

**ASTRA MICROWAVE PRODUCTS LIMITED**

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February 25, 2022

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

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: 532493

Scrip code: ASTRAMICRO

Dear sir,

Sub: Conference call transcript.

We are sending herewith Conference call transcript held with analysts on 15th
February, 2022.

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

Thanking you,

Yours faithfully,
For Astra Microwave Products Ltd

T. Anjaneyulu
G.M - Company Secretary



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“Astra Microwave Limited's Q3 FY'2022 Earnings Conference Call”

February 15, 2022

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**MANAGEMENT: MR. S. GURUNATHA REDDY – MANAGING DIRECTOR,
ASTRA MICROWAVE PRODUCTS LIMITED
MR. M. VENKATESHWAR REDDY – JOINT MANAGING
DIRECTOR, ASTRA MICROWAVE PRODUCTS LIMITED**

Moderator:

Ladies and gentlemen, good day and welcome to the Astra Microwave Products Limited Q3 & Nine Months FY'22 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gurunatha Reddy - Managing Director, Astra Microwave. Thank you and over to you, sir.



S. Gurunatha Reddy:

Thank you and good afternoon everybody. A warm welcome to all the participants to the post results earnings of our company. I with my colleague Mr. M.V. Reddy, Joint Managing Director and SGA, our investor relations advisors. The “Results” and “Investors Presentation” for the quarter ended December, 31 2022 are uploaded on our company website and stock exchange. I hope you had an opportunity to have a look at it.

With over 30 years of experience in RF and Microwave Frequency applications, Astra has moved up the value chain from the subsystems to high value-added systems. The company's products find application in high end markets of defense, space, telecom, meteorology, and other civilian communications.

Astra has a proven track record of making high value-added systems, RF and Microwave Subsystems and Super Components, which are becoming more relevant due to various government initiatives like IDDM, Make-II etc.,

The company has been able to create a diversified and healthy order book on the back of its strong capabilities and we are very well placed to capture a bigger pie of the growing Indian defense sector with a deep domain expertise, high focus on R&D, and a robust strategy in place.

Astra is well poised to capitalize on government thrust on domestic manufacturing as it has successfully transformed itself from a subsystem supplier to a system player today.

Astra has been instrumental as a development partner in the various DRDO programs in the areas of radars, missiles and EWS, a feat very few can boast of in the Indian private defense sector. As a development partner, these opportunities have a good margin with a limited competition.

We are poised for a significant move up in our scale of operations and we are expecting orders upwards of about Rs.3,000 crores over the next three years with high degree of confidence as these programs are expected to move to commercial segment.

As against the current mix of 50% revenues from the domestic customers, we are expecting to increase the share to about 80%, resulting into a significant jump in the profitability. We are expecting to deliver these orders with a little incremental capital expenditure as significant capabilities have been built into over the years and we are ready to meet these expectations as and when requirement arises.

In Q3 of financial year 2022 on a standalone basis, the company reported another Rs.199 crores of sales, marking a growth of about 34% year-on-year basis. EBITDA about 26 crores with a margin of 13%.



Our order book as of 31st March 2021 stood at Rs.1,702 crores which is executable in the next 12 to 30 months period. Our current order book is three times our financial year 2021 revenues, which gives enormous visibility over the next few years in terms of revenue achievements. During the year, we have received orders worth about Rs.662 crores till the end of December 2021.

Astra has been able to create a diversified and healthy order book on the back of its strong capabilities and we are focused on strengthening our portfolio and establishing our position as a systems provider in the years to come.

Astra is very well placed to capture bigger pie for growing defense sector market with deep domain expertise, high focus on R&D and a robust strategy in place.

Existing domestic and export orders, and the projects like Akash and opportunities in radar systems, give us a revenue visibility on a sustainable basis. We shall continue to reap benefits of sectoral headwind by doing extensive investments to strengthen our position as a systems vendor.

We see huge opportunities in the areas of radars, EWS, small satellites, anti-drones, SGR, and electro optics, which will add up to significant order book and which enables us for a significant top line growth in the coming years. With these remarks, we will now open this call for questions and answers.

Moderator: Ladies and gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Dinesh Kotecha from KRIC. Please go ahead.

Dinesh Kotecha: I have got only two questions right now. First is that our interest cost for the nine months have gone up from nearly Rs.10 crores to nearly more than Rs.15.5 crores. How are we going to control the interest cost? Second thing is there any plan for any vertical or horizontal take over envisaged since we have said that we would like to have the domestic market share up to 80% in two or three years, so will it help to get some vertical or horizontal takeovers in this?

S. Gurunatha Reddy: Regarding the finance cost, we are making our best possible efforts to minimize the outgoing interest. But as you know, we are operating in a very working capital-intensive industry. Therefore, there will be working capital related expenditures. But we'll see that to the extent possible, we will minimize the cost in the next left out period of about 45 days. Going forward, yes, we are on a lookout for not only a strategic partner, but also in terms of right acquisition if it is available, that is always there in our radar. But, as of today, the efforts are there, but we don't have much to share with you. But otherwise, I would say that, yes, that is one of the focus areas of the company.

Moderator: We have the next question from the line of Subrata Sarkar from Mount Infra Finance. Please go ahead.



Subrata Sarkar: I have two questions. Just kindly if you elaborate on a more quantitative basis and some specific name that we have transformed from a sub-system player to a system player, so can you elaborate a little bit by naming which are the systems is ready to provide or will be provided? Second, the pipeline which you are sharing of Rs. 3,000 crores, if you make it a little bit specific in terms of Akash, how much we are planning, for each project?

M. Venkateshwar Reddy: First question is you are saying from sub-systems to systems. As we mentioned in our previous calls also and also in the opening remarks, we've been working in a couple of few radar systems as well as in electronic warfare. To name a few, we started with the ground DSRS systems and then also we are into the telemetry radars. And also we have license from DRDO to manufacture these anti-drone radars, and also we have (CSR) Coastal Surveillance Radar and we are also into the multifunction radar we are developing right now for ground applications and for airborne platforms we have products like AAAU for AESA radar. So, these are all systems which in fact we have focused. And apart from radars in the electronic warfare segment, we also have taken up development of VSM system for the end user application, and in the satellite segments, we have just initiated in developing the small satellites. These are all to name a few in the systems domain which we like to focus in the years to come. Your next question is about the breakup of those Rs.3,000 crores. In that large chunk is from the projects. We have already completed in the development which are going into the production phase which covers all radar, electronic warfare, and missile systems from DPSUs and all. So, actually there is a big list of projects which in fact won't be sufficient, but I will cover like when I take it in radar segment, we have AWC, MPR, HBR and Mark 2 and then we have projects like Akash Prime, Akash NG. So, these are all radars where we are into the subsystems. The development phase is already completed. And then, AW, of course, we have our projects like Varuna, Shakti, Nayan, these are all the systems where we have completed development and we're expecting the production orders. Similarly, we are also into the images portable terminal and also we have been working on the doppler weather radar, is another system which in fact, I forgot to mention, in the system domain, where we have successfully completed the first order of 10 numbers and we are expecting more orders in this particular domain. So, these are the few projects in fact which we have considered given the figure of 3,000 crores. I hope I answer your question.

Subrata Sarkar: Just to clarify one thing, we are saying like we have anyway to reach 80% in India. So, is it fair to assume, out of the Rs.3,000 crores order, like Rs.2,400 crores order will be like high margin business of India, that's a fair assumption?

S. Gurunatha Reddy: This Rs.3,000 crores pertains to the potential domestic order booking available to us in the next three years. But when it comes to the sales performance, with existing exports whatever we have and a little bit of future orders that are likely to come in. But when you look at our sales breakup, maybe two years down the line, 80% will be around domestic and balance will be exports. That is what we meant with that statement.



- Subrata Sarkar:** Can you at least give us some breakup of this projected 3,000 crores order book like how much will come from systems and how much will come from subsystems?
- M. Venkateshwar Reddy:** In this 3,000 crores just approximately about 500 crores will come from the systems and Rs.2,500 crores from subsystems.
- Subrata Sarkar:** Just on the electronic warfare, two questions. One is on the anti-drone like DRDO design which has been approved, so, like we will be executing based on that, is it like build to print kind of environment for us or like we have some design also approved?
- M. Venkateshwar Reddy:** Actually, as I mentioned in my previous earning call, this question was asked. Again, I repeat, the anti-drone system, the basic technology will be provided by DRDO. We are optimizing the radar in consultation with DRDO to enhance with more features and also to optimize the cost. That is how actually we are working on that. So our design efforts are going into that.
- Subrata Sarkar:** So that means that our margin will be higher than that typical build to print kind of environment sir?
- M. Venkateshwar Reddy:** Yes, you are right.
- Subrata Sarkar:** One question from your presentation on this electronic warfare. If you can elaborate a little bit, we are seeing a Rs. 10,000 crores kind of opportunities there. So a little bit light on this will help us sir.
- M. Venkateshwar Reddy:** I think I have already given you the programs where we are trying to get which are in pipeline. And individually each project, very difficult to give you the numbers and the figure. But overall, in this scenario, as we mentioned to you this program, which we already completed development, we are expecting the orders from PSU center for the production.
- Subrata Sarkar:** No, I'm not talking about like giving each project, sir, but since 10,000 crores is a big opportunity, so, I was just trying to get a feel of what is a rough estimate like why we are asserting this Rs.10,000 crores opportunity, I'm not talking about from project-to-project what will be the opportunity, but still if you can throw some color on overall scenario since Rs.10,000 crores is a big opportunity, so that is the reason why I am asking.
- S. Gurunatha Reddy:** In fact, we have read out almost about 10 to 12 programs, where we have already completed the development phase and we are expecting these programs to move into the production phase. At that point of time, the expected order book is likely to materialize. So beyond that, what else you're expecting from us.
- Moderator:** We have the next question from the line of Vivek Ganguly from Nine Rivers Capital. Please go ahead.



- Vivek Ganguly:** So of this 1,702-odd crores order book, what is for exports and for the domestic and what would be the average timeline for fulfilling this?
- S. Gurunatha Reddy:** We have already given you, it is about next 12 to 30 months is the timeline to execute this order book. In terms of the breakup, the public sector defense is about 49%, space is about 13%, meteorology and other sectors is about 3% and exports is about 35% That is a breakup for this Rs.1,702 crores hand.
- Moderator:** We have the next question from the line of Bhavik Shah from MK Ventures. Please go ahead.
- Bhavik Shah:** On last call, you said we have opportunities like anti-drone, SDRs, electro optics. You have told like there may be a requirement to raise funds for the same. So what kind of CAPEX will be required to capture these opportunities and how will these opportunities be funded?
- S. Gurunatha Reddy:** SDRs and electro optics, this is a business which will be carrying out through our joint venture company with RAFAEL. So, therefore, the SDR program already, the joint venture company is identified as one of the development partners under NCNC base by defense ministry and the company is working on that. Approximately, about Rs.30 crores we are spending as a share of our commitment for that program. Whereas electro-optics, we said the discussions are still going on. Even today the status remains the same. Probably when we meet you again at the end of the year, we should be able to share more information on electro-optics. But otherwise the SDRS and electro-optics business is something which is going to be carried out through our joint venture company, RAFAEL, the existing one.
- Bhavik Shah:** For the anti-drone opportunity, like will we be doing in our own business or for that also we will make a JV or maybe in a subsidiary?
- S. Gurunatha Reddy:** No-no, it will be done within the company. We have already signed LAToT with DRDO labs. The technology is already available to us and shared by my colleague. We are improving on that and it will be done in-house by Astra.
- Bhavik Shah:** How much investment will be required for that?
- S. Gurunatha Reddy:** As per the present estimates it is close to about Rs.15 crores for anti-drone.
- Bhavik Shah:** Sir, in last call, we had also mentioned about a startup which we had invested for robotics. So, what is the update on that?
- S. Gurunatha Reddy:** It is a startup. Therefore, they are working on robotic solutions for defense applications and also civilian applications. In terms of size and all, it is too small today, but otherwise, maybe in the next 12 months down the line, we should be doing close to about 10 crores of top line sales. But otherwise this area of focus is not restricted to defense, it is defense and general civilian applications.

- Bhavik Shah:** So it's purely an investment and we don't plan to merge or synergy benefits anything from there, right?
- S. Gurunatha Reddy:** See, we are in a defense space. Therefore, if there is any robotic requirements are going to be there, we are definitely going to fall back on our investee company to work together. Basically that is the idea for investment to that company.
- Bhavik Shah:** You've mentioned in a presentation you have the market opportunity like around Rs. 14,650 crores. So maybe even 20% or 30% of that, do we require any additional funds to be raised?
- S. Gurunatha Reddy:** To carry out the existing operations either in terms of the subsystems or systems, as I mentioned in the opening remarks, we are not expecting too much of capital expenditure. But as we move into the systems in a bigger way, depending on what kind of requirement that is going to come up, there will be CAPEX requirements, but as of today, I will not be able to give any specific number on that.
- Bhavik Shah:** What is the net debt figure as of December 31, 2021?
- S. Gurunatha Reddy:** Working capital borrowings are about Rs.120 crores and long-term loan is about Rs.15 crores.
- Moderator:** We have the next question from the line of Hansal Thacker from Lalkar Securities. Please go ahead.
- Hansal Thacker:** My question relates to our gallium nitride business which I believe is Aelius Semiconductors. So can you throw some light as to what is our vision with that subsidiary? And also just was interested in knowing, there were some recent reports that suggested that gallium nitride could be a significant improver in the electric vehicle ecosystem. So I'm wondering if we have any vision or foresight to be kind of headed in that direction at all?
- M. Venkateshwar Reddy:** Actually, gallium nitride MMIC designs what we have in our company is really to cater to the defense and space applications, not for automobile as it requires a different design skills and all. So the products what we have taken it up already we have rolled out GaN devices in many frequency band, started from S band, C&D band and even X band also recently, we have completed the design and these products are already going into the subsystems being developed by Astra for the captive consumption and also we are exporting these components to various countries. Aelius in Singapore, they are exporting these components to other countries especially in the defense application. But otherwise, we are not focused into the automobile and other applications and in defense, yes, we are continuously working on this. Recently, we have just initiated development of same devices in higher frequency bands like in Ku and Ka frequency band.
- Hansal Thacker:** A follow up question on that ideally, the purpose of this division is purely to cater to the existing business that we are doing and there's no bigger aspiration?



M. Venkateshwar Reddy: Actually, we are focusing it only on strategic applications as on today. And also we are trying to venture into the other industrial applications, especially in the communications area, like microwave radios and all wherein some trials are going on, but it is in the premature stage, so I think probably in months to come, I think we should be in a position to inform you. But as on today, basically the focus is more on strategic area.

Hansal Thacker: Would I be right in just assuming that we are going to basically just head towards MMIC chips only with this?

M. Venkateshwar Reddy: Yes, MMIC chips.

Moderator: We have the next question from the line of Pravir Adhikari from Ratnabali. Please go ahead.

Pravir Adhikari: My question is like in this budget, government has allocated around Rs. 1.5 lakh crores where 60% has been allocated to domestic companies. So, how do you foresee the opportunity size for the private companies and role of Astra Microwave in that?

M. Venkateshwar Reddy: Many of these programs like whatever DRDO has planned and also for the other Make-II opportunities from MoD, there are a number of opportunities which are coming. Of course, we cannot participate in every program like which are not related to our domain, but yes, definitely, we could see a lot of opportunities coming out especially in radar and electronic warfare systems and even the missile front also, of course, though we are not into the systems area, but we can contribute in the form of subsystems. So, definitely it is going to be a huge opportunity. In fact, that was the reason why we had mentioned that going forward, our revenue mix will increase in the domestic area rather than today last three years, basically 50% we were getting it from the offset opportunities, but going forward, we could see at least 75% to 80% from the domestic market segment itself and we have clear opportunities about 3,000 crores for next three years and then going forward, yes, total about 10,000 to 15,000 crores of opportunities are there. So, this is a good amount of opportunities are there, that much I can tell you.

Pravir Adhikari: My next question is in this budget only government has decided like 25% of defense R&D will go to the industry. Because you have an aspiration to be a subsystem to system player, how this will help you out?

M. Venkateshwar Reddy: Definitely, there are various schemes under which in fact the government is funding to the private vendors, one is that like technology development fund where we already got one contract to develop the course correction fuze, and this is a good potential. So, similar to that, there will be many projects which probably we can take up with the government to develop this technology in-house and as well as to the projects.

Moderator: We have the next question from the line of Anurag Patil from Roha Asset Managers. please go ahead.



- Anurag Patil:** Sir, any revenue guidance you would like to give for Q4 and FY'23?
- M. Venkateshwar Reddy:** In Q4, we are expecting order book of Rs.200 crores, I just give you the breakup; it's about Rs.180 crores from the domestic and then 20 crores from the export. That again Rs. 100 crores which we will be getting orders from the radar segment and Rs. 58 crores from electronic warfare and from the telemetry and missiles segment is about Rs.20 crores. This is the breakup of order booking forecast of Q4. And even sales also, we are projecting sales of close to Rs. 200 crores for Q4.
- Anurag Patil:** In FY'23, any sales guidance you can provide?
- M. Venkateshwar Reddy:** As on date, we have planned like about close to Rs.850 crores worth of sales revenue for the next financial year. In that, close to around Rs.300 crores from the export segment and Rs.550 crores from the domestic.
- Anurag Patil:** Exports revenue contribution goes up from next year onwards. Can we go back to our earlier FY'20 level gross margins of 43%, 44% plus?
- M. Venkateshwar Reddy:** Definitely, the gross margins will improve for the next year, but exactly how much the margins and all, I think share maybe in the year end call.
- Moderator:** We have the next question from the line of Abdul Qadar, an investor. Please go ahead.
- Abdul Qadar:** Just a couple of questions. The first one like for Astra, what is the scope of the DCPD projects and margin expected from the same? And is there any competition there? And the second is if you can just throw some light on the new products in the pipeline of Astra?
- S. Gurunatha Reddy:** Development-cum-production partner like the margins are fairly good as compared to the other segment, but here as I said, many of these projects, in fact, we are also optimizing the designs, as we have a strong R&D team in-house. So, we are optimizing the design to reduce the cost of the material or cost of the overall BOM, that is actually we are trying to increase the margins. So, that's what actually the approach what we've followed in Astra. And the new products, yes, we are working in high frequency band in AU, AA band in some of the subsystems, we are working in the missile segment, and in the radar, already we have taken up as we mentioned in anti-drone and other systems, that also we are working, and in the satellite segment also, we have just taken initiative to get into these small satellites. These are all some of the new ventures what we are getting into that.
- Moderator:** We have the next question from the line of Shantanu Chatterjee from Mount Infra Finance. Please go ahead.
- Shantanu Chatterjee:** My first question is what is our total CAPEX plan for FY23?
- S. Gurunatha Reddy:** FY23 for the programs which are there, maybe we'll be spending about Rs.20 crores.



- Shantanu Chatterjee:** Despite our revenue is going up actually continuously from FY19, but our bottom line is lumpy in nature QoQ and YoY. What steps we are taking to mitigate this problem?
- S. Gurunatha Reddy:** The lumpiness is directly related to the sales mix what we have. As we said in the opening remarks, as we move maybe about one year down the line, where the domestic business is going to constitute a major portion of the sales, you see a steady margin in the profits of the company. But otherwise, today, the lumpiness or lower margins are there only because the product mix what we have, where exports are close to about 50% to 60%.
- Shantanu Chatterjee:** And what is the actual status of our Uttam radar because there is a news flow in the media that Astra Microwave to supply upgraded AESA radar, that is Uttam MK2 to Tejas MK2. So, what would be the actual opportunity size over there?
- S. Gurunatha Reddy:** This was the same question again asked in the last investor call. We have taken up the development of manufacturing of AAAU of that Uttam radar, that is about in the pilot order we have got it from DRDO and we are in the execution phase. Once after we complete that and we expect for the production quantity and this is shared between two companies as on date. And it all depends upon how we make cost competitive going forward for the production quantity. But as you must have seen that in whatever the LCA Mark 1 and in other aircrafts, they are trying to incorporate this Uttam radar. So those production quantity Astra can expect from them.
- Shantanu Chatterjee:** As you have said that in case of anti-drone opportunity, you are actually executing whatever technologies from the DRDO itself, so do we have any in-house technology in that anti-drone space or we have to totally rely on JVs and DRDO?
- S. Gurunatha Reddy:** Actually, in that radar portion, we are optimizing the design in consultation with DRDO. This I am repeatedly explaining the same issue. So, we have been optimizing that radar front. And other one is the jammer portion. The rest other things like we are planning to take it from the DRDO approved sources.
- Moderator:** We have the next question from the line of Bhavik Shah from MK Ventures. Please go ahead.
- Bhavik Shah:** Just I wanted to understand in the 10,000 crores opportunity which you have mentioned for radars and counter-drone, how much is for SPY-1 radars and coastal surveillance technology?
- M. Venkateshwar Reddy:** SPY-1 radar is like a contract which we have already bagged from DRDO. We are expecting a similar class of radars going forward maybe down the line after a few years. Each radar is close to about 400 to 500 crores kind of a potential we have. And the other one, anti-drone like about potential of 3,000 crores to 5,000 crores around that, in that again, they have soft kill option and then hard kill option, so, various features are there. So, the total all put together, we have said about 10,000 crores opportunities existing for next five to six years.



Bhavik Shah: After two, three years, we will have the opportunity of SPY-1 radars and the coastal surveillance technology, right?

M. Venkateshwar Reddy: Yes, that's right.

Moderator: We have the next question from the line of Siddharth, an investor. Please go ahead.

Siddharth: My first question is, what will be the product mix going forward between defense and non-defense?

M. Venkateshwar Reddy: For FY'23, we have about 70% is from the domestic and 30% is from the exports.

Siddharth: And my second question will be, given that India is focusing more on radars and missiles, so, what will be the scope of Astra going forward?

S. Gurunatha Reddy: Yes, for the radar like as I mentioned in the previous answer, we are into the various programs, we have already developed many subsystems, all those radars are going for production, that is the one thing which we can bank on that. And apart from that, the radar systems, we have taken up this development of like CSR and then anti-drone radar and GSRs, we are already there, and of course, we are already developing the telemetry radars and multifunction ground-based radar like PBDR which we got it from the DRDO, is under the final execution phase. So, these are the class of radars which we have taken up for development and supply. And apart from that, for the opportunities like bird detection radar which are likely to come in near future from air force and all, we are trying to gear up ourselves to make for NCNC. So, this is what we are there into the radar domain. In electronic warfare, we have taken up development of ESM system which is going on. Two quadrants we have completed the development, maybe next 1-1.5 year timeframe probably we should be in a position to complete the ESM system. Apart from that, yes, we are also setting up facilities like test simulators and all for DRDO and recently what we bagged this order from DRDO. We are trying to complete it by April, May in this year. So, these are all brief about the systems what we have taken in the near future. We are not into the systems; we are only into the subsystems as far as the missile segment is concerned.

Moderator: As there are no further questions, I would like to hand the conference back to Mr. Gurunatha Reddy for closing comments. Please go-ahead sir.

S. Gurunatha Reddy: Yes, thank you for your participation, ladies, and gentlemen, and we look forward to talk to you again at the year-end.

M. Venkateshwar Reddy: Thank you.

Moderator: Thank you, members of the management. 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.