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June 2, 2021

To
The General Manager
Department of Corporate Relations
BSE Limited
Sir Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai -400 001

Scrip code: 532493

To
The Vice President,
Listing Department
The National Stock Exchange of India Limited
Exchange Plaza
Bandra Kurla Complex, Bandra (East)
Mumbai 400 051

Scrip code: ASTRAMICRO

Dear sir,

Sub: Conference call transcript.

We are sending herewith Conference call transcript held with analysts on 27th May, 2021.

This information is also uploaded on the website of the Company www.astramwp.com.

Thanking you,

Yours faithfully,
For Astra Microwave Products Ltd

S.Gurunatha Reddy
Managing Director

"Astra Microwave Products Limited Q4 FY20-21 Earnings Conference Call"

May 27, 2021

MANAGEMENT: MR. S. GURUNATHA REDDY - MANAGING DIRECTOR, ASTRA MICROWAVE PRODUCTS LIMITED
MR. M V REDDY- JOINT MANAGING DIRECTOR, ASTRA MICROWAVE PRODUCTS LIMITED

Moderator: Ladies and gentleman, good day and welcome to the Astra Microwave Products Limited Q4 FY20-21 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 an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. S. Gurunatha Reddy – Managing Director. Thank you and over to you sir.

S. Gurunatha Reddy: Thank you. Good morning ladies and gentlemen. Thank you for joining us and welcome you all to this conference call. I am with my colleague, Mr. M. V. Reddy - Joint Managing Director.

The results of the company for the Q4 and the year ended 20-21, was taken on record by the board of directors at yesterday's meeting and we have shared the broad financial performance details with all of you along with the call invite. I hope everyone of you have received the same. For the benefit of all, I repeat some of the broad performance parameters.

In terms of gross sales for the quarter, we did about Rs. 246 crore and for the year it is about Rs. 605 crore, which is about 40% more than compared to the previous year. After adjustment of late delivery charges and other accounting standard related requirements, the net sales for the quarter is about Rs. 237 crore and for the year it is about Rs. 587 crore. Gross margin for the quarter is about 29% of net sales and for the year it is about 28% of the net sales. This is significantly lesser than what we have achieved in the last year but as we shared with you during the previous calls, this is largely due to the change in the product mix where export sales are more than 60% of the overall sales of the company. This mix is likely to get corrected as we move forward in the next two years and therefore, we are expecting a slight improvement in the margins also. At EBITDA level, for the quarter it is about 18% and for the year it is about 9%. This is all for the moment in terms of performance details.

Regarding some balance sheet items, we have inventories of first about Rs. 300 crore, trade receivables of about Rs. 250 crores, cash, and cash equivalent about Rs. 46 crore. We do not have any long-term borrowings but our working capital borrowing at the end of the year is about Rs. 100 crore. This is all to start with and I open this discussion now for the questions and answers.

Moderator: Thank you very much, we will now begin the question-and-answer session. The first question is from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya: Hi sir, thank you for providing the opportunity. I have a question regarding the order book. So, it seems that we have booked some major order in one of the subsidiary or JVs approval. Can you provide more details around what is it for? Whether it is domestic or exports and around the margin profile of this order?

S. Gurunatha Reddy: I request Mr. M. V. Reddy to take the question.

M V Reddy: Hi, we are not able to get your question fully but what we have understood is that you would like to know the order book at the end of the year and the ….

Vaibhav Badjatya: No sir. Can you hear me now?

M. V. Reddy: Yes.

Vaibhav Badjatya: So, what I am trying to say is that a few slides there is some big order booking that has happened in one of our subsidiary companies or in the JV company looking at the difference in your standalone and consolidated order book. So, just wanted to know, whether this additional order is on export front or domestic front and what would be the margin profile of this order?

S. Gurunatha Reddy: I think if I remember correctly, this information was already shared in the last quarter. Our JV company has received an order for one of the projects, where the orders are about $60 million executable over a period of 5 years. This is more like an assembly testing kind of thing, where the gross margins are very low. This is the only big order which was booked in the group companies. If you are asking this question, this is the answer.

Vaibhav Badjatya: Yes, so our margins might be low because it is an export order but in terms of what return on capital, we may have this order and this definitely both are, we need to get substantially to basically fulfill this order. What will be the investments required to fulfill this order?

S. Gurunatha Reddy: Absolutely zero investment kind of thing, especially in terms of the capital investment nothing we require but we need to add about one or two low-end engineers to carry out the job.

Moderator: Thank you. The next question is from the line of Vivek Ganguly from Nine Rivers Capital. Please go ahead.

Vivek Ganguly: Thank you. I had again related to the order book for the main company, I mean you have an order book of about Rs. 1500 crore, Rs. 1550 crore. Can you all give the break-up between exports and for the domestic market? That is the first question.

M V Reddy: Yes, we have Rs. 1561 crore the total order book, in that, exports is about Rs. 723 and Defense Rs. 547 crore, from Space segment we have Rs. 223 crore and meteorology and hydrology group it is about Rs. 66 crore.

Vivek Ganguly: Got it. The second question is, on the consolidated basis, you have an order book of about Rs. 2500 crore odd, which is about Rs. 1000 crore odd over and above the standalone company. So, you just gave an uptake, you said $60 million is coming from this Assembly and testing, you know. Largely it is in Assembly, so what would the remaining part be which could be another, I assume another $60 million odd?

M V Reddy: Yes, actually The Arc our JV company, they have about Rs. 692 crore. In that $60 million as we just informed you, that you know this certain behind integration kind of activity and the rest is integration of SDR and supplied to Rafael. So, that is how this was original contract we have received. The total order value what our JV partner has is 90 million.

Vivek Ganguly: So, 90 million. So, that accounts for about Rs. 700 crore odd and what will be the remaining Rs. 300 crore odd from?

M V Reddy: We have close to about Rs. 20 crore from BEPL that is our subsidiary company and another Rs. 10 crore Aelius, we have another subsidiary company Aelius semiconductor, we have about Rs. 10 crore.

Vivek Ganguly: Right, you still have Rs. 250 crore odd to account for.

S. Gurunatha Reddy: Anyway, we will get back to this final number during the call.

Vivek Ganguly: Ok sure, thank you.

Moderator: The next question is from the line of K. P. Jain from Sundaram Mutual Fund. Please go ahead.

K. P. Jain: Sir my question is with regards to the expected profitability, given that now the orderbook is a more a balanced orderbook between domestic and exports. What sort of improvement in profitability should we expect in the year FY22?

S. Gurunatha Reddy: In FY22 we are expecting a topline of about Rs. 700 crore, EBITDA margins we are expecting to improve from the existing 7% to about 10-12% and PBT level we should improve from existing 5% to about 9%. This is what we are expecting a change from the current year to the next year.

K. P. Jain: Sir one more question, in the current quarter there is a sharp jump in the Finance charges, any particular reason sir?

S. Gurunatha Reddy: Two reasons, one is as compared to '19-20, '20-21 consistently we have a working capital draw in excess of Rs. 100 crore, throughout the 12 months period that is one which has contributed significantly for the higher working capital interest. Then the second one is, see there is an accounting standard requirement as far as advances received from the customers, it is just an accounting adjustment where a notional interest will be charged on the advances outstanding from the customers for more than 1 year. You know very well we have significant advances received from the export customers, where the order executions are happening regularly but irrespective of the terms of the purchase orders, there is an accounting standard requirement basing on that we have to provide interest on the outstanding advance amount. So, that has contributed to about Rs. 7 crore, out of the total amount of about Rs. 21 crore.

K. P. Jain: Sir in terms of working capital requirement reduction anything can we do sir to improve the cash flows especially on the inventory front?

S. Gurunatha Reddy: Yes, this a regular question we are answering we keep explaining that looking at the nature of operations and the kind of material that you require there is a good amount of stocking that needs to be done by the company, so because of that the inventory values are at higher level and also the receivables, some of the programs are very critical in nature, unless it is proved at the system level, the payments are not being getting released for these undertakings. So, these are the two reasons why these amounts appear on a higher side compared to the normal standards. We are making all efforts to improve on this but up to now this is what we can achieve.

K. P. Jain: Sir in terms of next year order inflow what is the expectation in terms of the domestic and exports for next year sir?

M. V. Reddy: Yes, next year we are expecting about Rs. 750 crore orderbook and in that from the defense segment about Rs. 550 crore and the exports about Rs. 150 crore and rest is metallurgy group about Rs. 40 crore. All put together around Rs. 750 crore we are expecting the orderbook.

K. P. Jain: Sir, nothing on space end sir next year?

M. V. Reddy: Space we have not taken much just about Rs. 10-15 crore we have taken, as we are aware that, there were the pumps took place in space and waiting for the positive and guidelines and also the based on the priority these projects are moving, so there is some kind of delay in the new programs and that is the reason we have not taken much in this current year.

Moderator: Thank you. The next question is from the line of Jonas Bhutta from Phillip Capital. Please go ahead.

Jonas Bhutta: Two questions, I do not if you have answered this before the roughly Rs. 600 crore orderbook that we have in our subsidiaries which you mentioned there is a $60 million for testing and integration, so just wanted to understand the margin profile of this particular order, is it similar to the erstwhile offset orders that we used to get for radar integration and stuff like that if you can touch upon that first and then I will comeback with my second question.

S. Gurunatha Reddy: More or less it carries similar margins of offset orders what Astra is executing as of today.

Jonas Bhutta: Okay and this is for the Rafael project or this is by Rafael, it is from the Israeli company.

S. Gurunatha Reddy: Yes, it is from Rafael Israel.

Jonas Bhutta: And is there a follow on, we typically used to get follow on orders like this as an, 3-4 years back like once from similar follow-on orders after a gap of one or two years, is that again a possibility sir?

M. V. Reddy: Yes, actually programs which our joint venture has taken, there is a potential to get follow on orders from the same customer but of course it is in a competitive manner, so we have to bid, and they have to grab those opportunities but there are opportunities and definitely there will be follow on orders down the line after couple of years.

Jonas Bhutta: So, this is for the SDR is it?

M. V. Reddy: SDR and similarly the other program, probably yes there may be some follow-on orders but as on date, nothing is visible, they have projections down the line after 4 or 5 years.

Jonas Bhutta: Okay, so for instance like Elbit is a supplier to this new HAL Tejas Mark 1 A, so is there a potential for that to turn as an offset opportunity for us, they will have to meet some offset guidelines regarding that or that project is without offset guidelines?

M. V. Reddy: You are talking about that ELBIT project to Tejas?

Jonas Bhutta: Yes, sir the radar 2052 that gets fit into the Mark 1A, the recent order that HAL won?

M. V. Reddy: It is ELTA.

Jonas Bhutta: Yes, ELTA I beg your pardon.

M. V. Reddy: So, actually, we were discussing about some offset opportunity in that particular segment also, it is in the discussion stage as on date.

Jonas Bhutta: It is not part of the Rs. 150 crore that you have given to keep these answers on the order inflow?

M. V. Reddy: We have not considered that in this current year orderbook.

Jonas Bhutta: My second question was, if you can give us some granularity into what you are building into this Rs. 550 crore order from the domestic defense market for FY22, in terms of program and what could that be even in FY23. Because the way it looks is like that 1st quarter again last year and 1st half particularly will be weak as the ministry is not spending any money or unlikely to spend any money, so there is a chance that things get pushed of, but it will be helpful if we know the kind of projects that we will be bidding for or likely to gain over a 2-year period. And that is my final question. Thank you.

M. V. Reddy: Many of these programs basically in the domestic sector, the major contribution will come from the radar domain, where we have already qualified and we have succeeded in proving the proto, so like SDR is one program where we got the proto delivered and we won that main array. Similarly for the digital active container antenna array, in that also we are expecting order from DRDO and also in Uttam also we have taken reasonable quantifiable business for the next one or two years and the other programs like Ashlesha and MPR which DRDO is also proven, and we are there as a major supplier and these two programs also we are expecting business for the next. So, these are all about radar and as far as missiles are concerned, still the Takash we are expecting that order from army to BDL, so in that our sub-systems are there, that is a one major prospect. And also that Astra missile, where we have our sub-systems, so that is also going on production. So, in that we have a part quantity we have already received and the balance we are expecting in next couple of years. And also like NGRM, where we have developed the PHH, so that is also something like which we are expecting order in next couple of years. Apart from this, yes, we have few programs in Avionics and the other things, of course on the value wise it is not so large but otherwise these are the major programs as far as the domestic is concerned. On the export front, we are expecting repeat orders from ELBIT and Rafael, which they have placed orders on us and also there are some discussions are going with ELTA and all, as I have discussed just now. So, these are all major prospects for the next two years' order book.

Moderator: Thank you. The next question is from the line of Bhavik Shah from MK Ventures. Please go ahead.

Bhavik Shah: So, regarding the current quarter, sir other expenses have decreased by more than 50% as compared to the previous two quarters. Is there any specific reason and is this decrease sustainable, this is my first question?

S. Gurunatha Reddy: Can you repeat your question?

Bhavik Shah: Yes, so in this quarter, the other expenses which we have like have decreased by more than 50% like 100%, from Rs. 14 crore in the last quarter, they are down to Rs. 7.8 crore this quarter. So, is there any specific reason for the decrease and is this decrease sustainable going ahead?

S. Gurunatha Reddy: I will come back to you on that. I do not have an immediate clarification on that to you.

Bhavik Shah: Okay, so my next question is; the other income has also shot up by four times in this quarter. So, is there any specific income which has been booked this quarter?

S. Gurunatha Reddy: Other than the normal thing, there are two transactions; one is the export incentive, which is there till 31st December 2020, that was factored in, it is about Rs. 5.5 crore. And one accounting standard related adjustment between holding company and the subsidiary company. As you know, our Bhavya Banu which is 100% subsidiary, is supported for working capital through corporate guarantee from the parent company, because of that you know, there is a notional financial advantage derived by the subsidiary which needs to be passed on to the holding company. I understand that is the new accounting standard requirement, because of that a notional income of about Rs. 1.05 crore has come in. So, these two new line items compared to the standard income.

Bhavik Shah: Okay, and sir like the employee cost in our current quarter, are like way too higher than the previous quarter. So, is there a wage hike which has been given or something?

S. Gurunatha Reddy: Yes, normally the last quarter know, if you compare the Q4 of any of these previous years, it will be on higher side because of the provisions what we make at the end of the year for the performance bonuses. Beyond that, there is no other special incentives are there but the performance bonuses, we will add up at the end of the quarter.

Bhavik Shah: Okay and sir, we were in the last quarter we said, we are going to do some CAPEX of around Rs. 30 crore going ahead. So, sir like, is that CAPEX done in the last quarter or is it being shifted to this year?

S. Gurunatha Reddy: No, this is going to be done over a period of twelve months, that is what we told you last time also, we are implementing that.

Bhavik Shah: Okay, so it is in process. And is it the maintenance CAPEX or an additional CAPEX?

S. Gurunatha Reddy: No, it is normal maintenance CAPEX.

Moderator: Thank you. The next question is from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya: Thanks for the follow up. In these export orders, for example, this new $60 million order. I understand this would be an export order, so how would be the exchange rate risk will be taken care of, in this order? Is it completely hedged in, our margins are completely protected from the movement of exchange rate or they will have to, the other implications of it?

MV Reddy: Yes, this is not an export order. It is for another Rafael EOU, it is a deemed export. And this is done over a period of six years, as of today it is not hedged. So, once billing start then we will look at the requirement.

Vaibhav Badjatya: But raw material will be imported, right if I am not wrong for this order? So, we will have the risk from that ..

MVREDDY: It will be the input that we will be adding, it is largely and no assembly and testing what we will be doing. Therefore, the raw material inputs are negligible.

Vaibhav Badjatya: Got it, that is it from my side.

S. Gurunatha Reddy: I think you have asked about this consolidated order book position know; you are the one who asked this question.

Vaibhav Badjatya: No, I was not the one, I think it was second speaker. I am quite clear about the consolidated and standalone order book.

S. Gurunatha Reddy: Yes, I would like to clarify the numbers whatever we told you earlier. Standalone, the order book is Rs. 1561 crore, BEPL that is our 100% subsidiary is Rs. 54 crore, Aelius that is another subsidiary of Astra is about Rs. 10 crore, then ARC – joint venture company Rs. 692 crore. So, that will add up to Rs. 2317 crore.

Moderator: Thank you. The next question is from the line of Prabir Adhikary from Ratnabali Investments. Please go ahead.

Prabir Adhikary: Okay, sir thank you for the opportunity. I have two questions mainly. First of all, I want to know the sales breakup for this quarter and the next, if you can highlight exact status of The Uttam and HPR and whether you are talking about Uttam systems or sub-systems?

MV Reddy: You want to have the sales breakup of the last quarter Q4, right?

Prabir Adhikary: Yes sir.

MV Reddy: That from the domestic sector we did, we booked sales of Rs. 114 crore and exports Rs. 116 crore and the Space and Meteorology put together is about Rs. 15 crore. I repeat again, Defense Rs. 115 crore, Space Rs. 10 crore, exports Rs. 116 crore and Meteorology and Hydrology put together about Rs. 6.51 crore. So, this is our sales of last quarter. So, total, about Rs. 246 crore.

Prabir Adhikary: Okay and about the status of Uttam and HBR.

MV Reddy: Yes. Uttam I just said, you know, we will be supplying the modules for the Uttam radar which is being integrated at DRDO initially for first few numbers and thereafter, in parallel, we are bidding for the technology to manufacture the complete radar but as on date, we are the basically modules. What I have projected the order book, it is basically for the modules.

Prabir Adhikary: Okay and Sir about the HPR?

MV Reddy: HPR is in that initial stage and as we have informed in the previous call also, we joined with BEL and the DEC is going on, so probably by next year, I think the DEC may get completed.

Moderator: Thank you. The next question is from the line of Abhijeet Mishra from ICICI. Please go ahead.

Abhijeet Mishra: Yes, thanks for taking my question and I just wanted to understand a bit more on the sales mix for the next couple of years. So, this export order book which you have mentioned is executable, I mean it is a short cycle execution or it is like equally distributed over the next couple of years?

MV Reddy: Export orders which we have currently, it is to be executed in next fifteen to eighteen months.

Abhijeet Mishra: Okay, so essentially this margin, the guidance which you gave 10% to 12%, it will be similar for 2023 also?

S. Gurunatha Reddy: 2023, I think so it is too early to commit to that number but as of today it looks like we should be able to maintain it.

M. V. Reddy: Yes, the export mix will be higher. I mean instead of sort of coming down, for all understanding.

S. Gurunatha Reddy: Yes, more, or less it will be in the same ratio, mainly from 60-40 kind of thing, it may become 50-50 kind of thing.

Abhijeet Mishra: Okay, so in terms of top line, while we are showing this kind of impressive book but bottom-line possibilities sort of subsides because of this mix. So, what are the thoughts and on top of that, we are seeing incremental stretched working capital. So, how, I mean are there any sort of strategy to work around that, to improve top line, because while your expectations of bottom line is sort of coming down because margins have re-sized to this 10% to 12% levels, it is not going back to the older 25%, 30% in RE. And the working capital intensity is also not getting helped, you know which was probably previously thought that probably domestic orders, high domestic orders should make to a more working capital intends balance sheet but that is not the case even with the sense on mix. So, what is the broad thoughts, I mean how to sort of get these two things back into, towards a better mix and reduce working capital. How to sort of combine the target this could be?

S. Gurunatha Reddy: Okay, in terms of working capital cost, it is more like you know, we have to work on realizations and inventory control, that anyways it is work in process, it is going around but otherwise in terms of the top line, the mantra is going to be more in terms of a mix of low margin, high volume, the standard domestic business is going to be the thing for the next couple of years. With that, we should be able to improve the margins, if not reach those decade back levels of 30% EBITDA margins. We should be able to reach somewhere around 15% kind of thing in the next two years.

Moderator: Thank you. The next question is from the line of Dhruv Saraf from Ratnabali Securities. Please go ahead.

Dhruv Saraf: Sir, I have just one question. When you guide for 10% to 12% EBITDA margins in the next year, are you trying to tell us that the export execution will be much, will be kind of, at the same levels as of this year or do we see more of the domestic going red because the margin profile tells me that there would be more of exports?

S. Gurunatha Reddy: No, as we said know, more or less the next year, the ratio is going to be 50%-50% kind of thing. We see a better mix of domestic margins as compared with the current year, because of that the overall margin size is likely to improve.

Moderator: Thank you. The next question is from the line of Bhavik from MK Ventures. Please go ahead.

Bhavik: I just wanted to understand what is the current status of the Space Segment, we are facing some issue, right? And when can that be sorted?

M. V. Reddy: Space segment as I mentioned, currently they are focusing only high priority projects, so the other projects are taking some time and the orders which we have on hand, they got into some technical issues and we are resolving it as all those projects are basically BTP from ISRO, so the design is being changed and now more or less things are coming under control. Now this exhibition will start for the current quarter, whatever the orders we have maybe from Q3 and as per the new projects are concerned, I think because of the budget constraints and other issues, there is no clarity as such for the new projects of this, so probably next couple of quarters we may have clarity from ISRO.

Bhavik: And sir my one question was regarding second wave of COVID, are we facing lockdowns or executional challenges and what can be the impact in the first quarter and what do you think going ahead, how can it be?

MV Reddy: Yes, as every company has been facing, so we are no exception, we are operating with almost 60-70% manpower and but thing is that since most of the customers they are in lockdown and they are not operating, so this will have some effect on the sales and even in our orderbook also in the first quarter but I think if this may get picked up, maybe another one odd month it will probably once the situation comes into control maybe I think June we are expecting a good amount of sales to happen.

Moderator: Thank you. The next question is a follow -up from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.

Vaibhav Badjatya: So, this estimate of Rs. 700 crore sales with PBT of around 9% is what you have given, so this is for standalone or consolidated business?

S. Gurunatha Reddy: This is for standalone.

Vaibhav Badjatya: Do you have the working for consolidated as well what would be an estimate on consol basis, what is your targets?

S. Gurunatha Reddy: No, as of now I do not have it. Probably in the next quarter we will share it with you.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. S Gurunatha Reddy for closing comments, over to you sir.

S. Gurunatha Reddy: Thank you ladies and gentlemen for interacting with us and we look forward to meet you again at the end of Q1. Thank you very much and take care.

Moderator: Thank you. Ladies and gentlemen on behalf of Astra Microwave Products Ltd. That concludes this conference. We thank you all for joining us and you may now disconnect your lines.