



“Astra Microwave Products Limited Q1 FY-'17 Earnings
Conference Call”

July 30, 2016



**MANAGEMENT: MR. S. GURUNATHA REDDY – CHIEF FINANCIAL
OFFICER, ASTRA MICROWAVE PRODUCTS LIMITED**



*Astra Microwave Products Limited
July 30, 2016*

- Moderator:** Good Morning, Ladies and Gentlemen. Welcome to the Astra Microwave Products Limited Q1 FY-'17 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gurunatha Reddy – CFO of Astra Microwave Products Limited. Thank you and over to you, sir.
- S. Gurunatha Reddy:** Thank you. Good Morning to all of you. The Results for the first quarter have been taken on board in yesterday's meeting and most of you probably might have gone through that, it is in the public domain. For the sake of information, I will repeat broad Financial Details: For the first quarter, we did about Rs.56 crores in terms of the sales. In terms of the profitability there is a small negative profit for the quarter, this is largely because there is a slippage in terms of the projected deliveries for the first quarter which I am sure we are going to make up in the coming quarters. The order book is close to about Rs.569 crores at the end of Q1 and we have booked about Rs.84 crores of orders in the current year. With these broad details, I will keep this call open for Questions-and-Answers.
- Moderator:** Thank you. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Pratik Chheda. Please go ahead.
- Pratik Chheda:** This is Pratik. Just wanted to know the break-up of the order book in the Domestic and Export front.
- S. Gurunatha Reddy:** About Rs.40 crores is Exports, about Rs.529 crores is Domestic.
- Pratik Chheda:** We had received an information that we were about to receive yet an LOI of around Rs.100 crores of export orders. Just wanted to get the information on that?
- S. Gurunatha Reddy:** Yes, that is yet to get converted into orders. So whatever number we are talking about, it does not include that Rs.140 crores.
- Pratik Chheda:** Can you give a sense when can this LOI be converted to the order book?
- Management:** Maybe another two months' timeframe.
- Moderator:** Thank you. The next question is from the line of Maulik Doshi from HDFC Securities. Please go ahead.
- Maulik Doshi:** Just want to get sense on a couple of information: Can you give some color on the sharp increase in employee cost, when I see year-on-year it has almost increased by 65%, so is there any specific reason for it?



*Astra Microwave Products Limited
July 30, 2016*

- S. Gurunatha Reddy:** First of all, we should not compare in terms of the percentage terms since top line has gone down, percentage terms always look highly skewed in either way. Otherwise, if you look at the absolute numbers, more or less we are on the same terms.
- Maulik Doshi:** Just to get some sense, usually if I look at past two-three years, majority of the employee expense comes in last quarter, around 35%, so this year also the same trend will continue or the employee cost will spread out evenly across the quarter?
- S. Gurunatha Reddy:** More or less the employee cost should be spreading out evenly, but still there could be some increase in the last quarter, essentially because of the provisions what we make for the director's commission which is based on the year-end performance.
- Maulik Doshi:** So in that sense, is it safe to assume that for FY'17 our employee cost will increase by 30-35% compared to last year?
- S. Gurunatha Reddy:** No, it is likely to increase about 10% to 15%.
- Maulik Doshi:** That is including after I think we did some hiring for Bengaluru R&D?
- S. Gurunatha Reddy:** Yes, it is inclusive of everything; the people we are likely to add and yearly increments that we have to give, year-end bonuses, the cost is likely to go up by 10% to 15%.
- Maulik Doshi:** This gross margin that has expanded from 35% to 55%, that will likely to continue going forward as well because of the higher contribution from domestic order?
- S. Gurunatha Reddy:** Yes.
- Maulik Doshi:** Any change in our guidance for FY'16-17 & FY'17-18 in terms of order inflows, sales and profit after tax?
- S. Gurunatha Reddy:** '16-17 there is no change in the guideline, definitely, we will reach the target of Rs.450 crores plus kind of a thing, in the first quarter since some deliveries got delayed there is a dip in the profitability. Otherwise, in terms of the overall profit margins and the absolute numbers for the year-end, absolutely they remain, there is no change in that. '17-18, we can review maybe at the end of second quarter .
- Maulik Doshi:** In 4Q, it was mentioned that tentatively we see first quarter sales of Rs.75 crores, second quarter Rs.100 crores, third quarter Rs.150 crores and fourth quarter Rs.125 crores, this has come around Rs.56 crores, much lower than what we planned. So are you expecting bump-up in second quarter or it will be in the second half?
- S. Gurunatha Reddy:** It will be in the second half. We are expecting probably the third and fourth quarters will be higher than what we have initially given. While you are correct, there is a dip of about Rs.20



*Astra Microwave Products Limited
July 30, 2016*

crores, of course in the second quarter also it will be slightly lower than the number whatever we have given earlier.

Maulik Doshi: But is it not that dependent on the order inflows that we will receive because the order backlog is around 1.3x sales of FY'16?

S. Gurunatha Reddy: No, the current delays whatever has happened is not because of the delays in order booking, it is largely because of some technical issues coupled with certain items are subject to the customers' inspection got delayed but not because of order booking timelines.

Maulik Doshi: Rs.690 crores order inflow that also we intend to achieve for FY'17?

Management: This year we said about Rs.500 crores we should be able to book the orders. So as of today, we have already received about Rs.85 crores in the current quarter and another Rs.400 crores we are expecting by end of this financial year.

Maulik Doshi: This Rs.500 crores that you said includes Rs.140 crores order?

Management: Yes.

Maulik Doshi: Any specific reason for this decline in the order inflow expectation?

Management: Some of the projects which in fact, we were expecting some outside contracts, there was a delay in the contact from the Ministry of Defense on the OEMs. So probably those projects I think we should be able to get the orders in the next financial year.

Moderator: Thank you. The next question is from the line of Arul Karthik from Karvy Stock Broking. Please go ahead.

Arul Karthik: Can you breakup the sales into different Space and Meteorology and other?

Management: In the Rs.56 crores sales, most of them are I would say almost Rs.36 crores from Defense, and the rest is Space, Meteorology we had only about Rs.1.5 crores sales in the first quarter.

Arul Karthik: Also, this Rs.569 crores order book, is it possible to get the breakup for difference Space, Meteorology and others?

Management: Rs.40 crores is in Exports and about Rs.35 crores is from Space; rest all is from Defense.

Arul Karthik: There is no change in the guidance of like Rs.450 crores top line and Rs.60 crores plus of bottom line?

Management: Yes, there is no change.



*Astra Microwave Products Limited
July 30, 2016*

- Arul Karthik:** We are confident of doing this?
- Management:** Yes.
- Arul Karthik:** Sir, in terms of order booking, Rs.500 crores also remain intact?
- Management:** Yes.
- Arul Karthik:** In terms of cost structure, will we be able to maintain this cost structure or is it going to accelerate further?
- S. Gurunatha Reddy:** It is going to be same.
- Moderator:** Thank you. The next question is from the line of Neha Kapoor, an individual investor. Please go ahead.
- Neha Kapoor:** Could you please give a breakup of your revenue from Defense, how much of that come from Missiles, how much of that come from other products?
- Management:** Out of Rs.35 crores what we said we did in Q1, in that Rs.16 crores from Missiles and balance from the Radar segment.
- Neha Kapoor:** Regarding the guidance you had given on your JVs earlier. So I was wondering if you could explain a little more about how we arrived at this figure?
- S. Gurunatha Reddy:** JVs we have not given any guidance, in fact, we have not projected any revenues from the JVs for the next two years.
- Neha Kapoor:** After that the guidance that you have given that around Rs.300 crores of turnover after FY'18?
- S. Gurunatha Reddy:** FY'18 is still far away. Probably in the next conference call, we will make a note of that and give the details.
- Moderator:** Thank you. The next question is from the line of Megha Hariramani from Pi Square Management. Please go ahead.
- Megha Hariramani:** My question is on the JVs. If you could just highlight us on the current progress with Rafael and the Singapore subsidiary, where do we stand currently with that?
- Management:** With the Rafael we have applied for the Industrial License, and also we started marketing operations from Delhi, and we have recently appointed Chief of Marketing for this JVC and the marketing operations are already on. So probably we should be expecting some sort of business in the next financial year. Apart from that existing some of the contracts Rafael would



*Astra Microwave Products Limited
July 30, 2016*

like to offload some business to the JVC provided if they get this contract by December. So probably you can see some revenues flows out from JVC I think in FY'18 as we said in previous concall.

Megha Hariramani: Singapore...?

Management: In Singapore, yes, the Aleius Semiconductors its operations are on, we have identified few designers to work on some of the chip sets especially focusing on the MMIC. So these operations are already on. I think we should be able to book sales from the next financial year though we will have some sales in this year, but not significant enough. From the next year onwards we will have a good amount of sales from the Singapore subsidiary.

Megha Hariramani: Like I raised in the last call, you mentioned that it was difficult for you to find some skill people in Singapore. So is that sorted, we have enough people skill labor out there?

Management: Yes, still we are searching, it is difficult, but we appointed the two designers, in fact, we have taken two more fresh engineers from NTU, University of Singapore and we are providing necessary training to get into our domain.

Megha Hariramani: Next question is on the Radars. Last call, you have mentioned that we are trying to start making Radars and everything will be done in-house and it is expected to be ready by FY'17. So where do we stand on that?

Management: On the PAR, we have (FET-1) Field Evaluation Test-1, first stage has been completed, and we had some observations, which we are working on it. Another radar like FSDR this is the dopler radar, that is Muscle Velocity Radar, which we have mentioned in the last conference call that we will be delivering in the Q1. So that got delayed by a couple of weeks. Now just about last week only we have delivered those units, successfully tested and accepted by the customer.

Megha Hariramani: So do we have any orders coming in on that front?

Management: Yes, we are expecting about Rs.50 crores worth of similar class of Radars in next six months' timeframe.

Moderator: Thank you. The next question is from the line of Rahul Gajare from Quant Capital. Please go ahead.

Rahul Gajare: Sir, I have two questions: One, which you touched upon now. Regarding the testing of the Radar that we were doing, now you said one of the field testing is completed. After the observation, normally how much time do you have to go back to them?

Management: We should be able to complete these observations by September.



*Astra Microwave Products Limited
July 30, 2016*

- Rahul Gajare:** What did you say on the Muscle Velocity?
- Management:** Development phase has been completed and accepted by the customer and we have delivered those Radars to a customer.
- Rahul Gajare:** How much is the potential on Mother Velocity Radars?
- Management:** We are expecting as I said Rs.60 crores worth of Muscle Velocity Radars in that Rs.30 crores Radar one proposal is being already in the pipeline, another Rs.30 crores of Radar we are expecting RFP in couple of months' time. In fact, we had a survey about this Radar, next 10-years' timeframe should have at least about Rs.200 crores worth of Radar in line.
- Rahul Gajare:** Could you touch upon what are the changes after the new accounting standard comes into play for the company's financials especially because one of your JVs has 50:50 holding?
- S. Gurunatha Reddy:** This new accounting standard will be applicable from '17-18 financial year, in terms of our existing accounting standards and the new standards, there are very few which are likely to impact. We have already appointed an agency which is looking at the consequences of this. As per the preliminary report given by them, there are a very few things that are likely to affect the existing operations or in terms of the accounting as such.
- Rahul Gajare:** So the current quarter is not as per the new accounting standard, that is what you mean?
- S. Gurunatha Reddy:** No, for us it is from '17-18 financial year; however, when we published '17-18, we have to give the previous year figures also, because of that we have already appointed an agency which is doing an audit. It is not going to be an official audit; it is going to be an informal kind of a thing.
- Moderator:** Thank you. The next question is from the line of Ketan Gandhi from Gandhi Securities. Please go ahead.
- Ketan Gandhi:** Can you please throw some light on Project Uttam, Project Rustom-2 and AWAX, what is the status of that project?
- Management:** Uttam Project, we are delivering the T/R Modules as of now, we have already started delivering these products in the last three months and there were slightly delay in the beginning of the financial year because of the one critical chip, but now we got alternate to that particular product, now again the deliveries we have started. Actually in DRDO, they have already made one radar prototype and is being tested in the field and probably they are going for two more radars to test the repeatability part of it and then they are going with the actual testing in the platform. So we are also expecting as I mentioned in the last concall that few radars for the development phase at Astra. So this is as far as the Uttam is concerned. AWAX, as I mentioned in the last concall, we have already received T/R Modules order for the



*Astra Microwave Products Limited
July 30, 2016*

ProtoArray. That we are going to execute by September-October and then most probably by end of the financial year DRDO may complete this prototype version of this particular thing and actual orders we are expecting only in FY'18.

- Ketan Gandhi:** Any light on Rustom-2?
- Management:** Rustom-2, we have supplied this data to the user mill and DRDO and probably they are in the testing stage and once they complete this development phase, we should be able to get the production orders.
- Ketan Gandhi:** Sir, another question on Bengaluru facility. We were working on Seekers. Any development on that?
- Management:** No, in Bengaluru facility, we are not working on Seekers, we are working on Radars. Seekers we are working in Hyderabad R&D Centre.
- Ketan Gandhi:** So any progress on that?
- Management:** Seekers we are working on two bands for some of the DRDO programs and in that we are in 30% of stage, I think it may take another year or so to complete the Seekers and to test and the X-platforms. Only in the next financial year probably we should be able to test in the platforms.
- Ketan Gandhi:** Any clarity on Project Uttam Radar will be fitted on the Tejas Mk-1 or it will be Israeli Radar?
- Management:** No, as of today we are confident that DRDO Radar will go to the Tejas.
- Moderator:** Thank you. The next question is from the line of Megha Hariramani from Pi Square Management. Please go ahead.
- Megha Hariramani:** What is our current R&D expenditure and how much do we expect it to be by year-end?
- S. Gurunatha Reddy:** In terms of the absolute numbers, revenue expenditure is close to about Rs.20-25 crores per annum, that is what we are spending. Of course, the capital expenditure is always need-based, but currently we have projected to spend about Rs.20 crores on capital assets for the year.
- Megha Hariramani:** What is the current cash on the books?
- S. Gurunatha Reddy:** We have close to about Rs.62 crores, out of that Rs.12 crores is the margin deposits and the balance is clean cash.
- Moderator:** Thank you. The next question is from the line of Pratik Chheda. Please go ahead.



*Astra Microwave Products Limited
July 30, 2016*

Pratik Chheda: I wanted some clarity on the order book. On 31st March Annual Report reads that the order book was Rs.520 crores and the order inflow for the quarter is Rs.84 crores and the execution for the current quarter is around Rs.56 crores. So just trying to calculate the order book which works out is to be around Rs.547 crores. So just wanted to get more clarity on the order book, how is it Rs.569 crores and what is the difference basically?

S. Gurunatha Reddy: I have not worked that reconciliation, but as per my workings, the order book at the end of the quarter is Rs.569 crores and during the quarter we have booked about Rs.84 crores. If there is any discrepancy, probably I will mail it to you.

Moderator: Thank you. The next question is from the line of Maulik Doshi from HDFC Securities. Please go ahead.

Maulik Doshi: Can you please give a sense over the next 4-5-years what will be the key drivers for our growth in terms of key programs where we see that we will get significant amount of work to be done?

Management: Again, the key drivers are in the same segments which we are operating. Only thing is we are moving up in the supply chain. The first thing is there are some projects which we have been talking in last couple of concalls is like Uttam and AWAX, these are the programs which really we should come into the production and these are the orders in the domestic front which should give us a sizeable turnover. Apart from these Domestic, the ISRO is planning to launch the repeats of radar imaging satellites for which already tenders are out and probably by the end of this financial year or beginning of the first quarter of the next financial year we should be able to book all these orders. I think this is again will contribute significant turnover for the next couple of years. Also, on the Ground segment, we have been working out on the communication link. So those things also which should be able to give us the significant orders. So these are the areas, not from the new area, just only whatever the areas we have been working out, there are a few projects that should give us the main turnover for the next three years.

Maulik Doshi: Can you give some sense what could be the order size for this ISRO Radar Imaging Satellite?

Management: Total order book size we are expecting about Rs.100 crores.

Maulik Doshi: But just to get some more sense in terms of Uttam and AWAX communication link, I think those sales will come probably after FY'18, mostly FY'19-20-21? For these two years, can you give me some sense which are the major contributors in terms of top line?

Management: We have a clear visibility of order inflow for the next year about Rs.550 crores as on date and this year as I said the next nine months we should have Rs.400 crores, out of which Rs.120 crores is the Letter of Intent which we have already received, apart from that there is another Rs.380 crores we are expecting by 31st March. So next year we have a visibility of Rs.550 crores, then subsequent year also we have a visibility of Rs.600 crores order inflow.



*Astra Microwave Products Limited
July 30, 2016*

Maulik Doshi: Can you give some sense in terms of out of this Rs.550 crores and Rs.600 crores that you talked about, how much is from the Missile programs, how much will be from the Radar programs?

Management: Missiles and Radars put together is about 60% of the figures what I mentioned.

Maulik Doshi: Can you name a couple of programs?

Management: Again, as I said, Uttam is the one and AWAX is another, and then the third is the Aslesha Mk.1 and as well as Mk.2, there are a few radars which in fact Indian Airforce is placing orders on BEL, BEL in turn they will outsource the subsystems from us.

Maulik Doshi: Any clarity regarding Akash Missiles?

Management: Airforce repeat orders they are expecting by the end of this financial year, that is for the seventh quadrant and once they receive the orders for us the subsystems probably we should be expecting in the next financial year.

Maulik Doshi: What could be the potential size of these orders?

Management: Airforce inclusive of Missile Subsystems orders, we have Radar Subsystems also is around Rs.150 crores.

Maulik Doshi: So that will contribute in FY'18?

Management: FY'18 we should be able to get the orders, then revenues probably will flow from FY'19 onwards.

Moderator: Thank you. The next question is from the line of Shahazi Ingale, an individual investor. Please go ahead.

Shahazi Ingale: Could you please throw some light on JV with Canadian-based Unique Broadband?

Management: Basically we have a plan to manufacturing high power transmitter in this particular JV for both broadcasting as well as for the Defense application and as of today the registration process is on and we should be able to complete all formalities by end of this quarter or maybe the third quarter. The revenues as we mentioned in previous calls that we are expecting these revenues from FY'18 onwards. We are in the process of booking the orders. We are setting up the marketing team for this JVC. Also, we have identified another product line is for medical electronics, we have a plan to manufacture Coils and RF Amplifiers. There are the things which are in the discussion stage as of now. So probably another six months' timeframe we should be able to confirm you about this particular product line.



*Astra Microwave Products Limited
July 30, 2016*

- Shahazi Ingale:** We are targeting Assemblies or Sub-Assemblies?
- Management:** Assemblies.
- Moderator:** Thank you. The next question is from the line of Abhijeet Mishra from ICICI Securities. Please go ahead.
- Abhijeet Mishra:** Just want to understand the slippage in top line vis-à-vis expected, it is only on account of MVMR because of issues coming up with Muscle Velocity Measurement Radar Testing or is it something else also, if you can just highlight?
- S. Gurunatha Reddy:** Largely, it is because of the two factors – there were some technical issues and secondly one or two items are subject to the customers’ inspection where there was delay in coming down and doing the job. Otherwise, we have no major issues.
- Abhijeet Mishra:** So both of those two are related to which item – on the Radar side only...?
- S. Gurunatha Reddy:** It is on Radar side.
- Abhijeet Mishra:** That Muscle velocity order which you were mentioning, right?
- S. Gurunatha Reddy:** Yes, Muscle Velocity Radar.
- Management:** We are expecting this Radar development to be completed in the first quarter, but there was a delay of two to three weeks. So finally it was completed by mid-July and we have delivered.
- Abhijeet Mishra:** What are the feedbacks from FET-1 of that PA Radar which we also are executing?
- Management:** Few technical issues were observed and in which we are working out.
- Abhijeet Mishra:** But this is already developed radar for which India has taken deliveries in early 2001, 2002, right. So why are the technical issues arising now – is it in proportion or is upgraded version which they are working on, what exactly is...?
- Management:** For the country it has been buying for quite long time. We are developing the first time, so it is a new Radar for us. So when we develop it and if there are any deficiencies when we go and offer them, they test it and say that these are all the things that are lacking in your systems. So they ask us to improve. So we are going to set it.
- Abhijeet Mishra:** The timeframe of development would be -- six months, nine months, what is the expected timeframe?
- Management:** We expect it to close all these things by September.



*Astra Microwave Products Limited
July 30, 2016*

Abhijeet Mishra: AWAX, what exactly is the status? As per our last discussion we had, I think they were changing the orientation of the modules inside the dome that required incremental design contributions and then we were expecting the tender. But now so has that orientation of arrays been sorted out and are we executing the order or why exactly is it getting delayed as per you?

Management: I do not know whether you were there in the concall through when I have already explained to somebody on this thing, anyway I will repeat again. We have received order for T/R Modules for the ProtoArray. This ProtoArray we are expecting DRDO to complete. We are only supplying the modules and DRDO in all probability they should be able to complete the integration, testing and all by end of this financial year. So once it is through, then the actual requirement for the main array as well as the production orders we are expecting only in the next financial year subject to the completion of the ProtoArray by DRDO by the end of this financial year.

Moderator: Thank you. There are no further questions. I would now like to hand the conference over to the management for his closing comments.

S. Gurunatha Reddy: Thank you, gentlemen for your participation and time. We look forward to talk to you again at the end of the second quarter. Thank you very much.

Moderator: Thank you members of the management team. Ladies and Gentlemen, on behalf of Astra Microwave Products Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.