

ASTRA MICROWAVE

Domestic market spearheads spurt

India Equity Research | Defence

Astra Microwave (AMP) posted strong operational performance in Q4FY17 with sales and EBITDA jumping 26% and 49% YoY, respectively, despite INR110mn liquidated damages (LD) while intake was lower. Key highlights were: a) solid 57% gross margin (up 600bps YoY) riding domestic execution led to 27% EBITDA margin (up 400bps YoY), which adjusted for LDs paid stood at 34%; and b) new orders at INR4.1bn came below estimate led by spillage in Akash/space orders; however, FY18 estimate is robust at INR6.0bn plus led by domestic orders. We expect AMP to benefit significantly from upcoming domestic missile programmes wherein it is one of the preferred vendors for PSUs. This will drive major portion of FY18/19E new intake/profitability. Maintain 'BUY' with target price of INR 175 at which it discounts FY18/19E earnings at 16.5x/13.5x.

Rising proportion of domestic business driving performance

After a decline in FY16, growth is now making a comeback, spurred primarily by domestic execution, which is also driving overall profitability given significant advantage versus export jobs. We expect FY18E intake/EBITDA growth at ~46/16%, spearheaded by domestic projects. With most of AMP's FY18E projects' execution/new ordering being high priority and already registering decent traction, we do not foresee major issue in the guidance.

Revenue visibility to get significant boost over FY17-19E

Sharpening focus on surface-to-air missiles (SAM), space programmes, etc., is likely to benefit AMP over the next 2-3 years with order book CAGR of ~20% (FY17-19E). We expect domestic projects to constitute ~70-75% of its new orders driven by Akash (in H1FY18E) and ISRO projects, which augurs well for overall profitability. The company had submitted bids worth INR7.0-7.5bn, wherein it posted ~58% strike rate, which augurs well for similar upcoming projects.

Outlook and valuations: Palpable momentum; maintain 'BUY'

We envisage AMP to bag significant orders in domestic market led by priority missile / space programmes, wherein it has robust track record with significant cost advantage. We estimate ~23% EPS CAGR over FY17-19 led by higher proportion of domestic revenue with reasonable RoE/RoCE of ~16/19% by FY19. We maintain 'BUY/SO'.

Financials

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Net rev. (INR mn)	1,564	1,244	25.8	1,211	29.1	4,251	4,454	5,261
EBITDA (INR mn)	426	287	48.5	251	69.8	995	1,158	1,384
Adj. Profit (INR mn)	300	190	57.5	129	132.3	566	689	851
Diluted EPS (INR)	3.7	2.2	66.7	1.5	145.9	6.5	8.0	9.8
Diluted P/E (x)						20.1	16.5	13.4
EV/EBITDA (x)						11.9	9.0	7.4
ROE (%)						13.3	14.3	15.6

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	High
Sector Relative to Market	Overweight

MARKET DATA (R: ASTM.BO, B: ASTM IN)

CMP	: INR 131
Target Price	: INR 175
52-week range (INR)	: 139 / 102
Share in issue (mn)	: 86.6
M cap (INR bn/USD mn)	: 11 / 172
Avg. Daily Vol.BSE/NSE('000)	: 500.1

SHARE HOLDING PATTERN (%)

	Current	Q2FY17	Q1FY17
Promoters *	15.8	15.4	16.1
MF's, FI's & BK's	29.8	30.5	32.2
FII's	3.0	3.1	2.7
Others	51.4	51.0	49.0
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	13.8	2.2	11.2
3 months	2.9	7.7	20.4
12 months	4.3	18.6	35.0

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Q4FY17 conference call: Key takeaways

FY18 guidance

- **Order inflow: INR6bn**
 - Exports: INR1.5bn.
 - Defense: INR2.75bn (which includes delayed orders worth INR0.9bn from FY17).
 - Space: INR1.1-1.15bn.
 - Meteorological and hydrology: INR0.5bn.
- **Revenue: INR4.5bn**
 - Defense: INR3.45bn.
 - Space: INR0.35bn.
 - Exports: INR0.45-0.5bn.
 - Meteorological and hydrology: INR0.2bn.

The last 2 quarters of FY18 are expected to generate 60% revenue; therefore Q1FY18 & Q2FY18 numbers are expected to be muted.

Order inflow, order book and revenue in FY17

- Order inflow of INR4.1bn.
- Order backlog of INR5.24bn (of which exports were INR1.5bn compared to INR0.8bn in FY16).
- Revenue: INR4.5bn
 - Space: INR0.3bn.
 - Exports: INR0.4bn.
 - Defence: INR3.8bn.

Rafael (50:50) JV: Astra is participating in RFIs and putting marketing efforts. Majorly offsite contracts are expected and will become operational only from FY20. Around INR1bn of offsite projects are expected with an execution period of 3 years with revenue estimate of ~INR0.20-0.25bn in FY20.

Capex: In FY17, major capex was on the R&D centre in Bangalore of INR0.37bn and around spent INR0.4bn for existing operations. However, in FY18, capex on R&D is estimated at INR0.25-0.28bn and not too much required for existing operations.

Non-current investments: No significant investment required for the subsidiary and JV in the next 18 months.

Pipeline

- QRSAM is in execution phase and more orders are expected in FY18—major orders for radars and missiles.
- Brahmos orders for telemetry products and seekers are in final integration stage. In 3-4 months AMP will be able to demonstrate it to clients.

- Continues to supply Akash – 7 radars and missiles to BEL and BDE with supply to BDL before schedule.

Other miscellaneous comments

- Vision for FY20: INR7.5bn by FY20.
- Increase in overhead and employee cost likely in FY18E. PAT more or less the same for FY18E.
- INR210mn of LD charges not expected to be repeated. However, INR100mn expected in FY18.
- Bids
 - INR4.1bn of orders was secured in FY17 against bids of INR7bn.
 - INR6bn of orders expected to be secured in FY18 against bids of INR9bn.
- Tax rate guidance for FY18 and FY19 is ~23-25%.

Financial snapshot

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY17	FY18E	FY19E
Net revenues	1,564	1,244	25.8	1,211	29.1	4,251	4,454	5,261
Staff costs	162	180	(10.0)	136	19.3	567	605	692
Direct costs	676	612	10.4	628	7.6	1,874	1,969	2,354
Other operating expenses	300	164	82.5	196	52.8	815	722	831
Total expenditure	1,138	957	18.9	960	18.5	3,256	3,296	3,877
EBITDA	426	287	48.5	251	69.8	995	1,158	1,384
Depreciation	68	65	3.6	65	4.2	241	227	244
EBIT	358	222	61.7	186	92.7	754	931	1,141
Other income	7	22	(69.2)	5	33.1	37	101	132
Interest	31	20	54.6	30	3.9	105	125	146
Add: Exceptional items	3	-	795.8	(2)	(215.2)	-	-	-
Profit before tax	337	223	50.7	159	112.3	687	907	1,127
Tax	34	33	3.9	32	6.7	120	218	276
Reported net profit	303	191	58.7	127	138.9	566	689	851
Adjusted Profit	300	190	57.5	129	132.3	566	689	851
Equity capital	173	173		173		173	173	173
No. of shares (mn)	82	87		87		87	87	87
Diluted EPS (INR)	3.7	2.2	66.7	1.5	145.9	6.5	8.0	9.8
As a % of net revenues								
Direct costs	43.2	49.2		51.9		44.1	44.2	44.7
Employee cost	10.3	14.5		11.2		13.3	13.6	13.2
Other operating expenses	19.2	13.2		16.2		19.2	16.2	15.8
EBITDA	27.2	23.1		20.7		23.4	26.0	26.3
Adjusted net profit	19.2	15.3		10.7		46.7	56.9	70.3
Tax rate	10.1	14.6		20.1		17.5	24.0	24.5

Change in Estimates

	FY18E			FY19E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	4,454	5,566	(20.0)	5,261	-	0.0	In line with the mgmt guidance in Q4FY17 concall.
EBITDA	1,158	1,337	(13.4)	1,384	-	0.0	
EBITDA Margin	26.0	24.0		26.3	0.0		
Adjusted Profit After Tax	689	843	(18.2)	851	-	0.0	
Net Profit Margin	15.5	15.1		16.2	0.0		
Capex	250	250	0.0	250	-	0.0	

Company Description

AMP was incorporated in 1991 by a team of senior professionals and eminent scientist. AMP develops, manufactures, and distributes wireless communication solutions. AMP offers products in the areas of telecommunications, defense, and space, and the product line includes amplifiers, base stations, dish antennas, filters, microwave components, and switching equipment.

The company's products are widely used in VSAT operations, radars, navigational equipment, public mobile trunk radio (PMTR), WLL and Cellular GSM/DCS or PCS networks. The products meet ITU, MIL and Space standards, and bear testimony to its R&D breakthroughs using ISO quality processes, world-class manufacturing facilities and equipment, and trained manpower. The manufacturing facilities are located at Bollaram and Rangareddy in Andhra Pradesh

The defense segment, both domestic and exports, put together is the major contributor of sales with over 90% of revenues coming from this business. While the production program of missiles and radars sub-systems are driving the domestic business, defence offset requirements drives exports. Business potential of this segment is likely to further improve in the coming years.

Investment Theme

Defence electronics opportunity pegged at USD13bn

While India's overall defence spending is likely to top USD248bn, the more relevant market of defence electronics for AMP is pegged at USD13bn over the next 7-8 years. Further, we anticipate projects worth INR100bn to be awarded over the next two years, where the company could be a significant beneficiary, improving its revenue visibility from the current two years. Orders from overseas OEMs are likely to provide further impetus.

Order book provides visibility for over a year

AMP's order backlog at INR~5.1bn provides visibility for over a year. The company is well placed in certain orders to be released by the global OEMs over the next 12-18 months. It is also likely to benefit from increased supply of Akash missiles by its key suppliers, BEL and Bharat Dynamics.

Key Risks

Slowdown in defence spending: Any slowdown in the defence spending could impact revenue and hence the company's profit.

Delays/lumpiness in execution of defence contracts:

The defence market is monopolistic in nature with the Government of India (GoI) being the sole buyer of defence equipment, which puts suppliers such as AMP at a disadvantage.

Delays in obtaining necessary permissions for the offset clause: AMP's defence export business is driven by offset provisions of the GoI which is controlled by export regulations where time delays could happen in granting necessary permissions.

High precision and special inputs can delay the execution: Defence exports entail high precision and is a skilled job involving specialised inputs from across the globe, which has a bearing on timely execution and uniform billing.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.3	6.3	6.3
USD/INR (Avg)	65.0	67.5	67.0	67.0
Company				
Segmental rev (INR mn)				
Defence	2,622	3,740	3,741	3,926
Exports	1,391	400	518	1,133
Total revenues	4,346	4,490	4,644	5,482
Segmental OB (INR mn)				
Defence	4,044	2,620	2,494	2,617
Exports	390	1,506	2,505	3,116
Total OB	5,207	5,241	6,453	7,561
Excise duty (%)	4.1	6.0	5.0	5.0

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Income from operations	4,196	4,251	4,454	5,261
Materials costs	2,193	1,874	1,969	2,354
Employee costs	508	567	605	692
Other mfg expenses	541	815	722	831
Total operating expenses	3,243	3,256	3,296	3,877
EBITDA	953	995	1,158	1,384
Depreciation	236	241	227	244
EBIT	717	754	931	1,141
Add: Other income	83.8	37.4	101.12	132.35
Less: Interest Expense	88	105	125	146
Add: Exceptional items	-	-	-	-
Profit Before Tax	713	687	907	1,127
Less: Provision for Tax	150	120	218	276
Reported Profit	563	566	689	851
Exceptional Items	-	-	-	-
Adjusted Profit	563	566	689	851
Shares o /s (mn)	87	87	87	87
Adjusted Basic EPS	6.5	6.5	8.0	9.8
Diluted shares o/s (mn)	87	87	87	87
Adjusted Diluted EPS	6.5	6.5	8.0	9.8
Adjusted Cash EPS	9.2	9.3	10.6	12.6
Dividend per share (DPS)	1.2	1.5	1.5	1.5
Dividend Payout Ratio(%)	22.2	22.5	18.5	15.0

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Operating expenses	77.3	76.6	74.0	73.7
Materials costs	52.3	44.1	44.2	44.7
Staff costs	12.1	13.3	13.6	13.2
S G & A expenses	12.9	19.2	16.2	15.8
Depreciation	5.6	5.7	5.1	4.6
Interest Expense	2.1	2.5	2.8	2.8
EBITDA margins	22.7	23.4	26.0	26.3
Net Profit margins	13.4	13.3	15.5	16.2

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	(33.9)	1.3	4.8	18.1
EBITDA	(10.4)	4.3	16.4	19.5
Adjusted Profit	(7.3)	0.5	21.8	23.5
EPS	(12.3)	0.5	21.8	23.5

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	173	173	173	173	
Reserves & Surplus	3,803	4,368	4,930	5,654	
Shareholders' funds	3,976	4,542	5,104	5,827	
Short term borrowings	-	575	675	775	
Long term borrowings	555	677	615	715	
Total Borrowings	555	1,252	1,290	1,490	
Long Term Liabilities	46	44	44	44	
Def. Tax Liability (net)	109	121	121	121	
Sources of funds	4,685	5,958	6,558	7,482	
Gross Block	2,877	3,248	3,498	3,748	
Net Block	1,347	1,477	1,500	1,506	
Capital work in progress	1	372	372	372	
Total Fixed Assets	1,348	1,849	1,872	1,878	
Non current investments	34	58	158	258	
Cash and Equivalents	847	770	2,247	2,647	
Inventories	1,195	1,259	863	1,032	
Sundry Debtors	1,773	2,274	1,670	1,972	
Loans & Advances	272	340	341	361	
Total current assets	3,239	3,873	2,874	3,366	
Trade payable	402	376	378	451	
Other Current Liab	382	216	216	216	
Total Current Liab	784	592	593	667	
Net Curr Assets-ex cash	2,456	3,281	2,281	2,698	
Uses of funds	4,685	5,958	6,558	7,482	
BVPS (INR)	45.9	52.4	58.9	67.3	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	563	566	689	851	
Add: Depreciation	236	241	227	244	
Interest (Net of Tax)	69	78	95	110	
Others	(6)	26	30	36	
Less: Changes in WC	267	659	(1,000)	418	
Operating cash flow	595	252	2,042	823	
Less: Capex	211	371	250	250	
Free Cash Flow	384	(119)	1,792	573	

Cash flow metrics				
Year to March	FY16	FY17	FY18E	FY19E
Operating cash flow	595	252	2,042	823
Investing cash flow	(212)	(945)	(350)	(350)
Financing cash flow	224	465	(214)	(73)
Net cash Flow	607	(228)	1,477	400
Capex	(211)	(371)	(250)	(250)
Dividend paid	(118)	(127)	(127)	(127)

Profitability and efficiency ratios				
Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	16.4	13.3	14.3	15.6
ROACE (%)	19.5	15.3	16.9	18.6
Inventory Days	211	239	197	147
Debtors Days	126	174	162	126
Payable Days	89	76	70	64
Cash Conversion Cycle	247	337	288	209
Current Ratio	5.2	7.8	8.6	9.0
Gross Debt/EBITDA	0.6	1.3	1.1	1.1
Adjusted Debt/Equity	0.1	0.3	0.3	0.3
Interest Coverage Ratio	8.2	7.2	7.4	7.8

Operating ratios				
Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	1.0	0.8	0.7	0.7
Fixed Asset Turnover	3.1	3.0	3.0	3.5
Equity Turnover	1.2	1.0	0.9	1.0

Valuation parameters				
Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	6.5	6.5	8.0	9.8
Y-o-Y growth (%)	(12.3)	0.5	21.8	23.5
Adjusted Cash EPS (INR)	9.2	9.3	10.6	12.6
Diluted P/E (x)	20.2	20.1	16.5	13.4
P/B (x)	2.9	2.5	2.2	2.0
EV / Sales (x)	2.6	2.8	2.3	1.9
EV / EBITDA (x)	11.6	11.9	9.0	7.4
Dividend Yield (%)	0.9	1.1	1.1	1.1

Additional Data

Directors Data

Dr. Shibani K Koul	Chairman	P.A. Chitrakar	Chief Operating officer
Mr. J. Venkatadas	Independent Director	Mr. S. Gurunatha Reddy	CFO & Whole Time director
Mr. T. Ramachandru	Additional Director	Mr. B. Malla Reddy	Managing Director
Mrs. C. Prameelamma	Director(technical)	Mr. Atim Kabra	Non Executive director
Mr. M. Venkateshwar Reddy	Director (Marketing & Operations)		

Auditors - AMAR & RAJU

Holding – Top 10

	Perc. Holding		Perc. Holding
HDFC Asset Management Co. Ltd.	9	Axis Asset Management Co. Ltd.	7.63
TARISH INVESTMENT & TRAD	7.33	OVERSEAS ASSET MANAGEMENT CAYMAN	4.75
SUNDARAM ASSET MANAGEMENT CO LTD	4.66	L&T INVESTMENT MANAGEMENT LTD	4.53
BIRLA SUN LIFE ASSET MANAGEMENT	3.35	STRATEGIC VENTURES FD MAUR	2.02
L&T MUTUAL FUND	1.78	ICICI PRUDENTIAL ASSET MGMT CO	1.75

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
23 Mar 2017	Tarish Investment & Trading Company Pvt Ltd - Tar	Buy	3112709	111.20
23 Mar 2017	Tarish Investment & Trading Company Pvt Ltd - Tarish	Buy	3240000	111.18
01 Aug 2016	Reliance Mutual Fund	Buy	700000	120.05

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
18 May 2016	B.VENKATA LAKSHMI	Sell	181063.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Astra Microwave Products	BUY	SO	H	Bharat Electronics	BUY	SO	H

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Defence

Astra Microwave Products, Bharat Electronics

Recent Research

Date	Company	Title	Price (INR)	Recos
06-Apr-17	Bharat Electronics	Moving up the value chain; <i>Company Update</i>	166	Buy
01-Nov-16	Astra Microwave Products	Ample growth arsenal; <i>Result Update</i>	116	Buy
23-Sep-16	Bharat Electronics	Upping its ante to see a top-line pick up post FY18E; <i>Visit Note</i>	1,261	Buy

Distribution of Ratings / Market Cap

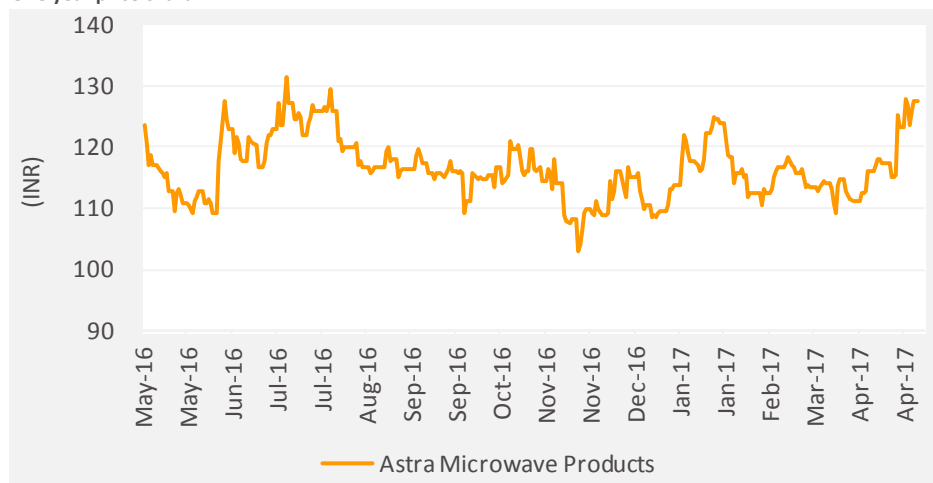
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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