

ASTRA MICROWAVE

Delays drag performance; growth prospects intact

India Equity Research | Defence

Astra Microwave's (AMP) Q4FY18 EBITDA and PAT plummeted 19% and 24% YoY, respectively, and came significantly below our estimate. Key highlights: 1) revenue grew 6% post two quarters of decline; 2) EBITDA margin dipped due to adverse product mix (550bps impact) & higher staff cost (320bps impact). Management estimates FY19 margin to be lower than FY18 due to adverse product mix; and 3) delay in finalisation of orders (Akash & Elta) resulted in order inflow declining 48%/20% YoY in Q4/FY18, leading to closing order book slipping 13% YoY to INR4.6bn. We expect AMP to benefit from the upcoming domestic missile/space programmes where it is one of the preferred vendors for PSUs like Bharat Electronics (BEL). Maintain 'BUY' with revised TP of INR140 (INR145 earlier) as we trim FY19/20E EPS 4% each factoring in delay in finalisation of orders.

Delay in order finalisation impacts revenue and order inflow

While revenue grew mere 6%, order inflow declined 48% YoY due to delays in finalisation of most large orders (Akash-INR1.35bn, Elta-INR1.9bn). However, management expects most of these delayed contracts to be finalised in FY19 and has, hence, guided for INR6bn order inflow. While EBITDA margin grew 470bps YoY in FY18 to 30.7% (26% in Q4FY18), management expects margin to be lower in FY19 due to adverse product mix (not quantified).

Key monitorables over the next 12-24 months

We expect AMP to be beneficiary of major domestic orders in missile/space programmes over the next two-three years. While the Rafael JV is expected to start contributing from FY19/20 (INR2.5-3.0bn), it provides significant scope for growth given the product portfolio's broader range.

Outlook and valuations: Ordering to drive growth; maintain 'BUY'

Despite short-term delays in awarding/execution impacting overall performance, we estimate AMP to post 15% EPS CAGR over FY18-20, as it bags major orders in defence and space segments by virtue of being the preferred vendor of PSUs. At CMP, the stock trades at 13x/11x FY19/20E EPS. We maintain 'BUY/SP' with revised target price of INR140.

Financials

(INR mn)

Year to March	Q4FY18	Q4FY17	% Chg	Q3FY18	% Chg	FY18	FY19E	FY20E
Net revenues	1,692	1,599	5.9	863	96.2	3,569	4,063	4,589
EBITDA	439	539	(18.5)	350	25.4	1,095	1,239	1,395
Adjusted Profit	297	388	(23.3)	165	80.4	608	704	810
Diluted EPS (INR)	3.4	4.5	(23.2)	1.9	80.6	7.0	8.1	9.4
Diluted P/E (x)						14.5	12.6	10.9
EV/EBITDA (x)						7.0	5.9	5.0
ROAE (%)						12.8	13.3	13.6

EDELWEISS 4D RATINGS

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

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

CMP	: INR 102
Target Price	: INR 140
52-week range (INR)	: 149 / 75
Share in issue (mn)	: 86.6
M cap (INR bn/USD mn)	: 9 / 126
Avg. Daily Vol.BSE/NSE('000)	: 545.5

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	13.1	13.1	15.5
MF's, FI's & BK's	31.1	31.1	27.9
FII's	2.3	2.3	2.4
Others	53.4	53.4	54.2
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	(4.1)	(0.0)	(1.0)
3 months	7.8	1.9	(0.0)
12 months	(27.8)	11.4	6.6

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May 29, 2018

Q4FY18 conference call: Key takeaways

FY19 guidance

- **Order Inflow:** INR6bn. Key orders include Akash (INR1.35bn), Elta (INR1.9bn), TR module orders and the Rafael order.
- **Revenue:** INR4.35bn (exports – INR0.6-0.65bn). Space will contribute ~INR1.2bn in FY19. Could touch INR5bn revenue in FY20.
- **Margin:** Change in product mix (particularly in defence) will result in slightly lower margin. However, management has not quantified the same.
- **Capex:** INR160mn (INR80mn is for MIC facility in Hyderabad and balance INR80mn for maintenance).
- **Debt:** INR100-150mn by FY19 end.

Financials

- **Revenue break up:** Defence 84%, space 8% and exports 6%.
- **Current order book break up:** INR5.03bn (domestic INR3.59bn and exports INR1.40bn).
- **Liquidated damages:** INR200mn in FY18.

Status on JVs

- **Rafael JV:** In the next 60 days there should be some action. Board approvals are now in place and revenue expected to start from FY19/20. INR2.5-3.0bn business over the next two-three years. However, there could be sizeable business over the long term (8-10 years) given the product pipeline that the JV will operate in.
- **Canada JV:** No action currently in the JV.

Other comments

- **Seekers:** Haven't taken any order yet as a few tests are pending. Astra is in an advanced stage, compared to other players, to tap this opportunity over the long term.
- **Akash missile:** While the army is satisfied with the Akash missile and has floated two RFPs for procurement of missiles, Astra's management believes it is unlikely to be awarded by FY21.
- **Brahmos:** Has MoU to develop Seekers for Brahmos and currently this is in development stage.

Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	1,692	1,599	5.9	863	96.2	3,569	4,063	4,589
Staff costs	231	168	37.9	139	66.3	659	731	826
Direct costs	920	782	17.7	289	217.9	1,484	1,714	1,941
Other operating expenses	102	110	(7.7)	84	21.0	331	378	427
Total expenditure	1,253	1,060	18.3	513	144.5	2,473	2,824	3,194
EBITDA	439	539	(18.5)	350	25.4	1,095	1,239	1,395
Depreciation	77	68	14.1	74	4.9	270	295	317
EBIT	362	472	(23.2)	277	30.9	825	944	1,078
Interest	26	32	(18.0)	29	(9.4)	119	114	87
Other income	30	4	635.4	5	461.9	83	96	75
Profit before tax	367	445	(17.7)	253	44.7	789	926	1,066
Tax	69	56	23.2	89	(21.7)	181	222	256
Add: Exceptional items	-	1	(100.0)	-	-	-	-	-
Reported net profit	297	389	(23.6)	165	80.4	608	704	810
Adjusted Profit	297	388	(23.3)	165	80.4	608	704	810
Equity capital	173	173		173		173	173	173
No. of shares (mn)	87	87		87		87	87	87
Diluted EPS (INR)	3.4	4.5	(23.2)	1.9	80.6	7.0	8.1	9.4
As % of net revenues								
Direct costs	54.4	48.9		33.5		41.6	42.2	42.3
Employee cost	13.7	10.5		16.1		18.5	18.0	18.0
Other operating expenses	6.0	6.9		9.8		9.3	9.3	9.3
EBITDA	26.0	33.7		40.6		30.7	30.5	30.4
Adjusted net profit	17.6	24.2		19.1		70.5	81.5	93.9
Tax rate	18.9	12.6		34.9		23.0	24.0	24.0

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	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	65.0	66.0
Company				
Segmental rev (INR mn)				
Defence	3,740	2,980	2,889	3,165
Exports	400	214	781	992
Total revenues (ex-other operating)	4,490	3,534	4,027	4,552
Segmental OB (INR mn)				
Defence	2,620	1,264	1,786	1,691
Exports	1,506	2,202	2,768	3,258
Total OB	5,241	4,840	6,319	7,135

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Income from operations	3,906	3,569	4,063	4,589
Materials costs	1,912	1,484	1,714	1,941
Employee costs	572	659	731	826
Other mfg expenses	405	331	378	427
Total operating expenses	2,889	2,473	2,824	3,194
EBITDA	1,017	1,095	1,239	1,395
Depreciation	241	270	295	317
EBIT	777	825	944	1,078
Less: Interest Expense	108	119	114	87
Add: Other income	59	84	97	75
Profit Before Tax	728	789	926	1,066
Less: Provision for Tax	125	181	222	256
Reported Profit	602	608	704	810
Adjusted Profit	602	608	704	810
Shares o /s (mn)	87	87	87	87
Adjusted Basic EPS	7.0	7.0	8.1	9.4
Diluted shares o/s (mn)	87	87	87	87
Adjusted Diluted EPS	7.0	7.0	8.1	9.4
Adjusted Cash EPS	9.7	10.1	11.5	13.0
Dividend per share (DPS)	1.2	1.2	1.5	1.5
Dividend Payout Ratio(%)	20.7	20.9	18.1	15.7

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Materials costs	48.9	41.6	42.2	42.3
Staff costs	14.6	18.5	18.0	18.0
S G & A expenses	10.4	9.3	9.3	9.3
Operating expenses	74.0	69.3	69.5	69.6
Depreciation	6.2	7.6	7.3	6.9
EBITDA margins	26.0	30.7	30.5	30.4
Interest Expense	2.8	3.3	2.8	1.9
Net Profit margins	15.4	17.0	17.3	17.6

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	(6.9)	(8.6)	13.8	13.0
EBITDA	6.7	7.7	13.1	12.6
Adjusted Profit	6.9	1.0	15.7	15.1
EPS	6.9	1.0	15.7	15.1

Balance sheet (INR mn)				
As on 31st March	FY17	FY18	FY19E	FY20E
Share capital	173	173	173	173
Reserves & Surplus	4,336	4,844	5,420	6,103
Shareholders' funds	4,509	5,017	5,593	6,276
Long term borrowings	673	143	115	-
Short term borrowings	575	200	775	775
Total Borrowings	1,248	343	890	775
Long Term Liabilities	13	12	12	12
Def. Tax Liability (net)	28	44	44	44
Sources of funds	5,798	5,415	6,539	7,106
Gross Block	3,248	3,969	4,219	4,469
Net Block	1,477	1,928	1,883	1,815
Capital work in progress	372	7	7	7
Total Fixed Assets	1,849	1,935	1,890	1,823
Non current investments	58	56	156	256
Cash and Equivalents	582	1,547	2,411	2,691
Inventories	1,268	1,038	1,315	1,463
Sundry Debtors	2,191	1,877	2,115	2,263
Loans & Advances	501	285	305	326
Total current assets	3,960	3,200	3,735	4,052
Trade payable	192	140	470	532
Other Current Liab	459	1,183	1,183	1,183
Total Current Liab	652	1,323	1,653	1,715
Net Curr Assets-ex cash	3,308	1,877	2,082	2,337
Uses of funds	5,798	5,415	6,539	7,106
BVPS (INR)	52.1	57.9	64.6	72.5

Free cash flow (INR mn)				
Year to March	FY17	FY18	FY19E	FY20E
Reported Profit	602	608	704	810
Add: Depreciation	241	270	295	317
Interest (Net of Tax)	89	92	87	66
Others	(101)	27	27	21
Less: Changes in WC	628	(707)	205	255
Operating cash flow	203	1,705	908	960
Less: Capex	715	721	250	250
Free Cash Flow	(512)	984	658	710

Cash flow metrics				
Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	203	1,705	908	960
Financing cash flow	411	(1,152)	306	(330)
Investing cash flow	(1,250)	(1,403)	(350)	(350)
Net cash Flow	(636)	(850)	864	280
Capex	(715)	(721)	(250)	(250)
Dividend paid	(125)	(127)	(127)	(127)

Profitability and efficiency ratios				
Year to March	FY17	FY18	FY19E	FY20E
ROACE (%)	16.2	16.3	17.6	17.0
ROAE (%)	14.2	12.8	13.3	13.6
Inventory Days	235	284	250	261
Debtors Days	185	208	179	174
Payable Days	57	41	65	94
Cash Conversion Cycle	364	451	365	341
Current Ratio	7.0	3.6	3.7	3.9
Gross Debt/EBITDA	1.2	0.3	0.7	0.6
Adjusted Debt/Equity	0.3	0.1	0.2	0.1
Interest Coverage Ratio	7.2	6.9	8.2	12.3

Operating ratios				
Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	0.7	0.6	0.7	0.7
Fixed Asset Turnover	2.8	2.1	2.1	2.5
Equity Turnover	0.9	0.7	0.8	0.8

Valuation parameters				
Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	7.0	7.0	8.1	9.4
Y-o-Y growth (%)	6.9	1.0	15.7	15.1
Adjusted Cash EPS (INR)	9.7	10.1	11.5	13.0
Diluted P/E (x)	14.7	14.5	12.5	10.9
P/B (x)	2.0	1.8	1.6	1.4
EV / Sales (x)	1.9	1.6	1.3	1.1
EV / EBITDA (x)	9.3	7.0	5.9	5.0
Dividend Yield (%)	1.2	1.2	1.5	1.5

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)	Dr. Avinash Chander	Independent Director

Auditors - AMAR & RAJU

**as per last annual report*

Holding – Top 10

	Perc. Holding		Perc. Holding
Hdfc Asset Management Co Ltd	9.00	Sundaram Asset Management Co Ltd	5.60
Tarish Investment & Trad	7.33	Kabra Atim	3.90
Tarish Investment	7.33	L&T Investment Management Ltd	3.73
Skanda Aerospace Pvt Ltd	7.02	Chitrakar P A	3.65
Axis Asset Management Co Ltd	6.28	Chitrakar Renuka	3.40

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
23 Apr 2018	Tarish Investment & Trading Company Pvt Ltd	Sell	3100000	83.00
23 Apr 2018	Rajasthan Global Securities Pvt Ltd	Buy	625696	85.54
23 Apr 2018	Mount Intra Finance Pvt Ltd	Buy	550917	83.86
23 Apr 2018	Ratnabali Investment Pvt Ltd	Buy	4300000	83.58
23 Apr 2018	Ual Industries Ltd	Sell	1100000	84.90
16 Feb 2018	Ratnabali Investment Pvt Ltd	Buy	465264	105.00
15 Jan 2018	Dilipkumar Vishindas Lakhi	Buy	870000	123.45
09 Nov 2017	Bhumi Reddy Malla Reddy	Sell	700000	102.50

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
20 Apr 2018	P.A Chitrakar	Buy	20000.00
11 Jan 2018	RAMAKRISHNA REDDY PUTCHALAPALLI	Sell	19718.00
09 Jan 2018	RAMAKRISHNA REDDY PUTCHALAPALLI	Sell	15000.00
05 Jul 2017	B. Malla Reddy	Sell	100000.00
12 Jun 2017	RENUKA CHITRAKAR	Sell	70000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Astra Microwave Products	BUY	SP	H	Bharat Electronics	BUY	SO	H
Cochin Shipyard	BUY	SO	M				

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, Cochin Shipyard

Recent Research

Date	Company	Title	Price (INR)	Recos
25-May-18	Cochin Shipyard	Robust execution drives Q4 beat; Much more in store; <i>Result Update</i>	506	Buy
23-Apr-18	Bharat Electronics	Opportune pick on reversing trend ; <i>Company Update</i>	137	Buy
16-Apr-18	Defence	Defence Expo 2018: Gunning for indigenous firepower ; <i>Sector Update</i>		

Distribution of Ratings / Market Cap

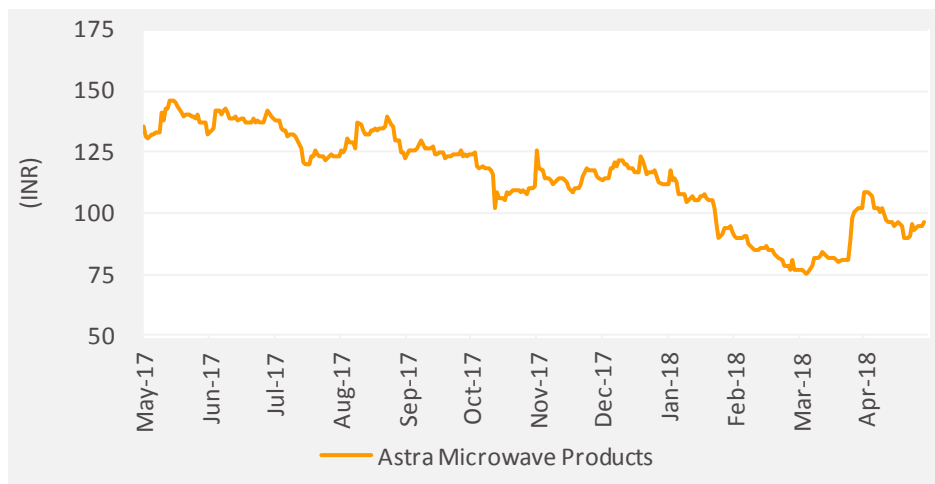
Edelweiss Research Coverage Universe

	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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