

**ASTRA MICROWAVE PRODUCTS LIMITED**

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November 18, 2020

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 13th November, 2020.

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 FY21 Earnings Conference Call”

November 13, 2020

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



Moderator: Ladies and gentlemen, good day and welcome to Astra Microwave Products Limited Q2 FY21 Earnings Conference Call. We have with us today, Mr. S. Gurunatha Reddy - Managing Director and Mr. M. V. Reddy - Joint Managing Director. 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 ‘*’ and 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 afternoon ladies and gentlemen and I welcome you all on my behalf and on behalf of my colleague, M. V. Reddy to this call to discuss about 6 months financial performance of the company. The results were taken on record by the board of directors in meeting held on 11th November and most of you might have already seen the results which have been displayed through stock exchange and other public media. We have also shared with you broad financial parameters and performance details of the company including the order book along with this invitation to the call. However, for the benefit of those people who have not seen the results, I will give broad details of the performance.

For this quarter, we did gross sales of about 111 crores and cumulatively for these 6 months, we did about 208 crores as against 137 crores of last year and in terms of profitability for this quarter and 6 months period, we are in a negative profit. We will let you know why that negative profit is there as against profit of about 16 crores made in the corresponding period of last year. The profitability is in negative because most of the orders what we have executed in the first 6 months pertains to exports where the gross margins are relatively low compared to the domestic business. In terms of few parameters to explain this point, last 6 months, that is the corresponding period of previous year, we had about 48% of the sales, which have given a gross contribution of about 80%. Such sales are only 4% in this period. Similarly, we had close to about 60% of the sales which has given a contribution of about 20% this year as against 27% of last year. So this is the major reason why there is a negative profit in the company; however, going forward, we are confident that we should be able to turn green and deliver the performance what we have promised in the beginning of the year in terms of the topline, whereas in terms of the bottomline, probably there may be a correction by about 2% points essentially because majority of sales, I would say about 60% of the sales are going to be from the export segment.

In terms of the numbers, we should be doing close to about 400 plus crores in the next 6 months period and we will be delivering about a PBT that is profit before tax of around 6 to 8% of sales. These are the broad details I can share with you basing on the results that have been declared. Now, we open this meeting for question and answers.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Dhruv Saraf from Ratnabali Securities. Please go ahead.



- Dhruv Saraf:** Sir, I had a question on the cash generation of the company for the last one year, so if we see of our cash flow statements over the last one year between September 2019 and September 2020, what I see is that company has reported an EBITDA close to 120 crores, this is a rough ballpark figure, but your cash generation has not been up to the mark, whereas your cash from operations actually has been negative due to which your debt has kind of ballooned year-on-year, so could you give us an insight as to what is happening and why cash generation being so weak for the company as much?
- Management:** Essentially, whatever profit that is being generated is going back into the sundry debtors inventory and other current assets of the company. Beyond that, there is nothing else I can share.
- Dhruv Saraf:** Sir, but if I were to look at your balance sheet, I am seeing significant tie-ups in inventory and receivables even after us receiving an export prepayment for the export order. What we have seen is that there has been a significant inventory buildup, so can you just tell you as to when will the company, when does the management expect that these inventory on receivables would turn into cash pay for the company?
- Management:** In terms of inventory, about 265 crores which is there as of September, close to about 150 crores is pertaining to the exports which is required and I would say that most of these inventory is going to get converted into the sales in the next 6 months, whereas the inventory of 170 crores, may be about 70 crores will get converted into sales and we may be carrying forward about 100 plus crores of inventory which is essentially required for our domestic business.
- Moderator:** Thank you very much. The next question is from Kirthi Jain from Sundaram Mutual Fund. Please go ahead.
- Kirthi Jain:** Sir, my first question is with regard to the usual order book breakup you used to give, domestic exports and domestic segmental order you used to give, can you give the details, sir?
- Management:** In fact, I have shared a separate excel sheet along with the invitation, I don't know whether you have received that or not.
- Kirthi Jain:** I got it from the stock exchange, sorry sir, I think I am not there...
- Management:** In terms of order book, the total order book position is about 1,770 crores. Out of that, exports is about 1028 crores and the balance is domestic one which is around 741 crores. Within these domestic 741 crores, defense and defense PSU is about 417 crores, space segment is about 236 crores and the balance is hydrometeorology, AWS kind of orders.
- Kirthi Jain:** Sir, in H2, what is the order flow which we are expecting and what would be the broad breakup between domestic and export, sir?



- S. Gurunatha Reddy:** Mr. M. V. Reddy will take that.
- M. V. Reddy:** H2, approximately, we are expecting about 320 crores.
- Kirthi Jain:** And what would be the broad breakup, like domestic how much and export how much?
- M. V. Reddy:** It is about 110 crores is from export and the rest is from domestic, around 220 crores from domestic.
- Kirthi Jain:** Given that sir, the export backlog will get depleted faster, should we expect a better margin in FY22, sir?
- M. V. Reddy:** Yes, in fact most of these domestic sales which we have planned in the first half of the year, so that is getting executed in the next year, so FY22, definitely will be a good margin.
- Kirthi Jain:** Sir, for current year, what is the domestic export mix for full year it will be, sir in the sales you are expecting?
- Management:** Close to (+600) we are expecting the total revenue for the current year. In this, close to 350 to 370 crores would be from export and the rest is from the domestic.
- Kirthi Jain:** Sir, in terms of receivable, when the milestones are coming, sir for customers paying us?
- Management:** Yes, in fact because of this COVID issues, there are some budget cuts like from DRDO and from ISRO, you are aware of this, so there the realization period has gone up, so slowly we are recovering. Probably next 3 to 4 months' time, I think we should be in a position to recover all the whole dues. I think by January or by February, we should be in a comfortable situation as far as the receivables is concerned.
- Kirthi Jain:** Sir, going into FY22, how does the ordering pipeline look into? Do we expect good orders in FY22 also?
- Management:** Yes, we have projections of close to 550 crores for the next year also for FY22 and we are expecting current order backlog what we have as on date 1700 crores, so I think in that even if we execute 400 crores, I think we would be in a position to enter into the next financial year with a close order backlog of 1500 crores.
- Moderator:** Thank you very much. The next question is from the line of Subrata Sarkar from Mount Intra Finance. Please go ahead.
- Subrata Sarkar:** Sir, I may have missed it sir, if you can once more repeat the breakup of order book sir, like how much from defense, how much from ISRO and all those things?



Management: The total order book as of 30th September is 1770 crores. Out of that, exports is about 1028 crores and the domestic is about 742 crores. Within the domestic 742 crores, 417 crores is from defense and the defense PSUs, space 235 crores and the balance is from HydroMet, AWS that is Automatic Weather Station and Meteorology Departments.

Subrata Sarkar: Now, sir, next version is like sir, like recently just to update you, like there were some private organization which has got some order from recently defense although into unaided sector like ammunitions and all those things, so sir what is our progress regarding this missile system? Is there any progress on that sir, like in case of our operation, any new project or like we have get into any new systems or something like that sir, particularly on the missile side, sir?

Management: Yes, particularly in missile side also, apart from the Akash our presence is there in both PR firm as well as in Astra missiles, it is going for production, so we have our sub systems there. I think once it goes for the production, Astra missile has already started like dependent production has been, order was placed on BDL, so we are just getting the orders for those sub systems. Apart from that, we do have our presence in **QRSAM** and Astra missiles. So yes, we have been expanding our product portfolio in missile segment and as far as ammunition is concerned, yes, we are entering into that sector also and we have been working with ARDE, the DRDO lab and we are supplying electronic fuses for that sector.

Moderator: Thank you. Next question is from Prabir Adhikary from Ratnabali Capital. Please go ahead.

Prabir Adhikary: Sir, I want to know like what is the current order book of your JV, ARC?

Management: JV, we have order book of close to almost \$97 million, so 33 million is from Rafael and JV has received \$64 million order value, again it is from Rafael, but the order was placed from the **KRAS** another joint venture of Rafael.

Prabir Adhikary: Sir, from when it will start operating?

Management: The Rafael order in fact which we are expecting to book sales actually starting from January 21 and the **KRAS** it will go only for FY21, so I think start from April 21 onwards we will start those sales as far as the CRAS order is concerned. So, in all in all I think next year, that is for FY21 we are expecting close to 110 crores worth of sales from joint venture.

Moderator: Thank you very much. The next participant is Rajendra Shah from Rajendra J Shah & Associates. Please go ahead.

Rajendra Shah: Regarding the next 6 months, the projection which you have given that is the turnover wise and the profitability wise, what it be sir?

Management: Next 6 months, we said we will be doing about 400 plus crores of turnover.

Rajendra Shah: 400?



Management: 400 plus, may be around 410, 420.

Rajendra Shah: And 6 to 8% is the profitability?

Management: Yes, overall profitability is what I said by the end of year.

Rajendra Shah: That is PAT or what?

Management: That is PBT, profit before tax.

Rajendra Shah: Profit before tax?

Management: Yes.

Rajendra Shah: So, the current year, we will be ending up with the less number compared to the last year, I think so?

Management: Yes, in terms of the absolute numbers, it will be lesser than last year.

Rajendra Shah: And financial year 21-22, how much do you expect the turnover to be?

Management: We should be doing in excess of 600 crores, even for 21-22.

Rajendra Shah: Above 600?

Management: Yes, in excess of 600 crores. Probably, profitability numbers and all, we will let you know when we meet next time.

Rajendra Shah: And what about the JV sale you said that current year is 110 crores?

Management: Not in the current year, in 21-22. In the current year it is going to start deliveries, may be by January or so, but it is going to be very small amount, but in 21-22 financial year, the JV will be doing about 100 plus crores, may be 110, 120 crores of sales we may do.

Rajendra Shah: So, the 1700 crores order book position which you have shown that it is to be executed in which session sir, which way?

Management: Yes, in next to the 36 months is what we said, and we also said by the end of the financial year, our order book will be about 1500 crore kind of thing, we will be entering the next financial year.

Rajendra Shah: And you are hoping in the next financial year to get nearly 550 crores new order?

Management: Yes, exactly right, yes.



- Rajendra Shah:** Okay sir, so the profitability wise, current year will be the less number income?
- Management:** Yes.
- Moderator:** Thank you. Next question is from Prabir Adhikary from Ratnabali Capital. Please go ahead.
- Prabir Adhikary:** Sir, I can see that in H1, roughly 1000 crores of order inflow was there, so can you please give us a broad breakup of these order?
- Management:** In H1, I think it is not 1000, it is only 512 crores. What we booked in H1 of this current year, we booked 512 crores in the domestic, defense is about 206 crores, very small amount with 13 crores and meteorology 32 crores, export is about 270 crores.
- Prabir Adhikary:** Sir, I was talking about the consolidated order inflow which is this quarter 847 and last quarter it was 137, so almost 1000 crores that is what I said?
- Management:** No, I don't think those are the numbers. Cumulatively, for the first 6 months we have booked around 600 plus crores of orders, probably, you have to recheck those numbers.
- Moderator:** Thank you very much. Next question is from the line of Raj Sekhar, an Individual Investor. Please go ahead.
- Raj Sekhar:** My name is Raj Sekhar. I have been an individual investor in your company since 2015. Now I see the way your operations and the profitability is going on this year, I don't think you are going to make profits, but next year looks like you will be executing and then making good profit, because as an individual investor, I want the share price to go up. Unless the operations of the company and the profitability goes up, it is not going to benefit me and I am happy that you guys are doing highly technical job, but at the same time it should reflect on the bottomline. That is what I just want a word of confirmation and then your, at least a forward-looking statement as to how the next year will look like?
- Management:** Yes, as we said earlier, next year also we will be doing 600 plus kind of turnover. Majority of that is going to be domestic as compared to the current year. Since we have fairly better margins compared to the export business, overall profitability will be better than what we are likely to end up in the current year.
- Raj Sekhar:** But what I am seeing is you say that your profitability is in the range of 6 to 7%, but usually all these defense orders, the profitability should be slightly higher, correct? Why is it profitability less?
- Management:** We are talking about the mix of both the exports and domestic. Domestic as we said the margins are better whereas in the exports what we do essentially is a production job. It is built to print kind of thing. There, margins are very small, but for domestic business, yes, we have a good amount of margin. At the end of the day, it all depends on what kind of mix we have



exports versus domestic. As we said in the current year, exports are going to be more than domestic and hence the overall profitability will be at a lower level which is likely to get corrected in the next financial year because we are likely to do more domestic business compared to the exports.

- Raj Sekhar:** And next year, your JV also should contribute and that also should increase your profitability?
- Management:** Yes, definitely. There will be some share of profit from the JV, but as we said, it is going to do about 100 crores, so out of that we own about 49%. So, it all depends, definitely there will be some contribution from the JV.
- Moderator:** Thank you. Next question is from Abhijit Mitra from ICICI Securities. Please go ahead.
- Abhijit Mitra:** My first question is on the order book, 1776 crores, I might have missed it, but if you can just quickly take us through the breakdown of this 1776 crores of order which you have and the broad timeline of execution that you see for the segments, if you can also highlight, thanks?
- Management:** Abhijit, this is the third time I am repeating. Anyway, you are a good friend, therefore I will repeat. Out of 1770 crores, exports is about 1028 crores, domestic is about 742 crores. Within 42 crores, defense is about 417 crores, space is about 236 crores, hydrology/meteorology/automatic weather stations and all is about 88 crores. This is the breakup.
- Abhijit Mitra:** And the timeline of execution sir, for example, if you can just broadly highlight the 1028 crores of exports, is this for two years, one can take?
- Management:** Yes, it is for 2 years.
- Abhijit Mitra:** And what about the rest?
- Management:** Even in the domestic also, most of the orders of execution period was 2 to 3 years.
- Abhijit Mitra:** And what are the existing visible order inflows that you see, which are the prospective orders that you sort of look to be in contention of within the next 6 to 9 months?
- S. Gurunatha Reddy:** As I said, next 6 months we are likely to book another 320 to 340 crores around there.
- Abhijit Mitra:** Any particular order that you would like to sort of...
- Management:** I don't want to give furthermore details about the orders which we are likely to book, but these are all in that around 100 crores from export front, but the rest are from the domestic, usually under defense.



- Abhijit Mitra:** And also, if you can broadly mention the CAPEX plan that you have both on standalone as well as on your consolidated which includes subsidiaries and JV?
- Management:** No, we don't have any CAPEX plans as of now, only the need-based thing what we are doing.
- Abhijit Mitra:** And any stress on the working capital side that you are witnessing right now, how has been the cash flow situation like as far as the outlook is concerned, is the cash flow situation, are you seeing timely receivable getting cleared or is it sort of building up now as we move into second half?
- Management:** There is a delay in our realizations, especially from the public sector undertakings and ISRO, but that is improving now, so probably we should have more comfort may be around first quarter of next year, but otherwise in terms of working capital support and availability we don't have any issues as of today. Operations are going on smoothly.
- Moderator:** Thank you. Next question is from Rajendra Shah from Rajendra J. Shah & Associates. Please go ahead.
- Rajendra Shah:** Sir, in the beginning of the year, you were projecting that our turnover and other things will be repeating in these year, what has happened that the first half even though the turnover is good and the second half also you are telling that the export will be more domestic is there, what is the mix of the thing which has happened and you have to reduce now the guidance?
- Management:** In terms of the topline, in fact we will be exceeding the guidelines, whatever we have given in the beginning of the year. In terms of profitability, yes your statement is correct that we said we are likely to maintain the same profitability numbers as compared to the previous year, but there is one segment of business which is getting deferred because of some changes in the government policy which was contributing in a bigger way for the profitability, so that is the reason why the profitability guidance what are we have given you, we are not able to stand on that.
- Rajendra Shah:** Which is the sector you are saying?
- Management:** It is space segment; some changes have happened. As a result, now there is some delay in execution of the business is happening there. That is the reason why the profitability is getting corrected.
- Rajendra Shah:** But that thing has been delayed, but it has not been washed out?
- Management:** No, it is only delayed.
- Rajendra Shah:** So, it will be compensated into the next year or what?



- Management:** Yes, the execution got differed, therefore hopefully once we execute in the next year, the profitability is going to come back.
- Rajendra Shah:** So, can we expect the better profit in the year 21-22 compared to the 19-20 what we had because most of the domestic will be there in the next year as you are saying?
- Management:** We will share the developments as I said. I cannot be very specific about whether it is going to be much better and all, but definitely the profitability is going to be better than what we are likely to end up in this current financial year.
- Rajendra Shah:** Current financial year, that is the obvious. What we were expecting in the year 2021, the same profitability of 19-20. Now, if we are deferred into the next year, so definitely the export will be less, domestic will be more, our operations would get better than the 19-20, that is my
- Management:** Yes, you are correct.
- Moderator:** Thank you. Next participant is Kirthi Jain from Sundaram Mutual Fund. Please go ahead.
- Kirthi Jain:** Sir, just one clarification, you told PBT margin will be 6 to 8% for the full year, correct, sir?
- Management:** Yes.
- Kirthi Jain:** In your opening remark sir, you were referring that there will be 200 bps correction in the profitability that is for the second half?
- Management:** The profit will get corrected in the sense we have reported negative profit in the 6 months period. As such by the end of the year, we are going to end up in green. That is what I said.
- Moderator:** Thank you.
- S. Gurunatha Reddy:** Neerav, if there are no questions, let us close the call.
- Moderator:** Sir, we don't have anyone in the question queue. Would you like to give any closing remarks.
- S. Gurunatha Reddy:** Yes. Thank you for joining us in the discussion and I look forward to meet you again at the end of third quarter. Thank you.
- Moderator:** Thank you very much. On behalf of Astra Microwave Products Limited, that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.