“Aequs Limited

Q2 FY '27 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '27 Earnings Conference Call of Aequs Limited. 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 star, then zero on your touchtone phone. I now hand the conference over to Mr. Manav Poal from E&Y. Thank you, and over to you, Mr. Manav.

Manav Poal: Thank you. Good evening to all the participants on the call, and thank you for joining in. We welcome you to the Q2 and H1 FY '27 Earnings Call of Aequs Limited. Before we proceed, let me remind you that this discussion may contain certain forward-looking statements that may involve known or unknown uncertainties and other factors. These statements should be viewed together with our business risks, which may lead to actual results and performance differing materially from what is expressed or implied.

To take us through the results and answer your questions today, we have the management of Aequs Limited represented by Mr. Aravind Melligeri, Executive Chairman and CEO; Mr. Rajeev Kaul: Co-Founder and Managing Director; Ms. Reenah Joseph: Chief Financial Officer; and Mr. Harish Bang: Deputy Chief Financial Officer. We will start the call with a brief overview of the previous quarter and then conduct the Q&A session.

With that said, I'll now hand over the call to Aravind sir.

Aravind Melligeri: Good evening, everyone. Thank you for joining us. At Aequs, we always believed in building manufacturing capability in India means more than adding capacity. It means bringing together the engineering, the processes, the partnerships needed to deliver increasingly complex work for our global customers.

The first half of '27 has taken that ambition forward with a growing business, deeper customer relationships and longer-term programs that give us real substance to the platform we are building. Today, I will talk about 3 things: how the business has performed in the first half, where we stand in consumer and the long-term commitments we are building in aerospace. Rajeev will take you through our operations, and Reenah will take you through the financials.

Let me start with the numbers. In the first half, consolidated revenue grew by 50% year-on-year to INR8,046 million. Aerospace grew 42%, the consumer revenue has more than doubled. Aerospace continued to deliver strong growth and profitability, supported by the healthy demand and program execution.

In consumer, our customer programs continue to progress, but Q2 volumes ramp was slower than what we had anticipated. The customer qualifications took longer and supply chain constraints affected our utilization. We see this as a shift in the timing, not a change in the underlying opportunity. Given these factors, we are recalibrating our path to the consumer EBITDA breakeven, which we had earlier indicated that it will be for Q4 FY27.

The near-term focus is clear: improve utilization, turn the capacity we have already installed into profitable growth. That focus also shapes us how we invest. With much of our consumer capacity already in place, we will pace our investments in line with our ramp with our customer schedules.

Turning to aerospace. The most significant development has been the growing depth and duration of our customer commitments. Our order book reached USD1.1 billion, up 9% this quarter, alongside further expansion of our portfolio. That gives us a long-term revenue visibility across the long-cycle aerospace programs. After the quarter ended, we signed a new long-term agreement with and expand the relationship with 6 Safran entities. They broaden our scope across critical aerospace components drawing on the capabilities we already built at Belagavi, and they include landing gear contract for our upcoming Hosur ecosystem.

First key milestone was undertaken with a groundbreaking to kick-start the development of the infrastructure. Hosur takes the integrated model into its next chapter. At Belagavi, we have built an ecosystem centered on aerostructures. At Hosur on a 250-acre SEZ and DTA site, we will be extending the capabilities to manufacture aero engine and landing gear components. This is not just a bigger footprint. It widens the work we can take on and value we can deliver from India end-to-end.

We are winning programs faster than we had planned, and those wins need investments ahead of the revenue they generate. So we will keep investing behind the demand in the aerospace while staying disciplined in how we deploy our capital across other businesses. Looking ahead, aerospace remains on track for the year and the focus across the business is converting progress in our customer programs into sustained production and stronger earnings.

The direction we are pursuing is clear: deepen our participation in global programs, bring more of the manufacturing value chain to India and build operating consistency that turns capability into lasting customer relationships.

I would like also to welcome Reenah Joseph, who has joined us as our Chief Financial Officer. Reenah brings in nearly 2 decades of experience across the corporate finance, capital markets, M&A and investor relations. We are glad to have her part of team, and her experience will be instrumental as we build our next phase of Aequs growth.

With that, I'll hand over to Rajeev Kaul, the Co-Founder and Managing Director.

Rajeev Kaul: Thank you, Aravind, and good evening, everyone. The strength of our platform lies in how our capabilities come together. Being integrated allows us to take on more complex work and serve a greater share of our customer requirements. Our focus is on turning that capability into consistent delivery. So let me take you through what that looked like in both the businesses this quarter.

Let me start with aerospace, where our portfolio keeps widening. We added 238 parts in the quarter, up 4% sequentially, taking us to 5,978 products. Every new part widens our engagement with the customer. And as these programs move through qualification and into production, the relationship deepens. We are also adding capacity to keep pace with our customer requirements. In the quarter, we added 9 CNC machines, taking us to 229 machines, and 2.12 million

annualized machining hours. Even with that new capacity, aerospace utilization was 69%, up 8% year-on-year and 76% in India. So the capacity we add is being put to work.

At Hosur, we are building on the Belagavi blueprint and extending it. Alongside forging, machining, heat treatment and surface treatment, the plan adds plant, ingot-to-billet processing, ring rolling and testing and lab facilities to be developed by Aequs and our joint-venture partner. On our indicative roadmap, the first phase of investment begins with Q4 FY '27 and commercial production will start in FY '29.

Let me turn to our consumer business and to the guidance we gave earlier that consumer would turn EBITDA positive by Q4 FY27. First is consumer electronics. The consumer electronics unit is a new facility that began operating less than a year ago. Our programs are qualified. Our product updates still go through a qualification cycle, although a shorter one.

In Q2, that cycle took longer than we expected because it involved process modification and building new capabilities within the facility. That is part of the learning curve for any new facility, and cycle times are improving as our processes improve. Our focus is on completing this capability buildup and moving into consistent production.

In toys, Q2 was a quarter of the customer transition. Volumes from an existing customer were phasing out while we ramped up our business with Mattel, our new key customer. Scaling work with Mattel involved developing new products to their specification and then ramping up production, which naturally takes time.

Volumes in the quarter were also held back by supply chain constraints, mainly certain components shortages on select products and weather-related logistic disruption. Our focus now is on completing the ramp-up and scaling the Mattel business.

In summary, when we set the Q4 milestone, we assumed a shorter learning curve at our new facilities and faster knowledge transfer as we ramped up new products and customers. The direction has been right. Our processes are maturing and our customer relationships are deepening, but the ramp has taken longer than we expected and raw material shortages in toys has slowed it further. We are, therefore, recalibrating the milestone. Rather than give you a new date today, we want to take the time to work through the scenarios, particularly the pace of the learning curve in consumer electronics and the volume ramp-up in Mattel, in toys.

To be clear, the fundamentals on which we built this business plan has not changed. What has changed is the pace. We remain confident in the trajectory, and we'll keep you updated on our progress.

So in aerospace, the job is to take on a greater share of our customer manufacturing requirements. In consumer, it is to move our customer programs into higher volume production. In both, we bring the same engineering-led approach, combining capabilities, strengthening partnerships and building for the long term.

With that, I hand over to Reenah Joseph, our CFO.

Reenah Joseph: Thank you, Rajeev, and good evening, everyone. I will take you through our financial performance for Q2 and H1 FY '27, the key drivers of segment and consolidated profitability and our approach to capital allocation as we continue to scale our operations.

Starting with revenue. Consolidated revenue grew 45% year-on-year to INR4,091 million in Q2 with sequential growth of 3%. H1 revenue grew INR8,046 million, up 50% year-on-year. Growth was led by aerospace, which contributed 86% of our revenue in Q2 and 84% in H1, alongside with continued ramp-up of our consumer business.

Turning to our segments. Aerospace delivered another strong quarter. Q2 grew by 44% year-on-year to INR3,514 million and 9% sequentially. Segment EBITDA increased 24% to INR783 million at a margin of approximately 22%. For H1, aerospace revenue grew 42% year-on-year, while segment EBITDA grew 29%. This performance reflects healthy demand across our programs and consistent execution. Improving capacity utilization in aerospace, driven mainly by India operations continue to support operating leverage as we absorb the capacity we have built.

Our consumer business continued to scale. Q2 revenue grew 52% year-on-year to INR577 million and H1 revenue more than doubled to INR1,311 million from INR632 million last year. Segment EBITDA was a loss of INR401 million in Q2 compared with a loss of INR77 million in Q2 FY '26 and a loss of INR763 million in H1 compared with INR151 million last year.

Two factors explain this movement. First, following the commencement of commercial operations, the operating cost of our new consumer capacity are now being expensed, whereas the corresponding costs in the previous year were pre-operative in nature. Second, the business incurred costs associated with the introduction of new product variants, along with higher head count to support the ramp-up. As volumes build, improving utilization and cost absorption remain the key levers for the segment's profitability.

Coming to consolidated profitability. Q2 reported EBITDA stood at INR245 million with a margin of 6% compared to 16% in Q2 last year. The year-on-year change is driven by the consumer business for the reasons I just outlined. And the two figures are, therefore, not directly comparable. Sequentially, EBITDA rose 14% and margins improved to 6% from 5% in Q1, partly supported by other income, which increased from INR67 million to INR106 million, reflecting forex movement.

For H1, reported EBITDA was INR460 million compared to INR841 million last year, with a margin of 6% against 16% in H1. Beyond the consumer ramp-up, material consumption increased due to aerospace product mix, employee cost rose with head count additions in consumer and other expenses increased on account of higher subcontracted labor and consumables. Other income was also lower year-on-year, reflecting forex movements again.

Our joint ventures continue to deliver stable margins and cash flows. Including a proportionate JV share, Q2 revenue stood at INR4,480 million, up 44% year-on-year, with EBITDA of INR331 million at a margin of 7%. For H1, our revenue including the share of our JV revenues reached INR8,781 million, up 48% with EBITDA of INR638 million at a margin of 7%. The JV EBITDA contribution grew 47% year-on-year in H1. The JVs are central to our integrated

ecosystem, which allows us to manage the full value chain from forging and processing to machining and final assembly.

At the bottom line, Q2 net loss stood at INR522 million, broadly stable compared to INR532 million in Q1. H1 net losses was INR1,054 million compared with INR167 million last year. Besides the lower EBITDA, the year-on-year movement reflects higher depreciation of INR347 million due to preoperative expenses in the previous year on account of our consumer assets, an increase in the tax expenses of INR135 million, mainly on account of current tax provisions in our profitable aerospace operations in India and higher finance cost of INR37 million, driven by interest on term loans. In Q2, finance costs increased versus Q1, mainly on account of forex impact on borrowings.

Turning to balance sheet. Total assets stood at INR27,739 million at the end of H1 compared with INR26,905 million at March end, reflecting a continued investment across our operations. Receivables increased by INR341 million and inventory by INR1,157 million, both driven by aerospace growth.

Net working capital days improved by 15 days to 136 days in H1 FY '27 from 151 days March end, with receivable days reducing to 68 days from 78 days, inventory days coming down to 155 days from 168 days. This was partly offset by lower payable days of 87 compared to 96. However, absolute working capital requirements increased to support the growing aerospace programs and the ongoing consumer scale up.

This is also reflected in our cash flows. However, we closed the first half with a cash balance of INR1,710 million. Borrowings increased by INR1,576 million to fund capacity expansion and capability enhancement across aerospace and consumer. As a result, net debt to equity stood at 0.5x compared to 0.2x at March end. H1 capital expenditure was INR1,597 million, supporting our ongoing manufacturing investments.

To support our next phase of growth, the promoter group has committed an investment of INR6,500 million through preferential warrants, reflecting the strong confidence in Aequs' growth plans and continued commitment to the business. The investment is intended to support our capital requirements, including development of the Hosur aerospace ecosystem, capacity expansion, strategic joint venture investments and working capital requirements.

INR3,250 million is payable upfront upon allotment, which is 50% of the total preferential amount and much higher than the required minimum 25% limit. And the balance, which is actually payable within 18 months is actually going to be paid by end of December next year.

This infusion will complement our internal approvals and debt financing, strengthening our equity base and providing greater financial flexibility. This is an important step in supporting expansion plans while maintaining a balanced capital structure and a disciplined approach to capital deployment.

I would also like to briefly update you on the proposed amalgamation of the three wholly owned subsidiaries into Aequs Limited. The objective remains to simplify our group structure and improve operating efficiency. The scheme was not approved under the fast-track route on

technical grounds, and we are evaluating the appropriate next steps. This is an internal restructuring matter and has no material impact on ongoing business operations.

To conclude, our financial priorities remain closely aligned with the next phase of company's development. As we continue to expand our manufacturing capabilities, the emphasis remains on improving operating efficiency, strengthening cash conversion and maintaining a prudent approach to capital allocation. Our focus is on ensuring that the investments we make are aligned with business requirements and support sustainable financial performance over the long term.

Thank you. I will now hand back to the moderator for questions.

Moderator: Thank you very much. First question is from the line of Renu Baid from IIFL Capital. Please go ahead.

Renu Baid: Two questions from my side. First is, given that the consumer business ramp-up is still subpar or below the initial expectations, can you share update where are we in terms of the ATP portfolio yield ramp-up? What's the current failure rate? And given the context of the current first half results, what is the revised guidance for the full year financial '27 for both consumer as well as aerospace with respect to revenue and EBITDA? That's the first question.

And second question is, given that we had the recent promoter equity infusion, which was not initially outlined. So with this, does it change any external equity fundraise plan, which was planned for fiscal '28 or that continues to be on card in addition to the preferential equity infusion from the promoter group that you've seen recently?

Reenah Joseph: So with regards to your first question on the consumer business, as mentioned, the trajectory is right. There are various factors which Rajeev outlined in his call, which we said that are impacting the scale-up and ramp-up. Some are internal, some are external, some are just the learning curve. And there are conversations ongoing, and we are recalibrating that plan. Taking that into consideration, let's split it in 2 parts.

Aerospace is pretty much well on track in terms of its growth plans and trajectory. We have already signed 2 agreements during the year, which are very much in line in terms of the growth potential. With regards to the consumer business, there is a recalibration happening. So give us some time, and we will come back to you with regards to where we land for the year-end. As I mentioned, the consumer business is where the recalibration is happening. Aerospace is pretty much on track.

With regards to your question number two, on the fundraise. Well, you rightly mentioned that, yes, we have done an IPO. The IPO was done with the specific proceeds. And subsequently, I think so we have -- at the same time, we have set ourselves a trajectory, right, where we've said that there will be capital deployment till FY '31 for various requirements. And as you know, there is a lot of initiatives happening, strategic initiatives happening on the aerospace side and the consumer and the entire business is growing. Taking those factors into consideration over the next 12 to 18 months, that's why we thought it is prudent to raise capital, which is aligned with the requirements, and that's where the current fund raise comes into play. I hope that answers your question.

Renu Baid: Sure. Just a clarification. So what I was seeking for is initially management had guided that there would be an external equity fundraise in fiscal '28. Given that we have had this fundraise within a matter of 6 months, do you think that the fiscal '28 fundraise plan is still on track? Or is that not required? And I clearly understand that in consumer business loss funding requirements have gone up. So funding is both for aerospace as well as the consumer part of the business. So should we still anticipate?

Aravind Melligeri: We see the significant capital requirement is going to be there still for our growth, what we have seen laid out in aerospace itself. And because we have given an overall guidance of 4 to 6x growth in 2031. So that does require capital requirement. The question is that 4 to 6x growth is going to come only with the capital deployment, whether it's consumer or aerospace.

We are not deterring away from the 4 to 6x the guidance of 2031. So that means that capital will be required. And as we said earlier, our aerospace is accelerating faster than what we anticipated. So we are already moving our capital towards aerospace within this year for that matter. So for '28, we still see the potential capital raise that might be required to support our overall requirement of 2031.

Moderator: The next question is from the line of Deepak Krishnan from Kotak Institutional Equities.

Deepak Krishnan: First question, I just wanted to check, given that you're not giving numbers, but any -- what are the different scenarios that you indicated more possible for consumer? And say, by the year-end, what is the utilization number that you're sort of targeting? If you could highlight both of those facts, that is one. And maybe capex done in consumer to date, and do you still intend to spend that INR500 crores, given that it's going slightly slow right now?

Rajeev Kaul: See, first is coming to the consumer utilization, we still are targeting 40% to 50%. So that still remains there.

Reenah Joseph: And with regards to your capex question, right, while we are recalibrating the profitability trajectory, we are also recalibrating the capex deployment. And as Aravind mentioned, a larger portion of the capital outlay will be towards aerospace. There will be some deployment towards consumer, but that is towards more enhancement of capabilities. But a larger portion will be towards aerospace for the time being.

Deepak Krishnan: Sure. Maybe, Rajeev, you could just highlight on the various scenarios that you were indicating for Consumer and maybe just on that, on your capex question, maybe you could just sort of indicate overall capex spend this year and then we can take a proportion within aero and consumer and just the aero guidance, the previous question, what is the aero revenue and EBITDA guidance you have for the year?

Harish Bang: On the overall capex, if you see first half of the year, we have done about INR160 crores of capex, again, predominantly towards aerospace. And second half, you will see that the capex deployment would be almost equal. So our initial guidance what we had given INR660 crores. We may end up doing much lesser than that.

Aravind Melligeri: Basically, it will be higher aerospace, lesser consumer bottom line. Because our utilization was supposed to ramp up, and we have no reason to deploy capital unless our utilization goes up beyond to the level where it needs capital infusion.

Rajeev Kaul: And with respect to your question on the various scenarios you're looking for, that is why we want to take some time to come back instead of telling you these are the scenarios. Because we want to really evaluate all the possible scenarios and come back with what is the scenario which we will go with.

Deepak Krishnan: Sure. And maybe just the aero revenue and EBITDA guidance for the year. That's the last question from my end.

Aravind Melligeri: We're on target.

Moderator: The next question is from the line of Vikas Singhvi from ICICI Securities.

Vikas Singhvi: Sir, just first question, I would like to know that if you look at the aerospace, our revenue jump had been much higher than the EBITDA. So is the mix basically is a peculiar this quarter, the mix is a little bit on the lower side? Or how should we look at it? And secondly, the $1.1 billion order book, the execution time lag, if you could say it would be more of a front-ended or majority of it is back-ended after FY'29, '30. This would help us.

Harish Bang: Vikas, so your first question on aerospace revenue and EBITDA. So yes, revenue grew higher and EBITDA was kind of lower than the growth of aerospace revenue. Predominantly two things. One is the higher other income share, in the previous year was higher. And also this year, we have added SG&A cost for our revenue growth. So again, it's more of a timing rather than any underlying change in the trajectory.

Aravind Melligeri: And also to a certain extent, our titanium content is increasing as a business. So whenever you do titanium content, typically because material side increases. So that also kind of contributes to a certain extent. But that's -- sometimes it's quarter-to-quarter variation that happens.

Vikas Singhvi: Noted, sir. And on the order book execution cycle?

Rajeev Kaul: Order book execution cycle typically, as we always keep telling, it's 5 to 7 years.

Aravind Melligeri: There are exceptions to that. I mean, we signed a 15-year contract, but typically is a 5- to 7-year range majority.

Vikas Singhvi: Sir, what exactly I wanted to know that the peak-out period is on the latter half of the decade or could be a next 2 to 3 years since our aerospace execution date had been higher than what you anticipated?

Rajeev Kaul: See, these are all dependent on the program ramps, and customer demand. So that's how it is built. It's not latter half or first half. But typically, as customer forecasts come, the ramp and also the ramp of the new product when we are introducing the new product introductions, what we parts want, the scaling up of that.

Vikas Singhvi: Noted. And sir, just one question on the consumer segment. I know you are recalibrating your approach. But given the capacities are already largely in place, at what utilization levels do you think that you would be able to break even?

Aravind Melligeri: We have communicated about 50% is where our EBITDA breakeven point is for the business.

Vikas Singhvi: Actually, I wanted more on the PAT side because that is where we are actually -- we are targeting previously, right, at the end of this year.

Aravind Melligeri: Look, we have already guided it is going to be FY '30 when we are PAT positive from consumer. It's a longer duration because there are significant commitments already. So we need to get through that.

Moderator: The next question is from the line of Gaurav Nagori from Avendus Spark.

Gaurav Nagori: The first question, again, on the consumer electronics. First of all, given the utilizations have gone down in this quarter from 22% to 17%. So in your last 10 months of running this plant and the experience from that, what is the real bottleneck because of which you are not able to take the utilizations beyond 25% to 30%? If you can be more qualitative in terms of any processes where, which is a real bottleneck or it's the changes from the customer on this reversion or the qualification from thereof or any other reason, if you can be more specific on that? That's number one.

And number two, would there be any pressure, let's say, from the OEM who would want you to ramp up this capacity sooner? And if you are not able to -- leading to, let's say, any material business impact, if you are not able to take up the utilizations to beyond 50% in a certain time line?

Rajeev Kaul: Let me split it into 2 parts. First part is based on the utilization coming down. One is consumer electronics, as I mentioned, there's a product update happening, which also has to go through the product qualification cycle. We assumed a shorter time frame, but it took a longer time frame. And also, it was coupled with the -- we had to also bring some in-house capability in-house. So that was the first part on consumer electronics.

Second is we faced a disruption in the supply chain in the toys segment. Certain product components, which are supposed to come, got delayed from the supply chain constraint. And along with it, there was a weather -- logistic disruption due to the weather in which material got delayed. So these are the 2 impacts, basically, which resulted in the lower utilization than what we did in the previous quarter.

With respect to your second question now, whether the customer demands are still there. And customer is currently working with us to improve the overall utilization and everything. So I do not see currently any impact resulting from whether it is getting delayed has an impact from the customer right now moving out and all those things from the demand perspective. So they are still working with us continuously to get increase our utilization. Does that answer your question?

Gaurav Nagori: Yes, understood. And secondly, on the aerospace segment, the recent orders that you have got from Safran, I'm assuming that you need to work on the qualification for those new programs. It's not part of the order book. Is that understanding correct?

Aravind Melligeri: Some of the qualifications we have, some of them are new capabilities, what we need to be building. And several of them are going to be built in Hosur. So they are more of starting, I would say, commercialization in FY '29. So it's a journey, what we call as we evolve in Hosur.

Gaurav Nagori: Understood. And secondly, on a question on this Hosur facility. Is it a land constraint in the Belagavi because of which you have thought of keeping this capacity in Hosur and because you have the 2 joint venture partners for forging and surface treatment, respectively, in Belagavi. So would they also be putting up those capacities in the Hosur? How would that work?

Aravind Melligeri: Yes. Currently, our goal is to basically replicate what we have here, more focused in Hosur, including our joint venture partnership and expanded capabilities to support the engine and landing gear.

Moderator: The next question is from the line of Archit from Nuvama Institutional Equities.

Archit: Just one on the toy space. While we said in the opening remarks that the ramp for the older customer is southwards and we are ramping up production and utilization for the newer customer, what would be the inflection point wherein the old customer goes down to 0 and we offset that with the ramp northwards from the newer customer. So just wanted to get a sense of how toys business will look like when it's at its -- the only customer that would matter in terms of utilization going forward?

Rajeev Kaul: Based on the current discussion with the existing customer, we expect within this quarter, coming quarter, phasing out and we're completing all the deliveries at this point in time, those are the discussions. And also at the same time, the Mattel is also going to increase in this quarter itself, Mattel also start scaling up and increasing this quarter.

Archit: So basically, third quarter onwards, we will largely see Mattel's revenues completely in the toy piece, right?

Rajeev Kaul: Fourth quarter, almost completely.

Moderator: The next question is from the line of Priyankar Biswas from JM Financial.

Priyankar Biswas: My first question is again on the consumer side of things. So what I want to understand is at what consumer sales level, let's say, in rupee million terms, that you can probably achieve, let's say, an EBITDA breakeven. So I'm trying to more understand the unit economics. Like what is the extent of fixed or semi-fixed costs that are there in the cost mix? So like ballpark, what level of sales we should target to get to EBITDA breakeven?

Aravind Melligeri: We need to -- I mean, because consumer is a combination of our toys and a couple of products -- a few products we have in our consumer electronics side. We look at more of each of these pieces separately. And on a consolidated basis, the revenue, we don't really have not evaluated

that. Maybe we'll have to come back to you separately on that. Maybe you should connect with Harish, to get that.

Priyankar Biswas: Okay. That's understood. So if differently, let's say, for the consumer losses today, how much would you attribute, let's say, a percentage number would also work. How much would you attribute to, let's say, the ATP? And how much would you, let's say, attribute it to toys, just trying to work that around?

Aravind Melligeri: From the scale of investment perspective, its majority is attributable to the ATP.

Priyankar Biswas: Okay. And sir, just another thing, like there is some inventory buildup that has happened both in 1Q and 2Q. So I understand some of it is due to the disruptions that are taking place due to the West Asia crisis and otherwise. So when can we expect this large inventory levels to unwind? So is there some time line that we should be looking at?

Aravind Melligeri: If you really look at it, we said last quarter because of -- we have been more careful in bringing in the material earlier, especially on the aerospace, we had done that. And typically, when we do this, we place order for -- typically for 3 to 4 quarters out. And anything which we have to unwind, it's always like 6 months to 9 months affair for us.

So we should see somewhere Q1 of next year time frame, more normalizing. But also at the same time, we are growing at 50%. So more FAIs, our first article. So we'll have to bring in. So I think we'll end up maintaining as we have guided about 120 days is what we want to shoot at, and that's where we ought to be around, in and around that number.

Priyankar Biswas: So sir, just harping on this issue. So I remember that earlier, there were issues regarding air freight, like availability of belly cargo were those -- which has impacted us. So is those issues largely sorted like availability?

Aravind Melligeri: Yes. I mean, new normal has come up. That's what I would say.

Rajeev Kaul: Like increased period of the logistics and everything.

Aravind Melligeri: There is some cost increases and all those have happened, but new norm has come. That's what I would say more than anything else.

Moderator: The next question is from the line of Sanidhya from Unicorn Assets.

Sanidhya: So first on the consumer segment. So just wanted to understand that how are we taking it step by step, like we were indicating in last con calls as well and even to the previous participants, you have said that we are taking up time to get ahead in the learning curve and actually exploring ways how to actually improve the utilization levels. So if I see on the cycle part that you were saying of the new approvals, which are shorter in time, but they have to be taken whenever there is a change in the product line or something.

So isn't that something that would happen regularly on -- as and when the original -- I mean, our player one we are supplying to will change its product categories or specifications. Isn't that

something that will happen time to time? And shouldn't it have already been known to us and we should have been calibrated ourselves accordingly? Yes, that would be the first one.

Rajeev Kaul: For the first one, typically, what happens is as you keep building the -- as you keep putting the manufacturing as you're getting into the learning curve, this cycle basically gets shortened over a period of time and everything. And we assumed a shorter period of learning curve in this one. At the same time, we had to bring one more in-house capability along with it. So both combined had an impact in this one. So it was -- for this one that we'll be able to achieve that shorter period of time.

But over a period, basically, as we go, products will keep moving -- new products will keep coming in. It keeps improving. The knowledge keeps improving, learning curve keeps improving. So we get used to that learning curve and everything. That's the part of the cycle. That is why we told that we want to recalibrate at this point in time and come back and come back to you with the full assessment of how we will take it with various scenarios after evaluating all the scenarios.

Sanidhya: Okay. That helps. More elaborately, if I will -- I want to discuss on the consumer business only. So if my understanding is right, then the original OEM wants us to be using the -- or whether they want to be slowly progressing towards the additive technology or the 3D printing part. How do we see ourselves plays in that? And is that the one technique -- in-house technique that you are describing earlier?

Aravind Melligeri: Look, with the customers, we kind of define the scope of what are we going to do. If there are certain capabilities we have defined that we will do, we will end up doing that. And within there, there is a learning curve, we'll do that. A new capability has a different activity, something which we are not doing today. If you have to do again, it's a different business case for us. Every time we add a new capability, it's a business case that has to be passing through. Otherwise, we don't get into that.

Sanidhya: Yes. But sorry, but I was looking for an answer towards the additive technology part. Are we looking to get into that? And I think that is the major portion and -- or that is where our customer is slowly progressing and ultimately shifting the entire portfolio that we have right now with ourselves. How do you look at that?

Aravind Melligeri: Yes. We don't believe so. I mean we are comfortable with what we are, where we are. We are not looking to add 3D printing capabilities, and that is not something which we are focused on.

Sanidhya: And also, could you share that the material that we are using for the consumer electronics, is it more towards aluminum? Or is it more towards titanium?

Aravind Melligeri: I can't talk about that at this stage.

Moderator: The next question is from the line of Jyoti Gupta from Ashika Group.

Jyoti Gupta: My question is, correct me if I'm wrong, that typically A320neo titanium pylon program, which involves machining requires approximately 120 tons of titanium annually. What is the current

annual titanium procurement and consumption run rate? How much of this would relate to the A320, A320neo program versus other Airbus and Boeing programs?

And what incremental titanium demand should we expect as aircraft production rates ramp up? Also, if my understanding is correct, the recently announced Safran contracts include superalloy machining, so which should not be confused with titanium consumption. That is part one.

And part two of my question is that the aerospace EBITDA has grown materially slower than revenue. How much does this reflect as an unfavorable program mix, new facility ramp-up, lower absorption of pricing pressure? I know you've answered that in many ways, but I still feel that -- I mean, it's still not answered because 86% of your revenue is actually aerospace. So ideally, any setback from consumer electronics should not have a material impact on your EBITDA, but it's actually reflecting on the numbers. So could you clarify these 2 questions, please?

Aravind Melligeri: I will take up the aerospace titanium. Look, I mean, we have, I would say, more than 1,000 parts, most probably we do the titanium, if not more. I don't have the exact segregation. So whatever we do pylon components is one set of parts, a few hundred of them for that. So total -- I can't disclose the total titanium buy. I would say, most probably, we are one of the largest titanium buyers in the country. That much I can say. And we continue to add the material, the parts with the titanium into the programs. It's not just 320neo. It's every program, whether it will be a 787 or Airbus programs, we have titanium components in there.

Regards to superalloy machining, Inconel, predominantly it's Inconel and some other super alloys. And several of the parts we have signed up, we already do Inconel machining here in the current location. But Hosur is going to be more focused on the titanium and super alloys and steels, what we call hard metal classification, which are more focused on the engines and landing gears. That's what is the focus going to be because the surface treatment of that is going to be quite different than what we do here in Belagavi. So that's the distinction I want to give you.

And regarding the profitability impact of the consumer in the overall EBITDA or the percentage of revenue versus capital, it goes back to the capital deployment. Our capital deployment in consumer today is as much as our aerospace. So that reflects on the resources and because of the scale, what we are looking to do in consumer is the deployment. That is what is reflected in the EBITDA loss more than anything else.

And aerospace continue to perform. We have a long-term contract. There is no pricing pressure because it's a long-term contract. Our materials are passed through. So we don't see that as an issue. And as Harish mentioned earlier we're investing in SG&A because we are scaling. Look, there are not many companies out there at our base growing 40%-50% aerospace growth.

So that means there is a front-end investment, SG&A investment, program management, all those needs to be strengthened. At the same time, we are adding more capabilities. So they all come with the expense. So -- but we're able to manage the growth, and that's why you see that impact, and that's what it is. We believe it's the right investment for the long run.

Jyoti Gupta: Okay. Is this the titanium that you're using, is it sponge or recycled titanium? I mean just...

Aravind Melligeri: It's not a sponge. Every titanium is done through the sponge. It's a process. The sponge is taken and processed and it's mostly titanium, aerospace-grade titanium, different grades of aerospace titanium, whether be it the engine, be it a Ti-6Al-4V most of the time. That's what it is.

Jyoti Gupta: Okay. So obviously, you expect any further increase in consumption, the cost would be a pass-through and should not impact your margins?

Aravind Melligeri: No, it should not.

Moderator: Next question is from the line of Suraj Malu from Catamaran.

Suraj Malu: Sir, can you help me understand like what are the steps that are taken to expedite the qualification in consumer electronics segment?

Aravind Melligeri: I think it's not a qualification issue. Qualification has happened. I mean the products keeps changing every year. So we have to qualify every time. The cycles, we are shortening those cycles. So if it takes longer, we lose some, the ability to ship to the customers. That's what happens. So it is every year, we end up qualifying product because the products come every year new, some variation of it.

Suraj Malu: So the current product qualification that we have gone through the post the current upgrade, do we see that ramping up? Or is there a possibility of like, again, after 1 quarter or 2, we see more updates coming on?

Aravind Melligeri: No, no. It's typically a 1-year process. We run 1 year and next qualification happens. Sometimes it runs 2 years. Products are qualified. There is no issue of qualification.

Moderator: The next question is from the line of Amit Ajit Yadav from KJMC Capital Market Services.

Amit Yadav: I have a 2-part question. The first is on consumer business. Is it a delay or structural profitability issue? Consumer -- as consumer revenue has declined sequentially, while EBITDA loss has actually widened to INR40.1 crores. How much of this loss actually reflects the temporary qualification and supply constraints versus how much of that is from recurring operating cost? And what will be the quarterly revenue and utilization required for a breakeven? And how much additional cash will this segment consume before reaching that?

My second part is on aerospace. With the aerospace order book being at USD 1.1 billion and the Safran agreement signed, how much do you think the revenue is expected over FY '27 and '29? And how much of the INR650 crores funding that has been allocated will go towards the capacity and working capital need to execute these kinds of orders?

Harish Bang: I'll take the first one. With respect to consumer loss widening from INR361 million to INR401 million. So the INR40 million increase in the loss came on INR157 million fall in consumer revenue. So revenue from INR734 million to INR577 million from quarter 1 to quarter 2.

Most of the consumer cost base, including depreciation, plant overheads and workforce, etcetera, is already in place. So it's fixed in the short term. So volumes dropped and losses widened. I

think that's the important thing to address here. Because other things are like temporary, I mean those are more timing, supply chain disruption, qualification cycles and stuff like that.

Amit Yadav: And what about the aerospace order book, sir, can you give more clarity on that?

Rajeev Kaul: Aerospace order book, actually, as I explained earlier, this $1.1 billion, the time line is around 5 to 7 years. But again, it comes on the based on the customer demand and everything. So each year, that's how it progresses. But typical life of this $1.1 billion is averaging 5 to 7 years.

Amit Yadav: So can you just give a ballpark number for revenue expected over '27 to '29 FY?

Aravind Melligeri: We have guided 2031, 4 to 6x. We stand by that.

Amit Yadav: So the INR650 crores funding, how much of that will be allocated towards the capacity and working capital need to execute the $1.1 billion orders?

Harish Bang: Sure. So see, in terms of overall utilization, about INR289 crores would be allocated towards the capital expenditure, which will include existing aerospace, Belagavi, Hosur as well as some bit to consumer as well. In terms of working capital, we are allocating about INR100 crores towards working capital. And then there will be another INR100 crores towards JV investments and new strategic initiatives, including Belagavi as well as Hosur. Balance would be general corporate purpose.

Aravind Melligeri: Just to clarify that we are leveraging this. This is a contribution towards the term loans. We are going to do about INR800 crores term loans to support this overall capex requirements.

Moderator: Ladies and gentlemen, we will take that as the last question. I now hand the conference over to management for closing comments.

Aravind Melligeri: Thank you. Thank you for being with us today, and look forward to seeing you in the next quarter. Thank you.

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