



“Data Patterns (India) Limited  
Q4 FY ‘24 Earnings Conference Call”  
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**MANAGEMENT:** **MR. S. RANGARAJAN – CHAIRMAN AND MANAGING  
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 Data Patterns (India) Limited Q4 FY24 Earnings Conference Call, hosted by Go India Advisors. As a reminder, all participant lines will be in a 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 touch-tone 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, Ms. Jain.

**Monali Jain:** Thank you, [inaudible 0:00:38].

**Management:** Excuse me; I'm unable to hear anything.

**Moderator:** We'll hand it over to the management right now. Sir, you can go ahead.

**Management:** Yes, we couldn't hear anything what Monali says. Anyway, thanks to Monali. Good morning, ladies and gentlemen. Am I audible?

**Moderator:** Yes, sir, your voice is audible. You can go ahead.

**Management:** Okay. Thank you for joining us today for the Q4 and FY24 earnings call. I hope you had the opportunity to review the earnings presentation available on both the stock exchanges and on our website. Before Venkat presents the financial results, I'd like to provide a brief overview of some important updates and key highlights for this quarter and the financial year. FY24 has been another successful year for data patterns. Over the past three decades, we have strategically advanced the value chain by developing complete systems using reusable building blocks and leveraging on our existing competencies.

This strategy has facilitated our expansion in a small way into new geographical markets, including Europe and East Asia, where we have successfully competed with foreign OEMs. Our sustained investment in products and technology has positioned us at the forefront in our field. Over the years, our strong R&D capabilities has enabled us to undertake significant product development. We have successfully developed and delivered nine precision approach radars to the Ministry of Defense for the Air Force and Indian Navy requirements.

Delivered combat and air defense systems as well as self-protection suites for land, mobile and reconnaissance aircraft [inaudible 0:03:04]. Data patterns has an order book of about INR1,083 crores at the end of FY23-24, which has grown 17% year on year, and a CAGR of 30% between 2021 and 2024. Our diversified order book with significant contributions to radar at 64% and avionics at 21% highlights our strategic positioning.

While Venkat will discuss the results in detail, I just want to touch upon the financial performance for the year. In FY24, our revenue from operations witnessed a 15% growth. EBITDA demonstrated a growth of 29% over FY23.

EBITDA margins during the year stood at 43%. The broader context of our performance is shaped by the significant transformation underway in India's defense sector. The government's initiatives, such as Aatmanirbhar Bharat and Make in India, coupled with increased capital outlay are driving this change.

These developments provide an excellent platform for companies like us to capitalize on substantial domestic opportunities in defense sector. Keeping the sectoral tailwinds in mind, we are committed to sustaining a revenue growth of 20% to 25%. As part of this product development initiative, Data Patterns is developing complete systems in radar, electronic warfare systems, and communication systems in line with the in-house commit competencies meeting international standards.

These products are expected to bring in revenue growth over the next three years post-trials. For FY24, the board has recommended dividend of INR6.5 per share at 325% and equity share of INR2 each, which is subject to approval in the ensuing AGM. We are committed to maximizing value to our shareholders.

At this point, I will pass the floor to Venkat for his comments.

**Venkata Subramanian:**

Thank you, sir. Good morning, ladies and gentlemen. We are happy to present our annual financial highlights for Q4 and financial year 23-24. Let us look at an overview of our financial results. For financial year 2024, our revenue from operations increased by 15% year-on-year, reaching INR520 crores. We maintained a robust gross margin of 68%.

Development contracts contributed to 42% of our revenue mix, with production at 54% and service at 5%, showcasing growth across all three categories. EBITDA of 220 crores witnessed a notable year-on-year growth of 29%, with an EBITDA margin of 43%. Profit before tax stood at INR242 crores, while profit after tax surged by 47% year-on-year to INR182 crores.

In Q4 of FY24, revenue was flat at INR182 crores. We had a better quarter-on-quarter performance in financial year 23-24, with Q4 contributing to 35% of the yearly revenue, as against 41% in the last financial year. Profit before tax stood at INR95 crores, while profit after tax witnessed a 28% growth, reaching to INR71 crores.

We continue to be a debt-free company. Our receivable days came down by 28 days, while inventory days increased by 32 days, due to advanced procurement of materials for contracts deliverable in FY24-25 and 25-26. As of March 31, 2024, we hold over INR745 crores in cash and cash equivalents and liquid investments, underscoring our financial strength and liquidity.

Overall, we delivered a strong performance in Q4 and FY24, and are confident of a steady growth momentum for the year ahead. We will endure to bring down the working capital days and sustain a margin of about 35%-40%. With this, we will now proceed to Q&A session. Thank you.

**Moderator:** Thank you. We will now begin the question and answer session. The first question comes from the line of Jyoti Gupta with Nirmal Bang. Please go ahead.

**Jyoti Gupta:** Good morning, sir, and thank you. Congratulations for a good set of numbers, something which I had anticipated. Two things that I would like to understand in terms of revenues. What is going to be the percentage in domestic and exports? What is going to be the contribution of exports coming from the revenue side?

Ballpark maybe in the next two years? What do you anticipate? Second is, do you expect your inventory days to go down from 187 in FY25? Third is, there is a steep decline in your raw material cost. Could you give some flavor on what are the key reasons for this decline in raw material cost?

**Management:** Okay. Let me take this question, last one first. There is no steep decline in raw material cost. Our margins vary with the contracts we execute. The gross margin varies with contract to contract. We had a good set of contracts where there is a lot of IP of ours, so the margins have – last financial year, the margins were better than the previous financial year. And most of the orders being single vendor, we had the margins available with us. So it's not necessarily the raw materials have gone up. That is why our margins have gone up.

Second is on the export and domestic. The opportunities in India is very, very high. Okay. And we are trying to now go into making India solutions against traditionally importing, you know, weapons systems and equipment, you know, defense equipment from abroad. So this has opened up a lot of opportunities in India. The growth story has to be more in India today, and later you have to look at exports.

Having said that, so the last part of the business is going to be Indian, and the growth is going to be here. We have order book of more than INR70 crores from export orders, which we won against contracts. Some are single vendors. Some are open competition for products designed and developed in India. These are our offset contracts. This has been developed by us with local IP. So we expect that these will be exported during the course of this year. So if you look at, that is going to be there.

The third question, you want to know whether inventory will go down. It all depends on the mix of contracts which we get. We had some large contracts which we have, bought inventory and inventory gone up from last year to this year because you're holding inventory for execution for some of the contracts this year as well as next year. So inventory has gone up. So this is going to be more towards the kind of contracts we're expecting rather than a forecast for inventory days.

This business has a larger inventory days. Inventory turnover ratio will be low in defense business because it's a capital-accruing business, plus there's a lot of acceptance criteria before the consignment gets shipped. So there's a lot of interaction with third-party agencies. So inventory days become slightly longer. But our interest is to reduce working apple days, net

working apple days, which we're working towards. So the next two, three years, you will see a substantial decrease in terms of net working apple days going ahead.

**Moderator:** Next question comes on the line of Abhisek Sundar from Naredi Investment Private Limited. Please go ahead.

**Abhisek Sundar:** Yes, okay. My question currently, what is our order pipeline today? And out of which, how much is the L1 order and what is our success rate?

**Management:** Presently, we have about INR1,000 odd crores order book on hand as of today. And out of which, I think about INR360 crores to INR400 crores have been in L1 business. I think, I'm not very sure exactly. I don't have it in my mind. I don't know about two large contracts with L1 business. So I'm saying around 35% to 40% could be L1 business.

The rest are all mostly single vendor business as an order on hand situation. On the order pipeline, which you talked about, we're looking at a pipeline of more than INR2,000 crores. But those pipelines, when you predict to the market, is all based on previously delivered orders or single vendor contracts expected.

We don't talk about pipeline with respect to competitive business because competition go either way, whether it's a zero or one. You may also lose the business. So I'm not predicting or forecasting. The numbers I give to you are based on only data patterns products and single vendor or repeat business, production business, from whatever we've delivered earlier to the DRDO.

**Abhisek Sundar:** So, sir, how much order will we get in FY '25? Order inflow in FY '25?

**Management:** We expect another INR1,000 crores order intake during the course of this financial year.

**Moderator:** Thank you. Next question comes from the line of Dipen Vakil from Research Analyst. Please go ahead.

**Dipen Vakil:** Thank you for the opportunity, sir. And congratulations on great margins. So my first question is on the line of, sir, you won a significant order from Bharat Electronics in this quarter. So can you give some more light as to what platform or product that pertains to?

**Management:** I'm not really sure whether this Bharat Electronics order will come this quarter or next quarter. We're expecting some contracts with BEL, but it has still not happened. There's been a delay in that contract. Hopefully, we expect that in the next two quarters, we should get the order. But I think it's a bit preemptive now. The contracts are still not in our hand. I don't think it is appropriate to talk about the contract or the platform. We get the contract, maybe it's the right time to talk about it.

**Dipen Vakil:** Apologies, sir, because I asked that question because it was already there in the major order received in 4Q. So my second question is on the R&D plan. So you plan to...

- Management:** Sorry, sorry. One second. There's one more order already received for last year. I was thinking you're talking about this year. Last year, we received an order. This is for a program called Arudhra, where it's a radar. Eight radars were delivered by BEL, and we won some contracts as part of that order.
- Dipen Vakil:** Okay. Thank you so much for that clarification. Sir second question is on research and development expenditure and capex. So for 4Q, you will be incurring around INR150 crores in the next two years. So can you give us some guidance in terms of where we will be investing that and what are the new products and development that we are focusing on in the next couple of years?
- Management:** Okay. See, our capex spend is going to be two levels. One is in factory building and infrastructure, which is going to be spent in the next two years. Because expecting the larger contracts to happen, we have to create an infrastructure to deliver on those contracts. We've already bought land nearly about 4 acres of land right next to us. So we expect to build some more factory infrastructure in the next two years, and also some test infrastructure for the ensuing contracts to deliver.
- So that infrastructure will happen. Maybe INR100 plus crores will be spent over the next two years on this. We are making estimates internally and getting board approvals before that is spent. The other thing that you talked about is product development. We have raised money last 23 March for product development during QIP. So that already we have started spending money on certain areas of operation.
- The main areas we have spent is going on is to radars, into EW, Electronic Warfare suite, and communication equipment. The three areas where money is being presently spent. A lot of development work has already happened. So the next three to six months' time, some of the products will start coming out, and we'll start undertaking trials with the customer to see that acceptance is there. So this is the first area of investment we're making, and that will be around another INR100 crores plus we'll be spending on these areas of development.
- Dipen Vakil:** Got it. So just a small follow-up, sir. What would be our R&D expenditure as a percentage of revenue for this year, FY '24?
- Management:** Maybe around, this is development expenses. We have taken a separate fund available from market for this. And so, but maybe if you look at 20%, maybe about 20% to 25% of our overall revenue, we'll be doing actually product development this year. And it will be going to the next few years like this.
- Moderator:** Thank you. Next question comes from the line of Hardik Rawat with IIFL Securities. Please go ahead.
- Hardik Rawat:** Hi. Good morning. Thanks for the opportunity. Firstly, I wanted to understand what sort of, like you mentioned that you're looking at about INR1,000 crores worth of inflows in FY '25. I wanted

to understand within this, the Arudhra execution, what should be the value of that and often flow from the Arudhra program? And what would be the execution timelines for this year?

**Management:** No. This Arudhra, already we received the order as of last year. And that will be executed over the next three years as per schedule given by Bharat Electronics. But that is not part of the future expected orders this year.

**Hardik Rawat:** All right. Another, I had a couple of questions with regards to the balance sheet. So, there's a sharp jump in the other current liabilities, which has led to a substantial improvement in your networking capital cycle. Can you please explain what this jump is? How, what is the reason behind this jump? I think you want to answer this?

**Management:** Venkat do you want to answer this?

**Venkata Subramanian:** Yes. Other current liabilities basically is because of advances received from, against contracts from customers. Last year, it was around INR190 crores. It has gone up by almost INR100 crores. That is reflected in the other current liabilities increase in the balance sheet. It's advances from the customers. For two contracts, actually, we have got additional advances. That is what is reflecting in the increase.

**Hardik Rawat:** Understood. And also, like you mentioned that you have an order pipeline of INR2,000 crores for FY '25. Is that correct, right?

**Management:** The pipeline is not just FY '25 or FY '26. It's a pipeline, yes. For FY '24, FY '25, we expect a new order intake around INR1,000 crores.

**Hardik Rawat:** Understood. And so, I just wanted to understand, lastly, your guidance in terms of revenue margins and networking capital cycle for FY '25.

**Management:** We expect to grow the business 20% to 25% percent in terms of revenue. And with EBITDA margin of around 40%, 35% to 40%. And bottom line growth of probably about 30%. And as far as the working capital day is concerned, can you give some numbers?

**Venkata Subramanian:** We are working towards reducing the working capital day. Actually, this year also, FY24, if you see, renewable days have come down by almost 30 days. But still, the net cash conversion cycle is high because of the inventory. Inventory is expected to be high only. But we will... Over the next couple of years, we will reduce the number of cash conversion cycle days to about 270 days to 280 days. That will happen over a couple of years only. Say for FY24, FY25, it largely depends on the inventory days.

**Hardik Rawat:** Got it, sir. I'll get back in the queue. Thank you.

**Moderator:** Thank you. Next question comes from the line of Parvati Rai with Equentis Wealth. Please go ahead.

**Parvati Rai:** Thank you for taking my question. So, with respect to the outlook given on revenue, while we mentioned that revenue growth of 20% to 25% for this year, and on a sustained basis, the slide also states that 25% plus CAGR over the next couple of years. So, I want to understand, last quarter as well, we gave a revenue outlook of 20% to 25% and prior to that just 25%, but came in at almost 15 percent Y-O-Y.

So, what exactly should we kind of look? Even for going forward years, should we take it at 20% to 25%, or would it be 25 plus percent CAGR that we are speaking of?

**Management:** See, last year also predicted about 20 % growth. But we could not, our original plan, internal plan was about 540 plus. We achieved doing 520. This is because two contracts, products are ready to dispatch, but inspection is getting delayed from customer. So, still the inspection is not... So, one is finished, the other one is still to start. So, we were actually close to guidance, but we could not do that because of third-party interaction. Those are products already.

Second is, however, we are able to keep the bottom line growth because the particular contracts had better margins, so we could do this. And of course, this is also predicted by us in our budget to our board. Coming to your second question is, this is the reason why the prediction was slightly lower. Actually, we achieved lower than the prediction, so the bottom line was in line with the expectation.

When we say 20% to 25%, I think we should be able to achieve this. Maybe even more than that, probably we can do, depending on how the delivery happens this year, because it is a complex delivery. A lot of development is there, so that is why we are giving a range in case we are able to go through the process. It is not just the company which is involved here, the third-party inspections are there, and the customer is development-oriented.

So, there are likely to be ups and downs in this on quarter-on-quarter. So, that is why we are giving a range, but I think we would be able to achieve whatever we are telling you now. 20%, 25%, 25% plus, we should be able to do it.

**Parvati Rai:** Okay, and on the margins...

**Management:** We have an order on hand and some of the orders, expected orders also, we started advance work to see that we deliver on time, with the customer expectation, so I think we should be very near guidance in what we think.

**Parvati Rai:** Okay, and with respect to the margin outlook as well, so while this quarter saw a very good margin at 50%-plus, so what I am looking at is how sustained is that? While 40% is something that you have guided for overall in your PPT, while you gave your starting commentary, it was outlook was given at 35 to 40. So, I am just trying to understand, where does that sustained margin lie?

I mean, from that lumpiness that we saw during quarter four on the higher side of 50%-plus, would that be repeated during the year sometime? And what brings in that? I mean, while you



did mention that it was the IP and not more of the raw material, which brought in that expansion, could you just help explain that? Because while 35% to 40% is something that you put in your opening comments, the slide presentation does have a 40% plus sustained margin. So, I mean, should we expect the upside that we saw during this quarter again sometime during the year, or how frequently, given that IP is now being leveraged?

**Management:**

I don't understand the question...

**Parvati Rai:**

So, basically on the operating margin, you did mention that when somebody did question that the raw material cost was one of the reasons for an improvement in margin. So, you did mention that it was not exactly the raw material cost, but also the company's own IP that was used. So, I just wanted more clarity around that, on how it helped improve margins, and going forward, I mean, should we expect more margin expansion as the company uses the IP products?

**Management:**

See, what really happens, if it's our product developed completely in-house and we sell it, typically the margins have been reflecting on our various years in the P&L, which you've seen in the last three years. What happens sometimes is a mix of contracts is not just our products. They also take some integration and make it more deliverable. In which case, then, when you buy products and integrate, obviously, it's not our margin. It's an integrated margin of the overall system. So, margin tends to come down. So, it's a question of the contracts we take, and depending on that, the margin varies.

So, coming back to the question of this year, what we do, why we're saying 35% to 40%, a range is basically because the kind of revenue, which projects will get executed over the course of the year. That may vary. That is why we have given a range. But if it is only our products, it will be around 40%. But when you increase, when you try to integrate systems, it comes lower. So, cumulatively, it comes to 35% to 40%. So, we're likely to do a better revenue, higher revenue, and if the range, then the margins are sometimes lesser. That's why we've given a range. But we're closer to 40%, which is what we expect.

**Parvati Rai:**

Okay. So, one last question. Primarily with respect to the order inflows that you spoke, so you did kind of put in at around INR1000 crores for the full year of FY25. So, quarter three, we did mention about INR5 to INR6 billion over the next couple of quarters, which we did say in Q4 around INR300 crores.

So, I mean, I want to understand of the INR1000 crores order inflows that we're talking, would that be spread out across the year, or are we expecting in Q1 and Q2 to have broken the last quarter a major chunk of it, at least 50% out of that, during the first half? And we just want to understand how the inflow would be there during the first part of the year.

**Management:**

This will be spread through the year, because the inquiry, some have come, some have to come. So, there will be delays in the inquiry and negotiations and final order happens. So, I can't give you a quarter-to-quarter estimate at the present moment. In our own thinking, in our budget, we expect to, not ship more than 10% to 15% of the incoming order book for this year's execution.

So, it's all meant for next year and year after next execution. So, the order flow will happen over the year. I can't clearly specify the exact quarter it will happen, though we have an indication. But, you know, it's not better to commit on that right now.

**Parvati Rai:** Okay, that's it from my side. I'll fall back in a queue. Thank you.

**Moderator:** Thank you. Next question comes from the line of Gagan Thareja with ASK Investment Managers. Please go ahead.

**Gagan Thareja:** Sir, the first question is around the guidance that you've given. In your top line guidance, you indicated a 20% to 25% margins, outer limit of 40%, which is lower than what you've done this year. And yet, I think you indicated a profit guidance of 30%. So, I'm just sort of trying to reconcile if the margins year-on-year are going to be slightly lower than what they have been in '24, then why would, the profit guidance be 30% for a sales guidance of 20% to 25%?

**Management:** See, this depends on revenue growth, operating costs, and overall margin, and also the kind of products which we ship this year. So, that is why I've given you the approximate guidance numbers. I think we should retain, we want to retain the guidance of, trying to somehow make the bottom line growth as important to our office, our operations. So, our focus is there, and focus is on margins.

So, there are some contracts we've taken up which probably has lesser margins. The revenue growth may be higher than what we've suggested. If we manage to ship those revenue, but our mind is on the bottom line growth. So, that is why we've given you this, and not given a complete, ever segment correct representation which is mix of contracts except deliverables. So, I've given you growth numbers accordingly.

**Gagan Thareja:** So, what you're suggesting is that either the top line can be more than what you're currently guiding?

**Management:** Can be more, can be more. We want to retain our guidance for the bottom line, so can be more. So, it depends on how the year proceeds. So, that is why I've given you a typical number range.

**Gagan Thareja:** Okay. And you've also somewhere in your PPT indicated that share of DRDO contracts will come down in revenue contribution, and that of MOD will keep going up. Is it possible?

**Management:** I don't know. Did I make it to the PPT? I don't think so. I think I made it in the CNBC interview this morning. Maybe you listened to it. Maybe you're one of the listeners. I don't know. See, what I was asking this question was brought in a very broad kind of perspective. There's a lot of dependency in DRDO contracts now even today, we do a lot of DRDO business. And that is another contract which you get.

Based on which repeat contract comes from Bharat Electronics or HAL or the PSUs. This is how the line of business has been going except some few contracts like Precision Approach Radar we directly got a contract bidding openly in MoD tenders. What we did tell the CNBC interview

here is that going ahead we will continue to engage with DRDO for our programs. This is where we learned our business.

We learned our competencies. We'll continue to engage with them and try to do more with DRDO. But having said that, if you want to scale the company to a few thousand crores it has to necessarily come from a market which is MoD-driven. MoD-driven markets are very large. So we need to address that market. We have to get the growth which we are planning to especially considering that the competency the company is build over so many years and also that we have taken money to do product development we are in the market actively developing products.

So these have to finally go to MoD sales. So we are trying to engage MoD at a large level to see whether we can have products when the inquiries are coming in where most companies work with collaborations. We try to work with in-house IP. So that is where the development mode financing is coming into picture. Going ahead 3 years, 5 years I think scaling will happen with MoD business that's what I said.

**Gagan Thareja:**

Right sir. I'm just trying to understand from a margin and working capital perspective are the MoD orders going to be different in their constitution compared to the DRDO orders?

**Management:**

It again depends on whether the MoD contract is purely designed 100% designed developed by us or it also involves vehicles and other subsystems generator sets, UPS, antennas, building. If these were to come into picture there will be integration costs also attached to it and the kind of contract, the margins will vary.

It is only our contracts with IP then we compete with foreign vendors. So the margins tend to be higher. Again, it clearly told here your contract is not [inaudible 32:26] because you have to bid against very many companies and consortiums and we have to get a lower score and be there. So there will be a mix of both.

I don't think it is a clear-cut answer. What is important thing is we want to scale the business multi-fold in the coming years and we want to be profitable in the coming years going ahead. So we want to see that sustained bottom line growth is happening over the many years. This is the idea. Obviously, some contracts the margin levels will come down because there is competition and we are integrating.

So that we have to be very clear about, but these are all contribution margin pricing which we need to do. As long as we are able to handle the overheads and shift the consignment, that's what we look at. The size of business is very, very large. So the focus is going to be to build products to address the size of business. That is going to be the - not that we will not make any bottom line that is not the kind of business we are looking at.

**Gagan Thareja:**

I appreciate that. From a capital standpoint my question was simply that while looking at you guys...

- Management:** I have explained to you on that. See we also get advance against every contract and in a MoD contract typically what happens is, it is not a contract which is a one-off shipment. It is going to be during the course of a few years there were multiples of orders. The shipments happen over various stages of the overall cycle of production on the overall project life cycle or the program cycle. So there is cash inflow coming in together and we have advance also ahead. So we should be able to manage the working capital with non-fund limits, bank guarantee limits. We should be able to do that. I don't think we'll be very hard-pressed for working capital going ahead. We're also generating a lot of cash ourselves.
- I don't think we're particularly worried about my. Of course, we need to do the conversion cycle, reduce net working capital we have to bring it down and this is mostly happening not in MoD contracts or production contracts, it happens more towards development contracts, acceptance and so many other things happen. So as long as the production contracts become larger in the overall percentage which we have the working capital cycle will come down. So we expect it to come down going ahead not go up as a percentage of the contract.
- Gagan Thareja:** Optimally, how much should it come down by I mean, what could be a stable, sustainable working capital in days sales?
- Management:** I think Venkata just said the next 2 years we'll come to expect over 280 days. And going ahead, we'll probably with the nature of contract and business we'll try to bring it down consciously.
- Gagan Thareja:** Okay. And sir on the BrahMos seeker what's the status of development because the order pipeline for BrahMos as a company is fairly large, more than 30,000 crores. In between you and I think Electronic Corporation of India the seekers have to be supplied and is the qualification for that already done from your end?
- Management:** They're yet to fly it as a missile. That is getting postponed for various reasons. So as and when they complete the trials we should get the contracts. So today, we're not projecting the contract internally maybe it will happen in the course of this year.
- Gagan Thareja:** Is this for the BrahMos NG or is this for the current version of BrahMos?
- Management:** BrahMos NG is still not a product which has been launched. It will be for the current BrahMos.
- Gagan Thareja:** And what could be the possible timeline for making the approval?
- Management:** I'm not able to comment. You should ask BrahMos that. It's the wrong on my part to comment on that. They have to do the field trials and then come back to us, but they are showing urgency and maybe 3 months, 4 months because next month it starts raining they won't do the trials. So maybe after the rain comes on immediately the trials will happen, but in the meantime they're talking about some orders for pre-production. So this all has to happen. Hopefully, over the course of this year this should convert is what we're hoping, but we can't say for sure.

- Gagan Thareja:** Right. And HAL now has clearly indicated that [inaudible 36:41] 16 per year sort of assembly and delivery is already scheduled and with the Nashik facility coming on stream towards the second half of this financial year probably 24 a year. So from that perspective you perhaps get some visibility over and above that.
- They also indicate that for the next 3 years they have a pipeline of almost 160,000 crores between helicopters and aircrafts. I'm presuming that from an avionics standpoint you are very much there to participate in both the platform and fixed wing and rotary. Could you give some idea I mean does this visibility coming from HAL give you some sort of a line of sight for the next 3 years, 4 years on work related to that?
- Management:** It's a bit too early for us to comment on it. These are internal programs and projections of HAL. Unless we get indicative RFQs from them on timelines on delivery and whatever we're developing in some of the aircrafts which you're talking about I won't be able to comment. We've taken a very small percentage, very small contract value compared to the numbers you're talking about for this year very important.
- So the contract once it comes we'll deliver probably this year, depending on their schedule. The rest of the things the inquiries have not come. So as and when it happens we'll be able to take it. We're not projecting it in this year's order intake.
- Gagan Thareja:** I get that point. My question is that from if HAL gives the visibility of 5 years, 7 years challenge?
- Management:** They've not given us any visibility for us to comment on it.
- Gagan Thareja:** They're talking on their investor calls so I'm presuming that there is a good [inaudible 38:31]. I'm just trying to understand and assess what could your opportunity size from that standpoint?
- Management:** We can't comment on it because we don't have any visibility there. So we don't want to comment and get into another call which says why this didn't happen. I'm only commenting on what I have knowledge base about and what may happen tomorrow we'd be very glad to obviously participate. We're looking forward to such requirements. At the present moment we can't comment because trials are all in some of their aircrafts and after trial completion and acceptance and then how the air force and HAL view this then only contracts can be happening. So it's a bit premature for me to comment on those things.
- Gagan Thareja:** Okay thanks. I will get back in the queue.
- Moderator:** Thank you. Next question comes from the line of Abhishek Poddar with HDFC Mutual Funds. Please go ahead.
- Abhishek Poddar:** Hi, sir. Thanks for taking my question. So regarding the margins, sorry, one question on this, we have about 40% from development contracts and 50% plus from production. Would the margin be very different in these contracts and also as your production contracts would increase, as the revenues increase over the next 2 years, 3 years, 4 years, would we see a mix on the margins

because of that happening? And the reason I'm asking this question is because when your peers are there their margins are much lower when their production is a major part of their revenue mix.

**Management:**

Okay. See, this question is answered many times. See, what happens is margins are not depending on the development or production contracts, especially when it comes with DRDO driven programs. It remains static irrespective of what it is. What really makes the difference in margins is what is the competitive scenario and at what cost we got the product. Is it L1 business, et cetera?

Some portion of the L1 business, obviously, the margins become lower because we buy, integrate, some of them to make the systems. Some of the other contracts that you have developed everything in-house, our margin becomes higher. It depends on how much we contribute towards the product. On the final delivery. That's how the margins vary. It has nothing to do with development or production. That's one hand. That's not also true when you look at another perspective.

Suppose the MoD, business comes and we are competing with so many people, we need to compete and get contracts. So obviously sometimes margin will suffer. But again, quoting INR50 crores contract, INR20 crores contract, INR150 crores contract in DRDO The contract is INR1,500 crores, INR2,000, INR3,000 crores, INR1,000 crores kind of contracts in MoD. So obviously we may not be able to keep the same kind of margin percentage because a lot of bottom comes and integration happens. The margin comes down there. But overall revenue will substantially go up, kick up multiple times higher. So this is the business to be in.

In those businesses, what we plan to do is wherever electronics is coming into picture, if we can develop the electronics in-house with our own IP rather than relying on foreign IP and foreign products and do manufacturing alone for them, our margins then become necessarily higher. And once the margins are necessarily higher, it also gives us the leverage to see, if we can be competitive in reducing margins, can I quote be a level-one business. So this is a leverage for me to win more contracts.

And also support the products for the next 20 years of lifecycle support. The local support is not going to costly support from foreign OEMs. This is the name of the game as I see it. Each people work out differently. A lot of companies who don't have a local IP depend on foreign OEMs to provide IP. So they become costlier. But still they win the order because their margins can be very low. They win orders. So this is a game that's being played.

Today, India doesn't develop full systems. We're one of the few companies that are trying to say, why didn't we develop the full systems here in India rather than having collaborations? So this is how it goes. Our future, what we're looking at is, develop products ahead of time, build the products in-house, see that when the new inquiry comes in make one, make two, or buy and sell whatever opportunities come from MoD. Can you position our products with IP and product tested here to give a better winnability and scale the business substantively? That is the game which we are trying to play

- Abhishek Poddar:** Regarding the order book that we have, the pipeline should of 2024 that you mentioned. Should we assume that the system integration contract can be margin dilutive, those are very limited in those?
- Management:** For a contract on hand, there is two contracts where there is a lot of system integration or bought over, a building land and building, all of this coming into picture. Some, one or two contracts, the margins are lower. But rest of the contracts are our exact development on IP developed by us, so it remains the same as what we've been doing all along.
- Going ahead in the next 1000 floors we'll talk about, these are not contracts which is going in for multiple vendors and mix of contracts and integration is not there. So there, the margins are likely to remain what we've been doing the last so many years.
- Abhishek Poddar:** And just one more question. On the BrahMos [Inaudible 43:45] This year's product was tested in 2018, and now it is yet to be tested. This confidence that we have that we should be getting the orders based upon the product quality, or what assessment is that, sir, if you can give some more color on this?
- Management:** Our product quality is good. It is just that they've not taken it for flight trials for a long time for various reasons. The moment they take our flight trials and they passes the flight trials, we should get an order. This is what they've been telling us, but I have no control over when they will test it.
- So we are also impatiently waiting like you, when the trials will get conducted. The one thing, one difference is our seeker, whatever you say, like I've always told you, is that we designed everything in-house. The gimbal is designed by us, the motor controller is designed by us, the mechanical substance is designed by us, the transmitter is designed by us, the signal processor is designed by us, the up-down corner is designed by us. Everything is designed in-house. We don't buy. So obviously the quality is in our control.
- Moderator:** Thank you. Next question comes from the line of Renu Baid with IFL Securities. Please go ahead.
- Renu Baid:** Yes, hi. Good morning, sir. Two quick questions from my side. First, just want to pick a bit of your inputs in terms of, again, in terms of guidance. Sorry for this. You mentioned about 50%, 25% revenue guidance and 30% profit guidance, despite dip in operating margin. So is it that you're expecting a sharp jump below EBITDA when it comes either in terms of other income or sharp shrinkage in the finance cost? Any big change in the tax rate that we're expecting? Just trying to understand the math behind this.
- Management:** There's no very elaborate math. We kept the guidance conservative in terms of revenue. That's all I can say because depending on the mix of deliveries we do, we don't expect a substantial increase in other income because it remains whatever it is. Maybe a marginal increase may be there. We don't know. It depends on the capital during the course of the year. With other budgets,

we think it will be remained around similar or slightly more is what we expect. And operating costs also, we have done the budget and cleared the board.

So you have an idea what the costs are. The idea is to keep the revenue growth, the bottom line growth. So we will try to deliver some products to see that the bottom line growth continues to happen. So that is all there is. Maybe the top line may also go up. But we didn't want to give guidance on that because numbers are getting multiplied by market. So we don't want to give the multiplication and then fall back later.

**Renu Baid:** Sure. Secondly, if you look at the backlog closing backlog, especially for production orders, now we are nearly back to INR500 crores kind of order book. As of now, we are nearly INR480 crores kind of in close this year. So of these INR480, INR490 crores of order backlog for production orders, what proportion should be executable in fiscal 2025? The fact that you mentioned that Arudhra would be over 2.5, 3 years based on BEL's execution schedule?

**Management:** Yes, I think a large portion will get executed the coming year on the production contracts. I don't want to give a percentage, but it will be above 60%-70% will get executed this year. And some of the development contract will get executed this year is what we're thinking. We're also putting a small portion of the new orders coming in this year to be executed this year. And that is our budget internally being made.

**Renu Baid:** Sure. And in terms of investment in capex, how are we looking at our spend for fiscal '25-'26? In terms of expanding capacity capabilities for new projects?

**Management:** Over the next two years, we plan to spend some INR100 plus crores on capex. And so it all depends on when we start the capex purchase order and how long the buildings and other things equipment come in. So whether everything will get spent this year or it will be more to go to next year is something we have to, the committees are working on, working on the proposal for the board to clear. But over the next two years time, we should be able to spend that. Because we need the infrastructure for the future growth to put in. So we bought the land already for this.

So construction will start and some contracts will be placed over the next three, four months. You see that infrastructure is getting created. This is one part of the capex we do. The other is our development. We continue to develop products. There also will be a larger part of the spend will happen this year over last year.

**Renu Baid:** Got it. And lastly, within the INR2,000 crores order pipeline that you have highlighted, are there any notable large projects or orders which you would want to highlight and which could be helpful for us to track in terms of progress in terms of investments and awarding?

**Management:** No, this is a bit too early for us to say. Let that happen. Let it all come up to the open, and then we will implement.

**Renu Baid:** Yes, any input in terms of where are these large projects like Ashwini, LLTR, etcetera, which where we were betting a reasonably large part of the pie. Where are they in terms of pipeline?



Is it a part of the pipeline or still not in the foreseeable future the way the end markets have behaved?

**Management:** It is part of the pipeline only. This is not part of the INR1000 crores. I'm talking about revenue or order intake this year. The inquiries have come, we'll all be quoting, and we do not know who will get the order and what percentage we'll get. So we'll wait and watch the next few months to see what happens.

**Moderator:** Thank you. Next question comes from the line of CA Garvit Goyal with Nvest Analysis Advisory LLP. Please go ahead.

**CA Garvit Goyal:** Good morning, sir. Congrats for a good set of numbers. Just two questions. One is on the industry perspective. So are you people witnessing any kind of potential risks on the supply chain or demand side that could lead to a slowdown in near to medium term? Additionally, is there any emerging competition that might be capturing the market share or thereby impacting our order flows?

**Management:** We don't see any supply changes presently. We have no problem in getting material. So we don't see that. So that is not the problem. The second thing is you're saying there is a risk from challenges. What did you say?

**CA Garvit Goyal:** Emerging competition or any demand slowdown?

**Management:** No. Competition's always been there, but I've not seen any particular risk which has to be considered. Obviously, obvious risks are always there because the products we're trying to develop is already available abroad. So people do tie up and bring the products here. So that risk has always been there and continues to be there. The other risk is our revenue, what are the contracts we get with the DRDO, competition, this is always there, these risks continue to be there.

So the idea is, what we're trying to do is, try and be, build ahead of time to see that we meet requirements early and do an early mover kind of an advantage we have. Since we're developing in-house everything, we're trying to invest ahead of time and build the product to address the competitive risks which you're talking about.

**CA Garvit Goyal:** And any demand slowdown expected in the near to medium term?

**Management:** No, no, demand is very high, we are looking at a number of opportunities going ahead, a number of opportunities. It all depends on how we build products and whether we are competitive and the opportunity arises. So this is how, and the other thing is build bandwidth internally to the office to see that we address the opportunities. So we are seeing those issues and we are addressing them presently.

**CA Garvit Goyal:** And sir, regarding the utilization of QIP funds, so could you provide an update on the current status, specifically like how much of the QIP funds have been spent so far? And when can we expect the launch of any significant new products financed by these funds?

**Management:** On the development, as recorded in the balance sheet also, you'll see the INR40-odd crores has been spent over the last year, but largely out of all the INR40-odd crores and INR30-odd crores will be materials to procure for the products. And the people cost about INR7 crores to INR8 crores, INR10 crores or something people cost, the overhead cost will be there on the development. We will continue to spend a large portion of the development funds this year.

And the products, at least the physical products will start coming out in the next 6 to 10 months, will start coming out. And then we have to go through trials, flight trials, ground trials, whatever trials are necessary, and pass the trials. We are not able to clearly determine the timeline for trials because it's a multi-agency system. The government has to get involved in all the trials. So we are trying to see how best to address that and how quickly we should do it.

And that is going to be a work in process. But our end development, we will finish. But further, the product, we have to spend money on actual trials. And then only the contracts can happen. So, but we are confident the products will meet the requirement. And it's world-class, today's generation products we're designing. So the second-to-none world-class products we're designing. So hopefully customers like it and allow us to do the trials and take it further.

**CA Garvit Goyal:** Fine, sir. And, sir, you mentioned INR40 crores is spent already out of, I think, INR500 crores we have raised. So what is the expected timeline for fuller utilization of these funds?

**Management:** If INR500 crores comes in various things, working capital, we're given a lot of classifications. Development funds at QIP time is INR160-odd crores. It's a development fund which we have taken. Of course, the rest of the money also is available for development because it's all available as cash in our office today. So we're a bit, we're keeping money now, looking at opportunities and spending it. As the market turns, what are the areas where the market requirements are large and which you can address?

So we're trying to deploy that money to address the market requirements without actually spending all the money and then see the markets are moving slowly. So we're taking a cautious outlook on how to do this. Wherever we think there's immediate opportunities and there is unaddressed by anybody in the market, we're trying to invest money there and see that the unaddressed market is addressed by us.

So this becomes easier and also a world-class product for them. So we are doing that effort in-house. And I think it's a next-to-three-year kind of a program. And the idea is to be able to get some orders for the products against development we do today. We want to keep the development money in rotation. So we can continue to do further investment going ahead to scale the company to INR8,000 crores turnover. This is what our intent is. So let us see how it goes. But we have the money now so we are quite carefully spending it.

- CA Garvit Goyal:** Sir, last question is on de-risking from the defense sector. Like last time you mentioned about some negotiations happening on other industries other than the defense. So how do you look at it? How do you see the other industries' contribution to our top line, say, next three to five years down the line?
- Management:** No, I didn't understand the question. What is that? I didn't understand the question. Can you repeat, please?
- Moderator:** We've loss the line. Next question comes on the line of Jatin Jadhav with Sahasrar Capital. Please go ahead.
- Jatin Jadhav:** Hi. So sir, basically my question was pretty much answered but I just want some clarity from you. This question is regarding your competition. So based on your competition, your EBITDA margins are around 40 and others are slightly on the lower end. So I wanted to understand, since you are saying that you will maintain these margins, is it because of the IT we have developed in-house and the products we are making in-house and integrating them as well? That's why we have a higher margin compared to other competition?
- Management:** There are two reasons for it. One, we started development of products ahead of competition many years back. So we have built, as you see with DRDO, we do parts of the product. Over a period of time, we have started building a large part of the product DRDO. And they will design all of us. There is other [0:57:08 people] may develop a smaller part of the product.
- So [0:57:12 with the market now], we may we are probably getting repeat business from whatever we did seven or eight years back. And that has started coming in and kicking in. So that automatically. And second, we never developed the development cost. We never recovered from all those products. So we invested. In the last 15, 18 years, we have been investing on product development and competing with foreign OEMs and selling those products in India, absorbing the cost.
- So we've been doing incremental development with our own money. And we return off all the development costs as part of revenue expenses. We never capitalized at all through our life of data patterns. So maybe those are all kicking in now. And we get repeat orders and numbers are coming. And our cost model is different because you don't either support it by an integrated by others. Since you're not buying anything, maybe the bottom line is better. We don't know. Maybe that could be a reason.
- The second reason is probably some of the requirements are urgent. And some customers feel that we are in a position to deliver against the urgency and meet the requirement. So we get a lot of single vendor orders. So other people have to design and develop. We probably have a design in-house. So maybe we get a lot more single vendor orders in other companies. And here again, since we have done a building block kind of a development all through our life, we tend to use the building blocks rather than redesign from scratch. And those are tested. So the timeline should deliver us far faster. So this could be a second reason.

I can't exactly comment on other people's business. And it's not right on my part to do that because I don't know the strategies, what they employ. But what we are doing is what we think is right for our business.

**Jatin Jadhav:**

Makes sense. One more follow-up question regarding this. So as we eventually will, currently also we are in the system and we supply a complete system. So as and when, whenever we [0:59:09 need] some complete system, we command a higher margin?

**Management:**

No, again, that can't be said. There's no zero one answer to this question. It depends on what the complete system is. If it is going to be a lot more vehicles, you know, you understand, no? I really don't know. What we are trying to do is maximize Indian content or in-house content in a contract. If we do this, I have a better P win in a competitive situation. That's all I'm saying.

So we're trying to put our money and yield this and so we can scale the business. See, India doesn't have products. We rely on DRDO today for building products. They are the only design agency in India. So the rest of us are, you know, in the private sector are doing collaboration with foreign OEMs to bring the product here and then do a work share. So when you do a work share, obviously you have to share our own margins also, right?

So what we are trying to do, the opportunities are now very big opportunities. If we can address our portion of the opportunities in Indian systems designed in-house, I have a better P win and hopefully we'll have a better bottom line. One may not go with the other, but the scale has to happen. The scale happening will all grow because the requirements are so large. We're looking at least five-year growth. We're not looking at a quarter-to-quarter scale.

**Jatin Jadhav:**

Sorry, one follow-up question regarding the market size per se. Regarding just the radar systems that you are providing, how big of a market do you see growing or growing up to in the next four, five years or three to four years, wherever, as far as you have visibility?

**Management:**

See, market size is very large, but it's not addressed by us everywhere because, you know, when you make close-in weapon systems, for example, LRD, you know, L&T gets an order. The radar gets imported. Something comes part of the weapon. So the big systems, you know, when an integrated system comes, radar becomes a portion of the integrated system. And it's not accessible to us because we don't have the weapon. So, what really happens when all this happens, when India starts collaborating in-house in India, ecosystems start developing when we combine our strengths together and address the opportunities, then you can say the market is bigger for us.

So not all opportunities on radars are addressable directly by us. It still comes from abroad, either in technology transfer or joint production or something of the sort. What I am seeing on addressable buyers in the next four, five, six years is upwards of INR20,000 crores, which we can address.

So we are working towards that. That is the first thing we are doing, building our own products. Second, we are also doing the product development, which is not even addressed by us, get the

products out. Then maybe we can collaborate with the OEMs in India to see why are we importing this when India can offer a solution. Look at an ecosystem we built here. So it's a very long-term play strategy. It depends. We are starting from scratch in India now.

So the offer field is very open. It depends. It can be competitive, give world-class products, meet customer requirements within timelines. Then we have something going, and we need to collaborate with people in India also. So we look at all opportunities. How is the long-term game? And that is why we need the bottom line to scale the business because we need money to scale. We want to put a lot of money in development. We are looking at a three-, five-year kind of horizon for whatever we are trying to do. We are not looking at a year-on-year horizon at all.

**Jatin Jadhav:** Got it, sir. That's pretty much it from my side. Thank you so much for your valuable insight. And all the best for the coming year.

**Moderator:** Thank you. Next question comes from the line of Manish Kumar, an individual investor. Please go ahead.

**Manish Kumar:** So most of the questions have already been answered, so I'll just skip them. I have one last residual question, and this is in terms of the human resource, the employee cost, which is what I'm looking at on a quarterly basis. And I'm looking at the employee cost as a percentage of the expense that you have. So what I saw is that there is a...

**Management:** Manish, I'm not able to hear you clearly.

**Manish Kumar:** Is it clear now?

**Management:** Yes. Talk a bit slowly so that I can put the pieces together.

**Manish Kumar:** Sure, sir. All right. So my question is in terms of the employee cost as a percentage of the expense that you have quarter-on-quarter. That is the context. So what I saw is that there's a very peculiar pattern, right? This is always, you know, the percentage number, which is the employee cost as a percent of expense, is always the highest in quarter one, and it gradually reduces to quarter two, three, and four.

And this has been a constant pattern during the last three years. So I just could not put my head around as to why this is so cyclical, the employee cost. It has happened for almost the last three years, every quarter, quarter one, quarter four. So if you could give some insight?

**Management:** You are commenting on employee cost as a percentage of revenue?

**Manish Kumar:** Expense. Percentage of expense.

**Management:** See, what happens is, traditionally government business is a year-end business. If you have looked at by 2017-'18 balance sheet, P&L, you would have seen that almost 80% goes to last quarter. And first week quarter we used to make loss, cash loss. We have very difficult to manage it to see that our quarterly revenue is also managed properly. And we went public once we knew

that there will be some reasonableness in our quarterly work. And then on-hand contracts are there which we can deliver on a quarter-on-quarter basis.

So the employee costs, though are not varying so much on a quarter-to-quarter, on a percentage of revenue, it will be higher in the first quarter going down the second, and accordingly last quarter. The last quarter tends to be the largest revenue quarter for us. This also last year we managed to contain it, bring down the last quarter to only 35%-40%, as against 50%, 55% which was there previous year.

So that is the ratio you're seeing. And another maybe, we have increments also coming in April, so maybe that pushes up. We recruit through the year. We're recruiting a number of fresh engineers and even lateral recruits through the year. Our size of number of employees is going up substantially about 20% year-on-year because we are building competency for tomorrow. And all the people we are building and training, so that we can do large systems tomorrow at various levels.

So we are continuously recruiting. So that also could be, I don't know exactly what the numbers are, but I think this is what is happening.

**Manish Kumar:**

Right, so my concern was that, I was thinking that, and I might be totally wrong, that maybe we are hiring only for specific projects and when the projects are getting over, maybe we're having people leave the organization. In that case, my concern was that how we are retaining the knowledge and the expertise that we have built over the years. In one of the slides, I saw that some of the core team members have stuck in the organization for almost two decades. So I was trying to relate if this dip in the employee costs in the later quarters is because of any churn which is happening. Looks like the answer is no. Can you please confirm that?

**Management:**

So we are managing our employees really well. Of course, there is people leave because they get very well trained in data patterns. So they go and join multinationals. We are aware of that because the training level here is very, very, very high. We're unable to get lateral recruits, so we recruit from college directly. Our CTO started from college 35 years back.

Most of the people who are 20 years plus are all state employees of the company from directly from college. So we take a lot of people from direct college and train them at all walks of life for testing, development, software, hardware, mechanical, everything. So, but that is not the reason. We're not losing very many people. Compared to maybe multinationals and other IT, I think our attrition ratio is far, far lower. And also we have some 100 people as shareholders in the company.

**Manish Kumar:**

Thanks a lot. Thanks.

**Moderator:**

Thank you. Next question comes from the line of Vishal, an individual investor. Please go ahead.

**Vishal:**

Yes. Sir first I would like to place my congratulations to you for such a good set of numbers and the value addition, the value creation you have been doing to shareholders. Thank you very much

for that. And my question was, if I look five years ago, our data pattern figures, so can I, you know, can we assume, you know, because at that time, if I compare that time to current times, what we have achieved today is, the [1:08:41 term] at that time is the profits are of current time. So are we looking forward to repeat the same fit print maybe in next five years or earlier than that or even earlier also?

**Management:** Vishal, that is our intent well is go doing it.

**Vishal:** And sir, can you throw some light on, what could be our general execution rate and percentage as a percentage of the order backlog?

**Management:** I would not comment on that because it depends on, it's not only left to me to execute the contracts. It also, the timelines, which the customer wants execution done. Okay. More often than not, we find that in the production contracts, we can execute in one or two years, everything. Even if you give me 1,500 contract, I'll execute it. As long as already development is carried out, all I have to do is set up a line and I can execute it.

So we have all the competency. We have a second place machine. We have automated test equipment. We build our own automated test equipment for production line systems. We do everything in house. Since the process definition is our line is defined by us. Electronic copper manufacturing, you know, EMS line, we have two lines in the office already. We have end test in the office. So everything we have in house. So we can execute. But what happens is, customers don't want everything scheduled overnight. You know, give you a quarter-to-quarter turnover. So then we have to stick to it.

Second area where the concern is, where, you know, when large development happens, then the development cycle takes the time. You can't execute a development program in three months and six months because not only do we design and produce, there are certification agencies get involved for bright safety and bright subgrantee it takes time. Documentation and process. So that really limits us, not on just the capacity what we have in terms of delivery. We have finite capacity of development, but on production, we can increase capacity very fast.

**Vishal:** So you say we cannot lay any specific percentage, on the completion percentage...

**Management:** We have the percentage. We have, for example, we say INR1,000 crores, what we can do INR2,000 crores, how can we deliver? But we are matching. That is what we're doing is, we're trying to enhance our capacity in terms of infrastructure. We're creating additional infrastructure because we think we need to scale three years from now. Our order will happen two years from now where if I go for external testing, I may have a delay in delivery.

So we're creating the test standards and equipment in our office. We get large contracts for integration. I may not have factory space. So enhancing factory space to see that in anticipation of contracts happening two years from now, we're starting investing ahead. We're also expecting growth, substantial scaling happen in the next three to five years.

So our competency building, manpower building, management bandwidths, everything on a top to bottom level, we are scaling our competencies and bandwidths. We have a very, very active HR team which is looking at all skill development from bottom to top and mandatory training programs to do this. So a whole lot of things are happening to see that we're not caught wrong footed when we scale. And we expect to scale because the market size is so big. So we are very bullish on the market and our competence to deliver on the market. So we are actually investing ahead of time, not only product development, but also for delivery and manpower.

**Vishal:** Okay, okay. So thank you very much. And so I also place best of luck and you keep achieving such great value additions for yourself, for the team and for the shareholders. Thank you very much, sir. Thank you.

**Management:** Pray for us, Vishal. Thank you.

**Moderator:** Thank you. The next question comes from the line of Devansh Agarwal, an individual investor. Please go ahead.

**Devansh Agarwal:** Okay. So one very specific question with respect to Arudhra radar. In some publication, it was mentioned that Bell got the order of INR2,800 crores for Arudhra radar. However, in our presentation, it shows around INR180 crores of order for Arudhra or something. Is it not possible to directly take the order from MoD or why is there a difference between the quantum? This is what I'm trying to understand.

**Management:** See, these are all the traditional way. DRDO has its own investment money and they develop radars required by Air Force later. And they finished the development about seven, eight years back and they must give it to MoD and Air Force and it is approved. Then the transfer of technology went to Bharat Electronics as a nominated partner. See, the process in India all along is that once development gets done, it is transferred to production agencies which is BEL, BDL, HAL, et cetera. And as of then, the services want the contract or more products.

They then get the revenue approval from MoD and once the approved things comes in, they place a single vendor order on the PSUs. And during the development, people like us have done the product development for parts and subsystems. The transfer of technology agreement which BEL signs includes our name. So, the idea is to see that that has been qualified. So, they would back-to-back place the order on us. So, whatever we have designed for that part. So, that is the way the whole business is done. Today, it continues to happen like this where DRDO has developed products. But in MoD tenders, this is open to all of us.

We are free to do whatever we want. We build the full systems. So, this comes in various kinds of categories from make one, make two and other categories in MoD tenders. We are also participating in those categories of tenders where we can build our own system, our own radars. Not only us, a lot of companies in India have started saying, let us do this and look at the opportunity ourselves either on by themselves or in collaboration with foreign vendors. This is happening. So, as more and more of this starts happening, then we'll start building the whole system ourselves. So, this is the way it's going today.



- Devansh Agarwal:** And the second question, sir. Sorry. We saw on your presentation that there's an increased focus on the offset. Is there any action going on? The reason I'm coming from is recently Azad has announced some kind of offset with Rolls Royce and it saw great momentum in the markets at least.
- Management:** No, we've never... I don't think there in the presentation we talked offsets. We are not in the offset game. We build our own IP. We've not done any manufacturing for any foreign OEMs today and we're not really an offset partner. We do have partnerships with various companies, but that is on product development rather than offset.
- The offset is a low value, low margin proposition normally to do manufacturing alone in India. We didn't want to get into this long back though we had a capability to do it because our focus on IP development will go. So we intend to build products rather than focus on our offsets. So we've not... Daily recipients are very large offsets.
- Devansh Agarwal:** Got it. And all the best, sir. For a retainer like us, it's always a good moment to see the stock price running. Thank you.
- Moderator:** Thank you. Next question comes from the line of Arnab Bhattacharjee, an individual investor. Please go ahead.
- Arnab Bhattacharjee:** Hello, sir. Good morning. Just wanted to know about any R&D team here in the team, in this year?
- Management:** We're not able to hear you. Your voice is breaking. Hello?
- Moderator:** Just give me a moment, sir. Mr. Bhattacharjee, please go ahead with the question. Mr. Bhattacharjee, please go ahead with the question. Mr. Bhattacharjee, can you hear me? Please go ahead with the question.
- Arnab Bhattacharjee:** Yes, I'm able to hear you. Sir, I believe that, when it comes to radars, it's a very complex process, and it requires a lot of technical knowledge. So I just wanted to understand how our R&D team is doing. If you can give us, share with us a story that we had in the recent past. How do you plan on upscaling for the new development goals that we receive? Do you have collaborations with foreign universities, foreign businesses?
- Management:** We started building radar components and parts with DRDO over the last 20 years or 18 years. Then we started building upgrade programs to get the competency of IP and software and domain, other than just electronics. We started contributing towards upgrades of radars for ISRO, for the tracking radars.
- We delivered about 6 and 6 tracking radars upgrades for them, or operational more than 10, 15 years, with [inaudible 78:20 Sierra Ricota] and in Trivandrum. So this is where we started learning. Then we started building our own surveillance radar, again, open-ended with ISRO.

ISRO allows us to build a full radar. So we started learning outside and doing very modern systems with DRDO on the subsystem levels. But the domain, et cetera, we started doing outside.

So we started actually putting non-defence radars where we learned our competencies, and those are installed and working for seven, eight years now. So when opportunity came with the MoD tenders for a precision approach radar, we decided, why don't we develop the radar from scratch? And we were lucky that we could demonstrate the radar in 18 months from scratch, and we won the contract for about INR380 crores, INR250 crores to be delivered in two and a half years, which we delivered last year, last quarter we delivered the full system.

So hopefully we expect some more orders. If at all it happens, if a customer requires, hopefully we'll get more. So this has been a long journey in putting products. We have a domain team to continuously engage in development of radars. We're now participating in MEC2 programs in the MoD. We have a couple of export contracts for radars, which we're developing for one European country as well as a South Asian country.

We've got some few radars orders which we're developing and probably execute this. This is our IP and our radar. So we are investing continuously in radar development and IP development, not only in radars, but also in electronic warfare. We are fortunate to work with DRDO for many years now and learn with them and build products for them, and in the process learn domain and competencies and capabilities.

So that we can address the future requirements of India on the EW program, which also is exportable. So it has been a continuous journey. It's not an overnight thing and we don't have foreign collaboration. It's all India DRDO, what we've done, ISRO, and other areas where we've studied books, go, implement, study, fail, correct, learn. it's been a process.

**Arnab Bhattacharjee:**

Thank you, sir.

**Moderator:**

Thank you. Ladies and gentlemen, we have reached the end of question and answer session. I would now like to hand the conference over to the management for closing comments.

**Management:**

Thank you, everyone, for attending this conference and thank you for all the very interesting questions about our company. We are interested in building, scaling the organization as we go along. It has been a long journey for data patterns. It's not a startup, though we behave like a startup within the organization. We've built up competencies over many areas, process, infrastructure, all of them done. The markets have opened up largely, so we are developing products for addressing the markets, increase our total address for market.

We are in line with whatever we are doing. We are in, our products are under development. We expect that we'll scale the next three to five years. We need to substantially scale the organization. We're building infrastructure to meet that expectation and the government is very motivated to do more in India and that is the right kind of, that's the right thing for us because we've always been saying Made In India with pride, so we hope to do a lot more and scale the business. If you have any further questions, kindly address the questions in Go India.

We'll be free to, we'll be very glad to answer those questions. Thank you very much. Thank you for the call. Thanks.

**Moderator:** Thank you. On behalf of Go India Advisors, that concludes this conference. Thank you for joining us. You may now disconnect your lines.