

ASTRA MICROWAVE PRODUCTS

Growth prospects brightening

India Equity Research | Defence

Astra Microwave (AMP) posted decent operational performance in Q1FY18 with sales growing 11% YoY, EBITDA margin at 23% (-4% in Q1FY17), despite INR50mn liquidated damages (LD) - adjusted for this revenue grew ~16% YoY. Key highlights were: a) strong 1,800bps spurt in gross margin to 67% riding domestic execution which led to EBITDA margin moving up 23% - adjusted for LDs paid stood at 30%; and b) new orders at INR1.02bn (up 20%) were mostly from domestic market, FY18 new orders intake is estimated at robust INR6.0bn (+50% growth YoY) plus led by domestic orders. We expect AMP to benefit significantly from the upcoming domestic missile programmes where it is one of the preferred vendors for PSUs like BEL. This will drive major portion of FY18/19E new intake/profitability. Maintain 'BUY' with TP of INR175 - discounts FY18/19E earnings 16.5x/13.5x.

Domestic business gaining momentum

AMP has started witnessing revenue traction from H2FY17 primarily led by better domestic executions which fetch higher margins versus export orders, thus driving profitability. We believe FY18 revenue guidance of INR 4,500mn (+10% growth YoY) is achievable given the recent traction in domestic orders and project execution. The Rafael joint venture (JV) is likely to contribute from FY19 onwards.

Revenue visibility to spurt over FY17-19E

AMP plans to book orders worth INR6bn in FY18 leading to 9mFY18 asking rate of ~85% yoy growth on low base with big ticket orders like Aakash Air Force, 7 squadron and ISRO orders constituting major part. The company also expects to book some orders in Israel through the Rafael JV by March FY18. These orders would benefit AMP over FY17-19E with order book CAGR of ~20%. We expect domestic projects to constitute ~70-75% of new orders, which augurs well for overall profitability.

Outlook and valuations: Palpable momentum; maintain 'BUY'

We envisage AMP to bag several orders in domestic market led by priority missile/space programmes, where it has robust track record (with PSU's like BEL etc) and enjoys 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. At CMP, the stock is available at 13.5x its FY19 EPS. Maintain 'BUY/SP'.

EDELWEISS 4D RATINGS

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

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

CMP	: INR 138
Target Price	: INR 175
52-week range (INR)	: 149 / 102
Share in issue (mn)	: 86.6
M cap (INR bn/USD mn)	: 12 / 186
Avg. Daily Vol.BSE/NSE('000)	: 465.5

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	15.6	15.8	15.4
MF's, FI's & BK's	27.9	29.8	30.5
FII's	2.8	3.0	3.1
Others	53.7	51.4	51.0
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	3.3	5.5	4.1
3 months	8.4	7.6	(0.8)
12 months	6.9	15.6	13.7

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Financials

(INR mn)

Year to March	Q1FY18	Q1FY17	% Chg	Q4FY17	% Chg	FY17	FY18E	FY19E
Net revenues	497	448	10.8	1,564	(68.2)	4,251	4,454	5,261
EBITDA	115	(18)	NA	426	(73.1)	995	1,158	1,384
Adjusted Profit	42	(67)	NA	300	(86.1)	566	689	851
Diluted EPS (INR)	0.5	(0.8)	NA	3.5	(85.3)	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
ROAE (%)						13.3	14.3	15.6

Q1FY18 conference call: Key takeaways

Guidance

- Revenue guidance of INR4.5bn for FY18.
- The company is targeting 10-15% growth over next 2-3 years. It has set an internal target of achieving INR7bn sales by FY20 out of which joint ventures should contribute around INR1.5bn.
- Q2FY18 will be much better as it will make up for the losses and delays in Q1FY18.
- The company can do revenues of INR8-10bn at current capacity with minimal capex.
- It expects FY18 margins to increase with focus on domestic business (export margins are lower).

Revenue break-up (INR495mn)

- Defence - INR360mn
- Space and others - INR126.5mn
- Exports - INR8.5mn
- The company is now concentrating on domestic market.

Order book (OB)

- OB at the beginning of the year stood at INR5.24bn
- Order intake during the quarter was INR1.02bn
- Executed sales of INR500mn
- Closing OB as 30th June was INR5.76bn
- There are no new orders in pipeline
- Company plans to book INR6bn of orders in the year out of which INR1.02bn was booked in the first quarter including big tickets like Aakash IF and 7 squadrant, ISRO orders are also there. Out of this INR6bn, exports are expected to account for INR1.5bn (repeat orders).
- The company expects to book some orders in Israel with Rafael JV by March FY18 which are not included in INR1.5bn guided for exports, these are SDRs which involves execution period of 3 years.

JV with Rafael

- The contract has been signed. Commercial discussions are now progressing as Rafael has bagged a contract from the Indian Air force. Management expects revenues from the JV by March 2018.

Software Defined Radio

- This segment is seeing good traction and the timeline of the contract is around 3 years.

Other highlights

- Revenue for the quarter was low as INR100mn worth of billing got delayed at end of June as the customer only wanted to get billed post GST.

- Raw material costs fell due to the accretion of INR200mn in WIP; 60% of raw material is imported from USA; hence, Europe & Singapore availed Rupee appreciation benefits.
- Drop in other expenses was due to reclassification versus previous year. In the corresponding quarter of previous year other expenses included late delivery charges, but from this year late delivery charges will be adjusted from sales itself which stood at INR50mn for the quarter versus INR24.9mn in Q1FY17.
- Bangalore R&D facility will get completed by Sept 2017. The company also added a lot of testing equipment in past 2 years.
- It will be incurring capex of INR 50mn in FY18.
- The company expects late delivery charges of INR100mn for the year.
- Muzzle velocity radars have been tested and delivered. The company expects orders of INR400-800mn for these radars.
- Long term outstanding loans as at end of the quarter stood at INR770mn versus INR730mn in Q1FY17.
- Short term borrowings for WC are INR 500mn (INR570mn in Q1FY17)

Financial snapshot

(INR mn)

Year to March	Q1FY18	Q1FY17	% change	Q4FY17	% change	FY17	FY18E	FY19E
Net revenues	497	448	10.8	1,564	(68.2)	4,251	4,454	5,261
Staff costs	149	128	16.4	162	(7.7)	567	605	692
Direct costs	166	229	(27.5)	676	(75.4)	1,874	1,969	2,354
Other operating expenses	67	109	(38.8)	300	(77.8)	815	722	831
Total expenditure	382	466	(18.1)	1,138	(66.4)	3,256	3,296	3,877
EBITDA	115	(18)	(739.4)	426	(73.1)	995	1,158	1,384
Depreciation	56	51	9.3	68	(16.8)	241	227	244
EBIT	58	(69)	(184.1)	358	(83.7)	754	931	1,141
Other income	9	13	(32.2)	7	28.2	37	101	132
Interest	32	19	70.1	31	1.7	105	125	146
Add: Exceptional items				(2)	(100.0)			
Profit before tax	35	(76)	(146.6)	331	(89.4)	687	907	1,127
Tax	(7)	(8)	NA	34	NA	120	218	276
Reported net profit	42	(67)	(162.0)	297	(86.0)	566	689	851
Adjusted Profit	42	(67)	(162.0)	300	(86.1)	566	689	851
Equity capital	173	173		173		173	173	173
No. of shares (mn)	82	87		87		87	87	87
Diluted EPS (INR)	0.5	(0.8)	(165.6)	3.5	(85.3)	6.5	8.0	9.8
As % of net revenues								
Direct costs	33.4	51.1		43.2		44.1	44.2	44.7
Employee cost	30.1	28.6		10.3		13.3	13.6	13.2
Other operating expenses	13.4	24.3		19.2		19.2	16.2	15.8
EBITDA	23.1	(4.0)		27.2		23.4	26.0	26.3
Adjusted net profit	8.4	(15.0)		19.2		36.2	44.1	54.4
Tax rate	(18.7)	10.8		10.2		17.5	24.0	24.5

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	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.0	67.5	66.0	66.0
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	101.11	132.34
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)	(54)	30	36	
Less: Changes in WC	266	628	(1,000)	418	
Operating cash flow	596	203	2,042	823	
Less: Capex	211	715	250	250	
Free Cash Flow	384	(512)	1,792	573	

Cash flow metrics		FY16	FY17	FY18E	FY19E
Year to March					
Operating cash flow		596	203	2,042	823
Investing cash flow		(212)	(1,250)	(350)	(350)
Financing cash flow		224	411	(214)	(73)
Net cash Flow		608	(636)	1,477	400
Capex		(211)	(715)	(250)	(250)
Dividend paid		(118)	(125)	(127)	(127)

Profitability and efficiency ratios		FY16	FY17	FY18E	FY19E
Year to March					
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		FY16	FY17	FY18E	FY19E
Year to March					
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		FY16	FY17	FY18E	FY19E
Year to March					
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)		21.2	21.1	17.3	14.0
P/B (x)		3.0	2.6	2.3	2.1
EV / Sales (x)		2.8	2.9	2.5	2.1
EV / EBITDA (x)		12.2	12.5	9.5	7.8
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. Venkatasadas	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 – Top10

	Perc. Holding	Perc. Holding
No Data Available		

**in last one year*

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
16 May 2017	PRATHAP REDDY C	Sell	20000.00
15 May 2017	RENUKA CHITRAKAR	Sell	50000.00

**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
30-May-17	Bharat Electronics	Execution springs a positive surprise; robust outlook; <i>Result Update</i>	170	Buy
02-May-17	Astra Microwave Products	Domestic market spearheads spurt ; <i>Result Update</i>	131	Buy
06-Apr-17	Bharat Electronics	Moving up the value chain; <i>Company Update</i>	166	Buy

Distribution of Ratings / Market Cap

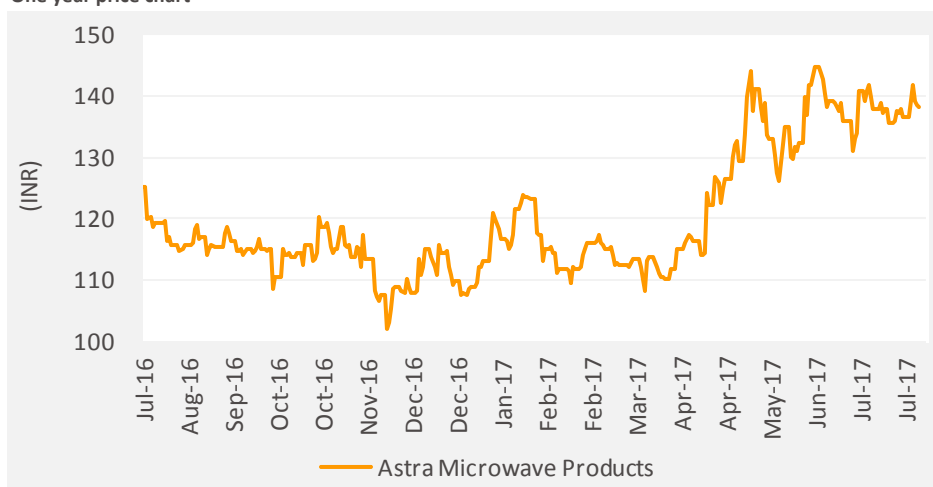
Edelweiss Research Coverage Universe

	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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