



ASTRA MICROWAVE PRODUCTS LIMITED
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August 2, 2018

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

Scrip code: 532493

Dear sir,

Sub: Conference call transcript.

We are sending herewith Conference call transcript held with analysts on 31st July, 2018.

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

Thanking you,

Yours faithfully,
For Astra Microwave Products Ltd

T.Anjaneyulu
Dy.G.M - Company Secretary

Works :



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“Astra Microwave Products Limited
Q1 FY2019 Earnings Conference Call”

July 31, 2018



**MANAGEMENT: MR. S. GURUNATH REDDY - WHOLETIME DIRECTOR &
CHIEF FINANCIAL OFFICER – ASTRA MICROWAVE
PRODUCTS LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the Astra Microwave Products Limited Q1 FY2019 earnings conference call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” followed by “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. S. Gurunatha Reddy. Thank you and over to you Sir!

S. Gurunatha Reddy: Thank you. Good morning ladies and gentlemen and welcome you to this Q1 conference call. Just to inform you that yesterday we had a broad meeting, the results of first quarter were taken on record. I would like to share broad details of performance.

For Q1 the gross sales were about close 59 Crores and net sales are close to about 52 Crores. Correspondingly for the previous year, it is about 49 Crores of net sales. We had a gross margin of close to about 30 Crores for this quarter as compared with 33 Crores for the corresponding quarter of last year.

Profit before interest and tax is close to about 13 Crores for this quarter as compared with about 6.69 Crores of corresponding quarter of last year. The major jump in the



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profitability is due to other income where we were able to get an export incentive of close to about 11 Crores, which was under dispute with Government of India for some point of time. Profit after tax is about 7.99 Crores for this quarter as compared with 4.17 Crores for the corresponding quarter of last year. These are the broad performance details for this quarter.

Apart from this, major financial details at the end of the quarter are , the inventories are about close to 103 Crores and receivables are about 129 Crores. Cash at bank is close to about 155 Crores and the margin money deposit is about another 25 Crores. The major long-term liabilities are close to about 44 Crores at the end of quarter and the order book for the quarter or orders book during the quarter is about 65 Crores and as of today is close to about 100 Crores and order book outstanding at the end of the quarter is about 511 Crores. These are broad details, which I can share with you as of now, and I open this discussion for questions and answer.

Moderator: Thank you very much ladies and gentlemen. We will now begin the question and answer session. We will take the question from the line of Abhijith Vara from Sundaram Mutual Fund. Please go ahead.

Abhijith Vara: Thanks for taking my questions. There has been a constant improvement in receivables, is there some contract which was



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exhausted so you are able to collect more fees or it is going to be this way going forward as well. Can you just clarify it Sir?

Mangement: See normally the collections in terms of volume is more in the first two quarters simply because major amount of billing happens towards the end of third and fourth quarters of the previous year, therefore those sales will be get collected in larger numbers in the first two quarters, so generally that is a trend.

Abhijith Vara: Okay and just to clarify receivables is 129 Crores you have mentioned?

Mangement: Yes.

Abhijith Vara: Okay and what will be the use for the cash, which is getting piled up in the balance sheet, right now Sir, right now it about 160 Crores and debt is also about 44 Crores, any capex program or anything planned for the utilization of this cash?

Mangement: See largely it is going to be using for servicing the working capital requirements. These are really working capital intense operations. As of today we are able to operate almost without in the working borrowings that is a huge saving in terms of the interest cost and towards end of this financial year, there is a one prepayment of NCDs coming up and also couple of term loans are getting closed, therefore I would say that the cash



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available will be used largely for working capital management and also to repay the long-term outstanding.

Abhijith Vara: Sure Sir. Sir in terms of the quarterly performance, the EBITDA margin is much lower compared to the past what we are seeing, is there some contract, which were of lower EBITDA margin in loan and when will this get exhausted, just give an idea?

Mangement: Yes, the drop in margin is entirely due to the product mix. The corresponding quarter of previous year we had one project where the margins are close to about 75% to 80% and which has contributed to close to about 50% of the sales. Currently, their product is contributing only very minimal way that is number one. Number two is the current quarter sales is inclusive of exports close to about 13 Crores where the margin is only about 8%, so these are reasons why there is a drop in the gross margin compare to the previous quarter.

Abhijith Vara: For the rest of year any guidance you can give how margins will behave?

Mangement: I will not be able to give any precise margin, but in fact we have shared this or I would cautioned you in the first quarter in the year end results also, there will be a correction in the margins as compared with the previous year, simply because of the same reason there is a change in the product mix, there is one product, which has contributed to almost 40% to 50%



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of the sales in the previous year, where the gross margins are close to about 75%, now that product will be contributing only about 10% to 15 % in the current year. Therefore, there will be a correction in the gross margins.

Abhijith Vara: Sir guidance for the year FY2019?

Management: See year-end we said that closed to about to 425 Crores to 450 Crores kind of thing, 430 Crores. You would like to correct that in a small way. You would like to stay at that now, we will be confident to achieve 400 plus, what the plus will be keep informing you as we proceed during the quarters.

Abhijith Vara: Order flow Sir for FY2019?

Management: That remains same. We have committed for about 600 Crores of order booking that will continue.

Abhijith Vara: I will get back in the queue. Thank you.

Moderator: Thank you. We will take the next question from the line of Amarnath R from Gomukhi Capital. Please go ahead.

Amarnath R: Good morning Sir. My question relates to you mentioned about the export incentives that you received, which relate to prior period of about 11 Crores during the quarter, so pardon my ignorance, but would it mean that effectively based on the current operation, we just about had a PBT breakeven for the quarter net of this 11 Crores?



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Management: Yes, you are right.

Amarnath R: So that would show there is a significant change or very material adverse change in the product mix, which you mentioned replying to the previous question.

Management: Yes, if you compare with the corresponding quarter of previous year, yes, there is a change.

Amarnath R: So is it due to that our bids what we had budgeted and what is turning out to be the expenses because of various factors maybe it is the currency factor, may be it is other factors, is it going compared to our budgeting or bidding process as it turned very adverse is that the reason or any other reason?

Management: No it is not that things are going adverse as projected. In fact, we shared this information even in the earlier concalls also. The product mix is going to be different in a current quarter during the current year. Therefore there will be a drop in the margins. That is number one. Number two is that generally the first two quarters, the volume of sales are going to be low compared with what we did in the later quarters, therefore the absorption of overheads and all which is going to be more or less uniform throughout the year, we will have a bearing on the overall profitability when you look at operating profits kind of things. Other than these two factors there are no other adverse factors.



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Amarnath R: Okay and third question is, is there any update on the joint ventures etc., which we had formed?

Management: The Astra Rafael joint venture now active now. In fact in the month of June, both the partners have contributed to about 32 Crores of equity capital, we have appointed about four top executives including COO and one project manager and another general manager. The land was purchased. You know that this is a Greenfield project, which is coming up in Hyderabad. So the land acquisition has already happened, now we have started the construction of the building. As of now this is the status as and as per the estimates this JV should go commercial in this second quarter of 2019-2020 financial years.

Amarnath R: Okay and our other JV on the broadcast?

Management: In fact we share this again in the earlier quarters, this is not active and probably we will update you about the status of this maybe in the next quarter conference call.

Amarnath R: Thank you.

Moderator: Thank you. Next question is from the line of Jayesh Shroff from Cask Capital. Please go ahead.

Jayesh Shroff: Thank you. Sir two to three things, first we have seen a material slow down in terms of ordering from the different



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forces across all the defense companies, so are we also seeing that increased pressure in terms of drying up of order book?

Management: Yes, you are right and in fact this is a pressure. In the beginning of the year as we mentioned that – we would be closing that 7s Squadron Akash Project by the first quarter end, so that has got delayed. I think probably it may materialize in Q3, similarly there was another program which we are likely to get in the first quarter that is per subsystems of Akash NG that is also getting delayed by another six months. So few projects they are getting delayed because of that the sales plan however we are still trying to maintain the projections what we have mentioned in the beginning of the year as we got two good contracts.

Jayesh Shroff: Sir you were talking about some new orders that.

Management: They have received one major order about worth of 44 Crores. This is from Antrix Corporation for the Sat Com projects. So this is the project, which in fact probably would compensate that to the earlier projects whatever we were discussing about Sevens Squadron. In the beginning of the year, we have taken some sales from this 7s Squadron order so that probably will happen only for next financial year. So your question that yes we are also under pressure because of this delay in the projects by the DRDO as well as from MoD, but so likely we got some



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other projects from ISRO and all, by which we are able to maintain the same guideline.

Jayesh Shroff: Okay. My next question is on the seeker that we were trying to develop and we were investing heavily in terms of R&D for that, so any update on that?

Management: Yes as we mentioned in last conference call also the X band seeker and Ku band, both are going well but the X band seeker almost is completed 75% of its testing. There was a little slow down in the customers place because of the lack of facility, availability of the facility, so because of that got delayed, but otherwise yes it is going on well and we are hopeful at least by the end of this year, both the seekers would completely testing part. So I think it is definitely some business, we can expect from the next financial year.

Jayesh Shroff: Okay. One more issue is on – the offset for the Rafale Jet, so I think the first delivery is expected to start from September of 2019 and provided it is on time, when do you think, can we start booking some revenue from that?

Management: No, we do not have major, actually if you see the total contract like the 32 numbers what the major portion there trying to do it internally in-house, so they only probably give us some orders only to take to for the qualification for the next order, but otherwise in 32 I do not think we can expect major chunk of business from this particular lot.



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Jayesh Shroff: Okay. Just one more issue because the industry itself is facing dearth of orders, we have been hearing of pricing pressure across the industry, so are we also affected by that?

Management: Well, yes, definitely like contacts which are in the competitive mode that obviously will have some price pressure like but anyhow we were able to maintain guidance given with the board, so I think with that, we are able to maintain some contacts, which are under more competitive, yes we have lost few contacts in the development from DRDO, so it is keep happening the routine activity, so yes, there is a price pressure, but there are not slight effect on that, but not as your projecting.

Jayesh Shroff: Okay. All right. Thank you so much.

Moderator: Thank you. We will take the next question from the line of Abhijeet Mitra from ICICI Securities. Please go ahead.

Abhijeet Mitra: Thanks for taking my question. Just to understand what is the hold up in the 7s Squadron orders, it has been getting delayed for long time now, so again are they renegotiating the pricing with the Tier 1 or it is something else at this time?

Management: To the best of our knowledge as per our information, all the negotiations were completed and the contract is finalized and sense it is under signature. That is what the information we have.



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Abhijeet Mitra: But this has been for the last two quarters right?

Management: Yes, that is what I am saying that there is a significant delay in the processing of the orders. So if you are in line or you are in beginning, I mean before you and somebody has asked about this question, so I answered. So there is a significant delay in domestic programs.

Management: The latest information is all negotiations are completed and the BEL is expecting is order in a couple of days probably must you heard from BEL investors call.

Abhijeet Mitra: And just to understand this 600 Crores of order inflow that you have mentioned, will you give some major, so this Akash is build in within that 600 Crores?

Management: Yes, of course.

Abhijeet Mitra: Can you just highlight some of the major programs that you are expecting, the make up of the 600 Crores, if you can just give some broad breakup?

Management: As I mentioned the space from ISRO we are expecting 60 Crores more orders for one of the Tier model, which we had developed for one particular program and also we expect about 50 Crores worth of orders from BEL as a repeat business for BSSR kind of products and also from Rafael we expect about 100 Crores worth of business for the SDR offset contract. Similarly another contract which I have been talking



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for last few conference calls like from ELTA, which is our earlier model contract which is again a repeat order about 195 Crores worth of order, which we are in complete negotiations and OEM is expecting order and most probably as per our information they are likely to get this particular order by September. So also probably we can get this order by December. And part from that 7s Squadron is already there in the list and then some contact from LRDE, DRDO we are expecting for the component, which we have already got development contacts, so the production need to come about 23 Crores. And similarly from Space, and ISAC that are the two different labs put together around 30 Crores worth of business and just to share with you, we are declared L1 in the IMD X band Doppler weather radar just about few days back, so that is about another 40 Crores. This is also we are likely to book in this particular quarter.

Abhijeet Mitra: Okay and just to highlight the T/R module that you are expecting from ELTA, the gross margin would be 8% similar to what we are seeing in this quarter?

Management: It is about 10%.

Abhijeet Mitra: Gross margin will be 10%, okay. So for this orders we are making breakeven at the PBT, is it?

Management: No, you mean the export orders?



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Abhijeet Mitra: Yes.

Management: Definitely because the conversion cost is almost I would say negligible. The entire infrastructure is provided by the customer, essentially we have to have couple of engineers to go with the process and complete the manufacturing cycle, therefore at the – definitely at the gross margin level I mean at PBT level, it is a breakeven and may be we will be making about 2% to 3% profit after that.

Abhijeet Mitra: Okay and what would be the execution schedule of this 195 Crores?

Management: Initially we have taken about 25 Crores in this year, but now we are shifting into the next financial year.

Abhijeet Mitra: Okay and next financial year would be how much, 50% ?

Management: Yes, things should be around 40% to 50%.

Abhijeet Mitra: Okay. Got it. Thanks. That is all from my side. Thanks.

Moderator: Thank you. We will take the next question from the line of Neeraj Bardia from Arth Capital. Please go ahead.

Neeraj Bardia: Thanks for taking my questions. Just wanted to have some clarity on this product, which you delivered last year basically by high margin so, so if you expected to recur?

Management: We will not be able to specify.



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Neeraj Bardia: I think that is it from my side. Thank you.

Moderator: Thank you. Next question is from the line of Parul Kartik from Karvy Stock Broking. Please go ahead.

Parul Kartik: Good morning Sir. Sir I would like to you to break the revenue for the quarter into domestic space and exports?

Management: Out of total sales, exports are about 13 Crores, exports are 13 Crores, defense about 38 Crores, space 2 Crores, meteorology 1 Crores.

Parul Kartik: Okay and in terms of order book also if you can break it down?

Management: Yes, order book defense we booked about 50 Crores and the space 10 Crores, and meteorology level 11 Crores.

Parul Kartik: Thank you Sir. That is all from my side.

Moderator: Thank you. Next question is from the line of Narendra Solanki from Anand Rathi. Please go ahead.

Narendra Solanki: Good morning Sir. Any update on Uttam HESA project?

Management: Still the flight qualification test has been completed, the flight test is still pending. I think the discussions are going on with ADA. That is now actually be heard from DRDO, and anyway



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this project is active and they are building a couple of more radar to make this particular things to go through smoothly.

Narendra Solanki: Okay Sir, what we have been getting news is that I think some prototype testing and integration has been done at and there are eight SOPs which are required to be built for testing and some integration test has also been done in Tejas itself few months back and the flight tests are scheduled to be later this year?

Management: That is what I mentioned, flight test is still pending, so apart from that the integration test and that will be completed, so I think probably in a year I think that all the tests should be through.

Narendra Solanki: So this eight prototypes that will be created for in terms of radars, so are these complete or we should also see some sort of follow on order or something like that?

Management: No, we have delivered for a few quantity and may be some more our quality they will place order to complete those eight numbers.

Narendra Solanki: Sir on this T/R module the MMIC, which is getting into this critical modules are these like for Uttam project fabricated in India and then are we into some stage of this fabrication?



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Management: In fact I mean all the MMICs, which have been used for a year in Uttam project has been done in Astra.

Narendra Solanki: That is very good. Okay that is it from my side.

Moderator: Thank you. We take the next question from the line of Abhijith Vara from Sundaram Mutual Fund. Please go ahead.

Abhijith Vara: Thanks for this followup. Sir in the current order book for 475 Crores, how much revenue in order book and out of the guidance of 400 how much is dependent on new order flow, which is secured during the year?

Management: Now as on June 30 is the 475 Crores, but as on date it is roughly about 520 Crores that is in July month we have booked close to 50 Crores, so if you see the in the current year whatever the 430 Crores we have mentioned I think more or less we have booked all the orders. Now we need to convert in that in 520 Crores only and the rest all will go for the next year.

Abhijith Vara: Okay. That is for your confident on 400 Crores plus?

Management: Yes, so whatever we are planning for this year sales, almost all the orders would be booked.

Abhijith Vara: Sure. That was my question. Thank you.



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Moderator: Thank you. Next question is from the line of P Adikari from Ratnabali Investments. Please go ahead.

P Adikari: Good morning Sir. Sir actually can you give us guidance of order book post FY2019 at least for three years, any significant with respect to order is expected?

Management: Three years would be difficult to inform at this stage but yes for the next year I can say we have a prospects of to book the orders close to 650 Crores.

P Adikari: FY2020?

Management: For FY2020, yes.

P Adikari: Okay Sir. Thank you.

Moderator: Thank you. We take the next question from the line of Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: I missed the breakup between the sales and the order book if you could just give that again?

Management: For the last quarter, the total sales about 54 Crores, so in that defense is about 38 Crores, space 2 Crores and meteorology about 1 Crore and exports of 13 Crores. This is about sales. And in terms of order booking, the last quarter we have booked about close to 71 Crores that defense 50 Crores, space about 10 Crores and meteorology about 11 Crores.



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Shikha Mehta: All right. Thank you Sir.

Moderator: Thank you. All ladies and gentlemen that seems to be the last question for today, I would now like to hand the conference over to the management for their closing comments.

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

Moderator: Thank you. Ladies and gentlemen, on behalf of Astra Microwave Products Limited we conclude today's conference. Thank you all for joining us. You may now disconnect your lines now. Thank you.