around Rs. 82 lakh is non-recurring in nature and the rest about Rs. 2 crore which we have incurred for acquiring very specialized skills in Aerospace sector. Some of these benefits will come over a period of time, but as a conservative accounting we want to charge it off completely.

Amish Kanani So the point was, is this Rs. 2 crore to be spent every quarter now or it is only one time?

Sudhakar Gande No, only one time.

Amish Kanani So, both Rs. 2 crore and Rs. 0.8 crore may not recur from next quarter onwards, right?

Sudhakar Gande Rs. 0.8 crore is completely non-recurring, that means, sometimes we make a pilot project, that when pilot project gets over I may win a contract, may not win a contract, initially I have to provide for that and write-off, that is Rs. 0.8 crore. The Rs. 2 crore

what we have incurred is for building specialized skills, etc., which benefits will cover a period of time and it is not a thing that I am going to incur every quarter, maybe sometime we will have little bit here and there, but not like this.

Amish Kanani So, sir in that context I had same extension on the question, our EBITDA margin which had kind of shown a progression from 11% to 12% to 15% in last two, three quarters and it has kind of dipped to 10%. So, barring these one-time how do you see a normalized EBITDA margin and whether what would be the normal run-rate going forward?

Sudhakar Gande See, this EBITDA margin in this business will eventually go to levels of 17-18%, by and large. Our endeavor is to reach there may be in a year or two, I would not say quarter-wise, but eventually when our base becomes slightly bigger, these kind of aberrations can be easily absorbed. But that is a good industrial standard, particularly with the large portion coming from Aerospace, 17-18% is a fairly reasonable number to expect, that is what we are working on.

Amish Kanani And sir last, any update on the merger timelines?

Sudhakar Gande Yes, merger timelines actually all the all the things have completed, even last shareholders meeting conducted by the High Court nominated representative and lenders, all those have been completed. It is in the last leg where we have to compete certain formalities required in some official liquidator or ROC, etc, etc we are quite bullish. So our estimate is this merger should be completed in middle of September, afterwards we will be very happy to meet all of you and share clear strategy of the Company putting all the news together.

Moderator Thank you. Our next question is from the line of Tushar Sarda from Athena Investment. Please go ahead.

Tushar Sarda I just wanted to understand regarding the growth rate, because on one hand we talk of very large industry size and very large opportunity, especially with Make in India and government's focus on making sure that 30% plus sourcing happens out of India. And on the other hand, our size is relatively small, so just saying that we will grow above industry rate, is that the right way to look at the Company or you think the growth rate can be much higher?

Sudhakar Gande So, on a conservative basis I am saying we will grow ahead of industry, and obviously you would like to go far ahead than industry. So at least we have a clear plan that we will go ahead of the industry and we will make efforts to be higher than that. Now coming back to your issue on Make in India, etc, these are all very long-term processes. Today, if you look at our clientele and our business, mostly domestic, Make in India, Central Government policies are taking off but you have to realize one thing that by the time a project takes off it takes few years and some of these benefits will accrue over a period of maybe two or three years and after it we start accruing, because in a very simplified way if somebody announces that he is going to make a fighter aircraft in India, by the time the approval comes it will take three, four years, then they will start the design work, that means we will get involved. It is a little long drawn process. So it is nice to hear in papers that we are doing lot of progress on Make in India, but the real benefit to companies like us will accrue over a period of time, definitely we will be one of the few companies positioned to get benefit out of this.

Tushar Sarda So, in the short-term, meaning, next two, three years you will only grow at industry rate, is that right understanding?

Sudhakar Gande No, I said higher than the industry rate.

Tushar Sarda Yes, so higher than meaning 100 basis points, 200 basis points or substantially higher than industry?

Sudhakar Gande No, at the end of the day I do not want to over commit, but I can only say that our endeavor is to definitely higher than industry, and may be far ahead than the industry, that is we are trying. So, we will make sure we do not disappoint you on this.

Moderator Thank you. We have the next question from the line of Sameer Desai from Finco Capital. Please go ahead.

Sameer Desai You just mentioned that you will grow higher than the growth is, but we would like to know approximately how much, because as of now we are quite disappointed because the growth rates have not been coming at all.

Sudhakar Gande No, first thing I will tell you, see this is more a flat quarter because one of our large customers in Heavy Engineering has gone through most difficult times. But this is important part of our business so we have managed to stay afloat, but our expectation is hopefully they start growing little bit so we will start growing along with that. So as I said, quarter-on-quarter I cannot comment, but year-wise we definitely see higher because we are looking at more segments we added. If you look at our presentation last time we talked about two specific sectors we are looking in this year, one is medical electronics, second is high technology. And medical electronics, like aerospace, is a highly regulated industry, so people are doing fairly well on aerospace are accepted in medical electronics in a big way, and we have already hired a team of guys who are working on this and we want to start working on the US markets, all these customers of biomedical electronics in US. So that is one area we are starting to see it. Secondly, although we are strengthening internally on the embedded space where we have not done much and we hired one veteran from Infosys and one from Wipro to spearhead the initiative. So we have just assembled a team together and we all will start getting first one or two businesses hopefully this month, so that will also propel the growth.

One more area we have identified is PLM Practice where we do not have much experience and expertise; there also we are in the process of finding the capability to take it to the next level because these are things which are useful to all our customers immediately. So ability to get revenue from that will be very-very high, which will offset to some extent some of the cyclical things happening.

Sameer Desai So as new initiatives when will the bottom-line and top-line start growing into the balance sheet, let's say, for example medical electronics.

Sudhakar Gande See, medical electronics, our idea is to start this year, so we will have some revenue addition definitely, not a very big number but reasonable revenue addition.

Sameer Desai What could be that number?

Sudhakar Gande I mean, at the end of the day may be \$2 million, but the \$2 million is not the issue, the issue is you will get specific customers to sign off, here is a company we want to give the work. So that can multiply into several times over a period of time. So our idea here is to start the initiative and we are trying to start specific facility in Bangalore, Hyderabad wherever we get and the initiatives process. And there is a huge opportunity for medical electronics, it is one of the verticals where engineering services in India has not done much. So this is one area we are working on. Second is embedded, we have got huge opportunity. Both these we have leadership teams in place, we have lot of process going on and both will kickoff very shortly.

Sameer Desai

What is the size and opportunity in medical electronics?

Sudhakar Gande

Just to tell you, the medical electronics, if you look at the top few companies like Johnson, Bayer, companies like these are all US\$ 9-10 billion companies and all of them predominantly do engineering mostly out of US and a little bit outside US. Few companies have auxiliary issue including one of the Indian companies to some extent, but we are going in a very systematic way like we have done in aerospace practice. If you look at our aerospace practice, five to six years back it did not exist, but we put a team together and worked on it, today we are one of the significant players in aerospace sector which is evident by a recent winning of a very prestigious contract for a global aerospace OEM. And we won against international and domestic competition, against close to a dozen companies they have selected our company as one of the two with the maximum responsibility including contracts in the future. In our industry it is a very proud moment for us that AXISCADES has been chosen and we are very happy to share it with you.

Just to add here, under medical equipment we have already Johnson Controls, then you have GE Health, then you have quite a few companies.

Moderator

Thank you. Our next question is from the line of Harit Shah from Reliance Securities. Please go ahead.

Harit Shah

Sir, I just wanted to get a sense, as far as the client specific issue which you had mentioned on the Heavy Engineering segment, if you could just little bit say exactly what was the major issue that they faced? And secondly, this revenue have we lost it or is it that we are going to recognize it in maybe next one or two quarters, some sort of color on that will be quite helpful. Thank you.

Sudhakar Gande

See, this is a major Heavy Engineering client out of US and the company is a global player, one of the global leaders, they have gone through a bit of financial revenue reduction because of the global place, lesser due to the US market but globally. So their revenue over the last two to three years has come down by more than 20-25%. But this is still one of the largest global companies so they are rectifying it and in fact I had an opportunity to meet the CEO and CFO in the US, they are working on strategy, so hopefully they should be able to manage for a bit of time. And as far as the question on the revenue side, see my growth is affected in that account which we wanted to have, it is one of very important accounts. And marginally we have lost little bit of revenue, but that is okay, that is manageable. But growth is something we could have easily had some good growth from them in a normal case.

Harit Shah

So, not likely as of now at least have you got visibility to get that revenue back, is that the way to look at it?

Sudhakar Gande

Yes, you are right. We will manage what we have and figure out ways to grow. For example, just a little bit more detail, they have some four, five dozen plants all over the US, they have taken close to a dozen plants and they want to put in one place. In that state what they want is they want some benefit from the state in term of subsidies etc, US\$ 1 billion. Once they move in there, there is a lot of engineering work required while moving on this thing, so they are open for us to work with them. If this happens, there is an opportunity for us, that is the reason I went and met the CFO and CEO. So they are quite happy to work with us and they are very-very satisfied with our work. So if this happens then I am covered for next three, four years because the work will at least take two to three years minimum, hence we are fully covered and possibly we will be coming out of it.

Harit Shah My second question is on your PLM focus for FY17, so we already have a lot of established players like HCL Tech, Geometric in this space, so exactly what is the major area for differentiation that you would be focusing on to grow this particular business? Because it has a lot of scope for growth, so exactly what would you be looking at to drive growth here? Thank you.

Sudhakar Gande Good question. There are a lot of Indian companies already working in this space, but you have to understand one thing. Given our client access and relationship at various levels, at least four to five customers who are multi-billion dollar customers, they will all take product from us because we have contact levels at CEO, CFO, Director, various levels, not many companies, including Indian companies have that kind of a connect. So we are pretty sure once we are ready for product, a team is in place, we will go full on and also to just to add on the PLM side is, we are in terms of hiring a guy who is a very senior in this and respected in the whole industry, he worked in a multinational company, we are trying to hire him and put a team along with him. This is our strategy.

Moderator Thank you. Our next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria Sir, just to understand, you talked about renewal of a large contract from a European aerospace major, if you could highlight the bidding process, process of the renewal of the rates, billing rates as well, and who were the other guys who were bidding along with you? And the expansion of work which has come through, is it the internal work which has come or it is a pie which you have taken from others?

Sudhakar Gande So the bidding process was opened to all the global majors, both Indian and European customers. And whoever is worth the name in engineering space they were in the race, all the most respected names. So if I remember right, there were about 10 - 11 companies to start with and they had three levels of bidding and the final level is where the final selection is made. They had sent a large 13-member multi-functional team covering various areas of engineering, infrastructure, aerospace, etc, they have visited all the customers globally. And I am very proud to say we are rated as a number one technically among all these guys.

Point number two is, we have selected one part of business we are already involved earlier, but our scope has expanded by taking a piece of work from another competitor. So these are recognition of the fact that we got more work, some work taken out from the competition. So that is an important point to know.

And third point is, they are also adding completely new space of business, because earlier they were doing more on commercial aircrafts and helicopters etc, now they are adding defense and space. And for that initiative they have selected us. This was a very tough bid and in the final round we had three competitors, global majors from Europe, but I am very proud to say finally we won it.

Gaurav Rateria If you could highlight also the kind of billing rates and large part of the work will be done offshore or will it be more on-site related work?

Sudhakar Gande Of course billing rates will be competitive because we are in a competitive world and we are dealing with the best in the world, so there is no question of rates being very favorable, but at the same time good rates. Point number one. Point number two, a lot of work will go out of India, that is where we make our margins, we have beat some of our global competition, of course some of them have got large facilities in India, we are also out of India. But at the end of the day we have won the bid against global competition.

- Gaurav Rateria** Just one more question on the sub-contractors which you have added, you talked about building capabilities for a longer term, it looks like if you were to build capabilities then you would rather hire people for a longer term and you would want to keep them on your payroll. So sub-contractors you hire because you see a project coming through and you want to hire in advance of that project starting. So is it more to satisfy the demand of one or two big projects which are coming through or is it more for a longer term initiative?
- Sudhakar Gande** No, what happens is some of these projects when we win, they are very complex. We know contours of the deals, which for instance we know some places we have to take external help, some places we have to work on our own. But initially sometimes what happens, because of the lack of the capabilities we have to take sub-contractors from outside and sometime we have to pay top dollar to make sure they work with us. But finally what we normally do is we put a couple of our employees to work with those guys, in few months we will pick up some of those capabilities and slowly transfer to India. Just for example, in one of the projects three or four years back we had 24 Europeans working with us with maybe 6 in India in the beginning, and finally we went to a level of 60 people we had only six overseas, 54 in India. So initially yes, you have to pay some price, you have to get it because you cannot compromise on the quality what you are delivering to a customer because he will not agree on that. So for that you have to pay some insurance, premium, whatever you call it, but your smartness depends on taking this up fast and using the resources, slowly moving that close to India and do it along with us. So this is a model which we are working in this thing. So if you have a capability to put some cash on table in the beginning to get benefit in the long run.
- Gaurav Rateria** On the Heavy Engineering side, we talked about challenges in one of the clients, so do you think the challenges would be faced by other vendors and which are the kind of other vendors we would be face?
- Sudhakar Gande** Everybody, all of the vendors have faced challenges as a result. In fact, we can just tell you, that impact of that on us is lot lower compared to our competitors, Impact on us is may be 10-15% compared to other vendors because of our relationship to very-senior levels.
- Moderator** Thank you. Our next question is from the line of Srinath M from Motilal Oswal Asset Management Company. Please go ahead.
- Srinath M** Can you help us by sharing some FY16 details of ACATL if not the current quarter in terms of performance, revenue, margins?
- Sudhakar Gande** I would love to share with you, but I will tell you one thing, once the merger is completed in September we will have a full detailed presentation with all of you guys and we will answer all your questions with all the data.
- Srinath M** But that is so far as the strategy, etc. is concerned, but even the numbers you suggest we wait till September?
- Sudhakar Gande** Yes, we wait till September because we will present everything in one go and cover all questions whatever you have so that you can also get information in detail rather than in bits and pieces.
- Srinath M** My second question would be, we are trying to move as much as possible from time and material to fixed price, so how is that trend in this quarter, any progress on that or are we still there as we were?

Kaushik Sarkar It is improving quarter-over-quarter, so last quarter time and material was around 60% and this quarter proportion of time and material has went down to around 58-59%, so it is improving quarter-over-quarter. Fixed price contract are up QonQ

Srinath M And we still have significant cash on the balance sheet, so has any kind of discussion happened on that and will we still be exploring inorganic opportunities?

Sudhakar Gande See, as a strategy we always will keep looking at other opportunities and at any point of time we will keep reviewing opportunities, but once something comes to material shape we will share with you, but we will always look out for that as part of our strategy.

Srinath M There is no decision on some kind of a dividend policy yet?

Sudhakar Gande No, not yet but we will wait for this year then we will share hopefully some good news.

Moderator Thank you. Our next question is from the line of Rakesh Parekh from JM Financial. Please go ahead.

Rakesh Parekh I just wanted to have some kind of a color on the outlook for the Automotive and Industrial Products and Heavy Engineering verticals? When you put it together it is about 43% of your revenues, and this has been a fairly cyclical kind of business, and globally also there are a lot of challenges in this vertical too. I want to try and understand, going forward what is your strategy in this space and are you trying to, for example, probably review your emphasis in this area, presumably more towards Aerospace, or some of the newer vertical which we spoke about, like for example, the medical electronics, to try and reduce the cyclicity in the business?

Sudhakar Gande Yes, see both Automotive and Heavy Engineering to some extent go through some cyclic process, I do agree. But at the end of the way what we are doing within Heavy Engineering we are trying to cover and even I said, that specific example I told you, one of the global major and their problem, they are trying to place all the manufacturing process in one location. My team are the first guys to go with them, spend almost six months developing a plan, then I flew into US, met those guys. So that kind of opportunity we keep looking at it, that will to some extent offset any cyclical things. Automotive is too small a piece of our business to worry too much while we continue to grow in that area. But as I said, this year we are adding two specific verticals, medical electronics and high technology, possibly we may look at adding one or two more next year so that this will kind of build a strong base for the Company to overcome some of these cyclical ups and downs.

Rakesh Parekh And just to follow-up on that, would you say that the environment will remain like this for quite some time or do you see any kind of improvement in a lot of the industrial and engineering business globally? Because the kind of feedback we hear is that there is still quite a prolonged slowdown in many of these heavy industrial segments in many parts of the world.

Sudhakar Gande If you look at the forecast of some of the global majors, heavy engineering will continue to have problem maybe another one or two year, they do not see any huge upside happening overnight. As for the automotive industry is concerned, it is okay, moderate level, because some companies are growing, some companies are not growing, some regions are growing, and some regions are not growing.

Moderator Thank you. Our next question is from the line of Tushar Sarda from Athena Investment. Please go ahead.

Tushar Sarda I just wanted to check if you have ESOP scheme for employees? And if not, are you planning to introduce one?

Sudhakar Gande Actually we do not have as of now, we are definitely looking at introducing that shortly.

Moderator Thank you. I would now like to hand the conference over to the Management for their closing comments.

Sudhakar Gande I would like to thank all of you for participating in this teleconference and we had some very interesting questions. And as I mentioned, we continue to work hard to fulfill everybody's expectation and looking forward to participating again in the next call next quarter. Thank you very much.

Moderator Thank you very much, Members of the Management. Ladies and Gentlemen, on behalf of AXISCADES Engineering Technologies, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.