AZAD

May 30, 2025

To, The Listing Department **BSE Limited** Department of Corporate Affairs Phiroze Jeejeebhoy Towers, Dalal Street Mumbai, Maharashtra - 400 001	To, The Listing Department **National Stock Exchange of India Ltd.** Exchange Plaza, Plot No. C/1, G Block Bandra-Kurla Complex, Bandra (E) Mumbai, Maharashtra - 400 051

Dear Sir/Ma'am,

Subject : Transcript of Analyst/Investor Earnings Conference call.
Reference : ISIN - INE02IJ01035; Scrip Id-544061; Scrip Code-AZAD

Pursuant to Regulation 30(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, and in continuation to our intimation dated May 21, 2025 we hereby inform you that the Company has hosted Earnings Conference call for analysts and investors on Monday, May 26, 2025, at 12:00 P.M. IST which was concluded on Monday, May 26, 2025, at 01:00 P.M. IST to discuss on the financials results of the Company for the 4th quarter and year ended March 31, 2025.

We are enclosing herewith the Transcript of Analyst/Investor Earnings Conference call.

Please take the information on record.

Thanking you,

Yours truly,

For Azad Engineering Limited

AZAD ENGINEERING LIMITED

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

"Azad Engineering Limited Q4 FY-25 Earnings Conference Call"

May 26, 2025

E&OE: This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on May 26, 2025, will prevail.

MANAGEMENT: **MR. RAKESH CHOPDAR – CHAIRMAN AND CHIEF EXECUTIVE OFFICER, AZAD ENGINEERING LIMITED**
MR. MURALI KRISHNA BHUPATIRAJU - MANAGING DIRECTOR, AZAD ENGINEERING LIMITED
MR. VISHNU MALPANI – WHOLE-TIME DIRECTOR, AZAD ENGINEERING LIMITED
MR. RONAK JAJOO – CHIEF FINANCIAL OFFICER, AZAD ENGINEERING LIMITED
MODERATOR: **MR. AMIT DIXIT – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Azad Engineering Limited Q4 FY '25 Earnings Conference Call, hosted by ICICI Securities.

This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participants' 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 now hand the conference over to Mr. Amit Dixit from ICICI Securities. Thank you, and over to you, Mr. Dixit.

Amit Dixit: Yes. Good afternoon, everyone. On behalf of ICICI Securities, I welcome all the participants for today's call. At the outset, I would like to thank the Management for giving us an opportunity to host the call. From the Management today, we have with us Mr. Rakesh Chopdar – Chairman and CEO; Mr. Vishnu Malpani – Whole-Time Director; and Mr. Ronak Jajoo – Chief Financial Officer.

It has been a glorious year for Azad, where we have seen consistently robust performance through the quarter. We will have brief Opening Remarks from the Management. Post, we will open the floor for an interactive Q&A.

Without much ado, I would hand over the call to Mr. Chopdar to take this forward. Over to you, sir.

Rakesh Chopdar: Thank you, Amit. Thank you so much. Good afternoon. Good afternoon, everyone. Welcome, and thank you for joining us today for our Q4 and FY '25 Earnings Call.

Joining us on this call are Mr. Murali Krishna – our Managing Director; Mr. Vishnu Malpani – Whole-Time Director; and Mr. Ronak Jajoo – CFO.

We are also joined by our Investor Relationship partners from SGA. Our Results and Presentations have been uploaded on the Stock Exchanges and the Company Website. We hope you have had a chance to review them.

On the Q4 Performance Highlights:

We are pleased to report a strong close to the fiscal year. Stand-alone revenue for the quarter grew to INR 125 crores, representing a 34.2% increase year-on-year. EBITDA for the quarter stood at INR 45 crores, with margin improving from 33.8% to 36.5% (Clarification: Reported EBITDA margin), driven by operating leverage and enhanced product mix. Net profit grew from INR 15 crores in Q4 FY '24 to INR 26 crores in Q4 FY '25, marking an impressive 74.4% growth.

On the full-year FY '25 highlights:

FY '25 has been a defining year for us, one marked by momentum and meaningful progress across all fronts. Revenue from operations grew by 32.9% year-on-year to INR 453 crores, underscoring the strength of our core business and the growing global demand for our specialized capabilities. Our EBITDA margin expanded to 36.3% (Clarification: Adj EBITDA margin), and we delivered a PAT of INR 89 crores, a significant milestone, reflecting both scale and execution discipline.

On the strategic wins and market position:

This quarter, we secured new orders from global OEMs such as GE Vernova, Mitsubishi, Baker Hughes and Rolls-Royce Defense as well as Civil, a clear endorsement of our engineering capabilities and reliability as a strategic supplier. These wins follow rigorous global evaluations and reflect Azad's growing prominence in the global supply chain. Beyond these marquee wins, we also added multiple new orders across the year, taking our current order book over INR 6,000 crores.

On the capacity expansion and execution focus:

We have taken bold steps to expand capacity and align with long-term demand. Our new facility in Hyderabad became operational in Q1 FY '26, marking a pivotal moment in our growth journey. These facilities are part of our mega-factory vision with dedicated spaces for key clients, this approach enables deeper collaboration and greater agility in meeting demand. We are already seeing strong interest from global OEMs to secure multiyear capacity, reinforcing our belief in the direction we are headed.

On the outlook and growth ambitions:

In previous years, our growth was constrained by capacity. With our new infrastructure, which is coming online, we now see significant headroom to scale. We are confident in achieving approximately 30%-plus revenue growth in FY '26, supported by a robust order pipeline, operational readiness and a sharp strategic focus. Looking ahead, our aspiration is anchored in innovation, reliability and global partnerships. Our strategy is simple but focused, scale with precision, invest with intent and grow with agility.

Before I hand over the call to Mr. Murali Krishna Bhupatiraju – our Managing Director, let me take a moment to introduce him:

Murali brings over 25 years of rich experience in operations management, corporate finance and metal forming. Previously, he held leadership roles at Bharat Forge America, Dyson Corporation America, Gerdau Macsteel America. He also holds advanced degree in industrial engineering from Ohio State Management and computer science from Georgia Tech. His passion and holistic approach accompanied by strong leadership qualities will drive our growth in the coming years.

Over to you, Murali. Thank you.

Murali Bhupatiraju: Thank you, Mr. Chopdar, for providing this opportunity. Azad has an impressive journey and has built strong credibility in the industry with its niche offering customized to clients requirements. This has been a truly incredible growth story. To support this growth, we have strengthened our balance sheet with a QIP of INR 700 crores in February. I would like to thank all the investors for believing in our growth story and showing confidence in our business.

In the last few months, we reached a major milestone with the inauguration of our first lean manufacturing facility dedicated to Mitsubishi Heavy Industries. Covering an area of 7,200 square meters, this facility marks a crucial milestone in our journey to increase production capacity tenfold. This achievement was made even more memorable as MHI honored us for our decade-long collaboration by awarding us the prestigious 2024 Partner of the Year.

This was followed by a second state-of-the-art plant for our dedicated customer, GE Vernova, spanning 7,600 square meters, this advanced facility is designed to manufacture complex airfoils for GE's next-generation turbine engines. Our subsidiaries, Azad Prime and Azad VTC have been a great addition to our capabilities in special processes.

These capabilities help us reduce our dependence on our outside vendors and also save on the cost. We expect these subsidiaries to start contributing this financial year. As we enter the new growth phase, our focus is to build on the success and execute the long-term growth trajectory. We will continue to set new benchmarks and redefine what is possible.

Now I hand over the call to Mr. Vishnu Malpani, our Whole-Time Director, to take this conversation further. Thank you.

Vishnu Malpani: Thank you, Mr. Murali Krishna. FY '25 has been a defining year for us, a year where we didn't just grow in numbers, we grew in capability, direction and ambition. We have made meaningful progress across all the 5 pillars of our growth strategy, whether it's Capacity, Capability, Capital, Customers or Contracts. Our progress has been well grounded and has set the stage for the next chapter of Azad's journey.

Let me begin with a quick look at our Q4 numbers:

Our Energy and Oil and Gas segment remained dominant contributor, generating INR 97 crores or 77.7% of our Q4 revenue. The Aerospace and Defense segment scaled beautifully contributed to about INR 25 crores or 19.8% of the quarter's revenue.

Stepping back and reflecting on the full year, it was a year of broad-based growth. Revenue grew significantly across verticals, supported by strong execution, customer relationships and deeper engagement with all stakeholders.

We expanded not just our production capacity, but also our engineering capability this year, which is evident from some of the prestigious awards that we have received from our customers in India and abroad. We strengthened our capital position with the QIP, and we continue to reinvest in our infrastructure, people and innovation.

One of the most strategic shifts that happened this year has been our diversification. While energy has provided scale and stability, aerospace and defense represents our next big leap. These sectors reward us with technical strength, reliability and trust of our customers that play to our core strengths.

To support this growth, we have invested in our most valuable asset, our people. Over the past year, we have onboarded senior leaders across every major function, giving us the experience and leadership depth needed for the future.

Today, we are fully staffed, structurally ready to take the opportunities that come ahead. Looking at FY '26, we are entering the year with confidence and with momentum. We have built the base, the teams are in place, the capacity is live and the opportunity is clear. We are excited about what lies ahead.

And with that now, I would like to invite Mr. Ronak Jajoo, our Chief Financial Officer, to walk us through the financials. Thank you.

Ronak Jajoo: Thank you, Vishnu. I will first talk about the stand-alone financial highlights for quarter 4 FY '25. Let me take you through the revenue. Revenue for quarter 4 FY '25 stood at INR 124.5 crores, a significant increase of 34.2% compared to the last quarter of FY '24, which reflect our strong business growth.

EBITDA for the quarter was INR 45.4 crores with an EBITDA margin of 36.5%, this make an impressive 44.9% (Clarification: Reported EBITDA YOY) growth over quarter 4 FY '24.

PAT for quarter 4 FY '25 was INR 26 crores with PAT margin of 20.3%(Clarification:20.9%) representing a robust growth of 74.4% year-on-year basis.

Let me now take you through the full-year financials of FY '25:

Revenue from operations:

The company recorded a revenue of INR 452.9 crores in FY '25, up from INR 340.7 crores in FY '24, this represent a robust growth of 32.9%, driven by strong operational performance of the company.

On segmental diversification:

In the Aero and Defense segment, our revenue has rose to INR 80.7 crores compared to INR 43.8 crores in FY '24, highlighting a successful diversification story, which we have told you over the last 2 earnings calls.

Other income:

In FY '24 include one-time other income of INR 27.3 crores. And if you normalize that particular thing, this year, our other income increased by INR 6.9 crores, which primly driven by interest on fixed deposit and foreign currency restatement as per IndAS guidelines.

Our EBITDA for FY '25 was INR 161 crores with an EBITDA margin of 35.5%, the highest ever EBITDA margin which company has achieved in full financial year. This margin expansion was supported by improved employee cost efficiencies and operating leverage and business excellence reach.

Our profit stood at INR 88.5 crores in FY '25 with a PAT margin of 19.5%, showing a strong growth of 51.5% (Clarification: 51.1) compared to FY '24. The operating cash flows of the company has turned positive this year with INR 63 crores of operating cash flow positive, which reflects our healthy profitability and the cash flow management.

Our debt position:

Gross debt for FY '25 was around INR 243 crores, which is approximately 1.5x of EBITDA, which our long term guidance. But if you take the net debt position, which is gross debt minus cash and bank balance, is still negative INR 412 crores, and we have a strong liquidity system of around INR 656 crores, because of QIP raised in the last quarter. And this give us the confidence to get into a great quarter next year and the full financial year of FY '26.

Now the floor is open for question-and-answers. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Kamlesh Bagmar with Lotus Asset Managers.

Kamlesh Bagmar: Yes. Thanks for the opportunity and congrats Rakesh ji, for the excellent delivery and successful QIP. Sir, first question on the order book. So what is the order book as on date or quarter end?

Vishnu Malpani: Yes. Thank you, Kamlesh ji, for the question. Our order book currently stands at upwards of INR 6,000 crores.

Kamlesh Bagmar: And secondly, like we have commissioned the capacity. So roughly around 95,000 square meters have been there. So this Phase-2, when do we expect that particular commissioning?

Vishnu Malpani: So for the first phase, Mr. Bagmar, we are building 95,000 square meters. And as you would have heard in the call, we are doing 1 facility after another. So we have inaugurated 2 lean factories for 2 of our customers, which have happened respectively, in the last financial year.

And now we are going to be getting them online. So those factories would start generating revenues while we start focusing on the rest of the factories, which will come up during the course of the year and next. So it will be a staggered approach.

And slowly, we will have all of these factories contributing to revenue 1 after the other. We are not waiting for the entire plant to be open. We are going after every factory, one after the other and working on it. So that's our strategy.

Kamlesh Bagmar: And lastly, do we have any clarity like how much CAPEX would be there over the next 3, 4 years? Like this year, we have spent roughly around INR 270-odd crores for like next year and next after that?

Vishnu Malpani: Yes. So Mr. Bagmar, we did a QIP of INR 700 crores. Now the reason the QIP was done to foster the growth of the company, right? So this capital that we raised will be deployed towards building our infrastructure and also capacity, and in a staggered way over the next few years. So this is exactly what we are planning to do.

Kamlesh Bagmar: Thanks a lot.

Vishnu Malpani: You are welcome. Thank you.

Moderator: Thank you. Next question comes from the line of Kinjal with Shah & Savla. Please go ahead.

Mulesh Savla: This is Mulesh here. Thanks for taking my question. Hearteous congratulations on the great set of numbers, and we welcome Mr. Murali and also happy to note that we are increasing our bandwidth at all the levels.

So now my first question is, sir, we have commissioned 2 dedicated facilities for Mitsubishi and GE Vernova. So how is the ramping up happening there? When can we reach the optimum capacity there? And at the optimum level, what can be the revenue generation from those 2 facilities? That is my first question.

Vishnu Malpani: Okay. Thank you so much for the question. I think this is also slightly related to the last question that I answered. So we did inaugurate 2 facilities, 2 lean facilities for our customers. So the way this will happen is the facilities are now live. So this is not a transition that will happen overnight. I think it will take us a few quarters, and it will get better quarter-on-quarter.

So this year, FY '26, we are obviously generating revenue out of the new facility. Any incremental that revenue comes out over FY '25 will come out of the new facilities. But you will see that progressive development happening quarter-on-quarter. And I think towards the end of this year, we should be able to reach a full capacity in terms of those lean facilities in terms of output.

Mulesh Savla: So then what can be the revenue expected at the optimum level from both these facilities?

Vishnu Malpani: Yes. So the way to think about this would be the revenue guidance that we are looking at. So if you looked at what Mr. Chopdar had said during his speech, he said that we are anticipating a revenue growth of upwards of 30% for this financial year. And this growth that is coming up will be coming out of the newer factories.

Mulesh Savla: Yes. Great. Great. And how many further dedicated facilities do you think we will be able to inaugurate in the current financial year? And are there any new customers or new products being developed and being targeted this year?

Vishnu Malpani: Yes. So thank you for this question. I think there are a few factories that are lined up in pipeline. We won't be able to disclose too much information about it. But yes, there are factories that will get inaugurated during the course of this year. And slowly like we did for the current 2 factories, those also will come in line and start producing results. So that is there.

And obviously, if you have seen our customer roster, you would have known that our order book and our customers are backing us and trying and looking at blocking us for a longer period by signing long-term contracts with us. So we are seeing great demand across each of our verticals and very confident of delivering on the execution time lines that we have.

FY '26 should be a year of stabilization for us in consolidation for the next level of growth. Thank you.

Moderator: Next question comes from the line of Rajesh Vora with Jainmay Ventures. Please go ahead.

Rajesh Vora: Good afternoon, gentlemen. Congrats on good set of numbers. So, see, I wanted to understand your Company under your able leadership has done great on the energy side, and now issuing strong texts towards your faith and descent.

With the Contribution this year increasing quite significantly from around 13% to 18% of revenues, how are you seeing this panning out over the next 3 to 5 years? And how will that change the trajectory of margins for the company?

Vishnu Malpani: Yes. So thank you for the question. So we are very bullish on each of our verticals and each of those are growing at a certain rate. If you look at our business' trajectory for the last 4 years or 5 years, we have grown at a compounded growth rate of about 40%. Our EBITDA CAGR has been higher than 40%.

Our PAT CAGR has been higher than 40%. So the business is looking at continuing the growth momentum. When you look at our businesses growth across verticals, you would see that some of our verticals, for example, it's a testament to the fact that we kept talking about diversification. And this is the first year where one of our verticals other than energy has demonstrated reasonable numbers. So we closed aerospace with INR 80 crores segmental revenue, up from about INR 43 crores last year, which demonstrates the fact that our qualifications have been completed.

If you look at our other vertical, which is oil and gas, last year, we delivered about INR 4.4 crores. And this year, FY '25, we have been able to deliver about INR 13 crores. Now when you look at the growth of these verticals in the coming year, FY '26, you will see that these verticals are ramping up very, very quickly, because from the business perspective, we focused on qualification, we have built capacity and now we are ramping up.

So each of these verticals will grow at a faster rate than the blended growth rate of the business. So you will see that oil and gas will grow multifold because the base is smaller today. Aerospace also will grow upwards of the blended growth rate that I talked about. So this is how we are seeing the business evolve over time.

Rajesh Vora: Okay. Any goalpost for the energy as a percent of revenue?

Vishnu Malpani: Yes, I understand. So ideally, we want the business to be fairly diversified. So we anticipate in the next few years, the business would reach about 55%, 60% energy, and the balance 35%, 40% will be contributed by aerospace and defense and oil and gas.

So it does not mean that any vertical is growing. So we have a lot of headroom even in energy, but we anticipate that the growth rates of the business will get us to a point where 55%, 60% will be contributed by energy, and the balance between the other 2 verticals in the next few years.

Rajesh Vora: That's useful, Vishnu. And my second question is on, given the massive opportunity, and TAM for the company in each of the verticals, and given that we are taking significant leaps in capacity expansion, with 15,000 square feet already booked up of 95,000 square meters, in the earlier question you mentioned that it will be a sort of staggered utilization and ramp-up. So, is it fair to say that we will have with the entire 95,000 square meters to be booked in the next year or so? How much time are we looking at?

Vishnu Malpani: I would like to answer this 2 ways. If you look at what we have delivered, we have delivered INR 453-odd crores of revenue last year. If you look at our order book, which I said was upwards of INR 6,000 crores, you know that the order book to sales ratio is extremely big. So for us, we are looking at progressively adding manufacturing facilities with capacity.

And see, this is a year of stabilization for us. We are trying to build an ecosystem where we are building newer plants, 10x higher capacity and all of that. So we intend the business to grow at upwards of 30% while ensuring that each of these things are properly scaled up. So you will see that 95,000 square meters will be completed over the next 12 to 18 months in terms of construction and we will slowly open it up for capacity.

And then we will move into our Phase-2 of expansion, which is the next leg for us. But right now, our focus is to look at FY '26, deliver on the commitments that we have for customers and to our shareholders. So we are looking at that right now.

Rajesh Vora: Great. Thank you, Vishnu. And wish you all the best Rakesh ji and the team.

Vishnu Malpani: Thank you. Thank you so much for your question.

Moderator: Thank You. Next question comes from the line of Kireet Atluri with Jetha Global. Please go ahead.

Karan Danthi: Yes sir, it's Karan here on for Kireet. So just 2 clarifying questions. What should we assume is the asset turnover on the incremental CAPEX spend over the next 3 years like directionally?

Vishnu Malpani: So the incremental asset turnover for the next year will be 2, blended across verticals

Karan Danthi: 2, right? So on any incremental CAPEX spend, the asset turnover should end up being about 2, I would think, right?

Vishnu Malpani: Yes, that's correct. That's correct.

Karan Danthi: So and maybe this speaks to the conservatism of the guidance. I guess if you consider that you are going to spend INR 150 crores at the minimum in CAPEX this year, I forget the exact number. You are actually only assuming 30% growth, which would equate to INR 120 crores of incremental revenue. So if you simply keep extrapolating that, you are not getting anywhere close to 2, you are close to 1. So there is a big discrepancy between what you are saying is your revenue growth guidance for the next couple of years, and the asset turnover of 2. So I just want to reconcile those 2 numbers?

Vishnu Malpani: Yes. So Karan thank you for the question. I think for us, this year, so we are not looking at getting our capacity line. We are looking at consolidation as a thing. And the asset turn that you are saying, incremental asset turn of 2 will happen over time, because now the deployment of capital is also towards infrastructure, towards capacity. So by the time we are investing and returning, you would see that towards the end or quarterly progressively, you'll be able to see the ramp-up moving from 1.0 to 2.0 of incremental asset turn.

And it will be demonstrated over our progress that you see for this business. And our strategic priority for this year is to get all our manufacturing facilities up, constructed, filled with capacity. So we do not have any challenge in terms of capacity for the years that we are looking forward, because order book is already there. This is how we are looking at 30%, because even on a base of INR 140 crores, we are looking at growing this and any incremental revenue that you are seeing from INR 450 crores and upwards is going to come out of the new facility.

So for us, so where the investment is done, right? So we are going through that cycle of stabilizing it, consolidating and then rapidly growing from there. So the QIP money will be deployed shortly. It's with us in the...

Karan Danthi: Yes. Okay. Sorry. Maybe I will just squeeze in just one. The question was for the 2 facilities that have already ramped or are in the process of ramping, have we already sourced all the equipment that is needed for those facilities or are they still in transit?

Vishnu Malpani: Yes. So the sourcing has been done. I think a few of the machines have already arrived. And so out of the 2 manufacturing plants, one of the manufacturing plants, about 70% of the machines have arrived and have started production already. But the balance machines are on the way. And for the other plant, it's happening. So it will happen over the next 1 or 2 quarters for us to be able

to ramp this up. But the machines orders have been placed. And so everything is pretty much done from our side. We are just waiting for it to be delivered to us and then we get them operational.

Moderator: Next question comes from the line of Amit Dixit with ICICI Securities. Please go ahead.

Amit Dixit: Hi. Good afternoon, and thanks for taking my questions. A few questions from my side. The first one is on the advanced gas turbine engines that these are limited production partners with GTRE. So as per my understanding, the first engine was to be delivered by the last quarter of FY '26 or maybe first quarter of FY '26. So I just wanted to understand where we are on this? And what kind of market you see considering that the recent Indo-Pak conflict was basically drone-based, and these engines are supposed to go in drones and LRSAM, which are the flavor of the town now. So just wanted to get a brief on where we are on this development and what kind of use case you see for these engines?

Rakesh Chopdar: Okay. Thanks, Amit. First of all, on this engine, the jet engine, so it is in production at the moment, and very soon, we are going to deliver the first 2 engines. And looking at the market, if you ask me, it's not really defined to us, because this is utilized in multi platforms. It's used in the UAVs, it is used in anti-ship missiles and it has a mass, quite a few platforms where this engine will be used.

So this engine is a very strategic decision, right? So this is just a key to the bigger door. It's a small key. And if you see this capability development, we will be the first one to manufacture this engine in India. And this is more for the country. So this is a need of power, and our focus is fully on to develop this engine and deliver to the government MOD as soon as possible.

Amit Dixit: Okay. The second one is on there was an MOU that we executed in Saudi under the meet in Kingdom and used by the Kingdom kind of scheme with Baker Hughes. So just wanted to understand the progress on that. Are there any milestones that we have crossed when we expect contracts to be signed, et cetera?

Rakesh Chopdar: Yes, Amit, so the MOU was signed for sure, yes. And we also have this intent to do it. So we are having multiple discussions with the government of Saudi Arabia as well as our customers. And we are making a proper strategy to set up a shop there. And you are aware that it's not so easy to get out of India, setting up the shop. A lot of work is involved in there. So that's ongoing at the moment. So maybe we can update you by the next quarter, we can tell you what exactly the status would be. But still, the discussions are going on, and we are very active in that.

Amit Dixit: Great. If I can squeeze one more and then I will rejoin the queue. On working capital, I mean pretty pleasant to see that in aerospace and defense actually the working capital days have come

down. Inventory days have come down particularly, in a very steep manner, 246 to 155, if I compare FY '24 versus FY '25.

And even the receivable days have come up. However, we see a little bit of increase in inventory days in energy vertical. So I just wanted to understand from FY '26, is it the peak working capital days that we will see? And what kind of sustainable working capital days can we assume for both the verticals?

Rakesh Chopdar: Yes. So Amit, there is a small catch in this. Look, there's one way we are looking to reduce all the working capital, as I mentioned in the last call as well, that most of the qualifications are now done and the inventory which is sitting is now getting off. And not long in a few quarters, you will see declining the number of days. And very soon, you will witness that.

On the other hand, we are seeing these contracts which we are signing, where we need to really showcase the customers that we need to hold some kind of inventory for showing the raw material because these contracts are bound on the OTDs what we do, the deliveries is what we really have to demonstrate that, look, we are holding the raw material for you.

So there are 2 aspects going on. One, is the past which we finished middle of the qualifications and now you will see next quarters a declining working capital cycle. And it's not far away, okay? A few quarters only you start seeing the decline thing. And other part is on few of the contracts, which requires mandatory that, okay, we need to have some inventory for some short of time where we have this regularized, as the contract is very new, right? So the cycle starts and even that also can be controlled very well.

Amit Dixit: Yes. The question was more on what we saw that aerospace and defense, where focus is the wrong word, basically, we saw increase in revenue significantly from there. However, on the inventory front, we saw a decline.

On receivables, we saw a decline, which is very pleasant to see. So just wanted to understand the genesis of that, and you mentioned that this will continue. So this decline is actually quite welcome. So I just wanted to understand more that what lies ahead as we go for more qualifications, whether this number will increase and then decrease or we will see this remaining at this particular level, particularly for aerospace and defense?

Rakesh Chopdar: Yes. So Amit, as a strategy, we signed something, say, 2 years, 3 years back, and we have committed to the customers. And you are very well aware on the raw materials, which are having massive lead times, 3 months, 6 months, 9 months, sometimes 12 months also for the deliveries, right? And this is one time.

One time we took these contracts, we got the orders, we bought the materials lying and we finished the qualification. The entire cycle, it just looks like a contract to the qualification. But if you actually see the cycle times for the entire journey, right from receiving the contract till you finish the qualification and till then you will not see any movement in the inventory change. You will only see the inventory change as you start producing in the production orders, right? That has started.

So going forward, the best part is we have taken up the entire qualifications, and we don't see any more contracts of this new kind of where we have to invest massively in the large inventory for finishing the qualification. Majority is over. So we have not signed. We don't have anything which is sitting, which needs to be having a big inventory with us. So that way, I think that's the reason I am telling in a few coming quarters, you will see the decline.

Amit Dixit: Great sir. Thank you so much, and all the best.

Moderator: Thank you. Next question comes from the line of Sarang Joglekar with Vimana Capital. Please go ahead.

Sarang Joglekar: Yes, hi can you hear me. So on the order book, first of all, wanted to understand the INR 6,000 crore order book over how many years it will be completed?

Vishnu Malpani: Thank you for your question. So our order book is split over multiple years. So there are 3 years, 5 years, 6 years contracts that we have.

Sarang Joglekar: Got it. And on the product side, do you look at in the future, developing more complex, more value-added products? Or will you be scaling up with whatever you are producing right now?

Vishnu Malpani: Yes, we are doing that. In fact, if you look at our orders that we bagged in the last financial year, we have also looked at some very strategic orders where we are increasing our value-additions. So from a component manufacturing, we are moving into, say, end-to-end assembly of a complete gas turbine engine for Indian defense, right,So Mr. Chopdar talked about it briefly. So we are increasing our capability by going up the value chain in terms of the manufacturing industry. So from a component manufacturing, we today are building capability and skill set around end-to-end manufacturing as well. So, that is happening for our customers.

Sarang Joglekar: Got it. Yes. That's it.

Vishnu Malpani: Thank you.

Moderator: Thank you. Next question comes from the line of Aditya Bhartia with Investec. Please go ahead.

Aditya Bhartia: Hi, good afternoon, sir. My first question is on the revenue guidance that you have given. Last year also, we had started off with roughly 25% to 30% growth, and we ended up delivering almost like 35% growth. Do you think that you are being a bit conservative, given that we are expanding our capacity quite sharply? And is it a case that this year, as you are calling it to be a year of consolidation, next year growth can be even significantly faster?

Rakesh Chopdar: Hi Aditya. So this, again, it's a mixed answer for whatever, Vishnu, myself and what we spoke. As I told you, these facilities which are coming up, they are massive, right? And the equipment, what we are buying, they are not really available off the shelf. We have to import a lot of machines, right? And the questions which are coming is when the revenues will coming up, when the factories will come up, and what is the guidance we are looking at. So FY '26 is very crucial to us to set up these facilities, get the equipment. So the equipment which has arrived, say example, GE Vernova, this was not ordered today. This was ordered quite long back. And that's the reason the machines comes in, installs, we commission them, we start doing the qualification again, and then we start producing the parts. So there is a cycle which we have to follow, correct?

So whatever we have done before the QIP what we raised money and before these equipments, whatever was ordered long back. Similarly, from now, what we are planning to fill up these factories up, right? So the equipments have been ordered. So as this comes, so we need to give some time for them to stabilize. So FY '26 is what we look to stabilize first.

So maybe in coming quarters, we can let you know on this question how exactly we are going to give a guidance more. So at the moment, we hold this because it's termed as conservative or aggressive. That's difficult to say at the moment. So we are just waiting for all these facilities to come up and make sure that first the commitments what have been given to the customers to show the facility is up, that's where the focus is at the moment.

Anything you want to add, Vishnu?

Vishnu Malpani: So Aditya, just adding to what Mr. Chopdar said, I think if you have seen how we have given quarter guidance and annual guidance in the past also, we have been very accurate about where we want to go, and in all cases, we have over-delivered on our guidance. This is our estimate of what we will be able to do by achieving various aspects of growth in the organization about stabilization, ordering of machines, newer contracts, new team members, all of that. And 30% on a basis like this is a pretty good number to look forward to in my view.

Aditya Bhartia: Absolutely. Absolutely. My second question is on the working capital side, wherein you did speak about likelihood of working capital coming down. Anything more that you can share on that? What kind of trajectory should we look at, maybe not from the perspective of this year, but

over a slightly longer period of time also, where is it that you would like the working capital to be settling?

Vishnu Malpani: So I think, Aditya, Mr. Chopdar had attempted to answer this in the previous one, but still just to give you a broad contours of where we want to head to. So we believe that we want to get to by the end of this financial year, we want to get to about 170 to 180 days of cash-to-cash conversion cycle. And if you remember why and how this working cycle is getting trimmed, you will see our vertical scaling up revenues, right?

So our Aero business from INR 40 crores moved to INR 80 crores and will continue to grow. Oil and gas, which is currently about INR 13 crores, will significantly grow this year. So you would see all of this trimming towards the end of it.

Progressively, yes, overall, quarter-on-quarter, you might be able to see smaller changes. And then by the end of this year, we should be at a range of 170, 180 days of cash-to-cash conversion cycle.

Aditya Bhartia: Perfect. That's great to hear. Thanks Rakesh, Thanks Vishnu.

Vishnu Malpani: You are welcome. Thanks Aditya.

Moderator: Thank you. Next question comes from the line of Vignesh Iyer with Sequent Investment. Please go ahead.

Vignesh Iyer: Hello sir. Thank you for the opportunity. One question from my side. So what I was observing over the last 3 quarters is, there is some movement on part of the employee expenses moving on the higher side. And I heard your comments earlier where you said, we are entirely staffed for the requirement in relation to the new facilities that have opened up. So is it fair to say that the expenses already showcased the additional salaries that is required for the upcoming 7,200 and 7,400 square meter facility?

Vishnu Malpani: Okay. So Vignesh, just to go back to what I meant when I was talking about it. So over the last 1 year, Azad has hired a lot of senior management resources across various business posts that we had. Now this was created for the future, right? So each of our business verticals today need business leaders that are focusing on how we are going to be ramping up in each of these verticals, whether it's energy, aerospace and defense and oil and gas, because the way we have to scale up from this point is very different from 5 years ago.

So that is why the senior management positions have been manned. So in terms of the manpower cost, yes, you can say to an extent, we do have the people that we needed. But the ideal manpower cost for our business is significantly lower than where we anticipated it to be today. So today,

we are at about 20%, 21% of manpower cost right now for the business, but we anticipate this cost to over time, normalize to about 15%, 16%, 17%. But this will happen over the next few years.

Vignesh Iyer: Understand. I mean that leverage will play out more...

Vishnu Malpani: As a high-growth company this is the capital that needs to be deployed. So we are not looking at it from a cost perspective. We think this is an investment for the future. Today, our order book to sales is about 10x, 11x. For us to be able to cater that, we need senior leaders focusing on each of the growth engines and scaling the business rapidly. So that is our view on the business. And you will see employee cost, tapering off over the next few years.

Vignesh Iyer: Perfect. And sorry if I missed it earlier, could you tell me what is our EBITDA margin guidance? Will it remain at the same level as FY '25 going ahead?

Vishnu Malpani: Yes. So our EBITDA guidance will be consistent. So we would maintain the EBITDA guidance that we have done. For the last financial year, whatever we have delivered, we would want to continue at the same rate.

Vignesh Iyer: Perfect. Perfect. Thank you. That's all from my side. And all the best sir.

Vishnu Malpani: Perfect. Thanks.

Moderator: Next question comes from the line of Jatin Jadhav with Sahasrar Capital.

Jatin Jadhav: So sir my first question was regarding how many more dedicated facilities are we targeting to manufacture or cater to future clients or existing clients? And sir, my second question was regarding the gas turbine engine, which we have made. What are the future prospects? Or are we looking to deploy them in any near time soon in any products? Or what is the overall development over there?

Vishnu Malpani: Yes. So thank you for your question. I will start by answering the first one. So yes, we are looking at putting up more dedicated factories, and I think we are working on it as well. Over the course of this financial year, you would be able to see some updates regarding that. It will be difficult to share some insights on to it now, because we are borne by some confidentiality norms. But during the course of these years, you will see a couple of more manufacturing facilities going live for our customers. So that's one.

On the second front, which is gas turbine engine that we spoke about, see, Mr. Chopdar brought about the fact that this is our entry into something really big, for us to move from a component manufacturing into a complete engine manufacturing. And this is a strategic path for us, right?

So this is the first step towards a major development that is happening towards the defense ecosystem in India, and we are doing it for the first time. And India is also making engines for the first time, and this is their first step. So we are very confident of it. The developments internally, the results look promising. And we hope that this continues. And this step that we are taking will lead us to bigger and more bigger engines in the future.

Jatin Jadhav: Sir, just a follow-up on the engine. So currently the design phase is complete? Are we testing it?

Vishnu Malpani: So the design is with GTRE, we are looking at end-to-end manufacturing and supply of it. So the design is already achieved, and we are in the process of manufacturing. And then testing will be happening at DRDO, once the manufacturing is completed at our end.

Jatin Jadhav: Correct. That's pretty much from my side. Thank you so much and all the best.

Vishnu Malpani: Thank you. You are welcome.

Moderator: Thank You. Next question comes from the line of Vishal Dudhwala with Trinetra Asset Managers. Please go ahead.

Vishal Dudhwala: So first of all, thank you for taking my question. Congratulations for good set of numbers. As my couple of questions already answered, and I have left with one question. I will be squeezing a little bit more on EBITDA margin. At least, tell me your EBITDA margins have expanded to 36.3% in FY '25 as we have known that the mix evolves with more aerospace and defense work, which may be more engineering and intensive. So do you foresee any risk to margins or could this lead to further operating leverage in the upcoming years?

Vishnu Malpani: So our margin guidance is consistent with what we have delivered in FY '25, and we anticipate that we will grow the business at 30%, sustaining our EBITDA margins and PAT margins.

Moderator: Okay. Thank you for that. Next question comes from the line of Divy Agrawal with Ficom Family Office. Please go ahead.

Divy Agrawal: So a few questions from my side. I actually wanted to know what was the capacity utilization for the old 20,000 square meters facility and the 2 new facilities that came up?

Vishnu Malpani: I am sorry, can you please repeat your question, slowly?

Divy Agrawal: So I just wanted to know the capacity utilization for the old facility that was around 20,000 square meters and the 2 new facilities that came up recently.

Vishnu Malpani: So for the existing facility, we operate at an average of about 84%, 85%. And the new facilities that are coming up online, we are in the process of getting all equipment setting it up, etc. But our aim towards the end of this year we should be able to reach an optimum utilization of 70-plus percent by this year.

Divy Agrawal: Got it, sir. And regarding the 2 new facilities that you have set up, so approximately how much was the CAPEX that you have incurred for that?

Vishnu Malpani: So for us, we would not want to share numbers at a unit level, but our investment in the business will be to the tune of INR 700 crores, which will happen over time. And this will be invested in infrastructure and capacity building across all our dedicated units.

Divy Agrawal: Got it. This would include that 95,000 square meters as Sangareddy capacity, right?

Vishnu Malpani: Yes, this correct. So this includes the 95,000 square meters only.

Divy Agrawal: Okay. And just a clarification on the Sangareddy facility, in the last PPT Q3 PPT mentioned the capacity would be around 75,000. But in this current presentation is around 67,000. So can you help me with that? What's the final number for that?

Vishnu Malpani: Yes. Sorry, can you please repeat? Your voice is breaking. Can you please repeat the same again?

Divy Agrawal: Sure. So I just wanted a clarification regarding the Sangareddy facility. So in the last PPT of the Q3, the capacity that was mentioned was around 75,000 square meters. But in this current PPT, the capacity is mentioned as around 67,000. So there's a deviation between the 2 numbers. So can you help me with that?

Vishnu Malpani: Yes. So the way to think about this is, so we are constantly improving our capacity, right? So if you look at a few years ago, we were talking about 20,000 square meters of manufacturing capacity available with us and then roughly about 10x more coming up, right? Now the 10x more coming up was across 2 manufacturing plants. One was about 95,000 square meters and the other one is about 70,000 - 75,000 square meters.

Currently, what we are developing is Phase 1 of it, which is 95,000 square meters. So all the investments that you are seeing are going in the 95,000 square meters, and this is coming up one-by-one. As soon as this entire 95,000 square meters, all the plants in it come and get completed, we will move on to the second phase, which is 75,000 square meters.

Divy Agrawal: Okay. So it's 75,000 square meters, right?

Vishnu Malpani: Second one. Yes, second facility is about 70,000 - 75,000 square meters.

Divy Agrawal: Because in the presentation, it's mentioned 67,000 square meters. So I got confused between that, but thanks for the clarification, sir.

Moderator: Ladies and gentlemen, due to time constraints, we have reached the end of question-and-answer session. I would now like to hand the conference over to Amit Dixit for closing comments.

Amit Dixit: Yes. I would like to thank everyone for attending the call and fruitful discussion that we had today. I would now like to hand over the call to Mr. Chopdar for any closing comments. Over to you, sir.

Rakesh Chopdar: Thank you, Amit. Thank you, SGA team. Thank you, everyone, for your time and patience for this call. I have nothing much to add, and I think we are good. Thanks a lot.

Moderator: Thank you. On behalf of Azad Engineering Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.