



“Astra Microwave Products Limited Q1FY16 Results Conference Call”

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MANAGEMENT: **MR B. MALLA REDDY – MANAGING DIRECTOR, ASTRA MICROWAVE PRODUCTS LIMITED**
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Moderator: Ladies and gentlemen, good day and welcome to the Astra Microwave Products Ltd's Q1 FY16 results conference call. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal by pressing '*' then '0' on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr S. Gurunatha Reddy – CFO and Executive Director of Astra Microwave Products Ltd. Thank you and over to you sir.

S. Gurunatha Reddy: Good afternoon, ladies and gentlemen, and welcome to Q1 results conference call. As you are aware, yesterday we had the board meeting and the first quarter results were taken on record. For the information of the people who have not seen the results, we had Rs 102 crore gross sales for Q1 and net sales of close to Rs 99 crore. PBT is around Rs 6.39 crore. We have an order book of close to Rs 589 crore at the end of the first quarter. We believe we will be able to deliver 400+ or 420+ for the whole year as promised. The remaining details we will share with you through questions and answers. I open the conference for questions and answers now.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. We will take our first question from the line of Sarrthak Sayal from CRISIL. Please go ahead.

Sarrthak Sayal: Sir, what is the order book position in terms of exports and imports - basically the breakup of the order book and revenues?

S. Gurunatha Reddy: Yes Sarrthak, in terms of the order book, out of Rs 589 crore, exports are close to Rs 90 crore and the balance is domestic. In terms of revenues for the three-month period, out of Rs 99 crore of net sales, about Rs 55 crore is exports revenue and the balance is domestic sales.

Sarrthak Sayal: Margin contraction is basically due to lower top line?

S. Gurunatha Reddy: Yes.

Sarrthak Sayal: Sir, any major order coming your way given the offset clause, and since you are importing Rafael?

S. Gurunatha Reddy: In terms of offside-related orders, we do not have much visibility immediately, but we should be able to book about Rs 600 crore of orders for the entire year.

B. Malla Reddy: We are expecting to open next year with an order book of around Rs 600 crore+.

S. Gurunatha Reddy: Yes.

Sarrthak Sayal: Okay sir, any update on the ELTA order? You said that we might receive partial order, if not the full order?

S. Gurunatha Reddy: No, actually there is no update on that. Most probably the partial order we are expecting may not materialise.

Sarrthak Sayal: Sir, why is that?

S. Gurunatha Reddy: See there is no specific reason for that. In fact, ELTA did not share any details but what we came to know from some sources is that probably they may be having their own or joint venture company in the immediate future to execute this particular order

and they would like to have some business for the joint venture to start with. The overall plans have moved in that direction, that is what we came to know. But officially we have not been informed anything by ELTA as of now.

Sarrthak Sayal: Sir, last question. In the media, there has been a lot of hype on 'Make in India'. Do you actually see some movement on the ground on orders?

S. Gurunatha Reddy: You have used the word 'on the ground'. Okay, so all the things are in the media only. Definitely things are moving on but to actually see the business coming out of these initiatives, probably we have to wait for at least a year, a year-and-a-half, or two years.

Moderator: Thank you very much. The next question is from the line of Rahul Gajare from Edelweiss. Please go ahead.

Rahul Gajare: Just first few book keeping questions. Can you break down the order intake and the exports-domestic breakup? Can you share some details on the order intake?

S. Gurunatha Reddy: Order intake: no, we did not have any export orders in the current quarter.

Rahul Gajare: No, but if we do implied order and take it is closer to Rs 100 crore.

S. Gurunatha Reddy: Yes, we had one big order in the current quarter. I think, that is the BDL, that is CGU, Akash related order. That itself is about Rs 55 crore to Rs 60 crore. The remaining small orders have added to it.

Rahul Gajare: And nothing from exports?

S. Gurunatha Reddy: No, nothing from exports.

Rahul Gajare: Second thing, the order back log that you shared with us in the fourth quarter was closer to 570. In the annual report, it was closer to 520. Can you help us reconcile these numbers?

S. Gurunatha Reddy: I do not remember what was given, but whatever we have given in the annual report, I think that was the figure as of [redacted].

Rahul Gajare: So that is the one we should take at the end of March 15th?

S. Gurunatha Reddy: Yes, I think you have to take that.

B. Malla Reddy: See, between the annual figures and the time we talked, there will be a month gap. So most probably, we must have mentioned the values at the end of April.

Rahul Gajare: Sir, second thing: the intake during the year you are expecting is closer to Rs 600 odd crore. Last time when we spoke on the Q4 conference call, I think the intake you were expecting was closer to Rs 650 crore.

B. Malla Reddy: Even the 650 number is there, I am trying to downplay.

Rahul Gajare: Should we be worried that you are downplaying some 650 to 600, you know, is there a trend that one should read into this?

B. Malla Reddy: See, the Indian businesses would not go anywhere like exports. So, if they materialise, it is basically time, whether they materialise before 31st or after 31st. Because of that there was discussions in yesterday's board meeting and just to downplay by Rs 50 crore.

Rahul Gajare: So intakes were essentially from BDL and some other DRD* is that correct?

S. Gurunatha Reddy: Yes.

Rahul Gajare: Some more questions: essentially on the development, which we were expecting some movement by July 15th, one is on the Singapore subsidiary. What are the plans on track in terms of the things you were planning over there? Second, where are we in terms of fundraising of Rs 170 crore?

S. Gurunatha Reddy: In terms of Singapore, it is as per the plans. The statutory formalities of incorporation of the company and identifying the chief executive who will be handling those resources has been identified. Currently he is working in Paris for another company. So he will be joining us. Maybe onsite he will be joining us from December but offset he may start working for us from September.

Rahul Gajare: So for all practical purposes, he is joining you in September. The CEO is going to join you from September?

S. Gurunatha Reddy: He is called a CEO but he is more like a CTO.

Rahul Gajare: So he will be looking after this business for you all?

S. Gurunatha Reddy: Yes.

B. Malla Reddy: There is a business development person who has already joined.

S. Gurunatha Reddy: There is a business development person who has already joined. So that is as far as Singapore is concerned. Then fundraising, actually the debt part we are in advanced stage, probably in about 15 days' time the process should get completed whereas the QIP part, we are worried about the price so we are going little slow on that. Probably we may be delaying it for some time.

Rahul Gajare: How much debt are you looking at raising?

S. Gurunatha Reddy: It is about Rs 100 crore and we will be doing it in two tranches - maybe Rs 50 crore immediately, and probably another Rs 50 crore after three-four months.

Rahul Gajare: Sir, coming back to your Singapore subsidiary, you were planning revenue of about a million or 2 million in the first year itself. When you are saying you are on track, are you on track on the revenue side also?

S. Gurunatha Reddy: I do not think we have given any....

B. Malla Reddy: No, first year in the sense, after operation starts, in one year.

S. Gurunatha Reddy: I do not think we have given anything in the current....

B. Malla Reddy: Let us say, in December operations are starting, in the calendar year 2016. Yes maybe, over 1 million we will be able to do.

Rahul Gajare: Because I remember you had a target to reach Rs 5 million-Rs 6 million by the third year. The next question I have is the exceptional item: what exceptional item is in the results?

S. Gurunatha Reddy: What is the exceptional item; minus Rs 6 lakh, it may be relating to some tax issues.

Rahul Gajare: Yes, that was the next question. Sir, tax rates have changed from what we had last year. In this particular quarter you had a tax rate of 23%, what is the fair tax rate that one should assume for the full year?

S. Gurunatha Reddy: See, we have just completed first quarter; you are so much concerned about the tax rate.

B. Malla Reddy: Tax rates, normally if you see last three-four years, we are around 25-26%.

Rahul Gajare: Which is what we have built in; so I just wanted to know whether we need to look at that again?

B. Malla Reddy: Not bring it down; we will be in that range.

Rahul Gajare: Yes, we are actually looking at that kind of number.

S. Gurunatha Reddy: We will be 24% to 26%; that is the band what we have to take.

B. Malla Reddy: Yes, we will be.

Rahul Gajare: Okay and the last question on operational performance I had was: we have seen margin compressed by almost 300 basis points, but interesting thing was gross margins. There is a significant expansion, can you please explain to us what exactly happened?

S. Gurunatha Reddy: See, all the time, whenever we are looking at the volume business and where there is a volume contraction in a particular period, normally my overhead absorption cannot be in the same place like the earlier volume business.

Rahul Gajare: So that explains your other expenditures.

S. Gurunatha Reddy: Absolutely, that is the only reason why there is a contraction in the ultimate margins.

Rahul Gajare: Okay but then what happens so as to have almost significant uptake on the gross profit levels?

S. Gurunatha Reddy: That is because of the mix. When you look at the first quarter of last year, the export business was close to about 70% of overall business, whereas now, in the first quarter of this year, it is about 56%. So that explains the improvement in gross margin.

Rahul Gajare: Therefore, now if you are going to borrow Rs 50 crore immediately in the next 15 days, we should expect your interest cost to increase during the year?

B. Malla Reddy: It will not be exactly.

S. Gurunatha Reddy: It will not be in a significant way, but there will be a small increase.

B. Malla Reddy: Small increase because of all Rs 60 crore, we will not be putting in use immediately. So whatever we are paying for OCC, interest, those things will come down. It is a complicated thing.

Rahul Gajare: Sir, my last question is essentially on the other income. Normally I have seen other income decline through the year but in the first year itself we have seen a sharper decline in the other income. Can you tell us what exactly happened over here?

S. Gurunatha Reddy: Other income generally comprises two major elements: one is the interest that we earned on the deposits we deploy in the bank (early money deposits), the other major

one is export incentives. In the current first quarter, we did not receive any export incentives and whatever other income is there, it is largely the interest we have earned on margin money deposits.

Rahul Gajare: So basically other income is down because of export incentives?

S. Gurunatha Reddy: Yes.

Moderator: Thank you. The next question is from the line of Salil Desai from Premji Invest. Please go ahead.

Salil Desai: Sir, couple of questions: you know again on this order inflow and backlog numbers, you said Rs 100 crore was the inflow for the quarter. Can you confirm that number?

B. Malla Reddy: No, exact number I do not think we have.

S. Gurunatha Reddy: See, I am actually working backwards. I did about Rs 100 crore, I have reported about Rs 520 crore of order book as of March, now I have about Rs 582. So approximately, it is about Rs 100 crore of order booking. I do not have the exact number. If you want, probably I can mail you later.

Salil Desai: That would be really helpful if you can. Sir, second is, this order backlog number, now the Rs 589 crore odd is as on today or this would be like...?

S. Gurunatha Reddy: It is as of 30th of June 2015.

Salil Desai: And the third clarification is, did you say your opening order backlog next year is going to be Rs 600 crore or inflows will be Rs 600 crore this year?

S. Gurunatha Reddy: We said know, around Rs 600 crore+ will be my opening order book for the next financial year

Moderator: Thank you. Our next question is from the line of Chetan Gandhi from Gandhi Securities. Please go ahead.

Chetan Gandhi: Sir, can you please throw some light on the Bengaluru R&D facility? I mean what is happening; anything material to know or it is still in the pipeline?

B. Malla Reddy: We have assembled people. They are working on two projects, one with order on hand and other one for an NCNC Demo. So maybe I think in another six-eight months, the one that they are working for an order that product will be under evaluation. The second one NCNC demo also by October-November they will put it on the evaluation phase. So, things are seriously being worked out.

Chetan Gandhi: Sir basically you are saying on order front, you are working on some order, is it for a seeker or radar?

B. Malla Reddy: Both our products are radar products.

Chetan Gandhi: Products not the sub systems?

B. Malla Reddy: No, not sub systems, both are radar products.

Chetan Gandhi: Can you specify which radar, sir, if possible?

B. Malla Reddy: Anyway, order one, I will tell you, it is an order form PXE called organisation in Balasore, which is muzzle velocity measuring radar. The other one is a radar that aids aircrafts landing in a blind way.

Chetan Gandhi: The commercial aircraft or...?

B. Malla Reddy: No, it is again for defense.

Chetan Gandhi: My second question is: any development on the front of JV signing because you said you will be raising funds in next 15-20 days, so we are close to signing?

B. Malla Reddy: Yes, next week they are coming for discussions for final agreement, so hope we will close one. The second one maybe it will take another month or month-and-a-half.

S. Gurunatha Reddy: Both the JVs we are in advanced stage of finalising the term sheet, once that is done probably we should be able to share with the public.

Moderator: Thank you. Our next question is a follow-up question from the line of Rahul Gajare from Edelweiss. Please go ahead.

Rahul Gajare: Sir, just one question: the Akash missile that Bharat Electronic and Bharat Dynamic are integrators for, last time I remember you were telling us that there have been delays in increasing the number of those missiles or deliveries. Firstly, where are we right now and what are the targets, I mean what is going to be the annual target for these missiles?

B. Malla Reddy: I think this year they will be reaching 500 missiles delivery parameter.

Rahul Gajare: This year and in a long term what is their plan?

B. Malla Reddy: Next one is: they have to move to 1,000 meter missiles per annum for which they are constructing a separate factory. So, that may take another two-three years.

Rahul Gajare: But is there a plan that we did 10,000 of such missiles, is that something which is in the works, or that is not the correct number?

B. Malla Reddy: No, I have not heard of it.

Rahul Gajare: So, we will form 100-150 we will reach 500 next year?

B. Malla Reddy: Not 100, 150, last year they have crossed nearly 200-250. This year 500 and they have to double. For doubling, already the plans are going on, so they may take another two-three years to reach that stage.

Rahul Gajare: So, by FY17 or FY18 they will actually reach closer to 1,000 numbers. And you have not heard of any number which is beyond 1,000?

B. Malla Reddy: I have not heard.

Moderator: Thank you, the next question is from the line of Renjith Sivaram from Batlivala and Karani Securities. Please go ahead.

Renjith Sivaram: Sir, if you can throw some light on the seeker technology. How far we have reached, we were planning something over there?

B. Malla Reddy: We are in the very initial stages. I cannot say that we are in the final stages or the product is ready, we are in very initial stages.

Renjith Sivaram: So this will be in our separate R&D company right?

B. Malla Reddy: No, it is as part of Astra Microwave only we are doing. It is in Hyderabad.

Renjith Sivaram: If I am repeating, two JVs you are planning to sign - can you elaborate on what it will be regarding and who will be your JV partner?

S. Gurunatha Reddy: No, actually it is not fair know to discuss until we assign the term sheet. I request kindly please.

Renjith Sivaram: But what is it for these JVs?

B. Malla Reddy: One is defense equipment and other one is for broadcasting equipment.

Renjith Sivaram: And I just missed on that two radar projects which you are currently working, if you can just repeat those two projects.

B. Malla Reddy: One is Muzzle Velocity Measurement Radar, other is radar that aids aircraft to land blindly.

Renjith Sivaram: And lastly sir, I just missed the initial thing - you said any change in guidance or what is the guidance you are looking at in terms of growth and margins for FY16?

B. Malla Reddy: We have given annual guidance of about 425 to 450 and margins should be near to last year's PAT levels.

Renjith Sivaram: Okay, so PAT will be similar to last year?

B. Malla Reddy: Near, maybe slightly lower.

Moderator: Thank you. Our next question is from the line of Renjith Sivaram from Batlivala and Karani Securities. Please go ahead.

Renjith Sivaram: Sir, just wanted to understand, there are some changes in this FPI norm - foreign portfolio investment. Is there any impact for us as a company because of this? Will we be seeing more foreign investments or are we planning something in that aspect?

S. Gurunatha Reddy: No, I do not know what changes you are referring to. As far as the defense sector is concerned, there is no change except the 49%. The increase they have made some time back. The other changes that they have made, they have made it very clear it is not applicable to strategic sectors.

Renjith Sivaram: And one more thing, regarding our medium- to long-term capex plan, if you can just elaborate a bit on that.

S. Gurunatha Reddy: I think this we have talked very elaborately in the annual report. Beyond that we do not have any major capex plans.

Renjith Sivaram: So will we be looking at any fundraising for that capex?

S. Gurunatha Reddy: We have stated very clearly, we have fundraising plan of about Rs 170 crore.

Renjith Sivaram: And it will be through?

S. Gurunatha Reddy: It will be a mix up for debt and equity. I think this information is there for a very long time, Mr Sivaram.

Renjith Sivaram: Okay, sorry, then I will refer to that.

S. Gurunatha Reddy: Yes please.

Moderator: Thank you, the next question is from the line of Abhinav Sharma from Tata Mutual Fund. Please go ahead.

Abhinav Sharma: Sir, you mentioned about an opening order intake of opening order book of Rs 600 crore next year, so if you can tell us a little bit from where do you expect the order inflow for this year? Would the tilt be more towards domestic or would it be towards exports?

B. Malla Reddy: Mostly domestic.

Abhinav Sharma: Would it be correct to say that around 80% will be domestic.

B. Malla Reddy: I think it should be more than that.

Abhinav Sharma: Sir, you also mentioned that profitability will be slightly similar to what was in FY15. Does it mean that over the next three quarters, there will be more domestic execution and because of which our margins will improve. Is that understanding correct?

B. Malla Reddy: See, currently whatever export order we have, we are completing by Q2-end, so the last two quarters will be 100% indigenous business and once 100% indigenous business is there, the profitability will be more. That is why more or less we are expecting it will be slightly closer to the last year's percentage.

Abhinav Sharma: Sir, would it be possible to tell us what is the difference between domestic profitability and export profitability?

B. Malla Reddy: I cannot say in terms of percentage profitability. In exports, raw materials will be roughly 90% of the sale value wherein the other one it may be around 55% to 60%.

Abhinav Sharma: Sir, lastly on the two JVs. I missed out on what are these for?

B. Malla Reddy: One is for defense equipment, other is for broadcasting equipment.

Abhinav Sharma: What kind of defense equipment?

B. Malla Reddy: Only after we sign it, we will be able to tell you.

Abhinav Sharma: And Sir, fundraising is for these two JVs only?

B. Malla Reddy: No, not only. I think, as we said, all details on where we are deploying the funds are given in the recent annual report.

Moderator: Thank you, the next question is a follow-up question from the line of Sarrthak Sayal from CRISIL. Please go ahead.

Sarrthak Sayal: Sir, what is this increase in other expenses year-on-year?

S. Gurunatha Reddy: See, the major portion in that, apart from in comparison with the corresponding quarters, is the late delivery charges. The late delivery charges are about Rs 2.5 crore; that is abnormal item.

B. Malla Reddy: That is where we collect because of the last year's debt spent. They deduct the amount that we book as other expenses.

S. Gurunatha Reddy: That is an abnormal item compared to the other things. Otherwise, it contains a whole lot of administrative expenditure, everything is there in that.

Sarrthak Sayal: This is the one-time impact?

B. Malla Reddy: As and when we collect it, once there is a deduction because of late deliveries or some issues that will reflect it as other expense.

S. Gurunatha Reddy: As and when we realise our receivables, some contracts were executed later than what is stipulated in the purchase order, they will deduct the late delivery charges and pay the balance amount. That is how that amount accrues.

Moderator: Thank you, the next question is a follow up question from the line of Rahul Gajare from Edelweiss. Please go ahead.

Rahul Gajare: Sir, Rs 2.5 crore is what you booked in this quarter. Can you tell us what is the similar number in the first quarter of last year and also for the full year?

S. Gurunatha Reddy: First quarter of last year it is about Rs 38 lakh.

Rahul Gajare: Okay, so last year first quarter was insignificant, but what about the full year?

S. Gurunatha Reddy: Full year, it is about Rs 6 crore.

Moderator: Thank you, the next question is a follow-up question from the line of Chetan Gandhi from Gandhi Securities. Please go ahead.

Chetan Gandhi: The late delivery charge is a one-off event or it is in the normal circumstances?

B. Malla Reddy: In the last 10 years or 15 years balance sheet if you see, every year there is about few crores because especially in R&D stages, there will be delay, there will be late delivery charges, and it is not uncommon. You see, our old balance sheets, every year there is a few crores of LD charges.

Chetan Gandhi: Sir, basically this pertains to R&D only, not serial production?

B. Malla Reddy: Not generally for serial production, mostly for R&D.

Moderator: Thank you, the next question is from the line of Pankaj Kumar from Kotak Securities. Please go ahead.

Pankaj Kumar: Sir, any offset related opportunity that we have laying ahead in the latter part of the year?

B. Malla Reddy: No.

S. Gurunatha Reddy: As of now, no.

Pankaj Kumar: And what is the status of the ELTA order that we were expecting earlier? I mean under MRSIM program, so any status on that?

S. Gurunatha Reddy: As of now, we do not have any official communication from ELTA. In fact, I gave a very detailed thing in the beginning but as of now, it looks probably we may not be getting anything from this.

Moderator: Thank you very much, the next question is a follow-up question from the line of Chetan Gandhi from Gandhi Securities. Please go ahead.



Chetan Gandhi: Sir, are we working on LRSM project on Barak 8 missile, which is going to be tested in the month of October?

B. Malla Reddy: No.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management of Astra Microwave Products Ltd for closing comments. Over to you.

S. Gurunatha Reddy: Thank you gentlemen for your participation. I hope we have answered all your queries at your satisfaction and look forward to talk to you again at the end of the second quarter. Thank you very much.

Moderator: Thank you very much members of management. Ladies and gentlemen, on behalf of Astra Microwave Products Ltd, that concludes the conference call. Thank you all for joining us and you may now disconnect your lines.

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