



**“Astra Microwave Products Limited Q1FY15 Results
Conference Call”**

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**MANAGEMENT: MR. B. MALLA REDDY – MANAGING DIRECTOR, ASTRA
MICROWAVE**

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- Moderator:** Ladies and gentlemen, good day and welcome to the Q1FY15 Earnings Conference Call of Astra Microwave Products Limited hosted by Chorus Call. As a remainder, all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference, please signal an operator by pressing * followed by 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. B. Malla Reddy – Managing Director, Astra Microwave Products Limited. Thank you and over to you Mr. B. Malla Reddy.
- Gurunatha Reddy:** Good evening, ladies and gentlemen. I am actually Gurunatha Reddy – CFO and I am with Mr. B. Malla Reddy – Managing Director. We are here to present the first quarter financial results.
- As you are aware, we have done a top line of about 187 crores and a PAT of about 19 crores, that gives an EPS of close to 2.33. This is as compared to about 39 crores as of first quarter of last year with a PAT of 216. And in terms of the order book, we have closed about 813 crores at the end of the first quarter comprising about 380 crores of export orders and about 433 of domestic orders. It is a brief presentation. Let us have question and answers.
- Moderator:** Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.
- Kamlesh Kotak:** Sir, just wanted to have; can you help us with the breakup of the revenue for the current quarter in terms of the offset and the domestic, and within that the key verticals?
- Gurunatha Reddy:** Out of total 189 crores, the export which is basically offset related is about 114 crores. The remaining 75 crores is domestic.
- Kamlesh Kotak:** And how that 75 crores would split sir, mainly defense or space and others?
- Gurunatha Reddy:** It is mainly defense.
- Kamlesh Kotak:** Within this 114, it was largely ELTA order on the export?
- Gurunatha Reddy:** Yes, it was largely ELTA order.
- Kamlesh Kotak:** And, sir, what is the status of the new order intake. This quarter, I think we have not got many orders. So how do you see that pipeline, particularly the ELTA order which we are negotiating and other orders which were in the pipeline?
- B. Malla Reddy:** This order will take some more time because the product has gone for design cycle. So they are going through another design cycle. Most probably it might take more than a quarter. That is my expectation. We cannot colour before end of this quarter.
- Kamlesh Kotak:** This is the ELTA order you talking, 90 million USD, right?
- Gurunatha Reddy:** Yes please.
- Kamlesh Kotak:** And, sir, any other major orders which are in the pipeline. Last time you mentioned about that other defense electronics for the existing air warfare systems for the....

- B. Malla Reddy:** With most of the Indian defense orders, they come in the second half of the year, not during the first half of the year. So only, I think, by end of this quarter or sometime starting from third quarter, we should start seeing them. But as of now, nothing is in real active stage.
- Kamlesh Kotak:** So will we able to get the kind of order intake that we witnessed last year or it is still..
- B. Malla Reddy:** Definitely we will be able to.
- Kamlesh Kotak:** And sir on the policy, any view on the FDI policy change or the overall defense procurement. Have you seen anything that has been radically different in the new government's action or initiative?
- B. Malla Reddy:** I think you are the better informed people. Policy has changed the FDI limits, but the effect of it we have to wait for some time. Just like that, today or tomorrow we do not see it. It is a long-term asset.
- Kamlesh Kotak:** And in terms of the defense procurement, do you see any expedition on that or any?
- B. Malla Reddy:** See, this government is there hardly for two months. It will take some time. Just like that tomorrow or day after tomorrow, things would not change. We should have patience.
- Moderator:** Thank you. The next question is from the line of Rahul Gagre from Edelweiss. Please go ahead.
- Rahul Garge:** Sir, in addition to this ELTA order of 90 million, which other orders could be expected - may be towards the later part of the year?
- B. Malla Reddy:** Not under the program of offsets, whatever other orders we are expecting are from the Indian domestic markets. Those things are again from radars, from missiles. These are the two major things plus of course the third one is the space program.
- Rahul Garge:** Sir, in addition to the offsets with arrangement with ELTA, you also would be supplying to ELTA for other geographies right? So any traction building in, in that particular area?
- B. Malla Reddy:** Yes, they are talking for some things. But still they have not come to a stage where I can say that we will get so much order, but there are discussions going on.
- Rahul Garge:** And when do you think you would be in a position to tell us the quantum of the order and the period of the order?
- B. Malla Reddy:** Next quarter.
- Rahul Garge:** May be a quarter, right?
- Gurunatha Reddy:** To add to what sir told you, I feel that lot of visibility in terms of the order book will come in towards the end of December. Normally that is the trend. Probably we will be able to give more clarity during that period.
- Moderator:** Thank you. The next question is from the line of Ranjit Shivram from B&K Securities. Please go ahead.
- Ranjit Shivram:** Sir, regarding our raw material to sales, it has increased. So will this trend continue? I think because this year we will be executing more of export orders. So how do you see this like, 72-73% raw

material to sales. Will it be the norm for the next quarter or next couple of quarters also till that export order we will be doing?

B. Malla Reddy: As of now, the export sales are constituting major percentage of the total revenue with material content will be like that.

Ranjit Shivram: And also in the last call you had given 1Q guidance in terms of PAT of 25 crores and revenue of 200 crores. So there has been a mild slippage. So are you revising our full year guidance?

B. Malla Reddy: Our full year guidance will be 650 and 70 that is remaining.

Ranjit Shivram: And in terms of 1Q, any order intake you have? Order intake how much we have got?

B. Malla Reddy: We have got few orders from space segment.

Ranjit Shivram: How much, can you just...?

B. Malla Reddy: I think near about 10-12 crores.

Ranjit Shivram: And regarding the domestic market, how do you see order apart from ELTA like any other...

B. Malla Reddy: Domestic market, I think last time I have said that roughly around 250-260 crores worth of order booking we are expecting.

Ranjit Shivram: How much sir?

B. Malla Reddy: 250-260 crores, we are expecting to be booked during the current year.

Ranjit Shivram: And this will be from BDL or BEL?

B. Malla Reddy: BDL, BEL, DRDO, ISRO all put together.

Ranjit Shivram: And was there any late delivery charges because last quarter we had some 7 crores of late delivery charges. Was there any element of that in our other expense?

Gurunatha Reddy: No. For this quarter, there are no late delivery charges. In fact last quarter what you are referring to is the full year quarter, right?

Ranjit Shivram: Yes.

Gurunatha Reddy: So this quarter there is no late delivery charges.

Ranjit Shivram: And lastly any forex this quarter?

Gurunatha Reddy: No. In fact, forex we had a small positive gain.

Ranjit Shivram: How much was that, sir?

Gurunatha Reddy: About 65,000 kind of thing. It is below one lakh.

Moderator: Thank you. The next question is from the line of Ashish Shah from M Capital. Please go ahead.

- Ashish Shah:** Sir, actually I wanted to know about the business model of our subsidiary, Bhavyabhanu Electronics. Has it started operations?
- Gurunatha Reddy:** Yes.
- Ashish Shah:** Could you please throw some light on the business model of the company?
- Gurunatha Reddy:** See, Bhavyabhanu essentially, it is there for captive consumption for our export orders. See, earlier these items we used to procure from a third party whereas now we have created the Bhavyabhanu to provide those supplies to us. It has started operations in the first quarter. I think it has supplied goods worth about 10 crores to Astra Microwave out of that the exports were affected by the company.
- Ashish Shah:** So close to about 10 crores of goods were given to Astra and 10 crores of exports contribution by Bhavyabhanu.
- Gurunatha Reddy:** Yes.
- Ashish Shah:** Sir, if I go through the annual report numbers, it says that Bhavyabhanu might give business of close to about 200 crores to Astra Microwave. So, sir, that remains the same? So in the remaining three quarters, we will see in addition of about 150 crores of business by Bhavyabhanu?
- Gurunatha Reddy:** Yes, more or less it should be doing that much.
- Ashish Shah:** Okay, sir. So, sir, as you told we were giving the business to third party earlier, so what would be the margin savings that might happen if we are giving business to Bhavyabhanu?
- Gurunatha Reddy:** See, I do not see much of margin savings for us, but I see lot of cash flow management comfort because earlier whenever we used to give the orders to the third party along with the orders we are forced to give a significant amount of advances to them. Now since Bhavyabhanu is part of the company, cash management is something which is indirectly benefiting both the parties.
- B. Malla Reddy:** But whatever we used to pay to them as a value addition for them, that will be equivalent to Bhavyabhanu.
- Ashish Shah:** So we will be having cash on hands. We will not have to give to the third party. That will remain on books of Astra for a longer period of time.
- Gurunatha Reddy:** Yes.
- Moderator:** Thank you. The next question is from the line of Parin Gala from Gandhi Securities. Please go ahead.
- Parin Gala:** My question is pertaining to, sir, recently DIBBS has come out with a delicensing of some defense products whereby anybody can produce that. Do our products come into that category or are our products still in the licensing, I mean we have to have license?
- B. Malla Reddy:** If you see what they have done is, some of directly, the items which services our buying, they have delicensed. We are not selling anything directly to services as on today. So effectively by that policy, I would say all our products are out of the delicensing list.

- Parin Gala:** So in that scenario sir, FDI does not affect us?
- B. Malla Reddy:** Yes. FDI directly does not affect us but with FDI more BEL like organisations come in, we will have more customers, our business will increase. And other thing whenever somebody asks me a question with FDI somebody comes, it brings money and then sets up a company and then can buy Astra Microwave. These are the two extremes.
- Parin Gala:** Yes sir, my question is regarding that only. If today foreigner comes and he wants 74%, can he buy?
- B. Malla Reddy:** Because we will not be directly under FDI limitation I think.
- Gurunatha Reddy:** Yes, Parin just I would like to clarify. See your first question is about the DIPP delicensing some of the items which are under the restricted category into an open category. Because of that, we are benefited directly or indirectly. I would say no, that is not concerned with us as on today because those are the entities which are directly supplying a finished product to all the end users. We are not into that business. Today, we are supporting OEMs who are actually supplying a finished product to the ultimate users. I am there under FDI category simply because we are involved in a strategic area wherein the subsystems that are being supplied by Astra Microwave are getting into some strategic applications.
- Parin Gala:** Okay, I got that.
- Gurunatha Reddy:** We are under that 49% category.
- Moderator:** Thank you. The next question is from the line of Ranjit Shivram from B&K Securities. Please go ahead.
- Ranjit Shivram:** Sir, if you can help us like we are expecting this major ELTA order and also another 250 crores of domestic order and we will be booking around 650 odd crores of revenues for this year. So if you look at it, if you can just stretch a bit forward in FY16 what kind of growth will be possible? Will 15-20% growth be possible given the order?
- B. Malla Reddy:** For last time itself I have told even if the \$90 million order comes, that may not come for execution in next year. Most probably I think next year topline will go down.
- Ranjit Shivram:** Okay. So it will be over a period of 4-5 years then.
- B. Malla Reddy:** Not 4-5 years, it is 2.5 years period.
- Ranjit Shivram:** But it will start execution by?
- B. Malla Reddy:** After getting the order, there will be at least year – year and a half gap will be there. So my view is that most probably there will be the topline decline next year.
- Ranjit Shivram:** Okay and in terms of margins if probably next year when this export concentration comes on, margins might come?
- B. Malla Reddy:** Margins will increase. Definitely percentage will increase.

- Ranjit Shivram:** And just to touch up on our capability. Like last time also in the concall, we have discussed we are planning to develop subsystems also on our own.
- Gurunatha Reddy:** Systems, not subsystems.
- Ranjit Shivram:** Okay, systems on our own. So in that like are we started some work there or still we are in the R&D phase of it?
- B. Malla Reddy:** We just started our R&D in Bangalore. Today was the inauguration. But we cannot expect anything to come out of that R&D at least for 3-4 years.
- Ranjit Shivram:** And regarding this T/R modules which will be used in AESA radar. So are we capable enough to supply because if MMRCA deal gets finalised, so there will be a huge demand for T/R modules for AESA radars. So are we capable enough to cater to this opportunity?
- B. Malla Reddy:** Already they have been in talks with us and recently (inaudible) almost top executives have visited us and discussions are going on with them and we are identified offset partner for manufacturing the T/R modules of AESA.
- Ranjit Shivram:** I think BEL is also having a JV with Thales. So probably we might be supplying this to them and they will be doing this.
- B. Malla Reddy:** See, the identified the partners for radar is HAL. For EW Systems is BEL. For both of the subsystems, identified manufacturer is Astra Microwave.
- Ranjit Shivram:** Okay. So once that deal comes, so then we can....
- B. Malla Reddy:** Definitely that is one that we will see a reasonably good amount of order book and long opportunity.
- Ranjit Shivram:** Okay, any reading on that front like you get some signals in terms of finalisation of that deal?
- B. Malla Reddy:** Most probably it should be over by end of this year and our orders to what as per their indication will happen after the order is placed on Russell (inaudible) it will take minimum 2-3 years.
- Moderator:** Thank you. The next question is from the line of Arul Karthik from Karvy Stock Broking. Please go ahead.
- Arul Karthik:** Just on the tax front, the effective tax rate has come down. Am I right?
- Gurunatha Reddy:** Compared to?
- Arul Karthik:** It is like 29.3% of the PBT?
- Gurunatha Reddy:** Basically if you are referring to the previous quarter, actually it has increased.
- Arul Karthik:** Like compared to the last year quarter?
- Gurunatha Reddy:** Last year quarter also it has slightly increased. Last year quarter, it was about close to 25% and this year we pay out is 26%. If you see the whole of last year, it is 23%.
- Arul Karthik:** Okay sir and we are expected to maintain the same effective tax rate for the entire year?

- Gurunatha Reddy:** Yes, we are trying to keep it around 25. Let us see how far we will succeed.
- Arul Karthik:** Okay sir and on the extraordinary items, there was about a figure of 21 million. Can you just explain that?
- Gurunatha Reddy:** What is exceptional item, no, 21 lakhs?
- Arul Karthik:** Yes. Is it anything related to forex or like...
- Gurunatha Reddy:** No, it is not forex. I think it is something relating to, anyway immediately I am not able to recollect but definitely it is not the forex.
- Arul Karthik:** And on the net profit margin, are we going to maintain the same rate or do we expect any acceleration in the margin?
- Gurunatha Reddy:** No, I think more or less the same will be maintained.
- Arul Karthik:** Okay, whatever is for the current quarter. Alright sir. And on the expenses side, are we able to maintain the cost or like do we see any acceleration in the cost front?
- B. Malla Reddy:** See, we have given you the total revenue expected and the net profit. So remaining things will be within that
- Arul Karthik:** Okay sir and we are providing for accelerated depreciation for solar plant and R&D unit....
- Gurunatha Reddy:** Absolutely, yes.
- Moderator:** Thank you. We have a follow on question from the line of Ashish Shah from M Capital. Please go ahead.
- Ashish Shah:** Sir, one follow-up question on Bhavyabhanu again. Just to understand if we are exporting goods and services worth for example Rs. 100 crores, how much of business would Bhavyabhanu get in terms of Rs. 10 crores, Rs. 20 crores, Rs. 30 crores?
- Gurunatha Reddy:** They get around 75 to 80 crores.
- Ashish Shah:** So out of 100 crores of business, they will get about 75 crores of business.
- Gurunatha Reddy:** Yes.
- Ashish Shah:** Okay sir and so the services that Bhavyabhanu is providing, is there any kind of short supply? I mean very few players in the market would be doing that or it is available in plenty?
- Gurunatha Reddy:** No, it is a niche area. Even though the activity is a general activity but whatever the items that have been supplied, it is a very niche item. They are very big players.
- Ashish Shah:** They are basically in providing designs or what is EMS that they are probably in high end EMS service.
- Gurunatha Reddy:** Yes, they are in that service. What they supply is called PCB board and the power amplifier.
- Ashish Shah:** DCB board?

- Gurunatha Reddy:** PCB, Printer Circuit Board and power amplifier.
- Ashish Shah:** So they are applicable in all the offset orders that they are exporting?
- Gurunatha Reddy:** The current order whatever we have received from ELTA, Bhavyabhanu is the one which is supplying for that.
- Ashish Shah:** Sir, one more question that I have. Sir do we any visibility about the turnover or revenues in the second quarter as in over and above the 190 crores that we have done in the first quarter, do we see about 220-230 crores of business in the second quarter?
- Gurunatha Reddy:** No, I feel second quarter more or less we will be delivering the similar numbers.
- Ashish Shah:** And the break-up will be the same again?
- Gurunatha Reddy:** More or less it should be the same. I think it should be same.
- Ashish Shah:** So exports would be about 115 crores and 75 crores under that?
- Gurunatha Reddy:** Yes.
- Ashish Shah:** Sir, the domestic orders will start kicking in from the third quarter onwards?
- Gurunatha Reddy:** We will have visibilities to really talk about in the third quarter.
- Ashish Shah:** Because we have about 400 odd crores of domestic orders to be supplied. So they will be probably in the third and the fourth quarter, is it?
- B. Malla Reddy:** Every quarter, we are delivering some things. But the ratio will change in third and fourth quarters.
- Ashish Shah:** So third and fourth quarters will be more of domestic and less of exports?
- Gurunatha Reddy:** Yes.
- Moderator:** Thank you. The next question is from the line of Jonas Buta from Bank of America. Please go ahead.
- Jonas Buta:** Sorry, I joined in a bit late. So may be one of the three questions may be repeated. Firstly, just wanted to know when you mentioned that you have a potential order inflow from domestic sources in the second half, what kind of orders, in which segments are these?
- B. Malla Reddy:** It is about 250 to 260 crores, mostly in radars, missiles, and space.
- Jonas Buta:** Okay. Sir, could you highlight some of the few radar project systems that you are currently working on either for BEL or DRDO and which may fructify in terms of new orders over the next 2-3 years?
- B. Malla Reddy:** A few things which we have supplied is one is under Make category and PR program. That is as a part of the offsets what we have supplied to ELTA and ELTA has supplied those radars to Air Force under Buy category, the same things under Make category. Almost two years back, we have supplied to LRDE and LRDE has integrated it as a radar and that radar is going for evaluation. That is one thing that is likely to.....

Jonas Buta: Sir, what is the project name?

B. Malla Reddy: MPR program, Medium Power Radar.

Jonas Buta: Some of the other radars that are expected at least the ones that we know something like a WLR, Weapon Locating Radars.

B. Malla Reddy: Yes, we are also in WLR. We have given almost 3 years back our initial development things and even they are also through. Both BEL should have got orders about 2 years back that tetra vehicles are some vehicles that went to some spin because of that they did not get orders. I think anytime they are expecting those orders. Once they get the orders, we should be getting our orders for WLR.

Jonas Buta: And typically what percentage, so if radar order is for Rs. 100...

B. Malla Reddy: No, it is not like that. There is no percentage for every radar. In each radar, our value will be different. In WLR, we have roughly about 60-65 lakhs per radar kind of opportunity.

Jonas Buta: Alright. The second question was so India is also developing multiple missile programs and within that, some of the few ones that are on the verge are the Astra Missile or then MRSM or LRSM programs. So what will be Astra's?

B. Malla Reddy: In Astra Missile, we have one subsystem and we have delivered some of them earlier. Currently we are delivering about 30-40 numbers of that subsystem.

Jonas Buta: So what is that subsystem. I basically wanted to know your capability.

B. Malla Reddy: We are into two major subsystems in missiles. One is command guidance, the other one is radio proximity phase.

Jonas Buta: Command guidance.

B. Malla Reddy: Command guidance subsystem and radio proximity phase. These are the two major subsystems which we supply for the guided missiles.

Jonas Buta: And these are the ones that run without a seeker. These are more guided by the radar?

B. Malla Reddy: And of course seeker also is one of the thrust area, but we do not have any product as of now. Currently those items are under R&D.

Jonas Buta: And what are the programs in the missile programs. So Astra missile is one, any other programs.

B. Malla Reddy: MRSM, we are expecting. MRSM is a joint development with outside, other country, IAA. So as a part of that, we are expecting offsets, not any development.

Jonas Buta: Is it fair to assume that this project would come on stream over the next three years or even it is further away from that?

B. Malla Reddy: It should be coming in next year.

Jonas Buta: And the total order value by any chance would you know?

B. Malla Reddy: No, I do not know. As of now we cannot say any numbers.

- Jonas Buta:** On EW Systems, Electronic Warfare Systems, what would be your capability because I think you do some directional finders there. But beyond that what is your contribution in EW Systems and what are the near-term prospects?
- B. Malla Reddy:** In EW Systems, major thing is direction finder and instantaneous frequency measurement receivers and jammers. These are the three. All these three put together will become a system. We are there in first two, both directional finding and that is threat direction, from which direction it is coming and at what frequency it is operating. These are the two signatures that have to be identified. We are there in these two subsystems.
- Jonas Buta:** So are you the sole supplier domestically or you have competition and who typically places the order on you, is it DRDO or?
- B. Malla Reddy:** Initially DRDO at the time of R&D, afterwards production agency BEL.
- Jonas Buta:** Okay. Any near-term prospects that we see because I thought last year things like Varuna and all those programs got awarded. So anything in the next 12 months that can potentially be awarded?
- B. Malla Reddy:** Yes, they have got the order but still they have not called us for discussion. Most probably it should be happening during this year?
- Jonas Buta:** What is that sir? Which one?
- B. Malla Reddy:** Varuna.
- Jonas Buta:** And things like Himshakti.
- B. Malla Reddy:** Himshakti is long way. It is under R&D. Some more tenders have come and we are working on that, but it is in a very initial stage.
- Jonas Buta:** Okay sir. So that is about 3 years away. Okay and lastly while you touched upon this seeker. So within the seeker technology, what we understand is basically there is a sensor element and then there are processors and electronics. So what portion of that seeker do..
- B. Malla Reddy:** Yes, we are aiming to do full seeker.
- Jonas Buta:** So including the sensor element.
- B. Malla Reddy:** Yes, sensor element currently it is a gimbal-based homing element, mechanical gimbal-based. We are trying to convert into electronics phased array radar using phased array radar technique. So we will be converting into fully electronic subsystem.
- Jonas Buta:** So currently nobody in the country makes seeker. By when do you expect to supply at least or sort of give DRDO your first beta sort of product?
- B. Malla Reddy:** Another one – one-and-a-half years.
- Jonas Buta:** And given that DRDO is also independently working on seekers for various other applications?
- B. Malla Reddy:** In fact, they have called for earlier some technology transfer and of course we have participated. We have not won and they are trying to give to someone else. There are some issues going on. So

parallelly now we have started along with them developing our own seekers. People are working. It is not that Astra alone is working. So in another year, year-and-a-half time we will know whose seeker is reasonably in good shape and which will go for testing. That clarity will come in another year, year-and-a-half or may be maximum two years.

Jonas Buta: So basically there is some bit of duplication happening today because DRDO thinks that it can make a seeker while you also are trying on your own?

B. Malla Reddy: In fact, we have supplied all the subsystems to them, all our electronics we have supplied to them in their seeker also. So even if that comes up also, like it is a long phase-working. For them also, we have supplied our electronics. So by chance we cannot make it out, we are a failure in making full seeker. If their seeker succeeds, we will have our own backend business.

Jonas Buta: What is that if you can briefly just?

B. Malla Reddy: Full electronics, microelectronics we are supplying. We are doing the rest of the integration and mechanical hardware they are handling whereas complete microwave electronics we are supplying.

Jonas Buta: And what is the biggest challenge because globally very few companies sort of manufacture the seeker?

B. Malla Reddy: It is a new technology we are attempting. Once we are successful, then it becomes our opportunity. But it is not impossible or undoable thing, it will take some time. May be we may fail in first attempt, second attempt, third attempt and I am sure that we will be successful.

Jonas Buta: Roughly basically if you were to put a number, in how many years can you sort of or anybody in India manufacture a seeker?

B. Malla Reddy: First, at least one kind of seeker I am sure if not 1-5 years to 2 years; 2 years to 3 years time period we will be definitely having one seeker with us.

Jonas Buta: And lastly if I can sort of, have you reiterated your PAT guidance for the current year at 70 crores.

B. Malla Reddy: Yes.

Jonas Buta: At last count, most of it was to be recognised in the first half and that still stands right?

B. Malla Reddy: Not most of it. I said first half will be more, not most of it. First half will be definitely more than half. How much exactly may be in next con-call you can see. But it will be more than, see all these years we used to have second half better half. First half will be definitely lower in terms of revenues, in terms of PAT. This year it will be other way.

Moderator: Thank you. The next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Sir, my question is on two programs. One is this AESA program which you talked about for the MMRCA. Sir, this radar also goes into the Tejas Aircraft also, right?

B. Malla Reddy: No.

- Madan Gopal:** It is only for the MMRCA?
- B. Malla Reddy:** Tejas is an indigenous development, LRDE is handling it. So once that radar is qualified, then it will go into Tejas. But just started working, may be another 4-5 years it will take.
- Madan Gopal:** Okay and when you are talking about the AWACS program, this 100 crores that is mentioned in your presentation is this to do with the only offsets that we will be getting from the program or even DRDO is actively engaged in this?
- B. Malla Reddy:** We have supplied for our complete indigenous program. All phased guided radar T/R modules we have supplied.
- Madan Gopal:** Okay, so the 100 crores opportunity is completely Make Indian category?
- B. Malla Reddy:** That is under Make category.
- Madan Gopal:** And this is the only opportunity, sir, or is this the initial portion?
- B. Malla Reddy:** Which one?
- Madan Gopal:** 100 crores value that you have mentioned in your presentation?
- B. Malla Reddy:** That is the new one, under Phase-II. Phase-I, we have completed almost a year ago. Phase-II is expected down the line by the end of this year and that is 100 crores.
- Madan Gopal:** Okay. The opportunity size is also that much or it can..
- B. Malla Reddy:** It is more than that. Now they are trying to bring in more than one supplier. So the total opportunity may be about more than 300.
- Gurunatha Reddy:** We have projected only our share.
- Moderator:** Thank you. The next question is from the line of Nishant Sharma from HDFC Bank. Please go ahead.
- Nishant Sharma:** I just wanted to understand on the breakup in domestic orders. Do we supply anything on the Akash Missile?
- Gurunatha Reddy:** Akash Missile we have supplied. About 33 crores for sub-materials we have supplied.
- Nishant Sharma:** And do we have any outstanding orders for the same?
- Gurunatha Reddy:** Yes, I think we have.
- B. Malla Reddy:** We have others for next two years in Akash Missile.
- Nishant Sharma:** So what would be the quantum that is there is in domestic orders. Can you share that please?
- Gurunatha Reddy:** See domestic orders, totally we have about 433 crores. Out of that, defense is about 394 crores. That about 60 and odd crores is the development order and the remaining is the production one. Production largely combines of Akash and radar programs and space, we have about 30 crores and the remaining weather monitoring systems and all about 11 crores.

- Nishant Sharma:** Second thing, sir, what is our R&D spend on a yearly basis as a percentage of sales?
- Gurunatha Reddy:** Normally we are spending around 5-8% every year.
- Nishant Sharma:** 5-8% because I guess in FY14, this was a little bit on a lower side close to 3-4%. So this could be because of the run-up in sales.
- Gurunatha Reddy:** Exactly.
- Nishant Sharma:** Also, the number of employees, can you help me out. The number of employees that we have on the research side?
- Gurunatha Reddy:** We have about 600 regular employees and about 200 are contract and other employees.
- Nishant Sharma:** Okay, in terms of how much are directly employed on research and development activities?
- Gurunatha Reddy:** Research and development core employees are about 50 and support engineers should be around 200. Only about 250 technical people will be working in R&D.
- Nishant Sharma:** How do we place up in terms of competition when the FDI comes up? Do we see more competition coming up or we see more opportunity in terms of customers coming into it?
- B. Malla Reddy:** I think initially we see more opportunity in terms of more system manufacturers coming into India with FDI limit being up. Not the subsystems are component manufacturers will come and then set up shops here. There are those who are in the systems manufacturing. They will be looking for base in India and once they come, we will see more customers for us.
- Nishant Sharma:** And in terms of, sir, like for research and development activities, do we get a specification from our clients and then we do research on that or we propose them?
- B. Malla Reddy:** It now comes up the inception of this company. We have been getting the requirements on paper and we used to work. But starting this year, we are also trying to bring out some things. But in defense area even if I want to do myself, I definitely have to take the help of some laboratory which is engaged in that particular activity for my testing, for providing me the inputs. Without their help, definitely we cannot totally proactively do R&D in this area because finally where it goes, what kind of space will be available, all such concepts have to be answered by somebody. That will be a laboratory which is a DRDO laboratory whichever is engaged from that full system.
- Nishant Sharma:** Like whatever products that we make for similar kind of products, BEL gives us the orders and then we produce for them. So what is the possibility that BEL itself produces those products, is there any possibility on that?
- B. Malla Reddy:** You take an auto industry. Why a car maker goes to components industry? He can make everything by himself no? But there are lot of backend industries supporting them. So any big industry, for that matter no industry makes 100% of its things by itself. You have to depend on backend and based upon the expertise available within the country, within the cars if the supplies are easily available, that they will decide to outsource them. That is how we have come into the picture. If they want to do it, definitely they can do it. It is not that they cannot do it. But generally you see in any industry how do you organise? Once you start an industry, first you will see are there any local suppliers who can

give me my inputs because my focus will be on generating system. But BEL's focus will be in creating systems. And once upon a time in my school days, BEL used to make transistors, BEL used to make resistors. But they have slowly phased out all those divisions because their focus has changed.

Nishant Sharma: And sir the next year topline will go down that you made a statement, you meant this is for FY16?

Gurunatha Reddy: Yes.

Moderator: Thank you. We have a follow on question from the line of Parin Gala from Gandhi Securities. Please go ahead.

Parin Gala: Sir, just wanted to understand if my information is correct. Right now, the production for Akash is approximately 170 missiles and the target was to ramp up this production to 500. So sir, just wanted to understand that what is the progress there and by when do you think this ramp up will happen?

B. Malla Reddy: Another 2-3 years or may be more.

Parin Gala: Another 2-3 years.

B. Malla Reddy: We are constructing a factory. This factory has to come up. So minimum 2-3 years.

Parin Gala: Okay so sir right now the production is 170 only or is it little more than that?

B. Malla Reddy: I think 100-150 in that range.

Moderator: Thank you. We have a follow on question from the line of Ashish Shah from M Capital. Please go ahead.

Ashish Shah: Sir, as you told me that the Bhavyabhanu Electronics has been given a 10 crores contribution to the 115 crores of export orders that we did in the recent quarter, do we see any ramp up from Bhavyabhanu as you told that the export order for the second quarter would be in the range of 115-120 in the first quarter. So do we see any more contribution from Bhavyabhanu coming in or it will remain as may be 10 crores only?

Gurunatha Reddy: See the exports what we have affected in the first quarter comprise about three orders received from ELTA whereas in that, Bhavyabhanu is contributing only for one order whereas other two orders, it is being supplied by some other entities which are there in Mysore and Bangalore.

Ashish Shah: From some other competitors?

Gurunatha Reddy: Yes, out of 114 crores what I did in the last year in the first quarter the items, the value of the exports pertaining to what was delivered by Bhavyabhanu is about 14 crores. That is what I have told you.

Ashish Shah: That is what I was asking that in the second quarter 14 crores would ramp up?

Gurunatha Reddy: Yes. It is likely to ramp up at least about may be about 50 crores kind of thing.

Ashish Shah: And, sir, the thing that we are likely to book in the December quarter about 250 to 260 crores of domestic orders, so the delivery schedule will be from the March quarter onwards or it will take little more time for...?

Gurunatha Reddy: These are the orders which will be executed in the coming financial year. These are the orders not for the current financial year.

Ashish Shah: No, I did not get you.

B. Malla Reddy: Whatever orders we are booking this year, they are for the next year?

Ashish Shah: Okay, that 250 crores of domestic orders will be delivered in FY16?

B. Malla Reddy: FY16 onwards, not before that.

Moderator: Thank you. We have a follow on question from the line of Ranjit Shivram from B&K Securities. Please go ahead.

Ranjit Shivram: Sir, just in that Akash Missile ramp-up, last con-call we mentioned the missile ramp-up has happened and radar contribution is expected to double in FY15. So how much can be that and how do you see that, have we started delivering the radars for that?

B. Malla Reddy: Yes, once they are delivering missile systems, we have to deliver along with radar no?

Ranjit Shivram: So much will that be roughly this year, any idea?

B. Malla Reddy: In the radar portion, the missile system is very small percentage. So it does not affect significantly either our turnover or BDL or BEL turnover. In the total order if it is 100 crores order, the radars may be less than 10 crores or 5 crores, I think in that range, 5% or 6%.

Ranjit Shivram: Okay and regarding this WLR, how many radars are there in the total order in the WLR total?

B. Malla Reddy: I think around 25 to 30 radars. I do not have the exact numbers but I think it is in that range, (+20).

Ranjit Shivram: And it will be a total of around 2,000 to 2,500 crores, the total WLR?

B. Malla Reddy: For BEL?

Ranjit Shivram: Yes.

B. Malla Reddy: Could be.

Moderator: Thank you. We have a follow on question from the line of Kamlesh Kotak from Asian Market Securities. Please go ahead.

Kamlesh Kotak: Sir, any progress on our Reliance Astra taking tie-up with Larsen & Toubro radar program, how is that progressing?

B. Malla Reddy: Nothing big.

Kamlesh Kotak: So still nothing in terms of incremental opportunities for us?

B. Malla Reddy: We are talking to them and then working for some whatever radar they are developing, we are becoming a backend to them but that is very initial stages. In fact, they have to bring up a radar by 2018. So till then we may be supplying few lakhs worth of hardware that does not make any significant contribution to us.

- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. B. Malla Reddy for closing comments. Over to you, Mr. Reddy.
- Gurunatha Reddy** I think we have answered most of your questions and meet you again in the 2nd quarter. Thank you very much.
- Moderator** Thank you. Ladies and gentlemen on behalf of Chorus Call that concludes this conference. Thank you for joining us. You may now disconnect your lines.