



**“Astra Microwave Products Limited Q4 FY14 Earnings
Conference Call”**

April 29, 2014



**MANAGEMENT: MR. MALLA REDDY – MANAGING DIRECTOR, ASTRA
MICROWAVE PRODUCTS LIMITED**

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EXECUTIVE DIRECTOR, ASTRA MICROWAVE PRODUCTS
LIMITED**



*Astra Microwave Products Limited
April 29, 2014*

Moderator

Ladies and gentlemen good day and welcome to the Q4 FY14 Earnings Conference Call of Astra Microwave Products Limited hosted by Chorus Call. As a reminder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing '*' and '0' on your Touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gurunatha Reddy – Chief Financial Officer & Executive Director, Astra Microwave Products Limited. Thank you and over to you, Mr. Reddy.

Gurunatha Reddy

Good afternoon ladies and gentlemen. I welcome you all to this fourth quarter financial results con call. I am with our MD, Sri. Malla Reddy. Yesterday the board of directors have taken the financial results on record and I am sure most of you would have gone through the results which were published in the leading newspapers. Just to give you some bullet points. For the year ended we did about Rs. 531 crores of net sales which is up from Rs. 227 crores of what we did in the last year. We were able to achieve a profitability of close to about Rs. 76 crores as compared to about Rs. 51 crores of last year. Correspondingly the EPS is around Rs. 6 compared to Rs. 4.5 what we have achieved last year. This is as far what we have achieved during the 12 months period.

Going forward as intimated to you we have close to about Rs. 975 crores to Rs. 980 crores of orders in hand and we should be able to deliver better performance this year again. With this opening remarks I request question and answers from you so that we will be able to answer your questions.

Moderator

Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Samarth Sanghavi from Phillip Capital. Sir, please go ahead.

Samarth Sanghavi

Sir, just a couple of questions. One is we saw these foreign exchange adjustments that happened towards the end and they are at Rs. 12.25 crores to Rs. 12.28 crores. Just wanted to understand (a) is what has caused these and what steps are we taking in order to manage this?

Gurunatha Reddy

I will take this call I am Gurunatha Reddy. See basically this adjustment has arisen because of the accounting standard wherein I have given the MTM, Mark-to-Market. If you look at our export orders it has been received in two stages. One is an advance payment the other one is once I separate the goods. We have received the advances close to about Rs. 50 crores to Rs. 60 crores towards the end of last financial year; that is March 2013. So at that point of time USD INR was about Rs. 53. Ultimately when we are exported the goods it was around Rs. 65. Therefore when I am invoicing the goods I will be invoicing for the total quantity at the rate of Rs. 65 whereas 35% of the invoice value was already received as an advance at the rate of Rs. 53. So therefore the adjustment is required in terms of the differential. The major portion of the adjustment as



Astra Microwave Products Limited
April 29, 2014

come in I would say about 80% of whatever you are finding in the financial statement has come in because of this nature of transaction.

Malla Reddy But theoretically if we see we are not losing anything in this transaction because we have whatever dollars we are getting we are using them for our buying of materials again which we are paying in dollars it is purely a book adjustment because we are billing at some higher value and we are received at lower value when we received it as advance.

Samarth Sanghavi There is no actual cash flow altogether.

Malla Reddy There is no actual cash flow.

Samarth Sanghavi But there is a nominal loss that has occurred which is to tune of Rs. 12.3 crores.

Gurunatha Reddy Yes, but the only way is now that is we are not get in advances.

Malla Reddy That is you have increased your revenues and the said that you are last so much. If normally suppose dollar would have remained at that stage then instead of Rs. 5 to Rs. 530 my billing would have been Rs. 520. Because I have overstated my revenues so I have to reduce by revenues to the extent I have overstated.

Samarth Sanghavi The other question is I mean with regards to the increment in the authorized capital wanted to understand what has promoted this increase and also there is addition of a director. So what has prompted these changes?

Malla Reddy These two are not linked. Addition of director increasing capital is increase in capital they are not anyway linked. But why we are increased it just keeping the growth of this company plus we have been going on issuing bonuses so there would be requirement so anyway we are changing the Memorandum of Articles of Association because we are trying to delete some of the articles which were there earlier when Canbank Venture Capital entered and when strategic venture fund entered. So because we were doing those changes I proposed this also increase in share capital also.

Samarth Sanghavi And with regards to the director entry?

Malla Reddy Director is because with L&T and L&T is also seriously trying to work in the space where we will become a backend to them kind of thing. So and basically they are trying to enter in to radars in a big way. So as a part of that may be they might have passed that if it is a good thing to take a position. So they asked for it we agreed for it.

Samarth Sanghavi So the nature of their entry would be non-executive?

Malla Reddy Yes, non-executive.



Astra Microwave Products Limited
April 29, 2014

Samarth Sanghavi Sir, with regards to the existing orders in hand this Rs. 975 crores what would be split or what is export or what is domestic?

Gurunatha Reddy The import is close to about Rs. 480 crores and the balance is domestic.

Samarth Sanghavi So I mean last time we were at Rs. 1100 crores so this position has reduced. So are we looking at any kind of additional or what is there in the pipeline is there any additional order which are expected to come?

Malla Reddy So one order which we have been tasking for last three quarters I think we have talked in the last two conference calls still it is not closed it is opened. So that comes that is another Rs. 90 million to Rs. 92 million order but still not decided by Elta or I think they have their own problems. Otherwise the Indian Rupee revenue orders are normally regularly coming in.

Samarth Sanghavi Sir, just couple of balance sheet questions. Our inventory position has increased from 73 to 146. Just looking at that do we or is this purely the raw material for the Elta order or is there?

Malla Reddy See when the revenues goes up by 130% do not you expect the inventory is also should go reasonably to some extent?

Samarth Sanghavi So this is purely on account of that order that is what I was?

Malla Reddy Plus this year also we will be doing more than what we did last year. So because of that the inventory built up has to be there.

Samarth Sanghavi Sir, just one final question on the final quarter what would be the revenue that we would have got from the domestic business and what will be revenue from the export business?

Gurunatha Reddy I think last quarter out of Rs. 195 crores of sales I think close to about Rs. 150 crores was the domestic.

Malla Reddy No, Rs. 135 crores is export rest is domestic.

Samarth Sanghavi So Rs. 60 crores is domestic?

Gurunatha Reddy Yes.

Malla Reddy Actually in domestic we missed about Rs. 20 crores what was supposed to go.

Samarth Sanghavi Do we see that happening in the next quarter?

Gurunatha Reddy Yes.

Malla Reddy Yes, this quarter it is happening.



Astra Microwave Products Limited
April 29, 2014

Gurunatha Reddy That is one of the reasons why you are finding little high inventory also.

Moderator Thank you. The next question is from the line of Ankit Hakhu from CRISIL. Please go ahead.

Ankit Hakhu Sir, my question is that in the current Rs. 975 crores order book what would be the prominent programs that are running?

Gurunatha Reddy See under the exports they are the same sub systems for a radar program. Whereas in the domestic out of Rs. 490 crores the missile programs I think close to about.

Malla Reddy Missile and radars put together about Rs. 100 crores and CAR T/R Modules and LRD T/R modules put together are around Rs. 80 crores. These are the major things.

Ankit Hakhu Sir, in this quarter we have seen that the employee cost has gone up from around?

Malla Reddy If you see in our balance sheets in the last two, three years in every year there will be the employee cost going up in one of the quarter that is because we have all incentives and everything paid in one of the quarters.

Ankit Hakhu And sir, have you done any CAPEX in this quarter?

Gurunatha Reddy This specifically I cannot remember that but for the entire year we have done close to about Rs. 20 crores.

Ankit Hakhu And going forward any CAPEX plans or are there only maintenance CAPEX to be followed?

Gurunatha Reddy Yes, I would say whatever is planned is regular kind of thing but in terms of the value it is close to about Rs. 10 crores.

Ankit Hakhu Sir, could you just give us any clarity on any major orders that you are negotiating right now and that can flow in the next year?

Gurunatha Reddy See the major export order is what we have talked about just few minutes back that is the Elta order. Whereas in the domestic more or less the negotiations and the immediate visibility is again there in the area for missiles and radars only. The missiles as everywhere is largely it is Akash related kind of thing. In the radars it is again a standard subsystem called TR module but these radars are being done by more than one institution and where the discussions are going on ongoing basis. So broadly these are the three or four areas where the expected order book is likely to happen.

Ankit Hakhu Sir, what could be the order inflow during this quarter?

Gurunatha Reddy During this first quarter?



Astra Microwave Products Limited
April 29, 2014

Ankit Hakhu During the Q4?

Gurunatha Reddy Q4 I do not think any major thing has happened but cumulatively I think close to about Rs. 20 crores worth of order booking has happened.

Ankit Hakhu Sir, one final question. Could you give us any guidance on the topline that you are planning to achieve in the years going forward?

Malla Reddy We are aiming to last year actually I gave ranges so I do not want to give ranges this year. So we are aiming 650 plus topline and 70 plus bottomline.

Ankit Hakhu And this will be mainly driven by export orders?

Malla Reddy Both are there.

Ankit Hakhu So what proportion of execution can we take rough assumption of the execution that can happen?

Malla Reddy Roughly around Rs. 430 crores to Rs. 440 crores of export orders remaining thing will be local order.

Moderator Thank you. The next question is from the line of Sanjeev Hota from Sharekhan. Please go ahead.

Sanjeev Hota Sir, this quarter margin so exclude the FOREX rate it is around 29.8% so my question is on the going forward what is the margin facility in to FY15 and if you could touch upon what is the reason behind this significant improvement in the margin this quarter?

Malla Reddy See it depends upon the mix of exports and the local revenues. Last quarter exports were more but having more percentage when compared to the local revenue. This quarter the local revenues percentage has increased. That is why you are seeing a difference.

Sanjeev Hota Sir, last quarter export revenue was around 80% and local was 20%. This quarter local is 30% was any?

Malla Reddy Yes, more than 30%.

Sanjeev Hota Yes, so 9% to almost 23.5% if you exclude this FOREX hit that is 29.8% so is there is any lever that has come in to play in the margins or this is only the mix?

Malla Reddy Only the mix.

Sanjeev Hota And going forward what is the outlook because in the last quarter you have mentioned that the mix is going to change to around 50 to 55 and exports 45 around domestic?



Astra Microwave Products Limited
April 29, 2014

Malla Reddy Just now we answered that if you remember that is out of 650 roughly about 430 will be exports remaining thing will be local revenues. And I said the bottom line will be roughly around 70 plus.

Sanjeev Hota That is why my question is that why there is a conservative 70 plus on lever and the margins are going to be improved significantly the FX should be much more than that?

Malla Reddy If it is much more then you will be happy I will also be happy. So what I am saying is bottomline figure. See inspite of all our efforts there are some things which may go have it. So that is why last year I gave the percentages; percentages see we really we could not meet whatever we have committed. But finally if you calculate from the initially whatever revenues and percentage figures I have given we have met that but if you calculate the percentages in terms of revenue it is not rated a pure percentage. So that is why at this time I am giving the bottomline figure which will be better than what we are saying.

Sanjeev Hota It is since like big room for improvement for the current guidance you are giving?

Malla Reddy Yes, there could be.

Sanjeev Hota And because the mix change that is going to happen in FY15 there could be also in the inventory and the debtors level that is going to come in to play because of the higher domestic revenue?

Gurunatha Reddy No, I do not think see the debtors mix largely our debtors outstanding is largely depends on the periodicity of our billing. Earlier that is where majority of about 90% of our revenue was in domestic area where the deliveries were happening only towards the end of second and third quarter. I mean third and fourth quarter so that is the reason why you always used to find higher debtors at the end of the year. Now that situation has changed entirely differently. Therefore you do not find too much of debtors at a higher side.

Sanjeev Hota It is going to be like similar to what we?

Gurunatha Reddy What you are seeing now.

Sanjeev Hota And sir, what is the reason for this increase in the loan and advances figure for FY14 from Rs. 32 crores to Rs. 86 crores?

Malla Reddy That is the advance received.

Gurunatha Reddy Where are you finding that?

Sanjeev Hota Loan and advances short term if the advances received from for the export order?



Astra Microwave Products Limited
April 29, 2014

Gurunatha Reddy Yes, this major is only that one. We have the outstanding advances are close to about Rs. 198 crores.

Sanjeev Hota And sir, last question was if you could elaborate on this L&T plant to come big in this radar area if going in to next two, three years what is their plans and how we are going to benefit from it?

Malla Reddy They are bidding for number of buy and make programs. So once they bag the orders we will become a backend to them like we are backend to BEL.

Sanjeev Hota Any pilot they have already run any projects they have already done in to this?

Malla Reddy No. Earlier they did one radar for ISRO but not to defense I think. But currently they are trying to integrate one system on an NCNC basis for sea surveillance radar.

Sanjeev Hota How you will see this is going to reflect in the next two years?

Malla Reddy No, they are expecting revenue sometime in 2017, 2018 onwards.

Moderator Thank you. We have the next question from the line of Keshav Garg from Equity Mechanics. Please go ahead.

Keshav Garg Sir, what is the advances that we have from our customers?

Gurunatha Reddy We have about Rs. 198 crores advances.

Keshav Garg And also we have opened a subsidiary by the name of whatever. So I mean what is the function of this subsidiary and when are we expecting revenues to start coming in?

Gurunatha Reddy This revenue is called Bhavyabhanu Electronics. It is a wholly owned subsidiary. This is engaged in EMS service which is also called as the SMT Services. It has just started operations. Probably you will see the full year revenue in the current financial year.

Keshav Garg So I mean any idea that I mean what kind of revenue are they looking at I mean is it significant considering the overall turnover of the company?

Malla Reddy In fact it is doing most of the works for Astra only. It would not be getting any revenues from outside.

Keshav Garg Okay so on revenue they are paying we do not any impacts on consolidated business?

Malla Reddy Yes, it at least this year definitely. May be next year onwards we may get it but as on today it is 100% being used for by far Astra.

Keshav Garg So it is ?



Astra Microwave Products Limited
April 29, 2014

Malla Reddy Earlier we used to load to external EMS sources so that work we are loading to our internal subsidiary.

Keshav Garg And sir, also if you see that out of last year as of 31st March 2013 if you recall our order book it was Rs. 1250 crores. Now our order book is Rs. 975 crores and since we are saying that you are expecting Rs. 650 crores of sales could be booked this year so our order book will reduce drastically if we are not able to get some new orders, So I mean my question is that what are the chances for a replay of FY6 to FY10 periods where our sales were basically stagnant at Rs. 100 crores around?

Malla Reddy Please repeat?

Keshav Garg Sir, I am saying that once we book this Rs. 650 crores sales out of Rs. 975 crores order book then our order book will come down drastically if we do not get any new orders during the year?

Malla Reddy Yes, if you want to get it definitely it will go down. See in the any business if we do not get orders definitely it will go down.

Keshav Garg So sir, that is what I am asking that I mean. So sir, for the next year for FY16 what is your estimate like in the past con call you said that?

Malla Reddy I cannot give it now itself we need some more time, please. As I told you there are opportunities we are negotiating if we close it we will get it; if we do not close it we do not get it. So all these ifs and buts are there so I cannot give numbers today.

Keshav Garg I am not asking for numbers.

Malla Reddy Anyway I have give the numbers when I do not know confidently how can I give numbers.

Keshav Garg Sir, I am just asking you whether you are optimistic or not I mean surely you cannot specify any number but do you think that going forward we will?

Malla Reddy In this world we live with hope.

Keshav Garg And sir, lastly I wanted to ask about this Akash Missile. In the past con call you said that the Bharat Dynamics or whoever is manufacturing these missiles they intent to ramp up the production of these missiles drastically so has that ramp up happened?

Malla Reddy Yes, this year that is why we are seeing almost as he has mentioned in one of the questions he has mentioned Akash and Radar regulated thing the really revenue is almost doubling for us this year that is 2014-15.



Astra Microwave Products Limited
April 29, 2014

Keshav Garg Sir, so is it fair to say that the production of Akash missiles is also doubling that is why we are also doubling our basically turnover from this?

Malla Reddy Yes.

Moderator Thank you. We move on to the next question which is from the line of Mahesh Bendre from Quantum Securities Limited. Please go ahead.

Mahesh Bendre We have a Rs. 970 crores of order books so what is the execution schedule for the same?

Malla Reddy See we said Rs. 650 crores for this year. Compared to last 15 to 20 years I think this year we will be seeing a reverse of it we will be having more of revenue coming in the first half so less of revenue in the second half.

Mahesh Bendre And sir, another thing in terms of the strong execution we need to back it by the strong order inflow also for next year's visibility FY16. So if we get a stable government at center do you sense any the defense procurement policy and proceeds to go up significantly and that will also help us getting more orders?

Malla Reddy Yes, it will help us but not for FY16.

Mahesh Bendre But in terms of order inflow when do you think that?

Malla Reddy See that is what I am saying. Once a good government comes definitely the defense is a focused area there will be lot of orders to all system suppliers and consequently we will also be getting. But for that to happen I do not think it will take some time. It would not happen immediately after the government comes in to rule.

Mahesh Bendre But do you see a feasibility in FY16 at least may be this year?

Malla Reddy Yes, definitely.

Mahesh Bendre The order inflow going up?

Malla Reddy Yes.

Moderator Thank you. The next question is from the line of Urvika Shah from Equirus Securities. Please go ahead.

Urvika Shah Sir, this year the PAT margins we have seen a considerable de-growth so this is mainly because of huge quantity of export orders being executed?

Malla Reddy Yes.



Astra Microwave Products Limited
April 29, 2014

Moderator Thank you. The next question is from the line of Dr. Jayesh Shah who is an independent investor. Sir, please go ahead.

Dr. Jayesh Shah Hello sir, I am Dr. Jayesh Shah from Mumbai. I wanted to ask you what are the prospects for this first quarter of FY15? What will be the approximately topline and what is the approximately bottomline?

Malla Reddy 200 plus topline; 25 plus bottomline.

Moderator Thank you. The next question is from the line of Milind Karmarkar from Dalal & Broacha Stock Broking Private Limited. Please go ahead.

Milind Karmarkar I had a few questions on your order book. Pardon me because I have not looked at the company for almost more than a year. So if you could help me this Rs. 975 crores order can you give me a rough breakup in terms of products like missile parts, radars etcetera?

Malla Reddy You have given see in this Rs. 975 crores major thing is export order. That is Rs. 480 crores and the remaining radars and missiles will be roughly 40, 40 and remaining 20 will be various R&D works and small, small orders.

Milind Karmarkar And pardon me again a basic question. How large is the Elta order?

Malla Reddy The one that is likely to come or the one now we are executing?

Milind Karmarkar Both separately?

Malla Reddy The entire order book is from Elta only.

Milind Karmarkar The entire export order book is for Elta?

Malla Reddy Yes.

Milind Karmarkar And the one which is likely to come?

Malla Reddy That is near about \$90 million.

Milind Karmarkar And what was the order booking during the financial year 2013-14 any rough idea?

Malla Reddy See okay I will put the other way. We had an order book of 1100 at the beginning of the year we have now Rs. 980 crores and we did Rs. 520 crores now you calculate.

Moderator Thank you. The next question is from the line of Apoorva Shah from Dimensional Securities Private Limited. Please go ahead.



Astra Microwave Products Limited
April 29, 2014

- Apoorva Shah** Sir, can I have a revenue break up for full year for domestic and exports?
- Gurunatha Reddy** See exports around Rs. 342 crores and the domestic is about Rs. 202 crores.
- Apoorva Shah** Sir, my second question is like this year there was a huge currency volatility so if next year currency is stable so can we expect some margin expansion in export segment?
- Malla Reddy** See I have explained number of times our dollar income inputs and the dollar expenses are more or less matching. We do not save dollars we do not spend dollars at the end of the year. So irrespective of whatever is the dollar to rupee conversion we will not be seriously affected in anyway.
- Apoorva Shah** And sir, do we required to hedge like so in given circumstances we do not required to hedge as well, right if mandatory?
- Malla Reddy** In fact we have not hedge it earlier also because the things are fluctuating so rapidly hedging also is a risky thing and especially when we have more or less whatever dollars are coming in you are easing and you are not spending additional dollars there is no necessity of hedging as such. That is what we thought and we stick on to that.
- Apoorva Shah** And sir, my final question is on the increase in authorized capital. It was not clear can you explain because at net debt level we are a net debt free company we can raise additional debts. So are you planning for some major expansion?
- Malla Reddy** No, not more major expansion. If you see the main thing is we were trying to change some of the Articles of Association some of the things we are deleting that is which we have brought in when Canbank Venture Capital came in when Strategic Venture Capital came in. So all those things we were trying to delete. When we were deleting I asked him to increase the authorized share capital also so that in future if there is any requirement of bonus or any further funds raising mechanism is required we do not have to go for another change that is the idea. Other than that there was no immediate requirement to increase.
- Moderator** Thank you. The next question is from the line of Viraj Mehta from Franklin Templeton. Please go ahead.
- Viraj Mehta** Just what I wanted to understand is when you said that your CAPEX requirement are pretty minimal around Rs. 10 crores to Rs. 20 crores. So in our current capacity what is the revenue we can generate?
- Malla Reddy** See if we have the full order book and without any breaks things we can go we can do a Rs. 1200 crores to Rs. 1500 crores per annum if the current infrastructure whatever we have. But that will never be there please. Because there will be some issues in products there will be some issues somewhere or other so always there will be breaks. That is our last 20 years experience.



Astra Microwave Products Limited
April 29, 2014

- Viraj Mehta** So what I am trying to understand is when is the next time when you will need to do a decent capital expenditure let us say north of Rs. 40 crores, Rs. 50 crores, Rs. 60 crores?
- Malla Reddy** In the current parts of line I do not think we require that kind of huge investment at least for next three, four years. So once my billings are fully are paid or the full capacity comes then if I had to construct a billing layer I think by about five years, six years back we constructed a building space of about one lakh 50 square feet place. If we had to once we had to go for that kind of facility creation again we may have to spent but I am not foreseeing at least for next three years.
- Viraj Mehta** I might be asking one of the participants' questions again but what I am trying to highlight is we are in projects business where there is a huge uncertainty over when the next project we will get and bigger question is when it will be executed because the opposite party should also be ready to take off take the order. Now in an environment where our existing order book has declined this year over last year and we are talking about more than 20% to 25% kind of revenue growth this year. Do you as a company feels slightly uncomfortable with much lesser order book going forward?
- Malla Reddy** There could be I am not saying that there would not be. But there are opportunities which we are pursuing. If we do not clinch those order there could be.
- Viraj Mehta** So if let us say there is a tradeoff between taking orders at much lower margin which is quite visible because our export order seem to be single digit margins compared to our domestic orders which is much more remunerative. In future also if those export orders come at single digit bad margins that is a 5%, 6% we would be okay to take those?
- Malla Reddy** Not 5% to 6% our export orders of around 10%, 12% not 5%, 6% definitely.
- Viraj Mehta** But sir, if our export orders are 10% to 12%?
- Malla Reddy** 10% to 12% is not profit margin then the 10% to 12% is what I see the sale value minus raw material cost.
- Viraj Mehta** Okay, gross margin.
- Malla Reddy** Yes, gross thing so but most of whatever is executed till now all export orders are with that kind of contribution. So if those things come definitely we will pursue them. But not definitely we are not aiming at 5-6% kind of thing.
- Viraj Mehta** Nothing lower than that we will take?
- Malla Reddy** Yes. And in fact the remaining order book whatever we have is the local order book it has not that export order book. Export order we are more or less the existing order we are clearing by the year end.



Astra Microwave Products Limited
April 29, 2014

Viraj Mehta Correct we will clear by FY15 is what you are saying?

Malla Reddy Yes, hardly there may be Rs. 20 crores to Rs. 30 crores left over remaining.

Viraj Mehta So sir, of the Rs. 980 crores order book how much is exports?

Malla Reddy Rs. 480 crores.

Viraj Mehta So yes, so that is much lower gross margin that is all I am trying to say.

Moderator Thank you. The next question is from the line of Ashok Mehrotra from M Capital Group. Sir, please go ahead.

Ashok Mehrotra Sir, my question is will we be able to maintain the growth in revenues for the first quarter and going ahead in FY15 as well? Specifically my question is in the first quarter what do we see the exports and domestic just a ballpark figure not exactly asking for?

Malla Reddy Just now I answered this question. First quarter the numbers I gave is (+200) revenue and roughly about 25 PAT.

Ashok Mehrotra Yes sir, but I am just asking.

Malla Reddy So in fact the mix will be roughly I think about 110-120 exports rest local revenue.

Ashok Mehrotra So it will be 50:50 kind of?

Malla Reddy Or slightly more than 50 not even 50-50.

Ashok Mehrotra And the employee cost as you have rightly said that it has grown historically growth in the last quarter so we are likely to see it gradually reducing in the first three quarters of the year as compared to the Q4?

Malla Reddy Generally, if you see in the last few balance sheets that is what happens.

Ashok Mehrotra Yes, so first three quarters would see a lower employee cost?

Malla Reddy And one of the quarters I do not say even first three whichever quarter suppose if we get first quarter extremely good profits we may book all the incentives in that quarter. So compared to other quarters one of the quarter will have more expenses booked under the employee cost.

Ashok Mehrotra Sir, one more question is what historically we have been seeing is the lumpiness in our revenue and order booking. So that is likely to go away from this year on as we have?

Malla Reddy No, inter cities reversing lumpiness will come in the first two quarters this year.



Astra Microwave Products Limited
April 29, 2014

Ashok Mehrotra So first two quarters will be good quarters and from third, fourth quarter onwards?

Malla Reddy Will be lean quarters.

Ashok Mehrotra So if we are successful in getting that Elta order of \$(+90) million then we will be having good quarters of third and fourth?

Malla Reddy No, that will go to next financial year.

Ashok Mehrotra So FY16 that we go through.

Malla Reddy Yes.

Ashok Mehrotra Sir, one more question if you do not mind. I could not get what your explanation was about the short term loans and advances that is in the current assets?

Malla Reddy The advances what we have received from Elta.

Ashok Mehrotra No sir, these advances that we have lend to people this is not what we have received in?

Malla Reddy Like what we are getting advance from Elta we have to advanced to our suppliers.

Ashok Mehrotra So from Rs. 32 crores it has already more than two-and-half times so that is because of we have lend to our customers as BDNL other people or raw material suppliers?

Malla Reddy Yes.

Moderator Thank you. The next question is from the line of M. M. Savla from M. M. Savla Consultancy Services. Please go ahead.

MM Savla Almost my general questions are covered but can I have little more insight on value addition by the nominee directors of L&T on the board; that is my first question. Second question is when are we seeing Rs. 1,000 crores turnover for our company; that is number two. Question. And third sir, in fact I could not actually understand the exact explanation for that Rs. 12 crores FOREX loss because if there is book entry then probably my topline already must have covered this Rs. 12 crores and now I am adjusting it is it like that?

Malla Reddy First I will answer your third question. See when we received the advance we received at Rs. 53 when we billed it the dollar was at Rs. 65 so I will be raising my bill at Rs. 65 and overstating my revenues at Rs. 65. So I have to put it reduce that somewhere for that 35% what I have received the advance at Rs. 53 that much I have reduced. Because I have overstated my revenue I have to reduce it somewhere that is how that is the book adjustment.



Astra Microwave Products Limited
April 29, 2014

MM Savla So that means my revenue was inflated so now I am making adjustment to my revenues in fact?

Malla Reddy Yes.

MM Savla And about value addition?

Malla Reddy In inflation has also affected our percentage profitability everybody asking why your percentage has decreased.

MM Savla Yes, because if our turnover is lower then automatically our margin percentage would have been higher?

Malla Reddy Yes.

MM Savla And some more insight on value addition by L&T nominees?

Malla Reddy L&T is also seriously trying to enter in to radar business. And once they enter in to radar business they will become like one of the let us say radar suppliers like BEL or somebody whoever is supplying as of now of course BEL. And because of that we thought in fact they asked us to include their nominee in our board and we accepted it.

MM Savla So can we look at them as our strategic partners in years to come?

Malla Reddy Yes.

MM Savla And how about reaching to Rs. 1,000 crores turnover sir?

Malla Reddy If we grow at current levels in next three years we will become. But if there are any blocks in order inflows I do not know when we will reach.

MM Savla I am sure you must have some your internal targets and probably?

Malla Reddy That is what I am saying the internal target is to grow at least 20% to 25% number of times along when most of you visited me I was telling that we want to grow around 20% to 25% at least per annum. With that aim we are working but whatever we aim always will not happen. If we grow at that rate in the next three years we should be reaching around to Rs. 1,000 crores size.

Moderator Thank you. The next question is from the line of Siddharth Jain from Mount Capital. Please go ahead.

Siddharth Jain My questions are with regards to the following. One is with regards to this R&D expense. Sir, if you can just state that what is the as a percentage across the year what is the percentage of expenditure which is going towards R&D and what is your plan for the coming year? My second



Astra Microwave Products Limited
April 29, 2014

question is with regards to the defense offset policy it is connected with the exports which we are having. Naturally the Indian export industry is going to develop because of the offset policy. So what is your view on that what are the opportunities whichever company is having because of that? And I think there is only one company which is basically connected to us as far as our export order is concerned so how are we going to derisk ourselves from that? Third question sir is with regards to the hedge position. We are almost a zero debt company so why do not we just strike off because a zero debt company comes on radar of lot of a culture automatically. The small amount of debt which we have around Rs. 25-35 crores odd if we can strike it off then it will become in the radar of lot of other interesting investors also? The fourth is with regards to promoter ownership. As a surprise sir, the promoter ownership in our company is at a very low number of in the 20's so what is the plan of the promoters as far as that is concerned because when we heard that there is a authorized capital increase naturally people would have construed that basically there can be some kind of issuance to the promoter or some warrant or something like that?

Malla Reddy

Nothing like that, please.

Siddharth Jain

Right sir, but I mean I would like you to come on record and with regards to capacity utilization sir what is I think Rs. 1200 crores is what you have already answered if there is anything more you may please?

Malla Reddy

No, that is it.

Gurunatha Reddy

Yes Mr. Jain, regarding R&D expenditure over the years the expenditure is around 3% to 5% of the sales of the company. Probably we will continue to have the same kind of expenditure. It may be slightly on higher side because we are looking at R&D in my systems also. If that material hedges probably in the next two years we may be spending slightly higher than what we did in the last three to four years. That is as far as the R&D expenditure is concerned. Then defense offset policy I request our CEO to respond to that. But before that regarding the long term debt I did not understand your point like if you are a zero debt company you will be attracted by somebody that is what you have stated but whatever debt we have taken it is taken as a matter of operational requirements because as you know it is a very working capital intensive operations what we are carrying out. Therefore throughout the year you do not see that comfort what you may see at any particular point of time. Therefore there will be a debt and of course if it is going to be at a low end and I do not see anyway how I can write-off the debt immediately. Then promoters' equity of course while increasing the authorized capital we do not have any idea of about these inferences it was done purely basing on the Articles of Associations. Beyond that we do not see any other reason why it is there.

Siddharth Jain

No insurances and no warrants, right?

Malla Reddy

No.



Astra Microwave Products Limited
April 29, 2014

- Gurunatha Reddy** Yes, absolutely no such ideas are there. Then the capacity utilization if everything goes well we have if there is a uniformity of order placement and the execution happening across the board we have a capacity to do closed to about Rs. 1,500 crores of annual sales.
- Siddharth Jain** And with regards to the dependents upon a single buyers internationally so eventually we will have to derisk ourselves?
- Gurunatha Reddy** Yes, in fact as a part of the strategy we have a couple of MoEs signed with other leading players. The offset orders will always it is a direct relationship with reference to the orders being sourced by these global players. Up to now whatever the space we are operating only Elta got the orders from Government of India that is how the orders are coming only from Elta. But otherwise we have excellent relationship with couple of companies in Europe and in fact we see opportunity for those companies also bagging some of the orders down the line.
- Siddharth Jain** Sir, memory shows me correct Lockheed Martin has an MOU with Astra how are the things warming up?
- Malla Reddy** No, Lockheed Martin is no more there now. It is Rafael Europe is getting the MMRCA order. See that time when MMRCA everybody was participating in the tender we signed with everybody finally whoever has got the order those people have to get the order they are the L1 people the new government has to place the order. After placing the order the orders will flow to us. But it is a long term at least another three years away. And similarly we have one more customer in Israel of course he has become L1. So that also down the line can also execute. But these are all see we have to start somewhere and they have to get the orders from our country then only the orders will flow back to us. Unless that happens we cannot expect more customers and more orders and everything. It is a long term process.
- Siddharth Jain** Can you enlighten us little bit more on the offset policy and what is your vision on that?
- Malla Reddy** Defense offset policy is you know that any order that has been played by our country more than Rs. 300 orders and whoever bags the order they are obligated to source at least 30% of the order value from our countries. Some people for example MMRCA case they are accept of 50%. That is the policy as incurred. But minimum 30% to source from the country.
- Moderator** Thank you. The next question is from the line of Arjun Ashar from Envision Capital. Please go ahead.
- Arjun Ashar** My first question is; who are our competitors in India and abroad?
- Malla Reddy** Directly to us in terms of startup in terms of our space there is no competition in India. And for our products there would not be competition from outside also because these are all strategic products and country needs Indian suppliers.



Astra Microwave Products Limited
April 29, 2014

Arjun Ashar But do you see any domestic competition emerging in the next three to five years on the horizon?

Malla Reddy Yes, at the R&D stage we are seeing some competition down the line it may arise. I do not say that it will not come up.

Arjun Ashar Okay but how far away in terms of number of years are they away in terms of being a serious competitor to us?

Malla Reddy At least may be minimum four, five years.

Arjun Ashar And previous question is eluded to certain stagnation or a slowdown in sales which you witnessed from FY6 to FY10. Can you please list for us the scenario which was prevailing in the previous slowdown and what were the factors if you could isolate them what was the factors prevailing then?

Malla Reddy Before FY6 we had one we were mostly growing based upon our R&D capabilities and R&D works. Suddenly we got a big production order that is battlefield surveillance radar which has gone to production and that gave us growth. And to fill that size of order we did not get anything but we struggled to remain at least at that level. And during that four, five years whatever we did they have now resulted in production orders. That is why we are growing plus in addition to that offsets are opened up.

Arjun Ashar Okay so you are saying that that period was not really a slowdown but you are all just getting in to the next orbit at the company level and you all just getting comfortable in that space; is that what you are saying?

Malla Reddy Yes. But in terms of cost they will go up naturally so the bottomline was going down but revenues remain more or less at that level 110-115 kind of thing levels. But the bottomline went down drastically.

Arjun Ashar So okay till now we have not really witness a scenario where we have all the capabilities ready but the orders are not coming in that scenario for a very long period that we have not witnessed that kind of a slowdown till now?

Malla Reddy Not yet.

Arjun Ashar And then earlier when you mentioned this but due to poor audio I could not catch it. You said the impact of new government if any will be felt from FY16 onwards or FY17 onwards?

Malla Reddy First of all they should make the decision, they should place the orders on the system suppliers. System supplier has to place the orders on us. So system suppliers may get orders based upon the new government most probably by end of this financial year March or next year. And after that it will take at least another six to nine months or one year for us.



Astra Microwave Products Limited
April 29, 2014

Arjun Ashar So by late FY16 if at all everything goes well then we can witness some impact?

Malla Reddy Yes.

Arjun Ashar Okay late FY16. Can you please summarize the margin dynamics in your domestic as well as exports business very briefly?

Malla Reddy Exports generally there are still price minus raw materials.

Arjun Ashar Yes, which is 10% to 12% you said?

Malla Reddy 10% to 12%. Here it will be definitely above 40% to 50%.

Arjun Ashar 40% to 50% this is the sale value of it?

Malla Reddy But one difference is there. See in exports I do 1,000 items per month here I will do only 100 items per month or not even less than 100 items per month.

Arjun Ashar In the previous call you had explained in much detail.

Malla Reddy Yes, so that is the kind of so just by looking that figure only we cannot say plus in exports all my infrastructure is provided by a fellow whoever is giving me the orders for exports whereas here I have to fund myself; I have to buy all my test equipments; I have to create all my facilities everything. So the investments are also more so it is a complex phenomena to really arrive at and say that this much is this and that much is that.

Arjun Ashar And while back you mentioned that two years down the line you all may witness some increased R&D and Systems. Can you please explain this area of business as to what exactly are the nature of activities and opportunities?

Malla Reddy Not opportunities. See basically we are in to subsystems because we have build some of the large subsystems we are trying to build systems also so that at least we will be having a technology of making systems. Once we have the technology of making systems whether we make or we have the size or we license to someone else we can think about it. But we are spending on developing the technologies.

Arjun Ashar Can you please explain it a bit in detail as to what exactly is the difference when you are in the subsystems space and the system space?

Malla Reddy System space is definitely different from subsystems. Subsystems are complete specs comes to me saying that I need this, I need this so this is the size, this is the volume, this is it. Whereas in systems space we have to go and find out what will be the user needs based on the user needs I have to design myself the subsystems and then whatever subsystems we are making we have to



Astra Microwave Products Limited
April 29, 2014

build ourselves whatever subsystems we cannot make I have to go to the suppliers all that expertise we have to build in the company.

- Arjun Ashar** So will it be fair to say that if you are going in higher in that value chain and over there the order wins as well as the margins would be bigger than what is there in the subsystems?
- Malla Reddy** Yes definitely.
- Gurunatha Reddy** Within the product range it is definitely higher end.
- Moderator** Thank you. The next question is from the line of Parin Gala from Gandhi Securities & Investments. Please go ahead.
- Parin Gala** Sir, just one question. You said that MMRC order whenever that is placed and then the order flow will come after three years. Having said that Tejas has just received the induction certificate from the government and they have already started working on Mark II which is a better technology Tejas which will be incorporated with the Essar Radar and everything. So have Astra got any indications for that that they will be supplying or something like that?
- Malla Reddy** As of now Essar Radar is not done in India. The JLRD is just starting it and for whatever they have started we have already supplied some of the things but it is a long way to Essar Radar to come at least another three, four years.
- Parin Gala** And sir, just last question is that which is one another big project or any significant project that the company is working on like a few quarters back we started working a bit on the Essar Radar which is still ongoing. So any new technology or any big project like that which the company is now working on?
- Malla Reddy** As he has mentioned Gurunatha Reddy we are working on systems related to electronic or counter measures or electronic warfare, radars and missile seekers.
- Parin Gala** So when can we see those things?
- Malla Reddy** At least another three, four years afterwards not before that.
- Moderator** Thank you. The next question is from the line of Dr. Jayesh Shah which is a follow up who is an independent investor. Please go ahead.
- Dr Jayesh Shah** My question is that are we planning to give any bonus share?
- Malla Reddy** No please. We do not have any plans as of now.



Astra Microwave Products Limited
April 29, 2014

- Moderator** Thank you. The next question is from the line of Ketan Gandhi from Gandhi Securities & Investment. Please go ahead.
- Ketan Gandhi** It is regarding I think we are going to get quite good amount of cash next year. Have the board decided on the dividend payout policy?
- Malla Reddy** Policy I have said number of times roughly we are distributing if you calculate for last few years or why is last year's quite good number of years around 18% to 20% of the cash and during that year at PAT level not cash end. PAT 18% to 20% we are distributing as dividend and we will continue to do that.
- Moderator** Thank you. The next question is from the line of Ashok Mehrotra from M Capital Group. Please go ahead.
- Ashok Mehrotra** Sir, my question is a follow up question. First one is sir, we have seen other expenditures going up almost by 100% in this year as compared to the last year from Rs. 23 crores to about Rs. 45.8 crores in this year. Out of which the FOREX loss is accounting for about Rs. 12.3 crores. So still we are seeing about Rs. 10 crores rise in other expenditure. So could you please elaborate on that?
- Gurunatha Reddy** Yes, the other major component in that is a late delivery charge.
- Ashok Mehrotra** The late delivery charges that has been charged to us?
- Gurunatha Reddy** Yes. It is about Rs. 7 crores. So that is the major expenditure compared to the previous years.
- Ashok Mehrotra** So is it a recurring kind of expenditure going forward?
- Gurunatha Reddy** No, it is not recurring at this level. Normally there will be little bit of late delivery charges but not at the same level.
- Ashok Mehrotra** And sir, one more question is it might be a repeat question but we have seen a Rs. 12.3 crores foreign exchange loss the second reason for that has been taken as the result as it is between the time of drawl of packing credit and time of repayment. So is that likely to again recur going forward because of unfavorable movement in the exchange rates?
- Gurunatha Reddy** No, it all depends. Now after this experience and the fluctuations what we have seen now we have decided to go for a PC INR not to PC FC where some concession is also being given in terms of the interest rate. Effectively I will be paying around 5% to 6%. So instead of drawing for a foreign currency PC FC nowadays we are drawing PC and INR.
- Ashok Mehrotra** Okay, so we will be taking credit in rupee terms?



Astra Microwave Products Limited
April 29, 2014

Gurunatha Reddy Yes.

Moderator Thank you. The next question is from the line of Arjun Ashar from Envision Capital. Please go ahead.

Arjun Ashar Yes firstly, in terms of a time based urgency and need based urgency how critical are the defense related requirements in the areas where we render our services?

Malla Reddy How critical means what you mean by it?

Arjun Ashar From the point of view of the defense service?

Malla Reddy Services I hope you know it they are making so much of hue and cry for their arms and ammunitions. So the suppliers have to supply that is the system suppliers. They have their own issues but it is a big complex phenomena.

Arjun Ashar Yes, I understand and sometimes I am baffled as to why the decision makers or the policy makers are so insensitive to that hue and cry by the defense forces?

Malla Reddy That how can I answer please you have to go and ask the decision makers.

Arjun Ashar But what really holds up the flow of execution in order booking then?

Malla Reddy The flow of execution is it is not holding up whatever they are getting the orders they are placing orders on us. Why do you say that there is a holding up? Whereas in defense services to place orders they have their own systems procedures. If they start requirement today after five years or six years then only they will be placing the order. That is the kind of systems they have it.

Moderator Thank you. The next question is from the line of Ashok Mehrotra from M Capital Group. Please go ahead.

Ashok Mehrotra But one more question is sir, going forward what kind of domestic breakup do we see or domestic orders coming in for the next year?

Malla Reddy Next year domestic order of about Rs. 300 crores. That is current year we will be booking about Rs. 300 crores domestic order.

Ashok Mehrotra And we will be delivering that in the current and the next year both?

Malla Reddy No, not in the current it will be this is not only if next year. This year and the following year.



Astra Microwave Products Limited
April 29, 2014

- Ashok Mehrotra** So close to Rs. 500 crores of domestic orders are already we have out of the Rs. 975 crores of order book in addition to that we will be having about Rs. 300 crores of new orders being placed?
- Malla Reddy** Yes.
- Ashok Mehrotra** And sir, one more last thing is we have booked our export orders at 53 and we have seen Rs. 12 crores of FOREX losses and out of which Rs. 3 crores seems to be packing credit and remaining Rs. 9 crores seems to be the loss because of the adverse foreign exchange movement but that is also likely to be recurring because the rupee is still at 60 levels?
- Malla Reddy** These are all number of times I have explained it. These are all book entries place they are not real losses they are not real money loss. As I told you whatever dollars we are earning we are spending in our business we are neither saving nor buying new dollars.
- Ashok Mehrotra** Yes sir, but question arises because we think?
- Malla Reddy** So but if you can take so I overstate something and reduce it somewhere so how does it matter for me?
- Ashok Mehrotra** Sir, that is compressing our profitability that is why the question is coming?
- Malla Reddy** No, the profitability yes, profitability because it is a percentage something you are overstating it comes down. So it is up to you whatever way you want to think you please think you please calculate it.
- Moderator** Thank you. The next question is from the line of Ankit Hakhu from CRISIL. Please go ahead.
- Ankit Hakhu** A few follow up questions sir. Sir, in your expenses there is an increase in inventory of around close to Rs. 11 crores in Q4. Is this was mainly related to the movement in FOREX?
- Gurunatha Reddy** No, inventory FOREX there is relationships. As we said in the first quarter we are likely to do close to about Rs. 200 crores.
- Malla Reddy** So automatically inventory will goes up.
- Gurunatha Reddy** That kind of volume of business in the next three months naturally the material planning would have been done in the month of March.
- Malla Reddy** Or earlier.



Astra Microwave Products Limited
April 29, 2014

Ankit Hakhu Sir, questions on your working capital days. If you could comment on the I see the inventory day is actually improving in this year as of March end and so any commentary on what has resulted in the improvement in the inventory and debtor days?

Gurunatha Reddy See I would say it is directly related to the ratio of the production orders so we service the development orders of the overall revenue of about Rs. 530 crores whatever we have executed close to about Rs. 500 crores is the production related orders where naturally the inventory, storing period and all is much less. And I would say it is directly contributing to whatever the improvements we are seeing in the inventory.

Ankit Hakhu Sir, one last question. You have mentioned at the gross margin level the export orders contribute 10% to 12%. So in this Q4 if you could just comment how much the PAT or PBT be because of the export orders any?

Malla Reddy How can we say that you say me?

Gurunatha Reddy See we can only give the breakup of what revenues.

Malla Reddy We can give how can I breakdown PBT levels to each product?

Ankit Hakhu The reason I asked is was because.

Malla Reddy No, you tell me how any company can do that you please tell me?

Ankit Hakhu Sir, I agree to that but I am just asking.

Malla Reddy Then why are you asking such questions please.

Ankit Hakhu I just asked this question because in earlier quarters you had commented at the EBITDA or the PBT level that is why I asked.

Malla Reddy No, I never said the PBT from the.... what all I said is raw material minus sale value; sale value minus raw materials. I never gave the figures of PBT.

Ankit Hakhu So this was consistent...

Malla Reddy No, in a regular business how can we breakdown and unless we run it as a separate company or separate division or profit center?

Ankit Hakhu Yes, I agree sir. Sir, so this was consistent in Q4 as well?

Malla Reddy Yes.



*Astra Microwave Products Limited
April 29, 2014*

Moderator Thank you. That was the last question from the participants. I would now like to hand over the floor back to Mr. Gurunatha Reddy for your closing remarks. Over to you, Mr. Reddy.

Gurunatha Reddy Thank you gentlemen for your participation. I hope we are able to answer most of your questions and I look forward to see you again in the month of July with the first quarter results. Thank you very much.

Moderator Thank you all. On behalf of Chorus Call that concludes this conference. Thank you for joining us and you may now disconnect your lines.