

**ASTRA MICROWAVE PRODUCTS LIMITED**

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November 8, 2018

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 1st November, 2018.

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

T. Anjaneyulu
Dy.G.M - Company Secretary



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“Astra Microwave Products Limited Q2 FY 18-19
Conference Call”

November 01, 2018



**MANAGEMENT: MR. B. MALLA REDDY – MANAGING DIRECTOR,
ASTRA MICROWAVE PRODUCTS LIMITED
MR. S. G. REDDY – WHOLETIME DIRECTOR & CHIEF
FINANCIAL OFFICER, ASTRA MICROWAVE PRODUCTS
LIMITED
MR. M.V. REDDY -- DIRECTOR, OPERATIONS &
BUSINESS DEVELOPMENT, ASTRA MICROWAVE
PRODUCTS LIMITED**



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Moderator: Ladies and gentlemen good day and welcome to Astra Microwave Products Limited second quarter and half yearly review for FY18-19 conference call. As a reminder, all participants' lines will be in 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 '*' and then '0' on your touchtone telephone. Please note this conference is being recorded. I now hand the conference over to Mr. S. G. Reddy from Astra Microwave Products Limited, thank you and over to you Sir.

S. G. Reddy: Thank you. Good morning ladies and Gentlemen and I welcome you to this conference call for the second quarter and six months' period. I am joined by Mr. B. Malla Reddy – Managing Director and Mr. M. V. Reddy – Director, Operations and Business Development. The results for the second quarter and six months was taken on record by the Board at its meeting held on day before yesterday.

I will share the broad numbers with you in terms of our sales and profitability. For this quarter, we had about Rs. 53 crores of gross sales and net sales at about Rs. 43 crores and for six months, it is about Rs. 113 crores and Rs. 96 crores. The gross margin for this quarter is about Rs. 16 crores as against Rs. 46 crores for the six months' period. There is a negative operating income for this quarter. After taking into account other income and all, we had a profit before tax of about Rs. (-8) crores for this quarter and for the six months' period it is about Rs. 2 crores.

In terms of other financial parameters – we have a long-term debt of about Rs. 30 crores as of today. The cash at bank is about Rs. 90 crores and Sunday debtors is about Rs. 112 crores. As of 30th September, we had an order book of about Rs. 740 crores which has reached to about Rs. 850 crores as of today.

I will explain briefly the reasons for the drop in margins for this quarter which is a concern for all of us; it is largely because of the product mix.

On a comparative basis, in the first quarter we had about Rs. 33 crores of sales which is about 65% of the sales for that quarter which has given a gross margin of 60% and above. As compared to that, in the current year in the current quarter, we had only 23% of such sales which has given a 60% above gross margins; this is precisely the reason why there is a steep drop in the gross margins which has an effect on the profitability of the company.

In terms of projections given and achieved, I think we have given about Rs. 75 crores of sales for this quarter, against that we could have achieved only about Rs. 43 crores; this is largely because of two orders which we were not able to execute on time because of some technical issues which are getting completed in the later quarters. Otherwise, in terms of other costs and revenues, they are under control, however for the year ended, we would like to share with you



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that as against Rs. (+400) net sales what we have promised, we will be able to do around Rs. 370 crores; the reasons for that and all Mr. M. V. Reddy will share with you. In brief it is largely because of delay in the receipt of one or two orders which we have factored for execution in the current year. Because of the drop in the overall sales for the year; there could be a correction in the profitability. As per the present estimates, we expect the profit before tax to be around Rs. 55 crores and as our general payout for the tax is around 20% to 25% before the net profit, after tax will be around (+40) kind of thing. With these details, now I will open this discussion for questions and answers.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Vaibhav Badjatya from HNI Investments, please go ahead.

Vaibhav Badjatya: Just wanted to know more about the order book; we have seen a good jump in order book, so can you provide more details on the orders which we have received during the year and the broad margin profile on these orders along with the fact that whether they are exports or domestic orders?

Management: Yes, order book it is in last quarter that is in Q2, we have booked Rs. 314 crores. In that the major portion has come from the exports, about Rs. 190 crores and then in meteorology we booked about Rs. 41 crores and in the space segment about Rs. 53 crores and in the defense Rs. 30.5 crores, total is about Rs. 314.88 crores; it is in the order book in the last quarter that is in Q2.

Vaibhav Badjatya: And what would be the broadly the margin profile on these orders; would they be; like the major is Rs. 190 crores for exports but assuming it would be low around 10%, 11%, is it?

Management: Not all the total portion of Rs. 190 crores because in that Rs. 110 crores is from Rafael where the margins are little higher than the other BTC business which we have been doing for other customers. So the rest all, about around Rs. 75 crores to Rs. 80 crores, yes that would be around the 10% contribution.

Vaibhav Badjatya: Okay, and in terms of for both; if you can explain to me for both domestic and export orders separately. How is the exchange rate fluctuations taken into account, whether it is on to the customers or we bear it whatever the benefits or cost associated with it?

Management: As you know, in fact as of course exports, we need not worry because all the business is in the dollars, even the components procurement everything is in dollars and the sales also are in dollars. So as far as the domestic market is concerned, yes because in the DRDO and ISRO we do not have that exchange variation clause in these contracts but however, in anticipation of increase in the FE we have factored into that but not exactly the same like, there is a steep growth as all of you are aware but it will have impact. I do not say that it will not have impact



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but it is not so this thing because our import content is not that high as compared to the export sales.

Vaibhav Badjatya: And if I may ask just one more question; so on this export order of Rs. 190 crores that we received during the quarter, what was the broad timing when we placed the bid for this order?

Management: It is actually, in that as I said the big order has come from the Rafael which is our JV partner, which we are doing it for LVR program which we have been discussing for last so many investor calls. So that finally that order has come, so that in fact the bid we submitted about few couple of months back but this was in discussion for last about a year or so.

Vaibhav Badjatya: No, I just wanted to get a broad sense on the margin because if we have kind of, anyways, this has been recently bided so I am sure that we must have taken into account only the recent exchange rate which is already depreciated, so there is.

Moderator: Thank you Sir. We have a follow-on question from the line of Vaibhav Badjatya from HNI Investments., please go ahead.

Vaibhav Badjatya: So on the JV; that is Rafael that we have, can you just broadly explain as to you know what would be the total CAPEX and our share of it and what would be on a decent capacity utilization what would be the earning potential; just wanted to assess what would be the profitability levels on these, on this JV?

S. G. Reddy: See, in terms of ownership we own 51% and JV, the Rafael owns 49%, therefore all these financial obligations will be in that ratio. As of today it has a paid up capital of about Rs. 35 crores which is essentially going for setting up the Greenfield project. First year revenues we expect to happen in the second quarter or towards the end of third and fourth quarters of next financial year. We are expecting about Rs. 60 crores of revenues to happen in those three or four months of operations. Later on, broadly it may end up doing close to about Rs. 150 crores in the full financial year of 2021. Today we have visibility to this extent; probably as we proceed we will be able to share much more information with you.

Vaibhav Badjatya: And what would be the total CAPEX against you, sales that we will get on this?

S. G. Reddy: The total CAPEX is going to be around Rs. 40 crores to start with, probably we will be able to manage with Rs. 40 crores for the first two years of operations.

Vaibhav Badjatya: That is for both the JV partners or that is just for us?

S. G. Reddy: It is for both the JV partners.

Vaibhav Badjatya: And on the export side of the order, we have been alluded earlier also that you know the margins on the export are on not that good as compared to domestic order. So just wanted to



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assess, in terms of ROCE, how is the export business as compared to domestic orders. I am sure margins are lower but if our capital intensities are also similarly lower, ROCE might be comparable, is it the case or not the case?

Management: There is an improvement compared to the regular exports what AMPL is executing but it is not to the extent of the domestic margins what we have as of today but I would say, it is at least about a 50% higher margin as compared with regular export business as being done by Astra.

S. G. Reddy: In general, the capital investment in export business is very minimal, that is, in the low margin business they give us the test equipment's, they give us all necessary capital equipment's. So our job is effectively labor job, no not JV.

Vaibhav Badjatya: Yes I am actually asking for not just for the JV but for the overall export prospect.

Management: So overall export wherever there is a very low margin, our capital investment is very little except the building and furniture kind of thing, otherwise all equipment's they provide us.

Management: In other words, the conversion cost is very minimal in regular exports what we do in AMPL.

Moderator: Thank you Sir. We have our next question from the line of Neeraj Bardia from Arth Capital. Please go ahead.

Neeraj Bardia: Hi Sir, thanks for the opportunity. Just wanted to get an update on how are you seeing the order outlook for FY19 and as well as for FY20, I think for the year FY19 we are expecting around Rs. 600 crores of inflow and we have achieved close to Rs. 400 crores in the first half, so how are we seeing the balance part of the year and also something on FY20?

Management: In balance, like next Q3 and Q4 put together, we should book another Rs. 400 crores, in that the Rs. 200 crores again on the export front and Rs. 200 crores on domestic.

Neeraj Bardia: And this Rs. 200 on domestic side will be, we will have something from Akash coming in or..?

Management: In that I have not taken those '7 Squadron Akash' in this Rs. 400 crores, that if it comes, it is the bonus.

Neeraj Bardia: Okay and in FY20?

Management: FY20 as on today, we have visibility to book orders to about close to Rs. 550 crores as per today, in that we have taken Akash.

Neeraj Bardia: Any update you would like to share on Seekers, as per the last call we were close to finishing of the testing process, so?



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Management: Yes, it is still going on, I think we are discussing with couple of customers on proto kind of seekers in the business front but the testing is not completed yet, there are many tests are to be still pending because of the other priorities which we could not make it in last quarter. It may go on for at least another three to four months.

Neeraj Bardia: Sir anything on LR say, we are seeing that BLS receiving orders and also there are talks about Barak 8 missile, so there could be some offset coming in from that as well. So do we have a role in LR-SAM?

Management: We do not have much in LR-SAM, as I mentioned in the last investor call also except couple of carts which we assemble and test and give it to them, there is a part of that export order which we did for Israel with direct exports, so the same thing will come from, maybe BEL but not in terms of value as well as contribution.

Neeraj Bardia: And Sir final question; any update on the status of Uttam radar and?

Management: You are talking about SR radar?

Neeraj Bardia: Yes.

Management: So this DRDO is qualifying that radar. They made good progress in last quarter, I think the information what we get from them is currently it is under testing in the platform, so that is what I can share with you.

Moderator: Thank you. We have a follow-on question from the line of Vaibhav Badjatya from HNI Investments., please go ahead.

Vaibhav Badjatya: You have earlier alluded to the fact that we now as of today have Rs. 850 crores of order book. So this Rs. 400 crores that you are seeing, this is over and above Rs. 850 crores or it is as compared to September-end order book?

Management: As I said is in Q1 plus Q2 put together, we booked about Rs. 400 crores and Rs. 400 crores more we are expecting in Q3 and Q4 book put together.

Vaibhav Badjatya: And on the domestic business; you know our domestic business is quite, I mean domestic business is quite large as compared to export business unless we do not have enough flexibility on the exchange rate and the kind of movement we are seeing in the rupee, will it not impact our profitability significantly going forward because recently rupee has depreciated a lot?

S. G. Reddy: I think this question we have already answered. In terms of the domestic business, yes there will be an effect because of this almost 10% to 12% fall in the rupee, I would say maybe about 3% to 4% of effect will be there in the overall profitability of the company because almost 60% of our raw material consumption is imported.



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- Vaibhav Badjatya:** And what would be the year-end our expected order book that we expected to end by the end of the year?
- Management:** Probably we will be carry forward I think around Rs. 750 crores to Rs. 800 crores for the next year.
- Moderator:** Thank you Sir. We have our next question from the line of Prabir Adhikary from RCML Investments., please go ahead.
- Prabir Adhikary:** I have two things to know; one is I want to know the sales breakup which is Rs. 44 crores this quarter along with that what is the status of the ELTA order and what would be the margin once it comes?
- Management:** The Q2 sales breakup; defense is about Rs. 26 crores, Space Rs. 3 crores, Meteorology Rs. 3.5 crores, Exports Rs. 13 crores and miscellaneous about Rs. 1 crores, so all put together it is around Rs. 47 crores in Q2, that is a breakup of our last quarter sales. Now coming to your next point, status on ELTA order, last quarter that is in last month ELTA has received order from the customers; Indian customers and our order from ELTA is just they have initiated the process. So it may take few months more, probably I think we may get this order by January-February. And the contribution is the same contribution what because since it is the repeat PO, I think we will have the same contribution as we executed about four years back; it is roughly around 10%.
- Prabir Adhikary:** Sir this is included in Rs. 400 crores of orders of exports in the H2?
- Management:** Yes, in fact I mentioned that Rs. 200 crores will come from exports; this order is included in that.
- Prabir Adhikary:** And sir I missed on the amount of regular imports around 50% of our material, the number I missed out, how much material are we importing for consumption?
- S. G. Reddy:** For the domestic purpose almost around 60% we import.
- Prabir Adhikary:** And for exports?
- S. G. Reddy:** 90% we import.
- Prabir Adhikary:** Okay, so in both these cases exports price exclusion clause would be there and for imports how are we hedging, any price exclusion clause in FOREX, we are taking a direct hit on that or?
- S. G. Reddy:** No, that coverage is not there in a PO, we have to absorb as a part of our cost for the domestic.
- Prabir Adhikary:** Okay, so for exports we have that right?



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- S. G. Reddy:** See for exports the only thing is natural hedge, We are earning in dollars and paying in dollars, therefore.
- Moderator:** Thank you. We have our next follow on question from the line of Vaibhav Badjatya from HNI Investments, please go ahead.
- Vaibhav Badjatya:** We have currently at the end of Q2 have order book of Rs. 750 crores and we expect to end with a similar amount of order book by the end of the year and we are expecting Rs. 400 crores of orders in the second half, it means that we expect to book around Rs. 400 crores of revenue in the remaining of the year is it, is my assumption right?
- Management:** No, as on today we did about Rs. 100 crores sales, Q1+Q2 and the next two quarters put together around Rs. 270-275 crores we are targeting sales but as on 30 Sep we have backlog order of Rs. 740 crores and then we are trying to book close to Rs. 400 crores in Q3+Q4 put together, so with all that equation now you will carry forward around Rs. 800+ crores to the next year, that is what we have informed.
- Moderator:** Thank you sir. We have next question from the line of Darshan Shah an Individual Investor, please go ahead.
- Darshan Shah:** My question is BDL has filed for refund of portion of late delivery charges and if they are successful we were to receive refund of Rs. 30 crores, can you please update the progress here?
- Management:** Still we are optimistic that we will get once BDL gets the LDA amount, we cannot define the timelines when we get and all, it all depends on when BDL gets that amount but still we are optimistic of getting this.
- Moderator:** Thank you sir. As there are no further questions, I now hand the conference over to the management for closing comments. Sir over to you.
- S. G. Reddy:** Thank you for your participation and look forward to see you again at the end of 3rd quarter. Thank you very much.
- Moderator:** Thank you very much sir. Ladies and gentlemen on behalf of Astra Microwave Products Ltd. that concludes this conference call. Thank you for joining with us and you may now disconnect your lines.