

**ASTRA MICROWAVE PRODUCTS LIMITED**

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November 14, 2019

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 12th November, 2019.

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
Dy.G.M - Company Secretary



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“Astra Microwave Products Limited Q2 FY-19-20 Financial
Results Conference Call”

November 12, 2019

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



Moderator: Good morning ladies and gentlemen, welcome to the Astra Microwave Products Limited Q2 FY19-20 Financial Results 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 '*' 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. Thank you and over to you sir.

S Gurunatha Reddy: Thank you. Good morning to you ladies and gentlemen. I am S Gurunatha Reddy I am with my colleague Mr. M.V. Reddy. We are here to discuss the quarter two perform and six months performance of the company. The performance of the company was taken on record by the Board of Directors in their meeting held yesterday. I hope you have an opportunity to look at the results, which are available in the various media. And also we have shared the brief performances details along with the invitation for the call. I hope you had a look at them. However, for the benefit of all of us. I'll repeat some of the broader performance details before we get into the question and answers.

Revenue for the quarter, sales for the quarter is 108 crore, and for the six months ended it is about 137 crore. After adjusting GST, late delivery charges and other adjustments which are required as per the IndAS, the net sales for six months is about 137 crore and for the three months period it is about 96 crore. The material costs for the six months period is about 59 crore and after adjusting the employees cost, depreciation and other expenses, Profit before tax for the quarter is about 27 crore, and for the half year ended it is about 17 crore. In terms of general performance of the company, the order book at the end of six months is about 1240 crore, orders booked during the quarter is about 176 cr. This is inclusive of our subsidiaries and joint ventures. The current assets close to about 549 crore and current liabilities about 245 crore. The major current assets are inventories about 160, receivables about 200 crore and investments in the mutual funds and margin money deposits are close to about 125 crore. free cash with the bank is about 8 crore and the current liabilities about 245 crore, majority of that is advances received from our export customers. With this brief details I will open this call for questions and answers.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Santosh Yellapu from IndiaNivesh Securities. Please go ahead.

Santosh Yellapu: I had two questions, first thing if I look into the press release, it says that there is won **(Inaudible) 5:01** of orders during the quarter and he just not mentioned including the JVs is 176 crore. I would request you to give some color on what were these orders related to, one and second thing outlook on the awarding schedule of high power radar, what would be the share of ours in it and what would be the value of it. Similarly for Akash and Uttam AESA, the timelines and their approx. order value. Thank you.



S Gurunatha Reddy: Mr. Santosh first of all your line was not clear there was a break I guess you were asking about details of order book of the Q2?

Santosh Yellapu: No, sir order inflows.

MV Reddy: Order inflow of the second quarter that is about 176 crore. This is inclusive of subsidiary of BEPL and not JV there was a correction here. So 45 crore were the order before were our subsidiary for BEPL, apart from that the rest all are for Astra. So if you ask me the breakup, out of 176 crore 85 crore which has come from exports that is including 45 crore for BEPL subsidiary company and 64 crore the defense, 20 crore from sales and 7 crore from MET department. So, this is the breakup of a 176 crore. Now your other question is, this is regarding HPER and Akash and Uttam number. So the HPER case we partnered with BEL for the air force tender and we have an arrangement with the BEL to share work that is pretty confidential we cannot disclose that how much share we enter into that. That is one thing and regarding Akash, discussions have started couple of cases we have concluded the PNC, all these Akash orders we are expecting in Q4. We are expecting about close to 110 crore, 110 to 115 around that. This is including the missile portion as well as the radar portion. Now coming to the other question of AESA Uttam, it is still in the final stage of trials in DRDO and DRDO as you must have seen the media reports recently by chairman. They are very optimistic to introduce this Uttam to LCA as well as other aircraft. So, yesterday we expect good potential but today, we cannot give confirmed figure of this Omni radars we used in this aircrafts.

Santosh Yellapu: Sir at least can you just give the timeline by when we were expecting

MV Reddy: To the best of our information most probably this AESA radars will start rolling from FY22.

Santosh Yellapu: Okay. And sir just wanted to understand in the balance sheet our contract liabilities is to the tune of 209 crore in the balance sheet. Can you please help me understand what particular division let this kind of swing in the contract liabilities and when do we expect the last miles to be attained?

S.Gurunatha Reddy: That is entirely pertaining to advances received for the export orders.

Moderator: Thank you. The next question is from the line of Diwakar Chandrashekar an Individual Investor. Please go ahead.

Diwakar Chandrashekar: What I wanted to understand is, how does the management think about the order book and execution. From what I have seen in the past of the company for the market to take the company very seriously and given the market cap that it deserves, we believe that the order book should be at least four times of the revenues. So if I assume a revenue of 600 crore, I feel the order book should be standing at anywhere around 2400 crore. So is the company geared to get to that level of order book and do they have the capability presently to execute that kind of order book. And how does the management think about it? And do we need to diversify into newer segments to get to that level of order book?



- MV Reddy:** Usually, because since our majority of the business is from the subsystems and components, our lead time is usually about 8 to 24 months kind of a thing. So, normally we keep the backlog of two years. Because the thing is what you are saying is basically pertains to the system company, yes for which at least should have four times to the sale revenue target. But in our case most of the business is from subsystem so I think the two years of backlog is good enough for us to operate in this. Moreover, yes we gearing up.
- Diwakar Chandrashekar:** What do you mean by subsystem?
- MV Reddy:** Subsystems in the sense you know what we are supplying to the Tier-I companies like BEL and BDL these are all kind of companies who are making all systems. So, we are supplying the subsystems to them. And apart from that, yes, we are also gearing up in a system in a small way. Yes, going forward definitely we are taking up this particular thing like we would like to have at least three years of revenue into the backlog. So, that is what actually management is working on.
- Diwakar Chandrashekar:** So three years revenue backlog will be around 1800 crore you are saying?
- MV Reddy:** Yes, something around that we will work out on that in future.
- Diwakar Chandrashekar:** So do you think that we can get to that level 1800 crore in the next one you?
- MV Reddy:** We are working for that, that's what I mentioned that we are working towards that.
- Diwakar Chandrashekar:** And you also will be diversifying into some other segments, other than radars and any other market segments, newer market segment?
- MV Reddy:** This radars we are already into that we have started with instrumentation radars, we have been supplying to some of the radars to DRDO and also we are participating in couple of cases floated by the MOD so yes we are already into that. And similarly AW in a smaller way we have just started our journey. And other segments like new business segments we are looking into that, different areas it is on a discussion stage probably next six months to eight months' timeframe we should be entering into one or two new areas.
- Diwakar Chandrashekar:** And one more question, the file JV order where is it shown is it a part of standalone or consolidated order?
- MV Reddy:** It is not reflected in the figure what we have mentioned it is like, roughly we got order of \$30 million for joint venture.
- Diwakar Chandrashekar:** So why is that not reflected?
- S Gurunatha Reddy:** You mean in order book details you are asking or in the financials?



Diwakar Chandrashekar: No, so I believe it mustn't have got executed so it cannot come in the financials but in the order book it should be reflected right?

S Gurunatha Reddy: In order book we are reflecting only the holding company and subsidiary company.

Diwakar Chandrashekar: Okay. And one more question this PAT that you have done of 20 crore and PBT of 27 crore, will it be sustainable for the next two quarters of the financial year?

S Gurunatha Reddy: Yes, in terms of broad percentage terms yes we should be able to maintain. Definitely in the Q3 we are going to maintain but Q4 the mix is going to be more skewed towards exports. So we are expecting small correction there.

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

Kirti Jain: Sir current quarter what is the revenue breakup and for half what is the revenue if you can give out that would be helpful?

S Gurunatha Reddy: Quarter revenues break up the defense is about 17 crore, space is about 48 crore, exports is about 33 crore and balance meteorology and other sectors.

Kirti Jain: For half sir?

S Gurunatha Reddy: You want for the quarter also?

Kirti Jain: Sir in terms of order backlog what is the split sir can you give the order backlog split?

S Gurunatha Reddy: You mean to say the total order backlog as on 30th September?

Kirti Jain: Yes, split between the sectors?

MV Reddy: Yes, in that 730 crore is exports, 162 crore in defense, 254 crore in space, 55 from met, and 14 crore from others sectors.

Kirti Jain: Okay. Sir this is confirm right sir?

MV Reddy: Yes, this is as on date the order backlog 1215 crore.

Kirti Jain: Okay. Sir what is the standalone order backlog sir?

MV Reddy: Standalone order backlog, you mean to say the orders we booked in this?

Kirti Jain: Standalone backlog sir?

Kirti Jain: 1160 right sir?



- MV Reddy:** Yes.
- Kirti Jain:** 1214 was the number you gave including?
- MV Reddy:** Yes, 1160 will be the number for standalone.
- Kirti Jain:** Sir with regard to order flow expected for H2 what is the number we have in our mind and how it shapes up in terms of the mix sir which you usually give?
- MV Reddy:** For Q3 we have projected about 150 crore, you are asking for half yearly?
- Kirti Jain:** Yes, next six months October to March how much order we are expecting and what would be the mix of that we are expecting?
- MV Reddy:** In Q3 we are expecting about 150 crore. And in Q4 220 crore.
- Kirti Jain:** Okay. Sir how would be the mix of these domestic vis-à-vis exports roughly?
- MV Reddy:** Of around 150 in Q3, 70 crore were expected from space and 20 crore from defense and 60 crore from exports.
- Kirti Jain:** Okay, sir with this what we see if we now given half year has gone up, how we see the full year revenue sir, any change in the plan or how we see the full year revenues?
- MV Reddy:** Full year revenues will be at the same level like between 450 to 475 kind.
- Kirti Jain:** And next year what is our plan given the order book has shared up?
- MV Reddy:** Next year probably by next investor call we will give you a total details but as on date it appears like we have got 500 crore worth of orders probably we can book in next year.
- Kirti Jain:** Okay. So at least like a double-digit growth should be possible?
- MVReddy:** Yes.
- Kirti Jain:** Sir how would be mix sir, it would be favorable mix or adverse mix next year broadly? In terms of margin mix, product mix?
- S Gurunatha Reddy:** It's same like the current year, I don't see any major change in the next year mix also, next year order book.
- Kirti Jain:** Okay. Sir in the previous participant, you highlighted that we endeavor to reach the order book of 1800 crore. Sir can you highlight like how would we reaching that journey actually given that next two quarter there would be a replenishment of book which would be happening and



our order book would be again coming back to 2200 crore after that how we would be reaching higher level, next level of order book jump from here on?

MV Reddy: As I said we are working towards that goal to keep at least three years revenue into the backlog order, it is not nothing like that I have immediate orders in pipeline, that's the first thing. Second thing is yes, we have been participating in many orders like from MOD and other sectors, where in the size of the orders will be large as compared to the orders what we are booking from the Tier-I. So keeping that scenario we are working towards 1800 crore.

Kirti Jain: Sir, these would be reasonably profitable orders sir which you would be taking upon, which you are thinking of the new business line?

MV Reddy: Yes.

Kirti Jain: Better than our exports profitability sir?

MV Reddy: Definitely better than exports.

Moderator: Thank you. The next question is from the Santosh Yellapu from IndiaNivesh Securities. Please go ahead.

Santosh Yellapu: In the next 12 to 18 months what would be the percentage of projects which will be completely new orders, kind of prototype orders or products which are not repeat orders?

MV Reddy: Percentage of the new orders that is R&D orders would be close to I would say 10%.

Santosh Yellapu: Okay. And status of the seekers project because one of our systems integrators also gearing up and is very much ready with their seekers. So, where do we stand on that, last time you said that we are at a very later stages how long do we need to wait for all this clearances?

MV Reddy: Well, out of two seekers which we have started development, one seeker in fact is which is almost in one stage and we are likely to get one pilot project. So that we are expecting in this quarter itself or maybe in Q4. So once it is through, I think probably we should be in a position to supply the seekers in a bigger way. The other seeker development also is going in actively, I think it may take another couple of months. We got stuck into some technical issues, design related issues probably will be able to in a position to come over, in two to three month's time frame.

Santosh Yellapu: And sir lastly, now that we are ready with some of the non-defense radar at our end like the Doppler with the radars, by when we intend to go more aggressive into the international markets, because product ready what stops us from participating in international market?

MV Reddy: Yes, we started supplying these radars to now IMD probably another six to eight months timeframe. We should be in a better position to go to the international market and then start



promoting. We were just looking for this particular order to be executed. Then after parallelly we are trying to explore the export market.

- Santosh Yellapu:** Where do we see the opportunity sir, which are geographies we see the opportunity?
- MV Reddy:** In Asian countries in fact we have been pursuing it couple of inquiries, probably it may take another six to eight months' time probably we will get a good prospects.
- Santosh Yellapu:** And sir do you maintain a revenues guidance for a FY20?
- S Gurunatha Reddy:** Yes.
- Moderator:** Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.
- Kaushal Shah:** Sir, if you can update the breakup that you, sorry, I missed that number. Question was regarding to working capital, this year the working capital half year ended seemed muted I am not sure but is this our normal phenomenon in each month or this is kind of one-off which gets corrected as we go?
- S Gurunatha Reddy:** No, I didn't understand your question on working.
- Kaushal Shah:** So, sir if I look at the inventory and the debtors are little high compared to the March numbers vis-à-vis the revenue? So sorry, I was talking about the debtor number and the inventory number vis-à-vis the revenue for the half year it seemed to be a little elevated to me. Is this a normal phenomenon or this will get corrected as we go along?
- S Gurunatha Reddy:** See we have projected to do about 450 to 475. And we have done first about 130 crore as of today therefore whatever in terms of the inventory whatever inventory that has built up is going to take care of the requirements in the next six months of the operations. This is number one, and number two is that if you look at the current year sales major sales happened in the last month of August and September, therefore the entire sales are sitting as the receivables in a balance sheet. So that is the reason why these two numbers are appearing slightly higher compared to the standards.
- Kaushal Shah:** Sure. So what kind of a working capital number sir, in terms of days should we build in for let's say FY20?
- S Gurunatha Reddy:** It is very difficult because most of our revenue realization is very skewed towards later half of the financial years.
- Kaushal Shah:** Right.



- S Gurunatha Reddy:** And that will push us in terms of stock in the inventory throughout the year and in fact by the end of the year large amount of receivables will sit in the balance sheet. Therefore, people are trying to know looking at the numbers in a different way, but otherwise the working capital cycle is normal to any other industry except that in terms of the inventory the holdings are slightly higher, because most of these items are made to order and this is not something which you can buy off the shelf.
- Moderator:** Thank you. The next question is from the line Ratish Varier from Sundaram Mutual Fund. Please go ahead.
- Ratish Varier:** Just one question from my side in terms of EBITDA margin, how do you see it in the second half because this lumpiness this quarter, but as you said a lot of revenues flow through in the second half and looking at your mix what you are expecting what kind of EBITDA margin one should expect for second half? Thanks.
- S Gurunatha Reddy:** At least for the next quarter, the immediate quarter more or less, the numbers what were achieved in the current quarter are likely to get repeated. Whereas, in the fourth quarter probably there will be a slight correction because the exports are going to be a major portion of the Q4 sales.
- Moderator:** We will move to the next question that is from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.
- Kirti Jain:** Sir my question has been answered with regard to receivables. Thank you.
- Moderator:** Thank you. The next question is from the line of Diwakar Chandrashekar an Individual Investor. Please go ahead.
- Diwakar Chandrashekar:** What I want to understand is what is the total order book in the JVs that you have, I believe other than the Rafael JV you have one more JV right?
- S Gurunatha Reddy:** We have only one JV.
- Diwakar Chandrashekar:** Okay. So why don't you show the portion of the company's portion of the JV in the order book it will just give a better picture and the true picture?
- S Gurunatha Reddy:** Yes, as per the regulations we felt probably the JV numbers should not be there. But from the coming quarters onwards we share with you whenever we send the details for the conference call. We don't have an issue in sending.
- Moderator:** Thank you. The next question is from the line of Pravir Adhikari from Ratnabali Capital. Please go ahead.



- Pravir Adhikari:** Are there any late delivery charges if yes, please update for Q2 as well as first half of this financial year?
- S Gurunatha Reddy:** Yes, the revenues whatever we are showing is net of late delivery charges also, for the six months period. The amount is about 1.63 crore whereas for this quarter it is about 1.63 crore for the period ended.
- Pravir Adhikari:** 1.63 crore for H1?
- S Gurunatha Reddy:** You are asking for six months period?
- Pravir Adhikari:** Yes, for this quarter as well as H1.
- S Gurunatha Reddy:** For the first quarter it is about Rs.46 lakh. For the end of six months period it is about 2.59 crore. That means for the second quarter it is about 1.63 crore.
- Moderator:** Thank you. The next question is from the line of Vaibhav Badjatya from HNI Investments. Please go ahead.
- Vaibhav Badjatya:** For our JV Rafael Israel which we have 30 million order, for the current full year what would EBITDA the revenue and do you think that this JV will break even this year or it will take your next year, in terms of PAT, in terms of profits I am talking about profit after tax?
- S Gurunatha Reddy:** The JV actual production is likely to start in the month of January, February. Therefore in the current year there will be a loss in the books of JV, of course at the end of next financial year there will be a profit.
- Vaibhav Badjatya:** Next year there will be profit in this?
- S Gurunatha Reddy:** Yes.
- Vaibhav Badjatya:** Okay. And what is the broad profits that we can look from this JV next year, is it more in line of our standalone numbers or all this would be substantially different margin?
- S Gurunatha Reddy:** The current order what JV has is an off set order for Rafael Israel, therefore off orders generally carries very low margin. Think it carries about 15% gross margin as of today.
- Vaibhav Badjatya:** 15% gross margin?
- S Gurunatha Reddy:** Yes.
- Moderator:** Thank you. The next question is from the line of Diwakar Chandrashekar an Individual Investor. Please go ahead.



Diwakar Chandrashekar: Do you think we can get more orders from the Rafael JV going forward other than this 30 million order?

MV Reddy: Yes. The marketing team is working for more orders. They have been participating in RFIs RFPs so it will take time. But there is no immediate order at least for the next three to four months.

Diwakar Chandrashekar: And tell me one thing, what is the kind of competition that you face domestically that you have to, domestically what is the kind of competition that you all have in the highest frequency radar segment or the segment that the company has core competencies. Can you throw some light on that?

S Gurunatha Reddy: Now are you referring to the JV operations or you referring to Astra Microwave?

Diwakar Chandrashekar: No, Astra Microwave.

S Gurunatha Reddy: There is no specific name to mention. But generally there are people working in aerospace defense. Most of these players will be competitors as and when these things are open up for tenders. Specifically we are not able to name anyone as of today.

Diwakar Chandrashekar: And internationally I believe obviously you have competition that is obvious.

MV Reddy: No, we are not into exports of these radars. So we are more like servicing the subsystem supplies to the major players.

Diwakar Chandrashekar: Domestically?

MV Reddy: Yes.

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

Kirti Jain: Now with the Astral promoters more in the passive role and new investors are coming board. Like we are seeing the Texmaco Group and other names are coming in. So are they now leading the company entity more strategic businesses or any inputs being received from their side or how the things progressing on that front any and also they have given any intent to put fresh money into the company through open offer or any other group sir?

S Gurunatha Reddy: In fact in the last con call we have spent close to about 10 minutes explaining the same thing and there is no change to that. We are the two people who are managing the affairs of the company and we will continue to do. So, beyond this we will not able to share any further details.



- Kirti Jain:** Sir with regard to strategic initiatives which the booked able three x which you are trying to add, can you elaborate a bit more sir actually, what is the real thing we want to do?
- MV Reddy:** Strategic model in terms of associating through joint ventures, features of defense business is going to more in terms of Make in India programs. Therefore, as a subsystem company there is a limit in terms of the growth which we can achieve. Therefore, going forward we should also get into systems in a small way. The only way for that is to associate with the global players with the technology players. So when we will talk about strategic relationship, we generally mean this.
- Kirti Jain:** Okay. Sir when we do in the trade business, what will be the edge we will bring over BEL in terms of cost competitiveness or any other large players in terms of cost competitiveness?
- MV Reddy:** No, it is very specific to answer this question but did not have one single company is going to the monopoly one. Once this programs become aggressive. Therefore everybody has to work it out in a competitive way so that they will win the tender at the end of the day. Ultimately, that's what matters.
- Kirti Jain:** Sir when we would be participating, any in next six months such programs are coming or next one year those programs are coming through?
- S Gurunatha Reddy:** Immediately, if at all there is going to be business which is similar to what we are talking about, it will be done by the Rafael JV. That only will be the one who will be bidding for some of these industries which are likely to come in.
- Moderator:** Thank you. The next question is from the line of Santosh Yellapu from IndiaNivesh Securities. Please go ahead.
- Santosh Yellapu:** Sir one follow up point to kirti sir's point, while selecting in JV partner or associating with any new organization. Sir, I was just trying to understand what would be the parameters or areas we should consider as the areas we would be looking while forming the JV, is it the technology transfer agreement is that focusing on maintaining the majority stake or what was the key areas which would like to be very concerned or focused upon or is there any JV that comes upon as an opportunity that will consider or is that we want to limit ourselves to certain specific technology arrangements or sub areas like radars or AWS or anything like that. Can you give some qualitative comments that should be very helpful sir?
- S Gurunatha Reddy:** I think the discussions are becoming very general. Okay, if you want this kind of things so better we will have a discussion one to one. So please come down to Hyderabad whenever you have time so that we can share more details with you.
- Moderator:** Thank you.
- S Gurunatha Reddy:** I think no more questions are there, we can close the call operator.



Moderator: Sure sir. Would you like to add any closing remarks?

S Gurunatha Reddy: Yes. Thank you, gentlemen for your participation. And look forward to talk to you again at the end of third quarter. Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of Astra Microwave Products Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.