



**“Astra Microwave Products Limited Q2FY15
Results Conference Call”**

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Moderator: Ladies and gentlemen, good day and welcome to the Astra Microwave Products Limited Q2FY15 Results Conference Call. As a remainder, all participants' line 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, please signal to an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. B. Malla Reddy – Managing Director, Astra Microwave Products Limited. Thank you and over to you Mr. B. Malla Reddy.

Gurunatha Reddy: Good evening, ladies and gentlemen. I am actually Gurunatha Reddy. I am with our CEO Mr. B. Malla Reddy and I welcome you all to this conference call for the quarter two results analysis and debate. I wish you had an opportunity to go through the results which were announced yesterday. For the benefit of the participants, I would like to repeat once again few numbers so that we can have a fruitful discussion.

For the six months period, we have done about Rs 378 cr of sales with a bottom line of about Rs 42 cr which is significantly higher than what we had achieved in the corresponding period of last year and for the quarter we have done about Rs 190 cr with a bottom line of Rs 23 cr. With this performance I would like to inform you that we are well on the way to achieve our guidance of top line of about 600 plus and a bottom line of about 75 plus.

In terms of the order book, currently we have about Rs 684 cr worth of orders in hand which are executable in the next 12 to 18 months period and we are confident to book about Rs 200 cr to Rs 300 cr worth of orders before the end of the financial year. We have a comfortable working capital position and apart from that I don't have anything significant to share. And with this I keep this discussion open for question-and-answer.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Ranjit Shivaram from B&K securities.

Ranjit Shivaram: Sir, what was the order intake for this quarter and we were talking about one big order which was due, so any update on that and the Rs 200 cr of order intake guidance which we are giving, does that include that or is it excluding that?

Gurunatha Reddy: It is excluding that.

Ranjit Shivaram: Okay. So what is the status on that order?

Gurunatha Reddy: Still it is like last quarter concall, now nothing has been decided; it has not gone to others, it is still with Astra. They are saying it will take some more time, most probably we expect that there is some issue in the product; they are going through the design cycles.

Ranjit Shivaram: So what was your order intake for 2Q?

B. Malla Reddy: Sir, it is around Rs 50 cr.



- Ranjit Shivaram:** So given this don't you see and for the full year are we changing our guidance in terms of revenue and PAT?
- B. Malla Reddy:** For this year?
- Ranjit Shivaram:** Yes.
- B. Malla Reddy:** No, we are not changing.
- Ranjit Shivaram:** So then do you see any risk in terms of growth for next year?
- Gurunatha Reddy:** Next year, top line in fact there won't be any growth. I have been telling every time that there is a likely fall in top line, sizable fall, that is even if export order comes also we will not be able to execute in the next year because that is at least one-one and half year after getting the order we need time of one-one-and-a-half year to start. So now it has delayed so much there is no possibility of diluting any of that order in the next financial year, that is number one.
- Number two is, any other order comes also I am not too sure whether that will add up to the revenue levels of next year. Hence, I am expecting that there will definitely be a fall in the next year's top line. Next year, top line, I think, I have already indicated in the last concall and many of the analysts who came and met me, it should be around 450 range.
- Ranjit Shivaram:** You are talking about FY16 number?
- B. Malla Reddy:** FY16. But at the same time bottom line will not fall that drastically because most of the business, almost 90-95%, will be Indian business so the bottom line in terms of percentage will improve, I am expecting around anywhere between Rs 55 cr to Rs 60 cr.
- Ranjit Shivaram:** Of PAT?
- B. Malla Reddy:** Yes.
- Ranjit Shivaram:** Okay. Sir, in terms of this quarter revenue what is the percentage of domestic and can you give that for the first half also?
- Gurunatha Reddy:** In the current numbers, the export is Rs 114 cr.
- B. Malla Reddy:** Yes, it is around 60%, about Rs 114 is exports and balance is domestic.
- Ranjit Shivaram:** And for the first half?
- B. Malla Reddy:** Same, more or less similar kind of thing.
- Ranjit Shivaram:** 60% is export?
- B. Malla Reddy:** Yes.
- Ranjit Shivaram:** Okay. And in the order book how much is export?



- B. Malla Reddy:** Exports is about Rs 300 cr and domestic is about Rs 384 cr.
- Ranjit Shivaram:** Okay. So, of this Rs 300 cr export we will be executing most of them by this year?
- Gurunatha Reddy:** Near Rs 200 cr.
- B. Malla Reddy:** Near Rs 200 cr we will be executing in the current year and the balance Rs 100 cr will be in the next year.
- Moderator:** Thank you. We have the next question from the line of Saion Mukherjee from CRISIL. Please go ahead.
- Saion Mukherjee:** Sir, just wanted to understand are you seeing any positive orders; are we expecting any positive order inflows in the subsequent quarter owing to the government's clearance of defence projects? Are we benefitting from that?
- Gurunatha Reddy:** See, last week clearance is just approval for going ahead for placing the orders, placement of orders itself, I think, will take more than a year. So plus in addition to that in the last clearance out of Rs 80,000 cr Rs 50,000 cr is going to submarines and nearly Rs 20,000 cr is going to Donair aircraft. So out of remaining thing also sizable amount is going towards missiles procurement from Israel. So not much of procurement within India in which we have our supplies.
- Moderator:** Thank you. We have the next question from the line of Sameer Deshpande from Fair Deal Investments. Please go ahead.
- Sameer Deshpande:** Now you mentioned that the second half, now the first half last time we had a turnover of around Rs 380 cr to Rs 400 cr in the second half and this time what is the likely turnover you expect in the second half?
- Gurunatha Reddy:** We have guided 625 to 650 for this full year, so 380 may be rest of it we are aiming to definitely achieve it.
- Sameer Deshpande:** Okay. So you expect around Rs 300 cr or?
- Gurunatha Reddy:** Slightly less than Rs 300 cr because even if you take Rs 250 cr it will be less than Rs 300 cr. Even if I take the total for the total year, already we have done 380 so 650 minus 380 will be next to half.
- Sameer Deshpande:** Okay. So it is expected to be around Rs 270 cr to Rs 280 cr only?
- Gurunatha Reddy:** Yes.
- Sameer Deshpande:** But defence orders you mentioned that you get normally in the second half substantially, particularly post December, will you change the guidance whenever you receive the orders later?
- Gurunatha Reddy:** Whatever orders we are getting will be for execution next year and following year.
- Sameer Deshpande:** That is true, normally since in the first half, now in this Q2 you got only orders worth Rs 50 cr.



- Gurunatha Reddy:** Yes, most of the time we get local orders only in the second half.
- Sameer Deshpande:** Yes, so that only I am mentioning. So this year now the turnover, out of that you had some 60% of exports and 40% domestic. So, 40% domestic comes to around Rs 250 cr-Rs 300 cr out of Rs 600 cr. Now with the defence being focused, is there a likelihood that you may get better order in the second half also because...
- Gurunatha Reddy:** Orders getting, we are talking on one hand the order execution of whatever orders we booked this year will come for execution next year so that's why I am telling you next year order execution this year it is skewed towards exports. Next year it will be skewed towards local orders.
- Sameer Deshpande:** But in local orders our margins are better no?
- Gurunatha Reddy:** Yes, that's why next year percentage will be better but not absolute numbers.
- Sameer Deshpande:** But now if the orders you are getting in the second half you get better orders, you may cross the turnover of over Rs 600 cr also in next year?
- Gurunatha Reddy:** Rs 600 cr I can't say. Even if, let's say, we are expecting an order book of anywhere between 600 and 700 by April 1, when I start the next financial year, in that the execution plan is somewhere around 450 plus minus something because whatever orders come they will also give us the schedule that when to deliver so they are not asking everything to be delivered in the next financial year. Only some of them will be asking to be delivered beyond next financial year. So keeping all those things into account, we are guiding next year we will be around 450 plus minus.
- Sameer Deshpande:** (+/-450). And now this profit guidance you mentioned about Rs 75 cr for this year?
- Gurunatha Reddy:** Actually I have mentioned 70 here, I think I don't know by slip of tongue or anything he has mentioned 75, but I am committing bottom line of 70 plus.
- Sameer Deshpande:** But are we not planning to increase our business in different areas?
- B. Malla Reddy:** Different areas in the sense?
- Sameer Deshpande:** Because currently we are going into radars mainly?
- B. Malla Reddy:** We are in radars, we are in AW systems, we are in missiles, all defence areas we are there.
- Sameer Deshpande:** Okay. So the missile, etc. in that business so there is a possibility we are getting it?
- B. Malla Reddy:** See, first there should be target so, for whatever order they have on hand they are passing on to us. So first they have to deliver these things there. They have to increase their capability and in fact last concall they are trying to increase their capability. Present capability created is maximum they can deliver around 500 missiles per annum, they are trying to double it for which they are building factories, they are building people, all those things will take time. Once they approve their capability of



1,000 missiles per annum they may go and ask MOD for further orders, but today they cannot go and ask.

Sameer Deshpande: And do we get any business from L&T?

B. Malla Reddy: No, as of now small-small value but not very high large value.

Sameer Deshpande: But since they have taken some 10% stake in our company and they also I think have a board seat, so is it likely you would like to have some type of a business from ...

B. Malla Reddy: See, once they start integrating the radar systems indigenously then they will look at us. In fact, they have some plans for one of the radars, they have asked us to give some proposal for one of the subsystems what we are making that is going on. But as of now their concentration is in building bigger system, not just radar, it is a big weapon system I would say in which radar also is a part of it.

Sameer Deshpande: So if anything goes on that there is a possibility we will get from that?

B. Malla Reddy: Yes, if that radar they try to make by themselves then they will come to us.

Sameer Deshpande: And the space business is not that much?

B. Malla Reddy: Space business in last three-four years was around Rs 15 cr to Rs 20 cr. Next year I think it will double most probably around Rs 30 cr plus. We are getting the orders, already we got some of the orders, some more orders we are expecting. So because of that next year it will almost double.

Sameer Deshpande: But that is still a substantially small portion?

B. Malla Reddy: Yes, it will be small; it cannot be as big as the defence business. It is a business of its own value, its own difficulty, we are not leaving that whether it is small or big because we have established specialties, people are trained, people are qualified, everything is there in place and not many industries are there which can handle this kind of job. So we will be there in that business.

Sameer Deshpande: But are we planning to manufacture some import substitutes which the government also wants us to do in India?

B. Malla Reddy: See, the government is looking for import substitutes for weapon systems, we are not in a weapon systems. Please understand, we are in some small subsystems being supplied to those weapon systems. So that question you should ask to our big guys like L&T, Mahindra's, Tata's, such kind of people.

Sameer Deshpande: Okay, so that is not the main thing. And Israel business which we had this year and earlier which was making money for us, this business has stopped for us?

B. Malla Reddy: It is getting over by next year first quarter or second quarter, it has not stopped. See, nothing will stop, they should first get the order from our country for them to place orders with us.

Sameer Deshpande: Okay. So that is still there up to first quarter or second quarter of 2014-2015 exports?



- B. Malla Reddy:** Yes.
- Sameer Deshpande:** Okay. So out of the current order book of Rs 684 cr, what is the export?
- Gurunatha Reddy:** About Rs 300 cr.
- Moderator:** Thank you. We have the next question from the line of Sanjeev Hota from Sharekhan. Please go ahead.
- Sanjeev Hota:** Firstly, on the second half you are saying that second half is going to be slower than the first half but usually the second half is stronger and you are targeting revenue of Rs 600 cr for FY15. So if you would help us understand why we are expecting a slower second half?
- B. Malla Reddy:** We have indicated this from the beginning of the year itself based upon the order book what we have in hand and based upon the requirement of the customers for their deliveries, we have indicated that. If orders are there in our hand we can execute more, it is not that we cannot execute. But two things, one, order should be in the hand, other, the customer should accept whatever we produce. So they have given us some delivery schedule that we are following. I don't have freedom of, it is not like an item that I can manufacture and dump in the market and then it will get sold. So we are a back-end of somebody, so based upon their plans we have to work. So I don't have the freedom of increasing second half or decreasing first half or anything.
- Sanjeev Hota:** So it was of realistic target of Rs 600 cr for FY15?
- B. Malla Reddy:** Yes.
- Sanjeev Hota:** And broadly speaking apart from this ELTA order if you could throw some light on the other export order, how does the pipeline of export orders looks like going forward?
- B. Malla Reddy:** As of now nothing is active, the number large number of people we have sent MoUs, they have submitted quotations to MoD or Air Force but the country has to place orders on them then they have to come back to us, so that is a long process. I cannot today say that so and so is likely to come to me.
- Sanjeev Hota:** So there is no pipeline as such also
- B. Malla Reddy:** No, there is no pipeline.
- Sanjeev Hota:** Okay. And what about the domestic you were saying that next year, forget about the FY16 but FY17 if you say, how the order pipeline building going forward in the next --
- B. Malla Reddy:** I have been indicating a number of times and a lot of people have asked me this question, if we would just take the only Indian business I am sure that we will grow at least around 15% per annum plus minus. That confidence is there because there large number of systems are coming, large number of people are entering so based on all that our gut feeling is that that there will be enough for us to grow at least at around 10% 15% per annum.



- Sanjeev Hota:** Okay. And if you could give some colour on the broader order pipeline. I am not talking about how we are going to win the order, how big is the order pipeline going forward for the defence industry in the next two years?
- B. Malla Reddy:** That I cannot say as of now because that depends purely on the government, when they will release orders. See, the total country's requirement and people are talking in terms of lakhs of cr, not just one lakh, lakhs or crore, multiple-lakhs of crore. In that how much, what will be allocated for radars, what will be allocated for EW systems, what will be allocated for missiles and in all this product there should be micro hardware, not micro hardware, they should source from us. So lots of questions are there finally to decide. So unless those orders are placed on somebody who can supply those things and then we will get some clarity, at that time maybe we will be able to indicate what kind of business is likely to come to us. But today I cannot say any numbers.
- Sanjeev Hota:** Okay. And for this quarter other expenses have gone up sharply, is there any forex loss?
- Gurunatha Reddy:** Other expenses gone up sharply?
- Sanjeev Hota:** Rs 10.5 cr against last quarter Rs 5.8 cr, Q2FY14 Rs 6.3 cr. So is there any forex loss?
- Gurunatha Reddy:** There is a forex loss but it is not a huge one, it is about a crore or so.
- Sanjeev Hota:** Okay. So why there is a big jump in other expenses?
- Gurunatha Reddy:** They are normal expenditures only but maybe couple of things have gone.
- B. Malla Reddy:** Some things get shifted from one quarter to other quarter, I don't know exactly what it is.
- Sanjeev Hota:** Because it is one of the highest in the last several quarters. So this is no extraordinary as such?
- B. Malla Reddy:** No, there is nothing extraordinary.
- Sanjeev Hota:** Okay. And what is the current debt and the cash position?
- Gurunatha Reddy:** We have a long-term debt of about Rs 30 cr and cash and other balances around Rs 35 cr which are mostly the fixed deposits in the bank for the BGs, etc.
- Sanjeev Hota:** And working capital debt, how was it?
- Gurunatha Reddy:** Working capital debt is about Rs 90 cr.
- Sanjeev Hota:** This has gone up I think Q-on-Q?
- Gurunatha Reddy:** Yes, normally as we progress towards the end of the year it goes up.
- Sanjeev Hota:** Okay. What are the debtor days?



Gurunatha Reddy: Debtor days normally it is 90 to 120 days.

Sanjeev Hota: Okay. This quarter how much it was?

Gurunatha Reddy: In terms of the value it is about Rs 160 cr.

Sanjeev Hota: Rs 160 cr. What was it last quarter Q1?

Gurunatha Reddy: Q1 also I think it is around, I don't have the number immediately.

Sanjeev Hota: But it is the same?

Sanjeev Hota: Yes, Rs 130 cr kind of thing.

Moderator: Thank you. We have the next question from the line of Mayur Patel from DSP Blackrock. Please go ahead.

Mayur Patel: Sir, just a couple of things. Sir, can you give us some idea about the Rs 384 cr domestic book, how much is related to missile, how much is related to radar and how much is EW? Some flavour if not exact numbers.

B. Malla Reddy: I don't know, I don't have the breakup on those lines.

Mayur Patel: But is it a fairly diversified between three or is it dominated by...

B. Malla Reddy: EW is less, radar is highest, missiles is middle.

Mayur Patel: Okay. And just want to confirm, since I joined late, you are guiding for Rs 625 cr to Rs 650 cr top line in FY15 and Rs 70 cr PAT?

B. Malla Reddy: 70 cr PAT, yes.

Mayur Patel: And FY16 Rs 450 cr for top line and Rs 55 cr to Rs 60 cr of PAT?

B. Malla Reddy: Yes.

Mayur Patel: Okay. Now tell me one thing, what is the status of - like there is one ELTA order of \$90 million which you said could materialise and another is Rafael...

B. Malla Reddy: It is still not closed, they have not decided but we are feeling that they have some issue with the product they are going through the design cycles.

Mayur Patel: So there is some issue with your product or?

B. Malla Reddy: See, we are not designing the product, product is designed by them, they will transfer the technology for us to manufacture it. So they are getting postponed, almost this is fourth quarter I am talking about that because last year somewhere around this time onward we have been talking because they are expecting the product to be ready but still it looks like that product is still not ready so they are not deciding as of now.

Mayur Patel: So is it stuck because they are not getting any clearance from the Indian defence?

B. Malla Reddy: No, for that they have clear order.



Mayur Patel: Okay, so they have to finalise their product?

B. Malla Reddy: They have to finalise their product, they have to finalise their design then they have to decide their vendor.

Mayur Patel: Okay. But any progress over last, when I met Mr. Gurunatha three months back, any progress in this or is it same?

B. Malla Reddy: No, that is what I am saying. I am saying the same thing, we are expecting every time next one month, two months, three months kind of thing, like that and for last four quarters it is happening so still it is in the same situation, nothing has changed.

Mayur Patel: So whenever it gets materialised it would be a 90-million opportunity for you?

B. Malla Reddy: Again, there is a competition so I don't know whether we will be vendor who will be supplying or someone else. So we are one among three.

Mayur Patel: Okay. But if you win then you will get \$90 million?

B. Malla Reddy: Yes, they are not distributing it, they will give to only one vendor, all \$90 million they will give to only one vendor.

Mayur Patel: Okay. And sir what is the status of that 120 cr IAF program? There is one potential order in the IAF program.

B. Malla Reddy: No, that is FDR, still our country has not placed order only. It is also long way.

Mayur Patel: Okay. So that is also long way, okay. So sir coming back to the domestic business, like you said 10% to 15% growth trajectory is possible given the opportunity, so this 10% to 15% you are saying at a company level or the domestic revenues you are sighting?

B. Malla Reddy: Domestic revenue growth. I said company level we will depend upon the exports also, exports sometimes are hundreds of crore, sometimes zero. So from here it may be high, from here it maybe low so there is impact in terms of growth rates it may be negative growth rates also like the next year it is happening negative growth rate in terms of the top line.

Mayur Patel: Okay. And like you said you are targeting to close the year, so the closing order book could be in the range of Rs 600 cr to Rs 700 cr. So if this ELTA order comes through then this will have a higher number, right?

B. Malla Reddy: Yes. This is exclusive of export order.

Mayur Patel: But you are saying that will not change your Rs 450 cr guidance for next year.

B. Malla Reddy: Yes, because it is coming so late I cannot start my execution in the next financial year. Generally our experience is it will take more than a year, sometimes it is a year and half to start after getting the order.

Mayur Patel: Okay, there is a lag of one-and-a-half year for the large exposure?



- B. Malla Reddy:** Yes, one to one-and-a-half-year lag is there.
- Mayur Patel:** The order book currently, you have Rs 384 cr of domestic orders right?
- Gurunatha Reddy:** Yes. See, approximately for the balance six months we are likely to do about close to Rs 280 cr, out of that about Rs 180 cr will be exports, about Rs 100 cr will be domestic. So we will be left with about Rs 284 cr of domestic orders to be carried over to the next year which I think will be --
- B. Malla Reddy:** Most of it will be over in the next year.
- Mayur Patel:** Okay. But typically what domestic order has a life cycle of how much in terms of execution?
- B. Malla Reddy:** Two to two-and-a-half years.
- Mayur Patel:** Sir, one more question, so like we are looking at huge numbers are floating around but you said that out of that Rs 80,000 cr which has been talked about in the newspapers, Rs 30,000 cr is ex-submarine where you don't see Rs 50,000 cr? I am saying ex-submarine, means excluding submarine is Rs 30,000 cr.
- B. Malla Reddy:** Out of 30 also it think around 20 is for aircraft to HAL.
- Mayur Patel:** 20 is aircraft, and 10,000 is where you can have some opportunity?
- B. Malla Reddy:** In 10,000 also not in all. In fact in 10,000 also our opportunity is very minimal, that's what I said. So hardly anything because these items are such that we don't have anything, even some of them are the exports and the exports also there is no Microwave hardware where they can source from us. So that's why I am not expecting any major chunk of business from this 80 clearance which happened last week.
- Mayur Patel:** Okay. So, sir, say typically like you have been receiving anywhere in the range of Rs 150 cr to Rs 300 cr order inflow in domestic on an annual basis last few year, so going forward suddenly if the landscape changes and huge numbers are being talked about but still no papers. But say there is a Rs 1,000 cr opportunity for example suddenly comes up six months hence or one year hence, are you equipped to bid for that given your capacities and everything.
- B. Malla Reddy:** Yes.
- Mayur Patel:** Okay. So for the domestic opportunity we will have to just wait and watch how the big numbers are converted on the ground and things like that.
- B. Malla Reddy:** Yes.
- Mayur Patel:** But are you seeing any changes on the ground on the Indian Defence side?
- B. Malla Reddy:** As of nothing, no change we are seeing, it is as usual.
- Mayur Patel:** Okay.



- Moderator:** Thank you. We have the next question from the line of Tanuj Mukhija from Ambit Capital. Please go ahead.
- Tanuj Mukhija:** Sir, you have repeatedly mentioned that there are no changes on the ground level in the defence sector, sir can you elaborate what are the changes that you would like to see from the government?
- B. Malla Reddy:** See, I am not seeing anything, somebody is asking me question saying that are you seeing any changes, I am saying that I am not seeing any changes, I am not expecting. So in fact what is expectations somebody should say as this happened, as this happened; if somebody asked me that are you seeing any changes I am saying that I am not seeing any changes.
- Tanuj Mukhija:** Okay. Sir, as a company what changes you would like to see that would make it easy for private companies to do business in India in the defence sector?
- B. Malla Reddy:** I have not complained that it is difficult to do business in India, only thing is business volume should increase. As of now whatever business we are doing we are reasonably comfortable, it is not that is very tough or anything, we never complained anything about it but in terms of volume of business whatever is there we are doing, suppose if that becomes two fold or three fold then the business inflows will be more for us.
- Tanuj Mukhija:** Okay. And can you help me understand what is the key competitive advantage of Astra Microwave in manufacturing microwave hardware technology. Can any vendor in India replicate your products in a span of year or two years?
- B. Malla Reddy:** If you ask me, let's say in * business, yes. If you ask me indigenous business, I don't say no but it takes time. We have spent to come to this stage almost 23 years so if any other new person comes with proper expertise he may take at least 10 years to come to this level.
- Tanuj Mukhija:** Sir, what are these unique and competitive products that Astra Microwave manufactures which could take competitors 10 years to manufacturer? What are your key products?
- B. Malla Reddy:** No, whatever products we are doing all of them, number one, I hope you know the business cycle, business cycle is first we have to design them and put them in a defence system. The defence system should go through the evaluation process and approval process, then order should come to production agency, production agency should place orders on us. This whole cycle is at least of the order of, in some of the cases it was more than 10 year today it is at least five, six, seven years. So because of this even if one has a very good expertise in designing Microwave products whatever we are doing, for them to build up the capability it will take order of 7 to 10 years or more than 10 years, that's what I am saying because of the business cycles in defence. We have spent for example, I will give a simple example, in missiles case for the first two subsystems we have spent in R&D and the gap between the first R&D product to the production order was 12 years. So that kind of delays are there.



Tanuj Mukhija: Okay sir. Sir, what percentage of your revenues are from Bharat Electronics?

B. Malla Reddy: Within the domestic I think it is more than 50%.

Tanuj Mukhija: Sir, do you see any execution challenges at Bharat Electronics that would hamper your domestic revenue growth?

B. Malla Reddy: We are pushing them to accept, they have given us some schedules and our products our ready, they are not coming for inspection, all that that is a regular process which we are following it up, it is not that it has not happened, it is happening even today also.

Tanuj Mukhija: Okay. So there continues to be...

B. Malla Reddy: Whatever delivery schedules they have given to us when they had placed the order.

Tanuj Mukhija: Okay. So, sir, there is a delay from the customer and procurement of products, will that be a right understanding of the situation?

Gurunatha Reddy: We don't want to make that statement, only thing is since you have asked the question we said that there are cases where we are ready with our subsystems and it is the for them to actually get in. That is the thing what we want to say.

Moderator: Thank you. We have the next question from the line of Ahok Maherotra from MCapital. Please go ahead.

Ahok Maherotra: My question is, what is going to be the breakup of the orders in domestic and exports for the second half, I mean the revenues, will it be the same as 60:40 or will it be 50:50?

Gurunatha Reddy: I think the exports will be close to about Rs 180 cr.

Ahok Maherotra: And 150 to domestic as you already told?

Gurunatha Reddy: Yes, domestic will be about 150 kind of thing.

Ahok Maherotra: So we are looking at about Rs 330 cr of business in the next half?

Gurunatha Reddy: It is not going to be 330, actually we are aiming for about (+620) kind of thing, we have to see where we are going to land up.

Ahok Maherotra: So should be in the range of 280 to 320?

Ahok Maherotra: Yes.

Moderator: Thank you. We have the next question from the line of Salil Utagi from Peerless Securities Please go ahead.

Salil Utagi: Sir, what could be your market share in India and how is the competition coming up?

B. Malla Reddy: You are talking very big things to us. Market share, how do you define it?

Salil Utagi: Means in the addressable market.



- B. Malla Reddy:** Addressable market means? Be clear.
- Salil Utagi:** In radar and AW and...
- B. Malla Reddy:** Whatever radars are being manufactured in India by BEL more or less we are the only person who are supplying these systems. So that way if you define it, we have 100% market share. That's why you have to very clear when you ask something.
- Salil Utagi:** Okay. So probably I should have asked product wise market share. And what about EW Systems?
- B. Malla Reddy:** EW systems business is a very low percentage as somebody asked earlier. But EW systems also not many people are there who are supplying same products what we are supplying. So in fact in any system at least till now let's say radars, in one subsystem if we are successful at R&D stage we only will be getting the order. Let's say we lose at the time of R&D because of price or because of product superiority by someone else, we get zero percentage, either we get one or zero, there is no in-between. So whatever products we are supplying at production, we were successful at time of R&D and we are getting more or less 100% of the order requirement for those subsystems by the system integrator. You understand, I think, the process?
- Salil Utagi:** Yes. And are foreign competitors coming in India?]
- B. Malla Reddy:** No, I don't expect foreign competitors for us will come, foreign companies will come here to set up weapon system to our services. If they come and set up, most probably they will become our customers or we will become their vendors as and when they come here and set up their shops.
- Moderator:** Thank you. We have the next question from the line of Parin Gala from Gandhi Securities. Please go ahead.
- Parin Gala:** Sir, what is the current run rate of production of Akash missiles and when do you see the next ramp up happening in production?
- B. Malla Reddy:** See, they are aiming at as I told you 500 missiles per annum, still they have not reached it, last year I think they lowered around (+100). So they are in that range only. In fact, if I remember well, in the first half of the year three months were held up because there was some failure in one of the subsystems in the missiles so * put a stop so they could not even produce anything. So they are still going through the ups and downs, that is a normal thing when large weapon system like this is manufactured so they have to stabilise it, they are in the initial stage of stabilisation.
- Parin Gala:** But, sir, I learnt that BDL is putting up a new plant just to manufacture Akash Missile?
- B. Malla Reddy:** That's what, see they have been asked to create a capacity of 1,000 missiles per annum. They cannot sit until this stabilises and then start creating capacities. So they have to parallelly work, somebody is setting up the plant which will come up after three years with a hope that by that time the current plant will reach the 500 missiles per annum stage. If this does not reach that is a different question, but when planning is



done for such large systems, both planning activity and current production activity go together.

Parin Gala: Okay. Sir, what is the order book for Akash missile with the company right now?

B. Malla Reddy: Exact numbers I can't give now, sorry.

Parin Gala: Okay. Sir, last question, from what this recent DAC cleared these orders, in that the anti-tank guided missiles which is the IR technology if I am not wrong. Does the company have any capability to do that or can we do it or are we intending to anything?

B. Malla Reddy: That's why I said missile also we have zero offset.

Parin Gala: And we don't intent to do any R&D in that, right?

B. Malla Reddy: We have to have the capability first, to do R&D I should have people who have the experience.

Parin Gala: So we don't intend the capability also, right?

B. Malla Reddy: We have been looking. In fact, for our optical communication side we have been looking but I have to find a good leader who can lead the group, who gives me confidence, comes up with these requirements of investments, all such things; but we have not found someone.

Parin Gala: Okay. But the company is making efforts towards that, right?

B. Malla Reddy: Yes, that is one of the areas where logically we have to extend it so that if we have to enhance our capability.

Moderator: Thank you. We have the next question from the line of Vipul Shah, an individual investor. Please go ahead.

Vipul Shah: By question is, can you give, separate operating margins for export business and domestic business and on domestic also can give separate margin for all three businesses?

B. Malla Reddy: I cannot give margins, I would say in export market we have roughly near 90% raw material value. Near 90, it may be 88, 89, or 90.

Vipul Shah: Okay. And in domestic what is the....

B. Malla Reddy: In domestic it will be less than 50%.

Vipul Shah: Less than 50?

B. Malla Reddy: Near to 50 I would say. Separate margins I cannot give, I cannot calculate roughly, I cannot give that.

Vipul Shah: But what is our R&D spend as a percentage turnover right now?



- B. Malla Reddy:** Our R&D is not just like any other R&D, pharmaceutical industry R&D or other R&D; what we call R&D is they accept the R&D orders, execute and they generate the revenue if you exclude as a R&D expenditure. In terms of true R&D maybe I think we are spending less than 10 cr per annum.
- Vipul Shah:** Less than 10 cr out of a turnover of...
- B. Malla Reddy:** Yes, and next year onwards we are aiming to increase it to around 20 cr.
- Moderator:** Thank you. Ladies and Gentlemen, due to time constraints only one last question can be taken. We have the next question from the line of Swarnim Maheshwari from Edelweiss. Please go ahead.
- Rahul Gajre:** This is Rahul Gajre here. Sir, we do understand that defence orders do take time to come into your order backlog but over the next three to five years how do you see the overall order pipeline and revenue profile for your company, where do you see from Rs 500 cr to Rs 600 cr of revenue that we are doing today, in the next five years where do you see your revenues moving to?
- B. Malla Reddy:** Already I have answered someone, saying that even this question was asked. Roughly we are expecting to grow in terms of local business about 10% to 15% per annum, that is the gut feeling.
- Rahul Gajre:** Okay, let me ask you one more thing. Now internationally currently we are dealing only with ELTA, correct. Are we exploring more business development opportunity with other global OEMs?
- B. Malla Reddy:** For any offsite business to flow to us, first they should bag the order.
- Rahul Gajre:** No, I am not necessarily talking only about offset, it could be offset and pure export order also.
- B. Malla Reddy:** Pure export orders I don't think anybody is really opening up, because everybody is looking at India for supplying their systems, they have their own domestic... See if you go to Europe they don't source anything from anywhere else, they say that we have enough capacity to feed our own customers. So on that we have tried, it is not that we have not tried, for last four five years we have been trying but really none of them are opening up. Only thing that they are opening up is because of the offset obligation, if they bag order they have to source from India that's why they are coming. Even ELTA also, they have not come for their other supplier requirement, they have come for whatever they have the obligation towards India for that business only for fulfillment of their offset obligation only they have come to us, that is a fact. So from that point of view I cannot go and then ask them or I cannot go and bag orders for supplying to their systems not being supplied to India, whatever they are supplying to elsewhere to other countries. But in terms of contacting other suppliers of systems, we have contacted Rafael, we have contacted Thales we have contacted EADS, everybody whoever is eying Indian business and in our area of expertise we are offset partners



with most of them, we have signed MoUs, they have submitted quotations but finally the business will float as and when they bag the orders, until then nothing.

Rahul Gajre: Okay. Sir and one last question, we are looking at an order intake of maybe 200 to 300 cr in the second half, this quarter we got closer to Rs 50 cr, how much did we get in the first quarter or first half totally?

Gurunatha Reddy: Maybe in the first quarter also the same, I don't have the numbers, I think it is close to that.

Rahul Gajre: So for the full year it is fair to estimate that your order intake will be in the range of closer to Rs 400 to Rs 450 odd cr?

B. Malla Reddy: Yes.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now hand the floor back to Mr. B. Malla Reddy for closing comments. Over to you, sir.

B. Malla Reddy: Thank you gentlemen for being with us and look forward to see you again at the end of third quarter. Thank you very much.

Gurunatha Reddy: Thank you.

Moderator: Thank you. On behalf of Astra Microwave Products Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

*Audio not clear