

**ASTRA MICROWAVE PRODUCTS LIMITED**

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June 4, 2018

To  
The General Manager  
Department of Corporate Relations  
**BSE Limited**  
Sir Phiroze Jeejeebhoy Towers,  
Dalal Street, Fort,  
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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 29<sup>th</sup> May, 2018.

This information is also uploaded on the website of the Company  
[www.astramp.com](http://www.astramp.com).

Thanking you,

Yours faithfully,  
**For Astra Microwave Products Ltd**

**T. Anjaneyulu**  
**Dy.G.M - Company Secretary**



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“Astra Microwave Products Ltd  
Q4 FY2018 Earnings Conference Call”

May 29, 2018



**MANAGEMENT: MR S. GURUNATHA REDDY - WHOLETIME DIRECTOR & CHIEF FINANCIAL OFFICER – ASTRA MICROWAVE PRODUCTS LTD**  
**MR B. MALLA REDDY - MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER - ASTRA MICROWAVE PRODUCTS LTD**  
**MR M.V. REDDY – DIRECTOR (MARKETING AND OPERATIONS) - ASTRA MICROWAVE PRODUCTS LTD**



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**Moderator:** Ladies and gentlemen, good day and welcome to Astra Microwave Products Ltd Q4 FY2018 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 to the 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, Wholetime Director and CFO. Thank you and over to you Mr Reddy!

**S. Gurunatha Reddy:** Thank you. Good morning ladies and gentlemen. I welcome you all formerly to the conference call for Q4 and year-ended 2017-2018 financial results. I am accompanied by Mr B. Malla Reddy, Managing Director, and Mr M.V. Reddy, Director Operations and Business Development.

In terms of the broad numbers for the financial results for the quarter, we have done sales minus taxes of about Rs 173 crore and for the year ended about Rs 380 crore. Operating profit is around 30% of the net sales for the quarter and around 36% for the year ended.

Gross margin is about 46% for this quarter and around 59% for the whole year. Profit before tax is around 22% both for this quarter and for the year, and net profit to income is about 17%.



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In terms of other financial details, we have cash on hand of close to about Rs 125 crore, which is inclusive of deposits and mutual funds and other things; we have long-term loans of about Rs 14 crore outstanding as against Rs 17 crore. Of course, there are non-convertible debentures of about Rs 50 crore, which is there for the last two years. There is significant improvement in terms of cash and cash equivalence as compared to the previous year. It is close to about 5.72% of revenue. In terms of the broad break-up of revenue that was earned by the company, defence has contributed about 84%, space about 8% and exports close to 6%.

This is all about the broad financial numbers, which I want to share with you. Now this call is open for questions and answers.

**Moderator:** Thank you very much. We will now begin the question and answer session. We will take the first question from the line of Ankit Kedia from CRISIL. Please go ahead.

**Ankit Kedia:** Thanks for taking my questions. First of all, congratulations for the good set of numbers. My question is on the current order book. It is around Rs 460 crore. Would it be possible for you to provide bifurcation on how much of it is from defence and from exports?

**S. Gurunatha Reddy:** You want the break-up of the order book?

**Ankit Kedia:** Yes sir.



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**Management:** Yes, we will give the break-up. As of today, the total order backlog is Rs 503 crore: from domestic sector Rs 315 crore and exports about Rs 140 crore.

**Ankit Kedia:** Okay and any guidance for the expected order inflows for FY2019?

**Management:** For FY2019, the total order book we have planned is Rs 600 crore.

**Ankit Kedia:** Does that include Rs 135 crore of Akash slippage that was there last year and Rs 190 crore of ELTA?

**Management:** Yes, both are included in this.

**Ankit Kedia:** Okay and what is our guidance on the execution side for this year?

**Management:** Rs 435 crore.

**Ankit Kedia:** Rs 435 crore, and how much of it would be from exports?

**Management:** Exports will be around Rs 65 crore and rest from the domestic side.

**Ankit Kedia:** Which means more or less we may see the same level of margins this year as well?

**Management:** Yes.

**Ankit Kedia:** Okay. Have you slated capex for this year?



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**Management:** Ankit, before I give you details on the capex, in terms of margins, I would like to make a small correction. Margins for the coming year may not be comparable with margins which are achieved in the current year, simply because the product mix is going to change even though we have the domestic revenue of about Rs 370 crore. But the product mix is going to be different from what we did in the current year. Therefore, there will be a small correction in terms of the percentage of margins. I will not be able to spell out that number, but there is a small correction, which I want to caution. Then in terms of the capex for the year, it is going to about Rs 16 crore, out of that Rs 8 crore is regular capex for augmenting the current operations for the company. The other Rs 8 crore is going to be for building an MIC Facility in Hyderabad.

**Ankit Kedia:** Okay and lastly, is there any update on the JVs - any traction?

**Management:** Yes, the Rafael JV is going fine. Probably in the next 60 days the actual real action is likely to start. We were able to close most of the pending issues and the approvals required from the boards of both the companies have been obtained as of yesterday. Therefore, the Rafael JV you will see some action. Facility we are planning to complete by March 2019 and probably revenue will happen in 2019-2020 financial year. The other JVs with Canada probably may not take off immediately. As of today it is not active.



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**Ankit Kedia:** Okay thanks a lot, sir.

**Moderator:** Thank you. The next question is from the line of Anupam Singh from Florintree Advisors. Please go ahead.

**Anupam Singh:** Sir, just wanted to understand on the margins. This particular year has been one of the best in the last four to five years. Basically wanted to understand where is the incremental gross margin, even EBITDA margin coming from, which segment exactly from your order book - is it the radars or the space orders? We just want to get a sense of what margins are for these segments?

**Management:** It is a combination of radars and missile electronic products.

**Anupam Singh:** Okay and space has lower margins?

**Management:** No. In fact, last year we did not do much in space. We only booked the order. So this year, in fact, we are going to do significant business from the space sector.

**Anupam Singh:** Yes, correct. So would we be doing, say gross revenue of about Rs 125 crore for FY2019 or is that good assumption in space?

**Management:** No, this year about Rs 120 crore we have planned.

**Anupam Singh:** Okay, so the guidance as discussed for the orders remains more or less similar?

**Management:** Yes.



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**Anupam Singh:** Thank you, sir.

**Moderator:** Thank you. The next question is from the line of Alok Ranjan from L&T Mutual Fund. Please go ahead.

**Alok Ranjan:** Thank you for taking my question. Sir, I missed a couple of numbers. One is I think you mentioned that in FY2019 the execution will be somewhere around Rs 435 crore right? And out of that, you will be doing around Rs 120 crore in space? Sir, I would like to know whether in space you will take the margin that you have achieved in FY2018. All across, the numbers are pretty good. You mentioned that some correction will also be there going forward, so will we go back to the margins seen in FY2017 or something in between that will be there because of the change in product mix?

**Management:** It is very difficult to be very specific at this point of time, but probably it will be in between what we have achieved in 2016-2017 and 2017-2018.

**Alok Ranjan:** Okay and how is the margin in the space segment? Is it better than the overall margins we have seen in the regular operation, barring the FY2018 margin, or is it slightly lower than that?

**Management:** More or less it is par with that, whatever the margin from the defence sector. But for this year, especially from the defense side, the product mix is changing. Last year, largely because of the missile electronics products and also couple of radar projects





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- where we have a good amount of margins - but this year, in fact, there will be some pressure on the price so though the space sector may give us good margins, overall probably we may have some corrections.

**Alok Ranjan:** Okay. Sir, we observe that your debt levels have also come down. So what will be the debt level at end of FY2019?

**Management:** The long-term debt as of today is about Rs 64 crore, inclusive of NCDs. NCDs are getting repaid by end of this current financial year. Therefore, the overall long-term debt profile by the end of the year may not be more than about Rs 10 crore to Rs 15 crore.

**Alok Ranjan:** Okay. Sir, have your cash and cash equivalence also increased and have you guided for capex of around Rs 16 crore only? Are there any plans where we can see significant investment in capex?

**Management:** There is no significant investment, overall capex investment - as already told you - it is about Rs 16 crore.

**Alok Ranjan:** Right, sir.

**Management:** Beyond that we do not have any further plans.

**Alok Ranjan:** Okay fine. Thank you, sir. That is all from my side.

**Moderator:** Thank you. The next question is from the line of Neeraj Bardia from Arth Capital Management. Please go ahead.



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**Neeraj Bardia:** Sir, thanks for the opportunity. Slightly longer-term question. Going by the media reports last year, it seems that DRDO specifically indigenous seekers for Akash and BrahMos and it has also been experienced in next few years they will be putting up for orders for Akash and BrahMos programs. Sir, previous point you had said that you have made an MoU in place with BrahMos supplying seekers and if I am not wrong we are also the same seekers for Akash? So as a shareholder, wanted to know what kind of order book implication will it have over the longer term? If you can share with us on the seeker side.

**Management:** In fact, on the seeker front, this year we are not taking any order booking because it is still in the evaluation stage and in some of the programs there is experimenting, in the sense whatever seekers we had developed it is gone through some functional test, but it has to go through the flight test and many tests are pending. Hence, we have not taken any order book for this particular year for the seekers. For the next couple of years to come, yes definitely there is some good amount of potential and we are fairly in advanced stage as compared to any other company especially in the active phase with the seekers. So we will have advantage over our competition.

**Neeraj Bardia:** Okay, so we are not supplying anything on Akash as well currently?

**Management:** For Akash?



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**Neeraj Bardia:** Yes?

**Management:** No we do not have anything to Akash MG for seekers as such.

**Neeraj Bardia:** My second question was that in the previous calls you mentioned that in the new version of Akash, seeker would be replaced with the radial complymatic use, something which we currently supply. Does it mean that our revenue in Akash could come down?

**Management:** There are two variants of Akash. In that again, in Akash upgradation in one variant, RPF will be there, in other variant RPF will not be there. Basically, we are there in both the programs and as I mentioned we are working on the seekers, which we would like to introduce to the DRDO for the time to come. It is too early to comment on this.

**Neeraj Bardia:** All right. Sir, another thing on Akash - basically through some media reports that army is not satisfied with this new generation Akash and we have raised in RFP for two regiments. Going by the previous experience, how long will it take for this RFP to actually materialise and improve orders for OEMs?

**Management:** It may take time because whenever we interact with our customers - the OEMs - they are very confident that they will take or these orders may recognise in FY2020. So that is how actually they expressed confidence. Even we have not taken any projection for the next two years from the army. Only from



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FY2021 onwards probably we will be able to project sales for that year onwards, but it may take time. But they are very confident to get the order by at least next year.

**Neeraj Bardia:** Okay and finally on the radar. Basically last quarter we have seen some reports mentioning that the current generation of Tejas as well as the upgraded Jaguar aircrafts will be fitted with the imported AESS radar. Sir, how does the outlook look like for some project?

**Management:** As on date, as per the report and as for the information what we have is which is only restricted to some limited quantity that imports what they are planning. Ultimately it is going to be indigenous version of whatever the DRDO is being developed so that may take some time, but till that time probably may go for imported. But at least the information what we have is only after some restricted quantity is listing alone.

**Neeraj Bardia:** Okay and there are some offset orders as well?

**Management:** Yes there is also a probability of some offsets.

**Neeraj Bardia:** All right, thanks a lot for answering my question. That is it.

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

**Abhijeet Mitra:** Thanks for the question. Sir, quickly on this growing dependence in space. If I look at the budget of ISRO, it has grown at almost



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20% over the last three years vis-à-vis almost flat defence budget. Is there increasing dependence here - I mean – and, hence, the margin profile as well. I mean, will it be safe assumption to make that the effective growth is perhaps going to be in FY2020, if not remain the same?

**Management:** If you see the overall space budget, it is not only for the payload. Probably as you know, the business way we operate is that the maximum business is within the payload loan, not in the rockets. But the budget you are talking about is inclusive of the payload as well as the rockets - everything put together. In communication, payloads easily we get every year about Rs 25 crore to Rs 30 crore worth of business in terms of receivers and transponders; so that is a regular business we get from ISRO. The business what we have received last year and also some of the audits we are planning to book this year, this is related to something which is our payload, which is build with the TR margin-based kind of technology. So that will come once in probably four years or five years. So there we will have a significant amount of business from the space, otherwise in general for the GSV there will be regular communication payloads. We have receivers in different frequency band, which we supply to ISRO and that will give us about, as I said, Rs 30 crore-Rs 35 crore of business.

**Abhijeet Mitra:** Okay got it. Coming back on the defence execution, which you have guided and order flow which you have suggested - if you



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can break up this order flow of Rs 600 crore. Akash is now a surety or we are still waiting for that?

**Management:** More or less, I would say 95% sure, I could say. Nothing can be taken 100% unless we have contracts on hand.

**Abhijeet Mitra:** Okay and barring Akash and the ELTA, what else is included in Rs 600 crore?

**Management:** There are some of, like, Rafael we are expecting JLU-SDR contract this year, which in fact missed in the last year. That also probably we will be able to close and apart from that we expect one TR margins orders for Akash NG project, and then there are some of the upgrades we may bid for. I think we may get for those things and there are some other programs which are confidential in nature from the DRDO, which would not take. I cannot take up those project names, but mostly in EW sector we may get few good orders.

**Abhijeet Mitra:** Okay and Rs 600 crore how much of that there will be space?

**Management:** From space it will be around Rs 60 crore to Rs 75 crore.

**Abhijeet Mitra:** Got it. I have other questions, I will come back in the queue.  
Thanks.

**Moderator:** Thank you. The next question is from the line of Darshan Shah from Multi Act. Please go ahead.



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**Darshan Shah:** Thanks for the opportunity. I would like to know if there is any update to share on the in-house developed smaller radar system, which you had proactively taken up couple of years back?

**Management:** Yes, the radar, which we have developed, is actively being demonstrated in one of the clients. In fact, it has almost reached 90%. It will take another couple of months probably for the field test to complete. I think that may even be before the radar, which we have developed in-house and apart from that as I have mentioned in the last couple of investors' call that we have supplied FXR - that is Doppler radars, multi-elasticity radars to DRDO, it will work in X band as well as in S band. Apart from that, last quarter we also supplied phase direct elementary radar that we have supplied as a proto version and bigger version. We probably may get it I think next year - in one-year timeframe. So this is the status from the in-house development of the radar. In fact, we have already developed precision approach radar. We got another application some of the users are showing interest in. Probably, I think, in a year to come we may get some part of the business. We cannot say with 100% confidence, but discussions are going on actively.

**Darshan Shah:** Okay and next is on how fungible is our manufacturing capacity or testing equipment? Can the same facilities without incurring sizable capex be used for radars and missile, subsystems and seeker?



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**Management:** Yes, we can use.

**Darshan Shah:** Okay and there are some articles regarding what the draft proposed defence offset policy looks like - some indigenous manufactures are not happy with the draft - any comments on that?

**Management:** Well, we explained our views in fact to the defence ministry. I think they are considering that. Yes, they have increased the size of the orders (especially in the electronics area), so that is one which impacted all the companies, especially those who are in the electronic domain. That I think is being viewed seriously now, we were told that it is being reconsidered.

**Darshan Shah:** Thanks.

**Moderator:** Thank you. We take the next question from the line of Anil R from Geojit Financial. Please go ahead.

**Anil R:** Sir, can you please give the break-up of domestic orders?

**B. Malla Reddy:** Backlog orders as on date.

**Management:** Mr Anil, you want the break-up of existing order book?

**Anil R:** Yes, existing order - that is for the domestic order.

**Management:** In domestic, we have Rs 359 crore and exports we have about Rs 144 crore. You want further break-up in the domestic sector?





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**Anil R:** Yes.

**Management:** It was difficult. I think probably we will come back to you. May be you can ask some other questions.

**Anil R:** Okay. Sir, in case of FY2020 what kind of opportunities you are looking at?

**Management:** FY2020, I think as on date the indication is we may touch Rs 500 crore, but it depends on the timing of the orders.

**Anil R:** Okay, sir. Thanks.

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

**Prabir Adhikary:** Sir, my question is that you spoke ELTA order is expected to come in FY2019. I just want to know that what is the execution time and what is the margin of this particular order? Another question I had is that you are working on seeker, you say that after FY2020 order can be expected, so what is the potential of this seeker order?

**Management:** First question for your ELTA, we have not taken sales for that order in the current year and only from next year probably we expect the revenue out of this order because the timing of the order is I think going up to the Q2. So that is the reason we have not considered sales for this year. The second question: yes there will be good opportunity and good potential for these seekers for



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various indigenous missile programs. Exact quantity and all I am not in position to tell you at this juncture.

**Prabir Adhikary:** Okay, another question - is there any scope of order from BrahMos?

**Management:** BrahMos - we are supplying some of the components like transmitters etc., but it is not major value and as I mentioned we have developed seeker for their minion version, which is the development stage.

**Prabir Adhikary:** What is the potential of this order?

**Management:** As I said, I cannot tell you exact numbers. It just started and is long way. I think it may take another few quarters to give you exactly the figures on this.

**Prabir Adhikary:** So, in order book what is the potential from Rafael JV... potential size going in the future?

**Management:** Immediately, like as I said, we are expecting order worth of about Rs 70 crore.

**Prabir Adhikary:** In the Rafael JV, what could be the potential going into like two to three years because we see slowdown in domestic orders. Is this JV is coming up for export sale? So what could be the potential going into two to three years into JV? We wanted to understand like mid-to-long-term point of view. This JV has been formed because we see defence orders have slowed down. So,



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like what could be upside potential of orders? There should be something in mind when we have formed. So, your guidance on something like bigger picture with this JV?

**Management:** As on date, the potential - like you know - whatever we have planned for the JV for next two to three years would be around Rs 250 crore to Rs 300 crore worth of business (not more than that) because business which we have taken is from the confirmed orders from the Rafael. Otherwise, yes there is potential for the next five years to eight years plan. I think there is sizeable business opportunities from the product line which JV will operate.

**Prabir Adhikary:** Right, sir. Therefore, could this JV be contributing more than the domestic sale - like at given point of time so do you see this as big probably?

**Management:** Yes actually because the JV is operating in systems. It is not in the subsystems or component. So obviously, opportunity; even one opportunity gets through, I think it will be sizeable orders.

**Prabir Adhikary:** Sir, how sure are we on this getting through? Let us say for the longer term, because I understand from a longer point of view this does not work. So from a long-to-mid to long-term point of view, like how sure are we that this is going towards Rs 500-Rs 800 crore?



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**Management:** Yes, various opportunities are there. I cannot like every tender. It is a competitive tender so we are through in both technical and commercial. We cannot say 100% guaranteed but definitely good scope and also technology which the partner has got, it is already proven technology and they have also got the pilot project. Hence, the scope is good and I think we have a good opportunity and also we are fairly confident to get one of these projects through.

**Prabir Adhikary:** Thank you, sir.

**Moderator:** Thank you. The next question is from the line of Rohan Jain from ICICI Securities. Please go ahead.

**Rohan Jain:** Just a quick question. Sir, can you give us figure as to how much of liquidated damages did we have for full financial year?

**Management:** We had close to Rs 20 crore.

**Rohan Jain:** Rs 20 crore for the full year. That is all. Thank you.

**Moderator:** Thank you. Ladies and gentlemen that was the last question I would now like to hand the conference over to Mr S. Gurunatha Reddy for his closing comments. Over to you sir!

**S. Gurunatha Reddy:** Thank you for your participation. Look forward to talk to you again at the end of Q1. Thank you very much.



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**Moderator:** Thank you. On behalf of Astra Microwave Products Ltd, that concludes this conference. Thank you for joining us. You may now disconnect your lines.