Date:- 01.06.2024

To,
National Stock Exchange of India Limited
Exchange Plaza,
Bandra Kurla Complex
Bandra (East),
Mumbai - 400 051

Symbol: - KRISHNADEF
ISIN: - INE0J5601015

Subject: Transcript of Earnings Call

Respected Sir/ Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with SEBI Circular No. SEBI/HO/CFD/CFD-PoD-1/P/CIR/2023/123 dated July 13, 2023, please find enclosed herewith the transcript of the Earnings Call held on 29.05.2024 at 05:30 p.m.

Kindly take the same on the record.

Thanking You,

For Krishna Defence and Allied Industries Limited

ANKUR ASHWIN SHAH
Digitally signed by ANKUR ASHWIN SHAH
Date: 2024.06.01 13:09:46 +05'30'

Ankur Ashwin Shah
Managing Director
DIN: 01166537

KRISHNA DEFENCE & ALLIED INDUSTRIES LTD

H2 & FY24

POST EARNINGS CONFERENCE CALL

May 29, 2024 05:30 PM IST

Management Team

Mr. Ankur Shah - Managing Director
Mr. Piyush Patel - Chief Financial Officer

Call Coordinator

KAPTIFY®

Strategy & Investor Relations Consulting

Presentation

Vinay Pandit: Good evening, ladies and gentlemen. I welcome you all to the Post Earnings Conference Call of Krishna Defence & Allied Industries Limited. Today on the call from the management we have with us, Mr. Ankur Shah, Managing Director; and Mr. Piyush Patel, Chief Financial Officer.

As a disclaimer, I would like to inform all of you that this call may contain forward-looking statements, which may involve risk and uncertainties. Also, a reminder that this call is being recorded.

I would now request the management to quickly run us through the presentation for the quarter, performance highlights for the period that went by, growth plans and visions for the coming year, post which we will open the floor for Q&A. Over to you, sir.

Ankur Shah: Yes. Thank you very much, Vinayji. Very good afternoon to all of you, and thank you for coming in and joining in for the earnings update for H2 FY'24 and FY'24. While some of you may already be familiar with our company, there are others who may not have had the chance to learn about us as yet. To ensure everyone is on the same page, I'll provide a concise overview of our company.

I'm Ankur Shah, Managing Director of the company. I'm a Production Engineer from Fr. Agnel College, Mumbai University and have been with the company since June of 2000. Due to the paucity of time, I will just run through the main slide of the presentation. This all have been uploaded on the exchange already.

Just an overview of the company. We are an engineering company catering between two main segments. One is Defence, another is Dairy. Our company boast of an in-house research team, which plays a pivotal role in developing homegrown defence solution that replace import products and design and for indigenisation. With a dedicated team of over 250 employees, we are proud to contribute to the nation's self-reliance in the defence sector.

On our infrastructure and we are headquartered in Mumbai with our regional office in Baroda. We have operations as in our factory located in Gujarat situated close to Vadodara. In Halol, we have a manufacturing unit spanning about close to 60,000 square feet. And with the new shade acquisitions, we should have an operation facility of up close to 100,000 square feet. This entire facility is dedicated to the defence products that we are currently doing.

In addition, we have our older unit, which is at Kalol, which is spread across about close to 40,000 odd square feet, which is focused on the manufacturing of equipment related to the dairy industry. I'm very glad to share with all that we've started with our new venture in Bengaluru with towards the defence electronics bid that is there. And our production facility/manufacturing facility is up and running.

No presentation is complete without a mention of my father who's the Founder of the company. So in '97, my father, the Founder of this company, late Mr. Ashwin Shah, who was a double engineer himself in the field of electrical and mechanical, started this venture with a mere investment of ₹10 lakh and about 12 employees at Kalol, focusing on the manufacture of stainless steel milk cans to improve milk hygiene.

In 2006, he took on the challenge of developing DMR249 steel bulb bars for warship construction, achieving the first successful production in India for the Indian Navy. Recognising the significance of R&D, my father formed an engineering team and mentored interns and junior engineers to drive innovation and create new products. Our highly skilled team comprises of both engineers and MBA streams. This diverse team possesses extensive knowledge and expertise in our business domain, lending technical proficiency with strategic acumen. Their collective experience equips us with comprehensive skill set to navigate the intricacies of our industry from product development and innovation to effective business management and strategy.

That is our team. It's me on the left. Below is Mr. Sandeep Kadam, he's our Director of Operations. Right below him is Mr. Ravindra Maroli. Our CFO, Mr. Piyush Patel, he is on the call. Mr. Rohit Shintre and Mr. Jay Shah being part of our team. That's our board with two Independent Directors, Sandeep Kadam, myself, and Chairperson, Mrs. Preyal Shah.

That's about the overview that I've already covered this up. Let me straight take you to the products, which I think is the most interesting for everyone. We'll take up the finance post this. On the left, the image that you see is about the bulb bar. Bulb bars are used as stiffner for hull construction of warship. It's a very unique profile which ensures the strength to weight ratio is 3x vis-a-vis normal steel angles and channels. Due to its high strength and high strength to weight ratio, these are used for construction of warships.

And we are able to reduce the weight of the ship considerably. In place of the reduced weight, we can increase, we can add stealth features that take more manpower, more ammunition on the ship. And most importantly, we can have better speed of the ship. In fact, navies across the world use bulb bars due to its high strength to weight ratio.

We were given the Defence Technology Absorption Award in 2014 by Honourable Prime Minister, Shri. Narendra Modi for a development of these bulb bars as prior to a development, Indian Navy was importing these steel sections from Russia. We've successfully supplied these bulb bars to all the leading shipyards in the country, Mazagon Dock, GRSE, HSL, L&T, Goa Shipyard, so on and so forth.

And I'm glad to share that we have also got our approval for the bulb bars for supply to post guard vessels that is there, and we also bag an order related to that. On the right is an image of a product called the Ballast Bricks. These are used for critical platforms, have a complex chemistry, and have a very low magnetic signature making detection very, very difficult.

I'll just toggle to the next slide. We are also manufacturing specialised well consumables. These are complex, again, chemistries containing titanium, nitrogen, chromium, which are used for welding of underwater platforms and critical platforms for the Navy. The image that you see on the right is for the HVF profile. So this is Heavy Vehicle Factory. These are used for manufacture components for the T90 tanks used by the Indian army.

We were the only company that had qualified in this bid prior to a development. All these profiles were being imported by the Ordinance Factory into India. Given the Indian Navy substantial warship procurement initiative and the Prime Minister's vision to become Top 5 shipbuilding nation in the world and also the extensive order backlog of various shipyards, we are poised favourably to secure upcoming contracts that have the potential to substantially augment our revenue.

The image that you see on the extreme right is of a Bukhari, which is one of our key products, which is a space heating device, so you can call it the room heater. These are being developed in close consultation with DRDO. This product is used by the armed forces at high altitude places like Leh, Ladakh, and Siachen to keep the room warm in freezing temperatures and extreme altitudes that they work at. Due to its unique design, it provides for complete combustion of fuel, thereby ensuring there is no carbon monoxide emission, which we all know is a poisonous gas. We had bagged an order about close to ₹64 crores and the supply is in the final stages of delivery. These are some of the other products that are under development.

I've already spoken about our R&D capabilities. That's our clientele base in the defence sector. I'll just quickly run through the Dairy bit and straight come on the new products that we are wanning. This is about the defence industry. I'm sure most people know how Atmanirbhar and Make in India is making big statements within the country. Yes, the Way Forward.

Since we successfully developed weld consumables for very complex chemistry for critical platforms, we are now being approached by other organisations like BARC and ISRO for development of another their group was very specific weld consumables, which they are currently imported. So these are all under development right now, and we are hopeful of pulling that through.

Next on the list is, as I mentioned, we've started an associate company in Bangalore by the name WAVEOPTIX Defence Solution which is into radio frequency and optical fibre work that we have done. And we have successfully backed an order from L&T for the supply of the same for these signals.

Thirdly, we've partnered with IIT Madras Nurtured company Planys where we've also invested in it, and we are working together for development of ROVs and autonomous vehicles, which are used for hull survey, inspection and other application that can be done underwater. And lastly, on the collaboration, we are planning to start to manufacture of fire resistant composite door and hatches. Worldwide, most European Navies have moved to composites instead of steel door & hatches. These are typically used in Navy and underwater platforms. They want to replace the steel with the composite because of the reduced weight and the ease of operation for the same. That's about the WAVEOPTIX Defence that I spoke about the company, but which is into defence and aerospace. These are I don't want to bore you with technical stuff, but these are the kind of products that we are doing over there.

As of now, our order book stands at an impressive above ₹230 crores and with the anticipation of securing additional orders in this financial year. We are eagerly looking forward to and are genuinely excited about the prospects for this year. Taking into account the substantial order inflow expected from shipyards and anticipating further growth, we have started to already enhance our production capacity, which will result in almost doubling our manufacturing capabilities.

We as a company have revised our target from a 30% to 35% given previously about close to 40% year-on-year for the next three years. This is in brief about me and the company.

I hand it over to our CFO, Mr. Piyush Patel to talk on the finances. Over to you, Piyush Bhai. Thank you.

Piyush Patel: Thank you, Mr. Ankur. Good evening, ladies and gentlemen. I welcome you all to the H2 and FY'24 earning update conference call of the company. I'm going to give you financial highlights for the year and for the H2 FY'24. For the FY'24, total revenue of the company stood at ₹1,064.28 million in FY'24 against ₹636.53 million in FY'23 thereby showing a growth of 67.20%. The company reported EBITDA of ₹154.38 million in FY'24 against ₹88.50 million in FY'23, a growth of 74.44%.

EBITDA margin have increased to 14.51% in FY'24 versus 13.91% in FY'23, a rise of 60 basis points. On year-on-year basis, PAT surged by 84.86% to ₹97.90 million in FY'24 against ₹52.96 million in FY'23. PAT margins have increased to 9.20% in FY'24 against 8.32% in FY'23, a rise of 88 basis points.

Now coming to the half yearly financials, for H2 FY'24, total revenue of the company stood at ₹711.99 million in H2 FY'24 against ₹441.05 million in H2 FY'23, a growth of 61.43%. The company reported EBITDA of ₹107.38 million in H2 FY'24 against ₹56.28 million in H2 FY'23, a growth of 90.80%. EBITDA margins have also increased to 15.08% in H2 FY'24 against 12.76% in H2 FY'23 thereby showing a jump of 232 basis points. PAT surged by 95.82% to ₹71.61 million in H2 FY'24 against ₹36.57 million in H2 FY'23.

PAT margins have increased to 10.06% in H2 FY'24 against 8.29% in H2 FY'23, a jump of 177 basis points. Once again, thank you all, and over to you, moderator.

Question-and-Answer Session

Moderator: Thank you, management. We'll now open the floor for Q&A. All those who wish to ask a question may use the option of raise hand. In case you're unable to raise hand, you may send us the message on chat.

We'll start the first question from Varun. Ankur, you can stop the presentation. Yeah, Varun, you can go ahead please.

Varun Agarwal: Thank you for the opportunity. Congratulations for a stellar performance in FY'24.

Ankur Shah: Thank you.

Varun Agarwal: So I was looking at the closing order book. It is somewhere around ₹186 crores. And current year also, we will be receiving further orders. So our guidance of about 40% growth in FY'25 looks too conservative.

Ankur Shah: Not conservative that is there. That's the target, that we have but we want to make sure that we surpassed it, per se. Currently, as I mentioned, we had an order book of close to ₹230 crores because we've bagged an order also in first week of April towards the bulb bars that we are supplying. So we are gearing up for that. We want to try to do more than what we publish. So hence, the number.

Varun Agarwal: Yeah. And we have already developed the new product in WAVEOPTIX. So I just wanted to know what is the size of opportunity of that product and who are the competitors in that product?

Ankur Shah: So, currently, the product that we have developed is a bi-direction signal for the radio frequency or optical fibre. We've done trials, that are successful post which we impact an order. Now this is more for signal intelligence and very specific units of the Army. The opportunity size is when I say large, they're looking at a very, very crazy number, which it might be too premature to say right now. But they've done a trial on about 40 systems, each system costing about close to ₹9 lakh. We expect, that they will be upping their order to about 1,000 to 2,000 systems, because that is what the requirement or probably much more than that.

And in terms of competition, currently, we have none, that is there, because we have developed the product ourselves, and we have start to

-- we already filed our patents related to that. We have not been granted. So work on that is in progress.

Varun Agarwal: So per system, how much is the revenue that we get when we sell this product?

Ankur Shah: About ₹9 lakh.

Varun Agarwal: Okay. And, right now, we have about 25% stake in WAVEOPTIX. Going forward, I'm sure we may be planning to increase our stake. So what is the thought process or any timeline in your mind?

Ankur Shah: In the next six months, we should be upping our stake to about close to 51%.

Varun Agarwal: Okay. Suppose that it become a subsidiary?

Ankur Shah: Yes.

Varun Agarwal: And in FY'24, what was the percentage of revenue from bulb bars as a total comparison to the total sales?

Ankur Shah: Piyush will help you with that number. Yeah.

Piyush Patel: Yeah. See, what I can say it was around 55% to 60% of the total revenue.

Varun Agarwal: Okay. And going forward as we launch new products, I think this may further go down?

Ankur Shah: Yes.

Piyush Patel: Yeah.

Varun Agarwal: Okay. Thank you so much, and all the best.

Ankur Shah: Thank you, Varun.

Varun Agarwal: Thank you.

Moderator: Thanks, Varun. We'll take the next question from Pradeep Rawat. Pradeep, you can go ahead.

Pradeep Rawat: Yeah. Good evening, and thank you for the opportunity. So I have couple of questions. So first question is regarding our tie up with DRDO. So is it an exclusive tie up, and is there a royalty for the tie up?

Ankur Shah: So, for some of the products, we have competitors that are there, and these are complex systems that not systems -- complex products, I would say, that the DRDO and researches that are there. And they choose the partners who think they may be capable of developing and delivering the product, per se.

As per the new DAP policy or since 2020, there is no royalty to be paid as long as the goods are supplied for Indian defence forces. If we are to export it, then there would be a portion of royalty. But currently, there is none.

Pradeep Rawat: And there is no exclusive tie up, right?

Ankur Shah: No. So it depends on product to product. That is it. For the bulb bars, there is another company in Delhi, which is for the bulb bar. We've been registered for about, since 2010 about 14 odd years.

Pradeep Rawat: So what is the name of that company that is into bulb bar?

Ankur Shah: The company is by the name Star Wire.

Pradeep Rawat: Star Wire. Okay. And my next question is regarding our order. So, how much our order is from the government entities?

Ankur Shah: 100%. Except if you consider L&T, not a government that is there. So that percentage will vary. But majority of our business comes from the defence.

Pradeep Rawat: Majority is from the defence.

Ankur Shah: Yes.

Pradeep Rawat: How much guarantee do we put for these orders in percentage term and in value terms?

Ankur Shah: In percentage terms, it varies from product-to-product, but it varies from about 3% upwards to 10%. It's the income of performance bank guarantee.

Pradeep Rawat: And right now, what is in value terms?

Ankur Shah: In value terms, because these are all 12-month gestation period. In value terms, it should be about close to 20 odd crores that is there. And it keeps because something that we supplied in 2023 is still into and the current supply that also we've done is there. So that's a rotational basis. But if I'm correct, the numbers should be in that range.

Pradeep Rawat: Okay. And the order execution timeline is close to 12-month, right?

Ankur Shah: It varies from order-to-order. Some orders have been done in about six months' time. Some orders may be 18 months or 24 months also.

Pradeep Rawat: Okay. And my last question is regarding our existing facility. So how much top line can we generate from our existing facility? And do we have any land bank to, like do a brownfield expansion on the same facility?

Ankur Shah: So the current capacity that we have installed, assuming with the different product mix that we have, we can do about close to ₹180 crores to ₹200 crores in terms of revenue. But as mentioned, we have acquired land right next to us more like a brownfield as you mentioned. And with that, we should be able to up our capacity to about ₹350 crores to ₹400 crores in terms of revenue. Product mix that is there. So I'm giving you an average number.

Pradeep Rawat: Okay. I'll get back into the queue. Thank you.

Ankur Shah: Thank you.

Moderator: Thank you. We'll take the next question from Ajay. Ajay Surya, you can go ahead.

Ajay Surya: Congratulations on fantastic set of numbers. My question is in the last call also we had this. We had a tie up with this Netherland based company for composite door and hatches. So I wanted to know what is the update on the same?

Ankur Shah: It's going forward, and we should be -- our trials will start from next month, on the month of June. Once the trials are successful, apparently, we have started to work on the manufacturing related to the same. We expect that by Q3, we should be starting the actual production of the sale.

Ajay Surya: Got it. So my next question is looking at the current order book and the growth guidance, which you are giving. Are we seeing such fantastic order inflows, and from which product line are we seeing those inflows?

Ankur Shah: Definitely, our Virat Kohli is the bulb bars, right, So they are bringing us a decent amount of revenue, that's it. But even for the weld consumables, the Ballast Bricks and the Bukhari and other area products that we spoke about, they are also getting repeat orders for the same.

Ajay Surya: Going forward like, can you just provide a mix? Like, what would be the tentative mix between the products? Majority of the revenue would still be bulb bars or would that be Bukhari?

Ankur Shah: We expect if you just ask a broad thing, we expect bulb bars to grow about close to 50 odd percent of our revenues, somewhere in that range followed by weld consumables about close to 15% to 20%. Bukhari about 15% to 20% as there. And other related products about the balance 10% that it will make up for.

Ajay Surya: Got it. Okay. And that's it from my side.

Ankur Shah: Thank you, Ajay.

Moderator: Thanks, Ajay. We'll take the next question from Smit Doshi. Smit, you can go ahead.

Smit Doshi: Hi. First of all, congratulation for the fantastic execution.

Ankur Shah: Thank you, Smit.

Smit Doshi: So I just have two couple of questions. First is with regards to 3rd April order update of ₹88 crores. So that should be executed in eight months. So it is in a full length manner or in staggered manner. So, in first of half, when our result will come, so it should it would have any reflection of that order execution, or it would be in March of 2025?

Ankur Shah: The execution will start as early as next month, but not all of will be executed by end of Q2 that is there. It will spill over to Q3, but we have to do it in about eight months' time. So we can do the math accordingly.

Smit Doshi: Okay. So it would be booked month-on-month, right?

Ankur Shah: Yes.

Smit Doshi: Okay. Got it. And what about order pipeline? Actually, so we have right now a good set of orders, but what about the pipeline going ahead and bidding going ahead?

Ankur Shah: I cannot disclose right now. We have other orders that are in process or under evaluation or at tendering stage per se, which we expect to close within this financial year.

Smit Doshi: So any ballpark number, which you can give or which can get better idea about the pipeline or something?

Ankur Shah: Yeah. It would be difficult to gauge that number, that is of course, we have the number, but it'd be too premature to talk about what we are already doing. We would stick rather our focus would be to right now to execute the orders that we have in hand right now. And we know we have another 10 month window to collect orders for this year or for the latter half of the year or for FY'25.

But these are sizable amount of orders. So we -- as I mentioned, that we are looking to grow at a 40% CAGR that will continue. We have revised that number upwards keeping the trend in mind.

Smit Doshi: Okay. Thank you so much.

Ankur Shah: Thank you.

Moderator: Thank you. Before we go to the next participant, I have a question on chat from Mitul Mehta. His first question is, can you talk on building the key talent in the defence business?

Ankur Shah: Yeah. So, a very valid question, Mitul. We are already started to work on that. We've had to start to do our recruitment that is there. And not at the junior level, of course, junior level at the work side that is there, but also on the execution front with the shipyards and all. We've enrolled three to four people in the middle management to grow our team. So that work is in progress and we are looking to do it as we move forward. But that is something that we've been doing for the past six months. We also find the right match. So we've successfully able to induct about close to three to four people in the last four months for us.

Moderator: His next question is, can you elaborate on R&D as to how much we are investing currently?

Ankur Shah: So R&D, we are -- as I've mentioned earlier and in my earlier calls, we as a company have a policy that we continuously look at our development more not research. There is a bit more on development front that is there. We are exploring newer opportunities, keeping the customer in mind. And shipbuilding as we all know is a five to six year cycle. The current products that we are building, which is bulb bars or weld consumables or Ballast Bricks, these are all used in first state of shipbuilding.

We've added one more product right now, which is the composite door hatches, which is used in the second state of shipbuilding. So we are targeting shipbuilding and we are trying to add products on that front. We are currently working on a couple of opportunities on that front too. And our goal is to look at other products, new and new products where we can, if you have to achieve a ₹500 crore revenue whenever we talk about it. So we want to have that with seven, eight products, not just have one product having like ₹400 crore revenue and other products being there.

So we are looking to have a product mix in such a way that we have about seven to eight products each bringing us a revenue about ₹50 crore to ₹100 crore average.

Moderator: His next question is how much are we investing in the Brownfield CapEx and how much time will it take for the facility to get commissioned? Which are the products we will be making in the new facility?

Ankur Shah: Right. So the new facility will where we manufacture all the two products that is there. One is the weld consumables and the bulb bar. It's just touching our shed. So our land area becomes bigger. And we will be spending about close to ₹15 crores to ₹20 crores on that work.

And work is on the same as already started. And we expect that entire thing should be operational synced by about October sometime. We started work on this in January. So we are almost like 30% into the work placement of orders of the equipment has been done. Land work has started. We've started with the civil infrastructure work. So we expect that by about September, October, that the entire facility should be up and running.

Moderator: Sure. That's it from his side. We'll take the next question. Wait there's one more question. Any plans to shut down the dairy business?

Ankur Shah: Currently not. But if we get some, if you have a strategy to work on that, we may work with them. So dairy was working on an auto business, auto model that is there. And it's generating revenue. So we've just kept it going. But this is something that has been discussed with couple of investors. So we may look towards that, but definitely not in this financial year.

Moderator: Sure. We'll take the next question from Shubham Upadhyay. Shubham, you can go ahead, please.

Shubham Upadhyay: Yeah. Hi. Good evening, everyone. Thank you for the opportunity. And first of all congratulations on a very good set of numbers.

Ankur Shah: Thank you.

Shubham Upadhyay: My question is, in the last interaction, you said that when it comes to bulb bars, the split between the order wins between you and the competitor is 40:60 or 50:50. So have you been able to change that number, or is that number same still?

Ankur Shah: Yeah. Shubham, honestly, this is something not decided by us per se. These are all tender terms condition. And generally, they split the order to ensure their project is not suffering. So it's not a mandate done by us, and I cannot pull in 70:30, or make it 80:20. It's a government deciding thing too, because these are very critical components. The shipbuilding cannot start or cannot progress without that. So, hence, they divide their risk between two players. So the ratio is about 60:40 or 50:50 as we call it.

Shubham Upadhyay: Okay. Thank you. And second, my question is again regarding the possibility of export. So I understand there are some restrictions on export on some products. So are we looking like, is there a possibility opening up for exports of bulb bars like for example?

Ankur Shah: Right. Shubham, you asked me this last time. I remember categorically. And we are trying that if we could get an opportunity to export. And there are papers and talks happening on that direction because of Prime Minister's vision that we should become defence export country, per se. But these are depending on the kind of product that we're doing, the products that we are doing are more critical. And currently, as we speak, we do not have permission to export. But there are talks and meetings happening in that direction for us to also permit that in the future. But as we speak, we do not have permission to export.

Shubham Upadhyay: Okay. Thank you. I will rejoin the queue.

Ankur Shah: Thank you, Shubham.

Moderator: Thank you, Shubham. We will take the next question from Ayesha. Ayesha, you can go ahead, please.

Ayesha: Good evening. Firstly, I would like to congratulate you for such good numbers. My question is on the recently raised funding. Can you elaborate us on the fund use plan?

Ankur Shah: Yeah, so as mentioned, while we had done the fundraise, we were looking to do about close to ₹15 crores to ₹20 crores towards CapEx, and the remaining about ₹35 crores to ₹40 crores towards working capital because of the order flow that we were anticipating earlier. And that is how it is being the funds are being utilised.

Ayesha: Okay. Thank you. And another question I had is, you are looking to expand bulb bar, which is a bulk product. Can you elaborate the expansion size and what is the revenue potential at full capacity utilisation?

Ankur Shah: So if we put it in terms of numbers, that are there, our current capacities depending on the size and because there are 19 different size of bulb bars, so just to put a number might not be easy, but we can do about close to 2,000 tons to 2,500 tons annually with our existing capacity. And with the capacity expansion, we should be able to achieve a number of close to 4,000 tons.

Ayesha: Thank you.

Ankur Shah: Thank you.

Moderator: Thank you. We'll take a follow-up question from Pradeep Rawat. Pradeep, you can go ahead, please.

Pradeep Rawat: Yeah. Thank you for the opportunity again. So my question is regarding our composite door. So, you said that you are, like doing R&D on this product, and after bulb bar, composite doors are used in the production process of ship. So my question is, can this product become the next Kohli of our company?

Ankur Shah: Yeah. We are hoping that too, Pradeep. And that's how we've identified the product for sure. There is a market on that front. In fact, I just joined it slightly late because I was at Mazagon Dock and they were had they called few of the vendors for the next projection, what the requirement is going to be there. And they've actually indicated the product that we spoke about. So we are hoping that, we have also good numbers from that product.

Pradeep Rawat: So can this product be bigger than the bulb bar product?

Ankur Shah: Difficult to assess it like that because they are two different products at all, right? They are two different products at all. If you're going to make a freight like an FSS, a fleet support ship, you'll not require too many doors hatches, but the bulb bar requirement is very, very high. But if you make an aircraft carrier, you will have high bulb bar requirement and a high composite door hatches requirement. If you make a frigate, then it's other way around. So very difficult to say numbers perspective whether this will win the race or this will win the race. But as long as we're getting revenues, we are happy.

Pradeep Rawat: Okay. And my second question is regarding the margin profile for bulb bar. So how is the margin for bulb bar and how had been historically like pre-COVID period bulb bar margins?

Moderator: So competitive data, you can avoid it, please?

Ankur Shah: Yeah, so on the margin front, since we've already given the numbers on the EBITDA front and the percentage of the sales that is there, I'm sure, Pradeep, you can do the math around and come at a number. But more or less, it's in the average of, what has been showcased in EBITDA numbers as a composite.

Pradeep Rawat: Okay. So, my question is regarding the historical and current margin. So for example, if we take like one as pre-COVID margins, what it is been after COVID?

Ankur Shah: Our answer is slightly differently. Pre-COVID or like five years back, we never had the slight tonnage of bulb bars that we are having right now that we are catering to. So we are doubling our capacity and it's a matter of unit economics. The more we produce, the more efficient we are going to become. The yield is going to become better. So margins also will move forward.

Pradeep Rawat: Yeah. Okay. Thank you.

Moderator: Thanks, Pradeep. We'll take the next question from Prateek Chaudhary. Prateek, you can go ahead.

Ankur Shah: Hi, Prateek.

Prateek Chaudhary: On the composite doors and hatches, when do we expect to finalise on the JV with our foreign partner? And will our stake be in excess of 51%?

Ankur Shah: No. We plan to we should close that very soon. I have not put on timeline to it, but literally very, very soon because we are starting trials next month. And in terms of the joint venture, we definitely will be 51% or more.

Prateek Chaudhary: Okay. If you have to divide the demand between replacement demand for existing ships as compared to new demand for new ships which will be constructed. Which one do you feel would sort of, what would you be able to tap in the first year or two? Would it be replacement demand, or would it be the one for new ships being constructed? And what could the size be?

Ankur Shah: Well, definitely on the newer will be faster because when ships come for medium refit or the major refit that's there, it takes time. First, they want to make sure the product works in the newer ships. So the replacement also will come up, but not right now. It might be too early to predict on that, but that definitely is an opportunity we can see. Because that's what most of the JVs in Europe did it. So I'm sure we will follow same soon. But immediately from what I understand with the different talks with the Naval authorities, it will be first the newer ships for sure.

Prateek Chaudhary: Okay. And what sort of order size or opportunity size could you capture in the next two to three years with this product?

Ankur Shah: In line to what our plan is that, these products should bring us a ₹50 crores to ₹100 crores revenue that is there. So we expect that that is what will play for us.

Prateek Chaudhary: And is this product likely to have better margins than our current blended margins?

Ankur Shah: It should be in the same range. Couple of 100 points plus minus, but it should be in the same range, because again once we make a product, then we have a more detailed thing that is there. But right now, what we've done on the project thing that is there, it seems to fit inside the EBITDA margins that we're talking about right now.

Prateek Chaudhary: Would there be any other competitor as we will be starting trials next month? We would also have a fair understanding of who are the competitors.

Ankur Shah: Yes. There is another company in Bangalore also who is under development, that is there. So currently, two companies. But we'll be there, not currently. There will be two companies bidding for the project.

Prateek Chaudhary: And what sort of a manufacturing setup would this be? Because you're saying if you have to start production by Q3, that means in less than three months, you would have to put up your plant.

Ankur Shah: Yes. So these will require special some robots that are there and some machines, which are used for the making of composite layer by layer. So these are the products then. Some machining is required. Some facility that you already have will be used so on that side.

Prateek Chaudhary: Okay. And in your presentation, in one of the lines, there was a mention of latest addition of electronic warfare communication, data transmission, and Comnit and Signit. So what is this Comnet and Signet? Is it the same as...?

Ankur Shah: Yeah, so it's communication network and signals network that is there. These are electronic terms that are generally used, the electronic lingo that they use. So that's what has been published.

Prateek Chaudhary: This is for our subsidiary that we have formed?

Ankur Shah: Yes, yes, yes.

Prateek Chaudhary: And for our existing products, if we have to talk about, bulb bars and the other four products that we have, given the pace of new ship that are under construction and that will come up for construction over the next three years, what sort of scale up do you see in your existing products of bulb bar and the other four?

Ankur Shah: Prateek, as mentioned earlier, we are looking at a growth about 40% CAGR. So you can do the math and we can see this happening for the next three years for year-on-year. So that's the growth we anticipate, from the shipbuilding side, for the products that we are already doing.

Prateek Chaudhary: Right. And just last question on margins. Since we would experience a significant increase in our production over the next one to two years, and I'm assuming operating leverage would also start to kick in. So where do we see our margins inching up from 15% that we clocked in the second half? Can we go to something like 20% in the next one to two years?

Ankur Shah: So I think, the 20% was what we would aspire to reach that is there. But the reality will -- because the growth in numbers and revenues are there. And as I said, no tonnage, unit economics will work better. I see we landing somewhere between the current figure and what we desire to be. So it should be somewhere in between.

Prateek Chaudhary: Okay. Great. Thanks a lot. I'll get back in the queue.

Ankur Shah: Thank you. Thank you so much, Prateek.

Moderator: Thank you. We'll take the next question from Sachin Sodhi. Sachin, you can go ahead, please.

Sachin Sodhi: Yeah. Hi, Ankur, good evening. Congratulations for good set of number. And really enjoyed last meeting and many congratulations to your commitment also. So apart from these four products, I want to understand this ordinance business. Do we have any plans, because there is an indigenous production that Indian government is also looking for? So any plan you have for that?

Ankur Shah: Ordinance. I mean, I didn't get the question. The ordinance, has an ordinance doing too many things.

Sachin Sodhi: Ammunition business.

Ankur Shah: Ammunition business. Okay. So, Sachin we are currently on the drawing board for that. But please understand, ammunitions is a very complex business with the licensing and the peso, explosive license and all that is way way complicated then, in terms of the licensing and the approvals than what we are doing right now. But looking at the demand and plus the uptake from the Navy that is there. We are considering to venture on that line, but it'll still tilting. It is a lot of work before we actually start spending money on that. So that is in line, I would say. To answer your question, that is something that we are working on.

Sachin Sodhi: Yes, that is why I am just asking. Because there's mostly import from Europe, and in fact ordinance factories are not able to produce that quality.

Ankur Shah: Yes. Good point, Sachin. We are also in the same opinion as you.

Sachin Sodhi: Thanks.

Ankur Shah: Thank you.

Moderator: Thank you, Sachin. We'll take next question from Samarth Pachchigar. Samarth, you can go ahead.

Samarth Pachchigar: Yeah. Congratulations on a very good set of numbers. I would like to ask you that, how the order cycle works for us. Like, how orders are received by us? Can you explain in a bit that order goes from Mazagon Dock, for example, Mazagon Dock is a shipbuilding company? So is this kind of order, Navy orders to Mazagon and Mazagon Dock does transfers that order to us.

Ankur Shah: Yeah. Fair enough. So I just take a typical example of the bulb bar, right because that's what we've been speaking about. So the Indian Navy, as you know does not buy products. They buy ships, that's what they require. So they will come out with a tender for aircraft carrier or frigate or a corvette. And you'll have all the shipyards in the country bid for it, bid for it. Whoever is the lowest amongst the Cochin Shipyard or Mazagon or GRSE will bag that order for the frigate or corvette that is there. Or it may again be split between both the shipyards like that happened in the case of NGOPV.

Once the shipyard gets the order, then they will come out with the limited tender because there are only two approved sources for that on the GeM portal and we will bid for the same. And in terms of timeline, let's say the bid was, the tender was issued on the 1st of January.

Typically by 15th, I mean two weeks we have to submit our bid. And post that, the evaluation takes another couple of weeks. Plus, after that, there'll be negotiations. So once a tender has been issued, typically about six to eight weeks in general cases, unless it's a complex project that is there. Six to eight weeks, we will have the purchase order with us. Sometimes it may stretch even to 10 to 12 weeks because of the procedure delays that happened.

Samarth Pachchigar: Okay. I have one more question. Suppose just an example, Mazagon Dock has an order book of let's say ₹40,000 crores. So how much percentage of it is catered by us?

Ankur Shah: Slightly difficult to answer that question, because you are referring to a number of what they have. All ships are very different depending on the what the weapon on the ship is, the ammunition. So it varies from ship to ship. But, in terms of tonnage of what each ship is acquired, we can say about close to 2% of steel is what the bulb bar requirement is ideally there, in terms of value terms per se, when in terms of tonnage, it's got 15 odd percent is required.

Samarth Pachchigar: So in value terms, it is 2% of the total steel requirement, right?

Ankur Shah: A total like, 2% of the total value of the ship. Now, again, this is a very random number because it will change if it's a mine detector will be different. There are more sensors, so and so forth. But just to give you some number on what you're talking about, it would vary to as high as 3% or also be 1%, 1.5%. So the tonnage is the more real number for us to arrive at.

Samarth Pachchigar: Okay. And tonnage is 10% to 15%?

Ankur Shah: Yeah. 10% to 15% of that weight of the ship.

Samarth Pachchigar: And I just wanted to understand one said thing that we are into lots of products, they will cater into 10 products. And we recently started with this electronic communication business as well.

Ankur Shah: Yes.

Samarth Pachchigar: So what's the logic means just a logic or a strategy behind having so many products on board with us?

Ankur Shah: So, the strategy is very clear, Samarth. We are looking to have seven to eight products, that are there with each which can bring us a revenue of ₹50-100 crores. And so it has been solely dependent on only one product for us to reach our next target about ₹500 crore revenue. And we actually look at developing more and more products, that are there, because we pack ourselves on our engineering strength and engineering team.

Samarth Pachchigar: Okay. And just one last question. Can you link for the bulb bar business? Can you explain us the unit economics? How it works for us in bulb bar? Because, in the last con call as well, you mentioned quite frequently about the unit, the unit economics works for us in a better way. So can you throw some light on it?

Ankur Shah: Yeah. So, let's say we have a cost of engineers. We have about ₹20 lakh rupees per month is our cost for a few set of engineers that are there. Now, if you double up our production, we will not require 40 engineers that is it. So those are costs that will get divided over a larger number of unit and hence the profitability might the EBITDA will go up there. There are variable costs in terms of electricity, power, fuel. Those will vary with the numbers that are there. And so that's how I would put it.

Samarth Pachchigar: Okay. Thank you so much and congratulations for the future.

Ankur Shah: Thank you so much, Samarth.

Moderator: Before we go back to the participants, we'll take the questions on chat. There's a question from Praneet Agarwal. Do we have any plans to expand our product line to cater to aviation, MRO, and OEM industry?

Ankur Shah: No. Currently, none that is there. We are focusing on, because aerospace again is too different. The qualification are different. They use more aluminium, not so much of steel per se. So not the right thing for us right now. And that is something that not we are looking in for this at least financial year right now.

Moderator: The other question is from Mitul Mehta again. Your presentation talks about opportunities in aerospace. So which are the products you've identified on the aerospace side, and what level of R&D are these products in?

Ankur Shah: Yes. So within aerospace, there are two products to what someone just asked right now on the chat. One is on the steel bit that is there. So they also use steel for welding and they have special demand. So this is not for aero. This is more for space related. So it's for ISRO, not for the aviation. That's the steel part of it.

And the other aerospace compartment that we talking was related to the electronics that are there. You have harnesses. You have analogue signals that we converted to digital signals. So that is happening at our associate company that is there. So that is how I would put it.

Moderator: And how big is the market for composite doors and hatches?

Ankur Shah: Again, whatever standards that we have done, we think that we can get a revenue. The market is very, very large, but assuming that we will be about 30% market share in the entire thing, just slightly on the conservative side, and serving it 50%. We think that we could clock a revenue about ₹50 crores to ₹100 crores once we are in full stream per se.

But since this is a new product, it will grow gradually. It's not that they're going to write a ₹100 crore order right up front. So it'll be about 20, 40 and that's how it'll keep growing.

Moderator: We'll take the next question from Ajay Surya. Ajay, you can go ahead, please.

Ajay Surya: Yeah. Thanks for the follow-up. My question is, if you look at the current shipyard or current defence ships in India, can you provide what is the current number of ships that are in India, and what is the government plan to take that up to? And also in last three, four years, how many ships would have been developed in India?

Ankur Shah: Yeah toh academic, but this is more of a very generic question. Nothing to do with me. But we have a 135 ships that are there, which has to be upgraded to 175. And remember by 2013 also to be remembered right now is that a lot of ships have become old and need to be decommissioned as I said, need to be decommissioned. If you see the Indian Navy plan, which is the blue ocean that, Navy plan that is there, they are talking about reaching about 175 by 2030 another 40 odd to come in the next four, five years. So very, very massive plans.

Ajay Surya: And so you're talking about that on a tonnage basis, 10% to 15% of the weight of the ship is bulb bars. So like based on that, how much tonnage the opportunity is at? Even in the past conversation, you have mentioned that around ₹2,000 crore is the market size for bulb bar, if I'm not wrong. So can you just correct me on the tonnage? Like, how much tonnage, would that turn into like the opportunity side?

Ankur Shah: So, when I had said about the total opportunity size not ₹2,000 crores that was composite of all the products that we are doing, should be in excess of about close to ₹1,500 crores for all the product mix that are there. To give a number on tonnage it will be too much. That is it because some of the projects are still being discussed. Some are classified in nature. So not the right forum for me to talk of tonnage.

But, if you can look up, if you can look at it from that perspective that we are looking to grow at 40% CAGR as we move forward, you kind of get the number that you are looking at.

Ajay Surya: Okay. My last question on the capacity utilisation currently. And post our new facility, would we require further approval for the new facility, or is it just the player which is approved won't require a further audit of the facility or new like any approval? Would that enter the ramp up of the new facility? Anything like that?

Ankur Shah: So currently, we're about close to 80% capacity, and hence we are up augmenting our capacity to be doubled. And approval, of course, it's just not that once I'm approved, I can do anything under the sun. These facilities that come up also need to go through the whole process, but they are much simpler for an already approved player unlike a new player coming in. It's much similar.

Ajay Surya: So ramping up wouldn't take much time, is the understanding correct? Given the orders we have.

Ankur Shah: Yes. You're right.

Ajay Surya: Got it. All the very best for future.

Ankur Shah: Thank you.

Moderator: Thank you. Another question in the chat from Mitul Mehta. What is the current gross block in the defence business?

Ankur Shah: So, Piyush, please can you take that one?

Piyush Patel: Yeah. It's around ₹11 CR. Our CapEx is not much because we are not capacity, CapEx intensive industry.

Moderator: Okay. And his other question is in terms of capital employed, would it be possible to break up between defence and dairy?

Piyush Patel: Maximum CapEx would be done for the defence products.

Moderator: Would it be possible to get that data point?

Piyush Patel: Yeah. Our total block is around ₹14 CR, and out of that ₹11 CR plus is for the defence.

Moderator: He's asking about capital employed. Would it be possible to break up capital employed?

Piyush Patel: No. What we have employed right now, you are talking about that?

Moderator: Assets minus liabilities.

Piyush Patel: Yeah. Sorry. I didn't get.

Moderator: He's asking what is the capital employed in the defence business and in the dairy business?

Piyush Patel: That's what I told you. It's around ₹11 crores in defence.

Ankur Shah: I think they're asking working capital deployed? So, Mitul to put it into perspective, about 80% to 90% of capital is deployed for the defence business, and the remainder is for the dairy business.

Moderator: We'll go to the next participant, Pradeep Rawat. Pradeep, you can go ahead, please.

Pradeep Rawat: Thank you for the opportunity again. I have just one question. So we have a tie up with DRDO. So any other company can do a similar tie up right now, or is it -- there are entry barrier to them?

Ankur Shah: Anyone can actually do it. It's not that no one can do it. However, there are civil entry barriers. Please understand, Pradeep, that for bulb bars the last 14 years between two of us. And Navy or Army, they are looking to indigenise thousands of products, right? So for a product that has already been developed, if a new player comes in, A, the gestation period is a minimum 24 to 36 months plus it's not in their interest to go because that's a problem solved for them. They rather solve problem, which they are still dependent on for import. So it's not, it's not incentivised for product for a problem that is solved. So that's how I would put it across.

But it's open ended. Tomorrow you could approach them, but it'll take you minimum 24 to 36 months just for the approval. Plus he's not incentivised to give you the ToT odd technology, because he's rather looking to spend his energy on developing a product that has not been developed.

Pradeep Rawat: Yeah. Great. Thank you. That's all I have. And all the best.

Ankur Shah: Thank you once again. Thank you.

Moderator: We'll take the final question for the day from Prateek Chaudhary. Prateek, you can go ahead, please.

Prateek Chaudhary: If you could give some colour on, apart from whatever you've disclosed till now, as you've been writing in your presentation that we'd be looking at other opportunities in areas of products that are being imported or offset contract obligations or may be tie ups with foreign partners or maybe even looking at exports. So what are the other bigger things that are probably going to click for you in terms of enquiries or product that you're working for or products that you might enter?

Ankur Shah: Right. So, Prateek, as mentioned, we are engineering heavy company that is in need to focus ourselves to work on complex systems engine. But that's where we have our expertise at, or we've been successful at doing those kind of things. We are working on a lot of other products that is there, but might be slightly premature to talk on this front till it gets finalised.

Please understand, Prateek, it's not that I don't want to reveal it or don't want to talk about it. A lot of products that you develop, not all of them are successful. You have failures and all of that, because that's part and parcel of doing any development. We are working on few more products than what has been disclosed, but they are not at that stage that I could disclose it. Some of them are classified in nature, so I can do it only after certain permissions, that are in place.

But to the new prospects that we have showcased that is there, you could look at that in terms of the next couple of years that we'll surely be working on.

Prateek Chaudhary: And is 500 target for FY'28?

Ankur Shah: Sir Math Karlo, we are from Engineer side, you are from finance team. I'm from engineering side.

Prateek Chaudhary: Great. It was great talking to you. Thanks a lot. Thanks.

Moderator: Thanks, Prateek. That brings us to the end of the conference call. Ankur, would you like to give closing comments.

Ankur Shah: I see one last question on the chat.

Moderator: Just a second. No, there's no further question.

Ankur Shah: Okay. That's fine. Great.

Vinay Pandit: So would you like to give any closing comments, Ankur?

Ankur Shah: Yeah. So I would just like to thank of course my team that is present on the call and they are listening to what we are talking to investors. Most importantly, I want to thank all the investors and shareholders that have bestowed trust in us and have had faith in us. We request you to continue to have a faith in us, because we are trying to live the dream about Make in India and Atmanirbhar to indigenise the products that our nation currently is importing. And we are trying our best to be able to move on that path. So thank you once again for your faith in us. That's it for me guys.

Vinay Pandit: Thanks, Ankur. And thank you to all the participants for joining on the call. Thank you to the management for giving us their time. That brings us to the end of this conference call. You may all disconnect now. Thank you so much.

Ankur Shah: Thank you. Thank you very much, Vinayji for conducting this. Thank you very much. Thank you, everyone.

Piyush Patel: Thanks for joining.