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India | Equity Research | Q1FY24 results review

Astra Microwave Products

Defence

Margins have bottomed out, prospects remain bright

Astra Microwave Products' (AMW) has reported subdued Q1FY24 earnings as performance was mainly impacted by higher proportion of export sales and low margin domestic sales. Key points: 1) Export sales was 60% (vs 40% in Q1FY23) of overall; 2) EBITDA declined 86.7% YoY to INR 31mn as normalised cost could not be mitigated by low margin execution; 3) management expects order inflow of INR 10bn in FY24 and orderbook as on Jun'23 end was INR 15.8bn (export - ~19% and domestic - ~81%). The management has retained its revenue guidance of INR 9bn and PBT guidance of INR 1.4-1.5bn for FY24. As high margin domestic orders are likely to be executed from Q3FY24, we believe the prospects remain bright. We maintain **BUY** on the stock with an unchanged TP of INR 425 (DCF methodology).

Dismal performance due to lower margin exports

AMW's Q1FY24 EBITDA was mainly impacted by: a) lower margin exports (including deemed exports); b) lower margin domestic sales and c) higher contribution of exports (~60% of revenue). That said, the management mentioned that the company did not incur loss in any of these contracts. During Q1FY24, it received order inflow of INR 1.9bn, which includes defence orders worth INR 1.6bn, export orders worth INR 0.13bn and meteorological orders worth INR 0.12bn. Orderbook as on Jun'23 end was INR 15.8bn, of which export orders were ~19% and the rest were domestic orders. Going ahead, we believe, while cost has normalised, execution may pick up in subsequent quarters and may recoup the shortfall of Q1FY24.

Execution/margin likely to pick up in ensuing quarters

The management is expecting order inflow of more than INR 10bn during FY24 (INR 1.9bn already received) and majority of these orders will be awarded in Q3FY24 and Q4FY24. These include: 1) Order for naval system, ii) Mk1 engines, iii) anti-drone radars, iv) defence satellite subsystem, v) development contract for airborne radar etc. The company has also maintained its FY24 revenue guidance of over INR 9bn+ including domestic revenue of more than INR 6bn. The management has guided for export orders at only 22% of overall revenue in H2FY24. In our view, this is likely to be margin accretive as besides lower proportion of exports, good margin domestic orders may also get executed.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	7,505	8,155	9,497	10,901
EBITDA	892	1,476	2,137	2,635
EBITDA Margin (%)	11.9	18.1	22.5	24.2
Net Profit	379	698	1,259	1,625
EPS (Rs)	4.3	8.0	14.4	18.5
EPS % Chg YoY	25.2	81.4	77.0	28.4
P/E (x)	76.3	42.1	23.8	18.5
EV/EBITDA (x)	34.7	21.2	14.3	11.4
RoCE (%)	7.7	12.3	18.1	19.7
RoE (%)	6.7	11.7	19.0	21.1

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Market Data

Market Cap (INR)	33bn
Market Cap (USD)	399mn
Bloomberg Code	ASTM IN
Reuters Code	ASTM.BO
52-week Range (INR)	390 /213
Free Float (%)	87.0
ADTV-3M (mn) (USD)	2.8

Price Performance (%)	3m	6m	12m
Absolute	9.1	31.7	26.6
Relative to Sensex	6.4	8.2	11.4

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Previous Reports

30-05-2023: [Q4FY23 results review](#)14-11-2022: [Q2FY23 results review](#)

Near-term hiccups, but larger picture intact

In our view, any fall in the stock price post Q1FY24 earnings is an opportunity to participate in the long-term growth story of the company as guidance on FY24 revenue, margin and cumulative revenue target of INR 100bn in next five years is largely intact. Taking cues from management commentary, we have maintained our estimates. We expect majority of high margin domestic orders to be executed in H2FY24. In our view, AMW's order potential is robust and its solution-oriented approach being built on the twin planks of collaboration with external parties and internal competencies – may result in better margins. We maintain **BUY** on the stock with an unchanged TP of INR 425 based on DCF methodology.

Exhibit 1: Astra Microwave Q1FY24 result review

(INR mn)	Q1FY24	Q1FY23	% Chg YoY	Q4FY23	% Chg QoQ	FY23	FY22	% Chg YoY
Net sales	1,337	1,621	(17.5)	2,584	(48.3)	8,155	7,505	8.7
Gross Margin	377	572	(34.0)	792	(52.3)	2,972	2,233	33.1
Gross Margin (%)	28	35	-	31	-	36	30	-
Employee cost	215	211	1.7	275	(21.9)	952	806	18.1
Other expenditure	132	130	1.6	174	(24.3)	544	534	1.8
EBITDA	31	231	(86.7)	343	(91.0)	1,476	892	65.5
Margin (%)	2	14	-	13	-	18	12	-
Other Income	20	8	146.0	10	108.0	55	64	(14.3)
Depreciation	57	55	2.7	63	(9.9)	237	220	7.3
EBIT	(6)	184	(103.2)	290	(102.0)	1,294	736	76.0
Interest	74	57	31.2	96	(22.6)	305	211	44.7
PBT	(82)	117	(169.6)	180	(145.5)	959	502	-
Tax expense:	(14)	36	(139.6)	44	(132.5)	261	123	111.6
PAT	(67)	81	(183.1)	135	(149.8)	698	379	84.4

Source: I-Sec research, Company data

Astra Microwave Q1FY24 concall takeaways

- Management mentioned Q1FY24 topline was in accordance with the guidance.
- **FY24 guidance:** Management maintained its revenue guidance of INR ~9-9.5bn with INR 3bn in exports. PBT guidance of INR ~1.4-1.5bn was also maintained.
- **Current orderbook** stands at INR 15.8bn. Order booking during the quarter was around INR 1.91bn, which includes INR 1.76bn and INR 150mn of domestic (DRDO & DPSUs) and export orders, respectively.
- **Revenue mix** - 60% of export and 40% of domestic (almost reverse of Q1FY23).
- No losses in any contract. Export order categories: 1) Very low margin; 2) 10% margin. Most export orders executed in Q1FY24 were of project executed with very low margin.
- Domestic margins are relatively higher than export margins. In Q1FY24, lower domestic business, coupled with lower margin export mix led to a decline in gross margin and percolated down as well.
- **On expenditure:** INR 30mn worth of provision has been accounted as per accounting standards. This is not a cost and will get adjusted as Astra delivers goods.
- Astra targets to turn positive by Q2FY24, as major domestic business is expected to do well and expenses have been largely normalised.

- **Business developments**

- Identified growth areas for expansion – SAT-CAM systems, in profile radars, ground surveillance radars, doppler weather radar, anti-drone systems etc.
- Astra Microwave has signed a tri-party agreement with LRDE & HAL for the supply of critical sub-system for ASEA radar.
- NAVIC: Astra Microwave is expecting clearance for commercial production by Sep'23.
- SDR based DRDO technology is currently undergoing testing and validation under LRDE. Management aims to commence internal trials by mid-Sep'23.
- On Aug'23, management concluded negotiation worth INR 1.6bn with DRDO for sub-systems, including satellite modules, EW modules, and development of airborne radars and production of radar modules. Also, contacts worth INR 1.4bn are in final stages of negotiation.
- Strategically secured R&D contacts from DRDO.
- Strengthened foot print in doppler weather radar by securing more contacts from IMDA and ISRO.
- Participating in various global opportunities in radar, EW and communication systems.
- Successfully developed AESA seeker system and telemetry proximity sensor.
- Initiated the development of Hi-Fi chipsets and a few radar systems.
- Astra is moving to solution and system integration, with core in defence - aerospace. Management intends to provide military grade solutions in cost-effective format centred around multiple technologies within Astra Microwave, while partnering with multiple industry players to create end-to-end solutions.
- **Export execution** for Q2FY24 is planned at INR 800mn, for Q3FY24 at INR 730mn and for Q4FY24 at INR 700mn.
- **Maximum revenue booking** will be executed during Q3-Q4FY24. (INR 3,380mn in Q3FY24 and INR3,000mn in Q4FY24 with exports worth INR ~700mn in both the quarters). Majority will come from domestic segment.
- Contracts like naval system are planned to be booked in Q3FY24.
- TR modules - AKASH contracts secured in Q1FY24 are planned to be executed in Q4FY24.
- Anti-drone- ARUDHRA, negotiations have just begun; expect finalisation by Q3FY24.
- Expected production orders include AWC Mk1 engines, defence satellite subsystem along with development contract airborne radar, drone based radar sub-system. Short range tracking radar (declared L1 for the project worth INR 100mn). Finally in EW, orders from Shakti, Nayan, Himshakti, Himshruti etc programmes.
- **Service order** stands at INR 500mn – service business is generally weather related. In Q1FY24, no service orders were received.

Key risks

Key downside risks: i) Working capital management – continuous investment in working capital impedes FCF generation. This has been a key problem faced by AMW in the past cycle. ii) Missing domestic defence and space orders, thereby top-line growth does not lead to commensurate profit growth and the beat – upgrade cycle fails to pick up.

Key upside risks: i) Possible divestment of AMW's promoter stake (now at 8.7%), and ii) pick-up in domestic order inflow in line with the domestic defence capital budget (we are looking at significantly higher scale and operating leverage benefit to margins under this scenario).

Exhibit 2: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	8.3	7.2	6.5
Institutional investors	2.3	2.4	12.9
MFs and others	0.1	0.1	6.4
FIs/Banks	-	-	-
Insurance	-	-	2.4
FIIIs	2.2	2.3	4.1
Others	89.3	90.4	80.6

Source: Bloomberg

Exhibit 3: Price chart



Source: Bloomberg

Financial Summary

Exhibit 4: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	7,505	8,155	9,497	10,901
Operating Expenses	6,612	6,679	7,360	8,266
EBITDA	892	1,476	2,137	2,635
EBITDA Margin (%)	11.9	18.1	22.5	24.2
Depreciation & Amortization	220	237	244	259
EBIT	672	1,240	1,893	2,375
Interest expenditure	211	305	320	348
Other Non-operating Income	64	55	55	55
Recurring PBT	525	989	1,628	2,082
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	123	261	339	427
PAT	401	728	1,289	1,654
Less: Minority Interest	23	30	30	30
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	401	728	1,289	1,654
Net Income (Adjusted)	379	698	1,259	1,625

Source Company data, I-Sec research

Exhibit 5: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	7,880	8,713	9,959	11,604
of which cash & cash eqv.	775	1,109	1,824	2,460
Total Current Liabilities & Provisions	2,594	2,323	2,553	2,763
Net Current Assets	5,286	6,390	7,406	8,842
Investments	138	110	110	110
Net Fixed Assets	1,596	1,668	1,821	1,920
ROU Assets	-	-	-	-
Capital Work-in-Progress	1	22	20	20
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assests	69	91	91	91
Total Assets	7,091	8,281	9,448	10,982
Liabilities				
Borrowings	1,235	1,855	1,855	1,855
Deferred Tax Liability	-	-	-	-
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	173	173	173	173
Reserves & Surplus	5,683	6,253	7,420	8,954
Total Net Worth	5,856	6,426	7,593	9,127
Minority Interest	0	0	0	0
Total Liabilities	7,091	8,281	9,448	10,982

Source Company data, I-Sec research

Exhibit 6: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	1,747	2,203	2,584	1,337
% growth (YOY)	(2.9)	8.9	7.9	(17.5)
EBITDA	393	509	343	31
Margin %	22.5	23.1	13.3	2.3
Other Income	21	16	10	20
Extraordinaries	-	-	-	-
Adjusted Net Profit	205	277	135	(67)

Source Company data, I-Sec research

Exhibit 7: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	2,119	1,272	1,498	1,408
Working Capital Changes	1,355	2	(300)	(800)
Capital Commitments	(279)	(333)	(395)	(358)
Free Cashflow	1,840	939	1,103	1,050
Other investing cashflow	20	51	55	56
Cashflow from Investing Activities	(260)	(282)	(340)	(302)
Issue of Share Capital	-	-	-	-
Interest Cost	(172)	(206)	(320)	(348)
Inc (Dec) in Borrowings	(512)	1,076	-	-
Dividend paid	(104)	(122)	(122)	(122)
Others	-	-	-	-
Cash flow from Financing Activities	(787)	748	(442)	(470)
Chg. in Cash & Bank balance	1,072	1,738	716	636
Closing cash & balance	1,072	1,738	716	636

Source Company data, I-Sec research

Exhibit 8: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	4.6	8.3	14.7	18.9
Adjusted EPS (Diluted)	4.3	8.0	14.4	18.5
Cash EPS	6.8	10.7	17.2	21.5
Dividend per share (DPS)	1.4	1.6	1.6	1.6
Book Value per share (BV)	66.8	73.3	86.7	104.2
Dividend Payout (%)	30.6	19.3	10.9	8.5
Growth (%)				
Net Sales	17.1	8.7	16.5	14.8
EBITDA	15.6	65.5	44.8	23.3
EPS (INR)	25.2	81.4	77.0	28.4
Valuation Ratios (x)				
P/E	76.3	42.1	23.8	18.5
P/CEPS	51.1	32.8	20.4	16.3
P/BV	5.2	4.8	4.0	3.4
EV / EBITDA	34.7	21.2	14.3	11.4
Dividend Yield (%)	0.4	0.5	0.5	0.5
Operating Ratios				
Gross Profit Margins (%)	29.7	36.4	40.3	41.1
EBITDA Margins (%)	11.9	18.1	22.5	24.2
Effective Tax Rate (%)	23.5	26.4	20.8	20.5
Net Profit Margins (%)	5.3	8.9	13.6	15.2
Net Debt / Equity (x)	0.1	0.1	0.0	(0.1)
Net Debt / EBITDA (x)	0.4	0.4	0.0	(0.3)
Fixed Asset Turnover (x)	1.7	1.8	1.9	2.0
Inventory Turnover Days	247	208	195	192
Receivables Days	121	141	134	136
Payables Days	42	32	37	37
Profitability Ratios				
RoCE (%)	7.7	12.3	18.1	19.7
RoE (%)	6.7	11.7	19.0	21.1
RoIC (%)	8.8	14.2	21.7	24.6

Source Company data, I-Sec research

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