DATA PATTERNS

Date: 03.11.2022

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National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex, Bandra(E), Mumbai -400051 NSE Symbol- DATAPATTNS	**BSE Limited** 25th Floor, P.J. Towers, Dalal Street, Mumbai- 400 001 Company Code: 543428

Sub: **Disclosure under SEBI (Listing Obligations and Disclosure Rrequirements), Regulations, 2015- Transcript of Earnings Conference Call**

Dear Sir/Madam,

Further to our earlier intimation regarding the earnings call to be held on Tuesday, 01st November, 2022 for the Unaudited Financial Results for the quarter and half year ended 30th September, 2022, please find enclosed herewith the transcript of the same.

We request you to take this intimation on record.

For **Data Patterns (India) Limited**

MANVI BHASIN

Digitally signed by MANVI BHASIN
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Manvi Bhasin
Company Secretary and Compliance Officer

Encl: as above

“Data Patterns (India) Limited

Q2 FY ‘23 Earnings Conference Call”

November 01, 2022

MANAGEMENT: **MR. S. RANGARAJAN – CHAIRMAN & MANAGING DIRECTOR – DATA PATTERNS (INDIA) LIMITED**
MS. REKHA MURTHY RANGARAJAN – WHOLE-TIME DIRECTOR – DATA PATTERNS (INDIA) LIMITED
MR. VENKATA SUBRAMANIAN – CHIEF FINANCIAL OFFICER – DATA PATTERNS (INDIA) LIMITED

MODERATOR: **MS. MONALI JAIN – GO INDIA ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY 2023 Earnings Conference Call of Data Patterns hosted by Go India Advisors. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Monali Jain from Go India advisors. Thank you, and over to you, ma'am.

Monali Jain: Thank you, Rutuja. Good afternoon, everyone, and welcome to Data Patterns (India) Limited earnings call to discuss the Q2 and H1 FY 2023 results. We have on the call; Mr. S. Rangarajan, Chairman and Managing Director; Ms. Rekha Murthy Rangarajan, Whole-Time Director and Mr. Venkat Subramanian, Chief Financial Officer.

We must remind you that the discussion in today's call may include certain forward-looking statements and must be therefore viewed in conjunction with the risk that company faces. Also please note that we have uploaded a revised presentation on exchanges. Please refer to the same for today's discussion. May I now request Mr. Rangarajan to take us through the company's business outlook and financial highlights, subsequent to which we will open the floor for Q&A. Thank you, and over to you, sir.

S. Rangarajan: Thank you, Monali. Good afternoon, ladies and gentlemen, and thank you for joining us today for our Q2 FY 2023 earnings con call. I hope you would have seen the results presentation, which has been uploaded as Monali just mentioned on the exchanges and on our website. While Venkat will take you through the results, I want to briefly touch upon the key highlights for this quarter.

We have delivered the highest ever quarter two and H1 revenue. H 1 revenue increased 1.6 times in the last year same period with profit increasing by 1.5 times. When you look at the H1 results closely, you will see the gross margins have been maintained at 65%. Another key thing to notice is that development contracts contributed higher to the revenue and order this quarter. This is an important highlight because development contracts translated into production contracts in future and provide a good visibility for our future revenues.

We have good visibility on our future performance, because of a strong order book. If you remember, in our last earnings call, I had mentioned that based on the advanced stages of negotiation, we are on track for INR 1,000 crores order book. I'm happy to report that our order book stands at over INR 880 crores as on date, highest ever for the company. A large proportion of this is from development contracts it eventually turns into a production contracts, and hence we now have a very good idea about our medium-term revenue visibility.

The order intake of INR 471 crores of Q2 has been much ahead of our expectations. Some of the large orders received in H1 were two radar orders from DRDO worth INR 362 crores. These are development orders, development and production orders worth INR 30 crores for Electronic Warfare. We also received an export order and production order from DPSU, totaling INR 22 crores in the Avionics Naval systems segment, two more orders from DRDO for EW & Communication worth INR 40 crores are also received.

Today, our order book is well-diversified. I'd like to spend a few moments and share my experience on the recently concluded DEFEXPO. Our capability in R&D, engineering and execution was well recognized and Data Patterns received Raksha Mantri Award for Excellence in Innovation and Technology for the year 2021, 2022. I need to add here that this is the first time a Raksha Mantri Award has been constituted in India, and we were the first recipient of this award, which has given in DEFEXPO.

After many years and maybe for the first time in the last 30 years, India's private sector defense companies now has a support from the government, which had lacked for many decades. Honorable Defense Minister was clear and he said Aatmanirbharbharat in defense R&D synergistic approach will help us achieve Honorable PM, Modi's vision of Make in India, make for the world.

It's a golden period, and it will be a sunrise sector in future. The government has set the target of increasing defense production from $12 billion to $32 billion by 2025 and has a reserve of 68% of the defense capital acquisitions for domestic procurement for the year 2022 to increase the participation of domestic industries in the defense sector. This will be worth approximately about INR 85,000 crores and 25% of this, INR 21,000 crores has been reserved for domestic private industry. A quarter of defense R&D budget has also been dedicated to industry-led R&D to encourage private players.

We are uniquely positioned to benefit from the sectorial opportunity as we develop complete systems in-house. We also have the best-in-class manufacturing facilities. We have been expanding this facility and it will be ready by this quarter. We have a strong debt-free balance sheet and good working capital lines.

Our strategic priority for the next two years is clearly laid out. We will be focusing on larger opportunities in radar, EW and the satellite business. Export markets will grow for us as we are working on multiple opportunities there. We will participate in over INR 20 billion to INR 30 billion worth of contracts for the next three years to four years. These efforts should help us achieve our topline growth of 25% to 30% and delivered a strong ROE and ROCE of more than 20%. I'll now hand over to Venkat for his comments.

Venkata Subramanian: Thank you, sir. Good afternoon, ladies and gentlemen. We are happy to inform you that we have delivered a strong and the highest ever H1 performance. I will take you all through the financial performances for the quarter that had gone by.

Our revenues in Q2 and H1 grew 1.5 times and 1.6 times year-on-year to INR 88 crores and INR 156 crores, respectively. In H1, revenue from development orders contributed in line with our guidance. Gross margin for the quarter and half year have been maintained at 65% and the EBITDA margin at 33% in Q1 in line with our guidance.

PAT during the quarter stood at INR 21 crores at a growth of 64% year-on-year. And for the H1 it was at INR 35 crores at a growth of 52% year-on-year. EPS for the first half is at INR 6.80. We have spent till now for the new facility and the cash in the book is INR 68 crores at the end of H1. Working capital is well-managed at 367 days, slightly stretched inventory days due to planned buying ahead of time to mitigate delays due to semiconductor shortages and supply chain challenges. We will be able to maintain the working capital base in the range of 280 days to 300 days in the medium to long-term. Overall, H1 performance was quite strong, generating record revenues. Q4 still is a significant quarter, but we can see seasonality coming down gradually.

With this, we will open the floor for question-and-answers. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone, who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: Sir first question is pertaining to the future orders that we likely to book in the next two quarters. We mentioned in the press release that there are INR 128 crores worth of orders that are negotiated, but you are yet to receive LOI. If you can throw some light on these orders? And also simultaneously for the Himshakti and Arudhra Radar, BEL mentioned in their call that they are likely to get these orders by end of this year. So in all probability, one should assume that these two orders will be getting subsequently from BEL in FY 2024?

Venkata Subramanian: Regarding the INR 120-odd crores, which we have negotiated. A large part of it, about INR 70-odd crores is for the LCA Mk 1A cockpit display, which we developed in 2005, now the contracts are being negotiated and we expect the order to come this month. The other one is L1 or an automatic weapon loading system for tank. That also, I think the budgets have been released, so probably the order should come now.

As regards Himshakti and Arudhra, we are awaiting contracts on BEL. And back-to-back, we should get some business from them, yes.

Sandeep Tulsiyan: So that should happen in 2024. And this L1 for tanks, should it be the balance of INR 55 crores, INR 60 crores volume? Or is it lower?

Venkata Subramanian: INR 70-odd is nearly, INR 73 crores, INR 74 crores is for the cockpit displays and some few orders are there, smaller orders, and then about INR 30-odd crores for the weapon loader.

Sandeep Tulsiyan: Sorry, actually, it's not very clear, sir. If you can repeat that?

Venkata Subramanian: More than INR 70 crores is for the cockpit display and about INR 30-odd crores is for the weapon loader, and then some other smaller contracts, which will add up to the INR 120 crores we talked about.

S. Rangarajan: All of them are negotiated and finalized. It is only that we are yet to receive the contract on hand.

Sandeep Tulsiyan: And second question is on this C-295 Aircraft, I think the initial order on Tata-Airbus JV for 40 aircraft. But recently, some comments were made that there is a requirements for almost 2,000 aircraft over next 15 years. So what -- I mean, right now, do we have any play or any component that are going into these aircraft? Or what can be the future opportunities, have we done any tie-ups with this JV, if you can just share your perspective on this one?

Venkata Subramanian: So this C-295 is an aero replacement, some 16 aircraft flyaway, and the rest 40 being produced by TSL. This will be built as for the original specification C-295 that is Tata will built. So on that, I don't think there is going to be any -- electronic system is going to be modified or changed. So that is not going to be there.

The good thing is that the C-295 platform has been planned, now that it's going to be done in India, MOD, air force and navy and other people are planning few other requirements for using the C-295 platform other than only as a carrier of people. So there are discussions on clearances using it even COMJAM applications, maybe for a navigation like the P-8I, which you've done some equations like that, and using it as a follow-on jammer. Matter of fact, the enquiries in follow-on jammer has already been issued by headquarters, we are having some presentations done on a couple of days at the headquarters.

So this will be full work with using modifying the aircraft and then building all the equipment on top of it. Our interest is to build the equipment, which anybody wants. We are already ahead of the curve in terms of building these equipment, the designs already on, a large part is already completed. So we're trying to reuse EW systems already what we've designed. So we are really working on that.

We are also looking at collaborating as possible in such opportunities, if both minds meet then we should be able to do that. On top of that, we're also working [inaudible] for rental 13:02] per se, but other programs of Tata Advance Systems in the submarine [inaudible 0:13:08] got some few orders. We expect to build more in India rather than importing everything and integrating in India.

That's what I will be always saying we need to build an ecosystem in India. I think platform vendors like Tata, if we can work with them and build other critical censors and equipment on board. That is the clearing, which is happening worldwide, and we need to see that this also happen in India. So yes, it's a good thing that Tata got this contract and setting up the infrastructure here. I'm sure lot of investors, lot more activity will come to India and people like us will also participate in the activity.

Sandeep Tulsiyan: So in future, you can have the navigation system and jammers integrated…

Venkata Subramanian: We don't know for sure.

Sandeep Tulsiyan: And last question sir, is on the BrahMos, the organization BrahMos Aerospace made some comments and there is an opportunity of $5 million of exports of this system itself. And since we do the fire control systems over there and some testing equipment, if you can highlight what is the typical value of components that we supply in a standard BrahMos Aerospace system? How much of this $5 million can be the value of fire control systems and testing equipment? And secondly, is this -- again, is there single vendor or are there multiple vendors for these systems?

S. Rangarajan: See, I don't know what the $5 billion represents in terms of how many missiles, how many launchers, etcetera, only we will get configuration idea, we can comment on that. At the present moment, we are on the launcher business of BrahMos. We do the fire control system, which is what we call a ground-based launcher. We are also only the aircraft-based launcher, which is based on Su-30. There is also a discussion that the smaller missile is being planned to be inductor or tested. It will go into other platforms, in which case then we'll be doing automatic choice since you have done for a larger missile on a large platform aircraft like Su-30, it become a choice -- hopefully, a choice in these requirements.

So we expect some business to happen there. But we can't tell you for sure on the $5 billion, what exactly is our contribution, we will not be in a position to tell you now. But more importantly, we are also -- we have done the missile indigenous development that's been completed. We're expecting trials to happen – what DRDO is saying is that trials are expected in November, December. If the trials happen and successful, hopefully, if that is inducted into as part of an India missile program as part of BrahMos then that is also will be exciting if we can get back-to-back orders from them. And at the present moment, we need to await trials and see how the trials function and whether it really can get converted into business going ahead.

But yes, BrahMos, we are long-term partners to BrahMos. So we expect the BrahMos growth. We also grow with that growth. What quantity percentage, I can't tell you, but yes they will also grow with that.

Sandeep Tulsiyan: But you are the single vendor for these systems, right?

S. Rangarajan: Whatever we are doing today with the launcher, yes, we are single vendor both air and ground, hence we are single vendor. We also are a single vendor to all the test systems, missile test system earlier imported from Russia, indigence we developed this system for the last 10 years, plus we are developing the test system and delivering it to all services, Army, Navy and Air Force, obviously, through BrahMos.

Moderator: Thank you. Participants who wishes to ask a question, may press star and one. The next question is from the line of Shalini Gupta from East India Securities. Please go ahead. Shalini Gupta, may we request you to please unmute yourself if muted from your handset.

Shalini Gupta: Yes. Can you hear me now?

Moderator: Yes, we can hear you. Please go ahead.

Shalini Gupta: So sir, what I was saying is that I started looking the sector. So I had a few basic queries if you could help me. Sir, one is that what is the different landscape, like for example, is it that a few companies are given a certain technology to develop, and then there is no further competition and no further outside competition, and then you keep supplying to the government. Because otherwise, if everybody is working on certain technologies that would be a lot of wasteful expenditure it seems to me?

S. Rangarajan: So you see how this works is that look at it from the purpose of the Army, Navy, Air Force, they buy equipment, which is fielded for their use aircraft, ships, torpedoes, missiles, radars, whatever. So whoever can supply made the requirement, the tender is open, whoever wants participate in that requirement, they participate.

Now early days, obviously, India was not designing anything. So DRDO was given a mandate to develop. So they had given budgets and programs, and they were developing the labs, developing the products, once it's field tested, they were actually handing over the technology to production or PSUs, and the PSUs, like BEL and HAL and BDL were getting direct orders from MOD fore execution purposes. This is all within the government perspective.

And in DRDO when they outsource the development and design of subsystems, people like us participated, and once we participate, we've got the orders for the development plan, once development is over, then we become the OE for that part, which has been designed by us. So when BEL buys, gets order, further quantities from Air Force, Navy or Army, and back-to-back have to necessarily buy these from us, and thus we become the OE has been designed and flight tested and qualified, you cannot at that point, go and redo it again.

So like you said, wasteful expenditure and nobody has time and effort, because -- many years of development you can't repeat it. So that is the -- that is where the single tender business comes later on, after we go through open tenders, get contracts through the product, then later on production we get single tender business, that's what happens.

So it's not that some people are selected, and you do this and you get single tender and for lifelong, you keep getting orders. No. It is a competitive lands way, and you have to win bids, developed products. So this is on the DRDO side.

Now MOD said that we won't import anything now. Every tender will work for the Indian vendors, you can back-to-back tie up with foreign OEMs if you want. But mandatory, 50% Indian contender is there. So you need to do a lot more in India, and we've been in business, once you in business, you do this here.

So people like us who actually want to build end systems, not gets the competence you'll be doing with DRDO are now addressing the large market, saying that we build the end equipment ourselves without going to foreigners and getting this. So we want to build the equipment supply to ourselves in India. So there's a Greenfield kind of market today, where everybody can approach anybody and then address the market requirements through proper tender process.

We believe if it is designed in India, our cost of development and the IT costs, we will be able to contract if required and take a view on how to sell it, be more competence, and also meet the 50% Indian contender as Government of India wants. So that is why the market is. The market is very huge and the market is just though started being addressable by Indians. So the market opportunity for scaling is enormous.

Shalini Gupta: Yes, sir. Then the next question, obviously, is from where do you get the technology. If it's got to be developed indigenously, I mean, do you -- where do you get the technology from?

S. Rangarajan: We have been designing products for the last 20 years or 30 years. The company is about 37 years old. Ever since the company started, we've been designing products on our own in competition with foreign systems. So what we started doing is, if you look at any big box, it consist the number of building blocks. The building blocks are being imported by DRDO and some of the blocks is customized and done.

What we decided, first when we entered this market 20 years back, whatever DRDO import from the standard parts from outsiders, we will design those systems here. So we started developing those systems. Gradually, our competency increased. We do across the stable electronics, we are started building for all platforms space, air, water, underwater. So the competency increased, QA process, everything increased.

Now we start building our own domain, our own radar. So we upgraded some radars non-defense applications like ISRO, tracking radar, etcetera. Understood what is we are too, we were what 10, 15 years back. Now we build our own radars. So though we find it difficult, you have to persist in development. It's not an overhead job. It's a hard way up, because you're starting from building block onwards, build end systems.

But the good thing is Internet is there, documents available, our engineers are very bright, given an opportunity and leadership and committed research, I'm sure we should be able to build a lot of new systems, which is what we're doing now.

So we have taken a long and large -- long journey of developing from scratch and building systems. Today, it is going to augur well for Data Patterns because that is what Indian Prime Minister wants, do in India. So while other people are trying to tie up, we are trying to see what best we can do ourselves here with limited tie-up can we build more here and be more cost effective and support the program for longer ride.

So yes, it is difficult. But second portion also is yes, we can design it yes, without drawing to go abroad and get things done, it is also possible in areas where we have developed over the last 20 years competency. We can continue to build on those competencies.

Shalini Gupta: And most of the -- all the engineers that are working with you, they're all Indian?

S. Rangarajan: In our office, we have about -- as of yesterday, we had about 520-odd engineers working with us, all are Indians. We take fresh engineers from college and train them. We have about 1,000 people working now with us overall, and out of which 520 odd are in design and development and QC and whatever.

Shalini Gupta: Yes, sir. My last question is that you, yourself mentioned that about INR 80,000 crores worth of defense orders have been given out, where it being given out for the current year that is financial year '23. Now going forward, say, three years or five years from now, where do you see this INR 80,000 crores going up to?

S. Rangarajan: Defense budget on capex today is about INR 1.2 lakhs crores or something, and we do 3% to 5% to 7% increase year-on-year. And based on our neighbors and the kind of tenders negotiations we have, we continue to expenditure on defense, who is going to be bear. So what happens is we have early been importing systems, and there are appropriate contracts for Dassault, for many other contractors are there. So that also limits the budget, which is accessible to Indians today. So as we go along, more and more of this budget, which is the India is spending, if there don't import it then these all directly G2G contracts, it will then be addressed to more tender here. And once more that has done, this will be addressed by the Indian vendor. So I see scaling happening on the expense pattern on Indian contribution in all these tenders going up substantively as you go along.

Moderator: Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants, I will request you to please limit your questions to two per participants. If you have a follow-up question, you may rejoin the queue. The next question is from the line of Jonas Bhutta from Birla Mutual Fund. Please go ahead.

Jonas Bhutta: Yes. So just on the working capital, which seems to have got stretched…

S. Rangarajan: Yes.

Jonas Bhutta: And why we understand the increase in inventory, maybe for semiconductors, but we've also seen an increase in receivables. And given that we've had a decent order flow in the first half and particularly in the second quarter of almost INR 400 crores plus, the advances for these orders don't seem to reflect in your balance sheet to that extent, ideally one should have got at least a 15% advance or 10% advance, bur our current liabilities don't reflect the same.

So in light of that, if you can help us understand what's happening with receivables, why this stretch because -- this year, they have -- you mentioned that there is a certain amount set aside for domestic procurement…

Moderator: I'm sorry to interrupt you, Mr. Jones, but your voice is breaking in between. The question is not clearly audible.

Jonas Bhutta: Is it audible now?

S. Rangarajan: I'll explain whatever we could hear, two parts of it. One on the stress receivables, inventory. One part of the stress inventory is because we are buying more materials, which you also mentioned, material we're buying not only for execution this year, but execution next year also, because whatever components we ordered last year, some of them -- some few pieces of those components have not been received even at September, October this year.

So what happens is that puts us in a very great difficulty, because there are some components in stock. But one component is not there, so I can't design the equipment. So to avoid these things, now what happens, we're taking advanced decision on expected contracts also, because we need to keep the delivery mechanism on. We are new to this kind of a market. And we've been -- it's a yearly business all along for us, we're trying to build a quarter-to-quarter business now and even out the quarters rather than having 80%, 85% in Q4.

So in order to do that, we need to see the material availability flow should not be stop. So our focus is to see that material availability is there. So consequently, the inventory buildup is happening, but we're not worried about it because this has all changed. And we're buying material only for contracts on hand. So it's not a -- meaning expected contract thing. So it’s not an issue.

So we will -- the next two years time, you'll see things is coming down as and when the shortage supply in inventory position in electronic parts gets down. All the renewables, see, these are during development orders and even the first production orders, the first order always the acceptance test system and producers take a long time, because in the development orders, we deliver part of the system. We don't deliver a full systems. And they get the rest of things and then go through acceptance test and do the field trials, sometimes the trial gets stretched, sometimes changes and it's really after they do the trial. So they hold some money to see that we can do this.

This is part of the way India works or government works, and this is a business, which we are in. But the good thing is after that is done, it because single vendor contract with a big contract come, then there are problems are not so many. We get very clear acceptance processes, and we will deliver and the money collection is faster.

Initial years, the development contracts are major then the development converts merger production contracts, you see the working outflow, better time lines, everything will come down. And these are actually one stretched with a few contracts, very large development contract, actually get stretched. And those are the things, which we see reflecting the value in a number of days.

Having said that, we’ve also now started delivering directly to MOD, but that is also a learning business because the first time you're doing with MOD. And these are not contracts, which has been developed, designed earlier, and approval has not happened, because MOD is in shortage to us.

And though we have designed it, the acceptance process, MODs way of acceptance, all of them is also a bit new to us. They're going through the process. These are all learning curves in early days. So I don't -- I'm not too worried, because it's a hug-huge opportunities for us and this is the first time anything in India has been designed from scratch and then delivered, and it's a very complex radar.

So I'm glad to say that the first radar we delivered in March, the acceptance is already over. So the bill pricing will happen. The second radar is the installation; third is acceptance, factory expenses are over and dispatches it. So it's early days, so things will change. So we're not very worried about the receivable status for the time being. We will come back to the receivable status. The way we plan between 270, 280 period of days in the next medium-term -- short to medium-term, we'll be getting very much there.

Second part of the question was in the advance. The orders we received INR 470-odd crores for the last quarter, the bank guarantees have been made and given to them. We expect the advance to start coming in. But then those advances are not shown in working account, Venkat can you explain this.

Venkata Subramanian: Yes. See, advances are not only on the current liabilities, both on the current and non-current liabilities are decline. As of 30th September, it is around INR 39 crores, which is reflected under other non-current liabilities and other current liabilities in respective sections, because it is bifurcated based on the anything of advances based on the delivery period.

S. Rangarajan: And on the large orders we received last quarter, the advances will be coming this quarter. And next quarter, you will see those advances or deposits in our bank. You will see that, that will go up to a couple of INR 150 crores kind of advances are expected in the next one month, 2.5 months time.

Jonas Bhutta: And how should one think through, sir, because you have a decent pipeline of orders at least for the next 12 months, 18 months, clear visibility, so over this period, is procurement of inventories largely done in anticipation of those orders or that will further elevate the level of inventories as and when those orders come in?

S. Rangarajan: See, one thing is, since our gross volume is reasonable, the aircraft components, even if you order a bit, it is not really a large percentage of sales. So that is one comfort point we have. Those are designed by us in India. But coming back to the question, you said, they're not in very small areas where the orders 100% go to come, and they have an accelerated delivery program, which the customer has told us earlier, we start buying components.

But the major orders, production orders, and we have a stretched delivery of one year to two years' time or a stage-wise delivery. We do not order the parts, except the first stage when we required, that also we don't out of the parts and inventory. The orders for INR 800 crores has come, and more INR 300-odd crores in just a new design. So when we have design completions, the components are finalized and orders can be place. And this is a two year delivery product about 18 months, 20 months. So we have not ordered any material for those. But some component orders we have placed, but that is all with from clear understanding of orders available components. What needs to be ordered, which is going to be long lead time and there can be a problem of pressure only those we order.

Jonas Bhutta: And my last question was, sir, if we build in these orders that you have set in your pipeline, and which you've spoken about earlier, say, by the end of FY ‘24 or FY ‘25, all of these orders were to come to you, how would the state of the order book look like, today given that we've back the massive order on the developmental side, but if you can give us a state of your order book, say, FY ‘24 or FY ‘25, how would that look like?

S. Rangarajan: I wish, again, say, for certain really. I can only say pipeline exists, but I have no control over the timing of the order. There were more than a couple of thousand crores, at minimum INR 2,000 crores of pipeline created, which is to be signal vendor orders on us. But we had to wait and watch when this enquiry is going to BEL or HAL and back-to-back when orders come to us.

But having said that, we're also working on other contracts where we expect that the some more contracts will happen for new areas where we are, again, uniquely positioned in terms of product capabilities and development already carried out. So we're not just depending on the pipeline stated earlier orders. We're also generating more pipeline for ourselves with unique probabilities where [inaudible 0:34:31] contracts were also expected.

So -- but having said that with an overview, I can't really be specific exact number of orders, because I can't say, and I have no control over it. Pipeline is strong that is all I can tell you at the moment.

Jonas Bhutta: Sure, sir. This is helpful. Thank you and all the very best.

Moderator: Thank you. The next question is from the line of Renjith Sivaram from Mahindra Mutual Fund. Please go ahead.

Renjith Sivaram: Hello. Am I audible?

S. Rangarajan: Yes.

Renjith Sivaram: Congrats on good execution given the challenging environment. Sir, just one thing, which I would like to understand is the gross margin, which was lower. So despite there is a cooling in commodity prices, and we have executed more of development order, we were expecting the gross margins to improve. So what led to this? And what's your outlook there?

S. Rangarajan: On the first part, which your assumption is cooling in commodity prices, that is not true for electronics, because of -- actually because of COVID, all component prices have gone up. It is not cooling. It's actually gone up, because components are in short supply. And because of short supply, there are a lot of in between traders who make money on it. So component price has actually gone up. It's not come down. Maybe it will come down again next year or so. But as of now, the component prices are not ready to come down.

But really away from the fact we'll talk about gross margin. See, gross margin is not based on contracts and projects. It is not uniform across projects, because it depends on budget, it depends on whether it's a single vendor, whether it's tender, limited tender or open tender, based on which on competitiveness we quote. So it varies from contract-to-contract. So we can't really say every unit has the same gross margin.

Having said that, what we're giving guidance is that on an overall year, we should have going forward whatever we have already quoted, and we know which contract you're executing. I think this year we'll maintain gross margin around 65%, which is what we are mentioning. And we have retained that for the first half, we have maintained that, we have achieved 65%. We'll continue to do that.

What you're talking about is countdown from two year to this year, because there are a couple of contracts last year, which is much a higher gross margin. So that is how it was reflected. But that could be very large contracts, if the same order comes again, maybe the drop size go up, but we are retaining guidance of 65% gross margin for this year.

Renjith Sivaram: And another thing was the most of the order intake we have got in H1 is developmental orders, which are a longer term in terms of execution. And they will still stretch our balance sheet, because this will add to our receivables going forward. So, which are all these -- any particular color you can put regarding the development orders, which you have got any promising in that if you can add some more details on what kind of development orders that we have got? Anything that you would like to highlight?

S. Rangarajan: See in the last quarter, INR 400-odd crores orders developmental order we have shown, INR 360 crores is for two radars. This is a very-very important strategic radar. This is space surveillance, where India has to protect it’s space. So we're trying to build the largest radar for India will be these two. But what has happened today is for a change, DRDO decided that as a radar, full radar we will outsource this as a contract, only software build right. That is including generators, building, everything included as a full radar. And we were very keen to do this, because what we are doing is a radar, which is downsized 20 times from the actual size of the radar.

So the electronics will be common. Of course, the building facility, power, all those model equipment, which you integrate this will be different. But the electronic blocks, which is designed for this will be multiplied as is where is, because you will not design it again. It is a development contract for that. So we build a radar. We built two radars, one in UHF, the other is [inaudible 38:49], and these will be very long range radar about 4,000 kilometers tracking.

So once this is finished, we expected that 10 to 15 times, the size of radar will be contracted on us, because we've done the original development we know what we expect. So the order size will be very high, and many radars of that to cover Indian space will be required, which will go 5,000, 6,000 kilometers inside space to find out. It's a very largest radar developed or design or produced or even installed in India.

So that is the important thing on the radar. And that's why we took this, it’s a very strategic radar and launcher can scale substantially after we delivered the first system. And it's supposed to be slated for delivery in the next 18 months or so, 19 months, 21 months. So it's not too long-term. So we can do this.

And also here, we get 30% advance plus on material ordering, we get another 30% advance. So cash flow also is taken care of in this contract, of course, against bank guarantee. But yes, at least capital is covered and we take care of expenses on this contract. So that's also okay.

But the other question is development contracts tend to be delayed. Those days, yes, but these are now less than two years because a whole lot of development we've done earlier. So we tend to reuse a lot of development skills which we have, so we are able to address this. Acceptances takes a longer time, but that's okay. That is okay, in the larger scheme of things, where growth is going to be substantial, I think we can accommodate all this with the margins available.

Renjith Sivaram: So then will next year growth will be kind of limited because most of the orders we are getting is developmental. So where is this growth going to come next year?

Management: These orders are not executed this year, no? These are going to be executed next year. So we expect very reasonable growth next year. Because these orders we are getting now is going to be executed next year. We are not executing this year.

Renjith Sivaram: Yes, but sir, it's-- instead of production, it's more of development, right? So if production is one year, development will be two years, right? Execution, time frame?

Management: Don't look at it like that rather size is so large, is that the development, so-called development, we don't do in one electronic box. There are 3,000 boxes which goes into one radar. So it as good as a production contract. We do the development in six to eight months time, go, test the subsystems, after we get into production mode because the radar size is very-very large, a huge system.

So, you know, it's as good as production though the parts are being designed first time, but finally it becomes a production. But anyway, for this contract to repeat, maybe three years it may take, but that time the size of the contract will be INR 5,000 crores or around that. I don't know exact value, I shouldn't say that, but it is expected to be a few thousand crores is what this can propel itself.

So this is good. But having said that, this, we have other contracts which we are getting which will go into production, whatever we developed earlier days. For example, like Sandeep was asking from JM, the Himshakti, Arudhra kind of things, which repeat orders have to come. The size of business is not as large. LLTR or Ashwini can be much larger. But all this will come and those are production contracts. This will go up to year after next year something will go. The pipeline is there to take care of the order flow and the increase which we estimate to scale.

Renjith Sivaram: So because this orders of Arudhra and Ashwini is still getting delayed, so that is why we were a bit worried.

Management: We are worried about it. Because we have other contracts to compensate. We are getting new contracts, some more development contracts are expected and we have already started design for the development contracts, so that we are ahead of time we deliver those systems. So that is why we have increased our manpower strength. We built up more than 120, 140 engineers we recruited.

So we're doing all lot of things to see that we scale, we deliver on time or ahead of time because you want to keep that development team guys there. They look at large-large opportunities, MOD is throwing out at us. More than just DRDO, we are looking at MOD tenders and they are the system level development has to be done, which is challenging and which is interesting. So we want to actually look at that to scale our growth is each order being few hundred corers to few thousand crores. This is what we need to really look at. And the scale can happen from there.

Moderator: Thank you. The next question is from the line of Harshit Kapadia from Elara Capital. Please go ahead.

Harshit Kapadia: There's two questions from my side. Just wanted to check with you, on the RF seekers which are developing from BrahMos missile. Are you going to have a competition for these seekers or it will be solely being right now developed by you?

Management: There are two vendors selected for this. Data Patterns and the ECIL. So based on delivery acceptance, if both are working well, I think we will divide the contracts if it all comes. And then based on delivery, both will be delivered depending on how they want to see. They wanted to have a public sector also attached or just a private sector when the contract is taken. So ECIL also be there as part of this program. The only difference is we design everything in this. ECIL has bought an integrated number of subsystems. But competition-wise, yes, we can also work with them going ahead is what we think.

Harshit Kapadia: Is there a possibility that it could be split between you and ECIL? So let's say you get army and air force, which is your concrete base in BrahMos, whereas they may get for ship or submarine is that something which is a possibility?

Management: That is not how they will see it, it is a missile part, it goes into the missile. So for that the seeker is common, so it does not matter where the application goes, the army or navy, they look at number of missiles and see number of units and that is all expected because this is something which BrahMos has to decide.

So I really do not know, first we will await the trials, let the trials get over and then after which we will both of us will go and will ask him to see if it's done in India rather than abroad because

Indian cost is less than 50% of the foreign import cost. And there is a move to do more in India. So it doesn't make sense really to import it, as long as you meet and exceed specifications. So we'll wait and watch the trials happen and then see where it goes.

Harshit Kapadia: And then as you mentioned at the start of the call in November, December, the trials are expected. And how many number of trials will be there and by where the results will be out, any timeline that you can suggest?

Management: At the moment, they want a cap two trial on using a Su-30, that will be the first trial. And if that is successful, they want to go to a missile trial. The result has been identified and kept. So you do one launch. Depending on the trial success, they will say whether more launches are necessary or will they say initial some more pieces have been produced and some more launches will take place. I really don't know because we have not come to that level now. So we have to do this trial. So suppose we have done one year back, there's a lot of delays. So we're all waiting for the trials to happen very anxiously. Let it happen and then we'll know where to take it from now.

Harshit Kapadia: And the second question is on the satellite business, how are you seeing the order pipeline there? Because earlier you were saying that radar, your EW system and avionics were the three major segments where you were seeing growth. Now you have also set satellites as well. So are you seeing any activity or anything which happened in the defense sector which you can highlight on the satellite side would be helpful, sir?

Management: As of now satellite is in the mind. It is a latent demand in India for different satellites but it is not been translated into actual contracts. So we are still working. We have built a capability model to build the entire satellite including ground stations. We done the systems on a small demonstration capability or a nano satellite. We have launched nano satellites, we have ordered nano satellites in delivery, but these are all small things.

To us, why we took this up is a technology demonstration. We have spent seven years, eight years and developed complete competency of building the entire satellite ourselves with no imports, including ground stations, the telecommunication, tele-command, and satellites are working three years, four years, they are still getting signals all properly.

So that capability and experience we already gain now, we can build a KMKG satellite but we are waiting how government of India will look at other than ISRO. How are they going to contract these things we do not know? So we are trying to work with ISRO to see how we can do this on a commercial level. So it is still a way in the one, but I think sooner than later it will get translated to what we believe because we need to build an ecosystem, we need to do this on a system level.

We can't do what we are doing and expect us to change substantially. The good thing is India is one of the states foreign nations. Very few are there in the world and we have a competitive model which is very-very good. So you should from perspective of competency and capability and strength, if you want to build on your strength, we need to do this and industry has to participate in a very-very strong way, including design and development rather than producing for ISRO.

So I think the change will happen. And change happens we will be ready. So we are going ahead of market curve and building our competency. Matter of fact, the nano-satellites of ISRO, they buy all the parts from us, including ground station, rather than single vendor. So there is an understanding that we are a reliable supplier, we have a competency model. ISRO also knows that. I hope it translates in business earlier than later.

Moderator: Thank you. The next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: Sir, I wanted to understand on the working capital side. If you could make us understand how does the working capital differ in production contract versus development contract? How are the advances different and something on that side? So that was my first question. Secondly, on the 20 million to 30 million kind of orders that you are mentioning, are they largely single vendor contracts and across which regions, which areas are we looking at these particular contracts?

And thirdly on the order book, INR 850 crores order book that we are having, what is the execution period over there? You mentioned about the INR 360 crores radars, the strategic radar which is there, the majority of that will execute in the next quarter of the year, but if you could throw some more light as to how these INR 850 crores will get executed over the coming two years? So those were the questions.

Management: I did not hear the second question, we will answer the first and third properly, then come back to the second, I want repeat of that. As far as the production contract is concerned, again, it depends on contract. -- contracts from production contracts from the PSUs, they sometimes give advance, sometimes they don't, but not exceeding 15%. And then MOD contracts also have 15% -- 10% to 15% is the advance which comes from those kind of contracts.

But the good thing about production contracts is who they give value of the contract, they give the advance or the whole value. There are deliverables every quarter or every year depending on the need. And it is not necessarily all orders are executed in a single year. It probably sometimes goes to two years or three years' time, in which case then we can plan our quarter-to-quarter half year the delivery. And that as you deliver, you get the rest of the money for the deliverables. So part payment under the answer. This is how the advance has worked on the production contracts.

And in -- okay, the second point is you talk about order book or INR 80-odd crores, what is the order book. There are development contracts and production contracts with order book. I think most of the order, except for one order, which is three years, four years old, which is -- no, that still not been booked at all in this.

All the other orders are generally less than two -- or two years ago, except single order, BrahMos is about three years, but that's a small part of the overall business, INR 150 crores. So I think these orders on hand and what we have now will get executed in the next 24 months is what I think, two years, probably a executed.

And on the development contract, you talked about that radar order is also 21-month delivery program. We got the order couple of months back. So let us see over the end of the year, we see we can dispatch from beginning year after next. -- the second question, I didn't hear properly. If you can repeat it, I can answer that.

Mihir Manohar: So the second question was on INR 2,000 crore to INR 3,000 crores kind of an inflow that we are expecting in the next three to four years. So I mean, are these largely single vendor contracts? And in which areas are we expecting these orders to come in?

Management: Yes, whatever orders we say we expect it be only single vendor contract, because I can't talk about tender situation. Because we do not know it's a 0 1 situation, either win or lose the contract. So we don't talk about it. I'm talking about executed orders, why we say single vendor is because already we've executed this an open tender sometime back, delivered the product and repeat requirements are expected by MOD business either directly to us are mostly through DPSUs. So this is why the pipeline we're talking about?

And coming to the second part of the question is, it is in this 2,000, 3,000, the large value is going to be radar because this is what we've delivered in 2015, '16, which has all been accepted. -- and well is the production agencies, Radar order should come to us. So some things are in electronic warfare. Again, BEL is a large -- is a final system integrator for -- and the delivery of the EW systems for India. So back to back, they should also give back these orders.

Third area can be again, EW and communication systems. The HAL may be the recipient of this because they do their full systems in aircraft, then back to back, we may get the orders from them. And fourth is the Avionics, which has been done in open tender with DRDO or with HAL. We won contracts in open tender HAL and then repeat orders from HAL is now coming.

The good thing is that because of Indian program try to do in India and reduce imports, whatever HAL imported in cockpit displays and things like that earlier, they're saying can we use data product display in those aircrafts also because we want Indian content here and the government is pushing for Indian content. So that change is also happening. So unexpected contracts also we may get in the years to come as they change from an import centric procurement, to a local procurement. Maybe we will get some additional business. But anyway, these are all the kind of contracts we're talking and this should be a single vendor.

Mihir Manohar: And just a clarification, in the earlier comment, our CFO sir mentioned that you would resume INR 100 crores to INR 150 crores kind of advances in the next one to one and half months? So the number is INR 100 crores kind of advances?

Management: Yes. These are the radar orders already we got. The bank guarantees have been given, so back-to-back advance has come.

Moderator: Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants. Can you limit your questions to two per participant. The next question is from the line of Akshay Kothari from Envision Capital. Please go ahead.

Akshay Kothari: Sir, just on the single vendor contract, which you mentioned INR 2,000 crores to INR 3,000 crores of opportunity. So is it safe to assume that your margins on these contracts won't go down considering that you had supplied it back then and it is a repeat requirement. So there is a price cap, of course, you won't go below that price and would there be any escalation on these contracts?

Management: Normally, I would say yes. This is what we want to have. Margins should be there. Then also, of course, there is a dollar portion in this. So there is a dollar variation cost, we need to bring in and talk to customers. We have to discuss with the customers see when the actual numbers come. But normally, it should be is what we would like to have.

Escalation also happens because supply many years our costs have gone up. Also, the component costs, prices also goes up with a number of years newer company will be cheaper, the older company can be larger value. So we will have to sit down and discuss this with the some of the customer and arrive at a number. But it would be roughly around the same range, if not higher, it should be on range, what we would expect.

But we will wait and watch, because when you go production, there are other costs also involved and you do multiply the same system, you need to build in test infrastructure. There are some overheads in that, we go some capex would have to come into picture. So these are things we have to explain to customers to see that we can make it reasonably -- we can deliver this as we've delivered earlier. I can't comment on it I don't think that should be -- at the present moment, we can't talk about it, but it should be in similar lines.

Akshay Kothari: And sir, which brings me to the next question on the capex. You had guided that you could do around INR 650 crores, INR 700 crores of revenue from the current capex with current existing facility. So considering we have got a very good order book are there any plans for further capex?

Management: Already, what we've done now is to double the infrastructure in terms of production capability we have one we can place automatic line in now order one more is coming, some more vibration cable, some more thermosetting changes, some more testing. We've added a lot of stuff as part of this, which we ordered last year and things have started coming in now.

So more than INR 100-odd crores of the infrastructure investments being made to double our capacity or even take it further. But on top of that, we also have created a different kind of infrastructure, where we can do end equipment from a box build or avionics kind of typical thing, which you're doing for subsystems with DRDO, today we're trying to mature into an MOD business, which is the full systems, full radars.

So we have a hangar space created where 10 tons gantries there, you can pick in material, we can bring in 10 to 15 vehicles inside trucks and outfit trucks -- put our electronic warfare equipment, put truck mounted radar, things like that we created infrastructure what we would require for future business, that also is being created finally.

And the idea is that for MOD, we need to have test infrastructure or we need to demonstrate the systems as part of contract requirements. So we created infrastructure for all of them also so that we can build the systems, take it to remote tenders, see the need in large contracts.

So on larger capex for infrastructure we already incurred what capex we will do in terms of production order happens. When we save parts, multiple times production qualities increase, we need some test infrastructure for to see that we can produce 100 and 500 instead of 5 and 10 that line has to be set up. For the line, we may have to add some capex that will be depending on the project. And depending on the project requirements, the capex will be taken care of. But that will be expensed out of the project itself. We will not be -- these around what we're doing in general infrastructure. But what we will do there is the projects which we infrastructure, which will be part of the cost of the program itself.

Moderator: Sorry to interrupt. May we request the participant to please rejoin the queue. We have participants waiting for their turn. Thank you. The next question is from the line of Yellapu Santosh from Asian Market Securities. Please go ahead.

Yellapu Santosh: I had a couple of questions. I joined the call a bit late. I would be very thankful if you could please share the details of the radar order that we are reporting under order inflow of INR 360-odd crores for this quarter one? And second, we have shared in Slide 30 few programs like radars for NUH, next generation SDR for fighter aircraft, Next-Gen RWR for fighter aircraft and Next-gen COMINT, where we have developed the prototypes and delivered is my reading. So what is the status of these four programs from a mass production order? Thank you.

Management: The first is, we've got two orders for space surveillance. This is given as an order, a contract for the entire radar, not just the electronic subsystems. And those are the orders, which is a very good order in our mind. Because this is going to scale. It's a very large order. Later, when you go in multiple times the size of the radar. This will be part of the down size radar, which we're doing.

So it's going to be good. So this is an exciting contract for us. So we took this. That is the first part. On the second part of question for NUH, SDR, we had a prototype NUH radar it's been delivered last year when they want to try test it on [inaudible 0:60:20] based on which we are expecting some more contracts to happen. And here also we have for Air Force, for fighter aircrafts, we have delivered the first sets and some additional orders have come for ground systems also, not currently under testing.

They expect more contracts to happen. These are all coming in development mode in DRDO. After DRDO really clears this on all flight test, maybe Air Force will consider it, we do not know at the present moment, but we have delivered those systems. Similarly COMINT on ground COMINT, we have delivered the systems in acceptance trials now. So RWR again we delivered, it is flying in the LCA trials, it is successful, more trials are expected and more versions of the RWR are also in order.

We have also delivered a very fast track delivery we did last month. So, we are delivering systems with DRDO once and that is all going to go into flight. But flight test and further orders is not going to be in the next few months. It will take some time because aircraft trials take long time. But yes, these are all world class systems. We expect things to happen positively in all of them. The systems are working well and these are world class. Hopefully all this will make sure the input production contracts earlier than later.

Yellapu Santosh: And just lastly, on these four orders, is there any other competitor also who has shared or developed this or given the prototype to the respective DRDO labs?

Management: For these four orders that I just talked?

S. Rangarajan: Not in India.

Yellapu Santosh: None of the Indian companies you are mentioning? Is my reading right?

Moderator: Thank you. Participated are requested to please limit the questions to one per participant. The next question is from the line of Sahil Sharma from SS Capital. Please go ahead.

Sahil Sharma: Congratulations for a great set of numbers, sir. What I wanted to understand is in terms of our engagement with the government entities, let's say, we are doing some development contracts. Typically, what percentage of such contracts mature into production contracts and typically, what is the scale up like? Like if the development contract is for X rupees, then what can the production contract be like for in a range terms?

S. Rangarajan: Yes, very difficult to answer it in a quantitative way. We also learned with 20 odd years of working in this with the DRDO development, we find that very small subsystems which we developed really doesn't immediately mature into production contracts. So what we have learned with the maturity and engagement with various government entities, try to be selective in what you want to do. Where we believe the chances of production contracts where we are scaling is going to happen.

So we've been really selective in the last few years where to go. Second thing what we also did is we are not really participating in very small, one-off, you know, PCP level contracts. We actually look at a contract or radar, we do a large part of radar, maybe 60%, 70%, 80% of the electronic, maybe 100% of the electronic.

So very large part is being done by us. That also, if the program is successful, then also there's a large success probability that this is going to produce in numbers or quantities which are not going to be reflected will happen. Because it's not going to go to any, any small things and integrate a lot of issues. Actually we integrate and give now. So the probability of failure is very, very low. So it will do the end application 100% for sure.

So that is one way we are trying to see mitigates risk of whether repeat order will happen or not happen. Second is we take a large portion of contract, which converts all of electronics, mechanical systems, where multi-disciplinary technology is involved, which makes it difficult for some other organization to get to do this. But also, see that we solved all the problems internally. So that is the way we are doing.

So we can't give you a reason, but I'm thinking that today as we, in the last two years whatever development we've done, I think largely maybe 90% all of them to mature into production contracts. When it will do I do not know, but we have done our end of the job, it all works as per specifications. So I would expect that it should all go into mature production contract.

It is more important now that than earlier because government is very clear, that made in India solutions available. They're not going to allow imports. So we agree and as long as we have been world class and the customer, the user, the Army, Navy, Air Force is happy with what has been delivered to them. I don't see why they want to look outside. That's a broad engagement, I can tell you.

Sahil Sharma: And sir, in terms of like scale, like how much is the scale up, for example, you mentioned that you delivered some radars in 2015, '16. And now we can see as a result of that, you are getting large orders. So like how -- what has the scale up being like this?

S. Rangarajan: Yes, see this is again, it depends on the program. So to give you the project-based numbers, for example, RADAR, NPR, Ashwini, Arudhra, they did one and we as part of it. They are on track for eight radars. If it is Ashwini, then we did a large part of the electronics, which is 18 radars. So this depends on project, depending on the requirements.

The other question is platform specific things. For example, if you say RWR or SDR, if it is going to be put in LCA, the number of LCA requirements, Mark 1A, then Mark 2, then MCA, then it is going to put in MIG, MIG already let's say they are importing it, Su-30 which is going to come, Su-30 numbers are 250. So we do not know how the upgrade program is going to go, but the numbers can be large and it can be varied, it can be more over many years because they can't down all the aircrafts.

So there are two points, one is project, second is programs like this airborne program where numbers can be larger. Otherwise when MOD buys, they buy specific quantities. So it is limited to the specific quantities. Though we call it production, because it is not one-off, we call it production. If it is radio, for example, maybe radio will be 1000, maybe 140, maybe 2000. So that is how the vendors come. But it is not one. So it is duplicates, multiple size of what the initial. It will be much larger and it is distributed over many years so it gives you stability..

Moderator: Sorry to interrupt, may I request Mr. Sahil Sharma, please rejoin the queue. We have participants waiting for their turn. Thank you. The next question is from the line of Aditya from Securities Investment Management. Please go ahead.

Aditya: So as the company will be getting into more system integration jobs rather than just being a component or sub component manufacturer to get higher value orders. I wanted to understand, how is the company be able to compete with players like BEL and other private players who are much bigger than us -- so can we manage the capabilities these guys have? And which are the areas you think we may fair better against them and secondly, will the margins also see your growth…

Moderator: Sorry to interrupt you Mr. Aditya, may we request you to please restrict the queries to one.

Aditya: Yes. So this is the second part of the question, what will the margin see a drop? Because these players are making 20% to 25% while we are making 40% plus margin. So should we see a drop in margins in the future?

S. Rangarajan: See, first is can you compete with players, see we are going to address opportunities where we believe we are better players than the competitors. That is when we will try to address the market. See, the difference is that we do ground up design and development, whereas somebody does integration, the cost of the product is far higher for them than for us. And if you've already written-off the development cost and revenue expenses in the previous year -- and that's much more confident that we can price it now to worrying what development cost you can do this.

Second what we do is we build the building blocks and build the end systems. Building blocks allows us to go and address various different kinds of products, whereas a distribute development cost over many things. So we have a different model to do this. This model is tough, because it takes enormous number of years to come up with the competency model and product model here, but that is behind us.

So now the opportunity is a large, so we should be able to look at it. Yes, we believe we can compete with them. We have a own, it is a multidisciplinary subject which we have. We build our own electronics, we build our software, we build our IP, we build our mechanical system, the structures, we design everything in-house, we manufacture everything here except mechanical.

We integrate, we test, validate, we have full certification process for all platforms. So we built up a competency matrix, we can address the market. So we can do it. As far as margins are concerned, I don't know why you say, yes, obviously margins are slightly more, because we design everything. If somebody buys, that margin which is buying on from the other companies is also ours because we have a raw material cost.

So our margins will be higher than others. But then I can use this margin to be, as a bargaining margin, we can compete better, we can reduce margin and compete. So going ahead if the integrated systems come into picture, margins will probably shrink, but revenue will go up, bottom line will go up. So we need to do that. But the point, second point he made is BEL is making 20%, but I don't know because the bottom line is very high in BEL.

You know though the turnover is there, look at the bottom line is 18% to 20% which is quite high. So obviously they are also making margin somewhere on single vendor contracts. But effectively what he is saying is true but we will have a better margin because design IP margin also are there.

Moderator: Thank you. The next question is from the line of Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla Just wanted to know what is the margin differential between our production and development orders?

Venkata Subramanian: If the production is followed or developed in contracts, the margins will be same. In the production order, the so-called tender contracts or MOD tenders, it is going to be competition driven. So the margins vary with respect to contract and the competitive scenario. And how big the contract is and what is the appetite to take the contract. So it will be more competitive little bit than this. But if it is earlier developed contracts resulting in production contract, price is already been fixed, the price discovery process is over. So one would expect the normal course of action, similar margins.

Alisha Mahawla: So the reason for asking this question is that while we've seen almost 60% growth H1 '23 over '22, it also coincides with higher developmental revenue and hence a larger shrink in the gross margin than the EBITDA margin. And now that the order book is also more skewed towards the development contracts, just wanted to understand the margin trajectory and hence the question?

S. Rangarajan: See, development contracts doesn't mean margins will be less. Actually, development contracts should be more, but we absorb the development costs ourselves. Because we competitive on those tenders. So again, it is based on competition and pricing that each contract has different kinds of margin numbers. Again, what we say is we attempt to keep this at 60% level this year is what we are saying, based on contracts which we will execute this year, we have some idea what our costs are. So I am telling you this.

Going ahead, if you are going to quote for an MOD tender or something else, it is going to be very contract specific. One differentiator is that, since we work with others who also buy and integrate and we design from scratch everything, our margin should be on a better higher scale than the others, subject to everything else being same. That's all I'm saying. So we will drive for a slightly higher margin business because we need that margin to push our contracts and do more development in India. We are not trading on any parts. So our margins are slightly higher.

Alisha Mahawla: No, I understand that. But when we talk about higher margins at 40%, this is industry leading margins. I just want to -- and while for this year, the company is fairly certain of maintaining these margins, just wanted to understand going forward, what seems like a more sustainable number in light of how our order book is currently scheme?

Venkata Subramanian: Yes, EBITDA margins should be around 40% now, maybe I'll come to 35%, 37% depending on the contract mix of contracts which we do and how we want to scale. Scaling doubling was you know 1.5 times, 1.7 times we do and we call it competitive margin. Obviously we need to look at how if bought outs are more, then the margins will come down. If it is only electronics, our margins remain. But we have to buy power systems, buildings, trucks, etcetera, obviously we cannot keep those kind of margins. We need to get the end product so the margins will come down.

So that is why I am saying it will be very specific to contracts, we can't say. Till now we've been doing largely electronics, so margins have been there. So integrated margins will come down, but it's okay, because the size of the order which we're going to take is very-very large. So it is, I believe, it's on the right path and that is how the growth will happen. But we will maintain reasonably higher margins than others, because we do a lot of development in-house.

Alisha Mahawla: And in Himshakti and Arudhra …

Moderator: Ms. Mahawla, we request you to please rejoin the queue? Thank you. The next question is from the line of Abhishek Singhal from Naredi Investments. Please go ahead.

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Abhishek Singhal: In the second half, 100 people will be hired which are less in compared to first half, any specific reason? And the new facility will also start in Q4. And any token order receipt for new facility? Thank you.

Management: First question is, what did you say? H2 is higher than H1. What did you say?

Abhishek Singhal: In the second half, 100 people will be hired which are less in compared to first half. Any specific reasons and also new facility starting Q4?

Management: No, I don't understand the first question. In the second half, 150, what I didn't understand, what did you mean?

Abhishek Singhal: In second half, 100 people will be hired, which are less in compared to first half, any specific reason? And also we start a new facility in Q4?

Management: See, people hiring is an ongoing activity in the office. It is nothing to quarter or half. We hire continuously hire people based on need. We believe we are scaling the company substantively and we need capacity building at all levels. So from senior management to hires, to marketing, to program management, to at management level, plus engineering level, design level, we are going to hire people all around. So this will go on and this is nothing to do with H1 or H2. Only thing is what really happens is after June, July, a lot of people join because that is when the colleges get over and July, August they start joining. So, but that's the only reason, otherwise we keep hiring.

As far as quarter four is concerned, we are seeing the facilities, already part of the facility we started utilizing. The first part, the Precision approach radar, we delivered to, we quickly finished that portion of the facility so that I can integrate the facility, integrate the radar there. So last March, that is 22nd March, we actually had the first radar installed there in one part of the facility and the acceptance test was done by Navy there. And then June, the second part was accepted that is done by Navy.

Third one is done by Air Force in September we dispatch. So some part of the facility on the radar hanger already utilizing, rest of the facilities are getting completed and then over a period of time we will move because we do not want to upset our existing production. So the equipment is coming in new also and we are putting in the existing production facility and then slowly change it, slowly move into the other facility in cases.

Abhishek Singhal: And any token order received for new facility?

Management: No, it is not a new thing which where we need to get an order for the facility. Existing contracts will also be done in the facility. Actually, we are going to move production from this facility, new facility fully in over the next six months. Because that will be dedicated production infrastructure we'll convert this to, development infrastructure in the existing facility and R&D testing.

Moderator: The next question is from the line of Jatin Jadhav an Individual Investor. Please go ahead.

Jatin Jadhav: Good afternoon first of all, congratulations on a great set of numbers. Based on the presentation, you've given on Page number 24, you said proposed expansion of INR 30 crores towards upgrading and expanding existing facilities. So the guidance which you have given is including this or excluding this?

Management: It's all as per original plan. We're not doing anything which is not part of plan. We're actually spending more revenue on the infrastructure. The thing as part of the infrastructure spend, the last quarter, we have capital work in progress in the side INR 30 crores

Jatin Jadhav: And the second question is the export turnover. What are the major clients in the export turnover, who are the major clients, if you could just share some light?

Management: Major turnover export turnover from UK is for an airborne Avionics, which is designed for them. I'm quite happy we displaced some 100-odd system for the last five years. More orders had expected. -- and we got some more developed not existing client for an airborne system where development is also done in production than the assets.

Jatin Jadhav: Okay. And just one final question…..

Moderator: Mr. Jadhav request you to please re-join the queue, we have participants in the queue. The next question is from the line of Narendra Individual Investor. Please go ahead.

Narendra: So you mentioned that the Indian defense market has huge opportunities for our company. So my question would be what kind of opportunities do you see in the export market? And also what are the restrictions that would prevent us from exploiting these opportunities?

Management: Indian defense is largely import centric, and that has been opened out to Indians. So the opportunity is going to be largely Indian now. First you need to prove the systems in Indian scenario -- before, we expect end systems to be exported. It would happen and parts of systems can export.

For example, most exports is happening, is on build to print. The design has been done abroad. They've come here in India to reduce the cost or get manufacturer reduce the cost or because they're obligatory for them to do offsets. So that is the kind of the imports, most of the exports you're doing. Some amount of development imports also happening when people like us a little bit is happening.

We expect to scale that as we go along. But the size of business, what we are expecting in the Indian market is going to outpace the export by leaps and bounds. But yes, we would want to maintain exports. We have quoted with some location in Europe. We expect an order, radar order, our radar also to be exported to the NATO country.

We expect the contract to happen in the next month or so. It will be declared L1. So it has to happen. But then these are one-off systems. We are also trying to work with South Korea, trying to do what we are doing in India, can we export to South Korea. We also exported one system like that to South Korea, about a $1 million-odd to Korea two years back.

Some more orders are expected in different configurations. So we are looking at it, but our active participation is more on an Indian context because there is a huge-huge opportunity here. And the focus is to address an opportunity which is a greenfield opportunity in India, compete with the foreigners and build here. That's where we are.

Moderator: Thank you. The next question is from the line of Shirom Kapur from Prabhudas Lilladher. Please go ahead.

Shirom Kapur: I was just wondering if you could give us a split with any production contracts of which ones, how much comes from a tender versus what comes from the initial development contract that transfers into production? Do you have a split on that?

Management: Yes, if you look at it, I'm not immediately, I'm not able to give you a split, but I'll tell you, the large production contract we got on a tender business is precision approach radar, which is about INR 40 crores to INR 80 crores including maintenance, or INR 250-odd crores for the delivery of radars. That is a large production contract on tender base. But rest of the development contracts, what we get is also tender based.

And what happens based on previous tender development contracts we got, it seems it is successful, a variance of that is required for various contracts. DRDO has given us some contracts for this adaptation on the aircrafts. Those come on single vendor. So that is really what happens. And once that is completed trials, then companies like HAL or BEL who have get the production orders of end system gives us single vendor contract which we term as production contracts.

This is how it happens on all of them. So production contracts if it comes from HAL and BEL will be only single vendor contracts. If it is MOD, even though we call it production, this is against the tender, it will all be only tender contract because MOD will not give a single vendor contract.

Third, mostly development contracts. and DRDO is open tender, open limited tender, but off late we are also getting single vendor contracts in development mode also because of a competency model which is there, we do end-to-end, we are able to do and there is a time constraint for delivery to end users then we are able to get customers are willing to look at Data Patterns or single vendor contracts because delivery constraints are very, they are nine months delivery, six months delivery and you do that it becomes difficult for them and to split it into various vendors and give it because a common capability doesn't exist in one company. In which case they come to us.

I don't know the ratios but this is how the contracts come.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Management: Thank you very much for these interests and the questions asked. If you have further questions, which because of lack of time, we could not answer, kindly resend the questions to Go India Advisors. They will have them brought to us to give the appropriate answers. We can answer all the questions you have. We are very-very happy and grateful that you all participated in this in large numbers. Please be in touch and answer all the questions.

As far as the market is concerned, the Indian market, our defense is growing. Again, I would recap. We believe that by doing the right strategy and a little bit of help from God, we should be able to grow quite well. We believe that we are in a good position at the present moment, quite excited and the opportunities lying ahead of us. Thank you. Thank you very much, all of you.

Management: Thank you very much.

Management: Thank you.

Management: Thank you, Go India for organizing this. Thank you.

Moderator: Thank you. On behalf of Go India advisors that concludes this conference. Thank you for joining us and you may now disconnect your lines.