Research

CRISIL IER

Independent Equity Research

Enhancing investment decisions

Astra Microwave Products Ltd

Q4FY17 Results Update

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

Research Analysts

Pratik Chheda
pratik.chheda@crisil.com

Arun Venkatesh
arun.venkatesh@crisil.com

Client servicing desk

+91 22 3342 3561
clientservicing@crisil.com

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An S&P Global Company

Astra Microwave Products Ltd

June 14, 2017

Year ends on a good note; Order inflow continues to be a monitorable in FY18

Fundamental Grade: 4/5 (Superior fundamentals) **Valuation Grade:** 3/5 (CMP is aligned)

Industry: Aerospace and defence **Fair Value: ₹157** **CMP: ₹144**

Astra Microwave Products Ltd's (Astra's) Q4FY17 standalone results were in line CRISIL Research's expectations. Revenue increased 25.3% y-o-y and 29.3% q-o-q to ₹1,499 mn. For FY17, standalone revenue remained flat y-o-y at ₹4,067 mn. Strong revenue growth and increased share of high-margin domestic orders lead to increase in EBITDA of 48.4% y-o-y and 69.8 q-o-q to ₹426 mn in Q4FY17. Expansion in EBITDA led to 57.5% y-o-y and 132.7% q-o-q increase in the adjusted PAT to ₹300 mn. The order inflow picked up in Q4FY17, increasing 82% y-o-y and 389% q-o-q to ₹2.0 bn. The order book stood at ₹5.2 bn at the end of FY17 – providing revenue visibility of 12-15 months. We remain positive on Astra's long-term prospects, considering strong growth potential of defence spending and the company's R&D initiatives. We maintain the fundamental grade of **4/5.**

Current book-to-bill ratio at 1.2x FY17 revenue; order inflows pick up in Q4FY17

Order inflows picked up in the last quarter, increasing 82% y-o-y and 389% q-o-q to ₹2.0 bn in Q4FY17. For FY17, the order inflow remained largely flat at ₹4.0 bn. Orders booking for supply of sub-systems for Akash Missile worth ₹0.9 bn were delayed to the subsequent year owing to technical reasons. We expect the order inflow to be robust in FY18, driven largely by domestic orders and receipt of the delayed order. We have factored in order intake of ₹6.0 bn in FY18 and ₹6.2 bn in FY19. Historically, order inflow has been lumpy and, hence, is a key monitorable.

Strong execution in Q4FY17 leads to EBITDA margin recovery

EBITDA margin expanded sharply by 442 bps y-o-y and 678 bps q-o-q to 28.4% in Q4FY17 owing to strong execution in the current quarter. Going forward, we expect the share of export orders to increase to ~20% in FY19, as the company is expected to execute ~₹1.2 bn worth of export orders in FY19. Consequently, EBITDA margin is estimated at 24.3% in FY19.

Earnings estimate maintained, fair value unchanged at ₹157 per share

We maintain our earnings estimates for FY18-19E and continue to value Astra using a P/E multiple of 14x on FY19E EPS. We also value the FY17 investments of the company at book value. Relatively lower than expected investments have caused a slight variance in the fair value. As the variance is not significant, we maintain our fair value at ₹157 per share. At the current market price of ₹144, the valuation grade is **3/5**.

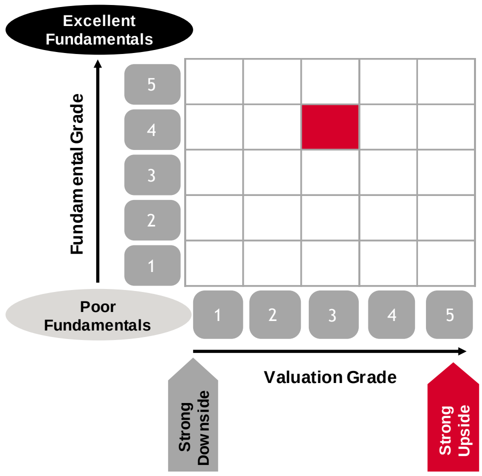
KEY FORECAST

(₹ mn)	FY15	FY16#	FY17E	FY18E	FY19E
Operating income	6,251	4,098	4,250	4,850	6,073
EBITDA	1,186	1,056	972	1,268	1,561
Adj Net income	629	570	540	640	904
Adj EPS (₹)	7.7	6.6	6.2	7.4	10.4
EPS growth (%)	22.9	(14.3)	(5.3)	18.6	41.1
Dividend Yield (%)	0.8	0.8	0.6	0.8	1.1
RoCE (%)	28.1	19.1	13.8	16.9	19.9
RoE (%)	23.6	16.5	12.7	13.5	16.9
PE (x)	18.7	21.9	23.1	19.5	13.8
P/BV (x)	4.0	3.1	2.8	2.5	2.2
EV/EBITDA (x)	10.5	11.6	13.9	10.4	8.4

Based on abridged financials;

Source: Company, CRISIL Research estimates

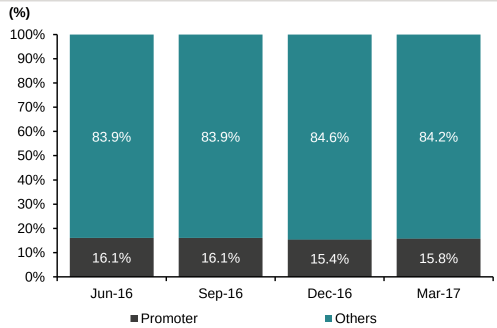
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	9606/31104
NSE/BSE ticker	ASTRAMICRO /ASTRAMIC
Face value (₹ per share)	2
Shares outstanding (mn)	87
Market cap (₹ mn)/(US$ mn)	12472/194
Enterprise value (₹ mn)/(US$ mn)	13539/211
52-week range (₹)/(H/L)	149/102
Beta	0.9
Free float (%)	84.2%
Avg daily volumes (30-days)	833,221
Avg daily value (30-days) (₹ mn)	116.0

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
ASTRA	1%	27%	27%	20%
NIFTY 500	1%	9%	19%	24%

For detailed initiating coverage report please visit: www.crisil.com

CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

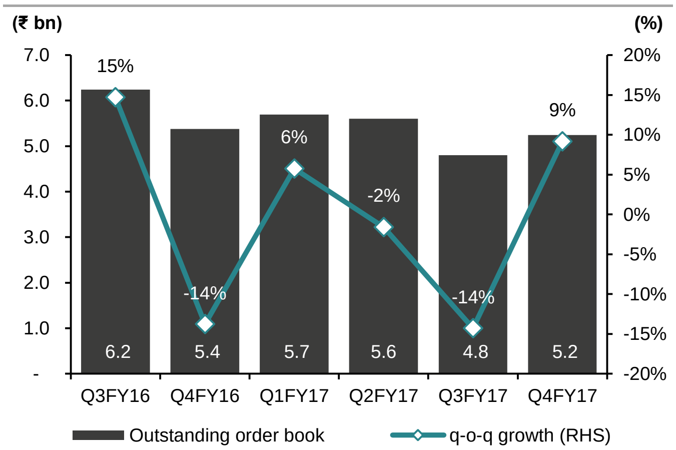
Q4FY17 results summary (Standalone)

(₹ mn)	Q4FY17	Q3FY17	Q4FY16	q-o-q (%)	y-o-y (%)	FY17	FY16	y-o-y (%)
Net sales	**1,499**	**1,159**	**1,196**	**29.3**	**25.3**	**4,067**	**4,066**	**0.0**
Raw material cost	676	628	612	7.6	10.4	1874	2,193	(14.5)
Raw material as % of sales	45.1%	54.2%	51.2%	-912bps	-611bps	46.1%	53.9%	-785bps
Other expenses	235	144	116	63.2	101.6	631	412	53.3
Employees cost	162	136	180	19.3	(10.0)	567	508	11.6
EBITDA	**426**	**251**	**287**	**69.8**	**48.4**	**995**	**953**	**4.3**
EBITDA margin	**28.4%**	**21.6%**	**24.0%**	**678bps**	**442bps**	**24.5%**	**23.4%**	**101bps**
Depreciation	68	65	65	4.2	3.6	241	236	2.1
EBIT	**358**	**186**	**222**	**92.7**	**61.6**	**754**	**717**	**5.1**
Interest and finance charges	31	30	20	3.9	54.6	105	88	19.5
Operating PBT	**327**	**156**	**202**	**109.8**	**62.3**	**649**	**630**	**3.0**
Other income	7	5	22	33.1	(69.2)	37	84	(55.4)
Extraordinary income/(expense)	3	(1)	1	(283.5)	263.5	(0)	(20)	(97.9)
PBT	**337**	**159**	**224**	**111.1**	**50.3**	**686**	**714**	**(3.9)**
Tax	34	32	33	6.7	3.9	120	150	(19.9)
PAT	**303**	**128**	**191**	**137.2**	**58.3**	**566**	**564**	**0.3**
Adj PAT	**300**	**129**	**190**	**132.3**	**57.5**	**566**	**584**	**(3.0)**
Adj PAT margin	**20.0%**	**11.1%**	**15.9%**	**887bps**	**408bps**	**13.9%**	**14.4%**	**-44bps**
No of equity shares (mn)	87	87	87	-	-	87	87	-
Adj EPS (₹)	**3.49**	**1.48**	**2.83**	**135.8**	**23.3**	**6.53**	**6.77**	**(3.5)**

NM: Not meaningful

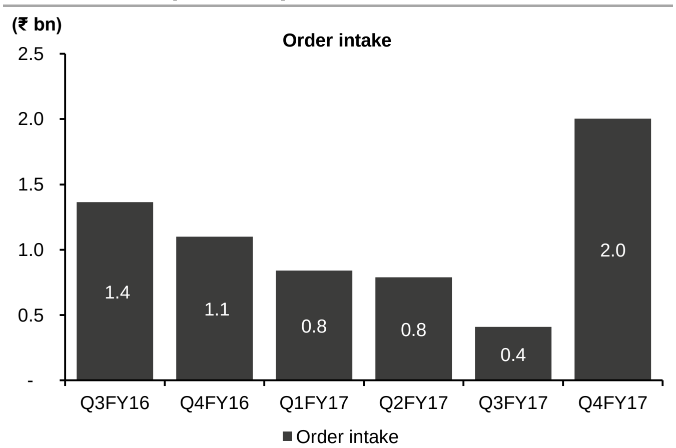
Source: Company, CRISIL Research

Order book at ₹5.2 bn as of Q4FY17



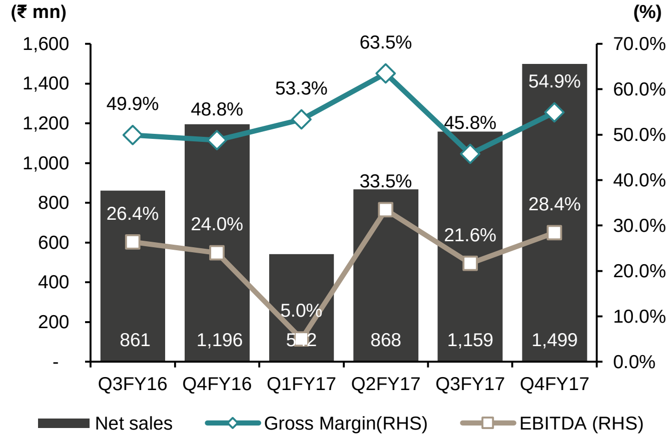
Source: Company, CRISIL Research

Order inflow picked up in Q4FY17



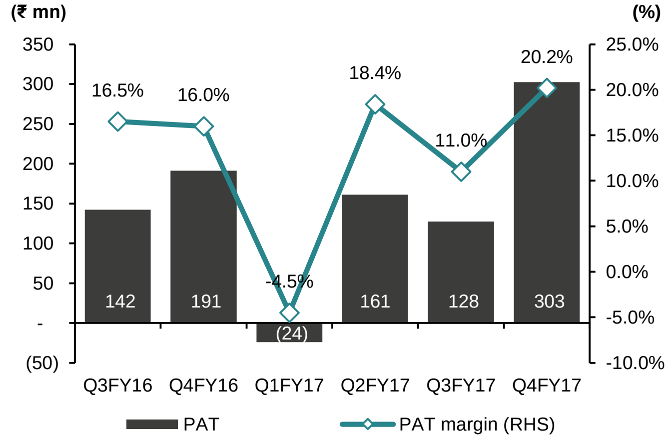
Source: Company, CRISIL Research

EBITDA margin expanded 442 bps y-o-y to 28.4%...



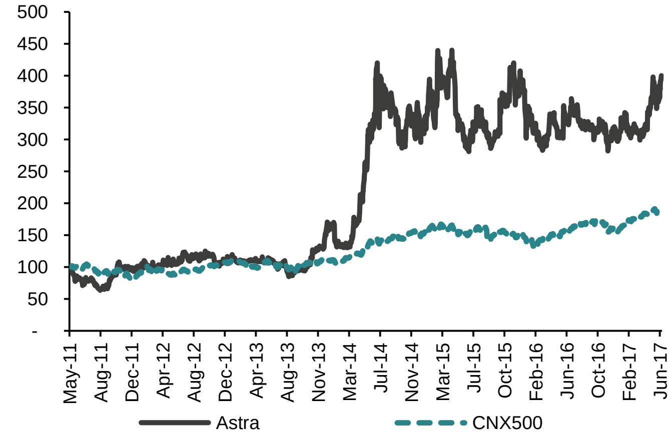
Source: Company, CRISIL Research

…leading to 58.3% y-o-y increase in PAT to ₹303 mn



Source: Company, CRISIL Research

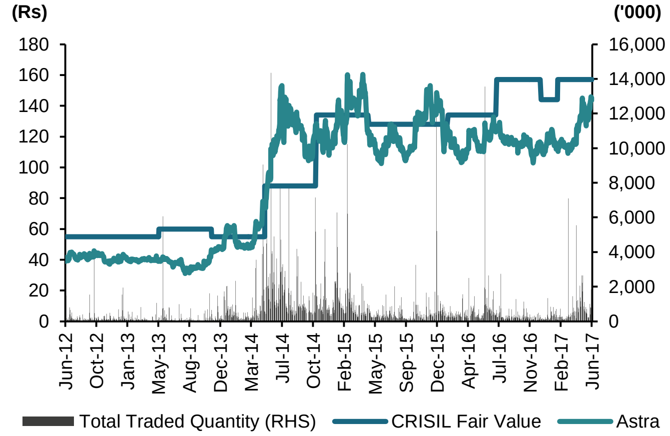
Share price movement



-Indexed to 100

Source: NSE, CRISIL Research

Fair value movement since initiation

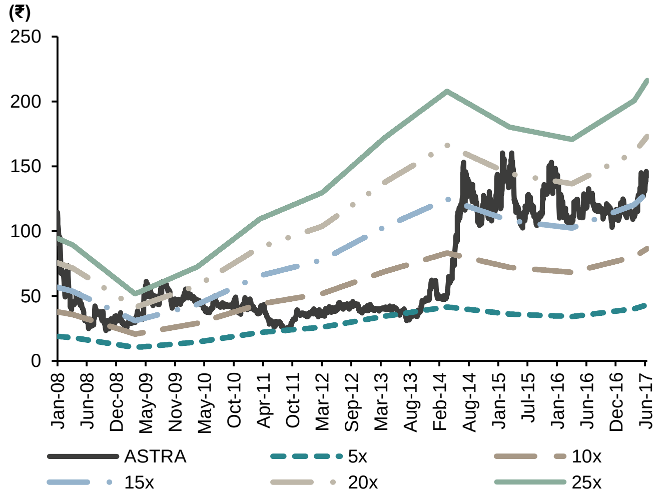


Source: NSE, CRISIL Research

Valuation Grade: 3/5

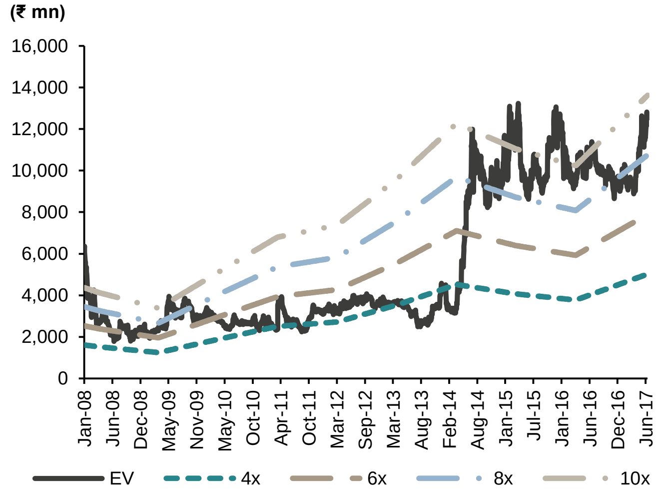
We maintain our earnings estimates for FY18-19E and continue to value Astra using a P/E multiple of 14x on FY19E EPS. We also value the FY17 investments of the company at book value i.e. ₹550 mn. However, relatively lower than expected investments have caused a slight variance in the fair value. As this variance, is not significant, we maintain our fair value at ₹157 per share. At the current market price of ₹144, the valuation grade is **3/5**.

One-year forward P/E band



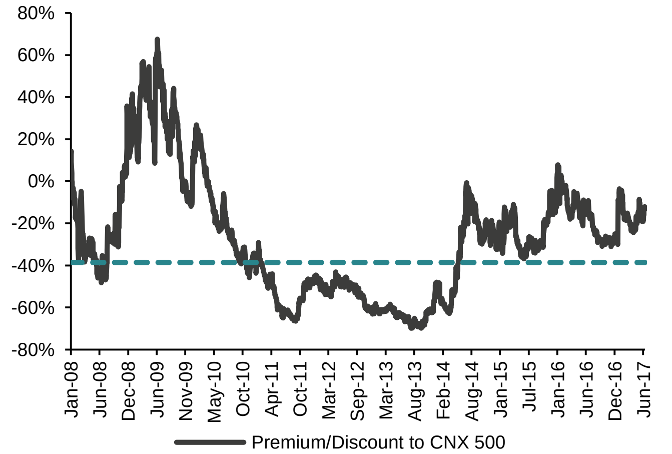
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



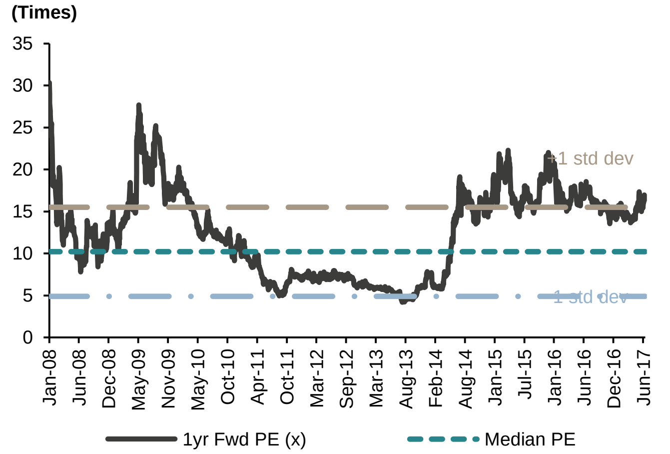
Source: NSE, CRISIL Research

P/E – premium / discount to CNX 500



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

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CRISIL IER reports released on Astra Microwave Products Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
18-Jun-12	Initiating Coverage	4/5	₹55	5/5	₹40
02-Aug-12	Q1FY13 Result Update	4/5	₹55	5/5	₹41
06-Nov-12	Q2FY13 Result Update	4/5	₹55	5/5	₹39
15-Feb-13	Q3FY13 Result Update	4/5	₹55	5/5	₹40
08-May-13	Q4FY13 Result Update	4/5	₹60	5/5	₹39
07-Aug-13	Detailed Report	4/5	₹60	5/5	₹32
06-Nov-13	Q2FY14 Result Update	4/5	₹55	4/5	₹46
10-Feb-14	Q3FY14 Result Update	4/5	₹55	4/5	₹51
09-May-14	Q4FY14 Result Update	4/5	₹88	4/5	₹76
08-Aug-14	Q1FY15 Result Update	4/5	₹99	1/5	₹133
05-Nov-14	Detailed report	4/5	₹134	3/5	₹125
09-Feb-15	Q3FY15 Result update	4/5	₹134	4/5	₹116
18-May-15	Q4FY15 Result update	4/5	₹128	4/5	₹116
09-Sept-15	Q1FY16 Result update	4/5	₹128	4/5	₹106
10-Dec-15	Q2FY16 Result update	4/5	₹128	3/5	₹133
17-Feb-16	Q3FY16 Result update	4/5	₹134	4/5	₹114
03-Jun-16	Q4FY16 Result update	4/5	₹134	4/5	₹112
19-Jul-16	Detailed Report	4/5	₹157	5/5	₹126
01-Sept-16	Q1FY17 Result update	4/5	₹157	5/5	₹116
19-Dec-16	Q2FY17 Result update	4/5	₹144	4/5	₹116
14-Feb-17	Q3FY17 Result update	4/5	₹157	5/5	₹112
14-June-17	Q4FY17 Result update	4/5	₹157	3/5	₹144

Annexure: Financials

Income statement

(₹ mn)	FY15	FY16#	FY17E	FY18E	FY19E
Operating income	**6,251**	**4,098**	**4,250**	**4,850**	**6,073**
EBITDA	**1,186**	**1,056**	**972**	**1,268**	**1,561**
EBITDA margin	**19.0%**	**25.8%**	**22.9%**	**26.1%**	**25.7%**
Depreciation	220	240	245	266	314
EBIT	**966**	**816**	**727**	**1,002**	**1,247**
Interest	152	141	109	222	165
Operating PBT	**814**	**675**	**618**	**780**	**1,083**
Other income	34	36	39	74	106
Exceptional inc/(exp)	(4)	(20)	-	-	-
PBT	**844**	**691**	**657**	**854**	**1,189**
Tax provision	220	141	117	213	285
Minority interest	-	-	-	-	-
PAT (Reported)	**624**	**550**	**540**	**640**	**904**
Less: Exceptionals	(4)	(20)	-	-	-
Adjusted PAT	**629**	**570**	**540**	**640**	**904**

Ratios

	FY15	FY16#	FY17E	FY18E	FY19E
Growth					
Operating income (%)	19.1	(34.4)	3.7	14.1	25.2
EBITDA (%)	31.1	(10.9)	(8.0)	30.4	23.2
Adj PAT (%)	22.9	(9.3)	(5.3)	18.6	41.1
Adj EPS (%)	22.9	(14.3)	(5.3)	18.6	41.1
Profitability					
EBITDA margin (%)	19.0	25.8	22.9	26.1	25.7
Adj PAT Margin (%)	10.1	13.9	12.7	13.2	14.9
RoE (%)	23.6	16.5	12.7	13.5	16.9
RoCE (%)	28.1	19.1	13.8	16.9	19.9
RoIC (%)	27.3	20.3	15.5	18.4	21.7
Valuations					
Price-earnings (x)	18.7	21.9	23.1	19.5	13.8
Price-book (x)	4.0	3.1	2.8	2.5	2.2
EV/EBITDA (x)	10.5	11.6	13.9	10.4	8.4
EV/Sales (x)	2.0	3.1	3.2	2.8	2.2
Dividend payout ratio (%)	15.7	18.9	13.5	15.5	15.5
Dividend yield (%)	0.8	0.8	0.6	0.8	1.1
B/S ratios					
Inventory days	132	159	183	156	148
Creditors days	59	59	40	47	55
Debtor days	63	149	184	169	161
Working capital days	127	213	266	243	227
Gross asset turnover (x)	2.5	1.5	1.4	1.4	1.6
Net asset turnover (x)	4.7	2.9	3.0	3.2	3.7
Sales/operating assets (x)	4.6	2.9	2.6	2.6	3.2
Current ratio (x)	3.6	5.7	6.6	6.1	5.1
Debt-equity (x)	0.3	0.2	0.3	0.2	0.1
Net debt/equity (x)	0.2	(0.0)	0.2	0.1	0.1
Interest coverage	6.4	5.8	6.7	4.5	7.6

Per share

	FY15	FY16#	FY17E	FY18E	FY19E
Adj EPS (₹)	7.7	6.6	6.2	7.4	10.4
CEPS	10.4	9.4	9.1	10.5	14.1
Book value	35.7	46.1	52.3	57.4	65.9
Dividend (₹)	1.2	1.2	0.8	1.1	1.6
Actual o/s shares (mn)	81.8	86.6	86.6	86.6	86.6

Balance Sheet

(₹ mn)	FY15	FY16#	FY17E	FY18E	FY19E
Liabilities					
Equity share capital	164	173	173	173	173
Reserves	2,755	3,820	4,359	4,794	5,531
Minorities	-	-	-	-	-
Net worth	**2,918**	**3,993**	**4,532**	**4,968**	**5,704**
Convertible debt	-	-	-	-	-
Other debt	923	696	1,316	1,064	814
Total debt	**923**	**696**	**1,316**	**1,064**	**814**
Deferred tax liability (net)	109	108	116	108	108
Total liabilities	**3,950**	**4,796**	**5,965**	**6,140**	**6,626**
Assets					
Net fixed assets	1,416	1,368	1,497	1,560	1,719
Capital WIP	4	25	372	325	225
Total fixed assets	**1,420**	**1,394**	**1,869**	**1,886**	**1,944**
Investments	**1**	**0**	**550**	**550**	**550**
Current assets					
Inventory	1,732	1,224	1,287	1,398	1,704
Sundry debtors	1,119	1,773	2,279	2,323	2,765
Loans and advances	379	251	359	339	425
Cash & bank balance	291	871	249	369	242
Marketable securities	-	-	-	-	-
Total current assets	**3,520**	**4,119**	**4,173**	**4,430**	**5,137**
Total current liabilities	**991**	**717**	**628**	**726**	**1,005**
Net current assets	**2,529**	**3,402**	**3,545**	**3,704**	**4,132**
Intangibles/Misc. expenditure	**-**	**-**	**-**	**-**	**-**
Total assets	**3,950**	**4,796**	**5,965**	**6,140**	**6,626**

Cash flow

(₹ mn)	FY15	FY16#	FY17E	FY18E	FY19E
Pre-tax profit	848	711	657	854	1,189
Total tax paid	(194)	(143)	(108)	(222)	(285)
Depreciation	220	240	245	266	314
Working capital changes	(1,083)	(292)	(765)	(39)	(555)
Net cash from operations	**(208)**	**517**	**28**	**859**	**662**
Cash from investments					
Capital expenditure	(325)	(214)	(720)	(282)	(372)
Investments and others	23	1	(550)	-	-
Net cash from investments	**(303)**	**(213)**	**(1,270)**	**(282)**	**(372)**
Cash from financing					
Equity raised/(repaid)	0	637	-	-	-
Debt raised/(repaid)	315	(227)	621	(252)	(250)
Dividend (incl. tax)	(118)	(125)	(87)	(118)	(167)
Others (incl extraordinaries)	(5)	(7)	86	(86)	-
Net cash from financing	**192**	**277**	**620**	**(456)**	**(417)**
Change in cash position	(320)	581	(622)	120	(127)
Closing cash	**291**	**871**	**249**	**369**	**242**

Quarterly financials

(₹ mn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Net Sales	**1,196**	**542**	**868**	**1,159**	**1,499**
Change (q-o-q)	39%	-55%	60%	33%	29%
EBITDA	**287**	**27**	**291**	**251**	**426**
Change (q-o-q)	26%	-91%	970%	-14%	70%
EBITDA margin	**24%**	**5%**	**33%**	**22%**	**28%**
PAT	191	(24)	160	128	303
Adj PAT	**191**	**(24)**	**160**	**128**	**303**
Change (q-o-q)	34%	-113%	-758%	-20%	137%
Adj PAT margin	**16%**	**-4%**	**18%**	**11%**	**20%**
Adj EPS	**2.2**	**(0.3)**	**1.8**	**1.5**	**3.5**

Based on abridged Financials

Source: Company, CRISIL Research

CRISIL Research Team

Senior Director

Nagarajan Narasimhan	CRISIL Research	+91 22 3342 3540	nagarajan.narasimhan@crisil.com

Analytical Contacts

Prasad Koparkar	Senior Director, Industry & Customised Research	+91 22 3342 3137	prasad.koparkar@crisil.com
Jiju Vidyadharan	Senior Director, Funds & Fixed Income Research	+91 22 3342 8091	jiju.vidyadharan@crisil.com
Binaifer Jehani	Director, Customised Research	+91 22 3342 4091	binaifer.jehani@crisil.com
Manoj Damle	Director, Customised Research	+91 22 3342 3342	manoj.damle@crisil.com
Ajay Srinivasan	Director, Industry Research	+91 22 3342 3530	ajay.srinivasan@crisil.com
Rahul Prithiani	Director, Industry Research	+91 22 3342 3574	rahul.prithiani@crisil.com
Miren Lodha	Director, Data Business	+91 22 3342 1977	miren.lodha@crisil.com
Hetal Gandhi	Director, Research Execution	+91 22 33424155	hetal.gandhi@crisil.com

Business Development

Prosenjit Ghosh	Director, Industry & Customised Research		+91 99206 56299	prosenjit.ghosh@crisil.com
Megha Agrawal	Associate Director		+91 98673 90805	megha.agrawal@crisil.com
Dharmendra Sharma	Associate Director	(North)	+91 98189 05544	dharmendra.sharma@crisil.com
Ankesh Baghel	Regional Manager	(West)	+91 98191 21510	ankesh.baghel@crisil.com
Sonal Srivastava	Regional Manager	(West)	+91 98204 53187	sonal.srivastava@crisil.com
Sarrthak Sayal	Regional Manager	(North)	+91 95828 06789	sarrthak.sayal@crisil.com
Priyanka Murarka	Regional Manager	(East)	+91 99030 60685	priyanka.murarka@crisil.com
Sanjay Krishnaa	Regional Manager	(Tamil Nadu & AP)	+91 98848 06606	sanjay.krishnaa@crisil.com

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Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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