AXISCADES Engineering Technologies Ltd

Conference Call Transcript
May 31, 2016

Moderator Good Day, Ladies and Gentlemen and Welcome to AXISCADES Engineering Technologies Limited Q4 and FY16 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. If you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa. Thank you and over to you, sir.

Gavin Desa Thank you. Good Day, everyone, and thank You for joining us on AXISCADES Engineering Technologies Q4 and FY16 Earnings Conference Call. We have with us today Mr. Sudhakar Gande – Vice Chairman, Mr. Valmeeka Nathan – CEO and Mr. Kaushik Sarkar – CFO along with other members of the senior management team.

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 Q4 FY16 Results Presentation that has been sent to you earlier. This conference call will be archived and the transcripts 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, and thank you for joining this conference call. I hope you have gone through the results presentation which was shared by my team earlier, which provides details of our operation and financial performance.

We have posted a good performance during the quarter with revenue from operations growing 2.5% quarter-on-quarter to 19% year-on-year. Full year revenue from operations grew by 18% from previous year. We have added 19 new customers in FY16. This was despite a very demanding environment with customers increasingly looking for proof of value and taking their time to buy in. The initial ramp up with these customers does take time, but when the value proposition is understood and appreciated, the relation being extremely strong and long lasting and expands to several other areas.

We are focusing our growth in select areas like embedded electronics, high technology, medical devices, product lifecycle management to expand our solution offering business model in addition to existing ones we have for the year FY16.

FY16 was year of reorganization in the Company and we took necessary steps to align our organization to serve our customer better and with renewed focus. Our approach has helped us in growing PAT by 47% in FY16. This coupled with our sharp focus on our operational efficiencies, delivery and quality for meeting our customers' expectations helped us to grow margins significantly during FY16. This was despite our heavy investment in sales and marketing and our increased presence in North America, Europe and key accounts.

During the year we made significant progress on various initiatives. The acquisition of AXISCADES Aerospace and Technologies is moving in the right direction. We expect to receive our approvals in Q2 FY17. We inaugurated engineering Offshore Development Center for Siemens Wind Power in Hyderabad. A lot of work has gone in penetrating other divisions of the account, the efforts of which will likely be visible in the coming quarters. Our recent award of Preferred Engineering Supplier status with European aerospace major will help us to expand into multi-year large contracts in this space. Last but not the least, we have added one large key customer in Rotary Wing which has a potential to grow into multi-million dollar account. This is the first time they are moving their work out of Europe.

To conclude, our transformational journey continues to be in good progress. The Engineering Services opportunity is enormous and concurrently we are looking to diversify our offering across multiple sectors and geographies. The companies we work with are global leaders in their respective fields and they have large outsourcing budgets and our continuing endeavor is to enhance our relationship with these leaders.

With this, I would like to hand over to CEO – Mr. Valmeeka Nathan who will take you through the key business developments during the quarter.

Valmeeka Nathan Thanks, Mr. Gande. Good afternoon, everybody. The quarter gone by has been another step in our journey towards operational excellence and business value creation. We are building robust systems and processes and are confident of executing our plans to drive sustainable growth. We are well positioned to fund our investments for growth and innovation and practice through internal efficiencies.

During the year FY16, our revenue mix by contract has changed significantly. Ratio of revenue from fixed price contract increased to 36% in FY16 compared to 28% in FY15. Our utilization and offshore ratio has increased by 1%. We continue to service our customers with new offerings, creating an ecosystem of niche and complimentary competencies to monetize untapped revenue opportunities with our customers. This approach will enhance revenues and help in ensuring differentiated value positioning in specialized spend categories of our customers.

We have also strengthened our sales team. This quarter we have added three more headcounts to our existing sales team, one in UK and two in India. We continue to drive towards new account thresholds in both US and European geographies. We are committed to grow faster than market, this is being delivered through organic growth, building robust leadership in sales and differentiating domain expertise.

Thank you. Kaushik, our CFO will now take you through our financial performance.

Kaushik Sarkar Thanks, Val. Good afternoon, everybody. I will take you through the financial performance for the quarter and for the year ended March 31st, 2016.

Starting from annual performance, total revenues from operations for FY16 stood at Rs.3,754 million as against Rs.3,176 million reported during FY15, registering a growth of 18% year-over-year. Our corresponding dollar revenue for the year was US$ 57.4 million. Operating margins for the year was Rs.555 million while PAT stood at Rs. 286 million, registering around 47% year-over-year growth.

Moving on to quarterly performance, as reflected on slide eight. Our total operating revenues stood at Rs.990 million, higher by 2.5% on a sequential basis while on a year-over-year basis revenue grew by 19%. Operating margins for the quarter was Rs.143 million, up 18% year-over-year. Profit after tax for Q4 FY16 stood at Rs.76 million, up 27% on year-over-year basis.

Gross margin for business was 35% for FY16 as against 32% generated during FY15, higher by 300 bps driven primarily by higher efficiencies and emphasis on revenue productivity per person.

EBITDA margins for FY16 stood at 14.7% as against 13.2% reported during FY15.

EBITDA margins for Q4 FY16 stood at 14.5% as against 14.6% reported during Q4 FY15. We are undertaking measures towards improving our operating efficiencies and business mix in addition to increase offshore mix. We are also targeting new verticals to help sustain the revenue momentum, and hence continue to invest in sales, delivery and in practice.

Our selling expenses for the quarter amounts to around 7.1% of revenue, as against 6% during Q4 FY15, higher by 110 bps, while G&A expense for the quarter stood at 14% vis-à-vis 14.4% during Q4 FY15.

EPS, earning per share stood at Rs.10.51 in FY16 compared to Rs. 7.69 in FY15, signifying 37% year-over-year improvement. EPS in Q4 FY16 improved both sequentially and year-over-year.

Now moving to our balance sheet on slide nine. Balance sheet continues to remain strong. Cash balance stood at Rs.335 million at the end of the quarter.

Slide 11 provides an update on various industry segments that are present. Aerospace, our largest segment contributed around 51% of revenues in Q4 FY16. Heavy engineering accounted for 37% of our revenue in the same quarter.

To conclude, I will say that our focused approach and measures will help us to position ourselves for future growth. Our robust deal pipeline attempts towards diversifying and becoming an integrated industry player will help us to bring consistency and predictability in our business.

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

Moderator Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Pallav Shah from Pi Square Investments. Please go ahead.

Pallav Shah I wanted to ask that what are the margins, segment-wise if I can know, like what are the margins we enjoy in Aerospace, Heavy Engineering and Automotive?

Sudhakar Gande In terms of the stages Aerospace is on higher side and heavy engineering in between Aero and automotive. We will not be able to share specific percentages.

Pallav Shah So, my question was like Aerospace we are seeing high amount of growth coming in the last quarter, we did not see any sort of growth from Heavy Engineering but now as the pace is picking up for Aerospace and Heavy Engineering so what sort of growth are we seeing, would it continue going forward or it would be seasonal something of that sort?

Sudhakar Gande As far as we are concerned, in the near term we see the growth continuing in the same direction the way it is.

Pallav Shah And this would on with revenue growth of the Company, like the NASSCOM estimate of 10-12%, would it be of that sort? Would it be like meeting in that segments also?

Sudhakar Gande I do not want to give a specific number, but I can definitely say our endeavor and our efforts will be always to perform beyond the growth of the industry.

Pallav Shah Sir, in last quarter result concall we said we are planning to diversify a little bit in medical devices, so has there been any sort of movement on that side?

Valmeeka Nathan Yes, we do have some movement, not necessarily something that we want to share at this moment, there is certainly a progress and we believe that it is the right space to be in and we are putting all the efforts towards that.

Pallav Shah Would margins in Medical Devices manufacturing be in line with what the Company is making right now?

Sudhakar Gande See, let me explain a little more in detail. Aerospace is a heavily regulated industry, I mean one of the top in the world in terms of investments you have to put is Aerospace and closely followed by medical. So what happens is any company which has built a good credibility and customer base and compliance etc in Aerospace sector, they are respected equally well in Medical because Medical as I said is heavily regulated like Aerospace. So as Val has explained to you, we are putting the systems in place, we have hired a team to start looking at it and this is also definitely high growth area and we want to be there.

Moderator Thank you. Our next question is from the line of Amar Maurya from India Nivesh. Please go ahead.

Amar Maurya Sir, my first question is primarily on the part of SG&A, this quarter SG&A has gone up slightly, so is it because of our investment towards the sales or why it has gone up?

Kaushik Sarkar So we have invested in sales, we have invested heavily in sales in US, the other thing what you must have seen in numbers, is our project consultancy cost has gone up as well because we are offering new services and solutions to our customers and it will taper down once we internalize those going forward. So in order to have new competency you need to have those and that will help us to diversify and grow further and once we internalize it will go down. If you have seen quarter-on-quarter, it is going down, in Q3 the numbers were high, Q4 it has gone down.

Sudhakar Gande For your information, this year we are focusing on US geography, we have recruited sales team in the US, we have hired a global sales head last quarter, then we have hired one more person, an American guy with more than two decades of experience in Aerospace sector. We are beefing up the US market further from a sales side, the results of which should be coming in the subsequent quarters.

Amar Maurya Sir, just wanted to stress more on the sales mix and sales team, like if I see the geography wise, now US, Europe and India, how the sales mix is, I am talking about the farmers as well as hunters, so if you can just give me little bit understanding how the structure is divided, overall sales team and how it is divided into this geography wise and the split between farmers and hunters?

Sudhakar Gande See, what happens is the sales guys always have two levels of targets, some percentage is hunters and then the farming side. But that works very closely with the delivery team, the operations team. So this year what we have done is that there have been couple of heavy weight guys whom we have hired, they have both the roles, that means they will work with the existing delivery team on their key accounts to deliver a strong organic growth, simultaneously they will also be adding new customers, that is whole idea. So if you look at overall our sales structure, we have Global Head of Sales who sits in US and we have teams all over the world, we have a team in Europe, in Toulouse, in Paris then we have a team in London, then we have a team in US, team in India and Far East.

Amar Maurya So like in US if I say heavy weights, how many core experience guys are there in US now?

Sudhakar Gande We have added in the last one year, two heavy weights, one heavyweight overall plus one in Aerospace, we have taken one more guy in Heavy Engineering, in all two of them are American and one is an Indian.

Amar Maurya So sir basically earlier two were there and one is an addition?

Sudhakar Gande If you see last two quarters two are additions and before that we have one addition, so if we take last 9 months we have three strong additions in the US last three quarters.

Amar Maurya And now this total includes three or what would be the size today in US?

Valmeeka Nathan Some people are already working, another two or three already there, about maybe another three more already working last few years.

Amar Maurya So six, so the overall strength of the US is now six in heavy weights, right?

Sudhakar Gande I cannot go into so many details, what I want to tell you is our overall sales Headcount will be around 20-25, depending on the exact number and out of which about 50% will be in US this year, because that is the focus area for us.

Amar Maurya That is why I am stressing, I believe this is very important for us to understand like where are the investments going and I believe this is a very-very efficient move primarily when we are moving towards US because that is ultimately a core market for everybody.

Sudhakar Gande Yes, would not say core, Europe is equally important but from a growth point of view for a couple of years US is equally is important.

Amar Maurya Correct. So in this year we had added three core guys in US, right?

Sudhakar Gande Three core in US in last one year and all of them are heavyweights. We want to reorganize and move couple of guys from operations into sales function or existing relationships. If we add all this, in US we will have around eight to 10 people.

Amar Maurya So any move in Europe and other region, like similar kind of move?

Sudhakar Gande Yes, in UK also we have taken one heavy weight just about a month back, he comes with almost two decades of experience from reputed companies like Infosys, etc, so that we added in Europe. Now in India also we are looking at some more additions.

Amar Maurya Sir but then these UK guy is also overall or he will be focusing specific to one particular vertical?

Sudhakar Gande He is focusing more on Aerospace, but of course he will look at other accounts also but he has a lot of experience in Aerospace because we are fairly well equipped in Europe on Heavy Engineering, in UK we have a British guy who is heading our operations and sales team, and we have one person for Automotive also in Germany.

Amar Maurya Sir secondly, my question is primarily related to the growth, now even though if I see year-over-year obviously the growth has been visible and it is much-much better than the financial year 2015, but still sir the trajectory which is required, I mean probably looking to the potential of the industry, when is likely that spark, probably these initiatives that we are doing, when we can see the fructifying result for all this and we growing at high double-digit rate?

Sudhakar Gande See, we would like to see spark as of yesterday but unfortunately the industry, the client, everybody has worked together, but I guess next one to two years is a reasonable time frame to see some of these efforts giving results.

Amar Maurya This is only to engineering side, other than defense?

Sudhakar Gande Yes.

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

Sameer Desai I just want to check up with you, when will the merger be effective?

Sudhakar Gande The effective date of the merger is 1st April, 2016, and we expect now all the formalities are completed, even the last leg of High Court conveyed shareholders, lenders, bidding have been approved. It is now in final stage and our estimate is it should be completed end of July, give and take one or two weeks here and there, most efficient middle of July and more inefficient maybe early August.

Sameer Desai What I understand is that the equity share which is now 2.77 crore will become 3.77 crore post merger, am I right?

Sudhakar Gande Yes, 3.77 crore.

Sameer Desai And just want to check up, what is the turnover of AXISCADES Aerospace and Technology as of 31st March, 2016?

Sudhakar Gande See, I will not be able to share that information at this point of time, but I will share at the earliest, we have shared the information when we announced merger completion.

Sameer Desai So I hope in the coming year the effect of that will be coming in FY17 balance sheet?

Sudhakar Gande Yes.

Sameer Desai And the EBITDA margins of AXISCADES Aerospace and Technology, how would you compare versus the AXISCADES Engineering Technologies business?

Sudhakar Gande If you look at the last couple of years trend, it is slightly higher than Engineering.

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

Amish Kanani Sir, I know that you did not want to share some highlight of the company just merged, but is it possible for you to tell us what is the trend rate of growth, in the sense that is it growing at 20-30% top-line bottom-line kind of a company still? And or at least if you can tell us whether it will be EPS accretive still?

Sudhakar Gande See, I cannot give the exact numbers, but by and large it will be EPS accretive and if you look at next few years that trend should be more or less continuing.

Amish Kanani And sir, there was a news article that we have found some contract for supply of 88 ART systems as of end of December, so if you can give us some color on what is the value or how much time it will be taking, I think 18 months?

Sudhakar Gande So this is basically what we call Aircraft Recognition Training System, it is like a simulation mode where a pilot will undergo training to identify all kind of aircrafts and how to fire, from where etc, it is like real life situation. So this is a very interesting and very important product which is developed internally by our team of almost 25 people, and there is a global tender we won including competitors overseas as well as a large Indian competitor. So that to an extent it is a prestigious order and this is just a beginning because there is a lot of other similar things will be coming up and are now identified as one of the key suppliers for such things by Ministry of Defense, there are a number of calls we get and they keep asking us. And our expectation is to be able to complete this in about 18-24 months.

Amish Kanani Are you sharing the value of that contract?

Sudhakar Gande The contract value, I will not be able to share but it is it is several million dollars, let me put it this way

Amish Kanani And sir, how about the pipeline that you were talking about, we were discussing quite a few deals in that space, so has it fructified or the defense deals are really slow to ramp up in terms of getting it?

Sudhakar Gande No, I would not say slow to ramp up, it will take a little time that we have to live with it. Nothing has completely closed, in which case we will be happy to share with you, but I can say some of them are in fairly advanced stages, some of them in early stages. So I assure we will share complete information in the next quarter or two, that is our idea.

Amish Kanani And you said sir the margins in that business are little better than the existing margin of 14.7% that we have in this, right?

Sudhakar Gande Generally yes because when we bid we take into account a lot of these things and we always keep high margins, rarely we bid for anything less than 20-25% because there are delays, there are reissue, etc so sometime they really put very high margins, I cannot give the numbers, but rarely we go below 20-25%.

Moderator Thank you. We have the next question from the line of Avinash Sharma from Dalal & Broacha. Please go ahead.

Avinash Sharma Sir, just wanted to ask a question on the margins, so we have improved year-on-year but that is mainly because of change in the revenue mix as well as the expenditures going not in line with the top-line, so want to know a two to three year trajectory, like where do you see the margins can expand, how much more can these margins expand, sir?

Sudhakar Gande See, what happens in this industry if you look at reasonable steady state margins, it is about 17-18%. Sometimes you do very high quality work then the margins can go on specific instances 20%+ at some places. We have an entry strategy, you are aware you have to get an account so you will cut on the margins to get into the system and over a period of time you will improve it. So to answer your question, I think it is reasonable to expect that level of margins, maybe next two to three years, that is our effort.

Avinash Sharma In the steady state 17-18% is what you are talking about?

Sudhakar Gande You also got to remember, sometime there is a marginal dip in that because we will be investing heavily into people, training, tools, etc.

Avinash Sharma This year we have seen almost 50% rise in the sales and marketing.

Sudhakar Gande That is what I am saying, that is why one interesting thing about the industry is it should not be seen as a quarter-to-quarter revenue and growth etc, because sometimes it takes a lot of time to get a customer. And once he is happy and you really work hard to deliver, the growth numbers will be very-very high, in the case of one specific aerospace major we have grown from 0 to 20 in five years, but initial there was 1, then 10, so things like that. So my one recommendation to all of you is, purely from an industry perspective you have to have little tolerance on quarter-to-quarter growth etc, one quarter there is a dip and another is increase, but year-to-year yes. And second, the best part of this industry is that once you get in its very difficult for them to move you out because these are very-very specialized, they have to invest a lot on you. For example, last year we announced that ODC for Siemens Wind Power and today we are dealing only with Siemens Wind Power which is about $5 billion business out of close to $150-250 billion of Siemens. So if you do it right this can go into a large account over a period of time, but to get in you have to go through five, six teams from Germany, etc and they will do some pilot project, then some 10 different guys will see from 20 different angles, then they will give it. But if first few things you deliver right then they will do a good job and once he gets very happy we can always use like a client ambassador in the system. So it takes a little time. Potential is high and as I said we have close to more than a dozen marquee customers who all of them have very-very high potential.

Avinash Sharma Over a dozen, yes.

Sudhakar Gande Over a dozen, out of which maybe three or four will touch the base, the rest is all we are just at the gate probably like put one leg in.

Avinash Sharma So sir what is our total number of clients we have, if you can share that information.

Sudhakar Gande If you take large clients with high potential or whom we really bank on is about 15 - 16 clients, all these 15 - 16 guys are in the top five in the industry in the world in their respective areas.

Avinash Sharma And the top five contribution would be?

Kaushik Sarkar I will say not top five, top 10 will be around 92%.

Avinash Sharma And sir the client we added this quarter, you mentioned an OEM which was not doing business with us before, it is in Europe?

Sudhakar Gande It took us almost two, two and half years to make them a client of ours, they had so many visits, so many people came, because they are offshoring beyond their factory for the first time, it was very-very difficult for them to accept it, but they have seen what we have done with other customers, finally they have agreed and in the final round we had two other Indian majors competing with us, while I am very proud to say we have been selected out of the three.

Avinash Sharma Would you be able to share the geography and industry?

Sudhakar Gande It is in Aerospace from Europe.

Moderator Thank you. We have the next question from the line of Prakash Buwa as an Investor. Please go ahead.

Prakash Buwa Sir, may I know the total manpower planning for the Company, different segments actually and also the geographies, how much is the manpower that we have got presently employed and how much we may look at? Heavyweights you talked about but what about the lower levels and how it will be materializing over the quarters to come and for the entire year what is our manpower plan, what is the strength of AXISCADES in total in terms of manpower? That is one. And secondly, what is the realization rates, how do you measure the productivity in different segments?

Sudhakar Gande See, what happens is we have close to about 1,700 resources all over the world, out of which about 1,400-1,500 will be billable. What happens is, whatever transaction or we bid etc, there is x number of people working outside India and the rest are working in India. So always your endeavor is to do more work in India because it is less expensive to do work in India. At the same time, you need to have some presence in those locations for people to communicate, etc. For example, one of the Aerospace companies we work in Germany and France. So whether you like it or not you need one or two people on ground there who can communicate the language as well as designs etc. So it is a constant process, you will start with initially higher number onsite, lower number in India and over a period of time you reduce that, and increase the volume to India. Consecutively, at a very macro level let us say the pricing in this business, what happens is a guy there let's say he is charged $60, I am just putting a number, it could be $5 here and there, that is the cost of guy in US or Europe, when you put a guy there next to the client. So same guy if you put in India, he may do it maybe at $15, still keep your 20% margin. But the quality of work you cannot compromise, the delivery deadline you cannot compromise, so there is a constant struggle in terms of balancing this. So we always build little extra cushions on these margins. So for example if you do a program what we call a mature program, that means it takes two to three years design, in which case we will start with 80% there and 20% here in the beginning, in the end it is opposite, it will be 20:80 or 25:75.

Prakash Buwa How much time it will take for the medical segment to grow?

Sudhakar Gande This year we will have a small revenue, maybe few million dollars.

Prakash Buwa And then what we can expect year-after-year growth, thereafter?

Sudhakar Gande I will explain it to you. See medical is a very interesting field, a lot of these projects are based in US and little bit in Europe and everything hangs around some 10-15 customers.

Prakash Buwa Is this for diagnostic side or which exactly…?

Sudhakar Gande Everything like diagnostic, cardiology, any kind of equipment it is really vast. Of course there are four five categories in it, irrespective of that we are interested in all the categories, the systems cost is the same everywhere. So it takes initially some time.

Prakash Buwa Two year or three years' time at least it will take, I believe so we can see spectacular impact on the top-line.

Sudhakar Gande Yes, but that is a little bit longer than what is required. See, the issue here is two aspects are very-very important in medical, one is the domain understanding, second will be regulatory. People who are already working in Aerospace, at least regulatory aspect they understand quite a bit and domain understanding may be of aerospace but may not be in medical. But the kind of people we require, little brainy guys, intelligent fellows and the rates are on the higher side here. My guess is, next one year we will see some reasonable traction, next year there will some serious goals.

Prakash Buwa And what about the total manpower plan we have for the year, for the entire segments together or some type of value addition to our manpower cost?

Valmeeka Nathan I would want you to disconnect the manpower growth and revenue growth because we are consciously trying to delink these two, because starting with staffing to a fixed price to outcome base, the relationship continues to be disruptive. So we will continue to evolve and the headcount will of course increase but will not necessarily be proportionate to the revenue and we will keep playing with it based on new sectors that we enter. If you have to enter new sector like medical we probably have a lower maturity business model compared to mature sectors as we already have huge revenue and good competency where we will be able to significantly bring experienced optimization in terms of headcount as well as IP creation, etc. So I would want you to disconnect those two.

Prakash Buwa We have to charge the client on the hourly basis for all these segments?

Sudhakar Gande No, no see what happens in this business there are two kinds of pricing models, one is as you rightly said hourly basis what we call T&M, time and material, but more smarter companies are moving away from that, to contract or project base. Like lot of work in aerospace is completely project based, that shows the maturity of companies, they call it project based, outcome based that means they will give work to you, whether you hire 10 high quality guys or low quality guys is your headache, what price you do is still your headache. At the end of the day you have to give the outcome what they want. So if the company is working more and more on outcome based project kind of contracts then what we are interested and what we are working on.

Prakash Buwa Result oriented, output oriented?

Sudhakar Gande Yes.

Prakash Buwa And what about, we have already recruited a heavy weight for medical segment?

Sudhakar Gande See, one of the guys whom we have hired is in this field for last 10 years, he knows a lot of clients, we are just putting a team together in India to help him to showcase our capabilities. He knows what the client wants. Now to fill the gap to showcase here what we can do, we are hiring some people.

Prakash Buwa So medical department is located in Hyderabad or it will be US, Europe?

Sudhakar Gande Medical could be in Bangalore, could be Hyderabad but that is immaterial, it all depends where finally the client wants.

Valmeeka Nathan Where the client wants and where we want to de-risk, we do not want to have a client concentration or a service line concentration anywhere because clients also would want to have a de-risk model, our geographies are heterogeneous, the talent availability is also heterogeneous, we want to have as much diversity in our portfolio to de-risk any concentration and that is not a big deal.

Prakash Buwa And the last question is about coming to the dividend, can we see the something a dividend coming from the company, some indication, next year or something at least?

Sudhakar Gande I do not want to give year wise, but I can promise you we would definitely like to start giving dividend whether it is next year or year later, but you need not wait for too long.

Moderator Thank you. We have the next question from the line of Pallav Shah from Pi Square Investments. Please go ahead.

Pallav Shah Sir, just one question I had. We have high cash on the balance sheet, so do we have any sort of plans to take up any acquire any sort of company in sectors which we work in?

Sudhakar Gande We have some cash on the balance sheet, we will also have some borrowings, but at the end of the day we always constantly look for acquisitions, even today we are looking at three parallel acquisitions. But whenever we find a final deal, I mean you cannot acquire but unless it fits our rationale. We have to see acquisition target which has good customer base, that means he will allow me to get to another client, one or two clients. Second, in high growth area; third, pricing, what is the cost we are giving for this acquisition because if we pay a little more than required than I have to work for another five years to get our money back, the same goes for shareholders. So we are extremely paranoid and extremely clear, we do acquisition only at a right price otherwise we will not do it.

Pallav Shah Sir, as you said like we do not have any sort of term loans on our balance sheet, we just have short-term I suppose?

Sudhakar Gande Yes, working capital loans.

Pallav Shah What sort of order book do we have, and do we have fixed term contracts within aerospace as well? Can you let us know the order book that we are having now?

Sudhakar Gande See, we cannot exactly give the number but as a thumb rule which I can say that whatever you target for next year, at least about 60-65% will be almost certain to be there.

Pallav Shah So 60-65% of next year's revenue is already booked?

Sudhakar Gande Generally yes.

Moderator Thank you. We have the next question from the line of Hemal Tanha who is an Investor. Please go ahead.

Hemal Tanha My question is, how much headroom do you see for the utilization levels to go up further, I know we are at 70% odd right now, how much further can we take it up from here?

Valmeeka Nathan The idea is to get closer to 75% overall, we have multiple levers to achieve it and we will certainly be driving towards that and use whatever possible ways to invest in new opportunities and new service lines.

Hemal Tanha I also have another question, so how long according to you does it typically take for an account to move towards 60:40 or 70:30 offshore onsite proportion? I know we start with a great deal of onsite resources, but how long does it take to inward the entire model upside down?

Sudhakar Gande Based on our existing business maturity and understanding the percentage moves faster than earlier however it depends on the industry, economy, client, etc. But it is fair to assume that in a year to 18 months we should be able to by and large do what we want to do, that means more offshore and less onshore.

Moderator Thank you. We have the next question from the line of Curtis Patel as an Individual Investor. Please go ahead.

Curtis Patel My question is, are you all looking only at Aerospace and what you have put in your presentation or are you looking at other industries in the defense sector? That is number one. And number two, how is this offset going to affect us? And the last is with regard to your five year projections for sales and manpower, i.e. five years from now what would be your sales number and your manpower number?

Sudhakar Gande See, I will answer the middle question first. We are looking at Defense, Aerospace, we look at all the sectors but historically what happens is if you look at orders there is lot goes into Aerospace because of the value, but we have a pretty strong team which is looking at Army as well as at the Navy. So we are in all the three sectors, but little heavy focus on Aerospace because that is where the deals are happening, point number one. Point number two, on the offsets etc, we are one of the few companies which are well positioned to take advantage offset because we have already done offset for large OEMs, more than one OEM, so we are like accepted by a lot of companies. Today we have potential offset contracts with several majors. So that business continues to grow, we will definitely be one of the beneficiaries of offset policy and offset requirements. As for the five-year projection, it is very difficult for me to give five year projection but only thing I can tell you, we will continue to, our endeavor is to continue to grow beyond industry growth and exact number I cannot give you at this point of time, but yes whenever we decide on guidance we will try to.

Curtis Patel So any rough number, that means you will triple your size in five years or you will double your size in five years, you do not have any ballpark number?

Sudhakar Gande We have ballpark number but I cannot share it with you at this point of time, I only want to tell you that we want to grow and I am sure we will grow more than the industry.

Curtis Patel Going a little more in depth on your offset, as I understand it, design is about 5% of the total product cost, is that a fair estimate?

Sudhakar Gande 5-10%. You see historically what happens is generally, 5-10% goes to design, so about 30-35% goes into system integration, electronics, etc, last 40-45% will go into manufacturing. Our company one is in design, the one we are merging is into system integration, electronics etc, so we are in two areas now.

Curtis Patel So what I am trying to get at is, that out of this design and system integration both these slices of the pie, what percentage of that can be offset to India and what percentage for purposes of retaining the IP will be done by the vendor to the Ministry of Defense?

Sudhakar Gande See there are two separate things, IP and offsets are different. As far as offset is concerned, what does the offset policy say, any contract more than Rs.300 crore should have minimum 30% offset. It can go to 50% but minimum 30%. What defines the offset; offset is a work carried by an Indian entity under Indian management and majority ownership with India, work carried out and 35% MOD, whatever department they have that could be design, that could be manufacturing, that could be system electronics, system integration…

Curtis Patel No, my question is, what I am trying to do is I am trying to back calculate, if you look at the import bill then figure out what percentage of that bill is design and out of that figure what percentage will they give to a vendor and what will they retain as their in-house expertise which they do not want to share with anybody outside the company.

Sudhakar Gande My suggestion is, do not look like that, what you should look at is what are the various programs Government of India is announcing now whether it is helicopter, servicing helicopters, naval helicopters, fighter aircraft, artillery guns or it is armed vehicles. So what I suggest is, you look at various programs Government of India is looking at to placing the orders, it could be $30 billion - $50 billion, huge amount, but you can see next two to three years which are the orders likely to come. In those orders you should work on what could be the potential offset requirement. That is a better way rather than looking at import - export which will be too complicated.

Most of the ballpark, let's say program like MMRCA it is 50%, and minimum is 30%. So I guess you can take 40% average because even Make in India, the Government is talking about indigenization of minimum of 40%. So you can look at various contracts approximate to 40% could be offset component, out of that you distribute 10% to design and 30% on system integration, electronics, at a macro level individual things will keep changing but this is overall what it should be. I hope I clarified what you wanted.

Moderator Thank you. Our next question is from the line of Amish Kanani from JM Financials. Please go ahead.

Amish Kanani Sir, if you see the dollar terms growth for this year as well as in Q4, it looks a bit subdued vis-à-vis the kind potential that we have as well as size that we have. So the point is, one, can you share the growth of ours in constant currency terms?

Sudhakar Gande We shared, dollars we said 10.4% for the year and rupee 18%, in the presentation we have put this.

Amish Kanani Sir constant currency, which means probably your growth is under reported because of our Euro exposure being higher, or some volume terms growth?

Sudhakar Gande Your question is not relevant much to us because 90% of our billing is in dollars, even if I sign with European major most of my billing is in dollars. So 90% of billing is in dollars. Good question, but less relevant to us.

Amish Kanani Then sir is this a year when we are growing at 10-11% lower than NASSCOM, how do you see this year and is it something which is…?

Sudhakar Gande Not really, if you look at the top four companies, and look at their growth in the Engineering Services space, all of them have been lower than ours.

Amish Kanani Okay, fair, you are saying the segment in dollar terms, yes agreed. And sir one question on the defense side, this Indigenous Development and Design (IDDM) policy sir, how do you see this benefitting us…

Sudhakar Gande Yes, the Make in India policy. So see, the Make in India policy is very good for companies like ours because this policy few large companies will get some benefit but the real benefit will come to mid-sized companies who are well geared up in terms of systems, processes, certification etc. So undoubtedly we are one of the few companies, among very few who will get hugely benefitted by this and I can see from the number of enquires we have, number of visitors, people of foreign companies who come to visit us and we have almost like every week somebody or the other here.

Amish Kanani And are we sir looking at any form of joint venture of tying up with someone as a strategic partner…

Sudhakar Gande On an individual basis we keep looking at strategic partners, of course I cannot share the names at this point in time anybody who can bring good technology to the country which will help us and if they want a local partner we are always there, so that is our moto. And once we learn the technology in two three years we should be able to manage the business ourselves.

Moderator Thank you. Ladies and Gentlemen, that was our last question. I would now like to hand the floor over to the management for the closing comments. Thank you, and over to you.

Sudhakar Gande Thank you for all of you joining for this conference call and from our perspective we continue to work in the right direction, adding the right customers. And as I said, our endeavor is to grow more than the industry and continue to improve the margins. But only one piece of advice I would like to tell you is, do not look at this company on a quarter-on-quarter basis, look at this company from mid-term. To that extent all of you are most welcome to visit us and meet our people, management and me and by team will be very happy to receive you and any negative feedback we will be very happy if you tell us. At the end of the day finally we want to build a strong company with global standards and global processes and all of us can be very proud of. Thank you.

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