“Sigma Advanced Systems Limited
Q2 FY27 Earnings Conference Call”
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MODERATOR: **MS. PRAYASI PATEL - GO INDIA ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to the Sigma Advanced Systems Q2 FY27 Earnings Conference Call hosted by Go India Advisors LLP. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for a Moderator: by pressing star then 0 on your touchtone telephone.

I now hand the conference over to Ms. Prayasi Patel. Thank you, and over to you, ma'am.

Prayasi Patel: Thank you. Good evening, everyone and welcome to Q2 FY27 earnings conference call of Sigma Advanced Systems Limited. We have the senior management of the company on the call, Mr. Sunil Kalidindi, Group CEO, Mr. Sridhar Thathacharya, Chief Financial Officer, and Dr. Pramod Raju, President, Corporate Finance and M&A.

We must remind you that the discussion on today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risk that the company may face. May I now request Mr. Sunil sir to take us through the company's business outlook and financial highlights, subsequent to which we will open the floor for question and answer.

Thank you, and over to you, sir.

Sunil Kalidindi: Thank you, Prayasi, and a very good evening to everybody. A warm welcome to Sigma Advanced Systems earnings call. We appreciate your continued trust and support. I hope you have the opportunity to review our investor presentation which has been uploaded on Stock Exchange.

Our goal at Sigma is to make India trusted manufacturing partner to the world's leading aerospace and defense companies, one they rely on for reliability, quality, and execution on their most demanding programs. For years, we've been building the capacity to deliver on that. This quarter began to show in our results.

In Q2, we delivered an operational revenue of INR417 crores, growth of about 11.43% over Q1 FY27, with an operational EBITDA of INR82.28 crores at a margin of INR19.7 crores on a consolidated basis. What made the quarter exceptional was the new order wins from our acquisition, which consolidates our leading position in aerospace and wings.

It's a clear sign that the investments we've made in capability, capacity, team building, and customer relationships are now converting to performance that you can all see. Let me take you through the strategic developments behind these numbers.

Firstly, we strengthened our global aerospace platform. We completed the acquisition of Bromford Precision Solutions in the UK, which has already deepened our engagement with Rolls-Royce. Bromford and Nasmyth together give us a meaningful UK platform, which is now integrated with our India operations.

Our facility in Sri City commenced production in September, and we've already started rolling out parts from the facility to the UK and onwards to our customers. It will be central to our margin improvement over time. And secondly, we advanced our position in artillery

ammunition. We're in a very unique position, being an Indian player focused on exports. So, we have progressed from fuses to shell bodies and then moved to advanced products and solutions.

We've also entered into a collaboration with Munitions India Limited to bring course correction technology in India. And this technology is well proven across different countries across the globe. Repeat orders from international customers reflect the confidence that they place in our execution.

Thirdly, we expanded into control systems for homeland security apart from military. In the past, we had secure orders from Army and Navy where we've delivered successfully. Together with Indrajal, we received orders from the Government of India for our latest offering, which is Indrajal Ranger, a vehicle-based anti-drone solution.

Our order book as on date is about 10,000 plus crores. Out of which 90% is international, giving us a very strong long-term visibility. On guidance for FY27, we're targeting about close to INR1,900 to INR2,000 crores with a margin of about 20% EBITDA. As we transition select manufacturing to India, we're also targeting an EBITDA margin improvement of about 200 to 400 basis points by the end of FY27. And a further 400 to 600 basis points by the end of FY28.

Of course, we will be reporting our progress against these targets. So, looking ahead, we see a very supportive environment across our markets. Global aerospace OEMs are increasingly looking to India for engineering depth and scale beyond cost advantage. NATO and allied nations are strengthening their ammunition manufacturing capacity, which requires dependable supply chain partners.

Counter-drone capability is becoming a part of everyday security requirements from all the global conflicts that we've seen across the world. And the Government of India continues to emphasize indigenous defense manufacturing. With our India and UK footprint, approvals with leading OEMs, and a widening product portfolio in our customer base, we believe Sigma is well positioned to participate in these opportunities.

On that note, I would like to hand it over to Mr. Sridhar, our CFO, to take you through the financial performance.

Sridhar Thathachary: Thank you, Sunil. Good afternoon, ladies and gentlemen. I will now take you through the consolidated financial highlights for Q2 FY27. Revenue from operations stood at INR417 crores compared with INR374 crores in Q1, which gives you a healthy growth of about 12% to 13%. Operational EBITDA stood at INR82.28 crores compared with INR61 crores in Q1 at a robust margin of 19.7%.

Profit after tax excluding share of profit or loss from our associate companies stood at INR48.6 crores, which, when compared with 35.41, which was the number in Q1. We have also made targeted investments in capex and working capital at our UK facilities, primarily aimed at automation and process efficiency, and we expect these to deliver further efficiencies.

With that, I would now like to open the floor for any questions. Thank you.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Nilesh Soni from Haitong Securities Private Limited. Please go ahead.

Nilesh Soni: Yeah. Thank you for the opportunity, sir. Sir, I wanted to understand about, what investments have we done in Nasmyth and Bromford post-acquisition? And secondly, what are the factors that will be driving the EBITDA margin expansion in these two acquisitions apart from the transfer of work? This is my first question.

Management: Yeah. So, between Nasmyth and Bromford, I think we've invested close to about £8 to £9 million. It's a combination of working capital infusion, right, capex into equipment, into new kit, which have significantly improved customer deliveries in terms of our operational metrics, which I think one key metric is OTIPs, on-time-in-full. We've taken it up from 65% to about 97% over the last few quarters. And yeah, that's the investment that we've made, and that's clearly reflecting in operational efficiencies, which in turn is reflecting in our financial performance.

Management: Correct. So this is Pramod Raju. So with regards to the operational efficiencies, you'll see from our Q3 of last fiscal year to Q2 of this year, you've seen from our -- what we classify as UK, Sigma UK, a strong breakup of our EBITDA margin, right? Therefore, you're seeing at least a 200% per quarter improvement on our EBITDA margin in our UK operations.

And this is, as Sunil was saying, contributed because of the various investments that we've done, nearly £8-£9 million across buffer stock, raw materials, supply chains with plus the capex in new equipment kits that we've invested into Nasmyth. Now that equipment and also insourcing, so going forward we're expecting the quarterly trend to continue just because the new kit will start to perform as more product flows through it over the next couple of quarters.

Nilesh Soni: Okay. And secondly, if you can quantify what will be our total capex over next 2 or 3 years, in these 2 entities and standalone both together?

Management: Yeah. I think, we've made adequate capex investments already to give us enough capacity for the next few years. So, there is no capacity constraint across all our manufacturing facilities. I think we're well positioned to execute on the order book that we have for the next couple of years.

Nilesh Soni: Okay, got it. That's it from my end. I'll come back in the queue.

Management: Yeah, thank you.

Moderator: The next question is from the line of Mukul Darda from Valorous Investment LLP. Please go ahead.

Mukul Darda: Yeah. Hello. Big kudos to the Sigma team. Firstly, I would like to appreciate the vision and commitment that have gone into building Sigma and the opportunity you guys are creating for the long-term investors to participate in this journey.

Moderator: The participant line got disconnected. We move on to the next participant. The next question is from the line of Rajesh Joseph, an Individual Investor. Please go ahead.

Rajesh Joseph: Am I audible, sir?

Management: Yes, we can hear you.

Rajesh Joseph: Sir, today you have announced the plan for raising up to INR3,000 crores. What is the purpose of this huge fundraise, and within which time we are planning to do this?

Management: So, the fundraise is primarily to fuel our growth coming in from M&A, new acquisitions. We've been working on multiple opportunities over the last 6 to 8 months. And I think next quarter, Q4 is when we expect to close these transactions. And this fundraise is primarily to fuel growth.

Rajesh Joseph: Okay, sir. Thank you. That's all from my side.

Management: And all this is subject to shareholder approval, etcetera, in due course, right? But we have a healthy balance sheet and we have cash on the balance sheet. So any fundraise post any approvals would be linked to any inorganic subsequent time. So sometime in Q4 is potentially where something could progress.

Rajesh Joseph: Thank you.

Moderator: Thank you. The next question is from the line of Ronak Singhvi from NAFA Asset Managers Private Limited. Please go ahead.

Ronak Singhvi: Hello, happy Diwali first of all. I have questions on your 155mm shells business. So basically, you have 2 orders worth 100-100 million for shells, of which one order you have mentioned the quantity of the shell is 1,47,000 units. The other would also be the same, I guess. So where exactly is your manufacturing facility for the shells?

Management: Yeah. So we don't want to disclose any quantities at this time, at this point, but for shells specifically, we have already insourced a lot of the production process as part of our facility in Sri City. We don't do forging, so forging, there are many suppliers in the country.

So we buy forges from the forging companies, and the rest of the process is done in-house. So last quarter, Q1 rather was a bit more outsourcing. Q2, we've made significant progress on our insourcing. And ultimately, except for forging, we'll do the rest of the process in-house.

Rajesh Joseph: Okay. And we already started

Management: And we've already started delivering to our international customers. And since we've started delivering and to quality conformance, and expectations of the customers, and that's also primarily the reason that we've got repeat orders.

Rajesh Joseph: Okay, Sir, on 8th June you have announced that you got 40,000 orders for shells, basic shells, M107 export order. So how much of it is recognized as revenue in this quarter? Because the

timeline which you have given is 6 months, so which is getting completed in December. So, did we record any revenue?

Management: About 85% of the revenue is already recognized in Q1 and Q2. And the rest 15% is already completed in October, right? And you'll see it in -- it'll reflect in the Q3 results.

Management: And just to add on to that, as Sunil was saying, there's supply chain changes that we did. So, with regards to the margin expansion between Q1 and Q2 on our M107, you'll see in our reported numbers that we gave that the margin expansion for our defense exports in the presentation is much stronger despite a slightly smaller Q2 sales of M107. So that 15% you'll see in the presentation to the stock exchanges shows the margin expansion.

Rajesh Joseph: Got it.

Management: So it's moving in the right direction and now that we're doing more in-house, our margins are expanding in the defense export of these shells.

Rajesh Joseph: Okay, got it, sir. Also, one last question, your first announcement regarding this 155mm shells fuses, the order which you got for filled fuses, that is only for the fuses or for the whole shells?

Management: No, fuses and shells are different. So please understand that. Fuses is a combination of fuses and filling. Right? And shells is different. So all these form part of the same ammunition platform. It's two different components, but finally we're offering it to the customer as a solution.

Management: So each of the orders that we have are specific that we've announced are specific to that part and not as an entire solution, right? So the filled fuses order that we announced was just the order just for the filled fuses. The body order that we announced is just for the body. So now we can -- we're a full solution provider for the entire shell except for the explosive, right? We have the in-house capability to do the entire shell. But the orders that we've announced are all for the individual components that go into the system.

Rajesh Joseph: Okay.

Management: So, one correction there [inaudible 0:19:00] entire shell but it's actually the entire ammunition.

Rajesh Joseph: Yeah, got it, understood sir. Also, like, what the CCF MOU with MIL, are we the only company which are into this MOU with MIL for CCF, or some other companies are also there?

Management: It's an exclusive MOU with the MIL because we are bringing in the technologies through our partners.

Rajesh Joseph: Okay. So like you are developing and you'll be developing with MIL?

Management: No. So the technology has already been developed by our European partners, right? Well-tested, battle-proven across Europe and America. And that technology is what we are bringing through our partnership and offering it to MIL on an exclusive basis.

Management: So, Sunil was saying this was a technology that's been in testing since 2017 by our joint venture partner in India. The European partner who we have a joint venture with, they've already filled, tested it. They've already deployed it into combat around the world. And what we are bringing is, we've indigenized the technology into India, and that is what we're offering to MIL in our partnership.

Rajesh Joseph: That's great news, sir. So how much time do you expect from these fuses?

Management: With MIL, we are expecting somewhere between 6 to 18 months. For fuses too, actually translate it, for this partnership to actually translate into supply into MIL.

Rajesh Joseph: Got it, sir. That's it from my side, sir. I'll get back in the queue. Thank you.

Management: Okay, thank you.

Moderator: Thank you. The next question is from the line of Dipen Vakil from Phillip Capitals Private Limited. Please go ahead.

Dipen Vakil: Yeah. Thank you for the opportunity, sir. Sir, so can you help us understand about a little bit about your facility as to how is your capacity utilization in your current facilities and what are your expansion plan within India, even abroad? So can you help us with your capacity utilization? That would be my first question.

Management: Current aerospace capacity utilization in India is about 15%, right? And that will rapidly grow. And even from a shells perspective, it's about ammunition, rather, it's about 20%. And from our electronics business, defense electronics within the country, we are running a single shift, right? And we're also expanding the current infra. So that gives us enough room, or enough capacity, unutilized capacity for the next few years.

Dipen Vakil: So what kind of capex are you expecting in next few years for this?

Management: No more capex. Capex has already been invested.

Management: So what you see in the balance sheet in our filings earlier this evening, you will see the capex. So that's already built in. All the capex is already put into these facilities.

Dipen Vakil: Got it, sir. Sir, I'm not sure if you have answered this question already, but can you help us understand the kind of deliveries that will happen for your aerospace order book? So will it be like a balanced staggered execution, or there will be like a gradual ramp-up into execution, peaking out and then coming down? So what kind of execution can we expect in your aerospace order book?

Management: So UK execution is stable and we're looking at 15% to 20% annual growth year-on-year. And from our new facility in 360, we're expecting about 15% per quarter ramp-up.

Management: Yeah, so just to highlight on that what Sunil was saying. In our aerospace order book, it is a long-term contract. It's an executable order book. This is not a development order book. So we

already have a run rate in our UK operations with factories in locations. So there is no gap between the order book and what we're currently executing.

And but given we have new orders that are RFQs in the wind. We're expecting that 15% growth year-on-year to be continued to add to our order book. But it's a stable high visibility order delivery for the next 5 to 7 years.

Dipen Vakil: Got it. Sir you also in your PPT, you have mentioned about the defense products and solutions from counter-drone solution, UAVs, and other proprietary solutions. Are these under currently under development or they are already developed and maybe going and undergoing trials or certification?

Management: So, like I mentioned in my opening note, right? So, counter-drone solutions, we're one of the leaders in the country, right? We've already supplied successfully to Army and Navy. Currently we have a large contract with BSF that's under execution, right? It's the largest contract in the country for under MHA, Ministry of Home Affairs, for BSF. And we have a good pipeline for a counter-drone solution. And we also have -- what's unique to Sigma is the ability to supply these systems overseas with all the certifications from Nasmyth.

Dipen Vakil: Got it, sir. That's very encouraging to hear, sir. Thank you so much and all the best for Sigma.

Management: Thank you.

Management: Thank you.

Moderator: Thank you. The next question is from the line of Jai Mendiratta from Nirmal Bang Private Limited. Please go ahead.

Jai Mendiratta: Thank you for the opportunity. Firstly, congratulations, sir, on a great set of numbers. So, I wanted to understand, would you want the aerospace defense export and domestic defense split to be in FY28? Given that the domestic defense is only 3% to 4% of the mix, is it still a strategic focus?

Management: Yeah. So it will continue to be a strategic focus, because as part of the domestic business we build full solutions for the customer for various customers. And that has a healthy margin profile and that business will continue to grow.

Jai Mendiratta: All right. Understood. And so, Sri City Phase 1 was live. So what utilization do you expect by Q4 FY27 and by end of FY28 in general?

Management: By end of FY28, I think we'll achieve about 50 to 60% capacity utilization. That's why I said, the capex set, I mean, the facility is good for the next few years of our execution.

Jai Mendiratta: Okay. Noted. Thank you so much.

Management: The infrastructure, since it's already built and we already have the contracts and the work happening in our UK operations, so the transfer of work is about what we've already executed and demonstrated, started last month, right, that we're shipping parts out from India. So, as we

pull more parts into India, so we'll get to 50% to 60% capacity utilization by the end of next year and then FY29, we should be at full capacity utilization.

Jai Mendiratta: That's great to hear. Thank you so much. Thank you.

Management: I just wanted to highlight that we didn't need any orders to fill the factory, right? We already have the orders. Please go ahead.

Moderator: Thank you. The next question is from the line of Devang from Spark PMS. Please go ahead.

Devang: Hi, thank you for taking my question. So, just wanted to understand the bridge that you have made INR700-odd crores in H1. To achieve INR2,000 crores, you need around the ramp-up of INR1,200 crores. So, what would be the ramp-up over Q3, Q4, what will drive that growth? So this first question, sir.

Management: Yeah. So, the ramp-up is really coming in from both aerospace and defense exports. And Q3, Q4 for domestic defense business, as you're aware, most defense companies in India are heavily skewed towards Q3, Q4. And those were the best quarters for Indian companies. So on all 3 fronts, I think we have promising next few quarters.

Management: Yeah. Just to add on that, when you look at our financials on the first 6 months, we already are at 800. So, we've announced INR3,915 crores of new orders from July 1st to date, right? So we have a large order book and a lot of that order book is executable over the next 12, 18 months. So, a lot of reduction of those orders that we've announced are going into Q3, Q4. So, this 6 months was strong at INR800 plus crores of top line, as you can see in our numbers. But you'll see a lot of the new order wins start to contribute in Q3, Q4, as Sunil said. And then the aerospace business is consistent.

Devang: Right. And sir, this recent defense order that you have received, is that equitable and are there any other orders in the pipeline?

Management: Yeah. So in terms of our overall order book, defense exports itself, we're talking about INR2,700 crores, right? So I think it's one of the largest order books for any product in the country.

Management: So I think, as Sunil said in his opening remarks, we are the supplier of choice to a lot of our customers now. Now that we've executed in Q1 and Q2 on time and conformed to their specs, that's why we're winning the repeat orders from certain customers. And now we've opened up the NATO order book.

So, from that perspective, we will be a dominant exporter of these solutions. So, we see interest from other new NATO customers that we are in discussions with. Yeah, so we see as long as there's conflict happening, as we see throughout the world for the medium term, and also the restock piling that needs to happen and the defense budgets in NATO going up for what's being announced. We see the medium term that the order books will continue to rise. And a lot of our orders are orders that they're repeat orders based on delivery milestones. So we expect this to continue for the medium term.

Devang Great. And sir this, in terms of UK backfill, what is the progress that we have seen in that?

Management: Sorry, say that again, please. UK backfill?

Devang Yeah. So the work that you're transferring to India.

Management: Yeah. So we have backfill commitments from our customers for both the UK companies already contracted, and we have a lot more RFQs, and new orders coming in for our aerospace business.

Management: So, on some of our aerospace contracts for the transfer work that we start to make in India that was contracted for the UK, but contractually, we have terms that say they have to give us equivalent amount of work in the UK. So, we already have that contractually in our contracts.

With regards to the backfill, additional backfill for the defense work that we're doing, we have won some smaller orders in the next last few months, right? Therefore, to fill our UK operations, we're not seeing any issues in keeping those capacity utilization high.

Devang: Great. And sir just one last question. There is an increase in debt in the 6 months. So what is your view on the debt? Are you going to pay off that debt, or it will increase in the H2 for working capital requirements?

Management: I think we barely have any leverage on the balance sheet. The current debt is only about INR80-odd crores. And we borrowed from the parent to fund previous acquisitions before the FLR point. And yeah, the rest is all working capital. So we're relatively --we're almost debt-free in that context.

Management: Yeah. But from our perspective, as Sunil was saying, term borrowings is very low in our case. Everything is working capital. So, in a business environment of nature with our business, we're well in line with industry standards on working capital requirements, right? So yeah, with regards to repaying, we don't like to have a lot of debt, any debt on our balance sheet other than working capital.

So we will figure out a strategy, right? But we haven't decided that small amount of term loans, INR76 crores that we have. When we'll pay that back. But number 2 is, the other term borrowings that we have that you'll see on our 6-month balance sheet, that has a schedule of payback over from January 1st to December 31st, calendar '27. So a big chunk of that will be paid off as per agreement milestone to the borrower. So you will see that coming down through the next -- from January 1st to December 31st of next year. But the other loan that we have, we have not finalized the repayment strategy yet.

Devang: Great. Thank you, sir. Thank you for taking my question.

Moderator: Thank you. The next question is from the line of Varun Kulkarni from InCred Capital Limited. Please go ahead.

Varun Kulkarni: Hi, good evening, and congratulations on the great set of numbers. The first question I had was that you released a statement saying that you're looking for a fundraise. So I just wanted to

understand what is the mix of debt and equity in the fundraise and what is the actual purpose of this? Is this going to be primarily geared towards an acquisition or to fund our working capital?

Management: So there's no additional working capital funding as such required, but primarily, the fundraise is primarily to drive our acquisitions.

Management: So as, as you would see on our balance sheet, we do have about INR350 crores of cash, which is a portion of that is from the pref placement that we did in June. We do have funding and allocation of objects of that for general corporate purposes. But as Sunil was saying, we don't need working capital. We have working capital lines from various financial institutions that are lines that will allow us to achieve our objective this year and next year.

And we do have cash on the balance sheet, so all of our businesses are generating cash, right? Therefore, we don't need any working capital cash raised for any working capital or general corporate purposes going forward. So our strategy is the inorganic strategy to continue to grow the Platform.

Varun Kulkarni: Got that. And on the inorganic side, so we have already acquired UK-based companies. Are we looking forward to acquiring any European or US-based assets?

Management: Yeah. We are looking at all 3 geographies. We'll break it as and when we're closer to actually closing a deal.

Management: Yeah. As we stated in our Q1 earnings investor meet, we are building a global platform. So we still have 2-3 years of where we want to get to in that, both from a horizontal and a vertical integration and customer penetration. So we are looking at all these geographies as we speak.

Varun Kulkarni: And on the order book front, what export revenue are we expecting in FY27 and FY28, and which facility and entity will kind of build that?

Management: We can't give you the breakdown as such, but about 90% of our revenue is export-driven between both UK and India.

Management: So if you look at our breakdown and the guidance we've given in Q1 also and for the year, our domestic business is around roughly 10% of that. All of our other contracts in our defense exports and our aerospace business are all GBP, US dollar, and euro-denominated with global customers.

So 90% of our revenue is from global contracts and about 10% is domestic. With regards to what is going to be, you know, the breakup, we can't give that now. But on the presentation, we give you a sense of how it's growing. Aerospace is a stable long-term contracts in place. The defense exports, we are seeing that ramp up because we've won so many recent orders and we're executing and delivering.

That's where you'll see growth, strong growth over the subsequent quarters. So the contribution of the defense exports to the overall mix will grow faster if on a status quo with our current platform. Organic wins are very, very large there.

Varun Kulkarni: Got that. And would it be possible, or do you feel like it's difficult to give a breakup in terms of the book by customer?

Management: No, I don't think.

Management: We never disclose.

Management: It's sensitive information and we're protected by all the NDAs that we've signed with the customers.

Varun Kulkarni: All right. Yeah, that's it from my side. Thank you so much.

Management: Yeah. But just to add on that. If you look at the presentation, the customer base that we have, we are -- just want to highlight that we are direct customers to all of the customer logos that you see on that. So we don't sell to sub-tiers. We are directly selling to the defense primes and the majors and the aerospace majors globally.

Varun Kulkarni: Got it. And one last question, if I may. How much of the aerospace revenue do you expect to move to India by FY28? And of the press that we have done, how will the balance be split between Sri City Phases 2 and 3, UK automation, and other acquisitions maybe?

Management: We don't have the numbers offhand, but yeah, maybe we will provide you folks to whatever extent we can disclose to you.

Management: Yeah, we tend not to give FY28 forward-looking numbers. We like to just give 1 quarter, maybe 2 quarters maximum outlook. But the transfer of work is a good contribution to our EBITDA margin. Therefore, we're working aggressively to make sure that it happens, right? And you'll see it on a Q-on-Q when we announce about how much work.

But whatever parts on large volume make natural sense to make in India, we are going to shift, right? So, there's no point in making it. With regards to the second point on the automation, that's where some of the investments in the UK operations, because similarly there, the shifts that we want to automate so we run 24/7 on certain machines.

So that investment is being made in palletization, and you'll see that contributing to the organic -- sorry, the operational efficiency margin expansion Q-on-Q. So it's already coming in, and we've already made certain investments, but you'll see the contribution, that contributing organically.

Varun Kulkarni: Fair enough. All right. Thank you so much.

Management: Thank you.

Moderator: Thank you. The next question is from the line of Vaibhav Jain from Nucleus Capital. Please go ahead.

Vaibhav Jain: Yeah, hi sir, good evening. I want to understand regarding your inorganic growth, you are raising INR3,000 crores fund, so what kind of opportunity in terms of size you are looking? Because

previously you acquired Nasmyth Group, I think around INR250 crores, and it was doing INR750 crores top line?

Management: Yeah. So the size of our acquisitions are somewhere between companies which are doing about USD100 to USD150 million. That's the size that we're talking about. And then these opportunities would be spread across different-by-different customers and a different set of capabilities.

Management: Yeah. So when we look at our inorganic growth strategy, we continue to find where we have deeply penetrated into new customers. We don't want just a small opportunity to partner on. In that we want to penetrate the OEMs. Therefore, we're not looking at smaller companies anymore given the scale of our business.

And number 2, but we will continue to look at companies that bring capabilities. If they bring a capability to us, it might not be on that scale, right? But from the real main strategy of getting into new OEM customers, you have to be sizable. And what Sunil had mentioned is the scale we're looking at for each opportunity.

Vaibhav Jain: Okay. And then the second question, previously we acquired the company which was in financial distress. Okay. So upcoming our acquisition, they will be completely financially healthy company or again, they'd be in similar range?

Management: Sorry, which company was on financial stress?

Vaibhav Jain: Nasmyth Group, it was in financial stress.

Management: Nasmyth Group, the day we took over, they were already generating positive EBITDA.

Vaibhav Jain: Yeah. But PAT negative.

Management: Days of financial stress was prior to us taking over. So the Nasmyth has revived by the time we acquired, and then we made a lot of incremental improvements, right? And that what's reflecting in our financial performance.

Management: So we continue, when we look to partner on companies, we always look at companies that have a good customer base and they are EBITDA positive. We are not looking at any companies that will put a drag on our P&L. Right? So we continue to look at those companies where we can, similar to what we did in Nasmyth, and that they had the base, they had the customers, they had contracts. We can renegotiate with the customers on the contract.

Therefore, we have a more visible order book. And number 2 is, our India manufacturing scale where we can transfer work into India. Those are the only type of companies we're looking at, right? I mean, we're not making investments for the sake of investment. It has to fit into our overall strategy of our business mix, right?

And our strategy of having a dual source manufacturing base for our end customers. So that's where the margin expansion comes, but we do not make any investments -- when we make the investment, we do not make it into any loss-making or sick companies. So we are really

partnering all companies and taking those companies to the next level by being part of a large group.

Vaibhav Jain: Okay. And sir, with your discussion, it is looking like you already finalized certain kind of acquisitions. So what may be the timeline of this acquisition, sir?

Management: We're looking at possibly Q4.

Vaibhav Jain: Okay. And it will be single company, or we again look 2-3 companies of similar range?

Management: Too early to conclude on that, but we will keep you informed in due course.

Vaibhav Jain: Okay. Just last one question, sir. Like within a year we acquired many companies and we build a completely different company other than this Megasoft Sigma Advanced System which were in defense and aerospace. So what is your larger vision? Because we are acquiring company who is supplying to F-35 or B-21 bomber and other. So what is your larger vision?

Management: So vision is to keep building on new capabilities through new acquisitions, and target to penetrate into new customers or the customers that we have today in aerospace, but we don't have too much business from them. So new acquisitions will help us.

Management: Yeah. So with regards to that, I mean, what are we building? Building a global aerospace platform, right? Which Make in India and having a service offering of onshore presence closer to customer as well as our large-scale India manufacturing. That is what the OEM customers want. Right? So we will continue to add to that platform as we go forward.

And it's very clear what we've done in Nasmyth as well as in Bromford. So it's the same playbook. And any new opportunity that comes into the Sigma platform -- we have a strong management team, not just at Sigma Company, but also in our UK operations. And these are senior management from some of the largest companies that have historically run businesses on a much larger scale than what Sigma is today.

Therefore, and also done the same playbook for other companies in years past. So we're just replicating, leveraging off of their know-how capabilities and a relatively young management team, right? I mean, we're not young, we're 20, 25, 30 years average, 30 years average experience, but it's a team that's already delivered. Right? And we're just replicating that as we build this India platform.

Vaibhav Jain: Okay. Thank you.

Management: Thank you.

Moderator: Thank you. The next question is from the line of Tejash from T&J Investments. Please go ahead.

Tejash: Thank you for the opportunity. And so I would like to thank you for starting the calls with the investors which we had requested during the AGM. So appreciate that. Sir first is, what is our current utilization at CCT as of Q2 end and what is it likely to reach by end of FY27?

Management: Yeah, I think we've already answered this question, but I don't mind repeating myself again.

Tejash: Sorry, but I missed it.

Management: No problem. So 10 to 15% utilization currently since we've just begun operations last quarter. But going forward, I think every quarter will increase by around 10% every quarter.

Tejash: Okay. And so what is the split? You mentioned that certain amount of work has to be given to the UK. So let's say INR100, what is the split that you need to give to UK and rest, the balance, can be all transferred to India? Because I'm assuming India would have better margins in terms of producing the output?

Management: So about a 30-70 model, 30% would be ultimately retained in the UK and the balance will be done in India.

Tejash: And just on the work…

Management: Please go ahead.

Tejash: Sorry, sir, I didn't get that. What is the number that you give?

Management: That 30% will be retained in the UK and 70% will ultimately move to India. Right?

Tejash: Okay.

Management: Okay. But the very unique feature that we have in our UK business, both in Bromford and Nasmyth, 25% of our -- roughly about 25%-30% of our revenue comes from defense business, right? It's highly restrictive, profitable, and that can never be moved to any other part of the world. And that's something that no other Indian company in the aerospace sector has. We supply to Lockheed Martin, Airbus, defense programs, and BAE Systems.

Management: I just want to add to that to what Sunil was saying is, that is the work mix of what's being manufactured in India and how much near-end product comes out of India when we talk about the 30/70. When we talk about our P&L and how we've been reporting our numbers, our P&L will always be through for the aerospace business or the Sigma -- it'll be in Sigma UK. So, you know, our India factory will be a subcon to the UK. So the P&L will run through the Sigma UK limits in the published numbers that we publish.

Tejash: Okay. And sir, since what I understand from the vision is we're looking to be the global supplier for specifically dedicated to aerospace. Our current EBITDAs between all the 3 verticals that you have shared, our EBITDA is the lowest in aerospace. So is it because we are a Tier 2, Tier 3 supplier and we are not dealing in critical components, or is there some other reason for that? If you can throw some light on that.

Management: No, I think, you know, number one, we're not a Tier 2, Tier 3, as I said. We are a Tier 1 and we're classified and we directly sell to all of our OEM customers. We do not sell to sub-tiers. For, you know, for the likes of Rolls-Royce, GE, Airbus, Boeing, etcetera, we directly contract with them. So we are classified as a Tier 1. Number 2 is with regards to the margin expansion,

you know, when we bought the business, because there is a large capital base and overhead in UK.

That's why the Western world runs at those upper single digits EBITDA margin, right? Unless they've automated and done the capex. What we are contributing is by doing the capex, doing the automation in their operations, number one. Therefore, the operational efficiency improves in those.

And number two is when we start to do the transfer of work. So, we're making in India versus making in the Western world, we will get a much higher EBITDA margin by manufacturing in India. Therefore, our P&L, the EBITDA margin will be in line with other Indian players by next year, by FY28.

When we say that, it's also with us maintaining a UK base of nearly 500 plus employees plus all that infrastructure, etcetera. We're still going to maintain Indian EBITDA margins in FY28. Because our contracts and the contracts that we've won are international in nature, and the programs that we're on, the value-add is much higher contract.

Therefore, if we were to make all of it in India and get those contracts in India, we'll be much higher than all the Indian players on the EBITDA margins, right? But given we have a UK fixed base, we will be competitive, if not slightly higher than India. Other players in the aerospace sector in FY28 itself.

Tejash: Yeah. So I get that part of the UP integration. So what I was just trying to understand that since our aerospace -- so let's say by FY28, do we see the aerospace EBITDA moving up to where our defense currently is in the range of 22% to 30%? Are we looking to take it there somewhere? Is it possible? Is it probable?

Management: Yeah, it's possible. I think 25% to 30% is what we should look at.

Management: So FY28, we'll be in that 25% to 30% EBITDA margin for the rest of this.

Tejash: Okay. That's it from my side. And so thank you for answering my questions and happy Diwali to the entire team.

Management: Thank you.

Moderator: Thank you. The next question is from the line of Ronak Singhvi. From NAFA Asset Managers Private Limited, please go ahead.

Ronak Singhvi: Hello. Thank you for the follow-up question. I just wanted to know, when I see the cash flow statement, I can see bank balances other than cash and cash equivalents in the operating segment, like, how should I read that, or is that a mistake?

Management: Sorry. Could you repeat your question?

Ronak Singhvi: In the cash flow statement, I can see bank balances other than cash and cash equivalents in the operating segment, like adjustments for operating segments. So what is it? Or like, is there a mistake? How should I read that?

Management: We have this funds that we got from the preferential issue, we have comfortably parked it in fixed deposit.

Ronak Singhvi: Okay. So basically financing, we can read that as financing item?

Management: Like I said, which is in the interim, parked there.

Ronak Singhvi: Okay, got it, sir. Thank you. That's it from me, sir.

Management: Yeah, thank you.

Moderator: Thank you. We take that as the last question for today's conference call. I now hand the conference over to the management for closing comments.

Management: Thank you, everybody, for participating in this call, and wishing you all a great Diwali. Thanks again.

Management: Please continue to follow us. I think from our perspective we have a good strong business. We'll continue to grow. What we have shown in the last 2, 3 quarters, and we appreciate that one comment with regards to the analyst call and investment call.

We did the Q1 call for the first time in a physical meet, but going forward we will be doing these calls on a routine basis. But it's very important because our business is transforming very quickly. And we wish everyone to continue to participate in our story. Thank you very much.

Moderator: Thank you very much. On behalf of Go India Advisors LLP, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.